

# #sharing inspiration

**Annual Report 2019**

**Supervisory Board Report**

# 2019 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 was able to continue its successful business development in 2019. Despite the persistently low level of interest rates, the intense competition in commercial real estate financing and the continuing high regulatory requirements combined with the need to further strengthen equity, Berlin Hyp is satisfied with the course and results of the 2019 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 2019. 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. 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

The subject of all Supervisory Board meetings in 2019 was the detailed reporting of the Board of

Management on current business development, including its underlying conditions and projects, the risk situation of Berlin Hyp and the status of the strategic investments. In addition, the Board of Management regularly reported 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 2018 were approved and adopted in the **balance sheet meeting of the Supervisory Board on 28 March 2019**. 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 the Non-Financial Statement (sustainability report) were discussed and adopted.

The Supervisory Board also passed the necessary resolutions regarding the agenda of the Annual General Meeting of Berlin Hyp. Adjustments to the risk strategy were discussed and acknowledged by 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. The Supervisory Board also dealt with regulatory issues and their effects on the Bank. In this context, the separation of the Nomination Committee and Remuneration Control Committee was discussed and prepared.

Due to the expiry of Roman Berninger's employment contract as a member of the Board of Management on 31 December 2019,

the Supervisory Board discussed the further procedure. The Staff and Strategy Committee was instructed to act as an Appointment Committee to identify suitable candidates for the succession.

In its **meeting on 17 June 2019**, 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, on the strategic resource planning project and on the targeted management of risk-weighted assets (RWA management) 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 and made amendments to its rules and regulations (mainly for clarification).

Due to regulatory requirements, the tasks of the Staff and Strategy Committee were split into two committees. The tasks of the Remuneration Control Committee required by law were separated and transferred to the independently formed Remuneration Control Committee. The former Staff and Strategy Committee was renamed the Presiding and Nomination Committee.

In its **meeting on 23 September 2019**, the Supervisory Board defined the key audit issues for the financial year 2019 based on a proposal from the Audit Committee. Within the framework of the reporting by the Board of Management, the Supervisory Board also discussed the draft bill for the rent cap in question, which shall be adopted by the Senate of Berlin at the beginning of 2020. The Supervisory Board discussed in detail the project to construct a new energy-efficient building as the headquarters for Berlin Hyp at its current location and commissioned the Board of Management to implement the plans. 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.

Subject to ECB's approval, the Supervisory Board appointed Alexander Stuwe to succeed Roman Berninger as a full member of the Board of Management and approved his appointment as Chief Representative for the induction period. In the course of the impending change in the composition of the Board of Management, the Supervisory Board took note of the reallocation of Board responsibilities in line with MaRisk.

In the **meeting on 29 November 2019**, the regular reports of the Board of Management were supplemented by a presentation on Treasury activities, the status of implementation of the SAP-HANA IT project, and the final report on the IT Compliance project. The updates of the strategy documents were discussed on a regular basis. Subsequently, the Supervisory Board addressed the projections for 2019 and the medium-term planning for the years 2020 to 2023.

In order to improve the results of the core business, a discussion of principles was held on the possible expansion of the Bank's sales activities abroad.

Berlin Hyp's remuneration systems were also reviewed on a regular basis and considered appropriate. At the same time, the Supervisory Board updated the Declaration of Compliance in accordance with the German Corporate Governance Code (DCGK). Corporate and individual targets for 2020 were agreed for the members of the Board of Management.

#### **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). In accordance with regulatory requirements, the PSA was split into the Presiding and Nomination

Committee (PNA) and the Remuneration Control Committee (VKA) on 17 June 2019. Each committee 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 also deals with compliance issues. The PA comprises 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 (DCGK). It also acted as a remuneration control and nomination committee. On 17 June 2019, the PSA was renamed the Presiding and Nomination Committee (PNA). Since then, the PNA has dealt with HR and strategy issues, evaluated the efficiency and suitability of the members of the Board of Management and regularly reviewed the application of the DCKG. The PNA comprises five members.

The VKA, which was formed independently on 17 June 2019, 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 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 (DCGK) and to report on it. 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 nineteen committee meetings – of which four were teleconferences – were held in the 2019 financial year. There were no issues that triggered the Supervisory Board to issue a circular resolution. In 17 circulation procedures of the KA, 22 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 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.

### Conflicts of Interest and How They are Handled

The Supervisory Board has passed regulations designed to prevent conflicts of interest. In the 2019 financial year, a total of five committee members abstained from voting on three resolutions to avoid the appearance of a conflict of interest.

### Personnel Issues of the Supervisory Board

There were no changes in the composition of the Supervisory Board in the 2019 financial year. The Supervisory Board is comprised of 15 members – 10 shareholder representatives and five employee representatives.

### Personnel Issues of the Board of Management

In 2019, the Board of Management continues to comprise three members – Sascha Klaus, Gero Bergmann and Roman Berninger. Roman Berninger’s employment contract as a member of the Board of Management expired on

31 December 2019. The Supervisory Board would like to thank Roman Berninger for his extremely successful work on the Board of Management of Berlin Hyp and wishes him every success and all the best for the future.

Since 1 January 2020, the Board of Management has comprised two members, Sascha Klaus and Gero Bergmann. Subject to the ECB's approval, Alexander Stuwe has been appointed as a member of the Board of Management, probably with effect from 1 July 2020. For the familiarisation period, he has been appointed Chief Representative.

### **2019 Annual Financial Statements**

The annual financial statements of Berlin Hyp and the Management Report for the 2019 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 2019 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 2019 annual financial statements are thereby adopted. According to the profit transfer agreement, the earnings for 2019 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 2019 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**

In principle, the members of the Supervisory Board were independently responsible for obtaining the necessary education and further training required for their duties and were supported in this process by the Bank. At least once a year, further training is provided by means of lectures by external or internal speakers prior to a committee meeting. In 2019, the committee members dealt with the topics of monitoring risk factors in IT implementations and IT compliance, among others.

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 2019 financial year.

Berlin, March 2020

### **For the Supervisory Board**

**Helmut Schleweis**  
Chair

