

Focus on the Future

Annual Report 2023

Supervisory Board Report

2023 Supervisory Board Report of Berlin Hyp AG

Berlin Hyp is a subsidiary of Landesbank Baden-Württemberg (LBBW) and an independent commercial real estate financier within the S-Group of the Sparkassen-Finanzgruppe. In accordance with the regulations of the German One-Third Participation Act, the Supervisory Board is made up of three employee representatives, five representatives from LBBW and the President of the Sparkassenverband Niedersachsen (Savings Banks Association of Lower Saxony).

Despite various uncertainties such as the ongoing war in Ukraine, concerns about recession, the ongoing restrictive monetary policies due to high inflation rates, and declining transaction volumes on the commercial real estate market, Berlin Hyp successfully upheld its business model and continued to demonstrate its ability to perform in the 2023 financial year as well. The Bank continued its solid business development and reinforced its position as one of the leading real estate and Pfandbrief banks. Despite the many challenges, the Bank is still pursuing a conservative risk strategy and the consistent implementation of its digitalisation activities, and is also reinforcing its sustainability claim.

The effects of the crisis in the real estate sector are reflected in Berlin Hyp's financial results in the form of additional valuation allowances. Given the described underlying conditions and the additional burden brought about by necessary implementation projects, our results actually exceeded expectations.

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, discussing this in depth with the Board of Management and providing advice, both orally and in writing, in 2023. It regularly 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.

Meetings of the Supervisory Board

The Supervisory Board held four regular meetings in the 2023 financial year. In addition to the detailed reporting by the Board of Management on the current business development, the risk situation and the status of ESG activities, each ordinary Supervisory Board meeting reviewed the development of the S-Group business, the ongoing external audits and the respective implementation status of important projects, including the "B-One" construction project for the new headquarters in Berlin. In addition, the Supervisory Board dealt with the legal, regulatory and supervisory framework.

Following the reports made by the Board of Management and the auditors, and after intensive consultation and review, the accounts and management report for the second short financial year from 1 July to 31 December 2022 (Short Financial Year II 2022) were approved and adopted during the **balance sheet meeting of the Supervisory Board on 21 March 2023**. The Supervisory Board's Report, the Corporate Governance Report and the Non-Financial Statement (Sustainability Report) were discussed and adopted. Furthermore, the Supervisory Board noted the quality report from the audit of the accounts for the second short financial year in 2022. In addition, the Supervisory Board passed the necessary resolutions regarding the Annual General Meeting of Berlin Hyp.

In the course of this Supervisory Board meeting, the annual reports of the Compliance Officer and Internal Audit were also discussed and acknowledged. The topic area "ESG" was also added to the orientation and training policy for the Board of Management and the Supervisory Board.

Furthermore, the guidelines prepared by Berlin Hyp's Supervisory Board for specifying and paying variable remuneration to the

members of the Board of Management were updated. In accordance with the provisions of the German Remuneration Ordinance for Institutions, the Supervisory Board then 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.

In the **meeting on 21 June 2023**, in addition to receiving its regular reports, the Supervisory Board acknowledged the Board of Management's statements on strategic investments, donations and sponsorship measures. Furthermore, the Supervisory Board updated the selection and diversity strategy for the selection of members of the Supervisory Board and Board of Management. In addition, Deloitte GmbH Wirtschaftsprüfungsgesellschaft was commissioned to perform audits in accordance with the framework statutes for the Institutional Protection Scheme of the Sparkassen-Finanzgruppe as well as audits of the non-financial statement. Furthermore, it prepared the annual efficiency and suitability review for the Board of Management and the Supervisory Board.

In the meeting on **14 September 2023**, the medium-term planning proposals for the years 2024 to 2028 were discussed and Berlin Hyp's projections for 2023 were acknowledged. On the recommendation of its Audit Committee, the Supervisory Board chose not to define an auditing focus for the 2023 financial year. The Chair of the Supervisory Board also presented a summary report of the findings from the efficiency and suitability review. 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 this context, the Supervisory Board adopted resolutions on optimising the efficiency of the meetings of the Supervisory Board and its committees.

Moreover, the Supervisory Board approved an early extension of Sascha Klaus' appointment as Chair of the Board of Management of Berlin Hyp for a further five years until the end of August 2029.

In the **meeting on 27 November 2023**, the Board of Management's periodic reports were supplemented by a presentation on Treasury activities. The routine discussion of the updates to the strategy documents was also conducted. Subsequently, the Supervisory Board addressed the latest projections for 2023 in detail and approved the medium-term planning for the years 2024 to 2028.

In addition, the regular review of Berlin Hyp's remuneration systems was carried out and the systems were deemed appropriate. The report on the identification of risk carriers was noted, as was the result of the analysis of the gender-neutral remuneration policy at Berlin Hyp in 2023. In addition, the rules of procedure for the Board of Management, the Supervisory Board and its committees were updated following a regular review. In this context, responsibilities relating to the Bank's investments in other companies were also adjusted.

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 prior to Supervisory Board meetings. 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 and the internal management and controlling system, and the functionality of the Internal Audit division. It also deals with compliance issues. The PA currently comprises four members.

The **PNA** deals with HR and strategy issues (including short and long-term succession planning for both the Board of Management and the Supervisory Board), evaluates the efficiency and suitability of the Board of Management in accordance with the German Banking Act (KWG) and assesses the suitability of members of the management bodies in accordance with ESMA/EBA guidelines. The **PNA** currently comprises four members.

The **VKA** monitors the remuneration systems used for the members of the Board of Management and employees, paying particular attention to the effects on risks and risk management at Berlin Hyp. The **VKA** currently comprises three 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 regular quarterly meetings, the **KA** also holds videoconferences when fast credit decisions have to be made. The **KA** currently comprises four 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 at the Bank at least once a year at the balance sheet meeting.

Meetings and Attendance

A total of four ordinary and 30 committee meetings took place in 2023, of which 13 were meetings of the **KA** that were convened in order to expedite fast credit decisions. Most meetings were held in person, with the exception of the aforementioned 13 **KA** meetings for fast credit decisions.

In addition, the **KA** had three written circulation procedures, while the **PA** and **PNA** had one each. Members prevented from attending usually

participated in the passing of resolutions through voting instructions. With few exceptions, in the 2023 financial year, all Supervisory Board members took part in the meetings of the plenum and the committees to which they belong.

Conflicts of Interest and How They Are Handled

The Supervisory Board has adopted regulations to address and prevent conflicts of interest within the Supervisory Board and the Board of Management. There were no conflicts of interest during the 2023 financial year.

Personnel Issues of the Supervisory Board

In 2023, the Supervisory Board was made up of nine members, as before.

Personnel Issues of the Board of Management

In the 2023 financial year, the Board of Management continued to comprise three members – Sascha Klaus, Maria Teresa Dreo-Tempsch and Alexander Stuwe.

2023 accounts

The accounts of Berlin Hyp and the management report for the 2023 financial year have been audited by Deloitte GmbH Wirtschaftsprüfungsgesellschaft, appointed by the Annual General Meeting, and have received an unqualified audit certificate. The Supervisory Board has acknowledged the audit certificate.

The accounts of Berlin Hyp were prepared in accordance with the provisions of the German Commercial Code (HGB). The accounts, the management report, the non-financial statement and the auditor's report were presented to the Supervisory Board in due time before its meeting. 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 two 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 **PA** closely examined the documents and recommended that the Supervisory Board approve the financial statements. The Supervisory Board approved the results of the audit following inspection of the auditor's report

and detailed discussion and determined that there were no objections to be raised even after the final results of its own audit. It approved the annual financial statements prepared by the Board of Management. The accounts for the 2023 financial year were thus officially and completely approved. The proposal by the Board of Management for the appropriation of the balance sheet profit was approved. During the audit of the accounts, the Chair of the PA obtained regular information on the audit's status in consultation with the auditor Deloitte.

Sustainability Report (Non-Financial Statement)

The PA and the Supervisory Board also addressed the non-financial statement for the 2023 financial year that was prepared by the Board of Management. In its role as auditor, Deloitte performed an audit with limited certainty and found no grounds for objection. The Board of Management explained the documents in detail at the meeting of the PA in preparation for the balance sheet meeting and also at the Supervisory Board's balance sheet meeting. The Deloitte representatives reported on the material results of their audit and answered additional questions from the Supervisory Board members. 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 were adequately supported in this process by the company. On 21 March 2023, the Supervisory Board completed a training session on the topic of "ESG Regulatory Requirements and Regulatory Programmes".

The Supervisory Board would like to thank the members of the Board of Management, as well as all employees at Berlin Hyp, for their tremendous dedication in 2023 under conditions that remained difficult during this period.

Berlin, March 2024

For the Supervisory Board

Thorsten Schönenberger
Chair

