

A partnership built on trust

Berlin Hyp



Creating Added Value

Annual Report 2014

Excerpt from the Balance Sheet in € m

	31.12.2014	31.12.2013
Claims against banking institutions	891	2,261
Claims against customers	20,645	20,806
Of which:		
a) Mortgage loans	17,721	17,584
b) Public-sector loans	2,908	3,204
Liabilities to banking institutions	8,286	11,466
Liabilities to customers	7,046	7,591
Of which:		
a) Registered mortgage Pfandbriefe	2,667	3,086
b) Registered public Pfandbriefe	1,383	1,426
Securitised liabilities	12,644	12,476
Of which:		
a) Mortgage Pfandbriefe	7,231	7,211
b) Public Pfandbriefe	1,650	3,029
Reported equity	936	831
Balance sheet total	30,428	33,367

Excerpt from the Profit and Loss Account in € m

	2014	2013
Net interest income	219.3	202.3
Net commission income	28.7	20.1
Staff expenditure	63.0	38.3
Other operating expenditure	43.9	41.2
Depreciations on tangible assets	4.6	4.1
Operating expenditure	111.5	83.6
Risk provisioning	8.5	20.4
Operating result	121.9	119.0
Income from financial investments	2.7	2.1
Bank levy	6.5	6.7
Provision for general banking risks	50.0	-8.0
Extraordinary expenditure	2.1	2.1
Profit transfer	68.1	120.1
Net income for the year	0.0	0.0
Cost-income ratio in %	46.1	37.5

Business Development in € m

	2014	2013
New loan commitments	4,031	3,177
Mortgages	4,031	3,177
Of which: Residential loans	1,852	836
Commercial loans	2,179	2,341
Public-sector loans	0	0
Extensions (capital employed ≥ 1 year)	1,010	1,301

Other

	31.12.2014	31.12.2013
Number of employees (as at the reporting date)	544	402

Content

Management

Letter from the Board of Management	3
Organs of the Bank and Other Important Functions	6
Supervisory Board Report of Berlin Hyp 2014	8
Corporate Governance Report	12

Company

09:00 – The day starts with the customer	16
13:00 – The team of experts for liquidity management gets together	22
17:00 – A new start at the end of the day	28
Reference financing projects	34
Sustainability Report	37

Management Report

I Principles of the Bank	46
II Economic Report	50
III Supplementary Report	61
IV Opportunities, Forecast and Risk Report	62
V Accounting-Related Internal Control System and Risk Management System	81
VI Remuneration Report	83

Annual Accounts

Balance Sheet	90
Profit and Loss Account	94
Statement of Changes in Equity and Cash Flow Statement	96
Notes	98
Auditor's Report	130

Service

List of Abbreviations	131
Addresses	132
Contacts	133
Imprint	134

Translation of the report from
German into English.
The German text is authoritative.

Letter from the Board of Management

Dear Business Partners,

Last year proved to be an eventful and successful financial year in a tough market environment. After extensive positioning measures, Berlin Hyp formally became an officially independent subsidiary housed within Landesbank Berlin Holding AG at the start of the year.

Economic Environment

The large number of geopolitical conflicts, moderate economic development and the economic crisis in Greece had a noticeable effect on the financial markets. The critical situation in Ukraine and the resulting political tensions with Russia, the looming threat of Islamic State in areas of Syria and Iraq and the Ebola outbreak in Western Africa represented latent risks for the global economy.

According to the Organisation for Economic Cooperation and Development (OECD), the global economy is at risk of long-term stagnation. Experts believe that the 20 largest industrialised and emerging markets (G20) have less freedom in terms of monetary and fiscal policy, which is restricting options when it comes to generating sustained growth. The OECD anticipates global economic growth of 3.3 % for the past financial year, but this figure is below the average for the ten years prior to the financial crisis.

With economic growth in the US stepping up a notch over the past few months on the back of strong domestic demand, Eurozone growth has been positive but relatively low. According to the German Institute for Economic Research (DIW Berlin), GDP growth is anticipated at 0.8 % in the Eurozone for 2014. While Italy remained in recession and the French economy experienced stagnation, Spain, Portugal and Ireland continued on their upward trajectory.

Germany headed up the group of major Eurozone nations and played a pivotal role in stimulating positive economic growth. In spite of tendencies for temporary stagnation in 2014, persistently strong private consumption and the stable situation on the employment market caused GDP to rise by 1.5 % year on year. A small 0.9 % increase in consumer prices, caused by the collapse in the oil price, and low interest rates fuelled the positive trend among

private consumer spending. Industrial production declined as a result of the escalating Ukraine conflict and the sanctions imposed on Russia. According to DIW Berlin, German exports increased only moderately due to geopolitical developments. Economic policy measures such as pension packages and the introduction of a nationwide minimum wage also put the brakes on growth in Germany.

Regulatory Environment

In view of the different economic developments around the world, central banks in the US and the Eurozone have adopted different strategies when it comes to monetary and fiscal policy. Whereas the Federal Reserve Bank (FED) ended its purchasing of long-term securities in autumn 2014 and is gradually trimming back on its expansive monetary policy, the European Central Bank (ECB) is attempting to increase stability and inject momentum into the economy by expanding its monetary policy. Against the backdrop of positive economic figures in the US, a cautious rise in benchmark rates is expected in 2015. By contrast, the ECB began reducing its rates in mid-2014 to their current level of 0.05 % and imposed a penalty rate of -0.1 % for the first time on its deposit facility. In the fourth quarter of 2014, the ECB expanded its monetary policy once again by purchasing Pfandbriefe and asset-backed securities. Strict regulatory requirements and the macroeconomic situation in the Eurozone also meant that lending from European banks was relatively restrictive in 2014 with loan demand remaining moderate overall.

The first ever comprehensive assessments performed by the ECB in the 2014 financial year, which comprised a risk-oriented asset quality review (AQR) and a stress test, also represented a major regulatory challenge. Banks' stability in a crisis scenario was to be scrutinised before the ECB took over responsibility for regulating the 130 European financial institutions of systemic relevance. For the first time, the considerably stricter demands of the Capital Requirements Regulation (CRR) formed the basis for the calculations. Increased expenditure on account of the EU-wide bank levy will have a negative impact on the earnings situation moving forward.

Thus, it remains a major challenge for banks to implement an individual, competitive concept and establish a market presence in such a strict



Dr. Michael Schieble
Managing Director

Roman Berninger
Member of the Board
of Management

Jan Bettink
Chairman of the Board
of Management

Gero Bergmann
Member of the Board
of Management

“With our new status within the Group and the successful positioning of Berlin Hyp as a reliable Group partner for commercial real estate finance within the Savings Banks Finance Group, we will consistently pursue the charted course in 2015 as well.”

BERLIN HYP BOARD OF MANAGEMENT, DECEMBER 2014

regulatory environment and under such difficult economic conditions.

Real Estate Market

The extremely low interest rates in the Eurozone continued to be a contributing factor in the very positive situation for the German commercial and residential real estate market. German real estate remained sought after as a profitable investment opportunity at a manageable risk among traditional investors, as well as among many new market stakeholders, particularly from Asia.

Transaction volume for commercial real estate of € 39.8 billion equates to a 30 % year-on-year rise and means that commercial investment volume in Germany has risen for the fifth year in succession. According to JLL, the share of foreign investments in 2014 amounted to 50 % and was a major factor in the sharp increase in investment volume. At a volume of € 17.5 billion, 44 % of all commercial transactions were attributed to office real estate. Growth of € 9.2 billion was recorded in retail real estate, while logistics real estate posted an increase of over 50 % to € 3.3 billion. In the German residential real estate market, which is of equal relevance to Berlin Hyp, transaction volume reached € 13.3 billion, just below prior-year levels.

Brisk demand was met by a limited range of high-quality real estate. This is being reflected in rising prices and constant pressure for returns and is fuelling debate on the potential of a bubble forming on the German real estate market. In terms of the market as a whole, no bubble is currently evident, however there are signs of overheating in some market segments. Arguments against the formation of a widespread real estate bubble include high capital deposits from investors, coupled with conservative financing structures.

Berlin Hyp's Business Development

Berlin Hyp recorded an extremely positive 2014 financial year overall, especially considering the additional effects caused by the Group restructuring project. In spite of the anticipated rise in additional burdens as a result of structural adjustments in the Group restructuring process, and a wide range of stricter regulatory requirements, the Bank was able to post a gratifying result of € 65.8 million before taxes and profit transfer:

- New business experienced extremely positive development. With new business volume of € 4.0 billion, the Bank even succeeded in topping the positive 2013 figure of € 3.2 billion by a considerable margin. With extensions of € 1.0 billion, new lending volume totalled € 5.0 billion (previous year: € 4.5 billion).
- At € 248 million, net interest and commission income exceeded the previous year's figure of € 222.4 million. Due to relatively stable margins in core business and a decline in refinancing expenditure, net interest income increased from € 202.3 million to € 219.3 million in spite of the low-interest environment. Commission income rose from € 20.1 million to € 28.7 million on the back of successful new lending business.
- Operating expenditure in the 2014 financial year stood at € 111.5 million, up from € 83.6 million in the previous year. This increase had been anticipated and was the result of the recruitment of employees from the Group and increased consulting costs within the scope of the creation of an autonomous Berlin Hyp.

As a result, Berlin Hyp achieved its goals and reinforced its position as one of Germany's leading real estate banks thanks to this financing volume. Berlin Hyp was also able to strengthen its role as a partner of the Savings Banks Finance Group and further intensify its involvement by developing and introducing new products. Another key focal point of business activities and organisational measures in the 2014 financial year was the Bank's repositioning as an independent commercial real estate financier for German savings banks. In Group business with the savings banks, two ImmoSchuld-scheine real estate promissory notes with a total volume of € 210 million were successfully placed. Both promissory notes were oversubscribed due to the major demand within the Group. For this reason, the originally planned placement volume of one promissory note was even increased. The product range, which is tailored to the particular needs of the savings banks' customers, was well received by the savings banks, flanked by an intensive regional service.

In the 2014 financial year, Berlin Hyp was once again exposed to stricter regulatory requirements. Effective liquidity management and the program-

me to reduce risk-weighted assets, which was completed in 2012, enabled Berlin Hyp to comply with the new regulatory requirements imposed under CRR/CRD IV. The regulatory group successfully passed the ECB stress test. As a result of ongoing portfolio consolidation and reduction, the situation has actually improved considerably compared to the basis for the stress test performed in December 2013.

Outlook

The establishment of Berlin Hyp in the Savings Banks Finance Group and its successful repositioning within the Group as a reliable commercial real estate financing partner enabled Berlin Hyp to make major progress in terms of its realignment in 2014. At the same time, the 2014 financial year was extremely gratifying for Berlin Hyp. We intend to systematically pursue this strategy in 2015. The positive result was used to form provision reserves, which also served to strengthen the Bank's capitalisation together with the increase in the capital reserve. Berlin Hyp therefore ensured that it took tightening regulatory requirements into account as well as the requirements of the capital market.

In order to further stabilise and expand our business, we continue to systematically and ambitiously drive forward the introduction of new products and the focus on savings banks. In 2015, we will launch the „ImmoKonsortial“ product, which is a standardised, simplified lending product that allows savings banks to contribute low volumes to a regional syndication transaction. We also decided to implement a Savings Banks Advisory Council to strengthen the Group philosophy.

Framework conditions are set to remain challenging in 2015. The persistent phase of low interest rates, increasingly stricter regulatory requirements and more intensive competition represent major challenges on the commercial real estate financing market. In this market environment, we believe that Berlin Hyp is well placed on account of its established customer relationships, its advancing position within the Savings Banks Finance Group and, last but not least, our experienced and highly motivated workforce.

We look forward to continuing our partnership with you and thank you for your trust!

Yours sincerely,



Jan Bettink



Gero Bergmann



Roman Berninger



Dr. Michael Schieble

Organs of the Bank and Other Important Functions

Supervisory Board

Georg Fahrenschon

Chair
President of Deutscher Sparkassen-
und Giroverband e.V.

Dr. Johannes Evers

(until 26 January 2015)
Deputy Chair
Chair of the Board of Management of
Landesbank Berlin Holding AG
Chair of the Board of Management of
Landesbank Berlin AG

René Wulff

Deputy Chair
Bank employee
Member of the Works Council of Berlin Hyp AG

Dr. h. c. Axel Berger

Former Vice-President of Deutsche Prüfstelle
für Rechnungslegung DPR e.V.
Accountant, tax advisor

Hans Jörg Duppré

Commissioner of the District of Südwestpfalz

Dr. Michael Ermrich

Executive President of Ostdeutscher
Sparkassenverband e.V.

Board of Management

Jan Bettink

Chair

Gero Bergmann

Roman Berninger

Joachim Fechteler

Bank employee
Member of the Works Council of Berlin Hyp AG

Thomas Mang

President of Sparkassenverband Niedersachsen

Carsten Nowy

Bank employee
Deputy Chair of the Works Council of Berlin Hyp AG

Jana Pabst

Bank employee
Chair of the Works Council of Berlin Hyp AG

Helmut Schleweis

Chair of the Board of Management of
Sparkasse Heidelberg

Dr. Thomas Veit

Former member of the Board of Management
of Landesbank Berlin Holding AG
Former member of the Board of Management
of Landesbank Berlin AG

Managing Director

Dr. Michael Schieble

Supervisory Board Committees

Staff and Strategy Committee

Georg Fahrenschon

Chair

Helmut Schleweis

Deputy Chair

Dr. Michael Ermrich

Thomas Mang

Jana Pabst

Loans Committee

Thomas Mang

Chair

Dr. Johannes Evers

(until 26 January 2015)
Deputy Chair

Carsten Nowy

Dr. Thomas Veit

Trustee

Christian Ax

Audit Committee

Dr. Michael Ermrich

Chair

Dr. Johannes Evers

(until 26 January 2015)
Deputy Chair

Dr. h. c. Axel Berger

Joachim Fechteler

Helmut Schleweis

Deputy Trustees

Wolfgang Rips

(since 1 August 2014)

Philip Warner

Supervisory Board Report of Berlin Hyp 2014



A key milestone in the restructuring of Landesbank Berlin in the 2014 financial year was the establishment of Berlin Hyp as an independent unit, allowing it to position itself as an independent real estate financier to the Savings Banks Finance Group.

At the end of 2014, Berlin Hyp was officially attributed to the managing institution from a regulatory perspective, Landesbank Berlin Holding AG, and therefore changed from a subsidiary to an affiliate of Landesbank Berlin AG/ Berliner Sparkasse. One of the main priorities of the Supervisory Board's work was to closely monitor this development during the course of the year, confer with the Board

of Management with regard to the necessary measures in the context of the restructuring project and prepare the other bodies within the Bank accordingly.

During the 2014 financial year, a total of four plenary meetings and seventeen committee meetings, nine of which were telephone conferences, took place in which the Board of Management informed the Supervisory Board in depth on current events and transactions of essential significance. In addition, three Supervisory Board resolutions and twenty committee resolutions – mostly loan resolutions – were passed using a circulation procedure.

The Supervisory Board concerned itself with the position and the development of Berlin Hyp, the planning situation, the risk situation, risk management as well as compliance regularly, comprehensively and with the appropriate urgency, both orally and in writing. It constantly monitored the actions of the Board of Management and satisfied itself that it was acting properly, deliberated all aspects which arose in this context and provided advice where necessary or requested.

Focus of the Supervisory Board's Activities

The object of all Supervisory Board meetings in 2014 was for the Board of Management to inform the Supervisory Board of the current business development and position of Berlin Hyp. In the balance sheet meeting of 12 March 2014, the annual accounts and Management Report as at 31 December 2013 were approved and adopted after being reviewed and following reports from the Board of Management and the auditors. Moreover, the annual audit report was also acknowledged and the Supervisory Board Report and German Corporate Governance Code Report were adopted in this meeting.

The Supervisory Board also passed a resolution on the agenda and the proposals for the Annual General Meeting of Berlin Hyp as well as the appointment of an auditor. The Board of Management also reported on the Berlin Hyp risk situation, the development of the risk-bearing capacity model, the efficiency of the internal control system (ICS), the development of bad loans in 2013, the progress of the restructuring project and equity capital planning. The Supervisory Board also acknowledged the Board of Management's statements on the planned appointment of a Remuneration Officer and had no objections.

In the meeting on 28 May 2014, the quarterly results were acknowledged, as were the risk report as at 31 March 2014, the annual compliance report and the regular report on the restructuring project. Moreover, the guidelines for the calculation and payment of variable remuneration to Board of Management members in accordance with the Institutional Remuneration Ordinance (IVV) were approved. After carefully weighing up the options, a resolution was also passed concerning the waiver of variable remuneration to Board of Management members for the 2013 financial year; this is described in

detail in the Management Report. In addition, the appointment of Mr. Berninger as a member of the Board of Management was extended for a further five years. The Supervisory Board and the Board of Management also discussed future governance in the Group and Berlin Hyp's current equity capital situation within the LBBH Group.

In the meeting on 22 September 2014, the Board of Management reported on the half-yearly results, the risk situation and the development of bad loans as at 30 June 2014, activities involving institutes, associations and bodies of the Savings Banks Finance Group (S-Group business), progress in the implementation of the restructuring project and the current equity capital situation. The Supervisory Board also passed a resolution on the new audit focuses for the 2014 financial year and reviewed the efficiency of its activities. It also acknowledged minor adjustments to the risk strategy, discussed the latest information on future corporate governance in the Group and in the regulatory group with the Board of Management and also acknowledged the progress and main features of related revisions to Berlin Hyp's Rules of Procedure.

In its meeting on 17 November 2014, the Board of Management submitted its periodic report on the economic position (third quarter 2014), the risk situation and S-Group business. The Supervisory Board acknowledged the projections for 2014 and the medium-term planning for 2015 to 2019 and updated the respective compliance declaration according to the German Corporate Governance Code. The new strategy document updated in line with MaRisk was discussed and the remuneration strategy and the remuneration control report were acknowledged in respect of the implementation of the Institutional Remuneration Ordinance (IVV). The future efficiency and suitability review procedure was resolved for the 2014 financial year in line with the new regulatory requirements.

The Supervisory Board discussed the change in Berlin Hyp's status at the turn of 2015 from being a wholly-owned subsidiary of LBB AG to a wholly-owned subsidiary of LBBH. In relation to this, approval was granted for the termination of the existing profit and loss transfer and controlling agreement between Berlin Hyp and LBB AG as at 31 December 2014 and the conclusion of a new

profit and loss transfer agreement between Berlin Hyp and LBBH from 1 January 2015, as well as for the new Rules of Procedure of Berlin Hyp valid from 1 January 2015.

Apart from efforts to push forward Group restructuring and the establishment of an autonomous Berlin Hyp, the 2014 financial year was shaped by preparations for the AQR and the ECB's stress test for the LBBH Group. The Board of Management informed the Supervisory Board on an ad-hoc basis, including outside of regular committee meetings, on the progress of the AQR and the stress.

Supervisory Board Committees

The work of the Supervisory Board is supported by three committees: the Audit Committee, the Staff and Strategy Committee and the Loans Committee.

The main objective of the Audit Committee is to assist in the review and preparation of the adoption of the annual accounts. Moreover, it is responsible for monitoring the efficacy of the risk management system, internal controlling system and internal rating system. It is also concerned with compliance issues and regular compliance with the German Corporate Governance Code.

The Staff and Strategy Committee is tasked with personnel issues, strategy, planning and basic company issues. It also acts as a remuneration controlling and nomination committee.

The Loans Committee has its own credit approval powers and also acts as a risk committee. It therefore primarily deals with loan decisions which exceed the powers of the "overall Board of Management", risk strategy and the principles of the loan business policy.

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

Corporate Governance

As an unlisted public company, Berlin Hyp is in principle not subject to the regulations of the German Corporate Governance Code (GCGC). However, as good corporate governance is an essential basis for trust and a company's reputation on the capital market, the Board of Management and Supervisory Board of Berlin Hyp have decided to continue

adhering to German Corporate Governance Code principles. Berlin Hyp has been following the Code since 2002 and has published a compliance declaration each year ever since. Details are available in the Corporate Governance Report.

Board of Management Appointments

There were no changes relating to the composition of the Board of Management in the 2014 financial year. The Board of Management continues to comprise three members.

Supervisory Board Appointments

The employees voted Joachim Fechteler as their fourth representative in the Supervisory Board on 23 January 2014. As a result, the Supervisory Board comprised its full quota of twelve members from this date.

Effective as at 26 January 2015, Dr. Evers stepped down from the Supervisory Board of Berlin Hyp. The Supervisory Board would like to thank Dr. Evers for his achievements and personal commitment. Dr. Evers had been a member of the Supervisory Board since 17 July 2009 and had been its Deputy Chair since 11 September 2009. During this time, he always supported the strategy that has led Berlin Hyp to its current positioning within the Group and on the market and also contributed his great expertise to business-related decisions made in the Loans Committee.

Annual Accounts 2014

The annual accounts of Berlin Hyp and the Management Report for the 2014 financial year have been audited by PriceWaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, branch 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 certificate.

The annual accounts 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 report were presented to the Supervisory Board for its meetings in time. The Board of Management explained the accounts and the risk management system at two meetings of the Review Committee in prepa-

ration for the balance sheet meeting and at the Supervisory Board's balance sheet meeting. The auditor attended these three meetings and provided extensive opinions regarding the scope, focus and the main results of his audit. He also reported that there were no major weaknesses in the internal control system or the risk management system.

The Audit Committee closely examined the documents and recommended that the Supervisory Board approve the annual accounts. The Supervisory Board acknowledged the audit results, examined the annual accounts and Management Report as well as the recommendation for the appropriation of the balance sheet profit and approved the results of the audit of the annual accounts. It also approved the annual accounts prepared by the Board of Management. The 2014 annual accounts are thereby adopted. In accordance with the profit transfer agreement, the earnings from 2014 will be transferred to Landesbank Berlin AG/Berliner Sparkasse. The remaining balance sheet profit of € 2.2 million will be carried forward to new account.

The Supervisory Board once again acknowledges the good results and thanks the members of the Board of Management and all employees for their efforts in the 2014 financial year. The Supervisory Board will continue to monitor the reinforcement of Berlin Hyp's position as a leading commercial real estate financing provider in Germany and the increased integration of the Bank as part of the German Savings Banks Finance Group.

Berlin, March 2015

For the Supervisory Board
Georg Fahrenschon
Chair



Corporate Governance Report

Corporate governance means the good, responsible management and control of an enterprise that is directed at the long-term creation of added value. Guidelines have been established for this and are summarised in the German Corporate Governance Code (GCGC), which was revised on 24 June 2014.

The Board of Management and the Supervisory Board of Berlin Hyp attach great importance to clear, efficient regulations governing the management and monitoring of the Bank and also to the German Corporate Governance Code. It has complied with GCGC recommendations since December 2002. The Bank's boards act with the awareness that good corporate governance is in the interests of capital markets and that it forms, particularly for banking institutions that refinance themselves on the capital market, an important basis for the success of the Bank and its employees. In addition, compliance with corporate governance regulations for the company represents an important factor in guaranteeing public trust. As a result, the Board of Management and Supervisory Board continue to comply with the principles of the GCGC despite the fact that, since Berlin Hyp shares were delisted, GCGC regulations such as those relating to the organisation of annual general meetings are no longer relevant to Berlin Hyp.

Board of Management

The Board of Management of Berlin Hyp operates the Bank with an eye towards sustainable value creation and acknowledges the principles of sustained good, responsible and efficient management and control of the enterprise. 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 2014 financial year, the Board of Management comprised three members. The Board members have been placed in charge of spheres of responsibility which they each run at their own responsibility. They always act in the overall interests of the company.

Since the appointment of Jan Bettink to the Board of Management on 1 January 2014, the Board of Management has a new Chair. The varied expertise of the individual Board of Management members

ensures that the Board of Management remains sufficiently diversified.

Supervisory Board

The Supervisory Board, which had twelve members in 2014, advises and oversees the Board of Management as it operates the Bank, works together with the Board of Management 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 and Paragraph 9 of the Articles of Association, it comprises eight Supervisory Board members on the shareholder's side and four on the staff 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.

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

The Supervisory Board pursues the following aims when new 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 following criteria can be fulfilled either by employee or shareholder representatives on the Supervisory Board:

- At least **one** member should have detailed knowledge and experience in the field of accounting and be independent as defined by the German Corporate Governance Code.
- At least **one** member should have experience in international business.

→ At least **one** member should be female.

→ 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 Supervisory Board submits itself to efficiency reviews each year on a voluntary basis. As in the Supervisory Board meeting on 22 September 2014, this was carried out in the first half of the year on the basis of the detailed checklist which deals with topics relevant to the German Corporate Governance Code. This checklist is completed in advance by all Supervisory Board members and then discussed in the committee. For 2014, this review showed that the Supervisory Board's work is efficient in every respect. In some cases, information was submitted on the dispatch date of meeting documents and on scheduling without this having any influence on the overall assessment. One member, who only joined the Supervisory Board in late 2013, declared that it was not possible to review his actions due to the short amount of time of his tenure.

In addition, the Staff and Strategy Committee also reviewed compliance with the German Corporate Governance Code using an analysis report prepared by the Board of Management. This took place in the meeting on 17 November 2014; no objections were raised.

Close Cooperation between the Board of Management and the Supervisory Board

The Board of Management and the Supervisory Board of Berlin Hyp work together in close collaboration and confidence. At least four Supervisory Board meetings regularly take place during the financial year. 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. It explores deviations in business performance from plans and goals and states the reasons for these.

The Board of Management's reporting duties have been established in detail beyond the statutory obligations. The Supervisory Board has also defined important transactions that the Board of Management may only conduct with the Supervisory Board's consent. In addition, it has also establis-

hed rules designed to prevent conflicts of interest. There were no conflicts of interest requiring disclosure in the 2014 financial year. The Board of Management constantly exchanges information with the Chair of the Supervisory Board.

Conscious entrepreneurial risk management helps recognise risks at an early stage, assess them and initiate appropriate countermeasures if necessary. 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 that 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.

The composition of the Board of Management and the Supervisory Board, as well as of the spheres of responsibility of the individual Members of the Board of Management, are presented on pages 6 and 7 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 Committee chairs report on their work at each Supervisory Board meeting. The responsibilities of each committee and the issues they focused on in 2014 are described in detail in 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. Until 31 December 2014, the shares in Berlin Hyp were owned in full by Landesbank Berlin AG and, as a result of the change in Berlin Hyp's status, have been held in full by Landesbank Berlin Holding AG since 1 January 2015. 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 comprehensive information about all major developments and events at the Bank. Planned publication dates for financial reports, for instance, can be found in the financial calendar. All annual reports and interim reports are also archived and available on the website. The

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 Accounts

Berlin Hyp's annual accounts 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 accounts in accordance with the International Financial Reporting Standards (IFRS). The annual accounts, the half-yearly financial report and the interim reports prescribed by the German Commercial Code 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 20 February 2015. 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. It was also determined that the auditor will inform the Supervisory Board about, or specify in the audit report, any divergences from the joint compliance declaration provided by the Board of Management and the Supervisory Board together regarding the GCGC. No such divergences were found.

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

The remuneration of the Board of Management members and Supervisory Board members is published in individualised form in a separate report as part of the Annual Report. In accordance with the stipulations of the German Corporate Governance Code, the remuneration of Board of Management and Supervisory Board members is shown individually 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 reinforce the responsibility and conduct of the Bank toward its shareholders, an adequate deductible has been agreed of at least 10% of damages up to one-and-a-half times the fixed annual remuneration.

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

The divergences listed in the previous year's compliance declaration were able to be rectified to a large extent in the 2014 financial year. Since this year, the Board of Management once again has a Chair, the Supervisory Board formed a Staff and

Strategy Committee which also acts as a nomination committee, the Chair of the Supervisory Board is no longer the Chair of the Audit Committee at the same time and the Articles of Association were changed so that the Supervisory Board members only receive fixed remuneration.

The compliance declaration of the Board of Management and the Supervisory Board pursuant to Section 161 Stock Corporation Act was updated on 17 November 2014. It reads as follows:

Section 1

Berlin Hyp AG has complied/currently complies with all recommendations of the Government Commission on the German Corporate Governance Code, in the version dated 24 June 2014, announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette, with the exception specified in Section 2.

Section 2

Berlin Hyp AG deviates from the German Corporate Governance Code in the following recommendation:

At the time of the conclusion or extension of Board of Management contracts, such contracts do not always include a settlement payment cap stipulating that, in the case of premature termination of work for the Board of Management without good cause, settlement payments are limited to an amount corresponding to two years' remuneration including ancillary benefits (Fig. 4.2.3 German Corporate Governance Code).

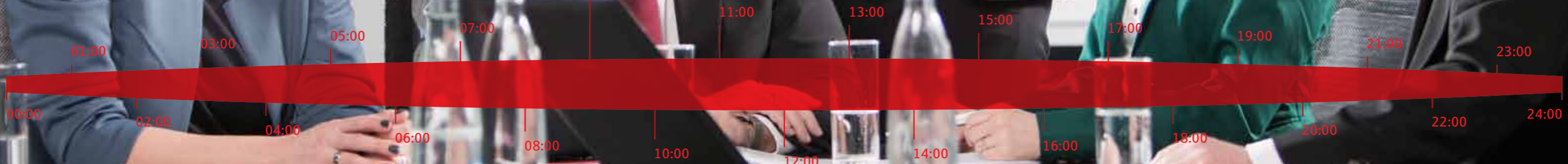
The general agreement of settlement payment caps removes the possibility of considering the circumstances of each individual case in case of contract agreements or extensions. For this reason, decisions should be made in each individual case as to whether a settlement payment cap should be agreed.

Berlin, 13 March 2015

Board of Management and Supervisory Board of Berlin Hyp AG

A Berlin Hyp deal team dedicated to our customers

09:00 – The day starts with the customer
A deal team comprising experts of the Bank discusses a new financing application. The objective is to achieve added value through optimised framework conditions.



- Loans
- S-Group business
- Sales

- Valuation
- Sales management

Swift decision-making through harmonised processes

Berlin Hyp specialises in commercial real estate financing. Whether investors, housing companies, housing cooperatives or project developers, our customers are all professionals in their field, who welcome having a reliable partner at their side.

The Bank is always ready to advise and assist its customers – from the initial concept to completion – and its experts from various departments play a vital role. A highly effective processing and decision-making structure has been established to allow us to respond quickly and decisively to our customers' financing requests. The deal team brings experts together early on to shorten the process.

How are customer loan requests dealt with at Berlin Hyp?

The customer approaches the Sales employee. Berlin Hyp has offices in five locations: Berlin, Düsseldorf, Frankfurt, Hamburg and Munich. Besides customer advisors, local contact partners are also available for savings banks. The Bank also has offices in Amsterdam, Warsaw and Paris to assist its foreign customers. When a customer submits a financing project to the Bank, the customer advisor first studies all the details.

The Sales team verifies whether the investor and the financing project fit it in with the Bank's strategy and whether the information is sufficient for the loan to be granted later on. The investor's degree of experience is also a decisive factor.

The deal team operates on a cross-divisional level and evaluates all the documentation. After an initial, successful inspection, the Sales employees prepare a structured financing application which can be quickly examined by the specialists in the back office.

To provide a swift, flexible and reliable response, the decision-making process has been shortened by setting up a credit committee, where the experts of the respective divisions discuss loan requests and the next steps to be taken.

After a positive vote, the customer receives a reliable offer which forms the basis of the loan application.

Conclusion: Our customers appreciate our reliability. Direct cooperation and discussion between our experts shorten the decision-making process without compromising quality.



Added value thanks to the Group structure



Andrea Kolander is head of the Berlin Hyp Düsseldorf branch and is the expert for the North Rhine-Westphalia market thanks to her experience in real estate and extensive knowledge of regional conditions.

Thomas Esterle is head of the S-Group business and a contact partner for more than 400 savings banks throughout Germany. He has more than 20 years of experience in real estate financing.

Together they explain the largest challenges facing commercial real estate financing sales and how they have responded.

Ms. Kolander, the interest rate environment remained favourable for financing in 2014 and the German real estate market was extremely attractive for German and international investors. How did you experience the competitive situation at Berlin Hyp last year?

The market has changed, not only has the competition among investors for real estate at the best locations increased, but the competition among real estate financiers has also become fiercer, and this will continue.

This pressure could lead to some participants on the real estate market making sacrifices with regard to either properties or financing.

How are you responding to these new market developments?

While we want to assert ourselves in the growing competition, we will not change our risk-averse strategy. As one of the leading commercial real estate financiers in Germany, we have already made a name for ourselves as a competent partner for investors in Germany and abroad.

Our customers and partners are experts in their line of business and we provide them with professional advice and swift and reliable loan processing, from the application and valuation of the real estate to the offer and the final credit agreement. We want to fulfil our promise and win the trust of new customers on the market with our impeccable image. We are also constantly expanding our range of products.

Integration into the Savings Bank Finance Group is underway. How does this affect your business activities?

Very positively. We have long-standing business relationships with many savings banks in North Rhine-Westphalia at our Düsseldorf branch and are witnessing the arrival of many new customers through the S-Group business. Savings banks

regularly ask us whether we want to participate in the financing of their customers as a syndicate partner. We then conduct the meetings with the customer in person, either with the savings bank, or if we want to lead the syndicate for example, on their behalf.

For many of our customers, the savings bank is their principal bank. When we examine loan applications submitted by our customers, we also examine whether we can involve the savings banks in the financing project and then actively approach the respective savings bank with a proposal.

Mr. Esterle, you have been head of the “S-Group business” since 2013 and are responsible for an entirely new business at Berlin Hyp. What was 2014 like?

In 2013 we laid the foundations for closer integration of the S-Group and syndication business into our sales structure. As Ms. Kolander pointed out, we have an excellent reputation among professional investors on the market. Since 2014, we have also been working towards becoming a reliable and recognised partner for savings banks. Our objective for 2014 was to raise awareness of our position within the savings bank family and to create added value for them.

I think we have succeeded! We have conducted many discussions and have visited more than 100 savings banks in person. We have already established close contacts and business relationships with some banks, and we plan to build on this.

How do you cooperate with savings banks?

Whereas Berlin Hyp has successfully proven its expertise in metropolitan areas, savings banks are experts in regional markets. Thanks to our experience, we act as a reliable partner for large-volume projects which local savings banks are unable to finance despite their expertise. Depending on the situation, we can serve either as syndicate leader or as an underwriting bank within the syndicate. We place great emphasis on reciprocity. For this reason, we approach the savings banks proactively and ask them whether they want to participate in large-volume projects.

Besides traditional syndicate loans, the ImmoSchuldschein is an ideal instrument for savings

banks to participate in our business, and many have done so already. Then we come to real estate valuation, an area where we also successfully support saving banks. As you see, we are able to offer them a broad range of services.

What has been your personal experience? How do savings banks react to your proactive approach?

In different ways, but they always show interest! Some savings banks are already aware of our “ImmoSchuldschein” product, which makes things easier for us. Others respond more cautiously and first want us to explain Berlin Hyp’s business model as a new partner in the group.

We are more than happy to do this as it gives us an opportunity to introduce ourselves and hear their views. From these talks, the “ImmoKonsortial” idea was born, through which we will offer syndicate financing up to € 10 million. This product will be rolled out in 2015.

“ImmoKonsortial” combines the regional expertise of savings banks and our experience as a financing expert in a lean process. The objective is to provide savings banks and their customers

with a reliable proposal for participating in financing projects.

Ms. Kolander, could you sum up what the main challenges and trends will be this year?

The intense competition is definitely one of this year’s biggest challenges. As far as trends are concerned, the word sustainability comes to mind. The value-enhancing aspect will become increasingly important in future. Residential real estate with ecological certifications should be included in portfolios and is easier to rent and sell. We want to sensitise our Sales employees in this regard and provide special training.

Mr. Esterle, what are your expectations for 2015? What issues will define the S-Group business this year?

Sustainability is also gaining ground in our business and I am glad that we are systematically pursuing this in our Bank. It is also a big issue among savings bank customers.

I am also eager to see how our new joint “ImmoKonsortial” product will be received, and how well our next ImmoSchuldschein fares with the savings banks.



Berlin Hyp's specialist team for liquidity management

13:00 – The team of experts for liquidity management gets together
An exchange at cross-divisional level gives stable liquidity management significant added value. It forms the basis for all of the Bank's business transactions.



- Finances
- Risk Control
- Treasury

- Banking Operations
- Risk Management

Liquidity management is everything in our business

Liquidity is the foundation of a bank's ability to conduct business. A bank's solvency must be guaranteed at all times. To meet all statutory and supervisory requirements, its cash inflows and outflows must be planned as carefully as possible. Successful customer business is only possible with successful liquidity management. This is the case in both customer lending and refinancing on money and capital markets.

How is liquidity managed at Berlin Hyp?

Liquidity management requires in-depth knowledge of the liquidity situation. To achieve this, the Treasury department issues a monthly twelve-month liquidity forecast which contains all the Bank's cash flows – cash inflows and outflows – known at the time of the report.

The refinancing needs are derived from the liquidity forecast and implemented as secured and unsecured issues. The mortgage Pfandbrief plays the key role in this. The objective is to combine the needs of the Bank, which is to achieve a means of financing as cost effective and secure as possible, with the investor's need for returns. The Treasury department therefore meets the Bank's capital market partners on a regular basis to seek out such

opportunities. In 2014, savings banks continued to become increasingly important as investors and buyers of our securities. Last year, the Bank began to build up an independent presence on the interbank money market, and made substantial headway with regional banks and savings banks in particular.

While scheduled payments such as Pfandbrief and own bond maturities are easy to plan, it is more difficult when it comes to real estate financing, Berlin Hyp's core business. This is where close, cross-divisional team work is required and this is why all the relevant respective departments come together. The Risk Control department reviews the planning as well as the current liquidity situation which it then subjects to stress scenarios. The Board of Management is regularly informed of the results.

The Risk Management department also plays a vital role by providing financial data which is hard to foresee. All information, input and objections come together to provide the Treasury department with an overview of current liquidity needs at all times. Once its "homework" is done, the Banking Operations department ensures the proper execution of all cash inflows and outflows. The aim is to maintain an adequate level of liquidity without stretching the Bank's profitability more than necessary.

Conclusion: It stands to reason that the Treasury department is only able to manage the Bank's liquidity with a collaborative, team-oriented and cross-divisional approach.



Capital markets – new trends and many rules



Thomas Meister has more than 25 years of experience in various capital market segments. Today he is head of Markets/Trade and gives us an overview of developments and trends both on the market and at Berlin Hyp.

Mr. Meister, what were the prevalent trends on international capital markets in 2014?

In my estimation, there were four major trends in 2014. First of all, there were new regulatory requirements for liquidity. In summer, the liquidity coverage ratio (LCR) requirements were announced. These defined which security classes were regarded as highly liquid. German Pfandbriefe were confirmed as being an extremely liquid investment class. Secondly, bail-in, which has been the subject of political debate for some time, but only began to become serious in 2014.

The intention was that no taxes should be used for bailing out troubled banks in future. Instead, the owners and creditors of the banks should be called upon to a greater extent. The size and calculation method of a European banking levy is now also a major issue in the sector. The third trend is capitalisation, because the capitalisation of banks has come under ever closer scrutiny by rating agencies and investors.

With additional Tier 1 issues, or AT1, a new product qualifying as additional core capital has established itself on the capital market. Finally, the search for returns means that capital markets have become a one-way street in the current low interest rate environment, often paired with low risk premiums which no longer reflect the actual risk of an investment.

The same applies to banks' equity products and European government bonds and covered bonds.

What was driving these four trends?

The risk of a government bail-out of a bank is to be reduced through extensive regulatory changes. For example, the Bank Recovery and Resolution Directive (BRRD) will be adopted by national law in 2015. This will expose investors who invest in equity products and unsecured debentures of banks to a greater risk of actually having to participate in a bail-out. Solid capitalisation is also essential to Berlin Hyp, and our integration in the Savings Banks Finance Group is rated very positively by the capital market in this regard.

The ECB also lowered its prime interest rate to just 0.05 % in September. Various measures are also expected to stimulate lending to companies in Europe. In January 2015, the ECB's Governing Council also decided to start buying European government bonds on a large scale for the first time. All this contributes towards an ongoing low interest rate environment and a sharp decline in risk premiums for issues of weaker countries and banks. This is of course an ideal situation in terms of the required increase in many banks' equity ratios, which led

to a positive environment for the issue of equity products, not least thanks to the good results of German banks in the ECB's stress test at the end of October.

How do the general developments and trends affect Berlin Hyp's strategy?

Berlin Hyp is initially focussing on its own strategic goals. We want to strengthen our role as a partner within the S-Finance Group for commercial real estate financing and improve our position as a leading commercial real estate financier in Germany.

Of course, the developments mentioned at the start are also affecting the Bank's strategy. But it should also be noted that our strictly conservative lending policy in the core and capital market business puts us in a position to be able to act in a disciplined manner. Thanks to two successful large-volume five and seven-year Pfandbrief bonds, our investors have confirmed our good standing on the market.

The trend towards highly liquid bonds benefited us in this respect. We have also reviewed our security portfolio and its optimisation potential in view of the regulatory environment (LCR). We pay strict attention to improving our liquidity ratios when it comes to new investments.

Which of Berlin Hyp's security products are the most popular?

The mortgage Pfandbrief certainly comes out on top and continues to be the premium product in the covered bond market: it is safe and conservative and embedded in the strict regulations of the German Pfandbrief Act, the main reason why it has been a favourite with investors for as long as almost 250 years. It is precisely in times of uncertainty that many investors are willing to accept lower interest income in return for security. The unsecured bond is also very popular. Both the Pfandbrief and unsecured issues offer our investors a whole spectrum of features. From the large-volume benchmark bond to a private placement specifically tailored to investors' needs, we have something for everyone.

Are you planning new products?

New products are always a focal point as we want to react swiftly to investors' needs. Fortunately, we have a team which responds quickly on a

cross-divisional level and reviews product ideas in terms of feasibility and cost-effectiveness. The Finance division plays a pivotal role here, as each new product has to be recognisable in the accounts and the balance sheet. Our colleagues in Finance always have the right of veto.

Towards the end of the year we registered an increase in requests for foreign currency issues. Given the current interest rate and currency situation, they offer investors several extra basis points in earnings. If the Bank can also benefit and avoid adding any foreign currency risks to the books through hedging transactions, it is important that we stay on the ball.

Do you expect to see any new trends?

Future developments in Greece and the ECB's decision to buy European government bonds are the first milestones in 2015. The widely anticipated interest rate reversal in the US will also be an issue. How will interest rates react in Europe? We can expect to see a certain amount of volatility in the short term. Sustainability is also one of the new major trends. Whether and to what extent a company is viewed as sustainable is of paramount importance to a growing number of investors when it comes to

investment decisions. As our sustainability report shows, we are taking this subject very seriously.

How do you expect ratings to develop in 2015?

The BRRD adopted by the European Parliament in 2014 makes one thing clear: governments no longer want to use taxpayers' money to rescue ailing banks. Small investors want to remain protected. Large rating agencies have therefore announced that the assumptions of government backing for banks will be scaled back in their issuer ratings. Numerous banks already had a negative outlook in their 2014 ratings. Thanks to its integration in the S-Finance Group, Berlin Hyp is ideally positioned for this development.

Mr. Meister, how do you think the Bank is "positioned" for this year?

We have the right business model, we are on track to maintain our position as a renowned German Pfandbrief bank and establish ourselves in the Savings Bank Group.

I regard this a solid foundation and a huge incentive for achieving the best for our investors and for our Bank, irrespective of all the volatility and trends on the market.



Experts meet to implement ideas



17:00 – A new start at the end of the day
The best way to create added value is to listen to what employees have to say. That is why we are working on an operational process to manage ideas.



→ Corporate Development
→ Human Resources

→ Internal Audit
→ Organisation/Information Technology

Social commitment and new ideas are part of our corporate culture

Dedicated, creative, cosmopolitan and well-educated employees are the foundation which enables a company to act in a sustainable, future-oriented and successful manner for the benefit of customers, business partners and owners alike. A company's culture gives employees plenty of scope to become involved within and outside the company and voice their ideas. Berlin Hyp encourages its employees in their social commitment and is set to introduce a process for managing ideas.

The bigger picture

Employees have been supporting Kinderhaus Berlin – Mark Brandenburg e. V. children's centre for many years now and received an award this year – more details are provided in the Sustainability Report on page 42. Berlin Hyp gives its employees the opportunity to actively participate in a cause of their choice with its Social Day project. Managers will be able to experience a whole new perspective through the "Seitenwechsel" (changing sides) project, which starts in the second half of the year. For five days, they can dive into a completely different world, where they gain new insights which they can take back to the workplace.



We want to hear our employees' ideas

Ideas and suggestions from employees as to how to make working procedures in the various divisions better, more efficient and cost-effective will be given high priority in the financial year 2015. Berlin Hyp plans to introduce a process to manage ideas as a means of benefitting from the ideas and experience of all its staff members, and to continuously improve day-to-day working procedures. We want to promote innovative thinking and a corporate culture which encourages the transfer of knowledge between employees.

How will this process of managing ideas be introduced at Berlin Hyp?

The process is intended to harness the potential, extensive expertise and innovative ideas of both individual employees and groups of employees. A collective agreement has been developed in close cooperation with the works council on how to manage proposals in future. The employees are actively involved in the process of change within the company and contribute towards enhancing the Bank's competitiveness through fresh input and solutions, which can be further developed. The process of managing ideas should also reflect the importance of our employees within the corporate culture as active participants in optimising and adjusting business processes. All employees are free to submit proposals. Suggestions to simplify working procedures, lower costs and increase competitiveness are welcome. All proposals will be carefully reviewed by a committee in terms of feasibility and a reward. The committee responsible for dealing with ideas comprises the heads of Human Resources, Corporate Development, Sales, Loans and Organisation/IT and a member of the works council. Proposals which are then actually implemented will be rewarded. Remuneration for ideas with non-measurable benefits is decided by the committee on an individual basis. For proposals where the benefits can be calculated, remuneration is based on the potential savings.

Conclusion: Ideas pay off – the Bank's proposal system leads to more efficient and optimised working procedures, and offers attractive rewards.

Focus on integrating and training employees



Ralph Schwarz has worked in various areas of human resources for 14 years and is head of Berlin Hyp's Human Resources management department.

Mr. Schwarz, what were the biggest challenges in 2014?

Unlike many other companies, we were in the fortunate position of being able to increase our personnel numbers. The integration of our new employees and new management personnel was one of the biggest challenges, but we have also been focussing on our new trainee concept and the ongoing qualification programme for employees.

Since 1 January 2015, Berlin Hyp is an autonomous affiliated sister company alongside Berliner Sparkasse. How has the strategic realignment

and clear positioning as a partner for savings banks affected the personnel structure?

As mentioned before, the restructuring of Berlin Hyp as an independent subsidiary next to Berliner Sparkasse led to an increase in personnel. As an autonomous entity, we have to manage certain corporate centre and back office functions ourselves, and were able to employ people – primarily from within the Group.

We also strengthened our Sales teams, because we now independently manage our traditional commercial real estate financing business across the board and because we want to establish ourselves as a reliable partner for savings banks with a professional focus on commercial real estate financing. Last year the number of employees rose from 482 to 544. Women now account for more than 52 %.

Around 21 % have opted for one of our numerous part-time schemes. Of the 284 female employees and the 260 male employees, 115 were employed part-time and 429 full-time.

As part of our repositioning, new management positions were created and filled internally. What helped the managers to be able to fulfil their new tasks quickly and comprehensively?

First of all, I am very proud of the fact that we were able to employ such competent people for the new management positions so quickly. Thanks to our tried-and-tested management training programme, they were specifically trained for their new roles. Besides this eight-day interval training, they participate in applied workshops on labour law and staff discussions. The informal chats between managers and the Board of Management, which are tradition at the Bank, and regular discussions between management staff also support networking at decision-making level. Qualified and motivated employees are essential at all levels.

What qualification and training measures are employees offered to promote a high level of expertise and ensure the ongoing development of personnel?

Our dedicated and skilled employees contribute greatly to Berlin Hyp's strong economic development. Personal and professional development is therefore a top priority.

The Bank's new structure and strong increase in personnel numbers put on-the-job training at the heart of the qualification programme for employees, which is structured and closely monitored by managers.

Besides the Bank's standardised seminars, events are held on specific or new issues and carried out promptly. Employees can also broaden their horizon by gaining an insight into other areas of the Bank and learning about their colleagues' work through job shadowing.

Demographic developments are often cited. The lack of skilled personnel and the population pyramid are key words. What is the situation at Berlin Hyp?

We are thinking about the future too. That is why we implemented a new trainee programme in October 2014, when seven trainees began their 18-month programme in specific business areas of Berlin Hyp.

We plan to expand our new trainee recruitment programme to strengthen the Bank's demographic base and fulfil our social responsibility: more trainees will begin the programme on 1 April and 1 October 2015. We will also cooperate with the Berlin School of Economics and Law, where students can begin their combined studies in banking (BA).

We also want to offer students placements at our Bank to provide them with in-depth knowledge in certain areas and to give them an insight into the working procedures of a real estate bank. We also give student employees the chance to work in various business areas and thereby supplement their theoretical knowledge with practical experience.

Mr. Schwarz, what do you consider to be the two main components of personnel development?

In a nutshell, to be both encouraging and demanding. Our Bank has high quality standards and we demand a lot from our employees. But we also encourage them through structured and individual qualification schemes and numerous networking opportunities. The conclusion: our dedicated and highly-trained employees are our greatest asset.



Reference financing projects in the development segment



Berlin Hyp assumes interim financing for an experienced and professional project developer

With support from Berlin Hyp, the FREO Group and Tristan Capital Partners (representing Curzon Capital Partners III Fund) will convert an attractive office and business complex in the heart of Munich into a four-star design hotel. The listed building is located in a prime location in the heart of the city, opposite Munich's main station.

The conversion of the office space into a hotel to be rented to the 25hours hotel group on a long-term basis will serve to significantly increase rental income and the building's value. In addition to the 175 planned rooms and 90 restaurant seats, the hotel will also have integrated retail space and a bank branch.

The surveyor's report confirmed that the location is ideal for a hotel and retail/catering facility.

"We are happy to provide Berlin Hyp's expertise as a development financier to a project developer as

prestigious as the FREO Group," emphasises Gero Bergmann, member of the Board of Management of Berlin Hyp.

Portfolio	Hotel, retail real estate
Customer	FREO Group, Tristan Capital Partners (represented by Curzon Capital Partners III Fund)
Type of financing	Acquisition and development financing
Financing volume	€ 86.2 million
Function of Berlin Hyp	Lender
Closing	27 Oktober 2014
Financing term	3 years

Reference financing project in the office segment



Berlin Hyp finances Deutsche Bank Campus

Berlin Hyp AG has granted Art-Invest Real Estate a total of € 100 million to finance the Deutsche Bank Campus in Berlin. With Deutsche Bank, the future-oriented project in Berlin's City West has a strong and reliable anchor tenant.

In addition to the existing office building, a seven-floor office complex with around 25,000 square metres of floor space and an underground garage will be built on the site near Ernst-Reuter-Platz.

97 % of the floor space of the new building will be rented to Deutsche Bank on a long-term basis and will provide space for 2,500 employees.

Art-Invest Real Estate is an investment and management company based in Cologne, which specialises in project developments for commercial real estate. In addition to the two managing partners, Zech Group is Art-Invest Real Estate's main investor.

The group is active throughout Germany in project development and real estate management. It also develops capital investment products and places them on the market.

Portfolio	Office real estate
Customer	Art-Invest Real Estate/Zech Group GmbH
Type of financing	Construction loan
Financing volume	€ 100 million
Function of Berlin Hyp	Lender
Closing	29 October 2014
Financing term	3 years

Reference financing project in the residential segment



Berlin Hyp finances € 710 million portfolio in Deutsche Wohnen Group

Berlin Hyp is financing a Deutsche Wohnen Group portfolio totaling € 710 million overall, which primarily comprises residential real estate. The total of 150 properties with around 25,000 units and a total area of around 1,450,000 square metres are located in Berlin, primarily in the Reinickendorf, Spandau and Steglitz-Zehlendorf districts.

Through this financing, Berlin Hyp strengthened and expanded its relationship with Deutsche Wohnen Group. This loan has again demonstrated Berlin Hyp's expertise as a real estate financier and an expert in residential property.

Together with the client the bank was able to fully realise this complex and long-term project within a short space of time. Our contractual partner is one of Germany's leading residential developers with a professional and skilled management team.

Through an ImmoSchuldschein, savings banks were given the opportunity to participate in this financing, and the note was successfully placed.

Portfolio	Residential
Customer	GSWImmobilien AG/ Deutsche Wohnen AG
Type of financing	ImmoSchuldschein/ Portfolio financing
Financing volume	€ 710 million
Function of Berlin Hyp	Arranger/ Lender
Closing	2 October 2014
Financing term	31 March 2023

Sustainability Report

Our path to sustainability

Interview with Berlin Hyp's sustainability officer, Ralf Behnke



Mr. Behnke, you are head of Corporate Development, a compliance officer and now also a sustainability officer – how well do these areas go together?

Very well, sustainability is a key strategic issue which secures our company's viability and is subsequently part of our corporate development. The obvious thing was to assign sustainability management to Corporate Development. In our view, sustainability is much more than establishing environmental performance, although we are committed to that too. Our approach is that all the Bank's social and ecological activities must be derived from the fundamental principles which guide the Bank's employees and managers and from our values and social responsibility.

This is where sustainability overlaps with my function as a compliance officer, where rules of con-

duct are also based on ethical principles of what is right and what is wrong which are embedded in an internal code of conduct and subsequently monitored.

Compliance then defines measures to prevent potential violations against the code of conduct. With regard to sustainability, specific measures relating to environmental protection, occupational safety or fair business practices are formulated, and in both cases the reputation of the Bank is at stake. Sustainability management has both an internal and external impact.

Sustainability management has an internal and external impact – what do you mean?

The external impact of sustainability refers to the positive contribution a company makes to the economy and society. This is evident in Berlin

Hyp's case. Apartments and shopping centres are important contributions towards a high-quality and high-performance infrastructure. "Fundamental" sustainability is therefore already an integral part of our business model.

We also calculate environmental performance internally to raise awareness among employees and use resources efficiently. Berlin Hyp not only applies key sustainability standards to its loan decisions; the Treasury division also operates according to ethical investment criteria.

We also record the properties financed by us with sustainability certification and the loans granted to charitable housing companies and housing associations.

Is it true that sustainability has become a competitive factor in the real estate industry?

Most certainly. The new buildings we finance often comply with higher environmental standards compared to the statutory regulations. Investors do this for both ecological and economic reasons, in order to reduce their ancillary costs, for example. As many tenants specifically opt for sustainable real estate, sustainability has become a competitive factor.

As a bank, it is important to us that we cooperate with these customers because we are convinced that sustainability is becoming increasingly important in terms of competition among banks, as bond investors not only take note of the interest coupon, they also want to know how the Bank invests the money and if it takes sustainability seriously.

What course is Berlin Hyp taking in terms of its position on sustainability?

Sustainability has been important to us for a long time. In 2013, we began a sustainability process and the results have formed the basis for our new sustainability management approach since 2014. The mission statement comprises of four areas of action where we have formulated and adopted guidelines. We also document and communicate our activities.

The guidelines, and especially the ethical guidelines passed by the Board of Management, have



been integrated into our day-to-day business. We are now in the process of constantly improving our sustainability performance.

One last question, Mr. Behnke: what does sustainability mean to you personally?

Just a quick look at the newspapers is enough to realise that each person and each company should review their conduct with regard to sustainability. For me it is also important that sustainability becomes a more prevalent economic issue for companies, not only because it secures the company's existence in the long term, but also because it offers economic benefits.

I am also constantly emphasising that sustainability is not necessarily just about rules and restrictions, it is more about raising awareness and finding "smart" solutions. It is amazing how many ideas pop up during project meetings and how quickly our enthusiasm spreads to our colleagues.

Sustainability management at Berlin Hyp

After taking preparatory steps and far-reaching decisions in 2013, 2014 marked the beginning of systematic sustainability management at Berlin Hyp. In a first step we compiled and analysed our experience to date, including input from the Bank's stakeholders in order to develop and document a framework for our sustainability management programme.

This gave birth to our sustainability mission statement, our climate strategy, guidelines on environmental policy and ethical guidelines. In addition to these guidelines which relate to existing business processes and help to strengthen the sustainability elements, we also developed a:

- Guideline on sustainability in real estate financing
- Guideline on operational environmental protection
- Guideline on interaction with stakeholders
- Guideline on sustainability for suppliers and service providers
- Compliance working instruction

Successful changes in processes require a clear definition of responsibilities and competencies. The Chair of the Board of Management, Jan Bettink, has assumed overall responsibility for sustainability within the company.

He is supported at the second management level by sustainability officer Ralf Behnke, who coordinates all activities and advises the divisions regarding the implementation of the sustainability standards and requirements in the various decentralised areas of responsibility. He is also head of the sustainability working group where the main areas concerned meet to discuss, plan and agree on the updating of central analyses and documents.

In our Sustainability Report within the 2014 Annual Report, we take stock and describe the current situation as well as our activities to date and our planned measures. The report is based on the standards of the Global Reporting Initiative and the German Sustainability Code.

Our sustainability mission statement – our demands and our focus

Berlin Hyp is one of Germany's leading real estate and Pfandbrief banks in commercial real estate financing. Our sustainability mission statement specifies that our actions are based on ecological and social considerations as well as economic factors. From this we have derived four principles of how to fulfil our responsibility towards owners, customers, employees and society beyond the statutory requirements.

By reporting on the implementation status of our principles, we want to be accountable to the interested general public and create transparency while seeking dialogue at the same time.

→ Almost half of Berlin Hyp's financing volume for new construction since 2012 were green buildings according to relevant certification standards. This involves LEED, BREEAM and DGNB certified buildings.

→ In residential real estate, our customers include charitable housing companies and housing associations with a total volume of around € 200 million. Berlin Hyp is thereby helping to create and renovate inexpensive, modern residential real estate in Germany.

Services providers are obliged to comply with the ten UN Global Compact principles

Berlin Hyp also wants to be responsible with regard to the supply chain and demands that its

“We are pursuing a long-term, responsible and risk-conscious business policy and are thereby contributing towards the positive development of the economy and society”.

Guiding principle 1 concerning sustainability of Berlin Hyp

Our business model reflects ecological and social aspects

Berlin Hyp applies the findings of risk management and the annually updated sustainability materiality matrix to its risk and opportunity analysis.

We focus on the ten principles stated in the Global Compact of the United Nations, the Diversity Charter and the sustainability guidelines of the Savings Banks Finance Group (DSGV). Berlin Hyp is also committed to complying with the German Sustainability Code.

Through real estate financing, Berlin Hyp makes a direct contribution to high-quality and high-performance infrastructure in Germany and neighbouring countries within Europe. It also offers investors a secure and long-term form of investment with its capital market products.

Megatrends like climate change, rising urbanisation, demographic developments and the strategic importance of sustainability on the capital market have a profound impact on Berlin Hyp's business activities:

suppliers fulfil the ten principles of the UN Global Compact. The Bank enquires about the provider's current situation on environmental and labour standards, human rights and anti-corruption by means of a questionnaire. In 2014, Berlin Hyp's key suppliers were integrated into the process and around 50 % of the procurement volume is currently covered.

We take responsibility

Berlin Hyp also takes responsibility within the company on a long-term basis, particularly in the head office's regional surroundings. Large cities like Berlin still have a high unemployment rate and social problems despite the high quality of life. This is why Berlin Hyp has intensified its long-standing partnership with the Kinderhaus Berlin-Mark Brandenburg e.V. children's centre in 2014, and funds the annual autumn trip where around 300 children and young people and 150 carers participate.

The autumn trip enables children to improve their social skills, gain more confidence and strengthens the sense of community.

Berlin Hyp' employees are also actively involved in the children's centre. We have been carrying





out the Christmas list campaign for six years, where the children write down what they want for Christmas on self-made cards and our employees – more than willingly – fulfil their wishes. Berlin Hyp employees also support the children’s centre in other ways: every year, around 20 young adults leave the centre and move into their own apartment. Because they do not own much, Bank employees sponsor a starter package which includes

tal value for the economy. Given the significance and long-term use of real estate, sustainability is a key factor in real estate financing to secure the long-term value of an exposure. Whether this involves the demands of the user in terms of comfort, functionality or architectural features, accessibility, quality or high energy efficiency of a building – it is always about sustainability.

Guiding principle 2 concerning sustainability of Berlin Hyp

“We welcome the voluntary inclusion of ecological and social aspects in real estate and the capital markets. We are constantly improving our own ecological and social footprint.”

a kettle, a measuring tape, cutlery, a sieve, a broom, pots and pans, plates and many other things.

At the beginning of 2015, Berlin Hyp received the real estate manager award in the category “social responsibility” for its social commitment.

Our objective is long-term value

The infrastructure developed, realised and maintained by the real estate industry creates fundamen-

We support our customers

Berlin Hyp therefore supports its customers in the construction or acquisition and management of real estate, where value is secured through the professional integration of ecological, economic and social criteria.

This support for our customers is also borne by the conviction that the capital market plays an important role in the transition to a sustainable



economy. This economy should efficiently allocate sources required to optimise the consumption of energy and resources and make green technology companies more successful in Germany. The need for the development of new financing instruments is one of the challenges which the capital market is facing in terms of sustainability.

Our broad range of commitments

Berlin Hyp is also involved in numerous associations. For example, the Chair of the Board of Management is also the President of the Verband deutscher Pfandbriefbanken (vdp) and a member of the German Property Federation (Zentraler Immobilien Ausschuss (ZIA)). Berlin Hyp is likewise a member of the sustainability, energy and environment committee of ZIA and a member of the sustainability working group of the German Savings Bank Association.

Emphasis on environmental management

With regard to its ecological footprint, Berlin Hyp also strives to keep the impact of its operations low. It has set up an environmental management programme which is based on the international DIN EN ISO 14001 standard and which complies with environmental regulations to prevent unnecessary strain on the environment. In its internal communications and through its management personnel, Berlin Hyp also promotes awareness among its employees with regard to the environment and the efficient use of resources.

The modernisation and renovation of our own buildings which began last year is progressing well. Regenerative drives have been installed in the buildings’ four lifts. Under certain load conditions (e.g. downwards if the cabin is full and up if it is empty), the engine works like a generator and produces electricity. On a calculated basis, this saves 90 tonnes of CO₂ per year.

The oxyreduct (fire prevention) systems have been replaced, the cooling units and heat exchangers have been renewed and old lighting systems have been replaced with LED lights. These measures will significantly cut electricity, maintenance and repair costs and help to reduce CO₂.

The guideline for company cars also contains regulations regarding CO₂ exchange. The Bank will

also promote the use of electric cars and set up a pool of company cars which are purely electrically driven.

We have planned additional, ambitious activities for 2015 and the following years as part of our environmental programme. A renewal of our ventilation technology, modernisation of induction units and default printing settings printing are on the agenda.

Our guidelines and areas of action

The ten principles of the UN Global Compact on human rights, labour standards, the environment and anti-corruption form the basis of our values. We have signed the UN Global Compact and have applied the ten principles to our ethical guideline. Seven areas of action have been derived:

- Acting on the basis of statutes, ordinances and regulations
- Responsibility as a partner of the savings banks
- Acting in the awareness of the consequences for the environment
- Protection of our employees
- Rejection of controversial transactions and business practices
- Protection of confidential information and data
- Avoidance of conflicts of interest

Our employees are trained in compliance and data protection

The compliance working instruction is a key instrument, as its consistent application and monitoring ensures proper business conduct. It describes how we can actively contribute to combating corporate crime and money laundering, financing of terrorism and other criminal actions with all available means. Bribery and other forms of corruption are prohibited. There are strict regulations regarding the exchange of gifts to prevent even the slightest doubt from emerging with respect to an employee’s impartiality.

With regard to data protection, the working instruction describes how to ensure the confidentiality of customer data and information about business partners. It also states that all data is to be used for pre-defined business purposes only.

Guiding principle 3 concerning sustainability of Berlin Hyp

Banking secrecy is to be maintained at all times, unreservedly. Potential conflicts of interests to which employees may be exposed are to be made transparent and either eliminated or governed through respective measures which are defined

The programmes include on-the-job training as well as coaching, professional and management seminars and support for employees pursuing degree courses.

“We take responsibility for the quality of our work. We are fair, comply with the law and base our actions on voluntary and relevant standards.”

with the compliance officer. All employees must participate in obligatory, regular online training sessions to test their compliance knowledge and adherence to the working instructions in order to ensure these issues are taken to heart.

Our occupational health management
Physical fitness and the ability to deal with pressure are also key success factors besides professional performance. For this reason Berlin Hyp supports the company sports group. Berlin Hyp subsequently launched its occupational health scheme in 2007, which includes reducing the risks related to pressure in the workplace or encouraging self-determination by promoting collective and individual health consciousness.

To highlight the importance of money laundering, we support the anti-money laundering principles of the Wolfsberg Group.

Once a year, we conduct health days in our offices and invite health insurance companies, fitness centres, personal trainers and masseurs, etc.

Through our guideline on tax requirements, we are able to fulfil our obligation of establishing appropriate processes and controls to ensure compliance with fiscal law. We also take ethical aspects into account when evaluating financing and investment transactions. This comes under the umbrella of ethical responsibility and we have defined investment criteria for this purpose.

Employees have the additional opportunity to integrate sporting activities or mobile massage services into their working day. They can also attend health seminars free of charge and have access to our external employee advisory and family services.

We do not grant loans to or invest in companies who violate these pre-defined criteria. Our ethical criteria for financing are derived from the ten principles of the UN Global Compact and our compliance standards.

The Fürstenberg Institut offers our employees and managers practical advisory services and has been cooperating with prestigious companies for over 20 years. This measure represents a cornerstone for improving the balance between family and work commitments.

Employee training is an investment in the future

Ongoing training for employees is one of the Bank's core responsibilities and is an investment in the future. The objective is to maintain and constantly improve the performance and commitment of our employees and to encourage the long-term development of their professional, social and methodical skills to increase the company's economic success.

We welcome diversity
A diverse culture needs a framework – and we have made this framework obligatory in our guideline on human rights, diversity and inclusion in 2014. For us, diversity management means making diversity in terms of origin, outlook and actions an integral part of personnel strategy and organisational development.

For this reason, Berlin Hyp has devised a range of training programmes which it offers to employees according to their individual development needs.

Our guidelines contain a clear rejection of discrimination and embrace an unprejudiced working



environment. The Board of Management is regularly updated as part of HR reporting. To make its commitment towards human rights, diversity and inclusion visible to the outside world, Berlin Hyp signed the Diversity Charter in 2014. The charter is a corporate initiative to promote diversity in

“We offer our employees long-term career prospects combined with an extensive range of training opportunities. We promote social diversity and health in our company and support our employees in times of need.”

Guiding principle 4 concerning sustainability of Berlin Hyp

companies and institutions. In the spirit of the charter, all employees are respected – regardless of gender, nationality, ethnic origin, religion or ideology, disability, age, sexual orientation or identity.

Women already account for 53.2 % of employees at Berlin Hyp, and the proportion of women in managerial positions is 30 %. Nevertheless, we still plan to introduce further measures to promote women in the workplace during 2015.

I Principles of the Bank Business Model

Organisational Structure

Berlin Hyp is a listed stock corporation (Aktiengesellschaft) and forms part of the Landesbank Berlin Holding AG Group (LBBH), Berlin, the majority of whose shares are held by the Erwerbsgesellschaft der S Finanzgruppe mbH & Co. KG. Landesbank Berlin AG (Landesbank Berlin), Berlin, a subsidiary of Landesbank Berlin Holding, was the sole shareholder of Berlin Hyp until 31 December 2014.

Until 31 December 2014, Berlin Hyp and Landesbank Berlin had a profit and loss transfer and controlling agreement. The group structure until 31 December 2014 was as follows:

(smallest and largest consolidation group as defined in Section 285 No. 14 German Commercial Code). As part of its establishment, Berlin Hyp concluded a new profit and loss agreement with Landesbank Berlin Holding with effect to 1 January 2015.

In 2014, the Board of Management comprised three members who had the following spheres of responsibility:

Jan Bettink (Chairman)

- Real Estate Financing Sales, Frankfurt a. M., Housing Societies, Region East
- S-Group and Syndication

- Valuation
- Internal Audit
- Organisation/IT
- Finance
- Risk Controlling
- Banking Operations

S-Group mindset in the Berlin Hyp business model, the sales structure was adapted in 2013 and a new division was created which focuses on the S-Group and syndication business.

Locations

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

Products and Services

Berlin Hyp develops individual financing solutions for its customers. To fulfil its customers' various needs, the Bank offers a broad product range. This includes fixed-income loans and floating rate loans, cash loans and sureties, credit lines, interest hedging products and financing products for construction projects (builders and developers).

As part of its restructuring, Berlin Hyp developed new products and services which offer customers comprehensive support in real estate financing from a single source. These products and services primarily involve business current accounts, operating loans, overnight/time deposits and specific real estate and payment services. To manage risks and optimise returns, many financing transactions are processed through partners. Berlin Hyp's product range is consequently suitable for syndicates. The Agency Desk service unit provides special services relating to the syndicate business.

The "ImmoSchuldschein", a real estate promissory note, was especially developed for German savings banks in 2013 and allows them to participate in the potential returns of commercial real estate financing. The standardised "ImmoKonsortial" credit product is being developed for German savings banks to enable them to participate in regional syndicate business with smaller volumes through a simplified credit process. Medium and long-term refinancing generally takes place through issues of mortgage Pfandbriefe as well as through unsecured issues.

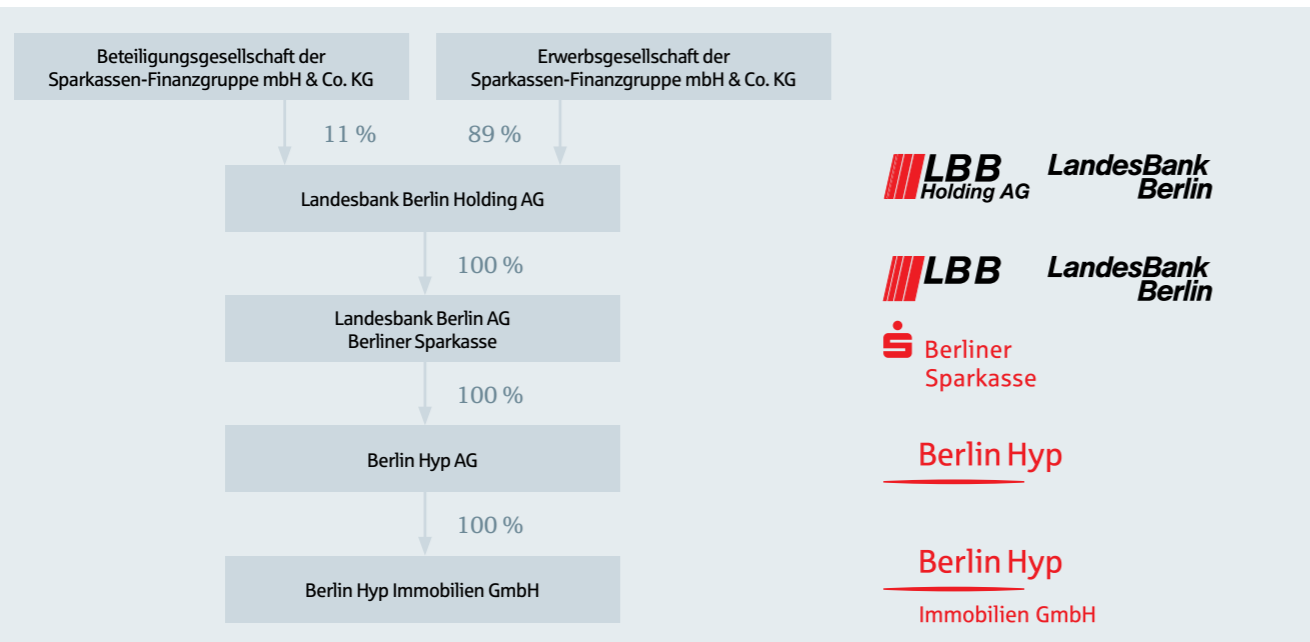
Managing Director Dr. Michael Schieble, is also a member of the Board of Management. He is responsible for Back Office Real Estate and Capital Market, Risk Management and Valuation. Berlin Hyp is divided into 14 divisions with a total of 62 departments/teams. The Supervisory Board of Berlin Hyp has three committees: the Loan Committee, the Staff and Strategy Committee, and the Audit Committee.

Compliance Declaration in Accordance with Section 161 German Stock Corporation Act (AktG) Regarding the German Corporate Governance Code
Berlin Hyp Bank released its compliance declaration in accordance with Section 161 German Stock Corporation Act (AktG) regarding the German Corporate Governance Code (GCGC) under www.berlinhyp.de/unternehmen/corporate-governance.

Business Activities

Berlin Hyp is a financial institution which specialises in commercial real estate under the umbrella of Landesbank Berlin Holding and is also a partner and competence centre for the commercial real estate financing operations of German savings banks. A key step in the Group restructuring of Landesbank Berlin into the capital's savings bank was making Berlin Hyp an autonomous, independent business unit to allow it to position itself as an independent real estate financier of the Savings Banks Finance Group.

Berlin Hyp intends to become an increasingly important partner for German savings banks when it comes to commercial real estate financing issues and, in doing so, make a contribution to the success of the Savings Banks Finance Group. Commercial real estate financing and refinancing primarily via mortgage Pfandbriefe remains at the core of the business model. Aside from the existing range of syndicate financing products and support in valuation services, products such as the Bank's secured ImmoSchuldscheine offer German savings banks the greatest added value. To reinforce the



With effect from midnight 31 December 2014/ 1 January 2015, 0:00 o'clock, Landesbank Berlin transferred its participation in Berlin Hyp to Landesbank Berlin Holding and terminated its profit and loss transfer and controlling agreement with Berlin Hyp as part of dissolving the previous group structure. Landesbank Berlin is entitled to the results from the 2014 financial year.

As at 1 January 2015, Berlin Hyp is a subsidiary of Landesbank Berlin Holding and is included in the consolidated financial statements of Erwerbsgesellschaft der Sparkassen-Finanzgruppe mbH & Co. KG

- Human Resources
- Corporate Development

Gero Bergmann

- Real Estate Financing Sales, Munich, Düsseldorf, Hamburg, international
- Sales Management
- Treasury

Roman Berninger

- Back Office Real Estate Financing and Capital Market
- Risk Management

Objectives and Strategies

The Board of Management of Berlin Hyp summarised its current corporate strategy in a strategy document in 2014. The document replaces the strategy framework of previous years and reflects Berlin Hyp's position as an autonomous entity as well as the strategic realignment.

This gives Berlin Hyp two overall strategic goals:

1. Berlin Hyp successfully completes its reorganisation and builds up its position as a leading German commercial real estate financier.
2. Berlin Hyp integrates itself as a partner for commercial real estate financing within the Savings Banks Finance Group.

In order to successfully complete the **restructuring** and establish itself as a leading commercial real estate financier, the Bank has initiated various projects to support its strategic realignment.

The "implementation of the new product environment" project was set up in 2013 to adjust its product range to the needs of real estate customers, and current account and investment products as well as new forms of financing (including builders' and developers' financing) have been added to the product range on offer. The new products and functions will be available to customers in 2015 as planned.

Loan portfolios between Berliner Sparkasse and Berlin Hyp have been adjusted to the new business strategies since the beginning of 2014.

All large-volume, interregional or complex commercial real estate financing transactions will be transferred to Berlin Hyp. This should be swiftly completed in 2015. Berlin Hyp on the other hand will hand over all real estate financing which no longer fits in with the strategy to Berliner Sparkasse.

To **reinforce the S-Group mindset**, a "Savings Bank Advisory Board" will be set up in addition to new product developments and organisational adjustments.



Management System

Berlin Hyp's management process is founded on an annually recurring strategy and planning process based on the four stages of planning, implementation, assessment and adjustment. The management of the Bank is in line with the Bank's business policy and complies with the regulatory requirements as well as the risk strategy adopted by the Board of Management. It is therefore risk- and value-oriented.

The financial statements and budgets prepared in accordance with German commercial law, the risk reports and liquidity and new business reports are the Bank's central management instruments. The causes of potential deviations are analysed on the basis of budget/actual comparisons.

Financial Performance Indicators

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

- Transfer of profit to Landesbank Berlin AG until 31 December 2014 (from 1 January 2015 to Landesbank Berlin Holding AG)
- Net interest and commission income
- The cost-income ratio: ratio of operating expenditure to net interest and commission income, plus other operating income
- Return on equity capital: ratio of "operating results before income tax and profit transfer" and average balance sheet equity capital plus the special item for general bank risks in accordance with Section 340g German Commercial Code (HGB)
- Core capital ratio: ratio of regulatory equity capital to risk-weighted assets eligible for inclusion

The Bank's management includes other financial performance indicators. For example, there are non-compulsory indicators such as the leverage ratio or the liquidity coverage ratio which will become more important in future.

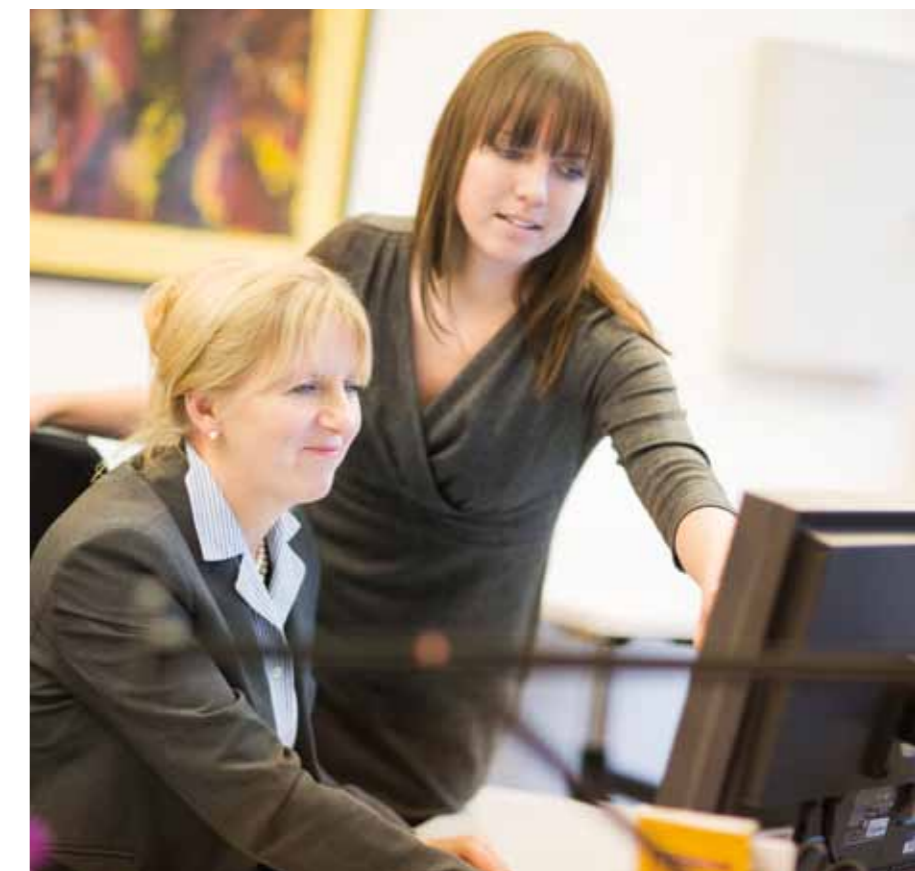
Non-Financial Performance Indicators

The Bank also applies a number of non-financial performance indicators which are broken down as follows:

- Market: new business, target portfolio, S-Group business
- Employees: employee structure, motivation, management and development
- Environment/society: energy consumption, CO₂ emissions and charitable projects in accordance with the Global Reporting Initiative (GRI) guidelines of sustainability reporting

The non-financial performance indicators "Employees" and "Environment/Society" are of no direct relevance to the management of the Bank.

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



II Economic Report – Macroeconomic and Sector-Related Framework Conditions

Compared to the previous year, the Eurozone again reported positive economic growth, albeit to a weaker extent. At 0.8 % (2013: -0.4 %), GDP growth was slightly below the underlying 1.0 % (source: DIW) in our 2013 Forecast Report. While recession continued in 2014 in Italy, France remained stable and Spain, Portugal and Ireland saw a sustained upward trend. Germany once again led the group of large Eurozone countries, having a profound impact on the group by virtue of its size and contributing substantially to the upswing in the Eurozone.

Despite temporary periods of stagnation, DIW forecasts GDP growth of 1.5 % for **Germany** year on year. Private consumption was one of the main contributing factors to this development, and is supported by the stable labour market. In 2014, unemployment was slightly below the previous year. The increase in consumer prices of just 0.9 % (source: Bundesbank), largely attributable to the sharp drop in oil prices, and low interest rates continued to fuel the positive development in consumer spending. Industrial production slackened towards mid-year on the back of mounting fears of an escalation of the crisis in Ukraine and sanctions against Russia.

However, this trend decelerated again at the end of the year. Investments in the construction industry increased sharply in 2014. The exceptionally strong first quarter was largely responsible for this development. Foreign trade did not contribute greatly to total growth. Exports only picked up slowly compared to imports despite rising demand from the USA and Asia and the depreciation of the euro. With hindsight, the geopolitical crises were largely to blame for the widespread uncertainty and held back the existing potential. Economic measures such as the pension package and the introduction of a minimum wage also put a damper on growth.

The **Federal Reserve (Fed)** reversed its monetary policy with the termination of its purchases of longer-term securities in autumn 2014. It began scaling back its expansionary monetary policy gradually since the beginning of the year and it only appears to be a matter of time until the Fed lifts interest rates. Given the slump in oil prices and uncertainty over the potential economic

impact, the Fed may be more cautious when it comes to lifting prime interest rates than previously assumed. In the **UK** there are also signs of an increase in interest rates thanks to the positive economic development.

By expanding its monetary policy, the European Central Bank (ECB) is attempting to achieve more stability and kick-start an upswing in the **Eurozone**. From mid-2014, the ECB lowered its prime rate gradually to 0.05 % and for the first time introduced a negative interest rate of -0.1 % for its deposit facility. It also extended the allocation of fixed interest rates until December 2016, and ended the neutralisation of liquidity created by the government bond purchases under the Securities Markets Programme (SMP).

It also initiated a refinancing programme for targeted longer-term refinancing operations (TLTROs). In view of the ongoing disinflation and fears of a deflationary trend, the ECB began buying Pfandbriefe and asset-backed securities in the fourth quarter of 2014, thereby expanding its policy again.

According to statistics of the ECB, the lending standards of many large banks relaxed from the end of 2014 onwards, with demand for corporate loans increasing sharply, especially in the final quarter. But given the more stringent regulatory requirements and the overall economic situation, lending by banks remained restrictive with moderate overall demand.

The ECB subjected the 130 system-relevant banks to a risk-oriented balance sheet review, the so-called stress test, following the Asset Quality Review (AQR). The objective of the ECB was to test the banks' resilience in a crisis before assuming their supervision from November 2014 onwards. The results of the stress tests were published in October 2014. The basis of calculation was the tougher requirements under the Capital Requirements Regulation (CRR). A total of 25 banks failed the test as at the reporting date on 31 December 2013. Twelve of them had already implemented measures to strengthen their equity base during 2014.

Passing the stress test alone is no indication of the ability to generate sustainable profit in the future or of achieving long-term success on the market. The higher costs incurred by the EU banking levy are also weighing down on banks. Their biggest challenge is therefore to implement an adapted, competitive concept in the market place despite the adverse regulatory and economic situation.

The upswing on the German real estate market continued unabated in 2014. Investors with various risk profiles are on the lookout for alternative investment opportunities given the ongoing low interest rate environment. National and international investors also welcome the reliable risk-return profiles of German real estate, the comparatively moderate prices and the strong economic position of Germany within Europe.

The investment market for commercial real estate registered a transaction volume of around € 40 billion, 30 % above the previous year, which was already high. The share of foreign investments now accounts for almost half the total volume (2013: 33 %), and was largely responsible for the huge increase. Office real estate represented half of all transactions with some large-volume portfolio sales of up to € 1.1 billion. Retail real estate increased to € 9.2 billion (2013: € 8.7 billion) and logistics real estate rose substantially by more than 50 % to € 3.3 billion (2013: € 2.2 billion).

In the residential real estate market, which is equally important to Berlin Hyp, the transaction volume was only slightly below the excellent previous year (2013: € 13.8 billion) at around € 13.3 billion, but is still well above-average on a long-term comparison (source: CBRE).

The price development of real estate in Germany also developed favourably in 2014, but there can be no talk of a real estate bubble. Various fundamental indicators contradict these fears. The price development by international comparison and on an inflation-adjusted basis is relatively low and there has been no sharp increase in lending so far.

Prices in Germany are comparatively stable thanks to conservative valuation methods, high equity requirements and long fixed-interest rates.

High-quality refinancing by real estate financiers, by means of mortgage Pfandbriefe, also had a positive impact. In the commercial real estate financing market, Berlin Hyp faces competition from a number of providers.

The competitive situation combined with the above-mentioned challenges in connection with monetary policy, regulation and structural changes have squeezed margins in the past and led to a greater willingness to take risks on the part of some players. Nevertheless, Berlin Hyp has managed to strengthen its market presence in the reporting period and expand its position as a partner within the Savings Banks Finance Group.

Business Development

In our Forecast Report in last year's Management Report, we assumed an ongoing adverse low interest rate environment and referred to the tougher regulatory requirements. The ECB did in fact push ahead with its expansionary monetary policy. The subsequent pressure on margins was felt in terms of competitiveness. However, Berlin Hyp was still able to keep its margins relatively stable. It stayed true to its conservative risk strategy and its focus on high-quality real estate when selecting borrowers.

The programme to reduce risk-weighted assets and appropriately manage liquidity was concluded in 2012, and helped Berlin Hyp to comply with the new regulatory requirements of CRR/CRD IV. The regulatory group also fared well in the ECB stress test involving more stringent regulatory requirements. The further optimisation of the portfolios and the reduction of portfolios which are no longer in line with the strategy have even led to an improvement in the situation since the stress test (31 December 2013). In December, a total of € 105.0 million was paid into the capital reserve in connection with the portfolio transfer between Berlin Hyp and Berliner Sparkasse.

Repositioning itself as an independent real estate financier for German savings banks was one of Berlin Hyp's main concerns in terms of its business activities. The Bank has further strengthened its position as a partner with the Savings Banks Finance Group and backed it up with new products. The focus was therefore not only on real estate-specific solutions for builders and developers and current account and investment products, but also on products with special benefits for savings banks such as the secured "ImmoSchuldschein" and valuation and syndicated financing services.

It is important for Berlin Hyp to create added value within the Savings Banks Finance Group. The response of savings banks to our expanded portfolio, tailored to their customers' needs and the new sales structure in S-Group business which allows for enhanced customer support, is positive. The structural adjustments as part of the restructuring of Landesbank Berlin Holding were also completed. The internal transfer of employees to Berlin Hyp and their integration into the existing processes and organisational environment was

also carried out as well as all necessary changes to the management of the Bank.

We used the opportunity to fine-tune processes and optimise the value-added contribution. With the exception of one last tranche, the portfolio transfer between Berlin Hyp and Berliner Sparkasse is complete. This was necessary with the end of the jointly managed real estate financing division. As at 31 December 2014, loan portfolios with a volume of € 1.1 billion were transferred to Berliner Sparkasse as part of the asset deal. In return for this, loan portfolios of the same amount were transferred from Berliner Sparkasse to Berlin Hyp.

As part of Berlin Hyp's process of becoming autonomous, it was positioned alongside Berliner Sparkasse within the Landesbank Berlin Holding Group. Berlin Hyp and Berliner Sparkasse terminated their parent-subsidiary relationship and the profit and loss transfer and controlling agreement and are now both affiliated sister companies.

New Lending Business Sees Positive Development

Berlin Hyp registered a particularly positive development in the new lending business in 2014. At € 4.0 billion, the volume of new loans granted was well above the strong previous year (2013: € 3.2 billion). With realised extensions (capital employed > 1 year) of € 1.0 billion (2013: € 1.3 billion), this put the total new business volume at € 5.0 billion (2013: € 4.5 billion). Berlin Hyp has subsequently more than fulfilled its target and has reinforced its role as an established real estate financier on the German market with this financing volume.

Real estate in Germany accounted for 79.8 % of the new business volume, with the old federal states of Germany representing 41.8 %, Berlin 31.9 % and the new federal states 6.1 %. A total of 19.3 % involved real estate financing outside Germany. A substantial 61.2 % of new lending related to the investors customer group and a further 27.9 % was concluded with housing societies. Builders and developers accounted for 10.9 %.

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 2014 financial year. Loan volume decreased by € 0.3 billion year on year to € 3.4 billion (including public sector lending to banking institutions of € 0.5 million) and is being reduced further as and when individual loans fall due.

S-Group Business Grows

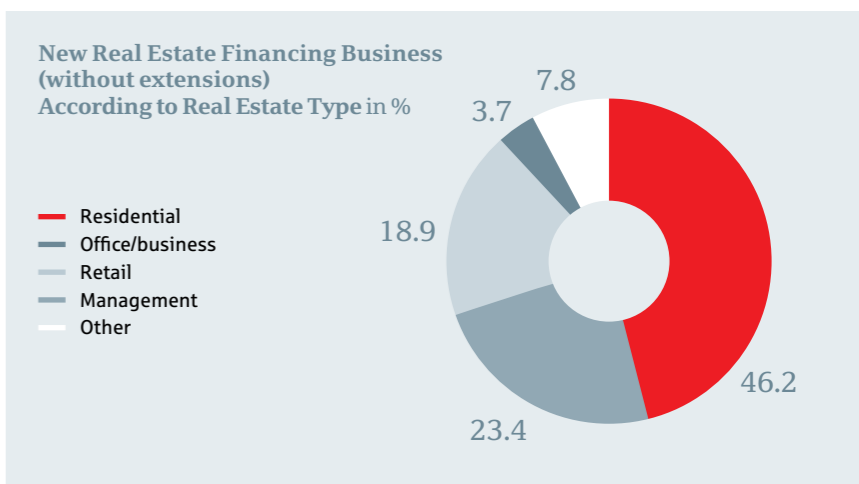
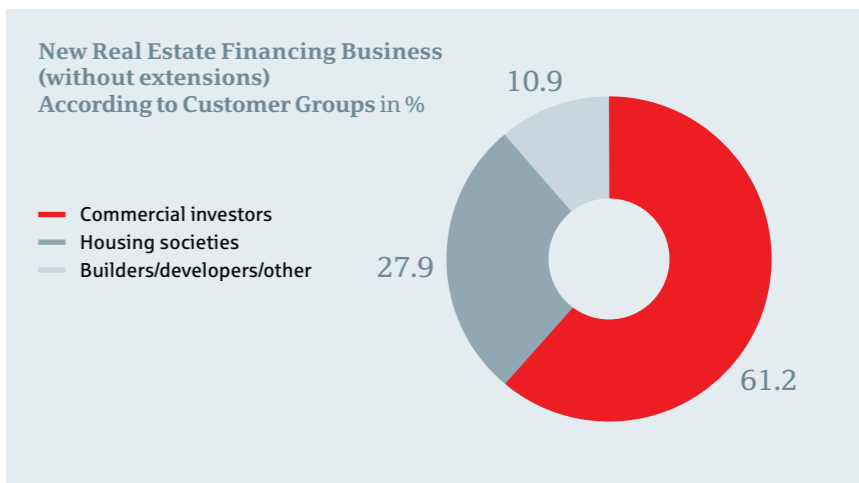
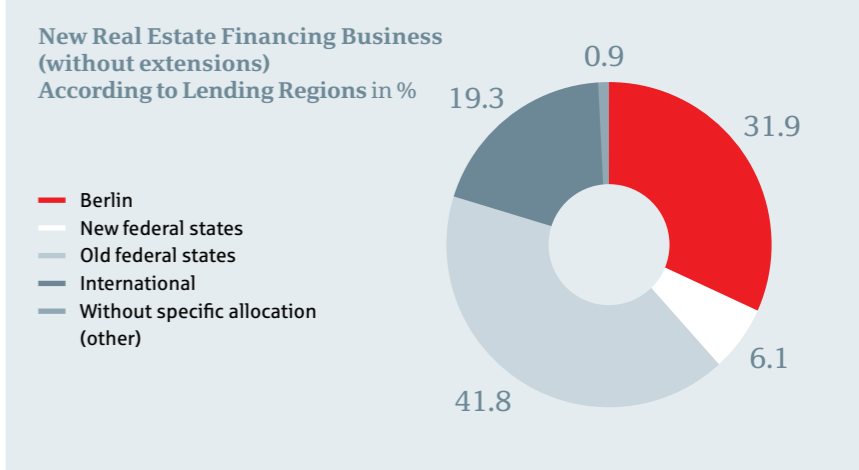
In 2014, two ImmoSchuldscheine were issued within the German Savings Banks Group with a total volume of € 210.0 million. Both notes were oversubscribed due to the high demand. The issue volume of one note was subsequently increased.

Excellent Refinancing Position

Besides various private placements in refinancing, the issue of an unsecured benchmark bond and two secured Pfandbriefe with a combined volume of € 2.0 billion are noteworthy.

Stronger Equity Position

Given the higher regulatory requirements, Berlin Hyp increased its equity position by paying € 50.0 million into the special item for general banking risks in accordance with Section 340g German Commercial Code as at 31 December 2014. It also paid € 105.0 million into the capital reserve to offset the negative capital effects of the portfolio transfer. The core capital ratio is 11.3 % (2013: 10.6 %) before the annual financial accounts were adopted. The total capital ratio is 15.7 % (2013: 14 %).



Earnings Situation

Results Higher Than Expected

The 2014 financial year was satisfactory given the scheduled rise in the additional burden resulting from the Group's restructuring as well as regulatory demands; results at the end of the financial year were on par with the previous year, taking into account the addition to the special item for general banking risks pursuant to Section 340g German Commercial Code (HGB).

The operating result before risk provisioning decreased slightly compared to the previous year, by € 9.0 million to € 130.4 million. The stable economic situation, coupled with the Bank's active risk management, led to an almost break-even in terms of risk provisioning for lending. Including an addition to the special item pursuant to Section 340g German Commercial Code (HGB) of € 50.0 million, operating results before income taxes and profit transfer amounted to € 65.8 million

(2013: € 120.1 million). Equity capital yields on the average balance sheet equity capital in accordance with the German Commercial Code amounted to 7.6 % (2013: 13.8 %).

The following section examines the individual elements of the result in detail.

Net Interest Income Up

At € 219.3 million, net interest income exceeded the previous year's result (2013: € 202.3 million), despite continuing very low interest rates and a flat yield curve. This was mainly due to stable margins in the core business and the drop in refinancing expenses.

One-off effects, such as disposal gains arising within the scope of the portfolio transfer as well as pre-payment and non-acceptance fees, were offset by compensatory measures.

Net Commission Income Up Again

Net commission income increased considerably against the already strong previous year, by € 8.6 million to € 28.7 million.

Operating Expenditure Continues to be Affected by Special Measures

Operating expenditure amounted to € 111.5 million (2013: € 83.6 million). This figure encompasses staff expenditure, additional operating expenditure, as well as write-offs on fixed assets and intangible assets. Staff expenditure increased by € 24.7 million to € 63.0 million – a planned increase resulting mainly from the takeover of employees from the Group as well as pension obligation parameters and interest rate adjustments.

Other operating expenditure, which includes material expenditure, rose slightly year on year to € 43.9 million (2013: € 41.2 million), and results primarily from the increase in legal and consulting costs incurred within the scope of making Berlin Hyp autonomous. Most are one-off costs. Write-offs on fixed assets and intangible assets increased slightly to € 4.6 million (2013: € 4.1 million).

Negative Other Operating Result

The other operating result amounted to € -6.1 million (2013: € 0.6 million) and is primarily shaped by expenses from the continued compounding of pension reserves and, as in previous years, fees for the Detailed Agreement concluded with the State of Berlin in 2001.

Cost-Income Ratio Up

The cost-income ratio expresses the relationship of operating expenditure to net interest and commission income, including the other operating result. The rise in net interest and commission income was not enough to offset an increase in operating expenditure and the drop in the other operating result. Consequently, the cost income ratio increased as planned from 37.5 % to 46.1 %.

Provisioning Requirements Increased for Lending and Securities Transactions

In view of Berlin Hyp's positive economic development, coupled with the Bank's active risk management, risk provisioning for lending remained almost constant with an addition of only € 1.4 million (2013: € -4.5 million). Berlin Hyp adequately

took recognisable and potential risks into consideration by carrying out value adjustments. The detailed development of the valuation results in the lending business and value adjustments is presented in the Notes.

Berlin Hyp once again reduced the portfolio of non-performing loans (NPL; risk classes 16 to 18). It now amounts to € 589 million (2013: € 638 million), 99.1 % of which is covered by collateral and value adjustments.

In 2014, risk provisioning requirements for securities came to € 7.1 million (2013: € 24.9 million).

Positive Net Income from Investments

Net income from investments was primarily impacted by write-ups and stood at € 2.7 million (2013: € 2.1 million) at the end of 2014.

Earnings Development

	2014 € m	2013 € m	Change € m	%
Net interest and commission income	248.0	222.4	25.6	11.5
Net interest income	219.3	202.3	17.0	8.4
Net commission income	28.7	20.1	8.6	42.8
Operating expenditure	111.5	83.6	27.9	33.4
Staff expenditure	63.0	38.3	24.7	64.5
Other operating expenditure	43.9	41.2	2.7	6.6
Depreciation of tangible assets	4.6	4.1	0.5	12.2
Other operating revenue/expenditure	-6.1	0.6	-6.7	-
Operating result before risk provisioning	130.4	139.4	-9.0	-6.5
Valuation of lending business	-1.4	4.5	-5.9	-
Valuation of securities business	-7.1	-24.9	17.8	-
Risk provisioning	-8.5	-20.4	11.9	-
Operating result after risk provisioning	121.9	119.0	2.9	2.4
Financial investment result	2.7	2.1	0.6	-
Bank levy	6.5	6.7	-0.2	-3.0
Fund for general bank risks	50.0	-8.0	58.0	-
Extraordinary expenditure	2.1	2.1	0.0	0.0
Other taxes	0.2	0.2	0.0	0.0
Operating results before income taxes and profit transfer	65.8	120.1	-54.3	-45.2
Income tax	-2.3	0.0	-2.3	-
Profits transferred on the basis of the profit transfer agreement	68.1	120.1	-52.0	-43.3
Net income for the year	0.0	0.0	0.0	-



Bank Levy

The Bank paid a bank levy for the reporting year of € 6.5 million (2013: € 6.7 million) for the benefit of the restructuring fund of the Federal Agency for Financial Market Stabilisation (Bundesanstalt für Finanzmarktstabilisierung).

Fund for General Banking Risks

The Bank increased the special item for general banking risks pursuant to Section 340g German Commercial Code (HGB) by € 50.0 million in 2014 to continue to meet the tighter requirements applicable for the capital backing of credit institutions. The fund now stands at € 83.0 million.

Constant Extraordinary Expenditure

At € 2.1 million, extraordinary expenditure was on par with the previous year and only included the revaluation of pension reserves. The differential amount determined in the first-time application of the German Accounting Law Modernisation Act (BilMoG) is distributed over several years.

Lower Operating Results before Income Taxes and Profit Transfer

Operating results before tax and profit transfer decreased by € 54.3 million to € 65.8 million (2013: € 120.1 million) due to the addition to the special item for general banking risks pursuant to Section 340g German Commercial Code (HGB).

Profit Transfer Agreement

The Bank transferred profits of € 68.1 million (€ 120.1 million) to Landesbank Berlin AG, Berlin.

Return on Equity Capital

As at 31 December 2014, Berlin Hyp posted a return on equity capital of 7.6 % (2013: 13.8 %). Adjusted for the addition to the special item for general banking risks pursuant to Section 340g German Commercial Code (HGB), the return on equity capital came to 13.3 %, up on the expected return on equity.

Hard Core Capital Ratio

The hard core capital ratio rose slightly year on year from 10.6 % to 11.3 % (prior to the adoption of the annual accounts). Berlin Hyp's capital requirements increased following the implementation of the CRR/CRD IV regulations and the tightening regulations.

Cash payments of € 105.0 million into capital reserves to offset the negative capital effects of the portfolio as well as the increase in provision reserves pursuant to Section 340g German Commercial Code (HGB) were a measure implemented to strengthen regulatory equity capital. Furthermore, medium-term planning took into account additional capital measures to guarantee that Berlin Hyp has a planned hard core capital ratio of at least 10 %.

Net Assets Position

Considerable Drop in Balance Sheet Total

The balance sheet total declined year on year by € 2.9 billion to € 30.4 billion, mainly due to the reduction in fixed-interest debentures as well as a fall in time deposits with credit institutions. All in all, individual balance sheet items developed in accordance with the strategic orientation of the Bank.

Changes in Major Balance Sheet Items

Claims against banking institutions fell by € 1.4 billion year on year due to considerably lower money market asset. To the balance sheet date, they amounted to € 0.9 billion.

Claims against customers amounted to € 20.6 billion, almost on par with the previous year. While the public loans portfolio was boosted by € 0.3 billion to € 2.9 billion in line with strategy, the positive developments in terms of new business resulted in a € 0.1 billion rise in the mortgage portfolio to € 17.7 billion. The amount of loan commitments not yet disbursed remained unchanged at € 0.9 billion at the end of the year.

Maturities and sales of € 1.7 billion, which were offset by additions of € 0.4 billion, resulted in a considerable € 1.3 billion reduction in fixed-interest debentures to € 8.3 billion. There are no exposures in structured products or securitised liabilities. As at 31 December 2014, the issuer structure of the securities portfolio can be depicted as shown on the right.

Securities with a nominal volume of € 2.8 billion (2013: € 3.3 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.

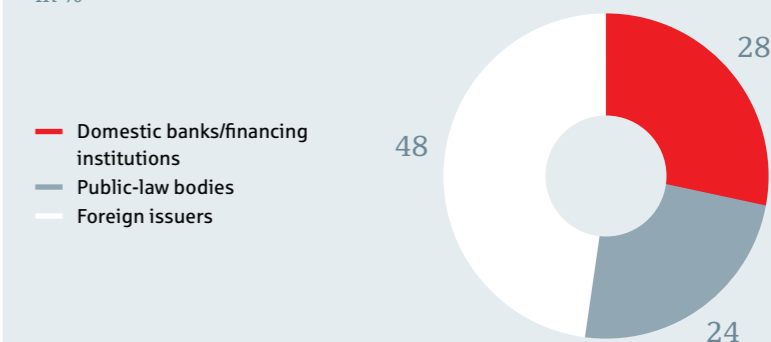
Equity Capital

Berlin Hyp's subscribed capital amounted to € 753,389,240.32 as at 31 December 2014. It is fully paid up and divided into 294,292,672 bearer shares. The shares have a theoretical par value of € 2.56. Furthermore, the special item for general banking risks pursuant to Section 340g German Commercial Code (HGB) contained reserves of € 83.0 million (2013: € 33.0 million) as at 31 December 2014. Cash payments of € 105.0 million into capital reserves to offset the negative capital effects of the portfolio transfer activities between

Berlin Hyp and Berliner Sparkasse were also effected in December 2014. In addition, subordinated capital of € 384.0 million can also be taken into consideration under regulatory law.

During the reporting year, demands with respect to regulatory capitalisation (CRR, CRD IV, Solvency Regulation) were consistently complied with. Berlin Hyp identifies regulatory capital backing with the aid of the IRB-based approach (internal ratings-based approach). Risks to be covered relate to counterparty, market price, operational, transaction and advance delivery risks. As at 31 December 2014, the total capital ratio pursuant to the Solvency Regulation and the core capital ratio prior to adoption stood at 15.7 % and 11.3 % respectively. During the financial year, they varied between 12.5 % and 15.7 %, and between 9.4 % and 11.3 % respectively.

Issuer structure in %



Financial Position

Medium and long-term refinancing generally takes place through the issue of mortgage Pfandbriefe as well as through unsecured bonds. In 2014, access of all products to the market remained available at all times.

Overall, Berlin Hyp placed refinancing funds with a total volume of € 4.8 billion on very attractive terms. € 2.0 billion of these funds were attributable to mortgage Pfandbriefe, € 2.7 billion to senior unsecured instruments and € 153 million to subordinate securities. These measures ensured the Bank's liquidity at all times during the financial year.

Berlin Hyp benefited from the reputation it has built up over many years as a reliable and sound issuer and its involvement in the Savings Banks Finance Group. In 2014, the Bank procured unsecured refinancing funds via private placements as well as by means of the public placement of a senior unsecured bond. The Bank issued a benchmark bond of € 750 million in January. € 200 million was issued in October and was increased by € 125 million in November.

Alongside various private placements, Berlin Hyp also placed a seven-year mortgage Pfandbrief of € 500 million in the sphere of covered funds in April 2014, followed by a five-year Pfandbrief of € 750 million in June 2014. The Bank also boosted its total capital ratio by issuing Tier 2 instruments of € 153 million; these instruments were distributed by way of private placements on attractive terms.

The volume of capital market refinancing instruments remained more or less unchanged at € 21.6 billion in the 2014 financial year (2013: € 21.7 billion). This change was primarily the result of a € 1.3 billion drop in the volume of public Pfandbriefe in line with strategy. The outstanding volume of mortgage Pfandbriefe declined slightly in the reporting period from € 10.5 billion to € 10.1 billion, while the volume of uncovered refinancing instruments increased by € 1.6 billion to € 8.3 billion.

The three largest rating agencies, Fitch, Moody's and S&P, reviewed the issuer and covered bond ratings of European banks in view of the Bank Recovery and Resolution Directive (BRRD) passed by the European Parliament in April 2014, cutting the ratings of many EU banks to negative.

Berlin Hyp's A2 issuer rating by Moody's in March 2014 was also affected, and has been cut to negative since May 2014. As things stand, the negative outlook is expected to be reversed in 2015. Fitch, on the other hand, affirmed the Bank's stable outlook and A+ rating. In the covered debentures sphere, the BRRD mainly made methodological changes. This benefited Berlin Hyp's public Pfandbrief rating, which Fitch raised from AA- to AA+, meaning that it is now on the same level as the rating from Moody's (Aa1).

The Bank's mortgage Pfandbriefe were upgraded by Moody's in the reporting period from Aa1 to Aaa, while Fitch's rating remained unchanged at AA+. All Pfandbrief ratings have a stable outlook.

Details on the Bank's capital structure can be found in the notes (such as from the classification by remaining maturity) and the "Equity Capital" section in the "Net Assets Position" chapter.

Please refer to the cash flow statement in this Annual Report for an analysis of the Bank's liquidity.

Letter of Comfort of Landesbank Berlin AG

The guarantee provided by the Landesbank Berlin AG in favour of Berlin Hyp AG ended with effect to 31 December 2014. The guarantee remains in force for the obligations entered into until 31 December 2014.



Refinancing Funds	Stock excluding accrued interest	New issues		Maturities and repayments	Stock excluding accrued interest
	31.12.2013	in 2014	%	in 2014	31.12.2014
	€ m	€ m		€ m	€ m
Mortgage Pfandbriefe	7,150.0	1,945.0	40.2	1,923.0	7,172.0
Public Pfandbriefe	2,941.1	-	-	1,341.3	1,599.8
Other bearer debentures	2,202.1	1,736.0	35.9	223.1	3,715.0
Registered mortgage Pfandbriefe	3,331.7	16.1	0.4	405.0	2,942.8
Registered public Pfandbriefe	1,625.2	1.3	0.0	20.0	1,606.5
Borrower's note loans	3,499.2	413.0	8.5	973.5	2,938.7
Registered bonds	644.0	570.0	11.8	6.6	1,207.4
Subordinated bearer debentures	41.0	-	-	30.0	11.0
Subordinated borrower's note loans	309.7	112.5	2.4	7.0	415.2
Subordinated registered bonds	-	40.0	0.8	-	40.0
	21,744.0	4,833.9	100.0	4,929.5	21,648.4

New issues (book value) including capitalisation for zeros.
Maturity dates and early repayments including terminations.

Financial and Non-Financial Performance Indicators

Financial Performance Indicators

Berlin Hyp's operating results before profit transfer amounted to € 68.1 million in 2014, down noticeably on the previous year as expected (2013: € 120.1 million). However, this also includes a further addition to the special item pursuant to Section 340g German Commercial Code (HGB) of € 50.0 million to strengthen equity capital. The increase in the special item was in particular enabled by the favourable economic framework conditions, coupled with risk provisioning that falls far short of expectations. The Bank is very pleased with its results in view of the significant additional burden resulting from the Bank's restructuring, its position as a partner for the Savings Banks Finance Group as well as the regulatory requirements and low interest rates, which further intensify competition.

Net interest and commission income rose considerably year on year to € 248.0 million (2013: € 222.4 million). This attests to the Bank's earnings situation given the persistent low interest rate policy and the difficult market environment. While we had forecast a positive development of net interest in last year's forecast report, the rise in net commission income comes as a positive surprise.

As stated in last year's forecast report, Berlin Hyp's increased autonomy resulted in significant operating expenditure, most of which is one-off. As expected, the cost income ratio decreased noticeably year on year as a result to 46.1 % (2013: 37.5 %).

The Bank's return on equity capital also declined, from 13.8 % in the previous year to 7.6 %. Adjusted for the addition to the special item for general banking risks pursuant to Section 340g German Commercial Code (HGB), the return on equity capital came to 13.3 %, up on the expected return on equity.

Risk provisioning expenditure developed favourably in 2014, a fact that Berlin Hyp used to create additional provision reserves. In this way, the Bank takes into account future tighter regulatory requirements and the unpredictability of the capital markets.

At 11.3 % (2013: 10.6 %), the core capital ratio prior to adoption exceeded the target of at least 10.0 %, even after taking into account the stricter equity capital demands of CRR/CRD IV.

Non-financial Performance Indicators

Staff satisfaction as well as management and development indicators are important for Human Resources, with all staff being asked to take part in annual opinion polls. In view of the increasingly important role of non-financial performance indicators when preparing reports, Berlin Hyp has started to implement HR reporting, which focuses particularly on specific key figures and will also illustrate the Bank's history, thus allowing the Bank to develop additional targets in the future, which will be backed by specific measures.

Berlin Hyp exceeded its own new lending targets in the past financial year. The target portfolio from the market segment is of great importance for management purposes. Real estate types, customer group, lending region and risk class all need to be declared. The specified target portfolio values, which are in line with our conservative risk strategy, were complied with overall in 2014.

In the associated business, Berlin Hyp placed two ImmoSchuldscheine, real estate promissory notes, with a total volume of € 210.0 million within the S-Group, with demand exceeding supply in both cases.

Please refer to the sustainability report in the Annual Report for details on how we perceive our social and corporate responsibilities. Berlin Hyp's management also takes these aspects into account when managing the Bank, achieving the specified targets as planned.

III Supplementary Report

No transaction of particular significance occurred following the conclusion of the financial year which would have required a different explanation of the Bank's earnings, financial and net asset situation.



IV Opportunities, Forecast and Risk Report

Opportunities and Forecast Report

Assumptions Relating to Macroeconomic and Industry Development

The DIW forecasts barely any year-on-year growth in Eurozone growth domestic product, as no notable growth on the previous year is expected in France and Italy. For Germany, the DIW anticipates a minor rise in economic growth compared to the previous year. The employment market in particular is set to develop favourably, and therefore boost consumption on which a major proportion of economic growth is based. Uncertainty will remain on the agenda in 2015 due to friction caused by the push for austerity in the European single market and the crisis in Russia.

The rate of inflation will fall some way short of its target of 2.0 %. The ECB will therefore be forced to leave interest rates at their current historic low. Given that the ECB has almost exhausted its range of monetary policy measures, its 2015 bond-buying programme is considered extremely important. Speculation is already rife over the effectiveness of these measures. The capital markets will also have to deal with the timing and margin of the Fed's imminent interest rate rise. In view of relatively sluggish economic growth momentum in the Eurozone, the expansive monetary policy pursued by the ECB and the potential interest rate rise in the United States, the euro can be expected to take further hits on its value.

The entry into force of the act governing the implementation of the Bank Recovery and Resolution Directive (BRRD), together with its accompanying legislation, puts the spotlight in 2015 not only on the change in regulations in the restructuring and winding-up of banks, which already had an effect on ratings agencies' procedures in 2014, but also on the new bank levy. Changes to the German Financial Information Ordinance (FinaV) and the gradual tightening of transitional regulations concerning the implementation of CRR/CRD mean that banks will have to continue to make great efforts to meet requirements relating to the preparation of disclosed information and the planning and application of the liquidity and equity parameters.

No reversal in the low-interest trend is expected in 2015. In fact rates could fall further, which is why investors are hurriedly looking for alterna-

tive investment opportunities. Bolstered by the positive interest rate environment and favourable refinancing conditions, demand for German commercial real estate is therefore likely to remain extremely high. International investors will once again account for a major proportion of demand. In Germany, the retail and logistics sectors should be among the main beneficiaries of the positive consumer climate. Interest for corresponding real estate will be high.

Thanks to the positive employment market situation, demand will also be high in the office real estate and residential real estate markets. In the case of the latter, the general increase in the number of households and declines in rural populations are key trends. In the catchment areas of the most in-demand financial and university centres, demand is brisk while residential space is scarce. All in all, transaction volume can be expected to match the above-average figures of the previous year.

Business Development

Given its solid shareholder background, greater involvement in the Savings Banks Finance Group, the successful refinancing strategy and its experienced and motivated employees, Berlin Hyp is well-prepared to face the future in this challenging environment and will actively exploit all business potential that arises.

The Bank plans to further consolidate its position as one of the leading commercial real estate financiers in Germany. In doing so, the Bank focuses on individual financing structures with risk-appropriate pricing. Financing in selected foreign markets will be continued with the aim of ensuring a well-balanced portfolio mixture.

In addition, Berlin Hyp is becoming increasingly integrated as a partner for the Savings Banks Finance Group for commercial real estate financing. Alongside the existing range of syndicate financing products and support in valuation services, Berlin Hyp will continue to systematically expand its range of products and provide savings banks with expert advice. These operational strategic positioning activities are designed to sustainably strengthen business in the long term.

The expansion of the product landscape and the associated legal, process-related and technical implementation measures will be completed to a large extent in 2015. In S-Group business, the range of products will continue to be developed in line with the needs of the savings banks. The range of so-called ImmoSchuldschein real estate promissory notes should also be extended. Transaction volume is therefore set to rise accordingly over the next few years.

The transaction volume in the domestic real estate market increased year on year. Alongside the continuing sovereign debt and Euro crisis, the future development of the German real estate market will be shaped by the economic environment. Due to the persistently strong competition on the financing market, the target for new lending volume for the coming year is ambitious, which is why we expect this figure to fall slightly short of the 2014 level.

The completion of the portfolio transfer between Berlin Hyp and Berliner Sparkasse, which resulted in an increase in the mortgage portfolio, will herald the end of the restructuring of the Group's former joint Real Estate Financing division, within which Berlin Hyp concentrated on supra-regional real estate financing business.

Public-sector lending business is no longer part of the Bank's core business and will continue to be hived off. Due to lower-than-expected yields, the securities portfolio will tend towards a slight decline.

Net interest income in the core business of commercial real estate financing should rise slightly year on year on the back of the solid new business volume and the transfer of the last tranche of the portfolio as part of the restructuring process. Berlin Hyp will benefit in particular from its further establishment as a partner of the Savings Banks Finance Group as well as its extremely solid market position and expertise as a commercial real estate financier. Interest income could be negatively impacted by a longer-lasting low-interest period as well as a flat yield curve.

Even if the volume of new business remains high, commission income will be unable to reach the extremely positive result achieved in 2014 and

therefore fall short of the outstanding previous-year figure.

The positive economic climate in 2014 only resulted in moderate additions to risk provisioning on balance. A notable rise in risk provisioning cannot be ruled out.

Operating expenditure will continue to rise in line with expectations. This will affect staff expenditure most of all. A greater number of employees results from the restructuring process, which was largely completed by the end of 2014. In addition, general interest rate development means that additional pension obligations can be expected. We continue to assume a slight decline in material expenditure. A significant decline in project-related expenditure is to be partially offset by the anticipated effects of increasingly stricter regulatory requirements.

As part of the Single Supervisory Mechanism (SSM), national resolution funds, which are to be set up from 1 January 2015 within the scope of the Bank Recovery and Resolution Directive (BRRD), are to be gradually merged and replaced by the Single Resolution Fund (SRF) from 1 January 2016. As part of this process, the European bank levy will be due for the first time in 2015 in place of the previous bank levy for the financial market stabilisation fund (SoFFin). Future contributions are calculated on the basis of a relatively complex process, the results of which we can only estimate at the current time.

We expect contributions to multiply from 2015 and therefore have a major negative impact on the profit and loss account.

All in all, we assume that profit transfer in the coming financial year will improve slightly year on year.

After the planned rise in 2014, the cost-income ratio is set to fall again next year.

Return on equity capital should remain relatively stable year on year. Alongside a slightly improved result, provisions and capital measures can also influence return on equity depending on regulatory requirements and market capitalisation needs.

In principle, stricter regulatory requirements for equity and the equity requirements under CRR/CRD IV result in a reduction in the core capital ratio. Following the December 2014 rise in capital reserves, 2015 may also see a need to boost regulatory equity capital in order to maintain the hard core Tier 1 capital ratio of 10.0 %.

The Bank is already implementing and planning appropriate measures to meet mandatory regulatory requirements for short-term liquidity ratio LCR (Liquidity Coverage Ratio; phase-in from 2015 to 2019) and debt ratio leverage ratio (mandatory from 2018).

Overall Statement

Competition on the real estate financing market continues to be strong for Berlin Hyp. The 2014 financial year to date has been satisfactory on the whole and has proceeded as planned. The overall positive risk result was used to create additional provision reserves. Alongside the increase in the capital reserve, this led to an increase in the Bank's equity capital in order to take into account stricter regulatory requirements and the demands of the capital markets.

The adjustments resulting from the creation of an autonomous Berlin Hyp within the Landesbank Berlin Group have largely been completed. Aside from the portfolio transfer, the restructuring measures and the transfer of employees from other Group companies, the establishment of Berlin Hyp as an equal affiliated bank to Landesbank Berlin/Berliner Sparkasse further reinforced the re-orientation of the Bank within the Savings Banks Finance Group.

We will purposefully and consistently continue with the introduction of new products and the further establishment of Berlin Hyp as a partner for the Savings Banks Finance Group, thereby stimulating sustainable growth in our business in 2014 and beyond. The additional potential resulting from Berlin Hyp's repositioning, combined with a sound refinancing strategy, constitute solid foundations for the continuation of Berlin Hyp's very successful business strategy.

However, framework conditions will remain difficult. The persistent low-interest environment, in-

creasing regulatory requirements such as a possible tightening of minimum LCR requirements, the further development of business processes and underlying process-based measures and technical infrastructure represent major challenges.

Provided that the capital and real estate markets are not affected by any unforeseen turbulence and risk provisioning remains at its current level, Berlin Hyp expects to be able to continue with the positive developments in its customer business. For the reasons detailed above, the results before profit transfer in 2015 should be marginally higher than 2014 figures.

Risk Report

Principles for Risk Management

The management of the Bank takes place on the basis of a defined strategy aligned with the Bank's business policy that has been approved and communicated by the Board of Management.

The Board of Management undertakes risk limitation and risk allocation in its various divisions, applies limits to risk types (loss ceilings) and implements structure requirements in accordance with the strategic orientation of the Bank and in consideration of financial risk-bearing capacity and regulatory requirements.

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 exceed the anticipated risk by a considerable margin, meaning that unanticipated risk is also covered.

The risk and equity capital strategy is concordant with mid-term and operating planning. Planning takes place in consideration of all foreseeable risk and equity effects at overall Bank level.

Standardised risk methods and risk assessment processes guarantee that accepted risks do not, even in extreme situations, endanger the existence of the Bank and that these risks can be controlled at all times. The Internal Audit division continuously monitors the units that conclude transactions as well as the processing and controlling units for compliance with relevant risk-mitigating regulations.

Particularly in the New Product Process, the Internal Audit division checks that all relevant units have been included and whether risks have been adequately mapped. The Bank classified the following risks as material risks during its annual risk inventory:

→ Counterparty default risks (including country risks)

→ Market price risks
→ Liquidity risks
→ Operational risks
→ Real estate risks

Liquidity risk (procurement and deadline risks) is considered a non-monetary risk, as the associated problems are "time-related". Liquidity risk cannot be averted by underpinning it with risk capital. The price risk element of liquidity risk is recognised as the quantitative component of this risk type in terms of overall risk-bearing capacity.

The shareholder risk and the real estate risk are recognised under residual risks due to their minor importance for the Bank.

For the purposes of risk-bearing capacity, risk types are defined either as monetary risks or non-monetary risks. In addition, potential asset losses that have not yet been considered are recorded together with model risks under residual risk for the risk-bearing capacity analysis. Monetary risks are taken into consideration in the quantitative aggregation of risks into overall risk (internal risk-bearing concept).

Risk Management at Berlin Hyp Overall Bank Strategy and Risk Strategy

Berlin Hyp is integrated into Group risk management. Berlin Hyp's specific risk strategy is summarised in a strategic framework.

The concept implemented at Berlin Hyp to determine the Bank's risk-bearing capacity is an economic capital concept which is constantly developed further in regard to changing regulatory requirements and the advancement of information.

The internal risk-bearing concept comprises a system of measurement procedures and limits for all material risks able to be covered by risk capital (monetary risks), which ensures that, apart from a marginal residual probability, a defined maximum asset loss value cannot be exceeded. Like the limits themselves, the underlying assumptions are regularly reviewed at least once a year and, if necessary, adjusted by the Board of Management. Individual risk types are aggregated into overall risk using a simple addition process. Diversification effects are not taken into consideration.

The overall risk situation is assessed by comparing the capital available to cover risks (risk-covering assets) with the overall Bank risk. The assessment of the overall risk situation is complemented by the inclusion of results from a variety of stress tests that cover not only economic risk-bearing capacity, but also regulatory risk-bearing capacity.

The major risk management goals have been determined according to the following risk types:

Counterparty default risks: Real estate financing business is primarily undertaken on the basis of property coverage. The Board of Management has defined regulations, including those pertaining to risk classes, customer groups, property types, regions, debt service cover ratio and loan-to-value ratio.

In order to avoid risk concentrations, Berlin Hyp has defined target portfolios for risk classes, customer groups, real estate types and regions. New lending is controlled using the flexibility of the individual portfolios. The primary aim of new lending management is the acquisition of new loans in good risk classes while applying a margin appropriate to the risk.

Counterparty default risks in capital market business are the result of public-sector loans and bearer bonds suitable for reserve funds. The public-sector loans portfolio continues to be reduced. The aim is to reduce this portfolio completely. Bearer bonds are retained, primarily for the purpose of liquidity management.

Market price risks: Within the scope of its liquidity management strategy, Berlin Hyp holds securities with a low credit spread risk. These securities, as well as the Bank's positioning as a whole, can lead to exposure to interest rate change risks, which are monitored on a daily basis and subject to limits. Berlin Hyp has no trading books. The Bank principally does not enter into foreign currency risks. Apart from peak amounts, foreign currency risks entered into as part of customer business are hedged.

Liquidity risks: The purpose of liquidity management is to ensure solvency at all times.

Refinancing largely occurs through the issuing of Pfandbriefe and unsecured securities and, in the short-term, via security repos and tender transactions.

Operational risks: Operational risks are accepted within an acceptable range, and are otherwise reduced or transferred.

Real estate and shareholder risks: Risks from owning real estate and shares are considered to be immaterial.

Given the continuously changing risk environment, the risk management of Berlin Hyp is subject to a constant monitoring process and undergoes continuous development for the purpose of optimisation. This is based on statutory and regulatory requirements.

As regards the accounting process, the internal accounting-related control and risk management system is described in greater detail in a separate section.

Risk Management Structure

The Board of Management has overall responsibility for risk management and risk monitoring. The Supervisory Board reviews the risk and capital profile at regular intervals.

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

Risk type	Risk management by the divisions/committees	Risk controlling by the divisions
Counterparty default risks	<ul style="list-style-type: none"> • Board of Management • Sales 	<ul style="list-style-type: none"> • Risk Controlling • Loan and Risk Management • Corporate Development (for shareholder risks)
Market price risks	<ul style="list-style-type: none"> • Financial Steering Committee • Treasury 	<ul style="list-style-type: none"> • Risk Controlling
Liquidity risks	<ul style="list-style-type: none"> • Financial Steering Committee • Treasury 	<ul style="list-style-type: none"> • Risk Controlling
Operational risks	<ul style="list-style-type: none"> • Divisions responsible for processes 	<ul style="list-style-type: none"> • Finance • Internal Audit

Risk Controlling is the independent risk monitoring unit for all risk types. It is responsible for proposing applied methods and models to identify, measure, aggregate and limit risks as well as for the development of the risk management system. The Board of Management is responsible for the final decision.

The documentation of risk management occurs on a centralised basis in the Risk Handbook of Berlin Hyp. These documents provide a thorough representation of the risk management process, including its methods, identification, assessment, communication, steering and monitoring components.

Risk Reporting

The Board of Management is regularly informed of Berlin Hyp's earnings, financial, assets and risk position according to the following reporting schedule:

Furthermore, the Board of Management is also informed immediately about pre-warning levels being breached, limits being exceeded or any other changes.

The Financial Steering Committee meets fortnightly to discuss market price risk within the framework of the Board of Management meeting. Liquidity risk is also regularly discussed as part of the Board of Management meeting.

The Supervisory Board regularly receives the quarterly risk reports together with the reports pursuant to the German Commercial Code. Depending on the situation, further information is also provided such as additional presentations of the securities portfolio and the liquidity situation.

Risk Management Instruments

Apart from liquidity risk, major risk management and risk monitoring instruments are based on

Report frequency	Subject
Daily	<ul style="list-style-type: none"> • Market price and liquidity risks (procurement risk)
Monthly	<ul style="list-style-type: none"> • Liquidity risks (all components) • Development of balance sheet items • Development of the earnings situation • Risks of counterparty default at portfolio level • Risk-bearing capacity • Bank cash value
Quarterly	<ul style="list-style-type: none"> • 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

value-at-risk models for all significant risk types. In terms of liquidity risk, the price risk is determined by means of stress test results. Recourse within the risk types is offset against the economic capital (risk-covering assets) within the scope of a risk-bearing capacity analysis.

In addition, unusual economic developments are investigated using stress tests for counterparty default risk, market price risk and liquidity risk.

The reliability of the corresponding management instruments is continuously reviewed and refined against the backdrop of a constantly changing risk environment. They are listed as follows:

Economic Capital (Risk-Covering Assets)

Economic capital essentially encompasses regulatory equity capital. Only subordinate capital is included in the case of a remaining term of over one year. Hidden liabilities have a negative effect on risk-covering assets (investment securities and reserve deficit for pension provision in accordance with the German Accounting Law Modernisation Act (BilMoG)), as do incurred or planned losses.

A shortfall resulting purely from a regulatory viewpoint does not reduce economic capital. 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).

Value-at-Risk Model

The value-at-risk model measures the potential future loss for a certain portfolio that will not be exceeded within the given time frame of one year with a 99.9 % degree of certainty.

For counterparty default risks, the Bank calculates an unexpected loss. The unexpected loss is determined using a credit metrics-based credit risk model. Furthermore, the expected loss is determined on this basis.

For market price risks, a value-at-risk model is applied on the basis of the last 250 days, a holding period of ten trading days and a confidence level of 99.0 % based on a variance-covariance approach. The value-at-risk model takes into account linear and non-linear risks including individual volatility risks. For the purposes of

monitoring risk-bearing capacity, this value is projected over a holding period of one year and a confidence level of 99.9 %.

Value-at-risk is also used to calculate operational risks on the basis of scenario changes and a claims database.

Stress Tests

Stress tests serve to review the Bank's susceptibility to loss with regard to unusual but possible events such as market crashes or strong market movements.

Market price, counterparty default and liquidity risks are subject to regular specific stress tests with the aim of demonstrating the regulatory and economic effects of the stress tests as well as their effects on the balance sheet.

The combination of specific stress tests into Bank-wide stress tests taking multiple risk types into account can show the influence of macro-economic changes on the risk-covering assets and on the regulatory capital ratio.

Scenarios were developed for this purpose in accordance with MaRisk requirements and the correlations between individual risk types taken into account.

By applying an inverse stress test, it can be calculated to what extent the Bank's overall scenarios would have to be impacted before all risk covering assets on the one hand and the minimum capital level on the other hand would fall too low.

Material Changes in Risks

As part of its restructuring, the Bank assumed a wide range of different loan commitments from Berliner Sparkasse, which is bound by the regional principle. Lending risks continued to be valued using a standardised method. Postings were carried out in such a way that the primary components of the loan commitment were predominantly recognised at Berlin Hyp and the significant expiring components were predominantly recognised at Berliner Sparkasse.

As part of the restructuring of the Group, situations in which borrowers are customers of both

Berlin Hyp and Berliner Sparkasse were eliminated where possible while maintaining the regional principle. This meant that more significant, expiring loans with correspondingly higher margin shares were transferred to Berlin Hyp.

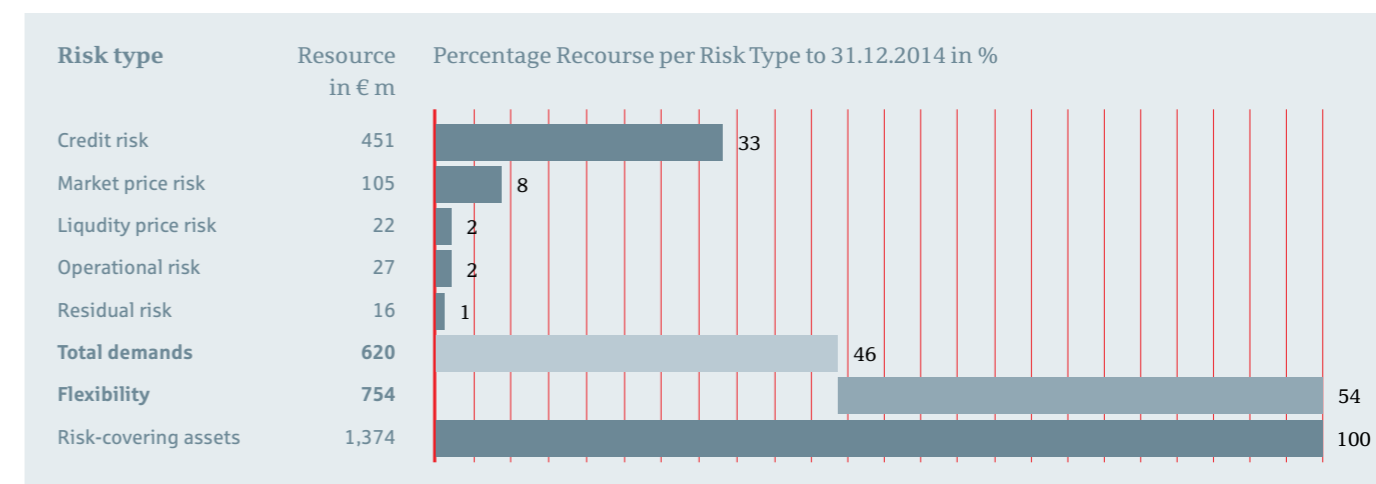
The restructuring of the Group also continued to mean that certain products previously in the Berliner Sparkasse portfolio had to be implemented at Berlin Hyp. This caused an adjustment of the risk detection, measurement and reporting systems.

Risk-Bearing Capacity in 2014

The established processes, methods and systems in the risk management system have proven their worth in the reporting year and have put the Bank in a position to take appropriate action to manage risks at all times. As a result, the Bank's risk-bearing capacity was guaranteed at all times with sufficient flexibility, both in terms of internal standards as well as from a regulatory point of view. The risk-covering assets up to 31 December 2014 are as follows:

Risk-Covering Assets as at 31.12.2014 in € m	
Equity capital under regulatory law	1,400
No requirement to write down securities (fixed assets)	-6
Pension reserves deficit pursuant to BilMoG	-21
Risk-covering assets	1,374

Recourse per risk type, total demands and claims as well as the resulting flexibility, with risk covering assets amounting to the aforementioned amount, were as follows up to 31 December 2014:



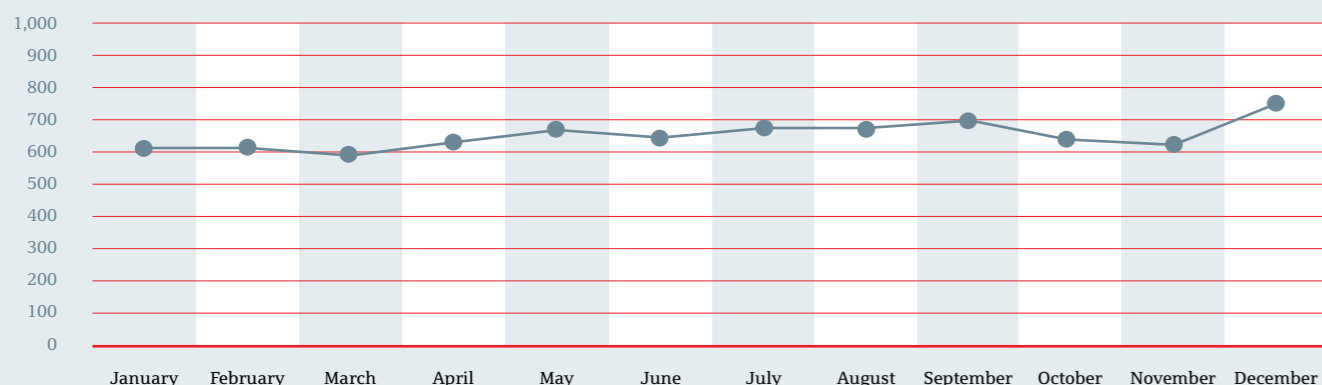
The risk-covering assets and expected developments in terms of risk types are analysed as part of the annual planning process. The results of this process are incorporated into the planning of capital measures. The Bank reviewed the parameters in the risk-bearing capacity model in December 2014 and in January 2015.

The development of Berlin Hyp's risk-covering assets flexibility within the framework of the risk-bearing concept at Berlin Hyp is shown in the following chart:

and subsequent market sphere). These aspects are illustrated in the regulations using process graphs and procedural diagrams. Credit processes are examined regularly by the Internal Audit division, which means that they are also subject to constant quality improvement.

The risk exposure on the individual borrower level is managed on the basis of regular analysis of creditworthiness. Risk assessment is focused on rating procedures conforming to the CRR-/CRD IV-Regulation, which take account of characteristics specific to debtors and businesses. Default

Development of Financial Flexibility in 2014 in € m



The flexibility of risk-covering assets remained stable in 2014. At the end of the year, it rose on account of the increase in core capital.

Implementation of Risk Strategy in the Major Risk Types

Counterparty Default Risks

The risk of counterparty default is the risk of a loss, or loss of profit, due to a business partner no longer being able to fulfil his obligations, as well as a loss in value of the security provided to the Bank.

Individual Commitment Level

Efficient lending processes form the basis for adequate risk management of the risks of counterparty default. This is guaranteed through a specific loan approval directive and clearly defined processes and interfaces, from acquisition to new lending and loan repayment (close integration of acquisition

probability is derived from the ratings. Moreover, pricing and loan decisions are similarly oriented, taking into consideration the security provided. Real estate financing is largely determined using the DSGV real estate business rating as well as the Landesbank rating for commercially used international properties.

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.

Default probability is classified according to one of the classes of the DSGV master scale. The rating procedures employed here have been derived from

the framework of the banking supervisory authority approval system. Quality control 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 is provided by S-Rating und Risikosysteme GmbH 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.

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

The default probability and the degree of credit commitment collateralisation are grouped into one risk class for internal control purposes, that then constitutes a relevant criterion in terms of lending guidelines, loan monitoring and loan approval.

The risk class system thereby divides the portfolio into the following:

- Good loans (Risk Classes 1 to 12)
- Bad loans including sub-performing loans (Risk Classes 13 to 18)

Berlin Hyp uses early warning systems with a variety of instruments in order to identify loan commitments with increased risk.

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 lease 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 subsequently transferred into a separate Risk Management division. 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 in the amount that the outstanding loan amount, less any collateral, cannot be paid back with a high degree of probability. Collateral values are reviewed 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 2014, new capital market business with securities was extremely limited, with the aim of reducing the balance sheet total and as a result of the continued implications of the financial and European sovereign debt crisis. In general, new business is only concluded with creditworthy customers within the scope of a clearly defined investment strategy.

Counterparty risks from the derivatives business are in principle insured through collateral. The existing capital market exposure is reported on a regular basis to the Board of Management and the Supervisory Board as regards exposure and risk class.

Early warning indicators ensure daily risk-oriented communication regarding capital market credit ratings 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. None of the issuers became insolvent in 2014 and no losses were suffered.

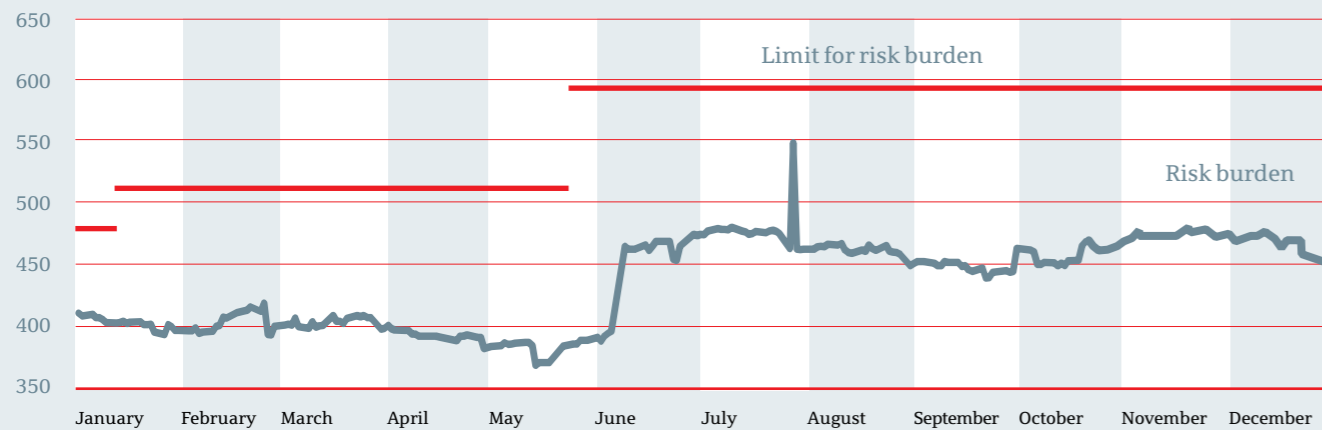
Portfolio Level

In addition to risk monitoring at individual borrower level, risk management also takes place at the portfolio level, in particular through the risk parameters of the volume-orientated characteristics of real estate type, lending region, customer group and risk class within a certain framework of target portfolios (achieving a defined degree of diversification within the above-mentioned categories). This enables the aforementioned characteristics to be attributed to the loans several times over.

In addition, risk interrelations were assessed more conservatively at borrower level. The term "risk burden" is used as the limiting value; this reduces the value-at-risk by the share of the credit risk provisioning that has already been recognised with relevance to profit and loss (lump-sum value adjustment).

The development of the risk burden during the course of the year is shown in the following graph: From 10 June 2014 onwards, the risk burden was

Development of the Risk Burden in 2014 in € m



In addition, a statistical quantitative analysis of counterparty default occurs using the loan portfolio model. The loan portfolio model calculates the probability that significant losses will be suffered as a result of correlated loan defaults on the basis of specific borrower exposures, the rating class, collateralisation as well as default correlations at business partners. Due to the way it is structured, the model is sensitive to concentrations in individual risk groups and sectors and also takes into account the risk of country transfer events. The most significant risk concentrations are reported and commented on monthly.

The input parameters such as "contribution rate" and "recovery rate" were revised during the reporting year within the scope of validation measures.

determined using stricter model requirements such as more conservative assumptions of default probability and recovery rates. On 29 July 2014, an excess of roughly € 83 million was recognised under the risk burden due to the external share of a syndication transaction being reported too late.

Overall, the risk burden rose by € 39.3 million compared to 31 December 2013 (Risk burden: € 411.5 million). However, taking into consideration the changed model requirements, the risk structure of the Berlin Hyp portfolio has improved compared to 31 December 2013.

To 31 December 2014, the evaluated overall loan exposure of Berlin Hyp shown below amounted to € 33.4 billion.

Transfer of Overall Loan Exposure to Balance Sheet Assets as at 31.12.2014 in € m

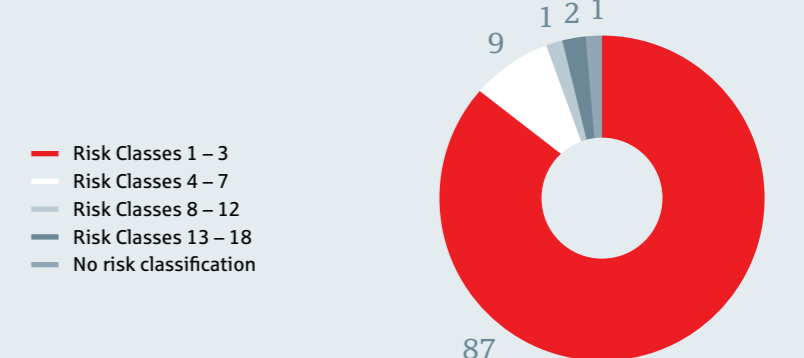


There are quantitative differences for some products when compared with the balance sheet view. The main divergences are as follows:

- The inclusion of off-balance-sheet business in the form of disbursement obligations and sureties
- Consideration of derivative financial instruments with the loan equivalent amount
- Addition of valuation adjustments in terms of the presentation of overall loan exposure
- Other adjustments: mainly accrued interest and other asset items; they are not included in the valuation of overall loan exposure

The following presentation of overall loan exposure of € 33.4 billion takes into account the respective security according to risk class, whereby Risk Class 1 has the best characteristics and Risk Class 18 the worst.

Risk Classes in %



The aim to further improve the quality of the real estate loan portfolio as regards risk exposure and regional diversification remains unchanged. This task was once again achieved in the financial year by new real estate financing business in keeping with the target structure. Exposure to bad loans (Risk Classes 13 to 18) is currently fully covered through existing safeguards as well as through risk provisioning provided for loan servicing on individual properties.

Country and Transfer Risks

Country and transfer risks are limited within the Group by volume-based country limits, which are reviewed annually at least. The limits were set taking into consideration national macro-economic data and were decided 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 not necessary to make adjustment provision for bad country debt value adjustments (transfer risks).

On 15 January 2015, the Swiss National Bank lifted its cap on the Swiss franc in relation to the euro, which led to the Swiss franc increasing in value significantly compared to the single currency. As a result, the repayment of loans denominated in Swiss francs became considerably more expensive for customers whose earnings are denominated in currencies other than Swiss francs.

As at 31 December 2014, the volume of loans issued by Berlin Hyp in Swiss francs came to

roughly CHF 329.4 million. The Bank has reviewed the entire portfolio of relevant loans in view of a potential increase in default risks. Additional risk provisioning has been formed for commitments at acute risk of default.

There was no exposure in countries particularly affected by the European sovereign debt crisis in 2014 and no such exposure is expected in the future.

Market Price Risks

As a Pfandbrief Bank, Berlin Hyp assumes market price risks primarily in the form of interest rate change risks. These risks comprise two components: the general risk describes changes in value resulting from a general shift in the market, whereas the specific risk is caused by issuer-related factors. In principle, the risk of a change in interest rates is principally managed with the aid of swaps, swaptions and securities, if the risk profile resulting from the transactions is undesirable.

As in the previous year, forward rate agreements were used in the reporting year to counteract short-term interest rate change risks. Derivatives are further described in the Notes. The Bank does not assume any share price risks.

In 2014, the Board of Management decided on the scope of the accepted market price risk within the framework of the fortnightly Financial Steering Committee meetings.

Market price risks are accepted on the basis of a range of key risk and earnings figures considered by the Financial Steering Committee. 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. The key figures are ascertained on the basis of the assets and liabilities sequence structure of all the Bank's interest-bearing items.

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 daily reporting specified above is in particular supplemented by information about the basis point values for all interest-bearing items, a cash flow profile as well as cash value profit and loss analyses (P & L).

Value-at-risk, cash value development and the risk coefficient are limited. Thresholds have been established ahead of the limits. Using the above-mentioned key figures, risk development is monitored by Risk Management and reported to the Board of Management on a daily basis. If threshold values or limits are reached or exceeded, this triggers prescribed communication and decision-making processes. The monthly reports to the Board of Management also show the results of back-testing and stress tests. In addition to notional, best-estimate interest variations, these results also contain historical actual interest variations. Alongside interest curve modifications, stress simulations are also used to examine the effects of credit spread changes on the cash value.

The results of the back-testing did not show any indicators of insufficient model quality.

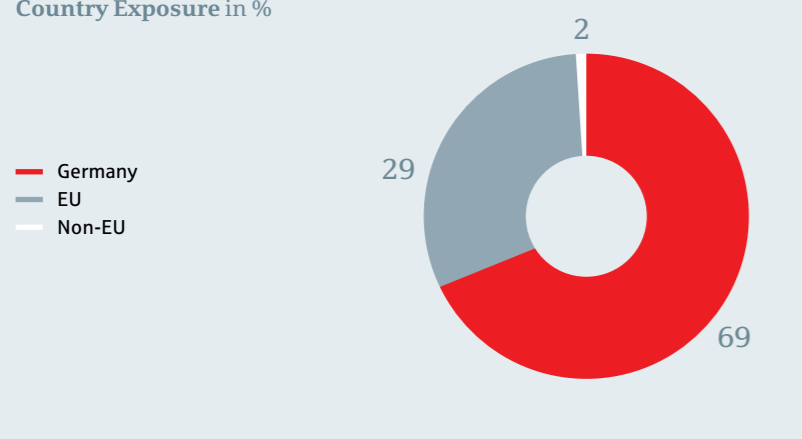
Value-at-risk not only takes general interest rate risks into consideration, but also incorporates risks from changes in credit spread risks. Recourse in re-

Liquidity Risks

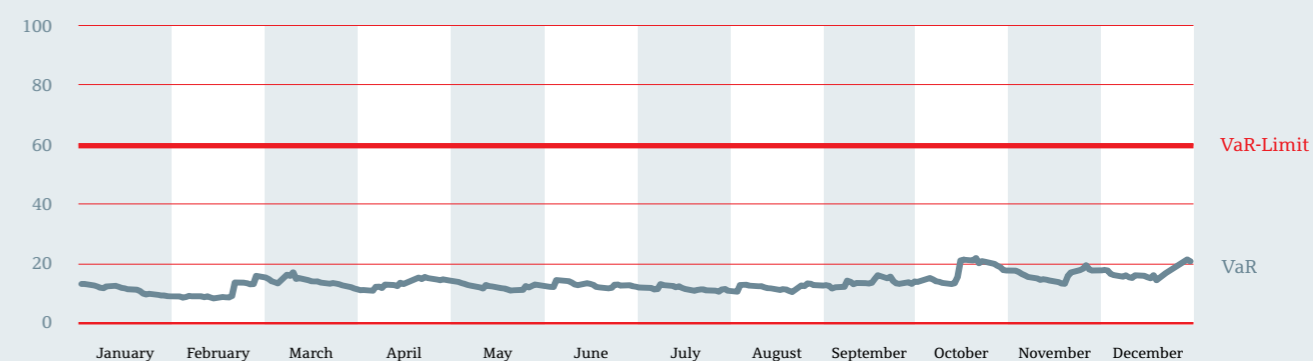
Berlin Hyp defines a liquidity risk as the risk that current and future payment obligations may not be met in full or on time. A distinction is made between procurement, deadline and price risks. Liquidity management occurs subject to economic limits/warning thresholds; compliance with regulatory regulations represents a compelling constraint. Falling below a warning threshold or a limit triggers defined notifications and measures. 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 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, in case overnight money and term money falls away. This is designed to ensure that the Bank will be able to fulfil all payment obligations within the next 30 days, even under stress conditions. The procurement risk is reported on a daily basis and the

Country Exposure in %



Value-at-Risk Development in total in 2014 € m



lation to the market price risk limit was significantly below the value-at-risk limit throughout 2014.

The Bank does not have any open currency positions in accordance with its risk strategy. This also applies to the Swiss franc. Mortgage business in foreign currencies is refinanced through directly attributable hedging transactions.

maintenance of limits is monitored on a daily basis. The Bank has defined a limit that must be complied with even under stress conditions. As the Bank classifies itself as a capital market-oriented institution within the meaning of Minimum Requirements for Risk Management (MaRisk), daily checks are carried out to ensure that liquidity is guaranteed for seven or 30 days in accordance with defined Minimum Requirements for Risk Management (MaRisk) conditions (BTR 3.2).



period from 31 to 360 days. The deadline risks and the maintenance of the limits are discussed by the Board of Management on a monthly basis and are regularly brought to the attention of the Supervisory Board.

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. The price risk is considered within the framework of the risk-bearing capacity concept and is limited.

The liquidity risk also continues to be limited by regulatory law. Internally, the limitation of the liquidity ratio exceeds the standard required by regulatory law.

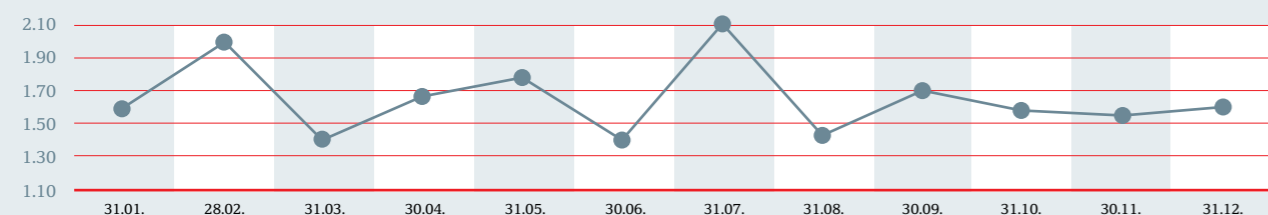
According to regulatory requirements, the liquidity ratio must total at least 1.0. In the reporting year, the liquidity ratio was above the internal limit of 1.15 at all times. The chart below depicts the development of the liquidity ratio as at the respective last day of the month.

Berlin Hyp's Treasury division creates monthly forecasts on the liquidity situation for a period of at least twelve months. The assumptions made are checked regularly and adjusted as and when required. The defined limits were complied with.

From October 2015, quantitative regulatory liquidity requirements will be expanded with the addition of a limit of the liquidity coverage ratio (LCR). This figure compares available securities with net liquidity outflows over the next 30 days on the basis of a defined stress scenario. A minimum LCR of 60 % is set to apply initially. The requirements are to be

The deadline risk is the risk that the Bank can only make short-term extensions for due financing funds originally intended for the medium and long term, which are not covered by corresponding assets, due to creditworthiness conditions and for market reasons. The risk follows on from the procurement risk as regards time, and encompasses a

Development of the Liquidity Ratio in 2014



increased gradually to 100 % by 1 January 2018. Berlin Hyp has submitted LCR reports on a monthly basis since 31 March 2014 in accordance with regulatory requirements.

Furthermore, the Bank's liquidity management is integrated into Group management. In preparation for the creation of an autonomous Berlin Hyp in 2015, the Treasury division also established access to the unsecured money market in the previous year in addition to its independent presence in the secured money market. In addition, the requirements for a direct link to Eurex Repo were also put in place in the reporting period. This platform is planned to be used from 2015 onwards.

Surplus balancing is currently being carried out predominantly together with Berliner Sparkasse.

Operational Risks

Pursuant to Section 4 (52) CRR, operational risk is defined as the risk of losses resulting from the inappropriateness or failure of internal processes and systems, human error or as a result of external occurrences. This definition includes legal risks, but not strategic risks and reputation risks. Legal risks are those risks arising from the violation of applicable and changing legal provisions, in particular from contractual, statutory or judicially developed legal provisions. This includes the risk arising from violations of legal provisions due to ignorance, a lack of diligence in applying the law (careless interpretation), negligence or a failure to implement in good time.

Operational risks are managed in a uniform manner throughout the Group. Berlin Hyp has appointed an OpRisk Officer for the Group's OpRisk Committee to liaise with Berliner Sparkasse. On 1 January 2012, the Bank, together with the Group, received authorisation from the supervisory authority for an internal OpRisk model (Advanced Measurement Approach = AMA model) used to measure and define regulatory capital requirements.

Berlin Hyp's Board of Management is responsible for a systematic and consistent process comprising of the sequences identification, assessment, monitoring and the management of operational risks. This task is delegated to the head of the Risk Controlling division.

Management of operational risks takes place amongst other things in consultation with the individual specialised divisions. This responsibility in particular also covers the initiation and implementation of countermeasures, the introduction of appropriate internal procedures and measures, and the conclusion of insurance policies. Berlin Hyp's objective is to minimise the operational risks from an economic point of view.

Various instruments are employed in order to efficiently manage operational risk, including:

- Self-assessment according to the bottom-up approach (qualitative OpRisk inventory)
- Scenario analyses to determine potential losses
- Incident recording (internal/external)
- Early warning system (identifying and monitoring of risk indicators)
- Measures controlling (identifying and monitoring of measures)
- Risk transfer through insurance protection

Pursuant to Sections 25a and 25h German Banking Act (KWG) and relevant circulars published by the banking regulator, Berlin Hyp must establish and maintain commensurate business and customer-related security systems to prevent money laundering, terrorism financing and any other criminal activities detrimental to the Bank. In order to ensure this, Berlin Hyp has appointed an Anti-money Laundering Officer and two deputies. The Board of Management is presented with an annual report on the Bank's hazard potential in the form of a hazard analysis. Within the framework of the 2013 hazard analysis, the anti-money laundering officer determined that the risk posed by money laundering, terrorism financing and other criminal activities was minor. The 2014 hazard analysis will be updated in 2015.

System Risks

Following the introduction of the integrated SAP system, Berlin Hyp has a powerful IT system commensurate with the type and scope of its business activities. The systems introduced remain stable all year round. With the integrated SAP system as an overall solution for the entire Bank, Berlin Hyp benefits from an extensive state-of-the-art IT landscape, and the increasing importance of information technology as a competitive factor

is taken into account. This is also closely linked to a very high level of protection against system risks, such as by a high degree of automation as well as integrated interfaces, which results in as many manual processing steps as possible being reduced. Through accompanying organisational measures, an appropriate access protection system was implemented that prevents unauthorised and undesired read or write access to databases. To protect against possible catastrophe scenarios in computer centre operations, Berlin Hyp has devised and implemented a concept together with its IT service partner. A major element of this concept is a backup environment that can be switched to quickly in the event of a catastrophe. This catastrophe case backup was reviewed with the IT service partner in 2014 during a training exercise.

In order to limit IT risks, there are also internal specifications about data storage and regularly updated emergency checklists as an integral element of the Bank's Written Fixed Rules. This way, the functionality of the business procedures in the event of technical faults is guaranteed with the aid of backup solutions which are quickly available.

Within the framework of Berlin Hyp's IT safety guidelines, which define both the value and the general aims of IT safety, further measures to guarantee IT safety were implemented or updated under the IT Safety Officer pursuant to the recommendations of the Federal Office for Information Technology Security (BSI).

The standardised Cognos/Talend front-end system for the data warehouse ensures that all divisions are granted access to an IT application, guaranteeing the consistency of report input files, compliance with bank-wide access authorisations and the recording of processes. This system avoids individual data processing applications and continuously replaces existing IT administration.

Human Resources Risks

Qualification risk:

The Bank conducts targeted education and further training measures on the basis of the annual staff discussions and the current and future task structure of the staff. Alongside specialist seminars, personality seminars, language seminars and IT

seminars are also on offer. These standard courses are supplemented by events that have been specifically developed for special or new themes and are implemented promptly. We use dual-level interval training encompassing a total of eight days' training for management training.

Our range of training courses for this group is rounded off with coaching and other individual measures. In the next financial year, we will implement the "SeitenWechsel" personal skills training concept. As part of this programme, managers spend one week working as interns in a social institution. Managers expand their level of experience and return to the day job with a better understanding of people. We use highly qualified and acclaimed providers as partners in the implementation of our in-house seminars as well as seminars for individual employees. Due to the new structure and considerable rise in employee numbers, "on-the-job" training in the workplace is a focal point of qualification. Managers accompany these measures closely and in a structured manner. In addition, employees are also given the opportunity to job-shadow in other divisions of the Bank.

These measures guarantee that staff can meet current and future challenges with a high degree of specialist and social competence.

Availability risk:

Quantitative and qualitative supply availability is steered on the basis of the specific aims and requirements of the Bank's divisions. Our company cannot escape the effects of demographic change, the lack of qualified workers, globalisation and corporate social responsibility. Against this backdrop, we intensified our efforts in finding the next generation of talent in the previous financial year.

We filled seven trainee positions as at 1 October 2014. From 2015, four trainees will be recruited per year. In addition, we are also planning to recruit two students in the business management/banking dual studies course in cooperation with the Hochschule für Wirtschaft und Recht (Berlin School of Economics and Law). From 2015, our talent-promotion concept will be rounded off by the addition of student trainees, whom we will look to bring in after the completion of their studies by positioning ourselves as an attractive employer.

We implemented the increase in employee numbers required as part of the restructuring process by primarily recruiting individuals already employed in other Group companies and were therefore able to acquire tried-and-tested expertise and highly capable employees. Group-wide job descriptions ensure that the job application process is transparent and we can attract candidates that are suitable for our company. We will continue to draw on all available resources to cover employee requirements. Aside from the Group-wide job market, we also publish job offers in appropriate, publicly accessible media publications and obtain assistance from recruitment experts in the case of key positions.

Motivation risk:

Motivational working conditions are based on a transparent information policy, attractive pay, flexible working hours, individual part-time employment models to assist in creating a healthy work-life balance, contributions towards lunch costs, as well as company activities such as sport or the choir.

Health management has been part of our company since 2007; it consists of behavioural and situational prevention measures and is set to be expanded further in the coming year. Employees spend an average of 16 years working for the Bank. Employees' professional goals change and develop over the course of their careers. The management monitor this individual development of each employee.

Vacant positions are initially advertised across the Group and suitably qualified applicants are given the chance to attend an interview. If employees perform well and show potential and a desire for change, we facilitate both horizontal and vertical career progress. Last year, 28.7 % of offered positions were taken by existing Group employees, including three management roles.

When it comes to recruitment, we particularly value employee potential and opportunities for development and offer employees the chance to take on new responsibilities even if the requirements for such responsibilities are not met in full. Decisions on recruitment are made in a transparent and traceable manner. They are made on the

basis of standardised procedures, particularly in the case of management recruitment. Promotion and development are particularly important in annual employee meetings. Discussions also centre on the need for the employee to adapt to a constantly changing working environment. However, feedback on conduct and results is not just provided periodically within the scope of the employee meeting, rather also on a situational basis. In support of the aforementioned measures to mitigate qualification risk, availability risk and motivation risk, we have also structured our remuneration systems to counteract negative incentives and conflicts of interest. By agreeing individual annual goals, employees' risk conduct is aligned with the Berlin Hyp strategy. The requirements of the Institutional Remuneration Ordinance (Institutsvergütungsverordnung) have been taken into account in the structure of the remuneration systems.

Legal Risks

Legal risks are in principle counteracted by observation of the legal environment, guidelines and the use of standard contracts. Sufficient reserves were formed for pending litigation (largely collection proceedings against the shareholders of fund companies).

Proceedings for Enforced Collection against Shareholders of Fund Companies:

The Bank conducts an even larger number of collection proceedings in connection with cancelled fund loans. These proceedings need to be conducted because the fund shareholders, in the legal form of a civil law partnership or a private partnership, are personally liable for paying the loan back to the Bank corresponding to their proportional share in the company, but refuse to make payment.

The legal issues surrounding these proceedings for enforced collection have since been ruled in the Bank's favour by the Federal Court of Justice.

Borrower Claims for the Reimbursement of Processing Fees/Legal Consequences Relating to Incorrect Revocation Information:

In 2014, the Federal Court of Justice ruled that the processing fees charged within the scope of general terms and conditions were unlawful under consumer lending law and must be reimbursed.

The vast majority of complaints submitted to the Bank in this respect are unsubstantiated. However, court proceedings are likely.

In addition, the Bank is currently analysing the latest rulings in relation to incorrect information provided about revocation and reviewing the extent to which the handful of cases reported by customers are to be interpreted under the ruling.

Risk Management Pursuant to Article 27 German Pfandbrief Act (PfandBG):

Pursuant to Section 27 German Pfandbrief Act (PfandBG), each Pfandbrief bank must employ a risk management system suitable to the Pfandbrief business. The risk management of the cover funds is in principle integrated into the overall Bank risk management system of Berlin Hyp for counterparty, market price, liquidity, operational and other risks. Moreover, there are limits in accordance with regulatory requirements. The maintenance of these limits is monitored daily within the scope of the risk management of cover funds and reported to the Board of Management in a special report on a quarterly basis.

Overall Statement on Risk Situation:

The risks assumed by Berlin Hyp were in reasonable proportion to the risk-covering assets in the reporting year, even taking into consideration the increased loan spreads and interest volatility.

V Accounting-Related Internal Control System and Risk Management System

The annual accounts of Berlin Hyp are produced in accordance with the provisions of the German Commercial Code, supplemented by provisions of the Stock Corporation and Pfandbrief Act (AktG and PfandBG) and the Accounting Ordinance for Banking Institutions (RechKredV). The accounting standards of the German Accounting Standards Committee 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 division is responsible for accounting. It bears responsibility for the general ledger and accounting. The Banking Operations division is responsible 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 and sufficient human, technical and organisational resources are also available in order to ensure the sustainable and disruption-free handling of tasks. The divisions are assigned to the Board's credit function sphere.

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

The accounting-related internal control system encompasses principles, measures and procedures for the regularity and reliability of accounting processes, compliance with relevant legal provisions and ensuring the effectiveness of the monitoring of accounting processes. The 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 IT-supported and organisational controls. In addition, regular, case-related monitoring measures independent of processes have been implemented.

At Berlin Hyp, accounting processes are standardised and are subject to constant supervision. The processing, entry and documentation of relevant accounting data occurs using IT systems that keep accounting books and other records in electronic form. Berlin Hyp applies the core SAP application as an integrated comprehensive banking solution. This system 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, agreements, target comparisons and time-series developments on an individual transaction basis. Both technical requirements and workflow descriptions are in place for the individual processing steps within the framework of the relevant development process.

Internal and external reporting is also subjected to a multistage quality-assurance process before financial information is released. Accounting processes are an integral component of the Internal Audit division's risk-oriented audit planning system. Audit focuses are changed on a regular basis. Audits take place as process audits and are, as a matter of principle, underpinned by case-by-case audits of samples.

In the 2014 financial year, audit focuses included reviewing processes involved in monthly report preparation and the risk provisioning procedure. Procedures relating to the presentation of accounting units were also audited, as were all of the Bank's intermediate accounts. As in previous years, the Internal Audit division monitored and accompanied the process of reconciling loan ac-

counts within the scope of the dispatch of annual statements in its role as a neutral body. There were no significant findings, similarly to previous years. All audited processes represent established procedures.

The Internal Audit division also continued its monitoring of the UNP (Umsetzung Neue Produkte – implementation of new products) project in the 2014 financial year within the scope of the restructuring of the Bank. The organisation and process of accounting is integrated into the Bank's overall risk management system. This encompasses early risk detection measures as well as relevant documented regulations on the handling of risks, particularly in the form of qualitative and quantitative instruments for the regulation of operational risks.

The results of the self-assessment conducted during the 2013 financial year within the framework of the qualitative inventory of operational risks did not result in any significant risks for the organisation of accounting.

Regarding special measures concerning the regulation 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.

The IT and organisational processes along with the monitoring procedures are also intensively examined on a basis independent of processes and by independent experts within the framework of the annual audit.

VI Remuneration Report

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 24 June 2014.

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) Remuneration Ordinance for Institutions (InstitutsVergV), the supervisory body is responsible for the design of the remuneration systems for the members of the management. The specifics of the remuneration systems for the members of the management body were resolved by the Supervisory Board in the "Richtlinien des Aufsichtsrats der Berlin Hyp AG für die Festsetzung und Auszahlung der variablen Vergütung (Tantieme) der Vorstandsmitglieder" (Guidelines prepared by Berlin Hyp's Supervisory Board for establishing and paying the variable remuneration (bonuses) for members of the Board of Management).

The Supervisory Board transferred the duties of the Remuneration Controlling Committee pursuant to Section 25d (12) German Banking Act (KWG) to its Staff and Strategy Committee so as to implement the provisions of Section 25d German Banking Act (KWG), which came into force from 1 January 2014 onwards. The Committee assists the Supervisory Board in designing 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 for the period after 1 July 2010. 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 Jan Bettink, 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 respective employment contracts, the fixed payments are reviewed for appropriateness by the Supervisory Board every two years. Any increase is to be tied to the Bank's earnings situation and general price rises in the Federal Republic of Germany. Roman Berninger's remuneration was reviewed on 28 May 2014 when his contract was renewed. No other remuneration reviews were conducted in 2014.

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

Pursuant to Section 20 (4) 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 an appropriate time limit. For (listed) institutions organised as an Aktiengesellschaft (stock corporation), the sustainability requirement is also to be complied with using share-based forms of remuneration. The issue of Berlin Hyp shares is not regarded as practical, as Berlin Hyp shares are not listed. Berlin Hyp shares, which cannot be traded on a liquid market, also do not represent a reasonable incentive instrument for Board of Management remuneration. As a result, the Supervisory Board is of the opinion that shares are not suitable for use as a form of remuneration at Berlin Hyp. The creation of share-based instruments (phantom stocks) provides no benefits vis-à-vis the determination of variable remuneration in cash, since such share-based instruments



would also be payable in cash and would have to be guided by the same criteria upon which the determination of variable remuneration is based. Instead of using share-based forms of remuneration, that part of the variable remuneration, which is to be structured pursuant to Section 20 (4) 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 illustrates 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:

1. Determining the Group's overall success

The Group's overall success is determined at the level of Landesbank Berlin Holding. The size of the contribution to value is used as a parameter, although operating results before tax will be reduced by the cost of (risk) capital required to achieve this result.

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

The total volume of variable remuneration is determined if success at both Group and Bank level is positive. A bonus base value, which comprises 20 % of the fixed Board of Management remuneration, is adjusted in line with the success. Besides an evaluation of the sustainable financial success, qualitative factors are also taken into account. The final step is a review and, where necessary, a reduction of the calculated overall bonus pool is conducted pursuant to Sections 7 and 20 Remuneration Ordinance for Institutions (InstitutsVergV), checking for, among other things, conflicts with the risk-bearing capacity and/or the Bank's equity capital requirements, until all criteria have been met.

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 targets), taking into account both quantitative and qualitative remuneration parameters, which are inspired by the strategies and support the attainment of the strategic targets. Negative performance contributions made by a member of the Board of Management will reduce the amount of variable remuneration or lead to complete forfeiture of such variable remuneration. Complete forfeiture of variable remuneration occurs especially if the member of Board of Management meets the requirements of Section 20 (5) Nos. 1 or 2 Remuneration Ordinance for Institutions (InstitutsVergV). The target bonus may not exceed the fixed annual salary (basic salary comprising pensionable and non-pensionable components) of the member of the Board of Management.

The total remuneration (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 and the regular amount of the variable remuneration, 40 % of the target bonus determined by the Supervisory Board will be paid immediately ("instant bonus"). The remaining 60 % of the target bonus will be spread over a period of four years and may only be awarded by the Supervisory Board in four instalments over the four financial years following the awarding of the bonus.

The Supervisory Board will resolve the conditional bonuses 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.

A maximum of 15 % of the target bonus may be paid out as a conditional bonus. Each portion of the conditional bonus to be agreed on will be determined once the sustainability of the per-

formance contributions for the financial year for which the target bonus had been intended at the time (base year) have been reviewed. Any negative performance contributions at Group or Bank level or non-sustainable individual performance contributions result in the bonus being reduced or forfeited.

50 % of both the instant and conditional bonuses will be paid out immediately following their being determined. The remaining 50 % are dependent on the development of the entity's value over the long term and are subject to a one-year holding 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 2014 financial year. Individual 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: A company car and chauffeur were provided to Jan Bettink for unlimited use in the financial year. Company cars for business and private use were available to Board of Management members Roman Berninger and Gero Bergmann in the 2014 financial year. Roman Berninger is entitled to a chauffeur for business use. The Bank pays the tax which is due on the private use of company cars by Roman Berninger. Jan Bettink and Gero Bergmann must pay the tax which is due on the private use of company cars themselves.

Total remuneration: In the 2014 financial year, the members of the Board of Management received remuneration totalling T€ 1,896 (2013: T€ 1,966). This amount contains the performance-related elements of the remuneration for the 2010 and 2012 financial years, totalling T€ 214, disbursed in the 2014 financial year. In accordance with the criteria defined above, no variable remuneration was paid for the 2013 financial year for the activities of the

members of the Board of Management who held their positions in 2013.

The sum of variable remuneration for the 2014 financial year as well as the payable retention sums from the 2012 financial year could not yet be determined at the time of the preparation of the annual accounts.

Pension and benefits:

In the 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: Jan Bettink – up to twelve months; Gero Bergmann – up to six months; and Roman Berninger – up to two years; but at the most until the end of the relevant employment relationship.

The Board of Management members have a claim to retirement pension after the end of the contractual relationship upon reaching the age of 65, and before this date in the event of incapacity for work. In the case of Jan Bettink, this claim for pension also applies after leaving the Bank's service, and 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, if this is not occasioned by important cause connected with the identity of the Board of Management member (Section 626 German Civil Code (BGB)). During the first six months after leaving the Bank's service, Roman Berninger has a claim to his full service payments (severance pay); from the seventh month onwards, retirement pensions will be paid.

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.

The retirement pension payable to the Board of Management members is determined by a certain percentage of their fixed annual salary, and increases by 2 % for each year of service as a Board of Management member, whereas a maximum limit of 75 % is contractually agreed for Jan Bettink and 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 2014 is 65.5 % of the pensionable salary for Jan Bettink, 28.0 % for Gero Bergmann and 52.0 % for Roman Berninger. According to their contracts of employment, the 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.

The book value of the pension reserves (German Commercial Code (HGB)) formed for the Board of Management was T€ 2,499 on the balance sheet date (2013: T€ 3,269). In 2014, T€ 679 (2013: T€ 1,097) was contributed to reserves in anticipation

of pension commitments and similar obligations to members of the Board of Management. The cash value amounts to T€ 2,604 (2013: T€ 3,673).

In addition, a total of T€ 2,543 (2013: T€ 2,592) was paid in the 2014 financial year in overall benefits (retirement pensions, surviving dependents' benefits and payments of a related nature) to former Board of Management members or their surviving dependents. The cash value of the obligations to pay such benefits for this group of persons is T€ 33,258 (2013: T€ 29,987) on the balance sheet date.

The following overviews of the remuneration of members of the Board of Management in the 2014 financial year comply with the disclosure requirements of the German Corporate Governance Code:

Benefits granted* in T€	Jan Bettink Chair of the Board of Management 01.01.2014				Roman Berninger Responsible for Credit 01.01.2010				Gero Bergmann Responsible for Markets 01.01.2011			
	2013	2014	(Min)	(Max)	2013	2014	(Min)	(Max)	2013	2014	(Min)	(Max)
	Fixed annual remuneration	0	750	750	750	421	422	422	422	418	422	422
Ancillary benefits	0	27	27	27	39	38	38	38	20	24	24	24
Total	0	777	777	777	460	460	460	460	438	446	446	446
One-year variable remuneration	0	0	0	0	0	0	0	0	0	0	0	0
Multi-year variable remuneration	0	138	0	138	146	116	0	116	109	54	0	54
<i>Conditional bonus for the 2009 FY (3 year term of the plan)</i>	0	0	0	0	25	0	0	0	13	0	0	0
<i>Instant bonus for the 2010 FY (3 year term of the plan)</i>	0	69	0	69	0	37	0	37	0	0	0	0
<i>Conditional bonus for the 2010 FY (6 year term of the plan)</i>	0	69	0	69	37	37	0	37	12	12	0	12
<i>Instant bonus for the 2012 FY (3 year term of the plan)</i>	0	0	0	0	84	0	0	0	84	0	0	0
<i>Conditional bonus for the 2012 FY (6 year term of the plan)</i>	0	0	0	0	0	42	0	42	0	42	0	42
Total	0	915	777	915	606	576	460	576	547	500	446	500
Benefit expense**	0	241	241	241	235	274	274	274	80	120	120	120
Total remuneration	0	1,156	1,018	1,156	841	850	734	850	627	620	566	620

* These tables indicate the value of the benefits granted for the reporting year, including the maximum and minimum achievable amounts in the reporting year dependent on whether the agreed targets have been met.

** 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 is determined using the projected unit credit method and corresponds to the actuarial cash value of those performance elements earned by active employees during the current invoicing period.

Allocation* in T€	Jan Bettink Chair of the Board of Management 01.01.2014		Roman Berninger Responsible for Credit 01.01.2010		Gero Bergmann Responsible for Markets 01.01.2011	
	2013	2014	2013	2014	2013	2014
Fixed annual remuneration	0	750	421	422	418	422
Ancillary benefits	0	27	39	38	20	24
Total	0	777	460	460	438	446
One-year variable remuneration	0	0	0	0	0	0
Multi-year variable remuneration	0	104	86	77	67	33
<i>Conditional bonus for the 2009 FY (3 year term of the plan)</i>	0	0	25	0	13	0
<i>Instant bonus for the 2010 FY (3 year term of the plan)</i>	0	69	0	37	0	0
<i>Conditional bonus for the 2010 FY (6 year term of the plan)</i>	0	35	19	19	12	12
<i>Instant bonus for the 2012 FY (3 year term of the plan)</i>	0	0	42	0	42	0
<i>Conditional bonus for the 2012 FY (6 year term of the plan)</i>	0	0	0	21	0	21
Total	0	881	546	537	505	479
Benefit expense**	0	241	235	274	80	120
Total remuneration	0	1,122	781	811	585	599

* These tables indicate the value of the allocations for the reporting year.

** 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 is determined using the projected unit credit method and corresponds to the actuarial cash value of those performance elements earned by active employees during the current invoicing 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 will be paid from the 2014 financial year following an amendment to the Articles of Association in 2014. Additional remuneration is paid for membership in the committees, for chairship and deputy chairship of the Supervisory Board and its committees. Remuneration of the Supervisory Board members is regulated as follows pursuant to Section 14 Articles of Association:

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 Supervi-

sory 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, usually after the company's Annual General Meeting.

Total remuneration of T€ 232 (2013: T€ 102), without value added tax, is payable to the members of the Supervisory Board of Berlin Hyp and its committees for 2014. Dr. Evers waived his remuneration claims.

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 members of the Supervisory Board.



Disclaimer

For the benefit of greater transparency and clarity, the Bank has broken with consistency in the course of the establishment of an autonomous Berlin Hyp AG, Berlin and switched to German Accounting Standard No. 20 (DRS 20)).

Annual Accounts

Berlin Hyp AG

Annual Balance Sheet of Berlin Hyp AG to 31 December 2014

Assets	€	31.12.2014 €	31.12.2013 T€
1. Cash reserves			
a) Cash in hand	27,198.41		29
b) Credit balance at central banks	9,262,542.26		38,347
of which: at Deutsche Bundesbank € 9,262,542.26 (2013: T€ 38,347)		9,289,740.67	38,376
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	493,639,881.91		540,279
c) Other receivables	397,631,955.28		1,720,983
of which: due on demand € 48,263,172.60 (2013: T€ 3,087) with securities as collateral € 0.00 (2013: T€ 41,021)		891,271,837.19	2,261,262
4. Claims against customers			
a) Mortgage loans	17,721,209,837.99		17,584,114
b) Public sector loans	2,907,810,300.90		3,203,670
c) Other receivables	16,389,988.92		17,888
of which: with securities as collateral € 0.00 (2013: T€ 0)		20,645,410,127.81	20,805,672
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 (2013: T€ 0)			
ab) From other issuers	0.00		0
of which: eligible as security at Deutsche Bundesbank € 0.00 (2013: T€ 0)			
	0.00		0
b) Bonds and debentures			
ba) Issued by public institutions	2,976,830,594.01		3,083,993
of which: eligible as security at Deutsche Bundesbank € 2,937,858,241.45 (2013: T€ 3,083,993)			
bb) From other issuers	5,348,014,118.98		6,553,329
of which: eligible as security at Deutsche Bundesbank € 5,327,177,194.41 (2013: T€ 6,532,061)			
		8,324,844,712.99	9,637,322
c) Own debentures	0.00		0
Nominal amount € 0.00 (2013: T€ 0)		8,324,844,712.99	9,637,322
6. Shares and other non-fixed-interest securities		0.00	0
6a. Trading portfolio		0.00	0
7. Interests		0.00	0
of which: in banking institutions € 0.00 (2013: T€ 0) in financial services institutions € 0.00 (2013: T€ 0)			
Carryover		29,870,816,418.66	32,742,632

Liabilities	€	31.12.2014 €	31.12.2013 T€
1. Liabilities to banking institutions			
a) Registered mortgage Pfandbriefe issued	330,010,342.03		310,406
b) Registered public Pfandbriefe issued	274,060,242.57		250,117
c) Other liabilities	7,682,391,978.14		10,905,952
of which: due on demand € 12,632,768.52 (2013: T€ 24,690) Registered Pfandbriefe delivered to the lender as collateral for loans taken up € 0.00 (2013: T€ 0) and public registered Pfandbriefe delivered € 0.00 (2013: T€ 0)		8,286,462,562.74	11,466,475
2. Liabilities to customers			
a) Registered mortgage Pfandbriefe issued	2,666,623,329.25		3,086,457
b) Registered public Pfandbriefe issued	1,382,795,791.13		1,425,629
c) Other liabilities	2,996,199,579.38		3,078,576
of which: due on demand € 61,479,353.79 (2013: T€ 55,636) Registered Pfandbriefe delivered to the lender as collateral for loans taken up € 0.00 (2013: T€ 0) and public registered Pfandbriefe delivered € 0.00 (2013: T€ 0)		7,045,618,699.76	7,590,662
3. Securitised liabilities			
a) Debentures issued			
aa) Mortgage Pfandbriefe	7,230,920,047.70		7,211,047
ab) Public Pfandbriefe	1,649,849,633.58		3,028,908
ac) Other debentures	3,762,895,075.54		2,236,046
	12,643,664,756.82		12,476,001
b) Other securitised liabilities	0.00		0
of which: money market securities € 0.00 (2013: T€ 0)		12,643,664,756.82	12,476,001
3a. Trading portfolio		0.00	0
4. Trust liabilities		5,572.04	9
of which: trustee loans € 5,572.04 (2013: T€ 9)			
5. Other liabilities		749,037,816.77	459,276
6. Prepaid income			
a) From issue and loan business	79,611,705.13		47,215
b) Other	0.00		0
		79,611,705.13	47,215
6a. Deferred tax liabilities		0,00	0
7. Provisioning reserves			
a) Provision for pensions and similar obligations	92,043,675.00		72,280
b) Tax provision	10,825,550.28		12,946
c) Other provision	35,392,714.28		27,254
		138,261,939.56	112,480
8. Subordinated liabilities		466,170,000.00	350,670
Carryover		29,408,833,052.82	32,502,788

Annual Balance Sheet of Berlin Hyp AG to 31 December 2014

Assets	€	31.12.2014 €	31.12.2013 T€
<i>Carryover</i>		29,870,816,418.66	32,742,632
8. Shares in affiliated enterprises		25,646.61	26
of which: in banking institutions € 0,00 (2013: T€ 0)			
in financial services institutions € 0,00 (2013: T€ 0)			
9. Trust assets		5,572.04	9
of which: trustee loans € 5,572.04 (2013: T€ 9)			
10. Equalisation claims against public-sector institutions including debentures arising from their exchange		0.00	0
11. Intangible investment assets			
a) Internally produced commercial property rights and similar rights and values	0.00		0
b) Purchased concessions, commercial rights and similar rights and values as well as licences for such rights and values	4,870,581.00		6,636
c) Goodwill	0.00		0
d) Payments in advance	172,801.43		850
		5,043,382.43	7,486
12. Tangible assets		58,868,990.15	59,136
13. Unpaid contributions to the subscribed capital		0.00	0
14. Other assets		415,568,122.45	518,227
15. Prepaid income			
a) From issue and loan business	76,772,246.38		38,627
b) Other	635,831.23		548
		77,408,077.61	39,175
16. Deferred taxes		0.00	0
17. Surplus arising from offsetting		0.00	0
18. Deficit not covered by equity		0.00	0
Total assets		30,427,736,209.95	33,366,691

Liabilities	€	31.12.2014 €	31.12.2013 T€
<i>Carryover</i>		29,408,833,052.82	32,502,788
9. Profit-sharing rights capital		0.00	0
of which: due within two years € 0,00 (2013: T€ 0)			
10. Fund for general Bank risks		83,000,000.00	33,000
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		53,316
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	0.00		0
	22,022,655.29		22,023
d) Balance sheet profit	2,174,992.78		2,175
		935,903,157.13	830,903
Total liabilities		30,427,736,209.95	33,366,691
1. Contingent liabilities			
a) Liabilities from guarantees and warranty contracts		99,119,395.07	79,079
2. Other obligations			
a) Irrevocable loan commitments		937,482,473.10	908,020

Profit and Loss Account

of Berlin Hyp AG for the period from 1 January to 31 December 2014

Expenditure	€	2014 €	2013 T€
1. Interest expenditure		488,518,729.66	467,435
2. Commission expenditure		3,443,083.52	4,430
3. Net expenditure of the trading portfolio		0.00	0
4. General operating expenditure			
a) Staff expenditure			
aa) Wages and salaries	44,970,071.62		27,925
ab) Social security contributions and expenditure or retirement pensions and support of which: for retirement pensions € 12,028,010.62 (2013: T€ 5,728)	18,020,891.13		10,360
		62,990,962.75	38,285
b) Other operating expenditure	43,918,126.31		41,172
		106,909,089.06	79,457
5. Depreciations and valuation adjustments on intangible investment assets and tangible assets		4,625,193.94	4,176
6. Other operating expenditure		11,084,797.90	7,883
7. Depreciations and valuation adjustments on claims and specific securities and additions to provision made for lending		8,513,097.82	20,347
8. Depreciations and valuation adjustments on interests, shares in affiliated enterprises and securities held as investment assets		0.00	0
9. Expenditure for loss assumptions		0.00	0
10. Expenditure for bank levy		6,502,632.53	6,705
11. Allocation to the fund for general banking risks		50,000,000.00	0
12. Extraordinary expenditure		2,119,541.00	2,120
13. Taxes on income and earnings		-2,269,325.75	1
14. Other taxes not shown under Item 6		179,838.85	178
15. Profits transferred on the basis of a profit pool, a profit transfer or partial profit transfer agreement		68,095,285.79	120,057
16. Net income for the year		0.00	0
Total expenditure		747,721,964.32	712,789
1. Net income for the year		0.00	0
2. Profit/loss carryforward from the previous year		2,174,992.78	2,175
3. Balance sheet profit		2,174,992.78	2,175

Income	€	2014 €	2013 T€
1. Interest income from			
a) Lending and money market business	607,889,863.86		535,283
b) Fixed-income securities and book-entry securities	99,567,715.63		134,393
		707,457,579.49	669,676
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		396,462.03	64
4. Commission income		32,172,543.64	24,497
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		0.00	0
7. Income from attributions to interests, shares in affiliated enterprises and securities treated as investment assets		2,711,610.44	2,056
8. Other operating income		4,983,768.72	8,496
9. Income from the dissolution of the fund for general bank risks		0.00	8,000
10. Net loss for the year		0.00	0
Total income		747,721,964.32	712,789

Statement of Changes in Equity and Cash Flow Statement

Statement of Changes in Equity

T€	Subscribed capital	Capital reserves	Revenue reserves	Balance sheet profit	Total equity
As at 31.12.2013	753,389	53,316	22,023	2,175	830,903
Capital increases	0	0	0	0	0
Dividend payments	0	0	0	0	0
Other changes pursuant to Section 272 (2) No. 4 German Commercial Code (HGB)	0	105,000	0	0	105,000
As at 31.12.2014	753,389	158,316	22,023	2,175	935,903

Cash Flow Statement

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. 2 (DRS 2), complemented by the bank-specific German Accounting Standard No. 2-10 (DRS 2-10).

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 fixed assets.

In assessing net cash from financing activity, changes in subordinated liabilities are taken into 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 and loss transfer agreement with Landesbank Berlin AG of € 68.1 million are reported separately. The transfer of profits for the 2013 financial year is reported in cash flow from financing activities.

Non-cash expenses from write-offs on fixed assets and intangible assets are also reported separately.

The extraordinary expenditure of € 2.1 million arising in the financial year results from the first-time effects of the German Accounting Law Modernisation Act (BilMoG), which increases the reserves.

Cash Flow Statement in T€ (+ = Cash inflow, - = Cash outflow)

	2014	2013
Net income for the year	0	0
Non-cash positions in profit and transition to net cash flow from operating activities		
Write-downs, appreciations, value adjustments	7,259	2,348
Changes to the fund for general bank risks	50,000	-8,000
Write-downs on tangible assets	1,970	2,519
Amortisation of intangible assets	2,655	1,657
Changes in reserves	25,782	1,914
Profit from the sale of fixed assets	-3,359	-115
Profit and loss transfer agreement	68,095	120,057
Other adjustments (on balance)	-212,404	-197,534
Subtotal	-60,003	-77,154
Changes in assets and liabilities from operating activities after correction for non-cash components		
Claims against banking institutions	1,338,566	528,470
Claims against customers	123,501	619,053
Securities held in the liquidity reserve	864,476	-590,093
Other assets from operating activities	64,367	-507,282
Liabilities to banking institutions	-3,086,148	-34,294
Liabilities to customers	-551,050	-224,228
Securitised liabilities	193,727	-764,750
Other liabilities from operating activities	370,161	293,618
Interest and dividends received	800,889	778,728
Interest paid	-598,482	-558,076
Extraordinary disbursements	0	0
Income tax payments	149	986
Cash flow from operating activities	-539,849	-535,022
Cash proceeds from the sale or maturity of		
Financial assets	412,298	653,571
Fixed assets	1	38
Payments for the acquisition of		
Financial assets	0	0
Fixed assets	-1,704	-364
Net cash from other investment activities	-276	-3,444
Cash flow from investment activities	410,319	649,801
Cash proceeds from capital increases	105,000	0
Dividend payments	0	0
Net cash from other financing activities	115,500	-6,000
Net cash from previous year's profit and loss transfer	-120,057	-125,814
Cash flow from financing activities	100,443	-131,814
Cash and cash equivalents at the end of the previous period	38,377	55,412
Cash flow from operating activities	-539,849	-535,022
Cash flow from investment activities	410,319	649,801
Cash flow from financing activities	100,443	-131,814
Cash and cash equivalents at the end of the period	9,290	38,377

Notes

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), supplementary stock corporation law provisions (AktG) and in consideration of the German Pfandbrief Act (PfandBG) and the Regulation on the Accounts of Banking Institutions (RechKredV).

The balance sheet and profit and loss account are structured in accordance with the provisions of the Regulation on the Accounts of Banking Institutions (RechKredV), and supplemented by the items stipulated for Pfandbrief banks.

Berlin Hyp holds shares in a subsidiary that has no material influence on the representation of the financial, assets and earnings situation of Berlin Hyp. Berlin Hyp AG has no legal obligation to produce consolidated annual accounts according to the International Financial Reporting Standards (IFRS) pursuant to Section 290 in conjunction with Section 315a German Commercial Code (HGB).

Reporting and Valuation Principles

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

The same reporting and valuation principles were applied in the annual accounts as at 31 December 2014 as were applied in the annual accounts for the previous year. Any amendments arising are explained below.

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 is reported as prepaid expenses and deferred income, respectively, to the extent that it is classified as interest and released over their term.

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

Recognisable risks in the loan business were taken into proper consideration through the formation of specific valuation allowances and reserves.

Lump-sum value adjustments are in place for latent risks in the accounts receivable – in addition to the general fund for banking risks in accordance with Section 340g German Commercial Code (HGB) reported in the balance sheet. 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 340 f (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 sum 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 are 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 are to be 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 are evaluated at amortised cost and, providing there are no grounds for sustained appreciation, they are written up or down 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.

Shares in Affiliated Enterprises

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 permanent decrease in value no longer exist, write-ups are undertaken to an amount which may not exceed the amortised cost.

Fixed Assets and Intangible Assets

Fixed and intangible assets with limited useful lives are reported at cost, less impairment losses to the lower fair value. Depreciation is spread over the useful economic life of the assets. Low-value fixed assets (Section 6 (2) German Income Tax Code (EStG)) are written off either completely in the acquisition year or else consolidated during a period of five years. The write-off period for the software and licences listed under »Intangible investment assets« ranges between three and five years.

Reserves

For contingent liabilities, reserves were formed for the sum of the expected claims, taking into account expected price and cost increases. The materiality of the discounting of reserves with remaining terms of more than one year is reviewed regularly.

Pension reserves are assessed based on actuarial principles employing a discount rate of 4.53 % of the cash value of the obligations already accrued. The actuarial interest refers to the interest rate determined by Deutsche Bundesbank as at 31 December 2014, which results from an assumed residual term of 15 years (Section 253 (2) Sentence 2 German Commercial Code (HGB)). The pension obligations are based on the projected unit credit method using the 2005 G Heubeck Guideline Tables as the biometric basis for calculation. A salary and career trend of 2.6 % per annum is calculated in 2015 and 2.5 % per annum starting in 2016. The projected pension trend has accordingly been set at between 1.00 % and 2.10 % per annum, depending on the pension scheme involved.

Active members of the Board of Management have a calculated salary and career trend of 5.0 % in 2015, 0.0 % in 2016, and 2.50 % starting in 2017. The age-dependent fluctuation has been considered at a rate from 1.50 % (over 40 years) to 4.80 % (up to 30 years). As at 1 January 2010 the revaluation of pension reserves in accordance

with the German Accounting Law Adjustment Act (BilMoG) resulted in an adjustment amount in the sum of T€ 31,793, which was reduced to T€ 21,195 as at the balance sheet date. In accordance with Section 67 (1) Introductory Law to the German Commercial Code (EGHGB), the Bank distributes the resulting expenditure over a period of up to 15 years as extraordinary expenditure. The reserve for early retirement obligations is set at cash value discounted by a maturity-linked discounting factor of the cash value of future earnings. The 2005 G Heubeck Guideline Tables are used as a biometric accounting basis.

Derivatives

The reporting and entering of derivative financial instruments occurs in off-balance-sheet accounts. There are no trading positions. Accrued interest from interest 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 steer 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 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. The compensation payments due from forward rate agreements following the termination of the waiting period are entered immediately.

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 € 4.6 billion as at 31 December 2014 (2013: € 5.1 billion). The accounting units include interest rate swaps employed as hedging instruments as credit swap fixed-interest payments. On account of the resulting complete compliance of the features of the underlying transactions and hedging instruments, there can be no relevant ineffectiveness relating to the accounting unit. The net hedge presentation method is applied. 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 provision 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.

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

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 as at 4.30pm provided on a daily basis by the Risk Controlling

division of Berliner Sparkasse, Berlin. The Bank applies the principle of special cover in accordance with Section 340h German Commercial Code (HGB). Income and expenditure from the evaluation of foreign currencies are reported net under »Other operating results«.

Compliance Declaration

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

Explanations of the Balance Sheet and Profit and Loss Account Balance Sheet

Classification by Remaining Maturity	31.12.2014 T€	31.12.2013 T€
ASSETS		
Claims against banking institutions		
a) Due on demand	48,263	3,086
b) Less than three months	338,907	1,725,581
c) Between three months and one year	22,677	3,401
d) Between one year and five years	481,425	526,525
e) More than five years	0	2,669
Total	891,272	2,261,262
Claims against customers		
a) Less than three months	414,915	448,846
b) Between three months and one year	852,523	835,426
c) Between one year and five years	6,073,714	5,838,523
d) More than five years	13,304,258	13,682,877
Total	20,645,410	20,805,672
of which: claims with an indefinite term	1,223	1,862
Bonds and debentures		
- due in the following year	1,860,249	1,749,002
LIABILITIES		
Liabilities to banking institutions		
a) Due on demand	12,633	24,689
b) Less than three months	5,518,312	8,645,408
c) Between three months and one year	415,334	1,073,108
d) Between one year and five years	1,648,842	963,665
e) More than five years	691,342	759,605
Total	8,286,463	11,466,475
Liabilities to customers		
a) Due on demand	61,479	55,636
b) Less than three months	574,247	452,041
c) Between three months and one year	383,500	619,030
d) Between one year and five years	2,398,030	2,543,917
e) More than five years	3,628,363	3,920,037
Total	7,045,619	7,590,661
Securitised liabilities		
a) Less than three months	974,855	1,211,991
b) Between three months and one year	906,000	2,408,200
c) Between one year and five years	8,813,810	7,408,210
d) More than five years	1,949,000	1,447,600
Total	12,643,665	12,476,001
- due in the following year	1,880,855	3,620,191*

* Adjustment in 2013: Inclusion of accrued and due interest

**Claims from and Liabilities to
Affiliated Enterprises and Related Companies**

	31.12.2014 T€	31.12.2013 T€
Affiliated enterprises		
Claims against banking institutions	65,579	1,356,495*
Claims against customers	0	1,002
Other assets	1,036	956
Liabilities to banking institutions	1,327,171	2,834,891*
Liabilities to customers	889	482
Securitised liabilities	0	15,103
Other liabilities	68,521	120,432
Subordinated liabilities	100,000	100,000

* Adjustment in 2013: Inclusion of due interest derivatives

Trusts

	31.12.2014 T€	31.12.2013 T€
Trust assets		
a) Claims against customers	6	9
Trust liabilities		
a) Liabilities to banking institutions	6	9

Negotiable Securities and Interests

	Listed	Listed	Unlisted	Unlisted
	31.12.2014 T€	31.12.2013 T€	31.12.2014 T€	31.12.2013 T€
Debentures and other fixed-interest securities	8,324,845	9,637,322	0	0

There were no other negotiable securities and interests either as at 31 December 2014 or the previous year's closing date.

Securities with a nominal volume of € 2,796.5 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 € 449.5 million, amounts to € 455.0 million.

This takes into account the valuation results from interest swaps. The Bank took into account latent default risks of certain investment securities in the form of lump-sum value adjustments. Based on the mitigated lower-of-cost-or-market value principle, no value corrections have been undertaken for any other investment securities since these are temporary rate fluctuations likely to equalise again before the securities mature.

Security for the Bank's Own Liabilities

Within the European System of Central Banks (ESCB), securities with a nominal value of € 3,210.6 million (2013: € 953.5 million) were pledged as security to Deutsche Bundesbank. The volume of the associated open market operations amounted to € 2,720 million (2013: € 415 million) as at the balance sheet date. At the same time, the Bank has provided fixed interest debenture bonds totaling € 2,486.0 million (2013: € 6,689.0 million) in repurchase agreements.

Intangible Investment Assets

This item only shows the software and licences used by the Bank.

Development of Fixed Assets

Changes in Fixed Assets in T€	Acquisition/ manufacturing costs 01.01.2014	Additions 2014	Disposals 2014	Account transfers 2014	Acquisition/ manufacturing costs 31.12.2014	Additions in the current year	Depreciations 2014	Depreciations cumulative	Residual book value 31.12.2014	Residual book value 31.12.2013
Intangible investment assets	50,912	890	152	-614	51,036	0	2,655	45,993	5,043	7,486
Tangible assets										
a) Own real estate used	62,671	0	0	0	62,671	0	1,025	8,014	54,657	55,683
b) Operating and business equipment	19,546	1,090	2,959	614	18,291	0	945	14,079	4,212	3,453
Total tangible assets	82,217	1,090	2,959	614	80,962	0	1,970	22,093	58,869	59,136
Total intangible investment assets and tangible assets	133,129	1,980	3,111	0	131,998	0	4,625	68,086	63,912	66,622
	Book value				Changes*				Residual book value	
									31.12.2014	31.12.2013
Bonds and debentures	3,246,282				-452,836				2,793,446	3,246,282
Shares in affiliated enterprises	26				0				26	26

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

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

Company	Total share of capital	Voting rights	Equity	Result	Annual accounts diverging at 31.12.2014
	%	%	T€	T€	
Affiliated enterprises					
Berlin Hyp Immobilien GmbH, Berlin	100	100	26	0 ¹	-

¹ Profit transfer agreement (until 31 December 2014)

Prepaid Expenses and Prepaid Income

	31.12.2014	31.12.2013
	T€	T€
Prepaid expenses for issuing and lending operations include:		
Discount from issuing and lending operations	29,219	24,282
Premium from lending operations	43,412	8,642
Other	4,141	5,702
Prepaid income from issuing and lending operations includes:		
Premium from issuing and lending operations	3,218	4,126
Discount from lending operations	8,453	8,230
Other	67,941	34,859

Other Assets

These figures largely contain claims from collateral in relation to derivatives amounting to € 414 million (2013: € 514.5 million) as well as claims against tax authorities and affiliated enterprises.

Other Liabilities

These include, amongst other things, liabilities from collateral received in relation to derivatives amounting to € 598.4 million (2013: € 271.8 million), profits of € 68.1 million (2013: € 120.1 million) transferable to Landesbank Berlin AG, Berlin, unrealised losses from forward exchange deals with extra cover and pro rata temporis expenditure from subordinated liabilities.

Subordinated Liabilities

In the 2014 financial year, interest paid amounted to € 13.4 million. Accrued interest of € 11.3 million is reported under the balance sheet item "Other liabilities".

The 10 % of the loans and debt securities surpassing the total share was assumed under the conditions as shown on the right.

Interest is paid on subordinate liabilities at the nominal rate of between 0.581 % and 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 2015 to 2029. Based on a share of € 466.2 million, € 384.0 million fulfil the requirements of the CRR for recognition as applicable equity capital.

Other Reserves

	31.12.2014	31.12.2013
	T€	T€
Other reserves include:		
Reserves for human resources	15,442	9,670
Reserves for litigation costs risks	5,993	7,285
Reserves for restructuring measures	177	502
Other	13,781	9,797
Total	35,393	27,254

Nominal Amount in T€

	Interest rate	Repayment
	p.a. %	on
60,000	0.5810	21.07.2020

Equity Capital

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

The Board of Management is authorised to increase the company's authorised 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 2010), by 3 June 2015.

In addition, cash payments of € 105.0 million were transferred into the capital reserve in December 2014 to offset the negative capital effects of the portfolio transfer activities between Berlin Hyp AG and Berliner Sparkasse.

Exchange rate fluctuations are largely neutralised by currency swaps.

As in previous financial years, all obligations arising from rental, leasing, outsourcing and similar agreements remain within the normal business framework.

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 Group Bankgesellschaft Berlin AG (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 provides for a partial reimbursement of costs that is largely oriented towards the participation relationship of the liability-causing companies that were sold to the State of Berlin in 2006. Starting in the 2002 financial year and continuing at first through 2011, 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. New negotiations are then to take place. This fixed amount continues to be levied as no agreement has been reached on the amount of the guaranteed commission owed as from calendar year 2012 onwards. The internal distribution of these costs occurs through the agreement of August 2002, amended in August 2004, and provides for a partial reimbursement of costs through Berlin Hyp AG in accordance with the ratio of the volumes of the credits of Berlin Hyp AG that are shielded by loan guarantees to the total shielded credits.

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

Irrevocable loan commitments within the framework of the real estate and capital market business amounted to € 937.5 million (2013: € 908.0 million) as at the end of the year. Contingent liabilities consist of the assumption of guarantees for largely mortgage-backed loans of € 99.1 million (2013: € 79.1 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). Based on the current accounting basis, there is a payment commitment of € 2.5 million as well as an additional contribution of no more than € 16.9 million should a support case arise.

Foreign Currency Volumes

	31.12.2014 T€	31.12.2013 T€
Assets	1,208,575	1,391,275
Liabilities	539,507	664,681

Profit and Loss Account

Net Interest Income	2014 T€	2013 T€
Interest income from		
Mortgage loans	578,292	497,471
Public-sector loans	25,281	32,526
Other receivables	4,317	5,286
Fixed-interest securities and book-entry securities	99,568	134,393
	707,458	669,676
Earnings from profit and loss transfer agreements	396	64
Interest expenditure for		
Deposits and registered Pfandbriefe	327,081	267,474
Securitised liabilities	148,012	188,942
Subordinated liabilities and profit-sharing rights	13,426	11,018
	488,519	467,434
Net interest income	219,335	202,306

Interest and commission income as well as other operational income was largely earned domestically.

Other Operating Expenditure	2014 T€	2013 T€
Staff-related material costs	2,124	1,465
Building and premises costs	4,627	3,479
Operating and business equipment	747	746
Business operating costs	2,372	2,527
IT expenditure	13,200	14,274
Advertising and marketing	1,498	816
Services by third parties	17,084	16,070
Group set-off	2,266	1,795
	43,918	41,172

Information on the total amount of fees invoiced by the auditor for the financial year is contained in the consolidated annual accounts of Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG, Neuhardenberg, in which Berlin Hyp is included.

Risk Provisioning

The balance shown results from the settlement of expenditure and income items shown in the profit and loss account items »Depreciation and valuati-

on adjustments on claims and specific securities and additions to provision made for lending« and »Income from attributions to claims and specific securities and the dissolution of reserves for lending«. The balance of risk provisioning* expenditure is comprised as follows:

	2014 T€	2013 T€
Risk provisioning for lending business	1,392	-4,524
Securities trading result	7,121	24,871
	8,513	20,347

* Negative income

Risk provisioning for the lending business developed as follows:

in T€	Counterparty risk exposure						Profit and loss relevant	
	Direct depreciation	Specific valuation allowances	Lump-sum value adjustments	Reserves	Total	Total	2014	2013
	2014	2014	2014	2014	2014	2013	2014	2013
As at 1 January		228,399	41,933	1,672	272,004	284,860		
Net allocations and write-backs		13,351	-17,891	574	-3,966	1,376	-3,966	1,376
Utilisation		-18,967			-18,967	-13,757		
Direct depreciation	116						116	100
Receipts on written-off receivables	-5,831						-5,831	-6,000
Transfers		1,113			1,113	-475		
As at 31 December	-5,715	223,896	24,042	2,246	250,184	272,004	-9,681	-4,524

* Negative income

Extraordinary Expenditure

Extraordinary expenditure contains effects from the implementation of the modernisation of the German Commercial Code (HGB) through the German Accounting Law Modernisation Act (BilMoG). The repayment of the adjustment sum amounts to € 2.1 million for the altered valuation of pension obligations.

Bank Levy

The bank levy imposed by the Restructuring Fund Act (RStrukFG) and the Restructuring Fund Regulation (RStruktFV), which came into force on 26 July 2011 and has already been paid by the Bank, amounted to € 6.5 million (2013: € 6.7 million) in the 2014 financial year.

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 and the management of trust assets.

The annual surplus includes a balance of periodic income and expenses of € 7.4 million (2013: € 9.2 million). It mainly results from incoming payments from claims written off in previous years amounting to € 5.8 million (2013: € 6.0 million) as well as income from the liquidation of reserves of € 1.8 million (2013: € 3.7 million) in the item »Other operating income«. Expenses from the compounding of pension reserves of € 4.6 million (2013: € 4.4 million) and expenses from foreign currency valuation of € 0.6 million (2013: € 0.1 million) continue to be recorded under the item »Other operating expenditure«.

Derivatives as at 31.12.2014 in € m

	Nominal amount/Remaining term			Total nominal value	Total negative values	Total negative values
	Up to 1 year	Between 1 and 5 years	More than 5 years			
Interest-related transactions						
Interest rate swaps	3,062	19,967	10,836	33,865	-1,451	1,602
Swaptions	437	389	0	826	-21	0
	3,499	20,356	10,836	34,691	-1,472	1,602
Currency-related transactions						
Interest and currency swaps	207	418	0	625	-62	0
	207	418	0	625	-62	0
Total	3,706	20,774	10,836	35,316	-1,534	1,602

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 2014 without taking into account interest accruals. The market values of the derivatives are counteracted by the valuation advantages of the non-market price assessed balance sheet operations. All derivatives – with the exception of transactions with Landesbank Berlin – are hedged using collateral agreements.

Number of Staff

Annual average	Male	Female	2014	2013
			Total	Total
Full-time staff	234	170	404	311
Part-time staff	8	100	108	81
	242	270	512	392
Trainees	0	0	0	0
	242	270	512	392

Group Affiliation

With economic effect as at midnight 31 December 2014/1 January 2015, 0:00 o'clock, Landesbank Berlin AG, Berlin, transferred its shareholdings in Berlin Hyp AG to Landesbank Berlin Holding AG, Berlin, within the scope of the termination of the Group structure applied until that point. Landesbank Berlin AG, Berlin is entitled to the results from the 2014 financial year. Berlin Hyp AG is now a subsidiary of Landesbank Berlin Holding AG, Berlin, and contained in the consolidated annual accounts of Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG, Neuhardenberg, (acquiring company) (smallest and largest consolidation group as defined in Section 285 No. 14 German Commercial Code (HGB)).

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 now directly holds shares in Berlin Hyp AG – following the transfer of Berlin Hyp AG from Landesbank Berlin AG to Landesbank Berlin Holding AG as at 31 December 2014/1 January 2015.

Letter of Comfort of Landesbank Berlin AG

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

Organs of Berlin Hyp

Board of Management

Jan Bettink Chairman of the Board of Management

Gero Bergmann Responsible for Markets

Roman Berninger Responsible for Credit

Supervisory Board

Georg Fahrenschon President of Deutscher Sparkassen- und Giroverbands e.V.
Chairman

Dr. Johannes Evers Chair of the Board of Management
Deputy Chair until 26 January 2015
of Landesbank Berlin Holding AG, Berlin
Landesbank Berlin AG, Berlin

René Wulff Bank employee
Deputy Chair
Employees' representative
Member of the Works Council of Berlin Hyp AG

Dr. h.c. Axel Berger Former Vice-President of Deutsche Prüfstelle für Rechnungslegung e.V., Berlin
Accountant, tax advisor

Hans Jörg Duppré Commissioner of the District of Südwestpfalz

Dr. Michael Ermrich Executive President of Ostdeutscher Sparkassenverband

Joachim Fichteler Bank employee
since 23 January 2014
Employees' representative
Member of the Works Council of Berlin Hyp AG

Thomas Mang President of Sparkassenverband Niedersachsen

Carsten Nowy Bank employee
Employees' representative
Deputy Chair of the Works Council of Berlin Hyp AG

Jana Pabst Bank employee
Employees' representative
Chair of the Works Council of Berlin Hyp AG

Helmut Schleweis Chair of the Board of Management of Sparkasse Heidelberg

Dr. Thomas Veit Former member of the Board of Management of Landesbank Berlin Holding AG, Berlin
Former member of the Board of Management of Landesbank Berlin AG, Berlin

Loans to members of organs

As in the previous year, there are no loans receivable from members of organs.

Benefits of the Board Members

Remuneration for the Board of Management

The Board of Management members received the following remuneration in the 2014 financial year:

Members of the Board of Management (in T€)	Annual remuneration				Other remuneration ²		Total	
	Fixed		Performance-related for the financial year ¹					
Previous year in brackets								
Jan Bettink	750	(0)	104	(0)	27	(0)	881	(0)
of which non-pensionable fixed bonus	384	(0)						
Roman Berninger	422	(421)	77	(85)	38	(39)	537	(545)
of which non-pensionable fixed bonus	116	(116)						
Gero Bergmann	422	(418)	33	(42)	24	(20)	479	(480)
of which non-pensionable fixed bonus	116	(116)						
Total remuneration 2014	1,594	(839)	214	(127)	89	(59)	1,897	(1,025)

¹ The payments for the 2014 financial year contain the performance-related elements of the remuneration for the 2010 and 2012 financial years disbursed in the 2014 financial year.

² Other remuneration refers to benefits in kind (pecuniary benefits from company car use) of T€ 59 as well as the so-called net employers' contribution (the assumption of tax payments on pecuniary benefits on the part of the employer) of T€ 30. At the same time, chauffeurs were employed on the usual terms.

T€	Allocated or reserved amount in 2014	Balance sheet pension reserves	Cash value of benefit entitlements as at 31.12.2014
Jan Bettink	174	174	174
Roman Berninger	189	1,180	1,273
Gero Bergmann	316	1,145	1,157
Total	679	2,499	2,604

In addition, a total of T€ 2,543 (2013: T€ 2,592) was paid in the past financial year in overall benefits (retirement pensions, surviving dependents' benefits and payments of a related nature) to former Board of Management members or their surviving dependents. The cash value of the obligations to pay such benefits for this group of persons is T€ 33,258 (2013: T€ 29,987) on the balance sheet date.

Remuneration for the Supervisory Board

The remuneration payable to the members of the Supervisory Board for the 2014 financial year, including committee activity, amounts to T€ 232 (excluding VAT).

Member of the Supervisory Board	2014 T€	2013 T€
Georg Fahrenschon, Chair	33	4
Dr. Johannes Evers, Deputy Chair	0	0
Hans Jörg Duppré	12	2
René Wulff, Deputy Chair	18	16
Dr. h.c. Axel Berger	18	18
Dr. Michael Ermrich	27	8
Joachim Fechteler	16	-
Thomas Mang	27	3
Carsten Nowy	18	17
Jana Pabst	19	18
Helmut Schleweis	26	3
Dr. Thomas Veit	18	13
Total	232	102
plus VAT	36	19
Total expenditure	268	121

Dr. Evers waived his remuneration claim in 2014.

Mandates of the Board of Management Members

Jan Bettink Member of the Board of Management of Landesbank Berlin Holding AG
 Chair of the Supervisory Board of FMS Wertmanagement
 Member of the Audit Committee of FMS Wertmanagement
 Member of the Board of Supervisory Directors of Kreditanstalt für Wiederaufbau – Anstalt des öffentlichen Rechts (KfW), Frankfurt am Main
 Lebendige Stadt foundation, Hamburg; member of the Board of Trustees
 vdp Verband Deutscher Pfandbriefbanken e.V.; President, member of the Board of Directors

Gero Bergmann No mandates requiring disclosure

Roman Berninger Member of the Board of Management of Landesbank Berlin Holding AG
 (since 1 January 2015)

No employees had mandates in statutory supervisory boards of large corporations in the 2014 financial year.



Statement of Cover in € m	31.12.2014	31.12.2013
A. Mortgage Pfandbriefe		
Ordinary cover		
1. Claims against banking institutions		
Mortgage loans	0.0	0.0
2. Claims against customers		
Mortgage loans	10,948.7	12,287.8
3. Tangible assets (land charges on Bank-owned real estate)	0.0	0.0
Total	10,948.7	12,287.8
Additional cover		
1. Other claims against banking institutions	0.0	915.0
2. Debentures and other fixed-interest securities	1,356.2	0.0
Total	1,356.2	915.0
Total cover	12,304.9	13,202.8
Total Pfandbriefe requiring cover	10,700.4	10,482.3
Excess cover	1,604.5	2,720.5
B. Public Pfandbriefe		
Ordinary cover		
1. Claims against banking institutions		
a) Mortgage loans	0.0	0.0
b) Public sector loans	465.8	510.8
2. Claims against customers		
a) Mortgage loans	219.3	298.6
b) Public sector loans	2,789.8	3,081.3
3. Debentures and other fixed-interest securities	236.5	781.6
Total	3,711.4	4,672.3
Additional cover		
1. Other claims against banking institutions	0.0	355.0
2. Debentures and other fixed-interest securities	0.0	0.0
Total	0.0	355.0
Total cover	3,711.4	5,027.3
Total public Pfandbriefe requiring cover	3,206.4	4,566.3
Excess cover	505.0	461.0

Publication pursuant to Section 28 German Pfandbrief Act (PfandBG)

**Section 28 Paragraph 1 Nos. 1 to 3 Pfandbrief Act (PfandBG)
Amounts in € m**

a) Mortgage Pfandbriefe Outstanding and Cover Used

	Nominal value		Present value		Risk-adjusted present value*	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Mortgage Pfandbriefe	10,700.4	10,482.3	11,945.0	11,295.8	12,357.2	11,803.2
of which: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Cover funds	12,304.9	13,202.8	13,260.2	14,052.3	13,257.0	14,153.5
of which: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Excess cover	1,604.5	2,720.5	1,315.2	2,756.5	899.8	2,350.3
Surplus cover pursuant to vdp differentiation model	1,604.5	2,720.5	1,315.2	2,756.5	-	-

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

b) Public Pfandbriefe Outstanding and Cover Used

	Nominal value		Present value		Risk-adjusted present value*	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Public Pfandbriefe	3,206.4	4,566.3	3,999.3	5,246.4	4,156.2	5,490.0
of which: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Cover funds	3,711.4	5,027.3	4,206.7	5,517.7	4,293.2	5,671.8
of which: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Excess cover	505.0	461.0	207.4	271.3	137.0	181.8
Surplus cover pursuant to vdp differentiation model	505.0	461.0	207.4	271.3	-	-

* 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	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Up to 6 months	170.5	-*	1,157.4	-*
Between 6 and 12 months	829.4	-*	1,527.4	-*
Between 12 and 18 months	941.0	-*	948.1	-*
Between 18 months and 2 years	811.5	-*	1,184.7	-*
Between 2 and 3 years	1,524.0	1,757.5	2,063.5	1,691.1
Between 3 and 4 years	2,356.8	1,524.0	1,710.3	2,007.4
Between 4 and 5 years	1,407.2	1,671.8	915.2	1,777.7
Between 5 and 10 years	1,661.0	1,185.2	2,641.3	2,113.5
Longer than 10 years	999.0	1,155.9	157.0	62.5

* Remaining terms were regrouped from the second quarter of 2014 pursuant to the amendment to the German Pfandbrief Act (PfandBG). No suitable data exists prior to this date.

On b) Maturity Structure (Remaining Term)

	Public Pfandbriefe		Cover funds	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Up to 6 months	0.1	-*	170.3	-*
Between 6 and 12 months	26.6	-*	307.6	-*
Between 12 and 18 months	35.0	-*	166.3	-*
Between 18 months and 2 years	29.0	-*	1,340.9	-*
Between 2 and 3 years	1,240.2	64.0	885.3	1,540.8
Between 3 and 4 years	250.0	1,240.2	185.5	787.8
Between 4 and 5 years	820.6	250.0	24.2	296.9
Between 5 and 10 years	284.0	1,114.6	106.8	130.1
Longer than 10 years	520.9	529.6	524.5	529.5

* Remaining terms were regrouped from the second quarter of 2014 pursuant to the amendment to the German Pfandbrief Act (PfandBG). No suitable data exists prior to this date.

**Section 28 Paragraph 1 Nos. 4 to 11 Pfandbrief Act (PfandBG) (regarding mortgage Pfandbriefe)
Additional Cover for Mortgage Pfandbriefe**

Amounts in € m

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

Section 28 (1) No. 4 German Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)	Compensation claims pursuant to Section 19 (1) No. 1 German Pfandbrief Act (PfandBG)	
	31.12.2014	31.12.2013
Total	0.0	0.0

Section 28 (1) No. 5 German Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)	Receivables as defined in Section 19 (1) No. 2 German Pfandbrief Act (PfandBG)		Of which: Covered debentures as defined in Article 129 Regulation (EU) No. 575/2013	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Germany	0.0	915.0	0.0	0.0
Netherlands	103.0	0.0	0.0	0.0
Total	103.0	915.0	0.0	0.0

Section 28 (1) No. 6 German Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)	Receivables as defined in Section 19 (1) No. 3 German Pfandbrief Act	
	31.12.2014	31.12.2013
Germany	1,020.6	0.0
Austria	232.6	0.0
Total	1,253.2	0.0

Section 28 (1) Nos. 4 to 6 Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)	Total amount Additional Cover for Mortgage Pfandbriefe	
	31.12.2014	31.12.2013
Total	1,356.2	915.0

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

Amounts in € m

Section 28 (1) No. 4 German Pfandbrief Act (PfandBG) (Public Pfandbriefe)	Compensation claims pursuant to Section 20 (2) No. 1 German Pfandbrief Act (PfandBG)	
	31.12.2014	31.12.2013
Total	0.0	0.0

Section 28 (1) No. 5 German Pfandbrief Act (PfandBG) (Public Pfandbriefe)	Receivables as defined in Section 20 (2) No. 2 German Pfandbrief Act (PfandBG)		Of which: Covered debentures as defined in Article 129 Regulation (EU) No. 575/2013	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Germany	0.0	355.0	0.0	0.0
Total	0.0	355.0	0.0	0.0

Section 28 (1) Nos. 4 and 5 Pfandbrief Act (PfandBG) (Public Pfandbriefe)	Total amount Additional Cover for Public Pfandbriefe	
	31.12.2014	31.12.2013
Total	0.0	355.0

**Section 28 Paragraph 1 Nos. 7 to 11 Pfandbrief Act (PfandBG)
Other Information on Cover Funds and the Volume of Pfandbriefe**

Amounts in € m

Section 28 (1) No. 7 German Pfandbrief Act (PfandBG)

Total receivables that exceed the limits set out in Section 13 (1) German Pfandbrief Act (PfandBG)

	31.12.2014	31.12.2013
Total	0.0	0.0

Section 28 (1) No. 8 German Pfandbrief Act (PfandBG) (regarding Mortgage Pfandbriefe)

Total receivables that exceed the percentages set out in Section 19 (1) No. 2 German Pfandbrief Act (PfandBG)

	31.12.2014	31.12.2013
Total	0.0	- *

* This key figure was first introduced for the second quarter of 2014 following the amendment to the German Pfandbrief Act (PfandBG). No suitable data exists prior to this date.

Section 28 (1) No. 8 German Pfandbrief Act (PfandBG) (regarding Mortgage Pfandbriefe)

Total receivables that exceed the percentages set out in Section 19 (1) No. 3 German Pfandbrief Act (PfandBG)

	31.12.2014	31.12.2013
Total	0.0	- *

* This key figure was first introduced for the second quarter of 2014 following the amendment to the German Pfandbrief Act (PfandBG). No suitable data exists prior to this date.

Section 28 (1) No. 9 German Pfandbrief Act (PfandBG) (regarding Mortgage Pfandbriefe)

Percentage of fixed-interest cover in cover funds

Percentage of fixed-interest Pfandbriefe in the liabilities to be covered

	31.12.2014	31.12.2013	31.12.2014	31.12.2013
In %	48.6	- *	84.1	- *

* This key figure was first introduced for the second quarter of 2014 following the amendment to the German Pfandbrief Act (PfandBG). No suitable data exists prior to this date.

Section 28 (1) No. 10 German Pfandbrief Act (PfandBG) (regarding Mortgage Pfandbriefe)

Net present value pursuant to Section 6 Pfandbrief Net Present Value Regulation (PfandBarwertV) per foreign currency

	31.12.2014	31.12.2013
CHF	115.7	192.0
GBP	628.6	737.2

Section 28 (1) No. 11 German Pfandbrief Act (PfandBG)

For the mortgage collateral pool: Volume-weighted average of the elapsed term since lending

	31.12.2014	31.12.2013
In years	5.3	- *

* This key figure was first introduced for the second quarter of 2014 following the amendment to the German Pfandbrief Act (PfandBG). No suitable data exists prior to this date.

Section 28 (1) No. 8 German Pfandbrief Act (PfandBG) (regarding Public Pfandbriefe)

Total receivables that exceed the percentages set out in Section 20 (2) No. 2 German Pfandbrief Act (PfandBG)

	31.12.2014	31.12.2013
Total	0.0	- *

* This key figure was first introduced for the second quarter of 2014 following the amendment to the German Pfandbrief Act (PfandBG). No suitable data exists prior to this date.

Section 28 (1) No. 9 Pfandbrief Act (PfandBG) (regarding public Pfandbriefe)

Percentage of fixed-interest cover in cover funds

Percentage of fixed-interest Pfandbriefe in the liabilities to be covered

	31.12.2014	31.12.2013	31.12.2014	31.12.2013
In %	77.0	- *	98.6	- *

* This key figure was first introduced for the second quarter of 2014 following the amendment to the German Pfandbrief Act (PfandBG). No suitable data exists prior to this date.

Section 28 (1) No. 10 Pfandbrief Act (PfandBG) (regarding public Pfandbriefe)

Net present value pursuant to Section 6 Pfandbrief Net Present Value Regulation (PfandBarwertV) per foreign currency

	31.12.2014	31.12.2013
CHF	0.0	1.6

**Section 28 (2) No. 1 a German Pfandbrief Act (PfandBG)
Receivables Used as Cover for Mortgage Pfandbriefe Classified According to Size¹**

Amounts in € m

Cover Mortgages	31.12.2014		31.12.2013	
	Commercial	Residential	Commercial	Residential
Up to and including € 300,000	149.7		197.6	
Between € 300,000 and € 1 million (incl.)	288.8		-*	
Between € 1 million and € 10 million (incl.)	3,213.9		-*	
More than € 10 million	7,296.4		-*	
Total	10,948.8		12,287.8	

* Sizes were redefined from the second quarter of 2014 pursuant to the amendment to the German Pfandbrief Act (PfandBG). No suitable data exists prior to this date.

**Section 28 (2) No. 1 b and c German Pfandbrief Act (PfandBG)
Receivables Used as Cover for Mortgage Pfandbriefe Classified According to Areas
in which the Mortgaged Property is Allocated and Type of Use¹**

Amounts in € m

Total Cover	31.12.2014		31.12.2013	
	Commercial	Residential	Commercial	Residential
Flats		35.5		44.7
Single- and two-family houses		85.6		59.5
Residential buildings for several families		2,455.9		3,041.1
Office buildings	3,654.4		3,830.6	
Retail buildings	2,607.9		2,358.0	
Industrial buildings	75.7		117.3	
Other commercially used buildings	2,023.1		2,805.9	
Unfinished, as yet unprofitable new buildings	0.0	0.0	3.5	6.0
Building sites	2.8	7.9	3.2	18.0
Total	8,363.9	2,584.9	9,118.5	3,169.3

¹ without further cover pursuant to Section 19 (1) German Pfandbrief Act

Belgium	31.12.2014		31.12.2013	
	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	224.1		156.3	
Retail buildings	4.7		4.7	
Industrial buildings	0.0		0.0	
Other commercially used buildings	0.0		2.1	
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	228.8	0.0	163.1	0.0

Germany	31.12.2014		31.12.2013	
	Commercial	Residential	Commercial	Residential
Flats		33.2		42.2
Single- and two-family houses		80.1		53.7
Residential buildings for several families		2,304.2		2,909.0
Office buildings	1,631.6		1,828.4	
Retail buildings	1,697.2		1,602.9	
Industrial buildings	75.7		116.5	
Other commercially used buildings	1,979.6		2,736.0	
Unfinished, as yet unprofitable new buildings	0.0	0.0	3.5	6.0
Building sites	2.8	7.9	3.2	18.0
Total	5,386.9	2,425.4	6,290.5	3,028.9

France	31.12.2014		31.12.2013	
	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	698.8		688.6	
Retail buildings	174.5		131.2	
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	873.3	0.0	819.8	0.0

Great Britain

	31.12.2014		31.12.2013	
	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	542.0		642.7	
Retail buildings	47.8		44.6	
Industrial buildings	0.0		0.0	
Other commercially used buildings	16.8		15.7	
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	606.6	0.0	703.0	0.0

Poland

	31.12.2014		31.12.2013	
	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	115.8		107.3	
Retail buildings	386.9		322.6	
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	502.7	0.0	429.9	0.0

Netherlands

	31.12.2014		31.12.2013	
	Commercial	Residential	Commercial	Residential
Flats		2.3		2.5
Single- and two-family houses		5.5		5.8
Residential buildings for several families		151.7		132.1
Office buildings	399.1		281.2	
Retail buildings	166.2		121.1	
Industrial buildings	0.0		0.8	
Other commercially used buildings	26.7		43.3	
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	592.0	159.5	446.4	140.4

Switzerland

	31.12.2014		31.12.2013	
	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	0.0		56.7	
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	0.0	0.0	56.7	0.0

Austria

	31.12.2014		31.12.2013	
	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	0.0		18.4	
Retail buildings	0.0		0.0	
Industrial buildings	0.0		0.0	
Other commercially used buildings	0.0		5.9	
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	0.0	0.0	24.3	0.0

Spain

	31.12.2014		31.12.2013	
	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	0.0		0.0	
Retail buildings	0.0		0.0	
Industrial buildings	0.0		0.0	
Other commercially used buildings	0.0		2.9	
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	0.0	0.0	2.9	0.0

Czech Republic

	31.12.2014		31.12.2013	
	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	43.0		51.0	
Retail buildings	130.6		130.9	
Industrial buildings	0.0		0.0	
Other commercially used buildings	0.0		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	173.6	0.0	181.9	0.0

Section 28 (2) No. 2 German Pfandbrief Act (PfandBG)

Payments in Arrears on Receivables Used as Cover for Mortgage Pfandbriefe

Amounts in € m

	Total amount of payments in arrears for at least 90 days		Total receivables, where the respective arrears amount to at least 5 % of the receivable	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Germany	0.2	4.0	0.3	-*
Netherlands	0.1	0.0	0.7	-*
Total	0.3	4.0	1.0	-*

* The total receivables, where the respective arrears amount to at least 5 % of the receivable was calculated for the second quarter of 2014 for the first time pursuant to the amendment to the German Pfandbrief Act (PfandBG). No data exists prior to this date.

Section 28 (2) No. 3 German Pfandbrief Act (PfandBG)

Average Weighted Loan-to-value Ratio (relating to the respective loan values)

	Amounts in %	
	31.12.2014	31.12.2013
Average weighted loan-to-value ratio (relating to the respective loan values)	49.9	-*

* This key figure was first determined for the second quarter of 2014 pursuant to the amendment to the German Pfandbrief Act (PfandBG). No data exists prior to this date.

Section 28 (3) No. 1 and 2 German Pfandbrief Act (PfandBG)

Amounts in € m

Section 28 (3) No. 1 German Pfandbrief Act (PfandBG)

Receivables Used as Collateral for Public Pfandbriefe Classified According to Country and Type of Debtor or Guarantor*

	31.12.2014	31.12.2013
Total Cover		
Central government	202.3	197.3
Regional authority	2,906.8	3,085.9
Local authority	0.8	8.6
Other	601.5	1,380.5
Total	3,711.4	4,672.3
Germany		
Central government	102.3	102.3
Regional authority	2,906.8	3,085.9
Local authority	0.8	8.6
Other	316.5	1,030.5
Total	3,326.4	4,227.3
Austria		
Central government	50.0	95.0
Regional authority	0.0	0.0
Local authority	0.0	0.0
Other	65.0	130.0
Total	115.0	225.0
Switzerland		
Central government	0.0	0.0
Regional authority	0.0	0.0
Local authority	0.0	0.0
Other	220.0	220.0
Total	220.0	220.0
Czech Republic		
Central government	50.0	0.0
Regional authority	0.0	0.0
Local authority	0.0	0.0
Other	0.0	0.0
Total	50.0	0.0

* without further cover pursuant to Section 20 (2) German Pfandbrief Act

Section 28 (3) No. 2 German Pfandbrief Act (PfandBG)
Payments in Arrears on Receivables Used as Cover for Public Pfandbriefe

Amounts in € m

	Total amount of payments in arrears for at least 90 days		Total receivables, where the respective arrears amount to at least 5 % of the receivable	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Central government	0.0	0.0	0.0	- *
Regional authority	0.0	0.0	0.0	- *
Local authority	0.0	0.0	0.0	- *
Other	0.0	0.0	0.0	- *
Total	0.0	0.0	0.0	- *

* The total receivables, where the respective arrears amount to at least 5 % of the receivable was calculated for the second quarter of 2014 for the first time pursuant to the amendment to the German Pfandbrief Act (PfandBG). No data exists prior to this date.

Section 28 (2) No. 3 a to c German Pfandbrief Act (PfandBG)
Information on Foreclosures and Administrative Receivership Proceedings, Overdue Interest

Number	31.12.2014		31.12.2013	
	Commercial	Residential	Commercial	Residential
No. 3a Pending foreclosures	0	3	1	11
Pending administrative receiverships *)	0	2	1	5
*) of which in the pending foreclosures	0	1	1	4
Foreclosures carried out	0	0	1	0
No. 3b Cases in which property has been seized to prevent losses	0	0	0	0

€ m	31.12.2014		31.12.2013	
	Commercial	Residential	Commercial	Residential
Nr. 3c Total interest in arrears	0.1	0.1	0.2	1.3

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 major opportunities and risks of the probable development of the company are described.«

Berlin, 10 February 2015



Jan Bettink



Gero Bergmann



Roman Berninger

Auditor's Report

We have audited the annual financial statements – consisting of the balance sheet, income statement, notes to the financial statements, cash flow statement and equity statement – together with the bookkeeping system and the Management Report of Berlin Hyp AG, Berlin, for the financial year from 1 January to 31 December 2014. The maintenance of books and records and the preparation of the annual financial statements and Management Report in accordance with German commercial law are the responsibility of the company's Board of Management. Our responsibility is to express an opinion of the annual financial statements based on our audit, together with the bookkeeping system, and of the Management Report.

We conducted our audit of the annual financial statements in accordance with Section 317 German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany – IDW). These standards require that we plan and perform the audit in such a way that misstatements and violations materially affecting the presentation of the net assets, financial position and earnings situation in the annual financial statements in accordance with (German) principles of proper accounting are detected with reasonable certainty. Knowledge of the business activities and economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and evidence supporting disclosures in the books and records, the annual financial statements and the Management Report are examined primarily on the basis of random-sample testing within the framework of the audit.

Translation of the report from German into English. The German text is authoritative.

The audit includes the assessment of the accounting principles applied and significant estimates made by the company's Board of Management, as well as evaluation of the overall presentation of the annual financial statements and Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any objections.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair review of the net assets, financial position and earnings situation of the company in accordance with (German) principles of proper accounting. The Management Report is consistent with the annual financial statements and as a whole provides an accurate view of the company's position and correctly presents the opportunities and risks of future development.

Berlin, 20 February 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Peter Kleinschmidt
German Public Auditor

ppa. Helma Rogalski-Hintermayer
German Public Auditor

List of Abbreviations

Abs.	Paragraph
AG	Aktiengesellschaft (stock corporation)
AktG	Aktienengesetz
BA	Berufsakademie (University of Cooperative Education)
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	Bereichsleitung (division management)
BRRD	Bank Recovery and Resolution Directive
BSG	Betriebssportgemeinschaft (Company Sports club)
BSI	Bundesamt für Sicherheit in der Informationstechnik (Federal Office for Information Technology Security)
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)
DRS	Deutscher Rechnungslegungs Standard (German Accounting Standard)
DSGV	Deutscher Sparkassen- und Giroverband (German Savings Bank Association)
DV	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 (company constituted under civil law)
GDP	Gross Domestic Product
GmbH	Gesellschaft mit beschränkter Haftung (private limited company)
GuV	Gewinn- und Verlustrechnung (profit and loss account)
HGB	Handelsgesetzbuch (German Commercial Code)
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 finance)
IFRS	International Financial Reporting Standards
InstitutsVergV	Verordnung über die aufsichtsrechtlichen Anforderungen an Vergütungssysteme von Instituten (Institutional Remuneration Ordinance)
IT	Information technology
IMF	International Monetary Fund
K-Fälle	Catastrophe case
KR	Kredit (loan)
KWG	Kreditwesengesetz (German Banking Act)
LCR	Liquidity Coverage Ratio
LTV	Loan-to-Value
MaRisk	Mindestanforderungen an das Risikomanagement (Minimum Requirements for Risk Management)
NPL	Non Performing Loans
OI	Organisation/Informationstechnologie (organisation/information technology)
OHG	Offene Handelsgesellschaft (private partnership)
OpRisk	Operationelle Risiken (operational risks)
PE	Personal (staff)
PfandBG	Pfandbriefgesetz (Pfandbrief Act)
PWB	Pauschalwertberichtigung (lump-sum value adjustments)
RechKredV	Verordnung über die Rechnungslegung der Kreditinstitute (Regulation on the Accounts of Banking Institutions)
RST	Rückstellungen (reserves)
SAP	Systems, applications, products
SEPA	Single Euro Payments Area
SolvV	Solvabilitätsverordnung (Solvency Regulation)
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TR	Treasury
VaR	Value-at-Risk
vdv	Verband deutscher Pfandbriefbanken e.V., Berlin

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Important company information is available on www.berlinhyp.de.

Publications for our business partners in 2015

- Annual Report 2014 (German/English)
- Half-Year Financial Report to 30.06.2015 (German/English)
- Interim Report to 30.09.2015 (German/English)

In this Annual Report, reference to the masculine form naturally also includes the feminine form.

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Page 11

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Page 34

Art-InvestReal Estate/Zech Group GmbH
Page 35

GSW Immobilien AG/Deutsche Wohnen AG
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