Dr Detlef Hosemann

Member of the Board of Managing Directors of Helaba

Presentation of the Annual Financial Statements 2018

MAIN TOWER
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The spoken word shall prevail.

Helaba
Landesbank Hessen-Thüringen
MAIN TOWER
Neue Mainzer Strasse 52 - 58
60311 Frankfurt am Main

Ladies and Gentlemen,

Mr Grüntker has already mentioned the most important earnings figures that I would now like to focus on in more detail. First of all, I will expand upon the development of the consolidated balance sheet and consolidated profit and loss statement; afterwards, I will outline the performance of the bank's business segments. Finally, I would like to provide you with an outlook of the anticipated effects of changes to accounting rules as a result of the new IFRS 9 standard.

The **balance sheet total** declined by approximately 7 billion euros, or 4.1 percent, to 158 billion euros.

We see this decline in a rather positive light since, on the asset side, it mainly results from trading assets and loans and advances to banks which, at around 4.2 billion euros in each case, are declining.

In the case of trading assets, the main reason for this fall is a lower measurement of derivatives of approx. 3 billion euros.

The development of loans and advances to banks reflects the fact that we have to make less cash collateral available for derivative transactions and that the volume of overnight and time deposits has declined.

The aforementioned effects do not impact the primary customer business and tend to result in an improved balance sheet structure, since it gives loans and advances to customers on the asset side and equity on the passive side a greater weighting.

The central item on the asset side of our balance sheet are **loans and advances to customers.** They are reported at 90.2 billion euros, or 2.9 billion euros lower than the year before. Around 1.9 billion euros of this, however, is related to exchange rate effects, especially the weaker US dollar, with only 1 billion attributed to scheduled maturities and unscheduled repayments. In this case, the positive development in new medium and long-term business was not able to fully compensate for a decline in the existing portfolio. The high level of corporate liquidity and buoyant real estate markets are leading to early repayments and refinancing.

Further declines were noticeable, in particular, with trading assets. Of the year-on-year fall of 4.2 billion euros, 3 billion euros was a consequence of the lower remeasurement of derivatives, which had the same effect on the trading liabilities.

On the **liabilities side** of the balance sheet, **liabilities due to banks and customers** rose by a combined 4.1 billion euros, primarily due to short-term deposits. Other types of funding were adjusted accordingly. In addition to **securitised liabilities**, which were 2.7 billion euros lower, **trading liabilities** were reduced by 6.4 billion euros, of which 2.9 billion euros were attributed to the lower remeasurement of derivatives, mirroring the asset side.

Helaba’s refinancing structure exhibits a healthy level of diversification. This is true from a product perspective, refinancing of which is based on Pfandbrief issuance, the development business, retail activities and wholesale funding. It is also true from an investor’s perspective, with our most important groups of customers – companies, private customers, public-sector customers and financial institutions, especially from the savings banks organisation – each being responsible for a significant proportion of our funding.

Equity reported on the balance sheet amounts to 8 billion euros. This means we have currently achieved capital ratios that not only enable us to further expand our customer-related business but also provide an adequate buffer for any charges arising from expected regulatory changes as a result of the overhaul of the Capital Requirements Regulation and Capital Requirements Directive (CRR and CRD IV).

Now I would like to turn to the **consolidated income statement**.
Although the **consolidated profit before taxes** for 2017 of 447 million euros represents a decline compared to the previous year, it is significantly lower than expected. Overall, we are reasonably satisfied with this result.

At 1.1 billion euros, net interest income is around 11 percent below the previous year. On the one hand, this reflects the level of interest rates, which continue to be very low. In particular, the retail-driven business of Frankfurter Sparkasse and LBS, in addition to investments of our own funds, are affected by this. On the other hand, intense competition among lenders and early repayments are leading to a slight fall in average margins in our total credit portfolio.
There will be a time lag before a turnaround in interest rates, should it materialise, has an impact on our P&L.

The situation is more upbeat in respect of counterparty risks: we were able to reverse a net amount of as much as 56 million euros of previously allocated

provisions for losses on loans and advances, having accounted for a charge of 154 million euros the year before. This amounts to an improvement in our profits of 210 million euros. The main reason for this was the exceptional economic situation in Germany; however, this was also true for other focus regions in which our borrowers operate.

In common with previous years, the exception to this was the ship financing portfolio. Here, we were successful in achieving further significant reductions in our exposure in addition to selling distressed assets. This did not have any negative impact on the profit and loss statement because the specific allowances for impairment losses in 2017 were already covered by portfolio provisions created in the previous year, which were reversed accordingly. As a result of the extensive risk provisioning in previous years, and accounting for the utilisation and reversal of impairment charges, a bottom-line reversal in loan loss provisions was reported in the income statement.

The bank managed to raise **net fee and commission income** by 4 percent to 354 million euros, representing a 21-percent share of operating earnings. The primary sources of this income were transaction banking services, including account management, and asset management. But the securities business and custodian banking services, lending and guarantee business as well as fee and commission income from WIBank's activities in managing public-sector promotional schemes contributed to this result. This diversification resulted in other sources, which exhibited more dynamic growth, overcompensating for the weaker development of a number of sub-segments.

Net trading income, at 268 million euros, was 122 million euros higher than in the previous year. Customer-related trading income performed well. Despite this, the improvement in the net income exaggerates the performance of the underlying business. Around 112 million euros of the increase in earnings can be attributed to the remeasurement of derivatives held for trading as well as to the elimination of internal group transactions between the trading book and banking book.

Net income from hedge accounting and non-trading derivatives amounted to minus 127 million euros, which was 173 million euros lower than in the previous year. The consolidation of internal group transactions, as I mentioned earlier, had a negative impact of minus 42 million euros which, in comparison to the year before, was as much as minus 54 million euros. A further charge of minus 60 million euros resulted from the so-called CCBS effect, which had a positive effect of 20 million euros in the previous year. From 2018, we are going to include this valuation component for the liquidity of foreign currencies directly in equity by utilising a change in accounting rules in accordance with IFRS 9. This will lead to a reduction in the volatility of the profit and loss statement that results from this item. When adjusted for the aforementioned effects, net income is close to our target for this P&L item, namely to steer the remeasurement effects of hedging instruments and their underlying transactions towards zero.

Net income from financial investments, including entities accounted for at-equity, declined from 53 million euros to 35 million euros. This item includes gains and losses from the disposal of investments as well as write-downs and write-ups. The write-up of a previously recognised impairment loss on a bond from HETA Asset Resolution AG had had a positive effect in the year before.

The **other net operating income** comprises a very diverse range of components, namely operating earnings from the real estate business, extraordinary allowances and provisions.

On the one hand, it reflects the contribution to earnings made by managing the bank's own real estate portfolio. This is predominantly held by the subsidiary GWH. On the other hand, it includes earnings from OFB and GWH's property development business. The latter were successful in boosting this operating income, after deducting operating costs and depreciation, from 153 million euros to 181 million euros.

Extraordinary allowances include the goodwill of Frankfurter Sparkasse, the valuation of property companies to which we have extended loans and that we have to consolidate in accordance with IFRS rules as well as the valuation of software we have developed. In this respect, we have recognised the full impairment of the remaining goodwill of Frankfurter Sparkasse in an amount of 68 million euros.

The background to this is that Frankfurter Sparkasse, which was purchased in 2005, has retained a considerable proportion of profits since this time and has not distributed these funds to Helaba. This has led to a rise in Frankfurter Sparkasse's equity which, in addition to goodwill, is compared to the enterprise value. However, the latter did not increase to the same extent due to the reduction in business targets as a result of the prolonged phase of low interest rates. This is the reason why we have now impaired the remaining goodwill.

Adjustments to the valuation of property companies acting as borrowers that we had to consolidate will be carried out in an amount of 20 million euros. This is comparable to the normal creation of risk provisions. However, due to the consolidation, a write-down has been reported.

The termination of the project to replace the core banking system resulted in an unscheduled depreciation of initially capitalised costs in an amount of 31 million euros.

There are two noteworthy items among the provisions reported in the other net operating income:
Firstly, provisions for the reimbursement of loan processing fees. Secondly, provisions for restructuring measures at the Landesbausparkasse (LBS).

General and administration expenses, at 1.3 billion euros, were 80 million euros higher than the year before. Personnel costs rose from 625 to 646 million euros, although payroll costs only increased by 0.4 percent. This rise is primarily attributable to an increase in the costs of providing retirement benefits. Other administration expenses, including scheduled depreciation, rose by 59 million euros to 666 million euros. This rise is related to higher investment costs in IT and in projects, especially in connection with the implementation of regulatory or business-driven requirements.

In sum, the **consolidated profit before taxes** amounted to 447 million euros. This represents a decline of around 19 percent compared to the year before which, however, is considerably lower than expected.

The **net profit after taxes** amounted to 256 million euros. This is sufficient in order to further strengthen our capital resources in addition to paying a dividend to our shareholders.

Having presented the aggregated figures for the group, I would now like to give you an insight into the performance of the bank's most significant business segments. As in previous years, the **Real Estate segment** generated particularly strong earnings, with an income before taxes of 377 million euros, after 401 million euros in the previous year. The reason for the decline in earnings was a slight fall in the existing lending portfolio, a lower portfolio margin as well as a rise in administration expenses. As expected, the volume of new medium and long-term business fell by 1.7 billion euros to 8.7 billion euros compared to the year before. In contrast, new business margins showed an encouraging rise compared to the previous period. Just as in the year before, there were almost no provisions for losses on loans and advances.

Income from the equity investments GWH and OFB, which are included in this segment, saw a considerable rise compared to the previous year.

The **Corporate Finance segment** achieved a profit before taxes of 94 million euros, having reported a loss of minus 54 million euros in the prior period. At 5.6 billion euros, the volume of new medium and long-term business was around 1.3 billion euros higher than the previous year's figure and above target. There was a slight rise in total earnings.

The main driver for the improvement in this segment's result, however, was a reduction in the provisions for losses on loans and advances. In particular, valuation allowances on ship financing transactions declined significantly after the adjustment made in the previous year. The creation of impairment losses in this segment is offset by a reversal of portfolio allowances, which we have recognised in the segment of “other”, however.

The **Financial Markets segment** generated a profit of 4 million euros, which was significantly below the previous year’s figure of 114 million euros.
The main reason for this development were negative valuation effects that I have previously explained in connection with the P&L item net income from hedge accounting and non-trading derivatives.
Customer-related capital market activities exhibited a satisfactory performance, even if earnings in the highly competitive primary market business somewhat stagnated in 2017.

In terms of German public finance activities, which are also reported in this segment, the amount of new business was substantially above target and this resulted in a stable net interest income.

The **segment of S-Group Business, Private Customers & SME Business** represents the retail banking activities of Frankfurter Sparkasse, Private Banking, the S-Group Bank and the Landesbausparkasse (LBS). At 82 million euros, this segment’s earnings are below the previous year but above target. Net interest income declined slightly by 11 million euros to 341 million euros. Falling net interest income from Frankfurter Sparkasse’s retail business is mainly responsible for this.

In contrast, growth in net fee and commission income of 12 percent compared to the year before was considerably better than planned. Frankfurter Sparkasse, Frankfurter Bankgesellschaft and the S-Group business all contributed to this. In the meantime, net fee and commission income accounts for 31 percent of this segment's earnings. Administration expenses in this segment are declining, especially thanks to cost savings at Frankfurter Sparkasse.

The **segment of Public Development and Infrastructure Business** mainly comprises the activities of WIBank. With an income of 19 million euros, its performance was in line with the previous year and thus exceeded its target. The expansion in WIBank's services was offset by corresponding expenses, with the result that administration costs increased as planned.

A result of minus 204 million euros was reported in the **segment of other**. The corresponding figure of the previous year amounted to minus 118 million euros. This segment includes the transaction banking activities as well as central cost items. Despite a challenging market environment, transaction banking was able to increase its year-on-year earnings. The negative impact of low interest rates was lower.

The aforementioned partial reversal of general valuation adjustments, which had been created in previous years, had a positive impact compared to the prior year's result in this segment.

Non-recurring effects, which cannot be allocated to the business segments, had a negative impact, as I previously discussed in greater detail when presenting the income statement – specifically, the other net operating income.

I would now like to give you an insight into the **effect of the first-time application of our transition to IFRS 9**. In our half-year report, we had already estimated this effect to be around 50 million euros. The impact on equity after taxes is somewhat more concrete, at between minus 25 and minus 40 million euros, and is thus small in relation to equity. Both an increase in risk provisioning as well as the volume that we have to reclassify as subject to fair value measurement are moderate. Due to compensating consolidation effects, there will be no negative impact on the capital ratio. Helaba will not make use of any transitional arrangements permitted by supervisory authorities to facilitate the changeover.

Ladies and Gentlemen, as I approach the end of my presentation I would like to sum up the following in **conclusion**:
Although the consolidated profit before taxes of 447 million euros is around 100 million euros below the very good figure from the previous year, it nevertheless considerably exceeded our target. Against a backdrop of a challenging market environment, we are satisfied with the result we have achieved. The volume of new medium and long-term business, which is above budget thanks to our strong market position, gives us particular cause for optimism. In 2017, we once again followed a conservative risk provisioning policy. Among other things, this is evident in the full impairment of the remaining goodwill associated with Frankfurter Sparkasse. Helaba’s balance sheet is therefore “goodwill-free”. This precludes any negative impact from the impairment of goodwill in the future, for example due to a deterioration in the economic situation. Higher IT and consultancy costs have led to an increase in administration expenses. In particular, the implementation of regulatory requirements and the modernisation of our IT infrastructure require significant investment. The result we have achieved will enable us, in addition to servicing debt we have raised and paying a dividend to our capital providers, to strengthen our core capital and thus to create further scope to expand our customer business.

Ladies and Gentlemen, thank you very much for your attention.