

Press Information, 10 August 2017

## Berlin Hyp increases earnings in first half of 2017

- **Earnings before taxes up by € 13 million to € 44.4 million**
- **New lending volume on par with solid previous-year level at € 3.1 billion**
- **Fund for general bank risks strengthened with € 20 million**
- **Green Pfandbrief well received by foreign investors**

In a challenging market environment shaped by persistently low interest rates, fierce competition in commercial real estate financing and ever-stricter regulatory requirements, Berlin Hyp significantly increased its **operating result before income taxes and profit taxes** year on year from € 31.4 million to € 44.4 million. This result includes the addition to the fund for general bank risks of € 20 million (previous year: € 30 million).

With **new lending volume** (including long-term extensions) of € 3.1 billion, the Bank further cemented its position as a leading commercial real estate financier in the first half of 2017 (previous year: € 2.9 billion).

**S-Group business** performed according to plan. The product range is being continuously expanded and now includes two brand-new products, ImmoAval and ImmoRisikoDialog. The total volume of S-Group business stood at € 650 million (previous year: € 900 million).

The Bank has once again been able to benefit from its reputation as a reliable and solid issuer, successfully placing two benchmark **mortgage Pfandbriefe** with a total volume of € 1.0 billion. The first issue was completed in February, with banks accounting for half of the investment volume, 20 % of which went to German savings banks. The second Green Pfandbrief was issued in June, becoming Berlin Hyp's third **green bond** in benchmark format. Never before has the level of investment from foreign investors in a Berlin Hyp Pfandbrief been higher (47 %). Central banks and public-sector institutions formed the largest investor group, accounting for 43 %, while 5 % went to German savings banks. Some 45 % of investors were from the socially responsible segment, meaning that they generally only invest in socially responsible capital assets.

Moody's raised Berlin Hyp's ratings at the end of July in the wake of the consistent strengthening of the Bank's equity as well as its ongoing profitability. The issuer rating was raised by one level from A2 to A1, whereas the adjusted baseline credit assessment (adjusted BCA) was increased by two levels from baa2 to a3. The rating for subordinate issues was also raised by two levels, from Baa3 to Baa1.

Ratings agency Fitch improved its viability rating by one level, from bbb- to bbb, in the reporting period. Moody's continues to give Berlin Hyp's mortgage and public Pfandbriefe the best possible rating of Aaa.

Financing particularly energy-efficient buildings is integral to Berlin Hyp's strategy. Its aim is to increase the percentage of green building financing in the loan portfolio to 20 % by 2020. The green finance portfolio as at 30 June 2017 comprised loans for green buildings worth € 2.4 billion.

"We are very happy with our results for the first half of the year," says Sascha Klaus, Chair of the Berlin Hyp Board of Management. "In spite of difficult conditions and expenses incurred in strengthening our equity capital requirements, we believe that our operating result before profit transfer in 2017 will be significantly higher than the previous year's figure, as planned.

## Statements on the earnings situation

**Net interest income** rose by € 4.7 million to € 136.7 million. This solid result was primarily due to the fall in refinancing expenses and a slight increase in the average mortgage portfolio. At € 17.9 million, **net commission income** was slightly down on the outstanding previous-year figure of € 19.3 million.

**Operating expenditure** declined after one-off effects. However, at € 68.1 million, operating expenditure was higher than the previous figure adjusted for the expenses for the European banking levy of € 60.3 million due to one-off effects in the calculation of pension obligations in the previous year.

**Risk provisioning expenditure** declined considerably year on year in the first half of 2017 from € 32.1 million to € 22.3 million. Risk provisioning in the lending business benefited from the solid economic environment and the Bank's active risk management strategy.

**Return on equity** increased to 12.4 % (previous year: 11.8 %) due to the rise in the operating result before profit transfer.

The **cost-income ratio** rose from 39.9 % to 44.5 % year on year as at 30 June 2017. The comparable figure from the previous year has been adjusted for the expenditure for the European banking levy. The primary reason for this increase was the one-off effect in the calculation of pension obligations in the previous year and the resulting fall in operating expenditure.

The **common equity tier 1** ratio stood at 14.0 % as at 30 June 2017, and the **total capital ratio** came to 17.8 % (previous year: 12.7 % and 16.4 % respectively). This increase was due to the reduction in risk-weighted assets.

## Outlook

The ongoing low-interest environment continues to inject momentum into the German real estate market. Transaction volume remains at a high level. A lack of alternative investments is pushing German investors and, on an increasing basis, also international investors into the German market. The commercial real estate market is particularly challenging, with fierce competition, a limited core segment and real estate financiers' margins under pressure.

Berlin Hyp's conservative risk policy is particularly important in view of a growing risk propensity among investors. "We will continue to carefully weigh up every new lending transaction," says Klaus. "Our motto is quality over quantity."

Regulatory requirements for credit institutes are becoming increasingly stricter, tying up both human and monetary resources. All in all, the underlying conditions continue to pose a challenge to the real estate financing industry and therefore also to Berlin Hyp. The Bank expects the remainder of the financial year to go to plan with an operating result before profit transfer significantly higher than the previous year.

Last year, the Bank launched its berlinhyp21 strategy for the future, which is geared towards equipping the Bank to meet future challenges. Many employees are participating and immersing themselves in this strategy, developing and implementing constructive ideas. The strategy is focused on optimising IT systems and realising a digitalisation strategy, so that the Bank is able to respond even quicker and more efficiently to what customers want.

"We will not rest on our laurels as one of Germany's leading real estate financiers," Klaus says. "We know what challenges await us over the next few years and are preparing to tackle them."

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## Profit and Loss Account

from 1 January to 30 June 2017

Expenditure in € m	01.01. – 30.06. 2017	01.01. – 30.06. 2016	Change	Change %
<b>Net interest income</b>	<b>136.7</b>	<b>132.0</b>	<b>4.7</b>	<b>3.6</b>
<b>Net commission income</b>	<b>17.9</b>	<b>19.3</b>	<b>-1.4</b>	<b>-7.3</b>
<b>Operating expenditure</b>	<b>68.1</b>	<b>60.3</b>	<b>7.8</b>	<b>12.9</b>
Staff expenditure	33.0	25.7	7.3	28.4
Other operating expenditure <sup>1</sup>	32.7	32.6	0.1	0.3
Of which expenditure for bank levy	10.1	10.9	-0.8	-7.3
Amortisation on and depreciation of and valuation adjustments on intangible investment assets and tangible assets	2.4	2.0	0.4	20.0
Other operating earnings / expenditure	-1.6	-0.1	-1.5	-
<b>Operating result before risk provisioning</b>	<b>84.9</b>	<b>90.9</b>	<b>-6.0</b>	<b>-6.6</b>
Risk provisioning	22.3	32.1	-9.8	-30.5
<b>Operating result after risk provisioning</b>	<b>62.6</b>	<b>58.8</b>	<b>3.8</b>	<b>6.5</b>
Financial investment result	1.9	2.7	-0.8	-29.6
Contribution to the fund for general bank risks	20.0	30.0	-10.0	-33.3
Other taxes	0.1	0.1	0.0	0.0
<b>Profit before income tax and profit transfer</b>	<b>44.4</b>	<b>31.4</b>	<b>13.0</b>	<b>41.4</b>
Income tax	0.2	-0.1	0.3	-
Expenditure from profit transfer	44.2	31.5	12.7	40.3
<b>Net income</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>

<sup>1</sup> Adjustment of the previous-year figure as a result of the reclassification of the bank levy to "Other operating expenditure" (had previously been reported separately as "Bank levy" after the "Operating result") (had previously been reported separately as "Bank levy" after the "Operating result")

The full Half-Year Financial Report is available at [www.berlinhyp.de](http://www.berlinhyp.de)

Berlin Hyp specialises in large-volume real estate finance for professional investors and housing societies, for whom the Bank develops individual financing solutions. As an enterprise forming a Group together with the German savings banks, it also makes an extensive spectrum of products and services available to these institutions. Berlin Hyp's clear focus, almost 150 years of experience and its close proximity to the Savings Banks Finance Group characterise the Bank as a leading German real estate and Pfandbrief bank.