Press Release

13.08.2020

Distortions on capital markets due to Covid-19 weigh on half-year earnings

- Operating activities perform better than previous year: operating income up by approx. 6 percent; net interest and net fee and commission income grow by 7 and 13 percent, respectively
- Transformation programme “Scope” on track - costs remain stable
- Negative valuation effects (from fair value measurement) push net profit before tax in the first half of 2020 to EUR -274 million
- Recognised impairment losses of around EUR 300 million of temporary nature and will largely be offset over time
- Loan loss provisions of EUR 151 million set aside to cover potential defaults
- CET-1 ratio of 13.3 percent still comfortably above regulatory requirements
- Helaba expects an improvement in the second half of the year
- No specific forecast for FY 2020 results due to uncertainties related to Covid-19 pandemic; Helaba cannot rule out a negative result for the year as a whole

Frankfurt am Main – Helaba Landesbank Hessen-Thüringen recorded a consolidated net loss before tax under IFRS of EUR -274 million in the first half of 2020 (previous year: EUR +325 million). After tax, the consolidated net loss amounted to EUR -185 million (previous year: EUR +255 million).

"Distortions on the capital markets in the wake of the Covid-19 pandemic had a severe impact on our balance sheet. Fair value measurement weighed heavily on our earnings and resulted in a valuation loss of around EUR 300 million. However, these negative valuation effects on our portfolios, which mainly consist of public-sector counterparties, are only of a temporary nature. Over time, they will largely be reversed so that, on balance, we do not expect to incur any significant losses," explains Thomas Groß, Helaba’s CEO. "In this macroeconomic crisis, our diversified business model is a source of stability. We are very pleased by the growth in our operating income of around 6 percent in the first half of the year. Net interest income rose by some 7 percent, while the 13 percent rise in net fee and commission income was particularly encouraging. In addition, our real estate portfolios are generating steady income streams. Given the anticipated impact of the pandemic on the real economy, as a precautionary measure we have set aside higher loan loss provisions. Even in these challenging times, we shall continue to support our customers as a strong partner". With a view to the year as a whole, Groß commented: "The coronavirus pandemic and related uncertainties will continue to affect all of us going forward. For this reason, we have decided to refrain from issuing a specific forecast for our full-year results. What I can say, though, is that even if the performance of our core business activities is equally strong in the second half of the year, valuation effects will act as a significant drag on our net income for the year. Therefore, from today's perspective, we cannot rule out the possibility of recording a loss."

Press Release

The figures for the first half of 2020 at a glance

Net interest income increased sharply by EUR 41 million to EUR 598 million (previous year: EUR 557 million), which is mainly attributable to larger portfolios. Due to Covid-19 and in line with Helaba's conservative risk policy, **provisions for losses on loans and advances** were raised by EUR 117 million to EUR -151 million (previous year: EUR -34 million). Overall, the quality of Helaba's portfolios remains high. **Net fee and commission income** rose by EUR 25 million to EUR 211 million (previous year: EUR 186 million). This growth is primarily a result of higher fee income from payment transactions, from Frankfurter Sparkasse's securities and custody business, from the asset management activities of Frankfurter Bankgesellschaft and Helaba Invest as well as from Helaba's lending and guarantee business.

Income from rented properties mainly generated by GWH, which is reported separately for the first time (previously reported under other income), represents a stable and reliable earnings component. In the period under review it amounted to EUR 105 million (previous year: EUR 118 million). The slight decline is mainly due to lower earnings as a result of changes to property holdings.

Operating earnings, which comprise net interest income, net fee and commission income and income from rented properties, increased to EUR 914 million (previous year: EUR 861 million) and reflect the good development of the Group's operating activities.

Net income from fair value measurement, which comprises net trading income and net income from hedge accounting and other financial instruments measured at fair value, was strongly affected by the significant increase in volatility on the financial markets. Mark-to-market valuation resulted in a fair value loss of EUR -303 million (previous year: EUR +78 million). These temporary valuation effects are largely attributable to higher credit risk premiums on portfolios with good to investment grade credit quality, especially for long-dated public sector issues.

Other net income decreased by EUR 153 million to EUR 42 million (previous year: EUR 195 million). This is largely due to the absence of a special effect arising from the first-time consolidation of KOFIBA in the previous financial year which contributed to higher earnings.

At EUR 778 million, **general and administrative expenses** remained unchanged from the previous year (EUR 778 million) despite significantly higher allocations to the institutional protection schemes and the increased bank levy. This trend also reflects the implementation of the Scope transformation programme as planned.

In the first half of 2020, the Helaba Group's **balance sheet total** rose by EUR 20.7 billion to EUR 227.7 billion (31 December 2019: EUR 207.0 billion). This rise was chiefly a result of enhanced measures to secure liquidity in the wake of the Covid-19 pandemic and increased fair values of derivatives. The **business volume** increased by EUR 20.4 billion to EUR 266.1 billion (31 December 2019: EUR 245.7 billion). At EUR 9.5 billion, the volume of **new medium and long-term business** - excluding WIBank's competitively neutral promotional business - remained practically unchanged from the same period last year (EUR 9.6 billion).

The **CET1 ratio** amounted to 13.3 percent as of 30 June 2020 (previous year: 14.2 percent). **Return on equity (before tax)** was -6.3 percent (previous year: +7.7 percent) and the **cost/income ratio** was 118.7 percent (previous year: 68.4 percent).

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Segment report at a glance

The **Real Estate** segment focuses on larger-scale commercial portfolio and project financing for real estate. Pre-tax earnings in this segment amounted to EUR 118 million (previous year: EUR 131 million) and were thus marginally lower than last year. Thanks to a rise in the business volume, net interest income - as the main earnings component - reached EUR 192 million, thereby exceeding the same period last year (previous year: EUR 190 million). Risk provisioning costs amounted to EUR -2 million (previous year: EUR +12 million). The volume of new medium and long-term business decreased to EUR 3.3 billion (previous year: EUR 4.0 billion), which was offset by a lower level of unscheduled repayments.

The **Corporates & Markets** segment comprises products for the Group's corporate, institutional, public sector and municipal corporation client groups in addition to the custodian business. Pre-tax earnings in this segment came to EUR -256 million (previous year: EUR -49 million), with the main negative impact stemming from the fair value result. These temporary valuation effects are largely attributable to higher credit risk premiums on portfolios with good to investment grade credit quality, especially for long-dated public sector issues. In contrast, net interest income and net fee and commission income both recorded encouraging growth. At EUR 101 million, provisions for losses on loans and advances were significantly higher than the same period last year (previous year: EUR 47 million). New business increased by EUR 0.5 billion to EUR 5.3 billion (previous year: EUR 4.8 billion).

Since March, Helaba has been supporting the Sparkassen-Finanzgruppe in the German states of Hesse and Thuringia in implementing new KfW lending programmes as a pass-through institution. By the end of June, around 1,860 applications for KfW's coronavirus aid programmes with a total volume of EUR 589 million had been processed.

The **Retail & Asset Management** segment includes Retail Banking, Private Banking and Asset Management via the subsidiaries of Frankfurter Sparkasse, Frankfurter Bankgesellschaft and Helaba Invest in addition to Landesbausparkasse Hessen-Thüringen and GWH. This segment's pre-tax earnings of EUR 65 million, most of which were contributed by GWH, were lower than the previous year's figure of EUR 118 million. The positive development in net interest and net fee and commission income was overshadowed by the fair value result in this segment as well. Risk provisioning was increased to EUR -14 million (previous year: EUR -1 million).

WIBank is the vehicle through which Helaba fulfils a public development remit on behalf of the State of Hesse. Its funding programmes are aimed at agricultural enterprises, private individuals and housing associations as well as local authorities and companies. At EUR 15 million, WIBank generated a pre-tax profit of EUR 15 million, which was slightly the same period last year (EUR 13 million). Net interest income rose by EUR 3 million to EUR 32 million due to an expansion in business activities. At EUR 21 million, net fee and commission was marginally higher than in H1 2019 (EUR 19 million). WIBank is supporting the Hessian economy with targeted aid programmes during the Covid-19 pandemic on behalf of the State of Hesse. By the end of June, funding commitments of € 161.2 million for around 5,000 businesses in Hesse had been approved.

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Income Statement of Helaba Group under IFRS as of 30 June 2020

	01.01.-30.06.2020	01.01.-30.06.2019	Change	
	In EUR (millions)	In EUR (millions)	In EUR (millions)	In %
Net interest income	598	557	41	7.4
Provisions for losses on loans and advances	-151	-34	-117	>-100
Net interest income after provisions for losses on loans and advances	447	523	-76	-14.5
Net fee and commission income	211	186	25	13.4
Net income from investment property	105	118	-13	-11.0
Gains or losses on non-trading derivatives and financial instruments to which the fair value option is applied	-303	78	-381	n/a
Share of profit or loss of equity-accounted entities	2	3	-1	-33.3
Other net operating income	42	195	-153	-78.5
General and administration expenses (incl. scheduled depreciation and amortisation)	-778	-778	0	0.0
Consolidated net profit before tax	-274	325	-599	n/a

	30.06.2020	31.12.2019	Change
	In EUR (billions)	In EUR (billions)	In EUR (billions)
Balance sheet total	227.7	207.0	20.7
Business volume	266.1	245.7	20.4

Key indicators

	01.01. - 30.06.2020	01.01. - 30.06.2019
	In %	In %
Cost/income ratio	118.7	68.4
Return on equity (before tax)	-6.3	7.7

	30.06.2020	31.12.2019
	In %	In %
CET1 ratio “fully loaded”	13.3	14.2
Total capital ratio “fully loaded”	17.7	19.0
Leverage ratio “fully loaded”	3.8	4.3

Press Release

Helaba's ratings

	Moody's	Fitch	Standard & Poor's
Issuer rating	Aa3	A+*	A*
Short-term rating	P-1	F1+*	A-1*
Public-sector Pfandbriefe	Aaa	AAA	-
Mortgage Pfandbriefe	-	AAA	-

* based on joint group rating for the S-Group Hesse-Thuringia

Further information on the performance of the Group can be found at:
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About Helaba:

One of the leading banks in the German financial capital of Frankfurt, the Helaba Group employs approximately 6,100 people and has total assets of approx. 228 bn euros. It offers a complete range of financial services from a single source for companies, banks and institutional investors. Helaba provides innovative, high-quality financial products and services for the Sparkassen. It serves as the Sparkasse central bank for Hesse, Thuringia, North Rhine-Westphalia and Brandenburg, making Helaba a strong partner for some 40 percent of Germany's Sparkassen. Helaba is also the regional market leader in retail banking through its subsidiary Frankfurter Sparkasse and has a presence in direct banking through 1822direkt. Landesbausparkasse Hessen-Thüringen, Helaba's independent home loans and savings division, uses the Sparkassen as sales partners and is the market leader in both Hesse and Thuringia. WIBank, which comes under Helaba's Public Development and Infrastructure Business unit, supports development programmes for the State of Hesse. Helaba also engages in many areas of public life by sponsoring ground-breaking cultural, educational, environmental, sports and social projects.

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