PRESS RELEASE

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Helaba satisfied with 2016 financial year

- **Growth in customer business underlines strong market position**
- **Net fee and commission income rises once again**
- **Exceptional interest rate environment weighs on net interest income**
- **Regulatory figures see renewed improvement**
- **Business figures on target**
- **Significant future investment in IT and digitalisation**

Frankfurt am Main – Helaba Landesbank Hessen-Thüringen achieved a consolidated net profit before taxes in an amount of EUR 549 million in the 2016 financial year, which was approximately 8 percent below the previous year. After taxes, consolidated net profit reached EUR 340 million. Herbert Hans Grüntker, the Chairman of Helaba's Board of Managing Directors, is satisfied with the result: "Our operating business with customers once again performed well. This is reflected in the strong volume of new business and the encouraging rise in net fee and commission income. The forecast decline in earnings as a result of zero interest rates was not as noticeable as we had expected. Overall, these earnings rank among the three best-ever results in the history of our bank. The basis for this success is our sound, well-balanced and proven business model."

Grüntker attributes his assessment of the result as "satisfactory" to six reasons:

1. In the zero and negative interest rate environment, the net interest income did not fall as much as previously anticipated. There was a renewed increase in the net fee and commission income, to which cash management and Helaba Invest's asset management activities made particularly strong contributions.

2. Thanks to the positive economic environment and to the high quality of the loan portfolio, costs for risk provisioning were noticeably lower than the previous year. And this was despite the fact that the bank made another large value adjustment to the ship financing portfolio in 2016, having already done so in 2015.

3. In turn, the satisfactory consolidated net profit allows the bank to service all subordinated debt, participation rights and silent capital contributions, to pay out a dividend to the owners as well as to increase its retained earnings in order to strengthen its tier 1 capital.

4. There was a further improvement in the key regulatory figures. The Helaba Group has regulatory capital of EUR 10.8 billion. The CET1 ratio climbed to 14.3 percent or 13.8 percent in phased-in and fully-loaded scenarios, respectively. The total capital ratio reached a level of more than 20 percent (20.5 %) for the first time ever.

5. The performance of Helaba's key business figures is equally satisfactory. The cost/income ratio of 63.7 percent was at the same level as it was from 2012 to 2014. Return on equity (before taxes), at 7.2 percent, was within the bank's target corridor. Since 2013, the bank has been successful in raising its leverage ratio from 3.4 to 4.7 percent. Helaba's excellent ratings mean that it continues to be one of the frontrunners among German banks.

6. Even in a Europe-wide comparison, Helaba has proven itself to be a resilient and very safe bank. In the EBA's stress test, Helaba achieved second place in a national comparison and ranked in the upper midfield on a European level. In the transparency exercise, conducted across the EU, Helaba demonstrated that it is a bank with a comfortable level of capital adequacy and a high-quality loan portfolio.

Statement of financial position

The trend in the Helaba Group's balance sheet total continues to be downward. Due to a targeted reduction in trading portfolios of EUR 7.1 billion, in particular, it fell to EUR 165.2 billion. Total business volume declined by EUR 5.7 percent to EUR 195.0 billion.

Loans and advances to customers of EUR 93 billion remained on the same level as the previous year, of which 73 percent were granted to corporate and commercial clients, 21 percent to the public sector and 6 percent to retail customers. The share of customer business as a proportion of the balance sheet total, including S-Group business, amounted to 60 percent and was thus higher than the previous year's value.

Despite significant turbulence on capital markets, Helaba successfully and seamlessly refinanced a buoyant volume of new business. In so doing, the bank once again benefitted from its very good reputation as an issuer. The volume of medium and long-term funding reached EUR 17.2 billion, with 49 percent of these funds being directly or indirectly raised via savings banks. In product terms, the focus of funding operations was on unsecured instruments, which amounted to EUR 14.2 billion (83 percent) and which underscores the good standing the bank enjoys as an issuer. Covered bonds accounted for a volume of EUR 3 billion (17 percent), including EUR 1.8 billion in mortgage pfandbriefe.

Income statement

As a consequence of the zero and low interest rate environment, the net interest income fell by 6.2 percent to EUR 1.2 billion. This decline was below expectations.

Thanks to the positive economic situation and to the high quality of our portfolio, costs for risk provisioning, at EUR 154 million (2015: 237 million) were considerably lower than in the year before. This includes a large impairment on the ship financing portfolio in an amount of EUR 262 million. “After deduction of collateral assessed at liquidation value, the portfolio of non-performing shipping loans is 100 percent backed by provisions”, explains Dr. Detlef Hosemann, Helaba’s CFO.

The net fee and commission income, underpinned by the good performance of the bank’s customer business, grew by 2.1 percent to EUR 340 million. The most significant contributions to this were made by Helaba Invest’s asset management activities and by Helaba’s transaction banking services.

The net trading income fell by EUR 44 million to EUR 146 million. This decline mainly resulted from a reduction in trading book positions and a change to value adjustments made on derivatives.

The net income from hedge accounting and non-trading derivatives improved by EUR 21 million to EUR 46 million. This was primarily driven by a net gain from financial instruments held by consolidated special funds, which also comprised realised sales proceeds in addition to unrealised remeasurement gains or losses.

The net income from financial investments swung from minus EUR 10 million to plus EUR 53 million in 2016. This was primarily impacted by the write-down and sale of a HETA Asset Resolution AG bond: while the bond had been partially written down in the previous year, a write-up of EUR 28 million was made in 2016.

The other net operating income fell by EUR 54 million to EUR 119 million. This result is mainly supported by earnings contributions from the real estate portfolio, which were generated by the GWH Group. Among other things, the significant decline in this position can be attributed to allocating provisions for purchase price risks in connection with the disposal of HANNOVER LEASING.

General and administration expenses rose by 3.5 percent to EUR 1.2 billion. While personnel costs remained on a similar level to the year before, there was a marked rise in IT and consultancy expenses in relation to the implementation of regulatory and business-driven requirements.

Overall, Hosemann is satisfied with the result: “With a moderate decrease in the balance sheet total thanks to the targeted reduction in assets held for trading and a well-balanced funding structure, Helaba remains focused on customer business. Losses due to the extremely low interest rate environment cannot be fully compensated for by expanding fee-based services. The risk situation in lending activities is outstanding. Extensive provisions have been created for the ship financing portfolio. Helaba has boosted its investment in more efficient IT systems, in order to remain viable in the future and to be able to operate successfully in a highly competitive market.”

Segment Report

In the Real Estate segment, which primarily consists of the business lines of Real Estate Finance and Real Estate Management, net income increased by 7 percent to EUR 407 million and was therefore significantly above expectations. The volume of new medium and long-term business rose by 6 percent to EUR 10.4 billion.

The Corporate Finance segment reported net income of minus EUR 42 million for the period under review. The main reason for this decline in earnings was the considerable rise in loan loss provisions, which was particularly characterised by impairments on the ship financing portfolio. The operating business with customers in this segment performed well. The volume of new medium and long-term business amounted to EUR 4.3 billion.

Net income from the segment of Financial Markets, at EUR 126 million, was at the same level as the year before.

The segment of the S-Group, Retail Customer and SME Business comprises the S-Group Bank, Landesbausparkasse Hessen-Thüringen (LBS), Frankfurter Sparkasse as well as the Frankfurter Bankgesellschaft Group (FBG). The result of this segment fell to EUR 101 million. In particular, declining net interest income from Frankfurter Sparkasse and LBS's retail customer activities as well as lower interest income from the S-Group Business had a negative impact on this segment.

Net income from the Public Development and Infrastructure Business (WIBank), at EUR 22 million, was EUR 5 million below the previous year. This drop is largely a result of the lower level of interest rates.

Agenda for 2017 and outlook

Helaba boasts a well-balanced and solid business model, which has proven itself even under difficult market conditions. At the same time, a persistently challenging environment means that it is necessary to regularly review and adjust the bank's business model. The first steps have already been taken.

- Helaba has sold its stake in Hannover Leasing to the Corestate Capital Group. At the same time, the buyer also assumed stakes held by the holding company of the savings banks in Hesse and Thuringia. Helaba remains a minority shareholder with a 5.1 percent stake.

- North Rhine-Westphalia (NRW) is one of the most important core markets in which Helaba wants to expand its activities. There, the bank already generates more than 30 percent of its earnings in the corporate finance segment. Earnings have risen by more than 20 percent since 2013. In terms of business with public-sector customers, the share of earnings is even higher than 50 percent. By 2020, the bank aims to achieve a further significant expansion in its business in NRW. The Member of the Board of Managing Directors responsible for the corporate finance business, Dr. Norbert Schraad, has maintained a second office in Dusseldorf since August.

- The first applications have been developed by the “Strategic Digitalisation Project” and will be deployed in 2017. In addition to that, the bank is investing in contact to fintech companies in order to be able to respond more quickly to innovations and, where possible, to jointly advance their development. In this respect, Helaba benefits from being involved in the TechQuartier fintech hub, founded in co-operation with WIBank, as a platinum partner. Grüntker: “Our digital agenda is not only focused on developing new products and processes. We will work on the further evolution of Helaba, in order to ensure that we continue to be attractive to our customers with constant innovations that meet the needs of the market and thereby boost our competitiveness even further.”

- The replacement of Helaba’s core banking system will therefore be the most significant strategic IT project in the years to come. Future challenges will be able to be handled considerably more quickly and effectively using the standard software the bank has chosen than was previously the case.

The 2016 financial year was an encouraging year for Helaba. The consolidated net profit was one of the three best-ever results in the history of the bank. Thanks to intense market cultivation, the bank was once again able to increase its net fee and commission income. The volume of new business generated by the bank was on a high level.

With a view to 2017, Helaba anticipates that political and economic conditions will be exceptionally challenging. However, thanks to its well-balanced business model, the bank will be able to cushion the effect of any potentially negative developments.

From a business perspective, this is first year in which the consequences of the ECB deposit rate, which was reduced to minus 0.40% in March 2016, and its corporate sector purchase programme (CSPP), launched in June 2016, will be fully felt. This will have a particular effect on the interest-sensitive segments of Helaba’s retail activities – including LBS and Frankfurter Sparkasse – as well as on cash management and the bank’s own investments.

“In view of this, I reiterate last year’s results forecast, in which the Board of Managing Directors anticipated a significant decline in earnings”, Grüntker says, with an eye on the current financial year.

Looking at the trend in US interest rates, however, provides some medium-term hope from Helaba’s point of view that the euro area may also have left the interest rate trough behind it. In conclusion, the Chairman of the Board of Managing Directors expresses his cautious optimism for the next few years: “On the basis of this assumption, there is a certain optimism that our operating business will bottom out this or next year”.

Statement of Financial Position of Helaba Group as at 31 December 2016 (IFRS)

	31.12.2016	31.12.2015	Change	
	In EUR bn	In EUR bn	In EUR bn	in percent
Loans and advances to banks incl. cash reserve	18.3	19.1	-0.8	-4.2
Loans and advances to customers	93.1	93.2	-0.1	-0.1
Allowances for losses on loans and advances	-0.8	-1.0	0.2	-20.0
Trading assets	20.5	26.1	-5.6	-21.5
Positive fair values of non-trading derivatives	4.0	4.4	-0.4	-9.1
Financial investments incl. shares in equity-accounted entities	25.8	26.6	-0.8	-3.0
Other assets	4.3	3.9	0.4	10.3
Total assets	**165.2**	**172.3**	**-7.1**	**-4.1**
Liabilities due to banks	30.1	36.0	-5.9	-16.4
Liabilities due to customers	46.8	47.7	-0.9	-1.9
Securitised liabilities	50.9	47.1	3.8	8.1
Trading liabilities	18.7	22.4	-3.7	-16.5
Negative fair values of non-trading derivatives	3.9	4.4	-0.5	-11.4
Provisions, other liabilities	3.2	2.9	0.3	10.3
Subordinated capital	3.7	4.1	-0.4	-9.8
Equity	7.9	7.7	0.2	2.6
Total liabilities	**165.2**	**172.3**	**-7.1**	**-4.1**

Income statement

	2016	2015	Change	
	in EUR m	in EUR m	in EUR m	in percent
Net interest income	1,231	1,312	-81	-6.2
Provisions for losses on loans and advances	-154	-237	83	35.0
Net interest income after provisions for losses on loans and advances	**1,077**	**1,075**	**2**	**0.2**
Net fee and commission income	340	333	7	2.1
Net trading income	146	190	-44	-23.2
Net income from hedge accounting / derivatives	46	25	21	84.0
Net income from financial investments (incl. at-equity valuation)	53	-10	63	n/a
Other net operating income	119	173	-54	-31.2
General and administrative expenses	-1,232	-1,190	-42	-3.5
Profit before taxes	**549**	**596**	**-47**	**-7.9**
Taxes on income	-209	-177	-32	-18.1
Consolidated net profit	**340**	**419**	**-79**	**-18.9**

Development of Segments of Helaba Group as at 31.12.2016 (IFRS)

	31.12.2016	31.12.2015
	in EUR millions	in EUR millions
Real Estate	407	380
Corporate Finance	-41	115
Financial Markets	127	127
S-Group, Retail Customer & SME Business	101	140
Public Development & Infrastructure Business	22	27
Other	-150	-253
Consolidation/Transition	84	60
Group	**549**	**596**

Key indicators

	2016 in percent	2015 in percent
Cost-income ratio	63.7	58.8
Return on equity (before taxes)	7.2	8.1
CET-1 capital ratio “phased in”	14.3	13.8
CET-1 capital ratio “fully loaded”	13.8	13.1
Total capital ratio	20.5	19.8
Leverage ratio	4.7	4.5