Financial Year 2019: Berlin Hyp Continuing on a Solid Course

- New lending volume, including long-term extensions, rose sharply by around 20 per cent to € 7.3 billion (previous year: € 6.1 billion)
- Operating result before risk provisioning of € 153.6 million (previous year: € 183.0 million) as expected
- Operating result after risk provisioning of € 155.8 million (previous year: € 220.4 million) better than planned
- Equity base strengthened by addition to the fund for general banking risks of 90.0 million (previous year: 105.0 million Euro) using own resources
- Early achievement of objectives: a 20 per cent share of green financing in the portfolio already achieved by the end of 2019 (target: 31 December 2020)
- Business relations with German savings banks up by about 13 per cent
- Impact of coronavirus epidemic on future lending currently not foreseeable

The 2019 financial year was characterised by the low interest rate environment, increased regulatory requirements and the unchanged pressure on margins in a mature market.

With a profit transfer to Landesbank Berlin Holding that exceeded expectations and an increase in the new lending volume of almost 20 per cent, Berlin Hyp continued on its solid course even in a challenging environment. “After two record years, which were clearly characterised by the release of risk provisions and extraordinary income from securities, we are very satisfied with the development of the Bank’s profitability”, said Sascha Klaus, Chair of the Board of Management of Berlin Hyp. “At the same time, we have strengthened our equity and increased our provision reserves using our own resources”. € 90 million were allocated to the fund for general banking risks.

Simultaneously, Berlin Hyp is continuing its investment in the Bank’s future by pursuing its digitisation offensive, in order to make its services for customers even faster and even better and to be well prepared in view of the increasing demands when it comes to regulatory requirements, information technology and risk management.

Profitability: profit transfer and addition pursuant to Section 340g (in € million)
**New lending further expanded**

Berlin Hyp was able to increase the previous year’s volume of new lending by 20 per cent from € 6.1 billion to € 7.3 billion. Of this amount, € 1.0 billion was attributable to long-term extensions (previous year: € 1.2 billion). Contracted new lending amounted to € 6.3 billion (previous year: € 4.9 billion). 70 per cent of the financed properties are located in Germany.

These figures once again underline Berlin Hyp’s position as one of the leading commercial real estate financiers in Germany.

**Volume of new lending in € billion**

![Graph showing volume of new lending in € billion for 2018 and 2019]

**Intensification of cooperation with the Sparkassen-Finanzgruppe**

Berlin Hyp has expanded its business relationships within the Sparkassen-Finanzgruppe and maintains active business relations with 151 German savings banks (previous year: 134 German savings banks). This represents an increase of around 13 per cent and demonstrates the Bank’s consolidated position as S-Group partner of the German savings banks.

Joint business with the savings banks developed as expected. A volume of € 1.9 billion remained, as planned, below the previous year’s figure of € 2.9 billion, which was very much characterised by a major transaction. The syndicated business with the savings banks amounted to € 1.6 billion (previous year: € 1.5 billion).

With the new ImmoGarant product, Berlin Hyp has expanded its portfolio for S-Group business and meets the demand of the German savings banks for further diversification of investment opportunities and additional services.

**Excellent access to refinancing funds**

In 2019, Berlin Hyp borrowed around € 3.8 billion (previous year: € 4.6 billion) in capital. With a total of five benchmark transactions, the Bank was a regular issuer in the syndicated bond market. Among other things, it placed its first ten-year mortgage Pfandbrief and its first Jumbo Pfandbrief with a volume of € 1.0 billion since 2013.
**Pioneering position in green financing improved**

Berlin Hyp has set itself the goal of increasing the share of green financing in the Bank’s loans portfolio to 20 per cent by 2020. The Bank was able to achieve this ambitious objective as early as 31 December 2019, one year ahead of schedule. This major success once again demonstrates Berlin Hyp’s outstanding position in green financing.

In the reporting year, the Bank was therefore also able to further consolidate its position in the green bond market, issuing for the third time in a row two green bonds within one year: a green senior preferred bond and a green Pfandbrief.

In November, the rating agency MSCI raised the Bank’s sustainability rating from previously “BBB” to “A”. Berlin Hyp was upgraded to the “Leader” category by the Sustainalytics rating agency in the reporting year, receiving 87 of 100 possible points. ISS ESG (formerly oekom research) confirmed the Bank’s prime status with an overall grade of B-.

**Digital transformation driven forward**

In 2019, Berlin Hyp continued to consistently pursue the “berlinhyp21” future-oriented process, launched in 2016. The Bank has made great strides in standardising its IT landscape on a single technology (SAP HANA including regulatory reporting interface). In addition, it has continued to drive forward the digitisation of its core process.

**Individual elements of the result at a glance: net interest and commission income slightly down**

Net interest and commission income declined by € 11.1 million to € 327.5 million as expected. In comparison to the previous year, net interest income declined by € 5.7 million to € 309.7 million. In addition to lower new lending and lower portfolio margins and the growth in the mortgage loan portfolios, which was only selectively carried out at the beginning of the year, the result from one-off effects also declined. Despite the good new lending, net commission income of € 17.8 million (previous year: € 23.2 million) also fell short of the previous year’s figure as planned. This is mainly due to contract adjustments in new lending as a result of the rulings of the Federal Court of Justice (BGH) on administrative fees in loan agreements made in 2017.

**Operating expenditure influenced by one-off effects and investments in the future of the Bank**

The increase is primarily due to additions to pension reserves and the depreciation of the Bank’s headquarters building in Berlin. As expected, consulting and IT costs rose due to the various strategic measures implemented in the reporting year, in particular the digitisation activities to optimise and improve business processes. Berlin Hyp sees this as a future-orientated investment, especially in terms of the increasing demands on regulation, information technology and risk management. Overall, operating expenditure increased as expected by € 21.1 million to € 172.3 million (previous year: € 151.2 million).
One-off effects influence other operating result
Compared to the previous year, other operating result increased by € 2.8 million to -€ 1.6 million (previous year: -€ 4.4 million). This is mainly due to one-off effects from the partial release of the provision for legal risks arising from the BGH ruling of 4 July 2017.

Lending risk provisioning increased
In order to take future market risks into account, lending risk provisions of € 7.5 million were created in the reporting year following a release in the previous year of € 15.5 million. Active risk management and the stable economic and cyclical development in 2019 have facilitated lending risk provisions.

Return on equity remains high
Taking into account the addition to the special fund for general banking risks pursuant to Section 340g German Commercial Code (HGB), the return on equity was 11.6 per cent and was thus, as expected, below the previous year’s figure of 18.2 per cent, which was characterised by one-off effects.

Capital ratios in the plan
The common equity tier capital 1 ratio after adoption of the annual financial accounts was 13.3 per cent (previous year: 13.5 per cent). The total capital ratio was 16.0 per cent (previous year: 16.8 per cent).

Outlook
The 2020 financial year will be very challenging. The coronavirus and its currently unforeseeable effects on the global economy are also hitting Germany hard. The medium to long-term effects on the real estate and real estate financing market cannot be estimated at the present time, particularly as it is not possible at present to foresee when and to what extent official restrictions on social and economic life will be lifted again.

The factors of uncertainty and strain for the global economy that existed before the coronavirus outbreak remain, and an end to the low interest rate phase is not expected in the near future.

The fight against climate change, ongoing digital transformation and further increasing regulatory requirements will continue to shape the Bank’s underlying conditions in 2020.

In view of these challenges, Berlin Hyp will continue its transformation process and take it to a new level with “next dimension Berlin Hyp”. With a continued focus on commercial real estate financing as well as on products and services tailored to the needs of the Sparkassen-Finanzgruppe, the strategic positioning remains unchanged. A particular focus will be on digital transformation, an even more consistent orientation towards sustainable products and cultural change.

For the 2020 financial year, Berlin Hyp expects a significant decline in result before profit transfer. It is not possible at present to estimate the burdens resulting from the spread of the coronavirus and the restriction of
economic activity associated with it. These burdens are therefore not included in the forecast.

Financial indicators (selection)

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<th>2019</th>
<th>2018</th>
<th>Change</th>
<th>Change</th>
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<tbody>
<tr>
<td>Cost-income ratio</td>
<td>52.9%</td>
<td>45.2%</td>
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<tr>
<td>Return on equity</td>
<td>11.6%</td>
<td>18.2%</td>
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<tr>
<td>Balance sheet total</td>
<td>€ 27.0 billion</td>
<td>€ 27.2 billion</td>
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<tr>
<td>CET 1 ratio</td>
<td>13.3%</td>
<td>13.5%</td>
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From 31 March 2020, the full 2019 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 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.