Foreword

Dear readers,
Dear friends of Berlin Hyp,

Germany in the summer of 2023: the economy is stagnating and the country and its businesses are falling behind in the international competitive field. The energy transition is proceeding more slowly than planned, and public infrastructure problems that were not properly addressed over a long period of time are now becoming increasingly visible and noticeable. The optimistic mood that accompanied the launch of the current government coalition appears to have disappeared for good.

The mood is sombre in the real estate market as well. Interest rate hikes and uncertainties regarding how properties will develop or perform in future seem to have put transaction markets on hold for the time being. The sharp decline in building permit approvals and apartment completions means policy-makers can now only dream of achieving the housing targets that were set only a couple of years ago. Poorly presented legislative initiatives, such as the proposal to require the installation of environmentally friendly heating systems, have only served to unsettle tenants, apartment and building owners and businesses in general.

So what can be done? Naturally it makes sense to analyse mistakes and deficiencies and insist that improvements be made. With regard to the real estate sector, there are certainly many issues relating to the regulatory framework that need to be resolved. Planning and approval procedures take too long, for example, and we are still a long way off from a digitalised and thus efficient system of public administration. At the same time, more and more new and increasingly comprehensive standards and regulations are contributing to the cost increases in the construction industry in a major way. Germany simply has to get better in this regard.

Nevertheless, despite all of these problems and issues, it is clear that if change is going to come to the real estate industry, it has to be driven in large part by the industry itself. The challenges the industry now faces are very big indeed: the transformation that will lead to the creation of a climate-friendly and resource-efficient building stock, the digitalisation of processes, the adjustment of building designs in line with new ways of living and working – none of this can wait. We all need to keep the transformation going and do our best to ensure it doesn't slow down, and that means Berlin Hyp has to do its part as well.

Indeed, Berlin Hyp has set itself the goal of becoming the most modern real estate financier in Germany. We are doing everything we can to achieve this goal – by improving our products and services, our structures and processes and our work environment.

We made progress once again in this regard in 2023. In terms of products and services, this is reflected, among other things, by the continuous expansion of our range of ESG financing products. For example, we launched our Social Loan in the summer of 2023. This new product can be used to finance affordable housing in Germany and the Netherlands. It thus addresses one of the key social problems for which the real estate industry needs to provide solutions. On the liabilities side of the equation, we placed the first ESG dual tranche, consisting of a Social Bond and a Green Bond, on the European capital market at the beginning of the year. As a result, Berlin Hyp has once again reconfirmed the pioneering role it plays with regard to sustainable forms of refinancing. In addition, during the first half of the year, Berlin Hyp continued to move ahead with its internal "Decarbonisation Path" project for its financed emissions, and the Bank also published its Decarbonisation Path for the first time (as at 30.06.2023). At 30.77 kg per sqm and year, the Bank's financed emissions are considerably lower than the CRREM reference values.

The digitalisation of our processes, products and services continues as well. One current example involves the launch of the "KYC Digital" application, which is used for first-time legitimation and identification of customers. The expansion of the range of products offered by our ImmoDigital platform offers another example of our ongoing digitalisation activities. ImmoDigital offers savings banks simple and efficient access to Berlin Hyp's investment offers – and in general we have further strengthened our ties with savings banks 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.

With regard to the further development of our work environment, we are pleased to report that the construction of our new corporate headquarters (B-One) is moving ahead very nicely. B-One will lead to the creation of an attractive state-of-the-art workplace and will also set new standards in terms of environmental protection. The latter aspect relates to both the construction and operation of the building.

Berlin Hyp is the one of the leading real estate financiers in Germany. Our collaboration and teamwork with our parent company LBBW have also enabled us to further increase our market relevance and market penetration. The process of teaming up with LBBW was completed a little more than a year ago, and cooperation has been improved and expanded in many areas since that time. Both Berlin Hyp and LBBW continue to operate as independent brands, and both continue to develop their specific potential.
Indeed, the solid footing and great potential of the Berlin Hyp brand were confirmed in a big way when the Bank received the European Real Estate Brand Award 2023 as the "strongest brand" in the Banks category.

In view of the challenging market environment, the development of Berlin Hyp's business operations in the first half of 2023 was satisfactory: the Bank's profit before taxes was significantly higher than in the same period of the previous year, for example, and this, together with the development of new lending in line with expectations, shows that Berlin Hyp remains on track for success. New contracted lending volume, including realised long-term extensions, amounted to €2.4 billion in the first half of 2023, which was lower than the figure from the very successful same period in the previous year (€3.1 billion). In view of the ongoing uncertainty and the significant decline in transaction volume, this result was in line with our expectations.

Our loan portfolio is robust on the whole. Still, we as well have taken market developments into account by increasing our lending risk provisioning significantly as compared to the previous year, and we also made further additions to the fund for general banking risks, which now contains €775.0 million.

We believe 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. With this in mind, we expect new lending volume for full-year 2023 to be lower than the very high figure recorded in the previous year. However, we also continue to expect profit before taxes to increase for the year as a whole.

The situation regarding commercial real estate investments will remain challenging in the coming months as well. This will certainly not make it any easier to come up with the right responses to the challenges described above. Nevertheless, I am convinced that the real estate sector has sufficient innovative strength and entrepreneurial potential to do just that.

Let us therefore all work together to develop and implement effective solutions for the industry.

Best regards,

Sascha Klaus Maria Teresa Dreo-Tempsch Alexander Stuwe

Berlin, September 2023