Interview with Sascha Klaus,
Chairman of the Board of Management of Berlin Hyp, on the 2018 financial year.

Always having a finger on the pulse, responding to changing underlying conditions and acting accordingly – these are the challenges that Berlin Hyp faces again and again each year. The Bank is synonymous with state-of-the-art commercial real estate financing. Thanks to its orientation, it is ranked among the leading institutions, and not just in Germany. 2018 was another record year for the Bank. In this interview, Sascha Klaus, Chairman of the Board of Management of Berlin Hyp, comments on the 2018 financial year.

Berlin Hyp is very pleased with its commercial performance in 2018. How pleased are you, Mr Klaus?

We have succeeded in further increasing the Bank's earnings significantly. We are very satisfied with our operating result as we were able to increase our result before profit transfer and allocation to the fund for general banking risks by a good 18 % to € 221 million. It is particularly important in this context that we have not only made an adequate dividend for our shareholders, but that we've also strengthened our equity position sustainably and completely independently. And this despite the fact that real estate financing portfolios have grown strongly in the last two years, thanks to flourishing new lending. At the end of 2018, the equity ratio was 13.5 %. This is a foundation for further solid growth in the future. We will continue to move forward on this path in consultation with our owners.

We also achieved our target level for new lending of € 4.9 billion. Berlin Hyp has remained true to its conservative risk strategy, and we have continued to focus on financing first-class real estate. We have also been committed to increasing our S-Group business with the savings banks, which stood at € 2.9 billion. In addition, we successfully maintained our outstanding position on the Green Bond market. We've placed our sixth Green Bond within three and a half years and therefore remain the most active issuer of green bonds in Europe in the commercial bank segment.

And if you look at the cost/income ratio, which fell by 6 % to 45.2 %, you can say that we have our costs fully under control. I'm very pleased with this, especially as we have invested heavily in our digitalisation and innovation measures. All in all, with these figures, we can look to the future with optimism.

A good keyword: digital transformation. Berlin Hyp sees itself as an "innovation driver" in the industry. It talks about investments, modernisation of the IT system landscape and a forward-looking corporate culture. What has Berlin Hyp achieved in the past year? What were your main areas of focus?

A lot. We intensified our existing cooperation with the online platform BrickVest in 2018. We are also delighted that another attractive investor came on board in 2018. This shows us that we've taken the right step as a first mover. And with 21st Real Estate, we've gained a very strong partner. We want to work together to use big data and artificial intelligence effectively to further develop valuation. We can clearly see the positive response on the market and that we are on the right track. Our own start-up, OnSite-ImmoAgent, has also launched successfully. Here we developed the idea of a crowd-based inspection service until it was market-ready and founded an independent subsidiary in September.

We're also the first German Bank to work with Carbon Delta, which assesses the effects of climate risks on real estate based on a value-at-risk model. We do this because we're committed to our sustainable approach. But regulators and politicians are also paying more and more attention to these aspects. We are also working intensively on our lending process flow, which we have completely redesigned virtually from the ground up – with new working methods and much greater speed for our customers.

Berlin Hyp sees itself as a responsible bank that offers safe and stable financial products and at the same time acts sustainably and explores new markets. Yes, the term “innovation driver” really sums it up.

These projects are heading in very different directions. What is the underlying strategy?

For us, strategy means critically reflecting on our business model at all times and considering whether we are still on the right track, whether the old and familiar remains true, or whether we can see opportunities for improvement. Of course, this can also mean change. With all these measures, we take action at different phases along the Bank’s value chain, whether it’s equity, debt, risk assessment or real estate valuation. We want to continue to be a reliable partner for our customers and a reliable employer in the future, which is why we consider these things.

Throughout all these innovations, Berlin Hyp aims to remain a solid and reliable partner. Isn’t this a balancing act for your corporate culture? How do you create the right conditions for this?

A lot has happened at Berlin Hyp over the last few years. A new team spirit has emerged as part of our berlinhyp21 programme. The will to change can be felt everywhere. Employees are taking on more and new responsibilities – across hierarchies and disciplines. I see a lot of commitment and passion, which leads to success. I see a lot of new things emerging. This makes me personally very proud.

As part of this process, it is particularly important to us to foster the strengths of all our employees, young and old alike, and to make the best possible use of their abilities. We can only be successful if we are able to take the competence and experience of the “old hands” and combine it with the younger generation’s capacity for innovation to produce products and actions using new technologies. With this in mind, we offer professional training and support our employees with long-term personal development plans.

What does that mean in concrete terms? What challenges do you face here?

We want the Bank’s management culture to be characterised by esteem, goal orientation, long-term security and extensive decision-making and creative freedom for all employees. In the future, a company’s success will be measured more so than ever before on the expertise and agility of its employees and their capacity for innovation. Our goal is to attract the best employees, both in terms of their personal qualities and professional abilities, and to retain them. We are constantly developing our human resources instruments, such as the 270-degree feedback system, which we introduced with a high level of participation in 2018, and a new competence model alongside our development measures. We offer subject matter expert career paths in addition to management careers, and we are also redesigning our assessment centre, to give a further example.

And challenges, yes, they are also diverse: digitalisation and automation are changing working conditions on a very concrete level. Creative workspaces and mobile technical equipment are designed to help relieve the strain on employees in their daily work and to give them greater flexibility. We support our employees as we move into the digital world. We want to reduce understandable reservations and fears. In in-house workshops they can familiarise themselves with Skype for Business or extending the use of mobile, for example.

Digitalisation, automation and demographic change call for strategic resource planning. We have therefore determined our medium-term human resource requirements and will take account of megatrends, developments in new and established business areas, and regulatory requirements. In the medium to long term, demographic change will result in an increased number of employees leaving the Bank when they reach retirement age.

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Here we must make sure that the know-how that the “old hands” have is passed on to those who remain and to the new generation.

Can I just say in passing that I’m very pleased that we now have a large number of young people who see and value us as a reliable yet innovative employer. Of course, we are still looking for talents who want to shape the path we have taken into the future together with us. I’m convinced that we are on the right track.

Finally, Mr Klaus, what is your forecast for the current financial year, 2019?

The underlying conditions remain challenging. The dynamics of global economic growth are weakening, and the ECB’s monetary policy remains expansionary, albeit to a lesser extent. Political issues, such as Brexit, will also continue to play a role. The ongoing low-interest phase, increased regulatory requirements, the volatile environment on the capital and financial markets, coupled with the need to continue to strengthen equity, remain major challenges.

Due to the strong competition in commercial real estate financing, we will remain prudent in our new lending, as our motto continues to be “quality before quantity”. We have a solid refinancing strategy, and our positioning in our core business, the S-Group business and the opportunities we see in digitalisation open up further potential for Berlin Hyp. This is a good foundation for successfully continuing and further developing our business.

We’re also planning to further strengthen our capital and to make investments for our future in 2019. For this reason, I expect that, if our earnings potential remains the same, we will achieve the dividend our owners expect and be able to strengthen our capital base. The return on equity is expected to remain above 10 %. We’ve set ourselves ambitious goals, but I am convinced that, with our committed team, we will once again be able to convince our customers this year and successfully lead Berlin Hyp into the future.