MÜNCHENER HYPOTHEKENBANK eG
DISCLOSURE REPORT 2014

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FORMULA DIRECTORY

LIST OF ABBREVIATIONS

AE ratio	Asset Encumbrance Ratio
AfS	Available for Sale
Art.	Article
AT1	Additional Tier 1 capital
BaFin	German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht)
BPV	Basis Point Value
BVR	Federal Association of German Volksbanken and Raiffeisenbanken (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken)
BWGV	Association of Baden-Wuerttemberg Cooperatives (Baden-Württembergischer Genossenschaftsverband e. V.)
CCF	Credit Conversion Factor
CD	Certificate of Deposit
CDS	Credit Default Swaps
CET1	Common equity Tier 1 capital
CP	Commercial Paper
CRD IV	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRDIV)
CRM	Credit Risk Mitigation (techniques)
CRR	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012
CUSIP	Committee on Uniform Security Identification Procedures
CVA	Credit Valuation Adjustment
CVaR	Credit Value at Risk
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
ECB	European Central Bank
EDP	Electronic Data Processing
EEA	European Economic Area (EEA)
EL	Expected Loss
etc.	et cetera
FX-risks	Foreign Exchange Risks
GVB	Association of Bavarian Cooperatives (Genossenschaftsverband Bayern e. V.)
ICAAP	Internal Capital Adequacy Assessment Process
InstitutsVergV	German regulation on the supervisory requirements for compensation systems of banks; Remuneration Regulation for Institutions (Institutsvergütungsverordnung)
IPRE	Income Producing Real Estate
IRBA	Internal Ratings Based Approach
ISIN	International Securities Identification Number
IT	Information Technology
ITS	Implementing Technical Standards
KSA	Standard Approach to Credit Risk (Kreditriskostandardansatz)
KWG	German Banking Act (Kreditwesengesetz)

LDP	Liquidity Coverage Potential (Liquiditätsdeckungspotenzial)
LGD	Loss Given Default
LRG	Local and Regional Governments
MaRisk	Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement)
MBS	Mortgage Backed Securities
MDB	Multilateral Development Bank
MünchenerHyp	Münchener Hypothekenbank eG
N/A	Not applicable
OpRisk	Operational Risk
PD	Probability of Default
PPU	Permanent Partial Use
PU	Partial Use
QIS	Quantitative Impact Study
RTS	Regulatory Technical Standards
RWA	Risk-Weighted Assets
RWGV	Association of Rhineland-Westphalia Cooperatives (Rheinisch Westfälischer Genossenschaftsverband e. V.)
SME	Small and Medium-Sized Enterprises
SolvV	German Solvency Regulation (Solvabilitätsverordnung)
T1	Tier 1 capital (T1 = CET1 + AT1)
T2	Tier 2 capital (Supplementary capital)
TC	Total Liable Equity capital (TC = T1 + T2)
UL	Unexpected Loss
VaR	Value at Risk
vdp	Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken)
VR	Volksbanken Raiffeisenbanken

DISCLOSURE PURSUANT TO CRR / CRD IV

1 BASIS FOR SUPERVISORY DISCLOSURE

The Basel III capital framework was introduced in the European Union by means of Directive (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR) and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive IV – CRD IV) and published on 27 June 2013. CRD IV became national law in Germany by amending the German Banking Act (KWG) and the German Solvency Regulation (SolvV), as well as the related regulations. The sum of these regulations represents the new regulatory framework, which in Germany applies to subjects including capital, leverage, liquidity, as well as Pillar III disclosures. The new regulatory framework took effect on 1 January 2014, subject to different transitional rules. This report refers to the business year ending on 31 December 2014. Thus, rules and regulations that were valid to this date apply, unless otherwise indicated.

Transitional rules apply to some regulatory requirements, most of which will be phased in through 2018, such as capital deductions, regulatory filters and the introduction of minimum capital ratios. Binding minimum requirements for short-term liquidity will be introduced in 2015, and a standard for the structure of longer term refinancing is expected to become effective in 2018, along with a binding leverage ratio. It will only become mandatory to disclose the leverage ratio per 1 January 2015.

This disclosure report uses CRR/CRD IV framework terminology, various EBA standards, as well as national regulatory requirements pursuant to the SolvV and the KWG.

Furthermore, this disclosure report also meets disclosure requirements for risk reporting as well as those of the Remuneration Regulation for Institutions (Institutsvergütungsverordnung – InstitutsVergV).

Independent of individual regulatory initiatives, MünchenerHyp works continuously to further develop its risk management infrastructure. Within this context new measures were introduced in recent years including new internal rating procedures, processes were optimised, and the modernisation of the Bank's data processing technology infrastructure, among other measures. These efforts were also recognised by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) and the Bundesbank: in 2013 MünchenerHyp received approval to employ additional rating systems as part of its internal rating system within the framework of the Internal Ratings Based Approach (IRBA). Plans call for the entire loan portfolio to be covered by the internal IRBA rating system by the end of 2015.

In keeping with the further development of the risk management infrastructure, the structure of the disclosure report has been appropriately adjusted to reflect the risk categories that have been identified as relevant within the framework of the risk inventory and the preparation of MünchenerHyp's risk strategy. Qualitative and quantitative information has been presented for each type of risk as required pursuant to the regulatory disclosure guidelines.

This report fully complies with all of the regulatory disclosure requirements that are relevant for MünchenerHyp. This report is published every year on MünchenerHyp's website shortly after the publication of the annual financial statements.

The following overview lists the disclosure requirements pursuant to CRR and the corresponding chapters in Münchener Hypothekenbank's disclosure report.

Disclosure requirements per Title 8 CRR	Corresponding chapter in this disclosure report
Article 435: Risk management objectives and policies	Risk management
Article 436: Scope of application	Fundamentals of regulatory disclosure
Article 437: Own funds	Equity
Article 438: Capital requirements	Equity
Article 439: Counterparty credit risk	Counterparty risk
Article 440: Capital buffers	N/A
Article 441: Indicators of global systemic importance	N/A
Article 442: Credit risk adjustments	Counterparty risk
Article 443: Unencumbered assets	Encumbered assets
Article 444: Use of External Credit Assessment Institutions (ECAIs)	Counterparty risk
Article 445: Exposure to market risk	Market price risk
Article 446: Operational risk	Operational risk
Article 447: Exposures in equities not included in the trading book	Investment risk
Article 448: Exposure to interest rate risk on positions not included in the trading book	Counterparty risk
Article 449: Exposure to securitisation positions	Securitisations
Article 450: Remuneration policy	Remuneration policy
Article 451: Leverage	N/A
Article 452: Use of the IRB Approach to credit risk	Counterparty risk
Article 453: Use of credit risk mitigation techniques	Counterparty risk
Article 454: Use of the advanced measurement approaches to operational risk	N/A
Article 455: Use of internal market risk models	N/A

Table 1: Disclosure topics presented in this report as required by Title 8 CRR

2 MÜNCHENER HYPOTHEKENBANK eG STRUCTURE

In both financial and regulatory terms, the MünchenerHyp is an individual institution and not a financial conglomerate. The three fully owned subsidiary companies: M-Wert GmbH, Munich, Immobilienservice GmbH der Münchener Hypothekenbank eG (M-Service), Munich, and Nußbaumstraße GmbH & Co. KG, Munich, do not represent significant subsidiaries that would trigger a mandatory consolidation requirement. Moreover, MünchenerHyp does not operate any foreign subsidiaries that would trigger mandatory reporting requirements per Art. 26a (1) 2 KWG.

MünchenerHyp has been under the direct supervision of the ECB since 4 November 2014. This step was preceded by the Comprehensive Assessment process. An Asset Quality Review (AQR) of MünchenerHyp took place as part of the Comprehensive Assessment, which the Bank clearly passed. No corrections were necessary. Although MünchenerHyp did not achieve the required minimum ratio for its common equity Tier 1 capital based on its 2013 financial statements, it did exceed the required figure by far following the actions it took during 2014 to increase its equity capital. MünchenerHyp conducted a successful campaign to raise additional capital within the Cooperative Financial Network and among private cooperative members, which led to an inflow of € 415 million in common equity Tier 1 capital and raised MünchenerHyp's common equity Tier 1 capital ratio to 12.3 percent on 30 September 2014.

3 RISK MANAGEMENT

3.1 OBJECTIVES AND PRINCIPLES

The ability to monitor and keep risks under control at all times is essential for the successful steering of business development at MünchenerHyp. For this reason risk management plays a very important role in the overall management of the Bank.

The business and risk strategy defines the parameters of the Bank's business activities. MünchenerHyp's entire Board of Management is responsible for both the business strategy and the risk strategy, which are regularly reviewed regarding the attainment of goals and the effectiveness and are updated as necessary and then submitted to the Supervisory Board at least once a year. As part of its supervisory duties, the Supervisory Board is advised on a quarterly basis concerning the Bank's risk profile as well as how it has performed towards achieving its objectives. This takes place, for example, using the reports concerning the Bank's risk-taking capabilities, lending risks, as well as the risk report prepared in accordance with the "Minimum Requirements for Risk Management" (MaRisk).

The basis of risk management consists of, on one hand, the analysis and presentation of existing risks, and, on the other, comparing these risks with the risk cover potential (ability to bear risk). The analysis and presentation of existing risks primarily distinguishes between counterparty, market price, liquidity, credit spread, and migration risks as well as operational risks. Additional risks such as placement risk, reputational risk, business risk etc., are viewed as parts of the abovementioned risks and are taken into consideration at the appropriate place in the individual calculations, or are taken into consideration as other risks. Appropriate monitoring processes are in place involving internal process-dependent and independent supervision. Our internal audit department is responsible for the process-independent monitoring function within the Bank.

The professional concepts and models used to calculate the ability to bear risks are continuously further developed in accordance with regulatory requirements. Münchener Hypothekenbank calculates its ability to bear risks on both a present value and period-oriented basis. The Going-Concern scenario is a more important method used to manage risk. This scenario is used to determine if the Bank still would have an adequate equity capital ratio exceeding the legally required minimums for core capital and total capital after the occurrence of risks contained in all of the risk categories. The only cover potential that may be used to cover risks in this scenario is the available regulatory equity.

MünchenerHyp employs a limit system as an additional risk control instrument to monitor its ability to bear risks. The paramount purpose of monitoring the ability to bear risks is to ensure that the Bank's income, cost and risk structures are organised in a manner that allows then to be controlled without external assistance. The limit system assists in setting and regularly reviewing limits for debtor categories as well as for countries.

Resolutions passed by the Basel Committee on Banking Supervision, or by the European Union regarding regulatory requirements, and their subsequent transposal into German law, are observed, promptly analysed and incorporated into the Bank's risk and business strategies within the context of the regular reviews and further development of these strategies. Based on this procedure, relevant processes and systems are then adjusted as necessary.

The newly developed and continuously further developed methods to measure risk that arose within the framework of obtaining IRBA certification are embedded in MünchenerHyp's risk management system. The results derived from the risk models are suitable for managing MünchenerHyp. Despite careful development/further development and regular assessments of models, constellations may, however, still arise whereby the actual losses or liquidity requirements are higher than foreseen by the risk models. Stress scenarios are used within the framework of risk mitigation in order to take this extraordinary, and yet plausible, situation into proper account.

3.2 RISK STATEMENT

3.2.1 Description of risk management objectives

The risk strategy is an integral part of the Bank's business strategy. Based on the institution's business objectives, risk strategy is the source of risk-related measures to manage risk that are necessary for the Bank to achieve these objectives. Both strategies are set by the Board of Management. Details are coordinated with the affected department heads. This information is released to all of the Bank's employees following approval by the Supervisory Board. This takes place at least once a year as well as ad hoc basis. Monitoring of the defined standards (volumes, margins, limits etc.) takes place in the various departments and is reported to the Management Board at least once per quarter.

Within its business strategy, MünchenerHyp defines its business areas as residential and commercial property finance, which are divided into the following segments: Retail Germany, Retail Foreign, Commercial Domestic, and Commercial Foreign. In addition, the Bank also engages in capital market transactions with the public sector and banks. Strategic and operational objectives are set for each of these segments, which should be achieved within the framework of the mid-term business plan.

Based on this, the risk strategy states how MünchenerHyp will, or plans to, deal with the risks associated with these business activities. In principle, systems, processes, controls and guidelines are integral elements of risk management. Therefore, individual risk management processes, as well as modelling and measuring approaches to quantify risks and capital requirements, are being implemented by MünchenerHyp. The key capital and liquidity ratios that are significant for MünchenerHyp are subject to tight supervision with corresponding stress tests, limit systems and escalation processes. Expert evaluations are employed to gauge additional risks, such as reputational or model risk, which are then taken into general consideration when calculating the Bank's ability to bear risks. Processes and procedures used in risk management are subject to regular institution-wide examinations by our internal audit department.

Within the framework of ensuring adequate capital, institutions must, in principle, identify and evaluate their risks, maintain sufficient capital to cover their risks, and employ processes to manage risk in order to permanently ensure that they are adequately capitalised (so-called Internal Capital Adequacy Assessment Process – ICAAP). The available internal capital must always exceed internally measured risks at all times. The most important metric used by MünchenerHyp to manage risk is the (marginal) VaR, which is determined in both the Going Concern as well as the Gone Concern scenarios, and is additionally subject to numerous stress tests. Here it is determined if the ability to bear risks is still given after all risks have occurred (excluding diversification effects), i.e. Capital required according to Pillar I is still completely covered. Only regulatory equity capital may be used as risk-covering equity.

The Risk Weighted Assets (RWA), or the EL are additional factors used to manage risks. For example, depending on the rating system or individual rating, caps are set on loan-to-value ratios or on maximum permitted lending exposure. Management of capitalisation is integrated in MünchenerHyp's risk management processes and is regularly supervised by the Board of Management. The regular and timely calculation of the risk-bearing capacity (Risikotragfähigkeit – RTF) figure allows countermeasures to be taken in time to avoid unwanted developments. In principle, the Bank advocates exposing itself to only very minor risks. This policy is visible, for example, in the average loan-to-value figure of about 60% of the mortgage lending value, or in the fact that the Bank does not enter into any significant trading book deals.

To date MünchenerHyp has not yet been required to prepare a restructuring plan, although it anticipates that this will happen in 2015. Nevertheless, a project to prepare a restructuring plan was initiated in 2014 in order to be able to implement the requirements of the responsible authorities as needed within a short period of time.

3.2.2 Description of risk tolerance and risk appetite

The impact on portfolios and RWAs is determined within the framework of a planning session that takes place (at least) once a year using an iterative process involving sales plans (depending on goals set for the average target margins) as well as the targeted interest income figure. Guidelines regarding risk tolerance and risk appetite in the credit business are derived from comparing the planned RWA with risk-bearing capacity and capital planning and then applying this to the planned volumes of new business and prolongations in the individual business segments.

Within the framework of the Bank's business strategy plans call for new business to grow in the areas of Retail Germany, Commercial Domestic and Commercial Foreign. New business growth is primarily driven by the four main objectives of the business strategy:

- Increase property lending business
- Stronger growth in the private residential than in the corporate customer areas of business
- Stronger growth in the domestic than in the foreign areas of business
- Shrink the capital market business, due primarily to a reduction in the LCR or the Net Stable Funding Ratio (NSFR) to manage liquidity, whereby reduction will be greater with banks than with public-sector entities.

The lending portfolio will expand due to the planned increase in new business, however, MünchenerHyp expects only a slight increase in counterparty risk as the increase will primarily take place in the low-risk Retail business.

Exposure to the risk of changing interest rates (interest risk) is in principle hedged to the greatest extent possible by MünchenerHyp through the use of derivative strategies. This means that an increase in the volume of the lending portfolio does not automatically lead to an increased risk of changing interest rates.

Changes in the mentioned risk categories are accounted for when limits are set for the individual risk categories within the framework of calculating the Bank's ability to bear risk.

3.2.3 Description of risk management instruments

Within the framework of calculating the Bank's ability to bear risk, limits are set for each individual category of risk in order to restrict overall risk. In addition, country and individual limits are in place in the capital market and when granting loans, respectively. Individual limits in the credit segment are derived from the marginal CVaR from the rating and the loan-to-value figure.

3.2.4 Description of the development of key figures and risk management instruments (incl. risk inventory)

Last year risks within the framework of a Going Concern, for example, developed as follows at a 95% level of confidence:

	31.12.14	31.12.13
Market risk value-at-risk	8.9	9.1
Credit risks	59.6	59.6
Operational risks	3.8	3.6
Spread and migration risks current assets	0.2	5.9
Investment risks	15.3	13.3
Property risks	0.0	0.0
Model risks and other risks	4.4	4.6
Total	**92.2**	**96.1**

Table 2: Overview of Exposure as Going Concern

1. Overview of Credit Risk

Credit risks remained almost unchanged last year. As a result, capital requirements for business purposes remained stable. As MünchenerHyp only employs VaR as a control metric for its entire loan portfolio but not for sub-portfolios, it cannot be presented for the individual areas of business. However, credit risk is and remains the risk that has the significantly greatest influence on the Bank's ability to bear risk.

2. Overview of Market Risk

Despite the fact that MünchenerHyp is a trading book institution, it has not engaged in trading deal since 2012 and does not plan to in the foreseeable future.

Capital requirements for the interest rate risk in the banking book remain almost unchanged. The Bank does not have a deposits business and does not wish to earn large sums from maturity transformation trades. The Bank does strive to obtain maturity matching refinancing to the greatest extent possible.

The capital market business/Public Pfandbriefe is no longer part of our core business and over the mid-term will only be engaged in to ensure that the necessary liquidity is available to manage the LCR and NSFR. This is reflected, for example, by the further contraction of the volume of loans in our Public-Sector/Banks area of business (in 2014 by € 850 million to € 9,421 million), and generally in an increasing focus on Level I Assets.

The maximum VaR for MünchenerHyp's banking book (interest rates and currencies), at a 99.5% confidence level and a 10-day holding period in 2014 was nearly € 17 million, while the average amount was about € 9 million.

3. Overview of Operational Risk

The basic indicator approach is used to determine the Bank's actual capital needs, which rose slightly last year to nearly € 13 million. The actual damages incurred due to operational risks were, however, far below this figure and primarily stemmed from losses related to the disposal of properties which were too highly mortgaged.

We minimise our operational risks by qualifying our employees, using transparent procedures, automating standard procedures, and by having fixed working instructions, extensive functional testing, as well as appropriate emergency plans and preventive measures. Insurable risks are covered by insurance to the normal extent required by banks. The definition includes legal risks and operating risks. However it does not include reputational risks, which must be viewed separately.

4. Investment and Property Risks

MünchenerHyp has only made equity investments within the Cooperative Financial Network and slightly increased them last year.

The Bank does not have risks related to property as it only has very few properties in its holdings and for which major undisclosed reserves exist.

5. Overview of Liquidity Risk

The liquidity situation was extremely comfortable throughout all of last year. Our LCR and NSFR were calculated on a monthly basis starting in March and always exceeded 100%. No explicit management of these two figures is currently necessary as the LCR was maintained without any difficulty (the current legal requirement stands at 60%) and the NSFR is not regulatory limited. Even after the exclusion of any active measures – and above all because of the nature of MünchenerHyp's business model – they are at sufficiently high level. Naturally, they are still closely monitored and analysed regularly.

The Bank was continuously able to easily obtain both covered and uncovered refinancing. Funding levels noted for almost all market participants again fell further in 2014 and are at a historic low for MünchenerHyp. Pfandbriefe with a nominal value of about € 2.6 billion were placed in the market along with € 0.7 billion in uncovered paper; short-term CDs/CPs were also placed.

6. Overview of Capital Management

During the 2014 business year MünchenerHyp successfully completed a programme to attract additional capital from within the Cooperative Financial Network and private members of the cooperative. This led to an inflow of € 415 million in common equity Tier 1 capital and increased the CET1 ratio to 12.5% at the end of the year.

In accordance with its business model, the Bank manages required equity via the regulatory specified risk-weighted capital ratios and the risk-bearing capacity, which must be observed. Currently, less than 30% of the freely available equity capital is needed to cover the modelled risks. This situation is not lastly due the significant increase in capital that took place in 2014.

Despite the greater value of total assets, regulatory required capital declined by about 4% as the Bank's new business (above all in the Retail segment) has a lower risk weighting than the loans that were repaid in the Commercial Property segment.

3.3 RISK STRATEGY

Risk strategy takes legal requirements into account, especially the provisions contained in the latest version of the KWG and MaRisk. In conformity with Article 25a KWG, MünchenerHyp has a proper business organisation, which, among other purposes, includes the management of, and the ability to bear, risks in accordance with the Bank's risk strategy.

Within its business strategy, MünchenerHyp defines the following segments: Retail Business Germany, Retail Business Foreign, Commercial Domestic, Commercial Foreign, and Capital Market Business with the Public-Sector and Banks. Strategic and operational objectives are set for each of these segments and which should be achieved within the framework of the mid-term business plan. Based on this, the risk strategy states how MünchenerHyp will, or plans to, deal with the risks associated with these business activities. Quantitative and qualitative parameters are set for each risk category and describe how to deal with all significant risks in order to achieve the objectives. In addition, measures are derived from these processes that define how the parameters are to be observed. Thus, MünchenerHyp's risk strategy defines the strategic framework for risk management and encourages risk awareness among all employees within the framework of the Bank's corporate and risk culture. All of MünchenerHyp's employees have access to its risk strategy.

The Board of Management is responsible for the regular examination and adjustment of the risk strategy and ensures that appropriate procedures exist for the management, supervision and control of risks. The risk strategy is an element of the firm's internal rules and therefore also within the Supervisory Board's area of responsibility as the institution's controlling body. The risk strategy is submitted and explained to the Supervisory Board at least once a year.

3.4 ORGANISATION, PROCESSES AND RESPONSIBILITIES

The institution-specific Credit Handbook describes the competencies and procedural requirements of entities involved in the lending business, defines their responsibilities, and also presents the credit products. The Credit Handbook documents the relevant processes and responsibilities for internal risk management within the organisation through the use of organisational guidelines, process descriptions, handbooks and rating-specific professional instructions. It contains descriptions of organisational safeguard measures, as well as ongoing automatic measures and controls integrated in the work processes. These include, in particular, separation of functions, the double-check principle, access limitations, payment guidelines, new product process and balance confirmations.

The management methods described in the risk strategy continuously provide qualitative and quantitative statements regarding Münchener Hypothekenbank's economic situation, including, for example, the development of performance. This evaluation involves aspects of all risk categories. Furthermore, a close coordination procedure exists between the risk controlling and accounting departments at MünchenerHyp. This coordination procedure is monitored by the entire Board of Management. The results from the risk management system form the foundation for the multi-year planning calculations, year-end projections, and agreement procedures for approving key figures generated by the Bank's accounting process.

The Articles 9-13 of the Bank's Articles of Association as well as the Board's Rules of Procedure define the formal framework for the activities of the Board of Management. As part of its weekly meetings the Board of Management approves necessary resolutions pursuant to Art. 3 of the Board's Rules of Procedure. The Management Board must request approval from the Supervisory Board for resolutions referring to subjects contained in Art. 15 of the Bank's Articles of Association.

The Bank's Supervisory Board generally holds five meetings per year. Each meeting is focused on a special subject. The review of the annual financial statements is the main topic of the spring meeting. During the summer meeting the business unit reports on the results of the annual examination and update of the Bank's business and risk strategy in accordance with MaRisk requirements. The Interim Report is the main subject of the autumn meeting. During the last meeting of the year, which usually takes place in December, 12-month plans for the coming year are presented. The fifth meeting is organised as a brief constituting session of the Supervisory Board and is held immediately after the regularly scheduled Delegates Meeting in April of every year.

The Bank's risk situation is extensively reported during every Supervisory Board meeting. In accordance with the terms of MaRisk, one week before the Supervisory Board meeting copies of the credit risk report, the risk capacity report, as well as the risk report, is sent to the members of the Supervisory Board. An intensive review and discussion of the risk reports takes place during Risk Committee meeting, which are held as needed depending on credit approval requirements, and generally about 6 to 8 times per year. The credit decisions and the Bank's risk situation as described in the risk reports are always reported under a separate agenda item for the subsequent meeting of the Supervisory Board where all of the members of the Supervisory Board are present.

In addition to the Risk Committee, the Supervisory Board has delegated its duties to two additional committees: the Nomination and Remuneration Control Committee, and the Audit Committee. These committees generally meet twice a year in March and December.

The Supervisory Board established this structure for itself in its meeting held on 21 July 2014 thereby fulfilling requirements pursuant to Art. 25d KWG. The committees' tasks are shown as follows:

Committee	Task
Audit Committee	Acceptance of auditor's report on annual financial statement
	Acceptance of results of special regulatory audits, and internal audits
Risk Committee	Credit approvals, monitoring credit risks
	Monitoring of additional risk categories
Nomination and Remuneration Control Committee	Board of Management issues
	Examination of Bank-wide remuneration system

The Delegates Meeting is the Bank's highest governing body. As the cooperative has over 70.000 members the general meeting is held in accordance with Art. 18 of the Articles of Association as Delegates Meeting, which currently consists of 52 delegates. The members' delegates receive the reports prepared by the Board of Management and the Supervisory Board every April. Furthermore, they discharge the members of the Management Board from liability for their activities during the previous business year, decide on the dividend to be distributed, approve amendments to the Articles of Association and conduct elections concerning members of the Supervisory Board.

The following guidance issues apply when appointing members to governing bodies:

Board of Management: The Board of Management consists of at least two members and usually three. A member can be appointed Spokesman or Chairman by the Supervisory Board. A member of the Board of Management should have deep knowledge of, and relationships with, the Cooperative Financial Network, whereby all members of the Board of Management have fixed regional responsibilities regarding interactions at the primary bank level.

Supervisory Board: The Supervisory Board currently consists of nine members, of which two-thirds belong to the Cooperative Financial Network. They are fully employed by primary banks as members of their respective management board. These six seats are allocated on a regional basis with individual members belonging to separate regional associations of the RWGV, BWGV, Genossenschaftsverband e. V. as well as the Genossenschaftsverband Weser-Ems. Due to the Bank's historic roots, two members are from the GVB regional association, including the Chairman. The remaining three seats are reserves for individuals who meet the criteria for professional expertise, experience and links to business, culture and politics. In regards to the appropriateness of the members of the Supervisory Board, this governing body undertakes a self-evaluation once a year pursuant to Art. 25d KWG, which is headed by the Chairman. Even though the quota for women does not apply to the Supervisory Board of MünchenerHyp, it is still seeking to also accept women as members of this governing body in the future.

Delegates Meeting: The Delegates Meeting consists of 52 members, of which two-thirds were fully employed by primary banks as members of their respective management board at the time when they were elected as representatives. The representatives are elected for a period of four years, with the next election scheduled to take place in 2016. The remaining members of the Delegates Meeting are persons from all walks of business and society.

3.5 RISK TOLERANCE AND RISK CAPACITY

An important basis for managing risk consists of, on one hand, the analysis and presentation of existing risks, and, on the other, comparing these risks with the risk cover potential (ability to bear risk). MünchenerHyp calculates its ability to bear risk on both a present-value basis as well as a period-oriented basis.

The Going-Concern scenario is the most important method used to manage risks. This scenario is used to determine on a period-oriented basis if the bank would still have adequate equity capital ratios exceeding the legally required minimums for CET 1, Tier 1 and total capital after the occurrence of risks contained in all of the risk categories. The only cover potential that may be used to cover risks in this scenario is the freely available regulatory equity capital above the regulatory required amount of equity capital. A liquidity scenario is applied as a supplementary scenario. The scenario examines if in case of liquidation MünchenerHyp would have adequate potential coverage for risk to avoid losses being incurred by third-party providers of capital.

The aforementioned approaches used to calculate the Bank's ability to bear risk quantify counterparty risks, market price risks, credit spread and migration risks, operational risk, investment risks and property risks. An additional buffer is employed for model risks, and additional risks such as reputational risks and business risks. Liquidity risks (incl. placement risks) are not taken into account within the framework of calculating the Bank's ability to bear risk, as liquidity risks cannot be cushioned with additional (liquid) equity capital. Appropriate control procedures are in place to manage these risks within the framework of the Bank's internal monitoring system.

The professional concepts and models used to calculate the ability to bear risks is continuously further developed in accordance with regulatory requirements. Beyond this, important assumptions are continuously validated and adjusted if necessary. Additional stress scenarios are employed within the framework of the risk capacity report in order to account for extraordinary yet plausible situations which cannot be described via calculations used to determine the Bank's ability to bear risk.

The results of the calculations concerning the Bank's ability to bear risk are provided to the Board of Management and the Supervisory Board on a quarterly basis. Ad-hoc reports are foreseen in the event of developments that affect the Bank's ability to bear risk. Recommended action will be stated in the report should action be necessary. Calculating the Bank's ability to bear risk provides input for mid-term planning of capital requirements as the Going-Concern scenario gives an outlook over the next four business years following the end of the current business year. If the Going-Concern scenario indicates the need for more capital, this requirement is conveyed to the persons responsible for planning mid-term capital to enable them to respond adequately.

4 EQUITY

4.1 STRUCTURE

MünchenerHyp conducts its business in the legal format of a registered cooperative. In addition to reserves and funds for general banking risk pursuant to Art. 340 (g) HGB, core capital consists of equity investments in the form of shares. A single share costs € 70 with an uncalled liability of € 255.65 per share as at December 31, 2014. The uncalled liability was reduced in February 2015 to € 70.00 per share.

As of December 31, 2014, the volume of these shares was € 667.3 million, of which € 10.4 million was called. In addition, at the end of 2014 the Bank had silent participations valued at € 147.2 million, which is eligible to serve as additional core capital in a transitional phase. The average interest rate for these undisclosed investments is 6.34%. All of these undisclosed investments are perpetual and do not have maturity dates.

As of the end of December 2014 Additional Tier 1 (AT1) capital amounted to € 308.3 million, of which € 156.1 million were sub-ordinated liabilities with an average interest rate of 5.60%. These liabilities will expire between March 20, 2018 and December 1, 2022. Profit-sharing certificates (€ 6.1 million) included in AT1 capital have an average interest rate of 7.35% and maturity dates between April 24, 2017 and April 30, 2018. In addition to the subordinated liabilities and profit-sharing rights capital, uncalled member's liability also counts towards AT1 capital.

At the end of last year total liable equity capital amounted to € 1,377.5 million. The following listing presents the specific elements of equity capital pursuant to Article 492 (3) CRR. Deviating from Article 4 of the Implementing Regulation (EU) No 1423/2013, the template shown in Annex VI will be applied to disclose and publish equity capital during the transitional period lasting from 31 March 2014 to 31 December 2017. The residual amounts that will apply at the end of the transitional arrangements as of 1 January 2019 are shown in column C. Thus, the reconciliation of the capital ratios is also assured beyond the 2018 business year and a better comparability is achieved for instruments, deductible positions, and ratios.

Common equity Tier 1 capital: instruments and reserves		(A) Amount at disclosure date (in € million)	(B) Regulation (EU) No 575/2013 article reference	(C) Prescribed residual amount of Regulation (EU) No 575/2013 (in € million)
1	Capital instruments and the related share premium accounts	667.3	26 (1), 27, 28, 29, EBA list pursuant to Article 28 (3)	667.3
	of which, paid up capital	667.3	EBA list pursuant to Article 26 (3)	667.3
2	Revenue reserves	283.8	26 (1) (c)	283.8
3	Accumulated other income (and other reserves)	–	26 (1)	–
3a	Funds for general banking risk	9.3	26 (1) (f)	9.3
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	–	486 (2)	–
	Public sector capital injections grandfathered until 1 January 2018		483 (2)	–
5	Minority interests (amount allowed in consolidated CET 1)	–	84, 479, 480	–
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	–	26 (2)	–
6	Common equity Tier 1 (CET1) capital before regulatory adjustments	960.4	sum of lines 1 to 5a	960.4
Common equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	–	34, 105	–
8	Intangible assets (net of related tax liability) (negative amount)	-2.1	36 (1) (b), 37, 472 (4)	-10.6

9	Empty set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	–	36 (1) (c), 38, 472 (5)	–
11	Fair value reserves related to gains or losses on cash flow hedges	–	33 (1) (a)	–
12	Negative amounts resulting from the calculation of expected loss amounts	-5.8	36 (1) (d), 40, 159	-28.9
13	Any increase in equity that results from securitised assets (negative amount)	–	32 (1)	–
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–	33 (1) (b)	–
15	Defined benefit pension fund assets (negative amount)	–	36 (1) (e), 41	–
16	Direct and indirect holdings by an institution in own CET1 instruments (negative amount)	-10.4	36 (1) (f), 42	-10.4
17	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	36 (1) (g), 44	–

18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment (above the 10% threshold and net of eligible short positions) (negative amount)	–	36 (1) (h), 43, 45, 46, 49 (2) and (3), 79	–
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (above the 10% threshold and net of eligible short positions) (negative amount)	–	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79	–
20	Empty set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	–	36 (1) (k)	–
20b	of which, qualifying holdings outside the financial sector (negative amount)	–	36 (1) (k) (i), 89 to 91	–
20c	of which, securitisation positions (negative amount)	–	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258	–
20d	of which, free deliveries (negative amount)	–	36 (1) (k) (iii), 379 (3)	–
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	–	36 (1) (c), 38, 48 (1) (a)	–
22	Amount exceeding the 15% threshold (negative amount)	–	48 (1)	–

23	of which, direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	–	36 (1) (i), 48 (1) (b)	–
24	Empty set in the EU			
25	of which, deferred tax assets arising from temporary differences	–	36 (1) (c), 38, 48 (1) (a)	–
25a	Losses for the current financial year (negative amount)	–	36 (1) (a)	–
25b	Foreseeable tax charges relating to CET1 items (negative amount)	–	36 (1) (l)	–
26	Regulatory adjustments applied to common equity Tier 1 in respect of amounts subject to pre-CRR treatment	–		–
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	–		–
	of which, deduction and adjustment positions for unrealised losses on AfS claims against central governments		467	
	of which, deduction and adjustment positions for unrealised gains on AfS claims against central governments		468	
26b	Amount to add or deduct from CET1 related to additional deduction and adjustment positions subject to pre-CRR treatment	–	481	–
	of which, additional deduction and adjustment positions	–	481	–

27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	–	36 (1) (j)	–
28	**Total regulatory adjustments to common equity Tier 1 (CET1)**	**-18.3**	**sum of lines 7 to 20a, 21, 22 and lines 25a to 27**	**-49.9**
29	**Common equity Tier 1 (CET1) capital**	**942.1**	**line 6 minus line 28**	**910.5**
	Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	–	51, 52	–
31	of which, classified as equity under applicable accounting standards	–		–
32	of which, classified as liabilities under applicable accounting standards	–		–
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	147.2	486 (3)	0.0
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	–	85, 86	–
35	of which, instruments issued by subsidiaries subject to phase out	–	486 (3)	–
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**147.2**	**sum of lines 30, 33 and 34**	**0.0**
	Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	–	52 (1) (b), 56 (a), 57	–

38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	56 (b), 58	–
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	–	56 (c), 59, 60, 79	–
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount)	–	56 (d), 59, 79	–
41	Regulatory adjustments applied to Additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-20.1		0.0
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from common equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	-20.1	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	0.0
	of which, intangible assets	-8.5		0.0

	of which, shortfall of provisions to expected losses	-11.6		0.0
41b	Residual amounts deducted from AT1 capital with regard to deduction from Tier 2 (T2) capital during the transitional period pursuant to Art. 475 of Regulation (EU) No 575/2013	–	477, 477 (3), 477 (4) (a)	–
41c	Amount to be deducted from or added to AT1 capital with regard to additional adjustment positions and deductions required pre-CRR treatment	–	467, 468, 481	–
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	–	56 (e)	–
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-20.1**	**sum of lines 37 to 42**	**0.0**
44	**Additional Tier 1 (AT1) capital**	**127.1**	**line 36 minus line 43**	**0.0**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,069.2**	**sum of lines 29 and 44**	**910.5**
	Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	138.4	62, 63	147.2
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	177.0	486 (4)	0.0
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	–	87, 88	–

49	of which, instruments issued by subsidiaries subject to phase out	–	486 (4)	–
50	Credit risk adjustments	4.4	62 (c) und (d)	4.4
51	**Tier 2 (T2) capital before regulatory adjustments**	**319.8**		**151.6**
	Tier 2 capital : regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–	63 (b) (i), 66 (a), 67	–
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross-holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	–	66 (b), 68	–
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	–	66 (c), 69, 70, 79	–
54a	of which, new positions which are not subject to transitional rules	–		–
54b	of which, holdings that existed before January 2013 and are subject to transitional rules	–		–
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	–	66 (d), 69, 79	–

56	Regulatory adjustments applied to Tier 2 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as pre-scribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-11.5		0.0
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from CET 1 capital during the transitional period pursuant to Art. 472 CRR	-11.5	472, 472 (3) (a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	0.0
	of which, shortfall of provisions for expected losses	-11.5		0.0
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from AT1 items during the transitional period pursuant to Art. 475 CRR	–	475, 475 (2) (a), 475 (3), 475 (4) (a)	–
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional deductions or adjustment items pursuant to required pre-CRR treatment of required deductions	–	467, 468, 481	–
	of which, deduction and adjustment items for unrealised losses	–	467	–
	of which, deduction and adjustment items for unrealised gains	–	468	–
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-11.5**	**sum of lines 52 to 56**	**0.0**
58	**Tier 2 (T2) capital**	**308.3**	**line 51 minus line 57**	**151.6**
59	**Total regulatory capital (TC = T1 + T2)**	**1,377.5**	**sum of lines 45 and 58**	**1,062.1**

59a	Risk-weighted assets in regard to amounts subject to pre-CRR treatment and treatment during the transitional period for which phase-out arrangements apply pursuant to Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	–		–
	of which, items not to be deducted from CET 1 (Regulation (EU) No 575/2013, residual amounts) (items shown on a line-by-line basis, e.g. future yield that depends on of deferred tax claims reduced by corresponding amounts owed for taxes, indirect position in own CET 1 instruments, etc.)	–	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	–
	of which, items not to be deducted from CET 1 (Regulation (EU) No 575/2013, residual amounts) (items shown on a line-by-line basis, e.g. reciprocal cross-holdings of T2 instruments, direct insignificant capital holdings in other finance sector entities, etc.)	–	475, 475 (2) (b), 475 (2) (c), 475 (4) (b)	–
	of which, items not to be deducted from T 2 (Regulation (EU) No 575/2013, residual amounts) (items shown on a line-by-line basis, e.g. indirect holdings in own T2 instruments, indirect insignificant capital holdings in other finance sector entities, etc.)	–	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	–
60	**Total risk-weighted assets**	**7,516.8**		**7,516.8**
	Capital ratios and buffers			
61	CET 1 ratio (as a percentage of total risk exposure amount)	12.5	92 (2) (a)	12.1

62	Tier 1 ratio (as a percentage of total risk exposure amount)	14.2	92 (2) (b)	12.1
63	Total capital ratio (as a percentage of risk exposure amount)	18.3	92 (2) (c)	14.1
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	–	CRD 128, 129, 130, 131, 133	–
65	of which, capital conservation buffer requirement	–		–
66	of which, countercyclical buffer requirement	–		–
67	of which, systemic risk buffer requirement	–		–
67a	of which, Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0		0.0
68	CET 1 available for buffer (as a percentage of risk exposure amount)	8.0	CRD 128	–
69	[non-relevant in EU Regulation]			
70	[non-relevant in EU Regulation]			
71	[non-relevant in EU Regulation]			

Amounts below the threshold limits for deductions (before risk weighting)				
72	Direct and indirect holdings the institution of capital instruments of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0.0	36 (1) (h), 46, 45, 56 (c), 59, 60, 66 (c), 69, 70	0.0
73	Direct and indirect holdings the institution of CET 1 capital instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	0.0	36 (1) (i), 45, 48	0.0
74	Empty set in the EU			
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	0.0	36 (1) (c), 38, 48	0.0
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	4.4	62	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	29.4	62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0.0	62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	273.6	62	

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)				
80	Current cap on CET1 instruments subject to phase-out arrangements	0.0	484 (3), 466 (2) und (5)	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0.0	484 (3), 466 (2) und (5)	
82	Current cap on AT1 instruments subject to phase-out arrangements	272.5	484 (4), 466 (3) und (5)	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0.0	484 (4), 466 (3) und (5)	
84	Current cap on T2 instruments subject to phase-out arrangements	177.0	484 (5), 466 (4) und (5)	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-44.2	484 (5), 466 (4) und (5)	

Table 3: Overview of Specific Equity Elements

The following table provides a description of the main features of the common equity Tier 1, Additional Tier 1 and Tier 2 capital instruments issued by MünchenerHyp pursuant to Art. 437 (1) b) CRR. This information is presented using Annex II of the Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions.

Legal rules pertaining to shares in the cooperative are based on the terms of the German Cooperatives Act and the Articles of Association of MünchenerHyp as a registered cooperative. MünchenerHyp's Articles of Association are available at the bank's home page under Companies/members (http://www.muenchnerhyp.de/de/_downloads/mitglieder/Articles of Association_deutsch_.pdf). All of the other equity instruments are defined in individual agreements with creditors, and for this reason issuing prospectuses are not relevant.

		Geno	Silent partic.	Silent partic.	Silent partic.	Silent partic.	Profit sh.	Profit sh.	Profit sh.	Profit sh.	Subord.	Subord.	Subord.
1	Issuer	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3	Governing law(s) of the instrument	German	German	German	German	German	German	German	German	German	German	German	German
	Regulatory treatment												
4	Transitional CRR rules	CET1	Tier 1	Tier 1	Tier 1	Tier 1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post transitional CRR rules	CET1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Share in cooperative	Silent participation	Silent participation	Silent participation	Silent participation	Profit sh. rights capital	Profit sh. rights capital	Profit sh. rights capital	Profit sh. rights capital	Subord. liabilities	Subord. liabilities	Subord. liabilities
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	667.3	140.0	5.1	1.0	1.0	1.0	2.6	1.5	1.0	10.0	10.0	20.0
9	Nominal amount of instrument	667.3	140.0	5.1	1.0	1.0	1.0	2.6	1.5	1.0	10.0	10.0	20.0
9a	Issue price	667.3	140.0	5.1	1.0	1.0	1.0	2.6	1.5	1.0	10.0	10.0	20.0
9b	Redemption price	667.3	140.0	5.1	1.0	1.0	1.0	2.6	1.5	1.0	10.0	10.0	20.0
10	Accounting classification	Equity capital	Equity capital	Equity capital	Equity capital	Equity capital	Liability	Liability	Liability	Liability	Liability	Liability	Liability
11	Original date of issuance	continuous since 1896	19.12.05	23.11.05	15.12.10	20.12.10	03.08.87	02.09.87	05.04.88	15.04.88	20.03.08	20.03.08	20.03.08
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	N/A	N/A	N/A	N/A	N/A	24.04.17	24.04.17	30.04.18	30.04.18	20.03.18	20.03.18	20.03.18
14	Issuer call subject to prior supervisory approval	N/A	yes	yes	yes	yes	yes	yes	yes	yes	Tax-related	Tax-related	Tax-related
15	Optional call date, contingent call dates and redemption amount	N/A	31.12.15	31.12.15	31.12.20	31.12.20	31.12.92	31.12.92	31.12.93	31.12.93	N/A	N/A	N/A
16	Subsequent call date, if applicable	N/A	Yearly	Yearly	Yearly	Yearly	Yearly	Yearly	Yearly	Yearly	N/A	N/A	N/A
	Coupons/Dividends												
17	Fixed or floating dividend/coupon	Floating	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	N/A	6.35	5.27	8.5	8.5	7.5	7.5	7.15	7.15	6.02	6.02	6.02
19	Existence of dividend stopper	N/A	if net loss, opening of in-solvency pro-ceedings	if net loss, opening of in-solvency pro-ceedings	if net loss, opening of in-solvency pro-ceedings	if net loss, opening of in-solvency pro-ceedings	if net loss	if net loss	if net loss	if net loss	If non-compli-ant with legal equity capital requirements	If non-compli-ant with legal equity capital requirements	If non-compli-ant with legal equity capital requirements
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory

		Geno	Silent partic.	Silent partic.	Silent partic.	Silent partic.	Profit sh.	Profit sh.	Profit sh.	Profit sh.	Subord.	Subord.	Subord.
21	Existence of step up or other incentive to redeem	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
22	Non-cumulative or cumulative	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Capital												
23	Convertible or non-convertible	no	no	no	no	no	no	no	no	no	no	no	no
24	If convertible, conversion trigger	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
28	If convertible, instrument type convertible into	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of of instrument it converts into	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
30	Write-down features	N/A	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
31	If write-down, write-down trigger(s)	Resolution approved by Delegates Meeting	net loss	net loss	net loss	net loss	net loss	net loss	net loss	net loss	insolvency, insolvency proceedings or proceedings to avoid insol-vency	insolvency, insolvency proceedings or proceedings to avoid insol-vency	insolvency, insolvency proceedings or proceedings to avoid insol-vency
32	If write-down, full or partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial
33	If write-down, permanent or temporary	permanent	temporary	temporary	temporary	temporary	temporary	temporary	temporary	temporary	permanent	permanent	permanent
34	If temporary write-down, description of write-up mechanism	N/A	unappropri-ated profits	unappropri-ated profits	unappropri-ated profits	unappropri-ated profits	unappropri-ated profits	unappropri-ated profits	unappropri-ated profits	unappropri-ated profits	N/A	N/A	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	Silent participation	Profit sh. rights capital	Profit sh. rights capital	Profit sh. rights capital	Profit sh. rights capital	N/A	N/A	N/A	N/A	N/A	N/A	N/A
36	Non-compliant transitional features	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

		Subord.	**Subord.**	**Subord.**	**Subord.**	**Subord.**	**Subord.**	**Subord.**	**Subord.**	**Subord.**	**Subord.**	**Subord.**	**Subord.**
1	Issuer	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3	Governing law(s) of the instrument	German	German	German	German	German	German	German	German	German	German	German	German
	Regulatory treatment												
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	10.0	15.0	3.0	2.0	1.0	6.0	5.0	1.0	2.0	0.5	3.0	5.0
9	Nominal amount of instrument	10.0	15.0	3.0	2.0	1.0	6.0	5.0	1.0	2.0	0.5	3.0	5.0
9a	Issue price	10.0	15.0	3.0	2.0	1.0	6.0	5.0	1.0	2.0	0.5	3.0	5.0
9b	Redemption price	10.0	15.0	3.0	2.0	1.0	6.0	5.0	1.0	2.0	0.5	3.0	5.0
10	Accounting classification	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability
11	Original date of issuance	20.03.08	30.03.09	03.07.09	03.07.09	19.08.09	19.08.09	09.12.09	19.01.10	19.01.10	04.03.10	04.03.10	20.08.10
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	20.03.18	01.04.19	03.07.19	03.07.19	19.08.19	19.08.19	09.12.19	19.01.20	19.01.20	04.03.20	04.03.20	20.08.20
14	Issuer call subject to prior supervisory approval	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
16	Subsequent call date, if applicable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Coupons/Dividends												
17	Fixed or floating dividend/coupon	Fixed	Floating	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	6.02	3-M-Euribor + 3.25	6.425	6.425	6.38	6.38	5.7	5.6	5.6	5.47	5.47	4.5
19	Existence of dividend stopper	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory

		Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.
21	Existence of step up or other incentive to redeem	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
22	Non-cumulative or cumulative	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Capital												
23	Convertible or non-convertible	no	no	no	no	no	no	no	no	no	no	no	no
24	If convertible, conversion trigger	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
28	If convertible, instrument type convertible into	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of of instrument it converts into	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
30	Write-down features	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
31	If write-down, write-down trigger(s)	insolvency, insolvency proceedings or proceedings to avoid insolvency	insolvency, insolvency proceedings or proceedings to avoid insolvency	insolvency, insolvency proceedings or proceedings to avoid insolvency	insolvency, insolvency proceedings or proceedings to avoid insolvency	insolvency, insolvency proceedings or proceedings to avoid insolvency	insolvency, insolvency proceedings or proceedings to avoid insolvency	insolvency, insolvency proceedings or proceedings to avoid insolvency	insolvency, insolvency proceedings or proceedings to avoid insolvency	insolvency, insolvency proceedings or proceedings to avoid insolvency	insolvency, insolvency proceedings or proceedings to avoid insolvency	insolvency, insolvency proceedings or proceedings to avoid insolvency	insolvency, insolvency proceedings or proceedings to avoid insolvency
32	If write-down, full or partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial
33	If write-down, permanent or temporary	permanent	permanent	permanent	permanent	permanent	permanent	permanent	permanent	permanent	permanent	permanent	permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
36	Non-compliant transitional features	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

		Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.
1	Issuer	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp	MünchenerHyp
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3	Governing law(s) of the instrument	German	German	German	German	German	German	German	German	German	German	German	German	German
	Regulatory treatment													
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities	Subord. liabilities
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	10.0	3.0	10.0	10.0	0.2	9.0	1.0	4.5	0.2	0.8	3.0	1.0	10.0
9	Nominal amount of instrument	10.0	3.0	10.0	10.0	0.2	9.0	1.0	4.5	0.2	0.8	3.0	1.0	10.0
9a	Issue price	10.0	3.0	10.0	10.0	0.2	9.0	1.0	4.5	0.2	0.8	3.0	1.0	10.0
9b	Redemption price	10.0	3.0	10.0	10.0	0.2	9.0	1.0	4.5	0.2	0.8	3.0	1.0	10.0
10	Accounting classification	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability
11	Original date of issuance	16.11.10	09.12.09	19.01.10	19.01.10	27.04.10	03.07.09	03.07.09	25.03.10	07.07.10	07.07.10	07.07.10	07.07.10	01.12.09
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	16.11.20	09.12.20	19.01.21	19.01.21	27.04.21	05.07.21	05.07.21	25.03.22	07.07.22	07.07.22	07.07.22	07.07.22	01.12.22
14	Issuer call subject to prior supervisory approval	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related	Tax-related
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
16	Subsequent call date, if applicable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Coupons/Dividends													
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	4.465	5.75	5.67	5.67	5.07	6.71	6.71	5.57	5.1	5.1	5.1	5.1	6.01
19	Existence of dividend stopper	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements	If non-compliant with legal equity capital requirements
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory

		Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.	Subord.
21	Existence of step up or other incentive to redeem	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
22	Non-cumulative or cumulative	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Capital													
23	Convertible or non-convertible	no	no	no	no	no	no	no	no	no	no	no	no	no
24	If convertible, conversion trigger	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
28	If convertible, instrument type convertible into	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of of instrument it converts into	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
30	Write-down features	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
31	If write-down, write-down trigger(s)	insolvency, insolvency proceedings or proceed-ings to avoid insolvency	insolvency, insolvency proceedings or proceed-ings to avoid insolvency	insolvency, insolvency proceedings or proceed-ings to avoid insolvency	insolvency, insolvency proceedings or proceed-ings to avoid insolvency	insolvency, insolvency proceedings or proceed-ings to avoid insolvency	insolvency, insolvency proceedings or proceed-ings to avoid insolvency	insolvency, insolvency proceedings or proceed-ings to avoid insolvency	insolvency, insolvency proceedings or proceed-ings to avoid insolvency	insolvency, insolvency proceedings or proceed-ings to avoid insolvency	insolvency, insolvency proceedings or proceed-ings to avoid insolvency	insolvency, insolvency proceedings or proceed-ings to avoid insolvency	insolvency, insolvency proceedings or proceed-ings to avoid insolvency	insolvency, insolvency proceedings or proceed-ings to avoid insolvency
32	If write-down, full or partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial	total and partial
33	If write-down, permanent or temporary	permanent	permanent	permanent	permanent	permanent	permanent	permanent	permanent	permanent	permanent	permanent	permanent	permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
36	Non-compliant transitional features	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Table 4: Key Features of Capital Instruments[1]

[1] N/A is shown where category does not apply.

4.2 APPROPRIATENESS

In principle MünchenerHyp applies IRBA for parts of its credit portfolio to calculate regulatory capital requirements in accordance with the CRR and pursuant to the approvals received from BaFin to use it. The basic IRBA is employed to determine the amount of equity capital required to back the major portion of the Companies and Institutions category of loans. This means that the PD is estimated. The advanced IRBA will be used for the Retail Business Germany, and Retail Business Small and Medium-Sized Enterprises (SME). This means that in addition to the PD, the LGD will also be estimated. In order to comply with regulatory requirements, the standardised approach for credit risk (KSA) will be applied to determine the level of equity capital required for the remainder of the portfolio.

With total required equity capital of € 601.3 million as of 31 December 2014, the total key figure was 18.33%, while the CET 1 ratio was 12.53% and the T1 ratio was 14.22%. This means that the CET 1 ratio of 8%, which is also required by the ECB's stress test for systemically important institutions, was exceeded by a wide margin. The split of equity capital required per 31 December 2014 by different risk categories and exposure classes is summarised in tables 5 to 7. The equity capital required for counterparty risks from the IRBA positions amounts to € 369.7 million, and € 188.2 million for counterparty risks from the KSA positions. Equity capital required for operational risks and credit valuation adjustments is significantly lower with € 12.8 million and € 30 million respectively. The basic indicator approach is used to calculate operational risk. The standard method is used to calculate equity capital requirements arising from credit valuation adjustments (CVA risk). As on 31 December 2014 the sum of market risks was below the minimum threshold for reporting purposes per CRR.

Counterparty Risks for IRBA Portfolios		Equity Capital Requirement in € m
1.	Central governments	0.0
2.	Institutions	89.1
3.	Corporates	174.7
4.	Retail business	93.8
5.	Equity investments	0.0
6.	Securitisations	4.9
	of which, re-securitisations	N/A*
7.	Other non-credit obligation assets	7.2
	Total	**369.7**

Table 5: Equity Capital Required for Counterparty Risks – IRBA Portfolios

Operational Risk and Market Risks		Equity Capital Requirement in € m
	Operational risk (Basic indicator approach)	12.8
	CVA-risk (based on standardised method)	30.7

Table 6: Equity Capital Required for Operational Risks and Market Risks

* N/A is shown where category does not apply.

Counterparty Risks for KSA Portfolios		Equity Capital Requirement in € m
1.	Sovereigns and central banks	1.0
2.	Regional and local administrative authorities	0.4
3.	Public entities	0.5
4.	Multilateral development banks	0.0
5.	International organisations	0.0
6.	Institutions	1.9
7.	Covered bonds	0.6
8.	Corporates	42.1
9.	Retail business	41.4
10.	Exposures secured by properties	78.5
11.	Positions associated with particularly high risk	0.6
12.	Equity investments (Grandfathering)	8.2
13.	Securitisations	0.0
14.	Other positions	0.0
15.	Positions in default	13.0
	Total	**188.2**

Table 7: Equity Capital Required for Counterparty Risks – KSA Portfolios

The level of required equity capital is planned as part of MünchenerHyp's multi-year planning calculations and care is taken to ensure that the equity capital requirements demanded by the regulatory authority are fully met at all times. MünchenerHyp internally judges the appropriateness of own funds in line with the regulatory requirements arising from CRR/CRD IV.

4.3 BALANCE SHEET RECONCILIATION

MünchenerHyp is not a member of a consolidated group of companies in terms of German commercial law or in terms of regulatory requirements. The audited and published annual financial statements are prepared in accordance with German commercial law and therefore contain all of the positions that are elements of regulatory equity capital and are to be deducted therefrom including assets, liabilities such as promissory notes, or other on-balance sheet items that influence regulatory capital such as intangible assets. For this reason a transfer of the on-balance sheet items of companies included in consolidation for regulatory purposes does not take place.

Table 8 (below) presents the transfer of equity capital as reported on the balance sheet to regulatory equity capital.

	31.12.2014 (in € m)
Equity capital reported on balance sheet	**1,243.4**
Paid-up capital	667.3
Silent participations	275.9
Revenue reserves	283.8
Unappropriated profit	16.4
Funds for general banking risks	14.7
Total reported on balance sheet	**1,258.1**
Regulatory adjustments to items reported on balance sheet	
Accrued future dividends	-16.4
Silent participations	-275.9
Terminated paid up capital	-10.4
Allocations to funds for general banking risks reported in annual financial statements	-5.4
Intangible assets (amount of reduction in Tier 1)	-2.1
As reported on balance sheet	-10.6
Residual amounts deducted from Additional Tier 1 capital with regard to deduction from common equity Tier 1 capital during the transitional period pursuant to Art. 472 CRR.	8.5
Shortfall of provisions to expected losses (amount of reduction in Tier 1)	-5.8
Common equity Tier 1 capital	**942.1**
Hybrid capital instruments	147.2
As reported on balance sheet	275.9
Regulatory adjustments	-128.7
Deductions from Additional Tier 1 capital	-20.1
Intangible assets (amount of reduction in Tier 1)	-8.5
Shortfall of provisions to expected losses (amount of reduction in Tier 1)	-11.6
Additional Tier 1 capital	**127.1**
Tier 1 capital	**1,069.2**
Subordinated liabilities	135.0
As reported on balance sheet	156.2
Regulatory adjustments	-21.2

	31.12.2014 (in € m)
Profit participation capital	3.4
As reported on balance sheet	6.1
Regulatory adjustments	-2.7
Members' uncalled liability	177.0
Other (credit risk adjustments)	4.4
Deductions from Tier 2 capital	-11.5
Shortfall of provisions to expected losses (amount of reduction in Tier 1)	-11.5
Tier 2 capital	**308.3**
Total regulatory equity capital	**1,377.5**

Table 8: Reconciliation of On-Balance Sheet Equity Capital to Regulatory Equity Capital

5 COUNTERPARTY RISK

5.1 CONTAINMENT

Counterparty risk – also referred to as credit risk – is of major significance for MünchenerHyp. Counterparty risk describes the danger that a counterparty or group of counterparties may delay, make partial payments or even default on repaying a loan to the lender. Migration risk is included as a credit risk. Migration risk is defined as the danger of loss in present value arising over the period of a loan due to a drop in ratings, which is normally accompanied by an implied increase in yield.

5.2 STRATEGIES AND PROCESSES

Strategies and Processes which are relevant for managing lending risks are documented in the business and risk strategies, as well as in the Credit Handbook. The business and risk strategies contain extensive explanations about the partial strategies concerning target customers and target markets, as well as requirements regarding the measurement and management of lending risks at the individual transaction and portfolio levels. The competencies and procedural requirements of entities involved in the lending business are contained in the Credit Handbook.

5.3 RISK MANAGEMENT STRUCTURE AND ORGANISATION

Credit risk management begins with selecting the target business for loan conditioning. Risk cost functions are used, which are validated in an ongoing back-testing process. Depending on the category and risk level of the business, various rating and scoring procedures are used. In addition, an IT-supported early warning system is used in order to recognise risks at an early stage.

The expected loss (EL) is taken into account within the framework of calculating the individual transaction by applying standard risk costs during the lending process. Furthermore, the expected loss flows into the credit portfolio model. Based on the credit portfolio model, the unexpected loss (UL) is measured using a Credit-Value-at-Risk procedure (CVaR). The CVaR describes, with a certain level of probability, the maximum losses for a credit portfolio within a specific period. The UL is derived by subtracting the EL for the portfolio from this amount.

The CVaR process is also used for determining credit limits. The individual contribution by a unit and/or a borrower to the Bank's aggregate credit risk – the marginal CVaR – is limited. In addition, property limits are also established for certain business categories. Furthermore, limits are also set for each country to ensure adequate regional diversification.

With respect to counterparty risks, MünchenerHyp calculates its positions according to the market valuation method. Compensation effects from correlation are not taken into account in this context.

5.4 RATING SYSTEMS AND CUSTOMER SEGMENTS

MünchenerHyp uses specific customer-segment rating systems to evaluate creditworthiness. In this context, customers or claims are classified into segments (customer segments). The objective of this segmentation is to assign customers with homogeneous risk profiles to appropriate customer segments, which can in turn be assigned to IRBA exposure classes as defined by the supervisory authority. Rating systems appropriate to the risk profile are used to determine the rating class, and thus the risk level of positions in the various customer segments. This guarantees risk-appropriate and supervision-compliant allocation of claims to customer segments, rating systems and regulatory-related exposure classes. Customer segments and rating systems share the same names at MünchenerHyp in order to express the close relationship between customer segments and rating systems. Guidelines for customer segmentation and ratings application are established in the corresponding operating instructions and implemented in the relevant data processing systems.

Rating systems consist of rating methods, processes and IT systems. A rating procedure processes all of the creditworthiness-related information about a borrower or a claim, using a specific algorithm, and combines it into a creditworthiness evaluation (rating method). The processes relate to the work flows and management/monitoring procedures that are used in the rating system. The IT systems are based on the category and method of data delivery or data-related processing of creditworthiness-related information. In this context, MünchenerHyp makes a distinction between IRBA rating systems and non-IRBA rating systems. IRBA rating systems are rating systems that have already received IRBA approval from BaFin and the Bundesbank. These rating systems are used to evaluate the creditworthiness of the IRBA exposure classes. Non-IRBA rating systems are systems that are not reported until a later date according to the IRBA implementation plan (partial use – PU), or for which no IRBA approval is intended because the ratings-related portfolio is less important for MünchenerHyp (permanent partial use – PPU). These rating systems are used to evaluate the creditworthiness of the KSA exposure classes.

5.4.1 IRBA EXPOSURE CLASSES

The rating systems or customer segments that have thus far received IRBA approval are summarised in Table 9. This table also shows the associated IRBA exposure classes. These are the exposure classes used to determine the necessary equity capital pursuant to the supervisory authority's requirements on the basis of the approved rating systems.

Seq. no.	Customer segment/Rating system	IRBA Exposure Classes
1.	Banks	Institutions
2.	Intra-Group claims	Institutions
3.	Property companies, domestic	Companies
4.	Property companies, foreign	Companies
5.	Housing companies	Companies
6.	Closed funds, domestic	Companies
7.	Closed funds, foreign	Companies
8.	Investors, domestic	Companies
9.	Investors, foreign	Companies
10.	Open funds (special assets), domestic	Companies
11.	Open funds (special assets), foreign	Companies
12.	Retail business, domestic	Retail business
13.	Retail business, SME	Retail business
14.	Securitisations	Securitisations
15.	Non-credit obligation assets	Other assets, without loan commitments

Table 9: IRBA Rating System and Exposure Classes

1. Banks

This customer segment includes claims against banks and financial institutions that are not members of the protection scheme of the Federal Association of German Volksbanken and Raiffeisenbanken (BVR) and do not fulfil the German Banking Act requirements for a multilateral development bank.

The VR Rating Banks is used to evaluate the creditworthiness of claims in this segment. The VR Rating Banks was developed in the Cooperative Financial Network under the leadership of WGZ Bank AG and DZ BANK AG, and was approved by BaFin and the Bundesbank as an IRBA rating procedure. The ratings are provided to MünchenerHyp by the rating desk at DZ BANK AG. The provided ratings are subjected to a plausibility check by the analysts at MünchenerHyp and adjusted if necessary.

2. Intra-Group claims

This customer segment includes MünchenerHyp's claims against members of the National Association of German Cooperative Banks (BVR) that belong to the BVR protection scheme. Intra-Group claims are assigned to the "Institutions" IRBA exposure category, and are shown with a risk weighting of 0%.

The creditworthiness of claims in this segment is evaluated using the VR Rating Banks employed by DZ BANK AG's Rating Desk.

3. Property companies, domestic

The customer segment of domestic property companies includes special purpose companies that keep property in their portfolio and handle the long-term management of rented/leased properties. This customer segment includes contracts with property companies in the Federal Republic of Germany. The federal state in which the property is located is of relevance in this context.

The creditworthiness evaluation for claims in this segment is based on the VR Immo Rating. The VR Immo Rating was developed in the Cooperative Financial Network under the leadership of DG HYP, and was approved by BaFin and the Bundesbank as an IRBA rating procedure. The VR Immo Rating consists of various partial modules that are developed, implemented and validated independently in consideration of the special risk characteristics of the customer segments. The VR Property Companies rating module is used to evaluate the creditworthiness of claims in the domestic property companies segment.

4. Property companies, foreign

This customer segment is defined analogously to property companies, domestic. The difference is that properties in this segment are located outside of Germany.

The creditworthiness of claims in this segment is evaluated using the Rating Process for Commercial Real Estate developed by CredaRate Solutions GmbH. This rating process has been approved by the banking supervisory authority for use as an IRBA rating process and takes company and property-specific attributes into consideration.

5. Housing companies

This customer segment includes claims against housing companies. These are companies that make available, manage and renovate residential housing for private individuals. Customers in this segment are usually housing construction companies, municipal housing companies and private housing companies. The property must be located in the Federal Republic of Germany.

The creditworthiness evaluation for claims in this segment is based on the VR Immo Rating, using the VR Housing Companies module.

6. Closed funds, domestic

This segment includes funds that were created to finance firmly defined, generally larger, investment projects. This customer segment encompasses investment properties or projects within the Federal Republic of Germany. The federal state in which the property is located is of relevance in this context.

The creditworthiness evaluation for claims in this segment is based on the VR Immo Rating, using the VR Closed Funds module.

7. Closed funds, foreign

This customer segment is defined just like the aforementioned customer segment, except that the properties in this segment are located outside of Germany.

The creditworthiness evaluation for claims in this segment is based on the CredaRate rating process.

8. Investors, domestic

Investors are both natural and legal entities who invest in residential and commercial properties. Investors provide financial resources for their own investment properties; they do not build or develop properties for third parties. The financed properties in this customer segment must be located in the Federal Republic of Germany.

The creditworthiness evaluation for claims in this segment is based on the VR Immo Rating, using the VR Investors module.

9. Investors, foreign

This customer segment is defined just like "Investors, domestic", except that the properties in this segment are located outside of Germany.

The creditworthiness evaluation for claims in this segment is based on the CredaRate rating process.

10. Open funds (special assets), domestic

This segment includes classes of financing in which capital investment companies take out loans for the account of special assets. The main property must be located in the Federal Republic of Germany.

The CredaRate rating process is used to evaluate the creditworthiness of claims in this segment.

11. Open funds (special assets), foreign

Professionally, the definition of international open funds corresponds to that of domestic open funds. However, the main property must be located outside the Federal Republic of Germany.

The CredaRate rating process is also used to evaluate the creditworthiness of claims in this segment.

12. Retail business, domestic

The "Retail business, domestic" customer segment includes claims against individual persons or private entities residing in the Federal Republic of Germany, up to a total maximum liability of € 1 million. Employees of MünchenerHyp are excluded from this segment.

The creditworthiness evaluation is based on an application score and a behavioral score. In this customer segment, loss rates are estimated internally in the event of default (Loss Given Default, LGD). The Credit Conversion Factor (CCF) is conservatively estimated at a standard 100% for the required underlying equity.

13. Retail business, SME

This customer segment includes exposures with the following characteristics of small and medium-sized enterprises (SMEs) up to a maximum total liability of € 1 million:

- Companies (including commercial partnerships) with annual sales € 50 million
- Economically independent private persons (self-employed professionals, businessmen, majority shareholders controlling ≥ 50% of the company shares)

Certain industries and legal forms are excluded. The creditworthiness evaluation is based on an application score and a behavioral score. These scores were calibrated using the specifics of the SME segment. In this customer segment, loss rates are estimated internally in the event of default (Loss Given Default, LGD). The Credit Conversion Factor (CCF) is conservatively estimated at a standard 100% for the required equity.

14. Securitisations

MünchenerHyp uses the ratings-based approach per Art. 261 CRR to evaluate securitisations. According to this approach, all risk items are assigned risk weightings analogously to the creditworthiness evaluation by a rating agency or a reference item. The remaining securitisation items in MünchenerHyp's portfolio include claims from IRBA segments as underlying claims, and are therefore included in the IRBA report.

The creditworthiness evaluation for the securitisation items is fundamentally based on ratings from the leading rating agencies (Standard & Poor's, Moody's and Fitch).

15. Non-credit obligation assets

To the extent that non-credit obligation assets pose a counterparty risk to MünchenerHyp, these are allocated to the "other assets" IRBA exposure category. They include, for instance, fixed assets and active prepayments and deferred income that cannot be allocated to a borrower. The risk is weighted in the same way as in the KSA.

The results of the various rating segments are standardised using the VR master scale and are thus comparable on a common basis. The VR master scale also serves to standardise the numerous rating systems used by the companies within the Cooperative Financial Network by way of a Network-wide rating scale, thus creating a uniform standard for all of the rating systems used in the Cooperative Financial Network. This is an important factor that allows the use of the Rating Desk approach, among other things, within the Cooperative Financial Network. The VR master scale is shown in Table 10 in the context of the external ratings used at MünchenerHyp as part of the KSA.

Rating Class	Probability of Default	S&P; Fitch	Moody's
0a	0.01%	AAA to AA	Aaa to Aa2
0b	0.02%	AA-	Aa3
0c	0.03%		
0d	0.04%	A+	A1
0e	0.05%		
1a	0.07%	A	A2
1b	0.10%	A-	A3
1c	0.15%	BBB+	Baa1
1d	0.23%	BBB	Baa2
1e	0.35%		
2a	0.50%	BBB-	Baa3
2b	0.75%	BB+	Ba1
2c	1.10%	BB	Ba2

2d	1.70%		
2e	2.60%	BB-	Ba3
3a	4.00%	B+	B1
3b	6.00%	B	B2
3c	9.00%	B-	B3
3d	13.50%		
3e	30.00%	CCC+ to C	Caa1 to C
4a	100.00%		
4b	100.00%		
4c	100.00%		
4d	100.00%		
4e	100.00%		

Table 10: VR Master Scale and KSA-Relevant External Ratings

Ratings of external rating agencies are used by MünchenerHyp in IRBA solely for securitisations.

Processes and IT systems relevant for rating purposes are constructed in a rating system-specific manner and fully comply with regulatory requirements. In this context, there is a strict separation for all of the rating systems between the areas of market, transaction management and counterparty risk monitoring. The rating systems are validated by the counterparty risk monitoring unit, which operates independently and is not involved in initiating and closing business transactions. In regard to the validation of rating systems, a distinction is made between a pool validation, which is a rating process applied on a shared basis with other institutions and takes place in part centrally at the rating providers, the VR Immo Rating, the VR-Rating Banks and at CredaRate, and a MünchenerHyp-specific validation. In addition to validating the rating procedure, the latter also examines the procedural and IT-related application of the rating systems at MünchenerHyp.

In addition to using the results from the rating systems as the foundation for determining regulatory requirements for underlying equity capital, they are also used as a basis for risk-adjusted pricing. The use of the rating results as a basis for determining the standard risk costs or equity costs is dependent upon the rating system. However, it is unrelated to the IRBA approval of the rating systems achieved by the German Federal Financial Supervisory Authority and the Bundesbank. Non-IRBA rating systems are thus also used for this purpose.

The following two disclosure tables show exposure values and average risk weights for the IRBA exposure classes of Companies, Institutions and Retail business after the inclusion of Credit Conversion Factors and credit-risk mitigation measures. The IRBA formula does not provide any risk weights for unexpected loss for IRBA items in default. In this case, backing for risk is provided by reconciling the expected loss with the value adjustments that have been created. Thus the tables below do not show an average risk weight for these items.

Table 11 shows all of the positions in the basic IRBA for the exposure classes Institutions and Companies, split into risk classes. The Institutions exposure category shows the Intra-Group portfolio with a risk weighting of 0%. The exposure values are shown as the total of the outstanding credit amounts and non-utilised credit approvals, plus the average risk weight, weighted using the item values. The factors established by the supervisory authority for this exposure category are used as conversion factors. Non-credit obligation assets, participations and securitisations are not shown in Table 11. The standard approach is applied for exposure to central governments, without exception.

For the 2014 reporting year, the IRBA portfolio included a total expenses of € 7.5 million as the net sum of additions and reversals to individual adjustments to value and direct write-offs. Of these, € 5.0 million are attributed to the Retail business. The Companies exposure category shows expenses of € 2.5 million.

Therefore, there were also no significant changes to the IRBA portfolio in comparison to previous years with respect to PD and LGD.

IRBA Item Value and Average Risk Weighting – Institutions and Corporates

	AAA-AA	A	BBB	BB-C	Default	
	PD ≤ 0.03%	PD > 0.03% PD ≤ 0.1%	PD >0.1% PD ≤ 0.5%	PD > 0.5% PD < 100%	PD = 100%	**Total**
Item value in € m						
Institutions	460.2	746.0	790.5	1,000.5	0.0	2,997.2
Corporates	0.0	3,396.8	818.9	2,530.8	68.1	6,814.6
of which, SME	0.0	782.6	237.3	737.9	11.7	1,769.5
of which, specialised loans	0.0	1,351.1	552.0	1,422.5	54.9	3,380.5
Total	**460.2**	**4,142.8**	**1.609.4**	**3,531.3**	**68.1**	**9,811.8**
Average risk weighting in %						
Institutions	13.7	27.0	56.1	40.5	0.0	31.2
Corporates	0.0	19.1	71.1	37.6	0.0	32.0
of which, SME	0.0	17.8	69.6	34.7	0.0	31.7
of which, specialised loans	0.0	18.2	72.0	36.8	0.0	34.5
Total	**13.7**	**20.5**	**63.7**	**38.4**	**0.0**	**33.6**

Table 11: Exposure Classes Institutions and Companies: Item Value and Risk Weighting

IRBA Item Value of Retail Business	EL-Range	EL-Range	EL-Range	EL-Range	EL-Range	
	EL ≤ 0.05%	EL > 0.05% EL ≤ 0.5%	EL > 0.5% EL ≤ 5%	EL > 5% EL ≤ 25%	EL > 25% EL ≤ 100%	**Total**
Item value in € m						
IRBA Retail business exposure secured by mortgage liens	12,640.9	2,146.6	286.4	26.5	53.2	15,153.6
Average risk weight in %						
IRBA Retail business exposure secured by mortgage liens	2.6	17.1	82.7	194.8	351.4	7.7
Average-loss ratio in %						
IRBA Retail business exposure secured by mortgage liens	10.1	27.2	21.3	34.2	56.1	12.9

Table 12: Exposure Classes Retail Business: Item Value and Risk Weighting

MünchenerHyp exclusively maintains the partial portfolio of claims secured by mortgage liens in the IRBA Retail business. These positions are divided into the significant Expected Loss bands for MünchenerHyp as shown in Table 12. The disclosed item value, the average risk weight used to weight the item values, and the average of the loss rate in the event of default weighted with the item values. The IRBA exposure is the product of the IRBA risk exposure value and the IRBA conversion factor. In Retail business, the conversion factor is uniformly set at 100% as a conservative standard.

5.4.2 KSA EXPOSURE CLASSES

The customer segments or rating systems used to evaluate the creditworthiness of the KSA portfolios are summarised in Table 13. Rating procedures for non-IRBA rating systems are not used as a basis for determining regulatory required equity. However, similar standards apply for the use and validation of rating systems at MünchenerHyp as for the IRBA rating systems. This is due, on one hand, to the fact that one of these rating systems is supposed to be maintained as an IRBA rating system in the future and is already in the use-test phase. On the other hand, the results of these rating systems are used as a basis for determining a risk-adjusted price and for additional bank management purposes. The rating results from non-IRBA rating systems are also standardised on a common basis using the VR master scale. If no internal rating procedures are available, external ratings are used to determine creditworthiness. In this context, only ratings from the leading agencies (Standard & Poor's, Moody's and Fitch) are used. The transfer of ratings from these agencies to the VR master scale is shown in Table 10. As a basic principle, MünchenerHyp does not transfer ratings for its issues to its claims.

Seq. no.	Customer Segment/Rating	KSA Exposure Classes
1.	Central governments (excl. EEA with zero weighting)	Sovereigns and central banks
2.	Central governments (EEA with zero weighting)	Sovereigns and central banks
3.	LRG (excluding EEA with zero weighting)	Regional and local administrative authorities
4.	LRG (EEA with zero weighting)	Regional and local administrative authorities
5.	Development banks	Public entities
6.	Special customers, residential housing	Corporates
7.	Retail business PostFinance	Retail business
8.	Participations	Participations
9.	Other	N/A
10.	Discontinued business	N/A

Table 13: Non-IRBA Rating Systems and KSA Exposure Classes

1. Central governments (excluding EEA with zero weighting)

This customer segment includes sovereign states as well as the associated central banks, and development banks with the status of Multilateral Development Bank (MDB), with the exception of those in the European Economic Area (EEA) and using zero weighting pursuant to CRR. This customer segment is maintained in the Permanent Partial Use (PPU) area at MünchenerHyp.

The VR Rating Countries is used to evaluate the creditworthiness of claims in this segment. The VR Rating Banks was developed in the Cooperative Financial Network under the leadership of WGZ Bank AG and DZ BANK AG, and was approved by BaFin and the Bundesbank as an IRBA ratings procedure. The ratings are provided to MünchenerHyp by DZ BANK AG in the context of a rating desk. The provided ratings are subjected to a plausibility check by the analysts at MünchenerHyp and adjusted if necessary.

2. Central governments, EEA, using zero weighting

This customer segment includes sovereign states as well as associated central banks and development banks with the status of Multilateral Development Bank (MDB) within the EEA, using a zero weighting pursuant to CRR. This customer segment is maintained in Permanent Partial Use (PPU) at MünchenerHyp.

The VR Rating Countries is used to evaluate the creditworthiness of claims in this segment.

3. LRG (excluding EEA with zero weighting)

The customer segment of Local and Regional Government (LRG) includes all of the regional governments, local authorities and public bodies, with the exception of those in the EEA, and uses a zero weighting pursuant to CRR. This customer segment is maintained in Permanent Partial Use (PPU) at MünchenerHyp.

The creditworthiness of claims in this customer segment is evaluated on the basis of the LRG rating. The LRG rating was developed under the leadership of the Association of German Pfandbrief Banks (vdp) with the participation of numerous German banks, including MünchenerHyp. The rating procedure was approved by BaFin and the Bundesbank for IRBA. The LRG rating takes into account, among other things, the financial strength and debt level of local and regional authorities.

4. LRG, EEA, with zero weighting

This customer segment includes all of the regional governments, local authorities and public bodies within the EEA and using a zero weighting pursuant to the CRR. This customer segment is maintained in Permanent Partial Use (PPU) at MünchenerHyp.

The creditworthiness of claims in this customer segment is evaluated on the basis of the aforementioned LRG rating.

5. Development banks

This category consists of development banks that do not fulfil German Banking Act requirements to be classified as multilateral development banks. Development banks are contained in the "Public entities" category. They are carried under PPU.

The creditworthiness evaluation of these claims is based on DZ BANK AG's VR Rating Banks.

6. Special customers, residential housing

This customer segment in principle contains claims relating to residential properties and where less than 50% of the customers' income is generated by property-related activities. This customer segment is shown in the PPU.

The creditworthiness of claims in this customer segment is evaluated using an expert-based classification procedure (decision matrix).

7. Retail business PostFinance

All of the Retail business claims from the PostFinance sales channel are contained in this segment. This segment only contains claims on properties situated in Switzerland. In line with the Retail business limit, claims against individuals or private persons up to a maximum total liability of 1.2 million Swiss francs belong in this segment. The claims in this segment are shown in the PU.

The creditworthiness evaluation takes place using a customer-segment-specific application or behavioural scorecard. An internal process was developed to evaluate Loss Given Default (LGD).

8. Participations

MünchenerHyp's investment portfolio can be classified as an insignificant investment portfolio per Art. 150 CRR. This is because the average accounting value of the investment portfolio, excluding items for legally regulated programmes to support specific industrial sectors, was less than 10% of the modified available equity capital over the past one-year period. As long as this ratio of "accounting value of investment items" to the "modified available equity capital" remains the same, investments will be administered in the PPU.

9. Other

The category of "Other" includes all claims that do not have the characteristics of one of the abovementioned customer segments. The claims in this segment are of marginal significance for MünchenerHyp's credit portfolio and are administered in the PPU.

The creditworthiness evaluation takes place using an appropriate method, frequently on the basis of the expert-based decision matrix.

10. Discontinued business

Pursuant to Art. 14 SolvV, a discontinued business area is a segment in which no new risk positions are entered into and where there is no intent to create new risk positions. Currently, this segment includes commercial property financing for secured property located in the United States, Geno loans with and without indemnity, mezzanine financing in countries outside of Germany, as well as lines of credit secured by property, equity funds and government-guaranteed corporate bonds. Discontinued businesses are administered in the PPU.

In most cases the creditworthiness evaluation takes place either on the basis of the IPRE rating or the decision matrix. These rating procedures are expert-based classification procedures.

Table 14 contains the respective totals for risk exposure values allocated to a fixed risk weighting established by the supervisory authority. The statement of risk exposure value for KSA is shown before and after the inclusion of credit risk mitigation effects from collateral. In this context, the total after credit risk mitigation is higher than before credit risk mitigation because positions from the IRBA portfolio are moved to the KSA portfolio through the provision of collateral.

Risk Exposure Value in € m		
Risk weights	Before Credit Risk Mitigation	After Credit Risk Mitigation
0%	6,637.6	7,042.1
10%	20.1	20.1
20%	171.2	171.2
35%	2,766.5	2,766.5
50%	65.6	42.1
75%	843.5	843.3
100%	952.8	754.6
150%	39.1	39.1
Total	**11,496.4**	**11,679.0**

Table 14: Value of KSA Items

5.5 STRUCTURE OF PORTFOLIO

This chapter classifies and presents the portfolios according to various criteria. The information in this chapter is based on data of the risk exposure value, before the inclusion of credit risk mitigation (CRM).

Portfolio Structure Based on Equity Capital Backing Approach, Exposure Classes and Significant Asset Types, as of the date of record						
in € m	Loans secured by mortgage liens (incl. commit-ments)	Other loans (incl. commit-ments)	Securities	Derivatives	Securitisa-tions	Total
IRBA exposure value	**20,678.2**	**2,033.8**	**1,994.4**	**523.7**	**8.9**	**25,239.0**
- Institutions	0.0	657.1	1,987.2	523.7	0.0	3,168.0
- Corporates	5,524.7	1,376.7	7.2	0.0	0.0	6,908.6
- of which, SME	1,547.2	245.2	0.0	0.0	0.0	1,792.4
- of which, special-ised financing	2,521.1	919.5	0.0	0.0	0.0	3,440.6
- of which, other entities	1,456.4	212.0	7.2	0.0	0.0	1,675.6
- Retail business	15,153.5	0.0	0.0	0.0	0.0	15,153.5
- of which, SME	2,598.6	0.0	0.0	0.0	0.0	2,598.6
- of which, non-SME	12,554.9	0.0	0.0	0.0	0.0	12,554.9
- Securitisations	0.0	0.0	0.0	0.0	8.9	8.9

KSA exposure value	**2,905.8**	**6,275.3**	**2,296.7**	**18.6**	**0.0**	**11,496.4**
- sovereigns and central banks	0.0	152.5	629.8	0.0	0.0	782.3
- regional governments or local authorities	0.0	4,418.8	799.8	18.1	0.0	5,236.7
- Public entities	0.0	57.5	381.3	0.0	0.0	438.8
- multilateral development banks	0.0	0.0	255.7	0.0	0.0	255.7
- Institutions	0.0	7.1	119.0	0.5	0.0	126.6
- Corporates	0.0	649.5	65.3	0.0	0.0	714.8
- Retail business	0.0	843.5	0.0	0.0	0.0	843.5
- Exposures secured by properties	2,799.6	0.0	0.0	0.0	0.0	2,799.6
- exposures in default	106.2	39.4	0.0	0.0	0.0	145.6
- items associated with particular high risk	0.0	4.7	0.0	0.0	0.0	4.7
- covered bonds	0.0	0.0	45.8	0.0	0.0	45.8
- equity investments	0.0	102.3	0.0	0.0	0.0	102.3
Total	**23,584.0**	**8,309.1**	**4,291.1**	**542.3**	**8.9**	**36,735.4**

Table 15: Portfolio Structure by Exposure Classes and Significant Asset Types per 31.12.2014

Portfolio Structure Based on Equity Capital Backing Approach, Exposure Classes and Significant Asset Types, figures shown are average figures for the year

in € m	Loans secured by mortgage liens (incl. commit-ments)	Other loans (incl. commit-ments)	Securities	Derivatives	Securitisa-tions	Total
IRBA exposure value	**19,696.7**	**2,267.6**	**2,260.7**	**475.0**	**10.7**	**24,710.7**
- Institutions	0.0	946.2	2,253.5	475.0	0.0	3,674.7
- Corporates	5,235.8	1,321.4	7.2	0.0	0.0	6,564.4
- of which, SME	1,581.8	272.8	0.0	0.0	0.0	1,854.6
- of which, special-ised financing	2,336.3	846.4	0.0	0.0	0.0	3,182.7
- of which, other entities	1,317.7	202.2	7.2	0.0	0.0	1,527.1
- Retail business	14,460.9	0.0	0.0	0.0	0.0	14,460.9
- of which, SME	2,492.8	0.0	0.0	0.0	0.0	2,492.8
- of which, non-SME	11,968.1	0.0	0.0	0.0	0.0	11,968.1
- Securitisations	0.0	0.0	0.0	0.0	10.7	10.7
KSA exposure value	**2,814.0**	**6,563.7**	**2,217.4**	**23.0**	**0.0**	**11,618.1**
- sovereigns and central banks	0.0	150.2	622.2	0.0	0.0	772.4
- regional govern-ments or local authorities	0.0	4,502.1	684.4	22.2	0.0	5,208.7
- Public entities	0.0	110.6	433.6	0.0	0.0	544.2
- multilateral development banks	0.0	0.0	247.7	0.0	0.0	247.7
- Institutions	0.0	9.1	117.9	0.8	0.0	127.8
- Corporates	0.0	770.1	66.0	0.0	0.0	836.1
- Retail business	0.0	853.7	0.0	0.0	0.0	853.7
- Exposures secured by properties	2,704.6	0.0	0.0	0.0	0.0	2,704.6

- exposures in default	109.4	64.3	0.0	0.0	0.0	173.7
- items associated with particular high risk	0.0	4.7	0.0	0.0	0.0	4.7
- covered bonds	0.0	0.0	45.6	0.0	0.0	45.6
- Equity investments	0.0	98.9	0.0	0.0	0.0	98.9
Total	**22,510.7**	**8,831.3**	**4,478.1**	**498.0**	**10.7**	**36,328.8**

Table 16: Portfolio Structure by Exposure Classes and Significant Asset Types – Annual Average[2]

The IRBA shows all of the exposure values in the basic IRBA with the exception of domestic Retail business and SME. The advanced IRBA is used for domestic Retail business and SME. The IRBA portfolio for the Retail business only includes items secured by way of mortgage liens. The KSA shows all of the exposure values maintained using the standard approach, either as part of the PU or the PPU.

The item "loans secured by mortgage liens" shows all of the loan portfolios whose mortgage collateral has a mitigating effect on credit risk per regulatory terms. The assets in this asset type also include open commitments for loans secured by way of mortgage liens. Open commitments are off-balance sheet items treated as unused lines of credit.

"Other loans" include all loans that do not fall under the asset types of "loans secured by way of mortgage liens", "securities", "derivatives" or "securitisations". As a rule, "other loans" refer to promissory notes and real estate loans whose collateral in the form of property does not have a mitigating effect on credit risk per regulatory terms.

Risk exposure values for derivative transactions and for repo business items are shown after the inclusion of netting effects and financial collateral.

Table 17 shows the geographic distribution of the exposure values split by main countries and regions, and classified by exposure classes. The geographic attribution of loans secured by way of mortgage liens depends on the country in which the main property is located. All other items are assigned geographically according to the country in which the commercial borrower is located. Portfolios in Switzerland are largely based on the partnership with PostFinance. Portfolios in North America refer to the discontinued business in the segment commercial foreign. The primary focus of our European business is on commercial real estate financing in France and Great Britain.

[2] The annual average is calculated as the average of the quarterly average figures.

Portfolio Structure by Significant Countries, Regions and Exposure Classes					
in € m	Germany	Switzerland	Europe (ex Germany and Switzer-land)	North America	Total
IRBA exposure value	**21,763.7**	**268.7**	**3,170.5**	**36.1**	**25,239.0**
- Institutions	1,067.3	268.7	1,795.9	36.1	3,168.0
- Corporates	5,542.9	0.0	1,365.7	0.0	6,908.6
- of which, SME	1,675.6	0.0	116.8	0.0	1,792.4
- of which, specialised financing	2,350.2	0.0	1,090.4	0.0	3,440.6
- of which, other entities	1,517.1	0.0	158.5	0.0	1,675.6
- Retail business	15,153.5	0.0	0.0	0.0	15,153.5
- of which, SME	2,598.6	0.0	0.0	0.0	2,598.6
- of which, non-SME	12,554.9	0.0	0.0	0.0	12,554.9
- Securitisations	0.0	0.0	8.9	0.0	8.9
KSA exposure value	**5,711.9**	**3,507.6**	**1,737.9**	**539.0**	**11,496.4**
- sovereigns and central banks	26.7	0.0	755.6	0.0	782.3
- regional governments or local authorities	4,915.0	25.3	296.3	0.0	5,236.6
- Public entities	438.8	0.0	0.0	0.0	438.8
- multilateral development banks	0.0	0.0	255.7	0.0	255.7
- Institutions	15.5	0.0	111.1	0.0	126.6
- Corporates	36.5	4.1	172.1	502.1	714.8
- Retail business	2.3	744.6	96.6	0.0	843.5
- Exposures secured by properties	69.4	2,730.2	0.0	0.0	2,799.6
- exposures in default	105.4	3.4	0.0	36.9	145.7
- items associated with particular high risk	0.0	0.0	4.7	0.0	4.7
- covered bonds	0.0	0.0	45.8	0.0	45.8
- Equity investments	102.3	0.0	0.0	0.0	102.3
Total	**27,475.6**	**3,776.3**	**4,908.4**	**575.1**	**36,735.4**

Table 17: Portfolio Structure by Countries/Regions and Exposure Classes

Table 18 shows the total portfolio values split by main debtor categories and exposure classes.

Portfolio Structure by Significant Debtor Category and Exposure Classes

in € m	Banks	Corpo-rates	Econo-mically indepen-dent private persons	Economi-cally depen-dent private persons	Public budgets	Other	Total
IRBA exposure value	**3,167.8**	**6,582.5**	**2,928.2**	**12,557.4**	**0.0**	**3.1**	**25,239.0**
- Institutions	3,167.8	0.2	0.0	0.0	0.0	0.0	3,168.0
- Corporates	0.0	6,477.8	428.3	2.5	0.0	0.0	6,908.6
- of which, SME	0.0	1,379.0	412.7	0.7	0.0	0.0	1,792.4
- of which, specialised financing	0.0	3,435.4	4.1	1.1	0.0	0.0	3,440.6
- of which, other entities	0.0	1,663.4	11.5	0.7	0.0	0.0	1,675.6
- Retail business	0.0	95.6	2,499.9	12,554.9	0.0	3.1	15,153.5
- of which, SME	0.0	95.6	2,499.9	0.0	0.0	3.1	2,598.6
- of which, non-SME	0.0	0.0	0.0	12,554.9	0.0	0.0	12,554.9
- Securitisations	0.0	8.9	0.0	0.0	0.0	0.0	8.9
KSA exposure value	**740.0**	**1,323.6**	**74.8**	**3,460.2**	**5,893.4**	**4.4**	**11,496.4**
- sovereigns and central banks	18.3	0.0	0.0	0.0	764.0	0.0	782.3
- regional govern-ments or local authorities	0.0	113.1	0.0	0.0	5,123.5	0.0	5,236.6
- Public entities	432.7	0.2	0.0	0.0	5.9	0.0	438.8
- multilateral development banks	255.7	0.0	0.0	0.0	0.0	0.0	255.7
- Institutions	15.5	111.1	0.0	0.0	0.0	0.0	126.6
- Corporates	0.0	703.5	1.8	6.8	0.0	2.7	714.8
- Retail business	0.0	96.6	12.7	734.2	0.0	0.0	843.5

- Exposures secured by properties	0.0	21.8	60.3	2,715.8	0.0	1.7	2,799.6
- exposures in default	0.0	142.3	0.0	3.4	0.0	0.0	145.7
- items associated with particular high risk	0.0	4.7	0.0	0.0	0.0	0.0	4.7
- covered bonds	0.0	45.8	0.0	0.0	0.0	0.0	45.8
- Equity investments	17.8	84.5	0.0	0.0	0.0	0.0	102.3
Total	**3,907.8**	**7,906.1**	**3,003.0**	**16,017.6**	**5,893.4**	**7.5**	**36,735.4**

Table 18: Portfolio Structure by Debtor Category and Exposure Classes

Table 19 includes a breakdown of the total exposure values (excluding derivatives) by contractual residual time periods and split by exposure category.

Total Exposure Value (excluding Derivatives) Split by Residual Periods and Exposure Category

in € m	to 1 year	More than 1 year to 5 years	More than 5 years to 10 years	More than 10 years	No residual term	Total
IRBA exposure value	**1,198.5**	**3,284.6**	**3,712.0**	**16,520.2**	**0.0**	**24,715.3**
- Institutions	642.5	1,522.5	318.3	161.0	0.0	2,644.3
- Corporates	480.2	1,363.1	2,307.1	2,758.2	0.0	6,908.6
- of which, SME	41.1	77.0	312.7	1,361.6	0.0	1,792.4
- of which, specialised financing	402.8	1,166.3	1,510.5	361.0	0.0	3,440.6
- of which, other entities	36.3	119.8	483.9	1,035.6	0.0	1,675.6
- Retail business	75.8	390.1	1,086.6	13,601.0	0.0	15,153.5
- of which, SME	19.5	92.1	231.6	2,255.4	0.0	2,598.6
- of which, non-SME	56.3	298.0	855.0	11,345.6	0.0	12,554.9
- Securitisations	0.0	8.9	0.0	0.0	0.0	8.9
KSA exposure value	**1,222.2**	**3,637.8**	**2,522.2**	**3,961.9**	**133.7**	**11,477.8**
- sovereigns and central banks	0.0	116.8	372.8	266.0	26.7	782.3

- regional governments or local authorities	276.1	790.4	1,012.4	3,139.6	0.0	5,218.5
- Public entities	0.1	306.4	71.5	60.8	0.0	438.8
- multilateral development banks	0.0	74.7	38.3	142.7	0.0	255.7
- Institutions	0.0	119.1	0.7	6.3	0.0	126.1
- Corporates	84.4	469.7	11.5	149.2	0.0	714.8
- Retail business	175.9	309.2	242.8	115.6	0.0	843.5
- Exposures secured by properties	576.9	1,396.1	744.9	81.7	0.0	2,799.6
- exposures in default	108.8	35.4	1.5	0.0	0.0	145.7
- items associated with particular high risk	0.0	0.0	0.0	0.0	4.7	4.7
- covered bonds	0.0	20.0	25.8	0.0	0.0	45.8
- Equity investments	0.0	0.0	0.0	0.0	102.3	102.3
Total	**2,420.7**	**6,922.4**	**6,234.2**	**20,482.1**	**133.7**	**36,193.1**

Table 19: Portfolio Structure by Residual Maturity and Exposure Classes

5.6 RISK MITIGATION AND HEDGING

Both the IRBA and the KSA permit institutions to take the applied credit risk mitigation techniques (collateral) into account when calculating their regulatory equity requirements. In order to take collateral into account when calculating equity requirements, the institutions must meet minimum requirements that are explicitly regulated in the CRR and the KWG, as well as in the interpretation decisions developed by the supervisory authority and in circulars. All of the classes of collateral used to mitigate credit risk at MünchenerHyp are recognised pursuant to CRR.

MünchenerHyp's principles of collateralisation are an integral part of its business and risk strategy, and are regulated in detail by internal organisational instructions. This involves the definition of category and fundamental framework conditions for recognising, evaluating, monitoring and reviewing collateral accepted by MünchenerHyp as a Pfandbrief bank. The collateral in question is defined in detail in the internal organisational guidelines, and separated by country, property category, intended usage and other characteristics.

MünchenerHyp does not practice balance sheet netting. With regard to derivative items, net market values are offset vis-a-vis a counterparty using cash deposits that were provided. Volatility adjustments are only relevant as factors for calculating securities positions in connection with repurchase agreements.

Eligible collateral is described in Art. 194 (3) 3 CRR in association with Articles 197-200 CRR. As a general rule, the following categories of collateral are recognised at MünchenerHyp:

- Residential and commercial property[3] secured by mortgage liens pursuant to Art. 199 CRR. Because of its strategic direction, MünchenerHyp primarily uses mortgage securities for completed security objects, or for security objects that are to be completed by the time the credit has been paid out in full. In selected individual cases in the area of commercial property financing, traditional mortgage coverage is replaced by other accepted hedging instruments, such as the pledging of business shares or the assignment of claims for repayment of expenses.
- Warranties in the form of guarantees/bonds from central governments, institutions and insurance companies per Art. 197 f. CRR. The issuers of warranties that MünchenerHyp considers to be risk-mitigating are mainly public entities or domestic credit institutions.
- Pursuant to Art. 193 (4) CRR, MünchenerHyp defines financial collateral exclusively in the context of calculating cash securities (collaterals) for derivatives and repo transactions. The exposures are determined based on netting, and collateral offsetting.

Other collateral, such as assigning or pledging rights and claims arising from building loan contracts, life insurance, credits, deposits, etc., have a lower priority and generally serve as a repayment substitute or bridge until property mortgages have been recorded.

MünchenerHyp monitors possible risk concentrations and cluster risks that it enters into on the basis of its strategic orientation as a mortgage bank. Here the sizes, property categories and regional distribution of the properties play a role. These risk drivers are subject to strict monitoring. In this context, the publication per Art. 28 PfandBG (German Pfandbrief Act) should be noted, which clearly explains potential cluster risks in MünchenerHyp's cover funds on a quarterly basis.

In a quantitative sense, this chapter explains collateral that has a risk-mitigating effect on regulatory capital backing requirements. Collateral is taken into consideration per CRR either in the Probability of Default (PD) or the Loss Given Default (LGD), depending on the category of collateral by using a risk weighting set that has been defined by the supervisory authority for the secured claim. For Retail business, which is subject to the advanced IRBA, mortgage collateral is implicitly taken into account via the LGD. Thus there is no separate listing for mortgage collateral in Retail business in Table 20. For the remaining exposure classes in line with quantitative disclosure at MünchenerHyp, "other securities" is understood to mean mortgage collateral. Financial collateral for derivative items and items from repo transactions have already been accounted for in the disclosed item values.

[3] For MünchenerHyp, pure loan financing for property is relevant here in terms of the requirements defined by the supervisory authority. MünchenerHyp does not appear as a lease provider (and therefore an owner) of properties. The regulations for property leasing are thus not relevant to MünchenerHyp at this time.

Collateral that can be taken into account for IRBA portfolios are shown in Table 20. No financial collateral are taken into account risk-mitigating.

IRBA Exposure Classes	Eligible Collateral in € m		
	Financial Collateral	Warranties	Other Collateral
1. Institutions	0.0	170.7	0.0
2. Corporates	0.0	11.9	5,314.2
3. Retail business	0.0	0.0	0.0
4. Securitisations	0.0	0.0	0.0
Total	**0.0**	**182.6**	**5,314.2**

Table 20: Eligible Collateral IRBA Positions

Collateral taken into account for KSA portfolios are shown in Table 21. As with the IRBA exposure classes, KSA exposure classes do not account risk-mitigating for any financial collateral.

KSA Exposure Classes	Eligible Collateral in € m		
	Financial Collateral	Warranties	Other Collateral
1. Sovereigns and central banks	0.0	0.0	0.0
2. Regional and local administrative authorities	0.0	0.0	0.0
3. Public entities	0.0	0.0	0.0
4. Multilateral Development Banks	0.0	0.0	0.0
5. International Organisations	0.0	0.0	0.0
6. Institutions	0.0	33.5	0.0
7. Covered bonds	0.0	0.0	0.0
8. Corporates	0.0	188.2	0.0
9. Retail business	0.0	0.2	0.0
10. Exposures secured by properties	0.0	0.0	2,799.6
11. Positions associated with particularly high risk	0.0	0.0	0.0
12. Equity investments	0.0	0.0	0.0

13. Other positions	0.0	0.0	0.0
14. Positions in default	0.0	0.0	0.0
Total	**0.0**	**221.9**	**2,799.6**

Table 21: Eligible Collateral KSA Positions

5.7 RECOGNITION OF PROVISIONS FOR RISK

MünchenerHyp defines non-performing loans or overdue loans as credit obligations with shortfalls, or those at risk of default due to other objective risk factors (e.g. threatened or initiated insolvency proceedings). This forms the basis for recognising value adjustments for the mortgage credit business. MünchenerHyp's criteria for recognising value adjustments are considered to be conservative. Mortgage loans are examined to determine if they warrant the creation of, or an addition to, individual adjustments to value when one of following prerequisites exists:

- An individual adjustment to value was already created or maintained in the previous year
- Foreclosure or enforced receivership proceedings are pending
- The customer has been unsuccessfully dunned, and the amount owed exceeds – depending on the possibilities of using the loan as cover – certain minimal thresholds
- The loan is default-endangered due to other objective criteria (e.g. threatened, or actually applied for insolvency)

"Overdue items" are defined as claims that are overdue for payment by more than 90 days and are over € 100 or more than 2.5% of the total unpaid amount.

In general, if it is determined that the value of a loan needs to be individually adjusted in the Retail business the portion of the loan exceeding 60% of the mortgage lending value, or 70% of its current market value, plus the outstanding interest payments and charges, is value adjusted. Individual deviations from this policy must be justified.

In principle, an adjustment to value in the non-Retail business is based on the current market value of the mortgage loan less an appropriate margin of safety, or 100% of the break-up value exceeding the value of the loan plus the outstanding interest payments and charges.

The Bank has created a general adjustment to value reserve as a precautionary measure to cover latent lending risks. This general adjustment to value is calculated per the terms contained in a Federal Ministry of Finance notice dated 10 January 1994. The key default rate is calculated using 60% of the average volume of defaults that took place over the last five years compared to the average volume of loans-at-risk made over this period. The general adjustment to value is the result of multiplying the default rate by the volume of loans-at-risk on the date of record.

The results of the Asset Quality Review conducted by the ECB in 2014, and which preceded the actual stress test, confirmed the process used to recognise provisions for risk. MünchenerHyp passed this test of its balance sheet with flying colours. No corrections were necessary. It was particularly noted that MünchenerHyp's provisions for risk were more than sufficient. The results show that the Bank acts very carefully and makes timely and sufficient provisions for credit risks.

Table 22 shows the distribution of non-performing and overdue claims by significant debtor categories. The total amount of non-performing and overdue claims is based on total claims before deduction of the individual adjustments to value. The remaining amount is calculated by determining the difference between the total claims and the sum of individual adjustments to value.

Non-Performing and Overdue Claims by Debtor Category				
in € m	Total claims	of which, overdue	Assets with individual adjustment to value	Overdue without individual adjustments to value
Banks	0.0	0.0	0.0	0.0
Companies	237.8	131.7	43.3	194.5
Economically independent private persons	22.3	11.7	3.8	18.5
Economically dependent and other private persons	45.3	22.3	8.2	37.1
Public budgets	0.2	0.0	0.2	0.0
Other	0.7	0.0	0.3	0.4
Total	**306.3**	**165.7**	**55.8**	**250.5**

Table 22: Non-Performing and Overdue Claims by Debtor Category

Table 23 shows the distribution of non-performing and overdue claims by significant countries and regions.

Non-Performing and Overdue Claims by Countries and Regions				
in € m	Total claims	of which, overdue	Assets with individual adjustment to value	Overdue without individual adjustments to value
Germany	171.6	138.2	12.5	159.1
Switzerland	3.5	0.4	1.0	2.5
Europe (ex Germany and Switzerland)	66.5	27.1	11.0	55.5
North America	64.7	0.0	31.3	33.4
Total	**306.3**	**165.7**	**55.8**	**250.5**

Table 23: Non-Performing and Overdue Claims by Countries and Regions

Net allocations to provisions for risk, direct write-downs and recoveries of written-off claims by debtor category are shown in Table 24.

Exposure by Debtor Category			
in € m	Net allocation to individual adjustment to value and general adjustment to value	Direct write-down	Recoveries of written-off claims
Banks	0.0	0.0	0.0
Companies	-0.9	0.0	0.0
Economically independent private persons	0.4	0.2	0.0
Economically dependent and other private persons	2.6	0.9	0.7
Public budgets	-0.1	0.0	0.0
Other	0.0	0.0	0.0
Total	2.0	1.1	0.7

Table 24: Exposure by Debtor Category

The development of provisions for risk for the entire loans business in the year 2014 is summarised in Table 25.

Development of Provisions for Risk in the Lending Business						
in € m	Opening balance	Additions	Reversals	Utilisation	Changes related to exchange rate shifts and other factors	Closing
Individual adjustment to value	52.8	11.0	-8.4	-3.8	4.2	55.8
General adjustment to value	13.5	0.0	0.5	0.0	0.0	13.0
Reserves per Art. 340 f HGB	14.0	0.0	0.0	0.0	0.0	14.0
Reserves	0.0	0.0	0.0	0.0	0.0	0.0

Table 25: Development of Provisions for Risk in the Lending Business

5.8 RISK REPORTS AND MANAGEMENT INFORMATION SYSTEMS

Risk reports provide the foundation for management decisions. These reports are regularly prepared for various groups.

The Bank's credit risk situation is presented in Credit Risk Report, which is prepared on a quarterly basis. Particular attention is devoted to the following risk-relevant subjects in risk reporting: portfolio structure, limit utilisation, quantification of risk, cluster and concentration risks, provisions for risk, workout management's portfolio, intensive attention portfolio, as well as the development of new business. All risk-relevant key figures are reviewed within the context of the quarterly risk report, including expected and unexpected losses as applicable to both the consolidated portfolio and sub-portfolio level. In addition, for each consolidation level, each portfolio is split by rating classification, size category, loan-to-value ratio, type of property, region and broker, among other criteria. The Credit Risk Report is distributed to:

- the Supervisory Board
- Board of Management
- unit and department heads in the Market and Transaction Management departments
- person responsible for operational risk

The extent to which the limits are utilised for capital market purposes is measured on a daily basis and a corresponding utilisation report is submitted once a week. A separate monthly status report is reported to the board of management consisting of a monitoring list presenting the utilisation of limits for the capital market sector, and if they were exceeded at any time. The weekly utilisation report reviewing the limits for the capital market is distributed to the following executive bodies:

- Member of the Board of Management responsible for Transaction Management Treasury
- Head of Transaction Management Treasury
- Head of Capital Market – Active

A report will be submitted to the above executive bodies pursuant to the escalation procedure if the limits are exceeded in the area of Capital Market – Active.

The Transaction Management units are responsible for monitoring the country limits within the context of new business decisions. Measurement of the utilisation of the country limits for mortgage business purposes takes place on a daily basis and is prepared by the Transaction Management unit. Pursuant to the escalation procedure, a report will be submitted to the Board of Management and the responsible market unit within the framework of proposed resolutions for new business purposes in the event that a country limit for mortgage business is exceeded. The Credit Risk Controlling unit is responsible for the quarterly assessment of country limits for the mortgage business within the Credit Risk Report. Country limits for municipal loans are treated similarly.

6 MARKET PRICE RISK

6.1 CONTAINMENT

Market price risks include risks to the value of items or portfolios due to changes in market parameters, e.g. interest rates or exchange rates. They are quantified as a potential present-value loss using the present-value model. We distinguish between risks associated with changes in interest rates, (credit) spreads, options, currency and stocks.

The interest change risk describes the risk that the market value of interest-rate-dependent investments or liabilities could develop negatively. It is the most important component of market price risks for MünchenerHyp.

The credit spread is defined as the difference in yield for a risky and a non-risky bond. Spread risks account for the danger that this difference in interest rates could change while the creditworthiness remains the same. The reasons for changes in yield premiums are: varying estimates by market participants, actual changes in issuers' credit quality – as long as this is not already reflected in the rating – and macroeconomic factors that affect creditworthiness categories. All bonds are affected by credit spread risk.

Among other considerations, options also include the following risks:
- Vega: the risk that increasing or declining volatility will change the value of a derivative instrument
- Theta: the risk that the value of a derivative instrument will change over time
- Rho: the risk that the option value will change if the risk-free interest rate changes
- Gamma: the risk that the option deltas will change if the price of the underlying value changes

The currency risk describes the risk that the market value of exchange-rate-dependent investments or liabilities could develop negatively due to changes in the exchange rate.

The stock risk refers to the risk of a negative development on the stock market that leads to a decline in the value of an asset. Stock risks are not relevant for MünchenerHyp as – in addition to our investments – our total investments in this asset class amount to less than € 5 million.

6.2 STRATEGIES AND PROCESSES

In order to manage market price risks, all transactions at MünchenerHyp are subject to a daily present-value analysis in the risk management system. As a rule, structured transactions are secured with a micro-hedge, which is equivalent to the evaluation of a synthetic floater when valuing the interest rate risk. Deposits do not play a role at MünchenerHyp.

The Delta vector is the backbone of our interest rate risk management system and is calculated on a daily basis. This figure is determined by the change in the present value incurred per range of maturities when the mid-swap curve is raised by one basis point. MünchenerHyp uses the value-at-risk figure (VaR) to identify and limit market risks. Linear as well as non-linear risks are taken into consideration using a Delta-Gamma approach when calculating value-at-risk. Additional stress scenarios are used here to measure the effect of extreme shifts in risk factors.

The maximum VaR for the MünchenerHyp's banking book (interest rates and currencies), at a 99.5% confidence level and a 10-day holding period, was € 17 million last year, while the average amount was € 9 million.

The following assumptions are made to determine the VAR associated with the early amortisation of loans:
- The possibility that a borrower will amortise his loan before it matures pursuant to Art. 489 BGB is modelled using Bermudan Receiver-Swaptions, which are entered in the performance and risk calculation as model transactions. The nominal of these deals are calculated by determining the currently relevant portfolio of loans on a quarterly basis and then multiplying this figure by a historically observed factor. It is also assumed that corporate borrowers will fully exercise their option on a completely rational basis while the exercise rate among non-corporates will be slightly less.

- The possibility that a borrower will exercise his contractual right to amortise his loan before it matures is modelled using an adjusted cash-flow model, whereby a historically observed rate of options exercised to amortise loans before they mature is applied against the current sum of all outstanding mortgage loans to simulate the future rate by which early amortisation will take place. The adjusted cash-flow model is updated on a monthly basis.
- As MünchenerHyp does not have a deposits business there is no need to have a model for perpetual term deposits.
- In the case of bonds treated as assets it is assumed that the principle will be repaid upon maturity. Bonds carrying explicit call rights are include with delta-weighting in the measure of risk exposure.

The current (daily) stress scenarios for managing interest rate risk are:
- Legal regulatory requirements: The current interest rate curve is completely parallel shifted up and down by 200 basis points for every separate currency used. A floor is set at zero in the down shift scenario, which means that negative interest rates are not allowed. The worst result of the two shifts is used for calculation purposes and is added to the total value.
- Parallel shifts: The current interest rate curve is completely shifted up and down by 100 basis points across all currencies. A floor of 0 is set for the downwards shift, i.e. no negative interest rates are permitted. The worst result of the two shifts is used for calculation purposes.
- Steepening/flattening: The current interest rate curve is rotated in both directions around the 5-year rate as the fixed point.

The following events are used for historical simulation purposes:
- September 11, 2001 terror attack in New York: Changes seen in market prices between September 10, 2001 and September 24, 2001 – the immediate market reaction to the attack – are transferred using the current levels as a base level.
- The 2008 crisis in the financial markets: Changes in interest rates seen between September 12, 2008 (last banking day before the collapse of Lehman Brothers, an investment bank) and October 10, 2008 are transferred using the current levels.

The current (daily) credit spread stress scenarios are:
- Parallel shifts: All credit spreads are shifted up and down by 100 base points. The worst result of the two shifts is used for calculation purposes.
- Historical simulation of the collapse of the investment bank Lehman Brothers: the scenario assumes an immediate change in spreads based on the changes that occurred one working day before the collapse of the investment bank until four weeks after this date.
- Worst Case Scenario: The maximum widening of spreads for all classes of securities in the Bank's portfolio since January 2, 2007 is calculated. The average value of these calculations is used as the parallel shift to the respective class of security.
- Flight into government bonds: The scenario simulates a significantly visible aversion to risk that was previously seen in the markets. Spreads for riskier classes of paper widen while spreads for safer government bonds narrow.
- Euro-crisis: The scenario replicates the development of spreads that took place from October 1, 2010 to November 8, 2011.

The up and down shock (shifting up and down by 100 base points) affects the present value of the respective currencies held in the banking book:

Currency	Upward shock (-100 BP)	Downward shock (+100 BP)	Exposure in € m (determined as the worst result of the two shocks)
EUR	-70.3	-44.0	-70.3
CHF	0.4	-9.0	-9.0
USD	0.1	-0.0	-0.0
GBP	0.9	-1.1	-1.1
JPY	0.0	0.0	-0.0
SEK	0.0	-0.0	-0.0

Table 26: Rate Change Risk in the Banking Book

As the Bank generally does not employ options for speculative purposes, risk exposure in this area is moderate. Positions are usually entered into on an implied basis due to the debtors' option rights (e.g. the right to give legal notice of termination per Art. 489 of the German Civil Code – BGB) and are then secured by hedging transactions. Nevertheless, these risks are attentively monitored in the daily risk report and are limited.

No significant risk items exist in foreign currencies. MünchenerHyp's transactions outside of Germany are hedged against currency risks to the greatest extent possible and only margins involved in payment of interest can be unhedged. Commodity risks and other underlying risks do not exist.

Stock risks are not relevant for MünchenerHyp as – in addition to our investments – our total investments in this asset class amount to less than € 5 million.

Due to the fact that MünchenerHyp is a trading book institution – only for futures – it uses a special application to control potential risks in this area on an intra-day basis. Furthermore, these trades are also integrated into our normal reporting. The standard method is used to determine equity requirements for market price risks in the trading book. The trading book contained no exposure to risk as of 31 December 2014.

6.3 RISK MANAGEMENT STRUCTURE AND ORGANISATION

MünchenerHyp uses a limit system to manage market risks. This limit system is based on the applied measurement procedures, which implement both a VaR limitation and a basis point value limitation. The limits established for market-risk management are based on the ability to bear risk and on the Bank's earning potential, and are defined as shrinking limits for actively managed items: a negative annual performance reduces the available limit by the same negative performance amount, whereas positive performance does not raise the limit.

The VaR limitation is based on the books defined by MünchenerHyp in the context of operational management. Limit monitoring is integrated into the process of daily performance and risk measurement. The risk drivers of foreign currency interest curves and option volatility can be integrated into the value-at-risk calculation once the Summit trading system (a current project) is implemented.

Currently, only capital requirements for foreign exchange risks exist at MünchenerHyp, which are, however, below the minimum threshold for reporting purposes per CRR.

6.4 RISK MITIGATION AND HEDGING

We engage in hedging activities – interest rate and currency derivatives – in order to further reduce our risks and to hedge our business activities. We do not employ credit derivatives as a matter of principle. We only occasionally insure individual loans or portfolios against counterparty risk. Asset swaps are used as micro-hedges at the level of individual transactions. Structured fundamental transactions, such as callable securities, are hedged accordingly with structured asset swaps. Interest-currency swaps are used to hedge exchange rate risks in transactions involving foreign currencies. Interest rate swaps are the primary hedging instruments used at the portfolio level. Bermudan options on interest swaps (swaptions), swaps and interest rate options (caps and floors) are used as macro-hedges for embedded legal termination rights or for agreements limiting interest rates.

6.5 RISK REPORTS AND MANAGEMENT INFORMATION SYSTEMS

The market risk value-at-risk, as well as the market risk and credit spread stress tests, are determined and reported on every Munich banking day. The market risk limits are monitored every Munich banking day and reported within the context of the performance and risk calculation. The Market Risk Management unit is responsible for the preparation, coordination and distribution of the reports, which are distributed to the Treasury Department, the Board of Management, and the Supervisory Board (quarterly).

If a limit is exceeded a report is prepared pursuant to the escalation procedure and submitted by the Market Risk Management to the entire Board of Management as well as the Heads of Controlling, Treasury, Interest Rate Management, and Audit.

7 LIQUIDITY RISK

7.1 CONTAINMENT

Liquidity Risk includes the following risks:

- inability to fulfil payment obligations when they become due (liquidity risk in the narrow sense),
- inability to procure sufficient liquidity when needed at anticipated conditions (refinancing risk), or
- inability to terminate, extend or close out a transaction, or only be able to do so at a loss, due to insufficient market depth or market turbulence (market liquidity risk).

7.2 STRATEGIES AND PROCESSES

The 2009 MaRisk classified liquidity risk as a significant risk for the first time, requiring monitoring and management by means of regular, and appropriate stress testing for liquidity risks.

Stricter requirements for controlling liquidity risks have been in effect since the revision of the MaRisk in late 2010. The main reasons for this were:

- the partial failure of the interbank market as a refinancing source,
- the strong increase in spread premiums for refinancing, and
- the collapse of the secondary markets (e.g. for asset-backed securities).

With the coming into force of Regulation (EU) No 575/2013 (CRR) in 2014, the requirements of MaRisk were expanded by two additional regulatory ratios. The Liquidity Coverage Ratio (LCR) is designed to ensure that financial institutions have sufficient short-term liquidity to cover their obligations over a 30 day period. On the other hand, the Net Stable Funding Ratio (NSFR) is focused on structural liquidity.

In addition, financial institutions must employ a process to provide early warning of liquidity requirements to enable a financial gap to be recognised in a timely manner. This is intended to ensure that a refinancing can take place at all times.

MünchenerHyp has always taken liquidity risk into consideration in its business and risk strategies. In order to account for all of the regulatory and internal requirements, MünchenerHyp distinguishes between operative liquidity disposition, short-term liquidity risk management pursuant to MaRisk BTR 3.2 for securing payment capability, and medium-term structural liquidity planning. In the future these requirements will be expanded to ensure compliance with regulatory ratios LCR and NSFR. Effective October 1, 2015, the Bank must have an LCR ratio of 60%, which will be raised annually until 100% is reached in 2018. Currently there is no detailed schedule available for the NSFR. MünchenerHyp has voluntarily participated in Basel-QIS for a few years and during this time gas gained experience with both ratios. As our normal business practices, without taking any special measures, mean that both of these ratios are generally over 100%, the ratios currently do not have any influence on the economical liquidity management.

The goal of operative liquidity disposition is to ensure that the Bank can fulfil its proper payment obligations in full in a timely manner. The relevant strategies and processes for operational liquidity controls are presented in the Treasury Handbook.

A technical concept for short-term liquidity risk management pursuant to MaRisk BTR 3.2 was developed in conjunction with the banking supervisory authority in 2011 to ensure payment capability, and was subsequently implemented in a separate system. The content primarily involves the technical process for preparing a capital maturity statement that can be used to evaluate the extent to which our own liquidity requirements are covered over time. Methods have been defined to generate corresponding additional funds if our cash outflow exceeds cash inflow (including liquidity stocks), for example by selling assets; this is known as the liquidity coverage potential (LDP). The focus here is on a short-term liquidity analysis (1-year time frame). A range of parameters are used to calculate various (stress) scenarios in order to fulfil the scenario considerations required by MaRisk:
- Base case (control scenario)
- Bank stress
- Market stress
- Combined stress (MaRisk scenario)

Pursuant to MaRisk BTR 3.2 structural liquidity planning is based on short-term liquidity management, which means that both procedures use the same scenario definitions and modelling assumptions. However, due to the longer observation period, additional modelling assumptions are also taken into account as those used for managing short-term liquidity – for example, new business plans or current expenses such as salaries and taxes. This mid-term liquidity planning involves the following key liquidity figures as components for determining results across all due dates:
- accumulated total cash flow requirement,
- available uncovered and covered potential funding including planned new business and prolongations in line with the surplus cover requirements set by the rating agency Moody's,
- additional detailed data for planning and control activities.

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) are realised pursuant to the terms of Regulation (EU) No 575/2013. However, in this context it must be taken into consideration that the technical implementation of the LCR has not yet been finalised by the supervisory authority. In fact, the consultation phase regarding EBA/CP/2014/45 has just been concluded. The legal obligation to observe these new technical standards will not become binding until the end of 2015 at the earliest.

7.3 RISK MANAGEMENT STRUCTURE AND ORGANISATION

In order to keep refinancing risks as low as possible, MünchenerHyp strives to refinance loans with matching maturities. The Bank continuously checks if its relevant refinancing sources (above all, those within the Cooperative Financial Network) remain available. In order to limit market liquidity risks in its loans business with public-sector borrowers and banks, MünchenerHyp primarily acquires securities that are acceptable as collateral by the European Central Bank, and which can be used for open market business at any time. Investments in less liquid bonds, like Mortgage Backed Securities (MBS), are no longer being made.

The limitation of liquidity risks takes place using short-term liquidity risk management pursuant to MaRisk BTR 3.2 and using the medium-term structured liquidity forecast including the herein described stress scenarios based on the Bank's unencumbered surplus liquidity. Because liquidity management for a Pfandbriefbank is closely linked to the cover requirements for Pfandbriefe, liquidity risk calculations and cover calculations are technically connected to each other via IT systems.

The objective of limiting liquidity risks is to secure short, medium and long-term liquidity, and to prevent structural liquidity gaps. Short-term liquidity risk management pursuant to MaRisk BTR 3.2 and the LiqV figure are used to limit short-term liquidity risk. The structural liquidity forecast can identify structural liquidity gaps early on and close them through appropriate refinancing measures. In the context of liquidity risk management pursuant to MaRisk BTR 3.2, a three-level limit is defined in accordance with the combined stress scenario required by MaRisk. The limit consists of green, yellow and red zones that define the respective time periods up to the (theoretical) inability to fulfil payment obligations.

A standardised three-level limit system for all of the defined (stress-test) scenarios is also in place for the structural liquidity forecast. The limit system consists of a green, yellow and red zone whose boundaries change over time. The maximum time frame for limit planning is set at a standard twelve months. However, it should be noted here that, depending on the "severity" of the scenarios, different time frames must be taken into consideration if a limit is exceeded. As is the case with the short-term liquidity forecast, the results define respective time periods up to the (theoretical) inability to fulfil payment obligations.

In addition, an escalation process applies if a limit is exceeded or in the event of poor market liquidity. When a limit is exceeded, the causes are first clarified. Next, a plan is created for the funding mix to cover the increased liquidity needs. The exceeded limit and the corresponding solution are communicated to the respective Management Board members responsible for the affected areas, and to the affected division or department heads.

7.4 RISK MITIGATION AND HEDGING

MünchenerHyp strives to make its funding as diversified as possible at all times by placing a mixture of public and mortgage Pfandbriefe, uncovered long-term bank titles and various money-market instruments on the market. At the same time, we try to refinance loans matching maturities in order to limit the respective funding gaps.

The Treasury department has an emergency plan that will be implemented during times of reduced liquidity.

7.5 RISK REPORTS AND MANAGEMENT INFORMATION SYSTEMS

The liquidity risk calculations pursuant to the German Solvency Regulation are prepared on a monthly basis. The Accounting Department is responsible for preparing, coordinating and distribution of the liquidity risk calculations pursuant to the Solvency Regulation. The Treasury department is responsible for ensuring compliance with requirements. The recipients of these liquidity risk calculations pursuant to the Solvency Regulation are the BaFin (on a monthly basis) and the Treasury department (weekly forecast and monthly key figures). In addition, LCR data is reported on a monthly basis to the EBA, while NSFR data is sent to the supervisory authority on a quarterly basis.

The liquidity risk reports for short-term liquidity risk management pursuant to MaRisk BTR 3.2 and for the structural liquidity forecast are prepared and reported on a weekly basis. Liquidity risk management is responsible for preparing, coordinating, monitoring and distribution of short-term liquidity risk management reports pursuant to MaRisk BTR 3.2, in addition to the structural liquidity forecast. The Treasury Department is responsible for daily operational liquidity disposition and the related necessary evaluations.
The liquidity risk reports are distributed to:

- the Supervisory Board (short-term and structural liquidity risks, on a quarterly basis)
- Board of Management (short-term and structural liquidity risks, on a weekly basis)
- Treasury department (short-term and structural liquidity risks, on a weekly basis and ad hoc)

The liquidity risk limit is monitored on a weekly basis and reported within the respective liquidity risk reports. Liquidity risk management is responsible for monitoring the liquidity risk limit. The utilisation of the liquidity risk limit is reported to the following recipients:

- the Supervisory Board (quarterly)
- Board of Management (weekly)
- Treasury department (weekly)

In addition, the key regulatory required ratios, LCR and NSFR are prepared pursuant to their legally required reporting cycles and reported to the following recipients on a monthly and quarterly basis respectively:

- Supervisory Board (quarterly basis)
- Board of Management (monthly)

8 OPERATIONAL RISK

8.1 CONTAINMENT

Operational Risk refers to possible losses caused by personal misconduct, weaknesses in procedural or project management, technical failure or negative outside influences. Personal misconduct also includes unlawful actions, improper sales practices, unauthorised actions and transaction errors. Accordingly, legal risks are included under operational risks.

8.2 STRATEGIES AND PROCESSES

MünchenerHyp minimises its operational risks by qualifying its employees, by using transparent procedures, automating standard procedures, and by having fixed working instructions, comprehensive functional testing, as well as appropriate emergency plans and preventive measures.

MünchenerHyp has established a programme to manage its operational risks. This programme is documented in the Operational Risk Handbook and is based on three pillars:

- Implementation of a periodic self-assessment for the purpose of determining, evaluating, and examination of all potential risks
- Establishment of a loss database, also in preparation for a possible change to an advanced approach
- Establishment of an early-warning system with the help of risk indicators

MünchenerHyp uses a self-assessment method as an exante procedure to record and evaluate operational risks within the Bank. The risk officer in each unit estimates the frequency of occurrence and evaluates the possible losses in terms of their financial dimensions. In this procedure, the classification of operational risks (loss events) is based on legal recommendations and represents minimum content for the annually conducted self-assessment.

MünchenerHyp maintains a loss databank as an ex-post procedure to record and evaluate cases involving losses within the Bank.

In addition, for supervisory purposes, the basic indicator approach is used to determine operational risk, which takes into account the ability to bear risk using scaled levels of confidence.

8.3 RISK MANAGEMENT STRUCTURE AND ORGANISATION

A standard form must be used to document in detail operational risks that have materialised. The completed form must then be submitted to the Operational Risk Officer. This statement must also include potential countermeasures to prevent a reoccurrence. Larger loss events must be immediately reported to the Board of Management.

All departments within MünchenerHyp, e.g. including staff units, which regularly discover cases of operational risk as a result of their reports, are also obligated to report them.

8.4 RISK MITIGATION AND HEDGING

Insurable risks are covered by insurance to the normal extent required by banks.

8.5 RISK REPORTS AND MANAGEMENT INFORMATION SYSTEMS

The Board of Management and the Supervisory Board are informed about operational risks within the context of the MaRisk Report on a quarterly basis. An evaluation of risks based on the self-assessment is submitted to the Board of Management once a year. Pursuant to the terms of the MaRisk, additional potential operational risks noted during the year are reported in the periodic overall risk report. Major risks are addressed immediately. The Controlling department is responsible for preparing, coordinating and distributing the reports, which are distributed to the Supervisory Board and the Board of Management.

9 INVESTMENT RISK

MünchenerHyp's investments are made primarily for strategic reasons. No sales took place in 2014. As the investments are kept in the banking book, an annual review is carried out to determine any permanent reduction in value. If such a reduction occurs, it is written off at current fair value. The investments carried in the MünchenerHyp's banking book are not investments in publicly traded companies nor are they investments in diversified portfolios. The book value was € 102.3 million as of the end of 31 December 2014. Fair values are not shown. The investments are permanently taken out of the Internal Ratings Based Approach (IRBA) and allocated to the credit risk standardised approach. MünchenerHyp's investments are not a significant risk driver with regard to counterparty risks.

10 DERIVATIVE COUNTERPARTY RISK EXPOSURE AND NETTING POSITIONS

A limit system is used to restrict counterparty risks for all of the counterparties carried in the Treasury area of business. In doing so, limits on counterparties and issuers are made on a case-by-case basis and are approved by the entire Board of Management after a presentation to, and vote by, the Markets and the Transaction Management departments. Only banks and insurance companies located in OECD countries are accepted as counterparties for derivative deals.

After netting, derivatives are offset against the counterparty limit using their market values plus add-on. The limit is monitored on a daily basis. In the event that the limit is exceeded the entire Management Board is informed immediately. Furthermore, a monitoring list is provided to the entire Management Board on a monthly basis. The creditworthiness of counterparties and the limits are examined at least once a year. In creating offset agreements (netting), MünchenerHyp orients itself according to standard market practices.

Within the framework of collateral agreements made to additionally secure net derivate positions, only cash deposits in euros are accepted as collateral. To a small extent, some collateral agreements contain exempt amounts that are dependent on creditworthiness. These exempt amounts are not subject to being automatically adjusted in the event of changed credit ratings, so no liquidity risk arises because of additional funding obligations. In terms of internal risk management for the entire Bank, exposure for derivatives is taken into account using their market value plus add-on and taking netting agreements into account.

Market and counterparty risks are calculated separately at MünchenerHyp and then added conservatively, for example when determining risk-bearing abilities. Thus no diversification effects are recognised via correlations.

Table 27 shows the structure of the derivatives and netting positions on 31 December 2014.

Derivatives and Netting Positions	in € m
Total positive replacement values before offsetting and before collateral	4,267.1
- of which, interest-related contracts	4,188.6
- of which, currency-related contracts	57.7
- of which, swaptions (interest or currency-related)	20.8
- Forward transactions (securities, promissory notes)	0.0
Netting opportunities	3,022.9
Collateral	1,123.4
Sum of positive replacement values After netting and after collateral	120.8
Total add-ons	421.5
Value of receivables after netting and after collateral	542.3

Table 27: Structure of Derivatives and Netting Positions

MünchenerHyp does not enter into any transactions involving CDS as either a seller or buyer.

11 SECURITISATIONS

With regard to the securitisation market, MünchenerHyp only participates as an investor in Mortgage Backed Securities (MBS), although these investments are declared to be discontinued. The remaining portfolio valued at € 8.9 million consists of MBS backed by residential and commercial properties located in Germany, France, Belgium and Spain. The position is in the banking book and due to the external rating with 650% RWA is underpinned with equity. The position is found in the banking book for accounting purposes. In view of the existing intention to sell the position, it was valued at its market value as of 31 December 2014. The resulting losses were effectively recognised on the Income Statement. The position has been fully serviced to date.

MBS investments were fundamentally made as credit substitute transactions to develop a portfolio that is complementary to the mortgage business. MünchenerHyp only invested in securities that have at least two external ratings from Moody's, S&P or Fitch, and have fundamental asset values which bore up well against an internal credit analysis comparable to that of the credit business. All of the securitisation items are in the banking book. The report to the supervisory authority takes place pursuant to IRBA. MünchenerHyp applies a ratings-based approach here. None of the agreements contain conditions that could obligate MünchenerHyp to provide financial support for securitised claims. None of the Bank's securitisation positions are carried as off-balance sheet items.

To date MünchenerHyp has not originated its own securitisations, although it does have the appropriate instruments at its disposal to do so. Table 28 describes the exposure values and capital requirements of the securitisations acquired by MünchenerHyp, differentiated according to the ranges for securitisation risk weights.

The process used to monitor changes in counterparty risks and market risks associated with the securitisation positions is explicitly defined within the context of portfolio monitoring in the MBS portfolio handbook.

Risk Weight Ranges	Exposure in € m	Capital Required in € m
≤ 10%	0.0	0.0
> 10% < 20%	0.0	0.0
≥ 20% < 50%	0.0	0.0
≥ 50% ≤ 100%	0.0	0.0
> 100% ≤ 650%	8.9	4.9
> 650% ≤ 1250%	0.0	0.0
1250%/Capital deduction	0.0	0.0
Total	**8.9**	**4.9**

Table 28: Securitisations: Item Values and Capital Requirements in the Banking Book

12 ASSET ENCUMBRANCES

The first cut-off date for reporting Asset Encumbrances (Asset Encumbrance ratio; in short: AE ratio) is 31 December 2014. The purpose of the ratio is to ensure cross-institutional uniformity in information for lenders and providers of unsecured or subordinate refinancing, and to serve as an indicator for vulnerability to refinancing problems. Encumbrances are defined as follows: An asset is deemed encumbered if it has been pledged or submitted as collateral or as additional security in another form based on an agreement, which is the reason why the institution cannot freely dispose of the asset. Assets assigned as security, which are subject to restriction regarding the withdrawal of the asset value, such as assets whose disposal or replacement by another asset are subject to approvals, are deemed encumbered in terms of EBA-ITS-2013-04[4].

The AE ratio is calculated as the ratio from the encumbered assets and the sum of the institution's assets.

$$\text{AE ratio} = \frac{\text{encumbered assets}}{\text{encumbered and unencumbered assets}}$$

Formula 1: Calculation of AE ratio

[4] Final Draft Implementing Technical Standard on supervisory reporting, which must be applied in the member states following the approval of the EU implementation regulation 2015/79.

12.1 STRATEGIES AND PROCESSES

As a safety-oriented Pfandbrief issuer, a significant portion of MünchenerHyp's business strategy is focused on adding as many high-quality assets to its portfolio as possible, which are eligible to serve as cover and can thus be used to underpin its own Pfandbrief issues. This leads to a high asset encumbrance ratio, and is in keeping with the bank's business strategy. In addition to encumbrances from the cover ratio between assets and Pfandbriefe, the following other significant sources of encumbrances are also noted in this context:

- Collateralisation of repurchase agreements
- Collateralisation of derivative transactions
- Collateralisation of open market transactions

12.2 STRUCTURE AND COMPOSITION OF THE ENCUMBRANCE RATIO

Based on the business model, MünchenerHyp's encumbrance ratio is 81%. Compared to other business models, the level of the encumbrance ratio highlights MünchenerHyp's clear focus on safety, as the bank strives to keep to a minimum the number of assets that cannot serve as cover for Pfandbriefe.

The following table shows the amount of encumbered and unencumbered assets by asset category in terms of the applicable financial reporting framework, in accordance with Template A of the Annex to EBA-ITS-2013-04. Encumbered assets in Table 29 are on-balance sheet assets that have either been pledged or transferred without being derecognised, or are encumbered in another manner, as well as collateral received, which meets the requirements for recognition in the balance sheet of the assignment recipient in terms of the applicable financial reporting framework.

Overview of Encumbered Assets	Book value of encumbered assets (in € m)	Current fair value of encumbered assets (in € m)	Book value of unencumbered assets (in € m)	Current fair value of unencumbered assets (in € m)
Assets of reporting institution	29,457.4	–	6,893.6	–
Loans on demand	1,636.2	–	24.3	–
Equity instruments	0	0	115.4	115.0
Debt instruments	3,041.0	3,236.3	1,250.3	1,362.8
Loans	24,727.7	–	5,035.0	–
Other assets	52.5	–	468.6	–

Table 29: Overview of Encumbered Assets[5]

[5] Differently from the provisions pursuant to EBA-ITS-2013-04, the values on the cut-off date and not the median values are disclosed as at 31 December 2014. This corresponds to the procedure approved by BaFin.

Collateral received is shown below by asset category, in accordance with Template B of the Annex to EBA-GL-2013-04[6]. Encumbered and unencumbered collateral in Template B refers to collateral received that does not meet the requirements for recognition on the balance sheet of the assignment recipient in terms of the applicable financial reporting framework, and which is therefore not shown on the balance sheet. Collateral received that is shown in the balance sheet is disclosed in Template A. MünchenerHyp does not take in such collateral.

Overview of Encumbered Collateral		
	Current fair value of encumbered collateral received and issued own debt instruments (in € m)	**Current fair value of collateral received and issued own debt instruments, which may be considered for encumbrance purposes (in € m)**
Collateral received from reporting institution	0	0
Equity instruments	0	0
Debt instruments	0	0
Other collateral received	0	0
Other issued own debt instruments as own Pfandbriefe or ABS	0	0

Table 30: Overview of Encumbered Collateral[7]

The liabilities associated with encumbered assets and collateral received must be disclosed in accordance with Template C of the Annex to these directives. The surplus of encumbered assets shown in Table 31 is derived mainly from the surplus cover held for the Pfandbriefe in circulation.

Selected Liabilities		
	Cover of liabilities, contingent liabilities or borrowed securities (in € m)	**Assets, collateral received and other issued own debt instruments as encumbered Pfandbriefe and ABS (in € m)**
Book value of selected liabilities	**27,222.1**	**29,412.9**

Table 31: Overview of Selected Liabilities

[6] Directives for the disclosure of encumbered and unencumbered assets (final version: 27 June 2014).

[7] Differently from the provisions pursuant to EBA-ITS-2013-04, the values on the cut-off date and not the median values are disclosed as at 31 December 2014. This corresponds to the procedure approved by BaFin.

13 REMUNERATION POLICY

13.1 CONTAINMENT

Münchener Hypothekenbank eG must disclose information on its remuneration policy and practices pursuant to Art. 16 of the Remuneration Regulation for Institutions (Institutsvergütungsverordnung) from 16 December 2013. The disclosure obligations for MünchenerHyp as a CRR institution are governed by Article 450 of the Regulation (EU) No 575/2013.

According to this Article, the Bank must disclose certain quantitative and qualitative information for employees whose activities have a substantial impact on the Bank's risk profile (Risk Takers).

During the year 2014, the Bank identified nine Supervisory Board members, three Board of Management members and another 20 employees as Risk Takers pursuant to the Remuneration Regulation for Institutions; this number corresponds approximately to 6.6% of all employees. The Risk Takers were determined on the basis of the "Delegated Regulation (EU) No 604/2014 of the Commission dated 4 March 2014 to supplement the Directive 2013/36/EU of the European Parliament and the Council with regard to the technical regulation standards related to qualitative and suitable quantitative criteria for determining the employee categories whose work activities have a substantial impact on the risk profile of an institution". Within the business segments, all division heads are defined as Risk Takers. Below the division head level, two additional employees were identified and classified as Risk Takers on the basis of their position, activities, decision-making competence or the amount and structure of remuneration.

13.2 REMUNERATION ACROSS THE INSTITUTION

13.2.1 Until 2014

Pursuant to Art. 1 of the Remuneration Regulation for Institutions (version dated 13 October 2010), MünchenerHyp classified itself every year as a non-significant institution on the basis of a risk analysis. Therefore Articles 5, 6 and 8 of this regulation did not apply. This means that until now, no portion of variable remuneration was held back, no Risk Takers had to be identified, and there was no remuneration committee.

This situation changed significantly with the amendment dated 16 December 2013. Effective immediately, MünchenerHyp was deemed to be a significant institution. It was not possible to immediately adjust individual contractual agreements. As a result, the remuneration aspect for 2014 could not be handled in accordance with the new Remuneration Regulation for Institutions. However, the contracts with the affected parties were adjusted as required in 2014 to ensure compliance with the additional requirements for significant institutions as of 2015.

Since the remuneration committee was primal established in 2014, it has only met once within a year.

No new hire premiums were paid; however, one severance payment was paid. Since this only affected one former employee, the amount is not disclosed for data protection reasons.

13.2.2 As of 2015

External legal advice for redesigning the Remuneration System for the Board of Management and Risk Takers was received in 2014. These consulting services helped with the preparation of the new employment contracts for the Board of Management and the supplements to the employment contracts for Risk Takers. The changes will take effect as of the year 2015, although variable remuneration will not be withheld until 2016, since MünchenerHyp always pays out these components in the following year.

No major changes are expected for the remuneration systems in 2015, since the requirements from the amended Remuneration Regulation for Institutions were implemented in 2014.

13.3 REMUNERATION SYSTEM FOR THE BOARD OF MANAGEMENT

Members of the Board of Management receive a maximum bonus of 30% of their total salary in addition to the fixed salary component. The variable remuneration for the Board of Management is based on a maximum achievable bonus. To calculate the bonus, quantitative and qualitative targets in the form of bank and individual targets are derived from the corporate strategy. The maximum bonus is fixed based on full achievement of the respective targets.

Variable remuneration is paid out as follows:

- A total of 50% of the achieved bonus is paid out over several years, while the remaining 50% is invested in "other instruments" in terms of Article 52 or 63 of the Regulation (EU) No 575/2013, which are linked to the long-term enterprise value. These instruments are created specifically for the purpose of complying with the requirements of the Remuneration Regulation for Institutions, because MünchenerHyp is a cooperative and cannot implement the actual intention of a stock option.
- 20% of the achieved bonus is paid out directly in the following year following the approval of the annual financial statements and adoption by the Supervisory Board.
- The remaining 80% of the bonus defined for the preceding business year is paid out over a period of four years, whereby components invested in instruments are also subject to a restriction lock-up period following the applicable waiting periods for the respective instruments.

Negative contributions to the Bank's success are taken into account at the time the bonus is calculated, and also during the entire waiting period. This may lead to a reduction or, in an extreme case, the complete loss of variable remuneration. The amount of the bonus cannot be increased over and beyond the originally defined amount; similarly, no write-ups are applied with regard to reduced payments that were made during the interim period. There is no legal claim to variable remuneration during the waiting and lock-up periods.

The Supervisory Board is responsible for defining the remuneration systems for the members of the Board of Management. Starting in 2015, the appropriateness of the remuneration systems will be assured, in particular, by the Supervisory Board's Remuneration Committee.

13.4 REMUNERATION SYSTEM FOR RISK TAKERS BELOW THE BOARD OF MANAGEMENT

The remuneration structure for Risk Takers below the Board of Management is determined by a contractually defined performance- and profit-oriented remuneration portion (target premium) in addition to the fixed salary.

An actively practised target agreement process forms the basis for a transparent and understandable performance assessment and hence also for the definition of the individual performance factors. Managers and employees jointly agree on numerous individual targets towards the end of the year.

The target agreements should contain objectives from each of the following three categories:

- Operational profit and business targets
- Organisational and strategic objectives, and projects
- Personal development and management targets

The calculation of the performance bonus takes into account individual performance as well as the performance of the Bank and the employee's own department. Amounts are based on the following:

	Individual factor	Department factor	Bank factor
Values	0.0-2.0	0.9-1.0	0.8-1.2
Determined by	Annual assessment interview with supervisor	Determined by Board of Management	Determined by Board of Management

The considerable range of the individual factor means that the employee plays a key role in determining the amount of the performance bonus, and may lose the entire bonus in case of misconduct, for example.

Once the target premium has been defined, the individual performance factor is calculated one year later during the assessment interview on the basis of target attainment. The departmental and bank factors are also determined at the beginning of the following year.

The following formula is used to calculate the performance bonus:

Performance bonus = target premium x individual factor x department factor x bank factor

Formula 2: Calculation of the performance bonus

The bonus is paid out pursuant to the terms of the Remuneration Regulation for Institutions, and is also liable to being blocked by BaFin in the future. If a Risk Taker receives more than € 50,000 in variable remuneration (currently the valid threshold pursuant to the BaFin's guidance), that person's bonus will be paid out over subsequent years analogous to remuneration for the Board of Management.

Variable remuneration never exceeded the fixed remuneration component in 2014, and will also not be possible in future years. With regard to other non-cash benefits, Risk Takers receive the same as those received by other employees, such as subsidies for lunch or health care, supplemental insurance, or company cars, etc. In this context, each benefit in kind depends partly on the hierarchy level or duration of employment, although the criteria are identical for all employees.

The Board of Management is responsible for defining the remuneration system. Changes to the business strategy will result in reviews to determine if these changes require the remuneration system to be adjusted.

Starting in 2015, the appropriateness of the remuneration systems will be monitored by the Supervisory Board's the Remuneration Committee collaboration with the Remuneration Officer.

13.5 QUANTITATIVE INFORMATION

	Market	Trans-action Manage-ment*	Staff Units	Board of Manage-ment	Total
Total remuneration (in € m)	0.9	0.9	1.4	1.4	4.6
Fixed remuneration	0.6	0.7	1.1	1.0	3.4
Variable remuneration	0.3	0.2	0.3	0.4	1.2
Variable remuneration (in € m)					
of which paid out	0.3	0.2	0.3	0.4	1.2
of which withheld	–	–	–	–	–
of which in cash	–	–	–	–	–
of which in other instruments	–	–	–	–	–
Withheld remuneration from previous years (in € m)					
Paid out	–	–	–	–	–
Approved	–	–	–	–	–
Reduced	–	–	–	–	–
Total outstanding	–	–	–	–	–
of which vested	–	–	–	–	–
of which unvested	–	–	–	–	–
Number of individuals affected	5	6	9	3	23
Number of new hire premiums	0	0	0	0	0
Number of severances	0	1**	0	0	0
Persons with remuneration exceeding € 1 m	0	0	0	0	0

*) Joined during the year.
**) Since only one severance payment was paid out, this amount is not disclosed for data protection reasons.

Table 32: Overview of Remuneration across the Institution

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cooperative financial network

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