

## First half of 2017: demand for KfW promotion remains strong in Germany

- **Total promotional business volume of EUR 36.5 billion**
- **Domestic promotional business volume increases to EUR 27.6 billion**
- **Consistently high demand for residential construction and commercial loans**
- **Commitments at KfW IPEX-Bank increase to EUR 5.7 billion**
- **Consolidated profit of EUR 801 million**

KfW Group's promotional activity reached a total volume of EUR 36.5 billion for the first half of 2017 (same period in the previous year: EUR 36.2 billion, +1%). **Domestic promotional business** continued to grow successfully in the first half of the year, exceeding the previous year's level (EUR 26.7 billion) by almost EUR 1 billion with a commitment volume of EUR 27.6 billion (+3%). This was due, among other factors, to SMEs' consistently positive business expectations. Steady demand among private customers for promotional loans in the field of residential construction also played a key role. The total volume of the **international financing business** at KfW fell to EUR 8.3 billion (EUR 9.0 billion, -8%). This trend was caused by the decrease in new commitments at KfW Development Bank which at 2.1 billion (EUR 3.1 billion, -32%) came in much lower than the year before. In the first half of 2016, this business area had recorded a very high commitment volume marked by unusually large individual transactions. However, the financing volume for 2017 as a whole is expected to reach a similar level to the previous year. KfW IPEX-Bank with EUR 5.7 billion (EUR 5.4 billion, +4%) and DEG with EUR 0.5 billion (EUR 0.4 billion, +9%) made positive contributions.

"2017 is a very good year for promotion. Interest in KfW funding remains high. The strong demand for financing in residential construction and commercial loans reflects the positive economic situation in Germany," explains Dr Günther Bräunig, member of KfW Group's Executive Board.

The earnings position developed positively in the first half of 2017 with a **consolidated profit of EUR 801 million** (EUR 779 million), benefiting in particular from the better valuation result. The purely IFRS-related effects from the valuation of derivatives used for hedging purposes overstated earnings performance by EUR 33 million

(previous year: understated by EUR 190 million). At EUR 768 million, **consolidated profit before IFRS effects from hedging** – which is relevant for the management of KfW – came in lower than the previous year's value (EUR 969 million).

"We can be very pleased with the earnings performance for the first half of the year. It is above last year's level and exceeds our expectations as a whole. This can be traced back to the positive trend in the valuation result including risk provisions. For the year as a whole, we are expecting to see a satisfactory annual result, though the second half is not likely to reach the figure for the first half of the year," says Dr Bräunig.

**Operating income before valuation** (before promotional activity) totaled EUR 935 million (EUR 949 million). Net interest income (before promotional activity) amounting to EUR 1,352 million (EUR 1,363 million) continues to be the main source of income for KfW.

**Promotional activity** – mainly interest rate reductions for new business – totaled EUR 110 million, slightly higher than the previous year (EUR 104 million) despite the persistently low scope for rate reduction in the current interest rate environment.

**Risk provisions for lending business** pulled earnings down only marginally by EUR 63 million (by EUR 13 million in the previous year). The group's **private equity and securities portfolio** (including results for the companies valued at equity) had a positive effect on earnings overall, amounting to EUR 22 million (EUR 56 million).

**Total assets** came in lower than at 31 December 2016 (EUR 507.0 billion), registering a figure of EUR 496.7 billion. This was mainly due to fair value changes – induced by interest rate and exchange rate fluctuations – in the derivatives used for hedging purposes and their recognition in hedge accounting.

The group's **regulatory equity ratios** are still at a good level. The total capital ratio according to IRBA amounted to 20.0% as of 30 June 2017 (31 March 2017: 21.9%). As scheduled, on this reporting date, the capital ratio for major segments of the portfolio was calculated using the IRBA approach, as approved by the supervisory authorities. The aim is to have further segments of the portfolio approved by 2020. The downturn in capital ratios in the second quarter is primarily due to the switch from analogous calculation used in the past to the application of IRBA as approved

by the supervisory authorities. Until full IRBA approval has been granted, any non-approved segments of the portfolio will be valued using the CRS approach.

### **Details on the business sectors' promotional results**

With a promotional business volume of EUR 11.3 billion, **Mittelstandsbank** (SME Bank) has had a very successful first six months of the year, clearly exceeding the previous year's level (EUR 9.5 billion). The positive trend in the global economy, fewer political risks and an expected rise in the costs of borrowing boosted demand for commercial promotional loans.

The priority area of **business start-ups and general corporate finance** easily exceeded the previous year's level with commitments of EUR 5.1 billion (EUR 4.6 billion). The area of start-up financing did particularly well at EUR 1.8 billion, surpassing the already strong figure from the previous year (EUR 1.7 billion) despite a general downturn in start-up activities.

Promotion in the field of **innovation** totaled EUR 0.4 billion (EUR 0.3 billion) and has thus remained at a stable level. In future, innovation promotion will be strengthened with the addition of the new priority area **digitalisation**. New innovation and digitalisation programmes were launched on 1 July 2017, giving entrepreneurs and SMEs even better support in this field. In the field of equity financing, KfW subscribed the first closing of its share in the High-Tech Start-Up Fund III in May 2017. From next year onwards, KfW's domestic equity business will be operated under a new subsidiary, which will enable KfW to consolidate and significantly expand its financing offer in the area of venture capital.

With commitments of EUR 5.8 billion (EUR 4.6 billion), the **environment** priority sector achieved strong growth, once again clearly exceeding the already impressive level from the previous year. The main factors driving this positive development were KfW's Renewable Energies Programme and the KfW Energy Efficiency Programme. With a commitment volume of EUR 2.4 billion (EUR 2.1 billion) and EUR 2.9 billion (EUR 2.2 billion) respectively, both programmes achieved a very strong result.

With a promotional volume of EUR 16.4 billion (EUR 17.2 billion), the **Kommunalbank** (Municipal and private loans/credit institutions) business sector recorded a very strong mid-year result.

The priority area of **housing** made the biggest contribution to this figure with an increased commitment volume of EUR 11.2 billion (EUR 10.4 billion). The consistently robust construction sector and the still favourable interest climate led to demand for the energy-efficient construction and refurbishment programmes alone growing to EUR 8.6 billion (EUR 7.5 billion).

With commitments in the amount of EUR 2.0 billion (EUR 2.4 billion) in its core programmes, **infrastructure financing** made a stable contribution. The decline in volume can be traced solely back to the special "refugee accommodation" facility, which has now expired. In contrast, the area of municipal environmental and climate protection promotion has once again increased its share.

The contribution from **education and social development** remained steady with a volume above EUR 1.0 billion (EUR 1.1 billion).

**Individual financing of banks** achieved commitments of EUR 0.7 billion (EUR 1.0 billion). With commitments in the amount of EUR 1.5 billion (EUR 2.4 billion), demand also fell in the area of **global funding** of promotional institutions of the federal states.

In the **Export and project finance business sector**, for which **KfW IPEX-Bank** is responsible, new commitments added up to EUR 5.7 billion. The volume of new commitments is thus slightly higher than the previous year (EUR 5.4 billion). Substantial priority areas include the sector departments Maritime Industries with EUR 1.0 billion (EUR 0.8 billion) and Industries and Services with EUR 0.9 billion (EUR 0.5 billion).

The commitment volume for the **Promotion of developing countries and emerging economies business sector** totaled EUR 2.6 billion (EUR 3.6 billion). In the first half of 2017, **KfW Development Bank** committed a sum of roughly EUR 2.1 billion for projects and programmes worldwide, which is significantly lower than the previous year's figure (EUR 3.1 billion). In 2016, above-average individual commitments for promotional loans resulted in a strong half-year result. However, the business area

is expecting to achieve a similar financing volume as the previous year for 2017 as a whole. A total of 60% of new commitments in the first half of the year are benefiting the environment and climate protection. As of 30 June 2017, **DEG** had committed a total of EUR 473 million (EUR 434 million) for private sector investments in developing countries. At EUR 126 million, over a quarter of these commitments are dedicated to measures in Africa (EUR 89 million). The funds will be used to finance companies who invest in telecommunications or transport and logistic services, for example.

In the **Financial markets business sector**, the promotional business volume for the first half of 2017 amounted to EUR 808 million (EUR 536 million). Of this figure, EUR 586 million (EUR 359 million) was invested in securitisation transactions for capital market-oriented promotion of SMEs. For its green bond portfolio, KfW invested a volume of EUR 222 million (EUR 176 million) in seven securities to promote climate and environmental protection projects. In light of the rapid growth in the green bond promotion portfolio, which was set up in 2015 on behalf of the German Ministry for the Environment, the target volume for the overall portfolio was doubled to EUR 2 billion in May this year.

To **fund** its promotional business, KfW raised long-term funds on the international capital markets amounting to the equivalent of EUR 49.6 billion (EUR 42.4 billion) as of 30 June 2017. Around 51% of the funds were raised in euros, while around 39% was raised in US dollars. The remaining funds (10%) were raised in six other foreign currencies. As new loan business is expected to be higher as a whole for 2017, funding requirements for the entire year were reviewed as scheduled at the end of the first six months and increased from the initial amount of approximately EUR 75 billion to EUR 75-80 billion.

Key figures of the income statement (EUR in millions)	1 Jan 2017 – 30 Jun 2017	1 Jan 2016 - 30 Jun 2016
Operating income before valuation (before promotional activity)	935	949
Promotional activity	110	104
Consolidated profit	801	779
Consolidated profit before IFRS effects from hedging	768	969

Key figures of the statement of financial position (EUR in billions)	30 Jun 2017	31 Dec 2016
Total assets	496.7	507.0
Equity	27.9	27.1
Volume of business	600.1	609.2

Key regulatory figures (in %)	30 Jun 2017	31 Mar 2017
<b>IRBA</b> <sup>1)</sup>		
(Core) tier 1 capital ratio	20.0%	21.9%
Total capital ratio	20.0%	21.9%
<b>CRSA</b> <sup>2)</sup>		
(Core) tier 1 capital ratio	--	16.1%
Total capital ratio	--	16.1%

<sup>1)</sup> The IRBA ratios listed as of 30 June 2017 were calculated based on the IRBA approval granted and provisionally take into account the half-year results subject to approval by the supervisory authorities. For reporting dates prior to 30 June 2017, the corresponding IRBA ratios were calculated voluntarily for internal purposes on the basis of the relevant legal provisions and taking the interim results into consideration. The decline in capital ratios in the second quarter is mainly the result of switching from the analogous application of IRBA to the IRB approach as approved by the supervisory authorities. KfW has no tier 2 capital in its equity, meaning that the (core) tier 1 capital ratio and the total capital ratio are the same.

<sup>2)</sup> The CRSA ratio as of 31 March 2017 takes no account of the quarterly result. KfW has no tier 2 capital in its equity, meaning that the (core) tier 1 capital ratio and the total capital ratio are the same.

**Service:** An overview of the promotional figures in table form is available for download at [www.kfw.de/geschaeftszahlen](http://www.kfw.de/geschaeftszahlen)