

Defining values – and living up to them

Annual Report 2020

Supervisory Board Report

2020 Supervisory Board Report of Berlin Hyp AG

Berlin Hyp is a subsidiary of Landesbank Berlin Holding AG and an independent commercial real estate financier within the S-Group of the Sparkassen-Finanzgruppe. According to the regulations of the German One-Third Participation Act, its Supervisory Board comprises five members on the staff side and ten on the shareholder side. Apart from the five employee representatives, the Supervisory Board is made up entirely of representatives of the Sparkassen-Finanzgruppe and a representative of the local authorities. It advises and monitors the Board of Management and particularly supports the Board of Management in the networking with savings banks throughout Germany.

Berlin Hyp continued its solid business development in 2020 and reinforced its position as one of the leading real estate and Pfandbrief banks.

With regard to operations, the overarching theme was the COVID-19 pandemic, which has been spreading since the middle of the first half of 2020 and has led to a high increase in mobile working at Berlin Hyp. The existing infrastructure was capable of handling all essential work.

The financial year was also positive overall, with a result that exceeded expectations. Despite the persistently low level of interest rates, the high level of competition in commercial real estate financing and the continued increase in regulatory requirements, Berlin Hyp is satisfied with the better-than-expected earnings trend of the 2020 financial year. Significant negative effects of the COVID-19 pandemic have not yet been recorded. The Supervisory Board regards Berlin Hyp's performance and its ability to hold its own ground in a difficult market environment while adhering to a conservative risk strategy and culture as steadfast and highly favourable.

In accordance with the legal requirements, the Supervisory Board once again concerned itself promptly, regularly and comprehensively with the position and the development of Berlin Hyp, the planning situation, the risk situation, risk management as well as compliance, both orally and in writing, in 2020. It constantly monitored the actions of the Board of Man-

agement and satisfied itself that it was acting properly, deliberated on all relevant aspects in this context and provided recommendations. In particular, the Supervisory Board intensively discussed and reviewed the plausibility of business transactions of importance to the company on the basis of written and oral reports of the Board of Management.

Focus of the Supervisory Board's Activities

In particular, reports on the effects of the COVID-19 pandemic were discussed at all Supervisory Board meetings in 2020, in addition to the detailed reporting of the Board of Management on current business development, including its underlying conditions and projects, the risk situation and the status of the strategic investments. In addition, the Board of Management regularly informed on S-Group business development and on the external audits currently being carried out at Berlin Hyp.

Following the reports made by the Board of Management and the auditors and after intensive consultation and review, the annual accounts and Management Report as at 31 December 2019 were approved and adopted in the **balance sheet meeting of the Supervisory Board on 26 March 2020**. The Supervisory Board Report, the Corporate Governance Report and the Non-Financial Statement (sustainability report) were discussed and adopted.

The Supervisory Board also took note of the reports on the Bank's derivatives portfolio and the report on the processing of findings from the IT Compliance audit focus. In view of regulatory requirements, adverse scenarios were taken into account in the medium-term planning for 2020 to 2024.

In the course of this meeting, the annual reports of the Compliance Officer and the Internal Audit were also discussed and acknowledged.

The Supervisory Board also passed the necessary resolutions on the agenda of the Annual General Meeting of Berlin Hyp.

Following the resignation of Supervisory Board member Artur Grzesiek, the sharehold-

ers needed to elect a new SB member. After conducting its own review, the Supervisory Board endorsed the recommendation of its Presiding and Nomination Committee and proposed to the Annual General Meeting the election of Ulrich Voigt as the new member of the Supervisory Board (see remarks under Personnel Issues of the Supervisory Board).

In accordance with the provisions of the German Remuneration Ordinance for Institutions (IVV), the Supervisory Board took note of the overall bonus pool for employees set by the Board of Management and established the total amount of variable remuneration for the Board of Management. Subsequently, on the basis of the individual achievement of targets, a decision was made on the individual target bonuses of the individual members of the Board of Management and on the payment of conditional bonuses.

Furthermore, adjustments to the rules of procedure of the Board of Management were acknowledged due to the temporary configuration of the Board of Management with only two members and the new business distribution plans of the Board of Management due to organisational changes in the Bank.

At the **meeting on 26 June 2020**, note was taken of information from the Board of Management on the effects of the COVID-19 pandemic, on strategic investments, donations and sponsorships, on the status of implementation of the SAP-HANA IT project and on the construction of a new building as the headquarters for Berlin Hyp, in addition to the regular reports. Furthermore, the Supervisory Board prepared the annual efficiency and suitability examination for the Board of Management and the Supervisory Board.

Due to the early retirement of the remuneration officer, the Supervisory Board acknowledged the recommendations of its Remuneration Control Committee and recommended the appointment of new remuneration officers.

Having resigned from the Supervisory Board, Artur Grzesiek is no longer a member of the

Loans Committee. The Supervisory Board therefore appointed the newly elected Ulrich Voigt as a new member of the Loans Committee.

The targets for 2020 were agreed for Alexander Stuwe and Gero Bergmann's appointment as a member of the Board of Management was extended for a further five years.

In its **meeting on 23 September 2020**, the Supervisory Board defined the key audit issues for the 2020 financial year based on a proposal from the Audit Committee. In addition to the regular reports, it took note of the revised report on the new construction project at Budapester Strasse 1 ("B-One") and of the report on the status of the IT strategy objectives. The Chair of the Supervisory Board presented a summary report of the findings from the efficiency review and suitability examination of the Supervisory Board and the Board of Management.

The review revealed that the Supervisory Board's work is effective and that the members of the Board of Management and Supervisory Board possess the necessary expertise, skills and experience.

The Supervisory Board took note of the complete revision of the German Corporate Governance Code (DCGK) and discussed its further application.

To ensure a timely succession regulation for the head of the Risk Controlling division, the Supervisory Board agreed to terminate this management function and took note of the future separation of the management of the Risk Controlling division from the management of the risk controlling function within the meaning of supervisory law, and the replacement of both functions, with the management of the risk controlling function according to MaRisk to be taken over by the Risk Management Board.

In the **meeting on 25 November 2020**, the regular reports of the Board of Management were supplemented by a presentation on Treasury activities, the status of implementation of the B-One project, the report on cybersecurity

at Berlin Hyp and the final report on the IT Compliance project. The updates to the strategy documents and the status of the SAP-HANA IT project were discussed on a regular basis. Subsequently, the Supervisory Board addressed the projections for 2020 and the medium-term planning for the years 2021 to 2025.

Berlin Hyp's remuneration systems were reviewed on a regular basis and considered appropriate. The report on the identification of risk carriers was noted as well as the restructuring plan of the LBBH Group.

The application of the German Corporate Governance Code (DCGK) was discussed again and the decision was taken to make a commitment as an individual institution to the principles of good corporate governance as from the 2020 financial year instead of the formal declaration of application of this code.

An adjustment to the existing profit transfer contract between Berlin Hyp and LBBH was required in order to achieve CRR conformity. The Supervisory Board discussed the proposed changes and agreed to them.

Furthermore, the Supervisory Board discussed the requirements for succession planning of the management bodies set out in the 2019 SREP notice and decided on appropriate measures.

Corporate and individual targets for 2021 were agreed for the members of the Board of Management. Since Mr. Bergmann announced that he would be appointed to the board of another bank, the decision was made to conclude a termination agreement with him. In light of his impending resignation on 31 December 2020, the Supervisory Board took note of the reallocation of Board responsibilities required for the transition period until the new appointment.

Committees of the Supervisory Board

The work of the Supervisory Board of Berlin Hyp was supported by four committees – the Audit Committee (**PA**), the Loans Committee (**KA**), the Presiding and Nomination Committee (**PNA**) and the Remuneration Control Committee (**VKA**). Each committee generally convened as needed approximately 10 to 14 days prior to Supervisory Board meetings. Written reports from the committees were then presented at the Supervisory Board meetings.

The main objective of the **PA** is to assist in the review and preparation of the adoption of the annual financial statements. 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 also deals with compliance issues. The **PA** comprises five members.

The **PNA** deals with HR and strategy issues, evaluates the efficiency and suitability of the members of the Board of Management and reviews the application of the DCKG. The **PNA** comprises five members.

The **VKA** monitors the remuneration systems of the members of the Board of Management and employees, paying particular attention to the effects on risks and risk management at Berlin Hyp. It consists of four members.

The **KA** has its own loan approval powers and also acts as the 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 – on credit decisions, which are within its competence – also regularly take place in the **KA**. The **KA** comprises five members.

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

Corporate Governance

As a non-listed public limited company, Berlin Hyp is not subject to the regulations of the German Corporate Governance Code (DCGK), but voluntarily applied it for many years. As from the 2020 financial year, it no longer applies the DCGK, but is committed to complying with the principles of good corporate governance as set out in the DCGK. The Supervisory Board receives a report on corporate governance in the Bank once a year at the balance sheet meeting.

Meetings and Attendance

A total of four Supervisory Board meetings and eighteen committee meetings were held in the 2020 financial year. Due to COVID-19 restrictions, the sessions were mainly held as teleconferences.

At the end of 2020, the Supervisory Board took note of the business allocation plan in force as from 1 February 2021 and the results of 2020 SREP in the circulation procedure.

In 16 circulation procedures of the KA, 21 loan resolutions were made, of which two loan decisions were withdrawn within the approval period. In one case, the Group-wide credit limit was briefly exceeded; this was managed and the proposal was submitted to the Risk Committee (RA) of LBBH for approval.

Members prevented from attending usually participated in the passing of resolutions through voting instructions. All Supervisory Board members took part in more than half of the meetings of the plenum and the committees to which they belong.

Conflicts of Interest and How They are Handled

The Supervisory Board has passed regulations designed to prevent conflicts of interest. In the 2020 financial year, a total of two committee members abstained from voting on five resolutions to avoid the appearance of a conflict of interest.

Staff Issues of the Supervisory Board

Artur Grzesiek resigned from the Supervisory Board at the end of the Annual General Meeting on 27 May 2020. At this Annual General Meeting, Ulrich Voigt was elected as his successor to the Supervisory Board. Ulrich Voigt's term of election is synchronised with the term of office of the current members of the Supervisory Board for the period up to the end of the Annual General Meeting which resolves on the discharge of the Supervisory Board for the 2020 financial year. The Supervisory Board therefore comprised 15 members throughout 2020 – ten shareholder representatives and five employee representatives.

As at 26 June 2020, Ulrich Voigt was also appointed as a member of the Loans Committee.

Personnel Issues of the Board of Management

Until 30 June 2020, the Board of Management was composed of two members – Sascha Klaus and Gero Bergmann. During this time, Alexander Stuwe assisted as Chief Representative before joining the Board of Management on 1 July 2020. By the end of 2020, the Board

of Management consisted of three members. Gero Bergmann's employment contract as a member of the Board of Management expired on 31 December 2020. An extension that had been planned in the meantime was cancelled at his request. Gero Bergmann was a member of the Board of Management at Berlin Hyp for many years, working very successfully as a highly knowledgeable and very active contributor in the committee meetings on the matters and decisions within his area of responsibility. The Supervisory Board wishes him every success and all the best for the future.

Since 1 January 2021, the Board of Management has comprised two members, Sascha Klaus and Alexander Stuwe. The Presiding and Nomination Committee was tasked with finding a successor. Subject to the approval of the ECB, Ms. Maria-Teresa Dreo was appointed as a member of the Board of Management by the Supervisory Board at an extraordinary meeting on 4 February 2021 with effect from 1 May 2021.

2020 Annual Financial Statements

The annual financial statements of Berlin Hyp and the Management Report for the 2020 financial year have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, appointed by the Annual General Meeting, taking into account the auditing focus defined by the Supervisory Board, and have received an unqualified audit certificate. The Supervisory Board has acknowledged the audit certificate.

The annual accounts of Berlin Hyp were prepared in accordance with the provisions of the German Commercial Code (HGB). The annual 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 financial statements and the risk management system in detail at the two meetings of the PA in preparation for the balance sheet meeting and also at the Supervisory Board's balance sheet meeting. The auditor attended these three meetings and reported on the scope, focus and material results of the audit.

The auditor came to the overall conclusion that there were no major weaknesses in the internal control system or the risk management system. The KA also dealt with the audit reports for the 2020 annual accounts, to the extent that they

contain statements on the lending business and risk situation of Berlin Hyp, and raised no objections.

The **PA** closely examined the documents and recommended that the Supervisory Board approve the annual financial statements. The Supervisory Board approved the results of the audits following inspection of the auditor's reports and detailed discussion, and determined that there were no objections to be raised even after the final results of its own audits. It approved the annual financial statements prepared by the Board of Management. The 2020 annual financial statements are thereby adopted. According to the profit transfer agreement, the earnings for 2020 are transferred to Landesbank Berlin Holding AG. During the audit of the annual financial statements, the Chair of the **PA** regularly informed himself of the audit's status in consultation with the auditor KPMG.

Sustainability Report (Non-Financial Declaration)

The **PA** and the Supervisory Board also addressed the 2020 non-financial declaration prepared by the Board of Management. In its role as auditor, KPMG performed an audit with limited certainty and found no grounds for objection. In the **PA** meeting in preparation for the balance sheet meeting as well as in the balance sheet meeting of the Supervisory Board, the Board of Management provided a detailed explanation of the documents, while the representatives of KPMG reported on the material findings of their audit and answered follow-up questions by members of the Supervisory Board. The Supervisory Board had no objections after performing its review.

Education and Further Training

The members of the Supervisory Board were responsible for obtaining the necessary training and continuing education for their duties at their own responsibility and are supported in this process by the company. At least once a year, further training is provided by means of lectures by external or internal speakers prior to a committee meeting. In 2020, the committee members discussed topics such as "the latest developments in the banking industry and banking supervision".

The Supervisory Board would like to thank the members of the Board of Management as well as all employees for the successful results and for their enormous personal dedication in the 2020 financial year.

Berlin, March 2021

For the Supervisory Board

Helmut Schleweis
Chair

