A partnership built on trust

Berlin Hyp

One World. One Goal. One Team.

Annual Report 2021

Management Report

Finanzgruppe

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Management Report

I Principles of the Bank Business Model

Organisational Structure

Berlin Hyp AG (Berlin Hyp) is a stock corporation (Aktiengesellschaft) and forms part of the Landesbank Berlin Holding AG Group (LBBH), Berlin, the majority of whose shares are held by the Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG. As a subsidiary of Landesbank Berlin Holding, Berlin Hyp is included in the consolidated financial statements of the Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG (smallest and largest consolidation group as defined in Section 285 (14) and (14a) of the German Commercial Code [HGB]). A profit and loss transfer agreement is in place between Berlin Hyp and Landesbank Berlin Holding. The Group structure as at December 2021 is as follows[1]:

Until 31 December 2021, the Berlin Hyp Board of Management comprised three members who had the following areas of responsibility:

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

Maria Teresa Dreo-Tempsch
- → Treasury
- → Sales Foreign Real Estate Financing
- → Domestic Sales Real Estate Financing and Portfolio

Alexander Stuwe
- → Data Management
- → Loans (Real Estate and Capital Market)
- → Risk Controlling
- → Valuation
- → Risk Management
- → Steering Process of the Future
- → Representatives

Maria Teresa Dreo-Temtsch assumed the responsibilities of Chief Market Officer since her appointment as an ordinary member of the Board of Management with effect from 1 May 2021 and succeeded Mr. Gero Bergmann, who had already left the Board of Management of Berlin Hyp at the end of 31 December 2020.

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

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

Business Activities

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

Under the umbrella of Landesbank Berlin Holding, Berlin Hyp is a partner and competence centre for the commercial real estate financing operations of the German savings banks. With its specially developed Immo product range, the Bank is creating added value for the savings banks by offering them a wide range of investment opportunities in

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

financing at Berlin Hyp. The ImmoDigital portal solution, launched at the end of 2020, supports the sale of S-Group products and takes the digitisation of transactions one major step further. The products and services Berlin Hyp offers to savings banks also include support for syndicate financing and a range of services in the valuation and restructuring of problematic loans. As an S-Group partner, Berlin Hyp is constantly developing products and services for the Group institutions with the aim of making a lasting and positive contribution to the success of the Sparkassen-Finanzgruppe.

As a real estate sector partner, Berlin Hyp is one of the first ports of call for investors from the private and commercial real estate sectors. In addition to capital investment companies and real estate funds, this also includes housing construction companies and cooperatives as well as selected project developers. The Bank offers its customers individual solutions for real estate financing in all common asset classes, either as individual properties or in portfolios. In addition to traditional mortgage loans, the Bank offers guarantees as well as building contractor and development financing. Through its business model, Berlin Hyp focuses on real estate financing in economic centres in Germany and select foreign markets.

The Bank is an issuer of mortgage Pfandbriefe and senior unsecured and subordinated bonds on the capital market. Both mortgage Pfandbriefe and senior unsecured bonds can also be issued as Green Bonds. As a bank specialising in the financing of commercial real estate, Pfandbriefe are the primary refinancing instruments of Berlin Hyp. These are issued both as benchmark bonds as well as private placements in the form of bearer bonds or registered bonds. As the issuer of the first Green Pfandbrief, Berlin Hyp is a pioneer in the capital market. Its position as such was reinforced in 2021 when, according to its own assessment, it became the first bank to issue a Sustainability-Linked Bond. Berlin Hyp is the most active issuer of Green Bonds in Europe in the commercial bank segment.

Locations

Berlin Hyp is headquartered in Berlin. It also has domestic sales offices in 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 financer.

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

Berlin Hyp has launched a range of standardised products consistently tailored to the needs of savings banks, including ImmoSchuldschein, which allows savings banks to make cash investments in senior large-volume real estate financing transactions, ImmoAval, which combines co-liability through a guarantee with simple documentation, ImmoGarant, for which savings banks represent the entire refinancing of a financing transaction against a partial guarantee from Berlin Hyp, and ImmoNachrang, which was newly developed in 2020 and enables savings banks to participate in personal loans for financing transactions as subordinated investors. In line with the strategic orientation of the Bank, all Immo products will be offered in the last quarter of 2022 via the ImmoDigital portal solution, which was newly developed in 2020; until then, only ImmoAval offers are available via ImmoDigital.

Locations

Germany and throughout Europe

The Berlin Hyp product portfolio for savings banks is rounded off with standard syndicated financing, investment products such as Pfandbriefe and debentures, and support services in valuation and restructuring. Furthermore, Berlin Hyp is continually expanding its product portfolio with the aim of establishing its position over the long term as a real estate service provider for savings banks.

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

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

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

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

Objectives and Strategies

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

Berlin Hyp pursues two mayor strategic goals:

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

Most Modern Real Estate Financier in Germany

As part of its innovation agenda, Berlin Hyp is pursuing the consistent implementation of its digitisation and innovation activities. In this regard, important elements on the one hand consist of large-scale internal projects that aim to digitise and partially automate the Bank's key business processes and make them data-driven. In addition, Berlin Hyp considers itself to be actively involved in the digital real estate ecosystem and is testing new business models and additional product and service offerings for its customers with innovative companies and start-ups from the PropTech realm. As an active strategic investor, Berlin Hyp participates in selected companies while also entering into strategic partnerships and cooperations. This will allow it to tap into additional earnings potential adjacent to the core business of real estate financing in the future.

Moreover, its strategic goal of becoming the most modern real estate financier in Germany also involves the achievement of specific sustainability objectives. Through our goal of becoming a green real estate financier, the Bank feels committed to the climate goals of the EU and the Federal Republic of Germany and intends to make an ambitious contribution in this regard. At the same time, the definition of sustainability used here is intentionally broad: for Berlin Hyp, sustainability means not only reducing its own carbon footprint, but also promoting, simplifying and financing the transition to a sustainable economy and in this way contributing to the transformation that is currently under way – not only in terms of ecology but also with regard to the economy and society as a whole.

Within this context, Berlin Hyp adopted a far-reaching sustainability agenda in 2020. In line with the Bank's commitment to sustainability, the ESG vision was set in the 2021 financial year, which will focus holistically on four dimensions in the future:

1. Sustainability in business operations
   Berlin Hyp plans to continuously reduce the adverse environmental effects of its business operations and thus reduce its carbon footprint as far as possible. It also considers itself a responsible employer.

2. Sustainable business portfolio
   The focus on sustainability in the business portfolio is considered to be the key to achieving the defined sustainability goals. According to insights obtained by Berlin Hyp, many Berlin Hyp customers are working to make their own business activities more sustainable. Berlin Hyp has set itself the goal of helping its customers transform buildings into more energy-efficient and sustainable properties.

3. ESG risk management
   Berlin Hyp is currently integrating ESG criteria into existing risk management systems and processes in order to ensure that all opportunities and risks can be identified and systematically controlled. These systems and processes are intended to address both financial and non-financial risks.

4. Transparency and ESG capabilities
   It will take a long time to create a sustainability-based economy and social structure, and many issues will need to be clarified in the interim. We want to integrate principles of sustainability into our normal business processes step by step. Consistency, competence and transparency are essential here. We also seek to promote sustainability in society in general.

Objective by 2025

1/3

share of green buildings in the real estate portfolio

Through the ambitions and measures defined for each individual dimension, Berlin Hyp wants to make an important contribution to the development of a future-oriented and sustainable real estate sector.

S-Group Partner of the Savings Banks

As an S-Group partner of the savings banks for commercial real estate financing, Berlin Hyp applies its expertise and develops its portfolio of products and services consistently in line with the needs of the savings banks. In this way, it contributes to the success of the Sparkassen-Finanzgruppe and establishes its position over the long term as a real estate service provider for savings banks. The introduction of the “ImmoDigital” platform also created a basis for offering a single point of entry for savings banks in the S-Group business through which all financial investment activities in the S-Group business can be handled in the future. This also underscores the Bank’s self-image as a driver of innovation in the group.

Management System

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

Financial Performance Indicators

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

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

Other financial indicators are also included in the management, such as the liquidity coverage ratio (LCR) and the (not yet mandatory) leverage ratio, both of which will become more important in the future.

Non-Financial Performance Indicators

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

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

In addition, the management also relies on other supporting non-financial performance indicators, such as the employee capacity measured in FTEs (full-time equivalents).

In terms of sustainability, supporting non-financial performance indicators include Green Bonds, green financing and the sustainability rating.

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

II Business Report – Macroeconomic and Sector-Related Underlying Conditions

Macroeconomic Development[2]
The global economic situation was also significantly influenced by the COVID-19 pandemic in 2021. Compared to the previous year, the economic recovery was initially very dynamic. From mid-2021, however, mutations and problems in international supply chains resulting from the effects of new waves of the pandemic caused a slowdown in economic growth.

In the eurozone, gross domestic product experienced more dynamic growth especially from the second quarter onwards, which put it out of sync with the global trend. However, the containment measures implemented in the course of the rapid spread of the Omicron variant caused another slowdown in recovery.

The German economic situation was similar to that of the eurozone throughout 2021. After a decline in the first quarter, gross domestic product rose sharply in the middle of the year before declining slightly again in the fourth quarter as cases increased. However, due to relatively high vaccination rates, the measures were less strict than with the previous waves. Increasingly, higher case numbers were tolerated than before, which meant that the economic downturn in 2021 was less severe overall despite increased incidence.

The construction industry was also robust in 2021. Real construction volume increased by 1.6 per cent over the course of the year, due in large part to the dynamic development of construction prices.

Industry Development[3]
The economic recovery and expectations that it would continue were also reflected in the stock markets. For example, the DAX rose by about 16 per cent in the reporting period, while the Dow Jones rose by about 21 per cent.

[2] Sources for macroeconomic underlying conditions: Kiel Institute for the World Economy (IfW), ifo Institute.
[3] Sources for macroeconomic underlying conditions: CBRE, Colliers, Destatis, HDE, ifo, Savills.

Prices both sides of the Atlantic also registered a strong upswing in 2021. While the FED and the ECB initially considered the rise in inflation as a temporary effect in connection with the consequences of the COVID-19 pandemic, such as supply chain disruptions, it continued to rise in the reporting year and reached the highest growth since 1997 in the eurozone at the end of the year, at five per cent compared to the previous year. Prices in the US even climbed by 7 per cent; in Germany, the figure was 5.3 per cent. This significantly exceeded the inflation targets set by both the ECB and the FED at two per cent. Apart from supply bottlenecks, rising energy prices are the main reason for this development.

As a result of the continuing coronavirus crisis, both the FED and the ECB continued to maintain a loose monetary policy during the reporting period. For example, both central banks kept their key interest rates at 2020 levels, ranging from 0 to 0.25 per cent in the US and 0 per cent in the eurozone. However, as the price index did not rise just temporarily but instead continued to increase and economic performance picked up on both sides of the Atlantic, both the European and the US central banks adjusted their monetary policy to be less expansionary. The FED therefore announced in December that it will reduce its multi-billion dollar bond purchases to zero by March 2022. A first rate hike could take place starting in April. The ECB is more cautious about moving away from its ultra-loose monetary policy. For example, gradual interest rate hikes like those planned in the US are not yet on the agenda here for the time being. However, the Pandemic Emergency Purchase Programme (PEPP) will be terminated as planned in March 2022. The purchase volume of the Asset Purchase Programme (APP), which has been established for years, will be doubled to €40 billion per month in the second quarter of 2022. In the third quarter, €30 billion is still to be invested every month. PEPP reinvestment is expected to take place until the end of 2024, a year longer than previously planned. In addition, the reactivation of the PEPP should remain an option.

Yields on ten-year German bonds have risen significantly this year, increasing from -0.6 per cent to -0.17 per cent within the year. After a slump in the summer down to -0.5 per cent, the second half of the year was marked by relatively strong fluctuations, but overall yields rose again sharply. Swap yields also rose sharply, increasing from -0.29 per cent to +0.30 per cent in the reporting period with ten-year terms.

Covered bonds rose in 2021 compared to 2020. For the first time since the outbreak of the pandemic, covered bonds with negative reoffer spreads were issued as early as the first quarter. At the same time, the convergence trend between the different jurisdictions continued. However, the German Pfandbrief managed to defend its position as the most expensive product in the asset class. Covered bank bonds traded more closely over the different jurisdictions at the end of the year than at the beginning of the year. At the beginning of 2021, the spread levels of senior bonds of many bank issuers had reached at least pre-pandemic levels and narrowed further in the first half of the year. However, there was a noticeable correction to be observed after the summer break for each group of issuers, regardless of rating. The expansion of the senior spreads, which was significant to a degree, was corrected toward the end of the year. Nevertheless, senior spreads have widened by an average of nine basis points since the beginning of the year. After a weak first half of the year on the covered bond market, the issue volume increased sharply after the summer break. However, with a new issue volume of €95 billion, it remained well below the maturities in the reporting year, which came to €132 billion.

Issues in the ESG segment increased significantly across all asset classes in 2021. While a total of $529 billion in Green Bonds, Social Bonds, Sustainability Bonds and Sustainability-Linked Bonds were issued worldwide in 2020, a record volume of $904 billion was reported in the reporting period. The EU taxonomy and the draft Green Bond standard have set the course for standardisation of ESG bonds.

Undeterred by fluctuations in economic development due to the pandemic, the commercial real estate investment market in Germany was stable throughout 2021 compared with the previous year, additionally with significant peaks in transaction volumes in the autumn. The merger of Vonovia and Deutsche Wohnen alone increased the transaction volume in October by around €22 billion. With a total volume of €49 billion, commercial residential real estate was therefore at a significant high in 2021 – one-off effects such as acquisitions led to an increase of 145 per cent compared with the previous year. In addition, many large-volume deals, such as the purchase of a residential portfolio by Berlin local authority housing companies, were contributing factors that made residential real estate the most sought-after type of real estate category in 2021.

The ongoing low interest rate environment, the lack of low-risk alternative investments and the high volume of liquidity also had an impact on commercial real estate trading in Germany. The commercial real estate market recorded a transaction volume of around €62.1 billion in 2021, an increase of around five per cent compared with the previous year.

Investors continued to focus on office properties with long lease terms and tenants with strong credit ratings, with a transaction volume of around €30.5 billion (previous year: around €27.6 billion), although the ongoing coronavirus crisis and the resulting proportion of employees working from home also led to many uncertainties with regard to the demand for office space and the vacancy trend. Despite this uncertainty, investors have confidence in offices, which is also supported by the current recovery in the office rental market. The top five office rental markets in Germany registered sales of around 2.6 million square metres in 2021 – an increase of more than 20 per cent compared to 2020, but 22 per cent lower than in 2019.

The market for logistics properties is currently in upheaval. With a transaction volume of €10.2 billion and an increase of 34 per cent over the previous year, logistics properties are now the third most popular property investment category in Germany after residential and office. On the one hand, strong sales growth in online retail due to the coronavirus is boosting the relevance of the logistics sector; on the other hand, supply bottlenecks for important industrial precursors – such as those for durable consumer goods like furniture and household appliances – are obstructing expansion of production and also of the turnover of goods. Whether the disruption in the supply and product chains caused by the pandemic will lead to an increase in domestic stockpiling along with a resulting increase in demand for warehouse space will only become clear in the coming years.

With a transaction volume of around €9.5 billion, retail properties were among the less sought-after types of real estate. The COVID-19 pandemic still caused a substantial fluctuations in consumer confidence, with a sharp drop in December 2021 resulting in a decline in private consumption. Nevertheless, grocery-anchored businesses, such as supermarkets and discounters as well as specialist shops for consumer goods or DIY stores, are attracting the interest of investors. This specific retail segment accounted for 60 per cent of total retail property sales. Although pedestrian customer traffic recovered in city centres and shopping centres as the coronavirus restrictions were gradually lifted in the early summer of 2021, new restrictions to curb the pandemic caused a further decline from autumn 2021 – especially in terms of Christmas sales.

The volatility of pedestrian customer volume in central shopping districts and shopping centres is likewise reflected in the number of overnight stay guests. 2021 was another difficult year, particularly for the hotel sector, as demonstrated by the transaction volume of just under €2.5 billion. Compared to 2019, the year before the coronavirus, the decline was almost 50 per cent. Nevertheless, hotel transactions in 2021 showed that new, high-quality properties in very favourable locations, and with operators with strong credit ratings, remain very fungible on the market.

Business Development

The business development of Berlin Hyp in 2021 was again impacted by the challenging market conditions, which were determined in particular by the low-interest phase, intense competition in commercial real estate financing and high regulatory requirements.

The overarching theme was still the COVID-19 pandemic, with its unpredictable development and its consequences for the industry. The Bank has continuously analysed and discussed the real estate types specifically affected by the pandemic and their related financing as part of a COVID-19 task force.
The main consequences on the affected properties were negative rating changes and the inclusion of exposures in the increased intensive care support in the back office. There were still only a small number of deferment requests from customers due to COVID-19 in relation to the credit exposure.
There was no significant increase in the need for specific valuation allowances or depreciation in commercial real estate financing due to the pandemic. The risk strategy, risk management and the high share of financing in good and very good rating classes paid off once again. In this regard, please refer to the information provided in the risk report of this management report, which contains specific statements on the Bank's approach, the potential impact of the COVID-19 pandemic on the real estate market as well as on RWA and risk provisions.

Berlin Hyp has continued to pursue its goal of becoming the most modern real estate financier in Germany by making progress on the focal areas of digitisation and the modernisation of the IT system environment. The Bank has worked extensively on cloud solutions and has enabled employees to work even more independently by providing digital workstations.

Key milestones were also achieved as part of the alignment of the IT architecture with a complete digital platform that partially automates all essential processes, from initial customer contact to external reporting. Portfolio management procedures were further refined, the credit application line was further digitised and an increasing number of transactions were placed to S-Group partners via the ImmoDigital platform in 2021. At the same time, it was important to establish the central availability of data while maintaining high quality standards in order to be able to respond flexibly and quickly to customer requests and regulatory requirements.

The Bank continued to make progress on the cultural change process >next dimension berlin hyp< in 2021. One area of focus was to give employees the opportunity to reflect on and develop the corporate culture.

Berlin Hyp has also established various new structures within the teams. New roles were developed in some divisions while hierarchies were flattened in others, and certain teams are now essentially self-organised. The number of mobile working days has also continued to increase as a result of the COVID-19 pandemic. Employees were able to try out new ways to collaborate in-house, such as desk sharing.

The project for the construction of the new Bank building resulted in the relocation of individual divisions to rented spaces off-site and a consolidated use of space. The demolition of the Bank building at the Bank's previous headquarters is proceeding according to plan and has made clear progress, with the aim of achieving significant progress in the construction of the new building in 2022.

The Bank currently holds three strategic investments: the company OnSite ImmoAgent GmbH, founded by Berlin Hyp and in which another strategic investor is involved, 21st Real Estate GmbH and the venture capital fund PropTech1 Fund 1 GmbH & Co. KG. The objective of exploring new business approaches and cooperation projects with innovative companies in the PropTech scene is being further pursued at this time. Additional opportunities for participation are under continuous review.

In the second half of 2021, many of the Bank's divisions were involved in the Bank's sale process, data provision activities for potential

New lending

including long-term extensions

2021

€ 7.1 billion

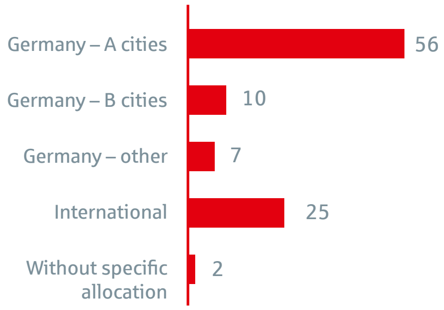
investors, and management discussions. The process was driven by the planned dissolution of the Landesbank Berlin Holding Group as an institutional group due to reasons including the new regulatory requirements imposed by the Risk Reduction Act and other regulatory requirements, given their impact on the cost structure within the Group. In this context, the sale of the Bank within the Sparkassen-Finanzgruppe was discussed as one of the strategic options and then initiated with the conclusion of a contract for the sale of the shares held by Landesbank Berlin Holding AG in Berlin Hyp to Landesbank Baden-Württemberg on 26 January 2022 (signing). The transaction is subject to the approval of the antitrust authorities and has yet to be approved by the competent bodies of the German savings banks.

New Lending above the Previous Year's Level

Berlin Hyp reports contracted new lending of €6.1 billion for 2021 which, despite the ongoing COVID-19 pandemic, is slightly above the result of the previous year (€5.7 billion). With realised extensions (capital employed ≥ 1 year) of €1.0 billion (previous year: €1.0 billion), this put the total new business volume at €7.1 billion (€6.7 billion). Despite the effects of the COVID-19 pandemic, this result was in line with the planning and prior-year forecast.

Of Berlin Hyp's new lending, 75 per cent (77 per cent) was accounted for by domestic properties, 56 per cent (49 per cent) of which were in A cities, ten per cent (17 per cent) in B cities, and seven per cent (eleven per cent) in other locations in Germany. 25 per cent (23 per cent) involved the financing of properties abroad. These were distributed across the Netherlands at 14 per cent (15 per cent), France at six per cent (two per cent) and Poland at five per cent (six per cent). Two per cent of new lending is accounted for by financing without direct reference to a property (other).

Regions
in %



At 75 per cent (68 per cent), most new lending related to the investors customer group. Another 22 per cent (19 per cent) was realised with developers and builders. Contracts with housing societies accounted for three per cent (13 per cent) of new business.

New lending is broken down by real estate type as follows:

Real estate types
in %

Public Sector Lending Unchanged

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 2021. The loan volume remained unchanged at €0.4 billion and will gradually decline as and when individual loans fall due.

S-Group Business Recovered after 2020

The S-Group business of Berlin Hyp grew in 2021 and, with a total volume of business conducted with S-Group partners of more than €1.8 billion (€1.4 billion), nearly reached the level before the COVID-19 pandemic of €1.9 billion in 2019.

S-Group partners participated in financing through the product ImmoAval with a total volume of €819 million (€233 million). In the traditional syndicate business, a total volume of €700 million (€806 million) was financed in several transactions. The product ImmoGarant was used to process a further €64 million (€96 million), while an ImmoSchuldschein transaction was realised at €75 million (€285 million). The product ImmoNachrang, which was newly developed in 2021, was already used in two transactions in the first year, and S-Group partners participated in financing with a total volume of €154 million.

The number of business relationships with savings banks increased further with 163 institutions (153) from all S-Group regions. The significant increase by ten institutions (three) over the previous year is mainly due to the successful introduction of the ImmoDigital platform. A total of 60 institutions already use the platform.

A total of seven transactions were concluded via the ImmoDigital platform in 2021. As planned during the development, the platform unburdens conventional communication channels, reduces media interruptions and facilitates processes by pooling all relevant information centrally in one place. In its current version, the "ImmoDigital" platform will only offer the product "ImmoAval". Given the successful market launch, Berlin Hyp plans to further develop the platform in 2022. The objective is to achieve a completely digital processing of the investment formats of the Immo product range developed for German savings banks by the fourth quarter of 2022.

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

Refinancing at Very Favourable Conditions

Mortgage Pfandbrief and unsecured bond issues are generally used for the medium-to-long-term refinancing of Berlin Hyp. In 2021, the Bank borrowed €5.3 billion in capital (€2.2 billion) using these instruments. The Bank had market access at all times. With a total of eight benchmark transactions, including what it believes to be the world's first Sustainability-Linked Bond issued by a bank, the Bank was a regular issuer in the syndicated bond market. Three of these issues, a euro-denominated mortgage Pfandbrief and two senior preferred bonds in Swiss francs, were structured as Green Bonds. The Bank therefore managed to issue two or more Green Bonds in a year for the fifth time in a row and remains the most active issuer of Green Bonds in Europe in the commercial banking segment with eleven outstanding euro issues.

Equity Position Strengthened through Further Additions

The common equity Tier 1 ratio is 14.3 per cent (13.4 per cent) and the total capital ratio is 16.3 per cent (15.8 per cent), taking into account the approval of the annual accounts. By reinforcing the special item for general banking risks according to Section 340g of the German Commercial Code (HGB) with an additional €187.0 million (€70.0 million) and applying the simplification rules of CRR II, capital ratios were significantly improved with slightly increased risk assets. As such, the Bank's forecasts in the previous year were exceeded.

Earnings Situation

Operating result
(after risk provisioning)

€ 234.4
million

Profit Transfer Significantly Increased

With earnings before profit transfer of €50.0 million, Berlin Hyp more than doubled the previous year's figure (€23.4 million). The earnings growth therefore significantly exceeded expectations and is all the more gratifying from the Bank's perspective, given the ongoing negative impact of the COVID-19 pandemic, the high regulatory requirements, the low interest rate environment and fierce competition in commercial real estate financing.

The COVID-19 pandemic did not have a significantly negative effect on the loans portfolio in 2021. Berlin Hyp has further increased its pension reserves and made a further addition the special item pursuant to Section 340g of the German Commercial Code (HGB) by allocating €187.0 million (€70.0 million). The main reasons for this development of profit are described in the following sections.

Higher Net Interest Income

Compared to the previous year, net interest income increased significantly by €93.4 million to €406.5 million. As such, it was better than expected. The positive development is mainly due to the average mortgage loan portfolios, which grew by €2.8 billion with stable margins in the core business, as well as the participation in the targeted longer-term refinancing operations with the Deutsche Bundesbank (TLTRO-III) and the resulting favourable refinancing. TLTRO-III business resulted in a reduction in interest rates of €88.9 million compared to €20.0 million in the previous year. Other one-off effects, including interest income from prepayment charges for unplanned repayments in particular, were largely neutralised by compensatory measures, particularly the closing of interest rate swaps with negative market values.

Commission Income Improved

Contrary to expectation, commission income increased by €4.9 million to €24.9 million compared to the previous year. A substantial part of this is the commission income from the lending business, which was significantly higher than the previous year's figure as a result of the positive development of new lending. Certain loan processing fees are also distributed in the interest margins over the term.

Operating Expenditure up on Previous Year as Expected

Operating expenditure comprises staff expenditure, other operating expenditure and amortisation on tangible assets and depreciation of intangible assets. Compared to the previous year, it increased by €11.1 million to €184.3 million.

At €91.0 million, staff expenditure was €9.0 million higher than in the previous year, mainly due to higher pension obligations.

Other operating expenditure increased by €14.3 million to €84.4 million. It primarily includes legal and consulting costs, IT expenditure, the expenses from the annual payment of the European bank levy, the allocation of the administrative holding costs of the managing institution under regulatory law, and building and premises costs. An increase was expected due to the future-oriented process initiated in 2020 and the existing demands on information technology and regulatory reporting requirements. Expenditure for the banking levy increased significantly once again and, at €16.4 million, exceeded the previous year's figure by €3.0 million.

Depreciation of property, plant and equipment and amortisation of intangible assets declined from €12.2 million to €8.9 million. The previous year's figure included significant one-off effects due to the write-down of the old building at the Berlin headquarters in view of the planned new building.

Other Operating Result below Previous Year

The other operating result amounted to €–7.8 million (€–1.7 million). It mainly includes interest elements from the compounding of pension reserves. Income from the reversal of reserves had a positive impact on the result of the previous year.

Better Cost-Income Ratio

The cost-income ratio expresses the relationship of operating expenditure to net interest and commission income, including the other operating result. Despite the increase in operating expenditure and the deterioration in the other operating result, the increase in net interest and commission income led to a decline in the cost-income ratio by 8.8 percentage points to 43.5 per cent. A significant increase in the cost-income ratio had been expected. As such, the achieved development was better than expected.

Net Allocation to Risk Provisioning Reduced

Despite the ongoing COVID-19 pandemic, there were no significant loan defaults in 2021. Accordingly, the net allocation to the lending risk provisioning, resulting mainly from allocations to provision reserves, was €17.4 million below the previous year's figure (€81.4 million net). Berlin Hyp has taken into account the resulting latent risks arising from the COVID-19 pandemic by maintaining an additional management adjustment as part of lump-sum value adjustment for valuated loans and reserves for irrevocable lending commitments. A detailed overview of the development of the lending risk provisioning can be found in the notes.

In particular, risk provisioning for securities in the liquidity reserve reported net income of €12.5 million due to sales. The net income in the previous year was €19.8 million.

Positive Net Income from Investments

Net income from investments amounted to €3.2 million after €-2.8 million in the previous year. In the previous year, the net income from financial assets mainly included an unscheduled write-down of an investment.

Further Additions to the Fund for General Banking Risks

The Bank added €187.0 million (€70.0 million) to the fund for general banking risks pursuant to Section 340g of the German Commercial Code (HGB). This fund amounted to €675.0 million at the reporting date.

Significant Rise in Operating Result before Income Taxes and Profit Transfer

Despite the further increase in provision reserves, the Bank reported a higher-than-expected profit before taxes result of €50.4 million (€23.6 million).

Profit and loss transfer agreement

Based on the profit transfer agreement concluded with Landesbank Berlin Holding, Berlin Hyp transferred a profit of €50.0 million (€23.4 million).

Sharp Increase in Return on Equity

The return on equity, which also includes the allocation to the fund for general banking risks pursuant to Section 340g of the German Commercial Code (HGB), was well above target at 15.7 per cent. It was also significantly above the previous year's figure of 6.8 per cent.

Earnings Development	2021 €m	2020 €m	Change €m
Net interest and commission income	**431.4**	**333.1**	**98.3**
Net interest income	406.5	313.1	93.4
Net commission income	24.9	20.0	4.9
Operating expenditure	**184.3**	**173.2**	**11.1**
Staff expenditure	91.0	82.0	9.0
Other operating expenditure	84.4	70.1	14.3
of which expenditure for bank levy	*16.4*	*13.4*	*3.0*
Depreciation on fixed assets	8.9	21.1	−12.2
Other operating revenue/expenditure	−7.8	−1.7	−6.1
Operating result before risk provisioning	**239.3**	**158.2**	**81.1**
Risk provisioning	**−4.9**	**−61.6**	**56.7**
Valuation result of lending business	−17.4	−81.4	64.0
Valuation result of securities business	12.5	19,8	−7.3
Operating result after risk provisioning	**234.4**	**96.6**	**137.8**
Financial investment result	3.2	−2.8	6.0
Fund for general banking risks	187.0	70.0	117.0
Other taxes	0.2	0.2	0.0
Operating result before income taxes and profit transfer	**50.4**	**23.6**	**26.8**
Income taxes ("−" = earnings)	0.4	0.2	0.2
Profits transferred on the basis of the profit transfer agreement	50.0	23.4	26.6
Net income	**0.0**	**0.0**	**0.0**

Net Assets Position

Increased Balance Sheet Total
Compared to the previous year, Berlin Hyp's balance sheet total rose by €2.8 billion to €36.2 billion as at 31 December 2021. On the assets side, the growth was driven by the rise in mortgage loan and securities portfolios and higher Bundesbank deposits.

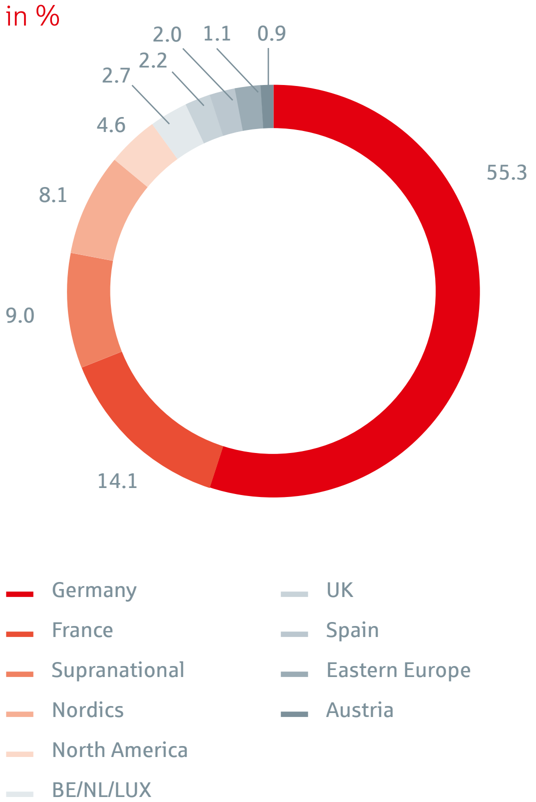
Changes in Major Balance Sheet Items
Claims against banking institutions rose moderately by €0.1 billion to €0.2 billion. They mainly include time deposit investments.

Claims against customers increased by €1.8 billion to €26.2 billion. The increase was due to the positive development of mortgage loan portfolios which, at €25.6 billion, were significantly higher than the previous year's figure of €23.9 billion. Additions to new lending were offset to a lesser extent by planned and extraordinary outflows through early repayments. The public sector lending portfolio outside the strategy remained unchanged at €0.4 billion. Loan commitments not yet disbursed amounted to €3.4 billion (€3.0 billion) at the end of the year.

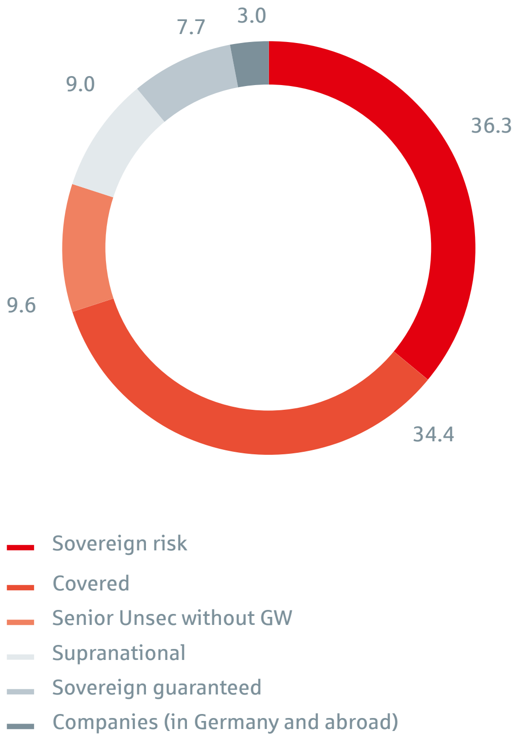
The portfolio of debentures and other fixed-interest securities increased by €0.6 billion to €6.8 billion. Nominal additions of €5.4 billion were offset by nominal disposals of €4.8 billion. All securities are allocated to the liquidity reserve and are partially used to cover Pfandbriefe issued by the Bank.

As at 31 December 2021, the issuer structure of the securities portfolio was as follows:

Countries
in %



Lending risk
in %



The €0.4 billion decline in liabilities to banking institutions to €9.0 billion resulted from the reduction in liabilities from fixed-term deposits. The portfolio of liabilities from the TLTRO-III programmes of the Deutsche Bundesbank remained unchanged at a nominal value of €8.5 billion.

Liabilities to customers decreased by €0.5 billion to €4.0 billion compared to the previous year.

Securitised liabilities to customers increased by €3.5 billion to €20.6 billion. New issues of €7.5 billion were offset by maturities of €4.0 billion.

Equity

Berlin Hyp's subscribed capital amounted to €753,389,240.32 as at 31 December 2021. It is fully paid up and divided into 294,292,672 bearer shares. The shares have a theoretical par value of €2.56. Furthermore, the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) was €675.0 million (€488.0 million) as at 31 December 2021. Subordinated capital of €163.6 million can also be taken into consideration as available under regulatory law.

During the reporting year, the requirements with respect to regulatory capitalisation (CRR/CRD IV, Solvency Regulation) were complied with as of the reporting dates. Berlin Hyp identifies regulatory capital backing for counterparty default risk with the aid of the IRB-based approach (internal ratings-based approach). Operational risk is calculated using the Advanced Measurement Approach (AMA). The common equity Tier 1 capital after adoption was €1,561.9 million as at 31 December 2021, equity was €1,789.8 million, and overall risk (RWA) amounted to €10,952.0 million. The capital ratios were 14.3% for the common equity tier 1 capital ratio and 16.3% for the total capital ratio.

Additional Performance Indicators

The leverage ratio calculated according to the Delegate Regulation (EU) 2015/62 was 4.2% after adoption as at 31 December 2021.
The balance-sheet-oriented minimum requirement for eligible liabilities (MREL) will probably not become relevant for reporting until 2022 when the decision is taken by the liquidation authority. As at 31 December 2021, it was 22.3 per cent based on the leverage ratio exposure (LRE) and 76.7 per cent based on the total risk exposure amount (TREA).

Financial Position

In the reporting period, the refinancing funds raised amounted to €5.3 billion. Of this total, €3.9 billion were attributable to mortgage Pfandbriefe and €1.4 billion to unsecured bank bonds, which were assumed at very good conditions compared to competitors. Around €0.4 billion of covered and €0.6 billion of uncovered securities were issued as private placements.

After the start of the primary market in January 2021, in which the Bank entered the market with a ten-year mortgage Pfandbrief of €500 million with a coupon of 0.01 per cent for a re-offer spread of mid-swap flat, it successfully issued a Senior Preferred Bond (SLB) in April and was the first bank in the world to issue a Sustainability-Linked Bond (SLB), according to its own assessment. The bond, which has an issue volume of €500 million, has a term of ten years and was placed on the market at a re-offer spread of mid-swap plus 35 basis points. The interest coupon is 0.375 per cent and increases by 25 basis points last year if Berlin Hyp fails to reach its defined climate protection goal of reducing the CO_2 intensity of its entire loan portfolio by 40 per cent between 2020 and 2030. In May, Berlin Hyp issued a 12-year mortgage Pfandbrief – its longest syndicated bond in this asset class. The bond, which has an issue volume of €750 million, carries an interest coupon of 0.25 per cent and was issued at a re-offer yield of 0.262 per cent. At €1.6 billion, the order book was clearly oversubscribed, which made it possible to set the final spread at mid-swap -2 basis points. The majority of this issue (62 per cent) went to investors from Germany. Demand from abroad was minimal, with orders from ten different countries in total.

As in the previous year, the Bank placed three Green Bonds in benchmark format on the capital market again in 2021. Building on the successful debut on the Swiss capital market in 2020, these were two senior preferred bonds in Swiss francs with terms of eight and ten years and one euro-denominated Green Pfandbrief with a term of six years. The Bank ended its benchmark activities in October with its first jumbo issue in two years. The order book was clearly oversubscribed at €1.65 billion, which made it possible to launch the €1 billion issue with a maturity in January 2030, an interest coupon of 0.125 per cent and a final spread of mid-swap -2 basis points. Berlin Hyp was active on the capital market with a total of eight syndicated new issues in the reporting year.

As of the reporting date, Moody's continued to rate Berlin Hyp's mortgage Pfandbriefe at Aaa with a stable outlook, while the senior preferred and senior non-preferred ratings remained Aa2 (with a stable outlook) and A2, respectively. Fitch had rated the outlook for the issuer default rating (IDR) of the Sparkassen-Finanzgruppe, the final support provider of the Berlin Hyp, as negative at the beginning of the pandemic, but raised it to stable again in the reporting year. The rating outlook for the Bank's senior preferred and senior non-preferred bonds was therefore also revised from negative to stable. The ratings remained unchanged at AA- and A+. In November, Fitch revised Berlin Hyp's viability rating (VR) from bbb to bbb+. The VR is the rating agency's assessment of the intrinsic financial strength of banks.

Aaa
from Moody's

Pfandbrief issue rating

Capital Market Refinancing *	Portfolio without pro rata interest 31.12.2020	New issues** 01.01 – 31.12.2021		Maturities*** 01.01 – 31.12.2021	Portfolio without pro rata interest 31.12.2021
	€m	€m	%	€m	€m
Mortgage Pfandbriefe	10,435.8	3,775.0	75.8	1,300.8	12,910.0
Public Pfandbriefe	20.0	-	-	20.0	-
Other bearer bonds, non-preferred	3,130.0	100.0	2.0	610.0	2,620.0
Other bearer bonds, preferred	2,396.5	891.5	17.9	200.0	3,088.0
Registered mortgage Pfandbriefe	1,607.4	126.1	2.5	167.7	1,565.8
Registered public Pfandbriefe	240.0	-	-	30.0	210.0
Debenture loans, non-preferred	410.3	-	-	292.6	117.7
Debenture loans, preferred	100.8	70.0	1.4	-	170.8
Registered bonds, non-preferred	1,319.5	9.3	0.2	113.1	1,215.7
Registered bonds, preferred	143.4	10.0	0.2	5.0	148.4
Subordinated bearer bonds	-	-	-	-	-
Subordinated debenture loans	119.5	-	-	-	119.5
Subordinated registered bonds	108.0	-	-	-	108.0
	20,031.2	**4,981.9**	**100.0**	**2,739.2**	**22,273.9**

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

Capital market refinancing in foreign currencies*	Portfolio without pro rata interest 31.12.2020	New issues** 01.01 – 31.12.2021		Maturities*** 01.01 – 31.12.2021	Portfolio without pro rata interest 31.12.2021
	CHFm	CHFm	%	CHFm	CHFm
Other bearer bonds, preferred	125.0	380.0	100.00	-	505.0
	125.0	**380.0**	**100.0**	-	**505.0**

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

Financial and Non-Financial Performance Indicators

Financial Performance Indicators

The profit transfer to Landesbank Berlin Holding was very satisfactory in the 2021 financial year and significantly exceeded our forecast. It came to €50.0 million (€23.4 million) despite the difficult underlying conditions described in the business development and the unplanned high addition of €187.0 million to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB). The Bank had assumed that the profit transfer was lower than in the previous year.

The significantly higher-than-expected net interest and commission income enabled the higher profit transfer and increase in the special item for general banking risks. The Bank had expected the net interest and commission income to be significantly lower than the previous year. Compared to the previous year, however, it increased by €98.3 million to €431.4 million. As such, net interest income increased contrary to expectation and improved by €93.4 million to €406.5 million. Besides a higher average mortgage loan portfolio, the increase was above all due to one-off effects, such as the participation in the targeted longer-term refinancing operations with the Deutsche Bundesbank (TLTRO-III) and the resulting interest (reduction in interest rates of €88.9 million, previous year: €20.0 million).

Net commission income, which the Bank had expected to be at a moderately lower level than in 2020, also improved, and at €24.9 million was €4.9 million higher than in the previous year.

Due to the anticipated expenses for optimising and improving business processes and various future issues, the Bank had expected an increase in operating expenditure and the cost-income ratio. Compared to the previous year, it increased by €11.1 million to €184.3 million. The positive development of net interest and commission income nevertheless led to a significant reduction of the cost-income ratio by 8.8 percentage points to 43.5 per cent. As such, it exceeded our forecast for the previous year, in which we had assumed a noticeable increase.

The higher-than-expected profit transfer and the high allocation to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) resulted in an 8.9 percentage point increase in return on equity to 15.7 per cent. It was therefore significantly above the target range of eight to ten per cent, contrary to our forecast. The Bank had expected a return on equity slightly below this target range at the end of 2021.

After the allocation to the special item for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) of €187.0 million (€70.0 million) and after adoption at 14.3 per cent (13.4 per cent), also taking into account the stricter equity requirements according to CRR II/CRD IV, the common equity tier 1 capital ratio exceeded expectations. The Bank had forecast a common equity tier 1 capital ratio of 12.7 per cent based on a 12-month period in the previous year.

At €6.1 billion, new lending volume slightly exceeded its predicted level as well as the previous year's level of €5.7 billion. Including long-term extensions, new lending increased by €0.4 billion to €7.1 billion (€6.7 billion). In light of the COVID-19 pandemic, the Bank had expected a lower volume of new lending.

Non-Financial Performance Indicators

The share of new lending with new customers was 39 per cent (27 per cent) of the total volume of new lending, which was significantly higher than the expected share of 20 per cent.

Market penetration at the savings banks, i.e. the number of savings banks with which Berlin Hyp maintains business relations, is a reflection of the Bank's strategic goal of positioning itself as S-Group partner of the savings banks and its brand core, based on partnership. Furthermore, Berlin Hyp strives to expand its product and service portfolio consistently in order to further increase its appeal as S-Group partner. The volume of the S-Group business in 2021 amounted to €1.8 billion (€1.4 billion), which brought it back to nearly the same level as in 2019 before the COVID-19 pandemic and significantly exceeded expectations of a moderate increase. The number of active business relationships with savings banks increased further to 163 institutions (153) from all S-Group regions. A key contributing factor was the successful market launch of the ImmoDigital platform.

For the market segment, the target portfolio for management purposes has become established in recent years. It includes the following aggregation groups: real estate types, customer groups, lending regions, rating classes and Green Bond financing capability. The specified target portfolio values set for these were complied with overall in 2021. Individual deviations were analysed and taken into account in the portfolio management. Regular internal research studies are employed to analyse and evaluate Berlin Hyp's markets.

In addition to market conditions, the performance of Berlin Hyp depends largely on its employees. Since the reporting year 2018, the headcount in full-time equivalents (FTE) has been a non-financial performance indicator. As of 31 December 2021, the headcount was 557 FTEs (552 FTEs), which included 23 FTEs (20 FTEs) of junior staff.

The new future-oriented organisational structure has been largely implemented. In this context, employee qualification is of even greater importance.

Strategic resource planning is a means to ensure the functional capability and future viability of Berlin Hyp. To support this quantitative and qualitative human resource planning, early retirement and severance agreements are offered on the basis of a works agreement. Moreover, it is extremely important to safeguard the transfer of expertise when appointing successors to any given positions.

Through the financing of sustainable, climate-friendly properties (green buildings), and their refinancing via green bonds, Berlin Hyp has actively supported the dynamic development of the market for sustainable bonds since 2015. After making its debut with the world's first Green Pfandbrief in 2015, 16 Green Bonds with a total volume of €6.03 billion have since been issued. Berlin Hyp also launched a Sustainability-Linked Bond (SLB) in spring 2021. The development of other key non-financial performance indicators is described in the non-financial statement.

The sustainability ratings for 2021 continue to confirm Berlin Hyp's above-average position in the sector. MSCI raised the Bank's rating from A to AAA at the beginning of 2021. Berlin Hyp also received a Sustainalytics ESG risk rating of 7.1 in October 2021, confirming it as "low risk". The ISS ESG Prime Status rating and overall score of B- maintain their validity. These very good rating results from the rating agencies document Berlin Hyp's outstanding commitment to sustainability management, honour its investment products – green and sustainability bonds – and recognise its responsible attitude to people and the environment.

Overall Statement

Berlin Hyp significantly exceeded its expected results despite the ongoing COVID-19 pandemic, the persistent low-interest phase and fierce competition among commercial real estate financiers. Given difficult underlying conditions and the allocation of €187.0 million (€70.0 million) to the fund for general banking risks to strengthen regulatory capital, the Board of Management is satisfied with the higher-than-expected earnings performance.

A result after taxes of €50.0 million (€23.4 million), which was more than planned, will be transferred to Landesbank Berlin Holding as profit. New lending also exceeded the planned levels.

III Report on Subsequent Events

Following the dissolution of the Landesbank Berlin Holding Group as an institutional group due to reasons including the new regulatory requirements imposed by the Risk Reduction Act and other regulatory requirements, it was agreed on 26 January 2022 (signing) to sell all shares held by Landesbank Berlin Holding AG in Berlin Hyp to Landesbank Baden-Württemberg.

The transaction is subject to the approval of the antitrust authorities and has yet to be approved by the competent bodies of the German savings banks. The closing of the transaction is planned for the summer. The main opportunities and risks for Berlin Hyp arising from the transaction are presented in the “Opportunities, Risk and Forecast Report” section.

On 12 January 2022, the Federal Financial Supervisory Authority (BaFin) announced its intention to set a countercyclical capital buffer of 0.75 per cent of risk-weighted assets on domestic risk positions and to introduce a sectoral systemic risk buffer of 2.0 per cent of risk-weighted assets on residential real estate-backed loans. Each of the quotas are currently at zero per cent. In a general ruling from 31 January 2022 with effect as of 1 February 2022, BaFin ordered the implementation of the buffers by a deadline of 1 February 2023. The introduction of these capital buffers or additional capital requirements will reduce the Bank’s free RWA potential and thereby also the new business opportunities accordingly.

IV Opportunities, Forecast and Risk Report
Opportunities and Forecast Report

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

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

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

Assumptions Relating to Macroeconomic Development[4]

Recovery of the global economy is expected to continue in 2022, but the growth rate will remain moderately below that of the previous year. The main factors influencing the course of global economic development in 2022 will be supply bottlenecks and pandemic-related restrictions that will remain in place for the time being. We also expect tangible growth in the eurozone, albeit noticeably lower than in the previous year.

Germany is expected to see significant economic growth as the Omicron wave starts to wane from the half-year beginning in summer. For the year as a whole, gross domestic product will be significantly higher than in the previous year, thereby achieving similar growth rates to the rest of the eurozone average, unlike in 2021.

Assumptions Relating to Industry Development[5]

The monetary policy of the main central banks is expected to be less expansionary in 2022 than in previous years due to further economic growth and continued inflationary pressures. While interest rates in the US were raised three times to a corridor of 0.75 to 1 per cent, eurozone interest rates are not expected to rise. In Germany, however, it can be assumed that, as new investments come to an end as scheduled, the dramatically boosted liquidity via targeted longer-term refinancing operations (TLTRO III) will be discontinued. This is expected to put pressure on the spreads of uncovered bank bonds. On the other hand, the high level of maturities in 2022 will likely cause a sideways drift for covered bonds. These should mitigate the pressure on spreads caused by an increasing issue volume.

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

In line with the predicted economic recovery and in view of the unchanged favourable financing conditions and the pressure from investors to find yields, Berlin Hyp expects the real estate investment market to remain highly dynamic in 2022. An investment volume of

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

[5] Sources for assumptions about macroeconomic and sector-related underlying conditions: CBRE, Destatis, F+B, JLL Research.

€80 billion in the commercial and residential real estate investment market is likely. For one thing, as prices continue to rise, strong investor demand for residential real estate will remain undiminished, even if the momentum is declining in some urban centres. Moreover, the search for adequate returns will keep investor demand on the commercial property market for core office properties at A and B locations, grocery-anchored retail properties and logistics properties for e-commerce use at a high level. Even more emphasis will be placed on the ESG compliance of the property, tenants and borrowers in all investment decisions.

Business Development

Through its involvement in the Sparkassen-Finanzgruppe and its professional and experienced employees, Berlin Hyp has continued to strengthen its position as one of the leading commercial real estate financiers in 2021. This has created a solid foundation for its successful positioning, now and in the future, within a very challenging environment. The Bank considers its innovative strength as the key to exploiting new market shares and potential.

Part of the core of the strategy is to completely digitise the business processes, from initial contact with customers to external reporting. In doing so, Berlin Hyp continues to focus on the introduction of SAP HANA and standardised applications in order to achieve flexibility, security, data quality and on-time availability of data and reports. Berlin Hyp is further pursuing its goal of simplifying processes even more from a customer perspective and being able be able to respond more quickly to customer requests.

Berlin Hyp plans to pursue its core business as before, focusing on individual financing structures with risk-appropriate pricing and a balanced risk weighting and will try to further expand its mortgage portfolios to a moderate degree. The financing in traditional foreign markets is being pursued in order to achieve balanced portfolio diversification in terms of risk and revenue.
In view of the increased regulatory requirements, the portfolio will be progressively strengthened by optimising the return on equity of new lending.

In 2022, Berlin Hyp plans to establish business relationships with other savings banks in the S-Group business, to expand ImmoDigital as the main sales platform for the S-Group products of the Immo product range and to moderately increase the volume of the S-Group business compared with the previous year. However, due to the regional principle and the individual business focus of each savings bank, the growth rates in market penetration are generally limited. Failure to achieve these goals does not hold any identifiable risks to the Bank's business model or business success. However, achieving these two goals increases Berlin Hyp's chances of positioning itself sustainably as a long-term S-Group partner within the Sparkassen-Finanzgruppe.

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

The securities portfolio increased in 2021. In consideration of the regulatory requirements, however, earnings potential that arises should continue to be used to support the interest result within the framework of a conservative investment strategy. Berlin Hyp does not expect the securities portfolio to increase significantly in 2022.

Berlin Hyp expects net interest and commission income in 2022 to be somewhat lower than the impressively high level reached in the 2021 financial year.

Berlin Hyp's net interest income is based on rising interest income in its core business resulting from portfolio growth at stable portfolio margins. The unchanged low and flat yield curve continues to cause pressure due to a low equity yield rate. In all probability, net interest income will benefit from additional income from the "additional special interest period" of the targeted longer-term refinancing operations of the European Central Bank (TLTRO-III), as it did in the past year.
There are opportunities to further reinforce the market position by leveraging the expertise of Berlin Hyp as a commercial real estate financier and to exceed sales targets as well as the net interest income as a result. This could be further facilitated by the consistent implementation of the digitisation strategy. Potential risks may arise if the sales targets are not met, for example, due to the COVID-19 pandemic or a downturn in the real estate markets. Cancelled or postponed investments could lead to a decline in demand for commercial real estate financing and, depending on how the real estate market and interest rates develop,

could increase unscheduled loan repayments. In addition, earnings risks arise if, due to strong competition, only interest margins lower than planned can be agreed in the core business, or if delays in implementing the digitisation strategy lead to lower business potential than expected.

In terms of acquisition of new customers, a 20 per cent share of new lending is expected in 2022.

Given the ongoing challenging and unstable planning environment impacted by the pandemic, we expect new lending in 2022 to be slightly lower than the very successful level reached in the 2021 financial year. Although the real estate markets and asset classes, which have so far been very crisis-resistant, run the risk of falling short of the plan, they may again also offer opportunities for a slightly higher level of new lending compared to the planning, depending on how the pandemic progresses.

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

Berlin Hyp expects an overall slight increase in operating expenditure in 2022 compared to the previous year. Human resource expenditures will develop under the influence of the negative effects associated with the allocations to pension obligations resulting from falling average interest rates and the results of future collective agreements. In addition to the continuing high level of cost awareness and extensive optimisation activities for the adaptation of human resources, strategically essential projects, such as the optimisation and digitisation of the loan process, the creation of an integrated SAP bank and the construction of the new headquarters, will lead to higher expenditure. The latter will be neutralised over time by lower operating costs.

Berlin Hyp's headcount is expected to decline in the medium to long term based on the current state of knowledge. Since January 2019, resource management in this regard has been essentially based on a company agreement.

Contributions to the European banking levy are calculated by the banking supervisory authority. Berlin Hyp assumes that the contributions will not see any major adjustments compared to the 2021 level.

For the above reasons, the cost-income ratio is expected to increase significantly in 2022 after the planned increase for 2021 was achieved. With the results of the successful implementation of projects and other initiated measures, more reductions can be expected in the medium term.

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

In line with 2021, Berlin Hyp expects that the other operating result will again be in the negative single-digit million range in 2022.

Within its planning, Berlin Hyp assumes that there will be a significant increase in risk provisioning in 2022. The COVID-19 pandemic continues to have a tangible impact on the economic activity of many markets after the balance sheet date of 31 December 2021. As such, it is still very likely that the economy will continue to struggle and that the real estate industry will also face negative consequences in future. The medium-term impact of the COVID-19 pandemic on the economy and on the market development, particularly of hotel, office and retail properties, has so far been difficult to estimate. The forecasts contained in the Management Report reveal a high degree of uncertainty in view of the dynamics that are emerging. Coronavirus restrictions were tightened again in January 2022.

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

Insofar as the effects of the COVID-19 pandemic are reflected in sustainable economic and capital market pressures beyond current expectations, this could result in vacancy rates and further losses in commercial property values contrary to previous expectations, putting a significant strain on real estate markets and leading to increased risk provisioning expenditures, particularly for hotel financing or the financing of specific retail use properties. Furthermore, there could be a decrease in the volume of new business and the number of holdings in the Bank’s commercial real estate financing business. It therefore cannot be ruled out that the further developments in the COVID-19 crisis will lead to negative effects on the planned earnings figures.

According to plan, Berlin Hyp assumes that the operating result after risk provisioning will decline slightly, taking into account careful risk provisioning planning and the above-mentioned expectations. Earnings before profit transfer are expected to be slightly below the 2021 levels. The planned allocations to the special item pursuant to Section 340g of the German Commercial Code (HGB) will remain at a high level, but will also be slightly lower. While a lower-than-expected profit transfer could result if the pandemic takes a very negative course, there is a chance of higher earnings before profit transfer if the COVID-19 pandemic takes a more positive course than anticipated.

In such a situation, earnings before profit transfer in 2022 could also be significantly lower than the result in 2021 due to rising risk provisioning expenditures and a negative impact on the interest result. Should this be the case, the other key management indicators may also develop less favourably than those shown in the forecast report. There may also be consequences for regulatory capital and the regulatory indicators. Also, it cannot be ruled out that the further developments in the coronavirus crisis in the 2022 financial year may also have a considerable negative impact on risk management parameters.

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

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

Return on equity will likely decline somewhat in 2022, but will remain significantly above the target range of eight to ten per cent at the end of the year. If the earnings before profit transfer or the allocations to the special item pursuant to Section 340g of the German Commercial Code (HGB) fall short of expectations, the return on equity will also be lower. Otherwise, there is a chance of a positive deviation from the plan.

The Bank expects to achieve a common equity tier 1 ratio (CET1) of 13.4 per cent over a twelve-month period. Additional stricter regulatory requirements are planned in the coming years, such as the setting of macroprudential capital buffers and CRR II and “Basel IV”, which will also have a strong impact on Berlin Hyp. Macroprudential capital buffers include the countercyclical capital buffer, whose rate was set at 0.75 per cent of the total amount of the claim as determined in accordance with Article 92(2022 3) of the Capital Requirements Regulation, in accordance with the general ruling of the Federal Financial Supervisory Authority of 31 January 2022, effective as of 1. February 2022, and must be applied from 1 February 2023 for the calculation of the institute-specific countercyclical capital buffer, and the system risk buffer two per cent of the risk-weighted residential real estate-backed assets in Germany. Both capital requirements are expected to apply from February 2023 onwards and represent new additional capital requirements. The introduction of these capital buffers or additional capital requirements will reduce the Bank’s free RWA potential and thereby also the new lending opportunities accordingly.

In addition to further allocations to the special item for general banking risks, the active management of the total risk-weighted assets (RWA) will also make a significant contribution to achieving the targeted capital ratios and fulfilling the additional capital requirements as described. Events such as an increase in RWA above expectations as a result of reduced collateral values and rating changes due to the COVID-19 pandemic would put the achievement of targets at risk.

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

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

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

The above expectations are still based on the assumption that the business operations of Berlin Hyp will continue unchanged within the existing environment of the Landesbank Berlin Holding Group. Within the context of the agreed sale of the shares of Berlin Hyp to Landesbank Baden-Württemberg on 26 January 2022 (signing), significant changes could arise due to the change of shareholders. For example, significant additional costs could arise for the insourcing of activities that have previously been outsourced to other group companies (including Landesbank Berlin) or for fulfilling IFRS reporting requirements for the new shareholder. As a result, the cost-income ratio may significantly fail to meet the described expectations. In addition, the change of shareholders could also have an impact on the Bank's strategy, customers, portfolio business and, in particular, new lending. Given these circumstances, there are risks that new lending will be achieved as planned. Regulatory requirements (e.g. limits on large loans within a new group) in corresponding processes can also have negative effects on customer relationships and the financing portfolio. Due to differences in external ratings between the acquirer and Berlin Hyp, there could be negative effects on Berlin Hyp's rating and refinancing costs.

On the other hand, the change of shareholders presents considerable opportunities for Berlin Hyp. For example, close cooperation with Landesbank Baden-Württemberg may generate cost synergies through changes such as economies of scale at the group level or the assumption of previously outsourced activities, thereby leading to positive effects on operating expenditure and the cost-income ratio as a result.

There are also earning opportunities if close cooperation leads to new customer relationships and therefore to an expansion of the core business. This could be reflected in higher-than-expected interest result and net commission income, and could also have a positive impact on other management indicators, such as return on equity and the refinancing situation.

Overall Statement

Fierce competition in real estate financing, the continued low interest phase and the volatile capital and financial market environment, combined with the need to further strengthen equity capital, increasing regulatory requirements and, above all, the unpredictable course of the COVID-19 pandemic present major challenges for Berlin Hyp. Against this backdrop, the 2021 financial year was very favourable and considerably better than expected. The very good result was again used to make a further allocation to the fund for general banking risks, thereby strengthening regulatory equity. This enabled the reinforcement of the significant growth in the core business. This, together with the solid refinancing strategy, provides a good foundation for the continuation of successful operating activities.

The Bank's involvement in the Sparkassen-Finanzgruppe and its innovative strength create additional opportunities. The Board of Management therefore believes that Berlin Hyp remains well positioned for the future in an increasingly challenging environment. The aim of the measures introduced to optimise the Bank's HR tools and the resulting optimisation of the allocation of human resources is to foster the skills of each individual staff member.

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

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

Even taking into account the recessionary economic development triggered by the COVID-19 pandemic and the still unpredictable developments on the real estate market and possibly recurring upheavals on the capital markets, Berlin Hyp expects that the positive business development with its customers will continue in 2022. If there is no additional need for risk provisioning compared to the planning, the return on equity is expected to increase slightly again.

Taking into account the significant allocation to the special item pursuant to Section 340g of the German Commercial Code (HGB), which is also planned for 2022, and in view of the costs for future-oriented projects and investments, earnings before profit transfer are expected to be somewhat lower than in the 2021 financial year.

A contract was signed on 26 January 2022 for the sale of Berlin Hyp to Landesbank Baden-Württemberg. The transaction is subject to the approval of the antitrust authorities and has yet to be approved by the competent bodies of the German savings banks. The closing of the transaction is planned for the summer. In future, Berlin Hyp will be managed as an independent subsidiary within the LBBW Group under its established brand.

Given the similar strategic orientation in commercial real estate financing and the complementary locations abroad, Berlin Hyp and Landesbank Baden-Württemberg are hoping to broaden market access in Germany and abroad. With a focus on digitisation and sustainability, Landesbank Baden-Württemberg and Berlin Hyp complement each other and are similarly aligned in terms of strategy. By teaming up with the largest German Landesbank, Berlin Hyp expects new sales opportunities, as its customers will also be able to take advantage of the product portfolio of a leading universal bank in future.

At the same time, this transaction resulted in the leading competence centre for commercial real estate financing in the S-Finanzgruppe. Berlin Hyp offers the savings banks a variety of products and services that are specially tailored to their needs. In the wake of the merger, Berlin Hyp hopes to further develop its network within the S-Finanzgruppe and to offer it a more in-depth product range in future.

As a partner of one of the largest issuers of ESG bonds, Berlin Hyp intends to further develop its strength and expertise as a pioneer in the Green Bond market and live up to its role as a driver of innovation.

Risk Report

Risk Management System

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

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

Berlin Hyp is subsidiary of Landesbank Berlin Holding. 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.

With the approval of BaFin, Landesbank Berlin Holding AG was appointed as a "supervisory parent company for the group" as of 1 January 2015.

Following the Risk Reduction Act and the resulting changes to the German Banking Act (KWG), the Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG as of 29 June 2021 was to be regarded as a supervisory parent company for the group; the requirements set out in Section 29 of the German Banking Act by the Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG. would therefore have had to be fulfilled. According to the draft ECB decision of January 2022 to order supervisory measures, the Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG must ensure that Landesbank Berlin Holding AG is temporarily named responsible for ensuring compliance with relevant regulatory requirements on a consolidated basis until 31 December 2022.

Group Risk Management System

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

As the superordinate regulation, the business strategy outlines strategic underlying conditions. It defines that the controlled incurrence of risks within the scope of a risk strategy is an elementary aspect of the banking business. Standardised Group risk policies aim to ensure that assumed risks remain acceptable. All companies and organisational units have to ensure that all risks are transparent and measurable under the uniform Group-wide methodology.

Details of these requirements are provided in the Group's risk strategy. It is the responsibility of the Board of Management of Landesbank Berlin Holding and will be discussed with the Supervisory Board. Compliance with the risk strategy is continuously monitored.

The Group risk manual that establishes the framework for operational risk controlling defines detailed underlying conditions, responsibilities, methods and processes for the individual risk management phases. Limit systems and escalation processes are described for each major risk type.

Berlin Hyp Risk Management System

Risk Policy Principles

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

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

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

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

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

Berlin Hyp Governing Bodies

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

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

The Supervisory Board is informed regularly by the Board of Management about the overall risk profile. It receives the quarterly risk reports and the financial statements according to the German Commercial Code (HGB). The Loan Committee, which also acts as the Risk Committee, consists of members of the Supervisory Board. It consults with the Board of Management regarding the principles of business policy regarding risks and risk management.

Internal Audit is an essential element of the business and process monitoring system. This encompasses a regular review and evaluation of the risk management processes for all types of risk. The Internal Audit division reports independently and directly to the Board of Management.

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

In addition, Berlin Hyp has set up various committees that regularly deal with risk management and the Bank's risk situation:

→ Supervisory Board, including its committees
→ Board of Management
→ Financial Steering Committee
→ New Lending Committee
→ Market Assessment Committee

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

As a part of risk inventory, the Risk Controlling division reviews the methods and models to identify, measure, aggregate and limit risks at least once a year and presents the results to the Board of Management.

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

Reporting

Berlin Hyp's risk situation is presented in detail on a quarterly basis in a Risk Report for the Board of Management and the Supervisory Board. In addition to the material information on the individual risk types classified as material, the stress test results and information on risk concentrations, the Risk Report also includes information on adequacy of capitalisation, regulatory and economic capital, the current capital and liquidity indicators and refinancing items. In addition to the quarterly risk report, risk controlling provides monthly reports on individual risk types and the Bank's risk-bearing capacity. Market and liquidity risks (procurement risk) are reported daily. In addition to the regular standardised risk reports, reports are also prepared on a case-by-case basis (ad hoc), if deemed necessary due to the current risk situation, for example, if pre-defined risk limits or loss limits are exceeded.

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

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

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

Risks

Risk Inventory

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

Within the risk inventory, Berlin Hyp reviewed sustainability risks or ESG risks (environmental, social, governance) as overarching risks and classified them as fundamentally relevant risks for the Bank. The Bank is continuously developing its risk management organisation in accordance with regulatory standards and recommendations. The Bank is currently implementing a project to develop qualitative and quantitative methods for measuring and controlling ESG risks in accordance with the principles from the ECB guide on climate-related and environmental risks.

Material Risks

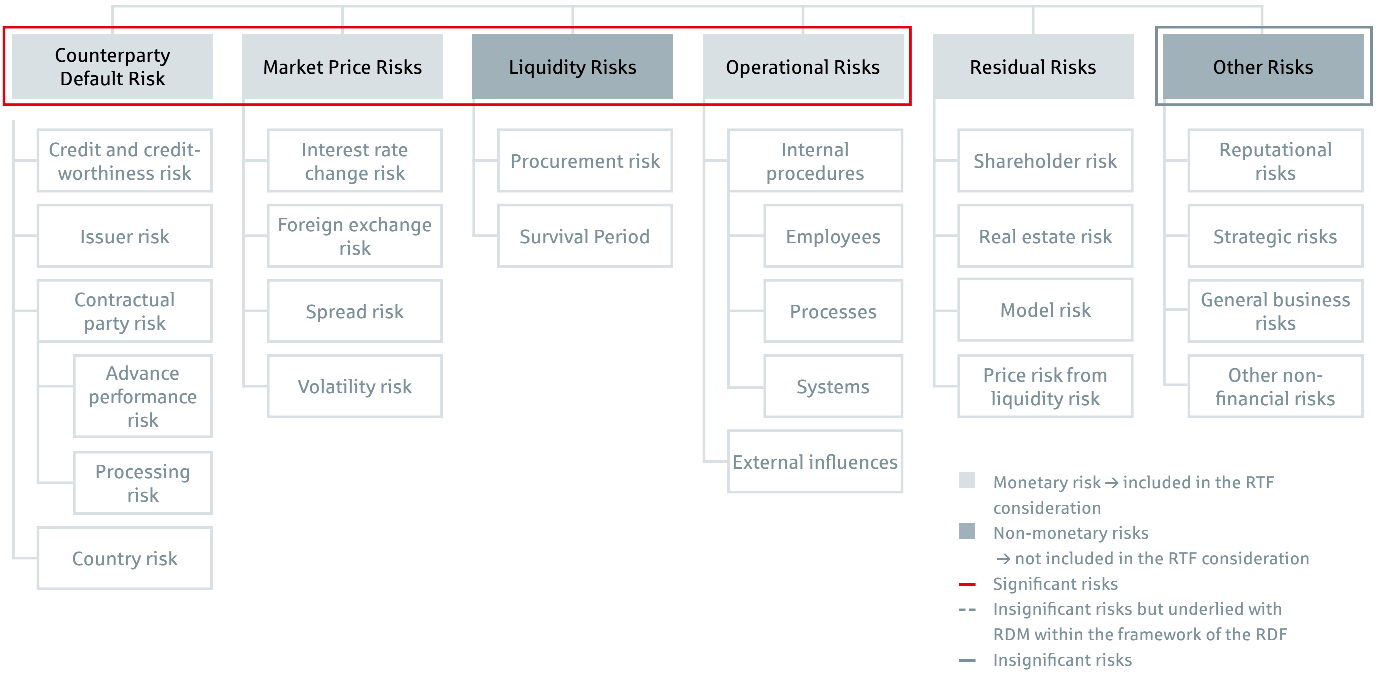
In the context of its regular risk inventory, the Bank has classified the following risk types as material:

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

Berlin Hyp distinguishes between monetary and non-monetary risks. Monetary risks are taken into account in the summary overview of the Bank's risk position (overall bank risk) and are compared to the Bank's risk-covering assets as part of the risk-bearing capacity analysis. Non-monetary risks (such as insolvency risk) cannot be backed by risk covering assets, but are integrated into risk management and controlling processes using the appropriate standard methods and models.

The figure below provides an overview of the main risk types at Berlin Hyp. Relevant but insignificant risks fall into the categories Residual Risks and Other Risks.

Risk Types of Berlin Hyp AG



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

Risk types	Risk management (Units / Committee)	Risk monitoring (Units)
Counterparty default risks	→ Real Estate Financing → Portfolio Management → Treasury → Lending → Risk Management	→ Risk Controlling
Market Price Risks	→ Financial Steering Committee → Treasury	→ Risk Controlling
Liquidity Risks (Including price risk)	→ Financial Steering Committee → Treasury	→ Risk Controlling
Operational risks	→ Process owners → Divisions	→ Risk Controlling

Risk-Bearing Capacity

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

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

In assessing the risk-bearing capacity, the risks are quantified in the economic perspective following approaches based on value at risk. A confidence level of 99.9% for a one-year evaluation period is applied. In order to ensure the Bank's risk-bearing capacity, the total risk position determined in this way must not exceed the risk-covering assets. The Bank's risk appetite in relation to risk-bearing capacity was set by the Board of Management at 90 per cent of the risk-covering assets. For the overall risk within the risk-bearing capacity assessment, there is a pre-warning level at 80 per cent of the available risk-covering assets. The evaluation is completed by evaluating the overall risk position by assessing the results of various stress tests that take the risks into account from an economic as well as a regulatory perspective.

The risk-covering assets are calculated from the sum of the capital allocable under regulatory requirements and certain economic adjustment items.

The real estate risks classified as immaterial, shareholder risks and the model risks are summarised in the residual risk, as well as the price risk in the liquidity risk, which in turn is classified as material.

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

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

The impact of macroeconomic changes on the risk of the Bank and the risk-covering assets and/or on the regulatory capital ratios was estimated by consolidating the specific stress tests in the individual risk types into several stress tests for the Bank as a whole. This was achieved by defining scenarios in accordance with the requirements of the MaRisk, which also take into account the relationships between the individual risk types of the assumed developments.

Reverse stress tests are used to calculate the degree to which the overall banking scenarios with the greatest impact would have to develop before the total risk-covering assets are exceeded or the minimum capital stock can no longer be retained.

The Bank's risk-bearing capacity was verified in 2021 on all reporting dates, both according to regulatory and normative perspectives. Details of the risk-bearing capacity as at 31 December 2021 are disclosed in the section "Overall Statement on Risk Situation".

Risk Management System by Risk Type

Counterparty Default Risks

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

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

The risk exposure on the individual borrower level is verified on the basis of regular analysis of creditworthiness. Rating procedures that take debtor and business-specific characteristics into account are at the core of the risk assessment. Pricing as well as loan decisions are based on the rating of the borrower, taking into consideration the security provided.

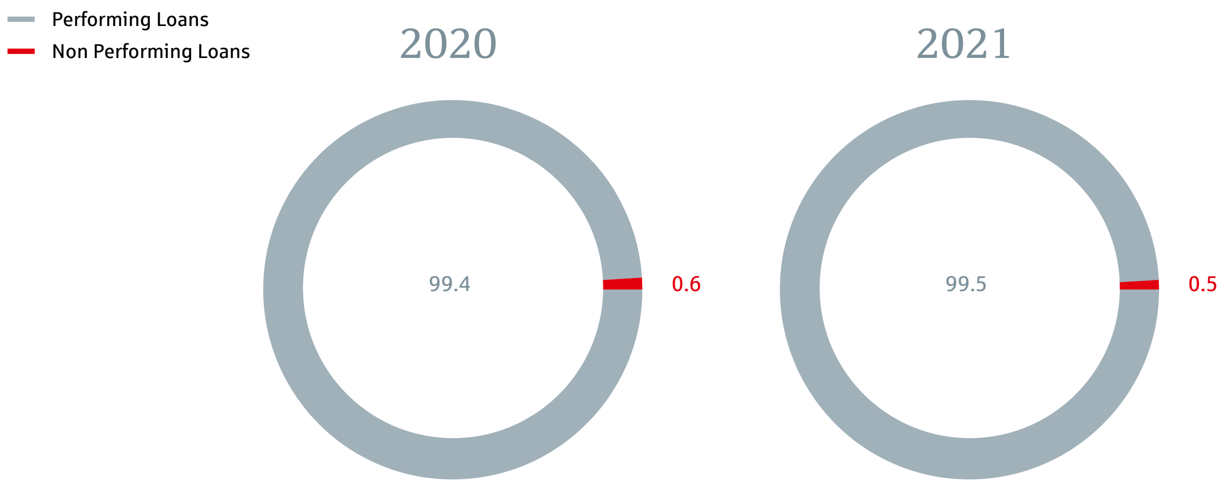
Real estate financing is largely determined using the SparkassenImmobiliengeschäfts-Rating (SIR) and the method for international commercial real estate financing (ICRE). Furthermore, the rating procedures for banks (BNK) and corporates (CRP) are used in particular for the capital market business.

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

In 2021, the Bank reviewed its rating models, identified various rating procedures suitable for transfer to the standardised approach to credit risk and submitted an application for these to the ECB. The ECB granted permission to return to the standardised approach for these procedures in December 2021.

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

NPL ratio based on FinRep
in %



The share of non-performing loans in the total portfolio as at 31 December 2021 was 0.5 per cent, and thus remains at a low level.

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

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

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

Other parameters relate to the loan-to-value as well as the expiry of rental contracts and/or fixed interest rates.
Early warning meetings take place each quarter, attended by the Sales, Loan and Risk Management divisions, at which the risk content of the identified commitments is discussed separately and further measures decided upon if necessary.

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

The securities and public sector loan portfolio represents a significant aspect of the capital market business. In addition, there are counterparty risks from the derivatives business. The existing capital market exposure is reported on a regular basis to the Board of Management and the Supervisory Board, broken down according to country and rating class.

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

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

The COVID-19 task force, launched in March 2020, continued in the light of the ongoing coronavirus pandemic and took the necessary steps to assess the potential impact of the pandemic on the loans portfolio. The detailed bottom-up and top-down analyses were updated during the year. The scenario calculations for estimating the ongoing impact of the COVID-19 pandemic on debt service capacity and the development of the market values for each relevant asset class have been adjusted in isolated cases by developments since the outbreak of the COVID-19 pandemic. As a result, individual asset classes in the portfolio continued to be more strongly affected by the pandemic than others, including department stores and shopping centres of the Retail segment and properties of the Hotel segment. In February 2021, around 200 individual exposures with a total volume of €6 billion were examined again more closely to determine the effects of the second and third lockdowns. The analysis focused on the short-term liquidity situation and its effects on the loan ratio. In addition, a customer survey was conducted for 85 affected loan exposures. The results of the analyses indicated that no specific risks within individual transactions could be identified. Overall, it was shown that the affected customers had an adequate liquidity position and/or had taken sustainable measures in advance to deal with the crisis. The analyses revealed weaknesses in individual exposures, but no measures were required for any of them beyond continuation or inclusion in the increased support.

Relative to the overall economic impact of the COVID-19 pandemic, only a small number of applications for support measures were submitted. Sixteen coronavirus-related requests for repayment deferrals and repayment reductions with a total financing volume of €323 million were approved. The volume of contractually agreed deferrals amounted to €5.2 million. Out of this, an exposure with a deferral volume of €0.14 million fell short of the requirements of the vdp moratorium, which the Bank joined in spring 2020. Membership in the vdp moratorium expired on 31 March 2021.

In assessing the loans portfolio, Berlin Hyp took into account the current special developments and risks resulting from the COVID-19 pandemic by setting up a COVID-19 management adjustment as part of the lump-sum value adjustments.

Portfolio Level

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

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

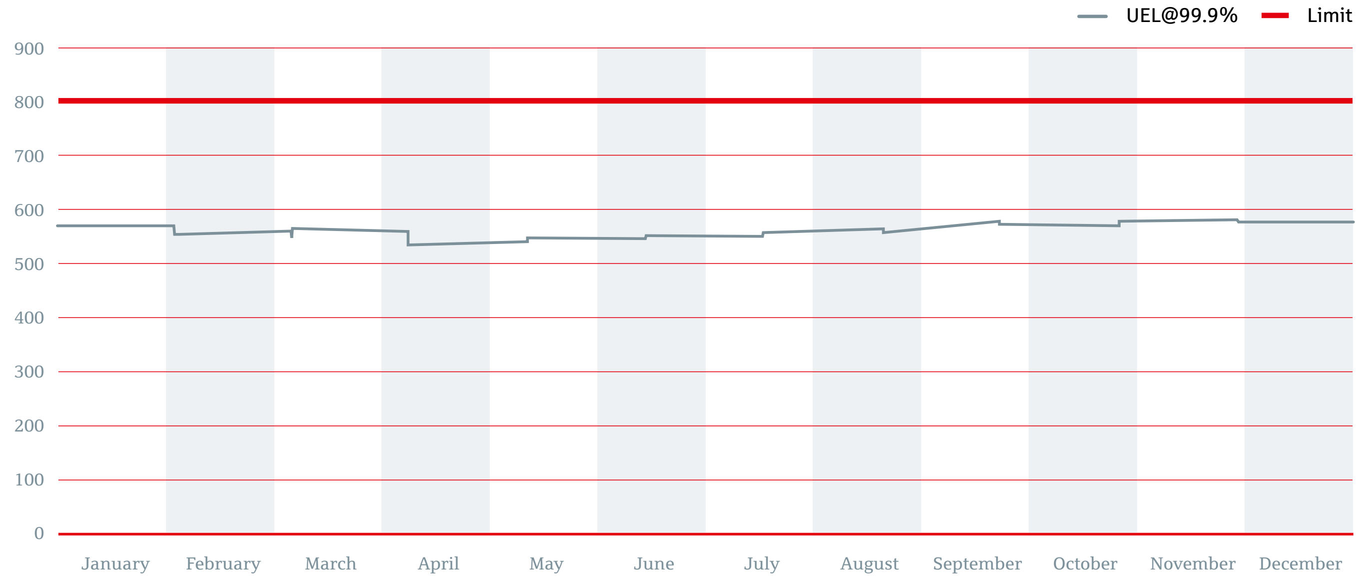
- → Exposure data (availments, externally approved limits)
- → Collateral values
- → Borrower, issuer and counterparty default probabilities
- → Country default probabilities
- → Industry correlations and volatilities
- → Country correlations
- → Income ratios to determine expected proceeds from security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

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

Berlin Hyp has limited the counterparty default risk. It has the risk indicators determined daily under an agency contract with Berliner Sparkasse. The risk indicators are monitored

Development of UEL in 2021

in €m



by Berlin Hyp's Risk Controlling division, which carries out variance analyses and limit monitoring. 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 per cent of the credit risk 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 2021, the utilisation was €564 million and the limit was €800 million.

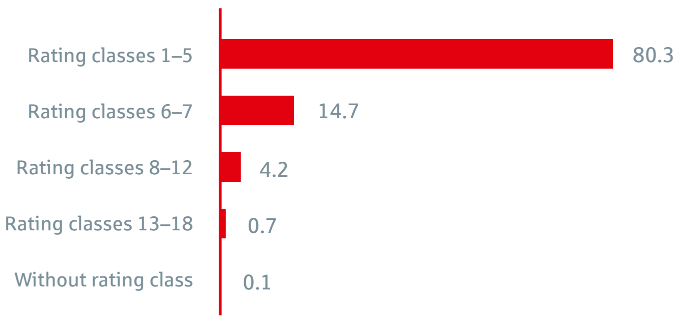
Responsibility for the methodology and validation of the credit value at risk model under consideration of Berlin Hyp's interests rests at the Group level. Internal and external audits are carried out at Group level as well.

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

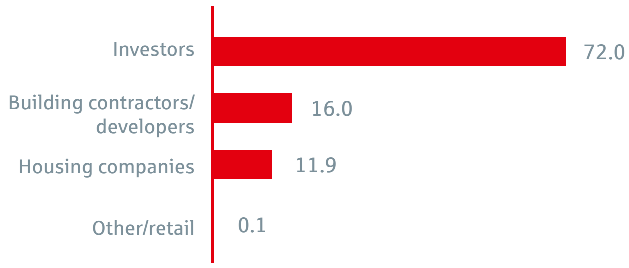
The business volume of Berlin Hyp relevant for the determination of the counterparty default risk amounted to €40.2 billion as at 31 December 2021. This business volume is broken down into mortgage lending transactions of €30.1 billion, money market and derivatives transactions of around €2.9 billion, and securities and public sector loans of around €7.2 billion.

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

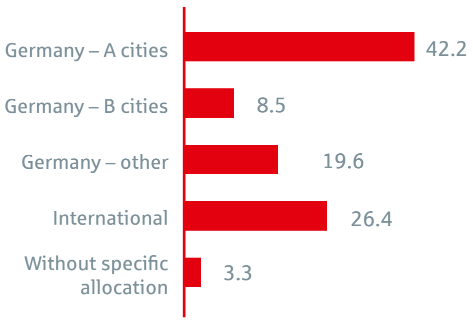
Rating classes
in %



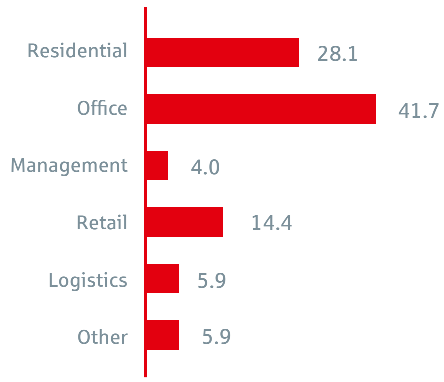
Customer groups
in %



Regions
in %



Property types
in %



Country and Transfer Risks

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

Market Price Risks

Berlin Hyp is a non-trading book institution. As a Pfandbrief bank, Berlin Hyp largely assumes market price risks in the form of interest and spread change risks. Except for peak amounts, the Bank does not have any open currency positions in the real estate financing business in accordance with its risk strategy. The mortgage lending business and refinancing in foreign currencies are generally covered by corresponding 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 interest rate derivatives.

The Bank uses a combination of risk sensitivities, the value-at-risk approach and other stress tests to measure the risk of interest rate changes. For market price risks, a value at risk with a holding period of one trading day and a 99.0% confidence level are determined based on a historical simulation approach using an unweighted ten-year time series, taking into account linear and non-linear risks including volatility risks. In assessing the market price risk within the context of risk-bearing capacity (ICAAP), the risk values were scaled accordingly to a confidence level of 99.9 per cent and a holding period of one year.

The value at risk also takes credit spread risks and interest change risks from the Bank's pension reserves into account in addition to general interest rate change risks.

The Bank determines a risk coefficient in accordance with the requirements of the EBA guideline on the management of the interest rate risk for transactions in the banking book and the corresponding BaFin circular. Specifically, the cash value changes to the banking book are modelled in relation to equity for an interest rate change of +/- 200 basis points. An early warning indicator is also determined on the basis of the EBA guideline, in which the cash value changes of the six IRRBB (Interest Rate Risk arising from the Banking Book) scenarios stipulated under regulatory law are set in proportion to the tier 1 capital. The stress scenarios for market price risk also include various earnings and risk stress tests and a net interest income simulation.

The value at risk, the risk coefficient and the early warning indicator are limited. Thresholds have been established ahead of the limits. The risk coefficient and change in net interest income while applying the six IRRBB interest rate scenarios stipulated under regulatory law come with regulatory warnings. Recourse in relation to the market price risk was below the value-at-risk limit throughout 2021. As a result of the pandemic and the considerable uncertainty regarding the unclear economic outlook, the market price risk has been reduced since the beginning of 2021. On the reporting date, the market price risk was €7.1 million at a limit of €18 million.

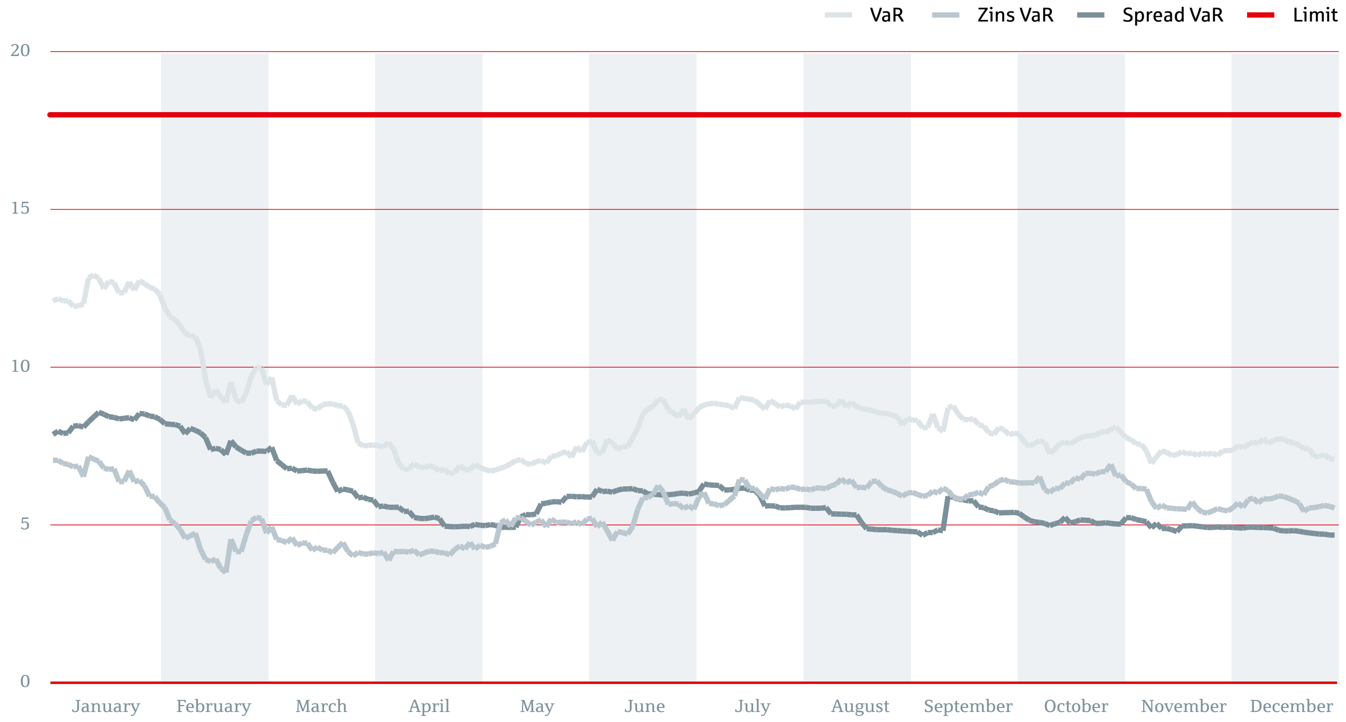
Market price risks are reported daily to the Board of Management. This includes, among other things, information about basis point sensitivity for the overall risk-bearing position, the risk coefficients, the early warning indicator, the value at risk utilisation and cash value profit and loss analyses. A predefined escalation process is triggered when warning thresholds or limits are reached or exceeded.

The daily reports to the management also include comments on the results of backtesting. In 2021, all observed backtesting outliers were due to the strong interest rate movements resulting from the uncertainty in the capital market in October.

Reports on the results of the stress tests are prepared periodically as part of the monthly and quarterly reports. Aside from specific interest rate changes, these scenarios also include the results of actual, historical interest

Development of the CVaR in 2021

in €m



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 the six IRRBB scenarios on net interest income is also reported.

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 in the narrower sense as the risk that current and future payment obligations may not be met in full or on time. The liquidity price risk also refers to the risk that the Bank can only refinance itself at higher refinancing rates. The liquidity risk in the sense of insolvency risk and the liquidity price risk are major risks for Berlin Hyp.

The Bank uses various instruments, key performance indicators and analyses to monitor and manage liquidity risk.

The **procurement risk** is the risk that Berlin Hyp may no longer be able to fulfil short term outstanding payment obligations within 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 determined and reported on a daily basis.

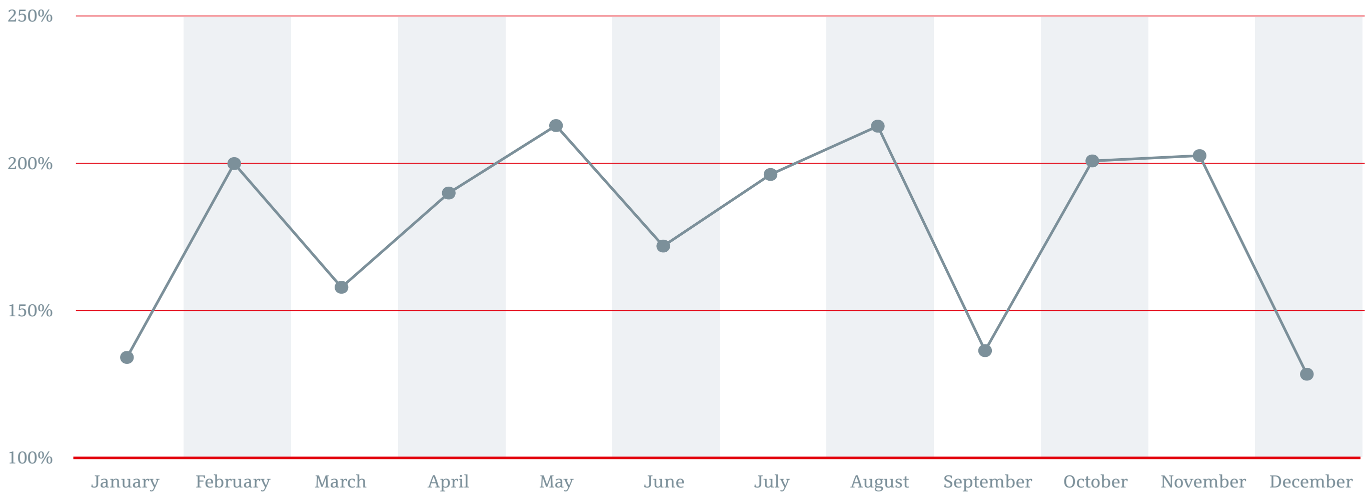
As the Bank is classified as a capital market-oriented institution within the meaning of the MaRisk, daily checks are carried out to ensure that liquidity is guaranteed for seven or 30 days in accordance with defined MaRisk conditions (BTR 3.2).

The regulatory minimum ratio for the **Liquidity Coverage Ratio (LCR)** is 100 per cent. Internally, the LCR is controlled with a target ratio of at least 120 per cent. On the reporting date 31 December 2021, the LCR ratio was 128 per cent and therefore well above the minimum.

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

Development of LCR in 2021

in %



The liquidity risk for the next 365 days will be determined by Landesbank Berlin Holding for the Group and the institutions and monitored by the respective institution. This is based on the **insolvency risk** that is determined and reported daily. It is based on a liquidity progress analysis under the assumption of stress. Intact access to the secured and unsecured capital market is also assumed.

The **survival period** is also determined. This describes the period of time that the Bank could survive in a stressful environment without access to the unsecured capital market on the liquidity side.

The **price risk** encompasses the risk that in case of existing incongruities with dates on which the capital falls due, the Bank can only carry out follow-up financing in the next 12 months on the basis of increased favourable refinancing spreads. Furthermore, the price risk also takes into account the effects of increased refinancing spreads on pre-conditioned forward loans. The risk is considered within the framework of the risk-bearing capacity concept and is limited. As at 31 December 2021, the liquidity price risk was €26 million for a limit of €40 million.

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

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

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

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

A regulatory minimum quota of 100 per cent has been in application for the **net stable funding ratio** (NSFR) since 30 June 2021. On the reporting date 31 December 2021, the NSFR ratio calculated on the basis of CRR II was 112 per cent. Based on the liquidity and issues planning, a quarterly forecast of the future LCR and NSFR development is prepared.

Berlin Hyp's refinancing ability was also guaranteed at all times in 2021 and was not affected by the COVID-19 crisis.

Operational risks

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

The management of operational risks is regulated uniformly throughout the Group. Berlin Hyp has appointed an OpRisk coordinator for the OpRisk Committee within the Group to handle interface function to the Landesbank Berlin Holding Group.

Together with the Group, Berlin Hyp has received approval for an internal OpRisk model (Advanced Measurement Approach, AMA model) from the regulatory authorities, which is used to determine the regulatory capital requirement. The model is validated on a regular basis.

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

OpRisk management is centrally coordinated and operational risks are monitored in the Risk Controlling division. Operational risks are managed in consultation with the decentralised OpRisk managers of the individual specialist departments. The aim of Berlin Hyp is to minimise operational risks from an economic point of view.

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

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

In accordance with Section 25a and Section 25h of the German Banking Act (KWG) and the relevant circulars of the banking supervisory authority, Berlin Hyp has created appropriate business and customer-related security systems for the prevention of money laundering, terrorist financing and other criminal acts at the expense of the institution. A risk analysis is carried out once a year, informing the Board of Management about the risk potential of the Bank.

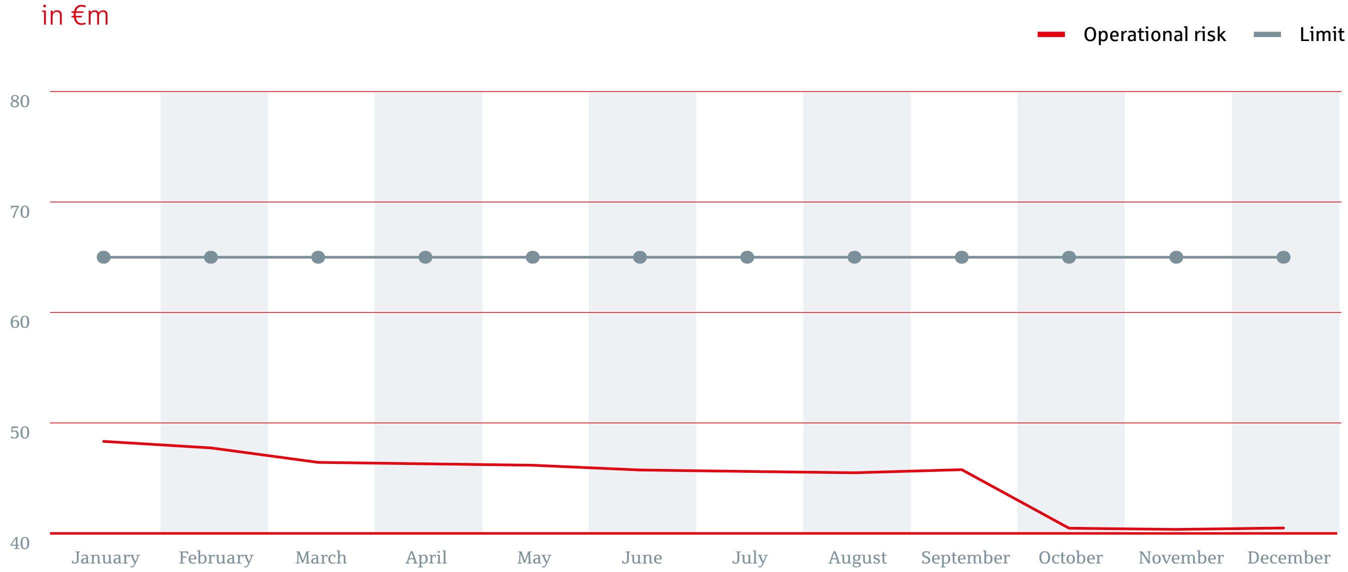
According to the risk analysis carried out in 2021, the money laundering officer concluded that the risk of exposure to money laundering, terrorist financing and other criminal activities should be considered "medium" to "low", taking into account implemented risk mitigation measures, and that the risk of exposure to other criminal activities should be considered "low", taking into account implemented risk mitigation measures.

Within the framework of the overall risk assessment derived from Berlin Hyp's risk-bearing capacity, Berlin Hyp has set up limits for operational risks, which are reviewed at least once a year and approved by the Board of Management.

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

The limit for operational risks as at 31 December 2021 was €65 million. On the reporting date 31 December 2021, the operational risk amounted to €40.5 million. The monthly values for operational risk in 2021 determined using the AMA model are shown in the following diagram:

Limit utilisation
in €m



Since the beginning of the COVID-19 crisis, the Bank's operational stability has been safeguarded at all times. As in many other banks, the Bank's operations were largely shifted to mobile workstations outside the offices. This did not result in any restrictions in the operational business. In addition, the Bank has laid down regulations for the protection of employees on the basis of the guidelines of the Federal Ministry of Labour and Social Affairs. The employees were regularly made of aware and informed about the current regulations.

For exceptional events that carry the risk of far-reaching consequences (such as fire and water damage, bomb threats, explosions, hostage-taking raids and terrorist attacks), a crisis team was set up in Berlin Hyp to deal with such crises.

In February 2020, the crisis team was convened in the context of the coronavirus pandemic to assess the impact on Berlin Hyp and initiate measures to protect its employees and ensure its continued business operations. Numerous other crisis team meetings were subsequently convened with regard to the coronavirus pandemic. The Bank also set up a COVID-19 task force in March 2020. Since June 2020, the coronavirus crisis has been discussed on a weekly basis as a separate agenda item at the meeting of the Board of Management.

System Risks
The Bank has established comprehensive operational security measures to monitor the IT environment. Information security management and information and IT risk management have been set up independently of the organisation for the continuous monitoring of information security requirements, taking into account the risk situation and for effective risk management as a second line function. The identified information or IT risks (quotients of loss amount and probability of occurrence) are evaluated and continually addressed in order to reduce risks.

The coronavirus pandemic presents IT with special challenges, given that the majority of employees are working remotely. The current situation is under ongoing assessment as part of the regular coordination for information security management, information technology, information risk management, building security and emergency management. No pandemic security incidents were found.

All employees must undergo ongoing employee awareness-raising on information security. In addition, overarching IT security issues will be disclosed on the Berlin Hyp intranet and awareness of specific issues will be raised.

Berlin Hyp's integrated SAP HANA system landscape provides a powerful IT platform for mapping its business activities. The SAP systems, including the SAP FSDP (Financial Services Data Platform) in the daily delta load process, were stable throughout the entire year. With the SAP system as a total banking solution, Berlin Hyp has a homogeneous, up-to-date IT landscape that takes into account the increasing importance of information technology as a competitive factor. The SAP HANA project continues to expand the platform extensively in accordance with the requirements for transparent and documented cross-application data streams.

An access protection system is implemented through accompanying organisational measures with the aim of preventing unauthorised or unwanted read/write access to data assets. In addition, safeguards have been established to ensure the integrity, availability, authenticity and confidentiality of data through the IT systems and IT processes. The implemented vulnerability management for the automatic detection of known threats is continuously adapted and expanded to address the latest new threat situations, such as log4j. Security Information and Event Management (SIEM), with the support of a 24x7 Security Operation Centre (SOC) to ensure the monitoring of detected incidents and the evaluation of the incidents by Security Compliance Operating (SCO) experts, will be a key factor in boosting IT security.

Up-to-date regulations have been developed by Berlin Hyp together with the IT service partners to protect sensitive data in its own data centres and those operated by service providers. An essential part of these regulations are backup environments to which we can quickly switch over in the event of a disaster. The functionality of the measures was reviewed together with the IT service partners and the specialist departments using them.

To limit information and IT risks, data security regulations and regularly updated and reviewed emergency procedures were defined as an integral part of the Bank's written regulations based on the identified critical business processes and the assigned IT systems. This is how the functionality of the business processes can be ensured by means of readily available replacement solutions in the event of technical disruptions.

Legal Risks

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

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

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

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

Shareholder risk

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

They include OnSite ImmoAgent GmbH with its 49 per cent crowd-based property viewing service. The Bank holds a further minority stake of 24.52 per cent in 21st Real Estate GmbH, which operates a system for the valuation and digital purchasing process of real estate. In addition, the Bank holds shares in a venture capital fund, PropTech1 Fund I GmbH & Co. KG, whose investment focus is on start-ups for the digitisation of the European real estate industry. The shareholding was 9.27 per cent as at 31 December 2021.

The minority interest in BrickVest Ltd., London, will be wound up after its insolvency. The company is in liquidation.

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

Property Risks

Property risk refers to the risk of losses against the current market value due to changes in the value of property owned by Berlin Hyp. In the reporting year, the portfolio included two properties that were used by Berlin Hyp itself. In the course of the construction of a new corporate headquarters, deconstruction of the building on Budapester Strasse began at the end of 2020. The construction project involves various risks with potential negative effects on the costs. The Bank has carried out the appropriate risk analyses and analysed potential impact on costs (worst-case scenario). Furthermore, it has set up a construction controlling system for monitoring and managing risks and has also commissioned an external construction audit with the project advisors.

Model Risks

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

Risk Management Pursuant to Section 27 PfandBG (Mortgage Pfandbriefe)

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

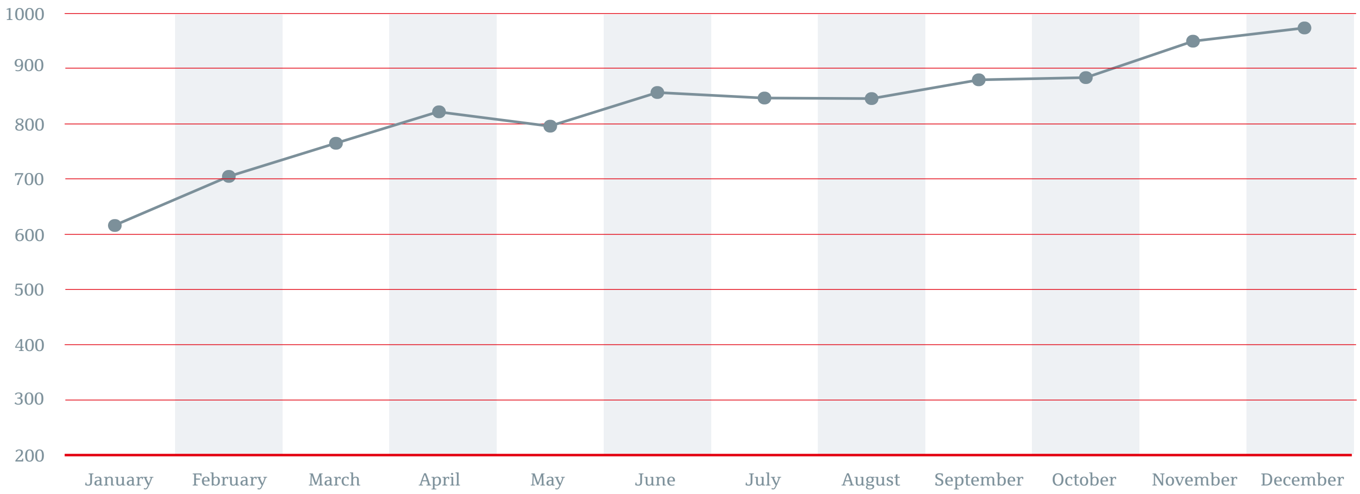
Overall Statement on Risk Situation

The risks incurred by Berlin Hyp were covered as of each of the reporting dates in the financial year by the available risk covering assets. The risk limits for all major risks of the Bank were met as of the relevant reporting dates throughout 2021.

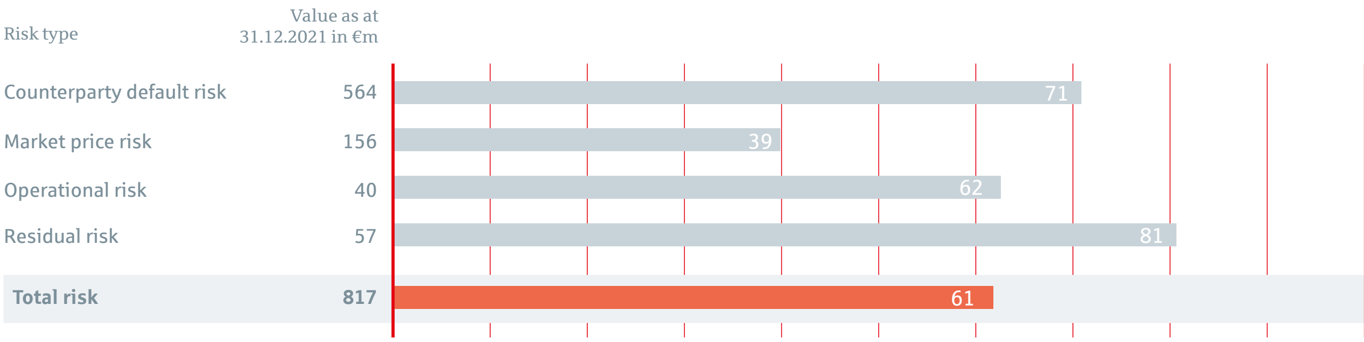
The risk coverage as at 31 December 2021 amounted to €1,790 million; the total risk position was €817 million. The total risk limit was set by the Bank at €1,331 million. As at the balance sheet date, this resulted in an utilisation of the risk coverage of around 46 per cent and a limit utilisation of around 61 per cent.

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

Financial flexibility development in 2021
in €m



Percentage of recourse per risk type as of 31 December 2021
in %



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

In February 2020, the crisis team was convened in the context of the coronavirus pandemic to assess the impact on Berlin Hyp and initiate measures to protect its employees and ensure its continued business operations. The Bank set up a COVID-19 task force in March 2020. Since June 2020, the COVID-19 task force has been meeting on a weekly basis as part of the meeting of the Board of Management.

In 2021, the Bank carried out another detailed analysis of the loans portfolio in order to assess the potential impact of the COVID-19 crisis on the Bank's loans portfolio. The analyses revealed weaknesses in individual exposures, but no measures were required for any of them beyond continuation or inclusion in the increased support.

The Bank has initiated measures to identify potential deteriorations in the creditworthiness of individual exposures as early as possible. The analysis of the loans portfolio was supplemented by COVID-19-specific stress tests, which regularly examine the possible effects of adverse developments. In assessing the loans portfolio, Berlin Hyp takes into account the current special developments resulting from the COVID-19 pandemic by setting up an additional management adjustment as part of lump-sum value adjustment.

Berlin Hyp's refinancing ability was guaranteed at all times throughout the year and was not affected by the COVID-19 crisis. Increased liquidity risks were not identified. Overall, no significant effects of the coronavirus pandemic were noted in any of the Bank's major risk types up to the balance sheet date of 31 December 2021.

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

Other Risks

Business Policy and Strategic Decisions

Strategic risk is the risk of failing to achieve long-term company objectives due to strategic decisions that are incorrect, inadequately prepared or based on incorrect assumptions. The strategic risk is managed by the entire Board of Management. Certain decisions also require the approval of the Supervisory Board.

Landesbank Berlin Holding as the Group's parent company in the reporting year was responsible for strategic decision-making in the Group. The overall group strategy approved by the LBBH Board of Management provided the framework for the strategies of the Group companies in the reporting year and consists of the strategy document and planning. The long-term company objectives and strategic underlying conditions were established by the Board of Management in the annual strategy process.

Monitoring and controlling the strategic objectives for the strategic business areas, subsidiaries and divisions takes place 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 had further defined the business strategy in the reporting year according to its specific requirements within the binding Group requirements. These served as the subsequent basis for Berlin Hyp's planning.

Reputational Risks

The Bank monitors print and online media as well as social media reports 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 2021. At the end of the year, the Bank expanded its reputation risk management with a scenario-based risk analysis geared toward loss potentials and probability of occurrence, in line with the Group guidelines on risk management. The analysis regularly evaluates 42 scenarios for their reputational risks. According to measures, 13 of these scenarios were rated as medium risk, and all other scenarios were classified as low risk as at 31 December 2021.

Human Resources Risks

Availability Risk

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

Berlin Hyp draws on various recruitment sources to cover its staffing requirements, with internal recruitment always taking precedence over external recruitment. Aside from the internal job market, Berlin Hyp also publishes job offers in publicly accessible media. Specialised platforms are used to fill vacant positions as quickly as possible for the desired profile. Berlin Hyp obtains assistance from recruitment experts for key positions. Taking into account the Bank's existing staffing levels, the overall availability risk is considered to be increasing but still moderate on the whole. The issues of "active sourcing" and "onboarding" were integrated into the strategy in 2021. Measures will be developed and implemented in this regard over the next few years.

Motivation Risk

Employee motivation is promoted through sustainable workplaces and content, a vibrant corporate culture and the active participation of the employees in the development of Berlin Hyp. Ongoing feedback serves as an indicator. It is part of the corporate culture, anchored in the competence model of the Bank and implemented in various processes and through different media. In particular, the Bank has taken a participatory approach to designing the change process, which encourages employees to get involved; as a result, they identify more closely with the new developments. For instance, employees from various divisions and hierarchy levels act as a culture board, specifically in the development of the corporate culture. The expert career, which promotes special support for employees with expertise that is particularly valuable to the company, is an alternative development option to the management career at Berlin Hyp. The motivation risk is considered to be low.

Qualification Risk
Due to the age structure, a number of employees will leave Berlin Hyp in the medium to long term because of their age. It is important to ensure that the departing employees transfer their knowledge to the remaining colleagues. The efficiency gains from large-scale projects currently in progress at Berlin Hyp are giving rise to new working conditions. These change the skills required by the employees. Employee development will therefore be supported, in parallel with the transfer of knowledge. The Bank sees learning and development in the professional context as an ongoing process. The technical, methodological and personal requirements are defined in the competence model of the Bank, while the managers and the people who report to them develop and follow up the job descriptions. This is described in the “Continuously learning new things” competence in the competence model by means of clear behavioural anchors. Introduced in 2021, the digital Berlin Hyp Learning World is the framework for the training and development opportunities offered by the Bank and is continually developed according to the needs of employees. The qualification measures offered are followed up in a discussion between the manager and employee. This task, in which managers “support employees in their development”, is also defined in the competency model.

270-degree feedback, obtained every two years, is used to measure the implementation of the leadership competencies and follow up with individual development measures.

The Bank has allocated an average of 3.5 training days per employee as the target. Employees had an average of 3.3 (2.8) days of training and continuing education in 2021. Due to the coronavirus pandemic, there was still a reduced number of in-person events. The higher actual figure compared to the previous year is due to the increased availability of virtual learning formats and the resulting increase in the use of such qualification programmes. With a variety of tailor-made in-house measures and selected external training opportunities, Berlin Hyp considers the qualification risk to be low.

V Accounting-Related Internal Control System and Risk Management System

The annual accounts of Berlin Hyp are produced in accordance with the provisions of the German Commercial Code, supplemented by corporate law provisions and taking into consideration the Pfandbrief Act (Pfandbriefgesetz) and the Accounting Ordinance for Banking Institutions (Verordnung über die Rechnungslegung der Kreditinstitute). The accounting standards of the German Accounting Standards Committee are applied. According to the IFRS, Berlin Hyp is not obliged to present consolidated financial statements since no subsidiary has significant influence on the presentation of Berlin Hyp's earnings, financial and assets position.

The Finance division is responsible for accounting. The organisational unit carries responsibility for the general ledger and accounting and for technical matters and portfolio management in the subsidiary ledgers. Pursuant to the principle of the separation of functions, the assessment of financial instruments by the Risk Controlling division and the evaluation of credit risks by the Risk Management division is pursued on a case-by-case basis within the financial reporting process. Job descriptions are available for relevant positions. Furthermore, human, technical and organisational resources are also available in order to ensure the sustainable and disruption-free handling of tasks. The divisions are assigned to the Board's credit function sphere.

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

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

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

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

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

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

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

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

In the 2021 financial year, audits were carried out on account management, reporting processes, disclosure and the annual planning process. As in previous years, the Internal Audit division monitored and accompanied the process of reconciling loan accounts within the scope of the dispatch of annual statements in its role as a neutral body.

As in the previous year, the reviews carried out by the Internal Audit division with regard to the accounting-related internal control system did not reveal any material findings in the reporting year.

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

A number of external audits were carried out at Berlin Hyp in the 2021 financial year alongside the audit of the annual financial statements. These audits concerned either Berlin Hyp directly as a separate financial institution or in its capacity as part of the regulatory group.

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

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

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

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

Supervisory Board

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

Board of Management

The Board of Management currently has three members. By resolution of the Supervisory Board on 26 November 2021, a quota of women on the Board of Management of 33.33 per cent (zero per cent) was approved until the next review on 30 June 2022.

First and Second Management Levels below the Board of Management

The Berlin Hyp Board of Management approved the targets for female executives for the first and second management levels below the Board of Management.

The target of 33 per cent should be reached at both management levels by 30 June 2025. As at 31 December 2021, 29.4 per cent (29.4 per cent) of executives at the first level below the Board of Management were female and 28.6 per cent (29.5 per cent) at the second level below the Board of Management.

Overall, the percentage of women in management positions at all levels of management at Berlin Hyp is 28.8 per cent (28.6 per cent).

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

Preface

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

This obligation is fulfilled – without recourse to an exemption option – by the publication of this “non-financial statement” (hereinafter also referred to as “statement”). The statement concerns the period from 1 January 2021 to 31 December 2021. In addition, Berlin Hyp will publish this statement on its website at www.berlinhyp.de.

The statement is based on the performance indicators according to the Global Reporting Initiative Standards (GRI SRS), insofar as this framework is appropriate for Berlin Hyp in each individual case.

For better readability, the terms of the Global Reporting Initiative have been adapted to the terms in accordance with Section 289c of the German Commercial Code (HGB). The Supervisory Board of Berlin Hyp AG has voluntarily commissioned KPMG AG Wirtschaftsprüfungsgesellschaft to conduct a business audit of the report in accordance with the ISAE 3000 (revised) for the purpose of obtaining limited assurance pursuant to Sections 289b-e of the German Commercial Code (HGB). In addition to this non-financial statement, Berlin Hyp publishes its sustainability activities in 2022 according to GRI SRS in the GRI report. Publication of the GRI report is planned for the second quarter of 2021. It contains additional information on the Bank’s sustainability strategy and sustainability performance beyond the statutory requirements of the German Commercial Code (HGB).

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

Business Model

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

General Information

1. Sustainability Concept

1.1 Strategic Analysis and Measures

Berlin Hyp is one of Germany’s major real estate and Pfandbrief banks in commercial real estate financing. Berlin Hyp analyses opportunities and risks on the basis of information obtained from the risk management system and a materiality matrix that is updated every year. Given the progress of climate change and its impact on the environment, society and economy, profound adjustments are sometimes necessary. Depending on the given calculation, the building sector accounts for between 30 and 40 per cent of the CO_2 emissions in Germany. At the same time, even at our latitudes, buildings are exposed more and more to physical climate risks caused by temperature and weather changes, which are the result of increasing global warming. In order to achieve the goals of the Paris Agreement and the United Nations Sustainable Development Goals (SDG), it is therefore crucial to increasingly decarbonise – or in other words, transform – the building and construction sector. Ambitious climate protection targets have been set by the EU and the individual member states for the building sector. In mid-December 2019, the EU Commission, the Council and the European Parliament agreed on the Taxonomy Regulation. Its aim is to promote sustainable investment in order to achieve the objectives of the Paris Agreement. The regulation provides a framework for assessing the climate performance of companies with regard to measures to protect the climate and adapt to climate change. Technical sustainability criteria, i.e. thresholds for selected economic activities, including for the construction industry and real estate, are regulated within this framework. The taxonomy is relevant across sectors and affects both companies in the financial sector and the real economy. As a mortgage bank, Berlin Hyp AG is affected by the activities in Section 7 of the two delegated legislative acts concerning the environmental targets of climate change mitigation and adaptation as they relate to the construction industry and real estate. The EU Commission Delegated Regulation on EU taxonomy was published on 4 June 2021. Back in 2020, the Bank participated in an international study by the German Sustainable Building Council (DGNB) and three other green buildings councils from Austria, Denmark and Spain in order to test the applicability of the taxonomy for the Bank together with other representatives from the real estate industry based on the data available at the time. The results, in particular the challenges that the classification system poses to banks in terms of data availability and management, were included in 2021 as part of a comprehensive ESG project in business strategy, product design processes and cooperation with individual customers and counterparties. In May 2021, Berlin Hyp adopted its own ESG vision and defined an ESG implementation roadmap, which outlines various implementation measures in the coming months and years until 2024. This includes measures to implement the increasing regulatory requirements. The new ESG vision is stated in Section 1.3 Targets and is also available on the Berlin Hyp website at https://www.berlinhyp.de/de/nachhaltigkeit/nachhaltigkeitsstrategie. An extract of the implementing measures is also provided in Section 1.3 as part of the sustainability programme.

Berlin Hyp is committed to the Paris climate goals and the Climate Paths for the Federal Republic of Germany and has adopted a far-reaching sustainability agenda in order to play an active role in promoting the transformation to a lower-carbon economy.

In its commitment to sustainability, Berlin Hyp generally follows the ten principles of the UN Global Compact, the Diversity Charter, the DSGV sustainability principles and the sustainability code for the real estate industry of the German Property Federation (ZIA).

Furthermore, the Bank excludes business activities relating to certain critical sectors. For example, it does not finance any real estate the construction or operation of which is directly related to the production of genetically modified organisms or the production of tobacco or alcohol.

1.2 Materiality

Berlin Hyp regularly conducts a stakeholder survey every two years in order to gauge the opinions of our stakeholder groups. In view of the exceptional situation of the COVID-19 pandemic, which persisted throughout the financial year, a direct stakeholder survey was postponed until 2021. The materiality analysis and stakeholder survey was finally carried out as part of an online survey of external stakeholders and two internal workshops.

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

- **Employee Concerns**
  Business operations are impossible without employees. This is why appropriate measures have been taken to promote an open and fair working environment in terms of employee rights, equal opportunities and training, with the aim of helping to further develop the employee situation. The term well-being refers to both physical and mental health and to more complex factors such as satisfaction and participation. Well-being is influenced by various factors, such as relationships with colleagues, decisions made, and available tools and resources. Working hours, remuneration and occupational safety also have an impact on the health and well-being of our employees. . As in the previous year, COVID-19 had an impact on employee concerns due to health protection in the 2021 financial year.

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

- **Fight Against Corruption and Bribery**
  The prevention of corruption and anticompetitive behaviour and compliance with increasing legal requirements through Berlin Hyp’s products and services have a decisive impact on the success of its business activities.

Overview of Key Issues

		Material according to the CSR Directive Implementation Act	Relevant for Berlin Hyp
Employee Concerns	Promoting an open and fair working environment	✓	✓
	Fair remuneration policy, adequacy of commissions and bonuses	✓	✓
	Well-being and development opportunities	✓	✓
Social issues	Customer relationship management (responsible lending)	✓	✓
	Consideration of social criteria when selecting financing projects	✓	✓
	Consideration of social criteria when issuing bonds	✓	✓
	Provision of safe/stable financial products	✓	✓
Fight against corruption	Prevention of corruption and anti-competitive behaviour	✓	✓
	Tax honesty*		✓
	Compliance	✓	✓
Data protection		✓	✓
Environmental concerns	Consideration of ecological criteria for financing	✓	✓
	Consideration of ecological criteria when issuing bonds	✓	✓
	Reduction of environmental impacts at our own locations ***	✓	✓
Human rights	Human rights duty of care and consideration of social criteria when selecting financing projects	✓	✓
Other	Responsible design of the digitisation of processes**	✓	✓
	Social responsibility*		✓

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

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

*** In view of the relevance of the construction of the new Berlin Hyp headquarters and the resulting consumption of resources, the issue was considered as having double materiality

- **Environmental concerns**
  As a financial services provider, Berlin Hyp consumes relatively few natural resources with its own business activities compared to the manufacturing sector.
  Accordingly, the Bank's internal operational ecology is generally not discussed in more detail due to the materiality matrix in this statement. Since Berlin Hyp is currently constructing a new building for all Berlin-based employees after the deconstruction of its headquarters in Budapester Strasse 1, this issue has been taken up under environmental concerns since 2020, in order to be transparent toward stakeholders regarding the resulting consumption of resources.
  Above all, Berlin Hyp's financing projects, products and services are relevant to the

report because they have an indirect impact on the environment and on climate protection. In this area, we succeeded in expanding our product range, thereby making a positive contribution to the development of the business situation.

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

  The results of an analysis of potential reporting requirement risks related to the non-financial aspects revealed that, after applying the net method while taking into account the risk mitigation measures, no significant risks associated with Berlin Hyp's own business activities and business relationships or its products and services within the meaning of Section 289c (3)(1) no. 3 and 4 of the German Commercial Code (HGB) were identified which are very likely to have or will have a serious negative impact on the above-mentioned aspects.

1.3 Goals
Berlin Hyp's strategic goal of becoming the most modern real estate financier in Germany also involves the achievement of specific sustainability objectives. As such, sustainability means not only reducing one's own carbon footprint, but above all promoting, simplifying and financing the transition to a more sustainable economy and in this manner contributing to the transformation that is currently under way, not only in terms of ecology but also with regard to the economy and society as a whole.

Berlin Hyp's commitment to sustainability is based on four dimensions:

→ 1. Sustainability in business operations
Berlin Hyp is continuously working on reducing its own CO_2 emissions, with the aim of achieving climate neutrality in its own business operations by 2025 at the latest. To this end, implementation targets will be defined each year to help further reduce emissions

→ 2. Sustainable business portfolio
Berlin Hyp believes that focusing on sustainability in its business portfolio is the biggest key factor and has set itself the goal of helping its customers transform buildings into more energy-efficient and sustainable properties.

→ 3. ESG risk management
The increasing importance of sustainability presents both opportunities and risks with regard to business operations. Berlin Hyp therefore integrates ESG risks into its risk management systems and processes.

→ 4. Transparency and ESG capabilities
At Berlin Hyp, sustainability is firmly established throughout the entire organisation. The Bank formalises responsibilities within its own organisational structure and process organisation and integrates its ESG vision as a core component of the business strategy (see Management Report Section I, Principles of the Bank – Goals and Strategies).

The ESG Corporate Functions monitor the achievement of targets in corporate strategy, risk controlling, and the ESG Board of Berlin Hyp, with Chair of the Board of Management Sascha Klaus in the chair.

1.4 Depth of the Value Chain
The value chain ranges from raw material production and the creation of the service to recycling after use. Berlin Hyp's Purchasing Department and environmental management system are responsible for the parts of value creation that take place within Berlin Hyp. However, significant parts of the value chain are outside the direct control of Berlin Hyp. Taking responsibility for them and actively pursuing the sustainable development of the value chain is not only seen by the Bank as a challenge, but also as an opportunity. Given that real estate has a long useful life, it is in the explicit interest of Berlin Hyp for its clients to build or acquire and operate properties whose long-term value is safeguarded by professional consideration of environmental, economic and social criteria. This interest is backed by the Code of Conduct and the sustainability guidelines in real estate financing. In the reporting year, Berlin Hyp became the first bank to join the network of the Madaster online platform, whose goal is to make buildings recyclable and promote the reuse of materials. This makes Berlin Hyp a so-called Kennedy in the network in Germany, providing it with another key link in the value chain – namely the financial sector.

Catalogue of measures (extract) to support the defined goals

No.	Field of action	Action	Sustainability aspect	Deadline	Implementation status
1	ESG risk management	ESG Risk Corporate Function established	Environmental concerns	07/2021	Implemented
2	ESG risk management	1. Project Risk Controlling Framework: 1.1 Materiality analysis – ESG risks of the entire real estate portfolio	Environmental concerns	1. 12/2023 1.1 12/2021	1.1 Detailed natural hazard analysis for the entire portfolio as of 30 September 2021 is carried out with the help of an external service provider
		1.2 Integration of ESG risks into existing risk types and quantification 1.3 Integration of ESG risks into rating models		12/ 2022 12/2022	1.2 In progress 1.3 In progress
3	Sustainable business portfolio	Review and, if necessary, draft a concept for the extended impact measurement of the entire financed real estate portfolio	Social concerns – social impact	12/2022	In progress
4	Sustainable business portfolio	Create an indicative ESG score for lending	Environmental concerns Social Concerns	07/2021	Implemented
5	Sustainable business portfolio	Expanded financing of energy-efficient properties in accordance with the EU - Taxonomy Regulation	Environmental concerns	06/2022	In progress
6	Sustainable business portfolio	Further development and process optimisation of the Green Bond Framework, inclusion of the taxonomy criteria in environmental target 1	Environmental concerns	12/2021	Implemented
7	Transparency and ESG capabilities	ESG data project – Development of an ESG data pool and integration into the digital loan process/environmental and social concerns	Environmental concerns Social Concerns	12/2022	In progress
8	Transparency and ESG capabilities	Mandatory general ESG training and mandatory ESG vision training for employees	Environmental and social concerns, Employee Concerns	01/2022	Implemented

The addition of Berlin Hyp will expand the network's knowledge and expertise in the area of banking and financing.

Berlin Hyp requires its key suppliers to comply with the requirements of the ten principles of the UN Global Compact.

2. Process Management

2.1 Responsibility

At Berlin Hyp, sustainability has been firmly established throughout its divisions for years. This is ensured by the interaction of the Board of Management, ESG Corporate Functions and Management Committee as well as the ESG Board, consisting of permanent representatives of the divisions, and the Chair of the Board of Management in the chair.

In order to ensure effective and proper implementation of the ESG implementation roadmap referred to in 1.1 and enable the Bank to address issues that may arise in future in the context of ESG, the Bank's existing ESG governance system was reviewed and revised. The core elements of the future ESG governance system at Berlin Hyp are

- the decentralised assignment of basic responsibilities for integrating ESG issues and criteria into the various divisions and departments.
- the establishment of two overarching but separate cross-divisional and cross-departmental functions, which will promote the ESG Agenda and operate as higher-level coordinating bodies for the defined ESG implementation plan and new cross-divisional ESG issues, ensuring that all ESG-related measures at the Bank are made transparent, and that they are linked and aligned with one another whenever this might be necessary.

2.2 Rules and Processes

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

2.3 Monitoring – Due Diligence

Within the framework of regular reporting by major organisational units, namely Compliance, Staff and Audit, the Bank's Board of Management have the relevant non-financial performance indicators submitted to them. The selected reports are explained in Chapter 3 under the individual aspects of sustainability.

2.4 Participation of Stakeholders

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

Communication with stakeholders is a part of daily business activities – for example, in the form of conversations with customers, employee surveys and our activities in business association committees. In view of the ongoing coronavirus pandemic, most of the dialogues in 2021 were conducted through digital means.

In 2021, Berlin Hyp conducted a stakeholder survey that re-evaluated the main sustainability issues from the stakeholders' perspective.

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

Supervisory Board

- Monitoring and reviewing (at least annually) of the ESG strategy and taking note of Berlin Hyp's risk appetite

Board of Management

- Decision and adoption as well as review of the ESG strategy and indirect supervision of its implementation via anchored, strategic goals
- Responsibility for implementation to consider and integrate ESG risks and decrease risk appetite

Management Committee

Board members and all division heads

- Regular reports on ESG performance by ESG central functions
- Steering of strategically important topics and projects of the bank

ESG Board

Chairman: Sascha Klaus (CEO)

Members: ESG central functions and ESG division managers of all divisions and departments reporting directly to the Executive Board

- Support in the coordination and monitoring of all ESG issues to be implemented
- Function as an information/exchange platform for the cross-divisional discussion of ESG issues
- Preparation of decision papers for the Board and discussion papers for the Management Committee on cross-divisional ESG issues

Central function ESG
(1st Line of Defence)

- First contact and coordinator for ESG issues

1st Line of Defence
Divisions

- Technical ESG responsibility for 1st-line-of-defence issues

Central function ESG Risk
(2nd Line of Defence)

- First contact and coordinator for ESG-risk issues

2nd Line of Defence
Divisions

- Technical ESG responsibility for 2st-line-of-defence issues

Implementation-supporting departments
(IT, Data, Governance, Data Management)

Revision of Berlin Hyp
(3rd Line of Defence)

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

3. Sustainability Aspects

3.1 Employee concerns

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

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

The objective is to offer employees a long-term, attractive workplace with a certain degree of autonomy and development potential. In terms of staffing, the aim is to attract employees with the right mindset for actively shaping values and corporate culture, in addition to their qualifications. The HR department is responsible for systematic human resource planning. In order to keep the planning up to date and realistic, megatrends (e.g. digitisation/automation, ageing society, knowledge culture, individualisation), developments in new and established business areas and regulatory requirements are taken into account.

HR requirements are met using internal and external resources. Open positions are initially advertised internally in order to allow qualified employees the opportunity for personal development. Young skilled workers are acquired through the recruitment of trainees, students in dual study programmes, student workers and interns.

In addition to the trainee program, Berlin Hyp also hires new graduates.

Digitalisation and automation are changing working conditions in a very tangible way. New working environments and mobile technical equipment help to relieve the burden on employees in their day-to-day work and give them greater flexibility. This is a success factor for Berlin Hyp, particularly during the COVID-19 pandemic. If contact restrictions and physical distancing rules are imposed, employees can use digital or hybrid forms of communication and collaboration with success. Employees have the capability to work remotely in order to reduce the risk of infection.

In addition, the following measures were implemented or extended in the reporting year for the protection of employees at all locations, along with the national and regional legal regulations and ordinances (e.g. Infection Protection Act, Coronavirus Occupational Health and Safety Regulation):

- Hygiene concept in the Bank/FAQ for the implementation of the relevant regulations
- Including attendance rules
- Information links to key publications, such as the RKI
- Free face masks and instructions for use of the testing and vaccination services

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

3.1.1 Employee Rights

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

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

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

3.1.2 Equal Opportunities
Berlin Hyp firmly believes that diversity creates advantages out of opposites. In the interests of the Bank’s long-term success, it considers the similarities and differences of its employees to be enriching and values each and every one of them. This position was integrated into the Berlin Hyp competence model through competencies such as “Appreciative Leadership” and reinforced by the signing of the Diversity Charter. Berlin Hyp’s Code of Conduct provides employees and business partners with a clear guide for their daily actions in this regard. In addition, Berlin Hyp issued an Equal Opportunities Policy in 2021 that applies equally to all employees in terms of its principles and the duty to promote diversity. The aim of the Equal Opportunities Policy is to foster an open corporate culture free of prejudice that allows employees develop their potential in the interests of the Bank’s long-term success and contribute their individual talents.

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

This is supported by the following measures:

- Binding regulation on the inclusion of female applicants in the recruitment process by recruitment experts in order to identify and
- promote female talent;
- The appointment of at least one woman to a wide variety of selection and observer committees;
- Explicit inclusion of the subject of equal opportunities by the HR department when advising managers on HR matter (such as staffing);
- The application management tool, which can systematically record and evaluate the adequate involvement of female applicants in every recruitment process of Berlin Hyp.

Berlin Hyp actively encourages a healthy work-life balance, and therefore equal opportunities through flexible working time, workplace models and other measures, such as trust-based working hours, mobile working and external advisory services for employees, including work-life service. We are not aware of any cases of discrimination for the 2021 reporting year.

3.1.3 Training
The aim of human resources development is to support the employees of Berlin Hyp in their personal and professional development. This also includes training, continuing and further education and career planning, with a special focus on the constant changes in the underlying internal and external conditions.

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

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

The "Learning World for Managers" follows a systemic approach with a focus on organisational learning. Derived from the Bank's strategic leadership requirements, the individual needs of the managers from the 270° feedback and insights from learning theory, it uses guided process learning based on concrete management situations and provides support for the current change processes in order to further develop a modern and sustainable management culture in line with the strategy. This learning world was further developed and expanded in 2021 to become Berlin Hyp Learning World for all employees.

It is the framework for the training and development opportunities continually developed and offered by the Bank in terms of agility, digital competence, ESG, expertise, leadership and organisation, legal and regulatory training, health, networking, onboarding, language learning and cooperation.

Employees had an average of 3.3 days of training and continuing education in 2021. Due to the coronavirus pandemic, there was still a reduced number of in-person events. The higher actual figure compared to the previous year is due to the increased availability of virtual learning formats and the resulting increase in the use of such qualification programmes.

3.2 Environmental Concerns

Environmental protection is always an important consideration at Berlin Hyp. As a commercial real estate financier, the Bank has an indirect influence on the environmental factors of the properties it finances. As early as 2020, the environmental target was defined, based on the overall bank strategy for the sustainable development of the business portfolio, to reduce the carbon footprint of the entire loans portfolio by 40 per cent by 2030 as compared to the base year of 2020. In order to achieve this goal, Berlin Hyp plans to increase the share of energy-efficient real estate properties in its portfolio. Certified green buildings are to account for at least one-third of our loans portfolio by 2025.

Financial institutions have a key role to play in the transformation of business and industry. More specifically, such institutions are the entities that finance the investments which companies and governments need to make. Accordingly, Berlin Hyp seeks to play a major role in efforts to expand the integration of sustainability criteria into real estate financing and investment products by adding a transformation loan to its product range.

On the refinancing side, Berlin Hyp was the first commercial bank in the world to issue a Sustainability-Linked Bond (SLB) in April 2021. Unlike Green Bonds, the interest rate on the bond is linked to one of the Bank's sustainability objectives: if Berlin Hyp fails to meet its defined climate protection goal of reducing the CO_2intensity of its entire loan portfolio by 40 per cent between 2020 and 2030, the coupon will increase by 25 basis points in the final year. The Bank's goal is defined in line with the overarching objective of the Paris Agreement to reduce global warming to less than two degrees Celsius; through its annual reporting, the Bank increases transparency on the climate impact of the financed properties. The latest reporting and its external re-verification are published under www.berlinhyp.de/de/investoren/sustainability-linked- bonds.

As in the previous year, the Bank placed three Green Bonds in benchmark format on the capital market again in 2021. Building on the successful debut on the Swiss capital market in 2020, these were two senior preferred bonds in Swiss francs and one euro Green Pfandbrief, with terms of eight, ten or six years. The Bank therefore has fifteen outstanding Green Bonds at the end of the year with a volume €6.0 billion (see https://www.berlinhyp.de/en/investors/green-bonds).

Berlin Hyp's latest impact report in cooperation with Drees & Sommer presents the results and methodology for estimating the amount of CO_2 emissions saved by the financed Green buildings. Based on the analysis, it was calculated that for every million euros of nominal value of the Green Bonds, between 7.86 t and 15.17 t of CO_2 are saved per year compared to the applied benchmarks and depending on the applied model (see https://www.berlinhyp.de/en/investors/green-bonds).

The CO_2 savings per million euros invested were lower compared to the previous year. This is mainly due to the reduction of the now lower conversion factors for electricity and higher outstanding financing volumes. In addition, the average energy requirement in both the portfolio and the benchmarks have fallen. The total CO_2 emissions resulting from the portfolio therefore declined to 108,500 tCO_2 (previous year: 116,016 tCO_2). The latest reporting and reverification (external plausibility check) by ISS ESG are published at www.berlinhyp.de/de/investoren/green-bonds.

Outside the reporting period, Berlin Hyp published its revised Green Bond Framework in January 2022. It integrates the requirements of the EU taxonomy for buildings and construction activities with regard to their primary environmental target of climate protection. These new criteria for eligible green assets have been initially added to the requirements that have been established for years, which mainly target the energy efficiency of the financed buildings. After the end of 2025, only those loans that fully comply with the EU taxonomy will be classified as green under the Green Bond Framework. To achieve this, Berlin Hyp has defined a development path in which the minimum share of new lending for buildings/construction activities in line with the EU taxonomy is gradually increased from 5 per cent in 2022 to 100 per cent in 2026 for all new lending in eligible green assets.

Resource conservation criteria and biodiversity protection are important considerations for Berlin Hyp when selecting financing projects. When making real estate financing decisions, Berlin Hyp also determines whether the customer in question has sufficient knowledge of, and experience with, legal requirements relating to planning, construction, environmental protection and nature conservation.

Regarding real estate valuation, Berlin Hyp also takes into account certificates issued by generally recognised certification systems such as LEED, BREEAM, HQE and DGNB that assess the sustainability of real estate properties, provided these can have a positive effect on the long-term yield and value of the property or transaction in question. The same applies to special measures implemented to improve the sustainability performance of a property – e.g. the use of green leases. As a matter of principle, Berlin Hyp does not finance real estate projects in areas deserving of particular protection. Berlin Hyp defines such areas as those that are listed by name in the following registers:

- Ramsar List of Wetlands of International Importance;
- UNESCO World Heritage List as part of the UNESCO Convention Concerning the Protection of the World Cultural and Natural Heritage;
- UNESCO Biosphere Reserves List as part of the UNESCO Man and the Biosphere (MAB) Programme.

CO_2 reduction in t/€m/year	100% assignment to the category of "Berlin Hyp financing activity"	Partially assigned by amount to the category of "Initial participation of Berlin Hyp in the financing activity"
Comparison with current EnEV reference values (heat and electricity)	15.17 (previous year: 26.60)	7.86 (previous year: 14.52)
Comparison with the European average (heat only)	20.23 (previous year: 23.56)	10.56 (previous year:12.92)

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

Berlin Hyp is building a new corporate headquarters at the Bank's long-standing location at Budapester Strasse 1 in Berlin Tiergarten. The new headquarters will bring all employees in Berlin, who up to now have been separated into two different buildings, together into a single building. The new headquarters will enable the Bank to reduce its energy consumption by over 50 per cent in comparison to the old building. In addition to this, operating costs will decrease significantly. The architecture of the new building will reduce CO_2 emissions with its special design of outdoor areas and open spaces. To give an example, this reduction will be made possible by installing photovoltaic systems on the entire façade and on part of the roof. When demolishing the old building, the real estate bank will take care to recycle and dispose of the materials in an environmentally friendly manner. The majority of small office furniture, materials and equipment from the old building that are no longer needed have been donated or auctioned off and were therefore put to further use. The environmental management system is firmly embedded throughout the Bank's demolition and new construction project. The Bank is seeking to achieve certification for the new corporate headquarters according to the very high standard set by the German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen - DGNB). Berlin Hyp achieved an overall performance rating of 82.9 per cent in the platinum pre-certification process in October 2021. The Bank will receive the final certificate after the construction process has been completed. The real estate Bank's project received very high performance ratings especially in the categories of Process Quality, Location Quality and Sociocultural, Functional and Ecological Quality.

3.3 Social Concerns – Social impact

Based in Berlin, Berlin Hyp contributes in particular to economic and social well-being in the State of Berlin. Within the framework of its business model, interest and commission income is generated and profits, employee salaries and taxes are paid. The profit is transferred to the sole shareholder Landesbank Berlin Holding, also headquartered in Berlin. For structural reasons, Berlin Hyp and Landesbank Berlin Holding AG have a profit transfer agreement.
Based on this structure, a detailed examination of a tax strategy or approaches to taxation is of limited use and is therefore not presented in detail.

Furthermore, Berlin Hyp's social commitment (corporate citizenship) aims to establish an appropriate foothold in the region. More information is available on the website at https://www.berlinhyp.de/de/nachhaltigkeit/soziales and in the 2021 GRI report, which will be published in the second quarter of 2022.

Berlin Hyp also meets the social requirements for its own investments.

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

If the semi-annual review of Portfolio A by Sustainability Management reveals violations of the filter criteria, the Treasury consults with Sustainability Management on the actions to be taken. The Treasury and Sustainability Management have jointly discussed the anomalies that occurred in 2021.

In the reporting year, Berlin Hyp began the review and concept development for the extended impact measurement of the entire financed real estate portfolio with regard to social criteria. Furthermore, the internal and external guidelines were reviewed against the minimum social safeguards of the EU taxonomy. The minimum social safeguards became part of the Green Bond framework in the reporting year with the inclusion of the EU Taxonomy criteria for environmental target 1.

3.4. Respect for Human Rights

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

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

To implement these principles, Berlin Hyp has adopted several guidelines, such as the Code of Conduct and the Equal Opportunities Policy. We also expect our contractors and suppliers, regardless of their size, sector or work, to act in accordance with the principles of the UN Global Compact and human rights, in particular:

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

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

Material violations of the principles and requirements internally at the company or in the upstream supply chain must be reported without request and without delay. In the event of violations, employees of suppliers can contact the Compliance Officer directly via Berlin Hyp's whistleblower system. Berlin Hyp reserves the right to agree on a partnership-based action plan or to terminate a contractual relationship in the event of violations. We may also monitor the progress of the action plan without notification. Violations of the Code of Conduct must be resolved as part of an action plan. If violations of the criteria continue to occur, this may lead to termination of the contractual relationship. Berlin Hyp has not become aware of any violation of the criteria for the reporting year. As such, no contractual relations were terminated in the reporting year due to violations of the Code of Conduct.

3.5 Fight against Corruption and Bribery – Conduct in Compliance with Laws and Directives

In order to ensure success in the markets, one of the Bank's main objectives is to maintain and build the trust of its customers, employees, owners and regulators.

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

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

3.5.1 Political influence

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

3.5.2 Conduct in compliance with laws and directives

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

Our Code of Conduct was revised in 2021. It has also included an external whistleblowing hotline since 2019.

No cases of corruption at Berlin Hyp were reported in 2021. The Compliance Department regularly updates the management on the Bank's compliance management. In addition, ad hoc information is provided on a case-by-case basis in the event of serious violations of compliance regulations. The proper implementation of internal requirements is also reviewed according to schedule – and on an ad hoc basis where necessary – by the Internal Audit division, which reports directly to the Board of Management. There were no anomalies in this regard for the reporting year.

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

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

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

4. Reporting requirements for the 2021 reporting year according to the EU Taxonomy Regulation

4.1 Background:
The EU Taxonomy Regulation (Regulation (EU) 2020/852 – Taxonomy Regulation) was published in the Official Journal of the European Union on 22 June 2020.
The EU Taxonomy Regulation and the numerous associated delegated regulations and annexes introduced a classification system for ecologically sustainable economic activities. In particular, the regulation provides uniform criteria to determine whether an economic activity in the European Union can be classified as environmentally sustainable.

This classification is generally viewed as necessary for the broad integration of sustainability into the financial sector and the real economy. One of the objectives of the regulation is to ensure that the criteria for environmentally sustainable economic activities are clear and uniform (a sort of minimum standard similar to that of the EC Eco-Regulation (EC) No. 834/2007 for organic products). The aim of the taxonomy is to measure the degree of environmental sustainability of economic activities and therefore of individual investments, corporate activities and entire real and financial enterprises. The overall objective is to achieve transparency and comparability. Capital flows should move more easily into environmentally sustainable economic activities and help investors (institutional and private investors, banks, etc.) in their investment decisions.

The EU Taxonomy Regulation sets environmental targets. These are as follows:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

4.2 Report on the Six Legally Required Key Performance Indicators
According to the EU Taxonomy Regulation,

institutions subject to the non-financial reporting directive (NFRD), including Berlin Hyp, are requested to report the percentage of their activities that are taxonomy-eligible with the 2021 environmental targets 1 and 2 within the non-financial statement as of 2022 (reporting date 31 December 2021). The FAQs published by the EU Commission on 21 December 2021 and 2 February 2022 were taken into account to the extent permitted within the short space of time when calculating the KPIs.

Berlin Hyp fulfils its obligations according to Article 10 (2) of the Delegated Act on Article 8 (1) of the EU Taxonomy Regulation for financial institutions with regard to key performance indicators and qualitative information to be reported in 2022, as addressed below. The key performance indicators in the table were calculated based on the available data from the Bank's IT systems and as such are part of the taxonomy disclosure requirements. Another part of the data is based on assumptions that cannot be fully verified and must therefore be disclosed separately in the voluntary disclosures (see Section 6).

Table of reportable KPIs (Article 10 (2) Delegated Act on Article 8 of the EU Taxonomy Regulation) for Berlin Hyp:

Key performance indicator	Description of the key performance indicator	Share out of adjusted total assets*	Share out of total assets
1a	Share of taxonomy-eligible assets out of total assets	16%*	13%
1b	Share of non-taxonomy-eligible assets out of total assets	84%*	70%
2	Share of countries, central banks, supranational issuers out of total assets		17%
3	Share of derivatives out of total assets		0.6%
4	Share of companies not subject to NFRD out total assets		3.5%
5	Share of trading portfolio and short-term interbank loans out of balance sheet total		0.1%

* The adjusted total assets were calculated as follows: balance sheet total less risk positions relative to countries, central banks, supranational issuers and trading portfolio. This only applies to KPIs 1a and 1b and is used for purposes of comparison with the KPIs to be reported in subsequent years. The total assets correspond to the balance sheet total.

The general formula for the calculation of the key performance indicators is shown below.

$$\frac{\text{Numerator total}}{\text{Denominator = Balance sheet total}}$$

4.3 Qualitative information to support the quantitative indicators, including the scope of the assets and activities recorded for each KPI
Despite the preparatory phase, the first application of the taxonomy eligibility reporting for the 2021 reporting year was challenging for Berlin Hyp AG in several respects. In addition to data availability, analysis and selection of the data sets, the challenges included the interpretation of the results, final interpretation of the taxonomy and specifications for the calculation of the KPIs as well as compliance with Berlin Hyp AG's own transparency standards with its clearly defined core business of commercial real estate financing.

To determine the six key performance indicators, a calculation based on MS Excel was developed at Berlin Hyp for the first application. The FINREP reports F1.01, F4.10 as at the reporting date 31 December 2021 were taken in large part as the database.

4.3.1 Key performance indicators 1a) and 1b)
Key performance indicators 1a) and 1b) relate exclusively to the first two environmental objectives (climate change mitigation and climate change adaptation) of the EU Taxonomy Regulation.

Taxonomy eligibility according to Article 7(3) of the Delegated Act on Article 8 of the EU Taxonomy Regulation was reviewed and disclosed in the mandatory disclosures only for risk positions relative to companies subject to the NFRD. To determine the NFRD reporting requirement, please refer to the section on KPI 4. The risk positions relative to companies that are not subject to the NFRD or that could not be evaluated in terms of their NFRD reporting requirement due to lack of information are disclosed in the key performance indicators in the voluntary disclosures (see Section 6)

Key performance indicator 1a)
The following assets were taken into account in the calculation of the share of exposure of taxonomy-eligible assets in the numerator:

Assets 31 December 2021	FINREP Report
Debentures	F1.01
Lending and loans	F4.10
Participations	F1.01

Taxonomy-eligible debentures:
The following customer groups were reviewed:
- Banking institutions
- Other financial institutions
- Non-financial institutions

The key performance indicator could not be calculated for all customer groups due to the lack of data available from the system on taxonomy-eligible economic activities, which must be earmarked for each issue. As a result, the key performance indicator for the reporting year was set to 0.

Taxonomy-eligible lending and loans
The key performance indicator was calculated based on proof of earmarking for real estate financing (mortgage loans, public-sector loans) for the type of business.

The following customer groups were reviewed:
- Banking institutions
- Other financial companies
- Non-financial companies
- Budgets

Banking institutions:
Lending and loans to banking institutions are not taxonomy-eligible, as these are interbank loans included in KPI 5.

Other financial companies:
Lending and loans to other financial companies are taxonomy-eligible, as these are risk positions relative to real estate funds that can be checked for taxonomy eligibility, according to the directives in question 13 of the FAQs on Article 8, published on 20 December 2021.

Non-financial companies:
Lending and loans to non-financial companies are not taxonomy-eligible, as they are risk positions relative to companies not subject to the NFRD and, for the most part, risk positions relative to companies (around 20 billion), for which the NFRD reporting requirement could not be reviewed due to lack of available data from the system.

However, since they are mortgage loans and public-sector loans for the financing of real estate in both cases, taxonomy eligibility can be derived from the earmarking. The taxonomy eligibility and future compliance of the economic activities financed by mortgage loans and public-sector loans for new construction, renovation of existing buildings and acquisition and ownership of buildings are regulated in Section 7, Construction Industry and Real Estate, Annexes I and II to the Delegated Act on EU Taxonomy. Accordingly, reference is made in this regard to the voluntary disclosures at the end of this report, which includes further details.

Budgets:
The risk position relative to budgets must always be taken into account in the calculation of taxonomy-eligible economic activities, since these are not included in Article 7 (3). Since this also concerns real estate financing, they are included in the KPIs 1a and 1b.

Taxonomy-eligible Investments
All of Berlin Hyp's investments have been entered into in relation to companies that are not subject to the NFRD, and are therefore not taxonomy-eligible.

Key performance indicator 1b)
This key performance indicator is determined by subtracting the already calculated share of taxonomy-eligible assets from the total assets or from the adjusted total assets.

As reported above, the data on KPIs 2), 3) and 5) are obtained from the above-mentioned FINREP reporting forms.

4.3.2 The share of total assets of countries, central banks and supranational issuers is derived from the FINREP forms.

FINREP reporting form		Assets
F 1.01	Numerator	Central bank balances
F 1.01	Numerator	Central bank sight deposits
F 4.10	Numerator	General government lending and loans
F 4.10	Numerator	General government debentures
F 4.10	Numerator	Credit institution debentures (share of supranational issuers)
F 1.01	Denominator	Total assets (balance sheet total)

4.3.3 Share of derivatives out of total assets
For the key performance indicator, the sum of the derivatives was taken from the FINREP report F 6.01.

FINREP reporting form		Assets
F 6.01	Numerator	Derivatives
F 1.01	Denominator	Total assets (balance sheet total)

4.3.4. The share of companies not subject to the NFRD out of total assets
The following assets were included in the calculation of the share of companies not subject to the NFRD:

FINREP reporting form		Assets
F 1.01	Numerator	Participations
F 1.01	Numerator	Banking institution debentures, other financial and non-financial companies
F 4.10	Numerator	Banking institution lending and loans, other financial and non-financial companies
F 1.01	Denominator	Total assets (balance sheet total)

The definition of the EU Non-Financial Reporting Directive (NFRD) was used as the basis for calculating KPI 4), which represents the share of exposure to companies not subject to the NFRD out of total assets:

According to Article 19a/29a in conjunction with Article 2(1) of Directive 2013/34/EU, the following public interest entities (PIEs) are required to publish a non-financial statement (NFRD entities):

A.) Capital market-oriented companies
B.) CRR banking institutions
C.) Insurance companies
D.) PIEs according to country-specific definition

Firstly, the volumes of the exposure to companies subject to the NFRD were determined and then deducted from the total exposure and the balance divided by the total assets. It was particularly challenging to determine the volumes of the companies subject to the NFRD, given that additional manual work was required due to low data availability and no clear distinction could be made between those companies and companies that are not subject to the NFRD. In the process, it became clear that a significant share of borrowers in our real estate financing portfolio are not subject to the NFRD.

Real estate funds were not taken into account in the calculation of the exposure to companies not subject to the NFRD, as they do not carry out operational activities and do not constitute an enterprise. Consequently, Berlin Hyp has classified these as taxonomy-eligible, since they are risk positions relative to real estate funds, which can be checked for taxonomy eligibility according to the directives from question 13 of the FAQs on Article 8, published on 20 December 2021.

4.3.5 The share of the trading portfolio and short-term interbank loans

Berlin Hyp has no trading portfolio. The following assets were included in the calculation of the share of short-term interbank loans.

4.3.6 Interpretation

Interpretation regarding the inclusion of real estate funds not subject to the NFRD in KPI 1 a: Real estate funds not subject to the NFRD are classified as taxonomy-eligible, as they are risk positions that can be checked for taxonomy eligibility according to the transparency principle, according to the directives from question 13 of the FAQs on Article 8 published on 20 December 2021. In this case, the principle of Article 7(3) of the Delegated Act on Article 8 of the EU Taxonomy Regulation is not taken into account.

Due to reasons of consistency with FINREP, the definition of general governments was applied. The official definition for the FINREP report (Regulation (EU) 2017/1538 of the European Central Bank, Annex V; Part 1.42 (b)) was applied in order to distinguish the share from general governments:

→ Government sector
→ English: Reference to general governments:
→ Annex V; Part 1.42 (b)

Interpretation for the valuation of assets: The KPIs were calculated based on gross carrying amounts.

Government or regional institutions include central, state, federal and municipal governments, administrative bodies and non-profit companies, which are held by the listed institutions, such as universities and Rentenversicherung Bund (German Pension Insurance Association). Commercial corporations and partnerships held by the institutions listed above are excluded.

5. Description of compliance with Regulation (EU) No. 2020/852 in the business strategy of the financial company, in the product design processes and in the cooperation with customers and counterparties

In this regard, please refer to Sections 1 Strategic Analysis and Measures and 2.3 Environmental Concerns in this non-financial statement.

FINREP reporting form		Assets
F 1.01	Numerator	Sight deposit
F 4.10	Numerator	Lending and loans to banking institutions (fixed-term deposits)
F 1.01	Denominator	Total assets (balance sheet total)

6. Voluntary Disclosures

The key performance indicators contained in the voluntary disclosures, with the exception of lending and loans to real estate funds, are based on assumptions that cannot be fully verified and therefore may not be disclosed in the mandatory reporting, according to the EU Commission's requirements for mandatory disclosures.

Voluntary KPI report table (Article 10 (2) Delegated Act on Article 8 EU Taxonomy Regulation) for Berlin Hyp:

Key performance indicator	Description of the key performance indicator	Share out of the adjusted total assets*	Share out of total assets
1a	Share of taxonomy-eligible assets out of total assets	84%	70%
1b	Share of non-taxonomy-eligible assets out of total assets	16%	13%
2	Share of countries, central banks, supranational issuers out of total assets		17%
3	Share of derivatives out of total assets		0.6%
4	Share of companies not subject to NFRD out of total assets		3.5%
5	Share of trading portfolio and short-term interbank loans out of balance sheet total		0.1%

* The adjusted total assets were calculated as follows: balance sheet total less risk positions relative to countries, central banks, supranational issuers and trading portfolio. This only applies to KPIs 1a and 1b and is used for purposes of comparison with the key performance indicators to be reported in subsequent years. The total assets correspond to the balance sheet total.

The general formula for the calculation of the key performance indicators is shown below.

$$\frac{\text{Numerator total}}{\text{Denominator = Balance sheet total}}$$

The deviations from the share figures in the reportable information under 4.2 and 4.3 result from the following interpretation of Berlin Hyp:

Berlin Hyp is a commercial real estate financier with a volume of mortgage loans and public-sector loans of EUR 25.3 billion after deduction of interbank loans and loans to general governments. The mortgage loans and public-sector loans are used to finance real estate, i.e. the economic activities of new construction, renovation of existing buildings and the acquisition and ownership of existing buildings.

It is therefore possible for the borrower to derive the taxonomy eligibility regardless of the situation regarding the data on the NFRD reporting requirement. An adjustment is made accordingly for lending and loans to non-financial companies deducted in the mandatory disclosures.

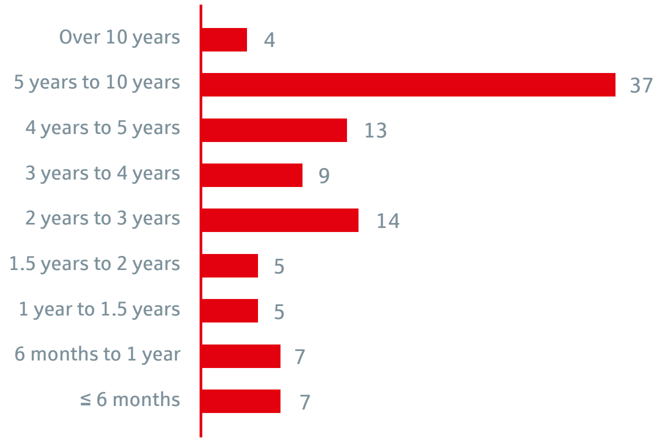
According to Berlin Hyp's interpretation, mortgage loans and public-sector loans under lending and loans to non-financial companies are taxonomy-eligible due to earmarking for real estate financing, as they are intended for the financing of the economic activities of new construction, renovation of existing buildings, and acquisition and ownership of buildings, the classification (technical assessment criteria and do no significant harm criteria) of which is regulated in Section 7, Construction Industry and Real Estate, Annexes I (climate change mitigation) and II (climate change adaptation) to the Delegated Act on EU Taxonomy respectively. The future verification of taxonomy conformity will not be possible based on the NFRD reporting of the borrower, but instead will be based on confirmation of compliance with the technical assessment criteria and do no significant harm criteria, as well as the minimum requirements. This confirmation can only be made in direct contact with customers, in the lending and processing phase. KPI 1 a was therefore adjusted accordingly by including mortgage loans and public-sector loans to non-financial companies in the numerator for the share of taxonomy-eligible assets, regardless of the information on the NFRD reporting requirement.

The increase in the percentage of taxonomy-eligible assets of 84 per cent out of the adjusted total assets and of 70 per cent out of the total assets, most of which fall under lending and loans, in the voluntary reporting section compared to the table in 4.2, serves to increase transparency. Finally, the voluntary disclosures reveal to what extent the economic activities of Berlin Hyp are affected by the EU taxonomy.

VIII Further Information for Investors

Mortgage Loans Portfolio
The breakdown of the mortgage loans portfolio by maturity structure and loan-to-value ratio as at 31 December 2021 was as follows:

Maturity Structure of Loans
in %



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

Lending region	Ø LTV
Germany	53.4
BeNeLux	52.8
France	49.1
Poland/Czech Republic	55.9
Great Britain	33.1

Available Distributable Items (ADI)
in €m

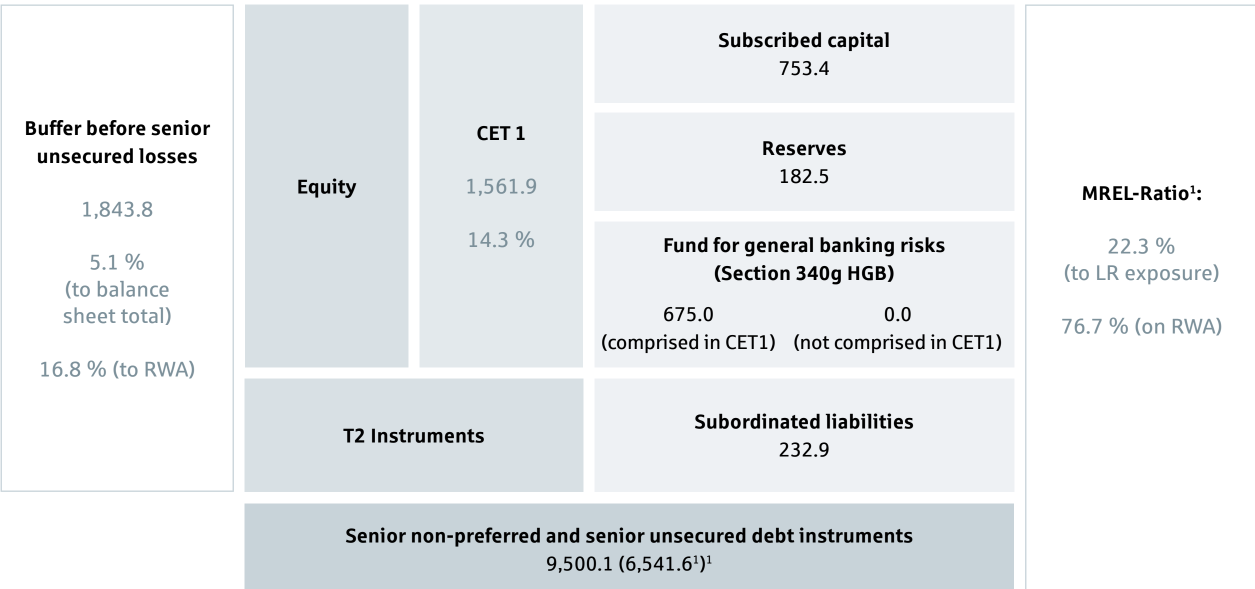
	31.12.2021	31.12.2020
Balance sheet profit	**0.0**	**0.0**
Annual surplus/net loss for the year	0.0	0.0
Profit / loss carryforward from the previous year	0.0	0.0
Transfers to / withdrawals from retained earnings	0.0	0,0
Other profit reserves excluding statutory reserves*	2.2	2.2
Free capital reserve pursuant to Section 272 II (4) HGB	158.3	158.3
less amounts blocked from distribution pursuant to Section 268 VIII HGB	0.0	−30.1
Available distributable items	**160.5**	**130.4**

* after allocations to profit reserves

Regulatory Key Figures
in €m

	31.12.2021	31.12.2020
Common equity tier 1 (CET1)	1,561.9	1,386.6
Additional tier 1 capital (AT1)	0.0	0.0
Tier 1 capital (T1)	1,561.9	1,386.6
Tier 2 capital (T2)	227.8	244.2
Own funds / Total capital	1,789.8	1,630.8
Risk weighted assets (RWA)	10,952.0	10,320.9
CET1 ratio in %	14.3	13.4
T1 ratio in %	14.3	13.4
Total capital ratio in %	16.3	15.8
Leverage ratio in %	4.2	4.1
MREL (balance sheet total)	22.3	17.5
MREL (RWA)	76.7	57.0
LCR	128.4	140.7

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



[1] MREL minimum requirements applicable for Berlin Hyp as an individual institution from 01.02.2021 onwards of 3.00 % Leverage Ratio Exosure (LRE) or 10.55 % Total Risk Exposure Amount (TREA including combined capital buffer requirement CBR)(100% compliance required from 01.01.2022 onwards); in 2021, including unsecured senior liabilities (Senior Preferred) taking into consideration qualitative minimum requirements.

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