Helaba

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The spoken word shall prevail.

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Ladies and Gentlemen,

I would also like to wish everyone a very good morning.

Since 1 December last year, I have been a member of Helaba's Executive Board as Chief Risk Officer and am thrilled to have been given the opportunity of taking on this role. My predecessor left me a highly motivated and professional team who ensured that I had a smooth transition into this responsible position.

For that, I would like to warmly thank my colleagues on the Executive Board as well as all members of staff.

Before I present a detailed analysis of Helaba's credit portfolio and loan loss provisions, kindly allow me to begin by making a few general statements about the Group:

Helaba's business model is rooted in a principle of long-term viability. The **credit portfolio** of 229 billion euros is notable for being **stable and well-diversified** by customer group, with a clear focus on our home market of Germany. This is in no small part due to the fact that we act as the central bank for the S-Group community in the German federal states of Hesse, North Rhine-Westphalia, Thuringia and Brandenburg, making us a strong partner for 40 percent of Germany's savings banks.

This, in addition to our long-standing customer relationships, ensures that the quality of our loan book remains extremely robust. While we have responded with a comprehensive package of measures to the distortions on real estate markets, the risk position of other sub-portfolios has improved significantly, principally thanks to the reduction of pandemic-related risks and the easing in pressure in the energy sector. Furthermore, having created a substantial level of post-model adjustments and having allocated sufficient loss provisions for specific exposures, we are well placed going forward.

With that in mind, let us now take a more in-depth look at the credit portfolio.
The **breakdown of our portfolio**, both in terms of customer groups and regional distribution, has remained virtually unchanged compared to previous years. Our largest customer group is still the public sector. Local authorities and municipal corporations appreciate the backing of Helaba, which is often provided in collaboration with the respective local savings bank. Alongside that, companies are among our most important clients. In particular, they benefit from our core area of expertise, namely structuring and arranging loans. There is an ongoing trend towards combining these with ESG-related aspects. As one of the leading payment service

providers in Germany, our cash management solutions are also in strong demand.

Commercial real estate activities account for around 19 % of our total lending portfolio. We will be taking a closer look at this sub-portfolio later on.

From a regional perspective, we remain focused on Germany. At 70 percent, its share is almost identical to the previous year.

In short, we have a broadly diversified credit portfolio with a strong regional focus on our German domestic market.

The good quality of the bank's portfolio is also reflected in the **total lending volume** when broken down **by rating class**. Around 90 % of exposures are of investment grade quality.

Despite a rise in the **non-performing loan (NPL) ratio** compared to the previous year, thanks to Helaba's largely well-balanced credit portfolio, the average default rating remains at a low level.

Ladies and Gentlemen,

I can also report that I inherited a well-organised risk management system at Helaba from my predecessor. We are fully prepared to identify risks and respond to them appropriately.

We have been closely monitoring the challenging environment on real estate markets, analysing the impact of a wide range of

scenarios on the portfolio and have taken proactive measures to manage the associated risks.

The rise in **loan loss provisions** was at a magnitude we had expected, with net additions to Stage 3 ECL allowances primarily attributable to a specific customer relationship. We have already priced in any further developments and have allocated another 343 million euros to provisions in the scope of our post-model adjustment for the commercial real estate portfolio. Overall, we were able to reduce total post-model adjustments (PMAs) from 483 million euros in the previous year to 388 million euros. In other words, total PMAs declined by a net 95 million euros. Sub-portfolios in which the risk exposure had improved compared to the previous year mainly contributed to this reduction. In particular, this relates to certain parts of our corporate customer portfolio that had been severely affected by COVID-19 and the energy crisis in the prior financial year.
On balance, we have significantly raised the level of risk provisioning. In terms of risk potential, though, we have set aside an adequate amount.

I will now discuss two portfolios in greater detail.

With a total volume of around 55 billion euros, **Corporate Banking & Asset Finance** is our largest portfolio. Our corporate finance activities are well diversified, both in terms of sector and the distribution of lending volumes. There is no concentration within the portfolio on any specific industries. With our range of innovative, future-focused products and services, we are contributing to transitioning the economy towards sustainability. These include ESG-linked loans for corporates and project finance for establishing and scaling up renewable energy facilities. As part of our asset-backed finance activities, we purchase accounts receivable from our corporate customers in the scope of factoring arrangements. And our customers can also draw on our export finance capabilities to support their global business activities.
While the portfolio was under special observation in the past year, due to the aforementioned reasons its risk exposure has meanwhile improved significantly.

In contrast, the complexities in our **real estate portfolio** have grown.
You are aware of the external factors that have considerably slowed down the propensity to invest in this market, from geopolitical tensions to supply chain disruption all the way to inflation. Together with interest rate hikes, structural shifts and more stringent ESG

requirements, this has led to a significant fall in demand, particularly for office space. Due to higher interest rates and reduced rental income, customers' debt service capacity is deteriorating. At the same time, other asset classes - such as German government bonds - are re-emerging as attractive investment alternatives.
All these developments have resulted in a noticeable slowdown on the property market and we do not anticipate that the current trend will be reversed until 2025 at the earliest. Transaction activity remains at a low level. Office and retail properties are still under strain, with the pressure of structural shifts set to have a longer-term impact. However, transaction volumes in the residential real estate market are likely to pick up again when the ECB makes its first interest rate cuts.

Ladies and Gentlemen,
The question is, what implications does this all have for Helaba's real estate portfolio?
Well, we have also observed declines in market prices that have led to rating migrations and, in some isolated cases, to defaults.
However, the downturn has affected usage types to varying degrees.
At this juncture, I would like to stress that Helaba's CRE portfolio is invested to a disproportionately low extent of around 4 billion euros in project developments. According to the bank's own definition,

this comprises new construction but also, within a very broad meaning, refurbishments of existing properties and land acquisition finance. This section of the portfolio is largely stable.
While we see stable values for housing and logistics properties as well, which make up more than 25 % of our portfolio, our office portfolio has been affected by changing usage patterns and interest rates hikes. In particular, higher vacancy rates and refinancing requirements in the past year have led to rating migrations. Thanks to our long-standing and stable customer relationships, we were able to find good and viable solutions for many transactions together with our customers. At the same time, we have reacted to necessary valuation adjustments by setting aside adequate loan loss provisions. For example, specific loan loss provisions were primarily attributable to one customer relationship.
We have put in place an extensive package of measures to address developments in our real estate portfolio. We have significantly tightened our credit risk standards, particularly in respect of debt service capacity, LTV and letting rate criteria. Additionally, we have adjusted our allocation limits.

At this point, I would like to add some remarks on this issue: As you may be aware, there are statutory provisions that require properties to be reappraised at least every three years. 70 % of our properties

and loans were last subject to reappraisal in the middle of 2023. Annual reviews are standard practice at Helaba. In addition to this, we have of course commissioned up-to-date appraisals for some properties during the year as well. Rising market prices in previous years were not allocated to the respective financing as positive market value premiums. That means that these valuation buffers now have a stabilising effect on the portfolio as these buffers are first depleted before the LTVs are affected; for this reason, LTVs do not react as sensitively to short-term valuation adjustments.

Earlier in my speech, I touched on the fact that we enjoy a stable customer base in our real estate business. We seek to engage in a dialogue with our customers at an early stage and discuss repayment or refinancing strategies if necessary. And it goes without saying that we actively manage our portfolio. On top of that, we have significantly scaled back our new business activity and will continue to do so this year, as well.

Ladies and Gentlemen,
Thanks to our diversified business model, as a bank we have achieved an exceptionally good full-year result. At 43 billion euros, our **commercial real estate portfolio** "only" constitutes slightly less than a fifth of our total lending volume. What is more, this portfolio

also comprises other CRE loans in the standalone bank as well as exposures at Frankfurter Sparkasse, the quality of which remains good. The majority of our real estate portfolio is secured by first-ranking mortgages.

It is important to note that our real estate finance portfolio is also well diversified, whether in terms of types of use or regional distribution. Our focus here is on properties suitable for alternative types of use located in liquid markets. Besides our home market of Germany, these include selected international target markets in Europe and the United States. We have adopted a prudent approach to expanding our new real estate lending business in recent years. The real estate finance portfolio has grown at a comparatively modest rate compared to the total lending volume. And we have achieved this with an existing portfolio that, for the most part, exhibits a stable LTV structure - despite the most recent market price corrections.

As such, 89 % of loans have a maximum LTV of 75 %; the overwhelming share in fact have a loan-to-value of less than 60 percent. While there has been a noticeable shift in rating categories, the vast majority – 77 % – of the real estate finance portfolio remains of good credit quality (investment grade).

Let us now turn our attention in more detail to the **US market**.

The bulk of our exposure in the United States is currently not affected by negative trends on the office market. Residential real estate, of which student housing is the largest part and remains profitable, is the largest sub-portfolio, accounting for 54 % and exhibiting a good risk profile. Due to volatility over recent years, we have already deliberately scaled back our retail portfolio. 38 % percent of our total exposure is related to the office asset class, which has been significantly affected by structural shifts. The focus of our business here is on properties in major conurbations, particularly in the New York and Washington D.C. metro regions. Looking at the loan-to-value ratios, with 85 % of loans under 75 % LTV, we also consider our US portfolio to be fundamentally of a good quality. Having said that, we will be keeping a close eye on further developments in the office market in the US as well as in Europe. In a few moments, Christian Schmid will provide you with more detailed information on expected developments in this market.

I would just like to briefly summarise my remarks: In combination with a conservative risk strategy, Helaba's diversified business model is the basis of the Group's resilience. We have responded to developments in real estate markets and have set aside an adequate level of risk provisioning, including within the scope of post-model adjustments. For this reason, we regard ourselves as well placed to

face any future challenges - despite ongoing geopolitical and economic uncertainty.

Many thanks for your attention and I would now like to give the floor to Christian.