

LB≡BW

Berlin Hyp

The Digital Future

First Digital Pfandbrief: EUR 100 mn., 2.75%, due 29 July 2027

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EMF-ECBC Academy Training & Market Update

10 September 2024, Porto

 Finanzgruppe

 Berlin Hyp
Blockchain
Pfandbrief

**“The next generation for markets,
the next generation for securities,
will be tokenization of securities.”**

—
Larry Fink, CEO Blackrock, 2022

Berlin Hyp – Brief Overview



- > Founded 1868
- > One of Germany's leading commercial real estate financiers
- > Main refinancing instrument: Mortgage Pfandbrief



- > **Since 1 July, 2022 Berlin Hyp AG is a 100% subsidiary of Landesbank Baden-Württemberg**
- > Member of the Savings Banks Finance Group
- > Institutional Protection Scheme; 0% risk-weighted for savings banks



- > **Innovative and sustainable:**
 - > First issuer of a blockchain-based Pfandbrief
 - > First issuer of a Green Pfandbrief and first bank to issue a SLB
 - > ESG bonds (Green, Social and Sustainability-Linked Bonds) as an essential element of the funding mix (43 percent)
 - > Most active issuer of Green Bonds (with 23 benchmark-sized bonds outstanding) from the group of European commercial banks (Mortgage Pfandbriefe and Senior Unsecured)



	2023	2022
Total Assets (EUR bn)	35.5	34.4
Operating income before risk-provisioning (EUR mn)	310.7	261.2
Allocation to the fund for general banking risks (EUR mn)	50.0	75.0
Pre-tax profit (EUR mn)	123.9	99.7
CET1 Ratio	15.4%	13.7%



Ratings

Moody's
Fitch

	Senior Non-Preferred	Senior Preferred	Pfandbriefe
Moody's	A2	Aa2	Aaa
Fitch	A+	AA-	--



Transaction Highlights



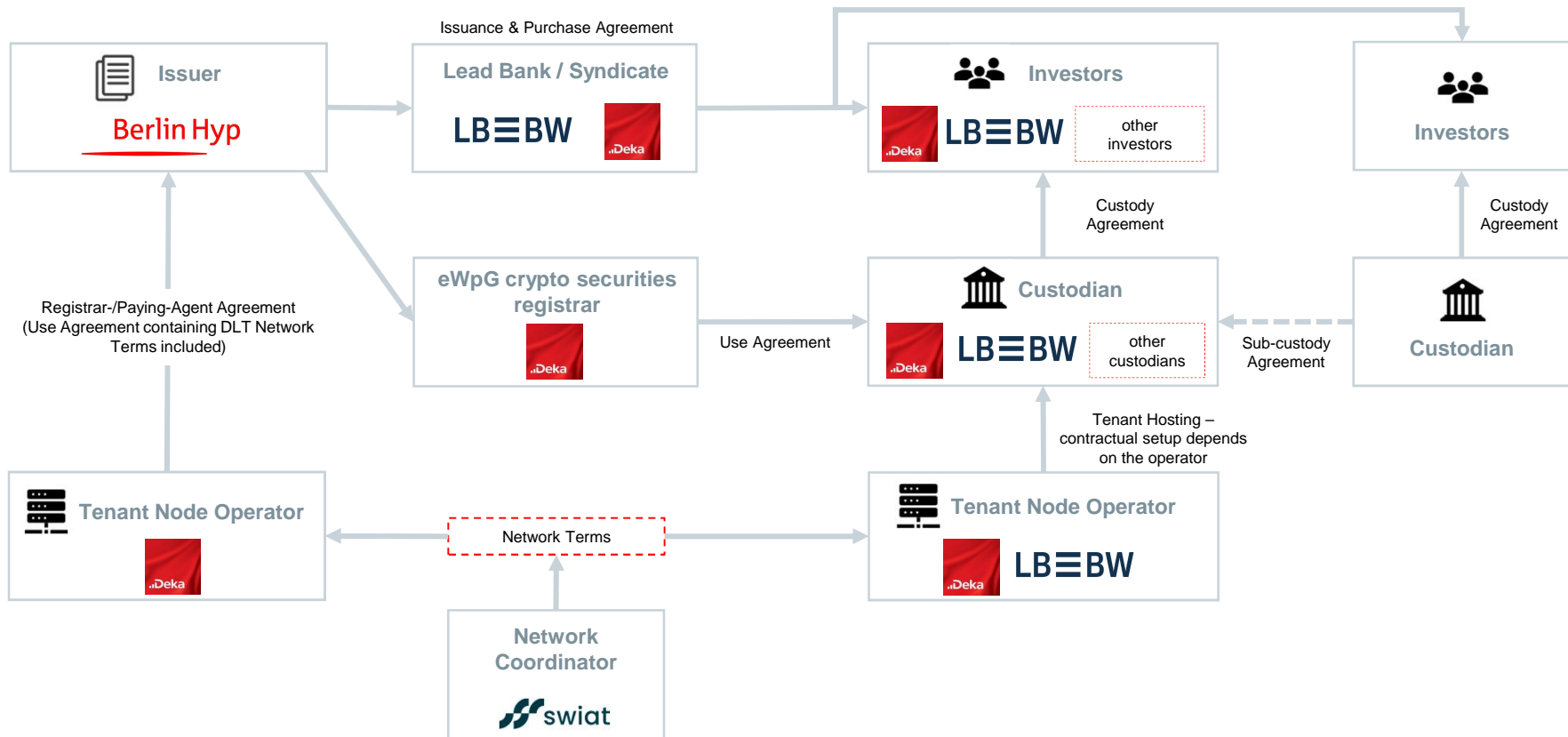
- Berlin Hyp issues the **first blockchain-based Pfandbrief** in accordance with the German law on electronic securities (**eWpG**) and **§ 8 Abs. 3 PfandBG**.
- Pricing date: 2 August 2024
- Value date: 6 August 2024
- The Blockchain Pfandbrief is issued in a syndicated transaction, with **DekaBank** and **LBBW** as lead managers. Both banks are part of the Savings Bank Finance Group and will act as custodian banks
- The preceding two-week period with **Metzler Bank** as an anchor investor has generated a strong response from investors
- DekaBank manages the crypto securities register
- The bond is issued on a private blockchain, provided by the Frankfurt-based fintech **SWIAT GmbH**. Both, DekaBank and LBBW, are among the owners of SWIAT
- **White&Case LLP** advised Berlin Hyp on its first blockchain Pfandbrief

Termsheet

ISIN	DE000BHY1BC2
Issuer	Berlin
Rating	Expected Aaa (Moody's)
Notional amount	EUR 100 million
Pricing date	2 August 2024
Settlement	T +2
Maturity date	29 July 2027
Coupon	2.75%
Re-offer price / yield	99.908% / 2.783%
Spread vs MS	+15 bp.
Format	German law, Stand-alone, RegS, bearer form
Blockchain type / Platform operator	Private / SWIAT GmbH



Roles and Responsibilities: Crypto Securities as a Mortgage Covered Bond (Collective Entry)





Our journey to issuing the first Blockchain Pfandbrief



December 2023



vdp / Cover Pool Monitor workshop

DekaBank presents concept of "Pfandbrief on Blockchain"



Preparation of transaction

- Placing the undertaking at management board level → management board resolution for a Berlin Hyp Blockchain Pfandbrief
- Involvement of the cover pool monitor
- Preparation of stand-alone documentation
- Preparation and conclusion of contracts
- Execution of internal processes (NPP, authorisation-, operating- and IT-security concept)
- Commission rating agency

22 July 2024



Mandate

Mandating DekaBank and LBBW as joint lead managers



Marketing phase

Market Education via a Global Investor Call and Sparkassen Roundtable (approx. 135 participants)

2 August 2024 / 6 August 2024

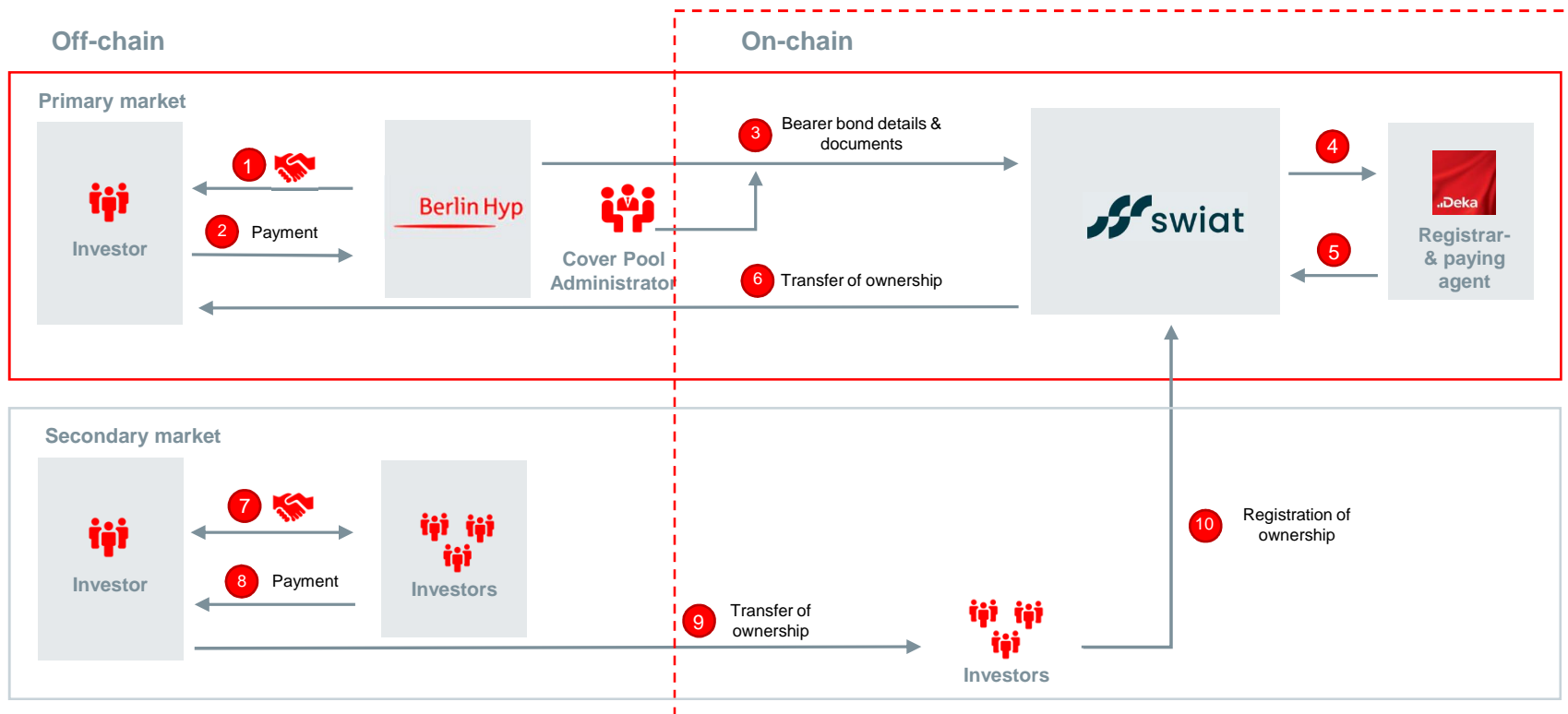


Pricing & settlement

Syndicated issuance of the first Blockchain Pfandbrief with a value of EUR 100 mn
Settlement T +2



Process – Settlement via SWIAT Software and Deka as a Registrar and Paying Agent





Lessons Learnt



Market education

The early exchange with the Association of German Pfandbrief Banks (vdp) proved helpful in the process of learning and knowledge building, especially regarding regulatory requirements.

Post-announcement investor education

On the day after the announcement of the bond, Berlin Hyp, together with DekaBank, LBBW and Metzler Bank, hosted two investor calls. The first call was offered as a global investor call, open to any interested market participant. The second call was specifically directed towards market participants from the Savings Banks Finance Group ("Sparkassen Roundtable") in order to promote the knowledge transfer within the Group. This dedication was particularly well received. The announcement generated a lot of attention, being only the second syndicated transaction and the first blockchain Pfandbrief. Moreover, Berlin Hyp as an issuer enjoys a very good reputation on the market. Subsequently, the attendance was very good, with approximately 135 participants, almost evenly split between the two calls. Interested parties came from large, medium-sized and smaller institutions. Investor feedback was generally very positive, recognising the advantages of DLT and the digitalisation of the market, especially regarding efficiency gains.

Requirements for investors

While the time period between the announcement of the bond and the opening of the book was regarded sufficient to ensure an intensive exchange with investors and other market players, it was too tight for the majority of investors requiring a new product process (NPP) or adjustment of existing investment guidelines in order to purchase a digital security. Individual interested institutions were also unable to set up sub-custody with DekaBank and LBBW in the short time available.

Custody agreements

There is no necessity for investors to have their own node on the blockchain. Instead, it is sufficient, if custodians are onboarded. Should this not be possible, custodians can enter into a sub-custody agreement with already onboarded custodians. In the case of an existing contractual relationship with a custodian, all of the custodian's investors have the technical requirements to participate in the transaction.

LCR-eligibility

With a volume of EUR 100 mn, the bond does not qualify for LCR purposes, which lowered investor interest from the financial institutions segment.

ECB-eligibility

Due to current legislation (eWpG), in contrast to traditional Berlin Hyp Pfandbriefe, the blockchain Pfandbrief is not ECB-eligible. This also lowered investor demand. It will be important to ensure the eligibility of crypto securities for central bank use in the eurozone as well.

Listing

It is currently not possible to list the bond on a regulated segment. From Berlin Hyp's point of view, this has no significant influence on the liquidity of the bond as traditionally the vast majority of secondary trading happens OTC.

Secondary market liquidity

DekaBank and LBBW will act as market makers in the secondary market to provide liquidity and ensure the OTC tradability of the Blockchain Pfandbrief during its term.

Several investors have expressed their interest in participating in the secondary market. Thus, investors for whom setting up the technical requirements took longer than the marketing period, can still benefit from implementing.

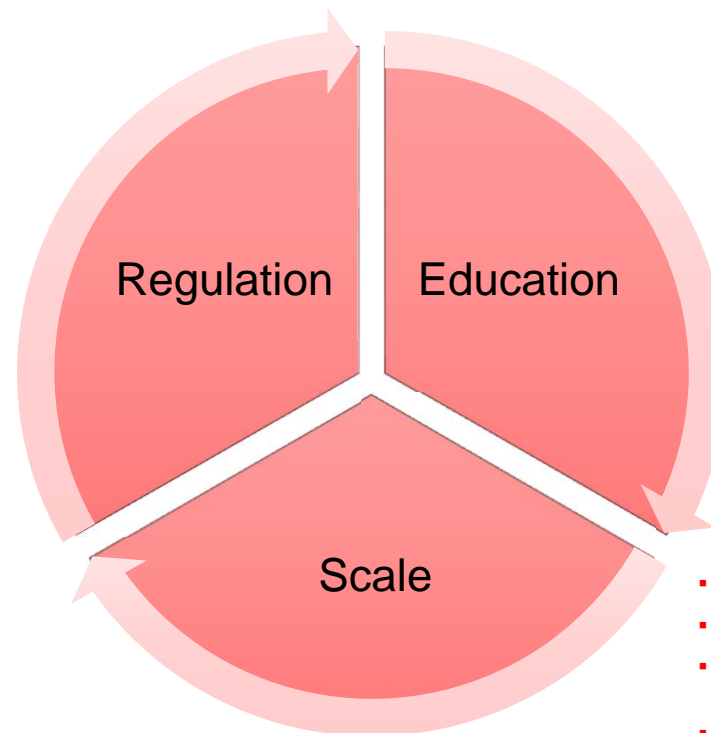
Benefit of a private blockchain

From a regulatory perspective it makes a difference whether a private or a public blockchain is used. As the latter are beyond the control of the platform operator and are more difficult to manage, the Basel Committee on Banking Supervision sees higher risks for them. It has therefore estimated higher risk weightings for digital assets that are processed via public blockchains. However, this should not affect the Berlin Hyp Pfandbrief as it will use a fully permissioned private blockchain. Bank investors should therefore be able to assign it a similar risk weighting as a conventional Pfandbrief. In the event that the risk weighting nevertheless changes during the term for regulatory reasons, Berlin Hyp will convert the blockchain Pfandbrief into a conventional Pfandbrief.



Building a level playing field for digital bonds

- German Electronic Securities Act (eWpG)
- Clarity on the number of collectively registered holders and changes
- **ECB-eligibility**
- Listing on a regulated segment
- LCR-eligibility
- Private vs Public Blockchain
- **Delivery-versus-payment on chain**



- Market-based education by vdp & ECBC
- Post-announcement investor education
- NPP and / or adjustment of investment guidelines
- Digital custody arrangement

- Secondary market liquidity
- Private vs Public Blockchain
- Trio of German reference trades: KfW / Berlin Hyp / Siemens
- 0.003% of the covered bond market is already digital...and counting
- **Building block of Capital Markets Union**



Europe's bond market of the future



#esg

#digitalbonds

#digitaleuro

#tryingharder

#thankyou



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