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Annual Report 2018

Supervisory Board Report

2018 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 promotes the networking with savings banks throughout Germany.

In view of the intense competition in commercial real estate financing, the persistently low level of interest rates, the volatile environment of the capital and financial markets and the continuing high regulatory requirements combined with the need to further strengthen equity, Berlin Hyp is very satisfied with the course and results of the 2018 financial year. 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 2018. 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 subject-matter of all Supervisory Board meetings in 2018 was the Board of Management's detailed reporting on the current business development, including the environment and projects, and the risk situation of Berlin Hyp. The Board of Management also reported regularly on the development of S-Group business, as well as on the external audits currently underway at Berlin Hyp.

In a telephone conference held on 2 February 2018, the Supervisory Board was informed by the Board of Management prior to the preparation of the 2017 annual financial statements about significant items affecting the annual financial statements.

At the balance sheet meeting of the Supervisory Board on 26 March 2018, a new Chair was elected. Thomas Mang, who had temporarily assumed the chair in November 2017, had previously resigned as planned. In addition, a by-election was held to fill the committees and a nomination was made for a new member of the Supervisory Board.

Following the reports made by the Board of Management and the auditors and after intensive consultation and review, the annual financial statements and the Management Report as at 31 December 2017 were approved and thus adopted. In the course of this meeting, the annual reports of Internal Audit and the Compliance Officer as well as the report on the effectiveness of the Internal Control System (IKS) were also discussed and acknowledged.

The Supervisory Board's Report, the Corporate Governance Report and, for the first time, the Sustainability Report were adopted.

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

The Supervisory Board discussed with the Board of Management the achievement of the 2017 targets as well as regulatory issues and their impact on the Bank. In addition, the Supervisory Board was informed about external consultancy costs incurred in 2017.

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. New targets for 2018 were agreed. In addition, the remuneration guidelines for the Board of Management were adapted to the IVV version amended in the second half of 2017 and the Supervisory Board was informed about the procedure for identifying risk-takers in the company in the past year.

In the meeting on 25 June 2018, the Supervisory Board took note of reports on donations and sponsorships as well as on the status of implementation of the SAP-HANA IT project, in addition to the regular reports (current business development, risk situation, S-Group business, status update on various audits), all of which it discussed with the Board of Management. The Supervisory Board updated the selection and diversity strategy, as well as job descriptions and applicant profiles for future members of the Supervisory Board and the Board of Management. In addition, the Supervisory Board decided on the procedure for its efficiency review and suitability examination.

In the meeting on 21 September 2018, the Supervisory Board defined the key audit issues for the 2018 financial year based on a proposal from the Audit Committee. Furthermore, the half-year financial statement and the interim Management Report as at 30 June 2018 were approved following the reports by the Board of Management and the auditors as well as after consultation and review. The information provided by the Board of Management on the strategic investments and projects BrickVest Ltd., OnSite ImmoAgent, WE-Digital and KPO 4.0 was presented to the Supervisory Board and discussed in detail. After having obtained interpretation aid for the new IVV, the remuneration guidelines for the Board of Management were again slightly adjusted. The selection guidelines for the second management level presented by the Board of Management were found to be appropriate and suitable. 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.

In the meeting on 30 November 2018, the Board of Management's periodic reports were supplemented by a presentation on Treasury activities. On a regular basis, the strategy documents were discussed in accordance with the Minimum Requirements for Risk Management (MaRisk). Berlin Hyp's remuneration systems were also reviewed on a regular basis and considered appropriate. The Supervisory Board then took a closer look at the projections for 2018 and the medium-term planning for 2019 to 2023. At the same time, the Supervisory Board updated the Declaration of Compliance in accordance with the German Corporate Governance Code (Deutscher Corporate Governance Kodex, DCGK). The targets for 2019 were agreed for the Board of Management, and it was decided to appoint Sascha Klaus as a member of the Board of Management for a further five years.

Committees of the Supervisory Board

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 approximately 10 to 14 days prior to Supervisory Board meetings. Afterwards, written committee reports are presented in 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 is also concerned with compliance issues. The PA consists of five members.

The PSA is tasked with HR issues, strategy, planning and fundamental company issues, and it regularly reviews compliance with the German Corporate Governance Code. It also

acts as a remuneration controlling and nomination committee. Due to a temporarily vacant position, the PSA consisted of five members until 25 March 2018. Since 26 March 2018, it has once again comprised six members again.

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 also regularly occur in the KA. The KA consists of five members.

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 (DCGK). 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 since then. Details are available in the Corporate Governance Report.

Meetings and Attendance

A total of four plenum meetings and seventeen committee meetings – of which four were teleconferences – were held in the 2018 financial year. In addition, there were two circulation procedures of the Supervisory Board. In 18 circulation procedures of the KA, 21 loan resolutions were made. In one case, the KA took note of a loan resolution that the Board of Management had passed within the scope of its special power to act in urgent matters.

Committee meetings were always held 10 to 14 days prior to the plenum meetings. Members prevented from attending usually participated in the passing of resolutions through voting instructions. With the exception of Reinhard Sager, all Supervisory Board members took part in more than half of the meetings of the plenum and the committees to which they belong. Reinhard Sager sent apologies in advance of each meeting which he was unable to attend, stating his reasons, and delivered a voting message.

The Supervisory Board has passed regulations designed to prevent conflicts of interest. In the 2018 financial year, four members of the body abstained from voting on a resolution to avoid the appearance of a conflict of interest.

Supervisory Board Appointments

After Georg Fahrenschon’s premature departure, Thomas Mang stepped down as interim Chair of the Supervisory Board and of the PSA at the end of 25 March 2018. In the Supervisory Board meeting on 26 March 2018, Helmut Schleweis was elected as the new Chair of the Supervisory Board.

Until 27 March 2018, the Supervisory Board comprised fourteen members. At the Annual General Meeting on 28 March 2018, the shareholders elected Bernd Fröhlich as a member of the Supervisory Board. Since then, the Supervisory Board has again comprised fifteen members – ten shareholder representatives and five employee representatives. Bernd Fröhlich was elected synchronously 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.

Personnel Issues of the Board of Management

There were no changes in the composition of the Board of Management in the 2018 financial year. The Board of Management continues to comprise three members – Sascha Klaus, Gero Bergmann and Roman Berninger.

2018 Annual Financial Statements

The annual financial statements of Berlin Hyp and the Management Report for the 2018 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 financial statements 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 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 2018 annual financial statements, 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 2018 annual financial statements are thereby adopted. According to the profit transfer agreement, the earnings for 2018 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 2018 non-financial declaration prepared by the Board of Management. In its role as auditor, KPMG performed an audit review 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.

The Supervisory Board would like to thank the members of the Board of Management as well as all employees for the very good results and for their performance in the 2018 financial year.

Berlin, March 2019

For the Supervisory Board

**Helmut Schleweis
Chair**

