Berlin Hyp

Press information dated 6 September 2023

Berlin Hyp remains on track in a difficult market environment and has built upon the success it achieved in 2022

- Profit before taxes in the first half of 2023 was significantly higher than the figure recorded for the same period in 2022
- New lending volume declined as expected
- Increase in risk provisioning due to economic and geopolitical developments
- Further consolidation of the Bank's position as a successful issuer of ESG bonds
- Berlin Hyp Social Loans help finance affordable housing
- Expansion of the product range for savings banks and strengthening of the Bank's role as an S-Group partner

During the first six months of the current financial year, Berlin Hyp reconfirmed its position as one of the leading commercial real estate financiers in Germany. The Bank's profit before taxes was significantly higher than the figure for the same period in the previous year, for example, and this, together with the development of new lending in line with expectations, demonstrates the stability of Berlin Hyp's business model. In the context of what is still a challenging market with an unreliable planning environment, as well as the demanding regulatory conditions that continue to prevail, Berlin Hyp expects new lending volume in 2023 as a whole to be significantly lower than the level reached in the very successful financial year in 2022. Profit before income tax for the full year will likely be higher than the figure from the previous year.

"The situation regarding commercial real estate investments was very challenging in the first half of the year, and it will certainly remain so in the coming months", says Sascha Klaus, Chair of the Board of Management of Berlin Hyp AG. "Market players have to rethink their estimates, assessments and price expectations in light of the dramatic changes to interest rates, the structural shifts that have occurred in certain real estate sectors, and the fact that high inflation continues unabated. It will take some time until a new balance is established that can serve as a basis for an increase in transaction volume and new construction." According to Klaus, the process for teaming up with the new parent company, LBBW, is moving ahead very nicely, despite the fact that technical and regulatory requirements will continue to tie up extensive resources at both companies: "This makes us even prouder that we were able to achieve satisfactory results in such a challenging environment and also move ahead with our strategic future-oriented projects."

Finanzgruppe

Profit before taxes nearly doubled, decline in new lending as expected, cooperation with savings banks expanded

At €59.3 million, Berlin Hyp's profit before taxes for the period January through June 2023 was nearly twice as high as the figure recorded for the first six months of 2022. Even if the higher addition to the fund for general banking risks from the previous year is taken into account, the result for the first half of 2023 shows a slight increase in earnings. As expected, net interest income was lower than the figure recorded for the same period in the previous year. This was due to an additional interest rate reduction as part of TLTRO-III operations that no longer applied in 2023. Net commission income was nearly the same as in the same period in the previous year.

New contracted lending volume, including realised extensions, amounted to €2.4 billion in the first half of 2023, which, as expected, was lower than the figure from the same period in the previous year (€3.1 billion). This expectation in turn was due to the changed interest rate environment. Properties located in Germany accounted for 83 per cent of the new lending (excluding extensions).

The interest rate environment, the ongoing uncertainty in many market segments and the resulting restraint in terms of transactions all played a role in the development of new lending volume. As a result of general market developments, the volume of business conducted with S-Group savings bank partners was also significantly lower than the figure recorded for the same period in the previous year. Nevertheless, Berlin Hyp was able to gain new savings banks as business partners and thus further strengthen its ties within the Sparkassen-Finanzgruppe. At the end of the second quarter of 2023, Berlin Hyp was maintaining an active business relationship with 172 savings banks from all S-Group regions. The Bank has also expanded its product range for the savings banks by introducing ImmoBar, a product that makes it possible for savings banks to participate in Berlin Hyp's financing operations on a cash basis and on an equal footing.

Loan portfolio is robust, sustainability-related activities have been expanded and digitalisation continues

Despite certain necessary specific valuation allowances and an increase in the lump-sum value adjustment, Berlin Hyp's loan portfolio remained largely robust during the first half of 2023. In the context of the overall market situation, the Bank increased its lending risk provisioning via a net allocation in the amount of €52.8 million (first half of 2022: €6.7 million). As at the reporting date, Berlin Hyp had added a further €25.0 million to the fund for general banking risks pursuant to Section 340g of the German Commercial Code (HGB). The fund now totals €775.0 million.

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Berlin Hyp also continued to move ahead with strategic projects that aim to completely digitalise core bank processes and expand activities relating to sustainable real estate financing and the development of associated capital market products. For example, the Bank has launched its "KYC Digital" application, which is used for first-time legitimation and identification of customers. A new platform for the involvement of other banking institutions in the Bank's financing activities will also soon be completed.

Sustainability has been a central aspect of Berlin Hyp's business approach for many years now. The Bank's strategic goal of becoming the most modern commercial real estate financier in Germany also involves the achievement of specific sustainability objectives. The Bank is continuously expanding its range of products and solutions for both financing and refinancing. In the first half of 2023, for example, Berlin Hyp completed its preparations for the issuing of a new Social Loan. This product, which can be used to finance affordable housing in Germany and the Netherlands, was launched in July.

On the liabilities side of the equation, Berlin Hyp placed the first ESG dual tranche, consisting of a Social Bond and a Green Bond (and also the first product of its kind), on the European capital market in the first half of 2023. As at 30 June 2023, the total volume of all of Berlin Hyp's outstanding ESG bonds amounted to €10.5 billion. With 20 outstanding issues, Berlin Hyp remains the most active issuer of green bonds in the European commercial banking sector.

Individual results at a glance:

Decline in net interest and commission income

At €216.3 million, net interest income was €42.3 million lower than the figure recorded for the same period in the previous year. However, the figure for the first six months of 2022 was impacted by one-off effects, above all the additional interest rate reduction amounting to €46.5 million that was granted within the framework of the TLTRO-III transactions. At the same time, the mortgage loan portfolio, which increased considerably by €2.2 billion, as well as the resulting interest income, had a positive effect on the development of net interest income. Net commission income amounted to €11.0 million and was thus €0.4 million lower than the previous year's figure.

Considerable decrease in operating expenditure

At €97.9 million, operating expenditure was significantly lower than the figure recorded during the same period in the previous year (€116.7 million), whereby this was in part due to a €9.8 million decrease in staff expenditure, to €40.1 million. Other operating expenditure amounted to €51.4 million and was thus €10.5 million below the previous year's figure. This decrease was mainly due to a lower bank levy.

Improved other operating result

The other operating result amounted to €4.6 million and was thus significantly above previous year's figure of -€11.8 million. That result mainly comprised the real estate acquisition tax expenses expected from the sale of Berlin Hyp, as well as further additions to provisions.

Increase in risk provisioning, further strengthening of risk buffers

Despite good loan quality, the net allocation to lending risk provisioning, including the reversal of provision reserves, amounted to €52.8 million (same period in the previous year: €6.7 million). Risk provisioning for securities mostly resulted from positive valuation effects. Net earnings here amounted to €3.2 million. In the same period in the previous year, exchange rate losses resulted in a net expenditure of €54.7 million.

Despite the difficult economic environment, the Bank was able to add another €25.0 million to the special item for general banking risks pursuant to Section 340g HGB (30 June 2022: €50.0 million). This fund now amounts to €775.0 million.

Cost-income ratio, return on equity and common equity tier 1 ratio all developing positively

Despite the considerably lower net interest and commission income, the cost-income ratio improved from 45.2 per cent to 42.2 per cent. This positive development is mainly attributable to the decrease in staff expenditure due to lower pension obligations, and to lower expenditure for the bank levy. The return on equity remained at 9.8 per cent and therefore at the upper end of the target range for the year as a whole. The common equity tier 1 ratio was 14.4% as at 30 June 2023 (31 December 2022: 13.7 per cent).

Outlook

In view of the high inflation rates, the monetary policies of the major central banks will very likely remain restrictive in the second half of 2023. It can therefore be assumed that activity on the transaction market for real estate investments will remain reserved throughout the rest of the year as well. It will take some time until the price expectations of buyers and sellers can be brought back into line with one another.
Berlin Hyp therefore believes it to be a realistic expectation that the transaction volume for commercial properties in Germany will remain at more or less the same level in the second half of 2023 as was the case in the first half of the year.

"Helping our customers manage this difficult market situation is our top priority", Klaus explains. "We believe that our strategic approach at Berlin Hyp puts us in a very good position to be able to achieve our goals in future as well. The expansion of our range of services will play a key role here. At the same time, we want to continue to make a contribution to the necessary transformation of the building stock."

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Berlin Hyp expects that new lending in full-year 2023 will likely be lower than the figure recorded for 2022, which was a very successful year. The operating result after risk provisioning will probably decline slightly in 2023 as compared to 2022, taking into account the careful risk provisioning planning at the moment. The Bank expects profit before income tax to be higher in full-year 2023 than in 2022 due to the somewhat lower planned allocations to the special item pursuant to Section 340g HGB.

Condensed Statement of Profit or Loss	01.01. - 30.06.2023	01.01. - 30.06.2022	Change	Change
	Mio. €	Mio. €	Mio. €	%
Net interest income and net commission income	227,3	270,0	-42,7	-15,8
Net interest income	216,3	258,6	-42,3	-16,4
Net commission income	11,0	11,4	-0,4	-3,5
Operating expenditure	97,9	116,7	-18,8	-16,1
Staff expenditure	40,1	49,9	-9,8	-19,6
Other operating expenditure	51,4	61,9	-10,5	-17,0
of which expenditure for bank levy	*16,4*	*25,5*	*-9,1*	*-35,7*
Depreciation on fixed assets	6,4	4,9	1,5	30,6
Other operating result	4,6	-11,8	16,4	> -100.0
Operating result before risk provisioning	134,0	141,5	-7,5	-5,3
Risk provisioning	-49,6	-61,4	11,8	-19,2
Valuation result of lending business	-52,8	-6,7	-46,1	> 100.0
Valuation result of securities business	3,2	-54,7	57,9	> -100.0
Operating result after risk provisioning	84,4	80,1	4,3	5,4
Financial investment result	0,0	0,0	0,0	-
Allocation to the fund for general banking risks	25,0	50,0	-25,0	-50,0
Other taxes	0,0	0,1	-0,1	-100,0
Profit before income tax	59,4	30,0	29,4	98,0
Income tax	21,9	0,0	21,9	> 100.0
Net income / previous year: expenses from profit transfer	37,5	30,0	7,5	25,0

The full report for the first six months of 2023 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. 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 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.