

Defining values – and living up to them

Annual Report 2020

Corporate Governance Report

2020 Corporate Governance Report

The Board of Management and the Supervisory Board of Berlin Hyp firmly believe that good corporate governance is a material part of the foundation upon which the lasting success of the company, the confidence of its business partners and employees and the trust of financial markets is built. This is why the general principles of good corporate governance and any new developments in this regard will continue to be reported annually in the course of the reporting year.

Until 2019, this was done under the direct application of the German Corporate Governance Code (DCGK), which established recognised standards of good and trustworthy corporate governance for listed companies.

In 2020, the decision was made to continue following the principles of the DCGK to the extent that they apply to a non-listed company, but to take distance from it and develop it for more institution-specific application.

Berlin Hyp focuses in particular on certain regulations that deal with the structure of the bodies, their tasks and their interactions, and the transparency of the company. In these areas, the Berlin Hyp largely complies with the recommendations and suggestions of the Code. For the sake of transparency, all information published by the Bank – including annual and interim financial reports – can also be accessed via its website.

Board of Management

Berlin Hyp's Board of Management leads the Bank at its own responsibility with the objective of sustainable value creation and in the best interests of the company. It is committed to the principles of good, responsible and efficient business management and control. It manages the Bank in compliance with statutory provisions, the Articles of Association, the Rules of Procedure and the internal company guidelines. The Board of Management develops the strategic orientation of the Bank, agrees on it in consultation with the Supervisory Board and ensures its implementation.

In the 2020 financial year, the Board of Management initially consisted of two mem-

bers; it consisted again of three members from 1 July 2020 until the end of the year. The changes in the Board of Management as of 1 January 2021 are described on page 4 in the Annual Report – Report of the Supervisory Board. Regardless of the overall responsibility of the Board of Management, the individual members lead the divisions assigned to them by the business organisation plan at their own responsibility. The members consistently act for the benefit of the company as a whole. The members of the Board of Management inform each other about all material developments in their divisions and coordinate all measures affecting multiple spheres of responsibility.

The varied expertise of the individual Board of Management members ensures that the Board of Management remains sufficiently diversified. In 2017, the Supervisory Board set a target of zero per cent for the proportion of women on the Board of Management based on the current contractual relationships. Following Gero Bergmann's departure from the Board of Management, this will now be significantly exceeded by the appointment of Maria Teresa Dreo – subject to the approval of the regulatory authorities as from 1 May 2021.

Supervisory Board

The Supervisory Board sets specific goals for its composition and a competence profile for the entire committee. In doing so, diversity is a key consideration. Proposals from the Supervisory Board to the Annual General Meeting take these objectives into account. As at 31 December 2020, all objectives set by the Supervisory Board with regard to its composition had been implemented.

The diversity of the Board is established so that the qualifications and personalities of the individual members guarantee optimal supervision of the company. This requires that all Supervisory Board members have knowledge, in particular, of Berlin Hyp's relevant market environment and its banking business.

The Supervisory Board has recorded the detailed requirements in writing in a selection and diversity strategy. It describes details of

the knowledge, skills and experience required for effective monitoring of the Board of Management. These include, in particular, knowledge and experience in the fields of real estate, the capital market, securities and accounting. Independence rules are also defined. Furthermore, Supervisory Board members should be able to devote sufficient time to the performance of their duties.

In the opinion of the Supervisory Board, all members of the Supervisory Board are independent. The members of the Supervisory Board are not subject to any conflicts of interest, particularly any that could result from an advisory function or board membership on behalf of customers, suppliers, lenders or other business partners of the company. Members of the bodies do not participate in the discussion and passing of resolutions by the bodies if conflicts of interest or the impression of a conflict of interest exist in individual cases. In the financial year 2020, no conflict of interest requiring disclosure arose. In five cases, a total of two members of the body abstained from voting on a resolution to avoid the appearance of a conflict of interest.

According to the equality law provisions of the General Act on Equal Treatment relevant for Berlin Hyp, the Supervisory Board set a target for itself in a resolution dated 26 June 2017 to maintain the status quo of 13% (two women) with regard to the proportion of women on the Supervisory Board until 30 June 2022. At present, two women are represented on the Supervisory Board, which means that the quota has been met.

Attention is given to potential conflicts of interest and compliance with the age limit of 70 years as stipulated in the Rules of Procedure. The age diversity at the end of the financial year was between 53 and 66 years.

The Supervisory Board submits itself to efficiency reviews each year. The most recent review was conducted at the Supervisory Board meeting on 23 September 2020 and was based on a detailed questionnaire, as in the past, which addressed relevant topics according to

Section 25d (11) Nos. 3 and 4 German Banking Act (KWG) and which each Supervisory Board member was able to individually fill out before the meeting. The findings of the evaluation were then presented by the Chair of the Supervisory Board at the meeting and jointly discussed and debated. The 2020 review indicated that the efficiency of Supervisory Board activity was given. Furthermore, the Supervisory Board noted that its members have the required knowledge, abilities and experience for the activities of the Supervisory Board and its committees. Suggestions from Supervisory Board members have been and will be taken into account for work in the future. The thematic delimitation of the committees over time was mentioned as positive. The written reports from the committees provide the Supervisory Board members with comprehensive information about the discussions of the committees in advance of each meeting.

The members of the Supervisory Board are responsible for obtaining the necessary training and continuing education for their duties at their own responsibility and are supported in this process by Berlin Hyp. The company regularly informs the Supervisory Board about the latest changes in statutory law and offers opportunities for further training within the framework of in-house events.

Close Cooperation between the Board of Management and the Supervisory Board

Berlin Hyp's Board of Management and Supervisory Board work together closely based on mutual trust. At least four Supervisory Board meetings usually take place during the financial year, as in 2020. The Board of Management informs the Supervisory Board extensively and promptly on all issues relevant to the company relating to strategy, planning, business development, the risk situation, risk management and compliance of the Bank. The Supervisory Board coordinates the company strategy and its implementation with the Board of Management. It explores deviations in business performance from plans and goals and states the reasons for these. Supervisory Board meetings regularly begin with a look at the Bank's environment and current projects, such

as the large-scale projects for the digitisation of the Bank or the ongoing development of sustainability management.

The approach to risks in connection with the Bank's business activity is material to the Board of Management and the Supervisory Board. Both bodies require regular reports about risks and their development. Berlin Hyp's risk management system is continually developed further by the Bank and is examined by the auditors. The Board of Management passes on information that is material with regard to the risk aspects to the Chair of the Supervisory Board without undue delay.

Due to COVID-19, the Supervisory Board meetings were smoothly transitioned to a digital format in March 2020.

For strategic issues and discussions on strategic orientation, the Board of Management involves the Supervisory Board as appropriate.

The composition of the Board of Management and the Supervisory Board, as well as the spheres of responsibility of the individual members of the Board of Management, is presented on pages 2 and 3 of the Annual Report.

Efficiency Improvement by Committees

The Supervisory Board is assisted by four formed committees in accordance with regulatory requirements and with the aim of increasing efficiency. The Loans Committee is also active as the Risk Committee pursuant to the German Banking Act (KWG). The meetings were held in the usual way, with the committee meetings taking place 10 to 14 days before the Supervisory Board meetings. Written and oral reports from the committees provide the SB members with comprehensive information about the discussions of the committees in advance of each SB meeting. The Chair of the Supervisory Board does not hold the chair of the Audit Committee and the Chair of the Loans Committee (also the Risk Committee) does not hold an additional chair of the governing bodies. For details regarding the responsibilities of the various committees and the areas they focused on in 2020, see the Supervisory Board Report in this Annual Report.

Transparency

Open communication and transparency are extremely important at Berlin Hyp. The Bank's website provides information about all material

developments and events related to the Bank. For example, the planned publication dates for financial reporting are found in the financial calendar. All annual reports and interim reports are also archived and available on the website. In addition, the website contains important capital market information such as the current composition of the cover funds. Almost all information published by the Bank online is also published in English.

Risk Culture

Berlin Hyp's business philosophy has always been based on a triad of stable earnings, efficient structures and low risks. The Bank therefore fosters a risk culture that is designed to ensure the long-term success of its business and its corporate value. It defines risk awareness, readiness and management at the Bank. The conservative risk culture at Berlin Hyp is reflected in its business processes, guidelines, financing principles and Code of Conduct and is evident in the decisions made by management and employees in their daily work.

Compliance

Berlin Hyp has a proven compliance management system that monitors the development of legal and regulatory frameworks and initiates implementation measures if necessary. It serves to protect the Bank and its customers and therefore reinforces the trust of customers in Berlin Hyp. The Bank has set up a central compliance function to ensure compliance with legal and regulatory requirements and to assist other specialist departments in performing their duties with regard to compliance issues. In addition, the compliance function regularly carries out preventive measures and adequacy and efficiency surveys in the specialist areas and performs risk analyses.

In addition to the existing contact channels, Berlin Hyp has implemented a whistleblower system that can be used by employees, customers, business partners and other stakeholders. This includes the function of an external ombudsman, whom whistleblowers can contact in confidence if they come across suspected criminal activities or illegal business transactions.

