MünchenerHyp

HALF YEAR FINANCIAL STATEMENTS

2019

Contents

INTERIM MANAGEMENT REPORT 2019

OVERALL ECONOMIC CONDITIONS

Economic development

Global economic performance was more solid in the first quarter of 2019 than economic researchers had expected at the beginning of the year. The feared economic slowdown held off for the time being. Instead, economic growth picked up again. Growth rates improved, especially in the developed economies. There are no signs that this expansion will last, however, as the general conditions for the global economy have not improved. In particular, world trade has not picked up, largely as a result of continuing economic policy uncertainties with regard to a possible escalation of trade disputes.

In the Eurozone, economic output rose by 0.4 percent in the first quarter compared with the previous quarter, representing a significant increase. This positive performance was mainly driven by consumer spending and investment, while industrial production and exports lost momentum. Due to continuing industrial weakness, a slight downturn in growth is expected for the second quarter.

Consumer spending and capital expenditure also contributed to positive economic performance in Germany at the beginning of the year. In the first quarter, gross domestic product rose by 0.4 percent compared to the previous quarter. This was due in particular to construction investment, which increased by 1.9 percent quarter-on-quarter. However, the German economy also benefited from one-off special factors in the first quarter, especially in the automotive industry.

There were signs of a slower economy in the second quarter. The performance of industrial production and exports was much weaker in April, recovering only slightly in May. A significant number of economic researchers anticipates a decline in gross domestic product in the second quarter.

The positive labour market performance continued in the first half of the year. A total of 2.2 million people were registered as unemployed in June 2019, around 60,000 fewer than in the previous year. The unemployment rate stood at 4.9 percent. At 45.3 million, the number of people in employment was around 460,000 higher than in June 2018. Consumer prices remained stable in the first quarter and rose somewhat in the second quarter, while service prices in particular rose significantly.

Financial markets

Increasingly weak economic data throughout the spring together with uncertainties over economic policy also influenced developments on the capital markets. Yields on government bonds in the Eurozone, for example, fell sharply. Ten-year German government bonds declined from 0.25 percent at the beginning of the year to around minus 0.3 percent at the end of the first half.

In January, the US Federal Reserve announced a surprise change in its interest rate policy. Having raised interest rates in December and provided guidance on further increases for 2019, it then indicated that rates would remain unchanged for a prolonged period. The gloomy outlook for growth and low inflationary pressure led market participants to expect interest rates to be cut later in the year. As a result, 10-year US Treasury yields fell from 2.72 percent to around 2.0 percent by mid-year. Other central banks such as the European Central Bank (ECB), the Bank of Japan and the Bank of England also changed their interest rate expectations. Instead of the original plans to tighten monetary policy, further easing is now expected.

Covered bond spreads widened significantly at the beginning of the year, but there was lively demand for new issues again by the end of January. Due to widening spreads and demand for high-quality liquid assets (HQLA), order books indicated renewed interest from bank treasuries in particular. Investors took advantage of the higher spreads compared to SSAs (Sub Sovereigns, Supranationals and Agencies) and government bonds to top up their covered bond holdings. There was remarkably strong investor interest in long-term covered bonds. Overall, covered bonds in benchmark format with a volume of EUR 92.2 billion were issued in the first half of the year, 5.4 percent more than in the prior-year period. German issuers accounted for the largest proportion, at 18 percent.

Weaker growth expectations in Europe depressed the external value of the euro. As a result, the euro fell slightly against the US dollar and the Swiss franc over the course of the half-year. The British pound was strongly affected by the turbulence around Brexit. Since a withdrawal agreement with the EU was considered the likelier outcome until the beginning of May, the pound gained considerably, reaching a year-to-date peak of about GBP 0.85/EUR. The announcement of Prime Minister May's resignation raised expectations of a no-deal Brexit and the pound fell back significantly to more than GBP 0.90/EUR by mid-July.

Property markets and property financing markets

Residential property, Germany
Demand for residential property remained strong in the first half of 2019. On the one hand this was due to the low interest rate environment. Interest rates for construction financing continued to fall. By mid-year, terms were in many cases below 1 percent for 10-year fixed-interest loans. On the other hand, there was a continuing influx of people into major towns and cities in particular. However, new construction activity continued to lag behind demand. This is reflected in the number of building permits. Between January and May, 136,300 dwellings were approved, a fall of 2.4 percent year-on-year.

Even though residential property prices continued to grow strongly in the first quarter, there were initial signs of a slowdown, albeit from a high level. Surveys conducted by the Association of German Pfandbrief Banks (vdp) indicate that residential property prices rose by 7 percent across Germany in the first three months of this year, compared with 8 percent in the previous quarter. The increase in rents under new tenancy agreements was 5.2 percent, compared with 6 percent in the fourth quarter of 2018.

One reason for this trend is the weakening economy. Principally, however, it would appear that houses and apartments are reaching the limits of affordability in the major cities. According to analyses by bulwiengesa, German citizens now have to pay on average six times their annual household net income for an average apartment. In Munich this figure rises to as much as 16 times. The situation is similar on the rental market. While Germans spend an average of 18 percent of their monthly net household income on rent, the figure is sometimes over 30 percent in the major cities.

Those who can no longer afford housing in the cities are increasingly drawn to the surrounding areas. As a result, this is where the strongest price growth is being seen at present. Political measures to create affordable housing have been limited to intervention in the price structure. So far, however, this has not created effective incentives for expanding supply and relieving the strained housing market. The housing market remained stretched in the major cities, due in particular to tight capacity in the construction industry and lack of space for new building projects.

For private housing companies and institutional investors, the German residential property market continued to offer stable earnings opportunities with strong value growth. According to Real Capital Analytics, EUR 1.8 billion was invested in commercially traded residential property in the first quarter of 2019. For the mainly institutional investors, the focus was less on possible rent increases than on the relative value-stability of their investment.

In its latest report, the Financial Stability Committee expects no substantial risks to financial stability arising from new business in residential property financing. However, it notes that strong price momentum in some regional residential property markets means that the value of loan collateral may be overestimated. For this reason, the Committee made a recommendation to BaFin (the German banking supervisory authority) at the end of May 2019 to activate the anti-cyclical capital buffer. In line with the recommendation, BaFin set an anti-cyclical capital buffer with effect from 1 July 2019.

Residential properties, international
The influx of people into major cities generally created excess demand on the residential property markets relevant to MünchenerHyp. International urban areas are experiencing higher rents and purchase prices for residential property.

The French residential property market was stable. Prices for both new builds and existing properties rose by 2.9 percent in the first quarter, roughly in line with the previous year's level. In the Netherlands, residential property prices in the major cities rose by 1.9 percent in the first quarter of 2019. As rents and home ownership became increasingly expensive in the larger towns and cities, demand shifted to surrounding regions.

In Switzerland, by contrast, the residential property market continued to lose momentum. While asking prices for single-family homes were largely stable in the first quarter of 2019, they fell by 1.5 percent year-on-year for condominiums. The reason for this was that supply in the lower price segment has risen sharply. In addition, increasing interest in apartments in peripheral locations had a dampening effect on average asking prices. Extensive new build activity in recent years has had a noticeable impact on the rental housing market. Rental apartment supply increased to such an extent that vacancy rates rose to 2.6 percent from the previous level of 2.3 percent. This was accompanied by a longer marketing period and a 1.9 percent decline in asking rents in the first quarter of 2019.

In Austria, young, well-educated workers are thronging to the cities. Consequently, the trend towards urbanisation and population growth, especially in Vienna, is creating a similar housing market dynamic to that seen in Berlin or Munich.

On the US housing market, prices continued to rise for the sixth consecutive year. The S&P/Case-Shiller index grew by 3.6 percent year-on-year in June 2019. This means that growth momentum has weakened slightly, as price increases of 6.5 percent were recorded in the previous year. In the New York and Chicago markets, which are important to MünchenerHyp, residential property prices rose by 2.1 percent and 1.9 percent respectively.

Commercial property, Germany
The economic slowdown has so far made little impression on the German commercial property market. Data from Real Capital Analytics nevertheless shows that transaction volume decreased in the first quarter of 2019 by around EUR 5 billion year-on-year, to EUR 6.8 billion. This was solely due, however, to the growing shortage of available properties and not to any dip in demand, which is still very strong. The same trend led to lower sales in the second quarter as well, according to reports from the major estate agents.

Price increases were accelerated by shortage of supply. The vdp calculated an increase of 6.7 percent for the first quarter of 2019, compared with 6 percent in the fourth quarter of 2018. The rise was especially pronounced in the case of office property, which increased by 10.2 percent, whereas retail properties eased by 0.2 percent.

The latter decline is due to the significant impact that the shift in shopping habits towards e-commerce is having on retail properties. While online shopping is gaining market share, bricks-and-mortar retailing is characterised by stagnating rents, shorter leases and more frequent changes of tenant.

More than half of the capital invested in Germany came from domestic investors. The majority of international investors came from the US, the UK, Austria and France, with a clear preference for large-volume individual transactions and portfolio deals.

The acquisition of office properties was most popular, accounting for around 59 percent of total transaction volume. Retail properties made up 20 percent of sales. This is where the largest single investment transaction took place, namely the acquisition of a 50 percent stake in 57 Kaufhof department stores.

In addition, a shortage of space and low levels of new build activity meant that vacancy rates remained very low and rents continued to rise, especially for office properties. Figures released by the vdp show that newly leased office properties became 7 percent dearer in the first quarter of 2019.

Germany's top seven property markets generated an average net initial yield of 3.1 percent on office properties in the prime segment as of mid-2019. With a net initial yield of 2.9 percent, Berlin was the most expensive location for office property investments. This is because the city is experiencing particularly high rental price growth, which is expected to continue.

Commercial property, international
The major European commercial property markets continued to enjoy positive economic growth during the reporting period. This was accompanied by rising demand, particularly for office properties.

Uncertainties around Brexit continued to be felt on the UK's commercial property market. As of mid-year, investment volume amounted to EUR 16.2 billion, a relatively low figure for the United Kingdom. The number of transactions also declined. London nevertheless remained the most important property market in Europe.

EUR 12.5 billion was invested in French commercial property in the first half of 2019. Half of this capital came from international investors. About two thirds of all investments were made in the Greater Paris area. Lease turnover on the Paris office property market remained high. However, the availability of space declined, with the result that users had to switch from large-area office space to locations outside the city centre.

In Spain, EUR 6.7 billion was invested in commercial property in the first half of the year. The buoyant economy and solid rental market in particular, with falling vacancy rates and rising rents, made the Spanish market attractive for investors.

Transaction volumes in the Netherlands, Belgium and Luxembourg reached EUR 4.5 billion by mid-2019, of which EUR 3.6 billion was attributable to the Netherlands. From an investor perspective, the Netherlands remained an attractive investment target, though few properties suitable for a core investment strategy were offered. As a result, yields on prime properties fell to historically low levels.

The upturn on the US commercial property market continued. Rents and market values continued to rise. By May 2019, property prices had risen by 7.2 percent compared with the prior-year period.

BUSINESS DEVELOPMENT

New mortgage business

In the first half of 2019, we were able to expand new business substantially compared with the prior-year period. We granted property financing totalling EUR 3.6 billion, an increase of 63 percent compared with the previous year's figure of EUR 2.2 billion. We posted significant growth in all business segments of private and commercial property financing.

New business relating to private property financing in Germany rose by 47 percent to EUR 1.8 billion. Undertaken in association with the Volksbanks and Raiffeisenbanks, our very successful spring campaign in particular had a positive effect on brokerage volume. Application procedures were also improved, resulting in significantly greater demand for financing in excess of EUR 400,000. Our new business furthermore benefited from the development of interest rates, which reached new lows. Overall, business with the cooperative partner banks grew by 35 percent to EUR 1.4 billion. Despite even fiercer competition, we have maintained our conservative lending criteria.

The volume of private property financing via independent financial service providers more than doubled to EUR 396 million (previous year: EUR 188 million). We also increased the volume of new business transacted in partnership with Swiss PostFinance. This increased by EUR 27 million to EUR 164 million, thanks in particular to a successful sales campaign.

Since the end of May this year, we have also been providing property finance to private customers in Austria. Despite a number of enquiries, no transactions have been recorded to date.

The commercial property financing business also performed very well. The number and volume of incoming financing enquiries remained at a constantly high level due to the liquidity available in the market and resulting investment pressure. We were also satisfied with the completion rate. We provided commercial property finance totalling approximately EUR 1.6 billion, about double the previous year's figure of EUR 0.8 billion. New business focused primarily on Germany, with a volume of EUR 1.1 billion. About EUR 0.5 billion was attributable to international business, chiefly syndicated business in the US and new business in the Netherlands and Spain.

We mainly financed office properties, followed by residential and retail. There has also been a noticeable increase in financing enquiries for logistics properties, though they still account for only a small share of new business.

Competition in commercial property finance has intensified further, putting even more pressure on margins. For this reason, we have continued to improve our productivity and processes. The increase in average loan sizes also had a positive impact on the cost/income ratio. Furthermore, in line with our strategy, we generated substantial individual transactions with full underwriting and subsequently, as lead manager, placed parts of the total loan with the Genossenschaftliche FinanzGruppe (Cooperative Financial Network) in particular.

Capital markets business

In line with its business and risk strategy, MünchenerHyp maintains a cautious approach to capital markets business, investing in bonds and promissory notes issued by sovereigns and banks. No new investments were made in the first half of 2019. Maturing instruments were not replaced, leading to a further reduction of the portfolio, which declined by EUR 0.2 billion to EUR 4.3 billion.

Funding

The focus in the first half of the year was on issues denominated in Swiss francs. We issued Mortgage Pfandbriefe with a total volume of around CHF 1.4 billion, making MünchenerHyp the largest foreign issuer of covered bonds in Switzerland in the first half of 2019. Of this amount, CHF 700 million was placed via benchmark issues that were newly issued or tapped.

High-volume funding activities in euros started with a tap of an existing Mortgage Pfandbrief in February 2019. For this purpose, the nominal volume of the bond maturing in November 2027 was increased by EUR 250 million. The transaction met with keen investor interest.

INTERIM MANAGEMENT REPORT 2019

In April 2019, we very successfully issued a benchmark Pfandbrief of EUR 500 million with a 20-year term. This is the longest maturity ever issued in benchmark format on the Pfandbrief market. There was exceptionally strong investor demand for the issue. The order book was closed after one hour, at more than EUR 3 billion. The coupon is 1.0 percent. The issue was placed at a price of 7 basis points above the mid-swap rate.

At the beginning of the second half of the year, we issued another benchmark Mortgage Pfandbrief with a volume of USD 600 million and a term of three years and four months. The covered bond has a coupon of 2.0 percent and was also very successfully placed. The order book exceeded USD 1.2 billion. The issue volume was spread over 31 individual orders from 11 countries. Almost 70 percent of investors were from outside Germany.

The issue volume was EUR 3.5 billion as of 30 June 2019. This comprised EUR 2.6 billion in Mortgage Pfandbriefe and EUR 0.9 billion in uncovered bonds. We continued to refrain from issuing Public Pfandbriefe in view of the Bank's business strategy.

EARNINGS, FINANCIAL AND ASSET SITUATION

Balance sheet structure

Total assets amounted to EUR 43.1 billion as of 30 June 2019, compared with EUR 40.4 billion at the end of 2018.

We further expanded our mortgage loan portfolio by EUR 2.1 billion to EUR 34.1 billion as of 30 June 2019. In business with sovereigns and banks, the portfolio was reduced by EUR 0.2 billion to EUR 4.3 billion, in line with our strategy. Securities held as fixed assets included hidden reserves of EUR 50 million and hidden charges of EUR 2 million.

The portfolio included reported equity of EUR 1,382.9 million. Own funds in accordance with the CRR (Capital Requirements Regulation) amounted to EUR 1,431.7 million. This resulted in a common equity Tier 1 ratio (CET 1 ratio) of 19.9 percent as of mid-year, compared with 21.7 percent at year-end 2018. The Tier 1 capital ratio also stood at 19.9 percent (31 December 2018: 21.7 percent) and the total capital ratio was 20.7 percent (31 December 2018: 22.9 percent). The leverage ratio was 3.2 percent as of mid-year 2019.

The item „Other liabilities to customers" is broken down as follows:

OTHER LIABILITIES TO CUSTOMERS
IN € 000

	Remaining term < one year	Remaining term > one year	Total
Other liabilities to customers as of 30 June 2019	**1,505,902**	**2,595,960**	**4,101,862**
Registered bonds	14,751	1,308,914	1,323,665
of which institutional investors	14,609	1,296,914	1,311,523
Promissory note loans on the liabilities side	483,496	1,132,046	1,615,542
of which institutional investors	408,221	604,547	1,012,767
Other	1,007,655	155,000	1,162,655
of which institutional investors	774,382	155,000	929,382

Development of earnings

Net interest income [1] rose by 2 percent compared with the first half of 2018, to EUR 140.8 million. Net commission income [2] amounted to minus EUR 42.6 million. Net interest and commission income [3] was EUR 98.2 million. This represents a decrease of 4 percent compared to the corresponding period of the previous year. The reason for this is the sharp rise in disbursements, which increased the negative net commission income by 21 percent.

Administrative expenses [4] increased by EUR 9.8 million to EUR 63.2 million. Personnel costs were up EUR 3.7 million to EUR 28.0 million. Other administrative expenses rose by EUR 6.1 million to EUR 32.2 million.

Depreciation, amortisation and value adjustments of intangible assets and fixed assets amounted to EUR 3.0 million, unchanged from the prior-year period.

The item „Depreciation, amortisation and value adjustments on accounts receivable and certain securities as well as allocations to provisions for possible loan losses" amounted to EUR 6.8 million compared with minus EUR 8.6 million at the same date the previous year. This positive figure is mainly attributable to a gain realised on the sale of a promissory note loan and the release of specific loan loss provisions. Loan loss provisions generally remain at a very low level.

In the first half of 2019, income from ordinary business activities amounted to EUR 39.7 million. After deduction of tax expenses amounting to EUR 21.6 million, the pro rata net income for the year was EUR 18.1 million (previous year: EUR 22.7 million).

RATING AND SUSTAINABILITY

Rating

The rating agency Moody's confirmed MünchenerHyp's ratings in its latest credit opinion dated March 2019.

Overview of current ratings:

	Rating
Public Pfandbriefe	Aaa
Mortgage Pfandbriefe	Aaa
Senior Unsecured (Preferred Senior Notes)	Aa3*
Junior Senior Unsecured (Non-Preferred Senior Notes)	A2
Short-term liabilities	Prime-1
Long-term deposits	Aa3
Issuer rating	Aa3*

* Outlook stable.

Our long-term unsecured liabilities are rated AA- by the two other major rating agencies, Standard & Poor's and Fitch, via the combined rating of the Genossenschaftliche Finanz-Gruppe (Cooperative Financial Network).

[1] Net interest income is calculated from Item 1: Interest income, plus Item 3: Current income, less Item 2: Interest expenses in the income statement
[2] Net commission income is the net sum of Item 4: Commission income and Item 5: Commission expenses in the income statement
[3] Net interest and commission income is the balance of net interest income and net commission income
[4] Administrative expenses are the sum total of Item 7: General administrative expenses and Item 8: Depreciation/amortisation and value adjustments on intangible assets and fixed assets in the income statement

Sustainability

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

THE DEVELOPMENT OF OUR SUSTAINABILITY RATINGS SINCE 2016

		2016	2017	2018
ISS-oekom		C+	C+	B–
imug	Sustainability rating:	positive (B)	positive (B)	positive (BB)
	Mortgage Pfandbriefe:	positive (BBB)	positive (BBB)	positive (BBB)
	Public Pfandbriefe:	very positive (A)	positive (BBB)	very positive (A)
Sustainalytics		57 out of 100 points	60 out of 100 points	65 out of 100 points

PERSONNEL

The Bank's earnings-oriented growth strategy and extensive regulatory requirements again meant that we had to recruit more staff. New personnel were also required owing to a slight rise in staff turnover. By mid-year, 50 new employees had been hired.

CORPORATE PLANNING

The business and risk strategy defines the framework for MünchenerHyp's main business operations and was reviewed at regular intervals. The business strategy continues to focus on earnings-oriented growth of mortgage portfolios and a gradual reduction of lending business with sovereigns and banks.

OUTLOOK

Outlook: Opportunities and risks

Despite the positive start to the year, the outlook for the global economy has continued to deteriorate. As a result, economic researchers lowered their global GDP forecasts over the course of the first half of the year. In its latest report published in June, for example, the World Bank cut its estimate of global economic growth for 2019 by 0.3 percentage points to 2.6 percent. This is due in particular to weak world trade, which is also weighed down by uncertainties about future US tariffs and trade disputes. At 2.7 percent, growth for 2020 is forecast to be similar to that of the current year.

Europe cannot escape this trend. Consequently, exports are expected to weaken further, with investment down as well. For this reason, the World Bank significantly reduced its economic forecast in June and expects the Eurozone to achieve growth of no more than 1.2 percent in 2019. Economic forecasts are also hampered by uncertainties about the status of the trade dispute with the US and the further course of Brexit. Despite the numerous pressures and risks, economic experts still expect the economy to pick up slightly in 2020, with growth reaching 1.4 percent.

The German economy is expected to cool significantly in the second half of 2019. On average, gross domestic product is now forecast to grow by only 0.7 percent in 2019. This is mainly due to the weakening global economy and trade disputes. On the other hand, consumer spending and the construction industry in particular will continue to develop positively. For 2020, economic researchers expect robust domestic demand with stabilisation of foreign trade, so that on average they forecast GDP growth of 1.3 percent.

On the financial markets, the change in central banks' interest rate policy is expected to stabilise economic growth. Hence, despite the current economic concerns, stock market performance may be more positive. A lack of investment alternatives, especially bonds, should reinforce this trend. Nevertheless, since future economic performance is heavily dependent on political decisions, the forecasts also possess a high degree of uncertainty.

Against this backdrop, we expect two interest rate cuts of 25 basis points each by the US Federal Reserve in the second half of 2019. The ECB might also make two cuts in the deposit rate of ten basis points each, reducing it to minus 0.60 percent. To counter low inflation expectations, market participants also expect further quantitative measures from the ECB, such as an increase in the volume of bond purchases and an extension of the current purchase limits per bond.

As it is now almost impossible to generate positive returns on government bonds, we expect central banks to participate more extensively in the bond market as a whole, including covered bonds and Pfandbriefe. Demand for covered bonds is still very high at present, so issuance activity in the second half of 2019 is expected to be as brisk as in the first six months. A revival of the asset purchase programme and increased investment volume also appear possible, and were recently hinted at by the ECB president. Since a prolonged period of very low interest rates is currently expected, this development could also have an impact on the asset allocation of many other investors. Hopes of high yields are unlikely to be realised against the backdrop of negative returns in real terms.

Demand for residential and commercial properties is expected to remain strong in the markets important to MünchenerHyp in 2019. The weakening economy is a major source of risk. As long as there is only a slowdown in growth and no recession, however, investors will continue to regard the German property market in particular as a safe haven due to its stability. The investment market will also benefit from persistently low interest rates, as the search for alternative asset classes still makes property investments appear attractive, despite low yields.

INTERIM MANAGEMENT REPORT 2019

Demand will remain high on the German residential property market, leading to further increases in prices for both sales and rentals. The markets are not expected to ease in the short to medium term, because there are not nearly enough new construction projects to meet the demand for housing, especially in metropolitan regions. Experts nevertheless expect somewhat weaker price increases in 2019. This forecast is based on declining immigration and lower income growth owing to the weaker economy.

The economic downturn is likely to have a delayed impact on demand for commercial property. So far, demand for space has outstripped the available supply. Forecasts therefore anticipate a transaction volume of around EUR 50 billion for 2019, based in particular on the lack of alternative asset classes in the low-interest environment and the large amount of liquidity that continues to flow into the property market.

The outlook is also positive for the European commercial property markets, as investors remain eager to invest. The office property markets are in good shape, with high demand for space and rising rents. The exception is London, where rents are not expected to rise because of Brexit. Investors are behaving more cautiously due to uncertainty about the form it will take.

On the Swiss housing market, strong new construction activity will continue to exert pressure on rents. Demand is expected to be good for the residential property market as a whole, with transactions in the lower price segment likely to dominate the market.

The general conditions for the US property market are positive, with the result that residential and commercial property prices are expected to continue rising.

Against the backdrop of continued strong demand for residential and commercial property, we expect demand for finance to remain high in the second half of 2019.

In the private residential property financing segment, we expect new business in Germany to be at a similar level to that seen in the first half of the year. We are also confident we will be able to exceed the good level of new business generated in the previous year. As competitive pressure will not ease but rather increase, we will continue to support new business through sales campaigns, while further optimising and accelerating our disbursement and prolongation processes.

In our partnership with Swiss PostFinance, we are planning an additional sales campaign to raise awareness of our expanded product range and increase the volume brokered compared with the previous year.

In commercial property financing, we intend to further expand our market presence in order to boost new business. Overall, we expect the volume of new business to increase further in 2019, whilst adhering to our risk-return strategy.

The portfolio of assets in the banks and sovereigns segment continues to be used mainly for the management of liquidity and cover pools.

Our overall liquidity requirements (money market and capital market) will range from EUR 7 to 8 billion in 2019. Mortgage Pfandbriefe remain our most important source of funding.

We plan to further consolidate the market position of GenoFestgeld, introduced in 2017, so as to create a long-lasting product. We are aiming for a brokered portfolio volume of around EUR 300 million by the end of 2019.

We have developed another investment product, GenoFlexgeld, to attract private individuals with short-term investment needs. This product allows the investor to decide each month whether to invest a smaller or larger amount or nothing at all. GenoFlexgeld is scheduled to be introduced in the second half of 2019. Like GenoFestgeld, it will be available exclusively via MünchenerHyp's partner banks in the Genossenschaftliche FinanzGruppe (Cooperative Financial Network).

We expect net interest and commission income to decline slightly due to rising commission expenses. We will basically achieve the targets set for 2019.

In the 2019 financial year, we expect net income to be below the previous year's level.

Forward-looking statement disclaimer

The half year financial statements contain expectations and forecasts referring to the future. These forward-looking statements, in particular regarding MünchenerHyp's business development and earnings performance, are based on budgeting assumptions and estimates and are subject to risks and uncertainties. There are numerous factors impacting on our business that are largely beyond our control. These mainly include economic performance, the state and further development of financial and capital markets in general and our funding conditions in particular, as well as unexpected defaults on the part of our borrowers. For this reason, actual results and developments may differ from those now expressed or implied. The relevant statements are consequently only valid at the time this report was written.

Balance sheet as of 30 June 2019

ASSETS
IN €

		30 June 19	T€ 31 Dec 18
1. Cash reserve			
a) Cash on hand	3,529.48		15
b) Balances with central banks	599,733,924.02		390,369
of which with Deutsche Bundesbank € 599,733,924.02			
		599,737,453.50	390,384
2. Claims on banks			
a) Mortgage loans	4,609,951.68		4,937
b) Public-sector loans	123,169,656.60		126,417
c) Other claims	2,236,300,545.47		1,609,565
of which payable on demand € 1,059,814,896.02			
		2,364,080,153.75	1,740,919
3. Claims on customers			
a) Mortgage loans	34,045,359,783.01		31,874,048
b) Public-sector loans	2,076,636,012.71		2,235,789
c) Other claims	229,166,415.76		175,053
		36,351,162,211.48	34,284,890
4. Bonds and other fixed-income securities			
a) Bonds and notes	2,109,783,220.89		2,258,919
aa) Public-sector issuers € 1,257,703,036.98			(1,309,268)
of which eligible as collateral for Deutsche Bundesbank advances € 1,220,430,825.21			
ab) Other issuers € 852,080,183.91			(949,651)
of which eligible as collateral for Deutsche Bundesbank advances € 767,157,854.48			
b) Own bonds and notes	1,150,099,648.62		1,200,036
Nominal value € 1,150,000,000.00			
		3,259,882,869.51	3,458,955
Carried forward:		42,574,862,688.24	39,875,148

Assets continued on page 16

LIABILITIES, CAPITAL AND RESERVES
IN €

		30 June 19	T€ 31 Dec 18
1. Liabilities to banks			
a) Registered Mortgage Pfandbriefe issued	655,639,426.92		789,576
b) Registered Public Pfandbriefe issued	56,243,210.93		85,352
c) Other liabilities	4,783,414,364.33		4,214,904
of which: payable on demand € 1,396,713,255.26			
		5,495,297,002.18	5,089,832
2. Liabilities to customers			
a) Registered Mortgage Pfandbriefe issued	9,777,920,021.75		9,602,199
b) Registered Public Pfandbriefe issued	2,073,445,284.56		2,142,135
c) Other liabilities	4,101,862,204.23		3,493,668
of which: payable on demand € 22,425,325.70			
		15,953,227,510.54	15,238,002
3. Certificated liabilities			
a) Bonds issued	19,850,771,180.55		18,185,051
aa) Mortgage Pfandbriefe € 16,063,002,723.35			(14,744,976)
ab) Public Pfandbriefe € 234,061,793.34			(231,321)
ac) Other bonds and fixed income securities € 3,553,706,663.86			(3,208,754)
b) Other certificated liabilities	0.00		50,050
		19,850,771,180.55	18,235,101
4. Liabilities incurred as trustee		0.00	2
5. Other liabilities		210,795,105.58	206,541
Carried forward:		41,510,090,798.85	38,769,478

Liabilities continued on page 17

Assets continued from page 14

ASSETS
IN €

		30 June 19	T€ 31 Dec 18
Brought forward:		42,574,862,688.24	39,875,148
5. Equities and other variable-yield securities		147,000,000.00	154,049
6. Participations and shares in cooperatives			
a) Participations	104,535,199.49		104,535
of which credit institutions € 22,955,936.29			
b) Shares in cooperatives	18,500.00		19
of which in credit cooperatives € 15,500.00			
		104,553,699.49	104,554
7. Shares in affiliated companies		11,151,601.64	11,152
8. Assets held in trust		0.00	2
9. Intangible assets			
Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	5,369,470.60		3,746
		5,369,470.60	3,746
10. Tangible assets		67,732,980.82	69,453
11. Other assets		128,644,362.14	120,467
12. Deferred items			
a) From issuing and lending business	59,547,978.93		52,663
b) Other	11,874,000.00		
		71,421,978.93	52,663
Total assets		43,110,736,781.86	40,391,234

Liabilities continued from page 15

LIABILITIES, CAPITAL AND RESERVES
IN €

		30 June 19	T€ 31 Dec 18
Brought forward:		41,510,090,798.85	38,769,478
6. Deferred items			
From issuing and lending business	26,726,650.41		21,367
		26,726,650.41	21,367
7. Provisions			
a) Provisions for pensions and similar obligations	31,998,640.00		31,348
b) Provisions for taxes	3,047,814.65		5,150
c) Other provisions	29,446,520.72		34,599
		64,492,975.37	71,097
8. Subordinated liabilities		91,200,000.00	106,200
9. Profit-participation certificates		0.00	0
10. Fund for general banking risks		35,000,000.00	35,000
11. Capital and reserves			
a) Subscribed capital	1,044,762,560.00		1,034,630
aa) Members' capital contributions € 1,042,762,560.00			(1,032,630)
ab) Silent participations € 2,000,000.00			(2,000)
b) Revenue reserves	320,000,000.00		320,000
ba) Legal reserves € 314,000,000.00			(314,000)
bb) Other revenue reserves € 6,000,000.00			(6,000)
c) Unappropriated profit	18,463,797.23		33,462
		1,383,226,357.23	1,388,092
Total liabilities, capital and reserves		43,110,736,781.86	40,391,234
1. Contingent liabilities			
Contingent liability on guarantees and indemnities		766.94	1
2. Other commitments			
Irrevocable loan commitments		4,430,790,004.42	4,191,441

INCOME STATEMENT

Income statement

1 JANUARY THROUGH 30 JUNE 2019

INCOME STATEMENT
IN €

			1 Jan to 30 June 2019	T€ 1 Jan to 30 June 2018
1. Interest income from			470,269,912.72	486,948
a) Lending and money market operations		447,651,040.35		461,255
b) Fixed-income securities and debt register claims		22,618,872.37		25,693
2. Interest expenses			330,497,382.34	349,830
3. Current income from			999,846.69	945
a) Participations and shares in cooperatives		999,846.69		945
4. Commission income			7,833,685.47	2,773
5. Commission expenses			50,441,721.28	38,078
6. Other operating income			674,645.94	490
7. General administrative expenses			60,144,786.55	50,410
a) Personnel expenses		27,999,512.16		24,300
aa) Wages and salaries	23,674,698.21			20,345
ab) Social security contributions and cost of pensions and other benefits	4,324,813.95			3,955
of which € 876,735.87				(765)
b) Other administrative expenses		32,145,274.39		26,110
8. Depreciation/amortisation and value adjustments on intangible assets and fixed assets			3,000,000.00	3,000
9. Other operating expenses			2,765,535.82	5,663
10. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses			0.00	8,620
11. Income from reversals of write-downs to claims and certain securities, as well as from reversals of provisions for possible loan losses			6,795,498.86	0
12. Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets			0.00	0
13. Results from ordinary business activities			39,724,163.69	35,555
14. Taxes on revenue and income			21,567,023.74	12,855
15. Net income			18,157,139.95	22,700
16. Retained earnings brought forward from previous year			306,657.28	263
17. Unappropriated profit			18,463,797.23	22,963

NOTES TO THE INTERIM FINANCIAL STATEMENTS AS OF 30 JUNE 2019 (ABRIDGED)

General information on accounting policies

Münchener Hypothekenbank eG's financial accounts for the first half of 2019 were prepared using the same methods used to prepare the balance sheet and determine valuations shown in the annual statement of accounts as of 31 December 2018.

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 1 January to 30 June 2019 were calculated based on the weighted average of the annual tax rate on income.

The annual fee due for the European bank levy was accounted for on a pro rata temporis basis for the first half of 2019.

Auditing association

DGRV – Deutscher Genossenschafts- und Raiffeisenverband e. V., Berlin, Linkstraße 12

Munich, 6 August 2019
Münchener Hypothekenbank eG
Board of Management

Dr. Louis Hagen **Dr. Holger Horn** **Michael Jung**

Certification following review

To Münchener Hypothekenbank eG, Munich
We have conducted a review of the abridged half year 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 2019, all of which are elements of the half year financial statements pursuant to Art. 115 Securities Trading Act (WpHG). The preparation of the abridged half year 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 half year financial statements and the interim management report based on our review.

We have conducted our review of the abridged half year 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 half year 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 half year 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.

Bonn, 6 August 2019
DGRV – Deutscher Genossenschafts- und Raiffeisenverband e. V.

Peter Krüper
Auditor

Dorothee Mende
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, 6 August 2019
Münchener Hypothekenbank eG
Board of Management

Dr. Louis Hagen **Dr. Holger Horn** **Michael Jung**

BODIES

Board of Management

Dr. Louis Hagen
Chairman

Dr. Holger Horn (as of 01.01.2019)
Michael Jung

Supervisory Board

Wolfhard Binder » Holzkirchen (until 06.04.2019)
Bankdirector (ret.)
Chairman of the Supervisory Board

Dr. Hermann Starnecker » Marktoberdorf
Spokesman of the Board of Management
VR Bank Kaufbeuren-Ostallgäu eG
Chairman of the Supervisory Board (as of 06.04.2019)
Deputy Chairman of the Supervisory Board (until 06.04.2019)

Gregor Scheller » Forchheim
Chairman of the Board of Management
Volksbank Forchheim eG
Deputy Chairman of the Supervisory Board (as of 06.04.2019)

HRH Anna Duchess in Bavaria » Tegernsee (as of 06.04.2019)
Entrepreneur

Barbara von Grafenstein » Munich
Employee representative

Josef Hodrus » Leutkirch im Allgäu
Spokesman of the Board of Management
Volksbank Allgäu-Oberschwaben eG

Thomas Höbel » Dachau (as of 06.04.2019)
Spokesman of the Board of Management
Volksbank Raiffeisenbank Dachau eG

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

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

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

Reimund Käsbauer » Munich
Employee representative

Dr. Peter Ramsauer » Traunwalchen (until 06.04.2019)
Master Craftsman (Miller)

Michael Schäffler » Munich
Employee representative

Frank Wolf-Kunz » Munich
Employee representative

Advisory Committee

Frank Ostertag » Wildeshausen
Chairman

Manfred Asenbauer » Passau
Matthias Berkessel » Diez
Frank Buchheit » Lebach
Dietmar Dertwinkel » Greven
Jürgen Edel » Giengen
Bernhard Failer » Grafing
Josef Frauenlob » Bad Reichenhall
Steffen Fromm » Neu-Ulm
Herbert Hermes » Vechta
Johannes Hofmann » Erlangen
Herbert Kellner » Ismaning
Thomas Lange » Ingolstadt
Hans-Jörg Meier » Bühl
Stefan Rinsch » Krefeld
Michael Schneider » Tauberbischofsheim
Karin Schwartz » Mainz
Remo Teichert » Dresden
Martin Traub » Ehingen
Karsten Voß » Hamburg
Thorsten Wolff » Salzkotten

THE MEMBERS OF THE DELEGATES MEETING

Dr. Wolfgang Baecker » Bank director
Peter Bahlmann » Bank director
HRH Anna Duchess in Bavaria » Entrepreneur (until 06.04.2019)
Michael Becky » Bank director
Heinrich Beerenwinkel » Bank director
Gunnar Bertram » Bank director
Thomas Bierfreund » Bank director
Dietmar Bock » Management consultant
Dr. Christine Bortenlänger » Executive member of the Board of Management
Dr. Michael Brandt » Bank director
Ralf Daase » Bank director
Eva Irina Doyé » Attorney, Tax consultant
Clemens Fritz » Bank director
Johann Fuhlendorf » Bank director
Rainer Geis » Bank director
Wilfried Gerling » Bank director † April 2019
Josef Geserer » Bank director
Peter Geuß » Bank director
Klaus Graniki » Managing director
Markus Gschwandtner » Bank director
Eberhard Heim » Bank director
Dr. Harald Heker » Chairman of the Board of Management
Henning Henke » Bank director
Joachim Hettler » Bank director
Dr. Michael Hies » Managing director
Michael Hohmann » Bank director
Konrad Irtel » Bank director (ret.)
Thomas Jakoby » Bank director
Michael Joop » Bank director
Carsten Jung » Bank director
Hubert Kamml » Bank director
Norbert Kaufmann » Bank director
Herbert Kellner » Bank director
Manfred Klaar » Bank director
Dr. Carsten Krauß » Bank director
Marcus Wilfried Leiendecker » Bank director
Martin Leis » Bank director
Dr. Ursula Lipowsky » Attorney
Thomas Ludwig » Bank director
Helmuth Lutz » Bank director (ret.)
Sabine Mack » Bank director
Karl Magenau » Bank director
Bernd Mayer » Bank director
Franz-Josef Mayer » Bank director
Gregor Mersmann » Bank director (as of 07.04.2019)
Klaus Merz » Bank director
Markus Merz » Bank director
Franz Dierk Meurers » Bank director
Jens Ulrich Meyer » Bank director
Prof. Dr. Peter Otto Mülbert » University professor
Michael Müller » Attorney
Dr. Hans-Wolfgang Neumann » General Manager
HSH Albrecht Prince of Oettingen-Spielberg » Managing director and owner
Armin Pabst » Bank director
Markus Pavlasek » Bank director
Claus Preiss » Bank director
Richard Riedmaier » Bank director
Harald Rösler » Bank director
Kay Schäding » Bank director
Georg Schäfer » Bank director
Dr. Martin Schilling » Bank director
Michael Schlagenhaufer » Bank director
Dr. Eckhard Schmid » Attorney
Franz Schmid » Bank director
Andreas Schmidt » Certified property specialist
Klaus Otmar Schneider » Bank director (ret.)
Thorsten Schwengels » Bank director
Wolfgang Siemers » Managing director
Hermann-Josef Simonis » Bank director
Jörg Stahl » Bank director
Thomas Stolper » Bank director
Stefan Terveer » Bank director
Werner Thomann » Bank director
Ulrich Tolksdorf » Bank director
Martin Trahe » Bank director
Wolfram Trinks » Bank director
Florian Uhl » Managing director
Peter Voggenreiter » Bank director
Dr. Gerhard Walther » Bank director (as of 05.04.2019)
Ulrich Weßeler » Bank director
Silke Wolf » Managing director
Michael Zaigler » Managing director

Imprint

Published by

© Münchener Hypothekenbank eG
Karl-Scharnagl-Ring 10
80539 Munich
Register of cooperatives of the District Court of Munich Gen.-Reg 396

Coordination

Board of Management Staff | Organisation | Human Resources
Münchener Hypothekenbank eG

Concept | Design

MPM Corporate Communication Solutions
Mainz und Düsseldorf
www.mpm.de

Photo Credit

Cover
Fotostudio Black BOX
Tommy Lösch
Munich

Genossenschaftliche FinanzGruppe
Volksbanken Raiffeisenbanken

Münchener Hypothekenbank eG
Karl-Scharnagl-Ring 10 | 80539 Munich
Postfach 22 13 51 | 80503 Munich
+49 89 5387-0
+49 89 5387-770
info@muenchenerhyp.de
www.muenchenerhyp.de