2016

Annual Financial Report

Annual Financial Statements of Helaba

Contents

Management Report of Landesbank Hessen-Thüringen

Management Report

Foundations of the Bank

Business model of the Bank
Helaba is a credit institution organised under public law; its long-term strategic business model is that of a full-service bank with a strong regional focus, a presence in carefully selected international markets and a very close relationship with the Sparkassen-Finanzgruppe.

One key aspect of Helaba's business model is its legal form as a public-law institution. Helaba operates as a for-profit entity in line with the applicable provisions of the Charter and the Treaty of the Formation of a Joint Savings Banks Association Hesse-Thuringia. The Treaty and the Charter establish the legal framework for Helaba's business model. Other factors central to this business model are Helaba's status as part of the Sparkassen-Finanzgruppe with its institutional protection scheme, the distribution of tasks between Sparkassen, Landesbanken and other S-Group institutions, the large stake in Helaba owned by the Sparkassen organisation, and Helaba's retention and expansion of its activities in the S-Group and public development and infrastructure business.

Helaba's strategic business model centres on the three business units: Wholesale Business; S-Group Business, Private Customers and SME Business; and Public Development and Infrastructure Business. The Bank's registered offices are situated in Frankfurt am Main and Erfurt, and it also has branches in Düsseldorf, Kassel, Paris, London and New York. The branches allow Helaba to strengthen its local presence close to customers and Sparkassen. The foreign branches provide Helaba with access to the funding markets, particularly those markets based on the US dollar and pound sterling. The organisation also includes representative and sales offices, subsidiaries and affiliates. In 2016, Helaba opened a new representative office in Stockholm to provide support for its sales activities in Scandinavia. It is also planning to set up a further representative office in São Paulo.

Helaba's activities in the Wholesale Business unit concentrate on the six core business divisions of Real Estate, Corporate Finance, Financial Institutions and Public Finance, Global Markets, Asset Management and Transaction Banking. The geographic focus of the business is on Germany, but the Bank also has operations in some other European countries and North America. Stable, long-term business relationships with its customers are one of Helaba's hallmarks. In sales, Helaba follows two different approaches, firstly targeting product customers from the various product fields and, secondly, directing customer sales efforts across all products at major companies and the upper SME segment, institutional customers, selected international customers, plus German municipal corporations and central, regional and local public authorities. Among its target customers, Helaba aims for core bank status.

In the S-Group Business, Private Customers and SME Business unit, Helaba's strategic goal is to continue to strengthen its position as a leading S-Group bank for Germany. Activities in this business unit are concentrated in Germany, with a particular focus on Hesse, Thuringia, North Rhine-Westphalia and Brandenburg. Helaba is a Sparkasse central bank and S-Group bank for the Sparkassen in these four regions and therefore for 40 % of all Sparkassen in Germany. In Hesse and Thuringia, the S-Group Sparkassen and Helaba make up the Sparkassen-Finanzgruppe Hessen-Thüringen, based on the business model of economic unity, the preparation of consolidated financial statements and a joint S-Group rating. Comprehensive co-operation and business agreements have been entered into with the Sparkassen and their associations in North Rhine-Westphalia. In addition, there are sales co-operation agreements with the Sparkassen in Brandenburg. The agreements with the Sparkassen in North Rhine-Westphalia and Brandenburg complement the S-Group Concept of the Sparkassen-Finanzgruppe Hessen-Thüringen.

Helaba is one of the market leaders in the home loans and savings business in both Hesse and Thuringia through the legally dependent Landesbausparkasse Hessen-Thüringen (LBS). Frankfurter Sparkasse, a wholly owned and fully consolidated subsidiary of Helaba organised under German public law, is the leading retail bank in the Frankfurt am Main region with over 850,000 customers; it also has a presence in the nationwide direct banking market through 1822direkt. Frankfurter Bankgesellschaft (Schweiz) AG and its wholly owned subsidiary Frankfurter Bankgesellschaft (Deutschland) AG provide Helaba's products and services for Sparkassen in private banking and in the wealth and asset management businesses.

In the Public Development and Infrastructure Business unit, Helaba has been entrusted with administering public-sector development programmes of the Federal State of Hesse via "WIBank", a legally dependent entity within Helaba. WIBank enjoys a direct statutory guarantee from the State of Hesse as permitted under applicable law in the European Union (EU). WIBank's business activities are guided by the development objectives of the State of Hesse. Helaba also has stakes in other development institutions in Hesse and Thuringia.

Management instruments and non-financial performance indicators

As part of managing the Bank as a whole, Helaba has integrated systems in place for business and productivity management. This is based on a multi-level Margin Accounting System and comprises both the management of absolute income and costs and the integrated management of contribution margins. The target is to achieve a cost-income ratio below 65 %. The cost-income ratio is the ratio of general and administrative expenses to profit before taxes net of general and administrative expenses and of provisions for losses on loans and advances. The annual planning process, from which a budgeted statement of financial position and income statement are derived, also follows this system. Regular plan/actual comparisons are generated and variances analysed based on a management income statement produced in the Margin Accounting System at regular intervals in the course of the financial year. In line with management reporting, the segment information is based on internal management (contribution margin accounting) and also on external financial reporting.

One key indicator used to manage portfolios is the volume of new medium- and long-term business (defined as the volume of new medium and long-term lending business with a funding term of more than one year). Systematic preliminary costings are carried out for loan agreements, in particular to ensure that new business is managed with a focus on risk and profitability.

Equity is managed through the allocation of regulatory and economic limits and through the capital ratio. When the target capital ratios are set, the targets take into account the additional own funds requirements specified by the European Central Bank (ECB). Profitability targets are managed on the basis of the return on equity (ratio of profit before taxes to average capital employed in the financial year).

The Capital Requirements Regulation (CRR) specifies that banks must calculate a leverage ratio, a (short-term) liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR). Helaba takes these ratios and requirements into account in its liquidity management and when fine-tuning its business portfolio. An institution-specific minimum requirement for own funds and eligible liabilities (MREL) will also be specified as part of the implementation of the Single Resolution Mechanism (SRM) in Europe.

Helaba's business activities are geared to customer requirements. The Bank provides products and services for a broad spectrum of different customer groups. The Bank's business activities are tightly interconnected with the real economy. The degree of interconnectedness with the real economy is shown by the percentage of the total assets accounted for by customer business (loans and advances to customers and affiliated Sparkassen).

To fund itself, Helaba draws on different sources and products, focusing in particular on the anchor sources of funding available through direct and indirect Sparkasse business (proprietary and customer transactions) as a result of belonging to a strong association of financial institutions. Development funds raised through WIBank and Pfandbrief issues are also a cost-efficient component of its stable funding base.

As the leading S-Group bank in the Sparkassen-Finanzgruppe, Helaba is continuously expanding its business relationships with Sparkassen throughout Germany. In the regions of Hesse, Thuringia and North Rhine-Westphalia, where Helaba acts as the Sparkasse central bank, Helaba uses standard criteria to determine a product use ratio that expresses the volume of business conducted with Helaba and its subsidiaries as a percentage of the total purchases by each Sparkasse. Target product use ratios are agreed jointly with the Sparkassen.

As a public-law credit institution with a mandate to operate in the public interest, Helaba has laid down guiding sustainability principles in which it has pledged its commitment to environmental and social responsibility, both internally and in its dealings with the general public, and has established standards of conduct regarding business activities, business operations, staff and corporate social responsibility. Helaba has also translated its responsibility to the environment and society into binding requirements in its business strategy. Helaba's risk assessment and risk management processes thus incorporate the identification and assessment of environmental risks and of issues from a social and ethical perspective. The Bank is looking into the possibility of creating and installing a standard process for the appropriate incorporation of environmental risks and of social and ethical perspectives into relevant lending decisions. Helaba does not finance the manufacture or trading of controversial types of weapon. It also undertakes not to enter into speculative transactions with agricultural commodities or develop investment products related to such commodities. Helaba's endeavours in response to the threat posed by climate change include a clear commitment to supporting energy-efficient technologies and renewable energy; it advocates the use of environmentally friendly technologies wherever possible when financing technical plant and systems. Helaba makes key elements of its environmental profile transparent and creates incentives to further reduce consumption and emissions by calculating environmental indicators for its business operations and publishing them on the Internet on an annual basis.

Helaba is among the signatories to the Diversity Charter, a voluntary commitment by companies to promote a corporate culture that is without prejudice or discrimination. Helaba also engages in many areas of public life by sponsoring numerous cultural, educational, environmental, sports and social organisations and projects.

Helaba's sustainability performance is regularly rated by sustainability rating agencies. The ratings are a core component in the process of analysing and refining Helaba's sustainability profile. Helaba aims to achieve continuous improvement in these third-party ratings.

Employees

- Business and HR strategy
  The basic principles of Helaba's HR activities are derived from its business strategy. These principles incorporate social, economic and regulatory changes. The core tasks include, for example, needs-based recruitment of suitable employees, the provision of professional services, attractive remuneration and ancillary benefits (such as occupational pensions), continuing professional development and the development of young talent.

- Remuneration principles
  The business strategy and risk strategy specify the degree of flexibility available to employees. This then also forms the basis for the remuneration system. The Bank's remuneration strategy and remuneration principles set out the relationship between business strategy, risk strategy and remuneration strategy. The remuneration strategy takes into account the attainment of targets specified in operational planning when determining an overall budget for the Bank and allocating the budget for variable remuneration at unit level, thereby ensuring that there is a link between the remuneration strategy and divisional strategic objectives. For the corporate centre units, budgets are allocated based on the results generated by the Bank as a whole and the attainment of qualitative targets. This system rules out the possibility of incentives for individual employees to enter into disproportionately high risks. The fixed salaries are based on market requirements.

- Professional development
  Despite a high level of cost-consciousness, Helaba continues to make a significant investment in developing the skills and qualifications of its employees. The needs-based range of seminars covering professional, personal, social and methodological development helps managers and employees fulfil their day-to-day responsibilities. These seminars are complemented by foreign language training, topic-specific training provided by external providers and courses of study in business management.

- Development of young talent
  The social changes resulting from demographic trends and the ongoing process of digitisation will have an impact on Helaba's competitiveness over the long term. This has implications for the design of processes in HR management. Demographic change is presenting a particular challenge in that Helaba must be able to attract and retain young talent with a high degree of potential. In addition, the advances in digitisation are changing the requirements that companies need to meet to retain their appeal, particularly for a young employee target group. This is noticeable, for example, in changing recruitment processes, which are increasingly characterised by the use of social media for contact with applicants.

- Other key areas of focus
  Other key areas in which HR activities are currently focused include work-life balance, health management, change management and managerial training. Various indicators, such as a low turnover rate, length of service and low absenteeism, confirm that employees are satisfied and highly committed.

  Helaba carried out an employee survey throughout the Bank during the course of 2016; more than 2,700 employees (83 %) made use of the opportunity to express their opinions on Helaba. The findings will now be used to continue the work on corporate and management culture in line with identified requirements and will also be actively used in 2017 to draw up recommendations for further strategic and operational action.

  In the year under review, Helaba negotiated and came to mutually acceptable arrangements with employee representatives for new company agreements on employee appraisals covering target agreement, target attainment, performance assessment and the related determination of variable remuneration at the end of the year. Employee appraisals foster co-operation between employees and managers based on trust. At the same time, the results of these negotiations also satisfy in full the latest regulatory requirements under the German Regulation on the Supervisory Requirements for Institutions' Remuneration Systems (Instituts-Vergütungsverordnung – IVV).

Economic Report

Macroeconomic and sector-specific conditions in Germany
In 2016, the German economy expanded at a rate of 1.9 % (seasonally adjusted 1.8 %), the third year in succession that it has exceeded its growth potential, i.e. the growth that would be anticipated over the long term with a normal level of capacity utilisation. This economic growth was primarily driven by consumer spending, with household consumption accounting for more than one percentage point of the growth. This and government spending accounted for the whole of the growth in gross domestic product (GDP). Substantial collectively agreed pay rises in combination with largely stable prices and increasing employment boosted consumer incomes in real terms. Migration into Germany also gave a stimulus to both household and public-sector expenditures.

This contrasted with a disappointing level of capital investment by businesses, with the contribution to growth only slightly into positive territory; foreign trade even acted as a drag to a small extent, reflecting the uncertainties surrounding exports, even though the low interest rates in capital markets and slightly above-average capacity utilisation ought to have generated more capital spending. Residential construction expanded on the back of strong demand for residential space (mainly in large towns and cities), very low mortgage rates, the lack of investment alternatives and more investment in the stock of housing. Construction in the public and commercial sectors recovered during 2016.

Competitive conditions in the German banking industry are being influenced by the ongoing period of zero and negative interest rates and the action taken to implement the European banking union. Alongside the historically low key interest rates, the ECB's asset purchase programmes are flooding the markets with liquidity. On top of this, institutional investors (insurance companies, pension funds) are making inroads into the market in response to their own investment pressures and are becoming competitors of the banks. The increasingly cut-throat competition is resulting in even greater pressure on margins.

More and more areas of economic activity are becoming digitalised, driven by developments in information technology and the increasing availability of the Internet. Online and mobile channels are presenting financial service providers with new ways of offering products and of accessing and exchanging data with customers.

In this way, online banks, high street banks and increasingly non-bank web-based businesses (termed fintech companies or fintechs) too have developed new communication and sales channels in private customer business, in some cases in competition and in other cases in co-operation with one another. To an ever greater extent, attention is now focusing on business with corporate clients, real estate customers and institutional investors as well. Derivative platforms are providing standardised processes, enabling users to enter into currency hedges on the basis of auditable procedures. Lending portals are enabling small corporate clients to obtain financing from banks or directly from institutional or private investors, and banks are analysing their customer data in search of more effective ways of offering products. Around the globe, blockchain technology is being refined to find new, faster and more cost-effective methods of exchanging data – applications range from specialist niche trading to SEPA payments.

Key changes in the regulatory framework were as follows:

- Prudential supervision by the ECB (Single Supervisory Mechanism, SSM)
  The Helaba Group (within the meaning of the German Banking Act (Kreditwesengesetz – KWG)) together with its affiliated subsidiaries Frankfurter Sparkasse and Frankfurter Bankgesellschaft (Deutschland) AG, is among the banks classified as "significant" and therefore subject to direct supervision by the ECB. The ECB sent the Helaba Group a letter dated 25 November 2016 notifying it of the findings of the Supervisory Review and Evaluation Process (SREP). The ECB has specified that the minimum Common Equity Tier 1 (CET1) capital ratio to be maintained by the Helaba Group in 2017 is 7.43 %. This requirement comprises the Pillar 1 minimum capital requirement, the Pillar 2 capital requirement and the capital buffers. The minimum CET1 capital ratio specified by the ECB for 2016 had been 9.25 %.

- ECB stress test and transparency exercise
  The European Banking Authority (EBA) and the ECB followed up the last stress test performed as part of the comprehensive assessment in 2014 by conducting another EU-wide stress test, the results of which were published on 29 July 2016. The number of banks included fell from 123 in 2014 to 51. Helaba was one of the banks involved again in 2016. In the test results, Helaba was found to have a comfortable level of capital backing. One of the outcomes of the stress test in the third stress year was that the Common Equity Tier 1 (CET1, phased in) capital ratio fell by 3.7 percentage points from the figure of 13.8 % reported at the end of 2015 to 10.1 %. Based on a stronger starting point as at 31 December 2015, the absolute CET1 ratio was above the values calculated in the 2014 stress test.

In addition to the stress test, the EBA once again carried out an EU-wide transparency exercise in 2016, the results of which were published on 2 December 2016. This exercise involved gathering detailed information on capital adequacy, risk position and quality of assets for each of the participating banks as at the reference dates of 30 June 2016 and 31 December 2015. Data was collected from 131 banks in 24 European Economic Area (EEA) countries. The non-performing loan (NPL) ratio determined for the Helaba Group as at 30 June 2016 was 2.04 %, reflecting the Group's sound capital adequacy and risk position as well as the high quality of its lending portfolio. The Bank therefore fell below the average of 2.72 % for German banks, which was already very low by European standards. The NPL ratio as at 31 December 2016 came to 1.65 %.

- Single Resolution Mechanism (SRM)
A second cornerstone of the European banking union to accompany the Single Supervisory Mechanism is the Single Resolution Mechanism, which consists of the Single Resolution Fund (SRF) and the Single Resolution Board (SRB). The resolution fund is funded by the European bank levy collected since 2015. The SRB took over central decision-making powers and responsibilities from January 2016. Helaba is classified as a "significant" bank and thus falls within the responsibility of the SRB. In the first half of 2016, a data collection exercise was conducted for the purposes of resolution planning and determining minimum requirements for own funds and eligible liabilities (MREL). As a result of the data collection exercise, Helaba was notified in November 2016 of an indicative MREL target for the Group. Helaba's own funds and eligible liabilities are well above the notified target MREL.

- Capital and liquidity requirements (Basel III/CRD IV/CRR)
At the end of 2016, the CET1 capital ratio for Helaba was 12.7 % (phased in, i.e. taking into account the CRR transitional arrangements) or 12.6 % (fully loaded, i.e. disregarding the transitional arrangements) and the total capital ratio was 19.9 % (applying the CRR transitional arrangements) or 19.3 % (fully loaded, i.e. disregarding the transitional arrangements). Helaba therefore has a comfortable capital position and satisfies all the regulatory requirements that have currently been published.

CRD IV provides for a transitional phase until the end of 2021 for capital instruments that are currently recognised as regulatory Tier 1 capital, but will not meet the future requirements for such capital. At Helaba, this affects silent participations with a nominal amount of € 953 m.

The uniform Europe-wide liquidity coverage requirement in the form of the liquidity coverage ratio (LCR) will be gradually raised, progressing from 70 % in 2016 to 80 % in 2017 and then to 100 % in 2018. The LCR for Helaba at 31 December 2016 amounted to 125.7 %. A minimum standard for medium- to long-term structural liquidity is being introduced from 2018 using an indicator known as the net stable funding ratio (NSFR). Helaba is already taking this requirement into account in its management systems. Both liquidity ratios will generally lead to an increase in liquidity management costs and therefore have a negative impact on profitability. Helaba started to adapt at an early stage to the new liquidity management requirements and believes it is in a good position to meet the regulatory requirements accordingly.

The leverage ratio measures the ratio between regulatory capital and the unweighted total of all on-balance sheet and off-balance sheet asset items (including derivatives). Currently, banks must disclose the leverage ratio and report it to the supervisory authorities as an indicator for monitoring purposes. A mandatory minimum ratio of 3.0 % is expected to apply from 1 January 2019. The European Commission is likely to decide on the details during 2017. Taking into account the transitional provisions specified in the relevant delegated act, Helaba's leverage ratio as at 31 December 2016 was 4.23 %.

- Protection schemes
Germany has transposed the requirements of the EU directive on deposit guarantee schemes into German law with the Deposit Guarantee Act (EinSiG), which came into force on 3 July 2015. Under this act, institutional protection schemes can be recognised as deposit guarantee schemes provided that the criteria specified in the act are satisfied. Accordingly, the institutional protection scheme operated by the Sparkassen-Finanzgruppe has been recognised by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) as a deposit guarantee scheme within the meaning of EinSiG. Of the customer deposits held by Landesbank Hessen-Thüringen (individual bank), total deposits of € 4.3 bn qualify as "covered deposits" within the meaning of EinSiG.

Business performance
Key factors influencing the business performance and results of operations at Helaba in the 2016 financial year were the robust rate of economic growth in Germany, which amounted to 1.9 % in real terms, and the persistently low level of interest rates, which were reduced to new historic lows during the year.

Although the volume of new medium- and long-term business (with a term of greater than one year, excluding the WIBank development business, which does not form part of the competitive market) in the Group was down slightly to € 17.4 bn (2015: € 18.2 bn), maturities, special repayments and a currency-related decline were almost entirely offset. Loans and advances to customers amounting to € 81.9 bn were at a similar level to the prior-year figure (31 December 2015: € 82.2 bn). Loans and advances to affiliated Sparkassen contracted to € 6.6 bn (31 December 2015: € 7.9 bn) as a result of the liquidity situation in the institutions. The focus on lending to customers in core business areas and to the Sparkassen as S-Group partners is in line with the customer-centric orientation of Helaba's business model. The degree of interconnectedness with the real economy, i.e. the percentage of the total assets accounted for by customer transactions, rose to 65 % (31 December 2015: 62 %) as a consequence of the contraction in total assets in 2016.

In spite of some relatively sharp market fluctuations at the beginning of the year, the market environment for funding operations was generally positive for financial institutions in core euro zone countries during 2016. Helaba was able to obtain funding inexpensively and without difficulty from institutional and retail investors throughout the year. The Bank continued to benefit here from its strategic business model and from its stable business and earnings performance.

Medium- and long-term funding of around € 17.2 bn (2015: € 17.3 bn) was raised during 2016, with unsecured funding amounting to approximately € 14.2 bn (2015: € 11.4 bn). Despite persistently low interest rates, sales of retail issues placed through the Sparkasse network were only slightly lower than the previous year at around € 2.4 bn (2015: € 2.7 bn). Pfandbrief issues amounted to € 3.0 bn in total (2015: € 4.8 bn), with mortgage Pfandbriefe accounting for 60 % and public Pfandbriefe 40 %. A notable success was a four-year mortgage Pfandbrief of US$ 600 m placed with institutional investors.

Helaba is the S-Group bank for 157 Sparkassen in four German states, or around 40 % of all Sparkassen in Germany. Collaboration with the affiliated Sparkassen held steady in 2016.

On 16 December 2016 Helaba reached an agreement with CORESTATE Capital Holding S.A. regarding the sale of its 44.2 % stake in HANNOVER LEASING GmbH & Co. KG. In addition to Helaba, Hessisch-Thüringische Sparkassen-Beteiligungsgesellschaft also concluded the sale of its 48 % equity investment. The deal is subject to approval by the banking supervisor and is expected to be completed in the first half of 2017. Thereafter, Helaba will still retain a non-controlling interest of 5.1 % in HANNOVER LEASING.

In financial year 2016, Helaba again generated a net profit that allowed it to service all subordinated debt, profit participation rights and silent participations, pay a dividend to shareholders and make appropriations to its retained earnings to strengthen Tier 1 capital.

The cost-income ratio for 2016 was 57.7 % (31 December 2015: 57.6 %). Return on equity declined to 5.7 % (31 December 2015: 6.7 %).

Net Assets, Financial Position and Results of Operations

Key performance data for 2016

	2016	2015	Changes	
	in € m	in € m	in € m	in %
Business volume	165,471	172,331	–6,860	–4.0
Total assets	136,788	145,023	–8,235	–5.7
Operating result before allowance for losses on loans and advances	611	592	19	3.2
Net additions to allowance for losses on loans and advances/ net remeasurement gains/losses	–147	–44	–103	>–100.0
Net income for the year	291	163	128	78.5

As in previous years, the Bank has not included the cost of servicing its silent participations in its presentation of the results of operations. For this reason, net interest income and also the operating result reported under the results of operations are € 45 m (2015: € 45 m) higher than in the income statement.

Results of operations

	2016	2015	Changes	
	in € m	in € m	in € m	in %
Net interest income	1,105	1,155	–50	–4.3
Net fee and commission income	174	168	6	3.6
Net income of the trading portfolio	158	185	–27	–14.6
Other net operating income	8	–111	119	>100.0
Net operating income	**1,445**	**1,397**	**48**	**3.4**
General and administrative expenses	–834	–805	–29	–3.6
Operating result before allowance for losses on loans and advances	**611**	**592**	**19**	**3.2**
Net additions to allowance for losses on loans and advances/ net remeasurement gains/losses	–147	–44	–103	>–100.0
Additions to/reversals of contingency reserves (section 340f HGB)	–70	–	–70	–
Extraordinary result	–13	–119	106	89.1
Operating result before taxes	**381**	**429**	**–48**	**–11.2**
Taxes on income	–90	–266	176	66.2
Additions to the fund for general banking risks (section 340g HGB)	–	–	–	–
Net income for the year	**291**	**163**	**128**	**78.5**

In 2016, the Bank generated an increase in operating income, which was € 48 m higher than the operating income achieved in 2015. Despite higher general and administrative expenses, the positive other net operating income contributed to a rise in the operating result before allowance for losses on loans and advances to € 611 m. Taking into account a significantly higher expense under net additions to allowance for losses on loans and advances/net remeasurement gains/losses and an addition to the contingency reserves in accordance with section 340f of the HGB, the operating result before taxes reported by the Bank was down by € 48 m year on year. On the other hand, taxes on income were down significantly on the level reported in 2015 with the overall impact that net income for the year increased by € 128 m year on year to € 291 m.

Net interest income, a key component of Helaba's income, was € 1,105 m compared with € 1,155 m in the previous year. One of the factors driving this decrease was lower interest income from on-balance sheet transactions. There was also an adverse impact from one-off expenses relating to previous periods and arising from the repurchase of promissory note loans, but a positive impact on operating profit from lower expenses in connection with the ending of swap transactions.

Net fee and commission income (€ 174 m) rose by € 6 m or 3.6 % year on year and was derived largely from fee and commission income on payment transactions and in the lending and guarantee business.

All realised and unrealised contributions to income from trading transactions are reported under net income of the trading portfolio. Most of the net income of € 158 m (2015: € 185 m) resulted from interest-rate-related business, the focus of the customer-driven capital market activities. Credit valuation adjustments remained virtually unchanged over the course of the year. An amount of € 5 m was added to the fund for general banking risks in accordance with section 340e of the HGB in the year under review.

Net other operating income and expenses amounted to income of € 8 m (2015: expense of € 111 m). The other operating income resulted mainly from the partial reversal of pension provisions as a consequence of adjustments to the pension and salary trends and from the effects of the collective bargaining agreement for the banking sector in July 2016. The decline in other operating expenses resulted from the switch in the underlying discount rate dictated by German commercial law to 4.01 % on the basis of a ten-year average compared with the prior-year discount rate of 3.89 % on the basis of a seven-year average.

General and administrative expenses rose by € 29 m to € 834 m. These expenses comprised personnel expenses of € 362 m (2015: € 372 m), non-personnel operating expenses of € 457 m (2015: € 416 m) as well as depreciation and impairment losses on property and equipment plus amortisation and impairment losses on intangible assets totalling € 15 m (2015: € 17 m). The decline in pension expenses under personnel expenses was largely attributable to changes in the parameters used in calculating pension provisions. Factors behind the increase in non-personnel operating expenses included higher consulting and IT costs. The bank levy amounted to an expense of € 35 m in the year under review, a rise of € 9 m compared with the prior-year figure (2015: € 26 m). At the end of the year, Helaba had 3,385 employees (31 December 2015: 3,435). The average number of employees declined from 3,476 to 3,383.

The net operating income of € 1,445 m and general and administrative expenses of € 834 m combined to give an operating result before allowance for losses on loans and advances of € 611 m, an increase on the previous year of € 19 m or 3.2 %. The cost-income ratio, which is the ratio of general and administrative expenses to net operating income, was 57.7 % as at 31 December 2016.

The breakdown of net additions to the allowance for losses on loans and advances and net remeasurement gains/losses was as follows:

	2016	2015	Changes	
	in € m	in € m	in € m	in %
Result of lending operations	–179	–29	–150	>–100.0
Result of investment operations	–18	–23	5	21.7
Result of securities allocated to the liquidity reserve, fixed assets and banking book derivatives	50	8	42	>100.0
Net additions to allowance for losses on loans and advances/ net remeasurement gains/losses	**–147**	**–44**	**–103**	**>–100.0**

The expense for the allowance for losses on loans and advances increased substantially in 2016. The net figure amounted to an expense of € 179 m, significantly above the previous year. Higher additions to specific loan loss allowances (net addition of € 255 m compared with a net addition of € 132 m in 2015) contributed to this increase. However, the portfolio loan loss allowances amounted to a net reversal. The year-on-year change in the allowance for losses on loans and advances also arose because of the switch in the calculation method used for the portfolio loan loss allowances in the prior year.

The result of investment operations was an expense of € 18 m compared with an expense of € 23 m in the previous year and included an equity investment that was fully written off.

The result of securities allocated to the liquidity reserve is the net amount of write-downs strictly to the lower of cost or market value, disposal gains and losses and reversals of write-downs required under section 253 (5) of the HGB. Together with the net redemption gain/loss on long-term securities and the net remeasurement gain/loss on banking book derivatives, this resulted in a contribution to the operating result of € 50 m (2015: € 8 m).

The extraordinary result amounting to an expense of € 13 m (2015: expense of € 119 m) included the necessary final addition to pension provisions equating to 1/15 of the retrospective addition arising from the changes to the measurement method specified under the German Accounting Law Modernisation Act (BilMoG).

The contingency reserves under section 340f of the HGB increased by € 70 m, taking the operating result before taxes to a total of € 381 m compared with € 429 m in 2015.

The decline in the tax expense to a total of € 90 m (2015: € 266 m) was attributable for the most part to the decrease in taxes in the Bank in Germany where, in particular, effects from pension provisions, the remeasurement of securities and allowances for losses on loans and advances reduced the taxable income.

Overall, these figures resulted in net income of € 291 m for the year, allowing Helaba to service all subordinated debt and silent participations, to make appropriations to its revenue reserves to strengthen Tier 1 capital and to report net retained profits.

Changes in assets

	31.12.2016	31.12.2015	Changes	
	in € m	in € m	in € m	in %
Loans and advances to banks including cash reserve	14,707	16,440	–1,733	–10.5
Loans and advances to customers	81,919	82,162	–243	–0.3
Bonds and equities	19,048	19,578	–530	–2.7
Trading portfolio (assets)	16,536	22,095	–5,559	–25.2
Equity investments and shares in affiliated companies	1,838	1,878	–40	–2.1
Other assets	2,740	2,870	–130	–4.5
Total assets	**136,788**	**145,023**	**–8,235**	**–5.7**
Business volume	165,471	172,331	–6,860	–4.0

Helaba’s total assets again fell significantly from € 145 bn to € 137 bn in financial year 2016.

Loans and advances to banks, including the cash reserve, declined by € 1.7 bn to € 14.7 bn. This decrease included a substantial fall in loans to the Sparkassen in Hesse and Thuringia, North Rhine-Westphalia and Brandenburg.

Loans and advances to customers remained largely unchanged at € 81.9 bn as at 31 December 2016 (31 December 2015: € 82.2 bn). While mortgage loans grew by € 1.0 bn, municipal loans contracted by € 1.1 bn. Other loans and advances remained at the prior-year level. Bausparkasse building loans also remained almost unchanged.

The volume of bonds and equities allocated to the investment and liquidity portfolio shrank slightly in the last financial year to € 19.0 bn (31 December 2015: € 19.6 bn). The main investments were bonds and other fixed-income securities totalling € 18.0 bn (31 December 2015: € 17.3 bn). Equity shares and other variable-income securities amounted to € 1.0 bn (31 December 2015: € 2.3 bn). The year-on-year decline resulted from a shift in own fund investing activities.

The trading portfolio (assets) declined by € 5.6 bn to € 16.5 bn in the reporting period. Derivatives in the trading portfolio (assets) amounted to € 8.0 bn (31 December 2015: € 7.6 bn). The decrease was explained for the most part by the further reduction in the portfolio of bonds and other fixed-income securities to € 7.1 bn as at 31 December 2016 compared with € 13.0 bn at the end of 2015. Equity shares and other variable-income securities included in the portfolio amounted to just € 0.1 bn (31 December 2015: € 0.2 bn). Trading receivables of € 1.3 bn remained at the same level as the prior-year figure (31 December 2015: € 1.3 bn).

The business volume, which includes off-balance sheet business in addition to total assets, declined by € 6.8 bn to € 165.5 bn. Total assets contracted by € 8.2 bn to € 136.8 bn, largely as a consequence of the fall in the volume of the trading portfolio (assets). The lower decrease in business volume compared with that in total assets was attributable to the increase in contingent liabilities from sureties, indemnities and guarantees from € 5.9 bn to € 6.8 bn in the reporting period. Placement and underwriting obligations remained largely unchanged, while irrevocable loan commitments rose significantly in the reporting period by € 0.5 bn to € 19.1 bn.

Changes in equity and liabilities

	31.12.2016	31.12.2015	Changes	
	in € m	in € m	in € m	in %
Liabilities due to banks	32,098	38,006	–5,908	–15.5
Liabilities due to customers	28,467	30,077	–1,610	–5.4
Securitised liabilities	50,110	46,335	3,775	8.1
Trading portfolio (liabilities)	10,975	14,854	–3,879	–26.1
Own funds	10,110	10,350	–240	–2.3
Other liabilities	5,028	5,401	–373	–6.9
Total equity and liabilities	**136,788**	**145,023**	**–8,235**	**–5.7**

Liabilities due to banks were down year on year to € 32.1 bn (31 December 2015: € 38.0 bn). The contraction was largely attributable to securities repurchase transactions with banks, which went down by € 3.6 bn.

Liabilities due to customers declined by € 1.6 bn to € 28.5 bn. In particular, lower current account deposits (down by € 0.6 bn) and overnight and time deposits (down by € 0.6 bn) contributed to this decrease.

Liabilities due to customers included home savings deposits of € 4.5 bn (31 December 2015: € 4.2 bn).

Securitised liabilities issued rose by € 3.8 bn. The portfolio of bonds issued amounted to € 43.0 bn (31 December 2015: € 40.1 bn). Within securitised liabilities, the issuance programmes comprising short-term money market instruments amounted to € 7.1 bn (31 December 2015: € 6.2 bn).

The trading portfolio (liabilities) fell by € 3.9 bn to € 11.0 bn. Trading liabilities amounted to € 8.0 bn (31 December 2015: € 12.1 bn) and trading derivatives (liabilities) to € 3.0 bn (31 December 2015: € 2.8 bn).

Own funds

The own funds of the Bank reported in the balance sheet (equity excluding net retained profits, including the fund for general banking risks, profit participation rights and subordinated liabilities) amounted to a total of € 10.1 bn as at 31 December 2016 (31 December 2015: € 10.3 bn). The contraction was mainly the result of maturing profit participation rights.

The Bank's regulatory own funds as at 31 December 2016 – i.e. before the annual financial statements were adopted and thus before appropriations to revenue reserves were taken into consideration and including an allowance surplus of € 123 m resulting from the comparison of expected losses against allowances at the end of 2015 – amounted to € 9.7 bn. This included Tier 1 capital of € 6.8 bn. The capital contributions classified as CET1 capital amounted to € 1.9 bn; silent participations of € 632.0 m were classified as Additional Tier 1 capital.

The Bank's own funds requirements under the CRR amounted to € 3.9 bn as at 31 December 2016. This resulted in a total capital ratio of 19.9 % for Helaba; the Tier 1 capital ratio was 14.0 % and the CET1 capital ratio 12.7 %.

The own funds requirements specified by the CRR for the exposures for which capital charges are required were met at all times in 2016.

As in previous years, Helaba further strengthened its equity and its regulatory capital by making appropriations to revenue reserves.

Comparison with prior-year forecasts

The following table shows a comparison between the actual values achieved in the year under review for the key performance indicators used by Helaba and the original forecasts:

	2015 forecast for 2016	2016 actual
Net interest income	Unchanged on previous year	–4.3 %
Net fee and commission income	Up by 4 %	+ 3.6 %
Net income of the trading portfolio	Down by 20 % year on year	–14.6 %
Other net operating income	Significantly negative	€ 8 m
Personnel expenses	Up by 5 %	–2.7 %
Non-personnel operating expenses (including depreciation, amortisation and write-downs)	Up by 9 %	+ 9.0 %
Provisions for losses on loans and advances	Significant increase	> 100 %
Profit before taxes	**Significant year-on-year decrease**	**–11.2 %**
Cost-income ratio	< 65 %	57.7 %
Volume of new medium- and long-term business	**€ 15.4 bn**	**€ 17.4 bn**

Helaba's performance was largely in line with forecasts. The main variances are described below.

The adverse impact on net interest income was even greater than anticipated in 2016 because of the very low level of interest rates. Because of this situation, some contributions to net interest income, particularly from cash management and the Landesbausparkasse, fell short of forecasts.

Other net operating income turned out to be considerably better than projected, mainly because of the switch in the discount rate methodology used for pension provisions to a ten-year average. The budget had assumed a seven-year average. Other net operating income was also improved by the reversal of pension provisions as a consequence of the new collective bargaining agreement in 2016.

Contrary to expectations, the planned personnel expenses even fell slightly as a result of changes to the parameters used in the calculation of the pension provisions. This was because these changes meant no additions to the pension provisions had to be recognised.

The allowance for losses on loans and advances rose significantly compared with 2015, but this was in line with forecasts. In the prior year, this item had included significant reversals of portfolio loan loss allowances arising from a change in methodology.

The main factor contributing to the volume of new medium- and long-term business in excess of the budget was the excellent performance in real estate lending.

Results of operations by business area

In real estate lending, the volume of new medium- and long-term business increased by around 6 % year on year to € 10.4 bn and therefore once again exceeded the budgeted level by some way. The new business included a high proportion of early refinancing arrangements and was accompanied by significant early redemptions, resulting in flat growth in the average customer volume. The contraction in margins in new business also led to a slight year-on-year fall in the interest margin for the portfolio as a whole. Income decreased year on year by around 5 %, with income from real estate lending operations falling slightly short of expectations in 2016.

In the Corporate Finance business line, the volume of new medium- and long-term business was around 22 % down on the previous year at € 4.3 bn and therefore below budget. Despite a slight rise in average loans and advances to customers for the year, a contraction in margins and lower one-off income amounts led to a fall in income of 3 % compared with the previous year. The decrease in income was therefore somewhat greater than forecast.

The Bank only entered into selective new business with foreign public-sector institutions in 2016, the value of this new business amounting to € 0.1 bn. In the Financial Institutions and Public Finance division, total income fell by 11 %, which was greater than predicted.

The volume of new medium- and long-term lending in the municipal lending business in Germany was € 1.0 bn in 2016, similar to the previous year's figure. Margins remained unchanged year on year and, as expected, the income generated was at the level of the prior year.

In the capital markets business, higher customer contributions led to a significant rise in net fee and commission income. In contrast, net trading income decreased as a result of a significant fall in trading assets and lower contributions to earnings from mark-to-market valuations. The measurement of OTC derivatives using the overnight index swap curve and the calculation of the credit value adjustments (CVAs) and debit value adjustments (DVAs) also resulted in lower net income.

In the cash management business, fee and commission income in 2016 rose by 10 % compared with the previous year. This increase was offset by a significant fall in income under net interest income caused by the negative short-term interest rates, the result of which was a year-on-year decrease in total income of 22 %. Cash Management operations therefore fell short of expectations in 2016.

In the S-Group business with the Sparkassen, the income from structured bonds business fell well short of the figures achieved in the previous year. As a result of the low level of interest rates, performance in the payment transactions business and in the capital markets business with the Sparkassen did not match the prior-year level and was also below budget. Income in the S-Group business was down by around 7 % in total year on year and therefore some way below the forecasts.

In the year under review, gross new business at LBS was slightly behind the previous year's level but still considerably higher than the average for the sector as a whole. Operating interest income was below the prior-year level owing to the further fall in interest rates in 2016 and the associated low demand for home savings loans. Some of the adverse impact was offset by non-operating income amounts and lower pension provision expenses.

Helaba performs public development functions for the State of Hesse through WIBank. One of the main features of the year under review was the expansion in the infrastructure development business, although the persistently low interest rates had a detrimental impact on development business in individual areas of activity. Income contracted owing to the loss of some of the long-standing high-margin business that had now come to an end and a year-on-year fall of 7 % in the service fees received from the State of Hesse.

Report on Post-Balance Sheet Date Events

There were no significant events after the end of the financial year on 31 December 2016.

Risk Report

The Board of Managing Directors is responsible for all of the risks to which Helaba is exposed and for defining a risk strategy consistent with the business strategy. The risk strategy lays down, in accordance with the requirements imposed by the law, the Charter and the banking regulatory authorities, the principal elements of the approach adopted to dealing with risk, the risk appetite, the objectives of risk containment and the measures employed to achieve these objectives at Helaba and at the companies included in Group-wide risk management. Once adopted by the Board of Managing Directors, the risk strategy is presented to and discussed with the Supervisory Board and the Board of Public Owners.

The business strategy and risk strategy of the Helaba Group are integrally linked to the business strategy and risk strategy of Sparkassen-Finanzgruppe Hessen-Thüringen.

The principal objectives of the Helaba Group's risk strategy are to maintain the organisation's conservative risk profile and ensure that its solvency is assured at all times, that risk-bearing capacity is always maintained and that all regulatory requirements are met. The risk management system accordingly plays a central role in the management of the company.

Helaba has refined the risk management process over the years to create a range of sophisticated tools for and an environment conducive to risk containment. The methods employed to identify, quantify, contain and monitor risks and the systems required to implement them have undergone continuous development, as have organisational provisions such as process and system documentation and guidelines detailing responsibilities.

Principles

Responsibility of executive management
The Board of Managing Directors bears responsibility for all of the risks to which Helaba is exposed, irrespective of how individual responsibilities are assigned, as part of its overall executive management responsibility. The Board of Managing Directors is also responsible for the implementation of the risk policy throughout the Group. It defines the risk strategy and risk appetite simultaneously, with reference to Helaba's risk-bearing capacity as determined in an analysis of the initial business policy position and an assessment of the associated primary risks defined in the risk inventory process, and is responsible for ensuring compliance with the risk strategy defined by means of the establishment of an efficient risk management process. The risk strategy covers all material business activities of the Helaba Group. The strategies, processes and procedures are implemented at the subsidiary companies in accordance with their legal and actual scope of influence. The subsidiary companies are also included in the scope of the controlling tools for the various risk types in line with their relative significance and the relevant legal options. Effective risk controlling throughout the Group is thus assured.

Protection of assets
Risks may in principle be assumed only as permitted under the risk strategy and only in pursuit of the corporate objectives – in particular in order to maintain Helaba's long-term earning power while protecting its assets as effectively as possible. The existing risk limit structures and the incentive systems and associated control mechanisms all serve this purpose.

Protection of the Bank's reputation
Effective risk management and the avoidance of legal or regulatory breaches that could damage its reputation are absolutely vital for the Bank if it is to preserve its positive image and achieve the best possible rating. A corresponding control process to assess reputation risks in new business has been implemented.

Clearly defined responsibilities
The managers of the various front office units are responsible for ensuring that their unit achieves a reasonable balance between risks incurred and earnings realised. The units exercising control must ensure that the maintenance of this balance is monitored continuously and that the person with the relevant authority is notified of any existing or potential discrepancies.

Segregation of functions ("three lines of defence")
The independence of risk controlling and risk containment must be assured in order to maintain objectivity and transparency. Independent control processes are implemented wherever the type and degree of risk so require. The responsibilities of the organisational units for risk identification and containment, risk quantification, risk monitoring/controlling and risk reporting follow a "three lines of defence" policy (front office and back office, monitoring units including Risk Controlling and Audit).

Transparency
The comprehensive and objective reporting and disclosure of risks is another important component of Helaba's risk strategy and is indispensable for the proper notification, by the Board of Managing Directors, of the corporate bodies, the banking regulator and the public at large.

Cost efficiency
The cost efficiency of the units exercising control and, in particular, of the systems used also has to be considered. The expenditure incurred in connection with risk control (and also risk containment) is reasonable given the pertinent regulatory requirements and the risks under consideration in each case.

Risk-bearing capacity
Helaba's procedures for quantifying and containing risks ensure that the primary risks always fall within the risk-taking potential and that its risk-bearing capacity is thus assured. Helaba's risk-bearing capacity is one of the factors considered in defining its risk strategy.

Compliance with regulatory standards
The implementation of regulatory requirements, which proceeds in close consultation with the banking regulator, also has a decisive influence on the risk strategy. Helaba's regulatory capital backing and the determination of the regulatory capital are based on the provisions of the Capital Requirements Regulation (CRR) and take account of the stipulations of the Supervisory Review and Evaluation Process (SREP).

Risk-awareness
Helaba's achievement of its objectives and application of the applicable legal standards depend on the discipline of all those involved with regard to strategy, processes, controls and compliance. Helaba helps to ensure this discipline is maintained by involving all of the people with relevant responsibilities in the main risk-related decision making processes, applying appropriate remuneration structures and facilitating regular independent audits.

Auditing

The Internal Audit function in principle audits all of the activities and processes involved in the operating and business procedures taking account of the scale and risk content of the activities and processes. This helps to promote compliance with the procedures defined. Assessments of the efficacy and adequacy of the internal control system facilitate the ongoing development and improvement of the risk management processes.

Risk Classification

Risk types

The risk types of relevance to Helaba result directly from its business activities. The structured risk inventory process examines, at regular intervals and – where necessary – in response to relevant developments, which risks have the potential to cause material damage to the net assets (including capital resources), results of operations or liquidity position of the Helaba Group and Helaba Bank. The following primary risk types have been identified for the Helaba Group and Helaba Bank (real estate risk excepted).

- The default risk or credit risk is the potential economic loss as a result of non-payment by or a deterioration in the creditworthiness of borrowers, issuers, counterparties or equity investments and as a result of restrictions on cross-border payment transactions or performance (country risk). The potential economic loss is determined using internal or external credit assessments and risk parameters assessed by Helaba itself or set out in regulatory specifications. The default risk does not include credit standing risks, which are mapped in the market price risk under the residual risk and the incremental risk.

- The equity risk – the potential economic loss as a result of non-payment by or a deterioration in the creditworthiness of an equity investment – that is not managed at the level of the individual risk types also forms part of the default risk. Such developments can lead to a decline in the value of the holding, to the reduction or cancellation of dividend payments, to loss transfers and to contribution, margin call and liability obligations.

- The market price risk is the potential economic loss as a result of disadvantageous movements in the market value of exposures due to changes in interest rates, exchange rates, share prices and commodity prices and their volatility. In this context changes in interest rate levels in one market segment lead to general interest rate risks, specific interest rate changes (for example on the part of an issuer) lead to residual risks and changes in the price of securities subject to a credit rating as a result of rating changes (including default) lead to incremental risks.

- The liquidity risk is broken down into three categories. The short-term liquidity risk is the risk of not being able to meet payment obligations as they fall due. Structural liquidity risks result from imbalances in the medium- and long-term liquidity structure and a negative change in the organisation's own funding curve. Market liquidity risks result from the insufficient liquidity of assets, with the consequence that positions can be closed out only, if at all, at a disproportionately high cost. The liquidity risks associated with off-balance sheet transactions lead to short-term and/or structural liquidity risks depending on their precise nature.

- The operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Reputation risk falls into this category too in circumstances where the origin of the reputation risk can be traced back to an operational risk. Operational risk also includes the following risks:
  - Legal risk is defined as the risk of loss for the Bank resulting from infringements of legal provisions that have the potential to result in legal proceedings or internal actions to avert such losses. Breaches of contract relating to matters of creditworthiness (for example in the case of loan contracts) do not fall within this definition.
  - Conduct risk is defined as the current or potential risk of loss for an institution as a result of an inappropriate offer of financial (banking) services, including cases of intentional or negligent misconduct.
  - There are two distinct aspects to model risk for the Helaba Group.
    1. One involves the risk of own funds requirements being underestimated as a result of the use of models to quantify risks. This is in part a reflection of the fact that a model can never entirely capture reality. This aspect of model risk is mapped in the Helaba Group by means of a risk exposure surcharge for the primary risk types in economic risk containment.
    2. The other aspect of model risk involves the risk of losses associated with the development, implementation or inappropriate use of a different model (that is to say a model of a type other than that referred to directly above) by the institution for the purposes of decision making. This aspect of model risk is factored into operational risk.

- The risk associated with the deployment of information technology (IT) is defined as the risk of loss resulting from the operation and development of IT systems (for example technical implementation of functional requirements and technical design activities for the provision, support and development of software and hardware). The risk of loss relates to situations in which the availability, confidentiality or integrity of data is compromised or in which unforeseen additional expenditure is incurred for data processing.
- Information security risk (IS risk) encompasses the risk of loss as a result of information that merits protection being compromised by the exploitation of technical, process or organisational weaknesses. The potential loss in this case stems from the availability, confidentiality or integrity of information being compromised, from unforeseen additional expenditure being incurred for data processing and from external attacks (cyber crime).
- Outsourcing risk is defined as the risk of loss resulting from contract, supplier and performance risks and risks associated with a failure to comply with regulatory requirements that can arise when procuring services externally.

- The business risk is the potential economic loss attributable to possible changes in customer behaviour, in competitive conditions in the market or in general economic conditions. Damage to Helaba's reputation could also trigger a change in customer behaviour.

- The reputation risk involves the possibility of a deterioration in Helaba's public reputation in respect of its competence, integrity and trustworthiness as a result of perceptions of the individuals having a business or other relationship with the Bank. The material consequences of reputation risks impact on the business and liquidity risk and are accordingly considered under these two risk types insofar as the origin of the reputation risk cannot be traced back to an operational risk.

- Real estate risk comprises the real estate portfolio risk – the potential economic loss from fluctuations in the value of an entity's own real estate – and the real estate project management risk associated with project development business. Risks associated with the provision of equity and loan capital for a project are excluded from this risk type, as are risks associated with real estate finance.

Risk Concentrations

Risk concentrations can occur both within a single risk type and across different risk types. The areas responsible for risk monitoring are charged with managing – that is to say identifying, quantifying, containing and monitoring – risk concentrations and reporting on identified risk concentrations at Helaba in line with their respective accountability for major risk types, risk-bearing capacity and stress tests.

Both concentrations within a risk type (intraconcentrations) and concentrations across risk types (interconcentrations) are analysed and integrated into the risk management reporting and decision-making processes. No risk-mitigating diversification effects between the risk types are applied in the risk-bearing capacity calculation. The design of the extreme market dislocation stress scenarios across all risk types, moreover, implicitly takes account of the main risk concentrations between risk types of significance for Helaba.

Risk Management Process

Risk management at Helaba comprises four elements that are best understood as consecutive phases in a single continuous process.

1. Risk identification

The risks affecting Helaba and the companies included in risk management at Group level are identified continuously as an integral part of daily operations. Once identified, each risk is assigned to the relevant risk type. Comprehensive identification and incorporation into existing risk measurement systems and the associated risk monitoring processes are particularly important in connection with the introduction of new products and complex transactions. The central monitoring units are involved in the authorisation of new products as part of the New Product Process for lending business and trading business. The risk inventory process to be completed for the Helaba Group annually and on an ad-hoc basis also helps to identify previously unknown risks and ensure that any of material significance are incorporated into the risk management process.

2. Risk quantification
Effective mapping of individual transactions and risk parameters in the risk measuring systems enables qualitatively and quantitatively robust risk measurement and assessment for the various risk types. A variety of models, methods and processes are used for this purpose. The Bank applies corresponding premiums and discounts to cover the model risk that results from the use of models and is confirmed in the course of validations.

3. Risk containment
The information obtained in the risk identification and quantification phases provides the basis for risk containment by the local management units. Risk containment encompasses all of the measures implemented in order to reduce, limit, avoid and transfer risks and keep risk exposure within the limits defined by the Board of Managing Directors.

4. Risk monitoring/controlling and reporting
A comprehensive and objective reporting system keeps the relevant people within the organisation apprised of the existing risks as part of an independent risk controlling structure. The methods of the preceding process phases and the quality of the data used are also reviewed in this phase and plausibility checks are carried out on the results.

Risk Management Structure

Entities involved
The Helaba Board of Managing Directors is responsible for all of the risks to which the Bank is exposed and for implementing the risk policy throughout the Group. The Board of Managing Directors has also established a Risk Committee to implement and monitor Helaba's risk strategy, first and foremost, and to aggregate all of the risks – that is to say the default risks, market price and liquidity risks, operational risks, business risks and real estate risks – assumed across the Bank and evaluate their combined implications. The Risk Committee is charged with identifying risks within the Helaba Group at the earliest possible stage, designing and monitoring the calculation of risk-bearing capacity and deriving measures to avoid risk and generate containment mechanisms for risk management. It also adopts the containment and quantification methods employed by the various units and assesses the appropriateness of the tools applied in light of the extent of the risk.

The Risk Committee is complemented by the Asset/Liability Management Committee, the Credit Management Committee (KMA) and the Credit Committee of the Board of Managing Directors (VS-KA). The Asset/Liability Management Committee has responsibility for monitoring market price risks, including the associated limit utilisation, and containing the strategic market risk portfolio and the portfolio of non-interest-bearing liabilities. The Credit Management Committee is charged with the containment of default risks for the entire portfolio and of syndication risks, placement risks and country risks, while the Credit Committee of the Board of Managing Directors is responsible for credit and settlement risks associated with counterparties.

Appointments to the committees and the committees' duties, jurisdiction and responsibilities are governed in separate rules of procedure approved by the Board of Managing Directors.

The organisational guidelines specify that the approval of the entire Board of Managing Directors or of the Supervisory Board or one of its committees must be obtained for decisions on matters of particular significance such as acquiring, changing or disposing of equity investments, granting loans above a certain threshold and defining the cumulative limit for market price risks. The Bank's Charter, moreover, requires that any decision to take on or make changes to strategic equity investments involving a stake in excess of 25 % also be approved by the Board of Public Owners.

Risk management and Helaba Group companies
Companies belonging to the Group are incorporated into risk management activities at Group level by taking account of the risks established in the course of the annual or, where applicable, an ad-hoc risk inventory. The risk inventory process identifies risks at the level of Helaba's direct equity investments, with each of these Group companies measuring the cumulative risk across its own organisation including its own equity investments. The starting point for determining inclusion is all direct equity investments of Helaba Bank under commercial law plus special purpose entities and special funds. The regular risk inventory covers the companies belonging to the Group for which there exists a material legal or economic reason for inclusion. The list of companies to be included is drawn up with reference to a catalogue of criteria. Companies belonging to the Group that are not included in the risk inventory are considered through the mechanism of the residual equity risk.

The outcome of the materiality assessment conducted as part of the risk inventory process is used to determine which Group companies are included in risk management at Group level with which risk types and which Group companies are considered only through the mechanism of the residual equity risk. Helaba (with WIBank and LBS) and Frankfurter Sparkasse were included in their entirety in risk management at the level of individual risks in 2016. Other companies belonging to the Group are included in risk management at the level of individual risks in line with their primary risk types.

Companies belonging to the Group must in addition establish an appropriate risk management process for any of their own risks that are assigned to the risk type at Group level. The officers responsible for the relevant risk types and methods stipulate precisely how risks are to be included. The mode of inclusion in the methods used in the risk management process varies from risk type to risk type.

Principal risk monitoring areas

Risk containment is a duty of the local front office units, but responsibility for the identification, quantification and monitoring/controlling functions, which include the reporting duty, and the associated methodological authority rests with the central monitoring units. Helaba's organisational structure keeps risk controlling and risk containment clearly segregated at all levels including the Board of Managing Directors.

This clear separation of roles and the close co-operation between the units concerned ensures efficient implementation of risk policy containment mechanisms.

The units indicated in the table below have central responsibility for containing and monitoring risks falling within the primary risk types.

Risk types	Responsible for risk containment	Responsible for risk monitoring
Default risk including equity risk	Front office units, Capital Markets, Asset/Liability Management (municipal loans)	Risk Controlling (portfolio level – Bank as a whole), Credit Risk Management (individual exposure level and individual portfolio level), Group Strategy and Central Staff Division (equity risk)
Market price risk	Capital Markets, Asset/Liability Management	Risk Controlling
Liquidity risk	Capital Markets (money market trading), Asset/Liability Management	Risk Controlling
Operational risk	All units	Risk Controlling, Legal Services (legal risk), Organisation and Information Technology (IT risk), Information Security Management (IS risk), Central Sourcing Management (outsourcing risk)
Business risk	Front office units	Risk Controlling
Real estate risk	Operationally independent subsidiaries ▪ Operational – discharged by management at the equity investment concerned ▪ Strategic – discharged by the supervisory bodies of the companies and the Real Estate Management unit	Risk Controlling, Real Estate Management

A number of other departments and functions also contribute to risk management within the Helaba Group in addition to the units indicated in the preceding table. These are set forth below.

Internal Audit

The Internal Audit function, which reports directly to the Board of Managing Directors, examines and assesses the activities and processes of the Bank and of subsidiary companies selected on the basis of risk considerations without need of further instruction. It plans and conducts its audits with risk in mind, paying particular attention to the assessment of the risk situation, the adequacy of processing and the effectiveness of the internal control system.

The scope and result of each audit are documented in accordance with uniform standards. Informative audit reports are supplied to the Board of Managing Directors and the people responsible for the units audited. Internal Audit reports to the Supervisory Board on findings of particular significance every quarter.

Capital Market Compliance Office, Money Laundering and Fraud Prevention Compliance Office, MaRisk Compliance function and Information Security Management function

The Bank has established a Capital Market Compliance Office, a Money Laundering and Fraud Prevention Compliance Office, an MaRisk Compliance function (German Minimum Requirements for Risk Management – MaRisk), an Information Security Management function and a Data Protection Officer, all of which are independent functions.

The Capital Market Compliance Office advises the operating units and monitors and evaluates the principles, processes and practices applied against various criteria including, in particular, the requirements of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), German Investment Services Conduct of Business and Organisation Regulation (Wertpapierdienstleistungs-Verhaltens- und Organisationsverordnung – WpDVerOV) and German WpHG Employee Notification Regulation (WpHG-Mitarbeiteranzeigeverordnung – WpHG-MaAnzV), statements of the German Federal Financial Supervisory Authority (BaFin) and pertinent statements of the European Securities and Markets Authority (ESMA). The Capital Market Compliance Office evaluates inherent risks and checks compliance with the relevant regulatory requirements. It also performs regular risk-oriented monitoring activities using a monitoring plan based on a prior risk analysis, paying particular attention in this regard to the rules prohibiting insider dealing and market manipulation, and identifies and regulates conflicts of interest throughout the Group that pose a potential risk.

The Money Laundering and Fraud Prevention Compliance Office, acting in its capacity as the central authority for the purposes of Section 25h KWG, develops internal principles and adequate transaction- and customer-related safeguards and checks to prevent money laundering, the funding of terrorism and other criminal acts. The precautionary organisational measures to be implemented are based in part on the Group risk analysis (money laundering, terrorism financing and fraud prevention) and also in part on the Group Policy. This Group Policy sets out the Group's general ground rules, which reflect the pertinent national and international regulatory requirements. Monitoring and research software keeps business relationships under constant surveillance. The Money Laundering and Fraud Prevention Compliance Office is also responsible for the implementation of the legal requirements created by the Agreement Between the United States of America and the Federal Republic of Germany to Improve International Tax Compliance (FATCA) and the international Automatic Exchange of Information (AEOI) process.

The MaRisk Compliance function promotes the adoption of effective procedures to implement and ensure compliance with the principal legal rules and stipulations identified in the context of risk and conducts related checks. It also conducts regular checks and analyses in this connection of the adequacy and efficacy of the business processes and practices associated with the implementation of and compliance with the principal legal rules and stipulations in the Bank.

The Information Security Management function is responsible for ensuring the proper control, coordination and development of information security management in line with the Bank's business strategy, IT strategy and risk management strategy. It identifies and analyses the information security risks to this end using an information security management system (ISMS) and develops relevant measures and checks for sustainable risk reduction and risk monitoring. The Information Security Management function is also charged with ensuring that any necessary security requirements arising in connection with relevant laws and regulations (German Federal Data Protection Act – BDSG, German IT Security Act, German Minimum Requirements for the Security of Internet Payments – MaSI, MaRisk, etc.) are derived and defined without delay, that information protection classifications and infrastructures are analysed regularly and that technical and organisational measures appropriate for this purpose are coordinated to make certain that a proper level of security is maintained at the Bank.

The Data Protection Officer promotes compliance with and implementation of data protection requirements and serves the Board of Managing Directors and Bank Officers as a permanent point of contact for any questions relating to data protection matters. The Data Protection Officer maintains a process overview (Section 4g (2) BDSG) and monitors the proper use of data processing programs (Section 4g (1) 1. BDSG). The Data Protection Officer also carries out prior checks and ensures that training and measures to raise awareness of data protection matters are provided regularly for Bank employees.

These independent functions report directly to the Board of Managing Directors. The internal control structures and procedures in place to contain and monitor the specified risks are thus adequate – in terms of both structural and procedural organisation – and effective as required by the applicable regulatory provisions.

Risk-Bearing Capacity

Helaba uses its established procedures for quantifying and containing risks to ensure that all primary risks within the Helaba Group are always covered by risk cover pools and that its risk-bearing capacity is thus assured.

The calculation of risk-bearing capacity across risk types takes into account risk exposures in relation to default risks, market price risks, operational risks, business risks and real estate risks. Risk exposures are quantified as part of an economic assessment and the regulatory expected loss (EL) and regulatory capital requirement are calculated using the regulatory measurement specifications. A capital deduction from the regulatory EL/impairment comparison is taken into account when quantifying the regulatory capital.

The liquidity horizon (for liquidity risks) is also reported in addition to the risk-bearing capacity based on cover pools.

Risk-bearing capacity is presented on the basis of a time frame of one year and both risk exposures and risk cover pools are designed and quantified for this period.

The scenarios applied comprise a base scenario, which maps the risk-bearing capacity as at the reporting date, plus historical and hypothetical stress scenarios whose implications for the risk-bearing capacity are regularly investigated. These scenarios include a macroeconomic stress scenario and a scenario simulating extreme market dislocation on the basis of observed market behaviour during a global financial crisis. Inverse stress tests are also conducted.

Helaba's Group calculation of risk-bearing capacity maps two distinct situations reflecting the regulatory requirements stipulating a going-concern approach and a gone-concern approach.

The going-concern approach aims to verify that the minimum capital requirements specified by the regulator can be satisfied even if expected and unexpected losses are incurred. Risk exposures are quantified with a 95.0 % confidence level for this purpose. The calculation of risk-bearing capacity under the gone-concern approach is intended to demonstrate that the Helaba Group's capital is sufficient to satisfy all creditors in full even in the event of exceptional and heavy losses being incurred (expected and unexpected losses at a confidence level of 99.9 %).

The going-concern approach involves comparing the total economic risk exposures according to the Group calculation of risk-bearing capacity against a sustainable result before risks and total own funds not committed for regulatory purposes (minus an internally defined risk buffer, depending on the scenario). The going-concern approach also regularly quantifies the implications of the stress scenarios for the regulatory capital requirement and regulatory own funds in order to analyse the impact on the regulatory capital ratios.

Helaba applies particular weight to the going-concern approach, which focuses on compliance with the regulatory capital ratios, in its capital allocation decisions and allocates regulatory capital to divisions and Group units on the basis of the associated anticipated changes in capital ratios. This ensures consistency between capital allocation assuming full utilisation of the limits and the result thus produced in the calculation of risk-bearing capacity. In addition, the economic risk exposures are limited to ensure that, if the allocated regulatory capital is utilised at the same time as the economic risk exposures, the capital does not fall below the internally specified minimum capital requirements even if economic risks materialise.

The gone-concern approach draws on an economic cover pool to cover the internal capital requirement. This pool takes into account the cumulative consolidated net profit on the reporting date, the equity capital and the subordinated debt under IFRS. Cover pool components are also adjusted in accordance with economic criteria. The gone-concern approach does not treat silent reserves as a cover pool.

The risk-bearing capacity assessment for the Group covering all risk types reveals that the existing risk cover pools once again exceeded the quantified risk exposures by a substantial margin at the end of 2016, underlining Helaba's conservative risk profile. The same applies in respect of the calculation of risk-bearing capacity for Helaba Bank.

The base scenario of the going-concern approach for the Group shows a capital buffer of € 3.5 bn (2015: € 3.2 bn) with respect to the economic risk exposures taking account of an internal risk buffer. The capital buffer with respect to the economic risk exposures under the gone-concern approach for the Group amounts to € 7.1 bn (2015: € 6.6 bn).

The capital ratios achieved under the simulated stress scenarios exceed the regulatory minimum requirements by a significant margin.

Helaba additionally conducts two inverse stress tests to investigate what nature of event could jeopardise its continued existence. The associated scenarios, "minimum capital requirements not met" and "illiquid", examine the implications of a variety of economic developments that could result in Helaba being unable to comply with the minimum capital requirements specified by the regulator or consuming its liquidity reserves. There is currently no indication of these scenarios becoming a reality.

Other deposit security mechanisms

There are other deposit security mechanisms in addition to the risk cover pool. Helaba is a member of the Reserve Fund of the Landesbanken and Girozentralen and is thus included in the Sparkassen-Finanzgruppe's protection scheme, which comprises the eleven regional Sparkasse support funds, the aforementioned reserve fund and the deposit security reserve fund of the Landesbausparkassen.

The most notable features of this protection scheme are the way that it safeguards the viability of the affiliated institutions, especially their liquidity and solvency, its risk monitoring system for the early detection of specific risk profiles and its use of a method based on risk parameters defined by the supervisory authorities to calculate the amounts to be paid into the protection scheme by the various institutions. The legally dependent Landesbausparkasse Hessen-Thüringen, subsidiary Frankfurter Sparkasse and Frankfurter Bankgesellschaft (Deutschland) AG, which is a subsidiary of Frankfurter Bankgesellschaft (Schweiz) AG, are also directly integrated into this deposit security system.

The German Deposit Guarantee Act (Einlagensicherungsgesetz – EinSiG), which implements the requirements of the EU Directive on Deposit Guarantee Schemes, came into force on 3 July 2015. The Sparkassen-Finanzgruppe acted promptly to bring its deposit protection scheme into line with the amended legal provisions. The scheme now includes a deposit protection scheme to protect qualifying deposits up to a value of € 100,000 per customer as well as safeguarding the viability of the affiliated institutions themselves. The deposits thus protected at Helaba Group amount to € 15.1 bn in total, of which € 4.3 bn relates to Helaba Bank. The target total value of the protection scheme to be contributed by 2024 was also raised and an amended basis for assessment was adopted. The German Federal Financial Supervisory Authority (BaFin) has recognised the Sparkassen-Finanzgruppe's institutional protection scheme as a deposit guarantee scheme for the purposes of the German Deposit Guarantee Act.

Helaba and Frankfurter Sparkasse are also affiliated to the Reserve Fund of the Sparkassen- und Giroverband Hessen-Thüringen under the terms of their Charters. The reserve fund provides further protection in the event of a default in addition to the nationwide Joint Liability Scheme. It covers the liabilities of Helaba and Frankfurter Sparkasse to customers, including banks, insurance companies and other institutional investors, and their securitised liabilities. Liabilities that serve or have served at the institutions as components of own funds pursuant to Section 10 KWG, such as asset contributions of dormant shareholders, liabilities under profit participation rights and subordinated liabilities, are not covered irrespective of their remaining term. The total volume of the fund is equal to 0.5 % of the affiliated institutions' total risk exposure amount and stood at € 522 m at the end of 2016 (31 December 2015: € 521 m).

The Sparkassen- und Giroverband Hessen-Thüringen has undertaken to make up the shortfall between the amount actually paid in and the full amount should the fund be required before such time as the full amount has been contributed.

Rheinischer Sparkassen- und Giroverband (RSGV) and Sparkassenverband Westfalen-Lippe (SVWL) have each also unilaterally set up an additional regional reserve fund for Helaba.

Development institution WIBank, which is organised as a dependent institution within Landesbank Hessen-Thüringen, enjoys the direct statutory guarantee of the State of Hesse as regulated by law and as permitted under EU law on state aid.

Default Risk

Lending business is one of Helaba's core activities and the acceptance, control and containment of default risks accordingly constitutes one of its core competencies. Events in the market and developments in the regulatory environment for banks are together generating a continuous stream of new challenges for internal default risk management, making rigorous examination of the existing procedures absolutely essential.

Guiding these steps is a comprehensive and universal risk strategy derived from the business strategy. This risk strategy was drawn up with reference to the German Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement – MaRisk). The specific risk strategy for default risks defines the risk propensity, differentiated by product, customer segment and risk type, for every business segment. It is reviewed annually.

Basel III/CRR

Helaba applies the IRBA. The corresponding regulatory requirements as set out in Basel III/CCR are implemented in Helaba's procedures and systems with the internal rating methods (default rating) for the lending portfolio, the Collateral Management System, the credit loss database, which is used to record and analyse the default portfolio and the specific loan loss allowances, and a regulatory calculation module.

Risk monitoring using the global limit system

Helaba employs a global limit system that records counterparty-specific default risks promptly in a structured and transparent manner. The system uses counterparty limits based on a combination of the creditworthiness (rating) of counterparties and the Bank's risk-bearing capacity.

Cumulative limits for each borrower are recorded in the global limit system at Group level to help monitor, limit and contain default risks. All types of loans in accordance with Article 389 et seq. of the CRR made to borrowers in both trading and banking book activities are counted against these cumulative limits. Advance payment and settlement risks attributable to foreign currency and securities transactions, current account intraday risks and what are referred to as "additional risks from constructs" are approved as commercial risks and counted against separate limits.

The approved total limits are allocated to individual borrowers, product categories and the operating divisions concerned in accordance with the application for approval. The utilisation of the individual limits is monitored on a daily basis and appropriate measures are initiated immediately if any limit is exceeded.

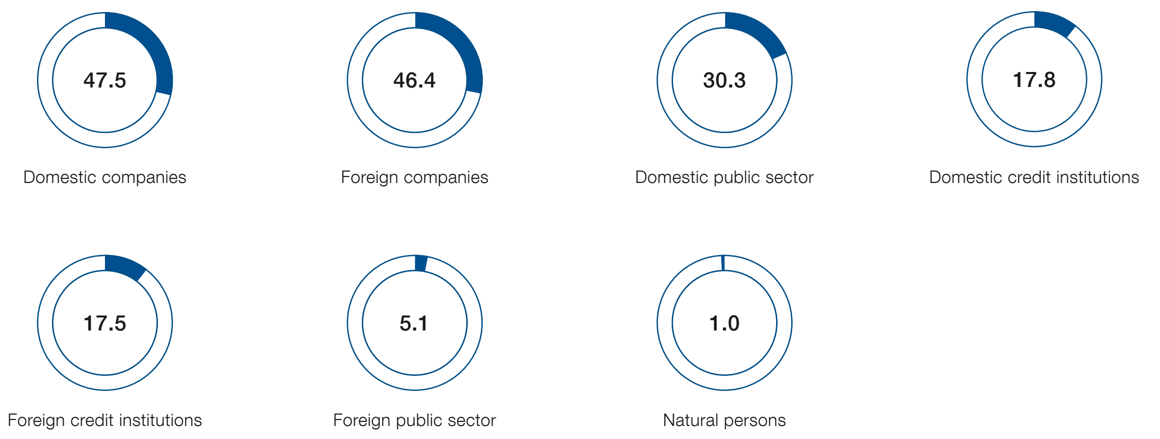
Swaps, forward transactions and options are counted towards the total limit at their credit equivalent amounts calculated in accordance with the CRR. All other trading book positions (for example money market trading and securities) are valued at market prices.

Creditor risks associated with direct debits and secondary risks resulting from leasing commitments (lessees) or guarantees received are also recorded for the relevant entity bearing the economic risk as indirect commercial risks.

Chart 1 shows the total volume of lending as at 31 December 2016 comprising drawings and unutilised committed credit lines of Helaba Bank totalling € 165.6 bn (31 December 2015: € 171.8 bn), broken down by customer group. The total volume of lending is the risk exposure value calculated in accordance with the legal provisions applicable to large exposures before applying the exemptions in relation to calculating utilisation of the large exposure limit and before applying credit mitigation techniques.

Total volume of lending by customer group (Helaba Bank)
Chart 1

in € bn



In line with the business model, Helaba's lending activities as at 31 December 2016 focused on financial institutions (particularly in the banking sector), the real estate and housing sector and the public sector.

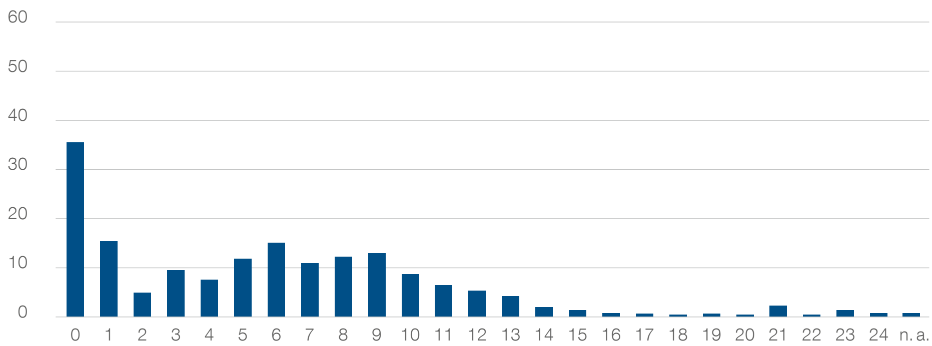
Creditworthiness/risk appraisal

The Bank employs 14 rating systems developed together with DSGV or other Landesbanken and two rating systems developed internally. Based on statistical models, these systems classify loan exposures, irrespective of the customer or object group, by the fixed probability of default (PD) using a 25-point cardinal default rating scale.

Chart 2 shows the total volume of lending of Helaba Bank of € 165.6 bn (31 December 2015: € 171.8 bn) broken down by default rating.

Total volume of lending by default rating category (Helaba Bank)
Chart 2

in € bn



Collateral

Like the creditworthiness of borrowers or counterparties, the collateral arrangements (or general credit risk reduction techniques) available are of major importance when determining the extent of default risks. Collateral is measured in accordance with the Bank's lending principles. The measurement is adjusted as part of the regular or ad-hoc monitoring process if there are any changes in factors relevant for measurement purposes.

Helaba's Collateral Management System meets the necessary conditions to allow full advantage to be taken of the comprehensive opportunities for recognising credit risk reduction techniques that enhance shareholders' equity in accordance with the CRR. It provides the data resources required to verify and distribute the assets eligible as collateral to the risk exposures secured.

Country risks

The country risk consists of transfer, conversion and event risks (such as delivery risks). Helaba has a uniform methodology for the internal measurement and allocation of country risks based on the entity bearing the economic risk. The risk initially assigned to the borrower's country of domicile in accordance with the strict domicile principle is accordingly transferred, subject to certain conditions, to the country of domicile of the parent company of the Group, the lessee or, in the case of cash flow structures and when collateral is involved, to the country of the entity bearing the economic risk.

The country risk system is the central tool for the comprehensive, timely and transparent risk-oriented recording, monitoring and containment of country risks. All of Helaba's lending and trading units, including subsidiaries Frankfurter Sparkasse, Frankfurter Bankgesellschaft (Schweiz) AG and Helaba Asset Services, are involved in country risk containment. The total country risk, excluding the countries of the euro zone, may not exceed six times the liable capital of the Helaba group of institutions. As of 31 December 2016, utilisation was less than three times the liable capital.

The Board of Managing Directors defines country limits for all countries apart from a handful of euro zone countries and certain other countries considered to be first-class borrowers in respect, in particular, of transfer risks (currently Switzerland, the UK, the USA, Denmark, Sweden and Norway). The overall limit assigned to a country is subdivided into a lending limit and a trading limit. The country risks for long-term transactions are also subject to additional sub-limits.

The internal rating method for country and transfer risks provides 25 different country rating categories based on the uniform master scale used throughout the Bank. All classifications are established at least annually by the Economics and Research department and ultimately defined by the Credit Risk Management unit. The Credit Management Committee distributes a country limit proposal on this basis factoring in bank-specific considerations and relevant factors relating to business policy and risk methodology. The entire Board of Managing Directors then sets the limits for the individual countries based on this proposal.

The Bank has no defined country limits for countries falling into the weakest rating categories (22-24).

The transfer, conversion and event risks of Helaba Bank from loans issued to borrowers based outside Germany amounted to € 46.4 bn (31 December 2015: € 47.0 bn), most of which was accounted for by borrowers in Europe (80.2 %) and North America (17.3 %). As at 31 December 2016, 73.7 % (31 December 2015: 91.8 %) of these risks were assigned to country rating classes 0 and 1 and a further 26.2 % (31 December 2015: 8.0 %) came from rating categories 2-13. Just 0.1 % (31 December 2015: 0.2 %) fell into rating categories of 14 or worse. The slight deterioration in the good rating structure stems from a rating downgrade for the UK from rating category 1 to rating category 2.

Exposures in the UK
Helaba's net exposure to borrowers in the United Kingdom across the narrow Group companies amounted to € 7.9 bn as at 31 December 2016 (31 December 2015: € 8.1 bn). The United Kingdom's vote to leave the EU (Brexit) otherwise had no significant effect on default risk.

Credit risk processes and organisation
The MaRisk contain differentiated rules in respect of the organisation of lending business, of lending processes and of the design of the methods used to identify, quantify, contain and monitor risks in lending business.

The Board of Managing Directors has defined the main requirements of business policy regarding structural and procedural organisation in lending business in separate organisational guidelines for lending business.

Approval procedure
The approval procedure followed by the Bank ensures that no credit risks are entered into without prior approval. The rules of procedure for the Board of Managing Directors state that loans above a certain value require the approval of the Supervisory Board Risk and Credit Committee. Commitments in amounts below this value are approved at different authorising levels (Board of Managing Directors, Credit Committee of the Board of Managing Directors, individual members of the Board of Managing Directors, staff members) depending on the amounts involved. Loans are approved on the basis of detailed risk assessments. In accordance with the MaRisk, the loan documents in what is designated risk-relevant business always comprise two independent opinions, one from the relevant front office unit and one from the relevant back office unit. The representative of the relevant back office unit also always has a right of veto in this connection as part of an escalation process. The ultimate decision rests with the entire Board of Managing Directors.

The procedure also takes account of the concentration limits derived from the Bank's risk-bearing capacity, which place an additional limit on exposures in line with the default rating category of the economic group of connected clients. All loans also have to be reviewed at least once every twelve months. Mechanisms for ensuring on a daily basis that limits are not exceeded include the use of the global limit system, which aggregates all loans (credit lines and utilisations) extended by the narrow Group companies for each group of connected clients.

Quantifying default risks
Expected and unexpected default risks are quantified using the regulatory calculation module. Expected default risks are treated for calculation purposes on a transaction-by-transaction basis in the form of the expected loss. The calculation for regulatory purposes is carried out using the internal rating methods and regulatory loss given default (LGDs). The equity to be held available in accordance with the CRR to cover unexpected losses is also calculated on a transaction-by-transaction basis and is used for containment purposes for both the specific transaction and the risk capital.

Default risks are determined for the purposes of internal containment using a value-at-risk approach with a CreditMetrics-based simulation method (Monte Carlo simulation) factoring in migration and LGD risks. The value-at-risk calculated corresponds to what is deemed, with a certain confidence level, to be the upper threshold of the potential loss of a portfolio or position within a period of one year.

The risk parameters applied include internally generated LGD estimates and empirically measured correlation values as well as the internal rating method. The overall risk assumes that the various different losses occur simultaneously. The value-at-risk (VaR) calculated using the risk model provides a measure of the maximum loss (expected and unexpected) that will not be exceeded, with a probability of 95.0 % (going-concern approach) or 99.9 % (gone-concern approach), on the basis of the underlying historical observation period of one year. Factoring in empirical correlations provides a way to map the simultaneous occurrence of discrete credit events (systematic risk).

The expected and unexpected losses quantified in this way are assessed against various scenarios to determine the impact of corresponding stress situations. The risk parameters are modelled scenario by scenario for this purpose.

The simulation method described became operational on 30. September 2016, replacing the previous method based on the (amended) CRR formula.

The base scenario of the risk-bearing capacity calculation shows an economic risk exposure from default risks of € 561 m (31 December 2015: € 824 m) for the Group. The reduction stems largely (approximately 80 %) from the switch to the simulation model method.

Allowance for losses on loans and advances
An appropriate allowance for losses on loans and advances is created for default risks. The adequacy of the allowance is reviewed regularly and adjustments are made where necessary.

Equity Risk

The equity risk category brings together those risks attributable to equity investments whose individual risk types are not considered separately in risk controlling activities by risk type. Equity risks do not have to be considered for an equity investment if all risk types of relevance for the equity investment concerned are integrated into Group-wide risk management (at the level of individual risks) in line with their relative significance and the relevant legal options. Financial instruments classified under the CRR as equity exposures are also reported as equity risks alongside the equity investments under commercial law.

The risk content of each individual equity investment is classified with regard to value using a two-phase catalogue of criteria (traffic-signal method). In addition, the risk assessment is based on the appraisal and development of the rating of the company concerned within the framework of the Bank's internal rating method. Equity risks are reported quarterly to the Risk Committee of the Board of Managing Directors and the Risk and Credit Committee of the Supervisory Board.

The composition of the equity investments portfolio is virtually unchanged from year-end 2015. The base scenario of the going-concern approach for the risk-bearing capacity calculation indicates that the economic risk exposure for the Group from equity risks is unchanged from year-end 2015 at € 10 m (31 December 2015: € 10 m).

Market Price Risk

Risk containment

Helaba manages market price risks for the trading book and the banking book as part of its overall bank management. Clearly defined responsibilities and business processes create the necessary conditions for effective limitation and containment of market price risks. The subsidiaries are integrated into the containment process as part of group-wide risk management according to a graduated system based on the risk inventory process in line with the specific business activities involved. Attention in this area focuses principally on subsidiaries Frankfurter Sparkasse and Frankfurter Bankgesellschaft (Schweiz) AG. Market price risks are quantified using Helaba's own methods.

Trading activities focus for strategic purposes on customer-driven business, which is supported by a demand-led product range. Responsibility for containing trading book exposures rests with the Capital Markets unit, while the Asset/Liability Management unit has responsibility for funding and for the management of the interest rate and liquidity risks in the banking book. The own issues repurchase portfolio belonging to the trading book also falls under the jurisdiction of the Asset/Liability Management unit.

Limitation of market price risks

Helaba employs a uniform limit structure to limit market price risks. The process through which limits are allocated involves the Risk and Credit Committee of the Supervisory Board as well as the Bank's internal corporate bodies. The cumulative limit defined for market price risks, which is proposed by the Board of Managing Directors on the basis of the Bank's risk-bearing capacity, must be approved by the Supervisory Board Credit Committee.

Acting on the recommendation of the Asset/Liability Management Committee, the Risk Committee allocates limits to the risk-incurring business units and the various types of market price risk within the scope of the defined cumulative limit for market price risks. In addition separate limits are defined for the trading book and the banking book. Responsibility for the onward allocation of limits to Helaba's subordinate organisational units and its various sites rests with the divisions to which a limit has been assigned. Stop-loss limits and volume limits are also used independently in the trading units to limit market price risks.

Compliance with the cumulative market price risk limit was maintained at all times in the year under review and there were no limit violations at the main trading book and banking book aggregation stages (both Bank and Group) or for the individual market price risk types.

Risk monitoring

The Risk Controlling unit is responsible for identifying, quantifying and monitoring market price risks. This responsibility includes checking transactions for market conformity and determining the economic profit or loss as well as risk quantification. In addition, the reconciliation statement with external Accounting is prepared.

Continuous functional and technical development of the methods and systems used and intensive data entry play a key role in ensuring that Helaba's market price risks are recorded properly. A special process owned by the New Products Committee has to be completed whenever a new product is introduced. New products must be incorporated correctly into the required systems for position recording, processing, profit or loss determination, risk quantification, accounting and reporting before they can gain authorisation.

A comprehensive reporting regime ensures that the relevant members of the Board of Managing Directors and the position-keeping units are notified daily of the risk figures calculated and the economic profit and loss generated on the basis of current market prices. Information about the current risk and earnings situation is in addition provided weekly to the entire Board of Managing Directors and the Asset/Liability Management Committee and monthly to the Risk Committee. Any breach of a defined limit triggers the escalation process to limit and reduce the associated risks.

Quantification of market price risks

Market price risks are quantified using a money-at-risk approach backed up by stress tests, the measurement of residual risks, sensitivity analyses for credit spread risks and the assessment of incremental risks for the trading book. The money-at-risk (MaR) figure corresponds to what is deemed, with a certain confidence level, to be the upper threshold of the potential loss of a portfolio or position due to market fluctuations within a prescribed holding period.

The risk measurement systems employed at Helaba for each of the various types of market price risk (interest rates, share prices and foreign exchange rates) all use the same statistical parameters in order to facilitate comparisons across the different risk types. This also makes it possible to aggregate the risk types into an overall risk. The overall risk assumes that the various different losses occur simultaneously. The MaR figure calculated using the risk models provides a measure of the maximum loss that will not be exceeded, with a probability of 99.0 %, on the basis of the underlying historical observation period of one year and a holding period for the position of ten trading days.

The summary below presents a reporting date assessment of the market price risks (including correlation effects between the portfolios) taken on as at the end of 2016 plus a breakdown by trading book and banking book. The linear interest rate risk is the most significant of the market price risk types. Share positions in the banking book were reduced significantly. Rating-dependent government, financials and corporate yield curves are also used alongside swap and Pfandbrief curves for measurement purposes. Euro positions account for 90 % (31 December 2015: 84 %) of the linear interest rate risk for the overall portfolio of the narrow Group companies, US dollar positions for 6 % (31 December 2015: 9 %). In the field of equities, the focus is on securities listed in the DAX and DJ Euro Stoxx 50. The main foreign currency risks are attributable to US dollar, Swiss franc and sterling positions. Residual risk amounted to € 12 m for the Group (31 December 2015: € 15 m). The incremental risk in the trading book amounted, with a time horizon of one year and a confidence level of 99.9 %, to € 136 m (31 December 2015: € 201 m). The base scenario of the going-concern approach for the risk-bearing capacity calculation shows an economic risk exposure of € 395 m (31 December 2015: € 433 m) for the Group from market price risks. The reduction is due mainly to the decreased incremental risk.

Group MaR by risk type

Chart 3

in € m

	Total risk		Interest rate risk		Currency risk		Equities risk	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Total	**92**	**89**	**88**	**69**	**0**	**1**	**4**	**19**
Trading book	28	29	26	27	0	0	2	2
Banking book	67	67	64	49	0	1	2	17

All risk measuring systems are based on a modified variance-covariance approach or a Monte Carlo simulation. The latter is used in particular for mapping complex products and options. Non-linear risks in the currency field, which are of minor significance at Helaba, are monitored using sensitivity analyses.

Internal model in accordance with the Capital Requirements Regulation (CRR)

Helaba calculates the regulatory capital required for the general interest rate risk using an internal model in accordance with the CRR. This model, which consists of the risk measurement systems MaRC² (linear interest rate risk) and ELLI (interest option risk), has been approved by the banking regulator.

Market price risks in the trading book

All market price risks are calculated daily on the basis of the end-of-day position of the previous trading day and the current market parameters. Helaba also uses the parameters prescribed by the regulatory authorities for internal risk management. Chart 3 shows the MaR for the trading book (Helaba Bank) for the 2016 financial year. The average MaR for 2016 as a whole amounted to € 25 m (2015: € 26 m), the maximum MaR was € 33 m (2015: € 34 m) and the minimum MaR was € 19 m (2015: € 11 m). The risk figures are similar to those for 2015 due to the ongoing combination of high volatility and low interest rates.

Daily MaR of the trading book in financial year 2016
Chart 4

Helaba's international branch offices plus Frankfurter Bankgesellschaft (Schweiz) AG and Frankfurter Sparkasse make the most recent business data from their position-keeping systems available to Group headquarters in a bottom-up process so that consolidated MaR figures can be calculated for the Group. The market parameters, in contrast, are made available in a standard form right across the Group in a top-down process.

This arrangement means that risk quantification can be performed not just centrally at headquarters, but also locally at the sites.

The summary below shows the average daily MaR amounts for the trading book.

Average MaR for the trading book in financial year 2016
Chart 5

ø MaR in € m

	Q1		Q2		Q3		Q4		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Interest rate risk	26	16	22	26	21	29	25	25	23	24
Currency risk	0	0	0	0	0	0	0	0	0	0
Equities risk	2	1	2	2	2	2	2	2	2	2
Total risk	**28**	**17**	**24**	**28**	**23**	**31**	**27**	**27**	**25**	**26**

Number of trading days: 253 (2015: 251)

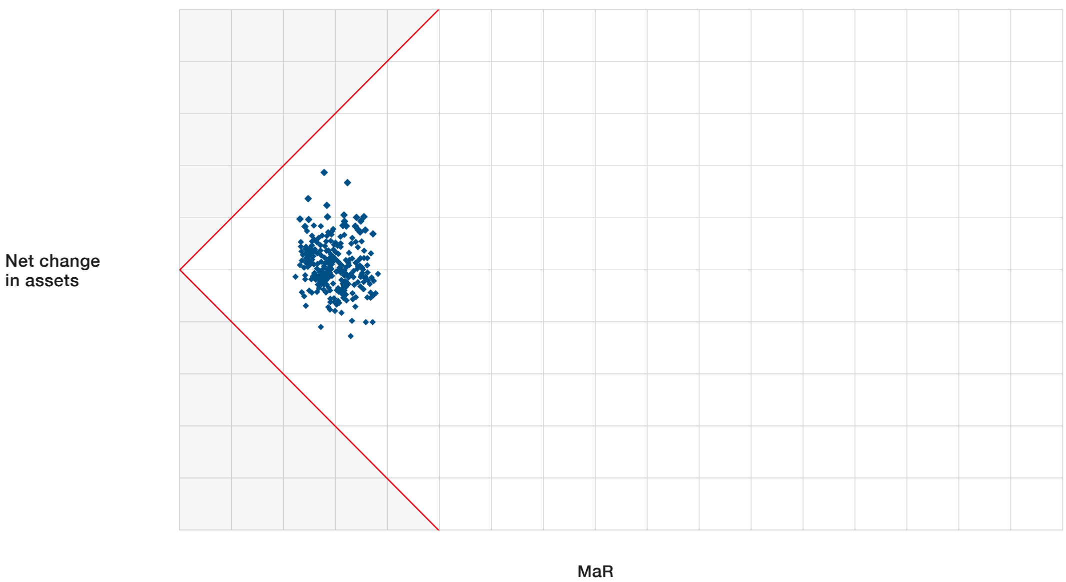
The annual average MaR for the trading book for Frankfurter Sparkasse and Frankfurter Bankgesellschaft (Schweiz) AG remain unchanged at € 0 m in each case.

Back-testing

Helaba carries out clean back-testing daily for all market price risk types to check the forecasting quality of the risk models. This involves determining the MaR figure for a holding period of one trading day with a one-tailed confidence level of 99 % and a historical observation period of one year. The forecast risk figure is then compared with the hypothetical change in the net value of the trading book, which represents the change in the value of the portfolio over one trading day for an unchanged position and on the basis of new market prices. Any case in which the decrease in the net value of the trading book exceeds the potential risk figure constitutes a back-testing outlier.

Chart 4 shows the back-testing results of the Helaba risk models for the trading book across all types of market price risk in financial year 2016. No negative outliers occurred (2015: one negative outlier).

Back-testing for the trading book in financial year 2016
Chart 6



The internal model for the general interest rate risk produced no negative outliers in 2016 in regulatory back-testing (2015: no negative outliers).

Stress test programme

A proper analysis of the effects of extraordinary but not unrealistic market situations requires the use of stress tests in addition to the daily risk quantification routine. Various portfolios are remeasured regularly under the assumption of extreme market scenarios. Portfolios are selected for stress testing on the basis of the level of exposure (significance) and the presence or absence of risk concentrations unless specific banking regulatory provisions apply. Stress tests are carried out daily on Helaba's options book. The results of the stress tests are included in market price risk reporting to the Board of Managing Directors and are taken into consideration in the limit allocation process.

Methods available for use in stress testing include historical simulation, Monte Carlo simulation, a modified variance-covariance approach and a variety of scenario calculations – including those based on the main components of the correlation matrix. Helaba also performs stress tests to simulate extreme spread changes. The stress tests for market price risks are supplemented by inverse stress tests and stress tests across risk types conducted in the course of Helaba's calculation of risk-bearing capacity.

Market price risks (including interest rate risks) in the banking book
Helaba employs the MaR approach used for the trading book to map the market price risks in the banking book. The risk figures calculated using this approach are supplemented with maturity gap analyses calculated daily, from which the maturity structure of the positions taken out can be ascertained. Regular stress tests with holding periods of between ten days and twelve months back up the daily risk measurement routine for the banking book.

The quantification of interest rate risks in the banking book is also subject to regulatory requirements, which stipulate a risk computation based on standardised interest shocks. The computation examines the effects of a rise and fall of 200 basis points in interest rates in line with the requirements of the banking regulator. As of the end of 2016, such an interest rate shock would, in the unfavourable scenario, have resulted in a negative change of € 261 m in the value of the Helaba Group banking book (31 December 2015: € 285 m). Of this figure, € 249 m (31 December 2015: € 270 m) is attributable to local currency and € 12 m (31 December 2015: € 15 m) to foreign currencies. Helaba carries out an interest rate shock test at least once every quarter.

Performance measurement
Risk-return comparisons are conducted at regular intervals to assess the performance of individual organisational units. Other aspects, including qualitative factors, are also included in the assessment in acknowledgement of the fact that the short-term generation of profits is not the sole objective of the trading offices.

Liquidity and Funding Risk

Ensuring liquidity so as to safeguard its short-term solvency and avoid cost risks in procuring medium-term and long-term funding is a top priority at Helaba, which accordingly employs a comprehensive set of constantly evolving tools to record, quantify, contain and monitor liquidity and funding risks. The processes, tools and responsibilities in place for managing liquidity and funding risks have clearly demonstrated their value over recent years in the face of the global crisis in the financial markets and the resultant turmoil in the money and capital markets. Helaba's liquidity was once again fully assured at all times in 2016. The processes of containing and monitoring liquidity and funding risks are combined in the Internal Liquidity Adequacy Assessment Process (ILAAP) and comprehensively validated on a regular basis.

Containment and monitoring
The Helaba Group operates a local containment and monitoring policy for liquidity and funding risks under which each company has responsibility for ensuring its own solvency, for potential cost risks associated with funding and for independently monitoring those risks. The corresponding conditions are agreed with Helaba. The subsidiaries falling within the narrow Group companies report their liquidity risks regularly to Helaba as part of group-wide risk management using methods based on Helaba's own.

The Bank draws a distinction in liquidity risk management between short-term and structural liquidity management. Overall responsibility for short-term solvency and for structural liquidity management with regard to the funding of new lending business (maintaining the balanced medium- and long-term liquidity structure) rests with Asset/Liability Management. The same unit is also tasked with the central management of the liquidity buffer for both regulatory purposes (to maintain the LCR) and for collateral management. Cost allocation is governed by a liquidity transfer pricing system.

The Risk Controlling unit reports daily on the short-term liquidity situation to the relevant managers and reports monthly in the Risk Committee on the overall liquidity risks assumed. Reporting also includes various stress scenarios such as increased drawings on liquidity lines, no availability of interbank liquidity in the financial markets and the possible impact on Helaba of a significant rating downgrade. The stress scenarios encompass both factors specific to the bank and broader market influences. Inverse stress tests are also conducted. Additional ad-hoc reporting and decision-making processes for extreme market situations are in place.

Short-term liquidity risk
Helaba maintains a highly liquid portfolio of securities (liquidity buffer) that can be used to generate liquidity as required in order to assure its short-term liquidity. The current liquidity situation is managed with reference to a short-term liquidity status indicator, determined daily, which compares expected liquidity requirements for the next 250 trading days against the available liquidity from the liquid securities portfolio. The available liquidity is established taking account of markdowns so that unexpected market developments affecting individual securities can also be considered. Securities that are used for collateral purposes (for example repos and pledges) and are thus earmarked for a specific purpose are deducted from the free liquid securities portfolio. The same applies in respect of securities maintained as a liquidity buffer for intra-day liquidity management. The main currency for short-term liquidity at Helaba is the euro, with the US dollar also significant.

Helaba has been authorised by BaFin to use its own liquidity risk measurement and management procedure in accordance with Section 10 of the German Regulation on the Liquidity of Institutions (Liquiditätsverordnung – LiqV). This enables it to use its own method for establishing its short-term liquidity status for regulatory reporting rather than the monthly notification required under the LiqV standard method. Helaba remained fully compliant with the liquidity requirements imposed by the banking regulator at all times in 2016.

The short-term liquidity status concept has been selected to allow various stress scenarios to be mapped. The process involves comparing the net liquidity balance (liquidity needed) with the available liquidity. The defined limits are five days up to one year depending on the specific scenario. Monitoring the limits is the responsibility of the Risk Controlling unit. The utilisation rate in the most relevant scenario (solvency) amounted on the reporting date to 20 % (31 December 2015: 45 %). This increases to 24 % (31 December 2015: 46 %) if Frankfurter Sparkasse is included. The average utilisation rate in 2016 was 27 % (2015: 28 %).

The Bank manages short-term liquidity in accordance with the regulatory liquidity coverage ratio (LCR) requirements in parallel with the internal model. The LCR exceeded the minimum limit of 70 % of relevance for regulatory purposes at all times in 2016.

Money market staff borrow/invest in the money market on a secured or unsecured basis (interbank and customer business, commercial paper) and make use of open market operations and facilities at the European Central Bank (ECB) in performing the operational cash planning tasks necessary to ensure short-term liquidity.

Off-balance sheet loan and liquidity commitments are regularly reviewed with regard to their drawing potential and features of relevance to liquidity and are integrated into liquidity management. Guarantees and warranties are similarly reviewed. Helaba determines and plans the liquidity to be held available using a scenario calculation that includes a market disturbance.

A total of € 1.6 bn in liquidity commitments had been drawn down for the securitisation platform initiated by Helaba as of the reporting date. This represents an increase of € 0.1 bn as compared with the previous year. No liquidity had been drawn down from stand-by lines in US public finance business as of the reporting date (as was the case at the end of 2015).

Credit agreements, in particular those of consolidated property companies, may include credit clauses that can result in distribution restrictions or even in the agreements being terminated. The Group faces no significant liquidity risk even if such a termination should threaten in individual cases.

Structural liquidity risk
The Asset/Liability Management unit manages the liquidity risks in Helaba's commercial banking activities, which consist essentially of lending transactions including floating-interest roll-over transactions, securities held for the purpose of safeguarding liquidity and medium- and long-term financing, via the central asset/liability management system (ZDS). Funding risk is managed on the basis of liquidity gap analyses where liquidity mismatches are limited. The Bank prevents concentrations of risk from arising when obtaining liquidity by diversifying its sources of funding. Responsibility for monitoring rests with the Risk Controlling unit. Market liquidity risk is quantified in the MaR model for market price risks. The very model itself is conservative in its approach to the liquidity risk with its assumption of a holding period of ten days. Monthly scenario calculations using a variety of holding periods are also carried out to track the risk of inadequate market liquidity. The scaled MaR suggests no significant market liquidity risk as at 31 December 2016. Market liquidity is also monitored on the basis of the margin between bid and offer prices.

The Board of Managing Directors defines the risk tolerance for liquidity and funding risk at least annually. This covers the limit applicable for short-term and structural liquidity risk (funding risk), liquidity building for off-balance sheet liquidity risks and the definition of the corresponding models and assumptions. A comprehensive plan of action in the event of any liquidity shortage is maintained for all locations. In addition, Helaba maintains a liquidity transfer pricing system for allocating liquidity costs. Both funding costs and the costs associated with the liquidity buffer are allocated.

Operational Risk

Principles of risk containment

Helaba identifies, contains and monitors operational risks using an integrated management approach introduced for this purpose in line with the regulatory requirements.

The approach taken by Helaba provides for the disciplinary and organisational segregation of operational risk containment and monitoring. Risk management is accordingly a local responsibility discharged by Helaba's individual units, which are supported in this task by central containment units. Central responsibility for operational risk monitoring rests with the Risk Controlling unit.

Tools

Helaba uses the standardised method to calculate its regulatory capital backing.

Operational risks are contained and monitored using a risk management system that identifies, records and presents risks and losses in a structured manner. This makes it possible to compare and cross-check risks and loss data systematically and contain them with appropriate measures.

Operational risks are classified systematically with reference to Helaba's proprietary risk model, which is based on the Basel event categories. The view of risk used for internal risk assessment purposes is thus fully congruent with that of the regulator. The quantification methodology is based on a modelling approach that encompasses internal and external losses plus risk scenarios created by the business units and plausibility-checked by the Risk Controlling unit.

Technical assistance to help facilitate the management of operational risks is provided in the form of a web-based application that supports local data access and a central database along with a central application for risk reporting.

Operational risks are avoided or limited using insurance arrangements that cover specific losses up to agreed maximum limits and also by means of established measures in internal processes and other workflows.

Risk monitoring

The risk reporting system keeps the bodies responsible, the Risk Committee, the Operational Risk management group created and the units responsible for risk management at the local level informed of the risk situation and any losses incurred.

The Bank's risk profile is updated as part of an annual review. The risk profiles of the subsidiaries are added to create the Group risk profile.

Losses attributable to operational risks that have materialised are reported regularly at the local level by Helaba's specialist units. The subsidiaries submit reports concerning losses incurred, in principle on a quarterly basis, and these enable the losses situation in the Group to be presented. External losses from the VÖB data syndicate are added to the loss data pool for internal management purposes.

Quantification

Operational risks are quantified for Helaba, Frankfurter Sparkasse and Helaba Invest using an internal model based on a loss distribution approach, which considers risk scenarios and internal and external losses to calculate unexpected losses (economic risk exposure). This also includes internal loss events and risk scenarios arising from operational risks that originate with the aforementioned risk sub-types (including legal, information security and IT risks). The summary below shows the risk profile for Helaba, Frankfurter Sparkasse, Helaba Invest and the other companies of the Helaba Group that are included in risk management at the level of individual risks:

Operational risks – risk profile

Economic risk exposure – base scenario
Chart 7

in € m

	Reporting date 31.12.2016	Reporting date 31.12.2015
	VaR 95.0 %	VaR 95.0 %
Helaba Bank	36	37
Frankfurter Sparkasse, Helaba Invest and other companies included in risk management at the level of individual risks	37	34
Narrow Group companies	**73**	**71**

The base scenario of the going-concern approach for the risk-bearing capacity calculation shows an unexpected loss (economic risk exposure) of € 73 m (2015: € 71 m) for the Group from operational risks. The increase in this figure can be traced essentially to the updating of the risk scenarios for Group companies that are included in risk management at the level of individual risks.

Documentation system

The documentation system lays down details of the due and proper organisation of business plus internal control procedures and precautionary security measures relating to the use of electronic data processing. The defined framework for action is marked out in the documentation system in the form of regulations governing activities and processes.

Clear responsibilities have been defined within Helaba for the creation and continuous updating of the various components of the documentation system. The Bank Organisation department assists the specialist units responsible for the activities and processes to create and publish the regulations.

Helaba's documentation system complies with the requirements imposed by the MaRisk.

Legal risk

The Legal Services unit is responsible for monitoring legal risks. It is represented on the Risk Committee of the Bank with an advisory vote and reports on the legal risks that have become quantifiable as ongoing or imminent court proceedings involving the Bank or its subsidiaries.

The legal aspects of major undertakings are coordinated with the Legal Services unit. Legal Services provides specimen texts and explanations for contracts and other declarations with particular legal relevance where expedient as a contribution to preventive risk management. The lawyers of the Legal Services unit have to be involved in the event of any deviations or new rulings. If the services of external legal experts are sought either in Germany or elsewhere, their involvement in principle proceeds under the management of Legal Services.

The Legal Services unit drafts agreements, general business conditions and other relevant legal declarations as part of its legal counselling support services in co-operation with the other units of the Bank. The Legal Services unit is involved in the examination and negotiation of any legal texts submitted by third parties.

If any mistakes or unexpected developments detrimental to the Bank are encountered, the lawyers help to identify and remedy the problems and avoid any recurrence in future. They assume responsibility for examining and evaluating events for factors of particular legal significance and conduct any proceedings launched. This applies in particular in respect of countering any claims asserted against the Bank.

Legal Services reports on legal risks by making submissions to the Board of Managing Directors, documenting ongoing and imminent court proceedings and coordinating on a formalised basis with other units.

Outsourcing risk

Risks associated with significant outsourcing arrangements, which are linked to the defined objectives of the divisions concerned, can arise in any unit that has outsourced services. The office responsible for the outsourcing arrangement has a duty to monitor service provision by the outsourcing company continuously on the basis of reports and to report to the relevant Dezernent (board member) in order to limit the risks associated with outsourcing. The nature of these activities depends on the significance of the outsourcing arrangement. The Organisation and Information Technology unit maintains a directory of all implemented insourcing and outsourcing transactions in its capacity as the central authority and compiles the changes that have occurred with regard to existing insourcing and outsourcing arrangements as part of an annual quality assurance exercise.

Information security and IT risk

Helaba's defined information security strategies and regulations provide the basis for an appropriate internal controlling process and for the secure use of electronic data processing. The level of information security maintained and the extent to which it is appropriate given the applicable circumstances are monitored and adapted continuously through the information security management system (ISMS). Key systems are subject to constant surveillance as part of monitoring activities, moreover, and important processes and procedures and key outsourcing arrangements are checked in regular information security audits.

Mandatory information security (IS) guidelines and security policies for application development and IT operation aim to ensure that risks are detected at an early stage and that appropriate measures to minimise these risks are defined and implemented. These documents are the subject of continuous ongoing development. Helaba also actively manages IT risks. IT risks and the associated security measures and checks are reviewed, periodically and on an ad-hoc basis, monitored, and contained. The Bank thus takes proper account of all three aspects of information security – availability, integrity and confidentiality – in order to avoid any detrimental impact on its ability to operate. The Operational Risk management group also receives regular reports concerning IS and IT risks.

Business continuity management

Helaba's units and branch offices have drawn up business continuity plans for the critical business processes as part of business continuity management activities. These business continuity plans, which ensure restart, proper emergency operation and restoration of normal operation, are updated and refined on a regular basis and probed in tests and exercises to verify their effectiveness.

Where IT services are outsourced to external service providers, the related contractual documents contain provisions relating to preventive measures and measures to limit risks. The documented procedures for safeguarding operation and the technical restoration of data processing are tested regularly together with specialist units of Helaba.

Accounting process

The objective of Helaba's internal control and risk management system in relation to the accounting process is to ensure proper and reliable financial reporting. The Helaba Group's accounting process involves individual reporting units that maintain self-contained posting groups and prepare local (partial) financial statements in accordance with HGB and IFRS. Helaba's reporting units comprise the Bank (Germany), the branch offices outside Germany, LBS, WIBank, all consolidated companies and sub-groups and all companies and sub-groups accounted for using the equity method.

Helaba's Accounting and Taxes unit consolidates the partial financial statements from the reporting units to produce both the single entity financial statements under HGB and the consolidated accounts under IFRS. Accounting and Taxes also analyses and prepares the closing data and communicates it to the Board of Managing Directors.

The components of the internal control and risk management system for the purposes of the accounting process are as follows:

- control environment,
- risk assessment,
- controls and reconciliations,
- monitoring of controls and reconciliations,
- process documentation and
- communication of results.

The components of Helaba's control environment for the accounting process include appropriate staffing of the units involved, in particular Accounting and Taxes, with properly qualified personnel. Regular communication ensures that the individual employees receive all of the information they need for their work promptly. Any failures that occur despite all of the checks in place are addressed and remedied in a defined process. The IT system landscape used in the accounting process is subject to IT security strategies and rules that ensure compliance with the German generally accepted accounting principles (GoB)/German principles for the proper maintenance and archiving of books, records and documents in electronic form and for data access (GoBD).

Helaba focuses primarily on the probability of occurrence and the extent of any potential error when assessing risks in the accounting process. The impact on the closing statements (completeness, accuracy, presentation, etc.) should the risk eventuate is also assessed.

The accounting process includes numerous controls and reconciliations in order to minimise its risk content. Extensive IT-based controls and reconciliations are used in addition to the control measures (including the double verification principle) applied to ensure the accuracy of manual operations such as data entry and calculations. These IT-based controls include mechanisms for subsidiary ledger/general ledger reconciliation checks and HGB/IFRS consistency checks. The controlling and reconciliation processes are themselves monitored by means of statistical evaluations for the reconciliations and reviews of individual validation measures. Internal Audit is involved in the controlling process and carries out regular audits of accounting.

The procedure to be followed in accounting is set out in a number of different complementary forms of documentation. Accounting manuals for HGB and IFRS define stipulations for the accounting methods to be used and also contain provisions on group accounting. The latter relate in particular to the parent company of the Group and the sub-groups included. Rules concerning organisational factors and the preparation process are included in addition to the stipulations on approach, measurement, reporting and disclosure requirements that apply throughout the Group. The individual reporting units have direct responsibility for incorporating stipulations in varying degrees of detail concerning the procedure to be applied in the various processes and subprocesses followed in the preparation of the financial statements. Employees are able to access accounting manuals and work instructions at any time via the Bank's intranet.

Accounting and Taxes performs analytical audit steps on the results of financial reporting (the closing figures determined). This entails plausibility checking the development of the figures over the course of the year. The closing figures are also cross-checked against planning outputs, expectations and extrapolations based on business progress. Finally, the figures are checked for consistency with analyses prepared independently elsewhere within Helaba. Primary and deputy responsibilities are assigned for this purpose at Group level for each reporting unit and each entry in the Notes. The figures are discussed regularly with the Board of Managing Directors following this preliminary analysis and validation.

Taxes
The Taxes department, which forms part of the Accounting and Taxes unit, is responsible for tasks relating to the taxation of the Bank in Germany and of selected subsidiaries. The tax affairs of the international branch offices and the other units of the Group are handled locally. Key developments and outcomes are included in the reports to the Taxes department for the purposes of centralised financial statement preparation. External tax advice services are used as required and, in principle, for the tax return of the foreign units. Tax law developments in Germany and abroad are monitored constantly and their impact on the Bank and the subsidiaries is analysed. Any necessary measures are initiated by or in consultation with the Taxes department and in this way tax risks are either avoided or covered by appropriate provisions on the balance sheet.

Other Risk Types

Business risk
Risk containment in respect of business risks encompasses all of the measures implemented in order to reduce, limit and avoid risks and to keep intentional risk exposure compliant with the risk strategy and the specified limits adopted by the Board of Managing Directors. Operational and strategic risk containment is the responsibility of the Bank's front office units and the management of the respective equity investments. The Risk Controlling unit quantifies the business risks for the purposes of the calculation of risk-bearing capacity and analyses their development. Risk reporting to the Risk Committee of the Board of Managing Directors proceeds on a quarterly basis.

Business risks declined by € 6 m to € 158 m over the year to 31 December 2016 (31 December 2015: € 164 m).

Real estate risk
The Real Estate Management unit handles risk containment for the real estate projects and real estate lending portfolios together with the Group companies. Risk containment encompasses all of the measures implemented in order to reduce, limit and avoid risks and to keep intentional risk exposure compliant with the risk strategy and the specified limits adopted by the Board of Managing Directors. The Risk Controlling unit's activities in relation to real estate risks focus on risk quantification and risk monitoring. Risk quantification in this context entails determining the necessary capital requirements to safeguard risk-bearing capacity, while risk monitoring feeds into risk reporting to the Risk Committee of the Board of Managing Directors.

The risks associated with real estate projects and real estate portfolios increased to € 31 m in 2016 as a result of modifications to methodology (31 December 2015: € 21 m). These risks continue to be fully covered by the expected income from the associated transactions.

Summary
The controlled acceptance of risks plays a central role at Helaba in the management of the company. We accept and manage risks on the basis of our comprehensive risk identification, quantification, containment and monitoring system. Although they are already very highly evolved and satisfy all statutory and supervisory requirements, we refine our methods and systems continuously. Our fundamental organisational principles put in place the structures necessary to ensure successful implementation of the risk strategy defined. Helaba, in conclusion, has at its disposal a stock of proven and effective methods and systems with which to master the risks it chooses to accept.

Outlook and Opportunities

Economic conditions

In 2017, the global economy will remain on a growth trajectory but will not manage to return to the rates of expansion seen before the financial crisis. In the US, the pace of growth will once again see a slight improvement on the previous year's rate. The modest recovery in the euro zone will continue with expansion of 1.4 %. China's growth trend will continue to slacken off and the situation in Russia and other oil-exporting countries will gradually improve. Global economic growth is expected to be similar to the previous year at around 3 %.

In Germany, growth in 2017, at a seasonally adjusted rate of around 1.5 %, will be close to that achieved in the previous year. Domestic demand should again be the main driver. Real incomes and employment are likely to rise. Inward migration will continue, but at a slower rate. Capital investment will gradually gain momentum. Industrial activity is already showing signs of gathering pace with the result that capacity utilisation is continuing to rise. The need for capital investment to support expansion is becoming more urgent. Construction activity is also likely to increase again. The outlook for both residential and non-residential construction appears more favourable. There has recently been a rise in new orders for both public-sector and commercial construction. Foreign trade will benefit from the weaker euro. Despite this, the contribution to growth will probably be negative because of the brisk level of import activity. Public finances are likely to show a smaller surplus in 2017 following the surplus of 0.8 % of GDP in 2016. Although tax receipts will continue to rise, higher capital spending and greater government consumption will nevertheless restrict the surpluses. The differences in growth rates among the countries of the euro zone are likely to remain. Economic growth will probably be above average again in Spain and Ireland, where a successful structural policy has been implemented. On the other hand, France and Italy were slow to initiate reforms and the pace has been slow. Growth in both of these countries will be sluggish again in 2017.

Despite the relatively robust economic situation and higher inflation, the ECB will not be abandoning its extremely expansionary monetary policy in 2017. The critical decisions were already taken back in 2016 when the ECB decided to extend its asset-buying programme. The US Federal Reserve (Fed) will not be deviating from its prudent, tight monetary policy either. Yields on longer maturities are likely to rise moderately and the yield curve will become steeper.

Opportunities

Helaba has long had a stable and viable strategic business model in place. Over the last few years, the Bank has therefore not only been able to consolidate its market position in its core areas of business but also – on the basis of good operating results – service all subordinated liabilities, profit participation rights and silent participations in full at all times and pay regular dividends. The key factors behind Helaba's success remain its conservative risk profile, backed up by effective risk management, and the strategic business model for the Group as a whole based on the concept of a full-service bank with its own retail business, a strong base in the region, a very close relationship with the Sparkassen and robust capital and liquidity adequacy. Helaba is valued by its customers as a reliable partner because of its sound business model. This is reflected particularly in the long-term financing operations in real estate lending and corporate finance, in which the Bank is one of the leading providers in Germany.

Rating agencies Moody's Investors Service (Moody's), Fitch Ratings (Fitch) and Standard & Poor's (S&P) have awarded Helaba issuer ratings of A1, A+ and A. In terms of ratings for plain vanilla senior unsecured debt in accordance with section 46f (6) KWG, the approaches taken by the rating agencies differ in the way that they take into account the German bail-in sequence in light of the new European resolution system; they have issued ratings in this category of A1, A+ and A- respectively. The ratings for short-term liabilities are P-1, F-1+ and A-1.

The ratings from Fitch and S&P are based on a joint S-Group rating for the Sparkassen-Finanzgruppe Hessen-Thüringen. The strategically significant funding instruments "public Pfandbriefe" and "mortgage Pfandbriefe" both have AAA ratings. Thanks to its excellent standing among institutional and private investors and its diversified product range, Helaba has consistently enjoyed direct access to the funding markets over the last few years. Helaba's status as part of a strong association of financial institutions also underpins its ongoing ability to access funding in the money and capital markets.

Helaba is firmly and permanently established as part of the German Sparkassen-Finanzgruppe by virtue of its ownership structure (88 % of its shares are held by members of the Sparkassen organisation) and its central bank function for 40 % of Sparkassen in Germany. Further enhancing its position as a leading S-Group bank for the German Sparkassen and permanently integrating with the Sparkassen are among Helaba's strategic objectives. The pressure on profitability created by the level of competition in retail banking and exacerbated by the current period of low interest rates will lead to greater task sharing within the S-Group.

The real estate business is one of Helaba's strategic core business areas. It offers almost all products and services along the value chain, including structuring, financing and portfolio management. Long-term customer relationships combined with a sustainable business policy in the carefully selected domestic and international target markets have formed the basis for the growth in new business over the last few years. A representative office has been opened in Stockholm to help Helaba continue the process of tapping into the potential offered by the Scandinavian real estate markets. Even during periods of increasing competition and downward pressure on margins, Helaba believes that there are good opportunities for the Bank to assert and continue to consolidate its market position in real estate lending based on its product expertise and on its well-established presence in the markets over many years.

In lending business, Helaba will both expand the range of products and services it offers customers and investors and fine-tune the management of its own assets and liabilities to back up its syndication teams. Syndication arrangements also allow Sparkassen to participate in lending transactions set up by Helaba experts and thus diversify their risk.

Export-oriented corporate customers expect their partner bank to offer a range of products that will help them with their international activities. The Bank's institutional roots in the Sparkassen-Finanzgruppe and its extended customer base are enabling Helaba to establish itself as a leading provider of international trade finance and payment transactions in the Sparkassen-Finanzgruppe and lift business volumes and income in this segment. To this end, it is opening another representative office in São Paulo.

In the payments business, Helaba continues to be one of Germany's leading payment transaction clearing houses and a dominant Landesbank in a market shaped by increasing competitive pressure and further regulatory requirements. The associated opportunities, particularly in the clearing and card processing business, are being systematically exploited with the aim of generating fees and commissions to counter further increases in the downward pressure on margins.

The structural shift to digital is leading to an ongoing change in customer behaviour and impacting on trading and payment methods in e-commerce and m-commerce. At the same time, fiercer competition is resulting from the entry of new market players from a digital background. These players are colonising parts of the payments value chain, particularly web-based payment systems, mobile payments and also point-of-sale. To defend itself against these competitors from outside the industry, Helaba has been participating in the creation of a standard payments system (paydirekt), which is being developed jointly by the banking sector. The system was successfully launched in the spring of 2016. Helaba is playing a leading role within the Sparkassen-Finanzgruppe in (further) developing and marketing the payments system. It is also actively helping the Sparkassen-Finanzgruppe implement instant payments in 2017, which is a requirement of the supervisory authorities.

Over the next few years, the key issue of digitalisation will provide banks with the opportunity to streamline their business and IT processes. The interfaces with the customer are being redefined, creating other options for developing new products. The main challenge in the coming years will be to ready payment transactions for the growing requirements of the digital age, thereby boosting competitiveness and capacity for innovation.

Helaba has established a new Digitalisation Strategic Project unit. In an initial stage, the unit has systematically analysed the extent to which these developments are opening up opportunities for the divisions. This led to the creation of digitalisation initiatives, in which mixed teams comprising IT and other relevant specialists have used agile development methodology to produce prototypes for customer portals and payments applications. It is planned to launch the first releases online in 2017. In parallel, Helaba will launch further initiatives with the aim of using digital solutions to enhance both the interfaces with the customer and the efficiency of downstream processes.

Helaba aims to achieve further efficiency enhancements by introducing a new core banking system. A preliminary study to prepare the ground for the replacement of the core banking system was completed in 2016. Implementation will begin in 2017 and is expected to be completed in 2020. The changeover will not only modernise IT systems but also bring improvements to many internal processes, thereby making a key contribution to ensuring that Helaba is fit for the future.

Overall, Helaba finds itself well placed to meet the challenges of the future over the long term with its established strategic business model and sees additional development opportunities in the expansion of regional private customers and SME business, S-Group business, public development and infrastructure business, and in the closure of gaps in its client base and product range (at both domestic and international levels) in wholesale business. Helaba's strategy for profitability aims to safeguard its long-term earnings power in order to strengthen its capital base while observing its risk strategy requirements and taking account of the changes in the regulatory environment and marked increase in the structural costs of banking.

Probable development of the Bank

Landesbank Hessen-Thüringen Girozentrale (Helaba) is a credit institution organised under public law; its business model is based on a strong regional focus, a presence in carefully selected international markets and a very close relationship with the Sparkasse organisation. The economic forecasts for 2017 predict stable economic trends with moderate growth. However, the persistently low interest rates and the large number of regulatory requirements will continue to have an adverse impact on expected performance in 2017.

Real estate lending, both in Germany and abroad, is subject to persistent downward pressure on prices, caused by the significant liquidity that continues to be pumped into the system by central banks. At the same time, financing competitors are showing a greater appetite for risk. Against this background, in 2017, Helaba will continue to stand by its adopted approach, in which medium- and long-term new business is selected on the basis of a balance of risk and reward. The volume of new medium- and long-term lending business in 2017 is therefore budgeted to be around 17 % down on 2016 at € 8.6 bn. After factoring in the anticipated redemptions, this new business will lead to a slight increase in loans and advances to customers and stable income (before provisions for losses on loans and advances) at the prior-year level.

In Corporate Finance, demand for credit is expected to remain subdued in 2017 despite the generally upbeat economic environment, and the market will be highly competitive. The volume of new medium- and long-term lending business in 2017 is nevertheless budgeted to be around 12 % higher than 2016 at € 4.8 bn. Factoring in the expected redemptions, Helaba is only forecasting a slight rise in loans and advances to customers. The income in Corporate Finance is projected to fall in view of the significant margin pressure in new business.

The volume of new medium- and long-term lending in the Financial Institutions and Public Finance division is predicted to amount to € 0.3 bn in 2017. Expectations are that total income for 2017 will increase by 3 % and will therefore be slightly up compared with the previous year.

The volume of new medium- and long-term lending in the municipal lending business in Germany is budgeted to be € 1.0 bn in 2017, which is on a par with 2016. Similarly, income will probably be at the same level as in 2016.

Customer capital market business will continue to be adversely impacted by the low interest rates in 2017. Lower credit spreads will also have a negative effect on customer business and warehousing. However, the growth in cross-selling in connection with Helaba's real estate and project finance operations and the further expansion of primary market activities will provide a positive stimulus, and the proportion of customer- and volume-driven income is expected to increase further as a result. On the other hand, gains/losses on the mark-to-market valuation of portfolios have been budgeted at conservative levels and total income from capital markets business will thus probably decline by 10 %.

In the S-Group bank business with the Sparkassen, Helaba is aiming to consolidate its position as the leading S-Group bank for the German Sparkassen organisation based on a nationwide sales approach. Helaba is also planning to improve products and step up sales activities in 2017 and is anticipating a resulting rise in income of 8 % compared with 2016. Sales activities are being undertaken with the involvement of the subsidiaries Helaba Invest Kapitalanlagegesellschaft mbH and Frankfurter Bankgesellschaft (Schweiz) AG.

As in the case of all Bausparkassen, the performance of LBS will be adversely impacted by the low interest rates. LBS is budgeting a positive level of comprehensive income for 2017 based on financial projections in accordance with the HGB, the relevant accounting standards for LBS. This includes net operating income as well as non-operating gains, losses, income and expenses.

In the cash management business, Helaba is one of Germany's leading payment transaction clearing houses and the leading Landesbank in this sector. In addition to the negative interest rates, which will continue to have a detrimental impact on income in 2017, digital transformation is leading to an ongoing change in consumer behaviour with corresponding effects on trading and payment processes in e-commerce and m-commerce. At the same time, competition is becoming fiercer as new fintech players enter the market. Based on innovative products, these players are able to occupy parts of the payments value chain with increasing speed. Despite these negative factors, it is anticipated that there will be a further increase in transactions in 2017 and slight associated growth in fees and commissions.

The main feature of the public sector development business in 2017 will be growth in the portfolio of the municipal authorities business (especially in connection with the State of Hesse's KIP municipal investment programme and healthcare infrastructure development). The persistently low and negative interest rates in 2017 will impact margins in new business and the number of unscheduled redemptions. New business in 2017 is likely to comprise loans of around € 1.3 bn (compared with a corresponding figure of € 1.1 bn for 2016). The business volume budgeted to be achieved by the end of 2017 is slightly below the level at the end of 2016. Total income is forecast to rise by 5 % year on year.

The total volume of new medium-/long-term lending business (excluding the WIBank development business, which does not form part of the competitive market) is budgeted to be around 6 % down on the previous year at € 16.3 bn in 2017. When anticipated maturities (both scheduled and early) and flat growth in new short-term-maturity business are taken into account, loans and advances to customers are only likely to rise marginally in 2017. Net interest income is predicted to be around 3 % below the prior-year level as a result of the pressure on margins in new business and the negative impact from the low level of interest rates. In particular, the low interest rates will adversely affect LBS, the cash management business and the investment of own funds, as well as liquidity requirements.

The low interest rates will also cause a fall in customer demand, leading to a loss of income in the capital markets business of the commercial bank and S-Group bank with the result that net trading income is projected to be down by around 22 % year on year.

Net fee and commission income is budgeted to increase by 2 %, based on continuous expansion of customer business in the capital markets business, S-Group bank business and in cash management.

Within other net operating income/expense, the operating buildings income and expenses have been budgeted at the level of 2016. Following the one-off improvement caused by the switch in the discount rate used for pension provisions in 2016, the balance of other operating income and expenses is expected to return to a substantially negative figure in 2017.

Personnel expenses are not predicted to include any rise in pay costs in 2017 despite the inclusion of collective pay increases. The expected collective pay increases will be offset by changes in the number of employees. Personnel expenses in 2016 included a one-off reduction related to pension provisions, but no similar reduction is forecast for 2017. Overall personnel expenses will therefore rise by 7 % compared with the previous year.

The budgeted non-personnel operating expenses for 2017 include higher project costs, which are reflected in an increase in IT costs and in the expenses for support from external consultants. These costs cover numerous additional requirements relating to reporting, regulation and the digitalisation strategy. The project portfolio includes the continuation of a number of projects that have been running for several years, specifically covering BCBS 239, the core banking system and the introduction of IFRS 9. Overall, the non-personnel operating expenses item (including depreciation, amortisation and impairment losses) is forecast to rise by around 5 %.

The cost-income ratio for 2017 is forecast at approximately 68 %.

Provisions for losses on loans and advances are expected to be at the 2016 level, assuming economic stability and very low interest rates.

Overall, the Bank estimates that the operating result before taxes for 2017 will be around a third lower than the figure achieved in 2016.

The Bank's aim for 2018 is once again to continue developing its business divisions while increasing income from customer business. The adverse effects associated with the low interest rates should dissipate with the expected return of interest rates to normal levels in the medium term. Overall, Helaba therefore plans to lift earnings again over the medium term.

Risks to the Bank's earnings performance stem from political and macroeconomic trends. Uncertainty will arise from a number of factors, notably the negotiations for the UK's exit from the EU, which are expected to begin in March 2017, and developments in the US under the new president. There are also risks from the situation in the Middle East, which remains tense. All of the developments referred to above place the EU under pressure and therefore have a direct impact on the political and economic situation in Europe. Any political destabilisation in Europe could lead to a deterioration in government finances in individual EU states and increase the pressure on individual banks.

There is a particular risk to the Bank if the requirements and costs related to regulatory initiatives turn out to be greater than expected. The Bank is assuming that the low interest rates will continue in 2017. Risks then arise if interest rates become even lower.

Overall assessment

In 2016, Helaba generated profit before taxes of € 381 m, 11.2 % lower than the excellent figure of € 429 m in 2015, but nevertheless higher than the average for the last five years and in excess of the budget figure. Despite a fall in net interest income and in net trading income, net operating income rose by 3.4 %. A key factor was the increase in other operating income, which was boosted by one-off effects arising from the switch in the discount rate used to measure pension provisions. Despite a marginal rise in general and administrative expenses, the operating result before allowance for losses on loans and advances also rose by 3.2 % year on year. The rise in provisions for losses on loans and advances reflected the Bank's conservative policy regarding such provisions. Nevertheless, the allowance for losses on loans and advances was below the budgeted figure despite a significant year-on-year increase caused by the presence of one-off items in the previous year. The net profit generated in financial year 2016 allows Helaba to service all subordinated debt, profit participation rights and silent participations, pay a dividend to shareholders and make appropriations to reserves.

Despite the increasing competitive pressure and the multitude of regulatory requirements, Helaba is well placed to meet the challenges of the future over the long term with its strategic business model focused on the needs of the real economy and the S-Group. It sees additional development opportunities in the expansion of regional private customers and SME business, S-Group business, public development and infrastructure business, and in the closure of gaps in its client base and product range (at both domestic and international levels) in wholesale business. Helaba's strategy for profitability aims to bring about further improvements in its sustainable earning power to strengthen its capital base and enhance its enterprise value while maintaining its risk-bearing capacity and taking account of the increase in banking structural costs as a result of regulatory requirements.

Frankfurt am Main/Erfurt, 28 February 2017

Landesbank Hessen-Thüringen Girozentrale

The Board of Managing Directors

Grüntker	Groß	Fenk
Dr. Hosemann	Mulfinger	Dr. Schraad

Annual Financial Statements of Landesbank Hessen-Thüringen

Balance Sheet of Landesbank Hessen-Thüringen,

as at 31 December 2016

Assets in € thousands

	See note no.				31.12.2016	31.12.2015
Cash reserve						
a) Cash in hand				6,829		5,899
b) Balances with central banks				2,569,843		1,459,927
					2,576,672	**1,465,826**
thereof: With Deutsche Bundesbank		1,800,331				(381,950)
Loans and advances to banks	(2), (45)					
a) Mortgage loans				–		83
b) Municipal loans				8,457,114		10,742,684
c) Other loans and advances				3,673,649		4,231,392
					12,130,763	**14,974,159**
thereof: Payable on demand		1,118,483				(1,158,433)
Against securities pledged as collateral		–				
thereof: Bausparkasse home savings loans		–				–
Loans and advances to customers	(3), (45)				**81,919,395**	**82,162,433**
a) Mortgage loans				21,509,239		20,528,608
b) Municipal loans				23,627,020		24,761,543
c) Other loans and advances				35,931,019		36,032,107
thereof: Against securities pledged as collateral		–				
d) Bausparkasse building loans						
da) From allocations (home savings loans)			196,622			242,818
db) For interim and bridge-over financing			651,221			592,863
dc) Other			4,274			4,494
				852,117		840,175
thereof: Secured by mortgage charges		538,305				(525,671)
Bonds and other fixed-income securities	(4)					
a) Money market instruments						
aa) Public-sector issuers			–			–
thereof: Eligible as collateral with Deutsche Bundesbank		–				–
ab) Other issuers			965,555	965,555		773,836
thereof: Eligible as collateral with Deutsche Bundesbank		–				–
b) Bonds and notes						
ba) Public-sector issuers			5,665,402			5,459,865
thereof: Eligible as collateral with Deutsche Bundesbank		5,536,256				(5,268,622)
bb) Other issuers			11,391,316			11,042,199
				17,056,718		16,502,064
thereof: Eligible as collateral with Deutsche Bundesbank		9,410,932				(8,186,902)
c) Own bonds and notes				–		–
					18,022,273	**17,275,900**
Nominal amount		–				–
Carried forward:					**114,649,103**	**115,878,318**

Equity and liabilities

in € thousands

	See note no.				31.12.2016	31.12.2015
Liabilities due to banks	(15), (18), (45)					
a) Registered mortgage Pfandbriefe issued				187,805		138,436
b) Registered public Pfandbriefe issued				705,295		904,522
c) Other liabilities				31,169,771		36,935,423
thereof: Payable on demand		6,786,414				(6,810,239)
Provided to lenders as collateral for loans raised: Registered mortgage Pfandbriefe		–				
Registered public Pfandbriefe		–				
d) Home savings deposits				35,511		28,066
					32,098,382	**38,006,447**
thereof: On allocated contracts		5,384				(5,277)
Liabilities due to customers	(19), (45)					
a) Registered mortgage Pfandbriefe issued				1,551,897		1,859,677
b) Registered public Pfandbriefe issued				4,258,712		4,760,576
c) Deposits from home savings business and savings deposits						
ca) Home savings deposits			4,456,077			4,230,271
thereof: On terminated contracts		43,458				(47,612)
On allocated contracts		85,086				(81,320)
cb) Savings deposits with an agreed period of notice of three months			–			–
cc) Savings deposits with an agreed period of notice of more than three months			–			–
				4,456,077		4,230,271
d) Other liabilities				18,200,013		19,226,423
					28,466,699	**30,076,947**
thereof: Payable on demand		8,708,726				(9,425,923)
Provided to lenders as collateral for loans raised: Registered mortgage Pfandbriefe		–				
Registered public Pfandbriefe		–				
Securitised liabilities	(20), (32)					
a) Bonds issued						
aa) Mortgage Pfandbriefe			8,195,265			6,948,919
ab) Public Pfandbriefe			12,313,495			14,259,090
ac) Other debt instruments			22,477,130			18,924,403
				42,985,890		40,132,412
b) Other securitised liabilities				7,124,248		6,202,746
					50,110,138	**46,335,158**
thereof: Money market instruments		7,124,248				(6,202,746)
Trading portfolio	(21), (35), (45)				**10,975,001**	**14,853,651**
Carried forward:					**121,650,220**	**129,272,203**

Assets in € thousands

	See note no.				31.12.2016	31.12.2015
Carried forward:					114,649,103	115,878,318
Equity shares and other variable-income securities	(5)				**1,025,343**	**2,301,822**
Trading portfolio	(6), (14), (35), (45)				**16,536,392**	**22,094,984**
Equity investments	(7), (17), (45)				**70,963**	**96,531**
thereof: In banks		48,469				(48,469)
In financial services institutions		–				(16,067)
Shares in affiliated companies	(8), (17), (45)				**1,767,325**	**1,780,977**
thereof: In banks		855,580				(855,626)
In financial services institutions		–				–
Trust assets	(9)				**1,008,830**	**877,144**
thereof: Trustee loans		738,538				(601,772)
Intangible assets	(10), (17)					
a) Internally generated industrial rights and similar rights and assets				–		
b) Purchased concessions, industrial and similar rights and assets, and licences in such rights and assets				38,269		25,081
c) Goodwill				–		–
d) Prepayments				–		7,728
					38,269	**38,269**
Property and equipment	(11), (17)				**51,410**	**52,478**
Other assets	(12)				**979,962**	**1,077,062**
Prepaid expenses	(13)					
a) From issuing and lending operations				634,683		804,781
b) Other				25,676		26,300
					660,359	**831,081**
Total assets					**136,787,956**	**145,023,206**

Equity and liabilities

in € thousands

	See note no.				31.12.2016	31.12.2015
Carried forward:					**121,650,220**	**129,272,203**
Trust liabilities	(22)				**1,008,830**	**877,144**
thereof: Trustee loans		738,538				(601,772)
Other liabilities	(23)				**1,547,049**	**1,831,715**
Deferred income	(24)					
a) From issuing and lending operations				716,612		862,280
b) Other				199,611		200,499
					916,223	**1,062,779**
Provisions	(25)					
a) Provisions for pensions and similar obligations				941,737		990,563
b) Provisions for taxes				107,727		150,740
c) Other provisions				405,149		379,052
					1,454,613	**1,520,355**
Home savings protection fund					**11,200**	**9,020**
Subordinated liabilities	(26)				**2,363,584**	**2,362,035**
Profit participation rights	(27), (29)				**276,000**	**678,000**
thereof: Due within two years		195,000				–
Fund for general banking risks	(29)				**598,623**	**593,925**
thereof: Special reserve under section 340e (4) of the HGB		124,000				(119,000)
Equity	(29)					
a) Subscribed capital						
aa) Share capital			588,889			588,889
ab) Capital contribution			1,920,000			1,920,000
ac) Silent partner contributions			953,338			953,338
				3,462,227		3,462,227
b) Capital reserves				1,546,412		1,546,412
c) Revenue reserves				1,862,975		1,707,391
d) Net retained profits				90,000		100,000
					6,961,614	**6,816,030**
Total equity and liabilities					**136,787,956**	**145,023,206**
Contingent liabilities	(30)					
Liabilities from guarantees and indemnity agreements					**6,823,641**	**5,891,808**
Other obligations	(31)					
a) Placement and underwriting obligations				2,753,262		2,795,289
b) Irrevocable loan commitments				19,105,951		18,620,657
					21,859,213	**21,415,946**

Income Statement of Landesbank Hessen-Thüringen,

for the period 1 January to 31 December 2016

in € thousands

	See note no.				2016	2015
Interest income from	(37), (38)					
a) Lending and money market transactions			2,491,305			2,897,994
thereof: Bausparkasse interest income:						
aa) From home savings loans		8,616				(11,180)
ab) From interim and bridge-over loans		18,044				(18,720)
ac) From other loans		94				(133)
b) Fixed-income securities and registered government debt			190,091			205,076
				2,681,396		3,103,070
Interest expense				1,759,614		2,123,752
thereof: On home savings deposits		76,802				(77,552)
					921,782	979,318
Current income from	(37)					
a) Equity shares and other variable-income securities				32,758		22,317
b) Equity investments				3,082		2,794
c) Shares in affiliated companies				29,047		42,558
					64,887	67,669
Income from profit pooling, profit transfer or partial profit transfer agreements					**73,644**	63,189
Fee and commission income	(37), (39)			246,236		243,195
thereof: Bausparkasse fee and commission income:						
a) On contracts signed and arranged		20,752				(23,565)
b) From loans granted after allocation of home savings contract		139				(235)
c) From the commitment and administration of interim and bridge-over loans		6				–
Fee and commission expenses				71,940		75,022
thereof: On Bausparkasse contracts signed and arranged		29,251				(33,602)
					174,296	168,173
Net income of the trading portfolio	(37)				**158,194**	185,229
Other operating income	(37), (40)				**135,732**	75,774
General and administrative expenses						
a) Personnel expenses						
aa) Wages and salaries			308,359			309,984
ab) Social security, post-employment and other benefit expenses			53,793			61,908
				362,152		371,892
thereof: Post-employment benefit expenses		9,101				(12,624)
b) Other administrative expenses				457,510		415,865
					819,662	787,757
Carried forward:					**708,873**	751,595

in € thousands

	See note no.				2016	2015
Carried forward:					708,873	751,595
Amortisation and write-downs of intangible assets and depreciation and write-downs of property and equipment					14,769	16,598
Other operating expenses	(40)				126,431	186,630
Write-downs of and allowances on loans and advances and certain securities as well as transfers to loan loss provisions	(41)				200,905	44,682
Income from the reversal of write-downs of and allowances on loans and advances and certain securities and from the reversal of loan loss provisions					2,612	21,143
Write-downs of and allowances on equity investments, shares in affiliated companies and securities classified as fixed assets					18,680	13,303
Income from the reversal of write-downs of and allowances on equity investments, shares in affiliated companies and securities classified as fixed assets					–	–
Cost of loss absorption					120	7,124
Additions to the fund for general banking risks					–	–
Result from ordinary activities					350,580	504,401
Extraordinary income				–		–
Extraordinary expenses				13,234		118,643
Extraordinary result	(42)				13,234	118,643
Taxes on income	(43)			90,235		265,758
Other taxes not included in item Other operating expenses				1,526		1,468
					91,761	267,226
Net income for the year					245,585	118,532
Retained profits brought forward from previous year					–	–
Allocations to revenue reserves					155,585	18,532
Net retained profits					90,000	100,000

Notes to the Annual Financial Statements of Landesbank Hessen-Thüringen,

as at 31 December 2016

The annual financial statements of Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main, a legal entity under public law entered in the commercial register at the Frankfurt am Main local court under number HRA 29821 and at the Jena local court under number HRA 102181, are prepared in accordance with the German Commercial Code (Handelsgesetzbuch, HGB) in conjunction with the German Regulation on the Accounting of Banks and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute, RechKredV) and the German Pfandbrief Act (Pfandbriefgesetz, PfandBG).

The structure of the balance sheet and income statement reflects the requirements of the RechKredV. The two statements have been extended to include the line items prescribed for Pfandbriefbanken and Bausparkassen. The disclosures on Bausparkasse operations required to be included in the notes are contained in the annual financial statements of Landesbausparkasse Hessen-Thüringen (LBS), which are published separately.

Helaba also prepares consolidated financial statements in accordance with the International Financial Reporting Standards as published by the International Accounting Standards Board and adopted by the European Union. These consolidated financial statements are published in the German Federal Gazette.

(1) Accounting Policies

Assets and liabilities are measured in accordance with the provisions of sections 252 et seqq. of the HGB, with due consideration given to the special provisions for credit institutions (sections 340 et seqq. of the HGB).

As a rule, the same accounting policies have been applied in the annual financial statements for the period ended 31 December 2016 as were applied in the prior-year annual financial statements. Any changes are explained below.

Receivables and liabilities
Receivables are reported at their nominal amount and liabilities at their settlement amount. Outside the trading portfolio and outside the securities allocated to the liquidity reserve, differences presented as interest between the nominal amount and payment amount or cost are shown as prepaid expenses or deferred income and reversed to the relevant periods over the term of the asset or liability. Bonds and similar liabilities issued at a discount as well as securities and receivables acquired on a discounted basis are shown at their present values.

Specific allowances or provisions have been recognised to take account of all identifiable credit risks. For the purpose of presenting latent credit risks in the financial accounting and reporting in accordance with the HGB, the Bank continues to pursue an accounting approach appropriate to the risk. In doing so, the Bank also uses the method of calculating and accounting for portfolio-based loan loss allowances under IFRSs for global allowances under the HGB.

In addition to the fund for general banking risks shown in the balance sheet in accordance with section 340g of the HGB, contingency reserves in accordance with section 340f of the HGB have been recognised for general banking risks.

Securities
The items included under bonds and other fixed-income securities and equity shares and other variable-income securities are measured using the strict lower of cost or market principle, with the exception of “valuation units” in accordance with section 254 of the HGB and fixed assets. Accordingly, they have to be reported at fair value if this is lower than their (amortised) cost. In active markets, fair value corresponds to the exchange or market price on the reporting date. The analysis of the securities portfolio at the balance sheet date established an active market for all securities. Any reversals of write-downs required by law were made.

Fixed assets also include residual holdings of asset-backed securities as well as shares in domestic closed-end investment limited partnerships and similar foreign structures in accordance with section 17 of the RechKredV in conjunction with the definition of an investment fund as set out in section 1 of the German Investment Code (Kapitalanlagegesetzbuch, KAGB).

Equity investments and shares in affiliated companies
Equity investments and shares in affiliated companies are shown at cost. If impairment is expected to be permanent, they are written down to their lower fair value. If the reasons for an impairment write-down recognised in previous years no longer apply, the write-down is reversed and the asset is recognised at fair value, but without exceeding amortised cost.

Trading portfolio
Trading portfolios are shown in the balance sheet under the items trading assets and trading liabilities. The criteria established internally for including financial instruments in the trading portfolio did not change in the year under review. Trades are measured on the basis of individual transactions. In accordance with section 340e (3) of the HGB, financial instruments held for trading are measured at fair value less a risk discount for trading assets and plus a risk premium for trading liabilities. The amount, timing and reliability of future cash flows, as the basis for determining fair value, are primarily influenced by the level of interest rates, developments on the equity and bond markets, and changes in credit spreads. In line with the requirements of the banking supervisory authority, risk premiums and discounts are determined for all trading portfolios in accordance with the provisions of the German Banking Act (Kreditwesengesetz, KWG), following the regulatory provisions regarding the Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement, MaRisk) and the provisions of Article 365 of the Capital Requirements Regulation (CRR). In doing so, the risk premium or discount is calculated in the form of a money-at-risk (MaR) amount with a confidence level of 99 %, a holding period of ten days and an observation period of one year. The risk premiums and discounts are calculated for each risk category.

A counterparty-specific credit valuation adjustment (CVA) takes account of third-party credit risks arising from the settlement of OTC derivatives. A debit valuation adjustment (DVA) is recognised to take account of own credit risk. The CVA and DVA are calculated at each balance sheet date by measuring the potential default risk, taking account of collateral pledged or received and the effect of netting agreements.

Changes in value, realised gains and losses, commissions and current income from financial instruments held for trading as well as interest expense for funding trading activities are reported under “Net income of the trading portfolio” or “Net expense of the trading portfolio”.

In accordance with section 340e (4) of the HGB, an amount equivalent to at least 10 % of net trading income is allocated to the separate account in the special reserve for general banking risks as at the reporting date. Such additions are made until the account reaches 50 % of the average annual net trading income generated over the last five years before the date of the calculation, or until an amount is reversed in order to absorb net trading expense. Additions are charged to net trading income. The Bank made an addition of € 5 m in the year under review.

The Bank has offset trading assets and liabilities in the form of derivatives that were entered into with each counterparty under a master agreement with a Credit Support Annex and for which collateral is calculated daily. The carrying amounts of the derivatives and the collateral per counterparty were taken into account in doing so. Derivatives and collateral entered into with a central counterparty are also included in offsetting.

The effects on existing master agreements of the ruling handed down by the German Federal Court of Justice (Bundesgerichtshof, BGH) on 9 June 2016 (case ref. IX ZR 314/14 regarding the partial invalidity of the master agreement for financial futures transactions to the extent that this conflicts with section 104 of the German Insolvency Code (Insolvenzordnung, InsO)) were examined bearing in mind the general administrative act issued by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) on netting agreements within the scope of German solvency law, dated 9 June 2016, and the joint statement from the Federal Ministry of Justice and Consumer Protection and the Federal Ministry of Finance, dated 9 June 2016. The Bank still considers the methods used to calculate the bilateral credit value adjustment to be appropriate. The netting of bilateral OTC derivatives contracts in the balance sheet is unaffected.

Fixed assets and intangible assets
Fixed assets and intangible assets with finite useful lives are carried at depreciated or amortised cost less any impairment write-downs to the lower fair values. Depreciation and amortisation are charged over the useful life of the asset. Low-value assets are fully depreciated or amortised in the year of acquisition. The Bank does not capitalise internally generated intangible assets.

Provisions
Provisions for taxes and other provisions have to be recognised in accordance with the principles of prudent business judgement at the settlement amount of the uncertain liabilities or the expected losses from executory contracts, with due consideration given to expected price and cost increases. Medium- and long-term provisions (with a remaining maturity of > 1 year) are discounted using the rates published by the Bundesbank in accordance with section 253 (2) of the HGB. In determining the change resulting from adding interest cost, it is assumed that any change in the discount rate will only occur at the end of the period. The effect of adding interest cost is reported under other operating expenses.

Pension obligations are determined annually by external actuarial experts. They are measured using the projected unit credit method, based on biometric assumptions (2005G mortality tables of Professor Dr. Heubeck), salary and pension increases expected in the future as well as the average market rate published by the Bundesbank for an assumed remaining maturity of 15 years. In accordance with the new section 253 (2) sentence 1 of the HGB, pension obligations were measured as at 31 December 2016 using the average market rate for the past ten years (31 December 2015: average market rate for the past seven years). The resulting difference of € 119 m is subject to a distribution restriction.

The measurement parameters applied are shown in the table below:

	31.12.2016	31.12.2015
Discount rate	4.01 %	3.89 %
Salary trend	2.00 %	2.25 %
Pension trend	1.00 – 2.00 %	1.00 – 2.25 %
Employee turnover rate	3.00 %	3.00 %

Some pension obligations are covered by assets (securities) that are exempt from attachment by any other creditors. These assets can only be used to settle liabilities from retirement benefit obligations (plan assets). They are measured at their fair value in accordance with section 253 (1) sentence 4 of the HGB. The extent of the obligation is determined by fixing the limit of the guaranteed benefit commitment at the fair value of the corresponding securities at the reporting date. The assets and the corresponding pension obligations are offset against each other.

The pension expense to be recognised in the income statement includes mainly retirement benefit expense and interest expense. The provision expense represents the increase in pension obligations attributable to the service provided by employees in the financial year; it is disclosed under general and administrative expenses. The interest expense is defined as the increase in the present value of the pension obligations that results from the settlement date approaching and the discounting period thus becoming shorter. The interest expense is netted against the return on plan assets. Both the interest expense and the return on plan assets are included in the other operating result.

Fair value measurement

Fair value is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's-length transaction (except in the case of emergency settlement).

The market price is the best indicator of the fair value of financial instruments. If an active market exists, observable market prices are used to measure the financial instruments recognised at fair value. These are normally prices quoted on a stock exchange or market prices quoted on the interbank market. If an observable market price does not exist for a financial instrument, it is measured using recognised and commonly used valuation techniques, with all input data (e.g. yield curves, volatilities, spreads) being based on observable market data and taken from external sources. Such techniques mainly comprise discounted cash flow-based forward pricing and swap pricing models or option pricing models (e.g. Black-Scholes and variants thereof). They are normally used for OTC derivatives (including credit derivatives) and financial instruments that are recognised at fair value and not traded in an active market. In cases where not all inputs are directly observable in the market, fair values are calculated using realistic assumptions based on market conditions. This valuation technique is used in particular for complex structured (derivative) spread products where correlations not directly observable in the market are significant to the measurement. If no market prices are available for non-derivative financial instruments, arranger prices are used. Unlisted equity investments are measured on the basis of unobservable inputs, particularly the surpluses derived from corporate planning.

Currency translation

Foreign currency assets and liabilities included in the annual financial statements and currency spot transactions not settled at the balance sheet date are translated at the middle spot exchange rate in accordance with the principles set out in section 256a of the HGB and section 340h of the HGB. In the case of foreign currency futures in the trading portfolio, swap spreads are accrued and the residual spreads measured. In the case of foreign currency swaps in the non-trading portfolio, swap spreads are accrued. The Bank applies the principle of special cover in accordance with section 340h of the HGB. All currency gains or losses are recognised in the income statement.

Derivatives

Derivatives (interest rate, equity, currency, credit and commodity futures and options as well as swap agreements) are allocated to the trading portfolio or the non-trading portfolio at the trade date. Under commercial law accounting, derivative financial instruments are recognised on the basis of the relevant pronouncements and accounting guidance of the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer, IDW) and in accordance with generally accepted accounting principles. In the case of structured financial instruments whose derivative arrangements have a different risk profile to the underlying, these derivatives are bifurcated, allocated to the trading portfolio and measured separately.

Derivatives not held for trading and derivatives held in valuation units (hedges) are used to manage general interest rate risk in the banking book. When measuring the banking book, an overall assessment of all interest-bearing on-balance sheet assets and liabilities, including interest rate derivatives, is performed for general interest rate risk in accordance with the principles of IDW BFA (Banking Committee) 3. To determine market price risk, receivables, interest-bearing securities, liabilities and derivatives allocated to the banking book are not measured individually in accordance with the imparity principle, but treated as part of a refinancing group. In the year under review, it was not necessary to recognise a provision for expected losses from the refinancing group – using a periodic (income statement-based) analysis.

Current income and expenses from non-trading swap transactions is accrued on a pro-rata basis and reported under other assets or other liabilities.

Valuation units

In its banking book, Helaba has created valuation units in accordance with section 340a in conjunction with section 254 of the HGB, comprising securities held in the liquidity reserve and the corresponding interest rate swaps entered into for hedging purposes. The valuation units consist of asset-swap combinations in the form of micro valuation units (micro hedges). The hedges relate exclusively to interest rate risks. The net hedge presentation method is used to present changes in value that offset each other between the hedged item and the hedging instrument. The hedged items are always hedged at 100 % of the nominal volume for the entire remaining maturity. The fact that key factors affecting value match ensures the prospective effectiveness of the valuation units. Prospective effectiveness is determined using regression analysis. The offsetting changes in value and cash flows cancelled each other out to a large extent at the balance sheet date and are expected to continue to do so in future. The changes in value arising from the hedged risks will cancel each other out almost entirely by the envisaged end of the valuation units (the time at which the hedged item and the hedging instrument mature). For net losses on the ineffective portion of the hedging relationship, the Bank recognises a provision for expected losses. In the year under review, this resulted in an addition of € 0.8 m being expensed (2015: net reversal of € 11.1 m).

Deferred taxes

Deferred taxes are not recognised because the existing asset surplus is not recognised in the balance sheet as a result of using the option provided for in section 274 of the HGB. Deferred tax assets are based on differences between the carrying amount of loans and advances to customers, bonds and other fixed-income securities, equity investments, deferred income, provisions for pensions and similar obligations, and other provisions in the financial statements and their tax base. The company-specific tax rates were used to measure the deferred taxes. In Germany, the Bank has a combined income tax rate of 31.7 % with an average municipality trade tax multiplier of 452 %. Deferred taxes in the international reporting units are measured using the statutory tax rates applicable in those jurisdictions.

(2) Loans and Advances to Banks

in € m

	31.12.2016	31.12.2015
This item includes:		
Loans and advances to affiliated Sparkassen	6,634	7,891
Loans and advances to affiliated companies	6,708	6,723
Loans and advances to other long-term investees and investors	14	42
The sub-item – other loans and advances – comprises:		
Subordinated loans and advances	37	11
thereof: To other long-term investees and investors	–	–
Payable on demand	1,119	1,158
Remaining maturities:		
Up to three months	5,675	9,263
More than three months and up to one year	971	1,448
More than one year and up to five years	1,967	2,240
More than five years	2,399	865
Cover funds	1,197	707

(3) Loans and Advances to Customers

in € m

	31.12.2016	31.12.2015
This item includes:		
Loans and advances to affiliated companies	747	651
Loans and advances to other long-term investees and investors	117	571
Subordinated loans and advances	190	517
thereof: To other long-term investees and investors	6	12
Remaining maturities:		
Up to three months	5,199	4,843
More than three months and up to one year	8,286	8,402
More than one year and up to five years	35,994	37,712
More than five years	29,163	27,359
With an indefinite term	3,277	3,846
Cover funds	18,459	19,080

(4) Bonds and Other Fixed-Income Securities

in € m

	31.12.2016	31.12.2015
Securitised receivables:		
From affiliated companies	–	–
From other long-term investees and investors	–	–
The marketable securities comprise:		
Listed securities	15,601	14,333
Unlisted securities	1,065	870
Remaining maturities:		
Amounts due in the following year	3,831	2,570
Subordinated assets	3	3
Sold under repo agreements in open market transactions	–	2,254
Carrying amount of investment securities	66	80
Fair value of investment securities	66	79
Temporary impairment of investment securities	1	2

The Bank judges the impairment of investment securities to be temporary and therefore expects the securities to be repaid in full at maturity.

(5) Equity Shares and Other Variable-Income Securities

in € m

	31.12.2016	31.12.2015
The marketable securities comprise:		
Listed securities	15	–
Unlisted securities	18	7

This item comprises units in two (31 December 2015: three) securities investment funds held exclusively by Helaba (mixed funds or pure fixed-income funds) with a total carrying amount of € 1 bn (31 December 2015: € 2 bn). In line with Helaba's long-term investment intentions, these investment funds mainly invest in interest-bearing securities.

As at the balance sheet date, all units were measured at the lower fair value, if applicable. There were no material price reserves at the balance sheet date. Income from dividend payments received in 2016 amounted to a total of € 4.8 m (2015: € 5.3 m).

In accordance with section 17 of the RechKredV in conjunction with the definition of an investment fund as set out in section 1 of the KAGB, this item also includes shares in domestic closed-end investment limited partnerships and similar foreign structures in the amount of € 28 m. In the previous year, an amount of € 46 m was attributable to such investment funds.

(6) Trading Portfolio (Assets)

in € m

	31.12.2016	31.12.2015
Derivative financial instruments	7,995	7,571
Loans and advances	1,304	1,290
Bonds and other fixed-income securities	7,140	13,042
Equity shares and other variable-income securities	97	192
Subordinated assets	–	–
Other assets	–	–

The decline in the trading portfolio (assets) is mainly the result of scaling back the portfolio of bonds and other fixed-income securities as planned. It also reflects the offsetting of trading derivatives (liabilities) and related collateral, which resulted in an amount of € 5.8 bn (31 December 2015: € 5.6 bn) being set off.

(7) Equity Investments

in € m

	31.12.2016	31.12.2015
The securities comprise:		
Marketable securities	18	18
Listed securities	–	–

(8) Shares in Affiliated Companies

in € m

	31.12.2016	31.12.2015
The securities comprise:		
Marketable securities	104	104
Listed securities	–	–

(9) Trust Assets

in € m

	31.12.2016	31.12.2015
This item includes:		
Loans and advances to banks	194	151
Loans and advances to customers	545	451
Equity investments	56	60
Shares in affiliated companies	–	–
Equity shares and other variable-income securities	202	202
Other assets	12	13

(10) Intangible Assets

in € m

	31.12.2016	31.12.2015
Purchased standardised software	38	25

(11) Property and Equipment

in € m

	31.12.2016	31.12.2015
This item includes:		
Land and buildings used for own operations	12	12
Operating and office equipment	33	33

(12) Other Assets

in € m

	31.12.2016	31.12.2015
Significant items are:		
Interest receivables under swap agreements	528	633
Other	452	444

(13) Prepaid Expenses

in € m

	31.12.2016	31.12.2015
From issuing and lending operations, this item includes:		
Premiums on loans and advances	254	323
Upfront payments on own issues	283	380
Discounts on liabilities and bonds issued	99	102

(14) Repurchase Agreements

in € m

	31.12.2016	31.12.2015
Trading assets sold under repo agreements	–	2,090
Assets in the liquidity reserve sold under repo agreements	–	736

(15) Assets Pledged as Collateral

in € m

	31.12.2016	31.12.2015
Assets of the following amounts were transferred for the following liabilities:		
Liabilities due to banks	3,338	4,934
Trading liabilities	5,888	5,199

This includes borrowed securities in the amount of € 0 m (31 December 2015: € 891 m) that had been transferred on to credit institutions in connection with repurchase agreements.

(16) Assets Denominated in Foreign Currency

in € m

	31.12.2016	31.12.2015
Assets denominated in foreign currency	26,825	29,407

(17) Statement of Changes in Fixed Assets

in € m

	Intangible assets	Property and equipment	Long-term securities	Equity investments	Shares in affiliated companies	Total
Cost						
As at 1.1.2016	**150**	**150**	**138**	**113**	**1,861**	**2,412**
Additions	13	6	1	–	63	83
Exchange rate changes	–	1	–	–	–	1
Reclassifications	–	–	–	–	–	–
Disposals	22	18	33	3	75	151
As at 31.12.2016	**141**	**139**	**106**	**110**	**1,849**	**2,345**
Depreciation, amortisation and write-downs and reversals of write-downs						
As at 1.1.2016	**117**	**98**	**12**	**16**	**80**	**323**
Reversals of write-downs	–	–	–	1	–	1
Depreciation and amortisation	8	7	–	24	2	41
Write-downs	–	–	–	–	–	–
Exchange rate changes	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
Disposals	22	18	–	–	–	40
As at 31.12.2016	**103**	**87**	**12**	**39**	**82**	**323**
Carrying amounts						
As at 1.1.2016	33	52	126	97	1,781	2,089
As at 31.12.2016	38	52	94	71	1,767	2,022

(18) Liabilities Due to Banks

in € m

	31.12.2016	31.12.2015
This item includes:		
Liabilities due to affiliated Sparkassen	10,221	10,848
Liabilities due to affiliated companies	4,636	4,503
Liabilities due to affiliated companies investees and investors	48	25
Payable on demand	6,786	6,810
Remaining maturities:		
Up to three months	1,716	5,444
More than three months and up to one year	3,289	5,345
More than one year and up to five years	10,067	11,150
More than five years	10,204	9,229

(19) Liabilities Due to Customers

in € m

	31.12.2016	31.12.2015
This item includes:		
Liabilities due to affiliated companies	649	661
Liabilities due to other long-term investees and investors	4	62
Payable on demand	8,709	9,426
Remaining maturities:		
Up to three months	2,515	1,932
More than three months and up to one year	1,626	2,239
More than one year and up to five years	3,282	3,568
More than five years	7,879	8,682

(20) Securitised Liabilities

in € m

	31.12.2016	31.12.2015
This item includes:		
Liabilities due to affiliated companies	–	–
Liabilities due to other long-term investees and investors	–	–
Remaining maturities of the sub-item – bonds issued:		
Amounts due in the following year	10,208	7,214
Remaining maturities of the sub-item – other securitised liabilities:		
Up to three months	4,044	4,165
More than three months and up to one year	3,080	1,837
More than one year and up to five years		–
More than five years		–

(21) Trading Portfolio (Liabilities)

in € m

	31.12.2016	31.12.2015
Derivative financial instruments	3,003	2,775
Liabilities	7,943	12,049
Risk premium	29	29

As at 31 December 2016 the offsetting of trading derivatives (assets) and related collateral resulted in an amount of € 9.5 bn (31 December 2015: € 9.0 bn) being set off.

(22) Trust Liabilities

in € m

	31.12.2016	31.12.2015
Liabilities due to banks	126	1
Liabilities due to customers	814	803
Other liabilities	69	73

(23) Other Liabilities

in € m

	31.12.2016	31.12.2015
Significant items are:		
Currency translation differences	1,034	1,260
Interest obligations arising from swap agreements in the non-trading portfolio	335	374
Interest on profit participation rights and silent participations	79	79
Option premiums received for the non-trading portfolio	7	4

(24) Deferred Income

in € m

	31.12.2016	31.12.2015
From issuing and lending operations, this item includes::		
Premiums on liabilities	385	460
Upfront payments on own issues	277	334
Discounts on lending operations	55	68

(25) Provisions

The difference between the carrying amount of the pension provisions measured using the average market rate for the past ten financial years (4.01 %) and the carrying amount of the provisions measured using the appropriate average market rate for the past seven financial years (3.23 %) was € 119 m as at the balance sheet date. This amount is subject to a distribution restriction.

As at the balance sheet date, there was no longer a shortfall in the pension provisions reported due to the application of section 67 (1) sentence 1 of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch, EGHGB) (31 December 2015: € 13 m).

The cost of the assets offset against provisions in accordance with section 246 (2) sentence 2 of the HGB amounted to € 30 m (31 December 2015: € 27 m) and the fair value to € 35 m (31 December 2015: € 31 m). The settlement amount of the offset liabilities amounted to € 35 m (31 December 2015: € 33 m). In the income statement, income from these assets amounting to € 1.6 m (2015: € 0.8 m) was offset against expenses from the corresponding liabilities amounting to € 0.1 m (2015: € 1.7 m).

The other provisions were recognised mainly for personnel-related items and for credit and country risks in off-balance sheet lending business. Provisions are recognised for litigation risks if it is likely that they will be used. Further provisions are attributable to liabilities for which the actual amount or the reason is uncertain.

(26) Subordinated Liabilities

Subordinated borrowings exceeding 10 % of the overall position in each case are as follows:

Currency amount – in millions –	Currency	Current interest rate in %	Due in	Early repayment obligation
–	EUR	–	–	–

The conditions relating to the subordinate nature of these funds meet the requirements of the German Banking Act (Kreditwesengesetz) for eligible own funds. There is no agreement to convert these items into capital or other forms of debt and there are no plans to do so.

The reported figure includes pro-rata interest of € 33 m (31 December 2015: € 31 m). Interest expense on subordinated borrowings amounted to € 82 m in the year under review (2015: € 128 m).

(27) Profit Participation Rights

in € m

	31.12.2016	31.12.2015
This item includes:		
Registered profit participation rights	256	358
Securitised profit participation rights	20	320

The profit participation rights were structured as own funds for regulatory reporting purposes in view of the prudential requirements regarding eligibility in place at the date of issue. Rights to income and repayments are dependent upon there being appropriate profits available. Holders participate in any losses in accordance with the terms and conditions of the profit participation rights. The item contains 18 profit participation rights.

(28) Liabilities Denominated in Foreign Currency

in € m

	31.12.2016	31.12.2015
Liabilities denominated in foreign currency	13,382	12,436

(29) Own Funds

in € m

	31.12.2016	31.12.2015
Subscribed capital	**3,462**	**3,462**
a) Share capital	589	589
b) Capital contribution	1,920	1,920
c) Silent partner contributions	953	953
Capital reserves	**1,546**	**1,546**
Revenue reserves	**1,863**	**1,707**
Including profit participation rights,	276	678
fund for general banking risks	599	594
and subordinated liabilities,	2,364	2,362
the liable capital reported in the balance sheet amounted to	10,110	10,350

A distribution of € 90 m and an appropriation to revenue reserves of € 155 m are proposed for the appropriation of net profit.

(30) Contingent Liabilities

in € m

	31.12.2016	31.12.2015
This item includes:		
Credit guarantees	2,729	2,584
Other guarantees and sureties	4,095	3,308

Helaba judges to be low the risk that borrowers will fail to meet their obligations and facilities are likely to be utilised. Bank guarantees are subject to the Bank's process for determining provisions for losses on loans and advances. Helaba has recognised appropriate provisions in individual cases where a loss from the likely use of a facility is probable.

Contingent liabilities include the used payment undertaking arising from the share of the bank levy in the amount of € 18 m.

(31) Other Obligations

in € m

	31.12.2016	31.12.2015
This item includes:		
Placement and underwriting obligations	2,753	2,795
Irrevocable loan commitments for open-account loans	19,106	18,621

On the basis of financial standing analyses, Helaba assumes that borrowers will meet their obligations and therefore facilities are unlikely to be utilised. Provisions have been recognised in individual cases where a loss from the likely use of a facility is probable.

(32) Pfandbriefe and Statement of Cover Assets

Overview in accordance with section 28 (1) no. 1 of the PfandBG

in € m

	Nominal amount		Net present value	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Mortgage Pfandbriefe:				
Cover pool	13,380	12,003	14,203	12,882
Pfandbriefe in circulation	9,871	8,614	10,226	8,976
Surplus cover	3,509	3,389	3,977	3,905
Net present value at risk under internal model	–	–	3,564	3,577
Public Pfandbriefe:				
Cover pool	20,872	22,228	23,332	24,609
Pfandbriefe in circulation	17,385	20,364	19,118	22,284
Surplus cover	3,486	1,864	4,214	2,325
Net present value at risk under internal model	–	–	3,906	1,771

There were no derivatives held to cover issued Pfandbriefe at the end of the year.

The net present value at risk according to the German Present Value Regulation indicates the present value of the net cover after stress testing. The internal MaRC² model was used to simulate interest rate risks; the dynamic procedure was used to simulate currency risks.

Breakdown of the cover pool by fixed-interest period and breakdown of Pfandbriefe by remaining maturity under section 28 (1) no. 2 of the PfandBG

in € m

	Cover pool		Pfandbrief	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Mortgage Pfandbriefe:				
Up to one year	2,402	1,751	2,642	370
More than one year and up to two years	1,498	2,040	1,481	2,627
More than two years and up to three years	2,213	1,630	2,014	1,496
More than three years and up to four years	1,899	2,092	2,004	2,014
More than four years and up to five years	1,141	1,067	399	185
More than five years and up to ten years	4,166	3,375	1,114	1,520
More than ten years	61	48	217	403
Public Pfandbriefe:				
Up to one year	2,842	3,318	2,976	4,123
More than one year and up to two years	2,707	2,611	2,075	2,926
More than two years and up to three years	1,785	2,739	3,208	2,079
More than three years and up to four years	2,546	1,765	1,502	3,209
More than four years and up to five years	1,741	2,447	1,340	1,493
More than five years and up to ten years	5,995	5,791	4,083	4,032
More than ten years	3,256	3,558	2,201	2,500

Further cover assets under section 28 (1) no. 4 of the PfandBG

in € m

	Further cover	
	31.12.2016	31.12.2015
Mortgage Pfandbriefe:		
Cover pool	**13,380**	12,003
thereof: Further cover	**233**	233
Public Pfandbriefe:		
Cover pool	**20,872**	22,228
thereof: Further cover	**145**	298

Breakdown of the cover pool for mortgage Pfandbriefe by type of use

Residential breakdown:

in € m

	Flats		Single-family houses		Multi-family houses		Building land and building shells		Total	
Country	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Germany	53	44	64	56	1,958	2,119	–	–	2,075	2,219

Commercial breakdown:

in € m

	Office buildings		Retail buildings		Industrial buildings		Other buildings		Building land and building shells		Total	
Country	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Germany	2,507	2,963	3,023	2,865	193	221	279	302	5	7	6,007	6,358
Belgium	14	14	–	–	–	–	–	–	–	–	14	14
France	937	618	186	130	–	–	–	–	–	–	1,123	748
Luxembourg	70	71	–	–	–	–	–	–	–	–	70	71
Sweden	30	31	40	158	–	–	–	–	–	–	69	189
The Netherlands	52	112	41	59	–	–	–	–	–	–	93	171
Austria	–	–	121	115	–	–	–	4	–	–	121	119
Poland	481	178	394	183	54	54	–	–	–	–	929	415
Czech Republic	51	112	180	265	–	–	–	–	–	–	231	377
UK	262	256	–	–	–	–	–	–	–	–	262	256
USA	1,519	804	78	28	–	–	–	–	–	–	1,598	832
Total	**5,923**	**5,159**	**4,063**	**3,803**	**247**	**275**	**279**	**306**	**5**	**7**	**10,517**	**9,550**

Breakdown of the cover pool for mortgage Pfandbriefe by size

in € m

	31.12.2016	**31.12.2015**
Up to € 0.3 m	158	198
More than € 0.3 m and up to € 1 m	141	157
More than € 1m and up to € 10 m	1,341	1,450
More than € 10 m	11,508	9,964
Further cover	233	233

The total amount of payments at least 90 days past due was € 12 thousand (31 December 2015: € 45 thousand) and related to domestic debtors. There were no instances of receivership or forced sales in the year under review, nor was it necessary to take charge of any land in order to avoid losses.

Interest arrears from mortgage operations

in € m

	31.12.2016	**31.12.2015**
Commercial	–	–
Residential	–	–
Total	**–**	**–**

Breakdown of the cover pool for public Pfandbriefe by issuer

in € m

	Central government		Regional authorities		Municipal authorities		Public-law credit institutions/other		Total	
Country	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Germany	498	573	3,803	3,054	10,910	12,525	4,032	4,235	19,243	20,387
France incl. Monaco	–	–	537	414	–	–	–	–	537	414
UK incl. Northern Ireland	356	400	–	–	–	–	–	–	356	400
Luxembourg	6	7	–	–	–	–	–	–	6	7
Spain	–	–	381	464	–	–	–	–	381	464
Austria	–	–	9	12	–	–	–	–	9	12
Switzerland	–	–	47	–	–	–	147	246	193	246
Total	**860**	**980**	**4,777**	**3,944**	**10,910**	**12,525**	**4,179**	**4,481**	**20,725**	**21,930**

In the case of public Pfandbriefe, payments at least 90 days past due totalled € 0 thousand (31 December 2015: € 500 thousand).

(33) Non-Trading Derivative Financial Instruments

The disclosures relating to derivative financial instruments are broken down into trading and non-trading portfolios.

Transactions in non-trading derivative products are presented in accordance with the disclosure requirements under section 285 no. 19 of the HGB in conjunction with section 36 of the RechKredV. Non-trading derivative financial instruments are entered into to hedge or manage risks attributable to banking book transactions (asset/liability management).

The nominal volume of derivative transactions in the non-trading portfolio increased by 4.8 % year on year.

Disclosure of volumes

in € m

	Nominal amounts		Positive fair values	Negative fair values
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Interest rate risk	**150,669**	**141,510**	**5,110**	**3,692**
Interest rate swaps	134,906	126,577	5,019	2,271
Forward rate agreements	–	–	–	–
Interest rate options	8,545	7,424	16	1,418
Calls	467	393	16	0
Puts	8,078	7,031	0	1,418
Caps, floors	3,421	5,721	75	3
Market contracts	3,797	1,788	0	0
Other interest rate futures	–	–	–	–
Currency risk	**23,479**	**24,720**	**247**	**1,141**
Currency futures	7,280	7,525	122	73
Currency swaps/cross-currency swaps	16,199	17,195	125	1,068
Currency options	–	–	–	–
Calls	–	–	–	–
Puts	–	–	–	–
Equity and other price risks	**–**	**–**	**–**	**–**
Equity options	–	–	–	–
Calls	–	–	–	–
Puts	–	–	–	–
Market contracts	–	–	–	–
Credit derivatives	**865**	**702**	**0**	**2**
Calls	210	35	0	1
Puts	655	667	0	1
Commodity risk	**–**	**–**	**–**	**–**
Commodity swaps	–	–	–	–
Commodity options	–	–	–	–
Total	**175,013**	**166,932**	**5,357**	**4,835**

In addition to the nominal volumes, the positive and negative fair values are shown separately. These disclosures do not reflect netting or collateral agreements.

Since these transactions form part of hedging transactions, the fair values always have to be analysed in connection with the hedged items.

The fair values are in some cases offset by unrealised premium and special cash flows and interest accrued on derivatives, which are shown in the balance sheet under other assets or liabilities and under prepaid expenses or deferred income. The total amount of assets related to derivatives is € 837 m (31 December 2015: € 1,020 m), while liabilities related to derivatives amount to € 1,659 m (31 December 2015: € 1,962 m).

Breakdown of nominal amounts by maturity

in € m

	Interest rate risk		Currency risk		Equity and other price risks	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Up to three months	12,748	5,849	6,795	7,613	–	–
More than three months and up to one year	18,904	17,041	4,473	2,630	–	–
More than one year and up to five years	73,588	71,993	9,158	11,178	–	–
More than five years	45,429	46,627	3,053	3,299	–	–
Total	**150,669**	**141,510**	**23,479**	**24,720**	**–**	**–**

in € m

	Credit derivatives		Commodity derivatives		Total	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Up to three months	62	–	–	–	19,605	13,462
More than three months and up to one year	803	57	–	–	24,180	19,728
More than one year and up to five years	–	645	–	–	82,746	83,816
More than five years	–	–	–	–	48,482	49,926
Total	**865**	**702**	**–**	**–**	**175,013**	**166,932**

The volume of both short-term and medium-term interest rate transactions increased. Short-term interest rate transactions (with a remaining maturity of up to one year) now account for 21.0 % of total business in this risk category (31 December 2015: 16.2 %).

Breakdown by counterparty

in € m

	Nominal amounts		Positive fair values	Negative fair values
	31.12.2016	31.12.2015	31.12.2016	31.12.2016
Banks in OECD countries	75,827	80,261	3,566	3,610
Banks outside OECD countries	11	13	0	1
Public institutions in OECD countries	7,132	15,763	685	342
Other counterparties	92,043	70,895	1,106	882
Total	**175,013**	**166,932**	**5,357**	**4,835**

The purpose of the counterparty breakdown is to present the default risks associated with derivative transactions. Helaba enters into derivative transactions mainly with banks in OECD countries and central counterparties.

A significant proportion of transactions with other counterparties relate to market contracts and OTC transactions with central counterparties; they account for 99.2 % of the nominal volume (31 December 2015: 98.8 %).

As in previous years, banks in OECD countries account for most of the positive fair values and thus the replacement risks.

(34) Derivative Financial Instruments Held For Trading

Transactions in derivative products are presented in accordance with the disclosure requirements under section 285 no. 20 of the HGB in conjunction with section 36 of the RechKredV.

The nominal volume of derivative trades declined by 13.7 % year on year. The decline was due mainly to forward rate agreements and interest rate swaps maturing. This contrasts with a moderate rise in the volume of currency futures.

Disclosure of volumes

in € m

	Nominal amounts		Positive fair values	Negative fair values
	31.12.2016	31.12.2015	31.12.2016	31.12.2016
Interest rate risk	**276,922**	**339,111**	**12,058**	**11,074**
Interest rate swaps	229,531	269,309	10,827	9,076
Forward rate agreements	2,920	18,268	1	4
Interest rate options	24,188	29,203	1,142	1,918
Calls	9,240	13,482	1,067	39
Puts	14,948	15,721	75	1,879
Caps, floors	13,723	13,009	86	67
Market contracts	6,453	9,312	1	7
Other interest rate futures	107	10	1	2
Currency risk	**50,985**	**43,187**	**1,603**	**1,250**
Currency futures	41,872	34,047	852	754
Currency swaps/cross-currency swaps	8,451	8,387	743	488
Currency options	662	753	8	8
Calls	328	374	8	0
Puts	334	379	–	8
Equity and other price risks	**3,627**	**3,346**	**142**	**136**
Equity options	2,735	2,338	123	118
Calls	1,548	1,354	123	–
Puts	1,187	984	–	118
Market contracts	892	1,008	19	18
Credit derivatives	**4,962**	**4,483**	**32**	**30**
Calls	2,589	2,192	2	30
Puts	2,373	2,291	30	–
Commodity risk	**147**	**141**	**4**	**4**
Commodity swaps	53	40	4	4
Commodity options	94	101	–	–
Total	**336,643**	**390,268**	**13,839**	**12,494**

In addition to the nominal volumes, the positive and negative fair values are shown separately. These disclosures do not reflect netting or collateral agreements.

Breakdown of nominal amounts by maturity in € m

	Interest rate risk		Currency risk		Equity and other price risks	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Up to three months	20,265	27,499	22,166	17,703	353	584
More than three months and up to one year	25,842	71,250	14,185	12,168	689	861
More than one year and up to five years	116,137	117,512	11,634	10,880	2,434	1,826
More than five years	114,678	122,850	3,000	2,436	151	76
Total	**276,922**	**339,111**	**50,985**	**43,187**	**3,627**	**3,347**

in € m

	Credit derivatives		Commodity derivatives		Total	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Up to three months	68	87	47	50	42,899	45,923
More than three months and up to one year	508	551	32	46	41,256	84,876
More than one year and up to five years	4,253	3,761	68	45	134,526	134,024
More than five years	133	84	–	–	117,962	125,446
Total	**4,962**	**4,483**	**147**	**141**	**336,643**	**390,269**

Short-term interest rate transactions (with a remaining maturity of up to one year) now account for 16.6 % of total business in this risk category (31 December 2015: 29.1 %). The volume of short-term currency-related transactions increased slightly.

Breakdown by counterparty in € m

	Nominal amounts		Positive fair values	Negative fair values
	31.12.2016	31.12.2015	31.12.2016	31.12.2016
Banks in OECD countries	141,953	145,913	5,204	8,328
Banks outside OECD countries	10	–	–	–
Public institutions in OECD countries	26,774	32,096	3,991	1,368
Other counterparties	167,906	212,260	4,644	2,798
Total	**336,643**	**390,269**	**13,839**	**12,494**

The purpose of the counterparty breakdown is to present the default risks associated with derivative transactions.

A significant proportion of transactions with other counterparties relate to market contracts and OTC transactions with central counterparties; they account for 65.1 % of the nominal volume (31 December 2015: 73.5 %).

The percentage of the total volume of derivatives accounted for by trading derivatives declined slightly year on year to 65.8 % (31 December 2015: 70.0 %).

As in previous years, interest rate contracts accounted for most of the trading activities. In this case, 64.8 % (31 December 2015: 70.6 %) of the total portfolio is attributable to trading derivatives. 68.5 % (31 December 2015: 63.6 %) of the currency risk contracts and 85.2 % (31 December 2015: 86.5 %) of the credit derivatives relate to the trading portfolio.

(35) Trading Products

in € m

	Assets		Liabilities		Net income of the trading portfolio	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Derivative financial instruments	**7,995**	**7,572**	**3,004**	**2,775**	**–12**	**113**
Interest rate trading	6,716	6,455	2,177	2,103	–20	122
Equity trading	90	105	75	109	–19	–8
Currency trading	1,186	1,001	735	550	21	–7
Credit derivatives	2	3	14	12	0	–
Commodities	1	8	3	1	6	6
Receivables/liabilities	**1,304**	**1,289**	**7,974**	**12,049**	**–3**	**–42**
Promissory note loans	1,140	907	–	–	6	19
Overnight and time deposits	13	90	6,139	7,189	0	–22
Repos/reverse repos/securities lending	3	30	–	25	0	–
Issued money market instruments/ securitised liabilities	–	–	1,569	4,535	–4	–12
Issued equity/index certificates	–	–	149	149	–6	–10
Other	148	262	117	151	1	–17
Bonds and other fixed-income securities	7,140	13,042	15	30	171	123
Equity shares and other variable-income securities	97	192	–	–	25	19
Other					**–18**	**–28**
Commissions					–18	–28
Fund for general banking risks in accordance with section 340e of the HGB					–5	–
Total	**16,536**	**22,095**	**10,993**	**14,854**	**158**	**185**

Offsetting was reflected in both the year under review and the prior-year amounts when presenting derivative financial instrument assets and liabilities.

A total of € 5.8 bn (31 December 2015: € 5.6 bn) was set off in the case of trading assets and € 9.5 bn (31 December 2015: € 9.0 bn) in the case of trading liabilities.

(36) Valuation Units in Accordance with Section 254 of the HGB

As at 31 December 2016, the carrying amount of the securities included in valuation units was € 11,965 m (31 December 2015: € 10,640 m).

A provision for expected losses is recognised for measurement effects from the hedged risk that are not fully offset. In the year under review, write-downs were reversed to take account of increases in the fair value of the hedged items due to changes in credit risk.

in € m

	31.12.2016	31.12.2015
Credit risk-related reversals of write-downs of securities	13	–11
Change in provision for expected losses for interest rate-related measurement effects that were not fully offset	–1	11

(37) Breakdown by Geographical Market

Total interest income, current income from equity shares and other variable-income securities, equity investments and shares in affiliated companies, fee and commission income, net trading income and other operating income is attributable to the following markets:

in € m

	31.12.2016	31.12.2015
Germany	2,813	3,380
European Union, excl. Germany	210	192
Other	265	212

(38) Net Interest Income

In the year under review, interest income from lending and money market transactions included negative interest in the amount of € -19 m, while interest expense included income of € 19 m.

(39) Fee and Commission Income

This item mainly comprises fee and commission income from sureties and guarantees and from payment transactions. Further components are fee and commission income from services provided to third parties for the administration and arrangement of securities transactions and other banking services.

(40) Other Operating Income and Expenses

Under other operating income for the year under review, the Bank reports, among other things, income from the reversal of provisions in the amount of € 75 m (2015: € 11 m), rental and leasing income of € 25 m (2015: € 26 m) and cost reimbursements on commissioned work undertaken for third parties of € 20 m (2015: € 18 m). The interest cost on provisions amounted to € 53 m (2015: € 142 m). Expenses for buildings not occupied by the Group amounted to € 9 m in the year under review (2015: € 10 m).

The item includes prior-period income of € 8 m and prior-period expenses of € 3 m.

(41) Write-Downs of and Allowances on Loans and Advances and Certain Securities as Well as Transfers to Loan Loss Provisions

This caption is used to report provisions for losses on loans and advances. For reporting write-downs of and allowances on loans and advances and certain securities as well as transfers to loan loss provisions, we used the option of cross-compensation in accordance with section 340f of the HGB.

(42) Extraordinary Result

As in the previous year, the extraordinary result of € 13 m (2015: € 119 m) is solely attributable to additions to provisions and comprises the necessary allocation to pension provisions in the amount of 1/15 of the difference arising from the change to the measurement of provisions due to the initial application of the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz, BilMoG).

(43) Taxes on Income

Taxes on income mainly comprise taxes on taxable results in Germany and in the USA (New York branch).

(44) Other Financial Obligations

At the balance sheet date, the Bank had obligations to make contributions to the subscribed capital of 17 companies totalling € 28 m, of which € 11 m was attributable to affiliated companies.

The Bank is a partner with unlimited liability in GLB GmbH & Co. OHG, Frankfurt am Main and Horrido-Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs OHG, Mainz.

In its capacity as the legal successor of the subsidiaries IHB and Helaba Trust, the Bank has assumed obligations of the subsidiaries.

The Bank is also jointly liable for ensuring that other members belonging to the Deutscher Sparkassen- und Giroverband e.V. (DSGV) meet their obligations to make additional contributions. If a claim were made against a former guarantor of DekaBank under the grandfathering provisions applicable to the guarantor liability in accordance with the Brussels Accord I, Helaba would be obliged to pay pro-rata internal liability compensation. The owners of DekaBank on 18 July 2005 are liable for the fulfilment of all liabilities of DekaBank existing at that date. For such liabilities entered into on or before 18 July 2001, the owners are liable without time limitation; with regard to liabilities entered into after this date and on or before 18 July 2005, they are liable only for liabilities whose term to maturity does not extend beyond 31 December 2015.

The Bank is a member of the protection schemes of the German Sparkasse organisation through its membership of the reserve fund of the Landesbanken and Girozentralen in Germany. This protection scheme is designed to protect institutions, i.e. its purpose is to protect member institutions as going concerns. There is an obligation to make additional payments if protection has to be provided.

In addition, Helaba is a member of the reserve fund of the Sparkassen- und Giroverband Hessen-Thüringen (SGVHT). This fund provides additional protection on top of the existing protection schemes; it provides protection not only to institutions but also to creditors. Landesbank Hessen-Thüringen and the Sparkassen make successive contributions to the fund until 0.5 % of the assessment base (eligible positions under the German Solvency Regulation (Solvabilitätsverordnung – SolvV) has been reached. An institution's obligation to pay contributions is established on the basis of risk, taking into account bonus and penalty factors. Sparkassen- und Giroverband Hessen-Thüringen will be liable to make up any shortfall should a claim be made against the fund before the full amount has been contributed in cash.

With regard to Helaba Asset Services (formerly: Helaba Dublin Landesbank Hessen-Thüringen International) and Frankfurter Bankgesellschaft (Schweiz) AG, Zurich, Helaba ensures that each company is able to meet its contractual obligations, except in the case of political risk.

Securities worth € 7,081 m have been pledged for settling clearing transactions and for off-balance sheet draw-down risks. The market value of secured money trading securities was € 0 m. In accordance with international requirements, securities with an equivalent market value of € 1,847 m had been pledged as collateral.

If LBS Immobilien GmbH or OFB Projektentwicklung GmbH (both affiliated companies) becomes insolvent, Helaba has agreed to make the equalisation payments to the relevant supplementary pension fund.

Contingent liabilities of € 205 m may arise if capital contributions have to be repaid.

Further obligations in accordance with section 285 no. 3 of the HGB are attributable in particular to long-term property rental and lease agreements for properties used for banking operations. Rental and lease payment obligations of € 45.5 m are expected for 2017 for the properties used by Helaba with contract terms and notice periods of 1.5 to 13.5 years. Other financial obligations arise from various rental, usage and service agreements as well as consultancy agreements to the extent customary in business.

The OPUSALPHA asset-backed commercial paper programme initiated by Helaba is used to securitise assets arising from customer-related business activities. The issuing company, OPUSALPHA Funding Limited, is consolidated in Helaba's consolidated financial statements.

The line of liquidity provided for the OPUSALPHA programme as a whole amounted to € 2,797 m (31 December 2015: € 2,426 m), of which € 1,875 m had been drawn down as at 31 December 2016 (31 December 2015: € 1,453 m).

Helaba acts as service provider for the OPUSALPHA companies and has entered into commitments to provide liquidity up to no more than the amount of any existing purchase commitments and is exposed to subordinated liabilities should the risks borne by third parties, for example in the form of discounts on purchases or guarantees, be insufficient.

As at 31 December 2016, liquidity lines for third-party securitisation platforms amounted to € 65 m (31 December 2015: € 65 m).

On the basis of indemnity agreements, the Bank has undertaken vis-à-vis several subsidiaries to exempt them from risks arising from certain transactions.

Under local measurement procedures, a foreign pension fund for a foreign subsidiary's pension commitments has a deficit for which appropriate provisions have been recognised. This deficit must be eliminated by making payments into the corresponding plan assets starting in 2015. In the process, regular comparisons will be made between the value of the plan assets after payments and the effects arising from changes in local measurement parameters. Under international accounting requirements, the indirect pension obligation (before the existing plan assets are taken into account) amounts to € 72 m.

As at the balance sheet date, there were conditional and unconditional forward contracts

- for currency transactions (currency futures and options, currency swaps and cross-currency swaps),
- for interest rate transactions (futures and options with fixed-income securities and promissory note loans, forward rate agreements, finance swaps and related options, interest rate futures including options on these transactions as well as interest rate caps),
- for other price risks (equity and equity index futures contracts/options),
- for credit risk (credit derivatives),
- for commodity risk (commodity swaps and options).

From a risk perspective, the trading portfolio mainly contains closed positions comprising various types of transaction. If derivative instruments are held in the non-trading book, the transactions are mainly used to hedge interest rate-related or currency-related market risks.

(45) Related Party Disclosures

Helaba is required to report its transactions with related parties in accordance with section 285 no. 21 of the HGB. These transactions are conducted on an arm's-length basis. Over and above the minimum disclosures required by section 285 no. 21 of the HGB, we provide a comprehensive report on related party transactions in accordance with international accounting requirements (IAS 24). With regard to the Sparkassen- und Giroverband Hessen-Thüringen, the Federal State of Hesse and the Free State of Thuringia in their capacity as shareholders and owners, the criteria for exemption from reporting on related parties that are public-sector entities are satisfied; this option is always utilised if the business volumes involved are insignificant. The following information relates to the transactions with affiliated companies, associates and equity investments in joint ventures of the Helaba Group, the SGVHT and the Federal State of Hesse and the Free State of Thuringia in their capacity as shareholders, as well as subsidiaries of the SGVHT. The information relating to the persons in key positions at Helaba as defined in accordance with section 285 no. 21 of the HGB, including their close family relations as well as companies controlled by these persons, is also included in the following table.

The Helaba Group had the following receivables from, liabilities due to and off-balance sheet commitments to related parties as at 31 December 2016:

in € m

	Affiliated companies	Investments in joint ventures and associates	Shareholders of Helaba	Other related parties	Total
Assets	**5,021**	**652**	**2,682**	**–**	**8,355**
Loans and advances to banks	1,178	3	–	–	**1,181**
Loans and advances to customers	1,007	645	1,458	–	**3,110**
Bonds and other fixed-income securities	–	–	130	–	**130**
Equity shares and other variable-income securities	1,025	–	–	–	**1,025**
Trading assets	7	3	1,094	–	**1,104**
Equity investments	22	–	–	–	**22**
Shares in affiliated companies	1,752	–	–	–	**1,752**
Other assets	30	1	–	–	**31**
Liabilities	**6,069**	**330**	**2,042**	**4**	**8,445**
Liabilities due to banks	4,694	–	142	–	**4,836**
Liabilities due to customers	832	293	1,681	4	**2,810**
Trading liabilities	3	–	79	–	**82**
Other liabilities	540	37	140	–	**717**
Contingent liabilities	**33**	**84**	**49**	**–**	**166**

The equivalent amounts as at 31 December 2015 were as follows:

in € m

	Affiliated companies	Investments in joint ventures and associates	Shareholders of Helaba[1]	Other related parties	Total
Assets	**5,709**	**932**	**1,910**	**–**	**8,551**
Loans and advances to banks	1,606	3	–	–	**1,609**
Loans and advances to customers	803	852	1,116	–	**2,771**
Bonds and other fixed-income securities	–	–	334	–	**334**
Equity shares and other variable-income securities	1,302	–	–	–	**1,302**
Trading assets	4	9	460	–	**473**
Equity investments	–	68	–	–	**68**
Shares in affiliated companies	1,749	–	–	–	**1,749**
Other assets	245	–	–	–	**245**
Liabilities	**5,905**	**88**	**1,717**	**4**	**7,714**
Liabilities due to banks	4,575	–	189	–	**4,764**
Liabilities due to customers	798	62	1,303	4	**2,167**
Trading liabilities	2	–	125	–	**127**
Other liabilities	530	26	100	–	**656**
Contingent liabilities	**19**	**4**	**22**	**–**	**45**

1) Prior-year figures adjusted for a portion of the customer relationships attributable to the State of Hesse.

Allowances of € 41 m (31 December 2015: € 12 m) were recognised on receivables from subsidiaries and joint ventures. Receivables from other related parties comprise loans of € 0 m to members of the Board of Managing Directors (31 December 2015: € 0.1 m) and loans of € 0.5 m to members of the Supervisory Board (31 December 2015: € 0.3 m).

The total remuneration paid by the Bank to the Board of Managing Directors amounted to € 4.7 m (2015: € 4.9 m). A total of € 0.9 m (2015: € 0.9 m) was paid to the Supervisory Board and, as in the previous year, € 0.1 m was paid to the members of the Advisory Board. In addition, a total of € 2.5 m (2015: € 2.5 m) was paid to the members of the Supervisory Board as employees. An amount of € 3.1 m was paid to former members of the Board of Managing Directors and their surviving dependants (2015: € 3.0 m). Provisions of € 53.7 m were recognised for pension obligations for this group of persons (2015: € 55.5 m).

(46) Average Number of Employees During the Year

	Female		Male		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Bank	1,139	1,175	1,566	1,604	2,705	2,779
WIBank – Wirtschafts- und Infrastrukturbank Hessen	234	237	169	174	403	411
Landesbausparkasse	163	168	113	119	275	287
Bank as a whole	**1,536**	**1,580**	**1,847**	**1,896**	**3,383**	**3,476**

(47) Executive Bodies of the Bank

Supervisory Board

Gerhard Grandke
Executive President
Sparkassen- und Giroverband
Hessen-Thüringen
Frankfurt am Main/Erfurt
– Chairman –

Dr. Werner Henning
Chief Administrative Officer
County District of Eichsfeld
Heiligenstadt
– First Vice-Chairman –

Dr. Thomas Schäfer
Minister of State
Ministry of Finance of the
State of Hesse
Wiesbaden
– Second Vice-Chairman –

Alexander Wüerst
Chairman of the Board
of Managing Directors
Kreissparkasse KölnCologne
– since 18 April 2016 –
– Third Vice-Chairman
since 27 June 2016 –

Andreas Bausewein
Mayor
City of Erfurt
Erfurt

Dr. Annette Beller
Member of the Management Board
B. Braun Melsungen AG
Melsungen

Ingo Buchholz
Chairman of the Board
of Managing Directors
Kasseler Sparkasse
Kassel

Patrick Burghardt
Mayor
City of Rüsselsheim
Rüsselsheim

Georg Fahrenschon
President
Deutscher Sparkassen- und
Giroverband e. V.
Berlin

Stefan Hastrich
Chairman of the Board
of Managing Directors
Kreissparkasse Weilburg
Weilburg
– since 23 November 2016 –

Ulrich Heilmann
Chairman of the Board
of Managing Directors
Kyffhäusersparkasse
Artern-Sondershausen
Sondershausen
– until 31 August 2016 –

Bertram Hilgen
Mayor
City of Kassel
Kassel

Günter Högner
Chairman of the Board
of Managing Directors
Nassauische Sparkasse
Wiesbaden
– since 11 March 2016 –

Dr. Christoph Krämer
Chairman of the Board
of Managing Directors
Sparkasse Iserlohn
Iserlohn

Manfred Michel
Chief Administrative Officer
Country District of Limburg-Weilburg
Limburg an der Lahn

Frank Nickel
Chairman of the Board
of Managing Directors
Sparkasse Werra-Meißner
Eschwege

Clemens Reif
Member of the State Parliament
of Hesse
Wiesbaden

Thorsten Schäfer-Gümbel
Member of the State Parliament
of Hesse
Wiesbaden

Helmut Schmidt
Chairman of the Board
of Managing Directors
Kreissparkasse Saale-Orla
Schleiz
– since 11 March 2016 –

Uwe Schmidt
Chief Administrative Officer
County District of Kassel
Kassel

Dr. Hartmut Schubert
Secretary of State
Ministry of Finance of
the State of Thuringia
Erfurt

Wolfgang Schuster
Chief Administrative Officer
County District of Lahn-Dill
Wetzlar

Dr. Eric Tjarks
Chairman of the Board
of Managing Directors
Sparkasse Bensheim
Bensheim

Arnd Zinnhardt
Member of the Group
Executive Board
Software AG
Darmstadt

Ulrich Zinn
Chairman of the Board
of Managing Directors
Sparkasse Grünberg
Grünberg
– until 31 March 2016 –

Employee representatives

Thorsten Derlitzki
Bank employee
Frankfurt am Main
– Fourth Vice-Chairman –

Frank Beck
Vice President
Frankfurt am Main

Brigitte Berle
Bank employee
Frankfurt am Main
– until 31 May 2016 –

Werner Dölitzscher
Vice President
Frankfurt am Main
– until 30 September 2016 –

Gabriele Fuchs
Bank employee
Frankfurt am Main

Anke Glombik
Vice President
Erfurt
– since 1 October 2016 –

Thorsten Kiwitz
Vice President
Frankfurt am Main

Christiane Kutil-Bleibaum
Vice President
Düsseldorf

Annette Langner
Vice President
Frankfurt am Main

Susanne Noll
Bank employee
Frankfurt am Main

Hans Peschka
Vice President
Frankfurt am Main
– until 30 June 2016 –

Jürgen Pilgenröther
Bank employee
Frankfurt am Main
– since 1 June 2016 –

Birgit Sahliger-Rasper
Bank employee
Frankfurt am Main

Susanne Schmiedebach
Vice President
Düsseldorf

Thomas Sittner
Bank employee
Frankfurt am Main
– since 1 July 2016 –

Members of the Board of Managing Directors

Herbert Hans Grüntker
– Chairman –

Thomas Groß
– Vice-Chairman –

Jürgen Fenk
Dr. Detlef Hosemann

Rainer Krick
– until 31 July 2016 –

Klaus-Jörg Mulfinger

Dr. Norbert Schraad

(48) List of Shareholdings

List of shareholdings in accordance with section 285 no. 11 and section 340a (4) no. 2 of the HGB

No.	Name and location of the entity	Holding in % as per section 16 (4) AktG Total	Thereof directly	Voting rights if different from holding Total	Equity in € m	Net profit in € thousands	
1	1822direkt Gesellschaft der Frankfurter Sparkasse mbH, Frankfurt am Main	100.00	0.00		7.1	0	1)
2	AARON Grundstücksverwaltungsgesellschaft mbH i.L., Oberursel	50.00	50.00		-2.3	2	
3	Airport Office One GmbH & Co. KG, Schönefeld	100.00	0.00		0.0	-5	
4	Arealogics GmbH, Frankfurt am Main	100.00	0.00		0.0	1	
5	BGT-Grundstücksverwaltungs- und Beteiligungs-gesellschaft mbH, Frankfurt am Main	100.00	100.00		0.0	0	1)
6	BHT Baugrund Hessen-Thüringen Gesellschaft für Baulandbeschaffung, Erschließung und Kommunalbau mbH & Co. Objekt Bauhof Maintal KG, Frankfurt am Main	50.00	50.00	66.67	0.9	78	
7	BHT Baugrund Hessen-Thüringen GmbH, Kassel	100.00	0.00		0.0	0	1)
8	BHT-Baugrund Hessen-Thüringen Gesellschaft für Baulandbeschaffung, Erschließung und Kommunalbau mbH & Co. Objekt FBM Freizeitbad Mühlhausen KG, Frankfurt am Main	100.00	100.00		4.6	788	
9	BHT-Baugrund Hessen-Thüringen Gesellschaft für Baulandbeschaffung, Erschließung und Kommunalbau mbH & Co. Objekt GZH Gemeindezentrum Hünstetten KG, Frankfurt am Main	100.00	100.00		1.3	164	
10	BHT-Baugrund Hessen-Thüringen Gesellschaft für Baulandbeschaffung, Erschließung und Kommunalbau mbH & Co. Objekt MGK Marstall-Gebäude Kassel KG, Kassel	50.00	50.00	66.67	0.5	58	
11	BHT-Baugrund Hessen-Thüringen Gesellschaft für Baulandbeschaffung, Erschließung und Kommunalbau mbH & Co. Objekt Sparkassenfiliale Seeheim-Jugenheim KG, Frankfurt am Main	100.00	100.00		1.9	220	
12	BHT-Baugrund Hessen-Thüringen Gesellschaft für Baulandbeschaffung, Erschließung und Kommunalbau mbH & Co. Objekt TFK II Tiefgarage Kassel 2. BA KG, Kassel	33.33	33.33	66.67	1.9	231	
13	BIL Leasing GmbH & Co. Objekt Verwaltungsgebäude Halle KGi. L., München	100.00	0.00	0.21	0.0	36	
14	BM H Beteiligungs-Managementgesellschaft Hessen mbH, Wiesbaden	100.00	100.00		1.4	535	
15	Bürgschaftsbank Hessen GmbH, Wiesbaden	21.03	21.03		18.2	930	
16	Bürgschaftsbank Thüringen GmbH, Erfurt	31.50	31.50		24.6	1,208	
17	Bürogebäude Darmstädter Landstraße GmbH & Co. KG, Frankfurt am Main	100.00	100.00		0.2	-2	
18	BWT Beteiligungsgesellschaft für den Wirtschaftsaufbau Thüringens mbH, Frankfurt am Main	100.00	100.00		5.2	3	
19	Comtesse BTH Limited, London, Vereinigtes Königreich	2.66	2.66	25.10	13.0	-2,128	
20	CP Campus Projekte GmbH, Frankfurt am Main	50.00	0.00		0.2	-138	
21	DKB Wohnimmobilien Beteiligungs GmbH & Co. KG, Potsdam	94.89	0.00		36.7	1,470	
22	Dritte OFB Friedrichstraße GmbH & Co. KG, Frankfurt am Main	100.00	0.00		n.a.	n.a.	

		Holding in % as per section 16 (4) AktG		Voting rights if different from holding	Equity	Net profit	
No.	Name and location of the entity	Total	Thereof directly	Total	in € m	in € thousands	
23	Dritte OFB PE GmbH & Co. KG, Frankfurt am Main	100.00	0.00		0.0	-53	
24	Einkaufszentrum Wittenberg GmbH, Leipzig	50.00	0.00		-0.8	–110	
25	Erste ILZ Leipzig GmbH & Co. KG, Frankfurt am Main	100.00	0.00		–0.1	–40	
26	Erste OFB Friedrichstraße GmbH & Co. KG, Frankfurt am Main	100.00	0.00		n.a.	n.a.	
27	Erste Veritas Frankfurt GmbH & Co. KG, Frankfurt am Main	100.00	0.00		70.4	28	
28	FAM-Grundstücksverwaltungs- und Beteiligungsgesellschaft mbH, Frankfurt am Main	100.00	100.00		0.2	5	
29	FinTecH Community Frankfurt GmbH, Frankfurt am Main	50.00	50.00		n.a.	n.a.	
30	FMZ Fulda Verwaltung GmbH, Frankfurt am Main	100.00	0.00		0.0	0	
31	Frankfurter Bankgesellschaft (Deutschland) AG, Frankfurt am Main	100.00	0.00		10.8	647	
32	Frankfurter Bankgesellschaft (Schweiz) AG, Zürich, Schweiz	100.00	100.00		117.7	3,463	
33	Frankfurter Sparkasse, Frankfurt am Main	100.00	100.00		833.2	52,500	
34	FRAWO Frankfurter Wohnungs- und Siedlungs-Gesellschaft mbH, Frankfurt am Main	100.00	0.00		0.2	0	1)
35	G & O Alpha Hotelentwicklung GmbH, Frankfurt am Main	50.00	0.00		0.1	–2	
36	G & O Alpha Projektentwicklungs-GmbH & Co. KG, Frankfurt am Main	50.00	0.00		0.2	–17	
37	G & O Alpha Verwaltungsgesellschaft mbH, Frankfurt am Main	50.00	0.00		0.1	5	
38	G & O Baufeld Alpha 2. BA GmbH & Co. KG, Frankfurt am Main	50.00	0.00		0.1	1,213	
39	G & O Gateway Gardens Dritte GmbH & Co. KG, Frankfurt am Main	50.00	0.00		0.0	–2	
40	G & O Gateway Gardens Erste GmbH & Co. KG, Frankfurt am Main	50.00	0.00		0.3	1,324	
41	G & O Verwaltungsgesellschaft mbH, Frankfurt am Main	50.00	0.00		0.0	1	
42	G&O MK 15 Bauherren GmbH & Co. KG, Frankfurt am Main	50.00	0.00		0.0	–4	
43	G+S Wohnen in Frankfurt am Main GmbH, Frankfurt am Main	100.00	0.00		23.4	0	1)
44	Galerie Lippe GmbH & Co. KG10), Frankfurt am Main	78.00	0.00		–0.7	–950	
45	gatelands Projektentwicklung GmbH & Co. KG, Schönefeld	75.00	0.00		–0.9	–42	
46	gatelands Verwaltungs GmbH, Schönefeld	75.00	0.00		0.0	2	
47	GGM Gesellschaft für Gebäude-Management mbH, Erfurt	100.00	0.00		0.3	0	1)
48	GHT Gesellschaft für Projektmanagement Hessen-Thüringen mbH, Frankfurt am Main	100.00	0.00		0.3	0	1)
49	GIMPRO Beteiligungs- und Geschäftsführungsgesellschaft mbH, Frankfurt am Main	100.00	0.00		0.2	3	
50	GIZS GmbH & Co. KG, Frankfurt am Main	33.33	33.33		18.3	–6,684	
51	GIZS Verwaltungs-GmbH, Frankfurt am Main	33.33	33.33		0.0	–10	
52	GOB Dritte E & A Grundbesitz GmbH, Frankfurt am Main	47.00	0.00		–3.2	–276	
53	GOB Projektentwicklung E & A GmbH & Co. Siebte Rhein-Main KG, Frankfurt am Main	8.84	0.00		15.7	61	
54	GOB Projektentwicklung Fünfte GmbH & Co. KG, Frankfurt am Main	8.84	0.00		n.a.	n.a.	

No.	Name and location of the entity	Holding in % as per section 16 (4) AktG Total	Thereof directly	Voting rights if different from holding Total	Equity in € m	Net profit in € thousands	
55	GOB Projektentwicklungsgesellschaft E & A mbH, Frankfurt am Main	50.00	0.00		0.0	1	
56	Grundstücksgesellschaft Gateway Gardens GmbH, Frankfurt am Main	33.33	0.00		5.6	–949	
57	Grundstücksgesellschaft Limes-Haus Schwalbach II GbR, Frankfurt am Main	100.00	0.00		0.1	43	
58	Grundstücksverwaltungsgesellschaft Kaiserlei GmbH & Co. Projektentwicklung Epinayplatz KG, Frankfurt am Main	100.00	0.00		–0.3	–86	
59	Grundstücksverwaltungsgesellschaft Kaiserlei GmbH, Frankfurt am Main	100.00	0.00		0.0	–15	
60	GSG Siedlungsgesellschaft für Wohnungs- und Städtebau mbH, Frankfurt am Main	100.00	5.10		71.5	5,225	
61	GWH Immobilien Holding GmbH, Frankfurt am Main	100.00	100.00		949.9	0	1)
62	GWH Wohnungsgesellschaft mbH Hessen, Frankfurt am Main	100.00	0.00		363.9	37,315	
63	GWH Bauprojekte GmbH, Frankfurt am Main	100.00	0.00		13.6	0	1)
64	HaemoSys GmbH, Jena	38.33	0.00		–4.8	–524	
65	Hafenbogen GmbH & Co. KG, Frankfurt am Main	100.00	100.00		0.1	–1,529	
66	HANNOVER LEASING GmbH & Co. KG, Pullach	49.34	49.34		13.5	–6,932	
67	HANNOVER LEASING Life Invest Deutschland I GmbH & Co. KG, Pullach		0.00		0.0	–217	
68	HANNOVER LEASING Life Invest Deutschland II GmbH & Co. KG, Pullach		0.00		0.0	–217	
69	HANNOVER LEASING Verwaltungsgesellschaft mbH, Pullach	49.34	49.34		0.1	2	
70	Haus am Brüsseler Platz GmbH & Co. KG, Frankfurt am Main	100.00	0.00		0.0	–81	
71	Haus am Zentralen Platz GmbH & Co. KG, Frankfurt am Main	100.00	100.00		7.0	677	
72	Helaba Asset Services, Dublin, Irland	100.00	100.00		54.6	591	
73	Helaba Gesellschaft für Immobilienbewertung mbH, Frankfurt am Main	100.00	100.00		0.2	0	
74	Helaba Invest Kapitalanlagegesellschaft mbH, Frankfurt am Main	100.00	100.00		13.0	0	1)
75	Helaba Projektbeteiligungsgesellschaft für Immobilien mbH, Frankfurt am Main	100.00	100.00		3.0	0	
76	Helaba Representação Ltda., São Paulo, Brasilien	100.00	99.00		n.a.	n.a.	
77	Helaba-Assekuranz-Vermittlungsgesellschaft mbH, Frankfurt am Main	50.00	50.00		0.7	367	
78	Helicon Verwaltungsgesellschaft mbH & Co. Immobilien KG, Pullach	5.92	0.00		–131.3	4,603	
79	Hello Darmstadt Projektentwicklung GmbH & Co. KG, Frankfurt am Main	100.00	0.00		0.0	–73	
80	Hessen Kapital I GmbH, Wiesbaden	100.00	100.00		34.1	–436	
81	Hessen Kapital II GmbH, Wiesbaden	100.00	100.00		6.6	369	
82	Hessische Landgesellschaft mbH Staatliche Treuhandstelle für ländliche Bodenordnung, Kassel	37.11	37.11		65.0	3,484	
83	HeWiPPP II GmbH & Co. KG, Frankfurt am Main	100.00	0.00		2.5	48	
84	Horrido-Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs OHG, Frankfurt am Main	100.00	100.00		–6.1	1,657	
85	Horus AWG GmbH, Pöcking	50.00	0.00		–0.1	–114	
86	HTB Grundstücksverwaltungsgesellschaft mbH, Frankfurt am Main	100.00	100.00		0.1	9	

No.	Name and location of the entity	Holding in % as per section 16 (4) AktG Total	Thereof directly	Voting rights if different from holding Total	Equity in € m	Net profit in € thousands	
87	Innovationsfonds Hessen-Verwaltungsgesellschaft mbH i.L., Frankfurt am Main	100.00	100.00		0.1	0	
88	Kalypso Projekt GmbH & Co. KG, Frankfurt am Main	100.00	0.00		0.0	–7	
89	KHR Hessengrund-Gesellschaft für Baulandbeschaffung, Erschließung und Kommunalbau mbH & Co. Objekt Kulturhalle Rödermark KG, Frankfurt am Main	50.00	50.00	66.67	3.2	437	
90	Komplementarselskabet Logistica CPH ApS, Kastrup, Dänemark	52.00	52.00		0.0	–3	
91	Königstor Verwaltungs-GmbH, Kassel	100.00	0.00		0.0	0	
92	Kornmarkt Arkaden Dritte GmbH & Co. KG, Frankfurt am Main	100.00	0.00		0.0	–43	
93	Kornmarkt Arkaden Erste GmbH & Co. KG, Frankfurt am Main	100.00	0.00		–2.5	–512	
94	Kornmarkt Arkaden Verwaltung GmbH, Frankfurt am Main	100.00	0.00		0.0	2	
95	Kornmarkt Arkaden Vierte GmbH & Co. KG, Frankfurt am Main	100.00	0.00		–0.1	–60	
96	Kornmarkt Arkaden Zweite GmbH & Co. KG, Frankfurt am Main	100.00	0.00		–0.5	–277	
97	LB(Swiss) Investment AG, Zürich, Schweiz	100.00	0.00		11.3	1,552	
98	LBS Immobilien GmbH, Frankfurt am Main	100.00	100.00		0.6	39	
99	LHT MSIP, LLC, Wilmington, USA	100.00	0.00		6.2	382	
100	LHT Power Three LLC, Wilmington, USA	100.00	100.00		50.8	2,595	
101	LHT TCW, LLC, Wilmington, USA	100.00	0.00		24.1	1,461	
102	LHT TPF II, LLC, Wilmington, USA	100.00	0.00		22.2	544	
103	Liparit Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Benary Vermietungs KG, Mainz	21.62	0.00		5.6	1,559	
104	Logistica CPH K/S, Kastrup, Dänemark	53.33	53.33		–0.9	–715	
105	Logistikzentrum Rodgau GmbH, Schönefeld	25.00	0.00		–0.9	–149	
106	Marienbader Platz Projektentwicklungsgesellschaft mbH & Co. Bad Homburg v.d.H. KG, Frankfurt am Main	50.00	0.00		0.4	5	
107	Marienbader Platz Projektentwicklungsgesellschaft mbH, Frankfurt am Main	50.00	0.00		0.1	2	
108	MAVEST Vertriebsgesellschaft mbH, Frankfurt am Main	100.00	0.00		0.0	0	1)
109	MAVEST Wohnungsbaugesellschaft mbH, Frankfurt am Main	99.99	0.00		6.8	1,122	
110	MBG H Mittelständische Beteiligungsgesellschaft Hessen mbH, Wiesbaden	32.52	32.52		10.0	131	
111	Merian GmbHWohnungsunternehmen, Frankfurt am Main	94.90	0.00		22.0	1,325	
112	Mittelhessenfonds GmbH, Wiesbaden	100.00	100.00		–2.5	54	
113	Mittelständische Beteiligungsgesellschaft Thüringen mbH, Erfurt	38.56	38.56		22.5	997	
114	Montindu S.A./N.V., Brüssel, Belgien	100.00	99.97		14.9	202	
115	MS „EAGLE STRAIT“ GmbH & Co. KG, Hamburg		0.00		0.0	–3,678	
116	MS „ESSEX STRAIT“ GmbH & Co. KG, Hamburg		0.00		0.0	–4,180	
117	Multi Park Mönchhof Dritte GmbH & Co. KG, Neu-Isenburg	50.00	0.00		0.7	1,658	
118	Multi Park Mönchhof GmbH & Co. KG, Neu-Isenburg	50.00	0.00		0.0	–9	

		Holding in % as per section 16 (4) AktG		Voting rights if different from holding	Equity	Net profit	
No.	Name and location of the entity	Total	Thereof directly	Total	in € m	in € thousands	
119	Multi Park Mönchhof Main GmbH & Co. KG, Neu-Isenburg	50.00	0.00		0.0	–63	
120	Multi Park Verwaltungs GmbH, Neu-Isenburg	50.00	0.00		0.0	–1	
121	Neunte P 1 Projektgesellschaft mbH & Co. KG, Frankfurt am Main	100.00	0.00		0.1	57	
122	Nötzli, Mai & Partner Family Office AG, Zürich, Schweiz	100.00	0.00		0.3	–39	
123	OFB & Procom Objekt Neu-Ulm GmbH & Co. KG, Neu-Ulm	50.00	0.00		–2.4	–1,647	
124	OFB & Procom Rüdesheim GmbH & Co. KG, Frankfurt am Main	50.00	0.00		–0.1	–114	
125	OFB Berlin Projekt GmbH, Berlin	100.00	0.00		0.0	1	
126	OFB Beteiligungen GmbH, Frankfurt am Main	100.00	0.00		5.8	227	
127	OFB Projektentwicklung GmbH, Frankfurt am Main	100.00	100.00		1.1	0	1)
128	OFB Projektverwaltung GmbH, Frankfurt am Main	100.00	0.00		0.0	–3	
129	Office One Verwaltung GmbH, Schönefeld	100.00	0.00		0.0	1	
130	Procom & OFB Projektentwicklung GmbH, Hamburg	50.00	0.00		0.0	–1	
131	Projekt Erfurt B38 GmbH & Co. KG, Frankfurt am Main	100.00	0.00		0.0	–1	
132	Projekt Feuerbachstraße Verwaltung GmbH, Frankfurt am Main	70.00	0.00		0.0	1	
133	Projekt Hirschgarten MK8 GmbH & Co. KG, Frankfurt am Main	100.00	0.00		–0.4	–252	
134	Projekt Wilhelmstraße Wiesbaden GmbH & Co. KG, Frankfurt am Main	30.00	0.00		–1.2	–220	
135	Projekt Wilhelmstraße Wiesbaden Verwaltung GmbH, Frankfurt am Main	30.00	0.00		n.a.	n.a.	
136	Projektentwicklung Königstor GmbH & Co. KG, Kassel	100.00	0.00		0.3	535	
137	Projektentwicklung Lutherplatz GmbH & Co. KG, Frankfurt am Main	100.00	0.00		–1.1	–1,112	
138	Projektentwicklung Neuwerkstraße 17 GmbH & Co. KG, Frankfurt am Main	100.00	0.00		n.a.	n.a.	
139	Projektgesellschaft ILP Erfurter Kreuz mbH & Co. KG, Frankfurt am Main	100.00	0.00		0.0	–2	
140	PVG GmbH, Frankfurt am Main	100.00	100.00		0.2	0	1)
141	Riedemannweg 59–60 GbR, Berlin	32.00	32.00		–4.0	198	
142	Rotunde - Besitz- und Betriebsgesellschaft der S-Finanzgruppe bR, Erfurt	60.00	60.00	33.00	0.6	48	
143	S-Beteiligungsgesellschaft Hessen-Thüringen mbH, Frankfurt am Main	100.00	100.00		6.2	129	
144	SKYGARDEN Arnulfpark Verwaltungs GmbH, Grünwald	50.00	0.00		0.0	0	
145	sono west Projektentwicklung GmbH & Co. KG, Frankfurt am Main	70.00	0.00		9.4	–549	
146	Sparkassen-Marktservice Beteiligungs GmbH & Co. KG, Frankfurt am Main	50.00	40.00		7.9	–8	
147	Sparkassen-Marktservice Verwaltungs GmbH, Frankfurt am Main	50.00	40.00		0.0	–3	
148	SQO Stadt Quartier Offenburg GmbH & Co. KG, Frankfurt am Main	100.00	0.00		–0.1	–70	
149	Stresemannquartier GmbH & Co. KG, Berlin	50.00	0.00		4.5	–605	
150	Systeno GmbH, Frankfurt am Main	100.00	0.00		0.9	–93	
151	TE Beta GmbH, Frankfurt am Main	100.00	100.00		0.4	94	
152	TE Gamma GmbH, Frankfurt am Main	100.00	100.00		0.0	8	

No.	Name and location of the entity	Holding in % as per section 16 (4) AktG Total	Thereof directly	Voting rights if different from holding Total	Equity in € m	Net profit in € thousands	
153	TE Kronos GmbH, Frankfurt am Main	100.00	100.00		1.7	1,615	
154	TF H III Technologiefonds Hessen Gesellschaft mit beschränkter Haftung, Wiesbaden	25.00	25.00		n.a.	n.a.	
155	TF H Technologie-Finanzierungsfonds Hessen Gesellschaft mit beschränkter Haftung (TF H GmbH) i. L., Frankfurt am Main	66.67	66.67	66.66	0.7	7	
156	TFK Hessengrund-Gesellschaft für Baulandbeschaffung, Erschließung und Kommunalbau mbH & Co. Objekt Tiefgarage Friedrichsplatz Kassel KG i.L., Kassel	33.33	33.33	66.67	1.5	–1	
157	uniQus Projektentwicklung GmbH & Co. KG, Frankfurt am Main	100.00	0.00		0.0	–693	
158	Unterstützungseinrichtung der Landesbank Hessen-Thüringen GmbH, Frankfurt am Main	100.00	100.00		0.0	0	
159	Versicherungsservice der Frankfurter Sparkasse GmbH, Frankfurt am Main	100.00	0.00		0.3	0	1)
160	Verso Grundstücksentwicklung GmbH & Co. KG, Frankfurt am Main	100.00	0.00		–0.2	–263	
161	Verso Projektentwicklung GmbH & Co. KG, Frankfurt am Main	100.00	0.00		1.0	960	
162	Vierte Airport Bureau-Center KG Airport Bureau Verwaltungs GmbH & Co., Berlin	31.98	31.98		–3.2	–33	
163	Vierte OFB Friedrichstraße GmbH & Co. KG, Frankfurt am Main	100.00	0.00		n.a.	n.a.	
164	Vierte OFB PE GmbH & Co. KG, Frankfurt am Main	100.00	0.00		n.a.	n.a.	
165	Westhafen Haus GmbH & Co. Projektentwicklungs-KG, Frankfurt am Main	50.00	0.00		–0.2	0	
166	WoWi Media GmbH & Co. KG, Hamburg	23.72	0.00	19.24	2.8	16	
167	Zweite ILZ Leipzig GmbH & Co. KG, Frankfurt am Main	100.00	0.00		0.0	–11	
168	Zweite OFB Friedrichstraße GmbH & Co. KG, Frankfurt am Main	100.00	0.00		n.a.	n.a.	
169	Zweite OFB PE GmbH & Co. KG, Frankfurt am Main	100.00	0.00		0.1	33	

Interests in large corporations larger than a 5 % holding

No.	Name and location of the entity	Holding in % as per section 16 (4) AktG Total	Thereof directly	Voting rights if different from holding Total	Equity in € m	Net profit in € thousands	
170	Deutscher Sparkassen Verlag Gesellschaft mit beschränkter Haftung, Stuttgart	5.41	5.41		141.0	13,719	

1) A profit and loss transfer agreement has been signed with the entity.
n.a.: There are no adopted annual financial statements.

(49) List of Positions on Supervisory Bodies in Accordance with Section 340a (4) No. 1 of the HGB

Positions held by the members of the Board of Managing Directors

Office holder	Corporation	Function
Herbert Hans Grüntker	Frankfurter Bankgesellschaft (Schweiz) AG, Zurich, Switzerland	Member
	GWH Immobilien Holding GmbH, Frankfurt am Main	Member
	Helaba Invest Kapitalanlagegesellschaft mbH, Frankfurt am Main	Chairman
Jürgen Fenk	Frankfurter Sparkasse, Frankfurt am Main	First Vice-Chairman
	GWH Immobilien Holding GmbH, Frankfurt am Main	Chairman
Thomas Groß	Deutscher Sparkassen Verlag GmbH, Stuttgart	Member
	Frankfurter Bankgesellschaft (Schweiz) AG, Zurich, Switzerland	President
	Frankfurter Sparkasse, Frankfurt am Main	Member
Dr. Detlef Hosemann	Deutsche WertpapierService Bank AG, Frankfurt am Main	Member
	Frankfurter Sparkasse, Frankfurt am Main	Chairman
	GWH Immobilien Holding GmbH, Frankfurt am Main	Vice-Chairman
Klaus-Jörg Mulfinger	Frankfurter Sparkasse, Frankfurt am Main	Member
	Helaba Invest Kapitalanlagegesellschaft mbH, Frankfurt am Main	Vice-Chairman
	Thüringer Aufbaubank, Erfurt	Member

Positions held by other employees

Office holder	Corporation	Function
Jörg Hartmann	AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main	Member
Dieter Kasten	GWH Immobilien Holding GmbH, Frankfurt am Main	Member
Dirk Mewesen	Helaba Asset Services, Dublin, Ireland	Member
Dr. Ulrich Pähler	Helaba Asset Services, Dublin, Ireland	Vice-Chairman
Dr. Michael Reckhard	Bürgschaftsbank Hessen GmbH, Wiesbaden	Member
Klaus Georg Schmidbauer	Bürgschaftsbank Thüringen GmbH, Erfurt	Member
André Stolz	Nassauische Sparkasse, Wiesbaden	Member

(50) Report on Events After the Reporting Date

There were no significant events after the end of the financial year on 31 December 2016.

Frankfurt am Main/Erfurt, 28 February 2017

Landesbank Hessen-Thüringen Girozentrale

The Board of Managing Directors

Grüntker Groß Fenk

Dr. Hosemann Mulfinger Dr. Schraad

Responsibility Statement

"To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and results of operations of Landesbank Hessen-Thüringen Girozentrale, and the management report includes a fair review of the development and performance of the business and the position of the Bank, together with a description of the material opportunities and risks associated with the expected development of Landesbank Hessen-Thüringen Girozentrale."

Frankfurt am Main/Erfurt, 28 February 2017

Landesbank Hessen-Thüringen Girozentrale

The Board of Managing Directors

Grüntker	Groß	Fenk
Dr. Hosemann	Mulfinger	Dr. Schraad

Auditor’s Report

“We have audited the annual financial statements, consisting of the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of Landesbank Hessen-Thüringen Girozentrale, Frankfurt am Main/Erfurt, for the financial year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the Articles of Association are the responsibility of the Board of Managing Directors of Landesbank Hessen-Thüringen Girozentrale. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 of the German Commercial Code (Handelsgesetzbuch – HGB) and the German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in conformity with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Managing Directors of Landesbank Hessen-Thüringen Girozentrale as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and the supplementary provisions contained in the Articles of Association and give a true and fair view of the net assets, financial position and results of operations of Landesbank Hessen-Thüringen Girozentrale in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements, complies with the legal requirements and as a whole provides a suitable view of the Company’s position and suitably presents the opportunities and risks of future development.”

Frankfurt am Main, 28 February 2017

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes	Peter Flick
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Management Report of
Landesbausparkasse Hessen-Thüringen

Management Report of Landesbausparkasse Hessen-Thüringen

I. Basic Information

Legal and Organisational Structure

Landesbausparkasse Hessen-Thüringen (LBS) is a legally dependent unit of Helaba that prepares financial statements on an independent basis. It forms part of Helaba's S-Group business segment along with the other S-Group activities.

LBS has a Bausparkasse Advisory Board created in accordance with the Principles for the Landesbausparkasse Hessen-Thüringen. This board, which consists of representatives of the Sparkassen in Hesse and Thuringia, is intended to promote co-operation between the Bausparkasse and the Sparkassen- und Giroverband Hessen-Thüringen and the Sparkassen in the operating territory.

Business Model

The LBS business model envisages the organisation as a regional provider of financial services in the real estate sphere. Its mission under the model, which acknowledges the status of LBS as an integral part of Helaba and of the S-Finanzgruppe, includes the delivery of demand-oriented support for customers in the areas of home loans and savings, finance, real estate and provision for old age.

Objectives and Strategies

Competition in the home finance market is intense. Direct banks, internet providers and Kreditanstalt für Wiederaufbau (KfW) are increasingly making their presence felt and there is consequently growing pressure on terms. LBS pursues a sales strategy fashioned around the Sparkasse organisation's deep roots in the region. Joint business with the Sparkassen, a business area of great strategic significance for LBS, is crucial in enabling it to make the most of the customer potential of the Sparkassen.

The strategy applied by LBS has at its heart a consistent focus – across all activities – on growing earning power sustainably while maintaining the conservative risk profile, which is vital if the organisation is to maintain its competitive edge. Risks are assumed with the objective of generating a reasonable and sustainable return bearing in mind the risk-bearing capacity.

LBS, in common with the whole of the Bausparkasse sector, has been feeling the impact of the recent phase of low and negative interest rates particularly keenly and consequently implemented a feasibility study in 2016 to investigate what potential exists for improving its financial performance. The possibility of splitting the legally dependent Bausparkasse off from the Helaba organisation was also examined. One interim finding of the study is that the financial improvement measures to optimise workflows and reduce the general and administrative expenses of LBS Hessen-Thüringen must take priority. Associated activities include the outsourcing of business processes to Sparkassen-Finanzgruppe service providers, to another LBS company or within the Helaba Group. LBS itself will remain a legally dependent Bausparkasse within Helaba. The possibility of concentrating LBS operations at two sites (production site and staff site) is being investigated as part of the same process.

Management System

The internal management system reflects LBS's consistent focus on generating a reasonable and sustainable return while maintaining its conservative risk profile. The management variables applied in respect of operating business development are net interest income, net fee and commission income and general and administrative expenses, which together largely determine the operating result before taxes, and gross new business. LBS also makes use, in its planning, monitoring and oversight of business operations, of value-oriented indicators such as the cost-income ratio (which expresses general and administrative expenses as a percentage of the sum of net interest income, net fee and commission income and the balance of other ordinary income/expenses), the interest rate risk coefficient for the interest rate risk and the liquidity ratios in accordance with the German Liquidity Regulation (Liquiditätsverordnung – LiqV) and the Capital Requirements Regulation (CRR).

II. Report on Economic Position

Economic Development

The German economy experienced consistent robust growth in 2016. Initial calculations point to a real-terms increase in economic output of 1.9 % over the period. Private and public-sector spending, which rose by 2.5 %, contributed much of the economic impetus in Germany just as in the previous year. Private consumer spending grew in a climate of very low interest rates, expectations of improved incomes and significant adjustments to pensions. Spending on public-sector consumption also increased due to high levels of immigration and the resulting costs for the required provision of healthcare and education services. A real-terms increase of 3.1 % in investment in construction delivered a further meaningful boost to growth.

The number of people in employment in Germany continued to increase steadily, reaching the highest level since 1991. Initial calculations indicate that this metric rose by 1.0 % over the course of the year.

The more expansionary approach to monetary policy and the historically low level of interest rates remained the most influential factors for the German financial system and gave support to the economy as a whole. The European Central Bank (ECB) increased the monthly purchase volume under its bond purchase programme, which it extended to include investment-grade corporate bonds. It also decided to reduce main refinancing interest rates to 0.0 %.

The highly favourable conditions for financing, the generally positive economic situation (with correspondingly good prospects for employment and the labour market) and the shortage of housing in many urban centres and their surrounding areas as a result of the rising population are fuelling strong demand for residential property in Germany. Real estate also remains as popular as ever as a target for investment thanks to the long-term protection it provides against the effects of inflation. Larger-scale investors too recognise the appeal of real estate, especially assets in the Rhine-Main region. The number of building permits issued, which provides a good indication of the status of real estate as an investment, has been rising steadily since 2009. The number of residential properties approved in the period from January to November 2016 rose by 23.0 % as compared with the same period in the previous year to 340,000. This dynamic growth in new construction activity has been accompanied by a further increase in investment in modernising ageing housing stock and measures to improve energy efficiency.

The outlook for the construction industry remains positive, with new orders in the structural and civil engineering sector up 13.8 % over the first eleven months of 2016 as compared with the same period in the previous year according to figures from the German Federal Statistical Office.

The key general economic factors – economic situation, labour market and high demand for residential real estate – in Hesse and Thuringia together present a decidedly fertile environment for home loan and savings business and home finance. The inclusion of this type of asset in the German government's scheme to promote private retirement pension provision, which provides for the use of home savings contracts to purchase owner-occupied residential property, had a positive impact in the financial year.

Contract Development

LBS concluded a total of 66,760 (2015: 88,434) new home savings contracts with a total net value of € 2,667 m (2015: € 2,900 m) in 2016 and thus fell 8.1 % short of the previous year's performance in volume terms while still beating the sector average (–13.4 %). Gross new business failed to match the figure anticipated in the previous year's Report on Expected Developments. The average value of each home savings contract concluded rose by 21.8 %, reflecting LBS's continuing efforts to promote financing business.

LBS arranged 51,074 home savings contracts (2015: 65,685) with a total net value of € 2,182 m (2015: € 2,318 m) in Hesse and 15,686 home savings contracts (2015: 22,749) with a total net value of € 485 m (2015: € 582 m) in Thuringia.

New business adjusted for the amounts actually paid in amounted to 67,282 home savings contracts (2015: 83,161) with a total net value of € 2,517 m (2015: € 2,603 m) and was thus also down on the previous year. There were 51,088 new contracts (2015: 61,126) in an amount of € 2,041 m (2015: € 2,070 m) paid in in Hesse and 16,194 new contracts (2015: 22,035) in an amount of € 476 m (2015: € 533 m) paid in in Thuringia, which represents a year-on-year fall of 1.4 % in Hesse and 10.7 % in Thuringia in terms of total net value. Home savings customers under the age of 25 accounted for 42.7 % of the first-time contracts concluded in 2016.

Market shares (as measured by number of contracts) of 33.9 % and 30.3 % in Hesse and Thuringia respectively enabled LBS to maintain a leading position in its two operating territories.

S-Group Activities Successful

The Sparkassen in Hesse and Thuringia have traditionally been the main sales partners for new contracts and the proportion of business arranged by the Sparkassen (including joint business) remained high in 2016 at 87.0 % (2015: 85.0 %), which corresponds to home savings contracts with a value of € 2.2 bn.

Contract Portfolio

LBS serviced a home loan and savings volume of € 20,205 m (2015: € 19,846 m) in 2016 representing 796,992 home savings contracts (2015: 804,452). The year-on-year change in volume terms amounts to a 1.8 % increase.

Development of Allocations

The target valuation index that has to be reached in order for allocation by LBS has been constant at 224, which is the minimum valuation index specified in the general terms and conditions, for 22 years. Some 36,400 contracts representing a home loan and savings volume of € 823.8 m were allocated in the year under review.

Of the inflows to the allocation fund, € 805.1 m (+0.8 %) was attributable to savings deposits, including employer contributions to employee capital formation schemes, the "Wohnungsbauprämie" (a government subsidy paid on savings to be used for the construction, purchase or improvement of residential real estate) and interest credits, while € 96.8 m (–20.9 %) was attributable to redemption payments. In total, an amount of € 904.0 m (–1.9 %) was added to the allocation fund. These inflows were offset by withdrawals in the amount of € 622.3 m (–14.2 %), meaning that the allocation fund had increased by € 281.7 m at the end of the year.

Lending Business

Disbursements of loans outside the home savings collective decreased by € 2.3 m (–1.6 %) year on year to € 145.2 m. The decline in the value of disbursements of home savings loans precipitated by persistently low interest rates continued in the year under review, although the drop of € 5.7 m to € 18.9 m is smaller in percentage terms than was recorded in the previous year at 23.2 % (2015: –35.9 %).

Results of Operations

Results of operations are significantly affected by the burden of the ECB's sustained minimal interest rates policy, the positive impact of a change in the law governing the calculation of pension provisions and the precautionary measures required in anticipation of a continuation of the low interest rate era.

Interest income
Interest income fell by € 13.1 m to € 139.7 m. This is due in part to a decrease in the annual average portfolio of home savings loans, which shrank by € 54.4 m (–19.4 %). The average interest rate for home savings loans also declined in 2016, dropping 17

basis points to 3.81 % (2015: 3.98 %). These falls in volume and interest rates impacted negatively on interest income from home savings loans. Interest income in lending business outside the home savings collective also decreased, in this case by € 0.8 m to € 18.1 m. The average portfolio subject to interest increased by € 56.5 m (+9.6 %) year on year, but the average interest earned on loans outside the home savings collective dropped to 2.82 % (2015: 3.21 %).

The increased capital market investment requirement due to the € 233.3 m (+5.5 %) increase in home savings deposits and the contraction in lending operations impacted positively on interest received. The sustained period of historically weak returns in the money and capital markets, in contrast, had a negative impact. LBS reduced the return of time deposits in 2016 in anticipation of continued low interest rates and consequently received € 5.6 m (2015: € 9.7 m) less in income from early repayment charges (settlement payments). Interest received from financial investments, including measures implemented through short-term planning, declined by € 9.9 m overall (–8.1 %)

Interest expense

The tariffs policy of recent years has had a positive impact on interest expenses. The inflow of home savings deposits in 2016 pushed up annual average holdings of home savings deposits by € 174.7 m year on year to € 4.3 bn despite the deposit restrictions implemented in the tariffs of yields.This volume effect was, however, partially offset by the lower average interest rate for home savings deposits: the average interest rate for 2016 was down 0.09 percentage points year on year to 1.77 %. The contradictory volume and interest rate effects increased the interest expense for home savings deposits by € 0.8 m to € 76.8 m.

The repayment of funding capital and simultaneous acquisition of new funding capital at current interest rates, a prudent policy for the future, resulted in an interest expense of € 11.9 m.

The home savings collective interest margin, which is calculated as the difference between the average interest rates for home savings loans and home savings deposits, amounted in 2016 to 2.03 %.

Net interest income declined by € 23.2 m due in very large part to the charges (settlement payments) associated with the early repayment of funding capital and time deposits.

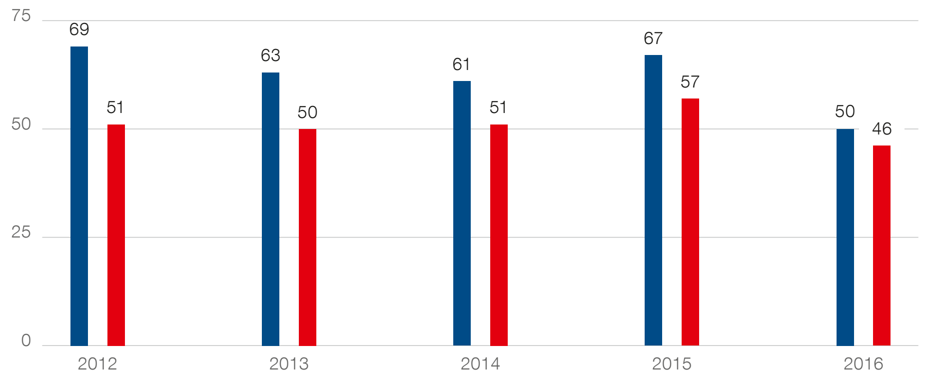
Net fee and commission income/expense

The net fee and commission income/expense indicator improved by € 2.1 m to € –6.3 m as expected. Commissions paid dropped by € 4.6 m (–11.9 %) due to the decrease in gross new business. Fee and commission income was also down, in this case by € 2.5 m (–9.1 %) to € 27.6 m.

General and administrative expenses

Net interest income, net fee and commission income/expense and other income together totalled € 49.6 m (26.2 %), which figure was offset by € 45.6 m (–19.3 %) for general and administrative expenses including depreciation, amortisation and write-downs of property and equipment. Personnel expenses fell by € 0.8 m to € 21.8 m. Other operating expenses fell to € 5.9 m (–63.6 %), a development due in large part to a € 12.3 m year-on-year reduction in the interest component from the allocation to pension provisions resulting from the change in the law governing the calculation of pension provisions. Non-personnel operating expenses, which rose by € 0.2 m to € 17.8 m, were negatively affected by a € 1.3 m increase in building occupancy costs. The switch to meeting 30 % of the funds due to the statutory deposit protection scheme with a payment obligation, on the other hand, reduced non-personnel operating expenses by € 0.5 m. Depreciation, amortisation and write-downs of property and equipment rose slightly to € 0.2 m. This means that general and administrative expenses progressed as forecast in the previous year.

Significant income statement components in € m



■ Net interest income/net fee and commission income/other income (incl. special funds)
■ General and administrative expenses/AfA (depreciation)/other expenses (excl. tax allocation)

Pre-tax earnings were down € 4.6 m as compared with 2015 (€ 2.6 m) and thus fell short of the figure anticipated in the previous year's Report on Expected Developments. This shortfall stems in particular from a voluntary appropriation of € 2.2 m to the home savings protection fund implemented to strengthen the institution's position going forwards, the early repayment of funding capital with simultaneous acquisition of equivalent new funding capital at a low interest rate and reduced returns of time deposits. The cost-income ratio rose by 11.9 percentage points to 91.1 % (2015: 79.2 %) in line with expectations.

Financial Position

As a non-trading book institute, LBS allocates all of its business positions to the investment book. The German specialist bank principle requires LBS, as a Bausparkasse, to comply with the specific provisions of the German Building and Loan Associations Act (Bausparkassengesetz –BauSparkG) as well as the general stipulations of the German Banking Act (Kreditwesengesetz – KWG). Of particular relevance is Section 4 (3) BauSparkG, which regulates the investment of available funds. The Bausparkasse is obliged to maintain sufficient levels of cash and cash equivalents to assure its liquidity. Any investment of available funds is accordingly made exclusively in order to form a liquidity reserve as part of a "buy-and-hold" strategy in accordance with the BauSparkG requirements. No investments are sold prior to maturity unless for the purpose of optimising the portfolio structure, actively managing interest rate risk, complying with specified limits imposed by management to limit market price risks or for liquidity purposes.

Revenue reserves constitute the main item in the equity structure. The equity of LBS includes no silent participations or subordinated liable capital. Equity backing is adequate for further growth in lending business.

LBS calculates capital requirements using an internal ratings-based approach (IRBA). The total capital ratio in accordance with article 92 CRR remains high, having risen to 56.1 % in 2016 (2015: 55.2 %). The Tier 1 ratio likewise strengthened, increasing by 1.0 percentage points to 55.8 %.

The LiqV liquidity ratio ranged between 1.19 and 1.81 in 2016 and met the relevant requirements as of 31 December 2016 at 1.19. LBS was in a position to meet its payment obligations at all times.

The financial position of LBS is sound. The Bausparkasse is capable of meeting its obligation with respect to the scheduled allocation of the home loan and savings amounts at any time.

Net Assets

Total assets rose by € 0.2 bn year on year to € 5.41 bn. Home savings deposits increased to € 4,492 m. Home finance loans rose by € 11.9 m to € 852 m, financial investments by € 207 m to € 4,535 m. The proportion of total assets accounted for by home finance loans fell to 15.7 %. Interim and bridge-over loans increased by 9.8 % to € 651 m in the financial year and are largely funded with matching maturities. The net assets position of LBS is sound. The volume of business is virtually unchanged and overall there have been no notable changes in the asset structure.

The combined effect of a sustained minimal interest rates policy and the ongoing repercussions of the financial crisis is that even customers with no particular designs to invest in real estate continue to regard home savings products as a safe financial investment. The non-age-specific bonus tariff has consequently been discontinued.

III. Report on Post-Balance Sheet Date Events

No significant events have occurred since 31 December 2016.

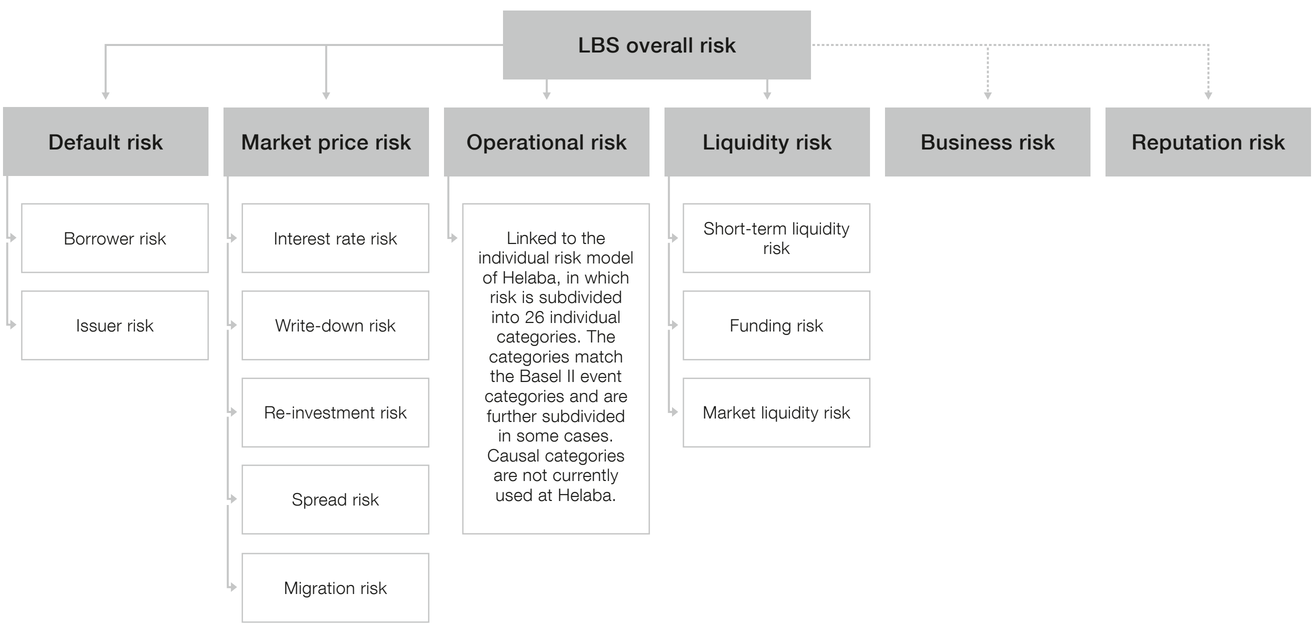
IV. Report on Expected Developments, Opportunity and Risk Report

Risk Management

Strategic risk management at LBS aims to safeguard and, where possible, enhance the organisation's conservative risk profile.

LBS manages risk through four interlinked process elements: risk identification, risk quantification, risk containment and risk controlling/reporting. The risk identification element involves identifying the primary risks for LBS and then classifying them on this basis. Risk quantification comprises the quantitative and qualitative measurement and evaluation of risks using suitable models and methods. Risk containment encompasses all of the measures implemented in order to reduce, limit, avoid and transfer risks and keep risk exposure within the limits defined by senior management. Plans to adjust or retain limits are assessed against the associated positive effects (opportunities), for example in relation to processes, business development and income and cost trends. Risk controlling includes comprehensive reporting to keep the people with the relevant authority within the organisation apprised of the existing risks/opportunities. The Risk Committee established for this purpose receives a comprehensive risk report every quarter depicting the overall risk position and risk-bearing capacity, the results of stress scenarios for all primary risks, any risk management measures adopted, any unusual factors arising in the period under review, developments compared with the previous quarter, limit utilisations and changes in significant parameters underlying the processes used for risk assessment. An ad-hoc reporting process has been established for defined significant events and loss events to ensure that the management, the Board of Managing Directors and Internal Audit are notified immediately.

LBS determines the applicable containment requirements in each case based on its recognised risk types, namely default risk, market price risk, liquidity risk, operational risk, business risk and reputation risk. These broad risk types comprise the following specific risks:



Risk Strategy

The risk strategy sets out the fundamental procedure for handling risk at LBS in conformity with the requirements imposed by the law, the Charter and the regulatory authorities.

The risk strategy forms part of the business strategy and guides the development of the latter in respect of the handling of risks. The risk strategy is detailed for the risks classified as being of primary importance in the specific risk strategies for the risk types default risk, market price risk, liquidity risk and operational risk. Rules have also been implemented for business and reputation risks, which are not classified as being of primary importance on account of overlaps with the market price risk type, which is classified as being of primary importance.

A supplementary risk manual documents definitions, organisation, tools for risk recording, evaluation and containment, risk reporting and the underlying written rules for the individual risk types. The manual also describes the risk management process and the risk management structure.

Risks may in principle be assumed only as permitted under the currently applicable risk strategy and only in pursuit of the corporate objectives – in particular in order to maintain the long-term earning power of LBS while protecting its assets as effectively as possible and accomplishing its mission.

LBS has provided work instructions, manuals and process descriptions for employees to ensure the propriety of business operations and provide a robust foundation for the implementation of the risk strategy.

Default Risk

Risks in lending business, which is one of the main business areas at LBS, are assumed on the basis of the specific risk strategy for default risks.

Credit risks are assumed with the objective of generating a reasonable return bearing in mind the risk-bearing capacity. The specific risk strategy for default risks is reviewed annually as well as on an ad-hoc basis in the event of serious changes in the underlying conditions and brought into line with current circumstances.

Default Risk in Lending Business

The main focus of business at LBS is private home finance, which is pursued as standardised customer business. The total lending portfolio, including trading business and irrevocable loan commitments, amounts to € 5,441.0 m. Home savings loans make up € 196.6 m of this figure and loans concluded outside of the home savings collective make up € 655.5 m, meaning that traditional lending business accounts for € 852.1 m, or 15.7 %, of total assets (€ 5,410.8 m). A total of 91.1 % of home finance loans were extended to private persons who were not self-employed and the proportion of home finance loans secured by mortgage charges amounted to 63.4 %.

The loan approval process in risk-relevant lending business includes a loan decision taken by the special loan processing function (back office). In such cases, LBS applies the process-dependent simplification regulation pursuant to BTO 1.1 item 4 of the German Minimum Requirements for Risk Management (MaRisk) in the case of lending transactions initiated by third parties and refrains from obtaining an assessment from the front office. The risk arising from loans in retail business is classified by means of LBS customer scoring or Helaba rating methods at the individual customer level. Analyses of the default risk are prepared on the basis of fixed and/or dynamic evaluations of the LBS database as part of risk containment. LBS loans made under the "single-source financing" model are approved and managed by the Sparkassen in Hesse and Thuringia and by Sparkasse Worms-Alzey-Ried through a trust-type arrangement on the basis of the contracts concluded and associated supplementary guidelines bearing in mind the applicable regulatory requirements.

The total volume of specific allowances for home finance loans decreased by € 1.3 m to € 4.7 m in the year under review. The default ratio, which equals the sum of direct write-offs and utilisation of allowances for losses on loans and advances expressed in relation to the lending volume, amounted to 0.11 %. The largest new specific allowance recognised for a single exposure in 2016 was € 50,300. There were no defaults within the framework of trading transactions.

Issuer Risk

Trading transactions within the meaning of MaRisk amounted to € 4,394 m (nominal amount) and thus accounted for 81.2 % of total assets as at 31 December 2016. Of that figure, 95.2 % was invested as overnight money and in time deposits at Helaba with original terms to maturity of up to 15 years.

LBS applies a conservative investment policy. The risk of default on the part of the issuer is minimised by limiting the choice of issuer almost exclusively to Landesbanken, development banks and German federal states in the case of promissory note loans and registered bonds and to government paper and German Pfandbriefe in the case of fixed-income securities.

Market Price Risk

Market price risks at LBS are limited specifically to risks attributable to the change in the position and structure of the yield curve (interest rate risk). LBS does not expose itself to share price risks and is prohibited by the BauSparkG from allowing any exposure to currency risks.

The interest rate risk refers to the commercial law (income statement-related) and business administration (present value) risk that can arise as a result of changes in interest rates.

Interest Rate Risk

Changes in market interest rates are reflected in changes in behaviour within the home savings collective, in the reinvestment risk arising from financial investments maturing and in the value of positive/negative maturity transformations. The interest rate risk associated with the behaviour of the home savings collective relates to the possibility of changes in market interest rates causing the home savings collective not to behave as originally predicted. This would impact the forecast net interest income. LBS prepares a collective forecast regularly following each measurement date (end of quarter). The forecast period covers up to five years. The forecast for the previous quarter is compared with the actual data and analysed in each case in order to identify any changes in the behaviour patterns of home savings customers at an early stage.

The interest rate risk arising from positive/negative maturity transformations relates to the commercial law and business administration risk that may arise due to changes in interest rates in conjunction with a deliberate decision to utilise positive or negative maturity transformation. When positions are taken out for strategic reasons in this way, economic mark-to-market valuations (positive or negative maturity transformations) are carried out for the individual positions on the basis of current capital market rates and various interest rate scenarios, and the cost of carries (negative maturity transformation) and unearned income from maturity transformation (positive maturity transformation), both of which directly influence net interest income, are reported. No volume or risk limits apply to the taking of positions from maturity transformations for strategic reasons because the results are already implicit in net interest income.

The reinvestment risk results from the maturity of financial investments. When investments mature, it may only be possible to invest the liquidity released at a lower rate, depending on capital market interest rate trends.

The risk of there being a high level of liquidity available for investment at a time when interest rates are low or, conversely, a low level of liquidity available for investment at a time when interest rates are high is contained through the investment strategy defined every year.

Write-Down Risk

The write-down risk is the risk of having to write down the institution’s own fixed-interest security holdings to the lower of cost or market value pursuant to commercial law provisions at the end of the year as a result of a hike in interest rates and the resultant share price losses. Models are used as the basis for performing simulations of the probable write-down requirement, with due consideration being given to the current level of interest rates and the various interest rate scenarios.

Interest Rate Risk (Business Administration)

The business administration element of the interest rate risk describes the risk of a downward change in values occurring as a consequence of changes in capital market rates due to a lack of matching maturities between lending and funding.

All interest rate portfolio cash flows are calculated and discounted to record, evaluate and contain this risk. The present value calculation in the case of ad-hoc parallel shifts in the interest rate level is performed using the parameters specified by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin).

Rate-sensitive customer behaviour is recognised in the interest rate portfolio by way of a corresponding cash flow presentation of the cash outflows from the home savings collective (credit balances paid out after termination, credit balances paid out after allocation, home savings loans paid out to customers) and cash inflows to the home savings collective (savings deposits, loan repayments).

The interest rate risk lay in positive territory as of 31 December 2016, as expected, with the interest rate risk coefficient standing at 12.4.

Operational Risk

Operational risk results in particular from daily banking operations and is thus an inherent component of business activities. LBS defines operational risk, in line with regulatory requirements, as “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events”. This definition also encompasses IT and legal risks, but not possible strategic risks.

The systematic classification of operational risk is based on the Helaba risk model, which recognises four different classes of risk: “internal processes”, “people”, “systems” and “external events”.

The integrated holistic approach to the management of operational risk applied at LBS, which is based on the requirements of the German banking regulator, aims to measure and contain operational risks on the basis of risk scenarios and loss events.

Liquidity Risk

Short-term and long-term liquidity planning constitutes the basis for ensuring solvency at all times and for avoiding unexpected losses attributable to the absence of and necessary procurement of funds to fulfil payment obligations.

The short-term liquidity risk designates the risk that LBS will not be able, or will not be fully able, to meet its payment obligations (obligation to disburse loans, make interest payments, repay funding) as a result of a shortage of liquid funds, or that the liquidity ratio will fall below 1.0 as calculated under LiqV and/or 0.7 (2016) or 0.8 (2017) as calculated in accordance with the CRR.

A model-supported approach is used to record, evaluate and contain risk within the framework of a short-term liquidity forecast, which focuses on the probable liquidity trend at least over the next nine to twelve months. The forecast takes into account all definitively known liquidity inflows and outflows (including maturities, interest payments and financial investments/borrowings) as well as experience-based liquidity parameters (including savings deposits/withdrawals and loan disbursements).

The long-term liquidity outlook (funding risk) additionally takes in all cash inflows and outflows over a period of up to ten years. It considers liquidity inflows and outflows attributable to the home savings collective, overnight and time deposits as well as securities and special funds, funding obtained and repaid (including the associated interest income and expense) and payments related to operations. The funding risk is calculated using scenarios for which minimum survival periods are defined from a liquidity perspective.

The funding risk refers to a deterioration in the funding conditions available to LBS and the resulting difficulty of maintaining an adequate and cost-effective funding base.

LBS, as a Bausparkasse, funds itself principally via deposits to the home savings collective and through Helaba.

The liquidity risk thus ultimately boils down to a credit rating risk. Any materialisation of risk (default, market price, operational or other risk) negatively impacts the rating and thus also access to the capital market, so the management of the other risks simultaneously impacts on the liquidity risk.

The market liquidity risk involves the risk of inadequate market liquidity, meaning that it might not be possible for positions to be closed at prices that are fair or close to fair as a result of inadequate market depth or market disruptions. When investing in fixed-income securities, promissory note loans and registered bonds, LBS also considers the fungibility of the asset when selecting the issuer and the product, it being the case that funds are generally invested with the intention of not liquidating them ahead of schedule. The market liquidity risk is taken into account in liquidity forecasts as well as in the measurement of the structural liquidity risk.

Business Risk

Business risk is not classified as being of primary importance at LBS because the two primary risks – collective risk and market sales risk – included under the business risk heading are addressed in the market price risk type, which is classified as being of primary importance.

The collective risk is the risk that the home savings collective will behave other than in the predicted manner in response to changes in the market interest rate risk parameter. The market sales risk relates to the attractiveness of the home savings product, which can fade, with a corresponding negative impact on new business, in response to changes in the market interest rate risk parameter.

Risk-Bearing Capacity

Risk-bearing capacity is calculated in order to ensure that the primary risks always remain within the risk-taking potential of LBS and that going-concern status is thus continuously and permanently assured. This process involves quantifying and comparing possible risk exposures and the available risk-taking potential.

LBS assesses its risk-bearing capacity with a periodic reference date view (as of the balance sheet date) and a separate twelve-month rolling view.

The risk-taking potential is calculated on the basis of expected earnings ratios and balance sheet equity ratios. The components of the risk-taking potential are prioritised on the basis of their availability, their nature as provisions for loan losses, and minimum regulatory requirements.

LBS carries out specific calculations according to two different approaches (a going-concern approach and a gone-concern approach), considering one base scenario and two stress scenarios in each case, to check the stability of the risk-bearing capacity calculation. The stress tests are performed applying a historical perspective for individual risks and a hypothetical perspective for all types of risk at the institutional level and the implications for the risk-bearing capacity are examined. The results of the stress tests are detailed in risk reporting, together with their potential impact on the risk situation and the risk-taking potential.

The scenarios provide a separate calculation of risk for each risk type. Risk-bearing capacity exists if the risk-taking potential covers risk exposure at all times taking account of the capital required for regulatory purposes.

That share of the calculated risk-taking potential that is to be used for absorbing risk is defined for the operating management of risk-bearing capacity and the associated permanent safeguarding of going-concern status. This defined share of the risk-taking potential is known as the risk cover pool and corresponds to the total risk limit of LBS, which is allocated to the individual risk types.

The decision concerning the definition of the share of the risk-taking potential may impact directly on the risk monitoring indicators within the joint liability scheme of the LBS Group and thus on the individual risk levels indicated therein under the “traffic light” model. By the same token, the objectives defined within the framework of risk monitoring are also of significance in the decision-making process to determine the share of the risk-taking potential.

The risk quantification exercise on the quarterly reporting dates revealed that even under the most severe (hypothetical) stress scenario, the risk exposure amounted to less than 50 % of the available risk-taking potential.

Summary of the Risk Situation

LBS prepares quarterly collective forecasts and an annual ongoing collective monitoring report in order to ensure that the home savings contracts concluded can always be fulfilled. The ongoing collective monitoring report and the corresponding collective management report, which contain a description of the initial position and scenarios with presentations of results and related analysis as well as an overall assessment, are transmitted to BaFin. According to the collective management report for 2015, funds sufficient for the allocation of home savings contracts were available at all times.

The overall institution limit in the calculation of risk-bearing capacity was observed in the year ended (on a quarterly basis).

Utilisation of the overall institution limit

Reporting date	Going-concern approach Position on 31.12.2016	Going-concern approach Twelve-month rolling view
31.03.2016	35 %	40 %
30.06.2016	32 %	49 %
30.09.2016	29 %	54 %
31.12.2016	44 %	44 %

The liquidity ratio in accordance with the LiqV was 1.19 as of 31 December 2016 and the total capital ratio in accordance with the CRR stood at 56.13 % (in accordance with the delegated regulation since 30 September 2016). The capital available for covering risks was adequate at all times.

Outlook for 2017

LBS expects the sustained strength of the labour market (with a positive outlook for incomes and job security), moderate income growth and a high level of immigration to stimulate increased investment in residential construction just as in the previous year.

Recent statements from the ECB indicate to LBS that the expansionary approach will continue to dominate monetary policy for the time being. The associated sustained period of low interest rates and simultaneous shortage of housing in large urban centres and their surrounding areas will combine to keep demand for residential real estate running high. Real estate prices will continue to rise at the same time, so affordable solutions with corresponding financing options will also be very much in demand. Home savings contracts offer people in pursuit of home finance or follow-up financing a readily calculable way to fund real estate investments and lock in the current low interest rates long-term to protect against future rate rises. Home loan and savings products accordingly remain an attractive option for much of the population, which regards a debt-free residential property to be the best form of provision for retirement. The need to convert more properties to make them suitable for the increasing population of older people provides additional potential for growth. Fostered by the comparatively low home ownership rate in Germany, government initiatives to promote saving (the employee savings bonus and a subsidy paid on savings to be used for the construction, purchase or improvement of residential real estate) and the inclusion of owner-occupied residential property in the state subsidy programme for private old-age provision (“Wohn-Riester”), current levels of interest in home savings products indicate great potential still to be tapped in this area. Demand for financing will also be boosted by concerns about climate change and the anticipated requirements regarding modernisation to improve the energy efficiency of Germany’s ageing housing stock.

The possibility still remains, however, that consumers will find alternative affordable ways to finance their real estate ambitions and that the loans in the old tariff generations will not be taken up. Other factors that could potentially impact negatively on results include new and more onerous regulatory requirements and the associated cost of digitising processes as well as even lower returns in the capital market. LBS intends to continue meeting the impending challenges with strict cost management, measures in the home savings collective to stabilise earnings and a high level of efficiency. The investments made in a common IT system (the OSPlus-LBS Bausparkasse system) and the internet branch of the Sparkassen should bring improved productivity in the medium term. Perfectly tailored home loan and savings products and strategic sales measures will be deployed to enhance further the close and successful collaborative relationship between LBS and the Sparkassen and strengthen the position of the LBS field sales force in high-potential regions. The adoption at the end of 2015 of the revised German Building and Loan Associations Act (Bausparkassengesetz – BauSparkG), which provides for more flexible use of the home savings protection fund and introduces new options in residential construction finance business, enables LBS to respond more effectively to the changed operating environment.

LBS expects gross new business in fiscal 2017 to be essentially unchanged from the previous year. The combined effects of the anticipated further reduction in average interest rates for home savings loans, continued income-boosting measures implemented through short-term planning and the action taken to reduce interest expense from funding capital lead LBS to anticipate a rise in net interest income as compared with the previous year given a continuation of the minimal interest rates policy at the ECB. The forecast figures reflect the home savings collective simulation, which usually covers a period of 20 years. The home savings collective simulation is based on the full contract portfolio, with changes in the behaviour patterns of home savings customers being considered over time. The forecast for future interest rate developments is prepared using the forward interest rates derived from the interest rate structure as of the key date for forecasting. LBS expects an interest rate risk in positive territory in financial year 2017 taking account of the planned new investments. The liquidity ratio in accordance with the LiqV is expected to be in the target corridor above 1.15 (minimum requirement 1.0), while a figure in excess of 100 % (minimum requirement 80 %) is assumed for the parallel LCR introduced in 2015.

LBS anticipates that net fee and commission income will decrease slightly as compared with the previous year. General and administrative expenses and other operating expenses, which benefited from positive one-off effects in 2016, are likely to be pushed up again by allocations to pension provisions including interest expense and expenses for the statutory deposit protection scheme. The reorganisation plans adopted are expected to occasion a one-off expense that will result, after partial offsetting effects, to a forecast net loss for the year of approximately € 5 m.

Frankfurt am Main/Erfurt, 28 February 2017

Landesbank Hessen-Thüringen Girozentrale

The Board of Managing Directors

Grüntker	Fenk	Groß
Dr. Hosemann	Mulfinger	Dr. Schraad

Annual Financial Statements of Landesbausparkasse Hessen-Thüringen

Balance Sheet of Landesbausparkasse Hessen-Thüringen,

as at 31 December 2016
– included in the Consolidated Balance Sheet of the Bank –

Assets in € thousands

				2016	2015
Loans and advances to banks					
a) Home savings loans			0		0
d) Other loans and advances			4,469,037		4,226,784
thereof: Payable on demand	197,921				(141,754)
				4,469,037	4,226,784
Loans and advances to customers					
a) Home finance loans					
aa) From allocations (home savings loans)		196,622			242,818
ab) For interim and bridge-over financing		651,221			592,863
ac) Other		4,274			4,494
thereof: Secured by mortgage charges	540,201				(525,671)
			852,117		840,175
b) Other loans and advances			22,240		58,841
				874,357	899,016
Bonds and other fixed-income securities					
b) Bonds and notes					
ba) Public-sector issuers				55,476	55,140
thereof: Eligible as collateral with Deutsche Bundesbank	55,476				
Intangible assets					
b) Purchased concessions, industrial property rights and similar rights and licences in such rights and assets			9,653		0
d) Prepayments			0		7,728
				9,653	7,728
Property and equipment				**270**	306
Other assets				**1,433**	1,172
Prepaid expenses				**531**	636
Total assets				**5,410,757**	5,190,782

Equity and liabilities

in € thousands

				2016	2015
Liabilities due to banks					
a) Home savings deposits			35,511		28,066
thereof: On allocated contracts	5,384				(5,277)
b) Other liabilities			541,428		540,302
thereof: Payable on demand	9,681				(10,337)
				576,939	568,368
Liabilities due to customers					
a) Deposits from home savings business					
aa) Home savings deposits		4,456,077			4,230,271
thereof: On terminated contracts	43,458				(47,612)
On allocated contracts	85,086				(81,320)
			4,456,077		4,230,271
b) Other liabilities					
ba) Payable on demand		6,446			6,811
			6,446		6,811
				4,462,523	4,237,082
Other liabilities				**7,407**	7,865
Deferred income				**1,937**	2,346
Provisions					
a) Provisions for pensions and similar obligations			105,827		118,759
c) Other provisions			10,665		11,713
				116,492	130,472
Home savings protection fund				**11,200**	9,020
Fund for general banking risks				**25,000**	25,000
Equity					
a) Revenue reserves			207,900		207,900
d) Net retained profits			1,359		2,729
				209,259	210,629
Total equity and liabilities				**5,410,757**	**5,190,782**
Other obligations					
Irrevocable loan commitments				30,201	31,952

Income Statement of Landesbausparkasse Hessen-Thüringen,

for the period 1 January to 31 December 2016 – included in the Consolidated Income Statement of the Bank –

in € thousands

				2016	2015
Interest income from					
a) Lending and money market transactions					
aa) From home savings loans	8,615				11,180
ab) From interim and bridge-over loans	18,044				18,720
ac) From other home finance loans	94				133
ad) From other lending and money market transactions	112,851				122,745
		139,604			152,778
b) Fixed-income securities and registered government debt		124			0
			139,728		152,778
Interest expense					
a) On home savings deposits		76,802			77,552
b) Other interest expenses		20,702			9,818
			97,504		87,370
				42,224	65,408
Current income from equity shares and other variable-income securities				**0**	4,800
Fee and commission income					
a) On contracts signed and arranged		20,752			23,565
b) From loans granted after allocation		139			235
c) From the commitment and administration of interim and bridge-over loans		5			0
d) Other fee and commission income		6,691			6,312
			27,587		30,112
Fee and commission expenses					
a) On contracts signed and arranged		29,251			33,602
b) Other fee and commission expense		4,677			4,906
			33,928		38,508
				–6,341	–8,396
Other operating income				**16,966**	5,433
Carried forward:				**52,849**	**67,245**

in € thousands

				2016	2015
Carried forward:				**52,849**	67,245
General and administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		18,351			18,694
ab) Social security, post-employment and other benefit expenses		3,459			3,924
			21,810		22,618
thereof: Post-employment benefit expenses	438				879
b) Other administrative expenses			17,739		17,584
				39,549	40,202
Amortisation and write-downs of property and equipment and intangible assets				**218**	87
Other operating expenses				**5,780**	16,145
Write-downs of and allowances on loans and advances and certain securities as well as transfers to loan loss provisions				**3,915**	5,938
Result from ordinary activities				**3,387**	4,873
Extraordinary income			0		16,071
Extraordinary expenses			2,028		18,215
Extraordinary result				**–2,028**	–2,144
Net income for the year				**1,359**	2,729
Net retained profits				**1,359**	**2,729**

Notes to the Financial Statements of Landesbausparkasse Hessen-Thüringen,

as at 31 December 2016

Basis of Preparation and Accounting Policies

Landesbausparkasse Hessen-Thüringen (LBS) is a legally dependent unit of Landesbank Hessen-Thüringen, Frankfurt am Main/Erfurt (Helaba), registered in the commercial registers of Frankfurt am Main, HRA 29821 and Jena, HRA 102181, and is obliged in accordance with Section 18 (3) of the German Building and Loan Associations Act (Bausparkassengesetz – BauSparkG) to prepare separate annual financial statements, which are included in the annual financial statements of Helaba. These annual financial statements have been prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB) and the supplementary regulations of the German Accounting Regulation for Credit Institutions and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV), with due consideration being given to all permitted accounting policies. The balance sheet and income statement have been supplemented to include those items that are mandatory for Bausparkassen.

Items that are included in the statutory form but for which no entries are applicable have not been listed.

Receivables are reported at their nominal amount and liabilities at their settlement amount. Provisions are recorded at the settlement amount as dictated by prudent business judgement. In accordance with Section 253 (2) HGB, provisions with a remaining term of more than one year have been discounted at the rates published by the Bundesbank in accordance with their remaining term.

Holdings of bonds and other fixed-income securities represent current assets and are shown at the lower of cost or market value.

Intangible assets and property and equipment are stated at cost, less straight-line amortisation and depreciation. Activities performed in connection with the internal generation of an intangible asset have been capitalised.

LBS makes use of the option provided in Section 6 2a. first sentence of the German Income Tax Act (Einkommensteuergesetz – EStG) and capitalises assets worth more than € 410 and less than € 1,000. Other assets are recognised at their nominal value.

The loans and advances to customers that are exposed to default risk and the receivables from the field service included under other assets have been adequately recognised by way of specific allowances. LBS applies the IFRS accounting treatment and calculation method for portfolio loan loss allowances. Provisions for losses on loans and advances in accordance with Section 340f HGB were recognised for special risks relating to credit institutions. All allowances and provisions for losses on loans and advances are reported separately under assets.

LBS reported prepaid expenses and deferred income for income and expenses recognised before the balance sheet date that represent income or expenses for a specific time after this date.

Pension obligations are determined on the reporting date by external actuarial experts. They are measured using the projected unit credit method, based on biometric assumptions (2005G mortality tables of of Professor Dr. Heubeck), salary and pension increases expected in the future as well as the average market rate published by the Bundesbank for an assumed remaining maturity of 15 years.

The measurement parameters applied are shown in the table below:

	31.12.2016
Interest rate	4.01 %
Salary trend	2.00 %
Pension trend	1.00 % – 2.00 %
Employee turnover rate	3.00 %

Some pension obligations are covered by assets (securities) that cannot be accessed by any other creditors. These assets serve exclusively to settle liabilities from retirement benefit obligations (plan assets). They are measured at fair value (repurchase price) pursuant to Section 253 (1) sentence 4 HGB and offset against the corresponding pension obligations. To the extent that the fair value of the assets exceeds the carrying amount of the provisions, the respective surplus amount is disclosed on the assets side as an "Excess of plan assets over post-employment benefit liability".

The application of the new version of Section 253 (6) HGB yielded a difference in the recognised pension obligations resulting from discounting using the average market rate for ten financial years instead of seven of € 11.9 m as at 31 December 2016.

The pension expense to be recognised in the income statement includes mainly provision expense and interest expense. The provision expense represents the increase in pension obligations attributable to the service provided by employees in the financial year; it is disclosed under general and administrative expenses. The interest expense is defined as the increase in the present value of the pension obligations that results from the settlement date approaching and the discounting period thus becoming shorter. The interest expense is netted against the return on plan assets. Both the interest expense and the return on plan assets are included in the other operating result.

Negative interest for financial assets in other lending and money market transactions is reported under interest received because negative interest reduces income from financial investment. LBS paid a sum of € 63,000 (2015: € 17,000).

Negative interest for other liabilities due to banks is reported under interest expense. LBS received € 4,000 (2015: € 0).

The receivables not yet due from arrangement fees arising from "LBS-Wohn-Riester" agreements (tariff Classic Riester, type FR and SR) were discounted in line with matching maturities. The cash value of the fees is recognised in full in the year of contract conclusion. As of 31 December 2016, receivables not yet due from Riester arrangement fees were capitalised in the amount of € 5.9 m (2015: € 6.2 m).

To ensure measurement of interest-based banking book transactions at the lower of cost or net realisable value, a calculation based on the present value method is used to review whether it is necessary to recognise a provision for expected losses in accordance with Section 340a in conjunction with Section 249 (1) sentence 1 no. 2 HGB. The calculation indicated that it was not necessary to recognise a provision for expected losses.

The figure for net remeasurement gains/losses includes a sum of € 0.5 m (2015: € 0.4 m) representing expenses for insurance cover against loan defaults.

Disclosures and Comments Concerning the Balance Sheet and Income Statement

Receivables from Helaba amounted to € 4,320.3 m (2015: € 4,021.4 m) and liabilities due to Helaba were € 531.7 m (2015: € 530.0 m).

Classification by remaining maturity in € m

	31.12.2016	31.12.2015
Other loans and advances to banks		
Payable on demand	197.9	141.8
Less than three months	117.1	170.0
Between three months and one year	206.0	116.0
Between one year and five years	1,154.0	1,089.0
More than five years	2,794.0	2,710.0
Loans and advances to customers		
Less than three months	36.8	81.3
Between three months and one year	76.1	88.1
Between one year and five years	369.7	384.7
More than five years	391.7	345.0

Loans and advances to customers do not include any indefinite term loans and advances.

Remaining maturities from interim and bridge-over loans have been determined to the point of allocation.

Interest and principal payments that were past due by more than three monthly instalments, including payments to alternative repayment vehicles, amounted to € 3.0 m (2015: € 3.8 m) with respect to home finance loans, including terminated exposures.

The Deka fund shares from salary conversion that are used to hedge the partial-retirement provision are offset as plan assets against the corresponding provisions pursuant to Section 246 (2) sentence 2 HGB.

The German Federal Treasury note in the amount of € 55.5 m included under bonds and other fixed-income securities matures and is listed in 2017.

The development of the acquisition or production cost (AK/HK) for intangible assets and property and equipment in financial year 2016 (FY) is shown below (in € thousands):

	Intangible assets		Property and equipment
	Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	Prepayments	
AK/HK at start of FY (total)	21,840	7,728	3,608
Additions, total AK/HK (FY)	2,088	0	29
Disposals, total AK/HK (FY)	21,682	0	271
Reclassifications, total AK/HK (FY)	7,728	–7,728	0
AK/HK at end of FY (total)	9,974	0	3,366
Amortisation and depreciation at start of FY (total)	21,840	0	3,301
Amortisation and depreciation (FY)	164	0	55
Changes in total amortisation and depreciation in connection with disposals (total)	21,683	0	260
Amortisation and depreciation at end of FY (total)	321	0	3,096
Position, FY (carrying amount)	**9,653**	**0**	**270**
Position, previous year (carrying amount)	0	7,728	306

The item "Other assets" mainly shows commission advances paid to and returns of commissions due from the field service.

Prepaid expenses essentially comprise interest payments already made for an irrevocable loan commitment.

Other liabilities due to banks, excluding home savings deposits in € m

	31.12.2016	31.12.2015
Payable on demand	9.7	10.3
Less than three months	15.3	13.4
Between three months and one year	54.7	55.0
Between one year and five years	284.8	280.9
More than five years	176.9	180.6

Borrowings in the amount of € 531.7 m (2015: € 530.0 m) serve exclusively to fund business outside the home loan and savings collective.

Other liabilities mainly comprises commission liabilities due to the field service.

Deferred income includes a discount from receivables of € 1.8 m (2015: € 2.1 m). A reversal in the amount of € 0.1 m (2015: € 0.2 m) was applied in the reporting year to deferred income for loan fees.

Based on the application, for the final time, of Article 67 (1) sentence 1 of the Introductory Act to the German Commercial Code (Einführungsgesetz zum Handelsgesetzbuch – EGHGB), the full figure reported for pension provisions was allocated as at the balance sheet date (2015: underfunded by € 2.0 m).

The purchase cost of assets offset against provisions pursuant to Section 246 (2) sentence 2 HGB amounted to € 1.8 m (2015: € 1.7 m), and their fair value was € 2.2 m (2015: € 2.0 m). The settlement amount of the offset liabilities amounted to € 2.2 m (2015: € 2.3 m). Expenses of € 6,200 (2015: € 129,100) were offset in the income statement against income of € 95,800 (2015: € 54,600) from these assets and liabilities from salary conversion.

The prior-year figures in the income statement were adjusted to reflect this offsetting.

Provisions for sales bonuses and provisions for the refund of arrangement fees for loan waivers account for the majority of other provisions.

The taxed home savings protection fund is designed to provide a long-term safeguard for the home savings collective. A total of € 11.2 m has been contributed to the fund including a sum of € 2.2 m allocated voluntarily in the year under review.

Legally binding payment obligations are broken down as follows in € m

	31.12.2016	31.12.2015
From allocations	0.6	1.2
For interim and bridge-over financing	29.2	30.3
From other home finance loans	0.4	0.5
Total	**30.2**	**32.0**

LBS will in all probability be responsible for payment of nearly all these obligations.

Other operating income mainly comprises income of € 11.7 m (2015: € 2.6 m) from the reversal of pension provisions, € 0.9 m (2015: € 0.9 m) for activities associated with the internal generation of an intangible asset that have been capitalised as acquisition ancillary costs, income of € 0.1 m (2015: € 0.6 m) from the closure of home savings accounts and income of € 0.4 m (2015: € 0.5 m) from the magazine “Das Haus”. Other operating expenses mainly comprise the expense of € 2.9 m (2015: € 15.6 m) from compounding provisions and compensation payments of € 0.2 m (2015: € 0.4 m) to the field service. The € 3.3 m (2015: € 0.1 m) tax refund settled by way of allocation with Helaba is added in full to the result from ordinary activities.

Acting in accordance with Section 18 (2) and (3) of the German Deposit Guarantee Act (Einlagensicherungsgesetz – EinSiG) and on the basis of the resolution of the Landesbausparkassen protection scheme, LBS made use in 2016, for the first time, of the option to provide 30 % of the funds to be paid in the form of payment obligations. This reduced non-personnel operating expenses by € 0.5 m.

LBS availed itself for the final time of the option provided in Article 67 (1) sentence 1 EGHGB in 2016 and made an allocation of € 2.0 m (2015: € 18.2 m) to the provision for current pensions or pension entitlements. This € 2.0 m figure impacts the extraordinary result.

Other Disclosures

For financial year 2016, € 174,000 (2015: € 216,000) was invoiced for the audit and € 102,000 (2015: € 25,000) was invoiced for other services that were performed by companies of the PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft group.

The remuneration for the members of the executive bodies of Helaba who are also responsible for LBS was paid by the Bank. The members of the executive bodies are listed in the notes to Helaba’s financial statements. Home finance loans to members of the Supervisory Board (persons within the meaning of Section 34 (2) sentence 1 alternative 2 RechKredV) amount to € 32,000 (2015: € 56,000).

Remuneration paid to LBS Advisory Board members totalled € 25,000 (2015: € 26,000).

LBS employed 275 people on average in 2016, 163 of them female and 112 male.

Frankfurt am Main/Erfurt, 28 February 2017

Landesbank Hessen-Thüringen Girozentrale

The Board of Managing Directors

Grüntker	Fenk	Groß
Dr. Hosemann	Mulfinger	Dr. Schraad

Auditor's Report

"We have audited the annual financial statements, consisting of the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of Landesbausparkasse Hessen-Thüringen, Frankfurt am Main/Erfurt, for the financial year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the Articles of Association are the responsibility of the Board of Managing Directors of Landesbank Hessen-Thüringen, Frankfurt am Main/Erfurt. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 of the German Commercial Code (Handelsgesetzbuch – HGB) and the German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in conformity with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Managing Directors as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and the supplementary provisions contained in the Articles of Association and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements, complies with the legal requirements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development."

Frankfurt am Main, 28 February 2017

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Peter Flick	ppa. Dr. Jürgen Kuhlmann
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Advisory Board of Landesbausparkasse Hessen-Thüringen

for financial year 2016

Chairman

Gerhard Grandke
Executive President
Sparkassen- und Giroverband
Hessen-Thüringen

Vice Chairman

Bernd Woide
Chief Administrative Officer
County District of Fulda

Members

Wolfgang Asche
Chairman of the Board of Managing Directors
Kreissparkasse Nordhausen

Michael Baumann
Member of the Board of Managing Directors
Nassauische Sparkasse, Wiesbaden
(since 22 November 2016)

Stephan Bruhn
Vice Chairman of the Board of Managing Directors
Frankfurter Sparkasse

Erhard Bückemeier
Chairman of the Board of Managing Directors
Sparkasse Jena-Saale-Holzland, Jena

Andreas Fabich
Member of the Board of Managing Directors
Nassauische Sparkasse, Wiesbaden
(until 31 August 2016)

Thomas Fügmann
Chief Administrative Officer
Saale-Orla-Kreis

Manfred Görig
Chief Administrative Officer
County District of Vogelsberg

Sven Hauschild
Member of the Board of Managing Directors
Sparkasse Arnstadt-Ilmenau, Ilmenau

Gerhard Heß
Member of the Board of Managing Directors
Sparkasse Bad Hersfeld-Rotenburg, Bad Hersfeld

Stephan Hofmann
Member of the Board of Managing Directors
Sparkasse Wetzlar

Jochen Johannink
Vice Chairman of the Board of Managing Directors
Kasseler Sparkasse

Marc Semmel
Member of the Board of Managing Directors
Sparkasse Werra-Meißner, Eschwege
(since 28 September 2016)

Manfred Vögtlin
Vice Chairman of the Board of Managing Directors
Sparkasse Bensheim

Jürgen Zich
Member of the Board of Managing Directors
Kreissparkasse Schlüchtern
(until 31 May 2016)

Statistical Information on the Home Savings Business

Changes in the Allocation Pool in 2016

A. Allocations	€ thousands
I. Amount carried forward from the previous year (surplus): amounts not yet disbursed	4,019,621
II. Allocations in the financial year	
1. Savings amounts (including offset homeowner allowances)	726,435
2. Repayment amounts[1] (including offset homeowner allowances)	96,759
3. Interest on home savings deposits	78,636
4. Home savings protection fund	2,180
5. Other	
a) Borrowings and own funds	0
Total	**4,923,631**

B. Withdrawals	€ thousands
I. Withdrawals in the financial year	
1. Sums allocated, to the extent disbursed	
a) Home savings deposits	252,345
b) Home loans	50,453
2. Repayment of home savings deposits made on home savings contracts not yet allocated	319,476
3. Home savings protection fund	0
4. Other	
a) Borrowings and own funds	0
II. Allocation surplus (amounts not yet disbursed) at the end of the financial year[2]	4,301,357
Total	**4,923,631**

Remarks:
[1] Repayment amounts only represent the portion of the repayment sum attributable to the principal.
[2] The allocation surplus includes, among other things:
a) the home savings deposits relating to allocated contracts that have not yet been disbursed in € thousands: 90,470
b) the home loans attributable to allocations that have not yet been disbursed in € thousands: 632

Movements in the Portfolio in 2016

Tariff group I (tariffs A, B, C, D)

I. Overview of movements in the portfolio of unallocated and allocated home savings contracts and contractual total net values	**Not allocated**		**Allocated**		**Total**	
	Number of contracts	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**
A. Portfolio at the end of the previous year	2,159	64,513	375	10,774	2,534	75,287
B. Additions in the financial year due to						
1. New contracts taken out (cashed-in contracts)	1	128	–	–	1	128
2. Transfer	3	91	2	74	5	165
3. Waiver of allocation and revocation of allocation	46	1,623	–	–	46	1,623
4. Partition	–	–	–	–	0	–
5. Allocation	–	–	62	2,264	62	2,264
6. Other	6	163	–	–	6	163
Total	56	2,005	64	2,338	120	4,343
C. Disposals in the financial year due to						
1. Allocation	62	2,264	–	–	62	2,264
2. Reduction	–	13	–	–	–	13
3. Cancellation	231	7,564	29	931	260	8,495
4. Transfer	3	91	2	74	5	165
5. Combination	–	–	–	–	–	–
6. Expiry of contract	–	–	106	3,095	106	3,095
7. Waiver of allocation and revocation of allocation	–	–	46	1,623	46	1,623
8. Other	6	163	–	2	6	165
Total	302	10,095	183	5,725	485	15,820
D. Net addition/disposal	–246	–8,090	–119	–3,387	–365	–11,477
E. Portfolio at the end of the financial year	1,913	56,423	256	7,387	2,169	63,810
thereof: Attributable to home savings customers outside of Germany	42	968	2	41	44	1,009
II. Portfolio of contracts not yet cashed in						
a) Contracts concluded prior to 1.1.2016 (financial year)			–			–
b) Contracts concluded in financial year 2016			–			–
III. Size classification of unallocated contracts						
up to 10,000 €			374			2,093
more than 10,000 up to 25,000 €			678			9,910
more than 25,000 up to 50,000 €			484			15,770
more than 50,000 up to 150,000 €			356			24,740
more than 150,000 up to 250,000 €			19			3,198
more than 250,000 up to 500,000 €			2			712
more than 500,000 €			–			–
Total			1,913			56,423

IV. The average total net value at the end of the financial year was € 29,419

Movements in the Portfolio in 2016

Tariff group II (Classic, Classic V, Vario 1, 2, 3 tariffs)

I. Overview of movements in the portfolio of unallocated and allocated home savings contracts and contractual total net values	**Not allocated**		**Allocated**		**Total**	
	Number of contracts	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**
A. Portfolio at the end of the previous year	16,995	399,439	5,725	165,498	22,720	564,937
B. Additions in the financial year due to						
1. New contracts taken out (cashed-in contracts)	2	112	–	–	2	112
2. Transfer	43	1,186	6	118	49	1,304
3. Waiver of allocation and revocation of allocation	328	7,553	–	–	328	7,553
4. Partition	11	–	1	–	12	–
5. Allocation	–	–	618	14,954	618	14,954
6. Other	33	742	9	237	42	979
Total	417	9,593	634	15,309	1,051	24,902
C. Disposals in the financial year due to						
1. Allocation	618	14,954	–	–	618	14,954
2. Reduction	–	412	–	–	–	412
3. Cancellation	2,595	64,783	425	12,797	3,020	77,580
4. Transfer	43	1,186	6	118	49	1,304
5. Combination	2	–	–	–	2	–
6. Expiry of contract	–	–	2,082	53,883	2,082	53,883
7. Waiver of allocation and revocation of allocation	–	–	328	7,553	328	7,553
8. Other	33	744	7	218	40	962
Total	3,291	82,078	2,848	74,570	6,139	156,648
D. Net addition/disposal	–2,874	–72,485	–2,214	–59,261	–5,088	–131,746
E. Portfolio at the end of the financial year	14,121	326,954	3,511	106,237	17,632	433,191
thereof: Attributable to home savings customers outside of Germany	130	3,030	11	453	141	3,483
II. Portfolio of contracts not yet cashed in						
a) Contracts concluded prior to 1.1.2016 (financial year)					–	–
b) Contracts concluded in financial year 2016					–	–
III. Size classification of unallocated contracts						
up to 10,000 €			2,133			13,891
more than 10,000 up to 25,000 €			7,412			110,258
more than 25,000 up to 50,000 €			3,113			100,120
more than 50,000 up to 150,000 €			1,429			95,400
more than 150,000 up to 250,000 €			28			4,877
more than 250,000 up to 500,000 €			5			1,897
more than 500,000 €			1			511
Total			14,121			326,954

IV. The average total net value at the end of the financial year was € 24,568

Movements in the Portfolio in 2016

Tariff group III (Classic S, L, Vario E, U, R tariffs)

I. Overview of movements in the portfolio of unallocated and allocated home savings contracts and contractual total net values	**Not allocated**		**Allocated**		**Total**	
	Number of contracts	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**
A. Portfolio at the end of the previous year	45,338	819,720	10,596	262,369	55,934	1,082,089
B. Additions in the financial year due to						
1. New contracts taken out (cashed-in contracts)	2	151	–	–	2	151
2. Transfer	165	3,350	21	366	186	3,716
3. Waiver of allocation and revocation of allocation	1,256	22,086	–	–	1,256	22,086
4. Partition	28	–	1	–	29	–
5. Allocation	–	–	1,762	34,661	1,762	34,661
6. Other	68	1,312	16	461	84	1,773
Total	1,519	26,899	1,800	35,488	3,319	62,387
C. Disposals in the financial year due to						
1. Allocation	1,762	34,661	–	–	1,762	34,661
2. Reduction	–	871	–	5	–	876
3. Cancellation	4,038	78,310	591	12,714	4,629	91,024
4. Transfer	165	3,350	21	366	186	3,716
5. Combination	–	–	–	–	–	–
6. Expiry of contract	–	–	2,573	61,575	2,573	61,575
7. Waiver of allocation and revocation of allocation	–	–	1,256	22,086	1,256	22,086
8. Other	74	1,481	11	303	85	1,784
Total	6,039	118,675	4,452	97,049	10,491	215,724
D. Net addition/disposal	–4,520	–91,776	–2,652	–61,561	–7,172	–153,337
E. Portfolio at the end of the financial year	40,818	727,944	7,944	200,808	48,762	928,752
thereof: Attributable to home savings customers outside of Germany	172	3,376	15	630	187	4,006
II. Portfolio of contracts not yet cashed in						
a) Contracts concluded prior to 1.1.2016 (financial year)			2			77
b) Contracts concluded in financial year 2016			–			–
III. Size classification of unallocated contracts						
up to 10,000 €			13,452			109,815
more than 10,000 up to 25,000 €			21,283			340,867
more than 25,000 up to 50,000 €			4,428			150,837
more than 50,000 up to 150,000 €			1,604			114,141
more than 150,000 up to 250,000 €			41			7,592
more than 250,000 up to 500,000 €			9			3,158
more than 500,000 €			1			1,534
Total			40,818			727,944

IV. The average total net value at the end of the financial year was € 19,047

Movements in the Portfolio in 2016

Tariff group IV (Classic S1, L1, N1, F1, Vario E1, U1, R1 tariffs)

I. Overview of movements in the portfolio of unallocated and allocated home savings contracts and contractual total net values	**Not allocated**		**Allocated**		**Total**	
	Number of contracts	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**
A. Portfolio at the end of the previous year	106,028	2,318,373	15,923	371,500	121,951	2,689,873
B. Additions in the financial year due to						
1. New contracts taken out (cashed-in contracts)	818	52,999	–	–	818	52,999
2. Transfer	267	5,615	30	749	297	6,364
3. Waiver of allocation and revocation of allocation	6,271	113,770	–	–	6,271	113,770
4. Partition	67	–	2	–	69	–
5. Allocation	–	–	11,059	275,151	11,059	275,151
6. Other	307	18,426	41	1,063	348	19,489
Total	7,730	190,810	11,132	276,963	18,862	467,773
C. Disposals in the financial year due to						
1. Allocation	11,059	275,151	–	–	11,059	275,151
2. Reduction	–	75,515	–	287	–	75,802
3. Cancellation	8,596	220,085	4,540	152,948	13,136	373,033
4. Transfer	267	5,615	30	749	297	6,364
5. Combination	1	–	–	–	1	–
6. Expiry of contract	–	–	2,985	72,503	2,985	72,503
7. Waiver of allocation and revocation of allocation	–	–	6,271	113,770	6,271	113,770
8. Other	380	22,754	26	655	406	23,409
Total	20,303	599,120	13,852	340,912	34,155	940,032
D. Net addition/disposal	–12,573	–408,310	–2,720	–63,949	–15,293	–472,259
E. Portfolio at the end of the financial year	93,455	1,910,063	13,203	307,551	106,658	2,217,614
thereof: Attributable to home savings customers outside of Germany	322	8,894	31	1,002	353	9,896
II. Portfolio of contracts not yet cashed in						
a) Contracts concluded prior to 1.1.2016 (financial year)			11			828
b) Contracts concluded in financial year 2016			1			102
III. Size classification of unallocated contracts						
up to 10,000 €			40,003			342,396
more than 10,000 up to 25,000 €			37,974			672,250
more than 25,000 up to 50,000 €			10,734			436,472
more than 50,000 up to 150,000 €			4,334			367,232
more than 150,000 up to 250,000 €			331			62,237
more than 250,000 up to 500,000 €			74			24,241
more than 500,000 €			5			5,235
Total			93,455			1,910,063

IV. The average total net value at the end of the financial year was € 20,792

Movements in the Portfolio in 2016

Tariff group V (Classic2007 S, B, F, N, Classic Young tariffs)

I. Overview of movements in the portfolio of unallocated and allocated home savings contracts and contractual total net values	**Not allocated**		**Allocated**		**Total**	
	Number of contracts	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**
A. Portfolio at the end of the previous year	321,682	7,364,597	11,597	285,897	333,279	7,650,494
B. Additions in the financial year due to						
1. New contracts taken out (cashed-in contracts)	248	14,835	–	–	248	14,835
2. Transfer	730	15,795	37	994	767	16,789
3. Waiver of allocation and revocation of allocation	10,851	187,586	–	–	10,851	187,586
4. Partition	121	–	2	–	123	–
5. Allocation	–	–	20,595	433,862	20,595	433,862
6. Other	766	48,584	29	667	795	49,251
Total	12,716	266,800	20,663	435,523	33,379	702,323
C. Disposals in the financial year due to						
1. Allocation	20,595	433,862	–	–	20,595	433,862
2. Reduction	–	76,443	–	375	–	76,818
3. Cancellation	20,873	479,432	6,693	169,405	27,566	648,837
4. Transfer	730	15,795	37	994	767	16,789
5. Combination	3	–	–	–	3	–
6. Expiry of contract	–	–	1,777	48,771	1,777	48,771
7. Waiver of allocation and revocation of allocation	–	–	10,851	187,586	10,851	187,586
8. Other	1,167	72,028	19	326	1,186	72,354
Total	43,368	1,077,560	19,377	407,457	62,745	1,485,016
D. Net addition/disposal	–30,652	–810,760	1,286	28,067	–29,366	–782,693
E. Portfolio at the end of the financial year	291,030	6,553,838	12,883	313,964	303,913	6,867,801
thereof: Attributable to home savings customers outside of Germany	574	18,042	21	472	595	18,514
II. Portfolio of contracts not yet cashed in						
a) Contracts concluded prior to 1.1.2016 (financial year)			118			8,851
b) Contracts concluded in financial year 2016			1			68
III. Size classification of unallocated contracts						
up to 10,000 €			150,381			1,501,775
more than 10,000 up to 25,000 €			87,475			1,614,289
more than 25,000 up to 50,000 €			33,962			1,366,865
more than 50,000 up to 150,000 €			16,799			1,470,537
more than 150,000 up to 250,000 €			1,884			360,019
more than 250,000 up to 500,000 €			457			150,191
more than 500,000 €			72			90,162
Total			291,030			6,553,838

IV. The average total net value at the end of the financial year was € 22,598

Movements in the Portfolio in 2016

Tariff group VI (Classic2012 S, B, F, FL, N, Classic Young tariffs)

I. Overview of movements in the portfolio of unallocated and allocated home savings contracts and contractual total net values	**Not allocated**		**Allocated**		**Total**	
	Number of contracts	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**
A. Portfolio at the end of the previous year	92,906	2,414,510	484	11,276	93,390	2,425,786
B. Additions in the financial year due to						
1. New contracts taken out (cashed-in contracts)	141	7,212	–	–	141	7,212
2. Transfer	134	6,160	1	10	135	6,170
3. Waiver of allocation and revocation of allocation	203	9,033	–	–	203	9,033
4. Partition	35	–	–	–	35	–
5. Allocation	–	–	1,177	36,662	1,177	36,662
6. Other	185	12,555	3	86	188	12,641
Total	698	34,960	1,181	36,758	1,879	71,718
C. Disposals in the financial year due to						
1. Allocation	1,177	36,662	–	–	1,177	36,662
2. Reduction	–	28,477	–	40	–	28,517
3. Cancellation	4,808	125,735	359	12,398	5,167	138,133
4. Transfer	134	6,160	1	10	135	6,170
5. Combination	–	–	–	–	–	–
6. Expiry of contract	–	–	123	2,894	123	2,894
7. Waiver of allocation and revocation of allocation	–	–	203	9,033	203	9,033
8. Other	374	24,128	2	60	376	24,188
Total	6,493	221,162	688	24,435	7,181	245,597
D. Net addition/disposal	–5,795	–186,202	493	12,323	–5,302	–173,879
E. Portfolio at the end of the financial year	87,111	2,228,308	977	23,599	88,088	2,251,907
thereof: Attributable to home savings customers outside of Germany	167	6,260	1	10	168	6,270
II. Portfolio of contracts not yet cashed in						
a) Contracts concluded prior to 1.1.2016 (financial year)			161			9,759
b) Contracts concluded in financial year 2016			–			–
III. Size classification of unallocated contracts						
up to 10,000 €			43,371			433,527
more than 10,000 up to 25,000 €			23,629			439,778
more than 25,000 up to 50,000 €			11,845			471,018
more than 50,000 up to 150,000 €			7,356			632,746
more than 150,000 up to 250,000 €			668			127,212
more than 250,000 up to 500,000 €			194			66,948
more than 500,000 €			48			57,079
Total			87,111			2,228,308

IV. The average total net value at the end of the financial year was € 25,564

Movements in the Portfolio in 2016

Tariff group VII (Classic2014 S, B, F, FL, N, Classic Young tariffs)

I. Overview of movements in the portfolio of unallocated and allocated home savings contracts and contractual total net values	**Not allocated**		**Allocated**		**Total**	
	Number of contracts	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**
A. Portfolio at the end of the previous year	130,018	3,676,261	188	3,673	130,206	3,679,934
B. Additions in the financial year due to						
1. New contracts taken out (cashed-in contracts)	10,819	378,070	–	–	10,819	378,070
2. Transfer	160	4,720	–	–	160	4,720
3. Waiver of allocation and revocation of allocation	49	1,474	–	–	49	1,474
4. Partition	26	–	–	–	26	–
5. Allocation	–	–	549	12,730	549	12,730
6. Other	128	7,248	2	20	130	7,268
Total	11,182	391,512	551	12,750	11,733	404,262
C. Disposals in the financial year due to						
1. Allocation	549	12,730	–	–	549	12,730
2. Reduction	–	44,404	–	–	–	44,404
3. Cancellation	7,183	186,899	180	5,126	7,363	192,025
4. Transfer	160	4,720	–	–	160	4,720
5. Combination	–	–	–	–	–	–
6. Expiry of contract	–	–	50	674	50	674
7. Waiver of allocation and revocation of allocation	–	–	49	1,474	49	1,474
8. Other	437	24,242	1	10	438	24,252
Total	8,329	272,995	280	7,284	8,609	280,279
D. Net addition/disposal	2,853	118,516	271	5,466	3,124	123,982
E. Portfolio at the end of the financial year	132,871	3,794,777	459	9,139	133,330	3,803,916
thereof: Attributable to home savings customers outside of Germany	211	8,440	1	20	212	8,460
II. Portfolio of contracts not yet cashed in						
a) Contracts concluded prior to 1.1.2016 (financial year)			2,309			98,623
b) Contracts concluded in financial year 2016			–			–
III. Size classification of unallocated contracts						
up to 10,000 €			63,383			633,409
more than 10,000 up to 25,000 €			33,910			633,626
more than 25,000 up to 50,000 €			20,344			818,049
more than 50,000 up to 150,000 €			13,336			1,168,216
more than 150,000 up to 250,000 €			1,343			259,186
more than 250,000 up to 500,000 €			444			149,021
more than 500,000 €			111			133,270
Total			132,871			3,794,777

IV. The average total net value at the end of the financial year was € 28,530

Movements in the Portfolio in 2016

Tariff group VIII (Classic2015 F, L, N, S, Classic Young tariffs)

I. Overview of movements in the portfolio of unallocated and allocated home savings contracts and contractual total net values	**Not allocated** Number of contracts	**Not allocated** Total net value in € thousands	**Allocated** Number of contracts	**Allocated** Total net value in € thousands	**Total** Number of contracts	**Total** Total net value in € thousands
A. Portfolio at the end of the previous year	3,281	142,377	–	–	3,281	142,377
B. Additions in the financial year due to						
1. New contracts taken out (cashed-in contracts)	48,157	1,763,790	–	–	48,157	1,763,790
2. Transfer	20	1,394	–	–	20	1,394
3. Waiver of allocation and revocation of allocation	2	26	–	–	2	26
4. Partition	5	–	–	–	5	–
5. Allocation	–	–	39	805	39	805
6. Other	1,037	61,906	–	–	1,037	61,906
Total	49,221	1,827,116	39	805	49,260	1,827,921
C. Disposals in the financial year due to						
1. Allocation	39	805	–	–	39	805
2. Reduction	–	16,713	–	–	–	16,713
3. Cancellation	910	27,677	14	234	924	27,911
4. Transfer	20	1,394	–	–	20	1,394
5. Combination	434	–	–	–	434	–
6. Expiry of contract	–	–	1	15	1	15
7. Waiver of allocation and revocation of allocation	–	–	2	26	2	26
8. Other	59	4,976	–	–	59	4,976
Total	1,462	51,565	17	275	1,479	51,840
D. Net addition/disposal	47,759	1,775,551	22	530	47,781	1,776,081
E. Portfolio at the end of the financial year	51,040	1,917,928	22	530	51,062	1,918,458
thereof: Attributable to home savings customers outside of Germany	60	3,809	–	–	60	3,809
II. Portfolio of contracts not yet cashed in						
a) Contracts concluded prior to 1.1.2016 (financial year)			522			32,354
b) Contracts concluded in financial year 2016			13,205			624,916
III. Size classification of unallocated contracts						
up to 10,000 €			18,101			180,821
more than 10,000 up to 25,000 €			13,531			257,444
more than 25,000 up to 50,000 €			10,753			439,607
more than 50,000 up to 150,000 €			7,362			667,447
more than 150,000 up to 250,000 €			924			178,721
more than 250,000 up to 500,000 €			293			98,803
more than 500,000 €			76			95,085
Total			51,040			1,917,928

IV. The average total net value at the end of the financial year was € 37,571

Movements in the Portfolio in 2016

Tariff group Riester (FR, SR, R tariffs)

I. Overview of movements in the portfolio of unallocated and allocated home savings contracts and contractual total net values	**Not allocated**		**Allocated**		**Total**	
	Number of contracts	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**
A. Portfolio at the end of the previous year	41,073	1,533,345	84	2,325	41,157	1,535,670
B. Additions in the financial year due to						
1. New contracts taken out (cashed-in contracts)	7,094	300,162	–	–	7,094	300,162
2. Transfer	–	–	–	–	–	–
3. Waiver of allocation and revocation of allocation	299	6,574	–	–	299	6,574
4. Partition	–	–	–	–	–	–
5. Allocation	–	–	539	12,697	539	12,697
6. Other	153	8,183	8	126	161	8,309
Total	7,546	314,919	547	12,823	8,093	327,742
C. Disposals in the financial year due to						
1. Allocation	539	12,697	–	–	539	12,697
2. Reduction	–	8,006	–	–	–	8,006
3. Cancellation	2,756	105,323	99	2,407	2,855	107,730
4. Transfer	–	–	–	–	–	–
5. Combination	10	–	–	–	10	–
6. Expiry of contract	–	–	15	532	15	532
7. Waiver of allocation and revocation of allocation	–	–	299	6,574	299	6,574
8. Other	153	8,209	1	30	154	8,239
Total	3,458	134,235	414	9,543	3,872	143,778
D. Net addition/disposal	4,088	180,684	133	3,280	4,221	183,964
E. Portfolio at the end of the financial year	45,161	1,714,029	217	5,605	45,378	1,719,634
thereof: Attributable to home savings customers outside of Germany	39	1,454	–	–	39	1,454
II. Portfolio of contracts not yet cashed in						
a) Contracts concluded prior to 1.1.2016 (financial year)			2,662			109,527
b) Contracts concluded in financial year 2016			3,235			140,635
III. Size classification of unallocated contracts						
up to 10,000 €			4,229			41,972
more than 10,000 up to 25,000 €			11,967			239,107
more than 25,000 up to 50,000 €			19,510			775,766
more than 50,000 up to 150,000 €			9,394			645,977
more than 150,000 up to 250,000 €			59			10,657
more than 250,000 up to 500,000 €			2			550
more than 500,000 €			–			–
Total			45,161			1,714,029

IV. The average total net value at the end of the financial year was € 37,896

Movements in the Portfolio in 2016

All Tariffs

I. Overview of movements in the portfolio of unallocated and allocated home savings contracts and contractual total net values	**Not allocated**		**Allocated**		**Total**	
	Number of contracts	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**	**Number of contracts**	**Total net value in € thousands**
A. Portfolio at the end of the previous year	759,480	18,733,135	44,972	1,113,312	804,452	19,846,447
B. Additions in the financial year due to						
1. New contracts taken out (cashed-in contracts)	67,282	2,517,459	–	–	67,282	2,517,459
2. Transfer	1,522	38,311	97	2,311	1,619	40,622
3. Waiver of allocation and revocation of allocation	19,305	349,725	–	–	19,305	349,725
4. Partition	293	–	6	–	299	–
5. Allocation	–	–	36,400	823,786	36,400	823,786
6. Other	2,683	159,119	108	2,660	2,791	161,779
Total	91,085	3,064,614	36,611	828,757	127,696	3,893,371
C. Disposals in the financial year due to						
1. Allocation	36,400	823,786	–	–	36,400	823,786
2. Reduction	–	250,854	–	707	–	251,561
3. Cancellation	51,990	1,295,808	12,930	368,960	64,920	1,664,768
4. Transfer	1,522	38,311	97	2,311	1,619	40,622
5. Combination	450	–	–	–	450	–
6. Expiry of contract	–	–	9,712	243,942	9,712	243,942
7. Waiver of allocation and revocation of allocation	–	–	19,305	349,725	19,305	349,725
8. Other	2,683	158,725	67	1,604	2,750	160,329
Total	93,045	2,567,485	42,111	967,249	135,156	3,534,734
D. Net addition/disposal	–1,960	497,130	–5,500	–138,492	–7,460	358,637
E. Portfolio at the end of the financial year	757,520	19,230,265	39,472	974,820	796,992	20,205,084
thereof: Attributable to home savings customers outside of Germany	1,717	54,272	82	2,628	1,799	56,900
II. Portfolio of contracts not yet cashed in						
a) Contracts concluded prior to 1.1.2016 (financial year)			5,785			260,019
b) Contracts concluded in financial year 2016			16,442			765,721
III. Size classification of unallocated contracts						
up to 10,000 €			335,427			3,259,700
more than 10,000 up to 25,000 €			237,859			4,317,529
more than 25,000 up to 50,000 €			115,173			4,574,505
more than 50,000 up to 150,000 €			61,970			5,186,435
more than 150,000 up to 250,000 €			5,297			1,013,699
more than 250,000 up to 500,000 €			1,480			495,521
more than 500,000 €			314			382,876
Total			757,520			19,230,265

IV. The average total net value at the end of the financial year was € 25,352

Landesbank Hessen-Thüringen
Addresses

Landesbank Hessen-Thüringen Addresses

Head Offices

Frankfurt am Main
MAIN TOWER
Neue Mainzer Strasse 52–58
60311 Frankfurt am Main
Germany
Phone +49 69/91 32-01
Fax +49 69/29 15 17

Erfurt
Bonifaciusstrasse 16
99084 Erfurt
Germany
Phone +49 3 61/2 17-71 00
Fax +49 3 61/2 17-71 01

Bausparkasse

Landesbausparkasse Hessen-Thüringen

Offenbach
Strahlenbergerstrasse 13
63067 Offenbach
Germany
Phone +49 69/91 32-02
Fax +49 69/91 32-29 90

Erfurt
Bonifaciusstrasse 19
99084 Erfurt
Germany
Phone +49 3 61/2 17-70 07
Fax +49 3 61/2 17-70 90

Development Bank

Wirtschafts- und Infrastrukturbank Hessen
Strahlenbergerstrasse 11
63067 Offenbach
Germany
Phone +49 69/91 32-03
Fax +49 69/91 32-46 36

Branch Offices

Düsseldorf
Uerdinger Strasse 88
40474 Düsseldorf
Germany
Phone +49 2 11/3 01 74-0
Fax +49 2 11/3 01 74-92 99

Kassel
Ständeplatz 17
34117 Kassel
Germany
Phone +49 5 61/7 06-60
Fax +49 5 61/7 06-63 33

London
3rd Floor
95 Queen Victoria Street
London EC4V 4HN
UK
Phone +44 20/73 34-45 00
Fax +44 20/76 06-74 30

New York
420, Fifth Avenue
New York, N. Y. 10018
USA
Phone +1 2 12/7 03-52 00
Fax +1 2 12/7 03-52 56

Paris
118, avenue des Champs Elysées
75008 Paris
France
Phone +33 1/40 67-77 22
Fax +33 1/40 67-91 53

Representative Offices

Madrid
(for Spain and Portugal)
General Castaños, 4
Bajo Dcha.
28004 Madrid
Spain
Phone +34 91/39 11-0 04
Fax +34 91/39 11-1 32

Moscow
Novinsky Boulevard 8
Business Centre Lotte,
20th Floor
121099 Moscow
Russia
Phone +7 4 95/2 87-03-17
Fax +7 4 95/2 87-03-18

Shanghai
Unit 012, 18th Floor
Hang Seng Bank Tower
1000 Lujiazui Ring Road
Shanghai, 200120
China
Phone +86 21/68 77 77 08
Fax +86 21/68 77 77 09

Singapore
One Temasek Avenue
#05-04 Millenia Tower
Singapore 039192
Phone +65/62 38 04 00
Fax +65/62 38 99 78

Stockholm
Kungsgatan 3, 2nd Floor
114 43 Stockholm
Sweden
Phone +46/86 11 01 16

Sales Offices

Düsseldorf
Uerdinger Strasse 88
40474 Düsseldorf
Germany
Phone +49 11/3 01 74-0
Fax +49 11/3 01 74-92 99

Berlin
Joachimsthaler Strasse 12
10719 Berlin
Germany
Phone +49 30/2 06 18 79-13 52
Fax +49 30/2 06 18 79-13 45

Munich
Lenbachplatz 2a
80333 Munich
Germany
Phone +49 89/5 99 88 49-10 16
Fax +49 89/5 99 88 49-10 10

Münster
Regina-Protmann-Strasse 16
48159 Münster
Germany
Phone +49 2 51/92 77 63-36 48
Fax +49 2 51/92 77 63-36 72

Stuttgart
Kronprinzstrasse 11
70173 Stuttgart
Germany
Phone +49 7 11/28 04 04-0
Fax +49 7 11/28 04 04-20

Real Estate Offices

Berlin
Joachimsthaler Strasse 12
10719 Berlin
Germany
Phone +49 30/2 06 18 79-13 14
Fax +49 30/2 06 18 79-13 69

Munich
Lenbachplatz 2a
80333 Munich
Germany
Phone +49 89/5 99 88 49-0
Fax +49 89/5 99 88 49-10 10

Selected Subsidiaries

Frankfurter Sparkasse
Neue Mainzer Strasse 47–53
60311 Frankfurt am Main
Germany
Phone +49 69/26 41-0
Fax +49 69/26 41-29 00

1822direkt Gesellschaft der Frankfurter Sparkasse mbH
Borsigallee 19
60388 Frankfurt am Main
Germany
info@1822direkt.com
Phone +49 69/9 41 70-0
Fax +49 69/9 41 70-71 99

Frankfurter Bankgesellschaft (Deutschland) AG
JUNGHOF
Junghofstrasse 26
60311 Frankfurt am Main
Germany
Phone +49 69/1 56 86-0
Fax +49 69/1 56 86-1 40

Frankfurter Bankgesellschaft (Schweiz) AG
Börsenstrasse 16, Postfach
8001 Zurich
Switzerland
Phone +41 44/2 65 44 44
Fax +41 44/2 65 44 11

Helaba Invest
Kapitalanlagegesellschaft mbH
JUNGHOF
Junghofstrasse 24
60311 Frankfurt am Main
Germany
Phone +49 69/2 99 70-0
Fax +49 69/2 99 70-6 30

GWH
Wohnungsgesellschaft mbH
Hessen
Westerbachstrasse 33
60489 Frankfurt am Main
Germany
Phone +49 69/9 75 51-0
Fax +49 69/9 75 51-1 50

OFB
Projektentwicklung GmbH
Speicherstrasse 55
60327 Frankfurt am Main
Germany
Phone +49 69/9 17 32-01
Fax +49 69/9 17 32-7 99

GGM
Gesellschaft für Gebäude-Management mbH
Junghofstraße 26
60311 Frankfurt am Main
Germany
Phone +49 69/77 01 97-0
Fax +49 69/77 01 97-77

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Helaba
Landesbank Hessen-Thüringen

MAIN TOWER
Neue Mainzer Strasse 52–58
60311 Frankfurt am Main
Germany
Phone +49 69/91 32-01

Bonifaciusstrasse 16
99084 Erfurt
Germany
Phone +49 3 61/2 17-71 00

www.helaba.com