

Corporate Governance Report

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

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

Board of Management

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

In the 2016 financial year, the Board of Management continued to consist of three persons until September. The Board of Management consisted temporarily of four persons in September, from the time of Sascha Klaus joining the Board of Management on 1 September 2016 until the departure of the previous Chair of the Board of Management, Jan Bettink, with effect from 30 September 2016. From 1 October 2016 until the end of the year, it once again consisted of three persons. The Board of Management has had a new Chair, Sascha Klaus, since 1 October 2016.

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

The varied expertise of the individual Board of Management members ensures that the Board of Management remains sufficiently diversified. On 22 June 2015, the Supervisory Board set a target of 0 % for the proportion of women on the Board of Management based on the current composition of the Board of Management. The target will initially remain valid until 30 June 2017 and will be re-examined this year.

Supervisory Board

The Supervisory Board of Berlin Hyp – which, in accordance with the Articles of Association, consisted of 15 members in 2016 – advises and monitors the Board of Management in the management of the bank, works with it to ensure long-term succession planning and ensures a degree of diversity in the composition of both the Board of Management and the Supervisory Board that is appropriate to the bank's business activities. According to the regulations of the German One-Third Participation Act, it comprises five Supervisory Board members on the staff side and ten on the shareholder side. The Chair of the Supervisory Board coordinates the work within the Supervisory Board, chairs its meetings and represents the interests of the Supervisory Board in relation to third parties. The Supervisory Board has formed three committees from its own members. Its functioning is governed by the Rules of Procedure.

The terms of office of the Supervisory Board members, both of those representing the shareholder side and of those representing the staff side, ended at the close of the Annual General Meeting on 21 June 2016.

The employees vote for their representatives in their own election in accordance with the provisions of the German One-Third Participation Act. The Supervisory Board cannot influence the selection of employee candidates. The previous employee representatives – Jana Pabst, Joachim Fechteler, Thomas Meister and René Wulff – were confirmed in office by a vote of bank employees on 25 May 2016. The employee representative Andrea Schlenzig was elected to the Supervisory Board for the first time, replacing Mr Carsten Nowy.

The Annual General Meeting confirmed the previous shareholder representatives on the Supervisory Board in office on 21 June 2016.

Georg Fahrenschon was subsequently re-elected Chair of the Supervisory Board. Jana Pabst, Chair of the bank's Works Council, was elected Deputy Chair of the Supervisory Board.

All Supervisory Board members' terms of office end at the close of the Annual General Meeting that will discharge the Supervisory Board for the 2020 financial year.

The Supervisory Board pursues the following aims when new shareholder representatives are nominated:

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

The Supervisory Board approved the detailed requirements in a selection and diversity strategy on 22 June 2015 and confirmed it as part of the annual review at its meeting on 29 September 2016. It describes details of the knowledge, skills and experience required for effective monitoring of the Board of Management. These include, in particular, knowledge and experience in the fields of securities, real estate, the capital market and accounting. Independence rules are also defined pursuant to the German Corporate Governance Code.

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

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

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

According to the equality law provisions relevant for Berlin Hyp, the Supervisory Board set a target for itself to maintain the status quo of at least one female member in a resolution dated 22 June 2015. Two women are currently members of the Supervisory Board following the new Supervisory Board election in 2016.

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

The Supervisory Board submits itself to efficiency reviews each year. The most recent review was conducted on 14 December 2016. It was based on a detailed questionnaire, as in the past, which addressed relevant topics according to the German Corporate Governance Code and Section 25d (11) Nos. 3 and 4 German Banking Act (KWG) and which each Supervisory Board member was able to individually fill out before the meeting. The findings of the evaluation were then presented by the Supervisory Board Chair at the meeting and jointly discussed and debated by the body. The 2016 review indicated that the efficiency of Supervisory Board activity was given. Furthermore, the Supervisory Board noted that its members have the required knowledge, abilities and experience for the activities of the Supervisory Board and its committees. Agreements regarding communication prior to Supervisory Board resolutions were also made.

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

Close Cooperation between the Board of Management and the Supervisory Board

Berlin Hyp's Board of Management and Supervisory Board work together closely based on mutual trust. At least four Supervisory Board meetings take place during the financial year. Five Supervisory Board meetings took place in 2016. The Supervisory Board monitors and advises the Board of Management with regard to corporate governance. The Board of Management informs the Supervisory Board extensively and promptly on all issues relevant to the company relating to strategy, planning, business development, the risk situation, risk management and bank compliance. It also coordinates the company strategy and its implementation with the Board of Management. It explores deviations in business performance from plans and goals and states the reasons for these.

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

The Board of Management's reporting obligations and duties to inform are stated in specific terms in the Rules of Procedure for the Board of Management. The Supervisory Board has also defined important transactions that the Board of Management may only conduct with the Supervisory Board's consent. In addition, it has also established rules designed to prevent conflicts of interest. There were no conflicts of interest requiring disclosure in the 2016 financial year. In one case, three members of the body abstained from voting on a proposal to avoid the appearance of a conflict of interest. The Board of Management continuously exchanges information with the Chair of the Supervisory Board.

Conscious entrepreneurial risk management helps recognise risks at an early stage, assess them and initiate appropriate countermeasures if necessary. The approach to risks in connection with the bank's business activity is extremely important to the Board of Management and the Supervisory Board. Both bodies require regular reports about risks and their development. Berlin Hyp's risk management system is continually developed further by the bank and is examined by the auditors. The Board of Management passes on information that is significant from a risk standpoint to the Chair of the Supervisory Board without undue delay.

The work of both organs and that of the three Supervisory Board committees is regulated in the Rules of Procedure. These are checked regularly to ensure that they are up to date. Changes were made to rules regarding the need for Supervisory Board approval of the potential dismissal of the Head of Risk Controlling, and new conditions regarding the cooperation with the auditor on account of the new requirements of the German Audit Reform Act (Abschlussprüferreformgesetz – AReG) were added in 2016.

The composition of the Board of Management and the Supervisory Board, as well as the spheres of responsibility of the individual members of the Board of Management, are presented on pages 8/9 and 98 of the Annual Report.

Efficiency Improvement by Committees

The Supervisory Board has formed three committees to support the work of the Supervisory Board. These are the Staff and Strategy Committee, the Audit Committee and the Loans Committee. The Staff and Strategy Committee also acts as a nomination committee and remuneration controlling committee. The Loans Committee is also active as the Risk Committee pursuant to the German Banking Act (KWG). The Committee chairs report on their work at each Supervisory Board meeting. The Chair of the Supervisory Board does not chair the Audit Committee. For details regarding the responsibilities of the various committees and the areas they focused on in 2016, see the Supervisory Board Report in this Annual Report.

Annual General Meeting of the Sole Shareholder

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

Transparency

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

Accounting and Auditing the Annual Accounts

Berlin Hyp's annual accounts in the reporting year were produced in accordance with the German national provisions (German Commercial Code), as there is no statutory duty for Berlin Hyp to produce consolidated accounts in accordance with the International Financial Reporting Standards (IFRS). The annual accounts, the half-year financial report and any interim reports

are published within 90 days after the end of the financial year or 45 days after the end of the respective reporting period.

Before the proposal for selection of the auditor is submitted to the General Meeting, the Supervisory Board obtains a declaration from the auditor as regards existing relations with the bank or its organs. The current declaration of independence of the auditor dates from 3 March 2016. According to this declaration, there is no doubt about the independence of the auditor. The Supervisory Board has agreed with the auditor that the auditor will report without undue delay on all findings and occurrences that become evident during the conduct of the audit and that are important for the Supervisory Board's tasks. Likewise it was established that the auditor shall inform the Supervisory Board or make a notation in the audit report if divergences from the German Corporate Governance Code and the Declaration of Compliance issued jointly by the Board of Management and the Supervisory Board are found. No such divergences were found.

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

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

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

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

The compliance declaration of the Board of Management and the Supervisory Board pursuant to Section 161 Stock Corporation Act was updated in December 2016. It reads as follows:

1. Berlin Hyp AG has complied with all recommendations of the Government Commission on the German Corporate Governance Code, as revised on 5 May 2015, announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette, with the exception specified in Section 2.
2. Berlin Hyp AG deviates from the German Corporate Governance Code in the following recommendation:
 - a) At the time of the conclusion or extension of Board of Management contracts, such contracts have not always included and do not always include a settlement payment cap stipulating that, in the case of premature termination of work for the Board of Management without good cause, settlement payments are limited to an amount corresponding to two years' remuneration including ancillary benefits (Section 4.2.3 German Corporate Governance Code).

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

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

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

3. Furthermore, Berlin Hyp AG has complied with all recommendations of the Government Commission on the German Corporate Governance Code, as revised on 5 May 2015, announced by the Federal Ministry of Justice in the official part of the electronic Federal Gazette, with the exception specified in Section 2, since the last Declaration of Compliance was issued on 11 March 2016.

Berlin, 28 March 2017

**Board of Management and
Supervisory Board of Berlin Hyp AG**