

Visions of the future

Annual Report 2016

Content

Excerpt from the Balance Sheet <i>in € m</i>	31.12.2016	31.12.2015
Claims against banking institutions	551	673
Claims against customers	19,370	20,610
Of which:		
a) Mortgage loans	18,125	17,898
b) Public-sector loans	1,228	2,652
Liabilities to banking institutions	4,814	6,297
Liabilities to customers	5,476	6,349
Of which:		
a) Registered mortgage Pfandbriefe	2,374	2,479
b) Registered public Pfandbriefe	1,030	1,246
Securitised liabilities	13,615	13,383
Of which:		
a) Mortgage Pfandbriefe	8,040	7,926
b) Public Pfandbriefe	1,640	1,650
Reported equity	936	936
Balance sheet total	26,354	28,544
Business Development <i>in € m</i>	2016	2015
New lending	5,367	4,445
of which:		
Residential loans	908	799
Commercial loans	4,459	3,646
Extensions (capital employed ≥ 1 year)	651	958
NPL	376	447
Other	31.12.2016	31.12.2015
Number of employees (as at the reporting date)	585	576
Sustainability	2016	2015
oekom research	Prime	Prime

Excerpt from the Profit and Loss Account <i>in € m</i>	2016	2015
Net interest	255.9	223.3
Commission income	42.5	30.8
Staff expenditure	62.6	76.5
Other operating expenditure	55.3	43.2
Write-offs on fixed assets	4.4	4.1
Operating expenditure	122.3	123.8
of which expenditure for bank levy	10.9	
Risk provisioning	35.7	18.8
Operating result ¹	120.1	124.0
Net income from investments	2.8	0.6
Bank levy		11.4
Provision for general banking risks	50.0	20.0
Profit transfer	73.0	92.0
Net income for the year	0.0	0.0
Cost income ratio in % ²	44.0	50.3
Return on equity in %	11.8	11.1

Regulatory law key figures ³ <i>in € m</i>	31.12.2016	31.12.2015
Common equity tier 1 capital (CET1)	1,076	1,007
Additional tier 1 capital (AT1)	0	0
Tier 1 capital (T1)	1,076	1,007
Tier 2 capital (T2)	318	316
Own funds (Total Capital)	1,395	1,323
Risk weighted assets (RWA)	7,972	7,598
CET1 capital ratio in %	13.5	13.3
T1 capital ratio in %	13.5	13.3
Total capital ratio in %	17.5	17.4
Leverage Ratio in %	3.9	3.5

¹ The previous year's figures have been adjusted accordingly for the discontinuation of the "extraordinary result" from 2016
² Figures after bank levy
³ Previous year figures after adoption

Board of Management and Supervisory Board

Management Report

Annual Accounts

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		6 February 2016	
01			
02	26 April 2016		9 March 2016
03		Berlin Hyp promotes young artists at Positions Berlin. The poetic reflections of the "Coexist" series of photographs by Franziska Stünkel prompted a lively discourse at the opening in Berlin Hyp's Kunstforum. Tessa Wolkersdorfer and Wolfgang Ganter also presented their works in 2016.	
04	What were the biggest challenges for the financial sector? Berlin Hyp was an exhibitor the 25th Sparkassentag in Düsseldorf, Europe's largest trade fair for the financial industry.		A vision with a future. At the Kick-off – berlinhyp21 dialogue event, the bank set itself an important course for change. "agile. connected. creative": berlinhyp21 is getting ready for the future.
05		19 September 2016	
06			
07			
08	1 October 2016		
09		Green pioneering work: Berlin Hyp issued its first Green Senior Unsecured Bond, making it the first lender to issue green bonds in more than one asset class. Berlin Hyp was the first bank to successfully place a Green Pfandbrief on the market in 2015.	
10	Sascha Klaus was appointed as the Chair of the Board of Management, taking up the baton from Jan Bettink who has successfully led the bank for 14 years.	6 October 2016	
11			
12		Berlin Hyp is always present at real estate trade fairs: at MIPIM in Cannes in spring and EXPO REAL in Munich in autumn.	

Berlin Hyp – A partnership built on trust

Almost 150 years of experience in professional real estate financing and close ties to the Savings Banks Finance Group make Berlin Hyp one of the leading German real estate and Pfandbrief banks.

Berlin Hyp acts as a reliable, personal and flexible partner for quality-oriented innovative investors.

Driven by its motivation to become the best and most sustainable real estate in its strategic markets, Berlin Hyp is positioning itself in an even more customer-centric and efficient manner as part of a dynamic future-oriented process.

It wants to be a valuable business partner for the savings banks and consistently make a positive contribution to the Savings Banks Finance Group.

With headquarters in Berlin and offices in Düsseldorf, Frankfurt am Main, Hamburg, Munich and Stuttgart, as well as in Amsterdam, Paris and Warsaw, the bank plans to constantly increase its opportunities for partnerships.

Interview with the Board of Management

Challenging times, a versatile bank: three members – one vision

Partnership and future orientation as a stable foundation for growth: with a new lending volume of € 6.0 billion, Berlin Hyp was more successful in 2016 than ever before.

Sascha Klaus, Berlin Hyp's new Chair of the Board of Management since 1 October 2016: "I take the helm at a bank which is economically very sound."



How would you rate the past financial year?

Sascha Klaus: 2016 was a very good year for Berlin Hyp. With € 6.0 billion of new business including extensions and an 11 % return on equity, last year we exceeded all the goals we had set ourselves, although the competitive environment did not make it easy. We primarily focussed on strengthening our equity basis in order to prepare the bank for increases in regulatory requirements.

Roman Berninger: At the end of 2015 we initiated an extensive process of preparing ourselves for the future. With "berlinhyp21 – agile.connected.creative." we have developed a joint vision that requires us to take very concrete action, especially in internal processes.

It has been exciting to see how well it has been working. Projects and processes are connecting with one another and accelerating; overall collaboration is intensifying. This means that we are well on track to improving personal responsibility and entrepreneurial thinking in the bank.

Gero Bergmann: We have also been working intensively on our presence in the market. It has never been better than in 2016. We are now more and more frequently one of the preferred partners for major, complex landmark transactions. We are proud of this, as it shows that we have achieved a new quality of market perception. This already paid off in 2016 and is set to become an essential strength of Berlin Hyp to an even greater extent in the future.

What are Berlin Hyp's specific goals for 2017?

Sascha Klaus: We have set ourselves very ambitious goals for both new business volume and existing business, which we also want to achieve by becoming quicker and more effective. To do so, we are driving the digitalisation of all of our processes and a forward-looking approach to our IT landscape. But there are still some important points on our agenda. It is very important to us that we enhance our positioning as a green financier and expand S-Group business with our partners in the Savings Banks Finance Group.

Is Berlin Hyp becoming a green bank?

Gero Bergmann: That is an ambitious objective and a good incentive for us. When we issued the first Green Pfandbrief in Germany and a Green Senior Unsecured Bond, we introduced very successful products that are directly connected to our core business, making us a market pioneer. Institutional investors are also specifically requesting these products. In order to keep promoting this business, we are incentivising suitable projects and guaranteeing deductions of five to ten basis points for investments in green real estate.

Are all questions of sustainability of great strategic importance?

Roman Berninger: Yes, on a very elementary level. We have been continuously developing sustainability management in the bank for years, both economically, ecologically and socially. We are already very successfully improving our CO₂ footprint and harnessing energy savings potentials. Whether it's reducing the number of business trips we take or using bike pools, saving energy at the workplace, health management or introducing mobile work concepts – sustainability is more than just a product or a green building to us. It is the interplay between all of the measures we take and involves all employees. In 2016 we received EMAS validation, which is a strict European standard. But we are not resting on our laurels. On the contrary – we want to become even better.

What are your expectations for 2017?

Sascha Klaus: The environment is still very competitive. The framework conditions remain difficult due to sustained low interest rates. Of course, in 2017 we also anticipate numerous political events with uncertain outcomes. Provided no unforeseen shifts occur in the capital and real estate markets, we expect that we will be able to continue positive developments with our customers. We want to make a positive contribution and generate good long-term returns on equity for the Savings Banks Finance Group. The industry remains under enormous competitive pressure and there is also enormous pressure on margins, which we as the specialised institute of the Savings Banks Finance Group are well able to withstand. We remain very true to our awareness of risks, and will continue to rely on precise, reliable information in the future as well.

How difficult will it be to acquire new business?

Gero Bergmann: We will not deviate from our risk parameters by doing away with standards, even if that means that we might consciously



refrain from entering into a few new business opportunities. We guarantee our success by not questioning our tried-and-tested risk policy. As enthusiastic as we are about new customers and new markets, we will never forget that.

Gero Bergmann: "In our success, we also benefit from the enormous stability of the Savings Banks Finance Group."

What does digitalisation mean for Berlin Hyp?

Roman Berninger: The need for both quick, legally watertight reactions to increasingly complex regulatory requirements and flexibility on the part of the customer and the market are posing major challenges to the way we develop our IT systems. Systems must be in a position to process continuously increasing volumes of data in ever-shorter periods of time, because the importance of quality-assured data and its processing will keep increasing for reliable internal and supervisory reporting. Not least, we continue to consistently pursue the consolidation and standardisation of our systems landscape, because only by reducing



“By concentrating projects and processes, and networking competences in a targeted way, we are already further than expected today.”

the complexity of our IT can we guarantee the utmost flexibility and cost-optimised adaptation to a world that is changing faster and faster. This means we are also ensuring that our approach to future IT systems is agile, connected, creative. There are currently numerous extensive IT projects in place for the implementation of our IT strategy, which are demanding a lot from our employees. The goal is efficient, cost-optimised data processing, the digitalisation of numerous processes and, in future, a completely paperless office, not least in order to sustainably conduct business in the face of ever-scarcer resources.

Sascha Klaus: In order to successfully stand out from the competition, it is important to utilise all potentials of digitalisation as effectively as possible, both in the optimisation of internal processes and with a view to possible expansions to the business model. Internal standardisation and automation that are as extensive as possible will not harm the unique way that we address customers. Rather, their aim is to put us in a position where we are able to react flexibly. We do everything we can to find custom-fit solutions that help our partners.

Roman Berninger: Our core SAP banking system, which has been successful so far, continues to be consistently developed in the direction of SAP in-memory technology – meaning that we are on the right track towards establishing an excellent IT set-up for the years ahead. We have taken a giant step in terms of monitoring software and will play a decisive role in its future as a pilot customer for Abacus360, with the goal of fulfilling supervisory requirements at the push of a button. In order to keep our group lean, we are digitally optimising all of our processes in-house, starting with our credit process.

What demands are you placing on the development of new products?

Gero Bergmann: We hope that the process we have initiated of preparing ourselves for the future will make us the best providers for our partners. This includes really listening to what customers want and need. And courage. It takes courage to try things out that nobody would have tried before. It is important that we keep questioning how we can better adapt to the wishes and needs of the market. We ask ourselves: how will Berlin Hyp communicate with its customers in the future – just in person and on the telephone? Or, if the customer prefers, it can be done digitally – with just as much two-way collaboration and security as with any other medium.

Is Berlin Hyp also networking with external partners for this reason?

Sascha Klaus: Yes. We want to and will work with external partners in order to continue developing our business model. It is important for us to consider new digital possibilities and to prepare ourselves for changes before they take place so that we can then take part in them. Standardising simple steps gives us time for the essentials, so that we are even better placed to understand the financing needs of our customers to provide them with more reliable offers that we can examine more quickly.

“If you want to be an excellent real estate financier, you must be very capable. Not just as regards expertise, but also with entrepreneurial thinking, an entrepreneurial attitude. You must also be willing to implement things swiftly and effectively. And digitalisation is one of our key.”

Sascha Klaus

What demands are you placing on the development of partner relationships within the Savings Banks Finance Group?

Gero Bergmann: We want to be a valuable business partner for the savings banks in questions of real estate financing and to provide them with interesting products. Our strategy of expanding S-Group business has been bearing good fruit. In 2016, we achieved a volume of € 1.5 billion. In the years to come, we would like to continue expanding our promissory note platform, with which we can enable the Savings Banks to take part in major transactions very flexibly. We are expanding our product range successively and with a sense of proportion. Further credit products and services are currently in discussion.

You have described Berlin Hyp's process of preparing for the future. What is it about this process that motivates you the most?

Sascha Klaus: Above all teamwork – and by that I do not just mean the Board of Management and the management team. We have been watching closely how the process that we have initiated of preparing ourselves for the future is influencing the culture of the bank on all levels. Above all, we are observing how many employees are getting actively involved in this process, for which they deserve our warmest thanks and respect. They are breaking new ground in a number of ways and, on their own initiative, are assuming responsibility for the future of our bank that we will shape together.

Sascha Klaus

Gero Bergmann

Roman Berninger

Take a look at the back of this Annual Report. There, we introduce you to our future process, in which we consistently place our customers at the centre of our action.

Organs of the Bank and Other Important Functions

Supervisory Board

Georg Fahrenschon

- Chair
- President of Deutscher Sparkassen- und Giroverband e.V.

Jana Pabst

- Deputy Chair (since 21 June 2016)
- Bank employee
- Chair of the Works Council of Berlin Hyp AG

Joachim Fechteler

- Bank employee
- Member of the Works Council of Berlin Hyp AG

Gerhard Grandke

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

Artur Grzesiek

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

Dr Harald Langenfeld

- Chair of the Board of Management of Stadt- und Kreissparkasse Leipzig

Thomas Mang

- President of Savings Banks Association of Lower Saxony

Thomas Meister

- Bank employee

Siegmar Müller

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

Carsten Nowy (until 21 June 2016)

- Bank employee
- Member of the Works Council of Berlin Hyp AG

Reinhard Sager

- President of German Administrative District Parliament
- County Council Chairman of East Holstein District

Andrea Schlenzig (since 21 June 2016)

- Bank employee

Helmut Schleweis

- Chair of the Board of Management of Sparkasse Heidelberg
- Bundesobmann of the Savings Banks Board of Management Members

Peter Schneider

- President of Savings Banks Association of Baden-Wurttemberg

Walter Strohmaier

- Chair of the Board of Management of Sparkasse Niederbayern-Mitte,
- Landesobmann of the Bavarian Savings Banks

René Wulff

- Deputy Chair (until 21 June 2016)
- Bank employee
- Deputy Chair of the Works Council of Berlin Hyp AG

Supervisory Board Committees

→ Staff and Strategy Committee

Georg Fahrenschon

Chair

Helmut Schleweis

Deputy Chair

Dr. Harald Langenfeld

Thomas Mang

Thomas Meister (since 21 June 2016)

Jana Pabst (until 21 June 2016)

Andrea Schlenzig (since 21 June 2016)

→ Loans Committee

Thomas Mang

Chair

Dr. Harald Langenfeld

Deputy Chair

Artur Grzesiek (since 21 June 2016)

Carsten Nowy (until 21 June 2016)

Walter Strohmaier

René Wulff (since 21 June 2016)

→ Audit Committee

Helmut Schleweis

Chair

Gerhard Grandke

Deputy Chair

Joachim Fechteler

Thomas Meister (until 21 June 2016)

Siegmar Müller

Peter Schneider

Trustee

Christian Ax

Deputy Trustees

Wolfgang Rips

Philip Warner

Board of Management

Sascha Klaus (since 1 September 2016)
Chair (since 1 October 2016)

Jan Bettink (until 30 September 2016)
Chair

Gero Bergmann

Roman Berninger

Managing Director

Dr. Michael Schieble

Supervisory Board Report of Berlin Hyp AG 2016

Berlin Hyp is a subsidiary of Landesbank Berlin Holding AG and an independent commercial real estate financier within the Savings Banks Finance Group. The Supervisory Board – which, apart from the five employee representatives, is made up entirely of representatives of the Savings Banks Finance Group and a representative of the local authorities – advises and monitors the Board of Management. It also supports the Board of Management, particularly in the creation of a network with savings banks throughout Germany. Visible success was achieved in this regard in 2016.

This was also supported by the fact that, as part of a strategy project, the German Savings Bank Association (DSGV), together with representatives from the Supervisory Board, reaffirmed that Berlin Hyp will undergo further development as an S-Group institution. Plans call for focusing on optimised organic growth in the years ahead.

The year 2016 was a very successful one for Berlin Hyp in the real estate financing business in general, especially considering the numerous special burdens due to a string of new regulatory requirements. The Supervisory Board regards Berlin Hyp's performance and its ability to hold its own in an increasingly difficult market environment while adhering to a conservative risk strategy as highly favourable.

In accordance with the legal requirements, the Supervisory Board concerned itself with the position and the development of Berlin Hyp, the planning situation, the risk situation, risk management as well as compliance, with the appropriate urgency, regularly and comprehensively, both orally and in writing, in 2016 as well. It constantly monitored the actions of the Board of Management and satisfied itself that it was acting properly, deliberated on all relevant aspects in this context and provided recommendations.

Focus of the Supervisory Board's Activities

The object of all Supervisory Board meetings in 2016 was the Board of Management's detailed reporting on the current business development and the risk situation of Berlin Hyp. The Board of Management also reported regularly on the development of S-Group business.

In the balance sheet meeting on 11 March 2016, the annual accounts and Management Report as at 31 December 2015 were approved and adopted after being reviewed and following reports from the Board of Management and the auditor. Moreover, the annual audit report, the annual compliance report and the report on the efficacy of the internal control system (ICS) were acknowledged in this meeting. The Supervisory Board Report and German Corporate Governance Code Report were adopted, and the Declaration of Compliance in accordance with Section 161 German Stock Corporation Act (AktG) was adapted accordingly. The Supervisory Board also passed the necessary resolutions on the Annual General Meeting of Berlin Hyp. As the term of office of the Supervisory Board members ended upon conclusion of the 2016 Annual General Meeting, the Supervisory Board also submitted candidate proposals for the election of shareholder representatives to the Supervisory Board.

In accordance with the provisions of the Institutional Remuneration Ordinance (IVV), the Supervisory Board passed resolutions on the remuneration system, decided on the total amount of variable remuneration for the Board of Management and took note of the overall employee bonus pool set by the Board of Management. The Supervisory Board then reviewed the extent to which the Board of Management achieved the targets for 2015 and decided on the particular target bonuses of the individual Board of Management members as well as the payment of conditional bonuses.

The number of members on the Loans Committee was increased at this meeting from four to five through an amendment to the Rules of Procedure in order to facilitate the committee's

ability to take decisions in the event of someone's absence. The Board of Management also reported on a number of regulatory matters.

In the meeting on 21 June 2016, the Supervisory Board took note of reports on external audits and their findings, in addition to the regular reports (current business development, risk situation, S-Group business). It also discussed strategic and regulatory matters with the Board of Management.

This meeting was followed immediately by the Annual General Meeting, where the shareholder representatives were newly elected to the Supervisory Board, among other things.

The new Supervisory Board subsequently convened at its inaugural meeting, where Georg Fahrenschon was elected Chairman of the Supervisory Board and Jana Pabst was elected Deputy Chairman. Members were also elected to the committees.

In an extraordinary meeting of the Supervisory Board on 19 July 2016, Sascha Klaus was appointed a member of the Board of Management effective 1 September 2016 and to become Chairman of the Board of Management of Berlin Hyp effective 1 October 2016 (please refer to the explanations in the section "Board of Management Appointments").

In the meeting on 29 September 2016, the Board of Management reported on the status of ongoing audits. Following a proposal made by the Audit Committee, the Supervisory Board defined the audit focus for the financial year 2016 and resolved to expand the audit of the annual accounts to include the regular early risk identification review in accordance with the new provisions of the framework rules for the guarantee system of the Savings Banks Finance Group. In addition, the Supervisory Board made

editorial changes to the selection and diversity strategy and updated the Rules of Procedure due to new legal requirements, among other reasons.

In the meeting on 14 December 2016, the Board of Management's periodic reports were expanded to include a presentation on Treasury activities. The Supervisory Board took note of the updated strategy document in line with the provisions of the Minimum Requirements for Risk Management (MaRisk). It then took a closer look at the projections for 2016 and the medium-term planning for 2017 to 2021. The Supervisory Board also took note of the findings from the Staff and Strategy Committee's efforts to monitor the remuneration systems for staff and the Board and Management, and acknowledged the annual remuneration control report. The Chairman of the Supervisory Board presented a summary report of the findings from the efficiency and suitability review of the Supervisory Board and the Board of Management. The Supervisory Board also updated the Declaration of Compliance in accordance with Section 161 German Stock Corporation Act (AktG).

Continuing Education for the Supervisory Board

The Supervisory Board of Berlin Hyp took part in a continuing education seminar in March 2016 that focused on supervision, accounting and risk management. In September 2016, the Supervisory Board dealt with and discussed the topic of real estate markets in Germany and other European countries in depth.

Supervisory Board Committees

The work of the Supervisory Board of Berlin Hyp is supported by three committees – the Audit Committee (PA), the Staff and Strategy Committee (PSA) and the Loans Committee (KA) – each of which convenes prior to Supervisory Board meetings.

The main objective of the PA is to assist in the review and preparation of the adoption of the annual accounts. Moreover, it is responsible for

monitoring the accounting process, the efficacy of the risk management system, the internal management and controlling system, and the functionality of the Internal Audit division. It is also concerned with compliance issues.

The PSA is tasked with personnel issues, strategy, planning and basic company issues, and it regularly reviews compliance with the German Corporate Governance Code. It also acts as a remuneration controlling and nomination committee.

Since the inaugural meeting of the Supervisory Board on 21 June 2016, the PSA now comprises six (previously five) members, and the PA comprises five (previously six) members.

In its capacity as a nomination committee, the PSA formed a search panel in September 2015 to prepare for the replacement of the Chairman of the Board of Management. As a result of these efforts, the committee submitted a recommendation to the Supervisory Board in July 2016 for the appointment of a successor. During the search and evaluation of the replacement candidate, the search panel took into account the legal requirements as well as the functional description decided on by the Supervisory Board.

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

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

Corporate Governance

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

Meetings and Attendance

A total of six plenum meetings and nineteen committee meetings – of which two were teleconferences – were held in the 2016 financial year. The Loans Committee passed 20 loan resolutions in 17 instances of written circular procedure.

The succession of meetings was marked by four ordinary meeting days and one extraordinary meeting day, on which both plenary meetings and committee meetings took place. The Supervisory Board members Artur Grzesiek and Reinhard Sager were only able to take part in half or fewer of the meetings of the plenum and the committees of which they are members; one of the reasons for this was this way of holding meetings. The cycle of meetings was fine tuned for 2017, meaning that committee and plenary meetings will take place on separate days in future. Members prevented from attending usually participated in the passing of resolutions through voting instructions.

Board of Management Appointments

In its extraordinary meeting on 19 July 2016, the Supervisory Board appointed Sascha Klaus a member of the Board of Management effective 1 September 2016 and Chair of the Board of Management of Berlin Hyp effective 1 October 2016 for a period of three years ending 31 August 2019. As a result, the Board of Management consisted of four members on a transitional basis in the month of September.

The Supervisory Board managed to secure a proven expert in Sascha Klaus with experience in Germany and abroad to take over the management of Berlin Hyp. He has more than 25 years of experience in the banking business, especially in risk management across a large number of asset classes, and in performing executive functions.

Jan Bettink resigned from his position as Chairman of the Board of Management as at 30 September 2016. The Supervisory Board thanks Jan Bettink for his extremely successful efforts on the Board of Management of Berlin Hyp and wishes him every success and all the best for the future.

Supervisory Board Appointments

Following the conclusion of the five-year term, new elections had to be held at the Annual General Meeting for the shareholder representatives who serve as members on the Supervisory Board. All of the ten previous shareholder representatives were reelected.

The election of employee representatives by staff entitled to vote was held prior to this on 25 May 2016. Due to the results of this election, Carsten Nowy ceased to be a member of the Supervisory Board effective 21 June 2016. Andrea Schlenzig was elected to the Supervisory Board in his stead. The Supervisory Board would like to thank Carsten Nowy for his achievements and considerable personal commitment.

The employee and shareholder representatives were elected for the duration of the period lasting until the end of the Annual General Meeting that decides on the discharge of the Supervisory Board for the 2020 financial year.

Annual Accounts 2016

The annual accounts of Berlin Hyp and the Management Report for the 2016 financial year have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, Berlin branch, appointed by the Annual General Meeting, taking into account the auditing focus defined by the Supervisory Board, and have received an unqualified audit certificate. The Supervisory Board has acknowledged the certificate.

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

The Loans Committee also dealt with the audit reports for the 2016 annual accounts, to the extent that they relate to statements about the lending business and risk situation of Berlin Hyp, and raised no objections.

The Audit Committee closely examined the documents and recommended that the Supervisory Board approve the annual accounts. The Supervisory Board acknowledged the audit results and raised no objections after conducting its own review. The Supervisory Board also examined the annual accounts and Management Report as well as the recommendation for the appropriation of the balance sheet profit itself and approved the results of the audit of the annual accounts. It approved the annual accounts prepared by the Board of Management. The 2016 annual accounts are thereby adopted. According to the profit transfer agreement, the earnings for 2016 are transferred to Landesbank Berlin Holding AG. The remaining balance sheet profit of € 2.2 million will be carried forward to new account.

The Supervisory Board thanks the members of the Board of Management as well as all employees for the very good results and for their performance in the 2016 financial year.

Berlin, March 2017

For the Supervisory Board
Georg Fahrenschon
Chairman

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**



**Berlin
ADO residential portfolio**

Berlin Hyp has provided financing of € 150 million (€ 27 million of which on valuation) with a term of 6.5 years to ADO Properties. The Berlin residential portfolio, most of which in central locations with excellent infrastructure, comprises a total of 77 properties. The 3,261 residential units offer a total rental area of roughly 175,000 m².

“This financing once again underlines the positive and loyal partnership between Berlin Hyp and ADO Properties,” said Rabin Savion, CEO of ADO Properties. “We are convinced by the ADO Properties residential portfolio and look forward to continuing our role as financing partner,” said Gero Bergmann, member of the Board of Management of Berlin Hyp.

Asset class	Residential
Customer	ADO Properties S.A.
Finance type	Refinancing
Financing volume	€ 150 million
Function of Berlin Hyp	Lender
Closing	22.06.2016 / 30.06.2016
Financing term	6.5 years



Frankfurt am Main
TaunusTurm

Acting as joint bookrunner and mandate lead arranger, Berlin Hyp and ING Wholesale Banking provided long-term financing for the TaunusTurm in Frankfurt. Located in the heart of the city's banking district, the property was developed by Tishman Speyer and completed in 2014. The building consists of a 39-storey office high-rise and a 19-storey residential tower with 44 flats. The property was built in accordance with the latest standards and is LEED-certified.

“On the basis of professional collaboration in a spirit of trust, we succeeded in working together to meet challenging financing needs in a very short space of time. The TaunusTurm is very well suited for our Green Pfandbrief,” says Assem El Alami, Head of International Key Accounts and Syndication, Berlin Hyp.

“We are delighted to finance an outstanding Frankfurt landmark for Tishman Speyer. As a modern and energy-efficient building in a prime location in Frankfurt, the TaunusTurm is a perfect match for ING's sustainability philosophy,” says Daniel Younis, Head of Origination, ING Real Estate Finance Germany.

Berlin Hyp and ING were advised by the law firm Baker & McKenzie; Tishman Speyer was advised by White & Case.

Asset class	Office and commercial building
Customer	Consortium of experts led by Tishman Speyer
Finance type	Syndicated financing
Function of Berlin Hyp	Joint bookrunner and mandated lead arranger
Closing	2016
Financing term	Long-term

Cologne
Construction of the Messe City Köln Office Complex

Berlin Hyp is providing the joint venture – consisting of the project developers STRABAG Real Estate GmbH and ECE Projektmanagement GmbH & Co. KG as well as the investor Warburg-HIH Invest Real Estate GmbH, which has acquired the first three development sites on behalf of institutional investors as part of a club deal – with a loan in the three-digit million range for the 3.5-year construction phase of these three buildings as well as the subsequent 10-year investment phase.

Following an EU-wide invitation to tender, the City of Cologne awarded the contract for the development of the 5.4 ha property in the Deutz district to STRABAG Real Estate GmbH and ECE Projektmanagement GmbH & Co. KG, the two initiators of the MesseCity project. The concept of both project developers covers the development of a total gross area of around 135,000 m² featuring six individual buildings and the Exhibition Plaza, as it is known, as well as an underground car park with roughly 1,000 parking places. Berlin Hyp is financing a three-part complex mainly intended for use as offices measuring approximately 68,000 m², most of which will be rented to Zurich Insurance Group. The keys are scheduled to be handed over in late 2019 or early 2020.

The respected real estate management firm Warburg-HIH Invest Real Estate GmbH is acting on behalf of institutional investors. STRABAG Real Estate and ECE will remain in charge of project management and property rental until completion of the three buildings acquired by HIH.

“Both the project concept and the expertise of our customers, as well as our long-standing partnership, are an ideal combination. The construction of MesseCity Köln will provide the City of Cologne with positive added value,” says Gero Bergmann, a member of the Board of Management at Berlin Hyp.

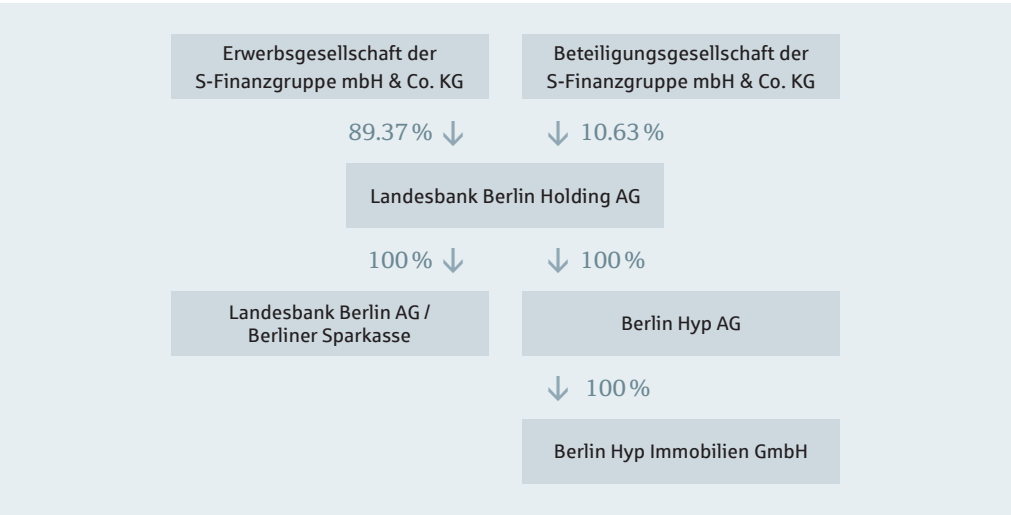
Asset class	Property developer/ developer and investor
Customer	Messe City Köln 1 GmbH & Co. KG
Finance type	Development and investment finance
Financing volume	Amount over € 100 million
Function of Berlin Hyp	Sole lender
Closing	2016
Financing term	3.5/10 years



I Principles of the Bank's Business Model

Organisational Structure

Berlin Hyp is a stock corporation (Aktiengesellschaft) and forms part of the Landesbank Berlin Holding AG Group (LBBH), Berlin, the majority of whose shares are held by the Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG. As a subsidiary of Landesbank Berlin Holding, Berlin Hyp is included in the consolidated financial statements of the Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG (smallest and largest consolidation group as defined in Section 285 Nos. 14 and 14a German Commercial Code [HGB]). A profit and loss transfer agreement is in place between Berlin Hyp and Landesbank Berlin Holding. The Group structure is as follows¹:



As at 31 December 2016, the Berlin Hyp Board of Management comprised three members who had the following spheres of responsibility:

Sascha Klaus (Chair)

- Communication and Marketing
- Lending (Real Estate and Capital Market)
- Human Resources
- Internal Audit
- Risk Management
- Corporate Development
- Valuation

Gero Bergmann

- Treasury
- S-Group and Domestic Business
- Sales Management
- International Key Accounts and Syndication

Roman Berninger

- Banking Operations
- Finance
- Organisation/IT
- Risk Controlling

Upon being appointed as a full member of the Management Board with effect from 1 September 2016, Sascha Klaus took over the spheres of responsibility of Jan Bettink, who stepped down from the

Management Board on 30 September 2016. Since 1 October 2016, Sascha Klaus has been in charge of these spheres of responsibility in his capacity as Chair of the Board of Management.

The Board of Management was assisted in the financial year by the Managing Director Dr. Michael Schieble, who was responsible for Lending (Real Estate and Capital Market), Risk Management and Valuation.

Berlin Hyp is divided overall into 15 divisions with 60 departments and teams.

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

Business Activities

Berlin Hyp is a financial institution that specialises in commercial real estate and combines experience from roughly 150 years in the real estate lending business, as well as the corresponding sense for current market trends, to develop future-oriented products and services for professional customers.

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

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

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

Locations

Berlin Hyp is headquartered in Berlin. It also has domestic sales offices in Düsseldorf, 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 things, 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 equip-

ment loans and overnight money/term money, as well as valuations and payment transactions services. These enable the bank to offer the full range of customer care as a real estate financier.

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

In addition to an extensive product range, Berlin Hyp provides products that have been especially developed for savings banks, such as the ImmoSchuldschein, which allows savings banks to participate in the potential returns of commercial real estate financing, as well as the ImmoKonsortial product, which is designed to enable savings banks to participate in regional syndicate business with smaller volumes through a simplified credit process.

Sustainability is a central aspect of Berlin Hyp's company strategy. Berlin Hyp integrated an additional element of sustainability into its value chain in 2016 by issuing Green Bonds for the refinancing of green assets. In doing so, it offers investors added value that goes beyond the creditworthiness of the bank and that of 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 part of the sustainability measures that relate directly to the bank's core business of commercial real estate financing.

Medium and long-term refinancing generally takes place through issues of mortgage Pfandbriefe as well as through unsecured issues.

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

Objectives and Strategies

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

Berlin Hyp continues to pursue two strategic goals:

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

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

For the savings banks, Berlin Hyp wants to be an increasingly important partner in commercial real estate financing and thereby make a contribution to the success of the Savings Banks Finance Group. In addition to its current offering of syndicate financing and classic investment products (Pfandbriefe, bonds) and support in valuation and restructuring services, Berlin Hyp is continuously expanding its product range and provides savings banks with expert advice.

A decentralised sales structure has been set up and aligned with the needs structure of the savings banks to strengthen the group philosophy. Regional savings bank advisors and appraisers reinforce the branches in Hamburg, Düsseldorf, Frankfurt am Main, Munich and Stuttgart. Furthermore, a Savings Bank Advisory Board has been installed and is consulted regularly.

Berlin Hyp has positioned itself in the market as a sustainable company. The attainment of both strategic targets is supported in particular by the development of sustainable products (e.g. Green Bonds), efforts to promote the financing of sustainable real estate, a comprehensive sustainability and environmental management system, and the promotion of employees' social commitment.

Management System

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

Financial Performance Indicators
Berlin Hyp has defined the following financial performance indicators to manage its business activities:

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

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

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

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

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

II Economic Report – Macroeconomic and Sector-Related Framework Conditions

2016 was characterised by political uncertainty and continued expansionary monetary policy. In this environment, global economic growth was unable to gain any resounding momentum. At 3.3 %, the global economic growth expected for 2016 is up slightly year on year and is therefore in line with the assumptions on forecast development from the previous year.

The development of economic growth was moderate in the Eurozone. As expected, the anticipated growth rate of 1.6 % was not vastly different from the rate seen in the previous year (1.5 %). Although private consumption remains high and is a cornerstone of economic recovery, unemployment has virtually stopped decreasing in recent times.

Due mainly to uncertainty in the run-up to the Brexit decision and the subsequent unpredictability with regard to the outcome of the Brexit negotiations, investment behaviour also failed to deliver much in the way of momentum. The consequences of political uncertainty stemming from the constitutional referendum in Italy and the upcoming elections in key EU member states in 2017 were also reflected in a reluctance to make investments. As a result, even the favourable financing conditions were unable to make much of an impact.

Economic growth in Germany developed as forecast and stood at 1.8 %, as in the previous year. Private consumption continued to be a great support for economic development in 2016. The sharp rise in equipment investments at the start of 2016 was followed by a decline over the remainder of the year. This development was likely influenced particularly by the rise in political uncertainty. Construction activity

continued to rise compared to the previous year, despite a short-term loss of momentum in the middle of the year. In particular, residential and public sector construction drove the positive development. Following sizeable increases in the first half of the year, exports slowed in the third quarter before picking up once again at the end of the year.¹

The capital market was once again influenced by many external factors in 2016. Volatility was therefore very high in certain cases in almost all market segments. In June, the Brexit decision by the people of Britain created a stir. This marked the first time that a member of the European Union decided to leave the union. The outcome of the US presidential elections also caught the markets by surprise. Meanwhile, fears that the banking crisis could return increased in the Eurozone. Italian banks have around € 300 billion in non-performing loans on the books. However, direct government efforts to rescue banks have been inconsistent with applicable European law ever since the Bank Recovery and Resolution Directive (BRRD) came into effect in early 2016.

Against this backdrop, central banks on both sides of the Atlantic continued to pursue the strategies chosen in previous years. The FED hesitated to follow up the interest rate hike in December 2015 with another rise and left the federal funds rate between 0.25 % and 0.5 % before increasing it in December by 0.25 percentage points to 0.5 % to 0.75 % in its only interest rate move in 2016. Meanwhile, the European Central Bank (ECB) continued its

¹ Source for the macroeconomic framework conditions: German Institute for Economic Research (DIW), Kiel.

low-interest policy, lowering the benchmark rate to 0 % and the deposit rate to –0.4 % in March 2016. To further expand the money supply, and in the associated hope of stimulating lending by banks, it also once again extended its quantitative easing measures. Following the first-time use of targeted longer-term refinancing operations (TLTRO) in 2014, it launched the TLTRO II programme in June 2016. The transactions conducted on a quarterly basis until March 2017 gave Eurozone banks the option of borrowing central bank funds with a maturity of up to four years. Given the corresponding net lending approval, the calculated interest rate matches the interest rate on the deposit facility. The ECB also expanded its asset purchase programme (APP) to include corporate bonds. At its December meeting, the ECB Council decided to extend the APP beyond March 2017 to December 2017, merely reducing the targeted volume of assets purchased per month from € 80 billion to € 60 billion. Furthermore, no exit from the programmes took place. In doing so, the ECB continued its expansionary monetary policy in 2016. Despite the marked increase in the inflation rate in the last quarter of 2016 and the higher inflation expectations for 2017, inflation remains under the ECB target rate of 2 %.

The continued quantitative easing measures by the European Central Bank also had a considerable influence on the refinancing conditions of European banks on the capital market in the reporting period. Spreads on core European covered bonds were negative across nearly all maturities. The risk premiums for bonds from the various jurisdictions fell to lower and lower levels as a result of the ECB's continued purchases as part of the Covered Bond

Purchase Programme (CBPP III). Despite the BRDD, uncovered bonds were in high demand among investors during the reporting period, seeing as how they are now one of the last asset classes on the capital market whose prices are not directly adversely affected by central bank measures. However, the high demand also led to low spreads for sound issuers in view of the regulatory treatment.

Competitive factors in particular led to an easing in lending standards in the Eurozone in the first half of 2016 before remaining nearly constant in the second half of the year. In Germany, the development of loans to households for house purchases stood in contrast to this trend. Lending standards for this segment were tightened severely, especially in the first three quarters, due mainly to the statute on the implementation of the residential real estate loan directive and on changes to commercial law, which came into force in March 2016. Developments on the supply side stood in contrast to a constant rise in demand for loans throughout the entire year. No relevant deviations from the average development in the Eurozone were seen in Germany.²

Like the years before it, 2016 was also defined by a further tightening and expansion of regulatory requirements. One example is the CRD IV/CRR phase-in, which primarily imposed stricter minimum requirements for the capital ratios, the definition of equity and deduction items.

² The Euro Area Bank Lending Survey

Business Development

Meeting the revised COREP reporting requirements – the application of the respective delegated act pertaining to leverage ratio and liquidity capital ratio – resulted in significant implementation effort. In addition, banks had to deal with considerable Single Resolution Board (SRB) data requests regarding the creation of individual winding-up plans for each institution. The impending regulatory changes under Basel IV were also simulated in various scenarios as part of the planning process.

Interest rates, which remained very low, and the positive economic environment meant that transaction volume on the German commercial real estate market in 2016 was once again close to the previous year's record volume. The market for commercial residential properties also recorded volume that was higher than the average seen in recent years. Although the decline was rather significant compared to 2015, the drop was due to the effects of particularly large corporate takeovers in the previous year that resulted accordingly in high-volume real estate transactions. Overall, transaction volume slightly exceeded our expectations.

In view of rising political uncertainty, Germany's classification as a safe haven was once again a deciding factor in the virtually unchanged high share of foreign transactions. Despite increasing construction activity, demand on real estate markets still significantly exceeds supply. Initial net rates of return therefore continued to fall in the office, retail and logistics real estate market segments, for example. Here, price growth continued to outpace nominal rents in 2016.

The VdP real estate price index (VdP-Immobilienpreisindex) also measured a sustained rise in prices. The rise is particularly strong when it comes to residential real estate. Assuming that the low-interest phase does not change in the medium term, Berlin Hyp does not see any risk of a bubble forming for the market as a whole, in line with its expectations in the previous year, despite isolated signs of overheating in the residential real estate market for core locations.³

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

In this commercial real estate financing market, Berlin Hyp faces competition from numerous providers. This competitive situation in combination with the previously described challenges in the industry due to monetary policy, regulation and structural upheavals led to falling margins in the past. Nevertheless, Berlin Hyp was once again able to strengthen its market position while adhering to its conservative risk strategy and focus on prime real estate. Berlin Hyp also further expanded its role as a partner within the Savings Banks Finance Group.

³ Source for real estate market framework conditions: Berlin Hyp Research, VdP, DIW.

In its forecast for the 2016 financial year, Berlin Hyp assumed that the operating result before profit transfer would fall significantly short of the 2015 figure due to the problematic underlying conditions. Against this backdrop, Berlin Hyp can look back on an extremely satisfactory 2016 financial year. Despite the persistent phase of low interest rates, high volatility on the financial markets and ever-increasing regulatory requirements, Berlin Hyp successfully managed to cement its position as one of Germany's leading providers of real estate financing in a competitive environment that remains challenging. Perceptible margin pressure due to competition notwithstanding, Berlin Hyp managed to keep its margins relatively stable. The bank stayed true to its conservative risk strategy and its focus on prime real estate in the selection of borrowers.

Following the successful conclusion to the restructuring strategy pursued over the past few years, Berlin Hyp kicked off an extensive modernisation process at the start of 2016 as a means of rising to meet the growing challenges of the future. Aside from restructuring workflows, this process is primarily geared towards the onset of digitalisation and the ever-increasing regulatory requirements. Particular areas of focus include optimising the lending process and enterprise content management from the product portfolio. In the 2016 financial year, the bank started working on a project to provide aggregated risk and financial data more effectively and efficiently while enhancing reporting performance within the framework of new MaRisk and Basel Committee on Banking Supervision (BCBS 239) regulations. Further development steps were implemented for the management of the bank as well. Regulatory influences also played a role here. Berlin Hyp, as an institution in the regulatory group of Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG, is supervised by the ECB. All regulatory requirements and performance indicators were met by Berlin Hyp in the financial year.

One of the key focal points of Berlin Hyp's business activities was the positioning as an independent commercial real estate financier for the savings banks. The integration of Berlin Hyp into the Savings Banks Finance Group was actively pursued, thereby further solidifying its position as a partner. In addition to the established offerings, such as syndicate financing and the ImmoSchuldschein, the expansion of the product range for savings banks continued. Joint syndication business with savings banks continued its positive trend. It is important for Berlin Hyp to add value within the Savings Banks Finance Group.

The even closer integration between the Group and the real estate customer segment was implemented in the past financial year. Sales structures have been tailored to customer requirements, and the bank's presence in core regions of Germany increased. This also includes the opening of a branch in Stuttgart. The newly created S-Group and domestic business division combines Berlin Hyp's two central customer groups and is intended to contribute to the positive development of the S-Group business in future.

It was possible to use the overall very good results before profit transfer to strengthen the equity base and regulatory equity capital by establishing reserves according to Section 340g German Commercial Code (HGB).

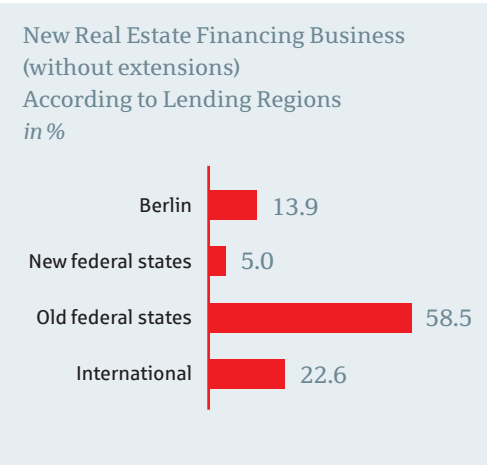


New Lending Business Sees Positive Development

Berlin Hyp again reported highly positive new business in 2016. With contracted new business of € 5.4 billion, the very good previous-year result (2015: € 4.4 billion) was once again exceeded. With realised extensions (capital employed > 1 year) of € 0.6 billion (2015: € 1.0 billion), this put the total new business volume at € 6.0 billion (2015: € 5.4 billion). Berlin Hyp has therefore exceeded its target for the year and continued to reinforce its role as an established real estate financier with this financing volume.

Properties located in Germany accounted for 77.4 % of Berlin Hyp's new business (58.5 % in the former West Germany, 13.9 % in Berlin and 5.0 % in the former East Germany). Foreign properties financing accounted for 22.6 %, distributed among the lending regions of France (5.6 %), the Netherlands and Belgium (11.2 %), Poland (4.2 %) and the Czech Republic (1.6 %).

With a share of 82.0 %, the investor customer group accounted for most of the new business, while a further 9.4 % was realised with housing societies. Contracting with developers and builders accounted for 8.6 % of the new business.



Public Sector Lending Reduced Further in Line with Strategy

The bank no longer actively pursues new public sector lending in accordance with its strategy. As in previous years, no new loans were issued in the 2016 financial year. Loan volume decreased by € 1.5 billion on the previous-year level to € 1.5 billion (including public sector lending to banking institutions of € 0.3 billion) and is being reduced further as and when individual loans fall due.

S-Group Business Grows

The business realised jointly with the savings banks continued to develop favourably in 2016, with total volume reaching € 1.5 billion (previous year: € 1.0 billion). S-Group business grew once again year on year, and Berlin Hyp integrated itself further into the Savings Bank Finance Group. In addition to established offerings – such as syndicate financing, the ImmoSchuldschein, advisory services and expert reports for valuations – the product range was expanded further.

At € 1.1 billion, joint syndication business with savings banks exceeded the billion-euro mark for the first time.

The first joint ImmoKonsortial financing contracts were concluded in 2016, and further agreements are already in planning.

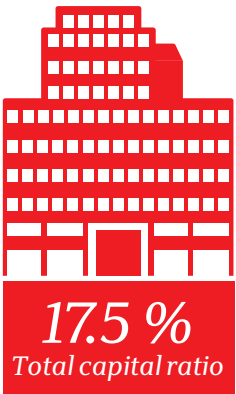
The three ImmoSchuldschein real estate promissory notes offered by Berlin Hyp in the financial year accounted for € 476 million of the total S-Group business volume. In the third quarter, Berlin Hyp issued an ImmoSchuldschein to German savings banks for the first time to be used exclusively to finance a retail portfolio. The issue was met with high demand and was fully placed with nine savings banks. By expanding the range of asset classes on offer to include retail, Berlin Hyp responded to the desire of savings banks for further diversification of investment options. The number of savings banks participating in Berlin Hyp financing through the ImmoSchuldschein rose to 90 in total in 2016. Within the framework of its refinancing activities, Berlin Hyp also offered additional investment opportunities through companies in the Savings Banks Finance Group.

Excellent Refinancing Position

In 2016, the Bank borrowed € 2.6 billion in capital for the purpose of medium- to long-term refinancing. Berlin Hyp had market access at all times. In addition to various private placements, Berlin Hyp received a good deal of attention on the capital market for the issue of a Green Senior Unsecured Bond with a volume of € 500 million used to refinance loans for green buildings. Following the issue of the first green Pfandbrief in the previous year, Berlin Hyp became the first lender to issue Green Bonds in more than one asset class. The issue of two mortgage Pfandbriefe with various terms and a respective issue volume of € 500 million also deserves mention. The mortgage Pfandbriefe issued also included the first bond from a non-governmental issuer with a negative initial rate of return.

Stronger Equity Position

The hard core capital ratio after adoption of the annual financial statements was 13.5 % (2015: 13.3 %). The total capital ratio was 17.5 % (2015: 17.4 %), allowing Berlin Hyp to strengthen its equity position despite the expansion of the core business.



Earnings Situation

Result Higher Than Forecast

In view of the ongoing low-interest phase, increased competition in the commercial real estate financing market, volatile capital and financial markets, and the ever-stricter regulatory requirements, the 2016 financial year was very favourable, once again surpassing expectations. The good result was also boosted by the dissolution of risk provisioning for Heta Asset Resolution AG. A further increase in operating result after risk provisioning was possible despite the creation of additional provision reserves.

The bank continued to take advantage of very good economic development to strengthen regulatory equity capital and increased the special item pursuant to Section 340g German Commercial Code (HGB) by € 50.0 million to € 153.0 million. The operating result before income taxes and profit transfer amounted to € 72.7 million (€ 93.0 million). In consideration of the provision reserves formed in the reporting year, it therefore came in both above the previous year's forecast, which assumed a significantly lower profit transfer, and up year on year.

The return on equity capital on the average balance sheet equity according to HGB was a very good 11.8 % (2015: 11.1 %).

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

Net Interest Income Increased

Despite persistently low interest rates and the flat yield curve, net interest income improved by € 32.6 million year on year to € 255.9 million. The rise was founded both on an increase in the average mortgage portfolio coupled with continued stable portfolio margins and, in particular, on a significant drop in refinancing expenses.

Prepayment charges of € 54.3 million in connection with unplanned repayments and one-time earnings from option premiums, for example, were neutralised with compensating measures to avoid future interest charges.

Net Commission Income Up

Net commission income rose by € 11.7 million to € 42.5 million and benefited from very good new business that was up year on year.

Operating Expenditure Down

At € 122.3 million, operating expenditure was down € 1.5 million year on year despite the European banking levy, which was reclassified to other operating expenditure at the end of 2016. Operating expenditure comprises staff expenditure, other operating expenditure and write-offs on fixed assets and intangible assets.

Staff expenditure fell significantly by € 13.9 million to € 62.6 million as a result of the one-off effect from the expansion of the evaluation period for the calculation of pension obligations to 10 years and the associated fall in the deferred amount.

Other operating expenditure rose by € 12.1 million to € 55.3 million. This item comprises material expenditure and, for the first time, expenses from the annual payment of the European bank levy, which, at € 10.9 million (2015: € 11.4 million), played a decisive role in the increase in other operating expenditure due to the reclassification at the end of 2016. At € 44.4 million, remaining operating expenditure was up slightly year on year by € 1.2 million – a very positive development in view of the increasing demands being placed on information technology and the regulatory reporting requirements.

There was a minor increase in write-offs on fixed assets and intangible assets to € 4.4 million (2015: € 4.1 million).

Other Operating Result Influenced by Special Effects

The other operating result was € –20.3 million following € 14.6 million in the previous year. This item contains income from the liquidation of reserves, expenditure for the continued compounding of pension reserves, fees for the Detailed Agreement concluded with the State of Berlin in 2001 and, most significantly, the effects from the revaluation of pension provisions within the scope of the first-time adoption of the German Accounting Law Modernisation

Act (BilMoG), which were reported as extraordinary expenditure in previous years. In 2016, the bank took advantage of the positive business performance and released the full amount of the as yet unretained BilMoG difference pursuant to Article 67 (1) Introductory Law to the German Commercial Code (EGHGB) of € 19.1 million. One-off effects from the dissolution of reserves were primarily responsible for the positive other operating result in the previous year.

Cost-Income Ratio Down

The cost-income ratio expresses the relationship of operating expenditure to net interest and commission income, including the other operating result. Even in consideration of the European banking levy, which was reclassified to other operating expenditure at the end of 2016, the cost-income ratio developed positively. The increase in net interest and commission income was more than able to compensate for the negative other operating result. The lower other operating expenditure as a result of the extension of the assessment period for the calculation of pension liabilities also had a positive effect and led to a cost-income ratio of 44.0 %. Adjusted for the European bank levy, the previous year's figure stood at 50.3 %.

Risk Provisioning Boosted by Heta

Net risk provisioning of € 51.3 million was reported for the lending business in 2016, placing it € 64.4 million above the dissolution of € 13.1 million in the previous year. Credit risk provisioning was boosted by the sale of the borrower's note loan granted to Heta Asset Resolution AG as well as the positive economic environment of Berlin Hyp and the bank's active risk management. In the reporting year, the bank created provision reserves to take future market risks in the real estate sector into account. A detailed overview of the development of risk provisioning is presented in the Notes.

Income of € 15.6 million was reported for the valuation result for securities in the liquidity reserve.

As a result, it was down € 47.5 million on the negative valuation result of € 31.9 million reported in the previous year. It primarily includes realised gains on disposal from the sale of two Heta Asset Resolution AG debentures as well as valuations of securities in the liquidity reserve at the lower of cost or market.

Positive Net Income from Investments

Net income from investments was defined by write-ups and gains on disposal, and totalled € 2.8 million (2015: € 0.6 million).

Fund for General Banking Risks Increased

The bank increased the fund for general banking risks pursuant to Section 340g German Commercial Code (HGB) by another € 50.0 million (2015: € 20.0 million) in order to continue meeting the regulatory equity capital requirements for credit institutions. The fund now stands at € 153.0 million.

Operating Results Before Income Taxes and Profit Transfer Reduced

The operating result before income taxes and profit transfer decreased by € 20.3 million to € 72.7 million (2015: € 93.0 million) on account of the provision reserves created.

Profit and Loss Transfer Agreement

Profit of € 73.0 million was transferred to Landesbank Berlin Holding (2015: € 92.0 million).

Return on Equity Capital Exceeds Expectations

Adjusted for the increase in the special item for general banking risks pursuant to Section 340g German Commercial Code (HGB), Berlin Hyp's return on equity capital was 11.8 % (2015: 11.1 %) and therefore exceeded expectations.



Return on equity capital

Earnings Development	31.12.2016 € m	31.12.2015 € m	Change € m	%
Net interest and commission income	298.4	254.1	44.3	17.4
Net interest income	255.9	223.3	32.6	14.6
Net commission income	42.5	30.8	11.7	38.0
Operating expenditure	122.3	123.8	-1.5	-1.2
Staff expenditure	62.6	76.5	-13.9	-18.2
Other operating expenditure	55.3	43.2	12.1	28.0
<i>of which expenditure for bank levy</i>	10.9	-	10.9	-
Depreciation of tangible assets	4.4	4.1	0.3	7.3
Other operating revenue/expenditure	-20.3	14.6	-34.9	-
Operating result before risk provisioning	155.8	144.9	10.9	7.5
Risk provisioning	-35.7	-18.8	-16.9	89.9
Valuation of lending business	-51.3	13.1	-64.4	-
Valuation of securities business	15.6	-31.9	47.5	-
Operating result after risk provisioning	120.1	126.1	-6.0	-4.8
Financial investment result	2.8	0.6	2.2	-
Bank levy	-	11.4	-11.4	-
Fund for general bank risks	50.0	20.0	30.0	-
Extraordinary expenditure	0.0	2.1	-2.1	-
Other taxes	0.2	0.2	0.0	0.0
Operating results before income taxes and profit transfer	72.7	93.0	-20.3	-21.8
Income tax	-0.3	1.0	-1.3	-
Profits transferred on the basis of the profit transfer agreement	73.0	92.0	-19.0	-20.7
Net income for the year	0.0	0.0	0.0	-

Net Assets Position

Significant Drop in Balance Sheet Total

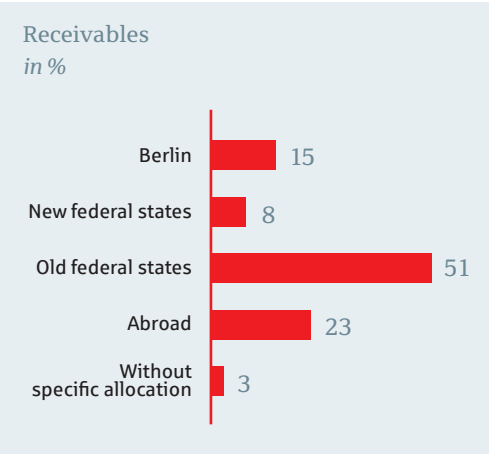
The balance sheet total fell by € 2.2 billion to € 26.4 billion as at 31 December 2016. Public sector loans that came due and fixed interest debenture bonds accounted for most of the decline, whereas the volume of mortgage loans saw positive development.

Changes in Major Balance Sheet Items

Receivables from credit institutions fell by € 0.1 billion from the previous-year level to € 0.6 billion on the balance sheet date. The decline was due mainly to a smaller portfolio of public sector loans.

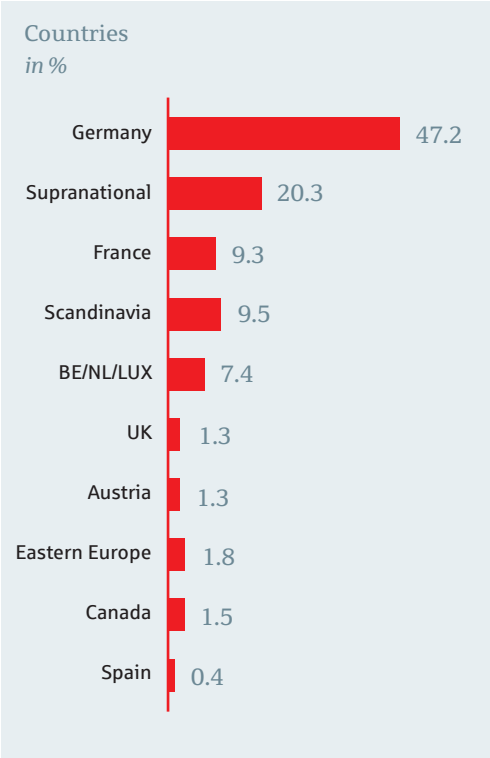
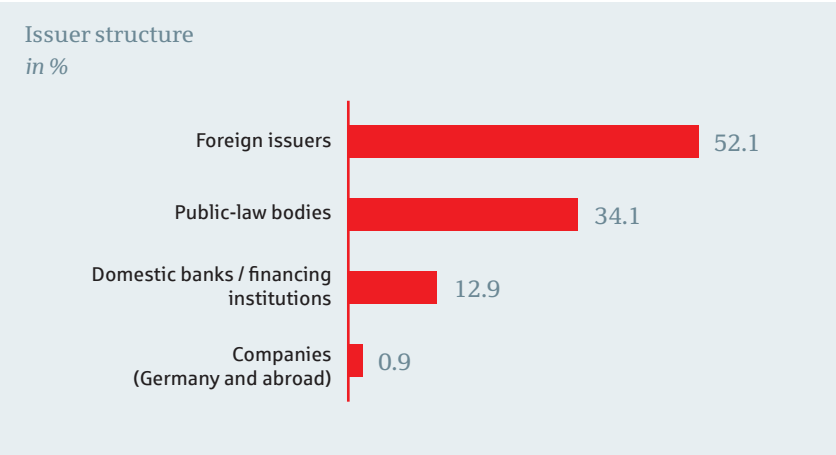
Claims against customers fell by € 1.2 billion to € 19.4 billion. The public loan portfolio also declined significantly by € 1.4 billion to € 1.2 billion in accordance with the strategic direction. In the meantime the mortgage portfolio increased slightly by € 0.2 billion to € 18.1 billion. Here, the positive increases from new business were offset by unplanned disposals. The amount of loan commitments not yet disbursed increased by € 0.6 billion to € 1.9 billion on the balance sheet date.

The regional distribution of receivables from customers on 31 December 2016 was as follows.



The portfolio of debentures and other fixed-interest securities fell from € 6.5 billion to € 5.8 billion in 2016. Maturities of € 1.4 billion and sales of € 0.6 billion stood in contrast to additions of merely € 1.3 billion.

As at 31 December 2016, the issuer structure of the securities portfolio was as follows:



Securities with a nominal volume of € 0.8 billion (2015: € 1.5 billion) are valued as fixed assets, since they are not classified as a liquidity reserve and partially serve to cover Pfandbriefe issued by the bank.

Liabilities to banking institutions fell by € 1.5 billion to € 4.8 billion. The increase in time deposit liabilities by € 0.6 billion to € 1.5 billion was offset primarily by liabilities arising from Lombard loans of € 2.0 billion (down € 1.2 billion) and liabilities from registered bonds of € 0.5 billion (down € 0.7 billion).

The € 0.9 billion decline in liabilities to customers to € 5.5 billion was mainly the result of registered bonds that were repaid in 2016. Securitised liabilities rose from € 13.4 billion to € 13.6 billion due, in particular, to the new issue of mortgage Pfandbriefe.

Equity Capital

Berlin Hyp's subscribed capital amounted to € 753,389,240.32 as at 31 December 2016. 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 German Commercial Code (HGB) was € 153.0 million as at 31 December 2016 (2015: € 103.0 million). Subordinated capital of € 318.4 million can also be taken into consideration under regulatory law.

During the reporting year, demands with respect to regulatory capitalisation (CRR, CRD IV, Solvency Regulation) were consistently complied with. Berlin Hyp identifies regulatory capital backing with the aid of the IRB-based approach (internal ratings-based approach). Risks to be covered relate to

counterparty default, market price, operational, transaction and advance delivery risks. The hard core capital after adoption as at 31 December 2016 was € 1,076.5 million, equity was € 1,394.8 million, and risk-weighted assets (RWA) were € 7,971.9 million. The capital ratios were 13.5 % for the hard core capital ratio and 17.5 % for the total capital ratio. In the financial year, the capital ratios fluctuated in the range of 12.6 % to 13.5 % and 16.1 % to 17.5 % respectively.

Additional Performance Indicators

The leverage ratio calculated according to the Delegate Regulation (EU) 2015/62 was 3.9 % after adoption as at 31 December 2016. The balance-sheet-oriented minimum requirement for eligible liabilities (MREL) will probably not become relevant for reporting until 2017 and stood at 24.3 % as at 31 December 2016.

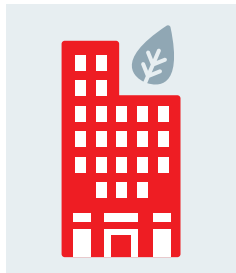
Minimum requirements that need to be met have not yet been defined by the regulatory authorities for either of these performance indicators.

Financial Position



-0.162%
rate of return

First bond of a private law enterprise with a negative rate of return.



+35 new investors

The Green Senior Unsecured Bond was placed with 35 new investors.

Mortgage Pfandbrief and unsecured bond issues are generally used for the medium- and long-term refinancing of Berlin Hyp. Market access for the bank across all products was consistently given once again in 2016. It continues to benefit from the reputation it has built up over many years as a reliable and sound issuer and its involvement in the Savings Banks Finance Group.

In the reporting period, the refinancing funds raised amounted to € 2.6 billion, of which € 1.8 billion were attributable to mortgage Pfandbriefe and € 0.5 billion to unsecured bank bonds, which were obtained at very favourable conditions. Furthermore, the bank issued borrower's note loans and registered bonds with a volume of € 0.3 million. Apart from private placements, Berlin Hyp issued three mortgage Pfandbriefe and an uncovered bond in benchmark format. A seven-year mortgage Pfandbrief benchmark issue with a volume of € 500 million kicked things off in February. The issue of a mortgage Pfandbrief in benchmark format, also with a volume of € 500 million, and a term of three years followed in March. This Pfandbrief was the first private sector bond with a negative initial rate of return. The issue oversubscribed by a factor of three. In October, a € 325 million covered bond with an eight-year term was raised to the benchmark level with a top-up of € 175 million. The savings banks accounted for an average share of 8 % of subscriptions to the covered benchmark issues in 2016 (Savings Bank Finance Group share: 25 %).

In June and September of the reporting year, the bank also invested in the first two tranches of targeted longer-term refinancing operations (TLTRO) II in the amount of € 500 million respectively. The investment in the first tranche replaced the assumption of € 500 million as part of TLTRO I in 2014.

With regard to uncovered refinancing, the bank attracted a great deal of attention on the capital market by issuing a green senior unsecured bond in September, following the issue of the first green Pfandbrief in the previous year. The issue, with a volume of € 500 million and a seven-year term, was used to refinance green-building financing. Berlin Hyp defines commercial real estate that offers particularly high energy efficiency as green buildings. In addition, the bank is making every effort to invest an amount equating to the proceeds in additional green building financing. Berlin Hyp was able to attract 35 new investors through the bond issue. A total of 19 % of the Green Senior Unsecured Bond was placed with companies in the Savings Bank Finance Group; 12 % was placed directly with savings banks. Berlin Hyp is the first lender to issue green bonds in more than one asset class. oekom research, a leading sustainability ratings agency, has awarded the Berlin Hyp bond green bond programme, under which it issues both green Pfandbriefe and green senior unsecured bonds, a positive sustainability rating in a second-party opinion.

Of Berlin Hyp's outstanding uncovered bonds, three bonds with a nominal volume of € 55 million are classified as structured bonds that are not subordinated in favour of deposits within the meaning of Section 46f German Banking Act (KWG).

Berlin Hyp's ratings remained unchanged in the reporting period. However, Moody's raised the negative outlook on the bank's A2 issuer rating to a positive outlook. Fitch's senior unsecured rating remained at A+ with a stable outlook.

Moody's rated Berlin Hyp's Mortgage Pfandbriefe and Public Pfandbriefe at Aaa with a stable outlook. In October 2016, the bank decided that it would forgo ratings from Fitch in the future and informed the agency accordingly. As a result, the rating agency withdrew the Pfandbrief ratings on 5 December 2016 after downgrading them from AA+ to AA. Maintaining the previous rating would have caused substantial added expense due to higher excess cover following a change of methodology.

Letter of Comfort of Landesbank Berlin AG
The guarantee provided by the Landesbank Berlin AG in favour of Berlin Hyp AG ended with effect as at 31 December 2014.

The guarantee remains in force for the obligation entered into until 31 December 2014.



Refinancing Funds	Stock excluding accrued interest 31.12.2015 € m	New issues in 2016 € m	%	Maturities and early repayments in 2016 € m	Stock excluding accrued interest 31.12.2016 € m
Mortgage Pfandbriefe	7,873.0	1,550.0	60.34	1,421.0	8,002.0
Public Pfandbriefe	1,599.8	-	-	10.0	1,589.8
Other bearer debentures	3,775.0	500.0	19.46	372.0	3,903.0
Registered mortgage Pfandbriefe	2,783.8	249.7	9.72	352.0	2,681.5
Registered public Pfandbriefe	1,573.5	1.1	0.04	311.5	1,263.1
Borrower's note loans	2,115.6	235.0	9.15	1,579.3	771.3
Registered bonds	1,360.8	33.1	1.29	15.0	1,378.9
Subordinated bearer debentures	6.0	-	-	-	6.0
Subordinated borrower's note loans	397.2	-	-	-	397.2
Subordinated registered bonds	40.0	-	-	-	40.0
Total	21,524.7	2,568.9	100.00	4,060.8	20,032.8

New issues in 2016, including capitalisations at zero. Maturity dates and early repayments including terminations.

Financial and Non-Financial Performance Indicators

Financial Performance Indicators

Berlin Hyp finished the 2016 financial year with operating results before profit transfer of € 73.0 million. The transfer of profit to Landesbank Berlin Holding was within the range forecast in last year's outlook, in which the bank had anticipated that its operating results before profit transfer would decline significantly compared to 2015. However, the bank succeeded in creating additional provisions for strengthening regulatory equity capital and reducing future burdens, such as those resulting from the release of the full amount of the as yet unreleased BilMoG difference pursuant to Article 67 (1) Introductory Law to the German Commercial Code (EGHGB), in spite of the challenging framework conditions described under "Business Development", such as the persistent phase of low interest rates. The bank also benefited from the favourable economic framework conditions, the dissolution of risk provisioning for Heta Asset Resolution AG and the positive effects of the extension of the assessment period to ten years within the scope of determining the pension reserves. Berlin Hyp is very satisfied with the course of business.

Net interest and commission income rose by € 44.3 million year on year to € 298.4 million. Contrary to last year's forecast, both net interest income and net commission income increased significantly. Net interest income was boosted by the stable portfolio margins and the significant reduction in refinancing expenses. Net commission income was influenced by favourable new business growth and also significantly exceeded the previous year's result. In view of the ongoing low-interest policy and the challenging market environment, the positive development of net interest and commission income is a very good indication of Berlin Hyp's outstanding development.

As planned, operating expenditure fell slightly by € 1.5 million to € 122.3 million. Last year's outlook already forecast lower staff expenditure for 2016 due to the extension of the assessment period to ten years for the calculation of pension reserves, and the associated lower measurement of pension reserves. At € 62.6 million, this item was down on the previous year's

figure of € 76.5 million. Material expenditure, which contained the € 10.9 million expenditure for the European banking levy for the first time, increased as expected by € 12.1 million to € 55.3 million – a very positive development in view of the increasing demands being placed on information technology and the regulatory reporting requirements.

Contrary to the forecast, the cost-income ratio fell by 6.2 % to 44.0 %. The decline already takes the expenditure for the European banking levy into account in the calculation of the comparable figure for the previous year. The unexpected rises in net interest and commission income made a substantial contribution to the positive development.

Adjusted for the increase in the special item for general banking risks pursuant to Section 340g German Commercial Code (HGB), the return on equity capital was a very good 11.8 % (2015: 11.1 %) and therefore exceeded the expected equity yield rate significantly.

At 13.5 % (2015: 13.3 %), the hard core capital ratio after the addition to the special item for general banking risks pursuant to Section 340g German Commercial Code (HGB) of € 50.0 million and after adoption exceeded the target value of at least 12 % even under consideration of the strict equity requirements according to CRD IV/CRR. Additional capital measures were taken into account in mid-term planning in order to ensure that Berlin Hyp maintains this target ratio over the long term, even in view of the expected stricter regulations under Basel IV.

Berlin Hyp slightly exceeded its own new lending targets in the past financial year.

Non-Financial Performance Indicators

The target portfolio from the market segment is of great importance for management purposes. It is necessary to declare the following aggregation criteria: real estate types, customer groups, lending regions and risk classes. The specified target portfolio values, which are in line with our conservative risk strategy, were complied with overall in 2016. Isolated deviations were analysed. No special management measures were necessary upon evaluation of the overall portfolio. Regular internal research studies are employed to qualitatively and quantitatively analyse and evaluate markets.

In the S-Group business, the ImmoSchuldschein product contributed to further strengthening the joint business with the savings banks. Overall, 90 savings banks participated in at least one ImmoSchuldschein transaction. Total business volume exceeded € 1.5 billion for the first time in 2016.

The establishment of test additions and their growing number for the standardised loan product ImmoKonsortial led to the conclusion of two joint ImmoKonsortial financing contracts. Roadshows at savings banks in the federal states of Bavaria, Lower Saxony and North Rhine-Westphalia resulted in 36 savings banks investing in the bonds issued by Berlin Hyp. In 2016, Berlin Hyp received valuation requests from more than 100 different savings banks throughout Germany. Savings banks commissioned 30 expert reports from Berlin Hyp, all of which were completed.

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

Among other things, this is reflected in the fact that women make up 49.7 % of the overall workforce and hold 26 % of management positions. The consideration of employee interests and the promotion of active employee participation in an overall business context are crucial to Berlin Hyp's business success. Within the framework

of developing a concept regarding the law for the equal participation of women and men in management positions in private industry and the public sector, for example, workshops with management staff and employees were held to further solidify efforts at the company to advance women. These workshops aimed to shed light on factors that motivate or demotivate men and women alike in addressing the topic of women in leadership positions while also taking the employees' perspective into account. The targeted modification of the recruiting and application process is another example of a measure geared towards cementing the equal participation of men and women in management positions within the organisation.

In 2015, employees were allowed to make comments and suggestions regarding the (employer) brand Berlin Hyp, market positioning and areas of innovation when the results of a customer survey were presented. The findings were presented to the workforce at a bank-wide event in the first quarter of 2016. This marked the start of a change process at Berlin Hyp in which 20 % of staff in various functions are now directly and actively involved. Employees have the opportunity to contribute and promote their own ideas on corporate culture and organisation. Within the change process, a focus was placed on optimisation projects and processes as well as topics such as agile working and cementing agile working processes and methods within the organisation at Berlin Hyp. The first step resulted in a human resources development concept targeting the training of selected employees and managers on more agile and efficient working methods, especially at meetings.

As a result of the input from the change process and the conclusions drawn from the fact that part-time employees account for 22.3 % of the workforce (number of employees working part-time in relation to the total workforce), among other factors, Berlin Hyp placed an even stronger focus on employee interests, particularly with regard to work-life balance, in the 2016 financial year. In October 2016, the employer and the works council therefore concluded agreements on trust-based working



hours and mobile working at Berlin Hyp to achieve greater flexibility regarding working hours and where employees work.

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

The HR reporting system implemented in 2015 was continued and subject to further development in 2016. The data it contains mainly relates to the staff structure, including a department-specific target-actual comparison of employee capacities, demographic staff development and the qualification measures. The data was analysed in the half-yearly reporting period. The data on the human resources structure (including a comparison of actual and target figures) and on the demographic development of the workforce was discussed with the Board of Management, and any required action was highlighted. In addition, this data is broken down by individual division and made available to the respective heads so that they can do a better job of managing their units. Among other things, this creates the basis used to examine all personnel management aspects and introduce department-specific measures in the half-yearly dialogue with Human Resources.

Berlin Hyp's management takes the performance indicators green issues, green financing and compliance into account when managing the bank. The support of Berlin Hyp's two strategic targets through the development of sustainable products (e.g. Green Bonds), efforts to promote the financing of sustainable real estate, the implementation of a comprehensive

sustainability and environmental management system, and the promotion of employees' social commitment was added to the company strategy in the reporting year.

The economic, ecological and social measures published in the 2015 sustainability report – such as the further development of overall process coordination for green building financing and green bond refinancing, the introduction of an EMAS-certified environmental management system and participation in the joint CSR project of the ZIA member companies – were put into practice as planned. These measures will be reported on in detail in consideration of the Global Reporting Initiative Guidelines (GRI), as in the past, in the second quarter of 2017 in our 2016 sustainability report. The measures taken in 2015 and 2016 had an impact on Berlin Hyp's company rating by the independent rating agency oekom research AG. The interim rating, performed in July 2016, documents a stable and slightly improved prime result under new, stricter conditions.

Management and staff will continue working constantly to further cement Berlin Hyp's positioning as a sustainable company in the future.

III Opportunities, Forecast and Risk Report

Opportunities and Forecast Report

Assumptions Relating to Macroeconomic Development¹

Economic recovery is expected to continue for the global economy in 2017. According to estimates, the global economy is set to grow by approximately 3.5 %. However, 2017 will be subject to the influence of economic and political uncertainty, even more so than 2016. For example, it not yet possible to predict the further development of the price of oil following the limitation of output by OPEC in late 2016, the details of a further hike in prime interest rates by the FED and the actual political direction under the new government in the United States of America.

Elections in key member states could also result in a new political balance of power in Europe. In addition, there is still uncertainty as to the impact of the Brexit vote and the negotiations regarding the United Kingdom's exit from the EU, and as to potential new elections in Italy as a result of the constitutional referendum. The further advancement of necessary structural reforms will also be important in 2017. Nevertheless, it can be assumed that economic growth in the Eurozone will continue slightly under the level seen in the previous year. Private consumption, building on the constant improvements on the labour market, will remain the backbone of this development.

The economic upswing will continue in Germany. However, due in particular to the lower number of working days and the higher inflation rate, it will clearly fail to match the previous year's growth rate. Even though it will weaken over the course of the year, private consumption will once again provide the strongest momentum. The employment situation will improve somewhat due to demographic factors. Foreign trade will be weakened by the consequences of the Brexit vote, but could also benefit from the improved global economic situation. Economic growth from the construction sector will see further stimulus.

¹ Source for information on macroeconomic development: IDW, IfW Kiel

Assumptions Relating to Industry Development

In view of a multitude of political events in the Eurozone with an uncertain outcome, Berlin Hyp expects volatile markets overall in 2017 as well. An increase in the benchmark interest rate by the ECB is currently not expected despite higher inflation in the Eurozone at the end of the year. By contrast, the situation is different in the US, where the rising rate of inflation, which is likely to be fuelled further by the new administration's envisaged efforts to boost domestic economic activity, will lead to rising interest rates. This should lead to a rise in medium- to long-term interest rates on the capital market and in the Eurozone as well.

For European banks, it will be interesting to see the way in which the recommendations on the BRRD, CRD and CRR released by the EU Commission in November 2016 are implemented. This applies in particular to the envisioned standardisation of the liability cascades for bank liabilities in the individual jurisdictions. For Germany, we expect no change in the classification of already issued senior unsecured bonds as subordinated in favour of deposits. The announcement of individual MREL ratios is also being anxiously awaited. In combination, this could lead to an increased need for bail-in eligible funds at some banks, meaning that significant spread differences between such Tier 3 or senior unpreferred bonds can be expected depending on the country and issuer.

The spreads of covered bonds will continue to benefit from demand from the European System of Central Banks (ESCB) following the extension of CBPP3. However, the spreads of those issuers who have benefited the most since the start of the programme in 2014 can be expected to widen should the ECB decide in 2017 to announce its termination. German Pfandbriefe would benefit in relation to other covered bond products from this move.

Even under demanding conditions, Berlin Hyp should be able to gain access to all segments of the capital market on attractive terms thanks to its involvement in the Savings Banks Finance Group, the reputation it has built up over many years as a reliable and sound issuer, an MREL ratio against RWAs of 87.2 % (after adoption) and the completed establishment as an important issuer of Green Bonds.

The preparations by banks for the regulatory tightening on the horizon as a result of Basel IV tie up both financial and human resources. The modelling of the respective parameters, especially with regard to equity requirements, has not yet been completed. However, it is already becoming clear today that real estate financiers will feel an above-average impact.

Berlin Hyp expects a very high level of investment activity on the real estate market once again in 2017 due primarily to interest rates, which remain very low and will result in very good refinancing opportunities for investors. In addition, alternative long-term investments outside the real estate market are overwhelmingly associated with lower returns. Good economic development and the role of the domestic real estate market as a safe haven for foreign investors will also play a role in Germany in particular. Further price rises are possible in view of the tight supply situation. Investors will probably also be more willing to take risks in selecting the segment and location of their investment properties so as to cope with the pressure to invest and generate returns.

Business Development

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

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

Berlin Hyp is also steadily integrating itself into the Savings Banks Finance Group as a partner for commercial real estate financing. In addition to its current offering of syndicate financing and classic investment products (Pfandbriefe, bonds) and support in valuation and restructuring services, Berlin Hyp is continuously expanding its product range and provides savings banks with expert advice on all issues relevant to the Group. These operational strategic positioning activities are designed to sustainably strengthen business in the long term. In the S-Group business, the product range continues to be aligned with the needs of the savings banks and supplemented accordingly. The secured ImmoSchuldschein and the product ImmoKonsortial in particular offer added value for savings banks. For 2017, Berlin Hyp anticipates positive development of S-Group business with a slight increase in business realised jointly with the savings banks.

In 2016, the transaction volume in the German real estate market did not quite manage to match the level of the very good previous year. In addition to the ongoing, existing government debt and Euro crisis, the German real estate market will be defined in 2017 by the development of the economic environment and by the monetary policy of the ECB. Against the backdrop of the still challenging competition in commercial real estate financing and the

changing framework conditions, the planned contracted new business volume for the coming year (excluding extensions with capital employed equal to or greater than one year) will be down considerably from the very good level seen in 2016.

Public-sector lending business is no longer part of the bank's core business and will continue to be hived off. The securities portfolio has been further reduced because of lower expected yields. In consideration of the regulatory requirements (e.g. meeting the LCR), however, earnings potential that arises should continue to be used to support the interest result.

Net interest income should be slightly higher compared to the 2016 financial year. In the core business, Berlin Hyp will benefit in particular from its ongoing establishment as a partner in the Savings Banks Finance Group on the one hand and its very good market position, as well as its recognised expertise in commercial real estate financing, on the other hand. The planned slight increase in the volume of the mortgage portfolios depends directly on intensified customer retention and the high unplanned repayments. A further decrease of the market interest rate, lower interest margins due to increasing competition and a flatter yield curve may also have a negative impact on interest income.

Owing to the expected reduction in new business volume, net commission income will not be able to equal the very good 2016 result and will remain significantly below the previous year's value.

Risk provisioning in the 2016 financial year was defined by a good economic environment and extraordinary factors. An increase in risk provisioning cannot be excluded for 2017.

We expect a slight operating expenditure increase for 2017. The major reduction in staff expenditure seen in 2016 due to the first-time application of the higher ten-year average interest rate for the calculation of pension obligations will not occur to the same extent in 2017, thereby significantly increasing staff

expenditure. The challenges related to improving business processes, as well as the regulatory requirements, will primarily trigger a rise in IT and consulting costs.

The berlinhyp 21 modernisation process, launched last year, is set to continue in 2017 with a special focus on digitalisation and optimising the IT landscape. We view the innovation prize awarded in late 2016 for regulatory reporting as an incentive to continue focusing on new technologies with a future. We will meet the constantly rising regulatory requirements by more efficiently providing aggregated risk and financial data combined with the ability to process an increasingly large amount of data. In this context, we will work systematically on the further development of our SAP strategy.

With the establishment of the European Single Resolution Fund (SRF), the contributions to the EU banking levy will be calculated by the Single Resolution Board (SRB) starting in 2016. Berlin Hyp assumes that the contribution will remain close to the 2016 level.

The significant negative other operating result in the 2016 financial year was largely driven by extraordinary factors, in particular deferred amounts for pensions. We expect a slight expenditure surplus for 2017.

Overall, we expect the result before profit transfer for the coming financial year to be slightly above the level seen in the previous year.

We expect the cost-income ratio to be only moderately higher for 2017.

A slight decrease in the return on equity capital is expected. The average equity capital available will rise due primarily to the addition to provision reserves pursuant to Section 340g German Commercial Code (HGB) taken into account in the 2016 results analysis. The slightly higher planned result will be unable to fully compensate for this base effect.

Even though regulatory requirements for capital and equity will continue to be tightened, the core capital ratio should come in above the target value of 12 %. In 2017, Berlin Hyp will be well prepared in advance for the new AnaCredit reporting requirement, which is scheduled for application from 2018.

Overall Statement

Competition on the real estate financing market continues to be strong for Berlin Hyp. The 2016 financial year was very favourable and better than expected. An overall very good result was used to create additional provision reserves. This led to a further increase in the bank's equity capital in order to take into account stricter regulatory requirements and the demands of the capital markets.

The continued development of the product landscape is becoming a constant core issue. In the S-Group business, the product range continues to be aligned in a targeted manner with the needs of the savings banks and supplemented accordingly. Potential resulting from the integration of Berlin Hyp within the Savings Banks Finance Group combined with a sound refinancing strategy continues to represent a very good basis for maintaining Berlin Hyp's successful business strategy.

The framework conditions remain challenging. Stiff competition in commercial real estate financing, the continuing low-interest phase and the volatile capital and financial market environment, combined with the need to further strengthen equity capital and additional regulatory requirements, represent major challenges. As a result, the further development of our products to meet market needs, the improvement of business processes, and the procedural measures and technology equipment to support them will increasingly gain importance against the backdrop of the systematic honing of the business model with a view to internal and external digitalisation in the years ahead.

Provided no unexpected shifts occur in the capital and real estate markets, and risk provisioning is at the planned level, Berlin Hyp expects to continue the positive business development with its customers. In summary, earnings before profit transfer will be up slightly compared to 2016. This takes into account the further appropriate allocation of provision reserves pursuant to Section 340g German Commercial Code (HGB) to strengthen equity capital for the stricter regulatory requirements that will nevertheless be significantly lower than in 2016.

Risk Report

Risk Management System Framework Conditions

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

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

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

Group Risk Management System

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

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

These requirements are detailed by the Group risk strategy, which is the responsibility of the LBBH Board of Management. Risks that do not conform to the strategy and therefore have to be avoided on principle are defined within the scope of this strategy. Compliance with the risk strategy is continuously monitored.

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

Berlin Hyp Risk Management System Risk Policy Principles

The aim of risk management is the conscious acceptance of strategic risks in order to gain access to earning opportunities and, in doing so, generate appropriate and sustainable income.

Risks are accepted in view of profitability and a constant improvement in the quality of results. One parameter used in this regard is return on equity on the basis of regulatory and balance sheet capital. In terms of pricing, the bank ensures that the revenues exceed the anticipated risk by a considerable margin. Financing is structured adequately so that opportunities and risks are appropriately distributed in the course of time.

The risk and equity capital strategies are concordant with mid-term and operational planning. Planning takes place in consideration of all foreseeable risk and equity effects at the overall bank level. Risk Controlling as an independent unit is responsible for identifying and evaluating risks, supporting risk management in the company and regularly informing management. The identification, measurement, evaluation, management and also the qualified and timely monitoring and control of risks are realised according to the provisions of the risk strategy.

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

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

The Berlin Hyp Governing Bodies

The Board of Management defines the strategy, which is then used as a basis for decisions by all parts of the company. Overall responsibility of management for all essential elements of risk management corresponding to the MaRisk (AT3) requirements is explicitly defined for the Board of Management in the rules of procedure.

In harmony with the business policy direction and in consideration of the economic risk-bearing capacity and regulatory provisions, it 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 of Berlin Hyp's net assets, financial position, profitability and risk situation.

The Supervisory Board is informed regularly by the Board of Management about the overall risk profile. It receives the quarterly risk reports and the financial statements according to the German Commercial Code (HGB). The Loan Committee consisting of members of the Supervisory Board consults with the Board of Management regarding the principles of business policy in the loan business under consideration of credit risks and risk management, in particular counterparty default, market price, liquidity and operational risks.

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

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

Berlin Hyp Governing Bodies

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

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

The Risk Controlling division is the independent risk monitoring unit for all risk types. It proposes methods and models to identify, measure, aggregate and limit risks to the Board of Management on an annual basis in consideration of previous results. Operational risk controlling is handled by the division.

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

Reporting

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

Regular reporting at established intervals is differentiated from event-driven reporting, for example when previously defined risk or loss limits are exceeded (known as ad-hoc reporting). Furthermore, the Board of Management is also informed without undue delay about pre-warning levels being breached, limits being exceeded or other specific changes.

Risks

Key Risk Types

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

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

Berlin Hyp also differentiates between monetary and non-monetary risks. Monetary risks are taken into account in the summary overview of the bank's risk position (overall bank risk) and are compared to risk capital. Non-monetary risks (such as reputation risks, short-term liquidity risk) on the other hand cannot be averted through backing with risk capital (escape clause according to the Minimum Requirements for Risk Management (MaRisk) AT 4.1 paragraph 4). Every identified risk type is evaluated according to established criteria at least once a year. To do so, the probability of occurrence and magnitude of the risk on occurrence are taken into account, and the measurement results of the last period are analysed. The review also involves a recommendation being submitted to the Board of Management concerning classification as material or immaterial risks as well as the appropriateness of the applied methods.

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

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



A review of the significance of the types of risk is carried out at least once a year.

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

Risk type	Risk management by the divisions/committees	Risk controlling by the divisions
Counterparty default risks	→ Loan → Risk Management → Sales	→ Risk Controlling → Corporate Development (for shareholder risks)
Market price risks	→ Financial Steering Committee → Treasury	→ Risk Controlling
Liquidity risks	→ Financial Steering Committee → Treasury	→ Risk Controlling
Operational risks	→ Divisions responsible for processes	→ Finance → Risk Controlling

Risk Inventory

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

Risk-Bearing Capacity

The internal risk-bearing capability concept encompasses a system of measurement procedures and limitations of all material risks that can be covered by risk capital (monetary risks), excluding the possibility of exceeding a specified maximum loss of assets with the exception of a minor residual probability.

Here, the underlying assumptions as well as the corresponding limits are reviewed regularly at least once a year and adjusted by resolution of the Board of Management as needed. Building on the documented individual types of risk, the overall risk is determined through aggregation of the individual risks associated with the risk types.

The overall risk situation is assessed by comparing the capital available to cover risks (risk-covering assets) with the overall Bank risk. The evaluation is completed by evaluating the overall risk position by taking into account the results of various stress tests that take the risks into account from an economic as well as a regulatory perspective. In principle the risk-covering assets are derived from the regulatory equity capital.

The concept implemented at Berlin Hyp to determine the bank's risk-bearing capacity is an economic capital concept which is constantly being developed. Due to the assessment of liquidity chosen for the risk-bearing capacity model, adjustments have to be made to risk positions that are not or only partly available in case of insolvency. The subordinate capital with a remaining term of more than one year is fully allocated. Deducted items (such as hidden liabilities due to fixed asset write-offs that were avoided, the reserve deficit for pension provi-

sion in accordance with the German Accounting Law Modernisation Act (BilMoG)) as well as incurred or (if applicable) planned losses have a negative effect on the risk-covering assets. The bank has defined a buffer based on the volume of the risk-covering assets, which is to always remain free and not restricted by limits (risk tolerance). Risk-bearing capacity exists if utilisation by risk types does not exceed the risk-covering assets.

Real estate risks classified as immaterial and shareholder risks as well as the model risks are summarised in the residual risk. The price risk in the liquidity risk is a risk classified as material and disclosed under "residual risk". The bank's risk-bearing capacity was ensured with sufficient leeway in 2016, both according the internal standards and from a regulatory perspective.

The risk-covering assets and expected developments in terms of risk types are analysed as part of the annual planning process. The results are incorporated, for instance, in the planning of capital measures.

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

Details of the risk-bearing capacity as at 31 December 2016 are disclosed in the section "Overall Statement on Risk Situation".

Risk Management System by Risk Types
Counterparty Default Risk

The risk of counterparty default is the risk of a loss, or loss of profit, due to a business partner no longer being able to fulfil its obligations, as well as a loss in value of the security provided to the bank. This is currently the most significant type of risk for Berlin Hyp. Counterparty default risks are managed at the individual business partner and overall portfolio levels. Investment risk (shareholder risk) is considered to be an immaterial risk.

Individual Commitment Level

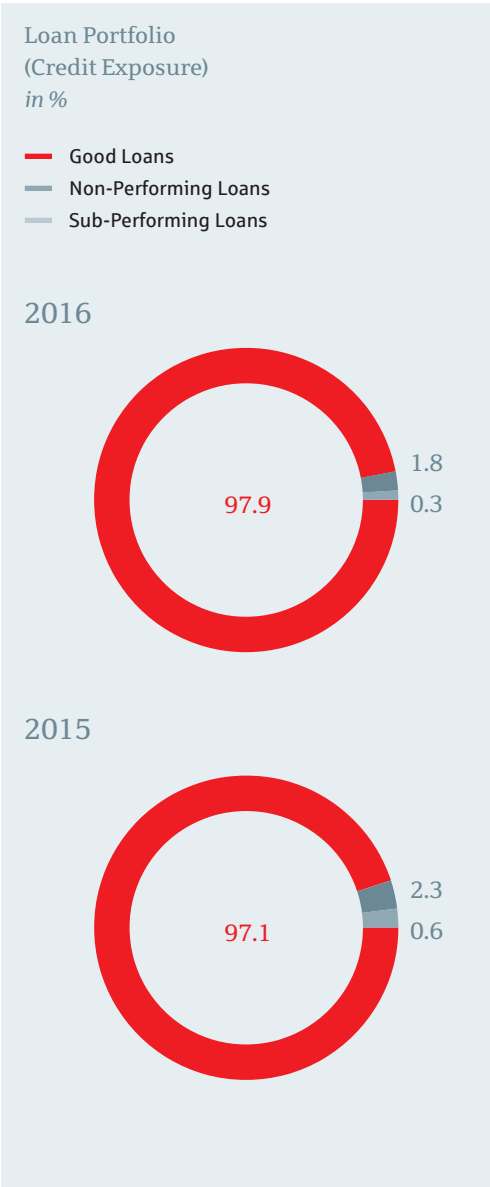
Efficient lending processes form the basis for adequate risk management of the risks of counterparty default. This is guaranteed through a specific loan approval directive and clearly defined processes and interfaces, from acquisition to new lending and loan repayment (close integration of acquisition and subsequent market sphere). These aspects are illustrated in the regulations using process graphs and procedural diagrams. Credit processes are examined regularly by the Internal Audit division, which means that they are also subject to constant quality analysis.

The risk exposure on the individual borrower level is verified on the basis of regular analysis of creditworthiness. Rating procedures approved by the regulatory authorities that take debtor- and business-specific characteristics into account are at the core of the risk assessment. Default probability is classified according to one of the classes of the DSGV master scale. Default probability is derived from the ratings. 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 savings bank real estate business rating as well as the Landesbank rating for commercially used international properties. At the same time, additional rating procedures developed in cooperation with other Landesbanks are used for specific customer groups. These procedures particularly pertain to the capital market business and specifically to insurance ratings, bank ratings and ratings for international regional authorities, as well as the corporate rating.

The rating procedures employed here have been derived from the framework of the banking supervisory authority approval system. Quality assurance along with validation and back-testing for rating procedures are the responsibility

of the Risk Controlling division in conjunction with the corresponding division at Berliner Sparkasse. Their continued development and maintenance is provided by Sparkassen Rating und Risikosysteme GmbH (S-Rating) and RSU Rating Service Unit GmbH & Co. KG. Berlin Hyp is represented in the relevant working groups and bodies itself and through the Berliner Sparkasse.

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



The default probability and the degree of credit commitment collateralisation are grouped into one risk class for internal control purposes, that then constitutes a relevant criterion in terms of lending guidelines, loan monitoring and loan approval.

The risk class system thereby divides the loan portfolio into the following (core real estate business only):

- Good loans (risk classes 1 through 12)
- Bad loans
 - Sub-performing loans (risk classes 13 through 15)
 - Non-performing loans (risk classes 16 through 18)

The proportion of bad loans in the overall portfolio was reduced from the prior-year level to 2.1 %.

Berlin Hyp also once again successfully reduced the volume of its non-performing loan portfolio. It now totals € 376 million (2015: € 447 million) and is covered in full by collateral and value adjustments. As a result, non-performing loans only account for 2 % of total core business or 1.5 % of the balance sheet total and are therefore at a historically low level.

Berlin Hyp uses early warning systems with a variety of instruments in order to identify loan commitments with increased risk. 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 lease 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.

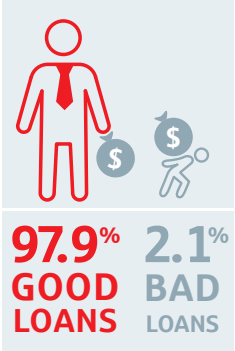
Risky real estate commitments are transferred to the Risk Management division. Competence for valuation adjustments is concentrated here. Upwards of a specific size, such valuation

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 and, if necessary, adjusted depending on the necessary measures.

The securities and public sector loan portfolio represents a significant aspect of the capital market business. In addition, there are counterparty risks from the derivatives business. In 2016, new capital market business with securities was extremely limited, with the aim of reducing the balance sheet total and as a result of the continued implications of the financial and European sovereign debt crisis. In general, new business is only concluded with credit-worthy customers within the scope of a clearly defined investment strategy.

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 inter-bank business are in principle covered by collateral. In the real estate customer business, the established mortgage liens for the underlying transaction generally also apply to the derivative through broad statements of collateral purpose. The existing capital market exposure is reported on a regular basis to the Board of Management and the Supervisory Board as regards exposure and risk class.

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



Portfolio Level

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

The 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 (approximated by industry-specific share index correlations)
- country correlations
- income ratios to determine expected proceeds from security
- contribution ratios to value unsecured loan components
- (CCF) ratios to value externally approved limits that have not been drawn yet

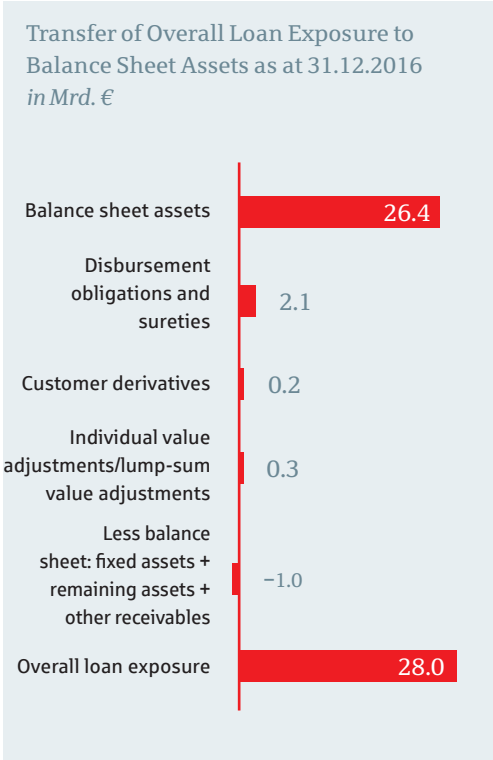
Based on the assumption of no fundamental changes to the risk structure of the portfolio (constant level of risk, going concern approach), the credit default distribution that is determined makes it possible to make statements regarding the probability of credit defaults in the following year. Risk indicators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

Berlin Hyp has the risk indicators determined daily under an agency contract with LBBH. Monitoring the above risk indicators on the other hand is the responsibility of Risk Controlling. Variance analyses and limit monitoring are performed here. The utilisation of limits at the portfolio level is monitored daily and reported weekly. Division management is informed if the pre-warning level (90 % of the credit limit) is exceeded. This is accompanied by proposals to avoid exceeding limits, such as an exposure reduction and temporary restrictions on the conclusion of new business. Division management and the Chief Risk Officer are informed immediately if the credit risk limit is exceeded. The Chief Risk Officer decides on the steps to be taken. The limits are reviewed at least once a year, adjusted if needed and submitted to the Board of Management for resolution.

Stress tests applied within the scope of the credit portfolio model simulate the change in a loan portfolio under the assumption of extreme scenarios and permit the financial stability of an institution to be reviewed against macroeconomic crises. The definition of the scenarios and their parametrisation are based on the overall bank stress concept of LBBH, which meets the Minimum Requirements for Risk Management (MaRisk).

Responsibility for the methodology and validation of the credit value at risk model under consideration of our interests rests at the Group level. Internal and external audits are carried out at the Group level as well. Credit Risk Controlling reviews the processing and controlling of the simulation results. As at 31 December 2016, Berlin Hyp's reported overall loan exposure was € 28.0 billion.

Transfer of Balance Sheet Assets to Overall Loan Exposure as at 31.12.2016 in € bn:



There are quantitative differences in some points when compared with the balance sheet view. The main divergences are as follows: the inclusion of off-balance-sheet business in the form of disbursement obligations and sureties, consideration of derivatives with the loan equivalent amount, addition of valuation adjustments in terms of the presentation of overall loan exposure and other adjustments, mainly other asset items that are not included in the evaluation of the overall loan exposure.

The following presentation of the overall loan exposure of € 28.0 billion takes into account the respective collateralisation by risk classes, with risk class 1 being the best and risk class 18 the worst risk class.

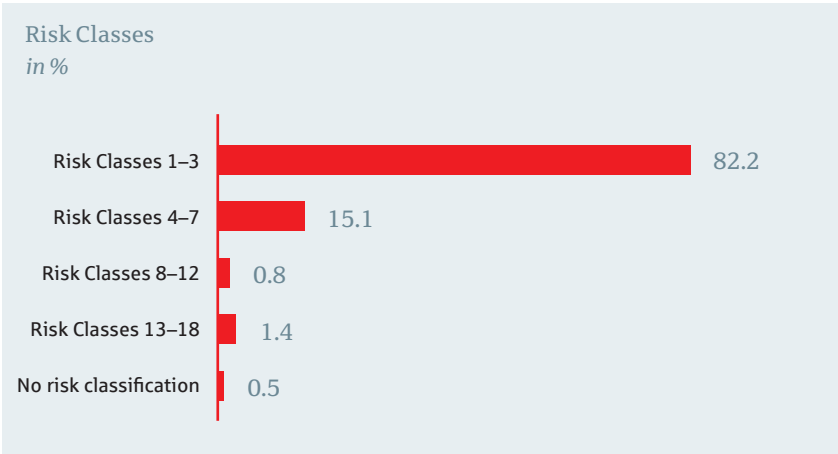
Country and Transfer Risks

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

There was no exposure in countries particularly affected by the European sovereign debt crisis in 2016 and no such exposure is expected in the future.

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. The bank does not have any open currency positions in accordance with its risk strategy. Mortgage business in foreign currencies is refinanced through directly attributable hedging transactions. The bank does not incur share price risks.



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

Berlin Hyp uses a combination of risk sensitivities, the value-at-risk approach and other stress tests to measure the interest rate change risk. For market price risks, a value at risk with a holding period of ten trading days and a 99.0 % confidence level is determined using a variance-covariance approach, taking into account linear and non-linear risks including volatility risks. The value at risk also takes credit spread risks into account in addition to general interest rate change risks. Since May 2016, interest rate change risks from the bank's pension liabilities have also been included in the determining of market price risks.

For the purpose of risk-bearing capability monitoring, the value at risk that is determined is scaled up to a holding period of one year with a 99.9 % confidence level.

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

The value at risk, cash value development and risk coefficient are limited. Thresholds have been established ahead of the limits. Recourse in relation to the market price risk limit was

below the value-at-risk limit throughout 2016. The significant rise in value-at-risk in September was due to the adjustment of the spread in the valuation of own liabilities valued according to models as a result of a decline in risk premiums for Berlin Hyp liabilities observed on the market. Due to the overweighting of the recent past in the value-at-risk model, this had an immediate impact in value-at-risk. On the reporting date the utilisation was € 18 million and the limit was € 55 million.

Market price risks are reported daily to the Board of Management. This includes among other things information about basis point values for the overall risk-bearing position, the risk coefficients, the value at risk utilisation, the cash flow profile and cash value profit and loss analyses. Communication and decision-making processes are triggered when warning thresholds or limits are reached or exceeded.

The monthly reports to the management also include results of back-testing. The results of the back-testing did not show any indicators of insufficient model quality in 2016.

Reports on the results of the stress tests are prepared periodically. Aside from fictitious, possible interest rate changes, these scenarios also include the results of actual, historical interest rate developments. Alongside interest curve modifications, stress simulations are also used to examine the effects of credit spread changes on the cash value.

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, non-interest-bearing liabilities and provisions. These risks are taken into account during the planning process.

Liquidity Risks

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

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

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

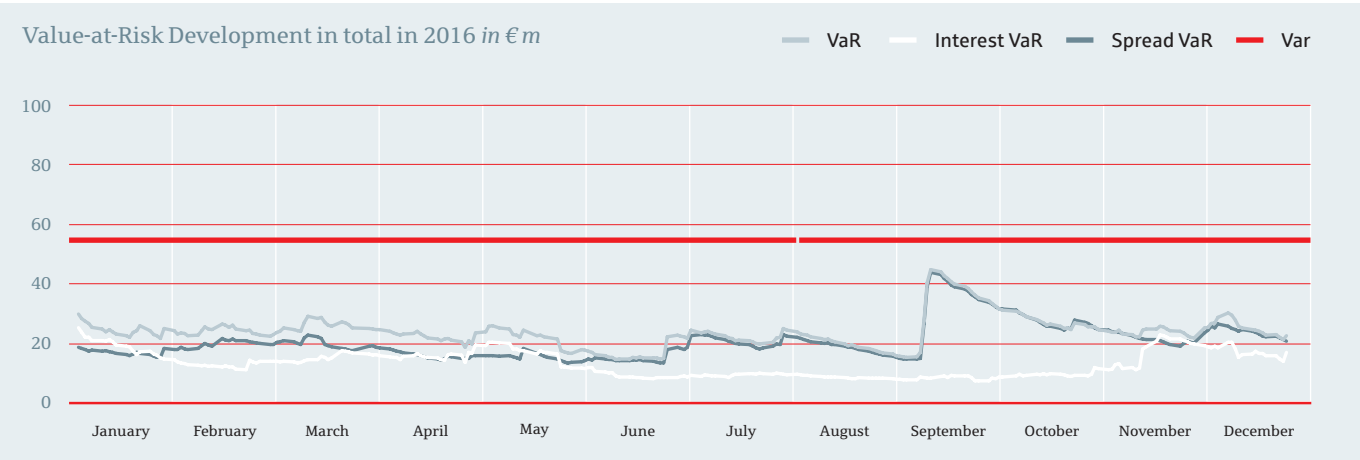
As the bank classifies itself as a capital market-oriented institution within the meaning of Minimum Requirements for Risk Management (MaRisk), daily checks are carried out to ensure that liquidity is guaranteed for seven or 30 days in accordance with defined Minimum Requirements for Risk Management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

Furthermore, the short-term liquidity risk for the next 30 days is monitored by LBBH for the Group and the institutions. This is based on the LCR that is determined and reported daily. This is an indicator that compares specified, freely available securities portfolios with the net liquidity disbursements in the next 30 days under the application of a specified stress scenario.

In 2016, the minimum ratio for the LCR was 70 %. This ratio is to be increased gradually to 100 % by 1 January 2018. Internally the LCR is controlled with a target ratio of at least 120 %. On the reporting date 31 December 2016, the LCR indicator was 233 % and therefore well above the minimum. The established limits and pre-warning level at 100 % and 120 % respectively exceed the current regulatory requirements.

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

Furthermore, the liquidity risk for the next twelve months is monitored by LBBH for the Group and the institutions. This is based on the refinancing risk that is determined and reported daily. The methodology is based on the regulatory NSFR but deviating internal weights are used in part. The established limit and the pre-warning level are 100 % and 105 % respectively. On the reporting date of 31 December 2016, the refinancing risk for Berlin Hyp was 149 %.



The price risk encompasses the risk that in case of existing incongruities with dates on which the capital falls due, the bank can only carry out follow-up financing in the next 12 months on the basis of less favourable refinancing spreads. The price risk is considered within the framework of the risk-bearing capacity concept and is limited. As at 31 December 2016, this stood at € 4 million.

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

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

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

Operational Risks

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

uations) in the quarterly risk report on the one hand and, on the other hand, on a half-yearly basis through confirmation of the corresponding half-yearly OpRisk report. Ad-hoc reporting follows the occurrence of extraordinary events, in particular significant losses.

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

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

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

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

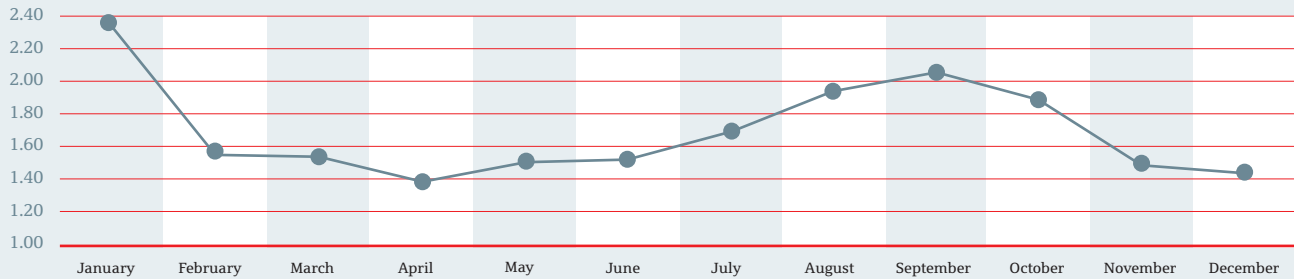
Pursuant to Sections 25a and 25h German Banking Act (KWG) and relevant circulars published by the banking regulator, Berlin Hyp must establish and maintain commensurate business and customer-related security systems to prevent money laundering, terrorism financing and any other criminal activities detrimental to the bank. In order to ensure this, Berlin Hyp has appointed an Anti-Money Laundering Officer and four employees as contact persons. The Board of Management is presented with an annual report on the bank's hazard potential in the form of a hazard analysis. Within the framework of the 2015 hazard analysis, the Anti-Money Laundering Officer determined that the risk posed by money laundering, terrorism financing and other criminal activities was "moderate". Following the intervention of risk-mitigating measures, the risk fell to "low".

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

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

Currently the limit is set at € 40 million. The monthly utilisation of the limit for 2016 is shown in the following illustration:

Development of the Liquidity Ratio in 2016



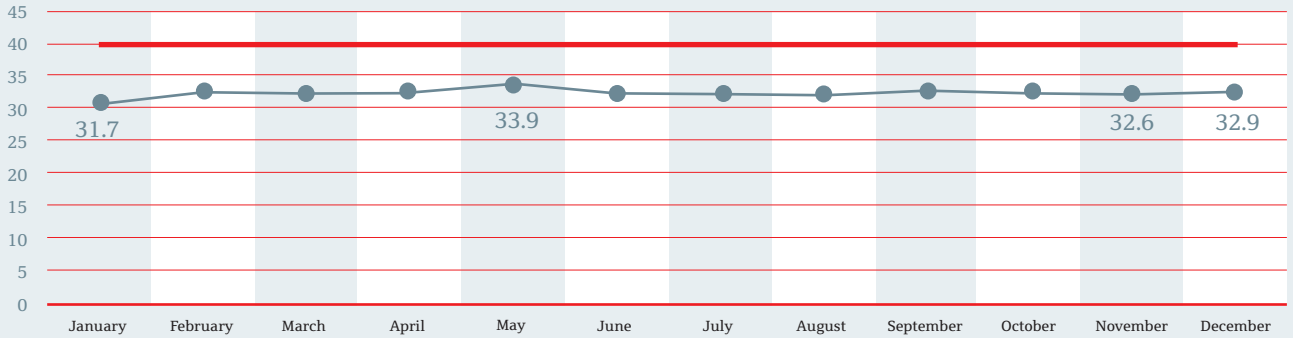
The bank mitigates market liquidity risk as follows: Berlin Hyp's securities portfolio consists almost exclusively of ECB-eligible securities. The liquidity buffer comprises diversified and high-quality assets and assets from other categories in accordance with the requirements of the Capital Requirements Regulation (CRR). In principle the bank does not enter into any new commitments in markets with insufficient liquidity.

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

Operational risks are managed in a uniform manner throughout the Group. Berlin Hyp has appointed an OpRisk Officer for the Group's OpRisk Committee to liaise with LBBH. As at 1 January 2012, Berlin Hyp together with the Group received authorisation from the regulatory authorities for an internal OpRisk model (Advanced Measurement Approach = AMA model) used to measure and define regulatory capital requirements.

Berlin Hyp's Board of Management is responsible for a systematic and consistent process comprising the sequences identification, assessment, monitoring and the management of operational risks. The Board of Management confirms the accuracy of the approved risk parameters (self-assessment and scenario eval-

Level of the Limit in € m



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

System Risks

No IT and system risks with a high probability of occurrence that could endanger the existence of the bank as a going concern are expected at the current time.

Following the introduction of the integrated SAP system, Berlin Hyp has a powerful IT system commensurate with the type and scope of its business activities. The implemented systems were stable throughout the year. With the integrated SAP system as an overall solution for the entire bank, Berlin Hyp benefits from an extensively state-of-the-art IT landscape, and the increasing importance of information technology as a competitive factor is taken into account.

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

Through accompanying organisational measures, an appropriate access protection system has been implemented that prevents unauthorised and undesired read or write access to databases. To protect against possible catastrophe scenarios in own and service provider computer centre operations, Berlin Hyp has devised and implemented a concept together with its IT service partner. A major element of this concept is a backup environment to which operations can be switched quickly in the event of a catastrophe. This catastrophe case backup was reviewed with the IT service partner in 2016.

In order to limit IT risks, there are also internal specifications about data storage and regularly updated and reviewed emergency procedures as an integral element of the bank's Written Fixed

Rules. This way, the functionality of the business procedures in the event of technical faults is guaranteed with the aid of back-up solutions which are quickly available.

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

Legal Risks

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

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

When unforeseen developments to the detriment of the bank or errors have occurred, the Legal department participates in the identification, elimination and future avoidance of the errors. It also reviews and evaluates incidents based on legally relevant facts and handles the conduct of any legal cases. This applies in particular for defending against claims asserted against the bank. Adequate reserves were formed for pending cases. Material legal risks that were qualified as current or impending court proceedings of the bank are reported on a half-yearly basis to the Board of Management. Ad-hoc reporting is required for events with especially far-reaching consequences.

Borrower Claims for the Reimbursement of Processing Fees/Legal Consequences Relating to Incorrect Revocation Information

In 2014, the Federal Court of Justice ruled that the processing fees charged within the scope of general terms and conditions were unlawful under consumer lending law and must be reimbursed. Currently, the transferability of this case-law to commercial loans is being discussed; the majority of court decisions in this context deny transferability. The bank does not believe that the complaints made and legal proceedings initiated against it are justified.

In addition, the bank is currently dealing with the latest legislation on incorrect revocation information. With the implementation of the Residential Real Estate Loan Directive, property loan agreements concluded between 1 September 2002 and 10 June 2010 were able to be revoked until 21 June 2016. The bank has two cases of revocations that it considers to be unjustified. However, as a precaution, it has formed sufficient reserve provisioning.

Claims against Heta Asset Resolution AG (formerly Hypo Alpe Adria Bank International AG) from debentures

The Bank accepted the offer proposed by Kärntner Ausgleichs-Fonds in accordance with Section 2a Austrian Financial Market Stability Act (FinStaG) for the replacement of all public-sector HETA debt held by the bank. The replaced debt was sold, allowing the losses from claims to HETA public-sector debt to be limited to 10%.

Risk Management Pursuant to Article 27 German Pfandbrief Act

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

is monitored daily within the scope of the risk management of cover funds and reported to the Board of Management in a special report on a quarterly basis.

Overall Statement on Risk Situation

The risks assumed by Berlin Hyp were in reasonable proportion to the risk-covering assets in the reporting year, even taking into consideration the increased loan spreads and interest volatility. As at 31 December 2016, risk-weighted assets (RWA) came to € 7,972 million.

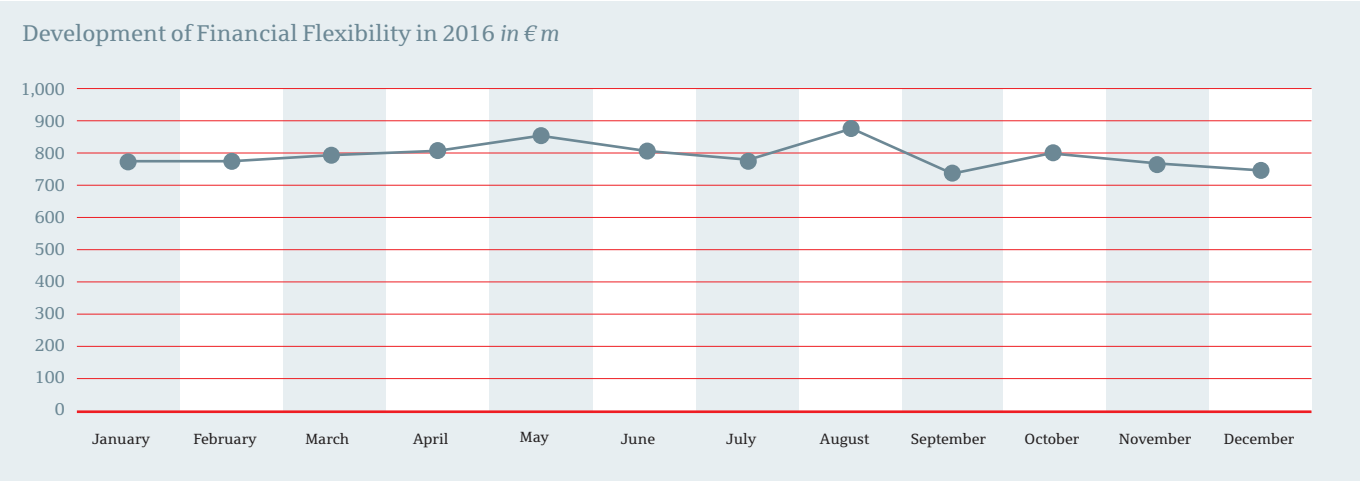
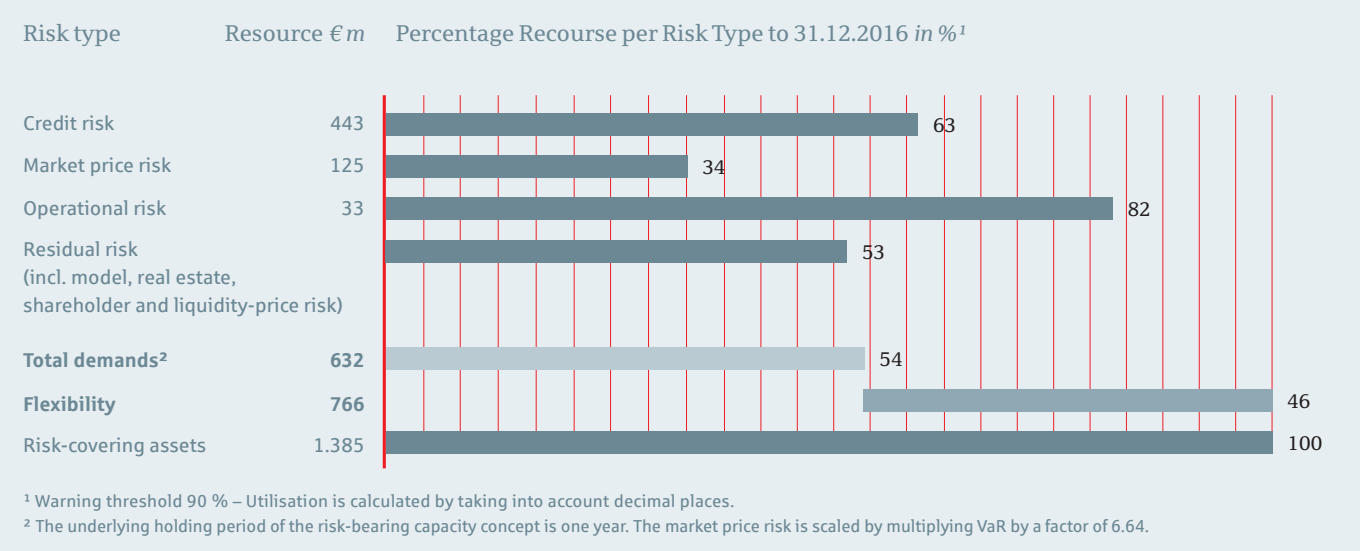
The combination of specific stress tests for the various types of risk into bank-wide stress tests taking multiple risk types into account can show the influence of macroeconomic changes on the risk-covering assets and on the regulatory capital ratio. Sufficient scenarios were developed for this purpose in accordance with the Minimum Requirements of Risk Management (MaRisk), taking into account the correlations between individual risk types.

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

The risk-covering assets up to 31 December 2016 are as follows:

Capital Elements <i>in € m</i>	31.12.2016
Core capital CRR (allowable funds)	1,016
Supplementary capital CRR (allowable funds)	271
Correction items <i>in € m</i>	
Supplementary capital (remaining term less than one year)	-13
Supplementary capital (regulatory law amortisation; remaining term longer than one year)	111
Back-calculation value adjustment comparison	11
Silent burdens (write-offs avoided WP AV (German Commercial Code))	-4
Balance of silent reserves	4
Pension provisioning shortfall according to BilMoG	0
Future effects (recalibration and apportionment of portfolio transfer)	-2
Economic shortfall	-10
Risk-covering assets	1,385

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



Other Risks

Business Policy and Strategic Decisions

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

LBBH as the Group's parent company in the reporting year was responsible for strategic decision-making in the Group. The overall bank strategy approved and regularly updated by the LBBH Board of Management summarises the strategies of the Group companies and consists of the strategy document and planning. The long-term company objectives and strategic framework conditions are established by the Board of Management in the annual strategy meeting.

Monitoring and controlling the strategic objectives for the strategic business areas, subsidiaries and divisions takes place once a year based on the defined target achievement indicators and targets. Select financial and risk targets are also monitored during the year based on standardised reports.

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

Human Resources Risks

Availability Risk

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

Against this backdrop, the bank has intensified its efforts in finding the next generation of talent over the last few years. Berlin Hyp focuses in particular on trainees and students of dual study courses and has implemented corresponding training programmes. In addition to its training programmes, Berlin Hyp also offers student traineeships and positions itself as an attractive employer for young people.

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

The German law on the equal participation of women and men in leadership positions in the private and public sectors came into force in 2015. It resulted in a range of measures being implemented in the Berlin Hyp organisational structure to ensure that male and female employees have the same opportunities.

Targets for the proportion of women in positions of leadership were set for various hierarchical levels and committees at Berlin Hyp. A target of 0 % was set for the Berlin Hyp Board of Management, whereas the Bank exceeded its target of appointing at least one woman to the Supervisory Board by appointing a second female member, taking the share of female representation to 13 % (2015: 8 %). At 27 % (2015: 21 %), the target of 21 % set for the first level of management below the Board of Management (second level, divisional management) was exceeded. This was the result of the establishment of the Communication and Marketing division and the appointment of a female manager from the third management level as division manager. This recruitment from the third level to the second,

coupled with structural changes at the bank leading to the loss of management positions, was the main cause for the reduction of the share of female representation at the second management level below the Board of Management (third level, department management) to 24 % (2015: 27 %). Berlin Hyp therefore failed to meet the defined target for this level of 27 %. Overall, the percentage of women in management positions at Berlin Hyp nevertheless remained stable at 26 %. Low annual recruitment figures for management positions means that Berlin Hyp has little room to manoeuvre in terms of increasing the percentage of women in management positions. Berlin Hyp has modified its recruitment process for management positions to better identify and promote female talent. This includes contractually guaranteeing that recruitment experts include female applicants in the recruitment process. The equal inclusion of female and male management personnel continues to be anchored in central decision-making processes at the bank; this includes the appointment of at least one woman in various selection and observation committees. The promotion of female managers is also anchored in the employee meeting instrument. Management are assessed in terms of their personal management conduct on the issue of equal treatment of male and female employees as part of a new assessment criterion which was introduced in the 2016 financial year.

Motivation Risk

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

Berlin Hyp gives its employees the chance to spend a day volunteering for a charitable cause; once again, many Berlin Hyp employees took the opportunity to do so in the 2016 financial year.

Health management with behavioural and situational prevention measures has been implemented in our company since 2007. Berlin Hyp held a special "health day" in September 2016 as part of its health management concept, which was extremely received by employees. The wide range of services focusing on the issue of healthcare, which combine informative presentations, hands-on activities and diagnostic services, were also popular among employees. In addition, Berlin Hyp has also expanded its range of external health courses and massages.

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

Promotion and development are particularly important in annual employee meetings. Discussions also centre on the need for the employee to adapt to a constantly changing working environment. However, feedback on conduct and results is not just provided periodically within the scope of the employee meeting, rather also on a situational basis.

Qualification Risk

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

Alongside specialist seminars, personality seminars, language seminars and IT seminars were also on offer in 2016. We also launched a specialist programme in 2016, which is geared towards developing personalities and networking the banks's specialists. Berlin Hyp also decided to pay particular attention to young employees and introduced advanced qualification for this group in the 2016 financial year. This comprises a mentoring training programme as well as studies in real estate economics, with two places available per financial year awarded to suitable candidates while maintaining the principle of equal treatment of male and female candidates. As part of the change process initiated in the 2016 financial year, the company devoted particular time to the issue of agile working and the anchoring of agile methods in the bank's organisational structure. The first result of this initiative was the introduction of a personnel development course geared towards introducing employees and management personnel to more agile and efficient working methods, particularly in a meeting environment.

For management personnel, a holistic, future-proof concept for management training was created. The new model integrates existing measures such as adequate basic training for new managers and the SeitenWechsel® personality training concept, which it combines with new methods such as leadership training from the perspective of a healthy lifestyle, to form a modular system. This required measures to be resolved as part of an overall programme in order to place the focus on customisable, flexible and versatile personnel development for management personnel. Our range of training courses for this group is rounded off with coaching and other individual measures.

Both as a partner for conducting the in-house seminars and in seminars for individual employees, Berlin Hyp engages providers with excellent technical and methodology standards. 2016, for instance, saw the continuation of networking with the training facilities of German savings banks, the Sparkassenakademien, and common approaches be defined for personnel development. Berlin Hyp will intensify this process further over the coming financial years. All in all, the number of in-house personnel development measures has increased compared to the previous year, with the specialist expertise offered by the workforce being drawn on to a greater extent in the form of internal teaching activities.

Only through continuous, autonomous learning in the workplace can the qualifications of our employees be adapted quickly to the constantly changing work environment. Managers closely accompany their employees in this process. They define development objectives, provide feedback and structure individual on-the-job training with the employee. In addition, employees are also given the opportunity to job-shadow in other divisions of the bank.

These measures guarantee that staff can meet current and future challenges with a high degree of specialist and social competence.

IV Accounting-Related Internal Control System and Risk Management System

The annual accounts of Berlin Hyp are produced in accordance with the provisions of the German Commercial Code, supplemented by provisions of the Stock Corporation and Pfandbrief Act (Aktien- und 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. It bears responsibility for the general ledger and accounting. The Banking Operations division is responsible for technical matters and portfolio management in the subsidiary ledgers. Pursuant to the principle of the separation of functions, the assessment of financial instruments by the Risk Controlling division and the evaluation of credit risks by the Risk Management division is pursued on a case-by-case basis within the financial reporting process. Job descriptions are available for all relevant positions and sufficient human, technical and organisational resources are also available in order to ensure the sustainable and disruption-free handling of tasks. The divisions are assigned to the Board's credit function sphere.

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

The accounting-related internal control system encompasses principles, measures and procedures for the regularity and reliability of accounting processes, compliance with relevant legal provisions and ensuring the effectiveness of the monitoring of accounting processes. The implementation of controls is decided on the basis of suitability, effectiveness and profitability.

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

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

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

At Berlin Hyp, accounting processes are standardised and are subject to constant supervision. The processing, entry and documentation of relevant accounting data occurs using IT systems that keep accounting books and other records in electronic form. Berlin Hyp applies the core SAP application as an integrated comprehensive banking solution. This system largely avoids

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

Internal and external reporting is also subjected to a multistage quality-assurance process before financial information is released. Accounting processes are an integral component of the Audit division's risk-oriented audit planning system. Audit focuses are changed on a regular basis. Audits take place as process audits and are, as a matter of principle, underpinned by case-by-case audits of samples.

In the 2016 financial year, the focus of accounting activities was on payment transactions and inventories, including asset accounting. Issues of the accounting-related internal control system were also targeted indirectly by the full audit of the balance sheet and profit and loss

accounts. As in previous years, the Internal Audit division monitored and accompanied the process of reconciling loan accounts within the scope of the dispatch of annual statements in its role as a neutral body.

There were no significant findings, as in previous years.

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

A number of external audits were carried out at Berlin Hyp in financial year 2016 alongside the audit of the annual financial statements. These audits concerned either Berlin Hyp directly as a separate financial institution or in its capacity as part of the regulatory group.

Particularly noteworthy in this regard are the ECB's on-site inspections on the issues of governance and risk management, liquidity risk management and internal and external reporting quality, audits of the German Savings Banks Finance Group's (DSGV) deposit protection system and a random audit by the Deutsche Prüfstelle für Rechnungslegung of the annual financial statements and the management report as of 31 December 2015. The coverage audit performed in 2015 was reported on and assessed in the financial year. External tax audits were once again conducted.

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

V Remuneration report

This remuneration report explains the principles that were applied in determining the remuneration of the Board of Management at Berlin Hyp, and explains the levels and structure of Board of Management benefits. In addition, the principles and levels of the remuneration for the Supervisory Board and its committees are described. The report takes into consideration the recommendations of the German Corporate Governance Code in the version of 5 May 2015.

Remuneration of the Board of Management

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

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

Landesbank Berlin Holding has concluded pecuniary loss third-party liability group insurance (D & O insurance) in favour of members of the Group’s governing bodies. This also covers the personal liability risk of the Berlin Hyp Board of Management members in case the relevant

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

During the financial year, the Board of Management consisted of Sascha Klaus, Jan Bettink, Gero Bergmann and Roman Berninger. Jan Bettink left the Board of Management on 1 October 2016. The terms and conditions of his departure are governed by a termination agreement. Sascha Klaus was appointed to the Board of Management on 1 September 2016 and has acted as the Chairman of the Board of Management since 1 October 2016. The individual rights and duties of members of the Board of Management resulting from their employment relationship with Berlin Hyp are regulated by existing contracts of employment. The following remuneration elements have been set:

Fixed annual salary: The fixed annual salary of the members of the Board of Management consists of a basic salary in the form of pensionable and non-pensionable components which are payable in monthly instalments. In accordance with the respective employment contracts, the fixed payments are reviewed for appropriateness by the Supervisory Board every two years. Any increase is to be tied to the bank’s earnings situation and general price rises in the Federal Republic of Germany. Gero Bergmann’s remuneration was adjusted effective from the new term of office and contractual term

as at 1 January 2016. The remuneration of Jan Bettink was adjusted effective 1 January 2016 in the course of a regular review. There were no other adjustments in 2016.

Variable remuneration: The members of the Board of Management may receive variable remuneration for their work in the respective past financial year.

Pursuant to Section 20 (4) Remuneration Ordinance for Institutions (InstitutsVergV), at least 50 % of variable remuneration must depend on the development of the institution’s value over the long term and be subject to an appropriate time limit. For (listed) institutions organised as an Aktiengesellschaft (stock corporation), the sustainability requirement is also to be complied with using share-based forms of remuneration. The issue of Berlin Hyp shares is not regarded as practical, as Berlin Hyp shares are not listed. Berlin Hyp shares, which cannot be traded on a liquid market, also do not represent a reasonable incentive instrument for Board of Management remuneration. In the opinion of the Supervisory Board, shares are therefore not suited as a form of remuneration at Berlin Hyp. Creating share-based instruments (phantom stocks) does not offer any benefits compared to establishing variable remuneration in cash, since such share-based instruments would also have to be paid out in cash, and would have to meet the same criteria underlying the establishment of variable remuneration. Instead of using share-based forms of remuneration, that part of the variable remuneration, which is to be structured pursuant to Section 20 (4) Remuneration Ordinance for Institutions (InstitutsVergV) (sustainable instruments), is to be based on the development of equity capital pursuant to the German Commercial Code (HGB) as provided in Berlin Hyp’s annual accounts in accordance with the German Commercial Code (HGB) as this adequately illustrates the development of Berlin Hyp’s value.

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

1. Determining the Group’s overall success

The Group’s overall success is determined at the level of Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG. The size of the contribution to value, which fundamentally encompasses the operating result and capital costs and is determined based on the financial statements of Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG according to the German Commercial Code (HGB), is used as a parameter here. Determining the Group’s overall success is the basis for other decisions at the level of Group institutions. Any deviations to this rule in the case of negative overall performance are to be comprehensively justified and presented to the responsible regulatory body for advance approval.

2. Determining Berlin Hyp’s overall success

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

3. Determining the total variable remuneration amount

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

4. Determining individual target bonuses

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

The total remuneration (basic salary plus target bonus) determined using this method will be reviewed by means of a market comparison and considering the institution's remuneration structure to ensure that it is appropriate. The target bonus is then determined by the Supervisory Board.

Taking into account the position and the tasks of the Board of Management at Berlin Hyp and the regular amount of the variable remuneration, 40 % of the target bonus determined by the Supervisory Board will be paid immediately ("instant bonus"). The remaining 60 % of the target bonus will be spread over a period of four years and may only be awarded in four instalments over the four financial years following further calculations by Supervisory Board. The Supervisory Board will resolve the conditional bonuses once the annual accounts have been prepared for each financial year, taking into account the development of Berlin Hyp's value over the long term as well as personal performance contributions.

A maximum of 15 % of the target bonus may be paid out as a conditional bonus. Each portion of the conditional bonus still to be agreed on will be determined once the sustainability of the performance contributions for the financial year for which the target bonus had been intended

at the time (base year) have been reviewed. Any negative performance contributions at the Group or bank level or non-sustainable individual performance contributions result in the bonus being reduced or forfeited.

50 % of both the instant and conditional bonuses will be paid out immediately following their being determined. The remaining 50 % are dependent on the development of the company's value over the long term and are subject to a one-year holding period, after which they will be paid ("sustainable instruments"). The net asset value over time needs to be established for this. If a member leaves the Board of Management through termination of the appointment and/or termination of the employment relationship, the determination of instalments extending across the retention period will not be affected; other income will not be offset.

The Board of Management members did not receive any other remuneration components (subscription rights, other share-based remuneration components, etc.) in the 2016 financial year. Board of Management members have not been promised or have not received payments from third parties in the financial year in connection with their work as Board of Management members.

Other remuneration: A company car and chauffeur were provided to Jan Bettink for unlimited use until 30 September 2016. From 1 October 2016, he received a gross monthly compensation payment in the amount of the pecuniary benefit of T€ 2. Company cars were also provided to Sascha Klaus, Roman Berninger and Gero Bergmann for company and private use in the financial year 2016, with a chauffeur also provided for company use.

Total remuneration: In the 2016 financial year, the members of the Board of Management received remuneration totalling T€ 2,424 (2015: T€ 1,832). This amount contains the performance-related elements of the remuneration for the 2010 and 2012 financial years, totalling T€ 363, and for the 2015 financial year totalling T€ 100, disbursed in the 2016 financial year.

In 2016, variable remuneration of T€ 500 was determined for the Board of Management for the 2015 financial year.

The total amount of variable remuneration paid to the Board of Management in 2016 was determined in consideration of Section 7 Remuneration Ordinance for Institutions (InstitutsVergV).

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

The sum of variable remuneration for the 2016 financial year as well as the payable retention sums from the 2012 and 2015 financial years could not yet be determined at the time of the preparation of the annual accounts.

Pension and benefits: In the case of incapacity for work caused by accident or illness, the members of the Board of Management are entitled to full payment for the following periods: Jan Bettink, Gero Bergmann and Sascha Klaus – up to twelve months; Roman Berninger – up to 18 months; but at the most until the end of the relevant employment relationship.

The Board of Management members Jan Bettink, Gero Bergmann and Roman Berninger have a claim to retirement pension after the end of the contractual relationship upon reaching the age of 65, and before this date in the event of incapacity for work. In the case of Jan Bettink, this claim for pension also applies after leaving the bank's service, and in the case of Roman Berninger, this claim for pension also applies upon expiry of the term of appointment or as a result of the bank's termination of the contractual relationship, if this is not occasioned by a significant cause connected with the identity of the Board of Management member (Section 626 German Civil Code (BGB)).

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

A widow's or orphan's pension is also paid to the surviving dependants of the Board of Management members upon their death.

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

The pension claim acquired pursuant to this as at 31 December 2016 is 69.5 % of the pensionable salary for Jan Bettink, 32.0 % for Gero Bergmann and 56.0 % for Roman Berninger. According to their contracts of employment, the Board of Management members have a claim to the adjustment of their current pension benefits once they have started receiving them. This adjustment is made in accordance with the percentage payment developments of the collective bargaining agreements for the private banking trade and the public banks.

The book value of the pension reserves formed for the Board of Management was T€ 3,905 on the balance sheet date (2015: T€ 3,349). In 2016, T€ 555 (2015: T€ 850) was contributed to reserves in anticipation of pension commitments and similar obligations to members of the Board of Management. The cash value amounts to T€ 3,905 (2015: T€ 3,444).

In addition, a total of T€ 2,755 (2015: T€ 2,750) was paid in the 2016 financial year in overall benefits (retirement pensions, surviving dependants' benefits and payments of a related nature) to former Board of Management members or their surviving dependants. The cash value of the obligations to pay such benefits for this group of persons is T€ 34,181 (2015: T€ 34,745) on the balance sheet date.

The following overviews of the remuneration of members of the Board of Management in the 2016 financial year comply with the disclosure requirements of the German Corporate Governance Code:

Amounts in T€

		Fixed annual remuneration	Ancillary benefits	Total	One-year variable remuneration	Multi-year variable remuneration	Conditional bonus for the 2010 FY (6 year term of the plan)	Instant bonus for the 2012 FY (3 year term of the plan)	Conditional bonus for the 2012 FY (6 year term of the plan)	Instant bonus for the 2015 FY (1 year term of the plan)	Total	Benefit expenditure ²	Total remuneration
Jan Bettink Board of Management until 31.12.2016 Chair until 30.09.2016													
Benefits granted ¹	2015	750	32	782	0	69	69	0	0	0	851	231	1,082
	2016	779	27	806	0	228	69	19	44	96	1,034	0	1,034
	2016 (Min)	779	27	806	0	0	0	0	0	0	806	0	806
	2016 (Max)	779	27	806	0	228	69	19	44	96	1,034	0	1,034
Allocations ³	2015	750	32	782	0	38	38	0	0	0	820	231	1,051
	2016	779	27	806	0	164	69	19	28	48	970	0	970
Sascha Klaus Board of Management since 01.09.2016 Chair since 01.10.2016													
Benefits granted ¹	2015	0	0	0	0	0	0	0	0	0	0	0	0
	2016	187	5	192	100	0	0	0	0	0	292	0	292
	2016 (Min)	187	5	192	0	0	0	0	0	0	192	0	192
	2016 (Max)	187	5	192	100	0	0	0	0	0	292	0	292
Allocations ³	2015	0	0	0	0	0	0	0	0	0	0	0	0
	2016	187	5	192	0	0	0	0	0	0	192	0	192
Roman Berninger Board of Management 01.01.2010													
Benefits granted ¹	2015	455	21	476	0	79	37	0	42	0	555	277	832
	2016	455	23	478	0	215	37	42	84	52	693	305	998
	2016 (Min)	455	23	478	0	0	0	0	0	0	478	305	783
	2016 (Max)	455	23	478	0	215	37	42	84	52	693	305	998
Allocations ³	2015	455	21	476	0	36	15	0	21	0	512	277	789
	2016	455	23	478	0	168	37	42	63	26	646	305	951
Gero Bergmann Board of Management 01.01.2011													
Benefits granted ¹	2015	452	27	479	0	42	0	0	42	0	521	118	639
	2016	455	30	485	0	178	0	42	84	52	663	144	807
	2016 (Min)	455	30	485	0	0	0	0	0	0	485	144	629
	2016 (Max)	455	30	485	0	178	0	42	84	52	663	144	807
Allocations ³	2015	452	27	479	0	21	0	0	21	0	500	118	618
	2016	455	30	485	0	131	0	42	63	26	616	144	760

Remuneration of the Supervisory Board

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

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

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

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

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

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

Total remuneration of T€ 304.8 (2015: T€ 263), without value added tax, is payable to the members of the Supervisory Board of Berlin Hyp and its committees for 2016.

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

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

² As regards commitments for pensions and other benefits, provisioning expenditure is shown, i.e. length of service expenditure pursuant to IAS 19. The length of service to be recorded as relevant is calculated according to the Projected Unit Credit Method and corresponds to the actuarial cash value of those payment elements which are newly earned by the active staff in the current accounting period.

³ This table shows the accrual for the financial year.

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

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

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

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 is currently exceeding its goal of having at least one female Supervisory Board member, as two female members were appointed to the Supervisory Board in 2016.

Board of Management

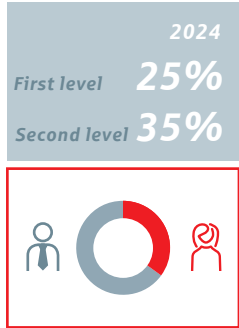
The Board of Management currently has three members. The share of female representation of 0 % determined by the Supervisory Board continues to apply until the review on 30 June 2017 or the premature termination of current contracts of employment.

First and Second Management Levels below the Board of Management

For the first and second management levels below the Board of Management, Berlin Hyp's Board of Management has set targets of 21 % (first level, divisional management) and 27 % (second level, department management) with a deadline of 31 December 2016. At the same time, Berlin Hyp's Board of Management established a graduated scheme for raising the target. It calls for achieving targets for the first and second management levels below the Board of Management as follows: 23 % and 30 % respectively by 31 December 2020, 25 and 35 % respectively by 31 December 2024.

The target set for the first level of management below the Board of Management (first level, divisional management) of 21 % was exceeded as at 31 December 2016 at 27 %. At the second level of management below the Board of Management (second level, department management), the target share of female representation of 27 % was almost achieved at 24 %. This was due to structural changes at the bank, which resulted in the loss of management positions.

Overall, the percentage of women in management positions at Berlin Hyp remained stable at 26 %.



Berlin
Grand Central Berlin

Berlin Hyp makes interim construction finance available to OVG Real Estate, with its registered headquarters in Amsterdam and Berlin, for the construction of a nine-storey office and commercial building directly in the vicinity of Berlin Central Station.

The high-quality new building will have around 20,000 m² rentable space and around 80 underground car parking spaces. Public transport connections are excellent. In addition, DGNB certification is intended. Planned completion is due in 2019.

Asset class	Office and commercial building
Customer	OVG Cloud GmbH, an SPV of OVG Real Estate
Finance type	Interim construction finance
Financing volume	€ 81.5 million
Function of Berlin Hyp	Sole lender
Closing	July 2016
Financing term	Around three years



Bad Neuenahr-Ahrweiler

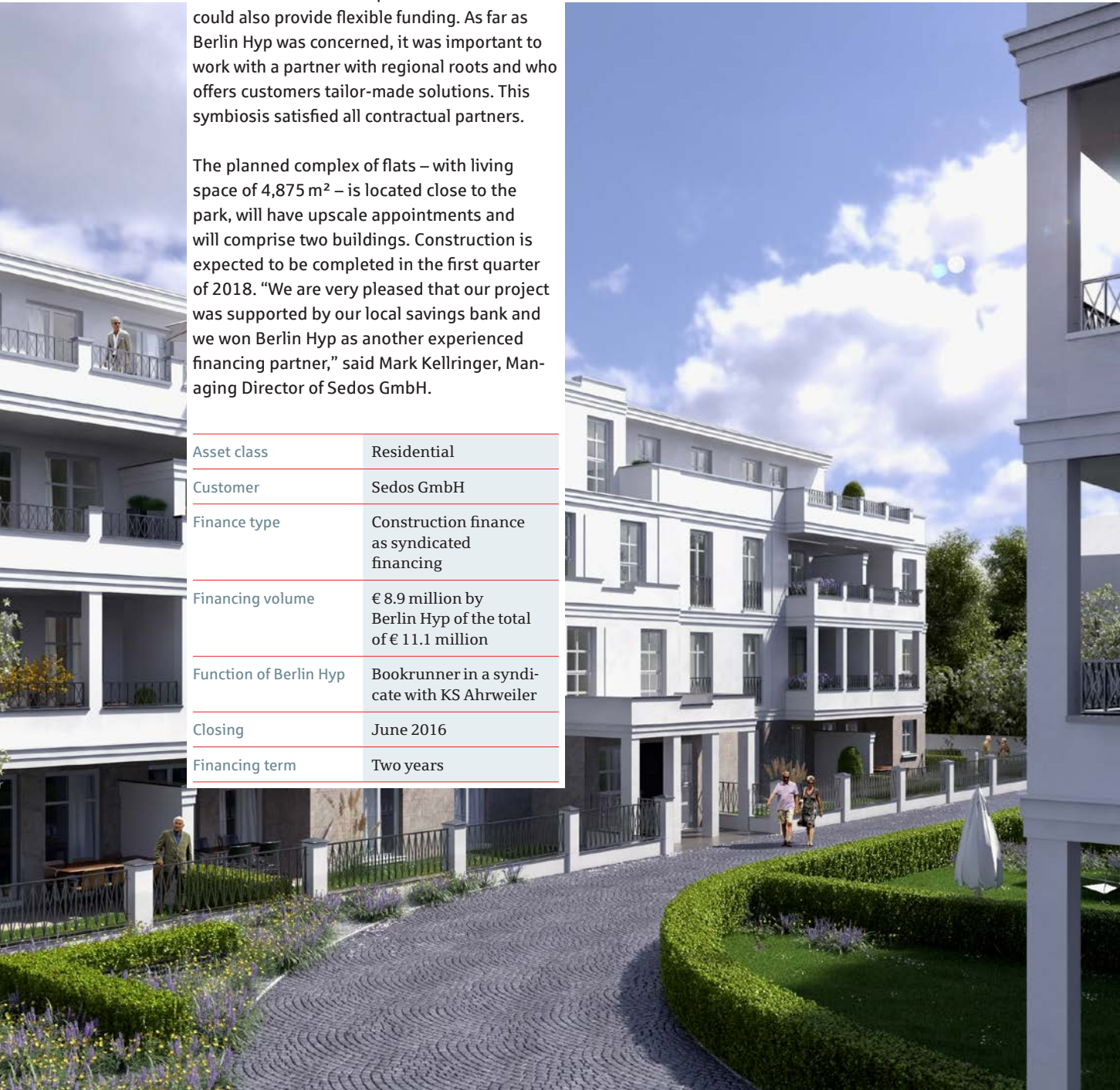
**Syndicate Financing
Together with
Kreissparkasse Ahrweiler**

Together with Kreissparkasse Ahrweiler, Berlin Hyp is financing the construction of 53 owner-occupier flats in Bad Neuenahr-Ahrweiler for Sedos GmbH. As the consortium leader, Berlin Hyp will provide € 8.9 million of the total financing amount of € 11.1 million.

Kreissparkasse Ahrweiler inspired the joint consortium. It approached Berlin Hyp, as it was looking for a financing partner with experience in the real estate development business who could also provide flexible funding. As far as Berlin Hyp was concerned, it was important to work with a partner with regional roots and who offers customers tailor-made solutions. This symbiosis satisfied all contractual partners.

The planned complex of flats – with living space of 4,875 m² – is located close to the park, will have upscale appointments and will comprise two buildings. Construction is expected to be completed in the first quarter of 2018. “We are very pleased that our project was supported by our local savings bank and we won Berlin Hyp as another experienced financing partner,” said Mark Kellringer, Managing Director of Sedos GmbH.

Asset class	Residential
Customer	Sedos GmbH
Finance type	Construction finance as syndicated financing
Financing volume	€ 8.9 million by Berlin Hyp of the total of € 11.1 million
Function of Berlin Hyp	Bookrunner in a syndicate with KS Ahrweiler
Closing	June 2016
Financing term	Two years



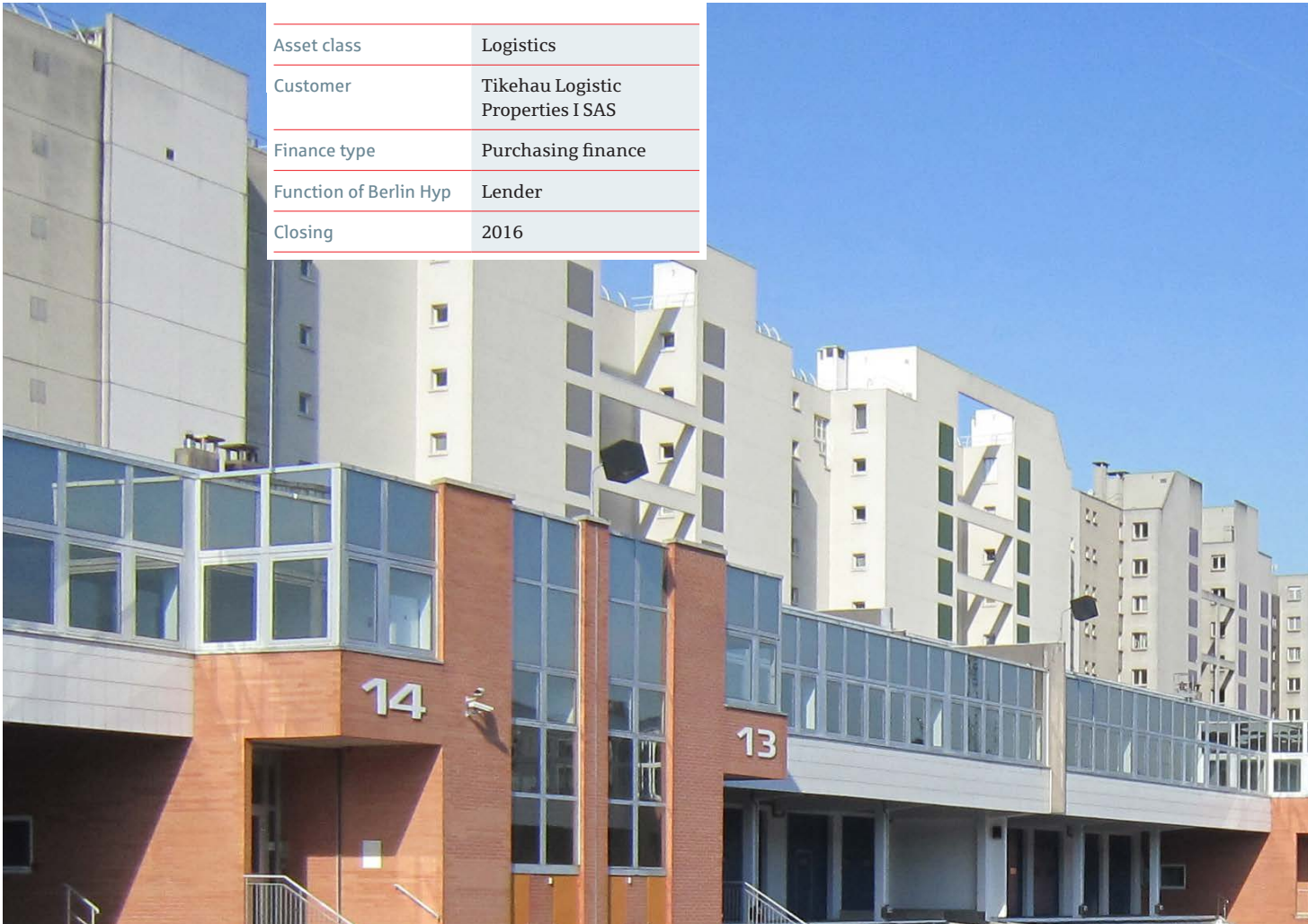
Paris

Tikehau Logistic

In July 2016, Berlin Hyp financed the purchase of the Escoffier logistic centre in Paris on behalf of real estate fund Tikehau Logistic Properties I. The logistics complex with a rental area of 28,800 m² has excellent links to Paris transport infrastructure and is rented in full through long-term rental agreements. Calberson and UPS France are anchor tenants at the facility, which was built in 1989 and completely renovated in 2015.

“It is a great pleasure for us to support the Tikehau Group in its Escoffier project,” said Gero Bergmann, member of the Board of Management of Berlin Hyp. “Working with them was once again a constructive and cooperative experience.”

Asset class	Logistics
Customer	Tikehau Logistic Properties I SAS
Finance type	Purchasing finance
Function of Berlin Hyp	Lender
Closing	2016



Annual Balance Sheet of Berlin Hyp AG

to 31 December 2016

Assets	€	31.12.2016 €	31.12.2015 T€
1, Cash reserves			
a) Cash in hand	3,398.73		5
b) Credit balance at central banks	8,845,471.84		5,872
of which: at Deutsche Bundesbank € 8,845,471.84 (2015: T€ 5,872)		8,848,870.57	5,877
2, Public-sector debt and bills of exchange admitted for refinancing at central banks		0.00	0
3, Claims against banking institutions			
a) Mortgage loans	0.00		0
b) Public sector loans	263,448,108.42		383,447
c) Other receivables	288,045,391.37		289,545
of which: due on demand € 2,658,378.53 (2015: T€ 10,437)		551,493,499.79	672,992
with securities as collateral € 0.00 (2015: T€ 0)			
4, Claims against customers			
a) Mortgage loans	18,124,709,093.56		17,898,123
b) Public sector loans	1,228,335,978.66		2,651,931
c) Other receivables	16,638,870.85		60,067
of which: with securities as collateral € 0.00 (2015: T€ 0)		19,369,683,943.07	20,610,121
5, Debentures and other fixed-interest securities			
a) Money market securities			
aa) Issued by public institutions	0.00		0
of which: eligible as security at Deutsche Bundesbank € 0.00 (2015: T€ 0)			
ab) From other issuers	0.00		0
of which: eligible as security at Deutsche Bundesbank € 0.00 (2015: T€ 0)			
	0.00		0
b) Bonds and debentures			
ba) Issued by public institutions	2,939,514,139.00		2,792,659
of which: eligible as security at Deutsche Bundesbank € 2,939,514,139.00 (2015: T€ 2,761,050)			
bb) From other issuers	2,842,477,959.00		3,692,365
of which: eligible as security at Deutsche Bundesbank € 2,842,477,959.00 (2015: T€ 3,692,365)			
	5,781,992,098.00		6,485,024
c) Own debentures	0.00		0
Nominal amount € 0.00 (2015: T€ 0)		5,781,992,098.00	6,485,024
6, Shares and other non-fixed-interest securities		0.00	0
6a, Trading portfolio		0.00	0
7, Interests		0.00	0
of which: in banking institutions € 0.00 (2015: T€ 0)			
in financial services institutions € 0.00 (2015: T€ 0)			
Carryover		25,712,018,411.43	27,774,014

Liabilities	€	31.12.2016 €	31.12.2015 T€
1. Liabilities to banking institutions			
a) Registered mortgage Pfandbriefe issued	354,759,556.53		355,941
b) Registered public Pfandbriefe issued	279,830,022.06		377,769
c) Other liabilities	4,179,123,066.01		5,562,791
of which: due on demand € 142,135,732.28 (2015: T€ 170,233)		4,813,712,644.60	6,296,501
Registered Pfandbriefe delivered to the lender as collateral for loans taken up € 0.00 (2015: T€ 0) and public registered Pfandbriefe delivered € 0.00 (2015: T€ 0)			
2. Liabilities to customers			
a) Registered mortgage Pfandbriefe issued	2,373,998,137.79		2,479,481
b) Registered public Pfandbriefe issued	1,029,695,695.34		1,245,569
c) Other liabilities	2,072,767,900.54		2,623,857
of which: due on demand € 242,366,871.04 (2015: T€ 88,125)		5,476,461,733.67	6,348,907
Registered Pfandbriefe delivered to the lender as collateral for loans taken up € 0.00 (2015: T€ 0) and public registered Pfandbriefe delivered € 0.00 (2015: T€ 0)			
3. Securitised liabilities			
a) Debentures issued			
aa) Mortgage Pfandbriefe	8,039,879,415.02		7,925,867
ab) Public Pfandbriefe	1,639,590,127.47		1,649,716
ac) Other debentures	3,935,397,021.74		3,807,405
	13,614,866,564.23		13,382,988
b) Other securitised liabilities	0.00		0
of which: money market securities € 0.00 (2015: T€ 0)		13,614,866,564.23	13,382,988
3a. Trading portfolio		0.00	0
4. Trust liabilities		0.00	3
of which: trustee loans € 0.00 (2015: T€ 3)			
5. Other liabilities		526,483,589.92	603,370
6. Prepaid income			
a) From issue and loan business	216,995,559.15		284,738
b) Other	0.00		0
		216,995,559.15	284,738
6a. Deferred tax liabilities		0.00	0
7. Provisioning reserves			
a) Provision for pensions and similar obligations	132,573,650.00		113,475
b) Tax provision	665,000.00		1,256
c) Other provision	29,948,656.40		30,249
		163,187,306.40	144,980
8. Subordinated liabilities		453,587,168.05	443,170
Carryover		25,265,294,566.02	27,504,657

Annual Balance Sheet of Berlin Hyp AG to 31 December 2016

Assets	€	31.12.2016 €	31.12.2015 T€
<i>Carryover</i>		25,712,018,411.43	27,774,014
8. Shares in affiliated enterprises		25,646.61	26
of which: in banking institutions € 0.00 (2015: T€ 0)			
in financial services institutions € 0.00 (2015: T€ 0)			
9. Trust assets		0.00	3
of which: trustee loans € 0.00 (2015: T€ 3)			
10. Equalisation claims against public-sector institutions including debentures arising from their exchange		0.00	0
11. Intangible investment assets			
a) Internally produced commercial property rights and similar rights and values	0.00		0
b) Purchased concessions, commercial rights and similar rights and values as well as licences for such rights and values	6,809,783.00		4,719
c) Goodwill	0.00		0
d) Payments in advance	3,462,526.87		2,414
		10,272,309.87	7,133
12. Tangible assets		58,131,276.59	58,768
13. Unpaid contributions to the subscribed capital		0.00	0
14. Other assets		337,222,250.35	397,794
15. Prepaid income			
a) From issue and loan business	235,584,053.33		304,911
b) Other	943,774.97		911
		236,527,828.30	305,822
16. Deferred taxes		0.00	0
17. Surplus arising from offsetting		0.00	0
18. Deficit not covered by equity		0.00	0
Total assets		26,354,197,723.15	28,543,560

Liabilities	€	31.12.2016 €	31.12.2015 T€
<i>Carryover</i>		25,265,294,566.02	27,504,657
9. Profit-sharing rights capital		0.00	0
of which: due within two years € 0.00 (2015: T€ 0)			
10. Fund for general bank risks		153,000,000.00	103,000
11. Equity			
a) Called-up capital			
aa) Subscribed capital	753,389,240.32		753,389
ab) Less unpaid contributions not called up	0.00		0
	753,389,240.32		753,389
b) Capital reserve	158,316,268.74		158,316
c) Profit reserves			
ca) Statutory reserve	22,022,655.29		22,023
cb) Reserve for own shares in companies with a controlling or majority holding	0.00		0
cc) Articles of Association reserve	0.00		0
cd) Other profit reserves	0.00		0
	22,022,655.29		22,023
d) Balance sheet profit	2,174,992.78		2,175
		935,903,157.13	935,903
Total liabilities		26,354,197,723.15	28,543,560
1. Contingent liabilities			
a) Liabilities from guarantees and warranty contracts		129,626,421.00	123,609
2. Other obligations			
a) Irrevocable loan commitments		1,895,247,764.47	1,302,999

Profit and Loss Account

of Berlin Hyp AG for the period from 1 January to 31 December 2016

Expenditure			2016	2015
		€	€	T€
1.	Interest expenditure	220,432,352.99		340,060
	less positive interest	19,912,317.25	200,520,035.74	7,532 332,528
2.	Commission expenditure		5,496,534.81	6,729
3.	Net expenditure of the trading portfolio		0.00	0
4.	General operating expenditure			
	a) Staff expenditure			
	aa) Wages and salaries	55,291,045.81		51,255
	ab) Social security contributions and expenditure for retirement pensions and support of which: for retirement pensions € 101,398.20 (2015: T€ 18,476)	7,321,883.08		25,283
		62,612,928.89		76,538
	b) Other operating expenditure	55,308,022.89		43,173
	of which: expenditure for bank levy € 10,940,207.31			
			117,920,951.78	119,711
5.	Depreciations and valuation adjustments on intangible investment assets and tangible assets		4,401,296.90	4,115
6.	Other operating expenditure		28,848,988.20	9,881
7.	Depreciations and valuation adjustments on claims and specific securities and additions to provision made for lending		35,709,287.53	18,802
8.	Depreciations and valuation adjustments on interests, shares in affiliated enterprises and securities held as investment assets		0.00	0
9.	Expenditure for loss assumptions		0.00	0
10.	Expenditure for bank levy			11,400
11.	Allocation to the fund for general banking risks		50,000,000.00	20,000
12.	Extraordinary expenditure		0.00	2,120
13.	Taxes on income and earnings		-296,301.00	996
14.	Other taxes not shown under Item 6		183,092.54	182
15.	Profits transferred on the basis of a profit pool, a profit transfer or partial profit transfer agreement		73,022,799.19	92,025
16.	Net income for the year		0.00	0
	Total expenditure		515,806,685.69	618,489
1.	Net income for the year		0.00	0
2.	Profit/loss carryforward from the previous year		2,174,992.78	2,175
3.	Balance sheet profit		2,174,992.78	2,175

Income			2016	2015
		€	€	T€
1.	Interest income from			
	a) Lending and money market business	419,479,534.48		479,273
	less negative interest from loan and money market transactions	6,227,687.74	413,251,846.74	499 478,774
	b) Fixed-income securities and book-entry securities	43,133,856.39		77,037
			456,385,703.13	555,811
2.	Current income from			
	a) Shares and other non-fixed-interest securities	0.00		0
	b) Interests	0.00		0
	c) Shares in affiliated companies	0.00		0
			0.00	0
3.	Income from profit pooling, profit transfer or partial profit transfer agreements		0.00	0
4.	Commission income		48,087,752.65	37,528
5.	Net earnings of the trading portfolio		0.00	0
6.	Income from attributions to claims and specific securities and the dissolution of reserves for lending		0.00	0
7.	Income from attributions to interests, shares in affiliated enterprises and securities treated as investment assets		2,781,943.04	614
8.	Other operating income		8,551,286.87	24,536
9.	Income from the dissolution of the fund for general bank risks		0.00	0
10.	Net loss for the year		0.00	0
	Total income		515,806,685.69	618,489

Statement of Changes in Equity and Cash Flow Statement

<i>T€</i>	Subscribed capital	Capital reserves	Revenue reserves	Balance sheet profit	Total equity
As at 31.12.2015	753,389	158,316	22,023	2,175	935,903
Capital increases	0	0	0	0	0
Dividend payments	0	0	0	0	0
Other changes pursuant to Section 272 (2) No. 4 German Commercial Code (HGB)	0	0	0	0	0
As at 31.12.2015	753,389	158,316	22,023	2,175	935,903

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

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

The cash and cash equivalent shown includes the cash reserve, which is composed of cash holdings and credit balances with central banks. There are no restrictions on the disposal of cash and cash equivalents. Expenses from the profit transfer agreement with Landesbank Berlin Holding AG, Berlin of € 73.0 million are reported separately. The transfer of profits for the 2015 financial year is reported in cash flow from financing activities. The extraordinary expenditure of € 19.1 million arising in the financial year results from the release of the full amount of the BilMoG difference pursuant to Article 67 (1) Introductory Law to the German Commercial Code (EGHGB), which increases the reserves.

Cash Flow Statement <i>in T€</i> (+ = cash inflow, – = cash outflow)	2016	2015
Net income for the year	0	0
Depreciations, value adjustments/attributions to claims and items of investment assets	136,379	24,772
Increase/decrease in reserves	–869	4,598
Other expenditure/income without payment effect	0	0
Profit/loss from the sale of investment asset items	–8,235	–20,840
Profit and loss transfer agreement	73,023	92,025
Other adjustments (on balance)	–78,481	7,052
Increase/decrease in		
Claims against banking institutions	88,173	193,522
against customers	1,138,279	–327
of the securities (unless they are financial investments)	–38,154	524,963
Other assets from current business operations	129,838	–210,710
Liabilities to banking institutions	–1,415,692	–1,970,012
to customers	–878,983	701,536
Asset-backed liabilities	246,977	760,999
Other liabilities from current business operations	–115,143	36,442
Interest expenditure/interest income	–255,866	–223,283
Expenditure/income from extraordinary items	19,076	2,120
Income tax expenditure/earnings	–296	996
Interest payments and dividend payments received	560,922	631,648
Interest paid	–276,246	–370,246
Extraordinary in-payments	0	0
Extraordinary disbursements	0	0
Income tax payments	–35	–145
Cash flow from current business operations	–675,334	–1,217,962
In-payments from disposals of the		
financial investment assets	727,235	1,291,830
tangible assets	0	1
intangible investment assets	0	0
Disbursements for investments in		
financial investment assets	0	0
tangible assets	–1,689	–2,174
intangible investment assets	–5,215	–4,013
Change of funds from other investment activity (balance)	0	0
In-payments from extraordinary items	0	0
Disbursements from extraordinary items	0	0
Cash flow from investment activities	720,331	1,285,644
In-payments from equity contributions by shareholders of the parent company	0	0
In-payments from equity contributions by other shareholders	0	0
Disbursement from reductions in equity to shareholders of the parent company	0	0
Disbursement from reductions in equity to other shareholders	0	0
In-payments from extraordinary items	0	0
Disbursements from extraordinary items	0	0
Dividends paid to shareholders of the parent company	0	0
Dividends paid to other shareholders	0	0
Change of funds from other capital (balance)	50,000	–3,000
Change of funds from previous year's profit and loss transfer	–92,025	–68,095
Cash flow from financing activities	–42,025	–71,095
Cash and cash equivalents at the end of the previous period	5,877	9,290
Cash flow from operating activities	–675,334	–1,217,962
Cash flow from investment activities	720,331	1,285,644
Cash flow from financing activities	–42,025	–71,095
Cash and cash equivalents at the end of the period	8,849	5,877

Notes

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

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

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

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

Berlin Hyp holds shares in a subsidiary that has no material influence on the representation of the financial, assets and earnings situation of Berlin Hyp. Berlin Hyp AG has no legal obligation to produce consolidated annual accounts according to the International Financial Reporting Standards (IFRS) pursuant to Section 290 German Commercial Code (HGB) in conjunction with Section 315a German Commercial Code (HGB).

Reporting and Valuation Principles

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

The same reporting and valuation principles were applied in the annual accounts as at 31 December 2016 as were applied in the annual accounts for the previous year. Any amendments arising are explained below.

Claims and Liabilities

Claims are shown at their nominal amount, and liabilities are shown at their settlement amount. The difference between amounts paid out and par value is reported as prepaid expenses and deferred income, respectively, to the extent that it is classified as interest and released over their term.

Discounted debentures are displayed with their issue amount including accrued interest on the basis of issue yields.

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

Repurchase Agreements

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

Securities

With the exception of the accounting units pursuant to Section 254 German Commercial Code (HGB) and the investment portfolio, the amounts included in the “Debentures and other fixed-interest securities” item were evaluated

according to the strict lower-of-cost-or-market principle (Section 253 German Commercial Code (HGB)). The accounting units pursuant to Section 254 German Commercial Code (HGB) and the investment portfolio were recognised at fair value to the extent it does not exceed the amortised cost. Fair value in active markets corresponds to the stock market or market price on the reporting date.

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

Shares in Affiliated Enterprises

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

Fixed Assets and Intangible Assets

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

Reserves

For contingent liabilities, reserves were formed for the sum of the expected claims, taking into account expected price and cost increases. The materiality of the discounting of reserves with residual terms of more than one year is reviewed regularly.

Pension reserves are assessed based on actuarial principles employing a discount rate of 4.01 % of the cash value of the obligations already accrued. The actuarial interest refers to the interest rate determined by Deutsche Bundesbank as at 31 December 2016, which results as a ten-year average interest rate from an assumed residual term of 15 years (Section 253 (2) Sentence 2 German Commercial Code (HGB)). The difference between the recognition of provisions in accordance with the actuarial interest rates of the past ten financial years and the recognition of provisions in accordance with the corresponding average market interest rates for the past seven financial years (discount rate of 3.24 %) amounts to € 19.5 million; the difference is not taken into account as being suspended for payment.

The pension obligations are based on the projected unit credit method using the 2005 G Heubeck Guideline Tables as the biometric basis for calculation. A salary and career trend of 2.5 % per annum is calculated starting in 2017. The projected pension trend has accordingly been set at between 1.0 % and 2.0 % per annum, depending on the pension scheme involved. Active members of the Board of Management have a calculated salary and career trend of between 0.0 % and 5.0 % starting in 2017. The age-dependent fluctuation has been considered at a rate from 1.5 % (over 40 years) to 4.8 % (up to 30 years).

As at 1 January 2010, the revaluation of pension reserves in accordance with the German Accounting Law Adjustment Act (BilMoG) resulted in an adjustment amount in the sum of T€ 31,793 which, pursuant to Article 67 (1) Introductory Law to the German Commercial Code (EGHGB), was to be distributed over a period of up to 15 years. The as yet unretained difference of T€ 19,076 was repaid in full in 2016. The reserve for early retirement obligations is set at cash value discounted by a maturity-linked discounting factor of the cash value of future earnings. The 2005 G Heubeck Guideline Tables are used as a biometric accounting basis. The bank reports income from the adjustment of parameters under the operating result.

Derivatives

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

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

Accounting Units

Within the context of economic hedging relationships, the bank hedges debentures and other fixed-income securities, book claims, short-term liabilities, securitised liabilities and pending transactions (payment obligations relating to irrevocable loan commitments) against the risk of a change in interest rates. As accounting units pursuant to Section 254 German Commercial Code (HGB), underlying debentures and other fixed-income securities are designated at the level of the individual transactions with a total nominal holding value of €4.6 billion as at 31 December 2016 (2015: €4.4 billion). Accounting units are only formed at the micro level, meaning that changes in values from the hedged risk are offset by the

underlying transactions of the individual hedging instruments; the hedging relationships in questions are perfect hedging relationships. No ineffectiveness relevant to the accounting can arise on account of the correlation of all factors affecting value between the hedged portion of the underlying transaction and the portion of the hedging instrument to be hedged. As a result, the critical term match method is used to assess both the prospective and the retrospective effectiveness of the accounting unit. Risks hedged by the accounting units amounted to €303.1 million as at the 2016 reporting date (2015: €345.1 million). The bank applies the net hedge presentation method. Changes in the value of underlying transactions and hedging instruments attributable to unsecured risks are not offset and recognised in accordance with general provisions.

Loss-Free Evaluation of the Banking Book

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

Calculating Fair Values

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

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

Currency Conversion

The valuation of assets, debts and off-balance-sheet transactions in foreign currencies is undertaken on the basis of Section 256a German Commercial Code (HGB) in connection with Section 340h German Commercial Code (HGB). The conversion is carried out at the reference prices provided on a daily basis by the Risk Controlling division of Landesbank Berlin AG, Berlin. The bank applies the principle of special cover in accordance with Section 340h

German Commercial Code (HGB). Income and expenditure from the evaluation of foreign currencies are reported net under "Other operating income".

Compliance Declaration

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

Explanations of the Profit and Loss Account and the Balance Sheet

Profit and Loss Account

Net Interest Income <i>in T€</i>	2016	2015
Interest income from		
Mortgage loans	408,953	467,197
Public-sector loans	4,655	10,279
Other receivables	-356	1,298
Fixed-interest securities and book-entry securities	43,134	77,037
	456,386	555,811
Earnings from profit and loss transfer agreements	0	0
Interest expenditure for		
Deposits and registered Pfandbriefe	120,677	209,327
Securitised liabilities	67,633	110,114
Subordinated liabilities and profit-sharing rights	12,210	13,087
	200,520	332,528
Net interest income	255,866	223,283

Interest income includes negative interest of €6.2 million (2015: €0.5 million), while interest expenditure includes positive interest of €19.9 million (2015: €7.5 million). A previous-year column was added to the profit and

loss account to ensure a transparent presentation. Interest and commission income as well as other operational income was largely earned domestically.

Other Operating Expenditure <i>in T€</i>	2016	2015
Bank levy	10,940	0
Staff-related material costs	2,984	2,599
Building and premises costs	4,102	3,242
Operating and business equipment	676	652
Business operating costs	2,262	1,758
IT expenditure	12,984	11,864
Advertising and marketing	1,922	1,560
Services by third parties	14,126	12,457
Group set-off	5,312	9,041
	55,308	43,173

The “bank levy” item, which had previously been a separate item, was reclassified to “Other operating expenditure” effective 31 December 2016 in line with Group requirements. A corresponding “of which” item was added to the “Other operating expenditure” item in order to improve comparability. The bank levy imposed on the basis of Commission Delegated Regulation (EU) 2015/63 and the new version of the Restructuring Fund Regulation (RStruktFV) has already been paid by the bank and amounted to € 10.9 million in the 2016 financial year (2015: € 11.4 million).

The fall in expenses for Group payment set-offs was due to a year-on-year decline in the allocation of costs for Landesbank Berlin Holding AG, Berlin, which has assumed responsibility as the parent company under regulatory law as well as the functional holding company.

Information on the total amount of fees invoiced by the auditor for the financial year is contained in the consolidated annual accounts of Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG, Neuhausen, in which Berlin Hyp is included.

Other Operating Result

In 2016, the bank released the full amount of the as yet unretained BilMoG difference pursuant to Article 67 (1) Introductory Law to the German Commercial Code (EGHGB) from the

revaluation of pension obligations (€ 19.1 million). Extraordinary expenses were reclassified to the other operating result at the start of the financial year 2016 pursuant to Article 75 (5) Introductory Law to the German Commercial Code (EGHGB).

The other operating result also includes income from the release of reserves of € 5.5 million (2015: € 22.5 million) and income from foreign currency valuation of € 1.0 million (2015: expense of € 1.8 million) as well as expenses from the compounding of reserves of € 5.2 million (2015: € 5.2 million) as well as from the reimbursement for the Detailed Agreement with the State of Berlin of € 2.2 million (2015: € 2.3 million). A total of € 5.1 million of the expenses from the compounding of reserves relates to the compounding of pension reserves.

Depreciations and Valuation Adjustments on Claims and Specific Securities and Additions to Provision made for Lending

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

The balance of risk provisioning expenditure is comprised as follows:

<i>in T€</i>	2016	2015
Risk provisioning for lending business	51,318	–13,065
Securities trading result	–15,609	31,867
Earnings with negative advance signs	35,709	18,802

Risk provisioning for the lending business developed as follows:

<i>in T€</i>	Counterparty risk exposure					Profit and loss relevant	
	Specific valuation allowances 2016	Lump-sum value adjustments 2016	Reserves 2016	Total 2016	Total 2015	2016	2015
As at 1 January	191,895	24,969	3,223	220,087	250,184		
Net allocations and write-backs	–18,582	79,737	1,241	62,396	–13,282	62,396	–13,282
Utilisation	–14,406		–145	–14,551	–31,936		
Direct depreciation	88					88	5,857
Receipts on written-off receivables	–11,166					–11,166	–5,640
Transfers					13,036		
Foreign currency effects	–1,244	0	0	–1,244	2,085		
As at 31 December	–11,078	157,663	104,706	4,319	266,688	220,087	51,318 –13,065
Earnings with negative advance signs							

Other Information

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

The annual surplus includes a balance of aperiodic income and expenses of € 15.1 million (2015: € 27.7 million). It mainly results from income from the release of reserves of € 5.5 million (2015: € 23.3 million) as well as incoming payments from claims written off in previous years amounting to € 9.0 million (2015: € 5.4 million).

Balance Sheet

There were no other negotiable securities and interests either as at 31 December 2016 or the previous year’s closing date.

Securities with a nominal volume of € 805.5 million are evaluated as fixed assets since they do

not serve as a liquidity reserve and are partially used to cover Pfandbriefe issued by the bank. The book value of the securities, which stands above their market value of € 87.2 million, amounts to € 90.8 million. This takes into account the valuation results from interest swaps. The bank took into account latent default risks of the investment securities in the form of lump-sum value adjustments.

Security for the Bank’s Own Liabilities

Within the European System of Central Banks (ESCB), securities with a nominal value of € 1,647.2 million (2015: € 1,379.1 million) were pledged as security to Deutsche Bundesbank. The volume of the associated open market operations amounted to € 1,000.0 million (2015: € 500.0 million) as at the balance sheet date. At the same time, the Bank has provided fixed interest debenture bonds totalling € 1,729.9 million (2015: € 2,999.7 million) in repurchase agreements.

Negotiable Securities and Interests <i>in T€</i>	Listed 31.12.2016	Listed 31.12.2015	Unlisted 31.12.2016	Unlisted 31.12.2015
Debentures and other fixed-interest securities	5,781,992	6,485,024	0	0

Intangible Investment Assets

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

Development of Fixed Assets

Changes in Fixed Assets in T€	Acquisition/ manufacturing costs 01.01.2016	Additions 2016	Disposals 2016	Account transfers 2016	Acquisition/ manufacturing costs 31.12.2016	Additions in the current year	Depreciations per 01.01.2016	Additions 2016	Disposals 2016	Account transfers 2016	Depreciations as at 31.12.2016	Residual book value 31.12.2016	Residual book value 31.12.2015
Intangible investment assets													
b) Concessions and licenses acquired commercially	52,624	2,321	0	1,846	56,791	0	47,905	2,076	0	0	49,981	6,810	4,719
d) Down-payments made	2,425	2,894	0	-1,846	3,473	0	11	0	0	0	11	3,462	2,414
Sum of intangible investment assets	55,049	5,215	0	0	60,264	0	47,916	2,076	0	0	49,992	10,272	7,133
Tangible assets													
a) Sites and buildings for own use	62,695	0	0	0	62,695	0	9,036	1,023	0	0	10,059	52,636	53,659
b) Operating and business equipment and installations under construction	10,136	1,689	105	0	11,720	0	5,027	1,302	104	0	6,225	5,495	5,109
Total tangible assets	72,831	1,689	105	0	74,415	0	14,063	2,325	104	0	16,284	58,131	58,768
Total intangible investment assets and tangible assets													
	127,880	6,904	105	0	134,679	0	61,979	4,401	104	0	66,276	68,403	65,901
	Book value					Changes*					Residual book value		
	01.01.2016										31.12.2016 31.12.2015		
Bonds and debentures	1,520,938				-719,766				801,172 1,520,938				
Shares in affiliated enterprises	26				0				26 26				

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

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

Company	Total share of capital	Voting rights	Equity	Result	Annual accounts diverging at 31.12.2016
	%	%	T€	T€	
Affiliated enterprises					
Berlin Hyp Immobilien GmbH, Berlin	100	100	133	108	31.12.2015

Other Assets

These figures largely contain claims from collateral in relation to derivatives amounting to € 310.2 million (2015: € 397.1 million) as well as unrealised gains from forward exchange deals with extra cover.

Other Liabilities

These include, amongst other things, liabilities from collateral received in relation to derivatives amounting to € 438.9 million (2015: € 433.2 million) as well as profits of € 73.0 million transferable to Landesbank Berlin Holding AG, Berlin (2015: € 92.0 million). The accrued interest on subordinated liabilities reported under this item last year is now reported under the “Subordinated liabilities” item.

Other Reserves

Other reserves include:

<i>in T€</i>	31.12.2016	31.12.2015
Reserves for human resources	14,576	14,953
Reserves for litigation costs risks	3,319	4,940
Reserves for restructuring measures	779	414
Other	11,275	9,942
Total	29,949	30,249

Subordinated Liabilities

In the 2016 financial year, interest paid amounted to € 12.2 million. Since 2016, accrued interest (2015: € 10.4 million) has been reported under balance sheet item “Subordinated liabilities”.

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

Nominal Amount T€	Interest rate p.a. %*	Repayment on
60,000	0.187	21.07.2020
* Basis: three-month Euribor		

Interest is paid on subordinate liabilities at the nominal rate of between 0.187 % to 6.56 % and is only to be reimbursed in the case of the bank’s bankruptcy or liquidation after satisfaction of all non-subordinate creditors. Early repayment is excluded. The repayments are to occur in the years 2017 to 2029. Based on a stock of € 443.2 million, € 272.8 million fulfil the requirements of the CRR for recognition as applicable equity capital.

Equity Capital

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

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

Classification by Remaining Maturity in T€	31.12.2016	31.12.2015
Assets		
Claims against banking institutions		
a) Due on demand	2,658	10,437
b) Less than three months	388,045	271,129
c) Between three months and one year	110,790	122,859
d) Between one year and five years	50,000	268,567
e) More than five years	0	0
Total	551,493	672,992
Claims against customers		
a) Less than three months	604,369	420,327
b) Between three months and one year	1,435,111	2,333,216
c) Between one year and five years	3,971,779	4,106,047
d) More than five years	13,358,425	13,750,531
Total	19,369,684	20,610,121
of which: claims with an indefinite term	695	928
Bonds and debentures		
- due in the following year	826,001	1,573,914
Liabilities		
Liabilities to banking institutions		
a) Due on demand	142,136	170,233
b) Less than three months	2,556,451	3,703,035
c) Between three months and one year	197,136	270,809
d) Between one year and five years	1,731,657	1,746,833
e) More than five years	186,333	405,591
Total	4,813,713	6,296,501
Liabilities to customers		
a) Due on demand	242,367	88,125
b) Less than three months	513,769	446,799
c) Between three months and one year	107,000	789,000
d) Between one year and five years	1,265,320	1,533,258
e) More than five years	3,348,006	3,491,725
Total	5,476,462	6,348,907
Securitised liabilities		
a) Less than three months	1,140,267	1,077,178
b) Between three months and one year	1,504,000	841,000
c) Between one year and five years	7,725,600	8,589,810
d) More than five years	3,245,000	2,875,000
Total	13,614,867	13,382,988
- due in the following year	2,644,267	1,918,178

Claims from and Liabilities to Affiliated Enterprises and Related Companies in T€	31.12.2016	31.12.2015
Affiliated enterprises		
Claims against banking institutions	7,192	22,475
Claims against customers	0	0
Other assets	847	428
Liabilities to banking institutions	193,007	1,064,295
Liabilities to customers	477	719
Securitised liabilities	0	0
Other liabilities	78,636	93,652
Subordinated liabilities	100,061	100,000

Trusts in T€	31.12.2016	31.12.2015
Trust assets		
a) Claims against customers	0	3
Trust liabilities		
a) Liabilities to banking institutions	0	3

Prepaid Expenses and Prepaid Income in T€	31.12.2016	31.12.2015
Prepaid expenses for issuing and lending operations include:		
Discount from issuing and lending operations	28,119	29,560
Premium from lending operations	38,194	63,656
Other	169,271	211,695
Prepaid income from issuing and lending operations includes:		
Premium from issuing and lending operations	8,597	3,321
Discount from lending operations	1,421	3,595
Other	206,978	277,823

The “Other” item under prepaid expenses includes accrued upfront payments as well as premium payments from caps, floors and collars of € 162.3 million resulting from the transfer of customer derivatives from Landesbank Berlin AG, Berlin, to Berlin Hyp (portfolio transfer).

The “Other” item under prepaid income includes accrued upfront payments as well as premium payments from hedging derivatives concluded that mirror the customer derivatives. Exchange rate fluctuations are largely neutralised by time deposits and currency swaps.

Foreign Currency Volumes in T€	31.12.2016	31.12.2015
Assets	557,073	798,130
Liabilities	141,794	291,317
Irrevocable loan commitments	3,406	0

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

Irrevocable loan commitments within the framework of the real estate and capital market business amounted to € 1,895.2 million (2015: € 1,303.0 million) as at the end of the year. Contingent liabilities consist of the assumption of guarantees for largely mortgage-backed loans of € 129.6 million (2015: € 123.6 million). Particularly due to collateralisation, off-balance sheet items do not present increased risks.

Berlin Hyp is an affiliated member of the security reserve of the Landesbanken and central savings banks (Girozentralen) and therefore also a member of the guarantee system of the Savings Banks Finance Group, which is recognised as an institutional guarantee system. The annual contributions made by member institutions are calculated according to both the amount of covered deposits as well as risk-oriented principles. In the event of compensation or support being reported by a member institution, immediate one-off or additional payments can be levied; however, the amount of the payments is not foreseeable.

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

Landesbank Berlin Holding AG must pay a fixed annual amount of € 15.0 million to the State of Berlin for the assumption of the risk shield. The internal distribution of these costs occurs through the agreement of August 2002, amended in August 2004, and provides for a partial reimbursement of costs through Berlin Hyp AG in accordance with the ratio of the volumes of the credits of Berlin Hyp AG that are shielded by loan guarantees to the total shielded credits. Expenses from reimbursements amounted to € 2.2 million in 2016 (2015: € 2.3 million).

Completed business transactions largely serve to hedge exchange rate and credit risks of on-balance sheet underlying transactions. The market values of the derivative financial instruments are shown on the basis of the applicable interest rate on 30 December 2016 without taking into account interest accruals. The market values of the derivatives are counteracted by the valuation advantages of the balance sheet operations not assessed at market price.

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

Number of Staff Annual average	Male	Female	2016 Total	2015 Total
Full-time staff	273	181	454	439
Part-time staff	18	112	130	126
School-leaver trainees / BA students	1	0	1	0
Total	292	293	585	565

Group Affiliation

Berlin Hyp is a stock corporation (Aktiengesellschaft) and forms part of the Landesbank Berlin Holding AG Group, Berlin, the majority of whose shares are held by the Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG, Berlin. Berlin Hyp is a subsidiary of Landesbank Berlin Holding AG and is included in the consolidated annual accounts of Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG (smallest and largest consolidation group as defined in Section 285 Nos. 14 and 14a German Commercial Code (HGB)). A profit and loss transfer agreement is in force between Berlin Hyp and Landesbank Berlin Holding AG, Berlin.

The consolidated annual accounts of the acquiring company will be published in the electronic Federal Gazette.

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

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

Letter of Comfort of Landesbank Berlin AG

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

Derivatives as at 31.12.2016
in € m

	Nominal amount / Remaining term			Total nominal value	Total negative values	Total positive values
	Up to 1 year	Between 1 and 5 years	More than 5 years			
Interest-related transactions						
Interest rate swaps	6,031	15,116	17,369	38,516	–1,133	1,413
FRA sales	3,000	0	0	3,000	0	0
Swaptions	2,410	500	0	2,910	–8	2
Caps	128	1,443	237	1,808	–2	2
Floors	0	750	0	750	–2	0
Collar-Caps	0	0	60	60	0	0
Collar-Floors	0	0	60	60	–4	4
	11,569	17,809	17,726	47,104	–1,149	1,421
Currency-related transactions						
Forward exchange dealings	0	0	0	0	0	0
Interest and currency swaps	312	134	0	446	0	24
	312	134	0	446	0	24
Total	11,881	17,943	17,726	47,550	–1,149	1,445

Organs of Berlin Hyp

Board of Management

Sascha Klaus

- Chair of the Board of Management (since 1 October 2016)
- Responsible for Credit (since 1 September 2016)

Jan Bettink (until 31 September 2016)

- Chair of the Board of Management

Gero Bergmann

- Responsible for Markets

Roman Berninger

- Responsible for Credit

Supervisory Board

Georg Fahrenschon

- Chair
- President of Deutschen Sparkassen- und Giroverbands e. V.

Jana Pabst

- Deputy Chair (since 21 June 2016)
- Bank employee
- Chair of the Works Council of Berlin Hyp AG

Joachim Fechteler

- Bank employee
- Member of the Works Council of Berlin Hyp AG

Gerhard Grandke

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

Artur Grzesiek

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

Dr. Harald Langenfeld

- Chair of the Board of Management of Stadt- und Kreissparkasse Leipzig

Thomas Mang

- President of Savings Banks Association of Lower Saxony

Thomas Meister

- Bank employee

Siegmar Müller

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

Carsten Nowy (until 21 June 2016)

- Bank employee
- Member of the Works Council of Berlin Hyp AG

Reinhard Sager

- President of German Administrative District Parliament
- County Council Chairman of East Holstein District

Andrea Schlenzig (since 21 June 2016)

- Bank employee

Helmut Schleweis

- Chair of the Board of Management of Sparkasse Heidelberg
- Bundesobmann of the Savings Banks Board of Management Members

Peter Schneider

- President of Savings Banks Association of Baden-Wurttemberg

Walter Strohmaier

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

René Wulff

- Deputy Chair (until 21 June 2016)
- Bank employee
- Deputy Chair of the Works Council of Berlin Hyp AG

Loans to Members of Organs

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

Benefits of the Board Members

Remuneration for the Board of Management
The Board of Management members received the following remuneration in the 2016 financial year:

In addition, a total of T€ 2,755 (2015: T€ 2,750) was paid in the 2016 financial year in overall benefits (retirement pensions, surviving dependants' benefits and payments of a related nature) to former Board of Management members or their surviving dependants. The cash value of the obligations to pay such benefits for this group of persons is T€ 34,181 (2015: T€ 34,745) on the balance sheet date.

Members of the Board of Management in T€	Annual remuneration				Other remuneration ²		Total	
	Fixed		Performance-related for the financial year ¹					
	2016	2015	2016	2015	2016	2015	2016	2015
Jan Bettink (until 31.12.2016)	779	750	164	38	27	32	970	820
of which non-pensionable fixed bonus	407	384						
Sascha Klaus (since 01.09.2016)	187	0	0	0	5	0	192	0
of which non-pensionable fixed bonus	187	0						
Roman Berninger	455	455	168	36	23	21	646	512
of which non-pensionable fixed bonus	149	149						
Gero Bergmann	455	452	131	21	30	27	616	500
of which non-pensionable fixed bonus	116	146						
Total remuneration 2016	1,876	1,657	463	95	85	80	2,424	1,832

¹ The payments for the 2016 financial year contain the performance-related remuneration elements for the financial years 2010, 2012 and 2015, which were paid out in 2016.

² Other remuneration relating to benefits in kind (benefit in money's worth of the use of company cars) of € 65,000 and the so-called net benefits employer's contribution (assumption of tax payments for the value in money's worth by the employer) of € 21,000. In addition, chauffeurs were also used under the usual tariff conditions.

Pension obligations for members of the Board of Management as at 31 December 2016 were as follows:

in T€	Allocated or reserved amount in 2016	Balance sheet pension reserves	Cash value of benefit entitlements as at 31.12.2016
Jan Bettink (until 31.12.2016)	255	620	620
Sascha Klaus ³ (since 01.09.2016)	0	0	0
Roman Berninger	209	1,791	1,791
Gero Bergmann	91	1,494	1,494
Total	555	3,905	3,905

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

Remuneration for the Supervisory Board

The remuneration payable to the members of the Supervisory Board for the 2016 financial year, including committee activity, amounts to T€ 305 (excluding VAT).

Member of the Supervisory Board in T€	2016	2015
Georg Fahrenschon, Chair	33	37
Jana Pabst, Deputy Chair since 21.06.2016	18	18
René Wulff, Deputy Chair until 21.06.2016	18	18
Joachim Fechteler	18	18
Gerhard Grandke	19	8
Artur Grzesiek	15	5
Dr. Harald Langenfeld	26	11
Thomas Mang	27	27
Thomas Meister	18	3
Siegmar Müller	18	8
Carsten Nowy until 21.06.2016	9	18
Reinhard Sager	12	5
Andrea Schlenzig	10	-
Helmut Schleweis	28	27
Peter Schneider	18	8
Walter Strohmaier	18	8
Members who left in 2015	0	44
Total	305	263
plus VAT	52	41
Total expenditure	357	304

Major Mandates of the Board of Management Members

Jan Bettink (until 30 September 2016)

- Member of the Board of Management of Landesbank Berlin Holding AG, Berlin
- Chair of the Supervisory Board of FMS Wertmanagement AöR, Munich
- Member of the Board of Supervisory Directors of Kreditanstalt für Wiederaufbau – Anstalt des öffentlichen Rechts, Frankfurt am Main (until 31 December 2016)

Sascha Klaus (since 1 September 2016)

- Member of the Board of Management of Landesbank Berlin Holding AG, Berlin (since 1 October 2016)

Gero Bergmann

- No mandates requiring disclosure

Roman Berninger

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

No legal representatives or employees had mandates in statutory supervisory boards of large corporations (with the exception of employees' representatives in Berlin Hyp's Supervisory Board) in the 2016 financial year.

Statement of Cover

in € m	31.12.2016	31.12.2015
A. Mortgage Pfandbriefe		
Ordinary cover		
1. Claims against banking institutions		
Mortgage loans	0.0	0.0
2. Claims against customers		
Mortgage loans	11,561.6	11,721.8
3. Tangible assets (land charges on Bank-owned real estate)	0.0	0.0
Total	11,561.6	11,721.8
Additional cover		
1. Other claims against banking institutions	0.0	0.0
2. Debentures and other fixed-interest securities	1,103.0	532.0
Total	1,103.0	532.0
Total cover	12,664.6	12,253.8
Total mortgage Pfandbriefe	11,839.1	11,242.4
Excess cover	825.5	1,011.4
B. Public Pfandbriefe		
Ordinary cover		
1. Claims against banking institutions		
a) Mortgage loans	0.0	0.0
b) Public sector loans	260.8	360.8
2. Claims against customers		
a) Mortgage loans	128.7	175.0
b) Public sector loans	1,199.0	2,550.8
3. Debentures and other fixed-interest securities	1,442.0	556.5
Total	3,030.5	3,643.1
Additional cover		
1. Other claims against banking institutions	50.0	0.0
2. Debentures and other fixed-interest securities	30.0	48.0
Total	80.0	48.0
Total cover	3,110.5	3,691.1
Total public Pfandbriefe requiring cover	2,852.9	3,173.4
Excess cover	257.6	517.7

Publication pursuant to Section 28 German Pfandbrief Act (PfandBG)

Section 28 (1) Nos. 1 to 3 Pfandbrief Act (PfandBG)

Amounts in € m

a) Mortgage Pfandbriefe Outstanding and Cover Used	Nominal value		Present value		Risk-adjusted present value*	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Mortgage Pfandbriefe	11,839.1	11,242.4	12,917.5	12,273.3	13,342.9	12,808.1
of which: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Cover funds	12,664.6	12,253.8	13,753.9	13,282.7	13,788.3	13,400.0
of which: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Excess cover	825.5	1,011.4	836.4	1,009.4	445.4	591.9
Surplus cover pursuant to vdp differentiation model	825.5	1,011.4	836.4	1,009.4	-	-

* For the calculation of the stress scenarios, the static amount reported is taken for currencies and the dynamic amount reported is taken for interest.

On a) Maturity Structure (Remaining Term)	Mortgage Pfandbriefe		Cover funds	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Up to 6 months	1,160.5	941.5	1,005.8	936.6
Between 6 and 12 months	363.5	811.5	943.4	1,120.4
Between 12 and 18 months	1,464.5	1,160.0	624.2	556.3
Between 18 months and 2 years	1,442.3	363.5	910.9	1,056.6
Between 2 and 3 years	1,882.7	2,856.8	980.6	1,732.8
Between 3 and 4 years	972.0	1,382.7	1,537.9	1,134.3
Between 4 and 5 years	1,239.0	982.0	1,706.3	1,600.7
Between 5 and 10 years	2,069.0	1,715.0	4,384.8	3,690.5
Longer than 10 years	1,245.6	1,029.4	570.7	425.6

b) Public Pfandbriefe Outstanding and Cover Used	Nominal value		Present value		Risk-adjusted present value*	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Public Pfandbriefe	2,852.9	3,173.4	3,341.3	3,828.5	3,173.1	4,016.9
of which: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Cover funds	3,110.5	3,691.1	3,547.7	4,126.1	3,337.4	4,245.1
of which: derivatives	0.0	0.0	0.0	0.0	0.0	0.0
Excess cover	257.6	517.7	206.4	297.6	164.3	228.2
Surplus cover pursuant to vdp differentiation model	257.6	517.7	206.4	297.6	-	-

* For the calculation of the stress scenarios, the static amount reported is taken for currencies and the dynamic amount reported is taken for interest.

On b) Maturity Structure
(Remaining Term)

	Public Pfandbriefe		Cover funds	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Up to 6 months	1,125.2	35.1	733.5	216.6
Between 6 and 12 months	25.0	29.0	500.0	1,338.0
Between 12 and 18 months	227.0	1,215.2	460.3	392.2
Between 18 months and 2 years	20.0	25.0	132.9	404.5
Between 2 and 3 years	807.6	250.0	39.1	458.3
Between 3 and 4 years	190.0	820.6	91.7	39.4
Between 4 and 5 years	50.0	200.0	198.1	76.9
Between 5 and 10 years	64.0	159.0	335.2	210.6
Longer than 10 years	344.1	439.5	619.7	554.6

Section 28 (1) Nos. 4 to 11 Pfandbrief Act (PfandBG)

**Section 28 (1) Nos. 4 to 6 Pfandbrief Act (PfandBG)
(regarding mortgage Pfandbriefe)
Additional Cover for Mortgage Pfandbriefe**

Section 28 (1) No. 4 German Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)	Compensation claims pursuant to Section 19 (1) No. 1 German Pfandbrief Act (PfandBG)	
	31.12.2016	31.12.2015
Total	0.0	0.0

Section 28 (1) No. 5 German Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)	Receivables as defined in Section 19 (1) No. 2 German Pfandbrief Act (PfandBG)		Of which: Covered debentures as defined in Article 129 Regulation (EU) No. 575/2013	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Germany	152.0	0.0	94.0	0.0
Finland	10.0	0.0	0.0	0.0
Canada	10.0	0.0	0.0	0.0
Netherlands	85.0	85.0	0.0	0.0
Sweden	85.5	0.0	85.5	0.0
Total	342.5	85.0	179.5	0.0

Amounts in € m

Section 28 (1) No. 6 German Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)	Receivables as defined in Section 19 (1) No. 3 German Pfandbrief Act	
	31.12.2016	31.12.2015
Belgium	0.0	50.0
Germany	603.0	324.0
Canada	50.0	50.0
Lithuania	0.0	10.0
Luxembourg	107.5	0.0
Slovakia	0.0	13.0
Total	760.5	447.0

Section 28 (1) Nos. 4 to 6 Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)	Total amount Additional Cover for Mortgage Pfandbriefe	
	31.12.2016	31.12.2015
Total	1,103.0	532.0

**Section 28 (1) Nos. 4 and 5 Pfandbrief Act (PfandBG)
(regarding public Pfandbriefe) Additional Cover for Public Pfandbriefe**

Section 28 (1) No. 4 German Pfandbrief Act (PfandBG) (Public Pfandbriefe)	Compensation claims pursuant to Section 20 (2) No. 1 German Pfandbrief Act (PfandBG)	
	31.12.2016	31.12.2015
Total	0.0	0.0

Section 28 (1) No. 5 German Pfandbrief Act (PfandBG) (Public Pfandbriefe)	Receivables as defined in Section 20 (2) No. 2 German Pfandbrief Act (PfandBG)		Of which: Covered debentures as defined in Article 129 Regulation (EU) No. 575/2013	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Germany	62.0	30.0	12.0	30.0
Netherlands	18.0	18.0	0.0	0.0
Total	80.0	48.0	12.0	30.0

Section 28 (1) Nos. 4 and 5 Pfandbrief Act (PfandBG) (Public Pfandbriefe)	Total amount Additional Cover for Public Pfandbriefe	
	31.12.2016	31.12.2015
Total	80.0	48.0

**Section 28 (1) Nos. 7 to 11 Pfandbrief Act (PfandBG)
Other Information on Cover Funds
and the Volume of Pfandbriefe**

Section 28 (1) No. 7 German Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)	Total receivables that exceed the limits set out in Section 13 (1) German Pfandbrief Act (PfandBG)	
	31.12.2016	31.12.2015
Total	0.0	0.0

Section 28 (1) No. 8 German Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)	Total receivables that exceed the percenta- ges set out in Section 19 (1) No. 2 German Pfandbrief Act (PfandBG)	
	31.12.2016	31.12.2015
Total	0.0	0.0

Section 28 (1) No. 8 German Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)	Total receivables that exceed the percenta- ges set out in Section 19 (1) No. 3 German Pfandbrief Act (PfandBG)	
	31.12.2016	31.12.2015
Total	0.0	0.0

Section 28 (1) No. 9 German Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)	Percentage of fixed-interest cover in cover funds		Percentage of fixed-interest Pfandbriefe in the liabilities to be covered	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
In %	59.2	56.0	85.0	85.8

Section 28 (1) No. 10 German Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)	Net present value pursuant to Section 6 Pfandbrief Net Present Value Regulation (PfandBarwertV) per foreign currency	
	31.12.2016	31.12.2015
CHF	40.3	77.1
GBP	390.7	470.0

Amounts in € m

Section 28 (1) No. 11 German Pfandbrief Act (PfandBG) (Mortgage Pfandbriefe)	For the mortgage collateral pool:	
	Volume-weighted average of the elapsed term since lending	
	31.12.2016	31.12.2015
In years	4.4	4.5

Section 28 (1) No. 8 German Pfandbrief Act (PfandBG) (Public Pfandbriefe)	Total receivables that exceed the percentages set out in Section 20 (2) No. 2 German Pfandbrief Act (PfandBG)	
	31.12.2016	31.12.2015
Total	0.0	0.0

Section 28 (1) No. 9 Pfandbrief Act (PfandBG) (public Pfandbriefe)	Percentage of fixed-interest cover in cover funds		Percentage of fixed-interest Pfandbriefe in the liabilities to be covered	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
In %	86.0	84.0	99.8	98.6

Section 28 (1) No. 10 Pfandbrief Act (PfandBG) (public Pfandbriefe)	Net present value pursuant to Section 6 Pfandbrief Net Present Value Regulation (PfandBarwertV) per foreign currency	
	31.12.2016	31.12.2015
---	0.0	0.0

Section 28 (2) Nos. 1 to 3 Pfandbrief Act (PfandBG)

**Section 28 (2) No. 1 a German Pfandbrief Act (PfandBG)
Receivables Used as Cover for Mortgage Pfandbriefe
Classified According to Size***

Cover Mortgages	31.12.2016	31.12.2015
Up to and including € 300,000	85.7	111.4
Between € 300,000 and € 1 million (incl.)	166.6	211.6
Between € 1 million and € 10 million (incl.)	2,703.2	2,971.1
More than € 10 million	8,606.1	8,427.7
Total	11,561.6	11,721.8

* Without further cover pursuant to Section 19 (1) German Pfandbrief Act (PfandBG).

**Section 28 (2) No. 1 b and c German Pfandbrief Act (PfandBG)
Receivables Used as Cover for Mortgage Pfandbriefe
Classified According to Areas in which the Mortgaged Property
is Allocated and Type of Use***

Total Cover	31.12.2016		31.12.2015	
	Commercial	Residential	Commercial	Residential
Flats		23.5		26.4
Single- and two-family houses		20.1		47.0
Residential buildings for several families		2,581.7		2,635.8
Office buildings	4,158.4		3,747.0	
Retail buildings	2,643.0		2,957.4	
Industrial buildings	104.2		108.4	
Other commercially used buildings	2,020.3		2,169.0	
Unfinished. as yet unprofitable new buildings	0.0	0.0	2.6	10.2
Building sites	4.2	6.2	11.2	6.8
Total	8,930.1	2,631.5	8,995.6	2,726.2

Belgium	31.12.2016		31.12.2015	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		0.0		0.0
Office buildings	189.6		134.8	
Retail buildings	0.0		0.0	
Industrial buildings	0.0		0.0	
Other commercially used buildings	0.0		0.0	
Unfinished. as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	189.6	0.0	134.8	0.0

Germany	31.12.2016		31.12.2015	
	Commercial	Residential	Commercial	Residential
Flats		23.5		26.4
Single- and two-family houses		20.1		47.0
Residential buildings for several families		2,545.8		2,519.6
Office buildings	2,059.5		1,838.5	
Retail buildings	1,657.8		1,930.9	
Industrial buildings	104.2		108.4	
Other commercially used buildings	1,863.6		2,035.4	
Unfinished. as yet unprofitable new buildings	0.0	0.0	2.6	10.2
Building sites	4.2	6.2	11.2	6.8
Total	5,689.3	2,595.6	5,927.0	2,610.0

* Without further cover pursuant to Section 19 (1) German Pfandbrief Act (PfandBG).

Amounts in € m

France	31.12.2016		31.12.2015	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		0.0		0.0
Office buildings	521.8		619.6	
Retail buildings	267.9		366.6	
Industrial buildings	0.0		0.0	
Other commercially used buildings	19.1		0.0	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	808.8	0.0	986.2	0.0

Great Britain	31.12.2016		31.12.2015	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		0.0		0.0
Office buildings	320.3		387.9	
Retail buildings	44.8		50.7	
Industrial buildings	0.0		0.0	
Other commercially used buildings	15.3		17.8	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	380.4	0.0	456.4	0.0

Netherlands	31.12.2016		31.12.2015	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		35.9		116.2
Office buildings	778.6		520.2	
Retail buildings	235.4		145.1	
Industrial buildings	0.0		0.0	
Other commercially used buildings	122.3		115.8	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	1,136.3	35.9	781.1	116.2

Poland	31.12.2016		31.12.2015	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		0.0		0.0
Office buildings	253.6		203.0	
Retail buildings	309.9		336.7	
Industrial buildings	0.0		0.0	
Other commercially used buildings	0.0		0.0	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	563.5	0.0	539.7	0.0

Czech Republic	31.12.2016		31.12.2015	
	Commercial	Residential	Commercial	Residential
Flats		0.0		0.0
Single- and two-family houses		0.0		0.0
Residential buildings for several families		0.0		0.0
Office buildings	35.0		43.0	
Retail buildings	127.2		127.4	
Industrial buildings	0.0		0.0	
Other commercially used buildings	0.0		0.0	
Unfinished, as yet unprofitable new buildings	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0
Total	162.2	0.0	170.4	0.0

Section 28 (2) No. 2 German Pfandbrief Act (PfandBG)
Payments in Arrears on Receivables Used as Cover
for Mortgage Pfandbriefe

	Total amount of payments in arrears for at least 90 days		Total receivables, where the respective arrears amount to at least 5 % of the receivable	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Germany	0.2	0.1	0.0	0.3
Total	0.2	0.1	0.0	0.3

Section 28 (2) No. 3 German Pfandbrief Act (PfandBG)
Average weighted loan-to-value ratio

	Amounts in %	
	31.12.2016	31.12.2015
Average weighted loan-to-value ratio	55.6	54.9

Section 28 (3) Nos. 1 to 3 Pfandbrief Act (PfandBG)

**Section 28 (3) No. 1 German Pfandbrief Act (PfandBG)
Receivables Used as Cover for Public Pfandbriefe
Classified According to Size***

Amounts in € m

Cover	31.12.2016	31.12.2015
Up to and including € 10 million	6.4	7.3
Between € 10 million and € 100 million	879.9	845.1
More than € 100 million	2,144.2	2,790.7
Total	3,030.5	3,643.1

**Section 28 (3) No. 2 German Pfandbrief Act (PfandBG)
Receivables Used as Collateral for Public Pfandbriefe
Classified According to Country and Type
of Debtor or Guarantor***

Total Cover	31.12.2016		31.12.2015	
	Direct receivables	Warranties	Direct receivables	Warranties
Central government	300.2	0.0	300.3	0.0
Regional authority	2,154.5	170.4	2,632.8	217.0
Local authority	0.0	0.4	0.1	0.4
Other	405.0	0.0	492.5	0.0
Total (direct receivables and warranties)	3,030.5		3,643.1	
Warranties included in this amount for reasons of export promotion	0.0		0.0	
Belgium				
Central government	0.0	0.0	0.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	55.0	0.0	15.0	0.0
Total (direct receivables and warranties)	55.0		15.0	
Warranties included in this amount for reasons of export promotion	0.0		0.0	
Germany				
Central government	102.2	0.0	102.3	0.0
Regional authority	2,129.5	170.4	2,607.8	217.0
Local authority	0.0	0.4	0.1	0.4
Other	250.0	0.0	250.0	0.0
Total (direct receivables and warranties)	2,652.5		3,177.6	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

* Without further cover pursuant to Section 20 (2) German Pfandbrief Act (PfandBG).

	31.12.2016		31.12.2015	
Canada	Direct receivables	Warranties	Direct receivables	Warranties
Central government	0.0	0.0	0.0	0.0
Regional authority	25.0	0.0	25.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total (direct receivables and warranties)	25.0		25.0	
Warranties included in this amount for reasons of export promotion	0.0		0.0	
Lithuania				
Central government	3.0	0.0	3.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total (direct receivables and warranties)	3.0		3.0	
Warranties included in this amount for reasons of export promotion	0.0		0.0	
Luxembourg				
Central government	0.0	0.0	0.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	27.5	0.0
Total (direct receivables and warranties)	0.0		27.5	
Warranties included in this amount for reasons of export promotion	0.0		0.0	
Austria				
Central government	95.0	0.0	95.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total (direct receivables and warranties)	95.0		95.0	
Warranties included in this amount for reasons of export promotion	0.0		0.0	
Poland				
Central government	100.0	0.0	100.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total (direct receivables and warranties)	100.0		100.0	
Warranties included in this amount for reasons of export promotion	0.0		0.0	
Switzerland				
Central government	0.0	0.0	0.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	100.0	0.0	200.0	0.0
Total (direct receivables and warranties)	100.0		200.0	
Warranties included in this amount for reasons of export promotion	0.0		0.0	

Section 28 (3) No. 3 German Pfandbrief Act (PfandBG)
Payments in Arrears on Receivables Used as
Cover for Public Pfandbriefe

Amounts in € m

	Total amount of payments in arrears for at least 90 days		Total receivables, where the respective arrears amount to at least 5 % of the receivable	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Central government	0.0	0.0	0.0	0.0
Regional authority	0.0	0.0	0.0	0.0
Local authority	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0

Section 28 (2) No. 4

Section 28 (2) No. 4 a to c German Pfandbrief Act (PfandBG)
Information on Foreclosures and Administrative Receivership
Proceedings, Overdue Interest and Repayments of Mortgage Loans

Number

	31.12.2016		31.12.2015	
	Commercial	Residential	Commercial	Residential
No. 4a Pending foreclosures	1	0	0	0
Pending administrative receiverships *)	1	0	0	0
*) of which in the pending foreclosures	1	0	0	0
Foreclosures carried out	0	0	0	0
No. 4b Cases in which property has been seized to prevent losses	0	0	0	0


Amounts in € m

	31.12.2016		31.12.2015	
	Commercial	Residential	Commercial	Residential
No. 4c Total interest in arrears	0.2	0.0	0.1	0.0

Statement of the Legal Representatives

“To the best of our knowledge, we give the assurance that, in accordance with the applicable accounting principles, the corporate accounts provide an accurate picture of the actual circumstances of the net assets, financial and earnings situation of the Bank, and that the course of business, including the results, and the Bank’s position are shown in the Management Report in such a way that the picture conveyed corresponds to the actual circumstances, and the material opportunities and risks of the probable development of the company are described.”

Berlin, 7 February 2017



Sascha Klaus



Gero Bergmann



Roman Berninger

Auditor’s Report

We have audited the annual financial statements, comprising the balance sheet, income statement, statement of cash flows and statement of changes in equity, and the notes to the financial statements, together with the bookkeeping system, and the management report of Berlin Hyp AG, Berlin, for the financial year from 1 January to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company’s Management Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code [HGB] and the generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal

environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and the provisions of the Company’s Articles of Association and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements, complies with the German statutory requirements and, as a whole provides a suitable view of the Company’s position and suitably presents the opportunities and risks of future development.

Berlin, 21 February 2017
KPMG AG
Wirtschaftsprüfungsgesellschaft

Kügler	Ginzinger
German Public	German Public
Auditor	Auditor

List of Abbreviations

Abs.	Absatz (paragraph)	HQE	Haute Qualite Environnementale (High Quality Environmental standard)
AG	Aktiengesellschaft (stock corporation)	HRB	Handelsregister Teil B (Commercial Register)
AktG	Aktien-gesetz	IA	Inanspruchnahme (called to account)
AMA	Advanced Measurement Approach	iBoxx	Index family for bond market indices
APP	Asset Purchase Program	IDW	Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany)
AReG	Abschlussprüferreformgesetz (German Audit Reform Act)	IF	Immobilienfinanzierung (real estate financing)
AT	non-tariff	IFRS	International Financial Reporting Standards
BA	Berufsakademie (University of Cooperative Education)	InstitutsVergV	Verordnung über die aufsichtsrechtlichen Anforderungen an Vergütungssysteme von Instituten (Institutional Remuneration Ordinance)
BCBS	Basel Committee on Banking Supervision	IREBS	International Real Estate Business School
BGB	Bürgerliches Gesetzbuch (German Civil Code)	IRRBB	Interest Rate Risk in the Banking Book
BGH	Bundesgerichtshof (Federal Court of Justice)	IT	Information technology
BiIMoG	Bilanzrechtsmodernisierungsgesetz (German Accounting Law Adjustment Act)	IWF	Internationaler Währungsfonds (International Monetary Fund)
BIP	Bruttoinlandsprodukt (gross domestic product)	KA	Kreditausschuss (Loans Committee)
BL	Bereichsleiter (division head)	K-Fälle	Katastrophenfälle (catastrophe case)
BREEAM	Building Research Establishment Environment Assessment	KR	Kredit (loan)
BRRD	Bank Recovery and Resolution Directive	KWG	Kreditwesengesetz (German Banking Act)
BSG	Betriebssportgemeinschaft (Company Sports club)	LCR	Liquidity Coverage Ratio
BSI	Bundesamt für Sicherheit in der Informationstechnik (Federal Office for Information Technology Security)	LGD	lost given defaults
CBPP III	CoveredBond Purchase Program	LEED	Leadership in Energy and Environmental Design
CCF	Credit Conversion Factor, Risikoklassenfaktor	LMA	Loan Market Association
CD	Corporate Design	LR	Leverage Ratio
CRD	Capital Requirements Directive	LTV	Loan-to-Value
CRR	Capital Requirements Regulation	MaRisk	Mindestanforderungen an das Risikomanagement (Minimum Requirements for Risk Management)
CSR	Corporate Social Responsibility	MaSan	Mindestanforderungen an die Ausgestaltung von Sanierungsplänen (Minimum Requirements for the Structure of Restructuring Plans)
D & O	Directors & Officers	MREL	Minimum Requirement for Eligible Liabilities
DCGK	Deutscher Corporate Governance Kodex (German Corporate Government Code)	NPL	Non Performing Loans
DGNB	Deutsche Gesellschaft für Nachhaltiges Bauen (German Sustainable Building Council)	NSFR	Net Stable Funding Ratio
DIIR	Deutsches Institut für Interne Revision (German Institute of Internal Auditors)	OHG	Offene Handelsgesellschaft (private partnership)
DRS	Deutscher Rechnungslegungs Standard (German Accounting Standard)	OI	Organisation/Informationstechnologie (organisation/information technology)
DSGV	Deutscher Sparkassen- und Giroverband (German Savings Bank Association)	OpRisk	Operationelle Risiken (operational risks)
DV	Datenverarbeitung (data processing)	PA	Prüfungsausschuss (Audit Committee)
EGHGB	Einführungsgesetz zum Handelsgesetzbuch (Introductory Law to the German Commercial Code)	PE	Personal (staff)
EstG	Einkommensteuergesetz (German Income Tax Code)	PfandBG	Pfandbriefgesetz (Pfandbrief Act)
ESZB	Europäisches System der Zentralbanken (European System of Central Banks)	PSA	Personal- und Strategieausschuss (Staff and Strategy Committee)
EU	European Union	PWB	Pauschalwertberichtigung (lump-sum value adjustments)
EURIBOR	Euro Interbank Offered Rate	RechKredV	Verordnung über die Rechnungslegung der Kreditinstitute (Regulation on the Accounts of Banking Institutions)
EWB	Einzelwertberichtigung (specific valuation allowances and reserves)	RST	Rückstellungen (reserves)
EZB	Europäische Zentralbank (European Central Bank)	RWA	Risk-weighted asset
FED	Federal Reserve Bank	SAG	Sanierungs- und Abwicklungsgesetz (Restructuring and Winding-Up Act)
FRA	Forward Rate Agreement	SAP	Systems, applications, products
GbR	Gesellschaft bürgerlichen Rechts (civil law partnership)	SEPA	Single Euro Payments Area
GmbH	Gesellschaft mit beschränkter Haftung (private limited company)	SolvV	Solvabilitätsverordnung (Solvency Regulation)
GuV	Gewinn- und Verlustrechnung (profit and loss account)	SRB	Single Resolution Board
HGB	Handelsgesetzbuch (German Commercial Code)	SRM	Single Resolution Mechanism
		SSM	Single Supervisory Mechanism
		TLTRO	Targeted longer-term refinancing operations
		TR	Treasury
		VaR	Value-at-Risk
		vdp	Verband deutscher Pfandbriefbanken e.V., Berlin
		ZIA	Zentraler Immobilien Ausschuss (German Property Federation)

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Important company information is available on www.berlinhyp.de abrufen.

Publications for our business partners in 2017

- Annual Report 2016 (German/English)
- Half-Year Financial Report to 30.06.2017 (German/English)
- Interim Report to 30.09.2017 (German/English)
- Sustainability Report 2016 (German/English)

In this Annual Report, reference to the masculine form naturally also includes the feminine form.

Imprint

Publisher

Berlin Hyp AG
Communication and Strategy
Budapester Strasse 1
10787 Berlin

**Concept, Editorial – Text and Design,
Layout and Typesetting**

wirDesign communications AG
Gotzkowskystrasse 20/21
10555 Berlin

Photography

ADO Properties S.A. (p. 19)
Edgar Berendsen (p. 2 / “6 February”)
Deutscher Sparkassen- und Giroverband (p. 2 / “26 April”)
gettyimages (Title)
Nicole Herbst (p. 2 / “19 September” and “6 October”)
Hoffotografen (p. 2 / “1 October”, pages 4, 5, 7)
Elke Jungwolff (p. 2 / “9 March”)
Messe City Köln 1 GmbH & Co. KG (p. 21)
OVG Cloud GmbH (p. 75)
Sedos GmbH (p. 76)
Tikehau Logistics Properties (p. 77)
Tishman Speyer (p. 20)

The future – A period of time that we invent.

Hoffotografen (p. 4/2)
Elke Jungwolff (Cover, pages 1, 4/1, 5, 6, 7, 10, 14, 15/1, 15/2, 15/3)
TheDive (p. 15/4)

Insights into
our future
process





berlinhyp 21
agile.connected.creative.

Change begins in each individual.



On the right track.

The world is changing faster than it ever has before. Holding on to what we already have is not a recipe for a successful future.

What will the Berlin Hyp of tomorrow look like? How do we successfully position ourselves for our customers in the long term?

We are thinking about change courageously, reacting agilely to future trends – from sustainability to digitalisation – and are getting in shape in terms of connectedness and creativity.

We are listening. We are open for new things. We are getting things done. Get to know a Berlin Hyp that is shaping its own future.

Warm regards,
Your Berlin Hyp

How are we thinking about change?

“

Listening to our partners carefully – internally and externally – that is the basis of our transformation. It is the only way that we will be able to react to our customers' needs quicker and more precisely.

Gero Bergmann,
Member of the Board of Management

“

Developing new processes takes the courage to think innovatively.

Roman Berninger,
Member of the Board of Management

“

We want to be a partner who our customers prefer in the future too. This is why we are giving so much space to new ideas.

Sascha Klaus,
Chairman of the Board of Management

Listening

We still have a lot planned.

Interview with Sascha Klaus

PAGE 4

agile. connected. creative.

Our vision of the future, berlinhyp21, requires us to be visionary enough to align all processes with the needs of the customer.

PAGE 6

Thinking innovatively

Good idea! Let's do it!

Together we are taking a holistic approach towards shaping the challenges of the future.

PAGE 8

Getting started

Focussing on the future

We are developing solutions for the bank of tomorrow in seven clusters.

PAGE 10

Space for innovation

Our new space21 is a symbol for all the spaces in which Berlin Hyp is continuing to develop.

PAGE 14



What will prepare us for the future? How do we have to be positioned in order to remain as successful as we have been in the past? We have a vision.

Sascha Klaus is the new Chairman of Berlin Hyp's Board of Management. An interview about the process the bank has initiated to prepare itself for the future.



We have
~~achieved a lot.~~
a lot planned!

The only way to stay successful in the long term is to think ahead today. Berlin Hyp is reacting to the challenges of our time with a strong, lively vision of the future. Since 1 October 2016, Sascha Klaus has been the new Chairman of the bank's Board of Management – and it is a bank in the midst of a transformation.

Mr Klaus, what do you think of your new bank?

I am taking on a bank with a good market positioning, but I still see a great willingness to change. We want to become even better and even more effective in the future. We want to be able to react more and more flexibly to what the customer expects of us. We want to have the courage to go beyond the usual limits where it is sensible and necessary for the future of our bank. United. Everybody together.

"agile. connected. creative." These are the keywords for your vision of the future.

Which of these three terms is shaping the bank's transformation the most at the moment?

All three of them to the same extent, because none of them works without the other. In order to be successful agilely, you need to be creative and you need to think unconventionally. The best ideas come about through team work and dialogue.

What do you personally find fascinating about change?

I really enjoy implementing things in a team. I am happy that we have already initiated the process of preparing ourselves for the future, berlinhyp21. I am working on a Board of Management that discusses things very quickly and unbureaucratically, and that can get behind a solution rapidly, which is very valuable. Our employees have already thought a lot about the future of our bank. Many projects are in the pipeline, some of them are already quite advanced.

What is the direction that you as the Board of Management are taking?

We want to be the best real estate financier in our markets in the near future in terms of reliability, speed, flexibility and pricing – and very sustainably at that.

What are the special potentials that Berlin Hyp can fall back on during its process of preparing itself for the future?

We are a speedboat-sized bank. If we are determined to achieve a goal together with our roughly 580 employees, we can achieve it quickly. Preconditions for this are good. We enjoy the full support of our owners, we have an excellent market reputation and – above all – we have a highly qualified team on board.

How do you manage to keep up the pace?

As the Board of Management, we must continuously question changes: what can the organisation do? What technological means does it have at its disposal? What are our customers' needs? What will they be like in the future? We want to live out the bank's vision. Provide new ideas. Equip the process of transformation with financial and temporal resources, get feedback, keep fine tuning it and be courageous. If you are not courageous, your organisation can't be either.

The courage to change – an important keyword. What do you say to colleagues who don't have that kind of courage?

I can understand the concerns some people have about the changes being made to their job description due to progress being made by the bank and the modernisation it is undergoing. But where that is the case, I say: let's be curious about how the bank will be running in a few years, once it has become even more digital, even faster and even more effective. It is important to transform concerns into optimism – then our courage will pay off. I am convinced that the bank can offer a successful future to anybody who is ready for it.



"We are a speedboat-sized bank."



89 percent of our customers

see Berlin Hyp as trustworthy and personal.
(Customer satisfaction survey)



agile.connected.creative.

The bank's vision of the future, berlinhyp21, means consistently directing all processes toward meeting the needs of our customers. At its centre are three keywords that play a decisive role in the success of a real-estate bank in the 21st century.

Thoughts that move us.

From a customer's perspective, more than anything, digitalisation means simplifying life.

Georg Fahrenschon
President of the DSGV

If we always do what we've always done, we'll always get what we've always gotten.

Henry Ford
Founder of Ford Motor Company

The man who has no imagination has no wings.

Muhammad Ali
boxing legend

In actual fact, "proximity" is now less and less likely to be measured in metres.

Sven Gabor Jänszky
Future researcher
at the 2016 German Savings Bank Day

Those who know where their path will lead them from the beginning will never get very far.

Napoleon
Emperor of France

The biggest mistake you can make in your life is to be always afraid of making a mistake.

Dietrich Bonhoeffer
Theologian

Ultimately, it is the customers who will decide who the winners and losers of digitalisation are.

Frank Schwab
co-founder of the FinTech Forum

We are the change that we seek.

Barack Obama
former US President

Simple is simply better.

Michael Hartschen
Simplicity coach at the 2016 German Savings Bank Day

If we want everything to stay the way it is, then everything has to change.

Giuseppe Tomasi di Lampedusa
Italian author

A vision becomes a reality when we have the courage to go beyond our limits together.

Lena Meichsner
Author

It is the visions, the entrepreneurial spirit and the willingness to change that decide the success of banks.

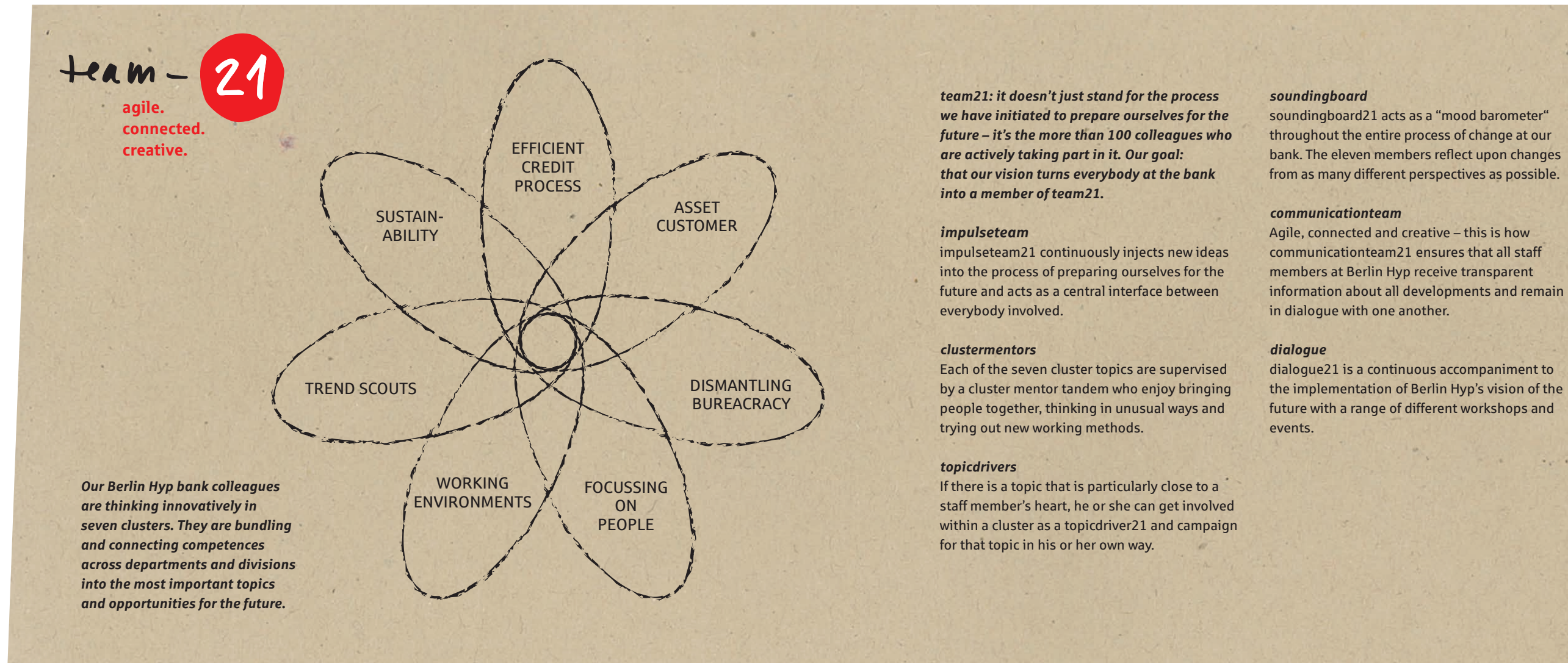
Fabian Flach
Head of Financial Services for SAP Germany

Everything that can be digitalised will be digitalised.

Carly Fiorina
Former manager at HP

The best way to predict the future is to invent it.

Alan Kay
American computer scientist



That's how we do it!

Good idea!

Together we are taking a holistic approach towards shaping the challenges of the future.

Berlin Hyp says **Yes** to change.

"Yes" to new ways of thinking, new structures, processes, working methods. This is why space is being created throughout the bank to enable people to swiftly take action and connect.

Our process for preparing ourselves for the future, berlinhyp21, stands for a bank that reacts agilely, unbureaucratically and flexibly to the needs of its customers at all times. Berlin Hyp wants to be a real-estate bank that is connected and takes action, and whose infrastructure doesn't set limits, but rather points out new opportunities. At Berlin Hyp, new ideas don't just come about – they can be implemented creatively and quickly.

Across all of our departments, employees find integrated perspectives on projects and topics that are important for the future of our partners. They shape the path of continuous transformation in a permanent dialogue, without hierarchies, supporting each other while they try out new approaches.

What does the Board of Management do?

It gets involved and supports.

What kind of *added value* do we want to use to excite customers in the future?

ASSET CUSTOMER

Customers determine the action that Berlin Hyp takes. It is becoming increasingly important to get to know them as well as possible, to provide them quickly and agilely with what they really need.

This is why Berlin Hyp is continuously expanding and adjusting its product range to meet current and future requirements. It is very important that we align our products with the needs of the Savings Banks as effectively as possible.

By effectively and digitally managing data and by using new interfaces between it and its financing partners, the bank will be able to identify specific needs even faster in the future and incorporate them into the development of specific products.

Berlin Hyp is optimising all of its processes for agile decision making. In future, employees will be able to access all of the important information about their customers even more easily, provide them with transparent insights into their processes and enable quicker responses for reliable offers.

Berlin Hyp relies on high performance and its excellent expertise, and encourages entrepreneurial thinking and customer-oriented attitudes in all of its employees throughout the bank.

Really getting to know our customers and providing them with what they want is our special task. A really enjoyable one.



• GETTING STARTED •

EFFICIENT CREDIT PROCESS

Significantly quicker decision-making processes require leaner procedures in credit processes. Berlin Hyp's goal is to improve and accelerate decision-making and to align it even more with the customer through more intense collaboration between all bank divisions.

The bank is establishing the foundations for increasing efficiency and the acceleration of processing and decision-making in its "Enterprise" project.

"Enterprise" is a digital platform that enables users to electronically administer and edit documents across divisions. It simplifies employees' day-to-day work.

The electronic file is also completely paperless, encouraging users to utilise resources more carefully. An electronic invoice workflow will be implemented in a next step.

We are preparing ourselves technologically for the next decade.

How does Berlin Hyp reconcile complex legal requirements and

fast processes?

How can Berlin Hyp learn from the Fintechs

today?

TREND SCOUTS

We want to communicate, engage and connect with our customers digitally and in a forward-looking way.

For Berlin Hyp, digitalisation means working connectedly. When we say "connectedly", we do not just mean using state-of-the-art technology, but also keeping an eye on potential digital products and innovations. What could help our customers and what will they want next? What do future partners

require? Berlin Hyp is continuously researching potentials in a targeted way to simplify and digitalise its business model and its communication with customers. It is learning to identify, interpret and utilise important developments early on.

What will the bank's company culture

of tomorrow look like?

FOCUSSING ON PEOPLE

Employees who do their best for their customers are the key to Berlin Hyp's success. This is why the bank does everything it can to utilise the strengths of its staff and to create optimal working conditions that can be used individually. The vision "agile. connected. creative." envisages the dismantling of bureaucratic formalities in a way that is as far-reaching as possible, continuously strengthening connected togetherness and promoting development opportunities and

personal initiative. We have already seen some initial success: creative regulations for trust-based working hours and mobile working as well as a modern lunch offer show the very practical effects of successfully thinking together.

Two steps forward, one step back – but always a bit better, because we are always learning.



What increasingly influences the hierarchy?

This is the core of agile working, a mixture of different forms and constellations.

People come together, leave again, get together in another round and find solutions – eye to eye. And it doesn't matter at all who is on which level of the hierarchy.

WORKING ENVIRONMENTS

Employees in a modern bank work together with courage and respect, fairly and creatively. They are connected, they communicate and work in work spaces that encourage them to have new ideas and take action quickly. Berlin Hyp is already committed to testing new working methods and setting up new modern working environments. Employees shape their environments themselves and decide which rules, atmospheres and elements they require in order to have good ideas and forge new paths. Colleagues are trained to become meeting pilots and to learn the methods of design thinking. Teams then come together multidisciplinary under the supervision of the pilot in order to think about innovative solutions entirely from the perspective of the customer.

What opportunities are provided by actually implementing sustainability?

SUSTAINABILITY

Sustainability is an important topic for Berlin Hyp and means more than just providing financing for green buildings. The deeper the topic of sustainability is entrenched within the company and its culture, the more successfully the bank will be able to act sustainably and in a targeted way. This is why economic, ecological and social sustainability management measures are in place on all corporate levels and now affect all employees. Colleagues are getting actively involved as a result, in order to uncover and promote opportunities for taking action more consciously. This committed interplay helps the bank to find firm footing.

By issuing the Green Pfandbrief in 2015 and the Green Senior Unsecured Bond the following year, Berlin Hyp already set a number of notable milestones in the financing of "green buildings". On its journey to becoming a green financier and issuer, it is now being approached about the topic of energy efficiency as a highly professional partner.

The bank's structured environmental management system aims to keep reducing resource consumption throughout the company. One example of this is the way that the regulation for company cars has now become more "electromobile", and pool bikes have been available for inner-city trips since the beginning of 2016. Due to increased utilisation of telephone and web conferences, many business trips have already become obsolete.

Ecological, economical and social innovation are shaping the future of our bank.

Colleagues are provided with a range of ideas about how to save energy at the workplace during mandatory training, which is complemented by a series of lectures during an internal sustainability day. The multi-award-winning motivational campaign "mission E" will now increase awareness of energy efficiency with regular campaigns and information events over a period of two years.

The bank already achieved an important interim goal in December 2016 when it received EMAS validation, which is a strict European standard.

How do quick,

simple processes

enable us
to see
what matters?

DISMANTLING BUREAUCRACY

Berlin Hyp promotes process-oriented working methods and cross-divisional action. This is why the bank has been examining all of its existing processes since November 2015. All forms and templates have been assessed and replaced or deleted if necessary in order to streamline the work done by our employees and make it more "agile". There is now a new map of all processes, which shows colleagues where they can find interfaces for collaboration. This prevents them from performing redundant tasks and means that joint potentials can be utilised. The bank's new purchasing management programme is now taking care of shorter, more efficient routes, which means that employees can focus all their energy on the things that are really important.

The goal of our streamlining is:
less bureaucracy, more time for the customer.

Space for new things.

Berlin Hyp's
new space21 is a
symbol of what the
bank of tomorrow
will feel like.

What do we want to achieve?
That's right: a bank
in which we are consciously breaking
new ground.

Versatile,
in a state of permanent development:
the new bank is just like us.

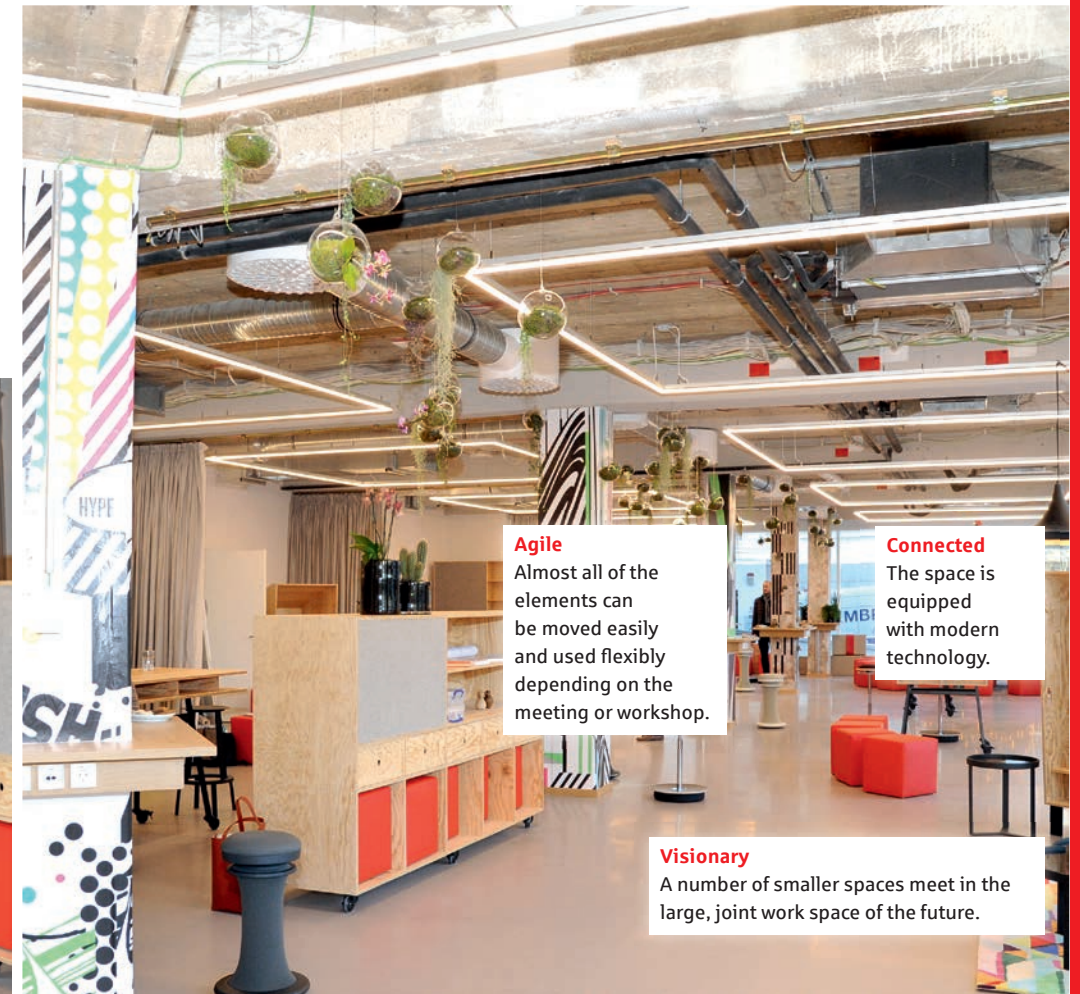
Creative methods provide us with space.
We imaginatively fill it with life.

What does a space look like in which our employees
can help the Berlin Hyp wall to fall – both mentally
and in real life?

The bank is on an unusual, imaginative journey – in
its new space21 too. Since December 2016, colleagues
have been testing unusual working methods and
trying out new ways of thinking in a kind of labora-
tory, with agile workplaces, networking spaces and a
lecture theatre.

Be different. Think different: Innovative jours fixes
and enriching workshops take place in a creative
atmosphere that they have created for themselves.

space21 is almost symbolic. Exemplary and influ-
ential, it stands for all of the spaces at Berlin Hyp in
which the bank continues to develop in a way that is
agile, connected, creative.



Agile
Almost all of the
elements can
be moved easily
and used flexibly
depending on the
meeting or workshop.

Connected
The space is
equipped
with modern
technology.

Visionary
A number of smaller spaces meet in the
large, joint work space of the future.



Creative
Colleagues can set
down their ideas on
wipeable walls and
elements while they
look for productive
solutions.

Together
The space's mood
lighting can be
regulated individ-
ually. This means
that different teams
can work in different
atmospheres at the
same time.



Typically us.

21 insights from our new journey

1

Change begins in each individual.

2

Listening to our partners carefully – internally and externally – that is the basis for our transformation. It is the only way that we will be able to react to our customers' needs quicker and more precisely.

3

Developing new processes takes the courage to think innovatively.

4

We want to be a partner who our customers prefer in the future too. This is why we are giving new ideas so much space.

5

What will prepare us for the future? How do we have to be positioned in order to remain as successful as we have been in the past? We have a vision for this.

6

We still have a lot planned.

7

We are a speedboat-sized bank.

8

We want to be the best real estate financier in our markets in the near future in terms of reliability, speed, flexibility and pricing.

9

Change also means dialogue. With things that you would like to improve.

10

What is happening here is a process: Everybody should be able to optimally play a part at any time.

11

Faster. Leaner. More united.

12

Really getting to know our customers and providing them with what they want is our special task. A really enjoyable one.

13

We are already preparing ourselves technologically for the next decade as far as we can.

14

We want to communicate, engage and connect with our customers digitally and in a forward-looking way.

15

Two steps forward, one step back – but always a bit better, because we are always learning.

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This is the core of agile working, a mixture of different forms and constellations – eye to eye.

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Ecological, economic and social innovation are shaping the future of our bank.

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The goal of our streamlining is: less bureaucracy, more time for the customer.

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What do we want to achieve? Just that: a bank in which we are constantly breaking new ground.

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Versatile, in a state of permanent development: the new bank is just like us.

21

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