

Press Information, 13 August 2019

## Berlin Hyp on Course in the First Half of 2019

- Operating result before taxes of € 26.2 million below previous year's record level as expected
- Result influenced by challenging underlying conditions and consolidation of fund for general bank risks
- New lending volume (including long-term extensions) of around € 2.2 billion down as planned due to conservative risk strategy
- Nearly doubling of S-Group business from € 0.8 billion to € 1.5 billion

The first six months of 2019 were characterised by generally lower transaction figures on the German market, continued fierce competition in commercial real estate financing and the resulting high pressure on margins, as well as persistently low interest rates and high regulatory requirements. In view of these challenging underlying conditions, Berlin Hyp recorded a satisfactory first half of 2019 in line with its forecast.

The **result before profit transfer** amounted to € 25.9 million and was therefore, as expected, significantly below the previous year's figure (previous year: € 62.2 million) which, however, was characterised by a significant reversal of risk provisions. As expected, net interest and commission income was lower than in the previous year due to both deliberately selective new lending and the persistently high level of competition. "Our interim result shows that we are not being driven by market conditions but will remain true to our 'quality over quantity' motto," explains Sascha Klaus, Chair of the Board of Management at Berlin Hyp. "Our primary aim is to strengthen our equity base using our own resources." To this end, the Bank transferred € 55.0 million from the current result to the special item for general bank risks pursuant to Section 340g of the German Commercial Code (HGB), thus allowing for future growth of the mortgage loans portfolio. The pro rata allocation corresponds to the previous record year.

The **new lending volume** (including realised extensions) amounted to around € 2.2 billion (previous year: € 3.5 billion). The decline is attributable to intense competition among lenders, high liquidity in the market and the Bank's unchanged conservative strategy of focusing on quality properties. The contracted margins of new lending were maintained at the previous year's level.

The **S-Group business** with the German savings banks continued to develop very positively in the first half of 2019 with a total volume of around € 1.5 billion (previous year: € 825 million). At present, Berlin Hyp is partner to a total of 142 German savings banks (2018: 124 savings banks).

In the first half of 2019, Berlin Hyp continued to benefit from its reputation as a reliable and sound issuer and issued debt securities amounting to €

1.3 billion. In January, the Bank issued a seven-year senior preferred bond in the amount of € 500 million with a coupon of 1.0 % at a re-offer price of mid-swap plus 60 basis points. This was followed by the first ten-year mortgage Pfandbrief in May. The bond was issued at mid-swap minus 2 basis points and was the most favourable new issue on the covered bond market in the reporting period. Both issues were more than 2.5 times oversubscribed.

Berlin Hyp's strategic goal is for its loans portfolio to consist of 20 % financing for green buildings by the end of 2020. Exposure in the reporting period exceeded the € 3.8 billion mark for the first time (after € 3.4 billion at the end of 2018). As at 30 June 2019, the share of green financing in the Bank's loans portfolio was already 17 %.

"We are satisfied with our 2019 interim results in view of the challenging market environment," says Sascha Klaus. "At present we cannot discern any visible improvement in the general underlying conditions. It seems that the record years are behind us. We expect the current business development to continue in the second half of the year. However, we are confident that our new lending volume for the full year 2019 will be at the level of 2018."

## Notes on the Financial Performance

When compared to the previous year, **net interest and commission income** fell from € 172.2 million to € 163.8 million and is therefore slightly below expectations. Despite the growth of the mortgage loans portfolio, the **net interest income** at € 155.4 million was slightly below the previous year's figure of € 161.4 million and slightly below expectations due to the particularly selective new lending entered into at the end of 2018. The **net commission income** of € 8.4 million was lower than the previous year's figure of € 10.8 million. As expected, the extensive mapping of administration fees in the interest margins and their distribution over the term led to a decline in net commission income.

**Operating expenditure** in the first half of 2019 rose to € 86.1 million (previous year: € 76.1 million) and was influenced in particular by a further decline in discount rates used to calculate pension obligations. Other operating expenditure rose less sharply than expected in view of the increasing demands on information technology and data storage, as well as the increased contribution to the European bank levy, and was only slightly higher than in the previous year.

The Bank was able to dispense with the formation of loan **loss provisioning** in the first half of 2019. Following a release of € 31.5 million in the previous year, the stable economic and business environment of Berlin Hyp enabled a further reduction of € 0.4 million (net) in the risk provisioning portfolio in the reporting period. Berlin Hyp took all recognisable and potential risks into adequate consideration. Risk provisioning for securities in the liquidity reserve posted income of € 5.0 million (previous year: € 15.8 million). This income mostly resulted from disposals.

The **cost-income ratio** rose slightly higher than expected to 53.3 % due to higher operating expenditure and lower net interest and commission income (31 December 2018: 45.2 %). As the bank levy was already fully deferred in the first half of 2019, the Bank expects the cost-income ratio to improve in the course of the year.

Return on equity exceeded the forecast and amounted to 12.7 % (previous year: 12.4 %).

As at 30 June 2019, the **common equity Tier 1 ratio** was 13.3 % and the **total capital ratio** was 16.3 % (previous year: 13.5 % and 16.8 % respectively as approved as at 31 December 2018).

## Outlook

Berlin Hyp continues to expect high challenges for the rest of the financial year, including strong competition, the ongoing low-interest phase and further regulatory requirements.

Provided no unexpected shifts occur in the capital and real estate markets and risk provisioning remains at the level planned, Berlin Hyp therefore expects the results in the second half of 2019 to develop in line with the first half of the year. Berlin Hyp furthermore expects a positive continuation of the business with its customers.

Berlin Hyp is intensively pressing ahead with its goal of becoming Germany's most modern real estate financier as part of the berlinhyp21 future-oriented process. The IT architecture consistently follows a standardised path to becoming an integrated SAP bank. This further enhances the flexibility, security, quality and availability of data and reporting. Combined with process optimisations, this will improve the speed of reacting to customer demands even more. Furthermore, the Bank is working intensively on generating new business approaches and developing models within the framework of its digitisation strategy. The result of this in the first half of the year has been engaging a strategic investor in our subsidiary OnSite ImmoAgent and participating in the "PropTech1" venture capital fund.

"All in all we are convinced that we will be able to continue on our successful path even in an increasingly difficult environment," says Sascha Klaus. "We set the course for this at an early stage with our consistent pursuit of cultural change and our digitisation strategy. Our market position and sound refinancing strategy, together with our innovative strength, the motivation of our employees and the trusting partnership with our customers form a good basis for the successful continuation of our business activities."

## Condensed Statement of Profit or Loss

from 1 January to 30 June 2019

	01.01.2019 – 30.06.2019 € m	01.01.2018 – 30.06.2018 € m	Change € m	Change %
Net interest income	155.4	161.4	-6.0	-3.7
Net commission income	8.4	10.8	-2.4	-22.2
Operating expenditure	86.1	76.1	10.0	13.1
Staff expenditure	45.9	39.0	6.9	17.7
Other operating expenditure	37.0	34.6	2.4	6.9
<i>Of which expenditure for bank levy</i>	12.0	10.6	1.4	13.2
Amortisation on and depreciation of and valuation adjustments on intangible investment assets and tangible assets	3.2	2.5	0.7	28.0
Other operating earnings / expenditure	-2.4	-1.7	-0.7	41.2
Operating result before risk provisioning	75.3	94.4	-19.1	-20.2
Risk provisioning	-5.4	-47.3	41.9	-88.6
Operating result after risk provisioning	80.7	141.7	-61.0	-43.0
Financial investment result	0.5	0.6	-0.1	-16.7
Contribution to the fund for general bank risks	55.0	80.0	-25.0	-31.3
Other taxes	0.0	0.1	-0.1	-
Profit before income tax and profit transfer	26.2	62.2	-36.0	-57.9
Income tax	0.3	0.0	0.3	-
Expenditure from profit transfer	25.9	62.2	-36.3	-58.4
Net income	0.0	0.0	0.0	-

The full 2019 Interim Financial Report is available at [www.berlinhyp.de](http://www.berlinhyp.de)

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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 characterize the Bank as a leading German real estate and Pfandbrief bank.