MünchenerHyp

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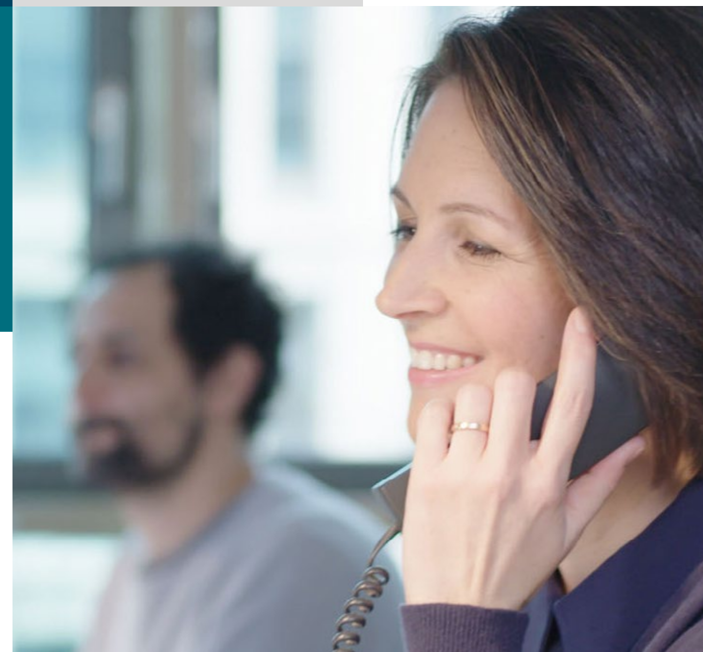
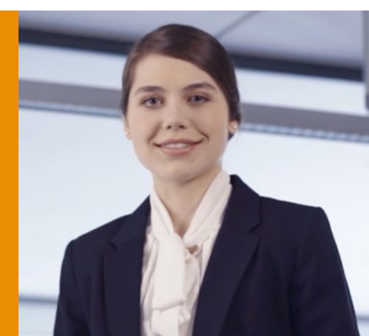


2019
ANNUAL REPORT



Overview

BUSINESS DEVELOPMENT
IN € MILLION [1]

	2019	2018	Change %
Lending business			
a) Mortgage loans	6,478	5,640	15
aa) Residential property financing	3,716	3,142	18
ab) Commercial property financing	2,762	2,499	11
b) Loans to public sector and banks	45	7	543
Total	6,523	**5,647**	**16**

OVERVIEW OF PORTFOLIOS
IN € MILLION [1]

	2019	2018	Change %
Total assets	42,872	40,391	6
Mortgage loans	35,498	31,956	11
Public sector and banks	4,075	4,540	-10
Pfandbriefe and other bonds	36,398	34,704	5
Liable equity capital	1,573	1,442	9

INCOME STATEMENT
IN € MILLION [1]

	2019	2018	Change %
Net interest income and net commission income	205	208	-1
Administrative expenses	131	114	16
Results from ordinary business activities	74	76	-3
Net income	36	49	-27

EMPLOYEES
NUMBER

	2019	2018	Change %
Average number of employees per year	573	550	4
Apprentices	15	12	25
Employees participating in parental leave, early retirement and partial retirement (non-working phase)	36	30	20

[1] Amounts have been rounded.

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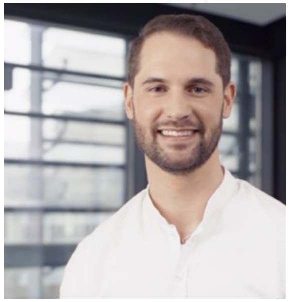
This is us: MünchenerHyp

Our firm conviction is that a good team is made up of individuals who bundle their strengths. Together the wide range of expertise, knowledge and particular abilities make up our success. This is us: MünchenerHyp. Get to know us.

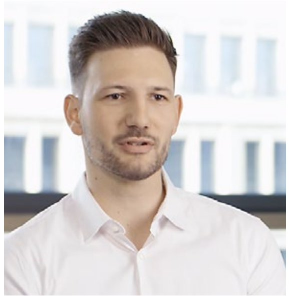


Collaborating as partners
Sebastian Muth
Product manager in Sales

Applying experience
Marcus Tietge
Regional director for Commercial Real Estate Finance

Taking responsibility
Marianne Graber
Loan officer

Trying out new things
Daniel Fuckner
IT big data engineer



Starting with people
Coralie Tessun
Head of HR

Developing prospects
Betime Ristemi
Apprenticed trainee in banking

DR. LOUIS HAGEN
Chairman of the Board
of Management

DR. HOLGER HORN
Member of the Board
of Management

Letter from the Board of Management

Dear Shareholders and Business Associates,

Property markets remained in good shape in 2019. In what is now the tenth year of the property boom, demand for property increased in Germany and in other countries where we operate. Interest rates that were already low were reduced even further. General conditions for property financing thus remained largely positive.

At the same time, the property financing marketplace became increasingly competitive. Building on our strategic development in recent years, we held our own well in this environment. In particular, we increased our customer focus, intensified market cultivation efforts and streamlined our lending and service processes. The results of our strategic measures are reflected mainly in very positive development of new business.

Record result achieved

We achieved another record result in 2019, with new business in residential and commercial property financing amounting to €6.5 billion.

The private property financing business developed dynamically in all three segments – the brokerage business with our cooperative partner banks, independent financial service providers and PostFinance in Switzerland. We lent a total of €3.7 billion in private property finance, an increase of 18 percent. Since mid-2019 we have also been granting residential property loans in Austria, where currently we cooperate solely with independent financial service providers. We firmly believe that our credit offerings are attracting interest from consumers, and that our business in Austria will make a significant contribution to earnings in coming years.

New business in commercial property financing also increased significantly, totalling €2.8 billion. We were particularly successful in our domestic business, which increased by 40 percent, to €1.9 billion. In spite of the continued high level of competition, we succeeded in acquiring financing transactions that fit in well with our strategic focus, both from an earnings and a risk perspective.

Our mortgage portfolio continued to grow significantly, due to strong new business, increasing by more than 10 percent, to €35.5 billion.

Capital base strengthened

We are satisfied with the development of net interest income, which increased by 7 percent, to around €300 million. As most of our new business in private property financing comes from brokerage business, a very successful year also brings with it higher commission expenses. However, these acquisition costs have an adverse impact only in the year the loans are paid out, whereas the interest income then accrues undiminished over the term of the loan. Commission paid should therefore be considered as an investment in the future. At €204.5 million, net interest and commission income is in line with the previous year's level, in spite of higher commission expenses. The credit risk situation remained stable. However, administrative expenses rose significantly. This is firstly due to expenses in connection with digitalisation and optimisation of processes and services. These are necessary investments in the future sustainability of the Bank, without which it will not be able to hold its own against the competition in the long term. Secondly, the Bank continues to be heavily burdened by regulatory costs, over which we have no control. Ultimately, growth, regulation and development cannot be achieved without additional human resources. Consequently, despite our cost-cutting efforts, the result from ordinary business activities is slightly lower compared with the previous year, at €73.6 million.

With a Common Equity Tier 1 ratio of 19.8 percent, MünchenerHyp remains well capitalised. To underpin our rapidly growing loan portfolio, during the year under review we reinforced our additional Tier 1 capital, by issuing an Additional Tier 1 bond in Swiss francs. This made us the first foreign issuer of an Additional Tier 1 bond in Switzerland. The issue was an outstanding success. The bond was placed in just a few hours at terms comparable with those of major Swiss banks. We also owe this success to the fact that we have been a regular and reliable issuer on the Swiss capital market for some years now. Indeed, last year we were the largest foreign issuer of Mortgage Pfandbriefe in Switzerland, with an issue volume of CHF 1.9 billion.

Successful Pfandbrief issues

In 2019 the Pfandbrief celebrated its 250th anniversary. For us, the Pfandbrief is and will remain a tried-and-tested, core refinancing instrument. Of special note for us in the year under review were three benchmark issues of Mortgage Pfandbriefe, which met with a remarkable response from investors and the public. These were a Mortgage Pfandbrief for €500 million with a record term of 20 years, a Mortgage Pfandbrief for US$600 million and another Mortgage Pfandbrief for €500 million, which was issued with a significantly negative yield. These three issues clearly demonstrate the scope of the Pfandbrief in refinancing MünchenerHyp's mortgage business.

Future proofing MünchenerHyp in difficult times

Our long-term strategic objective is to generate organic growth in our core business in order to sustainably bolster the bank's profitability. Nonetheless, the rapid global spread of the novel coronavirus in the last few weeks means that, in the first half of March (the time we are writing to you), it is very difficult to assess the extent to which this will strain the property and property financing markets in the long run. This may also affect MünchenerHyp's growth in the short to medium-term. However, we currently expect the economy to stabilise again, both in Germany and globally.

The property cycle was already at an advanced stage before the outbreak of the coronavirus crisis. Given the apparent economic impact, it is now all the more urgent to prepare the bank for tougher times by significantly strengthening reserves to ensure its future viability. To make this possible, we have put forward a proposal to the 2020 Delegates Meeting to reduce the dividend in comparison to the previous year.

In all of our undertakings, we know that we can count on the commitment and trust of our members, partners, customers and employees. For a successful financial year 2019 we would like to thank our employees, the Works Council and the Executive Employees Committee for their services and their commitment, as well as the Supervisory Board and the Delegates for their advice and support.

Yours sincerely,

Dr. Louis Hagen
Chairman of the Board
of Management

Dr. Holger Horn
Member of the Board
of Management

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Economic Report

GENERAL ECONOMIC CONDITIONS

» **Global economic growth slowed once again**
» **Brisk issuing activity on the Pfandbrief and covered bond markets**
» **Property boom entered its tenth year**
» **Sales record on the German commercial property market**

Economic development

The global economy lost more momentum in 2019 than was originally anticipated at the beginning of the year. Economic activity slowed to such an extent, particularly in the second half of the year, that in its January 2020 estimate the IMF assumed global GDP growth of just 2.9 percent for the year. The economy was especially influenced by continued weakness in industrial production and global trade. This slowdown in momentum was felt by both industrialised economies and emerging and developing economies. The weaker development of the US economy was particularly noticeable in industrialised economies.

Economic growth in the eurozone also slowed, with growth of just 1.2 percent achieved in 2019. Moderate economic growth in Germany and Italy in particular had a curbing effect. The eurozone's economy was mainly boosted by investment and government spending, whereas private consumption decreased.

At 0.6 percent, Germany experienced its lowest growth rate in five years. Consumption proved to be a mainstay of the economy. Investment also increased, however, especially investment in construction, which rose by 3.8 percent. The greatest impetus came from civil engineering and residential construction. On the other hand, industrial economic performance declined – with the exception of the construction industry.

The average inflation rate decreased to 1.4 percent. This is primarily attributable to energy and food prices, which only increased moderately overall. The labour market was quite stable, in spite of the economic slowdown. The number of people in employment increased by an annual average of around 400,000, to 45.3 million. Unemployment dipped again to an average of under 2.3 million, equating to 73,000 fewer unemployed than in the previous year. The unemployment rate decreased by 0.2 percentage points, to 5.0 percent.

Financial markets

In spite of the weak economy, the stock markets posted significant gains. This was predominantly attributable to a low price base at the start of the year, a lack of investment alternatives and the low interest rate policy of central banks. The latter largely responded to the weak economy and low inflation data with expansionary monetary policy measures.

Of particular note, the US Federal Reserve ("Fed") changed its interest rate policy and cut the federal funds rate three times during the year, by 0.25 percentage points each time, most recently to a range of 1.5 to 1.75 percent. The Fed stopped reducing its total assets on 1 August; this means that all maturing securities are currently reinvested in the market.

The ECB reduced its deposit rate by 0.1 percentage point in September, to minus 0.5 percent. The main refinancing rate remained unchanged at 0.0 percent. The ECB also reactivated its asset purchase programme. As a result, new purchases have totalled €20 billion a month since November 2019, in addition to the maturing securities.

Other central banks, such as the Bank of Japan and the Swiss National Bank, have not changed their interest policy and have kept key financing rates at their previous low levels. Despite

YIELD ON TEN-YEAR BUNDS 2019
IN %

Source: Bloomberg (closing rate)

higher inflation data the Bank of England also left its base rate unchanged at 0.75 percent, as the economic outlook was uncertain due to the Brexit discussions and the trade dispute between the EU and the USA.

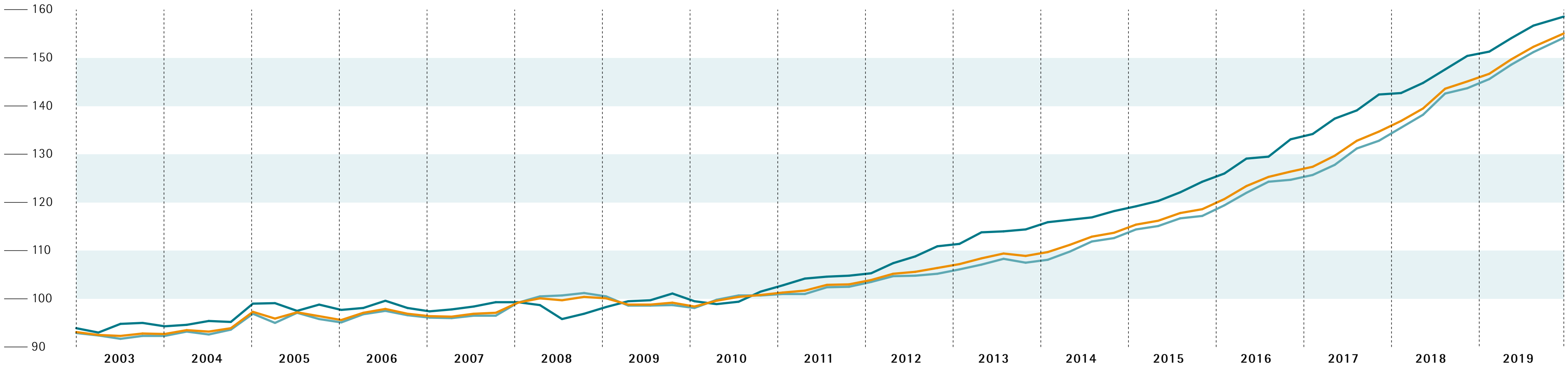
On the bond market, sluggish economic development and low inflation rates led to significantly declining yields during the year. Ten-year Bunds fell to a low of minus 0.74 percent at the start of September. Due to an easing of tension in the trade dispute between the USA and China, as well as the consensus on a Brexit agreement, by the end of the year the yield on 10-year Bunds increased again, to minus 0.185 percent.

On foreign exchange markets, the US dollar appreciated by and large, benefitting from the more robust state of the US economy in comparison with Europe and higher money market interest rates. At the end of the year, the euro was quoted at US$1.12, compared with US$1.15 at the start of the year. The Swiss franc also appreciated against the euro over the year, from CHF 1.13 to CHF 1.09 by the end of the year. Weaker economic data and political uncertainties in Europe put more pressure on the euro, while the Swiss franc benefitted from its status as a "safe haven". Sterling, meanwhile, came under pressure due to Brexit negotiations and the potential implications of Brexit for the UK's economic development, with the euro quoted at GBP 0.93 in mid-August.

The pound rose sharply at the end of the year following Boris Johnson's landslide victory and the clearer Brexit outlook, and at year-end was quoted at GBP 0.846 against the euro.

A significant widening of spreads on the covered bond market at the start of the year was reversed by another fall in interest rates. In the second half of the year, the primary market was increasingly characterised by negative yields. Longer maturities were therefore also placed in benchmark format in 2019, as these were generating positive yields. Furthermore, in spite of temporarily suspending its purchase programme, the ECB influenced the environment in the benchmark segment. In September, the ECB announced plans to resume its purchase

DEVELOPMENT OF PROPERTY PRICES IN GERMANY
YEAR 2010 = 100



Owner occupied housing
Condominiums
Single family houses

vdpResearch GmbH calculations based on information provided by vdp transaction databank
As of: February 2020

programme for covered bonds from November, which it did from this point, increasing the ECB's share of primary market issues accordingly.

Overall, issuing activity on the primary market was once again very brisk. Benchmark covered bonds denominated in euros were issued to a volume of €135 billion. The issue volume was thus at the previous year's level. German issuers accounted for the largest share, followed by French issuers.

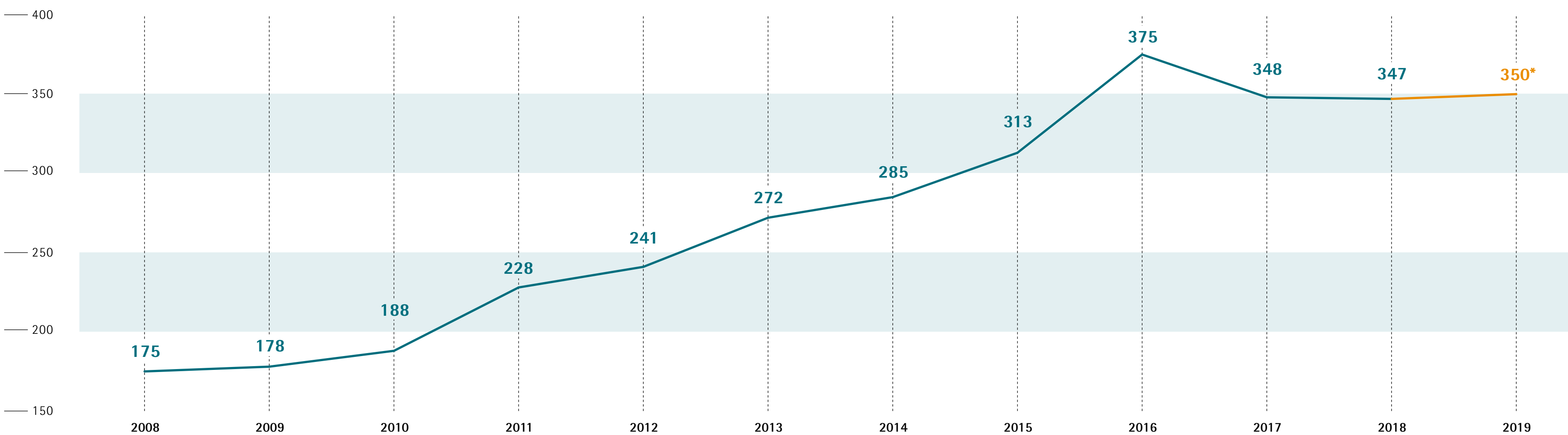
Property and property financing markets

Residential property – Germany

The upturn on the German housing market continued. Purchase prices and rents for houses and apartments increased significantly overall for the tenth year in succession. However, growth rates were lower compared with 2018. The Association of German Pfandbrief Banks (vdp) calculated an increase of 6.5 percent in its vdp property price index for 2019, compared with the previous year. The greatest price increase was calculated for single and two-family houses, which saw a rise of 7.0 percent. Multi-family house prices increased by 6.2 percent, while condominium prices rose by 5.9 percent. Price growth slowed continuously during the course of the year in Germany's seven largest cities, losing considerable momentum compared with the high growth rates of the previous year of around 10 percent, to rates of 3.9 percent for owner-occupied residential property and 4.2 percent for multi-family houses. Rental price growth also slowed, totalling 4.5 percent for multi-family houses across Germany, and 3.1 percent in the top seven cities, according to the calculations of vdpResearch.

The increase in prices for residential properties is still attributable to strong demand and a growing housing shortage in high-growth regions. More than 340,000 new housing units a year are needed in Germany between 2020 and 2021. In 2019, the construction industry reported the completion of around 300,000 new housing units. As a result, the construction backlog – in other words, permitted building projects that have not yet been reported as completed – has increased further, from more than 650,000 to over 693,000 housing units. One main reason for this is the high utilisation level of construction companies. This trend is also reflected in the level of building permits granted. In the first eleven months

RESIDENTIAL BUILDING PERMITS IN GERMANY 2008–2019
FIGURES IN 000



* Estimated.

Source: German Federal Statistical Office

of the year, a total of around 320,000 housing units were approved in Germany, which is just slightly higher than the previous year.

The German residential property market remained attractive to institutional investors. Ernst & Young calculated a transaction volume of €18.8 billion for residential property portfolios in 2019, which is €1.2 billion or 7 percent higher than the previous year. The institutional housing market continued to be dominated by domestic investors, who collectively accounted for more than 90 percent of turnover. Almost half of the transaction volume was attributable, in line with the previous year, to the top seven cities, with Berlin, at €4.2 billion, accounting for around a fifth of the total transaction volume.

Due to the continued strong demand for residential properties, new business in property financing once again increased. The vdp estimates an increase of around 5 percent for 2019, to around €240 billion. In addition to the high demand for apartments and houses, this is primarily attributable to the further rise in purchase prices. Thus, according to the findings of the vdp, the debt burden ratio of residential property financing increased to over 80 percent on average in 2019. The debt burden ratio – ratio of interest and principal payments to income – has also increased. This shows that interest rates, despite dropping to new lows in 2019, can no longer offset the increase in property prices.

Given the ongoing price dynamics on the residential property market, discussions on possible property market overvaluation and formation of price bubbles continued in 2019. In its most recent Financial Stability Review, the Deutsche Bundesbank warned again about recoverability risks for properties serving as collateral, which may arise from regional overvaluations of property. On the whole, however, the Bundesbank does not as yet see any "evidence of a spiral of sharply rising house prices and residential real estate loans combined with an erosion of lending standards which would jeopardise financial stability".

In order to counteract potential risks from low interest rates and high valuations on the property market, in July 2919 BaFin (Bundesanstalt für Finanzdienstleistungsaufsicht – Federal Financial Supervisory Authority), upon the recommendation of the Financial Stability Committee, activated a countercyclical capital buffer, which the banks must fulfil by no later than July 2020. This countercyclical capital buffer must be met in addition to the existing capital requirements.

Residential property – international

Overall, European residential property markets performed positively in 2019. House prices increased in almost all EU member states, with only Italy recording a slight decline. Compared with the same period of the previous year, the upturn in prices slowed slightly in the first six months of 2019, although prices still grew by 4.2 percent in the second quarter of 2019 compared with the same quarter of the previous year, according to Eurostat.

The trend on the Swiss housing market was cautious. Although low interest rates and a resulting shortage of investment alternatives did create good demand for property, the vacancy rate increased to an average of 1.7 percent at the end of the second quarter of 2019, due to the continued high level of construction activity for rental properties. The country's highest vacancy rates were recorded in Ticino and Eastern Switzerland, and the lowest in the cantons of Geneva, Basel, Zug and the city of Zurich. Quoted rents therefore decreased further and, as a national average, were around 1 percent lower year-on-year at the end of the third quarter of 2019. There was only a slight increase in purchase prices for houses and apartments in 2019, as property prices have now risen to such a high level that fewer and fewer households can afford to buy their own home. This is particularly evident from the declining home ownership rate. Interest rates on the property financing market fell to new lows in the year under review. Many lenders in Switzerland also granted 10-year fixed-rate mortgages at interest rates of less than 1 percent. Demand was therefore particularly strong for mortgages with long fixed-interest periods. According to the Swiss National Bank, mortgage portfolios grew by around 3 percent overall, as in previous years. On the other hand, regulatory capital requirements increasingly posed an obstacle for private households.

In the third quarter of 2019 house prices in Austria increased by 6.2 percent compared with the previous year. Around 65,000 new homes were built in Austria in 2019, which roughly meets the demand for new housing space. Demand varies greatly from region to region. Prices for owner-occupied homes and condominiums in Vienna doubled over the last ten years, while prices in Austria as a whole increased by 80 percent in the same period. In Vienna in particular, excess demand is due to new high-rise apartment buildings.

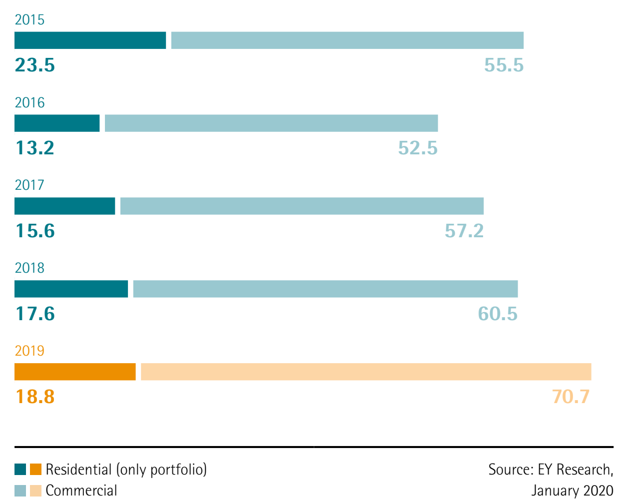
Commercial property – Germany

It was another record year for the German commercial property market, contrary to the expectations of many experts. According to Ernst & Young, the volume of transactions increased by 17 percent, to €70.7 billion. Continued low interest rates and high investment pressure ensured that demand remained strong. The significant increase in the volume of transactions is, however, primarily due to the increase in large-scale transactions and a dynamic, high-revenue final quarter.

More than 50 percent of the transaction volume is due to investments in office buildings, which have remained the most popular asset class. Office prime yields (net) declined to 2.9 percent, due to the strong investment pressure in property hotpoints. Office buildings in Berlin and Munich generated the lowest prime yields.

Just over 4 million square metres of office space was let in the top seven cities, an increase of 1.6 percent year-on-year. The highest office space turnover was achieved in Munich and Berlin. Berlin also had the lowest vacancy rate, of 1.8 percent. Vacancy rates were also down overall in Germany's biggest cities. The demand for office space was also boosted by further rises in employment figures.

DEVELOPMENT OF COMMERCIAL PROPERTY TRANSACTIONS IN GERMANY 2015–2019
IN € BILLION



Source: EY Research, January 2020

Decreasing vacancies combined with relatively little new construction activity resulted in a significant increase in new rental contracts for office space in 2019, with the highest rent increases recorded in Cologne, at 10.6 percent, and Berlin, at 8.8 percent. The relative shortage of space in city centres led to a shift in letting activities to sub-markets outside but in close proximity to city centres. As a result, premium rent prices in the major cities increased to a lesser extent in city centres than the average rent prices in other sub-markets.

Retail properties remained the second-largest asset class, with a share of 17 percent of the transaction volume, but at around €13 billion were only slightly above the investment volume of the previous year. This is primarily attributable to the impact from structural changes in the retail segment due, among other things, to tougher competition from online trading, as well as a stronger focus on the gastronomy and leisure segments. This was particularly evident from the net initial yields for shopping centres. Over the course of the year, prime yields for shopping centres in Germany increased by 40 basis points to 4.5 percent on a net basis. This is the only type of usage in Germany where investors became more cautious in 2019 and for which higher returns were recorded.

Commercial property – international
In 2019, institutional investors acquired commercial property throughout Europe with a volume of €281 billion. This corresponds to an increase of 2.6 percent year-on-year. Once again, this result was driven particularly by the high level of investment activity in Germany.

The continued dominance of office properties on the investment market is due to the very healthy state of office markets in many countries. Although turnover of office space declined slightly in Europe, by around 4 percent compared with the previous year, leased office space still totalled 9.6 million square meters. The reason for this development was a lack of suitable office space. Across Europe, only 5.6 percent of office space was vacant, which is the lowest vacancy rate since 2002. In light of this development, rental prices increased by 6.2 percent.

The volume of transactions in the UK decreased to around €36 billion in 2019. In comparison, in 2015, the year before the Brexit referendum, around twice as much was invested in commercial property in the UK. While uncertainties concerning the impact of Brexit were already having an adverse effect on the investment market for commercial property in the UK, so far the office rental market has shown no signs of a downturn. The vacancy rate in London continued to decline. A relative shortage of space, coupled with sustained high demand, was clearly reflected in prime rents, which increased by 14 percent in the City of London. An opposite trend is evident for retail properties, particularly in regional markets. The UK accounts for the largest e-commerce share of retail sales in Europe, which is now reflected in rising vacancy rates and a decline in retail rents for new lettings.

The French investment market proved to be robust, with a transaction volume of around €37 billion, and for the first time recorded a higher investment volume for commercial property than the British market. The office property market was also the most significant segment in France, with a share of over 64 percent of the investment volume. Three quarters of market activity was attributable to the Greater Paris area, which benefitted from a substantial increase in employment. Turnover in floor space during the first nine months of 2019 amounted to 1.7 million square metres, and the vacancy rate fell to 4.8 percent.

A positive economic trend also boosted the commercial property market in the Netherlands. A transaction volume of around €18.4 billion was achieved on the investment market, with the vast majority of investment coming from international investors. The focus was on office properties. Office space was in short supply due to the high level of demand. At the end of the year, the vacancy rate in the Amsterdam area decreased to 5.5 percent.

In Spain, a total of €14.3 billion was invested in commercial property in 2019, with Madrid alone accounting for 80 percent of this amount, and Barcelona for a further 17 percent. Office buildings was also the most important usage type in Spain, followed by multi-family houses and retail properties. Compared internationally, the Spanish retail sector is considered relatively resistant to online trading, because the shopping experience is considered more important there than in other countries. As a result, many investors in commercial property remained interested in Spanish cities, which promised stable rental income and future growth potential.

The US commercial investment market enjoyed a substantial inflow of capital. A total of around US$540 billion was invested in the first three quarters of 2019, 6.4 percent more than the prior-year period. The logistics and industrial property asset classes saw the largest increases, while the increase in transaction volume for office properties was much more moderate, due to investor reticence in view of the already well advanced cycle on the user market. Nevertheless, rental growth continued in all sub-markets of relevance to MünchenerHyp – Boston, Chicago, Los Angeles, New York, San Francisco, Seattle and Washington D.C.
The vacancy rates in these top markets also decreased year-on-year. By contrast, around 14.2 percent of existing office space nationwide was vacant at the end of 2019.

BUSINESS DEVELOPMENT

- **New mortgage business develops dynamically and reaches new record volume of EUR 6.5 billion**
- **Entry into Austrian market with private property financing**
- **Great investor demand for benchmark mortgage Pfandbriefe from MünchenerHyp**
- **MünchenerHyp is the first foreign issuer of an Additional Tier 1 bond in Switzerland**

New mortgage business

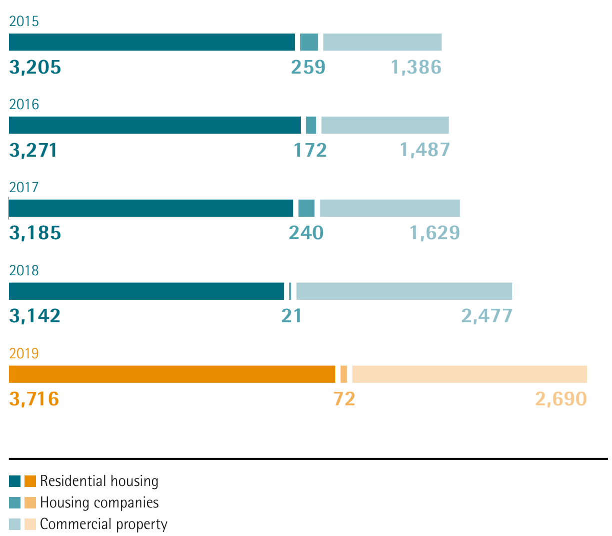
MünchenerHyp acquired by far the highest amount of new business in the Bank's history during the year under review. We increased the previous year's record result by 15 percent to €6.5 billion (2018: €5.6 billion). The volume of lending commitments thus significantly exceeded the forecast given in last year's annual report. We achieved double-digit growth rates in both the private residential property financing and the commercial property financing business areas.

New private residential property financing business increased by 18 percent, to €3.7 billion (previous year: €3.1 billion). Most of this growth was attributable to business with the cooperative banks within the German Cooperative Financial Network. We achieved a result of €2.8 billion, which equates to an increase of around €400 million, or 17 percent, year-on-year. Our cooperative partner banks have never before brokered such a high volume of financing on our behalf. Intensified market cultivation efforts, expansion of the higher-volume financing segment – select and individual business – and the introduction of digital processes had a positive impact on business development. Our sales campaigns were thus even more successful than in the previous year. Due to an increase in sales activities and improved internal processes, demand for our higher-volume financing up to €1 million increased by almost 50 percent. We also benefitted from strong demand for property financing driven by historic interest rate lows.

Sales of private property finance generated via independent financial service providers in Germany increased by 30 percent year-on-year, to €657 million.

In partnership with PostFinance in Switzerland, we increased new business slightly, as planned, with a new commitment volume of €290 million. The expansion of our product range was well received by Swiss customers. We now offer fixed interest rate periods of up to 15 years and forward periods up to 18 months before the end of the fixed interest period. This has enabled us to consolidate our position amid still very fierce competition on the Swiss finance market. This was also evident in the level of loan agreement extensions, which we increased by 12 percent, to €437 million.

MÜNCHENERHYP NEW MORTGAGE BUSINESS 2015–2019
COMMITMENTS IN € MILLION



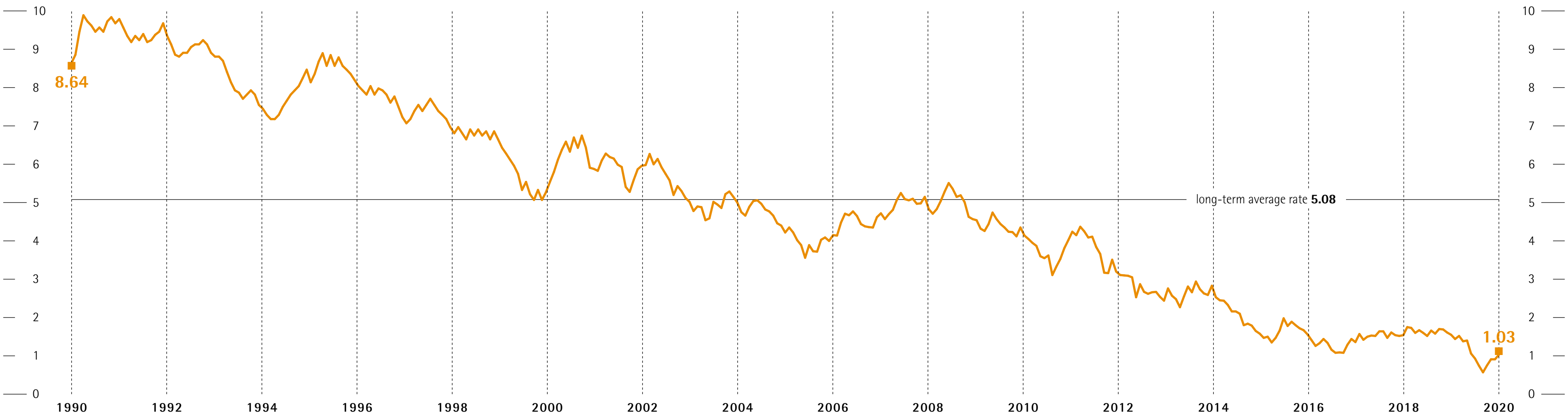
We entered the Austrian market in mid-2019, where our financing is aimed at private individuals resident in Austria and is secured by properties located in Austria. We sold our products through independent financial service providers who specialise in property finance advice. Initial contracts concluded during this market entry phase amounted to €8 million.

We have been very successful in commercial property financing. The volume of new business exceeded the €2 billion mark for the second time in succession since the financial market crisis. In total, we granted commercial property financing to the tune of €2.8 billion. This corresponds to an increase of 11 percent over the previous year's result of €2.5 billion and was achieved in spite of a high level of competition. Development of new business was also positive from an earnings perspective. This positive trend is attributable to a number of high-volume underwriting transactions, which were subsequently syndicated mainly in the Cooperative Financial Network.

Domestic business in particular contributed to this result, which grew by 40 percent, to €1.9 billion. This was mainly due to the financing we issued to our customers in Southern Germany. International business declined by 22 percent compared with the previous year, to €0.9 billion, with the USA (syndicated business only) once again accounting for the largest share, at 34 percent. Spain and the Netherlands were next in line, contributing around 25 percent each, followed by France, with around 10 percent.

High market prices resulting from the advanced price cycle were challenging for investors and financiers. From a risk perspective, we maintained our conservative financing approach,

MORTGAGE RATES MÜNCHENERHYP
TEN YEAR FIXED RATE | IN %



As of: 02.01.2020

focussing on traditional financing at completion. We consider the consistently high equity ratios in financing structures to be a positive aspect. In terms of the sustainable profitability of the financed properties, we paid particular attention to adequate, sustainable cash flows.

Capital markets business

Strict regulatory requirements and low asset spreads continued to dictate our strategy for investing in securities issued by the public sector and banks. LCR eligible securities continue to trade at expensive spread levels. In the current environment, purchasing sovereign and bank securities with strong credit ratings would result in net total asset costs and was therefore subject to major restrictions.

On a net basis, the portfolio volume was reduced by €0.4 billion, to €4.1 billion. New business in 2019 totalled €44.5 million, compared with €7 million in 2018.

Refinancing

The focus of refinancing in 2019 was once again on the issuance of Mortgage Pfandbriefe, in euros as previously, and in Swiss francs to a much greater extent.

Bonds issued in Swiss francs serve to refinance our property financing in Switzerland in the matching currency. Our total issue volume in Swiss francs was CHF 2.1 billion.

From this amount, we sold Mortgage Pfandbriefe with a total volume of around CHF 1.9 billion, making MünchenerHyp the largest foreign issuer of covered bonds in Switzerland in 2019.

Around CHF 870 million of this amount was placed via benchmark issues that had been newly issued or tapped, and around CHF 1 billion via private placements. In addition, a senior preferred note to the value of CHF 100 million was issued in October.

High-volume refinancing activities in euros started with a tap issue of an existing Mortgage Pfandbrief in February. To this end, the nominal volume of the bond maturing in November 2027 was increased by €250 million to €750 million. This transaction met with keen investor interest.

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

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

In August 2019, we issued a Mortgage Pfandbrief in the amount of €500 million with a short term of four years and a significantly negative yield. Demand for this issue was particularly high internationally, with the order book closing at almost €900 million. The coupon is 0.01 percent. The yield amounts to minus 0.567 percent. The issue was placed at a price of 2 basis points below the mid-swap rate.

In November 2019, MünchenerHyp became the first foreign issuer to issue an Additional Tier 1 bond in Swiss francs in Switzerland. This issue was a huge success and was significantly oversubscribed. The bond amounts to CHF 125 million and has a coupon of 3.125 percent. This is the lowest coupon for a publicly placed Additional Tier 1 bond of a German issuer. The term is indefinite. The bond may not be called until June 2025 at the earliest. More than 80 percent of the issue volume was subscribed in Switzerland. On the one hand, the bond serves as backing for the mortgage business in Switzerland. On the other, it optimises MünchenerHyp's equity structure with respect to the regulatory requirements for additional Tier 1 capital.

MünchenerHyp's total issue volume on the capital market in the year under review was around €6.1 billion. In the case of covered refinancing, Mortgage Pfandbriefe accounted for €4.8 billion, uncovered refinancing accounted for €1.2 billion and the Additional Tier 1 bond accounted for around €114 million (CHF 125 million). Once again, no Public Pfandbriefe were issued, in keeping with the Bank's business strategy.

NET ASSETS, FINANCIAL POSITION AND FINANCIAL PERFORMANCE

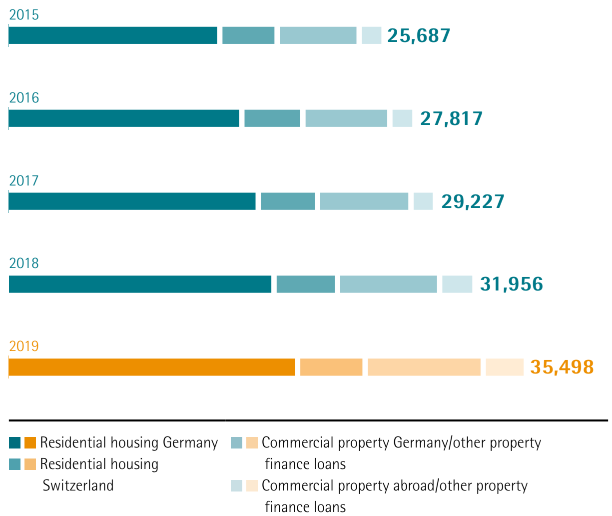
- » **Portfolio in mortgage financing increases to EUR 35.5 billion**
- » **MünchenerHyp remains well capitalised with Common Equity Tier 1 ratio of 19.8%**
- » **Net interest income rises to around EUR 300 million**
- » **Earnings from ordinary activities on a par with the previous year at EUR 73.6 million**

Balance sheet structure

Total assets increased to €42.9 billion at the end of financial year 2019, compared with €40.4 billion at 31 December 2018. This increase is once again due to continued strong new business.

During the course of the year, the mortgage loan portfolio grew by €3.5 billion, to €35.5 billion. Private residential property financing in Germany was once again the fastest growing segment, with growth of €1.6 billion.

PORTFOLIO DEVELOPMENT MÜNCHENERHYP 2015–2019
IN € MILLION



The private residential property financing portfolio is structured as follows: domestic – €19.7 billion (previous year: €18.1 billion); foreign – €4.7 billion (previous year: €4.4 billion). In addition to the financing business in Switzerland, this portfolio also includes financing in Austria for the first time. The commercial property financing portfolio totals €11.1 billion (previous year: €9.5 billion). Of this amount, €3.0 billion (previous year €2.4 billion) is attributable to financing outside Germany. The most important international market is the USA, with 21 percent (previous year: 19 percent), followed by the UK and France, with 18 percent each (previous year: 21 percent and 17 percent respectively), and the Netherlands, with 17 percent (previous year: 17 percent).

In line with our business and risk strategy, the portfolio of public-sector and bank loans and securities decreased from €4.5 billion to €4.1 billion, €2.0 billion of which was made up of securities and bonds.

At the end of 2019, the net sum of unrealised losses and unrealised gains in the securities portfolio amounted to plus €47 million (previous year: plus €41 million). These figures include unrealised losses of €0 million (previous year: €1 million) arising from securities issued by countries located on the periphery of the eurozone and banks domiciled in these countries. These securities had a total volume of €0.2 billion at the end of 2019 (previous year: €0.3 billion).

A detailed examination of all securities indicated that there are no permanent impairments. We have accounted for these bonds on a held-to-maturity basis. Write-downs to a lower fair value were not necessary.

The portfolio of long-term refinancing instruments increased by €1.7 billion to €36.4 billion. Mortgage Pfandbriefe accounted for €26.6 billion of this amount, Public Pfandbriefe for €2.2 billion and unsecured bonds for €7.5 billion. The total volume of refinancing instruments – including money market funds and customer deposits – increased from €37.9 billion in the previous year to €40.2 billion as of 31 December 2019.

The item "Other liabilities to customers" can be broken down as follows:

OTHER LIABILITIES TO CUSTOMERS
IN € 000

	Remaining term < one year	Remaining term > one year	Total
Other liabilities to customers as of 31 Dec. 19	**1,742,936**	**2,128,452**	**3,871,388**
Registered bonds	39,304	1,278,993	1,318,297
of which institutional investors	39,261	1,266,993	1,306,254
Promissory note loans on the liabilities side	624,521	807,959	1,432,480
of which institutional investors	244,130	605,459	849,589
Other	1,079,111	41,500	1,120,611
of which institutional investors	730,506	41,500	772,006

Subscribed capital grew by €39.9 million, to €1,072.5 million. Together with the issue of the Additional Tier 1 bond in the amount of CHF 125 million, regulatory equity capital totalled €1,573.2 million (previous year: €1,442.0 million).

Common Equity Tier 1 capital rose from €1,369.7 million in the previous year to €1,406.8 million. At 31 December 2019, the Common Equity Tier 1 capital ratio was 19.8 percent (previous year: 21.7 percent), the Tier 1 capital ratio was 21.4 percent (previous year: 21.7 percent) and the total capital ratio was 22.1 percent (previous year: 22.9 percent). The leverage ratio at 31 December 2019 was 3.6 percent (previous year: 3.4 percent).

Development of earnings

Net interest income[1] increased by €19.7 million, or 7.0 percent, to €299.8 million, in line with our forecast. The increase was driven mainly by the successful new business in the year under review and previous years.

Commission paid totalled €110.7 million, corresponding to an increase of €28.8 million or 35 percent year-on-year, and are the result of the extremely successful new business. Commission received rose to €15.4 million, resulting in net commission income[2] of minus €95.3 million, compared with minus €72.5 million in the previous year.

This resulted in net interest and net commission income[3] of €204.5 million, which corresponds to a decline of €3.1 million, or 1.5 percent.

General administrative expenses rose by €16.7 million, to €125.2 million. This included an increase to personnel expenses of €6.4 million, or 12.8 percent. In addition to increases under collective agreements, this was primarily due to necessary expansion of the workforce.

[1] Net interest income is calculated by adding Item 1 'Interest income' plus Item 3 'Current income' plus Item 4 'Income from profit-pooling, profit transfer and partial profit transfer agreements' agreements minus Item 2 'Interest expenses' as shown in the income statement.
[2] Net commission income is calculated by offsetting Item 5 'Commission received' and Item 6 'Commission paid' as shown in the income statement
[3] The net interest and commission result is the sum of net interest income and net commission income.

Other administrative expenses went up by €10.3 million, or 17.6 percent. In 2019 the Bank once again focused its investment on measures to optimise processes. There was another increase in regulatory costs.

Depreciation and write-downs of intangible and tangible assets rose by €1.0 million year-on-year, to €6.2 million.

Total administrative expenses[4] amounted to €131.3 million, compared with €113.6 million in the previous year. The cost-income ratio[5] was 64.2 percent.

The net sum of other operating expenses and income amounted to minus €4.3 million.

The operating result before risk provisions[6] decreased by 22.1 percent year-on-year, to €68.9 million.

The item 'Write-downs on and adjustments to claims and certain securities, and additions to provisions for possible loan losses', amounted to €4.6 million following the allocation to contingency reserves in accordance with Section 340f of the German Commercial Code (HGB). The credit risk situation remained unremarkable. The net result of changes in risk provisioning for loan losses in the lending business (including direct write-downs) amounted to €18.2 million (previous year: minus €1.2 million). This change is due in particular to the repayment in full of a loan that was previously in default. The income from the reversal of the specific loan loss provision created for this loan was used to sustainably strengthen reserves in accordance with Section 340f HGB.

Net income from the sale of promissory note loans and the redemption of registered securities and debt securities amounted to €4.2 million.

The item 'Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets' amounted to €0.1 million.

The result from ordinary business activities amounted to €73.6 million. After tax expenses of €37.9 million, the net income for the financial year amounted to €35.7 million, which is 27 percent lower year-on-year.

[4] Total administrative expenses are the sum total of Item 8 'General administrative expenses and Item 9 'Depreciation and write-downs of intangible and tangible assets' as shown in the income statement.
[5] Ratio of total administrative expenses to net interest and net commission income.
[6] Net result of items 1 to 10 in the income statement.

RATINGS, SUSTAINABILITY AND REGULATORY CONDITIONS

» MünchenerHyp Pfandbriefe retain best Aaa rating
» Demand for sustainability loans in residential property financing increases
» Leverage ratio of 3.6%
» Regulatory minimum ratio for MünchenerHyp's Common Equity Tier 1 capital unchanged at 8.5%

Ratings

In October 2019, rating agency Moody's changed Germany's Macro Profile from "Very Strong (-)" to "Strong (+)" in its model. This led to it taking rating actions on nine German banks, including MünchenerHyp: the deposit rating, the senior unsecured and the issuer rating remained unchanged at Aa3, but the outlook was changed to negative.

Moody's remains positive about the fact that MünchenerHyp has a strong reputation on the capital market as an issuer of Pfandbriefe, noting that it has an accordingly high level of refinancing strength, and also acknowledges the firm ties and corresponding support the Bank enjoys within the Cooperative Financial Network.

CURRENT RATINGS AT A GLANCE

	Rating
Public Pfandbriefe	Aaa
Mortgage Pfandbriefe	Aaa
Junior Senior Unsecured	A2
Senior Unsecured	Aa3*
Short-term liabilities	Prime-1
Long-term deposits	Aa3*

* Outlook: negative

To achieve the highest Aaa rating for Pfandbriefe, Moody's still requires compliance only with the legal requirement of 2 percent over-collateralisation. There is therefore no requirement for voluntary over-collateralisation.

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

Sustainability

In the year under review, we continuously expanded our commitment to sustainability and consistently pursued our strategic objective to establish sustainability firmly in the Bank's core business. Through our own sustainability loans for private customers (MünchenerHyp Green Loan and MünchenerHyp Family Loan), which emphasise environmental and social issues, we aim to create sustainable added value for our customers. In 2019, sustainable loans accounted for 20 percent of our new private customer business, which means that one in five new loans issued to private customers is now a sustainable loan.

We also further developed the sustainable refinancing of our property financing business. In 2019, our Green Bond Framework was expanded to include additional sustainable refinancing products, for example sustainable senior bonds and green commercial paper, and was again awarded a positive rating in a Second Party Opinion prepared by ISS ESG. The publication of an impact report on our green loan portfolio revealed, for the first time, the potential CO_2 emissions saved or prevented by our sustainable products.

Our commitment to sustainability continues to be rated 'positive' in the sustainability rating. We still hold the current highest grade of B- in the category "Financials/Mortgage & Public Sector Finance" at ISS ESG. Specifically, ISS ESG rates MünchenerHyp's environmental commitment at B- and its social commitment at B. MünchenerHyp therefore again ranks among the three top-rated banks in its peer group and retains its "Prime Status".

At the beginning of 2020, the agency imug raised MünchenerHyp's rating slightly within the rating category, although this did not result in a higher rating classification. The Bank's sustainability rating thus remains "positive"; Mortgage Pfandbriefe also have a "positive" rating, and Public Pfandbriefe have a rating of "very positive".

The Sustainalytics rating remained unchanged.

Development of sustainability ratings over the last two years at a glance:

THE DEVELOPMENT OF THE SUSTAINABILITY RATINGS SINCE 2018

		2018	2019/2020
ISS-ESG (previously ISS-oekom)		B–(Prime status)	B–(Prime status)
imug	Unsecured bonds:	positive (BB)	positive (BB)
	Mortgage Pfandbriefe:	positive (BBB)	positive (BBB)
	Public Pfandbriefe:	very positive (A)	very positive (A)
Sustainalytics		65 out of 100 points	65 out of 100 points

Separate non-financial report

We have been disclosing the responsibility we assume for our activity in various sustainability publications for many years. The statutory reporting obligation in accordance with the German CSR Directive Implementation Act (CSR-Richtlinie-Umsetzungsgesetz – CSR-RUG) is met with the publication of a non-financial report. The non-financial statement is published separately at the same time as the annual report on the Bank's website and in the electronic Federal Gazette (Bundesanzeiger).

Regulatory conditions

Basel III
MünchenerHyp calculates its capital requirements largely using the internal ratings based approach (IRBA). The ECB's Targeted Review of Internal Models (TRIM) confirmed the correct application of these models in compliance with the rules and that the systems are suitable.

The Liquidity Coverage Ratio (LCR) was maintained without issue throughout the year, with values significantly above 100 percent, and above 300 percent on average. The Net Stable Funding Ratio (NSFR) was also consistently above 100 percent.

Basel III also introduced a leverage ratio, which must be met. At the end of financial year 2019, MünchenerHyp reached a leverage ratio of 3.6 percent.

The "finalisation" of Basel III also includes a gradual introduction of an output floor of 72.5 percent to limit the effects of internal approaches compared with standard approaches. This means that banks with low risk weightings for their receivables, such as MünchenerHyp, will be adversely affected by the changes. The introduction of this floor will also impact on MünchenerHyp's capital ratios. Overall, we take a critical view of this new regulation, because it will make lending more expensive. These regulations have not yet been transposed into European law. Banking associations in Germany and other member states are committed to ensuring adequate implementation. The Bank is monitoring developments and, given the currently high Common Equity Tier 1 ratio of 19.8 percent, assumes that this regulatory change will be manageable.

We are closely following discussions about the publication of new national and international regulations by a central body, which will forward the new regulations to the relevant departments within the Bank, so that the departments can then implement these regulations within the scope of various measures and projects. The abundance of additional supervisory and regulatory requirements causes significant costs and poses a considerable challenge for our Bank's human and financial resources.

Single Supervisory Mechanism for EU banks
In 2019 the ECB once again conducted the annual Supervisory Review and Evaluation Process (SREP), comprising a detailed evaluation of the business model, internal governance and capital and liquidity adequacy. Any additional capital and liquidity requirements will be derived from that process. As part of the SREP, a mandatory minimum ratio in 2020 of 8.5 percent (previous year: 8.5 percent) was set for Common Equity Tier 1 capital for MünchenerHyp; no additional requirements were set for liquidity.

Minimum requirements for risk management (MaRisk)
German minimum requirements for risk management under MaRisk (Mindestanforderungen an das Risikomanagement) remained unchanged in the year under review.

Recovery and resolution plan
The recovery plan was updated and the information required for the resolution plan was sent to the resolution authority. There were no significant changes compared with the previous year.

IBOR reform
IBOR interest reference rates came under heavy criticism in the wake of the manipulation scandals a few years ago; at the same time, the abolition of the submission obligation for panel banks made it necessary to replace the LIBOR rates. Alternative risk-free rates (RFRs) are currently being developed and established; existing IBOR reference rates are to be replaced based on the new RFR benchmarks.

MünchenerHyp is affected both by the announced changes in relation to the interest rate benchmarks and by the Benchmarks Regulation. However, due to the highly specialised business model, there is much less of a need for change than for most other banks directly supervised by the ECB. The necessary adjustments are currently being prepared as part of a project and will be successively phased in by the end of 2021, as soon as final decisions have been taken by the supervisory bodies.

REGISTERED OFFICE, EXECUTIVE BODIES, COMMITTEES AND EMPLOYEES

Registered office

Münchener Hypothekenbank eG has its registered office in Munich. The Bank also has a branch in Berlin and 10 regional offices.

Executive bodies and committees

The following changes to MünchenerHyp's Supervisory Board and Board of Management took place in the year under review:

The Delegates Meeting elected HRH Anna, Duchess in Bavaria, entrepreneur, and Wolfgang Höbel, Spokesman of the Management Board of Volksbank Raiffeisenbank Dachau eG, as new members of MünchenerHyp's Supervisory Board.

At the end of the Delegates Meeting, the previous Chairman of the Supervisory Board, Wolfhard Binder, former Chairman of the Management Board of Raiffeisen-Volksbank Ebersberg eG, resigned from the Supervisory Board, after stepping down from his position on the Management Board at the end of 2018 due to his age. Dr Peter Ramsauer also retired from the Supervisory Board on a regular basis at the end of the Delegates Meeting for age reasons. The Supervisory Board thanked both men for their extraordinary dedication and commendable work for MünchenerHyp.

At its constituent meeting following the Delegates Meeting, the Supervisory Board elected its previous Deputy Chairman, Dr Hermann Starnecker, Spokesman of the Management Board of VR Bank Augsburg-Ostallgäu eG, as Chairman of the Supervisory Board of MünchenerHyp, and Gregor Scheller, Chairman of the Management Board of VR Bank Bamberg-Forchheim eG, as his Deputy.

At his own request, Michael Jung stepped down from the Board of Management of MünchenerHyp at the end of 2019 for health reasons. He had been a member of the Bank's Board of Management since 2011. Both the Supervisory Board and the Board of Management accept his decision with regret and would like to thank Michael Jung for his outstanding work for MünchenerHyp and wish him all the very best for his future.

Employees

The Bank continued to expand its workforce in the year under review. A total of 96 new employees were recruited to fill vacancies. A key focus of human resources work in the past year was therefore once again on the recruitment and integration of new employees. The number of new hires was also driven by 58 employees leaving the Bank. With an employee turnover rate of 6.8 percent – excluding retirements – the Bank remains slightly below the industry average.

Other focal points of human resources work were in the area of further training and professional development, as well as occupational health management provision.

The Bank employed 573 employees[7] (previous year: 550) and 15 apprenticed trainees (previous year: 12) on average over the year. The average length of service decreased from 10.9 to 10.4 years, due to the large number of new hires over the past two years.

Corporate governance statement in accordance with Section 289f HGB

In 2016, the Supervisory Board of MünchenerHyp stipulated a quota for the number of women on the Supervisory Board and Board of Management and for the two levels of management below the Board of Management. The target quota for the Supervisory Board and the two management levels below the Board of Management is 20 percent, and 33 percent for the Board of Management. In the year under review, the proportion of women on the first management level below the Board of Management was 17 percent, and on the second management level it was 14 percent; on the Supervisory Board, it was 17 percent and on the Board of Management, 0 percent. In 2017, the Nomination Committee of MünchenerHyp's Supervisory Board recommended that these target quotas should be achieved by the end of October 2021. Notwithstanding this, MünchenerHyp considers itself to be a modern company from a social, cultural and economic standpoint, where promoting the under-represented gender is a natural part of the management culture it practises.

[7] Number of employees in accordance with Section 267 (5) HGB; excludes apprenticed trainees, employees on parental leave, in early retirement or in partial retirement (non-working phase) and employees on leave of absence.

Risk, outlook and opportunities report

RISK REPORT

Continuous risk control and monitoring is essential to managing business development at MünchenerHyp. Risk management is therefore a high priority in terms of the overall management of the Bank.

The framework governing business activities is laid down in the business and risk strategy. The MünchenerHyp Board of Management as a whole is responsible for this strategy, which is reviewed regularly to ensure its objectives are being met, revised where necessary and submitted to the Supervisory Board for information purposes at least once a year.

The Supervisory Board's Risk Committee is informed of the Bank's risk profile at least once a quarter and additionally as necessary, so that it can exercise its supervisory function. This information is based on, among other things, reports on risk-bearing capacity and credit risks, operational risk reports and the risk report prepared in accordance with the German minimum requirements for risk management (MaRisk). The committee also receives numerous detailed reports from internal management, regarding funding and liquidity, for example.

Risk management is based firstly on the analysis and presentation of existing risks, and secondly on comparing these risks with the available risk coverage potential (risk-bearing capacity). There are also various other relevant analyses that need to be viewed as a whole to enable adequate management of the Bank. Extensive control procedures involving internal, process-dependent monitoring are implemented for this purpose. The Internal Audit department, which is independent of all processes, has an additional supervisory role in this respect.

When analysing and presenting the existing risks, a distinction is made between counterparty risks, market price risks, credit spread risks, liquidity risks, investment risks, model risks and operational risks. Additional risks, such as placement risk, reputational risk, business risk, etc. are each seen as elements of the above risks and are taken into account at the appropriate point in the respective calculations.

Counterparty risk

Counterparty risk (credit risk) is of major importance for MünchenerHyp. Counterparty risk is the risk that a counterparty will fail to meet its payment obligations towards the Bank, by paying late or by defaulting completely or in part.

The Credit Manual sets forth the credit approval procedures and process regulations for those units involved in the lending business and the permissible credit products. The business and risk strategy also contains more detailed explanations on the sub-strategies for target customers and target markets, as well as specifications for measuring and managing credit risks at individual transaction and portfolio level. Individual limits have been set for all types of lending, e.g. depending on the rating. Another factor is regional diversification, which is ensured by country limits.

In our mortgage business, we ensure that we grant senior loans predominantly with moderate loan-to-value ratios. The current loan-to-value ratios break down as follows:

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS
INCLUDING OPEN COMMITMENTS IN €

Mortgage lending value ratio	31 Dec. 19	% of total	31 Dec. 18	% of total
Up to 60 %	**15,344,320,091.37**	40.2%	14,720,901,589.27	42.8%
60.01% to 70%	**6,786,576,426.70**	17.8%	6,820,895,373.58	19.8%
70.01% to 80%	**7,316,381,368.42**	19.2%	6,960,099,522.16	20.2%
80.01% to 90%	**3,041,601,499.12**	8.0%	2,676,516,392.51	7.8%
90.01% to 100%	**2,516,947,130.12**	6.6%	1,795,904,046.61	5.2%
Over 100%	**3,077,883,878.42**	8.1%	1,412,897,435.12	4.1%
Without	**41,166,896.66**	0.1%	2,908,425.35	0.0%
Total	**38,124,877,290.81**	**100.0%**	**34,390,122,784.60**	**100.0%**

The regional breakdown within Germany is as follows:

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS IN GERMANY
INCLUDING OPEN COMMITMENTS IN €

Region	31 Dec. 19	% of total	31 Dec. 18	% of total
Baden-Wuerttemberg	3,199,417,955.96	8.4%	3,010,586,219.34	8.8%
Bavaria	6,914,757,962.13	18.1%	6,318,757,224.94	18.4%
Berlin	2,026,546,575.41	5.3%	1,671,039,470.92	4.9%
Brandenburg	608,610,025.74	1.6%	568,281,726.53	1.7%
Bremen	105,422,601.78	0.3%	99,892,194.27	0.3%
Hamburg	1,096,427,567.45	2.9%	954,465,248.40	2.8%
Hesse	2,589,198,469.12	6.8%	2,057,864,034.04	6.0%
Mecklenburg-Lower Pomerania	449,022,966.46	1.2%	408,844,173.55	1.2%
Lower Saxony	2,626,151,276.25	6.9%	2,304,961,954.58	6.7%
North Rhine-Westphalia	5,056,691,558.58	13.3%	4,872,993,885.28	14.2%
Rhineland-Palatinate	1,568,178,520.40	4.1%	1,394,665,008.86	4.1%
Saarland	391,827,023.46	1.0%	331,578,228.58	1.0%
Saxony	993,549,792.56	2.6%	925,694,734.24	2.7%
Saxony-Anhalt	562,668,859.46	1.5%	529,484,804.74	1.5%
Schleswig-Holstein	1,841,943,276.68	4.8%	1,786,195,963.33	5.2%
Thuringia	324,158,194.28	0.9%	312,876,008.63	0.9%
Total domestic	**30,354,572,625.72**	**79.6%**	**27,548,180,880.23**	**80.1%**

The international breakdown is as follows:

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS INTERNATIONAL
INCLUDING OPEN COMMITMENTS IN €

Country	31 Dec. 19	% of total	31 Dec. 18	% of total
Austria	169,854,589.87	0.4%	136,406,356.80	0.4%
France	550,861,295.11	1.4%	428,521,831.12	1.2%
United Kingdom	543,299,669.17	1.4%	506,310,386.23	1.5%
Spain	462,348,572.71	1.2%	305,926,931.31	0.9%
Luxembourg	64,900,000.00	0.2%	64,994,688.44	0.2%
Switzerland	4,761,198,571.64	12.5%	4,444,846,106.56	12.9%
The Netherlands	538,996,737.36	1.4%	421,798,450.39	1.2%
Belgium	38,141,763.09	0.1%	43,445,424.60	0.1%
USA	640,703,466.14	1.7%	489,691,728.92	1.4%
Total foreign	**7,770,304,665.09**	**20.4 %**	**6,841,941,904.37**	**19.9 %**
Total domestic and foreign	**38,124,877,290.81**	**100.0 %**	**34,390,122,784.60**	**100.0 %**

Credit risk management starts when the target business is selected with the drafting of loan terms and conditions. Regularly reviewed risk cost functions are used for this purpose. Depending on the type and risk level of the transaction, various rating and scoring procedures are used.

In property financing, a broadly diversified portfolio of mainly residential property finance and credit approval processes that have been tried and tested for years are reflected in a portfolio with a low credit risk. Our lending business with public-sector borrowers and banks is primarily focused on central and regional governments, public local authorities and Western European banks (covered bonds only). The regional focus is on Germany and Western Europe respectively. However, highly liquid sovereign bonds and other highly-rated securities will continue to be needed to a certain extent in order to guarantee compliance with CRR liquidity requirements.

Mortgage loans are checked for the need for a specific loan loss provision based on their rating, any payment arrears or other negative factors. Workout Management carries out more extensive specific loan loss provision monitoring, especially in non-retail business.

The Bank sets up a general loan loss provision as a precaution to cover latent credit risks. This general loan loss provision is calculated based on the letter from the German Federal Ministry of Finance dated 10 January 1994.

As the property market is highly stable, specific loan loss provisions for both in our residential property financing business and commercial property financing business are only established at a very low level. This is also reflected in an NPL ratio of 0.48 percent as of 31 December 2019.

Business relations with financial institutions are predominantly based on master agreements that allow the netting of receivables from and liabilities to the other institution. As a rule, collateral agreements are also concluded. Derivatives are settled via a central counterparty (CCP).

Specific and general loan loss provisions changed as follows in the year under review:

TOTAL LENDING BUSINESS
IN € MILLION

	Opening balance	Additions	Reversals	Utilisation	Exchange rate-related and other changes	Closing balance
Specific provisions	40.6	13.2	-32.0	-1.7	0.4	20.5
General provisions	13.0	0.0	0.0	0.0	0.0	13.0

Market price risks

Market price risks include the risks to the value of positions due to changes in market parameters, including interest rates, volatility and exchange rates. They are quantified as a potential present value loss using a present value model. This distinguishes between interest rate, option and currency risks.

In the case of the interest rate risk, a distinction is made between general and specific interest rate risks. General interest rate risk is the risk that the market value of investments or liabilities that depend on the general level of interest rates will be adversely affected if interest rates change.

Specific interest rate risk, also known as the credit spread risk, is also included under market price risk. The credit spread is defined as the difference in yield between a risk-free and a risky bond. Spread risks take account of the risk that the spread may change even without any change to the rating. The reasons for a change to yield spreads may include:

- varying opinions among market participants regarding positions;
- an actual change in the creditworthiness of the issuer not already reflected in its rating;
- macroeconomic aspects that influence creditworthiness categories.

The risks inherent in options include, among others: volatility risk (vega: the risk that the value of a derivative instrument will change due to increasing or decreasing volatility), time risk (theta: the risk that the value of a derivative instrument will change over time), rho risk (the risk of change to the value of the option if the risk-free interest rate changes) and gamma risk (the risk of a change to the option delta if the price of the underlying asset changes; the option delta describes the change in value of the option due to a change in price of the underlying asset). As options in capital market business are not contracted for the purposes of speculation, risk exposure is moderate. Almost all option positions arise implicitly as a result of borrower's option rights e.g. statutory termination rights under Section 489 of the German Civil Code (Bürgerliches Gesetzbuch – BGB) and are hedged where necessary. These risks are closely monitored in the daily risk report and are limited.

Currency risk is the risk that the market value of investments or liabilities that depend on exchange rates will be adversely affected due to changes in exchange rates. Foreign currency transactions of MünchenerHyp are hedged to the maximum possible extent against currency risks; only the margins included in interest payments are not hedged.

Stock risk is low for MünchenerHyp; it results from investments in companies in the Cooperative Financial Network. In addition, the Bank has invested in a mixed fund (as a special fund of Union Investment), in which a mix of shares is also possible. Responsibility for calculating risk ratios is transferred to the investment fund company; the results are reviewed for plausibility and then transferred to the Bank's systems.

In order to manage market price risks, the present value of all MünchenerHyp transactions is determined on a daily basis. All transactions are valued using the 'Summit' IT programme. Interest rate risk is managed based on the BPV vector (Base Point Value), which is calculated daily from the change in present value per maturity band that would occur if the mid-swap curve changed by one basis point. Sensitivities to exchange rates and in relation to rotations in the interest rate curve and changes to the base spread and volatilities are also determined.

Market risks are recorded and limited at MünchenerHyp using the value at risk (VaR) indicator. The VaR calculation takes account of both linear and non-linear risks by means of a historic simulation. The impact of extreme movements in risk factors is also measured here and for other types of risks using various stress scenarios.

The daily stress scenarios (others are tested with less frequency) are:

- Supervisory requirements: the yield curve is shifted up and down in parallel by 200 basis points for each currency separately. The poorer of the two results is taken into account.
- Parallel shifting: the current yield curve is shifted up and down completely by 50 basis points across all currencies at the same time. The poorer of the two results is taken into account.
- Sensitivities:
  - Exchange rates: all foreign currencies change by 10 percent.
  - Volatilities: all volatilities increase by 1 percent.
- Steepening / flattening: the yield curve is rotated in both directions in accordance with guideline BCBS 368.
- Historic simulation:
  - Terrorist attack in New York on 11 September 2001: changes in market prices between 10 September 2001 and 24 September 2001, i.e. the direct market reaction to the attack, are applied to the current level.
  - 2008 financial market crisis: changes in interest rates between 12 September 2008 (last banking day before the collapse of investment bank Lehman Brothers) and 10 October 2008 are applied to the current level.
  - Brexit: change in interest rates and exchange rates due to the Brexit referendum on 23 and 24 June 2016.

During 2019 the maximum VaR of the bank book (interest, currencies and volatilities) at a confidence level of 99 percent with a ten-day holding period was €62 million. The average figure was approximately €28 million.

Although MünchenerHyp is a trading book institution (for futures only), it has not concluded any trading transactions since 2011.

In order to manage credit spread risks, the present value of asset-side capital market transactions of MünchenerHyp is calculated and the credit spread risks determined on a daily basis. The credit spread VaR, credit spread sensitivities and various credit spread stress scenarios are calculated in the Summit valuation system.

Credit spread risks are recorded and limited at MünchenerHyp using the VaR figure. The VaR is calculated based on an historic simulation.

The current (daily) credit spread stress scenarios are:

- Parallel shifting: all credit spreads are shifted up and down by 100 basis points. The poorer of the two results is taken into account.
- Historic simulation of the collapse of the investment bank Lehman Brothers: the scenario assumes an immediate change in spreads based on the change that was measured in the period from one banking day before the collapse of Lehman Brothers to four weeks after this date.
- Flight to government bonds: this scenario simulates a highly visible risk aversion seen on the markets in the past. The spreads of risky security classes widen, while the spreads of safe sovereign bonds tighten.
- Euro crisis: this scenario replicates the change in spreads during the euro crisis between 1 October 2010 and 8 November 2011. During that period, in particular the spreads of poorly rated sovereign bonds increased sharply.

The credit spread VaR for the entire portfolio using a 99.9 percent confidence level and a holding period of one year stood at a maximum of €86 million in 2019, while the average figure was about €78 million.

Liquidity risk

Liquidity risk includes the following risks:

- Inability to honour payment obligations on time (liquidity risk in the narrower sense).
- Inability to procure sufficient liquidity when needed at anticipated conditions (refinancing risk).
- Inability to close out, extend or settle transactions without incurring a loss due to insufficient market depth or market disruptions (market liquidity risk).

MünchenerHyp distinguishes between short-term solvency measures and medium-term structural liquidity planning.

Short-term solvency measures

The purpose of short-term solvency measures is to ensure that the Bank is able on a daily basis to honour payment obligations in due form, in time and in full, even during stress situations (willingness to pay). Current supervisory requirements (MaRisk and CRD IV) regarding banks' liquidity reserves have been implemented.

MünchenerHyp classes itself as a capital market-oriented institution within the meaning of MaRisk and therefore also fulfils the requirements of BTR 3.2.

MaRisk distinguishes between five different scenarios, which have been implemented accordingly:
1) Base case: corresponds to normal management of the Bank.
2) Bank stress: the reputation of the institution deteriorates, for example due to large on-balance-sheet losses.
3) Market stress: short-term event affecting one part of the financial market. Examples of this include the terrorist attack on 11 September 2001 or the financial market/sovereign debt crisis.
4) Combined stress: simultaneous occurrence of bank and market stress.
5) Combined stress without countermeasures: it is assumed that it is no longer possible to obtain any liquidity at all.

According to MaRisk, the Bank must meet the liquidity requirements arising from scenarios 1 to 4 for a minimum of 30 days. Scenario 5 is the worst-case scenario for internal management purposes.

Depending on the scenario, various modelling assumptions have been deduced for all important cash flows, such as drawdowns of liquidity lines, drawdowns of loan commitments already made or changes to collateral. In addition, all securities were allocated to various liquidity classes in order to deduce the volume in each scenario that could be sold or placed in a securities repurchase agreement, and in what time frame, in order to generate additional liquidity. In all cases statutory restrictions, such as the 180-day rule in the Pfandbriefgesetz, were met at all times. The result is a day-by-day presentation of available liquidity over a three-year horizon in three currencies (euros, US dollars and Swiss francs). Positions in other currencies are negligible. Limits are set in the stress scenarios across various horizons as early warning indicators for each scenario.

In addition, the liquidity coverage ratio (LCR) and a forecast in accordance with CRD IV are calculated across all currencies at least once a week.

Medium-term structural liquidity planning

The purpose of structural liquidity planning is to ensure medium-term liquidity. The legal basis for this is both MaRisk BTR 3 and CRD IV on the net stable funding ratio (NSFR).

Medium-term liquidity management in accordance with MaRisk is based on short-term liquidity management in accordance with MaRisk, i.e. both use the same scenario definitions and modelling assumptions. Due to the longer observation period, however, additional modelling is taken into account that is not decisive for short-term liquidity management, such as new business planning or current expenses such as salaries and taxes.

Medium-term liquidity planning has the following key liquidity figures over time as profit or loss components:
- cumulative overall cash flow requirement;
- available uncovered and covered funding potential, including planned new business and extensions in accordance with Moody's over-collateralisation requirements;
- other detailed data for planning and management activities.

Liquidity risks are limited via the structural liquidity forecast and stress scenarios, based on available liquidity within a year.

In addition, the NSFR is computed monthly across all currencies in accordance with CRD IV. Forecasts are also created for monitoring purposes. However, as the supervisory authorities have not yet stipulated a binding minimum value for compliance with the NSFR and the values are stable at over 100 percent, active management of this key ratio is not yet necessary.

In order to reduce refinancing risks, MunchenerHyp strives to refinance loans with matching maturities where possible. The Bank continuously checks if its relevant refinancing sources (primarily, those within the Cooperative Financial Network) are still available. In order to limit market liquidity risk, in its business with the public sector and banks the Bank predominantly acquires ECB-eligible securities that can be used as collateral for ECB open market operations at any time.

In order to diversify its refinancing sources, the Bank has started to build up its deposit business. At the end of 2019, the portfolio volume was €258 million.

MünchenerHyp does not have any illiquid bonds, such as mortgage-backed securities (MBS) or similar securities, in its portfolio.

Investment risk

This describes the risk of potential losses if the price of investments falls below their carrying amount. This applies to long-term participations held by MünchenerHyp for strategic reasons in companies of the Cooperative Financial Network and, to a small extent, positions within its special mixed fund.

Operational risks

Operational risks are the risk of potential losses caused by human error, process or project management weaknesses, technical failures or negative external factors. Human error includes unlawful action, inappropriate selling practices, unauthorised actions and transactional errors and information and communications risks.

We minimise our operational risks by qualifying our employees, transparent processes, automation of standard workflows, written work instructions, comprehensive IT system function tests, appropriate contingency plans and preventive measures. Insurable risks are covered by insurance to the normal extent required by banks.

The materiality of all services outsourced by MünchenerHyp in connection with banking transactions and financial services or other standard banking services has been examined in a risk analysis. All outsourced services are monitored in accordance with ECB guidelines and included in the risk management process.

Risk-bearing capacity

The technical concepts and models used to calculate risk-bearing capacity are continually updated in accordance with supervisory requirements. MünchenerHyp calculates its risk-bearing capacity in accordance with the requirements of the ECB, based on both the normative and the economic approach.

Market risks, counterparty risks, operational risks, spread and migration risks, investment risks, property risks and model risks, which include other risks not specifically listed, are deducted. Risks are allocated to risk-coverage potential conservatively, disregarding any diversification effects between different types of risks.

The Bank maintained its risk-bearing capacity at all times throughout the year under review.

Use of financial instruments for hedging purposes

We engage in hedging activities – interest rate and currency derivatives – in order to further reduce our risks and to hedge our business activities. We do not use credit derivatives. Asset swaps are used as micro-hedges at the level of individual transactions. Structured underlying transactions, such as callable securities, are hedged accordingly with structured swaps. Exchange rate risks for commitments in foreign currency are hedged primarily by endeavouring to secure funding in matching currencies; any remaining transactions are hedged using (interest rate) cross-currency swaps.
At portfolio level, we prefer to use interest rate swaps and swaptions as hedging instruments. Bermuda options on interest rate swaps (swaptions) are used in addition to linear instruments to hedge embedded statutory termination rights or interest rate cap agreements.

Accounting-related internal control and risk management processes

The accounting-related internal control system is documented in organisational guidelines, process descriptions, accounting manuals and operating instructions. It comprises organisational security measures and ongoing automatic measures and controls that are integrated into work processes. The main controls are segregation of functions, the dual control principle, access restrictions, payment guidelines, the new product and new structure processes and balance confirmations. Non-process-specific audits are conducted primarily by Internal Audit.

The risk management methods described in the risk report provide ongoing qualitative and quantitative information on the financial situation of MünchenerHyp, such as performance development. Aspects of all types of risks are included in this assessment.

At MünchenerHyp there is close coordination between the risk control and financial reporting units. This process is monitored by the entire Board of Management.

The output from the risk management system is used as a basis for multi-year planning calculations, year-end projections and reconciliation procedures for the accounting figures calculated in the Bank's financial accounting process.

CORPORATE PLANNING

MünchenerHyp regularly analyses its business model based on the challenges that will face the Bank in future, and further develops its business and risk strategy on this basis. In order to achieve its strategic objectives, numerous measures have been defined across various areas of activity, which will be consistently implemented in the years ahead. The MaRisk-compliant strategic process, which also sets the parameters for the annual planning process, will play a crucial role in this. As part of this annual planning process, sales targets and centralised and decentralised components of administrative expenses are reconciled with the projected rolling multi-year income statement. All earnings and cost components and our risk-bearing capacity are monitored continually or projected on a rolling basis, so that the Bank can react promptly and appropriately to fluctuations in earnings or costs.

Planning also includes matters in relation to equity adequacy, to ensure the Bank complies with supervisory requirements.

OUTLOOK – OPPORTUNITIES AND RISKS

» **Economic outlook remains subdued**
» **Strong investor interest in commercial property still expected for 2020**
» **MünchenerHyp intends to build on its market position in private and commercial property financing**

Economic development and financial markets

The prospects for a recovery in the global economy are uncertain. Although economic researchers do expect a slight increase in global gross domestic product in 2020, they also see continued risks, particularly with regard to trade and geopolitical tensions. In this context, the IMF lowered its forecast for global economic growth slightly at the start of 2020, to 3.3 percent, and to 3.4 percent for 2021. The IMF sees the signs of recovery in production and global trade as a support for the economy.

A slight economic upturn is also forecast for the eurozone. Economic growth is expected to increase by 1.3 percent in 2020 and by 1.4 percent the year after. The reason for this is the expectation that the economy in the eurozone will benefit from growing international demand.

The economic outlook for the German economy also remains subdued. Although sentiment indicators did improve slightly at the beginning of 2020, economic researchers agree that there will only be a moderate revival of economic growth. GDP growth forecasts are therefore 0.8 percent on average. The IMF predicts growth of 1.4 percent for 2021. In 2020, the economy will benefit from the positive effect of private and public consumption, as well as investment in construction. A slight upwards trend is forecast for industrial production. The outlook for the labour market is also cautious. A slowdown is expected in job creation and wage increases. Price development is expected to remain moderate, with a projected inflation rate of 1.4 percent for 2020. Due to the strong dependence of the German economy on exports, however, there are also significant economic risks for 2020, due to continued trade and geopolitical conflicts.

In view of the only slight improvement in economic prospects, the central banks will continue to pursue an expansionary monetary policy. It remains to be seen whether the strategic review announced by the ECB will lead to a change in monetary policy. Due to differing opinions within the ECB's Governing Council regarding negative interest rates and the asset purchase programme, most experts are predicting only minor adjustments.

Slightly weaker economic growth is expected in the USA. Some experts therefore expect to see further cuts in interest rates by the Federal Reserve. The Fed Chairman recently announced a pause in the interest rate-cutting cycle and a suspension of changes in the federal funds rate for the time being. Following recent poorer than expected economic data from the UK, the Bank of England may soon lower its base rates. The Bank of Japan and the Swiss National Bank are likely to take a wait-and-see approach. Ten-year Bunds are therefore likely to continue trading with negative yields, which are expected to range between minus 0.50 percent and 0.00 percent.

The foreign exchange markets have seen only minor fluctuations recently. Potential interest rate cuts by the Fed and weaker economic data in the USA could lead to an appreciation of the euro against the US dollar. Furthermore, the euro may benefit from a gradual stabilisation of industrial production and barely-existent potential for interest rate cuts in Europe. Further developments with Brexit and the structure of the forthcoming trade agreement between the United Kingdom and the EU are likely to have the greatest effect on the performance of sterling. In the event of interest cuts by the US Federal Reserve, the Swiss franc could benefit from its status as a "safe haven" and post slight gains in 2020.

On the covered bond markets, an increase in the issue volume of benchmark bonds denominated in euros is expected in 2020, to €146 billion. Once again, Germany and France are expected to account for the largest market shares. Cited reasons for the renewed increase in the issue volume include the relaunch of the ECB's purchase programme, new issuers entering the market and the continued high demand for property loans. The purchase programme should continue to bring favourable issue spreads and continued low interest rates.

Property and property financing markets

An anticipated gradual stabilisation in the global economic situation at the start of 2020, in spite of ongoing political uncertainties, is bolstering demand for property and property financing. Experts therefore expect to see continued strong investor interest in property in 2020, particularly in large cities and economically prosperous regions. This continues to bring more opportunities than risks for markets in which MünchenerHyp is active.

In terms of the German residential property market, the trend that has persisted for the past few years is expected to continue. Prices will remain on an upward trend, however the strong momentum of recent years is expected to slow to a certain extent. In addition, trends in purchase prices and rents will continue to vary from one region to another. Migration to the top seven cities, their surrounding areas and prospering business locations will continue, further reducing supply there due to high demand. This development is not without risks of regional overvaluations. Overall, however, experts still see no immediate risk of a nationwide property bubble developing.

The huge interest of institutional investors in German residential property also continues unabated, despite lower returns. However, the political discussion on limiting rent increases is causing some uncertainty among investors, as corresponding measures such as a rent cap will influence income and valuations.

If current conditions continue – high demand for residential property and low interest rates – strong demand for property financing is also expected in 2020. With prices continuing to rise, the proportion of property purchases financed by loans will increase.

Investors will continue to focus closely on German commercial property. The weaker economy is not expected to have any effects on the market or demand. Office property will remain the most significant asset class, while interest in retail property is expected to decline. Overall, experts anticipate the volume of transactions to remain at a high level, but not to exceed the level of 2019.

In the UK, it remains to be seen how much of an effect Brexit will have on the British economy and thus the labour market and demand for space. However, it can be assumed that the impact will be limited for the time being, due to the transitional arrangements. The mood of investors therefore brightened slightly at the beginning of 2020 for the first time. Notwithstanding the above, the UK retail trade will remain under pressure, particularly in regional markets. The radical change in shopping habits is impacting bricks & mortar trade, and, unlike in other European countries, bricks & mortar food retail trade is also affected in the UK.

Conditions for investors in the French property market are overwhelmingly positive. Major infrastructure projects are bringing new sub-markets in Greater Paris to the attention of office users and investors. Due to the shortage of space in the central business district of Paris, as well as attractive prospects in the surrounding areas, letting activity and rent increases will shift to peripheral office markets.

The economic forecast for the Netherlands remains positive, which also means sustained high demand for the property market. Migration to large cities will also continue in the Netherlands, leading to excess demand in both the residential segment and for office property. Falling vacancy rates and rental growth are expected.

Significant economic growth in Spain is having a positive effect on its commercial property market. Commercial properties in the office, retail, logistics and hotel segments are achieving significant rental growth and are recording falling vacancy rates due to sustained high user demand in the major cities. Investments in commercial properties are therefore particularly attractive to investors who are willing to pay high prices for commercial property.

An upturn in economic growth to 1.5 percent is forecast for Switzerland in 2020. The labour market also looks stable. With continued low interest rates, demand for property should thus remain high. According to expert estimates, the price trend for residential property will be moderate. A further increase in vacancies is expected on the rental housing market, as housing construction exceeds demand.

Strong demand for residential properties will continue in the larger cities in Austria. This creates a gulf between town and country, because it induces people to move closer to large cities to improve their prospects on the employment market. In contrast to Switzerland, the regional markets are not characterised by oversupply; instead, supply and demand are in balance.

In the USA, after the strong transaction volume in 2019, investors are expected to be somewhat more cautious in 2020, as the economic outlook is less favourable. On the other hand, institutional investors have high liquidity and are therefore under pressure to invest. This could lead to investors relaxing their investment criteria and paying comparatively high purchase prices for properties that do not conform to the low-risk core segment. Overall, however, the outlook remains positive, particularly for the office property market.

Development of business at Münchener Hypothekenbank

Building upon the very good new business result from 2019, our aim is to further expand MünchenerHyp's market position in private and commercial property financing.

The general situation described in the section above provides us with a good foundation and opportunities for this, because we assume that demand for residential and commercial properties in these markets will remain high. Our planning is also based on the assumption that demand for property and, consequently, property financing, will be boosted by low interest rates.

Under these conditions, we are confident that we will also be able to generate a high volume of new business in 2020, in line with the high level seen in the year under review. As we have been able to increase new business dramatically in each of the last two reporting years, we have now reached a level that we aim to consolidate or only moderately expand in 2020.

Private residential property financing in Germany remains the focus of our new business planning. Our key partners in this business segment are, and shall remain, the banks in the Cooperative Financial Network. These have a strong sales force and customer proximity, which continues to open up growth opportunities for them. We assume that they will therefore also be able to expand their market share in residential property financing in 2020, as they have in previous years. We aim to strengthen our market position as an expert in long-term property financing within the Cooperative Financial Network. To this end, we are planning again sales campaigns in the retail and individual business, to step up the joint market cultivation activities with our partner banks. We see potential and earnings opportunities particularly in the further development of higher-volume individual business with the cooperative banks. We will also further digitalise our processes, to make cooperation easier, more customer-focussed and more efficient. This includes in particular payment and portfolio processes. Our objective with this is to tackle competition within the Cooperative Financial Network and strengthen our position as an association partner.

In cooperation with independent financial service providers, we see good opportunities to continue our growth trend in this business segment, due to the favourable conditions currently governing our refinancing on the capital market, in comparison with refinancing via deposits. It is also important here to simplify the cooperation with our partners and to take a customer-orientated approach.

In our cooperation with PostFinance, we are planning new business at the previous year's level. We have based our planning on the assumption that the already intense competition in Switzerland will increase again. To support our activities, we will run another sales campaign in Switzerland.

In our financing business in Austria, which we launched in 2019, we are striving for a steady but cautious growth trend in 2020 and subsequent years. We also want to cooperate with the Volksbanks and Raiffeisenbanks close to the border.

In commercial property financing we want to continue the positive development of the year under review and further strengthen this business as the Bank's second core business area. We based our planning on the assumption of a sound business environment – even though protectionist tendencies and geopolitical tensions are creating uncertainties. In our view the latter are offset by two aspects that bring more stability to general business conditions: firstly, we assume that there will be very little change to the low interest level in the short to medium term, and secondly, we expect a high inflow of capital from investors into the property asset class, due to a lack of alternative forms of investment.

In our domestic business, we plan to maintain at least the level of new business attained in 2019. Investors still regard Germany as a "safe haven"; therefore, the demand for property investments will remain high. The challenge lies principally in undiminished strong competition on the financing market from traditional financial institutions and, increasingly, from alternative finance providers, such as debt funds.

In our international business, we see opportunities for growth in 2020. Especially in our longstanding markets of France, Benelux, Spain and, to a limited extent, the UK, we plan to continue to serve our national customers in these countries and to find local investors and globally positioned investors by having a stronger local focus. In addition, we are currently examining the possibility of entering the Scandinavian market.

We anticipate a high level of transaction activity on the syndication markets in 2020, as the trend towards ever-increasing volumes of financing continues. Only a few banks are prepared to leave excessively high financing volumes entirely on the balance sheet. In 2020, we therefore expect to see a stabilisation of the trend from 2019, with a growing secondary market volume at MünchenerHyp at the same time. On the one hand, we are ready to participate to a significant extent in third-party financing and, on the other, to surrender portions of our own financing to other banks. We will also continue to use our syndication programme with the Cooperative Financial Network.

The objective of our lending business with the public sector and banks will remain unchanged and primarily serve to manage liquidity and cover pools. For 2020, we expect stable development of our portfolio volume, as maturing securities will have to be replaced to manage liquidity.

We will also further expand our sustainability activities in 2020. In particular, we want to give our sustainable financing solutions an even stronger foothold in the market and expand our sustainable issuing activities.

For 2020, we are planning a refinancing requirement of between €7.0 billion and €8.0 billion, of which €6.0 billion to €6.5 billion will probably be raised on the capital market and the remainder on the money market. Similar to the previous year, we plan to issue two to three large-scale issues, with the additional potential to top up existing bonds. Due to its partnership with PostFinance in Switzerland, MünchenerHyp will continue to have a refinancing requirement in Swiss francs.

One large bond is maturing in financial year 2020 – a Mortgage Pfandbrief to the volume of €875 million – due for repayment in October.

Following the rating agency Moody's lowering of Germany's Macro Profile in its model in autumn 2019, further effects on the deposit rating for Senior Unsecured and MünchenerHyp's issuer rating cannot be ruled out, although we aim to control such effects with countermeasures.

We are aiming to achieve a moderate increase in net interest income generated from business operations in 2020. Stable trends on our key markets will again provide opportunities to expand our new business and thus our mortgage portfolios.

This will continue to have a positive impact on the Bank's earnings. On the other hand, increasing competition, persistently high regulatory pressure and increased investment and personnel costs have counteractive effects.

Based on the available information to date, we expect at most a slight increase in risk provisioning for the lending business.

In light of the favourable market environment forecast, we are confident that we will attain our targets for the 2020 financial year and succeed in further expanding our market position. We expect net income to be in line with the previous year's level.

Disclaimer regarding forward-looking statements

This annual report contains statements concerning our expectations and forecasts for the future. These forward-looking statements, in particular those 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 exposed to 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 refinancing 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.

ANNUAL STATEMENT OF ACCOUNTS.

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43 STATEMENT OF DEVELOPMENT IN EQUITY CAPITAL AND CASH FLOW STATEMENT

Balance sheet

31 DECEMBER 2019

ASSETS
IN €

		31 Dec. 19	€ 000 31 Dec. 18
1. Cash reserve			
a) Cash on hand	5,441.17		15
b) Balances with central banks	11,893,282.17		390,369
of which: with Deutschen Bundesbank € 11,893,282.17			
		11,898,723.34	**390,384**
2. Claims on banks			
a) Mortgage loans	4,269,239.14		4,937
b) Public-sector loans	117,709,012.08		126,417
c) Other claims	1,932,302,114.12		1,609,565
of which: payable on demand € 1,062,098,556.02			
		2,054,280,365.34	**1,740,919**
3. Claims on customers			
a) Mortgage loans	35,415,250,284.77		31,874,048
b) Public-sector loans	2,022,889,256.16		2,235,789
c) Other claims	188,967,506.93		175,053
		37,627,107,047.86	**34,284,890**
4. Bonds and other fixed-income securities			
a) Bonds and notes	1,995,516,336.64		2,258,918
aa) Public-sector issuers € 1,166,826,001.04			(1,309,268)
of which: eligible as collateral for Deutsche Bundesbank advances € 1,128,781,976.94			
ab) Other issuers € 828,690,335.60			(949,651)
of which: eligible as collateral for Deutsche Bundesbank advances € 699,214,401.01			
b) Own bonds and notes	650,002,669.44		1,200,036
Nominal value € 650,000,000.00			
		2,645,519,006.08	**3,458,954**
Carried forward		42,338,805,142.62	39,875,147

Assets continued on page 39

Assets continued from page 38

ASSETS
IN €

		31 Dec. 19	€ 000 31 Dec. 18
Brought forward		42,338,805,142.62	39,875,147
5. Equities and other variable-yield securities		147,000,000.00	154,050
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	11,152
8. Assets held in trust		0.00	2
of which: loans € 0.00			
9. Intangible assets			
a) Internally generated commercial property rights and similar rights and assets	2,491,280.46		0
b) Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	5,434,973.87		3,746
		7,926,254.33	3,746
10. Tangible assets		68,040,344.97	69,453
11. Other assets		133,985,442.27	120,467
12. Deferred items			
a) From issuing and lending business	58,527,391.41		52,663
b) Other	248,183.91		
		58,775,575.32	52,663
Total assets		42,872,238,059.64	40,391,234

LIABILITIES, CAPITAL AND RESERVES
IN €

			€ 000
		31 Dec. 19	31 Dec. 18
1. Liabilities to banks			
a) Registered Mortgage Pfandbriefe issued	688,592,368.66		789,576
b) Registered Public Pfandbriefe issued	57,415,145.82		85,352
c) Other liabilities	4,051,555,935.37		4,214,904
of which: payable on demand € 1,427,741,869.62			
		4,797,563,449.85	**5,089,832**
2. Liabilities to customers			
a) Registered Mortgage Pfandbriefe issued	9,812,321,080.55		9,602,199
b) Registered Public Pfandbriefe issued	2,041,016,739.73		2,142,135
c) Other liabilities	3,871,388,260.47		3,493,668
of which: payable on demand € 44,397,382.01			
		15,724,726,080.75	**15,238,002**
3. Certificated liabilities			
a) Bonds issued	20,020,287,620.53		18,185,051
aa) Mortgage Pfandbriefe € 16,299,480,086.59			14,744,976
ab) Public Pfandbriefe € 178,608,494.63			(231,321)
ac) Other bonds and fixed-income securities € 3,542,199,039.31			(3,208,754)
b) Other certificated liabilities	299,724,824.46		50,050
of which: money market paper € 299,724,824.46			
		20,320,012,444.99	**18,235,101**
4. Liabilities incurred as trustee		**0.00**	**2**
of which: loans € 0.00			
5. Other liabilities		**259,301,939.35**	**206,541**
Carried forward		41,101,603,914.94	38,769,478

Liabilities continued on page 41

Liabilities continued from page 40

LIABILITIES, CAPITAL AND RESERVES
IN €

		31 Dec. 19	€ 000 31 Dec. 18
Brought forward:		41,101,603,914.94	38,769,478
6. Deferred items			
From issuing and lending business	46,339,931.69		21,367
		46,339,931.69	**21,367**
7. Provisions			
a) Provisions for pensions and similar obligations	32,482,894.00		31,348
b) Provisions for taxes	0.00		5,150
c) Other provisions	38,989,782.00		34,599
		71,472,676.00	**71,097**
8. Subordinated liabilities		74,200,000.00	**106,200**
9. Profit-participation certificates		115,164,916.16	**0**
10. Fund for general banking risks		35,000,000.00	**35,000**
11. Capital and reserves			
a) Subscribed capital	1,072,452,850.00		1,034,630
aa) Members' capital contributions € 1,072,452,850.00			(1,032,630)
ab) Silent participation € 0.00			(2,000)
b) Revenue reserves	332,000,000.00		320,000
ba) Legal reserve € 326,000,000.00			(314,000)
bb) Other revenue reserves € 6,000,000.00			(6,000)
c) Unappropriated profit	24,003,770.85		33,462
		1,428,456,620.85	**1,388,092**
Total liabilities, capital and reserves		42,872,238,059.64	**40,391,234**
1. Contingent liabilities			
Contingent liability on guarantees and indemnities		766.94	1
2. Other commitments			
Irrevocable loan commitments		4,186,243,226.53	4,191,441

Income statement

FOR THE YEAR ENDED 31 DECEMBER 2019

INCOME STATEMENT
IN €

			01 Jan. to 31 Dec. 19	€ 000 01 Jan. to 31 Dec. 18
1. Interest income from			**951,035,606.99**	**970,610**
a) Lending and money market operations		906,386,574.20		918,912
b) Fixed-income securities and government debt register claims		44,649,032.79		51,698
2. Interest expenses			**654,116,860.53**	**693,614**
3. Current income from			**2,843,118.59**	**2,943**
a) Shares and other non-fixed income securities		0.00		0
b) Participating interests and shares in cooperatives		2,143,118.59		2,393
c) Investments in affiliated companies		700,000.00		550
4. Income from profit-pooling, profit transfer or partial profit transfer agreements			**50,583.93**	**196**
5. Commission received			**15,396,071.94**	**9,415**
6. Commission paid			**110,705,276.99**	**81,942**
7. Other operating income			**1,710,103.70**	**2,743**
8. General administrative expenses			**125,154,169.95**	**108,451**
a) Personnel expenses		56,329,205.69		49,917
aa) Wages and salaries	47,792,536.12			42,203
ab) Social security contributions and cost of pensions and other benefits	8,536,669.57			7,714
of which: for pensions € 1,583,071.27				1,450
b) Other administrative expenses		68,824,964.26		58,534
9. Depreciation and write-downs of intangible and tangible assets			**6,171,784.04**	**5,136**
10. Other operating expenses			**6,022,233.28**	**8,342**
11. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses			**0.00**	**12,650**
12. Income from reversals of write-downs to claims and certain securities, as well as from reversals of provisions for possible loan losses			**4,626,426.55**	**0**
13. Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets			**148,710.38**	**266**
14. Results from ordinary business activities			**73,640,297.29**	**76,038**
15. Taxes on revenue and income			**37,943,183.72**	**27,339**
16. Allocation to fund for general banking risks			**0.00**	**0**
17. Net income			**35,697,113.57**	**48,699**
18. Retained earnings brought forward from previous year			**306,657.28**	**263**
19. Allocation to revenue reserves			**12,000,000.00**	**15,500**
a) Legal reserve		12,000,000.00		15,500
b) Other revenue reserves		0.00		0
20. Unappropriated profit			**24,003,770.85**	**33,462**

Statement of development in equity capital and cash flow statement

STATEMENT OF DEVELOPMENT IN EQUITY CAPITAL FOR 2019
IN € 000

	Subscribed capital				
	Members' capital contributions	Silent participations	Revenue reserves	Unappropriated profit	Total capital and reserves
Capital and reserves as of 01 Jan. 2018	1,004,914	2,000	304,500	32,453	1,343,867
Net change in capital	27,716				27,716
Dividends paid				32,190	32,190
Net income			15,500	33,199	48,699
Capital and reserves as of 31 Dec. 2018	1,032,630	2,000	320,000	33,462	1,388,092
Net change in capital	39,823	-2,000			37,823
Dividends paid				33,155	33,155
Net income			12,000	23,697	35,697
Capital and reserves as of 31 Dec. 2019	1,072,453		332,000	24,004	1,428,457

CASH FLOW STATEMENT 2019
IN € MILLION

	31 Dec. 19
1. Profit for the period	35.6
2. Depreciation, amortisation and write-downs of and valuation allowances on receivables and items of fixed assets/reversals of such write-downs and valuation allowances	7.0
3. Increase/decrease in provisions	0.4
4. Other non-cash expenses/income	-0.4
5. Gain/loss on disposal of fixed assets	-0.1
6. Other adjustments (net)	0.0
7. Increase/decrease in receivables from credit institutions	-300.8
8. Increase/decrease in receivables from customers	-3,361.3
9. Increase/decrease in securities (unless classified as long term financial assets)	548.8
10. Increase/decrease in other assets relating to operating activities	25.5
11. Increase/decrease in liabilities to credit institutions	-297.2
12. Increase/decrease in liabilities to customers	494.4
13. Increase/decrease in securitised liabilities	2,083.8
14. Increase/decrease in other liabilities relating operating activities	-109.1
15. Interest expense/Interest income	-237.4
16. Income tax expense/income	2.0
17. Interest and dividend payments received	563.0
18. Interest paid	-25.8
19. Income taxes paid	-39.9
20. Cash flows from operating activities (total of lines 1 to 19)	**-611.4**
21. Proceeds from disposal of long-term financial assets	283.8
22. Payments to acquire long-term financial assets	-46.5
23. Proceeds from disposal of tangible fixed assets	0.0
24. Payments to acquire tangible fixed assets	-1.4
25. Proceeds from disposal of intangible fixed assets	0.0
26. Payments to acquire intangible fixed assets	-7.6
27. Cash flows from investing activities (total of lines 21 to 26)	**228.3**
28. Proceeds from capital contributions	39.8
29. Dividends paid to shareholders	-33.2
30. Changes in cash funds relating to other capital (net)	-2.0
31. Cash flows from financing activities (total of lines 28 to 30)	**4.6**
32. Net change in cash funds	-378.5
33. Effect on cash funds of exchange rate movements and remeasurements	0.0
34. Cash funds at beginning of period	390.4
35. Cash funds at end of period (total of lines 32 to 34)	**11.9**

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General information on accounting policies

The Münchener Hypothekenbank eG annual financial statement as of 31 December 2019 was prepared in accordance with the provisions of the German Commercial Code (HGB), in conjunction with the accounting regulation for banks and financial service institutions (RechKredV), and in accordance with the rules contained in the Cooperatives Act (GenG) and the Pfandbrief Act (PfandBG).

All claims are stated at nominal amounts in accordance with Section 340e (2) of the German Commercial Code. The difference between the amounts disbursed and the nominal amount is shown under deferred items. All identifiable individual credit risks are covered by specific value adjustments and provisions set up against claims for repayment of principal and payment of interest. Contingent risks are covered by general value adjustments. In addition, contingency reserves were formed pursuant to Section 340f of the German Commercial Code.

Securities held in the liquidity portfolio are strictly valued at the lower of cost or market principle. The present value corresponds to the current exchange or market price.

Securities held as fixed assets, which were mainly acquired as cover for Public Pfandbriefe and for other coverage purposes, are valued at their cost of purchase. Discounts and premiums are recognised as interest income or expense over the residual life of the securities. Securities associated with swap agreements are valued together with these agreements as a single item. To the extent that derivatives are used to hedge risks they are not valued individually. As in the previous year, securities held as fixed assets in the business year, and which were not subject to a sustained decrease in value, are valued in accordance with the modified lower of cost or market principle. In cases involving securities treated as fixed assets where a permanent decrease in value is anticipated, the write-down to the fair value takes place on the balance sheet date.

Borrowed securities do not appear on the balance sheet.

In accordance with the rules pertaining to the valuation of fixed assets, participations and holdings in affiliated companies are valued at their cost of purchase. Depreciation is taken on those assets where the reduction in value is expected to be long-term. Participations of current assets are shown under the item "Other assets".

Intangible assets and tangible assets are valued at cost or production costs less accumulated depreciation. Planned depreciation was taken in accordance with normal useful lifetimes. Minor value assets were treated in accordance with tax rules. Unscheduled depreciation is taken in the event the original useful lifetime is shortened.

Existing deferred taxes arising due to temporary differences between values calculated for trading and tax purposes are cleared. A backlog of deferred tax assets is not recorded in the balance sheet.

Liabilities are shown at settlement value. Zero bonds are carried in the accounts at the issuing price plus earned interest based on the yield at the time of purchase in accordance with the issuing conditions. The difference between the nominal amount of liabilities and the amount disbursed is shown under deferred items. Based on the principles of prudent business practice, provisions have been made for uncertain liabilities in the amount of settlement value of these liabilities. Provisions with a remaining term of more than one year were discounted using the commensurate average rate of market interest rates.

Provisions made for pension obligations are calculated based on the Projected Unit Credit Method, a discount rate of 2.71 percent and a 2.5 percent rate of salary growth, as well as a 2.0 percent rate of pension growth. The calculation is made on the basis of "Guideline tables 2018 G" prepared by Prof. Dr. Klaus Heubeck. In accordance with the terms of Section 253 (2) of the German Commercial Code the average market rate of interest of the last 10 business years is used for discount purposes with an assumed remaining term to maturity of 15 years.

Per the terms of Section 256a of the German Commercial Code, monetary assets and liabilities denominated in foreign currencies are calculated using the European Central Bank's exchange rate valid on the balance sheet date. Results realised from the conversion of particularly covered foreign currency positions are carried under net interest income. Results realised from the conversion of specific value adjustments denominated in foreign currencies are shown under the item "Income from reversals of write-downs to claims and certain securities as well as reversals of provisions for possible loan losses". Costs and income are valued at the individual daily exchange rate.

Negative interest on financial assets or financial liabilities has been deducted from the related interest income items or interest expense items shown on the income statement.

Notes to the balance sheet income statement

Maturity analysis by residual term

ASSETS
IN € 000

	31 Dec. 19	31 Dec. 18
Claims on banks	2,054,280	1,740,919
– Three months	1,932,540	1,609,780
– Three months – one year	17,238	8,933
– One year – five years	1,285	18,317
– Five years	103,217	103,889
Claims on customers	37,627,107	34,284,890
– Three months	637,667	690,397
– Three months – one year	1,542,065	1,414,788
– One year – five years	9,765,520	8,476,544
– Five years	25,681,855	23,703,161
Bonds and other fixed-income securities ≤ one year	184,352	468,284

LIABILITIES, CAPITAL AND RESERVES
IN € 000

	31 Dec. 19	31 Dec. 18
Liabilities to banks	4,797,563	5,089,832
– Three months	1,933,848	1,520,338
– Three months – one year	509,425	648,066
– One year – five years	1,109,328	1,677,388
– Five years	1,244,963	1,244,040
Liabilities to customers	15,724,726	15,238,002
– Three months	1,359,192	562,748
– Three months – one year	1,005,534	735,916
– One year – five years	1,253,045	1,709,532
– Five years	12,106,955	12,229,806
Certificated liabilities	20,320,012	18,235,100
Bonds issued		
– Three months	102,584	631,799
– Three months – one year	2,329,064	2,034,593
– One year – five years	8,688,188	7,729,904
– Five years	8,900,451	7,788,754
Other certificated liabilities		
– Three months	245,209	0
– Three months – one year	54,516	50,050

Claims on | Liabilities

CLAIMS ON AND LIABILITIES TO AFFILIATED COMPANIES AND COMPANIES, IN WHICH PARTICIPATING INTERESTS ARE HELD
IN € 000

	31 Dec. 19				31 Dec. 18			
	Affiliated companies		Companies in which participating interests are held		Affiliated companies		Companies in which participating interests are held	
	certificated	non-certificated	certificated	non-certificated	certificated	non-certificated	certificated	non-certificated
Claims on banks	0	0	0	877,423	0	0	0	633,470
Claims on customers	0	0	0	0	0	0	0	0
Bonds and other fixed-income securities	0	0	66,900	0	0	0	22,400	0
Liabilities to banks	0	0	0	812,900	0	0	0	765,892
Liabilities to customers	0	3,194	0	0	0	1,340	0	0
Certificated liabilities	0	0	0	0	0	0	0	0
Subordinated liabilities	0	0	0	0	0	0	0	15,000

Securities

SECURITIES MARKETABLE ON THE STOCK EXCHANGE
IN € 000

	31 Dec. 19		31 Dec. 18	
Asset category	Listed	Unlisted	Listed	Unlisted
Bonds and other fixed-income securities	1,691,600	210,062	2,064,172	165,862
Shares and other non-fixed-income securities	0	0	0	8,010
Participations	0	0	0	0

Separate funds

SHARES IN SEPARATE FUNDS
IN € 000

Description of the fund	Investment goal	Valuation pursuant to Section 168 and 278 Capital Investment Code (KAGB), or Section 36 Investment Act (old version) or comparable foreign regulations	Difference to book value	Distribution paid out for fiscal year
UIN-Fonds No. 903	Long term return and diversification benefits compared to a direct investment in shares, taking the structure of the Bank's portfolio into consideration	147,000	9,700	0

Subordinated assets

SUBORDINATED ASSETS
IN € 000

	31 Dec. 19	31 Dec. 18
Bonds and other fixed-income securities	66,900	22,400
Shares and other non-fixed-income securities	0	8,010

Trading book

As of 31 December 2019 the portfolio contained no financial instruments used in the trading book. During the year under review no changes were made to the Bank's internal criteria for including financial instruments in the trading portfolio.

Fixed assets

DEVELOPMENT OF FIXED ASSETS
IN € 000

	Acquisition and production costs	Changes total +/–[1]	Net book value on 31 Dec. 19	Net book value on 31 Dec. 18
Bonds and other fixed-income securities	2,258,919	-263,403	1,995,516	2,258,919
Shares and other non fixed-income securities	8,010	-8,010	0	8,010
Participations and shares in cooperatives	104,554		104,554	104,554
Shares in affiliated companies	11,152	+2,000	13,151	11,152

	Acquisition and production costs at start of business year	Additions during business year	Disposals during business year	Transfers during business year	Acquisition and production costs at end of business year	Accumulated depreciation at start of business year	Depreciation during business year	Additions during business year	Changes in legal depreciation taken related to: Additions	Changes in legal depreciation taken related to: Disposals	Changes in legal depreciation taken related to: Transfers	Accumulated depreciation at end of business year	Net book value on 31 Dec. 19	Net book value on 31 Dec. 18
Intangible assets	37,969	7,584	8,393		37,160	34,223	3,404			8,393		29,234	7,926	3,746
a) Internally generated commercial property rights and similar rights and assets		2,622			2,622		131					131	2,491	
b) Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	37,969	4,962	8,393		34,538	34,223	3,273			8,393		29,103	5,435	3,746
Tangible assets	101,042	1,402	1,319		101,125	31,589	2,768			1,272		33,084	68,041	69,453

[1] The Bank has exercised the option, available under Section 34 (3) of the accounting regulation for banks and financial services institutions, to combine certain items.

On the reporting date 31 December 2019, the book value of internally generated intangible assets amounted to € 2,491 thousand (previous year € 0.00). This is subject to the distribution restriction and is included in the item "Other revenue reserves".

As of the balance sheet date there was no indication that the present value of the Bank's participations and capital holdings at cooperatives, holdings in affiliated companies, as well as the value of shares and other non-fixed-income securities was less than their book values.

The item "Bonds and other fixed-income securities" includes securities with a book value of € 526,927 thousand (previous year € 758,716 thousand) exceeding the present value of € 525,271 thousand (previous year € 754,584 thousand). To the extent that these securities are associated with a swap transaction, they are valued together with the transaction as a single item.

Securities held as fixed assets, which are separately identified in the portfolio management system and are not expected to be subject to a permanent impairment in value, are valued in accordance with the moderated lower of cost or market principle. In light of our intention to hold these securities until they mature, we generally assume that market price-related decreases in value will not become effective and that these securities will be repaid in full at their nominal value at maturity. Of the securities that are not valued in accordance with the moderated lower of cost or market principle € 1,901,663 thousand (previous year € 2,230,033 thousand) are marketable securities.

Shareholdings

SHAREHOLDINGS
IN € 000

	Percentage of capital held	Equity	Profit/loss
M-Wert GmbH, Munich[1]	100.00	622	400
Immobilienservice GmbH der Münchener Hypothekenbank eG (M-Service), Munich (profit transfer agreement)[2]	100.00	509	51
Nußbaumstrasse GmbH & Co. KG, Munich[2]	100.00	11,372	300
M-4tec GmbH, Munich[2]	100.00	2,000	-81

1 Annual financial statements 2018.
2 Annual financial statements 2019.

Trust transactions

TRUST TRANSACTIONS
IN € 000

	31 Dec. 19	31 Dec. 18
Assets held in trusts		
Claims on customers	0	2
Liabilities incurred as trustee		
Liabilities to banks	0	2

Tangible assets

The portion of the total value attributable to the land and buildings used by the Bank is € 55,898 thousand (previous year € 56,856 thousand), and of plant and office equipment € 2,735 thousand (previous year € 2,999 thousand).

Other assets

The item "Other assets" includes deferred items of € 44,604 thousand related to the derivative business, and € 67,448 thousand in commissions for mortgage loans that will be paid after the balance sheet date. In addition, this item also includes a participation held for sale recorded at € 3,832 thousand and tax claims of € 1,960 thousand. Furthermore, this item also includes € 12,218 thousand in cash collateral pledged within the framework of the banking levy.

Deferred items

DEFERRED ITEMS FROM THE ISSUING AND LOAN BUSINESS
IN € 000

	31 Dec. 19	31 Dec. 18
Assets side 12.		
Discount from liabilities	52,310	49,835
Premium from claims	5,909	2,828
Other deferred charges	557	0
Liabilities side 6.		
Premium from liabilities	45,168	19,866
Discount from claims	997	1,469
Other deferred income	175	32

Deferred taxes

Deferred tax liabilities mainly result from the low valuation of bank buildings taken for tax purposes. Deferred tax assets arise from provisions made for pensions, and the different methods used to value premiums from swap options that were exercised. The remaining backlog of deferred tax assets arising after clearing is not recorded in the balance sheet.

Assets pledged to secure liabilities

Within the framework of open market deals with the European Central Bank, securities valued at € 500,000 thousand (previous year € 1,000,000 thousand) were pledged as collateral to secure the same amount of liabilities. The book value of the pledged assets (genuine repurchase agreements) was € 0 (previous year € 0). Within the framework of security arrangements for derivative transactions, cash collateral of € 1,789,500 thousand (previous year € 1,454,140 thousand) was provided. Securities valued at € 13,862 thousand (previous year € 14,067 thousand) were pledged to secure pension obligations and requirements of the partial retirement model for older employees. Securities valued at € 18,000 thousand (previous year € 18,000 thousand) were pledged to secure financial aid obligations within the framework of a Contractual Trust Arrangement (CTA). Claims in respect of loans valued at € 437,441 thousand (previous year € 391,703 thousand) were assigned to secure loans obtained from credit institutions.

Pursuant to Section 12 Para. 5 of the Restructuring Fund Act (Restrukturierungsfondsgesetz – RStruktFG) € 12,218 thousand in cash collateral has been pledged.

Other liabilities

The item "Other liabilities" consists of € 207,543 thousand for deferred items and adjustment items for valuation of foreign currency items, and € 46,016 thousand related to derivative transactions.

Subordinated liabilities

Subordinated liabilities incurred interest expenses of € 4,958 thousand (previous year € 6,312 thousand). Subordinated liabilities which individually exceed 10 percent of the overall statement amount to:

Nominal amount	Currency	Interest rate	Maturity date
10,000,000.00	Euro	4.47%	16.11.2020
9,000,000.00	Euro	6.71%	05.07.2021
10,000,000.00	Euro	5.67%	19.01.2021
10,000,000.00	Euro	5.67%	19.01.2021
10,000,000.00	Euro	6.01%	01.12.2022

The instruments comply with the provisions of Section 63 of the Capital Requirements Regulation (CRR).

Early repayment obligations are excluded in all cases. The conversion of these funds into capital or other forms of debt has not been agreed upon nor is foreseen. Reporting on the balance sheet is shown at nominal value.

Additional Tier 1 Capital Instruments

Additional Tier 1 (AT1) capital with a total nominal value of CHF 125 million, or a book value of € 115 million valued at the exchange rate on the balance sheet date, is reported under the item Additional Tier 1 (AT1) Instruments. Interest expenses amounted to € 190 thousand on the balance sheet date and correspond to accrued interest to the full extent. The bond was issued on 12 December 2019 in denominations of CHF 50,000, carries a coupon of 3.125% and is a perpetual bond. The bond is callable by MünchenerHyp for the first time after 5.5 years.

The interest rate will be adjusted to the current 5-year CHF mid-swap rate for the first time on 2 June 2025 and every 5 years after that date, as well as an additional margin of 3.656% per year.

Payment of interest will not take place if the issuer has insufficient distributable items available for distribution, if the issuer is ordered to do so by a competent regulatory authority, or due to non-compliance with equity capital and capital buffer requirements.

Interest payments are not cumulative.

The bond will be written down in the event MünchenerHyp's Common Equity Tier 1 capital ratio (CET1 ratio) falls below a minimum level of 7 percent. A write-up of the bond is at the full discretion of the issuer and requires sufficient net income for the year and may not contravene any statutory or official prohibition on distribution.

Pursuant to the terms of commercial law, this is a liability and not equity.

Members' capital contributions

Members' capital contributions disclosed under capital and reserves item 11aa) consisted of:

MEMBERS' CAPITAL CONTRIBUTIONS
IN €

	31 Dec. 19	31 Dec. 18
Capital contributions	1,072,452,850.00	1,032,630,340.00
a) of remaining members	1,069,775,210.00	1,030,593,620.00
b) of former members	2,461,620.00	1,867,320.00
c) in respect of shares under notice	216,020.00	169,400.00
Outstanding obligatory payments in respect of shares	0.00	0.00

Silent participations

As of the date of record there were no silent participations (previous year € 2,000 thousand). For silent participations bearing fixed rates of interest expenses were incurred in the amount of € 84 thousand (previous year € 170 thousand).

Details of revenue reserves

DEVELOPMENT OF REVENUE RESERVES
IN € 000

	Legal reserve	Other revenue reserves
01 Jan. 2019	320,000	6,000
Transfer from 2018 retained earnings		
Transfer from 2019 net income	12,000	
31 Dec. 2019	332,000	6,000

The increase in the assessment period used for defining the average discount rate from 7 to 10 years resulted in a positive contribution to income of € 3,116 thousand, which is barred from being distributed and is included under the item "Other revenue reserves".

Foreign currency items

FOREIGN CURRENCY ITEMS
IN € 000

	31 Dec. 19	31 Dec. 18
Assets side	**5,967,570**	5,523,167
Liabilities side	**4,572,391**	2,483,466
Contingent liabilities and other obligations	410,057	289,340

Other commitments

The irrevocable loan commitments contained in this item consist almost solely of mortgage loan commitments made to customers. It is anticipated that the irrevocable loan commitments will be drawn down. Against the background of the ongoing monitoring of loans, the probable need to create provisions for risks related to contingent obligations and other obligations is viewed as minor.

Interest expenses

This item includes the premium for targeted longer-term refinancing operations (TLTRO II Programme) shown as a negative interest expense of € 3,511 thousand (previous year: € 8,661 thousand).

Other operating expenses

This item contains expenses arising from adding interest effects of € 3,545 thousand (previous year € 3,724 thousand) for established provisions.

Forward trades and derivatives

The following derivative transactions were made to hedge swings in interest rates or hedge against exchange rate risks. These figures do not include derivatives embedded in underlying basic transactions stated on the balance sheet.

NOMINAL AMOUNTS
IN € MILLION

	Residual term ≤ one year	Residual term > one year ≤ five years	Residual term > five years	Total	Fair value at balance sheet date[1] neg. (–)
Interest-rate-related transaction					
Interest rate swaps	7,471	21,989	45,091	74,551	-241
Interest rate options					
– Calls	3	41	878	921	60
– Puts	138	230	29	397	-6
Other interest rate contracts	0	108	2,560	2,668	-4
Currency-related transactions					
Cross-currency swaps	1,829	2,363	1,230	5,422	-179
Currency swaps	729	0	0	729	4

[1] Valuation methods:
Interest rate swaps are valued using the present value method based on the current interest rate curve at the balance sheet date. In doing so the cash flows are discounted using market interest rates appropriate for the related risks and remaining terms to maturity. Interest that has been accrued but not yet paid is not taken into consideration. This approach is known as "clean price" valuation.
The value of options is calculated using option price models and generally accepted basic assumptions. In general, the particular value of an option is calculated using the price of the underlying value, its volatility, the agreed strike price, a risk-free interest rate and the remaining term to the expiration date of the option.

The derivative financial instruments noted involve premiums stemming from option trades in the amount of € 39.2 million (previous year € 39.8 million) which are carried under the balance sheet item "Other assets".

Interest attributable to derivative deals is carried under the balance sheet items "Claims on banks" with € 311.1 million (previous year € 298.5 million) and "Liabilities to banks" with € 323.7 million (previous year € 316.4 million) or "Claims on customers", which amounted to € 11.9 million (previous year € 13.4 million) while "Liabilities to customers" were € 17.4 million (previous year € 21.2 million). The accrual of compensatory payments made is entered under "Other assets" with € 5.4 million (previous year € 6.3 million); the accrual of compensatory payments received is entered under "Other liabilities" with € 46.0 million (previous year € 53.8 million).

Compensatory items in the amount of € 207.5 million (previous year € 149.6 million) related to the valuation of foreign currency swaps are carried under the balance sheet item "Other liabilities".

The counterparties are banks and providers of financial services, located in OECD countries, and separate funds under public law in Germany.

Hedging arrangements were made to reduce credit risks associated with these contracts. Within the framework of these arrangements collateral was provided for the net claims/liabilities arising after the positions were netted.

In the context of the Bank's hedging positions, € 1,732 million (previous year € 1,988 million) in balance sheet hedging positions were designated in accounting to hedge interest rate risks associated with securities carried on the balance sheet under "Bonds and other fixed-income securities". It may be assumed that the effectiveness of the hedging positions will remain unchanged over the entire term of the transaction as the conditions of the securities correspond to those of the hedging derivatives (critical term match method). Offsetting changes in value are not shown in the balance sheet; uncovered risks are treated in accordance with standard valuation principles. The total amount of offsetting value changes for all valuation units amounted to € 152 million.

Interest-based finance instruments carried in the banking book are valued without losses within the framework of an overall valuation, whereby the interest rate driven present values are compared to the book values and then deducted from the positive surplus of the risk and portfolio management expenses. In the event of a negative result a provision for contingent risks has to be made. A related provision did not have to be made based on the results of the calculation made on 31 December 2019.

As on the date of record the portfolio contained no derivatives used in the trading book.

Cover statement for Pfandbriefe

A. MORTGAGE PFANDBRIEFE
IN € 000

	31 Dec. 19	31 Dec. 18
Ordinary cover assets	27,332,972	25,433,899
1. Claims on banks (mortgage loans)	4,253	4,907
2. Claims on customers (mortgage loans)	27,276,255	25,376,528
3. Tangible assets (charges on land owned by the Bank)	52,464	52,464
Substitute cover assets	671,414	511,414
1. Other claims on banks	0	0
2. Bonds and other fixed-income securities	671,414	511,414
Total cover	**28,004,386**	**25,945,313**
Total Mortgage Pfandbriefe requiring cover	26,603,828	24,937,537
Surplus cover	1,400,558	1,007,776

B. PUBLIC PFANDBRIEFE
IN € 000

	31 Dec. 19	31 Dec. 18
Ordinary cover assets	2,251,579	2,431,519
1. Claims on banks (public-sector loans)	115,565	115,565
2. Claims on customers (public-sector loans)	1,976,213	2,174,666
3. Bonds and other fixed-income securities	159,801	141,288
Substitute cover assets	70,000	70,000
1. Other claims on banks	0	0
2. Bonds and other fixed-income securities	70,000	70,000
Total cover	**2,321,579**	**2,501,519**
Total public-sector Pfandbriefe requiring cover	2,227,229	2,404,688
Surplus cover	94,350	96,831

Publication in Accordance with Section 28 Pfandbrief Act

MORTGAGE PFANDBRIEFE

Mortgage Pfandbriefe outstanding and their cover

ORDINARY COVER ASSETS
IN € 000

	Nominal value		Net present value		Risk-adjusted net present value[1]	
	31 Dec. 19	31 Dec. 18	31 Dec. 19	31 Dec. 18	31 Dec. 19	31 Dec. 18
Mortgage Pfandbriefe	26,603,828	24,937,537	29,735,522	26,933,894	39,786,603	29,026,921
Cover pool	28,004,386	25,945,313	32,652,074	29,573,638	43,071,497	31,170,314
of which further cover assets	671,414	511,414	767,601	590,183	881,710	625,693
Over-collateralisation	**1,400,558**	**1,007,776**	**2,916,552**	**2,639,744**	**3,284,894**	**2,143,393**

1 Pursuant to Section. 5 (1) No 1 of the Pfandbrief-Net Present Value Directive (PfandBarwertV), the dynamic approach was used to calculate the present value of risk.

MATURITY STRUCTURE
IN € 000

	31 Dec. 19		31 Dec. 18	
Residual term	Mortgage Pfandbriefe	Cover pool	Mortgage Pfandbriefe	Cover pool
≤ 0.5 year	545,127	832,624	923,844	619,940
> 0.5 year and ≤ 1 year	1,449,260	919,806	1,520,886	956,150
> 1 year and ≤ 1.5 years	1,273,192	865,776	539,329	911,024
> 1.5 years and ≤ 2 years	1,070,221	1,064,240	1,435,563	1,021,137
> 2 years and ≤ 3 years	1,842,412	2,440,420	1,339,689	1,977,262
> 3 years and ≤ 4 years	1,997,039	2,589,509	1,467,155	2,341,015
> 4 years and ≤ 5 years	964,051	2,730,431	1,748,020	2,277,426
> 5 years and ≤ 10 years	6,751,199	8,857,450	6,359,549	8,922,847
> 10 years	10,711,327	7,704,130	9,603,502	6,918,512

FURTHER COVER ASSETS IN ACCORDANCE WITH SECTION 19 (1) NO 2 AND 3 PFANDBRIEF ACT

IN € 000

	31 Dec. 19				31 Dec. 18			
		thereof				thereof		
		money claims in accordance with Section 19 (1) No 2				money claims in accordance with Section 19 (1) No 2		
	Total	Overall	thereof covered bonds from banks in accordance with Article 129 Regulation (EU) No 575/2013	Bonds in accordance with Section 19 (1) No 3	Total	Overall	thereof covered bonds from banks in accordance with Article 129 Regulation (EU) No 575/2013	Bonds in accordance with Section 19 (1) No 3
Germany	513,000	0	0	513,000	378,000	0	0	378,000
Belgium	38,000	0	0	38,000	38,000	0	0	38,000
Finland	50,000	0	0	50,000	25,000	0	0	25,000
France	60,000	0	0	60,000	60,000	0	0	60,000
Austria	10,414	0	0	10,414	10,414	0	0	10,414
Total – all states	**671,414**	**0**	**0**	**671,414**	**511,414**	**0**	**0**	**511,414**

Key figures for Pfandbriefe outstanding and their cover

OUTSTANDING MORTGAGE PFANDBRIEFE

	Figures in	31 Dec. 19	31 Dec. 18
Outstanding Mortgage Pfandbriefe	€ 000	26,603,828	24,937,537
thereof share of fixed-rate Pfandbriefe, Section 28 (1) No 9	%	95	91

ORDINARY COVER ASSETS

	Figures in	31 Dec. 19	31 Dec. 18
Cover pool	€ 000	28,004,386	25,945,313
thereof total amount of claims which exceed the limits laid down in Section 13 (1) Section 28 (1) No 7	€ 000	0	0
thereof total amount of claims which exceed the limits laid down in Section 19 (1) No 2 Section 28 (1) No 8	€ 000	0	0
thereof total amount of claims which exceed the limits laid down in Section 19 (1) No 3 Section 28 (1) No 8	€ 000	0	0
thereof share of fixed-rate cover pool, Section 28 (1) No 9	%	96	97
Net present value pursuant to Section 6 Pfandbrief-Net Present Value Regulation for each foreign currency in EUR, Section 28 (1) No 10 (net total)	USD (€ 000)	-177,631	-331,931
	GBP (€ 000)	41,374	379,855
	CHF (€ 000)	1,063,334	2,092,086
Volume-weighted average of the maturity that has passed since the loan was granted (seasoning), Section 28 (1) No 11	Years	5	5
Average loan-to-value ratio using the mortgage lending value, Section 28 (2) No 3	%	52	52

Mortgage loans used as cover for Mortgage Pfandbriefe

A. ACCORDING TO THEIR AMOUNTS IN TRANCHES
IN € 000

	31 Dec. 19	31 Dec. 18
Up to € 300,000	16,974,300	16,229,219
More than € 300,000 up to € 1,000,000	3,088,982	2,712,317
More than € 1,000,000 up to € 10,000,000	2,219,896	2,170,267
More than € 10,000,000	5,049,794	4,322,096
Total	**27,332,972**	**25,433,899**

B. ACCORDING TO STATES IN WHICH THE REAL PROPERTY IS LOCATED AND TO PROPERTY TYPE

IN € 000

		Total	Residential						Commercial						
		Total	Overall	Condo-miniums	Single and two-family houses	Multi-family houses	Buildings under con-struction	Building land	Overall	Office buildings	Retail buildings	Industrial buildings	Other commer-cially used buildings	Buildings under con-struction	Building land
Germany	31 Dec. 19	21,858,095	18,971,944	2,623,388	11,731,220	4,603,311	13,443	582	2,886,151	1,851,650	809,715	9,422	215,364	0	0
	31 Dec. 18	20,548,926	17,910,487	2,461,284	11,054,402	4,378,149	15,954	698	2,638,439	1,701,250	723,286	10,709	203,194	0	0
Belgium	31 Dec. 19	29,640	0	0	0	0	0	0	29,640	29,640	0	0	0	0	0
	31 Dec. 18	33,708	0	0	0	0	0	0	33,708	33,708	0	0	0	0	0
France	31 Dec. 19	326,724	7,440	0	0	7,440	0	0	319,284	277,220	42,064	0	0	0	0
	31 Dec. 18	214,387	7,440	0	0	7,440	0	0	206,947	194,890	12,057	0	0	0	0
United Kingdom	31 Dec. 19	382,475	0	0	0	0	0	0	382,475	288,686	86,264	0	7,525	0	0
	31 Dec. 18	360,702	0	0	0	0	0	0	360,702	271,498	82,047	0	7,157	0	0
Luxembourg	31 Dec. 19	64,900	0	0	0	0	0	0	64,900	64,900	0	0	0	0	0
	31 Dec. 18	33,500	0	0	0	0	0	0	33,500	33,500	0	0	0	0	0
The Nether-lands	31 Dec. 19	320,062	182,065	0	0	182,065	0	0	137,997	62,748	71,100	0	4,149	0	0
	31 Dec. 18	296,626	165,637	10,375	0	155,262	0	0	130,989	69,100	57,740	0	4,149	0	0
Austria	31 Dec. 19	122,920	4	0	4	0	0	0	122,916	17,280	105,636	0	0	0	0
	31 Dec. 18	123,990	5	0	5	0	0	0	123,985	17,280	106,705	0	0	0	0
Spain	31 Dec. 19	214,731	0	0	0	0	0	0	214,731	89,455	125,276	0	0	0	0
	31 Dec. 18	214,972	0	0	0	0	0	0	214,972	44,885	170,087	0	0	0	0
Switzerland	31 Dec. 19	3,685,833	3,685,833	1,307,837	2,377,996	0	0	0	0	0	0	0	0	0	0
	31 Dec. 18	3,436,605	3,436,605	1,190,598	2,246,007	0	0	0	0	0	0	0	0	0	0
USA	31 Dec. 19	327,592	53,932	0	0	53,932	0	0	273,660	179,716	21,681	0	72,263	0	0
	31 Dec. 18	170,483	0	0	0	0	0	0	170,483	75,165	24,418	0	70,900	0	0
Total – all states	**31 Dec. 19**	**27,332,972**	**22,901,218**	**3,931,225**	**14,109,220**	**4,846,748**	**13,443**	**582**	**4,431,754**	**2,861,295**	**1,261,736**	**9,422**	**299,301**	**0**	**0**
	31 Dec. 18	**25,433,899**	**21,520,174**	**3,662,257**	**13,300,414**	**4,540,851**	**15,954**	**698**	**3,913,725**	**2,441,276**	**1,176,340**	**10,709**	**285,400**	**0**	**0**

Payments in arrears on covering mortgages

PAYMENTS IN ARREARS ON COVERING MORTGAGES
IN € 000

	31 Dec. 19		31 Dec. 18	
	Total amount of payments in arrears for at least 90 days	Total amount of these claims inasmuch as the respective amount in arrears is at least 5% of the claim	Total amount of payments in arrears for at least 90 days	Total amount of these claims inasmuch as the respective amount in arrears is at least 5% of the claim
Germany	11,148	12,254	9,238	10,514
Switzerland	1,233	1,246	191	208
Total – all states	**12,381**	**13,500**	**9,429**	**10,722**

PUBLIC PFANDBRIEFE

Public Pfandbriefe outstanding and their cover

Discounts based on the vdp credit quality differentiation model were taken into consideration in calculating the cover pool.

OUTSTANDING PAYMENTS ON MORTGAGE LOANS SERVING AS COVER
IN € 000

	Nominal value		Net present value		Risk-adjusted net present value[1]	
	31 Dec. 19	31 Dec. 18	31 Dec. 19	31 Dec. 18	31 Dec. 19	31 Dec. 18
Public Pfandbriefe	2,227,229	2,404,688	2,957,230	3,086,143	2,413,871	2,874,225
Cover pool	2,321,579	2,501,519	3,277,171	3,290,526	2,515,342	2,981,400
of which further cover assets	0	0	0	0	0	0
of which derivatives	0	0	43,122	37,864	7,662	27,069
Over-collateralisation	**94,350**	**96,831**	**319,941**	**204,383**	**101,471**	**107,175**

[1] Pursuant to Section 5 (1) No 1 of the Pfandbrief-Net Present Value Directive (PfandBarwertV), the dynamic approach was used to calculate the present value of risk.

MATURITY STRUCTURE
IN € 000

	31 Dec. 19		31 Dec. 18	
Residual term	Public Pfandbriefe	Cover pool	Public Pfandbriefe	Cover pool
≤ 0.5 year	70,744	118,140	48,838	171,053
> 0.5 year and ≤ 1 year	85,135	23,244	1,864	31,982
> 1 year and ≤ 1.5 years	31,471	41,038	77,168	147,374
> 1.5 years and ≤ 2 years	77,826	63,236	81,949	23,644
> 2 years and ≤ 3 years	57,775	48,784	163,992	41,869
> 3 years and ≤ 4 years	117,729	20,989	57,457	48,894
> 4 years and ≤ 5 years	146,660	9,879	117,398	20,989
> 5 years and ≤ 10 years	517,805	558,788	566,187	454,113
> 10 years	1,122,084	1,437,481	1,289,835	1,561,601

FURTHER COVER ASSETS FOR PUBLIC PFANDBRIEFE IN ACCORDANCE WITH SECTION 20 (2) NO 2 PFANDBRIEF ACT
IN € 000

	31 Dec. 19		31 Dec. 18	
	money claims in accordance with Section 20 (2) No 2		money claims in accordance with Section 20 (2) No 2	
	Overall	thereof covered bonds from banks in accordance with Article 129 Regulation (EU) No 575/2013	Overall	thereof covered bonds from banks in accordance with Article 129 Regulation (EU) No 575/2013
Germany	0	0	0	0
Total	**0**	**0**	**0**	**0**

Key figures on Pfandbriefe outstanding and their cover

OUTSTANDING PUBLIC PFANDBRIEFE

	Figures in	31 Dec. 19	31 Dec. 18
Outstanding Mortgage Pfandbriefe	€ 000	2,227,229	2,404,688
thereof share of fixed-rate Pfandbriefe, Section 28 (1) No 9	%	92	92

COVER ASSETS

	Figures in	31 Dec. 19	31 Dec. 18
Cover pool	€ 000	2,321,579	2,501,519
thereof total amount of claims which exceed the limits of Section 20 (2) Section 28 (1) No 8	€ 000	0	0
thereof percentage share of fixed-rate cover pool, Section 28 (1) No 9	%	91	91
	CHF (€ 000)	28,487	74,550
Net present value pursuant to Section 6 Pfandbrief-Net Present Value Regulation for each foreign currency in EUR, Section 28 (1) No 10 (net total)	JPY (€ 000)	-69,637	-68,424

Mortgage loans used as cover for Public Pfandbriefe

A. ACCORDING TO THEIR AMOUNTS IN TRANCHES
IN € 000

	31 Dec. 19	31 Dec. 18
Up to € 10,000,000	179,331	226,700
More than € 10,000,000 up to € 100,000,000	515,781	763,351
More than € 100,000,000	1,626,467	1,511,468
Total	**2,321,579**	**2,501,519**

B. ACCORDING TO GROUP OF BORROWERS AND REGIONS

IN € 000

		Total	Of which owed by					Of which guaranteed by				
		All states	Total	State	Regional authorities	Local authorities	Other debtors	Total	State	Regional authorities	Local authorities	Other debtors
Germany	31 Dec. 19	2,061,439	2,045,862	0	1,707,032	175,964	162,866	15,577	0	0	15,577	0
	31 Dec. 18	2,110,476	2,094,572	0	1,697,032	235,108	162,432	15,904	0	0	15,904	0
Belgium	31 Dec. 19	50,000	50,000	0	50,000	0	0	0	0	0	0	0
	31 Dec. 18	150,000	50,000	0	50,000	0	0	100,000	100,000	0	0	0
Austria	31 Dec. 19	170,000	155,000	120,000	35,000	0	0	15,000	0	15,000	0	0
	31 Dec. 18	170,000	155,000	120,000	35,000	0	0	15,000	0	15,000	0	0
Poland	31 Dec. 19	0	0	0	0	0	0	0	0	0	0	0
	31 Dec. 18	44,535	44,535	44,535	0	0	0	0	0	0	0	0
Switzerland	31 Dec. 19	27,640	27,640	0	27,640	0	0	0	0	0	0	0
	31 Dec. 18	26,508	26,508	0	26,508	0	0	0	0	0	0	0
Other institutions	31 Dec. 19	12,500	12,500	0	0	0	12,500	0	0	0	0	0
	31 Dec. 18	0	0	0	0	0	0	0	0	0	0	0
Total – all states	**31 Dec. 19**	**2,321,579**	**2,291,002**	**120,000**	**1,819,672**	**175,964**	**175,366**	**30,577**	**0**	**15,000**	**15,577**	**0**
	31 Dec. 18	**2,501,519**	**2,370,615**	**164,535**	**1,808,540**	**235,108**	**162,432**	**130,904**	**100,000**	**15,000**	**15,904**	**0**

Overdue interest

COVERING MORTGAGES WITH OVERDUE INTEREST
IN € 000

	Total		Thereof residential		Thereof commercial	
	2019	2018	2019	2018	2019	2018
Overdue interest for period 01.10.2018 (17) to 30.09.2019 (18)	267	229	267	227	0	2
Overall overdue not adjusted to value	242	220	242	217	0	3

Foreclosures and receiverships of mortgages used as cover

FORECLOSURES AND RECEIVERSHIPS

	Total		Thereof residential		Thereof commercial	
	2019	2018	2019	2018	2019	2018
Pending on balance sheet date						
– Foreclosure proceedings	96	96	95	90	1	6
– Receivership proceedings	22	27	22	27	0	0
	20 [1]	25 [1]	20 [1]	25 [1]	0 [1]	0 [1]
Foreclosures completed during business year	48	32	46	30	2	2

[1] Thereof included in pending Foreclosure proceedings.

During the year under review no property had to be taken over to salvage our claims.

Other Disclosures

Membership data

MEMBERSHIP CHANGES

	Number of members
Beginning of 2019	66,540
Additions in 2019	740
Reductions in 2019	2,232
End of 2019	65,048

CAPITAL CONTRIBUTIONS
IN €

	31 Dec. 19
Increase in remaining members' capital contributions	39,181,590.00
Amount of each share	70.00
Members´ liability	0.00

Personnel statistics

THE AVERAGE NUMBER OF EMPLOYEES EMPLOYED BY THE BANK IN 2019

	Male	Female	Total
Full-time employees	276	164	440
Part-time employees	22	111	133
Total number of employees	**298**	**275**	**573**
These figures do not include:			
Apprenticed trainees	5	10	15
Employees participating in parental leave, early retirement, partial retirement (non-working phase), or employees suspended with pay	12	24	36

Special disclosure requirements

Pursuant to Section 8 CRR (Articles 435 to 455), Münchener Hypothekenbank publishes information it is required to disclose in a separate disclosure report in the Federal Gazette (Bundesanzeiger), as well as on the Bank's homepage.

Pursuant to section 26a (1) (4) of the German Banking Act (KWG), the quotient of net income and total assets is equal to 0.0833 percent.

Proposed appropriation of distributable income

Net income for the year amounted to € 35,697,113.57. An advance allocation of € 12,000,000 to legal reserves is presented in the current annual financial statements.

A dividend distribution of 2.25 percent will be proposed at the Delegates Meeting. The remaining unappropriated profit for the year – including profit carried forward from the previous year – amounting to € 24,003,770.85 should therefore be allocated as follows:

ALLOCATION OF RETAINED EARNINGS
IN €

	31 Dec. 19
2.25 percent dividend	23,710,000.00
Carried forward to new year	293,770.85

Report on events after the balance sheet date

In the first quarter of 2020, there was an epidemic outbreak of a new strain of coronavirus that increasingly affected public and commercial life around the world. At the start of March 2020, therefore, policymakers and economic researchers expected the effects on the economy to be considerable for a period of time. When this annual report was written, it was impossible to predict how significantly the epidemic might affect economic growth and thus the development of the property and property financing markets.

Company

Münchener Hypothekenbank eG
Karl-Scharnagl-Ring 10
80539 Munich

Register of cooperatives of the District Court of Munich
Gen.-Reg 396

Bodies

Supervisory Board

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

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

Gregor Scheller » Bamberg
Chairman of the Board of Management
VR Bank Bamberg-Forchheim
Deputy Chairman of the Supervisory Board (as of 06.04.2019)

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

Barbara von Grafenstein » Munich
Employee representative

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

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

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

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

Reimund Käsbauer » Munich
Employee representative

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

Michael Schäffler » Munich
Employee representative

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

Frank Wolf-Kunz » Munich
Employee representative

Board of Management

Dr. Louis Hagen
Chairman of the Board of Management
Dr. Holger Horn (as of 01.01.2019)
Member of the Board of Management
Michael Jung (until 31.12.2019)
Member of the Board of Management

Mandates
Dr. Louis Hagen
KfW
Member of the Board of Supervisory Directors

Dr. Holger Horn
FMS Wertmanagement AöR
Member of the Board of Supervisory Directors (from 01.02.2020)

As of the balance sheet date loans to members of the Supervisory Board amounted to € 856 thousand (previous year € 933 thousand). As in the previous year the lending portfolio did not include any loans made to members of the Board of Management. Pension provisions of € 17,565 thousand (previous year € 14,994 thousand) were made for former members of the Board of Management. Total remuneration received by the members of the Board of Management during the year under review amounted to € 2,039 thousand (previous year € 2,195 thousand), for members of the Supervisory Board € 568 thousand (previous year € 542 thousand). Total compensation received by the members of Advisory Committee amounted to € 63 thousand (previous year € 61 thousand). Total compensation received by former members of the Board of Management and their surviving dependants amounted to € 1,200 thousand (previous year € 1,106 thousand).

Auditing Association

DGRV – Deutscher Genossenschafts- und Raiffeisenverband e.V.,
Linkstraße 12, 10785 Berlin

During the year under review total costs of € 746 thousand (previous year € 723 thousand), including value-added tax, were incurred for auditing the annual financial statements, and € 42 thousand (previous year € 27 thousand) in charges were incurred for other assurance services. As in the previous year, no costs were incurred for either tax advisory services or other services during the year under review.

Other Financial Obligations

Pursuant to Section 12 Para. 5 of the Restructuring Fund Act (Restrukturierungsfondsgesetz – RStruktFG) irrevocable payment obligations of € 12,218 thousand were recorded at the balance sheet date.

Contingent Liability

Our Bank is a member of the protection scheme of the National Association of German Cooperative Banks (Sicherungseinrichtung des Bundesverbandes der Deutschen Volksbanken und Raiffeisenbanken e. V.). Per the statutes of the protection scheme we have issued a guarantee to the National Association of German Cooperative Banks. As a result, we have a contingent liability of € 19,264 thousand. In addition, pursuant to Article 7 of the Accession and Declaration of Commitment to the bank-related protection scheme of the BVR Institutssicherung GmbH (BVR-ISG), a premium guarantee is in force. This pertains to special contributions and special payments in the event of insufficient financial resources in order to pay for damages of depositors of one of the CRR credit institutions belonging to the protection scheme in the event of a compensation case, as well as to meet refunding obligations pursuant to cover measures.

Munich, 11 March 2020

Münchener Hypothekenbank eG

The Board of Management

Dr. Louis Hagen
Chairman
of the Board of Management

Dr. Holger Horn
Member
of the Board of Management

Independent Auditor's Report

TO MÜNCHENER HYPOTHEKENBANK EG, MUNICH

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Audit Opinions

We have audited the annual financial statements of Münchener Hypothekenbank eG, Munich (hereinafter the "Cooperative"), which comprise the balance sheet as of 31 December 2019, the income statement, the cash flow statement and the statement of changes in equity for the financial year from 1 January 2019 to 31 December 2019, and the notes to the financial statements, including the description of accounting policies presented therein. In addition, we have audited the management report of the Cooperative for the financial year from 1 January 2019 to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the parts of the management report specified in the section entitled "Other information".

In our opinion, on the basis of the knowledge obtained during our audit:

- the accompanying annual financial statements comply, in all material respects, with the provisions of German commercial law applicable for capital-market-oriented credit cooperatives and give a true and fair view of the Cooperative's net assets and financial position as of 31 December 2019 and of its financial performance for the financial year from 1 January 2019 to 31 December 2019 in accordance with German generally accepted accounting principles, and
- the accompanying management report as a whole provides an appropriate view of the Cooperative's position. In all material respects, this management report is consistent with the annual financial statements, has been prepared in accordance with the requirements of German law and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the parts of the management report specified in the section entitled "Other information".

Pursuant to Section 322 (3) sentence 1 HGB (Handelgesetzbuch – German Commercial Code), we declare that our audit has not led to any reservations in terms of the propriety of the annual financial statements and the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 53 (2) GenG (Genossenschaftsgesetz – Cooperatives Act), Section 340k and Section 317 HGB and EU Audit Regulation No 537 / 2014 (hereinafter: "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the "Institut der Wirtschaftsprüfer in Deutschland – IDW" (Institute of Public Auditors in Germany). Our responsibilities under these provisions and standards are described in greater detail in the section of our auditor's report entitled "Auditor's responsibilities for the audit of the annual financial statements and of the management report". We are independent of the Cooperative, as required under EU law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) f) of the EU Audit Regulation in conjunction with Section 55 (2) and Section 38 (1a) GenG, we declare that no persons employed by us who could influence the outcome of the audit have provided any non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those issues that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2019 to 31 December 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

Matters we consider to be key audit matters are set out below.

Recoverability of receivables from customers
Our presentation of this key audit matter is structured as follows:
a) Circumstances and description of the matter
b) Audit approach and findings
c) Reference to further information

a) The annual financial statements of Münchener Hypothekenbank eG as of 31 December 2019 report claims on customers of €37.6 billion. At 31 December 2019, loan loss provisions totalling €33.5 million (specific loan loss provisions and general loan loss provisions) were recognised on the balance sheet for claims on customers.

Münchener Hypothekenbank eG analyses borrowers' financial circumstances using, among other things, the annual financial statements and business plans they have submitted, along with business analyses, and regularly reviews the mortgage lending values and market values of the associated collateral. These results are integrated into the borrower's credit rating.

The risk in terms of the annual financial statements is that the need for a provision due to impairment will not be identified in time or to a sufficient extent.

b) As part of our audit procedures, among other things we examined, for a random sample of credit exposures, the available documentation relating to the monitoring of financial circumstances and the recoverability of collateral, and satisfied ourselves that the ratings had been carried out in a proper and timely manner.

Taking into consideration the information available, our audit found that management had made appropriate assumptions in reviewing the recoverability of receivables.

c) Regarding the process of counterparty risk management, we accordingly refer to the section entitled "Counterparty risk" in the risk report contained in the management report.

Other Information

Management is responsible for the other information. Other information obtained by us prior to the date of this auditor's report includes:

- the corporate governance statement under Section 289f (4) HGB included in the management report (disclosures on the proportion of women). We have not audited the content of this part of the management report.
- the separate non-financial report pursuant to Section 289b (3) HGB.

Other information also includes:

- the remaining sections of the annual report – without any further cross-references to external information – with the exception of the audited annual financial statements and management report and our auditor's report.

We expect the remaining sections of the annual report to be provided to us after the date of this auditor's report.

Our audit opinion on the annual financial statements and on the management report does not cover the other information and, as a result, we do not express an audit opinion or any other form of audit conclusion in this regard. In connection with our audit, our responsibility is to read the other information and, in doing so, to consider whether the other information

- is materially inconsistent with the annual financial statements, the management report or the knowledge we obtained as part of our audit, or
- otherwise appears to be materially misstated.

Responsibility of Management and the Supervisory Board for the Annual Financial Statements and the Management Report

The management of the Cooperative is responsible for preparing annual financial statements that comply, in all material respects, with the provisions of German commercial law applicable for capital market-oriented credit cooperatives, and for ensuring that the annual financial statements give a true and fair view of the Cooperative's net assets, financial position and financial performance, in accordance with German generally accepted accounting principles. In addition, the management is responsible for the internal controls that they have identified as necessary in accordance with German generally accepted accounting principles to ensure that the annual financial statements are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the management is responsible for assessing the Cooperative's ability to continue as a going concern. It is also responsible for disclosing, where applicable, matters concerning the ability of the Cooperative to continue as a going concern. Furthermore, the management is responsible for financial reporting using the going concern basis of accounting, unless actual or legal circumstances preclude this.

In addition, the management is responsible for preparing a management report that as a whole provides an accurate view of the Cooperative's position, is consistent in all material respects with the annual financial statements, complies with the requirements of German law and appropriately presents the opportunities and risks of future development. Furthermore, the management is responsible for the arrangements and measures (systems) it deems necessary to enable the preparation of a management report that complies with the requirements of German law and to enable sufficient appropriate evidence be provided to support assertions in the management report.

The Supervisory Board is responsible for overseeing the Cooperative's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objective is to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole gives an accurate view of the Cooperative's position, and, in all material respects, is consistent with the annual financial statements and the knowledge obtained during the audit, complies with the requirements of German law and appropriately presents the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinions on the annual financial statements and management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 53 (2) GenG, Sections 340k and 317 HGB and the EU Audit Regulation, and in compliance with the German Generally Accepted Standards for Financial Statement Audits of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW), will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout our audit. In addition, we:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures in response to such risks, and obtain audit evidence that is sufficient and appropriate to provide as a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of the internal control system relevant to the audit of the annual financial statements and of the arrangements and measures relevant to the audit of the management report, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies applied by the management and the reasonableness of accounting estimates made by the management and related disclosures.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Cooperative's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required, in our auditor's report, to draw attention to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may result in the Cooperative being unable to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events such that the annual financial statements, in compliance with German generally accepted accounting principles, give a true and fair view of the Cooperative's net assets, financial position and financial performance.
- Evaluate whether the management report is consistent with the annual financial statements, complies with legal requirements and provides an accurate view of the Cooperative's position.
- Perform audit procedures on the prospective information presented by the management in the management report. Based on sufficient and appropriate audit evidence, we evaluate in particular the significant assumptions used by management as a basis for the prospective information and assess whether the prospective information based on these assumptions has been derived in an appropriate manner. We do not express a separate audit opinion on the prospective information or on the underlying assumptions. There is a significant, unavoidable risk that future events may differ materially from the prospective information.

We communicate with those charged with governance, among other matters, the planned scope and timing of the audit and any significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence and the related safeguards.

From the matters communicated to those in charge of governance, we determine those matters that were of most significance in the audit of the annual financial statements for the current reporting period and are therefore key audit matters. We describe these matters in our auditor's report, unless laws or other regulations preclude public disclosure of such matters.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Disclosures pursuant to Article 10 of the EU Audit Regulation

We are an auditing association and the statutory auditors of the Cooperative.

We hereby declare that the audit opinion contained in this auditor's report is consistent with our additional report to the Supervisory Board and/or Audit Committee under Article 11 of the EU Audit Regulation, in conjunction with Section 58 (3) GenG (Audit report).

Persons employed by us who could influence the outcome of the audit have provided the audited Cooperative and/or companies controlled by it with the following services not mentioned in the audited Cooperative's annual financial statements or management report, in addition to the audit:

- Other assurance services for banking supervision
- Other assurance services in relation to deposit protection
- Audit review of the condensed interim financial statements and the interim management report
- Audit of the separate non-financial report
- Preparation of a comfort letter.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the audit engagement is Dorothee Mende.

Bonn, 16 March 2020

DGRV – Deutscher Genossenschafts- und Raiffeisenverband e.V.
(German Cooperative and Raiffeisen Confederation – reg. assoc.)

Peter Krüper
(German Public Auditor)

Dorothee Mende
(German Public Auditor)

Affirmation by the Legal Representatives

To the best of our knowledge, and in accordance with applicable reporting principles for annual financial reporting, the annual financial statements give a true and fair view of the assets, liabilities, financial position and earnings situation of the company, and the 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.

Munich, 11 March 2020

Münchener Hypothekenbank eG

The Board of Management

Dr. Louis Hagen
Chairman of the
Board of Management

Dr. Holger Horn
Member of the
Board of Management

Annex to Annual Financial Statements

PURSUANT TO SECTION 26A PARA. 1 SENTENCE 2 OF THE GERMAN BANKING ACT (KWG) FOR THE PERIOD ENDING 31 DECEMBER 2019 ("COUNTRY BY COUNTRY REPORTING")

Münchener Hypothekenbank eG is a Pfandbrief Bank operating in the legal format of a registered cooperative. The Bank's core areas of business are granting mortgage loans for residential and commercial property, as well as issuing Mortgage Pfandbriefe. The Bank's most important market is Germany. Furthermore, business relationships are also maintained with clients in other European countries, in particular. All of the Bank's business is processed at its head office in Munich. The Bank does not maintain any branch offices outside of Germany.

Münchener Hypothekenbank eG defines its revenues as the sum of the following components of the income statement pursuant to the rules of the German Commercial Code (HGB): interest income, interest expenses, current income from participating interests and shares in cooperatives and investments in affiliated companies, income from profit-pooling, profit transfer or partial profit transfer agreements, commission received, commission paid and other operating income. Revenues for the period 1 January to 31 December 2019 were € 206,213 thousand.

The number of full-time equivalent salaried employees is 529.04.

Profit before tax amounts to € 73,640 thousand.

Taxes on income amount to € 37,943 thousand and refer to current taxes.

Münchener Hypothekenbank eG did not receive any public assistance during the current business year.

Report of the Supervisory Board

During the financial year under review, the Supervisory Board carried out its supervisory function as required by law, the Bank's Articles of Association and rules of procedure. The Board of Management reported in a timely manner to the Supervisory Board regarding the Bank's corporate planning, its business and financial situation, and further strategic development. The Supervisory Board thereby supported the work of the Board of Management in an advisory capacity and monitored its management of business. The Supervisory Board's decisions on actions requiring its approval were taken on the basis of reports and materials submitted by the Board of Management.

Topics reviewed during Supervisory Board meetings

During the past financial year, the Supervisory Board held one constituent meeting, four regular meetings and one extraordinary meeting, in order to continuously advise and monitor the management of MünchenerHyp in accordance with the requirements incumbent upon it by law and under the Bank's Articles of Association. The main topics and the focus of its deliberations included business development and planning, business and risk strategy, the risk situation, regulatory issues, the operationalisation of the IT strategy, and governance. In addition, in a further meeting the Supervisory Board dealt exclusively with matters in relation to the Board of Management.

The Board of Management also kept the Supervisory Board up to date with regular, detailed verbal and written reports about key matters at the Bank. The Board of Management reported on the position of the Bank, the development of business, key financial indicators and the further development of business and risk strategy. In addition, the current liquidity situation and measures to control liquidity were explained to the Supervisory Board, and it was provided with detailed reports on the risk situation, measures to control risks and the Bank's risk management system. The Supervisory Board also obtained comprehensive reports on the status of operational and strategic planning. It was involved in all important decisions. A focal point of the work of the Supervisory Board and the reporting was current developments on the property market and in private and commercial property financing. The Supervisory Board also extensively discussed the increasing regulatory requirements and their implementation.

Annual meetings were once again held between the Joint Supervisory Team and the Chairman of the Supervisory Board and the Chairmen of the various Supervisory Board committees.

Evaluation of the Supervisory Board

During the financial year under review, the Supervisory Board developed and approved guidance for carrying out the suitability assessment and on conflicts of interest. On the basis of these, the Nomination Committee evaluated the Board of Management and the Supervisory Board in compliance with the regulations of Section 25d KWG (Kreditwesengesetz – German Banking Act). The results were discussed within the Supervisory Board at the beginning of 2020 and documented in a report on the suitability assessment and the efficiency review. It was found that the structure, size, composition and performance of the Supervisory Board, as well as the knowledge, skills and experience of both the individual members of the Supervisory Board and the Supervisory Board as a whole, comply with legal requirements and those defined in the Bank's Articles of Association.

The suitability assessment and efficiency review were used as a basis for succession planning for the Board of Management and the Supervisory Board as well as for devising improvements to increase work efficiency. The Supervisory Board has received training on current regulatory issues and legal developments.

Collaboration with the Board of Management

The Chairman of the Supervisory Board was in regular close contact with the Chairman of the Board of Management, discussing important matters and decisions in face-to-face meetings.

In addition, the Chairman of the Board of Management continuously and regularly reported to the Chairman of the Supervisory Board between the individual meetings, verbally and in writing, about all major developments within the Bank.

Activities of the Supervisory Board committees

The Supervisory Board has established four committees to enable it to carry out its duties efficiently. These are the Nomination Committee, the Audit Committee, the Risk Committee and the Remuneration Control Committee. The committees regularly reported on their activities during the Supervisory Board meetings.

The Nomination Committee convened at four meetings during the financial year under review. In addition to the regular Board of Management and Supervisory Board matters, it also addressed, in particular, the first-time implementation of the suitability assessment of the management bodies and the preparation of succession planning.

The Audit Committee held three meetings, during which it discussed the results of the audit of the annual financial statements and of the management report. Other topics included the Bank's risk management system and data management system, reports prepared by the Internal Audit department and by the Compliance Officer, results of the "deep dive" audit conducted by Internal Audit and results of the on-site inspection (OSI) of the commercial lending business, as well as issues and requirements discussed during meetings with banking supervisory authorities.

The Risk Committee convened at 14 meetings. The Board of Management provided the committee with detailed reports on the development of markets in which the Bank provides property financing, as well as on the market entry into Austria and the preparation of a new product process for entry into the Scandinavian market. The Committee also addressed the regulatory environment, risk strategy, risk governance, legal risks, IT risks and the potential implications of Brexit for the Bank. Furthermore, it considered and authorised loans requiring approval and took note of any reportable transactions. The Board of Management presented individual exposures of significance for the Bank to the Committee and discussed them with the Committee. Detailed reports were also provided on the provision and management of liquidity and on refinancing. As part of this process, the risk types associated with the Bank's business were discussed and examined in detail. In addition to credit risks, these include in particular market, liquidity, sales and operational risks, taking into account risk-bearing capacity in accordance with the Minimum Requirements for Risk Management (MaRisk). Reports on the Bank's risk situation were regularly submitted to the Committee and explained in detail by the Board of Management and Chief Risk Officer. Members of the Committee took note of the contents of the reports and discussed them with the Board of Management. The Committee also reviewed the sales report and the report prepared by the Operational Risk Officer.

The two meetings of the Remuneration Control Committee primarily addressed the Bank's remuneration systems and all related issues. The Committee determined the appropriateness of MünchenerHyp's remuneration systems and recommended that the Supervisory Board take note of the results of the appropriateness test.

Annual financial statements

Deutscher Genossenschafts- und Raiffeisenverband e. V., Berlin, audited the accounting records, annual financial statements and management report for financial year 2019 in accordance with their mandate and issued an unqualified audit opinion. No reservations were raised. The auditors reported extensively on the key findings of the audit during a meeting of the Audit Committee. They were also available to provide additional information. Each member of the Supervisory Board was provided in good time with the auditing association's audit report on the statutory audit pursuant to Section 53 GenG (Genossenschaftsgesetz – Cooperatives Act), including the audit of Münchener Hypothekenbank eG's financial statements for 2019, for their information. The results of the audit were discussed during a joint meeting of the Board of Management and the Supervisory Board, which was attended by the auditor. The results of the audit are also reported at the Delegates Meeting.

The annual financial statements, the management report, and the Board of Management's proposal for the allocation of distributable income and the non-financial report were examined by the Supervisory Board and approved. The Supervisory Board recommends that the Delegates Meeting approve the annual financial statements for 2019 – as explained – and endorse the Board of Management's proposal for the allocation of net income. The proposal complies with the provisions of the Bank's Articles of Association.

Changes to the Supervisory Board and Board of Management

In the financial year under review, the Chairman of the Supervisory Board, Wolfhard Binder, stepped down from the Supervisory Board at the end of the Delegates Meeting, after resigning from his position as Chairman of the Board of

Management of Raiffeisen Volksbank Ebersberg eG at the end of 2018 for age reasons. Mr Binder had been a member of the Supervisory Board since 2010 and had been its Chairman since 2016. Over the years, he also worked on all committees of the Supervisory Board as well as chairing the majority of these, and always successfully acted with great expertise and passion on behalf of the Bank and its interests.

On a regular basis, Dr Peter Ramsauer also stepped down from the Supervisory Board for age reasons. Dr Ramsauer had been a member of the Supervisory Board since 2014 and using his exceptional economic and entrepreneurial expertise has provided invaluable and lasting impetus to the Bank.

The Supervisory Board would like to thank both gentlemen for their dedication and wise counsel.

The Delegates Meeting elected HRH Anna, Duchess in Bavaria, entrepreneur, and Wolfgang Höbel, Spokesman of the Management Board of Volksbank Raiffeisenbank Dachau eG, as new members of MünchenerHyp's Supervisory Board.

At the end of the year under review, Michael Jung stepped down from the Board of Management of MünchenerHyp at his own request, for health reasons. He had been a member of the Bank's Board of Management since 2011. The Supervisory Board accepts his decision with regret and would like to thank Michael Jung for his outstanding work for MünchenerHyp and wish him all the very best for his future.

Development of MünchenerHyp during the year under review

The Bank performed well during the year under review. In particular, it convincingly improved its competitive position, recording another record result in new mortgage business. This applies to the financing partnership with the banks in the Cooperative Financial Network and with independent financial intermediaries, as well as to its growing significance as a provider of commercial property finance in Germany and abroad. In the area of refinancing, the Bank was once again successful with high-profile issues, both in euros and, increasingly, in Swiss francs.

The Bank is also taking important initiatives to enable it to continue growing as a comprehensive property bank in the future and to set itself apart from the competition, through investments in new markets, such as residential property financing in Austria, as well as the digitalisation of processes and services.

Innovation and teamwork are two crucial factors that determine the success of medium-sized enterprises like MünchenerHyp. The Supervisory Board would like to thank all of the Bank's employees for their strong collective performance in 2019.

Munich, April 2020

Münchener Hypothekenbank eG

Dr Hermann Starnecker
Chairman of the Supervisory Board

FURTHER INFORMATION.

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THE MEMBERS OF THE DELEGATES MEETING

AS OF 31 DECEMBER 2019

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

INFORMATION ON THE APPROVAL OF THE ANNUAL STATEMENT OF ACCOUNTS AND THE GENERAL (DELEGATES) MEETING

In deviation from Section 48 (1) Sentence 1 of the German Cooperatives Act, according to Section 2 (3) 3 of the German Measures in Company, Association, Club, Foundation and Property Law to Combat the Impact of the COVID-19 Pandemic Act, the annual statement of accounts were approved by the Münchener Hypothekenbank eG Supervisory Board on 31 March 2020.

Due to the consequence of restrictions of movement decreed as a result of the COVID-19 pandemic, on the basis of the above legislation the Supervisory Board decided to postpone the General (Delegates) Meeting scheduled for 18 April 2020 to a date still to be determined.

For the present, postponing the Delegates Meeting also means that the appropriation of distributable income for the 2019 financial year cannot be resolved and thus no dividend can yet be paid.

EXECUTIVE MANAGEMENT AND BODIES

Supervisory Board

Wolfhard Binder » Holzkirchen
Chairman (until 06.04.2019)

Dr. Hermann Starnecker » Kaufbeuren
Chairman of the Supervisory Board (as of 06.04.2019)
Deputy Chairman of the Supervisory Board (until 06.04.2019)

Gregor Scheller » Bamberg
Deputy Chairman of the Supervisory Board (as of 06.04.2019)

HRH Anna Duchess in Bavaria » Tegernsee (as of 06.04.2019)
Barbara von Grafenstein » Munich
Thomas Höbel » Dachau (as of 06.04.2019)
Josef Hodrus » Leutkirch im Allgäu
Jürgen Hölscher » Lingen
Rainer Jenniches » Bonn
Reimund Käsbauer » Munich
Dr. Peter Ramsauer » Traunwalchen (until 06.04.2019)
Michael Schäffler » Munich
Kai Schubert » Trittau
Frank Wolf-Kunz » Munich

Board of Management

Dr. Louis Hagen
Chairman

Dr. Holger Horn (as of 01.01.2019)
Michael Jung (until 31.12.2019)

Executive Director

Ingo Schramm

Trustees

Dr. Joseph Köpfer » Munich
Senior Ministerial Counsellor (ret.)

Dr. Günter Graf » Egmating
Ministry director
Deputy

Cooperative Advisory Committee (as of 01.01.2019)

Frank Ostertag » Wildeshausen
Chairman

Herbert Kellner » Ismaning
Deputy Chairman

Hans-Jörg Meier » Bühl
Deputy Chairman

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

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