



#sharinginspiration

Annual Report 2017

Key performance indicators at a glance

16.9%

Return on equity

8.1 bn €

New lending business
(including capital employed ≥ 1 year)

Aaa

(Moody's)
Pfandbrief issue rating

70

Transactions
with new customers

Excerpt from the Profit and Loss Account in € m	2017	2016
Net interest	270.9	255.9
Net commission income	39.1	42.5
Operating expenditure	134.8	122.3
Risk provisioning	56.2	−35.7
Operating result after risk provisioning	184.4	120.1
Provision for general banking risks	70.0	50.0
Profit transfer	117.0	73.0
Net income for the year	0.0	0.0
Cost-income ratio after bank levy in %	51.2	44.0
Return on equity in %	16.9	11.8

Excerpt from the Balance Sheet in € m	2017	2016
Balance sheet total	27,123	26,354
Mortgage loans	20,081	18,125
NPL ¹	256	447

¹ Screening of NPL portfolio by rating in accordance with EBA guideline from 2017 onwards (previously: risk class); comparable figure for previous year adjusted.

Business Development in € m	2017	2016
New lending	6,666	5,367
Extensions (capital employed ≥ 1 year)	1,465	651

Regulatory law key figures ²	2017	2016
RWA in € m	9,151	7,972
Hard core capital ratio (CET1 ratio) in %	12.5	13.5
Total capital ratio in %	15.5	17.5
Leverage Ratio in %	4.0	3.9

² After adoption

Issue ratings	Moody's	Fitch
Senior Unsecured	A1	A+
Pfandbriefe	Aaa	–
Sustainability ratings	oekom	Sustainalytics
	B- (Prime)	86/100 (Leader)

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Organs of the Bank and Other Important Functions

Supervisory Board
Thomas Mang
→ Chair (since 27 November 2017)
→ President of Savings Banks Association of Lower Saxony

Georg Fahrenschon (until 30 November 2017)
→ Chair (until 24 November 2017)
→ President of Deutscher Sparkassen- und Giroverband e.V. (ret.)

Jana Pabst
→ Deputy Chair
→ Bank employee
→ Chair of the Works Council of Berlin Hyp AG

Joachim Fechteler
→ Bank employee
→ Member of the Works Council of Berlin Hyp AG

Gerhard Grandke
→ Managing President of German Savings Banks and Giro Association of Hesse-Thuringia

Artur Grzesiek
→ Former Chairman of the Board of Management of Sparkasse Cologne-Bonn

Dr. Harald Langenfeld
→ Chair of the Board of Management of Stadt-und Kreissparkasse Leipzig

Thomas Meister
→ Bank employee

Siegmar Müller
→ Chair of the Board of Management of Sparkasse Germersheim-Kandel
→ Landesobmann of the Rhineland-Palatinate Savings Banks Board of Management Members

Reinhard Sager
→ President of German Administrative District Parliament
→ County Council Chairman of East Holstein District

Andrea Schlenzig
→ Bank employee

Helmut Schleweis
→ President of Deutscher Sparkassen-und Giroverband e. V.

Peter Schneider
→ President of Savings Banks Association of Baden-Württemberg

Walter Strohmaier
→ Chair of the Board of Management of Sparkasse Niederbayern-Mitte
→ Landesobmann of the Bavarian Savings Banks

René Wulff
→ Bank employee
→ Deputy Chair of the Works Council of Berlin Hyp AG

Board of Management
Sascha Klaus
Chair

Gero Bergmann

Roman Berninger

Managing Director
Dr. Michael Schieble
(until 31 December 2017)

Supervisory Board Committees

→ **Staff and Strategy Committee**

Thomas Mang
Chair (since 27 November 2017)

Georg Fahrenschon
(until 24 November 2017)
Chair (until 24 November 2017)

Helmut Schleweis
Deputy Chair

Dr. Harald Langenfeld

Thomas Meister

Andrea Schlenzig

→ **Loans Committee**

Thomas Mang
Chair

Dr. Harald Langenfeld
Deputy Chair

Artur Grzesiek

Walter Strohmaier

René Wulff

→ **Audit Committee**

Helmut Schleweis
Chair

Gerhard Grandke
Deputy Chair

Joachim Fechteler

Siegmar Müller

Peter Schneider

Cover Pool Monitor

Christian Ax

Deputy Cover Pool Monitor

Wolfgang Rips

Philip Warner

Supervisory Board Report of Berlin Hyp AG 2017

Berlin Hyp is a subsidiary of Landesbank Berlin Holding AG and an independent commercial real estate financier within the Savings Banks Finance Group. The Supervisory Board – which, apart from the five employee representatives, is made up entirely of representatives of the Savings Banks Finance Group and a representative of the local authorities – advises and monitors the Board of Management. It also supports the Board of Management, particularly in the creation of a network with savings banks throughout Germany.

In light of the fierce competition in commercial real estate financing, the ongoing phase of low interest rates and tough regulatory requirements, Berlin Hyp is extremely pleased with the development of and result from the financial year 2017. The Supervisory Board regards Berlin Hyp's performance and its ability to hold its own in a difficult market environment while adhering to a conservative risk strategy as highly favourable.

In accordance with the legal requirements, the Supervisory Board once again concerned itself promptly, regularly and comprehensively with the position and the development of Berlin Hyp, the planning situation, the risk situation, risk management as well as compliance, both orally and in writing, in 2017. It constantly monitored the actions of the Board of Management and satisfied itself that it was acting properly, deliberated on all relevant aspects in this context and provided recommendations.

Focus of the Supervisory Board's Activities

The subject-matter of all Supervisory Board meetings in 2017 was the Board of Management's detailed reporting on the current business development and the risk situation of Berlin Hyp. The Board of Management also reported regularly on the development of S-Group business, as well as on the external audits currently underway at Berlin Hyp.

In the balance sheet meeting of the Supervisory Board on 28 March 2017, the annual accounts and Management Report as at 31 December 2016 were approved and adopted after being reviewed and following consultation with

the Board of Management and the auditor. Moreover, the annual audit report, the annual compliance report, the report on the efficacy of the internal control system (ICS) and a report on security measures to defend against cyber risks were acknowledged in this meeting. The Supervisory Board Report and the German Corporate Governance Code Report were adopted. The Supervisory Board also passed the necessary resolutions on the agenda of the Annual General Meeting of Berlin Hyp. It discussed the attainment of non-monetary targets in 2016 in line with the 2015/2016 business strategy and adjustments to the risk strategy. In addition, the Supervisory Board addressed the new requirements under the German Act Reforming the Audit of Annual Financial Statements (AReG), adopted a catalogue of permissible non-audit services and adjusted the rules of procedures for the Audit Committee accordingly.

In accordance with the provisions of the Institutional Remuneration Ordinance (IVV), the Supervisory Board took note of the overall bonus pool for employees set by the Board of Management and established the total amount of variable remuneration for the Board of Management. The Supervisory Board then reviewed the extent to which the Board of Management achieved the targets for 2016 and decided on the particular target bonuses of the individual Board of Management members as well as the payment of conditional bonuses.

In the meeting of 26 June 2017, the Supervisory Board took note of reports on donations and sponsorships, on foreign business and on the development of sustainable products, in addition to the regular reports (current business development, risk situation, S-Group business, status update on various audits), all of which it discussed with the Board of Management. The Supervisory Board updated the selection and diversity strategy, as well as job descriptions and applicant profiles for future Supervisory Board and Board of Management members. The Supervisory Board also set the targets until 30 June 2022 concerning the percentage of women on the Supervisory Board and Board of Management of Berlin Hyp.

In the meeting on 18 September 2017, the Supervisory Board defined the key audit issues for the financial year 2017 based on a proposal from the Audit Committee. Adjustments to the risk strategy were also discussed and adopted. The Board of Management's plans to acquire a strategic stake in BrickVest Ltd. were presented to the Supervisory Board and discussed in detail. The Chairman of the Supervisory Board presented a summary report of the findings from the efficiency and suitability review of the Supervisory Board and the Board of Management. The review revealed that the Supervisory Board's work is effective and that the members of the Board of Management and Supervisory Board possess the necessary expertise, skills and experience.

In the meeting on 27 November 2017, a new chair was elected as the first order of business, after the previous chair, Georg Fahrenschon, had stepped down from this position. The Board of Management's periodic reports were then supplemented to include a presentation on Treasury activities. The Supervisory Board took note of the updated strategy document, especially with regard to measures for achieving strategic targets and enhancing efficiency through digitalisation initiatives. It then took a closer look at the projections for 2017 and the medium-term planning for 2018 to 2022. The Supervisory Board also took note of the findings from the Staff and Strategy Committee's efforts to monitor the remuneration systems for staff and the Board of Management, as well as of information on the implementation of the new Institutional Remuneration Ordinance (IVV).

At the same time, the Supervisory Board performed a regular update of the Declaration of Compliance in accordance with the German Corporate Governance Code (GCGC) and addressed the new obligation under the CSR Directive Implementation Act to prepare a non-financial report and have it audited by the auditor. To speed up its approval processes, Berlin Hyp has revised its division of powers for the lending business. The Supervisory Board discussed the resulting adjustments to the rules of procedure for the Loans Committee and adopted them.

Continuing Education for the Supervisory Board

The Supervisory Board of Berlin Hyp took part in a continuing education seminar in June 2017 that focused on regulation, the period of low interest rates and digitalisation. In September 2017, the Supervisory Board discussed challenges, strategies and priorities for the real estate bank of the future following an expert talk.

Supervisory Board Committees

The work of the Supervisory Board of Berlin Hyp is supported by three committees – the Audit Committee (PA), the Staff and Strategy Committee (PSA) and the Loans Committee (KA) – each of which convenes approximately 10 to 14 days prior to Supervisory Board meetings. Afterwards, written committee reports are presented in the Supervisory Board meetings.

The main objective of the PA is to assist in the review and preparation of the adoption of the annual accounts. Moreover, it is responsible for monitoring the accounting process, the efficacy of the risk management system, the internal management and controlling system, and the functionality of the Internal Audit division. It is also concerned with compliance issues. The PA consists of five members.

The PSA is tasked with personnel issues, strategy, planning and basic company issues, and it regularly reviews compliance with the German Corporate Governance Code. It also acts as a remuneration controlling and nomination committee. The PSA consisted of six members until 24 November 2017. Since 25 November 2017, it has comprised five members.

The KA has its own loan approval powers and also acts as a risk committee. It therefore primarily deals with loan decisions which exceed the powers of the "overall Board of Management", as well as with the risk strategy, the regular risk reports and the principles of the loan business policy. Apart from its meetings, written circulation procedures and teleconferences also regularly occur in the KA. The KA consists of five members.

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

Corporate Governance

As an unlisted company, Berlin Hyp is generally not subject to the regulations of the German Corporate Governance Code (GCGC). However, in light of its activities on the capital market, Berlin Hyp has decided to follow the principles of good corporate governance defined in the German Corporate Governance Code. Berlin Hyp has been following the Code since 2002 and has published a Declaration of Compliance each year ever since. Details are available in the Corporate Governance Report.

Meetings and Attendance

A total of four plenum meetings and fifteen committee meetings – of which six were teleconferences – were held in the financial year 2017. The KA passed 26 loan resolutions in 20 instances of using the written circulation procedure. In three cases, the KA took note of loan resolutions that the Board of Management had passed within the scope of its special power to act in urgent matters.

The cycle of meetings was readjusted in the financial year 2017. Committee meetings were held 10 to 14 days prior to the plenum meetings. Members prevented from attending usually participated in the passing of resolutions through voting instructions. All Supervisory Board members took part in more than half of the meetings of the plenum and the committees to which they belong.

The Supervisory Board has passed regulations designed to prevent conflicts of interest. In the financial year 2017, one conflict of interest requiring disclosure arose. The Board member did not take part in the discussion of the issue and received no preparatory documents or records about it. In one further decision, four Board members abstained from voting on the resolution in order to avoid even the appearance of a conflict of interest.

Supervisory Board Appointments

Georg Fahrenschon stepped down from his post as Chair of the Supervisory Board and of the PSA at the end of the day on 24 November 2017. He left the Supervisory Board at the end of the day on 30 November 2017.

Thomas Mang was elected as the new Chair of the Supervisory Board in the Supervisory Board meeting on 27 November 2017.

Mr Mang stepped down as Chair of the Supervisory Board and of the PSA at the beginning of the balance sheet meeting on 26 March 2018. In the same meeting, Helmut Schleweis was then elected as the new Chairman of the Supervisory Board.

Annual Accounts 2017

The annual accounts of Berlin Hyp and the Management Report for the 2017 financial year have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, Berlin branch, appointed by the Annual General Meeting, taking into account the auditing focus defined by the Supervisory Board, and have received an unqualified audit certificate. The Supervisory Board has acknowledged the audit certificate.

The annual accounts of Berlin Hyp were prepared in accordance with the provisions of the German Commercial Code (HGB). The accounts, the Management Report and the auditor's reports were presented to the Supervisory Board before its meetings in time. The Board of Management explained the accounts and the risk management system in detail at the two meetings of the PA in preparation for the balance sheet meeting and also at the Supervisory Board's balance sheet meeting. The auditor attended these three meetings and reported on the scope, focus and material results of the audit. The auditor came to the overall conclusion that there were no major weaknesses in the internal control system or the risk management system.

The KA also dealt with the audit reports for the 2017 annual accounts, to the extent that they make statements about the lending business and risk situation of Berlin Hyp, and raised no objections.

The PA closely examined the documents and recommended that the Supervisory Board approve the annual accounts. The Supervisory Board acknowledged the audit results and raised no objections after conducting its own review. The Supervisory Board also examined the annual accounts and Management Report as well as the recommendation for the appropriation of the balance sheet profit itself and approved the results of the audit of the annual accounts. It approved the annual accounts prepared by the Board of Management. The 2017 annual accounts are thereby adopted. According to the profit transfer agreement, the earnings for 2017 are transferred to Landesbank Berlin Holding AG. The remaining balance sheet profit

of € 2.2 million will be carried forward to new account. By resolution of the next Annual General Meeting, the plan is to allocate this profit to the other retained earnings in the year ahead.

During the audit of the annual accounts, the Chairman of the PA regularly informed himself of the audit's status in consultation with the auditor KPMG.

Sustainability Report (Non-Financial Report)

The PA and the Supervisory Board also addressed the non-financial report 2017 separately prepared by the Board of Management for the first time. In its role as auditor, KPMG performed an audit to attain limited certainty and found no grounds for objection. The Board of Management provided a detailed explanation of the documents in the PA meeting in preparation for the balance sheet meeting, and in the balance sheet meeting of the Supervisory Board, while the representatives of KPMG reported on the material findings of their audit and answered follow-up questions from the Supervisory Board members. The Supervisory Board had no objections after performing its review.

The Supervisory Board thanks the members of the Board of Management as well as all employees for the very good results and for their performance in the 2017 financial year.

Berlin, March 2018

For the Supervisory Board

Helmut Schleweis
Chairman

Corporate Governance Report 2017

Corporate governance stands for the responsible, transparent management and control of an enterprise that is directed at the long-term creation of added value. Corresponding guidelines have been prepared. These are summarised for German companies in the German Corporate Governance Code (GCGC) and were updated on 7 February 2017.

The Board of Management and the Supervisory Board believe firmly that good corporate governance, which is manifested in compliance with the Code, is an essential part of the foundation on which the lasting success of the company and the confidence of business partners and employees, as well as the trust of financial markets in our company, is built. Therefore, the Board of Management and Supervisory Board continue to observe the principles of the German Corporate Governance Code even though Berlin Hyp is no longer a listed company, so that some GCGC provisions (e.g. regarding the organisation of Annual General Meetings) are no longer relevant to Berlin Hyp.

Board of Management

Berlin Hyp's Board of Management leads the Bank at its own responsibility with the objective of sustainable value creation and in the best interests of the company. It is committed to the principles of good, responsible and efficient business management and control. It manages the Bank in compliance with statutory provisions, the Articles of Association, the Rules of Procedure and the internal company guidelines. The Board of Management develops the strategic orientation of the bank, agrees on it in consultation with the Supervisory Board and ensures its implementation.

In the financial year 2017, the Board of Management continued to consist of three persons. Regardless of the overall responsibility of the Board of Management, the individual members lead the divisions assigned to them by the business organisation plan at their own responsibility. The members consistently act for the benefit of the company as a whole. The members of the Board of Management inform each other about all material developments in their divisions and coordinate all measures affecting multiple spheres of responsibility.

The varied expertise of the individual Board of

Management members ensures that the Board of Management remains sufficiently diversified. On 26 June 2017, the Supervisory Board set a target of 0 % for the proportion of women on the Board of Management based on the current contractual relationships. The target is initially valid until 30 June 2022. The target will be reviewed when a contract of employment is terminated, a member is reappointed or a new member is appointed.

Supervisory Board

The Supervisory Board of Berlin Hyp – which, in 2017, consisted of 15 members until 30 November 2017 and 14 members from 1 December 2017 – advises and monitors the Board of Management in the management of the Bank, works with it to ensure long-term succession planning ensures a degree of diversity in the composition of both the Board of Management and the Supervisory Board that is appropriate to the bank's business activities. According to the regulations of the German One-Third Participation Act, it comprises five Supervisory Board members on the staff side and ten on the shareholder side. The Chair of the Supervisory Board coordinates the work within the Supervisory Board, chairs its meetings and represents the interests of the Supervisory Board in relation to third parties. The Supervisory Board has formed three committees from its own members. Its functioning is governed by the Rules of Procedure.

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

The Supervisory Board has decided to pursue the following aims when new Supervisory Board members are nominated:

The diversity of the Board is established so that the qualifications and personalities of the individual members guarantee optimal supervision of the company in accordance with legal stipulations, including the German Corporate Governance Code, and in the interests of the company, its shareholders and the employees. This requires that all Supervisory Board members have knowledge, in particular, of Berlin Hyp's relevant market

environment and its banking business.

The Supervisory Board has recorded the detailed requirements in writing in a selection and diversity strategy. It describes details of the knowledge, skills and experience required for effective monitoring of the Board of Management. These include, in particular, knowledge and experience in the fields of securities, real estate, the capital market and accounting. Independence rules are also defined pursuant to the German Corporate Governance Code.

Based on the assumption that the employee representatives also fundamentally fulfil the independence criteria for Supervisory Board members within the meaning of the Code, the Supervisory Board finds all members to be independent. The members of the Supervisory Board are not subject to any conflicts of interest, particularly any that could result from an advisory function or board membership on behalf of customers, suppliers, lenders or other business partners of the company.

Members of the bodies do not participate in the discussion and passing of resolutions by the bodies if conflicts of interest or the impression of a conflict of interest exist in individual cases.

The composition of the Supervisory Board therefore corresponds to the stated goals.

According to the equality law provisions of the Equality Act, relevant for Berlin Hyp, the Supervisory Board set a target for itself in a resolution dated 26 June 2017 to maintain the status quo of 13 % (two women) with regard to the proportion of women on the Supervisory Board until 30 June 2022. Two women are currently members of the Supervisory Board.

Attention is given to potential conflicts of interest and compliance with the age limit of 70 years as stipulated in the Rules of Procedure. A criterion for new Supervisory Board members is that they are able to commit the expected amount of time.

The Supervisory Board submits itself to efficiency reviews each year. The most recent review was conducted at the Supervisory Board meeting on 18 September 2017 and was based on a detailed

questionnaire, as in the past, which addressed relevant topics according to the German Corporate Governance Code and Section 25d (11) Nos. 3 and 4 German Banking Act (KWG) and which each Supervisory Board member was able to individually fill out before the meeting. The findings of the evaluation were then presented by the Supervisory Board Chair at the meeting and jointly discussed and debated by the body. The 2017 review indicated that the efficiency of Supervisory Board activity was given. Furthermore, the Supervisory Board noted that its members have the required knowledge, abilities and experience for the activities of the Supervisory Board and its committees. The staggered scheduling of committee and Supervisory Board meetings and the written reports by the committees, which were introduced in 2017 and permit better preparation for Supervisory Board meetings, received positive feedback. According to statements by the members, the new way of holding meetings brings Berlin Hyp's dates more in line with the timing of the LBBH Group's committee meetings.

The members of the Supervisory Board are responsible for obtaining the necessary training and continuing education for their duties at their own responsibility and are supported in this process by Berlin Hyp. The company regularly informs the Supervisory Board about the latest changes in statutory law and offers opportunities for continuing education within the framework of in-house events.

In addition, the Staff and Strategy Committee also reviewed compliance with the GCGC at the meeting on 9 November 2017 using an analysis report prepared by the Board of Management. No objections were raised.

Close Cooperation between the Board of Management and the Supervisory Board

Berlin Hyp's Board of Management and Supervisory Board work together closely based on mutual trust. At least four Supervisory Board meetings usually take place during the financial year, as in 2017. The Supervisory Board monitors and advises the Board of Management with regard to company management. The Board of Management informs the Supervisory Board

extensively and promptly on all issues relevant to the company relating to strategy, planning, business development, the risk situation, risk management and bank compliance. The Supervisory Board coordinates the company strategy and its implementation with the Board of Management. It explores deviations in business performance from plans and goals and states the reasons for these.

The Supervisory Board reviews and approves the annual financial statements in consideration of the auditor's reports and decides on the Board of Management's proposal regarding the appropriation of the balance sheet profit. Furthermore, it decides on the resolutions to be proposed to the Annual General Meeting.

The Board of Management's reporting obligations and duties to inform are stated in specific terms in the Rules of Procedure for the Board of Management. The Supervisory Board has also defined important transactions that the Board of Management may only conduct with the Supervisory Board's consent. In addition, it has also established rules designed to prevent conflicts of interest. There was one conflict of interest requiring disclosure in the 2017 financial year. The member did not participate in the discussion of the topic and did not receive any documents or records. In one additional decision, four members of the body abstained from voting to avoid the appearance of a conflict of interest. The Board of Management continuously exchanges information with the Chair of the Supervisory Board.

The approach to risks in connection with the bank's business activity is extremely important to the Board of Management and the Supervisory Board. Both bodies require regular reports about risks and their development. Berlin Hyp's risk management system is continually developed further by the bank and is examined by the auditors. The Board of Management passes on information that is significant from a risk standpoint to the Chair of the Supervisory Board without undue delay.

The work of both organs and of the three Supervisory Board committees is regulated in the Rules of Procedure. These are checked regularly to ensure that they are up to date. In 2017, changes were made following the revision of the assigned spheres of competence for the lending business, and an amendment was adopted due to the requirements of the German Audit Reform Act (Abschlussprüferreformgesetz – AReG).

The composition of the Board of Management

and the Supervisory Board, as well as the spheres of responsibility of the individual members of the Board of Management, is presented on pages 2 and 38 of the Annual Report.

Efficiency Improvement by Committees

The Supervisory Board has formed three committees to support the work of the Supervisory Board. These are the Staff and Strategy Committee, the Audit Committee and the Loans Committee. The Staff and Strategy Committee also acts as a nomination committee and remuneration controlling committee. The Loans Committee is also active as the Risk Committee pursuant to the German Banking Act (KWG). Written and additional oral reports are used at the Supervisory Board meetings to provide information about the work of the committees. The Chair of the Supervisory Board does not chair the Audit Committee. For details regarding the responsibilities of the various committees and the areas they focused on in 2017, see the Supervisory Board Report in this Annual Report.

Annual General Meeting of the Sole Shareholder

The sole shareholder exercises its rights at the Annual General Meeting. The Annual General Meeting decides on the tasks incumbent upon it by law, including the appropriation of net earnings, discharge of the Board of Management and the Supervisory Board, appointment of the auditor, election of Supervisory Board members, amendments to the Articles of Association and capital measures. Berlin Hyp's shares are held by Landesbank Berlin Holding AG. As a result, the Annual General Meeting of Berlin Hyp takes place as a plenary meeting behind closed doors.

Transparency

The Bank's website provides information about all significant developments and events related to the Bank. For example, the planned publication dates for financial reporting are found in the financial calendar. All annual reports and interim reports are also archived and available on the website. All compliance declarations hitherto provided by the Board of Management and the Supervisory Board pursuant to Section 161 Stock Corporation Act can also be accessed on the company website. Almost all information published by the Bank online is also published in English.

Accounting and Auditing the Annual Accounts

Berlin Hyp's annual accounts in the reporting year were produced in accordance with the German national provisions (German Commercial Code), as there is no statutory duty for

Berlin Hyp to produce consolidated accounts in accordance with the International Financial Reporting Standards (IFRS). The annual accounts, the half-year financial report and any interim reports are published within 90 days after the end of the financial year or 45 days after the end of the respective reporting period.

Before the proposal for selection of the auditor is submitted to the General Meeting, the Supervisory Board obtains a declaration from the auditor as regards existing relations with the Bank or its organs. The current declaration of independence of the auditor dates from 20 February 2018. According to this declaration, there is no doubt about the independence of the auditor. The Supervisory Board has agreed with the auditor that the auditor will report without undue delay on all findings and occurrences that become evident during the conduct of the audit and that are important for the Supervisory Board's tasks. Likewise it was established that the auditor shall inform the Supervisory Board or make a notation in the audit report if divergences from the German Corporate Governance Code and the Declaration of Compliance issued jointly by the Board of Management and the Supervisory Board are found. No such divergences were found.

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

The remuneration of the Board of Management members and Supervisory Board members is published in a separate report as part of the Management Report. Furthermore, in accordance with the stipulations of the German Corporate Governance Code, the remuneration of Board of Management and Supervisory Board members is shown individually in the Notes and is broken down into fixed and variable elements.

Directors' and officers' insurance exists for the members of the Board of Management and the Supervisory Board. In order to emphasise the Bank's responsibility and attitude towards the shareholders, a reasonable deductible of at least 10 % of the damage up to one and a half times the fixed annual remuneration was agreed.

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

The compliance declaration of the Board of Management and the Supervisory Board pursuant to Section 161 Stock Corporation Act was updated in November 2017. It reads as follows:

1. Berlin Hyp AG has complied with all recommendations of the Government Commission on the German Corporate Governance Code, as revised on 7 February 2017, announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette, with the exception specified in Section 2.

2. Berlin Hyp AG deviates from the following recommendations of the German Corporate Governance Code:
a) At the time of the conclusion or extension of Board of Management contracts, such contracts have not always included and do not always include a settlement payment cap stipulating that, in the case of premature termination of work for the Board of Management without good cause, settlement payments are limited to an amount corresponding to two years' remuneration including ancillary benefits (Section 4.2.3 German Corporate Governance Code).

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

b) The Supervisory Board has not decided to impose a general maximum term limit for the length of membership of the Supervisory Board (fig. 5.4.1 German Corporate Governance Code).

The general establishment of a maximum term for the duration of membership restricts the possibility of flexible succession planning. For this reason, nomination is instead decided in the respective individual case regardless of the length of membership duration to date.

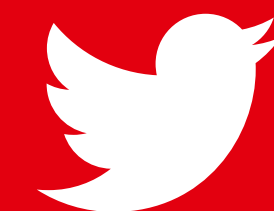
3. Furthermore, Berlin Hyp AG has complied with all recommendations of the Government Commission on the German Corporate Governance Code, as revised on 5 May 2015, announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette, with the exception specified in Section 2, since the last Declaration of Compliance was issued on 14 December 2016.

Berlin, 26 March 2018

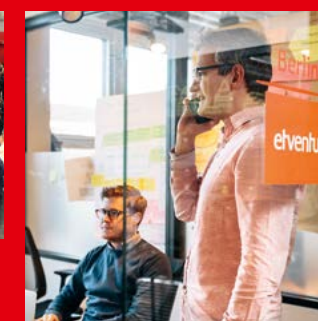
Board of Management and Supervisory Board of Berlin Hyp AG

Our path
to the future.

#sharinginspiration



Innovation requires inspiration.
Berlin Hyp launched an innovation initiative in 2017 under the motto #sharinginspiration. Innovative new products are being developed in cooperation with customers. Our goal is to continue offering individual financing solutions and tailor-made products now and in the future. Exchanging ideas sparks mutual inspiration in order to accomplish this and shape the future together.



Milestones 2017

The year in review

9 January



mission E – in the interest of greater energy awareness

Reducing behaviour-related electricity and heat consumption is the focal point of the information and motivation campaign launched at the start of the year. **The goal:** getting employees to save energy by changing their habits, with no loss of comfort.

16 February



First successful benchmark issue in 2017

Berlin Hyp launched its issuing business in 2017 with a 2.5 times over-subscription. The eight-year bond had a volume of € 500 million and was rated Aaa by Moody's. International orders accounted for 39 %.

8 June



Second Green Pfandbrief issued

Berlin Hyp successfully issued its second Green Pfandbrief with an issue volume of € 500 million. The bank used the Green Bonds to refinance loans for sustainable, energy-efficient buildings. Altogether, 20 % of Berlin Hyp's loan portfolio is intended to comprise green building financing by 2020.

14–17 March



MIPIM

Europe has two real estate trade fairs of great importance: EXPO REAL in Munich and MIPIM in Cannes. For Berlin Hyp, Cannes is the

hub for business meetings and conferences with our international clientele at the start of each year.

28 June



Berlin Hyp extends invitations to the first Green Bond event

More than 50 representatives of investors, capital market partners, law firms and sustainability agencies gathered for the first Green Bond event in Frankfurt by invitation of Berlin Hyp. A study of the Climate Bonds Initiative on the topic of reporting was presented as part of the event.

26 September



Berlin Hyp ranked as industry leader

The sustainability rating agencies oekom research and Sustainalytics have ranked Berlin Hyp as an "Industry Leader". With a B- rating from oekom research, the Bank takes first place out of a total of 52 evaluated companies in the Financials/Mortgage & Public Sector peer group. Sustainalytics ranks the Bank fifth out of 332 banks worldwide.

20 December



Kinderhaus awards the "Best Enabler" prize

The Christmas party for friends and sponsors of Kinderhaus Berlin-Mark Brandenburg e. V. was held in December 2017. Sascha Klaus and Monika Peterhänzel accepted the "Best Enabler" prize on this occasion on behalf of Berlin Hyp. Among other things, Berlin Hyp provides decisive essential financial support for the annual autumn excursion.

4 October



A productive partnership

Berlin Hyp announced at EXPO Real that it is investing in BrickVest, an online platform for commercial real estate investments based in London/Berlin, as part of a strategic partnership. It is the only regulated platform of its kind. The bank is expanding its value chain through this investment.

5 October



Berlin Hyp exhibits technical expertise as industry expert

Berlin Hyp launched the publication of several reports with the study "Logistics and Real Estate 2017 – City Logistics. With New Ideas in the City". The housing market report and retail study will follow. Several newsletters for select target groups will be published as well.



Sascha Klaus, Chair of the Board of Management

What inspires you, Mr Klaus?

Sascha Klaus has been Chair of the Board of Management of Berlin Hyp AG since 1 October 2016 and is also a member of the Board of Management of LBB Holding AG. The past 2017 financial year was his first as Chair of the Board of Management of Berlin Hyp.

Utilise current strengths. Master challenges. Prepare for the future.

2017 – another record year for Berlin Hyp

Sascha Klaus is proud of what he and his employees achieved in 2017. “The past year was not merely a good financial year, it was an outstanding one, and I am very pleased that we actually managed to outperform the record year of 2016,” the Chair of the Board of Management of Berlin Hyp says.

Berlin Hyp was able to significantly improve its results compared to 2016. For example, the net real estate financing portfolio increased by € 2 billion to more than € 20 billion. Berlin Hyp saw no less than five very significant landmark transactions. With a total new business volume of around € 8.1 billion, the record year of 2016 was exceeded by 35 % (previous year: € 6 billion).

Return on equity improved from 11.8 % to 16.9 %. Sascha Klaus views the successful issue of two Green Bonds of € 500 million, each in the benchmark format, as highlights in 2017. “Both issues were successful and over-subscribed several times,” Sascha Klaus says. Berlin Hyp has issued Green Bonds with a total value of € 2 billion since 2015. This issue volume makes Berlin Hyp the biggest European issuer of Green Bonds in the commercial bank sector.

“We achieved a lot last year and emerged from the financial year in a stronger position. We gained new customers and were able to

expand our international investor base. In addition, we enhanced our reputation as a key player in Germany and various European countries,” Sascha Klaus says in summary. Despite the second consecutive record year, he also includes a warning: “Currently the market position is highly positive. Nevertheless, we must not forget that the market environment still poses numerous challenges. Strong competition in commercial real estate financing and the very high pressure on margins that this entails, along with increasingly strict regulatory requirements, are having an impact on the results of our business activities. We also need to prepare for a changing market environment, starting right now.”

Notwithstanding the challenges, Berlin Hyp was able to improve its earnings before profit transfer and contributions to the fund for general banking risks to € 187 million.



Regular updates for employees and personal interaction with them are especially important to Sascha Klaus.

Sascha Klaus explains: “We took advantage of these very favourable figures to further strengthen our equity base and contribute to the provision reserves. This is necessary to ensure the Bank is well prepared for the future.” Berlin Hyp contributed € 70 million to the fund for general banking risks alone. The year before, the contribution stood at € 50 million.

Partnership with savings banks further expanded.

Berlin Hyp was also able to expand S-Group business ties within the Savings Banks Finance Group. “By now, we are a partner to 116 savings banks in all S-Group regions. The total joint financing volume stood at € 1.5 billion in the past year (2016: € 1.5 billion),” Sascha Klaus reports. Berlin Hyp generates a large portion of this financing through the joint syndicate business with the savings banks. Berlin Hyp had several successes in

developing products for savings banks in 2017. “For example, we successfully introduced the ImmoAval. It allows savings banks for which financing with long terms or a negative EURIBOR represents a hurdle to participate in profitable loan transactions through liability participation. We also made good progress with the expansion of our promissory note platform. Our goal here is to allow savings banks to participate in large transactions with great flexibility,” Sascha Klaus says. 96 institutions from all S-Group regions have participated in Berlin Hyp financing through ImmoSchuldscheine (real estate promissory notes) totalling € 121 million (previous year: € 476 million).

Change is considered the only constant in this day and age, and Sascha Klaus firmly believes that change needs to be addressed proactively. “We view constant change not only as a challenge, but above all as an opportunity for improvement,” he says. That is why Berlin Hyp initiated numerous measures early on in order to continue being successful in the future. The future-focused process “berlinhyp21”, intended to drive internal cultural change, was initiated in 2016, and a digitalisation and sustainability strategy was adopted.

In terms of digitalisation, Berlin Hyp laid the foundation for the Bank’s digital transformation in 2017 with the introduction of the electronic file system and the alignment of all processes with digital requirements.



A winning team: Board of Management trio Roman Berninger, Sascha Klaus and Gero Bergmann

Success factor for the future: Preparing today for changes in the market environment

“We are not going to rest on our laurels. Sustainability will continue to be a very high priority in future.”

Sascha Klaus, Chairman of the Board of Management of Berlin Hyp

Currently it is modernising its entire core banking system and pressing ahead with the loan optimisation programme. In order to develop promising digital business models, the Bank has established a Digital Unit that analyses the market and customer preferences, and searches for new, innovative approaches.

Berlin Hyp has also secured itself a leading edge in expertise through a strategic partnership with a leading online platform for commercial real estate financing in Europe.

Twice during the past year, sustainability rating agencies have named the bank “Industry Leader” for its green financing and investment products. Sascha Klaus is particularly pleased about one ranking: “Berlin Hyp took fifth place out of 332 banks in the global ranking by Sustainalytics. This result proves that our efforts and the strategic realignment were the right moves, and that we are held in high esteem in Germany and abroad as a result,” he says. “We are not going to rest on our laurels. Sustainability will continue to be a very high priority in future.”

“We have made excellent progress with the implementation of numerous new regulatory requirements in the past year, regardless of whether they have to do with digital transformation, cultural change, the expansion of our customer base or the positioning of Berlin Hyp as a leader in the area of sustainability,” Sascha Klaus is also aware that such changes demand significant courage and patience. “It often means taking entirely new, previously unknown paths,” he says. “Sometimes such a path turns out to be a dead end. But this should not be a reason for discouragement.”

It is important to him that Berlin Hyp employees are not afraid of change. “We are working towards a culture of open discussion, because this is the only way to address concerns and gain employee support for the processes,” Sascha Klaus says. Intensive communication is important to him in this process, not only with employees, but also with partners, customers and stakeholders. It helps him gain new perspectives, and he uses the information as a source of personal inspiration: “When you listen very intently to your conversation partner, you are better able to identify newly emerging needs, trends and wishes, and use them as the springboard for innovations.”

Creating incentives, leading the way and shaping and embracing the future together are the key elements of another Berlin Hyp initiative as well. “We want to develop innovations and trendsetting business models together with the employees and our customers under the motto #sharing-inspiration. Our customers and partners will continue to benefit from the added value offered by Berlin Hyp in the future,” Sascha Klaus explains. He adds, “As one of the leading German real estate financing and Pfandbrief banks, we – after 150 years of business – intend to continue supporting our customers with individual financing solutions and innovative products in future. Innovation requires inspiration.”



Roman Berninger and Cornelia Rees-Görsch are convinced that digitalisation will revolutionise commercial real estate financing in the next few years.

Digital Age – what does that mean for Berlin Hyp?

Humanity is currently at the beginning of a digital and fully connected world. Even so, the digital revolution is already extending into more and more areas of life. It will irrevocably change all traditional banking processes in the coming years as well.

Digitalisation is not just automation

The digital path in the commercial real estate financing sector

Roman Berninger, member of the Berlin Hyp Board of Management, is convinced that digitalisation will establish itself in the commercial real estate financing sector over the coming years. “Just look at the retail banking business,” he says. “Digitalisation is already in full swing there. You can file your loan application online and conduct your financial transactions around the clock. Meanwhile, you do not even need a computer; an app on the smartphone is usually sufficient. What has become commonplace in our private lives will establish itself in the commercial sector as well.”

Digital transformation is far more than just the automation of individual business processes. “We see it as far-reaching change in all existing business models. Digital transformation has to be viewed and implemented not only from the Bank’s perspective, but above all from the customer’s point of view. Raising awareness about digitalisation among all stakeholders is the greatest challenge in the course of this transformation,” Roman Berninger says.

Berlin Hyp began dealing with digitalisation very early on. While many competitors are only just working on a digitalisation strategy now, Berlin Hyp is already a step ahead: the digitalisation strategy was adopted in 2016, the digital file system was introduced in 2017, and all processes have been aligned with digital requirements in the course of the Bali project.

Berlin Hyp will press ahead with its loan optimisation programme KPO 4.0 in 2018 and is the first bank to pursue and implement a consistent S/4HANA strategy. Key pillars of the digitalisation strategy intended for implementation by the end of 2019.

Berlin Hyp as a pioneer

“We are exploring uncharted territory in many areas of digitalisation and assuming a pioneering role. We are therefore networking intensively with other companies, also outside the financial sector. At the same time, we are sharing our experiences with our competitors,” says Thomas Haeske, Head of IT at Berlin Hyp. The goal is to revolutionise the entire loan process, from the point of customer contact to approval, using state-of-the-art digital technologies.

That is why the website was also entirely reworked based on a new technology, SAP Hybris. The goal is to offer customers portal solutions in future and support digital communication. “The bank’s website is the ideal starting point for digital communication with customers,” Haeske continues. “We want to largely parallelise our credit check activities with maximum technological support in order to become faster and reduce interfaces.”

Cultural change through digitalisation

Digital transformation of the business processes and models is shaping not only technical, but above all cultural change at Berlin Hyp. New attributes, such as digital skills, networking and mobile work, are becoming increasingly important.

“Our employees are the most important factor in digitalisation. Our ambitious digital transformation plan would not be possible without them. It is therefore essential to regularly inform all stakeholders about the process and to involve them in the implementation.

Our goal is to rise to the challenges of digitalisation and pursue our further development,” Roman Berninger says. He is aware that many new things are coming Berlin Hyp’s way and



Thomas Haeske has already reached important milestones with his team on the way to a digital future. The Head of IT regularly shares experiences gained in this field to date with competitors as well.



For Matthias Arnheiter and Daniela Kärcher, testing new technologies such as the visual projection of additional information into live pictures (augmented reality) is important to develop new inspiration for their own ideas.

that there will be changes in the operating procedures as well. However, he views change as progress and believes the digitalisation process can be pursued together. He sees digitalisation within the Bank as making the workflows easier, since the technology can handle automated processes. The capacities that this frees up can be put to good use, for example to strengthen customer relationships or for more intensive risk analysis of financing requests.

Intensive discussion of the digital transformation in the company is important to Roman Berninger. He emphasises that “we all need to know what goals we are pursuing, what the advantages and disadvantages of digitalisation are, and what changes there will be at the Bank.” For example, Berlin Hyp reported on numerous digitalisation topics during an IT day in 2017. Aside from information booths in “raum21”, there were various presentations and even an SAP promotion truck that provided information about the digital

transformation in front of the Bank building. Regular dialogue events will be held in future so employees can continue to discuss the topics and share experiences and suggestions.

Guaranteed success for the future.

In addition to the digitalisation of its existing business models, Berlin Hyp is already going a step further. The Bank is looking for ideas and topics for new business models and has established its own Digital Unit. It develops innovative approaches for new digital offerings outside of actual banking operations. “We are currently examining the existing business models, questioning them, and reviewing where forward-looking extensions may be possible,” says Matthias Arnheiter, Head of Corporate Strategy.

“We are also taking a close look at the market and its demands, and developing new ideas and solutions for the future.”

Berlin Hyp learned about BrickVest in 2017 during this analysis and invested in the company. Matthias Arnheiter sees many benefits for Berlin Hyp in this shared effort: “BrickVest is the only regulated online platform for commercial real estate investments in Europe. The strategic partnership gives us access to a turnkey technology that is highly scalable. With this platform, we are able to continue expanding our structuring expertise and provide even more comprehensive, integrated consulting services to our customers.”



“Many of our competitors are only just now developing a digitalisation strategy. We have a headstart of about 1.5 to 2 years,” Roman Berninger estimates. He has been a member of Berlin Hyp’s Board of Management since 1 January 2010 and is responsible for IT, among other things.



Berlin Hyp digitalisation facts

- Berlin Hyp is investing € 25 million in the implementation of its digitalisation strategy.
- Berlin Hyp is a digitalisation leader and the first bank to convert its entire core banking system to SAP S/4 HANA.
- The implementation of the digitalisation strategy is due to be completed in many areas by the end of 2019.



For Oliver Mehrholz, Head of Infrastructure and Central Purchasing at Berlin Hyp, regular meetings facilitating the mutual exchange of information with colleagues are key to working successfully.

“The open and highly connected way of working initially required us to adopt a new mindset”

Viola Siedler and Aaron Israel, Berlin Hyp employees

agile. networked. creative. – The Digital Unit at Berlin Hyp

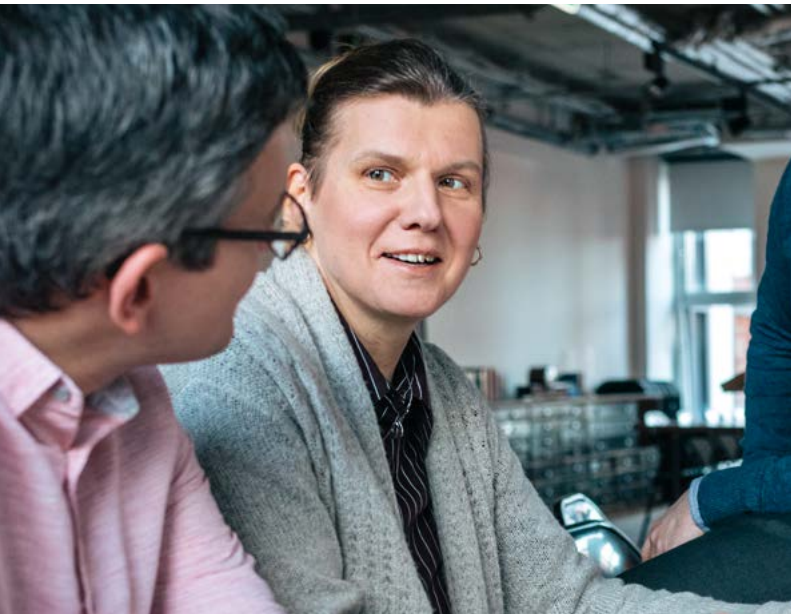
Viola Siedler and Aaron Israel are two Berlin Hyp employees who temporarily exchanged their own offices for those at MindSpace in Berlin's Friedrichstraße starting in June 2017. They are part of the Digital Unit that is developing future digital business models “outside” the bank.

Their work revolves around the central question: “What products and service approaches solve the problems of our customers?” They found ideal conditions for the development of new ideas in the co-working space, which boasts a special atmosphere preferred by start-ups and a high concentration of creative minds.

Openly exchanging thoughts and information with people in many different industries and fields is possible here at any time. The office doors are open, no matter what company somebody works for. “The open and highly connected way of working initially required us to adopt a new mindset,” say Viola Siedler and Aaron Israel in agreement. “Now, however, we can't imagine doing without this form of work.”

Their activities in the Digital Unit began with a comprehensive market analysis and more than 60 discussions with customers. “We interviewed numerous customer contacts in order to find out what they want and need,” Viola Siedler explains. In the subsequent brainstorming and creative process, she and her fellow team members developed the most promising ideas further and assessed their feasibility. A total of three business models were prepared and presented to the Berlin Hyp Board of Management at the start of 2018. They are currently being reviewed to determine the market response.

New paths also mean new ways of working and new workplaces. Aaron Israel and Viola Siedler found these at MindSpace in Berlin.



“Our time in the co-working space expanded my horizons in various ways. Through the ongoing exchange with others in the co-working space, we were able to benefit from their knowledge, perspectives and experiences in the development of new approaches,” Aaron Israel says.

“Every day in the Digital Unit was new and inspiring. We worked incredibly quickly there, in a spirit of cooperation free from competitive thinking,” is how Viola Siedler sums up her experience.



Only Sustainable Action can ensure long-term success

“Push me when you leave” says a small sticker on almost every light switch at Berlin Hyp. It exemplifies collective thought and action at Berlin Hyp regarding the environment and the use of natural resources. This brief request is not only intended to encourage employees to turn off the lights, but to spark responsible and sustainable action in all areas.



Changing behaviour, taking responsibility and serving as a role model – for Gero Bergmann, these three factors are particularly important for successfully establishing sustainable action over the long term, both in business and in our private lives.

Sustainability is an important factor in Berlin Hyp’s business strategy

“We are committed to sustainability! This applies to both simple matters and complex financing. Only if a shift towards sustainable action occurs in all areas can we be successful over the long term,” says Gero Bergmann, Board of Management member responsible for markets at Berlin Hyp.

Berlin Hyp became aware of sustainability early on and firmly anchored it in the company’s strategy. “Over the past three years, we have worked on the sustainable development of our core business with great success and come up with new products,” says Gero Bergmann. “We issued the world’s first Green Pfandbrief in 2015 and a Green Unsecured Bond in 2016. The results and successes in the past financial year confirm that we are on the right track with our efforts.”

On the way to the “20 % goal”.

Financing highly energy-efficient, sustainable buildings was a focal point in the past financial year. A total of € 2.7 billion, or 12 %, of Berlin Hyp’s real estate portfolio consisted of green financing at the end of 2017. The loan portfolio for green building financing is to be increased to 20 % by the year 2020. In the light of this, the Bank has established structures and processes in order to identify green building financing in a timely manner.

The Bank also focused on issuing new Green Bonds in 2017. Berlin Hyp is using these bonds to refinance loans for energy-efficient, sustainable buildings. Berlin Hyp placed two of these Green Bonds last year. It successfully issued its second Green Pfandbrief in June and a second Green Senior Unsecured Bond in October. The respective issue volume was

€ 500 million. “We have issued Green Bonds with a total volume of € 2 billion since 2015. This makes Berlin Hyp the most active issuer of Green Bonds in the European commercial banking segment,” Bodo Winkler says. As Head of Investor Relations & Sales at Berlin Hyp, he shares responsibility for issuing the Green Bonds.

In the focus of international investors

More and more market players are paying attention to Berlin Hyp’s bonds, which is illustrated for example by the four times oversubscribed Green Senior Unsecured Bond: 51 % of all the investors came from abroad, most of them from France and the Benelux states. “The expansion and internationalisation of the investor base is a particularly important milestone for Berlin Hyp,” Bodo Winkler points out. “It shows that both domestic and foreign investors have great confidence in our work, and that we were able to further strengthen our good reputation as one of Europe’s leading bond issuers.”

Berlin Hyp as a trailblazer

The considerable oversubscription of the issues and the high percentage of international investors are not the only indicators of Berlin Hyp’s successful course. Sustainable action is also recognised in the ratings. Berlin Hyp was rewarded with top rankings in 2017 by the sustainability rating agencies oekom research and Sustainalytics.



Gero Bergmann is the Board of Management member responsible for markets at Berlin Hyp since 1 January 2011.

“We are committed to sustainability!
This applies to both simple matters
and complex financing.”

Gero Bergmann, Board of Management member responsible
for markets at Berlin Hyp

At oekom, Berlin Hyp advanced to “Industry Leader” in September and holds first place in the comparison group. Sustainalytics ranked Berlin Hyp fifth out of 332 banks worldwide. With their rankings, the rating agencies confirmed Berlin Hyp’s exceptional commitment to sustainability management and simultaneously recognised its dedication to green investment products and responsible action with regard to people and the environment.

Sustainability is the responsibility of all concerned

“We have been placing greater emphasis on sustainability since 2015. A cross-departmental team was formed especially for the purpose. Awareness within the bank has increased considerably since then. We are pleased that these efforts are now also reflected by highly positive ratings,” says Oliver Mehrholz, Head of Infrastructure and Central Purchasing at Berlin Hyp. Together with Alexandra Czoski, who is responsible for sustainability matters concerning corporate strategy, he believes the efforts in the area of governance, modern HR management and the activities in the capital market are especially important factors contributing to the excellent rating results.

Berlin Hyp rests its commitment to sustainability on numerous shoulders. In addition to an Environmental Management Officer, it has a Sustainability Steering Committee that discusses strategic matters, in addition to a Sustainability Board. Seven employees were also trained as internal auditors in

environmental management in 2017. They provide tips and are available to answer employee questions. “We also implemented numerous resource conservation measures in the past year,” says Marion Voigt, Environmental Management Officer at Berlin Hyp. “For example, we switched printing service providers and replaced the associated technology, realising energy savings of about 50 % and simultaneously eliminating around 60 % of the workstation printers. We achieved similar savings through the replacement of our server infrastructure. Overall, the introduction of environmental management, which was successfully recertified according to DIN 14001 in 2017, is bearing fruit in many parts of the Bank.”

Further measures to reduce environmental impact are planned for 2018. All company cars are to be converted to hybrid or electric drives with the “Green Fleet” project. Charging stations will also be installed at all Berlin Hyp parking spaces in the course of the conversion. Similar stations will then be installed and used by the company car drivers at home.



Sustainability for success

- Berlin Hyp defined the financing of green buildings as a strategic business objective in 2017.
- 20 % of the real estate portfolio is planned to consist of green building financing by 2020.
- 96 new investors were acquired with the four Green Bonds to date.
- Berlin Hyp received the EMAS seal of quality from the European Union in 2016. EMAS is the world’s most demanding system for sustainable environmental management. The seal of quality is awarded to organisations that meet the strict requirements of the EMAS Regulation.

Christiane Groh (photo on the left) and Alexandra Czoski are dedicated to a sustainable future.

€ 2 billion

in Green Bonds have been issued by
Berlin Hyp since 2015.

Team Spirit which customers appreciate

Berlin Hyp is changing. This change is not only noticeable within the Bank, but can also be seen in interactions with the Bank's customers. Deal teams and working together as partners are two important components that have contributed to Berlin Hyp's success, as the Bank has grown significantly during the past year both in the new customer business and in the number of customers.

Oliver Hecht, Head of S-Group and Domestic Business at Berlin Hyp, is convinced this is due to a different way of interacting. "For us, customers are partners on an equal footing, and we develop a suitable, individual financing solution in cooperation with them." Depending on the complexity and scope, customers are assisted by not just one contact person, but several experts at once. Berlin Hyp assembles a deal team for this purpose, consisting of experts from various departments, tailored specifically to the financing request and the project volume. This bundling of know-how considerably

reduces coordination and decision-making effort. Loan decisions can be made very quickly as a result, even in highly complex projects. "For example, we were able to provide GSG Gewerbesiedlungs-Gesellschaft mbH in Berlin with financing of € 510 million within just four months in 2017," Oliver Hecht says. He notes that "the cultural transformation initiated by Berlin Hyp two years ago has resulted in numerous successes concerning cross-departmental cooperation. Our team spirit is stronger. We engage in co-management and coordinate schedules with each other closely.



"Together for the customer" is not only the motto of Dr. Peter Maurer (photo on the left), Nicole Hanke and Jens Völkner, but all Berlin Hyp employees.



Reinforcing the Bank's good reputation as a leading real estate finance provider and reliable partner is especially important to Adrian Ziem, Oliver Hecht and Assem El Alami, which is why they regularly meet with employees and customers to exchange ideas.

The loans, legal and valuation departments work together much more efficiently as a result. Expanding the deal team approach creates a feeling of shared responsibility across departments. Our customers usually notice this because their requests are handled very quickly, reliably and accurately."

Berlin Hyp as a key market player

This speed, professionalism and expertise for highly complex financing projects have further strengthened Berlin Hyp's market position as one of Germany's leading real estate and Pfandbrief banks. "We are now seen as an important key player, not only in Germany, but in various European markets as well," Assem El Alami says with satisfaction. The sales manager is responsible for all international business at Berlin Hyp.

The 2017 financial year was extraordinarily strong, with more than € 8 billion in new business including prolongations. "Numerous international investors were active in the domestic market during the first few months of 2017. German investors did not begin stepping up their investments until the second quarter. Overall, the high

level of activity seen in both investor groups contributed to our record year," Assem El Alami notes. Berlin Hyp was also able to benefit from the extremely high level of investment activity in the strategic foreign markets.

The syndication market is gaining importance again

After the 2008 financial crisis, the market for issuing large loans by banking syndicates was virtually wiped out. In the meantime, the syndication business has gained importance again. "We saw numerous larger transactions again for the first time in the past year," Assem El Alami notes. "We are seeing syndication activity developing and gaining momentum," he adds.

Berlin Hyp also participated in this trend. For example, it financed the acquisition of a pan-European multistorey car park portfolio by the Bouwfonds European Real Estate Parking Fund "BEREPF III" as the syndicate leader in July 2017, jointly with Deutsche Postbank. The syndicate provided a total of € 92 million for twelve multistorey car parks, totaling 6,300 parking spaces. Syndicate financing

“Our innovative products, individual customer support and the digital transformation of all business processes are generating genuine added value for our customers.”

Adrian Ziem, Head of Sales Management at Berlin Hyp



Adrian Ziem and Oliver Hecht consider the development of innovative products crucial to Berlin Hyp's future success.

with a volume of € 205 million was issued in December 2017 in cooperation with Erste Group Bank. This amount was made available to IMMO-FINANZ AG, a leading commercial real estate group, for refinancing a Warsaw office property portfolio with a total of seven office buildings.

Berlin Hyp is planning to further expand its activities in the syndication market in 2018. “Thanks to our good reputation, the ability to handle highly complex financing transactions and our membership in the Savings Banks Finance Group, many partners trust us with arranging and leading syndicates. We are going to build on this trust and will continue living up to it,” Assem El Alami says with confidence.

S-Group business as a key pillar

Berlin Hyp wants to keep growing in the German market, including when it comes to S-Group business with the Savings Banks Finance Group. Financial transactions in this segment totalled € 1.5 billion during the past financial year. A change is perceptible here as well. New, innovative products are being added to the range and will contribute to expanding S-Group business in future.

Berlin Hyp introduced a new product to market in 2017 with ImmoAval. “The launch and the feedback from our contacts at the savings banks were positive. We believe that we are going to be very successful with the ImmoAval product in particular over the long term,” Adrian Ziem, Head of Sales Management, says. He believes Berlin Hyp is well positioned for the future: “Our innovative products, individual customer support and the digital transformation of all business processes are generating genuine added value for our customers.”

berlinhyp21

Future-oriented working methods, innovative products and the evolution of corporate culture are just three factors that Berlin Hyp focused on last year to help it advance. The Bank has initiated the “berlinhyp21” future process to make itself fit to meet the coming challenges.

There is probably no other place within Berlin Hyp where the transformation and dynamic changes are more evident than in “raum21”. It symbolises “berlinhyp21” and the ongoing implementation of the “agile. networked. creative.” vision for the future.

Space for new ways of thinking and working.

“raum21” is not a normal room. It can be used simultaneously as a venue for events, brainstorming and meetings, a workshop space or a place to retreat to for individual conversations. The flexible design of its various areas permits adaptation to the individual needs of the users. “The agility and flexibility that ‘raum21’ radiates have had a pronounced impact on how we work within the Bank. Even though the room has only been around for about a year, it has noticeably advanced the cultural change in the bank,” says Ralf Behnke, Head of Governance at Berlin Hyp. The room’s atmosphere promotes dialogue across departments and hierarchy levels, new ways of working and the development of innovative ideas.

A creative hot spot for new impulses

Morning, noon or evening – employees engage in discussions and networking in “raum21”. Together, they look for new solutions and optimisation potential as well as trendsetting business models. “Compared to typical conference rooms, meetings are not as distanced any more. Now they are

defined by a strong WE feeling and productive collaboration. The room offers an ideal ambience and literally invites lateral and innovative thinking,” Ralf Behnke says. “Initially there were some reservations about the room. Now, making do without ‘raum21’ would be inconceivable.”

Group decisions viewed as opportunities

Changes are not only being made with regard to brainstorming and working methods in the course of the “berlinhyp21” project. Adopting a new mindset is required in decision-making as well.



Exchanging ideas and providing mutual impetus – for Denise Bellin, Dr Peter Mauerer (both top photo) and Alexander Beer, “raum2” is the ideal space for developing new ideas.

Everything in motion.

"A lot has changed during the last two years. In particular, joint decision-making in competency groups and not only by managers requires new ways of thinking and acting. Everyone first has to get used to this way collaborating," says Nicole Hanke, Head of Communications & Marketing.

From her perspective, it is important for managers to learn how to let go and cede responsibility to the group. Employees, on the other hand, have to actively contribute to decision-making as part of the group and deal with different opinions and perspectives. A consensus needs to be found in the end. "Reaching this goal requires intensive discussions. That often leads to friction and is therefore much more time-consuming at the outset," Nicole Hanke explains.

She sees this type of decision-making as an opportunity for higher-level, more intense employee participation. Such participation in this context is one of a total of three aims pursued by the "berlinhyp21" future process.



"agile. networked. creative." is not just the motto of Berlin Hyp's vision for the future; it is put into practice as well. Sabine Olejnik and Ralf Behnke (top), Sandra Cyron (bottom left) and Katrin Schlicke-Pohlisch therefore regularly use "raum21" for joint brainstorming sessions and networking.



Developing new ideas through cluster work

More than 100 employees are working on ideas and measures for implementing the goals of the future-oriented project in a total of six different clusters. Aside from greater employee participation, the plan is to reduce employee workload and dismantle internal bureaucracy.

"The Bank's digitalisation initiative has resulted in many additional work projects during the past year. This meant we were unable to get closer to the goal of reducing the employee workload overall," says Jens Völkner, who is intensively assisting the process in addition to his tasks as Head of Finance. However, this is going to happen gradually as the numerous ongoing digitalisation projects are concluded.

In contrast, a lot has been achieved in the way of dismantling bureaucracy during the past financial year. "We have restructured competencies, simplified the purchasing process and further optimised the existing loan process. Ongoing optimisation of the loan process will be a focal point in 2018. A new social media strategy was developed and Meeting Pilots were trained in other clusters," Jens Völkner says. He considers the Meeting Pilots a particularly good example of the new corporate culture that is developing, defined by voluntary commitment, synergy effects, collaboration across hierarchies and greater employee cohesion.

Trained experts as Meeting Pilots

A total of eleven employees have obtained training on how to organise and conduct meetings using the "design thinking" method. Their goal is to make workshops more effective with goal-oriented moderation. "Training the Meeting Pilots was a great success. They have been very well received. We are therefore going to integrate training on new approaches to meetings more tightly



Jens Völkner and Nicole Hanke use one of the many available meeting and conference areas at Berlin Hyp to jointly prepare concepts or presentations.

"The agility and flexibility that 'raum21' radiates have had a pronounced impact on how we work within the bank."

Ralf Behnke, Head of Governance at Berlin Hyp

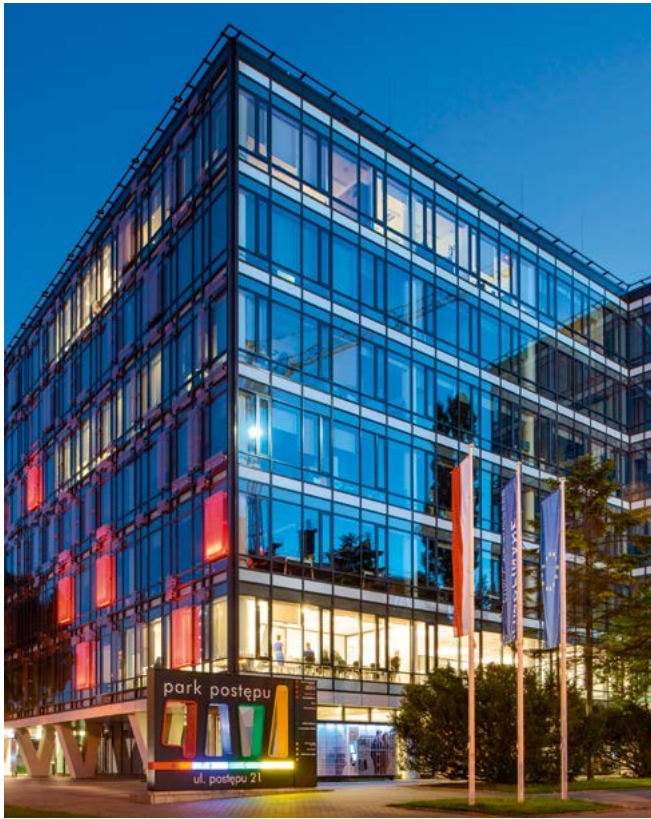
into our HR development programmes," says Sabine Olejnik, Head of Human Resources at Berlin Hyp. The Meeting Pilots are one of many projects intended to drive the "berlinhyp21" future process in 2018. Projects to optimise the loan process (KPO 4.0), convert the core banking system to SAP 4/SHANA, and in the areas of employee tools and management development are going to be implemented in 2018 as well.

Sabine Olejnik is convinced that the transformation of Berlin Hyp is now unstoppable. Much has been initiated and is in motion, countless ideas and projects are starting to grow. "Now we must continue utilising the momentum of this process and proceed resolutely along the chosen path."

Inspiration for Europe: Selected Reference Projects

Berlin Hyp specialises in large-volume real estate financing for professional investors and housing companies. It once again financed numerous national and international real estate projects in the past financial year. Berlin Hyp’s net real estate financing portfolio grew by € 2 billion to more than € 20 billion in 2017. As a result, Berlin Hyp has further strengthened its role as one of Germany’s leading real estate financing and Pfandbrief banks.

Warsaw



Polish office property portfolio of IMMOFINANZ AG

In cooperation with Erste Group Bank AG, Berlin Hyp provided IMMOFINANZ AG with a syndicate loan totalling € 205 million. The loan amount was used to refinance seven existing IMMOFINANZ AG loans, combining them under one roof.

Seven office buildings in very good locations in Warsaw are being financed with the loan over a term of five years. The buildings include Park Postepu, IO-1, Nimbus, Brama Zachodnia, Equator, Crown Point and the Crown Tower. The portfolio has a total rental area of around 140,000 m² and has been held by IMMOFINANZ AG for some time.

Asset class	Office and commercial building
Customer	IMMOFINANZ AG
Financing type	Portfolio financing (refinancing) as a syndicate loan
Financing volume	€ 205 million
Function of Berlin Hyp	Managing underwriter in a syndicate with Erste Group Bank AG
Closing	December 2017
Financing term	5 years

Berlin

Refinancing of a GSG commercial portfolio

Berlin Hyp provided GSG Gewerbesiedlungs-Gesellschaft mbH with a total loan amount of € 510 million for refinancing a commercial real estate portfolio.

The financing is for a total of 41 business parks in Berlin with an overall rental area of 770,000 m² and 5,600 parking spaces. Most of the portfolio is located in Berlin-Kreuzberg, complemented by additional properties in the west of the city as well as the eastern Berlin districts of Marzahn, Pankow and Hohenschönhausen. These are multifunctional rental spaces that can be used as offices, warehouses and production floors. The spaces are mainly rented to small and medium-sized craft enterprises and businesses, as well as start-ups. Major tenants include the Technical University of Berlin, the broadcaster Deutsche Welle, Fraunhofer Gesellschaft e.V. and the co-working space provider Ahoy Berlin.



Asset class	Commercial
Customer	GSG Gewerbesiedlungs-Gesellschaft mbH
Financing type	Refinancing
Financing volume	€ 510 million in two tranches of € 346 million and € 164 million
Function of Berlin Hyp	Sole lender
Closing	September 2017
Financing term	7 years

Munich



Urban quarter new construction “Perlach PLAZA”

Berlin Hyp provided CONCRETE Capital with around € 128 million for the new construction of an urban centre. The modern, three-part building complex is planned for the “Kultur Quadrat” in Munich-Neuperlach. Construction is scheduled to begin in 2019.

Retail space totalling 11,200 m², a hotel with 150 rooms as well as residential units and student apartments are planned for the urban centre. Construction of approximately 440 parking spaces is planned as well.

Asset class	Residential, retail, hotel
Customer	CONCRETE Capital
Financing type	Development financing
Financing volume	€ 127.6 million
Function of Berlin Hyp	Sole lender

Paris, Amsterdam, The Hague and Bonn (excerpt)



Pan-European multistorey car park portfolio

Berlin Hyp, in cooperation with Deutsche Postbank AG, financed a multistorey car park portfolio for the III. Bouwfonds European Real Estate Parking Fund “BEREPF III”.

The loan amount for the acquisition of a pan-European multistorey car park portfolio is € 92 million. The newly financed portfolio encompasses twelve car parks: seven in France, three in Germany and two in the Netherlands, with a total of approximately 6,300 parking spaces. They are centrally located in various European cities and managed by renowned international operators.

Asset class	Commercial used real estate
Customer	III. Bouwfonds European Real Estate Parking Fund
Financing type	Portfolio financing as a syndicate loan
Financing volume	€ 92 million
Function of Berlin Hyp	Managing underwriter in a syndicate with Deutsche Postbank AG
Closing	July 2017
Financing term	5 years, plus a 3-year renewal option

Berlin



Renovation of two residential buildings with 490 units

Berlin Hyp provided a loan amount of € 24.7 million to WBF Wohnungsbaugesellschaft Friedrichshain mbH for the refinancing of two residential buildings in Berlin-Mitte and Berlin-Friedrichshain. WBF is a wholly owned subsidiary of WBM – Wohnungsbaugesellschaft Berlin-Mitte mbH.

Financing was used to modernise the blocks of flats in panel construction with a view to energy efficiency, and they now have excellent energy consumption values. Encompassing a total of 490 residential units in preferred Berlin locations, they are fully rented. The total living space is 34,161 m².

Special features of the financing

Several savings banks participated in the financing with a total of € 10 million in liable funds as part of a pilot transaction for the new ImmoAval product. Demand was high, so that the offer volume was fully subscribed within three weeks.

Asset class	Residential
Customer	WBF Wohnungsbaugesellschaft Friedrichshain mbH
Financing type	Refinancing, ImmoAval
Financing volume	€ 24.7 million, of which € 10 million ImmoAval
Function of Berlin Hyp	Sole lender and managing underwriter
Closing	March 2017
Financing term	10 years

I Principles of the Bank Business Model

Organisational Structure

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 is as follows¹:



As at 31 December 2017, the Berlin Hyp Board of Management comprised three members who had the following areas of responsibility:

Sascha Klaus (Chair)

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

Gero Bergmann

- Human Resources
- Treasury
- S-Group and Domestic Business
- International Key Accounts and Syndication

Roman Berninger

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

In view of future challenges at Berlin Hyp, changes to the organisational structure were implemented on 1 July 2017. These changes related, in particular to digitalisation, the further development of information technology and Berlin Hyp's strategy with regard to overall changes in customer requirements. For example, the previously separate Finance and Banking Operations divisions were merged, the Organisation/IT division was divided to form the new divisions Information Technology and Company Organisation, and the Company Strategy division was newly established. Berlin Hyp is divided overall into 14 divisions with 55 departments and teams.

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

Business Activities

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

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

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

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

Locations

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

Products and Services

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

To manage risks and optimise returns, many financing transactions are processed together with partners. For the most part, Berlin Hyp's product range is therefore consequently suitable for syndicates.

The Agency Desk service unit provides special services relating to the syndicate business.

In addition to an extensive product range, Berlin Hyp provides products specially developed for savings banks, such as the ImmoSchuldschein, which allows them to participate in the potential returns of commercial real estate financing, the

ImmoKonsortial product, which is designed to enable them to participate in regional syndicate business with smaller volumes through a simplified credit process, and the ImmoAval product, which combines co-liability via guarantees with clear documentation and professional handling.

Berlin Hyp also offers the savings banks comprehensive analysis of non-performing real estate financing in the form of its ImmoRisiko-Dialog service. Detailed analysis of restructuring-specific aspects is carried out in dialogue with the savings banks and results in options for action evaluated by Berlin Hyp, which the savings banks can use as a basis for decisions.

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.

Locations

Germany and throughout Europe



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

Objectives and Strategies

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

Berlin Hyp continues to pursue two strategic goals:

1. Berlin Hyp continues to strengthen its position as one of the leading commercial real estate financiers in Germany.
2. Berlin Hyp is integrating itself in the Savings Banks Finance Group as a partner for commercial real estate financing.

For Berlin Hyp, strengthening its position as one of the leading commercial real estate financiers in Germany means that it participates in numerous major real estate transactions in Germany within the scope of its risk parameters, alone or in a syndicate, and that it has a stable customer base that is successively expanding within the relevant customer group thanks to the quality, speed and reliability of its customer service and loan processing. Berlin Hyp intends to remain among the real estate financiers with the most stable earnings in Germany.

Berlin Hyp aims to become an increasingly important partner to the savings banks in the area of commercial real estate financing, and thereby contribute to the success of the Savings Banks Finance Group.

In addition to its current offering of syndicate financing, including the standardised product ImmoKonsortial, the ImmoSchuldscheinen product and classic investment products (Pfandbriefe, bonds), and support in the form of valuation and restructuring services, Berlin Hyp is continuously expanding its product range and provides savings banks with advice on all issues relevant to the Group. Berlin Hyp's newest products, ImmoAval and ImmoRisikoDialog, will in future complement its product portfolio, which is aligned to the various needs of the savings banks.

The sales structure is organised decentrally in order to strengthen the group philosophy. Regional savings bank advisers and appraisers work with the savings banks from the Bank's branches in Düsseldorf, Frankfurt am Main, Hamburg, Munich and Stuttgart. Twice a year the Savings Bank Advisory Council advises Berlin Hyp on all questions relating to S-Group business.

Berlin Hyp positions itself on the market as a sustainable company, and thereby takes a leading position (sustainability rating ranking) in its peer group. Berlin Hyp has set itself the goal that 20 % of its overall portfolio will be composed of green financing by 2020. That goal is supported in particular by the development of sustainable products (e.g. green bonds), efforts to promote the financing of sustainable real estate, the implementation of a comprehensive sustainability and environmental management system, and the promotion of employees' social commitment.

Goals for 2020



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

Management System

Berlin Hyp's business policies are managed on the basis of annually recurring strategy and planning processes, in compliance with regulatory requirements and the risk strategy approved by the Board of Management. They are therefore risk- and value-oriented, and are generally based on the process stages of planning, implementation, assessment and adjustment. The Bank's central management tools are the financial statements and budgets, the financial and risk reports, as well as liquidity and new business 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 financial performance indicators for the management of its business activities:

- Transfer of profit to LBBH¹
- Net interest and commission income¹
- Cost-income ratio¹: ratio of operating expenditure to net interest and commission income, plus other operating income
- Return on equity¹: ratio of operating results before income tax and profit transfer plus the change in the special item for general bank risks in accordance with Section 340g of the German Commercial Code (HGB) to average balance sheet equity including the special item for general bank risks in accordance with Section 340g of the German Commercial Code (HGB)
- Core capital ratio¹: ratio of common equity that is capable of being taken into consideration under regulatory law to overall risk
- New business¹

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

¹ Most important performance indicators.

Non-Financial Performance Indicators

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

- Market: new customer recruitment, target portfolio, S-Group business¹
- Employees: employee structure, motivation, management and development
- Sustainability: green issues, green financing, sustainability rating and compliance

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

Non-Financial Statement

Berlin Hyp has prepared a separate non-financial report in accordance with Sections 289b and c of the German Commercial Code (HGB) for the financial year 2017. It will be published together with the Management Report. Berlin Hyp will also publish the sustainability report on its website at www.berlinhyp.de/bhyp/de/presse/mediacenter.

II Economic Report – Macroeconomic and Sector-Related Environment

Macroeconomic Development

In the past financial year 2017, the global economy increasingly developed dynamically despite numerous political and economic risks. Economic growth stood at approximately 4 % and was therefore significantly higher than in the previous year and than forecast. This development resulted in the highest level of growth since 2011. There were no negative effects due to the new administration in the USA, which promised protectionist economic policies in its election campaign, because the promised measures could not be implemented in 2017. Various geopolitical crises also had no noticeable effect on economic development.

The Eurozone also achieved a stronger economic upturn compared to the previous year, with growth of approximately 2.4 %, which also significantly exceeded the Bank's expectations. Private consumption and investment were, in particular, drivers of that positive economic development. The pro-European election results in the Netherlands and France also eased uncertainty regarding economic policy. The result of the early parliamentary election in the United Kingdom made a hard Brexit less likely and thereby resulted in a further brightening of sentiment in the Eurozone. As a consequence, the various rounds of Brexit negotiations since the middle of the year have been very tough. Even the political and economic conditions for the transitional phase of the Brexit remain completely unclear at present.

The German economy grew for the fourth consecutive year and is currently experiencing a boom. Growth of approximately 2.3 % was considerably higher than in the previous year and the forecast. This strong growth was driven by private consumption, which benefited from a considerable increase in employment, as well as higher exports and investment. The positive development of exports was due to the favourable economic environment in important foreign markets for Germany. The Chinese economy, in particular, developed more robustly than expected, and growth in the EU was stimulated by brightening sentiment following the pro-European election results. High capacity utilisation in the manufacturing sector ultimately

also resulted in a noticeable decrease in the reluctance of companies to invest. Construction investment was very high – fully utilising the available capacities. Extremely high rates of growth were, above all, recorded at the start of the year.

While the unresolved coalition negotiations in the final quarter created uncertainty, they did not result in an economic slowdown. As expected, market participants assumed there would be no fundamental change in economic policy under the new government.¹

Industry Development

On the other side of the Atlantic, the FED reacted to positive economic development in the USA by increasing the key rate for the provision of liquidity to commercial banks from 1.25 to 1.5 % in three stages during the reporting year. Following Janet Yellen's four years in office, Jerome Powell will lead the FED from early February. The capital market expects the FED to continue on its present path.

Against the backdrop of expansive central bank policies in the Eurozone, 2017 was again characterised by low overall interest rates. However, while some ten-year German federal bonds offered negative returns in 2016, they recovered from that low and fluctuated between 0.15 and 0.60 % during the reporting period. There were similar developments with regard to the Euro swap curve. That meant swap rates were largely positive from a term of four years compared to the six-month Euribor. However, there is still no sign of a change in interest rate policies. Since March 2016 the benchmark rate has been 0.00 %. The ECB considers reaching the medium-term inflation target of just less than 2 % the decisive criterion for its interest rate decisions. At its most recent meeting in December 2017, the ECB predicted annual inflation rates of significantly less than 2 %, and therefore below its target, until 2020. The last long-term tender (TLTRO II; Targeted Longer-Term Refinancing Operation) was allotted in March 2017. From April, the monthly target

¹ Source for the macroeconomic environment: German Institute for Economic Research (DIW), Institute for the World Economy (IfW), Kiel.

volume of bond purchases by the Central Bank in the scope of its asset purchase programme (APP) was reduced from € 80 billion to € 60 billion. In conjunction with an extension of the programme to October 2018, the purchases were further reduced to € 30 billion per month from January 2018.

The ongoing quantitative easing measures by the European Central Bank continued to have a considerable influence on the refinancing conditions for European banks on the capital market in the reporting period. Spreads on core European covered bonds were negative across nearly all maturities. The differences in the risk premiums for bonds between the various jurisdictions fell to lower and lower levels as a result of the ECB's continued purchases as part of the Covered Bond Purchase Programme (CBPP III). This trend continued in the reporting year, particularly with regard to the spreads of the southern European countries, while the spreads of the core countries did not change significantly. Despite the announcement that the ECB would halve its purchase programme from 2018, maturities will continue to be reinvested with the aim of supporting the risk premiums for covered debentures.

On the market for uncovered bonds, many investors appeared to ignore the potential loss participation in bonds not treated as preferred in the case of a bail-in. The fact that the APP does not take senior unsecured bonds into account resulted in comparatively attractive risk premiums over a long period and meant that the entire asset class is in demand, although the differentiation between banks was more significant than with regard to covered bonds. Issuers in countries where senior non-preferred products have already been introduced also experienced high demand. For example, since they were introduced in France at the end of last year, every new bond in this asset class was placed on the market with a lower emission spread than all those preceding it. In December the European Central bank announced that, in the case of a bail-in, senior bonds not treated as preferred would lose their ECB eligibility from January 2019. According to the information currently available, that would affect already

outstanding senior unsecured bonds. In 2018, the future introduction of a second senior asset class based on the French example in the form of bail-in eligible senior non-preferred bonds is expected in Germany.

Like the years before it, 2017 was characterised by further tightening and expansion of regulatory requirements. One example is the CRR/CRD IV phase-in, which primarily imposed stricter minimum requirements for capital ratios, the definition of equity and deduction items. The most important driver is the increase in the capital conservation buffer.

Fulfilment of the revised and expanded reporting obligations – including AnaCredit, Supervisory Benchmarking Portfolio, disclosure – resulted in significant implementation work. In addition, banks had to deal with considerable Single Resolution Board (SRB) data requests regarding the creation of individual winding-up plans for each institution. Meanwhile, the finalisation of CRR II/CRD V and the planning processes for the proposed regulatory amendments under Basel IV were simulated using a range of scenario calculations. The publication of the final resolutions regarding Basel IV in December 2017 represented a decision regarding the modelled parameters for the calculation of risk-weighted assets in both standard processes and internal approaches, and the introduction of capital/output floors, which will impact the capital ratios of the bank as an FIRB (foundation internal ratings-based approach) institution. As with previous regulations, a phase-in is planned. It is expected to become effective from 2022, following implementation in the European regulations.

The German economy continued to grow in 2017. The ongoing low level of interest is also made a decisive contribution to a very favourable investment climate, which was reflected by the real estate market. This resulted in a transaction volume of approximately € 57 billion in the market for commercial real estate in 2017, the second best result since the boom year of 2007. There was an increase of 9 % on the previous year. The market for commercially traded residential real estate also recorded a very high transaction

Business Development

volume of approximately € 15 billion in 2017, an increase of 11 % compared to the previous year. The significant increase in turnover in the residential real estate market was partly due to increased trading in project developments coupled with of considerably higher purchase prices. Overall, the high transaction volumes confirm Berlin Hyp's expectation of very brisk investment activity in 2017.

Lively investment in the past year is, among other things, a result of increased interest from foreign investors in the German real estate market. With its poly-centric structure and very positive economic fundamentals, Germany is currently attracting foreign capital, and in 2017 profited from uncertainty in the United Kingdom resulting from the Brexit. The proportion of total commercial transaction volume accounted for by foreign investors increased to 49 % in 2017 from 45 % in 2016. The trend towards increased interest in Germany on the part of international investors was also visible in the residential real estate market. One reason for the considerable foreign interest is the comparatively high proportion of rental properties in Germany.

Limited product availability, particularly in the top German locations, continues to represent a challenge for investors with regard to the allocation of funds – that has resulted in an increased tendency on the part of investors to invest in regional markets instead. Office properties continue to be the most popular asset class among investors, ahead of retail, logistics and hotel properties. Almost half of the overall volume of commercial transactions in 2017 (approximately € 28 billion) related to office properties. There was a particularly large rise in the volume of investment in logistics properties in 2017 – an increase of more than 80 % on the previous year took the total volume by value to approximately € 8.3 billion. Continuously high excess demand resulted in a further decrease in peak net initial yields in 2017. Along with further declines in yields on office and retail properties in central business and shopping districts in the top cities, the logistics and hotel segments, which are currently experiencing high demand, suffered the largest fall in yields in 2017. Peak

net initial yields of 4.4 % and 4 % respectively were each half a percentage point lower than at the end of 2016.²

The precautionary principle is taken into account, especially in Germany, through conservative valuation methods, high equity requirements and long fixed interest terms, thereby counteracting credit risks. Favourable refinancing for real estate financiers, among other things through mortgage Pfandbriefe, had an added positive effect.

In the commercial real estate financing market, Berlin Hyp faces competition from numerous providers. This competitive situation, in combination with the previously described challenges in the industry due to monetary policy, regulation and structural upheavals, led to falling margins again in 2017.

²Sources for real estate market environment: Berlin Hyp Research, CBRE.

In view of the intense competition in the commercial real estate financing market, ongoing low interest rates and high regulatory requirements, Berlin Hyp is very satisfied with developments in 2017. Profits of € 117.0 million transferred to Landesbank Berlin Holding were higher than in the previous year (€ 73.0 million) and significantly exceeded expectations. In its forecast for 2017, Berlin Hyp assumed that the operating result before profit transfer would be slightly higher than in the previous year. The significant factors in the increase will be explained in the following sections.

Berlin Hyp further cemented its position as one of the leading commercial real estate financiers in Germany in 2017. The Bank stayed true to its conservative risk strategy and its focus on prime real estate in the selection of borrowers.

In the scope of its comprehensive modernisation process – berlinhyp21 – the Bank has made good progress with regard to the focus areas of digitalisation and optimising the IT system environment. Along with the purchase of a strategic investment for the development of a financing platform that is appropriate for commercial real estate customers, numerous ideas were collected with the aim of sustainably positioning the Bank by means of innovative products and the intelligent networking and automation of market and back-office processes.

The Bank addresses increasing regulatory requirements, for example from the new MaRisk and Basel Committee on Banking Supervision (BCBS 239) regulations, through a consistent orientation of its core banking system to SAP. The aim is to significantly speed up and increase the availability of data and reports while maintaining high quality standards. Berlin Hyp, as an institution in the regulatory group of Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG, is supervised by the ECB. All regulatory requirements and performance indicators were met by Berlin Hyp in the financial year.

In the past financial year, the continuing positive development of S-Group business continued and further networking of Berlin Hyp within the Savings Banks Finance Group was

achieved. The targeted expansion of the product range to meet the various needs of the savings banks further expanded its offering of common financing options and services for savings banks. In addition to existing products and services, such as ImmoSchuldschein, supporting property valuation and access to capital markets, the new ImmoAval product and ImmoRisikoDialog were introduced to support savings banks in the restructuring and management of real estate commitments.

The overall very good result before risk provisioning, despite the formation of provisions for the legal risks arising from the German Federal Court of Justice decision on 4 July 2017 and for medium-term measures for sustainable staffing (strategic resource planning), was used to strengthen the Bank's equity basis, and thereby also regulatory equity, by establishing reserves according to Section 340g of the German Commercial Code (HGB).

Transfer of profit
to Landesbank
Berlin Holding

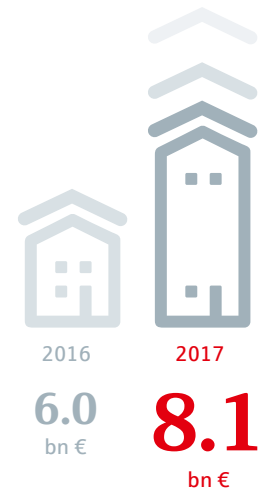
2016 **€ 73.0** million



2017
€ 117.0 million

New Lending in Comparison

including long-term extensions



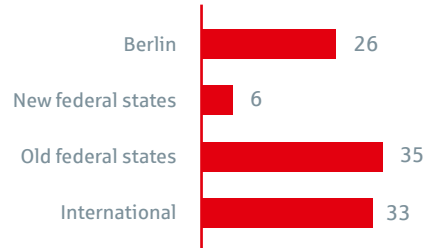
New Lending up on Previous Year

Berlin Hyp reported very positive new business in 2017. Contracted new business of € 6.7 billion was significantly higher than the previous year's result (€ 5.4 billion). With realised extensions (capital employed ≥ 1 year) of € 1.4 billion (2016: € 0.6 billion), this put the total new business volume at € 8.1 billion (2016: € 6.0 billion). This result again significantly exceeded the target and further consolidated Berlin Hyp's position in the real estate market.

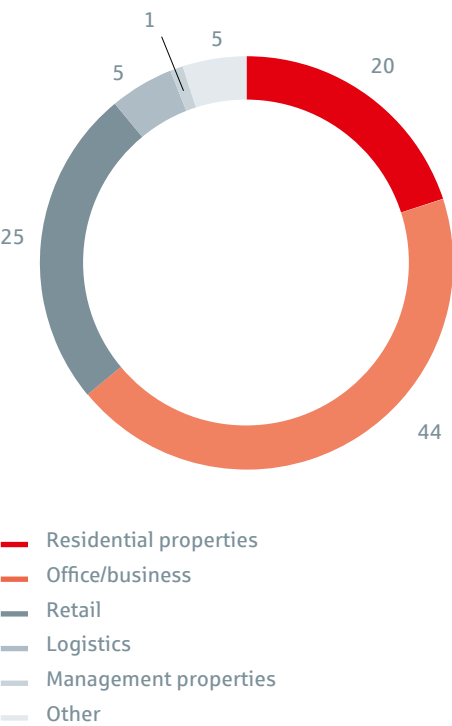
Properties located in Germany accounted for 67 % of Berlin Hyp's new business (35 % in the old federal states, 26 % in Berlin and 6 % in the new federal states). The financing of foreign properties accounted for 33 %, distributed among the lending regions of Poland (12 %), Benelux (11 %), France (6 %) and the Czech Republic (4 %).

With a share of 76 %, the investor customer group accounted for most of the new business, while a further 21 % was realised with developers and builders. Contracts with housing societies accounted for 3.0 % of new business.

New business Real Estate Financing Business (Without Extensions) by Lending Region in %



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



Public Sector Lending Reduced Further in Line with Strategy

The Bank no longer actively pursues new public sector lending in accordance with its strategy. As in previous years, no new loans were issued in the financial year 2017. Loan volume decreased by € 0.7 billion, to € 0.8 billion (including public sector lending to banking institutions of € 0.1 billion) and is being reduced further as and when individual loans become due.

S-Group Business Remains Stable

Business realised jointly with the savings banks continued to develop favourably in 2017, with a total volume of € 1.5 billion (2016: € 1.5 billion). Joint syndication business with savings banks of € 1.4 billion was higher than in the previous year (€ 1.1 billion), while € 121 million (2016: € 476 million) related to an ImmoSchuldschein (real estate promissory note) transaction arranged by Berlin Hyp. A further ImmoSchuldschein with a volume of € 346 million secured by a commercial real estate portfolio in Berlin is likely to be placed in the first quarter of 2018. A total of 116 institutions from all association regions participated in financing by Berlin Hyp in the form of ImmoSchuldschein and syndication business.

By expanding its range of products and services for savings banks through the ImmoAval and ImmoRisikoDialog products, Berlin Hyp responded to the savings banks' desire for further diversification of investment options and additional services.

Excellent Refinancing Position

Mortgage Pfandbrief and unsecured bond issues are generally used for the medium-to-long-term refinancing of Berlin Hyp. In 2017, the Bank borrowed € 3.3 billion in capital (2016: € 2.6 billion) using these instruments. The Bank had market access at all times. Berlin Hyp continues to benefit from the reputation it has built up over many years as a reliable and sound issuer, and its involvement in the Savings Banks Finance Group. With a total of four issues, the Bank engaged in more benchmark transactions in 2017 than ever before.

Following the début in 2016, the second mortgage Pfandbrief issues was placed on the capital market with a negative initial rate of return. For the first time, two green bonds were also issued in one year – a Green Pfandbrief and Green Senior Unsecured Bond. The funds raised were used to refinance loans for sustainable and energy-efficient buildings. Particularly noteworthy positive signs included the high level of oversubscription and the significant foreign participation in all benchmark issues in the reporting year.

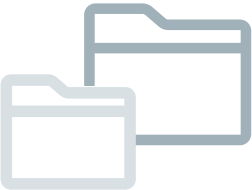
Equity Position Strengthened through Further Additions

The hard core capital ratio after adoption of the annual financial statements was 12.5 % (2016: 13.5 %). The total capital ratio was 15.5 % (2016: 17.5 %). The bank added a further € 70 million to the reserves pursuant to Section 340g of the German Commercial Code (HGB). Despite this increase in equity, the very good level of new business – and the resulting positive increase in interest-bearing business – led to growth in risk assets and a decrease in capital ratios.

Earnings Situation

Operating Result (after risk provisioning)

€ 184.4 million



€ 120.1 million

Result Exceeds Expectations

Despite the challenges presented by the competitive environment, the ongoing low-interest phase and increasing regulatory requirements, the 2017 financial year was very favourable. The Bank thereby profited from the positive economic conditions and the resulting decrease in risk provisioning. Even taking into account the reserves formed, particularly with regard to the legal risks relating to loan processing fees due to the German Federal Court of Justice decision on 4 July 2017 and strategic resource planning (totalling € 45.7 million), the operating result after risk provisioning increased significantly to € 184.4 million (2016: € 120.1 million).

Including an addition to the special item for general bank risks pursuant to Section 340g German Commercial Code (HGB) of € 70.0 million (2016: € 50.0 million), Berlin Hyp generated an operating result before income taxes and profit transfer of € 117.4 million (2016: € 72.7 million), which was significantly higher than forecast.

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

Higher Net Interest Income

Net interest income increased by € 15.0 million compared to the previous year, to € 270.9 million. The increase on the previous year was due to the growth in the average mortgage portfolio as a result of successful new business and, in particular, a decrease in refinancing expenses.

Persistently low interest rates, combined with a flat yield curve, continue to represent a challenge.

Prepayment charges of € 37.5 million in connection with unplanned repayments and further one-time earnings from option premiums, for example, were neutralised with compensating measures to avoid future interest charges.

Slight Decrease in Net Commission Income

Net income of € 39.1 million was slightly lower than in the previous year's very favourable figure of € 42.5 million. It benefited from the very good level of new business.

Drop in Operating Expenditure after Special Effects

Operating expenditure comprises staff expenditure, other operating expenditure and write-offs on fixed assets and intangible assets. Operating expenditure increased to € 134.8 million (2016: € 122.3 million) as a result of the one-off effect from the expansion of the evaluation period for the calculation of pension obligations to 10 years. Adjusted for this effect, they decreased.

As planned, staff expenditure increased by € 11.0 million to € 73.6 million. This increase related to the expansion of the evaluation period for the calculation of pension obligations to 10 years. The resulting increased reversal amount in the previous year was offset by a lower reversal amount in 2017. Adjusted for this effect, staff expenditure decreased by € 3.0 million.

Other operating expenditure increased slightly to € 55.9 million (2016: € 55.3 million). It primarily includes IT expenditure, legal and consulting costs, the expenses from the annual payment of the European bank levy and the allocation of the administrative holding costs of the managing institution under regulatory law. The moderate increase can be seen as a positive development in view of the increasing demands being placed on information technology and the regulatory reporting requirements.

There was an increase in write-offs on fixed assets and intangible assets to € 5.3 million (2015: € 4.4 million).

Other Operating Result Negatively Impacted by Special Effects

The other operating result amounted to € – 47.0 million (2016: € – 20.3 million). It was significantly affected by the formation of reserves with regard to the legal risks relating to loan processing fees due to the German Federal Court of Justice decision on 4 July 2017 and strategic resource planning. The latter resulted from benchmarking commissioned and executed by the Bank regarding sustainable staffing in line with market requirements, taking into account the increasing digitalisation and automation of processes. The other operating result contin-

ues to include income from the liquidation of reserves, expenditure for the continued compounding of pension reserves and the fees for the Detailed Agreement concluded with the State of Berlin in 2001. In the previous year, Berlin Hyp took advantage of its positive business performance and added the full amount of the as yet unretained BilMoG difference pursuant to Article 67 (1) Introductory Law to the German Commercial Code (EGHGB) of € 19.1 million to pension provisions.

Higher Cost-Income Ratio

The cost-income ratio expresses the relationship of operating expenditure to net interest and commission income, including the other operating result. The increase in net interest and commission income could not compensate for the rise in operating expenditure and other operating expenditure due to special effects. As a result, the cost-income ratio increased from 44 % to 51.2 %.

Risk Provisioning Benefits From Favourable Conditions

Considering Berlin Hyp's positive economic and financial environment, together with active risk management, in the lending business net risk provisioning of € 33.5 million was released. An addition of € 51.3 million was made in the previous year. The Bank appropriately accounted for recognisable and latent risk. A detailed overview of the development of the valuation of lending business and adjustments is presented in the Notes.

Income of € 22.7 million was reported from the valuation result for securities in the liquidity reserve. This represents an increase of € 7.1 million on the positive valuation result in the previous year. It primarily includes realised gains on disposal from the sale of debentures as well as valuations of securities in the liquidity reserve at the lower of cost or market.

Positive Net Income from Investments

Net income from investments of € 3.2 million (2016: € 2.8 million) primarily resulted from gains on disposal.

Fund for General Bank Risks Increased

In order to continue to meet the equity capital requirements for credit institutions, the Bank made use of the positive development of risk provisioning and added € 70.0 million (2016: € 50.0 million) to the special item for general bank risks. The fund now stands at € 223.0 million.

Significant Rise in Operating Result before Income Taxes and Profit Transfer

The operating result before income taxes and profit transfer increased by € 44.7 million to € 117.4 million (2016: € 72.7 million).

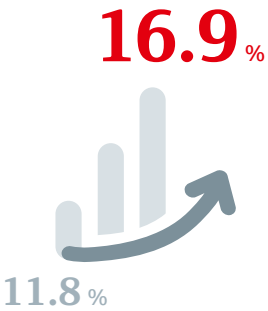
Profit and Loss Transfer Agreement

Profit of € 117.0 million was transferred to Landesbank Berlin Holding (2016: € 73.0 million).

Return on Equity Exceeds Expectations

Including the increase in the special item for general bank risks pursuant to Section 340g German Commercial Code (HGB), Berlin Hyp's return on equity capital was 16.9 % (2016: 11.8 %) and therefore exceeded expectations.

Return on Equity



Earnings Development	31.12.2017 € m	31.12.2016 € m	Change € m	Change %
Net interest and commission income	310.0	298.4	11.6	3.9
Net interest	270.9	255.9	15.0	5.9
Commission income	39.1	42.5	-3.4	-8.0
Operating expenditure	134.8	122.3	12.5	10.2
Staff expenditure	73.6	62.6	11.0	17.6
Other operating expenditure	55.9	55.3	0.6	1.1
<i>of which: expenditure for bank levy</i>	<i>10.1</i>	<i>10.9</i>	<i>-0.8</i>	<i>-7.3</i>
Write-offs on fixed assets	5.3	4.4	0.9	20.5
Other operating revenue/expenditure	-47.0	-20.3	-26.7	-
Operating result before risk provisioning	128.2	155.8	-27.6	-17.7
Risk provisioning	56.2	-35.7	91.9	-
Valuation of lending business	33.5	-51.3	84.8	-
Valuation of securities business	22.7	15.6	7.1	45.5
Operating result after risk provisioning	184.4	120.1	64.3	53.5
Net income from investments	3.2	2.8	0.4	14.3
Fund for general bank risks	70.0	50.0	20.0	40.0
Other taxes	0.2	0.2	0.0	0.0
Operating result before income taxes and profit transfer	117.4	72.7	44.7	61.5
Income taxes ("-" = earnings)	0.4	-0.3	0.7	-
Profits transferred on the basis of the profit transfer agreement	117.0	73.0	44.0	60.3
Net income for the year	0.0	0.0	0.0	-

Net Assets Position

Increased Balance Sheet Total

The balance sheet total increased by € 0.7 billion to € 27.1 billion as at 31 December 2017. The increase was primarily due to the positive development of the mortgage portfolio, while there were further decreases in the portfolios of public-sector loans and fixed-interest debenture bonds. Overall, the individual balance sheet items developed in line with the strategic orientation of the Bank.

Changes in Major Balance Sheet Items

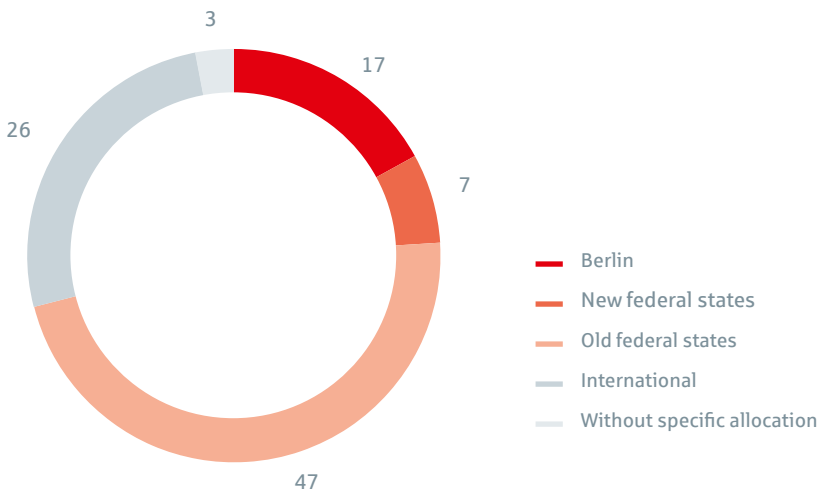
Claims against banking institutions amounted to € 0.4 billion on the balance sheet date. This represented a decrease of € 0.2 billion on the previous year. The decline was due mainly to a smaller portfolio of public sector loans.

Claims against customers amounted to € 21.0 billion. This represented a large increase of € 1.6 billion in the reporting year. While the portfolio of public sector loans decreased by a further € 0.4 billion to € 0.8 billion, in line with strategy, the positive development of new business volume led to an increase in the mortgage portfolio by € 2.0 billion, to € 20.1 billion. The amount of loan commitments not yet disbursed increased by € 0.3 billion to € 2.2 billion over the course of the year.

The regional distribution of claims against customers on 31 December 2017 was as follows:

Receivables

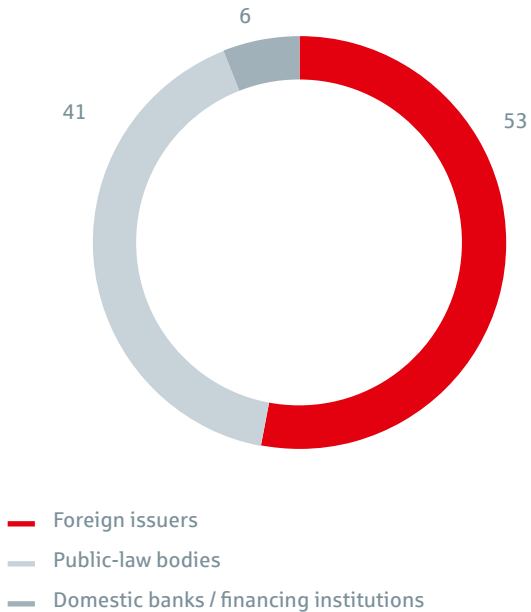
in %



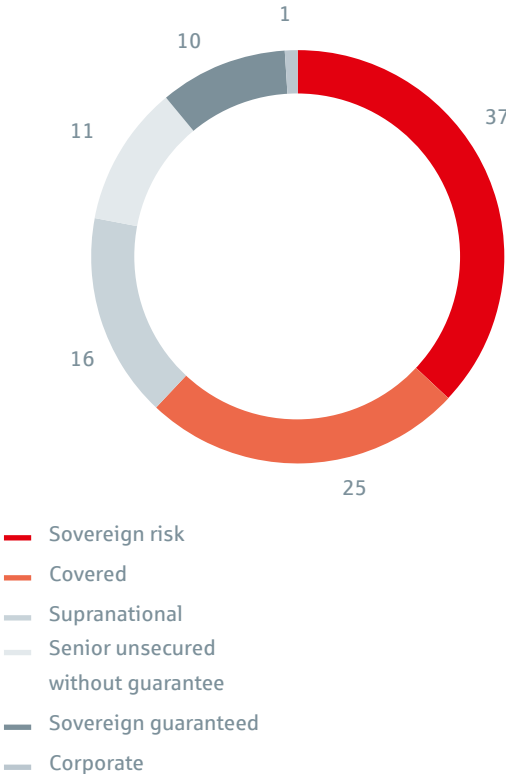
The portfolio of debentures and other fixed-interest securities decreased from € 5.8 billion to € 4.6 billion in 2017. Nominal maturities of € 0.4 billion and sales of € 2.0 billion stood in contrast to additions of just € 1.3 billion.

As at 31 December 2017, the issuer structure of the securities portfolio was as follows:

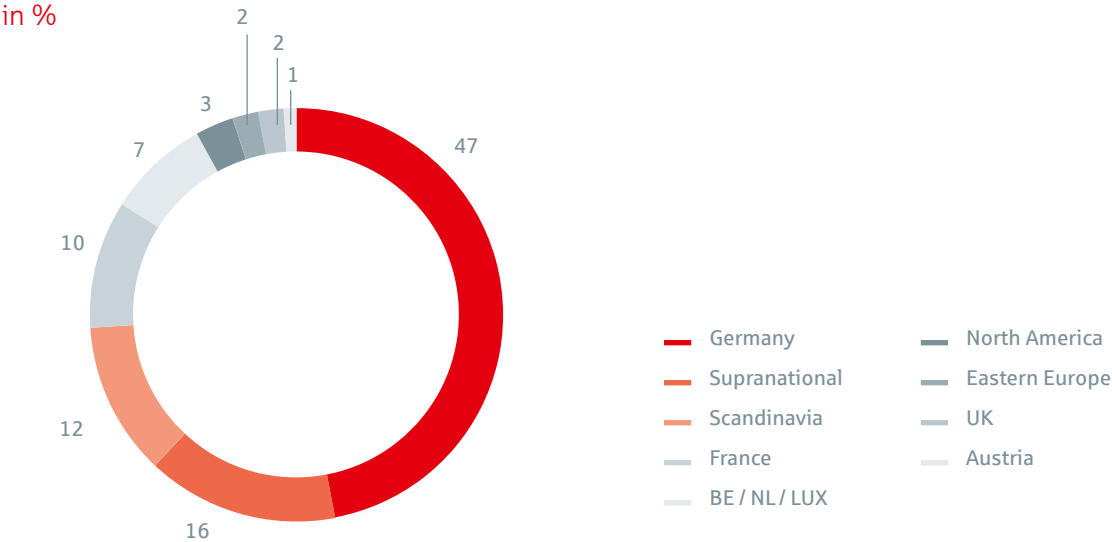
Issuer structure
in %



Lending Risk
in %



Countries
in %



Securities with a nominal volume of € 0.5 billion (2016: € 0.8 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 by € 0.2 billion to € 5.0 billion. An increase of € 1.5 billion in term deposit liabilities to € 3.0 billion was primarily offset by a decrease of € 1.0 billion in Lombard loans to € 0.9 billion.

The € 0.6 billion rise in liabilities to customers to € 6.1 billion was mainly the result of term borrowing.

Securitised liabilities remained unchanged at € 13.6 billion. Maturities of € 2.5 billion were offset by new issues of € 2.5 billion.

Equity

Berlin Hyp's subscribed capital amounted to € 753,389,240.32 as at 31 December 2017. 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 bank risks pursuant to Section 340g of the German Commercial Code (HGB) was € 223.0 million as at 31 December 2017 (2016: € 153.0 million). Subordinated capital of € 222.3 million can also be taken into consideration as available under regulatory law.

During the reporting year, the requirements with respect to regulatory capitalisation (CRR / CRD IV, Solvency Regulation) were consistently complied with. 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 after adoption was € 1,144.7 million as at 31 December 2017, equity was € 1,418.1 million, and overall risk (RWA) amounted to € 9,151.3 million. The capital ratios were 12.5 % for the hard core capital ratio and 15.5 % for the total capital ratio. In the financial year, the capital ratios fluctuated in the range of 11.7 % to 14.0 % and 14.7 % to 17.8 % respectively.

Additional Performance Indicators

The leverage ratio calculated according to the Delegate Regulation (EU) 2015/62 was 4.0 % after adoption as at 31 December 2017. The balance-sheet-oriented minimum requirement for eligible liabilities (MREL) will probably not become relevant for reporting until 2020 when CRR II takes effect. As at 31 December 2016, it amounted to 23.3 % of the balance sheet total.

Minimum requirements that need to be met have not yet been defined by the regulatory authorities for either of these performance indicators – the draft version of CRR II stipulates a minimum of 3 %. For the MREL, it is intended that specific requirements for individual institutions will be issued by the liquidation authority in relation to overall risk (RWA).

Financial Position

Industry Leader



Sustainalytics rates Berlin Hyp fifth among 332 banks worldwide.

Share of foreign investors



of the Green Senior Unsecured Bond was placed with foreign investors

In the reporting period, the refinancing funds raised amounted to € 3.3 billion, of which € 2.0 billion were attributable to mortgage Pfandbriefe and € 0.5 billion to unsecured bank bonds, which were obtained at very favourable conditions. Furthermore, the bank issued borrower's note loans and registered bonds with a volume of € 0.7 billion. In addition to private placements, Berlin Hyp issued three mortgage Pfandbriefe and an uncovered bond in benchmark format.

An eight-year mortgage Pfandbrief benchmark issue with a volume of € 0.5 billion kicked things off in February. The issue of a Green Pfandbrief in benchmark format, also with a volume of € 0.5 billion, and a term of six years followed in June. A total of 47 % of the bond was placed with foreign investors, while sustainable investors accounted for 45 %. In November the favourable refinancing position was used to for a four-year issue. The Pfandbrief was oversubscribed fourfold and has a rate of return of 0.11 %, making it the Bank's second bond, following a three-year issue in March 2016, with a negative initial rate of return. At that time Berlin Hyp was the first non-governmental issuer to issue a benchmark bond with a negative initial rate of return. At 51 %, the proportion of foreign investment was higher than with any previous covered bond issued by the Bank. The savings banks accounted for an average share of 11 % of subscriptions to the covered benchmark issues in 2017 (Savings Bank Finance Group share: 17 %).

In March of the reporting year, the Bank also invested in three of four tranches of targeted longer-term refinancing operations (TLTRO) II for a total amount of € 1.0 billion.

With regard to uncovered refinancing, the Bank consolidated its position as one of the leading green bond issuers by issuing a ten-year Green Senior Unsecured Bond. The issue, with a volume of € 0.5 billion, was used to refinance financing for green buildings. Berlin Hyp defines commercial real estate that offers particularly high energy efficiency as green buildings. The Bank also aims to invest

an amount equal to the proceeds of the issue in additional green building financing. At 51 %, Berlin Hyp achieved a record for foreign investment in an uncovered issue. A total of 19 % of the Green Senior Unsecured Bond was placed with companies in the Savings Bank Finance Group; 12 % was placed directly with savings banks. The bond also allowed Berlin Hyp to attract 38 new investors.

The Bank's commitment in the green bond market is attracting increasing attention. With a current total of four outstanding benchmark format bonds, it is the largest European issuer among the commercial banks. Berlin Hyp received several awards at last year's GlobalCapital Sustainable and Responsible Capital Market Awards, including Most Impressive Bank Green/SRI Bond Issuer and Best Green/SRI Issuer for Post-Deal Reporting. In the reporting year, Berlin Hyp was also upgraded to "Industry Leader" in its peer group by the sustainability rating agencies oekom research and Sustainalytics. With a B rating, the Bank is in first place in oekom research's ranking of a total of 52 companies in the Financials / Mortgage & Public Sector peer group. Sustainalytics ranks the Bank 5th among 332 banks worldwide.

A total of six of Berlin Hyp's outstanding debt securities with a nominal total volume of € 77 million are classified as structured bonds that are not subordinated in favour of deposits within the meaning of Section 46f German Banking Act (KWG).

Against the backdrop of continual strengthening of equity in recent years, the continued high profitability of the Bank and consistent reduction in the value-adjusted loan portfolio, at the end of July Moody's improved the Bank's ratings. The issuer rating was raised by one level, from A2 to A1, the Adjusted Baseline Credit Assessment (adjusted BCA) was increased by two levels, from baa2 to a3.

The rating for junior issues was also increased by two levels, from Baa3 to Baa1. Moody's continued to give Berlin Hyp's Mortgage Pfandbriefe and Public Pfandbriefe the highest

rating, Aaa. Berlin Hyp's bank rating at Fitch also remained unchanged at A+, while its Viability Rating increased from bbb- to bbb in the reporting year.

In December Moody's changed the outlook of the senior unsecured rating from stable to negative, along with that of 15 other German banks. That was due to change to the BRRD (Bank Recovery and Resolution Directive), which requires that EU member states pass a law to introduce bail-in eligible senior unsecured bonds, so-called nonpreferred senior bonds. All other ratings have a stable outlook.



for mortgage Pfandbriefe and public Pfandbriefe issued by Berlin Hyp

Refinancing Funds ¹	Portfolio excluding accrued interest 31.12.2016	New issues 2017 ²		Maturities and early repayments in 2017 ³	Portfolio excluding accrued interest 31.12.2017
	€ m	€ m	%	€ m	€ m
Mortgage Pfandbriefe	8,002.0	2,000.0	61.1	1,400.0	8,602.0
Public Pfandbriefe	1,589.8	-	-	890.2	699.6
Other bearer debentures	3,903.0	505.0	15.4	239.0	4,169.0
Registered mortgage Pfandbriefe	2,681.5	37.0	1.1	136.5	2,582.0
Registered public Pfandbriefe	1,263.1	0.2	0.1	376.3	887.0
Borrower's note loans	771.3	535.0	16.3	429.0	877.3
Registered bonds	1,378.9	198.0	6.0	165.2	1,411.7
Subordinated bearer debentures	6.0	-	-	-	6.0
Subordinated borrower's note loans	397.2	-	-	70.0	327.2
Subordinated registered bonds	40.0	-	-	-	40.0
Total	20,032.8	3,275.2	100.0	3,706.2	19,601.8

¹ Excluding residual portfolios
² New issues in 2017, including capitalisations at zero.
³ Maturity dates and early repayments including terminations.

Financial and Non-Financial Performance Indicators

Financial Performance Indicators

Berlin Hyp generated an operating result before profit transfer of € 117.0 million (2016: € 73.0 million) in the 2017 financial year. This means the Bank can look back on very positive business development that significantly exceeded the forecast in last year's Management Report. The interest result, in particular, increased as a result of very strong new business. Meanwhile, risk provisioning benefited from the very favourable economic conditions and was reduced significantly despite the challenges in the sector described under the heading Business Development. Despite the formation of reserves for the legal risks arising due to the German Federal Court of Justice decision on 4 July 2017 and for strategic resource planning, the Bank was able to generate an operating result after risk provisioning of € 184.4 million – a increase of € 64.3 million on the previous year. This allowed a further addition to the special item for general bank risks pursuant to Section 340g of the German Commercial Code (HGB) of € 70.0 million (2016: € 50.0 million).

Net interest and commission income rose by € 11.6 million on the previous year to € 310.0 million. In line with the Bank's forecasts, net interest income developed positively, while net commission income decreased slightly. As a result of the unexpectedly positive economic situation described above, new business volume nevertheless grew beyond our expectations. The resulting increase in the average mortgage portfolio and decrease in refinancing expenses led to a greater rise in net interest income than assumed when compared to 2016. At the same time, the decline in net commission income was significantly less than expected. Taking into account the Bank's conservative risk strategy and its focus on prime real estate in new business, this is an indication of Berlin Hyp's very good development.

As expected, operating expenditure increased by € 12.5 million on the previous year to € 134.8 million, particularly as a result of lower deferred amounts due to the extension of the assessment period for the calculation of pension reserves to ten years.

Adjusted for this special effect, operating expenditure decreased.

The other operating result in the financial year 2017 primarily consisted of costs relating to the formation of reserves for the legal risks relating to loan processing fees arising due to the German Federal Court of Justice decision on 4 July 2017 and for strategic resource planning. Due to the special effects included in operating expenditure and the other operating result, which were not compensated by the increase in interest and commission income, contrary to the forecast the cost-income ratio increased by 7.2 percentage points to 51.2 %.

Adjusted for the increase in the special item for general bank risks pursuant to Section 340g of the German Commercial Code (HGB), the return on equity capital was an exceptionally good 16.9 % (2016: 11.8 %) and therefore noticeably exceeded the expected equity yield rate.

At 12.5 % (2016: 13.5 %), the hard core capital ratio after the addition to the special item for general bank risks pursuant to Section 340g of the German Commercial Code (HGB) of € 70.0 million and after adoption exceeded the target value of at least 12 % even taking into consideration the strict equity requirements according to CRR / CRD IV. Additional capital measures were taken into account in mid-term planning in order to ensure that Berlin Hyp maintains this target ratio over the long term, even in view of the expected stricter regulations under Basel IV / CRR.

At € 6.7 billion, new business volume exceeded its predicted level and the total of € 5.4 billion in the previous year. Including long-term extensions, new business even increased by € 2.1 billion to € 8.1 billion.

Non-Financial Performance Indicators

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 and risk classes and, since 2017, rating classes. The specified target portfolio values, which reflect the Bank's

conservative risk strategy, were complied with overall in 2017. Individual deviations were analysed. No special management measures were necessary upon evaluation of the overall portfolio. Regular internal research studies are employed to analyse and evaluate Berlin Hyp's markets.

In the S-Group business, the ImmoSchuldschein product contributed to further strengthening the joint business with the savings banks. Overall, 96 savings banks participated in at least one ImmoSchuldschein transaction. Total S-Group business volume in 2017 amounted to € 1.5 billion (2016: € 1.5 billion). The pilot transaction for the new ImmoAval product was fully placed in August 2017. Contacts to the savings banks were further strengthened by 191 visits in 2017. A total of 97 savings banks participated in the Immo Schuldschein and ImmoAval products, while 35 savings banks participated in bonds issued by Berlin Hyp with a total volume of € 208 million. With regard to valuations, Berlin Hyp conducted three qualification measures for a total of approximately 60 appraisers from the Savings Banks Finance Group.

Berlin Hyp has signed the Diversity Charter and respects the rights of its employees, especially with regard to occupational safety, working hours and health. The company also protects them from discrimination and promotes cultural diversity.

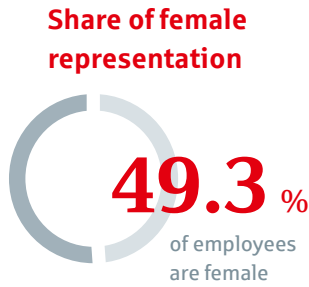
Among other things, this is reflected in the fact that women make up 49.3 % of the overall workforce and hold 27.0 % of management positions. The consideration of employee interests and the promotion of active employee participation in an overall business context are crucial to Berlin Hyp's business success. Measures implemented to cement the equal participation of women and men within the organisation in 2016, such as the modification of the recruiting and application process and additions to the assessment criteria for employee meetings with regard to the equal participation of women and men, continued to contribute to this aim in 2017.

The aims include the early identification and promotion of female talent and the constant development of the corporate culture in this regard. Activities for the recruitment and training of junior staff, particularly trainees and student trainees, were also strengthened in 2017. The higher number of places on the Bank's training programmes were fully filled by appropriate candidates. A total of 13 trainees and six students on dual study courses either started or continued their training in 2017. Together with 12 student trainees, they represent a solid basis for the fulfilment of the company's future qualified staff requirements.

The "berlinhyp21" change process initiated in 2016 and continued in 2017 includes the majority of employees in the broadest possible range of functions, and offers them the opportunity to contribute and pursue their own ideas regarding corporate culture and organisation.

With the introduction of trust-based working hours and the associated mobile working, Berlin Hyp has strengthened personal responsibility among its employees. The fact that more than half the employees have already switched to trust-based working hours demonstrates the high level of acceptance of this model among the Bank's staff. As part of an employee event, this instrument was recognised with the audience award for "Most Successful Initiative of the Year".

As part of the change process, Berlin Hyp will address optimisation projects and processes as well as the topic of agile working and the anchoring of agile methods in the Bank's organisational structure. Meanwhile, personnel management instruments are the focus of a project initiated in 2017. The aim of the project is to examine and realign those instruments and processes using a participative approach, with the broad inclusion of employees, managers and governing bodies in the project and conception process. The aggregation of the ideas resulting from the process of change with the personnel management instruments and processes developed by the project to create a holistic and sustainable model that will support the requirement-oriented development of employees and managers is the project's core



Loan Portfolio

12% of the overall loan portfolio is comprised of green building financing

activity. Integration in the context of the corporate vision and strategy thereby represents the framework for this model.

Giving employees the opportunity to contribute their own ideas within a corporate context and honouring those ideas selected for implementation is a part of Berlin Hyp's philosophy. Idea management at Berlin Hyp therefore systematically promotes the development, discussion and implementation of ideas for improvement to constantly achieve input on ways to improve the company's profitability. This also pays off for the employees contributing ideas.

The HR reporting to be provided to the Board of Management on a half-yearly basis offers a comprehensive overview of performance indicators regarding staff structure, including a department-specific target-actual comparison of employee capacities, demographic staff development and the qualification measures. The Board of Management discusses these figures and, where applicable, uses them to determine the required action. In addition, this data is broken down by division and made available to the respective heads so that they can manage their units better. Among other things, this creates the basis used to examine all personnel management aspects and introduce department-specific measures in the half-yearly dialogue with Human Resources.

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. The world's first Green Pfandbrief, issued by the Bank in 2015, and the Bank's first Green Senior Unsecured Bond, issued in 2016, were followed by two further green bonds in the reporting year. The volume of green bonds totals € 2.0 billion. In addition, the financing of energy efficient buildings and their refinancing with Green Bonds has been a permanent goal of the Bank's company strategy since the spring of 2016. The bank's aim is that 20 % of its loan portfolio will consist of green building financing by 2020 – as at 31 December 2017 the proportion was 12 %.

Information on all of Berlin Hyp's sustainable commitments is available at <https://www.berlinhyp.de/bhyp/de/ueberuns/verantwortung>. The Bank plans to publish its sustainability report for 2017 in accordance with the standards of the Global Reporting Initiative (GRI) by the third quarter of 2018.

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

Overall Statement

Despite intense competition in commercial real estate financing, the continuing low-interest environment and additional regulatory requirements, Berlin Hyp was able to significantly exceed its expected results in the financial year 2017. The result after taxes of € 117.0 million was transferred to Landesbank Berlin Holding as profit.

Letter of Comfort of Landesbank Berlin AG

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

III Opportunities, Forecast and Risk Report

Opportunities and Forecast Report

Assumptions Relating to Macroeconomic Development¹

In 2018 the global economy is expected to grow at the positive high rate seen in the previous year. Its dynamism is likely to slow over the course of the year. Possible uncertainties that could dampen economic development include the protectionist economic policies of the USA and the too rapid tightening of the FED's expansive monetary policies, as well as geopolitical conflict worldwide.

The economic development of the Eurozone in the coming year will be close to the positive level of development seen in 2017. Despite the higher external value of the Euro, its economy will benefit from high demand for exports resulting from rapid global growth. Employment will continue to increase. In view of expected moderate price rises, private consumption will be able to largely drive that economic growth. Political measures to promote investment in central countries such as France and the Netherlands will contribute to further brightening of the situation. The Brexit negotiations represent a specific risk to the development of the Eurozone in the coming year. A too rapid end to the ECB's expansionary monetary policy would also have a negative effect on the financial system and consequently on economic development.

Growth in Germany is forecast at least to equal the level seen in the previous year – despite a slight decrease in dynamism over the course of the year. The economic upswing will again be largely driven by private consumption and investment spending. While corporate investment is primarily being driven by high demand for exports, investment in construction will continue to benefit from favourable financing conditions, high demand for residential space, particularly in metropolitan regions, and the increasing availability of public funds.

Assumptions Relating to Industry Development

In Berlin Hyp's view, the possibility of market volatility due to political events cannot be excluded in 2018. Depending on the result, the

parliamentary elections in Italy, followed by the formation of a government in the Eurozone's third largest economy, could be the first cause of such volatility. However, economic data regarding the Eurozone is consistently positive. Meanwhile, inflation in the Eurozone will remain below the ECB's target of close to 2 % in 2018. Significant interest rate increases by the ECB are therefore not expected in 2018. This contrasts with the situation in the USA. If the strong economic growth seen in 2017 continues, the FED could increase interest rates up to four times in 2018.

In terms of regulation, for European banks 2018 will primarily be characterised by the introduction of MiFID II. On the capital market, the development of risk premiums for German senior unsecured bonds will, in particular, depend on future legislation regarding the inclusion of such debt instruments in potential bail-in measures. Not only the new regulations for the issuing of new bonds will be of relevance, but also the approach to existing bonds.

Following the extension of the APP, the spreads of covered bonds will continue to benefit from demand from the European System of Central Banks (ESCB) and the reinvestment of maturities. The spreads of those issuers who have benefited the most since the start of the programme in 2014 can be expected to widen should the ECB decide to finally terminate the programme in 2018. German Pfandbriefe would benefit in relation to other covered bond products from this move.

Even under demanding conditions, Berlin Hyp should be able to gain access to all segments of the capital market on attractive terms due to its involvement in the Savings Banks Finance Group, the reputation it has built up over many years as a reliable and sound issuer, an MREL ratio against RWAs of 73.7 % (prior to adoption) and its having completed its establishment as an important issuer of Green Bonds.

¹ Sources for assumptions relating to macroeconomic development: German Institute for Economic Research (DIW), Institute for the World Economy (IfW), Kiel.

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

Provided the positive economic development continues and interest rates remain low, Berlin Hyp forecasts strong momentum for the real estate investment market in 2018. Whether the total volume seen in 2017 can be achieved again or even exceeded depends largely on the supply situation. In view of the ongoing boom on the real estate market, which has already lasted for quite some time, the possibility of a reversal is increasingly being discussed. A turnaround in interest rates or political upheaval could be potential triggers.

Business Development

With its stable shareholder backing, closer integration in the Savings Banks Finance Group, the successful refinancing strategy and its experienced, motivated staff, Berlin Hyp is well positioned for the future in a persistently challenging environment and will actively utilise the business potential which arises.

With the berlinhyp21 future-oriented initiative launched in 2017, key decisions will be made that will have a positive impact on Berlin Hyp's future viability in the years ahead. The measures introduced to expand the business model with regard to external digitalisation, i.e. entering into participation interests and the development of relevant products, will contribute to this.

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

Berlin Hyp also continues to increasingly integrate itself into the Savings Banks Finance Group as a partner for commercial real estate financing. In addition to its current offering of syndicate financing and classic investment products (Pfandbriefe, bonds) and support in valuation and restructuring services, Berlin Hyp is continuously expanding its product

range and provides savings banks with expert advice on all issues relevant to the Group. The secured ImmoSchuldschein and the new product ImmoAval in particular offer added value for savings banks.

For 2018, Berlin Hyp forecasts a continued positive development in the S-Group business. The Bank hopes to expand connections to the Savings Bank Finance Group even further compared to the previous year and to slightly increase the total volume of business realised jointly with the savings banks.

In 2017, the transaction volume on the domestic real estate market exceeded the previous year's level. Low interest rates and a consequently robust investment environment will continue to support Berlin Hyp's core market, the German real estate market, in 2018. The German real estate market will remain appealing to foreign investors. Against the backdrop of the consistently challenging competition in commercial real estate financing and the changing framework conditions, the contracted new business volume for the coming year (excluding extensions with capital employed equal to or greater than one year) will be down considerably from the very good level seen in 2017.

In this context, Berlin Hyp will adhere to its restrictive risk policy. In order to enhance flexibility in terms of management and to leverage additional earnings potential, the Bank plans to further intensify the syndication business. The public-sector lending business is not part of the Bank's core business and will continue to be hived off. The securities portfolio has been further reduced because of lower expected yields. In consideration of the regulatory requirements (e.g. meeting the LCR), however, earnings potential that arises should continue to be used to support the interest result.

Net interest income is expected to be slightly higher in 2018 compared to the financial year 2017. A decline in new lending and extension margins is likely to have an effect in this regard. The planned integration of processing fees in the interest margin and distribution over the term provide compensatory earnings contributions. In addition, the ongoing extremely positive development of existing mortgages is also having a positive impact.

Overall, Berlin Hyp stands to continue to benefit from its excellent market position and

recognised expertise in commercial real estate financing.

The implementation of initiated digitalisation projects will provide additional support.

Planned increases in the volume of the mortgage portfolio depends directly on customer retention and the development in unplanned repayments.

A further decrease of the market interest rate, lower interest margins due to increasing competition and a flatter yield curve may also have a negative impact on interest income.

Owing to the expected reduction in new business volume and the reflection of processing fees in net interest income, net commission income will remain significantly below the previous year's figure.

Risk provisioning in the financial year 2017 was influenced by a good economic environment. The Bank forecasts higher risk provisioning for 2018.

For 2018, higher operating expenditure, which is particularly due to an increase in staff expenditure based on the higher ten-year average interest rate for the calculation of pension obligations, is expected. In addition, the challenges related to optimising and improving business processes and other digitalisation efforts will trigger a rise primarily in IT and consulting costs.

The continuation of the berlinhyp21 future-oriented process will ensure that Berlin Hyp is well equipped for the challenges that lie ahead. This process makes Berlin Hyp's "agile, connected, creative" vision tangible. Within berlinhyp 21, additional successes were achieved in 2017, such as:

- Training of Meeting Pilots to optimise conduct during meetings/communication
- Conclusion of the electronic credit file project
- Implementation of initial optimisation of the existing loan process, especially pre-loan verification
- Setting a benchmark in terms of human resources at the Bank
- Investment in the BrickVest platform
- Relaunch of the website and completion of the brand project
- Stepping up social media activities

- Creating test areas for the working environment of the future
- Introduction of an environmental management system
- Implementation of trust-based working hours and mobile working hours

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

- Project loan process optimisation as part of a holistic review
- Reviewing other business models that are viable for the future and generating product ideas
- Reworking human resources instruments such as employee appraisals and target agreement
- "Subsequent calculation" optimisation project
- Continuation of digitalisation/optimisation of the procurement process via the e-procurement project
- Pushing sustainability issues such as systematically switching the fleet to hybrid or electric cars or giving incentives to finance sustainable real estate projects
- Creating an SAP landscape in the Bank as a whole through the SAP-HANA project
- Optimising resource management with the Strategic Resource Planning project

In this respect, the improvement of the IT systems and the implementation of the new digitalisation strategy is of particular importance.

The calculation of the contributions to the EU banking levy will continue to be performed by the Single Resolution Board (SRB). Berlin Hyp assumes that the contributions will not see any major adjustments compared to the 2017 level.

The significantly negative other operating result in the 2017 financial year was largely driven by the formation of reserves. No such expenses are expected for 2018, which means that the other operating result will be considerably better. Berlin Hyp forecasts a slight expenditure surplus for 2018.

Overall, the Bank anticipates that the result before profit transfer for the coming financial year will be considerably below the exceptionally good 2017.

We expect the cost-income ratio to be stable in 2018.

With an expected decline in the result, the average equity capital available will rise primarily due to the addition to provision reserves pursuant to Section 340g German Commercial Code (HGB) taking into account in the 2017 results analysis. Return on equity will therefore decline, but will continue to exceed a level of 10 %.

Even though regulatory requirements for capital and equity continue to be tightened, the Bank is aiming for a core capital ratio above the target value of 12 %. The regulatory requirements and changes continue to give rise to the need for adjustments at Berlin Hyp. The Bank will adjust to the situation appropriately, as it has in the past. The Bank is well prepared for the new AnaCredit reporting requirement, which is applicable from 2018.

Overall Statement

Stiff competition in real estate financing, the continuing low-interest phase and the volatile capital and financial market environment, combined with the need to further strengthen equity capital and additional regulatory requirements, represent major challenges. Against this backdrop, the 2017 financial year was very favourable and considerably better than expected. An overall very good result was again used to create additional provision reserves and to reinforce the considerable growth in the core business.

The additional potential resulting from Berlin Hyp's position on the market, combined with a sound refinancing strategy, are solid foundations for the continuation of its successful business operations.

In the S-Group business, the range of products will continue to be geared towards the needs of the savings banks. The further development of our products to meet market needs, the improvement of business processes, and the procedural measures and technology equipment supporting them form the basis of this. In this context, the Bank will systematically pursue its berlinhyp21 future-oriented process

and support digitalisation efforts and agile, connected and creative working methods. The impact of digitalisation on the business model and the derived opportunities and risks is a constant accompanying core process which Berlin Hyp views with optimism.

Provided no unexpected shifts occur in the capital and real estate markets, and risk provisioning is at the planned level, Berlin Hyp expects to continue the positive business development with its customers. In summary, the result before profit transfer will be below the figure in 2017 amongst other things due to the margin level and costs for optimisation and improvement of business processes and other digitalisation activities. Return on equity will remain at above 10 % which takes into account the further appropriate allocation of provision reserves pursuant to Section 340g German Commercial Code (HGB) to strengthen equity capital to meet the stricter regulatory requirements.

Risk Report

Risk Management System Framework Conditions

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

The internal control procedures form the core components of the system of risk-oriented Bank controlling and in particular comprise risk management and risk controlling processes with no conflicts of interest and internal auditing. The objective of risk management is to maintain the risk-bearing capacity and compliance with specified minimum ratios through the specific limitation of economic risks and by establishing upper limits for fixed capital.

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

Group Risk Management System

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

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

units have to ensure that all risks are transparent and measurable under the uniform Group-wide methodology.

These requirements are detailed by the Group risk strategy, for which the Board of Management of Landesbank Berlin Holding AG is responsible. Risks that do not conform to the strategy and therefore have to be avoided on principle are defined within the scope of this strategy.

Compliance with the risk strategy is continuously monitored.

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

Berlin Hyp Risk Management System Risk Policy Principles

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

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

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

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

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

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 consisting of members of the Supervisory Board consults with the Board of Management regarding the principles of business policy in the lending business regarding risk, in particular counterparty default, market price, liquidity and operational risks, and risk management.

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

reports independently to the Board of Management.

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

Berlin Hyp Governing Bodies

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

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

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

Responsibility for operational risk management, that is the acceptance of risks within the scope of the risk limits, is assigned to the defined managers. Overall Bank risk management, for example, is the responsibility of the entire Board of Management, while market price risk and liquidity risk management in compliance with the binding requirements of the Board of Management adopted on the basis of the proposals by the Financial Steering Committee is handled by the Treasury division.

Risk management in the loan business is implemented by the respective decision maker according to the assigned spheres of competence, taking into consideration the implications for the loan portfolio.

Reporting

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

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

Risks

Key Risk Types

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

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

Berlin Hyp also differentiates between monetary and non-monetary risks. Monetary risks are taken into account in the summary overview of the Bank's risk position (overall bank risk) and are compared to risk capital.

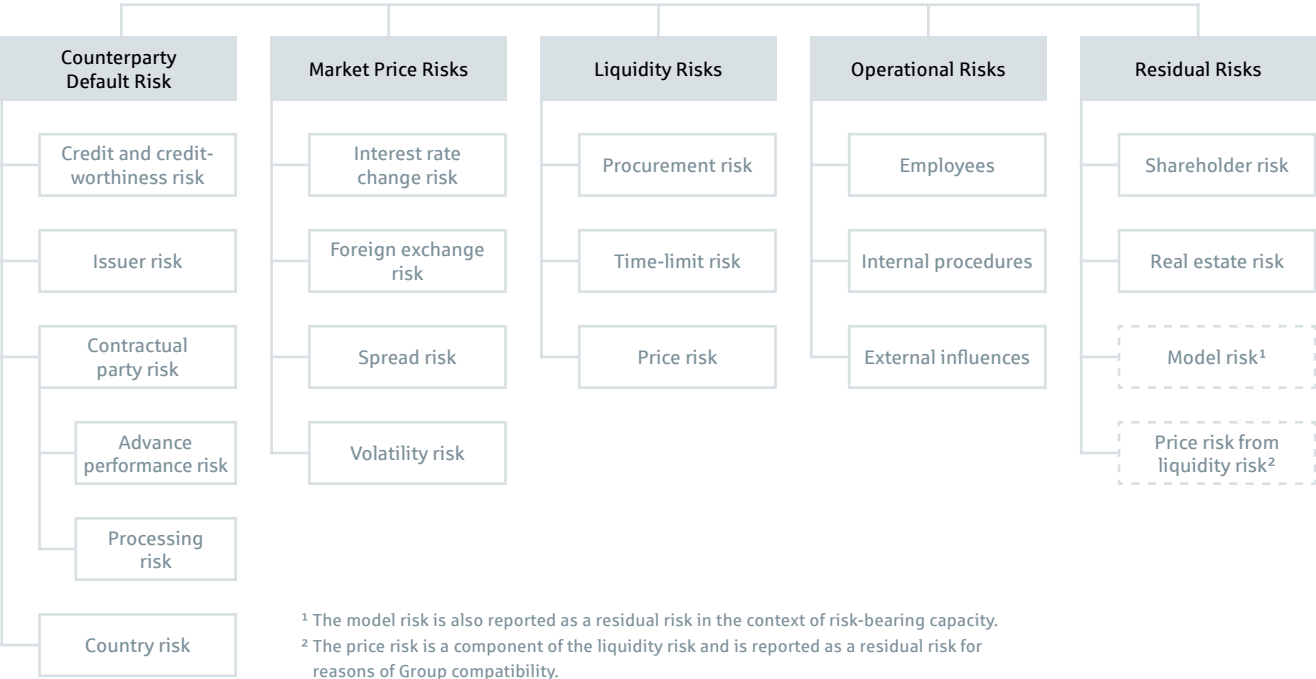
Non-monetary risks (such as reputation risks, short-term liquidity risk) on the other hand cannot be averted through backing with risk capital and are therefore not taken into account in this analysis.

Every identified risk type is evaluated according to established criteria at least once a year. To do so, the probability of occurrence and magnitude of the risk on occurrence are taken into account, and the measurement results of the last period are analysed. The review also involves a recommendation being submitted to the Board of Management concerning classification as material or immaterial risks as well as the appropriateness of the applied methods.

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

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

Risk Types of Berlin Hyp AG



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

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

Risk Inventory

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

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

Risk-Bearing Capacity

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

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

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

The concept implemented at Berlin Hyp to determine the Bank's risk-bearing capacity is an economic capital concept which is constantly being developed. Due to the assessment of liquidity chosen for the risk-bearing capacity model, adjustments have to be made to risk positions that are not or only partly available in case of insolvency.

Subordinate capital with a remaining term of over one year and reserves pursuant to Section 340f German Commercial Code (HGB) and (to the extent that they are not for a specific purpose) Section 340g that are formed during the year are fully allocated.

Deducted items (such as hidden liabilities due to fixed asset write-offs that were avoided) and incurred or (if applicable) planned losses have a negative effect on the risk-covering assets. The Bank has defined a buffer based on the volume of the risk-covering assets, which is to always remain free and not restricted by limits (risk tolerance).

Real estate risks classified as immaterial and shareholder risks as well as the model risks are summarised in the residual risk. The price risk in the liquidity risk is a risk classified as material and disclosed under "residual risk". The Bank's risk-bearing capacity was consistently given with sufficient leeway in 2017, both according the internal standards and from a regulatory perspective.

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

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

Details of the risk-bearing capacity as at 31 December 2017 are disclosed in the section "Overall Statement on Risk Situation".

Risk Management System by Risk Type
Counterparty Default Risk

The risk of counterparty default is the risk of a loss, or loss of profit, due to a deterioration of a business partner's creditworthiness, as well as a loss in value of the security provided to the Bank. This is currently the most dominant type of risk for Berlin Hyp. Counterparty default risks are managed at the individual business partner and overall portfolio levels. Investment risk (shareholder risk) is considered to be an immaterial risk.

Individual Commitment Level

Efficient lending processes form the basis for adequate risk management of the risks of counterparty default. This is guaranteed through a loan approval directive and defined processes and interfaces, from acquisition to new lending through to loan repayment (close integration of 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 approved by the regulatory authorities that take debtor- and business-specific characteristics into account are at the core of the risk assessment. Pricing as well as loan decisions

are based on the rating of the borrower, taking into consideration the security provided. Real estate financing is largely determined using the SparkassenImmobilien-Geschäfts-Rating (SIR) and the method for international commercial real estate financing (ICRE). At the same time, additional rating procedures developed in cooperation with other Landesbanks are used for specific customer groups. These procedures particularly pertain to the capital market business and specifically to insurance ratings, bank ratings and ratings for international regional authorities, as well as the corporate rating.

The rating procedures employed here have been derived from the framework of the banking supervisory authority approval system. Quality assurance along with validation and back-testing for rating procedures are the responsibility of the Risk Controlling division in conjunction with the corresponding division at Berliner Sparkasse. Their continued development and maintenance 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 5) and non-performing loans (rating classes 16 to 18).

The proportion of non-performing loans in the overall portfolio was reduced from the prior-year level to 1.2 % and currently remains at a historically low level. Non-performing loans are covered almost in full by collateral and value adjustments.

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

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

Berlin Hyp uses early warning systems with a variety of instruments in order to identify loan commitments with increased risk in time. Alongside the definition of quantitative early warning indicators as part of an early warning system, qualitative indicators also exist for the purposes of regular loan monitoring. The automated early warning procedure draws special attention to the criteria for rating deterioration, arrears of interest and principal and the deterioration of the debt service cover ratio in different degrees. Other parameters relate to the loan-to-value as well as the expiry of rental contracts and/or fixed interest rates.

Early warning meetings take place each quarter, attended by the Sales, Loan and Risk Management divisions, at which the risk content of the identified commitments is discussed separately and further measures decided upon if necessary.

Risky real estate commitments are transferred to Risk Management. Competence for valuation adjustments is concentrated here. Upwards of a specific size, such valuation adjustments must be approved by the entire Board of Management.

Value adjustments are made for an amount by which the outstanding loan, less any collateral, cannot be paid back with a high degree of probability. Collateral values are reviewed in this context and, if necessary, adjusted depending on the necessary measures.

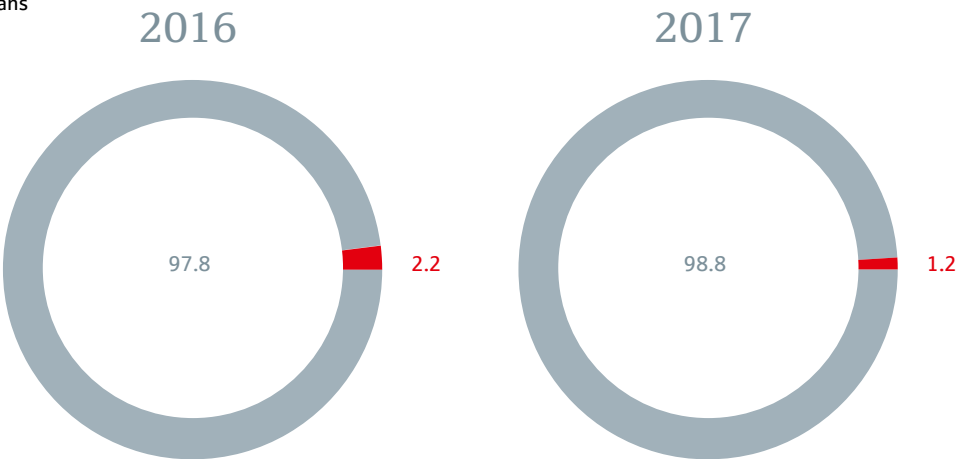
The securities and public sector loan portfolio represents a significant aspect of the capital market business. In addition, there are counterparty risks from the derivatives business. In 2017, new capital market business with securities was also restricted, with the aim of reducing the balance sheet total. In general, new business is only concluded with credit-worthy counterparties within the scope of a narrowly defined investment strategy. The existing capital market exposure is reported on a regular basis to the Board of Management and the Supervisory Board, broken down according to country and rating class.

Derivatives transactions are not only concluded with capital market counterparties but also real estate customers in the course of property financing. Counterparty risks from the interbank business are in principle covered by collateral. 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.

NPL ratio based on FinRep
in %

— Performing loans
— Non-performing loans



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 BSK. 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 2017, the utilisation was € 488 million and the limit was € 700 million.

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

Stress tests are performed within the scope of the 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 an institution against macroeconomic crises. The definition of the scenarios and their parametrisation are based on the overall bank stress concept of LBBH, which meets the Minimum Requirements for Risk Management (MaRisk).

As at 31 December 2017, Berlin Hyp's reported overall loan exposure was € 28.4 billion, as depicted below. The balance sheet assets are derived as follows:

Transfer of balance sheet assets to overall loan exposure as at 31 December 2017 in € billion



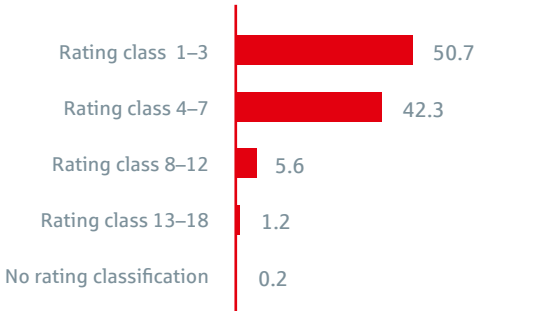
The main divergences to the balance sheet presentation are as follows:

- The inclusion of off-balance-sheet business in the form of disbursement obligations and sureties
- Consideration of customer derivatives with the loan equivalent amount
- Addition of valuation adjustments

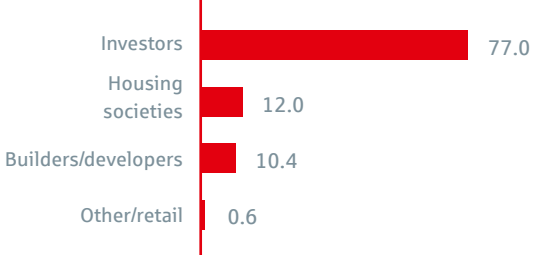
The overall loan exposure is broken down into mortgages of € 23.0 billion and securities and public sector loans of € 5.4 billion. In its quarterly risk report, Berlin Hyp analyses the counterparty default risk from the mortgage lending business in particular.

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

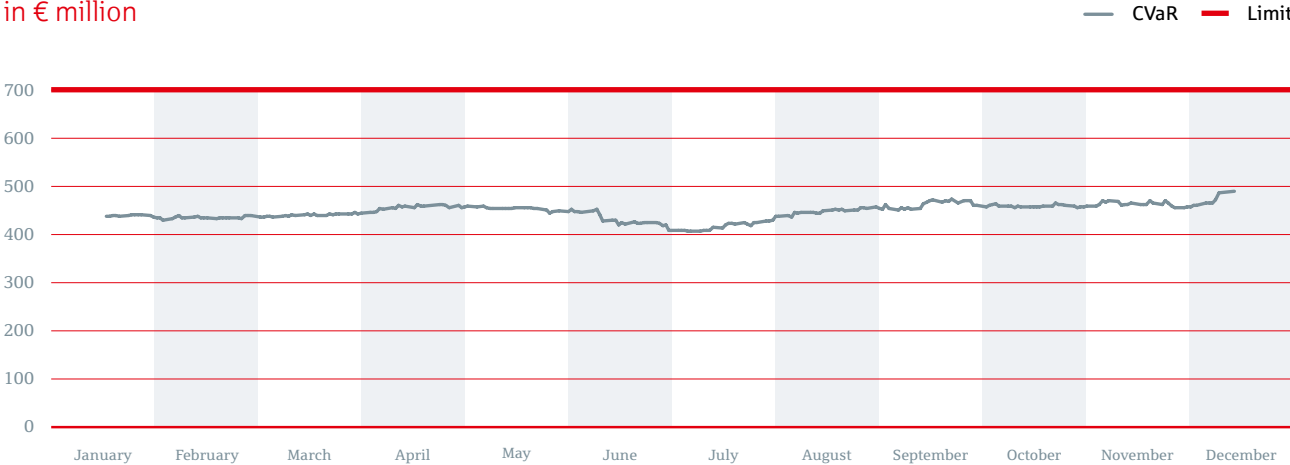
Rating classes in %



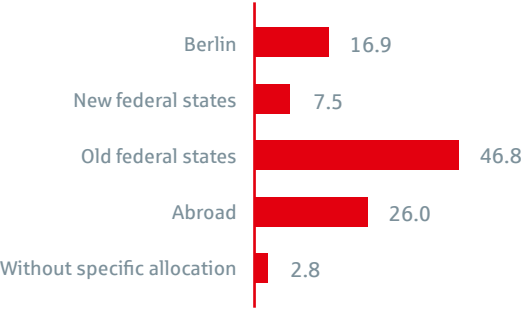
Customer groups in %



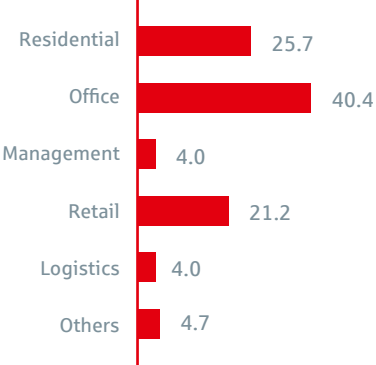
Credit value-at-risk development in total in 2017 in € million



Regions
in %



Property type
in %



Country and Transfer Risks

Country and transfer risks are limited primarily through volume-based country limits, which are reviewed annually at least. Limits are determined in consideration of economic data and the cluster concept (concept of limiting risk concentrations) and resolved by the Board of Management. Country risks within the scope of new business activities are only entered into in countries with good or very good credit-worthiness. 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.

In 2017 there was no exposure in countries particularly affected by the sovereign debt and debt crisis.

Market Price Risks

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

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

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

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

The value at risk and risk coefficient are limited. The cash value development and change in net interest income while applying the six IRRBB interest rate scenarios stipulated under regulatory law come with warnings. Thresholds have been established ahead of the limits. Recourse in relation to the market price risk was significantly below the value-at-risk limit throughout 2017. On the reporting date the utilisation was € 7 million and the limit was € 55 million.

Market price risks are reported daily to the Board of Management. This includes among other things information about basis point values for the overall risk-bearing position, the risk coefficients, the value at risk utilisation and

Value-at-risk development in total in 2017
in € million



cash value profit and loss analyses. Communication and decision-making processes are triggered when warning thresholds or limits are reached or exceeded.

The monthly reports to the management also include comments on the results of back-testing. The results of the back-testing did not show any indications of insufficient model quality in 2017.

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

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

Liquidity Risks

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

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

Furthermore, the short-term liquidity risk for the next 30 days is additionally monitored by Landesbank Berlin Holding for the Group and the institutions on the basis of LCR. This is an indicator that compares specified, freely available securities portfolios with the net

liquidity disbursements in the next 30 days under the application of a specified stress scenario.

An LCR tailored to the requirements of the institution, a so-called Bank LCR (BLCR), is also determined on a daily basis. The minimum which is derived from the regulatory LCR and the Bank LCR over the next 30 days forms the internal indicator for the short-term liquidity risk and is limited. As a result, adherence to the internal short-term liquidity ratio ensures compliance with the regulatory LCR requirements.

In 2017, the minimum ratio for the LCR was 80 %. This ratio increased to 100 % as of 1 January 2018. Internally, the LCR is controlled with a target ratio of at least 120 %. On the reporting date 31 December 2017, the LCR ratio was 183 % and therefore well above the minimum. The established limits and pre-warning level for the short-term liquidity ratio at 100 % and 120 % respectively partly exceed the current regulatory requirements. The following chart shows the development of regulatory LCR, in each case on the last day of the month:

The sharp increase in LCR at the end of February is largely due to a comparatively high amount of time deposits recognised as assets due in

March in connection with a rise in volumes of available highly liquid assets.

The deadline risk (refinancing risk) is the risk that the Bank can only make short-term extensions for refinancing funds that are due and originally intended for the medium and long term, which are not covered by corresponding assets, because of creditworthiness conditions and/or for market reasons. The risk follows on from the procurement risk as regards time, and encompasses a period from 31 days to one year. The limit is set so that the Bank is able to repay all medium and long-term refinancing funds due in the period under review on the basis of the existing liquidity reserve. The deadline risks and compliance with the limits are discussed by the Board of Management on a monthly basis as part of the quarterly risk report and are brought to the attention of the Supervisory Board.

Furthermore, the liquidity risk for the next twelve months is monitored by LBBH for the Group and the institutions. This is based on the refinancing risk that is determined and reported daily. The methodology is based on the regulatory NSFR but deviating internal weights are used in part. The established limit and the pre-warning level are 100 % and 105 % respectively. On the reporting date of 31 December 2017, the refinancing risk for Berlin Hyp was 144 %.

The price risk encompasses the risk that in case of existing incongruities with dates on which the capital falls due, the Bank can only carry out follow-up financing in the next 12 months on the basis of less favourable refinancing spreads. The price risk is considered within the framework of the risk-bearing capacity concept and is limited. As at 31 December 2017, this stood at € 12 million.

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

Liquidity management occurs subject to economic limits/warning thresholds; compliance with regulatory requirements represents a compelling constraint. Falling below a warning threshold or a limit triggers defined notifications and measures. A regulatory limit on liquidity risk continued to apply pursuant to the German Liquidity Regulation (LiQV) in 2017. According to the regulatory requirements, the minimum liquidity indicator had to be at least 1.0. In the course of the financial year the liquidity indicator was above the internal limit of 1.15 at all times. The illustration that follows shows the development of the indicator, in each case on the last day of the month:

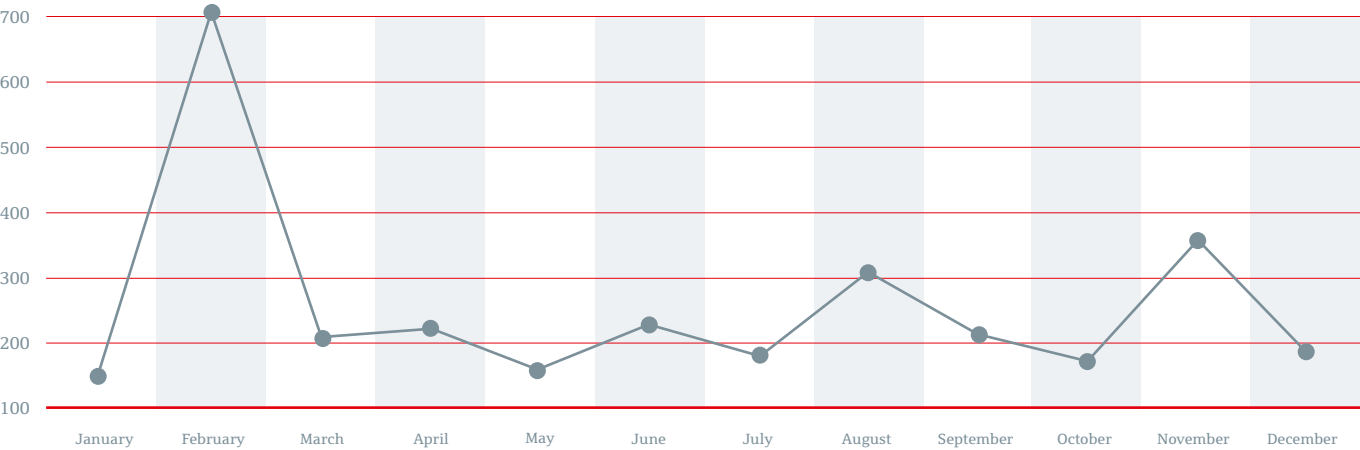
Berlin Hyp's market liquidity risk is managed through an unencumbered securities portfolio which consists almost exclusively of ECB-eligible securities. The liquidity buffer comprises diversified and high-quality assets and assets of various categories in accordance with the requirements of the Capital Requirements Regulation (CRR). In principle the Bank does not enter into any new commitments in markets with insufficient liquidity.

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

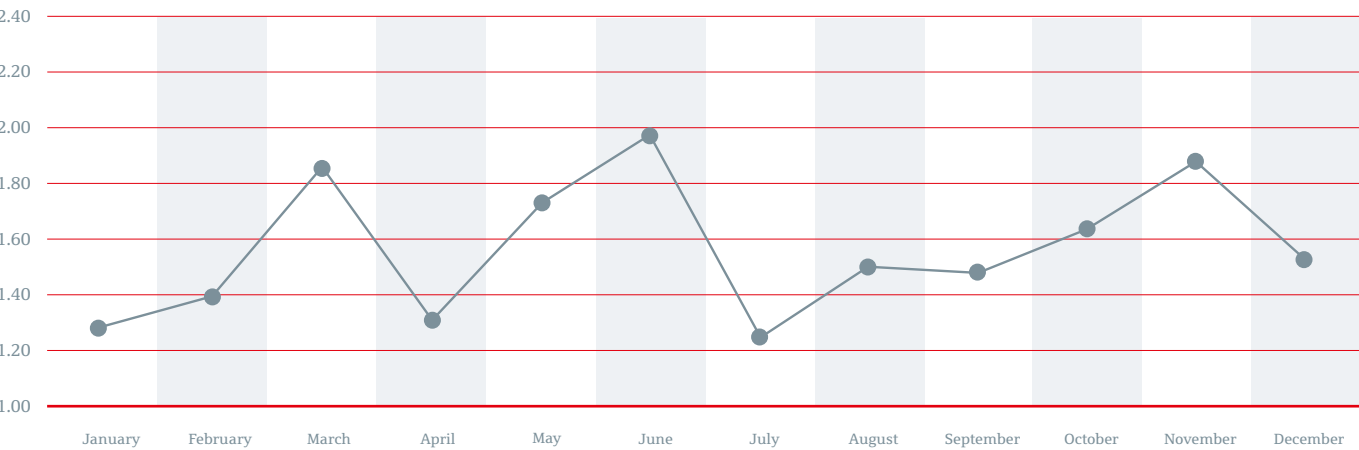
The Bank uses a broad range of refinancing instruments. In the money market segment these are secured and unsecured borrowings concluded both bilaterally and through Eurex in the case of repo transactions. The Bank also participates selectively in the ECB's open market transactions.

Pfandbriefe as well as unsecured refinancing are used for capital market borrowing. This is realised through private placements as well as bond issues in benchmark format. For the development of the refinancing structure, see the explanations of the financial position in the economic report.

Development of LCR in 2017
in %



Development of the liquidity ratio in 2017



Shareholder Risks

In addition to the 100 % shareholding in Berlin Hyp Immobilien GmbH, a company which is no longer operational and pursued real estate marketing in addition to its activities as a real estate agent, the Bank acquired a minority investment in a regulated platform for project developers and investors of commercial real estate based in London in the reporting year. The entrepreneurial risk and currency risk related to the shareholding are taken into consideration in the shareholder risk.

Operational Risks

Pursuant to the CRR, operational risk is defined as the risk of losses resulting from the inappropriateness or failure of internal processes and systems, human error or as a result of external occurrences. This definition includes legal risks in addition to operational risks, but not strategic risks and reputation risks. It is a material risk.

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

The model is reviewed regularly and the model assumptions are largely confirmed. Breaches of the model are classified as immaterial, plausible or material and follow-up measures are defined to improve the results.

Berlin Hyp’s Board of Management is responsible for a systematic and consistent process comprising the sequences identification, assessment, monitoring and the management of operational risks. The Board of Management confirms the accuracy of the approved risk parameters (self-assessment and scenario evaluations) in the quarterly risk report on the one hand and, on the other hand, on a half-yearly basis through confirmation of the corresponding half-yearly OpRisk report. Ad-hoc reporting follows the occurrence of extraordinary events, in particular significant losses.

Overall responsibility for the operational implementation and monitoring of the OpRisk results and developments is assigned to the Risk Controlling Division Manager.

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

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

- Self-assessment according to the bottom-up approach (qualitative OpRisk inventory)
- Scenario analyses to determine potential losses (quantitative OpRisk inventory).
- Incident recording (internal/external) as the basis of statistical evaluations for risk assessment (actuarial approach: loss distribution approach) and for the definition of scenarios specific to business areas for the scenario analyses
- Early warning system (identifying and monitoring of risk indicators).
- Measures controlling (identifying and monitoring of measures).
- Risk transfer through insurance protection.

Pursuant to Sections 25a and 25h German Banking Act and relevant circulars published by the banking regulator, Berlin Hyp must establish and maintain commensurate business and customer-related security systems to prevent money laundering, terrorism financing and any other criminal activities detrimental to the Bank. In order to ensure this, Berlin Hyp has appointed an Anti-Money Laundering Officer and four employees as contact persons. The Board of Management is presented with an annual report on the Bank’s hazard potential in the form of a hazard analysis. Within the framework of the 2016 hazard analysis, the Anti-Money Laundering Officer determined that the risk posed by money laundering, terrorism financing and other criminal activities was “moderate”. Following the intervention of risk-mitigating measures, the risk fell to “low”.

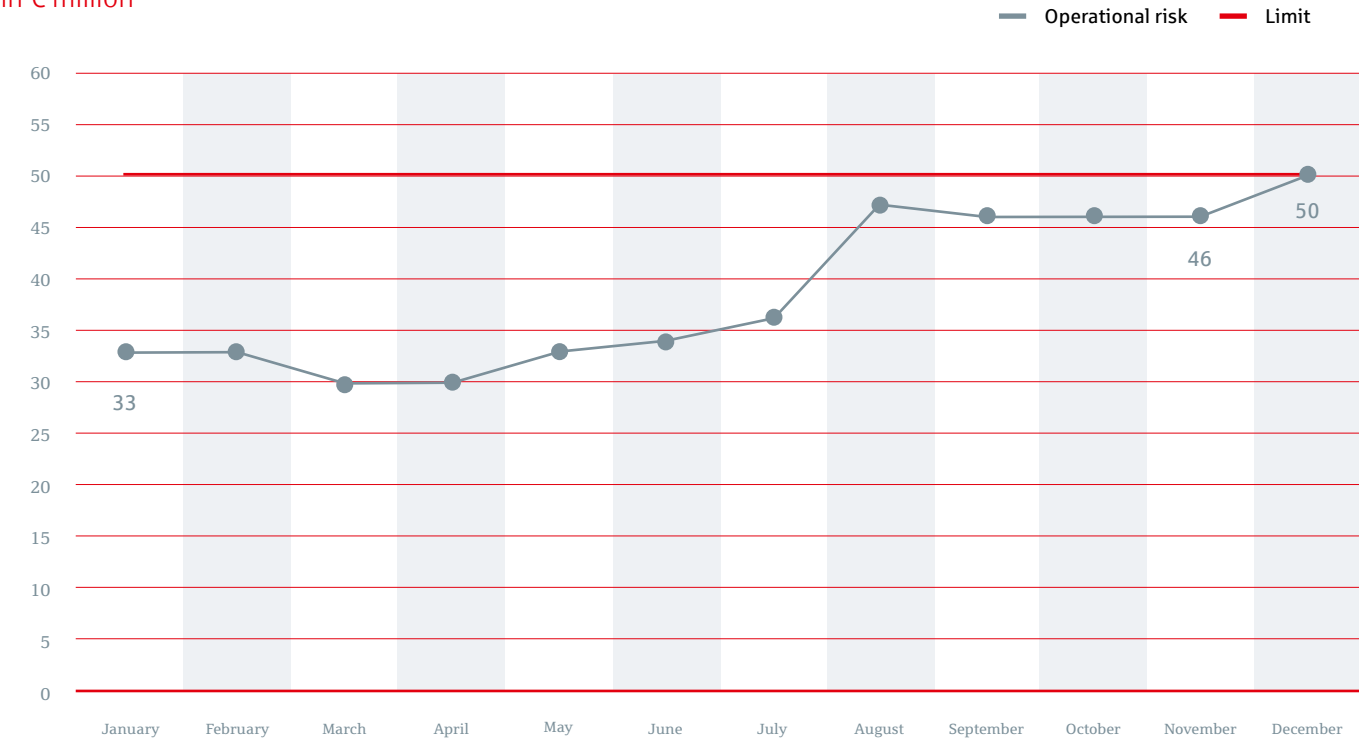
On the basis of the overall risk assessment derived from Berlin Hyp’s risk-bearing capacity, Berlin Hyp’s Board of Management establishes limits for operational risks that are guided by the proposed Group limits but do not exceed them.

The Bank participates in a data consortium for the recording of OpRisk losses. This expansion of the database to include external losses is a mandatory element of the advanced measuring approach (AMA) applied in the Bank.

Currently the limit is set at € 50 million. Pre-warning levels are not defined. The monthly utilisation of the limit for 2017 is shown in the following illustration:

Berlin Hyp has established a crisis management group to deal with crises in case of extraordinary events that bear the risk of far-reaching consequences (such as fire and water damage, bomb threats, explosions, assaults with hostage-taking and terrorist attacks). Situations falling under the responsibility of the crisis management group are defined by the need for fast decisions to avert and/or alleviate material (consequential) costs/financial losses

Utilisation of the limit in € million



System Risks

No information risks or IT risks with a high residual risk (ratios of damage and probability of occurrence) that could endanger the existence of the Bank as a going concern are expected at the current time.

The Bank has an operational information security and IT risk management system that is managed by the information security and IT risk officer for the systematic improvement of information security while taking into account the risk situation and for the purposes of effective risk management.

Following the introduction of the integrated SAP system, Berlin Hyp has a powerful IT system commensurate with the type and scope of its business activities. The implemented systems are stable throughout the year.

With the integrated SAP system as an overall solution for the entire Bank, Berlin Hyp benefits from a comprehensive state-of-the-art IT landscape, and the increasing importance of information technology as a competitive factor is taken into account.

This is also closely linked to a very high level of protection against system risks, such as by a high degree of automation, homogenous system environments as well as integrated interfaces, which results in the avoidance of manual processing steps where possible.

Through accompanying organisational measures, an appropriate access protection system has been implemented that prevents unauthorised and undesired read or write access to databases. In addition, appropriate protective measures were established to ensure the integrity/authenticity of the data and for the availability of IT services.

To protect against possible catastrophe scenarios in own and service provider computer centre operations, Berlin Hyp has devised and implemented a concept together with its IT service partner. A major element of this concept is a backup environment to which operations can be switched quickly in the event of a catastrophe. This catastrophe case backup was reviewed with the IT service partner and the specialist divisions users in 2017.

In order to limit IT risks, critical business processes and their IT systems were also identified

to establish them as an integral element of the bank's Written Fixed Rules through internal specifications about data security and regularly updated and reviewed emergency procedures. This way, the functionality of the business procedures in the event of technical faults is guaranteed with the aid of back-up solutions which are quickly available.

Further measures to guarantee IT security were implemented in accordance with the recommendations of the Federal Office for Safety in Information Technology (BSI) within the scope of the IT security management system and under the stewardship of the IT Security Officer.

Legal Risks

Legal risks are those risks arising from the violation of applicable and changing legal provisions, in particular from contractual, statutory or judicially developed legal provisions. This includes the risk arising from violations of legal provisions due to ignorance, a lack of diligence in applying the law (careless interpretation), negligence or a failure to implement in good time.

In addition to the specialist departments, the Compliance function and Risk Controlling, the Legal department (Governance division) is responsible for the identification and avoidance of legal risks. Monitoring legal risks incurred is fundamentally part of the Legal department's duties. Major projects are centrally coordinated with consideration of legal aspects. For risk prevention, the Legal department provides templates and explanations for contracts and other legally important declarations to the extent this is reasonable. Involving the Legal department is mandatory where deviating or novel provisions are concerned. To the extent to which external law firms are involved, control generally rests with the Legal department. Human Resources is responsible for labour court proceedings.

When unforeseen developments to the detriment of the Bank or errors have occurred, the Legal department participates in the identification, elimination and future avoidance of the errors. It also reviews and evaluates incidents based on legally relevant facts and manages any legal proceedings. This applies in particular for defending against claims asserted against the Bank. Adequate reserves were formed for pending cases.

Material legal risks that were qualified as current or impending court proceedings of the Bank are reported on a half-yearly basis to the Board of Management. Ad-hoc reporting is required for events with especially far-reaching consequences.

Borrower Claims for the Reimbursement of Processing Fees

In 2017, the German Federal Court of Justice ruled that agreements relating to processing fees charged within the scope of general terms and conditions are also unlawful in the case of commercial loans. However, the Federal Court of Justice views pricing in the processing fee into the interest margin or an individual agreement on processing fees as lawful in principle.

It also states that reimbursement claims based on processing fees paid prior to 1 January 2014 are time-barred. Loan agreements based on foreign law are not affected by the Federal Court of Justice's ruling. As the Bank must assume that borrowers in Germany may want to assert reimbursement claims under this ruling, it performed an analysis of the method of agreeing processing prices practiced since 2014 and accordingly set aside appropriate provisions. It was taken into account that, as a rule, Berlin Hyp agreed the processing fees on an individual basis.

Risk Management Pursuant to Article 27 German Pfandbrief Act

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

Overall Statement on Risk Situation

The risks assumed by Berlin Hyp were in reasonable proportion to the risk-covering assets in the reporting year. As at 31 December 2017, risk-weighted assets (RWA) came to € 9,151.3 million.

Risk-covering assets amounted € 1,516.5 million as at 31 December 2017.

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

The combination of specific stress tests for the various types of risk with Bank-wide stress tests taking multiple risk types into account allows the influence of macroeconomic changes on the risk-covering assets and on the regulatory capital ratio to be evaluated.

Sufficient scenarios were developed for this purpose in accordance with the Minimum Requirements of Risk Management (MaRisk), taking into account the correlations of the assumed developments between individual risk types.

Inverse stress tests are applied to determine how drastically those scenarios affecting the entire Bank that would entail the most severe effects would have to develop before all risk-covering assets on the one hand and the minimum capital level on the other hand would fall too low.

Other Risks

Business Policy and Strategic Decisions

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

Landesbank Berlin Holding as the Group’s parent company in the reporting year was responsible for strategic decision-making in the Group. The overall bank strategy approved and regularly updated by the LBBH Board of Management summarises the strategies of the Group companies and consists of the strategy document and planning. The long-term company objectives and strategic framework conditions are established by the Board of Management in the annual strategy meeting. Monitoring and controlling the strategic objectives for the strategic business areas, subsidiaries and divisions takes place once a year based on the defined target achievement indicators and targets. Select financial and risk targets are also monitored during the year based on standardised reports.

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

Reputational Risks

The Bank monitors print and online media also with respect to potential reputational risks. In the event of negative media coverage, the Bank has installed an escalation procedure to ensure a suitable response. There were no events that involved reputational risks in 2017.

Human Resources Risks

Availability Risk

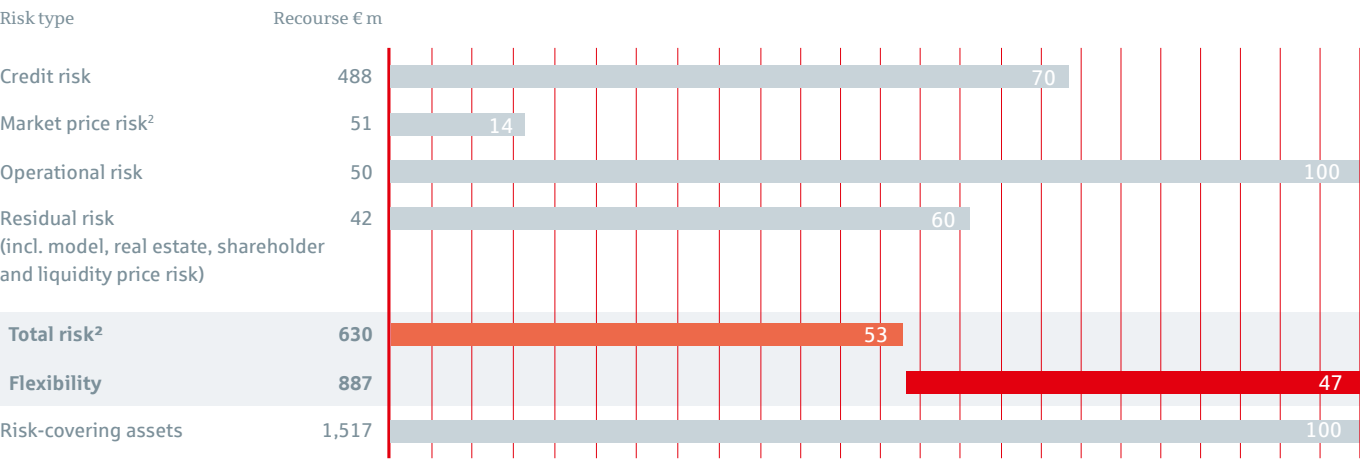
Quantitative and qualitative supply availability is managed on the basis of the specific aims and requirements of the Bank’s divisions. Berlin Hyp cannot escape the effects of demographic change, the lack of qualified workers, globalisation and corporate social responsibility as well as digitalisation and automation.

In view of this, Berlin Hyp developed a vision with the help of an external consultant in 2017 that sheds light on quantitative and qualitative supply availability. As part of an additional project, the Bank examined which skills will be relevant for employees in future, especially taking the digitalisation and automation trends into account. Initial steps were also taken towards the concept of a holistic and sustainable human resources development model. It focuses on the employees’ individual development needs as derived from the skills needed in the future. In spite of or due to the innovative trends, the Bank should not lose sight of employees as individuals and their specific needs – this is particularly important to Berlin Hyp.

In recent years, Berlin Hyp has likewise stepped up its activities in the area of the next generation of talent in order to be able to respond to demographic changes and the related lack of qualified workers in a timely manner. It focuses primarily on trainees and students of dual study courses and has also increased the deployment of student employees and interns. Berlin Hyp’s presence in social media and at job fairs for pupils and students contribute to the Bank’s positioning as an attractive employer, especially for young people.

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

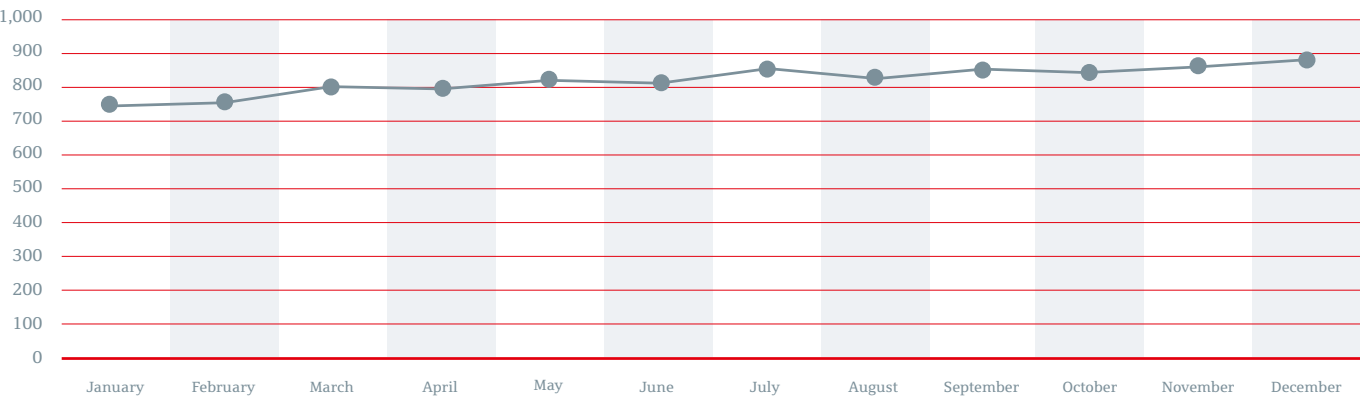
Percentage of recourse per risk type as of 31 December 2017
in %¹



¹ The underlying holding period of the risk-bearing capacity concept is one year.

² The market price risk is scaled by multiplying VaR by a factor of 6.64.

Development of financial flexibility in 2017
in € million



Motivation Risk

Motivational working conditions are based on a transparent information policy, attractive pay and voluntary social insurance contributions, flexible working hours to assist in creating a healthy work-life balance and promoting employees' participation in the process of change.

Berlin Hyp gives its employees the chance to spend a day volunteering for a charitable cause; once again, many Berlin Hyp employees took the opportunity to do so in the financial year 2017.

Health management has a long-standing tradition at Berlin Hyp. Two health days were held in 2017. Both days were dedicated to specific topics. "Movement" was the focus in the first half of the year and "relaxation" was on the agenda in the second half.

The response to the varied offering, which combined hands-on activities and diagnostic services, was extremely positive and was very popular with the staff.

As a result, the health courses offered by external providers held in the Bank's offices are being constantly expanded. Berlin Hyp also offers its employees an extensive prevention programme, such as the annual flu vaccination, massages, sports classes and back-strengthening exercises outside the scope of the health days. Employees can also seek advice from the occupational health officer at any time on how to make their workstation more ergonomic.

Berlin Hyp employees should be given the chance to change their career path. That is why vacant positions are initially advertised internally, with suitably qualified applicants being offered an interview. The recruitment process puts particular emphasis on employee potential and development opportunities. The performance, potential and willingness of Berlin Hyp's employees to accept change gives them the opportunity for horizontal as well as vertical career steps. Decisions on recruitment are made in a transparent and traceable manner. They are made on the basis of standardised procedures, particularly in the case of management recruitment.

Promotion and development are particularly important in annual employee appraisals. Discussions also centre on the need for the employee to adapt to a constantly changing working environment. However, feedback based

on a model of constructive exchange regarding conduct and results is not just provided periodically within the scope of the employee appraisal, rather also on a situational basis.

Qualification Risk

The Bank conducts targeted education and further training measures on the basis of the annual staff discussions and the current and future task structure of the staff. Training requirements in individual specialist departments are determined first of all, before qualification measures are initiated by the Human Resources division.

Alongside specialist seminars, personality seminars, language seminars and IT seminars were also on offer in 2017.

The specialist programme was also conducted in financial year 2017, which is geared towards developing personalities and networking the Bank's best specialists. In addition, Berlin Hyp offers advanced qualification measures for various target groups within the company. This includes promoting young employees who are able to apply for a mentoring training programme or a place to study real estate economics at university. The two openings in 2017 were allocated while maintaining the principle of equal treatment of male and female candidates. In addition, advanced qualification was also implemented for the specific qualification needs of the second level and for employees who seek to complete a university degree alongside work. Furthermore, training for selected employees and managers in terms of agile and efficient working methods derived from the 2016 change process were continued and finalised.

The concept implemented in 2016 for the holistic development of managers was revised in 2017 following the project to review and rework the Bank's personnel management instruments. Individual existing measures such as basic training for new managers, coaching and the SeitenWechsel® personality training concept were combined with new methods such as leadership training from the perspective of a healthy lifestyle, to form a modular system. The concept is based on individual, flexible personnel development for managers and is geared towards on the corporate vision and strategy in terms of personnel development content.

Both as a partner for conducting the in-house seminars and in seminars for individual employees, Berlin Hyp engages providers with

excellent technical and methodology standards. In 2017, for example, networking with training facilities of German savings banks, the Sparkassenakademien, was intensified. In addition, numerous internal qualification measures involved greater use of the staff's professional expertise through deploying them in internal teaching activities. Only through continuous, autonomous learning in the workplace can the qualifications of the Bank's employees be adapted quickly to the constantly changing work environment.

Managers closely accompany their employees on an equal level in this process. They jointly define development objectives, provide feedback and structure individual on-the-job training with the employee.

In addition, employees are also given the opportunity to job-shadow in other divisions of the Bank. These measures guarantee that staff can meet current and future challenges with a high degree of specialist and social competence.

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 and Banking Operations 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 and sufficient human, technical and organisational resources are also available in order to ensure the sustainable and disruption-free handling of tasks. The divisions are assigned to the Board's credit function sphere.

In their management reports, 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 implementation of controls is decided on the basis of suitability, effectiveness and profitability.

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

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

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

At Berlin Hyp, accounting processes are standardised and are subject to constant supervision. The processing, entry and documentation of relevant accounting data occurs using IT systems that keep accounting books and other records in electronic form. Berlin Hyp applies the core SAP application as an integrated comprehensive banking solution. This system largely avoids interfaces between various data processing applications, weak links in the data flow as well as manual interventions and processes. Regulations and measures regarding IT security, which are also of particular importance when it comes to accounting, have already been

discussed. A thorough separation of functions along with organisational instructions and the distribution of technical roles and access rights ensure in advance that interventions in accounting processes can only be undertaken in accordance with official responsibilities and competence. Unless specialised, two-person integrity systems have been established, organisational control activities are undertaken on a standardised basis. Electronically generated raw data as well as the various interim and final results are analysed, tested for plausibility and randomly examined by the divisions using a variety of system-supported comparisons, agreements, target comparisons and time-series developments on an individual transaction basis. Both technical requirements and workflow descriptions are in place for the individual processing steps within the framework of the relevant development process.

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

Accounting processes are an integral component of the 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 financial year 2017, audits on the methods for producing tax returns, account management issues and current account reconciliations, among other things, were carried out. As in previous years, the Internal Audit division monitored and accompanied the process of reconciling loan accounts within the scope of the dispatch of annual statements in its role as a neutral body.

There were no significant findings, as in previous years.

Regarding special measures concerning the management and monitoring of accounting units that are to be depicted within the account-

ing framework, please refer to the comments on risks in the Annual Report as well as to the Notes.

A number of external audits were carried out at Berlin Hyp in financial year 2017 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.

Particularly noteworthy in this regard are the ECB's on-site inspections on the issues of managing the risk of interest rate changes and audits on the German Saving Savings Banks Finance Group's (DSVG) deposit protection system. The on-site inspections on liquidity risk management and internal and external reporting quality and coverage audit performed in 2016 were reported on and assessed in final form in the financial year. External tax audits were once again conducted.

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

V Remuneration Report

The reenactment of the Institutional Remuneration Ordinance (Institutsvergütungsverordnung) entered into effect on 4 August 2017.

The amendments were being integrated in the remuneration strategy and remuneration systems at the time this report was prepared. As a result, this remuneration report is based on the Institutional Remuneration Ordinance in the previous version dated 1 January 2014 and does not reflect the amendments of 4 August 2017.

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

Remuneration of the Board of Management

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

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

Landesbank Berlin Holding has concluded a lump-sum pecuniary loss third-party liability group insurance (D & O insurance) in favour of members of organs within the Group. This also covers the personal liability risk of the Berlin Hyp Board of Management members in case the relevant group of persons is called to account for pecuniary loss in connection with the performance of its work.

In accordance with the regulations contained in Section 93 (2) German Stock Corporation Act (AktG), the deductible is agreed as at least 10 % of the claim up to a maximum amount of one and a half times the fixed annual remuneration. Landesbank Berlin Holding pays the premiums for this D & O insurance which is also in the interests of the Group.

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

Fixed annual salary: The fixed annual salary of the members of the Board of Management consists of a basic salary in the form of pensionable and non-pensionable components which are payable in monthly instalments. In accordance with the respective employment contracts, the fixed payments are reviewed for appropriateness and adjusted by the Supervisory Board every two years or, in the event of effective collective wage increases, adjusted according to the salary increase of the respective highest salary group in terms of percent in accordance with the collective bargaining agreement for the private banking trade and the public banks. There were no adjustments in the financial year 2017.

Variable remuneration: The members of the Board of Management can receive variable remuneration for their work in the respective past financial year. Pursuant to Section 20 (4) of the Remuneration Ordinance for Institutions (InstitutsVergV), at least 50 % of variable remuneration must

depend on the development of the institution's value over the long term and be subject to an appropriate time-limit. For (listed) institutions organised as an Aktiengesellschaft (stock corporation), the sustainability requirement is also to be complied with using share-based forms of remuneration. The issue of Berlin Hyp shares is not regarded as practical, as Berlin Hyp shares are not listed. Berlin Hyp shares, which cannot be traded on a liquid market, also do not represent a reasonable incentive instrument for Board of Management remuneration. In the opinion of the Supervisory Board, shares are therefore not suited as a form of remuneration at Berlin Hyp. The creation of shares-based instruments (phantom stocks) provides no benefits vis-à-vis the determination of variable remuneration in cash, since such share-based instruments would also be payable in cash and would have to be guided by the same criteria upon which the determination of variable remuneration is based. Instead of using share-based forms of remuneration, that part of the variable remuneration which is to be structured pursuant to Section 20 (4) of the Remuneration Ordinance for Institutions (InstitutsVergV) (sustainable instruments), is to be based on the development of equity capital pursuant to the German Commercial Code (HGB) as provided in Berlin Hyp's annual accounts in accordance with the German Commercial Code (HGB) as this adequately illustrates the development of Berlin Hyp's value.

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

1. Determining the Group's overall success

The Group's overall success is determined at the level of Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG. The size of the contribution to value, which fundamentally encompasses the operating result and capital costs and is determined based on the financial statements of Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG according to the German Commercial Code (HGB), is used

as a parameter here. Determining the Group's overall success is the basis for other decisions at the level of Group institutions. Any deviations to this rule in the case of negative overall performance are to be comprehensively justified and presented to the responsible regulatory body for advance approval.

2. Determining Berlin Hyp's overall success

Berlin Hyp's overall success is determined using the method as applied at Group level.

3. Determining the total variable remuneration amount

In determining the total variable remuneration amount for the Board of Management (total bonus pool), the Supervisory Board initially uses a bonus base value. This comprises 20 % of the fixed Board of Management remuneration and is adjusted in line with success. Besides an evaluation of the sustainable financial success, qualitative factors are also taken into account. The final step is a review; where necessary a reduction of the calculated overall bonus pool is conducted pursuant to Sections 7 and 20 of the Remuneration Ordinance for Institutions (InstitutsVergV), following a check for conflicts with the risk-bearing capacity and/or the Bank's equity capital requirements, among other factors, until all criteria have been met.

4. Determining individual target bonuses

The individual success of each member of the Board of Management is determined by whether the member achieves the agreed targets (individual targets), taking into account both quantitative and qualitative remuneration parameters, which are inspired by the strategies and support the reaching of the strategic targets. Negative performance contributions made by a member of the Board of Management will reduce the amount of variable remuneration or lead to complete forfeiture of such variable remuneration. Complete forfeiture of variable remuneration occurs in particular if the preconditions of Section 20 (5) No. 1 or 2 of the Remuneration Ordinance for Institutions (InstitutsVergV) are fulfilled. The target bonus may not exceed the fixed annual salary (basic salary com-

prising pensionable and non-pensionable components) of the member of the Board of Management.

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

The target bonus is then determined by the Supervisory Board.

Taking into account the position and the tasks of the Board of Management at Berlin Hyp and the regular amount of the variable remuneration, 40 % of the target bonus determined by the Supervisory Board will be paid immediately ("instant bonus").

The remaining 60 % of the target bonus will be spread over a period of four years and may only be awarded in four instalments over the four financial years following further calculations by Supervisory Board. The Supervisory Board will resolve the conditional bonuses once the annual accounts have been prepared for each financial year, taking into account the development of Berlin Hyp's value over the long term as well as personal performance contributions.

A maximum of 15 % of the target bonus may be paid out as a conditional bonus. Each portion of the conditional bonus still to be agreed on will be determined once the sustainability of the performance contributions for the financial year for which the target bonus had been intended at the time (base year) has been reviewed. Any negative performance contributions at the Group or bank level or non-sustainable individual performance contributions result in the bonus being reduced or forfeited.

50 % of both the instant and conditional bonuses will be paid out immediately following their determination. The remaining 50 % are dependent on the development of the company's value over the long term and are subject to a one-year holding period, after which they will be paid ("sustainable instruments").

The net asset value over time needs to be established for this. If a member leaves the Board of Management through termination of the appointment and/or termination of the employment relationship, the determination of instalments extending across the retention period will not be affected; other income will not be offset.

The Board of Management members did not receive any other remuneration components (subscription rights, other share-based remuneration components, etc.) in the financial year 2017. Board of Management members have not been promised or have not received payments from third parties in the financial year in connection with their work as Board of Management members.

Other remuneration: Company cars were also provided to Sascha Klaus, Roman Berninger and Gero Bergmann for company and private use in the financial year 2017, with a chauffeur also provided for company use.

Total remuneration: In the financial year 2017, the members of the Board of Management received remuneration totalling T€ 1,833 (previous year: T€ 2,424). This amount contains the performance-related elements of the remuneration for the financial years 2012 and 2015, totalling T€ 113.5, and for the financial year 2016 totalling T€ 172, disbursed in the financial year 2017.

In 2017, variable remuneration of T€ 460 was determined for the Board of Management for the financial year 2016.

The total amount of variable remuneration paid to the Board of Management in 2017 was determined in accordance with Section 7 Remuneration Ordinance for Institutions (InstitutsVergV).

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

The sum of variable remuneration for the financial year 2017 as well as the payable retention sums from the 2012 and 2015 financial years could not yet be determined at the time of the preparation of the annual accounts.

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

The Board of Management members Gero Bergmann and Roman Berninger have a claim to retirement pension after the end of the contractual relationship upon reaching the age of 65.

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

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

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

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

The pension claim acquired pursuant to this as at 31 December 2017 is 34.0 % of the pensionable salary for Gero Bergmann and 58.0 % for Roman Berninger.

According to their contracts of employment, the Board of Management members have a claim to the adjustment of their current pension benefits once they have started receiving them. This adjustment is made in accordance with the percentage payment developments of the collective bargaining agreements for the private banking trade and the public banks.

The cash value of the pension reserves formed for the Board of Management was T€ 3,607 on the balance sheet date (2016: T€ 3,905). In 2017, T€ 322 (2016: T€ 555) was contributed to reserves in anticipation of pension commitments and similar obligations to members of the Board of Management.

In addition, a total of T€ 2,919 (2016: T€ 2,755) was paid in the financial year 2017 in overall benefits (retirement pensions, surviving dependants' benefits and payments of a related nature) to former Board of Management members or their surviving dependants. The cash value of the obligations to pay such benefits for this group of persons is T€ 34,425 on the balance sheet date.

The following overviews of the remuneration of members of the Board of Management in the financial year 2017 comply with the disclosure requirements of the German Corporate Governance Code:

Amounts
in T€

		Fixed annual remuneration	Ancillary benefits	Total	One-year variable remuneration	Multi-year variable remuneration	Conditional bonus for the 2010 FY (6 year term of the plan)	Instant bonus for the 2012 FY (3 year term of the plan)	Conditional bonus for the 2012 FY (6 year term of the plan)	Instant bonus for the 2015 FY (1 year term of the plan)	Conditional bonus for the 2015 FY (5 year term of the plan)	Instant bonus for the 2016 FY (1 year term of the plan)	Total	Benefit expenditure ²	Total remuneration
Sascha Klaus Chair of the Board of Management 1 October 2016															
Benefits granted ¹	2016	187	5	192	100	0	0	0	0	0	0	0	292	0	292
	2017	560	19	579	0	0	0	0	0	0	0	0	579	0	579
	2017 (Min)	560	19	579	0	0	0	0	0	0	0	0	579	0	579
	2017 (Max)	560	19	579	0	0	0	0	0	0	0	0	579	0	579
Allocations ³	2016	187	5	192	0	0	0	0	0	0	0	0	192	0	192
	2017	560	19	579	100	0	0	0	0	0	0	0	679	0	679
Roman Berninger Board of Management 1 January 2010															
Benefits granted ¹	2016	455	23	478	0	215	37	42	84	52	0	0	693	305	998
	2017	455	25	480	0	139	0	0	21	26	20	72	619	270	889
	2017 (Min)	455	25	480	0	0	0	0	0	0	0	0	480	270	750
	2017 (Max)	455	25	480	0	139	0	0	21	26	20	72	619	270	889
Allocations ³	2016	455	23	478	0	168	37	42	63	26	0	0	646	305	951
	2017	455	25	480	0	93	0	0	21	26	10	36	573	270	843
Gero Bergmann Board of Management 1 January 2011															
Benefits granted ¹	2016	455	30	485	0	178	0	42	84	52	0	0	663	144	807
	2017	455	33	488	0	139	0	0	21	26	20	72	627	113	740
	2017 (Min)	455	33	488	0	0	0	0	0	0	0	0	488	113	601
	2017 (Max)	455	33	488	0	139	0	0	21	26	20	72	627	113	740
Allocations ³	2016	455	30	485	0	131	0	42	63	26	0	0	616	144	760
	2017	455	33	488	0	93	0	0	21	26	10	36	581	113	694

¹ This table indicates the value of the benefits granted for the reporting year. It is also supplemented by the levels which can be achieved as a minimum and/or maximum amount in the reporting year, depending on the achievement of the agreed targets.

² For pension schemes and other benefits, the benefit expense, i.e. the service cost, is shown accordance with IAS 19. The service cost to be recognised in profit or loss is calculated according to the Projected Unit Credit Method and corresponds to the actuarial cash value of those payment elements which are newly earned by the active staff in the current accounting period.

³ This table shows the allocations for the financial year.

Remuneration of the Supervisory Board

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

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

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

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

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

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

Total remuneration of T€ 306 (2016: T€ 305), without value added tax, is payable to the members of the Supervisory Board of Berlin Hyp and its committees for 2017.

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

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

Compliance Declaration in Accordance with Section 161 German Stock Corporation Act (AktG) Regarding the German Corporate Governance Code

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

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

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

Supervisory Board

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

Board of Management

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

First and Second Management Levels below the Board of Management

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

The target set for the first level of management below the Board of Management (divisional management) of 23 % by 2020 was already exceeded as at 31 December 2017 at 28.6 %. At the second level of management below the Board of Management (department management), new appointments led to about a 3 % increase in female representation to 26.7 % when compared to 2016. The targeted 30 % by 2020 has not yet been achieved, but still has sufficient potential to be reached in terms of time.

Overall, the percentage of women in management positions at all levels of management at Berlin Hyp increased slightly at 27 %.

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

For the financial year 2017 Berlin Hyp prepared a separate non-financial report pursuant to Sections 289b and c German Commercial Code (HGB). This report is published together with the management report. In addition, Berlin Hyp will publish its sustainability report on its website at www.berlinhyp.de/bhyp/de/presse/mediacenter.

Women in management positions

Target by 2024

First level

25 %

Second level

35 %



Balance Sheet of Berlin Hyp AG

as at 31 December 2017

Assets	€	31.12.2017 €	31.12.2016 T€
1. Cash reserves			
a) Cash in hand	2,969.72		4
b) Central bank balances	543,467,185.59		8,845
of which: at Deutsche Bundesbank € 543,467,185.59 (2016: T€ 8,845)		543,470,155.31	8,849
2. Public-sector debt and bills of exchange admitted for refinancing at central banks		0.00	0
3. Claims against banking institutions			
a) Mortgage loans	0.00		0
b) Public-sector loans	51,956,780.82		263,448
c) Other claims	390,443,034.97		288,046
of which: due on demand € 2,046,048.72 (2016: T€ 2,658) with securities as collateral T€ 0 (2016: T€ 0)		442,399,815.79	551,494
4. Claims against customers			
a) Mortgage loans	20,081,589,761.75		18,124,709
b) Public-sector loans	763,983,070.25		1,228,336
c) Other claims	128,631,551.34		16,639
of which: with securities as collateral € 0.00 (2016: T€ 0)		20,974,204,383.34	19,369,684
5. Debentures and other fixed-interest securities			
a) Money market securities			
aa) Issued by public institutions	0.00		0
of which: eligible as security at Deutsche Bundesbank € 0.00 (2016: T€ 0)			
ab) From other issuers	0.00		0
of which: eligible as security at Deutsche Bundesbank € 0.00 (2016: T€ 0)			
	0.00		0
b) Bonds and debentures			
ba) Issued by public institutions	1,922,009,968.01		2,939,514
of which: eligible as security at Deutsche Bundesbank € 1,922,009,968.01 (2016: T€ 2,939,514)			
bb) From other issuers	2,702,101,772.82		2,842,478
of which: eligible as security at Deutsche Bundesbank € 2,702,101,772.82 (2016: T€ 2,842,478)			
	4,624,111,740.83		5,781,992
c) Own debentures	0.00		0
Nominal amount € 0.00 (2016: T€ 0)		4,624,111,740.83	5,781,992
6. Shares and other non-fixed-interest securities		0.00	0
6a. Trading portfolio		0.00	0
7. Interests		2,252,561.34	0
of which: in banking institutions € 0.00 (2016: T€ 0) in financial services institutions € 0.00 (2016: T€ 0)			
Carryover		26,586,438,656.61	25,712,019

Liabilities	€	31.12.2017 €	31.12.2016 T€
1. Liabilities to banking institutions			
a) Registered mortgage Pfandbriefe issued	251,360,116.03		354,760
b) Registered public Pfandbriefe issued	251,257,884.33		279,830
c) Other liabilities	4,452,944,815.26		4,179,123
of which: due on demand € 1,077,989.87 (2016: T€ 142,136) Registered mortgage Pfandbriefe delivered to the lender as collateral for loans taken up € 0.00 (2016: T€ 0) and public registered Pfandbriefe delivered € 0.00 (2016: T€ 0)		4,955,562,815.62	4,813,713
2. Liabilities to customers			
a) Registered mortgage Pfandbriefe issued	2,376,272,563.01		2,373,998
b) Registered public Pfandbriefe issued	665,685,657.22		1,029,696
c) Other liabilities	3,051,881,609.79		2,072,768
of which: due on demand € 259,961,115.59 (2016: T€ 242,367) Registered mortgage Pfandbriefe delivered to the lender as collateral for loans taken up € 0.00 (2016: T€ 0) and public registered Pfandbriefe delivered € 0.00 (2016: T€ 0)		6,093,839,830.02	5,476,462
3. Securitised liabilities			
a) Debentures issued			
aa) Mortgage Pfandbriefe	8,629,738,456.58		8,039,879
ab) Public Pfandbriefe	720,422,659.51		1,639,590
ac) Other debentures	4,201,536,785.18		3,935,397
	13,551,697,901.27		13,614,866
b) Other securitised liabilities	0.00		0
of which: money market securities € 0.00 (2016: T€ 0)		13,551,697,901.27	13,614,866
3a. Trading portfolio		0.00	0
4. Trust liabilities		0.00	0
of which: trustee loans € 0.00 (2016: T€ 0)			
5. Other liabilities		589,229,945.38	526,484
6. Prepaid income			
a) From issue and loan business	170,125,475.13		216,996
b) Other	0.00		0
		170,125,475.13	216,996
6a. Deferred tax liabilities		0.00	0
7. Reserves			
a) Provisions for pensions and similar obligations	141,964,054.00		132,574
b) Tax provisions	891,200.00		665
c) Other provisions	77,884,629.72		29,948
		220,739,883.72	163,187
8. Subordinated liabilities		383,297,848.26	453,587
Carryover		25,964,493,699.40	25,265,295

Balance Sheet of Berlin Hyp AG

as at 31 December 2017

Assets	€	31.12.2017 €	31.12.2016 T€
Carryover		26,586,438,656.61	25,712,019
8. Shares in affiliated enterprises		25,646.61	26
of which: in banking institutions € 0.00 (2016: T€ 0)			
in financial services institutions € 0.00 (2016: T€ 0)			
9. Trust assets		0.00	0
of which: trustee loans € 0.00 (2016: T€ 0)			
10. Equalisation claims against public-sector institutions, including debentures arising from their exchange		0.00	0
11. Intangible investment assets			
a) Internally produced industrial property rights and similar rights and values	0.00		0
b) Purchased concessions, industrial property rights and similar rights and values as well as licences for such rights and values	5,749,171.00		6,810
c) Goodwill	0,00		0
d) Payments in advance	6,221,409.65		3,462
		11,970,580.65	10,272
12. Tangible assets		58,331,391.75	58,131
13. Unpaid called-up contributions to the subscribed capital		0.00	0
14. Other assets		273,227,660.64	337,222
15. Prepaid expenses			
a) From issue and loan business	192,230,892.21		235,584
b) Others	1,172,028.06		944
		193,402,920.27	236,528
16. Deferred tax assets		0.00	0
17. Surplus arising from offsetting		0.00	0
18. Deficit not covered by equity		0.00	0
Total assets		27,123,396,856.53	26,354,198

Liabilities	€	31.12.2017 €	31.12.2016 T€
Carryover		25,964,493,699.40	25,265,295
9. Profit-sharing rights capital		0.00	0
of which: due within two years € 0.00 (2016: T€ 0)			
10. Fund for general bank risks		223,000,000.00	153,000
11. Equity			
a) Called-up capital			
aa) Subscribed capital	753,389,240.32		753,389
ab) Less unpaid contributions not called up	0.00		0
	753,389,240.32		753,389
b) Capital reserve	158,316,268.74		158,316
c) Profit reserves			
ca) Statutory reserve	22,022,655.29		22,023
cb) Reserve for own shares in companies with a controlling or majority holding	0.00		0
cc) Articles of Association reserve	0.00		0
cd) Other profit reserves	0.00		0
	22,022,655.29		22,023
d) Balance sheet profit	2,174,992.78		2,175
		935,903,157.13	935,903
Total liabilities		27,123,396,856.53	26,354,198
1. Contingent liabilities			
a) Liabilities from guarantees and warranty contracts		206,964,237.43	129,626
2. Other obligations			
a) Irrevocable loan commitments		2,177,924,533.30	1,895,248

Profit and Loss Account

of Berlin Hyp AG for the period from 1 January to 31 December 2017

Expenditure			2017	2016
		€	€	T€
1.	Interest expenditure	131,093,358.03		220,432
	less positive interest	14,021,670.69	117,071,687.34	19,912
				200,520
2.	Commission expenditure		5,518,176.84	5,497
3.	Net expenditure of the trading portfolio		0.00	0
4.	General operating expenditure			
	a) Staff expenditure			
	aa) Wages and salaries	56,000,569.46		55,291
	ab) Social security contributions and expenditure for retirement pensions and support of which: for retirement pensions € 10,135,988.79 (2016: T€ 101)	17,593,341.77		7,322
		73,593,911.23		62,613
	b) Other administrative expenses	55,873,420.69		55,308
	of which: expenditure for bank levy € 10,062,201.55 (2016: T€ 10,940)			
			129,467,331.92	117,921
5.	Depreciations and valuation adjustments on intangible investment assets and tangible assets		5,280,348.38	4,401
6.	Other operating expenditure		53,394,968.25	28,849
7.	Depreciations and valuation adjustments on claims and specific securities and additions to provisions made for lending		0.00	35,709
8.	Depreciations and valuation adjustments on participations, shares in affiliated enterprises and securities held as investment assets		0.00	0
9.	Expenditure for loss assumptions		0.00	0
10.	Allocation to the fund for general bank risks		70,000,000.00	50,000
11.	Extraordinary expenditure		0.00	0
12.	Taxes on income and earnings		427,890.33	–296
13.	Other taxes not shown under Item 6		181,717.98	183
14.	Profits transferred on the basis of a profit pool, a profit transfer or partial profit transfer agreement		117,023,460.73	73,023
15.	Net income for the year		0.00	0
	Total expenditure		498,365,581.77	515,807
1.	Net income for the year		0.00	0
2.	Profit/loss carryforward from the previous year		2,174,992.78	2,175
3.	Balance sheet profit		2,174,992.78	2,175

Income			2017	2016
		€	€	T€
1.	Interest income from			
	a) Lending and money market business	376,954,976.82		419,480
	less negative interest from loan and money market transactions	3,019,236.17		6,228
		373,935,740.65		413,252
	b) Fixed interest securities and book-entry securities	14,001,308.29		43,134
			387,937,048.94	456,386
2.	Current income from			
	a) Shares and other non-fixed interest securities	0.00		0
	b) Interests	0.00		0
	c) Shares in affiliated companies	0.00		0
			0.00	0
3.	Income from profit pooling, profit transfer or partial profit transfer agreements		0.00	0
4.	Commission income		44,611,141.79	48,088
5.	Net earnings of the trading portfolio		0.00	0
6.	Income from attributions to claims and specific securities and the dissolution of reserves for lending		56,256,634.03	0
7.	Income from attributions to interests, shares in affiliated enterprises and securities treated as investment assets		3,186,590.70	2,782
8.	Other operating income		6,374,166.31	8,551
9.	Income from the dissolution of the fund for general bank risks		0.00	0
10.	Net loss for the year		0.00	0
	Total income		498,365,581.77	515,807

Statement of Changes in Equity and Cash Flow Statement

T€	Subscribed capital	Capital reserve	Profit reserves	Balance sheet profit	Total equity
As at 31.12.2016	753,389	158,316	22,023	2,175	935,903
Capital increases	0	0	0	0	0
Dividend payments	0	0	0	0	0
Other changes pursuant to Section 272 No. 4 HGB	0	0	0	0	0
As at 31.12.2017	753,389	158,316	22,023	2,175	935,903

The cash flow statement provides information on the status and development of the Bank's funds, separated according to the divisions of operating business activities, investment activities and finance activities. It is prepared in accordance with German Accounting Standard No. 21 (DRS 21).

Cash flows for operating business activities are allocated by separating them from operating results. The cash flow from investment activities largely results from deposits and withdrawals in connection with the sale or acquisition of financial and/or tangible assets. In assessing net cash from financing activity, changes in sub-ordinated liabilities are taken in consideration alongside relations to equity suppliers.

The cash and cash equivalent shown includes the cash reserve, which is composed of cash holdings and credit balances with central banks. There are no restrictions on the disposal of cash and cash equivalents.

Expenses from the profit transfer agreement with Landesbank Berlin Holding AG, Berlin of € 117.0 million are reported separately. The transfer of profits for the financial year 2016 is reported in cash flow from financing activities.

Cash Flow Statement in T€ (+ = cash inflow, – = cash outflow)	2017	2016
Net income for the year	0	0
Depreciations, value adjustments/attributions to claims and items of investment assets	–27,748	136,379
Increase/decrease in reserves	57,553	–869
Other expenditure/income without payment effect	0	0
Profit/loss from the sale of investment asset items	–23,715	–8,235
Profit and loss transfer agreement	117,023	73,023
Other adjustments (on balance)	5,950	–78,481
Increase/decreases in		
claims against banking institutions	69,980	88,173
claims against customers	–1,582,187	1,138,279
of the securities (unless they are financial investments)	825,808	–38,154
Other assets from current business operations	107,160	129,838
Liabilities to banking institutions	174,372	–1,415,692
to customers	606,611	–878,983
Asset-backed liabilities	–24,210	246,977
Other liabilities from current business operations	–27,842	–115,143
Interest expenditure/interest income	–270,865	–255,866
Expenditure/income from extraordinary items	0	19,076
Income tax expenditure/earnings	428	–296
Interest payments and dividend payments received	466,097	560,922
Interest paid	–178,068	–276,246
Extraordinary in-payments	0	0
Extraordinary disbursements	0	0
Income tax payments	–202	–35
Cash flow from operating activities	296,144	–675,334
In-payments from disposals of the		
financial investment assets	321,221	727,235
tangible assets	0	0
intangible investment assets	0	0
Disbursements for investments in		
financial investment assets	–2,253	0
tangible assets	– 3,097	–1,689
intangible investment assets	– 4,082	–5,215
Change of funds from other investment activity (balance)	0	0
In-payments from extraordinary items	0	0
Disbursements from extraordinary items	0	0
Cash flow from investment activities	311,789	720,331
In-payments from equity contributions by shareholders of the parent company	0	0
In-payments from equity contributions by other shareholders	0	0
Disbursement from reductions in equity to shareholders of the parent company	0	0
Disbursement from reductions in equity to other shareholders	0	0
In-payments from extraordinary items	0	0
Disbursements from extraordinary items	0	0
Dividends paid to shareholders of the parent company	0	0
Dividends paid to other shareholders	0	0
Change of funds from other capital (balance)	–289	50,000
Change of funds from previous year's profit and loss transfer	–73,023	–92,025
Cash flow from financing activities	–73,312	–42,025
Cash and cash equivalents at the end of the previous period	8,849	5,877
Cash flow from operating activities	296,144	–675,334
Cash flow from investment activities	311,789	720,331
Cash flow from financing activities	–73,312	–42,025
Cash and cash equivalents at the end of the period	543,470	8,849

Notes

Berlin Hyp AG is a public company under German law and is headquartered in Berlin. It is registered in the Commercial Register of the District Court of Charlottenburg under HRB 560530 and is licensed to provide banking business and financial services.

General Information on the Structure of the Annual Accounts and on the Balance Sheet and Evaluation Methods

The annual accounts of Berlin Hyp are prepared according to the provisions of the German Commercial Code (HGB), supplementary stock corporation law provisions (AktG) and in consideration of the German Pfandbrief Act (PfandBG) and the Regulation on the Accounts of Banking Institutions (RechKredV).

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

Berlin Hyp holds shares in a subsidiary and a participation that have no material influence on the representation of the financial, assets and earnings situation of Berlin Hyp either individually or as a whole. Berlin Hyp has no legal obligation to produce consolidated annual accounts according to Section 290 German Commercial Code (HGB).

Reporting and Valuation Principles

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

The same reporting and valuation principles were applied in the annual accounts as at 31 December 2017 as were applied in the annual accounts for the previous year.

Claims and Liabilities

Claims are shown at their nominal amount, and liabilities are shown at their settlement amount. The difference between amounts paid out and par value where claims in the lending business

are concerned is reported as prepaid expenses and prepaid income, respectively, to the extent that it is classified as interest and released over their term according to schedule. Discounted debentures are displayed with their issue amount including accrued interest on the basis of issue yields.

Recognisable risks in the loan business were taken into proper consideration through the formation of specific valuation allowances, lump-sum specific valuation allowances and reserves. Lump-sum value adjustments are in place for latent risks in the accounts receivable – in addition to the fund for general Bank risks in accordance with Section 340g German Commercial Code (HGB) reported in the balance sheet. The lump-sum specific valuation allowances and the lump-sum value adjustments are determined using mathematical statistical procedures on the basis of the expected loss concept. When identifying income and expenses related to risk provisioning, the right to choose full compensation is exercised (Section 340f (3) German Commercial Code (HGB)). Interest is not recognised for irrecoverable claims.

Repurchase Agreements

The financial instruments that the Bank, in its capacity as a pension provider, transfers within the framework of genuine repurchase agreements are entered in the balance sheet and evaluated according to their classification. The corresponding liability is carried in the amount of the agreed redemption price, taking into account accrued interest. The difference between the redemption price and the amount received is considered in the interest result on a pro rata basis.

Securities

With the exception of the accounting units pursuant to Section 254 German Commercial Code (HGB) and the investment portfolio, the amounts included in the “Debentures and other fixed-interest securities” item were evaluated according to the strict lower-of-cost-or-market principle (Section 253 German Commercial Code (HGB)). The accounting units pursuant to Section 254 German Commercial Code (HGB) and the investment portfolio were consequently recognised at fair value to the extent it does not

exceed the amortised cost. Fair value in active markets corresponds to the stock market or market price on the reporting date.

Securities valued like assets were evaluated as amortised costs and, providing there are no grounds for sustained impairment, they are written up or off at the nominal value in case of purchase prices that deviate from the nominal value at consistent interest rates up to the respective due date. Reversal of an impairment loss in the fixed assets of rededicated securities is presented in the net income from investments.

Participations and Shares in Affiliated Companies

Participations and shares in affiliated enterprises are included at cost. Where a loss of value is expected to be permanent, they are written down to the lower fair value. If the reasons for the decrease in value no longer exist, write-ups are undertaken to an amount which may not exceed the amortised cost.

Tangible Assets and Intangible Assets

Tangible and intangible assets with limited useful lives are reported at amortised cost, less impairment losses to the lower fair value. Planned amortisation and depreciation are spread over the useful economic life of the assets. Low-value fixed assets (Section 6 (2) German Income Tax Code (EStG)) are written off either completely in the acquisition year or else consolidated during a period of five years. The period of amortisation for the software and licences listed under “Intangible investment assets” ranges between three and five years. Payments in advance are recognised at their nominal amounts.

Reserves

For contingent liabilities, reserves were formed for the settlement amounts required according to prudent commercial judgement, taking into account expected price and cost increases. The Bank determines the amount of these liabilities using estimates, which take into account the respective circumstances and relevant determining factors appropriately. Reserves for the legal risks arising from the Federal Court of Justice ruling on 4 July 2017 concerning credit

processing fees are calculated on the basis of an evidence list that contains all relevant processing fees agreed in Germany. Reserves for strategic resources planning are based on empirical figures taken from past personnel measures and from operative procedural planning.

The materiality of the discounting of reserves with residual terms of more than one year is reviewed regularly. Material items with a remaining term of over one year are discounted.

Pension reserves are assessed based on actuarial principles employing a discount rate of 3.68 % (4.01 %) of the cash value of the obligations already accrued. The actuarial interest rate refers to the interest rate determined by the Deutsche Bundesbank as at 31 December 2017, which results as a ten-year average interest rate from an assumed residual term of 15 years (Section 253 (2) Sentence 2 German Commercial Code (HGB)). The difference between the recognition of reserves in accordance with the actuarial interest rates of the past ten financial years and the recognition of reserves in accordance with the corresponding average market interest rates for the past seven financial years (discount rate of 2.80 % (3.24 %)) amounts to € 25.0 million (€ 19.5 million); the difference is not taken into account as being suspended for payment. The pension obligations are based on the projected unit credit method using the 2005 G Heubeck Guideline Tables as the biometric basis for calculation. A salary and career trend of 2.5 % per annum is calculated. The projected pension trend has accordingly been set at between 1.0 % and 2.0 % per annum, depending on the pension scheme involved.

Active members of the Board of Management have a calculated salary and career trend of between 0.0 % and 5.0 %. The age-dependent turnover has been considered at a rate of 1.5 % (over 40 years) to 4.8 % (up to 30 years).

As at 1 January 2010, the revaluation of pension reserves in accordance with the German Accounting Law Adjustment Act (BilMoG) resulted in an adjustment amount in the sum of € 31.8 million which, pursuant to Article 67 (1) Introductory Law to the German Commercial

Code (EGHGB), was to be distributed over a period of up to 15 years. In 2016, the then-unretained difference of T€ 19.1 was repaid in full through profit and loss. The reserve for early retirement obligations is set at cash value calculated using a maturity-linked discounting factor of future earnings. The 2005 G Heubeck Guideline Tables are used as a biometric accounting basis. The Bank reports income from the adjustment of parameters under the operating result.

Derivatives

The reporting and entering of derivative financial instruments occurs in off-balance-sheet accounts. There are no trading positions. In terms of derivative contracts, both banking institutions and the Bank's borrowers (customer derivatives) are possible counterparties. Accrued interest from interest and currency swaps is treated as deferred interest according to period; the entry occurs under the headings "Claims" and "Liabilities". Interest income and expenses from secured swap transactions are settled with the interest income and expenses of the respective secured item; thus the interest result from the entire hedging relationship is displayed in the corresponding item of the profit and loss account.

Among other instruments, the Bank uses swaptions and forward rate agreements to manage its interest-bearing operations at macro level. Paid option premiums are presented under the balance sheet heading "Other assets" and received option premiums under "Other liabilities" and are accrued on a time basis immediately following the termination of the option period in case of expiry or utilisation in respect of the term of the underlying transactions over prepaid expenses and deferred income. Paid and received non-recurring payments (upfront payments) and premiums for caps/floors/collars are entered in the balance sheet as deferred income and deferred on a pro-rata basis over their respective terms. The compensation payments due from forward rate agreements following the termination of the waiting period are entered immediately. The Bank does not hold any credit derivatives.

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

Accounting Units

Within the context of economic hedging relationships, the bank hedges debentures

and other fixed-income securities, book claims, short-term liabilities, securitised liabilities and pending transactions (payment obligations relating to irrevocable loan commitments) against the risk of a change in interest rates. As accounting units pursuant to Section 254 German Commercial Code (HGB), underlying debentures and other fixed-income securities are designated at the level of the individual transactions with a total nominal holding value of € 3.9 billion as at 31 December 2017 (2016: € 4.6 billion). Accounting units are only formed at the micro level, meaning that changes in values from the hedged risk are offset by the underlying transactions of the individual hedging instruments; the hedging relationships in questions are perfect hedging relationships. No ineffectiveness relevant to the accounting can arise on account of the correlation of all factors affecting value between the hedged portion of the underlying transaction and the portion of the hedging instrument to be hedged. As a result, the critical term match method is used to assess both the prospective and the retrospective effectiveness of the accounting unit. Risks hedged by the accounting units amounted to € 138.2 million as at the reporting date (2017: € 303.1 million). The Bank applies the net hedge presentation method. Changes in the value of underlying transactions and hedging instruments attributable to unsecured risks are not offset and recognised in accordance with general provisions.

Loss-Free Evaluation of the Banking Book

Berlin Hyp conducts an audit of the loss-free evaluation of interest rate-related transactions on the banking book (interest book) on the basis of IDW RS BFA 3. As Berlin Hyp did not allocate any transactions to the trading book, the banking book includes all interest-bearing transactions, including derivative financial instruments. Taking a cash value approach, the audit yielded no provisioning requirements.

Calculating Fair Values

In individual cases where prices for securities and claims were not available as at the balance sheet date on the basis of active markets via external market suppliers, the market values for such financial instruments were determined on the basis of evaluation models. These are standard discounted cash flow procedures that consider issuer and asset class-specific interest curves and credit spreads.

Currency Conversion

The valuation of assets, debts and off-balance-sheet transactions in foreign currencies is undertaken on the basis of Section 256a German Commercial Code (HGB) in connection with Section 340h German Commercial Code (HGB). The conversion is carried out at the reference prices provided on a daily basis by the Risk Controlling division of Landesbank Berlin AG, Berlin. Currency swaps used to hedge interest-bearing balance sheet items denominated in foreign currencies are translated at the split for-

ward rate, with the swap rate being discounted over the term of the swap and recognised as interest income on a pro rate basis. Currency effects from currency conversion are reported net under "Other operating income".

Compliance Declaration

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

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

Net Interest Income

Net Interest Income in T€	2017	2016
Interest income from		
Mortgage loans	372,859	408,953
Public-sector loans	2,460	4,655
Other receivables	-1,383	-356
Fixed-income securities and book-entry securities	14,001	43,134
	387,937	456,386
Earnings from profit and loss transfer agreements	0	0
Interest expenditure for		
Deposits and registered Pfandbriefe	81,474	120,677
Securitised liabilities	24,010	67,633
Subordinated liabilities and profit-sharing rights	11,588	12,210
	117,072	200,520
Net interest income	270,865	255,866

Net interest income increased by € 15.0 million to € 270.9 million compared to the previous year. The year-on-year rise was particularly due to the fall in refinancing expenses.

Interest income from balance sheet transactions that result from negative interest rates due to prevailing market conditions are reported under interest income at € 3.0 million (previous year, including derivatives: € 6.2 million) and under interest expenses at € 14.0 million (previous year, including derivatives: € 19.9 million). A preliminary column was added to the profit and loss account to ensure transparent presentation.

The net interest income shows interest expenditure and interest income from derivatives entered in the balance together with the interest expenditure and interest income from the respective secured balance sheet items.

Net interest and commission income and other operating income were predominantly generated in Germany.

Operating Expenditure

Other operating expenditure in T€	2017	2016
IT expenditure	14,217	12,984
Services by third parties	13,007	14,126
Bank levy	10,062	10,940
Group set-off	5,351	5,312
Building and premises costs	4,239	4,102
Staff-related material costs	3,158	2,984
Business operating costs	2,854	2,262
Advertising and marketing	2,249	1,922
Operating and business equipment	736	676
	55,873	55,308

The total fee calculated by the auditor and attributable to the financial year comprises the following (excluding VAT):

In T€	2017	2016
Auditing the annual accounts		
- current financial year	609	584
- Over-endowment (–) / Under-endowment (+) previous year	–53	0
Other certification services		
- current financial year	133	44
- Over-endowment (–) / Under-endowment (+) previous year	0	0
Tax advisory services		
- current financial year	0	0
- Over-endowment (–) / Under-endowment (+) previous year	0	0
Other services		
- current financial year	9	176
- Over-endowment (–) / Under-endowment (+) previous year	0	0

The other certification services mainly affect the audit of the Sustainability Report, the audit pursuant to Section 36 Securities Trading Act and the production of the letter of comfort for the basic project.

Other Operating Result

The other operating results includes expenses from additions to reserves related to legal risks concerning credit processing fees of € 19.6 million and reserves relating to strategic resources planning of € 26.1 million. This items continues to include income from the reversal of other provisions of € 3.4 million (€ 5.5 million) and income from foreign currency valuation of € 0.2 million (€ 1.0 million) as well as expenses from the compounding of reserves of € 5.3 million (€ 5.2 million) and cost reimbursements for the Detailed Agreement with the State of Berlin of € 1.9 million (€ 2.2 million). A total of € 5.2 million (€ 5.1 million) of the expenses

from the compounding of reserves relates to the compounding of pension reserves.

Depreciation and Valuation Adjustments on Claims and Specific Securities and Additions to Provisions Made for Lending

The balance shown results from the settlement of expenditure and income items shown in the profit and loss account items “Depreciation and valuation adjustments on claims and specific securities and additions to provisions made for lending” and “Income from attributions to claims and specific securities and the dissolution of reserves for lending”.

The balance of risk provisioning expenditure is comprised as follows:

In T€	2017	2016
Risk provisioning for lending business	–33,544	51,318
Risk provisioning for securities business	–22,713	–15,609
	–56,257	35,709

Earnings with negative advance signs

Risk provisioning for the lending business developed as follows:

In T€	Direct write-down	Counterparty risk exposure					Profit and loss relevant	
		Ind. value adjust-ment	Lump-sum value adjustment – other RP	RST	Total	Total	2017	2016
	2017	2017	2017	2017	2017	2016		
As at 1 January		157,663	104,706	4,319	266,688	220,087		
Net allocations and write-backs		–29,626	–1,023	2,827	–27,822	62,396	–27,822	62,396
Utilisation		–13,119	0	0	–13,119	–14,551		
Direct write-downs	350						350	88
Receipts on written-off receivables	–6,072						–6,072	–11,166
Transfers								
Foreign currency effects		–285	0	0	–285	–1,244		
As at 31 December	–5,722	114,633	103,683	7,146	225,462	266,688	–33,544	51,318

Earnings with negative advance signs

Other Information

Services performed for third parties include, among other things, the preparation of property-specific expert opinions within the framework of real estate valuations.

The annual surplus includes a balance of aperiodic income and expenses of € 9.8 million (2016: € 15.1 million), which primarily includes income from the reversal of reserves of € 3.4 million (2016: € 5.5 million) as well as receipts on receivables written off in the previous year of € 5.9 million (2016: € 9.0 million).

Balance Sheet

Securities with a nominal volume of € 508.0 million are evaluated as fixed assets since they do not serve as a liquidity reserve and are partially used to cover Pfandbriefe issued by the Bank. The book value of the securities, which stands above their market value of € 88.8 million, amounts to € 90.8 million. This takes into account the valuation results from interest swaps. The Bank took into account latent default risks of the investment securities in the form of lump-sum value adjustments.

Negotiable Securities and Interests in T€	Listed	Listed	Unlisted	Unlisted
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Debentures and other fixed-interest securities	4,624,112	5,781,992	0	0

Security for the Bank's Own Liabilities

Within the European System of Central Banks (ESCB), securities with a nominal value of € 3,108.2 million (2016: € 1,647.2 million) were pledged as security to Deutsche Bundesbank. The volume of the associated open market operations amounted to € 2,000.0 million (2016: € 1,000.0 million) and USD 500 million (€ 472.5 million) on the balance sheet date. At

the same time, the Bank has provided debenture bonds with a book value totalling € 875.1 million (2016: € 1,729.9 million) in repurchase agreements.

Intangible Investment Assets

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

Development of Fixed Assets

**Statement of changes
in assets**
in T€

	Acquisition/ manufacturing costs 01.01.2017	Additions 2017	Disposals 2017	Account transfers 2017	Acquisition/ manufacturing costs 31.12.2017	Attributions in the current year	Depreciations as at 01.01.2017	Additions 2017	Disposals 2017	Account transfers 2017	Depreciations as at 31.12.2017	Residual book value 31.12.2017	Residual book value 31.12.2016
Intangible investment													
b) Concessions and licenses acquired commercially	56,791	738	0	585	58,114	0	49,981	2,384	0	0	52,365	5,749	6,810
d) Down-payments made	3,473	3,345	0	-585	6,233	0	11	0	0	0	11	6,222	3,462
Sum of intangible investment assets	60,264	4,083	0	0	64,347	0	49,992	2,384	0	0	52,376	11,971	10,272
Tangible assets													
a) Sites and buildings for own use	62,695	64	0	0	62,759	0	10,060	1,024	0	0	11,084	51,675	52,636
b) Operating and business equipment and installations under construction	11,720	3,033	180	0	14,573	0	6,225	1,872	180	0	7,917	6,656	5,495
Total tangible assets	74,415	3,097	180	0	77,332	0	16,285	2,896	180	0	19,001	58,331	58,131
Total intangible investment assets and tangible assets	134,679	7,180	180	0	141,679	0	66,277	5,280	180	0	71,377	70,302	68,403
	Book value			Changes*							Residual book value		
	01.01.2017										31.12.2017 31.12.2016		
Bonds and debentures	801,172			-297,415							503,757 801,172		
Interests	0			2,253							2,253 0		
Shares in affiliated enterprises	26			0							26 26		

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

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

Company	Total share of capital	Voting rights	Equity	Result	Annual accounts diverging at 31.12.2017
	%	%	T€	T€	
Affiliated enterprises					
Berlin Hyp Immobilien GmbH, Berlin	100	100	80	-53	31.12.2016
Investments					
BrickVest Ltd., London	6,74	6,79	879	-1,239	31.12.2016

Other Assets

These figures largely contain claims from collateral in relation to derivatives amounting to € 250.5 million (2016: € 310.2 million), paid option premiums of € 8.4 million (2016: € 1.7 million), as well as unrealised gains from forward exchange deals with with extra cover.

These include, amongst other things, liabilities from collateral received in relation to derivatives amounting to € 445.8 million (2016: € 438.9 million), received option premiums of € 13.8 million (2016: € 6.6 million) as well as profits of € 117.0 million (2016: € 73.0 million) transferable to Landesbank Berlin Holding AG, Berlin.

Other Liabilities

Other Reserves

Other reserves include:

In T€	31.12.2017	31.12.2016
Reserves for human resources	15,488	14,576
Reserves for litigation costs risks	2,443	3,319
Other	59,954	12,054
Total	77,885	29,949

Other reserves primarily include reserves for legal risks arising from the Federal Court of Justice ruling dated 4 July 2017 concerning loan processing fees of € 19.6 million and reserves for strategic resources planning of € 26.1 million.

Interest is paid on subordinate liabilities at the nominal rate of between 0.171 % to 6.56 % and is only to be reimbursed in the case of the Bank's bankruptcy or liquidation after satisfaction of all non-subordinate creditors. Early repayment is excluded. The repayments are to occur in the years 2018 to 2029. Based on a stock of € 373.2 million, € 222.3 million fulfil the requirements of the CRR for recognition as applicable equity capital.

Subordinated Liabilities

In the financial year 2017, interest paid amounted to € 11.6 million.

The 10 % of the loans and debentures surpassing the total stock was assumed under the following conditions:

Nominal amount T€	Interest rate p. a. %	Repayment on
60,000	0.171*	21.7.2020
40,000	4.12	4.3.2024

* Basis: three-month Euribor

Equity

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

Board's consent, is authorised to increase the company's subscribed capital by issuing new non-par shares in return for contributions in cash once or several times, but only up to € 205.8 million (authorised capital 2015), by 31 May 2020.

Classification by Remaining Maturity
in T€

	31.12.2017	31.12.2016
Assets		
Claims against banking institutions		
a) Due on demand	2,046	2,658
b) Less than three months	440,354	388,045
c) Between three months and one year	0	110,790
d) Between one year and five years	0	50,000
e) More than five years	0	0
Total	442,400	551,493
Claims against customers		
a) Less than three months	694,395	604,369
b) Between three months and one year	1,224,591	1,435,111
c) Between one year and five years	4,704,879	3,971,779
d) More than five years	14,350,339	13,358,425
Total	20,974,204	19,369,684
of which: claims with an indefinite term	686	695
Bonds and debentures		
- due in the following year	639,744	826,001
Liabilities		
Liabilities to banking institutions		
a) Due on demand	1,078	142,136
b) Less than three months	2,131,707	2,556,451
c) Between three months and one year	251,764	197,136
d) Between one year and five years	2,423,487	1,731,657
e) More than five years	147,527	186,333
Total	4,955,563	4,813,713
Liabilities to customers		
a) Due on demand	259,961	242,367
b) Less than three months	980,712	513,769
c) Between three months and one year	769,138	107,000
d) Between one year and five years	911,262	1,265,320
e) More than five years	3,172,767	3,348,006
Total	6,093,840	5,476,462
Securitised liabilities		
a) Less than three months	1,256,098	1,140,267
b) Between three months and one year	1,257,000	1,504,000
c) Between one year and five years	6,393,600	7,725,600
d) More than five years	4,645,000	3,245,000
Total	13,551,698	13,614,867
- due in the following year	2,513,098	2,644,267

Claims from and Liabilities to Affiliated Enterprises and Related Companies
in T€

	31.12.2017	31.12.2016
Affiliated enterprises		
Claims against banking institutions	3,930	7,192
Claims against customers	0	0
Other assets	9	847
Liabilities to banking institutions	157,390	193,007
Liabilities to customers	625	477
Securitised liabilities	0	0
Other liabilities	117,130	78,636
Subordinated liabilities	60,020	100,061

Prepaid Expenses and income
in T€

	31.12.2017	31.12.2016
Deferred income from issuing and lending operations includes:		
Discount from issuing lending operations	35,672	28,119
Premium from issuing and lending operations	27,998	38,194
Other	129,733	169,271
	193,403	235,584
Prepaid expenses for issuing and lending operations include:		
Premium from issuing and lending operations	8,065	8,597
Discount from lending operations	1,410	1,421
Other	160,650	206,978
	170,125	216,996

Deferred income recognised under “Other” includes accrued up-front payments and premium payments from caps, floors and collars of € 122.2 million (2016: € 162.3 million), which resulted from the transfer of customer derivatives from Landesbank Berlin AG, Berlin, to Berlin Hyp (portfolio transfer). Prepaid expenses recognised under “Other” particularly include

accrued up-front payments and premium payments from hedging derivatives concluded that mirror the customer derivatives.

Price risks are predominantly neutralised through fixed-term deposits, currency futures and currency swaps.

Foreign Currency Volumes
in T€

	31.12.2017	31.12.2016
Assets	331,835	557,073
Liabilities	571,882	141,797
Irrevocable loan commitments	0	3,406

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

Irrevocable lending commitments as part of real estate and capital market business amounted to € 2,177.9 million (€ 1,895.2 million) as at the end of the year. Contingent liabilities consist of the assumption of guarantees for largely mortgage-backed loans of € 207.0 million (2016: € 129.6 million). Particularly due to collateralisation, off-balance sheet items do not present increased risks.

Berlin Hyp is an affiliated member of the security reserve of the Landesbanken and central savings banks (Girozentralen) and therefore also a member of the guarantee system of the Savings Banks Finance Group, which is recognised under the German Deposit Protection Act (EinSG). Berlin Hyp's annual contributions are calculated according to the amount of its covered deposits. In the event of compensation or support being reported by a member institution, one-off or additional payments can be levied; however, the amount of the payments is also calculated according to the amount of Berlin Hyp's covered deposits and is therefore not currently foreseeable.

According to the Detailed Agreement with the State of Berlin, in some cases joint and several liability for various companies has been established for the obligations of the companies with shares in the Bankgesellschaft Berlin AG Group (now Landesbank Berlin Holding AG). The apportionment of liability in the internal relationship arises through the agreement of August 2002, which was amended in August 2004. It is largely oriented towards the participation relationship of the liability-causing companies that were sold to the State of Berlin in 2006.

Landesbank Berlin Holding AG must pay a fixed annual amount of € 15.0 million to the State of Berlin for the assumption of the risk shield. The internal distribution of these costs is carried out through the agreement of August 2002, amended in August 2004, and provides for a partial reimbursement of costs through Berlin Hyp in accordance with the ratio of the volumes of the credits of Berlin Hyp that are shielded by loan guarantees to the total shielded credits. Expenses from reimbursements amounted to € 1.9 million in 2017 (2016: € 2.2 million).

Completed business transactions largely serve to hedge exchange rate and credit risks of on-balance sheet underlying transactions. The market values of the derivative financial instruments are shown on the basis of the applicable interest rate on 29 December 2017 without taking into account interest accruals. The market values of the derivatives are counteracted by the valuation advantages of the balance sheet operations not assessed at

market price. All derivatives – with the exception of customer derivatives and transactions with Landesbank Berlin – are hedged using collateral agreements. Group affiliation means that the Bank does not provide collateral for transactions with LBB. In the case of customer derivatives, the land charges assigned as collateral for the underlying loans also serve as collateral for derivatives transactions.

Number of Staff

Annual average	Male	Female	2017 Total	2016 Total
Full-time employees	274	175	449	454
Part-time employees	19	113	132	130
School-leaver trainees / BA students	3	1	4	1
Total	296	289	585	585

Group Affiliation

Berlin Hyp is a subsidiary of Landesbank Berlin Holding AG and is included in the consolidated annual accounts of Erwerbsgesellschaft der S-Finanzgruppe mbH &Co. KG (smallest and largest consolidation group as defined in Section 285 Nos. 14 and 14a German Commercial Code (HGB)). A profit and loss transfer agreement and a tax group for VAT and income tax purposes are in force between Berlin Hyp and Landesbank Berlin Holding AG, Berlin. The consolidated annual accounts of the acquiring company will be published in the electronic Federal Gazette.

Information on a Reported Holding (Section 160 (1) No. 8 German Stock Corporation Act (AktG))

In a letter dated 7 January 2015, Landesbank Berlin Holding AG, Berlin, announced that it directly holds all shares in Berlin Hyp AG – following the transfer of Berlin Hyp from Landesbank Berlin AG to Landesbank Berlin Holding AG as at 31 December 2014/1 January 2015. Its share in the voting rights of the Bank's subscribed capital therefore amounted to 100.00 % as at the balance sheet date.

Letter of Comfort of Landesbank Berlin AG

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

Derivatives as at 31.12.2017

Statement of changes in derivatives
in € m

Statement of changes in derivatives in € m	Nominal amount / Remaining term			Total nominal value	Total negative values	Total positive values
	up to 1 year	1 to 5 years	over 5 years			
Interest-related transactions						
Interest rate swaps	5,071	15,087	21,612	41,770	−709	1,025
Swaptions	9,775	1,490	0	11,265	−8	7
Caps	251	1,529	382	2,162	−2	3
Floors	0	1,900	251	2,151	−1	0
	15,097	20,006	22,245	57,348	−720	1,035
Currency-related transactions						
Forward exchange dealings	417	0	0	417	−5	0
Interest and currency swaps	0	134	67	201	0	19
	417	134	67	618	−5	19
Total	15,514	20,140	22,312	57,966	−725	1,054

Organs of Berlin Hyp**Board of Management**

Sascha Klaus, Chair of the Board of Management
Gero Bergmann, Chief Market Officer
Roman Berninger, Chief Financial Officer

Supervisory Board**Thomas Mang**

→ Chair (since 27 November 2017)
 → President of the Savings Banks Association of Lower Saxony

Georg Fahrenschon (until 30 November 2017)

→ Chair (until 24 November 2017)
 → President of the Deutscher Sparkassen und Giroverband e. V. (ret.)

Jana Pabst

→ Deputy Chair
 → Bank employee
 → Employee representative
 → Chair of the Works Council of Berlin Hyp AG

Joachim Fechteler

→ Bank employee
 → Employee representative
 → Member of the Works Council of Berlin Hyp AG

Gerhard Grandke

→ Managing President of the German Savings Banks and Giro Association of Hesse-Thuringia

Artur Grzesiek

→ Former Chairman of the Board of Management of Sparkasse Cologne-Bonn

Dr. Harald Langenfeld

→ Chairman of the Board of Management of Stadt- und Kreissparkasse Leipzig

Thomas Meister

→ Bank employee
 → Employee representative

Siegmar Müller

→ Chair of the Board of Management of Sparkasse Gernersheim-Kandel
 → Landesobmann of the Rhineland-Palatinates Savings Banks Board of Management Members

Reinhard Sager

→ President of German Administrative District Parliament
 → County Council Chairman of the East Holstein District

Andrea Schlenzig

→ Bank employee
 → Employee representative

Helmut Schleweis

→ President of the German Sparkassen- und Giroverband e.V.

Peter Schneider

→ President of the Savings Banks Association of Baden-Württemberg

Walter Strohmaier

→ Chairman of the Board of Management of Sparkasse Niederrhein-Mitte
 → Bundesobmann of the German Saving Banks

René Wulff

→ Bank employee
 → Employee representative
 → Deputy Chair of the Works Council of Berlin Hyp AG

Loans to Members of Organs

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

Benefits of the Board Members**Remuneration for the Board of Management**

The Board of Management members received the following remuneration in the financial year 2017:

Members of the Board of Management in T€	Annual remuneration				Other remuneration ²		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Sascha Klaus	560	187	100	0	19	5	679	192
of which non-pensionable	560	187						
Roman Berninger	455	455	93	168	25	23	573	646
of which non-pensionable	149	149						
Gero Bergmann	455	455	93	131	33	30	581	616
of which non-pensionable	116	116						
Total remuneration 2017	1,470	1,097	286	299	77	58	1,833	1,454

¹ The payments for the financial year 2017 contain the performance-related remuneration elements for the financial years 2012, 2015 and 2016, which were paid out in 2017.

² Other remuneration relating to benefits in kind (pecuniary benefits from company car use) of T€ 55 and the so-called net benefits employer's contribution (the assumption of tax payments on pecuniary benefits by the employer) of T€ 22. In addition, chauffeurs were also used under the usual tariff conditions.

in T€	In 2017 Allocated or reserved amount	Recognised pension reserves as at 31.12.2017	Cash value of the pension claim acquired as at 31.12.2017
Sascha Klaus ³	0	0	0
Roman Berninger	238	2,029	2,029
Gero Bergmann	84	1,578	1,578
Total	322	3,607	3,607

³ Sascha Klaus will only receive a pension commitment after re-appointment as a member of the Board of Management after the expiry of the first term of office of three years.

In addition, a total of T€ 2,919 (2016: T€ 2,755) was paid in the financial year 2017 in overall benefits (retirement pensions, surviving dependants' benefits and payments of a related nature) to former Board of Management members or their surviving dependants.

The cash value of the obligations to pay such benefits for this group of persons is T€ 34,425 (2016: T€ 34,181) on the balance sheet date.

Remuneration for the Supervisory Board

The remuneration payable to the members of the Supervisory Board for the 2017 financial year, including committee activity, amounts to T€ 306 (excluding VAT).

Members of the Board of Management in T€	2017	2016
Thomas Mang, Chair from 27.11.2017	28	27
Jana Pabst, Deputy Chair	18	18
Georg Fahrenschon until 30.11.2017	30	33
Joachim Fechteler	18	18
Gerhard Grandke	19	19
Artur Grzesiek	18	15
Dr. Harald Langenfeld	26	26
Thomas Meister	18	18
Siegmar Müller	18	18
Reinhard Sager	12	12
Andrea Schlenzig	18	10
Helmut Schleweis	29	28
Peter Schneider	18	18
Walter Strohmaier	18	18
René Wulff	18	18
Supervisory Board members who left in 2016	0	9
Total	306	305
plus VAT	56	52
Total expenditure	362	357

**Major Mandates of the Board
of Management Members**

Sascha Klaus

→ Member of the Board of Management of Landesbank Berlin Holding AG, Berlin

Gero Bergmann

→ No mandates requiring disclosure

Roman Berninger

→ Member of the Board of Management of Landesbank Berlin Holding AG, Berlin
→ Member of the Supervisory Board of DIIR Deutsches Institut für interne Revision e. V.

No legal representatives or employees had mandates in statutory supervisory boards of large corporations (with the exception of employees' representatives in Berlin Hyp's Supervisory Board) in the financial year 2017.

Statement of Cover Assets

in € m

A. Mortgage Pfandbriefe

Ordinary cover

1. Claims against banking institutions

Mortgage loans

2. Claims against customers

Mortgage loans

3. Tangible assets (land charges on Bank-owned real estate)

Total

Additional cover

1. Other claims against banking institutions

2. Debentures and other fixed-interest securities

Total

Total cover

Total mortgage Pfandbriefe requiring cover

Excess cover

B. Public Pfandbriefe

Ordinary cover

1. Claims against banking institutions

a) Mortgage loans

b) Public-sector loans

2. Claims against customers

a) Mortgage loans

b) Public-sector loans

3. Debentures and other fixed-interest securities

Total

Additional cover

1. Other claims against banking institutions

2. Debentures and other fixed-interest securities

Total

Total cover

Total public Pfandbriefe requiring cover

Excess cover

31.12.2017

31.12.2016

0.0

0.0

12,347.0

11,561.6

0.0

0.0

12,347.0

11,561.6

200.0

0,0

1,568.5

1,103.0

1,768.5

1,103.0

14,115.5

12,664.6

13,494.5

11,839.1

621.0

825.5

0.0

0.0

50.0

260.8

85.3

128.7

742.2

1,199.0

718.0

1,442.0

1,595.5

3,030.5

0.0

50.0

59.5

30.0

59.5

80.0

1,655.0

3,110.5

1,586.7

2,852.9

68.3

257.6

Information pursuant to Section 28 German Pfandbrief Act (Pfandbriefgesetz)

Section 28 (1) Nos. 1 to 3 German Pfandbrief Act (Pfandbriefgesetz)

Amounts in € m

a) Mortgage Pfandbriefe Outstanding and Cover Used

	Nominal		Present value		Risk-adjusted present value*	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Mortgage Pfandbriefe	13,494.5	11,839.1	14,291.8	12,917.5	15,060.1	13,342.9
of which: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Cover funds	14,115.5	12,664.6	15,169.3	13,753.9	15,724.6	13,788.3
of which: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Excess cover	621.0	825.5	877.5	836.4	664.5	445.4
Surplus cover pursuant to vdp differentiation model	621.0	825.5	877.5	836.4	-	-

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

On a) Maturity Structure (Remaining Term)

	Mortgage Pfandbriefe		Cover funds	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Up to 6 months	1,465.0	1,160.5	1,098.2	1,005.8
Between 6 and 12 months	1,442.2	363.5	947.6	943.4
Between 12 and 18 months	1,459.0	1,464.5	603.1	624.2
Between 18 months and 2 years	423.7	1,442.3	670.2	910.9
Between 2 and 3 years	972.0	1,882.7	1,562.9	980.6
Between 3 and 4 years	1,739.0	972.0	1,592.7	1,537.9
Between 4 and 5 years	1,796.0	1,239.0	1,498.9	1,706.3
Between 5 and 10 years	3,159.0	2,069.0	5,735.5	4,384.8
Longer than 10 years	1,038.6	1,245.6	406.4	570.7

b) Public Pfandbriefe Outstanding and Cover Use

	Nominal		Present value		Risk-adjusted present value*	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Public Pfandbriefe	1,586.7	2,852.9	1,820.2	3,341.3	1,768.8	3,173.1
of which: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Cover funds	1,655.0	3,110.5	1,943.2	3,547.7	1,830.8	3,337.4
of which: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Excess cover	68.3	257.6	123.0	206.4	62.0	164.3
Surplus cover pursuant to vdp differentiation model	68.3	257.6	123.0	206.4	-	-

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

On b) Maturity Structure (Remaining Term)

	Public Pfandbriefe		Cover funds	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Up to 6 months	227.1	1,125.2	421.1	733.5
Between 6 and 12 months	20.0	25.0	34.9	500.0
Between 12 and 18 months	802.6	227.0	51.4	460.3
Between 18 months and 2 years	5.0	20.0	1.5	132.9
Between 2 and 3 years	190.0	807.6	16.1	39.1
Between 3 and 4 years	50.0	190.0	161.5	91.7
Between 4 and 5 years	10.0	50.0	0.8	198.1
Between 5 and 4 years	152.0	64.0	594.7	335.2
Longer than 10 years	130.0	344.1	373.1	619.7

Section 28 (1) Nos. 4 to 11 German Pfandbrief Act (PfandBG)

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

Section 28 (1) No. 4 PfandBG (Mortgage Pfandbriefe)

	Equalisation claims pursuant to Section 19 (1) No. 1 German Pfandbrief Act (PfandBG)	
	31.12.2017	31.12.2016
Total	0.0	0.0

Section 28 (1) No. 5 PfandBG (Mortgage Pfandbriefe)

	Receivables as defined in Section 19 (1) No. 2 PfandBG		of which: covered debentures as defined under Article 129 of Regulation (EU) No. 575/2013	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Germany	365.0	152.0	135.0	94.0
Finland	10.0	10.0	0.0	0.0
Canada	10.0	10.0	0.0	0.0
Netherlands	125.0	85.0	0.0	0.0
Sweden	90.5	85.5	90.5	85.5
Total	600.5	342.5	225.5	179.5

Section 28 (1) No. 6 German Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)

	Receivables as defined in Section 19 (1) No. 3 PfandBG	
	31.12.2017	31.12.2016
Germany	989.5	603.0
European Union (EU)	80.5	0.0
France	25.0	0.0
Canada	73.0	50.0
Luxembourg	0.0	107.5
Total	1,168.0	760.5

Amounts in € m

**Section 28 (1) Nos. 4 to 6 PfandBG
(Mortgage Pfandbriefe)**

	Total amount Additional cover for mortgage Pfandbriefe	
	31.12.2017	31.12.2016
Total	1,768.5	1,103.0

**Section 28 (1) Nos. 4 and 5 PfandBG (regarding public Pfandbriefe)
Additional Cover for Public Pfandbriefe****Section 28 (1) No. 4 PfandBG
(Public Pfandbriefe)**

	Equalisation claims pursuant to Section 20 (2) No. 1 PfandBG	
	31.12.2017	31.12.2016
Total	0.0	0.0

**Section 28 (1)
No. 5 PfandBG
(Public Pfandbriefe)**

	Claims as defined in Section 20 (2) No. 2 PfandBG		Of which: covered debentures as defined in Article 129 Regulation (EU) No. 575 / 2013	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Germany	34.0	62.0	10.0	12.0
Denmark	7.5	0.0	0.0	0.0
Netherlands	18.0	18.0	0.0	0.0
Total	59.5	80.0	10.0	12.0

**Section 28 (1) Nos. 4 and 5 PfandBG
(Public Pfandbriefe)**

	Total amount Additional cover for public Pfandbriefe	
	31.12.2017	31.12.2016
Total	59.5	80.0

**Section 28 (1) Nos. 7 to 11 PfandBG
Other Disclosures on the Cover Funds
and on the Pfandbriefe Outstanding****Section 28 (1) No. 7 PfandBG
(Mortgage Pfandbriefe)**

	Total claims exceeding the threshold defined under Section 13 (1) PfandBG	
	31.12.2017	31.12.2016
Total	0.0	0.0

**Section 28 (1) No. 8 PfandBG
(regarding mortgage Pfandbriefe)**

	Total claims exceeding the percentages pursuant to Section 19 (1) No. 2 PfandBG	
	31.12.2017	31.12.2016
Total	0.0	0.0

**Section 28 (1) No. 8 PfandBG
(regarding mortgage Pfandbriefe)**

	Total claims exceeding the percentages pursuant to Section 19 (1) No. 3 PfandBG	
	31.12.2017	31.12.2016
Total	0.0	0.0

**Section 28 (1)
No. 9 PfandBG
(regarding mortgage
Pfandbriefe)**

	Percentage share of fixed-interest cover funds in terms of cover assets		Percentage share of fixed-interest Pfandbriefe in terms of liabilities to be covered	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
In %	66.1	59.2	78.8	85.0

**Section 28 (1) No. 10 PfandBG
(regarding mortgage Pfandbriefe)**

	Net present value pursuant to value regulations for each foreign currency	
	31.12.2017	31.12.2016
CHF	38.4	40.3
GBP	204.5	390.7

Amounts in € m

**Section 28 (1)
No. 11 PfandBG**

	For mortgage cover: volume-weighted average of the elapsed term since lending	
	31.12.2017	31.12.2016
In years	4.0	4.4

**Section 28 (1) No. 8 PfandBG
(regarding public Pfandbriefe)**

	Total claims exceeding the percentages pursuant to Section 20 (2) No. 2 PfandBG	
	31.12.2017	31.12.2016
Total	0.0	0.0

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

	Percentage share of fixed-interest cover funds in terms of cover assets		Percentage share of fixed-interest Pfandbriefe in terms of liabilities to be covered	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
In %	93.0	86.0	100.0	99.8

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

	Net present value pursuant to Section 6 Pfandbrief Net Present Value Re- gulation (PfandBarwertV) per foreign currency	
	31.12.2017	31.12.2016
---	0.0	0.0

**Section 28 (2) Nos. 1 to 3 German Pfandbrief Act
(PfandBG)****Section 28 (2) No. 1 a German Pfandbrief Act
(PfandBG) Payments in Arrears on Receivables
Used as Cover for Mortgage Pfandbriefe***

Cover Mortgages	31.12.2017	31.12.2016
Up to and including € 300,000	69.2	85.7
From € 300,000 up to and including € 1 million	137.0	166.6
From € 1 million up to and including € 10 million	2,591.8	2,703.2
More than € 10 million	9,549.0	8,606.1
Total	12,347.0	11,561.6

* Without further cover pursuant to Section 19 (1) PfandBG.

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

	31.12.2017		31.12.2016	
	Commercial	Residential	Commercial	Residential
Flats		20.6		23.5
Single- and two-family houses		39.2		20.1
Residential buildings for several families		2,714.9		2,581.7
Office buildings	4,509.5		4,158.4	
Retail buildings	2,803.1		2,643.0	
Industrial buildings	92.0		104.2	
Other commercially used buildings	2,076.5		2,020.3	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	78.8	12.4	4.2	6.2
Total	9,559.9	2,787.1	8,930.1	2,631.5

Belgium

	31.12.2017		31.12.2016	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		0.0		0.0
Office buildings	194.7		189.6	
Retail buildings	0.0		0.0	
Industrial buildings	0.0		0.0	
Other commercially used buildings	0.0		0.0	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	194.7	0.0	189.6	0.0

Germany

	31.12.2017		31.12.2016	
	Commercial	Residential	Commercial	Residential
Flats		20.6		23.5
Single- and two-family houses		15.6		20.1
Residential buildings for several families		2,648.1		2,545.8
Office buildings	2,341.6		2,059.5	
Retail buildings	1,699.0		1,657.8	
Industrial buildings	92.0		104.2	
Other commercially used buildings	1,910.5		1,863.6	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	78.8	12.4	4.2	6.2
Total	6,121.9	2,696.7	5,689.3	2,595.6

* Without further cover pursuant to Section 19 (1) PfandBG.

Amounts in € m

France	31.12.2017		31.12.2016	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		0.0		0.0
Office buildings	527.4		521.8	
Retail buildings	343.8		267.9	
Industrial buildings	0.0		0.0	
Other commercially used buildings	19.1		19.1	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	890.3	0.0	808.8	0.0

UK	31.12.2017		31.12.2016	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		0.0		0.0
Office buildings	159.4		320.3	
Retail buildings	31.7		44.8	
Industrial buildings	0.0		0.0	
Other commercially used buildings	0.0		15.3	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	191.1	0.0	380.4	0.0

Netherlands	31.12.2017		31.12.2016	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		23.6		0.0
Residential buildings for several families		66.8		35.9
Office buildings	799.5		778.6	
Retail buildings	200.2		235.4	
Industrial buildings	0.0		0.0	
Other commercially used buildings	146.9		122.3	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	1,146.6	90.4	1,136.3	35.9

Poland	31.12.2017		31.12.2016	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		0.0		0.0
Office buildings	342.9		253.6	
Retail buildings	374.4		309.9	
Industrial buildings	0.0		0.0	
Other commercially used buildings	0.0		0.0	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	717.3	0.0	539.7	0.0

Czech Republic	31.12.2017		31.12.2016	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		0.0		0.0
Office buildings	144.0		35.0	
Retail buildings	154.0		127.2	
Industrial buildings	0.0		0.0	
Other commercially used buildings	0.0		0.0	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	298.0	0.0	162.2	0.0

Section 28 (2) No. 2 German Pfandbrief Act (PfandBG)
Payments in Arrears on Receivables Used as Cover for
Mortgage Pfandbriefe

	Total amount of payments in arrears for at least 90 days		Total claims, where the respective arrears amount to at least 5 % of the claim	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Germany	0.1	0.2	0.0	0.0
Great Britain	0.0	0.0	0.0	0.0
Summe	0.1	0.2	0.0	0.0

Section 28 (2) No. 3 PfandBG
Average weighted loan-to-value ratio

	Amounts in %	
	31.12.2017	31.12.2016
Average weighted loan-to-value ratio (based on the respective loan values)	55,8	55,6

Section 28 (3) Nos. 1 to 3 PfandBG

Section 28 (3) No. 1 PfandBG
Claims Used as Cover for Public Pfandbriefe
Classified According to Size*

Amounts in € m

Cover	31.12.2017	31.12.2016
Up to and including € 10 million	5.9	6.4
From € 10 million up to and including € 100 million	738.3	879.9
More than € 100 million	851.3	2,144.2
Total	1,595.5	3,030.5

Section 28 (3) No. 2 PfandBG
Claims Used as Collateral for Public Pfand-
briefe Classified According to Country and
Type of Debtor or Guarantor*

Total Cover	31.12.2017		31.12.2016	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	198.0	0.0	300.2	0.0
Regional authority	1,144.2	91.0	2,154.5	170.4
Local authority	0.0	0.3	0.0	0.4
Other	162.0	0.0	405.0	0.0
Total (direct claims and warranties)	1,595.5		3,030.5	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

Belgium	31.12.2017		31.12.2016	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	0.0	0.0	0.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	55.0	0.0
Total (direct claims and warranties)	0.0		55.0	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

Germany	31.12.2017		31.12.2016	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	0.0	0.0	102.2	0.0
Regional authority	1,119.2	91.0	2,129.5	170.4
Local authority	0.0	0.3	0.0	0.4
Other	162.0	0.0	250.0	0.0
Total (direct claims and warranties)	1,372.5		2,652.5	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

* Without further cover pursuant to Section 20 (2) German Pfandbrief Act (PfandBG).

Canada	31.12.2017		31.12.2016	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	0.0	0.0	0.0	0.0
Regional authority	25.0	0.0	25.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total (direct claims and warranties)	25.0		25.0	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

Lithuania	31.12.2017		31.12.2016	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	3.0	0.0	3.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total (direct claims and warranties)	3.0		3.0	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

Austria	31.12.2017		31.12.2016	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	95.0	0.0	95.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total (direct claims and warranties)	95.0		95.0	
Warranties included in this amount for reasons of export promotion	0,0		0.0	

Poland	31.12.2017		31.12.2016	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	100.0	0.0	100.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total (direct claims and warranties)	100.0		100.0	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

Switzerland	31.12.2017		31.12.2016	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	0.0	0.0	0.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	100.0	0.0
Total (direct claims and warranties)	0.0		100.0	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

Section 28 (3) No. 3 PfandBG
Payments in Arrears on Claims Used as Cover
for Public Pfandbriefe

Amounts in € m	Total amount of payments in arrears for at least 90 days		Total claims, where the respective arrears amount to at least 5 % of the receivable	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Central government	0.0	0.0	0.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0

Section 28 (2) No. 4 PfandBG

Section 28 (2) No. 4 a to c German Pfandbrief Act (PfandBG)
Information on Foreclosures and Administrative Receiver-
ship Proceedings, Overdue Interest and Repayments of
Mortgage Loans

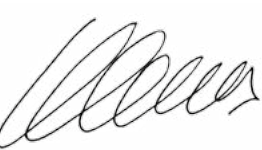
Number	31.12.2017		31.12.2016	
	Commercial	Residential	Commercial	Residential
No. 4a Pending foreclosures	1	0	1	0
Pending administrative receiverships	1	0	1	0
Of which included in the pending foreclosures	1	0	1	0
Foreclosures carried out	0	0	0	0
No. 4b Cases in which property has been seized to prevent losses	0	0	0	0

Amounts in € m	31.12.2017		31.12.2016	
	Commercial	Residential	Commercial	Residential
No. 4c Total interest in arrears	0.1	0.0	0.2	0.0

Statement of the Legal Representatives

“To the best of our knowledge, we give the assurance that, in accordance with the applicable accounting principles, the corporate accounts provide an accurate picture of the actual circumstances of the net assets, financial and earnings situation of the Bank, and that the course of business, including the results, and the Bank’s position are shown in the Management Report in such a way that the picture conveyed corresponds to the actual circumstances, and the material opportunities and risks of the probable development of the company are described.”

Berlin, 6 February 2018



Sascha Klaus



Gero Bergmann



Roman Berninger

Independent Auditor's Report

To Berlin Hyp AG, Berlin

Report on the Audit of the Annual Financial Statements and of the Management Report

Opinions

We have audited the annual financial statements of Berlin Hyp AG, Berlin, which comprise the balance sheet as at 31 December 2017, the statement of profit and loss, the statement of cash flows and the statement of changes in equity for the financial year from 1 January to 31 December 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Berlin Hyp AG, Berlin, for the financial year from 1 January to 31 December 2017. In accordance with German legal requirements we have not audited the content of the corporate governance statement which is included in the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its financial performance for the financial year from 1 January to 31 December 2017 in compliance with German Legally Required Accounting Principles, and
- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 German Commercial Code, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 German Commercial Code and EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recognition and evaluation of the reserves for strategic resource planning

Please refer to the section on reserves in the notes to the financial statements for further information on the recognition and measurement policies applied. Disclosures on the provision for strategic resource planning can be found in the management report in Section II Economic report, in subsections 'Business development' and 'Earnings situation'.

THE FINANCIAL STATEMENT RISK

Reserves totalling EUR 26.1 million were formed in the annual financial statements of Berlin Hyp AG as at 31 December 2017, which relate to the strategic resource planning of Berlin Hyp AG until 2027.

Appropriate reserves must be formed for personnel measures resulting from the strategic resource planning if the recognition criteria are satisfied. We believe this matter to be particularly significant as the recognition and measurement of expenses that are significant in terms of amount are heavily dependent on the estimates and assumptions of management, particularly with regard to laying off staff, the structure of a social plan and early retirement and severance payment amounts, as well as other costs.

The risks for the annual financial statements are that the requirements for the recognition of these reserves are not present and/or that these have been inaccurately measured.

OUR AUDIT APPROACH

We first evaluated the recognition criteria on the basis of the measures already initiated as at 31 December 2017, in particular we assessed whether the requisite external obligation existed as at 31 December 2017. To this end, we evaluated whether the corresponding resolution of the Board of Management on implementing the strategic resource planning was adopted and communicated to the works council and senior staff representatives.

We then had the Board of Management explain to us the assumptions and estimates used when valuing the reserves. We assessed the

consistency of the assumptions and estimates based on the detailed, formal workforce reduction plan. We also compared and critically evaluated the assumptions with the workforce reduction measures previously implemented by Berlin Hyp AG.

Finally, we reviewed the computational accuracy of the calculation of the reserves.

OUR OBSERVATIONS

The requirements for the recognition of the reserves for strategic resource planning as at 31 December 2017 are satisfied. The assumptions and estimates used for the measurement are appropriate and plausibly derived from available information.

Measurement of the provision for loan administration fees (Bearbeitungsentgelte)

Please refer to the section on provisions in the notes to the financial statements for further information on the recognition and measurement policies applied. Notes on the judgment of the German Federal Court of Justice [BGH] from 4 July 2017 can be found in the management report in Section II Economic Report, subsections 'Business development' and 'Earnings situation'.

Berlin Hyp AG had formed reserves of EUR 19.6 million as at 31 December 2017 for potential customer claims in connection with the BGH judgment from 4 July 2017 on the issue of loan administration fees in loan agreements that are independent of the actual loan term.

A requirement for the recognition of the reserves for loan administration fees is that there is a current external obligation that will result in the probable recourse to the reserves. The amount of the reserves for loan administration fees is determined based on the best estimate of the settlement amount. The reserves for loan administration fees are subject to estimation uncertainties arising from judgement, in particular in relation to the expected reclamation of loan administration fees and the associated obligation of the Bank to refund the amounts already collected.

There is the risk for the annual financial statements that the reserves were not valued correctly, in particular where the Bank's assumptions and estimates in measuring the reserves are not appropriate.

OUR AUDIT APPROACH

To audit the reserves for loan administration fees we questioned the Board of Management and contacts from finance and banking operations as well as the Bank's legal department. We also analysed written correspondence with relevant borrowers and evaluated the underlying documents and minutes. In this way we assessed whether the assumptions and estimates regarding the potential claimants and amounts to be refunded used by the Bank to measure the provision were reasonably and properly derived from the documents.

To the extent that an agreement on individual claims has been reached in the meantime, we compared the originally estimated amounts with the final obligations and thus obtained an overview of the quality of the estimates.

Finally, we reviewed the computational accuracy of the calculation of the provision.

OUR OBSERVATIONS

The assumptions and estimates used to measure the reserves as at 31 December 2017 are appropriately derived from available information.

Other Information

The statutory representatives are responsible for the other information. The other information comprises:

- the content of the corporate governance statement, which is included in the management report,
- assurance pursuant to Section 264 (2) sentence 3 HGB regarding the financial statements and assurance pursuant to Section 289 (1) sentence 5 HGB regarding the management report,
- the remaining parts of the annual report, with the exception of the audited annual financial statements and management report and our auditor's report. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Statutory Representatives and the Supervisory Board for the Annual Financial Statements and the Management Report

The statutory representatives are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to banks, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, The statutory representatives are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the statutory representatives are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and

appropriately presents the opportunities and risks of future development. In addition, the statutory representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 German Commercial Code and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial

statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

→ Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

→ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of management.

→ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

→ Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.

→ Perform audit procedures on the future-oriented information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the future-oriented information, and evaluate the proper derivation of the future-oriented information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the future-oriented information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting on 29 March 2017. We were engaged by the Supervisory Board on 26 April 2017. We have been the auditor of Berlin Hyp AG, Berlin, without interruption since the financial year 2016.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (longform audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Jörg Kügler.

Berlin, 20 February 2018
KPMG AG
Wirtschaftsprüfungsgesellschaft

Kügler
German Public Auditor

Abs.	Absatz (paragraph)	HQE	Haute Qualite Environmentale
AG	Aktiengesellschaft (stock corporation)		(High Quality Environmental standard)
AktG	Aktiengesetz	HRB	Handelsregister Teil B (Commercial Register)
AMA	Advanced Measurement Approach	IA	Inanspruchnahme (called to account)
APP	Asset Purchase Programme	iBoxx	Index family for bond market indices
AReG	Abschlussprüferreformgesetz (German Audit Reform Act)	IDW	Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany)
AT	non-tariff	IF	Immobilienfinanzierung (real estate financing)
BA	Berufsakademie (University of Cooperative Education)	IFRS	International Financial Reporting Standards
BCBS	Basel Committee on Banking Supervision	InstitutsVergV	Verordnung über die aufsichtsrechtlichen Anforderungen an Vergütungssysteme von Instituten (Institutional Remuneration Ordinance)
BGB	Bürgerliches Gesetzbuch (German Civil Code)		
BGH	Bundesgerichtshof (Federal Court of Justice)	IREBS	International Real Estate Business School
BilMoG	Bilanzrechtsmodernisierungsgesetz (German Accounting Law Adjustment Act)	IRRB	Interest Rate Risk in the Banking Book
BIP	Bruttoinlandsprodukt (gross domestic product)	IT	Information technology
BL	Bereichsleiter (division head)	IWF	Internationaler Währungsfonds (International Monetary Fund)
BREEAM	Building Research Establishment Environment Assessment	KA	Kreditausschuss (Loans Committee)
BRRD	Bank Recovery and Resolution Directive	K-Fälle	Katastrophenfälle (catastrophe case)
BSG	Betriebssportgemeinschaft (Company Sports club)	KR	Kredit (loan)
BSI	Bundesamt für Sicherheit in der Informationstechnik (Federal Office for Information Technology Security)	KWG	Kreditwesengesetz (German Banking Act)
CBPP III	Covered Bond Purchase Program	LCR	Liquidity Coverage Ratio
CCF	Credit Conversion Factor	LGD	lost given defaults
CD	Corporate Design	LEED	Leadership in Energy and Environmental Design
CRD	Capital Requirements Directive	LMA	Loan Market Association
CRR	Capital Requirements Regulation	LR	Leverage Ratio
CSR	Corporate Social Responsibility	LTV	Loan-to-Value
D & O	Directors & Officers	MaRisk	Mindestanforderungen an das Risikomanagement (Minimum Requirements for Risk Management)
DCGK	Deutscher Corporate Governance Kodex (German Corporate Government Code)	MaSan	Mindestanforderungen an die Ausgestaltung von Sanierungsplänen (Minimum Requirements for the Structure of Restructuring Plans)
DGNB	Deutsche Gesellschaft für Nachhaltiges Bauen (German Sustainable Building Council)	MREL	Minimum Requirement for Eligible Liabilities
DIIR	Deutsches Institut für Interne Revision (German Institute of Internal Auditors)	NPL	Non-Performing Loans
DRS	Deutscher Rechnungslegungs Standard (German Accounting Standard)	NSFR	Net Stable Funding Ratio
DSGV	Deutscher Sparkassen- und Giroverband (German Savings Bank Association)	OHG	Offene Handelsgesellschaft (private partnership)
DV	Datenverarbeitung (data processing)	OI	Organisation/Informationstechnologie (organisation/information technology)
EGHGB	Einführungsgesetz zum Handelsgesetzbuch (Intro- ductory Law to the German Commercial Code)	OpRisk	Operationelle Risiken (operational risks)
EstG	Einkommensteuergesetz (German Income Tax Code)	PA	Prüfungsausschuss (Audit Committee)
ESZB	Europäisches System der Zentralbanken (European System of Central Banks)	PE	Personal (staff)
EU	European Union	PfandBG	Pfandbriefgesetz (Pfandbrief Act)
EURIBOR	Euro Interbank Offered Rate	PSA	Personal- und Strategieausschuss (Staff and Strategy Committee)
EWB	Einzelwertberichtigung (specific valuation allowances and reserves)	PWB	Pauschalwertberichtigung (lump-sum value adjustments)
EZB	Europäische Zentralbank (European Central Bank)	RechKredV	Verordnung über die Rechnungslegung der Kreditinstitute (Regulation on the Accounts of Banking Institutions)
FED	Federal Reserve Bank	RST	Rückstellungen (reserves)
FRA	Forward Rate Agreement	RWA	Risk-weighted asset
GbR	Gesellschaft bürgerlichen Rechts (civil law partnership)	SAG	Sanierungs- und Abwicklungsgesetz (Restructuring and Winding-Up Act)
GmbH	Gesellschaft mit beschränkter Haftung (private limited company)	SAP	Systems, applications, products
GuV	Gewinn- und Verlustrechnung (profit and loss account)	SEPA	Single Euro Payments Area
HGB	Handelsgesetzbuch (German Commercial Code)	SolvV	Solvabilitätsverordnung (Solvency Regulation)
		SRB	Single Resolution Board
		SRM	Single Resolution Mechanism
		SSM	Single Supervisory Mechanism
		TLTRO	Targeted longer-term refinancing operations
		TR	Treasury
		VaR	Value-at-Risk
		vdp	Verband deutscher Pfandbriefbanken e.V., Berlin
		ZIA	Zentraler Immobilien Ausschuss (German Property Federation)

List of Important Abbreviations

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Important company information is available on www.berlinhyp.de.

Publications for our business partners in 2018

- Annual Report 2017 (German/English)
- Half-Year Financial Report to 30.06.2018 (German/English)
- Interim Report to 30.09.2018 (German/English)
- Separate Non-Financial Company Report of Berlin Hyp AG for 2017 (German/English)

In this Annual Report, reference to the masculine form naturally also includes the feminine form.

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Berlin Hyp AG (p. 12–13, 14–15, p. 29/right lower picture)
IMMOFINANZ AG (p. 36)
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