



Research Report (Anno)

UmweltBank AG



- Further increase in business volume achieved -
- Further improvement in earnings level expected -
- Equity-ratio and cost level significantly better than in the industry comparison -

Target Price: € 20.73

Rating: BUY

IMPORTANT NOTE:

Please note the disclaimer/risk warning
as well as the disclosure of possible conflicts of interest in accordance with § 85 WpHG and Art. 20 MAR from page 17

Note in accordance with MiFID II regulation for research "Minor non-monetary benefits": The research in question meets the requirements for classification as "Minor non-monetary benefits". For further information, please refer to the disclosure under "I. Research under MiFID II"

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Validity of the price target: until max. 31.12.2022

UmweltBank AG*5a;7;11

Rating: BUY

Target Price: € 20.73
(until now: € 18.21)

Current share price: €17.65
13.07.21 / XETRA / 11:04 Uhr
Currency: EUR

Key Data:

ISIN: DE0005570808
WKN: 557080
Ticker symbol: UBKG
Number of shares³: 31,01
Marketcap³: 547,33
³ in Mio. / in Mio. EUR
Freefloat: 85 %

Level of transparency:
Freiverkehr
Market segment:
m:access
Accounting standard:
HGB

Geschäftsjahr: 31.12.

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Company profile

Industry: Financial services

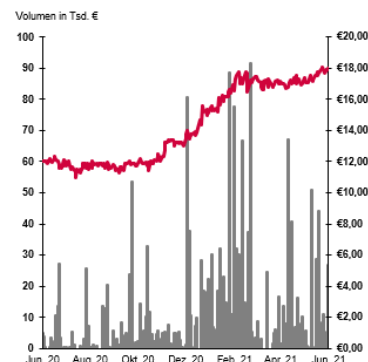
Focus: ecological investments, financing environmentally friendly projects

Employees: 250 (31.12.2020)

Foundation: 1997

Company headquarters: Nuremberg

Board of Directors: Goran Bašić, Jürgen Koppmann



UmweltBank AG stands for banking with ecological and social responsibility. It offers investors transparent ecological financial investments and supports private individuals and commercial customers throughout Germany by financing environmentally friendly projects. By exclusively offering a green product range, UmweltBank AG consistently implements its ecological orientation. In addition to the classic savings account, the company offers, among other things, green fund products, enters into ecological participations, offers ecological insurance and finances green projects. In doing so, UmweltBank AG acts as a direct bank, without the classic branch business. Since its foundation in 1997, more than 23,800 credit projects have been supported. At the end of 2020, environmental loans (including open commitments) had a total volume of 3.5 billion euros. The majority of the credit volume consists of solar energy financing, residential real estate and wind power projects.

P&L in € million	FY 2020	FY 2021e	FY 2022e	FY 2023e
Interest income	69.08	74.69	77.68	80.01
Interest result	52.10	56.82	59.34	61.63
Other income	15.15	11.98	12.03	11.99
Net profit for the year	26.50	26.48	27.83	28.95

Key figures in EUR

EPS	0.85	0.85	0.90	0.93
Dividend per share	0.33	0.33	0.35	0.35

Balance sheet key figures in € million

Customer deposits	2,694.11	2,855.76	2,969.99	3,059.09
Credit volume	2,792.66	2,960.22	3,078.63	3,170.99
Total capital	408.40	424.65	441.63	459.73
Return on capital (before taxes)	13.0%	12.6%	12.6%	12.4%
Cost-income ratio	43.5%	43.1%	42.4%	41.9%

Financial calendar

02/08/2021: Half-year report 2021

07/12/2021: MKK

**last research from GBC:

Date: Publication / Target price in EUR / Rating

15/02/2021: RS / 18.21 / BUY

09/03/2020: RS / 14.50 / BUY

10/06/2020: RS / 14.50 / BUY

09/12/2019: RS / 14.30 / BUY

The research studies listed above can be viewed at www.gbc-ag.de or requested from GBC AG, Halderstr. 27, D86150 Augsburg, Germany.

* Catalogue of possible conflicts of interest on page

EXECUTIVE SUMMARY

- Despite the Corona crisis, UmweltBank AG further expanded its business volume in the past financial year 2020. In particular, the high demand for real estate and private financing led to a noticeable increase in the outstanding loan volume to € 2,792.66 million (31.12.20: € 2,566.62 million). On this basis, interest income of € 69.08 million (previous year: € 70.98 million) remains slightly below the previous year's value, which can be seen as evidence of the further decline in interest on loans. According to our calculations, the interest rate in 2020 was 1.5% (PY: 1.8%).
- As UmweltBank AG at the level of refinancing was also able to benefit from a further decline in the interest rate in 2020, the interest result improved to €52.10 million (previous year: €51.00 million). The decline in refinancing costs stems both from the area of customer deposits, where a custodian fee was even charged above a certain deposit volume, and from the increased taking up of bank loans within the framework of the ECB funding programme.
- The increase in total income is offset by higher expenses in connection with the continued expansion of the workforce as well as higher IT and consulting expenses. According to our calculations, UmweltBank AG's cost-income ratio increased to 43.5 % (previous year: 40.0 %). However, since the bank does not operate a costly branch network or offers costly products such as current accounts or accounts for normal payment transactions, the cost-income ratio is still very low compared to the industry. Before allocations to the fund for general banking risks, UmweltBank AG achieved a pre-tax result of € 37.85 million (PY: € 37.61 million), which was on the same level as the previous year. With the publication of the annual report 2019, management had forecast a slightly declining development, so that both the guidance and our expectations (previous GBC forecast: € 35.67 million) were slightly exceeded.
- According to the UmweltBank management, the absolute net interest income should increase in the current financial year 2021, with a further decline in the interest margin. In addition, the development of asset management and the expansion of the issuing business should lead to a higher commission and trading result, so that total income should increase. As higher personnel expenses and IT investments are also expected for the current business year, the pre-tax result should be at the level of the previous year.
- We expect an increase in interest income and net interest income for the current financial year, in line with the corporate guidance. Other income (commission income, income from participations, income from trading) should also increase. For the current financial year 2021, we expect a pre-tax result (before allocation to the fund for banking risks) of € 38.95 million. In the course of the slight increase in income, this should rise to € 40.93 million (2022e) and € 42.57 million (2023e) in the coming financial years.
- Within the framework of the adjusted residual income model, we have determined a new price target of € 20.73 (previously: € 18.21). The price target increase results primarily from the reduction of the cost of equity to 3.06 % (previously: 3.32%) as a result of the lower company-specific beta derived from the market. We continue to assign the BUY rating.

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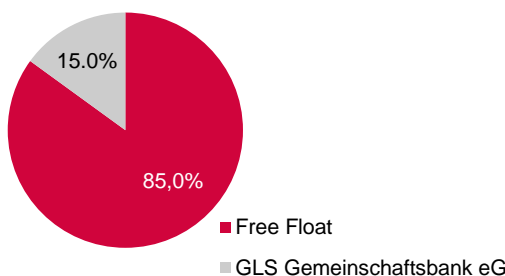
COMPANY

Shareholder structure

Shareholders as at 31/12/2020

GLS Gemeinschaftsbank eG	15 %
Free float	85 %

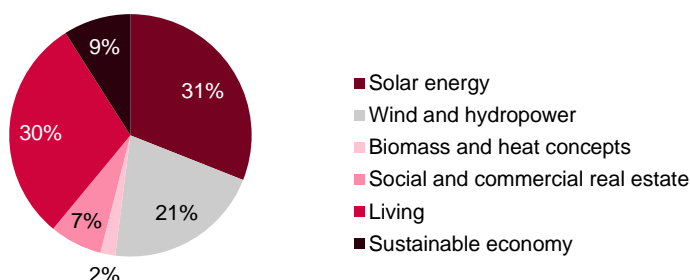
Source: UmweltBank AG; GBC AG



Ecological core idea

UmweltBank AG is the only bank in Germany to have anchored the ecological aspect of its business activities in its statutes. UmweltBank focuses on solar energy, wind and water power as well as low-energy construction. In doing so, UmweltBank AG invests exclusively in sustainable projects and all third-party products offered to customers must be ecologically or socially oriented. Accordingly, for example, both ecological and economic aspects play an important role in the credit decision, whereby a self-developed environmental rating is applied:

Structure of the lending business as at 31.12.2020



Source: UmweltBank AG; GBC AG

Since customer deposits are used entirely for the financing and promotion of environmental projects, the environmental guarantee coverage ratio calculated by Umwelt-Bank AG itself is met in full. This means that the volume of loans granted, which are 100% used for ecological financing, exceeds the customer deposits. This was always the case in past business years.

Product range

The **Investment & Provision** division, in which the savings, investment and insurance products of UmweltBank AG are bundled, represents the source of funds for the financing side. Particular emphasis is placed on overnight deposits in the UmweltFlex account. Overnight deposits amount to € 1,552.35 million. In addition to this flexibly available green overnight deposit account, the company offers savings deposits with an outstanding volume of € 887.19 million as of 31 December 2020. In third place are environmental savings bonds with an outstanding volume of € 254.58 million. In addition, UmweltBank customers can purchase investment products such as environmental funds or green bonds.

The **financing area**, i.e. the asset side of the credit institution, primarily contains loans that must also fulfil an ecological purpose. In addition, construction financing also inclu-

des social aspects and thus, for example, building communities, multi-generation houses, fair investor projects or student housing are the focus of UmweltBank AG. Tailor-made financing solutions are also offered for wind power projects (individual plants repowering and replacement of old financing) and photovoltaic projects (new projects, financing of portfolios, repowering, replacement and restructuring of old financing). UmweltBank AG's team of advisors has particularly strong expertise in these three segments. It should be emphasised that UmweltBank AG's loans are generally secured by extensive collateral. In addition to the collateralisation of real estate financing, for example, assignments of future revenues are used as collateral for the projects.

In addition to classic debt financing, UmweltBank AG participates in ecological and socially responsible projects through its wholly owned subsidiary UmweltProjekt AG in accordance with its statutes and thus acts as an equity investor.

At the end of 2020, UmweltBank AG launched the **UmweltWunschcredit**, a new sustainable instalment loan, which is intended to cover small private investments with a possible loan volume of €10,000 to €100,000. These include ecological renovations, Tiny Houses, small photovoltaic systems or measures related to the topic of electromobility.

At the beginning of February 2020, UmweltBank AG launched its first sustainable mixed fund, the **UmweltSpektrum Mix**. The focus of this fund is on sustainable assets in particular, in accordance with the sustainability approach anchored in UmweltBank's articles of association. The assets are mainly listed shares of companies that are oriented towards the 17 sustainability goals of the United Nations - the Sustainable Development Goals (SDGs). At the end of April 2021, the fund volume amounted to € 63.8 million and the fund has a one-year performance of approx. 50 %.

MARKET AND MARKET ENVIRONMENT

The business development of UmweltBank AG depends primarily on the general interest rate environment, which significantly influences both the willingness to lend and the demand for loans. Based on its exclusive lending activities in the areas of wind energy, solar energy and ecological-social construction, UmweltBank AG is also exposed to other specific market influences.

General interest rate environment

It is a declared goal of the European Central Bank (ECB) to maintain favourable financing conditions for states, companies and private households. Since the ECB's main refinancing rate has been stable at 0.0% since the end of 2015, the ECB adopted the Pandemic Emergency Purchase Programme (PEPP) with the onset of the corona pandemic. Bonds of public and private debtors are to be purchased in a maximum volume of € 1,850 billion with the aim of avoiding possible disruptions in lending. This measure shows that a possible departure from the ECB's low interest rate policy remains an unforeseeable scenario. Even against the background of the currently observed economic recovery and the associated rising inflation expectations, a continuation of the ECB's expansive monetary policy is assumed.

The current low interest rate environment has a fundamentally positive effect on the demand for loans, with banks refinancing at favourable conditions. However, lending conditions are at a historically low level, so that interest income is not keeping pace with the increasing lending volumes. In contrast, banks have favourable deposit conditions. Overall, however, the interest margin will remain at the current low level.

Following the expiry of the suspended obligation to file for insolvency, warnings of a possible wave of insolvencies are becoming louder and louder. However, since UmweltBank AG almost exclusively grants secured loans and does not engage in any other traditional corporate financing, the negative effects should be limited.

Development of the most important borrower sectors

In line with the structure of the lending business, the sectors primarily addressed by UmweltBank AG are the ecologically oriented areas of solar energy, wind and hydro-power as well as the financing of ecological owner-occupied homes, building communities and rental and commercial real estate.

Ecological and social housing

As of 31.12.2020, around 37% of the outstanding UmweltBank loans have been granted for the construction of properties that cover an ecological and social aspect. However, the entire real estate market, in particular the residential real estate market, which is more in focus for UmweltBank AG, is to be taken as the market benchmark for these properties with a special orientation. Even though there have been short-term burdens in the course of the corona crisis, the residential real estate sub-sector has shown itself to be particularly crisis-resistant. For investors, the fundamentally high cashflow stability of residential real estate is important, which has also been ensured by government measures during the corona pandemic. In many cases, this asset class has been perceived as a "safe haven", especially against the backdrop of increasing uncertainty. Additional demand impulses result from the continued historically low interest rate level. For secured new housing loans with an initial fixed interest rate of ten years, a historically low interest rate of 1.11% was called in December 2020. In early 2020, these loans were

priced at 1.35%, illustrating the continuation of low interest rates even during the COVID-19 pandemic. The resulting higher demand meets a supply that remains too low. Although the number of completed dwellings climbed to 306,376 in 2020, the highest level in the past 20 years, there is still a shortfall when measured against the calculated demand of over 340,000 dwellings annually. Thus, the market environment for the residential construction sector is likely to remain very attractive.

Photovoltaics

The growth trend in the photovoltaic sector, in which UmweltBank AG has around 31% of the total loan volume outstanding, also continued in the first corona year. With an installed capacity of 4,801 MW, around 1,000 MW or around 25% more was installed in 2020 than in the previous year. After a sharp reduction in the feed-in tariff for solar installations was decided in the course of the EEG reform, there has been a sharp decline in new PV installations since 2013. Since 2018, a strong growth dynamic in new PV installations has become apparent again. The significantly declining prices for solar modules play a special role here, making projects profitable even at lower subsidy rates. Installation costs are the main cost factor for photovoltaic systems, as operating costs and financing costs (low interest rates) are comparatively low.

The number of new installations expected for 2021 is likely to depend heavily on the 2021 amendment to the EEG. While roof systems with an installed capacity of 300 to 750 kWp will only be remunerated for half of the electricity generated when fed into the grid, systems of up to 30 kWp will in future be exempt from the EEG levy for own use. In addition, ground-mounted systems can be 20 MWp in size in future (previously: ten MWp). Taking these factors into account, the analysts from EUPD Research expect an expansion of around six GW for 2021 and thus a consistently high growth dynamic.

Wind energy

After the slump in new installations in 2019, slightly more onshore wind turbines were installed again in Germany in 2020. The 420 WTGs installed in 2020 with a capacity of 1,431 MW represent an increase of about 30% each compared to the historically low values of 2019, but new installation activity is still significantly below the average values of previous years. The installed capacity thus improved to almost 55 GW. However, the expansion target of the EEG 2021 adopted at the end of 2020 is 71 GW by 2030. To achieve this target, the cumulative capacity stock would have to be increased by about 30% in the next ten years, which would also mean an increase in annual new installations.

The current significant downturn in the wind energy sector should not have a full impact on UmweltBank AG's lending activities. In particular, the fact that UmweltBank AG also refinances loans for existing plants reduces the dependence on the development of new installations.

BUSINESS DEVELOPMENT FY 2020

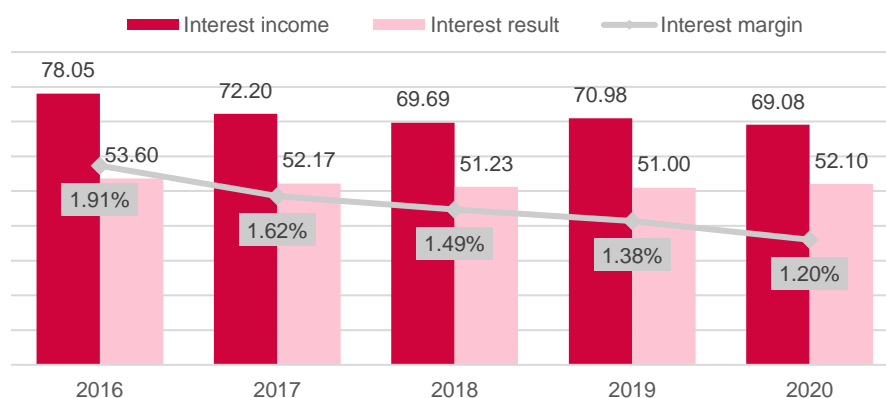
in € m	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Interest income	78.05	72.20	69.69	70.98	69.08
Interest expenses	24.45	20.03	18.45	19.98	16.97
Interest result	53.60	52.17	51.23	51.00	52.10
Commission income	4.52	3.21	2.45	3.75	3.92
Commission expenses	0.14	0.22	0.19	0.20	0.28
Commission result	4.38	2.99	2.26	3.55	3.63
Current income ¹	2.21	2.15	2.20	2.94	2.28
Total expenditure ²	56.53	50.81	50.21	56.92	57.73
Net profit for the year²	32.15	27.66	25.34	25.92	26.50

Source: UmweltBank AG; GBC AG; ¹from shares, participations and shares in affiliated companies; ²before allocation to the fund for general banking risks

Income development FY 2020

Despite the Corona crisis, UmweltBank AG was able to further expand its business volume in the past financial year 2020. Particularly in view of the high demand for real estate and private construction financing, the outstanding loan volume increased noticeably by 8.8 % to € 2,792.66 million (31.12.19: € 2,566.62 million). New lending business contributed to this, setting a new record in 2020 with € 689 million (previous year: € 543 million). Not only the favourable industry environment is likely to have contributed to this. The digitalisation measures initiated by the bank in the run-up to the corona pandemic are likely to have additionally supported this development. Since the loans usually have a long-term maturity, the increase in lending volume also means a long-term increase in the earnings base. On the other hand, the interest rate environment continues to decline, so that interest income fell slightly to € 69.08 million (previous year: € 70.98 million) despite the higher lending volume. According to our calculations, this results in a further decline in interest on loans to 1.5 % (previous year: 1.8 %).

Interest income, interest result (in € million) and interest margin (in %)



Source: UmweltBank AG; GBC AG

The interest result, i.e. interest income after deduction of interest expenses, nevertheless improved to € 52.10 million (previous year: € 51.00 million) and was thus slightly above our forecasts of € 50.43 million (research study of 03.09.2021). Here, too, the effect of the declining interest rate environment plays an important role, which led to a further reduction of the average interest rate on the outstanding customer and bank liabilities and thus of the interest expense to € 16.97 million (previous year: € 19.98 million). The interest margin, and thus the difference between the interest on loans and deposits, fell further in 2020 to 1.20% (previous year: 1.38%).

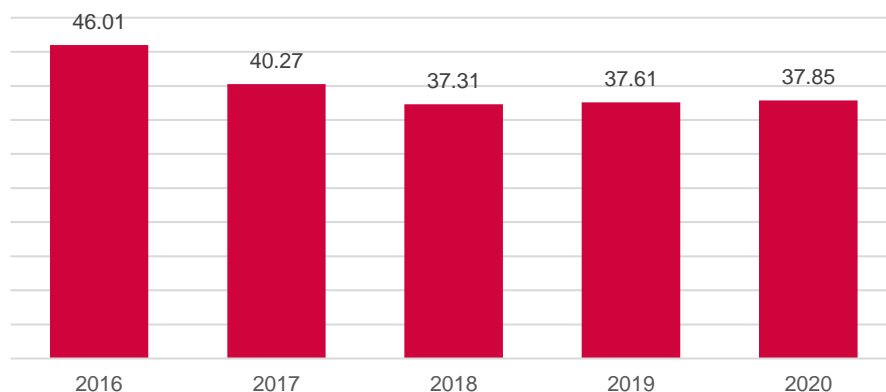
In addition to net interest income, UmweltBank AG reports commission income, current income from investments held, trading portfolio income and valuation income on securities held. Overall, this fell to € 8.81 million (previous year: € 11.41 million), which is mainly due to the lower valuation income on investments and securities. However, this is offset by a strong increase in other income to €6.35 million (previous year: €0.45 million). This includes the successful conclusion of the legal dispute regarding the licence agreement with D.U.T. UmweltTreuhand GmbH, which had led to a release of provisions affecting income. Together with interest income, UmweltBank AG was able to increase total income to € 84.23 million (previous year: € 82.85 million).

Costs and earnings development FY 2020

The increase in total income is offset by higher operating costs, mainly due to an increase in personnel expenses to € 13.78 million (previous year: € 11.21 million) and in administrative expenses to € 13.29 million (previous year: € 10.43 million). This development reflects the expansion of the business volume. For example, the company had further expanded the number of employees to 250 (31.12.2019: 201), which accounts for the strong increase in personnel costs. In addition, higher IT and consulting expenses were incurred in 2020 as planned, also against the backdrop of the Corona pandemic.

According to our calculations, UmweltBank AG's cost-income ratio increased to 43.5 % (previous year: 40.0 %). However, as the bank does not operate a costly branch network or offer costly products such as current accounts or accounts for normal payment transactions, the cost-income ratio is still very low compared to the industry. According to the latest available statistics from the German Bundesbank, German credit institutions had a cost-income ratio of 76.0% in 2019, based on administrative costs alone.

EBT before allocation to the fund for banking risks (in € million)

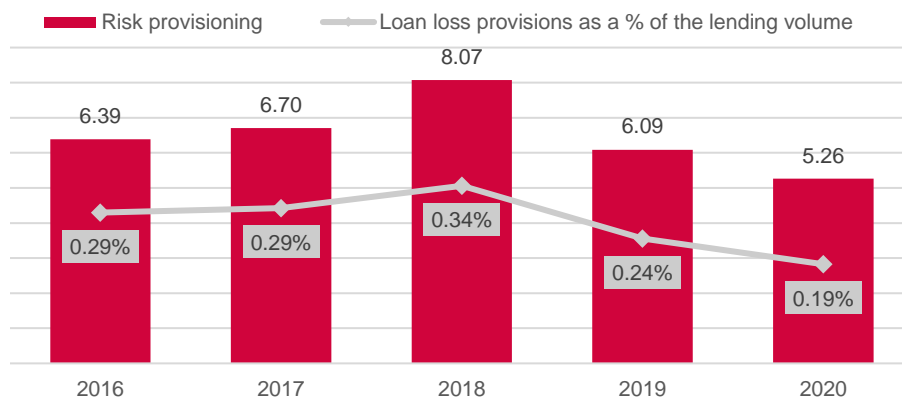


Source: UmweltBank AG; GBC AG

Before allocations to the fund for general banking risks, UmweltBank AG achieved a pre-tax result of € 37.85 million (previous year: € 37.61 million). With the publication of the 2019 annual report, the management had forecast a slightly declining development, so that both the guidance and our expectations (previous GBC forecast: € 35.67 million) were slightly exceeded. The consideration of the result before allocation to the fund for general banking risks makes sense insofar as the fund allocation is a freely selectable control instrument for the determination of the after-tax result. Since the balance sheet item "Fund for general banking risks" is completely part of the Common Equity Tier 1 capital, it is more or less an anticipatory retention of profits, i.e. before the after-tax result is reported.

The high quality of UmweltBank AG's results is also supported by the very low level of risk provisions compared to the rest of the sector. Due to the fact that the bank almost exclusively grants secured loans, the loan loss provisions of € 5.26 million (previous year: € 6.09 million) account for only 0.19 % (previous year: 0.24 %) of the total lending volume. The write-offs and value adjustments on receivables recognised in profit or loss as well as the new provisions in the lending business amounted to only € 1.13 million in the 2020 financial year (previous year: € 2.70 million).

Risk provisions (in € million) and in % of the outstanding loan volume



Source: UmweltBank AG; GBC AG

The after-tax result (before allocation to the fund for general banking risks) of € 26.50 million (previous year: € 25.92 million) is also significantly higher than our previous forecast of € 24.29 million. In summary, it can be said that UmweltBank AG developed better than expected, especially with regard to new lending business. The overall higher net interest income and the unexpectedly higher other operating result were offset by higher administrative expenses, as expected.

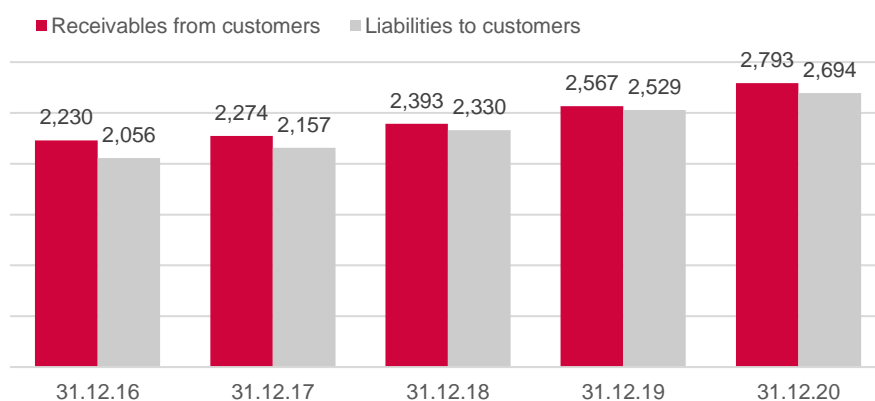
Balance sheet and financial situation as at 31.12.2020

in € m	31/12/16	31/12/17	31/12/18	31/12/19	31/12/20
Balance sheet total	3,206.24	3,485.00	3,699.12	4,095.05	4,944.37
Balance sheet equity	98.43	108.01	119.19	150.56	162.89
Regulatory capital*	256.6	281.6	333.5	378.0	408.4
thereof common equity tier 1*	181.8	202.0	221.2	260.4	275.2
thereof additional core capital*	29.2	34.2	32.6	30.9	28.8
thereof supplementary capital*	45.6	45.4	79.7	86.7	104.4
Total capital ratio	12.0%	12.0%	14.0%	14.5%	14.6%
Core capital ratio	9.9%	10.0%	10.7%	11.2%	10.9%
Common Equity Tier 1 ratio	8.5%	8.5%	9.3%	10.0%	9.8%
Customer deposits	2,055.68	2,157.01	2,330.02	2,529.34	2,694.11
Liabilities to credit institutions	860.73	1,011.95	1,005.59	1,155.99	1,803.32
Credit volume	2,229.82	2,273.56	2,392.77	2,566.62	2,792.66
Held securities	747.21	1,023.68	1,125.71	1,373.31	1,907.80
Cash and cash equivalents (incl. bank deposits)	203.87	155.08	144.66	111.36	154.53

Source: UmweltBank AG; GBC AG

The significant expansion of business volume is visible in the strong increase of the balance sheet total to € 4,944.37 million (31.12.19: € 4,095.05 million). On the assets side, i.e. on the application of funds side, this development is represented by an increase in the lending volume to a new record value of € 2,792.66 million (31.12.19: € 2,566.62 million). As shown, the credit institution benefited here in particular from brisk new business in the area of residential real estate and the sustainable economy. Over a period of five financial years, UmweltBank AG's outstanding loan volume has shown an average annual growth rate (CAGR) of a dynamic 5.9%. Parallel to the increase in lending, the portfolio of securities held increased significantly to € 1,907.80 million (31.12.19: € 1,373.31 million).

Lending volume vs. customer deposits (in € million)

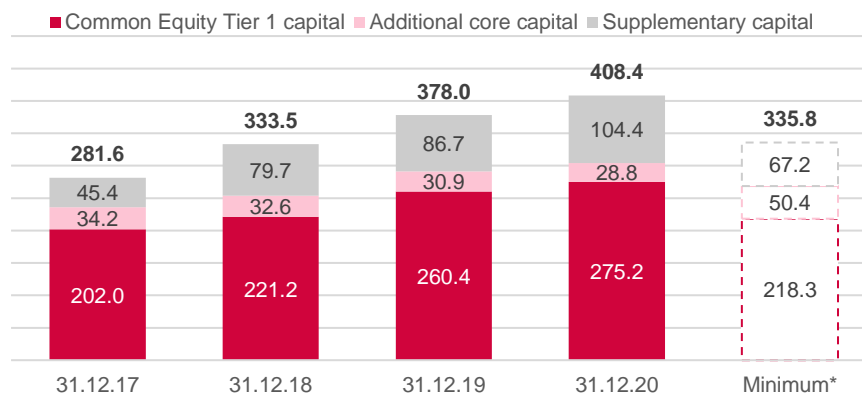


Source: UmweltBank AG; GBC AG

In line with the expansion of the lending business and the increase in securities held, liabilities to customers climbed to € 2,694.11 million (31.12.2019: € 2,529.34 million) and liabilities to banks also increased significantly to € 1,803.32 million (31.12.19: € 1,155.99 million). The overnight deposits of the UmweltFlex account were particularly popular, accounting for 57.6 % of the liabilities to customers. Even though customer deposits continue to account for the largest share of refinancing, the strong increase in liabilities to banks is striking. This is due in particular to an expansion of refinancing transactions with the Bundesbank to around € 700 million (31.12.19: € 200 million). Here UmweltBank AG made use of the possibility of ECB refinancing at favourable interest rates.

An important feature of UmweltBank's balance sheet is the typically good equity base, which generally meets a buffer to the minimum legal requirements. The positive net income but also the fact that shareholders opted for the stock dividend for about 55 % of the shares entitled to dividends is responsible for that. This has led to an increase in balance sheet equity to € 162.89 million (31.12.19: € 150.56 million). In order to determine the regulatory equity capital, the provisions in the fund for general banking risks as well as other equity-like positions are included. The total regulatory capital published by UmweltBank AG amounts to € 408.4 million (31.12.19: € 378.0 million) and, with a total capital ratio of 14.6 % (31.12.19: 14.5 %), significantly exceeds the regulatory requirement of 12.0 %. This also applies to the individual components of total capital:

Development of total capital (in € million)



Source: UmweltBank AG; GBC AG; *according to regulatory requirement

FORECAST AND VALUATION

in € m	FY 2020	FY 2021e	FY 2022e	FY 2023e
Interest income	69.08	74.69	77.68	80.01
Interest expenses	16.97	17.88	18.34	18.38
Interest result	52.10	56.82	59.34	61.63
Other income	15.15	11.98	12.03	11.99
Total expenditure*	46.38	47.72	48.79	49.43
EBT*	37.85	38.95	40.93	42.57
EAT*	26.50	26.48	27.83	28.95
EPS in €	0.85	0.85	0.90	0.93
Dividend in €	0.33	0.33	0.35	0.35
Customer deposits	2,694.11	2,855.76	2,969.99	3,059.09
Credit volume	2,792.66	2,960.22	3,078.63	3,170.99
Total capital	408.40	424.65	441.63	459.73

Source: GBC AG; *without allocation to the fund for general banking risks

The UmweltBank management had already provided an outlook for the current 2021 financial year at the beginning of February 2021 as part of the 2021 press conference. Based on the sustainable growth strategy, the business volume is to be increased in 2021 and a pre-tax result, excluding additions to the fund for general banking risks, is to be achieved at approximately the previous year's level. The UmweltBank management confirmed this forecast in the 2020 annual report. The absolute net interest income is to be increased despite a further decline in the interest margin. In addition, the establishment of asset management and the expansion of the issuing business should lead to an increase in commission income and trading profit, so that total income should rise.

In the past financial years, UmweltBank AG has significantly increased the number of employees to 250 (31.12.2020). Within the past four financial years, the number of employees has almost doubled. In addition to a regulatory-related expansion of the workforce, new staff has also been hired in the operational area (lending, customer deposits) in order to be able to meet the high demand. A further increase in staff is also expected for 2021, which should lead to both rising personnel expenses and increased administrative expenses. Consequently, the management of UmweltBank AG expects a pre-tax result at the previous year's level despite rising revenues.

The basis for further corporate growth is the company's growth strategy based on the four pillars. On the assets side, an overall increase in volume and an expansion of business with private clients is to be achieved in the core area of "lending business". On the liabilities side, this will be supported by an increase in customer deposits and the credit institution should continue to make use of the possibility of low-interest ECB refinancing (TLTRO).

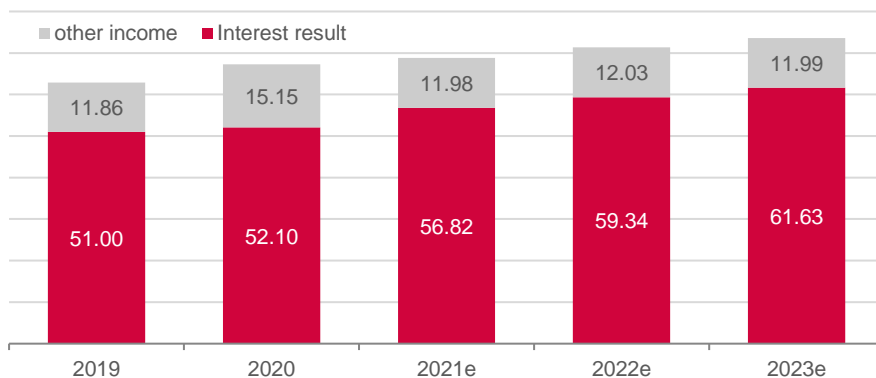
In addition to its core business, UmweltBank AG also plans to further promote its investment business, for example. UmweltProjekt GmbH, the subsidiary responsible for this business, intends to expand its investments in solar and wind parks as well as in construction projects. At present, the UmweltBank subsidiary's own portfolio includes a total of 22 MW of photovoltaics, 51 MW of wind power and it has holdings in over 500 flats and more than 40 commercial units. An expansion of UmweltProjekt GmbH's financing resources via the issue of a further bond is a realistic option in our eyes.

Furthermore, the company intends to expand its securities business. In addition to issuing UmweltBank or UmweltProjekt bonds, further UmweltSpektrum funds can also be

launched. The first fund, UmweltSpektrum Mix, issued in February 2020, got off to a very successful start and has since increased its fund volume to € 63.8 million.

We expect an increase in interest income and net interest income for the current financial year, in line with the corporate guidance. Other income (commission income, income from investments, income from trading activities) should also increase. In the past 2020 financial year, UmweltBank AG reported a sharp increase in other income in connection with the termination of a legal dispute. Due to the discontinuation of this special income, the total income outside the core business will be lower in 2021.

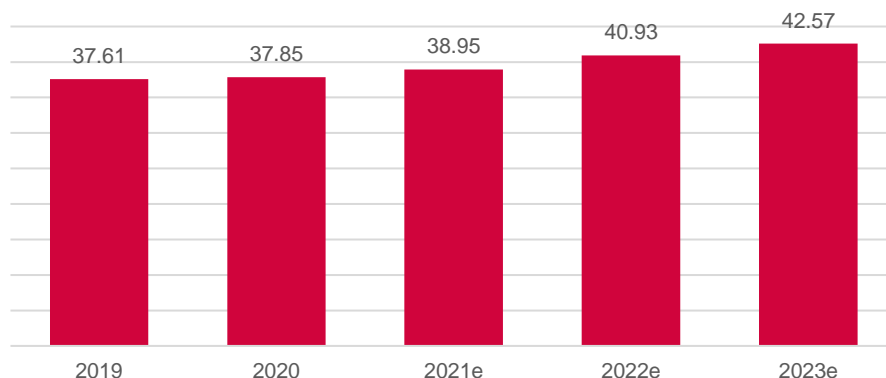
Net interest income and other income



Source: GBC AG

According to the company's statement, the cost-income ratio, which according to our calculations was 43.5 % in 2020, will remain at this level in the coming financial years. For the current financial year 2021, we expect a pre-tax result (before allocation to the fund for banking risks) of € 38.95 million. In the course of the slight increase in earnings, this should rise to € 40.93 million (2022e) and € 42.57 million (2023e) in the coming financial years. After deducting a tax rate of 32.0% in each case, the remaining after-tax result would be € 26.48 million (2021e), € 27.83 million (2022e) and € 28.95 million (2023e).

EBT before allocation to the fund for banking risks (in € million)



Source: GBC AG

Evaluation

For the valuation of UmweltBank AG, we have used a residual income model, whereby the difference between the return on equity and the cost of equity is used to determine the surplus return of the estimation periods. In doing so, we have formulated concrete expectations for the estimation periods of the three financial years 2021e - 2023e with regard to the annual surpluses and the resulting changes in equity. The expected returns on equity can be derived from this. The residual income of the business year can be derived from the generated surplus return of a period. The expected residual income is then discounted to the valuation date with the cost of equity. To determine the terminal value, we apply a premium to the current book value.

$$\text{Fair company value} = EK_0 + \sum_{t=1}^T \frac{(ROE_t - r)EK_{t-1}}{(1+r)^t} + \frac{P_T - EK_T}{(1+r)^T}$$

EK = Equity

ROE = Return on equity

P = Premium on book value

r = Cost of equity capital

T = estimation period

T = last estimation period

Determination of the cost of capital

The relevant discount rate for use in the residual income model is the cost of equity. To determine the cost of equity, the market risk premium, the company-specific beta and the risk-free interest rate must be determined.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. The basis for this is the zero bond interest rates published by the Deutsche Bundesbank according to the Svensson method. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points. The currently used value of the risk-free interest rate is 0.25 % (previously: 0.25 %) as our assumed lower limit.

We use the historical market risk premium of 5.50 % as a reasonable expectation of a market risk premium. This is supported by historical analyses of stock market returns. The market premium reflects the percentage by which the stock market is expected to yield better than low-risk government bonds.

The beta calculation was based on the historical price data of UmweltBank AG (monthly price development over the past four years). We used the SDAX price index and the STOXX® Europe 600 Banks price index as comparative indices and averaged them in the regression analysis over a period of five years. On this basis, we determined a beta of 0.51 (previously: 0.56), which we also adjusted and smoothed in accordance with *Blume's* work. Using the assumptions made, we calculate a cost of equity of 3.06% (previously: 3.32%) (beta multiplied by risk premium plus risk-free interest rate).

Valuation model and valuation result

	31.12.20	31.12.21e	31.12.22e	31.12.23e	Final value
Equity	292.04	308.29	325.27	343.37	
Net profit for the year	26.50	26.48	27.83	28.95	
ROE (after taxes)		8.82%	8.78%	8.66%	8,66%
Cost of equity		3.06%	3.06%	3.06%	3,06%
Excess return		6.27%	5.76%	5.72%	5.60%
Book value factor		2.60	2.88	2.87	2.83
Residual income		14.52	16.83	17.65	18.21

According to our valuation model, UmweltBank AG should be able to achieve a sustainable return on equity (after tax) of 8.66% in relation to the balance sheet equity. Assuming a cost of equity of 3.06%, a sustainable excess return of 5.60% or a book value factor of 2.83 should be generated in the terminal value. To determine the terminal value, we have therefore applied a premium over the book value of 2.83.

Present value of residual income 2022 and 2023	34.27 m €
Present value of residual income Final value in € million	608.51 m €
Total present values in € million	642.79 m €
Shares outstanding in m	31.01 m €
Fair enterprise value per share in €	20.73 €

The sum of the discounted residual income results in a value of € 642.79 million on a target price basis of 31 December 2022. In view of an outstanding number of shares of 31.01 million, a fair enterprise value per share of € 20.73 (previously: € 18.21) is calculated. The price target increase results primarily from the reduction of the cost of equity to 3.06% (previously: 3.32%) as a consequence of the lower company-specific beta derived from the market. In addition, we have used the 2023 financial year (previously: 2022 financial year) as the last concrete estimate year and thus as the basis for the terminal value for the first time.

Based on the current share price of € 17.65, we continue to give the rating BUY.

ANNEX

I.

Research under MiFID II

1. There is a contract between the research company GBC AG and the issuer regarding the independent preparation and publication of this research report on the issuer. GBC AG is remunerated for this by the issuer.
2. The research report is simultaneously made available to all interested investment services companies.

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The recommendations/ classifications/ ratings are linked to the following expectations:

BUY	The expected return, based on the derived target price, incl. dividend payments within the rel 10%.
HOLD	The expected return, based on the derived target price, incl. dividend payments within the rel 10% and < + 10%.
SELL	The expected return, based on the calculated target price, incl. dividend payments within the <= - 10%.

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