

LETTER FROM THE BOARD OF MANAGEMENT

DEAR SHAREHOLDERS AND BUSINESS ASSOCIATES,

MünchenerHyp has been on a course of sustained growth for over five years now. Last year we were able to set two new historic records for the Bank: for the first time ever we made more than 5 billion euros in new mortgage commitments in a single business year, thereby extending the record results we achieved in 2016. Furthermore, our members' subscribed paid-up capital exceeded the 1 billion euro mark for the first time. This underscores the fact that MünchenerHyp has a solid equity capital base that allows it to continue on its path of growth. At the same time, it is also strong confirmation of the trust our members have in the Bank's business strategy.

INTACT DEMAND FOR PROPERTY – STRONG NEW BUSINESS

Last year's good new business results were again fuelled by unbroken strong demand for property – purchased as a personal home or as an investment. This also corresponded with a great need for property financing, which in turn benefited the Bank as a renowned expert in this field – and also continued to attract new competitors to the market.

These conditions produced another challenging market environment in 2017. In view of this, we are more than pleased that we once again recorded very good new business results, which rose by 2.5 percent to a total of € 5.1 billion. Nearly two-thirds of this figure of € 3.2 billion was accounted for financing private residential property. We have held a consistently high level in this market segment since 2014 primarily because of the sales strength of our brokering partners – especially the banks within the Cooperative Financial Network, which turned in another impressive performance thanks to their expertise and close customer relationships.

We expanded our new commercial property finance business by 13 percent to € 1.9 billion. This was due, on the one hand, to the sound condition of the property markets in our target markets, with Germany, in particular, viewed anew as a safe harbour by investors. On the other hand we intensified our market activities and in this context returned to doing business in the USA. In addition, we expanded our syndication business and enhanced our efforts to involve the partner banks within the Cooperative Financial Network.



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

PORTFOLIOS EXPANDED – EARNINGS POWER INCREASED

Our successful new business results favourably influenced our loan portfolios and MünchenerHyp's earning power. Our portfolio of mortgage loans grew by about 5 percent to € 29.2 billion, with private residential property loans accounting for the lion's share of the increase.

We are also pleased with the development of our net interest income. We were able to increase this key figure by almost 10 percent to € 256.6 million. As we continued to be very conscious of risks involved in our new business activities, our provisions for risk remained at a low level. This allowed us to improve our results from ordinary business activities by 26 percent to € 85.1 million.

STRONG DEMAND FOR PFANDBRIEFE – RECORD ISSUE PLACED IN SWISS CAPITAL MARKET

Developments in the European bond market and prices were again dominated in 2017 by the European Central Bank's Covered Bond Purchase Programme (CBPP 3) for Pfandbriefe and other covered bonds. This pushed buyers of classical Pfandbriefe further to the side lines, while market distortions further increased.

Nevertheless, our Pfandbriefe continued to garner broad investor interest. We primarily owe this to our strong reputation as an issuer. Last year we additionally benefited from targeting favourable windows for issuing new paper. Two Benchmark Mortgage Pfandbrief issues we placed in 2017 stand out from the rest. The first of the two benchmark issues was placed in the spring. Investor interest was so great that in the autumn we tapped the issue by an additional € 250 million to € 750 million. Demand for our second benchmark issue was so strong that we quickly decided to increase its volume to € 750 million.

We achieved considerable success in the foreign currency issue segment in the autumn of 2017 with a CHF 100 million Mortgage Pfandbrief. The success of this issue was overwhelming and set a new record in the Swiss capital market. The issue's interest rate discount was 8 basis points below the domestic Swiss franc mid-swap rate making it the highest discount ever achieved by a foreign issuer of covered bonds in Switzerland.

NEW CHALLENGES – STRATEGIC DEVELOPMENTS

As satisfied as we are with the results of the 2017 business year, we are also very aware that overall conditions in our business will become notably more challenging. In the mid-term this applies to central banks' interest rate policies, and especially the direction taken by the ECB. In the short-term, regulatory requirements and digitalisation issues require strategic responses and new investments that will enable the Bank to retain its position in the face of increasingly fierce competition.

In the context of regulatory issues this applies, in particular, to the new equity rules for credit institutions that were agreed on and approved by the Basel Committee on Banking Supervision at the end of 2017. Revisions to the approach for weighting credit risks, in particular, will impact MünchenerHyp. The new rules limit the use of the internal ratings-based approach for credit risk, which is used by the Bank. This means that the amount of equity capital required for lending purposes will rise and have a negative effect on our equity capital ratios. As we previously strengthened our equity capital in anticipation of future regulatory requirements, we still view the Bank as having a good level of equity capital, and we currently do not require further equity capital.

We are increasingly feeling the challenges posed by digitalisation in customer behaviour. Today's customers expect to be quickly and clearly informed about their financing at any time, which also includes contacting their lender regarding their financing. And nowadays they prefer to use digital communication channels to fulfil these expectations. In response, we are making our processes more specific to reflect the changing needs of our customers.

SUCCESS IS A SHARED ACHIEVEMENT

Based on the efficiency of our business model, we are confident that we will master the challenges posed by digitalisation and regulatory requirements. The related tasks are, however, anything but simple. It is gratifying to know that we can count on the commitment and hard work of our employees and our partners as the record results we achieved in the 2017 business year would not have been possible without our employees' energetic dedication to their MünchenerHyp. We are very grateful for this and extend our warm thanks to them. We would also like to thank the members of the Works Council and the Executive Employees Committee for their productive collaboration during the previous year.

We thank our partners for the successful and good working relationships we have with them, and we also wish to thank our members for the trust they have put in the Bank.

Together we will tackle the aforementioned challenges. We also want to continue growing in 2018 and work together with our partners to expand our market position. Signs are pointing towards another year of favourable development in the property market. For this reason, we are confident that we will again be able to post good business results for 2018.

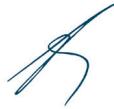
Sincerely yours,



Dr. Louis Hagen



Bernhard Heinlein



Michael Jung