

Press information dated 22 March 2023

Berlin Hyp further strengthens its market position and demonstrates the resilience and potential of the Bank's business model

- New lending in the real estate financing business reaches €7.0 billion
- Profit before income tax nearly doubles to €99.7 million (2021: €50.4 million)
- No loan defaults recorded, despite the difficult market environment
- Successful process for teaming up with new owner LBBW as an independent subsidiary

Despite a challenging market environment, Berlin Hyp was able to strengthen its position as one of the leading real estate financiers in Germany, thereby demonstrating once again the stability and resilience of its business model. This positive development is clearly reflected in the Bank's key figures for new lending, earnings and risk indicators for both 2022 as a whole and the short financial year in the second half¹ of 2022 that is the subject of this report.

“Our business strategy, which focuses on stability and sustainability, has proved to be a key factor of success in turbulent times especially”, says Sascha Klaus, Chair of the Board of Management of Berlin Hyp AG. “Despite difficult underlying conditions, we were able to significantly increase our profit before income tax and we are satisfied with business development at the Bank.

As a subsidiary of LBBW that remains independent in its operations, we are also now able to build upon a much broader foundation for our activities. Together, LBBW and Berlin Hyp have once again further strengthened their position within the Sparkassen-Finanzgruppe and increased their relevance and standing on the market.” Within just a few months, the Bank was able to complete the process for teaming up with the new parent company that was required by regulatory provisions and also ensure compliance with IFRS reporting standards – all without any slowdown to normal business operations. “Berlin Hyp is a real estate industry partner and a sought-after partner among investors in the real estate sector and on the capital market in general”, Klaus explains.

Berlin Hyp's business activities developed positively throughout 2022 as a whole. Net interest and commission income increased to €479.8 million in 2022, which was higher than the figure of €431.4 million recorded in 2021. The operating result before risk provisioning also rose significantly, from €239.3 million in 2021 to €261.2 million in 2022. Despite the clear deterioration of macroeconomic and sector-related conditions, Berlin Hyp did not record any loan defaults, nor was it necessary to make any valuation allowances. In order to be prepared for future risks, the Bank booked risk provisioning in the amount of €86.4 million, which led to an operating result after risk provisioning of €174.8 million (2021: €234.4 million). The provisioning item also includes negative valuation results for securities in the liquidity reserves, some of which will have a positive impact once

¹ In view of the completion on 1 July 2022 of the teaming up process with Landesbank Baden-Württemberg (LBBW) as the new owner of Berlin Hyp, the Bank reported on the first and second half of 2022 separately as distinct short financial years.

again as early as this year due to pull to par effects. For the year as a whole, Berlin Hyp recorded profit after income tax of €71.0 million, which corresponds to an increase of €21.0 million from 2021 (€50.0 million).

New lending at the previous year's level, position as an S-Group partner of the savings banks strengthened

At €7.0 billion, new lending including long-term extensions was maintained at more or less the previous year's level (€7.1 billion), despite challenging underlying conditions. A total of €3.0 billion of the new lending recorded in the second half of 2022 was accounted for by contracted new lending, while €0.8 billion can be attributed to extensions (1st short financial year 2022: €2.8 billion plus €0.3 billion in extensions). The mortgage loans portfolio increased over the year by nearly €2.0 billion to €27.5 billion.

Around two-thirds of the total new lending volume recorded in the second half of 2022 was used to finance investments in Germany. The biggest market outside of Germany during the reporting period was the Netherlands with a share of 18%, followed by France and Poland. In terms of property types, new lending focused, as was the case in the previous year as well, on office real estate (share of 50%) and apartment units (26%).

At the end of 2022, Berlin Hyp was maintaining an active business relationship with 170 savings banks, thus further strengthening its ties within the Sparkassen-Finanzgruppe. As at the reporting date, nearly 70 of these banks were using the ImmoDigital platform. At €0.5 billion, the total volume of business conducted with S-Group partners in the second half of 2022 was lower than in the first half of the year (30/06/2022: €0.8 billion). The total portfolio of loans Berlin Hyp placed with savings banks amounted to €4.3 billion (30/06/2022: €4.5 billion).

Strong business foundation and potential are recognised on capital markets

Berlin Hyp's strong business foundation and potential continue to be recognised on the capital market, as the Bank's issues during the reporting period attracted major interest among both domestic and international investors. With its first Green Bond mortgage Pfandbrief in Swiss francs and its first green Jumbo Pfandbrief in euros, Berlin Hyp has expanded its range of sustainable and green issues.

The Bank offers issues in all three ESG categories and has further strengthened its position as a pioneer in the real estate industry in this regard. With 17 outstanding benchmark issues at the end of the year, Berlin Hyp remains the most active issuer of Green Bonds in Europe in the commercial banking segment. During the second half of 2022, the Bank borrowed a total of approximately €2.6 billion in capital with its emissions.

Pioneering role in sustainability

On the asset side of the equation, Berlin Hyp moved closer during the reporting period to the achievement of the sustainability targets defined in its ESG vision. At the end of the second short financial year in 2022, Berlin Hyp had a 30.2% share of green buildings and a CO2 transparency rate of 65.4% with regard to the energy efficiency of the properties it finances. The Bank is aiming for the achievement of complete transparency here by the end of 2023. With regard to

the share of green building financing, the goal is to increase the share of such financing to at least one-third by 2025.

Berlin Hyp issued its first taxonomy loan in September 2022. This product consists of loans that address the first EU taxonomy target of environmentally friendly financing. It thus makes use of one of the key instruments for improving the environmental and climate performance of the building stock in Germany. Other key areas of focus for the ESG implementation agenda in the second half of 2022 included the expansion of the risk methodology, the implementation of an ESG data project and our signing of the UN Principles for Responsible Banking.

As part of its innovation agenda, Berlin Hyp is pursuing the consistent implementation of its digitalisation and innovation activities. In this regard, important elements consist of large-scale internal projects for depicting the Bank's key business processes along its value chain. "On the one hand, we wish to present the Bank's key business processes in a digital, data-driven and partially automated manner in future", says Klaus. "On the other hand, for Berlin Hyp, sustainability means not only reducing its own carbon footprint, but also promoting, simplifying and financing the transition to a sustainable economy and in this manner contributing to the transformation that is currently under way – not only in terms of ecology but also with regard to the economy and society as a whole." In this sense, Klaus explains, ESG and digitalisation can now be viewed as a common element in the Bank's further development.

Individual results of the 2nd short financial year in 2022 at a glance:

Net interest income excluding one-off effects remains stable; net commission income increases

Net interest income in the second half of 2022 amounted to €197.4 million. When comparing this result with the figure for the first half of 2022 (€258.6 million), the differing levels of the effects from participation in the targeted longer-term refinancing operations with the Deutsche Bundesbank (TLTRO-III) and the resulting favourable refinancing need to be taken into account. The interest rate reduction in the first half of the year amounted to €64.5 million, while the figure for the second half of the year was €5.1 million. The interest rate reduction in the first short financial year included additional income in the amount of €43.0 million from the "additional special interest period".

At €12.4 million, net commission income was higher than the figure of €11.4 million recorded in the first half of the year. This figure for the second short financial year mainly includes commission income from the lending business (which was higher than in the first short financial year due to the positive development of new lending), as well as charges for sureties and credit brokerage.

Lower operating expenditure than in the first half of the year, which was influenced by one-off effects

Operating expenditure (staff expenditure, other operating expenditure, depreciation on tangible assets and amortisation of intangible assets) amounted to €89.9 million in the second half of the year, which was significantly lower than the figure recorded for the first half of the year (€116.7 million). When making a comparison here, the fact must be taken

into account that expenses from the payment of the European bank levy for 2022 in the amount of €25.5 million had already been fully incurred in the first short financial year in 2022.

The other operating result amounted to -€0.2 million. Along with the reversal of provisions, this item basically consists of interest portions, above all from the compounding of pension reserves. In the first half of 2022, this item amounted to -€11.8 million, whereby this was due to real estate acquisition tax expenses that were expected from the sale of Berlin Hyp. The lower operating expenditure and the higher other operating result led, despite the lower net interest and commission income, to a cost-income ratio of 42.9 per cent, which was 2.3 percentage points lower than in the first half of the year.

Risk provisioning adjusted in line with the market environment; equity position strengthened through further additions

Despite very difficult overall economic conditions, Berlin Hyp did not record any significant loan defaults in the second short financial year in 2022. In order to reflect the latent counterparty default risks in the lending business in a manner which adequately reflects the risks, further provisioning measures were implemented within the framework of the lump-sum value adjustments in order to adequately take the uncertain environment into account. Provision reserves were reversed, on the other hand. The valuation result for the lending business amounted to €19.9 million, as opposed to -€6.7 million in the previous period. Negative valuation results for securities in the liquidity reserves resulted in an expenditure of €44.9 million due to exchange rate losses (first half of 2022: €54.7 million). Due to pull to par effects, a large portion of the result here will once again be positive in 2023.

The common equity tier 1 ratio is 13.7 per cent (30/06/2022: 14.0 per cent) and the total capital ratio is 15.5 per cent (30/06/2022: 15.9 per cent). By reinforcing the special item for general banking risks in accordance with Section 340g of the German Commercial Code (HGB) with an additional €25.0 million (30/06/2022: €50.0 million) to reach a total of €750 million at 31 December 2022, and through additional capital coverage as required by the supervisory authorities, it was possible to keep capital ratios relatively constant despite slightly increased risk assets. The capital ratios were above the previous year's forecast of the Bank. The return on equity, which also includes the allocation to the fund for general banking risks, was above the target at 11.3 per cent (30/06/2022: 9.8 per cent).

Outlook: Lower new business volume expected in view of the market situation; process for teaming up with LBBW offers potential

Fierce competition in commercial real estate financing, the continued volatility of capital and financial markets and the uncertainties regarding the future development of interest rates and the effects of the Russia-Ukraine war will remain the biggest challenges for Berlin Hyp in 2023 as well.

Given the challenging and unreliable planning environment, as well as the demanding regulatory requirements that continue to prevail, Berlin Hyp expects new business volume in 2023 to be significantly lower than the very successful level reached in 2022.

Nevertheless, Berlin Hyp expects profit before income tax in 2023 to be higher than in 2022 and thus remain very positive.

Along with the considerable potential that can be exploited through the teaming up process with LBBW and its ongoing involvement in the Sparkassen-Finanzgruppe, the Bank is also planning to expand its S-Group business further with the Immo product range, and also further expand the “ImmoDigital” platform – and sees additional opportunities for the Bank in these areas as well.

“Dealing with interest rate increases, the ongoing economic and geopolitical uncertainties and the extensive tasks that need to be completed in the areas of digitalisation and climate protection will require a huge effort on the part of all companies and institutions that are active in the real estate industry”, Sascha Klaus explains. “Achieving the sustainable transformation of the economy is the biggest and most important challenge of our time, and we owe it to future generations to do everything we can here. All of us at Berlin Hyp accept our responsibility in this regard, whereby we act in accordance with our philosophy of effectively addressing key issues and continuing to move forward – even if, and especially because, we know that there are no ready-made solutions here. This philosophy will continue to guide our actions in 2023.”

The full report for the short financial year from 1 July to 31 December 2022 is available at www.berlinhyp.de.

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Berlin Hyp is a wholly owned subsidiary of LBBW and specialises in large-volume real estate financing for professional investors and housing companies. It also provides German savings banks with a comprehensive range of products and services. Sustainability has been a central component of the Bank’s business strategy for years. It plays a pioneering role on the capital market in the development of sustainable refinancing products. At the same time, the Bank also promotes the financing of sustainable real estate in order to help drive the transformation of the real estate market and 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.