This document constitutes a supplement pursuant paragraph 16 German Securities Prospectus Act (Wertpapierprospektgesetz) (the "**Supplement**") to two base prospectuses of Berlin Hyp AG: (i) the base prospectus in respect of non-equity securities within the meaning of Art. 22 sub-paragraph 6(4) of the Commission Regulation (EC) No. 809/2004 of 29 April 2004, as amended (the "**Commission Regulation**") and (ii) the base prospectus in respect of Pfandbriefe (non-equity securities within the meaning of Art. 22 sub-paragraph 6(3) of the Commission Regulation) (together the **"Base Prospectus"** or the **"Prospectus"**)

Supplement to the Base Prospectus
dated 13 August 2018

This Supplement is supplemental to, and must be read in conjunction with the Base Prospectus dated 4 April 2018.

Berlin Hyp AG
Berlin, Federal Republic of Germany

€ 25,000,000,000
Offering Programme
(the "**Programme**")

Berlin Hyp AG (**"Berlin Hyp"**, **"Berlin Hyp AG"**, the **"Bank"** or the **"Issuer"**) has requested the Federal Financial Supervisory Authority *(Bundesanstalt für Finanzdienstleistungsaufsicht)* (the "**BaFin**") in its capacity as the competent authority under the German Securities Prospectus Act (*Wertpapierprospektgesetz*) (the **"WpPG"**) to (i) approve this Supplement and (ii) provide the competent authorities in the Grand Duchy of Luxembourg, the United Kingdom of Great Britain and Northern Ireland, the Republic of Ireland, the Italian Republic and the Republic of Austria with a certificate of such approval attesting that the Supplement has been drawn up in accordance with the WpPG implementing the EU Prospectus Directive into German law (the "**Notification**"). Approval by the BaFin means the positive decision on the Issuer's request regarding the examination of the Supplement's completeness, including the coherence and comprehensibility of the provided information. The Issuer may request the BaFin to provide competent authorities in additional host Member States within the European Economic Area with a Notification.

This Supplement will be published in the same way as the Base Prospectus in electronic form on the website of the Issuer (www.berlinhyp.de/fuer-kapitalmarktinvestoren/basisprospekt). It is valid as long as the Base Prospectus is valid.

RESPONSIBILITY STATEMENT PURSUANT TO § 5(4) SECURITIES PROSPECTUS ACT (*WERTPAPIERPROSPEKTGESETZ – WpPG*)

Berlin Hyp AG, with its registered office in Berlin, is solely responsible for the information given in this Supplement. The Issuer hereby declares that, to the best of its knowledge, the information contained in this Supplement is in accordance with the facts and no material circumstances have been omitted.

IMPORTANT NOTICE

Terms defined or otherwise attributed meanings in the Base Prospectus have the same meaning when used in this Supplement. All references to Berlin-Hannoversche Hypothekenbank Aktiengesellschaft in the Prospectus (as supplemented) shall be read and construed as reference to Berlin Hyp AG.

This Supplement shall only be distributed in connection with the Base Prospectus.

The Issuer will confirm to the Dealers that the Base Prospectus (as supplemented) contains all information which is material in the context of the Programme and the issue and offering of Notes thereunder, that the information contained therein is accurate in all material respects and is not misleading; that any opinions and intentions expressed therein are honestly held and based on reasonable assumptions; that there are no other facts, the omission of which would make any statement, whether fact or opinion, in the Base Prospectus (as supplemented) misleading in any material respect; and that all reasonable enquiries have been made to ascertain all facts and to verify the accuracy of all statements contained therein.

No person has been authorised to give any information which is not contained in or not consistent with the Base Prospectus or this Supplement or any other information supplied in connection with the Programme and, if given or made, such information must not be relied upon as having been authorised by the Issuer.

This Supplement and the Base Prospectus should be read in conjunction only and together constitute two prospectuses for the purpose of the Prospectus Directive, and for a particular issue of or tranche of Notes should be read in conjunction with any applicable Final Terms.

Save as disclosed herein and in the Base Prospectus, there has been no other significant new factor, material mistake or material inaccuracy relating to the information included in the Base Prospectus since its publication.

Investors who have already agreed to purchase or subscribe for securities before the supplement is published shall have the right, exercisable within two working days after the publication of the supplement, to withdraw their acceptances in the event that a new factor or an inaccuracy arose before the final closing of the offer of such securities to the public and the delivery of the securities, pursuant to section 16 paragraph 3 of the German Securities Prospectus Act.

The revocation does not have to provide any grounds and must be declared in text form to the appointed recipient of such notices: Berlin Hyp AG, Legal Department GO2, Budapester Str. 1, D-10787 Berlin, Germany. The dispatch of the revocation within the time limit is sufficient.

Such new factors pursuant to Section 16 paragraph 1 of the German Securities Prospectus Act have occurred on

1. **9 August 2018 with the publication of the unaudited Half-Year Financial Report 2018 with the half-year financial statements of Berlin Hyp AG for the period ending 30 June 2018**

2. **6 August 2018 Moody's Investors Service, Ltd. (Moody's) changed the rating of Berlin Hyp**

I. Half-Year Financial Report 2018 as of 30 June 2018

On 9 August 2018, the Issuer published its Half-Year Financial Report 2018. Accordingly, the Prospectus (including the documents incorporated by reference) shall be amended as follows:

1. Summary

1.1. The table under “Summary form of Balance sheet” within “Selected historical key financial information” on page 3 of the Prospectus in Element B 12 of the Summary shall be replaced by the following table:

“

Assets in Mio. €	31.12.2016	31.12.2017	30.06.2018 *	**Liabilities in Mio. €**	31.12.2016	31.12.2017	30.06.2018 *
Loans to banks	551	444	803	Liabilities to banking institutions	4,814	4,955	5,144
Loans to customers	19,370	20,974	21,759	Liabilities to customers	5,476	6,094	5,768
Debentures	5,782	4,624	3,386	Securitised liabilities	13,615	13,552	13,939
Intangible investment assets	10	12	15	Reserves	163	221	220
Tangible assets	58	58	57	Subordinated liabilities	454	383	314
Other assets	337	273	283	Fund for general Bank risks	153	223	303
				Equity	936	936	936
Total assets	26,354	27,123	27,283	Total liabilities	26,354	27,123	27,283

* Information in this column is taken from the unaudited Half-Year Financial Report 2018

“

1.2. Within the “Summary form of income statement” of the Prospectus in Element B 12 of the Summary after the existing table “Summary form of income statement” the following table shall be added on page 4:

“Half-year summary form of income statement

in Mio. €	**01.01.2017 – 30.06.2017***	**01.01.2018 – 30.06.2018***	**Change in %***
Net interest income	136,7	161,4	18,1
Net commission income	17,9	10,8	-39,7
Staff expenditure	33,0	39,0	18,2
Other operating expenditure	32,7	34,6	5,8
Amortisation on and depreciations of and valuation adjustments on intangible investment assets and tangible assets	2,4	2,5	4,2
Other operating earnings / expenditure	-1,6	-1,7	6,2
Risk provisioning	22,3	-47,3	-
Operating result after risk provisioning	62,6	141,7	-
Expenditure from profit transfer	44,2	62,2	40,7
Net income	0,0	0,0	-

* Information in this column is taken from the unaudited Half-Year Financial Report 2018

“

1.3. The section on “Significant changes in the financial or trading position” on page 4 of the Prospectus in Element B.12 of the summary shall be replaced by the following:

“Not applicable: There has been no significant change in the financial position of Berlin Hyp AG since 30 June 2018.”

1.4. In the German language version of the Summary (Zusammenfassung des Prospekts) on page 24 the table within B.12 “Kurzdarstellung Bilanz” is to be replaced by the following:

"

Aktiva in Mio. €	31.12.2016	31.12.2017	30.06.2018 *	**Passiva in Mio. €**	31.12.2016	31.12.2017	30.06.2018 *
Forderungen an Kreditinstitute	551	444	803	Verbindlichkeiten ggü. Kreditinstituten	4.814	4.955	5.144
Forderungen an Kunden	19.370	20.974	21.759	Verbindlichkeiten ggü. Kunden	5.476	6.094	5.768
Schuldverschreib-ungen	5.782	4.624	3.386	Verbriefte Verbindlichkeiten	13.615	13.552	13.939
Immaterielle Anlagewerte	10	12	15	Rückstellungen	163	221	220
Sachanlagen	58	58	57	Nachrangige Verbindlichkeiten	454	383	314
Sonstige Vermögensgegen-stände	337	273	283	Fonds für allgemeine Bankrisiken	153	223	303
				Eigenkapital	936	936	936
Summe der Aktiva	26.354	27.123	27.283	Summe der Passiva	26.354	27.123	27.283

* Informationen in dieser Spalte stammen aus dem ungeprüften Halbjahresfinanzbericht 2018

"

1.5. In the German language version of the Summary (Zusammenfassung des Prospekts) on page 24 the following table shall be added after the existing table "Kurzdarstellung Gewinn- und Verlustrechnung" within B.12:

"Halbjahres-Kurzdarstellung Gewinn- und Verlustrechnung

in Mio. €	**01.01.2017 – 30.06.2017***	**01.01.2018 – 30.06.2018***	**Veränderung in %***
Zinsüberschuss	136,7	161,4	18,1
Provisionsüberschuss	17,9	10,8	-39,7
Personalaufwand	33,0	39,0	18,2
Andere Verwaltungsaufwendungen	32,7	34,6	5,8
Abschreibungen und Wertberichtigungen auf immaterielle Anlagewerte und Sachanlagen	2,4	2,5	4,2
Sonstige betriebliche Erträge und Aufwändungen	-1,6	-1,7	6,2
Risikovorsorge	22,3	-47,3	-
Betriebsergebnis nach Risikovorsorge	62,6	141,7	-
Aufwendungen aus Gewinnabführung	44,2	62,2	40,7
Überschuss	0,0	0,0	-

* Informationen in dieser Spalte stammen aus dem ungeprüften Halbjahresfinanzbericht 2018

"

1.6. In the German language version of the Summary (Zusammenfassung des Prospects) within B.12 the section "Wesentliche Veränderung der bei Finanzlage oder Handelsposition der Emittentin" on page 25 shall be replaced by the following:

„Entfällt. Seit dem 30. Juni 2018 ist keine wesentliche Veränderung in der Finanzlage der Berlin Hyp eingetreten."

1.7 The wording of section 6.10.6 "Significant change in Berlin Hyp's Financial Position" on page 73 of the Prospectus shall be replaced by the following:

"There has been no significant change in the financial position of Berlin Hyp since 30 June 2018 (the end of the last financial period for which financial information has been published)."

II. Rating changes from Moody's Investors Service, Ltd. (Moody's)

1. In Element B 17 of the Summary of the Prospectus (English language version) - Section B – Credit ratings assigned to an issuer or its debt securities at the request or with the cooperation of the issuer in the rating process on page 5 of the Prospectus the first paragraph shall be replaced by the following:

   The Issuer has received the rating A+ for its long-term unsecured liabilities and the rating F1+ for its short-term liabilities by Fitch Inc., Fitch Ratings Ltd. ("**Fitch**"). The long-term rating "A" is defined as high credit quality and the capacity of financial commitments is considered strong. The modifier "+" is appended to denote the positive relative status within the major categories. The short-term rating "F1+" is defined as highest short-term credit quality. The "+" denotes any exceptionally strong credit feature.
   2014 the Issuer received issuer ratings from Moody's Investors Service Ltd. ("**Moody's**") for the first time. Recently Moody´s assigns an Aa2 long-term rating for the Issuer's senior preferred notes and A2 for its senior non-preferred notes as well as to the legacy senior unsecured notes issued before 21 July 2018, Aa2 deposit rating and Prime-1 short-term rating. In addition, Moody's assigns a provisional senior unsecured rating of Aa2, a provisional junior senior unsecured rating of A2, which applies to the Issuer's non-preferred unsubordinated notes and a provisional subordinated debt rating of Baa1. Obligations rated "Aa" are judged to be of high quality and are subject to low credit risk, the modifier 2 indicates a mid-range ranking. Obligations rated "A" are judged to be upper-medium grade and subject to low credit-risk, the modifier "1" indicates a that the obligation ranks in the higher end of its generic rating category. Obligations rated "Baa" are considered medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics. Issuers rated Prime-1 have a superior ability to repay short-term debt obligations.

2. In Element B 17 of the Zusammenfassung des Prospekts (German language version) - Section B – Ratings, die im Auftrag der Emittentin oder in Zusammenarbeit mit ihr beim Ratingverfahren für die Emittentin oder ihrer Schuldtitel erstellt wurden on page 26 of the Prospectus the first paragraph shall be replaced by the following:

   Die Emittentin hat von Fitch Inc., Fitch Ratings Ltd. ("Fitch") für ihre langfristigen unbesicherten Verbindlichkeiten das Rating A+ erhalten und für ihre kurzfristigen Verbindlichkeiten das Rating F1+. Das langfristige Rating "A" bedeutet eine hohe Kreditqualität und die Fähigkeit zur Einhaltung finanzieller Verpflichtungen wird als hoch beurteilt. Das Vorzeichen "+" deutet den positiven relativen Status innerhalb der Rating-Kategorien an. Das kurzfristige Rating "F1+" bedeutet die höchste kurzfristige Kreditqualität. Das "+" deutet eine außergewöhnlich hohe Kreditqualität an.
   Im Jahr 2014 erhielt die Emittentin erstmals Emittentenratings von Moody's Investors Service, Ltd. ("Moody's"). Derzeit vergibt Moody`s ein Langfrist-Rating Aa2 für vorrangige Verbindlichkeiten und A2 für nicht-bevorrechtigte vorrangige Verbindlichkeiten sowie für bereits vor dem 21. Juli 2018 begebene vorrangige Verbindlichkeiten der Emittentin, ein Deposit Rating Aa2 und ein Kurzfrist-Rating Prime-1. Zusätzlich vergibt Moody's ein vorläufiges Rating für langfristige vorrangige unbesicherte Verbindlichkeiten von Aa2, ein vorläufiges Rating für vorrangige nicht–bevorrechtigten Verbindlichkeiten von A2 und ein vorläufiges Rating für nachrangige Verbindlichkeiten von Baa1. Mit einem Rating von „„Aa" beurteilte Verbindlichkeiten sind von hoher Qualität und bergen ein geringes Kreditrisiko, der Zusatz „2" bedeutet eine Einordnung in das mittlere Drittel der jeweiligen Ratingklasse. Mit einem Rating von "A" beurteilte Verbindlichkeiten werden der oberen Mittelklasse zugerechnet und bergen ein geringes Kreditrisiko, der Zusatz "1" bedeutet eine Einordnung in das obere Ende der jeweiligen Ratingklasse. Mit einem Rating von „Baa" beurteilte Verbindlichkeiten sind von mittlerer Qualität, bergen ein moderates Kreditrisiko und weisen mitunter gewisse spekulative Elemente auf. Emittenten, die mit Prime-1 bewertet werden, verfügen in herausragender Weise über die Fähigkeit, ihre kurzfristigen Schuldverschreibungen zurückzuzahlen.

3. The first paragraph of the Section 3.1.2 "**Rating**" on page 46 shall be replaced by the following:

   The rating agency Fitch Inc., Fitch Ratings Ltd. ("**Fitch**"), announced for the first time in May 2008 its credit evaluation for Berlin Hyp. Recently the Bank has the rating A+ for the long-term rating for unsecured liabilities and the rating F1+ for the short-term. The Long Term Rating "A" is defined as high credit quality and the capacity of financial commitments is considered strong. The modifier "+"

is appended to denote the positive relative status within the major categories. The Short Term Rating "F1+" is defined as highest short-term credit quality. It indicates the strongest intrinsic capacity for timely payment of financial commitments. The "+" denotes an exceptionally strong credit feature. The viability rating (VR) was fixed at bbb after Fitch upgraded it from previously bbb- on 13 February 2017. The VR attempts to assess how a bank would be viewed if it were entirely independent and could not rely on external support.
2014 the Issuer received issuer ratings from Moody's Investors Service Ltd. (**"Moody's"**) for the first time. Recently Moody's assigns an Aa2 long-term rating for the Issuer's senior preferred notes and A2 for its senior non-preferred notes as well as to the legacy senior unsecured notes issued before 21 July 2018, Aa2 deposit rating and Prime-1 short-term rating. Moody's assigns a Baseline Credit Assessment (BCA) of ba1. In addition, Moody's assigned a provisional senior unsecured rating of Aa2, a provisional junior senior unsecured rating of A2, which applies to the Issuer's non-preferred unsubordinated notes and a provisional subordinated debt rating of Baa1. Obligations rated "Aa" are judged to be of high quality and subject to very low credit risk and obligations rated "A" are judged to be upper-medium grade and subject to low credit-risk, the modifier "2" indicates that the obligation ranks in the middle of its generic rating category. Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics. Issuers rated Prime-1 have a superior ability to repay short term debt obligations.

III. Annex to the Prospectus

An excerpt from the unaudited Half-Year Financial Report 2018 with the half-year financial statements of Berlin Hyp AG for the period ending 30 June 2018, which only abridged the Opportunities and Forecast Report, is presented on the following pages, shall be added under "13. Annex", and shall be deemed to be incorporated in, and to form part, of the Prospectus.

"Excerpt from the Half-Year Financial Report 2018

Interim Management Report

Business Report

Macroeconomic and Sector-Related Framework Conditions

Macroeconomic Development

Global economic growth remained at a high level in the first half of 2018 despite weakening momentum, thus meeting expectations.

In the eurozone, however, economic development over the past six months has been significantly weaker than forecast. Especially due to the sharp decline in exports, it has not been possible to continue the particularly positive trend of the previous quarters in 2017. In addition, investments in fixed assets have declined.

A noticeable slowdown in economic growth can also be observed for Germany in the first half of the year, contrary to the forecasts made. This is primarily seen as a result of temporary causes which had a significant impact on production. Nevertheless, a downturn in the current economic boom could not yet be deduced from this. Production-reducing effects due to a higher number of strike and holiday days as well as the flu epidemic were the main reasons for the decline in economic growth. In addition, as the increasingly protectionist economic policy behaviour of the US and increasing uncertainties regarding the *Brexit* negotiations and the change of government in Italy were smouldering in the first two quarters of 2018, the export business was considerably weaker than in 2017.

Sources for macroeconomic framework conditions: DIW, IfW

Specific Industry Development

The US Federal Reserve (FED) was the only major central bank to gradually and actively tighten its monetary policy. For the seventh time since the end of the financial crisis, the Federal Reserve raised key interest rates to a range of 1.75% to 2.00% and is also gradually reducing the peak balance sheet total of $4.5 trillion.

At its Council meeting on 14 June 2018, the European Central Bank (ECB) announced the end of the Asset Purchase Programme (APP), which has been in force since January 2015. As a first step, the monthly purchase volume was reduced from € 60 billion to € 30 billion from January 2018 onwards. From September 2018 onwards, the monthly volume will initially be reduced to € 15 billion and will be completely discontinued by the end of the year. However, as maturities are reinvested as long as necessary, this only applies to net purchases of securities. At the same time, the central bank announced that the key interest rate would remain at the current level of 0.0% up to and including summer 2019, but at least until the currently anticipated path of inflation has been secured. Mainly driven by higher energy prices, the rate of inflation in Germany recently rose to 2.2%. The most recent rate of inflation in the eurozone was 2.0%, although the core rate of 1.0% is not yet overall considered sustainable. Accordingly, the ECB's monetary policy remains expansionary, albeit to a lesser extent.

In the first half of the year, the capital market environment in the eurozone was again dominated by political issues. In addition to international areas of conflict, such as the trade dispute between the US and China and the EU, as well as the events surrounding Iran's and North Korea's nuclear programmes, the main focus in Europe was on the election in Italy. Its outcome and the subsequent formation of a government led to clear reactions on the capital markets. Interest rates for ten-year Italian government bonds rose, with 140 basis points at its peak, to 3.13%. As a result, the spreads for Spanish and Portuguese government bonds widened at times. German federal bonds again served as a safe haven for investors in the context of European political uncertainties. While interest rates on ten-year securities rose from 0.40% to 0.76% at the beginning of the year, they fell by more than half to 0.30% during the rest of the reporting period. All swaps with a term of four years or more were offering positive returns.

Largely influenced by the political issues mentioned above, the stock markets tended sideways in the first half of 2018 after an initial correction. Volatility increased significantly.

The continuing low interest rate environment and geopolitical uncertainties continue to pose major challenges for banking institutions. Furthermore, regulatory authorities continue to raise their requirements on banking supervision. The revisions of the CRR and the CRD, the amendment of MaRisk, the new risk-bearing capacity concept RTF 2.0, the implementation of the guidelines on ICAAP and ILAAP and the requirements from the establishment of a European Single Supervisory Mechanism (SSM) are mentioned as examples. Related measures are having an increasing impact on both human and monetary resources.

The positive momentum on the German commercial real estate investment market continued in the first half of 2018. Partly due to the stable economic situation in Germany, with a growing gross domestic product and a further decline in unemployment, German real estate remained high in the favour of investors. However, compared to the rapid development in the previous year, the German economy lost some speed, which cannot, however, be equated with a downturn. Rather, the smouldering trade conflict with the US has led to companies currently holding back on orders. This represents a risk for the German export industry, which specialises in capital goods.

In retrospect and irrespective of this current starting position, transactions of the German commercial real estate market were almost as high in the first half of 2018 as in the strong prior-year period. Across Germany, the investment volume for commercial real estate reached around € 25.3 billion (previous year: € 25.8 billion). Although a marginal decline of 2% can thus be registered, the high investment activity expected by Berlin Hyp for 2018 was however confirmed by these results for the first six months of the year.

In contrast to the almost unchanged level on the overall market, investment volume in the seven largest German cities rose significantly - at € 14.6 billion, 28% more was invested here than in the same period last year. This strikingly strong concentration of investors in Germany's top 7 investment centres in the first half of 2018 proves that - if available - properties in the largest cities are still the first choice despite a further decline in returns.

The continuing zero-interest-rate policy of the European Central Bank and the resulting low attractiveness of alternative investments led not only to strong interest in German commercial real estate but also to high demand on the market for residential real estate portfolios. At the end of June 2018, the transaction volume was estimated at around € 10.6 billion - an increase of 45% over the same period last year (previous year: around € 7.3 billion). Amongst other things, the acquisition of Buwog AG by Vonovia SE in the first quarter of 2018 had a significant impact on this result. However, even excluding special factors of this kind, the volume of just under € 7 billion almost matched the prior-year figure. Alternative investment opportunities in the residential properties market, such as micro-apartments, are increasingly moving into the focus of investors due to product scarcity.

Sources for real estate market data: CBRE, DIW, EZB.

Business Development

In its outlook for 2018, Berlin Hyp assumed that the positive development in business with its customers will continue. Due in part to the low margin level and the development of costs for optimising/improving business processes and for other digitisation activities, result before profit transfer for 2018 was forecast to be lower than in 2017.

In view of the ongoing low-interest-rate phase, continued fierce competition in the commercial real estate financing market and ever-stricter regulatory requirements, the first half of 2018 was a resounding success. In addition to the continuous growth in brand strength, the continued positive development on the relevant real estate markets also had a positive effect.

With a result before profit transfer of € 62.2 million, the previous year's figure was significantly exceeded. In particular due to one-off effects and the pleasing development of new and existing business, net interest and commission income exceeded expectations and operating expenditure developed better than planned. The good economic development and business environment at Berlin Hyp enabled a significant net reversal of risk provisioning. Whereas the very good development in risk provisioning in the previous year made it possible, among other things, to form hidden reserves, an addition of € 80 million was made as at 30 June 2018 to the special reserves pursuant to Section 340g German Commercial Code (HGB). This successfully set the course for an early strengthening of the equity base and thus for the future growth of the mortgage loan portfolios. The corresponding positive effects on the T1 capital ratio will become apparent in the second half of the year after the reporting date.

The Bank once again cemented its role as a leading commercial real estate financer. New contracted lending volume, including realised extensions (capital employed ≥ 1 year), amounted to approximately € 3.5 billion in the first half of 2018. The Bank is therefore performing proportionately better in the first half of 2018 than expected in the forecast report as at 31 December 2017.

Berlin Hyp developed its S-Group business in the first half of 2018 as planned and continuously expanded its network within the Savings Bank Finance Group. The total volume of business conducted in association with the German savings banks was increased. The second transaction of the new ImmoAval product and an ImmoSchuldschein transaction in February once again offered the German savings banks investment opportunities. Savings banks also use the proven products ImmoKonsortial and real estate valuation.

The “berlinhyp21” future process continued to focus on topics such as ensuring competitiveness and sustainable growth, but also creating reliable perspectives for the future. These are important steps on the way to becoming Germany's most modern real estate financier. The Bank continued to address new business approaches and focused on implementing its digitisation strategy through intelligent networking and process automation. The consistent alignment of the core banking system with SAP was continued, as was the project to optimise and digitise lending processes. The project to redefine human resources instruments has been pushed ahead to support the development of human resources and promote excellence. Important other projects, such as streamlining the digitised and workflow-based set of rules, as well as enterprise content management to optimise organisational processes, have already been completed.

Earnings Situation

In the first half of 2018, Berlin Hyp continued to show a positive development in its earnings situation, which was primarily influenced by the noticeable rise in net interest income. The increase in operating expenditure resulted primarily from the further reduction in the discount rates used to calculate pension obligations. Considering the almost unchanged other operating income, the operating result before risk provisioning considerably exceeded that of the previous year at € 94.4 million (previous year: € 84.9 million).

The need for risk provisioning in the balance sheet was significantly lower than in the previous year, thus making it possible to dissolve a significant amount of risk provisioning reserves.

Berlin Hyp capitalised on the satisfactory overall earnings trend to further strengthen its capital reserve. Pursuant to Section 340g German Commercial Code (HGB), a further € 80.0 million (€ 20.0 million) was added to the funds for general banking risks in the first half of 2018. Earnings before taxes came to € 62.2 million, significantly higher than the previous year’s figure of € 44.4 million.

Net Interest and Commission Income Increased

Net interest and commission income rose from € 154.6 million to € 172.2 million when compared to the previous year, thus exceeding our expectations.

The increase resulted from an increase in net interest income by € 24.7 million to € 161.4 million. Among other things, this was due to one-off effects, including the pro rata waiver of the interest debt in the amount of € 12.7 million for the so-called targeted longer-term refinancing operations of the Deutsche Bundesbank (GLRG II), in which Berlin Hyp participated in open market operations in the years 2016/2017 and raised funds totalling € 2.0 billion. In accordance with the special terms and conditions for these transactions, a premium in the form of a pro-rata waiver of the interest and/or principal debt is granted retroactively over the entire term if the Bank's net lending exceeds a reference level (benchmark) in a certain period. Continuing pressure on margins continued to have a challenging effect on net interest income.

Compared to the same period last year, Berlin Hyp again achieved growth in new lending business. Nevertheless, as expected, net commission income of € 10.8 million was significantly below the very good previous year's figure of € 17.9 million. The background to this is the extensive mapping of administration fees in the interest margins and their distribution over the term due to the ruling of the German Federal Court of Justice (BGH) dated 4 July 2017 on administrative fees in loan agreements.

Operating Expenditure Increased

Operating expenditure comprises personnel expenses, other operating expenditure and depreciation on tangible assets and intangible assets and, at € 76.1 million, was up on the previous year's figure of € 68.1 million.

The increase resulted from a rise in staff expenditure of € 6.0 million to € 39.0 million, in particular as a result of further reductions in discount rates as part of the calculation of pension obligations.

At € 34.6 million (€ 32.7 million), other operating expenditure was slightly higher than in the previous year. In addition to an increase of € 0.5 million in the contribution to the European bank levy due to the increase in the target volume for the Single Resolution Fund, advertising and marketing expenses also rose slightly. In view of the increasing demands on information technology and regulatory reporting requirements, the moderate increase in operating expenditure must be viewed positively.

Depreciation on fixed assets and intangible assets remained almost unchanged at € 2.5 million (€ 2.4 million).

Other Operating Result at Previous Year's Level

The Bank reported other operating income of € -1.7 million, compared to € -1.6 million in the previous year. The interest portion of the compounding of provisioning reserves continues to be an essential component.

Risk Provisioning Benefits from Good Framework Conditions

Due to the good economic development and business environment of Berlin Hyp's business activities and the Bank's active risk management, lending risk provisioning totalling € 31.5 million (net) was dissolved released in the first half of 2018 after an additional € 40.1 million in the same period last year. Berlin Hyp adequately took all recognisable and potential risks into consideration.

Risk provisioning for securities in the liquidity reserve posted income of € 15.8 million (€ 17.8 million). This income mostly resulted from disposals.

Positive Net Income from Investments

Income from investments is largely defined by write-ups and gains on disposal and totalled € 0.6 million (€ 1.9 million).

Funds for General Banking Risk Strengthened

To continue to meet the higher equity capital requirements for banking institutions, the Bank increased the funds for general banking risk by another € 80.0 million (€ 20.0 million) in the first half of 2018 pursuant to Section 340g German Commercial Code (HGB). This fund now amounts to € 303.0 million.

Increase in Earnings Before Taxes

The Bank recorded pre-tax earnings of € 62.2 million, well above the proportionate plan. This represents an increase of € 17.8 million over the same period last year.

Net Assets Position

The balance sheet total amounted to € 27.3 billion as at 30 June 2018. It increased by €0.2 billion compared to the end of 2017.

The Bank was able to significantly expand its mortgage portfolio. It now amounts to € 21.0 billion (31 December 2017: € 20.1 billion). Additions to new lending were offset to a lesser extent by extraordinary outflows through early repayments.

The portfolio of fixed-interest bonds was reduced by maturities and sales. It amounts to € 3.4 billion (31 December 2017: € 4.6 billion).

On the liabilities side, liabilities to banking institutions remained virtually unchanged compared with year-end 2017, rising from EUR 0.2 billion to EUR 5.2 billion. Liabilities to customers decreased by € 0.3 billion to € 5.8 billion. The volume of securitised liabilities increased by € 0.4 billion to € 13.9 billion. At € 0.3 billion (31 December 2017: € 0.4 billion), the portfolio of subordinated liabilities remained virtually unchanged.

Equity

Berlin Hyp's reported equity at the end of the first half of 2018 remains unchanged at € 935.9 million. The profit carried forward of € 2.2 million as at 31 December 2017 was reclassified to other profit reserves by resolution of the Annual General Meeting on 28 March 2018. In addition, € 223.0 million is available in the form of a regulatory reserve pursuant to Section 340g German Commercial Code (HGB) and € 203.6 million of subordinated capital that is capable of being taken into consideration under regulatory law.

In relation to the risk items pursuant to the Solvency Regulation, the T1 capital ratio on 30 June 2018 was 12.0% and the total capital ratio 14.7% (12.5% and 15.5% as determined as at 31 December 2017).

In the context of the 2017 annual financial accounts, the decrease in capital ratios is due to a significant increase in new business despite improved capitalisation through additions to the reserve pursuant to 340g German Commercial Code (HGB).

Based on the assumption of the addition to the funds for general banking risks which have taken place in this half-year financial report and the supervisory recognition still to be granted in the second half of the year, the common equity Tier 1 ratio is 12.9% and the total capital ratio 15.6%. This improvement in the key figures is mainly due to the inclusion of € 80 million in the addition to the funds for general banking risk as common equity Tier 1 capital.

Additional stricter regulatory requirements are planned in the coming years, such as CRR II and "Basel IV", which will also have a strong impact on Berlin Hyp. The Bank plans to mitigate these increased capital requirements by forming corresponding provisions.

New Lending

New lending in the real estate financing business, including realised extensions (capital employed ≥ 1 year), amounted to approximately € 3.5 billion (€ 3.1 billion) in the first half of 2018. Competition among creditors remained fierce, as did the high volume of liquidity, keeping the pressure on margins. Nevertheless, compared to the first half of 2017, the contracted new business margins were maintained at the previous year's level while the Bank's risk behaviour remained largely unchanged. A further increase in the proportion of higher-margin developer and property developer financing also contributed to this.

Of the new financing (excluding extensions), 80% were attributed to properties located in Germany. 64% of properties were allocated between former West German territory and 16% in Berlin and the former territory of East Germany. 20% relate to the financing of properties located outside Germany.

At 57%, most new lending related to the investors customer group. Another 14% was realised with housing societies. The remaining 29% was attributable to developers and building contractors.

S-Group Business

After Berlin Hyp's offer was further geared to the needs of the German savings banks in the past financial year and expanded accordingly, the savings banks participated in Berlin Hyp's financing via the syndicated financing, ImmoSchuldschein and ImmoAval products. As at 30 June 2018, the total volume of business conducted in the S-Group business amounted to around € 825 million (€ 650 million). Berlin Hyp is thus already a partner of a total of 124 German savings banks (111 savings banks) through joint financing.

Financial Position

In view of the expected end of the ECB's Asset Purchase Programme (APP), risk premiums on European covered bonds widened by several basis points in the first half of 2018. Mortgage Pfandbriefe of German issuers traded higher in the mid-single-digit basis point range. Historically, however, the spread level remains very narrow. Covered bonds from the southern peripheral countries responded to the formation of the Italian government with a double-digit widening of spreads.

The European market for unsecured bank bonds was also the focus of political attention in the first half of 2018. On average, the risk premiums of non-preferential senior unsecured bonds increased by between 20 and 35 basis points in the period under review, depending on their maturity. By contrast, the development of spreads on outstanding unsecured bank bonds of Berlin Hyp has so far this year remained stable.

Berlin Hyp had access to the market at all times. The Bank continues to benefit from the reputation it has built up over many years as a reliable and sound issuer and its involvement in the Savings Banks Finance Group.

In the first half of the year, the Bank issued EUR 2.5 billion in debt securities, of which EUR 0.9 billion were unsecured bonds and EUR 1.6 billion were covered bonds. In the market for syndicated issues, it was initially active in January 2018 with the increase of the four-year € 250 billion Pfandbrief issue in November 2017 at mid-swap -20 basis points. Subsequently, the first benchmark issue with a re-offer spread of mid-swaps of 15 basis points was placed on the market in February 2018. This April, a third Green Unsecured Bond was issued – the fifth Green Bond issued by Berlin Hyp in benchmark format. The bond has a term of ten years and is used to refinance loans for particularly energy-efficient and sustainable commercial properties. The coupon for the € 500 million was fixed at 1.50%. The five-year anniversary Pfandbrief to mark the 150th anniversary of € 500 million was issued in May with a coupon of 0.25%. The majority of the issue, 66%, went to domestic investors, followed by investors from BeNeLux (18%) and Asia (10%). Banks and savings banks were the largest investor group with 54%, whereas the latter accounted for 24%.

Berlin Hyp's issuer ratings remained stable in the reporting period. Moody’s ratings for Berlin Hyp's unsecured bonds remained unchanged at A1. After Moody’s changed it for Berlin Hyp and 15 other German banks in December last year against the background of the expected amendment to section 46f of the Gesetz über das Kreditwesen (German Banking Act, KWG), the outlook remains negative. Fitch continues to rate the senior unsecured bonds as A+ with a stable outlook.

Moody’s ratings for Berlin Hyp’s Mortgage Pfandbriefe and Public Pfandbriefe also remained unchanged at Aaa with a stable outlook.

Refinancing Funds[1]	Portfolio without pro rata interest 31.12.2017	New issues 01.01–30.06.2018[2]		Maturities and early repayments 01.01–30.06.2018[3]	Portfolio without pro rata interest 30.06.2018
	€ m	€ m	%	€ m	€ m
Registered Mortgage Pfandbriefe	8,602.0	1,550.0	62.1	1.275.0	8,877.0
Registered Public Pfandbriefe	699.6	-	-	0.0	699.6
Other Bearer Bonds	4,169.0	670.0	26.9	525.0	4,314.0
Registered Mortgage Pfandbriefe	2,582.0	23.5	0.9	244.4	2,361.1
Registered Public Pfandbriefe	887.0	0.0	0.0	277.0	610.0
Bonded Loans	877.3	176.6	7.1	149.7	904.2
Registered Bonds	1,411.7	74.4	3.0	35.0	1,451.1
Subordinated Bearer Bonds	6.0	-	0.0	-	6.0
Subordinated Bonded Loads	327.2	-	0.0	65.0	262.2
Subordinated Registered Bonds	40.0	-	0.0	-	40.0
	19,601.8	2,494.5	100.0	2,571.1	19,525.2

[1] Zero balances
[2] New issues until 30.06.2018 incl. capitalisation at zeros
[3] Maturities and early repayments incl. terminations

Financial and Non-Financial Performance Indicators

Financial Performance Indicators

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

- Transfer of profit to Landesbank Berlin Holding AG
- 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 operating results before income tax and profit transfer, plus the change in the special item for general bank risks in accordance with Section 340g German Commercial Code (HGB) and the average balance sheet equity including the special item for general bank risks in accordance with Section 340g German Commercial Code (HGB)
- 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, becoming even more important in the future.

The result before profit transfer amounted to € 62.2 million as at 30 June 2018. This is significantly higher than the previous year's figure of € 44.2 million. Considering the expenses from the addition to the funds for general banking risks pursuant to Section 340g German Commercial Code (HGB) of € 80.0 million, this is an extremely satisfying result.

Net interest and commission income improved considerably from € 154.6 million to € 172.2 million compared to the previous year. The main drivers for this were one-off effects in net interest income, including the pro rata waiver of the interest debt of € 12.7 million for the so-called targeted longer-term refinancing operations of the Deutsche Bundesbank (GLRG II) with still stable margins in the core business.

The cost-income ratio remained virtually unchanged at 44.6% (44.5%).

The return on equity increased significantly to 23.9% (12.4%) due to the increased result before profit transfer and before allocation to the special item in accordance with Section 340g German Commercial Code (HGB).

All earnings-related financial performance indicators are thus noticeably above our expectations.

As at 30 June 2018, the common equity Tier 1 ratio stood at 12.0% (12.5% after the adoption as at 31 December 2017).

Berlin Hyp’s new lending volume (including long-term extensions) came to € 3.5 billion in the first half of 2018, up on the first six months of 2017 (€ 3.1 billion).

Non-Financial Performance Indicators

The Bank also applies a number of non-financial performance indicators that can be broken down as follows:

- Market: target portfolio, S-Group business
- Employees: employee structure, motivation, leadership and development
- Sustainability: green bonds, green financing, sustainability rating and compliance

The respective target portfolio is furthermore important for management purposes: distinctions are made between real estate types, customer groups, lending regions and risk classes. The specified target values, which are in line with our conservative risk strategy, were complied with overall in the first half of 2018. Markets are subject to qualitative and quantitative analysis and assessment through regular internal research studies.

The total volume of S-Group business came to around € 825 million (€ 650 million). In February 2018, a total of 22 savings banks participated in a € 346 million ImmoSchuldschein secured by commercial properties in Berlin. The second transaction for the ImmoAval product was successfully launched in the first half of 2018; to date, a liability volume of over € 90 million has been placed with nine savings banks. In the capital market, 37 savings banks participated with € 484 million and eight companies from the S-Group participated with € 86 million of issued bonds of Berlin Hyp. In the previous year, 15 savings banks with a volume of € 124 million subscribed to two issues at this time.

As part of the “strategic resource planning” project launched in 2017, Berlin Hyp is preparing for digital transformation. The ten-year investment programme focuses on future capacity requirements, a balanced age structure and employee expertise.

Similar to many other companies, Berlin Hyp must contend with issues of demographic change and skills shortage. Against this backdrop, the Bank has continuously intensified its activities in recruiting and promoting the next generation of talent in the first half of 2018.
Berlin Hyp extended its focus to recruiting young skilled workers, particularly trainees, students in dual study programmes and student workers, to interns as a target group. Besides providing individually tailored training programmes, the Bank's stronger positioning in the labour market as an attractive employer is also being advanced. Continuing to attend career fairs for junior employees should contribute to this. Including current trainees in visits to these kinds of fairs is part of Berlin Hyp’s very fabric as a bank, hereby facilitating direct dialogue on equal footing between current and potential talent and supporting the Bank’s declared aim of presenting itself as an attractive employer. The increase in the number of positions for trainees and working students established in 2017 will enable Berlin Hyp to adequately cover its internal demand for junior staff.

Besides recruiting the next generation of employees, Berlin Hyp also focused on promoting young talent in the first half of 2018. The top-level qualification programme for young professionals, developed in 2016 and comprising a mentoring programme in conjunction with IMMOEBS e.V. and a study course in real estate economics at the International Real Estate Business School (IREBS), has once again welcomed cohorts of employees.

The change process at Berlin Hyp has been continuing apace in 2018. In the course of the project to review human resources instruments, a new competency model was developed for all Bank employees and managers, which on the one hand represents the expectations of the company with regard to the competencies of employees and, on the other, the basis of the new human resources instruments. Our holistic qualification activities for employees and managers, with which Berlin Hyp began in the first half of 2018, is also geared towards these competencies. These will be continued in the second half of 2018.

Berlin Hyp's management takes the following indicators into account in its management of the Bank: Green Bonds, Green Financing, Sustainability Rating and Compliance. An integral part of the corporate strategy is that both strategic goals of Berlin Hyp are above all supported by the development and promotion of sustainable products (such as Green Building financing and Green Bonds) and through the comprehensive sustainability and environmental management system and the fostering of social corporate responsibility among employees.

In a separate non-financial report on its activities last year and in the sustainability report 2017, published in accordance with the standards of the Global Reporting Initiative (GRI), Berlin Hyp reported in detail on the strategy, goals, fields of action and measures relating to sustainability. Once again in 2017, the independent rating agencies oekom research AG and Sustainalytics positively attested to the Bank's commitment to sustainability. In September 2017, Berlin Hyp rose to "Industry Leader" in the sustainability rating of oekom research AG and in has since been rated in the *Financials/Mortgage & Public Sector* rating peer group with "B-" and "Prime", the highest assigned rating. The result of the Sustainalytics rating is equally pleasing. Here, the result improved again compared to the previous year - receiving 86 out of 100 possible points, Berlin Hyp is thus still classified as an "Outperformer"., This has made it the best bank in the peer group and one of the top 5 banks worldwide since September 2017.

Opportunities, Forecast and Risk Report

Opportunities and Forecast Report

Contrary to our forecast in our Management Report as at 31 December 2017, the operating result before profit transfer was significantly exceeded in the first half of 2018. Changing framework conditions will be briefly described below.

The intensifying situation of the trade conflict originating in the United States could potentially be accompanied by a noticeable slowdown in the global economy.

Increasing risks for the economic activities in the eurozone emanate in particular from the change of government in Italy, which increasingly raises questions about the country’s economic stability. The continuing ambiguities in the negotiations regarding the United Kingdom’s departure from the European Union have also not eased any further.

The Federal Reserve is likely to gradually continue to increase its benchmark interest rate and reduce its balance sheet total by trimming down its bond-buying activities. As the net purchase of securities as part of the quantitative easing expires at the end of the year, the ECB will continue its expansionary monetary policy, albeit to a lesser extent. Against this background, challenging market parameters can be expected in the second half of the year. An increase in the refinancing rates by the ECB is not expected before the second half of next year.

The current economic risks, such as the trade conflict with the US, have not yet had any negative effects on the demand for residential and commercial real properties in Germany. The high investment volume at the end of the first half of 2018, which almost reached the result of the strong prior-year period, confirms the very high investment activity expected by Berlin Hyp for 2018. In view of the ECB Governing Council's decision to leave key interest rates unchanged at 0.0% and the announcement not to raise interest rates before the summer of 2019, investment activity in Germany is also expected to be brisk in the second half of 2018.

Sources for assumptions about macroeconomic and sector-related framework conditions: DIW, EZB, IfW.

Other conditions and, above all, competition in the real estate financing market remain challenging. Expansionary monetary policy and the low-interest phase are still ongoing. Margin pressure also remains noticeable.
In response to Germany’s Federal Court of Justice rulings of 4 July 2017 on the administrative fees agreed in a standard form for commercial bank customers, the Bank implemented corresponding adaptions to its agreements and its terms and conditions. Berlin Hyp had already created suitable provisions for old cases to 31 December 2017.

The targeted expansion of the product range in line with the requirements of German savings banks will inject further impetus into S-Group business. The range of ImmoSchuldscheine offered by Berlin Hyp will be extended further. In addition, products and product variants such as ImmoAval and ImmoRisikoDialog are being used. The development of S-Group business is supported by customer-centric sales structures and the Bank’s presence in Germany’s core regions. Separate events and roadshows in the regions also have a positive effect.

Increasing regulatory requirements are also expected in the future. In addition, the further development and optimisation of business processes and the technical equipment supporting them pose major challenges. With the future process initiated, Berlin Hyp will come closer to its goal of becoming Germany's most modern real estate financier. The IT architecture consistently follows standardised further development to an integrated SAP bank. Flexibility, security, quality and availability of data and reporting will thus attain a new dimension. Combined with process optimisations, even faster possibilities to react to customer requirements are being created. Furthermore, the digitisation strategy is working intensively on generating new business approaches and developing models to benefit from them.

The additional potential resulting from this and from Berlin Hyp´s positioning on the market, combined with a sound refinancing strategy, are solid foundations for the continuation of Berlin Hyp's successful business operations. Refinancing activities are bolstered by the additional focus on refinancing green buildings and the corresponding widening of the group of prospective investors. The successive results of the project to optimise HR instruments and the optimisation of the allocation of human resources that has already begun will promote the skills of each individual even better and thus support the fulfilment of customer wishes even better.

Risk Report

For details on risk policy, models applied in the assessment of the material opportunities and risks as well as the Bank's anticipated future development, please refer to the information provided in the Risk Report of the Status Report 2017.

The Bank's risk-bearing capacity had sufficient leeway in the first half of 2018, both according to internal standards and from a regulatory perspective.

Overall loan exposure slightly increased in the first half of 2018, compared to 31 December 2017. The distribution of overall loan exposure by rating category has remained largely unchanged.

The prospective leverage ratio stands unchanged at 4.0%.

The value at risk, in terms of market price risk, was consistently below applicable limits and pre-warning levels throughout the first half of 2018.

Liquidity risk management continues to be very important. The liquidity coverage ratio was 174.0% as at 30 June 2018 (31 December 2017: 183.3%). The economic liquidity risk is also monitored on a daily basis with the aid of stress scenarios. Operational risk is taken into consideration in the risk-bearing concept by means of an internal model, which is based on an advanced measurement approach.

This report has already pointed out the potential legal risks relating to the ruling by the Federal Court of Justice in Germany from 4 July 2017 on administrative fees in loan agreements. The Bank has created suitable provisioning reserves for these risks.

Condensed Interim Financial Statements

Condensed Statement of Financial Positions

Assets	30.06.2018 €m	31.12.2017 €m	Change €m	Change %
Cash reserves	**803**	**543**	**260**	**47.9**
Loans to banks	**803**	**444**	**359**	**80.9**
Mortgage loans	0	0	0	-
Public-sector loans	0	52	−52	-
Other receivables	803	392	411	-
Loans to customers	**21,759**	**20,974**	**785**	**3.7**
Mortgage loans	21,006	20,081	925	4.6
Public-sector loans	547	764	−217	−28.4
Other receivables	206	129	77	59.7
Debentures	**3,386**	**4.624**	**−1,238**	**−26.8**
Participations	**2**	**2**	**0**	**-**
Intangible investment assets	**15**	**12**	**3**	**25.0**
Tangible assets	**57**	**58**	**−1**	**−1.7**
Other assets	**283**	**273**	**10**	**3.7**
Prepaid expenses	**175**	**193**	**−18**	**−9.3**
Total assets	**27,283**	**27,123**	**160**	**0.6**

Liabilities	30.06.2018 €m	31.12.2017 €m	Change €m	Change %
Liabilities to banking institutions	5,144	4,955	189	3.8
Registered Mortgage Pfandbriefe	318	251	67	26.7
Registered Public Pfandbriefe	55	251	−196	−78.1
Other liabilities	4,771	4,453	318	7.1
Liabilities to customers	5,768	6,094	−326	−5.3
Registered Mortgage Pfandbriefe	2,087	2,376	−289	−12.2
Registered Public Pfandbriefe	565	666	−101	−15.2
Other liabilities	3,116	3,052	64	2.1
Securitised liabilities	13,939	13,552	387	2.9
Registered Mortgage Pfandbriefe	8,893	8,630	263	3.0
Registered Public Pfandbriefe	705	720	−15	−2,1
Other liabilities	4,341	4,202	139	3.3
Other liabilities	504	589	−85	−14.4
Deferred income	155	170	−15	−8.8
Reserves	220	221	−1	−0.5
Subordinated liabilities	314	383	−69	−18.0
Fund for general bank risks	303	223	80	35.9
Equity	936	936	0	-
Of which: balance sheet profit	0	2	−2	-
Total liabilities	27,283	27,123	160	0.6
Contingent liabilities				
Liabilities from guarantees and warranty contracts	188	207	−19	−9.2
Other obligations				
Irrevocable loan commitments	2,118	2,178	−60	−2.8

Condensed Statement of Profit or Loss

from 1 January until 30 June 2018

	01.01. – 30.06.2018 €m	01.01.– 30.06.2017 €m	Change €m	Change %
Net interest income	**161.4**	**136.7**	**24.7**	**18.1**
Net commission income	**10.8**	**17.9**	**–7.1**	**–39.7**
Operating expenditure	**76.1**	**68.1**	**8.0**	**11.7**
Staff expenditure	39.0	33.0	6.0	18.2
Other operating expenditure[1]	34.6	32.7	1.9	5.8
Of which expenditure for bank levy	10.6	10.1	0.5	5.0
Amortisation on and depreciation of and valuation adjustments on intangible investment assets and tangible assets	2.5	2.4	0.1	4.2
Other operating earnings / expenditure	–1.7	–1.6	–0.1	6.2
Operating result before risk provisioning	**94.4**	**84.9**	**9.5**	**11.2**
Risk provisioning	–47.3	22.3	–69.6	-
Operating result after risk provisioning	**141.7**	**62.6**	**79.1**	**-**
Financial investment result	0.6	1.9	–1.3	–68.4
Contribution to the fund for general bank risks	80.0	20.0	60.0	-
Other taxes	0.1	0.1	0.0	-
Profit before income tax and profit transfer	**62.2**	**44.4**	**17.8**	**40.1**
Income tax	0.0	0.2	–0.2	-
Expenditure from profit transfer	62.2	44.2	18.0	40.7
Net income	**0.0**	**0.0**	**0,0**	**-**

[1] Adjustment of the previous-year figure as a result of the reclassification of the bank levy to "Other operating expenditure" (had previously been reported separately as "Bank levy" after the "Operating result")

Statement of Changes in Equity

€m	Subscribed capital	Capital reserve	Profit reserves	Balance sheet profit	Total equity capital
As at 01.01.2017	753.4	158.3	22.0	2.2	935.9
Capital increases	0	0	0	0	0
Dividend payments	0	0	0	0	0
Other changes pursuant to Section 152 (3) No. 1 German Stock Corporation Act (AktG)	0	0	0	0	0
As at 30.06.2017	753.4	158.3	22.0	2.2	935.9

€m	Subscribed capital	Capital reserve	Profit reserves	Balance sheet profit	Total equity capital
As at 01.01.2018	753.4	158.3	22.0	2.2	935.9
Capital increases	0	0	0	0	0
Dividend payments	0	0	0	0	0
Other changes pursuant to Section 152 (3) No. 1 German Stock Corporation Act (AktG)	0	0	2,2	−2,2	0
As at 30.06.2018	753.4	158.3	24.2	0.0	935.9

Selected Explanatory Notes

General Information

The Half-Year Financial Report of Berlin Hyp was prepared according to the provisions of the German Commercial Code (HGB), provisions of supplementary stock corporation law (AktG) and in consideration of the German Securities Trading Act (WpHG), the German Pfandbrief Act (PfandBG) and the Regulation on the Accounts of Banking Institutions (RechKredV).
The balance sheet and profit and loss account are structured in accordance with the RechKredV. They were supplemented by the items prescribed for Pfandbrief banks.

Berlin Hyp holds shares in a subsidiary that has, in whole or in part, no material influence on the representation of the financial, assets and earnings situation of Berlin Hyp. There is no legal obligation to produce consolidated annual accounts pursuant to Section 290 German Commercial Code (HGB).

Reporting and Valuation Principles

The reporting and valuation methods used for the preparation of the annual financial accounts to 31 December 2017 have been applied essentially without change in the preparation of the condensed half-year financial report. Any amendments which have arisen are explained below.

Berlin Hyp is a subsidiary of Landesbank Berlin Holding AG and is included in the consolidated annual accounts of Erwerbsgesellschaft der S-Finanzgruppe mbH &Co. KG, Neuhardenberg/Germany, (holding company and smallest and largest consolidation group as defined in Section 285 No. 14 and No. 14a German Commercial Code (HGB)).

Berlin Hyp and Landesbank Berlin Holding AG have a profit and loss transfer agreement and a tax unity for sales and income tax purposes.

Notes to the Condensed Profit and Loss Account

Net interest income	01.01.–30.06.2018 €m	01.01.–30.06.2017 €m	Change €m	Change %
Interest earnings from				
Mortgage loans	178.0	192.6	−14.6	−7.6
Public-sector loans	−0.4	1.5	−1.9	-
Other receivables	−1.8	−0.3	−1.5	-
Fixed-income securities and book-entry securities	3.2	8.0	−4.8	−60.0
	179.0	201.8	−22.8	−11.3
Interest expenditure for				
Deposits and registered Pfandbriefe	8.7	42.8	−34.1	−79.7
Securitised liabilities	5.0	16.4	−11.4	−69.5
Subordinated liabilities	3.9	5.9	−2.0	−33.9
	17.6	65.1	−47.5	−73.0
Net interest income	161.4	136.7	24.7	18.1

Interest gains from balance sheet transactions generated by Berlin Hyp in the first half of 2018 resulting from the current negative-interest market conditions and targeted longer-term refinancing transactions with the Deutsche Bundesbank (GLRG II) are included in interest income of € 2.7 million (previous year: € 1.1 million) and interest expenditure of € 19.5 million (previous year: € 6.3 million).

Operating expenditure	01.01.–30.06.2018 €m	01.01.–30.06.2017 €m	Change €m	Change %
Staff expenditure				
Wages and salaries	27.3	25.1	2.2	8.8
Social security contributions / retirement pensions	11.7	7.9	3.8	48.1
	39.0	33.0	6.0	18.2
Other operating expenditure				
Bank levy	10.6	10.1	0.5	5.0
Staff-related material costs	1.7	1.4	0.3	21.4
Building and premises costs	1.9	1.8	0.1	5.6
Operating and business equipment	0.4	0.4	0.0	-
IT expenditure	8.1	8.2	−0.1	−1.2
Advertising and marketing	1.9	1.1	0.8	72.7
Business operation costs	1.7	1.0	0.7	70.0
Consultants / audits / subscriptions	5.1	5.4	−0.3	−5.6
Group payment set-off	3.2	3.3	−0.1	−3.0
	34.6	32.7	1.9	5.8
Amortisation on and depreciation of and valuation adjustments on intangible investment assets and tangible assets	2.5	2.4	0.1	4.2
Operating expenditure	76.1	68.1	8.0	11.7

Since 1 January 2018, there has been no compound item formation for low-value assets. For reasons of simplification, up to an amount of € 800 net, these assets are immediately depreciated with an effect on expenses. Assets worth € 800 or more net are capitalised and depreciated on a straight-line basis over their useful life.

Risk provisioning	01.01.–30.06.2018 €m	01.01.–30.06.2017 €m	Change €m	Change %
Risk provisioning for loan business	−31.5	40.1	−71.6	-
Securities results	−15.8	−17.8	2.0	−11.2
Risk provisioning	−47.3	22.3	−69.6	-

Earnings shown with a minus symbol

Notes to the Balance Sheet

Securities with a nominal volume of € 320.0 million are evaluated as fixed assets since they do not serve as a liquidity reserve and are partially used to cover Pfandbriefe issued by the Bank. The book value of the securities, which stands above their market value of € 88.9 million, amounts to € 90.8 million. This takes into account the valuation results from interest swaps.

Claims from and Liabilities to Affiliated Enterprises and Related Companies	30.06.2018 *€m*	31.12.2017 *€m*	Change *€m*	Change in %
Claims against banking institutions	2.9	3.9	−1.0	−25.6
Claims against customers	0.0	0.0	0.0	-
Other assets	0.0	0.0	0.0	-
Prepaid expenses and prepaid income	0.9	0.0	0.9	-
Liabilities to banking institutions	158.8	157.4	1.4	0.9
Liabilities to customers	0.6	0.6	0.0	-
Other liabilities	62.2	117.1	−54.9	−46.9
Subordinated liabilities	60.0	60.0	0.0	-

Derivatives as at 30 June 2018 *in €m*	Nominal amount / Remaining term					
	up to 1 year	from 1 to 5 years	5 years	Total Nominal	Total negative market values	Total positive market values
Interest-related transactions:						
Interest rate swaps	4,717	14,223	22,991	41,931	−613	950
Swaptions	6,450	1,200	0	7,650	−7	4
Caps	434	2,486	420	3,340	−3	3
Floors	0	3,000	250	3,250	−3	0
	11,601	20,909	23,661	56,171	−626	957
Currency-related transactions:						
Forward exchange transactions	90	0	0	90	−3	0
Interest and currency swaps	0	133	67	200	0	18
	90	133	67	290	−3	18
Total	11,691	21,042	23,728	56,461	-629	975

Completed business transactions largely serve to hedge exchange rate and credit risks of on-balance sheet underlying transactions. The market values of the derivative financial instruments are shown on the basis of the applicable interest rate on 29 June 2018 without taking into account interest accruals. The market values of the derivatives are counteracted by opposing valuation effects of the balance sheet. All derivatives – with the exception of customer derivatives and transactions with Landesbank Berlin – are hedged using collateral agreements. No collateral agreements are used in transactions with Landesbank Berlin due to the group affiliation. In the case of customer derivatives, land charges pledged in relation to the underlying loans also apply as collateral for the derivative transaction.

Staff Statistics

Number of Staff *Average of 01.01.–30.06.2018*	male	female	2018
Full-time staff	274	174	448
Part-time staff	22	118	140
School-leaver trainees / BA students	5	1	6
Total	301	293	594

Information in Accordance with Section 28 German Pfandbrief Act (Pfandbriefgesetz)

Information to be published on a quarterly basis in accordance with Section 28 Pfandbrief Act is published on the Bank website at www.berlinhyp.de.

Statement of the Legal Representatives

"To the best of our knowledge, we give the assurance that, in accordance with the applicable accounting principles for the half-year financial statements, the Bank's half-year financial statements provide an accurate picture of the Bank's actual circumstances of the net assets, financial and earnings situation and that the course of business, including the results and the bank's position, are shown in the Bank's Interim Management Report in such a way that the picture conveyed corresponds to the actual circumstances, and the major opportunities and risks of the probable development of the enterprises during the rest of the financial year are described."

Berlin, July 2018

Klaus **Bergmann** **Berninger**

Report Review by Auditor

To Berlin Hyp AG, Berlin

Wir haben den verkürzten Halbjahresabschluss – bestehend aus verkürzter Bilanz, verkürzter Gewinn- und Verlustrechnung, Eigenkapitalspiegel sowie verkürztem Anhang – und den Zwischenlagebericht der Berlin Hyp AG, Berlin, für den Zeitraum vom 1. Januar bis 30. Juni 2018, die Bestandteile des Halbjahresfinanzberichts nach § 115 WpHG sind, einer prüferischen Durchsicht unterzogen. Die Aufstellung des verkürzten Halbjahresabschlusses nach den deutschen handelsrechtlichen Vorschriften für Halbjahresabschlüsse (Deutscher Rechnungslegungs Standard Nr. 16 Halbjahresfinanzberichterstattung (DRS 16)) und des Zwischenlageberichts nach den für Zwischenlageberichte anwendbaren Vorschriften des WpHG liegt in der Verantwortung der gesetzlichen Vertreter der Gesellschaft. Unsere Aufgabe ist es, eine Bescheinigung zu dem verkürzten Halbjahresabschluss und dem Zwischenlagebericht auf der Grundlage unserer prüferischen Durchsicht abzugeben.

Wir haben die prüferische Durchsicht des verkürzten Halbjahresabschlusses und des Zwischenlageberichts unter Beachtung der vom Institut der Wirtschaftsprüfer (IDW) festgestellten deutschen Grundsätze für die prüferische Durchsicht von Abschlüssen vorgenommen. Danach ist die prüferische Durchsicht so zu planen und durchzuführen, dass wir bei kritischer Würdigung mit einer gewissen Sicherheit ausschließen können, dass der verkürzte Halbjahresabschluss in wesentlichen Belangen nicht in Übereinstimmung mit den deutschen handelsrechtlichen Vorschriften für Halbjahresabschlüsse (Deutscher Rechnungslegungs Standard Nr. 16 Halbjahresfinanzberichterstattung (DRS 16)) und der Zwischenlagebericht in wesentlichen Belangen nicht in Übereinstimmung mit den für Zwischenlageberichte anwendbaren Vorschriften des WpHG aufgestellt worden sind. Eine prüferische Durchsicht beschränkt sich in erster Linie auf Befragungen von Mitarbeitern der Gesellschaft und auf analytische Beurteilungen und bietet deshalb nicht die durch eine Abschlussprüfung erreichbare Sicherheit. Da wir auftragsgemäß keine Abschlussprüfung vorgenommen haben, können wir einen Bestätigungsvermerk nicht erteilen.

Auf der Grundlage unserer prüferischen Durchsicht sind uns keine Sachverhalte bekannt geworden, die uns zu der Annahme veranlassen, dass der verkürzte Halbjahresabschluss in wesentlichen Belangen nicht in Übereinstimmung mit nach den deutschen handelsrechtlichen Vorschriften für Halbjahresabschlüsse (Deutscher Rechnungslegungs Standard Nr. 16 Halbjahresfinanzberichterstattung (DRS 16)), oder dass der Zwischenlagebericht in wesentlichen Belangen nicht in Übereinstimmung mit den für Zwischenlageberichte anwendbaren Vorschriften des WpHG aufgestellt worden ist.

Berlin, den 18. Juli 2018
KPMG AG
Wirtschaftsprüfungsgesellschaft

Kügler
Wirtschaftsprüfer

Ginzinger
Wirtschaftsprüfer

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