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Helaba Group achieves profit before taxes of EUR 596 m

- **Strong growth in new customer business**
- **All operational earnings components positive**
- **Net income from interest, fees and commission on a high level again**
- **Positive performance of key operating and regulatory figures**
- **Helaba sees sector under pressure to adapt**

Frankfurt am Main – Helaba Landesbank Hessen-Thüringen achieved a profit before taxes in 2015 of EUR 596 m, which was around 2 percent under the previous record result in the year before of EUR 607 m. After taxes, the result was 5.5 percent higher at EUR 419 m. Herbert Hans Grüntker, Helaba's Chief Executive, expressed his satisfaction: "Driven by strong growth in our client business, Helaba once again achieved a very good result in 2015."

In his assessment of the financial year, Grüntker highlighted five points:

- The basis for this success is our excellent client-driven business. All operational earnings components – net income from interest, fees and commission, net trading income and other operational income – made gains compared to the year before, while general and administrative expenses were maintained at a stable level. Net interest income, at EUR 1.3 bn, and net fee and commission income, at EUR 0.3 bn, both reached new record levels.

- Provisions for losses on loans and advances amounted to EUR 237 m and were on an average level of the previous five years. They were characterised by portfolio impairments. The low figure in 2014 (EUR 80 m) was influenced by the first-time application of new rules on the consolidation of non-performing loans. Grüntker commented: "We have actively used the good result achieved in 2015 to make intensive provision for the future. You will notice that the conservative risk provisioning policy of my predecessors, which could be called traditional, is being systematically pursued."

- The very good Group result allows us to service all subordinate funds, participation rights and silent participations, to allocate retained earnings to strengthen our core capital as well as to pay dividends to our capital providers.

- The financial ratios have improved yet again. The CET-1 ratio increased to 13.8 percent or, on a fully-loaded basis, to 13.1 percent. The total capital ratio saw an improvement to 19.8 percent. In the scope of its SREP assessment for 2016, the ECB has determined a CET-1 ratio of 9.25 percent for the bank, which must be maintained at all times. BaFin has required Helaba, as a Domestic Systemically Important Bank, to create an additional CET-1 buffer of 1.0 percentage points in three steps from 2017 by 1 January 2019.

- The cost/income ratio was 58.8 percent and the equity ratio (before taxes) amounted to 8.1 percent. Both values were in the target corridor.

Statement of Financial Position

The Group balance sheet total fell by EUR 7.2 bn to around EUR 172 bn. This decline can primarily be attributed to a targeted reduction in trading positions. The business volume, which mainly includes lending commitments in addition to the balance sheet total, decreased by EUR 4.3 bn to EUR 201 bn.

Thanks to positive economic conditions, Helaba's client business performed well. Loans and advances to customers rose by EUR 2.1 bn to over EUR 93 bn. This was a consequence of growth in new medium and long-term business of around EUR 1 bn to EUR 19.2 bn. Of the new business generated in 2015, 51 percent is attributable to Real Estate Finance, 29 percent to Corporate Finance, 12 percent to the S-Group Business as well as 5 percent to business with domestic and foreign municipalities. Including loans and advances to savings banks, the proportion of loans and advances to customers, at 58 percent of the balance sheet total, was at a high level. The liabilities side was characterised by a considerable decline in the trading portfolio, while liabilities due to customers rose by EUR 2.4 bn.

Income Statement

Despite the ECB's low interest rate policy, the <u>net interest income</u> was EUR 1.3 bn and thus EUR 19 m higher than last year.

<u>Provisions for losses on loans and advances</u> increased from a very low prior-year figure, by an amount of EUR 80 m to EUR 237 m, and reached an average level of the past five years. On the one hand, the previous year's figure was reduced by EUR 75 m by including non-performing loans in the group of consolidated companies. However, this led to a corresponding increase in the other net operating income. On the other hand, risk provisioning, which was at an already comfortable level, was raised again in respect of global provisions for loans not acutely at risk of default. This underlines the traditionally conservative approach of Helaba's risk provisioning policy.

The net fee and commission income continued to grow, rising by EUR 16 m to EUR 333 m. Important sources of income included asset management, the securities and custody business, cash management and trade finance.

The net trading income achieved a very satisfactory result, climbing from EUR 126 m in the previous financial year to EUR 190 m. Here, the most important earnings drivers were the client-driven capital market activities.

The net income from hedge accounting and non-trading derivatives fell by 50 percent to EUR 25 m. The result from the previous year was characterised by reversals of impairment losses.

The net income from financial investments worsened from EUR 45 m in the previous year to EUR -10 m. A write-down on a bond of HETA Asset Resolution AG in an amount of EUR 37 m contributed to this.

The other net operating income improved considerably from EUR 70 m to EUR 173 m. This strong rise was primarily a result of the absence of write-downs from consolidated non-performing loans as well as of lower provisions. Earnings contributions from real estate portfolios, which are held by the GWH subsidiary, also had a positive effect.

General and administration expenses were once again lower, falling by EUR 25 m to below EUR 1.2 bn. While personnel expenses rose, mainly due to higher pension provisions, other administrative expenses declined. The reason for this was, in particular, the absence of service fees to Portigon.

Income taxes reduced to EUR 177 m (previous year: EUR 210 m). The consolidated net profit grew by EUR 22 m to EUR 419 m.

Helaba's CFO, Dr. Detlef Hosemann, commented on the annual results: "We were successful in maintaining the operating result on a similarly high level as the year before. This is a good starting point from which to confront the looming challenges this year posed by the low interest rate situation and competitive pressure."

Performance of Segments

In the Real Estate segment, which comprises earnings from the Real Estate Finance business and Real Estate Management, the profit before taxes was EUR 380 m and thus EUR 29 m above the previous year. The growth in the volume of new business contributed to a rise in the net interest income, despite a slight decline in margins.

In the segment of Corporate Finance, the profit before taxes amounted to EUR 115 m and thus below the previous year's figure of EUR 162 m. Increased risk provisioning had a negative impact here.

The Financial Market segment reported a profit of EUR 127 m, after EUR 109 m in the previous year, thanks to the good result of its client-driven capital market activities in 2015.

The segment of S-Group, private customer and SME business includes the retail banking activities of Frankfurter Sparkasse, Private Banking activities, the S-Group Bank and the Landesbausparkasse (LBS). Here, the profit declined by EUR 34 m compared to the year before and reached a level of EUR 140 m. This was caused by the low interest rate environment, which weighed down on the results of Frankfurter Sparkasse and LBS.

The segment of Public Development and Infrastructure Business comprises the activities of WIBank. Thanks to the expansion of promotional infrastructure funding, the profit of EUR 27 m was significantly higher than the previous year.

Current Challenges

The current business environment for Helaba can be summarised under the key headlines of low (or negative) interest rates, regulation and digitalisation. Grüntker: “All players are under pressure to adapt. Things cannot be expected to get any easier. We are in the middle of a transition phase, in which fundamental changes in the banking industry are afoot and business models are under scrutiny. In view of its proven and successful business model, Helaba is operating from a position of strength in this environment.”

Nevertheless, Grüntker has announced an enhancement of Helaba’s business model according to the principle of “strengthening strengths”. In view of the necessity for an efficient allocation of equity, there must be a critical appraisal of how resources are committed and of the profitability of individual activities.

Furthermore, better advantage should be taken of growth opportunities that are related to the bank’s ownership structure and business model. Grüntker: “Here, I see two central issues. Our role as the S-Group Bank for the savings banks and the market of North Rhine-Westphalia.”

Helaba assumes the role as S-Group Bank for around 40 percent of German savings banks. The savings banks have a 90 percent share in Helaba, the largest ownership share by savings banks among the four large Landesbanks. The advantages associated with its role as S-Group Bank should thus be retained and expanded. “Our aim is therefore to achieve an ever closer and irreversible integration of the bank into the Savings Bank Finance Group,” declared Grüntker. In future, the bank wants to concentrate on its strengths in this respect, too, and focus on profitable growth. Grüntker: “To achieve this, we have promising product lines – for example, our range of private banking services, our approach to international trade finance, our products for proprietary investments and our expanded activities in loan syndication, both in the Corporate as well as Real Estate Finance segments.”

Additional growth opportunities are seen in Helaba's core region of North Rhine-Westphalia. The Federal State enjoys one of the most attractive business customer markets in Germany. Grüntker: "Here, we have enormous opportunities for growth, which we want to utilise more effectively in the future. In doing so, we attach particular value to liaising closely with the local savings banks."

Outlook for 2016

The 2015 financial year was once again a very good year for Helaba. Our client-driven operating activities reached the second-highest level ever seen. The Group profit before taxes was only slightly below the previous record level of the year before. All operational earnings components were up. The traditionally conservative valuation of the portfolio was retained.

However, going forward, the bank does not anticipate being able to repeat the results achieved in recent years. Grüntker: "The opposite will likely be the case. The current geopolitical and economic situation is unsettling the markets and is leading to higher volatility. Due to this challenging market environment, higher regulatory costs and rising capital requirements, we must be prepared for Group profits to decline markedly."

Balance sheet of Helaba Group as of 31 December 2015 under IFRS

	31.12.2015	31.12.2014	Change	
	in EUR billions	in EUR billions	in EUR billions	in percent
Loans and advances to customers incl. cash reserve	19.1	21.6	-2.5	-11.6
Loans and advances to customers	93.2	91.1	2.1	2.3
Impairments on receivables	-1.0	-1.0	-	-
Assets held for trading	26.1	31.3	-5.2	-16.6
Positive market value of derivatives not held for trading	4.4	5.8	-1.4	-24.1
Financial investments (incl. companies valued at-equity)	26.6	26.6	-	-
Other assets	3.9	4.1	-0.2	-4.9
Total assets	**172.3**	**179.5**	**-7.2**	**-4.0**
Liabilities due to banks	36.0	35.6	0.4	1.1
Liabilities due to customers	47.7	45.3	2.4	5.3
Securitised liabilities	47.1	48.3	-1.2	-2.5
Liabilities held for trading	22.4	29.2	-6.8	-23.3
Negative market value of derivatives not held for trading	4.4	5.4	-1.0	-18.5
Provisions, other liabilities	2.9	2.9	-	-
Subordinated capital	4.1	5.4	-1.3	-24.1
Equity	7.7	7.4	0.3	4.1
Total liabilities	**172.3**	**179.5**	**-7.2**	**-4.0**

Income statement

	2015	2014	Change	
	In EUR millions	In EUR millions	In EUR millions	In percent
Net interest income	1,312	1,293	19	1.5
Provisions for loans and advances	-237	-80	-157	>-100
Net interest income after provisions for loans and advances	**1,075**	**1,213**	**-138**	**-11.4**
Net fee and commission income	333	317	16	5.0
Net trading income	190	126	64	50.8
Result from hedges / derivatives	25	51	-26	-51.0
Result from financial investments (incl. equity valuation)	-10	45	-55	-
Other operating result	173	70	103	>100
General administration expenses	-1,190	-1,215	25	2.1
Group profit before taxes	**596**	**607**	**-11**	**-1.8**
Income taxes	-177	-210	33	15.7
Consolidated net profit	**419**	**397**	**22**	**5.5**

Ratings

	Moody's Investors Service	FitchRatings	Standard & Poor's Corp.
Long-term liabilities	A1	A+*	A*
Short-term liabilities	P-1	F1+*	A-1*
Public Pfandbriefe	Aaa	AAA	-
Mortgage Pfandbriefe	-	AAA	-
BCA/viability rating/SACP	baa3	a+*	a*

* Joint S-Group rating for the Sparkassen-Finanzgruppe Hessen-Thüringen

Financial ratios

	1.1.-31.12.2015	1.1.-31.12.2014
	in percent	in percent
Cost-income ratio	58.8	63.9
Return on equity (before tax)	8.1	8.3
	31.12.2015	31.12.2014
	in percent	in percent
CET-1 ratio (“phased in”)	13.8	13.4
CET-1 ratio (“fully loaded”)	13.1	11.8
Total capital ratio	19.8	18.5
Leverage ratio	4.0	4.0
SREP ratio (from 2016)	9.25	
BaFin buffer for D-SIB (from 2019)	1 percentage point	