

Press Information, 28 March 2019

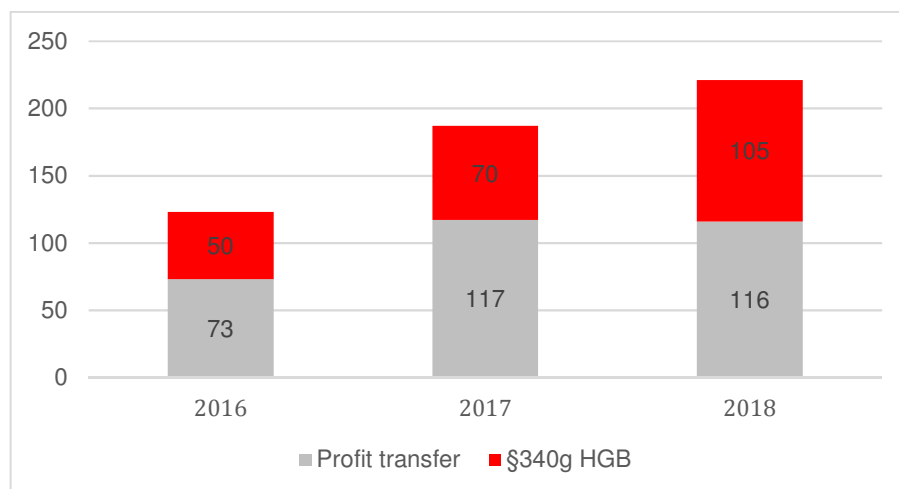
Financial Year 2018: Significant Profit Growth for Berlin Hyp

- Result before profit transfer and before transfer to fund for general banking risks increased by 18% to 187 million euros
- New business volume consolidated with 6.1 billion euros at high level as planned (incl. long-term extensions)
- Further increase of 2.9 billion euros for S-Group business with savings banks
- Cost-income ratio improved considerably to 45.2%
- Berlin Hyp most active issuer of Green Bonds in commercial banks in Europe
- Future-oriented initiative “berlinhyp21” widely effective – digitalisation projects pushed forward

Berlin Hyp’s result before profit transfer and before allocation to the fund for general banking risks rose by a good 18% to 221 million euros (previous year: 187 million euros). “We are very satisfied with our operating result”, says Sascha Klaus, Chairman of the Board of Management at Berlin Hyp. “Berlin Hyp has remained true to its conservative risk strategy and has not shifted its focus from financing premium real estate. Moreover, we have consolidated our equity capital base of our own accord, which is reflected accordingly in an increased equity tier capital 1 ratio”.

The result before profit transfer and tax was 116 million euros (previous year: 117 million euros). 105 million euros were transferred to the fund for general banking risks as per § 340g German Commercial Code (HGB) (previous year: 70 million euros).

Result before profit transfer and before transfer to fund for general banking risks (§ 340g HGB) in millions of euros



New real estate financing business consolidated at high level

Berlin Hyp reports new lending to be at 4.9 billion euros for 2018, which is below the superb result of the previous year as planned (6.7 billion euros). In addition, there were extensions of 1.2 billion euros (previous year: 1.4 billion euros), resulting in a total new lending volume of 6.1 billion euros (previous year: 8.1 billion euros). The planned level was achieved and Berlin Hyp's position in the real estate market was further consolidated with this result. 75% of the financed properties are located in Germany.

Consistent rise in S-Group business

Business realised jointly with the savings banks continued to develop at an excellent rate in 2018. The total volume amounted to 2.9 billion euros, meaning a continued increase from the previous year's result (1.5 billion euros). 1.5 billion euros were allocated to the syndication business with savings banks (previous year: 1.4 billion euros). An additional 346 million euros (previous year: 121 million euros) were allocated to the ImmoSchuldschein, set up by Berlin Hyp and secured with a commercial portfolio in Berlin. The overall five completed transactions of the ImmoAval product were subscribed by 32 savings banks with a total volume of 1.1 billion euros in the financial year 2018. To date, a total of 134 institutions from all S-Group regions have participated in financing by Berlin Hyp in the form of ImmoSchuldschein and ImmoAval, as well as syndication business.

Excellent Refinancing Position

In 2018, Berlin Hyp raised external capital to around 4.6 billion euros (previous year: 3.3 billion euros). The Bank was a regular issuer of syndicated bonds on the market, with a total of five benchmark transactions and four sub-benchmark transactions or increases. This included the first syndicated senior preferred bond ever issued by a German bank, as well as a five-year jubilee Pfandbrief on the occasion of the Bank's 150-year anniversary.

Excellent positioning on Green Bond market

In the financial year 2018, Berlin Hyp successfully placed its third Green Pfandbrief and its third green senior unsecured bond on the market at a volume of 500 million euros each. Having issued a total of six Green Bonds in a benchmark format, it remains the most active European Green Bond issuer in the commercial bank sector. The Bank's commitment to the Green Bond market was again awarded several times in the GlobalCapital Sustainable and Responsible Capital Market Awards in the categories "Best Green Issuer for Impact Reporting" and "Most impressive Green Covered Bond Issuer".

Continued progress in digitalisation

Berlin Hyp continued to advance the "berlinhyp21" future-oriented process. The process was originally launched in the reporting year 2016 and in 2018 it achieved a great deal in its key issues of digitalisation and modernisation of the IT system landscape. For example, the purchase procedure was fully digitalised, the credit check was optimised with a corresponding app and the number of employees with digital, mobile workstations increased. Moreover, the Bank achieved fundamental milestones in its external digitalisation strategy aimed at expanding the business model. In particular,

this involved the successful market entry of its own start-up OnSite ImmoAgent (a crowd-based real estate inspection service), participation at the Berlin PropTech 21st Real Estate (with which artificial intelligence can effectively be used for valuation) and cooperation with Carbon Delta, examining the effects of climate risks on properties in terms of “value at risk”.

Individual results at a glance:

Rise in net interest income

Compared to the previous year, net interest and commission income increased by 28.6 million euros to 338.6 million euros (previous year: 310 million euros). As such, net interest income increased as expected and improved by 44.5 million euros to 315.4 million euros (previous year: 270.9 million euros). Besides a higher average mortgage loan portfolio, the increase was primarily due to special factors, such as proportionate interest acquittal for the targeted long-term refinancing business of the Deutsche Bundesbank, as well as significantly lower refinancing expenditure. At the same time, the decline in net commission income was lower than expected. In view of the ongoing low interest rate policy and the difficult market environment, the positive net interest and commission income is excellent testimony to the Bank’s profitability.

Increased administrative costs due to new guidelines

At 151.2 million euros, the administrative costs were 16.4 million euros higher than in the previous year (134.8 million euros), as expected. The increase was fundamentally the result of increased pension liabilities, taking into account the new guidelines for 2018, as well as other parameter and interest adjustments. The other administrative costs increased to 61.5 million euros (previous year: 55.9 million euros) as planned, due to the increased information technology requirements and the rising regulatory reporting requirements.

The cost-income ratio expresses the relationship of operating expenditure to net interest and commission income, including the other operating result. The net interest and commission income gains and the positive development of the other operating result overcompensated for the increased administrative costs caused by special factors. The cost-income ratio decreased from 51.2% to 45.2% accordingly.

Risk provisioning benefits from favourable conditions

Risk provisioning of 15.5 million euros was released for the lending business. The amount released is therefore 18.0 million euros below the previous year’s release of 33.5 million euros. The active risk management and the good development of the previous year’s cyclical and economic environment benefited the lending risk provisioning and enabled the Bank to create further provident funds within the reporting year.

Improved other operating result

The other operating result amounted to -4.4 million euros after -47.0 million euros in the previous year. It includes expenditure from increasing the strategic resource planning reserve, as well as revenue from partially

releasing the reserve for legal risks accrued from the loan administrative fees as ruled by the German Federal Court of Justice (BGH) on 4th July 2017. Both reserves were created in 2017. Moreover, the other operating result fundamentally involves expenditure from the continuous interest accrual of pension provisions.

Increased return on equity

Taking into account the transfer to the special item for general banking risks according to § 340g HGB, Berlin Hyp's return on equity amounted to 18.2% (previous year: 16.9%) and was therefore significantly higher than expected.

Positive development of capital ratios

The common equity tier capital 1 ratio after adoption of the annual financial statements was 13.5% (previous year: 12.5%). The total capital ratio was 16.8% (previous year: 15.5%). The Bank transferred an additional 105 million euros to the § 340g HGB reserves which led to gains in the capital ratios with relatively constant weighted risk assets. 328 million euros are now allocated to the special item for general banking risks. The fact that the capital ratios were above target, makes corresponding growth in 2019 possible as well.

Outlook

The basic parameters for Berlin Hyp's business remain challenging in 2019. The dynamics of global economic growth are weakening and the European Central Bank (ECB)'s monetary policy remains expansionary, albeit to a lesser extent. The role of political issues will remain unchanged. Berlin Hyp does not expect any considerable impact on business development in 2019 as a result of Brexit, due to the very clearly minimal direct and indirect involvement of the Bank in Great Britain.

“Due to high competition, the volatile capital and financial market environment, in combination with our goal to further consolidate our equity, we will adhere to our strictly conservative risk strategy. At the same time, we will uphold digitalisation investments, in order to make Berlin Hyp one of the most modern IT-supported banks in Germany,” says Klaus.

In the S-Group business, the range of products and services will continue to be geared towards the needs of savings banks. Further development of our products to meet market needs, improvement of business processes, and procedural measures and technology equipment supporting them form a good basis for this. Within this context, the Bank will consistently continue with the “berlinhyp21” future-oriented process. Berlin Hyp is also trialling agile and efficient working methods to ensure its stability and sustainability.

Provided no unexpected shifts occur in the capital and real estate markets, and risk provisioning is at the planned level, Berlin Hyp expects to continue the positive business development with its customers. Under these premises, the result before profit transfer will, however, be

significantly below that of the previous year. Firstly, due to the planned considerable transfer to the special item for general banking risks, and secondly, due to the scheduled investments with regard to process optimisation (digitalisation). The return on equity is to remain at over 10%.

Earnings Development	1.1.2018 – 31.12.2018 € m	1.1.2017 – 31.12.2017 € m	Change € m	Change %
Net interest and commission income	338.6	310.0	28.6	9.2
Net interest	315.4	270.9	44.5	16.4
Commission income	23.2	39.1	-15.9	-40.7
Operating expenditure	151.2	134.8	16.4	12.2
Staff expenditure	83.8	73.6	10.2	13.9
Other operating expenditure	61.5	55.9	5.6	10.0
<i>of which: expenditure for bank levy</i>	10.6	10.1	0.5	5.0
Write-offs on fixed assets	5.9	5.3	0.6	11.3
Other operating revenue/expenditure	-4.4	-47.0	42.6	90.6
Operating result before risk provisioning	183.0	128.2	54.8	42.7
Risk provisioning	37.4	56.2	-18.8	-33.5
Valuation of lending business	15.5	33.5	-18.0	-53.7
Valuation of securities business	21.9	22.7	-0.8	-3.5
Operating result after risk provisioning	220.4	184.4	36.0	19.5
Net income from investments	1.2	3.2	-2.0	-62.5
Fund for general bank risks	105.0	70.0	35.0	50.0
Other taxes	0.2	0.2	0.0	0.0
Operating result before income taxes and profit transfer	116.4	117.4	-1.0	-0.9
Income taxes ("-" = earnings)	0.0	0.4	-0.4	-
Profits transferred on the basis of the profit transfer agreement	116.4	117.0	-0.6	-0.5
Net income for the year	0.0	0.0	0.0	-

Financial Indicators (Selection)

	2018	2017
Cost-income ratio	45.2 %	51.2 %
Return on equity	18.2 %	16.9 %
Total assets	€ 27.2 billion	€ 27.1 billion
Core tier capital 1 ratio	13.5 %	12.5 %

The complete business report 2018, as well as further information and interviews, will be available at www.berlinhyp.de/newsflash from 28th March 2019.

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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.

Translation of the Text issued in German language. The German version is authoritative.