

Press information dated 27 March 2024

## Berlin Hyp demonstrates its earning power and stability in 2023

- Profit before income tax increases by 25 per cent to €123.9 million
- New lending in the real estate financing business in the amount of €6.5 billion exceeds expectations
- Loan portfolio is robust; lending risk provisioning higher than in the previous year due to market developments
- Berlin Hyp further strengthens its position as a pioneer for sustainable finance and expands cooperation with the savings banks

Berlin Hyp once again demonstrated the earning power and stability ensured by its business model and also strengthened its position as one of the leading real estate financiers in Germany in 2023.

All of this is reflected by an increase in net income from the previous year's figure, a robust loan portfolio and a solid volume of new lending that exceeded expectations given the market situation during the year under review.

With a 35 per cent share of green buildings in the Bank's loan portfolio as at the reporting date, Berlin Hyp was able to achieve its associated sustainability target two years earlier than planned. On the liabilities side of the equation, the Bank placed its first ESG dual tranche in Europe, which consisted of a Green Bond and a Social Bond, and thus once again underscored its standing as a pioneer on the capital market. Berlin Hyp also further expanded cooperation with the German savings banks and consistently moved ahead with its process for teaming up with LBBW.

"The year 2023 was a very challenging one for the real estate industry", says Berlin Hyp CEO Sascha Klaus. "Given this situation, we are very satisfied with the better-than-expected business figures we recorded. Our focus on high-quality financing and our consistent risk management approach ensure the stability of Berlin Hyp, and developments last year illustrate that the Bank is in good shape in its current structure. This structure also offers a stable foundation that will allow us to continue working effectively and in partnership with our customers."

The main issues addressed in 2023 regarding the further development of the company included the ongoing digitalisation of core processes, the continuous modernisation of the IT system environment, the integration of ESG aspects into business operations and the process for teaming up with the LBBW Group in accordance with applicable regulatory provisions. With 19 outstanding benchmark issues, Berlin Hyp remains the most active issuer of green bonds in the commercial bank segment.

## **New lending volume exceeds expectations**

The higher interest rate level, the economic impact of Russia's invasion of Ukraine, and increased construction costs all had a major adverse effect on real estate markets in 2023. The volume of commercial real estate transactions therefore declined significantly last year. Against the backdrop of these developments, new lending generated by Berlin Hyp (including realised extensions\*) amounted to €6.5 billion (previous year: €8.2 billion) and was thus higher than expected. At €1.2 billion (€1.3 billion), the S-Group business with savings banks remained stable. The total volume of business with the S-Group amounted to approximately €4.4 billion (€4.3 billion).

## **Individual components of the financial results\*\***

### **Significant increase in net interest and commission income**

Net interest income of €498.3 million was significantly higher than the previous year's figure of €456.0 million. This was due in particular to stable margins in the core business and one-off effects. In addition, the interest-bearing volume of the mortgage loan portfolio increased significantly, by €1.4 billion to €29.2 billion. As expected, net commission income declined, by €5.6 million to €18.2 million, as a result of the less dynamic development of new lending in a cautious market.

Accumulated, net interest and commission income amounted to €516.5 million, which was significantly higher than the figure recorded in the previous year (€479.8 million).

### **Almost no change to operating expenditure**

Operating expenditure (staff expenditure, other operating expenditure, depreciation of tangible fixed assets and amortisation of intangible assets) amounted to €207.0 million in the 2023 financial year, which was only slightly higher than the previous year's figure of €206.6 million. Compared to the previous year, staff expenditure increased by €2.8 million to €93.7 million. This moderate increase was mainly due to salary adjustments and an increase in workforce numbers.

Other operating expenditure decreased to €99.8 million (€105.1 million), whereby this was mainly due to a lower bank levy. Further key components of other operating expenditure are IT expenditure, legal and consulting costs and building and premises costs. These rose only moderately due to the ongoing process of teaming up with LBBW and the implementation of strategically essential projects.

Depreciation of tangible fixed assets and amortisation of intangible assets increased by €2.9 million to €13.5 million. This was mainly due to the expansion of digitalisation activities.

The cost-income ratio was 40.0 per cent (42.9 per cent).

## **Risk provisions impacted by individual defaults, value adjustments and an increase to the model adjustments**

The effects of the crisis in the real estate sector became particularly apparent in the core business in the form of negative rating changes, the inclusion of exposures in the increased support in the back office and the need to make additional valuation allowances (primarily for project development) Due to the conservative risk strategy and the high share of financing in good and very good rating classes, defaults occurred only in very few cases.

Developments on the real estate markets made it necessary to perform valuation allowances for certain exposures. Because market pressures will continue in 2024, the Bank further increased the model adjustment in accordance with the German Commercial Code (HGB) as part of the lump-sum value adjustments in the reporting year. The net allocation to lending risk provisioning totalled €152.1 million (previous year: net release of 13.2 million). Lending risk provisioning according to the IFRS approaches amounted to €89.1 million.

The valuation difference is primarily attributable to methodological differences between the two accounting standards.

## **Equity position strengthened further**

The Bank used the positive development of earnings to allocate an additional €50.0 million (€75.0 million) to the fund for general banking risks pursuant to Section 340g HGB. This fund amounted to €800.0 million as at the reporting date.

At 15.4 per cent (13.7 per cent), the common equity tier 1 ratio achieved by the Bank exceeded its forecast, while the total capital ratio was 17.1 per cent (15.5 per cent).

Return on equity was 10.0 per cent (11.3 per cent).

## **Significant improvement to profit before income tax**

With profit before income tax in the amount of €123.9 million (€99.7 million), Berlin Hyp exceeded the previous year's figure by nearly 25 per cent. Income tax expenditure for the 2023 financial year totalled €48.9 million (€28.7 million). Despite the further reinforcement of the special item for general banking risks, net income totalled €75.0 million (€71.0 million).

## **Outlook**

The situation on the commercial real estate market will remain challenging in 2024 as well. However, a further decrease in inflation rates and the possibility of interest rate reductions throughout the course of the year could ease the situation and lead to renewed activity on the transaction market. On the other hand, low growth and ongoing geopolitical risks continue to cause uncertainty. The Bank's planning assumes new lending volume in 2024 to remain at the same level as in 2023. The operating result after risk provisioning should

improve slightly in 2024, while profit before income tax and net income for the year are also likely to be above the previous year's figures.

"The economic situation remains fragile, the structural transformation presents a challenge to our industry in several respects and the sustainable transformation will require considerable investment", says Sascha Klaus. "There are still many challenges ahead, which we will address together with our customers and business partners."

You can view the complete Annual Report at [www.berlinhyp.de](http://www.berlinhyp.de)

\* Alignment of reporting on new lending with Group standards

\*\*General remark

The period-specific year-on-year comparison figures relate in each case to the entire 2022 calendar year and result from the addition of the figures from the two short financial years (01.01.2022 to 30.06.2022 and 01.07.2022 to 31.12.2022).

Earnings Development	01.01. – 31.12.23	01.01. – 31.12.22	Change	Change
	€m	€m	€m	%
<b>Net interest and commission income</b>	<b>516.5</b>	<b>479.8</b>	<b>36.7</b>	<b>7.6</b>
Net interest income	498.3	456.0	42.3	9.3
Net commission income	18.2	23.8	-5.6	-23.5
<b>Operating expenditure</b>	<b>207</b>	<b>206.6</b>	<b>0.4</b>	<b>0.2</b>
Staff expenditure	93.7	90.9	2.8	3.1
Other operating expenditure	99.8	105.1	-5.3	-5.0
<i>of which expenditure for bank levy</i>	<i>16.4</i>	<i>25.5</i>	<i>-9.1</i>	<i>-35.7</i>
Depreciation on tangible fixed assets	13.5	10.6	2.9	27.4
Other operating income/expenditure	1.2	-12.0	13.2	-
<b>Operating result before risk provisioning</b>	<b>310.7</b>	<b>261.2</b>	<b>49.5</b>	<b>19.0</b>
<b>Risk provisioning</b>	<b>-135.3</b>	<b>-86.4</b>	<b>-48.9</b>	<b>56.6</b>
Valuation result of lending business	-152.1	13.2	-165.3	-
Valuation result of securities business	16.8	-99.6	116.4	-
<b>Operating result after risk provisioning</b>	<b>175.4</b>	<b>174.8</b>	<b>0.6</b>	<b>0.3</b>
Net income from financial assets	-1.4	0.0	-1.4	-
Fund for general banking risks	50.0	75.0	-25.0	-33.3
Other taxes	0.1	0.1	0.0	0.0
<b>Profit before income tax</b>	<b>123.9</b>	<b>99.7</b>	<b>24.2</b>	<b>24.3</b>
Income taxes ("-" = earnings)	48.9	28.7	20.2	70.4
<b>Net income</b>	<b>75.0</b>	<b>71.0</b>	<b>4.0</b>	<b>5.6</b>

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## About Berlin Hyp

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. Berlin Hyp 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 155 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.