

Third quarter 2017: KfW promotion activity remains high

- **Total promotional business volume of EUR 54.7 billion**
- **Domestic promotion at EUR 41.1 billion**
- **Strong demand in the SME sector and residential construction**
- **KfW IPEX-Bank: Slight increase in commitments to EUR 8.8 billion**
- **Consolidated profit of EUR 1,099 million**

In the first nine months of 2017, the promotional business of KfW Group reached a total volume of EUR 54.7 billion (prior-year period: EUR 54.6 billion). As at the third quarter, **domestic promotion** achieved a commitment volume of EUR 41.1 billion, thus slightly exceeding the already high level from last year (EUR 40.8 billion, +1%). This increase was driven in particular by strong demand for commercial promotional loans and persistently high interest in real estate financing. At EUR 12.9 billion, the volume of the **international financing** business came in slightly lower than the previous year (EUR 13.2 billion, -2%). KfW Development Bank recorded commitments of EUR 3.3 billion, which is below last year's figure (EUR 3.8 billion, -13%). In 2016, high individual commitments led to the high volume in this business area. However, the financing volume for 2017 as a whole is expected to reach a level similar to the previous year. The volume of business at KfW IPEX-Bank developed positively and increased slightly to EUR 8.8 billion (EUR 8.6 billion, +2%). Retaining a similar level to last year, DEG committed financing amounting to EUR 0.7 billion (EUR 0.7 billion).

"Once again, 2017 is a very good year in terms of promotion. As the economic situation has remained positive, demand for KfW promotion has also remained high among private customers and businesses," says Dr Günther Bräunig, Deputy CEO of KfW Group.

With a **consolidated profit of EUR 1,099 million**, the earnings position for the first three quarters of 2017 developed well thanks to a strong valuation result, even though figures failed to meet last year's level (EUR 1,348 million), as expected. The purely IFRS-related effects from the valuation of derivatives used for hedging purposes overstated the earnings position by EUR 126 million (previous year: understated by EUR 43 million). At EUR 973 million, **consolidated profit before IFRS effects**

from hedging – which is relevant for the management of KfW – thus came in well below the previous year's value (EUR 1,391 million).

Operating result before valuation (before promotional activity) totalled EUR 1,320 million (EUR 1,458 million). Net interest income (before promotional activity) amounting to EUR 1,993 million (EUR 2,080 million) is still the main source of income for KfW based on its persistently good funding conditions.

Promotional activity – mainly interest rate reductions for new business – at EUR 167 million is above the previous year's level (EUR 136 million). **Risk provisions in the lending business** pulled earnings down slightly by EUR 140 million. However, the figure is significantly higher than last year's very low level (EUR 77 million). The group's **private equity and securities portfolio** (including the result of investments accounted for using the equity method) had an effect of EUR 2 million on overall earnings (EUR 60 million). The drop in earnings is mainly due to DEG's private equity result, which was adversely affected by movements in exchange rates.

Total assets came in lower compared to 31 December 2016 (EUR 507.0 billion), registering a figure of EUR 482.2 billion. This was mainly due to fair value changes – brought on by interest and exchange rates – of derivatives used for hedging.

The group's **regulatory equity ratios** are still at a good level. The total capital ratio according to IRBA amounted to [20.3]% as of 30 September 2017 (30 June 2017: 19.7%).

Details on the business sectors' promotional activities

With a promotional business volume of EUR 17.3 billion, **Mittelstandsbank** (SME Bank) surpassed the previous year's level significantly (EUR 15.3 billion) as of 30 September 2017. As the economic situation remained robust and the business situation in the German SME sector was exceptionally strong, demand for commercial promotional loans continued to be high.

The priority area of **business start-ups and general corporate finance** easily exceeded the previous year's level with commitments of EUR 7.9 billion (EUR 7.1 billion). The area of start-up financing did particularly well at EUR 2.7 billion, surpassing the already strong figure from the previous year (EUR 2.5 billion).

With a promotional business volume of EUR 1.0 billion, the area of **innovation** enjoyed much stronger demand than the previous year (EUR 0.4 billion). The ERP digitalisation and innovation programme launched in July made an important contribution to this positive result.

With a promotional business volume of EUR 8.5 billion (EUR 7.8 billion), the **environment** priority sector achieved strong growth and once again surpassed the very strong result from last year. Demand in the renewable energies programme was particularly pleasing, with commitments of EUR 3.5 billion (EUR 3.1 billion). In the promotional programmes for energy efficiency projects in the commercial sector, the previous year's impressive figure could also be surpassed at EUR 4.4 billion (EUR 3.9 billion).

The **Kommunal- und Privatkundenbank / Kreditinstitute** (Municipal and Private Client Bank/Credit institutions) promotional business volume reached EUR 23.8 billion by the third quarter (EUR 25.4 billion).

The priority area of **housing** made a major contribution to this figure with a commitment volume of EUR 15.5 billion (EUR 15.2 billion). A high level of interest in this area was generated by the positive underlying conditions, which were in turn the result of the strong conditions in the construction sector and the favourable interest climate. The bank's programmes for energy-efficient construction and refurbishment were in particularly high demand with a commitment volume of EUR 11.7 billion (EUR 11.1 billion).

With a promotional business volume of EUR 2.9 billion (EUR 3.3 billion), **infrastructure financing** made a stable contribution in its core programmes. The decline in volume can be traced solely back to the special "refugee accommodation" facility, which has since expired. In contrast, the area of municipal environmental and climate protection promotion has once again increased its share and has risen to EUR 0.9 billion (EUR 0.6 billion).

The priority area of **education and social development** recorded a commitment volume of EUR 1.6 billion and thus meets the last year's level.

With commitments amounting to EUR 3.0 billion (EUR 3.5 billion), demand fell in the area of **general funding** of promotional institutions of the federal states. With a volume of EUR 0.7 billion (EUR 1.8 billion), **individual financing of banks** continues on its negative trajectory when viewed in a year-on-year comparison.

In the **Export and project finance** business sector, for which **KfW IPEX-Bank** is responsible, new commitments added up to EUR 8.8 billion. The volume of new commitments is thus slightly higher than in the prior-year period (EUR 8.6 billion). Substantial priority areas include the sector departments Power, Renewables and Water with EUR 1.6 billion (EUR 2.1 billion), Industries and Services with EUR 1.5 billion (EUR 0.9 billion), and Basic Industries with EUR 1.3 billion (EUR 0.9 billion).

The commitment volume for the **Promotion of developing countries and emerging economies business sector** totalled EUR 4.0 billion (EUR 4.5 billion). As at the third quarter of 2017, **KfW Development Bank** has committed an amount of EUR 3.3 billion for projects and programmes, which is slightly lower than the previous year's figure (EUR 3.8 billion). However, the commitment volume for the year as a whole is forecast to remain at a similar level to the previous year. As at the third quarter of 2017, more than three quarters of budget funds and almost half of total commitments were allocated to countries in Africa and the Middle East. As of 30 September 2017, **DEG** had committed a total of EUR 732 million for investments by the private sector in developing countries and emerging economies (EUR 736 million). Commitments for the industry sector developed particularly well; at EUR 223 million, they came in significantly higher than the previous year (EUR 170 million). These commitments were used to finance investments in areas such as logistics companies and packaging producers.

In the **financial markets business sector**, the promotional business volume amounted to EUR 1,056 million (EUR 711 million) as at the third quarter of 2017. Of this figure, EUR 799 million (EUR 535 million) was invested in securitisation transactions for capital market-oriented promotion of SMEs. For its green bond portfolio, KfW invested a volume of EUR 257 million (EUR 176 million) in nine securities to promote climate and environmental protection projects. The year-on-year increase in green bond investments reflects the consistently strong development of the green bond market.

To **fund** its promotional business, KfW raised long-term funds on the international capital markets amounting to the equivalent of EUR 67.1 billion (EUR 61.1 billion) as of 30 September 2017. Around 55% of the funds were raised in euros, while around 34% was raised in US dollars. In addition to the two main currencies of euros and US dollars, bonds were also issued in six other currencies, with the British pound representing the third largest currency (6% share as of 30 September). A total of EUR 2.7 billion or more than 4% was funded by issuing Green Bonds in four different curren-

cies. With this measure, KfW made an important contribution to the development of the "sustainable finance" market segment. Funding requirements for the year 2017 as a whole total EUR 75 to 80 billion.

Key figures of the income statement (EUR in millions)	01/01/2017 - 30/09/2017	01/01/2016 - 30/09/2016
Operating result before valuation (before promotional activity)	1,320	1,458
Promotional activity	167	136
Consolidated profit	1,099	1,348
Consolidated profit before IFRS effects from hedging	973	1,391
Key figures of the statement of financial position (EUR in billions)	30/09/2017	31/12/2016
Total assets	482.2	507.0
Equity	28.3	27.1
Volume of business	580.8	609.2
Key regulatory figures (in %)	30/09/2017	30/06/2017
IRBA ¹⁾		
(Core) tier 1 capital ratio	20.3%	19.7%
Total capital ratio	20.3%	19.7%

1) The IRBA ratios listed from 30 June 2017 were calculated based on the IRBA approval granted, and take into account the interim results (subject to approval by the supervisory authorities in relation to the reporting date of 30 September). The capital ratios as of first half 2017 were adjusted slightly. 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