2020
ANNUAL REPORT

SOLIDARITY.
OUR STRENGTH.

MünchenerHyp

Overview

BUSINESS DEVELOPMENT
IN MILLIONS OF €*

	2020	2019	Change %
Lending business			
a) Mortgage loans	6,395	6,478	– 1
aa) Residential property financing	4,019	3,716	8
ab) Commercial property financing	2,376	2,762	– 14
b) Loans to public sector and banks	97	45	116
Total	**6,492**	**6,523**	**0**

OVERVIEW OF PORTFOLIOS
IN MILLIONS OF €*

	2020	2019	Change %
Total assets	48,558	42,872	13
Mortgage loans	38,411	35,498	8
Public sector and banks	3,704	4,075	– 9
Pfandbriefe and other bonds	39,576	36,398	9
Liable equity capital	1,676	1,573	7

INCOME STATEMENT
IN MILLIONS OF €*

	2020	2019	Change %
Net interest income and net commission income	238	205	17
Administrative expenses	128	131	– 2
Results from ordinary business activities	95	74	29
Transfer to the Fund for General Banking Risks	20	0	–
Net income	38	36	6

EMPLOYEES
NUMBER

	2020	2019	Change %
Average number of employees per year	611	573	7
Apprentices	15	15	0
Employees participating in parental leave, early retirement and partial retirement (non-working phase)	35	36	– 3

* Amounts have been rounded.

Content

IN CONVERSATION: THE KEY ISSUES FOR US IN 2020 ARE COVERED IN OUR ONLINE ANNUAL REPORT:

▶ www.muenchenerhyp.de/geschaeftsbericht2020/en/

Digitalisation gathering pace

What digital processes have proved to be essential during the COVID-19 pandemic, and how will things progress in terms of digitalisation? General Executive Manager Ulrich Scheer looks back and into the future.

Working from home

How did the sudden switch to working from home pan out at MünchenerHyp? Dr Phil Zundel, Head of Central Services, talks about working from home during the COVID-19 crisis, and tells us which changes are here to stay.

The future of the property markets

The crisis saw uncertainty return to the property market. Jan Polland, Thomas Hügler, Heads of Commercial and Private Real-Estate Finance, explain the developments and reveal whether the opportunities for investors lie.

SOLIDARITY.
OUR STRENGTH.


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,

2020 was marked by two crises triggered by the COVID-19 pandemic: an international health emergency and a global economic crisis. In particular, the measures taken to combat the pandemic had a huge impact on society and business, and thus also to some extent on MünchenerHyp.

When the first lockdown was imposed back in March 2020, we focused our efforts on two goals: first of all, protecting the health of our employees and second, maintaining business operations that were as close to normal as possible despite all of the restrictions required to contain the virus.

To this end, we put extensive measures in place to ensure the safety of our employees, adapted our business plans and lending criteria to reflect the situation caused by the pandemic and took flexible action in response to ever-changing challenges. Thanks to these measures, overall we got through well through the COVID-19 pandemic in financial year 2020. So far, only a handful of our colleagues have contracted COVID-19 – all of them were infected outside the Bank and have since recovered. Business-wise, 2020 was a satisfactory year despite all of the adversities we faced.

Strong new business – further growth in residential property financing

With new mortgage business of EUR 6.4 billion, we only just fell short, by around EUR 100 million, of the record result achieved in the previous year.

New private residential property financing business rose by 8 percent to over EUR 4 billion. On the one hand, this development was thanks to a very stable German residential property market, which is still considered a safe haven during the crisis, especially among professional investors. On the other, the sustained low interest rates bolstered demand for residential properties. New business brokered by banks in the Cooperative Financial Network rose by 10 percent to EUR 3.1 billion. We are also satisfied with the development of new business in our partnerships with independent financial service providers and PostFinance in Switzerland.

By contrast, the economic consequences of the COVID-19 pandemic left their mark on the commercial property financing business. New business fell by 14 percent to EUR 2.4 billion. This is slightly less pronounced than the drop in transaction volume on the German commercial property market, but also shows that we were not able to escape the overall developments unscathed. Nevertheless, we consider this to be a positive result, as we were able to exceed our new business target, which had been adjusted to reflect the economic uncertainty.

All in all, we were able to expand our mortgage portfolios again. Thanks to the encouraging level of new business, they grew by 8 percent to EUR 38.4 billion.

Risk situation remains moderate

Our mortgage portfolios have remained largely untouched so far by the economic implications of the COVID-19 pandemic. Very few of our customers have made use of the statutory moratorium on debt repayments for private individuals. The same applies to the voluntary amortisation moratorium for commercial property financing developed by the Association of German Pfandbrief Banks (vdp). Those segments of the commercial property market that have been hit particularly hard, such as hotels, only account for a very small share of our overall portfolio. We have analysed our entire portfolio of commercial property financing without identifying any significant risks from today's perspective.

Higher earnings – dividend for financial year 2020

Net interest income improved by 16 percent to EUR 347.8 million, allowing us to continue the successful performance seen over the last few years. This means that net interest income has trebled within the last ten years, largely due to the steady increase in new business. In line with the successful brokered new business, commission paid rose again in the year under review, although this was more than offset by the stronger growth in net interest income. As a result, net interest and commission income increased by 16.5 percent to EUR 238.3 million. We were able to reduce administrative expenses by 2 percent to EUR 128.4 million despite a renewed increase in regulatory costs and levies. This results in income from ordinary business activities of EUR 95.3 million, up by 29 percent year-on-year.

With a Common Equity Tier 1 ratio of 20.6 percent, the Bank continues to have good capital resources. It is very encouraging to see that members' capital contributions grew by EUR 80.6 million and totalled EUR 1,153.1 million at the end of the year. This valuable vote of confidence by our members is to be appreciated all the more given that we were unfortunately not allowed to pay a dividend for the 2019 financial year in the year under review in line with ECB stipulations.

The 2020 Delegates Meeting therefore decided to carry forward the retained earnings for 2019 of approximately EUR 24 million to the 2020 financial year. This year, the ECB is now allowing limited dividend payments to be made for the 2020 financial year. At MünchenerHyp, the limit has been calculated at 1.25 percent per share. The Supervisory Board and the Board of Management have proposed a corresponding resolution regarding the appropriation of distributable income to the Delegates Meeting.

Pfandbrief proves its value yet again during the crisis

The Pfandbrief once again proved itself to be a crisis-proof funding instrument in the environment created by the pandemic. Although the issue volume on the primary market fell significantly and investors also adopted a more cautious stance, we were still able to raise funding at good conditions throughout the year. Demand was exceptionally strong for our two issues of benchmark Mortgage Pfandbriefe with a volume of EUR 500 million each and long maturities of 15 and 20 years. This allowed us to ensure that long loan terms in private residential property financing could be refinanced with matching maturities. On the Swiss capital market, we were very successful in issuing several large-volume uncovered bonds.

Success through solidarity

The business success stories written in the reporting year are based to an even greater degree than usual on cooperation with our partners, customers and investors based on trust. In the face of the stresses resulting from the COVID-19 pandemic, our members showed considerable solidarity, in line with the very spirit of the cooperative banking system, and helped MünchenerHyp to stay on track. We would like to thank our employees for the tremendous commitment and high degree of flexibility they have shown despite the pressures and concerns facing them outside of work. This allowed us to maintain business operations that were as close to normal as possible, even under stringent lockdown conditions.

Looking ahead to the 2021 financial year, we have set ourselves the objective of expanding our new business to the extent that the pandemic allows. We will also continue to focus on boosting the efficiency and customer centricity of our processes in order to increase both the Bank's profitability and levels of satisfaction among our business partners and customers.

Yours sincerely,

Dr. Louis Hagen
Chairman of the Board
of Management

Dr. Holger Horn
Member of the Board
of Management

MANAGEMENT REPORT

Economic report

GENERAL ECONOMIC CONDITIONS

Economic development

The spread of the COVID-19 pandemic sent huge shock waves through the global economy. The large-scale lockdown imposed in the spring of 2020 to combat the pandemic triggered a massive drop in production and sent global trade plummeting. While the global economy was able to bounce back somewhat in the third quarter as the number of infections started to slow, by the end of the year the onset of the second wave of infections had once again slammed the brakes on the economic recovery. The global economy experienced a deep recession in 2020, with a 3.5 percent drop in global gross domestic product according to the IMF's latest estimate.

The European economy was hit extremely hard by the lockdown as well. In addition, the second wave of the pandemic had a significant impact on Europe in particular, hindering the economic recovery. Economic researchers therefore expect economic output to have dipped again in the fourth quarter of 2020. According to preliminary data from Eurostat, the COVID-19 pandemic was responsible for an economic slump of 6.8 percent in the eurozone looking at the year as a whole.

In Germany, gross domestic product was down by 5.0 percent in a year-on-year comparison – only the financial market crisis of 2009 resulted in a more marked decline in economic output. Almost all sectors of the economy were affected. However, the construction industry in particular was able to hold its own with a 1.4 percent increase in gross value added. Positive contributions to growth were also made by public consumption, which rose by 3.4 percent, and by construction investment, which was up by 1.5 percent.

The average inflation rate of 0.5 percent was significantly lower than in the previous year, largely due to the move to cut VAT rates until the end of 2020 as part of the German government's economic stimulus package. Heating oil and fuel, in particular, as well as consumer goods, became cheaper. The COVID-19 pandemic also put an end to the prolonged upswing on the employment market. The number of people out of work increased by an annual average of more than 400,000 to 2.7 million. This pushed the unemployment rate up by 0.9 percentage points to 5.9 percent. The lockdown also led to a very marked expansion in the use of furlough (Kurzarbeit). According to the German Federal Employment Agency, more people were on furlough in 2020 than ever before.

Financial markets

The global COVID-19 pandemic also shook the financial markets, with the stock markets suffering massive losses as a result of the lockdown. Liquidity bottlenecks also triggered a substantial sell-off of liquid government and corporate bonds in the short term, leading to higher yields and also lower prices. In a quest to stabilise the markets, a large number of countries launched large-scale aid programmes and the central banks reacted by adopting monetary policy measures.

The US Federal Reserve ("Fed") lowered the key interest rate by 50 basis points to a range of between 1.0 percent and 1.25 percent at the beginning of March. Less than two weeks later, it decided to lower the interest rate by 100 basis points to within a range of 0.0 percent to 0.25 percent. In addition, the Fed announced plans to make large-scale purchases of Treasury securities, mortgage-backed securities (MBS) and corporate bonds.

In mid-March, the ECB increased its pre-existing Asset Purchase Programme (APP) by EUR 120 billion before launching an additional Pandemic Emergency Purchase Programme (PEPP) worth EUR 750 billion only shortly afterwards.

While the markets calmed down slightly as a result of these measures, liquidity shortages were still pushing money market rates up. This prompted the ECB to take additional action at the beginning of June, including the decision to increase the PEPP by EUR 600 billion to a total of EUR 1.35 trillion and to launch new TLTRO tenders for banks, offering particularly favourable financing conditions. In December, the PEPP was increased by another EUR 500 billion and its term was extended until the end of March 2022. In addition, maturing securities were reinvested until at least the end of 2023 and the favourable TLTRO conditions for banks were extended for another year, subject to certain conditions. The ECB opted not to alter its key interest rates in 2020. The main refinancing rate remains unchanged at 0.0 percent.

Other central banks, including the Bank of England, Bank of Japan and Swiss National Bank, also took monetary policy measures to make additional liquidity available on the financial

YIELD ON TEN-YEAR BUNDS 2020
IN %

Source: Bloomberg (closing rate)

markets. The Bank of England slashed the key interest rate twice, from 0.75 percent to 0.15 percent, in the space of one week in March.

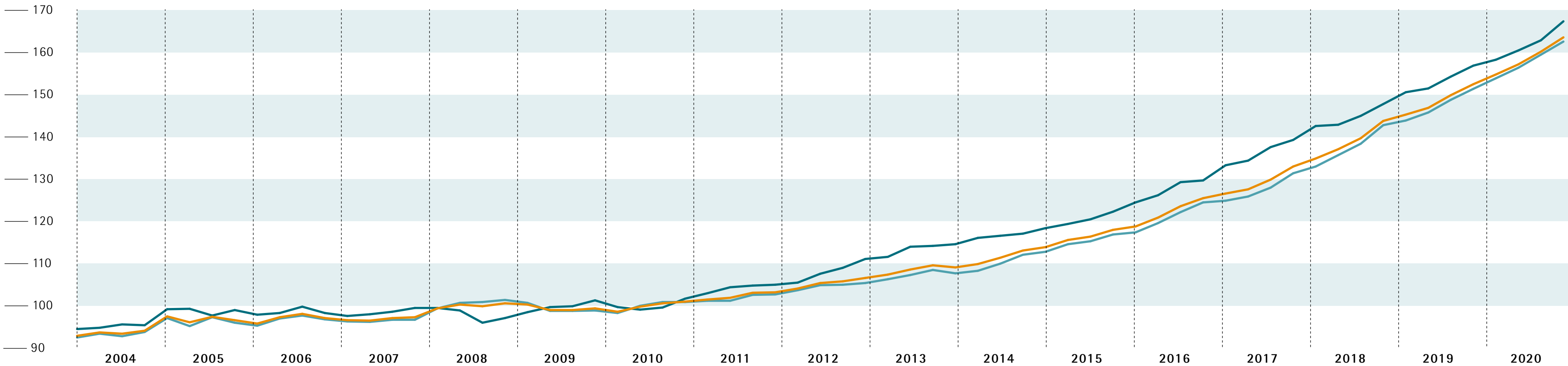
On the bond market, the pandemic and considerable uncertainty surrounding economic development first of all sent the fixed income markets tumbling to new record lows. The yield on ten-year German government bonds, for example, fell from minus 0.19 percent at the beginning of the year to minus 0.9 percent at the beginning of March 2020. Liquidity bottlenecks then triggered a significant short-term rise in yields on German government bonds to minus 0.19 percent. The ECB's measures in March and June calmed the financial markets again and yields mostly ranged between minus 0.4 percent and minus 0.6 percent in the second half of the year.

On the foreign exchange market, the US dollar was still able to gain ground against the euro at the beginning of the pandemic, reaching a high of USD 1.06 in March. The temporary economic recovery in the summer, low new infection figures in Europe and the EU's large-scale pandemic aid package reversed this trend and sent the US dollar on a marked downward trajectory. Joe Biden's victory in the US presidential election provided further support to this development, as it is now expected that US policymakers will provide larger aid packages and rack up higher government deficits. At the end of the year, the US dollar was trading close to its low for the year at USD 1.22 to the euro.

The Swiss franc fluctuated within a much narrower range against the euro last year. Compared to the 2019 year-end rate of CHF 1.085, there was hardly any change at the end of 2020, with a rate of CHF 1.082. Sterling was much more volatile, largely due to the news flow surrounding Brexit. The pound initially started the year even firmer and reached a high for the year of just under GBP 0.83 in February, only to fall to GBP 0.95 within the space of a month in the midst of market turbulence associated with the outbreak of the pandemic. In the second half of the year, the exchange rate settled down and the pound was mostly trading at around GBP 0.90 against the euro.

On the covered bond market, the pandemic created an environment of considerable uncertainty and a reluctance to buy among investors. While fears of large-scale loan defaults at banks put pressure on unsecured bank bonds in particular,

DEVELOPMENT OF PROPERTY PRICES IN GERMANY
YE 2010 = 100



Owner-occupied housing
Condominiums
Single family houses

Source: vdp Research property price index, Q3 2020
As of November 2020

spreads also widened considerably for covered bonds. The ECB's decisions on its purchase programmes played a significant role in stabilising funding spreads for banks. Pfandbriefe, in particular, were at a similarly favourable level at the end of the year as they had been at the beginning. Due to the further drop in interest rates, almost all Pfandbriefe were trading with negative yields at times. This development was encouraged by the ECB's monetary policy, which continues to force traditional Pfandbrief investors to invest in other asset classes.

Issuing activities on the primary market for covered bonds were significantly more restrained than they had been a year earlier due to the COVID-19 pandemic and the resulting favourable funding offers from central banks. All in all, the euro-denominated issue volume of benchmark covered bonds came to around EUR 92 billion in 2020, down by around 30 percent year-on-year.

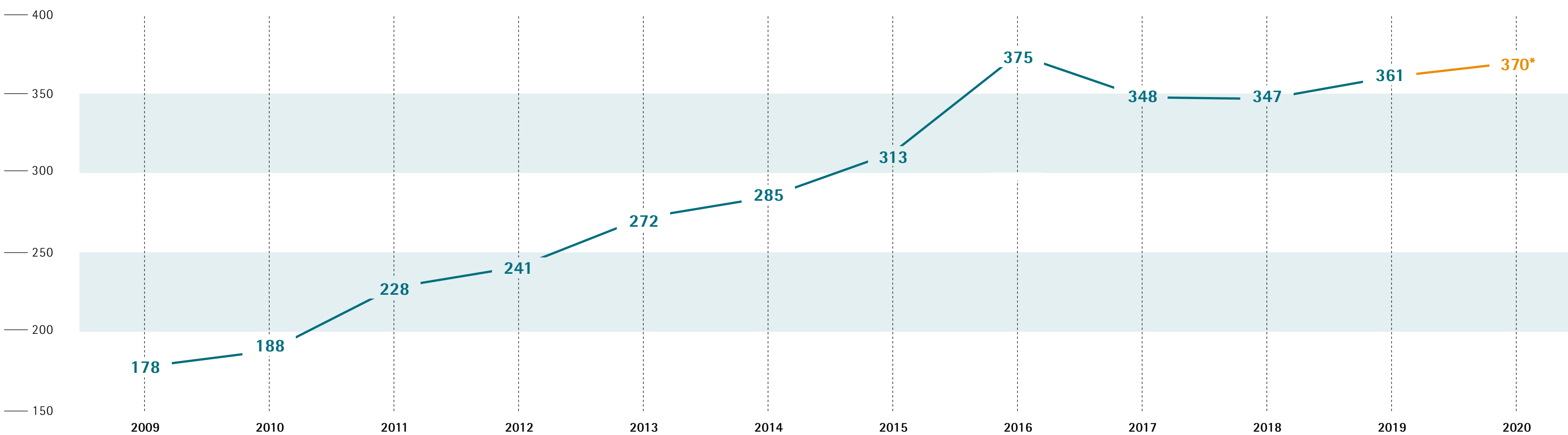
Property markets and property financing markets

Residential property – Germany

The COVID-19 pandemic did not have any negative impact on the German residential property market in the year under review, other than temporary restrictions on supply and demand during the lockdown in the spring of 2020. Analyses conducted by the Association of German Pfandbrief Banks (vdp) show that demand for residential property, as well as prices, actually increased during the pandemic. By the third quarter of 2020, the vdp price index for residential properties was up by 7.1 percent compared to the same period of the previous year. Prices of single and two-family houses were up by 7.4 percent, with condominium prices rising by 6.7 percent.

Multi-family house prices rose by 7 percent compared to the prior-year period, because investors expect the risk of rent default in this segment to be lower than for commercial properties. Average year-on-year rental price growth came to 3.4 percent at the end of the third quarter. In Germany's seven largest cities, rents rose by an average of 1.8 percent. In Berlin, the introduction of the rent cap and the rent freeze led to significantly slower rental price growth of 0.7 percent.

RESIDENTIAL BUILDING PERMITS IN GERMANY 2009–2020
FIGURES IN 000



* Estimated.

Source: German Federal Statistical Office

The trend towards stronger price developments for residential properties outside the country's major cities continued. The lockdown has led many private households to reconsider their housing situation. Residential properties on the outskirts of major cities offering attractive recreational opportunities and, in particular, more space to live and work under one roof, were in even greater demand than prior to the pandemic. While the price index for owner-occupied housing rose by 5.2 percent in the top seven cities, an increase of 7.3 percent was measured nationwide in the same period.

Despite the increase in construction investment, construction activity continues to lag behind demand. Compared to 2019, the number of new housing units approved increased by 3.9 percent to 332,000 between January and November. Although the number of approved housing units is expected to have risen to around 370,000 units by the end of the year, this is still not enough to meet the demand for housing. This is evident if we look at the construction backlog, which includes all construction projects that have not yet been started or completed. With around 740,000 housing units, the current backlog is at the highest level witnessed since 1998. This corresponds to around two and a half years' worth of housing construction.

Despite the lockdown restrictions, institutional investors were very active in the German residential property market in 2020, investing EUR 20.3 billion in German residential property portfolios, based on data evaluated by Ernst & Young. This equates to a year-on-year increase of 8 percent. The institutional housing market was dominated by domestic investors with a share of 75 percent, a trend assumed to be due primarily to the travel restrictions for international investors in 2020. Overall, the German residential property market remained a safe investment target compared with other countries.

Data collected by the vdp indicate that loans amounting to EUR 194 billion were granted in Germany for the purchase of residential property in the first three quarters of 2020, up by 7.7 percent compared to the prior-year period.

Residential property – international

In Germany's neighbouring European countries, too, the pandemic has not yet had any negative impact on the residential property markets. Eurostat's house price index shows a year-on-year increase in residential property prices of 3.7 percent in the first half of the year. In those European residential property markets that are relevant to MünchenerHyp, prices rose by 4.1 percent in Austria and in the Netherlands in the first six months of the year.

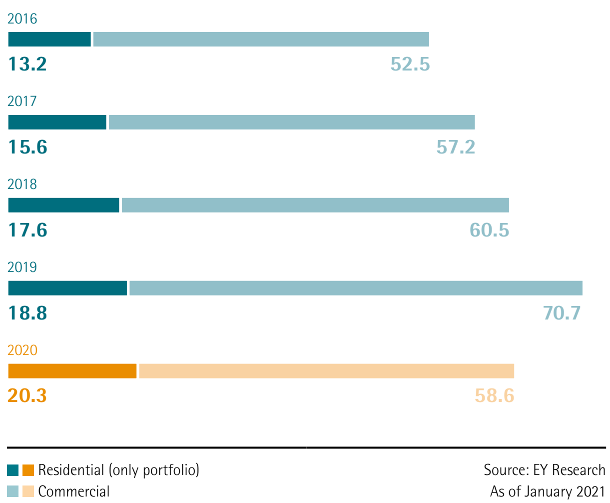
Due to excess supply, the Swiss residential market has experienced falling asking rents on the residential market since 2015 as well as falling condominium prices since 2017. This trend continued for asking rents in 2020, with a decline of 1.8 percent year-on-year. Condominiums saw a turnaround with price increases of 5.1 percent against the previous year. The price of owner-occupied homes rose by 3.0 percent during the same period. A trend towards stronger price growth outside the major cities was also observed in Switzerland, although prices in the major cities, particularly in Lausanne and Geneva, also continued to increase nonetheless.

Commercial property – Germany

In 2020, EUR 58.6 billion was invested in German commercial properties, down by 17 percent compared to the previous year. Nevertheless, the investment volume came to around EUR 5 billion, outstripping the average for the last 15 years. This means that, even against the backdrop of the COVID-19 pandemic, professional investors continued to see the German commercial property market as a safe investment target in an environment dominated by low interest rates and a lack of investment alternatives.

Measures to combat the COVID-19 pandemic resulted in a shift in investor preferences with regard to property use types. After residential portfolios, the biggest winner when it came

DEVELOPMENT OF COMMERCIAL PROPERTY TRANSACTIONS IN GERMANY 2016–2020
IN € BILLION

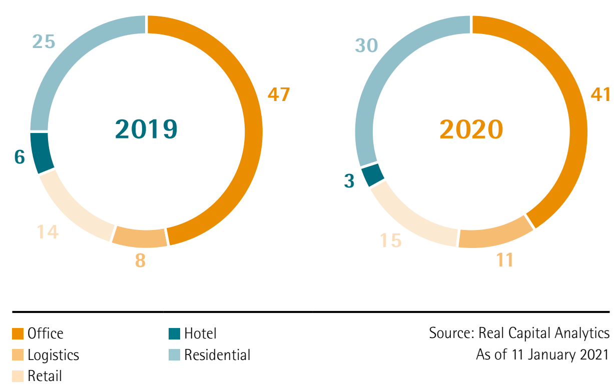


Source: EY Research
As of January 2021

to attracting investor attention was the segment for logistics properties, whose market share rose to 11 percent. The retail sector remained virtually unchanged compared to 2019, with a 15 percent share of the total transaction volume. Within this segment, however, investors tended to prefer specialist stores and retail parks over shopping centres and commercial buildings. 41 percent of the transaction volume was attributable to office properties, which remained the most popular type of use despite a fall in market share. Investors were very cautious with regard to hotel properties in 2020, which accounted for only 3 percent of the investment volume.

In Germany's top property markets, office prime yields fell by around ten basis points over the course of the year. Office buildings in Berlin and Munich generated the lowest prime yields, at 2.6 percent in each case.

TRANSACTION VOLUME BY TYPE OF USE
IN %



Source: Real Capital Analytics
As of 11 January 2021

In the first three quarters of 2020, around 2.7 million square metres of office space was let in the top seven office cities, down by 27 percent compared to the prior-year period. The uncertain economic outlook prompted many market players to postpone their expansion plans for the time being, with a knock-on effect on lease turnover. At the beginning of the pandemic, all Germany's top property markets were reporting low vacancy rates and high demand, combined with low levels of speculative new construction. Although vacancy rates increased in tandem with the lockdown measures, they remained at relatively low levels in the country's major office locations after the end of the third quarter. Prime rents for office properties remained stable in all major German cities in 2020.

As a result of the lockdown measures and the associated loss of sales in bricks-and-mortar retailing, commercial buildings and shopping centres have been particularly hard hit by the recession. The net initial yield for commercial properties in the prime segment of the country's major cities rose by 40 basis points over the course of the year and averaged 3.5 percent.

Prime rents fell by around 3 percent in the year under review, but only very few spaces were let in shopping streets during this uncertain period. Shopping centre yields rose on a net basis from 4.3 percent to 5.0 percent over the course of the year. Both prime and average rents fell by 12 percent for shopping centres over the year as a result of the COVID-19 pandemic.

Commercial property – international

The investment volume for commercial property and residential portfolios in Europe fell by 30 percent year-on-year in 2020 to EUR 197 billion. Considering the uncertain economic development caused by the pandemic, the investment market nevertheless remained very active, a trend that can be explained primarily by the lack of alternative investment opportunities. 29 percent of the European transaction volume was invested in Germany, which is currently the most sought-after property market for investors. 40 percent of the invested capital went into office properties across Europe.

Office rents fell by around 1 percent in the European prime segment over the course of 2020, triggered by dwindling demand for space and increasing vacancy rates in all major European cities.

The property investment market in the UK has seen lower transaction volumes since the Brexit referendum of 2015, when investors started to adopt a more cautious stance. In 2020, EUR 42 billion was invested in commercial property and residential portfolios in the UK, down by 17 percent compared to the previous year. The net initial yield for office property in London remained stable over the year, although prime rents for new lettings have fallen by around 1 percent. Compared with office properties, the impact of the recession was much more pronounced for retail properties and, in particular, for shopping centres. Prime rents for commercial buildings fell by 9 percent over the year, with prime rents for shopping centres losing as much as 15 percent. Even before the outbreak of the COVID-19 pandemic, a wave of insolvencies in the UK retail sector led to shop closures and rising vacancy rates in regional markets. This process of transformation within the UK retail sector has been accelerated by the COVID-19 pandemic, particularly due to the considerable popularity of online shopping. Net initial yields for commercial properties in prime locations rose to 3.9 percent during the year, with yields for shopping centres rising to 7.0 percent.

In France, EUR 32 billion was invested in commercial property and residential portfolios in 2020, down by 29 percent compared to the previous year. Net initial yields for office property located in the heart of Paris remained constant at 2.8 percent in 2020, meaning that, looking at Europe as a whole, only Munich and Berlin had more expensive prices than Paris. Long-term infrastructure projects have accelerated neighbourhood development on the outskirts of the city, putting attractive office locations outside the city centre into the spotlight. In central Paris, the vacancy rate increased from 1.7 percent to 2.9 percent over the course of the year. This means that vacancy rates were still so low that prime rents in Paris continued to rise by 2 percent year-on-year despite the recession. As in other major European cities, commercial buildings in retail locations have so far been impacted less by the recession than shopping centres have. As a result, there has been no downward trend in rents for commercial buildings, whereas shopping centre rents dropped by 11 percent.

In the Netherlands, transaction activity was down by 27 percent year-on-year to an investment volume of EUR 15 billion. The vacancy rate in Amsterdam, the leading property market in the Netherlands, has so far risen only marginally to 6.0 percent. Office rents remained stable in the country's main markets. Retail rents in the Netherlands were comparatively firmer than in other European markets, with rents dropping by 2 percent for commercial buildings and by 8 percent for shopping centres.

In Spain, the transaction volume was sliced in half to just under EUR 8 billion. Nevertheless, net initial yields for office properties remained on a par with the prior-year level of 3.2 percent in Madrid and 3.3 percent in Barcelona. The letting volume was around one third lower than in the previous year, pushing vacancy rates up slightly and prime rents down by around 1 percent over the course of the year. Prior to the outbreak of the COVID-19 pandemic, the Spanish retail property market was considered to be one of the fastest growing markets in Europe, with rising household incomes as well as a flourishing tourism sector fuelling higher sales and, as a result, rental price growth. The impact of the pandemic resulted in a 12 percent drop in retail rents in shopping centres in Spain. Net initial yields increased by 20 basis points for commercial properties and by 50 basis points for shopping centres.

In the US, commercial property and residential portfolios worth USD 400 billion had changed hands by the end of the third quarter of 2020, down by around 30 percent year-on-year. Multi-family apartments were the most sought-after asset class, as these were expected to offer comparatively stable cash flows. Logistics properties were also very popular with investors. The major cities that are relevant to MünchenerHyp (New York, Washington DC, Boston, Chicago, Los Angeles, San Francisco, Seattle) continued to show high levels of liquidity in the property market.

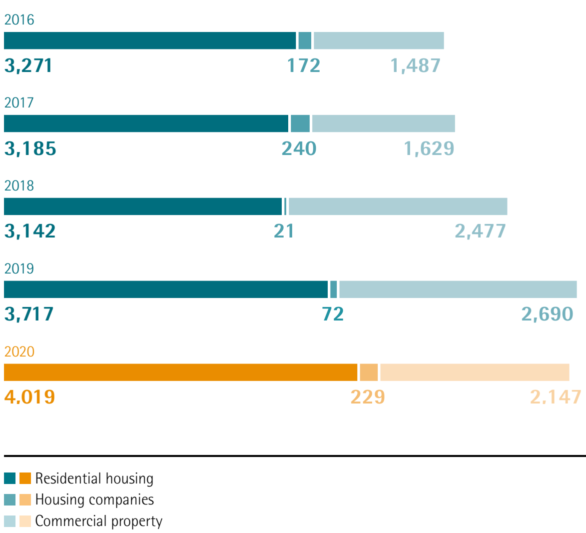
BUSINESS DEVELOPMENT

New mortgage business

The COVID-19 pandemic and the economic turbulence that it triggered made it considerably harder at times to come up with any reliable assessment of market conditions and developments. As a result, we adjusted our new business plans and lending criteria during the year to reflect the new circumstances.

Our new business showed positive development, even under the strain of the COVID-19 crisis. All in all, we issued around EUR 6.4 billion in new mortgage financing commitments in 2020, down only slightly on the previous year's record result of EUR 6.5 billion.

MÜNCHENERHYP NEW MORTGAGE BUSINESS 2016–2020
COMMITMENTS IN € MILLION



In private residential property financing, we were even able to expand our new business further thanks to the stability of the German residential property market and high demand for property and property financing in Germany throughout the year. 2020 became the first financial year in which we granted just over EUR 4 billion in private residential property financing (2019: EUR 3.7 billion), up by 8 percent year-on-year.

The increase is due primarily to brokerage business with our partner banks from the Cooperative Financial Network. With a commitment volume of EUR 3.1 billion, new business exceeded the EUR 3 billion threshold for the first time. Compared to the previous year, this corresponds to an increase of around EUR 300 million or 10 percent. There are several reasons behind this success story. Above all, our three sales campaigns were very well received by customers of our partner banks. Improved processes in our collaboration with the cooperative banks also translated into higher brokerage volumes. Demand for loans via the expanded "simplified procedure" (Vereinfachtes Verfahren) in loan processing, for example, increased by around 25 percent. Ultimately, the overall conditions for high demand remained positive in spite of the COVID-19 pandemic. This is especially true of the low interest rates. In this environment, there was high demand among customers for financing structures featuring long-term fixed interest rates and flexibility.

Sales of private property finance generated via independent financial service providers in Germany increased by 2 percent year-on-year, to EUR 670 million.

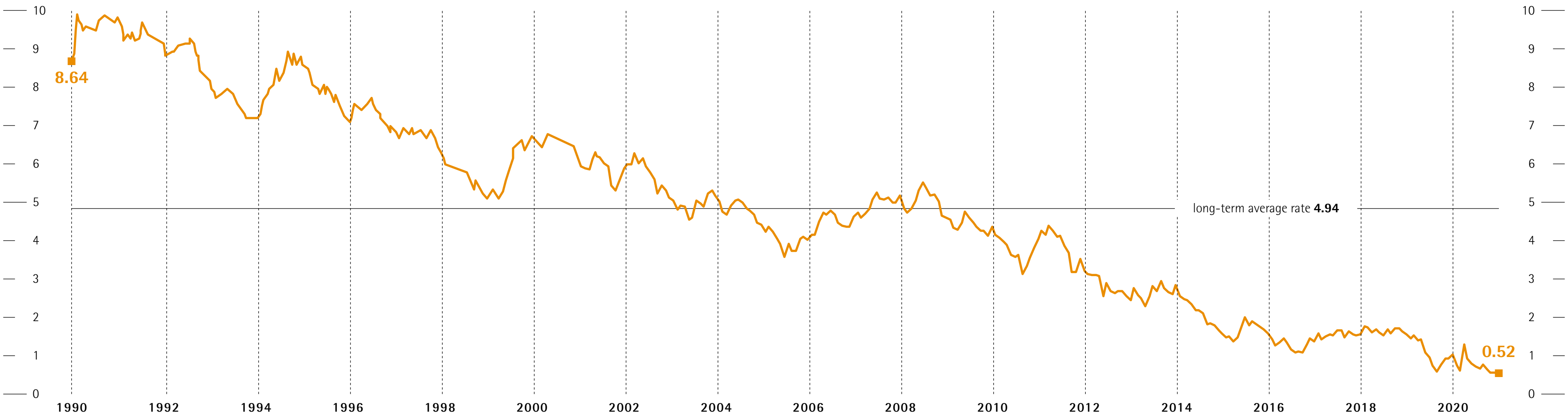
In our partnership with PostFinance in Switzerland, new business was more or less on a par with the previous year at EUR 278 million (2019: EUR 290 million). In the highly competitive Swiss market, special efforts were needed to stand out from the competition. This prompted us to launch a sales campaign hand in hand with PostFinance in the autumn of 2020, which allowed us to catch up in terms of new business. New business in Austria was still in the trial phase following our market entry in the previous year and amounted to EUR 16 million (2019: EUR 8 million).

The impact of the COVID-19 pandemic on the property markets was more visible in the commercial property financing segment. Given these overall conditions, we achieved a satisfactory new business result. The volume of commitments exceeded the EUR 2 billion mark for the third time in succession since the financial market crisis. In total, we granted commercial financing to the tune of EUR 2.4 billion, down by 14 percent on the prior-year result of EUR 2.8 billion. This means that we were able to exceed our new business target, which we had adjusted in the course of the year, an achievement that we consider to be positive in view of the economic impact of the COVID-19 pandemic.

This result was driven largely by our domestic business, which contributed the lion's share with a new business volume of EUR 1.5 billion. At almost EUR 0.9 billion, we maintained our international business at the level achieved in the previous year. Three countries once again accounted for the majority of this business: the US (syndicated business only) with 35 percent, the Netherlands with 26 percent and Spain with 22 percent.

The development of earnings in the commercial financing business was particularly worthy of note. Despite adjustments to our new business plans, we were able to achieve our original earnings target. In our international business in particular, we were able to boost our earnings power without increasing the risks involved. We were able to maintain the average loan

MORTGAGE RATES MÜNCHENERHYP
TEN YEAR FIXED RATE | IN %



As of: 04.01.2021

volumes achieved in 2019, a year in which they increased considerably. In addition, we were also able to conduct a number of large-volume underwriting transactions with subsequent syndication in 2020.

From a risk perspective, we maintained our conservative financing approach with a focus on conventional financing at completion, giving due consideration to adequate, sustainable minimum cash flows and property locations. We consider the high equity ratios in the financing structures, which averaged over 40 percent and increased slightly compared to the previous year, to be a positive aspect.

Capital markets business

Stringent regulatory requirements and low asset spreads continued to dictate our strategy for investing in securities issued by the public sector and banks in 2020. Due to the 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 was not a lucrative option and also resulted in high total asset costs. As a result, securities purchases were kept to the bare minimum.

On a net basis, the portfolio volume was reduced by EUR 0.4 billion to EUR 3.7 billion. New business in 2020 totalled EUR 97.0 million, compared with EUR 44.5 million in 2019.

Refinancing

MünchenerHyp consistently enjoyed access to funding at good conditions during the reporting year, even during the first peak of the COVID-19 pandemic in March and April. During this period, we mainly issued private placements of covered and uncovered bonds in euros and Swiss francs. The Cooperative Financial Network in particular showed a keen interest in these products. In addition, the ECB's current open market operations presented an opportunity for meeting covered funding needs at very attractive conditions.

We also issued several large-volume bonds in the reporting year. Our focus in terms of large-volume funding transactions in the first six months of the year was on uncovered bond issues.

We started by issuing a green senior non-preferred bond worth CHF 240 million in January. The first green security issued in this asset class on the Swiss capital market; it met with very high demand. The bond has a term of five years and eleven months and a coupon of 0.1 percent. The issue was placed at a price of 51 basis points above the mid-swap rate and received a total of 39 orders.

In the same month, we issued another senior non-preferred bond, this time in euros. With an issue volume of EUR 250 million, the bond achieved an issue spread of 54 basis points above the mid-swap rate.

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

We started the second half of the year by issuing a CHF 200 million green senior preferred bond. This was also the first green security issued in this asset class on the Swiss capital market for us, with very high investor demand for this issue as well. Incoming orders had already reached CHF 150 million after only just under half an hour. The bond has a term of eight years and a coupon of 0.25 percent. The issue was placed at a price of 55 basis points above the mid-swap rate and received a total of 50 orders.

This was followed in September by the issue of the first of two long-dated benchmark Mortgage Pfandbriefe in the reporting year. The issue volume amounts to EUR 500 million and the term is 15 years. Investor demand was exceptionally strong. After one and a half hours, the order book was closed at over EUR 1.8 billion. The coupon is 0.125 percent. The issue was placed at a price of 7 basis points above the mid-swap rate.

We issued the second benchmark Mortgage Pfandbrief in October with a volume of EUR 500 million, a term of 20 years and a coupon of 0.01 percent. This was the lowest coupon that a Mortgage Pfandbrief with this term has ever achieved. Investor demand was also very high for this issue, meaning that the order book was closed at EUR 1.4 billion after only a short time. The Mortgage Pfandbrief was placed at a price of 2 basis points above the mid-swap rate.

Due to their long terms, both Mortgage Pfandbriefe will allow us to ensure that long loan terms in private residential property financing can be refinanced to a great extent with matching maturities.

The high-volume funding activities were concluded in December with the tap of an existing covered bond by a further CHF 115 million, maturing in 2031. The coupon is 0.20 percent. The issue was placed at a price of 9 basis points above the mid-swap rate.

MünchenerHyp's total issue volume on the capital market in the year under review was around EUR 7.5 billion. In covered funding, Mortgage Pfandbriefe accounted for EUR 4.9 billion, including our own Pfandbriefe deposited with the ECB, with a volume of EUR 2.6 billion for uncovered funding. Once again, no Public Pfandbriefe were issued, in keeping with the Bank's business strategy.

FINANCIAL PERFORMANCE, FINANCIAL POSITION AND NET ASSETS

Development of earnings

Net interest income[1] increased once again in the year under review, rising by EUR 48.0 million, or 16.0 percent, to EUR 347.8 million. The increase was driven primarily by successful new business in the year under review and in particular in previous years. This means that the Bank has trebled its net interest income within the last ten years. The mortgage loan portfolio has doubled in the same period.

Commission paid totalled EUR 122.5 million, up by EUR 11.8 million or 11 percent on the prior-year level thanks to very successful new business. Commission received fell to EUR 13.0 million, resulting in net commission income[2] of minus EUR 109.5 million, compared with minus EUR 95.3 million in the previous year.

This resulted in net interest and commission income[3] of EUR 238.3 million, which corresponds to an increase of EUR 33.8 million, or 16.5 percent.

General administrative expenses fell by EUR 7.0 million to EUR 118.2 million. This included an increase in personnel costs of EUR 1.7 million, or 3.0 percent. In addition to increases under collective agreements, this was primarily due to necessary expansion of the workforce.

Other administrative expenses fell by EUR 8.7 million, or 12.6 percent. This reduction, which was largely the result of cost discipline, was achieved despite a renewed increase in regulatory costs. Expenses for the banking levy and various regulatory authorities alone increased by 15 percent to around EUR 18 million.

Depreciation, amortisation and write-downs of intangible assets and fixed assets rose by EUR 4.0 million year-on-year, to EUR 10.2 million.

Total administrative expenses[4] amounted to EUR 128.4 million compared with EUR 131.3 million in the previous year. The cost-income ratio[5] was 53.9 percent, as against 64.2 percent a year earlier.

The net result of other operating expenses and income amounted to minus EUR 3.6 million.

The operating result before risk provisions[6] increased by 54.4 percent year-on-year, to EUR 106.4 million.

The item "Write-downs of and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions" amounted to minus EUR 10.6 million. The credit risk situation was satisfactory despite the ongoing COVID-19 pandemic. The net result of changes in loan loss provisions (including direct write-downs) amounted to minus EUR 10.1 million (previous year: plus EUR 18.2 million).

Net expenses from the sale of promissory note loans and the redemption of registered securities and debt securities amounted to EUR 0.5 million.

The item "Depreciation, amortisation and write-downs of participating interests, shares in affiliated companies and securities treated as fixed assets" amounted to minus EUR 0.4 million.

Income from ordinary business activities amounted to EUR 95.3 million. After tax expenses of EUR 37.6 million and an allocation of EUR 20 million to the "fund for general banking risks" (Section 340g of the German Commercial Code (Handelsgesetzbuch – HGB)), net income for the financial year comes to EUR 37.7 million, which is 5.6 percent higher year-on-year.

The return on equity (RoE) before tax amounted to 6.2 percent[7]. After tax, the Bank achieved an RoE of 3.7 percent[8].

[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 or partial profit transfer 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.
[4] Total administrative expenses are the sum total of item 8 'General administrative expenses' and item 9 'Depreciation, amortisation and write-downs of intangible assets and fixed 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.
[7] RoE before tax is calculated as the ratio of income statement item 14 Income from ordinary activities to balance sheet liability item 10 Fund for general banking risks (previous year) plus liability item 11a Members' capital contributions (current year) plus item 11b Revenue reserves (previous year) plus income statement item 19 Retained earnings brought forward from previous year.
[8] RoE after tax is calculated as the ratio of income statement item 17 Allocation to fund for general banking risks plus item 18 Net income to balance sheet liability item 10 Fund for general banking risks (previous year) plus liability item 11a Members' capital contributions (current year) plus item 11b Revenue reserves (previous year) plus income statement item 19 Retained earnings brought forward from previous year.

Balance sheet structure

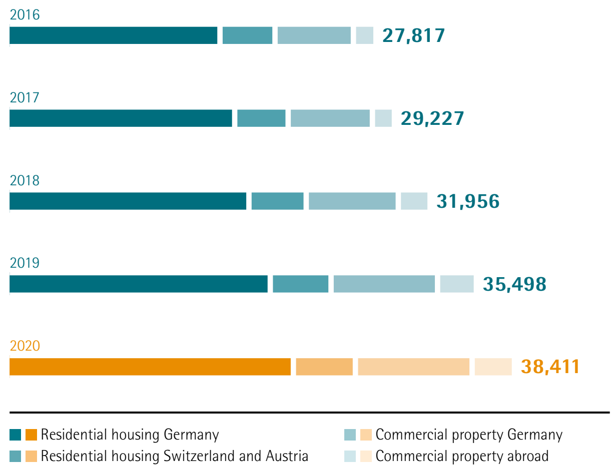
Total assets increased to EUR 48.6 billion at the end of the 2020 financial year, compared with EUR 42.9 billion at 31 December 2019.

This 13 percent increase is due partly to growth in the mortgage loan business portfolio and partly to a EUR 3.1 billion increase in the own bonds portfolio.

During the course of the year, the mortgage loan portfolio grew by EUR 2.9 billion, to EUR 38.4 billion. Private residential property financing in Germany was once again the fastest growing segment, with growth of EUR 1.8 billion.

The private residential property financing portfolio is structured as follows: domestic – EUR 21.5 billion (previous year: EUR 19.7 billion); foreign – EUR 4.7 billion (previous year: EUR 4.7 billion). In addition to the financing business in Switzerland, this portfolio also includes financing in Austria. The commercial property financing portfolio totals EUR 12.2 billion (previous year: EUR 11.1 billion). Of this amount, EUR 3.2 billion (previous year: EUR 3.0 billion) is attributable to financing outside Germany. The most important international market is the USA with 23 percent (previous year: 21 percent), followed by the Netherlands with 21 percent (previous year: 17 percent), Spain with 19 percent (previous year: 15 percent) and the UK with 17 percent (previous year: 18 percent).

PORTFOLIO DEVELOPMENT MÜNCHENERHYP 2016–2020
IN € MILLION



In line with our business and risk strategy, the portfolio of public-sector and bank loans and securities decreased from EUR 4.1 billion to EUR 3.7 billion, EUR 1.9 billion of which was made up of securities and bonds.

At the end of 2020, the net sum of hidden charges and hidden reserves in the securities portfolio amounted to EUR 43 million (previous year: EUR 47 million). These figures include hidden charges of EUR 1 million (previous year: EUR 0 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 EUR 0.2 billion at the end of 2019 (previous year: EUR 0.2 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 EUR 3.2 billion to EUR 39.6 billion. Mortgage Pfandbriefe accounted for EUR 28.9 billion of this amount, Public Pfandbriefe for EUR 1.9 billion and uncovered bonds for EUR 8.8 billion. The total volume of refinancing instruments – including money market funds and customer deposits – increased to EUR 45.9 billion as of 31 December 2020.

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. 20	**1,769,426**	**2,112,200**	**3,881,626**
Registered bonds	33,353	1,406,019	1,439,372
of which institutional investors	33,310	1,388,019	1,421,329
Promissory note loans on the liabilities side	707,649	681,181	1,388,830
of which institutional investors	102,555	520,181	622,736
Other	1,028,424	25,000	1,053,424
of which institutional investors	586,250	25,000	611,250

Members’ capital contributions grew by EUR 80.6 million, to EUR 1,153.1 million. Together with the issue of the Additional Tier 1 bond in the amount of CHF 125 million in 2019, regulatory equity capital totalled EUR 1,676.4 million (previous year: EUR 1,573.2 million).

Common Equity Tier 1 capital rose from EUR 1,406.8 million in the previous year to EUR 1,517 million. At 31 December 2020, the Common Equity Tier 1 capital ratio was 20.6 percent (previous year: 19.8 percent), the Tier 1 capital ratio was 22.2 percent (previous year: 21.4 percent) and the total capital ratio was 22.8 percent (previous year: 22.1 percent). The leverage ratio at 31 December 2020 was 3.6 percent (previous year: 3.6 percent).

RATINGS, SUSTAINABILITY AND REGULATORY CONDITIONS

Ratings

In October 2019, the 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. So far, Moody's has not changed this assessment.

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

* Outlook: negative

MünchenerHyp has not issued any Public Pfandbriefe for some years now, as these are only profitable through cross-selling income. As a result, it withdrew its rating for Public Pfandbriefe in 2020.

Even to achieve the highest Aaa rating for Pfandbriefe, Moody's still only requires compliance 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 Cooperative Financial Network.

Sustainability

In the reporting year, we continued to pursue our existing sustainability activities and launched a number of new projects.

In the private residential property financing business, our loans with a social and environmental focus (MünchenerHyp Green Loan and MünchenerHyp Family Loan) accounted for 20 percent of new business. In order to further increase the positive contribution made by the Green Loan in terms of saving or avoiding CO_2 emissions, in May 2020 we lowered the criterion for the annual maximum primary energy consumption of financed properties from 70kWh / m^2 per year to 55 kWh / m^2.

In terms of sustainable securities, we issued ESG Pfandbriefe, green bonds, commercial paper and term deposits with a volume of around EUR 500 million. We also revised our Green Bond Framework and re-certified it with a positive Second Party Opinion (SPO) prepared by ISS ESG.

In terms of the Bank's sustainability rating, ISS ESG awarded MünchenerHyp a rating of C+ for sustainability management in 2020. This is a slight downgrade compared to the B- rating awarded in previous years and is mainly due to the fact that the Bank did not prepare any GRI disclosures in 2018 and 2019. Nevertheless, the current rating still places us among the top performers in the Financials / Mortgage & Public Sector rating peer group. As a result, ISS ESG has granted us "Prime Status" again.

At the beginning of 2020, the agency imug raised MünchenerHyp's rating slightly in one rating category, although this did not result in a higher rating classification. The sustainability rating therefore remains "positive", while Mortgage Pfandbriefe are also assessed as "positive" and Public Pfandbriefe as "very positive".

The agency Sustainalytics has introduced a new rating methodology. In addition to the management of sustainability issues, the new approach also assesses the specific sustainability risks for the company concerned and the sector in which it operates. A "risk score" (of 0 to 40+ points) replaces the previous scoring system of 0 to 100 points. Whereas a high number of points used to represent strong performance, a low risk score now determines the strength of sustainability management. MünchenerHyp's current risk score is 17.4 (low risk).

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

THE DEVELOPMENT OF THE SUSTAINABILITY RATINGS SINCE 2019

		2019	2020
ISS-ESG		Corporate ESG Performance Prime, rated by ISS ESG; B–(Prime Status)	Corporate ESG Performance Prime, rated by ISS ESG; C+(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)

In 2020, as part of our efforts to further enhance our sustainability management, we looked at the mounting social and environmental challenges facing us, as well as the growing demands of our stakeholders. This prompted us to launch projects aimed in particular at deepening the understanding of sustainability issues within the Bank, consolidating our management processes and further establishing sustainability as a firm component of the Bank's strategy. For example, in line with the expectations of the European Central Bank (ECB) and the European Banking Authority (EBA), the Risk Controlling department is working towards making sustainability aspects, and most importantly environmental and climate risks, more integral components of the risk management system.

Separate non-financial report

MünchenerHyp has been reporting on the non-financial aspects and the material economic, environmental and social impacts of its business activities since 2012. We comply with the requirements set out in the German CSR Directive Implementation Act (CSR-Richtlinie-Umsetzungsgesetz – CSR-RUG) by publishing a non-financial report. The non-financial report is published at the same time as the annual report on the Bank's website and in the electronic Federal Gazette (Bundesanzeiger).

Regulatory conditions

Capital

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 and the suitability of the systems.

The Liquidity Coverage Ratio (LCR) was maintained without issue throughout the year, with values above 300 percent on average. The minimum was 148 percent. The Net Stable Funding Ratio (NSFR), which the Bank did not yet have to meet in 2020, averaged 101.2 percent.

Basel III also introduced a leverage ratio, which must be met. At the end of financial year 2020, 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 in particular 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 MünchenerHyp's capital ratios. Overall, we take a critical view of this new regulation, because it will make lending more expensive. The Bank is monitoring developments and, given the currently high Common Equity Tier 1 ratio of 20.6 percent, believes that this regulatory change will be manageable.

The Bank's Compliance unit follows discussions on the publication of new national and international regulations very closely and forwards any new regulations to the responsible departments within the Bank, where they are implemented in various measures and projects. The abundance of additional regulatory requirements imposed by supervisory authorities causes significant costs and poses a considerable challenge for our Bank's human and financial resources.

Single Supervisory Mechanism for EU banks

During the reporting year the ECB conducted the annual Supervisory Review and Evaluation Process (SREP) only to very reduced extent, comprising generally a detailed evaluation of the business model, internal governance and capital and liquidity adequacy. Any additional capital and liquidity requirements may be derived from that process. In 2020, however, the ECB has decided not to issue a new notice as a rule, but generally to adopt the one from the previous year. As part of the SREP, the additional capital requirement (P2R) remains unchanged 1.5 percent of total capital; 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. The sixth amendment is currently in the consultation phase.

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 being 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 being undertaken as part of a project, with everything going to plan so far.

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

Ulrich Scheer (52) was appointed General Executive Manager of MünchenerHyp effective 1 September 2020. The Supervisory Board intends to appoint Ulrich Scheer to the Board of Management of MünchenerHyp after a preparatory period and once this has been approved by the banking supervisory authorities.

Employees

The top priority of our human resources work last year was the health of our employees. The Bank established a crisis team early on after the outbreak of the COVID-19 pandemic and it has met more than 30 times in the last twelve months. The crisis team, whose work is based on professional business continuity management, has taken all necessary measures to protect the workforce depending on the prevailing situation. As well as implementing hygiene regulations, the option for employees to work from home, in particular, was expanded on a large scale, meaning that a good half of the workforce was able to work from home when use of this model was at its peak. Since March 2020, a total of 14 colleagues have been infected with the coronavirus. All of them have since recovered. Moreover, there was not a single case in which an individual was infected within the Bank.

Even in a year marked by the COVID-19 pandemic, recruitment was at the forefront of our human resources work. A total of 94 new employees were recruited to fill vacancies. A key focus of human resources work in the reporting year was therefore once again on the integration of new employees. The number of new hires necessary was also driven by 60 employees leaving the Bank (excluding employees who retired). With an employee turnover rate of 9.2 percent – excluding employees retiring – the Bank is slightly above the industry average.

Further human resources work focused on enhancing our employer brand, as well as on initial training and further professional development.

The Bank employed 611 employees[9] (previous year: 573) and 15 apprenticed trainees (previous year: 15) on average over the year. The average length of service remains unchanged at 10.4 years.

Corporate governance statement in accordance with Section 289f HGB

The proportion of women in the Bank as a whole was 50 percent in the reporting year. At Board of Management level, the proportion came to 0 percent, while the proportion at the first management level below the Board was 16 percent, at the second level 20 percent and at the third level 37 percent. The proportion of women on the Supervisory Board was 17 percent in 2020. MünchenerHyp has set itself the objective of increasing the proportion of women in management positions. For the Supervisory Board and the two management levels below the Board of Management, the Bank is aiming for a proportion of women of 20 percent, with a target quota for the Board of Management of 33 percent. In December 2020, the Nomination Committee of MünchenerHyp's Supervisory Board addressed the issue of the proportion of women on the Board of Management and Supervisory Board and decided to retain the existing target quotas and to strive to achieve them by 2026 in the context of upcoming succession arrangements.

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

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 discussed with the Supervisory Board 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 ICAAP and ILAAP and on credit risks, operational risk reports and the risk report prepared in accordance with the German minimum requirements for risk management (MaRisk). The Risk 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 employed 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, participation 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 the mortgage business, we ensure that we grant senior loans predominantly with moderate loan-to-value ratios; in the commercial business, limits also apply with regard to DSCR and LTV. 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. 2020	Relative	31 Dec. 2019	Relative
Up to 60%	16,401,392,390.88	39.6%	15,344,320,091.37	40.2%
> 60% and <= 70%	7,042,011,598.28	17.0%	6,786,576,426.70	17.8%
> 70% and <= 80%	7,619,966,869.31	18.4%	7,316,381,368.42	19.2%
> 80% and <= 90%	3,423,715,652.17	8.3%	3,041,601,499.12	8.0%
> 90% and <= 100%	2,918,027,657.66	7.1%	2,516,947,130.12	6.6%
Over 100%	3,921,580,700.76	9.5%	3,077,883,878.42	8.1%
Without	52,169,575.59	0.1%	41,166,896.66	0.1%
Total	**41,378,864,444.65**	**100.0%**	**38,124,877,290.81**	**100.0%**

The regional breakdown within Germany and internationally is summarised below:

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

Region	31 Dec. 2020	Relative	31 Dec. 2019	Relative
Baden-Württemberg	3,459,145,234.81	8.4%	3,199,417,955.96	8.4%
Bavaria	7,698,948,641.11	18.6%	6,914,757,962.13	18.1%
Berlin	2,156,619,521.57	5.2%	2,026,546,575.41	5.3%
Brandenburg	614,702,291.86	1.5%	608,610,025.74	1.6%
Bremen	117,028,114.15	0.3%	105,422,601.78	0.3%
Hamburg	1,218,687,423.53	2.9%	1,096,427,567.45	2.9%
Hesse	3,015,553,722.32	7.3%	2,589,198,469.12	6.8%
Mecklenburg-West Pomerania	556,461,832.57	1.3%	449,022,966.46	1.2%
Lower Saxony	2,996,660,642.83	7.2%	2,626,151,276.25	6.9%
North Rhine-Westphalia	5,223,538,665.42	12.6%	5,056,691,558.58	13.3%
Rhineland-Palatinate	1,702,546,791.15	4.1%	1,568,178,520.40	4.1%
Saarland	424,211,558.98	1.0%	391,827,023.46	1.0%
Saxony	1,088,839,097.08	2.6%	993,549,792.56	2.6%
Saxony-Anhalt	634,003,054.63	1.5%	562,668,859.46	1.5%
Schleswig-Holstein	1,955,811,355.81	4.7%	1,841,943,276.68	4.8%
Thuringia	334,394,103.65	0.8%	324,158,194.28	0.9%
Total domestic	**33,197,152,051.47**	**80.2%**	**30,354,572,625.72**	**79.6%**

The international breakdown is as follows:

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

Country	31 Dec. 2020	Relative	31 Dec. 2019	Relative
Austria	181,484,755.12	0.4%	169,854,589.87	0.4%
France	441,156,481.80	1.1%	550,861,295.11	1.4%
United Kingdom	544,295,423.01	1.3%	543,299,669.17	1.4%
Spain	611,836,583.85	1.5%	462,348,572.71	1.2%
Luxembourg	64,900,000.00	0.2%	64,900,000.00	0.2%
Switzerland	4,803,985,406.13	11.6%	4,761,198,571.64	12.5%
Netherlands	701,825,145.19	1.7%	538,996,737.36	1.4%
Belgium	38,101,461.97	0.1%	38,141,763.09	0.1%
USA	794,127,136.11	1.9%	640,703,466.14	1.7%
Total foreign	**8,181,712,393.18**	**19.8%**	**7,770,304,665.09**	**20.4%**
Total domestic and foreign	**41,378,864,444.65**	**100.0%**	**38,124,877,290.81**	**100.0%**

Credit risk management starts when the target transaction 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. 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 (SLLP) monitoring, especially in non-retail business.

The Bank sets up a general loan loss provision as a precaution to cover latent credit risks. As in the past, this general loan loss provision is calculated based on the letter from the German Federal Ministry of Finance dated 10 January 1994. Due to the current situation, however, we no longer consider certain requirements imposed by the tax authorities to be appropriate. The flat-rate 40 percent reduction applied to average defaults over the past few years was no longer used; instead, a surcharge of 40 percent is applied to the average defaults over the past few years. The calculation also included the off-balance-sheet item "Irrevocable loan commitments".

As the property markets remain, mainly, very stable despite the COVID-19 pandemic, specific loan loss provisions continue to be recognised at only a very low level for both the residential property financing business and the commercial property financing business.

Business relations with financial institutions are based on master agreements that allow the netting of receivables from and liabilities to the other institution. Collateral agreements exist with all derivative counterparties. Derivative transactions, insofar as they are subject to clearing, 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 EUR MILLION

	Opening balance	Additions	Reversals	Utilisation	Exchange rate-related and other changes	Closing balance
Specific provisions	20.5	13.3	– 3.5	– 0.9	0.1	29.5
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 general 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). Options in capital market business are not contracted for the purposes of speculation. 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) or the right to make unscheduled repayments) and are hedged where necessary. These risks are carefully 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 almost exclusively from participations 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 input into 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' application. 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 an 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 and is limited.
  - In addition, six further stress tests (parallel shift up / down, steepening / flattening, parallel shift up / down in the short-term segment) are calculated. The poorest result is monitored as an early warning indicator for the limit. The stress tests are prescribed by EBA Guideline 2018 / 02.
- 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 percentage point.
  - Steepening / flattening: a moderate steepening / flattening of the yield curve is simulated, i.e. at the short end by up to + / – 10 basis points, at the long end by up to + / – 20 basis points, rotation around the 5-year grid point
- 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.

In the reporting year, the maximum VaR of the entire portfolio (interest, currencies and volatilities) at a confidence level of 99 percent with a ten-day holding period was EUR 56 million. The average figure was approximately EUR 33 million.

Although MünchenerHyp is a trading book institution (for futures only), it has not concluded any trading transactions since 2012.

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 indicator. 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 EUR 207 million in the reporting year, while the average figure was about EUR 170 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 (funding 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 German Pfandbrief Act (Pfandbriefgesetz – PfandBG), 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 safeguard 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 scenarios and modelling assumptions. Due to the longer observation period, however, additional modelling is taken into account that is not critical to short-term liquidity management, such as new business planning or current expenses such as salaries and taxes.

Medium-term liquidity planning has the following liquidity ratios over time as profit or loss components:

- cumulative overall cash flow requirement;
- available covered and uncovered 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. As the supervisory authority will not impose the mandatory minimum level of 100 percent for compliance with the NSFR until 30 June 2021, active management of this ratio has not yet been necessary.

In order to reduce refinancing risks, MünchenerHyp strives to refinance loans with matching maturities where possible. The Bank continuously checks if its relevant refinancing sources (above all, those within the Cooperative Financial Network) are still available. In order to limit market liquidity risk, in its business with governments 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 built up a modest deposit business. At the end of 2020, the portfolio volume was EUR 364 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, transactional errors and information and communication risks.

We minimise our operational risks by using skilled staff, transparent processes, automated standard workflows, written work instructions, comprehensive IT system function tests, appropriate contingency plans and preventive measures. Insurable risks are covered by insurance policies 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, known as ICAAP, 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 perspective.

Market risks, loan default risks, operational risks, spread and migration risks, refinancing 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 larger 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 ratios calculated in the Bank's financial reporting 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, some of which have already been implemented and which we will continue to implement consistently 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 capital adequacy, to ensure the Bank complies with supervisory requirements.

OUTLOOK – OPPORTUNITIES AND RISKS

Economic development and financial markets

The lockdown imposed in the winter of 2020/2021 has led to heightened concerns about the economy. At the end of January 2021, the IMF warned in its latest World Economic Outlook of the considerable uncertainty associated with economic forecasts and of diverging recovery paths, as the economic recovery is proceeding differently from country to country. At the same time, the IMF sees opportunities for the economy as a result of the vaccination programmes and the prospect of further stimulus packages in the world's major economies. All in all, the IMF expects the global economy to grow by 5.5 percent in 2021.

The economic forecast for the eurozone, however, is more subdued. The lockdown measures imposed to contain the current wave of the pandemic are putting more of a brake on the economic recovery than initially expected. As a result, the IMF has lowered its forecast for eurozone GDP growth in 2021 by one percentage point to 4.2 percent.

Increased risks are forecast for the German economy as a result of the lockdown. In its Annual Economic Report published at the end of January 2021, the German government now expects the economy to recover by only 3.0 percent in 2021, down from 4.4 percent previously. Industry is predicted to show robust development, whereas the service industry will continue to be hit very hard by the pandemic. The development of construction investment is seen in a more positive light, as this sector is not influenced quite as much by trends in other sectors of the economy. The German government expects construction investment to increase by a total of 1.9 percent in 2021 thanks to financing conditions that remain favourable, as well as high demand for homes. Residential construction is expected to grow by 2.7 percent as a result. The German government still expects to see more significant adverse effects on the labour market, predicting an unemployment rate of 5.8 percent for 2021 (2020: 5.9 percent).

Inflation rates are also predicted to rise in 2021. The IMF expects global consumer prices to increase by 1.3 percent (2020: 0.7 percent). Nevertheless, central banks across the globe will stick to their expansionary monetary policy. This should lend support to an economic recovery and underpin the low interest rate environment on the bond markets. As a result, the extremely low interest rate level may continue to lead to investors reallocating their assets, favouring the equity and property markets, especially in the first half of 2021.

On the foreign exchange market, bank economists are forecasting a slightly positive development in the euro and more of a downward trend for the US dollar, as the latter tends to suffer in the event of an economic recovery worldwide. Brexit could continue to weigh somewhat on the pound in 2021, 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, as in 2020.

Funding spreads for banks are likely to remain very attractive. The new TLTRO tenders will continue to provide banks with plenty of liquidity at favourable interest rates for the time being. Accordingly, the volume for bank funding on the market should decrease overall and at least not exert any upward pressure on funding spreads. In the event that discussions within central banks about a potential withdrawal of monetary policy measures intensify in the second half of the year, this could result in spreads widening slightly.

For covered bond markets, experts predict weaker issuing activity in 2021 as a result of the ongoing COVID-19 pandemic. The covered bond market will remain affected by the impact of the global COVID-19 pandemic in the coming year, too. A new issue volume for benchmark covered bonds denominated in euros of EUR 90 billion is forecast for 2021, 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 the TLTRO tender, in particular, will have an impact.

Property markets and property financing markets

As far as the property markets are concerned, experts increasingly expect the consequences of the recession to spill over. In particular, there are fears that the economic recovery will not reach the commercial property markets in full and that demand will not bounce back to pre-pandemic levels.

The German residential property market is expected to continue its solid, positive performance. Demand for housing – both owner-occupied and rented – is likely to remain at a high level, not only because of low interest rates and a lack of investment alternatives, but also because people are generally seeking to upgrade their housing situation due to the increased use of working from home arrangements. We can therefore expect that professional investors, too, will continue to see German residential properties as a safe haven. The high demand will also fuel a further increase in purchase prices and rents, albeit most likely at a slightly slower pace due to a gradual improvement in the supply situation and slower population growth in metropolitan areas.

The residential property market in Switzerland is predicted to follow a similar trend to its German counterpart – with keen interest in purchases of owner-occupied residential property. The demand for residential property is also being supported by sustained low interest rates. Vacancy rates are rising in the rental housing market. The market is expected to ease slightly as a result, also in light of weaker demand.

The commercial property markets in which MünchenerHyp operates are still being affected by lockdown measures. Investors nevertheless continue to see Germany, in particular, as a safe haven due to its economic strength. In terms of asset classes, investors have returned to focusing more on core properties due to the recession. All in all, the transaction volume for the German commercial property market is expected to remain on a par with the previous year due to its stability.

While the COVID-19 pandemic might be impacting the commercial property markets in Europe and the USA in different ways, its consequences are similar as far as the individual segments are concerned. As a result, it makes more sense to consider the outlook regarding opportunities and risks in the main commercial property segments than it does to focus on a country-specific analysis.

Office markets typically react to economic developments with a six to twelve-month lag, meaning that it is likely a downward trajectory in rents and yields still lies ahead. This sort of decline will be more marked in large US cities and in London, as property cycles here are more pronounced than in other markets. It remains to be seen how much the increase in working from home will affect the demand for office space. While many experts do not expect to see any major upheaval on the office property markets, they also predict weaker demand overall. It is probable that this would translate into lower rents and rising vacancy rates.

The retail sector was already undergoing radical change before the COVID-19 crisis. The pandemic and the associated business closures will continue to drive this process of transformation. We therefore predict that insolvencies of retail chains are on the cards for 2021, putting pressure on the rental and investment market. Falling rents and rising vacancy rates are to be expected as a result. By contrast, supermarkets, specialist stores and retail parks, which are allowed to remain open due to the range of essential everyday goods that they offer, will show stable development. It is still impossible to reliably predict the extent to which the strong growth in online shopping will continue once the pandemic is over. Travel restrictions have left a particular mark in areas of major European cities that are popular with tourists, with both falling rent levels and rising yields emerging. In the future, shopping centres will be faced with the question of what form the retail concepts of the future will take.

Logistics properties will continue to benefit from the increasing importance of online shopping in 2021. Additional demand is coming from the relocation of industrial production and warehouse capacities back to Europe to compensate for the weak points in global supply chains that emerged in the course of the pandemic.

As long as lockdown measures still have to be imposed in 2021, hotel properties will remain the hardest hit by the COVID-19 pandemic. As a result, the recovery of the hotel industry will depend largely on the extent to which infection rates can be reduced, opening up opportunities for leisure and business travel again.

Business development at Münchener Hypothekenbank

Due to the consequences of the COVID-19 pandemic and the opportunities and risks described in the previous section, MünchenerHyp's new business plans are generally associated with a number of uncertainties.

In particular, good overall conditions and high demand on the German residential property market present opportunities. As a result, we plan to slightly increase our new business in private residential property financing overall, where we expect the favourable interest rate level to lend further support. At the same time, however, competition remains fierce as residential property financing becomes an increasingly appealing business segment for banks and insurers. With this in mind, we will continue to optimise and expand our processes and services and to strengthen the partnership with our financial intermediaries.

In our 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 underpinning our funding on the capital market.

In our partnership with PostFinance, we are planning new business at the previous year's level. We will expand the financing business in Austria following completion of the trial phase by entering into partnerships with additional Austrian financial service providers.

Commercial property financing remains a focal point of our business strategy alongside financing for private customers. We consider the downturn in commercial property markets triggered by the COVID-19 pandemic to be pronounced, but also see it as a temporary influencing factor. As a result, when it comes to planning our new business, it is important for us to assess the risks associated with the pandemic appropriately. In this respect, when making financing decisions we will continue to prioritise the criteria we have established for a positive assessment, being a viable location and the sustainability of individual cash flows, in line with our business and risk strategy.

Risks for our financing business are linked primarily with the duration of the pandemic and the associated economic implications. On the other hand, the low interest rate level, which is unlikely to change to any considerable degree, and continued high inflow of capital into property from investors and institutional buyers due to the lack of alternative, more profitable forms of investment, present us with opportunities. In our view, this should give rise to a sufficient level of financing opportunities overall. Against this backdrop, we plan to slightly expand our domestic and international business in 2021.

We anticipate a high level of transaction activity on the national and international syndication markets in 2021 as well, as the trend towards very large volumes of financing continues. We therefore expect the trend witnessed in 2020 to continue in 2021. On the one hand, we are prepared to participate to a significant extent in third-party financing and, on the other, to surrender portions of our own financing to other banks or institutional investors. In this regard we will also continue to use our established syndication programme with the Cooperative Financial Network.

The objective of our lending business with the public sector and banks continues to be primarily to manage liquidity. For 2021, we expect stable development of our portfolio volume, as maturing securities will have to be replaced to manage liquidity.

For 2021, we forecast a refinancing requirement of between EUR 8.5 billion and EUR 9.5 billion, 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. Similar to the previous year, we plan to issue two to three large-scale issues, with the additional potential to tap existing bonds. Due to its partnership with PostFinance in Switzerland, MünchenerHyp will continue to have a funding requirement in Swiss francs.

Two large-volume bonds will mature and fall due for repayment in the 2021 financial year: a Mortgage Pfandbrief with a volume of EUR 750 million in April and a Mortgage Pfandbrief with a volume of EUR 500 million in November.

We will further expand our sustainability business activities in 2021. In particular, we want to give our sustainable financing solutions an even stronger foothold in the market and expand our sustainable issuing activities. We also plan to refine our sustainability strategy further.

We are aiming to achieve a moderate increase in net interest income generated from business operations in 2021. Stable trends in 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, mounting competition and ongoing high regulatory pressure will have the opposite effect.

Loan loss provisions will depend primarily on how the COVID-19 pandemic develops going forward. In our planning we have assumed that these will increase compared to 2020.

In the current market environment, we are nevertheless confident that we will attain our targets for the 2021 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 plethora of factors, most of which are beyond our control. These mainly include economic developments, the state and further development of financial and capital markets in general and our funding conditions in particular, as well as unexpected defaults on the part of our borrowers. Actual results and developments may therefore differ from the assumptions that have been made today. Such statements are therefore only valid at the time this report was prepared.

ANNUAL STATEMENT OF ACCOUNTS

Balance sheet

31 DECEMBER 2020

ASSETS
IN €

		31 Dec. 20	€ 000 31 Dec. 19
1. Cash reserve			
a) Cash on hand	9,816.27		6
b) Balances with central banks	151,900,630.89		11,893
of which: with Deutsche Bundesbank € 151,900,630.89			
		151,910,447.16	**11,899**
2. Claims on banks			
a) Mortgage loans	1,804,261.36		4,269
b) Public-sector loans	100,575,557.53		117,709
c) Other claims	1,833,316,194.11		1,932,302
of which: payable on demand € 1,029,650,237.56			
		1,935,696,013.00	**2,054,280**
3. Claims on customers			
a) Mortgage loans	38,319,054,400.38		35,415,250
b) Public-sector loans	1,754,449,332.40		2,022,889
c) Other claims	191,434,421.41		188,968
		40,264,938,154.19	**37,627,107**
4. Bonds and other fixed-income securities			
a) Bonds and notes	1,906,375,758.41		1,995,516
aa) Public-sector issuers € 1,116,468,273.04			(1,166,826)
of which: eligible as collateral for Deutsche Bundesbank advance € 1,028,562,753.17			
ab) Other issuers € 789,907,485.37			(828,690)
of which: eligible as collateral for Deutsche Bundesbank advance € 647,830,141.39			
b) Own bonds and notes	3,750,170,105.55		650,003
Nominal value € 3,750,000,000.00			
		5,656,545,863.96	**2,645,519**
Carried forward		48,009,090,478.31	42,338,805

Assets continued on page 38

Assets continued from page 37

ASSETS
IN €

		31 Dec. 20	€ 000 31 Dec. 19
Brought forward		48,009,090,478.31	42,338,805
5. Equities and other variable-yield securities		147,000,000.00	147,000
6. Participations and shares in cooperatives			
a) Participations	104,535,198.49		104,535
of which: credit institutions € 22,955,936.29			
b) Shares in cooperatives	18,500.00		19
of which: in credit cooperatives € 15,500.00			
		104,553,698.49	104,554
7. Shares in affiliated companies		12,351,601.64	13,152
8. Intangible assets			
a) Internally generated commercial property rights and similar rights and assets	0.00		2,491
b) Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	4,202,739.96		5,435
		4,202,739.96	7,926
9. Tangible assets		67,104,932.98	68,040
10. Other assets		144,640,674.40	133,985
11. Deferred items			
a) From issuing and lending business	68,762,011.53		58,528
b) Other	711,383.16		248
		69,473,394.69	58,776
Total assets		48,558,417,520.47	42,872,238

LIABILITIES, CAPITAL AND RESERVES
IN €

			€ 000
		31 Dec. 20	31 Dec. 19
1. Liabilities to banks			
a) Registered Mortgage Pfandbriefe issued	704,383,205.75		688,592
b) Registered Public Pfandbriefe issued	85,918,967.51		57,415
c) Other liabilities	6,828,228,277.62		4,051,556
of which: payable on demand € 1,538,640,957.23			
		7,618,530,450.88	**4,797,563**
2. Liabilities to customers			
a) Registered Mortgage Pfandbriefe issued	9,157,494,958.12		9,812,321
b) Registered Public Pfandbriefe issued	1,808,582,157.62		2,041,017
c) Other liabilities	3,881,625,825.13		3,871,388
of which: payable on demand € 22,930,560.44			
		14,847,702,940.87	**15,724,726**
3. Certificated liabilities			
a) Bonds issued	23,887,921,117.25		20,020,288
aa) Mortgage Pfandbriefe € 19,174,300,025.72			(16,299,480)
ab) Public Pfandbriefe € 96,098,095.09			(178,609)
ac) Other bonds and fixed-income securities € 4,617,522,996.44			(3,542,199)
b) Other certificated liabilities	164,058,324.25		299,724
of which: money market paper € 164,058,324.25			
		24,051,979,441.50	**20,320,012**
4. Other liabilities		**140,378,616.31**	**259,302**
Carried forward		46,658,591,449.56	41,101,603

Liabilities continued on page 40

Liabilities continued from page 39

LIABILITIES, CAPITAL AND RESERVES
IN €

			€ 000
		31 Dec. 20	31 Dec. 19
Brought forward:		46,658,591,449.56	41,101,603
5. Deferred items			
From issuing and lending business	60,323,163.99		46,340
		60,323,163.99	**46,340**
6. Provisions			
a) Provisions for pensions and similar obligations	34,922,006.00		32,483
b) Provisions for taxes	595,000.00		0
c) Other provisions	36,810,121.00		38,990
		72,327,127.00	**71,473**
7. Subordinated liabilities		49,700,000.00	**74,200**
8. Instruments of the additional regulatory core capital		115,719,311.24	**115,165**
9. Fund for general banking risks		55,000,000.00	**35,000**
10. Capital and reserves			
a) Subscribed capital	1,153,051,340.00		1,072,453
aa) Members' capital contributions € 1,153,051,340.00			(1,072,453)
b) Revenue reserves	347,000,000.00		332,000
ba) Legal reserve € 341,000,000.00			(326,000)
bb) Other revenue reserves € 6,000,000.00			(6,000)
c) Unappropriated profit	46,705,128.68		24,004
		1,546,756,468.68	**1,428,457**
Total liabilities, capital and reserves		48,558,417,520.47	**42,872,238**
1. Contingent liabilities			
Contingent liability on guarantees and indemnities		766.94	1
2. Other commitments			
Irrevocable loan commitments		4,750,651,675.17	4,186,243

Income statement

FOR THE YEAR ENDED 31 DECEMBER 2020

INCOME STATEMENT
IN €

			1 Jan. to 31 Dec. 20	€ 000 1 Jan. to 31 Dec. 19
1. Interest income from			**958,385,530.66**	**951,036**
a) Lending and money market operations		916,362,988.25		906,387
b) Fixed-income securities and government debt register claims		42,022,542.41		44,649
2. Interest expenses			**612,035,802.16**	**654,117**
3. Current income from			**1,419,092.14**	**2,843**
a) Shares and other non-fixed income securities		0.00		0
b) Participating interests and shares in cooperatives		519,092.14		2,143
c) Investments in affiliated companies		900,000.00		700
4. Income from profit-pooling, profit transfer or partial profit transfer agreements			**31,304.95**	**50**
5. Commission received			**13,006,544.57**	**15,396**
6. Commission paid			**122,470,465.83**	**110,705**
7. Other operating income			**2,560,576.58**	**1,710**
8. General administrative expenses			**118,171,817.73**	**125,154**
a) Personnel expenses		58,001,658.62		56,329
aa) Wages and salaries	47,123,063.52			47,792
ab) Social security contributions and cost of pensions and other benefits	10,878,595.10			8,537
of which: for pensions € 3,333,953.67				1,583
b) Other administrative expenses		60,170,159.11		68,825
9. Depreciation, amortisation and write-downs of intangible and tangible assets			**10,212,892.95**	**6,172**
10. Other operating expenses			**6,156,508.87**	**6,022**
11. Write-downs on and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions			**10,603,226.96**	**0**
12. Income from reversals of write-downs to claims and certain securities, as well as from reversals of provisions for possible loan losses			**0.00**	**4,626**
13. Depreciation, amortisation and write-downs of participating interests, shares in affiliated companies and securities treated as fixed assets			**411,730.22**	**0**
14. Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets			**0.00**	**149**
15. Results from ordinary business activities			**95,340,604.18**	**73,640**
16. Taxes on revenue and income			**37,639,246.35**	**37,943**
17. Allocation to fund for general banking risks			**20,000,000.00**	**0**
18. Net income			**37,701,357.83**	**35,697**
19. Retained earnings brought forward from previous year			**24,003,770.85**	**307**
20. Allocation to revenue reserves			**15,000,000.00**	**12,000**
a) Legal reserve			15,000,000.00	12,000
b) Other revenue reserves			0.00	0
21. Unappropriated profit			**46,705,128.68**	**24,004**

Statement of development in equity capital and cash flow statement

STATEMENT OF DEVELOPMENT IN EQUITY CAPITAL FOR 2020
IN € 000

	Subscribed capital				
	Members' capital contributions	Silent participations	Revenue reserves	Unappropriated profit	Total capital and reserves
Capital and reserves as of 1 Jan. 2019	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
Net change in capital	80,598				80,598
Dividends paid				0	0
Net income			15,000	22,701	37,701
Capital and reserves as of 31 Dec. 2020	1,153,051		347,000	46,705	1,546,756

CASH FLOW STATEMENT 2020
IN € MILLION

	31 Dec. 20
1. Profit for the period	37.7
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	40.3
3. Increase / decrease in provisions	0.9
4. Other non-cash expenses / income	4.2
5. Gain / loss on disposal of fixed assets	0.3
6. Other adjustments (net)	0.0
7. Increase / decrease in receivables from credit institutions	106.5
8. Increase / decrease in receivables from customers	-2,651.6
9. Increase / decrease in securities (unless classified as long term financial assets)	-3,100.5
10. Increase / decrease in other assets relating to operating activities	25.0
11. Increase / decrease in liabilities to credit institutions	2,841.6
12. Increase / decrease in liabilities to customers	-857.0
13. Increase / decrease in securitised liabilities	3,730.6
14. Increase / decrease in other liabilities relating operating activities	-502.4
15. Interest expense / interest income	-216.0
16. Income tax expense / income	-1.2
17. Interest and dividend payments received	584.9
18. Interest paid	-20.9
19. Income taxes paid	-36.7
20. Cash flows from operating activities (total of lines 1 to 19)	**-14.4**
21. Proceeds from disposal of long-term financial assets	176.6
22. Payments to acquire long-term financial assets	-97.3
23. Proceeds from disposal of tangible fixed assets	0.0
24. Payments to acquire tangible fixed assets	-2.1
25. Proceeds from disposal of intangible fixed assets	0.0
26. Payments to acquire intangible fixed assets	-3.4
27. Cash flows from investing activities (total of lines 21 to 26)	**73.8**
28. Proceeds from capital contributions	80.6
29. Dividends paid to shareholders	0.0
30. Changes in cash funds relating to other capital (net)	0.0
31. Cash flows from financing activities (total of lines 28 to 30)	**80.6**
32. Net change in cash funds	140.0
33. Effect on cash funds of exchange rate movements and remeasurements	0.0
34. Cash funds at beginning of period	11.9
35. Cash funds at end of period (total of lines 32 to 34)	**151.9**

NOTES

General information on accounting policies

The Münchener Hypothekenbank eG annual financial statement as of 31 December 2020 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. The basis for calculating general adjustments to value are the terms contained in the Federal Ministry of Finance notice dated 10 January 1994. Instead of applying an overall reduction of 40 percent on the average volume of defaults over the past five years, a greater weighting of these average defaults is applied on account of the favourable past period in order to be better prepared for possible future negative developments. Furthermore, off-balance-sheet “Irrevocable loan commitments” are included in the calculation of the volume of loans at risk. 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 the 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 2.30 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 2019 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. 20	31 Dec. 19
Claims on banks	**1,935,696**	**2,054,280**
– Three months	1,833,349	1,932,540
– Three months – one year	67	17,238
– One year – five years	312	1,285
– Five years	101,968	103,217
Claims on customers	**40,264,938**	**37,627,107**
– Three months	798,783	637,667
– Three months – one year	1,524,926	1,542,065
– One year – five years	11,272,022	9,765,520
– Five years	26,669,207	25,681,855
Bonds and other fixed-income securities ≤ one year	**335,009**	**184,352**

LIABILITIES, CAPITAL AND RESERVES
IN € 000

	31 Dec. 20	31 Dec. 19
Liabilities to banks	**7,618,530**	**4,797,563**
– Three months	1,880,534	1,933,848
– Three months – one year	282,129	509,425
– One year – five years	4,036,414	1,109,328
– Five years	1,419,453	1,244,963
Liabilities to customers	**14,847,703**	**15,724,726**
– Three months	963,929	1,359,192
– Three months – one year	1,111,891	1,005,534
– One year – five years	986,402	1,253,045
– Five years	11,785,481	12,106,955
Certificated liabilities	**24,051,979**	**20,320,012**
Bonds issued		
– Three months	559,029	102,584
– Three months – one year	2,394,972	2,329,064
– One year – five years	8,440,760	8,688,188
– Five years	12,493,160	8,900,451
Other certificated liabilities		
– Three months	164,058	245,209
– Three months – one year	0	54,516

Claims on | Liabilities

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

	31 Dec. 20				31 Dec. 19			
	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	840,621	0	0	0	877,423
Claims on customers	0	0	0	0	0	0	0	0
Bonds and other fixed-income securities	0	0	104,407	0	0	0	66,900	0
Liabilities to banks	0	0	0	686,454	0	0	0	812,900
Liabilities to customers	0	2,943	0	0	0	3,194	0	0
Certificated liabilities	0	0	0	0	0	0	0	0
Subordinated liabilities	0	0	0	0	0	0	0	0

Securities

SECURITIES MARKETABLE ON THE STOCK EXCHANGE
IN € 000

	31 Dec. 20		31 Dec. 19	
Asset category	Listed	Unlisted	Listed	Unlisted
Bonds and other fixed-income securities	1,624,446	259,762	1,691,600	210,062
Shares and other non-fixed-income securities	0	0	0	0
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 financial 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	159,841	12,841	0

Subordinated assets

SUBORDINATED ASSETS
IN € 000

	31 Dec. 20	31 Dec. 19
Bonds and other fixed-income securities	92,076	66,900

Trading book

As of 31 December 2020, 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. 20	Net book value on 31 Dec. 19
Bonds and other fixed-income securities	1,995,516	-89,140	1,906,376	1,995,516
Shares and other non fixed-income securities	0		0	0
Participations and shares in cooperatives	104,554		104,554	104,554
Shares in affiliated companies	13,151	-800	12,351	13,151

	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. 20	Net book value on 31 Dec. 19
Intangible assets	37,160	3,432			40,592	29,234	7,155					36,389	4,203	7,926
a) Internally generated commercial property rights and similar rights and assets	2,622	2,619			5,241	131	5,110					5,241		2,491
b) Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	34,538	813			35,351	29,103	2,045					31,148	4,203	5,435
Tangible assets	101,124	2,122	3,018		100,228	33,084	3,057			3,018		33,123	67,105	68,041

[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.

During the year under review a write-down of € 800 thousand to the lower fair value of € 1,200 thousand was taken in the investment in the wholly owned subsidiary M-4tec GmbH. No information was available on the other participations on the balance sheet date 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 € 620,404 thousand (previous year: € 526,927 thousand) exceeding the present value of € 618,483 thousand (previous year: € 525,271 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 € 1,884,209 thousand (previous year: € 1,901,663 thousand) are marketable securities.

Shareholdings

SHAREHOLDINGS
IN € 000

	Percentage of capital held	Equity	Profit/loss
M-Wert GmbH, Munich [1]	100.00	674	302
Immobilienservice GmbH der Münchener Hypothekenbank eG (M-Service), Munich (profit transfer agreement) [2]	100.00	509	31
Nußbaumstraße GmbH & Co. KG, Munich [2]	100.00	11,486	414
M-4tec GmbH, Munich [1]	100.00	2,000	-81

[1] Annual financial statements 2019.
[2] Annual financial statements 2020.

Tangible assets

The portion of the total value attributable to the land and buildings used by the Bank is € 54,941 thousand (previous year: € 55,898 thousand), and of plant and office equipment € 2,947 thousand (previous year: € 2,735 thousand).

Other assets

The item "Other assets" includes deferred items of € 47,063 thousand related to the derivative business, and € 77,675 thousand in commissions for mortgage loans that will be paid after the balance sheet date. In addition, this item also includes tax claims of € 1,325 thousand. Furthermore, this item also includes € 15,013 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. 20	31 Dec. 19
Assets side 12.		
Discount from liabilities	49,781	52,310
Premium from claims	4,810	5,909
Other deferred charges	14,882	557
Liabilities side 6.		
Premium from liabilities	51,776	45,168
Discount from claims	674	997
Other deferred income	7,873	175

The remaining deferred items include compensatory payments by the Bank to derivative counterparties due to a change in the collateralization agreements or agreements arising from the transition from EONIA to €STR. These compensatory payments are shown on a proportionate basis in the income statement.

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 € 3,400,000 thousand (previous year: € 500,000 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 € 1,691,470 thousand (previous year: € 1,789,500 thousand) was provided. Securities valued at € 14,202 thousand (previous year: € 13,862 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 € 473,603 thousand (previous year: € 437,441 thousand) were assigned to secure loans obtained from credit institutions.

Pursuant to Section 12 Para. 5 of the Restructuring Fund Act (Restrukturierungsfondsgesetz – RStruktFG) € 15,013 thousand in cash collateral has been pledged.

Other liabilities

The item "Other liabilities" consists of € 99,783 thousand for deferred items and adjustment items for valuation of foreign currency items, and € 36,203 thousand related to derivative transactions, as well as interest deferrals for an Additional Tier 1 (AT1) bond of € 2,099 thousand.

Subordinated liabilities

Subordinated liabilities incurred interest expenses of € 3,663 thousand (previous year: € 4,958 thousand). Subordinated liabilities which individually exceed 10 percent of the overall statement amount to:

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

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 € 116 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 € 3,626 thousand on the balance sheet date, of which € 2,099 thousand was attributable to accrued interest. 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 10aa) consisted of:

MEMBERS' CAPITAL CONTRIBUTIONS
IN €

	31 Dec. 20	31 Dec. 19
Capital contributions	1,153,051,340.00	1,072,452,850.00
a) of remaining members	1,150,101,680.00	1,069,775,210.00
b) of former members	2,715,160.00	2,461,620.00
c) in respect of shares under notice	234,500.00	216,020.00
Outstanding obligatory payments in respect of shares	0.00	0.00

Details of revenue reserves

DEVELOPMENT OF REVENUE RESERVES
IN € 000

	Legal reserve	Other revenue reserves
1 Jan. 2020	326,000	6,000
Transfer from 2019 retained earnings		0
Transfer from 2020 net income	15,000	0
31 Dec. 2020	341,000	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 € 3,178 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. 20	31 Dec. 19
Assets side	6,139,207	5,967,570
Liabilities side	4,434,524	4,572,391
Contingent liabilities and other obligations	384,874	410,057

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 income

This item includes € 3,221 thousand (previous year: € 2,644 thousand) in negative interest.

Interest expenses

This item includes the premium for targeted longer-term refinancing operations (TLTRO II Programme) shown as a negative interest expense of € 9,992 thousand (previous year: € 3,511 thousand).

In total, negative interest expenses of € 18,712 thousand (previous year: € 10,184 thousand) are included in interest expenses.

Other operating expenses

This item contains expenses arising from adding interest effects of € 3,553 thousand (previous year: € 3,545 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	7,462	22,376	46,833	76,671	-152
Interest rate options					
– Calls	12	46	860	918	87
– Puts	138	106	16	260	0
Other interest rate contracts	92	253	2,218	2,563	-30
Currency-related transactions					
Cross-currency swaps	1,396	2,243	710	4,349	-58
Currency swaps	328	0	0	328	-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 € 39.1 million (previous year: € 39.2 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 € 299.9 million (previous year: € 311.1 million) and "Liabilities to banks" with € 304.9 million (previous year: € 323.7 million) or "Claims on customers", which amounted to € 10.3 million (previous year: € 11.9 million) while "Liabilities to customers" were € 15.5 million (previous year: € 17.4 million). The accrual of compensatory payments made is entered under "Other assets" with €7.9 million (previous year: € 5.4 million); the accrual of compensatory payments received is entered under "Other liabilities" with € 36.2 million (previous year: € 46.0 million).

Compensatory items in the amount of € 99.8 million (previous year: € 207.5 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, € 1,643 million (previous year: € 1,732 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 € 157 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 2020.

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. 20	31 Dec. 19
Ordinary cover assets	29,509,670	27,332,972
1. Claims on banks (mortgage loans)	1,796	4,253
2. Claims on customers (mortgage loans)	29,455,410	27,276,255
3. Tangible assets (charges on land owned by the Bank)	52,464	52,464
Substitute cover assets	600,414	671,414
1. Other claims on banks	0	0
2. Bonds and other fixed-income securities	600,414	671,414
Total cover	**30,110,084**	**28,004,386**
Total Mortgage Pfandbriefe requiring cover	28,846,300	26,603,828
Surplus cover	1,263,784	1,400,558

B. PUBLIC PFANDBRIEFE
IN € 000

	31 Dec. 20	31 Dec. 19
Ordinary cover assets	1,958,141	2,251,579
1. Claims on banks (public-sector loans)	100,564	115,565
2. Claims on customers (public-sector loans)	1,712,577	1,976,213
3. Bonds and other fixed-income securities	145,000	159,801
Substitute cover assets	0	70,000
1. Other claims on banks	0	0
2. Bonds and other fixed-income securities	0	70,000
Total cover	**1,958,141**	**2,321,579**
Total public-sector Pfandbriefe requiring cover	1,945,094	2,227,229
Surplus cover	13,047	94,350

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. 20	31 Dec. 19	31 Dec. 20	31 Dec. 19	31 Dec. 20	31 Dec. 19
Mortgage Pfandbriefe	28,846,300	26,603,828	32,919,871	29,735,522	30,295,939	39,786,603
Cover pool	30,110,084	28,004,386	36,066,459	32,652,074	33,084,816	43,071,497
of which further cover assets	600,414	671,414	699,138	767,601	668,546	881,710
Over-collateralisation	**1,263,784**	**1,400,558**	**3,146,588**	**2,916,552**	**2,788,877**	**3,284,894**

[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. 20		31 Dec. 19	
Residual term	Mortgage Pfandbriefe	Cover pool	Mortgage Pfandbriefe	Cover pool
≤ 0.5 year	1,258,120	827,004	545,127	832,624
> 0.5 year and ≤ 1 year	1,237,079	1,038,094	1,449,260	919,806
> 1 year and ≤ 1.5 years	1,250,335	1,075,649	1,273,192	865,776
> 1.5 years and ≤ 2 years	550,349	1,348,741	1,070,221	1,064,240
> 2 years and ≤ 3 years	1,900,130	2,642,447	1,842,412	2,440,420
> 3 years and ≤ 4 years	990,322	3,047,510	1,997,039	2,589,509
> 4 years and ≤ 5 years	1,352,787	2,555,621	964,051	2,730,431
> 5 years and ≤ 10 years	8,936,315	8,867,721	6,751,199	8,857,450
> 10 years	11,370,863	8,707,297	10,711,327	7,704,130

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

IN € 000

	31 Dec. 20				31 Dec. 19			
		thereof				thereof		
		in accordance with Section 19 (1) No 2				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	442,000	0	0	442,000	513,000	0	0	513,000
Belgium	38,000	0	0	38,000	38,000	0	0	38,000
Finland	50,000	0	0	50,000	50,000	0	0	50,000
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	**600,414**	**0**	**0**	**600,414**	**671,414**	**0**	**0**	**671,414**

Key figures for Pfandbriefe outstanding and their cover

OUTSTANDING MORTGAGE PFANDBRIEFE

	Figures in	31 Dec. 20	31 Dec. 19
Outstanding Mortgage Pfandbriefe	€ 000	28,846,300	26,603,828
thereof share of fixed-rate Pfandbriefe, Section 28 (1) No 9	%	86	95

ORDINARY COVER ASSETS

	Figures in	31 Dec. 20	31 Dec. 19
Cover pool	€ 000	30,110,084	28,004,386
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	96
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)	34,397	-177,631
	GBP (€ 000)	19,213	41,374
	CHF (€ 000)	1,267,450	1,063,334
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. 20	31 Dec. 19
Up to € 300,000	17,958,015	16,974,300
More than € 300,000 up to € 1,000,000	3,392,161	3,088,982
More than € 1,000,000 up to € 10,000,000	2,284,506	2,219,896
More than € 10,000,000	5,874,988	5,049,794
Total	**29,509,670**	**27,332,972**

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	Multifamily 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. 20	23,614,141	20,307,232	2,847,751	12,785,205	4,662,111	11,583	582	3,306,909	2,180,280	870,059	8,002	248,568	0	0
	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
Belgium	31 Dec. 20	29,640	0	0	0	0	0	0	29,640	29,640	0	0	0	0	0
	31 Dec. 19	29,640	0	0	0	0	0	0	29,640	29,640	0	0	0	0	0
France	31 Dec. 20	286,098	19,260	0	0	19,260	0	0	266,838	204,272	62,566	0	0	0	0
	31 Dec. 19	326,724	7,440	0	0	7,440	0	0	319,284	277,220	42,064	0	0	0	0
United Kingdom	31 Dec. 20	337,991	0	0	0	0	0	0	337,991	270,044	45,209	0	22,738	0	0
	31 Dec. 19	382,475	0	0	0	0	0	0	382,475	288,686	86,264	0	7,525	0	0
Luxembourg	31 Dec. 20	64,900	0	0	0	0	0	0	64,900	64,900	0	0	0	0	0
	31 Dec. 19	64,900	0	0	0	0	0	0	64,900	64,900	0	0	0	0	0
The Netherlands	31 Dec. 20	478,082	224,791	0	0	224,791	0	0	253,291	133,236	115,906	0	4,149	0	0
	31 Dec. 19	320,062	182,065	0	0	182,065	0	0	137,997	62,748	71,100	0	4,149	0	0
Austria	31 Dec. 20	140,778	1	0	1	0	0	0	140,777	36,240	104,537	0	0	0	0
	31 Dec. 19	122,920	4	0	4	0	0	0	122,916	17,280	105,636	0	0	0	0
Spain	31 Dec. 20	396,009	0	0	0	0	0	0	396,009	119,906	276,103	0	0	0	0
	31 Dec. 19	214,731	0	0	0	0	0	0	214,731	89,455	125,276	0	0	0	0
Switzerland	31 Dec. 20	3,672,445	3,672,445	1,317,509	2,354,936	0	0	0	0	0	0	0	0	0	0
	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
USA	31 Dec. 20	489,586	72,179	0	0	72,179	0	0	417,407	332,560	19,848	0	64,999	0	0
	31 Dec. 19	327,592	53,932	0	0	53,932	0	0	273,660	179,716	21,681	0	72,263	0	0
Total – all states	**31 Dec. 20**	**29,509,670**	**24,295,908**	**4,165,260**	**15,140,142**	**4,978,341**	**11,583**	**582**	**5,213,762**	**3,371,078**	**1,494,228**	**8,002**	**340,454**	**0**	**0**
	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**

Payments in arrears on covering mortgages

PAYMENTS IN ARREARS ON COVERING MORTGAGES
IN € 000

	31 Dec. 20		31 Dec. 19	
	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	8,603	10,168	11,148	12,254
Switzerland	1,323	1,339	1,233	1,246
Total – all states	**9,926**	**11,507**	**12,381**	**13,500**

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.

ORDINARY COVER ASSETS
IN € 000

	Nominal value		Net present value		Risk-adjusted net present value[1]	
	31 Dec. 20	31 Dec. 19	31 Dec. 20	31 Dec. 19	31 Dec. 20	31 Dec. 19
Public Pfandbriefe	1,945,094	2,227,229	2,666,974	2,957,230	2,480,155	2,413,871
Cover pool	1,958,141	2,321,579	2,992,645	3,277,171	2,656,239	2,515,342
of which further cover assets	0	0	0	0	0	0
of which derivatives	0	0	45,373	43,122	34,910	7,662
Over-collateralisation	**13,047**	**94,350**	**325,671**	**319,941**	**176,084**	**101,471**

[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. 20		31 Dec. 19	
Residual term	Public Pfandbriefe	Cover pool	Public Pfandbriefe	Cover pool
≤ 0.5 year	32,457	15,755	70,744	118,140
> 0.5 year and ≤ 1 year	79,984	25,719	85,135	23,244
> 1 year and ≤ 1.5 years	50,721	20,592	31,471	41,038
> 1.5 years and ≤ 2 years	9,778	28,176	77,826	63,236
> 2 years and ≤ 3 years	100,590	20,985	57,775	48,784
> 3 years and ≤ 4 years	149,664	9,875	117,729	20,989
> 4 years and ≤ 5 years	84,219	6,813	146,660	9,879
> 5 years and ≤ 10 years	492,707	514,312	517,805	558,788
> 10 years	944,974	1,315,914	1,122,084	1,437,481

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

	31 Dec. 20		31 Dec. 19	
	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. 20	31 Dec. 19
Outstanding Mortgage Pfandbriefe	€ 000	1,945,094	2,227,229
thereof share of fixed-rate Pfandbriefe, Section 28 (1) No 9	%	91	92

COVER ASSETS

	Figures in	31 Dec. 20	31 Dec. 19
Cover pool	€ 000	1,958,141	2,321,579
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	%	92	91
	CHF (€ 000)	0	28,487
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)	0	-69,637

Mortgage loans used as cover for Public Pfandbriefe

A. ACCORDING TO THEIR AMOUNTS IN TRANCHES
IN € 000

	31 Dec. 20	31 Dec. 19
Up to € 10,000,000	131,241	179,331
More than € 10,000,000 up to € 100,000,000	446,787	515,781
More than € 100,000,000	1,380,113	1,626,467
Total	**1,958,141**	**2,321,579**

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. 20	1,803,141	1,795,973	0	1,510,112	135,296	150,565	7,168	0	0	7,168	0
	31 Dec. 19	2,061,439	2,045,862	0	1,707,032	175,964	162,866	15,577	0	0	15,577	0
Belgium	31 Dec. 20	0	0	0	0	0	0	0	0	0	0	0
	31 Dec. 19	50,000	50,000	0	50,000	0	0	0	0	0	0	0
Austria	31 Dec. 20	155,000	155,000	120,000	35,000	0	0	0	0	0	0	0
	31 Dec. 19	170,000	155,000	120,000	35,000	0	0	15,000	0	15,000	0	0
Switzerland	31 Dec. 20	0	0	0	0	0	0	0	0	0	0	0
	31 Dec. 19	27,640	27,640	0	27,640	0	0	0	0	0	0	0
Other institutions	31 Dec. 20	0	0	0	0	0	0	0	0	0	0	0
	31 Dec. 19	12,500	12,500	0	0	0	12,500	0	0	0	0	0
Total – all states	**31 Dec. 20**	**1,958,141**	**1,950,973**	**120,000**	**1,545,112**	**135,296**	**150,565**	**7,168**	**0**	**0**	**7,168**	**0**
	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**

Overdue interest

COVERING MORTGAGES WITH OVERDUE INTEREST
IN € 000

	Total		Thereof residential		Thereof commercial	
	2020	2019	2020	2019	2020	2019
Overdue interest	210	242	205	242	5	0

Foreclosures and receiverships of mortgages used as cover

FORECLOSURES AND RECEIVERSHIPS

	Total		Thereof residential		Thereof commercial	
	2020	2019	2020	2019	2020	2019
Pending on balance sheet date						
– Foreclosure proceedings	95	96	93	95	2	1
– Receivership proceedings	28	22	27	22	1	0
	26 [1]	20 [1]	25 [1]	20 [1]	1 [1]	0 [1]
Foreclosures completed during business year	27	48	26	46	1	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 2020	65,048
Additions in 2020	758
Reductions in 2020	1,552
End of 2020	64,254

CAPITAL CONTRIBUTIONS
IN €

	31 Dec. 20
Increase in remaining members' capital contributions	80,326,470.00
Amount of each share	70.00
Members' liability	0.00

Personnel statistics

In the reporting year, the average number of employees was:

	Male	Female	Total
Full-time employees	292	181	473
Part-time employees	23	115	138
Total number of employees	**315**	**296**	**611**
These figures do not include:			
Apprenticed trainees	4	11	15
Employees participating in parental leave, early retirement, partial retirement (non-working phase), or employees suspended with pay	10	25	35

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 0.0776 percent.

Proposed appropriation of distributable income

Net income for the year amounted to € 37,701,357.83. An advance allocation of € 15,000,000 to legal reserves is presented in the current annual financial statements.

A dividend distribution of 1.25 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 € 46,705,128.68 should therefore be allocated as follows:

ALLOCATION OF RETAINED EARNINGS
IN €

	31 Dec. 20
1.25 percent dividend	13,668,000.00
Carried forward to new year	33,037,128.68

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

Dr. Hermann Starnecker » Kaufbeuren
Spokesman of the Board of Management of
VR Bank Augsburg-Ostallgäu eG
Chairman of the Supervisory Board

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

HRH Anna Duchess in Bavaria » Tegernsee
Entrepreneur

Barbara von Grafenstein » Munich
Employee representative

Thomas Höbel » Dachau
Spokesman of the Board of Management
Volksbank Raiffeisenbank Dachau eG

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
Spokesman of the Board of Management of
VR-Bank Bonn eG

Reimund Käsbauer » Munich
Employee representative

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
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 € 750 thousand (previous year: € 856 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 € 18,460 thousand (previous year: € 17,565 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 € 1,438 thousand (previous year: € 2,039 thousand), for members of the Supervisory Board € 589 thousand (previous year: € 568 thousand). Total compensation received by the members of Advisory Committee amounted to € 14 thousand (previous year: € 63 thousand). Total compensation received by former members of the Board of Management and their surviving dependants amounted to € 1,369 thousand (previous year: € 1,200 thousand).

Auditing Association

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

During the year under review total costs of € 757 thousand (previous year: € 746 thousand), including value-added tax, were incurred for auditing the annual financial statements, and € 26 thousand (previous year: € 42 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 € 15,013 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 € 22,263 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, 2 February 2021

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

The copy of the auditor's report reproduced in the following also includes an 'Assurance report in accordance with section 53(4) of the German Cooperatives Act (Genossenschaftsgesetz – GenG) and section 317(3b) of the German Commercial Code (Handelsgesetzbuch – HGB) on the electronic reproduction of the annual financial statements and the management report prepared for publication purposes' ('separate report on ESEF compliance'). The subject matter (ESEF documents covered by the assurance engagement) to which the separate report on ESEF compliance relates is not attached. The ESEF documents covered by the assurance engagement can be inspected in, or retrieved, from the Federal Gazette.

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 (the 'Cooperative'), comprising the balance sheet as at 31 December 2020, the income statement, cash flow statement and statement of changes in equity for the financial year from 1 January 2020 to 31 December 2020, as well as the notes to the annual financial statements, including the presentation of the accounting policies. In addition, we audited the management report of the Cooperative for the financial year from 1 January 2020 to 31 December 2020. In accordance with the German legal requirements, we did not audit the content of the components of the management report referred to in the section entitled "Other information".

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to credit cooperatives with publicly traded debt instruments and give a true and fair view of the assets, liabilities and financial position of the Cooperative as at 31 December 2020 and of its financial performance for the financial year from 1 January 2020 to 31 December 2020 in compliance with German proper 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, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the components of the management report referred to in the section entitled "Other information".

In accordance with section 322(3) sentence 1 of the HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and the management report.

Basis for the audit opinions

We conducted our audit of the annual financial statements and the management report in accordance with section 53(2) of the GenG, sections 340k and 317 of the HGB, and the EU Statutory Audit Regulation (No. 537/2014), and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany – IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and the management report" section of our auditor's report. We are independent of the Cooperative in compliance with the requirements of European law and German commercial law and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with point (f) of Article 10(2) of the EU Statutory Audit Regulation in conjunction with sections 55(2) and

38(1a) of the GenG, we declare that none of the persons employed by us who could influence the results of our audit provided any non-audit services prohibited under Article 5(1) of the EU Statutory Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2020 to 31 December 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole and, in forming audit opinion thereon, we do not provide a separate audit opinion on these matters.

In the following, we describe what we consider to be the key audit matters:

Recoverability of loans and advances to customers
We have structured our presentation of these key audit matters as follows:
a) Matter and issue
b) Audit approach and findings
c) Reference to further information

a) Claims on customers of EUR 40.3 billion are reported in the annual financial statements of Münchener Hypothekenbank eG as at 31 December 2020. Most of these claims on customers are secured by mortgages. Total loan loss allowances (specific valuation allowances and global valuation allowances) of EUR 42.5 million were recognised as at 31 December 2020. Münchener Hypothekenbank eG regularly reviews the market and lending values of the properties on the basis of appraisals and analyses the economic circumstances of the borrowers, including on the basis of submitted annual financial statements, business plans and management accounting reports, among other documents. These results flow into the borrowers' ratings.

As a rule, the market and lending values of the properties are determined by appraisers using the income approach or the 'Sachwertverfahren', which is a specifically German form of the modified cost approach. The valuation parameters selected for this purpose significantly influence the value of the collateral and the recognition of any necessary loan loss allowance. Recognition of the loan loss allowance is subject to estimation uncertainty in this respect.

The risk exposure in the annual financial statements is that the need to recognise loan loss allowances is not identified in a timely manner or in an adequate amount.

b) Among other things, in the course of our audit we examined the available documentation relating to the valuation of the properties serving as collateral and the monitoring of the economic circumstances in a sample of loan exposures, and satisfied ourselves that the ratings were performed appropriately and in a timely manner.

In particular, we assessed whether the valuation parameters applied and the assumptions made in the appraisals are appropriate and reasonable. Among other things, we relied on publicly available market data to do this.

Based on our audit, the assumptions made by Münchener Hypothekenbank eG in reviewing the recoverability of the loans and advances are appropriate, taking into account the available information.

c) For information on the measurement of loans and advances to customers and the recognition of loan loss allowances, please refer to the section entitled 'General information on accounting policies' in the notes to the annual financial statements. For information on the process of counterparty credit risk management, please refer to the section entitled 'Counterparty credit risk' in the risk report, which is part of the management report.

Other information

The Board of Management is responsible for the other information. The other information comprises the following documents obtained by us prior to the date of this auditor's report:
- the corporate governance statement in accordance with section 289f(4) of the HGB contained in the management report (disclosures on the percentage of women in governing bodies). We did not examine the content of this component of the management report.
- the separate non-financial report in accordance with section 289b(3) of the HGB.

The other information also comprises
- all the other parts of the annual report – excluding other cross-references to external information – with the exception of the audited annual financial statements and management report, as well as our auditor's report.

Those other parts of the annual report are expected to be made available to us after the date of this auditor's report.

Our audit opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon. In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

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

Responsibilities of the Board of Management and the Supervisory Board for the annual financial statements and the management report

The Board of Management of the Cooperative is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to credit cooperatives with publicly traded debt instruments, and for ensuring that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Cooperative in compliance with German proper accounting principles. In addition, the Board of Management is responsible for such internal control as it, in accordance with German proper accounting principles, has determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the Board of Management is responsible for assessing the Cooperative's ability to continue as a going concern. It also has the responsibility for disclosing, as applicable, matters relating to going concern. In addition, it is responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict with this.

The Board of Management is additionally responsible for preparing the management report that as a whole provides an appropriate view of the Cooperative's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the Board of Management is responsible for such arrangements and measures (systems) as it has considered necessary to enable the preparation of a management report that complies with the German legal requirements, and to be able to provide sufficient, appropriate evidence for the 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 the management report

Our objectives are 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 provides an appropriate view of the Cooperative's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and the 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) of the GenG, sections 340k and 317 of the HGB, and the EU Statutory Audit Regulation in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the 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 the audit. We also:

- identify and assess the risks of material misstatement of the annual financial statements and the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. 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 internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) 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 used by the Board of Management and the reasonableness of estimates made by the Board of Management and related disclosures.

- conclude on the appropriateness of the Board of 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and the management report or, if such disclosures are inadequate, to modify our opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Cooperative to cease to be able 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 present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Cooperative in compliance with German proper accounting principles.
- evaluate the consistency of the management report with the annual financial statements, its conformity with German law and the view of the Cooperative's position it provides.
- perform audit procedures on the prospective information presented by the Board of Management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Board of Management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, and significant audit findings, including any significant deficiencies in internal control 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Assurance report in accordance with section 53(4) of the German Cooperatives Act (Genossenschaftsgesetz – GenG) and section 317(3b) of the German Commercial Code (Handelsgesetzbuch – HGB) on the electronic reproduction of the annual financial statements and the management report prepared for publication purposes

Reasonable assurance conclusion

We have performed an assurance engagement in accordance with section 53(4) of the GenG and section 317(3b) of the HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and of the management report contained in the attached electronic file muenchenerhyp_annual_report_2020_esef.xhtml and prepared for publication purposes (the 'ESEF documents') complies, in all material respects, with the requirements of section 328(1) of the HGB for the electronic reporting format ('ESEF format'). In accordance with German legal requirements, this assurance engagement only extends to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the annual financial statements and the management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies, in all material respects, with the requirements of section 328(1) of the HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file, beyond this reasonable assurance conclusion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the financial year from 1 January 2020 to 31 December 2020 contained in the 'Report on the audit of the annual financial statements and of the management report' above.

Basis for the reasonable assurance conclusion

We conducted our assurance engagement on the reproduction of the annual financial statements and the management report contained in the above-mentioned attached electronic file in accordance with section 317(3b) of the HGB and the Exposure Draft of IDW Assurance Standard: Assurance in accordance with section 317(3b) of the HGB on the electronic reproduction of financial statements and management reports prepared for publication purposes (ED IDW AsS 410). Accordingly, our responsibilities are further described below in the section entitled 'Auditor's responsibilities for the assurance engagement on the ESEF documents'. Our auditing association has applied the IDW Standard on Quality Management: Requirements for quality management in the audit firm (IDW QS 1).

Responsibilities of the Board of Management and the Supervisory Board for the ESEF documents

The Board of Management of the Cooperative is responsible for the preparation of the ESEF documents, including the electronic reproduction of the annual financial statements and the management report in accordance with section 328(1) sentence 4 no. 1 of the HGB.

In addition, the Board of Management of the Cooperative is responsible for such internal control as it has considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of section 328(1) of the HGB for the electronic reporting format, whether due to fraud or errors.

The Board of Management of the Cooperative is also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited annual financial statements and audited management report, as well as other documents to be published, to the operator of the German Federal Gazette (Bundesanzeiger).

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Auditor's responsibilities for the assurance engagement on the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of section 328(1) of the HGB, whether due to fraud or error. We exercise professional judgement and maintain professional scepticism throughout the assurance engagement. We also:

- identify and assess the risks of material non-compliance with the requirements of section 328(1) of the HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.
- obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.
- evaluate the technical validity of the ESEF documents, i.e. whether the electronic file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version applicable as at the reporting date, governing the technical specification for this electronic file.
- evaluate whether the ESEF documents enable a XHTML reproduction whose content is identical to the audited annual financial statements and the management report.

Further information in accordance with Article 10 of the EU Statutory Audit Regulation

As the responsible auditing association, we are the statutory auditor of the Cooperative.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the Supervisory Board or the Audit Committee in accordance with Article 11 of the EU Statutory Audit Regulation in conjunction with section 58(3) of the GenG (long-term audit report).

Persons employed by us who could influence the results of the audit have provided the following services, which were not disclosed in the annual financial statements or in the management report of the audited Cooperative, in addition to the statutory financial statement audit for the audited Cooperative or for companies controlled by it:

- other assurance services for banking supervision
- other assurance services in connection with the deposit guarantee scheme

- review of the condensed half-yearly financial statements and of the interim management report
- review of the separate non-financial report
- issuance of comfort letters.

German Public Auditor responsible for the engagement

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

Bonn, 15 March 2021

DGRV – Deutscher Genossenschafts- und Raiffeisenverband e.V.

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, 2 February 2021

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 2020 ("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 2020 were € 240,897 thousand.

The number of full-time equivalent salaried employees is 567.09.

Profit before tax amounts to € 95,341 thousand.

Taxes on income amount to € 37,639 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 eight further meetings 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 focus of its deliberations included business development and planning, business and risk strategy, the risk situation, regulatory issues, operationalisation of the IT strategy, governance issues and the search for another member of the Board of Management. In addition, the Supervisory Board's work was marked primarily by MünchenerHyp's handling of the impact of the COVID-19 pandemic on banking operations, core business and the risk situation. These topics were also the focus of the other Supervisory Board meetings held during the first lockdown.

The Board of Management 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 adjustments to the Bank's 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 strategic and operational 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 Chairs of the various Supervisory Board committees.

Evaluation of the Supervisory Board

The Supervisory Board conducted the evaluation of the Board of Management and the Supervisory Board based on the guidance for carrying out the suitability assessment and on conflicts of interest that was adopted in 2019. This evaluation process was conducted by the Nomination Committee in accordance with the regulations of Section 25d of the German Banking Act (Kreditwesengesetz – KWG). 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.

Succession plans for the Board of Management and the Supervisory Board were drawn up based on the suitability assessment and efficiency review, and improvements were devised to make the Supervisory Board more efficient in its activities. An onboarding and training concept for the Supervisory Board was adopted during the reporting year. The Supervisory Board attended training sessions on current regulatory topics and legal developments. Training sessions were also planned and conducted for the Supervisory Board committees.

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. 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.

Six meetings of the Nomination Committee were held in the reporting year. In addition to the regular Board of Management and Supervisory Board matters, it also addressed, in particular, the suitability assessment of the management bodies and the preparation of succession planning for the Board of Management and the Supervisory Board.

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 internal control system, reports prepared by the Internal Audit department and by the Compliance Officer, 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 15 meetings. The Board of Management provided the committee with detailed reports on the development of markets in which the Bank provides property financing. The Committee also addressed the regulatory environment, risk strategy, risk governance, legal risks, IT risks and information security, including data protection. 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 (CRO). In particular, the revised limit system was discussed. 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 Chief Information Security Officer (CISO).

The five 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

The DGRV – Deutscher Genossenschafts- und Raiffeisenverband e. V., Berlin, audited the accounting records, annual financial statements and management report for financial year 2020 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 of the Cooperatives Act (Genossenschaftsgesetz – GenG) including the audit of Münchener Hypothekenbank eG's financial statements for 2020, 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, the ESEF-documents, 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 2020 – 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.

Development of MünchenerHyp during the year under review

For MünchenerHyp, too, the 2020 financial year was a year dominated by the COVID-19 pandemic. The Bank has coped well with the effects of the lockdown and the ensuing recession. It was very successful in writing new business and almost matched the record result achieved in the previous year, expanding mortgage business in the private residential property financing segment in the process. On the funding side, the Bank's large-volume issues, especially Pfandbriefe, once again met with strong demand.

MünchenerHyp dealt in a highly responsible manner with the negative impact that the measures taken to contain the COVID-19 pandemic had on banking operations. It very quickly adopted all of the measures necessary to protect its employees to the best of its ability while maintaining normal operations.

The Bank's employees showed great commitment during this process, testimony to the team spirit within the Bank in this extraordinary year. The Supervisory Board would like to express its sincere thanks to all employees for this commitment and dedication.

Munich, April 2021

Münchener Hypothekenbank eG

Dr. Hermann Starnecker
Chairman of the Supervisory Board

FURTHER INFORMATION

THE MEMBERS OF THE DELEGATES MEETING

AS OF 31 DECEMBER 2020

Dr. Wolfgang Baecker » Bank director
Peter Bahlmann » Bank director
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
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 (ret.)
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
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 (ret.)
Florian Uhl » Managing director
Peter Voggenreiter » Bank director
Dr. Gerhard Walther » Bank director
Ulrich Weßeler » Bank director
Silke Wolf » Managing director
Michael Zaigler » Managing director

AGENDA –
GENERAL (DELEGATES) MEETING

17 APRIL 2021 AT 10:30 AM

1. **Report of the Board of Management about the 2020 business year**

2. **Report of the Supervisory Board on its activities**

3. **Report on the results of the statutory auditor's report**

4. **Consultation of the auditor's report and resolution regarding the extent of disclosure of the auditor's report**

5. **Resolutions to ratify**
   a) the annual financial statements for 2020
   b) the proposed appropriation of distributable income
   c) ratification of the acts of the Board of Management and the Supervisory Board

6. **Elections to the Supervisory Board: Re-election of Dr Hermann Starnecker**

7. **Resolution on the adaptation of the electoral regulations**

8. **Resolution on the amount of the attendance fees of the of the delegates**

9. **Other issues**

EXECUTIVE MANAGEMENT AND BODIES

Supervisory Board

Dr. Hermann Starnecker » Kaufbeuren
Chairman of the Supervisory Board

Gregor Scheller » Bamberg
Deputy Chairman of the Supervisory Board

HRH Anna Duchess in Bavaria » Tegernsee
Barbara von Grafenstein » Munich
Thomas Höbel » Dachau
Josef Hodrus » Leutkirch im Allgäu
Jürgen Hölscher » Lingen
Rainer Jenniches » Bonn
Reimund Käsbauer » Munich
Michael Schäffler » Munich
Kai Schubert » Trittau
Frank Wolf-Kunz » Munich

Board of Management

Dr. Louis Hagen
Chairman

Dr. Holger Horn

General Executive Manager

Ulrich Scheer (as of 01.09.2020)
Ingo Schramm

Trustees

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

Dr. Günter Graf » Egmating
Ministry director
Deputy

Cooperative Advisory Committee (as of 01.01.2021)

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 » Münster
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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