

Press information dated 30 March 2022

Berlin Hyp expands its position as one of the leading real estate financiers

- Volume of new business including long-term extensions increased to €7.1 billion
- Significant increase in net interest and commission income
- Reduced risk provisioning, no pandemic-related defaults
- Regulatory equity base strengthened by further allocations to the special item for general banking risks
- The Bank confirmed and expanded its pioneering role in sustainable refinancing products
- LBBW as a future strategic owner gives customers added value and more options

Despite the continually challenging environment, Berlin Hyp has succeeded in further expanding its position on the real estate financing market and has exceeded both the previous year's figures and original expectations regarding the development of new business. A significantly declining level of risk provisioning and a further increase in equity capital attest to the quality of the loan portfolio as well as the stability and resilience of the business model.

The key strategic projects in the areas of digitalisation and sustainability have continued to make progress in 2021. By issuing the world's first Sustainability Linked Bonds (SLB) by a commercial bank, Berlin Hyp has once again demonstrated its pioneering position among real estate banks in sustainable refinancing products. The adoption of ambitious sustainability targets and the further development of the product range mark two other important milestones here. WE Digital, the valuation software developed in-house, which is able to process big data, is being launched along with further developments in the digital process workflow.

"2021 was challenging, particularly in view of the negative impacts of the pandemic but also due to developments in the banking and financial sector and continually low interest rates. This is all the more reason for me to be proud of how Berlin Hyp has held its own in the market and expanded its own position. This is a remarkable achievement to which all of the Bank's employees have contributed", says Sascha Klaus, Chair of the Board of Management of Berlin Hyp. "Now, that we can likely see an end to the pandemic, the war in Ukraine is once again bringing great uncertainty. It is not yet possible to predict the outcome of this conflict, nor its consequences for society or the economy as a whole. However, we are also faced with other tasks of immense proportions, which is particularly the case for climate protection. As one of the leading real estate financiers, we want to continue to make our contribution to combat these issues and help drive forward the necessary transformation. We have this in common with LBBW."

According to the agreement concluded in January 2022, Landesbank Baden-Württemberg (LBBW) is expected to take over all shares in Berlin Hyp in the summer. As a subsidiary of LBBW, Berlin Hyp will continue to operate under its own brand, with the clear aim of expanding its market position.

New business and earnings lie well above the previous year and exceed expectations

Berlin Hyp generated a total of €7.1 billion in new business in 2021 (previous year: €6.7 billion). This growth can be exclusively attributed to new contracted lending, the volume of which increased from €5.7 billion to €6.1 billion. The volume of new lending realised by prolonging exiting loans remained at the same level as in 2020 with €1.0 billion.

With these figures, Berlin Hyp has confirmed its position as one of the leading real estate financiers in Germany. Earnings before profit transfer (€50.0 million) increased significantly in comparison to the previous year (€23.4 million), which was due to the effects of increased new lending and portfolio volume as well as significantly lower risk provisioning compared to 2020. The Bank also used the positive development of the operating business to further expand the provision reserves. Over the past year, the fund for general banking risks has increased to €675.0 million through allocations of €187.0 million.

Stepping up cooperation with the Sparkassen-Finanzgruppe

As a centre of expertise for commercial real estate financing within the Sparkassen-Finanzgruppe, cooperation with the savings banks is particularly relevant for Berlin Hyp. The Bank offers them various ways of diversifying their risk as well as the opportunity to participate in Berlin Hyp's large-volume financing. ImmoDigital provides savings banks with a digital platform that allows them to quickly and easily evaluate Berlin Hyp's different offers, conclude corresponding contracts and manage their participations.

The platform has made a significant contribution to increasing the 2021 number of savings banks that Berlin Hyp actively cooperates with from 10 to 163. The volume of S-Group business with Berlin Hyp increased to €1.8 billion (previous year: €1.4 billion), of which €0.7 billion can be attributed to traditional syndicated loan business and a further €0.9 billion is attributed to the product lines ImmoSchuldschein and ImmoAval.

A pioneer in issuing sustainable refinancing products

As part of its refinancing activities, Berlin Hyp raised funds in the amount of €5.3 billion in 2021, which was more than twice the amount of the previous year (€2.2 billion). Mortgage Pfandbriefe accounted for €3.9 billion of this sum.

In 2021, Berlin Hyp was the first commercial bank in the world to successfully launch a Sustainability Linked Bond (SLB). The SLB links the financing directly to the company's own sustainability targets. In addition, the Bank placed another three Green Bonds in benchmark format this year, as it did in the previous year. For the first time in two years, the Bank also launched a Jumbo Pfandbrief with a volume of €1.0 billion. All issues were substantially oversubscribed and the SLB in particular succeeded in attracting additional investor groups.

The activities on the liabilities side in the area of Sustainable Finance go hand in hand with continually developing and implementing the sustainability targets on the assets side. Berlin Hyp aims to reduce the carbon intensity of its entire loan portfolio by 40% by 2030 compared to the baseline value from 2020. The Bank also plans to increase the share of loans attributable to the financing of green buildings to one-third by 2025.

The implementation of the Bank's ESG goals is progressing according to plan. At 27.0%, the share of green buildings at Berlin Hyp has developed slightly above the original estimation, as has the transparency ratio at 44.4%. The Bank's strong ESG performance was also confirmed when it received three ESG TOP awards from Sustainalytics in 2021.

Individual results at a glance:

Net interest and commission income increase significantly, exceeding expectations

Compared to the previous year, Berlin Hyp increased net interest income significantly to €406.5 million (previous year: €313.1 million). This development reflects the growth in portfolio volume with stable core business margins. In addition, the participation in the targeted longer-term refinancing operations of the Deutsche Bundesbank (TLTRO-III) and the resulting favourable refinancing have had an impact on the interest result. The growth in commission income to €24.9 million (previous year: €20.0 million), which significantly exceeded initial expectations, is particularly due to an increase in new business.

Operating expenditure reflects investments in future viability

Operating expenditure, which consists of staff expenditure, other operating expenditure and depreciation, amounted to €184.3 million (previous year: €173.2 million). This increase was expected due to the various strategic measures implemented in the reporting year, in particular the digitalisation and ESG activities as well as the future-oriented process launched in 2020. Berlin Hyp considers these to be forward-looking investments, especially in view of the increasing regulatory requirements. Similarly, expenditure for the banking levy has also increased.

Depreciation of property, plant and equipment and amortisation of intangible assets decreased significantly to €8.9 million compared to the figure from the previous year (€21.1 million), which had been influenced by one-off effects. The other operating result of €-7.8 million was lower than in 2020 (€-1.7 million), which benefited from earnings from the liquidation of reserves.

Considerably less risk provisioning, significantly higher return on equity

Since there were no noteworthy defaults in 2021 either, net allocation to risk provisioning (€17.4 million) was considerably lower than in the previous year (€81.4 million). The return on equity, which also includes the allocation to the fund for general banking risks, was well above target at 15.7% and also significantly exceeded the previous year's figure of 6.8%. The common equity Tier 1 ratio was 14.3% (previous year: 13.4%) and the total capital ratio was 16.3% (previous year: 15.8%)

Outlook – the Bank expands its business with savings banks and its position regarding sustainability

In view of the escalating conflict in Ukraine, the consequences for society and economy as a whole are not foreseeable. Even though there are currently no direct risks for Berlin Hyp in connection with the war, secondary effects on the economy and thus our customers' business remains a possibility. The tremendous increase in raw material and energy prices is likely to have an impact on inflation rates and the ECB's interest rate policy. It is currently not possible to forecast the overall negative impact that this could have on Berlin Hyp's business development.

Apart from these developments, Berlin Hyp expects the real estate investment market to remain highly dynamic in 2022. This will be dependent on the level of economic recovery, unchanged favourable financing conditions and pressure on investors to find yields.

Berlin Hyp expects a slight decline in new business in the current year compared to last year's good figure. The Bank also expects net interest and commission income to be somewhat lower than the impressively high level reached in the 2021 financial year. Many aspects of the development of the macro economy and the framework conditions in the banking and financial sector cannot be projected reliably. With this in mind, any planning is still subject to an increased degree of uncertainty. Airing on the side of caution, Berlin Hyp therefore predicts a significant increase in risk provisioning for 2022, although there are at the same time increased opportunities for significantly more favourable development.

Berlin Hyp is continuously working on new products and services that continue to drive, promote and finance the transformation of the building sector. At the same time, the product range will focus more on social aspects in addition to ecological considerations.

Berlin Hyp also intends to continue to build on its joint financing business with savings banks and increase its level of networking within the Finanzgruppe.

With the change in ownership and the affiliation to LBBW complete, additional opportunities will emerge in the customer business. This will allow customers at Berlin Hyp to also take advantage of the broad product portfolio of the universal bank LBBW in future. The Sparkassen-Finanzgruppe will also gain access to an expanded range of offers for the S-Group.

Earnings Development	2021	2020	Change
	€m	€m	€m
Net interest and commission income	431.4	333.1	98.3
Net interest income	406.5	313.1	93.4
Net commission income	24.9	20.0	4.9
Operating expenditure	184.3	173.2	11.1
Staff expenditure	91.0	82.0	9.0
Other operating expenditure	84.4	70.1	14.3
of which Expenditure for bank levy	16.4	13.4	3.0
Depreciation on fixed assets	8.9	21.1	-12.2
Other operating revenue/expenditure	-7.8	-1.7	-6.1
Operating result before risk provisioning	239.3	158.2	81.1
Risk provisioning	-4.9	-61.6	56.7
Valuation result of lending business	-17.4	-81.4	64.0
Valuation result of securities business	12.5	19.8	-7.3
Operating result after risk provisioning	234.4	96.6	137.8
Financial investment result	3.2	-2.8	6.0
Fund for general banking risks	187.0	70.0	117.0
Other taxes	0.2	0.2	0.0
Operating result before income taxes and profit transfer	50.4	23.6	26.8
Income taxes ("-" = earnings)	0.4	0.2	0.2
Profits transferred on the basis of the profit transfer agreement	50.0	23.4	26.6
Net income	0.0	0.0	0.0

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Berlin Hyp specialises in large-volume real estate financing for professional investors and housing companies, 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 plays a pioneering role in the development of sustainable refinancing products. Sustainability is a central component of the Bank's business strategy. Berlin Hyp promotes the financing of sustainable real estate and seeks to support the transformation of the real estate market in order to contribute to achieving the goal of climate neutrality. Berlin Hyp's clear focus, more than 150 years of experience and the ability to actively shape digital transformation in the real estate sector characterise the Bank as a leading German real estate and Pfandbrief bank.