

Press information, 31 March 2021

## Berlin Hyp increased profitability in the 2020 financial year

- **New business volume of €6.7 billion including long-term extensions**
- **Operating profit before risk provisioning rose to €158.2 million, net interest and commission income also increased**
- **Additional provision reserves created in light of the pandemic, but no payment losses or valuation adjustments due to COVID-19**
- **Equity base further strengthened by additional contribution of €70 million to the Fund for General Banking Risks**
- **Ambitious sustainability agenda in implementation**
- **Expected in 2021: Lower new business volume, improved earnings after risk provisioning**

Berlin Hyp increased its operating profitability and demonstrated its resilience and stability in a challenging environment during the 2020 financial year. The development of new business and earnings exceeded expectations; the operating result before risk provisioning increased by €4.6 million year-on-year to €158.2 million (previous year: €153.6 million) and the net interest and commission income increased. The Bank's conservative risk strategy and its focus on financing real estate of particularly lasting value resulted in a high degree of stability. There were no payment losses in the loans portfolio due to pandemic in 2020. Berlin Hyp took advantage of the positive economic development to further expand existing risk buffers.

As part of its strategic development, the Bank has continued to make progress on key projects for the digitisation of its core business and cooperation with the institutions of the Sparkassen-Finanzgruppe. In addition, it has defined an ambitious sustainability agenda, which is currently underway.

"The pandemic has presented us all with great challenges. I am pleased and proud of how well we have handled the situation, thanks to the outstanding efforts of everyone at the Bank. Business and earnings developed better than expected just a few months ago. We have made progress in implementing our strategy and, above all, we have supported our customers", says Sascha Klaus, Chair of the Board of Management of Berlin Hyp. "The current year will certainly remain just as challenging, especially as it is not yet clear when the threat of the virus, and the difficulties that go along with it, will finally be behind us. But we are ready and supported by the stable foundation we have developed."

## **New business volume according to plan, profit transfer lower as expected**

Berlin Hyp generated €6.7 billion in new business in 2020 (previous year: €7.3 billion). This includes extensions in the amount of €1.0 billion in total (previous year: €1.0 billion); contracted new business came to €5.7 billion in 2020 (previous year: €6.3 billion). Despite the impact of the pandemic, this development is in line with the original forecast; Berlin Hyp has therefore confirmed its position as one of the leading commercial real estate financiers in Germany.

In preparation for potential turbulence, the Bank increased risk provisioning significantly in 2020 compared to the previous year and created additional reserves for latent risks. As a result, earnings before profit in 2020 were as expected significantly lower than in the previous year (€61.0 million), at €23.4 million.

## **Expanding the cooperation with the Sparkassen-Finanzgruppe**

Berlin Hyp has expanded its cooperation with and within the Sparkassen-Finanzgruppe. At the end of the year, the Bank maintained active business relations with 153 institutions; despite the consolidation within the savings banks, this figure rose slightly compared to the previous year (151). The total volume of the business generated with the savings bank partners was €1.4 billion and was therefore lower than in the previous year (€1.9 billion).

This development is mainly due to the uncertainty brought about by the pandemic, particularly in the first half of 2020. In the traditional syndicate business, the bank generated a transaction volume of €0.8 billion together with the savings banks, and an additional €0.5 billion were attributable to ImmoSchulschein and ImmoAval transactions.

In 2020, Berlin Hyp launched the ImmoDigital online platform exclusively for its partners from the Sparkassen-Finanzgruppe. The platform simplifies communication channels and processes considerably by pooling all relevant information centrally in one place. ImmoDigital is a completely paperless way for savings banks to quickly and easily evaluate the investments offered by Berlin Hyp, conclude syndicate agreements and manage agreed investments.

## **Excellent access to refinancing funds, position as a pioneer in green covered bonds further developed**

As part of its refinancing activities, Berlin Hyp borrowed €2.2 billion in external capital in 2020 (previous year: €3.8 billion). With four benchmark transactions, the Bank was a regular issuer on the syndicated bond market. Three of the issues, including one in foreign currency for the first time, were Green Bonds. The Bank remains the most active issuer of Green Bonds in Europe in the commercial banking segment with ten outstanding euro issues.

## **Implementation of an ambitious sustainability agenda underway, progress made on digital transformation**

Leading sustainability rating agencies confirmed their rankings in 2020, documenting the Bank's outstanding performance in this area. Berlin Hyp continues to assume responsibility for climate protection by adopting an ambitious sustainability agenda in 2020, which is currently underway. As one of the core measures, the Bank intends to increase the share of financing for highly energy-efficient and resource-conserving buildings (green buildings) in the total loans portfolio to one third by 2025. Within this time frame, the Berlin Hyp plans to

achieve full transparency on the climate performance and climate risks of its portfolio. In addition, the bank now offers sustainability products, such as a Transformationskredit (transformation loan) for financing measures aimed at increasing the energy efficiency of existing buildings.

Furthermore, Berlin Hyp made progress on large-scale projects for the modernisation of the IT landscape and the construction of a completely digitised platform in its core business and pursued the development of its future process <next dimension berlin hyp>.

## Individual Results at a Glance:

### **Increase in net interest and commission income**

Net interest and commission income rose from €327.5 million to €333.1 million compared to the previous year. As such, net interest income increased to €313.1 million (previous year: €309.7 million). Besides a higher average mortgage loan portfolio, the increase was due to the participation in the targeted longer-term refinancing operations with the Deutsche Bundesbank (TLTRO-III) and the resulting interest. Net commission income also rose slightly compared to the previous year to €20.0 million (previous year: €17.8 million).

### **Operating expenditure reflects investments in future viability**

Operating expenditure, which consists of staff expenditure, other operating expenditure and depreciation, remained almost unchanged at €173.2 million compared to the previous year (€172.3 million). While staff expenditure declined, other operating expenditure increased slightly. The rise reflects the increasing demands on information technology and the regulatory reporting requirements. It also shows that progress is being made on relevant projects at Berlin Hyp. Depreciation also increased and was mainly affected by the reduced remaining life of the present building at the Berlin headquarters and its full depreciation in view of the planned new building. The other operating result of -€1.7 million was also almost unchanged compared to the previous year (-€1.6 million).

### **Lending risk provisioning increased by forming additional provision reserves**

In preparation for potential turbulence, which may arise in particular as the COVID-19 pandemic continues to progress, Berlin Hyp formed risk provisioning in the lending business in 2020 in the amount of €81.4 million (previous year: €7.5 million). Furthermore, €70.0 million was added to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB). This additional risk buffer therefore reached a volume of €488.0 million as at the balance sheet date.

### **Return on equity declined, common equity Tier 1 capital ratio increased**

The return on equity was 6.8 per cent. It was lower than planned due to the reduced profit transfer to Landesbank Berlin Holding AG, the lower allocation to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) compared with the previous year, in addition to the extensive formation of provision reserves, and remained below the previous year's figure of 11.6 per cent. The common equity Tier 1 ratio, at 13.4 per cent on the balance sheet date (previous year: 13.3 per cent), also exceeded expectations, taking into account the stricter equity requirements.

## Outlook

Berlin Hyp expects the real estate investment market to remain highly dynamic in 2021. Residential properties in particular will remain in demand as investments. But the search for adequate returns will keep the demand for core office properties at A and B locations, retail properties with food retail outlets as primary tenants and logistics properties at a high level.

In view of the challenging and currently unstable planning environment, the Bank nevertheless expects a reduced volume of new business for 2021. According to the current plan, the operating result after risk provisioning will improve in comparison with the previous year's figure. Depending on how the pandemic situation develops, there may be a chance of significantly better new business and earnings.

As part of its ongoing strategic development, Berlin Hyp plans to develop business relations with other savings banks in the S-Group business and to moderately increase the volume of the S-Group business compared with the previous year. The Bank will continue to pursue the digitisation of its core business processes, the modernisation of the IT landscape and the future process. In addition, the implementation of the sustainability agenda and the expansion of the product range in this area will be a focus this year.

Earnings Development	2020	2019	Veränderung
	€m	€m	€m
Net interest and commission income	333.1	327.5	5.6
Net interest income	313.1	309.7	3.4
Net commission income	20.0	17.8	2.2
Operating expenditure	173.2	172.3	0.9
Staff expenditure	82.0	92.4	-10.4
Other operating expenditure	70.1	67.5	2.6
<i>of which Expenditure for bank levy</i>	13.4	12.0	1.4
Depreciation on fixed assets	21.1	12.4	8.7
Other operating revenue/expenditure	-1.7	-1.6	-0.1
Operating result before risk provisioning	158.2	153.6	4.6
Risk provisioning	-61.6	2.2	-63.8
Valuation result of lending business	-81.4	-7.5	-73.9
Valuation result of securities business	19.8	9.7	10.1
Operating result after risk provisioning	96.6	155.8	-59.2
Financial investment result	-2.8	-4.0	1.2
Fund for general banking risks	70.0	90.0	-20.0
Other taxes	0.2	0.2	0.0
Operating result before income taxes and profit transfer	23.6	61.6	-38.0
Income taxes ("-" = earnings)	0.2	0.6	-0.4
Profits transferred on the basis of the profit transfer agreement	23.4	61.0	-37.6
Net income	0.0	0.0	0.0

From 31 March 2021, the full 2020 annual report and further information will be available at [www.berlinhyp.de](http://www.berlinhyp.de).

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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 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, about 150 years of experience and the ability to actively shape the digital transformation in the real estate sector characterise the Bank as a leading German real estate and Pfandbrief bank.