2021

HALF-YEAR FINANCIAL STATEMENTS

SOLIDARITY.
OUR STRENGTH.

MünchenerHyp

Contents

Interim Management Report 2021

OVERALL ECONOMIC CONDITIONS

Economic development

The global economy proved more robust than had been anticipated at the beginning of the year, even though the COVID-19 pandemic continued to spread rapidly between countries in a new wave. Measures taken to contain the pandemic put a further strain on the economy, but mainly affected service sectors. Trade and industry, on the other hand, continued to recover, resulting in 0.8 percent growth in global production in the first quarter of 2021, according to the Kiel Institute for the World Economy.

The economy in the Eurozone did not emerge from recession in the first quarter, owing to the winter lockdown. Gross domestic product declined by 0.3 percent. With the roll-out of vaccination campaigns and the loosening of restrictions in the spring, the economy is expected to have recovered in the second quarter. Current estimates by Oxford Economics put the increase in economic output at 1.7 percent.

The winter lockdown had a significant impact on the German economy, interrupting the economic recovery and causing gross domestic product to fall by 1.8 percent in the first quarter. The effects of the lockdown were apparent in almost all economic sectors, with consumer spending also plummeting by 5.4 percent. In contrast, construction investment in particular recorded positive growth of 1.1 percent. The second quarter got off to a weak start, but the economy gained momentum from May onwards, and consumer spending also began to pick up. The Kiel Institute for the World Economy forecasts growth of 2.4 percent in gross domestic product for the second quarter.

The labour market stagnated during the lockdown, but has begun to recover since May 2021. Around 2.6 million people were registered as unemployed at the end of June, a year-on-year decline of 239,000. The unemployment rate was thus 5.7 percent, compared with 6.2 percent in June 2020. Consumer price rises accelerated in the first half of the year and most recently stood at 2.3 percent in June.

Financial markets

The availability of vaccines and expected progress with vaccination programmes in industrial countries caused stock markets around the world to rise. Markets received an additional boost from central banks and government aid schemes.

However, the US central bank, the Federal Reserve (Fed), was able to dispense with special support measures thanks to the easing of restrictions, the earlier availability of vaccines and the new government's support programmes. The base rate remained unchanged within a range of 0.0 percent to 0.25 percent.

Yields increased in Europe, driven by positive growth prospects and rising inflation rates. To maintain favourable financing conditions in this context, the ECB stepped up its monthly purchases within the Pandemic Emergency Purchase Programme (PEPP) in March. The main refinancing rate remained unchanged at 0.0 percent.

Many other central banks, including the Bank of England, the Bank of Japan and the Swiss National Bank, also continued their expansionary monetary policy. In a few cases, however, central banks have already reduced their support by cutting their purchasing volumes or implementing their first interest rate hikes.

On the bond market, positive economic prospects and higher inflation rates led to a significant upward movement in yields. The yield on ten-year German government bonds, for example, climbed from minus 0.57 percent at the beginning of the year to minus 0.10 percent in May 2021. Interest rates fell again owing to the ECB's large-scale purchases and the market's modified assessment of the inflation outlook.

Benchmark issuance volume on the covered bond market fell sharply. At around EUR 46 billion (30 June 2020: EUR 66 billion), it was the weakest first half-year since the 2009 financial market crisis. The main reason was institutions' intensive use of the TLTRO III tender. In contrast, issuance volume for ESG covered bonds developed positively. The lower issuance offering also kept spreads narrow. Only the temporary interest rate rise up to May caused a slight widening of spreads, particularly in the longer-term maturity range.

On the foreign exchange market, the US dollar gained ground against the euro at the beginning of the year, peaking at USD 1.17 at the end of the first quarter. Economic recovery in the Eurozone then led to higher euro rates by the end of May, with the euro almost returning to the level of around USD 1.22 that it had reached at the beginning of the year. The continuation of the ECB's massive bond purchases put further pressure on the euro, which was trading at USD 1.19 as at mid-year.

The completion of Brexit having been expected to have a significant negative impact on the UK economy at the beginning of the year, rapid vaccine roll-out provided a substantial boost to sterling. The pound had gained around 5 pence to reach GBP 0.85 against the euro by March. There was less volatility in the second quarter, and sterling levelled off at around GBP 0.86 against the euro. The Swiss franc lost considerable ground by mid-March, slipping from CHF 1.08 to CHF 1.11, before rallying slightly to CHF 1.10 at the end of the first half of the year.

Property markets and property financing markets

Residential property, Germany

Demand for houses and apartments continued to rise on the German residential property market, resulting in a significant year-on-year increase of 9.4 percent in residential property prices in the first quarter of 2021, according to surveys for the property price index of the Association of German Pfandbrief Banks (vdp). New contractual rents were also up by 2.3 percent. The smaller increase compared with purchase prices is due to the fact that many local authorities took measures to limit increases in the prices of new lettings.

A major reason for the ongoing growth in residential property prices – aside from persistent low interest rates – is that many households have spent more time within their own four walls as a result of the winter and spring lockdown and that home working has given rise to new needs and opportunities. This has caused demand to begin to shift increasingly to the outskirts of major cities.

In addition, economic stimulus programmes and short-time working arrangements have stabilised the German labour market, leading to stable demand for residential housing. At the same time, fewer apartments have been completed during the COVID-19 pandemic, which has made the supply even scarcer.

High stability means that the German residential property market remains an attractive asset class for investors. According to Real Capital Analytics, EUR 8.9 billion was invested in German residential portfolios in the first half of 2021. Although this represents a drop of 9 percent compared with the prior-year period, it is still well above the long-term average for the first half of the year of EUR 4.7 billion. BNP Paribas Real Estate believes the main reason for the decline is that a "mega-deal" significantly increased transaction volume in the prior-year period.

Bank lending grew in the first quarter of 2021, with interest rates remaining very low. The Deutsche Bundesbank registered an increase in demand for residential property loans in its quarterly Bank Lending Survey.

Residential property, international

Home working has led to higher demand for residential housing throughout Europe, too. The short-time working model has also been adapted in many other European countries, with the result that residential property markets have been similarly stable to the German market.

Countries in the Eurozone recorded growth of 5.9 percent in residential property prices in the course of 2020 compared with the previous year. No official data are available as yet for the first half of 2021, but further growth is expected.

Prices on the Swiss residential property market were up 4.8 percent year on year in the first quarter of 2021, with prices for single-family homes growing more strongly than prices for condominiums.

In Austria, residential property prices grew by 3 percent in the first quarter compared with the prior-year period, according to Eurostat. Housing demand is also being bolstered in Austria by low interest rates and the desire for more space.

Commercial property, Germany

Data from Real Capital Analytics show that commercial property and residential portfolios to the tune of EUR 25.0 billion were traded in the German commercial property market in the first half of the year. This represents a year-on-year decline of 21 percent and was mainly due to the lockdown in the first half of the year. The German commercial property market continues to be regarded internationally as a safe haven. Around one fifth of the capital invested in Germany in the first half of 2021 therefore came from international investors, as in the previous year.

Net initial yields on commercial properties varied considerably depending on the type of use. For office properties in large German cities, the net initial yield fell by 10 basis points year on year to 2.7 percent. The lowest net initial yield of 2.6 percent was recorded in Berlin and Munich, making them the most expensive locations in Europe.

In retail properties, net initial yields for commercial buildings in city-centre locations rose by 30 basis points year on year, while for shopping centres they were up by 50 basis points. This was due to lost turnover during the lockdown and associated uncertainty over rental income. The trend towards shorter lease terms and the preference for sales-based rents also made commercial buildings and shopping centres appear less attractive to investors. In contrast, food retailers recorded growth in sales, as more people were having groceries delivered to their homes during lockdown. Retail rents rose in this segment, while lease terms grew longer. Net initial yields for specialist stores and retail parks have thus fallen by about 100 basis points to 3.9 percent since the start of the COVID-19 pandemic. That means that German specialist stores and retail parks are currently more expensive compared with shopping centres.

Logistics properties have increased considerably in importance during the pandemic. However, this is not solely due to the positive development of online shopping. First and foremost, companies in the manufacturing sector have begun to diversify their supply chains, which has led to a sharp rise in demand for logistics space in Europe. Investors have recognised this trend and invested increasingly in logistics properties, pushing up net initial yields to 3.6 percent in Germany's best logistics locations.

Commercial property, international

Turnover of commercial properties and residential portfolios in Europe fell by 18 percent to around EUR 89 billion in the first half of 2021. About 30 percent of European transaction volume related to property sales in the UK and a further 29 percent to transactions in Germany.

In the UK, rapid progress with vaccination programmes early in the year and the associated economic recovery had a noticeable impact. Investors not only invested more capital in commercial properties, but were also willing to pay high prices for them. Net initial yields for office properties remained stable in the first half of 2021 at 3.7 percent in central London. London rents performed similarly. In the retail segment, the decline in rents continued from 2020, with market rents for commercial buildings in city-centre locations falling by a further percent. Net initial yields remained stable in the first half of 2021, although very few transactions were registered in this segment.

In France, around EUR 11.7 billion was invested in commercial property and residential portfolios in the first half of the year, representing a drop of 31 percent year on year. Net initial yields for office properties stood at 2.7 percent in central Paris. Prime rents in central Paris remained stable in the first half of 2021, with only La Défense registering a significant drop.

EUR 3.8 billion was invested in commercial property and residential portfolios in the Netherlands, 52 percent less than in the previous year. Rents and yields remained stable both on the office market and for commercial buildings in city-centre locations in the first half of 2021.

In Spain, sales of commercial properties increased slightly in the first half of 2021 by 2 percent to EUR 4.4 billion. However, yields and rents remained stable for office and retail properties.

In the USA, transaction volume fell by 28 percent in the first quarter to USD 92.4 billion. Logistics properties and residential portfolios in particular were in demand, which consequently led to a further drop in net initial yields for these properties in the first quarter. Net initial yields stabilised in the first quarter for all other types of use. Investors continued to focus on large cities.

BUSINESS DEVELOPMENT

New mortgage business

With a commitment volume of EUR 3.1 billion, new business almost reached the very high level of the prior-year period (EUR 3.2 billion). The decline of EUR 129 million was mainly due to lower numbers of transactions on the German and international commercial property markets in the first half of 2021.

In contrast, we expanded our new business in private residential property financing, which grew by EUR 137 million to EUR 2.1 billion. German cooperative banks remained our most important partner in brokerage business, with a commitment volume of EUR 1.5 billion. Overall, we recorded a slight drop of EUR 87 million in brokerage volumes compared with the prior-year period. However, we expanded our individual business (Individualgeschäft) – higher-volume financing for private and commercial customers – with "Volksbank" and "Raiffeisenbank" cooperative banks.

In Germany, first-half sales of our private property financing via independent financial service providers grew by EUR 167 million on the prior-year period to EUR 433 million. Our brokerage business with PostFinance in Switzerland also performed well thanks to a successful sales campaign, growing by EUR 44 million to EUR 173 million. We began cooperating with further financial service providers in Austria in the first half of the year, which enabled us to conclude financing transactions worth EUR 20 million (30 June 2020: EUR 7 million).

Commercial property financing business was down as at mid-year compared with the prior-year result. The volume of new business came to around EUR 1 billion, compared with EUR 1.25 billion as at 30 June 2020.

As in the previous year, domestic business accounted for the bulk of this, at EUR 684 million. Financing worth EUR 300 million was committed in international business, of which 65 percent related to the Netherlands and Spain.

In terms of asset classes, office and residential properties continue to dominate, and logistics properties now also account for a substantial proportion of new business compared with the previous year. In total, these three asset classes cover almost 95 percent of new business volume.

Competition remained intense in commercial property financing, even though margins rose. In particular, financing in the asset class of hotels came almost completely to a standstill. In some segments of the retail asset class, a basic reluctance to provide financing was noted. We are satisfied with our half-year result on the whole.

Capital markets business

We continue to conduct our capital markets business mainly in order to manage liquidity and fulfil regulatory requirements. Overall conditions have barely changed in relation to previous years. Due to substantial ECB purchases, LCR-eligible securities are still trading at very expensive spread levels. In this environment, purchasing sovereign and bank securities with strong credit ratings is not a lucrative option, so, in view of the high total asset costs, purchases that are required for regulatory purposes are kept to the bare minimum.

Although we made significantly more new purchases than in the prior-year period, owing to higher volumes of maturing securities and exchanges of promissory note loans for bearer instruments, our portfolio of liquid securities and promissory note loans from third-party issuers ultimately remained almost unchanged. On a net basis, the portfolio volume has grown slightly by EUR 38 million to EUR 3.7 billion since the beginning of the year. The volume of new business came to EUR 514 million in the first half of 2021, with sales and maturing instruments totalling EUR 476 million.

Refinancing

Mortgage Pfandbriefe remained our most important refinancing instrument and allowed us to obtain access to funding at very good conditions, as demonstrated by our three benchmark issues in particular.

This began in January with the issue of a Mortgage Pfandbrief with a volume of EUR 500 million and a term of just under 19 years at a spread of 1 basis point above the mid-swap rate. The coupon is 0.01 percent and investor demand was very high, meaning that the order book was closed after two hours.

At the end of April 2021, we reported a record spread for long-dated Pfandbriefe. A Mortgage Pfandbrief with a volume of EUR 500 million and a term of 15 years was issued at 3 basis points below the mid-swap rate. The coupon is 0.25 percent. Investor demand was so high that the order book was closed after two hours at EUR 1.35 billion.

At the beginning of July 2021 we made a very successful return to the UK capital market, issuing a benchmark Pfandbrief in sterling for the first time since 2013. The issuance volume was GBP 350 million. The term is just under 3.5 years and the coupon is 0.5 percent. Owing to high demand, it was possible to reduce the spread in the course of the transaction. The spread is 39 basis points above gilts (UK sovereign bonds).

A second focal point of our issuance activity was unsecured bonds in EUR and CHF.

At the beginning of March 2021, we successfully issued a green senior non-preferred bond with a volume of EUR 500 million. This was a first for the Bank in two respects. It is our first green bond in this product category, and also the first time we have issued a senior non-preferred bond in benchmark format. The bond has a term of eight years and a coupon of 0.375 percent. The issue was placed at a price of 57 basis points above the mid-swap rate.

In addition to the above-mentioned bonds in EUR, the focus in the first half of 2021 was on issues in CHF, which came to around CHF 1.1 billion by mid-July. About CHF 700 million of this sum was issued via syndicated bonds on the capital market and approximately CHF 400 million via private placements. This lively issuance activity included various terms (from two to 20 years) and product categories (Pfandbrief, senior preferred and senior non-preferred). Most of the senior products were issued in green format, which enabled us to appeal to and win over new groups of investors.

Issuance volume was around EUR 4.3 billion as at 30 June 2021. Mortgage Pfandbriefe accounted for EUR 2.6 billion of this (including Mortgage Pfandbriefe lodged as collateral at the ECB) and unsecured bonds for around EUR 1.7 billion. Once again, no Public Pfandbriefe were issued, in keeping with the Bank's business strategy.

EARNINGS, FINANCIAL AND ASSET SITUATION

Development of earnings

Net interest income[1] rose by 14 percent compared with the first half of 2020, to EUR 187.9 million. Net commission income[2] amounted to minus EUR 62.9 million. Net interest and commission income[3] totalled EUR 125.0 million, a year-on-year rise of 12 percent.

Administrative expenses[4] increased by EUR 1.4 million to EUR 68.1 million. Personnel costs were up EUR 2.6 million at EUR 32.6 million. Other administrative expenses rose by EUR 0.2 million to EUR 33.0 million.

Depreciation, amortisation and value adjustments of intangible assets and fixed assets fell to EUR 2.5 million.

The item "Depreciation, amortisation and value adjustments on accounts receivable and certain securities as well as allocations to provisions for possible loan losses" amounted to minus EUR 15.3 million, compared with minus EUR 15.5 million at the same date the previous year. In addition to the required creation of specific loan loss provisions in the very low single-digit million range, the first half of 2021 includes provisions for possible risks that cannot yet be foreseen.

In the first half of 2021, income from ordinary business activities amounted to EUR 39.7 million. After deduction of tax expenses of EUR 21.4 million, pro rata net income for the period was EUR 18.3 million (previous year: EUR 13.2 million).

Balance sheet structure

Total assets amounted to EUR 51.0 billion as at 30 June 2021, compared with EUR 48.6 billion at the end of 2020.

The 5 percent increase was mainly due to further significant growth of EUR 1.5 billion in the mortgage loan portfolio to EUR 40.0 billion as at 30 June 2021. In business with sovereigns and banks, the portfolio remained at the year-end level of EUR 3.7 billion. Securities held as fixed assets included hidden reserves of EUR 41 million and hidden charges of EUR 11 million.

The portfolio included reported equity of EUR 1,595.9 million. Own funds in accordance with the CRR (Capital Requirements Regulation) amounted to EUR 1,710.5 million. This resulted in a common equity Tier 1 ratio (CET 1 ratio) of 19.7 percent as at mid-year, compared with 20.6 percent at year-end 2020. The Tier 1 capital ratio was 21.1 percent (31 December 2020: 22.2 percent) and the total capital ratio was 21.6 percent (31 December 2020: 22.8 percent). The leverage ratio was 3.6 percent as at mid-year 2021.

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

"Other liabilities to customers" break down as follows:

OTHER LIABILITIES TO CUSTOMERS
IN € 000

	Remaining term < one year	Remaining term > one year	Total
Other liabilities to customers as at 30 June 2021	**1,751,214**	**2,297,141**	**4,048,355**
Registered bonds	40,408	1,427,024	1,467,432
of which institutional investors	40,240	1,381,024	1,421,264
Promissory note loans on the liabilities side	361,923	788,117	1,150,040
of which institutional investors	101,476	492,117	593,593
Other	1,348,883	82,000	1,430,883
of which institutional investors	645,094	82,000	727,094

RATINGS, SUSTAINABILITY AND REGULATORY CONDITIONS

Ratings

Moody's left MünchenerHyp's ratings unchanged in the first half of 2021:

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

* Outlook negative.

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

Sustainability

MünchenerHyp's sustainability ratings remained unchanged in the first half of 2021:

THE DEVELOPMENT OF OUR SUSTAINABILITY RATINGS SINCE 2019

		2019	2020/2021
ISS-ESG		B- (ISS Prime Status)	C+ (ISS Prime Status)
imug	Sustainability rating / 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	Risk score of 17.4 (low risk)*

* The previous Sustainalytics scoring system from 0 to 100 points has been replaced with a "risk score" (from 0 to 40+ points). The lower the risk score, the more robust the company's sustainability management is considered to be.

Regulatory conditions

From 30 June 2021, compliance with the minimum limit of 100 percent for the net stable funding ratio (NSFR) is mandatory, in accordance with the provisions of CRR II. MünchenerHyp is well above this limit.

PERSONNEL

The Bank's earnings-oriented growth strategy and extensive regulatory requirements again meant that we had to recruit more staff. By mid-year, 40 new employees had been hired on permanent contracts to fill new vacancies and replace departing staff. Employee turnover increased slightly, but is still at a level that is customary in the industry.

CORPORATE PLANNING

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

OUTLOOK

Outlook: Opportunities and risks

Despite positive developments in the second quarter of 2021, the outlook for the economy is accompanied by uncertainties that are difficult to assess. In particular, risks to global economic development lie in the emergence of new variants of the coronavirus, fresh waves of infection and further lockdowns.

However, economic researchers are optimistic in their forecasts for the second half of 2021. The Kiel Institute for the World Economy expects growth of 6.7 percent in global gross domestic product, mainly due to improved prospects for industrial countries. An increase of 4.8 percent in global economic output has been forecast for 2022. The outlook for the Eurozone is also positive. In its current summer forecast, the European Commission has raised its expectations for growth in gross domestic product to 4.8 percent. It anticipates economic growth of 4.5 percent for 2022.

The prospects for the German economy have also improved as the most recent wave of the COVID-19 pandemic has subsided, and economic research institutes have recently raised their forecasts for 2021. On average, gross domestic product is now predicted to increase by 3.5 percent in 2021 and 4.2 percent in 2022. Bottlenecks in supply and shortages of materials in particular may curb growth. In the construction industry, this is likely to be reflected in a further rise in construction prices. Construction investment is also expected to increase further.

Favourable economic prospects will give a boost to stock markets. However, the possible emergence of a further wave of infection also poses a risk to stock and capital markets. Central banks are therefore expected to continue pursuing an expansionary monetary policy. Hence, it is also very unlikely that the ECB will reduce its bond purchases. These measures should thus help to support an economic recovery and cement the low interest rate environment on bond markets.

On foreign exchange markets, a slightly positive performance is forecast for the euro, along with a downward trend for the US dollar which may come under pressure as the global economy recovers. The impact of Brexit could continue to weigh slightly on the pound, as many of the effects on the British economy will only start to come to the fore as the year progresses. As far as the Swiss franc is concerned, we still expect to see minor fluctuations and more or less stable exchange rates.

Funding spreads for banks are likely to remain attractive. TLTRO tenders will continue to provide banks with ample liquidity at favourable interest rates for the time being. Accordingly, the volume for bank funding on the market will remain low and should not exert any upward pressure on funding spreads.

Experts therefore expect weaker issuance activity on covered bond markets for 2021 as a whole. A new issuance volume for benchmark covered bonds denominated in euros of EUR 80 billion is forecast, which will be offset by maturities of around EUR 130 billion. It is expected that these maturing bonds will not be replaced in full by new issues and that the cheap central bank money provided via TLTRO-III, in particular, will have an impact.

Despite positive economic prospects and the fact that residential and commercial property markets have remained stable to date, we must still keep an eye on possible negative consequences of the COVID-19 pandemic – particularly if one or more new waves of infection occur and lead to further lockdowns.

Demand for residential and commercial property will remain supported by low interest rates in the second half of 2021. This is also expected to have a positive impact on new property financing business.

On the German residential property market, prices for houses and apartments are expected to continue rising. On one hand, forecasts for the labour market are much more positive, while at the same time people are continuing to seek more living space with the possibility of working from home. Supply also remains scarce, as new build completions are low in many places and cannot cover demand for housing, particularly in large cities.

In Switzerland, too, prices for residential property are set to increase further, along with rents in major conurbations. Lower growth in rents is expected only in rural areas.

With regard to the residential property market in Austria, demand is expected to remain high in conurbations, while rents and property values are expected to rise. Demand is underpinned by positive economic development and the upturn on the labour market.

In forecasts for commercial property markets, it is important primarily to consider the development of the different types of use, in view of the risk of a possible further wave of infection.

Against the backdrop of a stable labour market, demand for office properties will increase. However, it remains to be seen what impact flexible working models will have on demand for office space. Demand for new build properties in prime locations in particular will nevertheless remain very high, as users and investors are attaching increasing importance to sustainability issues. In this context, it is anticipated that older buildings will be renovated in order to add value before being put on the market again.

In the retail segment, the recovery depends on the range of goods offered and the retail format. Specialist stores, retail parks, supermarkets and local shops have not recorded a decline in sales during the COVID-19 pandemic, because of their role in ensuring supplies. This stands in contrast to fashion retailers, for example, which are often the main tenants in shopping centres and city-centre business locations and have suffered sharp drops in sales. Rising vacancy rates and a decline in market rents must therefore be anticipated in both shopping centres and business locations.

Demand for logistics properties will remain strong, as functioning and broadly diversified logistics infrastructure has become more important to the economy as a result of the COVID-19 pandemic. This will ensure that investor interest remains high and will continue to push up prices. A further decline in net initial yields is therefore likely, in view of space shortages and restrictions on new building in many large cities.

In our business plans, we assume that markets will remain stable or develop positively, as we have described. Nevertheless, we are monitoring market trends very closely with regard to risks, particularly those that could arise as a result of a new wave of infection.

In the private residential property financing segment, we expect new business to be at least as high as in the previous year. In our partnership with cooperative banks, we expect commitment volume to be at the same level as the prior-year result. We expect the result of our cooperation with independent financial service providers to increase year on year. We also anticipate positive development in our business in Switzerland and Austria, with the addition of new cooperation partners in Austria likely giving further momentum to our brokerage business.

In commercial property financing, we expect positive new business development in the second half of the year, as a large number of loan enquiries are currently on the point of completion. We regard further business prospects as positive overall, as low interest rates mean that there are very few profitable alternatives to property investments, while at the same time investment pressure remains high in Europe and the USA. However, the consequences of the lockdown will continue to affect commercial property markets until the end of 2021, and only after that will opportunities arise to catch up and grow. Risks to our new business lie primarily in the possible economic consequences of a continuation of the COVID-19 pandemic. We will therefore continue to follow a conservative approach when providing financing and will generate new business after carefully weighing up the risk and return profile.

The syndicated loan market for properties located in Germany has gained further momentum and appears to have largely returned to the level it was at before the outbreak of the pandemic. With regard to financing in other European countries and the USA, there has been a noticeable increase in the willingness of national and international financiers to take on syndicated lending risks. We anticipate an improvement leading towards liquid, fully functioning syndication markets once property and capital markets have stabilised further.

Overall, we expect new business in commercial property financing to be up compared with last year.

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

Our overall liquidity requirements (money market and capital market) will range from around EUR 8.5 billion to EUR 9.5 billion in 2021, of which EUR 6.5 billion to EUR 7.0 billion is expected to be raised on the capital market and the remainder on the money market. Mortgage Pfandbriefe remain our most important source of funding.

As part of the further refinement of our sustainability strategy, we will address further issues in the second half of the year and in particular will draw up measures on this basis in order to meet the challenges of climate change. A cross-departmental project will also be set up to implement new regulatory requirements.

We expect net interest and commission income to improve, despite rising commission expenses. We will generally achieve the targets set for 2021.

We expect net income for the 2021 financial year to be above the previous year's level.

Forward-looking statement disclaimer

These half-year financial statements contain statements concerning our expectations and forecasts for the future. These forward-looking statements, in particular regarding MünchenerHyp's business development and earnings performance, are based on planning assumptions and estimates and are subject to risks and uncertainties. Our business is influenced by a variety of factors, most of which are beyond our control. These mainly include economic developments, the state and further development of financial and capital markets in general and our funding conditions in particular, as well as unexpected defaults on the part of our borrowers. Actual results and developments may therefore differ from the assumptions that have been made today. Such statements are thus only valid at the time this report was prepared.

Balance sheet as at 30 June 2021

ASSETS
IN €

		30.06.2021	€ 000 31.12.2020
1. Cash reserve			
a) Cash on hand	1,311.29		10
b) Balances with central banks	577,462,414.26		151,900
of which with Deutsche Bundesbank €577,462,414.26			
		577,463,725.55	151,910
2. Claims on banks			
a) Mortgage loans	1,756,466.71		1,804
b) Public-sector loans	100,580,922.58		100,576
c) Other claims	1,568,343,335.42		1,833,316
of which payable on demand €890,079,585.48			
		1,670,680,724.71	1,935,696
3. Claims on customers			
a) Mortgage loans	39,852,858,946.38		38,319,054
b) Public-sector loans	1,419,578,017.89		1,754,449
c) Other claims	147,377,811.86		191,435
		41,419,814,776.13	40,264,938
4. Bonds and other fixed-income securities			
a) Bonds and notes	2,262,309,089.23		1,906,376
aa) Public-sector issuers €1,550,527,651.69			(1,166,468)
of which eligible as collateral for Deutsche Bundesbank advances €1,513,833,375.89			
ab) Other issuers €711,781,437.54			(789,907)
of which eligible as collateral for Deutsche Bundesbank advances €569,510,106.03			
b) Own bonds and notes	4,500,127,125.00		3,750,170
Nominal value €4,500,000,000.00			
		6,762,436,214.23	5,656,546
Carried forward:		50,430,395,440.62	48,009,090

Assets continued on page 13

Assets continued from page 12

ASSETS
IN €

		30.06.2021	€ 000 31.12.2020
Brought forward:		50,430,395,440.62	48,009,090
5. Equities and other variable-yield securities		147,000,000.00	147,000
6. Participations and shares in cooperatives			
a) Participations	104,535,198.49		104,535
of which credit institutions €22,955,936.29			
b) Shares in cooperatives	18,500.00		19
of which in credit cooperatives €15,500.00			
		104,553,698.49	104,554
7. Shares in affiliated companies		12,351,601.64	12,352
8. Intangible assets			
Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values		3,591,954.75	4,203
9. Tangible assets		66,194,855.59	67,105
10. Other assets		141,335,524.00	144,641
11. Deferred items			
a) From issuing and lending business	86,351,887.66		68,762
b) Other	16,121,249.87		711
		102,473,137.53	69,473
Total assets		51,007,896,212.62	48,558,418

LIABILITIES, CAPITAL AND RESERVES
IN €

		30.06.2021	€ 000 31.12.2020
1. Liabilities to banks			
a) Registered Mortgage Pfandbriefe issued	724,881,550.82		704,383
b) Registered Public Pfandbriefe issued	83,260,842.69		85,919
c) Other liabilities	7,340,597,529.94		6,828,229
of which: payable on demand €1,182,220,369.20			
		8,148,739,923.45	7,618,531
2. Liabilities to customers			
a) Registered Mortgage Pfandbriefe issued	9,113,364,867.52		9,157,495
b) Registered Public Pfandbriefe issued	1,456,807,410.94		1,808,582
c) Other liabilities	4,048,354,647.99		3,881,626
of which: payable on demand €119,148,323.65			
		14,618,526,926.45	14,847,703
3. Certificated liabilities			
a) Bonds issued	26,100,795,969.82		23,887,921
aa) Mortgage Pfandbriefe €20,367,394,167.23			(19,174,300)
ab) Public Pfandbriefe €85,677,934.96			(96,098)
ac) Other bonds and fixed income securities €5,647,723,867.63			(4,617,523)
b) Other certificated liabilities	120,332,762.55		164,058
		26,221,128,732.37	24,051,979
4. Other liabilities		87,119,577.81	**140,379**
Carried forward:		49,075,515,160.08	**46,658,592**

Liabilities continued on page 15

Liabilities continued from page 14

LIABILITIES, CAPITAL AND RESERVES
IN €

			€ 000
		30.06.2021	31.12.2020
Brought forward:		49,075,515,160.08	46,658,592
5. Deferred items			
From issuing and lending business	65,983,236.60		60,323
		65,983,236.60	**60,323**
6. Provisions			
a) Provisions for pensions and similar obligations	35,672,006.00		34,922
b) Provisions for taxes	2,845,000.00		595
c) Other provisions	33,633,309.59		36,810
		72,150,315.59	**72,327**
7. Subordinated liabilities		29,500,000.00	**49,700**
8. Profit-participation certificates		113,843,351.55	**115,719**
9. Fund for general banking risks		55,000,000.00	**55,000**
10. Capital and reserves			
a) Subscribed capital	1,197,596,260.00		1,153,052
aa) Members' capital contributions €1,197,596,260.00			(1,153,052)
b) Revenue reserves	347,000,000.00		347,000
ba) Legal reserves €341,000,000.00			(341,000)
bb) Other revenue reserves €6,000,000.00			(6,000)
c) Unappropriated profit	51,307,888.80		46,705
		1,595,904,148.80	**1,546,757**
Total liabilities, capital and reserves		51,007,896,212.62	**48,558,418**
1. Contingent liabilities			
Contingent liability on guarantees and indemnities		766.94	1
2. Other commitments			
Irrevocable loan commitments		4,829,591,433.55	4,750,652

Income statement

1 JANUARY THROUGH 30 JUNE 2021

INCOME STATEMENT
IN €

			01.01. to 30.06.2021	€ 000 01.01. to 30.06.2020
1. Interest income from			**473,635,539.20**	**478,835**
a) Lending and money market operations		451,586,007.06		459,588
b) Fixed-income securities and debt register claims		22,049,532.14		19,247
2. Interest expenses			**286,281,809.62**	**313,949**
3. Current income from			**500,054.74**	**250**
a) Participations and shares in cooperatives		500,054.74		250
4. Commission income			**6,597,946.81**	**4,909**
5. Commission expenses			**69,461,102.61**	**58,715**
6. Other operating income			**944,780.76**	**441**
7. General administrative expenses			**65,596,516.99**	**62,755**
a) Personnel expenses		32,549,572.13		29,950
aa) Wages and salaries	27,359,885.64			25,386
ab) Social security contributions and cost of pensions and other benefits	5,189,686.49			4,564
of which €1,124,470.60				(940)
b) Other administrative expenses		33,046,944.86		32,805
8. Depreciation / amortisation and value adjustments on intangible assets and fixed assets			**2,500,000.01**	**3,950**
9. Other operating expenses			**2,832,674.06**	**2,635**
10. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses			**15,305,779.46**	**15,511**
11. Results from ordinary business activities			**39,700,438.76**	**26,920**
12. Taxes on revenue and income			**21,429,678.64**	**13,750**
13. Net income			**18,270,760.12**	**13,170**
14. Retained earnings brought forward from previous year			**33,037,128.68**	**24,004**
15. Unappropriated profit			**51,307,888.80**	**37,174**

Notes to the interim financial statements as at 30 June 2021 (abridged)

General information on accounting policies

Münchener Hypothekenbank eG's financial accounts for the first half of 2021 were prepared using the same methods used to prepare the balance sheet and determine valuations shown in the annual statement of accounts as at 31 December 2020.

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

Tax expenses noted for the period 1 January to 30 June 2021 were calculated based on the weighted average of the annual tax rate on income.

The annual fee due for the European bank levy was accounted for on a pro rata temporis basis for the first half of 2021.

Auditing association

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

Munich, 3 August 2021

Münchener Hypothekenbank eG

Board of Management

Dr Louis Hagen
Chairman
of the Board of Management

Dr Holger Horn
Member
of the Board of Management

Certification following review

To Münchener Hypothekenbank eG, Munich
We have conducted a review of the abridged half-year financial statements – comprising the balance sheet, the income statement, as well as the abridged notes to the financial statements – and the interim management report of Münchener Hypothekenbank eG, Munich, for the period 1 January to 30 June 2021 all of which are elements of the half-year financial statements pursuant to Art. 115 Securities Trading Act (WpHG). The preparation of the abridged half-year financial statements in accordance with German commercial law, and the interim management report pursuant to the applicable terms of the WpHG, are the responsibility of the cooperative's legal representatives. Our responsibility is to issue a certificate for the abridged half-year financial statements and the interim management report based on our review.

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

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

Bonn, 3 August 2021

DGRV – Deutscher Genossenschafts- und Raiffeisenverband e.V.

Peter Krüper
Auditor

Dorothee Mende
Auditor

Affirmation of the legal representatives

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

Munich, 3 August 2021

Münchener Hypothekenbank eG

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Chairman
of the Board of Management

Dr Holger Horn
Member
of the Board of Management

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