A company of LBBW

Berlin Hyp

Create the future

Management Report for the short financial year from 01.07.2022 to 31.12.2022

Management Report

Finanzgruppe

A partnership built on trust

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Management Report

I Principles of the Bank Business Model

Organisational Structure

Berlin Hyp AG (Berlin Hyp) is a stock corporation whose shares have been wholly and solely owned by Landesbank Baden-Württemberg (LBBW), Stuttgart, since 1 July 2022. A control agreement has been in place between Berlin Hyp and LBBW since 1 August 2022. The Group structure as at 31 December 2022 was as follows:

As at 31 December 2022, the Berlin Hyp Board of Management comprised three members who had the following areas of responsibility:

Sascha Klaus (Chair)
- → B-One
- → Finance
- → Governance
- → Information technology
- → Communications and Marketing
- → Personal (staff)
- → Internal Audit
- → Company Strategy

Maria Teresa Dreo-Tempsch
- → Treasury
- → Sales Foreign Real Estate Financing
- → Domestic Sales Real Estate Financing and Portfolio Management

Alexander Stuwe
- → Data Management
- → Lending (Real Estate and Capital Market)
- → Risk Control (former Risk Controlling)
- → Valuation
- → Risk Management (division)
- → Future Management Process (division)
- → Representatives

Berlin Hyp is divided overall into 15 divisions with 51 departments and six teams.

The Supervisory Board of Berlin Hyp has formed four committees: the Loans Committee, the Audit Committee, the Presiding and Nomination Committee and the Remuneration Control Committee.

Business Activities

Berlin Hyp is a banking institution which 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. It 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.

As an S-Group partner with its specially developed Immo product range, the Bank is creating added value for the Sparkassen-Finanzgruppe, and in particular for the savings banks, by offering them a wide range of investment opportunities relating to Berlin Hyp's financing activities. The ImmoDigital portal solution, launched at the end of 2020, supports the sale of S-Group products and takes the digitalisation of transactions one major step further. Support with the restructuring of problematic loans completes the range of products and services offered by Berlin Hyp. As an S-Group partner, Berlin Hyp is constantly further developing its products and services with the aim of making a lasting positive contribution to the success of the Sparkassen-Finanzgruppe.

As a real estate sector partner, Berlin Hyp is one of the first ports of call for investors from the private and commercial real estate sectors. In addition to capital investment companies and real estate funds, this also includes housing construction companies and cooperatives as well as selected project developers. The Bank offers its customers individual solutions for real estate financing in all common asset classes, either as individual properties or in portfolios. In addition to traditional mortgage loans, the Bank offers guarantees as well as building contractor and development financing. Through its business model, Berlin Hyp focuses on real estate financing in economic centres in Germany and select foreign markets.

The Bank is an issuer of mortgage Pfandbriefe and senior unsecured and subordinated bonds on the capital market. Both mortgage Pfandbriefe and senior unsecured bonds can also be issued as Green Bonds. As a bank specialising in the financing of commercial real estate, Pfandbriefe are the primary refinancing instruments of Berlin Hyp. These are issued both as benchmark bonds as well as private placements in the form of bearer bonds or registered bonds. As the issuer of the first Green Pfandbrief, Berlin Hyp is a pioneer in the capital market. Its position as such was reinforced in 2021 when, according to its own assessment, it became the first bank to issue a Sustainability-Linked Bond and a Social Bond in May 2022. Berlin Hyp is the most active issuer of Green Bonds in Europe in the commercial bank segment.

Locations

Berlin Hyp is headquartered in Berlin. It also has domestic sales offices in Dusseldorf, Frankfurt am Main, Hamburg, Munich and Stuttgart, as well as abroad in Amsterdam, Warsaw and Paris.

Products and Services

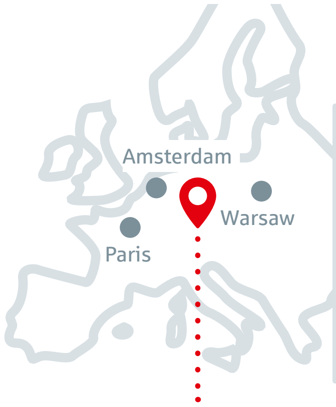
Berlin Hyp develops individual financing solutions for its customers. A broad range of products is used to meet customers' requirements. Among other products, this includes fixed-interest loans, reference interest rate loans, cash loans and sureties, framework lines, interest hedge products, financing products for construction work (construction enterprises and developers), business current accounts, operating equipment loans and overnight money/term money, as well as valuations and payment transaction services. These enable the Bank to offer a full range of customer care as a real estate financer.

To manage risks and optimise returns, many financing transactions are processed together with partners. For the most part, Berlin Hyp's product range is therefore consequently suitable for syndicates.

Berlin Hyp has launched a range of standardised products consistently tailored to the needs

Locations

Germany and throughout Europe



Berlin
Dusseldorf
Frankfurt am Main
Hamburg
Munich
Stuttgart

of savings banks, including ImmoSchuldschein, which allows savings banks to make cash investments in senior large-volume real estate financing transactions, ImmoAval, which combines co-liability through a guarantee with simple documentation, ImmoGarant, for which savings banks represent the entire refinancing of a financing transaction against a partial guarantee from Berlin Hyp, ImmoNachrang, which was newly developed in 2020 and enables savings banks to participate in personal loans for financing transactions as subordinated investors, and ImmoBar, a variant of the traditional syndicate financing, which is still in its test phase. In line with the strategic orientation of the Bank, all Immo products will be offered in the first quarter of 2023 via the ImmoDigital portal solution, which was newly developed in 2020; until then, only ImmoAval offers are available via ImmoDigital. The Berlin Hyp product portfolio for savings banks also includes standard syndicated financing, investment products such as Pfandbriefe and debentures, and support services in valuation and restructuring. Berlin Hyp continually analyses its product portfolio with the aim of establishing its position over the long term as a real estate service provider for savings banks.

The sales structure is decentralised and targeted to meet the needs of the savings banks in order to strengthen the group philosophy. Regional savings bank advisers advise the savings banks from the Bank’s branches in Düsseldorf, Frankfurt am Main, Munich and Stuttgart. An advisory board consisting of the boards of selected savings banks in all S-Group regions advises Berlin Hyp twice a year on all issues relating to the S-Group business.

OnSite ImmoAgent GmbH, a company founded by Berlin Hyp, provides commercial real estate inspection services on the market for both savings banks and third parties.

Sustainability is a central aspect of Berlin Hyp’s company strategy. Since 2015, Berlin Hyp’s value chain has included an additional important element of sustainability – green bonds for the refinancing of green assets. They thus offer investors added value beyond the creditworthiness of the bank and its cover funds. Green bonds are issued in the form Green Pfandbriefe and Green Senior Unsecured Bonds. The foundation for the sustainable capital market products the bank issues are Berlin Hyp’s sustainable financing products, also known as Green Loans. The financing of green buildings, among other things, represents an element of the bank’s sustainability activities that relates directly to its core business, commercial real estate financing.

Medium and long-term refinancing is generally carried out by issuing mortgage Pfandbriefe, as well as through unsecured issues.

Objectives and Strategies

The Berlin Hyp Board of Management has summarised the medium to long term company strategy in a strategy document. It describes the business strategy that forms a binding strategic framework for the Bank's business activities. The functional strategies and operating targets are derived from this. The strategic guiding principles maintain their validity. The strategy and the performance indicators are verified and, if required, modified in the annual strategy review process.

Berlin Hyp pursues two mayor strategic goals:

1. Berlin Hyp is the most modern commercial real estate financier in Germany.
2. Berlin Hyp is an S-Group partner of the German savings banks.

The Most Modern Commercial Real Estate Financier in Germany

As part of its innovation agenda, Berlin Hyp is pursuing the consistent implementation of its digitalisation and innovation activities. In this regard, important elements, on the one hand, consist of large-scale internal projects that aim to digitise and partially automate the Bank's key business processes along the value chain and make them data-driven. In addition, Berlin Hyp considers itself to be actively involved in the digital real estate ecosystem and is testing new business models and additional product and service offerings for its customers with innovative companies and start-ups from the PropTech realm. As an active strategic investor, Berlin Hyp participates in selected companies while also entering into strategic cooperations. This will allow it to tap into additional earnings potential adjacent to the core business of real estate financing in the future.

Moreover, its strategic goal of becoming the most modern real estate financier in Germany also involves the achievement of specific sustainability objectives. Berlin Hyp positions itself on the market as a sustainable company, and thereby takes a leading position (sustainability rating ranking) in the industry. In line with its view of itself as a sustainable financial services provider, Berlin Hyp feels bound by the climate targets set by the EU and the Federal Republic of Germany. The bank's understanding of sustainability is intentionally broad here: For Berlin Hyp, sustainability means not only reducing its own carbon footprint, but also promoting, simplifying and financing the transition to a sustainable economy and in this manner contributing to the transformation that is currently under way – not only in terms of ecology but also with regard to the economy and society as a whole.

Within this context, Berlin Hyp adopted a far-reaching sustainability agenda in 2020. In line with the Bank's commitment to sustainability, the ESG vision, which focuses holistically on four dimensions in the future, was set as early as the 2021 financial year:

1. Sustainability in business operations
   Berlin Hyp plans to continuously reduce the adverse environmental effects of its business operations and thus reduce its carbon footprint as much as possible. It also considers itself a responsible employer.

2. Sustainable business portfolio
   Berlin Hyp believes that focusing its business portfolio on sustainability holds the key to achieving its defined sustainability targets. According to insights obtained by Berlin Hyp, many Berlin Hyp customers are working to make their own business activities more sustainable. Berlin Hyp has set itself the goal of helping its customers transform buildings into more energy-efficient and sustainable properties.

3. ESG risk management
   Berlin Hyp is currently integrating ESG risk criteria into existing risk management systems and processes in order to ensure that all opportunities and risks of its business activity can be identified and systematically controlled. These systems and processes are intended to address both financial and non-financial risks.

4. Transparency and ESG capabilities
   Berlin Hyp is seeking to maintain a con-

Objective by 2025

1/3

share of green buildings in the real estate portfolio tinuously high ESG transparency through its external ESG reporting, which is to be governed by market standards. In addition, the Bank plans to gradually integrate sustainability aspects into its normal ongoing business processes. In addition to its own activities, Berlin Hyp is also actively involved in continuing to develop sustainability standards in the real estate and finance industry.

Through the ambitions and measures defined for each individual dimension, Berlin Hyp wants to make an important contribution to the development of a future-oriented and sustainable real estate sector.

S-Group Partner of the Savings Banks

As an S-Group partner of the savings banks for commercial real estate financing, Berlin Hyp applies its expertise and develops its portfolio of products and services consistently in line with the needs of the savings banks. In this manner, the bank contributes to the success of the Sparkassen-Finanzgruppe and is positioning itself within the latter for the long term as a partner and service provider for all aspects of real estate. The introduction of the "ImmoDigital" platform in 2020 also created a basis for offering a single point of entry for savings banks in the S-Group business through which all financial investment activities in the S-Group business can be handled in the future. This also underscores the Bank's self-image as a driver of innovation in the group.

Management System

Berlin Hyp's business policies are managed on the basis of annually recurring strategy and planning processes, in compliance with regulatory requirements and the risk strategy approved by the Board of Management. The management is therefore risk and value-oriented, and is generally based on the process stages of planning, implementation, assessment and adjustment. The central management tools are the financial statements and budgets, the financial and risk reports, as well as liquidity, new business and portfolio reports as prepared in accordance with German commercial law and regulations. Potential deviations and their causes are continuously analysed on the basis of budget/actual comparisons.

Financial Performance Indicators

Berlin Hyp has defined the following most important financial performance indicators to manage its business activities:

- Annual surplus (net income – formerly "Transfer of profit to Landesbank Berlin Holding")
- 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 of the German Commercial Code (HGB). In view of the short financial year, and in order to facilitate comparisons, profit before income tax and the change in the special item for general banking risks pursuant to Section 340g of the German Commercial Code (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, such as the liquidity coverage ratio (LCR) and the (not yet mandatory) leverage ratio.

Non-Financial Performance Indicators

Berlin Hyp has defined the following most important non-financial performance indicators to manage 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 lending concluded with new customers in new lending.
- S-Group Business: volume of business conducted with S-Group partners and the number of active business relationships within the S-Group.

In addition, the management also relies on other supporting non-financial performance indicators, such as the 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.

We will address the most important financial and non-financial performance indicators in more detail, particularly in the Economic Report.

II Economic Report Macroeconomic and Sector-Related Underlying Conditions

Macroeconomic Development[1]

Following the recovery of the world economy in the previous calendar year, growth began to slow noticeably once again in 2022. Over the year as a whole, gross world product is expected to increase by 3.2 per cent.
The recovery was primarily inhibited by geopolitical conflicts, the impact of supply chain problems originally caused by the COVID-19 crisis (which were further exacerbated by the Russia-Ukraine war) and the Zero-COVID policy in China, which had been ongoing but was discontinued just before the end of the year. High inflation, which was caused in large part by the scarcity of energy resources, as well as more rigid policies implemented by central banks on both sides of the Atlantic as a result, led to a further slowdown in economic growth in 2022.

GDP in the eurozone is expected to increase by approx. 3.5 per cent in 2022, whereby it should be noted that growth was significantly less dynamic towards the end of the year (particularly in the last quarter of 2022) in an environment marked by continuing high inflation, a rapid and noticeable increase in interest rates and a decline in global economic momentum in general.

GDP in Germany increased by approx. 1.9 per cent in 2022. After the end of the third quarter, various indicators seemed to suggest that consumer behaviour was returning to normal. A decline in consumer spending was recorded once again in the fourth quarter, however – this despite government measures to compensate for the inflationary tendencies in the economy. Overall investment expenditure has declined. Whereas a slight increase was recorded for investment in equipment, construction investment has declined noticeably.

[1] Sources for macroeconomic underlying conditions: Kiel Institute for the World Economy (IfW), IW.
[2] Sources for industry development: ECB, CBRE, Colliers, Destatis, DG ECFIN, ifo, JLL, PMA, Savills.

Industry Development[2]

Stock markets displayed a high level of uncertainty and volatility in the second half of 2022 due to the Russia-Ukraine war, growing concerns about a recession, high inflation rates, the Zero-COVID policy in China that was still in effect and restrictive monetary policies. In September, the DAX briefly fell below 12,000 points, reaching what would be its lowest level in 2022. The situation with the Dow was similar. Stock markets then recovered towards the end of the year. The Dow finished the year at 33,147, the DAX at 13,924. In terms of the year as a whole, these figures correspond to losses of 8.8 per cent and 12.4 per cent, respectively.

In response to the ongoing dynamic increase in inflation during the reporting period, both the Federal Reserve in the USA and the ECB in Europe continued with their restrictive monetary policies. In the second half of 2022, the FED initially increased interest rates (federal funds rate) three times by 75 basis points each time before slowing down the pace of the increases in December, when it increased the federal funds rate by 50 basis points to 4.5 per cent. The ECB followed the FED's lead by raising its key interest rates four times during the reporting period, to 2.0 per cent (deposit facility rate) and 2.5 per cent (main refinancing operations rate). The deposit facility rate is thus now at its highest level since 2008. In June, the FED, within the framework of its quantitative tightening program, began reducing its balance sheet, which had previously increased significantly. The ECB followed suit later in the year by announcing in its December meeting that it would begin reducing its balance sheet in March 2023. From that point on, securities that reach their maturity date will no longer be completely reinvested, which means the ECB's asset purchase programme (APP) portfolio will decrease by €15 billion every month on average after that.

Inflation rates and the sharp increase in interest rates undertaken by the biggest central banks became rather noticeable in interest rate markets as well, leading to higher yields and greater volatility. As at 30 December 2022, yields on 2-year (2.74 per cent) and 10-year (2.57 per cent) German government bonds had reached their highest level in the reporting period. Swap rates also began increasing significantly in the middle of the year. The 10-year swap rate reached its highest level in October (3.33 per cent) and ended the year slightly lower than that, at 3.20 per cent. The 5-year swap rate ended the year at its half-year high of 3.24 per cent.

In this market environment, covered bonds were the refinancing instrument of choice for many banks. At €201.1 billion, the volume of syndicated new issues was much higher than in the previous six years. A total of €82.2 billion of this volume was issued during the reporting period. Following a general increase in risk premiums over the first six months of the year, developments stabilised in the second half of the year. The differentiation across the various jurisdictions and issuers continued, however, whereby the German Pfandbrief expanded on its position as the most expensive product in the asset class.

The spread of the Iboxx € Banks Senior Preferred once again narrowed significantly (by 23 basis points) after July 2022 following a noticeable widening in the first half of the year. The spread for the Iboxx € Banks Senior Bail-In displayed similar performance, declining by 22 basis points.

The new issue volume of sustainable bonds declined as compared to the first half of 2022. A total volume of €377 billion (€472 billion) in Green Bonds, Social Bonds, Sustainability Bonds and Sustainability-Linked Bonds were issued during the second half of 2022.

The second half of 2022 was marked by a decline in economic activity and growth. Negotiations necessitated by major discrepancies between the price expectations of buyers and sellers in the real estate market also continued. These discrepancies help explain the currently low level of momentum on the real estate investment market overall. For example, at approximately €30.2 billion, the transaction volume of the German commercial real estate market in the second half of 2022 – including commercially traded residential real estate – was around 15 per cent lower than the volume recorded in the first half of the year (€35.6 billion). Transaction volume for the year as a whole in 2022 amounted to approximately €65.8 billion, which was around seven per cent lower than the ten-year average.

With a share of transaction volume of approximately 33 per cent, office properties remained the most sought-after type of real estate in the second half of 2022 as well. Despite the establishment of mobile and remote working arrangements (used 1.4 days per week on average in Germany), office real estate remained very popular among real estate investors, with this development due to stable take-up volumes, higher prime rents and moderate vacancy rates of below five per cent on average in Germany's top five markets. At the same time, an increasing polarisation could be observed in the rental market as the year proceeded, as demand for office space became more and more focused on the highest quality locations, while the take-up volume in the B and C quality categories declined correspondingly. In addition, energetically non-sustainable existing real estate is becoming less and less marketable, as aspects such as energy consumption and CO_2 emissions are now the decisive criteria – along with location and accessibility – when it comes to demand for office space.

Commercially traded residential real estate maintained its standing with investors as the second most popular type of real estate in the second half of 2022, but volume declined nevertheless: residential portfolios recorded a transaction volume of approximately €5.7 billion, which corresponds to a decrease of around 25 per cent from the volume of

€7.7 billion registered in the first half of the year. The interest rate level adjustments that have occurred are leading to purchasing delays, as many buyers are expecting significantly lower rent multipliers – but many property owners have been unwilling to lower their prices, or only lower them to a moderate extent. This attitude on the part of owners is mainly based on the positive fundamental data for the German housing market: the demand for rental apartments has risen as of late. On the one hand, this has to do with the currently high net population influx in Germany (including refugees from Ukraine) and the corresponding increase in population, while on the other hand it's a result of higher construction and financing costs for building and purchasing new homes. Many households can no longer afford to purchase their own homes and will therefore continue to rent apartments. In terms of the supply side of the equation, the declining number of approvals issued in 2022 and what clearly appears to be a decreasing number of construction project completions (accompanied by a backlog of approved but not yet completed buildings that has continuously grown over the last decade) indicates that the lack of residential space will become even more of a problem in future. Therefore, vacancy rates can be expected to decline even further and rents can be expected to get even higher in the rental apartment markets in metropolitan areas especially.

Logistics properties were the only type of real estate to record an increase in transaction volume in 2022 (to €10.6 billion, an increase of five per cent), whereby volume of €4.6 billion in the second half of 2022 was much lower than in the first half of the year. In this regard, the logistics real estate segment was also clearly impacted by the different price expectations of buyers and sellers and the associated reduction in purchasing activities. However, a general analysis of the logistics real estate segment reveals that in particular, efforts to stockpile supplies and materials in order to be prepared for possible disruptions to global supply chains led to a situation in which the demand for logistics space stabilised at a high level last year. Prime rents that continue to rise and which at least partially offset the negative net present value effect resulting from higher initial returns, as well as a nationwide vacancy rate of less than two per cent in Germany, have led to a very high level of investor confidence in this asset class.

At just under €9.4 billion, transaction volume in the retail property segment remained at a comparably low level in 2022 and was around four per cent lower than the volume achieved in the previous year. While the investment market for retail properties did reach a relatively high level (€5.7 billion) in the second half of 2022 as compared to the first half of the year, this was mainly due to the takeover by Oaktree Capital and Cura Vermögensverwaltung of billions of euros in shares of the listed shopping centre specialist company Deutsche EuroShop during the third quarter of 2022. Two different developments are impacting the situation with regard to the type of use of retail properties: on the one hand, consumer confidence was clearly negative in the second half of 2022 and was heavily affected by the loss of real purchasing power among private households, and by declining economic momentum, while on the other hand the local retail segment benefited from immigration trends, thereby adding an additional element alongside its attractiveness vis-à-vis "experience shopping" outlets. This attractiveness is clearly reflected in investor interest patterns: with a share of transaction volume of 48 per cent in 2022, specialist shops and specialist centres (including DIY stores and food retail outlets) were, as was the case in previous years, among the most important retail business types. Investment volume declined here as well, however, as the interest rate hikes led to major discrepancies between the price expectations of buyers and sellers with regard to grocery-anchored retail properties. The high price level, which resulted in particular from developments in the pandemic years of 2020 and 2021, could not be maintained in the new environment of higher interest rates in the second half of 2022, as buyers no longer accepted the higher prices.

The recovery of the travel industry that was driven by catch-up effects continued in the second half of 2022, and this benefited hotels in cities with high tourist volumes in particular, although it also had a positive effect on holiday hotels. The number of overnight stays in the summer months of the third quarter nearly reached the pre-COVID-19 level of 2019 – and actually exceeded it in August by 0.3 per cent. The transaction market for hotel real estate displayed stable development in the second half of 2022, but it remained at a low level, reaching a volume of around €1.1 billion (30.06.2022: approx. €790 million). At the same time, the transaction volume achieved shows that the hotel market remains liquid even in the current time of economic uncertainty, rising financing costs and high inflation, and that high-quality properties in very favourable locations, and with operators with strong credit ratings, remain very fungible on the market.

Business Development

Berlin Hyp was able to continue its positive business development in the second half of 2022, which corresponds to the short financial year, and also further strengthened its position as one of the leading real estate and Pfandbrief banks. This is all the more impressive given the fact that overall conditions were challenging and characterised by declining transaction volumes on the commercial real estate market, sharp increases in interest rates and regulatory requirements that remained quite demanding.

In addition, the Russia-Ukraine war and the associated geopolitical tensions led to supply chain interruptions and a significant increase in energy and raw material prices. Increasing inflationary pressures in connection with the monetary policy counter-measures taken by the central banks resulted in unexpectedly high interest rate increases, whereby all of these factors had a major impact on the development of the industry.

Berlin Hyp regularly analysed the potential of property types affected by the negative developments, as well as the associated financing, and then discussed its findings within the framework of task forces. Also, there was no need for specific valuation allowances or depreciation in commercial real estate financing in the second half of 2022. The risk conservative risk strategy and the high share of financing in good and very good rating classes paid off once again. In this regard, please refer to the information provided in the risk report of this management report, which contains concrete statements on the Bank's approach, the potential impact of the crisis on the real estate market as well as on RWA and risk provisions.

Following the dissolution of the Landesbank Berlin Holding Group as an institutional group due to reasons including the new regulatory requirements imposed by the Risk Reduction Act and other regulatory requirements, it was agreed on 26 January 2022 (signing) to sell all shares held by Landesbank Berlin Holding in Berlin Hyp to Landesbank Baden-Württemberg. The corresponding approvals by the antitrust authorities and the approvals of the bodies of the German savings banks were granted in the first half of the year, therefore the transaction was closed on with effect as of 1 July 2022. As a result, in 2022, almost all of the Bank's divisions were involved in the subsequent process of teaming up with the Landesbank Baden-Württemberg Group, in order to ensure business operations starting on the closing date. Despite the double stress, the operative business was successfully continued, as well. This teaming-up process will continue selectively where needed in 2023.

In 2022, Berlin Hyp continued to pursue the objective of becoming the most modern real estate financier in Germany. The focus areas included but were not limited to the further digitalisation of the core processes, the modernisation of the IT system environment and the ongoing integration of ESG in business operations in accordance with the ESG implementation agenda. This includes the further expansion of the ESG product range within the Sustainable Finance Framework, the expansion of the risk methodology in the ESG context and the execution of an ESG data project. Thus, the latter aims to implement new, relevant data fields in the core process systems of the Bank for the core business, for external reporting and the fulfilment of regulatory requirements. Further activities of the Bank included the participation in the ECB thematic review and the climate risk stress test.

After the digital loan application process (from financing application to approval) went live, information on how the process was working was collected, as was feedback from users. After that, optimisation potential was identified and associated measures were gradually implemented in the system. Work on the development of a second release that is scheduled to go live in 2023 was finalised simultaneously. The product range that can be placed to S-Group partners via the ImmoDigital platform has also been expanded, and this will lead to a further increase in the number of digitally processed transactions in 2023. We continue to believe that ensuring the central availability of data while maintaining high quality standards is a key factor in terms of being able to respond

New lending

ncluding long-term extensions

€ 3.8 billion

flexibly and quickly to customer requests and regulatory requirements.

Following the successful conclusion of the acquisition process, various cultural initiatives were further pursued during the integration phase. Formats for exchanging ideas on various in-house initiatives relating to diversity, inclusion and equal opportunities were also strengthened and new measures were developed in cooperation with LBBW.

In view of regulatory and strategic requirements especially, the organisational structure as well as job descriptions and associated requirements are continuously reviewed and, where necessary, adjusted as needed. In the reporting period, the focus was on ESG, risk IT and IFRS compliance.

With regard to the construction of our new headquarters, the special civil engineering and geothermal work was completed on schedule and building shell work has begun. At the same time, the effects of the COVID-19 pandemic, the war in Ukraine and the associated supply chain issues, price volatility and inflationary tendencies continue to present challenges for the construction project.

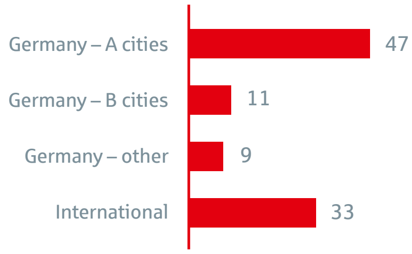
The Bank currently holds three strategic investments with active business operations: the company OnSite ImmoAgent GmbH, founded by Berlin Hyp and in which another strategic investor is involved, 21st Real Estate GmbH and the venture capital fund PropTech1 Fund 1 GmbH & Co. KG. Additional opportunities for strategic investments are continuously examined within the framework of our efforts to explore new business approaches and potential strategic cooperation projects. Here, we are focusing in particular, but not exclusively, on companies in the PropTech scene that use innovative technologies and address ESG issues.

New Lending above the Previous Year's Level

Berlin Hyp reports contracted new lending in the amount of €3.0 billion for the second half of 2022 which, despite the Russia-Ukraine war, is still above the result from the first half year (30.06.2022: €2.8 billion). With realised extensions (capital employed ≥ 1 year) of €0.8 billion (30.06.2022: €0.3 billion), this put the total new business volume at €3.8 billion (30.06.2022: €3.1 billion). Despite the market uncertainties at the moment, this figure is still above the planned level.

Of Berlin Hyp's new lending, 67 per cent (30.06.2022: 72 per cent) was accounted for by domestic properties, 47 per cent (30.06.2022: 42 per cent) of which were in A cities, eleven per cent (30.06.2022: 21 per cent) in B cities, and nine per cent (30.06.2022: nine per cent) in other locations in Germany. 33 per cent (30.06.2022: 28 per cent) involved the financing of properties abroad. These were distributed across the Netherlands at 18 per cent (five per cent, 30.06.2022), France at nine per cent (twelve per cent, 30.06.2022) and Poland at six per cent (eleven per cent, 30.06.2022).

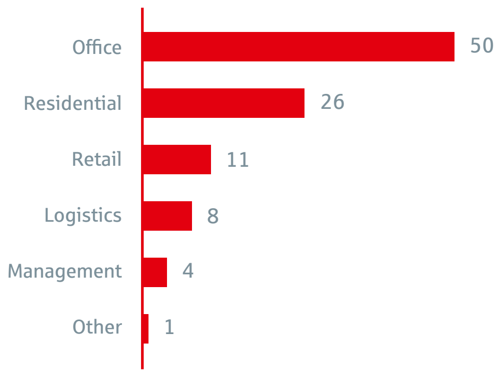
Regions
in %



At 76 per cent (30.06.2022: 69 per cent), most new lending related to the investors customer group. Another 21 per cent (30.06.2022: 20 per cent) was realised with developers and builders. Contracts with housing societies accounted for three per cent (30.06.2022: eleven per cent) of new business.

New lending is broken down by real estate type as follows:

Real estate types
in %



Public Sector Lending Unchanged

The Bank no longer actively pursues new public sector lending in accordance with its strategy. As in previous years, no new loans were issued in the second half of 2022. The loan volume remained unchanged at €0.4 billion and will gradually decline as and when individual loans become due.

S-Group Business Declines Slightly

The S-Group business of Berlin Hyp generated an amount of more than €0.5 billion in the second half of 2022 with the total volume of business conducted with S-Group partners (30.06.2022: €0.8 billion).

S-Group partners participated in financing through the product ImmoAval with a total volume of €112 million (30.06.2022: €349 million). In the traditional syndicate business, a total volume of €383 million (30.06.2022: €386 million) was financed in several transactions and a new subscription was received for the ongoing ImmoSchuldschein transaction. The products ImmoGarant and ImmoNachrang were not used in the reporting period.

The number of business relationships with savings banks increased further with 170 institutions (30.06.2022: 168 institutions) from all S-Group regions. 68 institutions of them are users of the platform ImmoDigital.

In its current version, the ImmoDigital platform will only offer the product ImmoAval. As a result of the successful market launch, Berlin Hyp is currently developing the platform further. The objective is to achieve a completely digital processing of the investment formats of the Immo product range developed for German savings banks in the first quarter of 2023.

Refinancing Guaranteed at All Times

Medium and long-term refinancing is generally carried out by issuing mortgage Pfandbriefe and unsecured bonds. In the second half 2022, the Bank borrowed €2.6 billion in capital using these instruments. The Bank had market access at all times. With a total of three benchmark transactions, the Bank was a regular issuer on the syndicated bond market. Berlin Hyp also celebrated two bond issue premieres in 2022: the Bank's first Pfandbrief in Swiss francs (which was also a Green Bond) and its first green Jumbo Pfandbrief. With 17 outstanding benchmark issues, Berlin Hyp remains the most active issuer of Green Bonds in Europe in the commercial banking segment.

Equity Position Strengthened through Further Additions

The common equity Tier 1 ratio is 13.7 per cent (30.06.2022: 14.0 per cent) and the total capital ratio is 15.5 per cent (30.06.2022: 15.9 per cent), taking into account the approval of the annual accounts. By reinforcing the special item for general banking risks in accordance with Section 340g of the German Commercial Code (HGB) with an additional €25.0 million (30.06.2022: €50.0 million), and through additional capital coverage as required by the supervisory authorities, it was possible to keep capital ratios relatively constant despite slightly increased risk assets. The capital ratios were above the previous year's forecast of the Bank.

Earnings Situation

Operating result
(after risk provisioning)

€ 69.7 million

The acquisition of Berlin Hyp by LBBW, with effect from 1 July 2022, resulted in two short financial years in the 2022 calendar year. The figures contained in the profit and loss account, including the comparison figures, therefore refer to six months in each case and are thus comparable to the previous year's figures to a limited degree only.

Significant Increase in Profit Before Income Tax

In the second short financial year (01.07.2022 to 31.12.2022), Berlin Hyp recorded profit before income tax of €69.7 million (01.01.2022 to 30.06.2022: €30.0 million). This earnings performance exceeded that which was forecast for the second half of 2022.

In view of the difficult underlying conditions it faces, the Bank is satisfied with this development of earnings. The Russia-Ukraine war did not lead to any significant negative effects for the loan portfolio in the second short financial year either. In order to reflect the latent counterparty default risks in the lending business in connection with current crisis factors in a manner which adequately reflects the risks, the model adjustment was, within the framework of the lump-sum value adjustments, increased to a total of €87.9 million. Of this amount, a total of €79.1 million was accounted for by valuated loans and €8.8 million by the creation of additional reserves for irrevocable lending commitments. Provision reserves were reversed, on the other hand. The special item pursuant to Section 340g of the German Commercial Code (HGB) was further strengthened using the Bank's own resources through the addition of €25.0 million (01.01.2022 to 30.06.2022: €50.0 million). The reasons for this development of profit are described in the following sections.

Net Interest Income Excluding One-off Effects Remains Stable

Net interest income totalled €197.4 million (01.01.2022 to 30.06.2022: €258.6 million). The positive development was facilitated by growth in average mortgage loan portfolios in the amount of €0.8 billion in comparison to the first short financial year in 2022, with stable margins in the core business. Participation in the targeted longer-term refinancing operations with the Deutsche Bundesbank (TLTRO-III) and the resulting favourable refinancing led to a reduction in interest rates of €5.1 million in comparison to €64.5 million in the first short financial year. The interest rate reduction in the first short financial year included additional income in the amount of €43.0 million from the "additional special interest period" that was recognised in a profit and loss relevant manner in the first half of 2022.

Net Commission Income Increases

Net commission income of €12.4 million was higher than the figure for the first short financial year (01.01.2022 to 30.06.2022: €11.4 million). This figure for the second short financial year mainly includes commission income from the lending business (which was higher than in the first short financial year due to the positive development of new lending), as well as charges for sureties and credit brokerage. Additional credit processing fees are distributed in the interest margins over the term.

Decrease in Operating Expenditure

Operating expenditure comprises staff expenditure, other operating expenditure, depreciation on tangible assets and amortisation of intangible assets. This totalled €89.9 million (01.01.2022 to 30.06.2022: €116.7 million).

Staff expenditure decreased to €41.0 million (01.01.2022 to 30.06.2022: €49.9 million), whereby this decline was due to lower pension obligations, which in turn were a result of changes to actuarial parameters.

Other operating expenditure decreased to €43.2 million (01.01.2022 to 30.06.2022: €61.9 million), whereby the comparison is distorted by the expenses from the payment of the European bank levy for 2022 in the amount of €25.5 million, which were already fully incurred in the first short financial year in 2022. The key elements of other operating expenditure are legal and consulting costs, IT expenditure and building and premises costs. Due to the process of teaming up with LBBW and the implementation of strategically essential projects, other operating expenditure, adjusted for the bank levy, rose moderately and within expectations.

Write-off on fixed assets and intangible assets saw a slight increase to €5.7 million (01.01.2022 to 30.06.2022: €4.9 million).

Improved Other Operating Result

The other operating result amounted to €-0.2 million (01.01.2022 to 30.06.2022: €-11.8 million). Along with the reversal of provisions, this item basically consists of interest portions, above all from the compounding of pension reserves. The real estate acquisition tax expenses expected from the sale of Berlin Hyp led to higher expenditure in the first short financial year.

Risk Provisions Impacted by the Increase to the Model Adjustments

In the second short financial year of 2022, again Berlin Hyp did not have any significant loan defaults, despite the fact that the impacts of the Russia-Ukraine war continued to constitute a burden for the economic environment. In order to reflect the latent counterparty default risks in the lending business in a manner which adequately reflects the risks, the model adjustment for valuated loans was, within the framework of the lump-sum value adjustments, increased by €51.8 million to €79.1 million and, through the creation of additional reserves for irrevocable lending commitments, by €6.1 million to €8.8 million, resulting in a total of €87.9 million. When assessing the loan portfolio, Berlin Hyp thus takes into account all uncertainties regarding possible further developments in the war in Ukraine, as well as uncertainties relating to supply chain bottlenecks, the possible impact of various developments on energy-intensive industries, high inflation rates or the increased production costs associated with the turnaround in interest rates, and the digital and sustainable transformation. Provision reserves were reversed, on the other hand. A detailed overview of the development of the lending risk provisioning can be found in the notes.

Negative valuation results for securities in the liquidity reserves resulted in an expenditure of €44.9 million due to exchange rate losses (01.01.2022 to 30.06.2022: €54.7 million).

Further Additions to the Fund for General Banking Risks

The Bank added another €25.0 million (01.01.2022 to 30.06.2022: €50.0 million) to the fund for general banking risks pursuant to Section 340g of the German Commercial Code (HGB). This fund amounted to €750.0 million as of the reporting date.

Significant Improvement to Profit Before Income Tax

The Bank reported a higher-than-expected profit before taxes result of €69.7million (01.01.2022 to 30.06.2022: €30.0 million). This positive development was largely due to the elimination of the bank levy in the second short financial year in 2022, the improvement to the risk provisioning result and lower allocations to the fund for general banking risks. At the same time, the decline in net interest income negatively affected the earnings result.

Income Tax and the Annual Surplus

The acquisition of Berlin Hyp by LBBW led to the termination of the income tax unity and the profit and loss transfer agreement with Landesbank Berlin Holding. Taking into account loss carryforwards from the period prior to this termination, income tax expenditure for the second short financial year amounted to €28.7 million (01.01.2022 to 30.06.2022: €0.0 million). Despite the further reinforcement of the special item for general banking risks, the annual surplus totalled €41.0 million (profits transferred on the basis of the profit transfer agreement in the period 01.01.2022 to 30.06.2022: €30.0 million).

Earnings Development	01.07. – 31.12.22	01.01. – 30.06.22	Change	Change
	€ m	€ m	€ m	%
Net interest and commission income	**209.8**	**270.0**	**–60.2**	**–22.3**
Net interest income	197.4	258.6	–61.2	–23.7
Net commission income	12.4	11.4	1.0	8.8
Operating expenditure	**89.9**	**116.7**	**–26.8**	**–23.0**
Staff expenditure	41.0	49.9	–8.9	–17.8
Other operating expenditure	43.2	61.9	–18.7	–30.2
of which expenditure for bank levy	*0.0*	*25.5*	*–25.5*	–
Depreciation on fixed assets	5.7	4.9	0.8	16.3
Other operating revenue/expenditure	–0.2	–11.8	11.6	–98.3
Operating result before risk provisioning	**119.7**	**141.5**	**–21.8**	**–15.4**
Risk provisioning	**–25.0**	**–61.4**	**36.4**	**–59.3**
Valuation result of lending business	19.9	–6.7	26.6	–
Valuation result of securities business	–44.9	–54.7	9.8	–50.0
Operating result after risk provisioning	**94.7**	**80.1**	**14.6**	**–**
Financial investment result	0.0	0.0	0.0	–
Fund for general banking risks	25.0	50.0	–25.0	–
Other taxes	0.0	0.1	–0.1	–
Operating result before income taxes and profit transfer	**69.7**	**30.0**	**39.7**	**–**
Income taxes ("–" = earnings)	28.7	0.0	28.7	–
Profits transferred on the basis of the profit transfer agreement	0.0	30.0	–30.0	–
Net income	**41.0**	**0.0**	**41.0**	**–**

Net Assets Position

Decrease in the Balance Sheet Total

Berlin Hyp's balance sheet total amounted to €34.4 billion on 31 December 2022, which corresponds to a decrease of €3.7 billion as compared to the figure of €38.1 billion recorded at the end of the first short financial year on 30 June 2022. On the asset side of the equation, this decline was mainly due to the almost complete reduction in cash reserves, which were €4.0 billion lower, as well as a decrease in fixed-interest securities of €0.3 billion to €5.6 billion. On the other hand, mortgage loan portfolios increased by €1.1 billion to €27.5 billion in line with the business strategy.

Changes in Major Balance Sheet Items

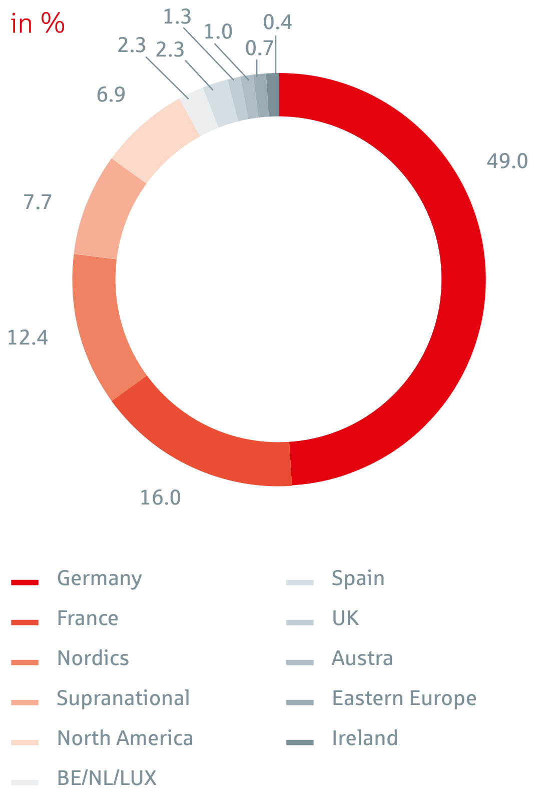
Claims against banking institutions decreased by €0.6 billion to €0.2 billion. These mainly consist of accrued interest from interest swaps and short-term Bundesbank deposits.

Claims against customers increased by €1.1 billion to €28.0 billion. This increase resulted from the positive development of the mortgage loan portfolios, which at €27.5 billion at the balance sheet date were higher than the €26.4 billion recorded in the first short financial year. Additions to new lending were offset to a lesser extent by planned and extraordinary outflows through early repayments. The public sector lending portfolio, which is not strategic anymore, remained unchanged at €0.4 billion. Loan commitments not yet disbursed amounted to €3.3 billion on 31 December 2022 (30.06.2022: €3.4 billion).

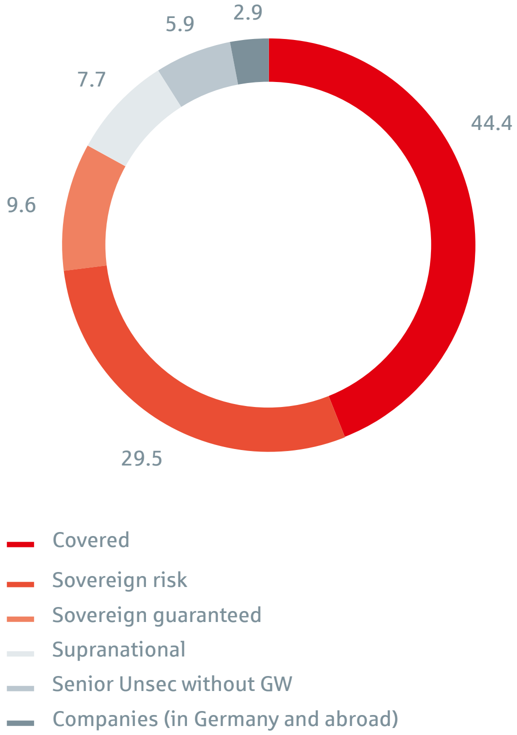
The portfolio of debentures and other fixed-interest securities decreased by €0.3 billion to €5.6 billion. Nominal additions of €0.9 billion were offset by nominal disposals of €1,2 billion. All securities are allocated to the liquidity reserve and are partially used to cover Pfandbriefe issued by the Bank.

As at 31 December 2022, the issuer structure of the securities portfolio was as follows:

Countries
in %



Lending risk
in %



The decrease in liabilities to banking institutions of €4.3 billion to €4.8 billion was mainly due to the repayment of liabilities stemming from the TLTRO-III programmes of the Deutsche Bundesbank. These liabilities had declined by €6.0 billion to €2.5 billion as at the balance sheet date. On the other hand, repo (repurchase) transactions in the amount of €1.6 billion were concluded.

Liabilities to customers decreased slightly as compared to the end of the first short financial year – by €0.2 billion to €4.7 billion, whereby this was mainly due to a lower level of overnight deposits.

Securitised liabilities to customers increased by €0.6 billion to €22.1 billion. New issues of €3.6 billion were offset by maturities of €3.0 billion.

Equity

Berlin Hyp's subscribed capital amounted to €753,389,240.32 as at 31 December 2022. It is fully paid up and divided into 294,292,672 bearer shares. The shares have a theoretical par value of €2.56. Furthermore, the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) included a reserve of €750.0 million as at 31 December 2022 (30.06.2022: €725.0 million). Subordinated capital of €141.1 million can also be taken into consideration as available under regulatory law.

During the reporting year, the requirements with respect to regulatory capitalisation (CRR II/CRD V, Solvency Regulation) were complied with as of the individual reporting dates. Berlin Hyp identifies regulatory capital backing for counterparty default risk with the aid of the IRB-based approach (internal ratings-based approach). Operational risk is calculated using the Advanced Measurement Approach (AMA). The common equity tier 1 capital after adoption was €1,623.4 million as at 31 December 2022, equity was €1,832.8 million, and overall risk (RWA) amounted to €11,854.0 million. The capital ratios were 13.7 per cent for the common equity tier 1 capital ratio and 15.5 per cent for the total capital ratio.

The profit and loss account for the second short financial year in 2022 shows a balance sheet profit of €41,013,315.92. The Board of Management and the Supervisory Board will propose to the Annual General Meeting that a total amount of €40,906,681.41 be used to pay a dividend of 13.9 cents per share, with the remaining balance sheet profit of €106,634.51 to be carried forward to new account.

Additional Performance Indicators

The leverage ratio calculated according to the Delegate Regulation (EU) 2015/62 was 4.5 per cent after adoption as at 31 December 2022. The balance-sheet-oriented minimum requirement for eligible liabilities (MREL) has become relevant for reporting in 2022 based on the decision of the liquidation authority. As at 31 December 2022, it was 24.0 per cent based on the leverage ratio exposure (LRE) and 72.8 per cent based on the total risk exposure amount (TREA).

The ratio of net income (annual surplus) amounting to €41.0 million and the balance sheet total as at 31 December 2022 amounting to €34.4 billion results in a return on capital of 0.1 per cent as at 31 December 2022.

Financial Position

In the reporting period, the refinancing funds raised amounted to €2.6 billion. Of this total, €2.3 billion were attributable to mortgage Pfandbriefe and €0.3 billion to unsecured bank bonds, which were assumed at very good conditions compared to competitors. €330 million of covered and €303 million of uncovered securities were issued as private placements.

In the reporting period, Berlin Hyp appeared on the capital market with syndicated bonds three times. In July 2022, the Bank issued its first Green Bond mortgage Pfandbrief in Swiss francs, with a volume of CHF 200 million and a coupon of 0.9675 per cent. The re-offer spread of SARON was +12 basis points. This was followed in August by the second of the Bank's bond issue premieres: its first ever green Jumbo bond issue. This three-year bond was issued with a coupon of 1.25 per cent at a re-offer spread of mid-swap of -4 basis points. A total of 58 per cent of this issue was placed with investors in the DACH region (Germany, Austria and Switzerland). The biggest demand here (42 per cent) was from funds, followed by banks (40 per cent). In October 2022, the Bank issued a five-year Pfandbrief with a volume of €750 million and a coupon of 3.0 per cent at a re-offer spread of -2 basis points. At 73 per cent, investor demand was especially high on the home market. Among investors from abroad, investors from the UK displayed particular interest (share of 10 per cent). Banks made up the largest group of investors, with a share of 72 per cent. Banks were followed here by central banks and public institutions (18 per cent).

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

Following the takeover of Berlin Hyp by LBBW effective 1 July 2022, Moody's revised the long-term deposit, issuer and senior unsecured rating from Aa2 to Aa3. Moody's also lowered the Bank's adjusted baseline credit assessment (BCA) from A3 to Baa1. The ratings for the mortgage Pfandbriefe and senior non-preferred bonds were not affected by this. They remain at Aaa and A2, respectively. Also in response to the acquisition, FitchRatings lowered the long-term issuer default rating (IDR) for Berlin Hyp from A+ to A- and the rating of the senior preferred bonds from AA- to A. The bbb+ viability rating was not affected by these rating changes. In November, FitchRatings confirmed the A- long-term issuer default rating (IDR) and the bbb+ viability rating for Berlin Hyp. The outlook for all ratings is stable at the moment.

Aaa
from Moody's

Pfandbrief issue rating

Refinancing funds[1]	Portfolio without pro rata interest 30.06.22	New issues[2] 01.07. – 31.12.22		Maturities[3] 01.07. – 31.12.22	Portfolio without pro rata interest 31.12.22
	Mio. €	Mio. €	%	Mio. €	Mio. €
Mortgage Pfandbriefe	13,725.0	2,020.0	84.8	1,523.7	14,221.3
Public Pfandbriefe	–	–	–	–	–
Other bearer bonds, non-preferred	2,605.0	–	–	30.0	2,575.0
Other bearer bonds, preferred	3,677.0	275.0	11.5	205.0	3,747.0
Registered mortgage Pfandbriefe	1,587.0	59.8	2.5	26.0	1,620.8
Registered public Pfandbriefe	200.0	–	–	–	200.0
Schuldschein, non-preferred	96.7	–	–	10.0	86.7
Schuldschein, preferred	271.1	10.5	0.4	–	281.6
Registered bonds, non-preferred	1,207.8	4.7	0.2	10.0	1,202.5
Registered bonds, preferred	183.4	12.5	0.5	–	195.9
Subordinated bearer bonds	–	–	–	–	–
Subordinated Schuldscheine	119.5	–	–	–	–
Subordinated registered bonds	108.0	–	–	–	108.0
	23,780.5	**2,382.5**	**100.0**	**1,804.7**	**24,358.3**

[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 30.06.22	New issues[2] 01.07. – 31.12.22		Maturities[3] 01.07. – 31.12.22	Portfolio without pro rata interest 31.12.2022
	CHF m	CHF m	%	CHF m	CHF m
Mortgage Pfandbriefe in CHF	–	200.0	100.0	–	200.0
Other bearer bonds, CHF preferred	605.0	–	–	–	605.0
	605.0	**200.0**	**100.0**	–	**805.0**

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

Financial and Non-Financial Performance Indicators

Financial Performance Indicators

The share purchase agreement concluded between Landesbank Berlin Holding and LBBW eliminated the previously used financial performance indicator of “Transfer of profit to Landesbank Berlin Holding”. The new and now most important financial performance indicator of “Annual surplus” (which reflects net income) has been used since 1 July 2022. This indicator has developed better than expected, increasing to €41.0 million, despite the further reinforcement of the special item for general banking risks through the addition of €25.0 million.

Net interest and commission income was lower than in the first short financial year, although the decline of €60.2 million, to €209.8 million, was not as significant as expected. Net interest income decreased by €61.2 million to €197.4 million. This decline was especially due to the less favourable conditions for the targeted longer-term refinancing operations with the Deutsche Bundesbank (TLTRO-III). This led to an interest rate reduction which, taking into account additional income in the amount of €43.0 million gained in the first short financial year, was €59.4 million lower than in the first short financial year. At €12.4 million, net commission income developed positively and was €1.0 million higher than the figure recorded in the first short financial year.

The cost-income ratio expresses the ratio of operating expenditure to net interest and commission income, plus the other operating result. Operating expenditure decreased significantly, whereby this was largely due to the fact that the European bank levy was recognised as an expense back in the first short financial year. This, in conjunction with an improved other operating result, and despite lower net interest and commission income, led to a decline in the cost-income ratio of 2.3 percentage points to 42.9 per cent (30.06.2022: 45.2 per cent). A considerable increase in the cost-income ratio had been expected in the plan.

The return on equity, which also includes the allocation to the fund for general banking risks pursuant to Section 340g of the German Commercial Code (HGB), was above the target at 11.3 per cent (30.06.2022: 9.8 per cent).

At 13.7 per cent after adoption (30.06.2022: 14.0 per cent), the common equity tier 1 capital ratio – after the allocation to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) of €25.0 million (30.06.2022: €50.0 million) – corresponds to the expectations, even taking into consideration the stricter equity requirements according to CRR II/CRD IV. The Bank had forecast a common equity tier 1 capital ratio of 13.7 per cent based on a 6-month period in the previous year.

The volume of new lending was €3.0 billion and thus on the level of the prorated forecast value, and slightly above the first short financial year’s figure of €2.8 billion on 30 June 2022. Including long-term extensions, new lending increased by €0.8 billion to €3.8 billion (01.01.2022 to 30.06.2022: €3.1 billion). Considering the COVID-19 pandemic and the Russia-Ukraine war, the bank expected slightly lower new lending volumes for the 2022 second short financial year as a whole.

Non-Financial Performance Indicators

The share of new lending with new customers was 37 per cent (30.06.2022: 61 per cent) of the total volume of new lending, which was significantly higher than the expected share of 20 per cent for second 2022 short financial year.

The market penetration at the savings banks, i.e. entering the number of savings banks with which Berlin Hyp maintains business relations, is a reflection of the Bank’s strategic goal of positioning itself as S-Group partner of the savings banks and its brand core, based on partnership. Furthermore, Berlin Hyp strives to expand its product and service portfolio consistently in order to further increase its appeal as S-Group partner. In the second half of 2022, the volume of the S-Group business amounted to €0.5 billion (01.01.2022 to 30.06.2022: €0.8 billion), and was therefore lower than in the comparable period in the previous year. The number of active business relationships with savings banks increased further to 170 institutions (30.06.2022: 168) from all S-Group regions. A key contributing factor was the successful market launch of the ImmoDigital platform.

For the market segment, the target portfolio for management purposes has become established in recent years and has been expanded with aspects on return on equity. The following aggregation groups are used to derive the target portfolio: real estate types, customer groups, lending regions and rating classes. The target portfolio targets set were all met in the second half of 2022. Individual deviations were analysed and taken into account in the portfolio management. Regular internal research studies are employed to analyse and evaluate Berlin Hyp's markets.

In addition to market conditions, the performance of Berlin Hyp depends largely on its employees. Since the reporting year 2018, the headcount in full-time equivalents (FTE) has been a non-financial performance indicator. As of 31 December 2022, the headcount was 549.9 FTEs (30.06.2022: 535.1 FTEs), which included 11.8 FTEs (30.06.2022: 11 FTEs) of junior staff[3].

The new future-oriented organisational structure has been largely implemented.

Strategic resource planning is a means to ensure the functional capability and future viability of Berlin Hyp. To support this quantitative and qualitative human resource planning, early retirement and severance agreements are offered on the basis of a works agreement. Positions requiring successors are filled early if at all possible, in order to ensure the transfer of expertise.

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. Now, the volume of outstanding Green Bonds amounts to €7.3 billion. Furthermore, in spring of 2021, the Bank issued a Sustainability-Linked Bond, in spring of 2022 a Social Bond. As of the balance sheet date, the total volume of all outstanding ESG bonds amounts to €8.6 billion. The activities on the liabilities side in the area of Sustainable Finance go hand in hand with continually developing and implementing the sustainability targets on the assets side. Berlin Hyp also plans to increase the share of loans attributable to the financing of green buildings to one-third by 2025. At 30.2 per cent, the share of green buildings at Berlin Hyp has developed slightly above the original estimation.

The sustainability ratings for the first half of 2022 continue to confirm Berlin Hyp's above-average position in the sector. In the first half of 2022, the Bank's MSCI rating of AAA was confirmed. The ESG risk rating by Sustainalytics remained unchanged at 7.1 "negligible risk". The ISS ESG Prime Status rating and overall score of B- maintain their validity. These very good rating results from the rating agencies document Berlin Hyp's outstanding commitment to sustainability management, honour its investment products – green and sustainability bonds – and recognise its responsible attitude to people and the environment.

[3] The data foundation for calculating personnel figures was changed on 31 December 2022, at which point "total headcount excluding the Board of Management" was replaced as the data foundation by the number of "active employees" (excluding the Board of Management, student employees, students in dual study programmes, interns, employees in inactive employment relationships, and other employees on a leave of absence). Figures from the previous period were recalculated using the new data foundation.

Overall Statement

Given the described difficult underlying conditions and the allocation of €25.0 million (30.06.2022: €50.0 million) to the fund for general banking risks to strengthen regulatory capital, which impairs results, the Board of Management is satisfied with the higher-than-expected earnings performance.

The profit and loss account for the second short financial year in 2022 shows a balance sheet profit of €41,013,315.92. The Board of Management and the Supervisory Board will propose to the Annual General Meeting that a total amount of €40,906,681.41 be used to pay a dividend of 13.9 cents per share, with the remaining balance sheet profit of €106,634.51 to be carried forward to new account.

III Forecast, Opportunities and Risk Report Forecast, Opportunities and Risk Report

The forecast report should be read together with the other chapters 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 of Berlin Hyp. There are uncertainties and risks regarding the occurrence of future events, many of which are beyond the Bank's control. As such, actual events may differ from the forecasts made in the forecast report.

In particular, the specific effects of the Russia-Ukraine war of a potential energy crisis and of possible second-round effects on the economy, individual markets and sectors cannot be conclusively assessed as yet. Given the situation, the forecasts presented below are highly uncertain.

Forecasts can only be made in a volatile environment to a limited degree. The main opportunities and risks of the forecasts for the key management indicators are presented below. Opportunities are defined as possible future developments or events that may lead to a positive forecast or target deviation for Berlin Hyp. On the other hand, risks are defined as possible future developments or events that may lead to a negative forecast or target deviation for Berlin Hyp. The risk types specific to banks are explained separately in the extended risk report.

[4] Sources for assumptions relating to macroeconomic development: Kiel Institute for the World Economy (IfW), ifo Institute

[5] Sources for assumptions about macroeconomic and sectorrelated underlying conditions: CBRE, Destatis, F+B, JLL Research.

Assumptions Relating to Macroeconomic Development[4]

For 2023, it can be assumed that the slowdown in global economic development that has now set in will continue and that growth rates will thus be noticeably lower than in the previous year. Potential growth opportunities are being held back significantly by uncertainties and risks stemming from geopolitical conflicts, ongoing high prices due to resource and energy scarcity and the higher financing costs that these have led to. With regard to the USA, it appears that the economic recession that was previously considered a certainty has been avoided, in large part due to the stable labour market data as of late.

Given the aforementioned developments, it is expected that growth in the eurozone will stagnate, whereby the possibility of a slight recessionary development can no longer be excluded here.

Business climate indicators for Germany are now positive once again, meaning there is reason to hope that the forecasts for economic growth that were recently released might be upwardly adjusted. These forecasts predicted negative growth of GDP of around -0.8 per cent as compared to the previous year.

Assumptions Relating to Industry Development[5]

Given the expectations of a recession in 2023, the central banks find themselves facing conflicting goals with regard to fighting inflation and preventing a recession. Still, in view of the high inflation rates, the monetary policy of the major central banks will likely remain restrictive in the forecast period. We can expect the central banks in both the USA and the eurozone to reduce their balances and increase interest rates even further in 2023, albeit in smaller increments than in 2022. The upcoming balance reduction to be implemented by the ECB, in combination with a higher volume of new bond issues and economic uncertainties, will foster an environment marked by increasing risk premiums in the covered bond and senior unsecured bond markets. Should the economy recover as the year proceeds, this could have a positive effect on risk premiums, particularly in connection with unsecured bonds.

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 in December 2022 that it would consider further interest rate increases in 2023 in order to battle inflation, Berlin Hyp expects activity on the real estate investment market to remain subdued. Negotiations necessitated by discrepancies between the price expectations of buyers and sellers will slow down activity on the transaction market until such a time as policies that restrict financing are no longer expected to continue. In addition, declining economic activity will lead to a further delay in purchasing processes, at least in the first half of 2023.

Given all of the aforementioned factors, Berlin Hyp believes it to be a realistic expectation that transaction volume in 2023 will remain at the previous year's level – i.e. in the range of €50 billion to €55 billion for commercial real estate and up to €15 billion for residential real estate.

With regard to the different types of real estate, investors will continue to focus in 2023 on easily accessible office real estate with high-quality furnishings and equipment, as well as residential and logistics properties in economically attractive cities and metropolitan areas. Despite a further recovery of consumer confidence in January 2023 (the third consecutive month), the continued loss of real purchasing power 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, more attention will be paid to solvent operators with long-term contracts during the recessive phase that is already foreseeable for the coming year.

For all investment decisions, the ESG compliance of the property, tenants and borrowers will have to be taken into account – also conditional upon the EU taxonomy guidelines – will be increasingly more important, and for many existing properties of all types of use, high CapEx expenditure will be required in order to comply with ESG requirements.

Business Development

For the next years, Berlin Hyp is planning on establishing business relationships with additional savings banks in the S-Group business and to expand "ImmoDigital" into the central sales platform for S-Group products in the Immo product range. For this purpose, another release of "ImmoDigital" will be provided in the first quarter of 2023, which, starting in will facilitate the offer of additional products and that is to intensify the business relationships with our S-Group partners. However, due to the regional principle and the individual business focus of each savings bank, the growth rates in market penetration are generally limited. Failure to achieve these goals does not hold any significant risks to the Bank's business model or business success. However, achieving these two goals increases Berlin Hyp's chances of positioning itself sustainably as a long-term S-Group partner within the Sparkassen-Finanzgruppe.

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

In consideration of the regulatory requirements, however, earnings potential that arises in the securities portfolio should continue to be used to support the interest result 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.

Berlin Hyp expects net interest and commission income in 2023 to be significantly lower than the impressively high level reached in 2022. This will largely be due to the TLTRO-III one-off effect that will no longer apply. Berlin Hyp's net interest income is based on stable interest income in its core business resulting from stable portfolio and portfolio margins. The significant interest rate movements in 2022 have a positive impact on the equity yield. There are opportunities to further reinforce the market position by leveraging the expertise of Berlin Hyp as a commercial real estate financier and to exceed sales targets as well as the net interest income as a result. This could be further facilitated by the consistent implementation of the digitalisation strategy. In view of the development of interest rates, a lower level of unscheduled loan repayments and, correspondingly, more stable portfolios are expected. Potential risks may arise if the sales targets are not met, for example, due to a downturn in the real estate markets. Cancelled or postponed investments could lead to a decline in demand for commercial real estate financing. In addition, earnings risks arise if, due to strong competition, only interest margins lower than planned can be agreed in the core business, or if delays in implementing the digitalisation strategy lead to lower business potential than expected.

In terms of acquisition of new customers, a 20 per cent share of new lending is expected in 2023.

Given the challenging and unreliable planning environment that is still being impacted by the pandemic, as well as the demanding regulatory requirements that continue to prevail, Berlin Hyp expects new lending in 2023 to be significantly lower than the very successful level reached in 2022. Although the real estate markets and asset classes, which are still very crisis-resistant, run the risk of falling short of the plan, they may again also offer opportunities for a slightly higher level of new lending compared to planning, depending on how the Russia-Ukraine war, the interest rates and the pandemic progress.

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 level of 2022.

Berlin Hyp expects an overall slight decrease in operating expenditure in 2023 compared to the previous year. Human resource expenditures will develop under the influence of the positive effects associated with the allocations to pension obligations resulting from increasing 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 creation of an integrated SAP bank and the construction of the new headquarters, will lead to higher expenditures. The latter will be neutralised over time by lower operating costs. Berlin Hyp's incorporation into LBBW will continue to generate additional costs, 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. Since January 2019, resource management in this regard has been essentially based on a company agreement.

Contributions to the European banking levy are calculated by the banking supervisory authority. Berlin Hyp expects the contributions in 2023 to be somewhat higher than in 2022 due to the strong growth in business over the last few years. 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, this can have a positive impact on operating expenditure and the cost-income ratio. On the other hand, there is a risk that failure to reach planned objectives, project cost increases, negative interest rate developments or a bank levy set above the previous level will lead to higher operating expenditures and in turn to an increasing cost-income ratio.

Berlin Hyp expects to achieve a significantly higher "Other operating result" in 2023 due to the planned sale of the building at Corneliusstrasse 7.

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 Russia-Ukraine war is having a noticeable major impact on economic activity in many markets. In this context, sanctions, disruptions of the raw material supply, disruptions of supply chains or value losses in investments in Russia, Belarus or Ukraine may cause negative impacts on the economy and restrictions in the business activities of many companies. Berlin Hyp does not have claims against debtors in these countries, therefore, the inability of debtors from these countries to pay does not have direct consequences for the risk provisioning expenditures in Berlin Hyp's credit portfolio. However, Berlin Hyp may experience indirect effects on the valuation of the claims from commercial real estate financing. Moreover, the Russia-Ukraine war may trigger indirect effects on the securities portfolio of Berlin Hyp. Increased volatility on capital markets may require additional value adjustments. Berlin Hyp does not hold any securities in its portfolio issued by issuers from Russia, Belarus or Ukraine, therefore the securities portfolio does not cause direct risks.

Higher energy prices, imminent shortages in energy supply, high inflation rates and increasing interest rates augment the uncertainties in the entire eurozone, including Germany. As such, it is still very likely that the economy will continue to struggle and that the real estate industry will also face negative consequences in future. The medium-term impact of the Russia-Ukraine war and of the COVID-19 pandemic on the economy and on the market development, particularly of hotel, office and retail properties, has so far been and will be difficult to estimate. The forecasts contained in the management report reveal a high degree of uncertainty in view of the dynamics that are emerging.

For example, unpredictable and unexpected developments in external macroeconomic, geopolitical and sector-related conditions and developments on the international financial markets can represent opportunities and risks for the risk result of the capital market business. Furthermore, despite careful planning, a trend reversal in the external framework conditions – for example in the event of a significant decline in real estate prices as a result of a higher-than-expected increase in interest rates – could lead to a deterioration in the creditworthiness of borrowers and also to a reduction in the value of the collateral provided, and could result in a need for additional risk provisioning or value adjustments for commercial real estate financing. It is also possible that the need for risk provisioning will be lower than expected if the economic environment is favourable.

Insofar as the effects of the Russia-Ukraine war are reflected in sustainable economic and capital market pressures beyond current expectations, this could result in vacancy rates and further losses in commercial property values contrary to previous expectations, putting a significant strain on real estate markets and leading to increased risk provisioning expenditures, particularly for hotel financing or the financing of specific retail use properties. Furthermore, there could be a decrease in the volume of new business and the number of holdings in the Bank's commercial real estate financing business. It therefore cannot be ruled out that the further developments in the Russia-Ukraine war will lead to negative effects on the planned earnings figures.

For planning purposes, Berlin Hyp assumes that the operating result after risk provisioning will decline slightly in 2023 compared to 2022, taking into account careful risk provisioning planning and the above-mentioned expectations. Profit before income tax will likely be higher than in the previous year, whereby this will be due to what is currently a somewhat lower level of planned allocations to the special item pursuant to Section 340g of the German Commercial Code (HGB).

While a re-emergence of the COVID-19 pandemic, a very negative progression of the Russia-Ukraine war, or negative future economic developments could result in lower-than-expected net income, there is a chance of higher earnings if the overall economic situation develops more positively than anticipated. If developments are worse than expected, net income in 2023 could be significantly lower than in 2022 due to rising risk provisioning expenditures and effects that negatively impact the interest result. Should this be the case, the other key management indicators may also develop less favourably than those shown in the forecast report. There may also be consequences for regulatory capital and the regulatory indicators. Therefore, it cannot be ruled out that the further developments of the Russia-Ukraine war as well as the interest rate environment may also have a considerable negative impact on risk management parameters.

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.

At the same time, however, there is also a chance that the negative effects of the Russia-Ukraine conflict and the interest rate development will prove to be less persistent or milder than what the Bank has currently assessed and taken into account in the forecasts. Property markets could therefore take a more positive turn than the Bank currently expects. Factors such as a persistently high demand for real estate due to a lack of investment alternatives could also influence recovery. The resulting higher demand for loans would create opportunities for the Bank to develop new and existing business in its core business area.

In 2023, the return on equity should be on about the same level as in 2022 and still be at least at the upper end of the target range of eight to ten per cent. If the annual surplus 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.

At the end of 2023, the Bank expects a common equity tier 1 ratio of 14.1 per cent. Additional stricter regulatory requirements are planned in the coming years, such as the setting of further increasing macroprudential capital buffers and CRR II and “Basel IV”, which will also have a strong impact on Berlin Hyp. The introduction of these capital buffers or 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 the 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 and rating changes due to the changed economic framework conditions caused by rising inflation and interest rates 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 the conditioning or the expected new business 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.

In addition, future regulatory interventions may be accompanied by restrictions and therefore by earnings risks, and the implementation of new regulatory requirements by additional operating expenditure. There are also risks from the Bank’s membership in the Institutional Protection Scheme of the Sparkassen-Finanzgruppe. As part of compensation and support measures, the institutions in the protection scheme could be required to make special payments, which would put pressure on the Bank’s earnings. The same applies to potential obligations to make additional contributions to the restructuring fund for banking institutions. It is currently not possible to predict whether such payments will arise and in what amount.

The change in shareholders in 2022 may result in significant changes. For example, additional costs could arise for the insourcing of activities that have so far been outsourced to other group companies (including Landesbank Berlin) or for fulfilling additional reporting requirements for the new shareholder. As a result, the cost-income ratio may fail to meet the described expectations. Regulatory requirements (e.g. limits on large loans within a new group) can, in corresponding processes, also have a negative impact on customer relationships and the financing portfolio. Differences in external ratings between the acquirer and Berlin Hyp could lead to higher refinancing costs for Berlin Hyp.

On the other hand, the change of shareholders presents considerable opportunities for Berlin Hyp. For example, a close cooperation with LBBW may generate cost synergies through changes such as economies of scale at the group level or the more cost-effective assumption of previously outsourced activities, thereby leading to positive effects on operating expenditure and the cost-income ratio as a result. There are also earning opportunities if close cooperation leads to new customer relationships and therefore to an expansion of the core business. This could be reflected in higher-than-expected interest result and net commission income, and could also have a positive impact on other management indicators, such as return on equity and the refinancing situation.

Overall Statement

Fierce competition in commercial real estate financing, the still volatile capital and financial market environment and the uncertainties regarding the impacts of the Russia-Ukraine war present major challenges for Berlin Hyp. Moreover, there are more regulatory requirements, which require the further strengthening of the equity capital.

In spite of these framework conditions, the second half of the 2022 short financial year was favourable and better than expected. The good result strong used to make a further allocation to the fund for general banking risks, thereby strengthening regulatory equity capital.

Along with the considerable potential that can be exploited through its cooperation with LBBW and its ongoing involvement in the Sparkassen-Finanzgruppe, the Bank is also planning to expand its S-Group business further with the Immo product range, and also further expand the “ImmoDigital” platform – and sees additional opportunities for the Bank in these areas as well.

Berlin Hyp expects profit before income tax in 2023 to be higher than in 2022 and thus remain very positive.

The Board of Management believes that Berlin Hyp remains well positioned for the future despite the increasingly challenging environment and therefore limited forecasts.

Risk Report

Risk Management System

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 risk-bearing capacity and compliance with specified minimum ratios through the limitation of economic risks and by establishing upper limits for tied capital.

Berlin Hyp is subsidiary of Landesbank Baden-Württemberg (LBBW).

Risk Management System at the LBBW Group
A number of interlinked principles and rules make up the of risk management system of the group.

As the superordinate regulation, the business strategy outlines strategic underlying conditions. It defines that the controlled incurrence of risks within the scope of a risk strategy is an elementary aspect of the banking business. Standardised Group risk policies aim to ensure that assumed risks remain acceptable. All companies and organisational units have to ensure that all risks are transparent and measurable under the uniform groupwide methodology.

The LBBW risk strategies contain details on these requirements. The Board of Management of LBBW is responsible for these, and the members of the Board of Management discuss them with the members of the LBBW Supervisory Board. Compliance with the risk strategies are continuously monitored.

The interface agreement on risk control that was concluded between LBBW and Berlin Hyp defines the framework for operational risk controlling as well as the responsibilities and escalation processes for risk management at the Group. Limit systems and escalation processes are described for each major risk type.

Berlin Hyp Risk Management System

Risk Policy Principles
The aim of risk management is the conscious acceptance of strategic risks in order to gain access to earning opportunities and, in doing so, generate appropriate and sustainable income. Risks are accepted in view of profitability. One parameter used in this regard is return on equity on the basis of regulatory and balance sheet capital. In terms of pricing, the Bank ensures that the revenues are in a reasonable proportion to the risks entered into.

Berlin Hyp's risk strategy is developed in line with the risk strategies at LBBW. The risk strategy is discussed by the Loans Committee and then presented to the Berlin Hyp Supervisory Board for review. The risk strategy is operationalised via medium-term and operational planning. Planning is conducted with consideration of all foreseeable risk and equity effects at the overall Bank level, and compliance with the risk strategy is continuously monitored.

The Risk Control division supports the Board of Management in all risk policy issues, in the development and implementation of the risk strategy and in the design of the system for measuring and limiting risks. The Risk Control division is essentially responsible for the ongoing monitoring of the risk situation, risk-bearing capacity, compliance with risk limits, and the regular reporting of the risk situation to the Board of Management and Governing Bodies.

The Risk Control division was restructured during the second half of 2022 in order to prepare it for future challenges and ensure it could be efficiently integrated into the new Group structure with LBBW as the Group parent company.

Documentation of the core elements of risk management at Berlin Hyp is centralised in the risk manual. This document contains a complete definition of the risk management process with the methods and processes for identification, measurement, evaluation, management and monitoring of the risks of the Bank. The risk management system encompasses both the evaluation of risks in accordance with regulatory requirements and a risk assessment from an economic perspective.

As part of a risk inventory, the Bank identifies the main risks on an annual basis, creates an overall risk profile for the Bank and reviews the methods used in the risk management system. Furthermore, the Internal Audit division regularly reviews the risk management system.

Berlin Hyp Governing Bodies
The Board of Management together with the Supervisory Board defines the strategy, which is then used as a basis for decisions by all divisions of the company. Overall responsibility of management for all essential elements of risk management is explicitly defined for the Board of Management in the rules of procedure.

In accordance with the business policy focus and in consideration of the economic risk-bearing capacity and regulatory provisions, the Board of Management defines risk limits and risk allocations in the various business areas as well as risk types by establishing limits and structural requirements. It is informed regularly about Berlin Hyp's net assets, financial position, profitability and risk situation.

The Supervisory Board is informed regularly by the Board of Management about the overall risk profile. It receives the quarterly risk reports and the financial statements according to the German Commercial Code (HGB). The Loan Committee, which also acts as the Risk Committee, consists of members of the Supervisory Board. It consults with the Board of Management regarding the principles of business policy regarding risks and risk management.

Internal Audit is an essential element of the business and process monitoring system. This encompasses a regular review and evaluation of the risk management processes for all types of risk. The Internal Audit division reports independently and directly to the Board of Management.

In addition, Berlin Hyp has set up various committees that regularly deal with risk management and the Bank's risk situation:

→ Supervisory Board, including its committees
→ Board of Management
→ Financial Steering Committee
→ New Business Committee
→ Market Assessment Committee

Details regarding the tasks, spheres of competence and members are defined in the respective rules of procedure.

As a part of risk inventory, the Risk Control division reviews the methods and models to identify, measure, aggregate and limit risks at least once a year and presents the results to the Board of Management.

Responsibility for operational risk management, that is the acceptance of risks within the scope of the risk limits, is assigned to the defined managers. Overall Bank risk management is the responsibility of the entire Board of Management, while market price risk and liquidity risk management in compliance with the binding requirements of the Board of Management adopted on the basis of the proposals by the Financial Steering Committee is handled by the Treasury division. Risk management in the loan business is implemented by the respective decision maker according to the assigned spheres of competence, taking into consideration the implications for the loan portfolio.

Reporting
Berlin Hyp's risk situation is presented in detail on a quarterly basis in a risk report for the Board of Management and the Supervisory Board. In addition to the material information on the individual risk types classified as material, the stress test results and information on risk concentrations, the risk report also includes information on adequacy of capitalisation, regulatory and economic capital, the current capital and liquidity indicators and refinancing items. In addition to the quarterly risk report, the Risk Control division provides monthly reports on individual risk types and

the Bank's risk-bearing capacity. Market and liquidity risks (procurement risk) are reported daily. In addition to the regular standardised risk reports, reports are also prepared on a case-by-case basis (ad hoc), if deemed necessary due to the current risk situation, for example, if predefined risk limits or loss limits are exceeded.

Besides the risk situation reports, regular reports are also prepared on the development of the business volume, the cover funds and reports on the Bank's net assets, financial and earnings situation.

The following table shows an overview of Berlin Hyp's key reports and their frequency of reporting:

Frequency of reporting	Subject of reporting
Daily	→ Market price and liquidity risks (procurement risk)
Monthly	→ Liquidity risks → Development of balance sheet items → Development of the earnings situation → Risks of counterparty default at portfolio level
Quarterly	→ Quarterly Commercial Code reports → Risk report (summary risk report on all risk types) → Risk reporting of the cover funds → Development of existing mortgages (including new lending and extension volumes, margins)

Risks

Risk Inventory

As part of a risk inventory, Berlin Hyp regularly (at least once per year) reviews the risks that can significantly affect the net assets position, the earnings situation or the liquidity position. Within the risk inventory, an overall risk profile for the Bank is created and the materiality of the identified risks is evaluated by the Board of Management. All identified material risks are included in the regular reporting of the Bank's risk situation. As part of a new product process, new products are analysed in detail before they are introduced at the Bank and, in particular, are reviewed with regard to their risks for the Bank. By involving all relevant divisions, the new product process is designed to ensure that risks from new or changing products can be properly mapped and monitored.

Within the risk inventory, Berlin Hyp reviewed sustainability risks or ESG risks (environmental, social, governance) as overarching risks and classified them as fundamentally relevant risks for the Bank. The Bank is continuously developing its risk management organisation in accordance with regulatory standards and recommendations. In 2022, the Bank developed qualitative and quantitative methods for measuring and controlling ESG risks in accordance with the principles from the ECB guide on climate-related and environmental risks.

Material Risks

Financial risks (FR) are risks that are intentionally taken ex-ante and whose price can be calculated, thus making it possible to generate income. Risk management activities are based on risk assessments and risk quantification. Financial risks include:

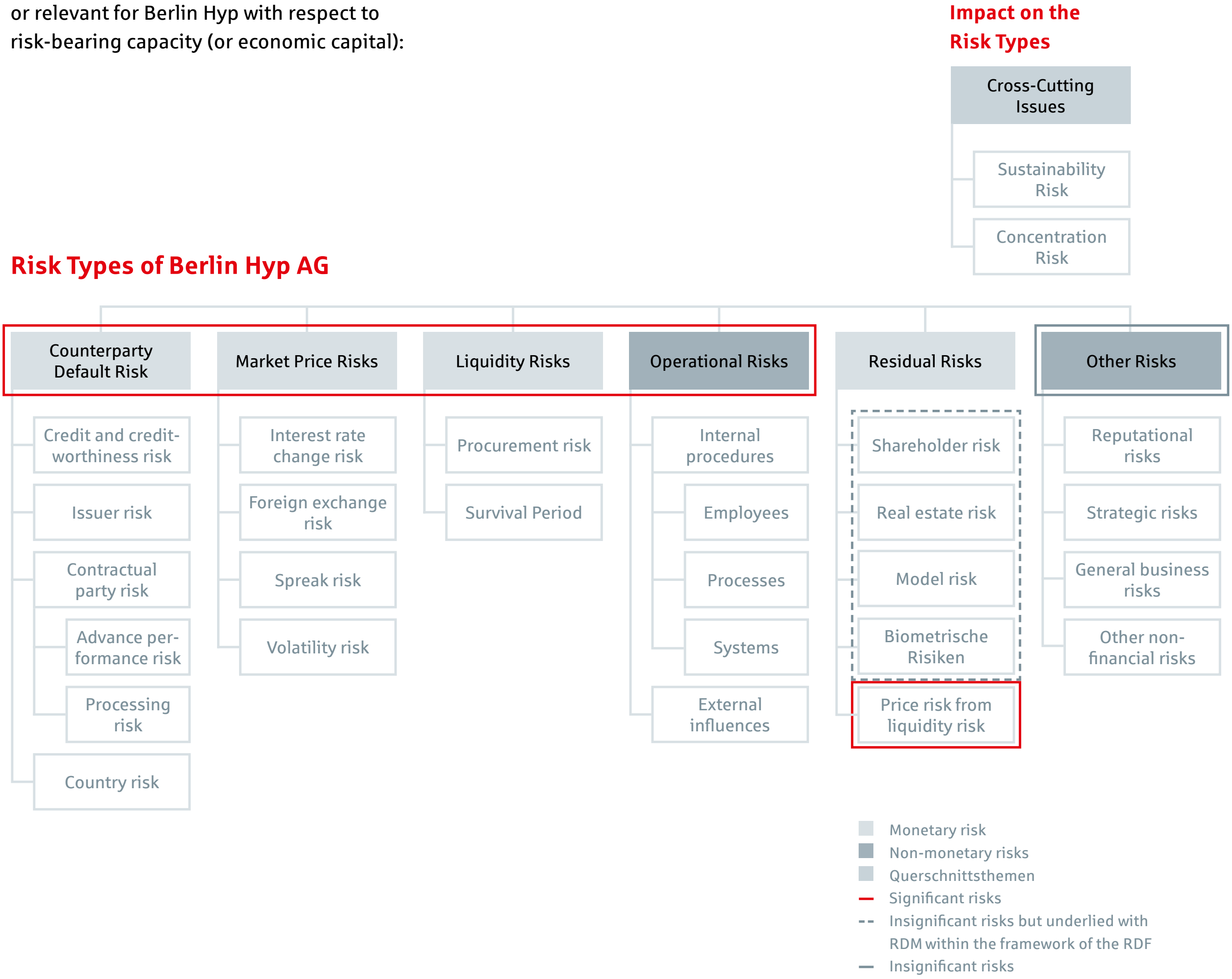
- → Counterparty default risks
- → Market price risks
- → Liquidity risks
- → Price risks stemming from the liquidity risk (as part of residual risks)

All other risks are non-financial risks (NFR). The causes of these are unrelated to the normal business activities performed by the Bank. It is often very difficult to quantify such risks reliably, as they are frequently associated with major uncertainties. Non-financial risks include:

- → Operational risks
- → Model risks (as part of residual risks)
- → Other risks

Cross-cutting issues can simultaneously cause significant adverse effects in relation to several other types of risks. However, these are already (implicitly) taken into account in the respective areas and therefore do not represent a specific risk type.

In line with the logic utilised at the Group, the following risks are classified as material or relevant for Berlin Hyp with respect to risk-bearing capacity (or economic capital):



The following overview shows the organisational implementation of risk management at Berlin Hyp for the major risk types:

Risk types	Risk management (Units/Committee)	Risk monitoring (Units)
Counterparty default risks	→ Real Estate Financing → Portfolio Management → Treasury → Lending → Risk Management	→ Risk Controlling
Market Price Risks	→ Financial Steering Committee → Treasury	→ Risk Controlling
Liquidity Risks (Including price risk)	→ Financial Steering Committee → Treasury	→ Risk Controlling
Operational risks	→ Process owners → Divisions	→ Risk Controlling

Risk-Bearing Capacity
Berlin Hyp has implemented a risk-bearing capacity concept that the Bank uses to ensure that material risks (excluding liquidity risks but including the price risk from the liquidity risk) and insignificant risks (investment, real estate, model and biometric risks) are continuously covered by the risk-covering assets of the Bank, thereby ensuring the Bank's risk-bearing capacity at all times. In doing so, the Bank uses appropriate methods to quantify the individual risks. As the risk calculations are based on certain confidence intervals, there is a residual probability that the risks actually incurred are potentially higher. Limits have been introduced for the default, market price, operational and residual risk types, and compliance with these limits is continuously monitored. The assumptions underlying the quantification of the risks and the corresponding limits are reviewed regularly, at least once a year, and approved by the Board of Management as needed.

The Bank's risk-bearing capacity concept is based on the "ECB Guide to the internal capital adequacy assessment process (ICAAP)". Within the framework of the risk-bearing capacity concept, both the economic perspective and the normative perspective are considered.

In assessing the risk-bearing capacity, the risks are quantified in the economic perspective following approaches based on value at risk.

A confidence level of 99.9 per cent for a one-year evaluation period is applied. In order to ensure the Bank's risk-bearing capacity, the total risk position determined in this way must not exceed the risk-covering assets. For 2022, the Bank's risk appetite in relation to risk-bearing capacity was set by the Board of Management at 90 per cent of the risk-covering assets. For the overall risk within the risk-bearing capacity assessment, there is a pre-warning level at 80 per cent of the available risk-covering assets. The evaluation is completed by evaluating the overall risk position by assessing the results of various stress tests that take the risks into account from an economic as well as a regulatory perspective.

The risk-covering assets are calculated from the sum of the capital allocable under regulatory requirements and certain economic adjustment items.

The real estate risks classified as immaterial, shareholder risks, investment risks and the model risks are summarised in the residual risk, as well as the price risk in the liquidity risk, which in turn is classified as material.

The changes in risk positions arising from the planned business performance as well as the progression of the risk-covering assets are analysed as part of the annual planning process. The results are incorporated, for instance, in the planning of capital measures.

In addition to the analyses described above, unusual economic developments as well as events specific to individual institutions are examined by means of stress tests for all material risks. One of the objectives here is to combine the monetary risk types into a stressed overall scenario and identify the effects on regulatory and economic capital.

The impact of macroeconomic changes on the risk of the Bank and the risk-covering assets and/or on the regulatory capital ratios was estimated by consolidating the specific stress tests in the individual risk types into several stress tests for the Bank as a whole. This was achieved by defining scenarios in accordance with the requirements of the MaRisk, which also take into account the relationships between the individual risk types of the assumed developments.
Reverse stress tests are used to calculate the degree to which the overall banking scenarios with the greatest impact would have to develop before the total risk-covering assets are exceeded or the minimum capital stock is not reached.

The Bank’s risk-bearing capacity was verified in the second half of 2022 as at all reporting dates, both from an economic and a normative perspective. Details of the risk-bearing capacity as at 31 December 2022 are disclosed in the section “Overall Statement on Risk Situation”.

Risk Management System by Risk Type

Counterparty Default Risks

The risk of counterparty default is the risk of a loss, or loss of profit, due to a deterioration of a business partner's creditworthiness, as well as a loss in value of the security provided to the Bank. This is currently the most dominant type of risk for Berlin Hyp. Counterparty default risks are managed and monitored at the individual business partner and overall portfolio levels. Investment risk (shareholder risk) is considered to be an immaterial risk.

Individual Commitment Level

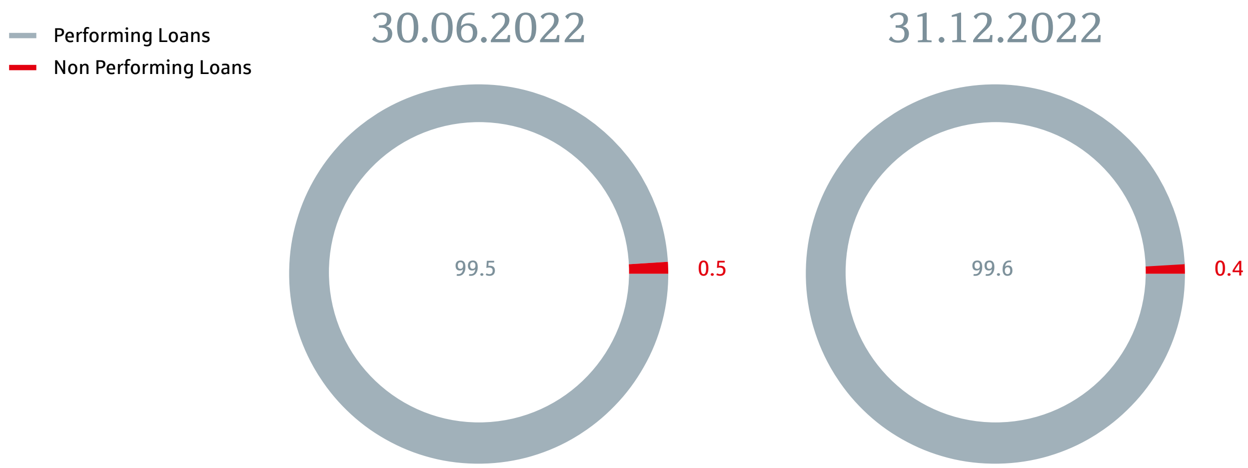
Adequate risk management of counterparty default risks should be guaranteed through a loan approval directive and defined processes and interfaces, from acquisition to new lending through to loan repayment (close integration of acquisition and subsequent market sphere). The credit processes are laid out in writing in the Bank’s regulations. Credit processes are examined regularly by the Internal Audit division, which means that they are also subject to constant quality analysis.

The risk exposure on the individual borrower level is verified on the basis of regular analysis of creditworthiness. Rating procedures that take debtor and business-specific characteristics into account are at the core of the risk assessment. Pricing as well as loan decisions are based on the rating of the borrower, taking into consideration the security provided. Real estate financing is largely determined using the SparkassenImmobiliengeschäfts-Rating (SIR) and the method for international commercial real estate financing (ICRE). Furthermore, the rating procedures for banks (BNK) and corporates (CRP) are used in particular for the capital market business.

The rating procedures employed here have been derived from the framework of the banking supervisory authority approval system. The Risk Control division is responsible for quality assurance and validation and backtesting for rating procedures. Their continued development and maintenance is provided by Sparkassen Rating und Risikosysteme GmbH (S- Rating) and RSU Rating Service Unit GmbH & Co. KG. Berlin Hyp is represented in the relevant working groups and bodies.

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).

NPL ratio based on FinRep
in %



The share of non-performing loans in the total portfolio as at 31 December 2022 was 0.4 per cent, and thus remains at a low level.

Loan commitments are in principle subject to annual resubmission and collateral is subject to a regular review.

Particular focus is placed on the process of real estate and portfolio valuation. Certified appraisers from an independent division of the Bank or certified and independent appraisers working on behalf of the Bank undertake valuations on a regular basis.

Berlin Hyp uses early warning systems with a variety of instruments in order to identify loan commitments with increased risk in 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. The automated early warning procedure draws special attention to the criteria for rating deterioration, arrears of interest and principal and the deterioration of the debt service cover ratio in different degrees. Other parameters relate to the loan-to-value as well as the expiry of rental contracts and/or fixed interest rates. Early warning meetings take place each quarter, attended by the Sales, Loan and Risk Management divisions, at which the risk content of the identified commitments is discussed separately and further measures decided upon if necessary.

Risky real estate commitments are transferred to Risk Management. Competence for valuation adjustments is concentrated here. Upwards of a specific size, such valuation adjustments must be approved by the entire Board of Management. Value adjustments are made for an amount by which the outstanding loan, less any collateral, cannot be paid back with a high degree of probability. Collateral values are reviewed in this context and, if necessary, adjusted depending on the necessary measures. In exceptional cases, special and justified circumstances may result in deviating valuations.

Within the framework of the valuation of claims, lump-sum value adjustments are established for latent risks on the basis of the principle of prudence in accordance with Section 252(1)(4) of the German Commercial Code (HGB). The total of the transactions that are material for the calculation of the lump-sum value adjustments comprises all claims for which no itemised allowances were established. In addition to these claims that are not in severe danger of default, lump-sum value adjustments are established for off-balance sheet items (provisions made for lending for irrevocable lending commitments and sureties). Since 1 July 2022, the lump-sum value adjustment has been determined according to the regulations contained in IDW RS BFA 7 (lump-sum value adjustment for banking institutions) on the basis of the IFRS 9 methodology. This methodology calls for valuation adjustments to be recorded on the basis of expected credit losses. For every individual transaction, the lump-sum value adjustment corresponds to the credit loss expected for the subsequent 12 months. In the case of a significant increase in the default risk of an asset since its initial entry in the balance sheet, all expected losses throughout the financial instrument's residual term are recognised. With regard to the financial assets mentioned, the expected loss is calculated in relation to the probability of default (PD), the estimation of the loss given default (LGD) and the anticipated exposure at default (EaD). The expected losses, which are calculated as the product of the three parameters mentioned, are discounted to the reporting date using the effective interest rate of the specific transaction or an approximation of the same.

Within the framework of an agency agreement, LBBW is responsible for the calculation of the lump-sum value adjustments and of the provisions made for lending for latent credit risks.

The securities and public sector loan portfolio represents a significant aspect of the capital market business. In addition, there are counterparty risks from the derivatives business. The existing capital market exposure is reported on a regular basis to the Board of Management and the Supervisory Board, broken down according to country and rating class.

Derivatives transactions are not only concluded with capital market counterparties but also real estate customers in the course of property financing. Counterparty risks from the interbank business are in principle covered by collateral. The Bank is aiming to achieve a high share of centrally processed derivatives (central clearing). In the real estate customer business, the established mortgage liens for the underlying transaction generally also apply to the derivative through broad statements of collateral purpose.

Early warning indicators ensure daily risk-oriented communication regarding capital market counterparties as well as any potential measures to be undertaken by the Bank as a whole. As in the past, Berlin Hyp has no investments in structured products.

Since the beginning of the COVID-19 pandemic, the necessary steps have been taken to assess the potential impact of the pandemic on the credit portfolio. As a result, individual asset classes in the portfolio were more strongly affected than others, including department stores and shopping centres of the retail property and hotel property segments. The results of the regular analyses indicated that no specific risks within individual transactions could be identified. Overall, it was shown that the affected customers had an adequate liquidity position and/or had taken sustainable measures in advance to deal with the crisis.

Ever since the beginning of the Russia-Ukraine war, the impacts on the counterparties in the portfolio have been carefully monitored. Currently, we are not aware of any direct relationships between our existing customers and beneficial owners with Russia, Belarus and/or Ukraine. Potential impacts on the borrowers and/or rented properties in the portfolio should therefore be manageable and not hold any notable risks.

We have no exposure in Ukraine, Belarus or Russia or the other adjoining states in the capital market business, except for Finland and Poland. In Finland, we have covered bond positions from various Finnish issuers only. Furthermore, Berlin Hyp invested in Polish government bonds. There are no material direct dependencies of the bank and corporate counterparties in Berlin Hyp's portfolio on the Russian and Ukrainian market. At the same time, indirect effects due to the increasing market volatility (shares and CDS) and the declining economic outlook are expected for bank ratings (cycle factor and CDS market factor) and corporate ratings.

Berlin Hyp took into account the latent effects on the economy and in particular on the real estate industry resulting from the global risks (including but not limited to the Russia-Ukraine war) by establishing a model adjustment as part of lump-sum value adjustment for valuated loans and provisions for irrevocable lending commitments.

Within the framework of stress tests conducted on the portfolio and individual exposure level, 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 continued to display moderate risk phases and an adequate debt service capacity. In addition, no specific risks within individual transactions could be identified.

Portfolio Level

In addition to risk monitoring at individual borrower level, Berlin Hyp also examines credit risks at the portfolio level.

The loan portfolio model simulates potential borrower, issuer, counterparty and country defaults as well as value changes due to rating migrations in a one-year evaluation period on the basis of:

- Exposure data (availments, externally approved limits),
- Collateral values,
- Borrower, issuer and counterparty default probabilities,
- Country default probabilities,
- Industry correlations and volatilities,
- Country correlations,
- Income ratios to determine expected proceeds from security,
- Contribution ratios to value unsecured loan components and
- Ratios to value externally approved limits that have not been drawn yet.

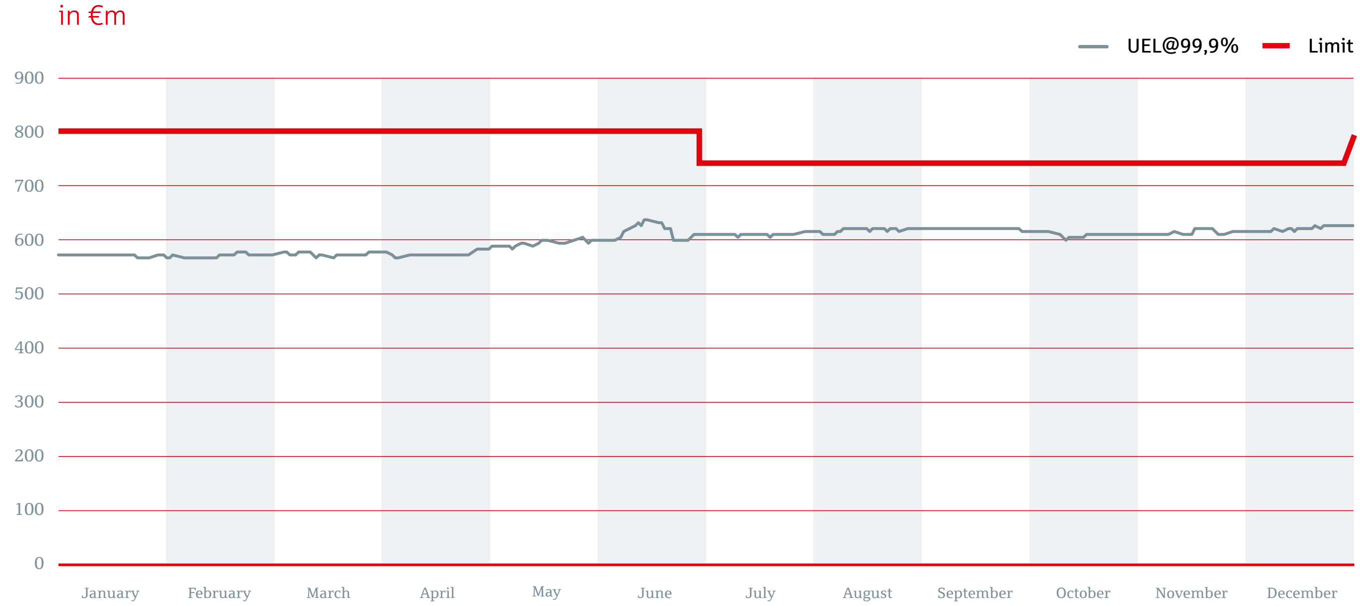
Based on the assumption of no fundamental changes to the risk structure of the portfolio (constant level of risk, going concern approach), the credit default distribution that is determined makes it possible to make statements regarding the probability of credit defaults in the following year. Risk indicators (expected loss, credit value at risk and unexpected loss) can be determined from the credit default distribution. Management of default risks is based on unexpected loss at portfolio level.

Berlin Hyp has limited the counterparty default risk. The risk indicators are determined on a daily basis under an agency agreement with Landesbank Berlin AG. The risk indicators are monitored by Berlin Hyp's Risk Control division, which carries out variance analyses and limit monitoring. The utilisation of limits at the portfolio level is monitored daily and reported weekly. Berlin Hyp has defined processes and options in the event that the pre-warning level (90 per cent of the credit risk limit) is exceeded and limits are exceeded.

The limit is reviewed at least once a year, adjusted if necessary and approved by the Board of Management as necessary.
As of 31 December 2022, the utilisation was €635 million and the limit was €800 million.

Development of UEL in 2022

in €m



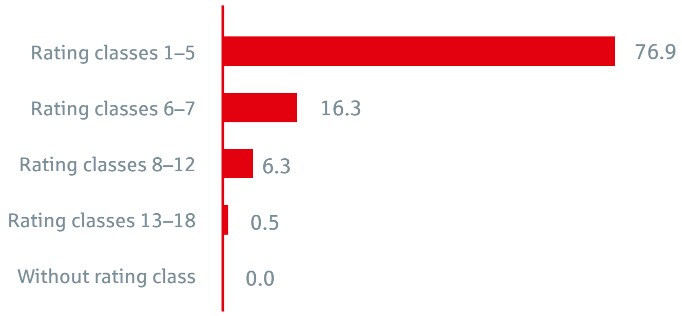
Responsibility for the methodology and validation of the credit value at risk model is outsourced (under consideration of Berlin Hyp's interests) to Landesbank Berlin AG (business agent). Internal and external audits are carried out by the business agent as well.

Stress tests are performed within the scope of the credit portfolio model to simulate the change in a loan portfolio under the assumption of extreme scenarios in order to review the financial stability of the Bank against macroeconomic crises. The scenarios and their parametrisation are defined on the overall Bank level and meet the Minimum Requirements for Risk Management (MaRisk).

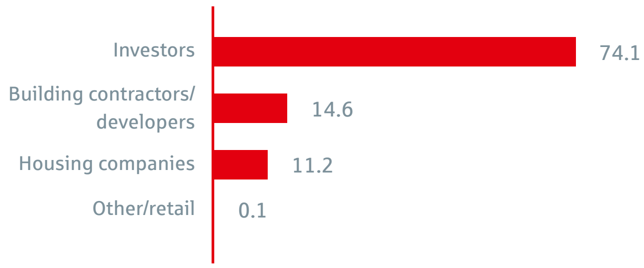
The business volume of Berlin Hyp relevant for the determination of the counterparty default risk amounted to €37.9 billion as at 31 December 2022. This business volume is broken down into mortgage lending transactions of €31.7 billion, money market and derivatives transactions of around €0.3 billion and securities and public sector loans of around €6.0 billion.

The mortgage loan portfolio is broken down by ratings, customer groups, regions and real estate types as follows:

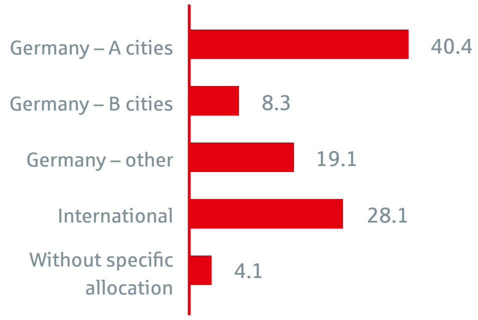
Rating classes
in %



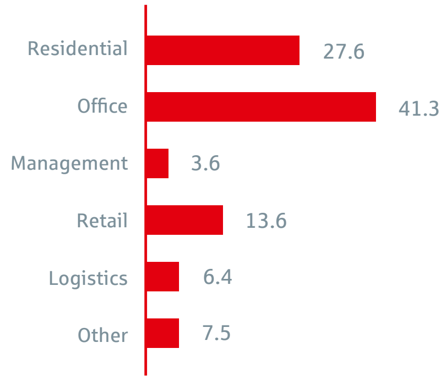
Customer groups
in %



Regions
in %



Property types
in %



Country and Transfer Risks

Country and transfer risks are limited primarily through volume-based country limits, which are reviewed annually at least. Limits are determined in consideration of economic data and the Bank's own concept of limiting risk concentrations and are resolved by the Board of Management. Country risks within the scope of new business activities are only entered into in countries with good or very good creditworthiness. As in the preceding year, it was therefore not necessary to recognise a bad country debt value provision for transfer risks. Individual exposures collateralised through property are classified depending on the location of the property. In all other cases, classification is based on the registered office of the business partner.

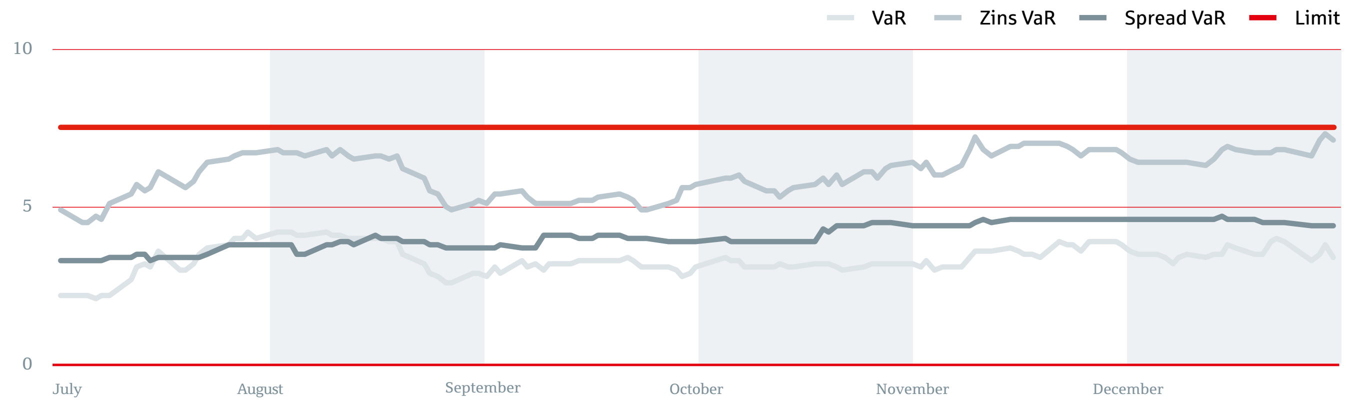
Market Price Risks

Berlin Hyp is a non-trading book institution. As a Pfandbrief bank, Berlin Hyp largely assumes market price risks in the form of interest and spread change risks. Except for peak amounts, the Bank does not have any open currency positions in the real estate financing business in accordance with its risk strategy. The mortgage lending business and refinancing in foreign currencies are generally covered by corresponding hedging transactions. The Bank does not incur share price risks.

The controlled incurrence of market price risks is based on a range of risk and earnings indicators. The interest rate change risk is hedged with interest rate derivatives.

The Bank uses a combination of risk sensitivities, the value-at-risk approach and other stress tests to measure the risk of interest rate changes. For market price risks, a value at risk with a holding period of one trading day and a 99.0 per cent confidence level are determined based on a historical simulation approach using an unweighted ten-year time series, taking into account linear and non-linear risks including volatility risks. Since the end of 2022, and in coordination with LBBW, the assessment of the market price risk within the context of risk-bearing capacity (ICAAP) has involved the examination of a stressed value at risk that includes the stress period associated with the global financial crisis of 2008/2009, with a confidence level of 99.9 per cent and a holding

Development of the CVaR in 2022
in €m



period of one year. The value at risk also takes credit spread risks and interest change risks from the Bank's pension reserves into account in addition to general interest rate change risks.

The Bank determines a risk coefficient in accordance with the requirements of the EBA guideline on the management of the interest rate risk for transactions in the banking book and the corresponding BaFin circular. Specifically, the cash value changes to the banking book are modelled in relation to equity for an interest rate change of +/- 200 basis points. An early warning indicator is also determined on the basis of the EBA guideline, in which the cash value changes of the six IRRBB (Interest Rate Risk arising from the Banking Book) scenarios stipulated under regulatory law are set in proportion to the tier 1 capital. The stress scenarios for market price risk also include various earnings and risk stress tests and a net interest income simulation.

The value at risk, the risk coefficient and the early warning indicator are limited. Thresholds have been established ahead of the limits. The risk coefficient and change in net interest income while applying the six IRRBB interest rate scenarios stipulated under regulatory law come with regulatory warnings. Recourse in relation to the market price risk was below the value-at-risk limit throughout the second 2022 short financial year. The market price risk rose in the second half of 2022 due to the ongoing volatility on the market, which in turn is a result of the interest rate changes. On the reporting date, the one-day market price risk was €7.11 million at a limit of €10 million and a confidence level of 99.0 per cent.

Market price risks are reported daily to the Board of Management. This includes, among other things, information about basis point sensitivity for the overall risk-bearing position, the risk coefficients, the early warning indicator, the value at risk utilisation and cash value profit and loss analyses. A predefined escalation process is triggered when warning thresholds or limits are reached or exceeded.

The daily reports to the management also include comments on the results of back-testing. In 2022, all observed backtesting outliers were due to the strong interest rate movements resulting from the uncertainty in the capital market, attributable to the turnaround in interest rates and the Russia-Ukraine war.

Reports on the results of the stress tests are prepared periodically as part of the monthly and quarterly reports. Aside from specific interest rate changes, these scenarios also include the results of actual, historical interest rate developments. Alongside interest curve modifications, stress simulations are also used to examine the effects of credit spread changes on the cash value. Besides the presentation of the cash value impact on these scenarios, the impact of the six IRRBB scenarios on net interest income is also reported on.

Liquidity Risks

Berlin Hyp defines a liquidity risk in the narrower sense as the risk that current and future payment obligations may not be met in full or on time. The liquidity price risk also refers to the risk that the Bank can only refinance itself at higher refinancing rates. The liquidity risk in the sense of insolvency risk and the liquidity price risk are major risks for Berlin Hyp.

The Bank uses various instruments, key performance indicators and analyses to monitor and manage liquidity risk.

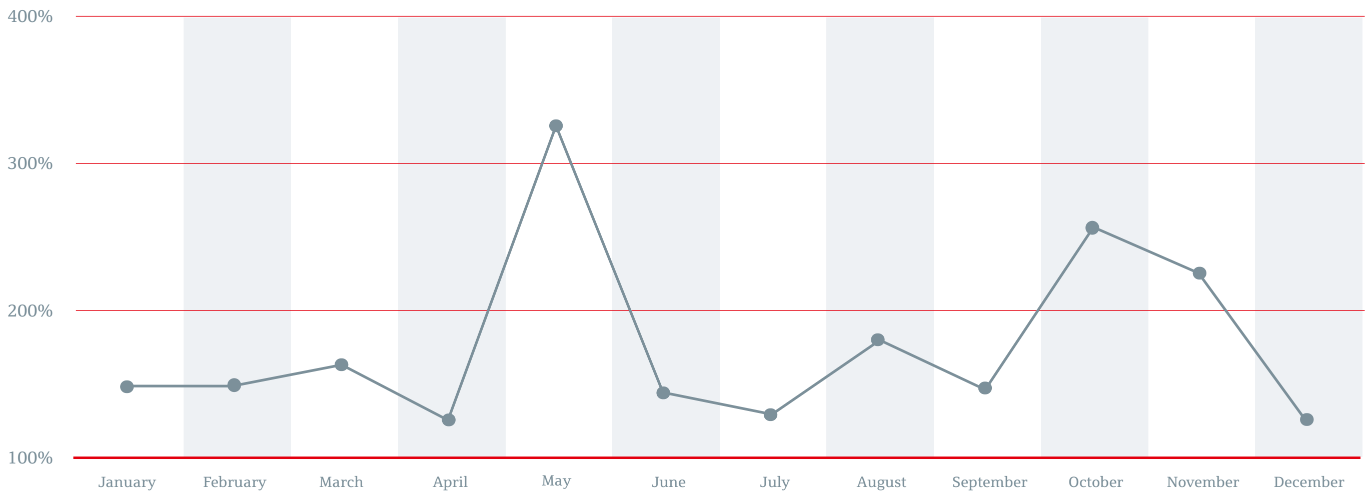
The **procurement risk** is the risk that Berlin Hyp may no longer be able to fulfil short term outstanding payment obligations within the next 30 days if access to the unsecured money market is eliminated. This is designed to ensure that the Bank will be able to fulfil all payment obligations within the next 30 days. The procurement risk is determined and reported on a daily basis.

As the Bank is classified as a capital market-oriented institution within the meaning of the MaRisk, daily checks are carried out to ensure that liquidity is guaranteed for seven or 30 days in accordance with defined MaRisk conditions (BTR 3.2).

The regulatory minimum ratio for the **Liquidity Coverage Ratio (LCR)** is 100 per cent. Internally, the LCR is controlled with a target ratio of at least 120 per cent. On the reporting date 31 December 2022, the LCR ratio was 125 per cent and therefore well above the minimum.

The following chart shows the development of the LCR, in each case at the end of the month:

Development of LCR in 2022
in %



The liquidity risk for the next 365 days will be determined for the Group by LBBW and the institutions and monitored by the respective institution. The procedure here is based on the survival period in the baseline scenario which is determined and reported on a daily basis. It is based on a liquidity progress analysis under conservative assumptions. Intact access to the secured and unsecured capital market is also assumed.

The survival period in stress scenarios is also the determined. This describes the period of time that the Bank could survive in a stressful environment with restricted access to the unsecured capital market on the liquidity side.

The price risk encompasses the risk that in case of existing incongruities with dates on which the capital falls due, the Bank can only carry out follow-up financing in the next 12 months on the basis of increased favourable refinancing spreads. Furthermore, the price risk also takes into account the effects of increased refinancing spreads on pre-conditioned forward loans. The risk is considered within the framework of the risk-bearing capacity concept and is limited. As at 31 December 2022, the liquidity price risk was €20 million for a limit of €40 million.

In addition to monitoring liquidity risk limits, the Board of Management is updated on a monthly basis on the concentration of secured and unsecured money market refinancing with individual counterparties.

Liquidity is managed in compliance with economic limits/warning thresholds. Compliance with regulatory requirements is a mandatory secondary condition. Falling below a warning threshold or a limit triggers a predefined escalation process.

The liquidity buffer for ensuring liquidity consists of diversified assets from the various categories, almost exclusively ECB-eligible, according to the CRR regulations. The Bank generally does not create any new exposures in insufficiently liquid markets.

The Treasury of Berlin Hyp provides monthly forecasts of liquidity development for a period of at least twelve months. The underlying assumptions are regularly reviewed and adjusted as necessary.

A regulatory minimum quota of 100 per cent has been in application for the net stable funding ratio (NSFR) since 30 June 2021. On the reporting date 31 December 2022, the NSFR ratio calculated on the basis of CRR II was 105.8 per cent. Based on the liquidity and issuance planning, a quarterly forecast of the future LCR and NSFR development is prepared.

Berlin Hyp's refinancing ability was also guaranteed at all times in 2022 and was neither affected by the COVID-19 crisis not by the Russia-Ukraine war.

Operational Risks

Operational risk (OpRisk) is defined in the CRR as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes not only operational risks but also legal risks; however, it does not include strategic risks and reputational risks. It is a significant risk for Berlin Hyp.

Up until the changeover to the new standard approach (BCBS 355) Berlin Hyp will use an advanced approach approved by the Supervisory Board (AMA – advanced measurement approach) to quantify operational risks. The model is validated on a regular basis.

Berlin Hyp has a systematic and consistent process for identifying, evaluating, monitoring and managing operational risks. The Board of Management is informed about the operational risks of the Bank in the quarterly risk report. Should extraordinary events occur, in particular if material losses are involved, the Board of Management is informed by ad-hoc reporting.

OpRisk management is centrally coordinated and operational risks are monitored in the Risk Control division. Operational risks are managed in consultation with the decentralised OpRisk managers of the individual specialist departments. The aim of Berlin Hyp is to minimise operational risks from an economic point of view.

Various instruments are used to efficiently manage operational risk. These include, but are not limited to:

- → Scenario analyses for determining loss potential (quantitative OpRisk inventory)
- → A collection of loss cases (internal/external) as a basis for statistical evaluations for risk assessment (actuarial approach: loss distribution approach) and for defining scenarios relating to specific business areas for scenario analyses
- → Early warning system (recording and monitoring of risk indicators)
- → Controlling of measures (recording and monitoring of measures) and
- → Risk transfer through insurance cover.

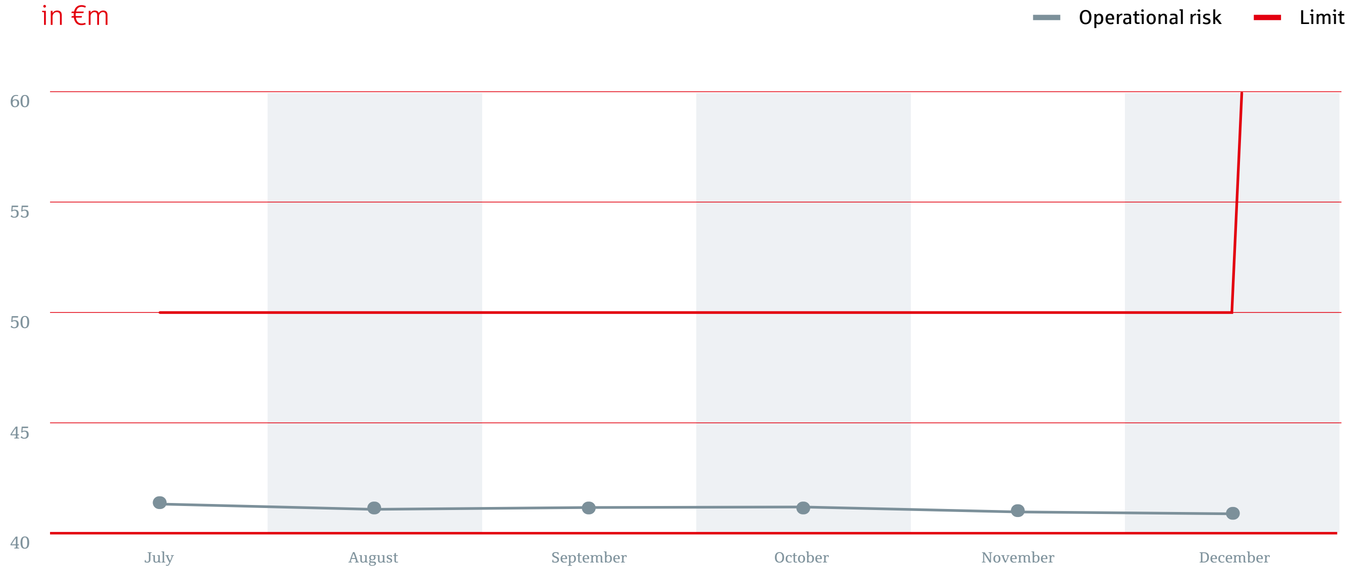
In accordance with Section 25a and Section 25h of the German Banking Act (KWG) and the relevant circulars of the banking supervisory authority, Berlin Hyp has created appropriate business and customer-related security systems for the prevention of money laundering, terrorist financing and other criminal acts at the expense of the institution. A risk analysis is carried out once a year, informing the Board of Management about the risk potential of the Bank. According to the risk analysis carried out in 2022, the money laundering officer concluded that the risk of exposure to money laundering, terrorist financing and other criminal activities should be considered “medium” to “low”, taking into account implemented risk mitigation measures, and that the risk of exposure to other criminal activities should be considered predominantly “low”, taking into account implemented risk mitigation measures.

The Bank participates in a data consortium for the collection of OpRisk claims. This expansion of the internal database with external claims is a mandatory part of the Advanced Measurement Approach (AMA) applied at the Bank.

Within the framework of the overall risk assessment derived from Berlin Hyp's risk-bearing capacity, Berlin Hyp has set up limits for operational risks, which are reviewed at least once a year and approved by the Board of Management.

As at 31 December 2022, the operational risk was €40.8 million for a limit of €60 million. The limit framework for operational risks for Berlin Hyp was increased by LBBW by €10 million as at the reporting date. The monthly values for operational risk in 2022 determined using the AMA model are shown in the following diagram:

Limit utilisation
in €m



For exceptional events that carry the risk of far-reaching consequences (such as fire and water damage, bomb threats, explosions, hostage-taking raids and terrorist attacks), a crisis team was set up in Berlin Hyp to deal with such crises. In the first half of 2022, the crisis team executed a successful alarm exercise; a comprehensive crisis team exercise was then successfully conducted in the fourth quarter of 2022.

In response to the COVID-19 crisis, the Bank created a task force in March 2020 that regularly (within the framework of the weekly meetings of the Board of Management) addresses the effects of COVID-19 on the Bank and its business activities. Since the Russia-Ukraine war began, this task force has also been examining the potential impact of that war on the Bank. In addition, the task force examines on a weekly basis the general economic and political situation and its potential impact on the Bank and its business activities.

System Risks

Information security management (ISM) and information and IT risk management (IRM) have been set up as independent activities within a 2nd line function for the continuous monitoring of security requirements, whereby the risk situation is taken into account and effective risk management is ensured here. The identified information or IT risks (quotients of loss amount and probability of occurrence) are evaluated and continually addressed using appropriate measures.

In order to ensure that the requirements of banking supervisory authorities are met, and that the level of information security is continuously increased, the following areas are examined with the help of certain tools:

- → The taking of inventory of IT assets and their effect chains (CMDB)
- → The performance of need-for-protection and business impact analyses and the inheritance of needs for protection along the effect chains

- → The monitoring of compliance with information security requirements as communicated in instructions
- → Tracking of and follow-up on identified shortcomings (deviations/GAPs)
- → The periodic review of documentation on permissions and authorisations
- → The monitoring and updating of going concern plans
- → The analysis and assessment of security requirements when procuring services via third parties – with regard to the selection of providers, contractual arrangements and the continuous monitoring of services
- → The documentation of vulnerabilities and SIEM alarms
- → Preparation of key performance indicators and reports
- → The identification, assessment and management of IT risks

Binding measures to raise awareness among employees of the importance of information and IT security issues are implemented on a continuous basis. Awareness-raising measures that address both Group-wide issues and specific cases (e.g. ad hoc security instructions) are presented on the intranet, where they can be viewed by all employees.

Operational Information Security (IT Security) has established extensive measures to protect and monitor the IT environment:

- → Risk-oriented protection measures for ensuring the confidentiality, availability, authenticity and integrity of the data that are processed, transported and stored via the IT systems have been established and are regularly reviewed while taking relevant security requirements into account.
- → Existing IT processes that help ensure secure IT operations and which require the procurement, operation and decommissioning of IT assets are also monitored to make sure they meet all security requirements.
- → The implemented vulnerability management system for the automatic detection of known threats is continuously adapted to address the latest new threat situations, such as log4j, and it has also been extended to all relevant network segments.
- → A Security Information and Event Management (SIEM) organisation, with the support of a 24/7 Security Operation Centre (SOC) to ensure the monitoring of detected incidents and the evaluation of the incidents by Security Compliance Operating (SCO) experts, has been established.

Up-to-date (security) regulations have been agreed on with the IT service providers in order to protect sensitive data in the Bank's own data centres and those operated by the service providers. Furthermore, an essential part of these regulations are backup environments to which we can quickly switch over in the event of a disaster. The functionality of the measures is reviewed least once a year together with the IT service partners and the specialist departments that utilise the measures.

To limit information and IT risks, data security regulations and regularly updated and reviewed emergency procedures were defined as an integral part of the Bank's written regulations based on the identified critical business processes and the assigned IT systems. This is meant to ensure the continuation of time-sensitive business processes with the help of emergency plans even in emergency and crisis situations.

As a result of the COVID-19 pandemic, hybrid working arrangements and, even more so, mobile and remote working have become the new normal for a large number of employees. This development has impacted IT services, which need to ensure the new working arrangements can be accommodated. However, it has also changed the threat situation, and the changes in question are taken into account in the security requirements.

The Russia-Ukraine war has also led to a new exceptional situation in terms of IT, and the latest developments in the war are continuously assessed as part of the regular coordination between the ISM, IT, IRM, building security and business continuity management (BCM)/IT emergency management organisations. No security incidents resulting directly from the Russia-Ukraine war have been identified and the heightened risk due to the war, as well as the associated IT risks, have been documented in the IR system. Preventive efforts here are focusing on defence against cyberattacks and maintaining the stability of the energy supply, and to this end new precautionary measures and a new emergency plan have been implemented.

Legal Risks

Legal risks are risks arising from the violation of current and changing legal regulations, in particular from contractual, legal or judicial developments. It includes the risk of violations of legal provisions due to lack of knowledge, insufficiently rigorous application of the law (negligent interpretation), negligent action or untimely implementation.

In addition to the specialist departments, the compliance function and risk controlling, the legal department (Governance division) is also responsible for identifying and preventing legal risks. The monitoring of legal risks that have occurred is generally one of the tasks of the legal department. Major projects are centrally coordinated from a legal perspective. For risk prevention, the legal department provides templates and explanations for contracts and other legally meaningful declarations to a reasonable extent. The involvement of the legal department is mandatory for cases involving deviating or new regulations. If external law firms are involved, management is usually handled by the legal department. The HR department is responsible for labour court proceedings.

If unforeseen developments have occurred to the detriment of the Bank or errors have been made, the legal department will help to identify, rectify and prevent the errors in the future. It also assumes the task of reviewing and evaluating the events according to legally relevant facts and managing any litigation. This applies above all to the defence of claims asserted against the Bank.

The member of the Board of Management responsible for the legal department receives a report on a semi-annual basis on material legal risks that have been qualified as ongoing or imminent legal proceedings of the Bank. Ad-hoc reporting is provided for events of particular importance.

Investment Risks

In the reporting period, Berlin Hyp held shares in a total of five different companies, including three companies from the real estate digitalisation sector, based in Berlin.

This includes OnSite ImmoAgent GmbH with its 49 per cent crowd-based property viewing service. The Bank holds a further minority stake of 24.52 per cent in 21st Real Estate GmbH, which operates a system for the valuation and digital purchasing process of real estate.

In addition, the Bank holds shares in a venture capital fund, PropTech1 Fund I GmbH & Co. KG, whose investment focus is on start-ups for the digitalisation of the European real estate industry. The shareholding was 6.97 per cent as at 31 December 2022.

The minority interest in BrickVest Ltd., London, will be settled after its insolvency. The company is in liquidation.

Lastly, Berlin Hyp holds 100 per cent of the shares in Berlin Hyp Immobilien GmbH which, in addition to its own brokerage activities, also handled the marketing of real estate, but no longer has any active business operations. The entrepreneurial risk is taken into account as part of the investment risk. Furthermore, the management of Berlin Hyp receives a separate controlling report on a half-yearly basis informing it of the development of the strategic investments and their economic situation.

Property Risks

Property risk refers to the risk of losses against the current market value due to changes in the value of property owned by Berlin Hyp. In the reporting period, the portfolio included two properties that were used by Berlin Hyp itself. In the course of the construction of a new corporate headquarters, deconstruction of the building on Budapester Strasse began at the end of 2020. The construction project involves various risks with potential negative effects on the costs. The Bank has carried out the appropriate risk analyses and analysed potential impact on costs (worst-case scenario). Furthermore, it has set up a construction controlling system for monitoring and managing risks and has also commissioned an external construction audit with the project advisors.

Model Risks

When considering the risk-bearing capacity for the credit default risk and market price risk types, Berlin Hyp takes into account model risks, i.e. the risks of adverse consequences due to incorrect results from models (model uncertainty).

Risk Management Pursuant to Section 27 PfandBG (Mortgage Pfandbriefe)

According to Section 27 of the PfandBG, each Pfandbrief bank must use a risk management system suitable for the Pfandbrief business. The risk management of the cover funds is largely integrated into the risk management system of Berlin Hyp. In addition, there are limits in line with regulatory requirements. Compliance with these limits is monitored on working days within the risk management of the cover funds and presented to the Board of Management on a quarterly basis in a separate report.

Other Risks

Business Policy and Strategic Decisions

Strategic risk is the risk of failing to achieve long-term company objectives due to strategic decisions that are incorrect, inadequately prepared or based on incorrect assumptions. The strategic risk is managed by the entire Board of Management. Certain decisions also require the approval of Berlin Hyp's Supervisory Board.

Monitoring and controlling the strategic objectives for the strategic business areas, subsidiaries and divisions takes place based on the defined target achievement indicators and targets. Select financial and risk targets are also monitored during the year based on standardised reports.

Reputational Risks

The Bank monitors print and online media as well as social media reports with respect to potential reputational risks. In the event of negative media coverage, the Bank has installed an escalation procedure to ensure a suitable response. There were no events that involved reputational risks in 2022. At the end of 2021, the Bank expanded its reputation risk management with a scenario-based risk analysis geared toward loss potentials and probability of occurrence. The analysis evaluates scenarios for their reputational risks on an annual basis. In the last analysis as of the end of 2022, 60 scenarios were evaluated, of which 1 was rated as medium risk according to measures, and all other scenarios were classified as low risk.

Human Resources Risks

Availability Risk

The quantitative and qualitative staffing of the banking divisions is managed by strategic resource planning. It aims to ensure the functional capability and future viability of Berlin Hyp and is adapted on an ongoing basis. In order to keep the planning up to date and realistic, megatrends (e.g. digitalisation/automation, ageing society, knowledge culture, individualisation), developments in new and established business areas and regulatory requirements are taken into account.

Berlin Hyp draws on various recruitment sources to cover its staffing requirements, with internal recruitment always taking precedence over external recruitment. Aside from the internal job market, Berlin Hyp also publishes job offers in publicly accessible media. Specialised platforms are used to fill vacant positions as quickly as possible for the desired profile. Berlin Hyp obtains assistance from recruitment experts for key positions. Taking into account the Bank's existing staffing levels, the overall availability risk is considered to be increasing but still moderate on the whole. The issues of "active sourcing" and "onboarding" were integrated into the strategy in 2021 and continue to be expanded upon. In the first half of 2022, the targeted search and proactive contacting of suitable persons was prepared and technically implemented in a career network. Further measures will follow in the next few years. The position of Talent Acquisition Manager is to be established in Q1 2023 in order to further expand and improve the strategy for sustainable recruitment and critically examine and optimise existing processes.

Motivation Risk

Employee motivation is promoted through sustainable workplaces and content, a vibrant corporate culture and the active participation of the employees in the development of Berlin Hyp. Ongoing feedback serves as an indicator. It is part of the corporate culture, anchored in the competence model of the Bank and implemented in various processes and through different media. In particular, the Bank has taken a participatory approach to designing the change process, which encourages employees to get involved; as a result, they identify more closely with the new developments. The expert career, which promotes special support for employees with expertise that is particularly valuable to the company, is an alternative development option to the management career at Berlin Hyp. Examples here include communities, working groups, the brand ambassador role and participation

in the establishment of the new B-One working environments.
Continuous training, qualification and similar measures that support employees with their development are very important to Berlin Hyp, as these make it possible for staff members to improve and expand their skills and take on new challenges, while also serving as a source of motivation. The expert career offers one good example of this approach. The expert career promotes special support for employees with expertise that is particularly valuable to the company and is an alternative development option to the management career at Berlin Hyp. The motivation risk is considered to be low.

Qualification Risk

Due to the age structure, a number of employees will leave Berlin Hyp in the medium to long term because of their age. It is important to ensure that the departing employees transfer their knowledge to the remaining colleagues. The efficiency gains from large-scale projects currently in progress at Berlin Hyp are giving rise to new working conditions. These change the skills required by the employees. Employee the development will therefore be supported, in parallel with the transfer of knowledge. The Bank sees learning and development in the professional context as an ongoing process. The technical, methodological and personal requirements are defined in the competence model of the Bank, which was adjusted in line with current working conditions and arrangements in 2022. These requirements are also defined in the job descriptions, whereby managers and their employees further specify the requirements in line with the given job. Various learning modules are offered within the framework of the “Berlin Hyp Learning World” in order to ensure employees’ development needs are addressed. Qualification measures are planned in discussions between managers and employees in each case and are then subsequently assessed. Managers here actively support their employees’ personal development. The Bank, in turn, supports managers with the development of their leadership skills by offering training courses and programmes designed specifically for managers – e.g. the peer group learning module for managers and the coaching programme.

The Bank has allocated an average of 3.5 training days per employee and per year as the target. From 1 July to 31 December 2022, employees spent an average of 1.9 days (01.01.2022 to 30.06.2022: 3.0 days) on further and advanced training[6]. In the period from 1 January 2022 to 31 December 2022, employees had an average of 4.7 days of training and continuing education. Along with the increasing establishment and utilisation of virtual learning formats, the actual figure recorded is due to development measures implemented as part of change processes and the ESG training provided to employees. With a variety of tailor-made in-house measures and selected external training opportunities, Berlin Hyp considers the qualification risk to be low.

Overall Statement on the Risk Situation

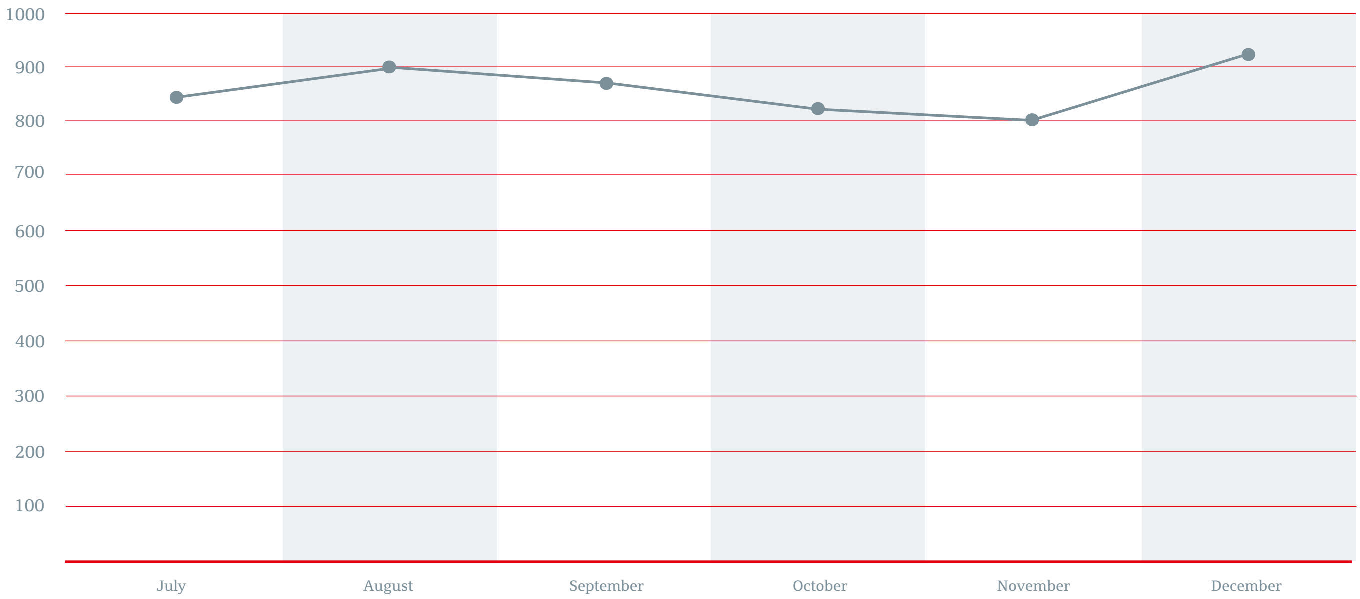
The risks incurred by Berlin Hyp were covered as of each of the reporting dates in the financial year by the available risk covering assets. The risk limits for all major risks of the Bank were met as of the relevant reporting dates throughout the second half of 2022.

The risk coverage as at 31 December 2022 amounted to €1,845 million; the total risk position was €914 million. Therefore, the utilisation of the total risk versus the risk coverage was 50 per cent. The resulting financial flexibility amounted to €932 million.

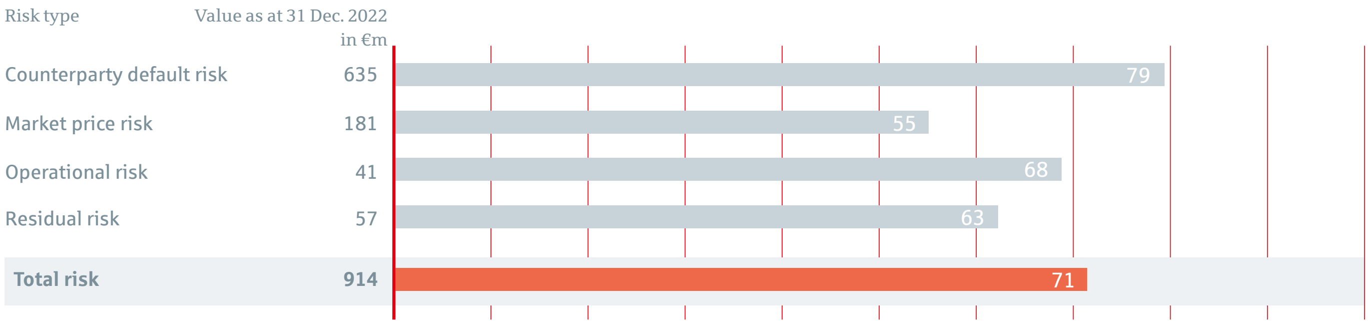
The following chart shows the development of the financial flexibility within the framework of Berlin Hyp’s risk-bearing capacity concept:

[6] The data foundation for calculating personnel figures was changed on 31 December 2022, at which point “total headcount excluding the Board of Management” was replaced as the data foundation by the number of “active employees” (excluding the Board of Management, student employees, students in dual study programmes, interns, employees in inactive employment relationships, and other employees on a leave of absence). Figures from the previous period were recalculated using the new data foundation. The system employed to calculate the number of days used for training and continuing education was changed.

Financial flexibility development in the second half of 2022
in €m



Limit utilisation per risk type as at 31 December 2022
in %



The risk-bearing capacity concept assumes a holding period of one year at a confidence level of 99.9 per cent

The total risk limit was set by the Bank at €1,280 million. Thus, the limit utilisation as of 31 December 2022 amounted to approximately 71 per cent.

In February 2020, the crisis team was convened in the context of the COVID-19 pandemic to assess the impact on Berlin Hyp and initiate measures to protect its employees and ensure its continued business operations. In March 2020, the Bank created a task force which since that time has been examining the general economic and political situation and its potential impact on the Bank on a weekly basis within the framework of the Board of Management meetings.

The Bank has initiated measures to identify potential deteriorations in the creditworthiness of individual exposures as early as possible. The analyses of the loans portfolio were supplemented by stress tests, which regularly examine the possible effects of adverse developments.

Since the Russia-Ukraine war began, the task force has also been regularly dealing with the potential effects of the Russia-Ukraine conflict on the Bank as part of the weekly meetings of the Board of Management. Currently, we are not aware of any direct relationships between our existing customers and beneficial owners with Russian and/or Ukraine in our core business. Therefore, potential impacts of the Russia-Ukraine war on the borrowers and/or rented properties in the entire portfolio of the^Bank are generally classified as minor. In the capital market business, there are no direct significant dependencies of the bank and corporate counterparties in Berlin Hyp's portfolio on the Russian and Ukrainian market.

Berlin Hyp took into account the latent effects on the economy and in particular on the real estate industry resulting from the global risks by establishing model adjustments as part of lump-sum value adjustments for valuated loans and irrevocable lending commitments.

Berlin Hyp's refinancing ability was also guaranteed in the reporting period at all times and was neither affected by the COVID-19 crisis nor by the Russia-Ukraine war. Increased market or liquidity risks were not identified, not even as a consequence of the turnaround in interest rates. The Bank's risk-bearing capacity was maintained at all times during the reporting period and the risk limits were complied with at all times.

IV Accounting-Related Internal Control System and Risk Management System

The annual accounts of Berlin Hyp are produced in accordance with the provisions of the German Commercial Code, supplemented by corporate law provisions and taking into consideration the Pfandbrief Act (Pfandbriefgesetz) and the Accounting Ordinance for Banking Institutions (Verordnung über die Rechnungslegung der Kreditinstitute). The accounting standards of the German Accounting Standards Committee are applied. According to IFRS, Berlin Hyp is not obliged to present consolidated financial statements since the only subsidiary, Berlin Hyp Immobilien GmbH, does not have significant influence on the presentation of Berlin Hyp's earnings, financial and assets position.

The Finance division is responsible for accounting. The organisational unit carries responsibility for the general ledger and accounting and for technical matters and portfolio management in the subsidiary ledgers. Pursuant to the principle of the separation of functions, the assessment of financial instruments by the Risk Controlling division and the evaluation of credit risks by the Risk Management division is pursued on a case-by-case basis within the financial reporting process. Job descriptions are available for relevant positions. Furthermore, human, technical and organisational resources are also available in order to ensure the sustainable and disruption-free handling of tasks. The divisions are assigned to the Board's credit function sphere.

In their management reports, corporations as defined in Section 264d of the German Commercial Code (HGB) must describe the significant characteristics of the internal control and risk management system with regard to accounting processes. Berlin Hyp regards as "significant" any legal violations as well as errors having a qualitative and quantitative influence on the validity of accounting processes that are relevant to decisions pertaining to the recipients of the information.

The accounting-related internal control system encompasses principles, measures and procedures for the regularity and reliability of accounting processes, compliance with relevant legal provisions and ensuring the effectiveness of the monitoring of accounting processes.

The accounting-related internal risk management system encompasses measures for the identification, assessment and limitation of risks opposing the objective of ensuring the regulatory conformity of the annual accounts.

The objective of the internal control system is to record business transactions and events in accordance with the legal regulations, the Articles of Association and other internal directives, in a complete, swift and correct manner, to process and document them as well as to accurately assess, show and evaluate assets and liabilities, thus allowing for a correct identification of results. The controls also serve to provide this final information in a swift, reliable and complete manner.

The Board of Management is responsible for the structure and maintenance of the internal control system. The established accounting-related internal control system consists of process-integrated, error prevention regulations and facilities, as well as in the form of integrated and organisational controls. In addition, regular, case-related monitoring measures independent of processes have been implemented.

At Berlin Hyp, accounting processes are standardised and are subject to constant supervision. The processing, entry and documentation of relevant accounting data occurs using IT systems that keep accounting books and other records in electronic form. Berlin Hyp applies the core SAP application as an integrated comprehensive banking solution. This system reduces interfaces between various data processing applications, weak links in the data flow as well as manual interventions and processes. Regulations and measures regarding IT security, which are also of particular importance when it comes to accounting, have already been discussed. A thorough separation of functions along with organisational instructions and the distribution of technical roles and access rights should ensure in advance that interventions in accounting processes can only be undertaken in accordance with official responsibilities and competence. Unless specialised, two-person integrity systems have been established, organisational control activities are provided on a standardised basis. Electronically generated raw data as well as the various interim and final results are analysed, tested for plausibility and randomly examined by the divisions using a variety of system-supported comparisons, agreements, target comparisons and time-series developments on an individual transaction basis. Both technical requirements and workflow descriptions are in place for the individual processing steps within the framework of the relevant development process.

Internal and external reporting is also subjected to a multistage quality-assurance process before financial information is released.

Accounting processes are an integral component of the Audit division's risk-oriented audit planning system. Audit focuses are changed on a regular basis. Audits take place as process audits and are, as a matter of principle, underpinned by case-by-case audits of samples.

In the second half of 2022, audits were carried out on, among other things, the settlement of derivative transactions, the processing of payment transactions and the reconciliation of customer derivatives. As in previous years, the Internal Audit division monitored and accompanied the process of reconciling loan accounts within the scope of the dispatch of annual statements in its role as a neutral body.

As in the first half year, the reviews carried out by the Internal Audit division with regard to the accounting-related internal control system did not reveal any material findings in the reporting year.

Regarding special measures concerning the management and monitoring of accounting units that are to be depicted within the accounting framework, please refer to the information provided in the risk report as well as to the Notes.

In the second half of 2022, a number of external audits were carried out within Berlin Hyp, in addition to the audit of the annual accounts and of the management report for the second short business year from 1 July to 31 December 2022. These audits concerned either Berlin Hyp directly as a separate financial institution or in its capacity as part of the regulatory group.

The Bank followed up the findings in a coordinated procedure led by the Internal Audit division.

V Corporate Governance Statement Pursuant to Section 289f of the German Commercial Code (HGB)

Establishment of Targets for the Proportion of Women in the Supervisory Board, Board of Management and in Management Positions

Berlin Hyp is subject to representative participation according to the German One-Third Participation Act and, in accordance with the legal requirements, has established targets for the proportion of women on the Supervisory Board and Board of Management through its Supervisory Board.

Supervisory Board

Berlin Hyp's Supervisory Board is currently made up of six shareholder representatives and three employee representatives. Berlin Hyp has currently met its target of having at least two women on the Supervisory Board, as there are currently three women on the Supervisory Board.

Board of Management

The Board of Management currently has three members. By resolution of the Supervisory Board on 28 June 2022, a quota of women on the Board of Management of 33.33 per cent (33.33 per cent) was approved until the next review on 30 June 2027.

First and Second Management Levels Below the Board of Management

The Berlin Hyp Board of Management approved the targets for female executives for the first and second management levels below the Board of Management.

The target of 33 per cent should be reached at both management levels by 30 June 2025. As at 31 December 2022, 29.4 per cent (30.06.2022: 29.4 per cent) of executives at the first level below the Board of Management were female and 30.0 per cent (30.06.2022: 29.3 per cent) at the second level below the Board of Management. Overall, the percentage of women in management positions at all levels of management at Berlin Hyp is 29.5 per cent (30.06.2022: 29.0 per cent), taking into account the approval of the annual accounts.

VI Non-Financial Statement in accordance with Section 289b and 289c of the German Commercial Code (HGB)

Reporting Principles

GRI 2-2, 2-4

According to Sections 289b-289e of the German Commercial Code (HGB), Berlin Hyp AG (Berlin Hyp) is required to publish an annual non-financial statement. This obligation is fulfilled – without recourse to an exemption option – by the publication of this "non-financial statement" (hereinafter also referred to as "statement").

On 26 January 2022, Landesbank Berlin Holding AG, as the seller and sole shareholder of Berlin Hyp AG, and Landesbank Baden-Württemberg ("LBBW"), as the purchaser, concluded a purchasing agreement involving the sale to the purchaser of all Bank shares held by the seller. Since 1 July 2022, the LBBW Group has owned 100 per cent of Berlin Hyp. In addition, LBBW and Berlin Hyp concluded a control agreement with effect from 1 August 2022 that established a tax unity for sales tax purposes, within the framework of which Berlin Hyp was financially, economically and organisationally integrated into the LBBW corporate structure. As part of the process for defining the non-financial performance indicators for the LBBW Group, Berlin Hyp provided the relevant data in accordance with internally applicable provisions. In the first step taken with regard to structured collaboration between the two banks in the second half of the year, activities conducted within the framework of the ESG Content Hub focused on aligning the criteria for green buildings, expanding the LBBW Social Bond Framework to include affordable housing and harmonising the ESG questionnaire. In addition, Berlin Hyp's ESG Corporate Function is now represented on the LBBW Sustainability Committee.

As a result of the change in ownership, the statement relates to the second short financial year from 1 July 2022 to 31 December 2022. In addition, the scope of the statement has been expanded to include for the first time reporting standard elements from the Global Reporting Initiative (GRI) and initial elements from the Task Force on Climate-Related Financial Disclosures (TCFD). The disclosures that have to be made in order to comply with the relevant GRI Standards 2021 are therefore an integral part of this statement and can be viewed in the table below.

GRI Standards 2021

Section in this statement		GRI disclosure type pursuant to the GRI Standards 2021 and the extent of coverage in this statement
Reporting Principles		2 – 2 (in parts), 2 – 4 (complete)
1. Sustainability Concept	1.3 Materiality pursuant to the CSR Directive Implementation Act	3 – 1 (complete), 3 – 2 (complete)
	1.6 Depth of the value chain	3 – 3 (in parts), 203 – 1 (complete), 203 – 2 (in parts), 413 – 2 (complete), 414 – 1 (in parts), 414 – 2 (complete)
2. Process Management	2.1 Responsibility	2 – 14 (in parts)
	2.4 Participation of stakeholders	2 – 28 (complete), 2 – 29 (complete)
3.1 Employee Concerns	3.1.1. Promoting an open and fair working environment	2 – 7 (in parts), 201 – 3 (in parts) 3 – 3 (in parts), 401 – 1 (complete), 401 – 2 (complete), 401 – 3 (complete), 402 – 1 (complete), 405 – 1 (in parts), 405 – 2 (in parts), 406 – 1 (complete)
	3.1.2 Well-being and development opportunities	3 – 3 (in parts), 403 – 1 (complete), 403 – 2 (complete), 403 – 3 (complete), 403 – 4 (complete), 403 – 5 (complete), 403 – 6 (complete), 403 – 7 (complete), 404 – 1 (in parts), 404 – 2 (in parts), 404 – 3 (in parts)
	3.1.3 Fair remuneration policy and proportionality of commissions and bonuses	2 – 19 (in parts), 2 – 20 (in parts) 405 – 2 (in parts)
3.2 Social Concerns	3.2.1 Corporate social responsibility	203 – 2 (in parts), 3 – 3 (in parts), 413 – 1 (in parts), 413 – 2 (in parts)
	3.2.2 Customer relationship management	3 – 3 (in parts)
	3.2.6 Transparent performance presentation	2 – 16 (complete), 3 – 3 (complete), 417 – 1 (in parts)
3.3 Fight Against Corruption and Bribery	3.3.1 Compliance	2 – 23 (in parts), 2 – 27 (complete) 3 – 3 (in parts), 207 – 1 (complete), 207 – 2 (complete), 207 – 3 (complete)
	3.3.2 Prevention of corruption and anti-competitive behaviour	2 – 16 (complete), 2 – 23 (complete), 2 – 25 (complete), 2 – 26 (complete), 2 – 27 (complete), 3 – 3 (in parts), 415 – 1 (complete), 205 – 1 (complete), 205 – 2 (complete), 205 – 3 (complete), 206 – 1 (complete)
3.4 Environmental Concerns	3.4.1 Consideration of ecological criteria when issuing bonds	3 – 3 (in parts), 203 – 1 (complete)
	3.4.2 Consideration of ecological criteria when selecting financing projects	3 – 3 (in parts)
	3.4.3 Environmental management at our locations	3 – 3 (in parts), 301 – 1 (in parts), 301 – 2 (in parts), 303 – 1 (in parts), 303 – 2 (in parts), 303 – 3 (in parts)
3.5 Respect for Human Rights	3.5.1 Human rights due diligence	2 – 23 (complete), 2 – 24 (complete), 2 – 25 (in parts), 2 – 26 (complete), 2 – 27 (in parts), 407 – 1 (complete)

The indicators 2-1, 2-3, 2-5 and 2-6, 2-8 until 2-13, 2-15, 2-17 until 2-18, 2-21 until 2-22, 2-30, 201-1 until 201-2, 201-4, 207-4, 301-3, 302-1 until 302-5, 303-4 until 303-5, 305-1 until 305-7, 306-1 until 306-5, 403-8 until 403-10, 417-2 until 417-3 and 418-1 are not take into account in this Declaration. Indicators that are not considered in this statement are addressed in other sections of the Annual Report or in the separately published GRI index. The GRI index provides information on the respective reference in the Annual Report and the non-financial statement or via the content that is part of the GRI disclosure in question. The index is scheduled to be published at the end of Q1/2023 on the Bank's website at www.berlinhyp.de.

Due to the peculiarities associated with the short financial year, the figures for the reporting dates 31 December 2022 (2022 financial year), 30 June 2022 (short financial year I) and 31 December 2021 (2021 financial year) are presented in tabular form. If no data was available for certain figures as at the reporting date 30 June 2022, a year-on-year comparison was used as the sole disclosure method. In addition, the data foundation for calculating personnel figures was changed on 31 December 2022, at which point "total headcount excluding the Board of Management" was replaced as the data foundation by the number of "active employees" (excluding the Board of Management, student employees, students in dual study programmes, interns, employees in inactive employment relationships, and other employees on a leave of absence). The age groups have also been changed. Figures from the previous period were recalculated using the new data foundation and new age groups. Other necessary new ways of presenting figures that differ from those used in the first short financial year in 2022 and in the 2021 GRI report are referenced as footnotes in the body text or in the tables in the non-financial statement.

For better readability, the terms of the GRI have been adapted to the terms in accordance with Section 289c of the German Commercial Code (HGB). The Supervisory Board of Berlin Hyp has voluntarily commissioned Deloitte Wirtschaftsprüfungsgesellschaft to conduct a business audit of the report in accordance with the ISAE 3000 (revised) for the purpose of obtaining limited assurance pursuant to Sections 289b-289e of the German Commercial Code (HGB). All references to further reports are additional information and do not form part of this statement or the audit thereof.

Berlin Hyp will publish this statement on its website at www.berlinhyp.de. In addition, a separate GRI index and a TCFD index will be published in the first quarter of 2023 at www.berlinhyp.de/de/nachhaltigkeit/berichte. The separately published GRI index will include additional sustainability performance indicators which, due to the early verification of the information in this non-financial statement, were not available in time for inclusion in this report. The procedure utilised here is the same as that used for the TCFD index.

Business Model

Information on the business model can be found in the Management Report under I Principles of the Bank – Business Model.

1 Sustainability Concept

1.1 Objectives

Berlin Hyp's strategic goal of becoming the most modern real estate financier in Germany also involves the achievement of specific sustainability objectives: Sustainability is not only about reducing our own carbon footprint, but above all it is about promoting and simplifying the transition to a more sustainable economy with sustainable financing products for the real estate industry. Berlin Hyp's commitment to sustainability is governed by the four dimensions of the Bank's ESG[7]-vision: sustainability in business operations, a sustainable business portfolio, ESG risk management, transparency and ESG capabilities. Berlin Hyp defines ESG capabilities as capabilities that make it possible to establish and maintain the decentralised incorporation of ESG aspects and issues within the framework of normal business operations (see the ESG governance chart in "2.1 Responsibility" in this statement). The Bank formalises responsibilities within its own organisational structure and process organisation and integrates its ESG vision as a core component of the business strategy (see Management Report Section I, Principles of the Bank – Goals and Strategies). The ESG vision can also be viewed on the Berlin Hyp website at www.berlinhyp.de/de/nachhaltigkeit/nachhaltigkeitsstrategie.

1.2 Strategic analysis and measures

Berlin Hyp is one of Germany's major real estate and Pfandbrief banks for commercial real estate financing. By making use of certain criteria in its lending decisions (in order to continuously increase the share of green buildings in its portfolio, for example), the Bank seeks to indirectly exert a positive influence on the development of existing buildings in the target regions and asset classes it has defined.

The necessary shift to carbon neutrality is one of the most important issues at the moment in the real estate industry. If this issue is not addressed, the building sector, which depending on the estimate in question accounts for anywhere between 30 per cent and 40 per cent of total CO_2 emission in Germany[8], will find itself in a precarious situation in terms of its assets being able to continue to serve as stable collateral. At the same time, buildings in our latitude are exposed to the negative effects of the climate change such as increasing climate and environmental risks, e.g. temperature and weather changes.

Berlin Hyp is committed to the Paris Climate Paths for the Federal Republic of Germany and is actively working to promote the transformation to an economy marked by lower greenhouse gas emissions. Berlin Hyp issued a Sustainability-Linked Bond in 2021 in order to link its strategic sustainability goals and targets with its refinancing activities on the capital market. The Bank has thus committed itself to achieving climate neutrality by 2050 at the latest and – in line with the Climate Paths – aims to reduce CO_2 emissions by 40 per cent between 2020 and 2030. This applies not only to the Bank's own business operations but also, and in particular, to its core business of real estate financing.

Using the Bank's published ESG vision (see the Management Report Section "Principles of the Bank – Goals and Strategies") and future regulatory requirements as a basis, Berlin Hyp has created an ESG implementation roadmap for the period up until 2024 that served as an important guide for the achievement of further milestones in 2022. This roadmap contains information on all relevant sustainability measures and their milestones and presents a preview of upcoming steps to be taken by the Strategy, Reporting, Sustainable Finance, Governance and Data and Risk Management divisions. The ESG implementation roadmap is itself based on the ECB Roadmap, the contents of which are sent to the European Central Bank on a regular basis for a review of the most recent status of implementation of the various measures. A total of 84 activities from the ECB Roadmap that was delivered to the ECB were successfully completed in the 2022 financial year. Measures from the ESG implementation roadmap that were assigned to the category of material aspects in accordance with the CSR Directive Implementation Act are shown in the table "Catalogue of measures (extract) to support the defined goals".

Since 1 July 2022, the Landesbank Baden-Württemberg Group (LBBW) has owned 100 per cent of Berlin Hyp. A structured exchange programme has been launched within the framework of the structured exchange between the two companies. One relevant topic area here also addresses sustainability. This Sustainability Content Hub focuses on the identification and implementation of value drivers in the real estate franchise. More specifically, the Content Hub addresses strategic matters such as measures to support the green transformation:

It also examines the availability of affordable housing in the real estate industry and the alignment of criteria for green buildings, social assets and reporting.

1.3 Materiality pursuant to the CSR Directive Implementation Act

GRI 3-1, 3-2

Berlin Hyp conducts a stakeholder survey on sustainability issues every two years in order to gauge the opinions of its stakeholder groups. The Bank then performs a materiality analysis on the basis of the survey.

The last stakeholder survey was carried out in 2021 in the form of an online survey for external stakeholders, including customers, NGOs, service providers, investors and the scientific community. The survey was supplemented by two internal workshops with employees and the Board of Management. On the one hand, these workshops examined the extent to which the business activities of Berlin Hyp have a significant impact on individual sustainability aspects, such as employee concerns or environmental concerns. On the other hand, they examined whether the sustainability aspects were relevant to the understanding of the business development, the results and Berlin Hyp's position.

The materiality analysis from 2021 was reviewed and updated in an all-day expert workshop in 2022. One key result here was that all employee concerns in particular were given a higher weighting. Social concerns are also now receiving more attention. In addition, two new topic blocks were classified as being material: transparent performance presentation and digital processes and products. The performance of a comprehensive stakeholder survey is being considered for 2023. The results of the materiality analysis in accordance with the CSR Directive Implementation Act simultaneously form the basis for the GRI materiality analysis.

[7] ESG = Environmental, Social and Governance
[8] Federal Ministry for Economic Affairs and Energy (BMWi) (December 2021): Energy efficiency in numbers – development and trends in Germany in 2021

Overview of Key Issues

Sustainability aspect	Material sub-sections accordance with the CSR Directive Implementation Act Section 289c HGB	Topic-specific GRI standards
Employee concerns	Promoting an open and fair working environment	GRI 201, GRI 401, GRI 402, GRI 405, GRI 406,
	Fair remuneration policy, proportionality of commissions and bonuses	GRI 405
	Well-being and development opportunities	GRI 403, GRI 404
Social concerns	Customer relationship management (responsible lending)*	
	Consideration of social criteria when selecting financing projects	
	Consideration of social criteria when issuing bonds	
	Provision of safe/stable financial products	
	Transparent performance presentation	GRI 417
	Data security	
	Corporate social responsibility	GRI 203, GRI 413
Fight against corruption and bribery	Prevention of corruption and anti-competitive behaviour	GRI 205, GRI 206, GRI 207, GRI 415
	Compliance*	
Environmental concerns	Consideration of ecological criteria when selecting financing projects	
	Consideration of ecological criteria when issuing bonds	GRI 203
	Environmental management at our locations	GRI 301, GRI 303
Respect for human rights	Human rights due diligence	GRI 407
Other important topic		
Digitalisation	Digital products and processes**	

* The material sustainability aspect “Compliance” will replace the previously relevant topic of “Tax honesty”, and the material sustainability aspect “Customer relationship management” supplements the previously relevant topic of “Provision of safe/stable financial products”.

** The responsible design of digital products and processes has an impact on the successful implementation (as an “enabler”) of all material sustainability aspects in accordance with the CSR Directive Implementation Act and was assigned to the new sustainability aspect “Digitalisation” (not a defined aspect pursuant to the CSR Directive Implementation Act) in accordance with the updated materiality analysis.

Catalogue of Measures (Extract) to Support the Defined Goals[9]

No	Field of action in accordance with the ESG vision measure from the ESG implementation roadmap 2022/2023			Sustainability aspect according to the CSR Directive Implementation Act	Deadline	Implementation status
1	Sustainable business portfolio	1.	Review and concept development, if applicable, for the extended impact measurement of the entire financed real estate portfolio with regard to social criteria	Sozialbelange	12/2022	Implemented
2	Sustainable business portfolio	2.	Sustainable Finance Framework	Environmental and social concerns	03/2023	In progress
		2.1.	Publication Sustainable Finance Framework		03/2022	Implemented
		2.2.	Integration Social Loan		03/2023	In progress
3	Transparency and ESG capabilities	3.	ESG data project – Development of an ESG data pool and integration into the digital loan process	Digitalisation (not a defined aspect pursuant to the CSR Directive Implementation Act)	12/2022	Implemented
		3.1.	Potential update of data requirements		06/2022	Implemented
		3.2.	Consolidation of the first data fields in SAP		06/2022	Implemented
		3.3.	Parallel execution of quality assurance		06/2022	Implemented
		3.4.	Transfer to regular operations		12/2022	Implemented
4	Sustainable business portfolio	4.	Decarbonisation path	Social Concerns	12/2023	In progress
		4.1.	Definition of a sector target path and determination of actual alignment		03/2023	In progress
		4.2.	Concept for the implementation of the sector path in portfolio management		12/2023	In progress
5	Transparency and ESG capability	5.	Implementation der Principles of Responsible Banking (PRB)	Social Concerns	06/2023	In progress
		5.1.	Joining the United Nations Environment Programme Finance Initiative (UNEP FI) and signing of the PRBs		10/2022	Implemented
		5.2.	Publication of the first progress report in the second quarter of 2023		06/2023	In progress
		5.3.	Transfer to an established process		06/2023	In progress

[9] Together with other measures, the measures listed are part of a catalogue of measures for the ESG implementation roadmap, prepared for internal use only.

1.4 ESG risks

Berlin Hyp has integrated ESG risks into existing risk management systems and processes in order to ensure that all opportunities and risks can be identified and systematically controlled. These systems and processes are intended to address both financial and non-financial risks. Berlin Hyp has established a central function for ESG risks within the ESG risk management system. This function is used to implement measures for the design of a framework for risk controlling. It includes "Integration of ESG risks into existing risk types" and "Quantification and integration of ESG risks into rating models".

The Bank has started developing methods for the annual climate risk analysis that enable the assessment of the effects of transitory and physical risks on the risks of Berlin Hyp. First, a methodology ("scenario analysis") was developed to assess the effect of physical and transitory risks on the credit risk, which constitutes the most important risk at Berlin Hyp.

A materiality analysis is executed on a regular basis in order to determine the influence of physical risks. Berlin Hyp concluded a contract with vdpResearch for the preparation of this analysis and also performed a natural hazard analysis with the K.A.R.L. analysis tool from Köln Assekuranz Agentur. The analysis examines risk damage caused by storms, tornadoes, floods, heavy rains, storm tides, earthquakes, hail, tsunamis and volcanoes. The results can be summarised as follows (as of 30/9/2022):

- → At the aggregated level, the property portfolio is exposed to a low physical risk.
- → The anticipated average annual damage is 0.087 per cent of the aggregated market value of €83.3 billion – i.e. €72.34 million.
- → The highest relative risk (0.26 per cent) is in the Netherlands, whereby the biggest risks here relate to storms and storm surges and flooding.
- → Natural hazards that pose the highest risks in absolute terms are storms (€36.5 million), floods (€11.9 million) and storm tides (€6.1 million), whereby these together account for 75.4 per cent of the risk.

These expected damage figures are used in the methodology we developed in order to assess future impacts of climate risks on our customers' default probability based on assumptions that also take into account the buildings' insurance status.

The impact of the transitory climate risk on Berlin Hyp's credit risk was also evaluated using a scenario analysis. In this case main drivers of rating changes are modernisation costs and rising energy prices. The estimated modernisation costs for the next 30 years amount to €9.1 billion[10]. These costs not only constitute risks for Berlin Hyp, but also business opportunities, e.g. in the form of sustainable financing products such as the transformation loan. You can find more information in section 3.4.2 Consideration of ecological criteria when selecting financing projects.

The combination of physical and transitory scenario analyses results in an estimated increase of the portfolio PD[11] by 9 basis points[12] up until 2050 (with an initial value of 0.34 per cent). This increase corresponds to a shift of the average portfolio rating from 4 to 5 from 2025 to 2050. Therefore, the climate risk could result in a slight increase in the default probability in the long term and thus in a higher risk for the Bank.

Currently, the risk controlling organisation is working on methods to extend the materiality analysis to additional risk types (market, liquidity, operational and strategic risks).

1.5 Material risks pursuant to the CSR Directive Implementation Act

Material risks are identified pursuant to the regulatory requirement of a regular risk inventory. As a rule, operational risks, climate and environmental risks are potential risks to be considered as defined in Section 289c(3)(1)(3) and (4) of the German Commercial Code (HGB). However, as described in more detail below, they are not classified as material risks as defined in Section 289c(3)(1)(3) and (4) of the German Commercial Code (HGB).

The results of the analysis of operational risks (e.g. conflicts of interest, reputational risks, money laundering, terrorist financing) related to the non-financial aspects revealed that, after applying the net method while taking into account the risk mitigation measures, no significant risks associated with Berlin Hyp's own business activities and business relationships or its products and services as defined in Section 289c(3)(1)(3) and (4) of the German Commercial Code (HGB) were identified, which are very likely to have or will have a serious negative impact on the above-mentioned aspects.

Although the physical and transitory risks mentioned in Section 1.4 are important for Berlin Hyp's business model, they do not constitute a specific risk type in the results of the risk inventory Rather, they influence all the traditional risk types as risk drivers. Berlin Hyp follows this approach and thus the estimate of BaFin. Based on initial materiality estimates of climate risk drivers, so far, the ESG implementation roadmap has prioritised the analysis in the context of credit risks. The results of this analysis are presented in the currently valid 2022 risk inventory in an individual section about sustainability risks and in a detailed manner.

The evaluation of the determining factors of ESG risks relevant for Berlin Hyp and their impacts (transmission) on identified risk types of the Bank already classified as material did not reveal any need for action pursuant to the current materiality analysis with regard to a reclassification and/or adjustment of the materiality classification of existing risks. Non-financial risks accordance with the CSR RUG associated with the five sustainability aspects are identified, assessed, managed and monitored by the respective specialist departments and the risk management department. The risk management working method and results are described in detail in the Management Report under III Opportunities, Forecast and Risk Report; therefore, no further details are provided here.

1.6 Depth of the value chain

GRI 3-3, 203-1, 203-2, 413-2, 414-1, 414-2

The value chain ranges from raw material production and the creation of the service to recycling after use. Berlin Hyp's Purchasing Department and environmental management system are responsible for the parts of value creation that take place within Berlin Hyp. However, significant parts of value creation are outside of its direct control. Berlin Hyp wishes to assume responsibility in this regard and to actively pursue the sustainable development of the value chain. Due to the long useful life of real estate, it is in the explicit interest of the Bank for its customers to build or acquire and operate properties whose long-term value is ensured through professional consideration of ecological, economic and social criteria.

Berlin Hyp's regular business normally consists of certain real estate projects in European High Income OECD[13] Countries[14]. These countries maintain comparable high to very high statutory ESG standards. However, when business is conducted outside Europe, Berlin Hyp, pursuant to its published Sustainability Guideline, follows intentionally recognised standards for environmental and social impacts, such as the standards defined by the Forest Stewardship Council (FSC), the Programme for the Endorsement of Forest Certification (PEFC) or similar standards[15], whereby its own standards go beyond the fulfilment of these requirements. The Bank's activities as a commercial real estate financier do not have direct negative impacts on local communities, e.g. impacts due to production activities. In its reviews, the Bank takes into account ESG factors relating to its lending process in accordance with Berlin Hyp's applicable Sustainability Guideline. Therefore, the Bank does not have programmes to evaluate these types of impacts.

Berlin Hyp requires all suppliers to comply with the requirements of the ten principles of the UN Global Compact. Berlin Hyp defines the ten top-selling suppliers as material, as well as all suppliers with whom long-term business relationships are maintained, e.g. in the form of framework contracts. The Bank reviews its key suppliers on a semi-annual basis in terms of compliance with CSR and ESG requirements of Berlin Hyp AG (via query in the RepRisk tool). Using the RepRisk tool, all of the ten suppliers were reviewed in terms of violations, reports

[10] The modernisation costs are calculated on the basis of the portfolio on the reporting date 30 September 2022 based on the assumption that no portfolio changes will occur, and other assumptions, e.g. regarding modernisation costs and times.

[11] PD refers to probability of default. The portfolio PD is the exposure-weighted average default probability of the portfolio, whereby only ratings higher than 11 are taken into account for this analysis, covering approx. 99% of the portfolio.

[12] basis point corresponds to 0.01 per cent

[13] The Organisation for Economic Cooperation and Development (OECD) is an international organisation that fosters prosperity, equality, opportunity and well-being for all. Source: www.oecd.org/ueber-uns/

[14] Germany, France, Benelux and Poland

[15] https://www.berlinhyp.de/files/media/corporate/ueber-uns/nachhaltigkeit/berichterstattung-und-richtlininen/2022-12-09-bhyp-br-nachhaltigkeitsrichtlinie-deusch.pdf

and anomalies with regard to sustainability. As a result, the suppliers available in the RepRisk tool have a RepRisk rating of AAA – i.e. no incidents.

One KPI per quarter – showing how many suppliers signed Annex E Sustainability Agreement – is generated and evaluated. The contents of the Sustainability Agreement include but are not limited to the commitment to comply with social and ethical standards in accordance with international standards (e.g. those defined by the UN's International Labour Organisation) – e.g. free choice of employment, freedom of association, prohibition of discrimination and compliance with standards regarding health, safety and acceptable living conditions. A signature under the agreement applies to contracts for work and services and has been mandatory since 1 January 2022. The relevant contract types in the contract database are reviewed in order to ensure compliance with this requirement. The review undertaken shows that in the reporting period, 55 per cent of all relevant contracts in the contract database document that the requirements of Annex E have been met. The target value of 50 per cent for 2022 was therefore slightly exceeded.

In the reporting period until December 2022, 37 questionnaires were distributed to and answered by new service providers and suppliers. Berlin Hyp did not become aware of any violation of the criteria. The management is involved in the adoption of guidelines in the governance of the Bank.

2 Process Management

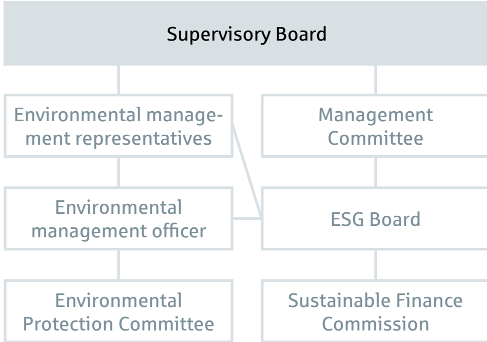
2.1 Responsibility

GRI 2-14

At Berlin Hyp, sustainability has been firmly established throughout its divisions for years. This is ensured by the interaction of the Board of Management, ESG Corporate Functions and Management Committee as well as the ESG Board, consisting of permanent representatives of the divisions, and the Chair of the Board of Management.

In order to ensure effective and proper implementation of the ESG implementation roadmap referred to in 1.2, and to enable the Bank to address issues that may arise in future in the context of ESG, the Bank's existing ESG governance system was reviewed and revised

Organisational structure of the environmental management system of Berlin Hyp AG



in 2021 and maintains its validity. The core elements of the most recent ESG governance system of Berlin Hyp are

- → the decentralised assignment of basic responsibilities for integrating and processing ESG issues into the various divisions and departments, and
- → the establishment of two overarching but separate cross-divisional and cross-departmental functions, which will promote the ESG vision and operate as higher-level coordinating bodies for the defined ESG implementation roadmap and new cross-divisional ESG issues, ensuring that all ESG-related measures at Berlin Hyp are made transparent and that they are linked and aligned with one another whenever this might be necessary.

The ESG Corporate Functions monitor the achievement of targets in corporate strategy and risk controlling, and the ESG Board of Berlin Hyp, chaired by the CEO of the Bank.

Furthermore, Berlin Hyp has a Sustainable Finance Commission (SFC), comprised of representatives from all divisions and departments involved in the financing/refinancing value chain: Sales, Portfolio Management, Credit, Valuation and Treasury. Risk Controlling and Corporate Strategy, in their role as central functions, are also part of the SFC. The SFC discusses, amongst other things, whether the eligibility criteria described in the existing sustainable frameworks are still in line with the best market practice and comply with relevant regulations, or whether amendments are required.

The Environmental Protection Committee is a cross-departmental, environment-related control and information body within the environmental management system and constitutes another specific specialised group (in this case: operational ecology), if necessary in cooperation with the ESG Corporate Function, other departments similar to the Sustainable Finance Commission. The Works Council is represented in the Environmental Protection Committee and is kept informed on an ongoing basis.

Supervisory Board

→ Monitoring and reviewing (at least annually) of the ESG strategy and taking note of Berlin Hyp's risk appetite

Board of Management

→ Decision and adoption as well as review of the ESG strategy and indirect supervision of its implementation via anchored, strategic goals
→ Responsibility for implementation to consider and integrate ESG risks and decrease risk appetite

Management Committee
Board members and all division heads

→ Regular reports on ESG performance by ESG central functions
→ Steering of strategically important topics and projects of the bank

ESG Board
Chairman: Sascha Klaus (CEO)
Members: ESG central functions and ESG division managers of all divisions and departments reporting directly to the Executive Board

→ Support in the coordination and monitoring of all ESG issues to be implemented
→ Function as an information/exchange platform for the cross-divisional discussion of ESG issues
→ Preparation of decision papers for the Board and discussion papers for the Management Committee on cross-divisional ESG issues

Central function ESG
(1st Line of Defence)

→ First contact and coordinator for ESG issues

1st Line of Defence
Divisions

→ Technical ESG responsibility for 1st-line-of-defence issues

Central function ESG Risk
(2nd Line of Defence)

→ First contact and coordinator for ESG-risk issues

2nd Line of Defence
Divisions

→ Technical ESG responsibility for 2st-line-of-defence issues

Implementation-supporting departments
(IT, Data, Governance, Data Management)

Revision of Berlin Hyp
(3rd Line of Defence)

2.2 Rules and processes
In addition to economic aspects, Berlin Hyp's activities also take into account ecological and social factors. Guidelines with corresponding provisions are in place to ensure that these factors are taken into account. They are operationalised by measures firmly established in the business processes. Monitoring to ensure the ongoing application of the measures is primarily the responsibility of the managers.

The following documents and guidelines document values, principles, standards and codes of conduct that are essential for Berlin Hyp's sustainable business activity:

- → Sustainability Guideline
- → Gender Equality Guideline: Equal Opportunities Policy
- → Environmental Management System Guideline
- → Annex to the Framework Agreement on the Sustainability of Suppliers and Service Providers
- → Guideline for Communication with Stakeholders
- → Lobbying Guideline
- → Guideline for Dealing with Tax Law Requirements
- → Code of Conduct
- → Guideline for Responsible Behaviour towards Customers in Financial Difficulties
- → Guideline for Responsible Behaviour towards Customers
- → Corporate Citizenship Guideline
- → Guideline on Sustainable Procurement

In our efforts to conduct sustainable business, Berlin Hyp does not rely solely on compliance with applicable laws and external regulations. We are guided in our actions and behaviour by the United Nations Sustainable Development Goals (SDGs), whereby we are particularly committed to SDG 11 (Sustainable Cities and Communities) and SDG 13 (Climate Action), in particular with a view to the goals of the Bank's sustainable business portfolio.

2.3 ESG management reporting
Within the framework of quarterly ESG management reporting by key organisational units, i.e. Corporate Strategy, Treasury, Portfolio Management (sales and product control) as well as Risk Controlling, the relevant non-financial KPIs are presented to the Bank's Board of Management. The selected reports and indicators are listed in Section 3 under the individual sustainability aspects.

2.4 Participation of stakeholders
GRI 2-28, 2-29
For Berlin Hyp, particularly those stakeholders are relevant who are directly or indirectly affected by Berlin Hyp's business activities, and whose opinions and acts directly or indirectly influence Berlin Hyp's business activities. Specifically, these are customers, employees, society, competitors, investors and owners. Stakeholder relevance assessments are conducted by the sustainability management organisation when needed.

In order to be able to identify the stakeholders' expectations and requirements at an early stage and react adequately in the context of sustainability, Berlin Hyp uses established formats for discussions with key stakeholder groups in society. Communication with stakeholders is a part of daily business activities – for example, in the form of conversations with customers, employee surveys and our activities in business association committees. Considering the fact that the COVID-19 pandemic is bottoming out, the exchange formats increasingly took the form of in-person or hybrid events in the second half of 2022.

In addition, Berlin Hyp uses the following formats:

- → Customer satisfaction analyses
- → Customer events
- → Complaints management for customers
- → Dialogue events of the Board of Management with all employees
- → Employee survey on the risk assessment for mental stress
- → Sustainability Day for employees
- → Workforce meetings
- → Exchange with the Works Council within the framework of the statutory obligation to consult and inform
- → Fireside chats and talks with managers
- → Investor roadshows
- → Committee and association activities
- → Round table talks with industry representatives
- → Regular exchange with rating and sustainability agencies
- → ESG Board

Berlin Hyp employees themselves also regularly contribute their experience and expertise to numerous institutions. Among other things, this also ensures that Berlin Hyp always remains up to date on the latest industry standards, including those that focus on sustainability

Berlin Hyp is a member of the following associations and interest groups (the list is not exhaustive):

- Appraisal Institute
- Arbeitgeberverband des privaten Bankgewerbes e.V. (Employers' Association for the Private Banking Industry)
- Arbeitsgemeinschaft der Betriebsräte der Immobilien und Pfandbriefbanken (Association of Works Councils of Real Estate and Pfandbrief Banks)
- BFW – Bundesverband Freier Immobilien und Wohnungsunternehmen e.V. (Federal Association of Independent Housing and Real Estate Companies)
- BME e.V.
- Climate Bonds Initiative
- DGNB Deutsche Gesellschaft für Nachhaltiges Bauen (German Sustainable Building Council)
- DSGV – Deutscher Sparkassen- und Giroverband e.V.
- (German Savings Bank Association)
- DV – Deutscher Verband für Wohnungswesen, Städtebau und Raumordnung e.V. (German Association for Housing, Urban and Spatial Development)
- DVFA – Deutsche Vereinigung für Finanzanalyse und AssetManagement (German Association for Financial Analysis and Asset Management)
- ESG Circle of Real Estate (ECORE)
- Gefm
- GIF – Gesellschaft für Immobilienforschung e.V. (Society for Real Estate Research)
- HypZert – real estate appraisers for the appraisal of mortgage loans
- ICG Social Impact Investing-Initiative
- IHK (Chamber of Industry and Commerce) – Climate Initiative
- Madaster Germany – online register of materials and products for the construction of recyclable buildings and reuse of materials
- RICS – Royal Institution of Chartered Surveyors
- ULI – Urban Land Institute
- UNEP FI – United Nations Environment Programme Finance Initiative
- UNGC – United Nations Global Compact
- vdp – Association of German Pfandbrief Banks e.V.
- VfU – Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V. (German Association of Environmental Management and Sustainability in Financial Institutions)
- ZIA – Zentraler Immobilien Ausschuss e.V.
- (German Property Federation)

Furthermore, Berlin Hyp participates in meetings on the topic of sustainability that are conducted by various working groups and committees of the associations and/or representations of interest listed above. These include but are not limited to:

- ZIA Corporate Social Responsibility Working Group
- ZIA Sustainable Finance Working Group
- VfU Sustainability Working Group
- DSGV Sustainability Team
- DSGV Taxonomy & Reporting Basic Project Working Group

3 Sustainability Aspects

3.1 Employee concerns

Berlin Hyp will continue to invest in its employees in order to be successful in future. Their commitment and cooperation are essential in terms of our ability to master the sustainability challenges that we will be facing in future. Sustainably motivated and qualified employees are the capital we need for future tasks.

The basis for these employee concerns is the human resources strategy, which supports Berlin Hyp's corporate strategy and, together with the relevant guidelines and processes, covers the internal framework for the individual aspects listed below.

3.1.1 Promoting an open and fair working environment

GRI 3-3, 2-7, 201-3, 401-1, 401-2, 401-3, 402-1, 405-1, 405-2, 406-1

Berlin Hyp's objective is to offer employees a long-term, attractive workplace with a certain degree of autonomy and development potential. Berlin Hyp sees itself as a company where the development of the potential of each and every employee, regardless of their function and hierarchy level, is possible and necessary for the company's success. Employees are provided with the required framework to enable them to move forward with their development autonomously, with the support of their superiors.

The Bank has taken a participatory approach to designing the change processes, which encourages employees to get involved; as a result, they identify more closely with the new developments. Examples of the Bank's approaches here include communities, working groups, the brand ambassador role and participation in the establishment of the new B-One working environments within the framework of the construction project for the Bank's new headquarters. In terms of staffing, the aim is to attract employees with the right mindset for actively shaping values and corporate culture, in addition to their qualifications. The HR department is responsible for systematic human resource planning. In order to keep the planning up to date and realistic, megatrends (e.g. digitalisation/automation, ageing society, knowledge culture, individualisation), developments in new and established business areas and regulatory requirements are taken into account. New job descriptions and management approaches are being implemented at the Bank, whereby these are derived from identified trends and the needs of customers and employees.

HR requirements are met using internal and external resources. Open positions are always advertised internally; externally only where required. By employing trainees, full-time students, dual students and interns, we ensure that we continue to gain young talent. Many of these people are subsequently employed on a permanent basis and develop from young talents into professionals. In addition to the trainee program, Berlin Hyp hires new graduates. In order to further improve our future focus on the support and development of junior staff, a new position was created in the reporting period: the HR Business Partner, who concentrates on junior staff only.

Taking into account the Bank's existing staffing levels, the overall availability risk for vacant positions is considered to be increasing but still moderate on the whole. The issues of "active sourcing" and "onboarding" were integrated into the strategy in 2021. New employees are integrated into the company with our onboarding process before their very first day of work (e.g. personal introduction on the intranet, regular communication until the first day on the job). The HR department supports the specialist departments with orientation planning and the preparation of all necessary applications for access and hardware. All of this is done to ensure that new employees feel welcome from the very first day. In the first half of 2022, the targeted search and proactive contacting of suitable persons was prepared and technically implemented in a career network. Additional applications were received as a result of this direct approach. Moreover, the position of Talent Acquisition Manager is to be established in Q1 2023 in order to further expand and improve the strategy for sustainable recruitment and critically examine and optimise existing processes. Further measures will follow in the next few years.

During the six-month reporting period, the number of slots in the training programmes developed in line with the needs of the target groups and of Berlin Hyp. The training slots were staffed with suitable new talents. The focus here is on sustainable management of new talent. This means that on the one hand, recruitment must be in line with the quantitative and qualitative needs of the Bank, while on the other hand it must be aligned with the career expectations and potential of the young talents. As a result, in the six-month reporting period ending 31 December 2022, the Bank had: 16 trainees and 4 dual students (30 June 2022: 14 trainees and 2 dual students, 2021: 12 trainees and 4 dual students) in their training programme.

The managers play a special role in the implementation of the corporate mission statement and contribute to the support of the employees in their development throughout their individual career and life phases. The requirements for the managers of the Bank were specified in Berlin Hyp's competence model. The Bank's competence model comprises the skills, knowledge and conduct requirements for employees that the Bank requires in order to be able to implement its strategic mission statement in a dynamic environment.
This competence model was adjusted in a participatory process necessitated by, among other things, changed working conditions and was then finalised in the reporting period.
In order to support the leadership role, we implemented a regular 270° feedback process for managers. More information can be found in 3.1.2 "Well-being and development opportunities".

Digitalisation and automation are changing working conditions in a very tangible way. New working environments and mobile technical equipment help to relieve the burden on employees in their day-to-day work and give them greater flexibility. This is has been a success factor for Berlin Hyp, particularly during the COVID-19 pandemic. If contact restrictions and physical distancing rules are imposed, employees can use digital or hybrid forms of communication and collaboration at any time.

Within the framework of semi-annual HR reporting, HR KPIs are prepared and presented to the Board of Management and divisional management organisations. The relevance of the KPIs is verified on a regular basis and the KPIs are then adjusted where necessary.

Based on an average of 571.8 employees, the turnover rate was 9.4 per cent in the 2022 reporting year (second half 2022: 4.7 per cent, first half 2022: 4.8 per cent, 2021: 5.1 per cent, 2020: 8.6 per cent), taking into account the approval of the annual accounts. In the reporting period (second half 2022), the turnover rate was 4.7 per cent, of which 44.4 per cent was accounted for by female employees (12) and 55.6 per cent by male employees (15). The average length of time at the company is 16.3 years. No noticeable differences between regions were recorded.

Employees per region

		31.12.22	30.06.22	2021	2020
Total employees		570	558	557	546
	Of which in Berlin	512	502	500	491
	Of which in other locations in Germany	43	42	43	43
	Of which in Poland	4	4	4	4
	Of which in the Netherlands	7	7	6	5
	Of which in France	4	3	4	3

Employees, broken down by sex and type of employment

		Women				Men			
		31.12.22	30.06.22	2021	2020	31.12.22	30.06.22	2021	2020
Total employees		268	264	272	269	302	294	285	277
	Of which fixed-term contracts	8	3	2	1	5	4	3	3
Full time		189	178	182	176	286	276	269	262
Part time		79	86	90	93	16	18	16	15
Staff employed under collective agreements		96	89	106	112	62	58	60	56
Staff not employed under collective agreements		172	175	166	157	240	236	225	221

Turnover rate by age group
in %

	31.12.22	30.06.22	2021	2020
Age group				
< 25	0.0	3.7	0.0	2.0
25 – 30	3.7	3.7	6.9	6.1
31 – 40	33.3	14.8	17.2	14.3
41 – 50	18.5	25.9	6.9	6.1
51 – 60	29.6	44.4	48.3	55.1
> 60	14.8	7.4	20.7	16.3

New employees by age group[1]

	Woman				Men			
	Second half of 2022	First half of 2022	2021	2020	Second half of 2022	First half of 2022	2021	2020
Employees								
< 25	0	0	0	0	0	0	1	0
25 – 30	1	1	4	3	1	2	4	2
31 – 40	3	2	3	0	11	11	9	8
41 – 50	4	1	3	2	8	4	5	2
51 – 60	2	0	0	2	0	1	0	3
> 60	0	0	0	0	0	2	0	0
Trainees								
< 25	1	1	1	1	0	4	2	2
25 – 30	4	0	1	0	0	3	1	1
31 – 40	0	0	0	0	0	0	1	0
41 – 50	0	0	0	0	0	0	0	0
51 – 60	0	0	0	0	0	0	0	0
> 60	0	0	0	0	0	0	0	0

[1]Age upon joining the company

New employees by gender

	Woman				Men			
	Second half of 2022	First half of 2022	2021	2020	Second half of 2022	First half of 2022	2021	2020
Employees	10	4	10	7	20	20	19	15
Trainees	5	1	2	1	0	7	4	3

Employee rights
The employees at Berlin Hyp work almost exclusively in Germany and are therefore subject to the German regulations on labour law, operational co-determination and the right to freedom of association, in addition to the EU regulations. Furthermore, employees covered by a collective agreement also enjoy the immediate protection of the collective agreement provisions, since Berlin Hyp is a member of the collective agreement employers' association. In the event that major changes are made to business operations, the notification periods defined by German labour law and the German Co-Determination Act apply. In addition, major changes to business operations must be discussed and agreed upon by management, the Economic Committee and the Works Council. As a rule, Berlin Hyp complies with all labour law provisions of the countries in which it operates.

Through a series of agreements with the Works Council and the Executive Staff committee (whose term of office ended in 2022 without a by-election), Berlin Hyp has regulated important matters concerning employee rights beyond statutory requirements. Such matters involve, among other things, company rules, the company pension scheme and mobile working arrangements. The two employee representatives have/had the right to monitor the implementation of the agreed measures.

The following company benefits are offered to all full-time and part-time employees:

→ Company pension scheme with company contributions
→ Company subsidy for lunch meals
→ Voluntary accident insurance
→ Employer Assistance Program (EAP) – comprehensive consulting and referral programme for employees and their relatives
→ Bicycle fleet for use during breaks
→ Survivors' benefits in case of death
→ Inflation compensation bonus

The company pension scheme is an important component of the additional benefits that Berlin Hyp offers its employees. The Bank has different pension programmes that have developed throughout the history of the company. Further information is available in the "Reserves" section of the notes to the Annual Report for the second short financial year in 2022. Pensions are direct commitments by Berlin Hyp that are financed in their entirety by the company. Depending on the pension programme involved, the Bank pays retirement pensions, early retirement pensions, disability pensions, widow's pensions and orphan's pensions. The pension regulations only apply to employees employed on a permanent basis. For detailed information on the liabilities and information on pension provisions, see the "Reserves" section of the notes to the Annual Report for the second short financial year in 2022.

Equal opportunities
Berlin Hyp firmly believes that diversity creates advantages out of opposites. In the interest of the Bank's long-term success, it considers the similarities and differences of its employees to be enriching and values each and every one of them. This stance was included in the "Empathetic cooperation" competence and the related behavioural anchor of Berlin Hyp's competence model that was adjusted in 2022, whereby efforts here focus on a respectful and fair culture of cooperation, based on equal opportunities and equal treatment. This position was, among other things, reinforced by the signing of the Diversity Charter. Berlin Hyp's Code of Conduct provides employees and business partners with a clear guide for their daily actions in this regard. In 2021, Berlin Hyp issued an Equal Opportunities Policy that applies equally to all employees in terms of its principles and the duty to promote diversity. The aim of the Equal Opportunities Policy is to foster an open corporate culture free of prejudice that allows employees develop their potential in the interests of the Bank's long-term success and contribute their individual talents. The share of women among the entire staff of Berlin Hyp on the reporting date 31 December 2022 was 47.0 per cent (30 June 2022: 47.3 per cent, 2021: 48.8 per cent). Severely disabled persons accounted for 5.4 per cent of the workforce in 2022 (30 June 2022: 5.2 per cent, 2021: 5.4 per cent).

Berlin Hyp is striving to integrate the equal consideration of all genders for management positions into the corporate culture to an even greater extent. The proportion of female managers is stable on a high level. A significant increase has not yet been achieved, the reason being among others the absolutely low number of managers in connection with a low fluctuation in management positions. Fulfilling the KPI of 33 per cent on the first and second management level below the Board of Management by 30 June 2025 is therefore considered to be an ambitious but feasible goal. For further information on the target figures for female executives, see Management Report VI “Corporate Governance Statement Pursuant to Section 289f of the German Commercial Code (HGB)”.

The measures to increase the share of female executives include but are not limited to:

- → In contracts with HR consultants: Contract clause that is to promote the inclusion and identification of female applicants in the recruitment process
- → The appointment of at least one woman to a wide variety of selection and observer committees
- → Explicit inclusion of the subject of equal opportunities by the HR department when advising managers on HR matters (such as staffing)
- → The application management tool, which can systematically record and analyse the involvement of female applicants in every recruitment process of Berlin Hyp
- → Job postings that are attractive for all genders (e.g. updating the imagery used)

Frauennetzwerk@BerlinHyp (women's network at Berlin Hyp) was implemented in the reporting period. The network provides a basis for an active and transparent exchange of information on topics such as assuming responsibilities, equality and career perspectives. The initiative targets all female employees who wish to contribute to a work environment where women, just like men, want to, can and are able to assume responsibility. As at 31 December 2022, approx. 30 female employees were members of the network.

Berlin Hyp actively encourages a healthy work-life balance, and therefore equal opportunities through flexible working time, workplace models and other measures. Trust-based working hours in conjunction with mobile working supports the employees to balance their work for Berlin Hyp with their personal and family activities. The employees can apply for capacity changes in their employment relationship at all times using a fixed process (workflow). An external advisory service, including a work-life service, is provided for employees and their relatives in the event of individual difficulties or problems. We are not aware of any cases of discrimination during the reporting period.

Entitlement, return and continuance after parental leave

	Women				Men			
	31.12.22	30.06.22	2021	2020	31.12.22	30.06.22	2021	2020
Entitlement[1]	9	12	11	15	6	3	12	13
Used[2]	8	11	7	15	6	3	6	12
Return after parental leave[3]	2	4	3	10	6	2	5	10
Return rate in %	100	100	100	100	100	100	83,33	100
of which continued with the company[4]	2	4	3	9	6	2	5	10
Continuance rate in %	100	100	100	86	100	100	100	100

[1]Total new entitlements (birth of a child) and old entitlements (employees already using parental leave)
[2]Employees who took at least one month of parental leave (inactive employment relationship)
[3]Employees who were once again in an employment relationship in the reporting year after the end of parental leave
[4]Employees who were in a permanent employment relationship (not terminated by the employer) in the reporting year 12 months after the end of parental leave

3.1.2 Well-being and development opportunities

GRI 3-3, 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7, 403-8, 404-1, 404-2, 404-3

Qualification and training

The aim of human resources development is to support the employees of Berlin Hyp in their personal and professional development. This also includes training, continuing and further education and career planning, Training sessions are planned, organised and executed in a structured process where the banking divisions are involved. A special focus is on the constant changes in the underlying internal and external conditions.

Megatrends such as digitalisation, automation and hybrid work environments, but also increasing regulatory and professional requirements, have led to changes in employee skill requirements at Berlin Hyp. The required skills are promoted at all times by a variety of needs-based in-house measures and external continuing education opportunities. Examples of such activities are the "back-to-office" workshops that began in the first half of the year and continued in the reporting period, as well as the training courses that were offered in the reporting period in order to improve the digital skills of Berlin Hyp's staff, whereby these courses were based on the results of a survey conducted throughout the Bank. Beginning in 2023, all employees will have the opportunity to participate in an internal qualification programme that was designed specifically for Berlin Hyp in cooperation with the Digital Business University of Applied Sciences. This programme will offer podcasts, group chats, workshops, boot camps and coaching sessions, as well as online-based content in the Learning World. The programme will give employees the opportunity to complete a course on one of the three profiles of "Data Manager", "Advanced Data Manager" and "Data Scientist" within two years.

To ensure employees' long-term professional development, emphasis continues to be placed on context-related and ad hoc learning directly linked to specific work and change processes. Learning behaviour has shifted toward a higher proportion of virtual learning formats, "learning nuggets" within shorter time frames and the autonomous use of various platforms and formats. In the course of further developing and expanding Berlin Hyp's internal Learning World, various external digital self-study platforms were tested by many employees and during the reporting period a link was initiated to a modern external platform with a large number of classes that address various specialisations and methods. The "Learning World Berlin Hyp" introduced in 2021 can be used by all employees at all times and offers learning and development opportunities in various categories. Since the beginning of 2022, it has also included an onboarding workshop.

Within the learning and development context, employees are responsible for pursuing the autonomous development of their skills and actively sharing their knowledge; managers are responsible for actively supporting this process, presenting development perspectives and providing continuous feedback on behaviour and performance; the HR department is responsible for creating modern, needs-based, value-adding learning formats and framework conditions for the professional development of employees and managers.

As Berlin Hyp is forced to undertake organisational adjustments due to the increasing frequency and complexity of economic, regulatory, political and social changes, an internal training series on the topic of organisation development was designed and started in the reporting period, with involvement by company management and the Works Council.

Berlin Hyp's management development method employs a systemic approach with a focus on organisational learning. Derived from the Bank's strategic leadership requirements, the individual needs of managers from the 270°Feedback and insights from learning theory, the approach uses guided process learning based on specific management situations and provides support for the current change processes. This helps establish a modern and sustainable management culture in line with the Bank's strategy. During the reporting period, a peer learning system on the topic of modern leadership was rolled out. This system offers managers a space to exchange information with one another and reflect on new perspectives, ideas and solutions relating to the new requirements of work environments. The feedback from managers and the Works Council showed that the 270°Feedback needs to be further developed in order to, among other things, further strengthen the feedback culture within the Bank. The adjusted version is to be implemented in 2023.

As a central element of talent management, the expert career is an alternative development option that is equal to the management career option. In order to promote the expertise and effectiveness of Berlin Hyp experts, the experts are individually supported on a needs-oriented basis, whereby support here includes qualification measures as well. Another female expert was appointed in the reporting period, which means we currently have two female experts in our organisation.

Within the framework of the top-level qualification programme for young professionals, which focuses on promoting young employees, these experts can apply for a mentioning programme or a place to study – e.g. a course of study in real estate economics. In the second half of the year, two places to study were successfully filled and Berlin Hyp also supported participation in the specialist training programme offered to employees. The top-level qualification programme for professionals also includes support for university degrees to be obtained alongside work for all other employees, as well as measures suitable for the specific qualification needs of the executives at the first level below the Board of Management. In the second half of 2022, a fellowship slot was granted for the first level below the Board of Management. This fellowship focuses on the promotion of digital skills, sustainability, innovation and personal development.

In order to support strategic resource planning, early retirement and severance agreements are offered on the basis of a works agreement. Employees who terminate their employment relationship via a severance agreement may avail themselves of a new-placement counselling service funded by Berlin Hyp. The goal here is to offer adequate career prospects to employees as quickly as possible. The new-placement counselling service was not used in 2022, as it was not needed by any employees. The programme is being maintained, however.

In the course of the annual analysis process related to the target agreements of the previous year, all employees receive feedback regarding the fulfilment of their performance and behaviour targets. Moreover, employees or managers are free to initiate a so-called perspective meeting to discuss their development prospects. The training stages in the dual study programme and in the trainee programme are supported by feedback from the specialist departments and the central training manager.

The Bank has allocated an average of 3.5 training days per employee and per year as the target. From 1 July to 31 December 2022, the employees spent an average of 1.9 days (01.01.2022 – 30.06.2022: 3.0 days; 2021: 4.0 days; 2020: 3.5 days) on further training and continuing education.[16] During the reporting period, employees spent an average of 1.8 days (01.01.2022-30.06.2022: 2.9; 2021: 3.7; 2020: 3.3) and managers 2.7 days (01.01.2022-30.06.2022: 3.8; 2021: 6.7; 2020: 4.8 days) on further training and continuing education. The data are based exclusively on completed formalised further education events (e.g. seminars, expert conferences, coaching). The documentation of context-related and ad hoc learning directly linked to specific work and change processes (e.g. workshops and information provision close to the work place) is still being expanded. In the period from 1 January 2022 to 31 December 2022, employees had an average of 4.7 days of training and continuing education. Along with the increasing establishment and utilisation of virtual learning formats, the actual figure recorded is due to development measures implemented as part of change processes and the ESG training provided to employees. With a variety of tailor-made in-house measures and selected external training opportunities, Berlin Hyp considers the qualification risk to be low.

[16] The further training and continuing education figures inthis report are based on a different calculation base (see “Reporting Principles”) and a different calculation system.

Further training and continuing education by gender

	Women				Men			
	31.12.22	30.06.22	2021	2020	31.12.22	30.06.22	2021	2020
Average hours per capita	13.4	18.7	27.1	23.8	11.9	20.3	25.3	21.4

Further training and continuing education by age group

Average hours per capita	31.12.22	30.06.22	2021	2020
Age group				
< 25	0.1	0.2	0.0	0.1
25 – 30	0.9	0.8	1.0	1.0
31 – 40	2.9	4.0	4.6	3.9
41 – 50	3.2	6.4	9.3	8.0
51 – 60	5.1	7.8	10.6	8.6
> 60	0.3	0.4	0.6	1.0

Occupational health and safety and health protection

Occupational health and safety and health protection at Berlin Hyp are also organised in accordance with legal requirements or regulated in company agreements. The responsible departments, on behalf of the Board of Management, do not negotiate issues of occupational safety and health protection directly with trade unions, but – in accordance with legal requirements – with the Works Council. In addition, overarching issues of occupational safety and health protection can become the subject of collective agreements between the collective bargaining associations.

A central occupational safety committee has been established at the Berlin site. The tasks and the composition of the committee are in line with the provisions of the Occupational Safety Act (ASiG). Safety officers are appointed in accordance with the legal requirements contained in the Occupational Safety Act.

Employees based abroad are subject to the respective country's legislation. Inspections and consultative talks take place at the sites abroad on a regular basis. The regulations for the Bank's reintegration management system applicable to establishments in Germany in accordance with section 167(2) of the German Social Code IX are included in a works agreement. The reintegration management support team acts as a central control point in this area. It is comprised of representatives from HR, the Works Council and the disabled employees' representation body. By involving external expertise in the specific execution of individual reintegration management procedures, Berlin Hyp supports employees who wish to return to work after being incapacitated and helps prevent such incapacitation from repeating itself in future in order to ensure the continuation of the employment relationship over the long term.

All Berlin Hyp employees are represented in the occupational safety committee. On a quarterly basis, representatives from the health management organisation, the Works Council, the disabled employees' representation body, as well as safety officers, the Occupational Safety Officer and the Fire Safety Officer of the Bank, meet with the company physician and the Work Safety Officer to discuss employment law issues. Topics include but are not limited to accidents at work, vaccination protection, risk assessment, evacuation exercises, relevance and implementation of new regulations, and the results and insights from cyclical inspections.

There are no positions at Berlin Hyp that pose a significant danger to employees or lead to a higher rate of illness, which means employees do not face the risk of typical occupational illnesses or diseases. The external Work Safety Officer and the external Fire Safety Officer conduct site inspections on a regular basis.

Furthermore, the Bank's building systems organisation coordinates and verifies regulatory requirements as required by law. Test reports etc. are verified in regular audits. In order to prevent health problems that can arise as a result of long periods of sitting at work, Berlin Hyp makes an extensive effort to ensure that workstations are designed ergonomically, and the Bank also offers occupational health check-ups on a regular basis. If an employee has already had issues of this kind in the past, their workspace will be designed individually and ergonomically.

Employees may contact the Occupational Safety Officer, the company physician or the Works Council at any time if a potential work-related risk or a potentially dangerous situation should come up. The situation is then evaluated, a risk assessment is prepared and, where required, the occupational safety committee and/or the Works Council is informed. Occupational Safety acts with a direct reporting line to the Board of Management and has its own budget in order to be able to initiate ad hoc measures etc.

Occupational health services are provided by an external company physician. The company physician is available for any problems or difficulties with potential indirect or direct impacts on the workplace (e.g. ergonomic issues, questions regarding working at a monitor). The physician's consultation hours and contact data are published on the intranet. The physician also conducts check-up examinations for employees. The COVID-19 vaccines offered were administered by a commissioned family practice, which also administers the flu vaccines.

Berlin Hyp does not have a certified management system for occupational health and safety and health protection. The employees are provided with information via publications on the intranet, displays in the Bank and processes in the organisation manual. In urgent situations, messages are sent via e-mail to all Bank employees.

Information on pandemic control is chiefly provided to employees via the intranet, in particular in the form of FAQs (hygiene regulations, physical distancing regulations, test options, information on vaccines, consultation with the company physician, etc.). Employees who are first responders, fire safety assistants or safety officers are trained on a regular basis. Occupational Safety monitors the required training intervals.

All employees must attend an occupational safety training course once a year. Employees who enter rooms that may contain extinguishing gases etc. are trained separately. Evacuation exercises are also held every two years.

Health promotion activities include programmes for reducing health stress risks and strengthening self-determination by promoting social and individual health awareness. Information on the following services is published on the intranet; these services can be used by all employees:

- → Free third-party consultations (EAP): this service relates to all professional and private issues and is supplemented by an information and agency service for family issues. The service is also available free of charge to the relatives of the employees affected.
- → Massage service: a physiotherapy practice offers its services at the Berlin site four days a week. The treatments take place outside of working hours, the employees bear the costs.
- → Flu vaccine: a cooperating family practice offers flu vaccinations on an annual basis at the Berlin site. Berlin Hyp bears the costs.
- → Check-up examinations and consultation for employees: employees may avail themselves of a free check-up examination with the company physician every two years. The check-up is also used to address personal risk factors, discuss preventive measures and make recommendations for further examinations with the family/specialist physician.

Betriebssportgemeinschaft Berlin Hyp e.V. (company sports club), supported financially by Berlin Hyp AG, also makes an important contribution to the health of employees. For more than 25 years, the club has organised sports events and activities that improve employee fitness and increase team spirit. Currently, the club has more than 300 members.

As a rule, Berlin Hyp only has office workstations. Therefore, Berlin Hyp does not have positions that pose a significant danger to employees or lead to a higher rate of illness, which means employees do not face the risk of typical occupational illnesses or diseases.

Regular inspections ensure the early detection of potential risks. In autumn of 2022, a survey of all employees was conducted within the framework of a risk assessment for mental stress. The assessment is based on a works agreement on physical and mental risk assessment.

3.1.3 Fair remuneration policy and proportionality of commissions and bonuses

GRI 2-19, 2-20, 405-2

Berlin Hyp is subject to the regulatory requirements of the German Remuneration Ordinance for Institutions (IVV). As a member company of the Employers' Association for the Private Banking Industry that is bound by collective agreements, the Bank applies the collective agreements for the private banking industry, and in addition, Berlin Hyp implemented a remuneration system based on performance, success and market needs for all staff not employed under collective agreements. For such staff, this means that their remuneration is also determined on the basis of objectively weighted assessment criteria.

The remuneration strategy and the remuneration systems for the Board of Management, for staff not employed under collective agreements and for staff employed under collective agreements are reviewed on a case-by-case basis, but at least once per year and with the involvement of the Remuneration Officer, and are updated as needed. A remuneration meeting is organised on an annual basis in order to review and, where required, adjust individual remuneration. The Works Council is involved in this process.

A distinction is made between fixed and variable remuneration. Variable remuneration is meant to acknowledge sustainable and risk-adjusted performance in excess of the fulfilment of obligations pursuant to the employment contract in question. Variable remuneration is granted conditional upon sustainable positive overall success of Berlin Hyp. Success is not only measured in terms of quantity, as the quality of overall success in the previous financial year is also evaluated. Ever since the 2020 financial year, the fulfilment of the sustainability target of “share of green buildings”, and the achievement of the components needed for DGNB certification for the deconstruction process and the new construction project B-One, have been taken into account in the quality evaluation.

In 2022, the sustainability target of a 28% green building share was exceeded (30.15% share). In 2021, Berlin Hyp very successfully completed the pre-certifications for DGNB certification. In 2022, the decision was made to have Berlin Hyp’s existing building as well certified by DGNB. The fulfilment of the certification targets for the deconstruction process and the new construction project B-One, and for the existing building, remains realistic under the current planning status.
The remuneration policy is regularly monitored by the Supervisory Board, with support from the Remuneration Control Committee. The members of the Supervisory Board receive a fixed remuneration for their work. The Annual General Meeting decides on the remuneration of the members of the Supervisory Board. The remuneration regulation does not apply to members of the Board of Management and other employees of LBBW who hold shareholder mandates in the Supervisory Board of Berlin Hyp AG. They do not receive remuneration for these Supervisory Board mandates. No variable remuneration is paid. The remuneration of the highest control body is not bound by performance criteria relating to social, economic and environmental issues.

The variable remuneration of the members of the Board of Management, of staff not employed under collective agreements (including executive employees) and staff employed under collective agreements, is calculated on the basis of the fulfilment of the agreed targets (individual target agreements), taking into account both quantitative and qualitative remuneration parameters, which focus on the development of strategic, financial and non-financial KPIs and support the fulfilment of the strategic targets. The Bank’s strategic objectives are described in the Management Report in the section “Principles of the Bank – Goals and Strategies”.

For the 2022 financial year, the Supervisory Board continued the ESG goal of safeguarding and further developing the success achieved in becoming a sustainable company and employer – especially in relation to acting as a green real estate financier and an issuer of Green Bonds. The focus here was on the implementation of the comprehensive ESG project for expanding the green building portfolio, increasing the transparency of the CO_2 portfolio and maintaining and/or improving ESG ratings. For customer service staff in sales units, for example, the green building share was established as a quantitative remuneration parameter in their individual target agreements.

Ever since 2018, a clawback clause for variable remuneration in accordance with the requirements of the German Remuneration Ordinance for Institutions has been part of the Supervisory Board policy on the remuneration of the members of the Board of Management and has also been part of the remuneration systems for staff not employed under collective agreements and staff employed under collective agreements. In addition, a works agreement and individual agreements with executive employees are in place in order to consistently implement the requirements of the Ordinance throughout the company. For information on the remuneration of the members of the bodies, see the attachment “Remuneration of the Board of Management” in the Annual Report for the second short financial year 2022.

It goes without saying that we are absolutely committed to the principle of equal pay for men and women who do the same work. During the reporting period, the gender neutrality of the remuneration systems was analysed, and the results were noted by the Supervisory Board. The analysis showed that the calculation of the remuneration for staff employed under a collective agreement, staff not employed under a collective agreement, members of the Board of Management and members of the Supervisory Board is gender-neutral and no gender discrimination as to remuneration occurred for the same or equal work. A gender pay gap analysis in accordance with the regulatory requirements for banks was designed and executed for the first time during the reporting period. The result showed that the gender pay gap in all analysed groups was unremarkable. The development of the pay gap will be regularly monitored and pro-actively managed in future.

3.2 Social concerns

Berlin Hyp bears social responsibility in terms of its economic capacity and makes a positive contribution to improving public quality of life. This includes but is not limited to the Bank’s social commitment, examples of which are described in the sections below. Berlin Hyp has an impact on social concerns through its activities as a financial services provider, in particular with its products and services. This includes measures such as the integration of social criteria into the Bank’s own investment business and financing projects as well as the responsible design of digital processes and products. The transparent presentation of the Bank’s performance to customers and data security are highly relevant for Berlin Hyp, while the Bank’s social commitment (corporate citizenship) activities aim at strengthening its foothold in society.

3.2.1 Corporate social responsibility

GRI 3-3, 203-2, 413-1, 413-2

Based in Berlin, Berlin Hyp contributes in particular to economic and social well-being in the State of Berlin. At its various locations, the Bank positively affects economic and social development as an employer and a procurer of products and services. The Bank’s social commitment (corporate citizenship) activities aim at establishing an appropriate foothold in the regions in which it conducts its business activities.

Within the framework of its long-term partnership with the charity Kinderhaus Berlin-Mark Brandenburg e.V., Berlin Hyp supported the social welfare of children and young people in the reporting year with funding in the amount of €30,000, and the Bank is also helping to safeguard the community in the Kinderhaus. Employees also support the Kinderhaus with the German tradition of giving them a goodie bag for their first day of school, or assisting with the initial furnishing of their new homes. Furthermore, many employees and managers volunteer in various charitable organisations. In this context, Berlin Hyp donated €15,000 to various organisations in the second half of 2022 within the framework of the ESG special topic days.

Moreover, Berlin Hyp supported the Betriebssportgemeinschaft Berlin Hyp e.V. for the entire year in 2022 with a donation of €35,000. This measure is meant to encourage Berlin Hyp’s employees to take their health into their own hands by participating in sports and athletic activities in order to increase their awareness of the importance of health and physical well-being.

In 2022, Berlin Hyp, on the basis of employees' recommendations, also supported various charitable organisations that have a social focus. The aim here was to further shift the spirit of donating from a company concern into an employee concern and make sure that the ESG idea becomes part of everyone's mindset. This approach was reinforced by an Advent event, where recipients of the donation were proposed and then a vote was held to determine the winner.

3.2.2 Customer relationship management

GRI 3-3

The principle behind customer relationship management is as follows: "We create lasting value for our customers and for our owners and ensure that our standards are in line with their expectations." In compliance with the principle of good governance, Berlin Hyp commits to only offering ethically acceptable products and services and to providing all customers with responsible and forward-thinking advice that meets their needs and clearly describes the respective advantages and risks. More information is available in the "Guidelines for responsible behaviour towards customers" at https://www.berlinhyp.de/de/nachhaltigkeit/richtlinien.

The Bank's behaviour towards customers in financial difficulties is based on the 18 principles of the European Banking Authority: „Good Practices for the Treatment of Borrowers in Mortgage Payment Difficulties". In this manner, customers with potential financial difficulties are identified early on via an early-warning monitoring system and then contacted by specially trained employees. Such customers are provided with targeted sources of information. Furthermore, they are afforded the opportunity to present their own payment concept without too much pressure.

3.2.3 Consideration of social criteria when issuing bonds

In 2022, Berlin Hyp began the review and concept development for the extended impact measurement of the financed real estate portfolio with regard to social criteria. The focus was initially on the residential asset class and the topic of "affordable housing" in Germany and in the Netherlands. The results form the basis of Berlin Hyp's Social Bond Framework published in March 2022, which implements the ICMA Social Bond Principles. Within this Framework, Social Bonds can be issued as an additional class of funding instruments in the Bank's ESG refinancing mix. Berlin Hyp aims at issuing Social Bonds regularly. The Bank issued its first Social Bond in May 2022; the second one was issued directly after the end of the reporting period in January 2023. As of the reporting date, the outstanding Social Bond volume amounted to €750 million. In March 2023, Berlin Hyp will publish allocation and impact reporting for its Social Bonds on its website for the first time.

The amount corresponding to the proceeds of a Social Bond issued by Berlin Hyp is used to (re)finance eligible social assets. Eligible social assets are loans for the construction, acquisition or modernisation of buildings that offer affordable housing. The rents for apartments that are deemed to be affordable are defined in the Bank's Social Bond Framework and depend on the current social laws in the respective country. For affordable housing located in Germany, the appraisal is done via Berlin Hyp's Housing Allowance Act test, which is based on the legal regulations for housing allowances. On this basis, the admissible gross cold rent per apartment is calculated based on the adequate residential space and the rent levels defined in the Housing Allowance Act and then compared to the actual gross cold rent.

The Social Bond Framework provides that new regulatory developments are to be taken into account in the future versions of the Framework. The Housing Allowance Plus Act came into force on 1 January 2023, leading to the following adjustments to Berlin Hyp's Social Bond Framework:

- → New allocation of municipalities and counties to the rent levels
- → Increase in the maximum gross cold rent by the permanent climate component

In the Netherlands, the threshold value for social housing results from Article 47 of the Dutch Housing Act. The act is updated on an annual basis by the Dutch government. Furthermore, private housing companies are required to make a credible, publicly accessible commitment to affordable housing for properties in Germany and in the Netherlands. Climate protection and affordability of housing go hand in hand at Berlin Hyp, which is why eligible properties of all housing companies need to be among the top 70 per cent of the national residential building stock in terms of energy efficiency. This is checked within the framework of the lending process.

3.2.4 Consideration of social criteria when selecting financing projects

The issuing of Green Loans was introduced within the loan process, whereby such loans include the taxonomy loan, which meets the minimum social safeguards of the EU taxonomy. The minimum social safeguards became part of the Green Bond Framework in the reporting period, with the inclusion of the EU taxonomy criteria for environmental target 1, and accordingly in the Sustainable Framework. Additional topics will be reviewed within the framework of the current ESG implementation roadmap on an ongoing basis. Plans for 2023 call for the introduction of a Social Loan, which transfers the criteria of the Social Bond Framework to actual business activities, and the inclusion of this type of loan in the Sustainable Finance Framework.

3.2.5 Data security

Berlin Hyp collects, processes and uses the personal data of employees, customers and business partners. They are used in the general business operations and allow customers to receive advice and support according to their needs.

This personal data may only be handled with care, in compliance with the law and in accordance with unambiguous rules, in order to demonstrate that the Bank is worthy of the trust placed in it by its customers. Internal instructions (e.g. Data Protection Policy), the keeping of records of processing activities, the monitoring of processes (e.g. conducting a data protection audit) and the use of processes to guarantee the rights of data subjects (e.g. processing a data protection request for information) ensure that the General Data Protection Regulation and other data protection provisions are complied with at Berlin Hyp.

The Data Protection Officer reports yearly, or on an ad-hoc basis whenever necessary, to the entire Board of Management with an update on data protection within the company.

Berlin Hyp operates an information security management system (ISMS) based on the ISO 27001 standard, which fulfils the regulatory requirements contained in MaRisk AT 7.2 in conjunction with BAIT. Berlin Hyp has set up an information security organisation and appointed an Information Security Officer (ISO) with a direct reporting/information line to the Chief Risk Officer. Experts are also involved, in particular in the IT department (operational information security) and in the Facility Management department (physical security).

Berlin Hyp's ISM guideline adopted by the entire Board of Management establishes the basic objectives and framework conditions for Berlin Hyp's information security and is both a demand and an obligation for all (external) employees to act in accordance with the law and responsibly handle any and all information in need of protection. On this basis and taking into account applicable regulatory requirements, the institution-specific Security Control Framework is an integral part of the Bank's written regulations and addresses security requirements for all relevant organisational units. Regular security reviews identify information (security) and IT risks, which are then assessed and addressed with corresponding measures. The ISO regularly makes all employees aware of various information security issues.

The ISO reports on the status of information security to the entire Board of Management on an annual basis, and to the Chief Risk Officer on a quarterly basis, or on an event-driven ad hoc basis if security-relevant issues arise.

3.2.6 Transparent performance presentation

GRI 2-16, 3-3, 417-1

After the EU Action Plan for "Financing Sustainable Growth" was published, the regulatory pressure on CO_2-intensive industries to achieve climate targets increased. This in turn increases the significance of the transparent presentation of sustainability activities and their impacts, opportunities and risks. In addition, a high degree of transparency within the company supports efficient and targeted planning and control.

In November 2022, Berlin Hyp published its new Sustainability Guideline, which comprises and transparently presents all material sustainability guidelines for the core business, including the exclusion of business activities in industries bearing relevant sustainability risks.

Another successful step was joining the United Nations Environment Programme Finance Initiative (UNEP FI) and signing the Principles for Responsible Banking (PRBs) in October 2022. The initiative catalyses measures throughout the financial system in order to align the economy with sustainable development. The clear commitment to the United Nations Principles for Responsible Banking is another step towards manifesting Berlin Hyp's sustainability strategy. Within the framework of the PRBs, Berlin Hyp will also publish an annual progress report. The first report is to be published in the second quarter of 2023.

In the last quarter of 2022, Berlin Hyp started the "Decarbonisation Path" project. The project aims to achieve science-based management of the business portfolio with regard to CO_2 neutrality by 2050 at the latest. Here, the project seeks to establish a measurement methodology harmonised with the procedure of Partnership for Carbon Accounting Financials (PCAF), the Science Based Targets Initiative (SBTi) and already existing internal data/methodologies. The implementation of the measurement methodology with an appropriate control concept is to be achieved using an external service provider by the end of 2023.

With regard to the requirements for product and service information and labelling, Berlin Hyp acts in accordance with the guidelines of the ICC Marketing Code. This code is based on three fundamental principles:

- → All marketing communication should always be legal, decent, honest and truthful.
- → Marketing communication activities should always adequately reflect a sense of professional and social responsibility and comply with generally accepted principles of fair competition.
- → Marketing communication activities should never cause damage to consumer trust in marketing.

Communication and Marketing is responsible for applying the principles. It also provides information to the commissioned marketing service providers in order to ensure responsible marketing. Berlin Hyp has also established its own complaints management system within the Governance division. This system aims at continuously increasing customer satisfaction.

All complaints received during the audit period are regularly analysed. The results are provided to the Board of Management and the legal department. Every complaint in connection with securities services is also reported to the Compliance department as an initial to ensure compliance with the obligation to report to the German Federal Financial Supervisory Authority (BaFin) in accordance with section 34d (1) of the German Securities Trading Act (WpHG).

3.3 Fight against corruption and bribery

GRI 3-3, 205-1, 205-2, 205-3, 206-1, 207-1, 207-2, 207-3

In order to ensure success in the markets, one of the Bank's main objectives is to maintain and build the trust of its customers, employees, owners and regulators. The reputation of the Bank is therefore a high priority. The prevention of corruption and anti-competitive behaviour and compliance with increasing legal requirements for Berlin Hyp's products and services thus have a decisive impact on the success of the Bank's business activities as a means of countering reputational risks.

3.3.1 Compliance

GRI 2-23, 2-27

The benchmark for our actions at Berlin Hyp is compliance with the law, with professional standards and internal regulations, provisions and guidelines. Employees are required to respect and comply with the laws and regulations that apply in the respective jurisdictions in which the Bank operates. The Code of Conduct describes all values, principles and methods that guide the business activities conducted by Berlin Hyp. The Code of Conduct includes the commitment made by all employees at Berlin Hyp to treat customers, sales partners, service providers and other market participants in accordance with ethical and legal principles. Together with the Sustainability Mission Statement, the Code of Conduct is meant to safeguard and increase the value of the enterprise.

In order to ensure ethically and legally correct behaviour, compliance activities focus on the prevention of money laundering, terrorist financing, insider trading, fraud, corruption and other criminal acts in the Bank's business environment. For example, Berlin Hyp has implemented measures to prevent transfer fraud, thereby enabling it to detect attempted fraud at an early stage and minimise any losses. Compliance risks are analysed on a continuous basis. The so-called risk analysis is the basis for the assessment and minimisation of potential risks from money laundering, terrorism and other criminal acts. It covers all sites and is conducted and documented on an annual basis. The analysis also includes fraud risks – including corruption – and assesses the corresponding control activities of the units. The Bank regularly reviews and, where required, updates the prevention measures derived from the risk analysis. Furthermore, Berlin Hyp analyses cases or suspected cases in the entire industry that it became aware of, in order to improve preventive measures and exclude future risks to the best of its ability. The proper implementation of internal requirements is also reviewed according to schedule – and on an ad hoc basis where necessary – by the Internal Audit division, which reports directly to the Board of Management.

The issues “compliance” and “legal” have been firmly established within the Governance division. The head of Governance also assumes the function of Compliance and Money Laundering Officer. The Compliance Department regularly updates the management on the Bank’s compliance management. In addition, ad hoc information is provided on a case-by-case basis in the event of serious violations of compliance regulations. The Supervisory Board receives a report on such issues at least once a year. There were no anomalies in this regard during the reporting period.

For its own investments (Portfolio A), Berlin Hyp uses a special filter in order to give social and environmental aspects and financial goals equal consideration when decisions are made regarding investments. It has established ethical investment criteria based on the ten principles of the UN Global Compact, other internationally recognised sustainability standards and the Bank’s compliance requirements. The risk filter used by RepRisk AG for the Bank’s own investments (Portfolio A) at Berlin Hyp is based on these criteria. It is applied to the Bank’s own investment business with the aim of giving equal consideration to the sustainable aspects of investing and the economic objectives. The analysis of Portfolio A and future investment decisions are based on the online database of RepRisk AG for the risk exposure of companies, projects, sectors and countries with regard to ESG issues. RepRisk AG assesses risks related to the destruction of the environment, climate change, greenhouse gas emissions, biodiversity, human rights violations (child labour, forced labour), complicity of companies, social discrimination, controversial products and services (alcohol, tobacco, pornography, weapons, nuclear and coal power), fraud and corruption that can negatively affect an organisation’s reputation and financial profitability or lead to compliance problems.

Responsible tax conduct

Within the framework of its business model, Berlin Hyp mainly generates interest and commission income, which it uses to pay employee salaries and taxes and to generate profits.

As a legal entity with its registered office and management in Germany, Berlin Hyp has an unlimited tax liability in Germany. With regard to income from its establishments located abroad, Berlin Hyp has a limited tax liability. Furthermore, Berlin Hyp has a more advanced tax liability with regard to its business relationships to customers and business partners.

A tax obligation automatically causes tax risks. These are substantiated by the complex tax law framework conditions that often require interpretation and construction. Furthermore, tax risks result from uncertainties with regard to the correct tax treatment in the various jurisdictions (due to rapid changes), in part caused by international requirements that necessitate national implementation and technological developments that national and/or international legislative bodies more or less have trouble keeping up with.

Pursuant to Berlin Hyp’s existing principles of conduct, which were documented in writing in a Code of Conduct in an overarching form, any form of tax evasion – be it by customers, the Bank itself or business partners – is rejected. Complying with applicable laws and regulatory provisions for the fight against tax evasion and other offences in connection with taxes in the markets and jurisdictions where it operates is a high priority for Berlin Hyp. These principles and tax legitimacy aspects are taken into account in all business transactions and decisions.

Berlin Hyp does not support customers with tax avoidance, even if the wording of a certain law would cover this, if such behaviour would nevertheless go against the intent of the law in question. The design of new products is always in line with tax conformity.

Furthermore, Berlin Hyp adheres to the regulations and initiatives of tax transparency, e.g. the Foreign Account Tax Compliance Act

(FATCA), the Common Reporting-Standard (CRS), the US Qualified Intermediary (QI) and Country-by-Country-Reporting.

Berlin Hyp's operations and tax liability are mostly based in Germany. The Bank's business model is not designed to be located in tax havens. As of 31 December 2022, the Bank did not have a branch office in a location on the "Common EU list of third-country jurisdictions for tax purposes".

As a rule, the Board of Management, as the legal representative of the Bank, has overall responsibility for compliance with the tax liability of Berlin Hyp. In the course of operational implementation, the Board of Management transfers the main responsibility for tax issues and concerns to the Finance division, in particular the Accounting and Tax Department.

In order to take into account the zero tolerance approach regarding tax offences, the Finance division established a Tax Compliance Management System (TCMS) commensurate to the size and complexity of the Bank. The contents and regulations of the TCMS were documented in writing in the Bank's tax manual. The TCMS and the processes, measures and controls established in this context ensure that internal and external regulations are adhered to and undesirable tax practices are detected and prohibited at an early stage. The overarching objective of the TCMS is to fulfil the Bank's tax liability in full, correctly and in time, and thus prevent compliance-related tax risks.

The concerns of stakeholders are addressed within the framework of regular communication, e.g. meetings and reporting. Important tax issues and projects are also presented to the Board of Management for acknowledgement and/or approval. In order to take into account the perspectives of the various interest groups in the decision-making process, external expert opinions from tax advisors, auditors or legal experts are obtained, depending on the individual case.

In order to ensure friendly cooperation with the tax authorities, Berlin Hyp exchanges information with responsible tax authorities in an extensive, transparent and constructive manner. The Bank cooperates regularly or at least on an event-driven basis with banking supervisory authorities.

3.3.2 Prevention of corruption and anti-competitive behaviour

GRI 3-3, 2-16, 2-23, 2-25, 2-26, 2-27, 415-1

Berlin Hyp has set itself the goal of preventing any attempts to commit fraud or corrupt behaviour. The selected measures to fight corruption and bribery with the involvement of management are described in more detail within the framework of the sub-aspects below.

All business sites are continually monitored by the Compliance department and the Internal Audit division. This includes the automatic review of all transactions. During the reporting period, an on-site review was conducted at the Paris branch office. In general, no anomalies were identified during the reporting period in the second half of 2022. Another preventive measure is the firm incorporation of the ordering and purchasing processes in the Finance division. A neutral body is in charge here, which means that orders in excess of a certain size are checked by an employee from the purchasing department who is not involved in the specific case, without prejudice to the competency-based approval workflow and professional competence. By establishing this organisational unit, the Bank has a body that is responsible for uniform treatment in the ordering process. All tender procedures are coordinated here. The Compliance department also supports all tender procedures.

Furthermore, the relevant sanctions lists are compared with the entire customer base, and a similarity of names is sufficient for the Anti-Money Laundering Officer to initiate an investigation. The same applies to any and all payment transactions. This safeguards the Bank from doing business with sanctioned persons (e.g. from Russia) or with persons from sanctioned countries. Indicators reviewed include but are not limited to fines, non-monetary penalties for non-compliance with laws and regulations, cases of corruption or training sessions on compliance basics and fraud prevention. No cases of corruption at Berlin Hyp were reported in the reporting period. In addition, no fines or monetary penalties were imposed on the Bank for non-compliance with laws and regulations in this period. Employees were trained and/or instructed on compliance with legal standards and internal regulations.

Berlin Hyp does not exert any political influence. In the reporting period, no submissions were made to legislative procedures, nor were any entries made on a lobby list. Donations to political parties or politicians are prohibited at Berlin Hyp in accordance with the Corporate Citizenship policy. Berlin Hyp contributes to the public debate on industry-related developments through its involvement in associations and industry institutions, which in turn must act within the framework of their statutes and submit to monitoring by their governing bodies. Currently, contributions for memberships in associations or support of initiatives are not recorded as a whole. The amounts of the membership contributions are stipulated in the relevant articles of association and are within the normal range for a company the size of Berlin Hyp.

In addition to the measures with regard to corruption, bribery, donations and sponsorships, the preparation or arrangement of agreements to restrict competition is also prohibited. Berlin Hyp treats competitors with fairness and respect. As a rule, all employees are required to avoid conflicts of interest and to contact their superior or a Compliance or Money Laundering employee in case of ethical doubt. Identified incidents are addressed in accordance with the “zero tolerance principle”. Should an employee have actually committed a criminal offence, any and all consequences in accordance with criminal, employment and civil law will be exhausted. Berlin Hyp has implemented comprehensive measures to avoid, detect and adequately react to acts of economic crime. An external whistleblowing programme was introduced for employees, customers, sub-contractors and suppliers, thus providing a possibility to anonymously report suspected illegal or unethical conduct, which can then be investigated. In the reporting period, no legal proceedings were pending or being prepared due to anti-competitive behaviour or the formation of monopolies.

3.4 Environmental Concerns

Environmental protection is always an important consideration at Berlin Hyp. Its goal is not only about reducing its own carbon footprint, but above all it is about promoting and simplifying the transition to a more sustainable economy with sustainable financing products for the real estate industry.

3.4.1 Consideration of ecological criteria when issuing bonds

GRI 3-3, 203-1

Green finance is a central aspect of Berlin Hyp’s company strategy. Since 2015, Berlin Hyp’s value chain has included an additional important element of sustainability green bonds for the refinancing of green assets. They thus offer investors added value beyond the creditworthiness of the bank and its cover funds. Green bonds are issued in the form Green Pfandbriefe and Green Senior Unsecured Bonds. The financing of green buildings represents one element of the Bank’s sustainability activities that relates directly to its core business of commercial real estate financing. Financing products for green buildings are described in Section 3.4.2 Consideration of ecological criteria when selecting financing projects.

In the past year, Berlin Hyp was able to continue to put its experience with Green Bonds to use in the Association of German Pfandbrief Banks (vdp), in the working groups Green Finance and ErneG (“Documentation of sustainable energetic building characteristics”). In 2019, the Bank transferred the name rights to Grüner Pfandbrief and Green Pfandbrief to the association and subsequently collaborated with other Pfandbrief banks to develop minimum standards for Green Pfandbriefe. On the European level, Berlin Hyp has been using the Energy-Efficient Mortgage Label (EEM Label) from the European Mortgage Federation (EMF) and the European Covered Bond Council (ECBC) and has been publishing the Harmonised-Disclosure Template (HDT) required for this since 2021. The Bank is the deputy member for Germany in the EEM Label Committee.

Berlin Hyp’s 2022 impact report, prepared in cooperation with Drees & Sommer, presents the results and methodology for estimating the amount of CO_2 emissions saved by the financed green buildings. Throughout the year, the underlying Green Finance Portfolio increased from €7.3 billion to €8.9 billion and now contains 386 buildings (2021: 314). Mathematically, and depending on the benchmark chosen, every Green Bond nominal value of one million euros saves between 6.53 and 13.57 tonnes of CO_2 per year. The CO_2 savings per million euros invested were therefore slightly lower compared to the previous year. The total CO_2 emissions resulting from the portfolio therefore increased to a total of 115,000 tonnes of CO_2 (previous year: 108,500 tonnes of CO_2). The average energy requirement for heat and electricity was almost unchanged at 56 (2021: 56) or 35 (2021: 34) kWh/m². The latest reporting and reverification (external plausibility check) by ISS ESG are published at www.berlinhyp.de/de/investoren/green-bonds.

The CO_2 intensity of the business portfolio was reduced by as much as 9.72 per cent compared to the 2020 base year (2021: 7.61%). On the one hand, the analysis is based on the recorded energy performance certificate data (EPC data) from the Bank's loan system (as of the end of 2022, 65.4 per cent of the financed buildings and/or 63.2 per cent of the nominal loan volume) and on the other hand on the approximate values for those cases where the Bank did not yet have any EPC data available. These approximate values were developed together with an external consultant and are based on the type of building and the year of construction and/or the year of the most recent refurbishment. Berlin Hyp has committed to increasing the share of recorded EPC data in its loan system. Therefore, the Bank will update the approximate value with the correct energy value as soon as a new energy performance certificate is available for an existing building. This means that the baseline value of the total carbon footprint (in the reference year 2020) will be adjusted at a later time, in order to avoid improvements that are simply due to an increased level of transparency. More information is available in the Sustainability-Linked Bond Framework at https://www.berlinhyp.de/de/investoren/sustainability-linked-bonds.

3.4.2 Consideration of ecological criteria when selecting financing projects

GRI 3-3

Berlin Hyp published its new Sustainable Finance Framework on 7 April 2022. With this framework, Berlin Hyp has created an overarching approach to classifying sustainable financing products on a holistic scale. Moreover, Berlin Hyp has established comprehensive exclusion criteria for ecologically non-sustainable real estate financing in its Sustainability Guideline, and these criteria are adjusted on a continuous basis. The criteria are published at https://www.berlinhyp.de/de/nachhaltikeit/richtlinien.

The sustainable financing products in the Sustainable Finance Framework are classified on the basis of clearly defined eligibility criteria. The focus is on Green Loans, which are used to finance energy-efficient and environmentally friendly buildings. The design of the Green Loans is in line with Berlin Hyp's own sustainability requirements and government regulatory standards. The loans can be issued both in the form of an energy efficiency loan and of a taxonomy loan. Where the Green Loans are used to finance measures to improve the energy and carbon footprint of buildings, they may be designed as transformation loans. In this case, the transformation of a building is supported for both products (taxonomy loans and energy efficiency loans). Detailed eligibility criteria for Green Loans can be found at https://www.berlinhyp.de/de/nachhaltigkeit/sustainable-finance. As of the end of the reporting period, the ratio of green building financing increased to approximately 30 per cent. Of this, the financing of the new office building "neuplan KI 140 Munich", amounting to €111 million, was the first taxonomy loan issued by Berlin Hyp.

3.4.3 Environmental management at our locations

GRI 3-3, 301-1, 301-2, 303-1, 303-2, 303-3

Berlin Hyp is pursuing an operational ecology approach as it seeks to increase awareness of the importance of environmental protection and take advantage of the opportunities that result from such heightened awareness. Employees were involved using various formats such as lunches, intranet information, videos, presentations and a workshop.

Berlin Hyp is building a new corporate headquarters at the Bank's long-standing location at Budapester Strasse 1 in Berlin-Tiergarten. The new headquarters will bring all employees in Berlin, who up to now have been separated into two different buildings, together into a single building. Up to now, they were divided into two separate buildings. The new headquarters is meant to enable the Bank to reduce its energy consumption by over 50 per cent in comparison to the old building. The architecture of the new building will reduce CO_2 emissions with its special design of outdoor areas and open spaces. To give an example, this reduction will be made possible by installing photovoltaic systems on the façade and on part of the roof. When demolishing the old building, Berlin Hyp will take care to recycle and dispose of the materials in an environmentally friendly manner. Berlin Hyp received platinum pre-certification from Deutsche Gesellschaft für Nachhaltiges Bauen (German Sustainable Building Council – DGNB) for the deconstruction. The Bank is seeking to achieve certification for the new corporate headquarters according to the very high standard set by the DGNB. Berlin Hyp achieved an overall performance rating of 82.9 per cent in the platinum pre-certification process in October 2021. The bank will receive the final certificate after the construction process has been completed. Berlin Hyp's project received very high performance ratings especially in the categories of Process Quality, Location Quality and Sociocultural, Functional and Ecological Quality.

Resource utilisation

As one of the leading real estate financiers in Germany, Berlin Hyp has a special responsibility to society. This means Berlin Hyp has an obligation to employ effective environmental protection measures within the company and along its value chain:

- → To promote responsible economic development and help safeguard the livelihood of people today and future generations.
- → To reduce costs by utilising resources sparingly.

Operational environmental management focuses on the optimisation of energy and resources management and on the use of renewable energy in order to systematically reduce operational greenhouse gas emissions. Facility management in particular has provided us with good approaches for minimising ecological damage over the past few years. Updated data on energy consumption and emissions generated will be published in a separate GRI index in the first quarter of 2023.

Berlin Hyp has defined a number of objectives in order to reduce raw material consumption and/or improve material efficiency, in particular with regard to paper consumption. These objectives include the continuous reduction of printing jobs, the use of recycled paper and increasing digitalisation. A partial switch-over of the supply of print subscriptions to digital formats saves approx. 300 kg of paper per year. The complete switch to recycled paper for printouts and copies was completed in summer of 2022. Additional measures such as the complete digital presentation of products for savings banks and the workflow-based organisation of the meetings of the Board of Management support the Bank's efforts to work in a resource-efficient manner.

Paper consumption
in kg

	31.12.22	30.06.22[1]	2021	2020
Copy paper	2,212.5	–	2,444	2,350
Printed materials and other	688.61	–	773	1,800

[1]No data were collected as of 30.06.2022.

Paper is the relevant material used in the course of Berlin Hyp's business operations. The figures for paper consumption are based on the purchased and/or used quantities. The share of FSC-certified and/or recycled paper is 88 per cent in total. In the 2022 reporting year, 98 per cent of the paper procured for printed materials was certified paper. Since summer of 2022, we have exclusively used recycled paper with a Blue Angel certificate.

Berlin Hyp does not operate in the manufacturing sector and therefore is not subject to special requirements beyond legal provisions. All mandatory reporting provisions are fulfilled, including for example the permit for the emergency power generator.

We receive our drinking water supply from the public network provided by the regional utilities companies.

As a service company, Berlin Hyp uses water for daily use, i.e. kitchen and bathroom purposes. The sites are not located in regions with water shortages. In the 2022 reporting year, Berlin Hyp implemented measures to reduce water consumption, e.g. by retrofitting lavatories at headquarters with water stop buttons. The EU taxonomy specifications regarding the flow rate in the mountings were taken into account in the planning of the new construction project B-One.

In 2001, water consumption was more than cut in half. This is attributable to the deconstruction of the building on Budapester Strasse. The slight increase in water consumption compared to the previous year is attributable to the increased presence of employees in the offices. The water quantities in the table above relate to drinking water from the public network.

Volume of water used
in m^3

31.12.22	30.06.22[1]	2021	2020
1,768	–	1,572	4,529

[1]No data were collected as of 30.06.2022.

Emissions
Berlin Hyp has defined ambitious environmental targets. The Bank's business operations are to achieve CO_2 neutrality by 2050 at the latest. The indirect environmental impact of Berlin Hyp's business operations is reduced considerably by the issue of Green Bonds and by the Bank's sustainable financing products. In the Green Bond Annual Report at https://www.berlinhyp.de/de/investoren/greenbonds, the results and methodology are shown for the estimate of the CO_2 emission reductions brought about by the financed green buildings. The results are presented in Section 3.4.1 "Consideration of ecological criteria when issuing bonds". Further management measures for the business portfolio with regard to CO_2 neutrality are contained in Section 3.2.6 "Transparent Performance Presentation".

More information on handling operational emissions is available in the Environmental Programme.

3.5 Respect for human rights

GRI 2-23, 2-24, 2-25, 2-26, 2-27, 407-1

Berlin Hyp is committed to its responsibility in the protection of human rights in all activities of its business. With this in mind, Berlin Hyp, has adopted several directives and joined the UN Global Compact in 2015. Since Berlin Hyp is mainly active in Germany and in selected core markets in Europe, the likelihood of human rights violations in its business activities is considered to be lower.

3.5.1 Human rights due diligence

Berlin Hyp is committed to the respect of human rights in all activities of its business. The Bank joined the UN Global Compact in 2015 as a way to communicate this both internally and externally. The following two principles of the UN Global Compact are specifically applied by Berlin Hyp in the context of human rights: Businesses should support and respect the protection of internationally proclaimed human rights. Businesses should make sure that they are not complicit in human rights abuses.

To implement these principles, Berlin Hyp has adopted several guidelines, such as the Code of Conduct and the Equal Opportunities Policy. Berlin Hyp also expects its material contractors and suppliers, regardless of their size, sector or work performed, to act in accordance with the principles of the UN Global Compact and human rights, in particular:

- → Abolition of child labour
- → Free choice of employment
- → Freedom of association
- → Prohibition of discrimination

Information on the review of suppliers and contracts is contained in Section 1.6 "Depth of the Value Chain".

Cooperation between Berlin Hyp and all employees is based on a trusting partnership. We also expect our suppliers and contractors to commit themselves accordingly. In the reporting year, no cases of violation of or risk to the freedom of association were reported.

Furthermore, Berlin Hyp considers itself to be a company free from discrimination and pursues the goal of creating a work environment that is free from prejudice, stereotypes and discrimination. Therefore, on the occasion of the 10th German Diversity Day on 31 May 2022, Berlin Hyp addressed the topic of diversity in an internal workshop. For more information, reference is made to Section 3.1 “Employee concerns”.

There were no suspected human rights violations in the reporting year.

3.6 Digitalisation

Berlin Hyp wishes to become the most modern real estate financier in Germany and deems itself to be an innovative pioneer. Digitalisation is an enabler for all processes and products and is firmly established in Berlin Hyp’s core strategy. Furthermore, the new division “Data Management” has been established. This division will collect, manage and monitor all business-relevant data in future, including ESG data, thus facilitating holistic management of the company and its products. Moreover, Berlin Hyp can indirectly influence the industry and thus society through its responsible design of financing products.

3.6.1 Digital processes and products

Digitalisation in the context of sustainability means, as a first step, that an adequate data basis must be created. This is the only way to establish a basis for targeted measures, e.g. the reduction of greenhouse emissions or the improvement of living and work conditions for as many people as possible. For example, data on the energy consumption of buildings are collected in order to be able to finance housing and offices with the smallest possible carbon footprint. Furthermore, Berlin Hyp uses the collected data to monitor whether as many suppliers and service providers as possible also commit to their own sustainability criteria, e.g. the publication of a code of conduct. In order to measure environmental risks for the portfolio financed by the Bank, property-related information on climate changes that have already occurred are recorded and data-based assessments for potential future effects are calculated. Ultimately, data are also required to provide investors with information that is as transparent and comparable as possible in order to fulfil the Bank’s sustainability targets.

In order to manage the increasing data processing requirement in an efficient and forward-looking manner, Berlin Hyp bundles the strategic planning and management of data in its Data Management division. However, to Berlin Hyp as a bank, digitalisation is far more than just data. Digitalisation also changes the workplace and requires new skills and methods of thinking and working. Therefore, the employees’ digital competencies are continually improved in customised qualification programmes (see Section 3.1.2 “Well-being and development opportunities”).

The ecological impacts of digitalisation are addressed within the framework of environmental management. This is to ensure that for example technical equipment is reasonably re-utilised and thus has a long service life, or is reintroduced in materials cycles (see Section 3.4.3 “Environmental management at our locations”).

4 Reporting Requirements for the Second Half of 2022 According to the EU Taxonomy Regulation

4.1 Background

The EU Taxonomy Regulation (Regulation (EU) 2020/852 – Taxonomy Regulation) was published in the Official Journal of the European Union on 22 June 2020. The EU Taxonomy Regulation and the associated delegated regulations and annexes introduced a classification system for ecologically sustainable economic activities. In particular, the regulation provides uniform criteria to determine whether an economic activity in the European Union can be classified as environmentally sustainable.

This classification is generally viewed as necessary for the broad integration of sustainability into the financial sector and the real economy. One of the objectives of the regulation is to ensure that the criteria for environmentally sustainable economic activities are clear and uniform (similar to a minimum standard as in the EC Eco Regulation (EC) No 834/2007 for organic products). The aim of the taxonomy is to measure the degree of environmental sustainability of economic activities and therefore of individual investments, corporate activities and entire real and financial enterprises. The overall objective is to achieve transparency and comparability. Capital flows should move more easily into environmentally sustainable economic activities and help investors (institutional and private investors, banks, etc.) in their investment decisions.

The EU Taxonomy Regulation sets environmental targets. These are as follows:

1. Climate change mitigation
2. Adjustment to climate change
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

Therefore, an economic activity is deemed to be taxonomy-compliant if a material contribution is made to at least one of the six environmental targets listed above, taking into account the Do No Significant Harm (DNSH) criteria, and if the minimum requirement regarding social matters and human rights are met.

4.2 Report on the seven legally required key performance indicators (KPIs)

According to the EU Taxonomy Regulation, institutions subject to the non-financial reporting directive (NFRD), including Berlin Hyp, are requested to report the percentage of their activities that are taxonomy-eligible with the environmental targets 1 and 2 and other quotients for certain assets within the non-financial statement for the reporting years 2021 and 2022. In order to determine these KPIs, the FAQs published by the EU Commission on 21 December 2021 and 02 February 2022 were taken into account.

Berlin Hyp fulfils its obligations according to Article 10 (2) of the Delegated Act on Article 8 (1) of the EU Taxonomy Regulation for financial institutions with regard to key performance indicators and qualitative information to be reported in 2022, as addressed below. The key performance indicators in the table were calculated based on the financial reporting (FINREP) in accordance with banking supervision law as of the reporting date 31.December 2022 and as such are part of the taxonomy disclosure requirements. Furthermore, the voluntary disclosures (see Section 4.4) contain an adjusted KPI for the share of taxonomy-eligible assets on the basis of Berlin Hyp's interpretation criteria, which takes into account the peculiarities of commercial real estate financing. As the legal requirements are not entirely clear on the calculation method for the KPIs to be disclosed, banks will have to continue to interpret them.

In the context of the takeover of Berlin Hyp by Landesbank Baden-Württemberg (LBBW) effective on 1 July 2022, and the resulting peculiarity of a short financial year, the KPIs to be reported from the table below (Article 10(2) of the Delegated Regulation and Article 8 of the EU Taxonomy Regulation) will be disclosed for Berlin Hyp as of the reporting dates 31 December 2022, 30 June 2022 and 31 December 2021. The calculation method has been aligned with LBBW's method and the KPIs to be reported are presented as a proportion of the total assets:

Key performance indicator (KPI) in %	Description of the key performance indicator	Share in the total assets as of 31.12.2022	Share in the total assets as of 30.06.2022	Share in the total assets as of 31.12.2021[17]
1	Share of taxonomy-eligible assets	16.95	15.10	13.20
2	Share of non-taxonomy-eligible assets	5.89	8.66	9.25
3	Share of risk positions relative to countries, central banks, supranational issuers	7.41	17.73	16.86
4	Share of derivatives	0.59	0.47	0.56
5	Share of risk positions relative to companies not subject to the NFRD	67.37	57.00	59.25
6	Share of the trading portfolio	0.00	0.00	0.00
7	Share of short-term interbank loans	0.29	0.00	0.02

The calculation of the shares of KPIs 1 and 2 contained in the table used the turnover KPI for transactions with non-financial companies subject to the NRFD reporting requirement.[18]

4.3 Qualitative information

4.3.1 Background information to support the quantitative indicators, including the scope of the assets and activities recorded for each KPI

This section will explain how the KPIs were derived. The challenges in determining KPIs are considerable, taking into account

- → The final interpretation of the taxonomy
- → The specifications for the calculation of the KPIs
- → Data availability and analysis and selection of the data sets
- → The interpretation of results, the transparency standard and the clear definition of the intended purpose in the core business of commercial real estate financing

The (gross) book values from the FINREP reporting forms (HGB) as of the reporting date 31 December 2022 were used as the basis to determine the shares. The total assets are the reference value (denominator) for all KPIs.

[17] The shares as of 31 December 2021 shown in the table were determined on the basis of the calculation method adjusted to LBBW and therefore deviate from the shares published in the non-financial statement from 31 December 2021.

[18] The shares of KPI 1 and 2 as of the reporting date 31 December 2022 on the basis of CapEx KPIs for transactions with non-financial companies are 17.00% (KPI 1) and 5.84% (KPI 2). As a rule, CapEx KPIs were used for the disclosure, with the exception that the turnover KPI was used for the loan exposure to non-financial companies.

KPIs 1, 2 and 5

KPIs 1 and 2 relate exclusively to the first two environmental objectives (climate change mitigation and climate change adaptation) of the EU Taxonomy Regulation.

In order to determine the KPIs 1 and 2 to be reported in accordance with EU taxonomy, we proceeded as follows:
The taxonomy-relevant volume was determined, i.e. the share in the business volume that will be subject to a review of taxonomy conformity starting in the 2023 reporting year. The evaluation of the taxonomy eligibility of risk positions generally depends on the product type (debentures, lending and loans, equity instruments), the intended purpose and the type of debtors, whereas the following customer groups are classified:

- → Banking institutions
- → Other financial companies
- → Non-financial companies
- → Private households
- → Government sector

Risk positions relative to companies (banking institutions, other financial and non-financial companies) were only classified as taxonomy-eligible if the counterparties themselves were subject to non-financial reporting (NFRD reporting requirement). Among Berlin Hyp's financing activities, lending and loans to other financial companies are an exception, to the extent that they are risk positions relative to real estate funds. These were classified as taxonomy-eligible irrespective of the counterparty's NFRD reporting requirement, since risk positions relative to real estate funds can be checked for taxonomy eligibility according to the directives from question 13 of the FAQs on Article 8, published on 20 December 2021.

Furthermore, risk positions relative to private households and local authorities as sub-positions of the government sector are to be included in the check for taxonomy eligibility.

Investments are classified as "Other assets" based on FINREP and not as equity instruments, and are therefore not taken into account in the numerator of the KPIs.

For the KPIs 1, 2 and 5, a cascading with the following selection criteria was applied on the basis of Directive 2013/34/EU for the identification of companies not subject to the NFRD:

1. Allocation of the host country to the 27 EU member states
2. Identification as small and medium-sized enterprise (SME) in accordance with FINREP
3. Key business figures (number of employees, turnover and balance sheet total)
4. Type of company (for further information, please refer to the more detailed description regarding KPI 5).

Should the host country of the counterparty not be an EU member state, a classification as a SME has been carried out or a classification as not subject to the NFRD was derived, taking into account available key company figures, the relevant party was classified as not subject to the NFRD. Therefore, it became clear that a significant share of borrowers in our real estate financing portfolio are not subject to the NFRD in accordance with applicable definitions. The corresponding exposure was included in KPI 5. Owing to the fine-tuning of the internal selection system in conjunction with the progress made in master data care, we were able to further improve the review of the NFRD reporting obligation for companies in the reporting period despite the fact that some information was still missing. The remaining volume was allocated to the taxonomy-relevant volume and then checked for taxonomy eligibility and allocated to KPI 1 or 2. The volume identified applying the selection criteria mostly comprises risk positions without directly allocable economic activities (intended purpose). Therefore, these positions were recognised in the amount of the available percentage of the activities that are taxonomy-eligible published by the companies as of the reporting date 31 December 2021 for the first time, and included in KPI 1.

The presented calculation procedure also refers to the disclosures as of the reporting date 31 December 2021, except that risk positions relative to companies subject to the NFRD were weighted with a taxonomy eligibility of 0 per cent and included in KPI 2 in their entirety, as the information was not available at the time the report was prepared for the 2021 financial year.

KPI 1 – Share of taxonomy-eligible assets

The following risk positions were included in the calculation of the share of taxonomy-eligible assets:

Risk positions	Consideration	FINREP reporting form
Lending and loans	Numerator	F 4.10; F 18.00
Debentures	Numerator	F 4.10
Total assets (balance sheet total)	Denominator	F 1.01

As of 31 December 2022, the share of taxonomy-eligible assets comprises

- → lending and loans to real estate funds,
- → real-estate-backed loans to private households,
- → the share of taxonomy-eligible assets relative to companies subject to the NFRD, derived from the respective published percentages of the activities that are taxonomy-eligible.

Since the major part of Berlin Hyp's business volume is comprised of mortgage loans and public-sector loans for the financing of real estate, taxonomy eligibility can be derived from the earmarking. The taxonomy eligibility and future compliance of the economic activities financed by mortgage loans and public-sector loans for new construction, renovation of existing buildings and acquisition and ownership of buildings are regulated in Section 7, Construction Industry and Real Estate, Annexes I and II to the Delegated Act on EU Taxonomy. Accordingly, reference is also made in this regard to the voluntary disclosures at the end of this report, which include further details.

KPI 2 – Share of non-taxonomy-eligible assets

The share of non-taxonomy-eligible assets in the total assets results from the difference between the taxonomy-relevant business volume (share of assets checked for taxonomy eligibility) and the share of the assets actually classified as taxonomy-eligible (KPI 1 numerator).

KPI 5 – Share of risk positions relative to companies not subject to the NFRD

The following risk positions were included in the calculation of the share of risk positions relative to companies not subject to the NFRD:

Risk positions	Consideration	FINREP reporting form
Banking institution debentures, other financial and non-financial companies	Numerator	F 4.10
Banking institution lending and loans, other financial and non-financial companies	Numerator	F 4.10
Total assets (balance sheet total)	Numerator	F 1.01

The definition of the EU Non-Financial Reporting Directive (NFRD) was used as the basis for calculating KPI 5, which represents the share of exposures to companies not subject to the NFRD in the total assets:
According to Article 19a/29a in conjunction with Article 2 (1) of Directive 2013/34/EU, the following public interest entities (PIEs) are required to publish a non-financial statement (NFRD entities):

(A) Capital market-oriented companies
(B) CRR banking institutions
(C) Insurance companies
(D) PIEs according to country-specific definition

Real estate funds were not taken into account in the calculation of the exposure to companies not subject to the NFRD, as they do not carry out operational activities and do not constitute an enterprise. However, Berlin Hyp classified these as taxonomy-eligible and they are thus taken into account in KPI 1, since they are risk positions relative to real estate funds, which can be checked for taxonomy eligibility according to the directives from question 13 of the FAQs on Article 8, published on 20 December 2021.

The clear increase in the share of companies not subject to NFRD reporting requirements in the total assets (KPI 5) as of 31 December 2022 compared to the reporting date 30 June 2022 is above all attributable to the fine-tuned selection system for the classification of real estate funds. Loan exposures to business partners not identified as real estate funds within the "Other financial companies" counterparty group were taken into account in KPI 5.

Determination of KPIs 3, 4, 6 and 7

The risk positions to be included in the numerator of KPIs 3, 4, 6 and 7 do not have to be checked for taxonomy eligibility. As reported below, the disclosures on KPIs 3, 4, 6 and 7 are obtained from the mentioned FINREP reporting forms.

KPI 3 – Share of risk positions relative to countries, central banks, supranational issuers

The following risk positions from the FINREP reporting forms were used to determine KPI 3:

Risk positions	Consideration	FINREP reporting form
Central bank balances	Numerator	F 1.01
Government sector lending and loans	Numerator	F 4.10
Banking institution debentures (share of supranational issuers)	Numerator	F 4.10
Total assets (balance sheet total)	Denominator	F 1.01

KPI 4 – Share of derivatives

The following risk positions from the FINREP reporting forms were used to determine KPI 4:

Risk positions	Consideration	FINREP reporting form
Derivate	Zähler	F 1.01
Summe der Vermögenswerte (Bilanzsumme)	Nenner	F 1.01

KPI 6 – Share of the trading portfolio

Berlin Hyp does not have a trading portfolio, which is why KPI 6 is recorded at 0.00 per cent.

KPI 7 – Share of short-term interbank loans

The following assets were included in the calculation of the share of short-term interbank loans:

Risk positions	Consideration	FINREP reporting form
Sight deposit	Numerator	F 1.01
Total assets (balance sheet total)	Denominator	F 1.01

Interpretation

→ **Inclusion in KPI 1 of real estate funds not subject to the NFRD:** Real estate funds not subject to the NFRD are classified as taxonomy-eligible, since they are risk positions, which can be checked for taxonomy eligibility according to the directives from question 13 of the FAQs on Article 8, published on 20 December 2021. In this case, the principle of Article 7 (3) of the Delegated Act on Article 8 of the EU Taxonomy Regulation is not taken into account.

→ **Definition of "general governments" and/or "government sector":** Due to reasons of consistency with FINREP, the official definition of "general governments" and/or "government sector" was applied to FINREP reports (Regulation (EU) 2017/1538 of the European Central Bank, Annex V; Part 1.42(b)). The government or regional institutions include central, state, federal and municipal governments (local authorities), administrative bodies and non-profit companies which are held by the listed institutions, such as universities and Rentenversicherung Bund (German Pension Insurance Association). Commercial capital and partnerships held by the institutions listed above are excluded.

4.3.2 Information on the type and goals of taxonomy-compliant economic activities and their development over time, starting in the second year of implementation, whereas we distinguish between business-related, methodical and data-related aspects
Financial institutions have a key role to play in the transformation of business and industry. More specifically, such institutions are the entities that finance the investments that companies and governments need to make. Berlin Hyp therefore seeks to play a major role in efforts to expand the integration of sustainability criteria into real estate financing and investment products. The Sustainable Finance Framework published in 2022 integrates the requirements of the EU taxonomy for buildings and construction activities with regard to their primary environmental target of climate protection. The Sustainable Finance Framework represents an overarching approach for all of Berlin Hyp's Green Loans to classifying sustainable financing products on a holistic scale. These new criteria for eligible green assets have been initially added to the requirements that have been established for years, which mainly target the energy efficiency of the financed buildings. Furthermore, in the second short financial year, the assessment of the second EU taxonomy environmental target (Climate change adaptation) was finalised for the calculation and documentation of taxonomy compliance and for the extension of the taxonomy loan. After the end of 2025, only loans that fully comply with the EU taxonomy will be classified as green under the Framework.

4.3.3 Description of compliance with Regulation (EU) No. 2020/852 in the business strategy of the financial company, in the product design processes and in the cooperation with customers and counterparties
Sustainability is an integral part of Berlin Hyp's business strategy, with the ESG vision, the four dimensions this vision is based on and the ambition level and goals linked thereto, as well as with the implementation of guidelines and policies for sustainable development and focus. With its business strategy and daily action, Berlin Hyp commits to a sustainable business approach and the effective consideration of sustainability. The Regulation (EU) 2020/852 (EU Environmental Taxonomy) is a top priority for Berlin Hyp. For the reporting for the second half of 2022, the relevant assets and risk positions were analysed as to their taxonomy eligibility. Berlin Hyp will take into account the EU Taxonomy Regulation in its business strategy, in product design processes and in the cooperation with customers and counterparties. Assets will also be analysed as to their taxonomy compliance.

4.3.4 Trends, objectives and guidelines observed for banking institutions not subject to reporting quantitative disclosures regarding trade loans, qualitative disclosures for the adjustment of trading portfolios to Regulation (EU) 2020/852, including the overall structure
Berlin Hyp does not have a trading portfolio.

4.3.5 Additional or supplementary disclosures to support strategies of the financial company and on the significance of financing taxonomy-compliant economic activities in their entirety
Reference is made to Section 1.2 "Strategic Analysis and Measures" in this non-financial statement in conjunction with the details in Sections 4.2 and 4.3.

4.4 Voluntary information
KPI 1 contained in the voluntary disclosures is based on assumptions that cannot be fully verified and therefore may not be disclosed in the mandatory reporting, according to the EU Commission's requirements for mandatory disclosures.
The following table contains the disclosures on the voluntary report (Article 10 (2) of the Delegated Regulation and Article 8 of the EU Taxonomy Regulation) for Berlin Hyp.

Key performance indicator (KPI) in %	Description of the key performance indicator	Share in the non-financial statement as of 31.12.2022	Share in the non-financial statement as of 30.06.2022	Share in the non-financial statement as of 31.12.2021
1	Anteil der taxonomiefähigen Vermögenswerte	8.49	70.42	71.03

The deviations from the share in the reportable information in Section 4.2 result from the following interpretation from Berlin Hyp:

Berlin Hyp is a commercial real estate financier with a volume of mortgage loans of EUR 27.9 billion as at the reporting date 31.12.2022, after deduction of interbank loans and loans to the government sector (general governments). According to Berlin Hyp's interpretation, mortgage loans under lending and loans to non-financial companies and other financial institutions are taxonomy-eligible due to earmarking, as they are intended for the financing of the economic activities of new construction, renovation of existing buildings, and acquisition and ownership of buildings, the classification (technical assessment criteria and do no significant harm criteria) of which are regulated in Section 7, Construction Industry and Real Estate, Annexes I (climate change mitigation) and II (climate change adaptation) to the Delegated Act on EU Taxonomy respectively.

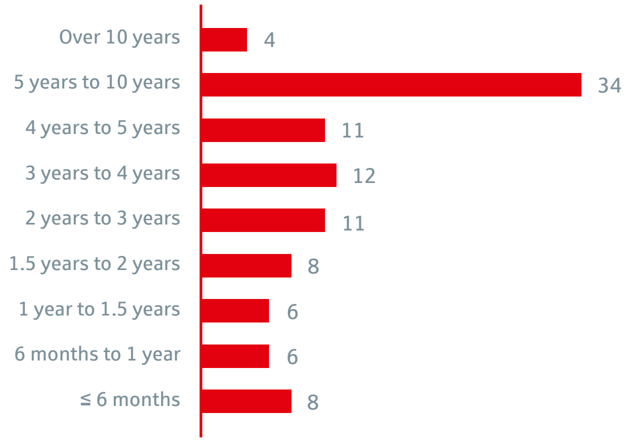
The calculation of KPI 1 was therefore adjusted in order to improve transparency. This was done by including lending and loans to non-financial companies and other financial companies in the numerator for the share of taxonomy-eligible assets, regardless of the evaluation of the NFRD reporting requirements. The higher share of taxonomy-eligible assets of 82.49 per cent of the total assets in the voluntary part of the report compared to the table in Section 4.2, including considerable lending and loans to companies not subject to the NFRD, is conducive to more transparency. Finally, the voluntary disclosures reveal to what extent the economic activities of Berlin Hyp are actually affected by the EU taxonomy.

VIII Further Information for Investors

Mortgage Loans Portfolio

The breakdown of the mortgage loans portfolio by maturity structure and loan-to-value ratio as at 31 December 2022 was as follows:

Maturity Structure of Loans
in %



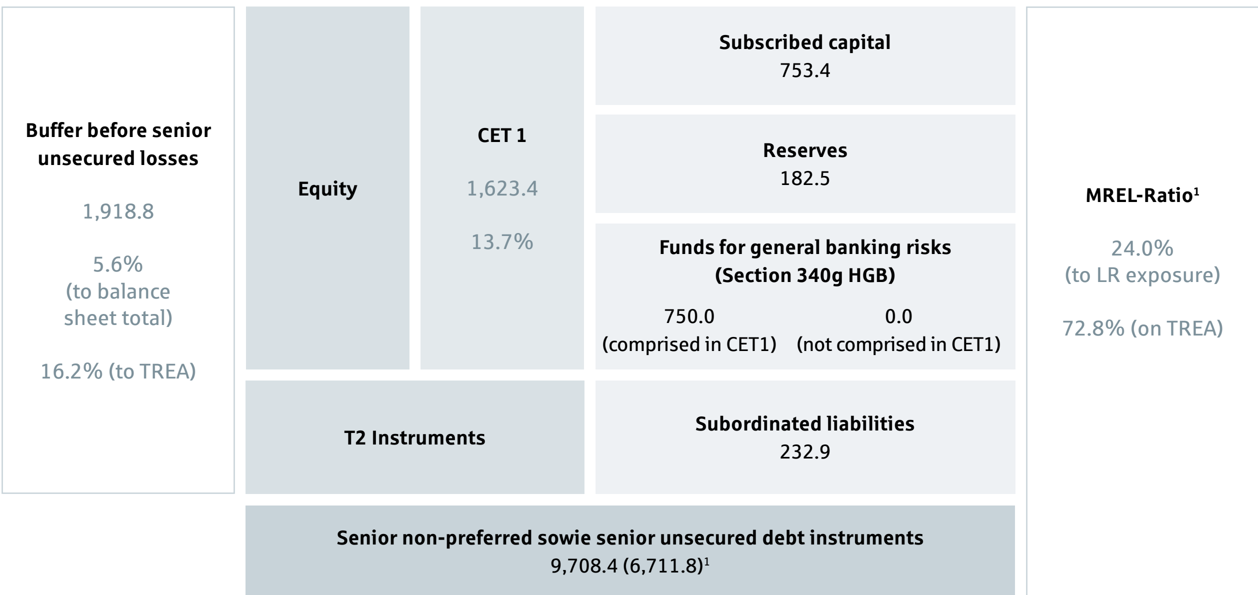
Loan To Value to countries (with exposure > 1 % of the reporting total)
in %

Lending region	Ø LTV
Germany	54.4
BeNeLux	52.5
France	48.7
Poland/Czech Republic	63.7
Great Britain	40.7

Regulatory Key Figures
in €m

	31.12.22	30.06.22
Common equity tier 1 (CET1)	1,623.4	1,604.1
Additional tier 1 capital (AT1)	0.0	0.0
Tier 1 capital (T1)	1,623.4	1,604.1
Tier 2 capital (T2)	209.4	220.1
Own funds / Total capital	1,832.8	1,824.1
Risk weighted assets (RWA)	11,854.0	11,487.3
CET1 ratio in %	13.7	14.0
T1 ratio in %	13.7	14.0
Total capital ratio in %	15.5	15.9
Leverage ratio in %	4.5	4.1
MREL (Leverage Ratio Exposure)	24.0	23.4
MREL (Total Risk Exposure Amount)	72.8	78.7
LCR	124.5	142.6
NSFR	105.8	108.3

Insolvency Hierarchy and Protection on Senior-Unsecured Investors
in €m



[1] MREL effective in relation to the LR exposure (LRE) 24.04% (subordinated 14.48%) and/or to the total risk exposure amount (TREA) 72.81% (subordinated 43.86%), minimum requirement of 3.00% LRE and/or 10.56% TREA (incl. combined buffer requirement). With delivery on 2 January 2023, the MREL notice was cancelled due to the integration of Berlin Hyp into the LBBW Group. iMREL requirements are advised

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