



The Board of Management of MünchenerHyp (from left to right): Michael Jung, Dr. Louis Hagen (Chairman), Bernhard Heinlein

## LETTER FROM THE BOARD OF MANAGEMENT

### DEAR SHAREHOLDERS AND BUSINESS ASSOCIATES,

When the MünchenerHyp was founded 120 years ago as the Bayerische Landwirtschaftsbank, the government of Bavaria was convinced that: "With this bank, something useful has been created for agriculture". Since then our Bank has evolved significantly beyond its original business purpose. Today, MünchenerHyp is one of the important Pfandbrief banks and financiers of property in Germany. Over the course of time the Bank has experienced ups and downs and managed to remain successful and independent through to today.

In achieving this we are also grateful to our founding fathers who established MünchenerHyp in the legal format of a cooperative. Up until today we have remained true to the cooperative spirit and principles. We live these values every day in our relationships with our members, our partners in the Cooperative Financial Network, our customers and our employees. Working from this foundation we have always joined together to create the future. This is the essence of who we are and the basis for our success.

### RECORD RESULTS IN ANNIVERSARY YEAR

The unbroken great interest shown by investors and owner-occupiers in property has strengthened demand for property financing, and concurrently intensified price competition among providers. Even though we cannot avoid this development, we still retain our unchanged policy regarding risk awareness and quality in our financing offers.

Our objective for 2016 was to again attain the already outstanding level of new business we achieved in 2015. For this reason, we are more than pleased to report that with € 4.93 billion in lending commitments we once again set a new record. This success benefited from the continuing environment of low interest rates and private customers who, in particular, sought to secure favourable conditions for as long as possible. As a Pfandbrief Bank that can obtain long-term refinancing, we are able to offer particularly competitive offers in this segment. In addition to this, there is the pronounced close customer relationships of our most important sales partner, the Volksbanken and Raiffeisenbanken. An additional plus is our range of products, which has been widened for example by the introduction of an attractive and innovative product: the MünchenerHyp Sustainability Loan.

Furthermore, the sales channels we use to market residential property financing outside of the Cooperative Financial Network developed favourably. We were able to increase our brokerage business with independent providers of financial services by over 15 percent. We also notably expanded our joint sales activities with our collaborating partner Swiss PostFinance. Thus, in a far more difficult market environment, we were again able to record very good new business results.

The implementation of the Directive for residential property loans and the related far-reaching legal changes posed a special challenge to the German banking industry, and also for us. However, thanks to innovative project management and the untiring efforts of our employees, we were able to adjust our systems at an early stage to flexibly accommodate the new requirements. This allowed us to remain productive and capable of delivering financing solutions at all times – which had favourable effect on our new business.

Price competition in the commercial property sector is increasingly evolving into vicious competition as the supply of coveted core properties gets tighter and tighter. As a result of this, turnover in the commercial property market is declining again for the first time. Nevertheless, we were able to slightly expand our new business results without having to take on higher risks. This was mainly due to the fact that we further optimised the quality of our services.

Our strong new business performance again supported the growth of our mortgage loan portfolio. During the course of the previous year we were able to expand it by over 8 percent to € 27.8 billion. The same applies to our net interest income, which rose by 5.4 percent to € 233.4 million. Results from operations before deducting provisions for risk improved by about 20 percent to € 67.3 million. The unchanging good level of diversification in our portfolio of loans and our risk-aware extension of credit has resulted in a very satisfactory risk situation in our lending business.

#### EQUITY CAPITAL STRENGTHENED IN VIEW OF FUTURE CAPITAL RULES

High burdens posed by regulatory requirements remained intact last year and by now are responsible for a major portion of the increase in administrative expenses. We do not, however, have to solely deal with existing regulations. We also have to get ready for

those that are coming. Among them, we were busy preparing for the leverage ratio that will take effect on 1 January 2019. From this point in time onwards we will have to maintain at least a three percent ratio of Tier 1 capital to the total nominal volume of exposures. This one-size-fits-all requirement places a disproportionate burden on us as a specialist institution providing low-risk property financing as we are engaged in a high-volume, low-margin business.

We strengthened our equity capital at an early date because the leverage ratio is simply unavoidable. Our efforts were again assisted by our partner banks within the Cooperative Financial Network as well as by private members as they increased their investment in MünchenerHyp by about € 250 million. Thus, based on current facts we are able to fulfil the leverage ratio with a ratio of 3.35 percent.

#### SUCCESSFUL YEAR FOR THE PFANDBRIEF

Last year the Pfandbrief once again proved its great stability even when faced with major challenges. These included the low interest rate policy, the European Central Bank's covered bonds purchase programme, as well as substantially greater volatility in the markets due to the political events in Great Britain and the USA.

As a leading issuer of Mortgage Pfandbriefe we were also able to again obtain refinancing at favourable conditions even under these circumstances. We issued two large volume benchmark Pfandbriefe including a US dollar 600 million Mortgage Pfandbrief. Furthermore, we were very successful in placing additional non-euro denominated issues in the market. We received the "Deal of the Year" award for a Mortgage Pfandbrief with a volume of CHF 200 million.

#### CREATING THE FUTURE TOGETHER

The solidarity principle is the key to the success of cooperatives. This is particularly visible in the partner-like collaboration within the Cooperative Financial Network. The cooperative banks' close proximity to the market and their customers coupled with our high level of product competence make us a highly competitive property financier. We also live the cooperative principle of mutual cooperation in our daily work at MünchenerHyp. Many of our employees are also members of our cooperative. We wish to thank all of our employees for their huge dedication to furthering the progress of MünchenerHyp, as well as the members of the Works Council and the Executive Employees Committee for

their beneficial collaboration. We would also like to thank our members for their support and their trust in our work.

Working together we will also face the current business year's challenges. We have set ourselves the task of making additional progress on our sustainable path to growth. We plan to again surpass the very good new business results we recorded in the year under review. To achieve this goal we will intensify our marketing efforts and further expand sales activities with our partners. The conditions needed to achieve this remain favourable. Currently, there are no visible signs that the low interest rate phase, and thus strong demand for property and property financing, will end. For this reason, we anticipate that we will also be able to close 2017 with success.

Sincerely yours,



Dr. Louis Hagen



Bernhard Heinlein



Michael Jung