Dr. Detlef Hosemann

Member of the Executive Board of Helaba

Annual Press Conference 2022

Webkonference
Frankfurt am Main

3. März 2022

The spoken word shall prevail.

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

Hello everyone and a very good morning from me as well.

Following on from the presentation and assessment of our consolidated net earnings by Mr Groß, I would now like to share with you a more detailed insight into our credit portfolio and risk provisioning.

Helaba's **total lending volume**, which comprises borrowing facility drawdowns and committed credit lines, increased from 215 billion euros in 2020 to 221 billion euros in 2021.

At the same time, the breakdown of our portfolio remained almost unchanged. Once again, we were able to expand our business with the public sector, our largest group of customers. With a credit volume of 69 billion euros, the share of lending here as a proportion of our total credit portfolio grew by two percentage points to 31 percent. In addition, corporates, whose share was unchanged at 25 percent and commercial real estate, at 19 percent (previous year: 20 percent), continue to rank among our most important customer groups.

With regard to the geographical distribution of our activities, the focus lies increasingly on the German market. At 69 percent, the proportion of German business rose by 3 percentage points compared to 2020.

Consequently, our credit portfolio remains broadly diversified with an even stronger emphasis on our home market of Germany.

This distribution is also positively reflected in terms of **total credit volume by default rating category**.

As you can see, 95 percent of our total lending volume is associated with excellent to satisfactory credit ratings. For the most part, the percentage distribution of the rating structure remains stable. However, the increase in the share of public sector lending is offset by a previously anticipated pandemic-related deterioration in portfolios at risk of default compared to the previous year. As a result, this led to a rise in the NPL ratio to 0.8 percent - which nevertheless remains at a low level. The main factors behind this development were the aircraft finance and retail property sub-portfolios which reflect the significant impact of the COVID-19 pandemic. Overall, non-performing exposures account for 1.3 billion euros out of a total of 169 billion euros in loans and advances, in other words the consolidated net and gross book value of assets in the scope of the EBA's supervisory financial reporting (FINREP). In our view, this is further evidence that the quality of Helaba's credit portfolio remains very good.

Ladies and Gentlemen,

The impact of the COVID-19 pandemic was also felt in the 2021 financial year. The pandemic was compounded during the year by other macroeconomic challenges, such as supply chain bottlenecks, rising commodity and energy prices and inflationary pressure.
We have responded to these developments in the scope of our risk management activities. For instance, we continue to closely monitor sectors and portfolios that are particularly affected. So far, however, the number of actual credit defaults has been low thanks to the good quality of our portfolio.
As I mentioned before, our loan portfolio is heavily focused on corporate borrowers from Germany. For this reason, continued government support measures and liquidity facilities have had a positive effect. Despite this, however, additional credit defaults are to be expected in light of the ongoing economic fallout from the COVID-19 pandemic as well as continued macroeconomic uncertainty. That is why we have taken steps to mitigate this risk. Having significantly increased our **risk provisioning** in 2020 to -305 million euros, we have once again set aside an adequate level of loan loss provisions for 2021 of -207 million euros.

Having previously made substantial additions to stage 2 portfolio-based risk provisioning in 2020, in 2021 we once again allocated a significant amount of stage 2 provisions. The latter include a management adjustment of 113 million euros. The sharp rise in stage 3 impairments from -53 to -117 million euros falls within a range that we had anticipated.

When **examining the segments**, it is evident that the net additions to loan loss provisions are largely attributable to the Real Estate, Corporates & Markets and Other segments. We pointed out a year ago that only a very small amount of 4 million euros had been allocated to the Real Estate segment and that we expected this figure to rise significantly in 2021. We had therefore anticipated an increase in net additions in the Real Estate segment to -86 million euros and, as I explained earlier, this is predominantly a result of pandemic-induced effects in the retail property sub-portfolio. Risk provisioning in the Corporates & Markets segment amounted to -48 million euros, compared to -63 million euros in 2020. In common with previous years, we have allocated the management adjustment to the Other segment.

Overall, the marked reduction in net allocations to risk provisioning is also mirrored in the risk costs. **Risk provisioning expenses** in

relation to RWAs of counterparty risks fell sharply by one third from 60 to 40 basis points. This is equivalent to a cost of risk of 30 basis points in respect of loans and advances to customers, excluding public-sector receivables. In 2020, the cost of risk was 43 basis points.
Despite lower net additions, we have continued to ensure an adequate level of risk provisioning for 2021.

I would now like to take a more in-depth look at two specific portfolios.

With a total volume of 36.5 billion euros (previous year: 36.1 billion euros), our **Real Estate Finance portfolio** is a well-balanced and high-quality portfolio, both in terms of usage type and regional distribution. Collectively, residential, office and logistics properties account for almost three quarters (74%) of the portfolio. These usage types continue to be less affected by the impact of the COVID-19 pandemic. In contrast, the retail property sub-portfolio has been placed under special observation.
We considerably scaled back our exposure to retail property compared to 2020 by reducing our loan portfolio to 6.5 billion euros (2020: 7.4 billion euros). As a result, the share of retail as a proportion of the total Real Estate Finance portfolio has fallen by 3

percentage points to 18% (2020: 21%). This reflects adjustments we made to our credit risk strategy and to the focus of our acquisition strategy last year. The future performance of retail depends heavily on the further pace of economic recovery in addition to the ongoing trend away from bricks-and-mortar towards e-commerce. Although consumer spending is likely to pick up as pandemic restrictions are lifted, this market segment will remain under pressure. Depending on the location, competition, concept and market positioning of the respective mall, rents and market values can be expected to decline.
However, we believe that retail properties in prime locations with the right mix of uses will continue to be a "worthwhile asset class" in the future.
In terms of risk provisioning, we benefit from the fact that our current portfolio already mainly consists of properties in prime inner-city locations within major metropolitan areas.

With a total volume of around 50 billion euros, the **Corporate Banking & Asset Finance portfolio** remained almost unchanged compared to the previous year (50.5 billion euros).

Germany forms the regional focus of the portfolio, which consists of various sub-portfolios. Corporate Loans & Lease Finance is still the largest sub-portfolio with a share of 37 percent or 18.4 billion euros (2020: 21 billion euros), followed by Asset Backed Finance with 17 percent or 8.5 billion euros (2020: 8.7 billion euros) and Project Finance with 17 percent or 8.4 billion euros (2020: 7.7 billion euros).
In our asset-backed finance business, we underwrite trade receivables for our corporate clients within the scope of factoring activities. In project finance, we mainly support clients in the development and expansion of renewable energy projects.
We have identified the aviation sub-portfolio as being particularly impacted by COVID-19.
Our **aircraft finance portfolio**, which amounts to 2.4 billion euros and which we reduced by a significant 500 million euros compared to the previous year, continues to be severely encumbered by the effects of the pandemic. Although air travel has now picked up again, many airlines implemented their own cost-cutting programmes and downsized their fleets considerably in the course of 2021 alongside measures by the government to provide financial support.
With regard to our aircraft finance portfolio, it should be noted that the aircraft fleets that we finance are mainly composed of types which our analysis suggests have potential for long-term use and will therefore remain in demand.

Needless to say, we are currently very concerned about the war in Ukraine.

With regard to our credit risk, it is important to stress that Helaba's exposure in Russia and Ukraine is extremely low. We have been steadily scaling back our activities in Russia and Ukraine for many years. What is more, as of last week we suspended all new business with Russia. At present, our net exposure in both countries together runs into the low double-digit million range and mainly consists of export and trade finance. We have already factored in the risks for these items and have set aside a general loss provision for them in our annual financial statements.

However, not only are we actively managing the risks arising from the war in Ukraine but we are also providing out full support to the relevant authorities in implementing all embargos and sanctions. As Mr Groß has already mentioned, as one of the largest payment transaction providers, we have a key role to play here. In this regard, the use of sanctions lists in the bank's technical systems is a routine and well-established process.

Regardless of our very low direct exposure, we are well aware that new risks may emerge as a result of second and third-round effects of the war in Ukraine and the subsequent sanctions. In this respect, we are currently in the process of analysing the possible impacts of the sanctions on our credit portfolio and are monitoring, in particular, those groups of customers with strong business ties to Russia, Ukraine and neighbouring regions. Finally, we are constantly assessing the potential consequences of the war in Ukraine on Helaba's profitability.

Ladies and Gentlemen,

To date, Helaba has successfully navigated the challenges posed by the COVID-19 pandemic. Our very encouraging performance in the 2021 financial year as a whole is based on the persistently high quality of our credit portfolio. The increase in credit defaults is in line with expectations and is manageable. The NPL ratio remains at a low level of 0.8 percent. Given an overall decline in net allocations to risk provisioning, the management adjustment of 113 million euros represents almost half of loan loss provisions in 2021.

Nevertheless, in view of continued uncertainty, especially due to the war in Ukraine, further inflation developments, the future course of the pandemic and supply chain constraints, conditions for 2022 will remain challenging. Despite this, we are well prepared for these factors and are actively managing the risks of those sectors that are affected by them. In this way, we are in a position to react effectively to further developments as they arise.

We had already made ample provision for portfolio risks in 2020 and 2021. Currently, provided that the economic recovery continues, we expect lower allocations to risk provisioning for 2022 as a whole. However, the level of uncertainty surrounding this expectation has significantly increased in recent days.

That concludes my remarks today and I will now hand back to Thomas Groß.