MünchenerHyp

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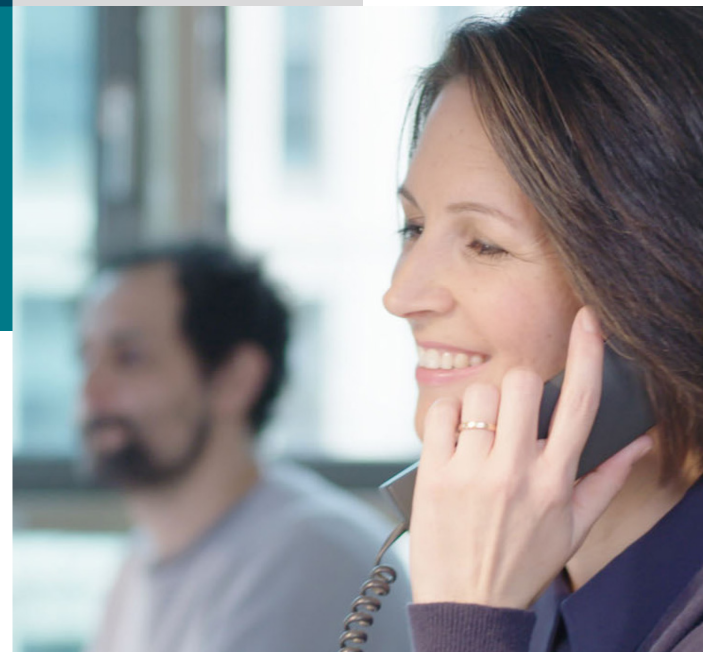

# 2020
## HALF-YEAR FINANCIAL STATEMENTS

# Contents

# Interim Management Report 2020

## OVERALL ECONOMIC CONDITIONS

### Economic development

The spread of the coronavirus pandemic led to an unprecedented global economic slump in the first half of the year, with the measures taken to prevent the advance of COVID-19 bringing public and economic life to a virtual standstill around the world. In its current economic report, the Kiel Institute for the World Economy estimates that this caused global economic activity to fall by almost 10 percent in the first half of 2020.

The Eurozone also experienced a drastic decline in economic output. Gross domestic product (GDP) fell by 3.6 percent in the first quarter, although it was March before Europe took decisive action to contain the virus. France, Spain and Italy were particularly severely affected by the pandemic and experienced an above-average economic downturn. Despite a gradual easing of lockdown restrictions, the Kiel Institute for the World Economy expects eurozone economic activity to decline by more than 13 percent in the second quarter.

Lockdown restrictions and disruptions to production also had a massive economic impact in Germany. However, the decline of 2.0 percent in GDP in the first quarter was not as severe as at the height of the financial market crisis in 2009, mainly thanks to support from construction investment and public spending. Construction investment rose by 4.1 percent quarter-on-quarter and public spending by 0.2 percent. Although sentiment indicators improved as restrictions gradually eased, the economy recovered only very slowly, so GDP is expected to undergo a double-digit percent age decline in the second quarter.

In order to mitigate the fallout of the coronavirus pandemic on the labour market, short-time working arrangements were considerably expanded in Germany. Although this helped stabilise the labour market, it failed to prevent unemployment rising significantly, and the number of people in work fell for the first time in 15 years. Around 2.9 million people were registered as unemployed in Germany at the end of June 2020, a year-on-year increase of more than 600,000, and the unemployment rate rose to 6.2 percent. Consumer price rises weakened in the first half on the back of falling energy prices, closing at 0.9 percent in June.

### Financial markets

Uncertainty about the course and economic impact of the coronavirus pandemic caused severe turbulence on the international financial and capital markets, with stock markets crashing in February and March. Governments and central banks reacted quickly. Large financial assistance packages were passed, monetary policy was further loosened and asset purchase programmes were launched to ensure liquidity. These measures gradually brought a degree of confidence back to the financial markets in the second quarter, and stock markets started a significant recovery. The European Central Bank (ECB) supported this development with the announcement of a EUR 120 billion Asset Purchase Programme (APP) and a Pandemic Emergency Purchase Programme (PEPP), which now stands at EUR 1.35 trillion. The ECB also eased restrictions on banks and improved conditions for targeted longer-term refinancing operations (TLTRO III).

Yields on eurozone government bonds fluctuated sharply in this environment. After initially widening significantly, spreads between government bonds of various countries narrowed in response to the purchase programmes. Ten-year Bunds started 2020 at a yield of minus 0.2 percent before falling to a historic low of minus 0.9 percent on 9 March. The yield had climbed back to minus 0.2 percent within a few trading days, and then remained within a range of minus 0.35 to minus 0.55 percent.

In early and mid-March, the US Federal Reserve (Fed) reduced the federal funds rate by 50 and 100 basis points respectively, to a new target range of 0.0 to 0.25 percent. It also announced a USD 1.5 trillion purchase programme for various asset classes. At the end of April, the Fed changed the purchasing limit to "in the amounts needed", justifying its very accommodative monetary policy stance with high risks to growth and promising to use all means at its disposal to support the economy.

Covered bond spreads widened in the first quarter. Banks issued hardly any covered bonds after the ECB's announcement of very cheap funding. As a result of the low volume of new issues and the ECB's large-volume purchase programme, covered bond issue spreads narrowed significantly and, in the short and medium-term maturity range, returned to the same level as at the start of the year. Issuance of euro benchmark covered bonds totalled EUR 66 billion in the first half of 2020, a year-on-year decline of about 30 percent.

The spread of coronavirus also increased turbulence in foreign exchange markets. The US dollar traded between 1.06 and 1.15 against the euro, although the latter has recently been showing increasing resilience and has regained ground after losses at the start of the year. The Swiss franc performed similarly against the euro, although it fluctuated within a much smaller range of 1.05 to 1.09. Sterling, burdened by outstanding issues surrounding Brexit and a higher number of coronavirus infections, lost value against the euro, moving from 0.85 to 0.91 over the half-year.

## Property markets and property financing markets

### Residential property, Germany

Fears that the long-running upturn in Germany's residential property market would be abruptly ended by the recession caused by the coronavirus outbreak have so far proven unfounded. According to the residential property price index of the Association of German Pfandbrief Banks (vdp), prices in the first quarter, which was largely unaffected by the pandemic, rose by 6.5 percent compared with the prior-year period. Although final data are not yet available for the second quarter, the signs are that, despite the economy declining and unemployment rising, demand for residential property has not collapsed. Experts therefore expect house and apartment prices to have remained stable in the second quarter.

The rental market also proved resilient. When the coronavirus pandemic broke out, many observers feared massive rent arrears and defaults due to lockdown. This largely failed to materialise in the first half, so the moratorium on terminating tenancies, which was due to expire on 30 June, was not extended. Demand for rental apartments remained high. New contractual rents rose by 3.9 percent in the first quarter, according to the vdp, while Immowelt figures show further asking rent increases in the second quarter in the vast majority of large German cities.

Despite the lockdown restrictions, institutional investors were very active in the first half of 2020, investing over EUR 9 billion in German residential property. By comparison, an average of around EUR 5 billion was invested in German residential property portfolios in the first half of each of the last ten years. Overall, the German residential property market remained a safe investment target compared with other countries.

The continued buoyant demand for houses and apartments was likely helped by the fact that interest rates for private property finance remained very low and, particularly in the second quarter, were only slightly above all-time lows. Bank lending continued to grow in the first quarter of 2020. In the second quarter, the Bundesbank's quarterly Bank Lending Survey showed a decline in demand for residential property loans. It noted that lending criteria for residential property financing had tightened significantly in the second quarter, leading to a higher proportion of rejected loan applications.

### Residential property, international

All European residential property markets were affected by lockdown measures as the first quarter drew to a close, but as restrictions had only been in force a short while, they were not yet reflected in Eurostat's house price index. The index shows that the 27 EU member states recorded a 5.5 percent year-on-year increase in residential property prices in the first quarter. Austria experienced one of the largest rises, with house prices up 7.7 percent on the prior-year quarter.

The Swiss housing market was largely stable, despite the pandemic's adverse impact, with prices continuing to show little momentum. In the first quarter of 2020, prices rose by 0.9 percent year-on-year for single-family houses, but fell by 1.1 percent for condominiums. Prices on the rental housing market declined a further 1.1 percent in the first quarter, with a slowdown in immigration dampening demand. The only exceptions to this were large centres like Zurich, Basel and Geneva, where there was another year-on-year rise in average asking rents in the first quarter. Mortgage rates on the market have risen since the outbreak of the pandemic, but remain very low from a long-term perspective.

### Commercial property, Germany

Data from Real Capital Analytics show that commercial property and residential portfolios to the tune of EUR 27.5 billion were sold in the German commercial property market in the first half. Representing a year-on-year increase of around EUR 3 billion, this was mainly due to a strong first quarter. Although early signs of a decline in transaction volume caused by the extensive lockdown restrictions started surfacing in the second quarter, investment nevertheless continued, showing that the German commercial property market is still regarded as a safe haven. Foreign investors accounted for around 40 percent of volume.

Price growth weakened only slightly in the first quarter, with vdp surveys showing that commercial property prices were still 5.4 percent higher than in the prior-year period. This price increase was mainly driven by office property, whereas prices for retail properties had already fallen by 1.1 percent. However, coronavirus started to have a greater impact on purchase prices in the second quarter.

Office property remained the most popular asset class, at 38 percent of transaction volume, but lockdown meant that take-up of office space in the first half fell by around one-third in the seven largest German cities. Rents were not, at that point, affected by the decline and remained stable. Prime yields (net) in Germany's top seven property markets were also stable at 2.8 percent.

Retail properties accounted for 14 percent of transaction volume in the first half, on a par with the prior-year period, but lockdown restrictions have hit the retail sector hard and accelerated structural changes. In particular, these include the growth of online shopping, the transformation of city centres through consolidation in the department store segment, new focuses in the restaurant trade and entertainment in combination with retail. The increasing differentiation this caused in retail sector yields was particularly evident in the net initial yield for shopping centres. This rose from 4.3 percent to 5.0 percent in the first half of 2020 and is now significantly higher than the net initial yield for retail parks of 4.1 percent.

**Commercial property, international**

In the first half, institutional investors acquired commercial property and residential portfolios in Europe worth around EUR 96 billion. This 10- percent decrease compared with the prior-year period was due to the outbreak of the coronavirus pandemic. Property sales in Germany accounted for around one-third of European transaction volume.

In the UK, the transaction volume in the first six months fell by 7 percent to EUR 20 billion. Investor reticence has not yet impacted prime yields. For example, office properties continued to pay an average net initial yield of 3.7 percent in central London and 4.1 percent for the UK as a whole. Prices were also underpinned by stable growth in rents. In contrast to office properties, retail properties – especially shopping centres in regional markets – suffered sharp price declines as the pandemic increased the popularity of online shopping in the UK.

In France, around EUR 16 billion was invested in commercial property and residential portfolios in the first half, slightly more than in the previous year. In central Paris, net initial yields for office properties were 2.8 percent, the lowest anywhere in Europe, while prime rents rose by 3 percent year-on-year.

In the Netherlands, the impact of the coronavirus pandemic was already very evident in the investment market for commercial property and residential portfolios. Transaction volume fell by over 30 percent to around EUR 6 billion in the first half of 2020, while rental price growth came to a standstill in the first quarter.

In Spain, which the pandemic hit very hard, sales of commercial property fell by 33 percent to EUR 4 billion in the first half, with investors staying away. Only large deals negotiated before the onset of the crisis were completed. Rents on office and retail properties remained stable in the first quarter.

In the USA, commercial property and residential portfolios worth USD 116.5 billion changed hands in the first quarter, a year-on-year increase of 8.1 percent. However, three-quarters of these transactions were carried out in January and February, as the pandemic was also already depressing US transaction volume in March. There are no signs to date that transaction price levels have been impacted. Office rental markets in large cities (New York, Washington DC, Boston, Chicago, Los Angeles, San Francisco, Seattle) enjoyed solid employment figures, low unemployment and low vacancy rates.

# BUSINESS DEVELOPMENT

## New mortgage business

With a new volume of commitments of EUR 3.2 billion, new business was very high in the first half of 2020. Although it was down 10 percent on the record set in the prior-year period of around EUR 3.6 billion, owing to the pandemic, this was still MünchenerHyp's second-highest half-year result in new business.

Thanks to the strength of the German residential property market and continuing robust demand for loans, new business in private residential property financing was stable and, at EUR 1.95 billion, only EUR 41 million below the previous year's result. In business with our cooperative partner banks, we increased commitment volume to EUR 1.5 billion, a rise of 8 percent. This was mainly due to our extremely successful "Property Spring 2020" (Immobilienfrühling 2020) campaign, but other factors also contributed: our cooperative partner banks made greater use of the simplified loan processing procedure (Vereinfachtes Verfahren) for higher-volume loans, we introduced digital processes in the service we provide to partner banks, and low interest rates favoured demand.

In Germany, first-half sales of private property financing via independent financial service providers declined by one-third on the prior-year period, to EUR 266 million. We recorded a decline of EUR 35 million to EUR 129 million in our cooperation with Swiss PostFinance, which was attributable to the coronavirus pandemic. The financing business in Austria was lower than planned due to the coronavirus pandemic, with only around EUR 7 million of private property financing sold in the first half.

Commercial property financing developed fairly robust in the shadow of the coronavirus crisis, although financing enquiries have declined noticeably since mid-March 2020. Faced with an uncertain environment, investors focused on existing deals and less on new investments. However, new deals continued to come in, enabling us to close the period with new business still at a healthy volume of EUR 1.25 billion, compared with EUR 1.6 billion as at 30 June 2019. Germany was once again the driver of new business, with a volume of EUR 0.9 billion. International business, fed mainly by new business in the Netherlands and Spain and syndicated business in the USA, accounted for EUR 0.35 billion.

Office property and residential property portfolios remained the dominant asset classes, with a share of around 80 percent.

Competition in commercial property financing remained intense. Despite a more cautious approach, especially in the harder-hit investment segments such as hotels and retail, competitors demonstrated a fundamental willingness to provide financing. Margins rose slightly due to higher funding costs.

### 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 2020. Maturing instruments were not replaced, leading to a further reduction of the portfolio, which declined by EUR 0.2 billion to EUR 3.9 billion since the beginning of the year.

### Refinancing

MünchenerHyp was able to source funding at good conditions at all times, even at the peak of the coronavirus pandemic, mainly through private placements of covered and uncovered bonds in euros and Swiss francs. The Genossenschaftliche FinanzGruppe (Cooperative Financial Network) in particular showed a keen interest in these products. ECB's current open market transactions also provided a very attractive opportunity for covered funding.

Our focus in terms of large-volume issues in the first half was on uncovered bonds. We started by issuing a green senior non-preferred bond for CHF 240 million. The first green security issued in this asset class on the Swiss capital market, it met with extremely high demand. The bond has a term of five years and eleven months and a coupon of 0.1 percent. The issue was placed at a price of 51 basis points above the mid-swap rate and received a total of 39 orders.

Shortly afterwards, we issued another senior non-preferred bond, this time in euros. With an issue volume of EUR 250 million, the bond was successfully placed at 54 basis points above the mid-swap rate.

We also tapped a Swiss franc Mortgage Pfandbrief maturing in November 2032 by CHF 60 million to CHF 160 million.

The issue volume was EUR 4.0 billion as at 30 June 2020. Mortgage Pfandbriefe accounted for EUR 2.8 billion of this – including Mortgage Pfandbriefe lodged as collateral at ECB – and unsecured bonds for around EUR 1.2 billion. Once again, no Public Pfandbriefe were issued, in keeping with the Bank's business strategy.

## EARNINGS, FINANCIAL AND ASSET SITUATION

### Balance sheet structure

Total assets amounted to EUR 48.3 billion as at 30 June 2020, compared with EUR 42.9 billion at the end of 2019. This 13 percent increase is due partly to growth in the mortgage business portfolio and partly to a EUR 2.3 billion increase in the own bonds portfolio.

Our mortgage loan portfolio has grown by EUR 1.7 billion since the beginning of the year to EUR 37.1 billion as at 30 June 2020. In business with sovereigns and banks, the portfolio reduced by EUR 0.2 billion to EUR 3.9 billion over the same period, in line with our strategy. Securities held as fixed assets included hidden reserves of EUR 43 million and hidden charges of EUR 4 million.

The portfolio included reported equity of EUR 1,454.7 million. Profit carried forward contained EUR 23.7 million of dividends not yet distributed due to the postponement of the Delegates Meeting. Own funds in accordance with the CRR (Capital Requirements Regulation) amounted to EUR 1,575.4 million. This resulted in a common equity Tier 1 ratio (CET 1 ratio) of 18.6 percent as at mid-year, compared with 19.8 percent at year-end 2019. The Tier 1 capital ratio was 20.1 percent (31 December 2019: 21.4 percent) and the total capital ratio was 20.6 percent (31 December 2019: 22.1 percent). The leverage ratio was 3.4 percent as at mid-year 2020.

"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 of 30 June 2020** | **1,552,619** | **1,965,904** | **3,518,523** |
| Registered bonds | 39,977 | 1,282,648 | 1,322,625 |
| of which institutional investors | 39,835 | 1,270,648 | 1,322,483 |
| Promissory note loans on the liabilities side | 538,182 | 643,256 | 1,181,438 |
| of which institutional investors | 130,955 | 532,255 | 663,210 |
| Other | 974,460 | 40,000 | 1,014,460 |
| of which institutional investors | 617,075 | 40,000 | 657,075 |

### Development of earnings

Net interest income[1] rose by 17 percent compared with the first half of 2019, to EUR 165.1 million. Net commission income[2] amounted to minus EUR 53.8 million. Net interest and commission income[3] totalled EUR 111.3 million, a year-on-year rise of 13 percent.

Administrative expenses[4] increased by EUR 3.6 million to EUR 66.7 million. Personnel costs were up EUR 2.0 million at EUR 30 million. Other administrative expenses rose by EUR 0.7 million to EUR 32.8 million.

Depreciation, amortisation and value adjustments of intangible assets and fixed assets increased to EUR 4.0 million.

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 minus EUR 15.5 million, compared with EUR 6.8 million at the same date the previous year. The positive value in the previous year resulted from the release of a specific loan loss provision, which was a one-off special factor. In addition to the required creation of specific loan loss provisions in the single-digit million range, the first half of 2020 already includes provisions for possible risks to economic growth caused by the coronavirus pandemic.

In the first half of 2020, income from ordinary activities amounted to EUR 26.9 million. After deduction of tax expenses of EUR 13.7 million, pro rata net income for the year was EUR 13.2 million (previous year: EUR 18.1 million).

## RATING AND SUSTAINABILITY

### Rating

Moody's left MünchenerHyp's ratings unchanged in the first half of 2020:

| | Ratings |
|---|---|
| Mortgage Pfandbriefe | Aaa |
| Public 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 retain their AA- (outlook negative) rating from the other two major rating agencies, Standard & Poor's and Fitch, via the combined rating of the Genossenschaftliche FinanzGruppe (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 2020:

THE DEVELOPMENT OF OUR SUSTAINABILITY RATINGS SINCE 2018

| | | 2018 | 2019/2020 |
|---|---|---|---|
| ISS-ESG | | Corporate Responsibility Prime rated by ISS-oekom B– | Corporate ESG Performance Prime RATED BY ISS ESG B– |
| imug | Sustainability rating: | positive (BB) | positive (BB) |
| | Public Pfandbriefe: | very positive (A) | very positive (A) |
| | Mortgage Pfandbriefe: | positive (BBB) | positive (BBB) |
| Sustainalytics | | 65 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. By mid-year, 52 new employees had been hired on permanent contracts. Fluctuation is at a level that is customary in the industry.

## 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 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

### Outlook: Opportunities and risks

The coronavirus pandemic will cause further serious damage to the economy in the second half of 2020. The severity of the global recession will depend primarily on whether a second wave of infections occurs later in the year or whether restrictions can be further eased. The ensuing high level of uncertainty makes it considerably more difficult to predict when the economy will recover.

The International Monetary Fund (IMF) now assumes that the global economy will recover more slowly than initially anticipated. Although IMF expects production to increase in the second half, its World Economic Outlook of June 2020 is still predicting a 4.9 percent decline in global GDP in 2020. Growth of 5.4 percent is forecast for 2021, assuming that the situation continues to normalise.

Given the eurozone's comprehensive lockdown, economic experts expect a deeper recession than the global average. The IMF's June forecasts show eurozone economic output falling by 10.2 percent in 2020 and rising by 6 percent in 2021. The German economy will also recover more slowly than was expected when the pandemic started. On average, economic researchers see GDP declining by 6.4 percent in 2020 and the economy recovering by 4.7 percent in 2021.

Stock markets have already priced in a significant economic recovery, so further price gains are unlikely unless the economic outlook stabilises. As there is considerable uncertainty as to how successfully the pandemic will be contained, we continue to expect increased volatility on the capital markets.

Against this backdrop, central banks will in all probability continue their expansionary monetary policy. There is very little prospect of further cuts in interest rates, given that they are already extremely low, and in some cases negative, but central bank purchasing programmes will continue to keep interest rates on bond markets low. In some currencies, such as the euro and Swiss franc, the only way investors can still achieve positive returns is by taking on higher credit risks or long investment terms, so many will try to switch to other asset classes.

Issuers in covered bond markets will be able to continue borrowing cheap funds from central banks, especially under the very attractive tender conditions offered by the ECB (TLTRO III programme). Experts therefore expect the volume of new euro benchmark covered bonds issued in the second half to be extremely low. A total issue volume of EUR 100 billion has been forecast for the euro benchmark segment in 2020.

However, demand for Pfandbriefe and other covered bonds continues to enjoy support from ECB's third covered bond purchase programme (CBPP 3), so issuers should continue to benefit from cheap funding.

Although it is still too soon to clearly see the economic impact of the coronavirus pandemic on residential and commercial property markets, we expect property markets to be affected by the global recession. The intensity of the impact will vary according to market conditions and type of use.

In the German residential property market, changes in prices and rents are expected to be limited since the focus of economic stimulus packages is on preserving jobs. Housing demand remains high, especially in the conurbations, because new building completions cannot keep up with migration-driven population growth. Although housing demand is not expected to decline, the price structure may shift slightly depending on the stability of household incomes. Compared with its international peers, the German residential property market is perceived by investors and banks to be one of the most stable segments in terms of value growth and rental income.

In the Swiss residential property market, the gap between supply and demand is expected to widen in rural areas, since construction there has often exceeded demand in recent years. However, falling purchase prices and rent levels are only being recorded in rural areas. In densely populated conurbations, high demand for residential housing will keep value growth and rent levels stable.

The residential property market in Austria, like Germany and Switzerland, will experience stable rental and value development, especially in the larger regional centres, because here, too, the focus of economic stimulus programmes is on maintaining jobs and thus on stable household incomes.

The outlook for commercial property markets depends more heavily on the particular type of use.

Demand for office property will weaken slightly around the world as a result of the economic situation, so we expect market rents to fall and vacancy rates to rise. Changed behaviour in users, particularly given the growth in teleworking, may also depress demand for office space and cause rents and prices to fall. This particularly affects large North American cities, as well as London and Paris, which have very dynamic office property markets.

In the retail segment, the various retail formats will react differently to an economic downturn. The specialist store segment, including supermarkets, food discounters, DIY stores, garden centres and furniture stores, is expected to generate comparatively stable sales during the recession. The situation is different for shopping centres, where the pace of change is accelerating.

The future development of the global hotel property market will depend on travel restrictions easing and consumers resuming their previous travel habits. The impact of lockdown is expected to lead to value adjustments in the hotel segment, but it is impossible to make reliable forecasts in light of continuing international travel restrictions.

Demand for logistics properties will increase – as soon as international trade picks up – particularly as a result of new requirements from e-commerce and a shift in warehousing to Europe. Temporary bottlenecks and delivery delays have prompted large online retailers to secure new locations for storage and for handling and distribution centres.

Given the uncertainties, described above, surrounding the economy, market trends and the further spread of coronavirus, MünchenerHyp's business plans are accompanied by numerous imponderables.

Germany's residential property market will most likely remain largely positive, so new business in the second half of 2020, especially with our cooperative partner banks, should be good, if not quite on a par with the first half. In our cooperation with independent financial service providers, we expect commitment volume of around EUR 600 million for the year as a whole, which is about 10 percent below the previous year.

A joint sales campaign with Swiss PostFinance is planned for the second half, which is designed to achieve our target of maintaining last year's level of new business. We do not see new business in Austria picking up significantly.

In commercial property finance, we expect fundamentally positive business opportunities: investment pressure remains very high, lucrative alternatives to investing in property are rare, and the expected continuance of the low interest rate environment provides stability. The same applies to other European commercial property markets and the US market. MünchenerHyp will continue its conservative approach and generate new business after carefully weighing up the risk and return profile. We expect the downturn to continue to dominate the environment until the end of 2021.

The syndicated loan market for properties located in Germany remains cautiously active, whereas national and international financiers are reluctant to take on syndicated lending risks in other European countries or the USA. We do not anticipate a trend reversal towards liquid, fully functioning syndication markets until capital markets stabilise further.

Overall, we expect new business in commercial property financing to be lower than last year.

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, which we cover in the money market and capital market, will range from EUR 7 to 8 billion in 2020. Mortgage Pfandbriefe remain our most important source of funding.

We expect net interest and commission income to improve, despite rising commission expenses. We will generally achieve the targets set for 2020.

We expect net income for the 2020 financial year to be below the previous year's level.

### Forward-looking statement disclaimer

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 of 30 June 2020

ASSETS
IN €

| | | 30.06.2020 | € 000<br>31.12.2019 |
|---|---|---|---|
| **1. Cash reserve** | | | |
| a) Cash on hand | 3,529.48 | | 6 |
| b) Balances with central banks | 1,316,281,988.85 | | 11,893 |
| of which with Deutsche Bundesbank €1,316,281,988.85 | | | |
| | | **1,316,285,518.33** | **11,899** |
| **2. Claims on banks** | | | |
| a) Mortgage loans | 3,987,349.74 | | 4,269 |
| b) Public-sector loans | 101,592,921.85 | | 117,709 |
| c) Other claims | 2,211,893,694.83 | | 1,932,302 |
| of which payable on demand €1,105,161,538.94 | | | |
| | | **2,317,473,966.42** | **2,054,280** |
| **3. Claims on customers** | | | |
| a) Mortgage loans | 37,020,043,496.66 | | 35,415,250 |
| b) Public-sector loans | 1,907,207,660.43 | | 2,022,889 |
| c) Other claims | 213,645,328.04 | | 188,968 |
| | | **39,140,896,485.13** | **37,627,107** |
| **4. Bonds and other fixed-income securities** | | | |
| a) Bonds and notes | 1,985,659,120.23 | | 1,995,516 |
| aa) Public-sector issuers €1,161,639,210.56 | | | (1,166,826) |
| of which eligible as collateral for Deutsche Bundesbank advances €1,124,655,961.86 | | | |
| ab) Other issuers €824,019,909.67 | | | (828,690) |
| of which eligible as collateral for Deutsche Bundesbank advances €694,425,887.04 | | | |
| b) Own bonds and notes | 2,970,914,016.60 | | 650,003 |
| Nominal value €2,970,090,000.00 | | | |
| | | **4,956,573,136.83** | **2,645,519** |
| **Carried forward:** | | **47,731,229,106.71** | **42,338,805** |

Assets continued on page 13

Assets continued from page 12

## ASSETS
IN €

| | | 30.06.2020 | € 000<br>31.12.2019 |
|---|---|---|---|
| Brought forward: | | 47,731,229,106.71 | 42,338,805 |
| | | | |
| **5. Equities and other variable-yield securities** | | 147,000,000.00 | 147,000 |
| **6. Participations and shares in cooperatives** | | | |
| a) Participations | 104,535,198.49 | | 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 | | | |
| | | 104,553,698.49 | 104,554 |
| **7. Shares in affiliated companies** | | 13,151,601.64 | 13,152 |
| **8. Assets held in trust** | | 0.00 | 0 |
| **9. Intangible assets** | | | |
| a) Internally generated commercial property rights and similar rights and assets | 4,572,100.90 | | 2,491 |
| b) Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values | 4,859,091.44 | | 5,435 |
| | | 9,431,192.34 | 7,926 |
| **10. Tangible assets** | | 66,007,533.36 | 68,040 |
| **11. Other assets** | | 145,364,511.52 | 133,985 |
| **12. Deferred items** | | | |
| a) From issuing and lending business | 55,111,074.58 | | 58,528 |
| b) Other | 9,698,000.00 | | 248 |
| | | 64,809,074.58 | 58,776 |
| **Total assets** | | 48,281,546,718.64 | 42,872,238 |

## LIABILITIES, CAPITAL AND RESERVES
IN €

| | | 30.06.2020 | € 000<br>31.12.2019 |
|---|---|---|---|
| **1. Liabilities to banks** | | | |
| a) Registered Mortgage Pfandbriefe issued | 670,319,653.51 | | 688,592 |
| b) Registered Public Pfandbriefe issued | 65,333,320.33 | | 57,415 |
| c) Other liabilities | 7,297,065,405.92 | | 4,051,556 |
| of which: payable on demand €1,533,718,409.77 | | | |
| | | 8,032,718,379.76 | 4,797,563 |
| **2. Liabilities to customers** | | | |
| a) Registered Mortgage Pfandbriefe issued | 9,389,175,691.32 | | 9,812,321 |
| b) Registered Public Pfandbriefe issued | 1,913,686,024.92 | | 2,041,017 |
| c) Other liabilities | 3,518,522,557.06 | | 3,871,388 |
| of which: payable on demand €52,123,619.68 | | | |
| | | 14,821,384,273.30 | 15,724,726 |
| **3. Certificated liabilities** | | | |
| a) Bonds issued | 23,077,552,498.57 | | 20,020,288 |
| aa) Mortgage Pfandbriefe €18,658,828,860.83 | | | (16,299,480) |
| ab) Public Pfandbriefe €179,827,395.11 | | | (178,608) |
| ac) Other bonds and fixed income securities €4,238,896,242.63 | | | (3,542,199) |
| b) Other certificated liabilities | 294,324,833.03 | | 299,725 |
| | | 23,371,877,331.60 | 20,320,013 |
| **4. Liabilities incurred as trustee** | | 0.00 | 0 |
| **5. Other liabilities** | | 259,930,556.45 | 259,302 |
| | | | |
| **Carried forward:** | | 46,485,910,541.11 | 41,101,604 |

Liabilities continued on page 15

Liabilities continued from page 14

## LIABILITIES, CAPITAL AND RESERVES
IN €

| | | 30.06.2020 | € 000<br>31.12.2019 |
|---|---|---|---|
| Brought forward: | | 46,485,910,541.11 | 41,101,604 |
| | | | |
| **6. Deferred items** | | | |
| From issuing and lending business | 53,595,937.95 | | 46,340 |
| | | 53,595,937.95 | **46,340** |
| **7. Provisions** | | | |
| a) Provisions for pensions and similar obligations | 32,832,894.00 | | 32,483 |
| b) Provisions for taxes | 0.00 | | 0 |
| c) Other provisions | 34,443,039.95 | | 38,990 |
| | | 67,275,933.95 | **71,473** |
| **8. Subordinated liabilities** | | 67,700,000.00 | **74,200** |
| **9. Profit-participation certificates** | | 117,359,872.31 | **115,165** |
| **10. Fund for general banking risks** | | 35,000,000.00 | **35,000** |
| **11. Capital and reserves** | | | |
| a) Subscribed capital | 1,085,530,950.00 | | 1,072,453 |
| aa) Members' capital contributions €1,085,530,950.00 | | | (1,072,453) |
| ab) Silent participations €0.00 | | | (0) |
| b) Revenue reserves | 332,000,000.00 | | 332,000 |
| ba) Legal reserves €326,000,000.00 | | | (326,000) |
| bb) Other revenue reserves €6,000,000.00 | | | (6,000) |
| c) Unappropriated profit | 37,173,483.32 | | 24,003 |
| | | 1,454,704,433.32 | **1,428,456** |
| **Total liabilities, capital and reserves** | | 48,281,546,718.64 | **42,872,238** |
| **1. Contingent liabilities** | | | |
| Contingent liability on guarantees and indemnities | | 766.94 | 1 |
| **2. Other commitments** | | | |
| Irrevocable loan commitments | | 4,406,729,217.40 | 4,186,243 |

# Income statement

## 1 JANUARY THROUGH 30 JUNE 2020

INCOME STATEMENT
IN €

| | | | 01.01. to 30.06.2020 | € 000<br>01.01. to 30.06.2019 |
|---|---|---|---|---|
| **1. Interest income from** | | | **478,834,699.81** | **470,270** |
| a) Lending and money market operations | | 459,587,577.85 | | 447,651 |
| b) Fixed-income securities and debt register claims | | 19,247,121.96 | | 22,619 |
| **2. Interest expenses** | | | **313,949,159.71** | **330,497** |
| **3. Current income from** | | | **249,914.10** | **1,000** |
| a) Participations and shares in cooperatives | | 249,914.10 | | 1,000 |
| **4. Commission income** | | | **4,909,432.04** | **7,834** |
| **5. Commission expenses** | | | **58,715,570.53** | **50,442** |
| **6. Other operating income** | | | **441,095.55** | **675** |
| **7. General administrative expenses** | | | **62,754,667.24** | **60,145** |
| a) Personnel expenses | | 29,950,285.21 | | 28,000 |
| aa) Wages and salaries | 25,386,277.28 | | | 23,675 |
| ab) Social security contributions and cost of pensions and other benefits | 4,564,007.93 | | | 4,325 |
| of which €939,760.31 | | | | (877) |
| b) Other administrative expenses | | 32,804,382.03 | | 32,145 |
| **8. Depreciation/amortisation and value adjustments on intangible assets and fixed assets** | | | **3,950,000.00** | **3,000** |
| **9. Other operating expenses** | | | **2,634,666.44** | **2,766** |
| **10. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses** | | | **15,511,479.05** | **0** |
| **11. Income from reversals of write-downs to claims and certain securities, as well as from reversals of provisions for possible loan losses** | | | **0.00** | **6,795** |
| **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** | | | **26,919,598.53** | **39,724** |
| **14. Taxes on revenue and income** | | | **13,749,886.06** | **21,567** |
| **15. Net income** | | | **13,169,712.47** | **18,157** |
| **16. Retained earnings brought forward from previous year** | | | **24,003,770.85** | **307** |
| **17. Unappropriated profit** | | | **37,173,483.32** | **18,464** |

# NOTES TO THE INTERIM FINANCIAL STATEMENTS AS OF 30 JUNE 2020 (ABRIDGED)

## General information on accounting policies

Münchener Hypothekenbank eG's financial accounts for the first half of 2020 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 2019.

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 2020 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 2020.

## Auditing association

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

Munich, 4 August 2020

Münchener Hypothekenbank eG

Board of Management

**Dr Louis Hagen**
Chairman
of the Board of Management

**Dr Holger Horn**
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 2020 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, 4 August 2020

DGRV – Deutscher Genossenschafts- und Raiffeisenverband e.V.

| | |
|---|---|
| **Peter Krüper** | **Dorothee Mende** |
| Auditor | Auditor |

## Affirmation of the legal representatives

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

Munich, 4 August 2020

Münchener Hypothekenbank eG

Board of Management

| | |
|---|---|
| **Dr Louis Hagen** | **Dr Holger Horn** |
| Chairman | Member |
| of the Board of Management | of the Board of Management |

# BODIES

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Dr Louis Hagen
**Chairman**

Dr Holger Horn

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**Chairman of the Supervisory Board**

Gregor Scheller » Bamberg
Chairman of the Board of Management
VR Bank Bamberg-Forchheim eG
**Deputy Chairman of the Supervisory Board**

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Raiffeisenbank Südstormarn Mölln eG

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Employee representative

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**Deputy Chairman**

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Michael Becky » Management consultant
Heinrich Beerenwinkel » Bank director
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Thomas Bierfreund » Bank director
Dietmar Bock » Management consultant
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Ralf Daase » Bank director
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Michael Müller » Attorney
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Ulrich Weßeler » Bank director
Silke Wolf » Managing director
Michael Zaigler » Managing director

# Imprint

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## Coordination

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Münchener Hypothekenbank eG

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MPM Corporate Communication Solutions
Mainz
www.mpm.de

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