A partnership built on trust

Berlin Hyp

150 years is a good start.

Annual Report 2018

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Management Report

I Principles of the Bank Business Model

Organisational Structure

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

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

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

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

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

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

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

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

Business Activities

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

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

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

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

Locations

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

Products and Services

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

To manage risks and optimise returns, many financing transactions are processed together with partners. For the most part, Berlin Hyp's product range is therefore consequently suitable for syndicates. The Agency Desk service unit provides special services relating to the syndicate business.

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

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

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

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

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

Locations

Germany and throughout Europe

Berlin
Dusseldorf
Frankfurt am Main
Hamburg
Munich
Stuttgart

Objectives and Strategies

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

Berlin Hyp pursues two strategic goals:

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

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

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

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

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

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

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

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

Goals for 2020

20 %

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

Management System

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

Financial Performance Indicators

Berlin Hyp has defined the following most significant financial performance indicators for the management of its business activities:

- → Transfer of profit to Landesbank Berlin Holding
- → Net interest and commission income
- → Cost-income ratio: ratio of operating expenditure to net interest and commission income, plus other operating income
- → Return on equity: ratio of operating results before income tax and profit transfer plus the change in the special item for general banking risks in accordance with Section 340g of the German Commercial Code (HGB) to average balance sheet equity including the special item for general banking risks in accordance with Section 340g of the German Commercial Code (HGB)
- → Common equity tier 1 (CET1) ratio: ratio of eligible regulatory core equity to the total risk-weighted assets
- → New business

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

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

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

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

II Economic Report – Macroeconomic and Sector-Related Framework Conditions

Macroeconomic Development

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

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

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

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

Industry Development

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

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

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

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

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

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

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

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

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

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

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

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

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

Business Development

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

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

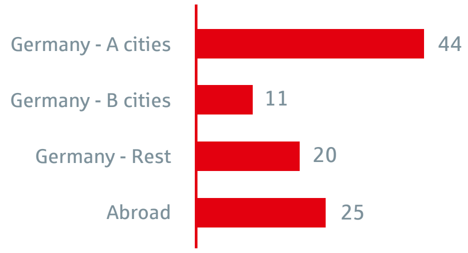
The Bank is responding to the increasing regulatory requirements and the need to network back office and front office processes more efficiently in the future by making extensive adjustments to its processes and IT systems. Berlin Hyp has made good progress on its way to implement the SAP core banking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

New Lending Business Down as Planned Compared to Last Year

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

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

Regions
in %

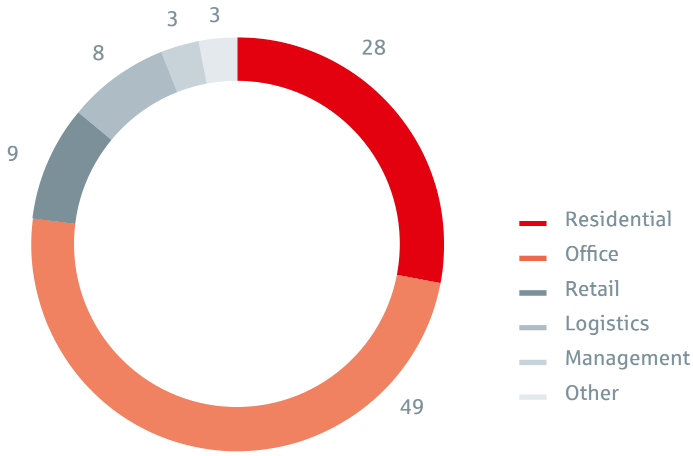


The financing of foreign properties was distributed among the lending regions of Benelux (18 %), France (6 %) and Poland (1 %).

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

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

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



Public Sector Lending Reduced Further in Line with Strategy

The Bank no longer actively pursues new public sector lending in accordance with its strategy. As in previous years, no new loans were issued in the 2018 financial year. Loan volume decreased by € 0.2 billion to € 0.6 billion and is being reduced further as and when individual loans become due.

Volume in S-Group Business Doubled

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

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

Excellent Refinancing Position

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

Equity Position Strengthened through Further Additions

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

Earnings Situation

Earnings Expectations Clearly Exceeded

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

Increased Net Interest Income

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

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

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

Decrease in Net Commission Income as Expected

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

Increased Administrative Expenses

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

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

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

Operating Result
(after risk provisioning)

€ 220.4 million

€ 184.4 million

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

Other Operating Result Improved

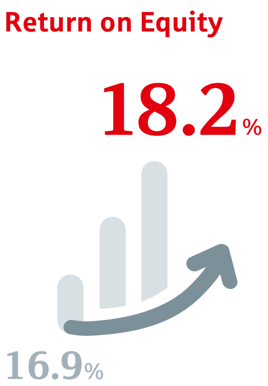
The other operating result amounted to € – 4.4 million (€ – 47.0 million in 2017). It comprises expenses from the increase in the provision for strategic resource planning as well as income from the partial reversal of the provision for legal risks arising from the German Federal Court of Justice (BGH)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

Lower Cost-Income Ratio

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

Risk Provisioning Benefits from Framework Conditions

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



Positive Net Income from Investments

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

Fund for General Banking Risks Increased

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

Operating Result Before Income Taxes and Profit Transfer Significantly Above Expectations

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

Profit and Loss Transfer Agreement

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

Return on Equity Increased

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

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

Assets Situation

Balance Sheet Total Virtually Unchanged

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

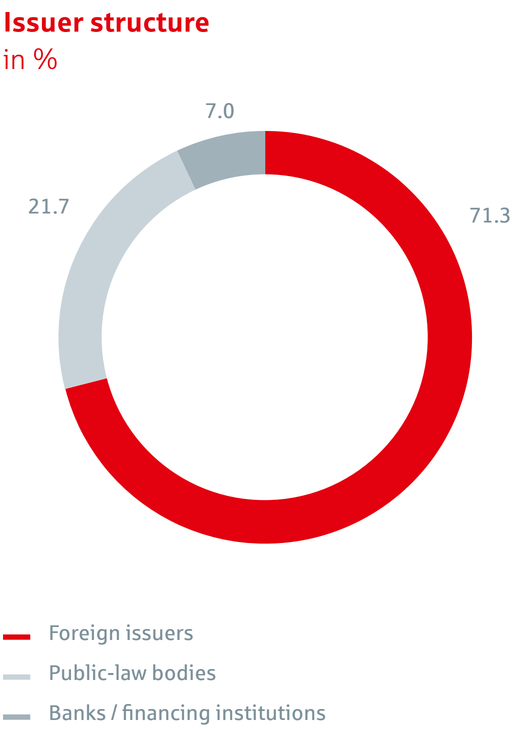
Changes in Material Balance Sheet Items

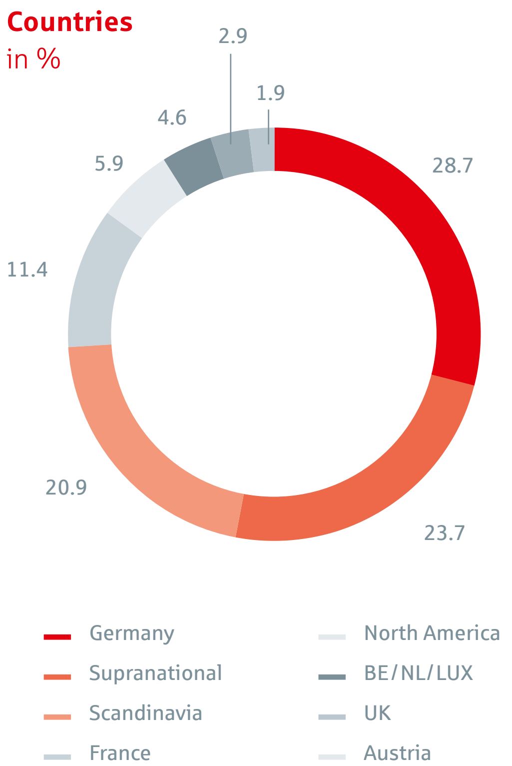
Claims against banking institutions increased by € 0.6 billion to € 1.0 billion in the reporting year. The increase is mainly attributable to higher time deposits.

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

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

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





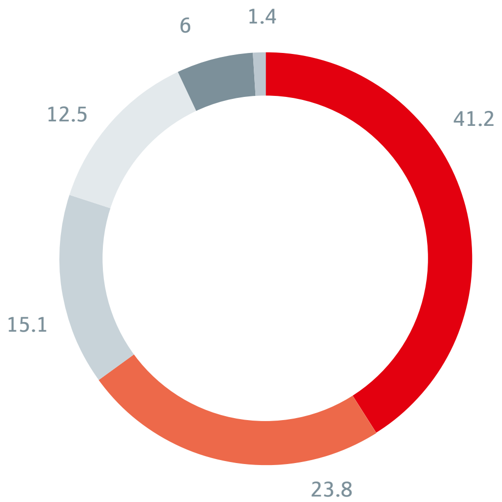
Securities with a nominal volume of € 0.3 billion (€ 0.5 billion) are valued as fixed assets, since they are not classified as a liquidity reserve and partially serve to cover Pfandbriefe issued by the Bank.

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

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

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

Lending Risk
in %



Equity

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

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

Additional Performance Indicators

The leverage ratio calculated according to the Delegated Regulation (EU) 2015/62 was 4.3 % after adoption as at 31 December 2018. The balance-sheet-oriented minimum requirement for eligible liabilities (MREL) will probably not become relevant for reporting until 2020 when CRR II takes effect. As of 31 December 2018, it amounted to 25.2 % based on the balance sheet total (comparable with TLOF) and 78.5 % based on the total risk-weighted assets (RWA). Mandatory minimum requirements that need to be met have not yet been defined by the regulatory authorities for either of these performance indicators – the draft version of CRR II stipulates a minimum of 3 % for the leverage ratio. For the MREL, a target value for 2019 has been set at Group level – an institution-specific specification on the part of the resolution authority is to be expected as a result.

Financial Position

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

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

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

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

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

Aaa
from Moody's

for mortgage Pfandbriefe
and public Pfandbriefe
issued by Berlin Hyp

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

[1] Maturity dates and early repayments including terminations.

Financial and Non-Financial Performance Indicators

Financial Performance Indicators

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

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

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

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

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

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

Non-Financial Performance Indicators

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

In the S-Group business, Berlin Hyp's product portfolio expanded to include ImmoAval and contributed to the extremely positive development of joint business with German savings banks. The total S-Group business volume in 2018 amounted to € 2.9 billion (€ 1.5 billion). The five transactions of the ImmoAval product launched in 2017 were subscribed by 32 savings banks with a volume of € 1.1 billion in the 2018 financial year.

Loan Portfolio

16%

of the overall loan portfolio is comprised of green building financing

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

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

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

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

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

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

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

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

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

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

Overall Statement

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

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

Letter of Comfort of Landesbank Berlin AG

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

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

III Opportunities, Forecast and Risk Report
Opportunities and Forecast Report

Assumptions Relating to Macroeconomic Development

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

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

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

Assumptions Relating to Industry Development

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

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

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

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

Business Development

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Overall Statement

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

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

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

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

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

Risk Report

Risk Management System

Framework Conditions

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

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

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

Group Risk Management System

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

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

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

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

Berlin Hyp Risk Management System

Risk Policy Principles

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

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

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

Documentation of the core elements of risk management at Berlin Hyp is centralised in

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

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

Governing Bodies of Berlin Hyp

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

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

The Supervisory Board is informed regularly by the Board of Management about the overall risk profile. It receives the quarterly risk reports and the financial statements according to the German Commercial Code (HGB). The Loan Committee consisting of members of the Supervisory Board consults with the Board of Management regarding the principles of business policy in the lending business regarding risk, in particular counterparty default risks, market price risks, liquidity risks and operational risks as well as risk management.

Internal Audit is an essential element of the business and process monitoring system. This encompasses a regular review and evaluation of the risk management processes for all types of risk. It audits the units that conclude, process and control transactions for compliance with regulations. It is subject to the authority of the Chair in the organisation structure and reports independently to the Board of Management.

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

Berlin Hyp Governing Bodies
→ Supervisory Board, including its committees
→ Board of Management
→ Financial Steering Committee as a complement to Board of Management meetings
→ Loans/Sales/Risk Management Early Warning Meeting
→ Market Assessment Committee

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

As a part of risk inventory, the Risk Controlling division separately proposes methods and models to identify, measure, aggregate and limit risks to the Board of Management separately on an annual basis in the light of the results. Operational risk controlling is handled by the division.

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

Reporting

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

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

Risks

Material Risk Types

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

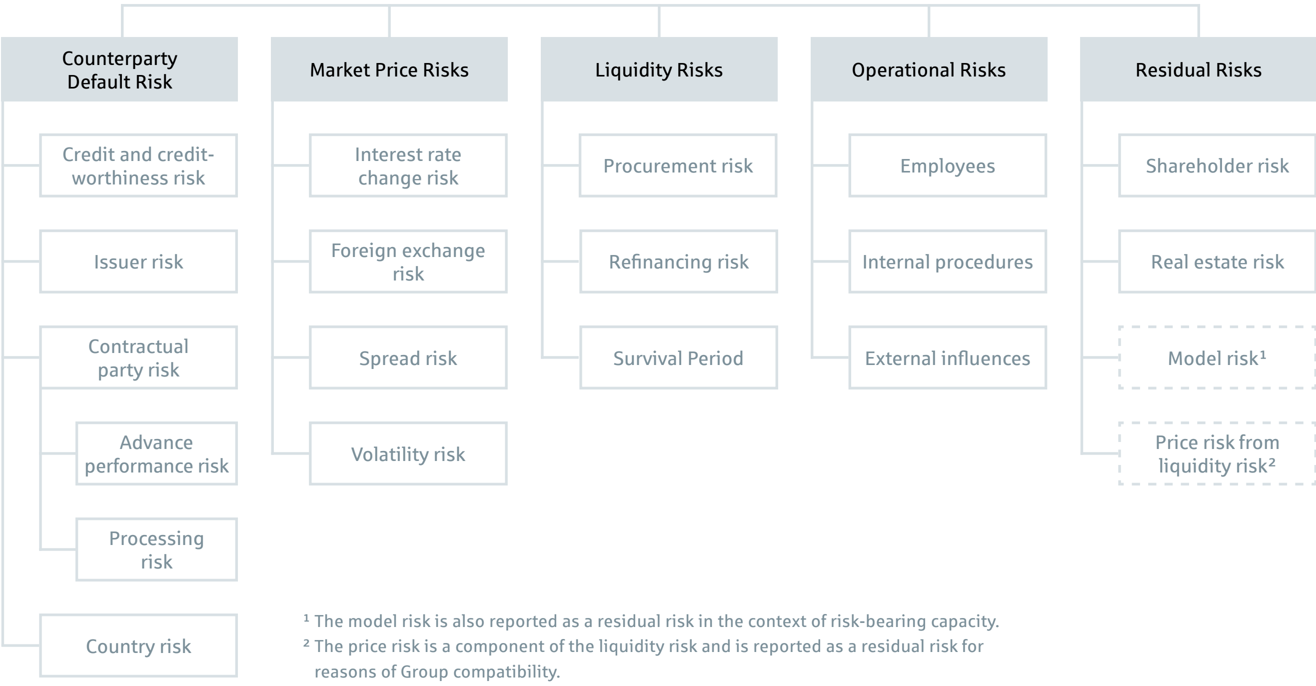
- → Counterparty default risks (including country risks);
- → Market price risks;
- → Operational risks;
- → Liquidity risks.

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

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

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

Risk Types of Berlin Hyp AG



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

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

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

Risk Inventory

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

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

Risk-Bearing Capacity

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

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

The risk-bearing capacity is regarded as given if the total of converted risk values based on a uniform level of probability of 99.9 % at a holding period of one year for the individual risk types does not exceed the risk-covering assets reduced by one buffer. The evaluation is completed by evaluating the overall risk position by assessing the results of various stress tests that take the risks into account from an economic as well as a regulatory perspective. In principle the risk-covering assets are derived from the regulatory equity capital.

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

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

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

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

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

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

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

Risk Management System by Risk Type

Counterparty Default Risk

The risk of counterparty default is the risk of a loss, or loss of profit, due to a deterioration of a business partner's creditworthiness, as well as the risk of a loss in value of the security provided to the Bank. This is currently the dominant type of risk for Berlin Hyp. Counterparty default risks are managed at the individual business partner and overall portfolio levels. Investment risk (shareholder risk) is considered to be no material risk.

Individual Commitment Level

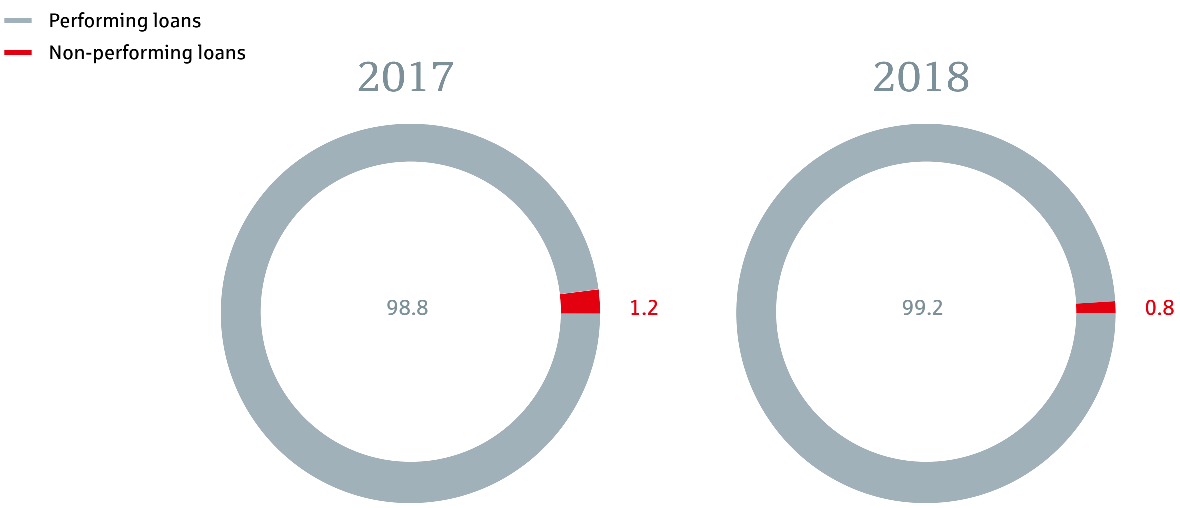
Efficient lending processes form the basis for adequate risk management of the risks of counterparty default. This is guaranteed through a loan approval directive and defined processes and interfaces, from acquisition to new lending through to loan repayment (close integration of front office and back office). The credit processes are laid out in writing in the Bank’s regulations. Credit processes are examined regularly by the Internal Audit division, which means that they are also subject to constant quality analysis.

The risk exposure on the individual borrower level is verified on the basis of regular analysis of creditworthiness. Rating procedures approved by the regulatory authorities that take debtor- and business-specific characteristics into account are at the core of the risk assessment. Pricing as well as loan decisions are based on the rating, taking into consideration the security provided. Real estate financing is largely determined using the SparkassenImmobiliengeschäfts-Rating (SIR) and the method for international commercial real estate financing (ICRE). At the same time, additional rating procedures developed in cooperation with other Landesbanks are used for specific customer groups. These procedures particularly pertain to the capital market business and specifically to insurance ratings, bank ratings and ratings for international regional authorities, as well as the corporate rating.

The rating procedures employed here have been derived from the framework of the banking supervisory authority approval system. Quality assurance along with validation and back-testing for rating procedures are the responsibility of the Risk Controlling division in conjunction with the corresponding division at Berliner Sparkasse. Their continued development and maintenance are provided by Sparkassen Rating und Risikosysteme GmbH (S-Rating) and RSU Rating Service Unit GmbH & Co. KG. Berlin Hyp is represented in the relevant working groups and bodies itself and through the Berliner Sparkasse.

Based on the rating class system, the counterparty default risk is divided into performing loans (rating classes 1 to 15) and non-performing loans (rating classes 16 to 18).

NPL ratio based on FinRep
in %



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

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

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

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

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

The securities and public sector loan portfolio represents a significant aspect of the capital market business. In addition, there are counterparty risks from the derivatives business. In 2018, new capital market business with securities was also restricted, with the aim of reducing the balance sheet total. In general, new business is only concluded with creditworthy counterparties within the scope of a narrowly defined investment strategy. The existing capital market exposure is reported on a regular basis to the Board of Management and the Supervisory Board, broken down according to country and rating class.

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

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

Portfolio Level

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

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

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

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

Management of default risks is based on unexpected loss at portfolio level.
Berlin Hyp has limited the counterparty default risk. It has the risk indicators determined daily under an agency contract with Berliner Sparkasse. The risk indicators are monitored by Risk Controlling. Variance analyses and limit monitoring are performed here. The utilisation of limits at the portfolio level is monitored daily and reported weekly. Berlin Hyp has defined processes and options in the event that the pre-warning level (90 % of the credit limit) is exceeded and limits are exceeded.
The limit is reviewed at least once a year, adjusted if necessary and approved by the Board of Management as necessary.

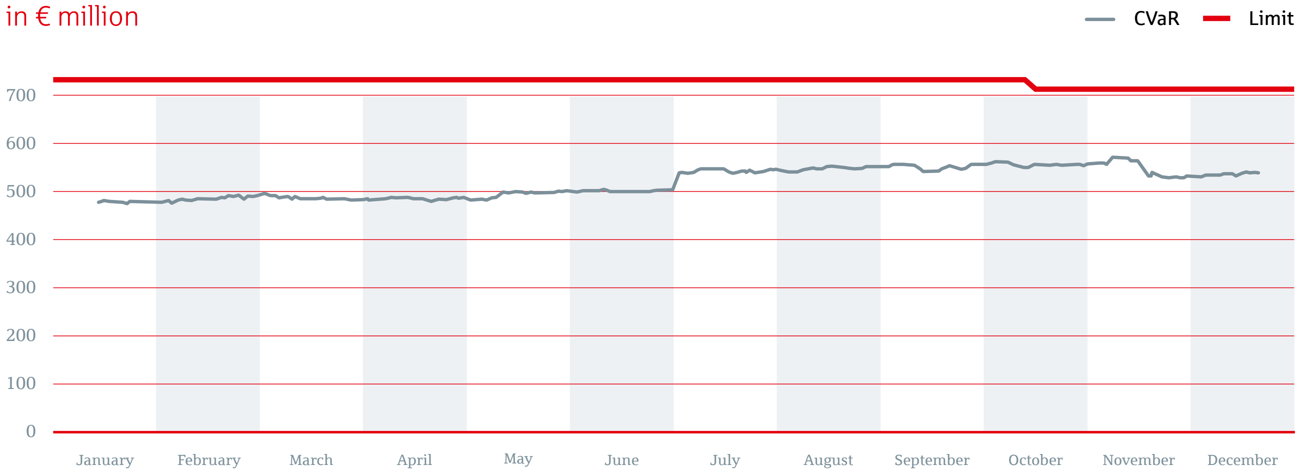
As of 31 December 2018, the utilisation was € 541 million and the limit was € 720 million.

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

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

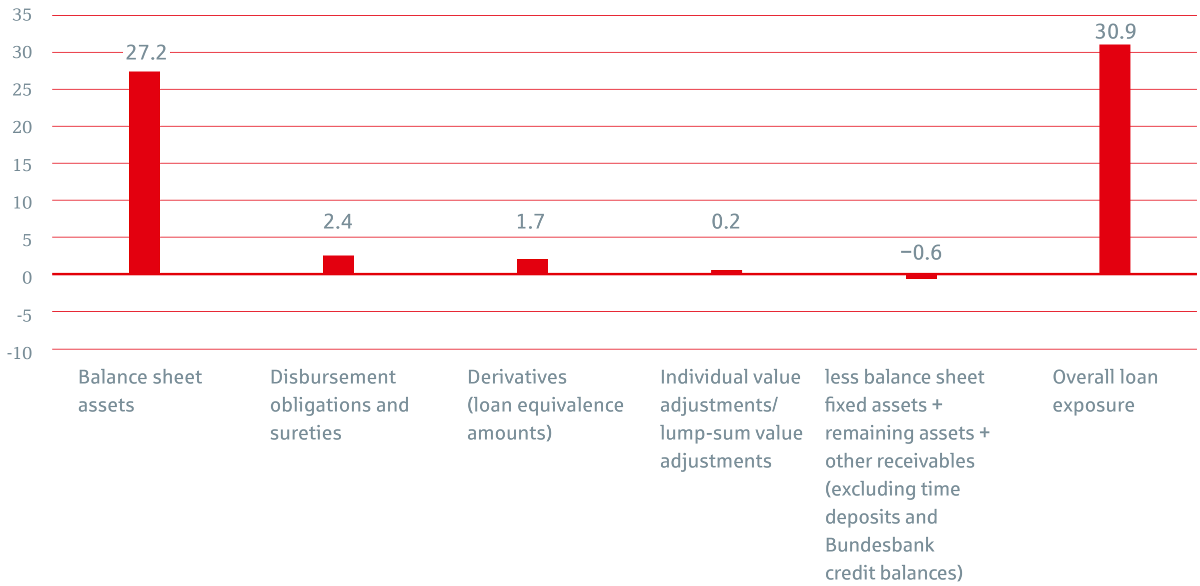
Credit value-at-risk development in total in 2018

in € million



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

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



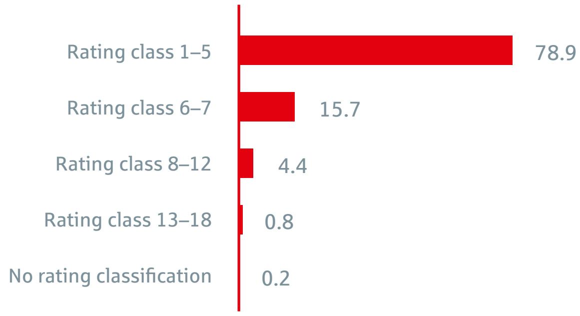
The main divergences to the balance sheet presentation are:

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

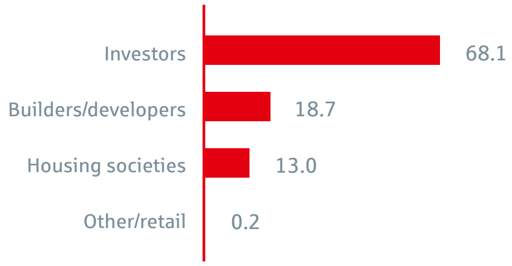
The overall loan exposure is subdivided into mortgage loans of € 23.1 billion, money market transactions and derivatives transactions of around € 4.1 billion and securities and municipal loans of around € 3.6 billion. In its quarterly risk report, Berlin Hyp analyses the counterparty default risk from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

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

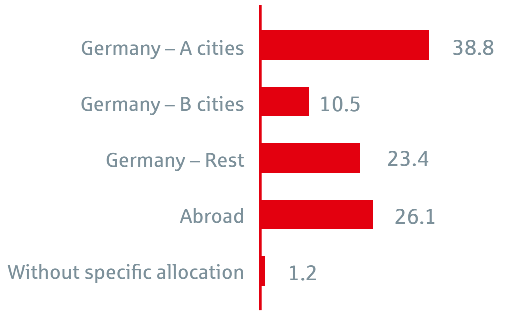
Rating classes
in %



Customer groups
in %



Regions
in %



Property types
in %

Country and Transfer Risks

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

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

Market Price Risks

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

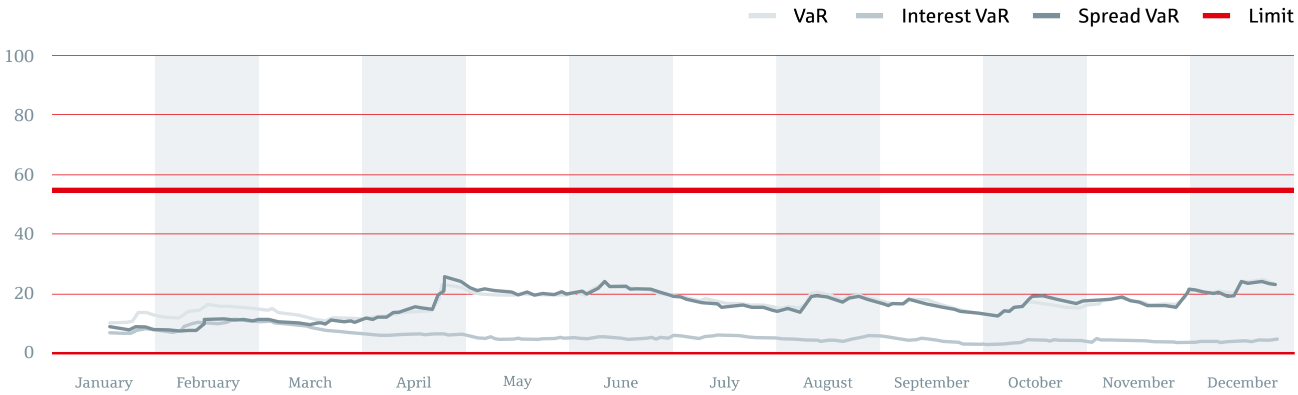
The controlled incurrence of market price risks is based on a range of risk and earnings indicators. The interest rate change risk is hedged with swaps, swaptions and securities. For disclosures regarding the forms of derivatives used as hedging instruments, see the Derivatives section in the Notes.

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

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

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

Value-at-risk development in total in 2018
in € million



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

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

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

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

Liquidity Risks

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

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

The procurement risk (liquidity risk in the narrower sense) is the risk that Berlin Hyp may no longer be able to fulfil outstanding payment obligations that fall due in the short term (refinancing balances) in the next 30 days if access to the unsecured money market is eliminated. This is designed to ensure that the Bank will be able to fulfil all payment obligations within the next 30 days. The procurement risk is reported on a daily basis and the maintenance of the buffer to be maintained even under stress conditions is monitored.

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

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

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

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

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

The price risk encompasses the risk that in case of existing incongruities with dates on which the capital falls due, the Bank can only carry out follow-up financing in the next 12 months on the basis of less favourable refinancing spreads. In addition, the price risk since this reporting year also takes into account the effects of deteriorating refinancing spreads for forward loans that have already been conditioned. The risk is considered within the framework of the risk-bearing capacity concept and is limited. As of 31 December 2018, it amounted to € 21.8 million.

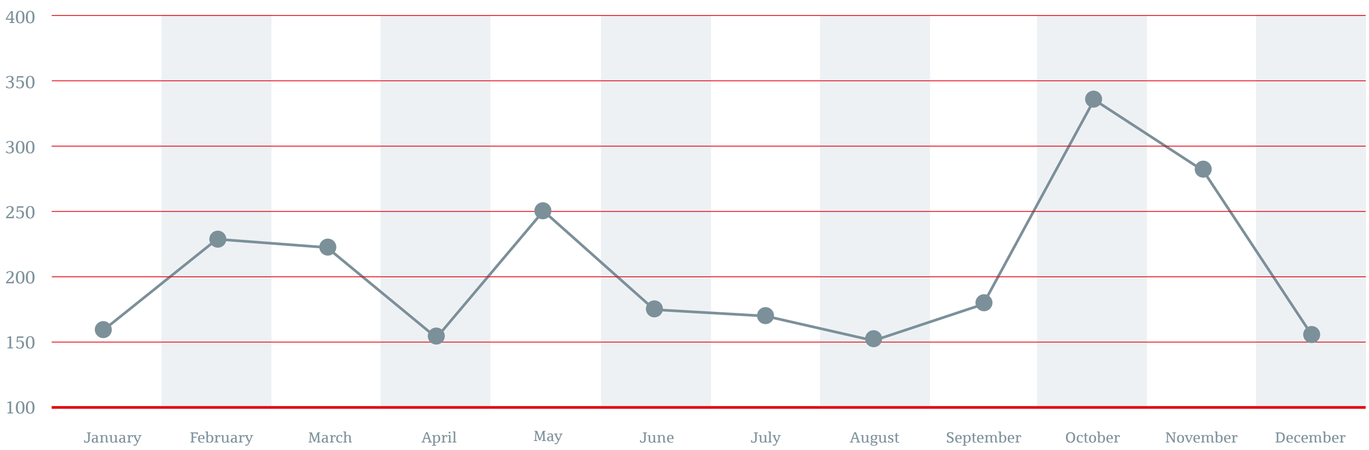
In addition to monitoring liquidity risk limits, the Board of Management is updated on a monthly basis on the concentration of secured and unsecured money market refinancing with individual counterparties.

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

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

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

Development of LCR in 2018
in %



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

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

Shareholder Risks

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

Operational Risks

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

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

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

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

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

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

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

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

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

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

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

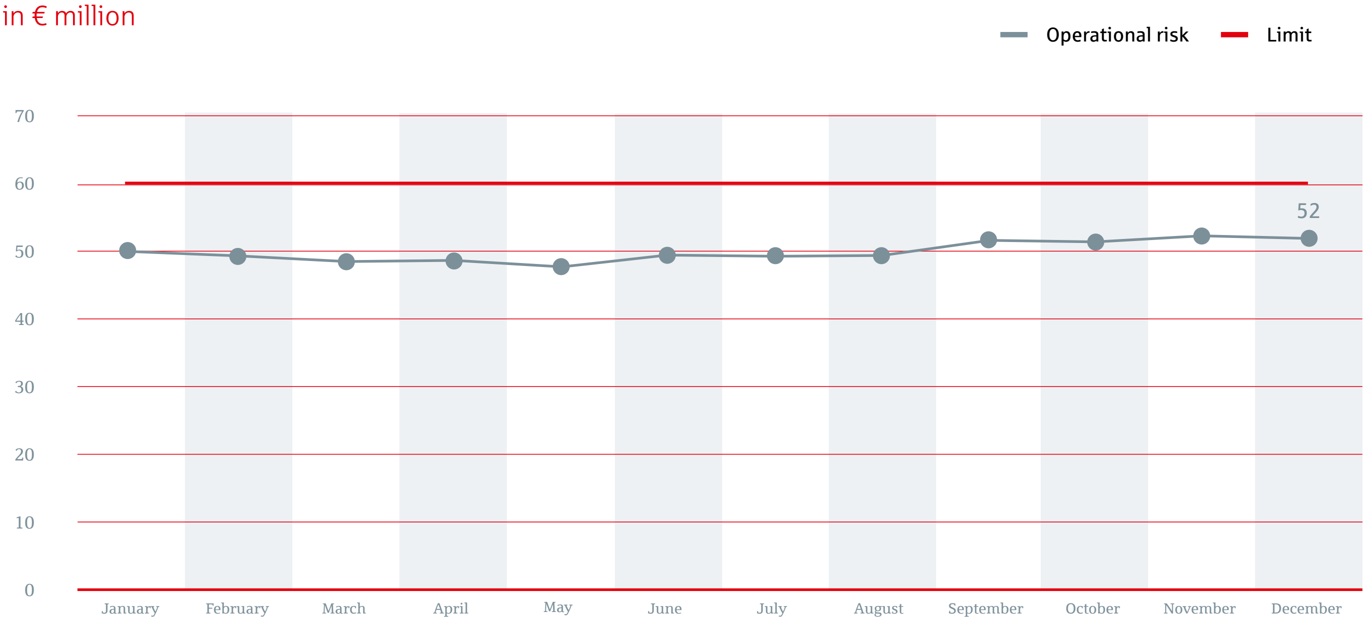
In the event of extraordinary events with far-reaching consequences (e.g. fire and water damage, bomb threats, explosions, hostage attacks and terrorist attacks), a crisis management team was set up at Berlin Hyp to deal with such crises. The situations for which the crisis unit is responsible are characterised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

Systemic Risks

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

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

Utilisation of the limit
in € million



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

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

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

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

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

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

Legal Risks

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

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

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

Claims by Borrowers for Reimbursement of Processing Charges

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

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

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

Overall Statement on Risk Situation
The risks assumed by Berlin Hyp in the financial year were in reasonable proportion to the risk-covering assets.

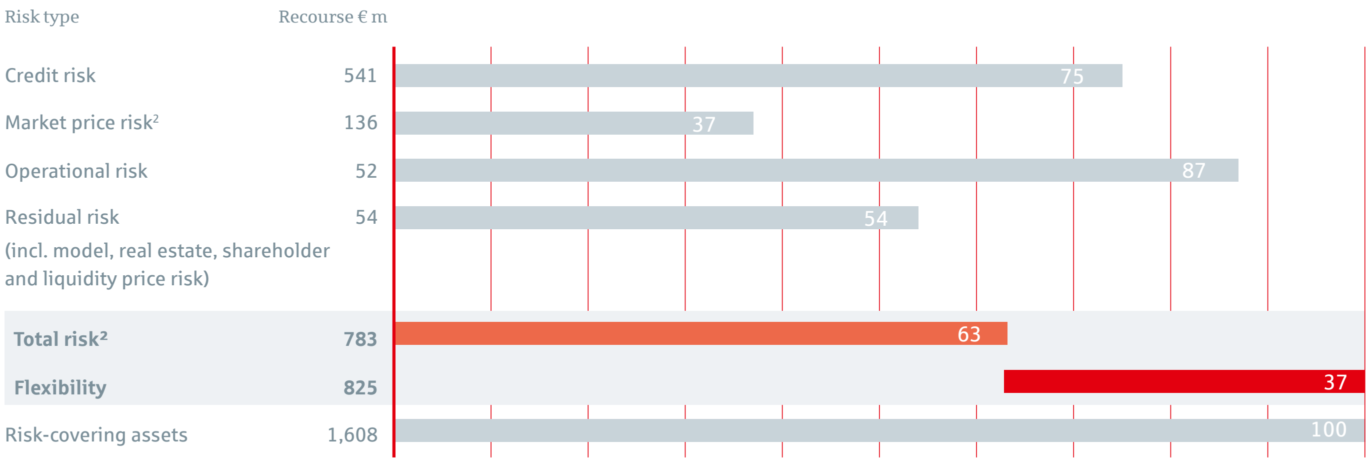
The risk-covering assets as at 31 December 2018 amounted to € 1,608 million.

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

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

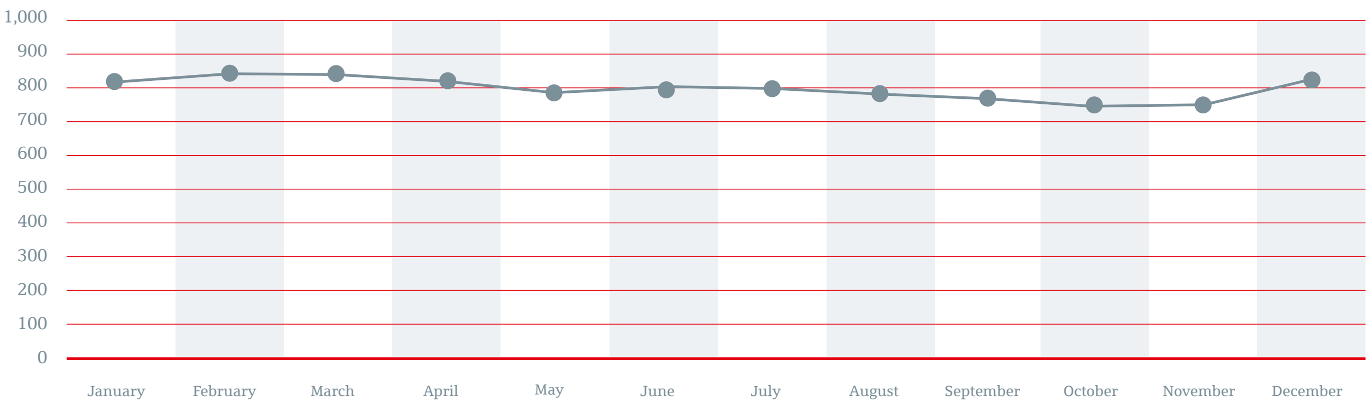
By applying inverse stress tests, it is calculated to what extent the overall bank scenarios with the strongest effects would have to develop until the total risk-covering assets is exceeded or the minimum capital requirement is undercut.

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



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

Development of financial flexibility in 2018 in € million



Other Risks

Business Policy and Strategic Decisions

Strategic risk is the risk of failing to achieve long-term company objectives due to strategic decisions that are incorrect, inadequately prepared or based on incorrect assumptions. Managing strategic risks is the responsibility of the entire Board of Management; certain decisions also require the consent of the Supervisory Board.

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

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

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

Reputational Risks

The Bank monitors print and online media also with respect to potential reputational risks. In the event of negative media coverage, the Bank has installed an escalation procedure to ensure a suitable response. There were no events that involved reputational risks in 2018.

Human Resources Risks

Availability Risk

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

Berlin Hyp draws on all available recruitment sources to cover its staffing requirements, with internal recruitment always taking precedence over external recruitment. Aside from the internal job market, Berlin Hyp also publishes job offers in appropriate, publicly accessible media and obtains targeted assistance from recruitment experts in the case of key positions. In addition, Berlin Hyp regularly attends selected career fairs to address junior staff.

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

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

Motivation Risk

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

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

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

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

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

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

IV Accounting-Related Internal Control System and Risk Management System

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

The Finance and Banking Operations division is responsible for accounting. The organisational units of the division carry responsibility for the general ledger and accounting as well as for technical matters and portfolio management in the subsidiary ledgers. Pursuant to the principle of the separation of functions, the assessment of financial instruments by the Risk Controlling division and the evaluation of credit risks by the Risk Management division is pursued on a case-by-case basis within the financial reporting process. Job descriptions are available for all relevant positions. Furthermore, sufficient human, technical and organisational resources are available in order to ensure the sustainable and disruption-free handling of tasks. The divisions are assigned to the back office.

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

The accounting-related internal control system encompasses principles, measures and procedures for the regularity and reliability of accounting processes, compliance with relevant legal provisions and ensuring the effectiveness of the monitoring of accounting processes. The implementation of controls is decided on the basis of suitability, effectiveness and profitability.

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

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

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

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

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

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

In the 2018 financial year, audits were carried out to reconcile pending trading transactions, to prepare the tax return process and to settle derivative transactions including collaterals. As in previous years, the Internal Audit division monitored and accompanied the process of reconciling loan accounts within the scope of the dispatch of annual statements in its role as a neutral body.

There were no significant findings, as in previous years.

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

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

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

V Remuneration Report

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

Remuneration of the Board of Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Amounts
in T€

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

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

Remuneration of the Supervisory Board

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

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

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

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

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

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

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

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

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

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

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

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

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

Supervisory Board

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

Board of Management

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

First and Second Management Levels Below the Board of Management

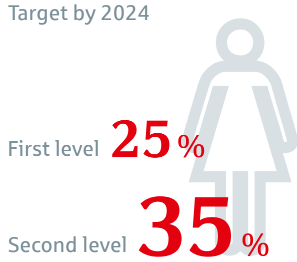
Berlin Hyp's Board of Management established a graduated scheme for raising the target for the first and second management levels. It calls for achieving targets for the first (divisional management) and second (department management) management levels below the Board of Management as follows: 23 % and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

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

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

Women in management positions

Target by 2024



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

General Information

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

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

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

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

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

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

Business Model

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

1. Sustainability Concept

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

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

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

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

Overview of Issues Deemed to be Material

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sustainability Programme (Excerpts)

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

2. Process Management

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

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

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

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

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

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

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

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

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

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

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

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

3. Sustainability Aspects

3.1. Employee-Related Matters

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

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

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

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

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

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

1. Employee Rights

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

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

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

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

2. Equal Opportunities

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

- Universal Declaration of Human Rights of the United Nations

- United Nations Conventions Relating to Work and Employment

- Convention for the Protection of Human Rights and Fundamental Freedoms of the European Union

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

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

- Binding regulation on the inclusion of female applicants in recruitment by personnel consultants for the identification and promotion of female potential;

- Organisational anchoring of the equal involvement of female and male executives in central decision-making processes of the Bank, for example in the form of binding appointments to various selection and observer committees with at least one woman;

- Operational anchoring of the promotion of women by means of the assessment criterion with regard to the behaviour of managers for the equality of employees in the appraisal interview.

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

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

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

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

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

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

- securing qualified personnel to cover the company’s specific personnel requirements;

- increasing the adaptability of employees to structural changes in the organisation and organisational culture

- as well as the flexibilisation of personnel deployment.

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

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

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

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

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

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

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

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

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

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

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

In € m

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

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

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

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

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

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

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

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

1. Political Influence

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

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

2. Conduct in Compliance with Laws and Regulations

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

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

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

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

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

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

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

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

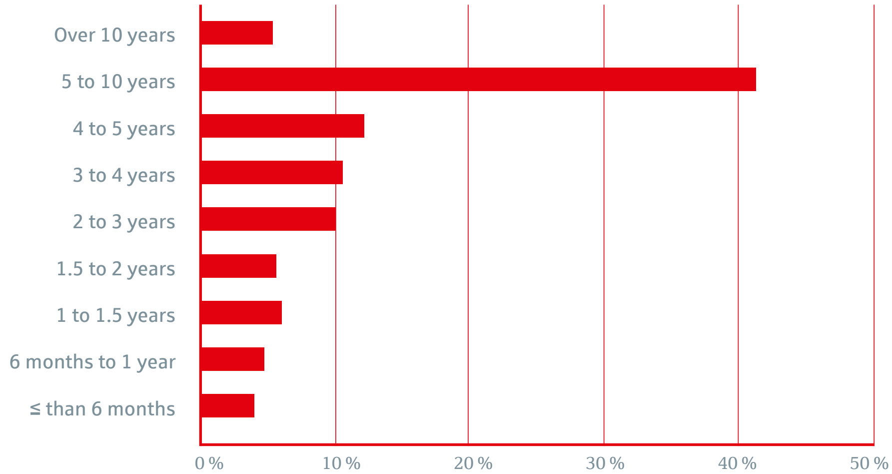
The internal instructions define and describe the processes by which the implementation of the General Data Protection Regulation and other regulations on data protection at Berlin Hyp is to be promoted. Operational data protection is monitored by the Data Protection Officer. He acts on behalf of the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

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

VIII Further Information for Investors

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

Maturity Structure of Loans
in %



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

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

Available Distributable Items (ADI)
in € million

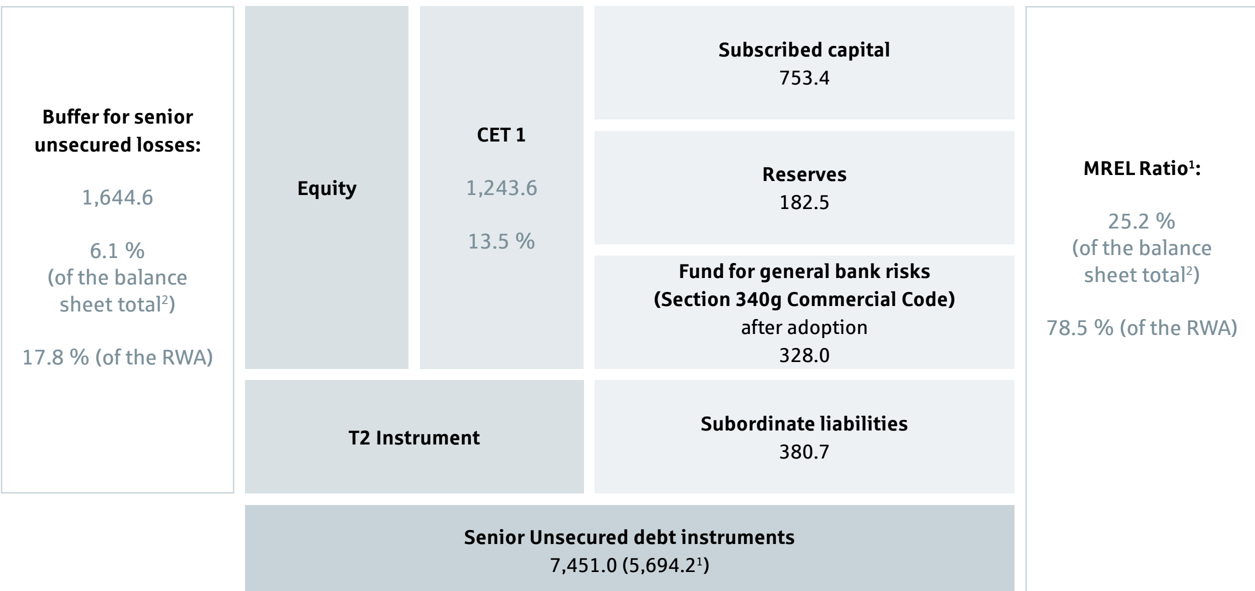
	31.12.2018	31.12.2017
Balance sheet profit	**0.0**	**2.2**
Annual surplus/deficit	0.0	0.0
Profit/loss carry-forward from the previous year	2.2	2.2
Additions to/withdrawals from the profit reserve	−2.2	0.0
Other profit reserves excluding statutory reserves*	2.2	0.0
Free capital reserves pursuant to Section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

* after inclusion in the profit reserves

Regulatory Law Key Figures
in € million

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

Insolvency Hierarchy and Protection of Senior Unsecured Investors
in € million



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

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