MünchenerHyp

TRADITION ON THE MOVE

ANNUAL REPORT
2021

Overview

BUSINESS DEVELOPMENT
IN € MILLION*

	2021	2020	Change %
Lending business			
a) Mortgage loans	6,799	6,395	6
aa) Residential property financing	4,338	4,019	8
ab) Commercial property financing	2,461	2,376	4
b) Loans to public sector and banks	743	97	666
Total	**7,542**	**6,492**	**16**

OVERVIEW OF PORTFOLIOS
IN € MILLION*

	2021	2020	Change %
Total assets	52,538	48,558	8
Mortgage loans	41,662	38,411	8
Public sector and banks	3,619	3,704	– 2
Pfandbriefe and other bonds	41,992	39,576	6
Liable equity capital	1,790	1,676	7

INCOME STATEMENT
IN € MILLION*

	2021	2020	Change %
Net interest income and net commission income	272	238	14
Administrative expenses	133	128	4
Results from ordinary business activities	113	95	18
Transfer to the Fund for General Banking Risks	0	20	– 100
Net income	59	38	57

EMPLOYEES
NUMBER

	2021	2020	Change %
Average number of employees per year	624	611	2
Apprentices	14	15	– 7
Employees participating in parental leave, early retirement and partial retirement (non-working phase)	38	35	9

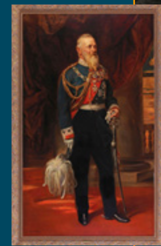
* Amounts have been rounded.

Content

125 years of Münchener Hyp

125 action-packed years of a cooperative success model. From the first loans to Bavarian farmers to an international mortgage bank – we are committed to supporting our customers as partners at all times.

www.muenchenerhyp.de/geschaeftsbericht2021/en/



1896

The Bavarian state government founds Bayerische Landwirthschaftsbank – now MünchenerHyp.

1897

Prince Regent Luitpold loses the right to use the crown as a seal (logo).

1910

The golden age of mortgage banks: Bayerische Landwirthschaftsbank enjoys strong growth.

1918

The bank faced a serious crisis at the end of the First World War. It achieves a turnaround with the help of the Bavarian state government.

1926

The bank moves into its new building at Ludwigstrasse 7.

1928

The mortgage bond (Pfandbrief) is the most important source of refinancing. This is a gold mortgage bond from 1928.

1934

Housing financing begins

1948

The bank building is destroyed in the Second World War. Rebuilt on Nussbaumstrasse: Employees pitch in personally.

1971

New name: "Münchener Hypothekenbank". Focus on financing residential properties as agricultural loans become increasingly less relevant.

1991

Business operations expanded to the new German states

1999

International commercial property financing business launches.

2002

Move to Karl-Scharnagl-Ring

2014

MünchenerHyp is supervised directly by the ECB. It issues the world's first sustainable Pfandbrief.

2021

MünchenerHyp celebrates its 125th anniversary.


ULRICH SCHEER
CFO
DR HOLGER HORN
CRO
DR LOUIS HAGEN
CEO

Letter from the Board of Management

Dear Shareholders and Business Associates,

125 years ago, on 2 December 1896, MünchenerHyp was founded as Bayerische Landwirthschaftsbank. As the name suggests, its original task was to support Bavarian farmers with fair mortgage loans. MünchenerHyp has long since outgrown its original business purpose. Today, we are an internationally operating real estate bank specialising in financing residential and commercial property. We are counted among the significant European banks by the European Central Bank (ECB) and are therefore directly supervised by it.

Through all the changes, successes and setbacks, over 125 years MünchenerHyp has remained true to its core: **it is an independent cooperative bank**. The cooperative principle still shapes our independent business activities today.

Especially in difficult times, it is the willingness and ability to act that counts. Another financial year dominated by the COVID-19 pandemic once again demanded a great deal of energy and flexibility in order to maintain business as usual for our customers and partners.

Record result in new business

We benefited from continuing high demand for property and property financing. Low interest rates ensured positive momentum on property markets, resulting in a high volume of new business. After a slight decline in new business during 2020, the past financial year put us back on track to achieve a record result. With property financing totalling EUR 6.8 billion, we achieved the highest volume of new business in our Bank's history. Together with purchases of capital market securities, which we need in order to manage liquidity requirements, our new business even exceeded EUR 7 billion for the first time.

In private residential property financing, we were able to continue the growth of past years. Commitment volume rose by almost 8 percent to EUR 4.3 billion. Around three quarters of this figure related to financing brokered by cooperative primary banks. We were able to significantly expand the business referred to us by independent financial service providers and by PostFinance in Switzerland. In the Austrian market, we expanded the circle of our cooperation partners and have now gained a stronger foothold after entering this market with new business of EUR 48 million.

In commercial property financing, the effects of the COVID-19 pandemic were still felt. We are therefore satisfied that we were able to increase our new business again. All in all, we granted approximately EUR 2.5 billion in commercial property financing, up by 3.5 percent year on year. The focus was on the German market, which is appreciated by investors for its high stability.

The strength of new business is also reflected in the mortgage portfolios. Unlike many property financiers, who struggle to maintain their loan portfolios, we were able to expand them by 8 percent to EUR 41.6 billion over the course of the year. As a result, our total assets jumped over the EUR 50 billion threshold for the first time, reaching EUR 52.5 billion at year-end 2021. Credit risks remained at a very low level despite the ongoing COVID-19 pandemic and the devastating floods.

Higher earning power – good capital base

The development of earnings was encouraging. Net interest income rose by 16 percent to EUR 402.6 million, thanks in particular to the positive development of new business over many years. Net interest and commission income also improved significantly, rising by 14 percent to EUR 272.4 million.

On the other hand, administrative expenses increased only moderately by 3.5 percent to EUR 132.9 million. Apart from higher personnel costs, this was mainly due to the increase in the bank levy by EUR 3.7 million, which has now reached the considerable figure of EUR 19.6 million and may not be recognised as an expense for tax purposes.

We remain satisfied with MünchenerHyp's capital base. Our members' capital contributions increased by EUR 90.1 million to EUR 1.24 billion. Our regulatory equity capital totalled EUR 1.79 billion. This gives us a Common Equity Tier 1 ratio of 20.4 percent as of 31 December 2021, still placing us well above the minimum capitalisation set for our Bank by the ECB, even taking into account the additional capital buffers required of all banks by the banking supervisory authorities.

Positive funding conditions

In the last year, we very successfully issued securities in euros, British pounds and Swiss francs on the capital market. This enabled us to refinance on the one hand at attractive conditions and on the other hand in matching currencies. Among our Pfandbrief issues, two long-dated Mortgage Pfandbriefe with a volume of EUR 500 million each, which we issued in the first half of 2021, stood out in particular. In July, we returned to the UK capital market with a Mortgage Pfandbrief for GBP 350 million. In Switzerland, we again successfully issued several bonds with a total volume of CHF 1.8 billion. MünchenerHyp is therefore a well-accepted and established issuer both on the Swiss market, but MünchenerHyp is also recognised as an issuer in Swiss francs on the international capital markets. In uncovered paper, we celebrated a first with a green senior non-preferred bond of EUR 500 million – our first green bond in this product category.

Dividend for financial year 2021

After not having been allowed to distribute a dividend in the two previous years, or only to a limited extent, due to ECB rulings, we are not subject to any restrictions this year. Therefore, we can finally allow our members once more to take their due share in the success of MünchenerHyp. The net income for 2021 and profit carried forward from previous years of around EUR 33 million are available for the distribution. This results in a dividend of 4.75 percent per share. We thank our members for their loyalty to MünchenerHyp in these challenging times.

Tradition on the move

MünchenerHyp's 125-year history has been shaped by people working together to overcome the challenges of the times. Thus, our success in this anniversary year is also based on the cooperative will to achieve more together. Our employees in particular have contributed to this success story, achieving a record result despite the continuing burdens imposed by the COVID-19 pandemic. For this we thank them most sincerely. We also thank the Supervisory Board for its valuable advice. And we thank the Delegates for their support and commitment not only in the last year but also in the five years of their term of office, which ended as scheduled in 2021. We look forward to working with the new Delegates Meeting in the years ahead. We would like to thank the Works Council and the Executive Employees Committee for their constructive cooperation.

In view of positive economic and growth forecasts and hopes of an easing COVID-19 pandemic, we started 2022 on a note of cautious optimism. However, Russia's attack on Ukraine and growing concerns over inflation significantly increase the uncertainties already hanging over this year's business development and make it even harder to arrive at a forecast. So from today's perspective it will be difficult to achieve the moderate expansion of our new business planned for this financial year.

Yours sincerely,

Dr Louis Hagen
CEO

Dr Holger Horn
CRO

Ulrich Scheer
CFO

Management Report

Economic report

GENERAL ECONOMIC CONDITIONS

Economic development

The global economy picked up again in 2021 after the slump triggered by the COVID-19 pandemic. However, the upswing progressively weakened over the course of the year. New waves of infection caused by mutations of the virus and persistent supply bottlenecks slowed economic recovery from mid-year onwards. According to IMF data from January 2022, global gross domestic product rose by 5.9 percent. This strong growth was mainly due to the easing of massive lockdown restrictions in many countries, which greatly boosted demand after the previous year's decline. Economic recovery, supply bottlenecks and rising food and energy prices drove inflation to 3.1 percent in the industrialised countries and 5.7 percent in the developing countries in 2021.

It was a similar picture for the eurozone. Strong recovery in economic output, with growth of 5.2 percent, concealed economic problems triggered by the latest waves of COVID-19 and supply bottlenecks. Moreover, economic performance varied quite considerably between member states. Inflation increased to 4.9 percent as of November 2021, up from just 0.3 percent during 2020. After a significant rise in unemployment at the start of the year, the labour market remained fairly stable thereafter, resulting in the eurozone unemployment rate of 7.3 percent in October 2021 being half a percentage point below the annual average for 2020.

In Germany, gross domestic product grew less strongly than expected in 2021, reaching 2.8 percent. As in other countries, the pandemic, together with supply and material bottlenecks, had a dampening effect on the German economy. Economic output has not yet returned to pre-pandemic levels. Growth was again supported in particular by public consumption which, like last year, rose by 3.4 percent. Foreign trade also recovered. Construction investment, having grown strongly in past years, rose by only 0.5 percent. This was due to shortages of labour and materials.

Consumer prices rose by 3.1 percent on average over the year, the highest increase since 1993. Inflation was driven mainly by energy prices, which rose by 10.4 percent overall. Food and goods prices also increased significantly. The labour market, on the other hand, remained robust. With 44.9 million people in work, employment stayed at the previous year's level. The number of unemployed people fell by around 80,000 to 2.6 million, with the unemployment rate declining by 0.2 percentage points to 5.7 percent as a result. Short-time (Kurzarbeit) work programmes were used considerably less than in the previous year.

Financial markets

For another year, financial markets were severely impacted by the development of the COVID-19 pandemic. Optimism about vaccination campaigns initially buoyed stock markets, but was dampened again by further waves of infection. Steadily rising inflation rates over the course of the year were another negative influencing factor.

Most central banks therefore began to adjust monetary policy. The US Federal Reserve ("Fed") announced in November that it would end its asset purchase programmes by mid-2022. In view of positive economic data and low unemployment, a faster exit from bond purchases by March 2022 was already decided in December 2021. The Bank of England also responded to rising inflation by raising interest rates by 0.15 percentage points to 0.25 percent in December 2021. The ECB, on the other hand, acted more cautiously. Although the Pandemic Emergency Purchase Programme (PEPP) will be discontinued in March 2022, the Asset Purchase Programme (APP) will continue until the end of 2022. According to the ECB's forward guidance, an interest rate hike is not expected until net new purchases have ended. The main refinancing rate thus remained at 0.0 percent in 2021.

The extremely low yields on ten-year German government bonds at the beginning of 2021 did not last long. With the start of the vaccination campaign, the easing of the COVID-19

YIELD ON TEN-YEAR BUNDS 2021
IN %

Source: Bloomberg

wave in spring and rising inflation rates, Bund yields rose from minus 0.57 percent at the beginning of the year to minus 0.10 percent in May of last year. To maintain favourable financing conditions, the ECB tried to limit the rise in yields and increased the monthly purchase volume under the PEPP programme. As a result, yields fell back to a low of minus 0.5 percent in August. By the end of the year, they had risen once more to a level of minus 0.18 percent with relatively high volatility.

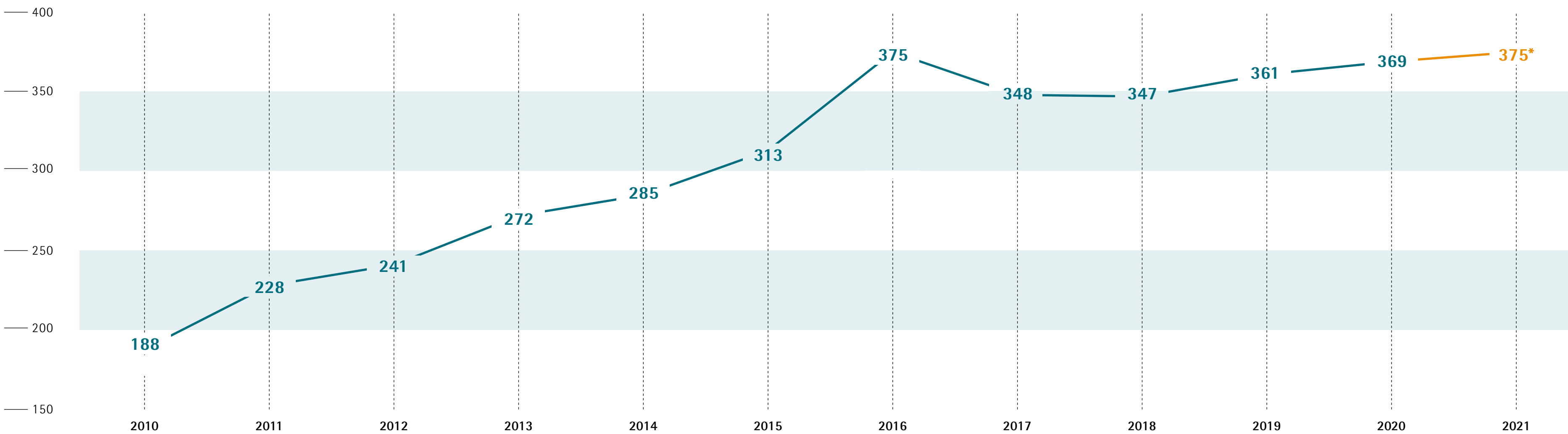
On the foreign exchange market, the US dollar made significant gains against the euro over the course of the year. From USD 1.22 at the beginning of the year, it peaked at USD 1.12 and ended the year at USD 1.13. The US dollar was supported by higher growth rates in the USA, which increased significantly due to the US government's stimulus and relief packages. In the second half of the year, the Fed also announced a more restrictive monetary policy, which provided additional support for the US dollar.

The Swiss franc also gained against the euro over the course of the year, ending 2021 at CHF 1.035, CHF 0.05 lower than the rate at year-end 2020. The British pound posted comparable gains, rising over the course of the year from GBP 0.89 at 31 December 2020 to GBP 0.84 at the end of 2021.

Despite quite attractive spread levels on the covered bond market, many issuers took advantage of especially favourable long-term tender opportunities at the central bank to refinance. The ECB provided further liquidity on the capital market in March 2021 by increasing the volume of possible tender amounts and implementing the monthly securities purchases in a very flexible manner. The ECB's monetary policy kept yields on many bonds in negative territory. Institutional investors therefore extended their investment term or increased their credit risk in order to continue generating positive interest income.

Issuing activities on the primary market for covered bonds were similarly restrained as last year. In particular, the ECB's further series of TLTRO tenders affected the volume of publicly traded covered bond issues. Moreover, the wave-like development of the pandemic repeatedly unsettled the markets. All in all, the euro-denominated issue volume of benchmark covered bonds came to around EUR 95 billion in 2021, a slight increase of 3 percent compared with the previous year. The countries with the highest issuance were France with 24 percent of total volume and Germany with 17 percent.

RESIDENTIAL BUILDING PERMITS IN GERMANY 2010–2021
FIGURES IN 000



* Estimated.

Source: German Federal Statistical Office

Property markets and property financing markets

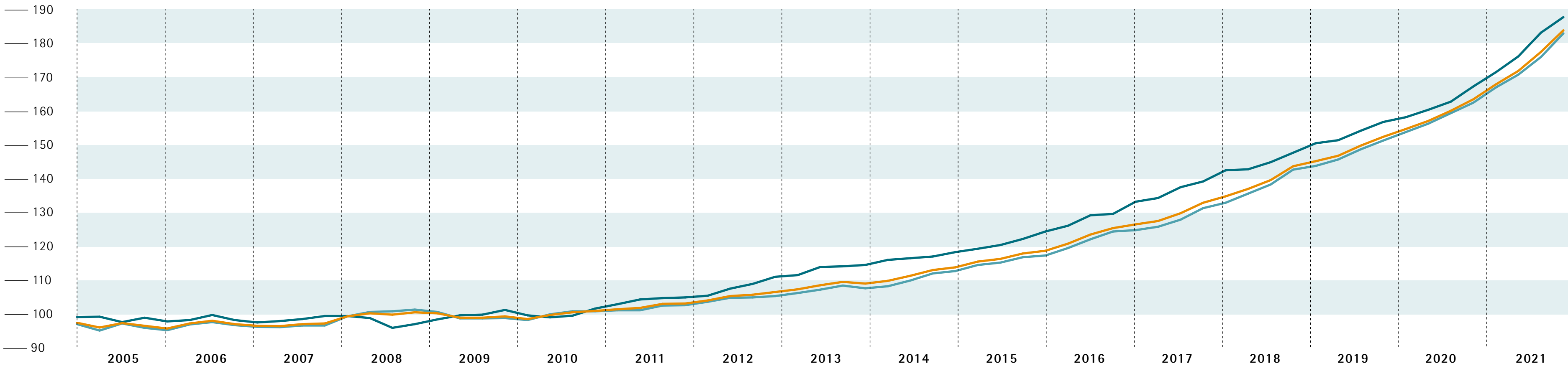
Residential property, Germany

The German residential property market remained buoyant. The pandemic had no negative effects. High demand combined with short supply in metropolitan areas thus caused prices to rise more significantly than in the previous year. Analyses conducted by vdpResearch show that prices for houses and apartments increased by 12.5 percent in the third quarter of 2021 compared with the same period of the previous year. Prices of single and two-family houses were up by 12.6 percent, with condominium prices rising by 12.2 percent. Despite higher price growth momentum, this was driven not by speculation but rather by the overall conditions: high excess demand, low interest rates, rising prices for building land and higher construction costs.

Thus, construction costs for residential property rose dramatically in 2021, in particular because vital raw materials such as timber and steel were in short supply. The rise in the number of building permits slowed down slightly compared with the previous year. By the end of November 2021, the construction of over 340,000 housing units had been approved, up 2.8 percent on the previous-year period. The construction backlog, which includes all construction projects that have been approved but not yet started or completed, increased further, rising to just under 780,000 housing units by the end of 2020. This is essentially because many construction companies are working at full capacity.

Stable growth in rents meant that multi-family houses remained an attractive asset class for investors. Rent increases averaging 4.0 percent compared with the previous year led to price rises for multi-family houses, resulting in the capital value index for multi-family houses rising by an average of 10.4 percent year on year. In the top seven cities, growth momentum was only slightly below the national average. Rent levels in the cities rose by an average of 3.9 percent and capital values by 9.5 percent compared with the previous year.

DEVELOPMENT OF PROPERTY PRICES IN GERMANY
YE 2010 = 100



Source: vdp Research property price index, Q3 2021, based on analysis of the vdp transaction database, https://www.vdpresearch.de/wp-content/uploads/2021/11/vdp_Index_Q3.2021_EN.pdf
As of November 2021

Partly as a result of this trend, more was invested in German residential property during 2021 than ever before. According to surveys by Ernst & Young, institutional investors invested almost EUR 53 billion in German residential property portfolios, two and a half times as much as in the previous year. Of this figure, the takeover of Deutsche Wohnen by Vonovia alone accounted for EUR 23.5 billion. But even without this extraordinary transaction, the capital invested in German residential property increased by over 40 percent compared with the previous year. The institutional housing market continued to be dominated by domestic investors with a share of 76 percent. Furthermore, the German residential property market remained a safe investment target compared with other countries.

Consequently, demand for construction financing was strong. In the first three quarters of 2021, loans with a total volume of around EUR 223 billion were granted for the purchase of residential property (existing and new builds), an increase of 13.6 percent compared with the same period of the previous year.

Against the background of the continuing boom in the German residential property market, in its Financial Stability Report the ECB called on European countries to counter this development with macroprudential measures. In January 2022, BaFin announced the introduction of additional capital requirements due to the rise in residential property prices. The countercyclical capital buffer of previously 0 percent was set at 0.75 percent of risk-weighted assets as of 1 February 2022. In addition, a 'sectoral systemic risk buffer' of 2.0 percent of risk-weighted assets on loans secured by residential property is to be introduced. However, the debt-to-equity and asset encumbrance ratios of private households in residential property financing, which have been stable for years, showed no sign that banks' lending criteria were relaxed in 2021.

Residential property, international

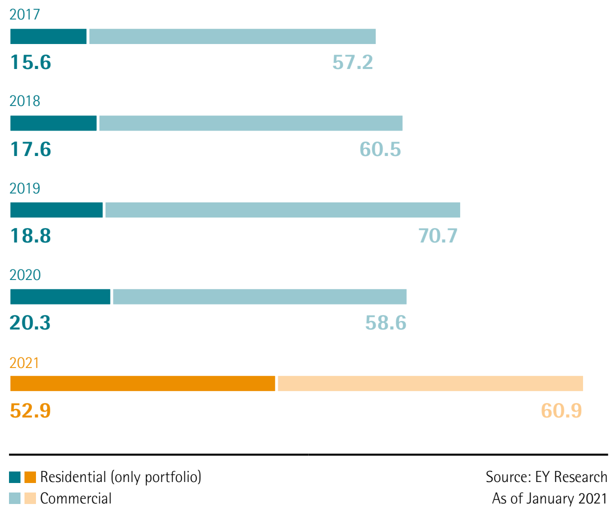
European residential property markets showed similar momentum to Germany, with rising demand for housing and strong price growth. Eurostat's house price index showed a year on year increase of 7.2 percent in the first half of the year.

The European residential property markets with the strongest price momentum were Austria, the Netherlands and the UK, with increases of over 10 percent compared with the same period in the previous year. The Austrian federal government is therefore planning to introduce stricter lending rules to oblige mortgage providers to adopt more cautious lending policies.

The Swiss residential property market recorded price growth of 4.7 percent in the first half of 2021 compared with the equivalent previous-year period, with prices for single-family houses in particular rising sharply. Price growth momentum is therefore continuing. On the rental housing market, the vacancy rate declined slightly for the first time, but a supply surplus still remains.

Commercial property, Germany
EUR 60.9 billion was invested in German commercial properties, an increase of 4 percent. Including investments in commercial residential property, 2021 was a record year for the German commercial property market, with a total volume of EUR 113.8 billion. For the first time, residential property was the strongest asset class, accounting for almost 60 percent of transaction volume. Only around a quarter of total volume was attributable to office properties. Logistics and retail properties each accounted for less than 10 percent of transaction volume.

DEVELOPMENT OF COMMERCIAL PROPERTY TRANSACTIONS IN GERMANY 2017–2021
IN € BILLION



Source: EY Research
As of January 2021

Measures to combat the COVID-19 pandemic – lockdowns in particular – continued to put a noticeable strain on commercial property markets, and this was also reflected in price performance during 2021. According to vdpResearch, for example, prices of commercial properties declined by 0.9 percent in the third quarter of 2021 compared with the same period of the previous year. One reason for this was that prices of retail properties fell by 3.6 percent. On the other hand, office properties recovered slightly with a price increase of 0.3 percent.

Office prime yields in Germany's top property markets remained stable over the course of the year, averaging 2.7 percent on a net basis. Office properties in Berlin generated the lowest prime yields at 2.5 percent net.

The positive performance of the German office investment market is essentially due to the low interest rate environment and the lack of alternative asset classes. After all, office letting markets remain characterised by caution and hesitation on the part of tenants, especially with regard to new leases or expansion plans. In the first three quarters of 2021, around 2.6 million square metres of office space was let in the top seven office cities, down by 4 percent on the same period of the previous year. Compared with market activity in 2019 – before the outbreak of the COVID-19 pandemic – lease turnover actually declined by almost 30 percent. Vacancy rates have thus risen in all German metropolitan areas, with Berlin recording the largest increase from 2.8 to 3.9 percent. Frankfurt am Main has the highest vacancy rate among the German cities at 7.7 percent. Prime rents for office properties again recorded slight year on year growth of 1 percent on average in 2021.

The pandemic has accelerated the process of change in the retail sector which was already under way before 2020. Many retail chains have reduced their branch networks and floor space due to declining sales in bricks-and-mortar retailing. In all German cities, vacancy rates in retail locations have risen and market rents have declined. The change is most pronounced in Berlin, where the retail vacancy rate rose to 13.4 percent and prime rents fell by 5 percent in 2021. The most expensive location for inner city retail properties was Munich with a net initial yield of 2.9 percent. Since the start of the pandemic, shopping centre yields have risen to 5.3 percent net, reflecting uncertainty over investments in this segment. At the same time, the decline in rents for shopping centres was more pronounced than in the city centres.

Commercial property, international

Transaction volume on European commercial property markets recovered in 2021 following a significant slump in the previous year. EUR 275 billion was invested in commercial properties across Europe, an increase of 23 percent. Germany accounted for one third of European transaction volume, followed by the UK with 24 percent, France with 10 percent and the Netherlands with 5 percent. Residential portfolios and office properties each accounted for one third of transaction volume, putting the residential segment at European level on a par with office properties for the first time.

In the UK, investment volume was the highest since 2015, reaching a figure of EUR 67 billion, representing a year on year increase of 50 percent. The period between the Brexit referendum and the UK's actual exit from the EU greatly unsettled investors because the impacts of Brexit on the labour market and on demand for commercial property were difficult to predict. Net initial yields for all property types therefore rose significantly, because investors had priced the uncertainty into their yield forecasts. Yields rose most strongly in regional markets, especially for retail properties in those markets. In 2021, prime yields for shopping centres in the UK were 7.5 percent. Prime office properties in the City of London returned to a net yield level of 3.5 percent in 2021, a figure last recorded in 2015.

In France, EUR 27 billion was invested in commercial property and residential portfolios in 2021, down by 18 percent compared with the previous year. The decline is explained by the very selective behaviour of investors in the office segment, which is the most important type of use in the French commercial property market. Due to the strict measures taken to combat the pandemic, office properties stood empty for several weeks and users began to reduce their space requirements. As a result, prime rents in central Paris fell by 3 percent year on year. Rents for commercial properties fell by 16 percent in France during 2021, while shopping centre rents declined by 4 percent. Net initial yields were unchanged at 3.2 percent for commercial buildings and rose to 4.8 percent for shopping centres.

In the Netherlands, transaction volume fell by 26 percent year on year to EUR 14 billion. This was due to government intervention in the residential property market, which made investors in commercial residential property portfolios far more cautious. Yields remained unchanged at 3.1 percent on a net basis for office properties in Amsterdam and 3.4 percent on average for all Dutch cities. Office rents were unchanged compared with the previous year. Retail rents also declined in the Netherlands, with rents dropping by 6 percent for commercial buildings and by 10 percent for shopping centres.

In Spain, transaction volume recovered to just under EUR 11.3 billion, up 27 percent on the previous year. Investor interest in prime office properties in Spanish cities was so great that the net initial yields in Madrid and Barcelona each fell by 10 basis points. The net initial yield for office properties in Madrid was 3.1 percent and in Barcelona 3.2 percent. In both cities, vacancy rates rose slightly and prime office rents declined by an average of 3 percent in 2021. At 5 percent, the decline in rents for shopping centres was relatively moderate compared with other European cities, as footfall rapidly recovered once lockdown restrictions were eased. Yields for commercial properties were stable at 3.4 percent in 2021, while net initial yields for shopping centres rose to 5.3 percent.

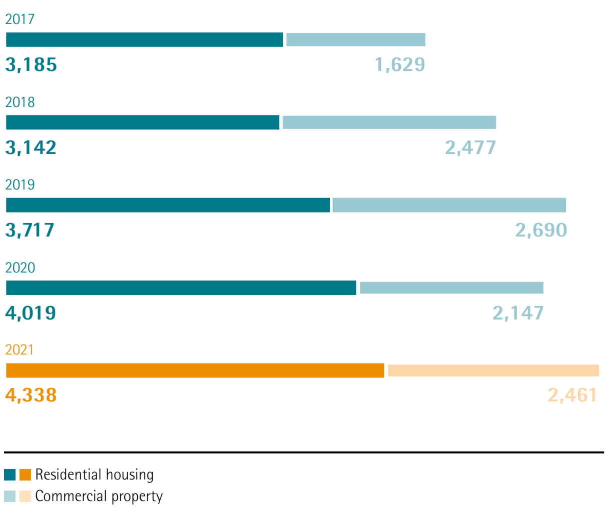
In the US, commercial property and residential portfolios worth USD 582 billion had changed hands by the end of the third quarter of 2021, up by 39 percent year on year. Multi-family apartments were the most sought-after asset class, accounting for almost 40 percent of investment volume. Logistics properties were the second strongest asset class with a market share of 23 percent, followed by office properties with a market share of 19 percent.

BUSINESS DEVELOPMENT

New mortgage business

In the year under review, we more than made up for the pandemic-related decline in new business during 2020. We achieved a record result with a commitment volume of EUR 6.8 billion, representing an increase of 6.3 percent. With growth recorded in both private and commercial property financing, we are satisfied with the overall development of new business.

MÜNCHENERHYP NEW MORTGAGE BUSINESS 2017–2021
COMMITMENTS IN € MILLION



New business in private property financing grew by 7.9 percent, the same rate as last year, to reach EUR 4.3 billion. The continuing property boom and the low level of interest rates contributed to this growth, leading to very strong demand for financing with long fixed interest rate periods – an area in which our offering puts us in a particularly competitive position.

In brokerage business with our partner banks from the Cooperative Financial Network, we matched the previous year's record result with a commitment volume of EUR 3.1 billion. We achieved this in particular through further improvements in digital processes and services for our cooperative brokerage partners.

Sales of private property finance generated via independent financial service providers in Germany increased by 22 percent year on year, to EUR 818 million.

In our partnership with PostFinance in Switzerland, we were able to significantly expand new business thanks to high demand for property financing and a very successful joint sales campaign. The commitment volume rose by 49 percent to EUR 415 million. In the Austrian market, we entered into partnerships with other financial service providers, enabling us to expand new business to EUR 48 million (previous year: EUR 16 million).

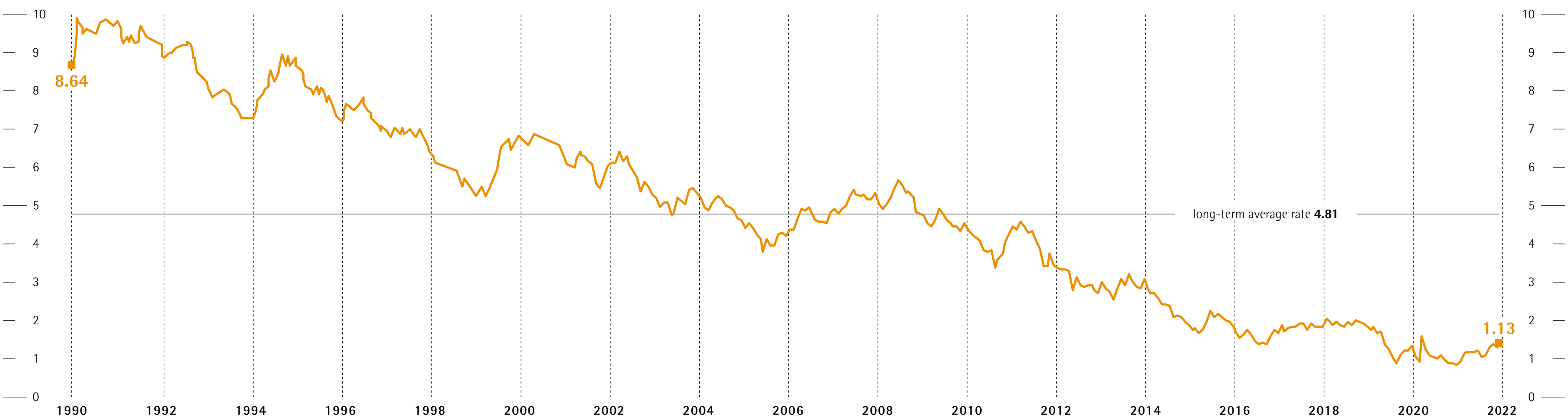
In commercial property financing, our lending business continued to be affected by the economic consequences of the COVID-19 pandemic. Against this background, we are satisfied that we were able to expand our new business by 3.5 percent to around EUR 2.5 billion. This means that we have returned to our growth path after last year's significant decline.

This was attributable in particular to our domestic business, which contributed the lion's share with a new business volume of EUR 1.7 billion. At EUR 0.7 billion, international business was around EUR 0.2 billion below the previous year's result of EUR 0.9 billion. The most important international market for us in 2021 was the Netherlands with 28 percent of new business, replacing last year's leader, the USA (syndicated business only), which accounted for 19 percent, followed by Spain with 16 percent, and France and the UK with 14 percent each. New business was thus more evenly distributed across our target markets than in the previous year. By asset class, office properties accounted for 44 percent of new business, residential portfolios for 23 percent, retail properties for 13 percent, logistics properties for 11 percent and mixed use for the remaining 9 percent.

Earnings performance in commercial new business improved further. We were able to significantly exceed the earnings target without increasing the risks. This applies to domestic business and even more so to international business. Average loan volumes, having increased significantly in previous years, declined slightly.

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 locations. We consider the high equity ratios in the financing structures, which average approximately 45 percent and increased slightly compared with the previous year, to be a positive aspect. Despite price trends in the market, which have further widened the gap between market and lending values, our average loan-to-value ratios declined slightly.

MORTGAGE RATES MÜNCHENERHYP
TEN YEAR FIXED RATE | IN %



As of: 02.01.2022

Capital markets business

In line with the business strategy, capital markets business is conducted with restraint. New purchases serve primarily to meet regulatory requirements. Liquid securities are needed to manage liquidity and the cover pools, and also as collateral in ECB repo transactions or tender operations.

Highly liquid sovereign and bank securities continued to trade at very high spread levels and resulted in high total asset costs. As a result, securities purchases were kept to the bare minimum.

New business increased significantly to EUR 743.0 million in 2021 after EUR 97 million in 2020. This was due to reallocations. The portfolio volume fell slightly to EUR 3.6 billion (previous year: EUR 3.7 billion).

Refinancing

MünchenerHyp consistently enjoyed access to funding at good conditions during the reporting year.

In the first six months of the year our focus in terms of large-volume funding transactions was on the issue of Pfandbriefe and uncovered bonds in euros and Swiss francs (CHF).

This began in January 2021 with the issue of a Mortgage Pfandbrief with a volume of EUR 500 million, a term of just under 19 years at a spread of 1 basis point above the mid-swap rate and a coupon of 0.01 percent.

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

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

In addition to the above-mentioned bonds in euros, we issued around 1.1 billion in Swiss francs up to mid-July. Of this, around CHF 700 million was issued via syndicated bonds on the capital market and approximately CHF 400 million via private placements. This lively issuance activity included various terms (from two to 20 years) and product categories (Pfandbrief, senior preferred and senior non-preferred). Most of the senior products were issued as green bonds, which enabled the Bank to appeal to and win over new groups of investors.

The very successful issuing activity in Swiss francs continued in the second half of the year. We issued further Pfandbriefe with a volume of CHF 0.7 billion. About CHF 550 million of this sum was issued via syndicated bonds on the capital market and approximately CHF 150 million via private placements. In 2021 as a whole, bonds in Swiss francs totalling around CHF 1.8 billion were sold, making MünchenerHyp once again one of the most important foreign issuers in Switzerland.

In the second half of the year, we also made a very successful return to the British capital market. For the first time since 2013, we issued a benchmark Pfandbrief in British pounds (GBP). The volume is GBP 350 million, the term just under 3.5 years and the coupon 0.5 percent. Owing to high demand, it was possible to reduce the spread in the course of the transaction. The spread is 39 basis points above gilts (UK sovereign bonds).

In November 2021, we tapped an existing EUR 500 million Pfandbrief with a remaining term of almost 18 years by a further EUR 250 million. The issue was placed at a price of 2 basis points above the mid-swap rate. The outstanding nominal volume of this bond, which matures in 2039, is now EUR 750 million.

MünchenerHyp's total issue volume on the capital market in the year under review was around EUR 6.6 billion. In covered funding, Mortgage Pfandbriefe accounted for EUR 4.1 billion, including our own Mortgage Pfandbriefe deposited with the ECB, with a volume of EUR 2.5 billion for uncovered funding. Once again, no Public Pfandbriefe were issued, in keeping with MünchenerHyp's business strategy.

FINANCIAL PERFORMANCE, FINANCIAL POSITION AND NET ASSETS

Development of earnings

Net interest income[1] increased in the year under review, rising by EUR 54.8 million, or 15.8 percent, to EUR 402.6 million. The increase was driven primarily by strong new business in the year under review and previous years. Net interest income also includes a premium for targeted longer-term refinancing operations III (TLTRO III) with the European Central Bank in the amount of EUR 18.3 million.

Commission paid totalled EUR 142.2 million, up by EUR 19.7 million or 16.1 percent on the previous-year level, thanks to very successful new business. Commission received fell to EUR 12.0 million, resulting in net commission income[2] of minus EUR 130.2 million, compared with minus EUR 109.5 million in the previous year.

This resulted in net interest and commission income[3] of EUR 272.4 million, which corresponds to an increase of EUR 34.1 million, or 14.3 percent compared with the previous year.

General administrative expenses rose by EUR 8.5 million to EUR 126.7 million. This included an increase in personnel costs of EUR 5.0 million, or 8.7 percent. This is due to the continued need to expand the workforce and salary increases.

Other administrative expenses rose by EUR 3.5 million, or 5.8 percent. The expense for the bank levy alone increased by EUR 3.7 million. This means that the increase in the bank levy alone exceeded the increase in the overall item. This shows that very close attention was paid to cost discipline in the year under review.

Depreciation, amortisation and value adjustments of intangible assets and fixed assets fell by EUR 4.0 million year on year to EUR 6.2 million.

Total administrative expenses[4] amounted to EUR 132.9 million compared with EUR 128.4 million in the previous year. The cost-income ratio[5] was 48.8 percent after 53.9 percent in the previous year, and is thus within the target corridor of below 50 percent.

The net result of other operating expenses and income amounted to minus EUR 3.3 million.

The operating result before risk provisions[6] increased by 28.1 percent year on year, to EUR 136.2 million.

The item “Depreciation, amortisation and value adjustments on accounts receivable and certain securities as well as allocations to provisions for possible loan losses” amounted to minus EUR 27.0 million. The required loan loss provisions remained at a very low level despite the ongoing COVID-19 pandemic. The net result of changes in loan loss provisions (including direct write-downs) amounted to minus EUR 5.9 million (previous year: minus EUR 10.1 million).

The early application of IDW RS BFA 7 for the formation of general loan loss provisions for the lending business resulted in an effect of minus EUR 8.0 million. An amount of EUR 6.0 million was set aside for risks arising from a legal dispute.

The item “Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets” amounted to EUR 3.5 million.

Income from ordinary business activities amounted to EUR 112.7 million. After tax expenses of EUR 53.6 million, net income for the financial year comes to EUR 59.1 million, a year on year increase of 56.7 percent.

The return on equity (RoE) before tax amounted to 6.7 percent[7]. After tax, the Bank achieved an RoE of 3.5 percent[8].

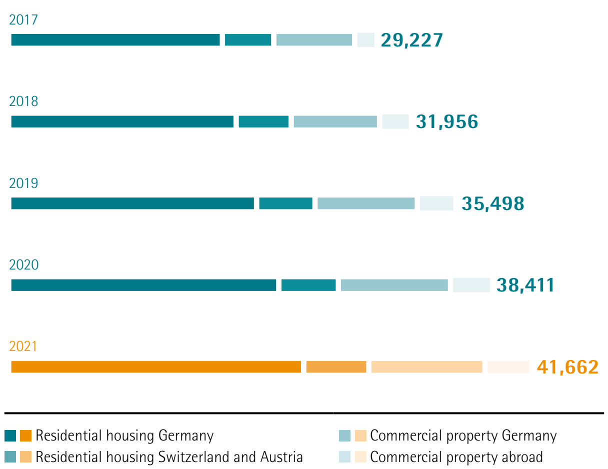
[1] Net interest income is calculated by adding item 1 ‘Interest income’ plus item 3 ‘Current income’ plus item 4 ‘Income from profit-pooling, profit transfer or partial profit transfer agreements’ minus item 2 ‘Interest expenses’ as shown in the income statement.
[2] Net commission income is calculated by offsetting item 5 ‘Commission received’ and item 6 ‘Commission paid’ as shown in the income statement.
[3] The net interest and commission income 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 tangible assets’ as shown in the income statement.
[5] Ratio of total administrative expenses to net interest and net commission income
[6] Net result of items 1 to 10 in the income statement.
[7] RoE before tax is calculated as the ratio of income statement item 14 ‘Results from ordinary activities’ to balance sheet liability item 9 ‚Fund for general banking risks (previous year)’ plus liability item 10aa ‘Members capital contributions (current year)’ plus item 10b ‘Revenue reserves (previous year)’ plus income statement item 18 ‚Retained earnings brought forward from previous year’.
[8] RoE after tax is calculated as the ratio of income statement item 16 ‘Allocation to fund for general banking risks’ plus item 17 ‘Net income’ to balance sheet liability item 9 ‚Fund for general banking risks (previous year)’ plus liability item 10aa ‘Members capital contributions (current year)’ plus item 10b ‘Revenue reserves (previous year)’ plus income statement item 18 ‘Retained earnings brought forward from previous year’.

Balance sheet structure

Total assets increased to EUR 52.5 billion at the end of the 2021 financial year, compared with EUR 48.6 billion at 31 December 2020. This 8 percent increase is mainly due to growth in the mortgage loan business portfolio.

During the course of the year, the mortgage loan portfolio grew by EUR 3.2 billion, to EUR 41.7 billion. Private residential property financing in Germany was once again the fastest growing segment, with growth of EUR 2.0 billion.

PORTFOLIO DEVELOPMENT MÜNCHENERHYP 2017–2021
IN € MILLION



The private residential property financing portfolio is structured as follows: domestic – EUR 23.5 billion (previous year: EUR 21.5 billion); foreign – EUR 5.2 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 13.0 billion (previous year: EUR 12.2 billion). Of this amount, EUR 3.7 billion (previous year EUR 3.2 billion) is attributable to financing outside Germany. The most important international market is the Netherlands with 23 percent (previous year: 21 percent), followed by the USA with 22 percent (previous year: 23 percent), Spain with 18 percent (previous year: 19 percent) and the UK with 15 percent (previous year: 17 percent).

In line with our business and risk strategy, the portfolio of public-sector and bank loans and securities decreased from EUR 3.7 billion to EUR 3.6 billion, EUR 2.2 billion of which was made up of securities and bonds.

At the end of 2021, the net sum of hidden charges and hidden reserves in the securities portfolio amounted to EUR 33 million (previous year: EUR 43 million).

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

The portfolio of long-term funding instruments increased by EUR 2.4 billion to EUR 42.0 billion. Mortgage Pfandbriefe accounted for EUR 30.3 billion of this amount, Public Pfandbriefe for EUR 1.5 billion and uncovered bonds for EUR 10.2 billion. The total volume of funding instruments – including money market funds and customer deposits – increased to EUR 49.7 billion as of 31 December 2021.

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. 21	**2,065,449**	**2,393,353**	**4,458,802**
Registered bonds	**27,908**	**1,514,764**	**1,542,672**
of which institutional investors	27,572	1,360,764	1,388,336
Promissory note loans on the liabilities side	**485,077**	**808,589**	**1,293,666**
of which institutional investors	119,289	507,589	626,878
Other	**1,552,464**	**70,000**	**1,622,464**
of which institutional investors	860,015	70,000	930,015

Members capital contributions grew by EUR 90.1 million, to EUR 1,243.2 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 1,790.1 million (previous year: EUR 1,676.4 million).

Common Equity Tier 1 capital rose from EUR 1,517 million in the previous year to EUR 1,626 million. At 31 December 2021, the Common Equity Tier 1 capital ratio was 20.4 percent (previous year: 20.6 percent), the Tier 1 capital ratio was 21.9 percent (previous year: 22.2 percent) and the total capital ratio was 22.5 percent (previous year: 22.8 percent). The leverage ratio at 31 December 2021 was 3.6 percent (previous year: 3.6 percent).

RATINGS, SUSTAINABILITY AND REGULATORY CONDITIONS

Ratings

In October 2021, the rating agency Moody's confirmed all of MünchenerHyp's ratings. At the same time, it changed the outlook from "negative" to "stable".

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

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 Pfandbrief rating of Aaa, Moody's still only requires compliance with the legally required over-collateralisation, but no additional over-collateralisation.

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

Sustainability

The regulatory requirements of the EU, the ECB, the European Banking Authority (EBA) and BaFin regarding sustainability in corporate governance increased significantly in the year under review. These requirements relate primarily to MünchenerHyp's core business, risk management and reporting.

In the year under review, the focus was particularly on the topics of EU taxonomy, the ECB guide on climate-related and environmental risks, disclosure pursuant to CRR II and the guidelines on loan origination and monitoring (LOaM). In order to implement these requirements, the Board of Management launched a project that encompasses almost all areas of MünchenerHyp and aims to create the processes, structures and data foundations needed for appropriate sustainability management.

In order to embed sustainability even more deeply in the Bank's organisation, an ESG framework was developed in 2021 that defines structures and responsibilities for all sustainability issues, including ESG risk management issues. For this purpose, an ESG committee was set up to advise the Board of Management on all matters relating to sustainability. It consists of representatives from all affected areas and in particular has the task of further developing the sustainability strategy and preparing sustainability-relevant decision proposals for the Board of Management.

The focus of our sustainability activities remains on our core business. In the private residential property financing business, our loans with a social and environmental focus (MünchenerHyp Green Loan and MünchenerHyp Family Loan) accounted for more than 20 percent of new business in private property financing. We publish an annual impact report on the specific environmental value-added of sustainable loans for private and commercial property.

In terms of sustainable securities, in 2021 we issued ESG Pfandbriefe, uncovered senior preferred and non-preferred bonds and commercial paper. Approximately EUR 875 million was successfully placed in this segment in 2021.

In its sustainability rating, ISS ESG awarded MünchenerHyp a rating of C+ for sustainability management in 2020. Although this is a slight downgrade compared with the B- rating received in previous years, it 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.

The agency Sustainalytics introduced a new rating methodology in 2020. It now assesses sustainability commitment using a scoring system from 0 to plus 40. The lower the risk score, the stronger the sustainability management.

MünchenerHyp's risk score in 2021 was 18.5, which corresponds to a low risk. This puts the bank in 5th place in the Thrifts and Mortgages peer group.[9]

The development of the sustainability ratings in 2021/2022 and the two previous years at a glance:

THE DEVELOPMENT OF THE SUSTAINABILITY RATINGS SINCE 2019

	2019	2020	2021/2022
ISS-ESG	Corporate ESG Performance Prime RATED BY ISS ESG B – (Prime Status)	Corporate ESG Performance Prime RATED BY ISS ESG C + (Prime Status)	Corporate ESG Performance Prime RATED BY ISS ESG C + (Prime Status)
Sustainalytics	65 out of 100 points	Risk score of 17.4 (low risk)	Risk score of 18.5 (low risk)

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. In accordance with the Delegated Act specifying the disclosure obligations under Article 8 of the Taxonomy Regulation, we will publish information on our taxonomy-eligible economic activities for the first time in 2021, as well as further key indicators relating to selected risk positions. 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).

Liquidity

The Liquidity Coverage Ratio (LCR) was maintained without issue throughout the year, with values above 400 percent on average. The minimum was above 200 percent. The Net Stable Funding Ratio (NSFR) was always above 110 percent.

Single Supervisory Mechanism for EU banks

The "finalisation" of Basel III also includes the 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 the new regulation, because it will make lending more expensive. The Bank is monitoring developments and, given the currently high Common Equity Tier 1 ratio, 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.

As every year, the ECB conducted the so-called Supervisory Review and Evaluation Process (SREP), comprising a very detailed evaluation of the business model, internal governance and capital and liquidity adequacy. Any additional capital and liquidity requirements are derived from that process. The additional capital adequacy requirement (P2R) imposed within the framework of the SREP amounts to 1.75 percent of total capital; no additional requirements were set for liquidity.

Minimum Requirements for Risk Management (MaRisk)
The German Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement – MaRisk) were updated in the year under review by way of an amendment. However, because the existing European requirements, which MünchenerHyp already fulfilled, were essentially transposed into German law, hardly any change was needed.

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 reference interest 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) were developed and established; existing IBOR reference rates are gradually 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.

REGISTERED OFFICE, EXECUTIVE BODIES, COMMITTEES AND EMPLOYEES

Registered office

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

Executive bodies and committees

The Supervisory Board appointed Ulrich Scheer – previously General Executive Manager – as a member of the Board of Management (CFO) effective as of 1 September 2021.

The Supervisory Board appointed Dr. Holger Horn as Deputy Chairman of the Board of Management (CRO) effective as of 1 January 2022.

The Supervisory Board intends to appoint Markus Wirsen as a member of the Board of Management effective as of 1 April 2022. He was previously Head of Restructuring & Recovery at DZ HYP AG.

In June 2021, the four employee representatives on the Supervisory Board were regularly elected for a new period of office. Reimund Käsbauer, Michael Schäffler and Frank Wolf-Kunz were re-elected. Claudia Schirsch was newly elected to the Supervisory Board. Barbara von Grafenstein stood down from the Board.

The Delegates Meeting was regularly elected for a new period of office during the year under review. Due to the COVID-19 pandemic, the election was conducted by postal vote. Eighty delegates and six substitute delegates were elected.

Employees

In a second year dominated by the COVID-19 pandemic, employee health was the particular focus of our human resources work. With the measures in place, such as the crisis team, working from home and hygiene rules, we were able to maintain the Bank's operations at all times and to contain infections to the extent possible. Since March 2020, around 70 employees have had the coronavirus, almost all of them having been infected outside the Bank. Happily, all have since recovered.

In the second year of the pandemic, there was less inclination to join or leave MünchenerHyp. Both new hires and employee turnover declined compared with 2020. Recruitment remains a key challenge for the Bank given the tight labour market. For this reason, MünchenerHyp's human resources strategy is focused on, among other things, enhancing our employer brand, attracting and promoting talent, creating attractive overall conditions for all employees and offering attractive remuneration.

The Bank employed 624 employees[10] (previous year: 611) on average over the year.

Corporate governance statement in accordance with Section 289f HGB

The proportion of women in the Bank as a whole came to 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 22 percent, at the second level 18 percent and at the third level 31 percent. The proportion of women on the Supervisory Board was 17 percent in 2021. 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.

[10] Number of employees in accordance with Section 267 (5) of the German Commercial Code (Handelsgesetzbuch – HGB); excludes trainees, employees on parental leave, in early retirement or in partial retirement (non-working phase) and employees on leave of absence.

Risk, outlook and opportunities report

RISK REPORT

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

The framework governing business activities is laid down in the business and risk strategy. The MünchenerHyp Board of Management as a whole is responsible for this strategy, which is reviewed regularly to ensure its objectives are being met, revised where necessary and 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 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, property risks and operational risks. Additional risks, such as placement risk, reputational risk, business risk and ESG 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 basic 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 MORTGAGES AND OTHER LOANS
INCLUDING OPEN COMMITMENTS IN €

Loan-to-value ratio	31 Dec. 2021	Relative	31 Dec. 2020	Relative
Up to 60 %	17,712,207,741.73	39.5 %	16,401,392,390.88	39.6 %
> 60 % and <= 70 %	6,840,677,939.84	15.3 %	7,042,011,598.28	17.0 %
> 70 % and <= 80 %	7,817,675,352.88	17.4 %	7,619,966,869.31	18.4 %
> 80 % and <= 90 %	4,114,483,751.81	9.2 %	3,423,715,652.17	8.3 %
> 90 % and <= 100 %	3,513,107,035.49	7.8 %	2,918,027,657.66	7.1 %
Over 100 %	4,826,847,133.62	10.8 %	3,921,580,700.76	9.5 %
Without	1,656,656.42	0.0 %	52,169,575.59	0.1 %
Total	**44,826,655,611.79**	**100.0 %**	**41,378,864,444.65**	**100.0 %**

The regional breakdown within Germany is summarised below:

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

Region	31 Dec. 2021	Relative	31 Dec. 2020	Relative
Baden-Württemberg	3,756,142,446.13	8.4 %	3,459,145,234.81	8.4 %
Bavaria	8,474,865,821.42	18.9 %	7,698,948,641.11	18.6 %
Berlin	2,275,822,809.98	5.1 %	2,156,619,521.57	5.2 %
Brandenburg	764,316,946.44	1.7 %	614,702,291.86	1.5 %
Bremen	146,032,821.18	0.3 %	117,028,114.15	0.3 %
Hamburg	1,216,985,454.59	2.7 %	1,218,687,423.53	2.9 %
Hesse	3,276,664,075.86	7.3 %	3,015,553,722.32	7.3 %
Mecklenburg-West Pomerania	595,844,836.17	1.3 %	556,461,832.57	1.3 %
Lower Saxony	3,196,387,918.79	7.1 %	2,996,660,642.83	7.2 %
North Rhine-Westphalia	5,609,760,400.35	12.5 %	5,223,538,665.42	12.6 %
Rhineland-Palatinate	1,813,885,036.53	4.0 %	1,702,546,791.15	4.1 %
Saarland	431,112,825.77	1.0 %	424,211,558.98	1.0 %
Saxony	1,113,316,958.79	2.5 %	1,088,839,097.08	2.6 %
Saxony-Anhalt	695,276,822.37	1.6 %	634,003,054.63	1.5 %
Schleswig-Holstein	2,052,971,928.16	4.6 %	1,955,811,355.81	4.7 %
Thuringia	355,371,130.18	0.8 %	334,394,103.65	0.8 %
Total domestic	**35,774,758,232.71**	**79.8 %**	**33,197,152,051.47**	**80.2 %**

The international breakdown is as follows:

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

Country	31 Dec. 2021	Relative	31 Dec. 2020	Relative
Austria	224,186,194.19	0.5 %	181,484,755.12	0.4 %
France	472,425,600.20	1.1 %	441,156,481.80	1.1 %
United Kingdom	541,450,654.06	1.2 %	544,295,423.01	1.3 %
Spain	659,341,232.09	1.5 %	611,836,583.85	1.5 %
Luxembourg	105,094,688.44	0.2 %	64,900,000.00	0.2 %
Switzerland	5,224,247,514.15	11.7 %	4,803,985,406.13	11.6 %
Netherlands	868,016,719.22	1.9 %	701,825,145.19	1.7 %
Belgium	105,544,541.73	0.2 %	38,101,461.97	0.1 %
USA	851,590,235.00	1.9 %	794,127,136.11	1.9 %
Total foreign	**9,051,897,379.08**	**20.2 %**	**8,181,712,393.18**	**19.8 %**
Total domestic and foreign	**44,826,655,611.79**	**100.0 %**	**41,378,864,444.65**	**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 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 monitoring, especially in non-retail business.

Broken down by rating classes, the portfolio distribution is as follows:

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

Rating category	31 Dec. 2021	Relative	31 Dec. 2020	Relative
0a to 0b	0.00	0.0 %	0.00	0.0 %
0c to 0e	10,321,572,171.81	23.0 %	9,247,515,408.72	22.3 %
1a to 1c	22,541,286,450.37	50.3 %	21,862,138,711.57	52.8 %
1d to 2a	9,367,647,410.66	20.9 %	8,002,947,835.60	19.3 %
2b to 2c	1,183,501,713.56	2.6 %	1,031,810,223.26	2.5 %
2d to 2e	374,436,327.41	0.8 %	330,512,201.14	0.8 %
3a to 3b	567,687,876.18	1.3 %	530,722,388.44	1.3 %
3c to 3d	212,184,459.98	0.5 %	146,036,067.04	0.4 %
3e	36,082,435.09	0.1 %	20,611,297.77	0.0 %
4a to 4e	221,905,737.35	0.5 %	206,086,646.53	0.5 %
without rating	351,029.38	0.0 %	483,664.58	0.0 %
Total	**44,826,655,611.79**	**100.0 %**	**41,378,864,444.65**	**100.0 %**

The Bank sets up a general loan loss provision as a precaution to cover latent credit risks. This general loan loss provision is calculated based on an expected credit loss model, with the IFRS 9 methodology being adopted for levels 1 and 2 and applied to the HGB assessment basis. Latent default risks are thus taken into account at an early stage compared with the previous calculation based on the letter by the German Federal Ministry of Finance dated 10 January 1994. The early application of IDW RS BFA 7 via an expected credit loss model leads to an increase in general loan loss provisions of EUR 8 million.

As property markets remain largely very stable despite the COVID-19 pandemic, specific loan loss provisions continue to be recognised at 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	29.5	7.7	– 2.6	– 0.7	0.7	34.6
General provisions	13.0	8.0	0.0	0.0	0.0	21.0

* Including a provision for irrevocable loan commitments in the amount of EUR 1.0 million.

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: 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.

Share price 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 a historic simulation. The impact of extreme movements in risk factors is also measured here and for other types of risks using various stress scenarios.

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

- Supervisory requirements:
  - The yield curve is shifted up and down in parallel by 200 basis points for each currency separately. The poorer of the two results is taken into account 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 42 million. The average figure was approximately EUR 29 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 a 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.
- COVID-19 crisis: this scenario reflects the change in credit spreads in the wake of the COVID-19 crisis between 28 February and 18 March 2020. Spreads increased significantly in all asset classes during this period.

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 223 million in the reporting year, while the average figure was about EUR 212 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. Since 30 June 2021, the mandatory minimum level of 100 percent imposed by the supervisory authority for compliance with the NSFR has applied.

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 2021, the portfolio volume was EUR 524 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 the Bank will face 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 plays a crucial role in this. The starting point for the annual strategy cycle is a strategic review comprising an audit of the implementation and impact of the adopted measures. As part of the annual planning that follows the strategy 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 global economic recovery lost momentum at the start of 2022. Above all, the possible effects of the new, rapidly spreading Omicron variant, are creating new uncertainties. Many economic researchers fear that Omicron could severely inhibit the recovery of the global economy by delaying the normalisation of economic and social life. Rising energy prices accompanied by higher-than-expected inflation across a broad front pose a further risk to the global economy. Against this background, the IMF expects the global economy to grow by 4.4 percent in 2022, a far more moderate rate compared with the year under review. At the time of writing this report, it was not yet possible to foresee the consequences for the global economy of the Russian attack on Ukraine. Massively rising energy prices and a slowing recovery of the global economy are expected.

For the eurozone, the IMF forecasts growth of 3.9 percent. Here, too, the current wave of the coronavirus pandemic in particular is delaying the economic recovery. Inflation will also remain high. The ECB forecasts an inflation rate of 3.2 percent for 2022.

The German economy, on the other hand, is expected to grow at a higher rate in 2022 than in the year under review. In its Annual Economic Report, the German government expects gross domestic product to grow by 3.6 percent in 2022. According to forecasts, the economic recovery will be interrupted by the winter phase of the pandemic, but not as severely as in 2021. An increasing upswing is predicted from the second quarter onwards, which will receive impetus primarily from private consumption and corporate investment. Forecasts for the construction industry are also positive. The German Institute for Economic Research (DIW) expects residential construction volume to increase by 12.7 percent in 2022, due in particular to spending on energy-saving renovations. Inflation will remain high in 2022, reaching 3.3 percent according to German government estimates. A stable trend is expected for the labour market, as the shortage of skilled workers is likely to increase. The German government therefore expects the unemployment rate to fall to 5.1 percent.

In view of rising inflation rates and the weakened but nevertheless continuing economic recovery, many central banks are planning to tighten monetary policy. The US Federal Reserve, for example, intends to cease bond purchases as early as March 2022 and start raising interest rates. The Fed is now expected to hike interest rates three to four times during 2022. Two rate hikes are expected from the Bank of England. The ECB will end its PEPP purchase programme in March and plans to end the APP purchase programme by the end of 2022. After that, interest rate hikes could also be on the cards for the eurozone.

On the foreign exchange market, a slightly positive performance is expected for the euro and more of a downward trend for the US dollar, as the eurozone's economic recovery is thought to have greater potential. In the medium term, however, it remains to be seen how far the ECB will follow other central banks in raising interest rates, potentially causing higher euro exchange rates due to its own interest rate measures. The British pound could benefit from further interest rate hikes by the Bank of England in the short term. As far as the Swiss franc is concerned, we expect only minor fluctuations and more or less stable exchange rates in 2022.

Funding spreads for banks could come somewhat under pressure due to the repayment of TLTRO tenders. A prolongation of the long-term tenders is generally expected, but at less attractive conditions. All in all, the ECB's reduced purchase programmes and repayments of TLTRO tenders should result in less excess liquidity on the market and lead to slightly rising interest rates and higher funding spreads for banks.

For covered bond markets, experts predict significantly higher issuing activity in 2022 due to the repayment of TLTRO tenders. Covered bonds which were previously funded in part via the ECB's low-cost tender programme would then be increasingly offered through public transactions once more. A slight widening of spreads is therefore expected. A new issue volume for benchmark covered bonds denominated in euros of EUR 120 billion is forecast for 2022.

Property markets and property financing markets

The outlook for the residential and commercial property markets is mixed. On the one hand, experts do not expect any fundamental changes compared with the positive trend of 2021; on the other hand there are risks and uncertainties. This applies in particular to the further course of the COVID-19 pandemic and its economic effects as well as possible exaggerations, especially in residential property markets. In addition, there are uncertainties about possible economic effects of the war in Ukraine.

For residential property markets in our target countries of Germany, Switzerland and Austria, prices are forecast to continue rising, as demand continues to exceed supply, especially in Germany. With regard to interest rates, experts expect a slight increase in 2022. Nevertheless, interest rates will remain low in a long-term comparison. Demand will be supported by higher inflation, as property is also seen as protecting against inflation. High purchase prices and the new building campaign (Neubauoffensive) planned by the German government are perceived as having a dampening effect on price development. Overall, the experts therefore expect a certain slowdown in price growth compared with the previous year.

Against this background, we expect demand for property financing to remain high in our three target markets. How the introduction of the countercyclical capital buffer and the capital buffer for systemic risks by BaFin in Germany will affect prices and demand for property could not yet be reliably estimated at the time of writing this report.

Demand is predicted to remain high in the commercial residential property markets, as Germany is internationally regarded as one of the most stable and liquid markets in this segment.

In the case of commercial properties, the pandemic's impact on the market differs depending on the various types of use, for which there are different forecasts. Overall, however, demand is expected to remain stable. For example, a transaction volume of between EUR 80 and 90 billion for commercial properties and commercial residential investments is forecast for Germany, which is on a par with the level recorded in 2021 excluding the Vonovia/Deutsche Wohnen deal.

The outlook for office property in our target markets in Europe and the USA has improved. In some markets, demand for space is rising again and rents are growing as a result. Both tenants and investors place increasing value on modern spaces that meet sustainability criteria. We expect this trend to continue, resulting in an increase in vacancies in most cities due to older and outdated spaces. For institutional investors, office properties thus remain an attractive asset class, especially as stable prime rents are expected for 2022. In competing for the best properties, investors are prepared to pay high prices, meaning that net initial yields are expected to decline in the cities.

The market for retail properties will see further consolidation of retail chains in 2022, leading to rising vacancies in the city centres and shopping centres. Prime rents will continue to fall in both commercial buildings and shopping centres; market value corrections must also be expected. International retail chains will take advantage of competitors' branch closures to secure business premises in prime locations. Hence, we expect letting activity to continue, but at lower rents and with shorter terms, because retail chains do not want to make long-term commitments. Investors, on the other hand, are increasingly interested in specialist stores, retail parks and local shopping facilities, because these usually have longer lease terms than shopping centres or commercial buildings.

Business development at Münchener Hypothekenbank

In our new business plans, we anticipate further economic recovery and stable demand in our target markets for private and commercial property financing. Therefore, we are planning for moderate growth of new business in our two core business segments in 2022. Whether we achieve this goal is accompanied by increasing uncertainties. This applies in particular to the potential impact of the war in Ukraine on economic development and consequently on the property markets. In addition, there is the continuing high inflation as well as possible new waves of the pandemic caused by mutations of the coronavirus.

In the business segment of private residential property financing, we want to take advantage of the opportunities offered by the expected high demand for property financing in particular. Since competition among providers in Germany, Switzerland and Austria will remain as keen as ever, we will step up our market cultivation efforts.

In association business with the banks of the Cooperative Financial Network, we will carry out two regional sales campaigns that will strengthen our market presence with attractive offers. We will also continue to digitalise and speed up our lending processes.

In our cooperation with independent financial service providers, we see further potential for growth due to strong demand for housing in the property and financing markets, although we do not expect new business to continue developing at the dynamic rate seen in 2021.

In Switzerland, we want to at least maintain the level of new business achieved in 2021. We see potential for further new business in the market strength of PostFinance and the high demand for residential property financing in Switzerland. For the financing business in Austria, we expect significant growth and plan to gradually enter into further partnerships with Austrian financing intermediaries.

We aim to strategically expand the second core business segment of commercial property financing by pursuing a moderate growth trajectory. This applies to both domestic and international business. Implementation depends on the general economic conditions and the pandemic. As for the COVID-19 pandemic, we assume it will have a significant but temporary impact. It is important to assess the associated risks in a forward-looking and conservative manner, paying particular attention to the economic risks. In this respect, when making financing decisions we will continue to prioritise the criteria for a positive assessment, being the viability of the location and the sustainability of individual cash flows, in line with our business and risk strategy.

As we expect interest rates to rise only slightly, we assume stable financing conditions. The inflow of capital from investors and institutional buyers into the asset class of property will therefore remain high, given the continuing lack of alternative, more profitable forms of investment. Hence, there will continue to be sufficient financing opportunities for MünchenerHyp.

We also expect increasing transaction activity on the national and international syndication markets in 2022, as this market has largely tolerated the uncertainty created by the COVID-19 pandemic and the trend towards large volumes of financing is continuing. However, only a few banks are willing to leave such financing volumes entirely on the balance sheet. We therefore expect MünchenerHyp's loan participation volume to rise in 2022 compared with the previous year. On the other hand, we expect demand for underwriting transactions in direct business to increase again. Here, MünchenerHyp provides the overall financing and subsequently surrenders portions of the 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 2022, we expect stable development of our portfolio volume, as maturing securities will have to be replaced to manage liquidity.

For 2022, we forecast a funding requirement of between EUR 9.0 billion and EUR 10.5 billion, of which EUR 7.5 billion to EUR 8.0 billion is expected to be raised on the capital market and the remainder on the money market. We plan to launch three to four large-scale issues. 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 2022 financial year: a Mortgage Pfandbrief with a volume of EUR 1.125 billion in June and a Mortgage Pfandbrief with a volume of USD 600 million in December.

We will further develop our sustainability strategy in 2022 based on the defined key themes (sustainable business model, responsible corporate governance, climate change and CO_2 emissions, risk management, social responsibility, customers and business partners, employees). We will also focus on the implementation of regulatory requirements with regard to sustainability and ESG risks.

We are aiming to achieve a moderate increase in net interest income generated from business operations in 2022. 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.

We expect loan loss provisions to increase slightly compared with 2021. This is due to the increased portfolios and, in particular, the macroeconomic uncertainties described above.

In the current market environment, we are nevertheless confident that we will attain our targets for the 2022 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 2021

ASSETS
IN €

		31 Dec. 21	€ 000 31 Dec. 20
1. Cash reserve			
a) Cash on hand	8,796.12		9
b) Balances with central banks	574,566,979.14		151,901
of which: with Deutsche Bundesbank € 574,566,979.14			
		574,575,775.26	**151,910**
2. Claims on banks			
a) Mortgage loans	200,820.73		1,804
b) Public-sector loans	100,618,954.28		100,576
c) Other claims	1,538,332,814.59		1,833,316
of which: payable on demand € 860,064,160.54			
		1,639,152,589.60	**1,935,696**
3. Claims on customers			
a) Mortgage loans	41,555,682,120.04		38,319,055
b) Public-sector loans	1,351,009,628.59		1,754,449
c) Other claims	139,172,647.16		191,434
		43,045,864,395.79	**40,264,938**
4. Bonds and other fixed-income securities			
a) Bonds and notes	2,213,810,841.00		1,906,376
aa) Public-sector issuers € 1,591,894,268.88			(1,116,468)
of which: eligible as collateral for Deutsche Bundesbank advance € 1,554,425,667.08			
ab) Other issuers € 621,916,572.12			(789,908)
of which: eligible as collateral for Deutsche Bundesbank advance € 479,841,010.53			
b) Own bonds and notes	4,500,101,743.06		3,750,170
Nominal value € 4,500,000,000.00			
		6,713,912,584.06	**5,656,546**
Carried forward		51,973,505,344.71	48,009,090

Assets continued on page 39

Assets continued from page 38

ASSETS
IN €

		31 Dec. 21	€ 000 31 Dec. 20
Brought forward:		51,973,505,344.71	48,009,090
5. Equities and other variable-yield securities		**147,000,000.00**	**147,000**
6. Participations and shares in cooperatives			
a) Participations	102,726,167.61		104,535
of which: credit institutions € 21,146,905.41			
b) Shares in cooperatives	18,500.00		19
of which: in credit cooperatives € 15,500.00			
		102,744,667.61	**104,554**
7. Shares in affiliated companies		**11,751,601.64**	**12,352**
8. Intangible assets			
Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	1,361,040.87		4,203
		1,361,040.87	**4,203**
9. Tangible assets		**65,923,645.34**	**67,105**
10. Other assets		**139,905,293.28**	**144,641**
11. Deferred items			
a) From issuing and lending business	95,482,199.69		68,762
b) Other	556,249.87		711
		96,038,449.56	**69,473**
Total assets		**52,538,230,043.01**	**48,558,418**

LIABILITIES, CAPITAL AND RESERVES
IN €

		31 Dec. 21	€ 000 31 Dec. 20
1. Liabilities to banks			
a) Registered Mortgage Pfandbriefe issued	700,885,229.96		704,383
b) Registered Public Pfandbriefe issued	84,267,413.73		85,919
c) Other liabilities	7,288,048,674.84		6,828,229
of which: payable on demand € 1,171,327,026.45			
		8,073,201,318.53	**7,618,531**
2. Liabilities to customers			
a) Registered Mortgage Pfandbriefe issued	9,068,509,005.09		9,157,495
b) Registered Public Pfandbriefe issued	1,339,299,948.51		1,808,582
c) Other liabilities	4,458,802,692.24		3,881,626
of which: payable on demand € 29,890,185.03			
		14,866,611,645.84	**14,847,703**
3. Certificated liabilities			
a) Bonds issued	26,718,552,638.91		23,887,921
aa) Mortgage Pfandbriefe € 20,706,065,922.64			(19,174,300)
ab) Public Pfandbriefe € 66,081,222.64			(96,098)
ac) Other bonds and fixed-income securities € 5,946,405,493.63			(4,617,523)
b) Other certificated liabilities	657,136,339.05		164,058
of which: money market paper € 657,136,339.05			
		27,375,688,977.96	**24,051,979**
4. Other liabilities		165,643,285.51	**140,379**
Carried forward		50,481,145,227.84	46,658,592

Liabilities continued on page 41

Liabilities continued from page 40

LIABILITIES, CAPITAL AND RESERVES
IN €

			€ 000
		31 Dec. 21	31 Dec. 20
Brought forward:		50,481,145,227.84	46,658,592
5. Deferred items			
From issuing and lending business	77,456,245.24		60,323
		77,456,245.24	**60,323**
6. Provisions			
a) Provisions for pensions and similar obligations	36,182,293.00		34,922
b) Provisions for taxes	14,450,000.00		595
c) Other provisions	51,172,575.00		36,810
		101,804,868.00	**72,327**
7. Subordinated liabilities		19,500,000.00	**49,700**
8. Instruments of the additional regulatory core capital		120,995,063.40	**115,719**
9. Fund for general banking risks		55,000,000.00	**55,000**
10. Capital and reserves			
a) Subscribed capital	1,243,221,000.00		1,153,052
aa) Members capital contributions € 1,243,221,000.00			(1,153,052)
b) Revenue reserves	372,000,000.00		347,000
ba) Legal reserve € 366,000,00.00			(341,000)
bb) Other revenue reserves € 6,000,000.00			(6,000)
c) Unappropriated profit	67,107,638.53		46,705
		1,682,328,638.53	**1,546,757**
Total liabilities, capital and reserves		52,538,230,043.01	**48,558,418**
1. Contingent liabilities			
Contingent liability on guarantees and indemnities		766.94	1
2. Other commitments			
Irrevocable loan commitments		5,126,313,844.21	4,750,652

Income statement

FOR THE YEAR ENDED 31 DECEMBER 2021

INCOME STATEMENT
IN €

			1 Jan. to 31 Dec. 21	€ 000 1 Jan. to 31 Dec. 20
1. Interest income from			940,668,072.39	958,386
a) Lending and money market operations		893,614,994.79		916,363
of which: negative interest on financial assets	5,623,228.41			3,221
b) Fixed-income securities and government debt register claims		47,053,077.60		42,023
2. Interest expenses			541,705,127.45	612,036
of which: positive interest on financial liabilities	49,762,630.51			18,712
3. Current income from			3,570,301.41	1,419
a) Shares and other non-fixed income securities		0.00		0
b) Participating interests and shares in cooperatives		2,470,301.41		519
c) Investments in affiliated companies		1,100,000.00		900
4. Income from profit-pooling, profit transfer or partial profit transfer agreements			69,318.18	31
5. Commission received			12,047,082.52	13,007
6. Commission paid			142,199,744.88	122,471
7. Other operating income			2,859,374.74	2,561
8. General administrative expenses			126,728,884.40	118,172
a) Personnel expenses		63,043,536.17		58,002
aa) Wages and salaries	53,161,157.45			47,123
ab) Social security contributions and cost of pensions and other benefits	9,882,378.72			10,879
of which: for pensions € 1,978,350.70				3,334
b) Other administrative expenses		63,685,348.23		60,170
9. Depreciation, amortisation and write-downs of intangible and tangible assets			6,210,664.26	10,213
10. Other operating expenses			6,122,129.55	6,157
11. Write-downs on and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions			27,017,864.95	10,603
12. Depreciation, amortisation and write-downs of participating interests, shares in affiliated companies and securities treated as fixed assets			0.00	412
13. Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets			3,493,197.43	0
14. Results from ordinary business activities			112,722,931.18	95,340
15. Taxes on revenue and income			53,652,421.33	37,639
16. Allocation to fund for general banking risks			0.00	20,000
17. Net income			59,070,509.85	37,701
18. Retained earnings brought forward from previous year			33,037,128.68	24,004
19. Allocation to revenue reserves			25,000,000.00	15,000
a) Legal reserve		25,000,000.00		15,000
b) Other revenue reserves		0.00		0
20. Unappropriated profit			67,107,638.53	46,705

Statement of development in equity capital and cash flow statement

STATEMENT OF DEVELOPMENT IN EQUITY CAPITAL FOR 2021
IN € 000

	Subscribed capital				
	Members capital contributions	Silent participations	Revenue reserves	Unappropriated profit	Total capital and reserves
Capital and reserves as of 1 Jan. 2020	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
Net change in capital	90,170				90,170
Dividends paid				13,668	13,668
Net income			25,000	34,071	59,071
Capital and reserves as of 31 Dec. 2021	1,243,221		372,000	67,108	1,682,329

CASH FLOW STATEMENT 2021

IN € MILLION

	31 Dec. 21
1. Profit for the period	59.1
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	23.8
3. Increase / decrease in provisions	29.5
4. Other non-cash expenses / income	– 0.2
5. Gain / loss on disposal of fixed assets	4.1
6. Other adjustments (net)	0.0
7. Increase / decrease in receivables from credit institutions	282.3
8. Increase / decrease in receivables from customers	– 2,812.8
9. Increase / decrease in securities (unless classified as long term financial assets)	– 750.1
10. Increase / decrease in other assets relating to operating activities	37.4
11. Increase / decrease in liabilities to credit institutions	506.8
12. Increase / decrease in liabilities to customers	40.2
13. Increase / decrease in securitised liabilities	3,327.1
14. Increase / decrease in other liabilities relating operating activities	– 437.7
15. Interest expense / interest income	– 160.8
16. Income tax expense / income	– 14.4
17. Interest and dividend payments received	594.6
18. Interest paid	– 31.2
19. Income taxes paid	– 39.3
20. Cash flows from operating activities (total of lines 1 to 19)	**658.4**
21. Proceeds from disposal of long-term financial assets	– 726.6
22. Payments to acquire long-term financial assets	416.7
23. Proceeds from disposal of tangible fixed assets	0.0
24. Payments to acquire tangible fixed assets	– 1.7
25. Proceeds from disposal of intangible fixed assets	0.0
26. Payments to acquire intangible fixed assets	– 0.6
27. Cash flows from investing activities (total of lines 21 to 26)	**– 312.2**
28. Proceeds from capital contributions	90.2
29. Dividends paid to shareholders	– 13.7
30. Changes in cash funds relating to other capital (net)	0.0
31. Cash flows from financing activities (total of lines 28 to 30)	**76.5**
32. Net change in cash funds	422.7
33. Effect on cash funds of exchange rate movements and remeasurements	0.0
34. Cash funds at beginning of period	151.9
35. Cash funds at end of period (total of lines 32 to 34)	**574.6**

Notes

General information on accounting policies

The Münchener Hypothekenbank eG annual financial statements as of 31 December 2021 were 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. Due to early application of IDW RS BFA 7 as of 31 December 2021 general allowances are calculated using an Expected Credit Loss model, whereby the IFRS 9 methodology is employed for stage 1 and 2 and applied using the German Commercial Code's (HGB) basis for assessment. Taking into account the probability of default, the loss given default and the exposure at default, general allowances are created for latent default risks for all transactions reported under the balance sheet items loans and advances to credit institutions and loans and advances to customers, as well as for irrevocable loan commitments. General allowances for irrevocable loan commitments are reported in the balance sheet in the form of a provision. All transactions not subject to a specific allowances requirement test are assigned to stage 1 and 2, whereby the expected 12-month expected loss is calculated for stage 1 and the lifetime expected loss is calculated for stage 2. All transactions are generally assigned to stage 1 at the time they are acquired. The assignment to stage 2 is made at the balance sheet date if the transaction's risk of default has increased significantly compared to the risk of default when the transaction was originally acquired. The relevant point-in-time parameters for calculating risk provisions are determined on the basis of macroeconomic forecasts, which are updated quarterly by Münchener Hypothekenbank's stress testing committee on the basis of external macroeconomic data.

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. Scheduled depreciation is carried out in accordance with the normal useful life. Due to technical innovation, the normal useful life for software is based on empirical business reality. Low-value business assets are treated in accordance with tax regulations. Non-scheduled depreciation is taken in the event of a permanent loss in value.

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 1.87 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. 21	31 Dec. 20
Claims on banks	**1,639,153**	**1,935,696**
– Three months	1,538,396	1,833,349
– Three months – one year	16	67
– One year – five years	55	312
– Five years	100,686	101,968
Claims on customers	**43.045.864**	**40,264,938**
– Three months	758.232	798,783
– Three months – one year	1,936,432	1,524,926
– One year – five years	12,446,834	11,272,022
– Five years	27,904,366	26,669,207
Bonds and other fixed-income securities ≤ one year	**242,615**	**335,009**

LIABILITIES, CAPITAL AND RESERVES
IN € 000

	31 Dec. 21	31 Dec. 20
Liabilities to banks	**8,073,201**	**7,618,530**
– Three months	1,441,538	1,880,534
– Three months – one year	320,505	282,129
– One year – five years	4,908,741	4,036,414
– Five years	1,402,417	1,419,453
Liabilities to customers	**14,866,612**	**14,847,703**
– Three months	917,821	963,929
– Three months – one year	1,329,639	1,111,891
– One year – five years	1,263,893	986,402
– Five years	11,355,259	11,785,481
Certificated liabilities	**27,375,689**	**24,051,979**
Bonds issued		
– Three months	523,286	559,029
– Three months – one year	1,938,249	2,394,972
– One year – five years	11,265,756	8,440,760
– Five years	12,991,262	12,493,160
Other certificated liabilities		
– Three months	331,905	164,058
– Three months – one year	325,231	0

Claims on | Liabilities

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

	31 Dec. 21				31 Dec. 20			
	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	669,230	0	0	0	840,621
Claims on customers	0	0	0	0	0	0	0	0
Bonds and other fixed-income securities	0	0	92,076	0	0	0	104,407	0
Liabilities to banks	0	0	0	554,447	0	0	0	686,454
Liabilities to customers	0	3,492	0	0	0	2,943	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. 21		31 Dec. 20	
Asset category	Listed	Unlisted	Listed	Unlisted
Bonds and other fixed-income securities	1,985,441	209,463	1,624,446	259,762
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	165,213	18,213	0

Subordinated assets

SUBORDINATED ASSETS
IN € 000

	31 Dec. 21	31 Dec. 20
Bonds and other fixed-income securities	92,076	92,076

Trading book

As of 31 December 2021, 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. 21	Net book value on 31 Dec. 20
Bonds and other fixed-income securities	1,906,376	+ 307,435	2,213,811	1,906,376
Shares and other non fixed-income securities	0	0	0	0
Participations and shares in cooperatives	104,554	- 1,809	102,745	104,554
Shares in affiliated companies	12,351	- 600	11,751	12,351

	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. 21	Net book value on 31 Dec. 20
Intangible assets	40,592	557			41,149	36,389	3,399					39,788	1,361	4,203
a) Internally generated commercial property rights and similar rights and assets	5,241				5,241	5,241						5,241	0	0
b) Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	35,351	557			35,908	31,148	3,399					34,547	1,361	4,203
Tangible assets	100,228	1,697	1,109		100,816	33,123	2,812			1,043		34,892	65,924	67,105

[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 € 600 thousand to the lower fair value of € 600 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 € 808,327 thousand (previous year: € 620,404 thousand) exceeding the present value of € 799,074 thousand (previous year: € 618,483 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 € 2,194,904 thousand (previous year: € 1,884,209 thousand) are marketable securities.

Shareholdings

SHAREHOLDINGS
IN € 000

	Percentage of capital held	Equity	Profit / loss
M-Wert GmbH, Munich [1]	100.00	773	499
Immobilienservice GmbH der Münchener Hypothekenbank eG, Munich (profit transfer agreement) [2]	100.00	509	69
Nußbaumstraße GmbH & Co. KG, Munich [2]	100.00	11,476	391
M-4tec GmbH, Munich [1]	100.00	1,235	– 684

[1] Annual financial statements 2020.
[2] Annual financial statements 2021.

Tangible assets

The portion of the total value attributable to the land and buildings used by the Bank is € 53,983 thousand (previous year: € 54,941 thousand), and of plant and office equipment € 2,914 thousand (previous year: € 2,947 thousand).

Other assets

The item "Other assets" includes deferred items of € 49,226 thousand related to the derivative business, and € 67,618 thousand in commissions for mortgage loans that will be paid after the balance sheet date. Furthermore this item also includes € 18,469 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. 21	31 Dec. 20
Assets side 11.		
Discount from liabilities	71,983	49,781
Premium from claims	3,827	4,810
Other deferred charges	20,228	14,882
Liabilities side 5.		
Premium from liabilities	58,079	51,776
Discount from claims	1,274	674
Other deferred income	18,104	7,873

The remaining deferred items include compensatory payments by the Bank to derivative counterparties due to a change in the collateralisation 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 € 4,292,000 thousand (previous year: € 3,400,000 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 € 1,286,540 thousand (previous year: € 1,691,470 thousand) was provided. Securities valued at € 14,734 thousand (previous year: € 14,202 thousand) were pledged to secure pension obligations and requirements of the partial retirement model for older employees. Securities valued at € 20,000 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 € 548,451 thousand (previous year: € 473,603 thousand) were assigned to secure loans obtained from credit institutions.

Pursuant to Section 12 Para. 5 of the Restructuring Fund Act (Restrukturierungsfondsgesetz – RStruktFG) € 18,469 thousand in cash collateral has been pledged.

Other liabilities

The item "Other liabilities" consists of € 112,882 thousand for deferred items and adjustment items for valuation of foreign currency items, and € 29,910 thousand related to derivative transactions, as well as interest deferrals for an Additional Tier 1 (AT1) bond of € 2,195 thousand.

Subordinated liabilities

Subordinated liabilities incurred interest expenses of € 1,508 thousand (previous year: € 3,663 thousand).

Subordinated liabilities which individually exceed 10 percent of the overall statement amount to:

Nominal amount	Currency	Interest rate	Maturity date
3,000,000.00	EUR	5.10	07.07.2022
4,500,000.00	EUR	5.57	25.03.2022
10,000,000.00	EUR	6.01	01.12.2022

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

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

Additional Tier 1 Capital Instruments

Additional Tier 1 (AT1) capital with a total nominal value of CHF 125 million, or a book value of € 121 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 € 3,657 thousand on the balance sheet date, of which € 2,195 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. 21	31 Dec. 20
Capital contributions	1,243,221,000.00	1,153,051,340.00
a) of remaining members	1,231,501,180.00	1,150,101,680.00
b) of former members	10,128,160.00	2,715,160.00
c) in respect of shares under notice	1,591,660.00	234,500.00
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. 2021	341,000	6,000
Transfer from 2020 retained earnings	0	0
Transfer from 2021 net income	25,000	0
31 Dec. 2021	366,000	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 € 2,435 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. 21	31 Dec. 20
Assets side	6,603,665	6,139,207
Liabilities side	5,723,114	4,434,524
Contingent liabilities and other obligations	364,131	384,874

Other commitments

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

Interest expenses

This item includes the premium for targeted longer-term refinancing operations (TLTRO II program and TLTRO III program) shown as a negative interest expense of € 39,058 thousand (previous year: € 9,992 thousand). The amount attributable to the previous year 2020 is EUR 9,019 thousand (previous year: EUR 0.00 thousand).

Other operating expenses

This item contains expenses arising from adding interest effects of € 3,127 thousand (previous year: € 3,553 thousand) for established provisions.

Write-downs on and value allowances of loans and advances and specific securities, as well as additions to loan loss provisions.

The item "Depreciation, amortisation and value adjustments on accounts receivables and certain securities as well as allocations to provisions for possible loan losses" amounted to minus EUR 27,018 thousand (previous year: EUR 10,603 thousand). The provisions for possible loan losses were at a very low level despite the ongoing coronavirus pandemic.
The net result of changes in loan loss provisions (including direct amortisation and depreciation) amounted to minus EUR 5,894 thousand (previous year: minus EUR 10,102 thousand). The early application of IDW RS BFA 7 for the formation of general loan loss provisions for the lending business resulted in an effect of minus EUR 8,050 thousand (previous year: EUR 0.00 thousand), of which EUR 1,000 thousand (previous year: EUR 0.00 thousand) was in the form of a provision for latent default risks for commitments. An amount of EUR 6,000 thousand was set aside for risks arising from a legal dispute.

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	8,939	24,201	47,890	81,031	-232
Interest rate options					
– Calls	2	94	810	906	69
– Puts	73	46	3	122	-1
Other interest rate contracts	250	57	3,057	3,365	59
Currency-related transactions					
Cross-currency swaps	1,530	2,864	343	4,737	-104
Currency swaps	562	0	0	562	3

[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 € 38.7 million (previous year: € 39.1 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 € 284.0 million (previous year: € 299.9 million) and "Liabilities to banks" with € 288.8 million (previous year: € 304.9 million) or "Claims on customers", which amounted to € 10.3 million (previous year: € 10.3 million) while "Liabilities to customers" were € 15.2 million (previous year: € 15.5 million). The accrual of compensatory payments made is entered under "Other assets" with €10.6 million (previous year: € 7.9 million); the accrual of compensatory payments received is entered under "Other liabilities" with € 29.9 million (previous year: € 36.2 million).

Compensatory items in the amount of € 112.9 million (previous year: € 99.8 million) related to the valuation of foreign currency swaps are carried under the balance sheet item "Other liabilities".

The counterparties of derivative contracts 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, € 1,986 million (previous year: € 1,643 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 € 301 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 2021.

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. 21	31 Dec. 20
Ordinary cover assets	31,558,599	29,509,670
1. Claims on banks (mortgage loans)	195	1,796
2. Claims on customers (mortgage loans)	31,505,940	29,455,410
3. Tangible assets (charges on land owned by the Bank)	52,464	52,464
Substitute cover assets	615,414	600,414
1. Other claims on banks	0	0
2. Bonds and other fixed-income securities	615,414	600,414
Total cover	**32,174,013**	**30,110,084**
Total Mortgage Pfandbriefe requiring cover	30,297,713	28,846,300
Surplus cover	1,876,300	1,263,784

B. PUBLIC PFANDBRIEFE
IN € 000

	31 Dec. 21	31 Dec. 20
Ordinary cover assets	1,480,866	1,958,141
1. Claims on banks (public-sector loans)	25,000	100,564
2. Claims on customers (public-sector loans)	1,320,866	1,712,577
3. Bonds and other fixed-income securities	135,000	145,000
Substitute cover assets	0	0
1. Other claims on banks	0	0
2. Bonds and other fixed-income securities	0	0
Total cover	**1,480,866**	**1,958,141**
Total public-sector Pfandbriefe requiring cover	1,456,322	1,945,094
Surplus cover	24,544	13,047

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. 21	31 Dec. 20	31 Dec. 21	31 Dec. 20	31 Dec. 21	31 Dec. 20
Mortgage Pfandbriefe	30,297,713	28,846,300	32,742,132	32,919,871	30,714,992	30,295,939
Cover pool	32,174,013	30,110,084	36,715,063	36,066,459	34,255,079	33,084,816
of which further cover assets	615,414	600,414	766,343	699,138	718,235	668,546
Over-collateralisation	**1,876,300**	**1,263,784**	**3,972,931**	**3,146,588**	**3,540,087**	**2,788,877**

[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. 21		31 Dec. 20	
Residual term	Mortgage Pfandbriefe	Cover pool	Mortgage Pfandbriefe	Cover pool
≤ 0.5 year	1,251,813	989,807	1,258,120	827,004
> 0.5 year and ≤ 1 year	691,743	1,324,077	1,237,079	1,038,094
> 1 year and ≤ 1.5 years	1,174,247	1,336,689	1,250,335	1,075,649
> 1.5 years and ≤ 2 years	1,170,388	1,308,949	550,349	1,348,741
> 2 years and ≤ 3 years	1,435,033	3,024,537	1,900,130	2,642,447
> 3 years and ≤ 4 years	1,362,515	2,761,418	990,322	3,047,510
> 4 years and ≤ 5 years	3,345,001	2,604,343	1,352,787	2,555,621
> 5 years and ≤ 10 years	7,477,722	9,273,499	8,936,315	8,867,721
> 10 years	12,389,251	9,550,694	11,370,863	8,707,297

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

IN € 000

	31 Dec. 21				31 Dec. 20			
		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	457,000	0	0	457,000	442,000	0	0	442,000
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	**615,414**	**0**	**0**	**615,414**	**600,414**	**0**	**0**	**600,414**

Key figures for Pfandbriefe outstanding and their cover

OUTSTANDING MORTGAGE PFANDBRIEFE

	Figures in	31 Dec. 21	31 Dec. 20
Outstanding Mortgage Pfandbriefe	€ 000	30,297,713	28,846,300
thereof share of fixed-rate Pfandbriefe, Section 28 (1) No 9	%	84	86

ORDINARY COVER ASSETS

	Figures in	31 Dec. 21	31 Dec. 20
Cover pool	€ 000	32,174,013	30,110,084
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)	101,002	34,397
	GBP (€ 000)	– 70,675	19,213
	CHF (€ 000)	910,326	1,267,450
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. 21	31 Dec. 20
Up to € 300,000	18,947,591	17,958,015
More than € 300,000 up to € 1,000,000	4,033,192	3,392,161
More than € 1,000,000 up to € 10,000,000	2,347,516	2,284,506
More than € 10,000,000	6,230,300	5,874,988
Total	**31,558,599**	**29,509,670**

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

IN € 000

		Total	Residential						Commercial						
		Total	Overall	Condominiums	Single and two-family houses	Multifamily houses	Buildings under construction	Building land	Overall	Office buildings	Retail buildings	Industrial buildings	Other commercially used buildings	Buildings under construction	Building land
Germany	31 Dec. 21	25,044,046	21,569,121	3,140,923	13,786,350	4,631,687	9,579	582	3,474,925	2,249,632	981,101	7,972	236,220	0	0
	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
Belgium	31 Dec. 21	29,640	0	0	0	0	0	0	29,640	29,640	0	0	0	0	0
	31 Dec. 20	29,640	0	0	0	0	0	0	29,640	29,640	0	0	0	0	0
France	31 Dec. 21	254,183	0	0	0	0	0	0	254,183	192,983	61,200	0	0	0	0
	31 Dec. 20	286,098	19,260	0	0	19,260	0	0	266,838	204,272	62,566	0	0	0	0
United Kingdom	31 Dec. 21	332,936	0	0	0	0	0	0	332,936	291,828	16,780	0	24,328	0	0
	31 Dec. 20	337,991	0	0	0	0	0	0	337,991	270,044	45,209	0	22,738	0	0
Luxembourg	31 Dec. 21	90,919	0	0	0	0	0	0	90,919	90,919	0	0	0	0	0
	31 Dec. 20	64,900	0	0	0	0	0	0	64,900	64,900	0	0	0	0	0
The Netherlands	31 Dec. 21	631,851	284,810	0	0	284,810	0	0	347,041	141,996	200,896	0	4,149	0	0
	31 Dec. 20	478,082	224,791	0	0	224,791	0	0	253,291	133,236	115,906	0	4,149	0	0
Austria	31 Dec. 21	157,384	17,737	5,839	11,753	145	0	0	139,647	36,240	103,407	0	0	0	0
	31 Dec. 20	140,778	1	0	1	0	0	0	140,777	36,240	104,537	0	0	0	0
Spain	31 Dec. 21	443,576	8,520	0	0	8,520	0	0	435,056	118,441	316,615	0	0	0	0
	31 Dec. 20	396,009	0	0	0	0	0	0	396,009	119,906	276,103	0	0	0	0
Switzerland	31 Dec. 21	3,980,894	3,980,894	1,453,023	2,527,871	0	0	0	0	0	0	0	0	0	0
	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
USA	31 Dec. 21	593,170	108,789	0	0	108,789	0	0	484,381	392,454	21,505	0	70,422	0	0
	31 Dec. 20	489,586	72,179	0	0	72,179	0	0	417,407	332,560	19,848	0	64,999	0	0
Total – all states	**31 Dec. 21**	**31,558,599**	**25,969,871**	**4,599,785**	**16,325,974**	**5,033,951**	**9,579**	**582**	**5,588,728**	**3,544,133**	**1,701,504**	**7,972**	**335,119**	**0**	**0**
	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**

Payments in arrears on covering mortgages

PAYMENTS IN ARREARS ON COVERING MORTGAGES
IN € 000

	31 Dec. 21		31 Dec. 20	
	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	9,923	11,088	8,603	10,168
Switzerland	0	0	1,323	1,339
Total – all states	**9,923**	**11,088**	**9,926**	**11,507**

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. 21	31 Dec. 20	31 Dec. 21	31 Dec. 20	31 Dec. 21	31 Dec. 20
Public Pfandbriefe	1,456,322	1,945,094	1,910,940	2,666,974	1,783,234	2,480,155
Cover pool	1,480,866	1,958,141	2,109,031	2,992,645	1,882,235	2,656,239
of which further cover assets	0	0	0	0	0	0
of which derivatives	0	0	36,424	45,373	27,662	34,910
Over-collateralisation	**24,544**	**13,047**	**198,091**	**325,671**	**99,001**	**176,084**

[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. 21		31 Dec. 20	
Residual term	Public Pfandbriefe	Cover pool	Public Pfandbriefe	Cover pool
≤ 0.5 year	21,254	20,355	32,457	15,755
> 0.5 year and ≤ 1 year	12,004	28,176	79,984	25,719
> 1 year and ≤ 1.5 years	35,527	12,357	50,721	20,592
> 1.5 years and ≤ 2 years	55,383	8,628	9,778	28,176
> 2 years and ≤ 3 years	102,081	9,875	100,590	20,985
> 3 years and ≤ 4 years	86,737	6,813	149,664	9,875
> 4 years and ≤ 5 years	116,379	219,660	84,219	6,813
> 5 years and ≤ 10 years	332,940	159,379	492,707	514,312
> 10 years	694,017	1,015,623	944,974	1,315,914

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

	31 Dec. 21		31 Dec. 20	
	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. 21	31 Dec. 20
Outstanding Mortgage Pfandbriefe	€ 000	1,456,322	1,945,094
thereof share of fixed-rate Pfandbriefe, Section 28 (1) No 9	%	91	91

COVER ASSETS

	Figures in	31 Dec. 21	31 Dec. 20
Cover pool	€ 000	1,480,866	1,958,141
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	%	95	92
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)	€ 000	0	0

Mortgage loans used as cover for Public Pfandbriefe

A. ACCORDING TO THEIR AMOUNTS IN TRANCHES
IN € 000

	31 Dec. 21	31 Dec. 20
Up to € 10,000,000	90,572	131,241
More than € 10,000,000 up to € 100,000,000	370,181	446,787
More than € 100,000,000	1,020,113	1,380,113
Total	**1,480,866**	**1,958,141**

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. 21	1,325,866	1,319,283	0	1,150,113	94,170	75,000	6,583	0	0	6,583	0
	31 Dec. 20	1,803,141	1,795,973	0	1,510,112	135,296	150,565	7,168	0	0	7,168	0
Austria	31 Dec. 21	155,000	155,000	120,000	35,000	0	0	0	0	0	0	0
	31 Dec. 20	155,000	155,000	120,000	35,000	0	0	0	0	0	0	0
Total – all states	31 Dec. 21	**1,480,866**	**1,474,283**	**120,000**	**1,185,113**	**94,170**	**75,000**	**6,583**	**0**	**0**	**6,583**	**0**
	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**

Payments in arrears on claims used to cover public pfandbriefe

PAYMENTS IN ARREARS ON CLAIMS USED TO COVER PUBLIC PFANDBRIEFE
IN € 000

	31 Dec. 21		31 Dec. 20	
	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
Total	**0**	**0**	**0**	**0**

Overdue interest

COVERING MORTGAGES WITH OVERDUE INTEREST
IN € 000

	Total		Thereof residential		Thereof commercial	
	2021	2020	2021	2020	2021	2020
Overdue interest	237	210	231	205	5	5

Foreclosures and receiverships of mortgages used as cover

FORECLOSURES AND RECEIVERSHIPS

	Total		Thereof residential		Thereof commercial	
	2021	2020	2021	2020	2021	2020
Pending on balance sheet date						
– Foreclosure proceedings	53	95	50	93	3	2
– Receivership proceedings	17	28	16	27	1	1
	17 [1]	26 [1]	16 [1]	25 [1]	1 [1]	1 [1]
Foreclosures completed during business year	21	27	21	26	0	1

[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 2021	64,254
Additions in 2021	586
Reductions in 2021	1,627
End of 2021	63,213

CAPITAL CONTRIBUTIONS
IN €

	31 Dec. 21
Increase in remaining members capital contributions	81,399,500.00
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	294	177	471
Part-time employees	28	125	153
Total number of employees	**322**	**302**	**624**
These figures do not include:			
Apprenticed trainees	3	11	14
Employees participating in parental leave, early retirement, partial retirement (non-working phase), or employees suspended with pay	8	30	38

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 0.1124 percent.

Proposed appropriation of distributable income

Net income for the year comes to EUR 59,070,509.85. These annual financial statements show an advance allocation of EUR 25,000,000 to legal reserves. Retained earnings of EUR 67,107,638.53 are reported.

ALLOCATION OF RETAINED EARNINGS
IN €

2.75 percent dividend	32,861,500.00 from profit carried forward
2.00 percent dividend	23,899,500.00 from the net income for the year
Further allocation to legal reserves	10,000,000.00
Carried forward to new year	346,638.53

Events after the balance sheet date

The following events of particular importance occurred after the close of the financial year.

Russia's attack on Ukraine has led to increasing uncertainties in terms of economic effects. We do not have any exposures in either country. However, an economic downturn caused by a possible decline in global trade as a result of the war could negatively impact the risk situation and the planned moderate expansion of our new business.

In its general ruling dated 31 January 2022, BaFin set a domestic countercyclical capital buffer of 0.75 percent. BaFin also intends to set a capital buffer for systemic risk of 2.00 percent for domestic residential property financing.

At the time of writing this report, it was not possible to reliably estimate how the introduction of this buffer in Germany will affect prices and demand for properties and thus our growth strategy.

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
Spokesman of the Board of Management
VR Bank Augsburg-Ostallgäu eG
Chairman of the Supervisory Board

Gregor Scheller
Chairman of the Board of Management
VR Bank Bamberg-Forchheim eG (until 31.01.2022)
President and Chairman of the Board of
Genossenschaftsverband Bayern e.V. (as of 01.02.2022)
Deputy Chairman of the Supervisory Board

HRH Anna Duchess in Bavaria
Entrepreneur

Barbara von Grafenstein
Employee representative (until 30.06.2021)

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

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

Jürgen Hölscher
Member of the Board of Management
Emsländische Volksbank eG

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

Reimund Käsbauer
Employee representative

Michael Schäffler
Employee representative

Claudia Schirsch
Employee representative (as of 01.07.2021)

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

Frank Wolf-Kunz
Employee representative

Board of Management

Dr. Louis Hagen
Chairman of the Board of Management

Dr. Holger Horn
Deputy Chairman of the Board of Management
(as of 01.01.2022)

Ulrich Scheer
Member of the Board of Management (as of 01.09.2021)

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

As of the balance sheet date loans to members of the Supervisory Board amounted to € 647 thousand (previous year: € 750 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 € 20,117 thousand (previous year: € 18,460 thousand) were made for former members of the Board of Management and their surviving dependants. Total remuneration received by the members of the Board of Management during the year under review amounted to € 2,021 thousand (previous year: € 1,438 thousand), for members of the Supervisory Board € 503 thousand (previous year: € 589 thousand). Total compensation received by the members of Advisory Committee amounted to € 35 thousand (previous year: € 14 thousand). Total compensation received by former members of the Board of Management and their surviving dependants amounted to € 1,505 thousand (previous year: € 1,369 thousand).

Auditing Association

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

To total fee charged by the auditor was € 648 thousand (previous year € 658 thousand) excluding value-added tax. The individual charges are as follows:

TOTAL AUDITOR FEE
IN € 000

	31 Dec. 21	31 Dec. 20
For audit services [1]	620	636
Other assurance services	28	22
Tax advisory services	0	0
Other services	0	0

[1] of which reversal of provisions from 2020 of EUR 66 thousand

Other Financial Obligations

Pursuant to Section 12 Para. 5 of the Restructuring Fund Act (Restrukturierungsfondsgesetz – RStruktFG) irrevocable payment obligations of € 18,469 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 € 26,461 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 losses 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, 25 February 2022

Münchener Hypothekenbank eG

The Board of Management

Dr. Louis Hagen
CEO

Dr. Holger Horn
CRO

Ulrich Scheer
CFO

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 2021, the income statement, cash flow statement and statement of changes in equity for the financial year from 1 January 2021 to 31 December 2021, 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 2021 to 31 December 2021. 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, based on the findings of 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 2021 and of its financial performance for the financial year from 1 January 2021 to 31 December 2021 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 accurately 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 German Commercial Code (Handelsgesetzbuch – 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 German Cooperatives Act (Genossenschaftsgesetz – 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 2021 to 31 December 2021. 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) Loans and advances to customers of EUR 43.0 billion are reported in the annual financial statements of Münchener Hypothekenbank eG as at 31 December 2021. Most of these loans and advances are secured by mortgages. Total loan loss allowances (specific valuation allowances and global valuation allowances) of EUR 54.6 million were recognised as at 31 December 2021.

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 the 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 control.
- 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 opinion. 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 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(3a) 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(3a) of the HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and of the management report contained in the electronic file provided muenchenerhyp_geschaeftsbericht_2021_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 electronic file provided 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 to 31 December 2021 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 electronic file provided in accordance with section 317(3a) of the HGB and IDW Assurance Standard: Assurance in accordance with section 317(3a) of the HGB on the electronic reproduction of financial statements and management reports prepared for publication purposes (IDW AsS 410 (10.2021)). 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 Supervisory Board is responsible for overseeing the process of preparing 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 provided 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.

OTHER MATTER – USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited financial statements, the audited management report, and the ESEF documents we examined. The annual financial statements and the management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic reproductions of the audited annual financial statements and the audited management report and do not replace them. In particular, the ESEF report and our assurance opinion contained therein must only be used in conjunction with the ESEF documents made available in electronic form that we examined.

German public auditor responsible for the engagement

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

Bonn, 21 March 2022

DGRV – Deutscher Genossenschafts-
und Raiffeisenverband e.V.

Peter Krüper
Wirtschaftsprüfer
(German Public Auditor)

Dorothee Mende
Wirtschaftsprüfer
(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, 25 February 2022

Münchener Hypothekenbank eG

The Board of Management

Dr. Louis Hagen
CEO

Dr. Holger Horn
CRO

Ulrich Scheer
CFO

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 2021 were € 275,309 thousand.

The number of full-time equivalent salaried employees is 576.70.

Profit before tax amounts to € 112,723 thousand.

Taxes on income amount to € 53,652 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 its 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 two 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, the development and operationalisation of the IT strategy, governance issues and long-term succession planning for the Board of Management and Supervisory Board. The effects of the COVID-19 pandemic on banking operations, the core business and the risk situation, as well as possible risks resulting from the flood disaster that occurred in parts of Germany in mid-July, were continuously monitored.

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 the review of 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. Current developments on the property market and in private and commercial property financing were monitored and discussed. During the Supervisory Board meetings, considerable attention was also devoted to 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. In addition, representatives of the ECB and the Joint Supervisory Team presented the results of the Supervisory Review and Evaluation Process 2020 and the supervisory recommendations to the Supervisory Board and discussed them with it.

Evaluation of the Supervisory Board

The Supervisory Board conducted the annual 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. The preparatory work 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 in December 2021 and documented in the reports 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 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 to increase the efficiency of the Supervisory Board's activities were defined. In line with the existing onboarding and training concept, 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.

Five meetings of the **Nomination Committee** were held in the reporting year. In addition to regular Board of Management and Supervisory Board matters, it also addressed, in particular, the suitability assessment and efficiency review of the management bodies and preparation for succession planning for the Board of Management and the Supervisory Board. The Supervisory Board furthermore supported the onboarding of a member of the Board of Management and successfully completed the structured selection process for a new member of the Board of Management.

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, the results of external audits, and issues and requirements discussed during meetings with banking supervisory authorities.

The **Risk Committee** convened twelve 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 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 Head of Risk Controlling. Furthermore, the effects of the COVID-19 pandemic and the flood disaster on the risk situation and the lending business were continuously monitored. The Committee also reviewed the sales report, the outsourcing report and the report prepared by the Chief Information Security Officer (CISO).

The two meetings of the **Remuneration Control Committee** addressed the Bank's remuneration systems, the goals and remuneration of members of the Board of Management 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, as the statutory auditing association, audited the accounting records, annual financial statements and the management report for financial year 2021 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 2021, for their information. The Supervisory Board discussed the results of the audit during a meeting held jointly with the Board of Management and attended by the auditor. The results of the audit are also reported at the Delegates Meeting.

The annual financial statements, the management report, 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 2021 – as explained – and endorse the Board of Management's proposal for the allocation of net income. The proposal complies with the provisions of the Bank's Articles of Association.

Changes to the Supervisory Board

In June 2021, the four employee representatives on the Supervisory Board were regularly elected for a new period of office. Reimund Käsbauer, Michael Schäffler and Frank Wolf-Kunz were reelected. Claudia Schirsch was newly elected. Barbara von Grafenstein stood down from the Supervisory Board. She had been a member of the Supervisory Board since 2016 and contributed to the Bank's success with great professionalism. We sincerely thank her for her valuable commitment.

Development of MünchenerHyp during the year under review

MünchenerHyp performed very well in its anniversary year of 2021. It achieved a new record result in new mortgage business and again significantly increased its earning power. At the same time, it proved that its growth strategy can succeed in a competitive environment, even under the difficult conditions of the continuing COVID-19 pandemic. The Bank also took further important steps towards the digitalisation of its processes and services. On the capital markets, it was able to refinance at attractive conditions thanks to its placement power and reputation.

Over its 125-year history, MünchenerHyp has repeatedly shown that it can overcome difficult times and emerge from them stronger, because it has a solid and sustainable business model that enables it to meet the challenges ahead.

The Supervisory Board would like to thank the Board of Management and the Delegates of MünchenerHyp for their constructive and supportive cooperation in the year under review. We also thank our employees, who have worked with great dedication and professionalism for the success of their Bank in another year full of uncertainty and health concerns for themselves and their families. We thank the Delegates Meeting, which was newly elected in 2021, for its constructive cooperation over the past five years and look forward to working with the new Delegates Meeting in the years ahead.

Munich, April 2022

Münchener Hypothekenbank eG

Dr Hermann Starnecker
Chairman of the Supervisory Board

FURTHER INFORMATION

THE MEMBERS OF THE DELEGATES MEETING

AS OF 31 DECEMBER 2021

Peter Bahlmann » Bank director
Heinrich Beerenwinkel » Bank director
Gunnar Bertram » Bank director
Horst Bertram » Investor Relations manager
Thomas Bierfreund » Bank director
Christian Dietrich » Bank director
Eva Irina Doyé » Attorney, tax consultant
Clemens Fritz » Bank director
Steffen Fromm » Bank director (as of 16.12.2021)
Rainer Geis » Bank director
Josef Geserer » Bank director
Christian Glasauer » Bank director (as of 15.09.2021)
Helmut Graf » Bank director
Markus Gschwandtner » Bank director
Dr. Harald Heker » Chairman of the Board of Management
Martin Herding » Bank director
Joachim Hettler » Bank director
Dr. Michael Hies » Managing director
Ingo Hinzmann » Bank director
Michael Hohmann » Bank director
Konrad Irtel » Bank director (ret.)
Thomas Jakoby » Bank director
Andreas Jeske » Bank director
Michael Joop » Bank director
Carsten Jung » Bank director
Herbert Kellner » Bank director
Manfred Klaar » Bank director
Robert Kling » Bank director

Dr. Carsten Krauß » Bank director
Norbert Lautenschläger » Bank director
Marcus Wilfried Leiendecker » Bank director
Martin Leis » Bank director
Dr. Ursula Lipowsky » Attorney
Georg Litmathe » Auditor/tax consultant (ret.)
Thomas Ludwig » Bank director
Jan Mackenberg » Bank director
Karl Magenau » 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
Carsten Müller » Bank director
Markus Müller » Bank director
Heinrich Oberreitmeier » Bank director
HSH Albrecht Prince of Oettingen-Spielberg » Managing director and Owner
Armin Pabst » Bank director (ret.)
Markus Pavlasek » Bank director
Karsten Petersen » Bank director
Claus Preiss » Bank director
Jens Prößer » Bank director
Jan H. Reese » Bank director
Richard Riedmaier » Bank director
Frank Ruffing » Bank director

André Schaffeld » Bank director
Ulrich Scheppan » Bank director
Michael Schlagenhaufer » Bank director
Dr. Eckhard Schmid » Attorney
Franz Schmid » Bank director
Andreas Schmidt » Board of Management
Andreas Schmidt » Certified property specialist
Dr. Marc Alexander Schmieder » Attorney
Carsten Schüler » Real estate agent
Thorsten Schwengels » Bank director
Roland Seidl » Bank director
Hermann-Josef Simonis » Bank director
Martin Spils » Bank director
Jörg Stahl » Bank director
Thomas Standar » Bank director
Thomas Stolper » Bank director
Remo Teichert » Bank director
Stefan Terveer » Bank director
Werner Thomann » Bank director
Martin Trahe » Bank director, † 15.12.2021
Florian Ungethüm » Attorney
Peter Voggenreiter » Bank director
Karsten Voß » Bank director
Chris Wallbaum » Bank director
Dr. Gerhard Walther » Bank director
Silke Wolf » Managing director, † 14.09.2021
Michael Zaigler » Managing director

AGENDA – GENERAL (DELEGATES) MEETING

23 APRIL 2022 AT 10.30 UHR

1. **Report of the Board of Management about the 2021 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 2021
   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 Josef Hodrus, Kai Schubert

7. **Other issues**

EXECUTIVE MANAGEMENT AND BODIES

Supervisory Board

Dr. Hermann Starnecker
Chairman of the Supervisory Board

Gregor Scheller
Deputy Chairman of the Supervisory Board

HRH Anna Duchess in Bavaria
Barbara von Grafenstein (until 30.06.2021)
Thomas Höbel
Josef Hodrus
Jürgen Hölscher
Rainer Jenniches
Reimund Käsbauer
Michael Schäffler
Claudia Schirsch (as of 01.07.2021)
Kai Schubert
Frank Wolf-Kunz

Board of Management

Dr. Louis Hagen
Chairman of the Board of Management

Dr. Holger Horn
Deputy Chairman of the Board of Management
(as of 01.01.2022)

Ulrich Scheer
Member of the Board of Management
(as of 01.09.2021)

General Executive Manager

Ulrich Scheer (until 31.08.2021)
Ingo Schramm

Trustees

Dr. Joseph Köpfer
Senior Ministerial Counsellor (ret.), (until 31.03.2022)

Walter Heinz Christl
Ministry director (as of 01.04.2022),
Deputy (as of 01.01.2022 until 31.03.2022)

Dr. Günter Graf
Ministry director
Deputy

Cooperative Advisory Committee (as of 01.01.2022)

N.N.
Chairman

Herbert Kellner »
VR-Bank Ismaning Hallbergmoos Neufahrn eG
Deputy Chairman

Hans-Jörg Meier » Volksbank Bühl eG
Deputy Chairman

Manfred Asenbauer » VR-Bank Passau eG
Matthias Berkessel » Volksbank Rhein-Lahn-Limburg eG
Frank Buchheit » levoBank eG
Jürgen Edel » Volksbank Brenztal eG
Bernhard Failer » Raiffeisen-Volksbank Ebersberg eG
Josef Frauenlob » Volksbank Raiffeisenbank Oberbayern Südost eG
Steffen Fromm » VR-Bank Neu-Ulm eG
Ralf Gottschalk » Volksbank Herrenberg-Nagold-Rottenburg eG
Herbert Hermes » Volksbank Vechta eG
Carsten Jung » Berliner Volksbank eG
Thomas Lange » Volksbank Raiffeisenbank Bayern Mitte eG
Markus Müller » Sparda-Bank Hessen eG
Stefan Rinsch » Volksbank Krefeld eG
Martin Traub » Raiffeisenbank Ehingen-Hochsträß eG
Thorsten Wolff » Volksbank Brilon-Büren-Salzkotten eG

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