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CREDIT OPINION
20 May 2022

Update

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RATINGS

Berlin Hyp AG

Domicile	Germany
Long Term CRR	Aa2 , Possible Downgrade
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa2 , Possible Downgrade
Type	Senior Unsecured - Fgn Curr
Outlook	Rating(s) Under Review
Long Term Deposit	Aa2 , Possible Downgrade
Type	LT Bank Deposits - Fgn Curr
Outlook	Rating(s) Under Review

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Berlin Hyp AG

Update to credit analysis

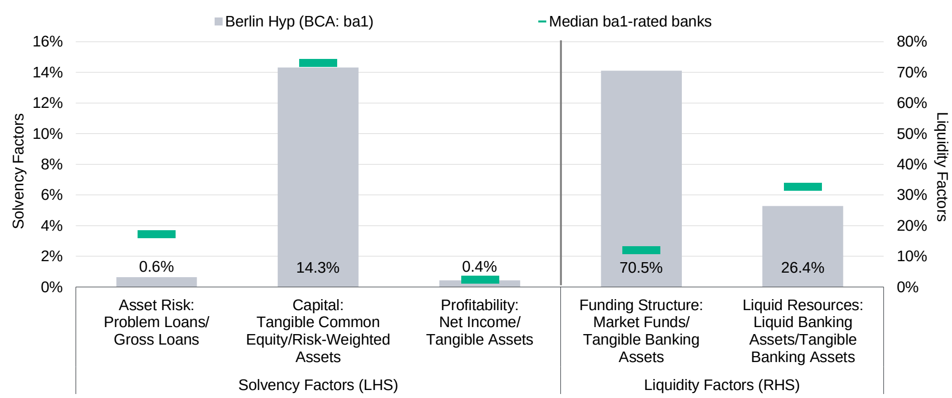
Summary

We assign Aa2 deposit ratings and senior unsecured debt ratings to Berlin Hyp AG (Berlin Hyp), as well as Aa2/P-1 Counterparty Risk Ratings (CRRs) and an a3 Adjusted Baseline Credit Assessment (BCA). These ratings and rating inputs are on review for downgrade because of the planned acquisition by Landesbank Baden-Wuerttemberg (LBBW, Aa3/Aa3 stable, baa2[1]). The review for downgrade reflects that Berlin Hyp's ratings will likely be aligned with LBBW's, which are one notch lower. We further assign a ba1 BCA and an A2 junior senior unsecured debt rating to Berlin Hyp.

The ratings reflect the bank's ba1 BCA, and four notches of rating uplift, reflecting both parental support from Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG (SEG) and cross-sector support from Sparkassen-Finanzgruppe (S-Finanzgruppe, Aa2 stable, a2[2]). The ratings also reflect the application of our Advanced Loss Given Failure (LGF) analysis to SEG's liabilities, which indicates an extremely low loss given failure and results in three notches of rating uplift, and a one-notch rating uplift resulting from government support, because of Berlin Hyp's membership in systemically relevant S-Finanzgruppe.

Berlin Hyp's ba1 BCA reflects the bank's exceptionally high concentration risks in commercial real estate (CRE) lending given its highly focused business model, which are partly mitigated by solid capital ratios. It also incorporates the bank's improving, but still somewhat high leverage, and high reliance on confidence-sensitive market funding and substantial asset encumbrance.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Investors Service

Credit strengths

» Sound risk-adjusted capitalisation

» Improved profitability and efficiency, which allowed the buildup of contingency reserves that provide an increased buffer

» Good asset-quality metrics

» Strong contractual links within the SEG group, which provide protection in an adverse scenario

Credit challenges

» Extremely high risk concentration in CRE, exposing the bank to tail risks from dislocations in CRE markets

» High reliance on confidence-sensitive market funding and high asset encumbrance

» Maintenance of adequate capital ratios in the long run, as regulatory requirements become more onerous

Outlook

Berlin Hyp's ratings are on review for downgrade. The review for downgrade on Berlin Hyp's long-term deposit, issuer and senior unsecured debt ratings, as well as on its Adjusted BCA, reflects that Berlin Hyp's ratings will likely be aligned with LBBW's, which are one notch lower. We expect the respective authority to consider Berlin Hyp a joint resolution group with LBBW, thereby essentially aligning the risks for investors.

During the review period, we will assess how the change in ownership at Berlin Hyp will affect the current rating uplift from affiliate support, which presently benefits from its financially stronger sister company Landesbank Berlin AG (LBB, Aa2/Aa2 review for downgrade, baa2[3]) and a profit and loss transfer agreement (PLTA) with their joint parent, as well as Berlin Hyp's full indirect ownership of S-Finanzgruppe and the new resolution group that it will likely form with LBBW. We will also monitor the progress in achieving required shareholder and authority approvals.

Factors that could lead to an upgrade

» Given the review for downgrade on most of Berlin Hyp's ratings, there is limited upside pressure to these. Berlin Hyp's long-term deposit, issuer and senior unsecured debt ratings could be confirmed at current levels if LBBW's fundamental credit profile improves in the meantime; higher sector support becomes available; or the transaction fails to close, although this is unlikely.

» Upward pressure on Berlin Hyp's ba1 BCA could develop as a combination of an improvement in the bank's leverage ratio, particularly through higher capitalisation levels generated via a further reserve buildup; substantially improving earnings; and a significant reduction in short-term interbank funding, resulting in a more balanced liability maturity profile.

Factors that could lead to a downgrade

- Berlin Hyp's long-term deposit, issuer and senior unsecured debt ratings could be downgraded following conclusion of the transaction. Further, downward rating pressure could develop in case of a change in the joint liability structure with LBBW, resulting in higher loss given failure in resolution and, therefore, fewer notches of rating uplift derived from our Advanced LGF analysis.
- Berlin Hyp's BCA could be downgraded if capital ratios weaken in case of a sustained and significant deterioration in asset quality, or if profitability declines sustainably from historical levels.

Key indicators

Exhibit 2

Berlin Hyp AG (Consolidated Financials) [1]

	12-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	36.2	33.4	27.0	27.2	27.1	7.5[4]
Total Assets (USD Billion)	41.0	40.9	30.3	31.1	32.6	5.9[4]
Tangible Common Equity (EUR Billion)	1.6	1.4	1.3	1.2	1.1	8.1[4]
Tangible Common Equity (USD Billion)	1.8	1.7	1.5	1.4	1.4	6.6[4]
Problem Loans / Gross Loans (%)	0.6	0.6	0.8	0.9	1.2	0.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.3	13.4	13.2	13.5	12.5	13.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	7.7	8.3	11.7	12.6	18.7	11.8[5]
Net Interest Margin (%)	1.2	1.0	1.2	1.1	1.0	1.1[5]
PPI / Average RWA (%)	2.2	1.6	1.6	1.8	1.5	1.7[6]
Net Income / Tangible Assets (%)	0.6	0.3	0.4	0.5	0.5	0.5[5]
Cost / Income Ratio (%)	44.6	53.2	54.4	50.3	59.5	52.4[5]
Market Funds / Tangible Banking Assets (%)	70.5	72.1	66.5	64.8	64.1	67.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	26.4	24.2	14.2	21.6	20.7	21.4[5]
Gross Loans / Due to Customers (%)	3574.4	3255.2	7986.6	4598.4	2778.9	4438.7[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

Berlin Hyp AG (Berlin Hyp) is a German public-sector bank that offers real estate financing services mainly for commercial and residential properties. As of year-end 2021, it reported total assets of €36.2 billion and employed 596 full-time equivalent staff members. Berlin Hyp offers a range of financial products and services to small and medium-sized enterprises (SMEs), commercial investors, municipal housing associations, housing co-operatives and property developers through a network of six branches in Germany. Internationally, it operates through representative offices in Amsterdam (the Netherlands), Warsaw (Poland) and Paris (France).

In January 2015, Berlin Hyp was spun off from LBB and set up as a sister company of LBB under the SEG umbrella. Berlin Hyp's remit encompasses national and international CRE lending, while LBB focuses on local CRE lending in the Berlin-Brandenburg region. Despite the full operational separation, both Berlin Hyp and LBB remain closely tied via a profit and loss transfer agreement (PLTA) set up between each bank and Landesbank Berlin Holding AG (LBBH), a holding entity fully owned by SEG. The PLTA implies that losses at Berlin Hyp would have to be offset by LBBH, thereby enabling Berlin Hyp to benefit from the stronger standalone credit profile of its sister company LBB, which would effectively have to cover the losses. This potential parental support is reflected in our Adjusted BCA.

Given the announced sale of Berlin Hyp to LBBW, the structure is likely to be dissolved.

For more information, please see Berlin Hyp's Issuer Profile and our German Banking System Profile.

Berlin Hyp's Weighted Macro Profile is Strong (+)

Berlin Hyp is focused on the German market, which accounts for almost two-thirds of the bank's exposure at default. As a result, the bank's assigned Strong (+) Weighted Macro Profile is set in line with the Strong (+) Macro Profile for Germany.

Recent developments

On 26 January 2022, LBBW announced plans to acquire Berlin Hyp, which remains subject to regulatory and owner approvals; the transaction is likely to close in summer 2022. The acquisition of Berlin Hyp by LBBW leads to the breakup of the banking group within S-Erwerbsgesellschaft, which remains the owner of LBB. The transaction follows an industrial logic of consolidating CRE lending activities under the roof of LBBW while preserving LBB as regional savings bank under the ultimate ownership of the German savings bank sector.

The transaction results in diluting credit benefits. For Berlin Hyp, the acquisition by a lower-rated entity exerts potential downward rating pressure.

Detailed credit considerations

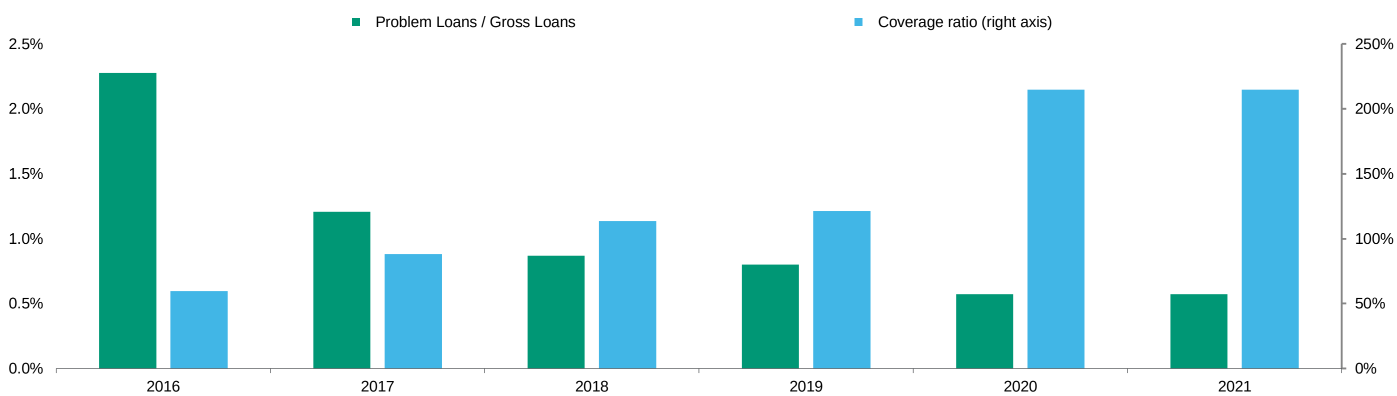
Good asset quality with extremely high risk concentration in CRE

We assign a ba1 Asset Risk score, eight notches below the aa2 initial score, to reflect Berlin Hyp's cyclical and higher-risk CRE lending activities, and its concomitant large single-borrower concentrations. These concentration risks cap the assigned score at non-investment grade.

This is despite Berlin Hyp's sound asset quality with nonperforming loans of below 1%. The bank is the least exposed to high risk subsectors within CRE given its low hotel and comparably limited retail exposures; however, we expect structural shifts for office demand to have an impact on demand in the medium term. The bank's nonperforming loans remain on a declining trend.

Exhibit 3

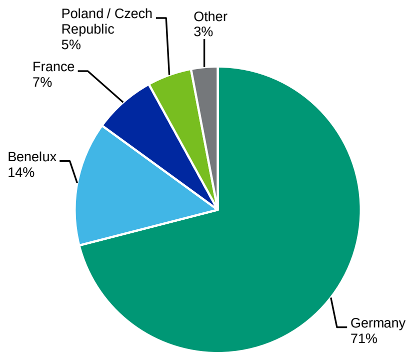
Berlin Hyp's asset quality remains solid



Problem loan ratio per Moody's definition.
Sources: Company reports and Moody's Investors Service

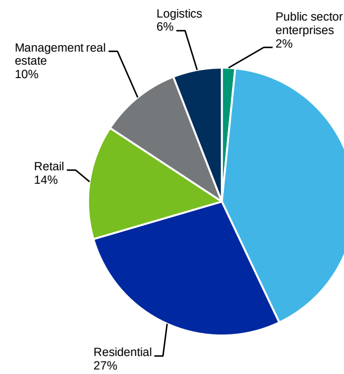
As of year-end 2021, Berlin Hyp had extended €25.6 billion of real estate loans (against €1.6 billion in tangible common equity [TCE]), amounting to around two-thirds of the balance sheet and thus representing the bank's main asset-risk driver. Berlin Hyp's overall gross real estate exposure[4] amounted to €30.1 billion as of year-end 2021 and comprised offices (42%), residential real estate (28%), retail (14%), logistics (6%) and other buildings used for commercial purposes. The portfolio was largely focused on Germany (71%), thus resulting in less exposure from international CRE markets than its peers, though it has grown its portfolio faster than those.

Exhibit 4
Berlin Hyp's portfolio composition by country based on year-end 2021 data



Excludes loans to the public sector.
Source: Company presentation

Exhibit 5
Berlin Hyp's portfolio composition by segment based on year-end 2021 data



Source: Company presentation

In 2021, Berlin Hyp originated new loans of €7.1 billion, including prolongations. New loans were mostly extended to investors (75%), with the remainder mainly attributed to developers and contractors (22%). In terms of regional split, 56% of new loans were derived from German A cities, 17% from German B cities and other German regions, and 25% from abroad.

In addition to its real estate business, the bank held legacy €0.4 billion low-margin public-sector loans as of year-end 2021, down from €8.0 billion as of year-end 2008. The bank's €6.8 billion investment and liquidity portfolio is low risk.

Berlin Hyp's problem loans amounted to €146 million as of year-end 2021 (December 2020: €141 million, 2019: €181 million), reflecting a fraction of its historical peak levels dating back to the late 1990s, when the bank experienced a crisis because of an Eastern German property bubble after Germany's reunification. One of the key drivers of the reduction in nonperforming loans was the bank's effective workout management of legacy loans, along with its improved track record for risk management in its loan book. Berlin Hyp's coverage ratio (loan loss reserves/problem loans) was a solid 217% as of December 2021.

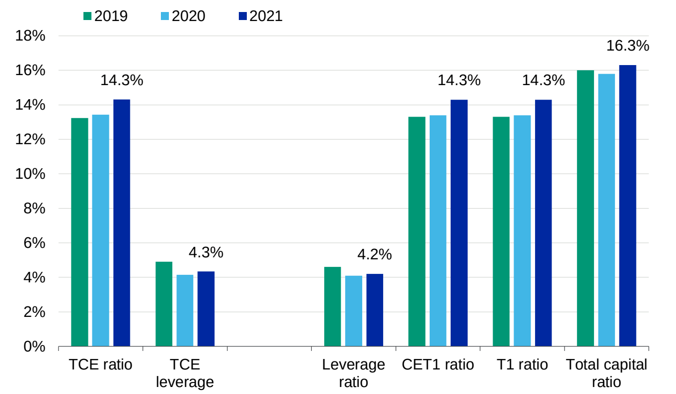
Sound risk-adjusted capital levels, although regulatory changes and the future contractual agreements with its parent will affect capital formation

We assign an a3 Capital score, two notches below the a1 initial score, taking into account future changes to the capital regulation, but also its undisclosed 340f[5] reserves, which provide additional loss-absorbing capacity.

Although we consider the bank's risk-adjusted capitalisation to be solid, providing a good buffer vs regulatory minima of 7.1% and 10.6%, respectively, upcoming changes to the regulatory framework that will be phased-in from 2022 and the current economic downturn that will lead to higher risk-weighted assets (RWA) will hurt capital levels in future. From 2023 on, capital requirments will include additional sector-wide capital requirements announced by German banking supervisor BaFin in order to rein in dynamic growth in the domestic residential property market.

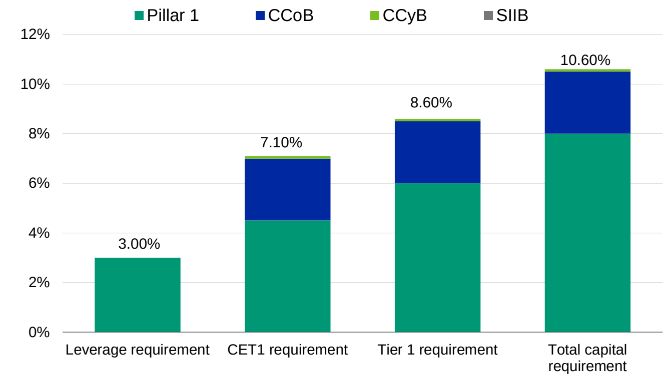
To keep its current buffers intact, the bank will have to create further reserves. For now, the reported net income has to be passed on to LBBH under the PLTA with the parent. Future contractual links with its new parent LBBW after the acquisition will likely determine the bank's capital accumulation capacity, though the details are unknown for now.

Exhibit 6
Berlin Hyp's capitalisation remains solid



TCE = Tangible common equity (Moody's calculation). CET1 = Common Equity Tier 1 (after earnings appropriation); T1 = Tier 1 capital.
Source: Company reports and Moody's Investors Service

Exhibit 7
Berlin Hyp's capital requirements in detail



CCoB = Capital conservation buffer; CCyB = Countercyclical capital buffer; SIIB = Systemically important institutions buffer.
Source: Company reports

As of year-end 2021, Berlin Hyp's leverage (measured as TCE/tangible assets) was 4.3%, relatively stable compared with 4.2% as of year-end 2020 but down from 4.9% as of year-end 2019 (the regulatory leverage ratio was 4.2% versus 4.1% as of year-end 2020 and 4.6% as of year-end 2019). The bank's TCE ratio (TCE/RWA) has increased above the 13%-14% range, standing at 14.3% as of year-end 2021; RWA increased by 6% to €11.0 billion as of year-end 2021 compared with that as of year-end 2020[6]; and TCE increased by 13% to €1.6 billion as of the same date. The regulatory Common Equity Tier 1 (CET1) capital ratio increased to 14.3% from 13.4% during the same period.

Berlin Hyp's leverage has improved significantly from 3.3% as of year-end 2014 as a result of a 55% increase in TCE, partly offset by a 19% increase in tangible assets. RWA, on the other hand, rose by 35% during the period, as Berlin Hyp reduced its lower-yielding public-sector exposures and its investment portfolio while it built its mortgage book. As a result of this shift in its business mix, Berlin Hyp's risk density (RWA/tangible assets) rose to 30% as of year-end 2021 from 27% as of year-end 2014, which also bolstered the bank's earnings generation capacity.

Profitability returned to pre-crisis levels in 2021

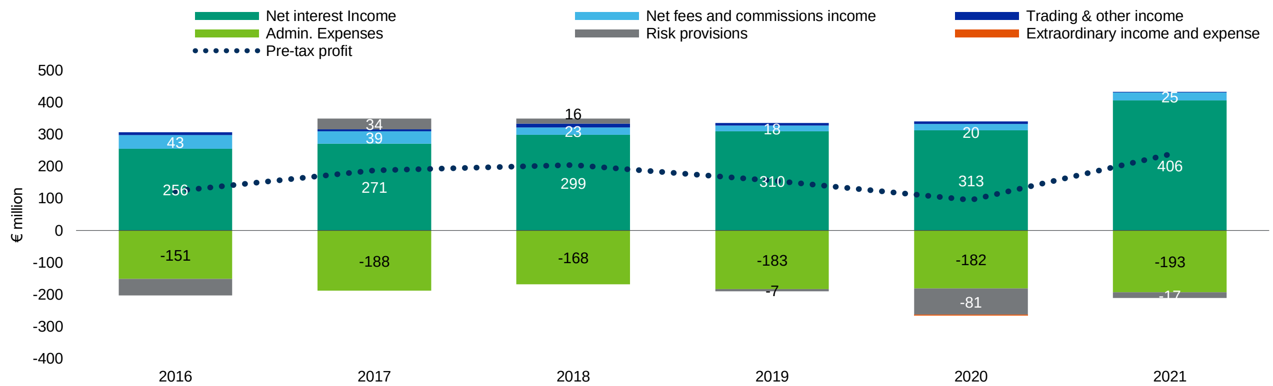
For Profitability, we assign a ba1 score, in line with the initial score, which is derived from the 0.4% net income reported as of December 2021. Though we expect a contained increase in risk costs because of the economic impact of the geopolitical tensions, we expect profitability to remain in line with the ba1 Profitability score range (0.375%-0.49%) in 2022.

Because Berlin Hyp currently operates under a PLTA, it only has to pay de minimis taxes for its foreign operations, but has to upstream its entire net profit to its parent LBBH, where domestic taxes are paid, utilising remaining tax loss carry forwards generated by the former Bankgesellschaft Berlin. As a result of this setup, the reported net profit of Berlin Hyp is zero. Hence, to gauge the underlying earnings power of the bank, we assume a normalised tax rate of 30% that we apply to the Moody's-adjusted pretax income, which resulted in an adjusted net profit of €222.7 million for 2021 (2020: €87.7 million), which represented an adjusted return on assets of 0.6%.

Provisioning needs decreased significantly in 2021 (€17.4 million for 2021; 2020: €81.4 million). We forecast that Berlin Hyp's earnings will remain sustainably above the levels we have seen in the years before 2014, reflecting the bank's asset-mix shift and the workout of its legacy problem loan portfolio. An average 0.4% return on assets should, therefore, be achievable for Berlin Hyp through the cycle.

Exhibit 8

Berlin Hyp's profitability recovered in 2021



Sources: Company reports and Moody's Financial Metrics

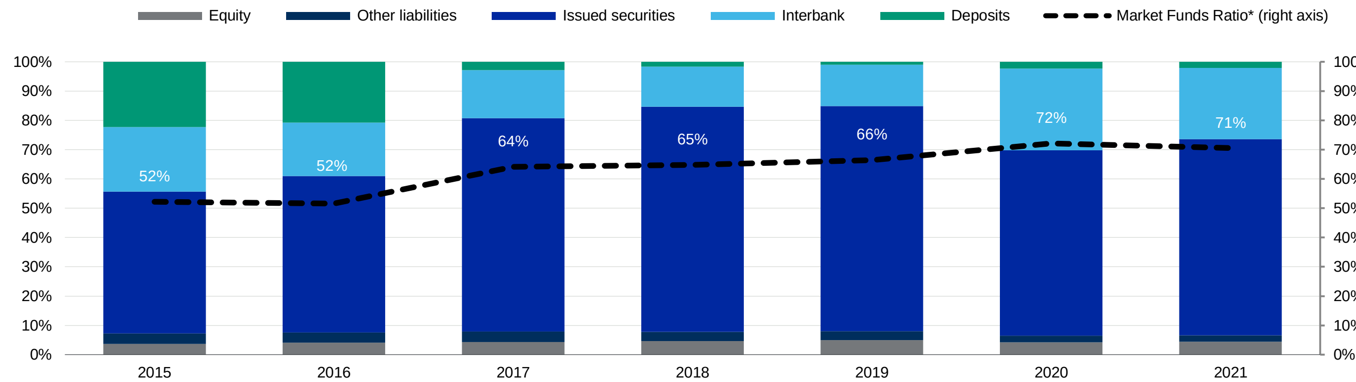
In 2021, Berlin Hyp's net interest income of €406 million, which accounted for 94% of the bank's revenue, increased by 30% year on year not only because of the growth in the average mortgage loans portfolio of €2.8 billion, but also because of the recourse to TLTRO. The bank's net commission income of €25 million, meanwhile, rose by 24% year on year in 2021. Admin expenses of €184 million were up 6% compared with the same period last year. The reported other operating result of -€7.8 million compares with -€1.7 million in the previous year. For 2021, the bank booked risk provisions of €17.4 million (2020: €81.4 million), reflecting the improved economic prospects.

Established covered bond franchise, complemented by sector funding access

Our assigned ba3 Funding Structure score is significantly above the caa3 initial score. The uplift reflects Berlin Hyp's strong covered bond franchise and its close integration into the German savings bank sector, which provides access to less confidence-sensitive sector funding, thus providing a stabilising factor for the bank's wholesale-driven refinancing profile. We deem the TLTRO induced increased market funding not to be sustained and to return to the pre-pandemic level again.

As of year-end 2021, €14.5 billion of Berlin Hyp's €36.2 billion total assets were funded through mortgage covered bonds and the remainder through €4.0 billion in junior senior unsecured and €3.9 billion in senior unsecured debt, €8.8 billion interbank loans and repos (including temporary recourse to the TLTRO), and €0.2 billion in subordinated debt. Within covered bonds, the mix has almost completely shifted to mortgage covered bonds as Berlin Hyp retreated from the lower-margin public finance business. The secured funding base is complemented with unsecured bond issues, of which a significant share is placed with German savings banks, the indirect owners of Berlin Hyp. To diversify its investor base, Berlin Hyp has also become a prolific issuer of green bonds. The bank's MREL-eligible liabilities made up 23% of its balance sheet as of year-end 2021, up from 13.3% as of year-end 2020.

Exhibit 9
Berlin Hyp's funding is mainly covered bonds based
Composition of market funding sources



*Market funds ratio = market funds/tangible banking assets.
Sources: Company reports and Moody's Investors Service

Significant asset encumbrance, but adequate regulatory liquidity metrics

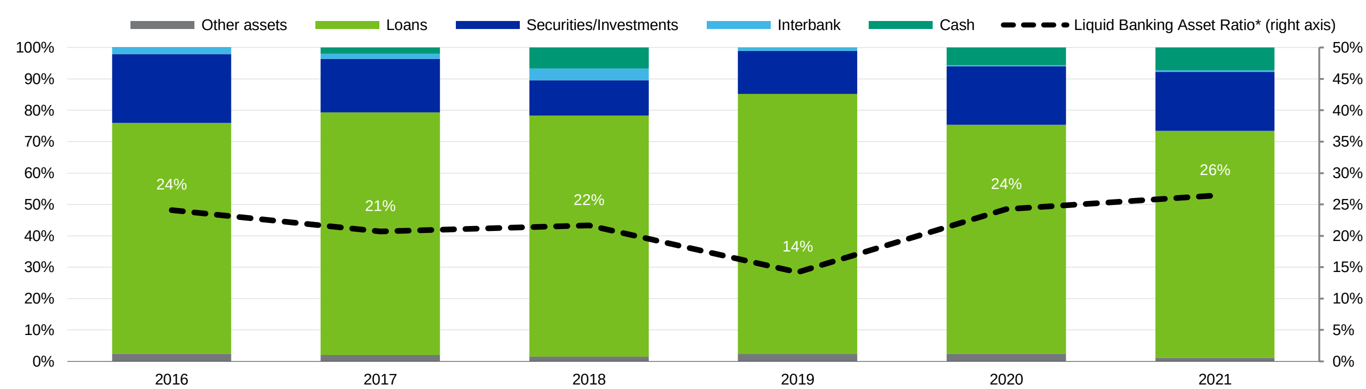
The assigned ba1 Liquid Resources score is four notches below the a3 initial score, reflecting the bank's liquidity of 26.4% of tangible assets. Encumbrance of liquid assets is offset by adequate regulatory liquidity metrics and additional access to liquidity through covered bonds. The increased liquidity compared with previous years is related to the ECB measures, including the TLTRO and will therefore be only temporary, reflecting as such no structural improvement of the liquid resources.

Berlin Hyp's liquid banking assets, comprising cash and balances with central banks, interbank lending, and its investment portfolio amounted to €9.6 billion as of year-end 2021. However, a significant amount of liquid assets was encumbered, representing cover pool assets and liquid assets pledged for repo funding with the German Bundesbank and other market participants.

In our assigned score, we also reflect the bank's potential to issue covered bonds from its over-collateralised cover pool at short notice to generate liquidity in case of need. As of September 2021, and based on an outstanding issuance of €16.8 billion, the over-collateralisation of Berlin Hyp's mortgage cover pool was at 4.7% on an unstressed present value basis. Berlin Hyp, therefore, has leeway for using its existing cover pool to generate fresh liquidity through the issuance of covered bonds.

Further, we take into consideration the bank's adequate regulatory liquidity metrics, such as the LCR, for which Berlin Hyp has set itself a target ratio of at least 120% and which was 128% as of year-end 2021 (the minimum regulatory requirement is 100%), reflecting the impact of the TLTRO programmes, which we deem a temporary effect.

Exhibit 10
Berlin Hyp's adequate amount of liquid resources



*Liquid banking assets ratio = liquid assets/tangible banking assets.
Sources: Company reports and Moody's Investors Service

Limited earnings diversification reflected in BCA positioning

To further reflect the risks stemming from Berlin Hyp's CRE monoliner business model, we also apply a one-notch negative Qualitative Adjustment for Business Diversification in our scorecard, which leads to a ba1 BCA from the bank's baa3 Financial Profile.

Business diversification is an important gauge of a bank's sensitivity to stress in a single business line. It is related to earnings stability in the sense that earnings diversification across distinct and relatively uncorrelated lines of business increases the reliability of a bank's earnings streams and its potential to absorb shocks affecting a business line.

Being a CRE lending specialist, Berlin Hyp is exposed to a rather volatile banking business through the cycle. We consider CRE lending a highly cyclical and, therefore, higher-risk sector. Being a specialist CRE lender benefits the bank's sector-specific risk management know-how, but at the same time naturally limits the potential for (earnings) diversification within the bank. Because CRE exposures can cause high losses in times of financial market stress, Berlin Hyp's high reliability on CRE-related earnings streams exposes it to unexpected shocks that are likely to hurt its income statement, and potentially its capital base, in an adverse scenario. As a result, we classify Berlin Hyp as a monoline bank according to our methodological approach for business diversification.

ESG considerations

In line with our general view on the banking sector, Berlin Hyp has a low exposure to environmental risks (see our Environmental risk heat map[7] for further information).

For social risks, we also place Berlin Hyp in line with our general view for the banking sector, which indicates a moderate exposure (see our Social risk heat map[8]).

Corporate governance[9] is highly relevant for Berlin Hyp, as it is to all participants in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and for Berlin Hyp we do not have any particular governance concern. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Affiliate support

Berlin Hyp benefits from parental support from SEG for now, given the fact that losses at the bank would have to be offset by LBBH because of the PLTA in place. In addition, Berlin Hyp can rely on cross-sector support from S-Finanzgruppe. Both parental and cross-sector support reduce significantly the probability of default; therefore, support would be available to stabilise Berlin Hyp, and not just compensate for losses in resolution.

We continue to consider the readiness of the sector to support its core members very high. This particularly applies to Berlin Hyp, given its 100% indirect ownership by the sector's savings banks. Combined cross-sector and parental support provides four notches of rating uplift from the bank's ba1 BCA, resulting in an a3 Adjusted BCA.

Given the planned acquisition by LBBW, Berlin Hyp's Adjusted BCA is on review for downgrade, as we expect the Adjusted BCA to be likely aligned with LBBW's at baa1.

Loss Given Failure (LGF) analysis

Berlin Hyp is subject to the EU Bank Recovery and Resolution Directive (BRRD), which we consider an operational resolution regime. We, therefore, apply our Advanced LGF analysis, where we consider the risks faced by the different debt and deposit classes across the liability structure should the bank enter resolution (the analysis is performed at the level of SEG, the consolidating entity of the group's key subsidiaries Berlin Hyp and LBB).

In line with our standard assumptions, we assume that equity and asset losses are 3% and 8%, respectively, of tangible banking assets in a failure scenario. Moreover, we assume residual TCE of 3% and losses post-failure of 8% of tangible banking assets, a 25% run-off in "junior" wholesale deposits and a 5% run-off in preferred deposits. These ratios are in line with our standard assumptions. In addition, we assume that only a very small percentage (10%) of the deposit base can actually be considered junior and qualify as bail-in-able under the BRRD.

The results of our Advanced LGF analysis are:

» For deposits and senior unsecured debt, as well as CRR liabilities, our LGF analysis indicates an extremely low loss given failure, leading to a aa3 Provisional Rating Assessments, three notches above the a3 Adjusted BCA.

» For junior senior unsecured debt, our LGF analysis indicates a low loss given failure, leading to an a2 Provisional Rating Assessment, one notch above the a3 Adjusted BCA.

» For subordinated debt, our LGF analysis indicates a high loss given failure, leading to a baa1 Provisional Rating Assessment, one notch below the a3 Adjusted BCA.

Government support considerations

Following the introduction of the BRRD, we have lowered our expectations about the degree of support that the government might provide to a bank in Germany in the event of need. Because of its size on a consolidated basis, we consider S-Finanzgruppe as systemically relevant and, therefore, attribute a moderate probability of German government support for all members of the sector, in line with support assumptions for other systemically relevant banking groups in Europe. We, therefore, still include one notch of government support uplift in our CRRs, senior unsecured debt and deposit ratings of S-Finanzgruppe member banks that are incorporated in Germany, including Berlin Hyp. For junior securities, we continue to believe that the likelihood for government support is low, and these ratings do not include any related uplift.

Counterparty Risk Ratings (CRRs)

Berlin Hyp's CRRs are Aa2/P-1

The CRRs, before government support, are three notches above the Adjusted BCA of a3, reflecting the extremely low loss given failure from the high volume of instruments, primarily junior senior unsecured debt, which are subordinated to CRR liabilities in our Advanced LGF analysis. Berlin Hyp's CRRs also benefit from one notch of rating uplift provided by government support, in line with our moderate support assumption on deposits and senior unsecured debt.

Counterparty Risk (CR) Assessment

Berlin Hyp's CR Assessment is Aa2(cr)/P-1(cr)

The bank's CR Assessment is four notches above the a3 Adjusted BCA, incorporating three notches of LGF uplift derived from the buffer against default provided by more subordinated instruments, primarily junior senior unsecured debt, to the senior obligations represented by the CR Assessment; and one notch of government support uplift, assuming a moderate level of support. To determine the CR Assessment, we focus purely on subordination in our Advanced LGF analysis, taking no account of the volume of the instrument class.

Methodology and scorecard

Methodology

The principal methodology we used in rating Berlin Hyp was the Banks Methodology, published in July 2021.

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 11
Berlin Hyp AG

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	0.6%	aa2	↔	ba1	Sector concentration	Single name concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	14.3%	a1	↔	a3	Nominal leverage	Expected trend
Profitability						
Net Income / Tangible Assets	0.4%	ba1	↔	ba1	Earnings quality	Expected trend
Combined Solvency Score		a2		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	70.5%	caa3	↔	ba3	Extent of market funding reliance	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	26.4%	a3	↔	ba1	Asset encumbrance	Additional liquidity resources
Combined Liquidity Score		b1		ba2		
Financial Profile				baa3		
Qualitative Adjustments				Adjustment		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				baa3 - ba2		
Assigned BCA				ba1		
Affiliate Support notching				4		
Adjusted BCA				a3		

Balance Sheet is not applicable.

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	-	-	-	-	-	-	-	3	0	aa3
Counterparty Risk Assessment	-	-	-	-	-	-	-	3	0	aa3 (cr)
Deposits	-	-	-	-	-	-	-	3	0	aa3
Senior unsecured bank debt	-	-	-	-	-	-	-	3	0	aa3
Junior senior unsecured bank debt	-	-	-	-	-	-	-	1	0	a2
Dated subordinated bank debt	-	-	-	-	-	-	-	-1	0	baa1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	aa3	1	Aa2 RUR Possible Downgrade	Aa2 RUR Possible Downgrade
Counterparty Risk Assessment	3	0	aa3 (cr)	1	Aa2(cr) RUR Possible Downgrade	
Deposits	3	0	aa3	1	Aa2 RUR Possible Downgrade	Aa2 RUR Possible Downgrade
Senior unsecured bank debt	3	0	aa3	1	Aa2 RUR Possible Downgrade	Aa2 RUR Possible Downgrade
Junior senior unsecured bank debt	1	0	a2	0	A2	
Dated subordinated bank debt	-1	0	baa1	0	(P)Baa1 RUR Possible Downgrade	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 12

Category	Moody's Rating
BERLIN HYP AG	
Outlook	Rating(s) Under Review
Counterparty Risk Rating	Aa2/P-1[1]
Bank Deposits	Aa2/P-1[1]
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	a3[2]
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)[1]
Issuer Rating	Aa2[2]
Senior Unsecured	Aa2[2]
Junior Senior Unsecured -Dom Curr	A2
Junior Senior Unsecured MTN -Dom Curr	(P)A2
Subordinate MTN -Dom Curr	(P)Baa1[2]
Commercial Paper -Dom Curr	P-1

[1] Rating(s) within this class was/were placed on review on February 3 2022 [2] Placed under review for possible downgrade on February 3 2022
Source: Moody's Investors Service

Endnotes

1 The ratings shown are the bank's deposit and senior unsecured ratings and outlook, and its BCA.

2 The ratings shown are S-Finanzgruppe's corporate family rating and outlook, and its BCA.

3 The ratings shown are the bank's deposit and issuer ratings and outlook, and its BCA.

4 Including off-balance-sheet commitments, derivatives and valuation adjustments.

5 The fully taxed 340f reserve under German GAAP enables companies to smooth their earnings over the cycle. For banks, it is created by booking provisions on loans and securities in excess of what is economically required, thereby understating reported profitability. Conversely, the release of 340f provisions overstates profitability.

6 To derive its risk weights, Berlin Hyp uses the internal ratings-based approach for the bulk of its assets.

7 Environmental risks can be defined as environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages, and natural and human-made hazards (physical risks). Additionally, regulatory or policy risks, like the impact of carbon regulation or other regulatory restrictions, including the related transition risks like policy, legal, technology and market shifts, which could impair the evaluation of assets, are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

8 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and societal trends, health and safety, and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are partly mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services increasing information technology costs, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue bases.

9 Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of the banks' financial profile. Further, factors like specific corporate behaviour, key-person risk, insider and related-party risk, strategy and management risk factors and dividend policy may be captured in individual adjustments to the BCA.

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