A partnership built on trust

Berlin Hyp

Defining values – and living up to them

Annual Report 2020

Management Report

Finanzgruppe

Contents

Management Report

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 (LBBH), 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 financial statements 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 2020 is as follows[1]:

Until 31 December 2020, the Berlin Hyp Board of Management comprised three members who had the following areas of responsibility:

Sascha Klaus (Chair)
- → Finance
- → Governance
- → Information Technology
- → Communications and Marketing
- → Staff
- → Internal Audit
- → Company Strategy

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

Gero Bergmann
- → B-One
- → Portfolio Management
- → Treasury
- → Sales Real Estate Financing

Alexander Stuwe
- → Data Management
- → Lending (Real Estate and Capital Market)
- → Risk Controlling
- → Valuation
- → Risk Management
- → Future Management Process
- → Representatives

Mr. Gero Bergmann left the Berlin Hyp Board of Management upon the expiry of 31 December 2020. Since 1 January 2021, the Board of Management has comprised two members, to whom the following areas of responsibility have been assigned:

Sascha Klaus (Chair)
- → B-One
- → Finance
- → Information Technology
- → Communications and Marketing
- → Staff
- → Treasury
- → Company Strategy
- → Real Estate Financing Sales (RF) (from 1 February 2021: RF1 – Foreign Sales)
- → Portfolio Management (from 1 February 2021: RF2 – Domestic Sales & Portfolio Management)

Alexander Stuwe
- → Data Management
- → Lending (Real Estate and Capital Market)
- → Internal Audit
- → Governance
- → Risk Controlling
- → Valuation
- → Risk Management
- → Future Management Process
- → Representatives

In view of the future challenges facing Berlin Hyp, a project was set up to review the organisational structure, the processes and the future workforce of the company and a target vision was developed. Based on this target vision, organisational changes and adjustments were made to the organisational structure in the middle of the year. These include the newly created B-One and Data Management divisions. The previous project for the construction of a new energy-efficient building as the headquarters for Berlin Hyp at its current location has been fully integrated into the B-One division. The former Company Organisation division was dissolved and the tasks were successively integrated into other divisions/departments, including the B-One division.

The Bank's strategic goal for its core business is to leverage additional earnings potential through new products and new markets. In order to create the necessary framework conditions, the Real Estate Financing Sales division was split into the domestic and foreign segments at the beginning of February 2021. To this end, the RF division was renamed "RF1 – Foreign Sales". In addition, in order to continue and bundle the successful cooperation in the domestic business with the savings banks, the "Domestic Sales" segment with the domestic branches was integrated into the Portfolio Management (PM) division and this division was renamed "RF2 – Domestic Sales & Portfolio Management".

Berlin Hyp is divided overall into 15 divisions with 47 departments and eight teams.

The Supervisory Board of Berlin Hyp has formed four committees: the Loans Committee, the Audit Committee, the Presiding and Nomination Committee and the Remuneration Control Committee.

Business Activities

Berlin Hyp is a banking institution specialised in commercial real estate financing. With 150 years of experience in the industry and membership in the Sparkassen-Finanzgruppe, Berlin Hyp is one of Germany's leading real estate and Pfandbrief banks.

Under the umbrella of Landesbank Berlin Holding, Berlin Hyp is a partner and competence centre for the commercial real estate financing operations of the German savings banks. With its Immo product range developed specifically for savings banks, the Bank provides added value, above all with the secured "ImmoSchuldschein" and the "ImmoAval" and "ImmoGarant" products. The products and services Berlin Hyp offers to savings banks also include support for syndicate financing and a range of services in the valuation and restructuring of problematic loans. As an S-Group partner, Berlin Hyp is constantly developing products and services for the institutions with the aim of making a lasting and positive 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 sectors. 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 real estate financing in all common asset classes, either as individual properties or in portfolios. In addition to traditional mortgage loans, the Bank offers guarantees as well as building contractor and development financing. Through its business model, Berlin Hyp focuses on real estate financing in economic centres in Germany and select foreign markets.

The Bank is an issuer of mortgage Pfandbriefe and senior unsecured and subordinated bonds on the capital market. Both mortgage Pfandbriefe and senior unsecured bonds can also be issued as Green Bonds. As a bank specialising in commercial real estate, Pfandbriefe make up the primary refinancing instruments. These Pfandbriefe are issued both as benchmark bonds as well as private placements in the form of bearer bonds or registered bonds. As the issuer of the first Green Pfandbrief, Berlin Hyp is a pioneer in the capital market. Berlin Hyp is the most active issuer of Green Bonds in Europe in the commercial bank segment.

Locations

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

Locations

Germany and throughout Europe

Berlin
Düsseldorf
Frankfurt
Hamburg
Munich
Stuttgart

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 one-stop real estate financer.

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

With the standardised products "ImmoSchuldschein", which allows savings banks to participate in the potential returns of commercial real estate financing, "ImmoAval", which combines co-liability through a guarantee with simple documentation, and "ImmoGarant", which was newly developed in 2019, Berlin Hyp has created a product range that is consistently tailored to the needs of savings banks. In line with the strategic orientation of the Bank, all Immo products will be offered in future via the ImmoDigital portal solution, which was newly developed in 2020; only ImmoAval offers are available via ImmoDigital in the initial phase. The Berlin Hyp product portfolio for savings banks also includes standard syndicated financing, investment products such as Pfandbriefe and debentures, and support services in valuation and restructuring ("ImmoRisikoDialog"). Furthermore, Berlin Hyp is continually expanding its product portfolio with the aim of establishing its position over the long term as a real estate service provider for savings banks.

The sales structure is decentralised and targeted to meet the needs of the savings banks in order to strengthen the group philosophy. Regional savings bank advisers and appraisers advise the savings banks from the Bank's branches in Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart. An advisory board consisting of the boards of selected savings banks in all S-Group regions advises Berlin Hyp twice a year on all issues relating to the S-Group business.

OnSite ImmoAgent GmbH, a company founded by Berlin Hyp, provides commercial real estate inspection services on the market for both savings banks and third parties.

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

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

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 functional strategies and operating targets are derived from this.

Berlin Hyp pursues two major strategic goals:

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

For the Bank, this means the consistent implementation of its digitisation and innovation activities. In this regard, the most important element consists of large-scale internal projects which aim to digitise and partially automate the Bank's key business processes and make them data-driven.

In addition, Berlin Hyp is actively involved in the digital real estate ecosystem and is testing new business models and additional product and service offerings for its customers with innovative companies and start-ups from the PropTech realm. As an active strategic investor, Berlin Hyp participates in selected companies while also entering into strategic partnerships and cooperations.

The Bank is trying to tap into additional earnings potential beyond the core business of real estate financing in the future through new business areas.

As an S-Group partner of the savings banks for commercial real estate financing, Berlin Hyp applies its expertise and develops its portfolio of products and services consistently in line with the needs of the savings banks with the aim of establishing its position over the long term as a partner and real estate service provider in the Sparkassen Finanzgruppe.

Berlin Hyp has adopted a far-reaching sustainability agenda. As a green real estate financier, the Bank feels committed to the climate goals of the EU and the Federal Republic of Germany, and intends to make an ambitious contribution in this regard. A package of objectives and measures to address sustainability issues was therefore adopted at Berlin Hyp.

Berlin Hyp will continue to increase the share of green buildings in its real estate portfolio – raising it up to one-third by the year 2025.
In addition, Berlin Hyp is developing new sustainability products, among them currently a loan specifically designed to finance building transformation projects.

Excellent information infrastructure is crucial when it comes to the evaluation criteria for sustainable and green financing and the associated risks. The goal of Berlin Hyp is therefore to achieve full transparency on the climate performance and climate risks of its portfolio by 2025.

Objective by 2025

1/3

share of green buildings in the real estate portfolio

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 central management tools are the financial statements and budgets, the financial and risk reports, as well as liquidity, new business and portfolio reports as prepared in accordance with German commercial law and 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 important 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 profit 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 (not yet mandatory) leverage ratio, both of which will become more important in the future.

Non-Financial Performance Indicators

Berlin Hyp has defined the following most important non-financial performance indicators to manage its business activities:

- → Acquisition of new customers: the Bank defines all new business partners that cannot be assigned to any group of clustered customers in the portfolio as new customers. The key figure “Acquisition of new customers” describes the share of lending concluded with new customers in new lending.
- → S-Group Business: volume of business conducted with S-Group partners and the number of active business relationships within the Sparkassen-Finanzgruppe.

In addition, the management also relies on other supporting non-financial performance indicators, such as the employee capacity measured in FTEs (full time equivalents). In terms of sustainability, further non-financial performance indicators include Green Bonds, green financing and the sustainability rating.

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

II Economic Report – Macroeconomic and Sector-Related Underlying Conditions

Macroeconomic Development[2]
Under the influence of the COVID-19 pandemic, global economic growth in 2020 posted a noticeable decline compared to the previous year. With the measures taken everywhere during the summer to curb the infection, economic life and the consumption behaviour of citizens was nearly normalised, leading to strong catch-up effects. But almost all countries were hit by a second wave of infection starting in late summer; as a result, the economic recovery that had begun was held back again in spite of extensive economic policy instruments.

The economic downturn resulting from cuts due to the pandemic had a noticeably stronger impact in the eurozone than on the global economic average, particularly in the wake of the second wave of infection.

Economic growth in Germany in 2020 was also strongly influenced by the COVID-19 pandemic. After a massive slump, the easing of measures and the declining number of infections led to an unprecedented recovery in early summer. This was significantly impeded by a resurgence in infection rates and another round of lockdown restrictions, although these were less drastic.

Overall, private consumption showed strong fluctuations in line with the pandemic trend, with a significant decrease at the bottom line compared to the previous year. Extensive fiscal stimulus programs helped support citizens' purchasing power and limit the considerable decline in private consumption. On the other hand, companies largely managed to maintain their performance. A drastic increase in the unemployment rate and the number of insolvencies in accordance with the overall situation was therefore avoided in the past year.

The respective import and export figures decreased significantly compared to the previous year. However, they also rose sharply again in the interim recovery period, nearly reaching pre-crisis levels during that time.

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

The decline in investments in fixed-assets was considerably more significant, whereas construction investments declined only marginally despite the strained economic situation. This development is due to the cyclical dynamics that had developed in previous years and the high order backlog at the capacity limit, the quantification of which is not reflected in the construction investments until the trades have been completed. The temporary reduction in VAT for the second half of the year was an additional driver. In addition, the financing conditions remained very favourable as a result of the expansionary monetary policy.

Industry Development
In the reporting year, the monetary policy was dominated by the COVID-19 crisis. In March, the FED cut its key interest rates significantly in two steps from 1.50 to 1.75 per cent to a target range of 0.00 to 0.25 per cent. The interest rate cuts will be accompanied by an unlimited bond-buying programme that will continue until further progress is made toward full employment and price stability. In the eurozone, the European Central Bank (ECB) kept the main refinancing rate at 0 per cent and the deposit rate at minus 0.50 per cent. The ECB launched the PEPP (Pandemic Emergency Purchase Programme) in addition to the existing bond buying programmes, which initially envisaged the purchase of bonds worth €750 billion. In the course of the crisis, the ECB has increased this by €600 billion and subsequently again by €500 billion to a total of €1,850 billion. This programme is to run until at least the end of March 2022. In addition, the ECB adjusted the conditions for its targeted longer-term refinancing transactions (TLTRO-III) at the end of April. In the best case and depending on the volume of their lending, banks can thus capture an interest rate of 50 basis points below the deposit rate on their tended volume for part of the lending term. At its December meeting, the Governing Council of the ECB decided on three additional TLTRO tranches under the most favourable conditions.

From mid-February onwards, the capital market environment in the eurozone was characterised by great uncertainty. Yields on ten-year German government bonds initially benefited from their reputation as a safe haven and fell from minus 0.23 per cent at the beginning of the year to a peak low of minus 0.86 per cent. Against the backdrop of the significant increase in government debt caused by the fiscal supportive measures, the yields of ten-year German federal bonds initially rose again briefly to the levels of the beginning of the year. Volatility decreased and yields fluctuated mainly within a corridor of minus 0.40 to 0.60 per cent, ultimately ending the year 2020 at minus 0.57 per cent. The swap curve flattened out compared to the beginning of the year and was in the negative range across all maturities (up to 50 years) as of the reporting date. The ten-year swap point level fell from 0.11 per cent at the beginning of the year to minus 0.26 per cent.

Against the background of the COVID-19 pandemic and the more favourable TLTRO-III conditions that resulted, the issue volume in the covered bond segment remained significantly below that of previous years. Nevertheless, even during the crisis it was possible to place issues on the market at high spreads and new issue premiums. At its peak, spreads of the Iboxx index for mortgage Pfandbriefe widened by 15 basis points until mid-April. The comprehensive European and national support measures, as well as demand from the European Central Bank in the context its purchasing programmes, reduced risk premiums from mid-April. As a result of the tight risk premiums combined with the low interest rate level, only around one per cent of all outstanding bonds in the iBoxx EUR Covered Index reported a positive return at the end of 2020. The share was around 24 per cent in the previous year.

The spreads for uncovered bank bonds showed a similar movement to that of covered bonds. However, the significant expansion of risk premiums in the interim was compensated for again over the course of year. At the end of the period under review, euro-denominated senior non-preferred bonds traded at on average seven basis points higher than at the beginning of the year, while senior preferred bonds only gained around one basis point. Berlin Hyp bonds stand out as having the lowest risk premiums of any German bank.

In March, the stock markets plummeted in record speed on both sides of the Atlantic due to the crisis. Driven by expansionary fiscal and monetary policy and the hope of a rapid economic recovery given the progress made on COVID-19 vaccines, share prices recovered in the course of the year. The DAX closed the year at 13,718 points, having reached a new all-time high just before.

The year 2020 was heavily impacted by the slump in German economic performance due to the pandemic. At the same time, the ongoing low interest rate environment, the lack of investment alternatives and the high volume of liquidity were factors that influenced the developments in the commercial real estate investment market in Germany. With a transaction volume of around €79.2 billion, the commercial real estate market registered a 12 per cent decline compared to the historically high result of the previous year. With a total volume of around €20 billion, commercially traded residential real estate was at a significant high. The increase in the residential segment was around 23 per cent compared to the previous year. This result reflects the high level of trust enjoyed by the German residential investment market worldwide due to state support measures such as short-time work compensation or the possibility of special depreciation for the construction of multi-storey buildings. Rent regulations such as the Berlin rent cap do not appear to have had any significant negative impact on investor interest.

The market share of international investors on the residential investment market increased significantly in the reporting year to 30 per cent (previous year: 13 per cent). With regard to the commercial investment market, demand from international investors was also noticeably higher in 2020 – its share increased by 5 percentage points to 47 per cent compared to 2019. This confirms the statement from the Berlin Hyp Trendbarometer survey in June 2020 with regard to the full year 2020. In the first half of the year, nearly two-thirds of the survey participants still rated the German commercial real estate market as more attractive than the other European markets despite the coronavirus crisis.

The measures implemented to curb the COVID-19 pandemic affected the different types of real estate to varying degrees: For example, parts of the retail and hotel property segment have been affected very negatively by the decline in the number of passengers and guests. Since the retail segment in particular is divided into many different types of businesses, a detailed analysis is highly relevant. While food-related retail business types, such as supermarkets and food discounters, were highly favoured by investors, shopping centres were extremely uncertain about their future role in the retail landscape. Nevertheless, larger-scale transactions in the first half of 2020 contributed to a 21 per cent year-on-year increase in retail property transaction volumes to €12.3 billion. On the other hand, capital invested in hotel properties posted a sharp decline of 60 per cent compared to the previous year, resulting in a transaction volume of nearly €2 billion.

Office properties – especially those with long lease terms and tenants with strong credit ratings – were the most significant real estate investment class in 2020. Its share of all usage types, including the commercially traded residential segment, amounted to 35 per cent with a transaction volume of around €27.6 billion (previous year: around €40 billion). The concentration on core real estate, the limited product availability and trends accelerated by the COVID-19 pandemic that cannot be conclusively evaluated, such as temporary work-from-home measures or remote working, explain the transaction volume in the office segment, which has declined by 31 per cent.

By contrast, investors focused even more of their attention on logistics properties given the high growth rates in e-commerce due to the pandemic. Transaction volumes rose by 10 per cent year-on-year to around €7.6 billion. [3]

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

Business Development

New lending

including long-term extensions

2020

€ 6.7 billion

Berlin Hyp continued its solid business development in 2020 and reinforced its position as one of the leading real estate and Pfandbrief banks. Despite the COVID-19 pandemic, the financial year was pleasing overall, with a result that exceeded expectations before being transferred to Landesbank Berlin Holding AG.

Once again, the business development was influenced by the continued low interest rate phase, intense competition among commercial real estate financiers and the increased regulatory requirements. However, the overarching theme was the COVID-19 pandemic, which has been spreading since the middle of the first half of 2020 and has led to a very high increase in mobile working at Berlin Hyp. The timely switch to mobile endpoints and the increasing digitisation of core banking processes meant that the existing infrastructure was capable of handling all essential work.

The impact of market uncertainties on the bank's credit holdings was discussed at regular intervals within a COVID-19 task force. In addition to the ongoing monitoring of the property types particularly affected by the COVID-19 pandemic, the related financing activities were continuously analysed in detail.

In the course of the economic and sector-related developments, no measures have been taken as of yet – apart from rating changes – for the Bank's loans in the portfolio beyond inclusion in the increased support in the loan back-office. There were only a small number of deferment requests from customers due to COVID-19 in relation to the credit exposure. This underscores the quality of the financing portfolio, which is clear from the continued high share of financing in good and very good rating classes and a very low rate of non-performing loans (NPL). Please refer to the statements in the risk report of this management report in this regard. Information is also provided about the Bank's approach, the potential impact of the COVID-19 pandemic on the real estate market, and the RWA and risk provisioning.

Following the launch of the future-oriented process <next dimension berlin hyp> in March 2020 following berlinhyp21, Berlin Hyp has achieved several major milestones through its large-scale projects and also established a wide range of perspectives in terms of cultural reflection.

The culture of discussion and feedback has changed, and internal cooperation continues to develop as the share of mobile work increases, even outside of the context of COVID-19. New structures have been established within many departments and teams – from new role definitions and flatter hierarchies to the piloting of various ways of working, such as self-organised teams.

Consistent progress was also made on large-scale projects, a new portfolio management was established, the credit application line was further digitised and the first fully digital transaction with a savings bank was also completed. At the same time, the Bank is continuing to test new ways of working in the temporary locations in order to determine the best working environment in parallel with the construction of the new headquarters.

In addition, the Bank is continuously exploring new business approaches and is examining cooperation with innovative companies in the PropTech scene. Berlin Hyp currently holds three strategic investments. In addition to the company "OnSite ImmoAgent GmbH" founded by the Bank and supported by another strategic investor, the investments in the venture capital fund "PropTech1" and in the "21st Real Estate GmbH" remain unchanged. Additional investment opportunities are under examination.

New Lending Slightly Below the Previous Year's Level

Berlin Hyp reports contracted new lending in the amount of €5.7 billion for 2020, which is below the outstanding result of the previous year as expected (€6.3 billion). With realised extensions (capital employed ≥ 1 year) of €1.0 billion (€1.0 billion), this put the total new business volume at €6.7 billion (€7.3 billion). Despite the effects of the COVID-19 pandemic, this result was in line with the planning and prior-year forecast.

Of Berlin Hyp's new lending, 77 per cent (70 per cent) was accounted for by domestic properties, 49 per cent (49 per cent) of which were in A cities, 17 per cent (nine per cent) in B cities, and eleven per cent (twelve per cent) in other locations in Germany. The financing of foreign properties accounted for 23 per cent (30 per cent), distributed among the lending regions of Benelux at 15 per cent (twelve per cent), France at two per cent (nine per cent) and Poland at six per cent (nine per cent).

At 68 per cent, most new lending related to the investors customer group. Another 19 per cent was realised with developers and builders. Contracts with housing societies accounted for 13.0% of new business.

New lending is broken down by real estate type as shown on the right.

Public Sector Lending Reduced Further in Line with Strategy

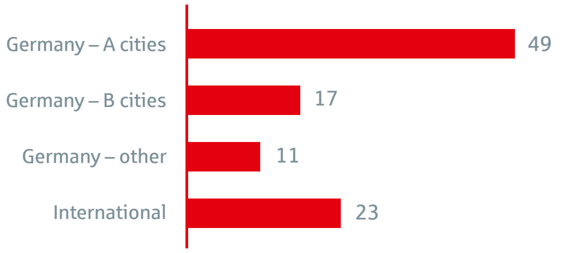
The Bank no longer actively pursues new public sector lending in accordance with its strategy. As in previous years, no new loans were issued in the 2020 financial year. Loan volume decreased by €0.1 billion to €0.4 billion and is being reduced further as and when individual loans become due.

COVID-19 Slows the Development of the S-Group Business

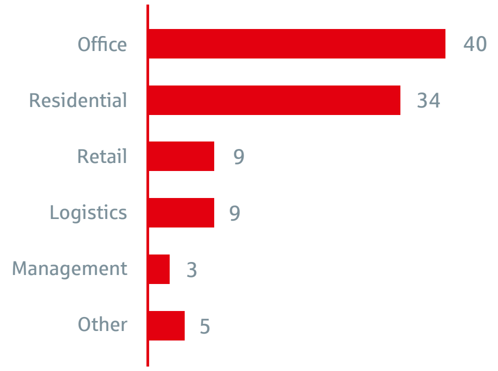
Berlin Hyp's S-Group business grew satisfactorily in 2020, although slightly less than planned. The reason for this was the recessionary economic development triggered by the COVID-19 pandemic, especially in the first half of the year, and the resulting restraint in the financing market. A total volume of €1.4 billion (€1.9 billion) in financing was realised with S-Group partners along the entire product range.

In the traditional syndicate business, a total volume of €806 million was financed in several transactions. In addition, two ImmoSchuldschein transactions with a total volume of €285 million and several ImmoAval transactions with a total volume of €233 million were completed. The demand was steady for the

Regions
in %



Real estate types
in %



ImmoGarant product, which was first developed in 2019. ImmoGarant transactions with a total volume of €96 million were realised together with savings banks in the financial year.

The number of business relationships with savings banks increased further with 153 institutions (151) from all S-Group regions. The minimal increase in the number of institutions is the result of mergers of certain savings banks, but despite the difficult framework conditions, three new savings banks were acquired as users of our Immo products.

In line with its strategic objective, Berlin Hyp also developed the new online platform ImmoDigital exclusively for savings banks and launched it on the market in 2020. The first transaction on the platform was already successfully completed by the end of 2020. ImmoDigital enables participating savings banks to evaluate the investments selected by Berlin Hyp for the savings bank, conclude corresponding syndicate agreements and manage agreed investments. The platform is designed to relieve conventional communication channels, reduce media discontinuities and facilitate processes by pooling all relevant information centrally in one place. The objective is to achieve a completely digital processing of the investment formats of the Immo product range developed by Berlin Hyp for German savings banks. In its current version, the ImmoDigital platform will initially offer the product ImmoAval. We are striving for the integration of further Berlin Hyp "Immo" products.

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

Refinancing at Very Favourable Conditions

Mortgage Pfandbrief and unsecured bond issues are generally used for the medium-to-long-term refinancing of Berlin Hyp. In 2020, the Bank borrowed €2.2 billion in capital (€3.8 billion) using these instruments. Despite the COVID-19 pandemic, market access was available at all times. With a total of four benchmark transactions, including one in foreign currency for the first time, the Bank was a regular issuer on the syndicated bond market. Three of these issues, including the Swiss franc debut bond, were structured as green bonds. The Bank therefore managed to issue two or more green bonds in a year for the fourth time in a row and remains the most active issuer of Green Bonds in Europe in the commercial banking segment with ten outstanding euro issues.

Equity Position Strengthened through Further Additions

The common equity tier 1 ratio is 13.4 per cent (13.3 per cent) and the total capital ratio is 15.8 per cent (16.0 per cent), taking into account the approval of the annual accounts. By reinforcing the special item for general banking risks according to Section 340g of the German Commercial Code (HGB) with an additional €70.0 million (€90.0 million) and applying the simplification rules of CRR II, capital ratios were maintained at a stable level with constant risk assets. As such, the Bank's forecasts in the previous year were exceeded.

Earnings Situation

Profit Transfer Significantly Below the Previous Year

Berlin Hyp generated earnings of €23.4 million for the 2020 financial year before profit transfer. This was significantly below the previous year's figure of €61.0 million. Given the ongoing low interest rate environment, strict regulatory requirements and intense competition in commercial real estate financing, the Bank is satisfied with the higher-than-expected earnings trend. Significant negative effects of the COVID-19 pandemic have not yet been recorded. Despite the fact that lending risks have not yet materialised, the Bank has again formed provision reserves and continued to strengthen the special item pursuant to Section 340g of the German Commercial Code (HGB) by allocating €70.0 million (previous year: €90.0 million) using its own resources. The main reasons for this development of profit are described in the following sections.

Net Interest Income Rose Slightly

Net interest income amounted to €313.1 million, exceeding last year's figure by €3.4 million, which is significantly higher than what had been expected. In addition to the increase in the average mortgage loans portfolio of €1.4 billion, the participation in the targeted longer-term refinancing operations of the Deutsche Bundesbank (TLTRO-III) and the resulting interest rates also had a positive effect. Other one-off effects, including prepayment charges for unplanned repayments in particular, were largely neutralised by compensatory measures, particularly the closing of interest rate swaps with negative market values.

Net Commission Income Increased

Compared to the previous year, net commission income increased by €2.2 million to €20.0 million. It mainly includes commission income from the lending business, which was higher than in the previous year due to the positive development of new lending. Due to rulings of the German Federal Court of Justice (BGH) from 2017 on loan processing fees, the processing fees were mapped extensively in the interest margins and distributed over the term.

Operating Expenditure at the Previous Year's Level

Operating expenditure comprises staff expenditure, other operating expenditure and amortisation on tangible assets and depreciation of intangible assets. It amounted to €173.2 million and was thus only €0.9 million higher than the previous year's figure, in line with expectations.

Compared to the previous year, staff expenditure decreased by €10.4 million to €82.0 million due to lower pension obligations.

Other operating expenditure amounted to €70.1 million, which corresponds to an increase of €2.6 million from the same period in the previous year. It primarily includes IT expenditure, legal and consulting costs, the expenses from the annual payment of the European bank levy, building and premises costs, and the allocation of the administrative holding costs of the managing institution under regulatory law. The increase reflects the increasing demands on information technology and regulatory reporting requirements and must be viewed positively in view of the initiated projects. Compared to the previous year, the expenditure for the European banking levy increased again by €1.4 million to €13.4 million.

Depreciation of property, plant and equipment and amortisation of intangible assets increased sharply by €8.7 million to €21.1 million. This is due to the significantly reduced remaining useful life of the existing building at Budapester Strasse 1 in connection with the planned new building at the Berlin headquarters. The building had been fully depreciated as at the reporting date.

Other Operating Result Impacted by One-Off Effects

The other operating result amounted to €-1.7 million after €-1.6 million in the previous year. It includes expenditures from the continuous interest accrual of pension reserves and the adjustment of the strategic resource planning reserve, as well as income from the reversal of reserves for legal risks arising from the German Federal Court of Justice (BGH) ruling on loan processing fees on 4 July 2017.

Operating result
(after risk provisioning)

€ 96.6
million

Better Cost-Income Ratio

The cost-income ratio expresses the relationship of operating expenditure to net interest and commission income, including the other operating result.
Despite the operating expenditure, which was negatively impacted to some extent by one-off effects, such as the higher depreciation of the main building and investments in future projects, and the deterioration in other operating income, the increase in net interest and commission income led to a decline in the cost-income ratio by 0.6 percentage points to 52.3 per cent. A significant increase in the cost-income ratio was expected in the plan. As such, the achieved development was better than expected.

Risk Provisioning Increased

For the lending business, the Bank's risk provisioning stood at €81.4 million, which was higher than expected (net, previous year: €7.5 million). Berlin Hyp has taken into account the growing latent risks arising from the COVID-19 pandemic by setting up an additional management adjustment as part of lump-sum value adjustment for valuated loans and creating reserves for irrevocable lending commitments. Due to the active risk management of the Bank, there were no pandemic-related loan defaults in the reporting year. A detailed overview of the development of the lending risk provisioning can be found in the notes.

Risk provisioning for securities in the liquidity reserve posted a net income of €19.8 million due to sales. The net income in the previous year was €9.7 million.

Net Income from Investments Slightly Improved

Net income from investments of €-2.8 million mainly includes an unscheduled write-down on the participation in 21st real Estate. Net income from investments in the previous year was €-4.0 million.

Further additions to the fund for general banking risks

The Bank used the favourable economic development to strengthen the Fund for General Banking Risks by an additional €70.0 million (previous year's allocation: €90.0 million) in accordance with Section 340g of the German Commercial Code (HGB). This fund amounted to €488.0 million as of the reporting date.

Operating Result before Income Taxes and Profit Transfer Significant Lower than in the Previous Year

Taking into account the further increase in provision reserves, the Bank reports pre-tax earnings of €23.6 million, which is higher than planned. This represents a decrease of €38.0 million compared with the pro rata profit of 2019.

Profit and loss transfer agreement

Based on the profit transfer agreement concluded with Landesbank Berlin Holding, Berlin Hyp transferred a profit of €23.4 million (€61.0 million).

Return on Equity Declined

The return on equity was 6.8 per cent and was below target due to the lower-than-planned allocation to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) and the extensive formation of provision reserves. It was significantly below the previous year's figure of 11.6 per cent.

Earnings Development	2020	2019	Veränderung
	€m	€ m	€ m
Net interest and commission income	**333.1**	**327.5**	**5.6**
Net interest income	313.1	309.7	3.4
Net commission income	20.0	17.8	2.2
Operating expenditure	**173.2**	**172.3**	**0.9**
Staff expenditure	82.0	92.4	–10.4
Other operating expenditure	70.1	67.5	2.6
of which Expenditure for bank levy	*13.4*	*12.0*	*1.4*
Depreciation on fixed assets	21.1	12.4	8.7
Other operating revenue/expenditure	–1.7	–1.6	–0.1
Operating result before risk provisioning	**158.2**	**153.6**	**4.6**
Risk provisioning	**–61.6**	**2.2**	**–63.8**
Valuation result of lending business	–81.4	–7.5	–73.9
Valuation result of securities business	19.8	9.7	10.1
Operating result after risk provisioning	**96.6**	**155.8**	**–59.2**
Financial investment result	–2.8	–4.0	1.2
Fund for general banking risks	70.0	90.0	–20.0
Other taxes	0.2	0.2	0.0
Operating result before income taxes and profit transfer	**23.6**	**61.6**	**–38.0**
Income taxes ("–" = earnings)	0.2	0.6	–0.4
Profits transferred on the basis of the profit transfer agreement	23.4	61.0	–37.6
Net income	**0.0**	**0.0**	**0.0**

Net Assets Position

Balance Sheet Total Increased Significantly

Compared to the previous year, the balance sheet total increased significantly by €6.4 billion to €33.4 billion as at 31 December 2020. On the assets side, the rise was mainly due to the rise in mortgage loans and securities portfolios and higher Bundesbank deposits. The individual balance sheet items developed in line with the strategic orientation of the Bank.

Changes in Major Balance Sheet Items

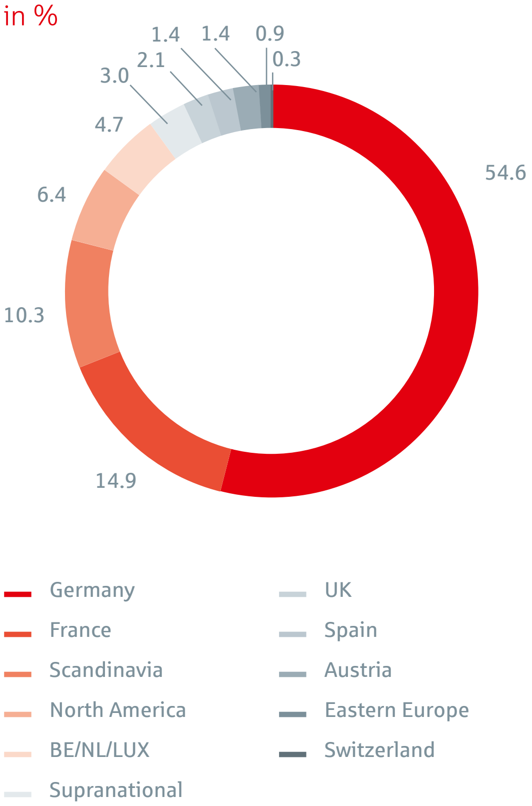
Claims against banking institutions decreased by €0.2 billion to €0.1 billion. The decrease is mainly due to lower time deposit investments.

Claims against customers increased by €2.0 billion to €24.4 billion. The increase was mainly due to mortgage loans, whose portfolio grew by €2.1 billion and reached a new high of €23.9 billion. Additions to new lending were offset to a lesser extent by planned and extraordinary outflows through early repayments. As part of the strategic reduction in public sector lending, the portfolio continued to decline by €0.1 billion to €0.4 billion. Compared to the previous year, the amount of loan commitments not yet disbursed remained nearly unchanged at €3 billion.

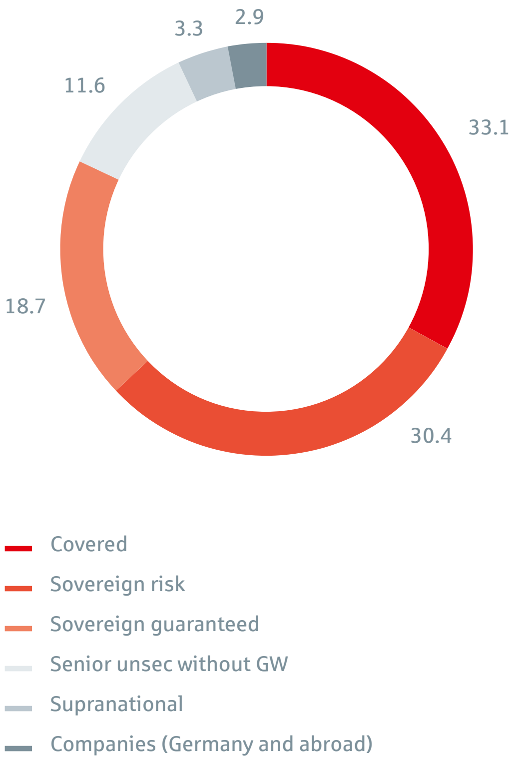
The portfolio of debentures and other fixed-interest securities increased significantly by €2.5 billion to €6.2 billion. Nominal additions of €6.2 billion were offset by disposals of €3.7 billion.

As at 31 December 2020, the issuer structure of the securities portfolio was as follows:

Countries
in %



Lending risk
in %



Securities with a nominal volume of €0.2 billion (€0.2 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 increased significantly by €5.4 billion to €9.5 billion. The €1.0 billion decrease in Lombard loans was offset by a sharp increase of €6.6 billion in liabilities from fixed-term deposits, in particular through participation in the TLTRO-III programme of the Deutsche Bundesbank.

Liabilities to customers increased slightly by €0.2 billion to €4.5 billion compared to the previous year.

Securitised liabilities to customers increased by €0.9 billion to €17.1 billion. New issues of €3.4 billion were offset by maturities of €2.2 billion and repurchases of €0.3 billion.

Equity

Berlin Hyp's subscribed capital amounted to €753,389,240.32 as at 31 December 2020. 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 €488.0 million (€418.0 million) as at 31 December 2020. Subordinated capital of €186.1 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 as of the reporting dates. Berlin Hyp identifies regulatory capital backing for counterparty default risk with the aid of the IRB-based approach (internal ratings-based approach). Operational risk is calculated using the Advanced Measurement Approach (AMA). The common equity Tier 1 capital after adoption was €1,386.7 million as at 31 December 2020, equity was €1,630.8 million, and overall risk (RWA) amounted to €10,320.9 million. The capital ratios were 13.4% for the common equity tier 1 capital ratio and 15.8% for the total capital ratio.

Additional Performance Indicators

The leverage ratio calculated according to the Delegate Regulation (EU) 2015/62 was 4.1% after adoption as at 31 December 2020. The balance-sheet-oriented minimum requirement for eligible liabilities (MREL) will probably not become relevant for reporting until 2021 when the decision is taken by the liquidation authority. As at 31 December 2020, it was 17.5 per cent based on the leverage ratio exposure and 57.0 per cent based on the total risk exposure amount (TREA).

Financial Position

Aaa
from Moody's

Pfandbrief issue rating

In the reporting period, the refinancing funds raised amounted to €2.2 billion. Of this total, €1.6 billion were attributable to mortgage Pfandbriefe and €0.6 billion to unsecured bank bonds, which were assumed at very good conditions compared to competitors. Around €0.1 billion of covered and €0.5 billion of uncovered securities were issued as private placements.

Berlin Hyp issued syndicated bonds four times in the reporting year. In February, the Bank issued a seven-year Pfandbrief with a volume of €500 million and a coupon of 0.01 per cent at a re-offer spread of mid-swap minus 1 basis point. Yields were minus 0.201 per cent. The majority of the issue (77 per cent) went to domestic investors, followed by investors from the Nordic countries (8 per cent) and the UK (6 per cent). Banking institutions and savings banks formed the largest investor group, accounting for 54 per cent. At the end of June and the end of August, the Bank also placed its ninth and tenth Green Bonds, each in the form of Green Pfandbriefe worth €500 million on the capital market. Demand from domestic and foreign investors was balanced for both the eight-year and ten-year transaction. In terms of investor groups, banks and savings banks showed the most interest, followed by funds. Both bonds were clearly oversubscribed, allowing them to be priced to a re-offer spread of mid-swap +5 and 6 basis points respectively and a yield of -0.228 and -0.122 per cent in the midst of the COVID-19 pandemic. In addition, Berlin Hyp made its foreign currency debut on the Swiss capital market, where it issued a bond in Swiss francs for the first time, also in green format. The eight-year senior preferred bond of CHF 125 million was placed within a short period of time on a spread of mid-swap +50. The Bank therefore managed to issue two or more Green Bonds in a year for the fourth time in a row and remains the most active issuer of Green Bonds in Europe in the commercial banking segment with ten outstanding euro issues.

In addition, the Bank bought back short-term Pfandbriefe in June as part of a public tender worth €303 million and participated in three tranches of the TLTRO-III programme.

As of the reporting date, Moody's continued to rate Berlin Hyp's mortgage Pfandbriefe Aaa with a stable outlook, while the senior preferred and senior non-preferred ratings remained Aa2 (with a stable outlook) and A2, respectively. As part of a methodological adjustment, Fitch upgraded the senior preferred bonds one notch to AA-. The senior non-preferred rating remained unaffected by this and remains A+. Against the background of the COVID-19 pandemic, Fitch revised the outlook for the Issuer Default Rating (IDR) of Sparkassen-Finanzgruppe, the Bank's support provider, from stable to negative. This was accompanied by a change in Berlin Hyp's IDR outlook. This affects the outlook for the ratings of the senior preferred and senior non-preferred bonds.

Capital market refinancing*	Portfolio without pro rata interest 31/12/2019	New issues** 01/01 – 31/12/2020		Maturities*** 01/01 – 31/12/2020	Portfolio without pro rata interest 31/12/2020
	€m	€m	%	€m	€m
Mortgage Pfandbriefe	10,285.0	1,584.0	75.1	1.433.2	10,435.8
Public Pfandbriefe	20.0	-	-	-	20.0
Other bearer bonds, non-preferred	3,409.0	-	-	279.0	3,130.0
Other bearer bonds, preferred	2,060.0	341.5	16.2	5.0	2,396.5
Registered mortgage Pfandbriefe	1,773.9	28.0	1.3	194.5	1,607.4
Registered public Pfandbriefe	432.0	-	-	192.0	240.0
Schuldschein loans, non-preferred	483.3	-	-	73.0	410.3
Schuldschein loans, preferred	30.0	70.8	3.4	-	100.8
Registered bonds, non-preferred	1,384.8	63.4	3.0	128.7	1,319.5
Registered bonds, preferred	121.4	22.0	1.0	-	143.4
Subordinated bearer bonds	6.0	-	-	6.0	-
Subordinated Schuldschein loans	219.2	-	-	99.7	119.5
Subordinated registered bonds	108.0	-	-	-	108.0
	20,332.6	**2,109.7**	**100.0**	**2,411.1**	**20,031.2**

* Zero balances.
** New issues in 2020 incl. capitalisation at zeros.
*** Maturities and early repayments incl. terminations.

Capital market refinancing in foreign currencies*	Portfolio without pro rata interest 31/12/2019	New issues** 01/01 – 31/12/2020		Maturities*** 01/01 – 31/12/2020	Portfolio without pro rata interest 31/12/2020
	CHFm	CHFm	%	CHFm	CHFm
Other bearer bonds, preferred	-	125.0	100.0	-	125.0
	-	**125.0**	**100.0**	-	**125.0**

* Zero balances.
** New issues in 2020 incl. capitalisation at zeros.
*** Maturities and early repayments incl. terminations.

Financial and Non-Financial Performance Indicators

Financial Performance Indicators

Taking into account the allocation of €70.0 million to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB), the transfer of profit to Landesbank Berlin Holding amounted to €23.4 million, which was €37.6 million below the previous year's figure. The decline was not as sharp as forecast in last year's management report due to risk provisioning expenditures, which were well below expectations. Nevertheless, it was influenced by the difficult conditions described in the course of the business.

Compared to the previous year, net interest and commission income increased by €5.6 million to €333.1 million. As such, net interest income increased contrary to expectation and improved by €3.4 million to €313.1 million. Besides a higher average mortgage loan portfolio, the increase was due to the participation in the targeted longer-term refinancing operations with the Deutsche Bundesbank (TLTRO-III) and the resulting interest. Net commission income, which we had expected to remain at the level of 2019, also improved, and at €20.0 million was €2.2 million higher than in the previous year.

Fortunately, the cost-income ratio of 52.3 per cent was significantly lower than expected. Operating expenditure, which was at the same level as in the previous year, combined with the increased net interest and commission income led to a moderate decline in the cost-income ratio of 0.6 percentage points.

The return on equity was 6.8 per cent as at the reporting date, 4.9 percentage points below the previous year's figure. Due to the reduced profit transfer to Landesbank Berlin Holding AG, the lower allocation to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) compared with the previous year, and the extensive formation of provision reserves, neither the very positive prior-year figure of 11.6 per cent nor the target range were achieved.

At 13.4 per cent (13.3 per cent), the common equity Tier 1 capital ratio after the allocation to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) of €70.0 million and after adoption exceeded expectations, even taking into consideration the stricter equity requirements according to CRR II/CRD IV.

At €5.7 billion, new business volume slightly exceeded its predicted level and was below the previous year's level of €6.3 billion. Including long-term extensions, new business decreased by €0.6 billion to €6.7 billion (€7.3 billion).

Non-Financial Performance Indicators

The share of new business with new customers was 27 per cent of the total volume of new business, which was significantly higher than expected.

The market penetration at the savings banks, i.e. the number of savings banks with which Berlin Hyp maintains business relations, is a reflection of the Bank's strategic goal of positioning itself as S-Group partner of the savings banks and its brand core, based on partnership. Furthermore, Berlin Hyp strives to expand its product and service portfolio consistently in order to further increase its appeal as S-Group partner. In 2020, the volume of the S-Group business amounted to €1.4 billion (€1.9 billion) and was significantly below expectations, impacted above all by the effects of the COVID-19 pandemic. As a result, it was not possible in the past financial year to continue the trend of the previous years; however, with active business relationships with 153 savings banks (151 institutions) from all S-Group regions, networking within the Sparkassen-Finanzgruppe expanded further, even in times of greater uncertainty. This was mainly due to the continuous expansion of the product portfolio of Berlin Hyp.

For the market segment, the target portfolio for management purposes has become established in recent years. It includes the following aggregation groups: Real estate types, customer groups, lending regions, rating classes and Green Bond financing capability. The specified target portfolio values, which reflect the Bank's conservative risk strategy, were complied with overall in 2020. Individual deviations were analysed and taken into account in the portfolio management. Regular internal research studies are employed to analyse and evaluate Berlin Hyp's markets.

In addition to market conditions, the performance of Berlin Hyp depends largely on its employees. Since the reporting year 2018, the headcount in full-time equivalents (FTE) has been a non-financial performance indicator.

As of 31 December 2020, the headcount was 552 FTEs (564 FTEs), which included 20 FTEs (23 FTEs) of junior staff.

The implementation of a new, future-oriented organisational structure was launched in 2020. In this context, employee qualification is of even greater importance.

Strategic resource planning is a means to ensure the functional capability and future viability of Berlin Hyp. To support strategic resource planning, early retirement and severance agreements are offered on the basis of a works agreement. In the medium to long term, the Bank's age structure leads to an increasing number of employees who leave Berlin Hyp when they reach retirement. As knowledge is transferred to successors, positions are often temporarily double-staffed.

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 making its debut with the world's first Green Pfandbrief in 2015, ten Green Bonds with a total volume of €5 billion have since been issued. Furthermore, Berlin Hyp placed an eight-year green senior preferred bond worth CHF 125 million and issued its first green private placement. In addition, the financing of energy efficient buildings and their refinancing with Green Bonds has been a permanent goal of the Bank's company strategy since the spring of 2016.

ISS ESG (formerly oekom research) confirmed the prime status of Berlin Hyp with an overall B-rating in October 2020. Berlin Hyp received a Sustainalytics ESG risk rating of 11.9 in October 2020, confirming it as "low risk". The rating agency MSCI raised Berlin Hyp's previous sustainability rating from "BBB" to "A" in November 2019.

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

The year 2020 was heavily impacted by the COVID-19 pandemic. In view the credit risks that have not yet materialised, the unchanged high level of competition in commercial real estate financing, the persistently low level of interest rates and the increased regulatory requirements, the Board of Management is satisfied with the better-than-expected earnings trend.

The Bank transferred a result after taxes of €23.4 million (€61.0 million), which was more than planned, to Landesbank Berlin Holding AG as profit. New business targets were achieved.

Report on Subsequent Events

After the balance sheet date of 31 December 2020, a lengthy hard lockdown period continued through January, with significantly reduced economic activity and limited business activities for many companies (including hotels, non-food retailers, etc.). As a result, the spread of COVID-19 continues to have a considerable impact on the economic activity in many markets. This also means a significantly increased likelihood that the economy will continue to struggle and that the real estate industry will also face negative consequences in future. In this respect, there is a value-generating event after the balance sheet date.

The concrete effects on the economy, individual markets and sectors cannot be conclusively assessed as yet. The forecasts contained in the management report reveal a high degree of uncertainty in view of the dynamics that are emerging. However, as far as the effects of COVID-19 on the economy are reflected in sustained economic and capital market pressures and the current situation persists or worsens, this could also put significant pressure on the real estate markets, contrary to previous expectations, due to vacancies and value losses in commercial real estate, thereby leading to rising risk provisioning expenditures. Furthermore, there could be a decrease in the volume of new business and the number of holdings in the commercial real estate financing business. It therefore cannot be ruled out that the further developments in the COVID-19 crisis will lead to negative effects on the planned earnings figures. In such a situation, the profit transfer in 2021 could also be significantly lower than the result in 2020 due to rising risk provisioning expenditures and a negative impact on the interest result. Should this be the case, the other key management indicators may also develop less favourably than those shown in the forecast report. There may also be consequences for regulatory capital and the regulatory indicators. Moreover, this may give rise to liquidity risks. It cannot be ruled out that the further developments in the COVID-19 crisis in the 2021 financial year may also have a negative impact on risk management parameters.

III Opportunities, Forecast and Risk Report
Opportunities and Forecast Report

The forecast report should be read together with the other chapters of this management report. The forecast statements contained in the report are based on estimates and conclusions from the information currently available. The statements are based on a number of assumptions relating to future events that have been integrated into the corporate planning of Berlin Hyp. There are uncertainties and risks regarding the occurrence of future events, many of which are beyond the Bank's control. As such, actual events may differ from the forecasts made in the forecast report.

In particular, the concrete effects of the COVID-19 pandemic on the economy, individual markets and sectors cannot be conclusively assessed as yet. Given the situation, the forecasts presented below are highly uncertain.

Forecasts can only be made in a volatile environment to a limited degree. The main opportunities and risks of the forecasts for the key management indicators are presented below. Opportunities are defined as possible future developments or events that may lead to a positive forecast or target deviation for Berlin Hyp. On the other hand, risks are defined as possible future developments or events that may lead to a negative forecast or target deviation for Berlin Hyp. The risk types specific to banks are explained separately in the extended risk report.

Assumptions Relating to Macroeconomic Development[4]

For 2021, we expect a significant recovery in the global economy compared with the previous year, with positive growth rates. The economic development will essentially depend on pandemic-related events.

In the past financial year, we have already seen that rapid recovery effects occur as soon as infection rates permit a return to a mostly normal economy. This is directly related to the implemented lockdown measures and their effectiveness. For example, the economy in China has now fully recovered. Further hopes are pinned on the development of vaccines. The continuation of the highly expansionary monetary and fiscal policy will provide a supportive stimulus. On the other hand, the described recovery path will be at risk due to the re-emergence of the infection if travel and contact restrictions are lifted too early, or the virus mutates. Trade policy conflicts, which had a negative impact on the economic development before the outbreak of the pandemic, could also resurface. However, after the change of government in the US, it can be assumed that the protectionist attitude on the other side of the Atlantic will relent, at least for the EU.

The eurozone is expected to have a particularly dynamic economic growth, due above all to the high recovery potential following the renewed slump in the second half of 2020. In addition, efforts are underway to have all highly vulnerable population groups rapidly vaccinated by mid-2021 at the latest. Specific risks for the eurozone are arising from the effects of Brexit. Although the withdrawal agreement was approved at the end of the year, there are now disruptions caused by border controls and new supply chains to be coordinated. In the medium term, trade barriers could arise as a result of potentially diverging product standards.

But they carry less weight from a German perspective. Anticipatory shifts in the trade of goods and foreign investments to the other EU countries and outside the EU to China and the US already occurred last year.

Given the opportunities and risks described, we also expect significant growth rates in economic performance for Germany. These will be below the EU average due to the lower prior-year effect.

Assumptions Relating to Industry Development

The monetary policy of the most important central banks will remain expansive for the foreseeable future, resulting in continued low and negative interest rates. This also applies in particular to the ECB. The recovery path taken by the economic activity in view of the ongoing pandemic will determine the extent and

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

duration of corresponding measures. The fiscal measures that have already been introduced will further increase the already high debt ratios in many European countries; this will hamper a more restrictive monetary policy in the future even further. Possible restrictions in the monetary policy resulting from an increase in the inflation rate have already been addressed in advance with a more flexible interpretation of the definition of price stability.

Even under demanding conditions, Berlin Hyp should be able to gain access to all segments of the capital market on fair market terms.

In conjunction with an economic recovery and in view of the unchanged favourable financing conditions and the pressure from investors to find yields, Berlin Hyp expects the real estate investment market to remain highly dynamic in 2021. It should once again be realistic for the threshold of €70 billion on the commercial and residential real estate investment market to be met or even exceeded. A high transaction volume of €15 to €20 billion can be expected again for the residential segment. Investor demand for residential properties will remain high in view of the stabilising effect of the short-time working regulation and relatively secure rental income as a result. The search for adequate returns will keep investor demand on the commercial property market for core office properties at A and B locations, grocery-anchored retail properties and logistics properties at a high level. A transaction volume with commercial properties of around €50 to €55 billion will likely be achieved.[5]

Business Development

Integration into the Sparkassen-Finanzgruppe and the stable shareholder background remain a solid basis for Berlin Hyp to continue its successful business activities. The Bank also wants to tap into additional potential through its experienced workforce together with a solid refinancing strategy and its innovative strength. Berlin Hyp believes itself to be well positioned for the future in a challenging environment.

[5] Sources for assumptions relating to sector development: BNP Paribas Real Estate, CBRE, ECB, ifo Institute, Savills.

In 2020, the Bank made a great deal of progress toward its goal of becoming Germany's most modern real estate financier. In particular, consistent progress was made on large-scale projects, the future-oriented process <next dimension berlin hyp> was further developed and new ways of working were tested. In addition to the next milestones in these areas, Berlin Hyp will also be focusing on cloud solutions and will enable even more flexibility for the workforce with the "Digital Workstation" in 2021.

The Bank continues to pursue a consistent IT strategy with the aim of providing a complete digital platform, from initial customer contact to external reporting. SAP HANA and highly standardised applications play a key role in ensuring the required future viability, flexibility, security, quality and availability of data and reports. Process optimisations will likely be achieved in 2021 through the ongoing digitisation of the Bank's core processes, which will make it possible to react even more quickly to customer demands.

The core business of Berlin Hyp remains a solid starting point, i.e. the individual financing structures with risk-appropriate pricing and a high domestic share. The financing and consideration given to activities in selected foreign markets is being pursued in order to achieve balanced portfolio diversification in terms of risk and revenue. Additional management capacities have been allocated to these activities since the beginning of 2021.

In 2021, Berlin Hyp plans to develop business relationships with other savings banks in the S-Group business and to moderately increase the volume of the S-Group business compared with the previous year. However, due to the regional principle and the individual business focus of each savings bank, the growth rates in market penetration are generally limited. Failure to achieve this goal does not hold any identifiable risks to the Bank's business model or business success. However, achieving this goal increases Berlin Hyp's chances of positioning itself sustainably as a long-term 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 increased in 2020. In consideration of the regulatory requirements, however, earnings potential that arises should continue to be used to support the interest result while maintaining the conservative investment strategy. Berlin Hyp does not expect the securities portfolio to increase significantly in 2021.

Berlin Hyp expects the net interest and commission income in 2021 to be significantly lower than the impressively high level reached in the 2020 financial year.

It also expects stable net interest income in the core business with its planned portfolio increases. However, the low and flat yield curve remains unchanged and, combined with lower new business and growth margins, will cause some pressure. Earnings contributions from credit processing fees and their distribution over the term are expected to remain positive in the net interest income. There are opportunities to further reinforce the market position by leveraging the expertise of Berlin Hyp as a commercial real estate financier, and to exceed sales targets as well as the net interest income as a result. This could be further facilitated by the consistent implementation of the digitisation strategy. Participation in the targeted longer-term refinancing operations of the European Central Bank (TLTRO-III) has additional earnings potential, provided that the corresponding credit growth is achieved. Potential risks may arise if the sales targets are not met, for example, due to the COVID-19 pandemic or a downturn in the real estate markets. Cancelled or postponed investments could lead to a decline in demand for commercial real estate financing and, depending on how the real estate market and interest rates develop, could increase unscheduled loan repayments. In addition, earnings risks arise if, due to strong competition, only interest margins lower than planned can be agreed in the core business, or if delays in implementing the digitisation strategy lead to lower business potential than expected.

In terms of acquisition of new customers, a 20 per cent share of new business is expected in 2021, slightly share than in 2020 (27 per cent).

Given the challenging and unstable planning environment impacted by the pandemic, we expect new business in 2021 to be significantly lower than the level reached in the 2020 financial year. Although the real estate markets and asset classes, which have so far been very crisis-resistant, run the risk of falling short of the plan, they may also offer opportunities for a slightly higher level of new business compared to the planning, depending on how the pandemic progresses.

Due to the lower expected volume of new business in the light of the COVID-19 pandemic, net commission income is expected to be moderately below the level of the previous year.

Berlin Hyp expects an overall slight increase in operating expenditure in 2021 compared to the previous year. Human resource expenditure will develop under the influence of the negative effects associated with the allocations to pension obligations resulting from falling average interest rates and the results of future collective agreements. In addition to the continuing high level of cost awareness and extensive optimisation activities for the adaptation of human resources, strategically essential projects, such as the optimisation and digitisation of the loan process, the creation of an integrated SAP bank and the construction of the new headquarters, will lead to higher expenditure. Berlin Hyp's headcount is expected to decline in the medium to long term based on the current state of knowledge. Since January 2019, resource management in this regard has been essentially based on a company agreement.

Contributions to the European banking levy are calculated by the banking supervisory authority. Berlin Hyp assumes that the contributions will not see any major adjustments compared to the 2020 level.

For the above reasons, the cost-income ratio will increase significantly in 2021 after the planned increase for 2020 failed to materialise. With the results of the successful implementation of projects and other initiated measures, significant reductions can be expected again in the following years.

If the plans for the above-mentioned projects and levies are exceeded, this can have a positive impact on operating expenditure and the cost-income ratio. On the other hand, there is a risk that failure to reach planned objectives, negative interest rate developments or a bank levy set above the previous level will lead to higher operating expenditures and in turn to an increasing cost-income ratio.

In line with 2020, the other operating result of Berlin Hyp will again be in the negative single-digit million range in 2021.

With careful planning, Berlin Hyp expects a noticeable increase in risk provisioning in 2021. If the current solid market and portfolio development continues, earnings opportunities will arise accordingly. Due to the rent cap, there is a fundamental risk of a negative impact on the demand for real estate projects in Berlin and therefore on the regional transaction volume. Furthermore, potential renovation measures could be postponed as a result of worsening ratings and collateral values. Based on the results of an internal analysis, the Bank does not expect any significant allocations to risk provisioning from the rent cap. The medium-term impact of the COVID-19 pandemic on market development, particularly of office and retail properties, has so far been difficult to estimate.

For example, unpredictable and unexpected developments in external macroeconomic, geopolitical and sector-related conditions and developments on the international financial markets can represent opportunities and risks for the risk result of the capital market business. Furthermore, despite careful planning, a trend reversal in the external framework conditions – for example, in the event of a significant decline in real estate prices as a result of an increase in interest rates – could lead to a deterioration in the creditworthiness of borrowers and also to a reduction in the value of the collateral provided, and could result in a need for additional risk provisioning or value adjustments for commercial real estate financing. It is also possible that the need for risk provisioning will be lower than expected if the economic environment remains the same or improves.

Insofar as the effects of the COVID-19 pandemic are reflected in sustainable economic and capital market pressures beyond current expectations, this could result in vacancy rates and further losses in commercial property values, putting a strain on real estate markets and leading to increased risk provisioning expenditures, particularly for hotel financing or the financing of specific retail use properties. Furthermore, there could be a decrease in the volume of new business and the number of holdings in the Bank's commercial real estate financing business. There are also risks with regard to the forecast earnings figures (including net interest rate and commission income, profit transfer) and Berlin Hyp's key management indicators. There may also be consequences for regulatory capital and the regulatory indicators. It cannot be ruled out that the further developments in the coronavirus crisis in the 2021 financial year may also have a considerable negative impact on risk management parameters.

In addition, such crises may produce shifts in credit spreads or market liquidity in the capital markets. This can lead to increased liquidity risks for banking institutions, which can also have an impact on Berlin Hyp.

At the same time, however, there is also a chance that the negative effects of the COVID-19 pandemic will prove to be less persistent or milder than what the Bank has currently assessed and taken into account in the forecast. Property markets could therefore recover more quickly or to a greater degree than the Bank currently expects. Factors such as a rising demand for real estate due to a lack of investment alternatives could also influence recovery. The resulting higher demand for loans would create opportunities for the Bank to develop new and existing business in its core business area. A higher demand for real estate could also lead to a recovery in real estate prices, which would have a positive effect on the Bank's risk result.

According to plan, Berlin Hyp assumes that the operating result after risk provisioning, which is negatively affected in particular by the interest rate level and future investments, will improve, taking into account careful risk provisioning planning and the above-mentioned expectations. Earnings before profit transfer are expected to be slightly lower than in 2020 due to higher-than-planned allocations to the special item pursuant to Section 340g of the German Commercial Code (HGB). While a lower-than-expected profit transfer could result if the pandemic takes a very negative course, there is a chance of higher earnings before profit transfer if the COVID-19 pandemic takes a more positive course than anticipated.

The return on equity should recover in 2021 and is expected to be only slightly below the target range of 8 to 10 per cent at the end of the year. If the earnings before profit transfer or the allocations to the special item pursuant to Section 340g of the German Commercial Code (HGB) fall short of expectations, the return on equity will also be lower. Otherwise, there is a chance of a positive deviation from the plan.

The Bank expects to achieve a common equity Tier 1 ratio (CET1) of 12.7 per cent over a 12-month period. 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 allocations to provision reserves, the active management of the total risk-weighted assets (RWA) will make a significant contribution to achieving the targeted capital ratios. Events such as an increase in RWA above expectations as a result of reduced collateral values and rating changes due to the COVID-19 pandemic and the increasing rent regulation would put the achievement of targets at risk.

A change in the Bank's rating may have a positive or negative impact on the Bank's financing options or refinancing costs. In addition, if the major central banks set a monetary policy that is more restrictive than expected, this may increase refinancing costs.

Earnings risks arise in particular if an increase in the cost of refinancing cannot be passed on as part of the conditioning or the expected new business volume cannot be generated on the markets at the planned margins. Further diversification of the investor base, for example, by issuing additional Green Bonds, could also give rise to opportunities for more favourable refinancing.

In addition, future regulatory interventions may be accompanied by restrictions and therefore by earnings risks, and the implementation of new regulatory requirements by additional operating expenditure. There are also risks from the Bank's membership in the Institutional Protection Scheme of the Sparkassen-Finanzgruppe. As part of compensation and support measures, the institutions in the protection scheme could be required to make special payments, which would put pressure on the Bank's earnings. The same applies to potential obligations to make additional contributions to the restructuring fund for banking institutions. It is currently not possible to predict whether such payments will arise and in what amount.

Overall Statement

The framework conditions for the overall economy, the industry and for the Berlin Hyp remain very challenging, mainly due to the COVID-19 pandemic.

Within this context, the generally 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.

Berlin Hyp's positioning in the market, including its innovative strength in combination with its continued solid refinancing strategy, creates opportunities. This forms a good basis for the continuation of its successful business activities. With the stable and solid shareholder background that continues to exist, an increasingly strong integration into the Sparkassen-Finanzgruppe and an experienced and motivated workforce, the Board of Management still believes that Berlin Hyp is well positioned for the future in an increasingly challenging environment. The aim of the measures introduced to optimise the Bank's HR tools and the resulting optimisation of the allocation of human resources is to foster the skills of each individual staff member.

This should safeguard the stability and sustainability of Berlin Hyp and provide its employees with a reliable perspective at the same time.

The continuous development of its "Immo" product range for German savings banks will enable Berlin Hyp to continue its joint financing business with savings banks even under the influence of the COVID-19 pandemic and to increase its level of networking within the S-Finanzgruppe. The development of the S-Group business is supported by customer-centric sales structures and the Bank's presence in Germany's core regions.

Even taking into account the recessionary economic development triggered by the COVID-19 pandemic and the still unpredictable developments on the real estate market and possibly recurring upheavals on the capital markets, Berlin Hyp expects that the positive business development with its customers will continue in 2021. If there is no additional need for risk provisioning compared to the planning, the return on equity is expected to increase slightly again.

Taking into account the significant allocation to the special item pursuant to Section 340g of the German Commercial Code (HGB), which is also planned for 2021, and in view of the costs for future-oriented projects and investments, earnings before profit transfer are expected to be somewhat lower than in the 2020 financial year. There is a chance for a higher profit transfer if the COVID-19 pandemic takes a more positive course.

Risk Report

Risk Management System

Berlin Hyp's risk management system comprises an extensive range of tools to deal with risks the Bank enters into and to assess the economic and regulatory (normative) risk-bearing capacity within the framework of the strategy defined by the Bank's Board of Management.

The objective of risk management is to maintain the risk-bearing capacity and compliance with specified minimum ratios through the limitation of economic risks and by establishing upper limits for tied capital.

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

Group Risk Management System

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

As the superordinate regulation, the business strategy outlines strategic 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 aim to ensure that assumed risks remain acceptable. All companies and organisational units have to ensure that all risks are transparent and measurable under the uniform Group-wide methodology.

Details of these requirements are provided in the Group's risk strategy. It is the responsibility of the Board of Management of Landesbank Berlin Holding and will be discussed with the Supervisory Board. 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, methods and processes for the individual risk management phases. Limit systems and escalation processes are described 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 income. Risks are accepted in view of profitability. 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.

The risk strategy will be operationalised with the medium-term and operational planning. Planning takes place in consideration of all foreseeable risk and equity effects at the overall bank level.

Risk controlling supports the Board of Management in all risk policy issues, in the development and implementation of the risk strategy and in the design of the system for measuring and limiting risks. Risk controlling is essentially responsible for the ongoing monitoring of the risk situation, risk-bearing capacity, compliance with risk limits, and the regular reporting of the risk situation to the Board of Management and Governing Bodies.

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 the methods and processes for identification, measurement, evaluation, 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.

As part of a risk inventory, the Bank identifies the main risks on an annual basis, creates an overall risk profile for the Bank and reviews the methods used in the risk management system. In addition, the Internal Audit division and the external auditor regularly evaluate the risk management system in the course of the annual financial statement audit.

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 statements according to the German Commercial Code (HGB). The Loan Committee, which also acts as the Risk Committee, consists of members of the Supervisory Board. It consults with the Board of Management regarding the principles of business policy 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 monitoring system. This encompasses a regular review and evaluation of the risk management processes for all types of risk. The Internal Audit division reports independently and directly to the Board of Management.

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

Berlin Hyp Governing Bodies at a glance:
→ Supervisory Board, including its committees
→ Board of Management
→ Financial Steering Committee
→ Loan Committee
→ 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.

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 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
Berlin Hyp's risk situation is presented in detail on a quarterly basis in an overall risk report for the Board of Management and the Supervisory Board. In addition to the material information on the individual risk types classified as material, the stress test results and information on risk concentrations, the overall risk report also includes information on adequacy of capitalisation, regulatory and economic capital, the current capital and liquidity indicators and refinancing items. In addition to the quarterly overall risk report, risk controlling provides monthly reports on individual risk types and the Bank's risk-bearing capacity. Market and liquidity risks are reported daily. If necessary,

recommendations for action are also provided within the scope of reporting; target/actual comparisons, change comments and other analyses are prepared. In addition to the regular risk reports (overall risk report, reports on individual risk types), reports are also prepared on a case-by-case basis (ad hoc reporting) if deemed necessary due to the current risk situation, for example, if pre-defined risk limits or loss limits are exceeded.

Besides the risk situation reports, regular reports are also prepared on the development of the business volume, the cover funds and reports on the Bank's net assets, financial and earnings situation.

The following table shows an overview of Berlin Hyp's key reports and their frequency of reporting:

Reporting frequency	Subject
Daily	→ Market price and liquidity risks (procurement risk)
Monthly	→ Liquidity Risks → Development of balance sheet items → Development of the earnings situation → Risks of counterparty default at portfolio level → Risk-Bearing Capacity → Risk reporting of the cover funds
Quarterly	→ Quarterly Commercial Code reports → Summary risk report on all risk types → Development of existing mortgages (including new lending and extension volumes, margins)

Risks

Risk Inventory

As part of a risk inventory, Berlin Hyp regularly (at least once per year) reviews the risks that can significantly affect the net assets position, the earnings situation or the liquidity position. Within the risk inventory, an overall risk profile for the Bank is created and the materiality of the identified risks is evaluated by the Board of Management. All identified material risks are included in the regular reporting of the Bank's risk situation. As part of a new product process, new products are analysed in detail before they are introduced at the Bank and, in particular, are reviewed with regard to their risks for the Bank. By involving all relevant divisions, the new product process is designed to ensure that risks from new or changing products can be properly mapped.

Within the risk inventory, Berlin Hyp reviewed sustainability risks or ESG risks (environmental, social, governance) as overarching risks and classified them as fundamentally relevant risks for the Bank.

Material Risks

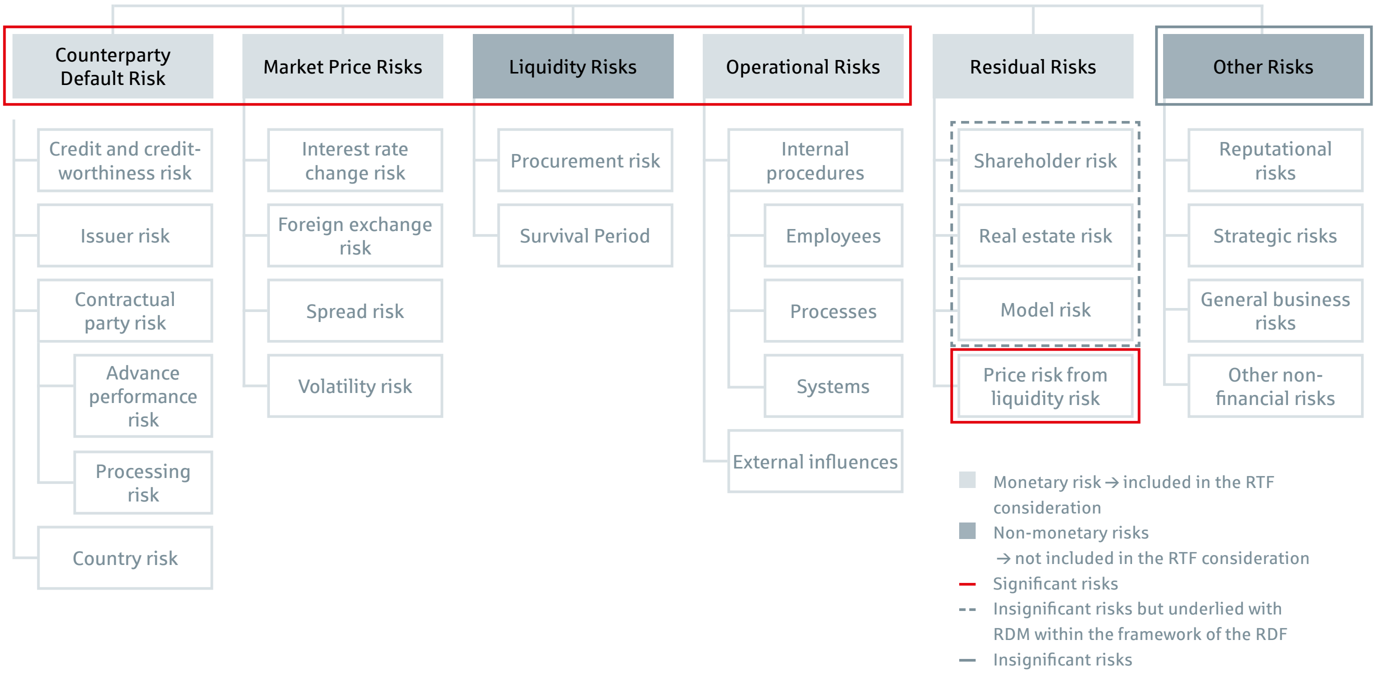
In the context of its regular risk inventory, the Bank has classified the following risk types as material:

- → Counterparty default risks (including country risks),
- → Market Price Risks,
- → Liquidity risks (including the price risk from the liquidity risk) and
- → Operational Risks.

Berlin Hyp distinguishes 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 the Bank's risk-covering assets as part of the risk-bearing capacity analysis. Non-monetary risks (such as insolvency risk) cannot be backed by risk covering assets, but are integrated into risk management and controlling processes using the appropriate standard methods and models. 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 determined amount of the risks of the last period are analysed.

The table below provides an overview of the main risk types at Berlin Hyp. Relevant but immaterial risks are summarised under Other Risks.

Risk Types of Berlin Hyp AG



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

Risk types	Risk management by the organisational units/committees	Risk controlling by the divisions
Counterparty default risks	→ Real Estate Financing → Portfolio Management → Treasury → Lending → Risk Management	→ Risk Controlling
Market Price Risks	→ Financial Steering Committee → Treasury	→ Risk Controlling
Liquidity Risks (Including price risk)	→ Financial Steering Committee → Treasury	→ Risk Controlling
Operational risks	→ Process owners → Divisions	→ Risk Controlling

Risk-Bearing Capacity

Berlin Hyp has implemented a risk-bearing capacity concept to ensure that the Bank's monetary risks are continuously covered by the risk-covering assets of the Bank, thereby ensuring the Bank's risk-bearing capacity at all times. In doing so, the Bank uses appropriate methods to quantify the individual risks. As the risk calculations are based on certain confidence intervals, there is a residual probability that the risks actually incurred are higher. Limits are implemented for all monetary risks, and compliance with these limits is continuously monitored. The assumptions underlying the quantification of the risks and the corresponding limits are reviewed regularly, at least once a year, and adjusted by resolution of the Board of Management as needed.

The Bank's risk-bearing capacity concept was revised and adapted in 2019 based on the "ECB Guide to the internal capital adequacy assessment process (ICAAP)". Within the framework of the risk-bearing capacity concept, both the economic perspective and the normative perspective are considered.

In assessing the risk-bearing capacity, the risks are quantified in the economic perspective following approaches based on value at risk. A confidence level of 99.9% for a one-year evaluation period is applied. In order to ensure the Bank's risk-bearing capacity, the total risk position determined in this way must not exceed the risk-covering assets. For the overall risk within the risk-bearing capacity assessment, there is a pre-warning level at 80 per cent of the available risk-covering assets. The evaluation is completed by evaluating the overall risk position by assessing the results of various stress tests that take the risks into account from an economic as well as a regulatory perspective.

The risk-covering assets are calculated from the sum of the regulatory equity and certain economic adjustment items.

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

The 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 all material risks. One of the objectives here is to combine the monetary risk types into a stressed overall scenario and identify the effects on regulatory and economic capital.

The impact of macroeconomic changes on the risk-covering assets and/or on the regulatory capital ratios was estimated by consolidating the specific stress tests in the individual risk types into several stress tests for the Bank as a whole. This was achieved by defining scenarios in accordance with the requirements of the MaRisk, which also take into account the relationships between the individual risk types of the assumed developments.
Reverse stress tests are used to calculate the degree to which the overall banking scenarios with the greatest impact would have to develop before the total risk-covering assets are exceeded or the minimum capital stock is not reached.

The Bank's risk-bearing capacity was verified in 2020 as at all reporting dates, both according to regulatory and normative perspectives. Details of the risk-bearing capacity as at 31 December 2020 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 and monitored at the individual business partner and overall portfolio levels. Investment risk (shareholder risk) is considered to be an immaterial risk.

Individual Commitment Level

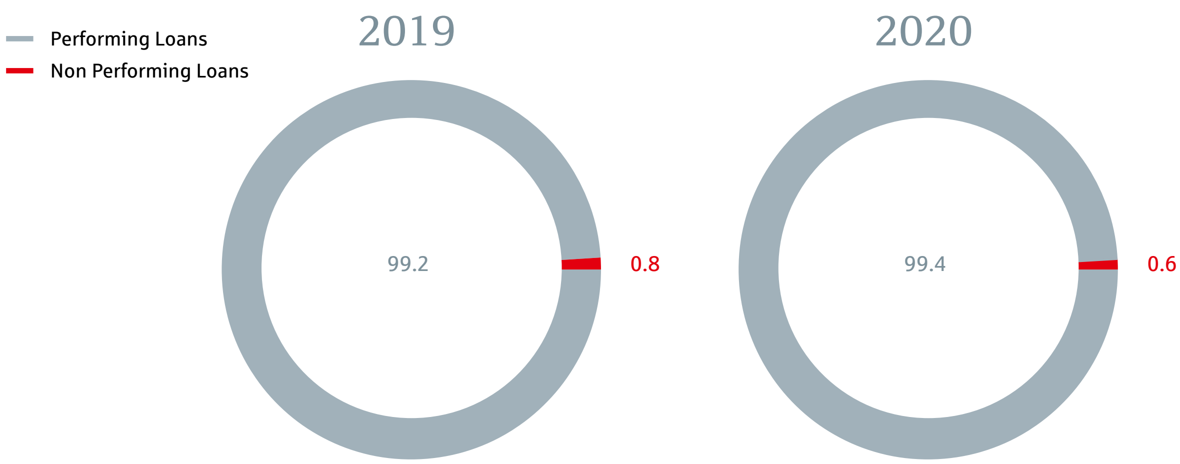
Adequate risk management of counterparty default risks should be guaranteed through a loan approval directive and defined processes and interfaces, from acquisition to new lending through to loan repayment (close integration of acquisition and subsequent market sphere). The credit processes are laid out in writing in the Bank's regulations. Credit processes are examined regularly by the Internal Audit division, which means that they are also subject to constant quality analysis.

The risk exposure on the individual borrower level is verified on the basis of regular analysis of creditworthiness. Rating procedures that take debtor and business-specific characteristics into account are at the core of the risk assessment. Pricing as well as loan decisions are based on the rating of the borrower, taking into consideration the security provided. Real estate financing is largely determined using the SparkassenImmobiliengeschäfts-Rating (SIR) and the method for international commercial real estate financing (ICRE). Other rating procedures are also used. 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.

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 within the framework of an agency agreement. 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).

NPL ratio based on FinRep
in %



The share of non-performing loans in the total portfolio as at 31 December 2020 was 0.6 per cent, and thus remains 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.
The automated early warning procedure draws special attention to the criteria for rating dete-

rioration, 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. Valuation 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 is aiming to achieve a high share of centrally processed derivatives (central clearing). 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.

The Bank launched a COVID-19 task force in March 2020 as a response to the coronavirus pandemic. The necessary steps were promptly taken to assess the potential impact of the pandemic on the credit portfolio. In-depth bottom-up and top-down analyses were carried out over the course of the year. In spring 2020, scenario calculations were generated to estimate the impact of the COVID-19 pandemic on debt service capacity and the development of the market values for each relevant asset class. The scenarios formed the basis for the estimation of the changed credit risk parameters and therefore the forecast of credit risk, risk provisioning and risk-weighted assets (RWA). As a result, individual asset classes in the portfolio are more strongly affected by the pandemic than others, including above all department stores and shopping centres of the retail segment as well as properties of the hotel segment. Around 200 individual exposures directly affected by the COVID-19 pandemic with a total volume of €8 billion were reviewed in more detail. In addition to short and long-term scenario calculations, the analysis also included a customer survey for 50 individual exposures. The results of the analyses indicated that no specific risks within individual transactions could be identified. The analyses revealed weaknesses in individual exposures, but no measures were required for any of them beyond inclusion in the increased support.
No pandemic-related loan defaults occurred throughout 2020.

In addition to the process of regular review and updating of ratings, a re-rating process has been set up. Sixty individual exposures with a total financing volume of €3.2 billion, including the biggest retail and hotel financing and relevant exposures from the analyses, were re-rated. This was premised on simulation assumptions based on initial market data and expert evaluations of the Bank on the development of market rents and market values or reliable forecast and interim figures of customers with COVID-19 effects. For half of the financing volume, the re-rating had a neutral effect on the score and, in a few cases, a positive effect. Higher scores (> 3 points) were given to the hotel segment. The re-ratings led to an increase in RWA of approximately €230 million. In addition to the individual analyses, stress tests specific to the coronavirus were introduced within the loan portfolio in order to examine potential negative developments.

Relative to the overall economic impact of the COVID-19 pandemic, only a small number of applications for support measures were submitted. Fifteen coronavirus-related requests for repayment deferrals and repayment reductions with a total financing volume of €326 million were approved. The volume of contractually agreed deferrals amounted to €3.6 million. Out of this, an exposure with a deferral volume of €0.14 million fell short of the requirements of the vdp moratorium, which the Bank joined in spring 2020.

In assessing the loan portfolio, the Berlin Hyp takes into account the current special developments resulting from the COVID-19 pandemic, on the one hand by setting up an additional management adjustment as part of lump-sum value adjustment in the amount of €25.6 million for valuated loans, on the other hand by creating reserves for irrevocable loan commitments in the amount of €6.4 million.

Portfolio Level

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

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

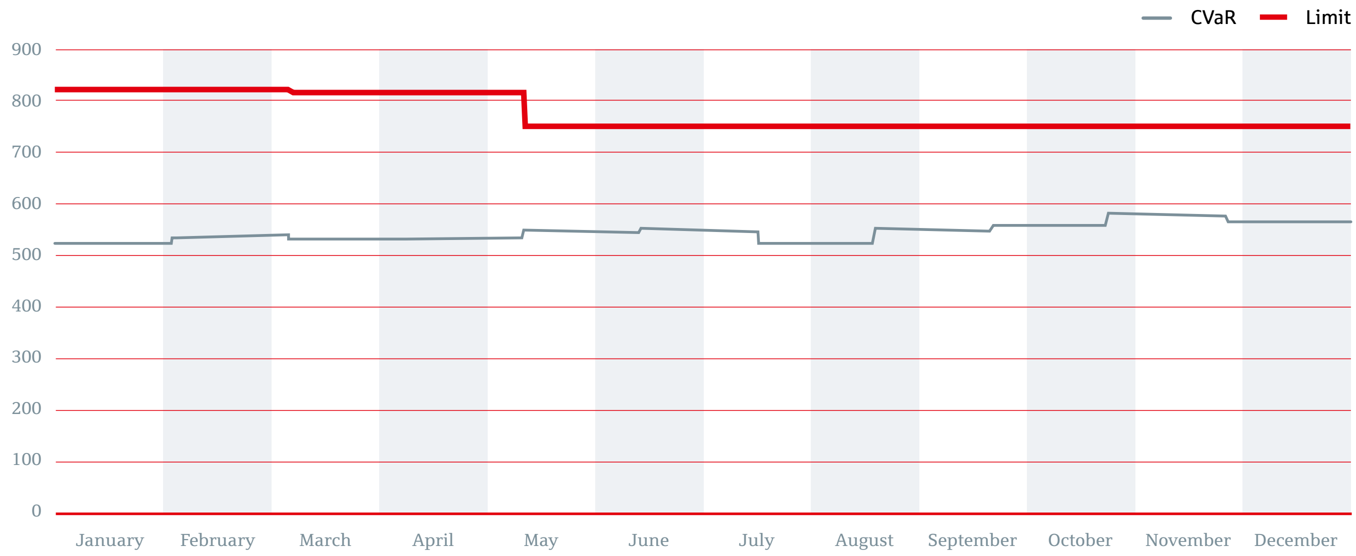
- Exposure data (availments, externally approved limits),
- Collateral values,
- Borrower, issuer and counterparty default probabilities,
- Country default probabilities,
- Industry correlations and volatilities,
- Country correlations,
- Income ratios to determine expected proceeds from security,
-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

Based on the assumption of no fundamental changes to the risk structure of the portfolio (constant level of risk, going concern approach), the credit default distribution that is determined makes it possible to make statements regarding the probability of credit defaults in the following year. Risk indicators (expected loss, credit value at risk and unexpected loss) can be determined from the credit default distribution.
Management of default risks is based on unexpected loss at portfolio level.
Berlin Hyp has limited the counterparty default risk. It has the risk indicators determined daily under an agency contract with Berliner Sparkasse. The risk indicators are monitored by Risk Controlling. Variance analyses and limit monitoring are performed here. The utilisation of limits at the portfolio level is monitored daily and reported weekly. Berlin Hyp has defined processes and options in the event that the pre-warning level (90% of the credit limit) is exceeded and limits are exceeded.
The limit is reviewed at least once a year, adjusted if necessary and approved by the Board of Management as necessary.

As of 31 December 2020, the utilisation was €571 million and the limit was €749 million.

Development of the CVaR in 2020

in €m



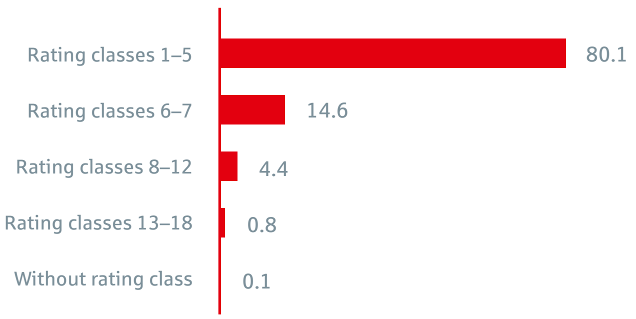
Responsibility for the methodology and validation of the credit value at risk model under consideration of Berlin Hyp's interests rests at the Group level. Internal and external audits are carried out at Group level as well.

Stress tests are performed within the scope of the credit portfolio model to simulate the change in a loan portfolio under the assumption of extreme scenarios in order to review the financial stability of the Bank against macroeconomic crises. The definition of the scenarios and their parameterisation are consistent with the requirements of MaRisk and are based on the overall bank stress concept of Landesbank Berlin Holding.

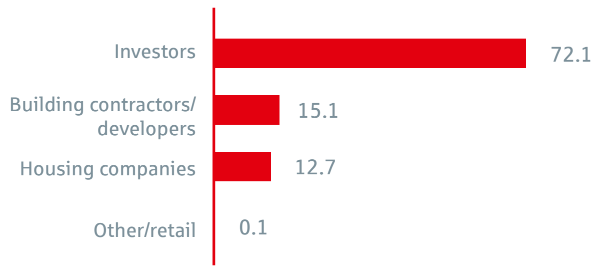
The business volume of Berlin Hyp relevant for the determination of the counterparty default risk amounted to €37.8 billion as at 31 December 2020. This business volume is broken down into mortgage loans amounting to €27.6 billion, money market and derivatives transactions of around €3.5 billion, and securities and public sector loans of around €6.6 billion.

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

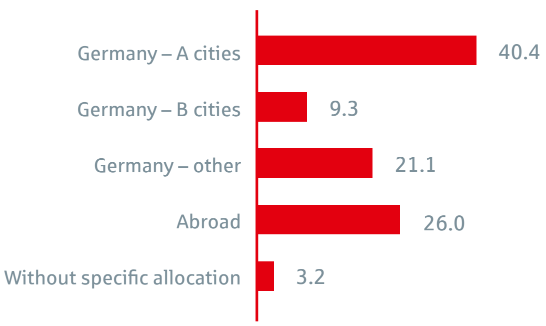
Rating classes
in %



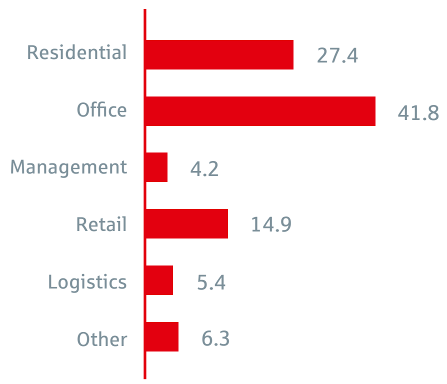
Customer groups
in %



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 Bank's own concept of limiting risk concentrations and are 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 take advantage of the resulting opportunities in refinancing via foreign currencies and to further diversify the investor base, an unsecured issue in Swiss francs was successfully placed on the market for the first time in August 2020. The resulting refinancing revenue will be converted into euros. The foreign currency risk is hedged by a cross-currency swap. The Bank does not incur share price risks.

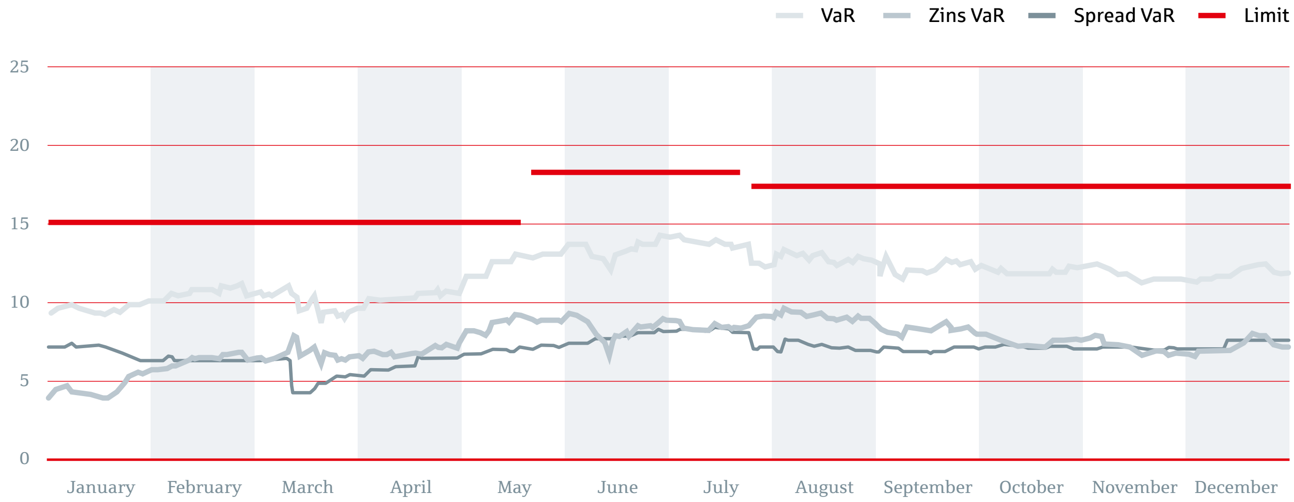
The controlled incurrence of market price risks is based on a range of risk and earnings indicators. The interest rate change risk is hedged with swaps, swaptions and securities. For disclosures regarding the forms of derivatives used as hedging instruments, see the Derivatives section in the Notes.

The Bank uses a combination of risk sensitivities, the value-at-risk approach and other stress tests to measure the risk of interest rate changes. For market price risks, a value at risk with a holding period of one trading day and a 99.0% confidence level are determined based on a historical simulation approach using an unweighted time series, taking into account linear and non-linear risks including volatility risks. In assessing the market price risk within the context of risk-bearing capacity (ICAAP), the risk values were scaled accordingly to a confidence level of 99.9 per cent and a holding period of one year. In July 2020, the method was changed from a variance-covariance approach to the historical simulation method based on ten-year time series in response to corresponding validation findings. 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 determines a risk coefficient with which cash value changes to the banking book are modelled in relation to equity for an interest rate change of +/200 basis points based on the EBA guideline and the corresponding BaFin circular on the management of the interest rate risk for transactions in the banking book. The stress scenarios for market price risk also include various earnings and risk stress tests and a net interest income simulation.

The value at risk and risk coefficient are limited. Thresholds have been established ahead of the limits. The changes in the risk coefficient and the net interest income when applying six regulatory interest rate risk raising from the banking book (IRRBB) scenarios come with warnings. Recourse in relation to the market price risk was below the value-at-risk limit throughout 2020. This also applies to March 2020, when the markets reacted with considerable uncertainty to the start of the pandemic in Europe and the unclear economic outlook. Since then, the Bank's securities portfolio has experienced higher cash losses; however, these were offset again over the rest of the year. On the reporting date, the utilisation was €11.9 million and the limit was €17.5 million.

Development of the CVaR in 2020
in €m



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. A predefined escalation process is triggered when warning thresholds or limits are reached or exceeded. To enable the expansion of the liquidity reserve, the limit was raised in May and simultaneously lowered for the counterparty default risk. The limit was adjusted again in July for the transition of the market risk model to historical simulation.

The daily reports to the management also include comments on the results of back-testing. In the previous year, i.e. 2019, outliers emerged in connection with event-driven market movements, especially in units of the LBB Group, with interest change risks in the long-term maturity range. This was due to a significant rise in interest rate volatility in this maturity range over the course of the year as a result of global political uncertainties and in response to announcements by central banks. In response to the observed backtest outliers, the above-mentioned adjustment to the market price risk model was made in July 2020. Since changing to the historical simulation approach, the model has performed normally in back-testing.

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

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

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

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

In 2020, the regulatory minimum ratio for the **Liquidity Coverage Ratio (LCR)** was 100 per cent. Internally, the LCR is controlled with a target ratio of at least 120%. On the reporting date 31 December 2020, the LCR ratio was 141% and therefore well above the minimum.

The following chart shows the development of the LCR, in each case at the end of the month:

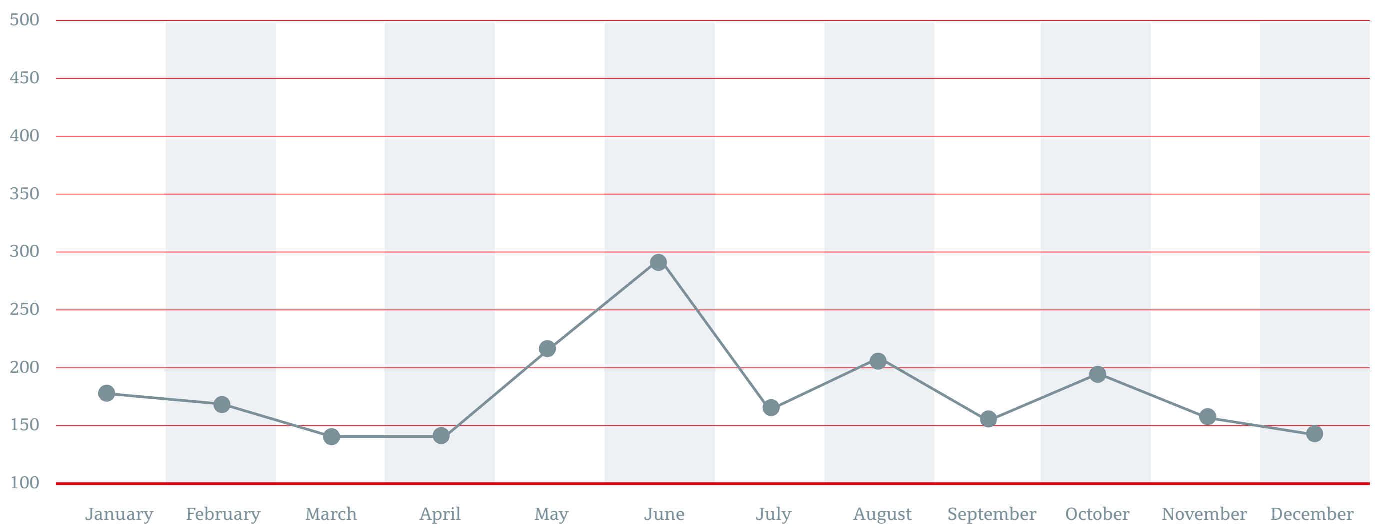
The increase in the LCR ratio in June is mainly due to the significant reduction in short-term money market refinancing as a result the inclusion of long-term TLTRO funds at the ECB.

The liquidity risk for the next 365 days will be determined by Landesbank Berlin Holding for the Group and the institutions and monitored by the respective institution. This is based on the **insolvency risk** that is determined and reported daily. It is based on a risk-liquidity progress analysis and assumes intact access to the secured and unsecured capital market. The **survival period** is also determined. This describes the period of time that the Bank can survive in a stressful environment without access to the unsecured capital market on the liquidity side.

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 increased favourable refinancing spreads. Furthermore, the price risk also takes into account the effects of increased refinancing spreads on pre-conditioned forward loans. The risk is considered within the framework of the risk-bearing capacity concept and is limited. As at 31 December 2020, the figure was €16 million for a limit of €40 million.

Development of LCR in 2020

in %



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

Liquidity is managed in compliance with economic limits/warning thresholds. Compliance with regulatory requirements is a mandatory secondary condition. Falling below a warning threshold or a limit triggers a predefined escalation process.

The liquidity buffer for ensuring liquidity consists of diversified assets from the various categories, almost exclusively ECB-eligible, according to the CRR regulations. The Bank generally does not create any new exposures in insufficiently liquid markets.

The Treasury of Berlin Hyp provides monthly forecasts of liquidity development for a period of at least twelve months. The underlying assumptions are regularly reviewed and adjusted as necessary.

A regulatory minimum quota of 100 per cent will apply for the **net stable funding ratio** (NSFR) from 30 June 2021. On the reporting date 31 December 2020, the NSFR ratio calculated on the basis of CRR II was 110 per cent. Based on the liquidity and issuance planning, a quarterly forecast of the future LCR and NSFR development is prepared.

Berlin Hyp's refinancing ability was also guaranteed at all times in 2020 and was not affected by the COVID-19 crisis.

Operational risks

Operational risk is defined in the CRR as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes not only operational risks but also legal risks; however, it does not include strategic risks and reputational risks. It is a significant risk for Berlin Hyp.

The management of operational risks is regulated uniformly throughout the Group. Berlin Hyp has appointed an OpRisk coordinator for the OpRisk Committee within the Group to handle interface function to the Landesbank Berlin Holding Group. Together with the Group, Berlin Hyp has received approval for an internal OpRisk model (advanced measurement approach) from the regulatory authorities, which is used to determine the regulatory capital requirement. The model is validated on a regular basis.

Berlin Hyp has a systematic and consistent process for identifying, evaluating, monitoring and managing operational risks. The Board of Management is informed about the operational risks of the Bank in the quarterly risk report. Should extraordinary events occur, in particular if material losses are involved, the Board of Management is informed by ad hoc reporting.

OpRisk management is centrally coordinated and OpRisk results and developments are monitored in the Risk Controlling division. Operational risks are managed in consultation with the individual specialist departments. Responsibilities include, in particular, the initiation and implementation of countermeasures, the introduction of appropriate internal procedures and measures, and the conclusion of insurance policies. The aim of Berlin Hyp is to minimise operational risks from an economic point of view.

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

- → Self-assessment following the bottom-up approach (qualitative OpRisk inventory)
- → Scenario analyses for determining loss potential (quantitative OpRisk inventory)
- → A collection of loss cases (internal/external) as a basis for statistical evaluations for risk assessment (actuarial approach: loss distribution approach) and for defining scenarios relating to specific business areas for scenario analyses
- → Early warning system (recording and monitoring of risk indicators)
- → Controlling of measures (recording and monitoring of measures)
- → Risk transfer through insurance cover

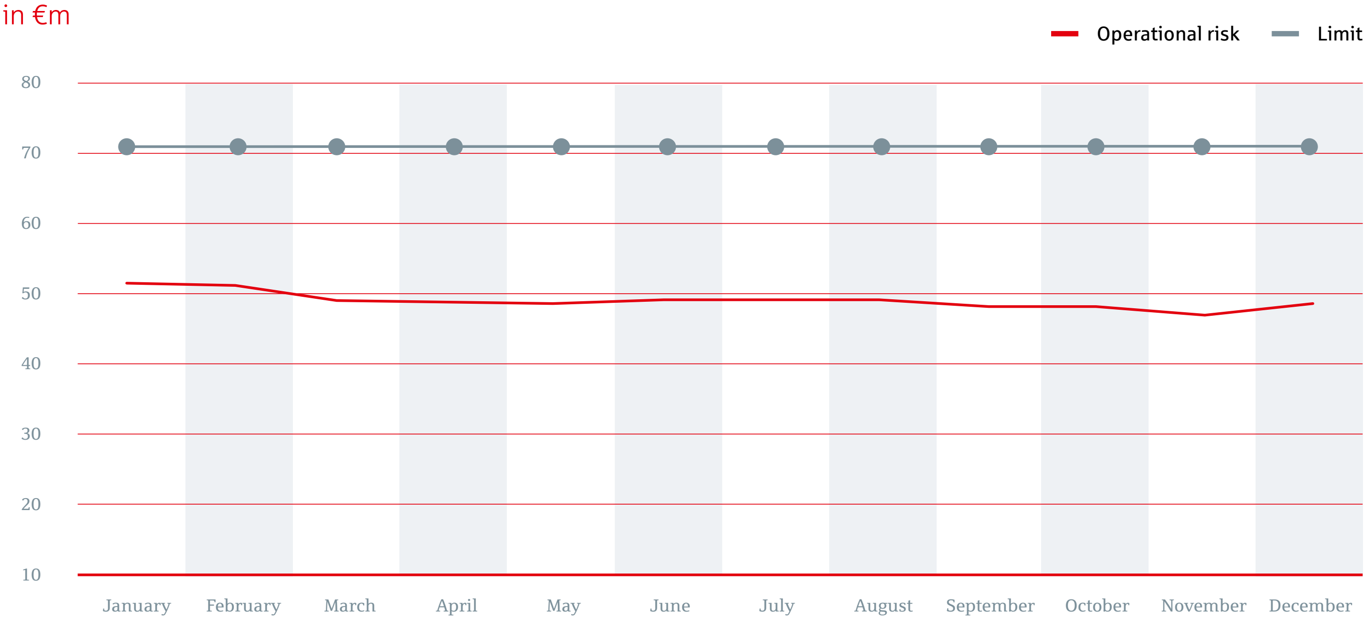
In accordance with Section 25a and Section 25h of the German Banking Act (KWG) and the relevant circulars of the banking supervisory authority, Berlin Hyp has created appropriate business and customer-related security systems for the prevention of money laundering, terrorist financing and other criminal acts at the expense of the institution. A risk analysis is carried out once a year, informing the Board of Management about the risk potential of the Bank. In the 2020 risk analysis, the money laundering officer concluded that the risk of exposure to money laundering, terrorist financing and other criminal activities was "low", taking into account implemented risk mitigation measures.

The Board of Management of Berlin Hyp decides on the limits for operational risks as part of the overall risk assessment derived from Berlin Hyp's risk-bearing capacity.

The Bank participates in a data consortium for the collection of OpRisk claims. This expansion of the database with external claims is a mandatory part of the Advanced Measurement Approach (AMA) applied at the Bank.

The limit for operational risks as at 31 December 2020 is €71 million. On the reporting date 31 December 2020, the operational risk amounted to €49 million. The monthly values for operational risk in 2020 determined using the AMA model are shown in the following diagram:

Limit utilisation
in €m



Since the beginning of the COVID-19 crisis, the Bank's operational stability has been safeguarded at all times. As in many other banks, the Bank's operations were largely shifted to mobile workstations outside the offices. This did not result in any restrictions in the operational business. In addition, the Bank has laid down regulations for the protection of employees on the basis of the guidelines of the Federal Ministry of Labour and Social Affairs. All employees were regularly made of aware and informed about the current regulations. Necessary expenses due to the COVID-19 crisis in 2020 for disinfectants, protective masks and other coronavirus-related measures were recorded as OpRisk losses. Beyond this, the COVID-19 crisis did not cause any operational risks in 2020.

For exceptional events that carry the risk of far-reaching consequences (such as fire and water damage, bomb threats, explosions, hostage-taking raids and terrorist attacks), a crisis team was set up in Berlin Hyp to deal with such crises. The crisis team is responsible for situations requiring rapid decisions in order to avert or reduce significant costs and/or pecuniary losses. In 2020, the crisis team was convened for the first time on 28 February 2020 in the context of the coronavirus pandemic to assess the impact on Berlin Hyp and initiate measures to protect its employees and ensure its continued business operations. Numerous other crisis team meetings were subsequently convened with regard to the coronavirus pandemic. The Bank also set up a COVID-19 task force in March 2020. Since June 2020, the coronavirus crisis has been discussed on a weekly basis as a separate agenda item at the meeting of the Board of Management.

System Risks

The Bank implements information security management and information and IT risk management 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 (quotients of loss amount and probability of occurrence) are expected.

With the integrated SAP-HANA system landscape, Berlin Hyp has a powerful IT platform that corresponds to the type and scope of business activities. The system was stable throughout the entire year. With the SAP system as a total banking solution, Berlin Hyp has a homogeneous, up-to-date IT landscape that takes into account the increasing importance of information technology as a competitive factor. The platform is currently undergoing broad expansion under the SAP-HANA project. In 2020, the deployment of the SAP-FSDP (Financial Services Data Platform) in the daily delta load process was an important milestone towards establishing a highly integrated platform that meets the requirements for transparent and documented cross-application data streams.

An access protection system is implemented through accompanying organisational measures with the aim of preventing unauthorised or unwanted read/write access to data assets. In addition, safeguards have been established to ensure the integrity, availability, authenticity and confidentiality of data through the IT systems and IT processes. In particular, they include vulnerability management, which was introduced in order to automatically detect known threats.

Up-to-date regulations have been developed by Berlin Hyp together with the IT service partners to protect against potential disasters in its own data centres and those operated by service providers. An essential part of these regulations are backup environments to which we can quickly switch over in the event of a disaster. The functionality of the measures was reviewed together with the IT service partners and the specialist departments using them. In the course of the B-One project, the data centre was moved from the building in Budapester Strasse to a new location; at the same time, the risk situation was improved.

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 regulations based on the identified critical business processes and the assigned IT systems. This is how the functionality of the business processes can be ensured by means of readily available replacement solutions in the event of technical disruptions.

Within the IT security management led by the IT security officer, additional measures have been implemented for ensuring IT security in accordance with the recommendations of the Federal Office for Information Security (BSI).

Legal Risks

Legal risks are risks arising from the violation of current and changing legal regulations, in particular from contractual, legal or judicial developments. It includes the risk of violations of legal provisions due to lack of knowledge, insufficiently rigorous application of the law (negligent interpretation), negligent action or untimely implementation.

In addition to the specialist departments, the compliance function and risk controlling, the legal department (Governance division) is also responsible for identifying and preventing legal risks. The monitoring of legal risks that have occurred is generally one of the tasks of the legal department. Major projects are centrally coordinated from a legal perspective. For risk prevention, the legal department provides templates and explanations for contracts and other legally meaningful declarations to a reasonable extent. The involvement of the legal department is mandatory for cases involving deviating or new regulations. If external law firms are involved, management is usually handled by the legal department. The HR department is responsible for labour court proceedings.

If unforeseen developments have occurred to the detriment of the Bank or errors have been made, the legal department will help to identify, rectify and prevent the errors in the future. It also assumes the task of reviewing and evaluating the events according to legally relevant facts and managing any litigation. This applies above all to the defence of claims asserted against the Bank.

The Board of Management receives a report on a semi-annual basis on material legal risks that have been qualified as ongoing or imminent legal proceedings of the Bank. Ad hoc reporting is provided for events of particular importance.

Shareholder risk

In the reporting year, Berlin Hyp AG held shares in a total of five different companies, including three young companies from the real estate digitisation sector, based in Berlin.

This includes OnSite ImmoAgent GmbH with its 49 per cent crowd-based property viewing service. The Bank holds a further minority stake of 5.35 per cent in 21st Real Estate GmbH, which operates a system for the valuation and digital purchasing process of real estate. In addition, the Bank holds 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. The shareholding was 14.43 per cent as at 31 December 2020.

The minority interest in BrickVest Ltd., London, will be settled after its insolvency.

Lastly, Berlin Hyp AG holds 100 per cent of the shares in Berlin Hyp Immobilien GmbH which, in addition to its own brokerage activities, also handled the marketing of real estate, but no longer has any active business operations. The entrepreneurial risk is taken into account as part of the shareholder risk. Furthermore, the management of Berlin Hyp receives a separate controlling report on a quarterly basis informing it of the development of the strategic investments and their economic situation.

Property Risks

Property risk refers to the risk of losses against the current market value due to changes in the value of property owned by Berlin Hyp. In the reporting year, the portfolio included two properties that were used by Berlin Hyp itself.

Model Risks

In the year under review, Berlin Hyp took into account model risks – i.e. the risks of adverse consequences due to incorrect results from models (model uncertainty) – when considering the risk-bearing capacity for credit default risk and market price risk types.

Risk Management Pursuant to Section 27 PfandBG (Mortgage Pfandbriefe)

According to Section 27 of the PfandBG, each Pfandbrief bank must use a risk management system suitable for the Pfandbrief business. The risk management of the cover funds is largely integrated into the risk management system of Berlin Hyp. In addition, there are limits in line with regulatory requirements. Compliance with these limits is monitored on working days within the risk management of the cover funds and presented to the Board of Management on a monthly basis in a separate report.

Overall Statement on Risk Situation

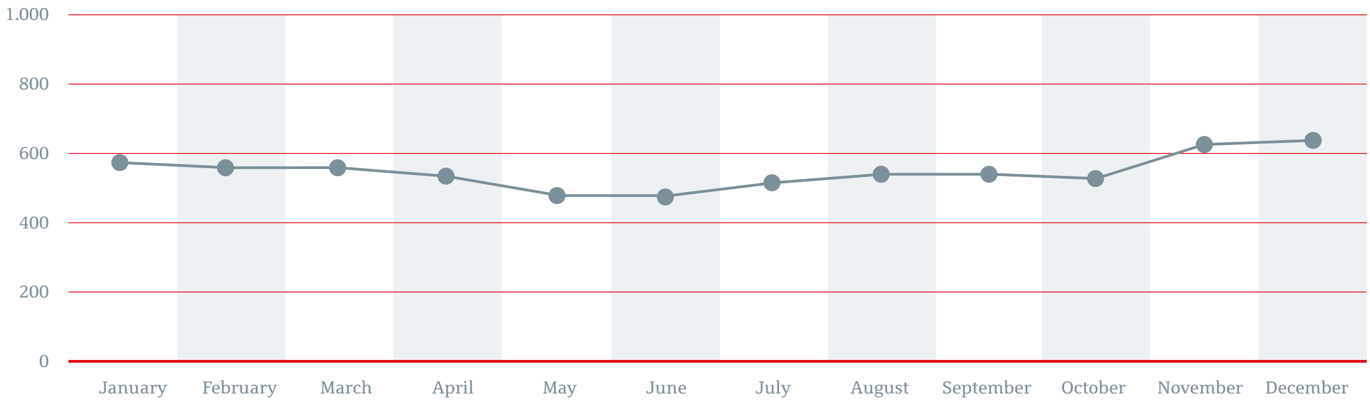
The risks incurred by Berlin Hyp were covered at all times throughout the financial year by the available risk coverage. Limits and pre-warning levels for risk-bearing capacity were not violated. The risk limits for all major risks of the Bank were met throughout 2020.

The risk coverage as at 31 December 2020 amounted to €1,566 million; the total risk position was €932 million. The total risk limit was set by the Bank at €1,277 million. As at the balance sheet date, this resulted in an utilisation of the risk coverage of around 59.5 per cent and a limit utilisation of around 73.0 per cent.

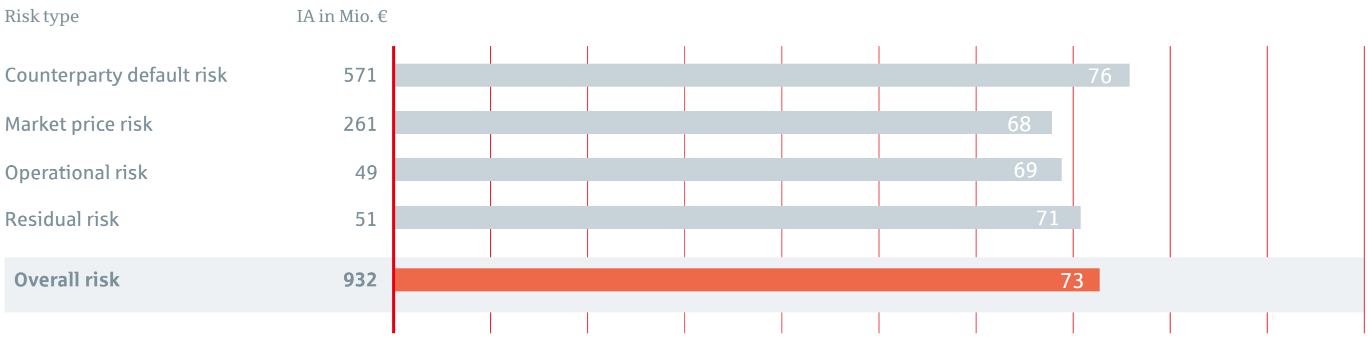
The following chart shows the scope and development of the risk coverage within the framework of Berlin Hyp's risk-bearing capacity concept:

Financial flexibility development in 2020

in €m



Percentage of recourse per risk type as of 31 December 2020 in %



The risk-bearing capacity concept assumes a holding period of one year at a confidence level of 99.9 per cent.

In 2020, the Bank carried out a detailed analysis of the loans portfolio in order to assess the potential impact of the COVID-19 crisis on the Bank's loans portfolio. As a result, individual asset classes in the portfolio are more strongly affected by the pandemic than others, including above all department stores and shopping centres of the Retail segment as well as properties of the Hotel segment. The analyses revealed weaknesses in individual exposures, but no measures were required for any of them beyond inclusion in the increased support. For 60 individual exposures with a financing volume of €3.2 billion, a structured re-rating process was carried out in 2020 in addition to the regular review and update of the ratings within a regulatory process, which resulted in an additional RWA requirement of approximately €230 million. Throughout 2020, there were no COVID-19-related loan defaults in the Bank's portfolio. The analyses also show that so far no particular risks have been identified in the Bank's individual exposures. The Bank has initiated measures to enable identifying potential deteriorations in the creditworthiness of individual exposures at an early stage. The analysis of the loans portfolio was supplemented by COVID-19-specific stress tests, which regularly examines the possible effects of adverse developments. In assessing the loan portfolio, the Berlin Hyp takes into account the current special developments resulting from the COVID-19 pandemic, on the one hand by setting up an additional management adjustment as part of lump-sum value adjustment in the amount of €25.6 million for valuated loans, on the other hand by creating reserves for irrevocable loan commitments in the amount of €6.4 million. Since then, the Bank's securities portfolio has experienced higher cash losses within the context of the coronavirus crisis; however, these were offset again over the rest of the year. Berlin Hyp's refinancing ability was guaranteed at all times throughout the year and was not affected by the COVID-19 crisis. Increased liquidity risks were not identified. Overall, no significant effects of the coronavirus pandemic were noted in any of the Bank's major risk types up to the balance sheet date of 31 December 2020.

Since the beginning of the COVID-19 crisis, the Bank's operational stability has been safeguarded at all times. Many parts of the banking operations switched to mobile working, but this did not result in any restrictions in the operational business.

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. The strategic risk is managed by the entire Board of Management. Certain decisions also require the approval of the Supervisory Board.

Landesbank Berlin Holding as the Group's parent company in the reporting year was responsible for strategic decision-making in the Group. The overall group strategy approved and regularly updated by the LBBH Board of Management provides the framework for 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 targets. Select financial and risk targets are also monitored during the year based on standardised reports.

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

Reputational Risks

The Bank monitors print and online media also with respect to potential reputational risks. In the event of negative media coverage, the Bank has installed an escalation procedure to ensure a suitable response. There were no events that involved reputational risks in 2020.

Human Resources Risks

Availability Risk

The quantitative and qualitative staffing of the banking divisions is managed by strategic resource planning. It aims to ensure the functional capability and future viability of Berlin Hyp and is adapted on an ongoing basis. In order to keep the planning up to date and realistic, megatrends (e.g. digitisation/automation, ageing society, knowledge culture, individualisation), developments in new and established business areas and regulatory requirements are taken into account.

Berlin Hyp draws on various 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 publicly accessible media. Specialised platforms are used to fill vacant positions as quickly as possible for the desired profile. Berlin Hyp obtains assistance from recruitment experts for key positions.

Taking into account the Bank's existing staffing levels, the overall availability risk is considered to be low. Vacancies were adequately filled within a reasonable period of time.

Motivation Risk

Employee motivation is promoted through sustainable workplaces and content, a vibrant corporate culture and the active participation of the employees in the development of Berlin Hyp. Ongoing feedback serves as an indicator. It is part of the corporate culture, anchored in the competence model of the Bank and implemented in various processes and through different media. In particular, the Bank has taken a participatory approach to designing the change process, which encourages employees to get involved; as a result, they identify more closely with the new developments. For example, employees from different areas and hierarchy levels formed a “culture board” in 2019 and have since been helping to develop the corporate culture.

In 2020, the expert career, which promotes special support for employees with expertise that is particularly valuable to the company, was introduced as an alternative development option to the management career. The motivation risk is considered to be low.

Qualification Risk
Due to the age structure, a number of employees will leave Berlin Hyp in the medium to long term because of their age. It is important to ensure that the departing employees transfer their knowledge to the remaining colleagues. The efficiency gains from large-scale projects currently in progress at Berlin Hyp are giving rise to new working conditions and changing the required employee skills. Employee development will therefore be supported, in parallel with the transfer of knowledge. The Bank sees learning and development in the professional context as an ongoing process. The technical, methodological and personal requirements are defined in the competence model of the Bank, while the managers and their employees develop and follow up the job descriptions. This is described in the “Continuously learning new things” competence in the competence model by means of clear behavioural anchors. The qualification measures offered are followed up in a discussion between the manager and employee. This task, in which managers “support employees in their development”, is also defined in the competency model. 270-degree feedback is used to measure the implementation of the leadership competencies and follow them up with individual development measures.

The 270-degree feedback for managers is conducted every 2 years. Based on the results of management feedback and the requirements for managers arising from their role in the implementation of the Bank’s vision for the future, the integrated development programme for managers at the Bank, introduced in 2019, is being continuously implemented.

The Bank has allocated an average of 3.5 training days per employee as the target. Employees had an average of 2.8 days of training and continuing education in 2020. The lower actual figure compared to the previous year is essentially due the lower number of in-person events because of the COVID-19 pandemic. This was made up for by alternative learning formats, which were mainly virtual and therefore condensed. With a variety of tailor-made in-house measures and selected external training opportunities, Berlin Hyp considers the qualification risk to be low.

IV Accounting-Related Internal Control System and Risk Management System

The annual accounts of Berlin Hyp are produced in accordance with the provisions of the German Commercial Code, supplemented by 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 accounting standards of the German Accounting Standards Committee are applied. According to the IFRS, Berlin Hyp is not obliged to present consolidated financial statements since no subsidiary has significant influence on the presentation of Berlin Hyp's earnings, financial and assets position.

The Finance division is responsible for accounting. The organisational unit carries 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 division is pursued on a case-by-case basis within the financial reporting process. Job descriptions are available for all relevant positions. Furthermore, sufficient human, technical and organisational resources are also available in order to ensure the sustainable and disruption-free handling of tasks. The divisions are assigned to the Board's credit function sphere.

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

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

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

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

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

At Berlin Hyp, accounting processes are standardised and are subject to constant supervision. The processing, entry and documentation of relevant accounting data occurs using IT systems that keep accounting books and other records in electronic form. Berlin Hyp applies the core SAP application as an integrated comprehensive banking solution. This system 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 distribution of technical roles and access rights should ensure in advance that interventions in accounting processes can only be undertaken in accordance with official responsibilities and competence. Unless specialised, two-person integrity systems have been established, organisational control activities are provided on a standardised basis. Electronically generated raw data as well as the various interim and final results are analysed, tested for plausibility and randomly examined by the divisions using a variety of system-supported comparisons, agreements, target comparisons and time-series developments on an individual transaction basis. Both technical requirements and workflow descriptions are in place for the individual processing steps within the framework of the relevant development process.

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

Accounting processes are an integral component of the 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 2020 financial year, audits were carried out on the settlement of securities transactions, the budgeting process and the Interim Financial Report. As in previous years, the Internal Audit division monitored and accompanied the process of reconciling loan accounts within the scope of the dispatch of annual statements in its role as a neutral body.

As in the previous year, the reviews carried out by the Internal Audit division did not reveal any material findings in the reporting year.

Regarding special measures concerning the management and monitoring of accounting units that are to be depicted within the accounting framework, please refer to the information provided in the risk report as well as to the Notes.

A number of external audits were carried out at Berlin Hyp in financial year 2020 alongside the audit of the annual financial statements. These audits concerned either Berlin Hyp directly as a separate financial institution or in its capacity as part of the regulatory group.

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

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

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 in 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

In 2020, the Berlin Hyp Board of Management adjusted the targets for female executives for the first and second management levels below the Board of Management due to changes in the organisational structure.

The target of 33 per cent should be reached at both management levels by 30 June 2025. As at 31 December 2020, 29.4 per cent of executives were female at the first level below the Board of Management and 29.5 per cent at the second level below the Board of Management. Overall, the percentage of women in management positions at all levels of management at Berlin Hyp is 28.6 per cent.

VI Non-financial Statement pursuant to Sections 289b and c German Commercial Code (HGB)

Preface

According to Sections 289b-e of the German Commercial Code (HGB), Berlin Hyp AG (Berlin Hyp) is required to publish an annual non-financial statement.

This obligation is fulfilled – without recourse to an exemption option – by the publication of this “non-financial statement” (hereinafter also referred to as “statement”). The statement concerns the period from 1 January 2020 to 31 December 2020. In addition, Berlin Hyp will publish this statement on its website at www.berlinhyp.de.

The statement is based on the performance indicators according to the Global Reporting Initiative Standards (GRI SRS), insofar as this framework is appropriate for Berlin Hyp in each individual case.
For better readability, the terms of the Global Reporting Initiative have been adapted to the terms in accordance with Section 289c of the German Commercial Code (HGB). The Supervisory Board of Berlin Hyp AG has voluntarily commissioned KPMG AG Wirtschaftsprüfungsgesellschaft to conduct a business audit of the report in accordance with the ISAE 3000 (revised) for the purpose of obtaining limited assurance pursuant to Sections 289b-e of the German Commercial Code (HGB). In addition to this non-financial statement, Berlin Hyp publishes its sustainability activities in 2021 according to GRI SRS in the GRI report. Publication of the GRI report is planned for the second quarter of 2021. It contains additional information on the Bank’s sustainability strategy and sustainability performance beyond the statutory requirements of the German Commercial Code (HGB).

All references to further reports are additional information and do not form part of this statement or the audit thereof.

Business Model

Information on the business model can be found in the Management Report under I Principles of the Bank – Business Model.

General Information

1. Sustainability Concept

1.1 Strategic analysis and measures

Berlin Hyp is one of Germany’s major real estate and Pfandbrief banks in commercial real estate financing. Berlin Hyp analyses opportunities and risks on the basis of information obtained from the risk management system and a materiality matrix that is updated every year. Ambitious climate protection targets have been set by the EU and the individual member states for the building sector which, depending on the respective calculation, accounts for between 30 and 40 per cent of CO_2 emissions in Germany. Berlin Hyp is committed to the Paris climate goals and the Climate Paths for the Federal Republic of Germany and has accordingly adopted a far-reaching sustainability agenda in order to promote the transformation to a lower-greenhouse-gas economy.

In its commitment to sustainability, Berlin Hyp generally follows the ten principles of the UN Global Compact, the Diversity Charter, the DSGV sustainability principles and the sustainability code for the real estate industry of the German Property Federation (ZIA). In addition, sustainable action has been firmly anchored in the corporate strategy. Requirements and procedures have been defined for the responsible handling of ESG risks (Environment, Social, Governance) in the regular business. Furthermore, Berlin Hyp has excluded business activities relating to certain critical sectors. For example, it does not finance any real estate whose construction or operation is directly related to the production of genetically modified organisms or the production of tobacco or alcohol.

The strategic mission statement, which defines the framework for sustainability, can be found in Chapter 1.3.

1.2 Materiality

Berlin Hyp regularly conducts a stakeholder survey every two years in order to gauge the opinions of our stakeholder groups. In view of the exceptional situation of the COVID-19 pandemic, which persisted throughout the financial year, a direct stakeholder survey was postponed until 2021.

The materiality analysis based on the survey conducted in 2018 was reviewed and adjusted on the Berlin Hyp ESG Board.

On the one hand, it verified the extent to which the business activities of Berlin Hyp have a significant impact on the individual sustainability aspects. On the other hand, it examined whether the sustainability aspects were relevant to the understanding of the business development, the results and Berlin Hyp's position.

Overview of Key Issues

		Material according to CSR Directive Implementation Act	Relevant for Berlin Hyp
Employee Concerns	Promoting an open and fair working environment	✓	✓
	Fair remuneration policy, proportionality of commissions and bonuses		✓
Social Concerns	Consideration of social criteria when issuing bonds	✓	✓
	Protection of personal data of employees, customers and business partners*		✓
	Provision of safe/stable financial products	✓	✓
	Transparent presentation of the impacts, opportunities and risks of the portfolio	✓	✓
Fight Against Corruption	Prevention of corruption and anti-competitive behaviour*		✓
	Tax honesty		✓
	Prevention of money laundering and terrorist financing		✓
Environmental Concerns	Consideration of ecological criteria when issuing bonds	✓	✓
	Consideration of climate protection criteria when selecting financing projects	✓	✓
	Consideration of resource conservation criteria and biodiversity protection when deciding on which financing projects to participate in	✓	✓
	Reduction of environmental impacts at our locations*		✓
Human Rights		✓	✓
Other	Verantwortliche Ausgestaltung der Digitalisierung von Prozessen**	✓	✓

* These issues do not have double materiality according to the CSR Directive Implementation Act. However, Berlin Hyp pays particular attention to these issues. For this reason, these issues will be voluntarily addressed below.

** The responsible design of the digitisation of processes has an impact on employee and social concerns and is explained below in more detail with regard to the individual aspects.

- **Employee Concerns**
  Business operations are impossible without employees. This is why appropriate measures have been taken to promote an open and fair working environment in terms of employee rights, equal opportunities and training with the aim of helping to further develop the employee situation. In the 2020 financial year, COVID-19 had an exceptional impact on employee concerns due to health protection.

- **Social Concerns**
  Berlin Hyp has an impact on social concerns through its activities as a financial services provider, in particular with 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.

- **Fight Against Corruption and Bribery**
  The prevention of corruption and anti-competitive behaviour and compliance with legal requirements through Berlin Hyp's products and services have a decisive impact on the success of its business activities. According to a joint assessment with the stakeholders, this only has an immaterial impact on the "fight against corruption and bribery" aspect. However, Berlin Hyp pays particular attention to this issue.

- **Environmental Concerns**
  Unlike the manufacturing sector, Berlin Hyp, as a financial services provider, uses relatively few natural resources in its business activities and does not have a significant share of climate-related emissions. Therefore, this statement does not provide details on the Bank's internal operational ecology. Berlin Hyp's financing projects, products and services are relevant to the report because they have an indirect impact on the environment and on climate protection. In this area, we succeeded in expanding our product range, thereby making a positive contribution to the development of the business situation.

- **Human Rights**
  Berlin Hyp is committed to its responsibility in the protection of human rights in all activities of its business. With this in mind, Berlin Hyp has adopted several directives and joined the UN Global Compact in 2015. Since Berlin Hyp is mainly active in Germany and in selected core markets in Europe, the likelihood of human rights violations in our business activities is considered to be low.

The results of an analysis of potential reporting risks related to the non-financial aspects revealed that, after applying the net method while taking into account the risk mitigation measures, no significant risks associated with Berlin Hyp's own business activities and business relationships or its products and services within the meaning of Section 289c (3) Sentence 1 no. 3 and 4 of the German Commercial Code (HGB) were identified, which are very likely to have or will have a serious negative impact 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 that contribute to the achievement of the overall strategic objectives. The overall strategy of Berlin Hyp is reviewed annually by the management and aims to achieve the following two objectives:

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

In its mission statement on sustainability, Berlin Hyp has defined the following framework for action to support these goals: "We act not only according to economic aspects but also to ecological and social aspects. In doing so, we assume responsibility for owners, customers, employees and society beyond the legal framework:

1. We pursue a long-term, responsible and risk-conscious business policy, thereby making a solid contribution to positive economic and social development.
2. We welcome the voluntary inclusion of ecological and social aspects in the real estate industry and in the capital market. We are continuously improving our own ecological and social 'footprint'.
3. We take responsibility for the quality of our work. We behave fairly, comply with the laws, and are also guided by voluntary, relevant standards.
4. We offer our employees long-term career prospects in conjunction with a comprehensive range of continuing education opportunities. We promote social diversity and the preservation of health in our company and we support our employees in social emergencies."

These higher-level frameworks are specified in guidelines and elsewhere. In support of these goals, Berlin Hyp has established sustainability committees in which representatives of all responsible departments meet at regular intervals to report on the progress of current measures, to present current developments and to discuss new measures.

Sustainability management in the corporate strategy of Berlin Hyp monitors the achievement of targets. The results are submitted to the management within the Sustainability Report or GRI report for information and approval.

1.4 Depth of the Value Chain
Due to the long useful life of real estate, it is in the explicit interest of Berlin Hyp for its clients to build or acquire and operate properties whose long-term value is ensured through professional consideration of ecological, economic and social criteria. This interest is supported by a corresponding product directive, according to which the financing of buildings associated with acts such as labour law and human rights violations must be rejected. In addition, Berlin Hyp requires its key suppliers to comply with the requirements of the ten principles of the UN Global Compact.

Sustainability programme (extracts)

No.	Field of Action	Action	Sustainability Aspect	Deadline	Implementation Status
1	Profitable business model	Development of a concept for a climate risk analysis of real estate portfolios	Environmental concerns	12/2021	Progress in 2020: - Completed project work on Carbon Delta - Established ESG Risk Commission - Prepared ESG Risk Assessment Overview - Adopted transparency goals
2	Profitable business model	Review and, if necessary, draft a concept for the extended impact measurement of the entire financed real estate portfolio	Social concerns – social impact	12/2022	Progress in 2020: see 1. Established ESG Risk Commission - Prepared ESG Risk Assessment Overview
3	Profitable business model	Participation in study on the assessment of the marketability of taxonomy (German Sustainable Building Council [Deutsche Gesellschaft für Nachhaltiges Bauen - DGNB], etc.)	Environmental concerns	12/2020	Completed
4	Future-oriented customer relationship	Further development and process optimisation of the Green Bonds concept	Environmental concerns	Ongoing	Progress in 2020: First ever green private placements – Green Bond in foreign currency issued for the first time

2. Process Management

Management Committee
Members of the Board of Management and all division heads

→ Focused and regular management of the Bank's strategically important topics and projects

↓ **ESG performance report** ↑

ESG Board
Chair: Sascha Klaus (CEO)
Members: Representatives from all relevant divisions of the Bank

→ Management of all of the Bank's sustainability activities; cross-divisional agreements, discussions and information platform

↓ ↑ ↓ ↑

Sustainable Finance Commission

→ Decision level for topics concerning both GBC and ESG products

ESG Risk Commission

→ Consideration of ESG risks in relevant processes

Green Building Commission

→ Further development of the Green Bond Framework and the green building portfolio

ESG Products

→ Conception of ESG products
→ Current: Development of the Transformationskredit (transformation loan – loan designed to finance ESG-aimed projects)

2.1 Responsibility

Sustainability is anchored in Berlin Hyp throughout its divisions. This is ensured through the interaction of the Board of Management, Sustainability Management and the Management Committee as well as the ESG Board, consisting of permanent representatives from corporate strategy, governance, treasury, real estate financing, finance, risk controlling, credit, valuation, communication and marketing, HR, portfolio management and the organisation. The Chair of the Board of Management assumes overall responsibility for the sustainability strategy.

2.2 Rules and Processes

In addition to economic aspects, the Bank's activities also take into account ecological and social aspects. Guidelines with corresponding provisions are in place to ensure that these aspects are considered. They are operationalised by action steps firmly established in the business processes. Monitoring to ensure the ongoing application of the action steps is primarily the responsibility of the managers. Non-financial risks associated with the five sustainability aspects are identified, assessed, managed and monitored by the respective specialist departments and the risk management department. The risk management working method and results are described in detail in the Management Report under III Opportunities, Forecast and Risk Report; therefore, no further details are provided here.

2.3 Monitoring – Due Diligence

Regular reports with information on the relevant non-financial performance indicators are submitted to the Bank's Board of Management by key organisational units – namely the Compliance, HR and Internal Audit divisions. The selected reports are listed in Chapter 3 under the individual sustainability aspects.

2.4 Participation of Stakeholders

Berlin Hyp makes use of its established formats for discussions with key stakeholder groups in society in order to identify and implement their sustainability requirements. Specifically, these are customers, employees, society, competitors and owners.

Communication with stakeholders is a part of daily business activities – for example, in the form of conversations with customers, employee surveys and our activities in business association committees.

In 2018, Berlin Hyp conducted a digital stakeholder survey that revealed the main sustainability issues from the stakeholders' perspective. In 2020, in-depth discussions with stakeholder groups were also held in light of the COVID-19 situation. In general, Berlin Hyp perceives the following sustainability aspects and issues among its key stakeholders:

- Above all, owners and customers require a profitable business model and responsible business operations, including respect for human rights, future-oriented customer relations and the establishment of loyalty and trust. Reports on these requirements are provided as part of this statement – to the extent required by law – primarily under the following aspects/issues: Environmental concerns, social concerns, conduct in compliance with laws and directives.

- Employees require a profitable business model, responsible business operations, an attractive employer and the establishment of loyalty and trust. Reports on these requirements are provided as part of this statement – to the extent required by law – primarily under the following aspect: Employee concerns.

- From the company's perspective, a profitable business model, responsible business operations and the establishment of loyalty and trust are particularly relevant. Reports on these requirements are provided as part of this statement – to the extent required by law – primarily under the following aspects/issues: Social concerns, conduct in compliance with laws and directives.

- For competitors, loyalty and trust are relevant. Reports on this requirement are provided as part of this statement – to the extent required by law – primarily under the following issues: conduct in compliance with laws and directives.

3. Sustainability Aspects

3.1 Employee Concerns

The management culture at Berlin Hyp aims to set itself apart by valuing its employees, helping them set and achieve goals, in addition to providing long-term security and a high degree of decision-making autonomy and self-determination. The managers play a special role in the implementation of the corporate mission statement and contribute to the support of the employees in their development throughout their individual career and life phases.

The human resources strategy is based on this assertion and therefore supports Berlin Hyp' overall strategy and, together with the relevant guidelines and processes, covers the internal framework for the individual aspects listed below under 3.1.1 to 3.1.3.

The objective is to offer employees a long-term, attractive workplace with a certain degree of autonomy and development potential. In terms of staffing, the aim is to attract employees with the right mindset for actively shaping values and corporate culture, in addition to their qualifications. The HR department is responsible for systematic human resource planning. In order to keep the planning up to date and realistic, megatrends (e.g. digitisation/automation, ageing society, knowledge culture, individualisation), developments in new and established business areas and regulatory requirements are taken into account.
HR requirements are met using internal and external resources. Open positions are initially advertised internally in order to allow qualified employees the opportunity for personal development. Young skilled workers are acquired through the recruitment of trainees, students in dual study programmes, student workers and interns.

In addition to the trainee program, Berlin Hyp also hires new graduates.
Digitisation and automation are changing working conditions in a very tangible way. New working environments and mobile technical equipment help to relieve the burden on

employees in their day-to-day work and give them greater flexibility. This is has been a success factor for Berlin Hyp, particularly during the COVID-19 pandemic. Given the required contact restrictions and physical distancing rules, employees have switched to digital or hybrid forms of communication and collaboration with success. Employees have been given the capability to work remotely in order to reduce the risk of infection.

In addition, the following measures were implemented in the reporting year in line with the Infection Protection Ordinance of the Berlin Senate and the SARS-CoV-2 Occupational Health and Safety Regulation:

- Hygiene concept in the Bank
- Free face masks and instructions for use
- Attendance rules (A/B teams)
- Information links to key publications, such as the RKI
- and FAQ on all regulations

HR reporting is prepared on a semi-annual basis and provides a detailed overview of key figures on employee concerns. Required measures are being introduced in order to change these key figures.

3.1.1 Employee Rights
The employees at Berlin Hyp work almost exclusively in Germany and are therefore subject to the German regulations on labour law, operational co-determination and the right to freedom of association, in addition to the EU regulations. Furthermore, employees covered by a collective agreement also enjoy the immediate protection of the collective agreement provisions, since Berlin Hyp is a member of the collective agreement employers' association.

Through a series of agreements with the Works Council and the Executive Staff committee, Berlin Hyp has regulated important matters concerning employee rights beyond the statutory requirements, including the company rules, company retirement pensions and mobile working. The two employee representatives have the right to monitor the implementation of the agreed measures.

"Occupational health and safety" and "health protection" are also organised in accordance with the legal requirements or regulated in works agreements. On behalf of Berlin Hyp's Board of Management, the responsible departments do not negotiate these issues directly with trade unions, but with the Works Council or the Executive Staff committee for senior employees in accordance with the legal requirements. In addition, overarching issues of occupational safety and health protection can become the subject of collective agreements between the collective bargaining associations.

3.1.2 Equal Opportunities
Berlin Hyp firmly believes that diversity creates advantages out of opposites. This position was reinforced by the signing of the Diversity Charter. The Human Rights, Diversity and Inclusion policy provides employees and business partners with a clear guide for their daily actions in this regard. It is based on national legislation and modelled on international standards, including:

- United Nations Universal Declaration of Human Rights
- United Nations conventions on labour and employment
- Convention for the Protection of Human Rights and Fundamental Freedoms of the European Union

Berlin Hyp is striving to integrate the equal consideration of women and men for management positions to an even greater extent into the corporate culture
(For the target figures for female executives, see Management Report VI "Corporate Governance Statement according to Section 289f of the German Commercial Code [HGB]").

This is supported by the following measures:

- Binding regulation on the inclusion of female applicants in the recruitment process by HR consultants in order to the identify and promote female talent
- The appointment of at least one woman to a wide variety of selection and observer committees
- Explicit inclusion of the subject of equal opportunities by the HR department when advising managers on HR matter (such as staffing)
- Operational anchoring of the promotion of women using the behaviour anchor for managers in the competence model of the Bank, which requires equal treatment of all employees.

With the applicant management tool introduced in 2020, the adequate involvement of female applicants in every recruitment process of Berlin Hyp can be systematically recorded and evaluated. Furthermore, Berlin Hyp actively encourages a healthy work-life balance, and therefore equal opportunities through various instruments and measures, such as trust-based working hours, mobile working and child-friendly workplaces.

Berlin Hyp's "competence model" is the basis for the design of human resource management instruments and supports equal opportunities.

We are not aware of any cases of discrimination for the 2020 reporting year.

3.1.3 Training
Training and continuing education are offered to managers and employees in order to maintain their performance level and boost their individual motivation.

Digitisation and automation have led to changes in employee skill requirements at Berlin Hyp, which are upgraded through a variety of in-house measures and external continuing education opportunities. To ensure the long-term professional development of the workforce, there has been an increased emphasis on context-related and ad hoc learning directly linked to specific work and change processes. Learning behaviour has shifted toward a higher proportion of virtual learning formats, "learning nuggets" within shorter time frames and the autonomous use of various platforms and formats. Within the learning context, employees are responsible for pursuing the autonomous development of their skills and actively sharing their knowledge; managers are responsible for actively supporting this process, presenting development perspectives and providing continuous feedback on behaviour and performance; the HR department is responsible for creating modern, need-based, value-adding learning formats and framework conditions for the professional development of employees and managers. The objectives of all professional development activities, for which the workforce has been allocated at an average of 3.5 days per year, are:

- To maintain the performance level of managers and employees and boost their individual motivation
- To make employees more adaptable to structural changes within the organisation and changes in the corporate culture, thereby also ensuring
- a more flexible deployment of staff
- To increase the Bank's ability to innovate
- Greater independence from external labour markets
- Employee retention through higher job satisfaction

The "Learning World for Managers" was implemented in 2019 and follows a systemic approach with a focus on organisational learning. Derived from the Bank's strategic leadership requirements, the individual needs of the managers from the 270°Feedback and insights from learning theory, it uses guided process learning based on concrete management situations and provides support for the current change processes in order to further develop a modern and sustainable management culture in line with the strategy.

Through various qualification methods, colleagues from all levels of the Bank learned about new agile working methods, for which there is a rising need as digitalisation increases. Employees had an average of 2.8 days of training and continuing education in 2020. The lower actual figure compared to the previous year is essentially due the lower number of in-person events because of the COVID-19 pandemic. This was made up for by alternative learning formats, which were mainly virtual and therefore condensed.

3.2 Environmental Concerns
Environmental protection is always an important consideration at Berlin Hyp. As a real estate financier, the Bank has an indirect influence on the ecological and social factors of the properties it finances. For this reason, the overall Bank strategy in the new Sustainability Agenda of Berlin Hyp was used to derive a sustainability target that calls for the Bank to increase the share of green financing in the loan portfolio to 1/3 by 2025.

Over the past three years, Berlin Hyp has focused on the sustainable development of its core business. Today, it is the largest issuer of Green Bonds in benchmark format among the European commercial banks and issues Green Bonds in two different asset classes. As such, the Bank is closely following the latest developments with regard to the European Action Plan for Financing Sustainable Growth, in particular the definition of a taxonomy and a Green Bond standard, and is working within the sustainability committees on the requirements to be derived from the plan for its business.

In support of the objectives of the Paris Agreement on climate change and the Climate Paths of the Federal Republic of Germany, Berlin Hyp adopted a sustainability agenda in 2020:

1) Commitment to the Paris Agreement and the Climate Paths of the Federal Republic of Germany
2) 1/3 share of green buildings in the loans portfolio until 2025
3) Portfolio transparency by 2023 – systematic determination of energy values, CO_2 by 2023 and climate risks by 2025
4) Introduction of a further sustainability product: the Transformationskredit (transformation loan)

By issuing Green Bonds, Berlin Hyp is making an active contribution to reducing CO_2 emissions. As part of the ongoing development and process optimisation of the Green Bond concept, the decision was made in the reporting year to adapt the reporting period for impact reporting to the financial year. Berlin Hyp's latest impact report (1 March 2020 to 31 December 2020) in cooperation with Drees & Sommer presents the results and methodology for estimating the amount of CO_2 emissions saved by the financed Green buildings. The reduced reference period from March to December only applies once as a result of the adjustment of the reporting period. The last published impact reporting period ended on 29 February 2020. Based on the analysis of Drees & Sommer, it was calculated that for every million euros of nominal value of the Green Bonds, between 12.92 t and 26.60 t CO_2 are saved per year compared to the applied benchmarks and depending on the applied model.

The CO_2 savings per million euros invested were lower compared to the previous year for EnEV. This is mainly due to the switch to a more up-to-date source of the now lower conversion factors for electricity and higher outstanding bond volumes. The latest impact report and re-verification (external plausibility check) by ISS ESG will be published on 31 March 2021 at https://www.berlinhyp.de/de/investoren/green-bonds.

After having released eight Green Bonds in the benchmark format since 2015, the ninth and tenth Green Bonds, each in the form of Green Pfandbriefe worth €500 million, were successfully issued at the end of June and the end of August. In addition, the Bank expanded its Green Bond spectrum and made its foreign currency debut on the Swiss capital market in August, where it placed an eight-year green senior preferred bond worth CHF 125 million. Berlin Hyp also issued its first green private placement. The value of the outstanding Green Bonds, consisting of covered bonds, senior preferred bonds and senior non-preferred bonds, is over €5 billion.

Management is informed on a quarterly basis about the development of the loan portfolio and the share of green financing, allowing it to take management measures. The target figure of 24 per cent was reached as at 31 December 2020.

A country climate risk analysis is carried out every year, applying benchmarks such

CO_2 reduction in t/€m/year	Fully assigned to the category of “Berlin Hyp financing activity”	Partially assigned by amount to the category of “Initial participation of Berlin Hyp in the financing activity”
Comparison with current EnEV reference values (heat and electricity)	26.60 (previous year: 39.89)	14.52 (previous year: 22.58)
Comparison with the European average (heat only)	23.56 (previous year: 24.77)	12.92 (previous year: 13.93)

as the Notre Dame Global Adaptation Index (ND-GAIN), in order to identify and assess risks due to climate change for the geographical markets of the projects financed by Berlin Hyp.

In order to gain a deeper understanding of how climate change might impact real estate valuations, Berlin Hyp participated in a project with the Swiss start-up Carbon Delta (now known as MSCI Carbon Delta) back in the autumn of 2018. Based on the results for three synthetically compiled real estate portfolios in the Retail, Residential and Office asset classes, initial risk indicators were identified at the property level.

To assess climate and environmental risks, Berlin Hyp added an ESG Risk Commission to its sustainability committees for the implementation of the ECB guidelines in 2020. The working group is composed of representatives from risk controlling, valuation, portfolio management and loan, strategy and sustainability management and meets every two weeks. In the reporting year, the measures "Development of a concept for a climate risk analysis of real estate portfolios" and "Review and, if necessary, draft a concept for the extended impact measurement of the entire financed real estate portfolio" were also consolidated in the working group. The progress made in 2020 is described in Chapter 1.3 Objectives. The findings from the previous risk analysis have had a significant influence on the sustainability agenda adopted in 2020 and the transformation loan concept. By incentivising the transformation of existing buildings into lower carbon buildings, Berlin Hyp is taking a new approach towards reducing the negative impact of buildings on the climate and the environment.

Resource conservation criteria and biodiversity protection are important considerations for Berlin Hyp when selecting financing projects. In particular, it is observing the development of the technical assessment criteria of the EU taxonomy for the protection of ecosystems and biodiversity. The EU is expected to submit the relevant criteria by the end of 2021. Berlin Hyp will then evaluate the impact of the criteria on its business and how it can make a positive contribution to achieving the goals.

Berlin Hyp is also pursuing an operational ecology approach as it seeks to increase awareness of the importance of environmental protection and take advantage of the opportunities that result from such heightened awareness.

Berlin Hyp is building a new corporate headquarters at the Bank's long-standing location at Budapester Strasse 1 in Berlin-Tiergarten. The new headquarters will bring all employees in Berlin, who up to now have been separated into two different buildings, together into a single building. Up to now, they were divided into two separate buildings. The Bank is seeking to achieve certification for the new corporate headquarters according to the very high standard set by the German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen - DGNB). This is part of Berlin Hyp's long-term sustainability strategy. The new headquarters will enable the Bank to reduce its energy consumption by over 50 per cent in comparison to the old building, in addition to significantly lowering operating costs. The architecture of the new building will reduce CO_2 emissions with its special design of outdoor areas and open spaces. To give an example, this reduction will be made possible by installing photovoltaic systems on the entire façade and on part of the roof. When demolishing the old building, the real estate bank will take care to recycle and dispose of the materials in an environmentally friendly manner. The majority of small office furniture, materials and equipment from the building that are no longer needed have been donated or auctioned off and were therefore put to further use. The environmental management system is firmly embedded throughout the Bank's demolition and new construction project.

3.3 Social Concerns – Social Impact
Based in Berlin, Berlin Hyp contributes in particular to economic and social well-being in the State of Berlin. Within the framework of its business model, interest and commission income is generated and profits, employee salaries and taxes are paid. The profit is transferred to the sole shareholder Landesbank Berlin Holding, also headquartered in Berlin.

Furthermore, Berlin Hyp's social commitment (corporate citizenship) aims to establish an appropriate foothold in the region. More information is available on the website at https://www.berlinhyp.de/de/%C3%BCber-uns/nachhaltigkeit/mitarbeiter-gesellschaft and in the 2020 GRI report, which will be published in the second quarter of 2021.

Berlin Hyp also meets the social requirements for its own investments. It has established ethical investment criteria based on the ten principles of the Global Compact, other internationally recognised sustainability standards and the Bank's compliance requirements. The risk filter used by RepRisk AG for the Bank's own investments (Portfolio A) at Berlin Hyp is based on these criteria. It is applied to the Bank's own investment business with the aim of giving equal consideration to the sustainable aspects of investing and the economic objectives of investing in securities. The analysis of Portfolio A and future investment decisions are based on the online database of RepRisk AG for the risk exposure of companies, projects, sectors and countries with regard to ESG issues. RepRisk AG assesses risks related to the destruction of the environment, human rights violations, child labour, forced labour, fraud and corruption that can negatively affect an organisation's reputation and financial profitability or lead to compliance issues.

If the semi-annual review of Portfolio A by Sustainability Management reveals violations of the filter criteria, the Treasury consults with Sustainability Management on the actions to be taken. The Treasury and Sustainability Management have jointly discussed the anomalies that occurred in 2020.

In 2020, Berlin Hyp began to focus on social criteria with regard to objectives such as the "do no significant harm" criteria of the EU Taxonomy.

3.4. Respect for Human Rights
Berlin Hyp is committed to the respect of human rights in all activities of its business. The Bank joined the UN Global Compact in 2015 as a way to communicate this both internally and externally. The following two principles of the UN Global Compact are specifically applied by Berlin Hyp in the context of human rights:

- Businesses should support and respect the protection of internationally proclaimed human rights.
- Businesses should make sure that they are not complicit in human rights abuses.

To implement these principles, the Berlin Hyp has adopted several directives, such as the Human Rights, Diversity and Inclusion policy, from which specific measures are derived. We also expect our contractors and suppliers, regardless of their size, sector or work, to act in accordance with the principles of the UN Global Compact and human rights, in particular:

- Abolition of child labour
- Free choice of employment
- Freedom of association
- Prohibition of discrimination

The employees of Berlin Hyp's Purchasing Department can review contractors and suppliers through random audits or questionnaires. This may be done at any time and without notice under the applicable laws. They check whether basic sustainability structures are in place, principles are observed and the information provided in the questionnaire is accurate.

Material violations of the principles and requirements internally at the company or in the upstream supply chain must be reported without request and without delay. In the event of violations, employees of suppliers can contact the Compliance Officer directly via Berlin Hyp's Whistleblower System. Berlin Hyp reserves the right to agree on a partnership-based action plan or to terminate a contractual relationship in the event of violations. We may also monitor the progress of the action plan without notification. Violations of the Code of Conduct must be resolved as part of an action plan. If violations of the criteria continue to occur, this may lead to termination of the contractual relationship.

There were no suspected human rights violations in the reporting year.

3.5 Fight against Corruption and Bribery – Conduct in Compliance with Laws and Directives
In order to ensure success in the markets, one of the Bank's main objectives is to maintain and build the trust of its customers, employees, owners and regulators.

The reputation of the Bank is therefore a high priority. This also includes conduct that supports the interests of customers and the avoidance of conflicts of interest. This is why Berlin Hyp has created a comprehensive compliance organisation whose principles are summarised in a code of conduct and in numerous internal work procedures and monitored by the Compliance Department under the direction of the Compliance Officer.

Berlin Hyp has set itself the goal of preventing any attempts to commit fraud or corrupt behaviour. The organisation and selected measures to fight corruption and bribery with the involvement of management are described in more detail in the following sub-aspects.

3.5.1 Political Influence
Berlin Hyp does not exert any political influence. In the reporting year, no submissions were made to legislative procedures, nor were any entries made on a lobby list. Donations to political parties or politicians are prohibited at Berlin Hyp in accordance with the Corporate Citizenship policy. Berlin Hyp contributes to the public debate on industry-related developments through its involvement in associations and industry institutions, which in turn must act within the framework of their statutes and submit to monitoring by their governing bodies.

3.5.2 Conduct in Compliance with Laws and Directives
Our actions are measured in terms of compliance with the law, professional standards and internal regulations, provisions and guidelines. Employees are required to respect and comply with the laws and regulations that apply in the respective jurisdictions in which the Bank operates. Employees are trained and/or instructed on compliance with legal standards and internal regulations.

Our Code of Conduct has also included an external whistleblowing hotline since 2019.

No cases of corruption at Berlin Hyp were reported in 2020. The Compliance Department regularly updates the management on the Bank's compliance management. In addition, ad hoc information is provided on a case-by-case basis in the event of serious violations of compliance regulations. The proper implementation of internal requirements is also reviewed according to schedule – and on an ad hoc basis where necessary – by the Internal Audit division, which reports directly to the Board of Management. There were no anomalies in this regard for the reporting year.

No fines were imposed on Berlin Hyp in the reporting year. In addition, no non-monetary penalties were imposed on the Bank for non-compliance with laws and regulations.

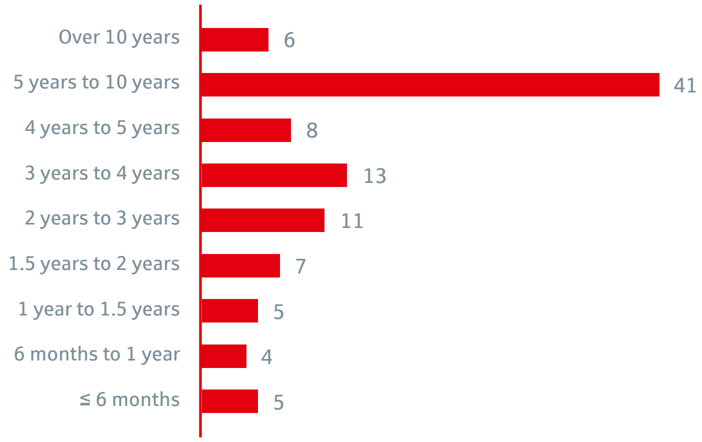
3.5.3 Protection of the Privacy of Employees, Customers and Business Partners
Berlin Hyp collects, processes and uses the personal data of employees, customers and business partners. They are used in the general business operations and allow customers to receive advice and support according to their needs.

This personal data may only be handled with care, in compliance with the law and in accordance with unambiguous rules, in order to demonstrate that the Bank is worthy of the trust placed in it by its customers. We are therefore vigilant as to who receives which information, both within the Bank and with our customers and business partners. Customer data may only be shared with third parties with the customers' consent, or if there is a legal admissibility or legal obligation to do so. The processes through which the General Data Protection Regulation and other data protection regulations are implemented at Berlin Hyp are defined and described in the internal directives. Data protection for the Bank is monitored by the Data Protection Officer, who acts on behalf of the Board of Management and is not subject to directives when performing assigned tasks. The Data Protection Officer works toward compliance with data protection and monitors and coordinates the data protection measures. All Berlin Hyp employees regularly complete a web-based data protection training course. The Data Protection Officer reports yearly, or on an ad hoc basis whenever necessary, to the management with an update on data protection within the company.

VII 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 2020 was as follows:

Maturity Structure of Loans
in %



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

Lending region	Ø LTV
Germany	55.1
BeNeLux	53.6
France	48.4
Poland/Czech Republic	55.0
Great Britain	54.7

Available Distributable Items (ADI)
in €m

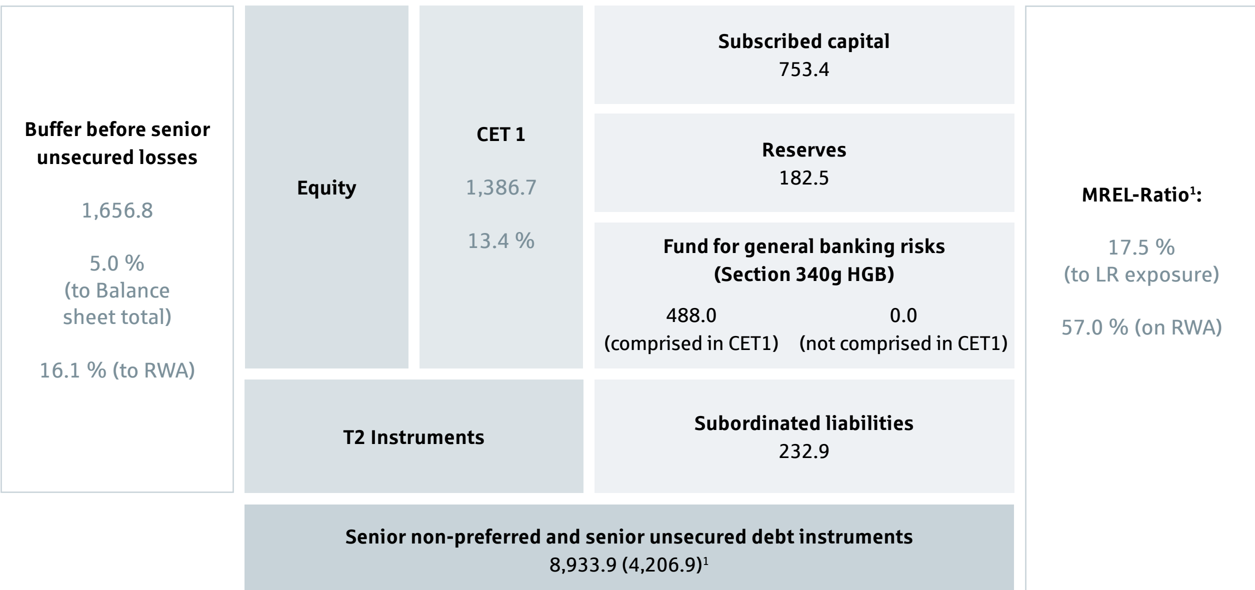
	31.12.2020	31.12.2019
Balance sheet profit	**0.0**	**0.0**
Net income/loss for the year	0.0	0.0
Profit/loss carry-forward from the previous year	0.0	0.0
Additions to/withdrawals from retained earnings	0.0	0.0
Other profit reserves excluding statutory reserves*	2.2	2.2
Free capital reserves pursuant to 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)	−30.1	−28.9
Available items capable of distribution	**130.4**	**131.6**

* after additions to from retained earnings

Regulatory Key Figures
in €m

	31.12.2020	31.12.2019
Common equity tier 1 (CET1)	1,386.6	1,323.8
Additional tier 1 capital (AT1)	0.0	0.0
Tier 1 capital (T1)	1,386.6	1,323.8
Tier 2 capital (T2)	244.2	273.4
Own funds / Total capital	1,630.8	1,597.2
Risk weighted assets (RWA)	10,320.9	9,984.3
CET1 ratio in %	13.4	13.3
T1 ratio in %	13.4	13.3
Total capital ratio in %	15.8	16.0
Leverage ratio in %	4.1	4.6
MREL (balance sheet total)	17.5	23.4
MREL (RWA)	57.0	66.6
LCR	140.7	156.8

Insolvency Hierarchy and Protection of Senior-Unsecured Investors
in €m



[1] For regulatory purposes, 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 papers are capped at 2.5 per cent of the RWA.

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