

#sharing inspiration

Annual Report 2019

Management Report

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Management Report

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I Principles of the Bank Business Model

Organisational Structure

Berlin Hyp AG (Berlin Hyp) is a stock corporation (Aktiengesellschaft) and forms part of the Landesbank Berlin Holding AG Group (Landesbank Berlin Holding), Berlin, the majority of whose shares are held by the Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG. As a subsidiary of Landesbank Berlin Holding, Berlin Hyp is included in the consolidated annual accounts of the 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 as at 31 December 2019 is as follows¹:

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



Until 31 December 2019, the Berlin Hyp Board of Management comprised three members who had the following areas of responsibility:

Sascha Klaus (Chair)

- Governance
- Communications and Marketing
- Lending (Real Estate and Capital Market)
- Human Resources
- Internal Audit
- Company Strategy
- Valuation

Gero Bergmann

- Portfolio Management
- Treasury
- Sales Real Estate Financing

Roman Berninger

- Finance and Banking Operations
- Information Technology
- Risk Controlling
- Company Organisation

Roman Berninger resigned from the Board of Management of Berlin Hyp at the end of 31 December 2019. Since 1 January 2020, the Board of Management has been composed of two members, with the departments being divided up among them as follows:

Sascha Klaus (Chair)

- Finance and Banking Operations
- Governance
- Information Technology
- Communications and Marketing
- Lending (Real Estate and Capital Market)
- Human Resources
- Internal Audit
- Risk Controlling
- Company Organisation
- Company Strategy
- Valuation
- Risk Management department

Gero Bergmann

- Portfolio Management
- Treasury
- Sales Real Estate Financing

Since 1 January 2020, the Management Board has been supported by Alexander Stuwe, Managing Director, to whom the Lending, Risk Controlling and Valuation divisions and the Risk Management department are assigned.

Berlin Hyp is divided overall into 14 divisions with 45 departments and 11 teams.

At the beginning of the year, the Supervisory Board of Berlin Hyp had three committees: the Loan Committee, the Staff and Strategy Committee and the Audit Committee.

Hitherto, the Staff and Strategy Committee has also performed the functions of a nomination committee and remuneration controlling committee. The range of responsibilities was adjusted in line with the tasks of the Remuneration Controlling Committee. In this context, the committees were also reorganised. The statutory tasks of the Remuneration Controlling Committee were removed from the Staff and Strategy Committee and transferred to the newly formed Remuneration Controlling Committee. The Staff and Strategy Committee was renamed the Presiding and Nomination Committee. Since 17 June 2019, there are now four committees of the Supervisory Board: the Loans Committee, the Audit Committee, the Presiding and Nomination Committee and the Remuneration Controlling Committee.

Business Activities

Berlin Hyp is a banking institution specialising in commercial real estate financing. More than 150 years of experience in the industry and the membership in the Sparkassen-Finanzgruppe have established Berlin Hyp as one of Germany's leading real estate and Pfandbrief banks.

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 constructive exchanges, we provide the institutions with a comprehensive spectrum of products and services. In addition to its offering of syndicate financing, support in valuation and restructuring problematic loans, above all products such as the secured "ImmoSchuldschein", "ImmoAval" and "ImmoKonsortial" generate particular added value to savings banks. As an S-Group partner, Berlin Hyp wants to make a contribution to the success of the Sparkassen-Finanzgruppe.

As a real estate sector partner, Berlin Hyp is one of the first ports of call for investors from the private and commercial real estate sector. In addition to capital investment companies and real estate funds, this also includes housing construction companies and cooperatives as well as selected project developers. The Bank offers its customers individual solutions for

all aspects of real estate financing, serving all common asset classes as individual properties or in a portfolio. In addition to classic mortgage loans, the range of products includes guarantee loans as well as property developer and development financing. Through its business model, Berlin Hyp focuses on real estate financing in economic centres in Germany and select foreign markets.

On the capital market, Berlin Hyp is highly valued as a recognised and reliable partner. Here, the Bank acts as an issuer of mortgage Pfandbriefe and senior unsecured and subordinated bonded bonds. Both Mortgage Pfandbriefe and senior unsecured bonds can also be issued as green bonds. As a bank specialising in commercial real estate, Pfandbriefe are the primary refinancing instruments. These are issued both as benchmark bonds as well as private placements in the form of bearer bonds or registered bonds. By issuing the first green Pfandbrief, Berlin Hyp is a pioneer and has thus set standards on the capital market. Berlin Hyp is the most active issuer of green bonds in the commercial banking segment in Europe.

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, Warsaw and Paris.

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 enable the Bank to offer a full range of customer care as a real estate financier.

To manage risks and optimise returns, many financing transactions are processed together

Locations

Germany and throughout Europe



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.

With the standardised products "ImmoSchuld-schein", which enables savings banks to participate in potential returns offered by commercial real estate financing, and "ImmoAval", which provides for liability sharing via a guarantee with simple documentation, as well as "ImmoGarant", which was newly developed in 2019, Berlin Hyp has launched a product range that is consistently tailored to the needs of savings banks. In line with the Bank's strategic orientation, these products are to be offered in the future via a digital portal solution. Berlin Hyp's product portfolio for German savings banks is rounded off by traditional syndicated financing, investment products such as Pfandbriefe and debentures, and the offer of support in the area of valuation and restructuring ("ImmoRiskDialog"). In addition, Berlin Hyp is continually expanding its product portfolio in order to position itself as a long-term and sustainable service provider for the German savings banks in all aspects of real estate.

In order to strengthen the S-Group concept, the sales structure for German savings banks is organised on a decentralised basis and geared to the needs of the savings banks. Regional savings bank advisors and valuation experts advise the savings banks from their offices in Berlin, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart. Twice a year, the Savings Bank Advisory Board, which is composed of members of the Board of Management of selected savings banks, advises Berlin Hyp on all questions relating to the S-Group business.

OnSite ImmoAgent GmbH, a company founded by Berlin Hyp, offers services related to commercial property inspection both for savings banks and on 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 important element of sustainability – green bonds for the

refinancing of green assets – and thus offering investors added value beyond the credit-worthiness 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 relate 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.

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 continues to pursue 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.

That objective 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 companies/start-ups (e.g. Carbon Delta) and the implementation of a comprehensive sustainability and environmental management system as well as the promotion of employees' social commitment.

With the objective of modernising the traditional business model and increasing efficiency, Berlin Hyp has launched an innovation and digitisation initiative. In this context, the Bank continuously examines and develops additional business models and checks cooperation with suitable companies.

As S-Group partner for commercial real estate financing, Berlin Hyp uses its expertise to develop products and services that contribute to the success of the Sparkassen-Finanzgruppe.

Furthermore, Berlin Hyp positions itself on the market as a sustainable company, and thereby aspires to take a leading position (sustainability rating ranking) in its industry. The Bank has set itself the objective of increasing the share of green financing in its overall portfolio to 20 per cent by the end of 2020.

Berlin Hyp underpins its strategic orientation with four guiding principles:

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

Objectives by 2020



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

Management System

Berlin Hyp's business policies are managed on the basis of annually recurring strategy and planning processes, in compliance with regulatory requirements and the risk strategy approved by the Board of Management. The management 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 lending and portfolio reports as prepared in accordance with German commercial law and regulations. 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 to manage 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 pursuant to Section 340g German Commercial Code (HGB) and the average balance sheet equity including the special item for general banking risks pursuant to Section 340g German Commercial Code (HGB)
- Common equity Tier 1 ratio: ratio of Common equity tier 1 capital allocable under regulatory requirements to the total risk-weighted assets
- New lending volume

Other financial indicators are also included in the management, such as the liquidity coverage ratio (LCR) and the leverage ratio not yet mandatory at the moment. Both indicators will gain in importance in the future.

Non-Financial Performance Indicators

The Bank has defined the following most

significant non-financial performance indicators for the management of its business activities:

- New customer recruitment: the Bank defines as new customers all new business partners that cannot be assigned to any group of connected customers in the portfolio. The indicator "New customer recruitment" describes the share of business concluded with new customers in new business.
- S-Group Business: The volume of business conducted with S-Group partners and, since the 2019 financial year, the number of active business relationships within the Sparkassen-Finanzgruppe. The portfolio of S-Group products and services forms an essential basis for the achievement of objectives in the S-Group business. The relevant portfolio of products and services is therefore regularly presented in relevant internal reports and discussed with the Board of Management.

In further, additional non-financial performance indicators are included in management, such as the market-related target portfolio and staff capacity measured in FTEs (full time equivalents). When it comes to sustainability, the non-financial performance indicators green bonds, green financing and the sustainability rating are worth mentioning.

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

II Economic Report – Macroeconomic and Sector-Related Underlying Conditions

Macroeconomic Development²

Global economic growth in 2019 was restrained. This was due in particular to the ongoing tensions in the trade policy dispute between the USA and China. The increase in protectionist measures on both sides has not only significantly reduced bilateral trade, but has also further increased the already prevailing uncertainties in the global economic environment. The announcement of a “deal” in this dispute did not produce any significant signs of an improvement in the slowed economic development by the end of the year.

The expansion of the dispute to other trading partners such as the European Union was also intensified by the United States. Uncertainties about the design of the United Kingdom’s exit from the EU continued to exist in 2019. All in all, the economic development in the eurozone continued to deteriorate noticeably as a result. The already recently weak investment activity and a negative foreign trade contribution significantly attenuated growth in the eurozone.

The overall growth rates of the German economy in 2019 were again significantly weaker than in the previous year. Nevertheless, the indicators for the second half of the year pointed to a stabilisation, after a sharp decline in the second quarter. However, with a rise in price-adjusted gross domestic product of only about 0.5 % for the year as a whole, economic output is virtually stagnant. The main reason for the weak development is the cooled-down global economy, which affected the export-oriented German industry. This was also evident from the continued reluctance to invest in equipment. Supported by the continued upward trend on the labour market and flanked by tax relief and strong pension increases, private consumption, on the other hand, again grew strongly. Construction investments also remained on an upward trend and, in addition to private consumption, were a major pillar of economic activity. In particular, residential and public sector construction continued on a

strong expansionary path, benefiting not only from growth in real income and the increased public investment budget, but also and above all from the continued favourable financing conditions and lack of alternative investment opportunities for market participants.

Industry Development

In the reporting year, the monetary policy signs on both sides of the Atlantic again pointed to expansion, albeit at significantly different speeds. While the FED responded to emerging economic concerns by cutting key interest rates three times from 2.25 - 2.50 % to 1.50 - 1.75 %, the ECB decided on a comprehensive package of measures in September on the basis of low inflation and deteriorating economic prospects. On the one hand, the package includes a reduction of the deposit rate by ten basis points to - 0.50 %. On the other hand, a multi-tier system for reserve remuneration was introduced in order to mitigate the negative impact of negative interest rates on banks’ earnings. Thus, an amount of six times the minimum reserve requirements is excluded from the negative deposit rate. Furthermore, the terms of the third targeted longer-term refinancing operations (TLTRO III), which were decided in the first half of 2019, were subsequently eased. Another expansionary measure is the resumption of the Asset Purchase Programme (APP), which was not discontinued until 2018. Since November, the ECB has again been buying bonds worth € 20 billion every month. Together with the reinvestment of maturing bonds, securities with an average monthly volume of around € 40 billion are thus being purchased. The programme is initially of unlimited duration and will be based on future inflation developments.

Driven by the expansive monetary policy, various areas of political conflict such as the trade dispute between the USA and China, Brexit and weaker economic prospects, yields on ten-year German federal bonds fell from 0.24 % to - 0.18 % in the course of the year, with interim record lows of - 0.71 %. Ten-year swap rates also began to slide at the beginning of the year, falling from 0.81 % to an annual low of - 0.33 % in August. Subsequently, swap

²Sources for macroeconomic underlying conditions: German Institute for Economic Research (DIW), Kiel Institute for the World Economy (IfW).

yields recovered to some extent and closed the year at 0.21 %. On the one hand, the recovery in yields from their lows is based on slightly improved economic prospects and, on the other hand, on the market's declining expectations of further extensive measures by the ECB.

The risk premiums of European covered bonds narrowed across jurisdictions in the period under review, with spreads of bonds from peripheral countries falling more sharply than those of their core European counterparts. The premiums for German Pfandbriefe were spread just below zero at the end of the year, and thus continued to have the lowest spreads of all covered bonds. For the first time since 2017, the combination of low risk premiums and a negative swap curve resulted in Pfandbriefe being issued with negative returns. At times, more than 95 per cent of the outstanding bonds in the Iboxx Covered Bonds Index yielded negative returns. Spreads on uncovered bank bonds narrowed significantly in the euro area, both in the preferred (- 21 basis points) and the non-preferred format (- 54 basis points), with the latter benefiting particularly from the search for positive yields. In a comparison of German banks, Berlin Hyp bonds continue to feature as those with the lowest risk premiums.

Like the years before it, 2019 was characterised by further tightening and expansion of regulatory requirements. One example is the entry into force of CRR II, which, in addition to the introduction of new methods for determining the risk exposure of derivatives (SA-CCR), now contains final requirements for the additional minimum longer-term or net stable funding ratio (NSFR) and the maximum leverage ratio. Furthermore, the requirements for equity capital and eligible liabilities were tightened.

Fulfilment of the expanded reporting obligations – including but not limited to Non Performing Exposure (NPE), AnaCredit, Supervisory Benchmarking Portfolio and regulatory disclosure, respectively – resulted in significant implementation work. In addition, banking institutions had to deal

with considerable Single Resolution Board (SRB) data requests regarding the creation of individual winding-up plans for each institution. As part of the finalisation of the Basel III package ("Basel IV"), the proposed regulatory amendments were simulated using a range of scenario calculations. The capital/output floor envisaged in the final resolutions of the Basel Committee will significantly burden the capital ratios of the Bank as a FIRB (foundation internal ratings-based approach) institution by increasing the total risk weighted assets. As with previous regulations, a phase-in is planned. It is expected to become effective from 2022, following implementation in the European regulations.

Parallel to the positive developments in private consumption and construction investments, the German commercial real estate investment market registered a historically high level in 2019 with a transaction volume of around € 68.3 billion, exceeding the previous year's result of around € 60.2 billion by around 13 per cent. Commercially traded residential real estate also continued to benefit from progressive urbanisation and a virtually non-existent vacancy rate in most major German cities. Thus, the transaction volume at the end of the year reached a level of around € 16.3 billion, which in view of the controversially discussed state regulations, including but not limited to the draft bill on rent cap in Berlin, represents a decline of only about 6 percentage points compared to the previous year's volume. Despite the strong uncertainty among private investors, there was largely no decline in transaction volumes due to massive public sector purchases. Municipal housing associations in Berlin played a special role in this respect.

The very high transaction volumes in 2019 also confirm the strong dynamics on the German real estate investment market expected by Berlin Hyp. Nevertheless, against the backdrop of limited product availability and the diverse economic policy conflicts such as the trade dispute between the USA and China and the turbulence surrounding a "hard" Brexit at the beginning of 2019, it was not foreseeable that investment volumes, particularly in the office,

but also in the hotel investment market would so significantly exceed expectations.

Robust labour market data and further increases in office employment figures formed the basis for an office investment volume of almost € 40 billion. This represents an increase of around 25 per cent compared to the previous year. Office properties are thus once again the most important real estate segment with a market share of 47 per cent – ahead of commercially traded residential properties (19 per cent) and retail properties (12 per cent). With regard to the various types of retail businesses, it is the specialist retail warehouses and specialist retail parks that are particularly in the focus of investors, accounting for 44 per cent of all types of businesses. The main beneficiaries of their robustness against e-commerce are (local) food retail properties, and they continue to be in strong demand in Germany due to there already existing a large number of specialist retail warehouses and specialist retail parks in various investment sizes.

When it comes to the location criterion for real estate investments, it is true that German A-locations will have gained in importance again in 2019. The investment volume allocated to the top 7 cities was around 56 per cent in 2018 and inclined to 58 per cent in 2019. This trend was driven by foreign investors in particular, as can be seen from the example of Berlin. With an investment volume of more than € 14 billion, the German capital leads the list of the top 7 cities by a wide margin. Foreign investors are now responsible for 57 per cent of the investment volume.³

³Sources for the sector-related environment: BNP Paribas Real Estate, CBRE, Savills.

Business Development

New lending

including long-term extensions



2019

€ 7.3 billion

Berlin Hyp was able to continue its successful business development in 2019. Despite the low interest rate environment, strong competition in commercial real estate financing and regulatory requirements, the Bank transferred a profit to Landesbank Berlin Holding, which exceeded expectations. Berlin Hyp has further consolidated its position in the market and established itself as one of the leading real estate and Pfandbrief banks. In selecting borrowers, the Bank remained true to its conservative risk strategy and continued to focus on financing valuable real estate.

In 2019, the Bank made important progress in implementing its “berlinhyp21” future-oriented process. The alignment of its IT landscape to a uniform SAP solution was consistently further developed in order to meet the ever-increasing regulatory requirements in the future and to safeguard rapid availability of data and reports while maintaining the same high quality. Berlin Hyp is supervised by the ECB, as it is an institution in the regulatory group of Erwerbgsellschaft der S-Finanzgruppe mbH & Co. KG. All relevant regulatory capital and liquidity ratios were met by Berlin Hyp in the financial year. As part of the optimisation of lending processes, the focus was on further streamlining processing procedures by means of extensive automation and better networking of front and back office units.

By establishing and intensifying cooperations with young PropTech companies, Berlin Hyp has simultaneously examined new business approaches and established itself as one of the pioneers in the industry. Examples include the investment in the VC fund “PropTech1”, which was subscribed for in the first half of 2019, and the joint continuation of the company “OnSite ImmoAgent GmbH” founded by the Bank with another strategic investor. Berlin Hyp also holds an interest in “21st Real Estate GmbH”. The partnership with the investment crowdfunding platform “BrickVest” was terminated at the end of 2019 due to its insolvency. As at the reporting date, Berlin Hyp therefore still held three strategic investments.

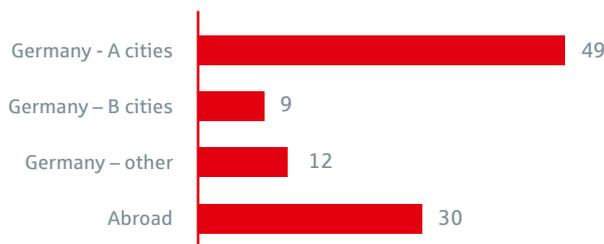
New Lending Business Significantly Above Previous Year's Level

Berlin Hyp reports contracted new lending to be at € 6.3 billion for 2019 due to market conditions and despite increased regulatory requirements, which is significantly higher than the previous year's new lending (€ 4.9 billion). With realised extensions (capital employed ≥ 1 year) of € 1.0 billion (€ 1.2 billion), this put the total new lending volume at € 7.3 billion (€ 6.1 billion). It thus exceeded the target, even with an improved risk structure.

Of Berlin Hyp's new lending, 70 per cent was attributable to properties located in Germany, 49 per cent of which were in A cities, nine per cent in B cities and twelve per cent in the remaining locations within Germany; 30 per cent was attributable to financing of foreign properties. It was distributed among the lending regions of Benelux (12 per cent), France (nine per cent) and Poland (nine per cent). At 78 per cent, most new lending related to the investors customer group. Another 29 per cent was realised with developers and builders. Contracts with housing construction societies accounted for five per cent of new lending.

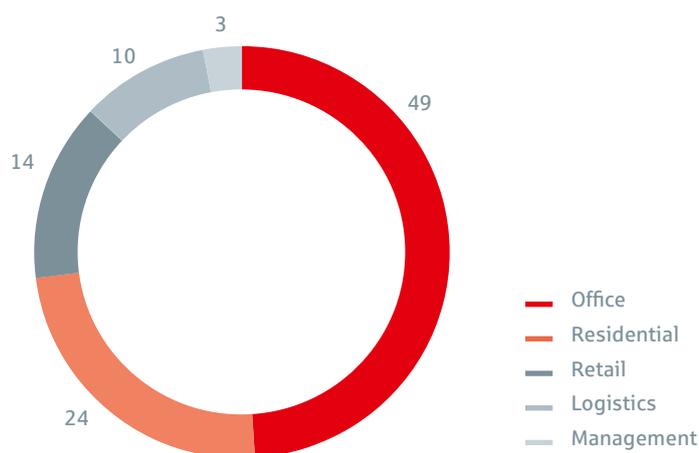
The distribution of new lending by property types is as follows:

Regions in %



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 financial year 2019. Loan volume decreased by € 0.1 billion to € 0.5 billion and is being reduced further as and when individual loans become due.

Business with German Savings Banks Intensified

In 2019, the business realised jointly with the German savings banks was further expanded. With S-Group partners, a total volume of € 1.9 billion (€ 2.9 billion) was realised. Although it was not possible to tie up with the very positive result of the previous year, which was characterised by one-off effects, networking within the Sparkassen-Finanzgruppe was further intensified by means of active business relationships with 151 German savings banks (134 savings banks) from all S-Group regions.

Joint syndicated business with savings banks accounted for € 1.6 billion (€ 1.5 billion) in the financial year. In addition to the ImmoAval transactions already launched in the previous

year, two further ImmoAval transactions with a total volume of € 212 million were placed. For the development of the new ImmoGarant product, two pilot transactions with a total volume of € 67 million were realised in the financial year together with savings banks.

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

Excellent Refinancing Position

Mortgage Pfandbriefe and unsecured bond issues are generally used for the medium-to-long-term refinancing of Berlin Hyp. In 2019, the Bank borrowed € 3.8 billion in external capital (€ 4.6 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, the Bank was a regular issuer on the syndicated bond market.

These included the issue of a ten-year mortgage Pfandbrief for the first time and, later in the year, its first Jumbo Pfandbrief with a volume of € 1 billion since 2013. With a green senior preferred bond and a green Pfandbrief, Berlin Hyp also issued two green bonds in one year for the third time in succession. 60 per cent of the green Pfandbriefe were allocated to foreign investors, demonstrating the above-average international interest in the issue.

Equity Position Strengthened through Further Additions

The common equity tier capital 1 ratio after adoption of the annual financial accounts is 13.3 % (13.5 %) and total capital ratio is 16.0 % (16.8 %). By adding a further € 90.0 million (€ 105.0 million) to the special item for general banking risks pursuant to Section 340g German Commercial Code (HGB), the capital ratios could be kept almost constant despite the growth in risk assets. The Bank's objectives were thus exceeded.

Earnings Situation

Profit Transfer Significantly Below Previous Year

Profit before profit transfer amounted to € 61.0 million and was thus, as planned, noticeably lower than the exceptionally good comparable figure for the previous year (€ 116.4 million). Against the backdrop of the continuing low interest rate environment, high regulatory requirements and the intense competition in commercial real estate financing, the Bank is therefore satisfied with the development in earnings. Operating result after risk provisioning declined significantly to € 155.8 million (€ 220.4 million), due in part to the positive risk provisioning result in the previous year, which was characterised by special factors. However, it still exceeded expectations. The Bank strengthened the special item pursuant to Section 340g of the German Commercial Code (HGB) by allocating a further € 90.0 million (€ 105.0 million) using its own resources, thereby increasing regulatory equity. The reasons for this development are described in the following sections.

Slight Decrease in Net Interest Income

In comparison to the previous year, net interest income decreased by € 5.7 million to € 309.7 million. It was thus slightly below expectations. In addition to lower new lending and portfolio margins and the growth in the mortgage loan portfolios, which was only selectively implemented at the beginning of the year, the result from one-off effects also declined. In order to avoid future interest charges, prepayment charges in connection with unplanned repayments and other one-off interest income were neutralised by compensatory measures, e.g. by closing interest rate swaps with negative fair values. Positive effects resulted from the partial mapping of processing fees in the interest margins and their distribution over the term as a result of contract adjustments in new lending.

Decline in Net Commission Income

Compared to the previous year, net commission income declined by € 5.4 million to € 17.8 million despite good new lending. The expected decline is mainly due to the fact that, as a result of contract adjustments in new lending,

the processing fees are largely mapped in the interest margins and their distribution over the term on the basis of the rulings of Germany's Federal Court of Justice (BGH) on loan processing fees issued in 2017.

Operating Expenditure Increased

Operating expenditure includes staff expenditure, other operating expenditure as well as depreciation of tangible assets and amortisation of intangible assets. With an increase of € 21.1 million, it amounted to € 172.3 million and was significantly higher than expected compared to the previous year's figure.

Staff expenditure improved by € 8.6 million to € 92.4 million. The increase is mainly due to the increase in pension reserves as a result of lower discount rates and other pension obligations.

Other operating expenditure developed in line with expectations. At € 67.5 million, it was € 6.0 million higher than in the previous year and essentially comprises IT expenditure, legal and consulting costs, the expenses from the annual payment of the European bank levy and the allocation of the administrative holding costs of the managing institution under regulatory law. The strategic measures implemented in the financial year 2019, including the continued digitisation activities to optimise and improve business processes, led in particular to an increase in consulting and IT costs. Given the large number of strategic projects as well as the increasing demands on information technology and due to regulatory reporting requirements, this can positively be seen as an investment in the future. Compared to the previous year, the bank levy increased by € 1.4 million to € 12.0 million.

Depreciation of property, plant and equipment and amortisation of intangible assets increased by more than expected, up € 6.5 million to € 12.4 million. This is due to the significantly reduced remaining useful life of the existing building in connection with the planned new construction at the Berlin headquarters' site.

Operating result

(after risk provisioning)

€ 155.8 million



€ 220.4 million

Other Operating Result Affected by Special Effects

The other operating result amounted to - € 1.6 million after - € 4.4 million in the previous year. It was mainly characterised by income from the partial release of the reserve for legal risks arising from the ruling of the Federal Court of Justice (BGH) of 4 July 2017 on loan processing fees and the adjustment of the reserve for strategic resource planning. A further significant component is the expenditure from the ongoing compounding of pension reserves. The fees for the Detailed Agreement concluded with the State of Berlin in 2001 are included for the last time in 2019 due to the repayment of the loans shielded by guarantees.

Higher Cost-Income Ratio

The cost-income ratio expresses the relationship of operating expenditure to net interest and commission income, including the other operating income. Operating expenditure and slightly lower net interest income and net commission income, which were partly burdened by one-off effects such as higher depreciation on the Bank's main building and investments in future projects, led to an increase in the cost-income ratio by 7.7 percentage points to 52.9 %, which was above expectations despite the improvement in other operating income.

Risk Provisioning Increased

Risk provisions of € 7.5 million were formed for the lending business in the reporting year following a release of € 15.5 million in the previous year. The amount allocated includes a further increase in the provision reserves to take account of future market risks in the real estate sector. Active risk management of the Bank and the positive development of the cyclical and business environment had a positive effect on the need for risk provisioning for the lending business. A detailed overview of the development of risk provisioning for the lending business can be found in the notes.

The positive valuation result for securities in the liquidity reserve amounted to € 9.7 million. This is € 12.2 million lower than the previous year's figure. It primarily includes realised gains on disposal from the sale of debentures as well as valuation results of securities in the liquidity reserve at the lower of cost or market.

Net Income from Financial Investments Affected by One-Off Depreciation

The net income from financial investments of - € 4.0 million mainly includes the unscheduled depreciation on the investment in the investment crowdfunding platform Brickvest. In the previous year, net income from financial investments was € 1.2 million.

Fund for General Banking Risks Consolidated

The Bank took advantage of the good economic development to consolidate the fund for general banking risks pursuant to § 340g of the German Commercial Code (HGB) by a further € 90.0 million (€ 105.0 million). The fund amounts to € 418.0 million as at the reporting date and expands the Bank's regulatory equity capital.

Significant Decline in Operating Result before Income Taxes and Profit Transfer

As expected, the operating result before income taxes and profit transfer decreased significantly by € 54.8 million to € 61.6 million (€ 116.4 million).

Profit and loss transfer agreement

On the basis of the profit and loss transfer agreement concluded with Landesbank Berlin Holding, Berlin Hyp transfers a profit of € 61.0 million (€ 116.4 million).

Return on Equity Declined

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 11.6 %. As expected, it was significantly below the previous year's figure of 18.2 per cent.

Earnings development	2019	2018	Change	Change
	€ m	€ m	€ m	%
Net interest and commission income	327.5	338.6	-11.1	-3.3
Net interest income	309.7	315.4	-5.7	-1.8
Net commission income	17.8	23.2	-5.4	-23.3
Operating expenditure	172.3	151.2	21.1	14.0
Staff expenditure	92.4	83.8	8.6	10.3
Other operating expenditure	67.5	61.5	6.0	9.8
<i>of which Expenditure for bank levy</i>	12.0	10.6	1.4	13.2
Write-offs on fixed assets	12.4	5.9	6.5	-
Other operating revenue/expenditure	-1.6	-4.4	2.8	-63.6
Operating result before risk provisioning	153.6	183.0	-29.4	-16.1
Risk provisioning	2.2	37.4	-35.2	-94.1
Valuation result of lending business	-7.5	15.5	-23.0	-
Valuation result of securities business	9.7	21.9	-12.2	-55.7
Operating result after risk provisioning	155.8	220.4	-64.6	-29.3
Net income from investments	-4.0	1.2	-5.2	-
Fund for general bank risks	90.0	105.0	-15.0	-14.3
Other taxes	0.2	0.2	0.0	0.0
Operating result before income taxes and profit transfer	61.6	116.4	-54.8	-47.1
Income taxes ("-" = earnings)	0.6	0.0	0.6	-
Profits transferred on the basis of the profit transfer agreement	61.0	116.4	-55.4	-47.6
Net income for the year	0,0	0,0	0,0	-

Net Assets Position

Balance Sheet Total Slightly Declined

Compared to the previous year, the balance sheet total as of 31 December 2019 declined slightly by € 0.2 billion to € 27.0 billion. On the assets side, the robust increase in the portfolio of mortgage loans was offset by an even greater decrease in cash reserves. Overall, the individual balance sheet items developed in line with the strategic orientation of the Bank.

Changes in Major Balance Sheet Items

Claims against banking institutions decreased by € 0.7 billion to € 0.3 billion. The decline is mainly due to lower time deposits.

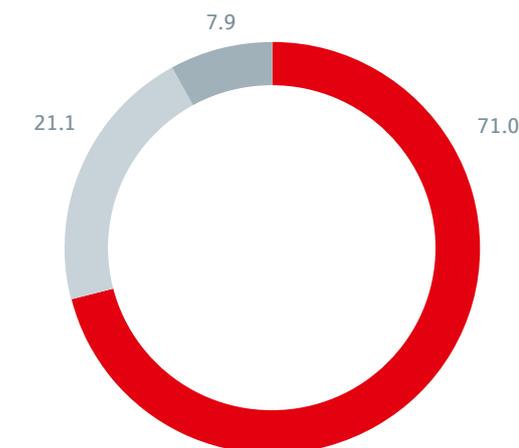
Claims against customers increased by € 1.5 billion to € 22.4 billion. As part of the reduction of public sector lending in line with the Bank's strategy, the portfolio was reduced

by € 0.1 billion to € 0.5 billion. This was offset by the pleasing growth in the mortgage loan portfolios by € 1.6 billion to € 21.8 billion. Additions to new lending were offset to a lesser extent by planned and extraordinary outflows through early repayments. When compared to the previous year, the amount of loan commitments not yet disbursed also increased significantly by € 0.8 billion to € 3.0 billion.

The portfolio of debentures and other fixed-interest securities increased by € 0.6 billion to € 3.7 billion. Additions of a nominal € 1.9 billion were offset by disinvestments of € 1.3 billion.

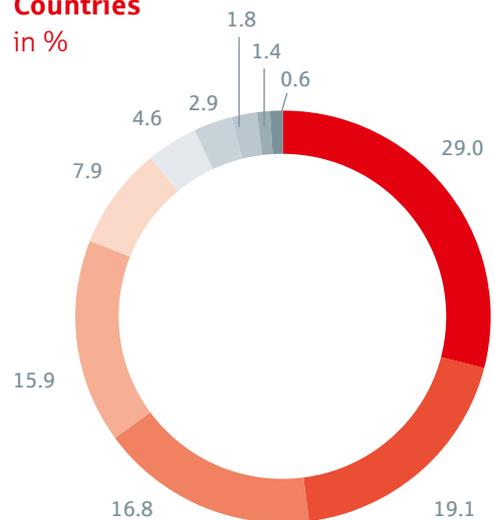
As at 31 December 2019, the issuer structure of the securities portfolio was as follows:

Issuer structure
in %



- Foreign issuers
- Domestic public-law bodies
- Domestic banks/financing institutions

Countries
in %



- Germany
- Scandinavia
- Supranational
- France
- North America
- BE/NL/LUX
- UK
- Austria
- Spain
- Eastern Europe

Securities with a nominal volume of € 0.2 billion (€ 0.3 billion) are valued as fixed assets, since they are not classified as a liquidity reserve and partially serve to cover Pfandbriefe issued by the bank.

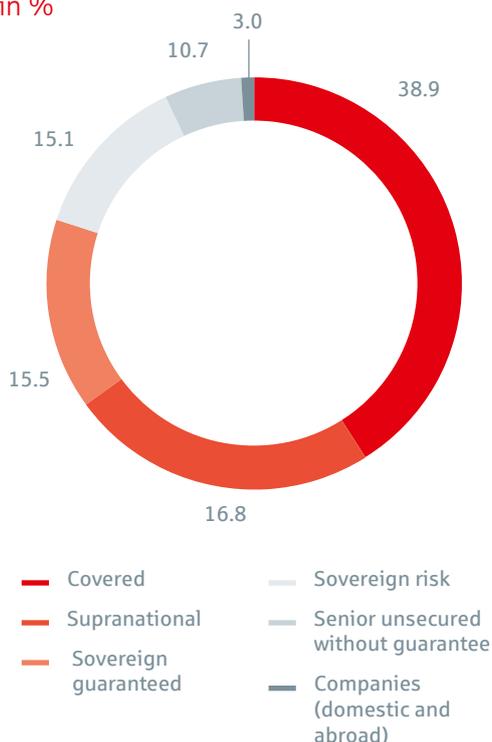
Liabilities to banking institutions remained virtually unchanged at € 4.0 billion. The increase by € 0.5 billion in Lombard liabilities was largely offset by the decrease in liabilities from fixed-term deposits.

Compared to the previous year, liabilities to customers decreased by € 0.6 billion to € 4.3 billion, mainly due to the decreased portfolio of registered mortgage Pfandbriefe.

Securitised liabilities increased by € 0.4 billion to € 16.2 billion. New issues of € 4.5 billion were offset by maturities of € 4.1 billion.

Lending risk

in %



Equity

Berlin Hyp's subscribed capital amounted to € 753,389,240.32 as at 31 December 2019. It is fully paid up and divided into 294,292,672 bearer shares. The shares have a theoretical par value of € 2.56. Furthermore, the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) was € 418.0 million (€ 328.0 million) as at 31 December 2019. Subordinated capital of € 217.3 million can also be taken into consideration as available under regulatory law.

During the reporting year, the requirements with respect to regulatory capitalisation (CRR/CRD IV, Solvency Regulation) were complied with on the reporting deadlines. Berlin Hyp identifies regulatory capital backing for counterparty default risk with the aid of the Internal Ratings-Based Approach (IRBA). Operational risk is calculated using the Advanced Measurement Approach (AMA). After adoption, the common equity tier 1 capital was € 1,323.8 million, equity was € 1,597.2 million, and total risk-weighted assets (RWA) amounted to € 9,990.6 million as at 31 December 2019. The capital ratios were 13.3 % for the common equity tier 1 capital ratio and 16.0 % for the total capital ratio. In the financial year, the capital ratios fluctuated in the range of 13.0 % to 13.4 % and 15.8 % to 16.7 % respectively.

Additional Performance Indicators

The leverage ratio calculated according to the Delegate Regulation (EU) 2015/62 was 4.6 % after adoption as at 31 December 2019. The balance-sheet-oriented minimum requirement for eligible liabilities (MREL) will probably not become relevant for reporting until 2020 by means of a decision by the liquidation authority. As of 31 December 2019, it amounted to 23.4 per cent based on the balance sheet total (comparable to TLOF) and 66.6 per cent based on the total risk-weighted assets (RWA).

Financial Position

Berlin Hyp pursues forward-looking liquidity planning and maintains a liquidity reserve to safeguard its ability to pay on a daily basis. The Bank's refinancing deals with short-term maturities involving deposits from institutional investors, interbank transactions, commercial paper issues, bond issues and repo transactions. Deposits from the mortgage business play only a minor role. Repo transactions are mainly used to manage liquidity positions.

The solvency of Berlin Hyp was safeguarded at all times. Further and more detailed information on the liquidity position can be found in the Risk Report.

In the reporting period, the longer-term refinancing funds raised amounted to € 3.8 billion, of which € 2.1 billion were attributable to mortgage Pfandbriefe and € 1.7 billion to unsecured bank bonds, which were obtained at very favourable conditions. Of these, around € 0.1 billion covered and € 0.7 billion uncovered securities were placed as private placements.

During the year, the Bank issued three mortgage Pfandbriefe and two senior preferred bonds in benchmark format. The Pfandbrief issues were all characterised by special features. In order to meet the high demand of investors for positive yields, Berlin Hyp launched its first covered ten-year bond in May. In August, the Bank again took advantage of the low supply of short-term issues on the market and placed its first jumbo bond since 2013 with a volume of € 1 billion. The three-year bond was priced at around 19 basis points below the ECB deposit rate and, according to information published in the magazine "Global Capital" in August 2019⁴, with a yield of - 0.588 per cent is the most expensive covered bond issue of all time worldwide. In July, the Bank also issued its fourth green Pfandbrief, and with a share of 59 per cent, demand from abroad was again above average. The eight-year bond was priced at mid-swap - 3 basis

points and has a yield of zero per cent. In the unsecured segment, both the seven-year issue of February and the ten-year green senior preferred bond, each with over 100 orders, met with great interest. The majority of the issue was sold domestically, at 77 per cent and 66 per cent respectively. For the third time in a row, the Bank managed to issue two green bonds within one year and, with eight outstanding issues, remains the most active issuer of green bonds in Europe in the commercial bank segment.

Once again, the Bank's commitment to the green Bond market won several GlobalCapital Sustainable and Responsible Capital Market Awards this year for the best impact reporting and being the best issuer of green covered bonds as well as best green bank issuer. In the first two categories, Berlin Hyp was able to prevail against renowned competitors for the third time in a row.

Berlin Hyp's issuer ratings remained stable in the reporting period. Moody's ratings for Berlin Hyp's senior preferred and senior non-preferred bonds remain unchanged at Aa2 and A2 respectively. Fitch rated both categories with an A+. In each case, the outlook is stable. Moody's rating for Berlin Hyp's mortgage Pfandbriefe also remained unchanged at Aaa with a stable outlook.



Pfandbrief issue rating

⁴BHH sets new boundary for negative yielding covered bonds", Global Capital, 22. August 2019

Capital market refinancing *
in € m

	Portfolio without pro rata interest 31 December 2018	New issues**		Maturities***	Portfolio excluding accrued interest 31 December 2019
	€ m	€ m	%	€ m	€ m
Mortgage Pfandbriefe	9,795.0	2,100.0	54.6	1,610.0	10,285.0
Public Pfandbriefe	699.6	-	-	679.6	20.0
Other bearer debentures	4,779.0	1,545.0	40.1	855.0	5,469.0
Registered mortgage Pfandbriefe	2,099.5	28.1	0.7	353.7	1,773.9
Registered public Pfandbriefe	590.0	-	-	158.0	432.0
Borrower's note loans	519.3	55.0	1.4	61.0	513.3
Registered debentures	1,498.3	121.2	3.1	113.3	1,506.2
Subordinated bearer debentures	6.0	-	-	-	6.0
Subordinated borrower's note loans	259.2	-	-	40.0	219.2
Subordinated registered debentures	108.0	-	-	-	108.0
Total	20,353.9	3,849.3	100.0	3,870.6	20,332.6

* Zero balances.

** New issues in 2019, including capitalisations at zero.

*** Maturities and early repayments incl. terminations.

Financial and Non-Financial Performance Indicators

Financial Performance Indicators

The profit transfer to Landesbank Berlin Holding, taking into account the allocation of € 90.0 million to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB), amounted to € 61.0 million and was therefore € 55.4 million lower than in the previous year. Due to the significantly lower than expected risk provisioning, the decline was not as severe as forecast in last year's Management Report. Nevertheless, it was affected by the difficult underlying conditions described in the Business Development section.

Compared to the previous year, net interest and commission income decreased by € 11.1 million to € 327.5 million. The interest income, which we had expected to be on the level of the previous year, developed slightly worse and amounted to € 309.7 million (€ 315.4 million in the previous year). The somewhat higher than expected decline in net commission income by € 5.4 million to € 17.8 million was due in particular to the fact that processing fees were largely mapped in the interest margins as a result of contract adjustments in new lending. Despite the fact that new lending exceeded expectations, the previous year's figure and the planned figure were not achieved.

The cost-income ratio increased more strongly than expected and amounted to 52.9 per cent as at the reporting date. Higher operating expenditure combined with lower net interest income and net commission income led to an increase in the cost-income ratio of 7.7 percentage points. The improved other operating result could only partially offset the increase.

Return on equity developed in line with planning and was above the target value of 10.0 per cent at 11.6 per cent as at the reporting date. Due to the lower profit transfer to Landesbank Berlin Holding and the lower allocation to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) compared to the previous year, the exceptionally good figure of 18.2 per cent for the previous year was not achieved.

At 13.3 % (13.5 %), 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 € 90.0 million and after adoption exceeded the internal target value, even taking into consideration the strict equity requirements according to CRR/CRD IV.

At € 6.3 billion, the contracted volume of new lending was significantly higher than the previous year's figure (€ 4.9 billion) due to market conditions and above expectations. Including long-term extensions, new lending even increased by € 1.2 billion to € 7.3 billion (€ 6.1 billion).

Non-Financial Performance Indicators

In 2019, the share of business concluded with new customers amounted to 41 per cent of new lending. It was thus well above the targets.

The market penetration among the German savings banks, i.e. the number of savings banks with which Berlin Hyp maintains business relations, reflects both the Bank's strategic objective of positioning itself as S-Group partner of the savings banks and its brand essence being based on partnership. Furthermore, Berlin Hyp is striving to consistently expand its portfolio of products and services in order to further enhance its attractiveness as S-Group partner. In 2019, the volume of S-Group business was € 1.9 billion (€ 2.9 billion) and therefore exceeded expectations. Although the previous year's result, which was characterised by one-off effects, was not achieved again, active business relationships with 151 German savings banks (134 savings banks) from all G-Group regions further increased networking within the Sparkassen-Finanzgruppe. This was mostly driven by Berlin Hyp's product portfolio which has been expanded by ImmoAval and ImmoGarant products. Since the launch of the ImmoAval product in 2017, a total of 59 savings banks have participated in the underlying transactions. The pilot transactions of the ImmoGarant product, which has been added to the product portfolio in 2019, were realised with three savings banks.

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 2019. 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 addition to market conditions, Berlin Hyp's performance depends largely on its employees. Since the 2018 reporting year, staff numbers in full-time equivalents (FTE) have been a non-financial performance indicator.

As of 31 December 2019, the number of employees amounted 564 FTEs (558 FTEs), including 23 FTEs of junior staff. These rejuvenate the staff and enrich the bank through their generation-specific way of thinking and working. Taking into account the underlying conditions, the staffing level is appropriate in terms of quality and quantity.

Strategic resource planning is intended to ensure the functional and future viability of Berlin Hyp and was adjusted in 2019 due to new regulatory requirements and structural organisational changes. The main part of the FTE reduction as forecast in the strategic resource planning will be achieved by the increase in efficiency that is to be achieved by the major projects currently underway at Berlin Hyp.

Currently, the project ORZ (organisation and role profiles of the future) is validating the changes in strategic resource planning that have taken place so far, and measuring the impacts of the major projects on FTEs in their qualitative, quantitative and temporal dimensions more precisely. As an accompanying measure, the organisational structure will be reconsidered in order to support the major projects and their results. Against this background, employee qualification will become increasingly important.

To support strategic resource planning, early retirement and termination agreements are

offered in individual cases on the basis of a works agreement. In the medium to long term, the Bank's age structure will lead to an increasing number of employees leaving Berlin Hyp when reaching retirement age. Due to the transfer of expertise, succession solutions often result in temporary double staffing.

HR reporting is prepared every six months and provides a comprehensive overview of performance indicators regarding staff structure, including a department-specific target-actual comparison of the workforce and the demographic staff development. If necessary, measures to change these indicators are 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 with the world's first green Pfandbrief in 2015, eight green bonds with a total volume of € 4 billion have now been issued. In addition, the financing of energy efficient buildings and their refinancing with green bonds has been a permanent objective of the Bank's company strategy since the spring of 2016.

Berlin Hyp plans to publish its sustainability report for 2019 in accordance with the standards of the Global Reporting Initiative (GRI) by the third quarter of 2020.

In October 2019, ISS ESG (previously oekom research) confirmed the prime status of Berlin Hyp with an overall grade of B-. In July 2019, Berlin Hyp scored 87 points out of 100 in the sustainability rating by Sustainalytics. This made the Bank move up from "outperformer" to "leader", ranking sixth in the industry at the international level among the 340 financial institutions rated. In November 2019, the rating agency MSCI raised Berlin Hyp's sustainability rating from previously "BBB" to "A". 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 unchanged intense competition in commercial real estate financing, the continuing low-interest environment and additional regulatory requirements, Berlin Hyp is satisfied with the course of the 2019 financial year. The development of new lending exceeded expectations.

The Bank transferred result after taxes of € 61.0 million (€ 116.4 million), and thus more than planned, to Landesbank Berlin Holding as profit.

Letter of Comfort of Landesbank Berlin AG

The letter of comfort issued by Landesbank Berlin AG in favour of Berlin Hyp AG expired on 31 December 2014 and remains in force for obligations entered into up to 31 December 2014.

III Opportunities, Forecast and Risk Report

Opportunities and Forecast Report

Assumptions Relating to Macroeconomic Development⁵

We expect the restrained growth of the global economy to continue next year, possibly with a slightly positive trend. With regard to the risks for positive development, which are mainly caused by trade and geopolitical conflicts, a sustained easing of tensions is not yet in sight.

For the eurozone, economic growth in 2020 is expected to be as weak as in 2019. Although favourable financing conditions are expected to stimulate and consumption is expected to remain strong, the uncertainties weigh heavily. In addition to the relatively weak global economic momentum, which has a negative impact on export-oriented sectors of the economy, and the trade conflict with the USA, domestic economic uncertainties must also be mentioned. Also in the year to come, the main reasons for this continue to be the uncertainties regarding the surrounding conditions of the UK's exit from the EU and the weakness of the Italian administration.

Next year, we expect the economic development in Germany to stabilise initially and to regain some momentum as the year progresses. Private consumption and construction investments will continue to be an important support for growth rates. In the second half of the year we expect an increase in foreign demand, which will have a positive effect on exports. Investment in equipment should also increase more strongly again after the rather weak last two years. The positive working-day effect arising in 2020 is expected to lead to a noticeable increase in growth rates.

Assumptions Relating to Industry Development

Despite signs of relaxation at the end of the year on the part of the negotiating parties in the trade war between the USA and China and the EU and Great Britain, geopolitical issues are also expected to influence market activity in 2020. The prevailing low interest rate environment and the further policy of the European Central Bank for the coming year will be no less decisive. It is to be expected that significant spread widening in the European covered bond

market will remain limited by the purchasing programme, while on the other hand further spread narrowing will be limited by the low interest rate level.

The preparations by institutions for the regulatory tightening on the horizon as a result of "Basel IV" tie up both financial and capacitive resources. The modelling of the respective risk parameters adopted by the Basel Committee on Banking Supervision (BCBS), 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 a currently stabilising economy with a forecast growth in gross domestic product of around 1.1 per cent, interest rates remaining low for the year as a whole and the continuing pressure from investors to invest, Berlin Hyp expects the real estate investment market to once again be highly dynamic in 2020. The continued good financing environment will safeguard, among other things, that even with low real estate yields there will be an unchanged spread to AAA government bonds, which means that the real estate market will remain attractive from the investor's perspective compared to alternative investments. A transaction volume that matches or even exceeds the very high result of 2019 does not seem realistic against the background of a continuing product shortage. Nevertheless, the € 70 billion mark should be reached again.⁶

Business Development

The Bank further consolidated its position as a leading commercial real estate financier in 2019. Positioning, innovative strength and the sound refinancing strategy remain a good basis for Berlin Hyp to continue its successful business activities. With its involvement in the Sparkassen-Finanzgruppe and its stable shareholder background, as well as its professional and motivated workforce, Berlin Hyp should be

⁵ Sources for assumptions relating to macroeconomic development: German Institute for Economic Research (IDW), Kiel Institute for the World Economy (IfW).

⁶ Sources for assumptions relating to macroeconomic development: BNPPRE, CBRE, EZB, ifo.

well positioned for the future in a very challenging environment. We want to develop and exploit business potential that fits with us.

As the “berlinhyp21” future-oriented process progresses, Berlin Hyp is planning to come closer to its objective of becoming Germany’s most modern real estate financier. The future-oriented process is a key driver for the above-average innovative strength we are striving for and for actively shaping the digital transformation of our industry.

The IT architecture of the Bank consistently follows a standardised path to becoming an integrated SAP bank. Flexibility, security, quality and availability of data and reporting will thus attain a new dimension. Combined with process optimisations, even faster possibilities to react to customer requirements shall thus be created. Furthermore, within the framework of the digitisation strategy, intensive efforts are to be made to generate new business approaches or develop models in order to benefit from them. We will continue to be open to value-added extensions to our value chain in the future.

Berlin Hyp’s core business, i.e. individual financing structures with risk-adequate pricing and a high proportion of domestic business, remains a sound starting point. Financing and consideration with regard to the activities in selected foreign markets will continue to be carried out with a view to achieving a balanced risk/return-oriented portfolio diversification. The newly established portfolio management at Berlin Hyp should enable further improvements in the management and optimisation of the loans portfolio in future, taking into account the respective equity tie-up.

Berlin Hyp also continues to increasingly integrate itself into the Sparkassen-Finanzgruppe as a partner for commercial real estate financing. In addition to the ImmoSchuldschein, which enables German savings banks to participate in the potential returns of commercial real estate financing, and ImmoAval, which combines liability participation via a guarantee with simple documentation and at the same time highly professional processing, the ImmoGarant product has been supplementing the Immo product range of Berlin Hyp for German savings banks since 2019. ImmoGarant builds on the predecessor product ImmoAval by taking up its basic structure of a participation in a loans consortium. However, Berlin Hyp participates

here via liability participation, while the German savings banks provide the refinancing. The product range for savings banks is rounded off by the classic syndicate business, valuation services and the ImmoRiskDialog. Berlin Hyp is consistently expanding its product and service portfolio for savings banks. In the future, the Immo products will be offered completely by means of a digital portal solution.

In 2020, Berlin Hyp aims to establish business relationships in the S-Group business with ten additional German savings banks and, compared with the previous year, to moderately increase the volume of S-Group business. However, due to the regional principle and the individual business focus of each savings bank, the growth rates in terms of market penetration are limited in general. Failure to achieve this objective does not entail any discernible risks for the Bank’s business model or business success. On the contrary, achieving or exceeding the above-mentioned objective increases Berlin Hyp’s chances of positioning itself as a sustainable S-Group partner within the Sparkassen-Finanzgruppe.

The public-sector lending business is not part of the Bank’s core business and will continue to be hived off.

Due to capital market conditions, the securities portfolio has increased again in 2019. Taking regulatory requirements into account, any earnings potential that arises should continue to be used to support net interest income while maintaining the conservative investment strategy. Berlin Hyp does not expect any significant increase in the securities portfolio in 2020.

Net interest and commission income in 2020 is expected to be significantly below the good level of the 2019 financial year. Berlin Hyp is assuming stable interest income in its core business on the basis of planned increasing portfolios. However, the unchanged low and flat yield curve will continue to be a burden in 2020. For 2020, Berlin Hyp expects lower margins in new lending and prolongations compared to the previous year. Net interest income will probably continue to benefit from the compensatory contributions to earnings resulting from the partial mapping of processing fees in the interest margins and their distribution over the term of the contracts as a result of contract adjustments in new lending. We see opportunities in the good market position of Berlin Hyp, its reliabil-

ity and expertise as a commercial real estate financier. The consistent implementation of the digitisation strategy also offers the opportunity to exceed the sales targets and thus also the planned net interest income. Potential risks may arise from the course of unscheduled loan repayments, which depend on the development of the real estate market and interest rates. There are also earnings risks if, compared to the plan, in the core business only lower interest margins can be agreed due to strong competition or if delays in the implementation of the digitisation strategy mean that less lending potential is acquired than expected.

The new lending volume achieved in 2019, which is significantly higher than expected, will be significantly reduced in 2020 according to planning. The continuing good conditions on the real estate markets are offset by intense competition on the financiers' side. In this context, Berlin Hyp will continue to adhere to its restrictive risk policy. Depending on the development of new lending, syndication activities will be intensified accordingly. On this basis, net commission income in 2020 is expected to be at the same level as in the previous year, taking into account slightly higher processing fees. Depending on the respective contract set-up, processing fees continue to be partially mapped in net interest income, which makes it difficult to forecast net commission income.

For new customer acquisition, a share of 20 per cent of new lending is expected for 2020, a significant decrease compared to the previous year (41 per cent). A higher proportion of new customers increases the diversification of the portfolio and thus its quality in terms of improved risk diversification and a broader customer base. In addition to the increased independence from existing customer relationships, the latter also offers the opportunity to expand new business relationships.

Berlin Hyp will continue to pay particular attention to the development of operating expenditure in 2020. The unchanged high level of cost awareness and the intensive optimisation activities with regard to the adjustment of staff resources are offset by high expenditures from strategy projects, such as the optimisation and digitisation of the credit process, the establishment of an integrated SAP bank or the construction of the new company headquarters. The implementation of these essential change projects forms a basis for Berlin Hyp to maintain

its leading position in the industry with regard to digitisation during and after the transformation process. This is a major contribution to the objective of becoming Germany's most modern real estate financier for customers and employees. Based on the current state of knowledge, Berlin Hyp's workforce is expected to decline in the medium to long term. At the same time, demographic aspects are in focus. Since January 2019, a works agreement has been the essential basis for the corresponding resource management. The resulting individual measures are matched by the recruitment of junior staff. The development of staff expenditure will also be affected by the charges in connection with the additions to pension reserves due to falling average interest rates as well as the results of future collective wage agreements.

Overall, Berlin Hyp expects operating expenditure in 2020 to be at the same level as last year. For the reasons mentioned above, the cost-income ratio will rise noticeably again in 2020. With the achievement of the implementation successes from the projects and the other measures initiated, significant reductions can be expected again in the following years.

The continuation of the "berlinhyp21" future-oriented process will ensure that Berlin Hyp remains well-equipped for the challenges ahead. In order to safeguard that this process remains successful in the coming years, appropriate measures will be taken in 2020 to further increase its impact and radiance. Within berlinhyp 21, additional successes were achieved in 2019. Important future topics have been addressed and corresponding projects and plans have been set up, such as:

- Berlin Hyp's positioning as an innovative, digital pioneer and sustainable financier;
- Continuation of the strategy projects KPO 4.0 (lending process optimisation) and SAP-HANA (SAP Bank) as well as start of the PM portfolio management project to optimise portfolio management in the core business;
- Implementation of the B-One project, aggregating all employees in one building at the Berlin headquarters and establishing new working environments;
- Examination of the effects of the major projects within the new project ORZ (organisation and role profiles of the future) with regard to the need to adapt the organisational structure, roles and use of resources;

- Scouting sustainable business models, products and markets;
- Establishment of a Cultural Change-Management and a Culture Board;
- Participatory development of new communication formats for managers – exchange, cultural development, uniform understanding of leadership;
- Workshops for the establishment of new working environments;
- “Leading in change” management training courses and development of new “learning worlds for managers”;
- Introduction of rotation and secondments to foster “thinking outside the box”;
- Implementation of a new target agreement process.

In this respect, cultural change, 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 bank levy is carried out by the banking supervisory authority. Berlin Hyp assumes that the contributions will not see any major adjustments compared to the 2019 level.

Berlin Hyp expects the other operating result, which has improved compared with the previous year mainly as a result of one-off effects, to be in the negative single-digit million range again in 2020.

Risk provisioning in the lending business was influenced by a good economic environment in the financial year 2019. The very satisfactory development of risk provisioning in the securities business is largely attributable to the exploitation of market opportunities and the resulting sale of securities. In line with its cautious planning, Berlin Hyp is assuming a noticeable increase in risk provisioning in 2020. If the current good market and portfolio development continues, there will arise corresponding earnings opportunities. Due to the rent cap, there is a fundamental risk of a negative impact on demand for real estate projects in Berlin and thus on the regional transaction volume. In addition, potential refurbishment measures could be postponed followed by a deterioration in ratings and collaterals. According to an internal analysis, the Bank does not expect any significant additions to risk provisioning from the rent cap.

In terms of planning, Berlin Hyp assumes that operating profit after risk provisioning, which is negatively impacted in particular by interest rate levels and future investments, will decline significantly, taking into account the cautious risk provisioning planning. As a consequence, the result before profit transfer after the realisation of planned notable additions to the special item pursuant to Section 340g of the German Commercial Code (HGB) will also be significantly lower than in the good year 2019.

With an expected decline in the planned result, the average equity capital available will rise primarily due to the additions to provision reserves pursuant to Section 340g German Commercial Code (HGB) to be taken into account. The return on equity will therefore decline, but will still be able to achieve a good value within the target corridor of 8 to 10 per cent.

The bank is expecting a common equity Tier 1 (CET1) ratio of 12.5 per cent for the next 12 months. Additional stricter regulatory requirements, such as 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 targeted capital ratios. Risks with regard to the achievement of objectives exist, for example, in the event of an increase in RWA as a result of reduced collateral values and rating changes due to increasing regulation of rents. Opportunities for a higher common equity Tier 1 (CET1) ratio exist, among other things, if the collateral values of properties continue to rise.

Overall Statement

The underlying conditions remain very challenging for the economy as a whole, the industry and thus also for Berlin Hyp.

Stiff competition in real estate financing, the continued low interest phase and the volatile capital and financial market environment, combined with the need to further strengthen equity capital and additional regulatory requirements, continue to present major challenges.

Opportunities arise from Berlin Hyp’s positioning and the resulting potential. The future-oriented process and the results from the implementation of the strategic major projects will be able to further strengthen the positioning and also open up the opportunities

for a further improvement of the CIR. Combined with a sound and sustainable refinancing strategy, there is a good basis for the successful implementation of the transformation process at Berlin Hyp and for the further development of its successful business activities.

In the S-Group business, the range of products and services will continue to be geared towards the needs of the savings banks. Beyond the German savings banks, we want to take advantage of the opportunities that may arise, for example, from new, customer-oriented products or from activities in new markets.

By testing agile and efficient working methods and procedures, Berlin Hyp safeguards its stability and sustainability, thus offering its employees a reliable perspective.

Berlin Hyp expects to be able to continue the positive development in the business with its customers in 2020. Provided there are no unforeseen distortions on the capital and real estate markets and risk provisioning remains at the planned cautious level, return on equity (without taking into account the utilisation of earnings in the form of additions to the special item) is expected to remain at a good level within the internal target of 8 to 10 per cent. Taking into account a notable addition to the special item pursuant to section 340g of the German Commercial Code (HGB), which is also planned for 2020, and against the background of the costs of future-oriented projects and investments, Berlin Hyp expects a significant decline in the result before profit transfer.

Risk Report

Risk Management System

Underlying Conditions

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

The internal control procedures form the core components of the system of risk-oriented Bank controlling and in particular comprise risk management and risk controlling processes with no conflicts of interest and 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 fixed capital.

Berlin Hyp is part of Landesbank Berlin Holding. Landesbank Berlin Holding assumed the function of a financial holding company that does not transact bank business and is not a banking institution in the reporting year. Landesbank Berlin Holding 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 underlying 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 shall safeguard that assumed risks remain acceptable. For example, special reporting requirements are part of these policies when certain utilisation levels are reached in the individual risk types, but also at the level of overall limit utilisation across all risk types. 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 underlying conditions, responsibilities and methods for the individual risk management phases. Applied methods determine how risks are measured. Limit systems and escalation processes are defined for each major risk type.

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 revenues. 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 strategies are 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 Bank 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.

Both the Internal Audit division and the external auditor regularly evaluate the risk management system in the course of the annual financial statement audit. In addition, the methods used in the risk management system are reviewed by the Bank within the framework of the annual risk inventory.

Berlin Hyp Governing Bodies

The Board of Management together with the Supervisory Board 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 accounts 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, market price, liquidity and operational risks, and risk management.

Internal Audit is an essential element of the business and process-independent 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 LBH 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 in 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 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, insolvency 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. An overview of the aforementioned measurable risk types defined by Berlin Hyp is presented in the following illustration.

Reporting frequency	Report subject
Daily	→ Market price and liquidity risks
Monthly	→ Liquidity risks (price and solvency risk and survival period 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 German Commercial Code (HGB) 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

Risk Types of Berlin Hyp AG



The following overview shows the organisational implementation of risk management at Berlin Hyp for the material 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
Residual risk: shareholder risk	→ Corporate strategy	→ Governance
Residual risk: model risk		→ 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 at least once a year through the presentation of the risk inventory. A systematic reporting on the identified risks is also performed within the scope of regular reporting. In addition, through the involvement of the respective divisions, the New Product Process shall safeguard that risks relating to new or changing products can be 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 incurred are higher. The statistically established risk values are limited per (monetary) risk type.

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 deemed to be given if the sum of the converted risk utilisation – 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. In addition, there is an early warning level for the overall risk utilisation across all risk types at 80 per cent of the available risk-covering assets. The evaluation of the overall risk position is completed 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 a capital concept, which is constantly being developed. In 2019, it was adjusted on the basis of the ECB's "Guide to the Internal Capital Adequacy Assessment Process (ICAAP)".

The calculation of risk-covering assets is still based on regulatory tier 1 capital. In line with the going concern approach, subordinated

liabilities (tier 2 capital) have no longer been taken into account since 1 January 2019. The treatment of hidden reserves and liabilities was also adjusted.

Deducted items (such as hidden liabilities due to avoided fixed asset write-offs triggered by a change in creditworthiness) and (if applicable) incurred or planned losses have a negative effect on the risk-covering assets.

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

Both from an economic and a normative perspective, the risk-bearing capacity of the Bank was given in 2019 as at the reporting dates.

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 risk and to identify the effects on regulatory and economic capital.

Details of the risk-bearing capacity as at 31 December 2019 are disclosed in the section "Overall Statement on Risk Situation".

Risk Management System by Risk Type

Counterparty default risks

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 a loss in value of the security provided to the Bank. This is currently the most 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 an immaterial risk.

Individual commitment level

Adequate risk management of counterparty default risks is safeguarded through a loan

approval directive and defined processes and interfaces, from acquisition to new lending through to loan repayment (close integration of acquisition and subsequent market sphere). The lending processes are laid out in writing in the Bank's regulations. Lending 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 that take debtor-specific 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 of the borrower, taking into consideration the security provided. Real estate financing is largely determined using the SparkassenImmobilienGeschäftsRating (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 bank ratings and ratings for international regional authorities, as well as the corporate rating and insurance business.

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 is 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).

As at 31 December 2019, the share of non-performing loans in the overall portfolio was 0.8 per cent, as in the previous year, and thus continues to remain at a low level.

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.

NPL ratio based on FinRep

in %

— Performing Loans
 — Non Performing Loans



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. 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 loans 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.

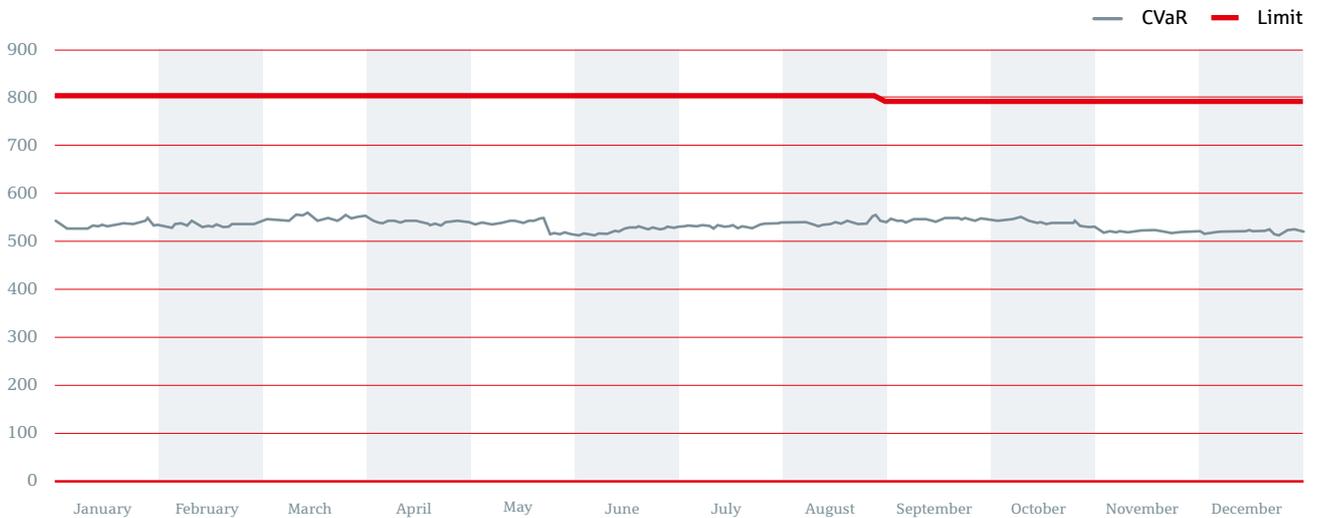
Management of counterparty default risks is based on unexpected loss at portfolio level. Berlin Hyp has limited the counterparty default risk. It has the risk indicators determined daily under an agency contract with Berliner Sparkasse. The risk indicators are monitored by Risk Controlling. Variance 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 at 31 December 2019, the utilisation was € 526 million and the limit was € 795 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.

Credit value-at-risk development in total in 2019 in € m



Stress tests are performed within the scope of the credit portfolio model to simulate the change in a loans 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 Landesbank Berlin Holding and are in line with the requirements of MaRisk.

- The consideration of derivatives with the loan equivalent amount;
- The addition of valuation adjustments and;
- Balance sheet items not included in the overall loan exposure (including property, plant and equipment, other assets, other receivables excluding time deposits, Bundesbank balances).

As at 31 December 2019, Berlin Hyp's reported overall loan exposure was € 31.7 billion, as depicted below.

The overall loan exposure is broken down into mortgages of € 25.5 billion, money market and derivative transactions of € 2.0 billion and securities and public sector loans of € 4.2 billion. In its quarterly risk report, Berlin Hyp analyses the counterparty default risk from the mortgage lending business in particular.

The main divergences between the overall loan exposure and the balance sheet presentation are as follows:

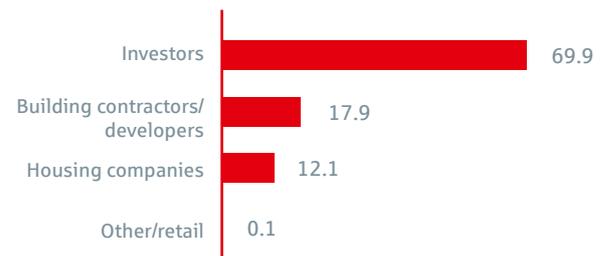
- The inclusion of off-balance-sheet business in the form of disbursement obligations and sureties;

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 recognise a bad country debt value provision for 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.

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 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. In order to be able to take advantage of opportunities arising in refinancing via foreign currencies and to further diversify the investor base, it is planned to carry out foreign currency refinancing in selected foreign currencies in the coming financial year, even beyond the requirements of the mortgage bank business. The resulting refinancing revenue is converted into euros, thus hedging the foreign currency risk. 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. Within the scope of the limits, the interest rate change risk is always 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.⁷ The value at risk also takes credit spread risks and interest change risks from the Bank's pension reserves into account in addition to general interest rate change risks.

The Bank calculates a risk coefficient with which changes in the present value of non-trading activities in relation to equity capital are calculated in the event of an interest rate shift of +/- 200 basis points based on of the EBA Guidelines on the management of interest rate risk arising from non-trading activities. The stress scenarios for market price risk also include various non-parallel interest shocks and a net interest income simulation.

⁷ However, a period of one year at a confidence level of 99.9 % is decisive for the consideration within the framework of the risk-bearing capacity (ICAAP). Therefore, a corresponding scaling is carried out.

The value at risk and risk coefficient are limited. The cash value development of profit and loss and the 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 2019. As at the reporting date, the utilisation was € 28 million and the limit was € 45 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. Outliers arose in 2019 in connection with event-driven market movements, particularly in LBB Group units with interest rate risks in the long-term maturity range. This was due to a significant increase in the volatility of interest rates in this maturity range in the course of the year as a result of global political uncertainties and in response to announcements by central banks. For 2020, an adjustment to the market price risk model is therefore planned in order to counter the observed backtest outliers. Until then, the issue is taken into account by adding a model risk surcharge to the residual risk.

Reports on the results of the stress tests are prepared periodically as part of the monthly and quarterly reports. Aside from predetermined

interest rate changes, these scenarios also include 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 and price risks.

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

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

Value-at-risk development in total in 2019

in € million



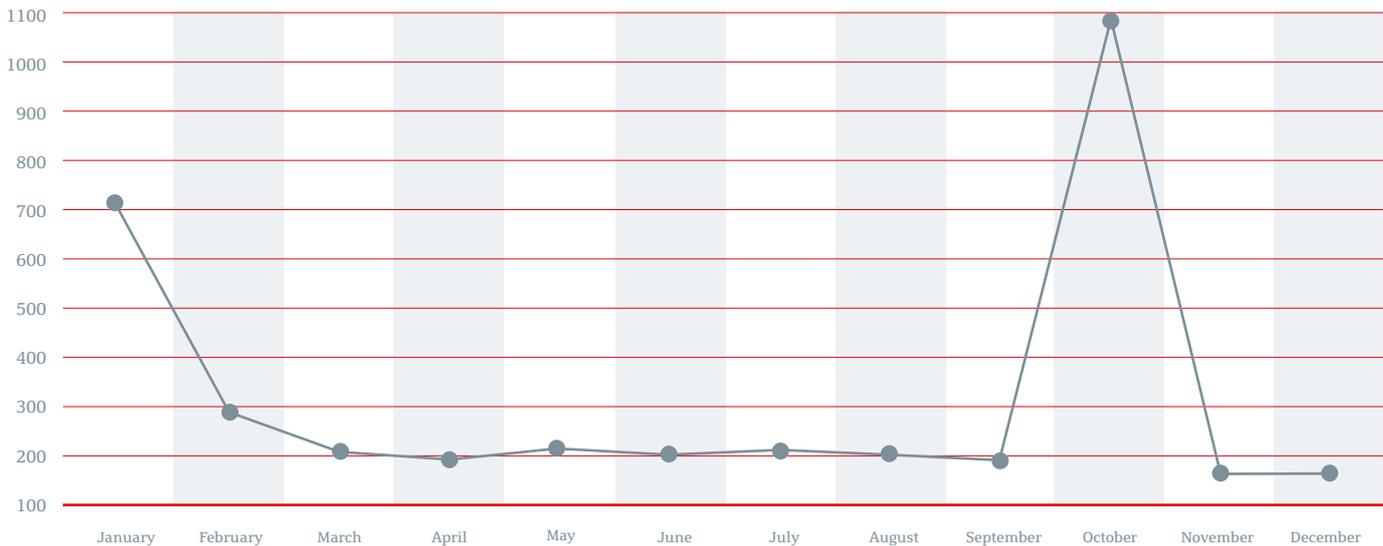
to fulfil all payment obligations within the next 30 days. The procurement risk is reported on a daily basis and the maintenance of the buffer to be maintained even under stress conditions is monitored.

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 in accordance with defined MaRisk conditions (BTR 3.2).

In 2019, the minimum ratio for the regulatory LCR was 100 %. Internally, the LCR is controlled with a target ratio of at least 120 %. On the reporting date 31 December 2019, the LCR ratio was 157 % 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:

Development of LCR in 2019 in %



The significant increase in the LCR ratio in January and October was due to a decrease in net outflows, in particular as a result of the outstanding value date of benchmark bonds with a volume of € 500 million.

Furthermore, 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 illiquidity risk that is determined and reported daily. It is based on a risk/liquidity progress review and assumes intact access to the secured and unsecured capital market. In addition, the survival period is determined. It describes the period that the Bank can survive in terms of liquidity in a stressful environment without access to the unsecured capital market.

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 effects of deteriorating refinancing spreads for forward loans already subject to conditions are also taken into account in the price risk. The price risk is considered within the framework of the risk-bearing capacity concept and is limited. As at 31 December 2019, this stood at € 10 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 management occurs subject to economic limits/warning thresholds. Compliance with regulatory requirements represents a compelling constraint. Falling below a warning threshold or a limit triggers defined notifications and measures if necessary.

The liquidity buffer for safeguarding liquidity consists of diversified, almost exclusively ECB-eligible assets in the various categories in accordance with the CRR rules. As a matter of principle, the Bank does not enter into new commitments in insufficiently liquid markets.

Berlin Hyp's Treasury prepares monthly forecasts of liquidity developments for a period of at least 12 months. The assumed premises are regularly reviewed and adjusted if necessary.

The Bank makes use of various instruments for refinancing. In the money market field, this includes both unsecured borrowing by means of bilateral money market transactions and the issue of commercial papers, as well as secured borrowings, which are concluded both bilaterally and, in the case of repo transactions, via Eurex. Furthermore, the Bank participates selectively in ECB open market operations.

In the capital market field, funds are raised through Pfandbriefe and unsecured refinancing. This takes place both by means of private placements and the issue of bonds in benchmark format.

For the coming financial year, it is also planned to extend the capital market refinancing, which has so far only been carried out in euros, to selected foreign currencies. The objective is to take advantage of any funding opportunities arising in foreign currencies and to broaden the investor base.

A description of the development of the refinancing structure can be found in the notes on the financial position in the Economic Report.

Shareholder risks

In the reporting year, Berlin Hyp AG held shares in a total of five different companies, including three young companies based in Berlin from the so-called PropTech sector.

These include OnSite ImmoAgent GmbH, with its crowd-based real estate inspection service, amounting to 49 % following the sale of shares to a strategic partner in the reporting year. The

Bank holds a further minority interest in 21st Real Estate GmbH, which operates a system for the valuation and digital purchase process of real estate. In the 2019 financial year, the Bank acquired fund shares in a venture capital fund, PropTech1 Fund I GmbH & Co. KG, whose investment focus is on start-ups for the digitisation of the European real estate industry. As of 31 December 2019, the shareholding was 16.55 %.

The minority interest in BrickVest Ltd, London, is being wound up following its insolvency in the reporting year. Lastly, Berlin Hyp AG holds 100 % of the shares in Berlin Hyp Immobilien GmbH, which, besides its own brokerage activities, is also involved in real estate marketing but no longer has any active business operations. The entrepreneurial risk and currency risk related to the shareholding in London are taken into consideration in the shareholder risk. Furthermore, the senior management of Berlin Hyp is informed quarterly in a separate controlling report about the development of the strategic shareholdings and their economic situation.

Operational Risks

In accordance with the CRR, operational risk is defined as the risk of losses resulting from inadequate or failed internal processes and systems, people or external events. In addition to operational risks, this definition includes legal risks but does not include strategic and reputational risks. It 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 OpRisk Committee with respect to their function as an interface with Landesbank Berlin Holding Group. Together with the Group, Berlin Hyp has received regulatory approval for an internal OpRisk model (Advanced Measurement Approach = AMA model), which is used to measure and determine regulatory capital requirements.

The model is validated on a regular basis and the model assumptions are essentially confirmed. All violations of the model are rated as uncritical, plausible or materially minor; in each case, 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 sequences of identification,

assessment, monitoring and management of operational risks. The Board of Management is informed about the correctness of the aligned risk parameters (self-assessment and scenario assessments) firstly in the quarterly Risk Report and secondly every six months by means of an extended presentation of the operational risk in the Risk Report. In the event of extraordinary events, in particular significant claims, ad hoc reporting is provided.

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 in coordination with the individual specialist divisions, among other things. In particular, this responsibility also includes the initiation and implementation of countermeasures, the introduction of suitable internal procedures and measures and the conclusion of insurance policies. Berlin Hyp aims to minimise operational risks from an economic perspective.

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);
- Claims 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 German Banking Act (Gesetz über das Kreditwesen, 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 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 2019 risk analysis, the Money Laundering Officer came to the conclusion that the risk of exposure to

money laundering, terrorist financing and other criminal acts should be classified as "medium". According to internal analyses, the risk will be reduced to "low" when planned risk-minimising measures are taken into account.

Within the framework of the overall risk assessment derived from Berlin Hyp's risk-bearing capacity, the Board of Management of Berlin Hyp decides upon 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 set at € 65 million as at 31 December 2019. It was raised by € 5 million in the course of the year due to a slight increase in utilisation. Pre-warning levels are not defined. The monthly utilisation of the limit is shown in the following table for 2019.

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

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.

With the integrated SAP system, Berlin Hyp has an efficient IT system that corresponds to the type and scope of its business activities. The system in place was 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.

Utilisation of the limit

in € m



Through accompanying organisational measures, an access protection system has been implemented to prevent unauthorised or unwanted access to data, whether reading or writing. In addition, protective measures were established to ensure the integrity, authenticity and confidentiality of data by means of IT systems and processes.

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 2019 together with the IT service partners and the utilising departments.

In order to limit information and 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. In general, 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.

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 Administrative Fees

In 2017, the Federal Court of Justice (BGH) ruled that the agreement of administrative 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 an administrative fee into the interest margin or an individual agreement on administrative fees to be permissible in principle.

Loan agreements in which foreign law has been agreed are not affected by the jurisdiction of

the Federal Court of Justice. Corresponding claims for reimbursement of administrative fees were made against the Bank. The Bank has reviewed the amount of the reserve 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

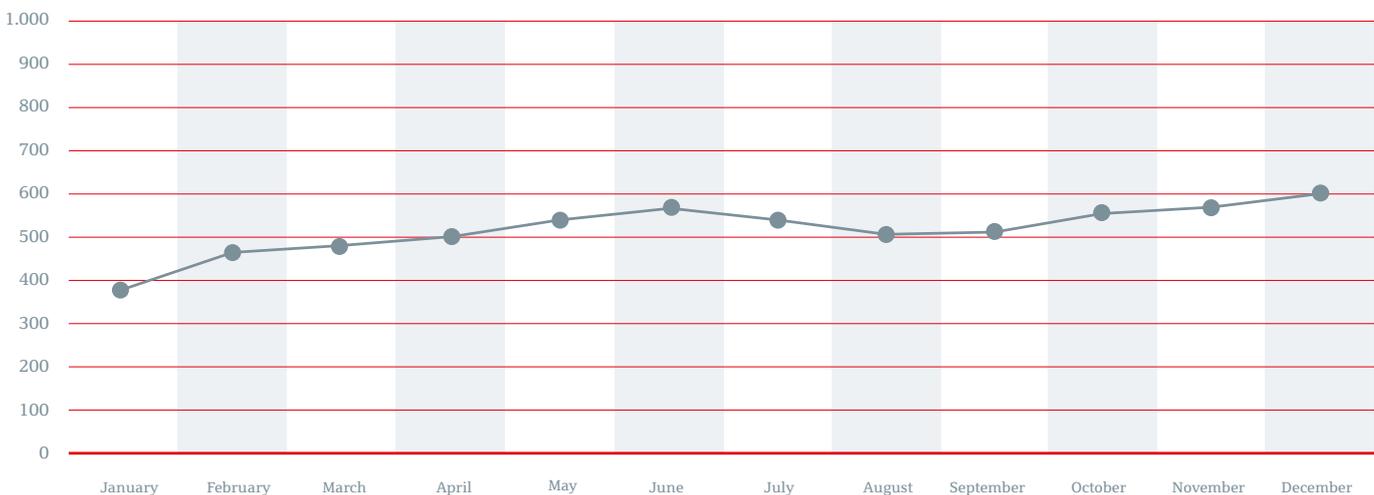
The risks assumed by Berlin Hyp in the financial year were in reasonable proportion to the risk-covering assets.

The risk-covering assets as at 31 December 2019 amounted to € 1,417 million.

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

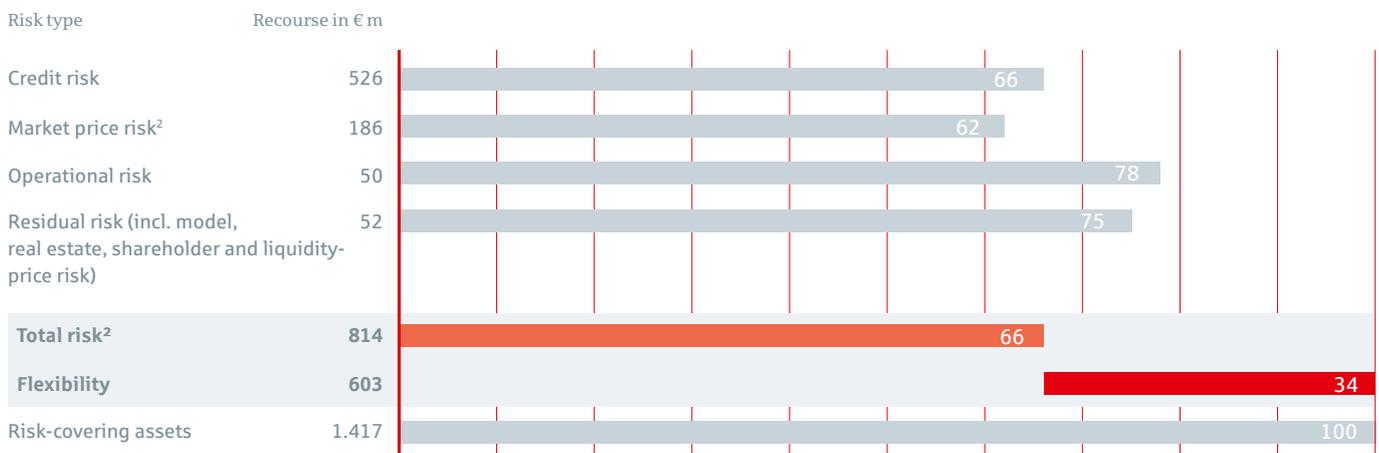
Development of financial flexibility in 2019

in Mio. €



Percentage of recourse per risk type as of 31 December 2019

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.

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.

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.

In the reporting year, Landesbank Berlin Holding as the Group's parent company 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 underlying 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 target values. Selected financial and risk targets are also monitored during the year based on standardised reports.

Within the binding Group requirements, Berlin Hyp further defined the business strategy according to its specific requirements. These requirements 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 2019.

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 safeguard the functional and future viability of Berlin Hyp and is continuously adjusted. In order to keep planning up-to-date and realistic, megatrends (e.g. digitisation/automation, ageing society, knowledge culture, individualisation, developments in new and established business fields as well as regulatory requirements) are taken into account.

Berlin Hyp draws on different 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. Specialised platforms are used for the required profile in order to fill the vacant position as quickly as possible. Berlin Hyp 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.

Taking into account the Bank's existing staffing levels, the availability risk was assessed as low. Open positions could be adequately filled within a reasonable period of time. The availability risk is low.

Berlin Hyp is countering the megatrends in a number of ways. For example, the trainee programme was successfully re-implemented in 2019 in line with the needs of the target group and the company (including digitisation issues). On the basis of the new competency model, the selection procedures for trainees were redesigned. The selection procedures for managers were also adapted to the new competencies.

Motivation Risk

Staff motivation is fostered by sustainable workplaces and job contents as well as a lively corporate culture. The ongoing feedback serves as an indicator of this. Feedback is part of the corporate culture and is enshrined in the competency model of the Bank. It is specifically implemented in various processes and via various media. In 2019, leadership feedback was made binding for all managers as 270-degree feedback. A full online survey of staff was used as a medium several times

in the past fiscal year to provide feedback on various issues, and an impressive participation rate was regularly achieved. This is an indicator of the high level of staff identification with Berlin Hyp and the great motivation of the workforce to become involved in change processes. The operational integration management was redesigned in 2019. Through the integration of support by external specialists, Berlin Hyp provides its staff with even better support in overcoming incapacity for work, preventing renewed incapacity for work and maintaining the employment relationship in the long term. The motivation risk was assessed as low.

Qualification Risk

Due to the Bank's age structure, 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 expertise from the departing employees to the remaining colleagues is successful. The efficiency gains from the major projects currently in progress lead to new working conditions and change the required employee competencies. Parallel to the transfer of expertise, employee qualification will therefore be stepped up. The Bank sees learning and development in the work context as a continuous process. The professional, methodological and personal requirements are defined in the Bank's competency model and the job profiles; they are specified and tracked by the managers and their staff. In the competence model, this is described in the "Kontinuierlich Neues lernen" (continuous learning of new things) competence by clearly defined behaviour anchors. The qualification measures offered are tracked in a dialogue between manager and employee. This managerial "supporting employees in their development" task is also defined in the competency model. The implementation of leadership competencies is measured by 270-degree feedback and tracked through individual development measures. The 270-degree feedback for managers is conducted every two years.

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 4.3 days of training and further training.

Based on the results of the management feedback as well as the demands on managers resulting from their roles in implementing the Bank's future issues, a programme for the holistic development of managers in the Bank was implemented in 2019, which 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 corporate law provisions and taking into consideration the Pfandbrief Act (Pfandbriefgesetz) and the Accounting Ordinance for Banking Institutions (Verordnung über die Rechnungslegung der Kreditinstitute). The German Accounting Standards (GAS) of the Accounting Standards Committee of Germany (ASCG) are applied. According to the IFRS, Berlin Hyp is not obliged to present consolidated annual accounts since the subsidiary has no material influence on the presentation of Berlin Hyp's earnings, financial and assets position.

The Finance and Banking Operations division is responsible for accounting. The division's organisational units carry responsibility for the general ledger and accounting and 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 department is pursued on a case-by-case basis within the financial reporting process. Job descriptions are available for all relevant positions and sufficient human, technical and organisational resources are also available in order to ensure the sustainable and disruption-free handling of tasks. The divisions are assigned to the Board's back-office function sphere.

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

The accounting-related internal control system encompasses principles, measures and procedures for the regularity and reliability of accounting processes, compliance with relevant legal provisions and ensuring the effectiveness of the monitoring of accounting processes.

The 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, process and document 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 as well as to accurately assess, show and evaluate assets and liabilities in the annual accounts, thus allowing for a correct identification of results. The controls also serve to provide this annual accounts 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 integrated, IT-supported and organisational controls. In addition, regular, case-related monitoring measures independent of processes have been implemented.

At Berlin Hyp, accounting processes are standardised and are subject to constant supervision. The processing, entry and documentation of relevant accounting data occurs using IT systems that keep accounting books and other records in electronic form. Berlin Hyp uses the SAP core application as an integrated comprehensive banking solution for the entire Bank. This system reduces 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 allocation of technical roles and access rights shall ensure in advance that interventions in accounting processes can only be undertaken in accordance with official responsibilities and appropriate competence. Unless specialised, two-person integrity systems have been established at the system level, organisational control activities are undertaken on a standardised basis. Electronically generated raw data as well as the various interim and final processing results are analysed, tested for plausibility and randomly examined by the departments using a variety of system-supported comparisons, agreements, target-actual 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 preparation process.

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

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

In the 2019 financial year, audits were carried out for this purpose, among other things, on the reconciliation of customer derivatives, the process of foreign tax returns and the settlement of placements in account management. 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 account statements in its role as a neutral body.

As in the previous year, the audits by the Internal Audit division did not result in any material findings in the year under review.

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

A number of external audits were carried out at Berlin Hyp in the financial year 2019 alongside the audit of the annual accounts. These audits affected either Berlin Hyp directly as a separate financial institution or in its capacity as part of the regulatory group.

The Bank followed up and rectified the findings in a coordinated procedure led by the Internal Audit division.

V Remuneration Report

This Remuneration Report summarises the principles that were applied in determining the remuneration of the Board of Management at Berlin Hyp, and explains the levels and structure of Board of Management benefits. In addition, the principles and levels of the remuneration for the Supervisory Board and its committees are described. The report takes into consideration the recommendations of the German Corporate Governance Code in the version of 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. 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" (Guidelines prepared by Berlin Hyp's Supervisory Board for establishing and paying out the variable remuneration (bonuses) for members of the Board of Management).

In accordance with its rules of procedure (as at 28 March 2017), the Staff and Strategy Committee performed the duties of the Remuneration Control Committee pursuant to Section 25d (12) of the German Banking Act (KWG) and Section 15 of the German Remuneration Ordinance for Institutions (InstitutsVergV) until 17 June 2019. Since 17 June 2019, the Bank has implemented a Remuneration Control Committee.

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 reporting 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 per cent 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 InstitutsVergV, at least 50 % of variable remuneration must depend on the sustained development of the institution's value and be subject to an appropriate vesting period. 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, reference can be made to business ratios 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 members of the Supervisory Board, shares as a form of remuneration for Berlin Hyp and its parent company, LBBH, are not suitable for ensuring that the remuneration is geared to the sustainable performance of Berlin Hyp and LBBH as required 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 map 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, the part of the variable remuneration which is to be structured pursuant to Section 20 (5) of the InstitutsVergV (sustainable instruments), is based on the development of equity capital as provided in Berlin Hyp's annual accounts in accordance with the German Commercial Code (HGB), as this adequately mirrors 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 safeguarded 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 of the German Banking Act (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 such situations in which there are immediate and concrete signs of 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 of the German Banking Act (KWG) remains unaffected by this. However, if the conditions for the BaFin's powers of requirement pursuant to Section 45 of the German Banking Act (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 annual accounts 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 individual 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 targets), taking into account both quantitative and qualitative remuneration parameters, which are inspired by the strategies and support the reaching of the strategic targets. In accordance with Section 18 (5) of the InstitutsVergV, negative deviations from agreed targets of the member of the Board of Management or of the departments for which he is responsible must reduce the amount of 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 has been significantly involved in or responsible for conduct that has resulted in significant losses for the institution or in material regulatory sanctions
- The member of the Board of Management has seriously violated relevant external or internal regulations with regard to suitability and conduct
- According to Section 19 (2) of the InstitutsVergV, immoral or improper conduct must lead to a reduction of the target bonus; there may be no compensation through positive performance contributions

The target bonus may not exceed 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 % of the target bonus will be spread over a period of five years and, after further determination by the Supervisory Board, may only be awarded in five instalments ("conditional bonuses") over the five financial years following the year in which the target bonus is determined. The Supervisory Board will resolve the conditional bonuses once the annual accounts have been prepared for each financial year, taking into account the requirements of Section 7 (1) of the InstitutsVergV, the sustained development of Berlin Hyp's value as well as personal performance contributions.

In each financial year following the year in which the target bonus is determined, a maximum conditional bonus of 12 per cent of the target bonus (corresponding to 1/5 of the retained bonus) may be determined for payment or grant. Each portion of the conditional bonus

still to be agreed on will be determined after reviewing the sustainability of the performance contributions for the financial year for which the target bonus had been intended at the time (base year). During the retention period, a backtesting of the initial determination of the target bonus and the achievement of the targets 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 requirements pursuant to Section 7 (1) Sentence 3 of the InstitutsVergV are met at the respective determination dates 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 to reclaim") if he 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 instant 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 reclaim took place. The right to reclaim expires two years after the end of the retention period for the last determined instalment, the target bonus for the financial year in which the relevant action was taken.

Fifty per cent of both the instant and conditional bonuses will be paid out immediately following their determination. The remaining 50 % of the instant and conditional bonuses are dependent on the sustained development of the company's value 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 and 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 financial year 2019. Board of Management members have not been promised or have not received payments from third parties in the financial year under review 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 financial year 2019, with chauffeurs also provided for company use.

Total remuneration: In the financial year 2019, the members of the Board of Management received remuneration totalling T€ 2,003 (previous year: T€ 1,839). This amount contains the performance-related elements of the remuneration for the financial years 2015, 2016 and 2017, totalling T€ 280, and for the financial year 2018 totalling T€ 136, disbursed in the financial year 2019.

In 2019, variable remuneration of T€ 680 was determined for the Board of Management for the financial year 2018.

The total amount of variable remuneration paid to the Board of Management in 2019 was determined in accordance with Section 7 of the InstitutsVergV.

The sum of variable remuneration for the financial year 2019 as well as the payable retention sums from the 2015, 2016 and 2017 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. However, in each case payment shall not be granted past the end of the respective employment relationship.

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

The retirement pension payable is determined by a certain percentage of their pensionable fixed salary, and increases by 1 % for Sascha Klaus and 2 % for Gero Bergmann and Roman Berninger, respectively, 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 Sascha Klaus and 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 2019 is 34.0 % of the pensionable salary for Sascha Klaus, 38 % for Gero Bergmann and 62 % 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.

The cash value of the pension reserves formed for the Board of Management was T€ 6,553

on the balance sheet date (T€ 4,763). In 2019, T€ 1,790 (T€ 1,156) 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€ 2,817 (T€ 2,756) was paid in the financial year 2019 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€ 3,725 as at the balance sheet date.

The following overview of the remuneration of the members of the Board of Management in the 2019 financial year follows the disclosure requirements of the German Corporate Government Code (in T€):

**Amounts
in T€**

		Fixed annual remuneration	Ancillary benefits	Total	One-year variable remuneration	Multi-year variable remuneration	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)	Instant bonus for the 2017 FY (1-year term of the plan)	Conditional bonus for the 2017 FY (5-year term of the plan)	Total	Benefit expenditure ¹	Total remuneration
Sascha Klaus Chair of Board of Management 1.10.2016														
Benefits granted	2018	560	17	577	112		0	0	0	0	0	689	195	884
	2019	564	21	585	112		0	0	0	0	42	739	251	990
	2019 (min)	564	21	585	112		0	0	0	0	42	739	251	990
	2019 (max)	564	21	585	112		0	0	0	0	42	739	251	990
Alloca-tions	2018	560	17	577	56		0	0	0	0	0	633	195	828
	2019	564	21	585	56		0	0	0	56	21	718	251	969
Roman Berninger Board of Management 1 January 2010														
Benefits granted	2018	461	19	480	80		20	0	27	0	0	607	282	889
	2019	468	18	486	80		20	0	27	0	30	643	0	643
	2019 (min)	468	18	486	80		20	0	27	0	30	643	0	643
	2019 (max)	468	18	486	80		20	0	27	0	30	643	0	643
Alloca-tions	2018	461	19	480	40		20	36	14	0	0	590	282	872
	2019	468	18	486	40		20	0	27	40	15	628	0	628
Gero Bergmann Board of Management 1 January 2011														
Benefits granted	2018	481	25	506	80		20	0	27	0	0	632	118	750
	2019	489	27	516	80		20	0	27	0	30	673	153	826
	2019 (min)	489	27	516	80		20	0	27	0	30	673	153	826
	2019 (max)	489	27	516	80		20	0	27	0	30	673	153	826
Alloca-tions	2018	481	25	506	40		20	36	14	0	0	615	118	733
	2019	489	27	516	40		20	0	27	40	15	658	153	811

¹ For pension schemes and other benefits, the benefit expense, i.e. the service cost, is shown in 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 present 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 chairpersonship and deputy chairpersonship of the Supervisory Board and its committees. Remuneration of the Supervisory Board members is regulated as follows pursuant to Section 14 of the Articles of Association:

In addition to reimbursement of their expenditure, members of the Supervisory Board 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.

Each member of the Supervisory Board committees receives fixed annual remuneration in addition to his or her Supervisory Board remuneration as follows:

- T€ 6 for activities on the Audit Committee and the Loans Committee;
- T€ 5 for activities on the Presiding and Nomination Committee;
- T€ 3 for activities on the remuneration Control Committee.

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.

The amounts owed to the members of the Supervisory Board pursuant to this Section 14 of the Articles of Association are exclusive of value added tax at the statutory rate, if applicable.

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€ 313 (T€ 303), without value added tax, is payable to the members of the Supervisory Board of Berlin Hyp and its committees for 2019.

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 Statement Pursuant to Section 289f German Commercial Code (HGB)

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

The Declaration of Compliance pursuant to Section 161 German Stock Corporation Act (AktG) on the German Corporate Governance Code was published by Berlin Hyp in its Internet portal under <https://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 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 on the Supervisory Board.

Board of Management

The Board of Management currently has two 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

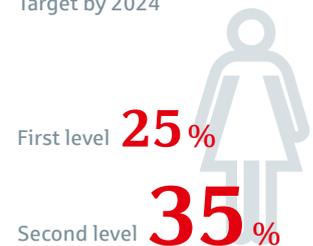
Berlin Hyp's Board of Management established a graduated scheme for raising the target for the first and second management levels. It calls for achieving targets for the first (divisional management) and second (department management) management levels below the Board of Management as follows: 23 % and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

As in the previous year, 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 2019 at 28.6 %. At the second level of management below the Board of Management (department management), the proportion of women rose by around three percentage points to 24.4 % when compared to the previous year. This is further below the target figure of 30 per cent to be achieved by 2020. After completion of the project ORZ (organisation and role profiles of the future), the target figures will be reviewed and, if necessary, adjusted.

Overall, the percentage of women in management positions at all levels of management at Berlin Hyp is 27.4 %.

Women in management positions

Target by 2024



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

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 2019 to 31 December 2019. In addition, Berlin Hyp will publish this declaration on its website at www.berlinhyp.de.

The declaration is based on the performance indicators in accordance with the standards of the Global Reporting Initiative (GRI SRS), insofar as its frameworks are adequate for Berlin Hyp in each individual case.

For better readability, the terms of the Global Reporting Initiative 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 2020 according to GRI SRS in the GRI balance sheet. It is planned to publish the GRI balance sheet in the second quarter of 2020. This provides further information on the Bank’s sustainability strategy and performance beyond the statutory requirements of the German Commercial Code (HGB).

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 “1 Principles of the Bank – Business Model”.

General Information

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, Berlin Hyp conducts a stakeholder survey every two years. The materiality analysis based on the survey conducted in 2018 was reviewed in 2019 by Berlin Hyp’s sustainability management to ensure that it was up to date.

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, whether or not the sustainability aspects were relevant for the understanding of Berlin Hyp’s business performance, results of operations and position was examined.

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/loans	✓	✓
	→ 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/loans	✓	✓
	→ 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. These measures are intended to contribute to the further development of the employee situation. 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 concerns**
Through its activities as a financial service provider, Berlin Hyp has an impact on social concerns, in particular through its products and services. Measures such as the integration of social criteria into our own investment business and the responsible design of the 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 concerns**
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 the 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 as well as 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 Management and the Sustainability Management Committee, as well as the Sustainability Board, consisting of permanent representatives from the divisions 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 had used a digital stakeholder survey to identify the material sustainability issues from the stakeholders' perspective. On this basis, in-depth discussions were held with stakeholder groups in 2019. 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 unifying trust. In the context of this declaration, these requirements are reported – as far as legally required – primarily under the following aspects/issues: environmental concerns, social concerns and conduct in compliance with the law and regulations.
- 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/issues: social concerns and conduct in compliance with the law and regulations.
- 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 have a special role in implementing the corporate mission statement and 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 3.1.1 to 3.1.3.

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 HR department. The effects of digitisation and automation on the one hand and demographic change on the other 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.

Young talent management is constantly developing in line with the demands of the target groups and Berlin Hyp. Following feedback cycles, the trainee programme was further optimised in order to respond even more specifically to the needs of the target groups in 2019. In the programme, trainees take the journey of real estate financing to understand procedural and economic interrelationships, deepen their knowledge of digital topics and receive specific knowledge from experts in the Bank. This fosters a holistic assignment of one's own profit contribution in the future field of duty as well as cross-divisional cooperation. In addition to the trainee programme, Berlin Hyp also offers direct entry after academic graduation.

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 indicators will be initiated.

3.1.1 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 works agreements. 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.

3.1.2 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 of manager's behaviour in terms of the equality of employees.

The implementation of an applicant management tool, planned for 2020, will systematically record and evaluate the inclusion of female applicants in all of Berlin Hyp's recruitment procedures.

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" of Berlin Hyp forms the basis for the redesign of HR management instruments and supports equal opportunities. On this basis, the selection procedure for managers and trainees was redesigned in 2019, and a holistic development programme for managers, their deputies and project managers was implemented. We are not aware of any cases of discrimination in the 2019 reporting year.

3.1.3 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 2019, employees and managers underwent training and further education for an average of 4.3 days.

As a further development of the "Cafeteria model", the "Lernwelt für Führungskräfte" (learning environment for managers) was implemented in 2019. The holistic development programme follows a systemic approach in which organisational learning is the main focus. Derived from the Bank's strategic changes in leadership, the individual needs of

managers from the 270° feedback as well as learning-theory findings, the objective is to provide support in current change processes by means of accompanied process learning based on concrete management situations, thereby strengthening a modern management culture that supports strategy in the long term.

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 the Bank is the largest issuer of green bonds in benchmark format among European commercial banks and issues green bonds in two different asset classes. Accordingly, the Bank is following current developments under the European Action Plan for Financing Sustainable Growth, in particular the definition of a taxonomy and a green bond standard, with great interest. The Bank also participated in the consultations of the Technical Expert Group set up by the EU Commission.

By issuing green bonds, Berlin Hyp is making an active contribution to reducing CO₂ emissions. In the current CO₂ reporting (as of 28 February 2019) available at www.berlinhyp.de/de/investoren/green-bonds, the results and methodology for estimating saved CO₂ emissions from the green buildings financed are presented. On the basis of this methodology and depending on the model used, each million euro nominal value of the green bonds saves between 12.6 tonnes and 38.8 tonnes CO₂ per year compared to the benchmarks used.

Compared to the current EnEV reference values, the CO₂ savings have increased significantly year-on-year. The inclusion of the values for the demand of general-purpose electricity in the CO₂ calculation for the first time is the reason for this. In terms of plausibility, the CO₂ reporting was checked by oekom research (now ISS ESG) as part of the re-verification of 29 April 2019.

In 2019, Berlin Hyp issued two green bonds in benchmark format. In July, the fourth green Pfandbrief was successfully launched on the market; it was followed in October by the fourth green senior preferred bond. Both bonds each have a nominal volume of € 500 million and were placed on the market at very good terms. With a share of 59 %, 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 CO₂ 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 objective corresponds to the products for the green bond market.

The company management is informed quarterly about the development of the loans portfolio and the share of green financing and can thus take control measures. The target of 20 % set had already been reached by 31 December 2019.

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. In

Tonnes of CO ₂ /€m per year saved	100 % allocation to the financing of Berlin Hyp	Proportionate allocation pursuant to the amount of Berlin Hyp's initial interest in the financing
Comparison with current EnEV reference values (heat and electricity)	38.81 (PY: 15.7)	21.58 (PY: 8.7)
Comparison with European average (heat only)	22.20 (PY: 36.3)	12.57 (PY: 21.1)

order to gain deeper insights into how climate change could affect real estate valuation, Berlin Hyp already participated in a project with the Swiss-based start-up Carbon Delta (now MSCI Carbon Delta) in autumn 2018. At the beginning of 2019, the first results were available for three real estate portfolios synthetically compiled by Berlin Hyp in the retail, office and residential asset classes. In the further course of the financial year, the results were discussed with the experts from Carbon Delta and analysed by Berlin Hyp.

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.

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 <https://www.berlinhyp.de/de/%C3%BCber-uns/nachhaltigkeit/mitarbeiter-gesellschaft> and in the 2019 GRI balance sheet to be published in the second quarter of 2020.

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. By applying it to the Bank's investment business, 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 Sparkassenverband Baden-Württemberg in cooperation with the independent sustainability rating agency ISS ESG Research (formerly 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 Treasury and Sustainability Management divisions jointly discussed the anomalies that arose in 2019. Treasury is responsible for implementing the jointly agreed measures. 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 objective 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.

3.4.1 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 industry through its involvement in associations and industry institutions, which in turn have to act within the framework of their statutes and are monitored by their committees.

3.4.2 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.

Since 2019, our Code of Conduct also includes an external Whistleblowing hotline.

report on the status of data protection in the company or ad hoc if necessary.

There were no known incidents of corruption at Berlin Hyp in 2019. 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.

3.4.3 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.

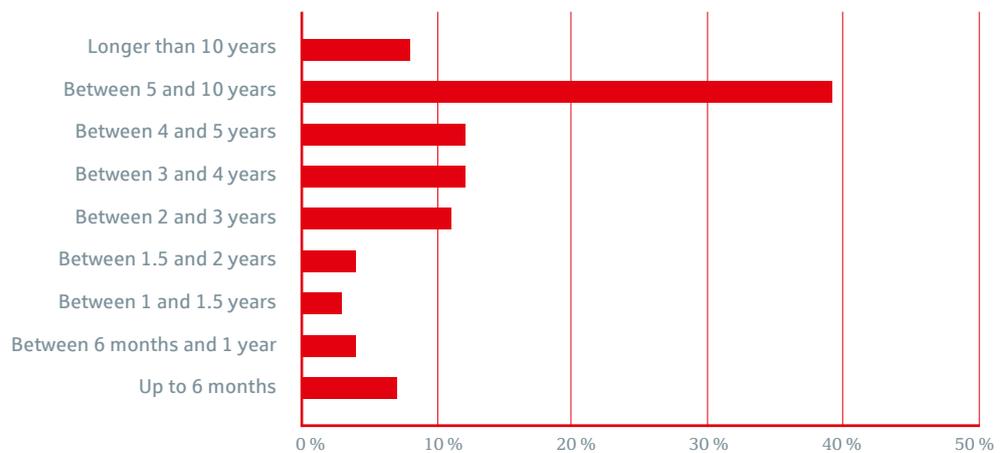
This personal data may only be handled with care, in compliance with the law and according to clear rules, in order to justify the trust placed in the Bank by customers. Within the company and vis-à-vis customers and business partners, we therefore pay attention to who receives what information. Customer 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

VIII Further Information for Investors

Mortgage loans portfolio

The breakdown of the mortgage loans portfolio by maturity structure and loan-to-value ratio as at 31 December 2019 was as follows:

Maturity Structure of Loans



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

Lending region	Ø LTV
Germany	56.3
BeNeLux	54.2
France	49.1
Poland/Czech Republic	59.6
Great Britain	43.6

Available Distributable Items (ADI) in € m

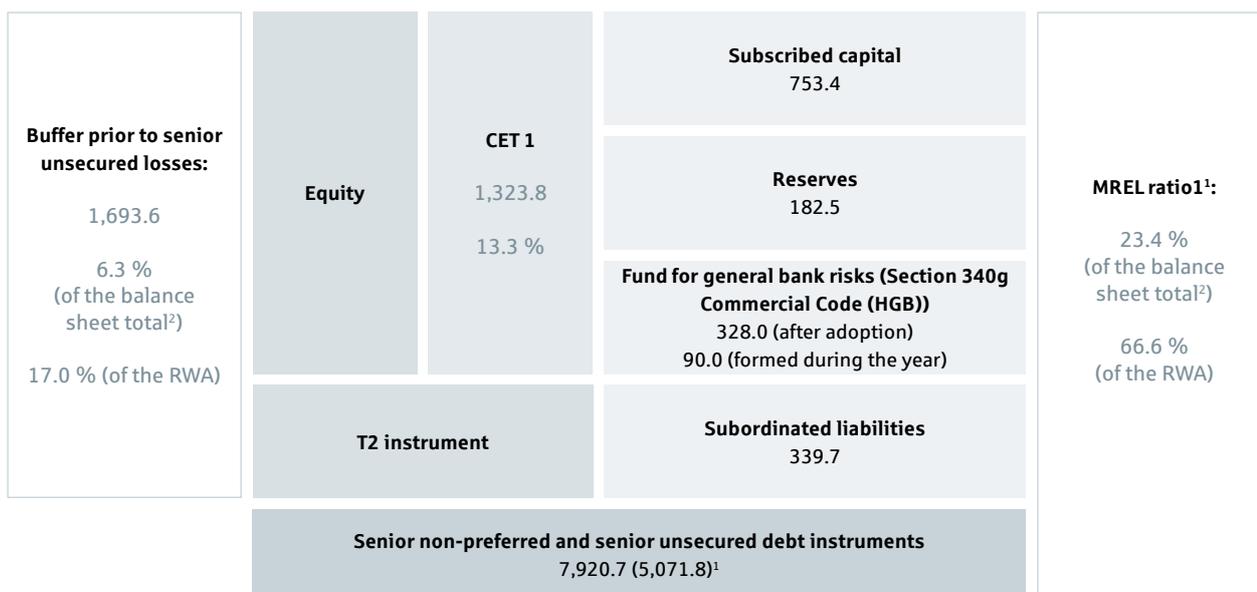
	31.12.2019	31.12.2018
Balance sheet profit	0.0	2.2
Net income/loss for the year	0.0	0.0
Profit/loss carry-forward from the previous year	0.0	2.2
Additions to/withdrawals from retained earnings	0.0	-2.2
Other profit reserves excluding statutory reserves*	2.2	2.2
Free capital reserves pursuant to Section 272 II No. 4 Commercial Code (HGB)	158.3	158.3
Less amounts blocked from distribution pursuant to Section 268 VIII Commercial Code (HGB)	-28.9	-29.8
Available items capable of distribution	131.6	132.9

* nach Einstellungen in die Gewinnrücklagen

Regulatory law key indicators
in € m

	31.12.2019	31.12.2018
Common equity tier 1 capital (CET1)	1,323.8	1,243.6
Additional tier 1 capital (AT1)	0.0	0.0
Tier 1 capital (T1)	1,323.8	1,243.6
Tier 2 capital (T2)	273.4	308.8
Equity/total capital	1,597.2	1,552.4
RWA	9,990.6	9,215.0
CET1 ratio in %	13.3	13.5
T1 ratio in %	13.3	13.5
Total capital ratio in %	16.0	16.8
Leverage ratio in %	4.6	4.3
MREL (balance sheet total)	23.4	25.2
MREL (RWA)	66.6	78.5
LCR	156,8	160.2

Insolvency hierarchy and protection of senior unsecured investors
in € m



¹ From a regulatory law point of view, structured debt instruments, money market securities and long-term securities with remaining terms of less than one year are not taken into account for the MREL ratio. Senior unsecured instruments are capped at 2.5 % of RWA.

² Comparable with TLOF.

