MünchenerHyp

TRADITION ON THE MOVE

HALF-YEAR FINANCIAL STATEMENTS 2022

Contents

Interim management report 2022

OVERALL ECONOMIC CONDITIONS

Economic development

The recovery of the global economy stalled following Russia's invasion of Ukraine, with supply bottlenecks increasing again and inflation rising sharply. China's zero-COVID policy also exacerbated supply problems. This caused global economic output to slow significantly, with the result that global production grew by only 0.6 percent in the first quarter of 2022 compared with the previous quarter.

The war in Ukraine also hampered economic development in the eurozone, although the economy remained relatively robust overall in the first quarter of 2022. Economic growth improved compared with the last quarter of the previous year to 0.6 percent. The labour market also remained stable. Inflation rose significantly, however, reaching 8.6 percent in June.

Despite the disruptions due to supply bottlenecks and inflation, the German economy grew slightly by 0.2 percent in the first quarter. Added value declined in the manufacturing sector, with the exception of the construction industry. Construction investment was up by 4.6 percent compared with the previous quarter. According to the German Federal Statistical Office, gross domestic product stagnated in the second quarter.

The war in Ukraine and supply bottlenecks have not yet had an impact on the labour market. The unemployment rate in June 2022 was 5.2 percent, down 0.5 percentage points year-on-year. Around 2.4 million people were registered as unemployed in total, a decline of about 250,000 from June of the previous year. Inflation increased massively in the first half of the year as a result of the war in Ukraine, reaching a historic high of 7.9 percent in May 2022. This rise in inflation was driven by sharp increases in the price of energy products and food.

Financial markets

Growing concerns about inflation and the war in Ukraine played a major role in determining developments on international financial markets in the first half of 2022.

Yields on bond markets increased substantially across all market segments, owing to high inflation rates and inflation expectations. Changes in the direction of monetary policy pursued by major central banks also contributed to this. The UK and US central banks further tightened their monetary policy in a series of base rate hikes. Since June 2022, the US Federal Reserve has also reduced its holdings of securities that it acquired as part of monetary policy purchase programmes.

Russia's war against Ukraine has fuelled fears about inflation among market participants, particularly due to considerable energy price rises, and has increased their expectations of a rapid adjustment to the monetary policy stance in Europe.

The European Central Bank (ECB) initially sent out mixed signals about raising its base rate, and first raised the main refinancing rate by 50 basis points to 0.5 percent in July.

Uncertainty about further economic development led to increased volatility on the financial markets and a slump in share prices. Higher interest rates also weighed on stock markets. Overall, European and US equities have fallen significantly in value since the beginning of the year. On foreign exchange markets, the feared economic consequences of the war and expectations of varying rates of adjustment to monetary policy in the major currency areas pushed down the value of the euro.

The euro fell sharply against the US dollar, reaching a low of USD 1.0482 at the end of the second quarter. The rate continued to decline in July and reached parity halfway through the month.

On the bond market, nominal yields on government bonds have increased significantly since the beginning of the year, as sovereign bond markets have reacted to rising inflation, higher inflation expectations among market participants and the prospect of less expansionary monetary policy. As investors sought a "safe haven", higher demand led to a temporary drop in yields on international benchmark bonds. In the context of rising inflation around the world, however, they soon resumed their previous upward trend.

The covered bond market was unexpectedly lively in the first half of the year. Benchmark issues came to EUR 117.5 billion in total, compared with around EUR 46 billion in the prior-year period. One reason for this was the imminent end of the ECB's TLTRO III programme, which has enabled banks to obtain liquidity. Demand for covered bonds was also further boosted by the ECB's purchase programme (CBPP 3), although to a lesser extent than in previous years, as only maturing instruments were reinvested by the ECB.

Property markets and property financing markets

Residential property, Germany

Purchase prices continued to rise markedly on residential property markets. According to the property price index of the Association of German Pfandbrief Banks (vdp), prices for owner-occupied residential property increased by 12.5 percent year-on-year in the first quarter of 2022. New contractual rents for multi-family houses rose by 3.7 percent in the same period.

Mortgage interest rates have grown very dynamically since the beginning of the year, with the interest rate on ten-year property financing tripling from less than 1 percent at the start of 2022 to over 3 percent at the end of the first half of the year.

Demand for residential construction loans remained high as potential home buyers attempted to secure the lowest possible interest rates. According to the Deutsche Bundesbank's Bank Lending Survey, there was a marginal drop in demand in the second quarter. This was mainly due to the fact that banks had significantly tightened their lending guidelines, leading to a considerable increase in the rejection rate.

The number of building permits fell by 1.6 percent in the period from January to May owing to supply bottlenecks, higher material costs and rising interest rates.

Demand for residential portfolios as an asset class came to EUR 6.9 billion in the first half of the year, below the long-term half-year average of EUR 7.5 billion. This was because investors were acting with increasing caution in view of the war in Ukraine, inflation and rising interest rates.

Residential property, international

Demand for housing exceeded supply in many major international cities, making residential property purchases increasingly expensive. Even households with above-average high incomes are deciding to rent rather than buy in many places. This has led to a trend towards a rental housing market in the USA and UK that did not exist previously. Investors value this new segment, as rental income promises stable returns.

The Swiss residential property market remained stable despite rising interest rates. Residential property prices increased by 5.2 percent year-on-year in the first half of 2022, with stronger growth in prices for single-family homes than for condominiums.

The residential property market in Austria recorded strong price growth, with property prices up 12.3 percent nationwide in the first quarter compared with the prior-year period. Growth in property financing for private households also accelerated in the first quarter, even though banks had tightened lending guidelines slightly. The rate of growth in March was 7.2 percent, compared with 6.1 percent in the same month of the previous year.

Commercial property, Germany

On the German commercial property market, the trend on the rental market contrasted with that on the investment market. Rental markets proved extremely robust in the first half of the year, as users who had postponed rentals for the last two years due to the pandemic were now concluding leases. In contrast, the increase in mortgage interest rates had a very noticeable impact on investment markets.

Data from Real Capital Analytics show that commercial property and residential portfolios to the tune of EUR 19.9 billion were sold in the first half of the year. Turnover has not been this low since the first half of 2013, when the euro crisis unsettled the markets. This represents a year-on-year decline of 33 percent. The rise in mortgage interest rates meant that many investors' calculations would no longer be viable in the context of the current low yields, with the result that investments did not go ahead.

Around 17 percent more office space was let in major German cities in the first quarter of 2022 than in the prior-year period. Prime rents for office properties were up about 3 percent on average in the seven largest cities. It was noticeable that tenants were attaching more importance to modern and flexible office space suited to hybrid working. The vacancy rate rose from an average of 4.4 percent to 4.8 percent in the same period, as office users required less space but sought out first-rate facilities. Average net initial yields in large cities fell again year-on-year to 2.6 percent in the first quarter of 2022 from 2.8 percent in the same period of the previous year. The lowest net initial yields of 2.5 percent are currently being recorded in Berlin and Munich.

The picture for retail properties is mixed. Retail rents in German city centres fell by about 3 percent year-on-year, while rents in shopping centres were down around 1 percent compared to the prior-year period. Net initial yields in city centre locations remained stable, at an average of 3.1 percent. In shopping centres, the decline in rents is also reflected in yield levels, which now stand at an average of 5.1 percent. Rising consumer prices have had a negative impact on retail sales, as households have been consuming less.

Logistics properties have gained further in importance due to the war in Ukraine. Diversification of supply chains is becoming increasingly critical, partly also because China's zero-COVID strategy has led to ongoing bottlenecks in supply. Users and investors alike continued to show high levels of interest in logistics properties at transport hubs.

Commercial property, international

Institutional investors acquired commercial property and residential portfolios worth around EUR 116 billion in Europe in the first half of the year, an increase of 4 percent compared with the prior-year period.

The UK was the most sought-after commercial property market in Europe, at around EUR 37 billion. By international standards, investments in office properties in central London were particularly attractive, with a net initial yield of 3.5 percent. Prices were also underpinned by steady growth in rents of around 10 percent. Unlike with office property, there was a further decline of about 5 percent year-on-year in rents for retail properties.

In France, around EUR 15 billion was invested in commercial property and residential portfolios in the first half of the year. Central Paris remained one of the most expensive property markets in Europe, with a net initial yield of 2.7 percent for office properties. Prime rents have remained unchanged since the beginning of the year.

Around EUR 5 billion was invested in commercial property and residential portfolios in the Netherlands in the first half of the year. This represents a year-on-year drop of 12 percent and is due to a lack of available investment opportunities. Net initial yields for office properties in Amsterdam fell by 10 basis points to 2.9 percent in the first half of the year.

Transaction volume recovered in Spain and was up 28 percent year-on-year at around EUR 5.9 billion. Yields fell by 10 basis points in Barcelona, resulting in net initial yields there of 3.1 percent for office buildings. Net initial yields remained stable in Madrid, at 3.0 percent. In Spain, too, the retail property segment recorded a further decline in rent levels and a slight rise in yields.

In the USA, investment volume grew by 45 percent year-on-year in the first quarter of 2022 to USD 150 billion. Multi-family apartments, namely high-priced rental apartments in selected economically sound markets, were the most sought-after segment at USD 57 billion. New York and Los Angeles were the markets with the highest investment volume across all types of use.

BUSINESS DEVELOPMENT

New mortgage business

Demand for our property financing remained high in the first half of the year. A key reason for this was that customers wanted to secure long-term conditions that were as favourable as possible, particularly in private residential property financing in Germany, in the face of dynamic increases in interest rates and construction costs.

Our new business amounted to EUR 3.5 billion as at 30 June 2022, compared with EUR 3.1 billion in the prior-year period – an increase of 15 percent. We are satisfied with this result, as we were able to expand new business overall in both private residential property financing and commercial property financing.

The commitment volume in private residential property financing increased by 5 percent to EUR 2.2 billion (previous year: EUR 2.1 billion). We achieved the strongest growth in association business with cooperative banks, which increased by 11 percent to EUR 1.6 billion. Demand was especially high for financing of existing property and follow-on financing, while demand for new build financing was lower owing to rising construction costs.

In Germany, first-half sales of private property financing via independent financial service providers grew by 6 percent on the prior-year period to EUR 461 million. Business with our Swiss brokerage partner PostFinance declined from EUR 173 million to EUR 95 million, due to the fact that interest rates rose rapidly in Switzerland too. In Austria, we sold financing worth EUR 17 million in the first half of the year, a slight reduction of EUR 3 million compared with the prior-year period. This decline was mainly because one of our cooperation partners withdrew from the Austrian market.

Commercial property financing business was up 34 percent year-on-year as at mid-year. The volume of new business came to around EUR 1.3 billion, compared with EUR 1.0 billion as at 30 June 2021. Development of new business was also positive from an earnings perspective.

The previous year's trend towards a focus on domestic business further intensified, with the result that domestic business now accounts for around 80 percent of all new commercial business, at EUR 1.05 billion. In international business, the volume of new business fell slightly below the previous year's figure. Financing worth a total of EUR 269 million was committed. International business was dominated by US syndicated business, with a share of 72 percent. A further 17 percent related to new business with Dutch properties.

In terms of asset classes, office properties were the most dominant class, immediately followed by residential properties. Retail properties also accounted for a substantial share of new business compared with the previous year, with a particular focus on properties used for local amenities. In total, these three asset classes cover around 95 percent of new business volume.

Competition remained intense in commercial property financing, even though margins rose slightly. Market activity has slowed since the second quarter, owing to the war in Ukraine and interest rate rises. Investors are increasingly postponing purchasing decisions and financing enquiries or are putting them on hold.

Before Russia's invasion of Ukraine, the syndicated loan market for properties located in Germany, other European countries and the USA had returned to roughly the level it was at before the outbreak of the COVID-19 pandemic. Following a strong first quarter, however, we saw a markedly smaller volume of transactions that would be suited to MünchenerHyp on the market in the second quarter.

The war in Ukraine has had no direct impact on MünchenerHyp's financing business so far. We have not financed any properties in either Russia or Ukraine.

Capital markets business

We continue to conduct our capital markets business mainly in order to manage liquidity. Overall conditions have barely changed in relation to previous years. Due to substantial ECB purchases, LCR-eligible securities were still trading at very expensive spread levels, although widening yields meant that there was increasing differentiation between European government bonds. In this environment, purchasing sovereign and bank securities with strong credit ratings offered limited returns, so, in view of the high total asset costs, purchases were kept to the bare minimum.

Taking into account maturing instruments and low volumes of new purchases, our portfolio of liquid securities and promissory note loans from third-party issuers ultimately remained almost unchanged. The portfolio volume grew slightly in net terms by EUR 44 million to EUR 3.6 billion. The volume of new business came to EUR 312 million in the first half of 2022, with sales and maturing instruments totalling EUR 268 million.

Refinancing

In the first half of the year, our focus in terms of large-volume funding transactions was on the issuance of Pfandbriefe and uncovered bonds in euros and Swiss francs.

This began in January with the issue of a Mortgage Pfandbrief with a volume of EUR 750 million and a term of seven years at a spread of 3 basis points above the mid-swap rate. The coupon is 0.125 percent and the level of investor demand was strong.

At the beginning of April 2022, we issued a Green Jumbo Mortgage Pfandbrief with a volume of EUR 1 billion, which proved highly successful. The Pfandbrief is based on MünchenerHyp's Green Bond Framework, which fulfils the ICMA Green Bond Principles and meets the vdp's minimum standards for green Pfandbriefe. The bond has a term of seven years and ten months and a coupon of 1.25 percent. The issue was placed at a price of 2 basis points above the mid-swap rate. Demand for the Jumbo Pfandbrief was so high that the order book was closed after about two hours at over EUR 2.7 billion. Around a third of the issuance volume was subscribed by investors specialising in green and sustainable investments.

As in previous years, there was also a focus in the first half of 2022 on issues in Swiss francs, which came to around CHF 675 million as at mid-year. Most of these were issued on the capital market via syndicated bonds. This lively issuance activity included various terms and the product categories of Pfandbrief, senior non-preferred and Additional Tier 1. The senior non-preferred bond was issued in green format.

An Additional Tier 1 bond worth CHF 75 million was issued in May 2022 in a challenging and very volatile capital market environment. This successful issue enabled us to optimise our equity structure with respect to the banking supervisory authorities' requirements for Additional Tier 1 capital. The coupon is 5.75 percent and the term is indefinite. The bond may not be called by us until June 2027 at the earliest. The total issuance volume was placed in Switzerland and was ordered mainly by asset managers.

Issuance volume was around EUR 3.5 billion as at 30 June 2022. This comprised EUR 2.8 billion in Mortgage Pfandbriefe and around EUR 0.7 billion in uncovered bonds. In addition, we significantly expanded our money markets business with non-banks (particularly federal states and local authorities), raising around EUR 1 billion in total.

EARNINGS, FINANCIAL AND ASSET SITUATION

Development of earnings

Net interest income[1] rose by 13 percent compared with the first half of 2021, to EUR 211.5 million. Net interest income also includes a premium for targeted longer-term refinancing operations (TLTRO III) with the ECB in the amount of EUR 21.8 million. Net commission income[2] amounted to minus EUR 58.9 million. Net interest and commission income[3] totalled EUR 152.6 million, a year-on-year rise of 22 percent.

Administrative expenses[4] increased by EUR 6.0 million to EUR 74.1 million in total. Within this figure, personnel costs rose by EUR 1.0 million to EUR 33.6 million, while other administrative expenses grew by EUR 5.2 million to EUR 38.2 million. Direct regulatory costs accounted for the largest share of this increase, growing by EUR 2.5 million to a total of EUR 16.5 million.

Depreciation, amortisation and value adjustments of intangible assets and fixed assets fell to EUR 2.3 million.

The item "Write-downs on and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions" amounted to minus EUR 21.1 million, compared with minus EUR 15.3 million at the same date the previous year. In addition to the required creation of specific loan loss provisions, the first half of 2022 includes provisions for possible risks that cannot yet be foreseen.

In the first half of 2022, income from ordinary activities amounted to EUR 60.8 million. After deduction of tax expenses of EUR 28.8 million, pro rata net income for the year was EUR 32.0 million (previous year: EUR 18.3 million).

Balance sheet structure

Total assets amounted to EUR 55.1 billion as at 30 June 2022, compared with EUR 52.5 billion at the end of 2021.

The 5 percent increase was mainly due to further significant growth of EUR 1.7 billion in the mortgage loan portfolio to EUR 43.4 billion as at 30 June 2022.

In business with sovereigns and banks, the portfolio remained at the year-end level of EUR 3.6 billion. Securities held as fixed assets included hidden reserves of EUR 24 million and hidden charges of EUR 20 million.

The portfolio included reported equity of EUR 1,673.2 million. Own funds in accordance with the CRR (Capital Requirements Regulation) amounted to EUR 1,901.3 million. This resulted in a Common Equity Tier 1 ratio (CET 1 ratio) of 18.9 percent as at mid-year, compared with 20.4 percent at year-end 2021. The Tier 1 capital ratio was 21.2 percent (31 December 2021: 21.9 percent) and the total capital ratio was 21.7 percent (31 December 2021: 22.5 percent). The leverage ratio was 3.6 percent as at mid-year 2022.

[1] Net interest income is the sum of item 1: Interest income and 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 of item 7: General administrative expenses and item 8: Depreciation/amortisation and value adjustments of intangible assets and fixed assets in the income statement

"Other liabilities to customers" break down as follows:

OTHER LIABILITIES TO CUSTOMERS
IN € 000

	Remaining term < one year	Remaining term > one year	Total
Other liabilities to customers as at 30 June 2022	**2,496,289**	**2,672,648**	**5,168,937**
Registered bonds	24,414	1,477,453	1,501,867
of which institutional investors	23,534	1,303,658	1,327,192
Promissory note loans on the liabilities side	636,532	858,954	1,495,486
of which institutional investors	153,593	514,654	668,247
Other	1,835,343	336,241	2,171,584
of which institutional investors	1,365,209	291,241	1,656,450

RATINGS, SUSTAINABILITY AND REGULATORY CONDITIONS

Ratings

Moody's left MünchenerHyp's ratings unchanged in the first half of 2022:

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

* Outlook negative.

Our long-term unsecured liabilities have ratings from the other two major rating agencies, Standard & Poor's (A+, outlook stable) and Fitch (AA-, outlook stable), via the combined rating of the Cooperative Financial Network.

Sustainability

MünchenerHyp's sustainability ratings remained unchanged in the first half of 2022:

THE DEVELOPMENT OF OUR SUSTAINABILITY RATINGS SINCE 2020

	2020	2021 / 2022
ISS-ESG	C+ (Prime Status)	C+ (Prime Status)
Sustainalytics	Risk score of 17.4 (low risk)	Risk score of 18.5 (low risk)

EXECUTIVE BODIES AND COMMITTEES

Markus Wirsen joined MünchenerHyp's Board of Management on 1 April 2022. He was previously Head of Restructuring & Recovery at DZ HYP AG.

PERSONNEL

The Bank's earnings-oriented growth strategy and extensive regulatory requirements again meant that we had to recruit more staff. By mid-year, 36 new employees had been hired on permanent contracts to fill new vacancies and replace departing staff. Employee turnover also fell.

CORPORATE PLANNING

The business and risk strategy defines the framework for MünchenerHyp's main business operations and has been reviewed at regular intervals. The business strategy continues to focus on profit-oriented growth of the mortgage portfolios and a gradual reduction in lending business with sovereigns and banks, with the aim of further strengthening the Bank's profitability and thus its profit retention capacity.

OUTLOOK

Opportunities and risks

Economic prospects became progressively bleaker over the course of the first half of the year. High inflation, ongoing supply bottlenecks and the consequences of the war in Ukraine prompted economic researchers to revise their forecasts for 2022 and 2023 sharply downwards. The OECD now anticipates growth of only 3.0 percent for 2022, instead of 4.5 percent, and has lowered its forecast for 2023 from 3.2 percent to 2.8 percent.

Economic prospects for the eurozone have also continued to deteriorate. The European Commission lowered its growth forecast again significantly in July 2022 and now expects gross domestic product in the eurozone to grow by 2.6 percent in 2022 and by only 1.4 percent in 2023. It justified these adjustments by pointing out that negative developments due to the war in Ukraine have further intensified. In particular, these include risks to the energy supply, more difficult financing conditions and a poorer outlook for the global economy.

Prospects for the German economy have also become more gloomy as a result. The European Commission forecasts growth of 1.4 percent in Germany's gross domestic product for 2022, which would be the lowest growth in the eurozone. It expects growth to come to 1.3 percent in 2023. Furthermore, economic experts have not ruled out the possibility of recession if Russia cuts off the gas supply, given the associated difficulties with the energy supply. Prospects have recently deteriorated for the construction industry, owing to shortages of materials. Once these have been addressed, however, economic experts at the Kiel Institute for the World Economy anticipate a further increase in construction investment, as the order situation remains good.

Current financing conditions also pose a risk to the economy and to developments on the capital markets, as they could deteriorate. On one hand, the US Federal Reserve is likely to raise interest rates further in the second half of the year. On the other hand, if high inflation rates were to gain momentum, central banks would be forced to implement much larger interest rate hikes than currently expected.

The ECB is expected to adopt a much more restrictive monetary policy. According to an announcement by ECB President Christine Lagarde, the ECB plans to develop an anti-fragmentation tool in response to increasing differentiation on bond markets. However, the ECB will try to structure its new bond purchases in such a way that an increase in the money supply is avoided. The ECB is also expected to implement several interest rate changes.

Stock markets could remain volatile in the third quarter, and further declines in indices have therefore not been ruled out.

On the foreign exchange market, we expect rates for the main currencies to remain highly volatile. The ECB's even looser monetary policy has weakened the euro in recent weeks, and this is not expected to change for the time being. The value of the euro thus remains low, both fundamentally and in terms of purchasing power parity with the US dollar.

Funding spreads for banks are likely to remain attractive, although there were signs that they were widening in the second quarter. Given the lower levels of liquidity made available by the ECB and the end of its purchase programmes – no new net purchases, only reinvestment of maturing instruments – we do not expect a return to the funding conditions of 2021.

Depending on how the ECB structures its plans – particularly with regard to interest on the long-term tenders – analysts anticipate a lower volume of new issues of covered bonds in benchmark format for the second half of the year. In view of the strong first half, however, the issue volume for the year as a whole is expected to increase to around EUR 150 billion. In terms of issuance activity in 2023, we expect market volume to increase, as maturing securities are generally being replaced by new issues and the long-term ECB tenders are being replaced by new issues of covered bonds.

Deteriorating economic prospects are expected to have a growing impact on property markets, while higher interest rates will also have a dampening effect on financing markets. Overall, markets are expected to slow down.

Demand for private residential property financing may fall if rising interest rates and higher living costs mean that fewer households can afford home ownership. At present, demand for housing remains so high that prices are not currently expected to fall. Instead, it is possible that other groups of buyers with more equity may purchase residential properties as an investment. This trend has already been apparent in the USA and UK for some time and could increasingly gain traction in Germany too.

In addition, rising construction costs are making new build projects increasingly difficult to realise, as the planning horizon and the availability of construction materials and specialist staff cannot be predicted reliably. In this context, the German government will be unable to meet its target of building 400,000 new residential units each year. However, having fewer new builds will in turn stabilise property prices, including for existing properties.

For commercial properties, a price adjustment is expected in all segments and markets in the form of an increase in yields, although the extent of this is not yet known.

With regard to office properties, users will focus increasingly on energy efficiency and sustainability. This will be associated with a rise in vacancy rates, especially for properties that do not meet modern standards. There will be an increased risk of "stranded assets" that can no longer be let. However, it is also anticipated that investors will renovate these properties and market them successfully again afterwards.

Further upheaval is expected in the retail segment, as high inflation and falling real wages are placing such a strain on private households that spending is likely to be more strongly focused on essential consumer goods.

Logistics properties will remain a sought-after asset class since they are essential to the diversification of supply chains. Yields are expected to increase on logistics properties, too, reflecting higher interest rate levels.

The anticipated slowdown on property markets will also affect MünchenerHyp's new business and will increasingly present challenges.

In the private residential property financing business segment, we expect to see a further shift in demand away from new build financing towards follow-on financing, particularly forward financing that enables follow-on interest rates to be secured from an early stage. We expect demand for existing properties to be robust, especially from customers who can contribute more equity to financing. For the year as a whole, we expect new business in the brokerage business with the cooperative banks as well as the independent financial service providers to be slightly below the previous year's level in view of probable market changes. We entered into further cooperation agreements with brokers in Austria, which we expect to lead to business growth.

In commercial property financing, we anticipate that there will be some corrections on the property market, with prices tending to fall and yields to rise. Moreover, investors will remain cautious in view of the uncertainties and interest rate trends described above. However, we do not anticipate a slump in investment demand, as indexed leases in particular offer protection against high inflation rates. Furthermore, we are continuing to receive large numbers of financing enquiries despite a decline in demand. It nevertheless remains to be seen how many of these enquiries can actually be implemented under current market conditions and when the correction phase of the market will be concluded. We therefore currently anticipate that new business will be quieter in the second half of the year and that it is more likely that we will maintain last year's commitment volume rather than recording moderate growth as originally planned. On the syndication market, we expect an increase in transactions from the fourth quarter of 2022 in the USA and from the first quarter of 2023 in Europe, assuming that capitalisation rates increase less dynamically and that the property and capital markets stabilise again.

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 around EUR 9.0 billion to EUR 10.5 billion in 2022, of which EUR 7.5 billion to EUR 8.0 billion is expected to be raised on the capital market and the remainder on the money market. Mortgage Pfandbriefe remain our most important source of funding.

We are also aiming to attract additional deposits from private customers through the GenoFestgeld product in the second half of 2022.

To support its growth, it may make sense for MünchenerHyp to seek to further strengthen its subordinated funds in future.

We will implement and further expand our sustainability strategy in the second half of the year based on the defined key themes (sustainable business model, responsible corporate governance, climate change and CO_2 emissions, risk management, social responsibility, customers and business partners, employees). We will also focus on the implementation of regulatory requirements with regard to sustainability and ESG risks.

We expect net interest and commission income to improve, despite the current environment. We will generally achieve the targets set for 2022.

Disclaimer regarding forward-looking statements

These Half-Year Financial Statements contain statements concerning our expectations and forecasts for the future. These forward-looking statements, in particular regarding MünchenerHyp's business development and earnings performance, are based on planning assumptions and estimates and are subject to risks and uncertainties. Our business is influenced by a variety of factors, most of which are beyond our control. These mainly include economic developments, 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. Actual results and developments may therefore differ from the assumptions that have been made today. Such statements are therefore only valid at the time this report was prepared.

Balance sheet as at 30 June 2022

ASSETS
IN €

		30.06.2022	€ 000 31.12.2021
1. Cash reserve			
a) Cash on hand	0.00		9
b) Balances with central banks	1,509,131,765.36		574,567
of which with Deutsche Bundesbank €1,509,131,765.36			
		1,509,131,765.36	574,576
2. Claims on banks			
a) Mortgage loans	182,737.88		201
b) Public-sector loans	25,000,000.01		100,619
c) Other claims	1,583,151,205.92		1,538,333
of which payable on demand €1,170,494,632.23			
		1,608,333,943.81	1,639,153
3. Claims on customers			
a) Mortgage loans	43,268,075,028.59		41,555,682
b) Public-sector loans	1,317,442,800.23		1,351,009
c) Other claims	90,303,553.08		139,173
		44,675,821,381.90	43,045,864
4. Bonds and other fixed-income securities			
a) Bonds and notes	2,252,446,841.35		2,213,811
aa) Public-sector issuers €1,602,870,653.70			(1,591,894)
of which eligible as collateral for Deutsche Bundesbank advances €1,566,465,350.78			
ab) Other issuers €649,576,187.65			(621,917)
of which eligible as collateral for Deutsche Bundesbank advances €507,304,856.13			
b) Own bonds and notes	4,500,965,080.56		4,500,101
Nominal value €4,500,000,000.00			
		6,753,411,921.91	6,713,912
Carried forward:		54,546,699,012.98	51,973,505

Assets continued on page 13

Assets continued from page 12

ASSETS
IN €

		30.06.2022	€ 000 31.12.2021
Brought forward:		54,546,699,012.98	51,973,505
5. Equities and other variable-yield securities		146,482,835.91	147,000
6. Participations and shares in cooperatives			
a) Participations	102,726,167.61		102,726
of which credit institutions €21,146,905.41			
b) Shares in cooperatives	18,500.00		19
of which in credit cooperatives €15,500.00			
		102,744,667.61	102,745
7. Shares in affiliated companies		11,751,601.64	11,752
8. Intangible assets			
Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values		838,511.07	1,361
9. Tangible assets		64,988,671.92	65,924
10. Other assets		144,561,067.09	139,905
11. Deferred items			
a) From issuing and lending business	104,121,224.31		95,482
b) Other	12,868,116.58		556
		116,989,340.89	96,038
Total assets		55,135,055,709.11	52,538,230

LIABILITIES, CAPITAL AND RESERVES
IN €

		30.06.2022	€ 000 31.12.2021
1. Liabilities to banks			
a) Registered Mortgage Pfandbriefe issued	870,931,859.94		700,885
b) Registered Public Pfandbriefe issued	93,062,684.36		84,267
c) Other liabilities	7,934,527,665.60		7,288,049
of which: payable on demand €1,708,443,906.04			
		8,898,522,209.90	8,073,201
2. Liabilities to customers			
a) Registered Mortgage Pfandbriefe issued	9,215,839,702.97		9,068,509
b) Registered Public Pfandbriefe issued	1,295,857,257.26		1,339,300
c) Other liabilities	5,168,937,306.14		4,458,803
of which: payable on demand €62,680,559.67			
		15,680,634,266.37	14,866,612
3. Certificated liabilities			
a) Bonds issued	27,964,439,174.02		26,718,553
aa) Mortgage Pfandbriefe €21,977,876,558.55			(20,706,066)
ab) Public Pfandbriefe €40,650,836.49			(66,081)
ac) Other bonds and fixed income securities €5,945,911,778.98			(5,946,406)
b) Other certificated liabilities	319,535,254.97		657,136
		28,283,974,428.99	27,375,689
4. Other liabilities		173,584,817.22	**165,643**
Carried forward:		53,036,715,722.48	**50,481,145**

Liabilities continued on page 15

Liabilities continued from page 14

LIABILITIES, CAPITAL AND RESERVES
IN €

			€ 000
		30.06.2022	31.12.2021
Brought forward:		53,036,715,722.48	50,481,145
5. Deferred items			
From issuing and lending business	73,406,120.46		77,456
		73,406,120.46	**77,456**
6. Provisions			
a) Provisions for pensions and similar obligations	36,632,293.00		36,182
b) Provisions for taxes	2,200,000.83		14,450
c) Other provisions	42,090,534.48		51,173
		80,922,828.31	**101,805**
7. Subordinated liabilities		15,000,000.00	**19,500**
8. Instruments of the additional regulatory core capital		200,803,212.85	**120,995**
9. Fund for general banking risks		55,000,000.00	**55,000**
10. Capital and reserves			
a) Subscribed capital	1,258,861,170.00		1,243,221
aa) Members' capital contributions €1,258,861,170.00			(1,243,221)
b) Revenue reserves	382,000,000.00		372,000
ba) Legal reserves €376,000,000.00			(366,000)
bb) Other revenue reserves €6,000,000.00			(6,000)
c) Unappropriated profit	32,346,655.01		67,108
		1,673,207,825.01	**1,682,329**
Total liabilities, capital and reserves		55,135,055,709.11	**52,538,230**
1. Contingent liabilities			
Contingent liability on guarantees and indemnities		766.94	1
2. Other commitments			
Irrevocable loan commitments		5,430,588,805.42	5,126,314

Income statement

1 JANUARY THROUGH 30 JUNE 2022

INCOME STATEMENT
IN €

			01.01. to 30.06.2022	€ 000 01.01. to 30.06.2021
1. Interest income from			**457,937,982.89**	**473,636**
a) Lending and money market operations		436,541,068.73		451,586
b) Fixed-income securities and debt register claims		21,396,914.16		22,050
2. Interest expenses			**247,401,888.25**	**286,282**
3. Current income from			**1,000,395.70**	**500**
a) Participations and shares in cooperatives		1,000,395.70		500
4. Commission income			**6,623,595.64**	**6,598**
5. Commission expenses			**65,576,390.84**	**69,461**
6. Other operating income			**765,695.92**	**945**
7. General administrative expenses			**71,816,997.70**	**65,597**
a) Personnel expenses		33,600,225.91		32,550
aa) Wages and salaries	28,428,136.66			27,360
ab) Social security contributions and cost of pensions and other benefits	5,172,089.25			5,190
of which €889,837.38				(1,124)
b) Other administrative expenses		38,216,771.79		33,047
8. Depreciation / amortisation and value adjustments of intangible assets and fixed assets			**2,300,000.00**	**2,500**
9. Other operating expenses			**2,687,856.57**	**2,833**
10. Write-downs on and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions			**21,078,030.19**	**15,306**
11. Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets			**5,293,708.05**	**0**
12. Results from ordinary business activities			**60,760,214.65**	**39,700**
13. Taxes on revenue and income			**28,760,198.17**	**21,430**
14. Net income			**32,000,016.48**	**18,271**
15. Retained earnings brought forward from previous year			**346,638.53**	**33,037**
16. Unappropriated profit			**32,346,655.01**	**51,308**

Notes to the interim financial statements as at 30 June 2022 (abridged)

General information on accounting policies

Münchener Hypothekenbank eG's financial accounts for the first half of 2022 were prepared using the same methods used to prepare the balance sheet and determine valuations shown in the annual statement of accounts as at 31 December 2021.

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 2022 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 2022.

Auditing association

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

Munich, 9 August 2022

Münchener Hypothekenbank eG

Board of Management

Dr. Louis Hagen
Chairman
of the Board of Management

Dr. Holger Horn
Deputy Chairman
of the Board of Management

Ulrich Scheer
Member
of the Board of Management

Markus Wirsen
Member
of the Board of Management

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 2022 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 assurance 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 assurance 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, 9 August 2022

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, 9 August 2022

Münchener Hypothekenbank eG

Board of Management

Dr. Louis Hagen
Chairman
of the Board of Management

Dr. Holger Horn
Deputy Chairman
of the Board of Management

Ulrich Scheer
Member
of the Board of Management

Markus Wirsen
Member
of the Board of Management

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Markus Wirsen (as of 01.04.2022)

General Executive Manager

Ingo Schramm (until 30.06.2022)

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