

Press Information, 9 August 2018

## Berlin Hyp Raises Earnings in the First Half of 2018

- **Pre-tax earnings of EUR 62.2 million significantly above expectations**
- **New lending volume of EUR 3.5 billion above the previous-year period**
- **Fund for general banking risks noticeably strengthened by EUR 80 million**
- **Risk provisioning benefits from good framework conditions**
- **Progress in digitisation strategy**

In view of the continuing low interest rate phase, the continued fierce competition in commercial real estate financing and the increasing regulatory requirements, Berlin Hyp recorded a successful first half of 2018.

With **operating results before income taxes and profit transfer** of EUR 62.2 million, the previous year's figure (previous year: 44.4 million) has been significantly exceeded. Net interest and commission income as well as administrative expenses developed better than expected. While in previous years, the very good development in risk provisioning made it possible, among other things, to form hidden provision reserves, a further EUR 80 million (previous year: EUR 20 million) was allocated to the special item in accordance with Section 340g HGB following the successful first half of 2018. "We were able to strengthen our equity base early on through our own efforts", explains Sascha Klaus, Chairman of the Board of Management at Berlin Hyp. This will have a positive effect on the T1 capital ratio and will have a considerable impact in the second half of 2018.

The Bank was able to maintain and further consolidate its position as one of the leading commercial real estate financiers. The contracted volume of **new lending** (including realised extensions) amounted to EUR 3.5 billion in the first half of 2018 (previous year: EUR 3.1 billion). The extensions amounted to EUR 799 million (previous year: EUR 1,044 billion). With a share of 57 percent, the investors' customer group accounted for the lion's share of new lending. Another 14 percent was realised with housing societies. The remaining 29 percent was attributable to developers and building contractors.

In the first half of the year, Berlin Hyp developed its **S-Group business** as planned and continuously expanded its network within the Sparkassen-Finanzgruppe. The volume of S-Group business came to roughly EUR 825 million (previous year: EUR 650 million) and was thus above the previous year's level. The second transaction of the new ImmoAval product and an ImmoSchuldschein transaction in February 2018 greatly contributed to this. Thanks to joint financing, Berlin Hyp is now a partner to a total of 124 savings banks (previous year: 111 savings banks).

Berlin Hyp also had very good market access in the first half of 2018. This was reflected in the number and amount of issues taking place. In the first half of the year, the Bank issued EUR 2.5 billion in **debt instruments**. In January 2018, the Bank initially suspended the four-year Pfandbrief issue from November 2017 (original issue volume: EUR 500 million) by EUR 250 million at mid-swap -20 basis points. Subsequently, Berlin Hyp placed the first benchmark issue on the market in February (term: eight years) for EUR 500 million with a re-offer spread of mid-swaps -15 basis points. In April, the bank realised the issue of the third Green Unsecured Bond and thus Berlin Hyp's fifth Green Bond in benchmark format. The coupon of the EUR 500 million ten-year bond was fixed at 1.50 percent. On the occasion of its 150<sup>th</sup> anniversary in May, the Bank issued the five-year jubilee Pfandbrief of EUR 500 million with a coupon of 0.25 percent at the end of the first half of the year. Berlin Hyp's issuer ratings remained stable in the reporting period.

"We are very satisfied with our half-year results," emphasised Sascha Klaus, Chairman of the Board of Management at Berlin Hyp. "Despite the still challenging market environment, we expect to be able to increase our earnings before profit transfer in 2018 and certainly reach the previous year's level."

## Notes on the earnings situation

When compared to the previous year, **net interest and commission income** rose from EUR 154.6 million to EUR 172.2 million, thus exceeding expectations. The increase resulted from a rise in **net interest income** by EUR 24.7 million to EUR 161.4 million (previous year: EUR 136.7 million).

Berlin Hyp again achieved growth in new lending business compared with the same period last year. Nevertheless, at EUR 10.8 million **net commission income** was as expected significantly below the very good previous year's figure of EUR 17.9 million. This is due to the adjusted administration fees in the interest margins and their distribution over the term in the course of the BGH rulings on loan administration fees.

In view of further reductions in discount rates in calculating pension obligations and the increasing requirements for information technology and regulatory reporting requirements, the **administrative expenses** of EUR 76.1 million increased moderately (previous year: EUR 68.1 million).

Due to Berlin Hyp's good economic development and business environment, as well as the Bank's active risk management, it was possible to release **risk provisioning** totalling EUR 31.5 million (net) in the first half of 2018. EUR 40.1 million had been added in the same period of the previous year. Including risk provisioning for securities, total risk provisioning thus amounts to EUR -47.3 million (previous year: EUR 22.3 million)

The **cost-income-ratio** remained almost unchanged at 44.6 percent (previous year: 44.5 percent).

On 30 June 2018, the **common equity Tier 1 ratio** stood at 12.0 percent and the **total capital ratio** at 14.7 percent (12.5 percent and 15.5 percent, respectively, determined as of 31 December 2017). The decrease in the capital ratios is due to a significant increase in new lending, despite improved capitalisation through additions to the reserve pursuant to Section 340g German Commercial Code (HGB) in the context of the 2017 annual financial accounts.

Based on the premise of the allocation to the fund for general banking risks in the current half-year financial report and the regulatory approval still to be granted in the second half of the year, the common equity Tier 1 ratio is 12.9 percent and the total capital ratio 15.6 percent. This improvement in the key figures is mainly due to the inclusion of the allocation to the fund for general banking risks of EUR 80 million as common equity Tier 1.

## Outlook

The ongoing zero-interest policy continues to ensure continued dynamism on the German real estate market. The transaction volume, nevertheless, remains at an unchanged high level. In addition to the strong interest in commercial real estate, this has also led to high demand for residential real estate portfolios. Investors favour real estate in Germany. In the absence of investment alternatives, international investors are continuing to push their way onto the German market alongside national investors.

This remains highly competitive, the core segment limited and the pressure on the margins of the real estate financiers high. Berlin Hyp, however, will continue to remain true to its conservative risk policy of “quality before quantity”, even in view of investors’ rising appetite for risk.

The framework conditions remain challenging for real estate financing and thus also for Berlin Hyp. Regulatory requirements are expected to continue leading to higher structural and personnel costs in the future. Furthermore, business processes must be continuously developed and optimised. In addition to the technical equipment required to do this, this presents the banking and financial sector with a major challenge. Furthermore, like many other companies, Berlin Hyp is caught between demographic change and a shortage of skilled workers.

Should the markets develop as expected, Berlin Hyp expects a very good development in the remainder of the financial year. After taking the formation of reserves to strengthen the equity base into account, the result before profit transfer in 2018 will develop above plan. On this basis, the Bank is forecasting a result before profit transfer which may reach the previous year's level.

Having initiated the “berlinhyp21” future-oriented process, Berlin Hyp will come one step closer to its goal of becoming Germany's most modern real estate financier. The Bank continues to focus on securing its competitiveness, sustainable growth and creating a reliable perspective for the future. To this end, as part of personnel development and the promotion of excellence, the HR instruments are currently being redesigned. Berlin Hyp promotes young talents and is looking intensively for junior staff. To ensure Berlin Hyp's long-term competitiveness, the Bank is continuing to work at full speed on developing new business approaches and models as part of its digitisation strategy.

Berlin Hyp celebrated its 150<sup>th</sup> anniversary on 8 May 2018. “Even after 150 years of successful business activity, we are not going to take a rest. We will remain active in our markets and use our solid earnings base to further equip Berlin Hyp for the future,” says Klaus.

**Press contact**

Nicole Hanke  
Communications and Marketing  
T +49 30 2599 9123  
[nicole.hanke@berlinhyp.de](mailto:nicole.hanke@berlinhyp.de)

## Condensed Statement of Profit or Loss

from 1 January until 30 June 2018

|   | 01.01.<br>– 30.06.2018<br>€ m | 01.01.–<br>30.06.2017<br>€ m | Change<br>€ m | Change<br>% |
|---|-------------------------------|------------------------------|---------------|-------------|
| Net interest income   | 161.4                         | 136.7                        | 24.7          | 18.1        |
| Net commission income   | 10.8                          | 17.9                         | -7.1          | -39.7       |
| Operating expenditure   | 76.1                          | 68.1                         | 8.0           | 11.7        |
| Staff expenditure   | 39.0                          | 33.0                         | 6.0           | 18.2        |
| Other operating expenditure   | 34.6                          | 32.7                         | 1.9           | 5.8         |
| <i>Of which expenditure for bank levy</i>   | 10.6                          | 10.1                         | 0.5           | 5.0         |
| Amortisation on and depreciation of<br>and valuation adjustments on intangible<br>investment assets and tangible assets | 2.5                           | 2.4                          | 0.1           | 4.2         |
| Other operating earnings / expenditure  | -1.7                          | -1.6                         | -0.1          | 6.2         |
| Operating result before risk provisioning   | 94.4                          | 84.9                         | 9.5           | 11.2        |
| Risk provisioning   | -47.3                         | 22.3                         | -69.6         | -           |
| Operating result after risk provisioning  | 141.7                         | 62.6                         | 79.1          | -           |
| Financial investment result   | 0.6                           | 1.9                          | -1.3          | -68.4       |
| Contribution to the fund for general bank risks   | 80.0                          | 20.0                         | 60.0          | -           |
| Other taxes   | 0.1                           | 0.1                          | 0.0           | -           |
| Profit before income tax and profit transfer  | 62.2                          | 44.4                         | 17.8          | 40.1        |
| Income tax  | 0.0                           | 0.2                          | -0.2          | -           |
| Expenditure from profit transfer  | 62.2                          | 44.2                         | 18.0          | 40.7        |
| Net income  | 0.0                           | 0.0                          | 0.0           | -           |

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 is not only at the forefront as the issuer of the first Green Pfandbrief; the bank also supports the financing of sustainable real estate. Berlin Hyp's clear focus, 150 years of experience and the ability to actively shape the digital transformation in the real estate sector with an eye to the future characterise the Bank as a leading German real estate and Pfandbrief bank.