A company of LBBW

Berlin Hyp

Focus on the Future

Interim Financial Report as at 30 June 2023

Interim Management Report

Finanzgruppe

A partnership built on trust

Economic Report

Macroeconomic and Sector-Related Underlying Conditions

Macroeconomic Development[1]
The global economy initially showed a significant improvement in the first half of 2023, mainly attributable to declining energy prices, to the shift away from the Zero-COVID policy in China and to the increasingly abating supply bottlenecks; however, a sustained upswing has yet to materialise. Emerging markets in particular experienced an above-average economic recovery, very much unlike the difficult previous year, whereby this was also due to the economic opening in China after the pandemic-related lockdown. Furthermore, the US economy was very robust and was heavily supported by an initial sharp increase in disposal income and consumer spending. However, the restrictive fiscal policy and the more difficult financing conditions, with their negative impact, had a dampening effect on the investment climate.

In the eurozone, the positive effects of the post-COVID economic recovery were mainly curbed by high inflation and increased financing costs. In the second quarter of 2023, the economy as a whole is likely to have improved only moderately, given the continuing uncertainty surrounding overall economic conditions.

The decline in gross domestic product in Germany in the first quarter of 2023 was mainly due to a special effect with regard to public consumer spending and is not necessarily an indication for an overall economic decline. The industrial sector continued to benefit from high order backlogs, while the subsiding uncertainty regarding future inflation and wage development is putting the German economy on a recovery path despite the stability-oriented monetary policy.

Sector Development[2]
Stock markets showed a positive trend in the first half of the year, despite various uncertainty factors, such as the continuing Russia-Ukraine war, concern about a recession and the restrictive monetary policy. The DAX was at 16,148 points at the end of the first six months of the year, which corresponds to an increase of approx. 15 per cent. The development of the S&P 500 was similar. The index closed at 4,450 points (an increase of approx. 16 per cent), while the technology-oriented NASDAQ 100 recorded an increase of almost 31 per cent, the best first half of the year in 40 years.

In response to the ongoing increase in inflation and in particular in core inflation rates during the reporting period, both the Federal Reserve in the USA and the ECB in Europe continued with their restrictive monetary policies. After ten consecutive increases in the key interest rate, the Federal Reserve finally took a break from interest hikes in June and left the key interest rate at 5.00 - 5.25 per cent. The ECB raised interest rates four times in the first half of the year, by a total of 1.5 per cent to 4.0 per cent (main refinancing operations rate) and to 3.5 per cent (deposit facility rate). The ECB also started reducing its balance sheet. As at the reporting date 30 June 2023, securities from the asset purchase programme (APP) that reach their maturity date will no longer be reinvested. This will cause the portfolio to decrease by an average of €25 billion per month. Moreover, the European banks continued to repay the ECB loans from the longer-term refinancing operations (TLTRO-III).

Inflation rates and the sharp increase in the key interest rates undertaken by the biggest central banks became rather noticeable in interest rate markets as well, leading to higher yields for shorter terms, and greater volatility. In the first half of the year, the two-year swap yields increased by 0.54 per cent to 3.88 per cent, while the ten-year yields decreased slightly, by 0.06 per cent to 3.01 per cent. The inversion of the EUR swap curve between two and ten years reached a record high of 87 basis points at the end of June.
Yields on ten-year German bonds also decreased slightly, by 5 basis points to 2.39 per cent. The highest level was 2.75 per cent in March.

[1] Sources for underlying macroeconomic conditions: DIW, IfW
[2] Sources for real estate market data: Berlin Hyp Research, CBRE, ECB, Fairmas-Hotel-Report, ZIA/HDE.

Issuing activities on the covered bond market were a lot more pronounced in the first half of 2023 compared to the previous years. In the first six months, covered bonds totalling €137 billion were issued, exceeding the significant amount of €119 billion that were issued in the same period in the previous year.

The risk premiums on European covered bonds widened slightly in the first half of 2023. The differences between the different jurisdictions, issuers and terms can still be observed. However, the German Pfandbrief managed to defend its position as the most expensive product in the asset class. Senior unsecured bonds also increased slightly in comparison to the beginning of the year. The iBoxx € Banks Senior Preferred increased by eleven basis points, while the spread of the iBoxx € Banks Senior Bail-In increased by four basis points.

The new issue volume for sustainable bonds increased as compared to the first half of 2022. A total volume of €512 billion (previous year: €472 billion) in green bonds, social bonds, sustainability bonds and sustainability-linked bonds were issued in the reporting period.

The slowed economic momentum of the second half of 2022 continued in the first half of 2023. In terms of real gross domestic product, Germany registered a decline in economic performance of 0.3 per cent in the first quarter of 2023 as compared to the previous quarter.[3] Furthermore, the interest rate environment, which has experienced drastic changes since 2022, was hit in the first half of 2023 with additional key interest rate hikes, as curbing the high inflation rates in the eurozone is still the top priority.

In this new situation, which has been strongly influenced by the clear turnaround in interest rates, the real estate markets need to recalibrate before any significant measures can be taken. The ongoing uncertainty and discrepancies between price expectations of buyers and sellers are reflected in the transaction volume recorded in the weak first half of the year. The market for commercial real estate and for commercially traded residential real estate in Germany had a transaction volume of only around €13 billion in the first half of 2023, a decline of almost two-thirds compared to the same period in the previous year (€36.3 billion) and, at the same time, the lowest transaction volume for a first half of a year since 2011.[4]

Unlike previous years, office real estate was no longer the most sought-after type of real estate category in the first half of 2023 – it was surpassed by residential portfolios and now ranks second with a total volume of 22 per cent (residential: 24 per cent, ranking first).[5] This shift in the popularity scale of investors is attributable to the major challenges that office properties currently face. In addition to the current phase of economic weakness, the office real estate market is being driven by the trend of hybrid working arrangements – the COVID-19 pandemic marked a major turning point with regard to working in offices and the utilisation of office space.[6] While universally valid figures regarding the presence of employees in offices cannot be determined, current studies based on spot checks show that compared to pre-COVID times, office utilisation has decreased significantly and, in turn, the percentage of people working from home is considerably higher than before the pandemic. In 2019, 10 per cent of employees worked from home at least partially, while the figure for April 2023 was 24 per cent of all employees.[7] This new situation caused companies to shift their focus to the implementation of flexible and hybrid workplace strategies. As a result, the demand for higher-quality and at the same time ESG-compliant office space in central locations at top sites is starting to rise considerably, which is causing rents in this segment to increase and the vacancy rates in central business district locations to decrease.[8] At the same time, some office properties do not meet the changed user requirements, do not fulfil ESG criteria or are not centrally located. The growing polarisation of the office market becomes evident in the higher vacancy

[3] Federal Statistical Office of Germany: Press information dated 25 May 2023
[4] CBRE from 05.07.2023: Deutscher Immobilieninvestmentmarkt – Transaktionsdynamik weiterhin stark gebremst (German real estate investment market – transaction dynamics still considerably slowed) and Savills Market in Minutes Investmentmarkt Deutschland from 05.07.2023
[5] CBRE from 05.07.2023: Deutscher Immobilieninvestmentmarkt – Transaktionsdynamik weiterhin stark gebremst (German real estate investment market – transaction dynamics still considerably slowed)
[6] Immobilienmanager from 26.06.2023 on the basis of combine Consulting: Homeoffice-Studie – Büroauslastung sinkt auf 41 Prozent (Working from home study – office utilisation falls to 41 per cent)
[7] ifo business survey from 10.05.2023: Beschäftigte kehren nur zögerlich ins Büro zurück (Employees are hesitant to return to the office)
[8] CBRE Real Estate Market Outlook H2-2023, date: 06/2023

rates and the lower demand for office space in locations on the outskirts of cities.[9] In this sub-segment in particular, net present values may continue to decrease.

Commercially traded residential real estate recorded a transaction volume of nearly €3.1 billion in the first half of 2023 – the highest volume compared to all other types of real estate, even though the category itself experienced a decline of 60 per cent in comparison to the same period in the previous year (€7.9 billion).[10] The interim result would have been even lower if not for the upcoming rounds of refinancing, as these tend to cause investors with extensive external financing (e.g. listed housing companies) to tighten their residential portfolios and offer larger residential building stock on the market. In addition, higher construction and financing costs, as well as labour shortages, are making the construction of new apartments more difficult, which in turn offers investors potential in terms of rent increases. The interplay between all of these aspects can be expected to lead to increasing rents for apartments, whereby this development is also being driven by the demand side. On the one hand, migration pressure continues, and this has resulted in a clearly positive effect on the demographic trend in Germany.[11] On the other hand, higher interest rates in the construction industry make residential properties unaffordable for many households – and these households are now becoming active on the rental apartment market.

At nearly €2.4 billion, the transaction volume for logistics properties decreased by 62 per cent in the first half of 2023 as compared to the same period in the previous year (€6.2 billion). Such properties were therefore affected by the pricing process between sellers and buyers, which has yet to be completed.[13] Furthermore, investor sentiment on the logistics property market has been dampened by the lower overall economic momentum and high inflation, as well as by the consequential decline in private consumption[14]. Indeed, decreases in private consumption have a direct impact on overall demand and therefore on storage and transport for online retail operations, which had benefited from the special economic situation caused by the COVID pandemic in 2020 and 2021. Moreover, the pressure towards increased warehousing in Germany is slowing due to the abating supply bottlenecks, although government and business associations are trying to ensure the return of more storage operations to Germany for the future.[15] This approach comes at good time, as there is already clear excess demand for logistics properties in metropolitan areas. The high price levels in such areas could ensure that in future, regional markets along international transport corridors will also become part of the investor focus.[16]

In terms of transaction volume, retail properties ranked fourth in the first half of 2023 as well – the deals added up to a volume of €2.3 billion (previous year: €3.7 billion).[17] While the COVID-19 pandemic and the lockdown phases only restricted mid and long-term market needs, the high inflation and the related loss in purchasing power are negatively impacting all segments and all retail sales channels.[18] Although consumer sentiment improved significantly in the first half of 2023, it is still very low.[19] Real retail sales declined accordingly, most recently in the food, furnishing / household appliances and clothing segments.[20]

[9] CBRE from 05.07.2023: Top-5-Bürovermietungsmärkte von weiterer Lage- und Objektpolarisierung geprägt (Top 5 office rental markets influenced by further location and real estate polarisation)
[10] CBRE from 05.07.2023: Wohnimmobilieninvestmentmarkt Deutschland – Zinsanstieg lähmt die Investoren (Residential real estate investment market Germany – hike in interest rates is paralysing investors) and CBRE from 05.07.2023: Deutscher Immobilieninvestmentmarkt – Transaktionsdynamik weiterhin stark gebremst (German real estate investment market – transaction dynamics still considerably slowed)
[11] Federal Statistical Office of Germany from 20.06.2023: Press information – German population grew by 1.3 % in 2022
[12] CBRE Real Estate Market Outlook H2-2023, date: 06 / 2023
[13] CBRE from 05.07.2023: Deutscher Immobilieninvestmentmarkt – Transaktionsdynamik weiterhin stark gebremst (German real estate investment market – transaction dynamics still considerably slowed)
[14] ifo Institute from 21.06.2023: Press information on the ifo economic forecast for summer 2023 – Deutsche Wirtschaft schrumpft 2023 um 0,4 Prozent (German economy shrinks by 0.4 per cent in 2023)
[15] CBRE Real Estate Market Outlook H2-2023, date: 06 / 2023
[16] CBRE Real Estate Market Outlook H2-2023, date: 06 / 2023
[17] CBRE from 05.07.2023: Deutscher Immobilieninvestmentmarkt – Transaktionsdynamik weiterhin stark gebremst (German real estate investment market – transaction dynamics still considerably slowed)
[18] CBRE Real Estate Market Outlook H2-2023, date: 06 / 2023
[19] DG ECFIN: Consumer Sentiment (ESI) Germany, dated June 2023
[20] Federal Statistical Office of Germany from 30.06.2023: Press information – Einzelhandelsumsatz im Mai 2023 real um 0,4 % höher als im Vormonat (Real retail sales in May 2023 0.4 % higher than in the previous month)

Unlike retail sales, foot traffic in city centres has developed positively and reached pre-COVID levels.[21]

In the first half of 2023, a transaction volume of approx. €360 million (previous year: €808 million) was recorded for hotel real estate[22]. However, this does not mean that the travel industry has recovered; instead, it reflects the uncertainty regarding the justified purchase price in the changed interest environment. The recovery in the hotel market that began in the spring and summer of 2022 continued in the first half of 2023 – in March and April 2023 the number of overnight stays almost reached pre-COVID levels.[23] The business travel segment contributed materially to this recovery.[24] In terms of key performance indicators for the hotel industry, average revenues per available room (RevPAR) increased in many markets over the past few months (driven by the room rate), making the market for hotel real estate more attractive for investors again.[25]

Business Development

After a challenging first half of 2023, Berlin Hyp was able to report a profit before taxes result of €59.3 million (previous year: €30.0 million), which was in line with expectations. In view of the difficult underlying economic conditions it faces, the Bank is satisfied with this development of earnings.

Medium and long-term refinancing at Berlin Hyp is generally carried out by issuing mortgage Pfandbriefe and unsecured bonds. In the first half 2023, the Bank borrowed €3.1 billion in capital using these instruments. The Bank had market access at all times. The Bank was a regular issuer on the syndicated bond market with a total of four benchmark issues in euros and one in Swiss francs, including the first ESG dual tranche consisting of a Social Bond and a Green Bond. With a total of 20 outstanding Green Bond benchmark bonds, Berlin Hyp remains the most active issuer of green bonds in the commercial banking segment in Europe.

During the first half of 2023, Berlin Hyp consistently continued to pursue its goal of becoming the most modern commercial real estate financier in Germany and an effective S-Group partner of the German savings banks. The five defined strategic key areas of focus, which are to ensure the achievement of the overarching objectives over the long term, have been very important in this regard.

#1 – (Bank) brand strength / customer proximity
New contracted lending volume, including realised extensions (capital employed ≥ 1 year), amounted to €2.4 billion in the first half of 2023 (previous year: €3.1 billion). Therefore, in the first half of 2023, the Bank was in line with the level expected in its forecast.

#2 – S-Group partner of the savings banks
The total volume of core business undertaken together with the S-Group was considerably lower than in the previous year (€90 million, previous year: €0.8 billion) due to the postponement of syndication activities to the second half of 2023.

In the first six months of the year, Berlin Hyp continued to expand its product range for the Sparkassen-Finanzgruppe by launching the product ImmoBar. This product was the first offered on the ImmoDigital platform, which has now been expanded to include all Immo products. The response to the expanded platform has been very positive, with the number of users increasing from 68 to 78 savings banks.

#3 – Sustainable process efficiency
In the first half of 2023, Berlin Hyp continued to move ahead with its digitalisation and innovation activities in order to digitalise and partially automate its key business processes and make them data-driven. In April, the "KYC Digital" application was launched – a modern, customer-oriented tool for first-time legitimation and identification of customers. In May, the second releases of the applications "Dealportal" (for processing loan applications in the Sales and Credit divisions) and

New lending

including long-term extensions

€ 2,4 billion

[20] Federal Statistical Office of Germany from 30.06.2023: Press information – Einzelhandelsumsatz im Mai 2023 real um 0,4 % höher als im Vormonat (Real retail sales in May 2023 0.4 % higher than in the previous month)
[21] CBRE Real Estate Market Outlook H2-2023, date: 06 / 2023 and Foot Traffic Index July 2023 from hystreet.com/Destatis/Deutsche Bundesbank
[22] CBRE from 05.07.2023: Deutscher Immobilieninvestmentmarkt – Transaktionsdynamik weiterhin stark gebremst (German real estate investment market – transaction dynamics still considerably slowed)
[23] Federal Statistical Office of Germany from 13.06.2023 and 11.05.2023: Press information on tourism in Germany
[24] CBRE Real Estate Market Outlook H2-2023, date: 06 / 2023
[25] HVS from 30.03.2023

"ImmoDigital" went into production. A new platform for the involvement of other banking institutions in the Bank's financing activities will soon be completed.

#4 – Pioneering role for ESG
Sustainability has been a central aspect of Berlin Hyp's business approach for many years now and is therefore a firm component of the Bank's corporate strategy and system of corporate values. The Bank's strategic goal of becoming the most modern real estate financier in Germany also involves the achievement of specific sustainability objectives.

Berlin Hyp's commitment to sustainability will focus on the following four objectives in future:

1. Sustainability in business operations
2. A sustainable business portfolio
3. ESG risk management
4. Transparency and ESG capabilities

ESG targets are a core component of Berlin Hyp's business strategy, whereby the targets are made known throughout the organisation via the Bank's target achievement system.

Berlin Hyp started reporting on sustainability in 2013 on a voluntary basis and has expanded its reporting continually and in accordance with the standards of the Global Reporting Initiative (GRI), EMAS, the UN Global Compact, the Principles for Responsible Banking (PRB) and the Task Force on Climate-Related Financial Disclosures (TCFD). Since 2017, Berlin Hyp has been subject to reporting requirements in accordance with the German Commercial Code and the CSR Directive Implementation Act, and the Bank has also been publishing a non-financial statement in its Annual Report since 2017. Starting in the 2024 reporting year, Berlin Hyp will report on sustainability in accordance with the Corporate Sustainability Reporting Directive (CSRD), whereby the application of the European Sustainability Reporting Standards (ESRS) is mandatory here. A materiality analysis is a key component of reporting and required by the CSRD. During this analysis, Berlin Hyp evaluates sustainability issues in terms of their significance both regarding effect and financial perspectives (so-called "double materiality") in order to determine which issues are most important for the company. In the first half of the year, Bank began using a new comprehensive materiality analysis in accordance with EU CSRD requirements. In this regard, the first internal workshops were held with participants from the affected specialist departments. As a first step, an "Impact" assessment was conducted along the value chain in accordance with the requirements contained in the EFRAG Guidelines.
In this context, effects resulting from capital investment, purchasing, banking operations and financing were evaluated. The final results will be published in the 2023 Annual Report.
Furthermore, the Bank continues to work on its ESG implementation roadmap and, within the framework of the decarbonisation project, on the alignment of lending and credit control activities with the Paris Agreement.

#5 – Innovative strength
Berlin Hyp continues to improve and expand its innovative strength through the implementation of the human resources strategy and the achievement of the human resource targets. In addition, Berlin Hyp is actively involved in the digital real estate ecosystem and, in cooperation with innovative companies, is testing new business models and additional products and services for its customers. For this purpose, the Bank establishes strategic partnerships and participates in selected companies as a strategic investor.

The Bank currently holds three strategic investments and a further investment of no relevance to the core business. The strategic investments are "OnSite ImmoAgent GmbH" (a company founded by the Bank and supported by another strategic investor), the investment in the "PropTech1" venture capital fund and the investment in "21st Real Estate GmbH".
In the first half of 2023, the Bank participated in a capital increase of 21st Real Estate GmbH, exercising its regular subscription rights.

Earnings Situation
Berlin Hyp's net income amounted to €37.5 million and therefore significantly exceeded the previous year's result of €30.0 million, which was transferred to Landesbank Berlin Holding AG. Despite the overall positive development of earnings, the difficult economic situation led to increased requirements for credit risk provisioning. Nevertheless, a further €25.0 million (previous year: €50.0 million) was allocated to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB).

Decline in Net Interest Income
At €216.3 million, net interest income was €42.3 million below the amount in the same period in the previous year. The decline was mainly due to one-off effects, including the additional interest rate reduction amounting to €43.0 million granted within the framework of the participation in the targeted longer-term refinancing operations (TLTRO-III). One-time earnings of €39.0 million (previous year: €33.3 million) resulted from the closing of the swap options that are no longer required to hedge termination rights in accordance with the German Civil Code (BGB), as well as from the closing of additional derivative items. In addition, the mortgage loan portfolio, which increased considerably by €2.2 billion, and the resulting interest income, had a positive effect on the development of the interest result.

Net commission income amounted to €11.0 million and was thus €0.4 million lower than previous year's figure.

Considerable Decrease in Operating Expenditure
Operating expenditure comprises staff expenditure, other operating expenditure, depreciation on fixed assets and amortisation of intangible assets. At €97.9 million, it was significantly lower than the previous year's figure of €116.7 million.

Staff expenditure fell by €9.8 million to €40.1 million due to lower pension obligations.

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. The part of the bank levy recognised in profit decreased to €16.4 million (previous year: €25.5 million). For the first time, Berlin Hyp took the opportunity to cover 22.5 % or €4.7 million of the payment amount with an irrevocable payment obligation to the Single Resolution Board (SRB).

Depreciation on fixed assets and amortisation of intangible assets increased by €1.5 million to €6.4 million.

Improved Other Operating Result
The other operating result amounted to €4.6 million due to an agreed settlement payment. This was significantly above previous year's figure of -€11.8 million. The 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 for Credit Risk
Despite good loan quality, economic and geopolitical developments made it necessary to make specific valuation allowances and increase the lump-sum value adjustment. Therefore, the net allocation to lending risk provisioning, including the reversal of provision reserves, amounted to €52.8 million (previous year: €6.7 million).

The result for securities in the liquidity reserves was mainly impacted by 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.

Significant Additions to the Fund for General Banking Risks
The Bank allocated a further €25.0 million (previous year: €50.0 million) to the fund for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) in the first half of 2023. This fund now amounts to €775.0 million.

Increase in Profit Before Taxes
The Bank recorded profit before taxes in the amount of €59.3 million. This represents an increase of €29.3 million compared with the same period in the previous year.

Net Assets Position
Compared with end of 2022, the balance sheet total increased by €1.8 billion to €36.2 billion.

The mortgage loan portfolio increased in the first half of 2023 to €28.9 billion (31 December 2022: €27.5 billion). Additions to new lending were offset to a lesser extent by planned and extraordinary outflows through early repayments.

At €5.6 billion, the portfolio of fixed-interest securities remained almost unchanged.

On the liabilities side, liabilities to banking institutions decreased by €1.8 billion to €3.0 billion, in particular as a result of the maturity of a TLTRO-III tranche, while liabilities to customers increased considerably, to €6.7 billion, as a result of new term borrowing (31 December 2022: €4.7 billion). As a result of new issues, the portfolio of securitised liabilities increased from €22.1 billion to €23.6 billion.

Equity

Berlin Hyp's balance sheet equity as at the reporting date amounted to €973.5 million. This figure includes subscribed capital amounting to €935.9 million and the balance sheet profit amounting to €37.6 million. In addition, €775.0 million is available in the form of a special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB). This can be taken into consideration as available under regulatory law, as can €130.0 million of subordinated equity.

In relation to the risk items pursuant to the Capital Requirement Regulation (CRR), the common equity tier 1 ratio was 14.4 per cent and the total equity ratio was 16.1 per cent as at 30 June 2023 (13.7 per cent and 15.5 per cent, respectively, as determined as at 31 December 2022).

Capital ratios rose due to the allocation to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) in the context of the 2023 interim financial statements, while RWA decreased as a result of the reduction in regulatory surcharges. There is sufficient scope in the capital ratios for planned new lending.

Berlin Hyp paid an amount totalling €40,906,681.41 to LBBW as a dividend for the short financial year from 1 July to 31 December 2022.

New Lending

New lending in the real estate financing business, including realised extensions (capital employed ≥ 1 year), amounted to approximately €2.4 billion (previous year: €3.1 billion) in the first half of 2023. The significantly changed interest rate environment had a major impact on the real estate financing market in the first half of 2023. In lower-risk market segments, this resulted in intense competition among lenders. Therefore, the pressure on margins continued, especially in the context of good credit ratings and stable asset classes. Margins were lower compared to the first half of 2022, with much lower risk exposure for new lending.

Properties located in Germany accounted for 83 per cent of the new lending (excluding extensions). 21 per cent of these properties were located in A cities and 62 per cent in B cities, along with other locations in Germany. 17 per cent of new lending involved the financing of properties located outside of Germany.

With a share of 52 per cent, the investor customer group accounted for most of the new lending, while an additional 40 per cent was accounted for by housing construction companies and 8 per cent by developers and builders.

S-Group Business

At €90 million, the volume of business undertaken together with the S-Group was below the previous year's level in the first half of 2023 (previous year: €0.8 billion). In addition to the decline in new lending, this is mainly attributable to the postponement of syndication activities to the second half of 2023. As at 30 June 2023, Berlin Hyp is a partner of 172 German savings banks from all S-Group regions (previous year: 168 savings banks).

Financial Position

In the first half of 2023, the Bank issued €3.15 billion in debt instruments, of which €2.8 billion were covered bonds and €0.35 billion were unsecured bonds. Of this amount, €282 million in covered and €205 million in unsecured bonds were issued as private placements.

Berlin Hyp appeared on the capital market with syndicated bonds five times. In January, the Bank issued an ESG dual tranche consisting of a Social Bond and a Green Bond. This was a first, not only for Berlin Hyp, but for the European capital market as well. The Social Bond was issued with a term of three years, with a re-offer spread of mid-swap +1 basis point, and the Green Bond was issued with a term of ten years, with a mid-swap +11 basis points. Each bond has a volume of €500 million. The coupons are 3.0 per cent each. More than 170 investors invested in the bonds, whereby the final order volume was €3.6 billion. Approx. two thirds of the bonds were placed in Germany. Banks made up the largest group of investors with a share of 44 per cent, followed by funds with a share of 21 per cent. Berlin Hyp has established itself as a major player on the Swiss capital market and at the beginning of February it issued its fifth green senior preferred bond with a volume of CHF150 million. The Bank also launched a mortgage Pfandbrief in both February and in May, whereby each issue had a volume of €750 million. The latter issue was also a Green Bond.

Regarding liquidity management, regulatory requirements were complied with during the entire reporting period, as measured by the ratios LCR and NSFR.

Berlin Hyp's ratings remained unchanged for all asset classes as at the reporting date. As at the reporting date, Moody's rated Berlin Hyp's mortgage Pfandbriefe Aaa with a stable outlook, while the senior preferred and senior non-preferred ratings remained at Aa3 and A2, respectively. Fitch continued to rate the senior preferred and senior non-preferred bonds A and A- respectively. The respective outlooks were evaluated to be stable both by Moody's and Fitch.

Financial and Non-Financial Performance Indicators

Financial Performance Indicators

Berlin Hyp has defined the following financial performance indicators as being most important for the management of its business activities:

- → Net income
- → Net interest and commission income
- → Cost-income ratio: ratio of operating expenditure to net interest and commission income, plus other operating income
- → Return on equity: ratio of profit before income tax, plus the change in the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) and the average balance sheet equity including the special item for general banking risks pursuant to Section 340g HGB. In order to facilitate comparisons,

Aaa (stable)
from Moody's

Pfandbrief issue rating

Refinancing funds[1]	Portfolio without pro rata interest 31.12.2022	New issues[2] 01.01. – 30.06.2023		Maturities[3] 01.01. – 30.06.2023	Portfolio without pro rata interest 30.06.2023
	€m	€m	%	€m	€m
Mortgage Pfandbriefe	14,221.3	2,565.0	85.6	1,297.3	15,489.0
Public Pfandbriefe	–	–	–	–	–
Other bearer bonds non-preferred	2,575.0	–	–	15.0	2,560.0
Other bearer bonds preferred	3,747.0	200.0	6.7	110.0	3,837.0
Registered mortgage Pfandbriefe	1,620.8	221.3	7.4	83.0	1,759.1
Registered public Pfandbriefe	200.0	–	–	9.0	191.0
Schuldschein non-preferred	86.7	–	–	16.0	70.7
Schuldschein preferred	281.6	5.0	0.2	27.5	259.1
Registered bonds non-preferred	1,202.5	4.7	0.2	19.0	1,188.2
Registered bonds preferred	195.9	–	–	–	195.9
Subordinated bearer bonds	–	–	–	–	–
Subordinated Schuldscheine	119.5	–	–	–	119.5
Subordinated registered bonds	108.0	–	–	–	108.0
	24,358.3	**2,996.0**	**100.0**	**1,576.8**	**25,777.5**

[1] Zero balances
[2] New issues incl. capitalisation at zeros
[3] Maturities and early repayments incl. terminations

Capital market refinancing in foreign currencies[1]	Portfolio without pro rata interest 31.12.2022	New issues[2] 01.01. – 30.06.2023		Maturities[3] 01.01. – 30.06.2023	Portfolio without pro rata interest 30.06.2023
	CHF m	CHF m	%	CHF m	CHF m
Mortgage Pfandbriefe in CHF	200.0	–	–	–	200.0
Other bearer bonds CHF preferred	605.0	150.0	100.0	–	755.0
	805.0	**150.0**	**100.0**	**–**	**955.0**

[1] Zero balances
[2] New issues incl. capitalisation at zeros
[3] Maturities and early repayments incl. terminations

profit before income tax and the change in the special item for general banking risks pursuant to Section 340g HGB were scaled up to a period of 12 months.

- Common equity Tier 1 ratio: ratio of Common equity tier 1 capital allocable under regulatory requirements to the total risk-weighted assets
- New lending volume

Other financial indicators are also included in the management of business activities, for example the liquidity coverage ratio (LCR) and the leverage ratio (LR).

The net income reported for the first six months of 2023 was in line with expectations and amounted to €37.5 million. It therefore exceeded the previous year's transfer of profit to Landesbank Berlin Holding AG (LBBH) in the amount of €30.0 million. Net income takes into account a further addition of €25.0 million (previous year: €50.0 million) to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB). Unlike the case in the previous year, Berlin Hyp is liable for pro-rated income taxes amounting to €21.8 million that was taken into account in net income (previous year: €0 million due to the income tax unity with LBBH).

As expected, net interest and commission income decreased as compared to the previous year. It amounted to €227.3 million and was therefore €42.6 million lower than in the previous year, although the average mortgage loan portfolio increased by €2.2 billion at mostly stable portfolio margins. The decrease is attributable to one-off effects, including but not limited to the reduced interest rates granted within the framework of the TLTRO-III transactions.

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. In terms of its planning, the Bank expected a slight increase of the cost-income ratio for the year as a whole.

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.

As at 30 June 2023, the common equity tier 1 ratio was at 14.4 per cent (31 December 2022: 13.7 per cent as determined). We have thus exceeded our internal target for 2023.

At €2.4 billion, Berlin Hyp's new lending volume (including long-term extensions) in the first half of 2023 was below the level of the first half of 2022 (€3.1 billion) and therefore in line with expectations due to the changed interest rate environment.

Non-Financial Performance Indicators
Berlin Hyp has defined the following non-financial performance indicators as being most important for the management of its business activities:

- → Acquisition of new customers: the Bank defines all new business partners that cannot be assigned to any group of clustered customers in the portfolio as new customers. The key performance indicator "Acquisition of new customers" describes the share of new lending accounted for by lending concluded with new customers.
- → S-Group Business: volume of business conducted with S-Group partners and the number of active business relationships within the Sparkassen-Finanzgruppe.

In addition, management relies on other supporting non-financial performance indicators, such as the market-based target portfolio and employee capacity measured in FTEs (full time equivalents).

In terms of sustainability, supporting non-financial performance indicators include green financing, the issuing of ESG bonds and the sustainability rating.

In the first half of 2023, the share of lending accounted for by business with new customers was 37 per cent. This share was thus above the target of 20 per cent.

The volume of business undertaken together with the S-Group totalled €90 million due to the postponement of syndication activities to the second half of 2023 (previous year: €811 million). A total of €81 million thereof involved ImmoAval transactions, while €9 million is attributable to the newly developed product ImmoBar.

With regard to syndicated bond issues, 51 German savings banks participated with €577 million, and S-Group companies participated with €269 million, in four Berlin Hyp euro-denominated Pfandbrief issues.

Overall, Berlin Hyp was able to further expand its level of networking within the Sparkassen-Finanzgruppe and welcome two new business partners in the first half of 2023. Berlin Hyp was thus a partner of 172 German savings banks from all S-Group regions as at 30 June 2023 (31 December 2022: 170 savings banks).

We expect the development of the S-Group business to remain restrained in the current financial year.

As at 30 June 2023, the headcount was 555 FTEs (31 December 2022: 550 FTEs). The new future-oriented organisational structure has been largely implemented. It continues to be regularly assessed with regard to its ability to support the strategy.

Through the financing of sustainable, climate-friendly properties (green buildings), and their refinancing via Green Bonds, Berlin Hyp has actively supported the dynamic development of the market for sustainable bonds since 2015. In 2015, the Bank made its debut with the world's first Green Bond. Today, the volume of outstanding Green Bonds amounts to €8.7 billion. Furthermore, in spring of 2021, the Bank issued its first Sustainability-Linked Bond, and in spring of 2022 it issued a Social Bond. As at the reporting date, the total volume of all outstanding ESG bonds amounted to €10.5 billion. The activities on the liabilities side in the area of sustainable finance go hand in hand with the continuous development and implementation of the sustainability targets on the assets side. Berlin Hyp also plans to increase the share of loans accounted for by the financing of green buildings to one-third by 2025. At 30.5 per cent as at 30 June 2023, Berlin Hyp's share of loans for green buildings was slightly above the original estimation.

The sustainability ratings for the first half of 2023 continue to confirm Berlin Hyp's above-average position in the sector. In the first half of 2023, the ESG risk rating by Sustainalytics was confirmed at 7.1 "negligible risk". The Bank's MSCI rating remained at AAA. The ISS ESG Prime Status rating and overall score of B- maintain their validity. These very good results from the rating agencies document Berlin Hyp's outstanding commitment to sustainability management, honour its investment products (Green, Social and Sustainability-Linked Bonds) and recognise its responsible attitude with regard to people and the environment.

Forecast, Opportunities and Risk Report

Forecast, Opportunities and Risk Report

The forecast report should be read together with the other sections of this Management Report. The forecast statements contained in the report are based on estimates and conclusions from the information currently available. The statements are based on a number of assumptions relating to future events that have been integrated into the corporate planning process at Berlin Hyp. There are uncertainties and risks regarding the occurrence of future events, many of which are beyond the Bank's control. Actual events may therefore differ from the forecasts made in the forecast report, and the forecasts presented below are thus highly uncertain.

In a volatile environment, forecasts can only be made to a limited degree. The main opportunities and risks in the forecasts for the key controlling indicators are presented below. Opportunities are defined as possible future developments or events that may lead to a positive forecast or positive target deviation for Berlin Hyp. Risks are defined as possible future developments or events that may lead to a negative forecast or negative target deviation for Berlin Hyp.

Assumptions Relating to Macroeconomic Development[26]

Although the risk of a global recession recently decreased, economic momentum will remain rather restrained throughout the rest of 2023. In particular, the generally reduced willingness to spend due to higher financing costs and higher prices is having a dampening effect. In the USA especially, private consumption will lose momentum as the driving force of the economy due to increasingly depleted savings – and consumer demand is once again expected to decline in China as well. The recovery effects for the Chinese economy as a result of the reversal of the Zero-COVID policy will be modest at best.

Given the positive situation on the labour market and continuously decreasing inflation, gross domestic product is expected to increase by 0.6 per cent in the current year.

After the weak start of the year, the German economy will continue to recover. This development, along with an increase in real income, will lead to a higher level of consumer spending. Nevertheless, a slight decline in gross domestic product is still expected for 2023 as a whole.

Assumptions Relating to Sector Development[27]

In view of the high inflation rates, the monetary policies of the major central banks will likely remain restrictive in the second half of 2023. We can expect the central banks in both the USA and the eurozone to reduce their balances and increase interest rates even further, albeit to a limited extent, and we can also expect the interest rate level to remain high over the long-term. The risk premiums on Pfandbriefe could increase slightly after having remained stable during the first six months and could end up approximating the spreads for other European covered bonds. The current combination of high inflation, sluggish economic growth and a restrictive monetary policy should limit the constricting potential of the spreads of uncovered bank bonds in the forecast period.

Even under demanding conditions, Berlin Hyp expects to be able to gain access to all segments of the capital market on fair market terms.

In view of the European Central Bank's announcement that it will probably increase key interest rates by another 25 basis points in its meeting in July 2023,[28] Berlin Hyp expects investors to initially remain conservative on the real estate investment market. As monetary policy is expected to remain restrictive,[29]

[26] Sources for assumptions about macroeconomic and sector-related development: Federal Ministry for Economic Affairs and Climate Action (BMWK), ECB, CBRE, Colliers, German Institute for Economic Research (DIW), Kiel Institute for the World Economy (IfW).

[27] Sources for assumptions about macroeconomic and sector-related development: CBRE, Colliers, DG ECFIN, ECB, HDE, Savills.

[28] ifo economic forecast for summer 2023 from 21.06.2023: Inflation flaut langsam ab – aber Konjunktur lahmt noch (Inflation starting to abate – but the economy is still weak)

[29] ifo economic forecast for summer 2023 from 21.06.2023: Inflation flaut langsam ab – aber Konjunktur lahmt noch (Inflation starting to abate – but the economy is still weak)

market players likely won't feel secure again in making investment decisions and price offers until interest rate development and financing conditions have stabilised.[30] How fast buyers and sellers will be able to find more common ground again will depend on how the economy develops in the second half of 2023. In its economic forecast for the summer published mid-June 2023, the ifo Institute adjusted the development of real gross domestic product for the current year downward to -0.4 per cent. In the spring, the institute expected a decline of only 0.1 per cent.[31]

Moreover, for all investment decisions, we must take into account that the ESG compliance of properties, tenants and borrowers – also conditional upon the EU taxonomy guidelines – will become increasingly important, and that for many existing properties for all types of use, high CapEx expenditure will be required in order to comply with ESG requirements. Investor demand for ESG-compatible properties will result in a stronger differentiation within the respective market segments.

Given this challenging market environment, Berlin Hyp believes it to be a realistic expectation that transaction volume in the second half of 2023 will remain at the level of the first half of the year – i.e. a total volume of up to €20 billion for commercial real estate and up to €7 billion for residential real estate will be achieved in 2023.[32]

With regard to the different types of real estate, investors will continue to focus on residential and logistics properties in economically attractive cities and metropolitan areas and on easily accessible office real estate with a good supply infrastructure and high-quality furnishings and equipment. Despite the recovery of consumer confidence in the first half of 2023, the current inflation-related consumer spending restraint, as well as cost pressure on retailers, will create an environment in which investors believe that retail properties pose a heightened risk – with the exception of food-related retail properties, especially with retailers in the discounter segment. With regard to hotel real estate, given the generally higher energy and food prices and increased personnel costs, more attention will be paid to solvent operators with long-term contracts.

Business Development

In the context of what is still a challenging and unreliable planning environment, as well as the demanding regulatory requirements that continue to prevail, Berlin Hyp expects new lending volume in 2023 as a whole to be significantly lower than the very successful level reached in 2022.

Acquisition of new customers is expected to account for a 20 per cent share of new lending in 2023.

As planned, Berlin Hyp expanded "ImmoDigital" as the main sales platform for the S-Group products in the Immo product range and expects to use it to establish further business relationships with other savings banks in S-Group operations and also to expand existing relationships. In line with the anticipated reduction in the volume of new lending, Berlin Hyp expects a lower total volume of business to be conducted with the S-Group in 2023.

The public-sector lending business is not part of the Bank's core business and will continue to be hived off.

In consideration of regulatory requirements, earnings potential that arises in the securities portfolio should continue to be used to support net interest income within the framework of a conservative investment strategy. At the same time, plans call for the securities portfolio to be reduced somewhat when the last tranches of the ECB's targeted longer-term refinancing operations (TLTRO-III) reach maturity.

For 2023 as a whole, Berlin Hyp expects net interest and commission income to be significantly lower than in 2022 – the reason here being the one-off TLTRO-III special effect from 2022 that was not repeated. Berlin Hyp net interest income to be impacted by stable

[30] CBRE from 05.07.2023: Deutscher Immobilieninvestmentmarkt – Transaktionsdynamik weiterhin stark gebremst (German real estate investment market – transaction dynamics still considerably slowed)

[31] ifo economic forecast for summer 2023 from 21.06.2023: Inflation flaut langsam ab – aber Konjunktur lahmt noch (Inflation starting to abate – but the economy is still weak)

[32] Estimate on the basis of CBRE from 05.07.2023: Deutscher Immobilieninvestmentmarkt – Transaktionsdynamik weiterhin stark gebremst (German real estate investment market – transaction dynamics still considerably slowed) and Savills Market in Minutes Investmentmarkt Deutschland from 05.07.2023

interest income in its core business. In view of the development of interest rates and the interest rate level, a lower level of unscheduled loan repayments and, correspondingly, ongoing stable portfolios are expected. There are opportunities to further strengthen the Bank's market position by leveraging Berlin Hyp's expertise as a commercial real estate financier, which would lead to sales targets as well as net interest income being exceeded. Potential risks may arise if the sales targets are not met, for example due to a further downturn in real estate markets. Cancelled or postponed investments, changes in user behaviour and uncertainties in pricing could lead to a continuation of the low level of demand for commercial real estate financing. In addition, earnings risks can arise if, due to strong competition, only interest margins lower than planned can be agreed in the core business.

Due to the lower expected volume of new lending in the light of the market uncertainties, net commission income is expected to be moderately below the 2022 level.

Berlin Hyp expects an overall slight decrease in operating expenditure in 2023 as compared to the previous year. Staff expenditure will be influenced by the positive effects associated with the allocations to pension obligations resulting from rising average interest rates. In addition to the continuing high level of cost awareness and extensive optimisation activities for the adaptation of human resources, strategically essential projects, such as the optimisation and digitalisation of the loan process, the harmonisation of risk calculations, the creation of an integrated reporting infrastructure and the construction of the new headquarters, will lead to higher expenditures. The latter will be neutralised over time by lower building management and operating costs. Berlin Hyp's incorporation into LBBW will continue to generate additional costs in the second half of 2023 as well, although these are expected to be lower than in 2022. Berlin Hyp's headcount is expected to decline in the medium to long term based on the current state of knowledge.

Contributions to the European bank levy are calculated by the banking supervisory authority. Starting in 2024, the situation is expected to ease notably.

The cost-income ratio is expected to increase slightly in 2023. With the results of the successful implementation of projects and other initiated measures, more reductions can be expected in the medium term.

If the plans for the above-mentioned projects and levies are exceeded, it can have a positive impact on operating expenditure and the cost-income ratio. On the other hand, there is a risk that failure to achieve planned objectives, as well as project cost increases, unfavourable interest rate developments or a bank levy set above the previous level, will lead to higher operating expenditure and in turn to more significant increases in the cost-income ratio.

Based on the current market situation, there may be a time lag with regard to the sales efforts for the building at Corneliusstrasse 7. Accordingly, the other operating result for 2023 may not benefit from special income from the disposal, and might thus be lower than planned.

Within the framework of a conservative planning approach, and without taking provision reserves into account, Berlin Hyp expects risk provisioning to remain at a significant level in 2023. The effects of the Russia-Ukraine war, such as high energy prices, should continue to abate.

Berlin Hyp expects that the operating result after risk provisioning will decline slightly in 2023 as compared to 2022, taking into account the above-mentioned assumptions. Profit before income tax and net income for the year are likely to be above the previous year's figures, the reason being the currently somewhat lower planned allocations to the special item pursuant to Section 340g of the German Commercial Code (HGB).

In addition, such crises may produce shifts in credit spreads or market liquidity in the capital markets. This could lead to increased liquidity risks for banking institutions, which can also have an impact on Berlin Hyp.

The return on equity in 2023 should be at about the same level as in 2022 and remain at least at the upper end of the target range of eight to ten per cent. If net income or the allocations to the special item pursuant to Section 340g of the German Commercial Code (HGB) fall short of expectations, the return on equity will also be lower. Otherwise, there is a chance of a positive deviation from the plan.

The Bank expects a common equity tier 1 ratio of 14.1 per cent at the end of 2023. Additional stricter regulatory requirements are planned for the coming years, such as the setting of even higher macroprudential capital buffers and the implementation of “Basel IV”, all of which will also have a major impact on Berlin Hyp. The introduction of these capital buffers and additional capital requirements will reduce the Bank’s free RWA potential accordingly.

In addition to further allocations to the special item for general banking risks, the active management of total risk-weighted assets (RWA) will also make a significant contribution to achieving the targeted capital ratios and fulfilling the additional capital requirements as described. Events such as an increase in RWA above expectations as a result of reduced collateral values, as well as rating changes due to the changed economic conditions caused by rising inflation and interest rates and the Russia-Ukraine war, would put the achievement of targets at risk.

A change in the Bank’s rating may have a positive or negative impact on the Bank’s financing options or refinancing costs. In addition, if the major central banks set a monetary policy that is more restrictive than expected, this may increase refinancing costs.

Earnings risks arise in particular if an increase in the cost of refinancing cannot be passed on as part of conditions or if the expected new lending volume cannot be generated on the markets at the planned margins. Further diversification of the investor base, for example, by issuing additional Green Bonds, could also give rise to opportunities for more favourable refinancing.

Risk Report

For details on risk policy, models applied in the assessment of significant opportunities and risks, and the Bank’s anticipated future development, please refer to the information provided in the Risk Report of the Management Report 2022.

Berlin Hyp’s risk management system comprises an extensive range of tools to deal with risks the Bank enters into and to assess the economic and regulatory (normative) risk-bearing capacity within the framework of the strategy defined by the Bank’s Board of Management. The objective of risk management is to maintain the Bank’s risk-bearing capacity and ensure compliance with specified minimum ratios through the limitation of economic risks and by establishing upper limits.

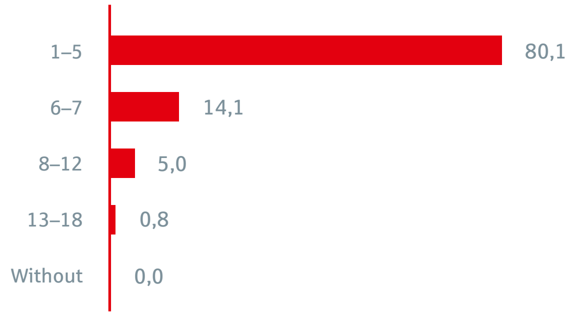
In the context of a risk inventory carried out at least once a year, the Bank classified the following risk types as material as at 31 December 2022: counterparty default risks (including country risks), market price risks, operational risks, liquidity risks and, as an aggregate risk, concentration risks. On 20 June 2023, in the course of harmonising the risk taxonomy with that of LBBW, the Bank identified as material risks the Pfandbrief issuer risk and the sustainability risk (as an aggregate risk). All risk limits were complied with in the first half of 2023. The Bank’s risk-bearing capacity was verified in the first half of 2023 from both an economic and normative perspective. Furthermore, all regulatory requirements were complied with.

The Bank’s current liquidity situation is analysed within the framework of the liquidity management system on the basis of a liquidity progress analysis. In addition, the short-term liquidity situation for up to 30 days (procurement risk) is monitored and managed on a daily basis. With regard to liquidity risk, all economic and regulatory limits were also complied with in the first half of 2023. At no time was the solvency of the Bank endangered.

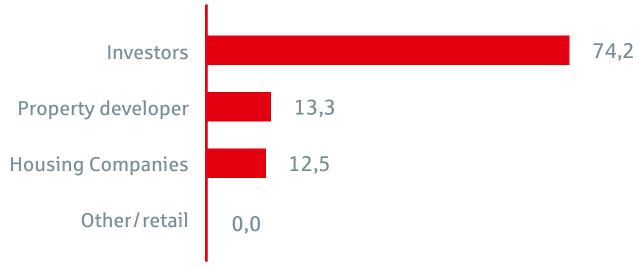
The counterparty default risk is currently the most dominant type of risk for Berlin Hyp. It is managed and monitored at the individual business partner and overall portfolio levels.

The business volume of Berlin Hyp relevant for the determination of the counterparty default risk amounted to €38.7 billion as at the reporting date. This business volume can be broken down into mortgage lending transactions in the amount of €32.3 billion, money market and derivatives transactions of around €0.4 billion and securities and public sector loans of around €6.0 billion. No material changes occurred within the structure of the mortgage loan portfolio during the reporting period. The breakdown into ratings, customer groups, regions and property types is as follows:

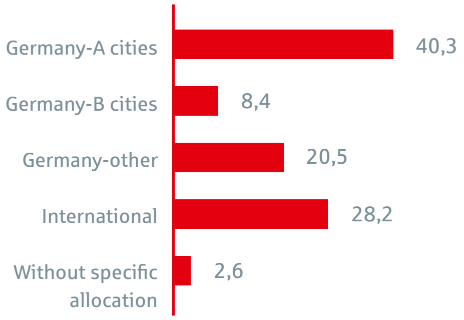
Rating classes
in %



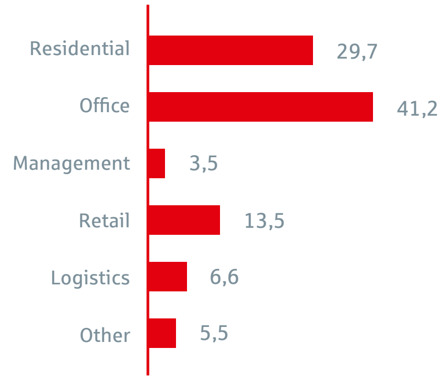
Customer groups
in %



Regions
in %



Property types
in %



Based on the rating class system, the counterparty default risk is divided into performing loans (rating classes 1 to 15) and non-performing loans (rating classes 16 to 18). The share of non-performing loans in the total portfolio increased from 0.4 % to 0.8 % in the first half of the year, but it nevertheless remains at a low level.

Berlin Hyp limited the counterparty default risk on the portfolio level. The utilisation of limits at the portfolio level is monitored daily and reported weekly. As at 30 June 2023, the utilisation was €625 million and the limit was €800 million.

Berlin Hyp uses early warning systems with a variety of instruments in order to identify loan commitments with an increased risk in good time. Alongside the definition of quantitative early warning indicators as part of an early warning system, qualitative indicators also exist for the purposes of regular loan monitoring. Early warning meetings take place each quarter. During these meetings, which are attended by staff from the Sales, Credit and Risk Controlling divisions, the risk content of the identified commitments is discussed separately and further measures are decided upon if necessary. The share of financing that was transferred to the processing steps “increased support” and “early warning meetings” increased during the reporting period.

Berlin Hyp also took into account the latent effects on the economy and in particular on the real estate industry that resulted from global risks (in particular the Russia-Ukraine war), and from the swift interest rate hike, by updating the stress test at the individual exposure level. Within the framework of the stress test, Berlin Hyp examined the impact that adverse economic and political developments could have on the key performance indicators used for the loan portfolio (debt service capacity and loan-to-value). Here, the possible effects of a simulated development were translated into negative changes to the central credit risk parameters for the transactions or instruments contained in the relevant portfolio. The results of the analyses showed that the portfolio displayed moderate risk phases and an adequate debt service capacity in the stress test. An additional stress test was conducted for 32 individual cases with a total volume of €1.7 billion. In this context, Berlin Hyp examined the impact that a simulated negative development of market values and debt service capacity would have on the RWA, as well the effect changes in the need for risk provisioning would have on respective individual financing cases. If the defined stress parameters should materialise, the Bank's risk bearing capacity would be a given in such a scenario as well.

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