Annual press conference

Frankfurt am Main
10 April 2019
Annual press conference focusing on business review

Promotional review

Sustainability review

Business review
Business activities of KfW Group in 2018
KfW adjusts domestic financing volume – international commitments set for growth

Total business¹ (EUR in billions)

Development of promotional business

- 2018 was a successful year for promotion
- 20% increase in international commitments
- New domestic commitments scaled back
- Special focus of domestic promotion on innovation, start-ups and residential construction

¹ 2018: Adjusted by EUR 245 million for commitments in Export and project finance with refinancing from KfW programme loans

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**Total business**

- **Domestic promotional business**
- **International business**
- **Capital market-related financings**

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Promotional Business</th>
<th>International Business</th>
<th>Capital Market-Related Financings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>72.5</td>
<td>51.6</td>
<td>20.5</td>
</tr>
<tr>
<td>2014</td>
<td>74.1</td>
<td>47.6</td>
<td>25.5</td>
</tr>
<tr>
<td>2015</td>
<td>79.3</td>
<td>50.5</td>
<td>27.9</td>
</tr>
<tr>
<td>2016</td>
<td>81.0</td>
<td>55.1</td>
<td>24.9</td>
</tr>
<tr>
<td>2017</td>
<td>76.5</td>
<td>51.8</td>
<td>23.5</td>
</tr>
<tr>
<td>2018</td>
<td>75.5</td>
<td>46.0</td>
<td>28.3</td>
</tr>
</tbody>
</table>

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2018: Consolidated profit of EUR 1.6 billion
Result remains above sustainable earnings potential

Consolidated profit (IFRS)
(EUR in millions)

Key effects on earnings in 2018
- Decline in operating result in line with expectations
- Exceptionally high valuation result
- Own interest rate reductions at prior-year level
Baukindergeld helps young low-income families
Analysis of disbursement approvals: 60% of households have a taxable annual income < EUR 40,000

Number of applications
(cumulative, in thousands)

<table>
<thead>
<tr>
<th>Month</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep 2018</td>
<td>15.1</td>
</tr>
<tr>
<td>Oct 2018</td>
<td>29.2</td>
</tr>
<tr>
<td>Nov 2018</td>
<td>40.8</td>
</tr>
<tr>
<td>Dec 2018</td>
<td>56.4</td>
</tr>
<tr>
<td>Jan 2019</td>
<td>65.7</td>
</tr>
<tr>
<td>Feb 2019</td>
<td>73.7</td>
</tr>
<tr>
<td>Mar 2019</td>
<td>82.8</td>
</tr>
</tbody>
</table>

Number of applications by federal state

- BW: 11,039
- BY: 10,453
- BE: 1,260
- BB: 3,289
- ST: 2,491
- NI: 10,339
- TH: 2,228
- SH: 3,664
- MV: 2,060
- HE: 6,103
- RP: 5,024
- SL: 1,226
- NW: 18,264
- HB: 687
- HH: 894
- NW: 18,264

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Promotional performance: First months of 2019
KfW promotion for diverse target groups and projects

Commitment volume of EUR 10 billion as of 28 February 2019

Start-ups and SMEs
Direct support for around 7,600 start-ups and SMEs in Germany

Education
Financing studies and vocational or further training for 15,000 people in Germany

Energy-efficient construction and refurbishment
Support for construction or refurbishment of over 46,000 energy-efficient homes

KfW Capital
Promotion for innovative tech-companies
EUR 33 million in three VC funds; since launch of KfW Capital: EUR 78 million in five VC funds

Infrastructure
Financing of 340 municipal projects for public infrastructure

Export and project finance
Support for the German export industry in 36 projects

Development cooperation
Improved living conditions in developing countries and emerging economies through 24 projects

Green finance
Around EUR 3 billion in new commitments for climate change and the environment
Funding

- Funds raised in nine different currencies by means of 44 individual transactions
- Five new benchmark bonds (three in euros and two in US dollars) with very high number of investor demand constitute lion’s share of funding
- First bond in Canadian dollars since 2015; volume of CAD 1 billion and maturity of three years

Promotional business

ABS portfolio
EUR 298 million invested since start of year
2019 target EUR 1 billion

Green bond portfolio
EUR 24 million invested since start of the year
2019 target EUR 300 million

Successful start to the year for KfW’s capital market activities

* All data as of 31 March 2019
### Alignment of KfW with sustainability principles

**Special responsibility to lead by example**

#### Our starting point:
40% of KfW’s new commitments already contribute to environmental and climate protection

#### Our goal:

**KfW: Sustainable bank of the future**

#### Our work programme:

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>New sustainability mission statement with reference to Paris climate targets and UN Sustainable Development Goals (SDGs)</td>
</tr>
<tr>
<td>2</td>
<td>Prototype for group-wide mapping of commitments to SDGs</td>
</tr>
<tr>
<td>3</td>
<td>Development of additional steering options for the business</td>
</tr>
<tr>
<td>4</td>
<td>Inclusion of ESG and climate risks in risk management</td>
</tr>
<tr>
<td>5</td>
<td>Stronger dialogue with stakeholders</td>
</tr>
</tbody>
</table>
Module 2: Group-wide mapping of commitments to SDGs
Focus on four megatrends and preliminary findings

Promotion

- Environmental protection and climate change mitigation 40%
- Digitalisation and innovation 5%
- Globalisation 22%
- Social change 12%

SDG mapping initiative – Preliminary findings:

- Our mandate is to promote sustainable projects around the world
- Over 2/3 of our annual promotional commitments benefit at least 1 SDG
- KfW’s promotional activities contribute to all 17 SDGs
- Contributions relating to the following SDGs are particularly noteworthy

Share in total new commitments in 2018

KfW Annual press conference / Frankfurt am Main, 10 April 2019
German economy faces acid test in 2019
Current investment upswing below historic standards; much more commitment needed to ensure Germany remains competitive in future

Less momentum of corporate and government investments
(Initial quarter=100, adjusted for price, seasonal and calendar effects)

Noticeably less economic growth
– KfW economic forecast for 2019: +0.8%
– Weakened global economy and exports
– Support from domestic demand
– Slowdown in investment activity

Major downside risks
– Question mark over openness of global trade
– Weaker growth in China
– Chaotic Brexit
– Potential conflicts within the EU

Long-term boost to investment needed to retain competitiveness. Interdependencies between structural challenges must be taken into account and strategically applied to a number of parameters in parallel.

Source: KfW Research, Destatis
### Business review 2018

Group earnings position (IFRS) as of 31 December 2018

<table>
<thead>
<tr>
<th>(EUR in millions)</th>
<th>01/01 – 31/12/2017</th>
<th>01/01 – 31/12/2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income¹</td>
<td>2,579</td>
<td>2,413</td>
</tr>
<tr>
<td>Net commission income¹</td>
<td>316</td>
<td>374</td>
</tr>
<tr>
<td>Administrative expense¹</td>
<td>1,234</td>
<td>1,400</td>
</tr>
<tr>
<td><strong>Operating result before valuation¹</strong></td>
<td><strong>1,661</strong></td>
<td><strong>1,387</strong></td>
</tr>
<tr>
<td>Risk provisions for lending business</td>
<td>-209</td>
<td>-3</td>
</tr>
<tr>
<td>Valuation result (Fair Value)</td>
<td>194</td>
<td>426</td>
</tr>
<tr>
<td>Net gains/losses from securities and investments</td>
<td>22</td>
<td>25</td>
</tr>
<tr>
<td><strong>Operating result after valuation¹</strong></td>
<td><strong>1,669</strong></td>
<td><strong>1,834</strong></td>
</tr>
<tr>
<td>Net other operating income (incl. income taxes)</td>
<td>-28</td>
<td>17</td>
</tr>
<tr>
<td>Promotional expense</td>
<td>213</td>
<td>216</td>
</tr>
<tr>
<td><strong>Consolidated profit</strong></td>
<td><strong>1,427</strong></td>
<td><strong>1,636</strong></td>
</tr>
<tr>
<td>Incl. IFRS effects from hedging</td>
<td>235</td>
<td>325</td>
</tr>
<tr>
<td><strong>Consolidated profit before IFRS effects from hedging</strong></td>
<td><strong>1,192</strong></td>
<td><strong>1,311</strong></td>
</tr>
</tbody>
</table>

1) before promotional expense

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**Consolidated profit above prior-year figure, overstated by non-recurring effects**

- Operating income before valuation still under pressure; non-recurring charges in administrative expense
- Very high valuation result
- Own interest rate reductions at prior-year level
Operating result

Net interest income continues to fall in persisting low interest environment

**Net interest and commission income (before promotional expense) (EUR in millions)**

- **2017**
  - Net interest income: 2,579
  - Net commission income: 316

- **2018**
  - Net interest income: 2,413
  - Net commission income: 374

**Administrative expense (before promotional expense) (EUR in millions)**

- **2017**
  - Administrative expense: 1,234

- **2018**
  - Administrative expense: 1,400
Valuation result
Largely balanced risk provision result and high IFRS effects

2018
(EUR in millions)

-3  8  128  325

Risk provisions for lending business
- Among other areas, provisioning relates to education financing (domestic business) and DEG
- This is balanced out by the reversal of provisions and recoveries on receivables previously written off
- Risk provisions have also increased due to the provisions recognised in equity following the initial application of IFRS 9

Investment portfolio
- Result primarily generated from DEG investments
- Contribution from domestic investments also positive
- Good performance of equity companies

IFRS effects
- Purely IFRS-related effects from the valuation of derivatives used for hedging purposes
Risk provision result
Initial application of IFRS 9 benefits 2018 risk provision result

Risk provisions for lending business (EUR in millions)

Risk provisions for lending business volatile over time, dependent on
– economic development
– development of concentration risks
– total recoveries on receivables previously written off

Allocation to risk provisions
– Provisioning expense moved in a range from EUR 200 million to EUR 400 million
– Specific valuation allowance key factor in risk provision result
– Additional risk provisioning not through profit or loss as a result of IFRS 9 introduction in 2018 amounts to around EUR 140 million

Development in 2018
– Due to positive economic development as well as reversals and recoveries on receivables previously written off, there was no impact on profit or loss
– However, total additions to provisions – including risk provisions recognised in equity due to the first-time application of IFRS 9 – remain at the average level from previous years
Increase of total capital (available risk coverage resources) due to inclusion of interim profit for the first half 2018 and profits from the fourth quarter of 2017.

Slight increase in economic capital requirements primarily due to an increase in capital needed for market price risks. The rise in risk-weighted assets (RWA) is mainly due to methodological adjustments, but is partly compensated for by the increased total capital.

The economic excess coverage has risen overall, while the total capital ratio (IRBA) has fallen slightly.
Rise in total assets
Increased volume of lending, particularly for promotional priority of energy efficiency and renewables

**Total assets** (EUR in billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Assets (EUR in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>489.1</td>
</tr>
<tr>
<td>2015</td>
<td>503.0</td>
</tr>
<tr>
<td>2016</td>
<td>507.0</td>
</tr>
<tr>
<td>2017</td>
<td>472.2</td>
</tr>
<tr>
<td>2018</td>
<td>485.8</td>
</tr>
</tbody>
</table>

**Factors in growth of total assets, 2018**

<table>
<thead>
<tr>
<th>Factor in Growth of Total Assets</th>
<th>EUR in billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in balance sheet assets</td>
<td>+ 13.6</td>
</tr>
<tr>
<td>Lending business</td>
<td>+ 7.9</td>
</tr>
<tr>
<td>Cash collateral received for derivatives and liquidity maintenance</td>
<td>+ 2.3</td>
</tr>
<tr>
<td>Securities and investments</td>
<td>+ 2.1</td>
</tr>
<tr>
<td>Other</td>
<td>+ 1.3</td>
</tr>
</tbody>
</table>
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