



**Dr. Holger Horn**  
MEMBER OF THE BOARD OF MANAGEMENT  
TRANSACTION MANAGEMENT

- » 2010–2014  
FMS Wertmanagement, most recent position  
Member of the Executive Board
- » 2014–2018  
Member of the Board of Management, Depfa  
Bank
- » Since 1 January 2019  
Member of the Board of Management,  
Münchener Hypothekenbank eG

**Dr. Louis Hagen**  
CHAIRMAN OF THE BOARD OF MANAGEMENT  
MARKET

- » 2010  
Spokesman of the Board of Management,  
Münchener Hypothekenbank eG
- » Since 2016  
Chairman of the Board of Management,  
Münchener Hypothekenbank eG
- » Since 2016  
President of the Association of  
German Pfandbrief Banks (vdp)

**Michael Jung**  
MEMBER OF THE BOARD OF MANAGEMENT  
CONTROL AND IT

- » 2000–2008  
Spokesman of the Board of Management,  
Volksbank Maulbronn-Oberderdingen eG
- » 2008–2010  
Deputy Chairman of the Board of Management,  
Volksbank Bruchsal-Bretten eG
- » Since 1 January 2011  
Member of the Board of Management,  
Münchener Hypothekenbank eG

# Letter from the Board of Management

*Dear Shareholders and Business Associates,*

Once again we were able to close a business year with a new record set for our new business results. In 2018 we granted over € 5.6 billion in mortgage loans, which is, by far, the highest volume of new business achieved in the history of MünchenerHyp. When prolongations of € 742 million are added to this figure the result is € 6.4 billion in loans made. This excellent performance was achieved despite extremely intensive competition. Due to the continuing phase of low interest rates credit institutions and other providers of financial services are increasingly keen on financing property. Thanks to our very successful sales performance in the second half of the year we were able to more than compensate for the temporary shortfall compared to the previous year.

## **Added advantages: attractive financing offers and highly effective lending processes**

Our traditional autumn sales campaign during Oktoberfest, above all else, gave a very strong boost to our private residential property financing business making it one of our most successful sales campaigns. Our new business was additionally strengthened by optimised processes and an expanded range of products. We further simplified the financing services offered to our customers and our partner banks within the Cooperative Financial Network thereby making our lending processes even faster and more comfortable for them. As a result, our new private residential property financing business in Germany grew by about 2 percent to € 2.9 billion. This is a satisfying increase in view of the current market situation. Our new business results achieved in collaboration with Swiss PostFinance were below our expectations and amounted to € 282 million. The Swiss market is experiencing an even tougher competitive situation. The notable increase in extensions of loan agreements falling due in our Swiss business enabled us to partially offset the decline as we achieved an extension rate of almost 80 percent.

We were very successful in both our national and international commercial property financing areas of business as we achieved € 2.5 billion in new business. This figure is about one-third higher than the volume of financing we recorded in the previous year. Our international business, in particular, developed very dynamically as the volume of new lending commitments made almost doubled to € 1.2 billion. Optimised new business processes also assisted the expansion seen in our commercial property financing area of business. This is reflected by the distinctive and prominent office buildings we financed last year like Zalando's new headquarters building in Berlin, the Gallileo Tower in Frankfurt am Main, and the Monument Building in London.

## **Continued growth: mortgage portfolio surpasses historical mark, earnings power increases**

Our very good new business results are also reflected by MünchenerHyp's loan portfolios and earnings. For the first time ever, the volume of mortgage loans held by the Bank exceeded the € 30 billion mark. In fact, in 2018 we increased this figure by 9 percent to € 32.0 billion. Private residential property financing in Germany was once again the strongest growing segment of our loan portfolio.

We were also able to expand MünchenerHyp's earning power as net interest income rose by 9 percent to € 280.1 million. Furthermore, thanks to slightly higher commission income, the net interest income and net commission figure even improved by 14 percent to € 207.6 million. We continued to be satisfied with the development of our provisions made for risk. Despite facing a very challenging competitive environment we upheld our conservative approach to financing. Provisions made by the Bank for credit risks remained at a very low level. Results from ordinary business activities however, fell by 11 percent to € 76.0 million. This decline was primarily due to favourable one-time effects recorded in the previous year which were not present in the year under review.

### GenoFestgeld: expanding our refinancing mix

We successfully expanded our refinancing mix during the past business year with a deposit product, which we introduced in the spring of 2018. GenoFestgeld is our first deposit product and is solely offered to customers of cooperative banks within the Cooperative Financial Network. GenoFestgeld provides cooperative banks the opportunity to offer their customers an attractive rate of interest from an institution within the Cooperative Financial Network. This product benefits customers, and also benefits the cooperative banks by raising customer loyalty and at the same time reducing the banks' existing surplus of liabilities. By the end of the year our new product had attracted about € 100 million in deposits and raised the number of banks we do business with in the Cooperative Financial Network.

However, the Pfandbrief still remains our most important source of refinancing funds. Thus, in 2018 we issued two large-volume benchmark Mortgage Pfandbriefe of € 500 million each. One of them was our first ecological sustainable Pfandbrief (ESG), which we issued in November. This issue underlined our pioneering role in this field. We became the first issuer to place a Pfandbrief on the basis of both social and ecological sustainability criteria. In addition, there was great demand for our Swiss franc denominated foreign currency issues.

### Top rating for sustainability

For quite a few years now the Bank has declared its commitment to anchoring sustainability in its core business. And we have made great progress towards this goal in our property financing business, as well as in our refinancing activities with the placement of ESG Pfandbriefe. On the financing side our two sustainable private residential property financing products – the Green Loan and the Family Loan – have been very well received by our customers and partners. In the interim, our new business results show that every eighth loan made is a sustainable loan.

The decisiveness we have shown in anchoring sustainability in MünchenerHyp's business model is being increasingly honoured by specialised sustainability rating agencies. Last year ISS-oekom raised our sustainability rating from C+ to B-, which is currently the top rating in the category we are rated in: "Financials/Mortgage & Public Sector Finance".

### Outlook

More than ever before, we owe the success we achieved in 2018 to our employees' talents and skills and their deep dedication towards making their MünchenerHyp a success story. We owe them our warm thanks for their commitment. The Works Council and the Executive Employees Committee were again constructive partners last year, and we thank them for their productive collaboration. We are also thankful for the support and trust we received from the Supervisory Board, the members of MünchenerHyp and their delegates.

We intend to further strengthen our position in the current business year. As part of these efforts we will advance the strategic further development of the Bank and integrate possibilities offered by digitalisation even deeper into our processes and services. The challenges we face include, in particular, intensified price-based competition, high-

er refinancing costs due to the ECB phasing out its purchase programme, as well as greater burdens arising from regulatory requirements. The market environment does, however, continue to offer us opportunities. The period of low interest rates, which will, most likely, remain unchanged in 2019, and the great appeal of the German property markets will continue to support demand for property loans. This scenario means that the property financing business will continue to be marked by very intensive competition. Nevertheless, we are confident that we will again achieve satisfying new business results.

Sincerely yours,



**Dr. Louis Hagen**  
Chairman of the Board of Management



**Dr. Holger Horn**  
Member of the Board of Management



**Michael Jung**  
Member of the Board of Management

## INTERVIEW



"There is still a very high demand for properties, in particular in metropolitan areas in Germany."

**Dr. Louis Hagen**  
CHAIRMAN OF THE  
BOARD OF MANAGEMENT



<https://www.muenchenerhyp.de/geschaeftsbericht2018/en/#ccointerview>

In a video interview, Dr Louis Hagen, Chairman of the Board of Management at MünchenerHyp, talks about the 2018 financial year, the impact of the ECB's monetary policy and the outlook for 2019.