

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

Supplement to the Base Prospectus  
Dated 16 November 2017

This Supplement is supplemental to, and must be read in conjunction with the Base Prospectus dated 10 April 2017 and the Supplement dated 21 August 2017.

# Berlin Hyp

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**Berlin Hyp AG**  
**Berlin, Federal Republic of Germany**

**€ 25,000,000,000**  
**Offering Programme**  
(the “**Programme**”)

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

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

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

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

### **IMPORTANT NOTICE**

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

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

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

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

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

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

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

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

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

**13 November 2017 with the publication of the unaudited Interim Report 2017 for the period ending 30 September 2017.**

## I. Unaudited Interim Report 2017 as of 30 September 2017

On 13 November 2017, the Issuer published its unaudited interim report as of 30 September 2017. Accordingly, the Prospectus (including the documents incorporated by reference) shall be amended as follows:

### 1. Summary

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

“

| Assets<br>in Mio. €                            | 31.12.2016    | 30.09.2017    | 31.12.2015    | Liabilities<br>in Mio. €            | 31.12.2016    | 30.09.2017    | 31.12.2015    |
|--|---------------|---------------|---------------|-------------------------------------|---------------|---------------|---------------|
|  |               | *             |               |                                     |               | *             |               |
| Claims against banking institutions            | 551           | 785           | 673           | Liabilities to banking institutions | 4.814         | 5.571         | 6.297         |
| Claims against customers                       | 19.370        | 19.851        | 20.610        | Liabilities to customers            | 5.476         | 6.140         | 6.349         |
| Debentures and other fixed-interest securities | 5.782         | 4.619         | 6.485         | Securitised liabilities             | 13.615        | 12.399        | 13.383        |
| Intangible investment assets                   | 10            | 10            | 7             | Provisioning reserves               | 163           | 165           | 145           |
| Tangible assets                                | 58            | 57            | 59            | Subordinated liabilities            | 454           | 453           | 443           |
| Other assets                                   | 337           | 271           | 398           | Fund for general Bank risks         | 153           | 183           | 103           |
|  |               |               |               | Equity                              | 936           | 936           | 936           |
| <b>Total assets</b>                            | <b>26.354</b> | <b>26.558</b> | <b>28.544</b> | <b>Total liabilities</b>            | <b>26.354</b> | <b>26.558</b> | <b>28.544</b> |

\* Information in this column is taken from the unaudited Interim Report as at 30 September 2017

“

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

“Interim summary form of income statement

| in Mio. €  | 01.01.2017 – 30.09.2017* | 01.01.2016 – 30.09.2016* | Change in %* |
|--|--------------------------|--------------------------|--------------|
| Net interest income  | 211,9                    | 199,3                    | 6,3          |
| Net commission income  | 29,1                     | 28,6                     | 1,7          |
| Staff expenditure  | 49,8                     | 45,9                     | 8,5          |
| Other operating expenditure**  | 43,9                     | 46,0                     | -4,6         |
| Amortisation on and depreciations of and valuation adjustments on intangible investment assets and tangible assets | 3,6                      | 2,9                      | 24,1         |
| Other operating earnings / expenditure   | -2,9                     | -18,5                    | -84,3        |
| Risk provisioning  | 39,7                     | 40,2                     | -1,2         |
| Operating result after risk provisioning   | 101,1                    | 74,4                     | 35,9         |
| Expenditure from profit transfer   | 73,8                     | 47,0                     | 57,0         |
| <b>Net income</b>  | <b>0,0</b>               | <b>0,0</b>               | <b>-</b>     |

\* Information in this column is taken from the unaudited Interim Report as at 30 September 2017

\*\*Adjustment of the previous-year figure as a result of the reclassification of the bank levy to “Other Operation expenditure” (had previously been reported separately as “Bank levy” after the “Operation result”)

“

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

“Not applicable: There has been no significant change in the financial position of Berlin Hyp AG since 30 September 2017.”

1.4. In the German language version of the Summary (Zusammenfassung des Prospekts) on page 22 the table within B.12 “Kurzdarstellung Bilanz” is to be replaced by the following:

“

| <b>Aktiva<br/>in Mio. €</b>                                   | 31.12.2016    | 30.09.2017<br>* | 31.12.2015    | <b>Passiva<br/>in Mio. €</b>            | 31.12.2016    | 30.09.2017<br>* | 31.12.2015    |
|---|---------------|-----------------|---------------|---|---------------|-----------------|---------------|
| Forderungen an Kreditinstitute                                | 551           | 785             | 673           | Verbindlichkeiten ggü. Kreditinstituten | 4.814         | 5.571           | 6.297         |
| Forderungen an Kunden   | 19.370        | 19.851          | 20.610        | Verbindlichkeiten ggü. Kunden           | 5.476         | 6.140           | 6.349         |
| Schuldverschreibungen und andere festverzinsliche Wertpapiere | 5.782         | 4.619           | 6.485         | Verbriefte Verbindlichkeiten            | 13.615        | 12.399          | 13.383        |
| Immaterielle Anlagewerte                                      | 10            | 10              | 7             | Rückstellungen                          | 163           | 165             | 145           |
| Sachanlagen   | 58            | 57              | 59            | Nachrangige Verbindlichkeiten           | 454           | 453             | 443           |
| Sonstige Vermögensgegenstände                                 | 337           | 271             | 398           | Fonds für allgemeine Bankrisiken        | 153           | 183             | 103           |
|   |               |                 |               | Eigenkapital                            | 936           | 936             | 936           |
| <b>Summe der Aktiva</b>                                       | <b>26.354</b> | <b>26.558</b>   | <b>28.544</b> | <b>Summe der Passiva</b>                | <b>26.354</b> | <b>26.558</b>   | <b>28.544</b> |

\* Informationen in dieser Spalte stammen aus der ungeprüften Zwischenmitteilung zum 30. September 2017

”

1.5. In the German language version of the Summary (Zusammenfassung des Prospekts) on page 22 the following table shall be added after the existing table “Kurzdarstellung Gewinn- und Verlustrechnung” within B.12:

“Quartals-Kurzdarstellung Gewinn- und Verlustrechnung

| <b>in Mio. €</b>   | <b>01.01.2017 – 30.09.2017*</b> | <b>01.01.2016 – 30.09.2016*</b> | <b>Veränderung in %*</b> |
|--|---------------------------------|---------------------------------|--------------------------|
| Zinsüberschuss   | 211,9                           | 199,3                           | 6,3                      |
| Provisionsüberschuss   | 29,1                            | 28,6                            | 1,7                      |
| Personalaufwendungen   | 49,8                            | 45,9                            | 8,5                      |
| Andere Verwaltungsaufwendungen**   | 43,9                            | 46,0                            | -4,6                     |
| Abschreibungen und Wertberichtigungen auf immaterielle Anlagewerte und Sachanlagen | 3,6                             | 2,9                             | 24,1                     |
| Sonstiger betrieblicher Ertrag / Aufwand   | -2,9                            | -18,5                           | -84,3                    |
| Risikovorsorge   | 39,7                            | 40,2                            | -1,2                     |
| Betriebsergebnis nach Risikovorsorge   | 101,1                           | 74,4                            | 35,9                     |
| Aufwendungen aus Gewinnabführung   | 73,8                            | 47,0                            | 57,0                     |
| <b>Überschuss</b>  | <b>0,0</b>                      | <b>0,0</b>                      | <b>-</b>                 |

\* Informationen in dieser Spalte stammen aus der ungeprüften Zwischenmitteilung zum 30. September 2017

\*\* Anpassung des Vorjahreswertes aufgrund der Umgliederung der Bankenabgabe in die “Anderen Verwaltungsaufwendungen” per 31.12.2016 (zuvor separater Posten „Bankenabgabe“ nach dem „Betriebsergebnis“)

”

1.6. In the German language version of the Summary (Zusammenfassung des Prospekts) within B.12 the section “Wesentliche Veränderung der bei Finanzlage oder Handelsposition der Emittentin” on page 23 shall be replaced by the following:

„Entfällt. Seit dem 30. September 2017 ist keine wesentliche Veränderung in der Finanzlage der Berlin Hyp eingetreten.“

1.7 The wording of section 6.10.6 “Significant change in Berlin Hyp’s Financial Position” on page 69 of the Prospectus shall be replaced by the following:

“There has been no significant change in the financial position of Berlin Hyp since 30 September 2017 (the end of the last financial period for which financial information has been published).”

## **II. Annex to the Prospectus**

An excerpt from the unaudited interim report 2017 for the period ending 30 September 2017, which only abridged the Outlook Report, is presented on the following pages, shall be added under “13. Annex”, and shall be deemed to be incorporated in, and to form part, of the Prospectus.

“Excerpt from the Interim Report as at 30 September 2017

## Key figures of the Berlin Hyp

| Excerpt from the Balance Sheet <i>in € m</i> | 30.09.2017 | 31.12.2016 |
|--|------------|------------|
| Claims against banking institutions          | 785        | 551        |
| Claims against customers                     | 19,851     | 19,370     |
| Of which:                                    |            |            |
| a) Mortgage loans                            | 19,014     | 18,125     |
| b) Public-sector loans                       | 761        | 1,228      |
| Liabilities to banking institutions          | 5,571      | 4,814      |
| Liabilities to customers                     | 6,140      | 5,476      |
| Of which:                                    |            |            |
| a) Registered mortgage Pfandbriefe           | 2,395      | 2,374      |
| b) Registered public Pfandbriefe             | 690        | 1,030      |
| Securitised liabilities                      | 12,399     | 13,615     |
| Of which:                                    |            |            |
| a) Mortgage Pfandbriefe                      | 7,877      | 8,040      |
| b) Public Pfandbriefe                        | 713        | 1,640      |
| Reported equity                              | 936        | 936        |
| Balance sheet total                          | 26,558     | 26,354     |

| Excerpt from the Profit and Loss Account <i>in € m</i> | 01.01.–30.09.2017 | 01.01.–30.09.2016 |
|--|-------------------|-------------------|
| Net interest income                                    | 211.9             | 199.3             |
| Net commission income                                  | 29.1              | 28.6              |
| Staff expenditure                                      | 49.8              | 45.9              |
| Other operating expenditure <sup>2</sup>               | 43.9              | 46.0              |
| Of which expenditure for bank levy                     | 10.1              | 10.9              |
| Depreciation on tangible assets                        | 3.6               | 2.9               |
| Operating expenditure                                  | 97.3              | 94.8              |
| Risk provisioning                                      | 39.7              | 40.2              |
| Operating result                                       | 101.1             | 74.4              |
| Income from financial investments                      | 3.2               | 2.7               |
| Provision for general banking risks                    | 30.0              | 30.0              |
| Profit transfer  | 73.8              | 47.0              |
| Net income for the year                                | 0.0               | 0.0               |
| Cost-income ratio after the bank levy in %             | 40.9              | 45.3              |
| Return on equity in %                                  | 12.6              | 9.9               |

| Business Development <i>in € m</i>     | 01.01.–30.09.2017 | 01.01.–30.09.2016 |
|--|-------------------|-------------------|
| New lending                            | 4,077             | 3,639             |
| Of which:                              |                   |                   |
| Residential loans                      | 1,269             | 684               |
| Commercial loans                       | 2,808             | 2,955             |
| Extensions (capital employed ≥ 1 year) | 1,062             | 503               |
| NPL <sup>1</sup>                       | 407               | 554               |

| Sustainability | 2016       | 2015      |
|----------------|------------|-----------|
| oekom research | B- (Prime) | C (Prime) |

| Others   | 30.09.2017 | 31.12.2016 |
|--|------------|------------|
| Number of employees (as at the reporting date) | 582        | 585        |

| Regulatory law key figures <sup>3</sup> <i>in € m</i> | 30.09.2017 | 31.12.2016 |
|---|------------|------------|
| Common equity tier 1 capital (CET1)                   | 1,075      | 1,076      |
| Additional tier 1 capital (AT1)                       | 0          | 0          |
| Tier 1 capital (T1)                                   | 1,075      | 1,076      |
| Tier 2 capital (T2)                                   | 280        | 318        |
| Own funds (Total capital)                             | 1,355      | 1,395      |
| Risk weighted assets (RWA)                            | 8,524      | 7,972      |
| CET1 capital ratio in %                               | 12.6       | 13.5       |
| T1 capital ratio in %                                 | 12.6       | 13.5       |
| Total capital ratio in %                              | 15.9       | 17.5       |
| Leverage ratio in %                                   | 3.9        | 3.9        |

<sup>1</sup> NPL portfolio will be apportioned from 2017 onwards pursuant to the EBA Guidelines on the basis of rating scores (previously: risk class); previous-year comparative figures were adjusted.

<sup>2</sup> The bank levy was reclassified to “Other operating expenditure” as at 31.12.2016; pro-rata comparative figures were adjusted.

<sup>3</sup> Previous year figures after adoption

## “Management Interim Report

Despite the wide range of political and economic risks, the global economy continued its recovery. The uncertainties stemming from the change in administrations in the United States have waned in the light of the difficulties in fulfilling election campaign promises, and the new geopolitical risks from the budding conflict with North Korea have not had any noticeable economic effects so far.

Economic growth in the euro area was extremely dynamic in the first half of the year in particular, though it remained at a high level in the third quarter as well according to indicators. Expansionary consumer and government spending as well as a steady increase in investments were the forces driving this development. Following the pro-EU election outcomes in the Netherlands and France, economic uncertainties already began to ebb during the first half of the year. The result of the snap parliamentary election in the United Kingdom also made a hard Brexit less likely and further improved the situation in the euro area, at least for the time being.

Germany witnessed positive economic development as well. Apart from domestic consumer spending and investments as the main driving forces behind this trend, consolidated net exports also lent key support to the continued upswing<sup>1</sup>

The European Central Bank (ECB) continued its expansionary monetary policy. Admittedly, the ECB scaled back the scope of its bondbuying programme slightly, and since March 2017, it has not provided any additional long-term interest rate tenders. However, this cannot be regarded as an initial step towards a turnaround in interest rates, as we have yet to see any changes in the direction on interest rate policy. Market conditions in this phase of low interest rates, together with the steady increase in regulatory requirements, continued to have a negative impact on the banking sector and intensified the competition among banks.

The German economy's fundamentals, which remain in excellent shape, and the continued pressure to invest on the part of investors made a decisive contribution to exceptionally high levels of activity on the German commercial real estate market.

As a result, the transaction volume for commercial real estate in Germany amounted to roughly € 38.6 billion in the first nine months of the year. This result represents an increase of approximately 18 % compared to the previous year, and it is the second-best third-quarter result after 2007. Foreign investors in particular continue to regard German commercial real estate as being especially attractive. The share in the total volume of commercial real estate investments attributable to foreign investors rose in the first three quarters of the year from 38 % in 2016 to 49 % in 2017.

In terms of the respective types of use, office real estate dominated Germany's commercial segment in the first nine months of 2017, accounting for an investment volume of nearly € 19 billion (previous year: € 14.9 billion), or 49 % of the total volume (previous year: 46 %). This segment was followed by retail real estate in second place with a volume of some € 9 billion (previous year: € 8.1 billion), or a share of approximately 23 % (previous year: 25 %). The importance of warehouse and logistics real estate increased substantially in the first three quarters of 2017. With growth of 103 %, this segment more than doubled compared to the previous year due to high-volume portfolio transactions, among other reasons. Roughly 15 % (approx. € 5.8 billion) of the total investment volume was attributable to this segment. The remaining volume was shared between special-purpose properties, primarily hotel real estate, which accounted for more than 7 %.

Many deals currently being arranged point to what should be a strong fourth quarter with high turnover – in fact, the transaction volume for the year as a whole could well exceed € 50 billion in the end.<sup>2</sup> Nonetheless, competition remains fierce in the commercial real estate financing market, paired with declining margins from new business. Berlin Hyp therefore looks back at its business performance to date for 2017 with even greater satisfaction, as we have been able to cement our position once again and sustainably continue our successful development.

The additional potential resulting from Berlin Hyp's position on the market, combined with a sound refinancing strategy, are solid foundations for the continuation of Berlin Hyp's very successful business operations. We expect the financial year to go according to plan with earnings before profit transfer that are up substantially on the previous year.

<sup>1</sup>Source for the macroeconomic framework conditions: German Institute for Economic Research (DIW), Institute for the World Economy (IfW), Kiel.

## **New Lending**

New lending in the real estate financing business totalled € 4,077 million in the first three quarters (previous year: € 3,639 million). Despite the extremely active competitive environment, new lending volume plus existing long-term extensions came to a pleasing € 5,139 million (previous year: € 4,142 million).

The investor's customer group accounted for the lion's share of new lending at 74 %. Of the total transactions, 22 % were concluded with developers/builders, and 4 % with housing societies. The commercial real estate asset class accounted for 69 % of financing agreements, while 31 % of new lending business was attributed to residential real estate.

## **Berlin Hyp as a Partner to the Savings Banks Finance Group**

S-Group business totalled € 844 million as at the reporting date of 30 September 2017 (previous year: € 1,181 million). Joint syndication business with savings banks was largely responsible for generating this amount, while a third-quarter ImmoSchuldschein transaction secured by a retail portfolio accounted for € 121 million (previous year: € 225 million through two Immo- Schuldschein transactions).

The number of savings banks to participate in Berlin Hyp financing through ImmoSchuldscheine now stands at 94 institutions across all member associations. Berlin Hyp is already a partner to 114 savings banks through joint financing contracts and was therefore able to further expand its connections within the Savings Banks Finance Group.

The pilot transaction of the new ImmoAval product was fully placed in August 2017. Four savings banks were involved with a liability amount of € 10 million in total. In future, ImmoAval will supplement Berlin Hyp's product portfolio aimed at meeting the various needs structures of savings banks.

## **Business Development from January to September 2017**

In its outlook for 2017, Berlin Hyp forecast a slight rise in earnings before profit transfer and an adequate level of provision reserves pursuant to Section 340g German Commercial Code (HGB) to strengthen regulatory capital requirements.

Against the backdrop of persistently low interest rates, fierce competition in the commercial real estate financing market and ever-stricter regulatory requirements, the first three quarters of 2017 were a resounding success. Earnings before profit transfer came to € 73.8 million, significantly exceeding the previous year's figure.

Berlin Hyp remains one of Germany's leading commercial real estate financiers. Following a substantial increase compared to the previous year, the volume of new lending agreements that were concluded stood at € 4,077 million, and Berlin Hyp managed to further boost its integration within the Savings Banks Finance Group.

As part of the future-oriented process "berlinhyp21" launched in 2016, the Bank continued to focus squarely on the challenges of the industry. Besides optimising the IT system environment and systematically basing the core banking system on SAP, this involves the Bank continuing its efforts to implement the digitalisation strategy through the intelligent networking and automation of front- and back-office processes.

In September 2017, the sustainability rating agency oekom research named Berlin Hyp an industry leader in its corporate rating. In doing so, the rating agency confirms Berlin Hyp's above-average commitment to sustainability management, honours the bank's investment products (green bonds) and recognises its responsible business practices towards people and the environment. With its B- rating, Berlin Hyp boasts the highest mark awarded to date in the Financials/Mortgage & Public Sector peer group. This rating means both prime status and inclusion in the category "good".

## **Earnings Situation**

Net interest and commission income increased by € 13.1 million to € 241.0 million.

Compared to the previous year, net interest income improved by € 12.6 million to € 211.9 million. This rise was primarily due to an increase in the average mortgage portfolio and a fall in refinancing expenses. Prepayment penalties collected as part of early loan repayments were compensated by corresponding countermeasures to ease the burden in the future. The continuing low interest-rate level in conjunction with a flat yield curve remains challenging as before.

Compared to the previous year, net commission income increased by € 0.5 million to € 29.1 million. It continues to benefit from positive new business.

Operating expenditure breaks down into staff expenditure, other operating expenditure and write-offs on fixed assets and intangible assets. Due to the one-off effect caused by the extension of the evaluation period in the calculation of pension obligations to ten years undertaken in the previous year, this figure stands at € 97.3 million and is above the previous year's figure – adjusted for the European banking levy – of € 94.8 million. Excluding this effect, operating expenditure was significantly reduced.

The planned rise in staff expenditure by € 3.9 million to € 49.8 million was related to the revaluation of pension obligations. The associated lower deferred amount declined by a significant margin compared to the previous year. Adjusted for this effect, staff expenditure fell.

At € 43.9 million, other operating expenditure was below the previous year's level of € 46.0 million, even after the reclassification of the European banking levy. Besides the contribution to the European banking levy, this expenditure also includes legal and consulting fees, IT expenditure and intra-Group charges for the administrative holding costs related to the managing institution from a regulatory perspective.

The other operating result improved by € 15.6 million to € 2.9 million. In the previous year, the one-off allocation of the as yet unretained BilMoG difference to the pension reserves was responsible for the large negative balance.

The operating result before risk provisioning increased substantially by € 26.2 million to € 140.8 million.

The Bank's risk provisioning as at the balance sheet date stood at € 39.7 million, which is down slightly compared with the previous year (€ 40.2 million). This figure includes the further allocation of reserves pursuant to Section 340f German Commercial Code (HGB).

Risk provisioning in the lending business benefited from solid underlying economic conditions and the Bank's active risk management strategy. Through the creation of additional provision reserves, risk provisioning for the lending business increased by a further € 63.5 million (previous year: € 36.9 million). The Bank has formed provision reserves in what it considers at the current time to be a sufficient volume for legal risks concerning loan administration fees resulting from the Federal Court of Justice ruling dated 4 July 2017.

Risk provisioning for securities in the liquidity reserve posted income of € 23.8 million following expenditure of € 3.3 million in the previous year. This income mostly resulted from disposals.

The Bank adequately took all recognisable and potential risks into consideration with the formation of value adjustments.

Net income from investments was largely defined by disposals and write-ups on investment securities and stood at € 3.2 million (previous year: € 2.7 million).

The operating result after risk provisioning increased from € 74.4 million to € 101.1 million.

The Bank added a further € 30.0 million (previous year: € 30.0 million) to its fund for general banking risks pursuant to Section 340g German Commercial Code (HGB) to ensure that it is sufficiently prepared for the ever-increasing equity capital demands that will be placed on banks in the future. The fund now amounts to € 183.0 million.

Operating results before profit transfer stood at € 73.8 million (previous year: € 47.0 million), exceeding the forecast figure.

The cost-income ratio after the banking levy, which expresses the relationship between operating expenditure and net interest and commission income including other operating income, was 40.9 % as at 30 September 2017 (previous year: 40.1 %).

Return on equity increased from 9.9 % to 12.6 % thanks to the positive development of the earnings situation.

## Capitalisation

Berlin Hyp's reported equity as at 30 September 2017 came to € 935.9 million, which includes profit carried forward of € 2.2 million. In addition, € 153.0 million is available in the form of a reserve from the previous years' annual accounts prepared pursuant to Section 340g German Commercial Code (HGB), and € 232.4 million of subordinated capital that is capable of being taken into consideration under regulatory law.

In relation to the risk items pursuant to the Solvency Regulation (SolvV), the core capital ratio as at 30 September 2017 was 12.6 % and the total capital ratio was 15.9 % (previous year: 12.6 % and 16.2 % respectively). Despite higher risk positions, the unchanged core capital ratio figure is due to the adequate increase in the reserve pursuant to Section 340g German Commercial Code (HGB), while the reduction of the overall capital ratio resulted from the lower capital charge of the subordinated capital in the last five years of the remaining term pursuant to the Capital Requirements Regulation (CRR).

The existing subordinated capital, with a nominal value of € 443.2 million (previous year: € 443.2 million), fundamentally complies with the requirements of the Capital Requirements Regulation (CRR).

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

## Balance Sheet Total

The balance sheet total rose by € 0.2 billion to € 26.6 billion compared to the end of 2016. The mortgage portfolio increased to € 19.0 billion on the back of a highly favourable development in the new lending business (31 December 2016: € 18.1 billion). The decrease in fixed-interest debentures from € 5.8 billion to € 4.6 billion was in line with the Bank's strategy and resulted from maturities and sales. On the liabilities side, liabilities to banking institutions increased by € 0.8 billion to € 5.6 billion and liabilities to customers by € 0.7 billion to € 6.1 billion since the start of the year. By contrast, securitised liabilities decreased from € 13.6 billion to € 12.4 billion.

## Refinancing

In the eurozone, the third quarter of 2017 was also marked by a low general interest rate level, which continued to benefit from the ECB's loose monetary policy, especially the continuation of the asset purchase programmes (APP).

The risk premiums on covered bonds from Eurozone countries drew an end to their long-term converging trend, for the time being at least. More significant differences between individual jurisdictions and issuers appeared again at the end of the third quarter of 2017. German Pfandbriefe underlined their status as a premium product and offered the lowest spreads on both the primary and secondary markets. Many investors on the uncovered bank bond market seem to still be ignoring the potential loss participation of non-preferred bonds in the event of a bail-in. Even though the name differentiation was much more pronounced than it was for covered bonds, the entire asset class remained in demand owing to the APP's lack of consideration for senior unsecured bonds and the consequent long period of relatively attractive risk premiums. The high level of demand also applied to issuers from countries where senior non-preferred products had already been introduced. As a result, since their introduction in France at the end of the past year, it has been possible to place each new bond in this asset class on the market with a lower issue spread than all previous ones.

Berlin Hyp had market access at all times. It continued to benefit from the reputation it has built up over many years as a reliable and sound issuer and from its involvement in the Savings Banks Finance Group. In the first half of 2017 the Bank issued two mortgage Pfandbriefe in benchmark format. One of these two bonds was issued as a green Pfandbrief to refinance loans for sustainable and energy-efficient buildings. A syndicated covered bond of € 250 million with a term of more than six years followed in the third quarter. It was successfully issued with a reoffer spread (mid-swap) of -14 basis points. In total, the Bank issued debt instruments of over € 1,431 million on the capital market in the first nine months of 2017. Mortgage Pfandbriefe accounted for € 1,275 million of this amount, and senior unsecured instruments for € 156 million.

The Bank's involvement on the green bond market has meanwhile begun to gain greater attention and recognition. With three outstanding bonds in benchmark format now on the market, Berlin Hyp is the largest green bond issuer in Europe among commercial banks. At this year's GlobalCapital Sustainable and

Responsible Capital Market Awards, Berlin Hyp received several honours, including being named the best bank issuer of green bonds and the best issuer for green bond reporting.

In the light of the Bank's steady increase in equity in recent years and sustained high levels of profitability, Moody's raised Berlin Hyp's ratings at the end of July. Moody's lifted the issuer rating one notch from A2 to A1, and the Adjusted Baseline Credit Assessment (adjusted BCA) two notches from baa2 to a3. The rating for subordinated bond issuance also went up two notches from baa3 to baa1. Moody's assigned the unchanged top Aaa rating to Berlin Hyp's mortgage and public Pfandbriefe. Berlin Hyp's bank rating from Fitch also remains unchanged at A+, with a viability rating of bbb. All ratings have a stable outlook.

### **Outlook**

Performance this year has been exceptionally favourable so far. Despite the persistent phase of low interest rates and regulatory requirements that continue to tie up resources, Berlin Hyp cemented its position as one of Germany's leading providers of real estate financing in a challenging competitive environment. New lending business, which is developing extremely well, has been a key factor in the Bank's excellent business performance.

The general framework conditions remain challenging. The pro-EU election outcomes in France and the Netherlands have provided reassurance, though uncertainties remain, including with regard to the political tensions in Poland, the status of German-Turkish relations, the continuing unknowns concerning Brexit and the new administration in the United States.

The ongoing low-interest policy is ensuring ever-increasing investment pressure, and thus continued momentum in German residential and commercial real estate markets. Considering the underlying parameters (low consumer price development), the ECB's expansionary monetary policy is also expected to continue. Competitive pressure in the commercial real estate financing market remains high. The pressure on margins goes hand in hand with a growing risk appetite among investors. Berlin Hyp will also continue to maintain its conservative risk policy as a high priority in future.

As a means of cultivating the development of S-Group business, the Bank continued to expand its product range in the past and adjusted the sales structures in a decentralised fashion. The pilot transaction for the new ImmoAval product came to a successful conclusion in the third quarter. Plans for the fourth quarter include the issue of another ImmoSchuldschein.

The continuation of the future-oriented process "berlinhyp21" will ensure that Berlin Hyp remains well equipped for the challenges ahead. The improvement of IT systems and implementation of the new digitalisation strategy are of particular importance in this process. Apart from connecting and automating processes, one focus will be on participating in future-oriented business models. The strategic partnership with BrickVest, a leading online platform for commercial real estate investments which is based in London and Berlin, got started in October. In addition, the Bank will test agile and more efficient working methods and integrate them into the training setup as part of the future-oriented process "berlinhyp21".

Berlin, November 2017

The Board of Management™

# Excerpt from the Balance Sheet

as at 30 September 2017

| Assets<br>in €m                     | 30.09.2017    | 31.12.2016    | Change     | Change<br>% |
|-------------------------------------|---------------|---------------|------------|-------------|
| Cash reserves                       | 760           | 9             | 751        | -           |
| Claims against banking institutions | 785           | 551           | 234        | 42.5        |
| Mortgage loans                      | 0             | 0             | 0          | -           |
| Public-sector loans                 | 129           | 263           | -134       | -51.0       |
| Other receivables                   | 656           | 288           | 368        | -           |
| Claims against customers            | 19,851        | 19,370        | 481        | 2.5         |
| Mortgage loans                      | 19,014        | 18,125        | 889        | 4.9         |
| Public-sector loans                 | 761           | 1,228         | -467       | -38.0       |
| Other receivables                   | 76            | 17            | 59         | -           |
| Debentures                          | 4,619         | 5,782         | -1,163     | -20.1       |
| Intangible investment assets        | 10            | 10            | 0          | 0.0         |
| Tangible assets                     | 57            | 58            | -1         | -1.7        |
| Other assets                        | 271           | 337           | -66        | -19.6       |
| Prepaid expenses                    | 205           | 237           | -32        | -13.5       |
| <b>Total assets</b>                 | <b>26,558</b> | <b>26,354</b> | <b>204</b> | <b>0.8</b>  |

| Liabilities<br>in €m                               | 30.09.2017    | 31.12.2016    | Change        | Change<br>% |
|--|---------------|---------------|---------------|-------------|
| <b>Liabilities to banking institutions</b>         | <b>5,571</b>  | <b>4,814</b>  | <b>757</b>    | <b>15.7</b> |
| Registered Mortgage Pfandbriefe                    | 246           | 355           | -109          | -30.7       |
| Registered Public Pfandbriefe                      | 244           | 280           | -36           | -12.9       |
| Other liabilities                                  | 5,081         | 4,179         | 902           | 21.6        |
| <b>Liabilities to customers</b>                    | <b>6,140</b>  | <b>5,476</b>  | <b>664</b>    | <b>12.1</b> |
| Registered Mortgage Pfandbriefe                    | 2,395         | 2,374         | 21            | 0.9         |
| Registered Public Pfandbriefe                      | 690           | 1,030         | -340          | -33.0       |
| Other liabilities                                  | 3,055         | 2,072         | 983           | 47.4        |
| <b>Securitised liabilities</b>                     | <b>12,399</b> | <b>13,615</b> | <b>-1,216</b> | <b>-8.9</b> |
| Registered Mortgage Pfandbriefe                    | 7,877         | 8,040         | -163          | -2.0        |
| Registered Public Pfandbriefe                      | 713           | 1,640         | -927          | -56.5       |
| Other liabilities                                  | 3,809         | 3,935         | -126          | -3.2        |
| Other liabilities                                  | 525           | 526           | -1            | -0.2        |
| Deferred income                                    | 186           | 217           | -31           | -14.3       |
| Reserves   | 165           | 163           | 2             | 1.2         |
| Subordinated liabilities                           | 453           | 454           | -1            | -0.2        |
| Fund for general bank risks                        | 183           | 153           | 30            | 19.6        |
| Equity capital                                     | 936           | 936           | 0             | 0.0         |
| Of which: balance sheet profit                     | 2             | 2             | 0             | 0           |
| <b>Total liabilities</b>                           | <b>26,558</b> | <b>26,354</b> | <b>204</b>    | <b>0.8</b>  |
| <b>Contingent liabilities</b>                      |               |               |               |             |
| Liabilities from guarantees and warranty contracts | 161           | 130           | 31            | 23.8        |
| <b>Other obligations</b>                           |               |               |               |             |
| Irrevocable loan commitments                       | 2,198         | 1,895         | 303           | 16.0        |

# Profit and Loss Account

from 1 January to 30 September 2017

| Expenditure<br>in € m   | 01.01. – 30.09.<br>2017 | 01.01. – 30.09.<br>2016 | Change | Change<br>% |
|---|-------------------------|-------------------------|--------|-------------|
| Net interest income   | 211.9                   | 199.3                   | 12.6   | 6.3         |
| Net commission income   | 29.1                    | 28.6                    | 0.5    | 1.7         |
| Operating expenditure   | 97.3                    | 94.8                    | 2.5    | 2.6         |
| Staff expenditure   | 49.8                    | 45.9                    | 3.9    | 8.5         |
| Other operating expenditure <sup>1</sup>  | 43.9                    | 46.0                    | -2.1   | -4.6        |
| Of which expenditure for bank levy  | 10.1                    | 10.9                    | -0.8   | -7.3        |
| Amortisation on and depreciation of<br>and valuation adjustments on intangible<br>investment assets and tangible assets | 3.6                     | 2.9                     | 0.7    | 24.1        |
| Other operating earnings / expenditure  | -2.9                    | -18.5                   | 15.6   | -84.3       |
| Operating result before risk provisioning   | 140.8                   | 114.6                   | 26.2   | 22.9        |
| Risk provisioning   | 39.7                    | 40.2                    | -0.5   | -1.2        |
| Operating result after risk provisioning  | 101.1                   | 74.4                    | 26.7   | 35.9        |
| Financial investment result   | 3.2                     | 2.7                     | 0.5    | 18.5        |
| Contribution to the fund for general bank risks   | 30.0                    | 30.0                    | 0.0    | 0.0         |
| Other taxes   | 0.2                     | 0.2                     | 0.0    | 0.0         |
| Profit before income tax and profit transfer  | 74.1                    | 46.9                    | 27.2   | 58.0        |
| Income tax  | 0.3                     | -0.1                    | 0.4    | -           |
| Expenditure from profit transfer  | 73.8                    | 47.0                    | 26.8   | 57.0        |
| Net income  | 0.0                     | 0.0                     | 0.0    | -           |

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

## Explanations of the Profit and Loss Account

| Net interest income<br><i>in € m</i>   | 01.01.–30.09.<br>2017 | 01.01.–30.09.<br>2016 | Change       | Change<br>%  |
|--|-----------------------|-----------------------|--------------|--------------|
| <b>Interest earnings from</b>  |                       |                       |              |              |
| Mortgage loans   | 277.5                 | 300.4                 | -22.9        | -7.6         |
| Public-sector loans  | 2.0                   | 3.7                   | -1.7         | -45.9        |
| Other receivables  | -0.5                  | -0.1                  | -0.4         | -            |
| Fixed-income securities and book-entry securities  | 11.1                  | 36.0                  | -24.9        | -69.2        |
|  | <b>290.1</b>          | <b>340.0</b>          | <b>-49.9</b> | <b>-14.7</b> |
| <b>Interest expenditure for</b>  |                       |                       |              |              |
| Deposits and registered Pfandbriefe  | 48.9                  | 77.8                  | -28.9        | -37.1        |
| Securitised liabilities  | 20.4                  | 53.7                  | -33.3        | -62.0        |
| Subordinated liabilities   | 8.9                   | 9.2                   | -0.3         | -3.3         |
|  | <b>78.2</b>           | <b>140.7</b>          | <b>-62.5</b> | <b>-44.4</b> |
| <b>Net interest income</b>   | <b>211.9</b>          | <b>199.3</b>          | <b>12.6</b>  | <b>6.3</b>   |
| <b>Operating expenditure</b>   |                       |                       |              |              |
| <b>Staff expenditure</b>   |                       |                       |              |              |
| Wages and salaries   | 37.1                  | 38.2                  | -1.1         | -2.9         |
| Social security contributions / retirement pensions  | 12.7                  | 7.7                   | 5.0          | 64.9         |
|  | <b>49.8</b>           | <b>45.9</b>           | <b>3.9</b>   | <b>8.5</b>   |
| <b>Other operating expenditure</b>   |                       |                       |              |              |
| Bank levy  | 10.1                  | 10.9                  | -0.8         | -7.3         |
| Staff-related material costs   | 2.1                   | 1.9                   | 0.2          | 10.5         |
| Building and premises costs  | 2.6                   | 2.6                   | 0.0          | 0.0          |
| Operating and business equipment   | 0.6                   | 0.5                   | 0.1          | 20.0         |
| IT expenditure   | 12.4                  | 11.9                  | 0.5          | 4.2          |
| Advertising and marketing  | 1.5                   | 1.4                   | 0.1          | 7.1          |
| Business operation costs   | 1.5                   | 1.3                   | 0.2          | 15.4         |
| Consultants / audits / subscriptions   | 8.2                   | 10.6                  | -2.4         | -22.6        |
| Group payment set-off  | 4.9                   | 4.9                   | 0.0          | 0.0          |
|  | <b>43.9</b>           | <b>46.0</b>           | <b>-2.1</b>  | <b>-4.6</b>  |
| Amortisation on and depreciation of and valuation adjustments<br>on intangible investment assets and tangible assets | 3.6                   | 2.9                   | 0.7          | 24.1         |
| <b>Operating expenditure</b>   | <b>97.3</b>           | <b>94.8</b>           | <b>2.5</b>   | <b>2.6</b>   |
| <b>Risk provisioning</b>   |                       |                       |              |              |
| Risk provisioning for loan business  | 63.5                  | 36.9                  | 26.6         | 72.1         |
| Securities results   | -23.8                 | 3.3                   | -27.1        | -            |
| <b>Risk provisioning</b>   | <b>39.7</b>           | <b>40.2</b>           | <b>-0.5</b>  | <b>-1.2</b>  |

Berlin, 16 November 2017

Berlin Hyp AG