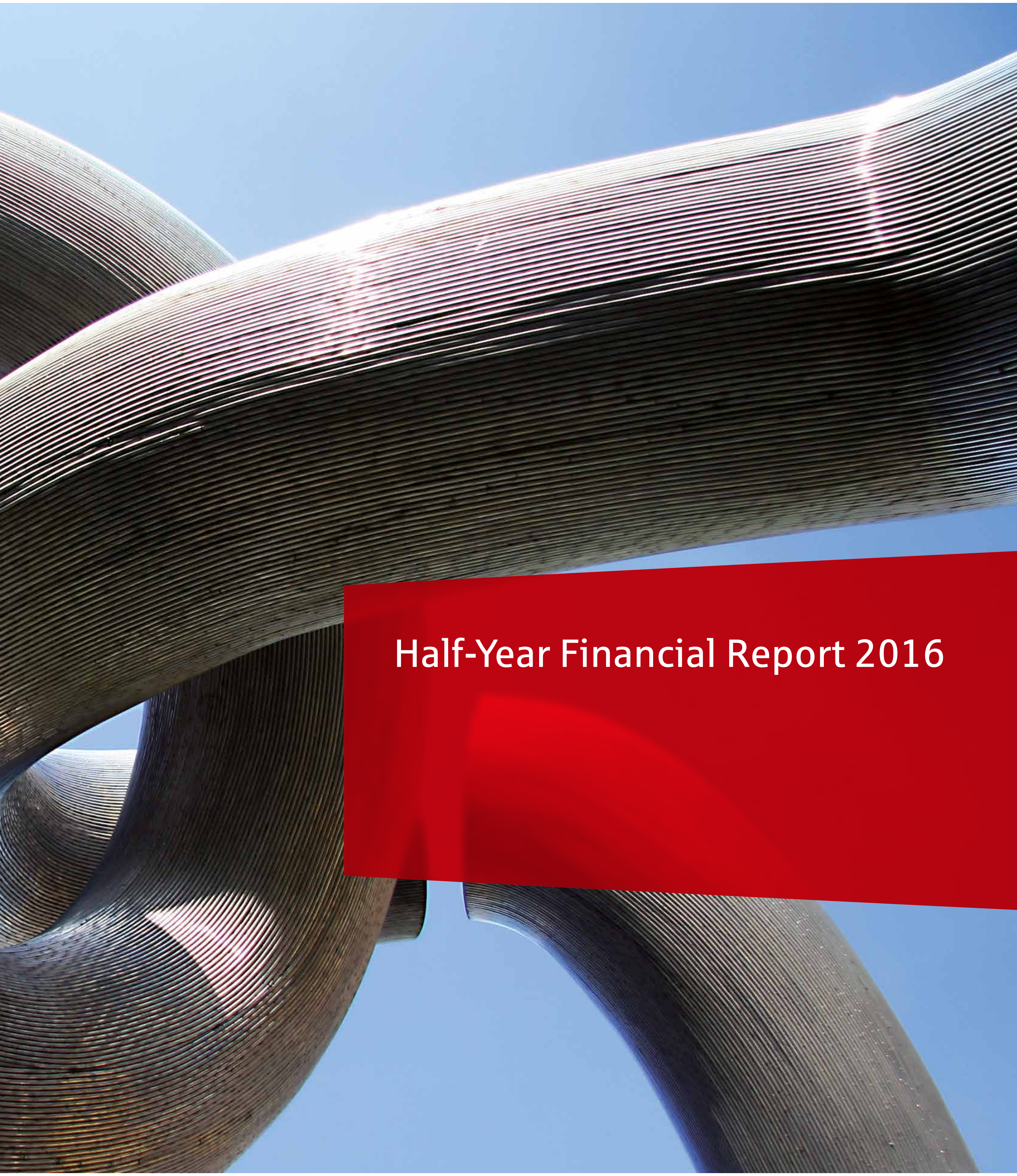
A partnership built on trust

Berlin Hyp



Half-Year Financial Report 2016

Finanzgruppe

Key Figures of Berlin Hyp

Excerpt from the Balance Sheet € m	30.06.2016	31.12.2015
Claims against banking institutions	585	673
Claims against customers	20,872	20,610
Of which:		
a) Mortgage loans	18,169	17,898
b) Public-sector loans	2,641	2,652
Liabilities to banking institutions	6,910	6,297
Liabilities to customers	5,699	6,349
Of which:		
a) Registered mortgage Pfandbriefe	2,504	2,479
b) Registered public Pfandbriefe	1,224	1,246
Securitised liabilities	13,701	13,383
Of which:		
a) Mortgage Pfandbriefe	8,499	7,926
b) Public Pfandbriefe	1,605	1,650
Reported equity	936	936
Balance sheet total	28,716	28,544

Excerpt from the Profit and Loss Account in € m	01.01. - 30.06.2016	01.01. - 30.06.2015
Net interest income	132.0	125.7
Net commission income	19.3	13.3
Staff expenditure	25.7	39.1
Other operating expenditure	21.7	21.8
Depreciations on tangible assets	2.0	1.9
Operating expenditure	49.4	62.8
Risk provisioning	32.1	31.5
Operating result*	69.7	57.0
Income from financial investments	2.7	0.7
Bank levy	10.9	17.7
Provision for general banking risks	30.0	0.0
Profit transfer	31.5	39.9
Net income for the year	0.0	0.0
Cost-income ratio in %	32.7	41.2
Return on equity in %	11.8	7.8

* The previous year's figures have been adjusted accordingly for the discontinuation of the "extraordinary result" from 2016

Business Development € m	01.01. - 30.06.2016	01.01. - 30.06.2015
New loan commitments	2,500	1,747
New lending	2,500	1,747
Of which: Residential loans	577	454
Commercial loans	1,923	1,293
Public-sector loans	0	0
Extensions (capital employed ≥ 1 year)	376	477
Non-performing loans	431	524

Regulatory law key figures € m*	30.06.2016	31.12.2015
Hard core capital (CET1)	1,006	1,007
Additional core capital (AT1)	0	0
Core capital (T1)	1,006	1,007
Supplementary capital (T2)	291	316
Equity/total capital (Total Capital)	1,297	1,323
RWA	7,929	7,598
Hard core capital ratio (CET1-ratio) in %	12.7	13.3
Core capital ratio (T1 ratio) in %	12.7	13.3
Total capital ratio in %	16.4	17.4
Leverage Ratio in %	3.3	3.5

* previous year figures after adoption

Other	30.06.2016	31.12.2015
Number of employees (as at the reporting date)	584	576

Content

Preface

Dear Business Partners and Colleagues,

In addition to geopolitical uncertainty on account of numerous conflict hotspots worldwide and the continued migration crisis, as well as economic uncertainty stemming from the Eurozone debt crisis, our "new normality" continues to include low growth rates and returns along with increased regulatory demands. It is not yet possible today to foresee the impact of the EU referendum in the United Kingdom on Brexit, which surprised us all.

Taken together, these factors are leading to great uncertainty among market participants. Yet despite these very demanding conditions, we got off to a good start this year. Your Berlin Hyp again managed to assert its market position as one of the leading real estate financers in the reporting period and has continued to develop successfully within the Savings Banks Finance Group.

Accounting for the allocation to the fund for general banking risks in accordance with Section 340g German Commercial Code (HGB) of € 30.0 million, Berlin Hyp generated a very favourable result before profit transfer of € 31.5 million (previous year: €39.9 million), as planned.

In the German commercial real estate market, the transaction volume for the first half of the year decreased by around 26 % to € 17.9 billion. The decrease was mainly due to an increasingly limited supply and the growing competition for attractive investments. Transaction volume remains high, however, despite the global and fiscal factors.

Berlin Hyp is pleased to announce that it raised its new business volume of € 2.9 billion year on year, including long-term extensions, in the first half of 2016. Of this financing, 72 % was related to properties in Germany. At 78 %, investors formed the largest customer group. In spite of the fierce competition and perceptibly higher pressure on margins, we are keeping an eye on risks and continuing to use sound judgement in providing financing, as we have in the past.

We have also successfully expanded our S-Group business, thereby strengthening our role as a partner. Twenty-three savings banks invested in the ImmoSchuldschein that we placed in the first half of the year, bringing the number of banks that have taken advantage of the ImmoSchuldschein to 83. Once again, demand exceeded supply. Right now, a transaction that includes a commercial portfolio is being marketed for the first time. The total volume of common transactions with savings banks amounted to around € 0.9 billion.

Berlin Hyp continued to be very soundly refinanced. It benefits from the reputation it has built up over many years as a sound and reliable issuer and its involvement in the Savings Banks Finance Group. All told, we issued mortgage Pfandbriefe with a total volume of € 1.5 billion, including two benchmark issues, in the first half of the year. In March, the Bank placed the first Pfandbrief with a negative issue yield, which attracted a lot of attention on the capital market. Berlin Hyp's „Green Bonds" are also a particularly important aspect of the Bank's sustainability management. Four awards that the Bank recently received for its pioneering work in this field underscore its special achievements in this segment.

Pursuant to the Solvency Regulation (SolvV), the core capital ratio as at 30 June 2016 was 12.7 %, and the total capital ratio was 16.4 % (previous year: 12.5 % and 16.8 % respectively).

In July, the Bank's Supervisory Board also resolved the issue of who would follow our long-serving Chair of the Board of Management, Jan Bettink, and appointed Sascha Klaus to the Board of Management. Klaus will become a member of the Board of Management on 1 September 2016 and will take over as Chair on 1 October 2016.

Outlook

It is not yet possible today to foresee the impact that the Brexit decision will have on the political and economic future of the European Union. The high level of volatility on the financial markets will remain, and the uncertainty and duration of the exit negotiations give cause for concern that companies will be highly reluctant to make investments. The resulting decline in the attractiveness of the British real estate market is expected to make Germany even more interesting for investors as a "safe haven". In view of a lack of investment alternatives paired with high liquidity on the market, the pressure on returns is likely to increase further, and the competition on the real estate financing market will continue to be very intense.

The "new normality" mentioned earlier on with regard to the impact of the ECB's monetary policy and the constantly rising regulatory demands on the real estate financing business remain challenging conditions that will continue to shape the course of events this year.

Provided that the markets are not affected by any unforeseen turbulence, we expect the remainder of the financial year to progress as planned.

Dealing with challenges is nothing new for us. Our stable and sound business model has already successfully weathered many a storm, and we remain on track even in the face of increasingly fierce competition – both when it comes to real estate financing and our S-Group business.

You have to constantly take a critical look at yourself and develop further to be successful in the long term. This is our firm belief. As a result, we launched a comprehensive modernisation process at the start of the year that we intend to use to critically examine products, working procedures and processes and shape them in such a way that they are fit for the future. Various new projects that serve to prepare the bank for the progress of digitalisation and increasing regulation are also included in this. We also pay particular attention to personnel issues and sustainability management.

The demographic development of our staff and the measures that may potentially become necessary, along with comprehensive HR reporting, are already being expressly discussed by our Board of Management. We also closely involve our employees, not just in the development of new products and solutions in sales, but also so as to discuss new, sustainable ways of cooperation, try them out and introduce them at our company.

By way of our sustainability report, which was published in the second quarter, we have also taken steps to show that we are aware of our duty to uphold our social and societal responsibility and have underscored their significance within our company management activities.

One thing is clear: we want to continue to secure the success of our bank in the future – for owners, customers and employees.

Best regards from Berlin. Yours sincerely,

Jan Bettink Gero Bergmann

Roman Berninger Dr. Michael Schieble

Berlin, August 2016

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 KölnBonn

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

Thomas Mang
President of Savings Banks Association of Lower Saxony

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

Thomas Meister
Bank employee

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
Chairman 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
Chairman 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

Board of Management

Jan Bettink
Chair

Gero Bergmann

Roman Berninger

Managing Director

Dr. Michael Schieble

Trustee

Christian Ax

Deputy Trustees

Wolfgang Rips

Philip Warner

Interim Management Report

Economic Report

Macroeconomic and Sector-Related Framework Conditions

The macroeconomic climate was dominated by political and economic uncertainty in the first half of 2016, as stated in the Management Report as at 31 December 2015. This included political instability in Syria and the Middle East, the ongoing refugee crisis and the continuation of low-interest-rate policies in response to the sovereign debt crisis. Other negative factors included the Italian banking crisis and the outcome of the European Union referendum in the United Kingdom, in which a majority of British citizens voted to leave the EU and set a mandate for the Brexit process, which came as a huge surprise to many.

In spite of this uncertainty, gross domestic product growth rates both in the Eurozone and in Germany were distinctly above prior-year rates in the first quarter of the year, before drifting somewhat in the second quarter of the year according to preliminary figures. Private consumption, bolstered by improvements to the employment market and low interest rates, was the primary driver of this growth. However, the aforementioned uncertainty dampened economic development overall.

The price of oil recovered considerably over the course of the first half of 2016 but continues to trade far below the average over the past five years. Consumer price development, which is predominantly reliant on the price of oil, rose slightly. However, it remains far short of the European Central Bank's (ECB) inflation target, both in the Eurozone and in Germany.

There remains no interest rate rebound on the horizon on the European capital market. In March 2016, the ECB lowered its benchmark rate to an all-time low of 0.00 % in response to the subdued inflation in the Eurozone and low economic growth. In its Forward Guidance, the ECB made clear that it would not be raising benchmark rates again before the conclusion of its asset purchase programme (APP). In addition, the ECB also failed to rule out further monetary policy intervention.

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

The ECB Council also approved four further targeted longer-term refinancing operations (TLT-RO II) in March. All funding operations run for four years and will be offered to banks every three months, starting in June 2016. Interest on the four-year funding operations is based on the banks' own lending policies and can be as low as -0.4 %. The aim of these TLTROs is to incentivise banks to lend to the real economy and push the rate of inflation back up to the ECB's target range of around 2 %. In addition, the ECB has also added another programme for the purchase of private sector securities to its asset purchase programme (APP), which began in 2014 with the purchase of covered bonds and was developed to include bonds from public issuers in 2015. The total volume of assets purchased per month as part of the APP was increased from € 60 billion to € 80 billion in April 2016. Due to the accommodative central bank policy, low or negative interest rates continue to dominate the capital market. Even 10-year German bunds were posting negative yields at the end of the reporting period; the same applies to large swathes of the euro area yield curve.

Stock markets around the world were in volatile shape in the first half of 2016. At the beginning of the year, concerns regarding the development of the Chinese economy and one all-time low after another in terms of the price of oil were exerting pressure on the markets, while the Brexit referendum and persistent concerns over economic growth in the Eurozone's peripheral member states had the same impact towards the end of the period.

In the United States, the economy painted a somewhat different picture at the start of the year. Following the initial raising of benchmark rates from 0.25 % to 0.5 % in December 2015, speculation was rife on further imminent rate intervention by the US central bank, the Federal Reserve. The US economy was in robust shape and, accordingly, unemployment was low. However, the situation gradually transformed over the course of the year, with the UK's decision to leave the EU being the final straw. It remains to be seen whether the United States will raise interest rates any further. Aside from the low interest rates and uncertainty on the capital market, banking institutions have a number of other challenges to contend with. Regulatory bodies continue to raise their requirements on banking supervision. The implementation of Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR), the novations to the Minimum Requirements for Risk Management (MaRisk) and the establishment of the Single Supervisory Mechanism (SSM) in Europe are just some examples of this. Related measures are having an increasing impact on both human and monetary resources.

In the first half of 2016, investor activity on the German real estate market declined markedly compared to the previous year. Nevertheless, transaction volume remains up on the ten-year average. Factors at play here continue to include the 0 % interest environment, which is pushing an increasing number of investors into the real estate asset class, and the stable economic situation in Germany. The ongoing scarcity in supply, coupled with the high demand, resulted in prices rising further in the first two quarters.

On the commercial real estate investment market, transaction volume was down by roughly 26 % year on year to € 17.9 billion (previous year: € 24.2 billion) in the first half of 2016. Transaction volume on the residential investment market fell even further, by some 73 % from € 16.6 billion to € 4.5 billion. It should be noted, however, that business combinations and acquisitions of large housing societies were attributed to the previous-year period. Excluding these effects, the decrease amounts to roughly one quarter and is therefore in a similar range to the decline on the commercial real estate investment market overall. The fall was due in particular to a lack of supply and the increasingly fiercely competition for attractive investments. Irrespective of this, transaction volume remains at a high level, as described above.

Business Development

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 first half of 2016. In spite of the ongoing low-interest phase, high volatility on the financial markets and ever-stricter regulatory requirements, the Bank was successful in cementing its position as one of the leading real estate financers in Germany in a fierce competitive environment. New lending volume, including realised extensions (capital employed ≥ 1 year), amounted to approximately € 2.9 billion in the first half of 2016.

Source for real estate market data: CBRE.

Considering the step forward in S-Group business with German savings banks, we believe that we will maintain this new lending trend over the rest of the year. As stated in the 2015 forecast report, we anticipate new lending volume to match the solid previous year in 2016, including from a risk standpoint; this remains an ambitious target moving forward.

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 the year 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. Berlin Hyp conducted a preliminary study on the necessary technical measures to ensure that aggregated risk data and high-quality reports in line with new MaRisk and Basel Committee on Banking Supervision regulations (BCBS 239) can be generated more effectively and efficiently from late 2018. This project began in early July.

Earnings Situation

Berlin Hyp recorded an increase in net interest and commission income in the first half of 2016 as well as a fall in operating expenditure. In spite of a year-on-year drop in other operating income, the operating result before risk provisioning rose significantly from € 89.6 million in the previous year to € 101.8 million.

The required level of risk provisioning remained practically unchanged compared to the previous year.

The European banking levy, which was already set at the full annual figure as at 30 June 2016 according to the demand for payment, amounted to € 10.9 million and was much lower than the previous year's figure of € 17.7 million.

The positive earnings performance overall was used to strengthen the Bank's equity capital with a € 30.0 million addition to the fund for general banking risks pursuant to Section 340g German Commercial Code (HGB). As a consequence, earnings before tax came in at € 31.4 million, down on the previous year's figure of € 39.9 million.

Net Interest Income Up

Net interest and commission income rose by € 139.0 million year on year to € 151.3 million.

Net interest income rose by € 6.3 million year on year to € 132.0 million. This rise was primarily due to an increase in mortgage loans and a further drop in refinancing expenses. The increasing pressure on margins offset this effect. Positive one-off effects, such as the receipt of prepayment charges, were also largely offset by countermeasures to reduce the burden in future periods.

Net commission income amounted to € 19.3 million, which was around € 6.0 million above the solid 2015 figure. This was due to the extremely positive new lending business.

Operating Expenditure Affected by Special Effects

Operating expenditure of € 49.4 million, significantly down on the previous year's figure of € 62.8 million, comprised staff expenditure, other operating expenditure and write-offs on fixed assets and intangible assets.

Staff expenditure also fell significantly by € 13.4 million year on year to € 25.7 million as a result of the expansion of the evaluation period for the calculation of pension obligations to 10 years and the associated fall in deferred amount.

Other operating expenses were slightly down year on year at € 21.7 million (previous year: € 21.8 million) and included legal and consulting costs, IT expenditure and intra-Group charges for the administrative holding costs related to the managing institution from a regulatory perspective. Write-offs on fixed assets and intangible assets did not experience significant change.

Other Operating Result

The Bank reported other operating income of € -0.1 million (previous year: € 13.4 million). This primarily included expenditure for the continued compounding of pension reserves, fees for the Detailed Agreement concluded with the State of Berlin in 2001 and the revaluation of pension provisions within the scope of the first-time adoption of the German Accounting Law Modernisation Act (BilMoG), which were reported in the previous year under extraordinary expenses. The decline was the result of income from the liquidation of reserves generated in the previous year.

Risk Result Stable

Taking into account the formation of reserves pursuant to Section 340f German Commercial Code (HGB), the Bank's total risk provisioning for the first half of the year amounted to € 32.1 million (previous year: € 31.5 million).

Risk provisioning for the lending business was bolstered by favourable underlying economic conditions and the Bank's active risk management strategy. In spite of the formation of reserves pursuant to Section 340f German Commercial Code (HGB), risk provisioning for the lending business only just exceeded expectations at € 28.0 million (previous year: € 6.8 million).

Total risk provisioning for securities in the liquidity reserve stood at € 4.1 million, down from € 24.7 million in the previous year. This largely comprised valuations at the lower of cost or market value.

The Bank adequately took all recognisable and potential risks into consideration with the recognition of value adjustments.

Positive Net Income from Investments

Net income from investments is largely defined by write-ups and gains on disposal and totalled € 2.7 million (previous year: € 0.7 million).

Restructuring Fund (Bank Levy)

The annual expenditure for the European bank levy due for 2016 was fully recognised in the first half of the year with the demand for payment of € 10.9 million submitted by the Federal Agency for Financial Market Stabilisation (FMSA). This corresponds to a € 6.8 million fall in expenditure compared to the figure estimated in the previous year.

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 € 30.0 million (previous year: € 0 million) in the first half of 2016 in order to continue to meet the higher equity capital requirements for credit institutions. The fund now stands at € 133.0 million.

Lower Earnings Before Tax

In accordance with its planning, the Bank posted earnings before tax of € 31.4 million, down on the solid figure of € 39.9 million generated in the previous year. In addition, the fund for general banking risks was able to be increased by € 30.0 million.

Net Assets Position

The balance sheet total came to € 28.7 billion as at 30 June 2016. This increased moderately by € 0.2 billion compared to the end of 2015.

The Bank was able to once again increase its receivables in the mortgage portfolio slightly by € 0.3 billion to € 18.2 billion (31 December 2015: € 17.9 billion). Additions from new lending were offset by unscheduled outflows as a result of premature repayments.

The portfolio of fixed-interest debentures remained practically stable at € 6.4 billion (31 December 2015: € 6.5 billion).

On the liabilities side, liabilities to banking institutions rose by € 0.6 billion to € 6.9 billion. In return, liabilities to customers fell by € 0.7 billion to € 5.7 billion. Securitised liabilities increased slightly by € 0.3 billion to € 13.7 billion due to new issues. Subordinated liabilities remained unchanged at € 0.4 billion.

Equity Capital

Berlin Hyp's reported equity at the end of the first half of the year remains unchanged at € 935.9 million. This figure includes profit carried forward of € 2.2 million. In addition, € 103.0 million is available in the form of a regulatory reserve pursuant to Section 340g German Commercial Code (HGB) and € 296.0 million of subordinated capital that is capable of being taken into consideration under regulatory law. The existing subordinated capital, with a nominal value of € 443.2 million (previous year: € 446.1 million), complies with the regulatory requirements.

In relation to the risk items pursuant to the Solvency Regulation (SolvV), the core capital ratio as at 30 June 2016 was 12.7 % and the total capital ratio was 16.4 % (previous year: 12.5 % and 16.8 % respectively).

Further tightening of CRR requirements played a major role in the development of capital ratios, as did high extraordinary outflows in the portfolio, and therefore in risk items, caused by high levels of market liquidity and low interest rates.

Stricter regulatory requirements are planned in the coming years (Basel IV), which will also have a strong impact on Berlin Hyp. The Bank plans to mitigate these increased capital requirements by forming corresponding provisions.

New Lending

New lending in the real estate financing business, including realised extensions (capital employed ≥ 1 year), amounted to € 2.9 billion (previous year: € 2.2 billion) in the first half of 2016. However, margins in new loans granted declined sharply in comparison to the first half of 2015, despite no changes to the Bank's risk conduct. The intense competition among lenders continues to rise, which will also result in a noticeable increase in pressure on the margins in the future. This will continue to be enhanced by high liquidity on the market and the use of this liquidity to finance investments.

Of the new financing (excluding extensions), 72 % were attributed to properties located in Germany. 50 % of new financing was located in the former West Germany and 22 % in Berlin and the former East Germany. 28 % relates to the financing of properties located outside Germany.

A substantial 78 % of new lending related to the investors customer group and a further 15 % was concluded with housing societies. The remaining 7 % relates to builders/developers.

Financial Position

The first six months of the year were initially characterised by a further fall in yields on the Europeanbond market. Among the beneficiaries of the low-interest environment, the low risk premiums and the expansion of the ECB's bond-buying programme to include corporate bonds were senior unsecured bonds, which remained in demand in the reporting period despite the persistent bail-in debate. Risk premiums on covered bonds from Eurozone member states continued their trend of converging credit spreads over large parts of the first half of the year. This asset class enjoyed brisk demand among investors in the reporting period, which was reflected in oversubscribed – some of which considerably – order books. A total of € 91.25 billion of covered bonds were issued in benchmark format worldwide, the most in a six-month period since the first half of 2011.

Berlin Hyp had market access at all times. The Bank 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. Overall, the Bank issued mortgage Pfandbriefe with a total volume of roughly € 1.5 billion in the first half of the year. These included two benchmark transactions. The first issue in February totalled € 500 million and had a term of seven years and a coupon of 0.25 %. It was successfully issued with a reoffer spread (midswap) of minus 1 basis point. Almost one-third of this bond was bought up by foreign investors. Banking institutions were the primary investor group, with savings banks accounting for 5 % (Savings Bank Finance Group share: 29 %) of the total volume. In March, the issue of the first Pfandbrief with a negative issue yield caused a furore on the capital market. The three-year bond with a total volume of € 500 million had a nominal interest rate of 0.00 % and an issue yield of minus 0.16 %. The issue was oversubscribed almost by a factor of almost three and was offered to investors at midswap plus 1 basis point. A large share of the bond, 29 %, was able to be placed abroad. Banks constituted the largest investor group, with savings banks accounting for 2 % of subscriptions (Savings Bank Finance Group share: 33 %). On 29 June, the Bank invested € 500 million in the first TLTRO II tranches, replacing the amount assumed in the first TLTRO. No uncovered debentures needed to be issued in the reporting period. Berlin Hyp's issuer rating remained stable in the reporting period, Moody's retained its A2 rating on Berlin Hyp unsecured bonds but left its outlook at "negative". Fitch confirmed its Senior Unsecured rating of A+ with a stable outlook in February.

Fitch and Moody's also retained their AA+/Aaa ratings for Berlin Hyp mortgage Pfandbriefe with a stable outlook. There has also been no change in public Pfandbriefe ratings of AA+ and Aaa (Fitch/Moody's) during the reporting period.

Financial and Non-Financial Performance Indicators

Financial Performance Indicators

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

- → Transfer of profit to Landesbank Berlin Holding AG
- → 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 capital: 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 regulatory equity capital to risk-weighted assets eligible for inclusion

Additional financial ratios, such as the leverage ratio and the minimum requirement for eligible liabilities, are also included in the management system. Compliance with these ratios is not yet compulsory, but they are likely to become increasingly important moving forward.

The net result for the period before profit transfer as at 30 June 2016 came to € 31.5 million, down by a considerable margin on the previous year's figure of € 39.9 million. Considering the expenses from the addition to the fund for general banking risk pursuant to Section 340g German Commercial Code (HGB) of € 30.0 million, this is an extremely satisfying result.

Net interest and commission income rose by € 139.0 million year on year to € 151.3 million. Key factors here included stable margins in core business, a drop in refinancing expenses and positive new lending business.

The cost-income ratio improved to 32.7 % as at 30 June 2016 (previous year: 41.2 %). This came in spite of the sharp fall in other operating income and was due to the rise in net interest and commission income and the fall in operating expenditure.

Return on equity climbed to 11.8 % (previous year: 7.8 %) due to the positive development in terms of the earnings situation.

The common equity Tier 1 ratio stood at 12.7 % as at 30 June 2016 (previous year: 12.5 %).

Non-Financial Performance Indicators

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

- → Market: new business, target portfolio, S-Group business
- → Employees: employee structure, motivation, management and development
- → Environment/society: resource consumption, CO2 emissions and corporate social responsibility

Berlin Hyp increased its new lending volume in the first half of 2016 when compared to the same period in the previous year. In addition, the target portfolio is also of significance for control purposes: distinctions are made between real estate types, customer groups, lending regions and risk classes. The specified target values, which are in line with our conservative risk strategy, were complied with overall in the first half of 2016.

In its S-Group business, Berlin Hyp successfully placed an ImmoSchuldschein in the first half of 2016. A total of 23 German savings banks engaged in this transaction. The number of German savings banks that use the ImmoSchuldschein has risen to 83. Another transaction, which for the first time involves a commercial portfolio, is currently in the marketing phase. Joint business with German savings banks totalled roughly € 0.9 billion.

The Human Resources department has implemented an extensive HR reporting system and reports on a semi-annual basis. The data gathered in this context, including information on the human resources structure (including a department-specific comparison of actual and target figures) and
on the demographic development of the workforce, is discussed with the Board of Management and any required action is highlighted. In addition, all division heads receive the data relevant to their area of responsibility so that they can investigate needs and take required measures.

In the first quarter of the year, the results of a staff survey carried out in last December were presented to the workforce at a special meeting. This event also marked the start of a process geared towards taking and building on the stimulus from the customer and staff survey.

Financing green buildings and refinancing them through green bonds is a cornerstone of the Bank's corporate sustainability management. Four awards that the Bank has received for its pioneering work in this field underline its importance in this area.

For further details on how we perceive our social and corporate responsibilities, please refer to our disclosures prepared in accordance with the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI), Core option, published as part of the Berlin Hyp 2015 sustainability report (www.berlinhyp.de/unternehmen/nachhaltigkeit). Berlin Hyp's management also takes these aspects into account when managing the Bank, achieving the specified targets as planned.

Opportunities, Forecast and Risk Report

Opportunities and Forecast Report

After the first half of the year, we can see no significant deviations from our forecast for 2016 as stated in the Management Report as at 31 December 2015. The following changes in the underlying conditions apply.

The full implications of Brexit on the political and economic future of the EU are still unclear. We therefore believe that the extreme volatility on the financial markets will continue. The UK's departure from the EU would also hamper gross domestic product growth in the Eurozone.

Exports would likely lose out the most from Brexit as a result of declining trading activities. This effect would also be exacerbated by the devaluation of the pound against the euro. Countries with strong economic links with the UK, such as Ireland and Belgium, would be particularly affected in this regard.

In Germany, the prospect of Brexit is likely to affect the automotive industry above all. Given the lengthy process of negotiating the departure from the union and uncertainty over the terms of any agreements, companies are likely to hold back on their investments. The banking and insurance sector would also be in the firing line of such uncertainty. This has already been reflected in sharp falls in related share prices as the results of the referendum were made public. The full implications of a Brexit are as yet unclear. However, it is expected that the decision will intensify competition and affect how financial transactions are spread around the world. The domestic office real estate market could benefit in this regard.

Nevertheless, it can be assumed that the full-year GDP growth forecast for the Eurozone and Germany in the 2015 Management Report will be just about achieved over the rest of the year. Looking beyond 2016, the Brexit referendum could have consequences for the employment market. More significant negative effects on GDP are assumed beyond 2017 compared to the current forecast period.

Source for information on macroeconomic framework conditions: DIW.

Considering the framework parameters (low consumer price development), the ECB's accommodative fiscal policy can be expected to continue in 2016.

Other underlying conditions also remain problematic, with the ongoing low-interest phase and the competitive environment still the leading factors influencing the real estate financing market. Pressure on margins is rising. The volume of mortgage loans will only be able to be increased moderately over time, as very positive new business transactions are offset by high unscheduled repayments.

The expansion of the product range in line with the requirements of German savings banks will inject further impetus into S-Group business. Sales structures have been tailored to customer requirements and the Bank's presence in core regions of Germany increased. Berlin Hyp is also expanding the range of ImmoSchuldschein products it offers. The process of introducing a new product for German savings banks to standardise suitable syndicated business has already begun.

Ever-stricter regulatory requirements, as well as the development of business processes and the underlying measures and technical infrastructure, pose major challenges.

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

We expect the remainder of the financial year to go to plan, provided there are no unforeseeable events on the markets. Including the expenses for forming provisions to strengthen equity capital requirements, the operating result before profit transfer is likely to fall considerably short of the previous year's figure in 2016 as planned.

Risk Report

Please refer to the information provided in the risk report of the Management Report 2015 for details on risk policy, models applied in the assessment of the material opportunities and risks and the anticipated future development of the Bank.

The Bank's risk-bearing capacity was given sufficient leeway in the first half of 2016, both according the internal standards and from a regulatory perspective.

Berlin Hyp analysed the consequences of a potential departure of the UK from the EU for the Bank both before and after the referendum. The Bank's exposure to British customers is manageable, both in mortgage business and in capital market business. Direct risks are considered under control on the basis of stress tests.

In Italy, a number of banks are facing huge challenges when it comes to non-performing loans. Berlin Hyp does not engage in mortgage lending or in capital market business in Italy.

Overall loan exposure rose in the first half of 2016 compared to 31 December 2015. The spread of the overall loan exposure according to risk classes remained practically constant; the share of very good risk classes of 1-3 in particular remained at a high level.

The prospective leverage ratio currently stands at 3 %.

The value at risk in terms of market price risk was consistently below applicable limits and pre-warning levels throughout the first half of 2016.

Liquidity risk management continues to be very important. The liquidity ratio pursuant to the Liquidity Ordinance (LiqV) as at 30 June 2016 was significantly higher than the figure of 1.0 stipulated under regulatory law. The additional liquidity coverage ratio (LCR) was also significantly higher than the current minimum requirement of 70 % as at 30 June 2016.

The economic liquidity risk is also monitored on a daily basis with the aid of stress scenarios. Operational risk is taken into consideration in the risk-bearing concept by means of an internal model, which is based on an advanced measurement approach.

Half-Year Financial Report

Berlin Hyp AG

Excerpt from the Balance Sheet as at 30 June 2016

Assets	30.06.2016 € m	31.12.2015 € m	Change € m	Change %
Claims against banking institutions	**585**	**673**	**-88**	**-13.1**
Mortgage loans	0	0	0	-
Public-sector loans	265	383	-118	-30.8
Other receivables	320	290	30	10.3
Claims against customers	**20,872**	**20,610**	**262**	**1.3**
Mortgage loans	18,169	17,898	271	1.5
Public-sector loans	2,641	2,652	-11	-0.4
Other receivables	62	60	2	3.3
Debentures	**6,395**	**6,485**	**-90**	**-1.4**
Tangible assets and intangible investment assets	**66**	**66**	**0**	**0.0**
Remaining assets	**798**	**710**	**88**	**12.4**
Total assets	**28,716**	**28,544**	**172**	**0.6**

Liabilities	30.06.2016 € m	31.12.2015 € m	Change € m	Change %
Liabilities to banking institutions	**6,910**	**6,297**	**613**	**9.7**
Registered Mortage Pfandbriefe	280	356	-76	-21.3
Registered Public Pfandbriefe	331	378	-47	-12.4
Other liabilities	6,299	5,563	736	13.2
Liabilities to customers	**5,699**	**6,349**	**-650**	**-10.2**
Registered Mortage Pfandbriefe	2,504	2,479	25	1.0
Registered Public Pfandbriefe	1,224	1,246	-22	-1.8
Other liabilities	1,971	2,624	-653	-24.9
Securitised liabilities	**13,701**	**13,383**	**318**	**2.4**
Mortage Pfandbriefe	8,499	7,926	573	7.2
Public Pfandbriefe	1,605	1,650	-45	-2.7
Other debentures	3,597	3,807	-210	-5.5
Reserves	**135**	**145**	**-10**	**-6.9**
Subordinated liabilities	**443**	**443**	**0**	**0.0**
Fund for general bank risks	**133**	**103**	**30**	**29.1**
Remaining liabilities	**759**	**888**	**-129**	**-14.5**
Equity capital	**936**	**936**	**0**	**0.0**
Of which: balance sheet profit	2	2		
Total liabilities	**28,716**	**28,544**	**172**	**0.6**

Profit and Loss Account from 1 January to 30 June 2016

	01.01.2016 – 30.06.2016 € m	01.01.2015 – 30.06.2015 € m	Change € m	Change %
Net interest income	**132.0**	**125.7**	**6.3**	**5.0**
Net commission income	**19.3**	**13.3**	**6.0**	**45.1**
Operating expenditure	**49.4**	**62.8**	**-13.4**	**-21.3**
Staff expenditure	25.7	39.1	-13.4	-34.3
Other operating expenditure	21.7	21.8	-0.1	-0.5
Depreciations and valuation adjustments on intangible investment assets and tangible assets	2.0	1.9	0.1	5.3
Other operating earnings / expenditure	-0.1	13.4	-13.5	-
Operating result before risk provisioning	**101.8**	**89.6**	**12.2**	**13.6**
Risk provisioning	32.1	31.5	0.6	1.9
Operating result after risk provisioning	**69.7**	**58.1**	**11.6**	**20.0**
Financial investment result	2.7	0.7	2.0	-
Bank levy	10.9	17.7	-6.8	-38.4
Contribution to the fund for general bank risks	30.0	0.0	30.0	-
Extraordinary expenditure	0.0 *)	1.1	-1.1	-100.0
Other taxes	0.1	0.1	0.0	0.0
Profit before income tax and profit transfer	**31.4**	**39.9**	**-8.5**	**-21.3**
Income tax	-0.1	0.0	-0.1	-
Expenditure from profit transfer	31.5	39.9	-8.4	-21.1
Net income	**0.0**	**0.0**	**0.0**	**-**

* Entry of expenditure for the change to pension reserves resulting from the German Accounting Law Modernisation Act (BilMoG) under the item "Other operating earnings and expenditure" from 2016

Statement of Changes in Equity

€ m	Subscribed capital	Capital reserve	Profit reserves	Balance sheet profit	Total equity capital
As at 31.12.2015	**753.4**	**158.3**	**22.0**	**2.2**	**935.9**
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 30.06.2016	**753.4**	**158.3**	**22.0**	**2.2**	**935.9**

Condensed Notes

General Information

The Half-Year Financial Report of Berlin Hyp was 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 in conjunction with Section 315a German Commercial Code (HGB).

As in previous years, the Half-Year Financial Report has not been audited pursuant to Section 317 German Commercial Code (HGB) nor audited by an audit firm.

Reporting and Valuation Principles

The reporting and valuation methods used in the annual accounts to 31 December 2015 have been applied without change in the preparation of the condensed interim report.

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, Neuhardenberg/Germany, (holding company and smallest and largest consolidation group as defined in Section 285 No. 14 German Commercial Code (HGB)). The Bank has been linked to Landesbank Berlin Holding AG, Berlin, via a profit and loss transfer agreement since 1 January 2015.

Net interest income

	01.01.2016 – 30.06.2016 € m	01.01.2015 – 30.06.2015 € m	Change € m	Change %
Interest earnings from				
Mortgage loans	206.2	241.3	-35.1	-14.5
Public-sector loans	2.6	5.8	-3.2	-55.2
Other receivables	0.1	3.5	-3.4	-97.1
Fixed-income securities and book-entry securities	27.1	40.2	-13.1	-32.6
	236.0	**290.8**	**-54.8**	**-18.8**
Earnings from				
Participations and affiliated enterprises	0.0	0.0	0.0	-
	0.0	**0.0**	**0.0**	**-**
Interest expenditure for				
Deposits and registered Pfandbriefe	59.1	100.5	-41.4	-41.2
Securitised liabilities	38.7	58.0	-19.3	-33.3
Subordinated liabilities and profit-sharing rights	6.2	6.6	-0.4	-6.1
	104.0	**165.1**	**-61.1**	**-37.0**
Net interest income	**132.0**	**125.7**	**6.3**	**5.0**

Operating expenditure

	01.01.2016 – 30.06.2016 € m	01.01.2015 – 30.06.2015 € m	Change € m	Change %
Staff expenditure				
Wages and salaries	26.1	27.7	-1.6	-5.8
Social security contributions / retirement pensions	-0.4	11.4	-11.8	-
	25.7	**39.1**	**-13.4**	**-34.3**
Other operating expenditure				
Staff-related material costs	1.3	1.0	0.3	30.0
Building and premises costs	1.7	1.5	0.2	13.3
Operating and business equipment	0.3	0.4	-0.1	-25.0
IT expenditure	5.7	6.7	-1.0	-14.9
Advertising and marketing	1.0	0.7	0.3	42.9
Business operation costs	0.9	1.0	-0.1	-10.0
Consultants / audits / subscriptions	6.7	6.5	0.2	3.1
Group payment set-off	4.1	4.0	0.1	2.5
	21.7	**21.8**	**-0.1**	**-0.5**
Depreciations and valuation adjustments on intangible investment assets and tangible assets	**2.0**	**1.9**	**0.1**	**5.3**
Operating expenditure	**49.4**	**62.8**	**-13.4**	**-21.3**

Risk provisioning

	01.01.2016 – 30.06.2016 € m	01.01.2015 – 30.06.2015 € m	Change € m	Change %
Risk provisioning for loan business	28.0	6.8	21.2	-
Securities results	4.1	24.7	-20.6	-83.4
Risk provisioning	**32.1**	**31.5**	**0.6**	**1.9**

Explanations on the Balance Sheet

Securities with a nominal volume of € 1,205.5 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 € 110.0 million, amounts to € 115.8 million. This takes into account the valuation results from interest swaps.

Claims from and Liabilities to Affiliated Enterprises and Related Companies	30.06.2016 € m	31.12.2015 € m	Change € m	Change %
Claims against banking institutions	46	22	24	109.1
Other assets	0	0	0	-
Prepaid expenses and prepaid income	1	0	1	-
Liabilities to banking institutions	1,011	1,064	-53	-5.0
Liabilities to customers	1	1	0	0.0
Other liabilities	36	94	-58	-61.7
Subordinated liabilities	100	100	0	0,0

Derivatives in € m	Nominal amount / Remaining term up to 1 year	between 1 and 5 years	more than 5 years	Total nominal value	Total negative values	Sum positive values
Interest-related transactions						
FRA sales	0	500	0	500	0	0
Interest rate swaps	9,581	14,976	17,603	42,160	-1,514	1,841
Swaptions	1,133	0	200	1,333	-8	0
Caps	176	1,228	307	1,711	-6	6
	10,889	**16,704**	**18,110**	**45,703**	**-1,528**	**1,847**
Currency-related transactions						
Interest and currency swaps	144	312	0	456	-2	14
	144	**312**	**0**	**456**	**-2**	**14**
Total	**11,034**	**17,016**	**18,110**	**46,160**	**-1,530**	**1,861**

The concluded derivative financial instruments predominantly serve to protect against the interest rate risks of on-balance sheet underlying transactions. The market values of the derivatives are shown on the basis of the applicable interest rate on 30 June 2016 without taking into account interest accruals. The market values of the derivatives are counteracted by opposing valuation effects of the balance sheet operations not assessed at market price. Customer derivatives are counteracted by corresponding derivatives. All derivatives – with the exception of customer derivatives and transactions with Landesbank Berlin AG – are hedged using collateral agreements.

Staff Statistics

Number of Staff Average 01.01. - 30.06.2016	Male	Female	Total
Full-time staff	271	182	453
Part-time staff	19	111	130
Total	**290**	**293**	**583**

Supplementary Report

The Berlin Hyp Supervisory Board appointed Sascha Klaus to the Berlin Hyp Board of Management in its meeting on 19 July 2016 as the successor to current Chair of the Board of Management, Jan Bettink. Sascha Klaus will become a member of the Board of Management on 1 September 2016 and succeed Jan Bettink as Chair on 1 October 2016.

Information in Accordance with Section 28 German Pfandbrief Act (Pfandbriefgesetz)

Information to be published on a quarterly basis in accordance with Section 28 Pfandbrief Act is published on the Bank's homepage: www.berlinhyp.de

Statement of the Legal Representatives

"To the best of our knowledge, we give the assurance that, in accordance with the applicable accounting principles for the half-year financial statements, the Bank's half-year financial statements 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 Bank's interim management report in such a way that the picture conveyed corresponds to the actual circumstances, and the major opportunities and risks of the probable development of the enterprises during the rest of the financial year are described."

Berlin, August 2016

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

Publications for our business partners in 2016
- Annual Report 2015 (German/English)
- Half-Year Financial Report to 30.06.2016 (German/English)
- Interim Report to 30.09.2016 (German/English)
- Sustainability Report 2015 (German/English)

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

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