HALF YEAR FINANCIAL STATEMENTS 2014

IMPRINT

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CONTENTS

INTERIM MANAGEMENT REPORT

OVERALL ECONOMIC CONDITIONS

ECONOMIC DEVELOPMENT

The upswing in the world economy that was anticipated at the beginning of the year has yet to appear. Growth of global gross domestic product (GDP) slowed from 3.6 percent in the second half of 2013 to 2.6 percent in the first quarter of 2014. This was primarily driven by the effects of harsh winter weather in the USA which led to a decline of the GDP in the first quarter. The economy in the eurozone was also unable to develop any upward momentum as its performance expanded by just 0.2 percent in the first quarter. This was due to the continued economic stagnation of the eurozone's two big member states, Italy and France, as well as poor performance in the Netherlands and Portugal, where economic growth even significantly declined.

Modest growth noted in the eurozone was primarily driven by Germany's good economic situation as the German economy grew by 0.8 percent in the first quarter. The increase was generated by domestic demand while export figures noted for the same period appeared to have a dampening effect. The main drivers were private consumption and government spending along with significantly higher investments in construction and equipment. Unusually mild winter weather in Germany played a positive role in improved investments in construction, which rose by more than 10 percent during the first quarter over the same year-ago period according to the Federal Statistical Office. Residential construction rose by over 9 percent, construction of commercial buildings by 7.4 percent and public-sector construction by almost 26 percent.

According to estimates made by the German Bundesbank, the German economy lost momentum in the second quarter but managed to maintain at the previous quarter's level as industrial production and construction activity fell while services continued to expand. The Bundesbank noted that this development was caused by increased geopolitical tensions in Ukraine and the Near East.

During the first half of the year the rate of inflation was below the average figure recorded for 2013 and stood at 1.0 percent in June. The labour market benefited from the good economy as the number of people employed exceeded 42 million for the first time. At the end of June the unemployment rate was at the previous year's level of 6.7 percent.

FINANCIAL MARKETS

The financial markets were mostly quiet during the first half of the year as the effects of the financial crisis receded. This was visible in the shrinking spreads noted for government bonds issued by countries on the periphery of the eurozone.

The European Central Bank (ECB) responded to low inflation and weak economic development in the eurozone by lowering its key interest rate in June by 10 basis points to 0.15 percent, the lowest rate recorded since the euro was introduced. The ECB also lowered its deposit rate (the rate paid to banks depositing funds with the ECB) by 10 basis points to a minus 0.10 percent making it the first time that this rate slipped into the negative area. The commotion that this move caused in the markets was only brief. The American Federal Reserve System (Fed) continued to reduce its purchases of bonds.

The bond market profited from the ECB's interest rate policies and registered notable gains in prices since the beginning of the year. The yield of the 10-year Bund fell from the 1.94 percent recorded at the end of 2013 to 1.25 percent at mid-year. Stock markets also posted gains albeit significantly lower than in the previous year. The DAX Index rose by about 4.6 percent during the first six months and stood at 9,830 points at the end of June 2014.

The low level of interest rates posed a challenge to both investors and issuers of covered bonds. Even though 20 percent more issues were floated in the primary market during the first half of 2014 than in the same year-ago period, the long-term trend reflecting a declining volume of new issues in the capital markets remained intact as € 66 billion in new issues entered the market in contrast to € 90 billion worth of paper that matured. Most of the covered bonds issued during the first six months originated in France and Germany followed at a distance by Italy and Canada. Mortgage-backed bonds were the most important refinancing instrument with an 89 percent share of market.

During the first half of 2014 the currency markets saw the euro trading to the US dollar in a relatively tight range between 1.35 and 1.40 US dollars. At the end of June the euro was trading at 1.37 US dollars. Favourable data generated by the British economy led to a slight strengthening of the pound sterling exchange rate with one euro equal to 0.80 pounds sterling at the mid-year point in contrast to 0.83 noted at the beginning of the year. The Swiss franc was able to improve marginally vis-a-vis the euro and was trading at 1.21 francs to the euro at the end of the first half.

PROPERTY AND PROPERTY FINANCING MARKETS

RESIDENTIAL PROPERTY – GERMANY

High demand for residential property and residential property financing continued to be driven by the overall favourable market conditions. This was primarily reflected by rising property prices and a shrinking supply of offers in some regions.

Based on figures prepared by the Association of German Pfandbrief Banks (vdp), total market prices for owner-occupied houses and condominiums recorded for the first quarter were 2.4 percent higher than in the same year-ago period with prices for condominiums climbing at an above average rate of 4.1 percent while gains noted for one and two-family houses slowed further to 1.8 percent. The category of multi-family units even posted an increase of 5.8 percent. This development was particularly fuelled by a notable lift in prices for new rental contracts which rose by 4.3 percent.

In addition to owner-occupiers, demand was also powered by investors who viewed property as a lucrative and safe investment. Due to the low level of interest rates and rising rents, it was possible to achieve higher returns with residential property than in many other asset classes.

The high level of demand led to a further contraction of available offers in major metropolitan areas and regions with strong economies. Due to the pronounced regional heterogeneity of the property markets, this development was not the same across the country. Structurally weak regions continued to be more likely to see their populations shrink, which in turn led to declining prices for property.

Overall construction activity rose further as the number of building permits issued by the end of May rose by 11 percent over the same year-ago period to 113,000. Nevertheless, a shortage of new housing still exists as the gap created a few years ago between supply and demand has not yet been closed. According to the Federal Association of German Housing and Real Estate Enterprises (GdW), construction costs have risen substantially as prices for building materials have increased sharply.

Against the background of ongoing rising prices, discussions surrounding the further development of the German residential property market intensified. Following the German Bundesbank's warning about the arise of a housing price bubble, Germany's Federal Minister of Finance, Wolfgang Schäuble, commented that in addition to the development of prices he also viewed low interest rates for property loans as a danger. After the ECB lowered its key interest rate, interest rates for property loans declined yet again and at the end of June fixed interest rates for ten year mortgages were just slightly over 2 percent.

The International Monetary Funds (IMF) and the official German property evaluation committees did not share concerns regarding a speculative property bubble. Despite rising prices, the IMF noted that prices in Germany are still more than 10 percent below the historical average.

Demand for residential property financing remained lively. Total volume, however, continued to expand at a moderate pace and at the end of the first quarter had grown by 2.1 percent over the same year-ago period. Banks' financing practices remained safety-oriented. The share of equity capital in financed transactions remained at a comparatively high level.

German residential property was also highly sought after by professional investors as the volume of transactions involving housing portfolios rose in the first half of 2014 by 18 percent to € 6.8 billion. The majority of these transactions took place during the first quarter as two unusually large property portfolio deals were concluded in this period.

RESIDENTIAL PROPERTY – INTERNATIONAL

The European residential property market developed unevenly. On an overall basis, housing prices in the EU posted slightly favourable development rising by 1 percent over the same year-ago period in the first quarter. The range of prices noted was, however, very big. The UK recorded an increase of 8 percent. The media responded to this news by increasingly sounding warnings of a price bubble being inflated in the British residential property market, and especially in London. Other markets posting significantly higher prices were Estonia, Latvia, Ireland and Sweden. In contrast, housing prices declined slightly in France and the Netherlands. Although prices fell by 1.6 percent during the first quarter in Spain, this figure represented the first signs of some stabilisation in the Spanish housing market following the sharp declines experienced in previous years.

The strong pace of rising prices noted in Switzerland in recent years slowed as houses and condominiums were nearly 3 percent more expensive in the second quarter than in the same year-ago period. The pace of price rises in the previous year had clearly exceeded 5 percent. The decelerating rate of price increases is attributed primarily due to introduction of a countercyclical capital buffer requirement by the Swiss National Bank (SNB).

Property prices in the so-called "Hot-Spot" regions – areas on lakes adjoining Geneva, Zug and Zurich – continued to move higher due to very high demand. These price rises were to a certain extent due to higher immigration and strong economic performance in the regions mentioned.

In an effort to further cool the markets the Swiss Bankers Association tightened the rules for making mortgage loans at the end of June. This step was made due to increased pressure by the SNB and the Swiss Financial Market Authority. However, it is not expected that the effects of these new rules will be visible before the end of 2014.

Prices continued to rise in the American residential property market, although they weakened a bit at mid-year. Above all else, property prices rebounded with high rates of growth in cities where they had dropped very sharply during the recession. On an overall basis, however, house prices were still on average 17 percent below the peak reached in 2006. The rental housing market also developed favourably. Prices for apartments continued to rise further, especially in regions with flourishing labour markets. The greater volume of newly built apartments did not, however, have a negative effect on rental prices due to high demand for rental properties. The residential property financing market, especially the rental property segment, continued to be marked by heavy competition.

COMMERCIAL PROPERTY – GERMANY

Demand for German commercial property remained very high as the volume of transactions rose in the first half of 2014 by 35 percent to about € 17 billion. The last time a comparable volume had been invested in German commercial property was 2007.

Investor interest remained focused on core properties in top locations with office and retail trade properties being the most sought after. In addition, demand increased for logistics properties. Foreign investors were responsible for about half of the volume of investments made in Germany. Lively demand continued to be driven by favourable economic development and the high level of stability in the German market.

The shortage of suitable properties, however, led to a further decline in initial net returns thereby increasing the trend noted among investors to seek out alternative strategies. This was reflected in growing investor demand for properties with potential to develop further and increase in value (core plus), as well as demand for top properties in secondary locations.

Due to the favourable economic development more and more companies are pursuing plans to expand. This has led to higher demand for office space, which in turn has resulted in lower vacancy rates in this property category. However, top rents paid in most of Germany's top property locations remained stable in comparison to the previous quarter.

COMMERCIAL PROPERTY – INTERNATIONAL

As a whole the European commercial property markets developed favourably in the first quarter as a total of € 38 billion was invested, or 18 percent more than in the same year-ago period. More than half of the volume of transactions was generated by the UK and Germany. The two main drivers behind this development was significantly higher confidence among investors, as well as good credit conditions.

Turnover doubled and almost tripled in a number of countries, albeit from a low level in some instances. The biggest gains were recorded in Austria, Ireland and Spain. The volume of transactions also grew very substantially in France and the Netherlands. The UK was an exception as investments made in the previous year were at such a high record-breaking level that investments in 2014 stagnated at a very high level due a lack of suitable properties. From an investor's point of view, however, the British market remained attractive.

On an overall basis, investors were prepared to take on more risk. Their interest increasingly spread to countries on the periphery of the eurozone as they showed signs of recovering from the debt and confidence crisis. Furthermore, this interest extended to the fringes of major metropolitan areas and secondary locations.

The American commercial property market continued its upward momentum. Investors remain focused on the core markets of New York City, San Francisco, Washington D.C., Boston, Seattle, Houston, Chicago and Los Angeles. At the same time properties in secondary markets were increasingly sought after in light of higher buyer liquidity. Heavy demand seen in this segment was primarily focused on core properties and properties with potential to rise in value (Value-Add) were also attracting greater attention again.

The market for commercial property financing in the USA was stable and marked by higher liquidity as competition among lenders was quite strong. Providers of securitisations (Commercial Mortgage Backed Securities) were very active once again. Lenders primarily preferred to make loans to first-class borrowers seeking to acquire properties that had long-term rental agreements in place. Furthermore, properties with potential to gain value were of interest as were selected transactions involving higher-risk/higher-return properties located on the fringes of primary markets, as well as in secondary markets. In addition, increasing numbers of financing deals for new office buildings were again being made.

BUSINESS DEVELOPMENT

NEW MORTGAGE BUSINESS

Overall conditions were good, especially in our most important market Germany. Our new business was assisted by low interest rates, which led to high demand for financing. The financing market continued to be marked by pronounced competition surrounding financing conditions. We maintained our position more successfully in this environment than we did last year, and at the same time remained true to our conservative financing practices.

Up until June 30, 2014 we had made total financing commitments worth € 2.1 billion, or 24 percent more in comparison to the same year-ago figure.

Residential property financing accounted for about 85 percent of our total new business results. At the mid-year point the volume of our lending commitments in this segment amounted to € 1.8 billion or 33 percent more than the volume of commitments made during the same year-ago period.

We were able to significantly expand our new business generated with all of our collaborating partners. We recorded € 1.2 billion in new mortgage commitments made via banks in the Cooperative Financial Network. This figure represents an increase of 25 percent in comparison to the first half of 2013. We particularly benefited from the rising customers demand for longer fixed-rate loans. Our spring promotion "Nimm 30, Zahle 20" ("Take 30, pay for 20") was aimed specifically at this target group and was exceptionally successful.

Sales of residential property financing by independent providers of financial services rose in the first half of 2014 by 25 percent to € 291 million. Our cooperation with the Swiss PostFinance also developed favourably following the hesitancy noted last year due to regulatory requirements. New business results posted for the first half of the year significantly exceeded the previous year's figure.

As in the previous years, financing structures were marked by a high level of equity capital on the part of our customers. Despite rising property prices, this led to conservative property financing with manageable loan to value ratios.

The volume of new business recorded for our commercial property financing business was about € 300 million and at the previous year's level. Germany remained the primary market for this area of business, and we were able to expand our financing business with housing companies.

CAPITAL MARKET BUSINESS

Spreads, which had widened due to the crisis in the financial markets, continued to narrow as many investors increasingly sought out higher yielding investments. Addresses with very good credit ratings, however, were either unable to participate in this development, or only to a limited extent.

In accordance with our business strategy, we conducted our lending business with the public-sector and banks on a cautious basis. As we prepared to meet new regulatory requirements – especially those concerning liquidity requirements – the volume of security purchases was expanded from the very low levels recorded in the first six months of 2013. The volume of new lending commitments made rose by € 451 million over the same year-ago figure to € 622 million.

REFINANCING

Due to a significantly lower volume of paper maturing this year, our refinancing requirements for 2014 will be below the previous year's level, despite the unchanging high level of new business.

This is the reason why we only issued a 10-year benchmark Mortgage Pfandbrief with a coupon of 1.5 percent and a volume of € 500 million. The issue had a premium of 7 basis points above the mid-swap rate. The order book contained 42 orders from 9 countries. The vast majority of investor interest on a regional basis originated in Germany with almost 80 percent of the total volume. Remaining investor demand was noted from Austria, Switzerland, the Scandinavian countries, Benelux and Asia. The primary category of investors consisted of banks (48 percent) followed by central banks with 27 percent and mutual funds with over 20 percent.

As in the past, the Cooperative Financial Network remained an important partner for our uncovered refinancing needs and provided nearly 50 percent of our requirements.

MünchenerHyp recorded an additional success when it was voted the best Covered Bond & Pfandbriefbank by Euromoney, a trade publication, in their international "Best Borrowers Survey 2014". We were ranked number one along with a Norwegian bank by a large margin. Last year we were voted number three. This ranking reflects MünchenerHyp's high reputation among investors and in the capital market.

The volume of new paper issued by the Bank during the first half of the year was € 1.42 billion with Mortgage Pfandbriefe holding the lion's share with € 1.06 billion. Public Pfandbriefe accounted for € 0.02 billion while uncovered bonds represented € 0.34 billion.

EARNINGS, FINANCIAL AND ASSET SITUATION

BALANCE SHEET STRUCTURE

As of June 30, 2014 total assets amounted to € 35.7 billion following € 34.9 billion recorded at the end of 2013.

We were again able to expand our portfolio of mortgage loans. As of June 30, 2014 the portfolio was valued at € 22.2 billion or € 0.7 billion more. In contrast, the value of the securities portfolio generated by our capital market business fell by € 0.4 billion to € 9.9 billion.

At the mid-year point the portfolio value of bonds issued by countries located on the periphery of the eurozone and bonds issued by banks domiciled in these countries, as well as bonds, secured by direct and immediate guarantees issued by the respective state amounted to € 1.1 billion. The value of the portfolio remained almost unchanged as no noteworthy maturities took place in the first half.

Our portfolio of securities carried under fixed assets recorded unrealised losses of € 66 million at mid-year, which was € 48 million below the figure recorded at the end of the year; € 37 million of this figure was attributable to securities issued by countries on the periphery of the eurozone.

	SOVEREIGN STATES		BANKS		TOTAL	
Nominal value in € million			Covered			
	30.06.2014	31.12.2013	30.06.2014	31.12.2013	30.06.2014	31.12.2013
Portugal	60	60	127	127	187	187
Italy	97	97	40	40	137	137
Ireland	23	23	60	60	83	83
Spain	63	65	620	620	683	685
Total	**243**	**245**	**847**	**847**	**1,090**	**1,092**

Equity capital as shown in the balance sheet amounted to € 1,145 million, while liable equity capital totalled to € 1,445 million, or € 195 million over the figure posted at the end of the year. The Bank is required to have a common equity Tier 1 capital ratio of 8 percent due to the start of direct supervision by the European Central Bank in November 2014.

In order to meet the new capital requirements the Bank conducted a broadly based capital-raising effort to increase paid up capital during the first half of 2014. These efforts ended on June 30, 2014 and were very successful. We were able to attract about € 370 million in additional paid up capital from cooperative banks and companies affiliated with the Cooperative Financial Network. An additional € 30 million was subscribed by private persons. We would like to thank all of those who subscribed for this sign of their trust in MünchenerHyp's business model.

As of June 30, 2014 about € 80 million of the aforementioned € 400 million in newly subscribed capital had not yet been entered in the register of cooperatives, or had not been paid. This means that the Bank's common equity Tier 1 capital ratio will improve further during the course of the year.

As at the mid-year point the Bank's common equity Tier 1 capital ratio was already 11.1 percent, following 6.3 percent noted at the end of 2013. This means that the common equity Tier 1 capital ratio is currently more than three percentage points over the minimum figure required by the ECB. The core capital ratio rose from 11.7 percent to 14.4 percent, while the total capital ratio increased from 16.7 percent to 18.6 percent.

DEVELOPMENT OF EARNINGS

In the first six months of the year we were able to increase our net interest income[1] by 16 percent over the same year-ago figure to € 82.1 million.

The net commission balance[2] amounted to a minus € 28.6 million while the net interest income and net commission income[3] figure was € 53.5 million. This figure represented an increase of 13 percent in comparison to the same year-ago period.

Total administrative expenses[4] grew by € 4.2 million to € 40.4 million. Personnel expenses climbed by € 1.8 million to € 19.2 million, while other administrative expenses rose by € 2.2 million to € 17.8 million. The required Asset Quality review (AQR) mandated by the supervisory authority as part of the transfer of supervisory responsibilities to the ECB resulted in expenses of over € 3 million in the first half of the year.

Depreciation and write-downs of intangible and tangible assets remained at the previous year's level and amounted to € 3.4 million.

Results from operations before deducting provisions for risk[5] were € 12.6 million.

1) Net sum of interest expenses, interest income and current income
2) Net sum of commission costs and commission income
3) Net interest balance and net commission balance
4) General administrative expenses and adjustments to value of intangible and tangible assets
5) Net sum of Income Statement expense items 1, 2, 3, 4, 5 and income items 1, 2, 3, 5

The item "Write-downs and adjustments to claims and certain securities and additions to provisions for possible loan losses" totalled minus € 11.5 million compared to the same year-ago figure of minus € 12.3 million. This item primarily contains € 7.9 million in expenses incurred for compensatory payments made within the framework of converting silent participations into paid up capital.

The item "Income from appreciation in value on participations, shares in affiliated companies and securities treated as fixed assets" increased to € 15.6 million due to the sale of securities held as fixed assets.

As a result of good new business results and the favourable course of business in the first half of the year, we were able to increase our results from operations after deducting provisions for risk by € 5.6 million to € 16.7 million. After deduction of € 5.6 million for tax expenses, we posted a pro rata temporis net income for the year of € 11.1 million.

RATING, SUSTAINABILITY AND GENERAL REGULATORY CONDITIONS

RATING

At the end of February Moody's raised the outlook for its ratings of senior unsecured liabilities and fundamental financial strength of MünchenerHyp from negative to stable. The agency justified this step by noting that the Bank had strengthened its level of equity capital in 2013 and further improved the risk content of its loan portfolio.

In July Moody's released an Issuer Comment wherein the agency remarked favourably on the results of the Bank's capital-raising measures. The agency wrote that it anticipated that MünchenerHyp's current equity capital figures would enable the Bank to be quite able to meet the capital requirements arising from the examination of its balance sheet and the stress test. Furthermore, the increase in capital underlined the German cooperative banks' commitment to a symbiotic partnership with MünchenerHyp.

The current ratings at a glance:

	Rating	Outlook
Public Pfandbriefe	Aaa	
Mortgage Pfandbriefe	Aaa	
Senior unsecured liabilities	A2	stable
Fundamental financial strength	D	stable
Short-term liabilities	Prime-1	

In addition, the Bank's long-term uncovered liabilities are rated A+ by the rating agency Fitch due to the group rating the agency assigned to the Cooperative Financial Network.

SUSTAINABILITY

MünchenerHyp's sustainability ratings remained unchanged in the first half of 2014:

	2011	2012	2013/2014
oekom research	D	C–	
imug	Public Pfandbriefe: neutral Mortgage Pfandbriefe: neutral Uncovered bonds: negative	Public Pfandbriefe: favourable Mortgage Pfandbriefe: neutral Uncovered bonds: neutral	Public Pfandbriefe: very favourable Mortgage Pfandbriefe: neutral Uncovered bonds: neutral
Sustainalytics	**44 of 100 points** (Ranked 53 of 63 competitors)	**47 of 100 points** (Ranked 56 of 74 competitors)	**47 of 100 points** (Ranked 56 of 74 competitors)

REGULATORY CONDITIONS

SINGLE SUPERVISORY SYSTEM FOR EU BANKS

The ECB will assume direct supervision of MünchenerHyp in November 2014. For this reason it conducted numerous reviews during the first half of 2014 within the framework of a comprehensive assessment. These consisted of a balance sheet audit – Asset Quality Review (AQR) – as well as continuing stress tests. The AQR examined processes, guidelines, accounting, as well as selected loan portfolios. We are of the opinion that all of the data and materials required for the review and the stress tests were provided on time and at a high level of quality. The related costs were very high and tied down the Bank's resources to a considerable extent.

The results are not yet available. Based on current information, the ECB will announce the results for all affected banks at the same time in the middle of October 2014. Following the success of our capital-raising efforts we look forward to the results of the comprehensive assessment with confidence.

BODIES AND PERSONNEL

BODIES

Former Federal Minister Michael Glos stepped down as Deputy Chairman of the Supervisory Board at the conclusion of the Delegates Meeting. Mr. Glos had been a member of the Supervisory Board for a total of 17 years during which time he had served as Deputy Chairman of the Supervisory Board for numerous years. The Chairman of the Supervisory Board, Konrad Irtel, thanked Michael Glos for the trusted collaboration and his dedicated efforts on behalf of the Bank.

The members of the Supervisory Board elected HSH Albrecht Prince of Oettingen-Spielberg as the new Deputy Chairman of the Supervisory Board.

The members of the delegates meeting elected former Federal Minister Dr. Peter Ramsauer as a new member of the Supervisory Board.

In accordance with the newly amended version of Article 25d of the German Banking Act (KWG), the Supervisory Board revised the structure of its committees and newly constituted an audit committee, as well as risk and nominating committees, and a compensation supervision committee.

EMPLOYEES

The Bank's growth strategy, as well as the numerous regulatory requirements, continued to require it to increase its number of employees to a greater extent than in previous years. Up until June 30, 2014 a total of 26 employees had been hired making it possible for the Bank to successfully fill numerous necessary positions. However, as of this date we still had 23 vacant positions.

CORPORATE PLANNING

Our business and risk strategy defines the formal planning framework for MünchenerHyp's key business activities and is regularly reviewed. The Bank's business strategy remains focused on the growth of our mortgage portfolio and successively reducing our lending business with the public sector and banks. Minor adjustments to our risk strategy were made due to new regulatory requirements.

OUTLOOK

DISCLAIMER REGARDING FORWARD-LOOKING STATEMENTS

The Outlook, as well as other sections of the Interim Report, contains forward-looking statements related to future expectations and anticipated events. These forward-looking statements, especially those concerning the development of MünchenerHyp's business and financial performance, are based on planned expectations and estimates and are subject to risks and uncertainties. For this reason actual results may differ materially from currently predicted figures.

OUTLOOK – OPPORTUNITIES AND RISKS

The economic outlook for the global economy is not unclouded. Due to weak performance noted in the first quarter – especially in the USA – the IMF cut its growth forecast for the global economy by 0.3 percentage points to 3.4 percent. Although an upturn in growth is expected to be seen in the second half of 2014 and in 2015, economic experts do, however, view this development as fragile. Risks are posed by a possible worsening of the situation in Ukraine as well as an escalation of conflicts in the Near East. Moreover, a rapid normalisation of monetary policy in the USA could, in particular, hinder development in the emerging markets. Despite its downgraded forecast for 2014, the IMF is anticipating that stronger growth will occur in the industrialised nations and result in a 4 percent rise in global GDP in 2015.

The IMF believes that the eurozone has successfully shifted up from recession to recovery although development remains uneven. The recovery will be mostly a bit weaker at first, even though the outlook for some countries – like Spain, among others – has significantly improved. On average, economic research institutes are forecasting that the eurozone will grow by 1.1 percent in 2014 and 1.5 percent in 2015.

The outlook for the German economy remains favourable. Economic experts estimate that the country's GDP will increase by 2 percent in 2014 and that the main drivers of growth will be investments in plant and equipment and with exports playing a secondary role. In addition, it is also expected that economic growth will benefit from consumer spending, as well as the good situation in the labour market. Unbroken immigration is projected to lead to a significant increase in the number of people employed and a slight decrease in unemployment figures. A further rise in construction spending is also anticipated as heavy demand for residential property is expected to continue. Furthermore, commercial construction activity is also likely to profit from the good economic situation. Forecasts also call for a revival of public-sector construction in 2015. Although the pace of growth can accelerate again in 2015, current forecasts, however, still estimate that the economy will grow by about 2 percent in 2015 and close to the figure noted for 2014.

By announcing a targeted long-term tender and ending its liquidity-absorbing tenders the ECB significantly increased excess liquidity in the banking system and generated a corresponding reduction in money market interest rates. The level of interest rates should provide further support to the recovery of the economy. For this reason the ECB is likely to keep its key interest rate at a low level and ensure that the markets are supplied with adequate liquidity. This policy is also supported by the fact that no inflationary pressures are visible. The American Fed will continue to taper its bond purchases, and is expected to completely stop them in October 2014. The pace of economic growth in the USA will remain the primary factor influencing the Fed's future interest rate policy and could also be a cause for heightened uncertainty in the global financial markets. A first cautious increase in interest rates could take place in 2015 depending on the development of the economy.

The German Pfandbrief continues to be very highly regarded by investors. Nevertheless, the fallen level of interest rates in combination with lower spreads has in the interim led to substantially lower absolute returns. As a result some investors find themselves being forced to shift to higher yielding investments in order to come close to achieving their target yields. Liquid benchmark issues with volumes of € 500 million and up are still seeing very high investor demand.

We anticipate that the generally favourable overall conditions noted in the residential and commercial property sectors in our core markets will continue.

We expect that our relevant regional markets within the German residential property market will continue to see unbroken high demand and rising prices. Experts anticipate that in major metropolitan areas both condominiums and existing houses, in particular, will remain sought after by buyers. It is expected that the rising level of new housing construction will not yet be able to ease upward pressure on housing prices. Although demand for new housing is almost being met, the gap between supply and demand remains wide in the major metropolitan areas. Furthermore, the demand gap created in the past years has not yet been closed. If development noted in the first half of the year continues, we anticipate that about 290,000 building permits will be issued in 2014. We do not expect to see any substantial changes in the current level of interest rates. Accordingly, demand for property financing should remain high. Signs of a nationwide overheating of the residential property market are currently not visible, although at the same time the development of prices in some markets – especially in major metropolitan areas – requires increased attention.

We anticipate that the developments seen in the European residential property markets during the first half of 2014 will continue. Experts predict that the Swiss property market will continue to see high demand and rising prices in view of continuing immigration and the stable Swiss economy. In addition, the impact of the latest self-regulating measures taken by Swiss banks to weaken demand for mortgage loans and calm the property market remains to be seen.

In view of the strong start noted at the beginning of the year, major brokerage firms have increased the volume of transactions they expect for the German commercial property market in 2014. It is currently anticipated that the volume of transactions in this sector will total € 35 to 40 billion and the interest shown by foreign investors, in particular, in the German market will increase even further. A noteworthy increase in investments in residential property portfolios is also foreseen. An overall notable increase in investments is also predicted for the European commercial property markets. This will lead to a further intensification in competition for the most attractive properties, which in turn will lead to a further decline in initial returns. For this reason investors are also expected to accept a higher level of risk.

The American residential and commercial property markets are foreseen to continue developing favourably. Investments in residential construction are anticipated to rise substantially. Demand in the commercial property sector is expected to remain focused primarily on core markets and cities where the number of jobs is growing at an above-average pace. In addition, demand is also foreseen to extend to secondary markets. As the overall economic conditions in the USA and the future development of interest rates remains accompanied by uncertainty it is possible that the upswing in the markets could be interrupted once again.

Against the background of our favourable new business results recorded in the first half of 2014, we are striving to achieve a higher volume of new lending commitments for the whole year than we posted in the previous year. This applies especially for our residential property financing business. We continue to anticipate that new business results for our commercial property financing business will be at the previous year's level.

The volume of our new issues in 2014 will be lower than in the previous years in view of our substantially lower refinancing requirements. Refinancing will continue to be marked by the low interest rate environment and require intensive communications with investors.

A 2-year Public Pfandbrief with a volume of € 0.5 billion will mature in December 2014. Depending on appropriate market conditions, we plan to float two additional large-volume issues, which could be either Mortgage or Public Pfandbriefe.

We expect that our common equity Tier 1 capital ratio will increase to about 12 percent by the end of September 2014 as we anticipate that by that time we will have received payment for the previously committed and subscribed shares that were sold as part of the our capital raising activities.

The objectives defined at the end of 2013 will be generally achieved. Due to the extraordinarily high level of expenses incurred while preparing for direct supervision by the ECB – especially the costs for external audits, which were not foreseen to be as expensive as they were – our administrative expenses will exceed the originally planned figures. The Bank currently estimates that these negative effects can be offset by favourable effects.

We are striving to achieve a higher net income for the 2014 business year than in the previous year.

BALANCE SHEET AS OF 30 JUNE 2014

ASSETS		30 June 14	31 Dec. 13
	€	€	€ 000
1. Cash reserve			
a) Cash on hand	12,598.15		18
b) Balances with Central Banks	22,813,860.82		43,103
of which			
with Deutsche Bundesbank € 22,813,860.82			
		22,826,458.97	**43,121**
2. Claims on banks			
a) Mortgage loans	21,552,519.94		24,391
b) Public-sector loans	734,643,817.16		818,592
c) Other claims	2,948,848,105.31		2,420,838
of which			
payable on demand € 1,442,184,411.88			
		3,705,044,442.41	**3,263,821**
3. Claims on customers			
a) Mortgage loans	22,062,774,714.02		21,345,001
b) Public-sector loans	4,787,675,703.13		5,074,276
c) Other claims	113,541,989.04		110,645
of which			
with securities pledged as collateral € 33,540.54			
		26,963,992,406.19	**26,529,922**
4. Bonds and other fixed-income securities			
a) Bonds and notes	4,544,361,639.25		4,573,630
aa) Public-sector issuers € 1,279,266,205.18			(1,045,742)
of which			
eligible as collateral for Deutsche Bundesbank advances € 1,182,882,013.06			
ab) Other issuers € 3,265,095,434.07			(3,527,888)
of which			
eligible as collateral for Deutsche Bundesbank advances € 2,954,875,766.41			
b) Own bonds and notes	174,930,148.46		181,133
Nominal Value € 170,912,110.07			
		4,719,291,787.71	**4,754,763**
Carried forward		35,411,155,095.28	34,591,627

LIABILITIES, CAPITAL AND RESERVES

		30 June 14	31 Dec. 13
	€	€	€ 000
1. Liabilities to banks			
a) Registered mortgage Pfandbriefe issued	668,739,030.23		709,070
b) Registered public-sector Pfandbriefe issued	152,376,085.34		91,628
c) Other liabilities	4,321,893,739.34		3,496,563
of which			
payable on demand € 875,135,404.80			
delivered to lenders as collateral for loans received registered mortgage Pfandbriefe € 5,841.32			
		5,143,008,854.91	**4,297,261**
2. Liabilities to customers			
a) Registered mortgage Pfandbriefe issued	6,634,081,692.73		6,395,573
b) Registered public-sector Pfandbriefe issued	3,585,726,638.07		3,796,085
c) Other liabilities	2,615,316,372.31		2,434,116
of which			
payable on demand € 35,505,588.20			
		12,835,124,703.11	**12,625,774**
3. Certificated liabilities			
a) Bonds issued	16,164,886,246.17		16,487,000
aa) Mortgage Pfandbriefe issued € 9,621,566,884.62			(9,523,866)
ab) Public-sector Pfandbriefe issued € 2,548,905,913.29			(2,613,613)
ac) Other bonds issued € 3,994,413,448.26			(4,349,521)
b) Other certified liabilities	44,115,118.01		282,491
of which			
Money market paper € 44,115,118.01			
		16,209,001,364.18	**16,769,491**
4. Liabilities incurred as trustee		**66,825.20**	**83**
of which			
loans € 66,825.20			
5. Other liabilities		**155,066,263.75**	**80,917**
Carried forward		34,342,268,011.15	33,773,526

ASSETS		30 June 14	31 Dec. 13
	€	€	€ 000
Brought forward		35,411,155,095.28	34,591,627
5. Shares and other variable-yield securities		**12,947,883.06**	**13,122**
6. Participating interests and shares in cooperatives			
a) Participating interests	86,198,088.50		77,508
of which			
in banks € 17,789,382.18			
b) Shares in cooperatives	18,500.00		19
of which			
in credit cooperatives € 15,500.00			
		86,216,588.50	**77,527**
7. Shares in affiliated companies		**11,151,601.64**	**11,152**
8. Assets held in trust		**66,825.20**	**83**
of which			
loans € 66,825.20			
9. Intangible assets			
a) Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	12,449,542.53		12,531
b) Payments made on account	0.00		0
		12,449,542.53	**12,531**
10. Tangible assets		**73,305,770.85**	**73,784**
11. Other assets		**71,242,078.34**	**64,689**
12. Deferred items			
a) From issuing and lending business	51,031,276.83		53,080
b) Other	3,389,014.62		923
		54,420,291.45	**54,003**
Total assets		**35,732,955,676.85**	**34,898,518**

LIABILITIES, CAPITAL AND RESERVES		30 June 14	31 Dec. 13
	€	€	€ 000
Brought forward		34,342,268,011.15	33,773,526
6. Deferred items			
From issuing and lending business	16,204,421.68		19,845
		16,204,421.68	**19,845**
7. Provisions			
a) Provisions for pensions			
and similar obligations	26,342,773.00		26,080
b) Provisions for taxes	11,359,000.00		6,159
c) Other provisions	20,235,632.42		20,289
		57,937,405.42	**52,528**
8. Subordinated liabilities		**156,200,000.00**	**156,200**
9. Profit-participation certificates		**6,135,502.57**	**6,135**
of which			
€ 0.00 are due within two years			
10. Fund for general banking risks		**9,250,000.00**	**9,250**
11. Capital and reserves			
a) Subscribed capital	849,775,325.64		590,288
aa) Members' capital contributions € 572,853,945.44			(249,640)
ab) Silent participations € 276,921,380.20			(340,647)
b) Revenue reserves	283,838,340.75		283,838
ba) Legal reserve € 282,304,465.11			(282,304)
bb) Other revenue reserves € 1,533,875.64			(1,534)
c) Unappropriated profit	11,346,669.64		6,908
		1,144,960,336.03	**881,034**
Total liabilities, capital and reserves		**35,732,955,676.85**	**34,898,518**
1. Contingent liabilities			
Contingent liability on guarantees and indemnities		**9,223,054.77**	**14,308**
2. Other commitments			
Irrevocable loan commitments		**2,738,914,100.57**	**2,597,421**

INCOME STATEMENT

1 JANUARY THROUGH 30 JUNE 2014

EXPENSES		1 January through 30 June 14	1 January through 30 June 13
	€	€	€ 000
1. **Interest expenses**		**500,068,781.66**	**540,469**
2. **Commission paid**		**33,754,294.07**	**28,854**
3. **General administrative expenses**			
a) Personnel expenses	19,249,923.38		17,427
aa) Wages and salaries € 16,287,139.14			(14,945)
ab) Social security contributions and cost of pensions and other benefits € 2,962,784.24			(2,482)
of which for pensions € 585,337.37			
b) Other administrative expenses	17,773,475.00		15,591
		37,023,398.38	**33,018**
4. **Depreciation and write-downs of intangible and tangible assets**		**3,400,090.91**	**3,200**
5. **Other operating expenses**		**1,953,602.99**	**2,361**
6. **Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses**		**11,543,934.56**	**12,322**
7. **Taxes on income and earnings**		**5,572,577.97**	**5,698**
8. **Net income**		**11,139,898.62**	**5,358**
Total expenses		**604,456,579.16**	**631,280**

INCOME	€	1 January through 30 June 14 €	1 January through 30 June 13 € 000
1. Interest income from			
a) Lending and money market operations	509,435,677.87		521,900
b) Fixed-income securities and government debt register claims	72,252,169.83		89,085
		581,687,847.70	**610,985**
2. Current income from			
a) Participating interests and shares in cooperatives	499,541.33		500
		499,541.33	**500**
3. Commission received		**5,182,424.35**	**5,285**
4. Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets		**15,637,804.46**	**9,441**
5. Other operating income		**1,448,961.32**	**5,069**
Total income		**604,456,579.16**	**631,280**

NOTES TO THE INTERIM FINANCIAL STATEMENTS AS OF 30 JUNE 2014 (ABRIDGED)

GENERAL INFORMATION ON ACCOUNTING POLICIES

Münchener Hypothekenbank eG's financial accounts for the first half of 2014 were prepared using the same methods used to prepare the balance sheet and determine valuations shown in the annual statement of accounts as of December 31, 2013.

The explanations of the significant amendments of the items in the abridged balance sheet and abridged profit and loss statement were provided in the interim management report.

Tax expenses noted for the period January 1, 2014 to June 30, 2014 were calculated based on the weighted average of the annual tax rate on income.

We do not have any subsidiary companies or branch offices outside of Germany.

AUDITING ASSOCIATION

DGRV – DEUTSCHER
GENOSSENSCHAFTS- UND RAIFFEISENVERBAND e. V.,
Berlin, Pariser Platz 3

Munich, 1 August 2014
MÜNCHENER HYPOTHEKENBANK eG
Board of Management

Dr. Louis Hagen   Bernhard Heinlein   Michael Jung

CERTIFICATION FOLLOWING REVIEW

To Münchener Hypothekenbank eG, Munich

We have conducted a review of the abridged interim financial statements – comprising the balance sheet, the income statement, as well as the abridged notes to the financial statements and the interim management report of Münchener Hypothekenbank eG, Munich, for the period 1 January to 30 June 2014, all of which are elements of the interim financial statements pursuant to Art. 37w Securities Trading Act (WpHG). The preparation of the abridged interim financial statements in accordance with German commercial law, and the interim management report pursuant to the applicable terms of the WpHG, are the responsibility of the cooperative's legal representatives. Our responsibility is to issue a certificate for the abridged interim financial statements and the interim management report based on our review.

We have conducted our review of the abridged interim financial statements and interim management report in accordance with the generally accepted German standards for the review of financial statements promulgated by the Institute of Public Auditors in Germany. These standards require that we plan and perform the review so that, by way of a critical assessment, we can exclude with a reasonable measure of certainty that the principal elements of the abridged interim financial statements have not been drawn up in conformity with the German commercial rules, and that the principal elements of the interim management report have not been drawn up in conformity with the WpHG regulations applicable to the interim management report. A review is limited primarily to interviewing the personnel of the cooperative and to analytical assessments and therefore does not achieve the level of certainty provided by an audit cannot be achieved. As we were not assigned to conduct an audit we cannot issue an audit certificate.

Based on the information gained from our review, we are unaware of any circumstances that could lead us to the conclusion that principal elements of the abridged interim financial statements were not drawn up in conformity with the requirements of German commercial law, or that the principal elements of the interim management report were not drawn up in conformity with the applicable terms of the WpHG

Berlin, 1 August 2014
DGRV – DEUTSCHER
GENOSSENSCHAFTS- UND RAIFFEISENVERBAND e.V.

Gahlen	Schraer
Auditor	Auditor

AFFIRMATION OF THE LEGAL REPRESENTATIVES

To the best of our knowledge and in accordance with applicable reporting principles for interim financial reporting, the interim financial statements give a true and fair view of the assets, liabilities, financial position and earnings situation of the company, and the interim management report of the company includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the anticipated development of the company for the remaining business year.

Munich, 1 August 2014
MÜNCHENER HYPOTHEKENBANK eG
Board of Management

Dr. Louis Hagen	Bernhard Heinlein	Michael Jung

BODIES

BOARD OF MANAGEMENT

Dr. Louis Hagen, Spokesman
Bernhard Heinlein
Michael Jung

SUPERVISORY BOARD

Konrad Irtel ... Rosenheim
Spokesman of the Board of Management of
Volksbank Raiffeisenbank Rosenheim-Chiemsee eG
Chairman of the Supervisory Board

Michael Glos ... Prichsenstadt (until 12 April 2014)
Master Craftsman (Miller)
Deputy Chairman of the Supervisory Board

HSH Albrecht Prince of Oettingen-Spielberg ... Oettingen
(as of 21 July 2014)
Deputy Chairman of the Supervisory Board

Wolfhard Binder ... Grafing
Chairman of the Board of Management of
Raiffeisen-Volksbank Ebersberg eG

Heinz Fohrer ... Esslingen
Member of the Board of Management of
Volksbank Esslingen eG

Jürgen Hölscher ... Lingen
Member of the Board of Management of
Volksbank Lingen eG

Rainer Jenniches ... Bonn
Chairman of the Board of Management of
VR-Bank Bonn eG

Dr. Peter Ramsauer ... Traunwalchen (as of 12 April 2014)
Master Craftsman (Miller)

Erich Rödel ... Ingolstadt
Bank director (ret.)

Kai Schubert ... Trittau
Member of the Board of Management of
Raiffeisenbank Südstormarn Mölln eG

ADVISORY COUNCIL

Thomas Höbel ... Dachau
Chairman
Peter Bahlmann ... Hatten
Deputy Chairman
Markus Dünnebacke ... Dortmund
Deputy Chairman
Uwe Augustin ... Pinneberg
Oliver Conradi ... Heidenheim
Ralf Daase ... Waren (Müritz)
Bernd Ehrlicher ... Erlangen
Gerhard Eisenhut ... Ehningen
Clemens Fritz ... Achern
Christian Glasauer ... Beuerberg
Walter Hoffmann ... Glan-Münchweiler
Eberhard Kreck ... Bottrop
Dr. Martin Kühling ... Vechta
Dietmar Küsters ... Straubing
Jan Mackenberg ... Osterholz-Scharmbeck
Thomas Mamier ... Wyhl am Kaiserstuhl
Wilhelm Oberhofer ... Sonthofen
Josef Pölt ... Seeshaupt
Michael Schlagenhaufer ... Mittweida
Manfred Stevermann ... Düsseldorf
Horst Weyand ... Bad Kreuznach

MEMBERS OF THE DELEGATES MEETING (AS OF 1 AUGUST 2014)

Hermann Arens ... Bank director (ret.)
Dr. Wolfgang Baecker ... Bank director
Manfred Basler ... Bank director (ret.)
Claus-Rüdiger Bauer ... Bank director
Norbert Beek ... Bank director
Heinrich Beerenwinkel ... Bank director
Dr. Christoph Berndorff ... Bank director (ret.)
Gunnar Bertram ... Bank director
Dietmar Bock ... Managing director
Helmut Böing ... Bank director
Dr. Christine Bortenlänger ... Executive Member of the Board of Management
Dr. Michael Brandt ... Bank director
Gebhard Brennauer ... Bank director (ret.)
Peter Bromberger ... Bank director (ret.)
Eckhard Dämon ... Bank director
Lothar Erbers ... Bank director
Johann Fuhlendorf ... Bank director
Klaus Graniki ... Managing director
Markus Gschwandtner ... Bank director
Eberhard Heim ... Bank director
Gottlob Heller ... Bank director (ret.) (as of 4 July 2014)
Joachim Hettler ... Bank director
Dr. Christoph Hiltl ... Attorney
Karl Hippeli ... Bank director (ret.)
Carsten Jung ... Bank director
Jürgen Jung ... Legal advisor
Norbert Kaufmann ... Bank director
Herbert Kellner ... Bank director
Michael Kittel ... Bank director (ret.) † (until July 2014)
Klaus Korte ... Bank director (ret.)
Roland Kuffler ... Businessman
Helmuth Lutz ... Bank director
Michael Müller ... Attorney
Dr. Hans-Wolfgang Neumann ... General Manager
Thomas Petersen ... Bank director
Klaus Pohl ... Managing director
Frank Ritter ... Attorney, Notary
Christian Scheinert ... Bank director (ret.)
Dr. Martin Schilling ... Bank director
Andreas Schmidt ... Certified Property Specialist
Hans Schmitt ... Bank director (ret.)
Klaus Otmar Schneider ... Bank director
Thorsten Schwengels ... Bank director
Wolfgang Siemers ... Managing director
Jörg Stahl ... Bank director
Theo Stauder ... Bank director
Dr. Rainer Sturies ... Attorney
Ulrich Tolksdorf ... Bank director
Martin Trahe ... Bank director
Birgit Türschmann ... Bank director
Florian Uhl ... Managing director
Heinz-Walter Wiedbrauck ... Bank director
Michael Zaigler ... Managing director

Volksbanken Raiffeisenbanken
cooperative financial network

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