A partnership built on trust

Berlin Hyp

150 years is a good start.

Annual Report 2018

Finanzgruppe

Key performance indicators at a glance

18.2 %

Return on equity

6.1 € billion

New lending business
(including capital employed ≥ 1 year)

Aaa

(Moody's)
Pfandbrief issue rating

Excerpt from the Profit and Loss Account in € m	2018	2017
Net interest	315.4	270.9
Net commission income	23.2	39.1
Operating expenditure	151.2	134.8
Risk provisioning	–37.4	–56.2
Operating result	220.4	184.4
Provision for general banking risks	105.0	70.0
Profit transfer	116.4	117.0
Net income for the year	0.0	0.0
Cost-income ratio after bank levy in %	45.2	51.2
Return on equity in %	18.2	16.9

Excerpt from the Balance Sheet in € m	2018	2017
Balance sheet total	27,178	27,123
Mortgage loans	20,223	20,081
NPL[1]	183	256

[1] Screening of NPL portfolio by rating in accordance with EBA guideline from 2017 onwards (previously: risk class); comparable figure for previous year adjusted.

Business Development in € m	2018	2017
New lending	4,893	6,666
Extensions (capital employed ≥ 1 year)	1,226	1,464

Regulatory law key figures[2]	2018	2017
RWA in € m	9,215	9,151
Hard core capital ratio (CET1 ratio) in %	13.5	12.5
Total capital ratio in %	16.8	15.5
Leverage Ratio in %	4.3	4.0

[2] After adoption

Issue ratings	Moody's	Fitch
Hypothekenpfandbriefe	Aaa (stable)	-
Senior Preferred	Aa2 (stable)	A+ (stable)
Senior Non-Preferred	A2	A+ (stable)

Sustainability ratings	oekom	Sustainalytics
	B- (Prime)	86/100 (Leader)

Organs of the Bank and Other Important Functions

Supervisory Board

Helmut Schleweis
→ Chair (since 26 March 2018)
→ President of Deutscher Sparkassen- und Giroverband e.V.

Thomas Mang
→ Chair (from 27 November 2017 to 25 March 2018)
→ President of Savings Banks Association of Lower Saxony

Jana Pabst
→ Deputy Chair
→ Bank employee
→ Deputy Chair of the Works Council of Berlin Hyp AG

Joachim Fechteler
→ Bank employee
→ Member of the Works Council of Berlin Hyp AG

Bernd Fröhlich (since 28 March 2018)
→ Chair of the Board of Management of Sparkasse Mainfranken Würzburg

Gerhard Grandke
→ Managing President of German Savings Banks and Giro Association of Hesse-Thuringia

Artur Grzesiek
→ Former Chair of the Board of Management of Sparkasse KölnBonn

Dr. Harald Langenfeld
→ Chair of the Board of Management of Stadt- und Kreissparkasse Leipzig

Thomas Meister
→ Bank employee
→ Chair of the Works Council of Berlin Hyp AG

Siegmar Müller
→ Chair of the Board of Management of Sparkasse Germersheim-Kandel
→ Landesobmann of the Rhineland-Palatinate Savings Banks Board of Management Members

Reinhard Sager
→ President of German Administrative District Parliament
→ County Council Chairman of East Holstein District

Andrea Schlenzig
→ Bank employee

Peter Schneider
→ President of Savings Banks Association of Baden-Wuerttemberg

Walter Strohmaier
→ Chair of the Board of Management of Sparkasse Niederbayern-Mitte
→ Bundesobmann of the German savings banks

René Wulff
→ Bank employee
→ Member of the Works Council of Berlin Hyp AG

Board of Management

Sascha Klaus
Chair

Gero Bergmann

Roman Berninger

Supervisory Board Committees

→ Staff and Strategy Committee

Helmut Schleweis
Chair (since 26 March 2018)
Deputy Chair (until 26 March 2018)

Thomas Mang
Chair (from 27 November 2017 to
25 March 2018)

Walter Strohmaier (since 26 March 2018)
Deputy Chair

Dr. Harald Langenfeld

Thomas Meister

Andrea Schlenzig

→ Loan Committee

Walter Strohmaier
Chair (since 9 March 2018)

Thomas Mang (until 19 April 2018)
Chair (until 9 March 2018)

Dr. Harald Langenfeld
Deputy Chair

Bernd Fröhlich (since 20 April 2018)

Artur Grzesiek

René Wulff

→ Audit Committee

Thomas Mang (since 26 March 2018)
Chair

Helmut Schleweis (until 26 March 2018)
Chair

Gerhard Grandke
Deputy Chair

Joachim Fechteler

Siegmar Müller

Peter Schneider

Trustee

Christian Ax

Deputy Trustees

Wolfgang Rips

Philip Warner

2018 Supervisory Board Report of Berlin Hyp AG

Berlin Hyp is a subsidiary of Landesbank Berlin Holding AG and an independent commercial real estate financier within the S-Group of the Sparkassen-Finanzgruppe. According to the regulations of the German One-Third Participation Act, its Supervisory Board comprises five members on the staff side and ten on the shareholder side. Apart from the five employee representatives, the Supervisory Board is made up entirely of representatives of the Sparkassen-Finanzgruppe and a representative of the local authorities. It advises and monitors the Board of Management and particularly promotes the networking with savings banks throughout Germany.

In view of the intense competition in commercial real estate financing, the persistently low level of interest rates, the volatile environment of the capital and financial markets and the continuing high regulatory requirements combined with the need to further strengthen equity, Berlin Hyp is very satisfied with the course and results of the 2018 financial year. The Supervisory Board regards Berlin Hyp's performance and its ability to hold its own ground in a difficult market environment while adhering to a conservative risk strategy and culture as steadfast and highly favourable.

In accordance with the legal requirements, the Supervisory Board once again concerned itself promptly, regularly and comprehensively with the position and the development of Berlin Hyp, the planning situation, the risk situation, risk management as well as compliance, both orally and in writing, in 2018. It constantly monitored the actions of the Board of Management and satisfied itself that it was acting properly, deliberated on all relevant aspects in this context and provided recommendations.

Focus of the Supervisory Board's Activities

The subject-matter of all Supervisory Board meetings in 2018 was the Board of Management's detailed reporting on the current business development, including the environment and projects, and the risk situation of Berlin Hyp. The Board of Management also reported regularly on the development of S-Group business, as well as on the external audits currently underway at Berlin Hyp.

In a telephone conference held on 2 February 2018, the Supervisory Board was informed by the Board of Management prior to the preparation of the 2017 annual financial statements about significant items affecting the annual financial statements.

At the balance sheet meeting of the Supervisory Board on 26 March 2018, a new Chair was elected. Thomas Mang, who had temporarily assumed the chair in November 2017, had previously resigned as planned. In addition, a by-election was held to fill the committees and a nomination was made for a new member of the Supervisory Board.

Following the reports made by the Board of Management and the auditors and after intensive consultation and review, the annual financial statements and the Management Report as at 31 December 2017 were approved and thus adopted. In the course of this meeting, the annual reports of Internal Audit and the Compliance Officer as well as the report on the effectiveness of the Internal Control System (IKS) were also discussed and acknowledged.

The Supervisory Board's Report, the Corporate Governance Report and, for the first time, the Sustainability Report were adopted.

The Supervisory Board also passed the necessary resolutions regarding the agenda of the Annual General Meeting of Berlin Hyp.

The Supervisory Board discussed with the Board of Management the achievement of the 2017 targets as well as regulatory issues and their impact on the Bank. In addition, the Supervisory Board was informed about external consultancy costs incurred in 2017.

In accordance with the provisions of the German Remuneration Ordinance for Institutions (IVV), the Supervisory Board took note of the overall bonus pool for employees set by the Board of Management and established the total amount of variable remuneration for the Board of Management. Subsequently, on the basis of the individual achievement of targets, a decision was made on the individual target bonuses of the individual members of the Board of Management and on the payment of conditional bonuses. New targets for 2018 were agreed. In addition, the remuneration guidelines for the Board of Management were adapted to the IVV version amended in the second half of 2017 and the Supervisory Board was informed about the procedure for identifying risk-takers in the company in the past year.

In the meeting on 25 June 2018, the Supervisory Board took note of reports on donations and sponsorships as well as on the status of implementation of the SAP-HANA IT project, in addition to the regular reports (current business development, risk situation, S-Group business, status update on various audits), all of which it discussed with the Board of Management. The Supervisory Board updated the selection and diversity strategy, as well as job descriptions and applicant profiles for future members of the Supervisory Board and the Board of Management. In addition, the Supervisory Board decided on the procedure for its efficiency review and suitability examination.

In the meeting on 21 September 2018, the Supervisory Board defined the key audit issues for the 2018 financial year based on a proposal from the Audit Committee. Furthermore, the half-year financial statement and the interim Management Report as at 30 June 2018 were approved following the reports by the Board of Management and the auditors as well as after consultation and review. The information provided by the Board of Management on the strategic investments and projects BrickVest Ltd., OnSite ImmoAgent, WE-Digital and KPO 4.0 was presented to the Supervisory Board and discussed in detail. After having obtained interpretation aid for the new IVV, the remuneration guidelines for the Board of Management were again slightly adjusted. The selection guidelines for the second management level presented by the Board of Management were found to be appropriate and suitable. The Chair of the Supervisory Board presented a summary report of the findings from the efficiency review and suitability examination of the Supervisory Board and the Board of Management. The review revealed that the Supervisory Board's work is effective and that the members of the Board of Management and Supervisory Board possess the necessary expertise, skills and experience.

In the meeting on 30 November 2018, the Board of Management's periodic reports were supplemented by a presentation on Treasury activities. On a regular basis, the strategy documents were discussed in accordance with the Minimum Requirements for Risk Management (MaRisk). Berlin Hyp's remuneration systems were also reviewed on a regular basis and considered appropriate. The Supervisory Board then took a closer look at the projections for 2018 and the medium-term planning for 2019 to 2023. At the same time, the Supervisory Board updated the Declaration of Compliance in accordance with the German Corporate Governance Code (Deutscher Corporate Governance Kodex, DCGK). The targets for 2019 were agreed for the Board of Management, and it was decided to appoint Sascha Klaus as a member of the Board of Management for a further five years.

Committees of the Supervisory Board

The work of the Supervisory Board of Berlin Hyp is supported by three committees – the Audit Committee (PA), the Staff and Strategy Committee (PSA) and the Loans Committee (KA) – each of which convenes approximately 10 to 14 days prior to Supervisory Board meetings. Afterwards, written committee reports are presented in the Supervisory Board meetings.

The main objective of the PA is to assist in the review and preparation of the adoption of the annual financial statements. Moreover, it is responsible for monitoring the accounting process, the efficacy of the risk management system, the internal management and controlling system, and the functionality of the Internal Audit division. It is also concerned with compliance issues. The PA consists of five members.

The PSA is tasked with HR issues, strategy, planning and fundamental company issues, and it regularly reviews compliance with the German Corporate Governance Code. It also acts as a remuneration controlling and nomination committee. Due to a temporarily vacant position, the PSA consisted of five members until 25 March 2018. Since 26 March 2018, it has once again comprised six members again.

The KA has its own loan approval powers and also acts as the Risk Committee. It therefore primarily deals with loan decisions which exceed the powers of the “overall Board of Management”, as well as with the risk strategy, the regular risk reports and the principles of the loan business policy. Apart from its meetings, written circulation procedures and teleconferences also regularly occur in the KA. The KA consists of five members.

The committees reported regularly and in detail to the Supervisory Board on their work.

Corporate Governance

As an unlisted company, Berlin Hyp is generally not subject to the regulations of the German Corporate Governance Code (DCGK). However, in light of its activities on the capital market, Berlin Hyp has decided to follow the principles of good corporate governance defined in the German Corporate Governance Code. Berlin Hyp has been following the Code since 2002 and has published a Declaration of Compliance each year since then. Details are available in the Corporate Governance Report.

Meetings and Attendance

A total of four plenum meetings and seventeen committee meetings – of which four were teleconferences – were held in the 2018 financial year. In addition, there were two circulation procedures of the Supervisory Board. In 18 circulation procedures of the KA, 21 loan resolutions were made. In one case, the KA took note of a loan resolution that the Board of Management had passed within the scope of its special power to act in urgent matters.

Committee meetings were always held 10 to 14 days prior to the plenum meetings. Members prevented from attending usually participated in the passing of resolutions through voting instructions. With the exception of Reinhard Sager, all Supervisory Board members took part in more than half of the meetings of the plenum and the committees to which they belong. Reinhard Sager sent apologies in advance of each meeting which he was unable to attend, stating his reasons, and delivered a voting message.

The Supervisory Board has passed regulations designed to prevent conflicts of interest. In the 2018 financial year, four members of the body abstained from voting on a resolution to avoid the appearance of a conflict of interest.

Supervisory Board Appointments

After Georg Fahrenschon’s premature departure, Thomas Mang stepped down as interim Chair of the Supervisory Board and of the PSA at the end of 25 March 2018. In the Supervisory Board meeting on 26 March 2018, Helmut Schleweis was elected as the new Chair of the Supervisory Board.

Until 27 March 2018, the Supervisory Board comprised fourteen members. At the Annual General Meeting on 28 March 2018, the shareholders elected Bernd Fröhlich as a member of the Supervisory Board. Since then, the Supervisory Board has again comprised fifteen members – ten shareholder representatives and five employee representatives. Bernd Fröhlich was elected synchronously with the term of office of the current members of the Supervisory Board for the period up to the end of the Annual General Meeting which resolves on the discharge of the Supervisory Board for the 2020 financial year.

Personnel Issues of the Board of Management

There were no changes in the composition of the Board of Management in the 2018 financial year. The Board of Management continues to comprise three members – Sascha Klaus, Gero Bergmann and Roman Berninger.

2018 Annual Financial Statements

The annual financial statements of Berlin Hyp and the Management Report for the 2018 financial year have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, appointed by the Annual General Meeting, taking into account the auditing focus defined by the Supervisory Board, and have received an unqualified audit certificate. The Supervisory Board has acknowledged the audit certificate.

The annual financial statements of Berlin Hyp were prepared in accordance with the provisions of the German Commercial Code (HGB). The accounts, the Management Report and the auditor’s reports were presented to the Supervisory Board before its meetings in time. The Board of Management explained the financial statements and the risk management system in detail at the two meetings of the PA in preparation for the balance sheet meeting and also at the Supervisory Board's balance sheet meeting. The auditor attended these three meetings and reported on the scope, focus and material results of the audit. The auditor came to the overall conclusion that there were no major weaknesses in the internal control system or the risk management system.

The KA also dealt with the audit reports for the 2018 annual financial statements, to the extent that they contain statements on the lending business and risk situation of Berlin Hyp, and raised no objections.

The PA closely examined the documents and recommended that the Supervisory Board approve the annual financial statements. The Supervisory Board approved the results of the audits following inspection of the auditor's reports and detailed discussion, and determined that there were no objections to be raised even after the final results of its own audits. It approved the annual financial statements prepared by the Board of Management. The 2018 annual financial statements are thereby adopted. According to the profit transfer agreement, the earnings for 2018 are transferred to Landesbank Berlin Holding AG. During the audit of the annual financial statements, the Chair of the PA regularly informed himself of the audit's status in consultation with the auditor KPMG.

Sustainability Report (Non-Financial Declaration)

The PA and the Supervisory Board also addressed the 2018 non-financial declaration prepared by the Board of Management. In its role as auditor, KPMG performed an audit review and found no grounds for objection. In the PA meeting in preparation for the balance sheet meeting as well as in the balance sheet meeting of the Supervisory Board, the Board of Management provided a detailed explanation of the documents, while the representatives of KPMG reported on the material findings of their audit and answered follow-up questions by members of the Supervisory Board. The Supervisory Board had no objections after performing its review.

The Supervisory Board would like to thank the members of the Board of Management as well as all employees for the very good results and for their performance in the 2018 financial year.

Berlin, March 2019

For the Supervisory Board

Helmut Schleweis
Chair

2018 Corporate Governance Report

Corporate governance stands for the responsible, transparent management and control of an enterprise that is directed at the long-term creation of added value. Corresponding guidelines have been prepared. These are summarised for German companies in the German Corporate Governance Code (Deutscher Corporate Governance Kodex, DCGK) and were updated on 7 February 2017.

The Board of Management and the Supervisory Board believe firmly that good corporate governance, which is manifested in compliance with the DCGK, is an essential part of the foundation on which the lasting success of the company and the confidence of business partners and employees, as well as the trust of financial markets in our company, is built. The Management Board and Supervisory Board therefore continue to observe the DCGK principles, even though not all of the Code's provisions have been applicable since the Berlin Hyp shares ceased to be listed on the stock exchange, e.g. with regard to the organisation of general meetings with free float.

Board of Management

Berlin Hyp's Board of Management leads the Bank at its own responsibility with the objective of sustainable value creation and in the best interests of the company. It is committed to the principles of good, responsible and efficient business management and control. It manages the Bank in compliance with statutory provisions, the Articles of Association, the Rules of Procedure and the internal company guidelines. The Board of Management develops the strategic orientation of the Bank, agrees on it in consultation with the Supervisory Board and ensures its implementation.

In the 2018 financial year, the Board of Management continued to consist of three persons. Regardless of the overall responsibility of the Board of Management, the individual members lead the divisions assigned to them by the business organisation plan at their own responsibility. The members consistently act for the benefit of the company as a whole. The members of the Board of Management inform each other about all material developments in their divisions and coordinate all measures affecting multiple spheres of responsibility.

The varied expertise of the individual Board of Management members ensures that the Board of Management remains sufficiently diversified. On 26 June 2017, the Supervisory Board set a target of 0 % for the proportion of women on the Board of Management based on the current contractual relationships. The target is initially valid until 30 June 2022. The target will be reviewed when a contract of employment is terminated, a member is reappointed or a new member is appointed.

Supervisory Board

The Supervisory Board of Berlin Hyp, which comprised 14 members until 27 March 2018 and 15 members again since the by-election of a shareholder representative at the Annual General Meeting on 28 March 2018, advises and monitors the Board of Management in the management of the Bank, works jointly with it to ensure long-term succession planning and ensures a degree of diversity in the composition of both the Board of Management and the Supervisory Board that is appropriate to the Bank's business activities. According to the regulations of the German One-Third Participation Act, it comprises five Supervisory Board members on the staff side and ten on the shareholder side. The Chair of the Supervisory Board coordinates the work within the Supervisory Board, chairs its meetings and represents the interests of the Supervisory Board in relation to third parties. The Supervisory Board has formed three committees from its own members. Its functioning is governed by Rules of Procedure.

The employees vote for their representatives in their own election in accordance with the provisions of the German One-Third Participation Act. The Supervisory Board cannot influence the nomination of employee candidates.

The Supervisory Board has decided to pursue the following objectives when new Supervisory Board shareholder representatives are nominated:

The diversity of the Board is established so that the qualifications and personalities of the individual members guarantee optimal supervision of the company in accordance with legal stipulations, including the German Corporate Governance Code, and in the interests of the company, its shareholders and the employees. This requires that all Supervisory Board members have knowledge, in particular, of Berlin Hyp's relevant market environment and its banking business.

The Supervisory Board has recorded the detailed requirements in writing in a selection and diversity strategy. It describes details of the knowledge, skills and experience required for effective monitoring of the Board of Management. These include, in particular, knowledge and experience in the fields of securities, real estate, the capital market and accounting. Independence rules are also defined pursuant to the German Corporate Governance Code. Furthermore, Supervisory Board members should be able to devote sufficient time to the performance of their duties.

In the opinion of the Supervisory Board, all members of the Supervisory Board are independent within the meaning of the DCGK. The members of the Supervisory Board are not subject to any conflicts of interest, particularly any that could result from an advisory function or board membership on behalf of customers, suppliers, lenders or other business partners of the company. Members of the bodies do not participate in the discussion and passing of resolutions by the bodies if conflicts of interest or the impression of a conflict of interest exist in individual cases. In the 2018 financial year, no conflict of interest requiring disclosure arose. In one case, four members of the body abstained from voting to avoid the appearance of a conflict of interest.

According to the equality law provisions of the Equality Act, which are relevant for Berlin Hyp, the Supervisory Board set a target for itself in a resolution dated 26 June 2017 to maintain the status quo of 13 % (two women) with regard to the proportion of women on the Supervisory Board until 30 June 2022. At present, two women are represented on the Supervisory Board. So, the quota has been met.

Attention is given to potential conflicts of interest and compliance with the age limit of 70 years as stipulated in the Rules of Procedure. The age diversity at the end of the financial year was between 51 and 64 years.

As at 31 December 2018, all objectives set by the Supervisory Board with regard to its composition had been implemented.

The Supervisory Board submits itself to efficiency reviews each year. The most recent review was conducted at the Supervisory Board meeting on 21 September 2018 and was based on a detailed questionnaire, as in the past, which addressed relevant topics according to the German Corporate Governance Code and Section 25d (11) Nos. 3 and 4 German Banking Act (KWG) and which each Supervisory Board member was able to individually fill out before the meeting. The findings of the evaluation were then presented by the Supervisory Board Chair at the meeting and jointly discussed and debated by the body. The 2018 review indicated that the efficiency of Supervisory Board activity was given. Furthermore, the Supervisory Board noted that its members have the required knowledge, abilities and experience for the activities of the Supervisory Board and its committees. The thematic delimitation of the committees over the course of time as well as the elected appointments with representatives from the shareholder and employee sides, which allow Supervisory Board decisions to be prepared in a purposeful manner, were mentioned as positive. The written reports from the committees provide the Supervisory Board members with comprehensive information about the discussions of the committees in advance of each meeting.

The members of the Supervisory Board are responsible for obtaining the necessary training and continuing education for their duties at their own responsibility and are supported in this process by Berlin Hyp. The company regularly informs the Supervisory Board about the latest changes in statutory law and offers opportunities for continuing education within the framework of in-house events.

Furthermore, the Staff and Strategy Committee also reviewed compliance with the DCGK using an analysis report prepared internally. This took place at the meeting on 12 November 2018. No objections were raised.

Close Cooperation between the Board of Management and the Supervisory Board

Berlin Hyp's Board of Management and Supervisory Board work together closely based on mutual trust. At least four Supervisory Board meetings usually take place during the financial year, as in 2018. The Supervisory Board monitors and advises the Board of Management with regard to company management. The Board of Management informs the Supervisory Board extensively and promptly on all issues relevant to the company relating to strategy, planning, business development, the risk situation, risk management and bank compliance. The Supervisory Board coordinates the company strategy and its implementation with the Board of Management. It explores deviations in business performance from plans and goals and states the reasons for these.

The Supervisory Board reviews and approves the annual financial statements in consideration of the auditor's reports and decides on the proposed resolutions to be submitted to the Annual General Meeting.

The Board of Management's reporting obligations and duties to inform are stated in specific terms in the Rules of Procedure for the Board of Management. The Supervisory Board has also defined important transactions that the Board of Management may only conduct with the Supervisory Board's consent. The Board of Management continuously exchanges information with the Chair of the Supervisory Board.

The approach to risks in connection with the Bank's business activity is extremely important to the Board of Management and the Supervisory Board. Both bodies require regular reports about risks and their development. Berlin Hyp's risk management system is continually developed further by the bank and is examined by the auditors. The Board of Management passes on information that is significant from a risk standpoint to the Chair of the Supervisory Board without undue delay.

The work of both organs and of the three Supervisory Board committees is regulated in the Rules of Procedure. These are checked regularly to ensure that they are up to date. Adjustments were made in 2018 following the revision of the division of powers for the lending business.

The composition of the Board of Management and the Supervisory Board, as well as the spheres of responsibility of the individual members of the Board of Management, is presented on pages 2 and 98 of the Annual Report.

Efficiency Improvement by Committees

The Supervisory Board has formed three committees to support the work of the Supervisory Board. These are the Staff and Strategy Committee, the Audit Committee and the Loans Committee. The Staff and Strategy Committee also acts as a nomination committee and remuneration controlling committee. The Loans Committee is also active as the Risk Committee pursuant to the German Banking Act (KWG). Written and additional oral reports are used at the Supervisory Board meetings to provide information about the work of the committees. The Chair of the Supervisory Board does not chair the Audit Committee. For details regarding the responsibilities of the various committees and the areas they focused on in 2018, see the Supervisory Board Report in this Annual Report.

Annual General Meeting of the Sole Shareholder

The sole shareholder exercises its rights at the Annual General Meeting. The Annual General Meeting decides on the tasks incumbent upon it by law, including the appropriation of net earnings, discharge of the Board of Management and the Supervisory Board, appointment of the auditor, election of Supervisory Board members, amendments to the Articles of Association and capital measures. Berlin Hyp's shares are held by Landesbank Berlin Holding AG. As a result, the Annual General Meeting of Berlin Hyp takes place as a plenary meeting behind closed doors.

Transparency

The Bank's website provides information about all significant developments and events related to the Bank. For example, the planned publication dates for financial reporting are found in the financial calendar. All annual reports and interim reports are also archived and available on the website. All compliance declarations hitherto provided by the Board of Management and the Supervisory Board pursuant to Section 161 Stock Corporation Act can also be accessed on the company website. Almost all information published by the Bank online is also published in English.

Accounting and Auditing the Annual Financial Statements

Berlin Hyp's annual financial statements in the reporting year were produced in accordance with the German national provisions (German Commercial Code), as there is no statutory duty for Berlin Hyp to produce consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). The annual financial statements, the half-year financial report and any interim reports are published within 90 days after the end of the financial year or 45 days after the end of the respective reporting period.

Before the proposal for selection of the auditor is submitted to the General Meeting, the Supervisory Board obtains a declaration from the auditor as regards existing relations with the Bank or its organs. The current declaration of independence of the auditor dates from 27 February 2019. According to this declaration, there is no doubt about the independence of the auditor. The Supervisory Board has agreed with the auditor that the auditor will report without undue delay on all findings and occurrences that become evident during the conduct of the audit and that are important for the Supervisory Board's tasks. Likewise, it was established that the auditor shall inform the Supervisory Board or make a notation in the audit report if divergences from the German Corporate Governance Code and the Declaration of Compliance issued jointly by the Board of Management and the Supervisory Board are found. No such divergences were found.

Essential Features of the Remuneration System for Board of Management Members and Supervisory Board Members

The remuneration of the members of the Board of Management and the Supervisory Board is published in a separate remuneration report as part of the Management Report. Furthermore, in accordance with the stipulations of the German Corporate Governance Code, the remuneration of the members of the Board of Management and the Supervisory Board is shown individually in the Notes and is broken down into fixed and variable elements.

Directors' and officers' insurance exists for the members of the Board of Management and the Supervisory Board. In order to emphasise the Bank's responsibility and attitude towards the shareholders, a reasonable deductible of at least 10 % of the damage up to one and a half times the fixed annual remuneration was agreed.

Joint Compliance Declaration by the Board of Management and the Supervisory Board

The compliance declaration of the Board of Management and the Supervisory Board pursuant to Section 161 Stock Corporation Act was updated in November 2018. It reads as follows:

1. Berlin Hyp AG has complied with all recommendations of the Government Commission on the German Corporate Governance Code, as revised on 7 February 2017 and announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette, with the exceptions specified in Section 2.

2. Berlin Hyp AG deviates from the following recommendations of the German Corporate Governance Code:
   a) At the time of the conclusion or extension of Board of Management contracts, such contracts have not always included and do not always include a severance cap stipulating that, in the case of premature termination of work for the Board of Management without good cause, severance payments are limited to an amount corresponding to two years' remuneration including ancillary benefits (Section 4.2.3 German Corporate Governance Code).

   The general agreement of severance caps removes the possibility of considering the circumstances of each individual case in case of contract agreements or extensions. For this reason, decisions should be made in each individual case as to whether a severance cap should be agreed.

   b) The Supervisory Board has not decided to impose a general maximum term limit for the length of membership of the Supervisory Board (Section 5.4.1 German Corporate Governance Code).

The general establishment of a maximum term for the duration of membership restricts the possibility of flexible succession regulation. For this reason, nomination is instead decided in the respective individual case regardless of the length of membership duration to date.

3. Since the last Declaration of Compliance was issued on 27 November 2017, Berlin Hyp AG has again complied with all recommendations of the Government Commission on the German Corporate Governance Code, as revised on 07 February 2017 and announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette, with the exceptions specified in Section 2.

Berlin, 28 March 2019

Board of Management and Supervisory Board of Berlin Hyp AG

Content

Management Report

I Principles of the Bank Business Model

Organisational Structure

Berlin Hyp is a stock corporation within Landesbank Berlin Holding AG Group (Landesbank Berlin Holding), Berlin, the majority of whose shares are held by Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG. As a subsidiary of Landesbank Berlin Holding, Berlin Hyp is included in the consolidated financial statements of Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG (smallest and largest consolidation group as defined in Section 285 Nos. 14 and 14a of the German Commercial Code (HGB)). A profit and loss transfer agreement is in place between Berlin Hyp and Landesbank Berlin Holding. The Group structure is as follows:

[1] The names Landesbank Berlin AG and Berliner Sparkasse are used synonymously in the following.

As at 31 December 2018, the Berlin Hyp Board of Management comprised three members who had the following areas of responsibility:

Sascha Klaus (Chair)
- Governance
- Communication and Marketing
- Lending (Real Estate and Capital Market)
- Staff (from 01 December 2018)
- Internal Audit
- Company Strategy
- Valuation

Gero Bergmann
- Staff (until 30 November 2018)
- Portfolio Management (from 01 January 2019)
- Treasury
- Sales Real Estate Financing

Roman Berninger
- Financing and Banking Operations
- Information Technology
- Risk Controlling
- Company Organisation

With a view to the future challenges facing Berlin Hyp – in particular digitisation, further development of information technology and the requirements of banking supervision – adjustments were made to the organisational structure at the end of the year. The Portfolio Management division was newly created and the Central Sales / International Business and S-Group / Domestic Business divisions were combined to form the Sales Real Estate Financing division. Since then, Berlin Hyp has been organised in 14 divisions with 45 departments and eleven teams.

The Supervisory Board of Berlin Hyp has three committees: the Loan Committee, the Staff and Strategy Committee and the Audit Committee.

Business Activities

Berlin Hyp is a banking institution that specialises in commercial real estate finance and combines experience from 150 years in the real estate lending business with the foresight and effectiveness to address current market trends in order to develop future-oriented products and services for professional customers.

Under the umbrella of Landesbank Berlin Holding, Berlin Hyp is the S-Group partner and competence centre for the commercial real estate financing operations of the German savings banks. In addition to its current offering of syndicate financing and support in valuation and restructuring, above all products such as the secured ImmoSchuldschein, ImmoAval and ImmoKonsortial generate particular added value to savings banks.

As a real estate sector partner, Berlin Hyp is one of the first ports of call for investors and housing societies looking for flexible financing solutions as well as expert yet personal support. Through its business model, today Berlin Hyp focuses on real estate financing in economic centres in Germany and select foreign markets.

On the capital market, Berlin Hyp is valued as a recognised and reliable partner that regularly issues covered and uncovered bonds. The mortgage Pfandbrief has consistently and lastingly proven its value as the leading means of refinancing.

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, Paris and Warsaw.

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 products 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. The Agency Desk service unit provides special services relating to the syndicate business.

In addition to its broad product range, Berlin Hyp also offers products specially developed for German savings banks. These include, for example, the products "ImmoSchuldschein", which enables savings banks to participate in the return opportunities offered by commercial real estate financing, and "ImmoAval", which provides for liability sharing via a guarantee with simple documentation. "ImmoAval" will be offered in perspective via a digital portal solution. The product range for savings banks is supplemented by the classic syndicate business, the "ImmoKonsortial".

Furthermore, Berlin Hyp offers savings banks the "ImmoRiskDialog" product as a comprehensive analysis of non-performing real estate financing.

Since September 2018, the wholly-owned subsidiary "OnSite ImmoAgent" has been offering commercial real estate viewing services for both savings banks and the market in general.

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 of Green Pfandbriefe and Green Senior Unsecured Bonds. 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.

Locations

Germany and throughout Europe

Berlin
Dusseldorf
Frankfurt am Main
Hamburg
Munich
Stuttgart

Objectives and Strategies

The Berlin Hyp Board of Management has summarised the company strategy in a strategy document. It describes the business strategy that forms a binding strategic framework for the Bank's business activities. The operating targets and functional strategies are derived from this.

Berlin Hyp pursues two strategic goals:

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

As a result of the 2018 Strategy Dialogue, Berlin Hyp underpinned its new strategic orientation with four guiding principles:

→ We are all innovation drivers.
→ We advise holistically and form an ecosystem with our customers and business partners.
→ We promote excellence in old and new ways.
→ #sharinginspiration

Berlin Hyp has launched a digitisation initiative with the objective of modernising its traditional business model and increasing efficiency. Among other things, the bank also examines cooperation with suitable companies and start-ups and jointly develops future business models and new products.

For savings banks, Berlin Hyp wants to be the S-Group partner for commercial real estate financing within the Sparkassen-Finanzgruppe and make a contribution to the success of the Sparkassen-Finanzgruppe with its expertise, products and services.

In order to strengthen the S-Group concept, the sales structure for savings banks is decentralised and geared to their needs. Regional savings bank advisors and valuers advise the savings banks from their offices in Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart. A Savings Banks Advisory Council, made up of members of the Boards of Management of selected savings banks, advises Berlin Hyp twice a year on all issues relating to the S-Group business.

Berlin Hyp positions itself on the market as a sustainable company and thereby claims a leading position (sustainability rating). Berlin Hyp has set itself the goal that 20 % of its overall portfolio will be composed of green financing by the end of 2020.

This goal is supported in particular by the development of sustainable products (e.g. green bonds), efforts to promote the financing of sustainable real estate, cooperation with innovative businesses/start-ups, the implementation of a comprehensive sustainability and environmental management system and the promotion of employees' social commitment.

Goals for 2020

20 %

of the loan volume should be composed of so-called green building financing by 2020

Management System

Berlin Hyp's business policy is managed on the basis of an annually repeated strategy and planning process. This is carried out in compliance with regulatory requirements and the risk strategy approved by the Board of Management. It is therefore risk- and value-oriented, and is generally based on the process stages of planning, implementation, assessment and adjustment. The Bank's 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 regulatory requirements. 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 significant financial performance indicators for the management of its business activities:

- → 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 operating results before income tax and profit transfer plus the change in the special item for general banking risks in accordance with Section 340g of the German Commercial Code (HGB) to average balance sheet equity including the special item for general banking risks in accordance with Section 340g of the German Commercial Code (HGB)
- → Common equity tier 1 (CET1) ratio: ratio of eligible regulatory core equity to the total risk-weighted assets
- → New business

The Bank's management also relies on other financial performance indicators. For example, the liquidity coverage ratio (LCR) and the currently still non-compulsory leverage ratio (LR), both of which will become more important in the future.

Non-Financial Performance Indicators

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

- → Market: new customer recruitment, target portfolio, S-Group business
- → FTE: full-time equivalent (employee capacity)
- → Sustainability: green issues, green financing, sustainability rating and compliance

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

II Economic Report – Macroeconomic and Sector-Related Framework Conditions

Macroeconomic Development

In 2018, the global economy again recorded strong growth overall. However, as expected, the momentum slowed over the course of the year, largely due to the open trade conflict between the US and China. In addition, growth in emerging markets slowed as a result of the FED's tightening of monetary policy and the associated movement of capital flows towards the US.

Contrary to our assumptions, GDP growth rates in the euro zone declined significantly, which, following the very strong economic development of the previous year, is more like normalisation and does not yet indicate an end to the upward trend. In particular, the high level of political uncertainty due to a pending excessive deficit procedure against the Italian government and the ambiguities regarding the conditions for the United Kingdom's withdrawal from the European Union were the main reasons for the decline in growth momentum.

With the exception of one damper in the third quarter, Germany's economy was robust in 2018, but it was not possible to match the high growth rates of the previous year. In addition to the uncertainties affecting the global economy and the euro zone, the main reasons for the economic slowdown were special seasonal factors at the beginning of the year and, especially in the third quarter, a drastic decline in production in the automotive industry. This temporary effect was due to problems with the new model certification process for exhaust emissions and energy consumption (WLTP). Nevertheless, the cornerstones of Germany's positive economic development remained intact. In the course of the very good situation on the labour market, there were noticeable wage increases, which stimulated private consumption. Together with the ECB's favourable monetary environment, this continued to create a very favourable investment and financing climate, which, given the geopolitical risks, was reflected not so much in business investment as in construction investment, which continued to grow strongly and was only capped by reaching capacity limits.[1]

[1] Sources for macroeconomic framework conditions: German Institute for Economic Research (DIW), Kiel Institute for the World Economy (IfW).

Industry Development

Developments on the interest rate markets on both sides of the Atlantic varied greatly in 2018. In the US, the FED continued the course it took in 2017 and, on the basis of a robust economy, increased the key rate for supplying commercial banks with money in four interest rate steps to 2.25 to 2.50 %. A further increase in interest rates is expected for 2019.

In the euro zone, 2018 was characterised by a continued low general interest rate level. However, at its Council meeting on 14 June, the ECB announced the closure of the Assets Purchase Programme (APP), which had been in place since January 2015, by the end of the year. As a first step, the monthly purchase volume was initially reduced from € 60 billion to € 30 billion in January. A further reduction to € 15 billion took place from September. However, the not inconsiderable maturities should continue to be reinvested as long as necessary. The Central Bank announced that key interest rates would remain at current levels until at least the end of summer 2019, depending on inflation trends. On the basis of the latest economic data and the ECB's current statements, an increase appears unlikely in the further course of 2019. Monetary policy thus remains expansionary, albeit to a lesser extent.

In addition to Central Bank policy, events on the capital market in the year under review were dominated by various political issues. Initially the focus was on areas of conflict such as the nuclear dispute between the US and North Korea or Iran, or the currency decline of the Turkish lira, but these were quickly replaced in the course of the year by the still decisive issues such as the trade dispute between the US and China, Brexit and the budget discussions between the EU Commission and the new Italian government. Against this background, no overriding trend emerged in interest rates on the swap and government bond markets during the reporting period. Driven by good economic prospects, the yields on ten-year swaps initially increased significantly in the first quarter to a peak of 1.17 %, before closing at 0.83 % at the end of the previous year after major fluctuations. Ten-year German government bonds showed a similar pattern of movement, which peaked at 0.76 % and ended the year at 0.23 %.

The slow exit from the quantitative easing measures of the European Central Bank is also making itself felt in the spreads of European covered bonds. While issues were placed at the beginning of the year with significantly negative risk premiums compared with swap rates, investors demanded increasingly higher risk premiums in the course of the year, so that by the end of the year covered bonds from many jurisdictions had been priced back to levels seen before the ECB's purchase programme. The spreads of German and French covered bonds widened by an average of 17 and 24 base points respectively since January, while Italian (+70 base points) and British covered bonds (+30 base points) suffered particularly from the ongoing political discussions in 2018. The market for uncovered bank bonds continues to show strong name differentiation. Overall, however, the widening dynamics of spreads in the covered market over the course of the year also had an impact on the senior market. On average, the risk premiums of European banks for non-preferred bonds widened by 68 base points and those of preferred bonds by 42 base points.

Like the years before it, 2018 was characterised by further tightening and expansion of regulatory requirements, respectively. One example is the CRR / CRD IV phase-in, which primarily imposed stricter minimum requirements for capital ratios, the definition of equity and deduction items. The most important driver is the increase in the capital conservation buffer.

Fulfilment of the revised and expanded reporting obligations – including AnaCredit, Supervisory Benchmarking Portfolio, disclosure – resulted in significant implementation work. In addition, banks had to deal with considerable Single Resolution Board (SRB) data requests regarding the creation of individual winding-up plans for each institution. Meanwhile, the ongoing trilogue negotiations with the aim of finalising CRR II/CRD V and the planning processes for the proposed regulatory amendments under Basel IV were simulated using a range of scenario calculations. The capital/output floor envisaged in the final Basel IV resolutions of December 2017 will significantly burden the Bank's capital ratios as a FIRB institute (foundation internal ratings-based approach). As with previous regulations, a phase-in is planned. It is expected to become effective from 2022, following implementation in the European regulations.

The final version of the "ECB Guide to the internal capital adequacy assessment process (ICAAP)" was published in November 2018 and is to be applied as at 1 January 2019. The requirements and necessary measures for implementation were analysed; the Group and Berlin Hyp adopted the necessary resolutions for implementation from 1 January 2019. Final adjustments will be implemented from the beginning of 2019. The measures also include no longer including capital components of a subordinated nature as risk-covering assets from 1 January 2019, as specified in the Guide. The risk-bearing capacity calculations as at 31 December 2018 are performed as described in the Risk Report's explanation of risk-bearing capacity.

The German residential and commercial real estate markets benefited from the robust macroeconomic conditions and the favourable financing and investment climate in Germany. In 2018, more than € 60 billion was invested in German commercial real estate, thus exceeding the previous record result of 2017 (€ 57.6 billion). Commercially traded residential properties (upwards of 50 residential units) were also very popular with investors. With a transaction volume of just under € 17.2 billion, the investment market for residential real estate recorded an increase in turnover of 10 % in 2018.

As in the previous year, the once again very high transaction volumes in 2018 confirm Berlin Hyp's expectation of strong momentum in the German real estate investment market.

In 2018, investors focused in particular on Germany's top 7 real estate centres. With a share of 55 %, Germany's largest cities accounted for slightly more than half the total volume of commercial transactions.

The dominance of the top 7 cities is also a result of lively investment activity in the office sector and high demand on the office rental markets, and is an expression of the fact that investors there expect further growth potential in terms of population and economic performance. However, peak net initial yields in the top 7 cities fell only slightly in 2018 or in some cases remained at the 2017 level. Large individual transactions in the top locations but also nationwide portfolio transactions meant that the office segment remained the asset class with the highest turnover in 2018 (around € 32 billion). Compared to the previous year, the capital invested in office properties rose by 15 % in 2018 and thus more strongly than for all other types of property use.

By contrast, retail real estate recorded a decline in invested capital. Despite the Karstadt/Kaufhof merger, retail real estate with a volume of around € 10.5 billion ranks third behind office and residential real estate with a share of 14 % of the commercial transaction volume (2017: 19 %). Although specialist shops and supermarkets as well as high-street properties continue to be highly popular with investors, there is uncertainty among investors regarding shopping centres. Larger shopping centre transactions were absent in 2018, especially due to a lower supply and diverging price expectations among buyers and sellers. Buyers are already pricing in the lower willingness of tenants to pay and consequently the fear of falling effective rents.[2]

[2] Sources for the sector-related environment: BNP Paribas Real Estate, CBRE, JLL, Savills.

Business Development

The 2018 financial year was very pleasing for Berlin Hyp despite the continuing challenging environment, such as the ongoing low interest rate phase, high regulatory requirements and strong competition in commercial real estate financing. The sustained positive development on the relevant real estate markets benefited the course of the financial year as well as the Bank's brand strength. Berlin Hyp was able to hold its own well in the highly competitive market and consolidate its position as one of the leading commercial real estate financiers. In selecting its borrowers, the Bank remained true to its conservative risk strategy and continued to focus on financing first-class real estate.

In the year under review, Berlin Hyp pushed ahead with the future-oriented "berlinhyp21" process and achieved a great deal in the key areas of digitisation and modernisation of the IT system landscape. In addition to the establishment of a new subsidiary and the acquisition of a further shareholding, existing cooperations were also intensified and innovative product ideas derived from them.

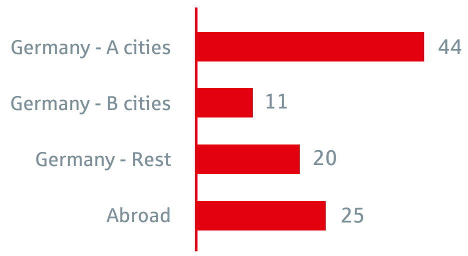
The Bank is responding to the increasing regulatory requirements and the need to network back office and front office processes more efficiently in the future by making extensive adjustments to its processes and IT systems. Berlin Hyp has made good progress on its way to implement the SAP core banking system and has thus created the basis for rapid availability of data and reports with unchanged high quality. Berlin Hyp, as an institution in the regulatory group of Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG, is supervised by the ECB. All regulatory requirements and performance indicators were met by Berlin Hyp in the financial year.

New Lending Business Down as Planned Compared to Last Year

For the year 2018, Berlin Hyp reports contracted new business of € 4.9 billion and is thus, as expected, below the outstanding result of the previous year (€ 6.7 billion). With realised extensions (capital employed ≥ 1 year) of € 1.2 billion (€ 1.4 billion), this put the total new business volume at € 6.1 billion (€ 8.1 billion). This result enabled Berlin Hyp to reach its target level and further consolidate its position in the real estate market.

The distribution of new business as at 31 December 2018 was as follows:

Regions
in %

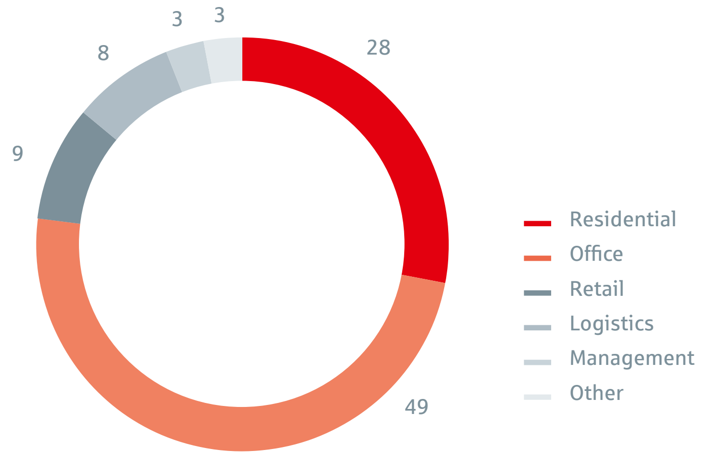


The financing of foreign properties was distributed among the lending regions of Benelux (18 %), France (6 %) and Poland (1 %).

With a share of 62 %, the investors' customer group accounted for the lion's share of new lending. Another 29 % was realised with developers and builders. Contracts with housing societies accounted for 9 % of new business.

As at 31 December 2018, the distribution by property type was as follows:

New Real Estate Financing Business (without Extensions) by Property Type
in %



Public Sector Lending Reduced Further in Line with Strategy

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 2018 financial year. Loan volume decreased by € 0.2 billion to € 0.6 billion and is being reduced further as and when individual loans become due.

Volume in S-Group Business Doubled

The business realised jointly with the savings banks developed extremely positively in 2018. A total volume of € 2.9 billion was realised, doubling the total volume of the previous year (€ 1.5 billion). Joint syndication business with savings banks accounted for € 1.5 billion (€ 1.4 billion). In addition, € 346 million (€ 121 million) related to an ImmoSchuldschein arranged by Berlin Hyp and secured by a commercial portfolio in Berlin was realised. The total of five completed transactions of the ImmoAval product were subscribed by 32 savings banks with a total volume of € 1.1 billion in the 2018 financial year. So far, a total of 134 institutions from all S-Group regions participated in financing by Berlin Hyp in the form of ImmoSchuldschein, ImmoAval and syndication business.

By expanding its range of products and services for savings banks, Berlin Hyp is responding to the wish of the savings banks for further diversification of investment opportunities and additional services, and consolidating its position as the S-Group partner of the savings banks.

Excellent Refinancing Position

Mortgage Pfandbrief and unsecured bond issues are generally used for the medium-to-long-term refinancing of Berlin Hyp. In 2018, the Bank borrowed € 4.6 billion in capital (€ 3.3 billion) using these instruments. The Bank had market access at all times. Berlin Hyp continues to benefit from the reputation it has built up over many years as a reliable and sound issuer and its involvement in the Sparkassen-Finanzgruppe. With a total of five benchmark transactions and four sub-benchmark transactions or increases, the Bank was a regular issuer on the syndicated bond market. These included the issue of the first ever syndicated senior preferred bond issued by a German bank and a five-year anniversary Pfandbrief to mark the Bank's 150th anniversary. With a green Senior Unsecured Bond and a green Pfandbrief, Berlin Hyp also issued two green bonds in one year for the second time in succession. After a successful roadshow, the latter met with above-average interest from abroad with an allotment of 58 %.

Equity Position Strengthened through Further Additions

The common equity tier capital 1 ratio after adoption of the annual financial statements is 13.5 % (12.5 %). The total capital ratio was 16.8 % (15.5 %). The bank added a further € 105 million to the reserves pursuant to Section 340g German Commercial Code (HGB), which led to an increase in capital ratios with relatively constant risk assets. The capital ratios that exceed the Bank's objectives also offer corresponding growth prospects for 2019.

Earnings Situation

Earnings Expectations Clearly Exceeded

In its forecast for the 2018 financial year, Berlin Hyp assumed that the result before profit transfer would be noticeably lower than the exceptionally good result of 2017 if the general conditions remained difficult. Against the backdrop of the historically low interest rate environment, stricter regulatory requirements and intense competition in commercial real estate financing, the Bank is therefore very satisfied with the course of business. The operating result after risk provisioning increased significantly to € 220.4 million (€ 184.4 million). The Bank used the positive economic development to strengthen its regulatory equity. A further € 105.0 million (€ 70.0 million) was allocated to the special item for general banking risks pursuant to Section 340g German Commercial Code (HGB) in 2018. At € 116.4 million, the profit transfer to Landesbank Berlin Holding was thus only slightly below the comparable figure for the previous year of € 117.0 million and significantly better than expected. The main reasons for this development are described in the following sections.

Increased Net Interest Income

In comparison to the previous year, net interest income increased by € 44.5 million to € 315.4 million. In addition to the increase in the average mortgage loan portfolio and the significant reduction in interest expenses, special effects, including the pro rata waiver of interest payable of € 16.7 million for the Deutsche Bundesbank's targeted longer-term refinancing operations (TLTRO-II), had a positive impact. The Bank participated in the Bundesbank's programmes in 2016 and 2017, raising a total of € 2.0 billion. According to the terms and conditions, the Deutsche Bundesbank granted Berlin Hyp a waiver of the interest payable and principal debt retroactively over the entire term of the loan, as the Bank's net lending in the specified period was above the reference level.

Prepayment charges of € 16.6 million in connection with unplanned repayments and further one-time earnings from option premiums, for example, were partially neutralised with compensating measures to avoid future interest charges.

The low interest rate environment in conjunction with a flat yield curve remains challenging as before.

Decrease in Net Commission Income as Expected

Compared with the previous year, net commission income fell by € 15.9 million to € 23.2 million. In addition to the lower level of new loan business, the decline is due to the fact that processing fees are largely reflected in interest margins and are spread over the term of the loans on the basis of the German Federal Court of Justice (BGH) rulings on credit processing fees of 4 July 2017.

Increased Administrative Expenses

Operating expenditure comprises staff expenditure, other operating expenditure and write-offs on fixed assets and intangible assets. At € 151.2 million, they were € 16.4 million above the previous year's figure, as expected.

As planned, staff expenditure increased by € 10.2 million to € 83.8 million. The increase resulted primarily from higher pension obligations due to the consideration of the new 2018 Heubeck Guideline Tables and further parameter and interest rate adjustments, in particular due to the decline in the average actuarial interest rate of the past ten financial years used for valuation purposes.

Other operating expenditure primarily includes IT expenditure, legal and consulting costs, the expenses from the annual payment of the European banking levy and the allocation of the administrative holding costs of the managing institution under regulatory law. The digitisation activities carried out in the 2018 financial year in conjunction with the optimisation and improvement of business processes led to an increase in consulting and IT costs in particular and thus to an increase in other administrative expenses by € 5.6 million to € 61.5 million. In view of the large number of strategic projects as well as the increasing demands on information technology and regulatory reporting requirements, their increase can be seen as a future-oriented investment and developed according to plan.

Operating Result
(after risk provisioning)

€ 220.4 million

€ 184.4 million

There was an increase in write-offs on fixed assets and intangible assets by € 0.6 million to € 5.9 million.

Other Operating Result Improved

The other operating result amounted to € – 4.4 million (€ – 47.0 million in 2017). It comprises expenses from the increase in the provision for strategic resource planning as well as income from the partial reversal of the provision for legal risks arising from the German Federal Court of Justice (BGH) rulings of 4 July 2017 on credit processing fees. Both provisions were formed in 2017. In addition, the other operating result mainly includes expenses from the ongoing compounding of pension provisions.

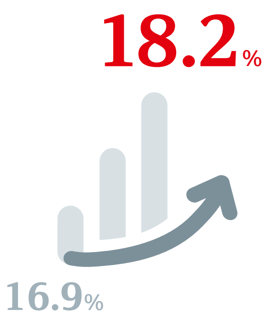
Lower Cost-Income Ratio

The cost-income ratio expresses the relationship of operating expenditure to net interest and commission income, including the other operating result. The increase in net interest and commission income and the positive development of other operating income more than compensated for the increase in administrative expenses due to special effects. Accordingly, the cost-income ratio fell from 51.2 % to an encouraging 45.2 %.

Risk Provisioning Benefits from Framework Conditions

For the lending business, net risk provisions of € 15.5 million were released. The reversal amount is thus € 18.0 million below the previous year's reversal of € 33.5 million. Active risk management and the positive development of the economic and business environment favoured credit risk provisioning and enabled the Bank to build up additional contingency reserves in the year under review. Berlin Hyp appropriately accounted for recognisable and latent risk. A detailed overview of the development of the valuation of lending business and adjustments is presented in the Notes.
Income of € 21.9 million was reported from the valuation result for securities in the liquidity reserve. This is slightly below the positive valuation result of € 22.7 million recorded in the previous year. It primarily includes realised gains on disposal from the sale of debentures as well as valuations of securities in the liquidity reserve at the lower of cost or market.

Return on Equity



Positive Net Income from Investments

Net income from investments of € 1.2 million primarily resulted from gains on disposal. In the previous year, net income from investments amounted to € 3.2 million.

Fund for General Banking Risks Increased

In order to continue to meet the increased equity capital requirements for credit institutions, the Bank made use of the positive business development and added € 105.0 million (€ 70.0 million) to the special item for general banking risks. The item now stands at € 328.0 million.

Operating Result Before Income Taxes and Profit Transfer Significantly Above Expectations

Due to the increased allocation to the special item for general banking risks, earnings before taxes on income and profit transfer fell slightly by € 1.0 million to € 116.4 million (€ 117.4 million).

Profit and Loss Transfer Agreement

Profit of € 116.4 million was transferred to Landesbank Berlin Holding (€ 117.0 million).

Return on Equity Increased

Including the increase in the special item for general banking risks pursuant to Section 340g German Commercial Code (HGB), Berlin Hyp's return on equity was 18.2 % (16.9 %) and therefore noticeably exceeded expectations.

Earnings Development	1.1.2018 – 31.12.2018 € m	1.1.2017 – 31.12.2017 € m	Change € m	Change %
Net interest and commission income	**338.6**	**310.0**	**28.6**	**9.2**
Net interest	315.4	270.9	44.5	16.4
Commission income	23.2	39.1	−15.9	−40.7
Operating expenditure	**151.2**	**134.8**	**16.4**	**12.2**
Staff expenditure	83.8	73.6	10.2	13.9
Other operating expenditure	61.5	55.9	5.6	10.0
of which: expenditure for bank levy	*10.6*	*10.1*	*0.5*	*5.0*
Write-offs on fixed assets	5.9	5.3	0.6	11.3
Other operating revenue/expenditure	−4.4	−47.0	42.6	90.6
Operating result before risk provisioning	**183.0**	**128.2**	**54.8**	**42.7**
Risk provisioning	**37.4**	**56.2**	**−18.8**	−33.5
Valuation of lending business	15.5	33.5	−18.0	−53.7
Valuation of securities business	21.9	22.7	−0.8	−3.5
Operating result after risk provisioning	**220.4**	**184.4**	**36.0**	**19.5**
Net income from investments	1.2	3.2	−2.0	−62.5
Fund for general bank risks	105.0	70.0	35.0	50.0
Other taxes	0.2	0.2	0.0	0.0
Operating result before income taxes and profit transfer	**116.4**	**117.4**	−1.0	−0.9
Income taxes ("−" = earnings)	0.0	0.4	−0.4	-
Profits transferred on the basis of the profit transfer agreement	116.4	117.0	−0.6	−0.5
Net income for the year	**0.0**	**0.0**	**0.0**	**-**

Assets Situation

Balance Sheet Total Virtually Unchanged

Compared with the previous year, total assets as at 31 December 2018 increased slightly by € 0.1 billion to € 27.2 billion. On the assets side, the decline in the portfolio of fixed-interest bonds was offset by an increase in deposits with the Bundesbank. The individual balance sheet items developed overall in line with the Bank's strategic orientation.

Changes in Material Balance Sheet Items

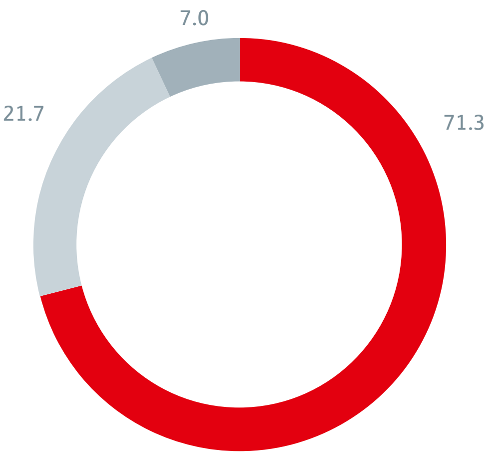
Claims against banking institutions increased by € 0.6 billion to € 1.0 billion in the reporting year. The increase is mainly attributable to higher time deposits.

Loans and advances to customers amounted to € 20.9 billion and were thus at the previous year's level. As part of the reduction of the municipal loan business in line with our strategy, its portfolio was reduced by € 0.2 billion to € 0.6 billion. Meanwhile, the mortgage loan portfolio grew slightly by € 0.1 billion to € 20.2 billion. The development of the mortgage loan portfolio was deliberately weakened by the Bank's active portfolio management in order to create early scope for the expected core business growth in 2019. The amount of loans committed but not yet disbursed remained unchanged in comparison with last year at € 2.2 billion.

The portfolio of debentures and other fixed-interest securities decreased from € 4.6 billion to € 3.1 billion in 2018. Nominal maturities of € 0.5 billion and sales of € 1.9 billion stood in contrast to additions of just € 0.9 billion.

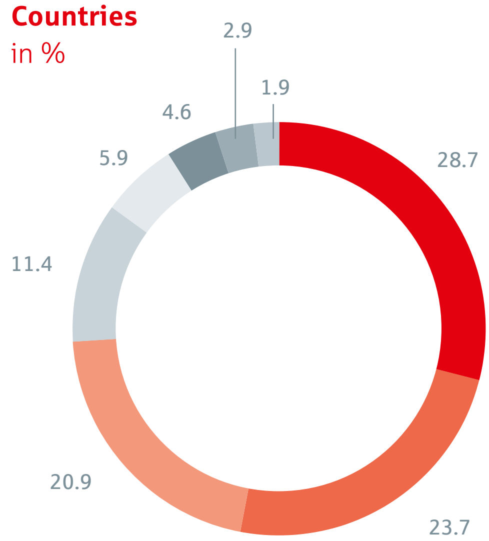
As at 31 December 2018, the issuer structure of the securities portfolio was as follows:

Issuer structure
in %



Foreign issuers
Public-law bodies
Banks / financing institutions

Countries
in %



Germany
Supranational
Scandinavia
France
North America
BE / NL / LUX
UK
Austria

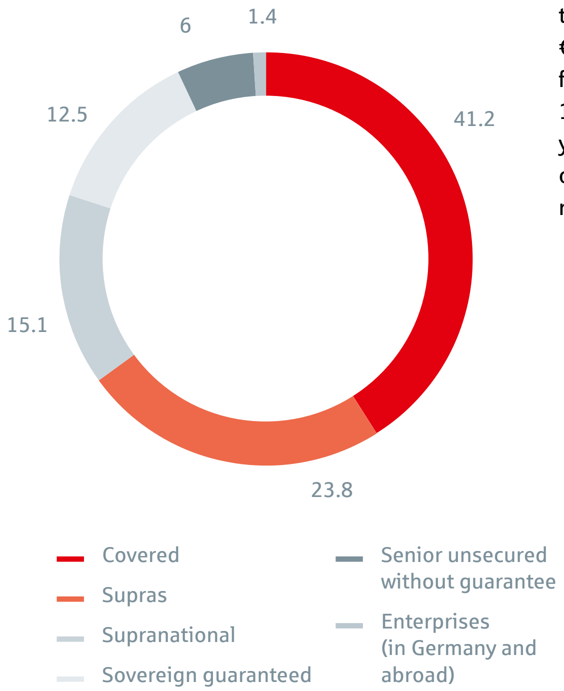
Securities with a nominal volume of € 0.3 billion (€ 0.5 billion) are valued as fixed assets, since they are not classified as a liquidity reserve and partially serve to cover Pfandbriefe issued by the Bank.

Liabilities to banking institutions decreased by € 0.9 billion to € 4.0 billion. Both Lombard liabilities and time deposits decreased by € 0.4 billion and € 0.3 billion, respectively.

Deposits from customers fell significantly compared to last year by € 1.2 billion to € 4.9 billion, mainly due to lower borrowings of time deposits.

Securitised liabilities increased significantly from € 13.6 billion to € 15.8 billion. Maturities of € 2.7 billion were offset by new issues of € 4.9 billion.

Lending Risk
in %



Equity

Berlin Hyp's subscribed capital amounted to € 753,389,240.32 as at 31 December 2018. It is fully paid up and divided into 294,292,672 bearer shares. The shares have a theoretical par value of € 2.56. Furthermore, as at 31 December 2018 the special item for general banking risks pursuant to Section 340g German Commercial Code (HGB) was € 328.0 million (€ 223.0 million). In addition, regulatory subordinated capital of € 257.4 million is available, which was increased by issues totalling € 75.0 million in the fourth quarter of 2018. The purpose of the issues was to strengthen the eligible supplementary capital, which has since been reduced by maturities and shortened residual terms.

During the reporting year, the requirements with respect to regulatory capitalisation (CRR/CRD IV, Solvency Regulation) were consistently complied with. Berlin Hyp identifies regulatory capital backing for counterparty default risk using the IRB (internal ratings-based) approach. Operational risk is calculated using the Advanced Measurement Approach (AMA). The common equity tier 1 capital after adoption was € 1,243.6 million as at 31 December 2018, equity was € 1,552.4 million and the total risk-weighted assets (RWA) amounted to € 9,214.9 million. The capital ratios were 13.5 % for the common equity tier 1 capital ratio and 16.8 % for the total capital ratio. In the financial year, the capital ratios fluctuated in the range of 11.8 % to 13.5 % and 14.4 % to 16.8 %, respectively.

Additional Performance Indicators

The leverage ratio calculated according to the Delegated Regulation (EU) 2015/62 was 4.3 % after adoption as at 31 December 2018. The balance-sheet-oriented minimum requirement for eligible liabilities (MREL) will probably not become relevant for reporting until 2020 when CRR II takes effect. As of 31 December 2018, it amounted to 25.2 % based on the balance sheet total (comparable with TLOF) and 78.5 % based on the total risk-weighted assets (RWA).

Mandatory minimum requirements that need to be met have not yet been defined by the regulatory authorities for either of these performance indicators – the draft version of CRR II stipulates a minimum of 3 % for the leverage ratio. For the MREL, a target value for 2019 has been set at Group level – an institution-specific specification on the part of the resolution authority is to be expected as a result.

Financial Position

The refinancing funds raised in the reporting period amounted to € 4.6 billion. Of this amount, € 2.8 billion were attributable to mortgage Pfandbriefe and € 1.0 billion to unsecured bank bonds, which were obtained at very favourable conditions. Demand for private placements also picked up in the period under review, with spreads rising slightly and interest rates rising in the meantime. Around € 0.3 billion were placed in covered format and nearly € 0.5 billion in uncovered securities (including € 75 million tier 2 instruments).

In the course of the year, the Bank issued four benchmark mortgage Pfandbriefe and also carried out two reopenings of existing bonds in the amount of € 250 million. In the uncovered segment, Berlin Hyp issued its third green senior unsecured (non-preferred) bond of € 500 million with a ten-year maturity, followed by the first syndicated senior preferred bond of € 300 million with a five-year maturity. Shortly before this, the amendment to Section 46f German Banking Act (KWG) came into force in Germany. Since then, German banks are able to issue senior bonds in newly created and eligible preferred status as well as in the subordinated non-preferred status. The debut bond was increased to € 500 million in October.

In the covered area, the five-year anniversary Pfandbrief on the occasion of the 150th anniversary of the Bank in May and the Green Pfandbrief issue in October, both in benchmark format, are particularly noteworthy. The former was issued in May (€ 500 million) and increased by € 250 million in August. The majority of the issue, 66 %, went to domestic investors, followed by investors from Benelux (18 %) and Asia (10 %). The seven-year Green Pfandbrief had an order book of over € 950 million at mid-swap -6 basis points. 58 % of the bond was placed abroad. 45 % of the bond went to SRI investors. Berlin Hyp thus placed its sixth green bond within three and a half years and remains the most active issuer of green bonds in Europe in the segment of commercial banks. In 2018, the Bank's commitment to the Green Bond market was again honoured several times at the GlobalCapital Sustainable and Responsible Capital Market Awards in the "Best Green Issuer for Impact Reporting" and "Most impressive Green Covered Bond Issuer" categories.

A total of seven of Berlin Hyp's outstanding debt securities with a nominal total volume of € 82 million are classified as structured bonds that are not subordinated in favour of deposits within the meaning of Section 46f German Banking Act (KWG).

Within the framework of the insolvency hierarchy's adjustment in Section 46f KWG, Moody's introduced a new senior preferred and senior non-preferred rating. The unsecured bonds are rated Aa2 and A2, respectively. Fitch rated both categories with an A+. In each case, the outlook is stable. Moody's ratings for Berlin Hyp's Mortgage Pfandbriefe and Public Pfandbriefe also remained unchanged at Aaa with a stable outlook.

Aaa
from Moody's

for mortgage Pfandbriefe
and public Pfandbriefe
issued by Berlin Hyp

Capital Market Refinancing in € m	Portfolio excluding accrued interest 31.12.2017	New issues 2018		Maturities and early repayments in 2018[1]	Portfolio excluding accrued interest 31.12.2017
	€ m	€ m	%	€ m	€ m
Mortgage Pfandbriefe	8,602.0	3,060.0	67.1	1,867.0	9,795.0
Public Pfandbriefe	699.6	0.0	-	0.0	699.6
Other bearer debentures	4,169.0	1,175.0	25.7	565.0	4,779.0
Registered mortgage Pfandbriefe	2,582.0	27.3	0.6	509.8	2,099.5
Registered public Pfandbriefe	887.0	0.0	-	297.0	590.0
Borrower's note loans	527.3	96.7	2.1	104.7	519.3
Registered bonds	1,411.7	126.6	2.8	40.0	1,498.3
Subordinated bearer debentures	6.0	0.0	-	0.0	6.0
Subordinated borrower's note loans	327.2	7.0	0.2	75.0	259.2
Subordinated registered bonds	40.0	68.0	1.5	0.0	108.0
Total	**19,251.8**	**4,560.6**	**100.0**	**3,458.5**	**20,353.9**

[1] Maturity dates and early repayments including terminations.

Financial and Non-Financial Performance Indicators

Financial Performance Indicators

Berlin Hyp's result before profit transfer was extremely positive in the financial year and significantly exceeded our forecast in last year's management report. Despite the addition of € 105.0 million to the special item for general banking risks in accordance with § 340g HGB, it amounted to € 116.4 million and thus almost corresponded to the comparable figure for the previous year (€ 117.0 million). We assumed that earnings before profit transfer should be noticeably lower than in 2017. The higher profit transfer and increase in the special item for general banking risks was made possible in particular by risk provisions that were well below expectations. Special effects, especially in net interest income, also led to the Bank's very good economic result.

In comparison to the previous year, net interest and net commission income increased by € 28.6 million to € 338.6 million. As expected, net interest income increased and improved by € 44.5 million to € 315.4 million. In addition to a higher average mortgage loan portfolio, the increase was primarily due to special effects, such as the proportional waiver of the interest payable from the TLTRO-II of the Deutsche Bundesbank, as well as significantly lower refinancing expenses. At the same time, the decline in net commission income was less than expected. In view of the ongoing low interest rate policy and the difficult market environment, the positive development of net interest income and net commission income is a very good indication of the Bank's earnings situation.

Due to higher pension obligations and foreseeable expenses for the optimisation and improvement of business processes and other future-oriented topics, the Bank expected an increase in operating expenditure. In comparison to the previous year, it improved by € 16.4 million to € 151.2 million. However, the positive development of net interest and commission income and the significant improvement in other operating results meant that the cost-income ratio fell significantly by 6.0 percentage points to 45.2 %, thus exceeding our previous year's forecast.

The profit transfer, which clearly exceeded expectations, and the high addition to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) led to a return on equity of 18.2 %. Contrary to our forecast, it thus exceeded the previous year's figure (16.9 %).

At 13.5 % (12.5 %), the common equity tier 1 capital ratio, after the addition to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) of € 105.0 million and after adoption, exceeded the internal targets even taking into consideration the stricter equity requirements according to CRR/CRD IV. Additional capital measures were taken into account in mid-term planning in order to be able to successively increase this target ratio at Berlin Hyp in view of the expected stricter regulations under Basel IV. A target value of 12.5 % has already been set for 2019.

At € 4.9 billion, new business volume was slightly below the forecast figure and, as expected, also below that of the very good previous year of € 6.7 billion. Including long-term extensions, new business decreased by € 2.0 billion to € 6.1 billion.

Non-Financial Performance Indicators

For the market segment, the target portfolio for management purposes has become established in recent years. This includes the following aggregation groups: property types, customer groups, lending regions and rating classes. The specified target portfolio values, which reflect the Bank's conservative risk strategy, were complied with overall in 2018. Individual deviations were analysed and taken into account in portfolio management. Regular internal research studies are employed to analyse and evaluate Berlin Hyp's markets.

In the S-Group business, Berlin Hyp's product portfolio expanded to include ImmoAval and contributed to the extremely positive development of joint business with German savings banks. The total S-Group business volume in 2018 amounted to € 2.9 billion (€ 1.5 billion). The five transactions of the ImmoAval product

Loan Portfolio

16%

of the overall loan portfolio is comprised of green building financing

launched in 2017 were subscribed by 32 savings banks with a volume of € 1.1 billion in the 2018 financial year.

In total, 36 (97) savings banks participated in the products ImmoSchuldschein and ImmoAval as well as 58 (35) savings banks with a volume of € 653 million (€ 208 million) in the five benchmark and four sub-benchmark issues of Berlin Hyp. As a result of joint business, Berlin Hyp is already a partner of 134 savings banks from all areas of the association.

In addition to market conditions, Berlin Hyp's performance depends largely on its employees. As part of strategic resource planning, the medium-term personnel requirements for each organisational unit were determined for the first time in 2017. In the planning process, the expected effects of digitisation, automation and demographic change on Berlin Hyp's workforce were taken into account. On this basis, full-time equivalent (FTE) staff numbers will be introduced as a non-financial performance indicator in the 2018 reporting year.

As of 31 December 2018, the number of employees amounted to 558 FTEs (552 FTEs) and is qualitatively and quantitatively in line with the strategic resource planning, taking into account the framework conditions.

The strategic resource planning is intended to ensure the functional and future viability of Berlin Hyp and is continuously adjusted. In order to keep planning up-to-date and realistic, megatrends, developments in new and established business areas and regulatory requirements are taken into account.

Digitisation and automation lead to new working conditions and change the required employee competencies. Employee qualification will therefore become increasingly important. In individual cases, early retirement and termination agreements are offered on the basis of a works agreement. The works agreement was signed in January 2019.

In the medium to long term, demographic change will lead to an increasing number of employees leaving Berlin Hyp upon retirement. Here it must be ensured that the transfer of know-how from the departing employees to the remaining colleagues is successful. Berlin Hyp aims to compensate for the majority of retirements by increasing efficiency through digitisation and automation in work processes. The age structure is also positively influenced by attractive junior staff programs.

HR reporting is prepared every six months and provides a detailed overview of the key figures for the personnel structure, including an area-related target/actual comparison of the headcount and the demographic development of the workforce. If necessary, measures to change these key figures will be initiated.

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. After the Bank made its debut in 2015 with the world's first green Pfandbrief, six green bonds with a total volume of € 3 billion have now been issued. In addition, the financing of energy efficient buildings and their refinancing with Green Bonds has been a permanent goal of the Bank's company strategy since the spring of 2016. The Bank's aim is that 20 % of its loan portfolio will consist of green building financing by 2020 – as at 31 December 2018, the proportion was 16 %.

Information on all of Berlin Hyp's sustainable commitments is available at https://www.berlinhyp.de/bhyp/de/ueberuns/verantwortung. The Bank plans to publish its sustainability report for 2018 in accordance with the standards of the Global Reporting Initiative (GRI) by the third quarter of 2019.

In October 2017 oekom research AG gave Berlin Hyp an overall rating of B-. It uses a scale from A+ to D-, and Berlin Hyp's rating is the highest in the Financials / Mortgage & Public Sector Finance peer group to date. It also confers "prime status" on Berlin Hyp and puts it in the category "good". In the sustainability rating by Sustainalytics in October 2017, Berlin Hyp scored 86 points out of 100. This makes it an "outperformer" and ranks it fifth in the industry at the international level among the 332 financial institutions rated. These very good rating results from the rating agencies document Berlin Hyp's outstanding commitment to sustainability management, honour its investment products – green bonds – and recognise its responsible attitude to people and the environment.

Overall Statement

Despite intense competition in commercial real estate financing, the continuing low-interest environment and additional regulatory requirements, Berlin Hyp was able to significantly exceed its expected results in the 2018 financial year.

The result after taxes of € 116.4 million was transferred to Landesbank Berlin Holding as profit.

Letter of Comfort of Landesbank Berlin AG

The guarantee provided by the Landesbank Berlin AG in favour of Berlin Hyp ended with effect on 31 December 2014.

The guarantee remains in force for the obligation entered into until 31 December 2014.

III Opportunities, Forecast and Risk Report
Opportunities and Forecast Report

Assumptions Relating to Macroeconomic Development

The economic upturn in the global economy is likely to slow somewhat in the coming year, but remain at a relatively high level. The risks for this development are estimated to be somewhat higher than in the previous year. The trade conflict between the US and China could flare up again and thus intensify, despite the settlement talks that began in January 2019. In addition, an extension of the trade disputes to economic policy relations between the US and the European Union is quite possible.

In Europe itself, the slowdown in economic growth that began last year will continue. Despite the favourable situation on the labour market and very robust consumption again, the growth rate of the gross domestic product will be slightly below the level reached in 2018. The possible trade conflict with the US is being compounded by increasingly higher domestic political risks. The situation regarding exit conditions and future economic policy modalities between the UK and the EU is worsening. Italy is subject to an excessive deficit procedure and the pressure from the financial markets could increase further. In France, the continued structural reforms are providing domestic political dynamite. In 2019, the unemployment and pension insurance systems will be the main focus of far-reaching reforms.

Economic growth in Germany will stabilise somewhat after the significant slowdown in the previous year. Expansive fiscal policy measures by the federal government and the good labour market situation will have a positive effect on consumption. In addition, positive catch-up effects in automotive production, which will be reflected in the elimination of the problems associated with WLTP certification, will stimulate the economy, particularly in the first half of the year. However, the first signs of an end to the domestic economic cycle will also be increasingly noticeable. Both corporate and construction investments are expected to decline somewhat next year. In addition to capacity limits already reached, which can hardly be expanded any further, this will be due to a slowdown in the global economy. Furthermore, a decline in the willingness to invest due to changed financing conditions because of a somewhat less expansionary monetary policy and increasing risks is to be expected. The risks range from an overall deterioration of the global economy due to the premature end of the economic cycle or open trade policy conflicts to a wide range of stability risks in the EU.

Assumptions Relating to Industry Development

Geopolitical risks and the policies of central banks will continue to be material factors influencing the capital market in 2019. The termination of the ECB's Assets Purchase Programme already contributed to widening spreads across all product classes at the end of the year under review. Consequently, higher risk premiums compared with the previous year are to be expected for 2019 as well as a volatile and correspondingly challenging capital market.

For Berlin Hyp, access to all segments of the capital market at good conditions should be possible even under challenging conditions.

The preparations by banks for the regulatory tightening on the horizon as a result of Basel IV tie up both financial and human resources. The modelling of the respective risk parameters adopted by the Basel Committee, especially with regard to equity requirements and the introduction of the capital/output floor, is already clearly showing that real estate financiers will feel an above-average impact.

In view of the continuing low level of interest rates and Germany's currently stable fundamental data, Berlin Hyp expects the real estate investment market to remain highly dynamic in 2019 – especially as possible alternative investments such as equities or commodities would probably be more affected by global economic downturns than real estate. Whether the extremely strong result of 2018 can be achieved again or even surpassed will primarily be determined by the limited availability of products on the German real estate market and will also depend on the direction in which the various economic policy conflicts such as the trade dispute between the US and China and the possibility of a possibly disorderly Brexit are heading.

Business Development

The additional potential resulting from Berlin Hyp's positioning, including its innovative strength, combined with a solid refinancing strategy, will remain a good basis for Berlin Hyp to continue its successful business activities. With its stable and solid shareholder background and increased integration into the Sparkassen-Finanzgruppe as well as its experienced and motivated workforce, Berlin Hyp is well positioned for the future in a challenging environment and will actively exploit the business potential that arises.

By continuing the "berlinhyp21" future-oriented process, Berlin Hyp will remain well equipped for the challenges ahead. This process of the future is a material driver for Berlin Hyp's continued positioning as one of the leading German real estate banks with above-average innovative strength. It is also a prerequisite for actively shaping the digital transformation of our industry.

A central element of the future process is the successful implementation of Berlin Hyp's digitisation strategy. Not only are IT systems being further improved and processes further networked, optimised and – where appropriate – automated, but the digitisation trends in the market are also being analysed and evaluated. We will continue to be open to value-added expansions of our value chain in the future.

Berlin Hyp's core business remains the solid starting point, i.e. the individual financing structures with risk-adequate pricing and a high proportion in Germany. Financing in selected foreign markets will be continued with the aim of ensuring a well-balanced portfolio diversification.

Berlin Hyp also continues to increasingly integrate itself into the Sparkassen-Finanzgruppe as the S-Group partner for commercial real estate financing. Berlin Hyp is consistently expanding its portfolio of products and services for savings banks. For 2019, Berlin Hyp forecasts a continued positive development in the S-Group business. The total volume of business realised with the savings banks in 2019 will probably be lower than in the previous year due to the exceptionally good year of 2018.

The transaction volume on the domestic real estate market in 2018 once again exceeded the very good result of 2017. A low interest rate level and currently stable fundamental data will continue to support Berlin Hyp's core market, the German real estate market, in 2019. However, the limited availability of products in the core real estate markets, among other things, makes it rather unlikely that the transaction volume from 2018 will be reached in 2019. The German real estate market will remain appealing to foreign investors. The contracted volume of new business in 2019 (excluding prolongations with capital commitments ≥ 1 year) will nevertheless probably again reach the good level of 2018 due to the positioning and brand strength of Berlin Hyp. In this context, Berlin Hyp will continue to adhere to its restrictive risk policy. Furthermore, the Bank will further intensify the syndication business in order to enhance flexibility in terms of management and to leverage additional earnings potential.

The public-sector lending business is not part of the Bank's core business and will continue to be hived off. The securities portfolio has been further reduced significantly because of lower expected yields in 2018. In consideration of the regulatory requirements, however, earnings potential that arises should continue to be used to support the interest result. For these reasons, we expect the securities portfolio to increase in 2019.

Net interest income is expected to remain at the good level of the 2018 financial year in 2019. On the one hand, this is due to low lending and extension margins. On the other hand, compensatory earnings contributions are expected from the partial mapping of processing fees in interest margins and their distribution over the term. After the slight growth of mortgage loan portfolios in 2018, we expect stronger growth of the portfolios again in 2019. Overall, Berlin Hyp should continue to benefit from its excellent market position and recognised expertise in commercial real estate financing. The consistent implementation of the digitisation strategy will provide additional support. Planned increases in the volume of the mortgage portfolio depends directly on customer retention and the development in unplanned repayments. A further decrease of the market interest rate, lower interest margins due to increasing competition and a flatter yield curve may also have a negative impact on interest income.

Assuming a stable expected volume of new business, net fee and commission income in 2019, taking into account the partial recognition of processing fees in net interest income, is expected to be slightly below the level of the previous year.

Risk provisioning for the lending business in the 2018 financial year was again influenced by a good economic environment. The very pleasing development of risk provisions in the securities business is mainly attributable to the use of market opportunities and the resulting sale of securities. The Bank forecasts an overall increase in risk provisions for 2019.

Administrative expenses are not expected to increase significantly in 2019 and the relationship between personnel expenses and other administrative expenses is expected to be similar. While the change in personnel expenses will be influenced in particular by the interest rates used to calculate pension obligations and by the results of future collective bargaining agreements, other administrative expenses – as in 2018 – will be significantly influenced by the costs associated with the challenges of optimising and improving business processes and other digitisation activities.

Berlin Hyp's workforce is expected to decline in the medium to long term on the basis of current knowledge. At the same time, the focus is on demographic aspects. The material basis for the corresponding resource management was laid in January 2019 with the conclusion of a works agreement. The individual measures resulting from this in the future will be offset by increased recruitment of junior staff.

The continuation of the "berlinhyp21" future-oriented process will ensure that Berlin Hyp remains well equipped for the challenges ahead. In 2018, the strategic goals and the strategic orientation were underpinned by four guiding principles and thus filled with life. Within "berlinhyp 21", additional successes were achieved in 2018, such as, for example:

- positioning Berlin Hyp as a pioneer for digitisation topics and innovations;
- the completion of material milestones of the PErsönlich project, e.g. implementation of the 270-degree feedback and a new competence model together with development measures, intensification of junior staff work, designing an expert career, redesigning the assessment centre instrument and redesigning the personnel widget;
- the conclusion of the BALI project to transfer the rules and regulations into a workflow-oriented new IT system;
- the expansion of the strategic partnership with the online platform Brickvest;
- the establishment of the subsidiary OnSite ImmoAgent GmbH and thus the establishment of a nationwide survey service;
- entering into a further strategic partnership with the 21st Real Estate GmbH PropTech to build a joint valuation tool;
- increasing the mobility level of employees through a digital workstation and thus increasing the number of participants in "mobile work";
- the completion of a prototype in SAP-HANA to optimise the post calculation for the material products of the core business;
- the digitalisation/optimisation of the procurement process via the e-procurement project;
- the optimisation of the existing credit process, e.g. in the preliminary credit check by introducing a credit decision template app.

Key future-oriented topics have been defined for the following years and relevant projects and initiatives have been launched, such as:

- securing and consolidating Berlin Hyp's positioning, including as one of the leading real estate banks in Germany and as Europe's leading issuer of green issues from the commercial bank group;
- the redesign of the instruments of the perspectives and target agreement discussion in the context of employee development and performance measurement, including the development of necessary skills in the area of change management;

- → the implementation of medium- to long-term objectives for the optimisation of personnel resources;
- → driving the SAP-HANA digitisation project to create a largely uniform SAP landscape for the entire bank;
- → the continuation of the credit process optimisation project, particularly in the direction of customer portal, data management and process optimisation - combined with change management activities;
- → the management of existing strategic cooperations and participations, generating and further developing innovative product ideas;
- → scouting further sustainable business models;
- → the further development of the "arbeitswelten21" theme;
- → the expansion of activities to implement optimised portfolio management for Berlin Hyp;
- → driving sustainability issues.

In this respect, cultural changes, the improvement of the IT systems and the implementation of the new digitisation strategy remain of particular importance.

The calculation of the contributions to the European banking levy is carried out by the banking supervisory authority. Berlin Hyp assumes that the contributions will not see any major adjustments compared to the 2018 level.

Compared with the previous year, the improved – but still negative – other operating result was again significantly influenced in the 2018 financial year by the reversal and formation of reserves. For 2019, a negative other operating result in the single-digit million range is expected.

Overall, the Bank assumes for the coming financial year that the result before profit transfer will be significantly below that of the exceptionally good year of 2018, given the planned development of risk provisioning and taking into account notable additions to provision reserves pursuant to Section 340g of the German Commercial Code (HGB).

For 2019, we expect a slight increase in the cost-income ratio.

With an expected decline in the result, the average equity capital available will rise primarily due to the addition to provision reserves pursuant to Section 340g German Commercial Code (HGB) taking into account in the 2018 results analysis. Return on equity will therefore decline, but will continue to exceed a level of 10 %.

The Bank aims to achieve a common equity tier capital 1 ratio (CET1) of at least 12.5 %. Additional stricter regulatory requirements, such as CRR II and Basel IV, are planned in the coming years which will also have a strong negative impact on Berlin Hyp. In addition to further additions to provision reserves, the newly created Portfolio Management division will make a significant contribution to achieving the capital ratios.

Overall Statement

The general framework conditions remain challenging. The dynamics of global economic growth are weakening and the ECB's monetary policy remains expansionary, albeit to a lesser extent. Political issues will play an unchanged role. Due to the Bank's very manageable direct and indirect exposure in the UK, Berlin Hyp does not expect the development of Brexit to have any significant impact on business in 2019.

Stiff competition in real estate financing, the continuing low-interest phase and the volatile capital and financial market environment, combined with the need to further strengthen equity capital and additional regulatory requirements, represent ongoing, major challenges. Against this backdrop, the 2018 financial year was very favourable and considerably better than expected. The very good result was again used to create additional provision reserves and to support the growth potential in the core business.

The additional potential resulting from Berlin Hyp's positioning, combined with a sound refinancing strategy, are solid foundations for the continuation and further development of its successful business operations.

In the S-Group business, the range of products and services will continue to be geared towards the needs of the German savings banks. The further development of our products to meet market needs, the improvement of business processes and the procedural measures and technology equipment supporting them form a good basis of this. In this context, the Bank will consistently continue the "berlinhyp21" future-oriented process. The Bank also safeguards its stability and sustainability by testing more agile and efficient working methods, thus offering its employees a reliable perspective. The impact of digitisation on the business model and the derived opportunities and risks is a constant accompanying core process which Berlin Hyp views with optimism.

Provided no unexpected shifts occur in the capital and real estate markets, and risk provisioning is at the planned level, Berlin Hyp expects to continue the positive business development with its customers. The result before profit transfer is expected to be significantly lower than in 2018, based on these premises and taking into consideration a planned significant addition to the special item for general banking risks pursuant to Section 340g German Commercial Code (HGB) as well as the costs for future-oriented investments, such as the optimisation of processes and other digitisation activities. The return on equity is expected to remain above 10 %.

Risk Report

Risk Management System

Framework Conditions

Berlin Hyp's risk management system comprises an extensive range of tools to deal with risks the Bank enters into as part of the Board of Management's strategy in view of economic and regulatory risk-bearing capacity.

The internal control procedures thus form a core component of the system for risk-oriented overall bank management and comprise in particular risk management and risk controlling processes free of conflict of interests as well as internal auditing. The objective of risk management is to maintain the risk-bearing capacity and compliance with specified minimum ratios through the specific limitation of economic risks and by establishing upper limits for tied capital.

Berlin Hyp, as a Pfandbrief Bank and a sister bank of Berliner Sparkasse, is part of Landesbank Berlin Holding. LBBH assumed the function of a financial holding company that does not transact bank business and is not a banking institution in the reporting year. LBBH is integrated into the Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG (Group). Uniform risk policy principles for the Group and Group-wide risk management have been implemented.

Group Risk Management System

A number of interlinked principles and rules make up the Group-wide risk management system.

As the superordinate regulation, the business strategy outlines strategic framework 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 ensure that assumed risks remain acceptable. These policies include, for instance, particular reporting requirements if risk utilisation for individual risk types reaches a certain level. In addition, a risk buffer that is not permitted to be covered by limits ensures that short-term changes in risk-bearing capacity can be absorbed. All companies and organisational units have to ensure that all risks are transparent and measurable under the uniform Group-wide methodology.

The Group's risk strategy details these requirements. It is the responsibility of the Board of Management of Landesbank Berlin Holding. Risks that do not conform to the strategy and therefore have to be avoided on principle are defined within the scope of this strategy. Compliance with the risk strategy is continuously monitored.

The Group risk manual that establishes the framework for operational risk controlling defines detailed framework conditions, responsibilities and methods for the individual risk management phases. Applied methods determine how risks are measured. Existing limit systems and escalation processes are also described in the manual for each type of risk.

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 and a constant improvement in the quality of results. 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. Financing is structured appropriately so that opportunities and risks are appropriately distributed over the course of time.

The risk and equity strategy is implemented by means of mid-term and operating planning. Planning takes place in consideration of all foreseeable risk and equity effects at the overall bank level.

Risk Controlling as an independent unit is responsible for identifying and evaluating risks, supporting risk management in the company and regularly informing management.

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 its components: methods, identification, evaluation, communication, management and monitoring.
The risk management system encompasses both the evaluation of risks in accordance with regulatory requirements and a risk assessment from an economic perspective.

In addition to the annual risk inventory, the Internal Audit division and the external auditor regularly evaluate the risk management system in the course of the annual financial statement audit.

Governing Bodies of Berlin Hyp

Together with the Supervisory Board, the Board of Management 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 consisting of members of the Supervisory Board consults with the Board of Management regarding the principles of business policy in the lending business regarding risk, in particular counterparty default risks, market price risks, liquidity risks and operational risks as well as 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. It audits the units that conclude, process and control transactions for compliance with regulations. It is subject to the authority of the Chair in the organisation structure and reports independently to the Board of Management.

Berlin Hyp is represented in the Risk Management, OpRisk Committee and the Credit Risk Committee of the Group.

Berlin Hyp Governing Bodies
- → Supervisory Board, including its committees
- → Board of Management
- → Financial Steering Committee as a complement to Board of Management meetings
- → Loans/Sales/Risk Management Early Warning Meeting
- → 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 Controlling division separately proposes methods and models to identify, measure, aggregate and limit risks to the Board of Management separately on an annual basis in the light of the results. Operational risk controlling is handled by the division.

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, for example, 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 for 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

The objective of comprehensive reporting is to provide data from risk management and risk evaluation for various internal and external target groups. It represents a summary of content from the risk management cycle and encompasses all types of risks as well as a summary view of the Bank's risk-bearing capacity. Risk management measures are also defined and monitored within the scope of reporting; target/actual comparisons, change comments and other analyses are prepared.

Regular reporting at established intervals is differentiated from event-driven reporting, for example when previously defined risk or loss limits are exceeded (known as ad-hoc reporting).

Risks

Material Risk Types

The Bank performed a risk inventory and identified the following types of risks that were classified as material:

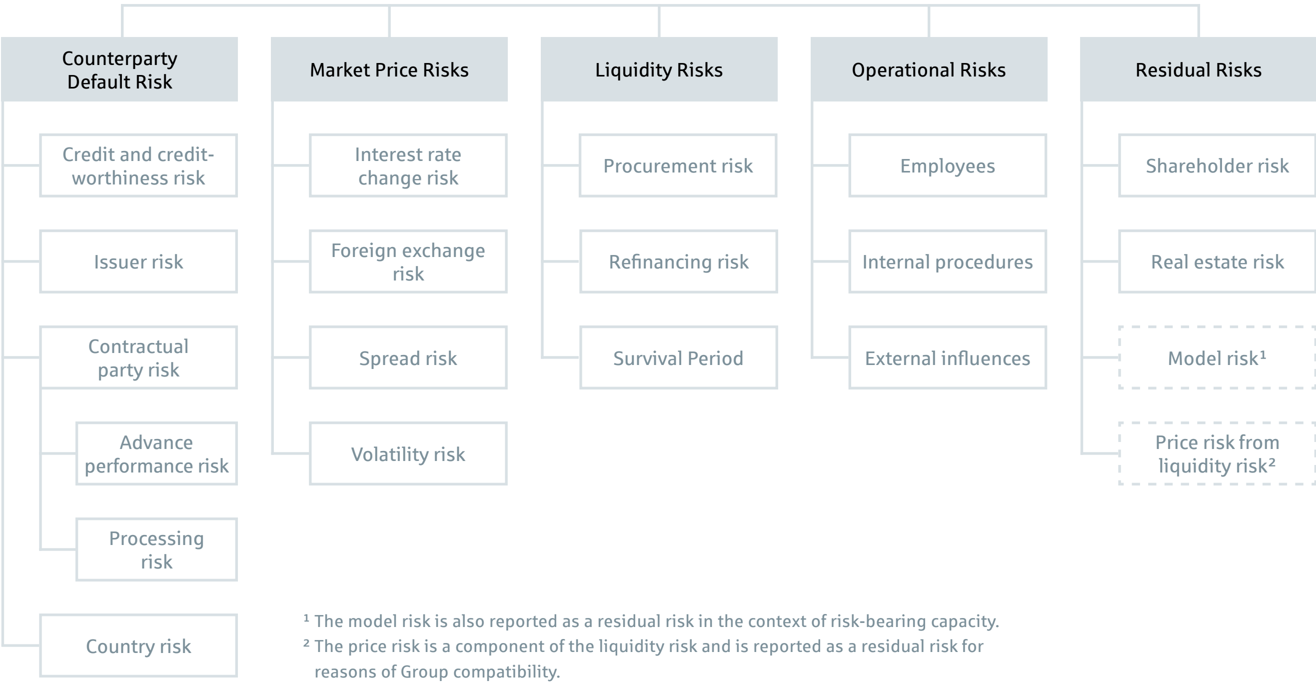
- → Counterparty default risks (including country risks);
- → Market price risks;
- → Operational risks;
- → Liquidity risks.

Berlin Hyp also differentiates between monetary and non-monetary risks. Monetary risks are taken into account in the summary overview of the Bank's risk position (overall bank risk) and are compared to risk capital. Non-monetary risks (such as reputation risks, short-term liquidity risk) on the other hand cannot be averted through backing with risk capital and are therefore not taken into account in this analysis. Every identified risk type is evaluated according to established criteria at least once a year. To do so, the probability of occurrence and magnitude of the risk on occurrence are taken into account, and the measurement results of the last period are analysed. The review also involves a recommendation being submitted to the Board of Management concerning classification as material or immaterial risks as well as the appropriateness of the applied methods.

Reporting frequency	Subject
Daily	→ Market price and liquidity risks (procurement risk)
Monthly	→ Liquidity risks (price and deadline risk components and short-term liquidity risk and refinancing risk based on a Group-wide system) → Development of balance sheet items → Development of the earnings situation → Risks of counterparty default at portfolio level → Risk-bearing capacity
Quarterly	→ Quarterly Commercial Code reports → Summary risk report on all risk types → Development of existing mortgages (including new lending and extension volumes, margins) → Risk reporting of the cover funds

An overview of the measurable risk types defined by Berlin Hyp is presented in the following illustration.

Risk Types of Berlin Hyp AG



[1] The model risk is also reported as a residual risk in the context of risk-bearing capacity.
[2] The price risk is a component of the liquidity risk and is reported as a residual risk for reasons of Group compatibility.

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

Risk type	Risk management by the divisions/committees	Risk controlling by the divisions
Counterparty default risks	→ Loans → Risk Management → Sales	→ Risk Controlling
Market Price Risks	→ Financial Steering Committee → Treasury	→ Risk Controlling
Liquidity Risks (incl. Price Risks)	→ Financial Steering Committee → Treasury	→ Risk Controlling
Operational Risks	→ Divisions responsible for processes	→ Risk Controlling → Risk Controlling
Residual risk: shareholder risk Residual risk: model risk	→ Corporate strategy	→ Governance → Risk Controlling

Risk Inventory

A review of the risks that can have a material impact on the net assets, earnings or liquidity position (risk inventory) is performed continuously through various specific analyses. The Board of Management is informed on the development of the risk management system as least once a year through the presentation of the risk inventory. A systematic analysis and identification of risks is also performed within the scope of regular reporting.

In addition, through the involvement of the respective divisions, the new product process ensures that risks relating to new or changing products are properly reflected.

Risk-Bearing Capacity

The internal risk-bearing capacity concept ensures that the Bank is able to bear the risks of the identified risk types determined using statistical procedures. As the risk calculations are based on certain confidence intervals, there is a residual probability that the risks actually incurred are higher. The statistically established risk values are limited per (monetary) risk type and it is ensured that the risk-covering assets reduced by one buffer correspond to this total of limits at least.

The underlying assumptions as well as the corresponding limits are reviewed regularly, at least once a year, and adjusted by resolution of the Board of Management as needed.

The risk-bearing capacity is regarded as given if the total of converted risk values based on a uniform level of probability of 99.9 % at a holding period of one year for the individual risk types does not exceed the risk-covering assets reduced by one buffer. 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. In principle the risk-covering assets are derived from the regulatory equity capital.

The concept implemented at Berlin Hyp to determine the Bank's risk-bearing capacity is an economic capital concept which is constantly being developed.
Due to the assessment of liquidity chosen for the risk-bearing capacity model, adjustments have to be made to risk positions that are not or only partly available in case of insolvency. Subordinate capital with a remaining term of over one year and reserves pursuant to Section 340f German Commercial Code (HGB) and (to the extent that they are not for a specific purpose) Section 340g German Commercial Code (HGB) that are formed during the year are fully allocated. Deducted items (such as hidden liabilities due to fixed asset write-offs that were avoided) and incurred or (if applicable) planned losses have a negative effect on the risk-covering assets. The Bank has defined a buffer based on the volume of the risk-covering assets, which is to always remain free and not restricted by limits (risk tolerance).

The methodology presented describes the methodology applied in 2018. The final version of the "ECB Guide to the internal capital adequacy assessment process (ICAAP)" was published in November 2018 and is to be applied from 1 January 2019. The requirements and necessary measures for implementation were analysed, and the Group and Berlin Hyp adopted the necessary resolutions for implementation from 1 January 2019. Final adjustments will be implemented from the beginning of 2019. The measures also encompass no longer including capital components of a subordinated nature as risk-covering assets from 1 January 2019, as specified in the guidelines.

Real estate risks classified as immaterial and shareholder risks as well as the model risks are summarised in the residual risk. The price risk in the liquidity risk is a risk classified as material and disclosed under "residual risk".

The Bank's risk-bearing capacity was consistently given with sufficient leeway in 2018, both according the internal standards and from a regulatory perspective.

The changes in risk positions arising from the planned business performance as well as 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 the counterparty default, market price, liquidity and operational risk types. 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.

Details of the risk-bearing capacity as at 31 December 2018 are disclosed in the section "Overall Statement on Risk Situation".

Risk Management System by Risk Type

Counterparty Default Risk

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 the risk of a loss in value of the security provided to the Bank. This is currently the dominant type of risk for Berlin Hyp. Counterparty default risks are managed at the individual business partner and overall portfolio levels. Investment risk (shareholder risk) is considered to be no material risk.

Individual Commitment Level

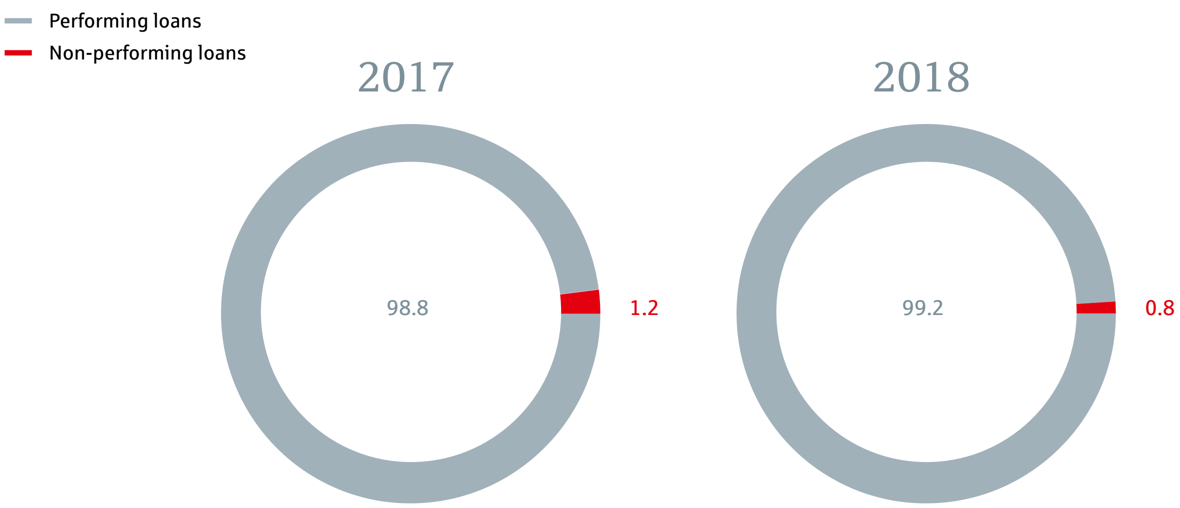
Efficient lending processes form the basis for adequate risk management of the risks of counterparty default. This is guaranteed through a loan approval directive and defined processes and interfaces, from acquisition to new lending through to loan repayment (close integration of front office and back office). 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 approved by the regulatory authorities 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, 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). At the same time, additional rating procedures developed in cooperation with other Landesbanks are used for specific customer groups. These procedures particularly pertain to the capital market business and specifically to insurance ratings, bank ratings and ratings for international regional authorities, as well as the corporate rating.

The rating procedures employed here have been derived from the framework of the banking supervisory authority approval system. Quality assurance along with validation and back-testing for rating procedures are the responsibility of the Risk Controlling division in conjunction with the corresponding division at Berliner Sparkasse. Their continued development and maintenance are 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 itself and through the Berliner Sparkasse.

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 proportion of non-performing loans in the overall portfolio was reduced from the prior-year level to 0.8 % and currently remains at a historically low level. Non-performing loans are covered almost in full by collateral and value adjustments.

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.

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. In 2018, new capital market business with securities was also restricted, with the aim of reducing the balance sheet total. In general, new business is only concluded with creditworthy counterparties within the scope of a narrowly defined investment strategy. 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 aims to achieve a high proportion of centrally cleared derivatives. 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.

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;
- → 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.

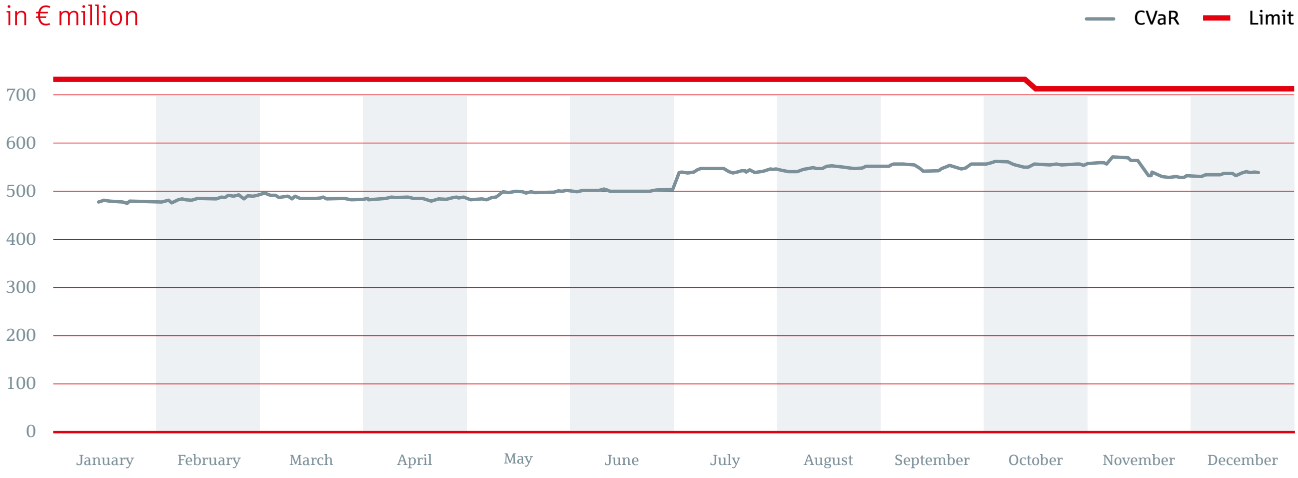
Management of default risks is based on unexpected loss at portfolio level.
Berlin Hyp has limited the counterparty default risk. It has the risk indicators determined daily under an agency contract with Berliner Sparkasse. The risk indicators are monitored by Risk Controlling. Variance analyses and limit monitoring are performed here. 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 % of the credit 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 2018, the utilisation was € 541 million and the limit was € 720 million.

Responsibility for the methodology and validation of the credit value-at-risk model under consideration of Berlin Hyp's interests rests at the Group level. Internal and external audits are carried out at Group level as well. Credit Risk Controlling reviews the processing and controlling of the simulation results.

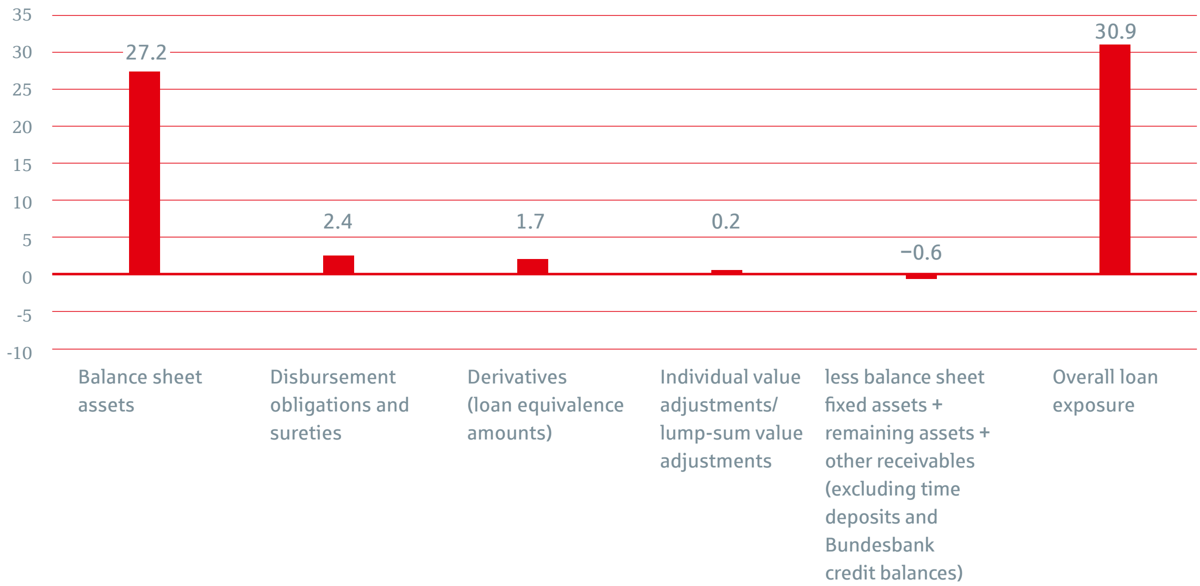
Stress tests are performed within the scope of the loan portfolio model to simulate the change in a loan portfolio under the assumption of extreme scenarios in order to review the financial stability of an institution against macroeconomic crises. The definition of the scenarios and their parametrisation are based on the overall bank stress concept of LBBH, which meets the Minimum Requirements for Risk Management (MaRisk).

Credit value-at-risk development in total in 2018
in € million



As at 31 December 2018, Berlin Hyp's reported overall loan exposure was € 30.9 billion, as depicted below. The balance sheet assets are derived as follows:

Transfer of balance sheet assets to overall loan exposure as at 31 December 2018 in € billion



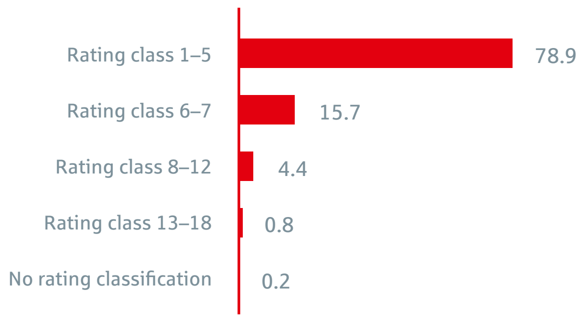
The main divergences to the balance sheet presentation are:

- → The inclusion of off-balance-sheet business in the form of disbursement obligations and sureties;
- → The consideration of customer derivatives with the loan equivalent amount;
- → The addition of valuation adjustments.

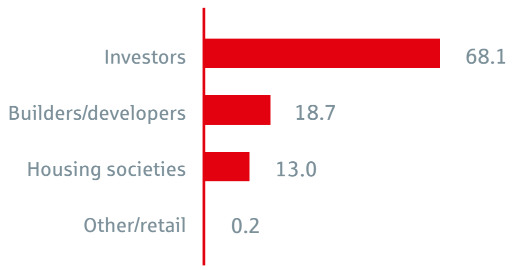
The overall loan exposure is subdivided into mortgage loans of € 23.1 billion, money market transactions and derivatives transactions of around € 4.1 billion and securities and munici-pal loans of around € 3.6 billion. In its quarterly risk report, Berlin Hyp analyses the counterparty default risk from the mortgage lending business in particular.

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

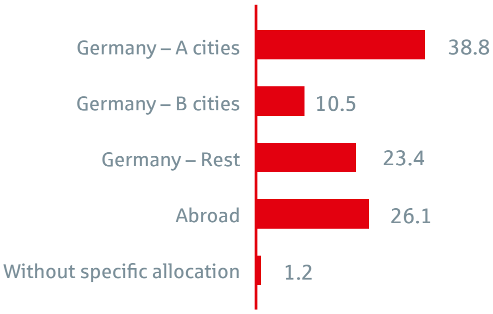
Rating classes in %



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 cluster concept (concept of limiting risk concentrations) and 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 form valuation allowances for country and 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.

In 2018 there was no exposure in countries particularly affected by the sovereign debt and debt crisis.

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 risks 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. Mortgage business in foreign currencies is refinanced through directly attributable 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 swaps, swaptions and securities. For disclosures regarding the forms of derivatives used as hedging instruments, see the Derivatives section in the Notes.

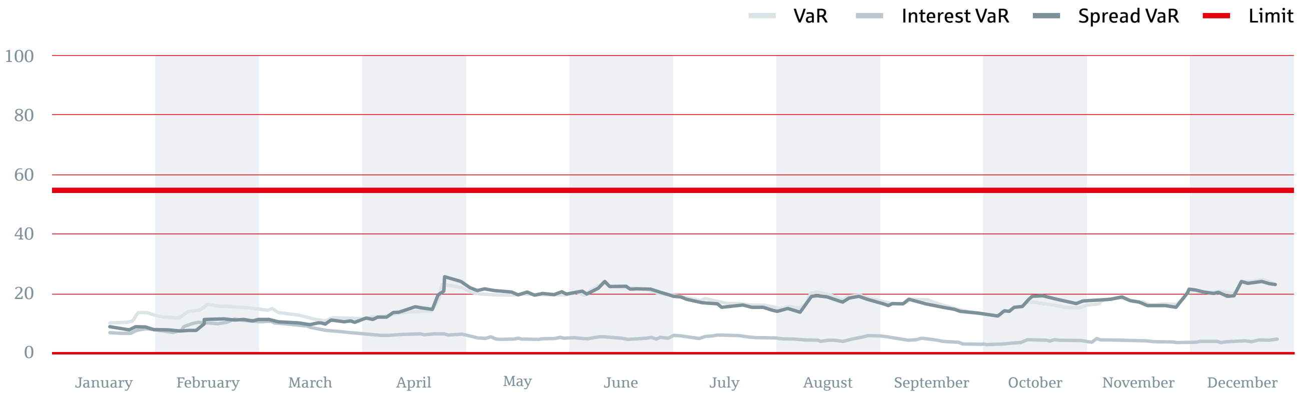
The Bank uses a combination of risk sensitivities, the value-at-risk approach and other stress tests to measure the risk of interest rate changes. For market price risks, a value at risk with a holding period of ten trading days and a 99.0 % confidence level is determined using a variance-covariance approach, taking into account linear and non-linear risks including volatility risks. The value at risk also takes credit spread risks and interest change risks from the Bank's pension liabilities into account in addition to general interest rate change risks.

The Bank determines risk coefficients, with which overall Bank cash value changes are modelled in relation to equity in case of an interest rate change of +/- 200 basis points. The stress scenarios for market price risks also include various non-parallel interest shocks and a net interest income simulation.

The value-at-risk and risk coefficient are limited. The cash value development and change in net interest income while applying the six IRRBB interest rate scenarios stipulated under regulatory law come with warnings. Thresholds have been established ahead of the limits. Recourse in relation to the market price risk was significantly below the value-at-risk limit throughout 2018. On the reporting date the utilisation was € 20 million and the limit was € 55 million.

Value-at-risk development in total in 2018

in € million



Market price risks are reported daily to the Board of Management. This includes among other things information about basis point values for the overall risk-bearing position, the risk coefficients, the value at risk utilisation and cash value profit and loss analyses. Communication and decision-making processes are triggered when warning thresholds or limits are reached or exceeded.

The monthly reports to the management also include comments on the results of back-testing. The results of the back-testing did not show any indications of insufficient model quality in 2018.

Reports on the results of the stress tests are prepared periodically as part of the monthly and quarterly reports. In addition to fixed interest rate shifts, these scenarios also contain 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 six IRRBB scenarios on net interest income is also reported on.

Evaluating the effects of a long-term low-interest phase is also part of the interest rate change risk analyses. Berlin Hyp largely refinances itself in the capital market with secured and unsecured securities. The costs of this refinancing are generally passed on to the customer as part of the respective commitment. In this regard, the low-interest environment has no direct impact on the loan business. Nevertheless, long-term earnings risks exist because of a low equity yield and due to the valuation of long-term reserves. These risks are taken into account during the planning process.

Liquidity Risks

Berlin Hyp defines a liquidity risk as the risk that current and future payment obligations may not be met in full or on time. The liquidity risk is a material risk for Berlin Hyp. A distinction is made between procurement risk and price risk.

The Bank's current liquidity situation is analysed within the scope of the liquidity management system on the basis of a liquidity progress analysis.

The procurement risk (liquidity risk in the narrower sense) is the risk that Berlin Hyp may no longer be able to fulfil outstanding payment obligations that fall due in the short term (refinancing balances) in 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 reported on a daily basis and the maintenance of the buffer to be maintained even under stress conditions is monitored.

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, respectively, in accordance with defined MaRisk conditions (BTR 3.2).

In 2018, the minimum ratio for the LCR was 80 %. Internally, the LCR is controlled with a target ratio of at least 120 %. On the reporting date 31 December 2018, the LCR ratio was 160 % and therefore well above the minimum.

The following chart shows the development of regulatory LCR, in each case on the last day of the month:

The significant increase in the LCR ratio in October is attributable to a decline in net outflows, partly due to lower maturities of unsecured liabilities compared with the previous month. The decline in the LCR ratio is attributable in particular to an unsecured benchmark bond of € 750 million maturing in January 2019, which fell within the 30-day observation period of the LCR for the first time as at 31 December 2018.

The liquidity risk for the next 365 days is monitored by Landesbank Berlin Holding for the Group and the institutions. This is based on the refinancing risk that is determined and reported daily. It is based on a risk-liquidity maturity statement and assumes intact access to the secured and unsecured capital markets. The survival period is also determined. This describes the period of time the Bank can survive in a stressful environment without access to the unsecured capital market on the liquidity side. Both the refinancing risk and the survival period were methodically revised in the year under review and replaced the maturity risk in the liquidity risk calculation, which had previously only been calculated at Berlin Hyp.

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 less favourable refinancing spreads. In addition, the price risk since this reporting year also takes into account the effects of deteriorating refinancing spreads for forward loans that have already been conditioned. The risk is considered within the framework of the risk-bearing capacity concept and is limited. As of 31 December 2018, it amounted to € 21.8 million.

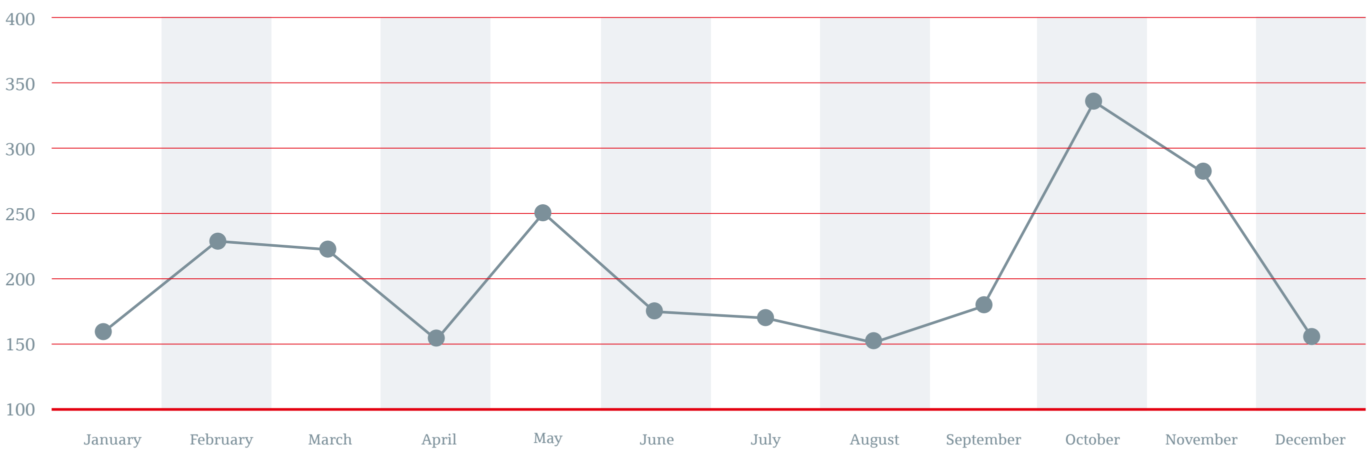
In addition to monitoring liquidity risk limits, the Board of Management is updated on a monthly basis on the concentration of secured and unsecured money market refinancing with individual counterparties.

Liquidity is managed in compliance with economic limits/warning thresholds. Compliance with supervisory requirements is a mandatory secondary condition. Falling below a warning threshold or a limit triggers defined notifications and measures.

The market liquidity risk is managed by means of a free securities portfolio consisting almost exclusively of ECB-eligible securities. The liquidity buffer consists of diversified and high-quality assets of the various categories in accordance with the CRR rules. In principle, the Bank does not enter into any new commitments in insufficiently liquid markets.

Berlin Hyp Treasury prepares monthly liquidity forecasts for a period of at least twelve months. The assumed premises are regularly reviewed and adjusted if necessary.

Development of LCR in 2018
in %



The Bank uses a wide range of refinancing instruments. In the money market area, these are secured and unsecured borrowings, which are concluded both bilaterally and, in the case of repo transactions, via Eurex. In addition, the Bank participates selectively in the ECB's open market operations.

In the capital market area, money is raised through Pfandbriefe and unsecured refinancing. This is achieved through both private placements and benchmark bond issues. A description of the development of the refinancing structure can be found in the Notes to the Financial Position in the Economic Report.

Shareholder Risks

In addition to the 100 % shareholding in Berlin Hyp Immobilien GmbH, a company which is no longer operational and pursued real estate marketing in addition to its activities as a real estate agent, OnSite ImmoAgent GmbH was founded in the financial year under review as a wholly-owned subsidiary based in Berlin, which provides services for visiting properties and their surroundings. The Bank also holds a minority stake in BrickVest Ltd., a London-based regulated platform for project developers and commercial real estate investors. In the 2018 financial year, a further minority interest was acquired in Berlin-based 21st Real Estate GmbH, which operates a system and database for real estate transactions. The entrepreneurial risk and the currency risk associated with the investment in London are taken into account as part of the shareholder risk.

Operational Risks

Operational risk is defined in accordance with CRR as the risk of loss resulting from inadequate or failed internal processes and systems, people or external events. In addition to operational risks, this definition also includes legal risks, but does not include strategic risks and reputational risks. This is a material risk.

The management of operational risks is regulated uniformly throughout the Group. Berlin Hyp has appointed an OpRisk Officer for the Group's OpRisk Committee with regard to the interface function with the Landesbank Berlin Holding Group. Together with the Group, Berlin Hyp has received approval from the supervisory authorities for an internal OpRisk model (Advanced Measurement Approach = AMA model) with which the regulatory capital requirement is measured or determined.

The model is regularly validated and the model assumptions are essentially confirmed. All model violations are identified as uncritical, plausible or materially minor; further measures are formulated to improve the results.

The Board of Management of Berlin Hyp is responsible for a systematic and consistent process involving the identification, assessment, monitoring and management of operational risks. The Board of Management confirms the accuracy of the agreed risk parameters (self-assessment and scenario assessments) on the one hand in the quarterly risk report and on the other hand every six months by taking note of the corresponding half-yearly OpRisk report. In the event of extraordinary events, in particular significant claims, an ad hoc report is prepared.

Overall responsibility for the operational implementation and monitoring of OpRisk results and developments has been transferred to the Head of Risk Controlling. Operational risks are managed, among other things, in consultation with the individual departments. This responsibility includes in particular the initiation and implementation of countermeasures, the introduction of suitable internal procedures and measures as well as the conclusion of insurance policies. Berlin Hyp's objective is to minimise operational risks from an economic point of view.

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

- → Self-assessment using the bottom-up approach (qualitative OpRisk inventory);
- → Scenario analyses to determine loss potential (quantitative OpRisk inventory);
- → Loss event collection (internal/external) as a basis for statistical evaluations for risk assessment (actuarial approach: loss distribution approach) and for defining business area-specific scenarios for scenario analyses;
- → Early warning system (recording and monitoring risk indicators);
- → Measures controlling (recording and monitoring of measures);
- → Risk transfer through insurance cover.

In accordance with Sections 25a and 25h KWG and the relevant circulars of the banking supervisory authorities, Berlin Hyp must create and update appropriate business and customer-related security systems to prevent money laundering, terrorist financing and other criminal acts at the expense of the institution. To ensure this, Berlin Hyp has a Money Laundering Officer and five employees as contact persons. The Board of Management is informed once a year about the Bank's risk potential in the form of a risk analysis. As part of the 2017 risk analysis, the Money Laundering Officer came to the conclusion that the risk of exposure to money laundering, terrorist financing and other criminal acts is to be classified as "medium". After the intervention of risk-minimising measures, the risk is reduced to "low".

Within the framework of the overall risk assessment derived from Berlin Hyp's risk-bearing capacity, the Board of Management of Berlin Hyp decides on limits for operational risks that are based on the Group proposal but do not exceed it.

The Bank participates in a data consortium for the collection of OpRisk claims. This extension of the database to include external losses is a mandatory component of the Bank's Advanced Measurement Approach (AMA).

The limit is currently set at € 60 million. Pre-warning levels are not defined. The monthly utilisation of the limit is shown in the following table for 2018:

In the event of extraordinary events with far-reaching consequences (e.g. fire and water damage, bomb threats, explosions, hostage attacks and terrorist attacks), a crisis management team was set up at Berlin Hyp to deal with such crises. The situations for which the crisis unit is responsible are characterised by the need for rapid decisions to avert or reduce significant (consequential) costs/disadvantages.

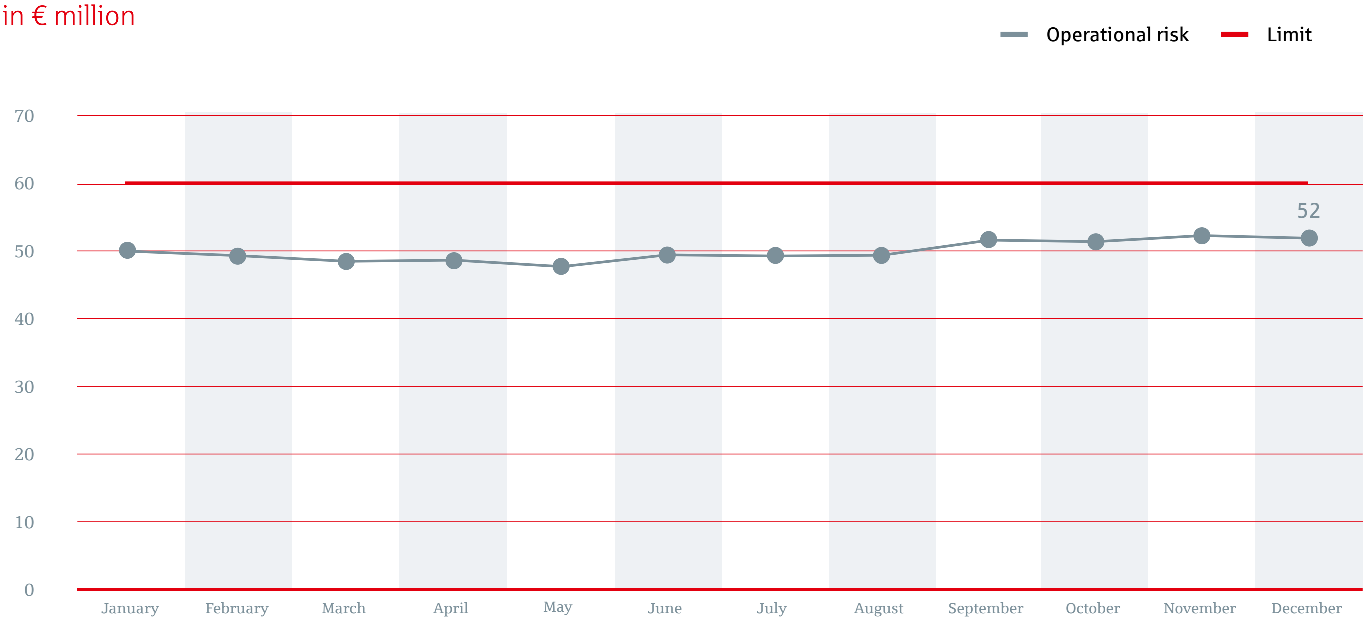
Systemic Risks

The Bank has a functioning information security and IT risk management system for the continuous improvement of information security, taking into account the risk situation, and for effective risk management. No information or IT risks with a high residual risk (quotient of loss amount and probability of occurrence) are expected that could jeopardise the continued existence of the company.

With the integrated SAP system, Berlin Hyp has an efficient IT system that corresponds to the type and scope of its business activities. The systems in place are stable throughout the year. With the SAP system as a comprehensive banking solution, Berlin Hyp has a homogeneous, up-to-date IT landscape that takes account of the increasing importance of information technology as a competitive factor. To ensure future viability,

Utilisation of the limit

in € million



the IT landscape will be systematically further developed and applications further standardised and centralised in the SAP-HANA project.

Closely related to this is also a very high level of protection against system risks, for example through a high degree of automation, homogeneous system environments and integrated interfaces, with which manual process steps can be avoided as far as possible.

Through accompanying organisational measures, an appropriate access protection system is implemented that prevents unauthorised or unwanted access to data, whether reading or writing. In addition, appropriate protective measures were established to ensure the integrity/authenticity of data and the availability of IT services.

Berlin Hyp and its IT service partners have drawn up current regulations to protect against possible catastrophes in its own computer centres and those operated by service providers. A key material component of these regulations are replacement environments which can be quickly switched to in the event of a disaster. The functionality of the measures was reviewed in 2018 together with the IT service partners and the utilising departments.

In order to limit IT risks, data security regulations and regularly updated and reviewed emergency procedures were defined as an integral part of the Bank's written rules on the basis of the identified critical business processes and assigned IT systems. In this way, the functionality of business processes in the event of technical faults is guaranteed with the help of replacement solutions available at short notice.

As part of IT security management under the direction of the IT Security Officer, further measures have been implemented to ensure IT security in accordance with the recommendations of the Bundesamt für Sicherheit in der Informationstechnik (German Federal Office for Information Security, BSI).

Legal Risks

Legal risks are risks arising from the violation of applicable and changing legal provisions, in particular contractual, statutory or judicially developed legal provisions. It includes the risk of infringements of legal provisions due to ignorance, insufficiently careful application of the law (negligent interpretation), negligent action or late implementation.

In addition to the specialist divisions, the compliance function and risk controlling, the legal department (governance division) is also responsible for identifying and preventing legal risks. The legal department is responsible for monitoring any legal risks that have arisen. Material projects are coordinated centrally from a legal point of view. For risk prevention purposes, the Legal Department provides specimens and explanations for contracts and other legally significant declarations, where appropriate. In the case of deviating or new regulations, the involvement of the legal department is mandatory. To the extent that external law firms are included, the Legal Department is responsible for managing them. Responsibility for labour court proceedings lies with HR.

In the event of unforeseen developments to the detriment of the Bank or errors occurring, the Legal Department is involved in the detection, elimination and future prevention of errors. It is also responsible for examining and evaluating incidents on the basis of legally relevant facts and managing any litigation. This applies in particular to the defence of claims asserted against the Bank. Sufficient provisions have been formed for ongoing processes.
Material legal risks that qualify as pending or threatened legal proceedings of the Bank are reported to the Board of Management every six months. Ad hoc reporting is provided for events of particular significance.

Claims by Borrowers for Reimbursement of Processing Charges

In 2017, the Federal Court of Justice ruled that the agreement of processing fees within the framework of general terms and conditions was also inadmissible for commercial loans. On the other hand, the Federal Court of Justice considers the pricing of a processing fee into the interest margin or an individual agreement on processing fees to be permissible in principle.

The Federal Court of Justice (BGH) further states that claims for reimbursement based on the payment of a processing fee before 1 January 2014 are time-barred. Loan agreements in which foreign law has been agreed are not affected by the jurisdiction of the Federal Court of Justice. The Bank has reviewed the amount of the provision on the basis of the claims made to date. There was a need for a corresponding release.

Risk Management Pursuant to Section 27 German Pfandbrief Act (PfandBG)

Pursuant to Section 27 PfandBG, each Pfandbrief bank must implement a risk management system suitable for Pfandbrief business. In principle, the risk management of the cover funds is integrated into Berlin Hyp's overall bank risk management system for counterparty default, market price, liquidity, operational and other risks. In addition, there are limits in line with regulatory requirements. Compliance with these limits is monitored on a daily basis as part of the risk management of the cover funds and presented to the Board of Management in a separate monthly report.

Overall Statement on Risk Situation

The risks assumed by Berlin Hyp in the financial year were in reasonable proportion to the risk-covering assets.

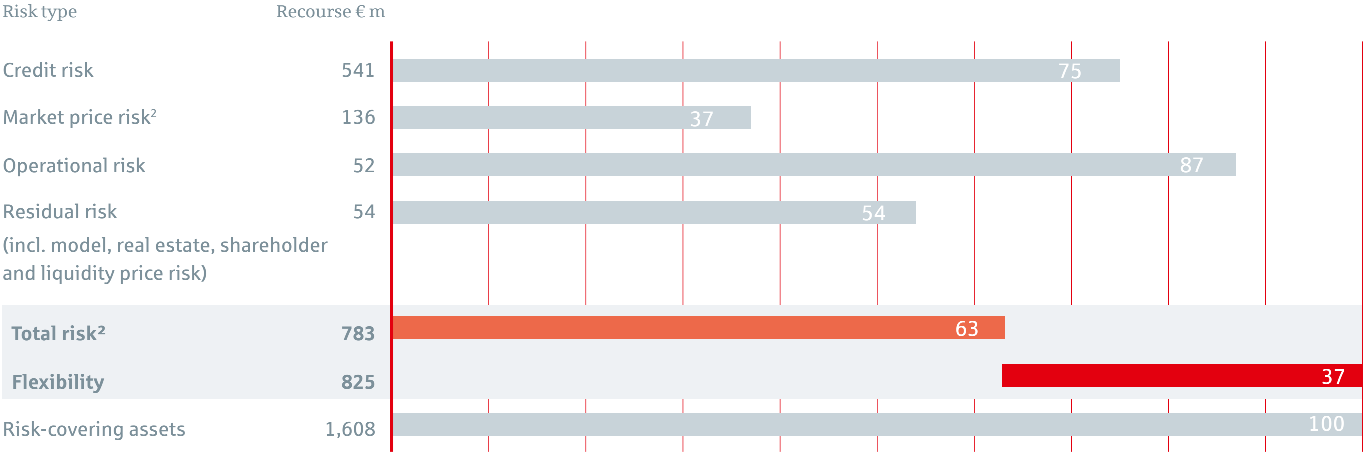
The risk-covering assets as at 31 December 2018 amounted to € 1,608 million.

The following chart shows the scope and development of the risk-covering assets within the framework of Berlin Hyp's risk-bearing capacity concept:

By combining the specific stress tests in the individual risk types into several cross-risk type overall bank stress tests, it is possible to estimate the impact of macroeconomic changes on the risk-covering assets or on the regulatory capital ratios.
For this purpose, sufficient scenarios were defined in accordance with the requirements of MaRisk, which also take into account the interrelations between the individual risk types of the assumed developments.

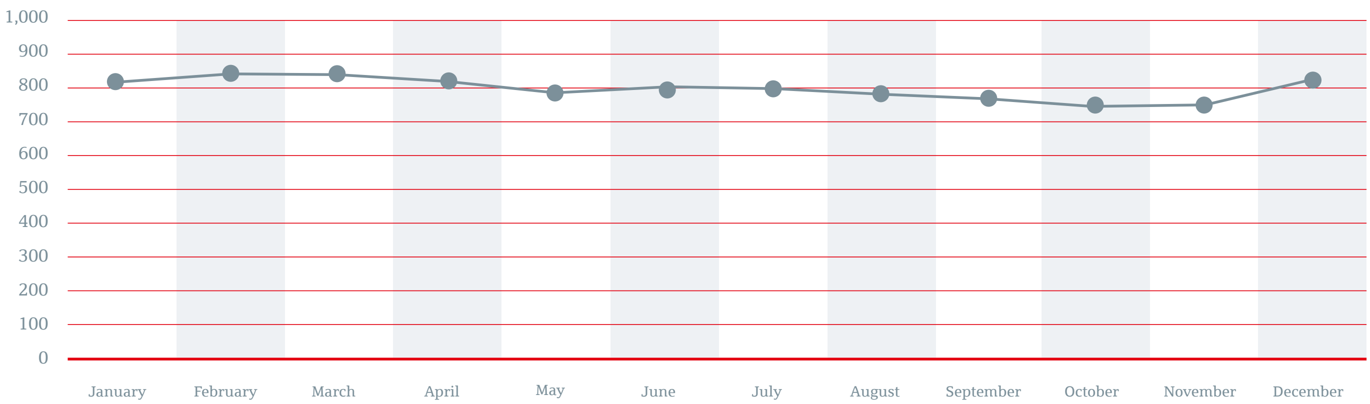
By applying inverse stress tests, it is calculated to what extent the overall bank scenarios with the strongest effects would have to develop until the total risk-covering assets is exceeded or the minimum capital requirement is undercut.

Percentage of recourse per risk type as of 31 December 2018 in %[1]



[1] The underlying holding period of the risk-bearing capacity concept is one year.
[2] The market price risk is scaled by multiplying VaR by a factor of 6.64.

Development of financial flexibility in 2018 in € million



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. Managing strategic risks is the responsibility of the entire Board of Management; certain decisions also require the consent of the Supervisory Board.

Landesbank Berlin Holding as the Group's parent company in the reporting year was responsible for strategic decision-making in the Group. The overall bank strategy approved and regularly updated by the Landesbank Berlin Holding Board of Management represents the upper limit of the strategies of the Group companies and consists of the strategy document and planning. The long-term company objectives and strategic framework conditions are established by the Board of Management in the annual strategy meeting.

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

Berlin Hyp further defined the business strategy according to its specific requirements within the binding Group requirements. These are reviewed annually as well and serve as the subsequent basis for Berlin Hyp's planning.

Reputational Risks

The Bank monitors print and online media also 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 2018.

Human Resources Risks

Availability Risk

The quantitative and qualitative staffing of the Bank's divisions is controlled by strategic resource planning. This is intended to ensure the functional and future viability of Berlin Hyp and is continuously adjusted. In order to keep planning up-to-date and realistic, megatrends, developments in new and established business areas and regulatory requirements are taken into account.

Berlin Hyp draws on all available 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 appropriate, publicly accessible media and obtains targeted assistance from recruitment experts in the case of key positions. In addition, Berlin Hyp regularly attends selected career fairs to address junior staff.

In 2018, all areas of Berlin Hyp had adequate staffing levels. Open positions could be adequately filled within a reasonable period of time. The availability risk is low.

Berlin Hyp is countering the megatrends with the following new measures: some of the junior staff programmes were redesigned in 2018 and the selection procedures for managers and trainees are being redesigned on the basis of the competence model published in 2018.

Motivation Risk

The motivation of the employees is promoted by sustainable workplaces and contents as well as a lively corporate culture. The ongoing feedback serves as an indicator. This is part of the corporate culture and is implemented in various processes and via various media. The motivation risk is low.

In 2018, leadership feedback was redesigned as 270-degree feedback. The implementation is top-down and has already been implemented for a first group of managers.

The operational integration management is currently being revised. In future, Berlin Hyp will be supported in the process by external specialists.

Qualification Risk
Due to demographic change, a number of employees will leave Berlin Hyp for reasons of age in the medium to long term. Here it must be ensured that the transfer of know-how from the departing employees to the remaining colleagues is successful. Digitisation and automation lead to new working conditions and change the required employee competencies. Parallel to the transfer of know-how, employee qualification will therefore be stepped up.

Berlin Hyp considers the qualification risk to be low due to a large number of customised in-house seminars and selected external training measures. The Bank has set an average target of 3.5 qualification days per employee. In 2018, employees received an average of 4.4 days of training and further training.

In 2018, the concept for the holistic development of managers was adapted to the changed framework conditions and thus also contributes to a low qualification risk.

IV Accounting-Related Internal Control System and Risk Management System

Accounting and annual accounts of Berlin Hyp are produced in accordance with the provisions of the German Commercial Code (HGB), supplemented by German Stock Corporation Act (AktG) provisions and taking into consideration the German Pfandbrief Act (PfandBG) as well as the German Credit Institutions Accounting Regulation (Verordnung über die Rechnungslegung der Kreditinstitute, RechKredV). The accounting standards of the German Accounting Standards Committee (DRS) are applied. According to the IFRS, Berlin Hyp is not obliged to present consolidated financial statements since no subsidiary has significant influence on the presentation of Berlin Hyp's earnings, financial and assets position.

The Finance and Banking Operations division is responsible for accounting. The organisational units of the division carry responsibility for the general ledger and accounting as well as 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 all relevant positions. Furthermore, sufficient human, technical and organisational resources are available in order to ensure the sustainable and disruption-free handling of tasks. The divisions are assigned to the back office.

In their management reports, corporations as defined in Section 264d German Commercial Code (HGB) must describe the significant characteristics of the internal control and risk management systems with regard to accounting processes. Berlin Hyp regards 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 as "material".

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 implementation of controls is decided on the basis of suitability, effectiveness and profitability.

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 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 largely avoids 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 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 undertaken 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, reconciliations, 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 Internal Audit division's risk-oriented audit planning. 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 2018 financial year, audits were carried out to reconcile pending trading transactions, to prepare the tax return process and to settle derivative transactions including collaterals. 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.

There were no significant findings, as in previous years.

Regarding special measures concerning the management and monitoring of accounting units that are to be depicted within the accounting framework, please refer to the comments on risks in the Annual Report as well as to the Notes.

A number of external audits were carried out at Berlin Hyp in the 2018 financial year alongside the audit of the annual financial statements. These audits concerned either Berlin Hyp directly as a separate financial institution or in its capacity as part of the regulatory group.

None of the audits resulted in material findings. The Bank followed up and rectified the findings in a coordinated procedure led by the Internal Audit division.

V Remuneration Report

The amendment to the German Remuneration Ordinance for Institutions was incorporated into the remuneration strategy and remuneration systems in the 2018 financial year. This Remuneration Report summarises the principles that were applied in determining the remuneration of the Board of Management at Berlin Hyp and explains the levels and structure of Board of Management benefits. In addition, the principles and levels of the remuneration for the Supervisory Board and its committees are described. The report takes into consideration the recommendations of the German Corporate Governance Code in the version of 7 February 2017.

Remuneration of the Board of Management

The Supervisory Board establishes and annually reviews the remuneration system, including the major contractual elements, for the Board of Management at Berlin Hyp. Pursuant to Section 3(2) of the German Remuneration Ordinance for Institutions (InstitutsVergV), the supervisory body is responsible for the structure of the remuneration systems for the members of the management body. The specifics of the remuneration systems for the members of the management body were resolved by the Supervisory Board in the “Richtlinie des Aufsichtsrats der Berlin Hyp AG für die Festsetzung und Auszahlung der variablen Vergütung (Tantieme) der Vorstandsmitglieder” (Guideline prepared by Berlin Hyp’s Supervisory Board for establishing and paying out the variable remuneration (bonuses) for members of the Board of Management).

The Supervisory Board has transferred the duties of the Remuneration Controlling Committee pursuant to Section 25d (12) German Banking Act (KWG) to its Staff and Strategy Committee. The Committee assists the Supervisory Board in structuring the remuneration systems for the members of the Board of Management.

Landesbank Berlin Holding has concluded a lump-sum pecuniary loss third-party liability group insurance (D & O insurance) in favour of members of organs within the Group. This also covers the personal liability risk of the Berlin Hyp Board of Management members in case the relevant group of persons is called to account for pecuniary loss in connection with the performance of its work. In accordance with the regulations contained in Section 93 (2) German Stock Corporation Act (AktG), the deductible is agreed as at least 10 % of the claim up to a maximum amount of one and a half times the fixed annual remuneration. Landesbank Berlin Holding pays the premiums for this D&O insurance which is also in the interests of the Group.

During the financial year, the Board of Management consisted of Sascha Klaus, Gero Bergmann and Roman Berninger. The individual rights and duties of members of the Board of Management resulting from their employment relationship are regulated for each member by his contract of employment. The following remuneration elements have been set:

Fixed annual salary: The fixed annual salary of the members of the Board of Management consists of a basic salary in the form of pensionable and non-pensionable components which are payable in monthly instalments. In accordance with the employment contracts, the fixed payments are, in the event of effective collective wage increases, adjusted according to the salary increase of the respective highest salary group in terms of percent in accordance with the collective bargaining agreement for the private banking trade and the public banks.

Variable remuneration: the members of the Board of Management can receive variable remuneration for their work in the respective past financial year.

Pursuant to Section 20(5) of the German Remuneration Ordinance for Institutions (InstitutsVergV), at least 50 % of variable remuneration must depend on the development of the institution’s value over the long term and be subject to appropriate vesting periods. For (listed) institutions organised as an Aktiengesellschaft (stock corporation), the sustainability requirement is also to be complied with using share-based forms of remuneration. If share-based forms of remuneration are not possible at institutions due to their legal form or are not suitable for other reasons in order to achieve the goal of sustainability, business ratios can be used that reflect the enterprise value. However, a comprehensive company valuation is not necessary. The issue of Berlin Hyp shares is not regarded as practical, as Berlin Hyp shares are not listed. In view of the ownership structure with LBBH as sole shareholder, the issue of new Berlin Hyp shares is not in the interest of the Group. Berlin Hyp shares, which cannot be traded on a liquid market, also do not represent a reasonable incentive instrument for Board of Management remuneration. Therefore, in the opinion of the Supervisory Board members, shares are not a suitable form of remuneration for Berlin Hyp and its parent company, LBBH, to ensure the orientation of the remuneration towards sustainable performance of Berlin Hyp and LBBH that is desired by the regulatory authorities. The creation of share-based instruments (phantom stocks) does not bring any advantage over the fixing of a variable remuneration in cash. It is not possible to reflect a market price of shares that reflects sustainable performance and which could be linked to the fact that such share-based instruments would also be payable in cash and would have to be based on the same criteria as those used to determine the variable remuneration. Instead of using share-based forms of remuneration, that part of the variable remuneration which is to be structured pursuant to Section 20(5) of the Remuneration Ordinance for Institutions (InstitutsVergV) (sustainable instruments), is to be based on the development of equity capital pursuant to the German Commercial Code (HGB) as provided in Berlin Hyp's annual accounts in accordance with the German Commercial Code (HGB) as this adequately reflects the development of Berlin Hyp's value.

The Supervisory Board stipulates the maximum amount of the variable remuneration to be paid to each member of the Board of Management in a financial year (so-called "target bonus"). Variable remuneration is measured using a multi-stage system:

The first prerequisite is that a total amount of variable remuneration within the meaning of Section 45(2) Sentence 1 No. 5a German Banking Act (KWG) can be determined. This also includes bonuses for members of the Board of Management. Pursuant to Section 7 of the InstitutsVergV, the total amount of variable remuneration is to be determined in a formalised, transparent and comprehensible process with appropriate participation of the control units in accordance with their area of responsibility. In addition, Section 7(1) Sentence 3 of the InstitutsVergV stipulates that:

When determining the total amount, the risk-bearing capacity, the multi-year capital planning and the earnings situation of Berlin Hyp and the Group must be sufficiently taken into account and it must be ensured that Berlin Hyp and the Group are in a position to maintain or restore adequate capital and liquidity resources and the combined capital buffer requirements in accordance with Section 10i KWG on a permanent basis.

These preconditions are reviewed annually at the group and institution level as part of the variable remuneration process. For this purpose, analyses are carried out on the basis of the current medium-term planning (MTP) with a time horizon of five years. For capital planning purposes, the MTP sets strategic minimum targets for the common equity tier capital 1 ratio for the Group and Berlin Hyp that exceed the regulatory requirements.

In the event of an inadequate earnings situation, the determination of a total amount is only conceivable in situations in which there are immediate and concrete signs of a turnaround with a turnaround for the better. The intention to determine a total amount despite a negative earnings situation of the institution is to be substantiated in a plausible, comprehensive and comprehensible way to third parties and must be notified in advance to the supervisory authority. Section 45 KWG remains unaffected by this. However, if the conditions for the BaFin's powers of requirement pursuant to Section 45 KWG (in particular (2) Nos. 5a and 6) are met, no total amount may be determined and consequently no funds may be made available for allocation.

In order to determine the overall performance of the Group and the institution, remuneration parameters shall be used that take account of the objective of sustainable performance and take appropriate account of risks.

1. **Determining the Group's Overall Success**
   The Group's overall success is determined at the level of Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG. The size of the contribution to value, which fundamentally encompasses the operating result and capital costs and is determined based on the financial statements of Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG according to the German Commercial Code (HGB), is used as a parameter here. Determining the Group's overall success is the basis for other decisions at the level of Group institutions. Positive value contributions at group level are a fundamental prerequisite for a group institution to be able to determine a total amount of variable remuneration on the basis of its own positive overall performance determined specifically for that institution.

2. **Determining Berlin Hyp's Overall Success**
   Berlin Hyp's overall success is determined using the method as applied at Group level.

3. **Determining the Total Variable Remuneration Amount**
   In determining the total variable remuneration amount for the Board of Management (total bonus pool), the Supervisory Board initially uses a bonus base value. This amounts to 20 % of the fixed remuneration (excluding other remuneration/compensation in kind) of the members of the Board of Management. The actual amount of the total volume of variable remuneration is derived from the success-adjusted amount of the bonus base value. In addition to the consideration of sustainable financial success, other non-qualitative factors are taken into account by the Supervisory Board.

4. **Determining Individual Target Bonuses**
   The individual success of each member of the Board of Management is determined by whether the member achieves the agreed targets (individual target agreement), taking into account both quantitative and qualitative remuneration parameters, which are inspired by the strategies and support the achievement of the strategic targets. Pursuant to Section 18(5) InstitutsVergV, negative deviations from agreed targets of the member of the Board of Management or his responsible departments must reduce the amount of the variable remuneration and also lead to its complete loss (*ex ante* risk adjustment). The complete loss of a variable remuneration must occur in any case if

- the member of the Board of Management was significantly involved in or responsible for conduct that led to substantial losses or a material regulatory sanction for the institution;

- the member of the Board of Management has seriously violated any relevant external or internal regulations regarding suitability and conduct.

Any conduct contrary to morals or obligations must lead to a reduction in the target bonus in accordance with Section 19(2) of the InstitutsVergV; no compensation may be provided in the form of positive profit contributions.

The target bonus may not exceed one half of the fixed annual salary (basic salary comprising pensionable and non-pensionable components) of the member of the Board of Management.

The total remuneration calculated in this way (basic salary plus target bonus) will be reviewed by means of a market comparison and considering the institution's remuneration structure to ensure that it is appropriate. The target bonus is then determined by the Supervisory Board.

Taking into account the position and the tasks of the Board of Management at Berlin Hyp, 40 % of the target bonus determined by the Supervisory Board will be paid immediately ("instant bonus"). The remaining 60 % will be spread over a period of five years and may only be awarded in five instalments ("conditional bonus") over the five financial years following further determinations by Supervisory Board. The Supervisory Board will resolve the conditional bonuses in accordance with Section 7(1) German Remuneration Ordinance for Institutions (InstitutsVergV) once the annual accounts have been prepared for each financial year, taking into account the development of Berlin Hyp's value over the long term as well as personal performance contributions.

In each financial year following the year in which the target bonus is fixed, a maximum conditional bonus of 12 per cent of the target bonus (i.e. 1/5 of the retained bonus) may be fixed for payment or grant. Each portion of the conditional bonus still to be agreed on will be determined once the sustainability of the performance contributions for the financial year for which the target bonus had been intended at the time (base year) has been reviewed. During the retention period, a back-testing of the initial determination of the target bonus and the target achievement on which it is based must be carried out. If the result of the review deviates downwards from the result used to determine the target bonus and if the original risk adjustment proves to be insufficient, the difference in relation to the retained variable remuneration component must be deducted accordingly (malus). The performance, success and risk criteria originally used must be taken as a basis. The retained remuneration component shall be reduced to the level at which it would have been fixed if the failure and/or risk subsequently realised had already been taken into account in the original determination of the target bonus. If negative profit contributions are subsequently known, the entire conditional bonus must be reduced to “zero” for the relevant assessment period in accordance with Section 19(1) InstitutsVergV. The conditional bonuses may only be granted if and to the extent that the prerequisites pursuant to Section 7(1) Sentence 3 InstitutsVergV have been fulfilled at the respective fixing points in the retention period. Berlin Hyp is entitled to reclaim bonuses paid out and to refuse to meet claims to the payment of bonuses of a member of the Board of Management (“right of reclaim”) if it has been significantly involved in or responsible for conduct that has led to substantial losses or a material regulatory sanction for Berlin Hyp or has seriously violated relevant external or internal regulations with regard to suitability and conduct.

The right to reclaim exists both for the immediate bonus and for the conditional bonus. It comprises all paid-out components of a target bonus that were granted for the financial year in which the member of the Board of Management´s decisive action to trigger the right to demand repayment took place. The right to demand repayment expires two years after expiry of the retention period for the last determined partial amount of the target bonus for the financial year in which the relevant action took place.

50 % of both the instant and conditional bonuses will be paid out immediately following their determination. The remaining 50 % of both the instant and conditional bonuses are dependent on the development of the company’s value over the long term and are subject to a one-year vesting period, after which they will be paid (“sustainable instruments”). The net asset value over time needs to be established for this. If a member leaves the Board of Management through termination of the appointment and/or termination of the employment relationship, the determination of instalments extending across the retention period will not be affected; other income will not be offset.

The Board of Management members did not receive any other remuneration components (subscription rights, other share-based remuneration components, etc.) in the 2018 financial year. Board of Management members have not been promised or have not received payments from third parties in the financial year in connection with their work as Board of Management members.

Other remuneration: company cars were also provided to Sascha Klaus, Roman Berninger and Gero Bergmann for company and private use in the 2018 financial year, with a chauffeur also provided for company use.

Total remuneration: In the 2018 financial year, the members of the Board of Management received remuneration totalling T€ 1,839 (previous year: T€ 1,833). This amount contains the performance-related elements of the remuneration for the 2015 and 2016 financial years, totalling T€ 140, and for the 2017 financial year totalling T€ 136, disbursed in the 2018 financial year.

In 2018, variable remuneration of T€ 680 was determined for the Board of Management for the 2017 financial year.

The total amount of variable remuneration paid to the Board of Management in 2018 was determined in in accordance with Section 7 Remuneration Ordinance for Institutions (InstitutsVergV).

In accordance with the criteria defined above, no variable remuneration was paid for the 2011, 2013 and 2014 financial years for the activities of the members of the Board of Management who held their positions in the 2011, 2013 and 2014 financial years.

The sum of variable remuneration for the 2018 financial year as well as the payable retention sums from the 2015 and 2016 financial years could not yet be determined at the time of the preparation of the annual accounts.

Pension and benefits commitments: In case of incapacity for work caused by accident or illness, the members of the Board of Management are entitled to full payment for the following periods: Gero Bergmann and Sascha Klaus – up to twelve months; Roman Berninger – up to 18 months, but in each case no longer than until the end of the respective employment relationship.

The Board of Management members Bergmann and Berninger have a claim to retirement pension after the end of the contractual relationship upon reaching the age of 65. In the case of Roman Berninger, this claim for pension also applies upon expiry of the term of appointment or as a result of the Bank's termination of the contractual relationship, provided termination is not occasioned by cause connected with the person of the Board of Management member (Section 626 German Civil Code (BGB)).

Gero Bergmann or the Bank may terminate his employment contract once he has reached the age of 62. In this case, he retains his claim to retirement pension even before the age of 65.

If Gero Bergmann or Roman Berninger leave the Bank due to incapacity, they will receive a disability pension. A widow's or orphan's pension is also paid to the surviving dependants of the Board of Management members Bergmann and Berninger upon their death.

The retirement pension payable to the Board of Management members Bergmann and Berninger is determined by a certain percentage of their pensionable fixed salary. This percentage increases by 2 % for each year of service as a Board of Management member, whereas a maximum limit of 75 % is contractually agreed for Roman Berninger and a maximum limit of 50 % for Gero Bergmann. The valuation basis for the retirement pension is the full amount of pensionable fixed salary.

The pension claim acquired pursuant to this as at 31 December 2018 is 36.0 % of the pensionable salary for Gero Bergmann and 60.0 % for Roman Berninger. According to their contracts of employment, these Board of Management members have a claim to the adjustment of their current pension benefits once they have started receiving them. This adjustment is made in accordance with the percentage payment developments of the collective bargaining agreements for the private banking trade and the public banks.

Following his reappointment as a member of the Bank's Board of Management, Sascha Klaus received a pension commitment with effect from 1 September 2019.

The cash value of the pension reserves formed for the Board of Management was T€ 4,763 on the balance sheet date (T€ 3,607). In 2018, T€ 1,156 (T€ 322) was contributed to reserves in anticipation of pension commitments and similar obligations to members of the Board of Management.

In addition, a total of T€ 2,756 (T€ 2,919) was paid in the financial year 2018 in overall benefits (retirement pensions, surviving dependants' benefits and payments of a related nature) to former Board of Management members or their surviving dependants. The cash value of the obligations to pay such benefits for this group of persons is T€ 35,888 on the balance sheet date.

The following overviews of the remuneration of the members of the Management Board in the 2018 financial year follow the disclosure requirements of the German Corporate Government Code (GCGK).

Amounts
in T€

		Fixed annual remuneration	Ancillary benefits	Total	One-year variable remuneration	Multi-year variable remuneration	*Conditional bonus for the 2012 FY (6 year term of the plan)*	*Instant bonus for the 2015 FY (1 year term of the plan)*	*Conditional bonus for the 2015 FY (5 year term of the plan)*	*Instant bonus for the 2016 FY (1 year term of the plan)*	*Conditional bonus for the 2016 FY (5 year term of the plan)*	Total	Benefit expenditure[1]	Total remuneration
Sascha Klaus Chair of the Board of Management 1 October 2016														
Benefits granted	2017	560	19	**579**	0	0	*0*	*0*	*0*	*0*	*0*	**579**	0	**579**
	2018	560	17	**577**	112	0	*0*	*0*	*0*	*0*	*0*	**689**	195	**884**
	2018 (Min)	560	17	**577**	112	0	*0*	*0*	*0*	*0*	*0*	**689**	195	**884**
	2018 (Max)	560	17	**577**	112	0	*0*	*0*	*0*	*0*	*0*	**689**	195	**884**
Alloca-tions	2017	560	19	**579**	100	0	*0*	*0*	*0*	*0*	*0*	**679**	0	**679**
	2018	560	17	**577**	56	0	*0*	*0*	*0*	*0*	*0*	**633**	195	**828**
Roman Berninger Board of Management 1 January 2010														
Benefits granted	2017	455	25	**480**	72	0	*21*	*26*	*20*	*0*	*0*	**619**	270	**889**
	2018	461	19	**480**	80	0	*0*	*0*	*29*	*36*	*27*	**652**	282	**934**
	2018 (Min)	461	19	**480**	80	0	*0*	*0*	*29*	*36*	*27*	**652**	282	**934**
	2018 (Max)	461	19	**480**	80	0	*0*	*0*	*29*	*36*	*27*	**652**	282	**934**
Alloca-tions	2017	455	25	**480**	36	0	*0*	*0*	*21*	*26*	*10*	**573**	270	**843**
	2018	461	19	**480**	40	0	*0*	*0*	*20*	*36*	*14*	**589**	282	**871**
Gero Bergmann Board of Management 1 January 2011														
Benefits granted	2017	455	33	**488**	*72*	0	*21*	*26*	*20*	*0*	*0*	**627**	113	**740**
	2018	481	25	**506**	80	0	*0*	*0*	*29*	*36*	*27*	**678**	118	**796**
	2018 (Min)	481	25	**506**	80	0	*0*	*0*	*29*	*36*	*27*	**678**	118	**796**
	2018 (Max)	481	25	**506**	80	0	*0*	*0*	*29*	*36*	*27*	**678**	118	**796**
Alloca-tions	2017	455	33	**488**	36	0	*0*	*0*	*21*	*26*	*10*	**581**	113	**694**
	2018	481	25	**506**	40	0	*0*	*0*	*20*	*36*	*14*	**615**	118	**733**

[1] For pension schemes and other benefits, the benefit expense, i.e. the service cost, is shown accordance with IAS 19. The service cost to be recognised in profit or loss is calculated according to the Projected Unit Credit Method and corresponds to the actuarial cash value of those payment elements which are newly earned by the active staff in the current accounting period.

Remuneration of the Supervisory Board

The members of the Supervisory Board receive remuneration for their work; this amount is stipulated in the Articles of Association, which state that Supervisory Board members receive fixed annual remuneration. No variable remuneration is paid. Additional remuneration is paid for membership in the committees, for chairmanship and deputy chairmanship of the Supervisory Board and its committees. Pursuant to Section 14 of the Articles of Association, remuneration of the Supervisory Board members is regulated as follows:

In addition to reimbursement of their expenditure (including value added tax), members of the Supervisory Board also receive fixed annual remuneration. For individual members, this amounts to T€ 12 per annum; the Chair of the Supervisory Board receives double this amount, and each Deputy Chair receives one and a half times the stated figure.

In addition to reimbursement of their expenditure (including value added tax), members of the Supervisory Board committees also receive fixed annual remuneration in addition to their Supervisory Board remuneration. For individual members, this amounts to T€ 6 per annum; the respective committee chair receives one and a half times this amount, and each deputy chair receives one and a quarter times the stated figure.

In the event that members of the Supervisory Board acting in this capacity assume a particular duty in the interests of the company, the Supervisory Board can resolve to grant additional remuneration.

If a member only belongs to the Supervisory Board for part of the financial year, he/she receives the pro-rata share of the annual remuneration for this period.

Members of the Supervisory Board receive remuneration for their work in the respective financial year in each case after the expiry of the financial year in question.

Total remuneration of T€ 303 (T€ 306), without value added tax, is payable to the members of the Supervisory Board of Berlin Hyp and its committees for 2018.

All employees' representatives on the Supervisory Board are employees of Berlin Hyp. They receive appropriate remuneration for this work and the usual bank pension commitment for staff. They receive no further pension commitments for their activity on the Supervisory Board. No remuneration or benefits for personal performance, particularly for consulting and referral services, were paid or granted to the members of the Supervisory Board.

VI Corporate Governance Declaration Pursuant to Section 289f German Commercial Code (HGB)

Declaration of Compliance Pursuant to Section 161 German Stock Corporation Act (AktG) Regarding the German Corporate Governance Code

The Declaration of Compliance pursuant to Section 161 German Stock Corporation Act (AktG) regarding the German Corporate Governance Code was published by Berlin Hyp in its Internet portal under www.berlinhyp.de/bhyp/de/ueberuns/corporategovernance.

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 (Drittelbeteiligungsgesetz) 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 made up of ten shareholder representatives and five employee representatives. Berlin Hyp has currently met its target of having at least two women in the Supervisory Board.

Board of Management

The Board of Management currently has three members. The share of female representation of 0 % determined by the Supervisory Board continues to apply until the review on 30 June 2022 or the termination of current contracts of employment prior to reappointment.

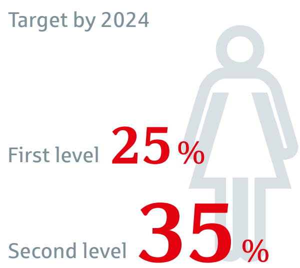
First and Second Management Levels Below the Board of Management

Berlin Hyp's Board of Management established a graduated scheme for raising the target for the first and second management levels. It calls for achieving targets for the first (divisional management) and second (department management) management levels below the Board of Management as follows: 23 % and 30 %, respectively by 31 December 2020, 25 and 35 %, respectively by 31 December 2024.

The target set for the first level of management below the Board of Management (divisional management) of 23 % by 2020 was exceeded as at 31 December 2018 at 28.6 %, as in the previous year. When compared to the previous year, at the second level of management below the Board of Management (department management) a 3 % decrease in female representation to 23.8 % took place. The targeted 30 % by 2020 has not yet been achieved, but still has sufficient potential to be reached in terms of time.

Overall, the percentage of women in management positions at all levels of management at Berlin Hyp is 27.1 %.

Women in management positions



VII Non-Financial Declaration pursuant to Sections 289b and 289c German Commercial Code (HGB)

General Information

Preface
Berlin Hyp AG (Berlin Hyp) is required by law to submit a non-financial declaration pursuant to Sections 289b to 289e German Commercial Code (HGB) annually. The Bank fulfils this obligation – without making use of an exemption option – by publishing this "Non-Financial Declaration" (hereinafter also referred to as "declaration"). The declaration relates to the period from 1 January 2018 to 31 December 2018 and is part of the Management Report for the first time. In addition, Berlin Hyp will publish this declaration on its website at www.berlinhyp.de.

The declaration is based on the German Sustainability Code (Deutscher Nachhaltigkeitskodex, DNK), insofar as its frameworks are adequate for Berlin Hyp in each individual case, and on performance indicators in accordance with the standards of the Global Reporting Initiative (GRI SRS). For better readability, the terms of the DNK have been adapted to the terms of Section 289c German Commercial Code (HGB).

The Supervisory Board of Berlin Hyp AG has voluntarily commissioned KPMG Wirtschaftsprüfungsgesellschaft AG to conduct a business audit of the report in accordance with ISAE 3000 (Revised) for the purpose of obtaining limited assurance in accordance with Sections 289b to 289e HGB.

In addition to this non-financial declaration, Berlin Hyp publishes its sustainability activities in 2018 according to GRI SRS in the GRI balance sheet. It is planned to publish the GRI balance sheet in the second quarter of 2019. This provides further information on the Bank's sustainability strategy and performance beyond the statutory requirements of the German Commercial Code (HGB).

Since the incentive system of Berlin Hyp does not take sustainability indicators into account separately, no reporting in the non-financial declaration is provided here. Instead, we refer you to the detailed information in the remuneration report of Berlin Hyp.

All references to further reports are additional information and are not part of this declaration or its audit.

Business Model

Details of the business model can be found in the Management Report under section "I Principles of the Bank – Business Model".

1. Sustainability Concept

1.1. Strategic Analysis and Measures
Berlin Hyp is one of Germany's leading real estate and Pfandbrief banks in commercial real estate financing. It uses risk management insights and a materiality matrix that must be updated annually to analyse its opportunities and risks. In its commitment to sustainability, Berlin Hyp is guided by the Ten Principles of the UN Global Compact, the Charta der Vielfalt, the DSGV's sustainability guidelines and the sustainability code for the real estate sector published by the German Property Federation (Zentraler Immobilien Ausschuss, ZIA). Acting sustainably has also been firmly anchored in the company strategy.

Requirements and procedures have been stipulated to manage environment, social and governance (ESG) risks responsibly during the course of ordinary business operations. Furthermore, Berlin Hyp has excluded business activities relating to certain critical industries. For example, real estate is not financed if its construction or operation is directly related to the production of genetically modified organisms or the production of tobacco or alcohol. The strategic principles that create the framework for sustainability are presented in Chapter 1.3.

1.2. Materiality
In order to take the perspective of our stakeholder groups into account, we have jointly identified the issues deemed to be material. To do this, we conducted a stakeholder survey in 2018. The survey was conducted using a conjoint-based method, which aims to enable statistically significant prioritisation while omitting socially desirable responses or

interviewer bias. The results were evaluated with management. On the one hand, the extent to which Berlin Hyp's business activities have an appreciable impact on the individual sustainability aspects was examined. On the other hand, it was examined whether the sustainability aspects were relevant for the understanding of Berlin Hyp's business performance, results of operations and position.

Overview of Issues Deemed to be Material

		Material according to CSR-RUG	Relevant for Berlin Hyp
Employee-related matters	→ Promotion of an open and fair working environment	✓	✓
	→ Fair remuneration policy, appropriateness of commissions and bonuses		✓
Social issues	→ Consideration of social criteria when issuing bonds	✓	✓
	→ Protection of personal information of employees, customers and business partners*		✓
	→ Offering secure/stable financial products	✓	✓
	→ Transparent presentation of impacts, opportunities and risks of the portfolio	✓	✓
Prevention of corruption	→ Prevention of corruption and anticompetitive behaviour*		✓
	→ Tax honesty		✓
	→ Prevention of money laundering and terrorist financing		✓
Environmental matters	→ Consideration of ecological criteria when issuing bonds	✓	✓
	→ Consideration of climate protection criteria in the selection of financing projects	✓	✓
	→ Consideration of criteria for conserving resources and protecting biodiversity in the selection of financing projects	✓	✓
Human rights	→ Corporate human rights due diligence and consideration of social criteria when selecting financing projects*		✓
Other	→ Responsible design of the digitisation of processes**	✓	✓

* These topics do not have double materiality according to CSR-RUG. However, special attention will be paid to these issues within Berlin Hyp. As a result, these topics are dealt with in more detail in the following on a voluntary basis.

** The responsible design of the digitisation of processes has an impact on employee-related matters and social concerns and is explained in more detail below at the level of the individual aspects.

- **Employee-Related Matters**
Business operations are not possible without employees. For this reason, appropriate measures have also been taken to promote an open and fair working atmosphere with regard to employee rights, equal opportunities and qualification. These measures are intended to contribute to the further development of the employee situation.

- **Social Issues**
Through its activities as a financial service provider, Berlin Hyp has an impact on social issues, in particular through its products and services. Measures such as the integration of social criteria into our own investment business and the responsible digitisation of processes also contribute to a positive business development.

- **Prevention of Corruption and Bribery**
The prevention of corruption and anticompetitive behaviour and compliance with legal requirements by Berlin Hyp's products and services have a decisive influence on the success of its business activities. According to a joint assessment with the stakeholders, this only has a non-material impact on the aspect of "prevention of corruption and bribery". However, special attention will be paid to this topic within Berlin Hyp.

- **Environmental Matters**
As Berlin Hyp as a financial services provider – in contrast to the manufacturing industry – consumes relatively few natural resources in its business activities and has no significant share of climate-relevant emissions, this declaration does not go into more detail about the Bank's internal operational ecology. Financing projects, products and services of Berlin Hyp are relevant for this report as they have an indirect impact on the environment and climate protection. We were able to expand our product range in this area and thus make a positive contribution to the development of the business situation.

- **Human Rights**
Berlin Hyp acknowledges its responsibility with regard to the protection of human rights in all business activities. In order to guarantee this, Berlin Hyp has adopted several guidelines and joined the UN Global Compact as early as 2015. Since Berlin Hyp operates predominantly in Germany and in selected European core markets, the likelihood of human rights violations in the course of our business activities is assessed as low.

The analysis of possible reportable risks in connection with the non-financial aspects has shown that after applying the net method, taking into account the risk limitation measures, no material risks associated with Berlin Hyp's own business activities and business relationships as well as its products and services have been identified that are very likely to have or will have serious negative effects on the above-mentioned aspects.

1.3. Objectives
In addition to the overall strategic objectives listed below, the chapters on the various aspects of sustainability contain objectives that are only assigned to the respective aspect and contribute to the achievement of the overall strategic objectives.
Berlin Hyp's overall strategy is reviewed annually by management and is geared to the following two objectives:

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

In its sustainability mission statement, Berlin Hyp has set itself the following framework for action to support these goals:

"In our actions, we take ecological and social as well as economic aspects into account. In this way, we assume a responsibility towards owners, customers, employees and society that goes beyond the legal requirements:

1. We pursue a long-term, responsible and risk-conscious business policy and thus make a reliable contribution to the positive development of the economy and society.
2. We welcome the voluntary integration of ecological and social aspects into the real estate industry and the capital market. We continuously improve our own ecological and social "footprint".
3. We take responsibility for the quality of our work. We behave fairly, comply with the law and also orient ourselves to voluntary, relevant standards.
4. We offer our employees long-term career prospects in conjunction with a comprehensive range of further training opportunities. We promote social diversity and the

preservation of health in our company and we support our employees in social emergencies."

These overarching frameworks are, for example, concretised in directives. To support these objectives, the following catalogue of measures was developed, which is also presented in the Sustainability Report (Sustainability Programme).

The achievement of objectives is monitored by the Sustainability Management team. The results are made available to management for information and approval in the context of the sustainability report or GRI balance sheet.

1.4. Depth of the Value Chain
Due to the long useful life of real estate, Berlin Hyp has an explicit interest in ensuring that its customers build, acquire and operate real estate whose value is guaranteed in the long term by professional consideration of ecological, economic and social criteria. This interest is supported by a corresponding product guideline, according to which, for example, financing of buildings in connection with labour law and human rights violations must be rejected. In addition, Berlin Hyp requires its major suppliers to comply with the requirements of the ten principles of the UN Global Compact.

Sustainability Programme (Excerpts)

No.	Activity field	Measure	Sustainability aspect	Deadline	Status
1	Profitable business model	Development of a concept for a climate risk analysis of real estate portfolios	Environmental matters	12/2020	In implementation
		Project work with Carbon Delta	Environmental matters	12/2020	In implementation
		Review and, if necessary, concept development for extended impact measurement of the entire financed real estate portfolio	Social issues - social impact	12/2020	In implementation
2	Future-oriented customer relationship	Further development and process optimisation of the green bonds concept	Environmental matters	12/2020	In implementation

2. Process Management

2.1. Responsibility
Sustainability is anchored in Berlin Hyp across all divisions. This is ensured by the interaction between the Board of Management, Sustainability Officer, Sustainability Management and the Sustainability Steering Committee established in 2018, consisting of the heads of Corporate Strategy, Treasury, Real Estate Financing, Finance, Valuation, Communications and Marketing, Human Resources, Organisation and Sales Management. The overall responsibility for the sustainability strategy lies with the Chair of the Board of Management.

2.2. Rules and Processes
In addition to economic aspects, the Bank also takes into account both environmental and social ones.

Guidelines with corresponding specifications safeguard that these aspects are taken into account. These guidelines are put into operation through measures anchored in the business processes. Monitoring the constant application of the measures is primarily the task of management staff.

The identification, assessment, management and monitoring of non-financial risks associated with the five sustainability aspects is the operational responsibility of the respective specialist departments. Overarching responsibility rests with the Risk Management team. The risk management approach and outcomes are described in detail in the management report under Section III Opportunities, Forecast and Risk Report and are therefore not addressed further here.

2.3. Control – Due Diligence
Within the framework of regular reports by material organisational units – namely Compliance, Human Resources and Internal Audit – an overview of the relevant non-financial performance indicators is presented to the Bank's Board of Management. The selected reports are listed along with the individual sustainability aspects in Chapter 3.

2.4. Stakeholder Engagement
Berlin Hyp uses its established discussion formats with its key stakeholders to identify and implement their sustainability requirements.
In particular, stakeholders include customers, employees, society, competitors and owners.

Stakeholder dialogue is itself part of the Bank's day-to-day business processes in the form of discussions with customers, employee surveys or participation in association committees, to name a few examples. In 2018, Berlin Hyp used a digital stakeholder survey to identify the material sustainability issues from the stakeholders' perspective.

In general, Berlin Hyp sees the following sustainability aspects and issues as localised among its key stakeholder groups:

- The requirements of the owners and the customers are above all a profitable business model, responsible business operations, future-oriented customer relationships and the creation of a unifying trust. In the context of this declaration, these requirements are reported - as far as legally required - primarily under the following aspects/objects: Environmental concerns, social concerns, conduct in compliance with the law and directives.

- The employee requirements relate to a profitable business model, a responsible business operation, an attractive employer and the creation of mutual trust. Within the scope of this declaration, these requirements are reported - as far as legally required - primarily under the following aspect: Employee-related matters.

- From the company's point of view, a profitable business model, responsible business operations and the creation of mutual trust are particularly relevant. In the context of this declaration, these requirements are reported - as far as legally required - primarily under the following aspects/objects: Social concerns, conduct in compliance with the law and directives.

- For competitors, unifying trust is of relevance. In the context of this declaration, this requirement is reported - to the extent required by law - primarily under the following circumstances: Conduct in compliance with laws and regulations

3. Sustainability Aspects

3.1. Employee-Related Matters

Berlin Hyp's management culture aims to stand out by esteem, goal orientation, long-term security as well as extensive decision-making and creative freedom for all employees. Managers contribute to supporting employees in their development along their individual career and life phases.

This claim forms the basis of the human resources strategy, which thus supports the overall strategy of Berlin Hyp and, together with the corresponding guidelines and processes, covers the internal framework for the individual aspects listed below under a) to c).

The aim is to recruit the best employees from a personal and professional point of view and to ensure their long-term loyalty to the Bank. Systematic personnel planning is a prerequisite for this. It is the responsibility of the personnel department. The effects of digitisation and automation on the one hand and demographic change on the other hand must be taken into account.

Internal and external resources are used to cover personnel requirements. Open positions are initially advertised internally in order to give qualified employees the opportunity for personal development. The recruitment of junior staff is ensured by hiring trainees, dual students, working students and interns. The junior staff programme was partially redesigned in 2018. In future, Berlin Hyp will offer standardised trainee programs for university graduates and career changers as well as direct entry after graduation. In addition to the mandatory internship, junior staff can now also get to know Berlin Hyp as part of a voluntary internship.

Digitisation and automation are changing working conditions in a very concrete way. Creative workspaces and mobile technical equipment help to relieve the strain on employees in their daily work and give them greater flexibility.

HR reporting is prepared every six months and provides a detailed overview of key employee indicators. Necessary measures to change these key figures are initiated.

1. Employee Rights

The employees of Berlin Hyp work almost exclusively in Germany and are therefore subject not only to EU regulations but also to German regulations on labour law, co-determination within the company and the rights to freedom of association. In addition, employees employed on the basis of collective bargaining agreements enjoy direct protection under the provisions of the collective bargaining agreement, as Berlin Hyp is a member of the employers' association that is party to the collective bargaining agreement.

The Works Council is responsible for a large number of sustainability issues in accordance with the German Works Constitution Act (BetrVG) (e.g. occupational health and safety, equal rights, protection against discrimination, compliance with employee protection rights). In its role as the representative body of the entire workforce (except senior executives), it therefore contributes to the involvement of employees in sustainability management. The Committee of Spokespersons performs this role for the senior executives.

Through a series of agreements with the Works Council and the Committee of Spokespersons for executive employees, Berlin Hyp has regulated important issues relating to employee rights that go beyond the statutory requirements, including the organisation of the company, company pension schemes and mobile working. The two employee representatives have the right to monitor the implementation of the agreed measures.

Occupational health and safety and health management issues are also organised in accordance with legal requirements or regulated in a works agreement. On behalf of the Board of Management of Berlin Hyp, the responsible divisions do not negotiate occupational safety and health protection issues directly with trade unions, but in accordance with legal requirements with the Works Council or the Committee of Spokespersons for senior executives. In addition, overarching issues of occupational safety and health protection can become the subject of collective agreements between the associations that conclude collective agreements.

2. Equal Opportunities

Berlin Hyp is firmly convinced that diversity creates advantages from opposites. This attitude was underlined, *inter alia*, by the signing of the Charta der Vielfalt. In this context, the Human Rights, Diversity and Inclusion Directive provides employees and business partners with a clear orientation for their daily actions. It is based on national legislation and is oriented to international standards, such as among others:

- Universal Declaration of Human Rights of the United Nations
- United Nations Conventions Relating to Work and Employment
- Convention for the Protection of Human Rights and Fundamental Freedoms of the European Union

Berlin Hyp strives to integrate the equal consideration of women and men in the filling of management positions into its corporate culture to an even greater extent (see Management Report VI "Corporate Governance Declaration Pursuant to Section 289f German Commercial Code").

This will be supported, *inter alia*, by the following measures:

- Binding regulation on the inclusion of female applicants in recruitment by personnel consultants for the identification and promotion of female potential;
- Organisational anchoring of the equal involvement of female and male executives in central decision-making processes of the Bank, for example in the form of binding appointments to various selection and observer committees with at least one woman;
- Operational anchoring of the promotion of women by means of the assessment criterion with regard to the behaviour of managers for the equality of employees in the appraisal interview.

In addition, Berlin Hyp actively supports the compatibility of family and career and, as a result, equal opportunities through various instruments and measures such as trust-based working hours, mobile working and parent-child workplaces.

The "Competence Model" published in 2018 forms the basis for the redesign of HR management instruments and supports equal opportunities. On this basis, the selection procedures for managers and trainees will be redesigned in 2019.

The "Culture Map" instrument was used across all divisions in 2018. The objective was to support cultural change to become the most modern real estate financier.

We are not aware of any cases of discrimination in the 2018 reporting year.

3. Qualification

Through training and further education, the performance of managers and employees is maintained and individual motivation is promoted. The change in the required employee competencies through digitisation and automation is supported by a large number of customised in-house seminars and selected external training measures. The functional cycle of HR development consists of the basic steps of needs identification, target setting, planning, implementation as well as success control and transfer safeguarding for the respective qualification measure.

Managers generally control this process together with their teams and individual employees and are supported in this by the Human Resources department. On the basis of feedback discussions and the current and future task structure, they initiate and support needs-oriented development measures for employees and organisational units. The goal of all development measures, which were set at an average of 3.5 days per year for the workforce, is to achieve the following objectives:

- securing qualified personnel to cover the company's specific personnel requirements;
- increasing the adaptability of employees to structural changes in the organisation and organisational culture
- as well as the flexibilisation of personnel deployment.

In 2018, employees and managers underwent training and advanced training for an average of 4.4 days.

The holistic personnel development for managers was adapted to the Competence Model published in 2018. Individual existing measures such as basic training for new managers, coaching and the SeitenWechsel® personality training concept were combined with new methods such as leadership training from the perspective of a healthy lifestyle in the "Cafeteria Model", for example. The concept is based on individual, flexible personnel development for managers and is geared towards on the corporate vision and strategy in terms of HR development content. Individual development needs are also derived from regular management feedback. This was redesigned in 2018 as 270-degree feedback. In order to initially test the internal acceptance of this new personnel tool, the perspective of the external customer was put aside from the 360-degree feedback previously intended and the new feedback instrument was initially applied at selected management levels.

The Board of Management and the Works Council are informed annually by the Human Resources department about the qualification measures of employees and managers in the form of the Training Report.

3.2. Environmental Concerns
Since Berlin Hyp's products and services have an influence on ecological or social factors, Berlin Hyp has concentrated on the sustainable development of its core business over the past three years. Today it is also the leading issuer in the Green Bond market for commercial banks and issues green bonds in two different asset classes.

By issuing green bonds, Berlin Hyp is making an active contribution to reducing CO_2 emissions. In the current CO_2 reporting (as at 28 February 2018) at www.gruener-pfandbrief.de, the results and methodology for estimating CO_2 emissions saved by the financed green buildings are presented. In terms of figures and depending on the model used, each million Euro nominal value of the green bonds saves between 8.7 and 36.3 tonnes of CO_2 per year compared with the benchmarks used. The CO_2 reporting was checked for plausibility by oekom research as part of the re-verification of 27 April 2018.

In 2018, Berlin Hyp issued two benchmark green bonds. A senior unsecured bond in April was followed in October by a green Pfandbrief issue. Both bonds each have a nominal volume of EUR 500 million and were placed on the market at very good terms. With a share of 58 %, the share of international investors in the green Pfandbrief was above-average.

For Berlin Hyp, environmental protection is fundamentally an important issue. As a real estate financier, it has an indirect influence on the CO_2 emissions of the real estate it finances. Therefore, based on the overall bank strategy, the sustainability target was derived to increase the share of green financing in the Bank's loan portfolio to 20 % by 2020. This goal corresponds with the innovative products for the Green Bond market.

The company management is informed quarterly about the development of the loan portfolio and the share of green financings and can thus take control measures.

A climate risk analysis is carried out every two years in order to identify and assess risks from climate change for the markets in which the projects financed by Berlin Hyp are located. Berlin Hyp has also been participating in the "Real Estate Portfolio Assessment" project since October 2018. Here, the Bank supports the Carbon Delta FinTech in developing a model to assess the impact of climate risks on real estate portfolios. Berlin Hyp is thus adapting to a changing market environment and preparing for future challenges.

3.3. Social Concerns – Social Impact
Berlin Hyp, with its registered office in Berlin, contributes to economic and social well-being, particularly in the State of Berlin. Its business model generates income from interest and commission income and thus pays profits, employees' salaries and taxes. The profit will be transferred to the sole shareholder Landesbank Berlin Holding, also based in Berlin.

Reference is made to the Management Report (II Economic Report "Earnings Situation") for the presentation of the following items derived from the income statement for the 2018 financial year.

In € m

Net interest and commission income	338.6
Staff expenses	83.8
of which wages and salaries	56.8
of which social security contributions	7.5
Banking levy	92
Other taxes	0.2*
Profit transfer	116.4*

* A profit and loss transfer agreement and a tax group for VAT and income tax purposes are in force between Berlin Hyp and Landesbank Berlin Holding AG, Berlin.

In addition, Berlin Hyp strives to achieve an appropriate anchoring in the region through its social commitment (corporate citizenship). Further information can be found on the website at www.berlinhyp.de/ueberuns and in the 2018 GRI balance sheet to be published in the second quarter of 2019.

Berlin Hyp also meets the social requirements for its own investments. To this end, it has defined ethical investment criteria derived from the ten principles of the Global Compact, other internationally recognised sustainability standards and the Bank's compliance requirements. The filter used in Berlin Hyp for the Bank's own investments (portfolio A) is based on this. Through its application to the portfolio and new investments, sustainable aspects are to be taken into account in financial investments on an equal footing with the economic objectives of investments in securities. The annual report of the Savings Banks Association of Baden-Württemberg in cooperation with the independent sustainability rating agency oekom research forms the basis for the analysis of portfolio A and the basis for future investment decisions. If the half-yearly review of portfolio A by Sustainability Management reveals violations of the filter criteria, Treasury consults with Sustainability Management on the measures to be taken.

The consideration of social criteria in the issuance of bonds and loans is currently under review and a result is expected by the end of 2020.

3.4. Prevention of Corruption and Bribery – Conduct in Compliance with Laws and Regulations

In order to ensure success in the markets, it is an important goal of the Bank to maintain and strengthen the trust of customers, employees, owners and supervisory authorities. The Bank's reputation therefore has a high priority. This also includes acting in the interests of customers and avoiding conflicts of interest. To this end, Berlin Hyp has created a comprehensive compliance organisation whose principles are summarised in a Code of Conduct and in numerous internal work instructions and are monitored by the Compliance Department under the direction of the Compliance Officer.

Berlin Hyp has set itself the goal of preventing all attempts at fraudulent action or corrupt conduct. Within the framework of the following sub-aspects, the organisation and selected measures to combat corruption and bribery are discussed in more detail with the involvement of company management.

1. Political Influence

In principle, Berlin Hyp does not exert any political influence. In the year under review, no entries were made in legislative procedures or in a lobby list. Benefits to political parties or politicians are prohibited at Berlin Hyp in accordance with the Corporate Citizenship Directive.

Berlin Hyp makes its contribution to the public debate on developments relevant to the sector through its involvement in associations and sector institutions, which in turn have to act within the framework of their statutes and are monitored by their committees.

2. Conduct in Compliance with Laws and Regulations

Our actions are based on compliance with the law, professional standards and internal rules, regulations and guiding principles.

Employees are required to respect and comply with the laws and regulations applicable in the jurisdictions in which the Bank operates. Employees are trained and instructed in compliance with legal standards and internal regulations. There are no known incidents of corruption at Berlin Hyp in 2018.

The Compliance Department regularly informs company management about the status of compliance management in the company. In addition, ad hoc information is provided on a case-by-case basis in the event of serious violations of compliance regulations. The regular implementation of internal company requirements is also reviewed as planned – and if necessary, on an ad hoc basis – by Internal Audit, which reports directly to the Board of Management and is independent of instructions.

There were no anomalies in this respect in the year under review.

No fines were imposed on Berlin Hyp in the year under review. Furthermore, no non-monetary sanctions were imposed against the Bank for non-compliance with laws and regulations.

3. Protection of the Privacy of Employees, Customers and Business Partners

Berlin Hyp collects, processes and uses personal data of employees, customers and business partners. They are used for general business operations and enable us to provide customers with advice and support tailored to their needs.

This personal data may only be handled with care, in compliance with the law and according to clear rules, in order to justify the trust placed in the Bank by customers. Within the company and vis-à-vis customers and business partners, we therefore pay attention to who receives what information. Customer data may only be passed on to third parties if the customers have consented to this, or if there is a legal permissibility or legal obligation to do so.

The internal instructions define and describe the processes by which the implementation of the General Data Protection Regulation and other regulations on data protection at Berlin Hyp is to be promoted. Operational data protection is monitored by the Data Protection Officer. He acts on behalf of the Board of Management and is not subject to instructions in the tasks assigned to him. The Data Protection Officer works towards compliance with data protection and monitors and coordinates data protection measures. All Berlin Hyp employees regularly attend a web-based data protection training course.

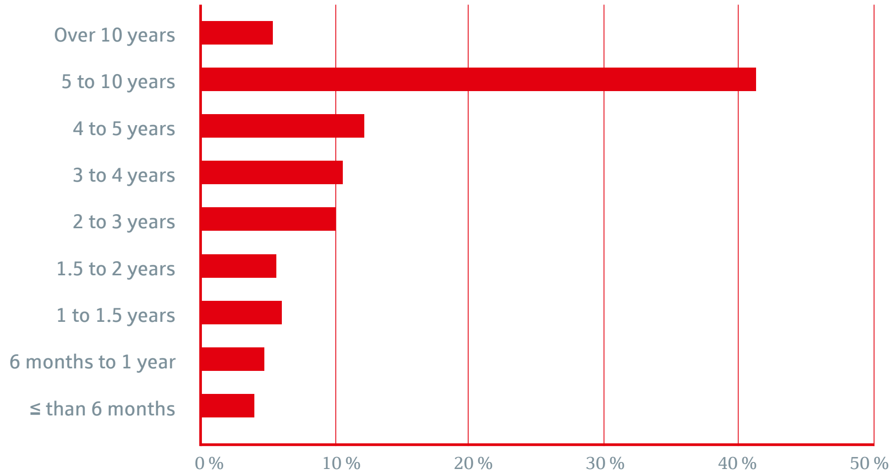
Company management is informed by the Data Protection Officer with an annual report on the status of data protection in the company or ad hoc if necessary.

VIII Further Information for Investors

Mortgage Loan Portfolio

The breakdown of the mortgage loan portfolio by maturity structure and loan-to-value ratio as at 31 December 2018 was as follows:

Maturity Structure of Loans
in %



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

Lending region	Ø LTV
Germany	58.5
BeNeLux	52.6
France	49.6
Poland/Czech Republic	60.1
Great Britain	43.5

Available Distributable Items (ADI)
in € million

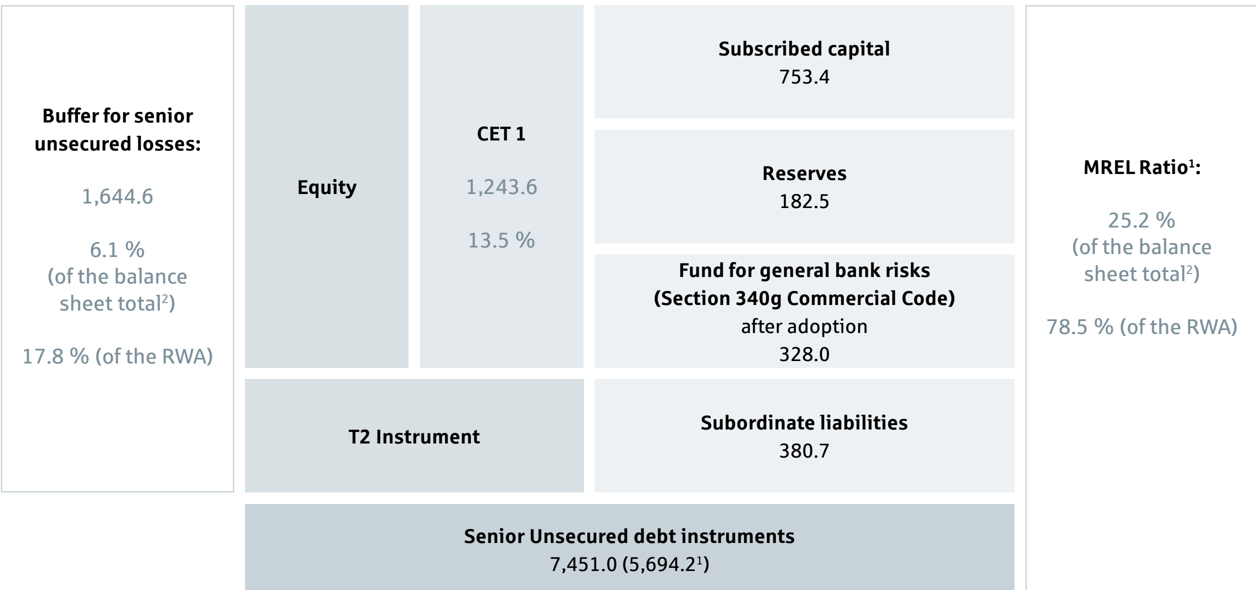
	31.12.2018	31.12.2017
Balance sheet profit	**0.0**	**2.2**
Annual surplus/deficit	0.0	0.0
Profit/loss carry-forward from the previous year	2.2	2.2
Additions to/withdrawals from the profit reserve	−2.2	0.0
Other profit reserves excluding statutory reserves*	2.2	0.0
Free capital reserves pursuant to Section 272 II No. 4 Commercial Code	158.3	158.3
less amounts blocked from distribution pursuant to Section 268 VIII Commercial Code	−29.8	−25.0
Available items capable of distribution	**130.7**	**135.5**

* after inclusion in the profit reserves

Regulatory Law Key Figures
in € million

	31.12.2018	31.12.2017
Hard core capital (CET1)	1,243.6	1,144.7
Additional core capital (AT1)	0.0	0.0
Core capital (T1)	1,243.6	1,144.7
Supplementary capital (T2)	308.8	273.4
Equity/total capital	1,552.4	1,418.1
RWA	9,215.0	9,151.1
Hard core capital ratio /CET1 ratio) in %	13.5	12.5
Core capital ratio (T1 ratio) in %	13.5	12.5
Total capital ratio in %	16.8	15.5
Leverage ratio in %	4.3	4.0
MREL (balance sheet total)	25.2	23.3
MREL (RWA)	78.5	73.2
LCR	160.2	183.3

Insolvency Hierarchy and Protection of Senior Unsecured Investors
in € million



[1] From a regulatory law point of view, structured debt instruments, short-dated money market papers and capital market papers with a remaining term of less than one year are not taken into consideration for the MREL ratio.
[2] Comparable with TLOF

Content

Annual Accounts

Balance Sheet of Berlin Hyp AG as at 31 December 2018

Assets

	€	31.12.2018 €	31.12.2017 T€
1. Cash reserves			
a) Cash in hand	0.00		3
b) Central bank credit balances	1,814,606,799.93		543,467
of which: at Deutsche Bundesbank € 1,814,606,799.93 (2017: T€ 543,467)		**1,814,606,799.93**	543,470
2. Public-sector debt and bills of exchange admitted for refinancing at central banks		**0.00**	0
3. Claims against banking institutions			
a) Mortgage loans	0.00		0
b) Public-sector loans	0.00		51,957
c) Other claims	1,011,103,503.09		390,443
of which: due on demand € 2,470,468.39 (2017: T€ 2,046)		**1,011,103,503.09**	442,400
with securities as collateral € 0.00 (2017: T€ 0)			
4. Claims against customers			
a) Mortgage loans	20,223,377,494.13		20,081,590
b) Public-sector loans	554,547,193.54		763,983
c) Other claims	86,827,231.87		128,631
of which: with securities as collateral € 0.00 (2017: T€ 0)		**20,864,751,919.54**	20,974,204
5. Debentures and other fixed-interest securities			
a) Money market securities			
aa) Issued by public institutions	0.00		0
of which: eligible as security at Deutsche Bundesbank € 0.00 (2017: T€ 0)			
ab) From other issuers	0.00		0
of which: eligible as security at Deutsche Bundesbank € 0.00 (2017: T€ 0)			
	0.00		0
b) Bonds and debentures			
ba) Issued by public institutions	598,228,831.57		1,922,010
of which: eligible as security at Deutsche Bundesbank € 598,228,831.57 (2017: T€ 1,922,010)			
bb) From other issuers	2,468,525,706.73		2,702,102
of which: eligible as security at Deutsche Bundesbank € 2,453,573,283.44 (2017: T€ 2,702,102)			
	3,066,754,538.30		4,624,112
c) Own debentures	0.00		0
Nominal amount € 0.00 (2017: T€ 0)		**3,066,754,538.30**	4,624,112
6. Shares and other non-fixed-interest securities		**0.00**	0
6a. Trading portfolio		**0.00**	0
7. Interests		**5,181,575.84**	2,253
of which: in banking institutions € 0,00 (2017: T€ 0) in financial services institutions € 0,00 (2017: T€ 0)			
Carryover		**26,762,398,336.70**	**26,586,439**

Liabilities

	€	31.12.2018 €	31.12.2017 T€
1. Liabilities to banking institutions			
a) Registered mortgage Pfandbriefe issued	254,684,464.19		251,360
b) Registered public Pfandbriefe issued	59,178,962.15		251,258
c) Other liabilities	3,719,395,003.87		4,452,945
of which: due on demand € 1,246,458.32 (2017: T€ 1,078)		**4,033,258,430.21**	4,955,563
Registered mortgage Pfandbriefe delivered to the lender as collateral for loans taken up € 0.00 (2017: T€ 0) and public registered Pfandbriefe delivered € 0.00 (2017: T€ 0)			
2. Liabilities to customers			
a) Registered mortgage Pfandbriefe issued	1,880,713,160.30		2,376,272
b) Registered public Pfandbriefe issued	550,212,895.89		665,686
c) Other liabilities	2,475,848,226.17		3,051,882
of which: due on demand € 387,182,427.24 (2017: T€ 259,961)		**4,906,774,282.36**	6,093,840
Registered mortgage Pfandbriefe delivered to the lender as collateral for loans taken up € 0.00 (2017: T€ 0) and public registered Pfandbriefe delivered € 0.00 (2017: T€ 0)			
3. Securitised liabilities			
a) Debentures issued			
aa) Mortgage Pfandbriefe	9,816,071,641.75		8,629,738
ab) Public Pfandbriefe	720,422,659.51		720,423
ac) Other debentures	5,217,922,329.90		4,201,537
	15,754,416,631.16		13,551,698
b) Other securitised liabilities	0.00		0
of which: money market securities € 0.00 (2017: T€ 0)		**15,754,416,631.16**	13,551,698
3a. Trading portfolio		**0.00**	0
4. Trust liabilities		**0.00**	0
of which: trustee loans € 0.00 (2017: T€ 0)			
5. Other liabilities		**475,144,288.84**	589,230
6. Prepaid income			
a) From issue and loan business	128,066,371.32		170,125
b) Other	0.00		0
		128,066,371.32	170,125
6a. Deferred tax liabilities		**0.00**	0
7. Reserves			
a) Provisions for pensions and similar obligations	160,945,996.00		141,964
b) Tax provisions	37,500.00		891
c) Other provisions	74,465,609.12		77,885
		235,449,105.12	220,740
8. Subordinated liabilities		**380,734,384.61**	383,298
Carryover		**25,913,843,493.62**	**25,964,493**

Balance Sheet of Berlin Hyp AG as at 31 December 2018

Assets

	€	31.12.2018 €	31.12.2017 T€
Carryover		**26,762,398,336.70**	**26,586,439**
8. Shares in affiliated enterprises		**667,104.59**	26
of which: in banking institutions € 0.00 (2017: T€ 0) in financial services institutions € 0.00 (2017: T€ 0)			
9. Trust assets		**0.00**	0
of which: trustee loans € 0.00 (2017: T€ 0)			
10. Equalisation claims against public-sector institutions, including debentures arising from their exchange		**0.00**	0
11. Intangible investment assets			
a) Internally produced industrial property rights and similar rights and values	0.00		0
b) Purchased concessions, industrial property rights and similar rights and values as well as licences for such rights and values	7,580,547.00		5,749
c) Goodwill	0.00		0
d) Payments in advance	12,533,150.71		6,221
		20,113,697.71	11,970
12. Tangible assets		**56,793,240.86**	58,331
13. Unpaid called-up contributions to the subscribed capital		**0.00**	0
14. Other assets		**181,254,938.14**	273,228
15. Prepaid expenses			
a) From issue and loan business	154,863,280.80		192,231
b) Others	1,656,051.95		1,172
		156,519,332.75	193,403
16. Deferred tax assets		**0.00**	0
17. Surplus arising from offsetting		**0.00**	0
18. Deficit not covered by equity		**0,00**	0
Total assets		**27,177,746,650.75**	27,123,397

Liabilities

	€	31.12.2018 €	31.12.2017 T€
Carryover		**25,913,843,493.62**	**25,964,493**
9. Profit-sharing rights capital		**0.00**	0
of which: due within two years € 0.00 (Vj. T€ 0)			
10. Fund for general bank risks		**328,000,000.00**	223,000
11. Equity			
a) Called-up capital			
aa) Subscribed capital	753,389,240.32		753,389
ab) Less unpaid contributions not called up	0.00		0
	753,389,240.32		753,389
b) Capital reserve	158,316,268.74		158,316
c) Profit reserves			
ca) Statutory reserve	22,022,655.29		22,023
cb) Reserve for own shares in companies with a controlling or majority holding	0.00		0
cc) Articles of Association reserve	0.00		0
cd) Other profit reserves	2,174,992.78		0
	24,197,648.07		22,023
d) Balance sheet profit	0.00		2,175
		935,903,157.13	935,903
Total liabilities		**27,177,746,650.75**	27,123,397
1. Contingent liabilities			
a) Liabilities from guarantees and warranty contracts		**163,610,309.08**	206,964
2. Other obligations			
a) Irrevocable loan commitments		**2,214,281,895.72**	2,177,925

Profit and Loss Account

of Berlin Hyp AG for the period from 1 January to 31 December 2018

Expenditure

		2018		2017
	€	€		T€
1. Interest expenditure	82,202,675.79		131,093	
less positive interest	28,727,467.39	**53,475,208.40**	14,021	117,072
2. Commission expenditure		**5,877,294.06**		5,518
3. Net expenditure of the trading portfolio		**0.00**		0
4. General operating expenditure				
a) Staff expenditure				
aa) Wages and salaries	56,787,190.78			56,001
ab) Social security contributions and expenditure for retirement pensions and support of which: for retirement pensions € 19,516,037.56 (2017: T€ 10,136)	27,036,219.17			17,593
	83,823,409.95			73,594
b) Other administrative expenses	61,523,495.89			55,873
of which: expenditure for bank levy € 10,553,458.35 (2017: T€ 10,062)				
		145,346,905.84		129,467
5. Depreciations and valuation adjustments on intangible investment assets and tangible assets		**5,869,407.12**		5,281
6. Other operating expenditure		**16,772,522.64**		53,395
7. Depreciations and valuation adjustments on claims and specific securities and additions to provisions made for lending		**0.00**		0
8. Depreciations and valuation adjustments on participations, shares in affiliated enterprises and securities held as investment assets		**0.00**		0
9. Expenditure for loss assumptions		**0.00**		0
10. Allocation to the fund for general bank risks		**105,000,000.00**		70,000
11. Extraordinary expenditure		**0.00**		0
12. Taxes on income and earnings		**40,416.71**		428
13. Other taxes not shown under Item 6		**175,541.14**		182
14. Profits transferred on the basis of a profit pool, a profit transfer or partial profit transfer agreement		**116,407,629.08**		117,023
15. Net income for the year		**0.00**		0
Total expenditure		**448,964,924.99**		498,366

1. Net income for the year		**0.00**		0
2. Profit/loss carryforward from the previous year		**0.00**		2,175
3. Balance sheet profit		**0.00**		2,175

Income

	€	2018 €	2017 T€	
1. Interest income from				
a) Lending and money market business	370,544,513.17			376,955	
less negative interest from loan and money market transactions	6,532,893.75	364,011,619.42		3,019	373,936
b) Fixed interest securities and book-entry securities		4,914,498.39			14,001
			368,926,117.81		387,937
2. Current income from					
a) Shares and other non-fixed interest securities		0.00			0
b) Interests		0.00			0
c) Shares in affiliated companies		0.00			0
			0.00		0
3. Income from profit pooling, profit transfer or partial profit transfer agreements			**0.00**		0
4. Commission income			**29,036,009.18**		44,611
5. Net earnings of the trading portfolio			**0.00**		0
6. Income from attributions to claims and specific securities and the dissolution of reserves for lending			**37,415,304.55**		56,257
7. Income from attributions to interests, shares in affiliated enterprises and securities treated as investment assets			**1,244,313.12**		3,187
8. Other operating income			**12,343,180.33**		6,374
9. Income from the dissolution of the fund for general bank risks			**0.00**		0
10. Net loss for the year			**0.00**		0
Total income			**448,964,924.99**		498,366

Statement of Changes in Equity and Cash Flow Statement

T€	Subscribed capital	Capital reserve	Profit reserves	Balance sheet profit	Total equity
As at 01.01.2018	**753,389**	**158,316**	**22,023**	**2,175**	**935,903**
Capital increases	0	0	0	0	0
Dividend payments	0	0	0	0	0
Other changes pursuant to Section 152 Abs. 3 No. 1 AktG	0	0	2,175	−2,175	0
As at 31.12.2018	**753,389**	**158,316**	**24,198**	**0**	**935,903**

The cash flow statement provides information on the status and development of the Bank's funds, separated according to the divisions of operating business activities, investment activities and finance activities. It is prepared in accordance with German Accounting Standard No. 21 (DRS 21).

Cash flows for operating business activities are allocated by separating them from operating results. The cash flow from investment activities largely results from deposits and withdrawals in connection with the sale or acquisition of financial and/or tangible assets. In assessing net cash from financing activity, changes in subordinated liabilities are taken in consideration alongside relations to equity suppliers.

The cash and cash equivalent shown includes the cash reserve, which is composed of cash holdings and credit balances with central banks. There are no restrictions on the disposal of cash and cash equivalents.

Expenses from the profit transfer agreement with Landesbank Berlin Holding AG, Berlin of € 116.4 million are reported separately. The transfer of profits for the financial year 2017 is reported in cash flow from financing activities.

Cash Flow Statement in T€ (+ = cash inflow, − = cash outflow)	2018	2017
Net income for the year	**0**	**0**
Depreciations, value adjustments/attributions to claims and items of investment assets	7,630	−27,748
Increase/decrease in reserves	14,709	57,553
Other expenditure/income without payment effect	0	0
Profit/loss from the sale of investment asset items	−14,478	−23,715
Profit and loss transfer agreement	116,409	117,023
Other adjustments (on balance)	−4,653	5,950
Increase/decreases in		
claims against banking institutions	−590,412	69,980
against customers	113,183	−1,582,187
of the securities (unless they are financial investments)	1,277,083	825,808
Other assets from current business operations	128,869	107,160
Liabilities to banking institutions	−894,982	174,372
to customers	−1,191,684	606,611
Asset-backed liabilities	2,207,413	−24,210
Other liabilities from current business operations	−152,987	−27,842
Interest expenditure/interest income	−315,451	−270,865
Expenditure/income from extraordinary items	0	0
Income tax expenditure/earnings	40	428
Interest payments and dividend payments received	422,956	466,097
Interest paid	−83,416	−178,068
Extraordinary in-payments	0	0
Extraordinary disbursements	0	0
Income tax payments	−893	−202
Cash flow from operating activities	**1,039,337**	**296,144**
In-payments from disposals of the		
financial investment assets	262,431	321,221
tangible assets	7	0
intangible investment assets	12	0
Disbursements for investments in		
financial investment assets	−3,570	−2,253
tangible assets	−1,459	−3,097
intangible investment assets	−11,034	−4,082
Change of funds from other investment activity (balance)	0	0
In-payments from extraordinary items	0	0
Disbursements from extraordinary items	0	0
Cash flow from investment activities	**246,387**	**311,789**
In-payments from equity contributions by shareholders of the parent company	0	0
In-payments from equity contributions by other shareholders	0	0
Disbursements from reductions in equity to shareholders of the parent company	0	0
Disbursements from reductions in equity to other shareholders	0	0
In-payments from extraordinary items	0	0
Disbursements from extraordinary items	0	0
Dividends paid to shareholders of the parent company	0	0
Dividends paid to other shareholders	0	0
Change of funds from other capital (balance)	102,436	−289
Change of funds from previous year's profit and loss transfer	−117,023	−73,023
Cash flow from financing activities	**−14,587**	**−73,312**
Cash and cash equivalents at the end of the previous period	**543,470**	**8,849**
Cash flow from operating activities	1,039,337	296,144
Cash flow from investment activities	246,387	311,789
Cash flow from financing activities	−14,587	−73,312
Cash and cash equivalents at the end of the period	**1,814,607**	**543,470**

Notes

Berlin Hyp AG is a public company under German law and is headquartered in Berlin. It is registered in the Commercial Register of the District Court of Charlottenburg under HRB 56530 and is licensed to provide banking business and financial services.

General Information on the Structure of the Annual Accounts and on the Balance Sheet and Evaluation Methods

The annual accounts of Berlin Hyp are prepared according to the provisions of the German Commercial Code (HGB), supplemented by the German Stock Corporation Act (AktG) and taking into consideration the German Pfandbrief Act (PfandBG) and the German Credit Institutions Accounting Regulation (RechKredV).

The balance sheet and the statement of profit and loss are structured in accordance with the requirements of German Credit Institutions Accounting Regulation (RechKredV). They were supplemented by the items mandatory for Pfandbrief banks.

Berlin Hyp holds shares in two subsidiaries and two participations that have no material influence on the representation of the financial, assets and earnings situation of Berlin Hyp either individually or as a whole. Berlin Hyp has no legal obligation to produce consolidated annual accounts according to Section 290 German Commercial Code (HGB).

Reporting and Valuation Principles

The valuation of assets and liabilities occurs according to the provisions of Sections 252 et seq. German Commercial Code (HGB), taking into account the special regulations for banking institutions pursuant to Sections 340f German Commercial Code (HGB).

The same reporting and valuation principles were applied in the annual accounts as at 31 December 2018 as were applied in the annual accounts for the previous year.

Claims and Liabilities

Claims are shown at their nominal amount, and liabilities are shown at their settlement amount. The difference between amounts paid out and par value where claims in the lending business are concerned is reported as prepaid expenses and prepaid income, respectively, to the extent that it is classified as interest and released over their term according to schedule.

Discounted debentures are displayed with their issue amount including accrued interest on the basis of issue yields.

Recognisable risks in the lending business were taken into proper consideration through the formation of specific valuation allowances, lump-sum specific valuation allowances and reserves. Lump-sum value adjustments are in place for latent risks in the accounts receivable – in addition to the fund for general banking risks in accordance with Section 340g German Commercial Code (HGB) reported in the balance sheet. The lump-sum specific valuation allowances and the lump-sum value adjustments are determined using mathematical statistical procedures on the basis of the expected loss concept. When identifying income and expenses related to risk provisioning, the right to choose full compensation is exercised (Section 340f (3) German Commercial Code (HGB)). Interest is not recognised for irrecoverable claims.

Repurchase Agreements

The financial instruments that the Bank, in its capacity as a pension provider, transfers within the framework of genuine repurchase agreements are entered in the balance sheet and evaluated according to their classification. The corresponding liability is carried in the amount of the agreed redemption price, taking into account accrued interest. The difference between the redemption price and the amount received is considered in the interest result on a pro rata basis.

Securities

With the exception of the accounting units pursuant to Section 254 German Commercial Code (HGB) and the investment portfolio, the amounts included in the “Debentures and other fixed-interest securities” item were evaluated according to the strict lower-of-cost-or-market principle (Section 253 German Commercial Code (HGB)). The accounting units pursuant to

Section 254 German Commercial Code (HGB) and the investment portfolio were consequently recognised at fair value to the extent it does not exceed the amortised cost. Fair value in active markets corresponds to the stock market or market price on the reporting date.

Securities valued like assets were evaluated as amortised costs and, providing there are no grounds for sustained impairment, they are written up or off at the nominal value in case of purchase prices that deviate from the nominal value at consistent interest rates up to the respective due date. Reversal of an impairment loss in the fixed assets of rededicated securities is presented in the net income from investments.

Participations and Shares in Affiliated Companies

Participations and shares in affiliated enterprises are included at cost. Where a loss of value is expected to be permanent, they are written down to the lower fair value. If the reasons for the decrease in value no longer exist, write-ups are undertaken to an amount which may not exceed the amortised cost.

Tangible Assets and Intangible Assets

Tangible and intangible assets with limited useful lives are reported at amortised cost, less impairment losses to the lower fair value. Planned amortisation and depreciation are spread over the useful economic life of the assets. The creation of collective items for low-value fixed assets (Geringwertige Wirtschaftsgüter, GWG) has been waived since 1 January 2018. Up to a net amount of € 800, these are immediately written off with an effect on expenses for reasons of simplification. Fixed assets from € 800 net are capitalised and depreciated on a straight-line basis over their regular useful lives. The period of amortisation for the software and licences listed under “Intangible investment assets” ranges between three and five years. Payments in advance are recognised at their nominal amounts.

Reserves

For contingent liabilities, reserves were formed for the settlement amounts required according to prudent commercial judgement, taking into account expected price and cost increases. The Bank determines the amount of these liabilities using estimates, which take into account the respective circumstances and relevant determining factors appropriately. Reserves for the legal risks arising from the Federal Court of Justice ruling on 4 July 2017 concerning credit processing fees are calculated on the basis of an evidence list that contains all relevant processing fees agreed in Germany. Reserves for strategic resources planning are based on the results of the related works agreement and operative procedural planning.

The materiality of the discounting of reserves with residual terms of more than one year is reviewed regularly. Material items with a remaining term of over one year are discounted.

Pension reserves are assessed based on actuarial principles employing a discount rate of 3.21 % (3.68 %) of the cash value of the obligations already accrued. The actuarial interest rate refers to the interest rate determined by the Deutsche Bundesbank as at 31 December 2018, which results as a ten-year average interest rate from an assumed residual term of 15 years (Section 253 (2) Sentence 2 German Commercial Code (HGB)). The difference between the recognition of reserves in accordance with the actuarial interest rates of the past ten financial years and the recognition of reserves in accordance with the corresponding average market interest rates for the past seven financial years (discount rate of 2.32 % (2.80 %)) amounts to € 29.8 million (€ 25.0 million); the difference is not taken into account as being suspended for payment.

The valuation of pension obligations is based on the projected unit credit method. The 2018 G Heubeck Guideline tables were used as the biometric basis for calculation. A salary and career trend of 2.5 % per annum is calculated. The projected pension trend has accordingly been set at between 1.0 % and 2.0 % per annum, depending on the pension scheme involved. For active board members, a salary and career trend between 0.0 % and 5.0 % is calculated. The age-dependent turnover has been considered at a rate of 2.0 % (over 50 years) to 4.3 % (up to 30 years).

As at 1 January 2010, the revaluation of pension reserves in accordance with the German Accounting Law Modernisation Act (BilMoG) resulted in an adjustment amount in the sum of € 31.8 million which, pursuant to Article 67 (1) Introductory Act to the German Commercial Code (EGHGB), was to be distributed over a period of up to 15 years. In 2016, the then-unretained difference of € 19.1 million was allocated in full and recognised in profit and loss. The reserve for early retirement obligations is set at cash value calculated using a maturity-linked discounting factor of future earnings. The 2018 G Heubeck Guideline Tables are used as a biometric accounting basis. The Bank reports income from the adjustment of parameters under the operating result.

Derivatives

The reporting and entering of derivative financial instruments occurs in off-balance-sheet accounts. There are no trading positions. In terms of derivative contracts, both banking institutions and the Bank's borrowers (customer derivatives) are possible counterparties. Accrued interest from interest swaps and currency swaps is treated as deferred interest according to period; the entry occurs under the headings "Claims" and "Liabilities". Interest income and expenses from secured swap transactions are settled with the interest income and expenses of the respective secured item; thus the interest result from the entire hedging relationship is displayed in the corresponding item of the profit and loss account.

Among other instruments, the Bank uses swaptions and forward rate agreements to manage its interest-bearing operations at macro level. Paid option premiums are presented under the balance sheet heading "Other assets" and received option premiums under "Other liabilities" and are accrued on a time basis immediately following the termination of the option period in case of expiry or utilisation in respect of the term of the underlying transactions over prepaid expenses and deferred income. Paid and received non-recurring payments (upfront payments) and premiums for caps/floors/collars are entered in the balance sheet as deferred income and deferred on a pro-rata basis over their respective terms. The compensation payments due from forward rate agreements following the termination of the waiting period are entered immediately. The Bank does not hold any credit derivatives.

The market values of the derivatives were calculated on the basis of a tenor-specific swap yield curve, taking into consideration counterparty risks.

Accounting Units

Within the context of economic hedging relationships, the Bank hedges debentures and other fixed-income securities, book claims, short-term liabilities, securitised liabilities and pending transactions (payment obligations relating to irrevocable loan commitments) against the risk of a change in interest rates. As accounting units pursuant to Section 254 German Commercial Code (HGB), underlying debentures and other fixed-income securities are designated at the level of the individual transactions with a total nominal holding value of € 2.8 billion as at 31 December 2018 (€ 3.9 billion). Accounting units are only formed at the micro level, meaning that changes in values from the hedged risk are offset by the underlying transactions of the individual hedging instruments; the hedging relationships in question are perfect hedging relationships. No ineffectiveness relevant to the accounting can arise on account of the correlation of all factors affecting value between the hedged portion of the underlying transaction and the portion of the hedging instrument to be hedged. As a result, the critical term match method is used to assess the effectiveness of the accounting units. Risks hedged by the accounting units amounted to € 98.5 million as at the reporting date (€ 138.2 million). The Bank applies the net hedge presentation method. Changes in the value of underlying transactions and hedging instruments attributable to unsecured risks are not offset and recognised in accordance with general provisions.

Loss-Free Evaluation of the Banking Book

Berlin Hyp conducts an audit of the loss-free evaluation of interest rate-related transactions on the banking book (interest book) on the basis of IDW RS BFA 3. As Berlin Hyp did not allocate any transactions to the trading book, the banking book includes all interest-bearing transactions, including derivative financial instruments. Taking a cash value approach, the audit yielded no provisioning requirements.

Calculating Fair Values

In individual cases where prices for securities and claims were not available as at the balance sheet date on the basis of active markets via external market suppliers, the market values for such financial instruments were determined on the basis of evaluation models. These are standard discounted cash flow procedures that consider issuer and asset class-specific interest curves and credit spreads.

Currency Conversion

The valuation of assets, debts and off-balance-sheet transactions in foreign currencies is undertaken on the basis of Section 256a German Commercial Code (HGB) in connection with Section 340h German Commercial Code (HGB). The conversion is carried out at the reference prices provided on a daily basis by the Risk Controlling division of Landesbank Berlin AG, Berlin. Currency swaps used to hedge interest-bearing balance sheet items denominated in foreign currencies are translated at the split forward rate, with the swap rate being discounted over the term of the swap and recognised as interest income on a pro rate basis. Currency effects from currency conversion are reported net and presented either under “Other operating income” or “Other operating expenses”.

Declaration of Compliance

The Bank has filed a declaration of compliance in accordance with Section 161 German Stock Corporation Act and has made it available on its website www.berlinhyp.de. Please refer to the Management Report.

Explanations of the Profit and Loss Account and the Balance Sheet

Profit and Loss Account

Net interest income

Net Interest Income in T€	2018	2017
Interest income from		
Mortgage loans	369,464	372,859
Public-sector loans	−737	2,460
Other receivables	−4,715	−1,383
Fixed-income securities and book-entry securities	4,914	14,001
	368,926	**387,937**
Earnings from profit and loss transfer agreements	0	0
Interest expenditure for		
Deposits and registered Pfandbriefe	40,142	81,474
Securitised liabilities	6,414	24,010
Subordinated liabilities and profit-sharing rights	6,919	11,588
	53,475	**117,072**
Net interest income	**315,451**	**270,865**

Net interest income increased by € 44.5 million to € 315.4 million compared to the previous year. The increase on 2017 is due in particular to lower refinancing expenses and special effects, including the pro rata waiver of the interest payable for the Deutsche Bundesbank's targeted longer-term refinancing operations (TLTROs).

Interest income from balance sheet transactions that result from negative interest rates due to prevailing market conditions are reported under interest income at € 6.5 million (€ 3.9 million) and under interest expenses at € 28.7 million (€ 14.0 million). A preliminary column was added to the profit and loss account to ensure transparent presentation.

The net interest income shows interest expenditure and interest income from derivatives entered in the balance together with the interest expenditure and interest income from the respective secured balance sheet items.

Net interest and commission income and other operating income were predominantly generated in Germany.

Other operating expenditure

Other operating expenditure in T€	2018	2017
IT expenditure	15,099	14,217
Services by third parties	13,777	13,007
Bank levy	10,553	10,062
Group set-off	6,079	5,351
Building and premises costs	4,468	4,239
Staff-related material costs	4,238	3,158
Business operating costs	3,301	2,854
Advertising and marketing	3,232	2,249
Operating and business equipment	776	736
	61,523	**55,873**

The total fee calculated by the auditor and attributable to the financial year comprises the following (excluding VAT):

In T€	2018	2017
Auditing the annual accounts		
- Current financial year	673	609
- Over-endowment (–) / Under-endowment (+) previous year	64	−53
Other certification services		
- Current financial year	126	133
- Over-endowment (–) / Under-endowment (+) previous year	1	0
Tax advisory services		
- Current financial year	0	0
- Over-endowment (–) / Under-endowment (+) previous year	0	0
Other services		
- Current financial year	5*	9

* Training from the auditor's network.

The other certification services mainly affect the audit of the Sustainability Report, the audit pursuant to Section 36 Securities Trading Act and the production of the letter of comfort for the basic project.

Other Operating Result

The Other operating result, consisting of the items “Other operating expenses” and “Other operating income”, includes expenses from additions to reserves of € 7.7 million (€ 26.1 million) relating to strategic resources planning. This item continues to include income from the reversal of other reserves totalling € 11.3 million (€ 3.4 million) – of which € 9.3 million is attributable to the reversal of reserves for legal risks relating to loan processing fees – and income from foreign currency valuation of € 0.1 million (€ 0.2 million) as well as expenses from the compounding of reserves of € 7.1 million (€ 5.3 million) and cost reimbursements for the Detailed Agreement with the State of Berlin of € 1.8 million (€ 1.9 million). A total of € 5.1 million (€ 5.2 million) of the expenses from the compounding of reserves relates to the compounding of pension reserves, € 1.4 million to the compounding of provisions for strategic resource planning and € 0.5 million to the provision formed in connection with loan processing fees.

Depreciation and Valuation Adjustments on Claims and Specific Securities as well as Additions to Provisions Made for Lending

The balance shown results from the settlement of expenditure and income items shown in the profit and loss account items “Depreciation and valuation adjustments on claims and specific securities as well as additions to provisions made for lending” and “Income from attributions to claims and specific securities and the dissolution of reserves for lending”.

The balance of risk provisioning is comprised as follows:

In T€	2018	2017
Risk provisioning for lending business	−15,541	−33,544
Risk provisioning for securities business	−21,874	−22,713
	−37,415	**−56,257**

Earnings with negative advance signs

Risk provisioning for the lending business developed as follows:

In T€		Counterparty risk exposure						
	Direct write-down	Ind. value adjust-ment	Lump-sum value adjust-ment – other RP	RST	Total	Total	Profit and loss relevant	
	2018	2018	2018	2018	2018	2017	2018	2017
As at 1 January		**114,633**	**103,683**	**7,146**	**225,462**	**266,688**		
Net allocations and write-backs		−16,507	7,134	−438	−9,811	−27,822	−9,811	−27,822
Utilisation		−8,233		0	−8,233	−13,119		
Direct write-downs	33						33	350
Receipts on written-off receivables	−5,764						−5,764	-6,072
Transfers								
Foreign currency effects		−59	0	0	−59	−285		
As at 31 December	**−5,731**	**89,833**	**110,817**	**6,708**	**207,359**	**225,462**	**−15,541**	**−33,544**

Earnings shown with a minus sign.

Other Information

Services performed for third parties include, among other things, the preparation of property-specific expert opinions within the framework of real estate valuations.

The net income for the year includes a balance of aperiodic income and expenses of € 15.9 million (€ 9.8 million), which primarily includes income from the reversal of other reserves of € 11.3 million (€ 3.4 million) – of which € 9.8 million is attributable to the reversal of reserves for legal risks relating to loan processing fees – as well as receipts on receivables written off in the previous year of € 4.0 million (2016: € 5.9 million).

Balance Sheet

Securities with a nominal volume of € 260.0 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. The Bank took into account latent default risks of the investment securities in the form of lump-sum value adjustments.

Negotiable Securities and Interests in T€	Listed 31.12.2018	Listed 31.12.2017	Unlisted 31.12.2018	Unlisted 31.12.2017
Debentures and other fixed-interest securities	3,066,755	4,624,112	0	0

Negotiable Securities and Interests

Within the framework of the European System of Central Banks (ESCB), securities with a nominal value of € 2,817.2 million (€ 3,108.2 million) were pledged to Deutsche Bundesbank as collateral. The volume of related open market transactions at the balance sheet date was € 1,983.2 million (€ 2,000.0 million) and $ 500 million ($ 500 million), respectively. In addition, the Bank repaid debentures with a total book value of € 489.2 million (€ 875.1 million).

Intangible assets

This item exclusively includes software and licenses used by the Bank.

Development of Fixed Assets

Statement of Changes in Assets
in T€

	Acquisition/ manufacturing costs 1.1.2018	Additions 2018	Disposals 2018	Account transfers 2018	Acquisition/ manufacturing costs 31.12.2018	Cumulative Depreciations 1.1.2018	Attributions 2018	Depreciations 2018	Disposals 2018	Account transfers 2018	Cumulative Depreciations 31.12.2018	Residual book value 31.12.2018	Residual book value 31.12.2017
Intangible investment													
b) Concessions and licenses acquired commercially	58,114	1,426	564	3,285	62,261	52,365	0	2,879	564	0	54,680	7,581	5,749
d) Down-payments made	6,233	9,608	12	−3,258	12,544	11	0	0	0	0	11	12,533	6,221
Sum of intangible investment assets	**64,347**	**11,034**	**576**	**0**	**74,805**	**52,376**	**0**	**2,879**	**564**	**0**	**54,691**	**20,114**	**11,970**
Tangible assets													
a) Sites and buildings for own use	62,759	0	0	0	62,759	11,084	0	1,022	0	0	12,106	50,653	51,675
b) Operating and business equipment and installations under construction	14,573	1,459	168	0	15,864	7,917	0	1,968	161	0	9,724	6,140	6,656
Total tangible assets	**77,332**	**1,459**	**168**	**0**	**78,623**	**19,001**	**0**	**2,990**	**161**	**0**	**21,830**	**56,793**	**58,331**
Total intangible investment assets and tangible assets	**141,679**	**12,493**	**744**	**0**	**153,428**	**71,377**	**0**	**5,869**	**725**	**0**	**76,521**	**76,907**	**70,301**

	Book value 1.1.2018	Changes*	Residual book value 31.12.2018	Residual book value 31.12.2017
Bonds and debentures	503,757	−247,954	255,803	503,757
Claims	0	391	391	0
Interests	2,253	2,929	5,182	2,253
Shares in affiliated enterprises	26	641	667	26

* Summary pursuant to Section 34 (3) Banking Institutions Accounting Ordinance

Schedules of Shares Held under Section 285 Nos. 11 and 11a, Section 313 (2) German Commercial Code (HGB)

Company	Share of capital Total %	Voting rights %	Equity	Result	Annual accounts diverging at 31 December 2018
Affiliated enterprises					
Berlin Hyp Immobilien GmbH, Berlin	100.00	100.00	T€ 61	T€ −19	31.12.2017
OnSite ImmoAgent GmbH, Berlin	100.00	100.00	T€ 639*	**	**
Investments					
BrickVest Ltd., London	6.06	6.15	T£ 1,921	T£ −1,947	31.12.2017
21st Real Estate GmbH, Berlin	10.15	10.15	T€ 2,621	T€ −1,030	31.12.2017

* related to T€ 25 share capital and payments of T€ 614 into the free capital reserve of the GmbH
** the GmbH was founded in the 2018 financial year; the opening balance sheet of 21 June 2018 is available.

Other Assets
These figures largely contain claims from collateral in relation to derivatives amounting to € 147.8 million (€ 250.5 million), paid option premiums of € 7.9 million (€ 8.4 million), as well as unrealised gains from forward exchange deals with with extra cover.

Other Liabilities
These include, amongst other things, liabilities from collateral received in relation to derivatives amounting to € 340.1 million (€ 445.8 million), received option premiums of € 13.9 million (€ 13.8 million) as well as profits of € 116.4 million (€ 117.0 million) transferable to Landesbank Berlin Holding AG, Berlin.

Other Reserves
Other reserves include:

In T€	31.12.2018	31.12.2017
Reserves for human resources	15,919	15,488
Reserves for litigation costs risks	1,911	2,443
Other	56,636	59,954
Total	**74,466**	**77,885**

Other reserves primarily include reserves for legal risks arising from the Federal Court of Justice rulings concerning loan processing fees of € 10.8 million (€ 19.6 million) and reserves for strategic resources planning of € 35.2 million (€ 26.1 million).

Subordinated Liabilities
In the 2018 financial year, interest paid amounted to € 6.9 million.

The 10 % of the loans and debentures surpassing the total stock was assumed under the following conditions:

Nominal amount T€	Interest rate p. a. %	Repayment on
60,000	0.183*	21.7.2020
40,000	4.120	4.3.2024

* Basis: three-month Euribor

Interest is paid on subordinate liabilities at the nominal rate of between 0.183 % to 6.56 % and is only to be reimbursed in the case of the Bank's bankruptcy or liquidation after satisfaction of all non-subordinate creditors. Early repayment is excluded. The repayments are to occur in the years 2019 to 2034. Based on a stock of € 351.2 million, € 257.4 million fulfil the requirements of the CRR for recognition as applicable equity capital.

Equity

The subscribed capital of € 753.4 million is composed of 294,292,672 non-par value bearer shares with a rounded nominal value of € 2.56.

The Board of Management, with the Supervisory Board's consent, is authorised to increase the company's subscribed capital by issuing new non-par shares in return for contributions in cash once or several times, but only up to € 205.8 million (authorised capital 2015), by 31 May 2020.

In accordance with the resolution passed by the Annual General Meeting on 26 March 2018, the previous year's balance sheet profit of € 2.2 million was allocated in full to retained earnings.

Classification by Remaining Maturity in T€	31.12.2018	31.12.2017
Assets		
Claims against banking institutions		
a) Due on demand	2,470	2,046
b) Less than three months	569,398	440,354
c) Between three months and one year	439,236	0
d) Between one year and five years	0	0
e) More than five years	0	0
Total	**1,011,104**	**442,400**
Claims against customers		
a) Less than three months	197,886	694,395
b) Between three months and one year	1,275,168	1,224,591
c) Between one year and five years	6,086,375	4,704,879
d) More than five years	13,305,323	14,350,339
Total	**20,864,752**	**20,974,204**
of which: claims with an indefinite term	679	686
Bonds and debentures		
- due in the following year	20,172	639,744
Liabilities		
Liabilities to banking institutions		
a) Due on demand	1,246	1,078
b) Less than three months	1,185,517	2,131,707
c) Between three months and one year	229,264	251,764
d) Between one year and five years	2,425,487	2,423,487
e) More than five years	191,744	147,527
Total	**4,033,258**	**4,955,563**
Liabilities to customers		
a) Due on demand	387,182	259,961
b) Less than three months	371,789	980,712
c) Between three months and one year	490,400	769,138
d) Between one year and five years	637,562	911,262
e) More than five years	3,019,841	3,172,767
Total	**4,906,774**	**6,093,840**
Securitised liabilities		
a) Less than three months	1,396,451	1,256,098
b) Between three months and one year	2,208,966	1,257,000
c) Between one year and five years	7,519,000	6,393,600
d) More than five years	4,630,000	4,645,000
Total	**15,754,417**	**13,551,698**
- due in the following year	3,605,417	2,513,098

Claims from and Liabilities to Affiliated Enterprises and Related Companies in T€	31.12.2018	31.12.2017
Affiliated enterprises		
Claims against banking institutions	4,844	3,930
Claims against customers	391	0
Other assets	9	9
Liabilities to banking institutions	11,430	157,390
Liabilities to customers	595	625
Securitised liabilities	0	0
Other liabilities	116,408	117,130
Subordinated liabilities	60,022	60,020

Deferred income and accrued expenses in T€	31.12.2018	31.12.2017
Deferred income from issuing and lending operations includes:		
Discount from issuing lending operations	42,440	35,672
Premium from issuing and lending operations	18,347	27,998
Other	95,732	129,733
	156,519	**193,403**
Prepaid expenses for issuing and lending operations include:		
Premium from issuing and lending operations	8,292	8,065
Discount from lending operations	1,115	1,410
Other	118,660	160,650
	128,067	**170,125**

Deferred income recognised under "Other" includes accrued up-front payments and premium payments from caps, floors and collars of € 80.5 million (€ 122.3 million), which resulted from the transfer of customer derivatives from Landesbank Berlin AG, Berlin, to Berlin Hyp (portfolio transfer). Prepaid expenses recognised under "Other" particularly include accrued up-front payments and premium payments from hedging derivatives concluded that mirror the customer derivatives.

Price risks are predominantly neutralised through fixed-term deposits, currency futures and currency swaps.

Foreign Currency Volumes in T€	31.12.2018	31.12.2017
Assets	328,710	331,835
Liabilities	496,431	571,882
Irrevocable loan commitments	1,844	0

Information Pursuant to Section 285 German Commercial Code (HGB) Regarding Obligations Arising from Transactions and Financial Obligations Not Included in the Balance Sheet

Irrevocable lending commitments as part of real estate and capital market business amounted to € 2,214.3 million (€ 2,177.9 million) as at the end of the year. Contingent liabilities consist of the assumption of guarantees for largely mortgage-backed loans of € 163.6 million (€ 207.0 million). Particularly due to collateralisation, off-balance sheet items do not present increased risks.

Berlin Hyp is an affiliated member of the security reserve of the Landesbanken and central savings banks (Girozentralen) and therefore also a member of the guarantee system of the Sparkassen-Finanzgruppe, which is recognised under the German Deposit Protection Act (EinSG). Berlin Hyp's annual contributions are calculated according to the amount of its covered deposits. In the event of compensation or support being reported by a member institution, one-off or additional payments can be levied; however, the amount of the payments is also calculated according to the amount of Berlin Hyp's covered deposits and is therefore not currently foreseeable.

According to the Detailed Agreement with the State of Berlin, in some cases joint and several liability for various companies has been established for the obligations of the companies with shares in the Bankgesellschaft Berlin AG Group (now Landesbank Berlin Holding AG). The apportionment of liability in the internal relationship arises through the agreement of August 2002, which was amended in August 2004. It is largely oriented towards the participation relationship of the liability-causing companies that were sold to the State of Berlin in 2006.

Landesbank Berlin Holding AG must pay a fixed annual amount of € 15.0 million to the State of Berlin for the assumption of the risk shield. The internal distribution of these costs is carried out through the agreement of August 2002, amended in August 2004, and provides for a partial reimbursement of costs through Berlin Hyp in accordance with the ratio of the volumes of the credits of Berlin Hyp that are shielded by loan guarantees to the total shielded credits. Expenses from reimbursements amounted to € 1.8 million in 2018 (€ 1.9 million).

Derivatives as at 31.12.2018

Statement of changes in derivatives
in € m

	Nominal amount / Remaining term					
	up to 1 year	1 to 5 years	over 5 years	Total nominal value	Total negative values	Total positive values
Interest-related transactions						
Interest rate swaps	3,714	20,604	22,753	47,071	−627	933
Swaptions	4,025	3,000	0	7,025	−11	7
Caps	601	1,974	233	2,808	−2	2
Floors	0	3,123	127	3,250	−5	0
	8,340	**28,701**	**23,113**	**60,154**	**−645**	**942**
Currency-related transactions						
Forward exchange dealings	530	0	0	530	−2	0
Interest and currency swaps	0	133	67	200	0	20
	530	**133**	**67**	**730**	**−2**	**20**
Total	**8,870**	**28,834**	**23,180**	**60,884**	**−647**	**962**

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 31 December 2018 without taking into account interest accruals. The market values of the derivatives are counteracted by the valuation advantages of the balance sheet operations not assessed at market price.

All derivatives – with the exception of customer derivatives and transactions with Landesbank Berlin – are hedged using collateral agreements. Group affiliation means that the Bank does not provide collateral for transactions with LBB. In the case of customer derivatives, the land charges assigned as collateral for the underlying loans also serve as collateral for derivatives transactions.

Number of Staff

Annual average	Male	Female	2018 Total	2017 Total
Full-time employees	275	172	447	449
Part-time employees	22	120	142	132
School-leaver trainees / BA students	6	1	7	4
Total	**303**	**293**	**596**	**585**

Group Affiliation

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 (smallest and largest consolidation group as defined in Section 285 Nos. 14, 14a German Commercial Code (HGB)). A profit and loss transfer agreement and a tax group for VAT and income tax purposes are in force between Berlin Hyp and Landesbank Berlin Holding AG, Berlin. The consolidated annual accounts of the acquiring company will be published in the electronic Federal Gazette.

Information on a Reported Holding (Section 160 (1) No. 8 German Stock Corporation Act (AktG))

In a letter dated 7 January 2015, Landesbank Berlin Holding AG, Berlin, announced that it directly holds all shares in Berlin Hyp AG – following the transfer of Berlin Hyp from Landesbank Berlin AG to Landesbank Berlin Holding AG as at 31 December 2014/1 January 2015. Its share in the voting rights of the Bank's subscribed capital therefore amounted to 100.00% as at the balance sheet date.

Letter of Comfort of Landesbank Berlin AG

The letter of comfort issued by Landesbank Berlin AG in favour of Berlin Hyp ended as at 31 December 2014. The guarantee remains in force for the obligation entered into until 31 December 2014.

Bodies of Berlin Hyp

Board of Management

Sascha Klaus, Chair of the Board of Management
Gero Bergmann, Chief Market Officer
Roman Berninger, Chief Financial Officer

Supervisory Board

Helmut Schleweis
→ Chair (from 26 March 2018)
→ President of the Deutscher Sparkassen- und Giroverband e.V. (German Savings Banks and Giro Association)

Thomas Mang
→ Chair (until 25 March 2018)
→ Präsident of the Sparkassenverband Niedersachsen (Savings Banks Association of Lower Saxony)

Jana Pabst
→ Deputy Chair
→ Bank employee
→ Employee representative
→ Deputy Chair of the Works Council of Berlin Hyp AG

Joachim Fechteler
→ Bank employee
→ Employee representative
→ Member of the Works Council of Berlin Hyp AG

Bernd Fröhlich
→ (from 28 March 2018) Chair of the Board of Management of Sparkasse Mainfranken Würzburg

Gerhard Grandke
→ Managing President of the German Savings Banks and Giro Association of Hesse-Thuringia

Artur Grzesiek
→ Former Chair of the Board of Management of Sparkasse KölnBonn

Dr. Harald Langenfeld
→ Chair of the Board of Management of Stadt- und Kreissparkasse Leipzig

Thomas Meister
→ Bank employee
→ Employee representative
→ Chair of the Works Council of Berlin Hyp AG

Siegmar Müller
→ Chair of the Board of Management of Sparkasse Germersheim-Kandel
→ Landesobmann of the Rhineland-Palatinate Savings Banks Board of Management Members

Reinhard Sager
→ President of the Deutscher Landkreistag (German County Council Association)
→ County Council Chairman of East Holstein District

Andrea Schlenzig
→ Bank employee
→ Employee representative

Peter Schneider
→ President of the Savings Banks Association of Baden-Württemberg

Walter Strohmaier
→ Chairman of the Board of Management of Sparkasse Niederbayern-Mitte
→ Bundesobmann of the German Saving Banks

René Wulff
→ Bank employee
→ Employee representative
→ Member of the Works Council of Berlin Hyp AG

Loans to Members of Bodies

As in the previous year, there were no loans receivable from members of bodies.

Benefits of the Board Members

Remuneration for the Board of Management

The Board of Management members received the following remuneration in the financial year 2018:

Members of the Board of Management in T€	Annual remuneration					Other remuneration[1]		Total	
	Non-performance-related remuneration		Performance-related remuneration for the financial years						
	2018	2017	2017	2016	2015	2018	2017	2018	2017
Sascha Klaus	560	560	56	0	0	17	19	633	679
of which non-pensionable	80	560							
Roman Berninger	461	455	40	50	20	19	25	590	573
of which non-pensionable	155	149							
Gero Bergmann	481	455	40	50	20	25	33	616	581
of which non-pensionable	142	116							
Total remuneration 2018	**1,502**	**1,470**	**136**	**100**	**40**	**61**	**77**	**1,839**	**1,833**

[1] Other remuneration relating to benefits in kind (pecuniary benefits from company car use) of T€ 50 and the so-called net benefits employer's contribution (the assumption of tax payments on pecuniary benefits by the employer) of T€ 7. In addition, chauffeurs were also used under the usual tariff conditions.

in T€	Allocated or reserved amount in 2018	Recognised pensions reserves as at 31 December 2018	Present value of claim to retirement pension as at 31 December 2018
Sascha Klaus	412	412	412
Roman Berninger	438	2,467	2,467
Gero Bergmann	307	1,884	1,884
Total	**1,157**	**4,763**	**4,763**

In addition, a total of T€ 2,756 (T€ 2,919) was paid in the previous business year in overall benefits (retirement pensions, surviving dependants' benefits and payments of a related nature) to former members of the Board of Management or their surviving dependants.

The cash value of the obligations to pay such benefits for this group of persons is T€ 35,888 (T€ 34,425) on the balance sheet date.

Remuneration for the Supervisory Board

The remuneration payable to the members of the Supervisory Board for the 2018 financial year, including committee activity, amounts to T€ 303 (excluding VAT).

Members of the Board of Management in T€	2018	2017
Helmut Schleweis, Chair from 26.03.2018	32	29
Jana Pabst, Deputy Chair	18	18
Joachim Fechteler	18	18
Bernd Fröhlich	13	0
Gerhard Grandke	19	19
Artur Grzesiek	18	18
Dr. Harald Langenfeld	26	26
Thomas Mang	31	28
Thomas Meister	18	18
Siegmar Müller	18	18
Reinhard Sager	12	12
Andrea Schlenzig	18	18
Peter Schneider	18	18
Walter Strohmaier	26	18
René Wulff	18	18
Supervisory Board members who left in 2017	0	30
Total	**303**	**306**
plus VAT	55	56
Total expenditure	**358**	**362**

Major Mandates of Members of the Board of Management

Sascha Klaus
- → Member of the Board of Management of Landesbank Berlin Holding AG, Berlin
- → Member of the Board of Management of vdp – Verband Deutscher Pfandbriefbanken e. V.

Gero Bergmann
- → No mandates requiring disclosure

Roman Berninger
- → Member of the Board of Management of Landesbank Berlin Holding AG, Berlin
- → Member of the Supervisory Board of DIIR Deutsches Institut für interne Revision e. V.

No legal representatives or employees had mandates in statutory supervisory boards of large corporations (with the exception of employees' representatives in Berlin Hyp's Supervisory Board) in the financial year 2018.

Statement of Cover Assets in € m	31.12.2018	31.12.2017
A. Mortgage Pfandbriefe		
Ordinary cover		
1. Claims against banking institutions		
Mortgage loans	0.0	0.0
2. Claims against customers		
Mortgage loans	12,861.4	12,347.0
3. Tangible assets (land charges on Bank-owned real estate)	0.0	0.0
Total	12,861.4	12,347.0
Additional cover		
1. Other claims against banking institutions	970.0	200.0
2. Debentures and other fixed-interest securities	900.6	1,568.5
Total	1,870.6	1,768.5
Total cover	14,732.0	14,115.5
Total mortgage Pfandbriefe requiring cover	14,200.1	13,494.5
Excess cover	**531.9**	**621.0**
B. Public Pfandbriefe		
Ordinary cover		
1. Claims against banking institutions		
a) Mortgage loans	0.0	0.0
b) Public-sector loans	0.0	50.0
2. Claims against customers		
a) Mortgage loans	54.3	85.3
b) Public-sector loans	538.5	742.2
3. Debentures and other fixed-interest securities	639.0	718.0
Total	1,231.8	1,595.5
Additional cover		
1. Other claims against banking institutions	0.0	0.0
2. Debentures and other fixed-interest securities	96.4	59.5
Total	96.4	59.5
Total cover	1,328.2	1,655.0
Total public Pfandbriefe requiring cover	1,289.7	1,586.7
Excess cover	**38.5**	**68.3**

Information pursuant to Section 28 German Pfandbrief Act (Pfandbriefgesetz)

Section 28 (1) Nos. 1 to 3 German Pfandbrief Act (Pfandbriefgesetz)

Amounts in € m

a) Mortgage Pfandbriefe Outstanding and Cover Used

	Nominal		Present value		Risk-adjusted present value*	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Mortgage Pfandbriefe	14,200.1	13,494.5	14,964.4	14,291.8	15,769.6	15,060.1
of which: derivatives	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Cover funds	14,732.0	14,115.5	15,789.5	15,169.3	16,428.9	15,724.6
of which: derivatives	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Excess cover	**531.9**	**621.0**	**825.1**	**877.5**	**659.3**	**664.5**
Surplus cover pursuant to vdp differentiation model	531.9	621.0	825.1	877.5	-	-

* For the calculation of the stress scenarios, the static amount reported is taken for currencies and the dynamic amount reported is taken for interest.

On a) Maturity Structure (Remaining Term)

	Mortgage Pfandbriefe		Cover funds	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Up to 6 months	1,459.5	1,465.0	1,428.2	1,098.2
Between 6 and 12 months	423.7	1,442.2	568.8	947.6
Between 12 and 18 months	275.0	1,459.0	589.1	603.1
Between 18 months and 2 years	947.0	423.7	796.5	670.2
Between 2 and 3 years	2,569.0	972.0	1,254.9	1,562.9
Between 3 and 4 years	2,546.0	1,739.0	1,528.6	1,592.7
Between 4 and 5 years	1,941.0	1,796.0	1,559.1	1,498.9
Between 5 and 10 years	3,125.0	3,159.0	6,548.3	5,735.5
Longer than 10 years	913.9	1,038.6	458.5	406.4

b) Public Pfandbriefe Outstanding and Cover Use

	Nominal		Present value		Risk-adjusted present value*	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Public Pfandbriefe	1,289.7	1,586.7	1,434.9	1,820.2	1,403.7	1,768.8
of which: derivatives	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Cover funds	1,328.2	1,655.0	1,582.8	1,943.2	1,476.1	1,830.8
of which: derivatives	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Excess cover	**38.5**	**68.3**	**147.9**	**123.0**	**72.4**	**62.0**
Surplus cover pursuant to vdp differentiation model	38.5	68.3	147.9	123.0	-	-

* For the calculation of the stress scenarios, the static amount reported is taken for currencies and the dynamic amount reported is taken for interest.

On b) Maturity Structure (Remaining Term)

	Public Pfandbriefe		Cover funds	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Up to 6 months	802.7	227.1	41.5	421.1
Between 6 and 12 months	5.0	20.0	1.2	34.9
Between 12 and 18 months	190.0	802.6	25.6	51.4
Between 18 months and 2 years	0.0	5.0	15.5	1.5
Between 2 and 3 years	50.0	190.0	238.5	16.1
Between 3 and 4 years	10.0	50.0	10.6	161.5
Between 4 and 5 years	9.0	10.0	110.6	0.8
Between 5 and 4 years	173.0	152.0	686.5	594.7
Longer than 10 years	50.0	130.0	198.2	373.1

Section 28 (1) Nos. 4 to 11 German Pfandbrief Act (PfandBG)

Section 28 (1) Nos. 4 to 6 Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe) Additional Cover for Mortgage Pfandbriefe

Section 28 (1) No. 4 PfandBG (Mortgage Pfandbriefe)	Equalisation claims pursuant to Section 19 (1) No. 1 German Pfandbrief Act (PfandBG)	
	31.12.2018	31.12.2017
Total	**0.0**	**0.0**

Section 28 (1) No. 5 PfandBG (Mortgage Pfandbriefe)	Receivables as defined in Section 19 (1) No. 2 PfandBG		of which: covered debentures as defined under Article 129 of Regulation (EU) No. 575/2013	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Germany	1,085.0	365.0	85.0	135.0
Denmark	17.5	0.0	0.0	0.0
Finland	10.0	10.0	0.0	0.0
France	20.0	0.0	20.0	0.0
Canada	100.5	10.0	65.5	0.0
Netherlands	10.0	125.0	10.0	0.0
Sweden	97.1	90.5	97.1	90.5
Total	**1,340.1**	**600.5**	**277.6**	**225.5**

Section 28 (1) No. 6 German Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)	Receivables as defined in Section 19 (1) No. 3 PfandBG	
	31.12.2018	31.12.2017
Germany	153.0	989.5
European Union (EU)	322.5	80.5
France	0.0	25.0
Canada	10.0	73.0
Austria	45.0	0.0
Total	**530.5**	**1,168.0**

Amounts in € m

Section 28 (1) Nos. 4 to 6 PfandBG (Mortgage Pfandbriefe)	Total amount Additional cover for mortgage Pfandbriefe	
	31.12.2018	31.12.2017
Total	**1,870.6**	**1,768.5**

Section 28 (1) Nos. 4 and 5 PfandBG (regarding public Pfandbriefe)
Additional Cover for Public Pfandbriefe

Section 28 (1) No. 4 PfandBG (Public Pfandbriefe)	Equalisation claims pursuant to Section 20 (2) No. 1 PfandBG	
	31.12.2018	31.12.2017
Total	**0.0**	**0.0**

Section 28 (1) No. 5 PfandBG (Public Pfandbriefe)	Claims as defined in Section 20 (2) No. 2 PfandBG		Of which: covered debentures as defined in Article 129 Regulation (EU) No. 575 / 2013	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Germany	49.0	34.0	25.0	10.0
Denmark	7.5	7.5	0.0	0.0
France	15.0	0.0	0.0	0.0
Netherlands	0.0	18.0	0.0	0.0
Sweden	24.9	0.0	24.9	0.0
Total	**96.4**	**59.5**	**49.9**	**10.0**

Section 28 (1) Nos. 4 and 5 PfandBG (Public Pfandbriefe)	Total amount Additional cover for public Pfandbriefe	
	31.12.2018	31.12.2017
Total	**96.4**	**59.5**

Section 28 (1) Nos. 7 to 11 PfandBG Other Disclosures on the Cover Funds and on the Pfandbriefe Outstanding

Section 28 (1) No. 7 PfandBG (Mortgage Pfandbriefe)

	Total claims exceeding the threshold defined under Section 13(1) PfandBG	
	31.12.2018	31.12.2017
Total	**0.0**	**0.0**

Section 28 (1) No. 8 PfandBG (regarding mortgage Pfandbriefe)

	Total claims exceeding the percentages pursuant to Section 19 (1) No. 2 PfandBG	
	31.12.2018	31.12.2017
Total	**0.0**	**0.0**

Section 28 (1) No. 8 PfandBG (regarding mortgage Pfandbriefe)

	Total claims exceeding the percentages pursuant to Section 19 (1) No. 3 PfandBG	
	31.12.2018	31.12.2017
Total	**0.0**	**0.0**

Section 28 (1) No. 9 PfandBG (regarding mortgage Pfandbriefe)

	Percentage share of fixed-interest cover funds in terms of cover assets		Percentage share of fixed-interest Pfandbriefe in terms of liabilities to be covered	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
In %	**70.3**	**66.1**	**80.3**	**78.8**

Section 28 (1) No. 10 PfandBG (regarding mortgage Pfandbriefe)

	Net present value pursuant to value regulations for each foreign currency	
	31.12.2018	31.12.2017
CHF	38.6	38.4
GBP	199.7	204.5

Amounts in € m

Section 28 (1) No. 11 PfandBG	For mortgage cover: volume-weighted average of the elapsed term since lending	
	31.12.2018	31.12.2017
In years	**3.8**	**4.0**

Section 28 (1) No. 8 PfandBG (regarding public Pfandbriefe)	Total claims exceeding the percentages pursuant to Section 20 (2) No. 2 PfandBG	
	31.12.2018	31.12.2017
Total	**0.0**	**0.0**

Section 28 (1) No. 9 PfandBG (regarding public Pfandbriefe)	Percentage share of fixed-interest cover funds in terms of cover assets		Percentage share of fixed-interest Pfandbriefe in terms of liabilities to be covered	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
In %	**98.8**	**93.0**	**100.0**	**100.0**

Section 28 (1) No. 10 PfandBG (regarding public Pfandbriefe)	Net present value pursuant to Section 6 Pfandbrief Net Present Value Regulation (PfandBarwertV) per foreign currency	
	31.12.2018	31.12.2017
---	**0.0**	**0.0**

Section 28 (2) Nos. 1 to 3 German Pfandbrief Act (PfandBG)

Section 28 (2) No. 1 a German Pfandbrief Act (PfandBG) Payments in Arrears on Receivables Used as Cover for Mortgage Pfandbriefe*

Cover Mortgages	31.12.2018	31.12.2017
Up to and including € 300,000	53.1	69.2
From € 300,000 up to and including € 1 million	117.3	137.0
From € 1 million up to and including € 10 million	2,479.2	2,591.8
More than € 10 million	10,211.8	9,549.0
Total	**12,861.4**	**12,347.0**

* Without further cover pursuant to Section 19 (1) PfandBG.

Section 28 (2) No. 1 b and c German Pfandbrief Act (PfandBG) Claims Used as Cover for Mortgage Pfandbriefe Classified According to Areas in which the Mortgaged Property is Allocated and Type of Use*

Cover – total	31.12.2018		31.12.2017	
	Commercial	Residential	Commercial	Residential
Flats		19.0		20.6
Single- and two-family houses		41.9		39.2
Residential buildings for several families		3,994.9		3,704.1*
Office buildings	4,650.7		4,509.5	
Retail buildings	2,873.5		2,803.1	
Industrial buildings	105.9		92.0	
Other commercially used buildings	1,062.8		1,087.3*	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	106.2	6.5	78.8	12.4
Total	**8,799.1**	**4,062.3**	**8,570.7***	**3,776.3***

* Adjustment of the figures for the previous year due to a new allocation of the mixed use properties

Belgium	31.12.2018		31.12.2017	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		0.0		0.0
Office buildings	206.2		194.7	
Retail buildings	0.0		0.0	
Industrial buildings	0.0		0.0	
Other commercially used buildings	0.0		0.0	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	**206.2**	**0.0**	**194.7**	**0.0**

Federal Republic of Germany	31.12.2018		31.12.2017	
	Commercial	Residential	Commercial	Residential
Flats		18.8		20.6
Single- and two-family houses		14.4		15.6
Residential buildings for several families		3,820.4		3,631.7*
Office buildings	2,179.0		2,341.6	
Retail buildings	1,694.0		1,699.0	
Industrial buildings	77.0		92.0	
Other commercially used buildings	839.2		926.9*	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	106.2	6.5	78.8	12.4
Total	**4,895.4**	**3,860.1**	**5,138.3***	**3,680.3***

* Adjustment of the figures for the previous year due to a new allocation of the mixed use properties

* Without further cover pursuant to Section 19 (1) PfandBG.

Amounts in € m

France	31.12.2018		31.12.2017	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		0.0		0.0
Office buildings	651.2		527.4	
Retail buildings	312.8		343.8	
Industrial buildings	0.0		0.0	
Other commercially used buildings	31.1		19.1	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	**995.1**	**0.0**	**890.3**	**0.0**

UK	31.12.2018		31.12.2017	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		0.0		0.0
Office buildings	158.0		159.4	
Retail buildings	31.5		31.7	
Industrial buildings	0.0		0.0	
Other commercially used buildings	0.0		0.0	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	**189.5**	**0.0**	**191.1**	**0.0**

Netherlands	31.12.2018		31.12.2017	
	Commercial	Residential	Commercial	Residential
Flats		0.2		0.0
Single- and two-family houses		27.5		23.6
Residential buildings for several families		174.5		72.4*
Office buildings	801.5		799.5	
Retail buildings	344.2		200.2	
Industrial buildings	28.9		0.0	
Other commercially used buildings	192.5		141.3*	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	**1,367.1**	**202.2**	**1,141.0***	**96.0***

* Adjustment of the figures for the previous year due to a new allocation of the mixed use properties

Poland	31.12.2018		31.12.2017	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		0.0		0.0
Office buildings	479.1		342.9	
Retail buildings	403.4		374.4	
Industrial buildings	0.0		0.0	
Other commercially used buildings	0.0		0.0	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	**882.5**	**0.0**	**717.3**	**0.0**

Czech Republic	31.12.2018		31.12.2017	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		0.0		0.0
Office buildings	175.7		144.0	
Retail buildings	87.6		154.0	
Industrial buildings	0.0		0.0	
Other commercially used buildings	0.0		0.0	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	**263.3**	**0.0**	**298.0**	**0.0**

Section 28 (2) No. 2 German Pfandbrief Act (PfandBG) Payments in Arrears on Receivables Used as Cover for Mortgage Pfandbriefe

	Total amount of payments in arrears for at least 90 days		Total claims, where the respective arrears amount to at least 5 % of the claim	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Germany	0.0	0.1	0.0	0.0
Total	**0.0**	**0.1**	**0.0**	**0.0**

Section 28 (2) No. 3 PfandBG Average weighted loan-to-value ratio

	Amounts in %	
	31.12.2018	31.12.2017
Average weighted loan-to-value ratio (based on the respective loan values)	**55.6**	**55.8**

Section 28 (3) Nos. 1 to 3 PfandBG

Section 28 (3) No. 1 PfandBG
Claims Used as Cover for Public Pfandbriefe Classified According to Size*

Amounts in € m

Cover	31.12.2018	31.12.2017
Up to and including € 10 million	10.0	5.9
From € 10 million up to and including € 100 million	777.2	738.3
More than € 100 million	444.6	851.3
Total	**1,231.8**	**1,595.5**

Section 28 (3) No. 2 PfandBG
Claims Used as Collateral for Public Pfandbriefe Classified According to Country and Type of Debtor or Guarantor*

Total Cover	31.12.2018		31.12.2017	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	57.5	0.0	198.0	0.0
Regional authority	773.8	59.7	1,144.2	91.0
Local authority	0.0	0.3	0.0	0.3
Other	340.5	0.0	162.0	0.0
Total (direct claims and warranties)	**1,231.8**		**1,595.5**	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

Federal Republic of Germany	31.12.2018		31.12.2017	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	7.5	0.0	0.0	0.0
Regional authority	702.8	59.7	1,119.2	91.0
Local authority	0.0	0.3	0.0	0.3
Other	55.0	0.0	162.0	0.0
Total (direct claims and warranties)	**825.3**		**1,372.5**	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

Canada	31.12.2018		31.12.2017	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	0.0	0.0	0.0	0.0
Regional authority	71.0	0.0	25.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total (direct claims and warranties)	**71.0**		**25.0**	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

* Without further cover pursuant to Section 20 (2) German Pfandbrief Act (PfandBG).

Lithuania	31.12.2018		31.12.2017	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	0.0	0.0	3.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total (direct claims and warranties)	**0.0**		**3.0**	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

Austria	31.12.2018		31.12.2017	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	50.0	0.0	95.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total (direct claims and warranties)	**50.0**		**95.0**	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

Poland	31.12.2018		31.12.2017	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	0.0	0.0	100.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total (direct claims and warranties)	**0.0**		**100.0**	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

EU Institutions	31.12.2018		31.12.2017	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	0.0	0.0	0.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	285.5	0.0	0.0	0.0
Total (direct claims and warranties)	**285.5**		**0.0**	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

Section 28 (3) No. 3 PfandBG
Payments in Arrears on Claims Used as Cover for Public Pfandbriefe

Amounts in € m	Total amount of payments in arrears for at least 90 days		Total claims, where the respective arrears amount to at least 5 % of the receivable	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Central government	0.0	0.0	0.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**0.0**	**0.0**

Section 28 (2) No. 4 PfandBG

Section 28 (2) No. 4 a to c German Pfandbrief Act (PfandBG) Information on Foreclosures and Administrative Receivership Proceedings, Overdue Interest and Repayments of Mortgage Loans

Number	31.12.2018		31.12.2017	
	Commercial	Residential	Commercial	Residential
No. 4a Pending foreclosures	1	0	1	0
Pending administrative receiverships	1	0	1	0
Of which included in the pending foreclosures	1	0	1	0
Foreclosures carried out	0	0	0	0
No. 4b Cases in which property has been seized to prevent losses	0	0	0	0

Amounts in € m	31.12.2018		31.12.2017	
	Commercial	Residential	Commercial	Residential
No. 4c Total interest in arrears	**0.0**	**0.0**	**0.1**	**0.0**

Statement of the Legal Representatives

"To the best of our knowledge, we give the assurance that, in accordance with the applicable accounting principles, the corporate accounts provide an accurate picture of the actual circumstances of the net assets, financial and earnings situation of the Bank, and that the course of business, including the results, and the Bank's position are shown in the Management Report in such a way that the picture conveyed corresponds to the actual circumstances, and the material opportunities and risks of the probable development of the company are described."

Berlin, 11 February 2019

Sascha Klaus | Gero Bergmann | Roman Berninger

Reproduction of the independent auditor's report

To Berlin Hyp AG, Berlin

Report on the Audit of the Annual Financial Statements and of the Management Report

Opinions

We have audited the annual financial statements of Berlin Hyp AG, Berlin, which comprise the balance sheet as at 31 December 2018, the statement of profit and loss, the statement of cash flows and the statement of changes in equity for the financial year from 1 January to 31 December 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Berlin Hyp AG, Berlin, for the financial year from 1 January to 31 December 2018. In accordance with German legal requirements, we have not audited the content of the corporate governance statement, the non-financial statement or the additional information for investors, which are included in section VI, VII and VIII of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to banks and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its financial performance for the financial year from 1 January to 31 December 2018 in compliance with German Legally Required Accounting Principles, and

- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the non-financial statement, the corporate governance statement and the additional information for investors mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and EU Audit Regulation No 537/2014 (referred to subsequently as 'EU Audit Regulation') and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the 'Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report' section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Adequacy of specific valuation allowances formed for claims against customers for commercial real estate financing.

Please refer to the section "Accounting policies" in the notes to the financial statements for information on the accounting policies of Berlin Hyp AG.

THE FINANCIAL STATEMENT RISK
Under claims against customers, the Company records, among other things, mortgage loans in the amount of EUR 20.2 billion, which relate to commercial real estate financing and which constitute the focus of the Company's lending activities.

Determining the amount of specific valuation allowances on commercial real estate financing requires judgements and estimates of future cash flows from principal and interest payments by borrowers and/or the use of loan collateral provided. The cash flows are estimated taking into account the expected development of key value-determining assumptions and parameters. These include, in particular, the future development of rental income from the financed properties as well as the expected recoverable value of the collateral.

Inaccurate assumptions regarding the amount of the expected cash flows from the borrower's principal and interest payments or the use of the loan collateral provided result in the claims being inaccurately measured and thus in the counterparty default risks not being adequately taken into account. In this context, it was of particular significance with respect to our audit that specific valuation allowances were recognised in the necessary and sufficient amount and that appropriate assumptions were made when determining specific valuation allowances with regard to the borrowers' capacity to repay principal and interest and regarding the amount of revenue generated from the use of loan collateral.

OUR AUDIT APPROACH
Based on our risk assessment and evaluation of the risks of material misstatement, we used both control-based and substantive audit procedures for our audit opinion.

In a first step, we gained a better understanding of the performance of the loan portfolio and the related counterparty default risks. To identify particular risk characteristics, we conducted an IT-based analysis of the entire loan portfolio according to the various product types and with respect to the presence of early warning indicators pointing to increased default risk.

Within the scope of control-based audit procedures, we conducted surveys, gained insight into the procedural and process documentation and assessed the design, implementation and effectiveness of relevant controls established by the Bank to ensure the adequacy of specific valuation allowances for commercial real estate financing. With the involvement of our IT experts, we verified the effectiveness of the general IT controls as well as automated process controls for the IT systems deployed.

We audited a representative sample of commercial real estate financing to determine whether the ratings and collateral values were appropriately recorded in the financial reporting system.

We examined the appropriateness of the calculated specific valuation allowances for commercial real estate financing using deliberate sampling of individual exposures from the perspective of materiality and risk. In so doing, we primarily assessed the estimates of future cash flows based on the borrower's capacity to repay principal and interest as well as the expected recoverable value of the collateral.

OUR OBSERVATIONS
The underlying approach for the determination of specific valuation allowances formed for claims against customers for commercial real estate financing is appropriate and in line with the accounting policies. The Bank has made appropriate assumptions regarding borrowers' capacity to repay principal and interest and the amount of cash flows from the use of collateral.

Other information

Management is responsible for the other information. The other information comprises:

- → the non-financial statement, the corporate governance statement, and the further information for investors, and
- → the remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditor's report. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- → is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- → otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Management Report

Management is responsible for the preparation of annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to banks, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in compliance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for preparing a management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

- Obtain an understanding of internal controls relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 28 March 2018. We were engaged by the Chair of the Supervisory Board on 10 April 2018. We have been the auditor of Berlin Hyp AG, Berlin, without interruption since financial year 2016.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we provided to the Company or its subsidiaries the following services that are not disclosed in the annual financial statements or in the management report:

In addition to the annual financial statements of Berlin Hyp AG, we also audited the annual financial statements of the subsidiary Berlin Hyp Immobilien GmbH, Berlin. An audit review pursuant to IDW PS 900 of the interim financial statements of Berlin Hyp AG, Berlin, as of 30 June 2018, was integrated into the audit. Furthermore, we also conducted audits pursuant to Section 36 of the German Securities Trading Act [WpHG] and Section 16j of the Financial Services Supervision Act [FinDAG], audits pursuant to ISAE 3000, agreed-upon investigative procedures pursuant to ISRS 4400, the issuing of a comfort letter in accordance with IDW PS 910, as well as audit services pursuant to Sections 45, 46 of the Framework for the protection scheme of the Savings Banks Finance Group (Sparkassen-Finanzgruppe)

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Jörg Kügler.

Berlin, 19 February 2019
KPMG AG
Wirtschaftsprüfungsgesellschaft

Kügler	Ginzinger
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Inhalt

Service

List of Important Abbreviations

Abs.	Absatz (paragraph)
AG	Aktiengesellschaft (stock corporation)
AktG	Aktiengesetz
AMA	Advanced Measurement Approach
APP	Asset Purchase Programme
AReG	Abschlussprüferreformgesetz (German Audit Reform Act)
AT	non-tariff
BA	Berufsakademie (University of Cooperative Education)
BCBS	Basel Committee on Banking Supervision
BGB	Bürgerliches Gesetzbuch (German Civil Code)
BGH	Bundesgerichtshof (Federal Court of Justice)
BilMoG	Bilanzrechtsmodernisierungsgesetz (German Accounting Law Adjustment Act)
BIP	Bruttoinlandsprodukt (gross domestic product)
BL	Bereichsleiter (division head)
BREEAM	Building Research Establishment Environment Assessment
BRRD	Bank Recovery and Resolution Directive
BSG	Betriebssportgemeinschaft (Company Sports club)
BSI	Bundesamt für Sicherheit in der Informationstechnik (Federal Office for Information Technology Security)
CBPP III	Covered Bond Purchase Program
CCF	Credit Conversion Factor
CD	Corporate Design
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSR	Corporate Social Responsibility
D & O	Directors & Officers
DCGK	Deutscher Corporate Governance Kodex (German Corporate Government Code)
DGNB	Deutsche Gesellschaft für Nachhaltiges Bauen (German Sustainable Building Council)
DIIR	Deutsches Institut für Interne Revision (German Institute of Internal Auditors)
DRS	Deutscher Rechnungslegungs Standard (German Accounting Standard)
DSGV	Deutscher Sparkassen- und Giroverband (German Savings Bank Association)
DV	Datenverarbeitung (data processing)
EGHGB	Einführungsgesetz zum Handelsgesetzbuch (Introductory Law to the German Commercial Code)
EStG	Einkommensteuergesetz (German Income Tax Code)
ESZB	Europäisches System der Zentralbanken (European System of Central Banks)
EU	European Union
EURIBOR	Euro Interbank Offered Rate
EWB	Einzelwertberichtigung (specific valuation allowances and reserves)
EZB	Europäische Zentralbank (European Central Bank)
FED	Federal Reserve Bank
FRA	Forward Rate Agreement
GbR	Gesellschaft bürgerlichen Rechts (civil law partnership)
GmbH	Gesellschaft mit beschränkter Haftung (private limited company)
GuV	Gewinn- und Verlustrechnung (profit and loss account)
HGB	Handelsgesetzbuch (German Commercial Code)
HQE	Haute Qualite Environnementale (High Quality Environmental standard)
HRB	Handelsregister Teil B (Commercial Register)
IA	Inanspruchnahme (called to account)
iBoxx	Index family for bond market indices
IDW	Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany)
IF	Immobilienfinanzierung (real estate financing)
IFRS	International Financial Reporting Standards
InstitutsVergV	Verordnung über die aufsichtsrechtlichen Anforderungen an Vergütungssysteme von Instituten (Institutional Remuneration Ordinance)
IREBS	International Real Estate Business School
IRRBB	Interest Rate Risk in the Banking Book
IT	Information technology
IWF	Internationaler Währungsfonds (International Monetary Fund)
KA	Kreditausschuss (Loans Committee)
K-Fälle	Katastrophenfälle (catastrophe case)
KR	Kredit (loan)
KWG	Kreditwesengesetz (German Banking Act)
LCR	Liquidity Coverage Ratio
LGD	lost given defaults
LEED	Leadership in Energy and Environmental Design
LMA	Loan Market Association
LR	Leverage Ratio
LTV	Loan-to-Value
MaRisk	Mindestanforderungen an das Risikomanagement (Minimum Requirements for Risk Management)
MaSan	Mindestanforderungen an die Ausgestaltung von Sanierungsplänen (Minimum Requirements for the Structure of Restructuring Plans)
MREL	Minimum Requirement for Eligible Liabilities
NPL	Non-Performing Loans
NSFR	Net Stable Funding Ratio
OHG	Offene Handelsgesellschaft (private partnership)
OI	Organisation/Informationstechnologie (organisation/information technology)
OpRisk	Operationelle Risiken (operational risks)
PA	Prüfungsausschuss (Audit Committee)
PE	Personal (staff)
PfandBG	Pfandbriefgesetz (Pfandbrief Act)
PSA	Personal- und Strategieausschuss (Staff and Strategy Committee)
PWB	Pauschalwertberichtigung (lump-sum value adjustments)
RechKredV	Verordnung über die Rechnungslegung der Kreditinstitute (Regulation on the Accounts of Banking Institutions)
RST	Rückstellungen (reserves)
RWA	Risk-weighted asset
SAG	Sanierungs- und Abwicklungsgesetz (Restructuring and Winding-Up Act)
SAP	Systems, applications, products
SEPA	Single Euro Payments Area
SolvV	Solvabilitätsverordnung (Solvency Regulation)
SRB	Single Resolution Board
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TLTRO	Targeted longer-term refinancing operations
TR	Treasury
VaR	Value-at-Risk
vdp	Verband deutscher Pfandbriefbanken e.V., Berlin
ZIA	Zentraler Immobilien Ausschuss (German Property Federation)

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Important company information is available immediately after publication at www.berlinhyp.de

Publications for our business partners in 2019

- → Annual Report 2018 (German/English)
- → Half-Year Financial Report as at 30 June 2019 (German/English)
- → Interim Report as at 30 September 2019 (German/English)

In this Annual Report, reference to the masculine form naturally also includes the feminine form.

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