

**DR. LOUIS HAGEN**  
Chairman of the Board  
of Management

**DR. HOLGER HORN**  
Member of the Board  
of Management

# Letter from the Board of Management

*Dear Shareholders and Business Associates,*

Property markets remained in good shape in 2019. In what is now the tenth year of the property boom, demand for property increased in Germany and in other countries where we operate. Interest rates that were already low were reduced even further. General conditions for property financing thus remained largely positive.

At the same time, the property financing marketplace became increasingly competitive. Building on our strategic development in recent years, we held our own well in this environment. In particular, we increased our customer focus, intensified market cultivation efforts and streamlined our lending and service processes. The results of our strategic measures are reflected mainly in very positive development of new business.

## Record result achieved

We achieved another record result in 2019, with new business in residential and commercial property financing amounting to €6.5 billion.

The private property financing business developed dynamically in all three segments – the brokerage business with our cooperative partner banks, independent financial service providers and PostFinance in Switzerland. We lent a total of €3.7 billion in private property finance, an increase of 18 percent. Since mid-2019 we have also been granting residential property loans in Austria, where currently we cooperate solely with independent financial service providers. We firmly believe that our credit offerings are attracting interest from consumers, and that our business in Austria will make a significant contribution to earnings in coming years.

New business in commercial property financing also increased significantly, totalling €2.8 billion. We were particularly successful in our domestic business, which increased by 40 percent, to €1.9 billion. In spite of the continued high level of competition, we succeeded in acquiring financing transactions that fit in well with our strategic focus, both from an earnings and a risk perspective.

Our mortgage portfolio continued to grow significantly, due to strong new business, increasing by more than 10 percent, to €35.5 billion.

## Capital base strengthened

We are satisfied with the development of net interest income, which increased by 7 percent, to around €300 million. As most of our new business in private property financing comes from brokerage business, a very successful year also brings with it higher commission expenses. However, these acquisition costs have an adverse impact only in the year the loans are paid out, whereas the interest income then accrues undiminished over the term of the loan. Commission paid should therefore be considered as an investment in the future. At €204.5 million, net interest and commission income is in line with the previous year's level, in spite of higher commission expenses. The credit risk situation remained stable. However, administrative expenses rose significantly. This is firstly due to expenses in connection with digitalisation and optimisation of processes and services. These are necessary investments in the future sustainability of the Bank, without which it will not be able to hold its own against the competition in the long term. Secondly, the Bank continues to be heavily burdened by regulatory costs, over which we have no control. Ultimately, growth, regulation and development cannot be achieved without additional human resources. Consequently, despite

our cost-cutting efforts, the result from ordinary business activities is slightly lower compared with the previous year, at €73.6 million.

With a Common Equity Tier 1 ratio of 19.8 percent, MünchenerHyp remains well capitalised. To underpin our rapidly growing loan portfolio, during the year under review we reinforced our additional Tier 1 capital, by issuing an Additional Tier 1 bond in Swiss francs. This made us the first foreign issuer of an Additional Tier 1 bond in Switzerland. The issue was an outstanding success. The bond was placed in just a few hours at terms comparable with those of major Swiss banks. We also owe this success to the fact that we have been a regular and reliable issuer on the Swiss capital market for some years now. Indeed, last year we were the largest foreign issuer of Mortgage Pfandbriefe in Switzerland, with an issue volume of CHF 1.9 billion.

### Successful Pfandbrief issues

In 2019 the Pfandbrief celebrated its 250th anniversary. For us, the Pfandbrief is and will remain a tried-and-tested, core refinancing instrument. Of special note for us in the year under review were three benchmark issues of Mortgage

Pfandbriefe, which met with a remarkable response from investors and the public. These were a Mortgage Pfandbrief for €500 million with a record term of 20 years, a Mortgage Pfandbrief for US\$600 million and another Mortgage Pfandbrief for €500 million, which was issued with a significantly negative yield. These three issues clearly demonstrate the scope of the Pfandbrief in refinancing MünchenerHyp's mortgage business.

### Future proofing MünchenerHyp in difficult times

Our long-term strategic objective is to generate organic growth in our core business in order to sustainably bolster the bank's profitability. Nonetheless, the rapid global spread of the novel coronavirus in the last few weeks means that, in the first half of March (the time we are writing to you), it is very difficult to assess the extent to which this will strain the property and property financing markets in the long run. This may also affect MünchenerHyp's growth in the short to medium-term. However, we currently expect the economy to stabilise again, both in Germany and globally.

The property cycle was already at an advanced stage before the outbreak of the coronavirus crisis. Given the apparent

economic impact, it is now all the more urgent to prepare the bank for tougher times by significantly strengthening reserves to ensure its future viability. To make this possible, we have put forward a proposal to the 2020 Delegates Meeting to reduce the dividend in comparison to the previous year.

In all of our undertakings, we know that we can count on the commitment and trust of our members, partners, customers and employees. For a successful financial year 2019 we would like to thank our employees, the Works Council and the Executive Employees Committee for their services and their commitment, as well as the Supervisory Board and the Delegates for their advice and support.

Yours sincerely,



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