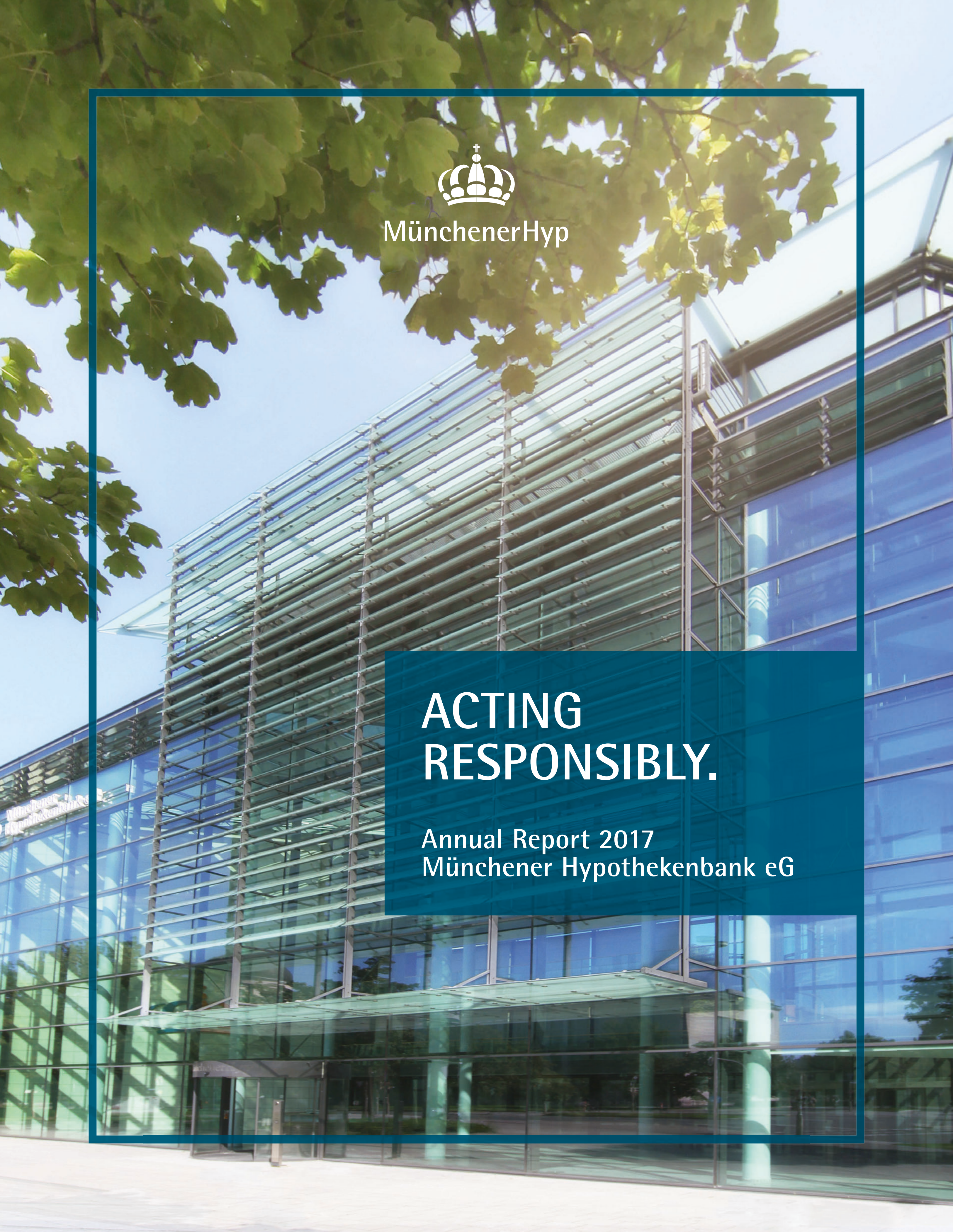


MünchenerHyp

ACTING RESPONSIBLY.

Annual Report 2017
Münchener Hypothekenbank eG

OVERVIEW

BUSINESS DEVELOPMENT (IN MILLIONS OF €)*

	2017	2016	Change %
Lending Business			
a) Mortgage loans	5,054	4,930	3
aa) Residential property financing	3,185	3,271	-3
ab) Commercial property financing	1,869	1,659	13
b) Loans to public sector and banks	25	109	-77
Total	**5,079**	**5,039**	**1**

OVERVIEW OF PORTFOLIOS (IN MILLIONS OF €)*

	2017	2016	Change %
Total assets	38,905	38,509	1
Mortgage loans	29,227	27,809	5
Public sector and banks	5,736	6,760	-15
Pfandbriefe and other bonds	34,087	32,750	4
Liable equity capital	1,391	1,343	4

INCOME STATEMENT (IN MILLIONS OF €)*

	2017	2016	Change %
Net interest income and net commission income	182	159	14
Administrative expenses	100	92	8
Results from ordinary business activities	85	67	26
Transfer to the Fund for General Banking Risks	-5	-7	-29
Net income	46	32	45

EMPLOYEES (NUMBER)

	2017	2016	Change %
Average number of employees per year	509	493	3
Apprentices	11	15	-27
Employees participating in parental leave, early retirement and partial retirement (non-working phase)	30	19	58

***Amounts have been rounded.**

CONTENTS

LETTER FROM THE BOARD OF MANAGEMENT

DEAR SHAREHOLDERS AND BUSINESS ASSOCIATES,

MünchenerHyp has been on a course of sustained growth for over five years now. Last year we were able to set two new historic records for the Bank: for the first time ever we made more than 5 billion euros in new mortgage commitments in a single business year, thereby extending the record results we achieved in 2016. Furthermore, our members' subscribed paid-up capital exceeded the 1 billion euro mark for the first time. This underscores the fact that MünchenerHyp has a solid equity capital base that allows it to continue on its path of growth. At the same time, it is also strong confirmation of the trust our members have in the Bank's business strategy.

INTACT DEMAND FOR PROPERTY – STRONG NEW BUSINESS

Last year's good new business results were again fuelled by unbroken strong demand for property – purchased as a personal home or as an investment. This also corresponded with a great need for property financing, which in turn benefited the Bank as a renowned expert in this field – and also continued to attract new competitors to the market.

These conditions produced another challenging market environment in 2017. In view of this, we are more than pleased that we once again recorded very good new business results, which rose by 2.5 percent to a total of € 5.1 billion. Nearly two-thirds of this figure of € 3.2 billion was accounted for financing private residential property. We have held a consistently high level in this market segment since 2014 primarily because of the sales strength of our brokering partners – especially the banks within the Cooperative Financial Network, which turned in another impressive performance thanks to their expertise and close customer relationships.

We expanded our new commercial property finance business by 13 percent to € 1.9 billion. This was due, on the one hand, to the sound condition of the property markets in our target markets, with Germany, in particular, viewed anew as a safe harbour by investors. On the other hand we intensified our market activities and in this context returned to doing business in the USA. In addition, we expanded our syndication business and enhanced our efforts to involve the partner banks within the Cooperative Financial Network.

The Board of Management of MünchenerHyp (from left to right): Bernhard Heinlein, Dr. Louis Hagen (Chairman), Michael Jung

PORTFOLIOS EXPANDED – EARNINGS POWER INCREASED

Our successful new business results favourably influenced our loan portfolios and MünchenerHyp's earning power. Our portfolio of mortgage loans grew by about 5 percent to € 29.2 billion, with private residential property loans accounting for the lion's share of the increase.

We are also pleased with the development of our net interest income. We were able to increase this key figure by almost 10 percent to € 256.6 million. As we continued to be very conscious of risks involved in our new business activities, our provisions for risk remained at a low level. This allowed us to improve our results from ordinary business activities by 26 percent to € 85.1 million.

STRONG DEMAND FOR PFANDBRIEFE – RECORD ISSUE PLACED IN SWISS CAPITAL MARKET

Developments in the European bond market and prices were again dominated in 2017 by the European Central Bank's Covered Bond Purchase Programme (CBPP 3) for Pfandbriefe and other covered bonds. This pushed buyers of classical Pfandbriefe further to the side lines, while market distortions further increased.

Nevertheless, our Pfandbriefe continued to garner broad investor interest. We primarily owe this to our strong reputation as an issuer. Last year we additionally benefited from targeting favourable windows for issuing new paper. Two Benchmark Mortgage Pfandbrief issues we placed in 2017 stand out from the rest. The first of the two benchmark issues was placed in the spring. Investor interest was so great that in the autumn we tapped the issue by an additional € 250 million to € 750 million. Demand for our second benchmark issue was so strong that we quickly decided to increase its volume to € 750 million.

We achieved considerable success in the foreign currency issue segment in the autumn of 2017 with a CHF 100 million Mortgage Pfandbrief. The success of this issue was overwhelming and set a new record in the Swiss capital market. The issue's interest rate discount was 8 basis points below the domestic Swiss franc mid-swap rate making it the highest discount ever achieved by a foreign issuer of covered bonds in Switzerland.

NEW CHALLENGES – STRATEGIC DEVELOPMENTS

As satisfied as we are with the results of the 2017 business year, we are also very aware that overall conditions in our business will become notably more challenging. In the mid-term this applies to central banks' interest rate policies, and especially the direction taken by the ECB. In the short-term, regulatory requirements and digitalisation issues require strategic responses and new investments that will enable the Bank to retain its position in the face of increasingly fierce competition.

In the context of regulatory issues this applies, in particular, to the new equity rules for credit institutions that were agreed on and approved by the Basel Committee on Banking Supervision at the end of 2017. Revisions to the approach for weighting credit risks, in particular, will impact MünchenerHyp. The new rules limit the use of the internal ratings-based approach for credit risk, which is used by the Bank. This means that the amount of equity capital required for lending purposes will rise and have a negative effect on our equity capital ratios. As we previously strengthened our equity capital in anticipation of future regulatory requirements, we still view the Bank as having a good level of equity capital, and we currently do not require further equity capital.

We are increasingly feeling the challenges posed by digitalisation in customer behaviour. Today's customers expect to be quickly and clearly informed about their financing at any time, which also includes contacting their lender regarding their financing. And nowadays they prefer to use digital communication channels to fulfil these expectations. In response, we are making our processes more specific to reflect the changing needs of our customers.

SUCCESS IS A SHARED ACHIEVEMENT

Based on the efficiency of our business model, we are confident that we will master the challenges posed by digitalisation and regulatory requirements. The related tasks are, however, anything but simple. It is gratifying to know that we can count on the commitment and hard work of our employees and our partners as the record results we achieved in the 2017 business year would not have been possible without our employees' energetic dedication to their MünchenerHyp. We are very grateful for this and extend our warm thanks to them. We would also like to thank the members of the Works Council and the Executive Employees Committee for their productive collaboration during the previous year.

We thank our partners for the successful and good working relationships we have with them, and we also wish to thank our members for the trust they have put in the Bank.

Together we will tackle the aforementioned challenges. We also want to continue growing in 2018 and work together with our partners to expand our market position. Signs are pointing towards another year of favourable development in the property market. For this reason, we are confident that we will again be able to post good business results for 2018.

Sincerely yours,

Dr. Louis Hagen   Bernhard Heinlein   Michael Jung

"OUR ACTIONS WITH OUR MEMBERS, CUSTOMERS, EMPLOYEES AND SOCIETY ARE GUIDED BY OUR COMMITMENT TO ACTING RESPONSIBLY."

In a video interview, Dr. Louis Hagen, Chairman of the Münchener Hypothekenbank´s Board of Management, talks about the special importance of acting responsibly, and cooperative values. In addition, he gives some insight into the results of the 2017 business year, as well as the plans for the current year and challenges posed by digitalisation.

Click here to access the video.

MANAGEMENT REPORT.

MANAGEMENT REPORT 2017

ECONOMIC REPORT

RISK, OUTLOOK AND OPPORTUNITIES REPORT

MANAGEMENT REPORT 2017
ECONOMIC REPORT

OVERALL ECONOMIC CONDITIONS

ECONOMIC DEVELOPMENT

The upturn in the global economy accelerated in 2017 as the global gross domestic product increased by 3.7 percent, which was higher than the International Monetary Fund (IMF) anticipated at the start of 2017. The gain showed that the economy was largely unaffected by the numerous political uncertainties that marked global events during the year under review. This applied, in particular, to global trade, which expanded substantially.

During the course of the year economic development within the euro area became increasingly dynamic resulting in a 2.4 percent increase in gross domestic product. The upswing was mainly driven by rising exports as global trade picked up and domestic demand remained strong.

The German economy also flourished as its gross domestic product increased by 2.2 percent in 2017, which was a stronger gain than in the previous year. The strongest drivers were private consumption followed by public-sector investments, and capital expenditures. In addition, the export sector grew notably to make a favourable contribution to the economy. Investments in construction also developed favourably and increased by 2.6 percent. The greatest gain of 3.1 percent was noted by investments in residential housing. Investments in construction within the public sector rose by 2.7 percent while investments in construction of commercial property increased by 1.4 percent.

The annual average rate of inflation rose to 1.8 percent, the highest rate noted since four years. Energy prices grew by 3.1 percent and were the primary reason behind the increase. Furthermore, food prices were notably more expensive than they had been in the previous year.

Development seen in the labour market also reflected the favourable economy as the annual average number of employed persons rose by over 600,000 to 44.3 million. The unemployment figure fell further as the average number of unemployed persons reported was 2.5 million, or more than 150,000 less than in 2016. The unemployment rate fell by 0.4 percentage points to 5.7 percent.

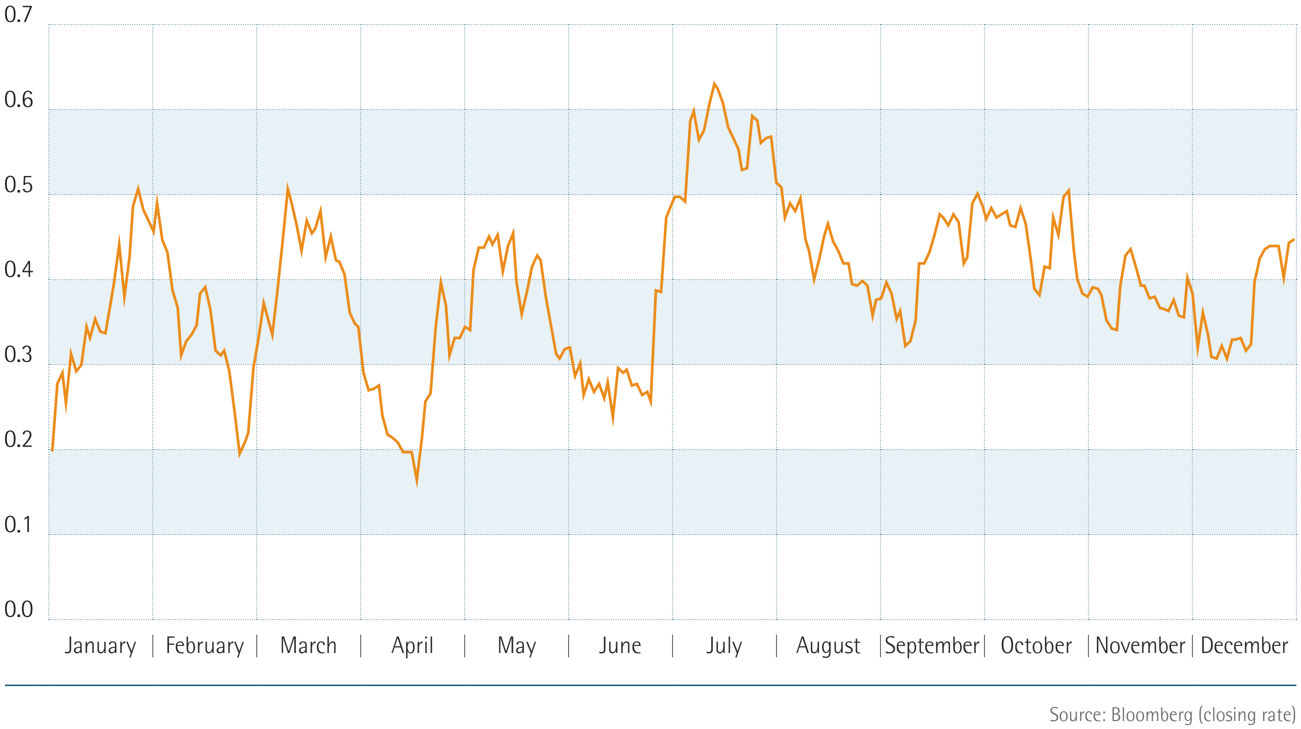
FINANCIAL MARKETS

Financial markets were supported by the unexpectedly favourable economic developments, as well as the central banks' unchanged generous provision of liquidity, and a better mood among market participants than in previous years.

During the course of the year the European Central Bank (ECB) nevertheless retained its expansive monetary policy and left its deposit facility rate for banks unchanged at minus 0.40 percent, while its interest rate on the main refinancing operations (MRO) held steady at 0 percent. Within the framework of its asset purchase programme the net amount of monthly purchases over the course of the year amounted to 60 billion euros per month. Additional important central banks, like the Bank of Japan, the Bank of England and the Swiss National Bank, also provided expansive liquidity in support of the economic recovery process. The policy followed by the American central bank, the Federal Reserve (Fed), diverged from the other central banks as the Fed further tightened its monetary policy during the year under review and raised its key interest three times by 25 basis points each time in light of the favourable development of the American economy. At the end of 2017 the Fed's decisions led to a federal funds rate corridor of 1.25 percent to 1.5 percent. Concurrently, the Fed began to reduce its balance sheet that had expanded due to its bond purchases.

The ECB's policy led to further declines in spreads versus swaps and a slight increase in yields in the bond market. Over the course of the year the yield on 10-year Bunds rose moderately from 0.20 percent to 0.42 percent and was primarily driven by adjusted expectations in light of the economic upswing in the euro area. Yields on longer term treasury bonds in the USA still remained stable despite increased interest rates. Shorter maturities moved in line with interest rates increases resulting in a notable flattening of the yield curve. Starting at the mid-year point capital markets increasingly believed that the ECB was really aiming to achieve normal conditions and not a further loosening of its monetary policy. In contrast, the ECB's continued purchases of sovereign bonds, covered bonds, corporate bonds and asset-backed securities supported these asset classes and in some instances resulted in a further tightening of spreads.

Figures in % | YIELD ON TEN-YEAR BUNDS 2017



In the currency markets the US dollar tended to weaken over the year despite the substantial increase in US money market interest rates and unbroken low euro rates. This development was in response to declining political risks and the surprisingly favourable development of the European economy. Over the course of 2017 the US dollar lost 14 cents to the euro and at the end of the year stood at 1.19 to the euro. The euro also posted significant gains over the Swiss franc during the year adding 9 percent to about 1.17 CHF. Although the British pound had already lost substantial value due to the Brexit decision it continued to weaken into 2017, albeit at a slightly slower pace. The improved outlook for an orderly Brexit had a stabilising effect on the pound in the second half of the year. Over the course of the year the pound fell by about 4 percent to end the year at 0.89 euro.

The covered bond market remained heavily influenced by the ECB's Covered Bond Purchase Programme (CBPP 3). About 30 percent of the volume of new issues was bought by the ECB. Although classical investors like banks, insurance companies and funds were active as buyers, the low level of interest rates and spreads limited their willingness to build new positions. Nevertheless, investments in covered bonds continued to benefit from their high credit standing and preferential regulatory treatment. The volume of new euro-denominated benchmark covered bond issues did, however, decline from € 127 billion in 2016 to € 112 billion in 2017, with a notable weakening seen in the second half of the year. French covered bonds represented 25.7 of the total volume of new covered bond issues in 2017 giving them the largest market share followed by German Pfandbriefe with 18.7 percent.

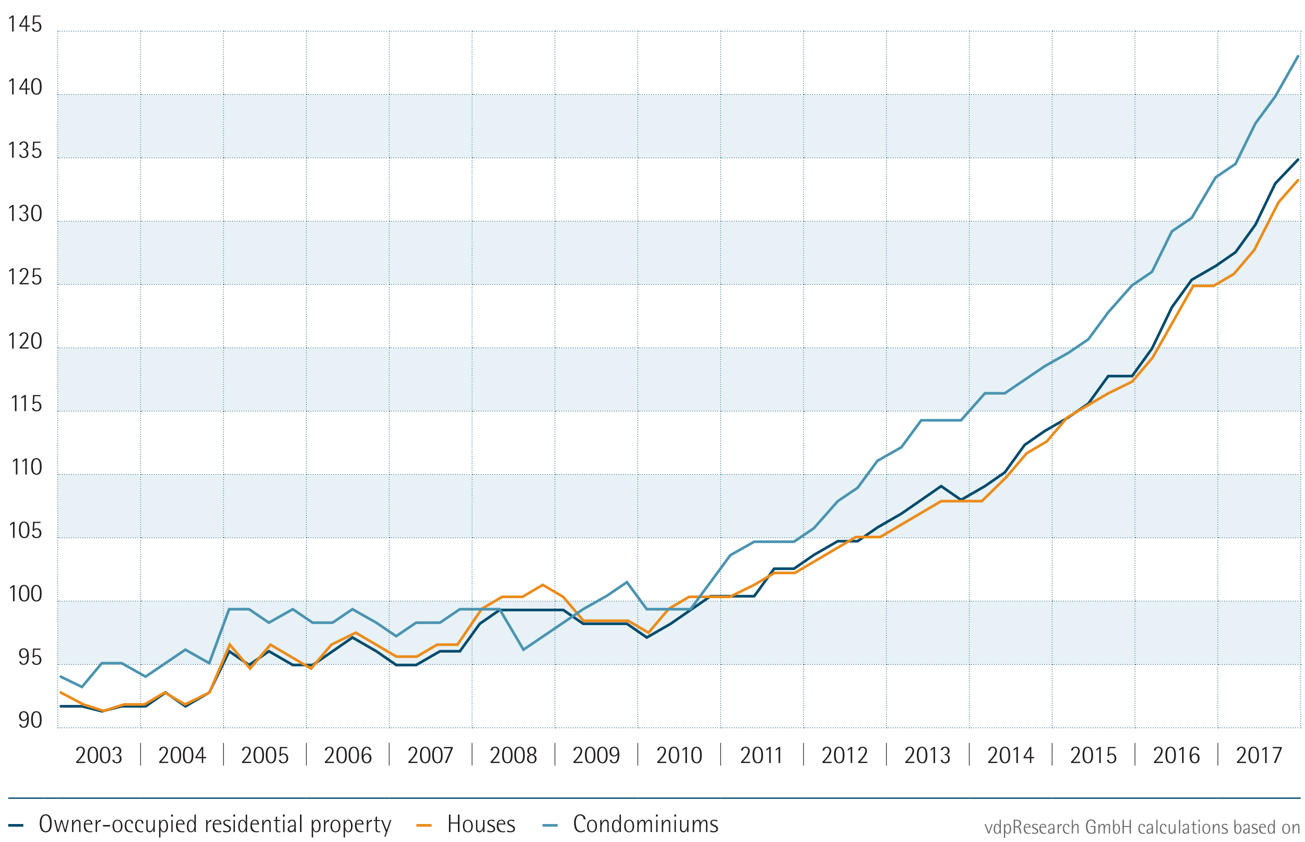
PROPERTY AND PROPERTY FINANCING MARKETS

RESIDENTIAL PROPERTY – GERMANY

The residential property market in Germany was again marked by rising purchase prices and rents in 2017. Prices accelerated even further compared to the previous year rising by 6.9 percent in 2017 according to the Association of German Pfandbrief Banks' (vdp) index for residential property prices. The strong 5.8 percent rise in prices affected owner-occupied residential property, as well as multi-family houses, which posted an increase of 7.9 percent.

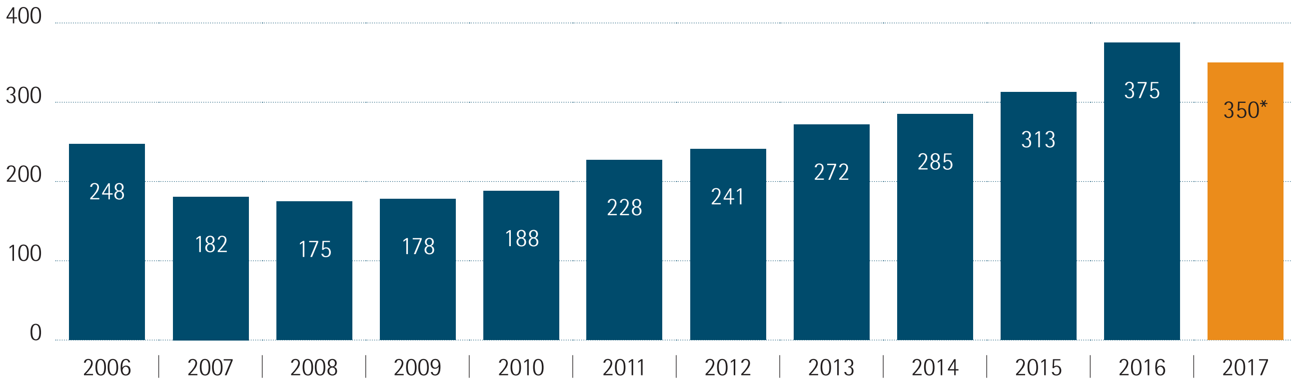
The pronounced increase in prices paid for multi-family houses was driven by high demand shown by institutional investors, which in turn led to a further decline in yields. A total of € 15.6 billion was invested in residential property portfolios in 2017, the third highest amount recorded within the last ten years. This segment of the market remained dominated by domestic investors with foreign buyers only representing 20 percent of the capital invested. Buying activity was focused on the seven biggest cities and major cities with above-average population growth as investors viewed these cities as offering the greatest market liquidity and thus the least risk. The availability of existing properties was tight across Germany. This led to a shift in investors' buying activities over to projects that were in the developmental stage. As a result, new construction developments represented about 30 percent of the total volume of transactions.

DEVELOPMENT OF PROPERTY PRICES IN GERMANY (YEAR 2010 = 100)



vdpResearch GmbH calculations based on information provided by vdp transaction databank
As of: February 2018

Figures in 000 | RESIDENTIAL BUILDING PERMITS IN GERMANY 2005 – 2017



* 2017 = estimated
Source: German Federal Statistical Office

The great interest shown in residential property in Germany – despite low yields – is due, in particular, to the situation in the rental housing market where shortages have existed for years in major metropolitan areas. The excess demand is due to the high number of persons moving to these regions, the current favourable income opportunities, as well as the significant increase in single-person households. This has led to rising rents, in particular, without higher yields as purchase prices have increased at a faster pace than rents. Based on vdp figures, the tempo of rental increases has slowed slightly to 3.2 percent, although it does continue to show that the situation in the rental housing market remains tight.

Although construction of new multi-family housing accelerated, the figures for newly completed housing still lags noticeably behind the number of newly issued building permits. In addition to the fact that the construction sector is operating at a high level of its capacities, it is thought that many building permits are being obtained without a specific intention to build. The total number of building permits issued by the end of November 2017 declined by 7.8 percent compared to the same year-ago period. This decline affected all segments.

Despite the very strong gains recorded for housing prices in many regions, high demand seen for houses and condominiums has also remained unchanged. Many private households would like to realise their hopes to buy their own home in view of low interest rates, the good employment situation and the favourable development of incomes. However, the number of transactions involving one and two-family houses barely changed in 2017. On average, about 250,000 private homes change hands every year indicating that there is a limited supply. Homeowners' willingness to sell was held back by a lack of investment alternatives and expectations that property prices will continue to climb.

New construction activity noted during the year under review was once again unable to keep pace with the high demand. Although the number of newly built homes has continually increased across the nation since 2010, and set a new 15-year record in 2017 with about 280,000 new housing units, it still lags behind actual housing needs. After taking into consideration various factors – above all migration to and within Germany, smaller households, and the backlog of demand for housing – Germany needs 350,000 to 400,000 new housing units per year.

Higher demand is primarily driven by fast growing regions and cities, which in turn have posted above-average strong price increases in recent years. According to figures released by vdp, residential property prices in the seven largest German cities rose by 13.7 percent in comparison to the previous year.

This was sufficient reason for the Bundesbank to closely examine development in cities and regions with very strong price growth in its latest Financial Stability Review. The study concluded that exaggerated prices exist in 127 German cities. However, the Bundesbank believes that threats to price stability still remain limited. This statement is based, in particular, on the slower pace of growth of loans for new housing, which is lower than the long term average rate. Furthermore, debt carried by private households showed a further slight decline and in 2017 and was substantially below the average figure in comparable economies. Another important aspect in the assessment was the unbroken trend of borrowers to obtain longer terms of fixed interest rate loans for financing housing, which also reduces their risk of fluctuating interest rates.

Competition among providers of private property financing increased even further. Enterprises within the Cooperative Financial Network, which include MünchenerHyp and its partner banks, held up well in this environment. As in previous years, the portfolios of residential property loans held by institutes within the Cooperative Financial Network expanded at a faster rate than the market.

RESIDENTIAL PROPERTY – INTERNATIONAL

In general, the residential property markets in Europe developed favourably, whereby the average increase in prices for all countries within the European Union (EU), as well as those within the euro area, strengthened again in 2017. The rise was driven by the favourable economic situation and the continuing low level of interest rates. Prices paid for houses in the EU in the third quarter of 2017 rose by 4.6 percent over the same year-ago period and by 4.1 percent in the euro area. Markets where a stronger pace of growth was noted include the Czech Republic, Ireland, Portugal, Hungary and the Netherlands, where double-digit percentage gains were recorded. Italy was the sole market where housing prices once again declined slightly.

The pace of rising prices for residential property in Great Britain weakened since mid-2016 as a consequence of the Brexit vote. However, in 2017 housing prices still increased by 5.2 percent over the previous year's figure, although there were notable regional differences. Prices in South West England grew by 7.5 while prices in London only increased by 2.5 percent. Furthermore, the volume of transactions fell by 6 percent in the same period of time. New construction of housing amounted to about 180,000 new housing units, which was substantially below the government's target of 275,000 housing units per year. The pace of growth noted in the private rental housing also slowed and the 1.1 percent increase noted was the lowest recorded since January 2012. London's increase of only 0.2 percent made it one of the weakest growing regions in the UK.

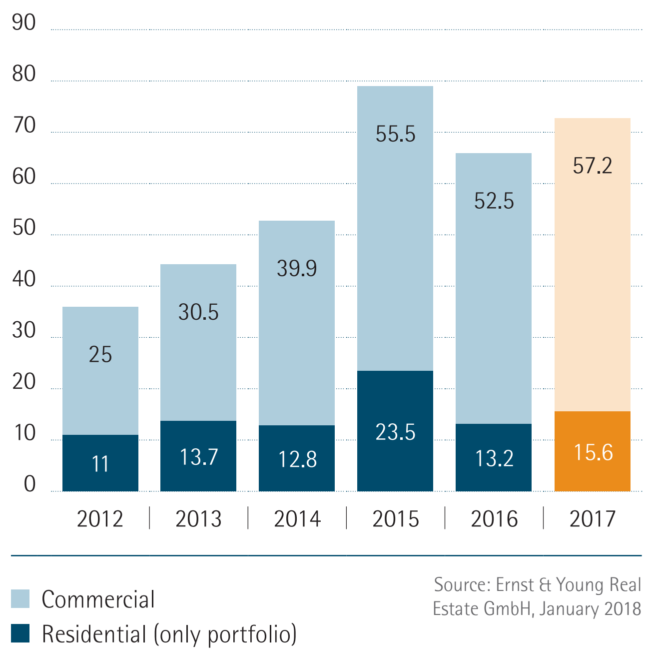
New construction of housing in France expanded notably in the past year as the number of housing units being built rose by about 15 percent to nearly 400,000 units or the highest level since 2011. At the same time, demand for housing was quite favourable in light of low lending rates. This development was also reflected in the number of new housing transactions, which climbed by 8 percent, and turnover of existing properties, which advanced by 9 percent. Prices paid for housing also rose. In the third quarter of 2017 prices of newly built properties rose by 3.6 percent over the same year-ago quarter, while existing properties were 3.9 percent more expensive. French residential property also gained in attraction by institutional investors, which in turn increased pressure on yields notably and especially for prime properties.

The Dutch housing market was driven by above-average economic growth, which was reflected by the very substantially higher figures recorded for the number and volume of transactions. A total of about 242,000 housing units changed hands in 2017, or about 13 percent more than in the previous year. The volume of transactions surged by 22 percent to nearly € 64 billion. Parallel to this development, prices paid for housing rose even further by 7.9 percent in comparison to the previous year's figure. This increase was driven by high demand that met a very limited supply. Excess demand was particularly visible in the four major population centres of Amsterdam, Utrecht, Den Haag and Rotterdam. Institutional investors also focused their demand on these four cities last year as they invested € 3.5 billion in residential property. Domestic buyers accounted for about two-thirds of the volume of transactions. The Dutch housing market as a whole was marked by a very tight supply of properties for institutional investors, which led to a further decline in returns.

Despite overall favourable economic conditions, growth noted for the Swiss housing market slowed over the course of the year. This is reflected by figures released by the Swiss Federal Statistical Office which showed that the number of vacant housing units stood at about 65,000 at mid-year 2017. This figure is nearly 15 percent higher compared to the previous year's figure, whereby the rental housing market was particularly affected. During the course of the year rents declined slightly, especially for units in the higher-priced segment. The level of prices paid for housing hardly changed on a year-over-year basis. Prices for condominiums rose by 1.9 percent and were only marginally higher than in 2016; prices for single-family homes grew at an unchanged 3.2 percent. Demand for residential property for personal use and as an investment remained high due to the Swiss National Bank's negative interest rates, as well as low mortgage rates.

The upswing in the housing market in the USA continued in 2017. In November of 2017 the S&P/Case-Shiller Index figures showed a 6.2 percent year-over-year increase in housing prices. Prices did, however, vary quite differently on a regional basis with the strongest growth again recorded in the Seattle region, while Chicago and Washington D.C. remained at the bottom of the list. The increase in prices is due to excess demand and insufficient construction of new housing. Rents developed less dynamically rising by 2.4 percent following the 3.8 percent increase recorded in the previous year. Investments in residential property also fell. During the first nine months of 2017 USD 94 billion, or 12 percent less, was invested than in the same year-ago period. This change indicates that for the first time since 2009 the volume of transactions may also be lower for the entire year.

DEVELOPMENT OF COMMERCIAL PROPERTY TRANSACTIONS IN GERMANY 2011 – 2017
Figures in € billion



Source: Ernst & Young Real Estate GmbH, January 2018

COMMERCIAL PROPERTY – GERMANY

German commercial property was again highly sought after by both national and international investors. This was, above all, due to the quality of Germany as an investment location, and not yields, as meanwhile returns on all asset categories are at historically low levels following above-average increases in prices seen in recent years. This was also the case in 2017 as the vdp index for commercial property rose by 6.5 percent on a year-over-year basis. This was the greatest increase in prices since the outbreak of the crisis in the financial markets.

The strong pace of growth noted for prices also led to a record volume of transactions in 2017. The figure if more than € 57 billion exceeded the top results recorded in 2015 by about 3 percent. Investors continued to focus on the seven biggest cities. Where € 31 billion were invested, or 54 percent of the total volume of transactions.

Office properties retained their preferred status as investments. This sector has held about a 44 percent share of the total volume of transactions for years and represents turnover of just about € 25 billion. The great popularity of office properties is based on the very good state of the rental market, which again set a new record in the past year with total turnover of about 4.2 million square metres of space in the seven biggest cities. The volume of newly completed properties was, however, lower compared to the previous year's figure. This led to a further decrease in available vacant space. At the end of 2017 the vacancy rate stood at the lowest level seen in the last 15 years. In the interim there is hardly any office space available in preferred office districts in the seven biggest cities, which in turn has driven rents for office space even higher. The greatest increase in rents was noted in Berlin. Moreover, rising rents and great investor interest accelerated the pace of rising prices for office properties. Based on vdp figures, prices for office properties rose by 8.4 percent in comparison to the previous year.

The popularity of logistics properties increased in the past year while interest in retail properties decreased slightly. Many investors are increasingly viewing retail properties more critically in view of the booming online shopping business and the very high level of prices demanded for retail properties, which has shifted investors' attention to other asset categories.

COMMERCIAL PROPERTY – INTERNATIONAL

The good overall economic conditions had a particularly beneficial effect on the European office property market. Turnover of space in the rental market increased by 10 percent to 13 million square metres, which was the best result noted since 2007. This rise was accompanied by a substantial reduction of vacant space, which declined across Europe to 7.4 percent. On average, rents in Europe rose by 4 percent due to the limited availability of space.

Following the sudden downturn after the Brexit decision, the commercial property market in Great Britain has regained its footing and is advancing notably once again. This is reflected by the 15 percent increase in the volume of investments made in 2017. Foreign investors dominated market activities and accounted for about three-quarters of the volume of transactions recorded for office properties in London. Furthermore, turnover of space increased by 7 percent shrinking the vacancy rate to 4.7 percent and below the 10-year annual average. The short-lived drop in rents that occurred the previous year was stopped in 2017 due to the good demand seen for office space. This made it possible for peak rents to end the year on a stable note.

The volume of transactions noted for the French investment market declined once again. During the first nine months of 2017 more than € 14 billion was invested in commercial properties, or about 30 percent less than in the same year-ago period. The drop was due to a lack of investment properties as investors were still very keen on buying. Yields fell further in view of this situation. Properties in the Île-de-France were the preferred choice of investors with a significant focus on office properties. The vacancy rate moved at the previous year's 6.7 percent level. Top rents paid for office space remained stable while average rents paid, however, rose to a level last seen in the year 2000.

The Dutch investment market ended the last year with record results as total turnover for properties amounted to € 19.5 billion. Foreign companies accounted for a major portion of the capital invested. The primary focus was on office properties followed at great distant second place by retail and industrial properties. The upturn in office properties continued in 2017 and led to a substantial increase in rents. Amsterdam posted the highest rate of growth in Europe. The vacancy rate for office space fell reflecting the extremely favourable development of the economy.

The volume of transactions recorded for the American investment market declined again as foreign investors were less active. At mid-year point in 2017 volume was 14 percent below the same year-ago level. As the most important investment location in the USA, New York was particularly affected by this development as the volume of transactions recorded fell by half. In contrast, investors significantly expanded their activities in Boston, Washington D.C. and Los Angeles. The rental market is already in an advanced phase of its cycle, as reflected in the notable weakening in the growth of rents. Office properties were also the most important asset class in the USA and demand for office space was robust. The average rent paid for office space rose by 2.7 percent on a year-over-year basis. Nevertheless, the vacancy rate for office space rose slightly due to brisk new construction activities accompanied by a lower rate of pre-completion leases signed.

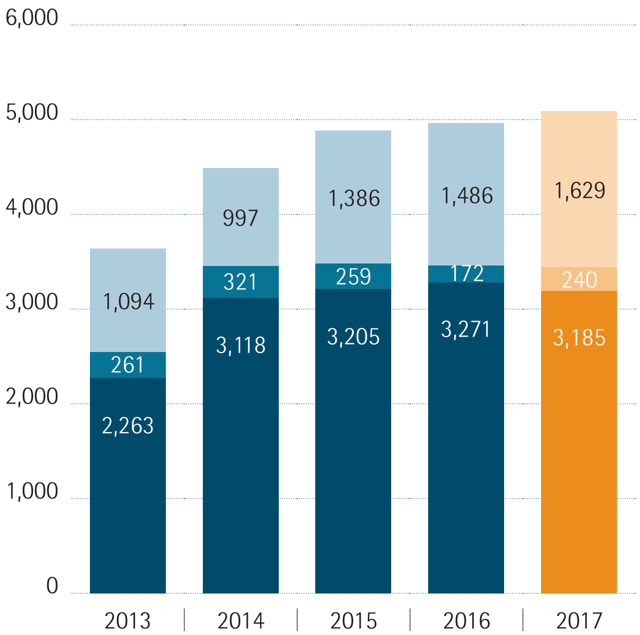
BUSINESS DEVELOPMENT

NEW MORTGAGE BUSINESS

MünchenerHyp set a new record in 2017 as our volume of new mortgage business exceeded € 5 billion for the first time. Our new business grew by 2.5 percent as we made € 5.1 billion in lending commitments (previous year € 4.9 billion), thereby reflecting a slightly faster pace of growth in our business.

Both of our main areas of business, private and commercial property financing, benefited from the good environment for property and the associated high demand for property financing seen during the year under review. For this reason, we are very satisfied with the development of our new business activities, which were able to expand as forecast

MÜNCHENERHYP NEW MORTGAGE BUSINESS
2013 – 2017
Commitments in € million



Residential housing
Housing Companies
Commercial property

We were able to sustain our new business performance in the private property financing area at the previous year's very high level in the intensely competitive market. We made loan commitments for a total volume of € 3.2 billion (previous year: € 3.3 billion). Our special sales campaigns in the spring and autumn of 2017 contributed to this success as each of them was met very favourably by our partner banks and customers. In addition, the share of forward financing transactions developed favourably in view of considerations that the ECB's loose monetary policy could be ending.

The volume of new lending commitments made to finance domestic private residential property brokered by banks within the Cooperative Financial Network was € 2.4 billion, basically unchanged from last year's volume of € 2.45 billion. Sales generated by independent providers of financial services increased by 8 percent on a year-over-year basis to € 419 million. New business brokered by Swiss PostFinance totalled € 373 million, or about € 50 million below the previous year's level due to intensifying price competition.

Our commercial property financing business was successful in 2017 and grew by 13 percent to € 1.9 billion (previous year € 1.7 billion).

We are particularly pleased that we were able to achieve these good results in a competitive environment characterised by shrinking margins and competitors willing to take on riskier financing deals. For our part we succeeded in attaining comparatively attractive margins across the entire span of our new commercial property business without exposing the Bank to inappropriate risks.

We posted gains in our domestic, as well as our international business activities, especially in Great Britain, Spain and the Netherlands, which contributed to our good results. In addition, our reentry into USA also made a favourable impression.

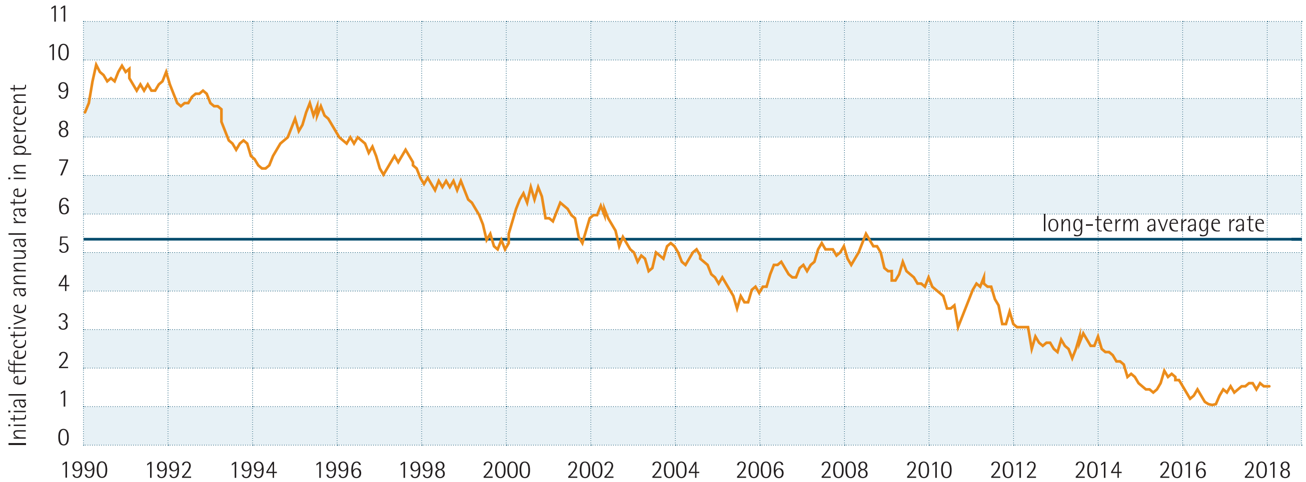
Furthermore, our new commercial property finance business benefited from the Bank's new syndication strategy where we act as the underwriter for larger loans that are generally more margin-attractive. We then syndicate a volume of about € 200 million to other providers of financing, with a special focus on our Cooperative Financial Network's syndication programme. Within the framework of the programme we enable the Volksbanken and Raiffeisenbanken to participate in commercial property loans we have made. This offer received a very favourable response.

CAPITAL MARKETS BUSINESS

Our investment strategy concerning securities issued by the public-sector and banks in 2017 was determined by regulatory requirements and very low spreads. Sovereign bonds and covered bonds continue to trade at very high levels due to the ECB's asset purchase programme.

In accordance with our business strategy, we again limited our capital market dealings in the past year. The net total volume of our existing portfolio was reduced by about € 1.0 billion to

MORTGAGE RATES MÜNCHENERHYP (TEN YEAR FIXED RATE)



As of: 02.01.2018

€ 5.7 billion. Our volume of new business totalled € 25 million in 2017 following € 109 million in 2016.

REFINANCING

The Pfandbrief markets were once again dominated by the ECB's Covered Bond Purchase Programme (CBPP3) in 2017. Markets were additionally influenced by political developments in Europe, especially elections in Germany, France and the Netherlands. Despite this difficult environment we found ample windows of opportunity to place new issues, which we used to refinance our activities at attractive conditions.

We floated our first benchmark issue of the year under review in May with a € 500 million Mortgage Pfandbrief that had a term of ten years and carried a coupon of 0.625 percent. The issue was priced at 12 basis points below the mid-swap rate. Thirty-four orders were received from investors in nine countries with Germany accounting for 83.5 percent of the volume sold followed by countries in Asia and the Middle-East. Excellent market conditions allowed the Bank to tap the issue by an additional € 250 million in October. The success is reflected by the price, which was set at 17 basis points below the mid-swap rate.

We successfully issued another Mortgage Pfandbrief in benchmark format in August, which is actually the classical summer vacation month in the capital market. Demand in the market was so great that we issued a volume of € 750 million. The Mortgage Pfandbrief had a term of nine years and two months and again carried a coupon of 0.625 percent. Market interest was reflected by the 64 orders received form ten countries, with Germany once again with the lion's share of orders. The issue was placed at a price of 13 basis points below the mid-swap rate.

The share of foreign currency denominated issues declined in the year under review by a total of 13 percent as the attractiveness of refinancing in US dollars and pound sterling declined substantially in comparison to euro-denominated issues.

The Swiss franc was the primary currency for our foreign currency denominated issues as we placed a total volume of CHF 810 million. In January we issued a two-year Mortgage Pfandbrief with a volume of over CHF 250 million. We followed up this issue with an additional two-year Mortgage Pfandbrief that had a volume of CHF 250 million. Due to strong demand seen for this issue we tapped it for an additional CHF 50 million one day after the issue.

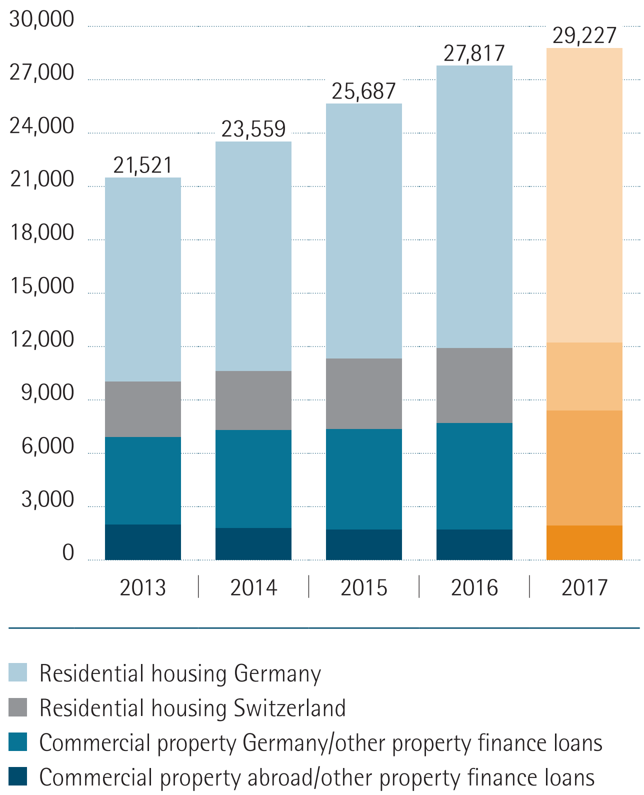
We successfully placed a seven-year unsecured Swiss franc denominated bond in September. The bond had a volume of CHF 160 million.

In October we entered new territory when we issued a 15-year Mortgage Pfandbrief in benchmark format with a volume of CHF 100 million. The issue was priced at 8 basis points below the Swiss franc mid-swap rate. The issue caused a commotion in the Pfandbrief markets as this marked the first time ever that a foreign issuer of covered bonds achieved a higher interest rate discount compared to the domestic Swiss Pfandbrief curve.

Only one large-volume bond matured during the previous business year: a Public Pfandbrief with a volume of € 0.5 billion matured in September.

The total volume of issues placed in the capital markets in 2017 amounted to € 5.6 billion, of which Mortgage Pfandbriefe accounted for € 4.2 billion in covered refinancing, while unsecured refinancing amounted to € 1.4 billion. During the period under review we once again did not issue any Public Pfandbriefe due to the direction of MünchenerHyp's business strategy.

PORTFOLIO DEVELOPMENT MÜNCHENERHYP
2013 – 2017
in € million



ASSET, FINANCIAL AND EARNINGS SITUATION

BALANCE SHEET STRUCTURE

By the end of 2017 total assets had risen to € 38.9 billion, following € 38.5 billion at 31 December 2016. The increase was driven by the unbroken favourable development of our new business results.

Our portfolio of mortgage loans grew by € 1.4 billion over the course of the year to € 29.2 billion. Private residential property financing was again the strongest growing segment of our business as it increased by € 1.0 billion.

Our portfolio of private residential property loans is structured as follows: domestic mortgage loans € 17.0 billion (previous year € 15.9 billion), foreign mortgage loans € 4.1 billion (previous year € 4.2 billion), which are solely loans made to finance residential property in Switzerland.

Our portfolio of commercial property loans totalled to € 8.1 billion (previous year € 7.7 billion), of which € 1.9 billion (previous year € 1.7 billion) represented loans made outside of Germany. Great Britain is our most important foreign market with 25 percent (previous year 23 percent), followed by the Netherlands with 21 percent (previous year 20 percent) and France with 18 percent (previous year 18 percent). Property we financed in the USA accounted for 10 percent (previous year 13 percent) of the total.

In accordance with our business and risk strategy, our portfolio of loans and securities related to our business with the public-

The item "Other liabilities to customers" is structured as follows:

	Remaining term < one year	Remaining term > one year	Total
	in € 000	in € 000	in € 000
Other liabilities to customers as of 31.12.2017	**738,865**	**2,081,807**	**2,820,672**
Registered bonds	**13,852**	**1,283,681**	**1,297,533**
of which institutional investors	13,121	1,261,681	1,274,802
Promissory note loans on the liabilities side	**654,129**	**798,126**	**1,452,255**
of which institutional investors	353,825	759,926	1,113,751
Other	**70,884**	**0**	**70,884**
of which institutional investors	28,549	0	28,549

sector and banks declined further from € 6.8 billion to € 5.7 billion, of which € 2.4 billion were securities and bonds.

At the end of 2017 the net sum of unrealised losses and unrealised gains in our securities portfolio amounted to plus € 58 million (previous year plus € 41 million). These figures include unrealised losses of € 1 million (previous year € 6 million) stemming from securities issued by countries located on the periphery of the euro area and banks domiciled in these countries. The total volume of these securities still amounted to € 0.4 billion (previous year € 0.6 billion).

Following a detailed examination of all securities we came to the conclusion that no permanent reductions in value are required. We are keeping these bonds on our books with the intention of holding them until they mature. Write-downs to a lower fair value were not necessary.

The portfolio of long-term refinancing funds increased by € 1.3 billion to € 34.1 billion, of which € 23.1 billion consisted of Mortgage Pfandbriefe, € 3.4 billion of Public Pfandbriefe and € 7.6 billion of unsecured bonds. The total volume of refinancing funds – including money market funds – increased from € 35.8 billion in the previous year to € 36.4 billion on 31 December 2017.

Paid-up capital increased by € 49.0 million to € 1,004.9 million. Total regulatory equity capital amounted to € 1,390.9 million (previous year: € 1,343.1 million).

Common Equity Tier 1 capital rose from € 1,251.3 million in the previous year to € 1,316.0 million. On 31 December 2017 the Common Equity Tier 1 capital ratio was 23.8 percent (previous year 22.9 percent), the Tier 1 capital ratio was also 23.8 percent (previous year 22.9 percent) while the total capital ratio was 25.2 percent (previous year 24.5 percent). The leverage ratio was 3.4 percent on 31 December 2017.

DEVELOPMENT OF EARNINGS

Net interest income[1] increased by € 23.2 million or 9.9 percent to € 256.6 million. We were able to increase this figure as predicted, which was especially due to the sustained success of our new business activities during the year under review. This figure also contains a single-digit million euro expense figure arising from the early termination of interest rate swaps.

Commissions paid were close to last year's level and amounted to € 82.6 million. Commission income declined to € 8.1 making net commission balance[2] a minus € 74.5 million, following minus € 74.2 million in the previous year.

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) The net commission balance is the net sum of Item 5 Commission received plus Item 6 Commission paid as shown on the income statement.

This resulted in a net interest income and net commission income figure[3], of € 182.1 million, an increase of € 22.9 million or 14 percent.

"General administrative expenses" rose by € 7.6 million to € 93.6 million, while personnel expenses increased by € 1.9 million or 4.3 percent.

Other administrative expenses rose by € 5.7 million or 13.5 percent. This increase was mainly due to projects aimed at optimising the processing of loans. Regulatory issues also contributed to higher costs, especially the implementation of the Markets in Financial Instruments Directive (MiFID II) and its corresponding regulation.

"Depreciation and write-downs of intangible and tangible assets" amounted to € 6.0 million or € 0.2 million less than the same year-ago figure.

Total administrative expenses[4] amounted to € 99.6 million compared to the € 92.2 million noted in the previous year. The cost-income ratio[5] was 55 percent (previous year 56 percent).

The net sum of other operating expenses and income totalled minus € 3.8 million.

Results from operations before deducting provisions for risk[6] rose by 24 percent over the previous year's figure to € 78.7 million Euro.

The item "Income from reversals of write-downs to claims and certain securities, as well as from reversals of provisions for possible loan losses", totalled plus € 1.5 million after allocations to reserves pursuant t o Article 340f of the German Commercial Code. The credit risk situation remained unremarkable. The net sum of reversals to provisions made for risks in the lending business (including direct write-downs) amounted to plus € 10.5 million (previous year: minus € 16.4 million).

Net income derived from the sale of promissory note loans, and the redemption of registered securities and debt securities, amounted to € 4.5 million.

The item "Income from write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets" amounted to plus € 4.9 million. This figure is primarily the result of proceeds from the sale of securities held as fixed assets.

Results from ordinary business activities amounted to € 85.1 million, an increase of 26 percent. After transferring € 5 million to the "Fund for General Banking Risks" pursuant to Art. 340g of the German Commercial Code and a tax expense item of € 33.8 million, annual net income amounted to € 46.3 million, which was 45 percent higher than in the previous year.

RATING, SUSTAINABILITY AND REGULATORY CONDITIONS

RATING

In November 2017 the rating agency Moody's raised its Baseline Credit Assessment (BCA) for MünchenerHyp to ba1. The BCA corresponds to the standalone rating of a bank. This decision takes various favourable developments of MünchenerHyp's key figures into consideration. The higher BCA rating was primarily due to the further improvement in the Bank's level of equity capital, as well as the moderate risks in its loan portfolio.

Moody's final rating for the Bank – including external support from the government and the Cooperative Financial Network – did not change. In December 2017 the agency did, however, change the outlook for the rating of the Bank's senior unsecured liabilities to negative.

3) The net interest income and net commission income balance is the sum of net interest income and the net commission balance.
4) Administrative expenses are the sum of Item 8 General administrative expenses and Item 9 Depreciation and write-downs of intangible and tangible assets as shown on the income statement.
5) Ratio between administrative expenses and net interest and commission income.
6) Net sum of Income Statement items 1 to 10.

Current ratings at a glance:

	Rating
Public Pfandbriefe	Aaa
Mortgage Pfandbriefe	Aaa
Senior unsecured liabilities	A1*
Short-term liabilities	Prime-1
Long-term deposits	Aa3

* The outlook for the rating for senior unsecured liabilities is negative.

The revision is due to a change in the methodology Moody's employs to make its ratings. The rating agency now assumes that the EU's Bank Recovery and Resolution Directive (BRRD) will be transformed into national law in Germany leading to the federal government providing weaker support to many banks. For this reason, the negative outlook affects a total of 16 banks that Moody's rates in Germany. The outlook for all other of MünchenerHyp's ratings remained stable.

Moody's did not change its opinion that MünchenerHyp had a solid reputation in the capital markets as an issuer of Pfandbriefe and thus has a correspondingly high level of refinancing strength. The agency also noted favourably the Bank's firm ties and related support within the Cooperative Financial Network.

Even to achieve its highest rating of Aaa for Pfandbriefe, Moody's only requires that legal requirements are observed, thus voluntary provision of surplus cover is not required.

Our long-term unsecured liabilities are rated AA- by both of the two other major rating agencies Standard & Poor's and Fitch due to the group rating assigned to the Cooperative Financial Network by the agencies.

SUSTAINABILITY

The strategic goal of our sustainability management activities is to further anchor sustainability in our core business. These efforts are directed by a sustainability manager and a sustainability committee comprised of employees from various departments within the Bank.

During the year under review we developed an additional sustainable financing product in our residential property financing area of business: the MünchenerHyp Family Loan. This product addresses an important social dimension of a holistic understanding of sustainability. The social benefits of the MünchenerHyp Family Loan consist of providing support to lower and middle income families by making an interest rate rebate available to them. The sustainability of the Family Loan has been certified by Oekom Research, which confirmed that the loan "makes a contribution to the intergenerational creation and securing of prosperity,

The development of our sustainability ratings since 2015 at a glance:

	2015	2016	2017/2018
oekom research	C	C+	C+
imug	Public Pfandbriefe: favourable Mortgage Pfandbriefe: neutral Unsecured bonds: neutral	Public Pfandbriefe: very favourable Mortgage Pfandbriefe: favourable Unsecured bonds: favourable	Public Pfandbriefe: very favourable Mortgage Pfandbriefe: favourable Unsecured bonds: favourable
Sustainalytics	**57 of 100 points**	**57 of 100 points**	**60 of 100 points**

taking into account such aspects as equal opportunity, participation and quality of life, as well as developments that arise in the course of demographic change". The Family Loan was introduced to the market at the beginning of 2018.

The sustainability rating agency oekom research continues to rate MünchenerHyp as one of the three best banks in the category of "Financials/Mortgage and Public Sector Finance". We received a C+ rating. Oekom Research rates MünchenerHyp ecological commitment with B-, and its social commitment with C+. At the same time the agency also confirmed the Bank's "Prime Status".

The agency imug confirmed all of MünchenerHyp's sustainability ratings at the beginning of 2017. The agency issued a "very favourable" rating for our Public Pfandbriefe, and a "favourable" rating for our Mortgage Pfandbriefe and unsecured bonds. The rating for Mortgage Pfandbriefe means that the Bank holds the best rating among the 30 German issuers rated by imug.

The sustainability rating agency Sustainalytics raised our rating in the beginning of 2018. We currently are rated 60 out of a possible 100 points.

REGULATORY CONDITIONS

BASEL III

MünchenerHyp uses the Internal Ratings Based Approach (IRBA) to calculate its equity capital requirements.

The Liquidity Coverage Ratio (LCR) was comfortably met throughout the entire year with figures considerably higher than 100 percent. Furthermore, the Net Stable Funding Ratio (NSFR) was also continuously over 100 percent.

Within the framework of Basel III a leverage ratio with a limit of 3 percent for the entire nominal volume of loans made by a bank in relation to its equity capital was also introduced. Up until now this ratio only had to be reported. However, as of 1 January 2019 this new rule will become a mandatory requirement for banks. At the end of 2017 MünchenerHyp's leverage ratio stood at 3.43 percent.

The Basel Committee on Banking Supervision (BCBS) finalised new standards for equity rules for credit institutions at the end of 2017. The regulatory standards are particularly focused on revising the standard approach as well as the internal approaches used to calculate risk weight for credit risks; establishing a binding definition of a new standard approach for operational risks, and the introduction of a floor of 72.5 percent to limit the effects of internal approaches compared to standard approaches. The finalised standards reflect the content of the most recent discussions to a great extent. Above all, this means that banks operating with a low level of risk, like MünchenerHyp, will be impacted by the changes as the introduction of the floor will have a negative effects on MünchenerHyp's equity capital ratios. Based on the current state of information, we do not expect that we will have to raise additional equity capital due to our very good level of capital.

We are attentively following current discussions and publications of various authorities regarding regulatory requirements. It is difficult to comprehensively prepare to meet future requirements at this time as widely varying positions are still regularly held by the different institutions involved in the current discussions at national, European and international levels. For this reason, we will continue to prepare to the greatest extent possible, although we will wait until the final version of the individual rules have been approved before we begin to implement them. We therefore believe it is necessary for the regulators to provide an appropriate amount of time – especially IT requirements – for implementation purposes.

All regulatory issues were, and are being, monitored by a central unit within MünchenerHyp, transmitted to the responsible departments and implemented in various projects. Up until today all of the requirements have been implemented on time. The enormous flood of new requirements mandated by the supervisory authority does, however, generate significant costs and requires us to continually create new plans to utilise the Bank's tight resources.

SINGLE SUPERVISORY SYSTEM FOR EU BANKS

The ECB again conducted its Supervisory Review and Evaluation Process (SREP) in 2017 that carefully examined the Bank's business model, its internal governance as well as its available capital and liquidity. The results indicate if additional equity capital or liquidity is required. The results of the SREP for MünchenerHyp revealed a mandatory minimum required ratio of 7.88 percent for the Bank's Common Equity Tier 1 capital.

MINIMUM REQUIREMENTS FOR RISK MANAGEMENT (MaRisK)

The MaRisk was updated at the end of 2017. As no major changes were made compared to the last versions, we anticipate that the Bank will be able to implement the updated requirements on time.

RECOVERY AND RESOLUTION PLANS

The Recovery Plan was updated. Furthermore information required for the Resolution Plan was provided to the resolution authority. Only minor adjustments were required in comparison to the previous year.

MAIN OFFICE, BODIES, COMMITTEES AND PERSONNEL

MAIN OFFICE

Münchener Hypothekenbank eG's main office is located in Munich. In addition, the Bank maintains a branch office in Berlin, and also has ten regional offices.

BODIES AND COMMITTEES

The Delegates Meeting elected Josef Hodrus, Spokesman of the Board of Management of Volksbank Allgäu-Oberschwaben eG, as a new member of MünchenerHyp's Supervisory Board.

At the end of Delegates Meeting Heinz Fohrer, member of the Board of Management of the Volksbank Esslingen eG, stepped down from the Supervisory Board. The Chairman of the Supervisory Board, Wolfhard Binder, thanked Heinz Fohrer for his great dedication and efforts during the years marked by numerous regulatory challenges.

EMPLOYEES

Following the slight increase in the number of employees noted in the past two years, the growth in the Bank's number of employees accelerated again in 2017 as we recruited 74 new employees to fill vacant position. This development meant that the focus of our human resources work was on recruiting and, above all, the integration of the new employees. In comparison to the previous year, MünchenerHyp's employee fluctuation figure rose slightly to 6.0 percent (2016: 5.4 percent). However, when compared to the average percentage for the sector, our figure remained at a low level.

The integration and development of personnel continued to gain importance at the Bank in light of the more than 100 new colleagues we hired in the past two years. The central elements in this area are the internal and external opportunities to advance employee skills and knowledge, management development, as well as other personnel development and personal commitment measures.

The average number of persons employed[7] by MünchenerHyp during the year under review was 509 employees, plus 11 apprenticed trainees. Despite numerous new hires, the average number of years of employment per employee remained almost constant at 11.3 years.

CORPORATE GOVERNANCE STATEMENT PURSUANT TO ART. 289f GERMAN COMMERCIAL CODE (HGB)

In 2016 the Supervisory Board passed a resolution defining a quota for women represented on the Supervisory Board, the Board of Management and the top two executive levels below the Board of Management. The target quota for the Supervisory Board and the top two executive levels below the Board of Management is 20 percent and 33 percent for the Board of Management. During the year under review the quota for women in each of the top two executive levels below the Board of Management was 18 percent and 8 percent in the Supervisory Board. No women were represented on the Board of Management. During the year under review the Supervisory Board's Nomination Committee resolved to recommend that the target quota should be achieved by the end of October 2021. Notwithstanding the above MünchenerHyp considers itself to be a modern enterprise as reflected by its social, cultural and business values and views the promotion of the underrepresented gender as a natural element of its embedded leadership culture.

7) Number of employees pursuant to Art. 267 (5) German Commercial Code (HGB): Excluding apprenticed trainees, employees participating in parental leave, early retirement, partial retirement (non-working phase), or employees suspended with pay.

MANAGEMENT REPORT 2017
RISK, OUTLOOK AND OPPORTUNITIES REPORT

RISK REPORT

The ability to monitor and keep risks under control at all times is essential for the successful management of business development at MünchenerHyp. For this reason, risk management plays a very important role in the overall management of the Bank.

The business and risk strategy defines the parameters of the Bank's business activities. MünchenerHyp's entire Board of Management is responsible for this strategy, which is regularly reviewed regarding the attainment of goals and updated as necessary and then submitted to the Supervisory Board no less than once a year.

As part of its supervisory duties, the Supervisory Board is advised about the Bank's risk profile no less than on a quarterly basis and additionally as required. This takes place using the reports concerning the Bank's risk-taking capabilities and lending risks, the OpRisk reports, as well as the risk report prepared in accordance with the "Minimum Requirements for Risk Management" (MaRisk).

The basis of risk management consists of, on the one hand, the analysis and presentation of existing risks, and, on the other, comparing these risks with the risk cover potential (ability to bear risk). Furthermore, a series of additional relevant analyses are in place and only when they are viewed as a whole do they permit the Bank to be managed appropriately. This objective is achieved by employing appropriate monitoring processes involving internal process-dependent supervision measures. Our internal audit department, as a process-independent unit, plays an additional monitoring role within the Bank.

The analysis and presentation of existing risks primarily distinguishes between counterparty, market price, credit spread, liquidity, investment, modelling and operational risks. Additional risks such as placement risks, reputational risk, business risk etc., are viewed as parts of the abovementioned risks and are taken into consideration at the appropriate place in the individual calculations.

COUNTERPARTY RISK

Counterparty risk (credit risk) is of major importance for MünchenerHyp. Counterparty risk refers to the danger that counterparties may delay their payment obligations to the Bank; only make partial payments or even default.

The Credit Handbook presents the competencies and procedural requirements of the units involved in lending, as well as the approved credit products. The business and risk strategy contains additional explanations pertaining to sub-strategies regarding target customers and target markets, as well as definitions for measuring and controlling credit risks at the individual deal and portfolio levels. A procedure based on the credit value-at-risk (Credit-VaR) is used to determine lending limits. The individual contribution of every borrower (aggregate debtor or limit group as appropriate) – the Marginal Credit-VaR – to the Bank's total credit risk is limited. Furthermore, limits are also set for each country to ensure adequate regional diversification.

We take care to ensure that the vast majority of our mortgage business activities consist of top tier loans with moderate loan-to-value ratios. The current breakdown based on loan-to-value ratios is as follows:

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)				
MORTGAGE LENDING VALUE RATIO	31 Dec. 2017		31 Dec. 2016	
	€	relative	€	relative
Up to 60 %	14,296,965,287.66	45.6%	13,728,296,351.62	46.2%
60.01 % to 70 %	6,280,906,478.52	20.0%	5,677,718,196.80	19.1%
70.01 % to 80 %	6,682,115,544.81	21.3%	6.311,223,356.12	21.2%
80.01 % to 90 %	2,272,306,838.37	7.2%	2,154,390,691.97	7.3%
90.01 % to 100 %	1,053,463,631.24	3.4%	1,106,925,787.91	3.7%
over 100 %	755,022,711.92	2.4%	711,366,203.19	2.4%
without	15,847,972.98	0.1%	25,419,250.26	0.1%
Total	**31,356,628,465.50**	**100.0%**	**29,715,339,837.87**	**100.0%**

The regional breakdowns within Germany and abroad are as follows:

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)				
REGION	31 Dec. 2017		31 Dec. 2016	
	€	relative	€	relative
Baden-Wuerttemberg	2,794,684,631.11	8.9%	2,616,357,406.41	8.8%
Bavaria	5,849,474,855.94	18.7%	5,646,905,936.17	19.0%
Berlin	1,515,024,630.55	4.8%	1,621,952,619.85	5.5%
Brandenburg	549,477,361.59	1.8%	490,537,743.87	1.7%
Bremen	93,497,213.85	0.3%	72,477,010.74	0.2%
Hamburg	936,793,198.61	3.0%	714,905,017.62	2.4%
Hesse	1,742,536,130.56	5.6%	1,616,366,977.79	5.4%
Mecklenburg-Lower Pomerania	384,874,380.79	1.2%	338,336,073.85	1.1%
Lower Saxony	2,102,093,778.96	6.7%	1,947,571,402.44	6.6%
North Rhine-Westphalia	4,502,314,653.67	14.4%	4,175,437,802.38	14.1%
Rhineland-Palatinate	1,227,865,749.56	3.9%	1,090,638,755.50	3.7%
Saarland	276,568,563.00	0.9%	224,663,431.89	0.8%
Saxony	873,208,941.08	2.8%	830,836,929.91	2.8%
Saxony-Anhalt	479,890,424.73	1.5%	432,564,548.35	1.5%
Schleswig-Holstein	1,694,132,583.00	5.4%	1,675,695,390.58	5.6%
Thuringia	317,419,939.59	1.0%	235,292,855.09	0.8%
Total domestic	**25,339,857,036.59**	**80.8%**	**23,730,539,902.44**	**79.9%**

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)				
SOVEREIGN STATE	31 Dec. 2017		31 Dec. 2016	
	€	relative	€	relative
Austria	117,228,434.45	0.4%	129,371,291.34	0.4%
France	334,128,112.01	1.1%	306,183,794.26	1.0%
Great Britain	457,267,526.70	1.5%	389,373,033.56	1.3%
Spain	241,773,685.93	0.8%	187,861,502.87	0.6%
Luxembourg	80,026,000.00	0.3%	48,626,000.00	0.2%
Switzerland	4,163,212,729.66	13.3%	4,321,626,705.80	14.5%
The Netherlands	392,584,077.07	1.3%	326,947,813.21	1.1%
Belgium	43,455,852.39	0.1%	49,976,456.52	0.2%
USA	187,095,010.70	0.6%	224,833,337.87	0.8%
Total foreign	**6,016,771,428.91**	**19.2%**	**5,984,799,935.43**	**20.1%**
Total domestic and foreign	**31,356,628,465.50**	**100.0%**	**29,715,339,837.87**	**100.0%**

The management of credit risks begins with the selection of the target business when drafting the terms of the loan, using risk cost functions that are regularly reviewed. A variety of rating or scoring procedures are used depending on the type and risk content of the transaction.

In addition, a computer-based early warning system is used to identify risks on a timely basis.

Property financing contains a broadly diversified portfolio of loans with emphasis on residential property financing and a credit approval process that has proven its value over many years as reflected in a portfolio with a low level of credit risk. Our lending business with public sector borrowers and banks is primarily focused on central and regional governments, regional and local authorities, and west European banks (only covered bonds). Regional emphasis is on Germany or Western Europe respectively. Our objective for this portfolio is to further reduce its volume due to reasons such as the introduction of the leverage ratio. Highly liquid sovereign bonds and other very creditworthy securities will, however, continue to be needed in order to meet the new liquidity requirements mandated by Basel III.

Depending on their ratings, mortgage loans are examined to determine any non-performance or other negative factors which could trigger an individual adjustment to value. Furthermore, an additional system to monitor individual adjustment to value is used by the Bank's work-out management department, especially for the non-retail market business.

The Bank has created a general adjustment-to-value reserve as a precautionary measure to cover latent lending risks. This general adjustment to value is calculated per the terms contained in a Federal Ministry of Finance notice dated January 10, 1994.

Individual adjustments to value taken remained at a low level for our residential property financing business due to the great stability of the residential property market. This also generally applies for our commercial property financing business.

Business relationships with financial institutions are primarily based on master agreements that permit settlement of claims and liabilities (netting) vis-a-vis the other institution. In general, we also enter into security agreements. We use a so-called Central Counterparty (CCP) as the preferred basis for settling derivative trades.

The individual and general adjustments to value developed as follows in 2017:

TOTAL LENDING BUSINESS						
in € millions	Opening balance	Addition	Reversals	Utilisation	Changes related to exchange rate shifts and other factors	Closing balance
Individual adjustments to value	66.0	6.0	-13.0	-8.5	-4.0	46.5
General adjustments to value	13.0	0.0	0.0	0.0	0.0	13.0

MARKET PRICE RISKS

Market price risks consist of the risks to the value of positions due to changes in market parameters including interest rates, volatility and exchange rates among others. These risks are quantified as potential losses of present value using a present value model that differentiates between risks related to interest rates, options and currency rates.

Interest rate risks are divided into two categories: general and specific interest rate risks. General interest rate risks refer to risks arising from changes in the market value of investments or liabilities that are dependent on the general level of interest rates, and which will react negatively if interest rates change.

Specific interest rate risks are also referred to as (credit) spread risks, and are included under market price risks. Credit Spread is the term used to describe the difference between the yield generated by a risk-less bond and a risky bond. Spread risks take into account the danger that this difference in interest rates can change although credit-worthiness ratings remain unchanged. The reasons for altered yield premiums are:

- varying opinions of market participants regarding positions,
- the creditworthiness of the issuer actually changes although the issuer's credit rating does not yet reflect this change,
- macro-economic factors that influence creditworthiness categories.

The Bank's portfolio of bonds issued by euro area countries more heavily affected by the sovereign debt crisis, or in bonds issued by banks domiciled in these countries, remained at a moderate level. The Bank has not made any new investments in countries located on the periphery of the euro area since 2011. We do not believe that our investments are in danger of default. We are of the opinion that measures taken by individual countries, as well as protective mechanisms enacted at EU levels, are sufficient to ensure the repayment of the affected liabilities. In the case of bank bonds issued by banks domiciled in these countries, all of these bonds are covered bonds so that in this instance we also anticipate that they will be repaid as contractually agreed.

Among other risks, options involve the following risks: volatility risk (Vega; risk that the value of a derivative instrument will change due to increasing or decreasing volatility), time risk (Theta; is understood to the risk that measures how the passage of time impacts on the value of a derivative instrument), Rho risk (risk associated with a change in the value of the option due to a change in a riskless rate of interest), and Gamma risk (risk of a change in the option's Delta due to a change in the price of the underlying security; the option's Delta thereby describes the change in the price of the option due to the change in the value of the underlying security). The volume of risks assumed is moderate as options are generally not employed in the capital market business for speculative purposes. Option positions are almost solely entered into on an implied basis due to debtors' option rights (for example the right to give legal notice of termination per Art. 489 of the German Civil Code – BGB) and are then hedged if needed. These risks are attentively monitored in the daily risk report and are limited.

Currency risk defines the risk arising from changes in the market value of investments or liabilities dependent on currency exchange rates and which will react negatively due to changes in currency exchange rates. MünchenerHyp's transactions outside Germany are hedged against currency risks to the greatest extent possible and only margins involved in payment of interest are not hedged.

Stock risks play a minor role for MünchenerHyp as our total investments in this asset class consist of investments in enterprises within the Cooperative Financial Network. The Bank additionally invested in a mixed fund (a special fund) in 2017. This fund can also invest in equities. The calculation of the risk figure is thus transferred to the company managing the investment fund. The results will be examined for their plausibility and then integrated into our own system.

Market price risks are managed by determining the present value of all of MünchenerHyp's transactions on a daily basis. The Bank uses the "Summit" IT programme for these calculations. The backbone of our interest rate risk management is the "bpV-vector", which is calculated on a daily basis. This figure is determined by the change in the present value incurred per range of maturities when the mid-swap curve is shifted by one basis point. Furthermore, sensitivities regarding the currency exchange rates, rotations of the interest rate curve, as well as changes in the basis spreads and volatility are also determined.

MünchenerHyp uses the value-at-risk (VaR) figure to identify and limit market risks. Linear as well as non-linear risks are taken into consideration using a historical simulation when calculating VaR. In addition, different stress scenarios are used here to measure the effect of extreme shifts in risk factors and the effects of other risk categories.

The current daily stress scenarios (others are conducted less frequently) are:

- Legal supervisory requirements: The interest rate curve is completely parallel shifted up and down by 200 base points for every separate currency. The worst result of the two shifts is used for calculation purposes.
- Parallel shifts: The current interest rate curve is completely shifted up and down by 50 base points across all currencies. The worst result of the two shifts is used for calculation purposes.
- Steepening/flattening: The interest rate curve is rotated in both directions pursuant to Guideline BCBS 368.
- Historical simulations:
  - September 11, 2001 terror attack in New York: Changes seen in market prices between September 10, 2001 and September 24, 2001 – the immediate market reaction to the attack – are played out using current levels.
  - The 2008 crisis in the financial markets: Changes in interest rates seen between September 12, 2008 (last banking day before the collapse of Lehman Brothers) and October 10, 2008 are played out using current levels.
  - Euro-crisis: the scenario replicates changes in interest rates that took place during the Euro-crisis between 21 May 2012 and 4 June 2012. Interest rates fell sharply during this period.

The Value at Risk (VaR) of the banking book (interest, currencies and volatilities) at a confidence level of 99 percent at a ten-day holding period in 2017 amounted to a maximum of € 21 million. The average figure was about € 14 million.

Although MünchenerHyp is a trading book institution (only for futures), as in the past the Bank did not enter into any futures deals in 2017.

MünchenerHyp manages its credit spread risks by calculating the present value of its asset-side capital market transactions on a daily basis to determine credit spread risks. The Bank uses the Summit valuation system to calculate the credit spread VaR, credit spread sensitivities and various credit spread stress scenarios.

MünchenerHyp uses the VaR figure to identify and limit credit spread risks. The VaR figure is calculated based on historical simulation.

The current (daily) credit spread stress scenarios are:

- Parallel shifts: All credit spreads are shifted up and down by 100 base points. The worst result of the two shifts is used for calculation purposes.
- Historical simulation of the collapse of the investment bank Lehman Brothers: the scenario assumes an immediate change

in spreads based on the changes that occurred one working day before the collapse of the investment bank until four weeks after this date.

- Flight into government bonds: The scenario simulates a significantly visible aversion to risk that was previously seen in the markets. Spreads for riskier classes of paper widen while spreads for safer government bonds narrow.
- Euro-crisis: The scenario replicates the development of spreads during the Euro-crisis that took place from October 1, 2010 and November 8, 2011. During this period the spreads of less creditworthy government bonds, in particular, rose sharply.

The credit spread VaR for the entire portfolio using a 99.9 percent level of confidence and holding period of one year stood at a maximum of € 101 million in 2017, while the average figure was about € 92 million.

LIQUIDITY RISKS

Liquidity risks consist of the following risks:

- Inability to fulfil payment obligations when they come due (liquidity risk in the narrow sense),
- inability to procure sufficient liquidity when needed at anticipated conditions (refinancing risk),
- inability to terminate, extend or close out a transaction, or only be able to do so at a loss, due to insufficient market depth or market turbulence (market liquidity risk).

MünchenerHyp differentiates between short-term assurance of solvency and mid-term structural liquidity planning.

SHORT-TERM ASSURANCE OF SOLVENCY

The purpose of short-term assurance of solvency is to ensure that the Bank is fully able to meet its required payment obligations (payment willingness) as agreed on a daily basis, even during stress situations. All of the currently applicable legal supervisory requirements as defined by the terms of MaRisk and CRD IV, regarding liquidity reserves that must be held by banks, are being fully implemented.

In doing so, MünchenerHyp has categorised itself as a capital market oriented institution per the terms of MaRisk, and therefore also fulfils requirements pursuant to BTR 3.2.

MaRisk distinguishes between five different scenarios, which were implemented accordingly:

1) Base Case: corresponds to the bank's control case.
2) Bank stress: the reputation of the institution deteriorates, for example due to high balance sheet losses.
3) Market stress: Short-lived event that affects a segment of the financial markets. Examples of this are the September 11, 2001 terror attack, or the financial market/sovereign debt crisis.
4) Combined stress: Simultaneous occurrence of bank and market
5) Combined stress without counter-measures: Scenario 5 assumes that it is impossible to obtain any liquidity.

MaRisk demands that an institution must be able to meet its liquidity requirements arising from scenarios 1-4 for at least 30 days. Scenario 5 represents the worst case situation for internal management purposes.

Varying model assumptions for all important cash flows were derived for each scenario; for example utilisation of our liquidity lines or guarantees (Aval), utilisation of previously made lending commitments, or the development of collateral. Beyond this, all securities were divided into different liquidity categories. Based on this, we determined the volume that would be sold, over which time period, or could be used for a repo transaction, to generate additional liquidity in each individual scenario. Legal restrictions, like the Pfandbrief Act's 180 day rule, were always observed in all cases. The result is a day-certain presentation of the available liquidity for a three year horizon in three currencies: euro, US dollar, and Swiss franc. Positions in other currencies are negligible. Limitation in the stress scenarios takes place using various horizons as early-warning indicators in each scenario.

In addition, the Liquidity Coverage Ratio (LCR), including a forecast, pursuant to CRD IV is calculated at least once a week for all currencies. Furthermore, it is also separately presented on a regular basis for all relevant currencies (currently, the euro and the Swiss franc). The ratio was notably higher than 100 percent at all times in 2017.

MID-TERM STRUCTURAL LIQUIDITY PLANNING

The purpose of structural liquidity planning is to ensure mid-term liquidity. The legal basis consists of the MaRisk BTR 3 and CRD IV for the Net Stable Funding Ratio (NSFR).

Mid-term liquidity management in accordance to the terms of MaRisk is based on short-term liquidity management pursuant to the terms of MaRisk, which means that both procedures use the same scenario definitions and modelling assumptions. However, due to the longer observation period, additional modelling assumptions are also taken into account which are not essential for managing short-term liquidity – for example, new business plans or current expenses such as salaries and taxes.

Mid-term liquidity planning involves the following key liquidity figures as components for determining results across all due dates:

- accumulated total cash flow requirements,
- available uncovered and covered potential funding including planned new business and prolongations in line with the surplus cover requirements set by the rating agency Moody's,
- additional detailed data for planning and control activities.

The limitation of liquidity risks takes place using the structured liquidity forecast and the stress scenarios based on the available liquidity within a year.

In addition, pursuant to CRD IV, the NSFR is calculated on a quarterly basis for all currencies. Furthermore, it is presented separately for all relevant currencies (currently the euro and the Swiss franc). As the supervisory authority has not yet issued any binding minimum amounts for complying with NSFR requirements, and the values are currently stable at just over 100 percent, this key figure is not being actively managed at this time.

In order to reduce refinancing risks, MünchenerHyp strives to refinance loans with matching maturities and continuously checks if its relevant refinancing sources (primarily those within the Cooperative Financial Network) still remain available. In order to limit market liquidity risks in its lending business with public-sector borrowers and banks, MünchenerHyp primarily acquires securities that are acceptable as collateral by the ECB, and which can be used for open market transactions at any time.

MünchenerHyp does not have any less-liquid bonds, like Mortgage Backed Securities (MBS) or similar securities, in its portfolio.

INVESTMENT RISK

Investment risk is understood to mean the danger of financial loss due to a decline in the value of a holding to less than its book value. This refers to long-term investments MünchenerHyp has made in companies within the Cooperative Financial Network due to strategic reasons.

OPERATIONAL RISKS

Operational risks refer to possible losses caused by personal misconduct, weaknesses in process or project management, technical failure or negative outside influences. Personal misconduct also includes unlawful actions, improper sales practices, unauthorised actions and transaction errors.

We minimise our operational risks by qualifying our employees, using transparent processes, automating standard procedures, and by having fixed working instructions in writing, comprehensive functional testing of the IT-systems, as well as appropriate emergency plans and preventive measures. Insurable risks are covered by insurance to the normal extent required by banks.

Within the framework of a risk analysis, the materiality in accordance with MaRisk standards of all of the services that MünchenerHyp outsources related to banking transactions, financial services or other services that are typical for an institution like MünchenerHyp, is examined. All of the outsourced services that are defined as being material are monitored pursuant to MaRisk requirements and are integrated within the risk management process.

ABILITY TO BEAR RISKS

The professional concepts and models used to calculate the Bank's ability to bear risks are continuously further developed in accordance with legal supervisory requirements. MünchenerHyp calculates its ability to bear risks based on the so-called Going-Concern, as well as the Insolvency Case. However, the so-called Going-Concern scenario is the relevant method used for control purposes, which determines if the bank would still have an adequate equity capital ratio exceeding legally required levels after the occurrence of risks contained in all of the risk categories.

The scenario deducts market risks, counterparty risks, operational risks, spread and migration risks, investment risks, property risks, as well as modelling risks containing other non-explicitly defined risks. Risks on cover potential for risks are accounted for on a conservative basis and without taking diversification effects between the risk categories into consideration.

The Bank's ability to bear risks was given at all times during the year under review.

USE OF FINANCE 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. Credit derivatives are not employed. We use asset swaps as micro-hedges at the level of individual transactions. Structured fundamental transactions such as callable securities are hedged accordingly with structured asset swaps. Matching currency funding is primarily sought to hedge foreign exchange risks arising from transactions involving foreign currencies; the remaining deals are hedged using (interest rate) currency swaps. The main hedging instruments we use at the portfolio level are interest rate swaps and swaptions. In addition to linear instruments, Bermudan options on interest swaps (swaptions) and interest options (caps and floors) are also used as hedges for embedded legal termination rights or arrangements to limit interest rates.

ACCOUNTING-BASED INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

The accounting-based internal control system is documented in organisational guidelines, descriptions of work processes, financial reporting handbooks, and operating instructions. It contains organisational security measures, as well as ongoing automatic measures and controls that are integrated in the work processes. These are, in particular, separation of functions, the double-check principle, access limitations, payment guidelines, new product and new structure process and balance confirmations. Process-independent measures are, above all, carried out by the internal audit department.

The risk management methods described in the risk report provide continuous qualitative and quantitative statements regarding MünchenerHyp's economic situation, including, for example, the development of performance. This evaluation involves aspects of all risk categories.

A close coordination process exists between the risk controlling and accounting departments at MünchenerHyp. This coordination process is supervised by the entire Board of Management.

The results from the risk management system form the basis for the multi-year planning calculations, year-end projections, and agreement procedures for approving the key figures generated by the Bank's accounting process.

CORPORATE PLANNING

MünchenerHyp continues to pursue a growth strategy focused on its residential and commercial property financing activities built on a solid refinancing foundation primarily based on Pfandbriefe and other bonds. The Bank's overarching strategic goal will continue to be the further strengthening of its earning power and thus its ability to retain profits. The Bank's strategic planning is focused on measures to improve net interest income and net commission income, increase cost efficiency, and keep risks under control.

The annual adjustment of our business and risk strategy required by the MaRisk defines the formal planning framework for this. Our integrated annual planning process plays a key role in the planning and management of our operations. This process synchronises our sales goals, management of the decentral and central components of our administrative expenses – including our project portfolio – with the outlook for the profit and loss account as it develops over the course of the year. All of the income and expense elements, as well as our ability to bear risks, are continually monitored, or additionally planned on a rolling basis, thereby allowing the Bank to respond appropriately and in a timely manner to fluctuations in earnings or costs.

Planning also includes issues regarding appropriate levels of equity capital – especially in view of meeting supervisory requirements.

OUTLOOK – OPPORTUNITIES AND RISKS

ECONOMIC DEVELOPMENT AND FINANCIAL MARKETS

The outlook for the global economy is clearly optimistic. Forecasts anticipate that the broad-based upswing will continue with the IMF expecting global GDP to grow by 3.9 percent per year in 2018 and in 2019.

The upswing is mainly driven by strong growth in advanced economies where production is predicted to grow further. The ECB foresees the euro area growing by 2.3 percent as it did in the year under review. Growth is only anticipated to slow slightly to 2.0 percent in 2019 against a background of a possible diminishing monetary support.

The strong and wide growth of the German economy will continue in 2018. In line with this outlook the German Federal Government's latest Annual Economic Report predicts that the country's gross domestic product will expand by 2.4 percent. This growth is still supported by the domestic economy, especially by private consumer spending. A notable increase is also foreseen for investments in construction due primarily to unwavering attractive financing conditions. However, the construction industry is already operating at the upper limits of its capacities. This is increasingly leading to bottlenecks and higher prices. The good global economy is also benefiting the export sector, which will also contribute to the growing economy. It is estimated that the rate of inflation will remain at the level recorded in 2017 and therefore still to be moderate. The labour market will continue to develop favourably in light of the good economy as employment figures continue to increase and jobless numbers decrease. The Kiel Institute for the World Economy (IfW) estimates that the average unemployment figure for the year will be 5.4 percent.

In the interim, the normalisation of monetary policies is viewed as the primary risk facing the German and the global economy, and could lead to uncertainty in the capital markets. At the beginning of 2018 economic experts also mentioned political risks, such as the outcome of the Brexit negotiations, or protectionist tendencies, especially in the USA, as possible factors that could burden the global economy, although they were not as strongly weighted as they were in the previous year.

The central banks' monetary policies will still vary in 2018 as, at least, two interest rate hikes are expected in the USA where the Fed is likely to continue shrinking its balance sheet. In contrast, the ECB and the Bank of Japan are expected to leave their key interest rates at their respective low levels and continue buying bonds on the market. At the beginning of 2018 the ECB already announced that it was reducing its monthly volume of purchases from € 60 billion to € 30 billion. This is interpreted to mean that the ECB could raise interest rates for the first time in 2019 – if the rate of inflation moves toward 2 percent. In this environment we anticipate slightly rising interest rates. Yields on 10-year bunds could rise from the 0.43 percent noted at the start of 2018 to a level around 1.0 percent within the remainder of the year.

The euro strengthened in the currency markets in past months. In the interim the euro has largely achieved its purchasing power parity level of USD 1.25 to the US dollar and to a great extent has ended its prevailing under-valuation. We do not expect to see a further rise in the near future. The value of the euro also gained vis-à-vis the Swiss franc and in the interim almost reached CHF 1.20, a level that the Swiss National Bank previously defined as its minimum exchange rate.

The ECB's continuing purchases of bonds within the framework of CBPP 3 should also result in favourable financing conditions for Pfandbrief issuers in 2018. Experts expect that issuing activities will be concentrated in the first months of 2018 as spreads could widen again as the ECB reduces its volume of newly purchased bonds. The total volume of new benchmark covered bond issues is expected to decline further to about € 100 billion. This decrease is mainly due to issuers' notably lower refinancing requirements compared to 2017. All in all, Pfandbriefe and other covered bonds will, however, remain important refinancing instruments. This especially applies to special institutions like MünchenerHyp.

PROPERTY AND PROPERTY FINANCING MARKETS

Property markets will benefit from the favourable economic outlook for another year and expand again. This means that the markets where MünchenerHyp is active will be affected as follows:

The German housing market will again be characterised by excess demand in 2018. This will apply equally to the user market – in other words, demand for owner-occupied housing and rental housing – and institutional and private property investor markets. Demand will continue to be driven by both low interest rates as well as demographic developments. The increase in the number of single-person households, in particular, will lead to a further increase in the number of households, as will population numbers which are growing again. In addition, demand on the part of owner-occupiers and capital investors will remain at a high level because the tight supply of properties noted in recent years was unable to satisfy existing demand.

In view of the high capacity utilisation rates noted for the construction industry, and the declining number of building permits recorded during the year under review, the supply of housing cannot be expected to increase noticeably in the future. Furthermore, the vacancy rates posted over many years in cities is substantially below the required fluctuation reserve. As a result, the accelerated pace of price increases will also continue in 2018.

The outlook for the German commercial property market is also favourable. Heavy demand for commercial properties, and especially office properties, will continue to be shown by national and international investors. The number and volume of transactions will be generally determined by the limited supply of available properties, especially in the seven biggest markets. Thus, experts anticipate the volume of transactions to stabilise at the high level seen in 2017.

Market conditions in the user market in 2018 will be driven by unbroken high demand for office space, which will remain in very tight supply – especially in the preferred office locations. Newly built office space will also remain scarce in view of the high rate of pre-completion leases signed. This situation is likely to lead to a renewed increase in rents in the seven biggest markets. Coupled with great pressure on institutional investors, which will lead anew to slightly declining yields, prices paid for commercial properties will initially rise further. It is felt that only a notable increase in interest rates in the capital market can halt the decline in initial yields and stop prices from rising even further.

Further developments in the UK property market will continue to be influenced by the potential economic effects of Brexit. However, as forecasts for 2018 only anticipate a slight weakening in economic growth, international investors are again showing interest, and especially in the London property market. This indicates that Great Britain is likely to hold its top-ranked status in the European investment market in 2018. However, as the office user market is in a very advanced phase of growth, is appears likely that the trend towards more stable rents that surfaced in the second quarter of 2017 will continue. Development of the residential property market depends to some extent on the number of companies that will move their head offices, and the attendant jobs, to other European cities because of Brexit. This is particularly true for the greater London area where prices for houses are expected to rise at a slower pace than in the rest of Great Britain. This development is likely to be far more visible in the rental housing market. While rents are forecast to decline in London, they are predicted to rise by 2 percent in Great Britain in 2018.

The economic upswing is making French property even more attractive for international investors. In addition, favourable fiscal conditions are also contributing to France's appeal. Thus, based on the assumption that there will be a sufficient supply of properties, the volume of investments is expected to increase. In view of the unchanged low level of interest rates, the French property market is predicted to continue on its upward trajectory among users and investors. It is also foreseen that the market will be marked by a further rise in prices paid, and higher rents.

The Dutch investment market is also experiencing overall favourable conditions in 2018. Demand for property will increase again, especially among foreign investors. The market is expected to grow in view of limited supply and investors' willingness to make riskier investments beyond prime locations. Investors will remain focused on office properties as high demand for office space in the user market promises higher property valuations due to rising rents. The tight availability of properties in the institutional housing market is likely to continue and lead to declining residential property yields in portfolios. At the same time, a noticeable revival of new construction activity is expected and will benefit the development of projects and buildings under construction.

The segments within the Swiss housing market will increasingly develop differently. The decline in rents will continue in the rental housing segment as the share of new rental housing as a percentage of total new housing under construction is expected to remain high. In contrast, prices paid for private homes and condominiums will continue to rise further. This development is supported, on the one hand, by the unchanged low level of interest rates and, on the other, by notable excess demand.

Although forecasts for the American commercial property market are mixed, they do anticipate that the phase of growth will slow. It is expected that the vacancy rate in the office properties market will rise slightly despite declining levels of new construction. Rents are also expected to continue growing at a slower pace in certain regions. This development may lead to a renewed reduction in the volume of investments made in commercial properties. The housing market is experiencing brisk new construction of multi-family houses, thereby offering numerous purchase options to the investment market. In contrast, the pace of rental increases is expected to weaken further in the rental housing market.

DEVELOPMENT OF BUSINESS AT MÜNCHENER HYPOTHEKENBANK

Our new business planning for 2018 is based on overall conditions that do not significantly differ from those noted in the year under review. High demand for property financing is expected to continue in view of the favourable economic conditions and low interest rates. Our planning anticipates a moderate increase in interest rates that will still leave them very attractive. Competition will intensify as the number of finance providers will increase thereby putting further pressure on margins. This situation applies to both private residential and commercial property financing. Against this background we plan to slightly expand our new business compared to figures posted for the year under review. This is because the prevailing competitive conditions and the level reached in the interim do not permit a dynamic increase.

The emphasis of our new business planning remains on financing residential property in Germany. The banks within the Cooperative Financial Network are our key partners in this area of business as they have pronounced sales power and close customer relationships. These attributes have enabled them to steadily expand their share of market over the past years. We anticipate that they will also grow stronger than the market in the residential property financing sector in 2018.

In January 2018 we introduced a new loan product to expand our combined market position: the MünchenerHyp Family Loan. The product offers a sustainable financing solution to families with children and is an innovative offer that favourably distinguishes our Bank from other providers of financial services. In addition, we take a major step toward digitalising the entire lending process by upgrading the Bank's system for disbursements and other portfolio processes. The objective of our efforts in this area is to strengthen perception of our partner banks as modern and very capable property financers thereby expanding the brokered business.

We plan to moderately expand our new business in collaboration with independent providers of financial services. The negative interest rates in Switzerland will lead to a further intensification of competition in the private property financing business. Working together with PostFinance we therefore anticipate that the volume of new business will be at the previous year's level.

We also expect that our new commercial property financing business will be at the 2017 level. Germany will be the focus of our new business activities. In addition we want to step up our business with foreign investors and accompany their investment activities in Germany with attractive financing offers.

Plans for our international business foresee moderate growth in all of the markets served by the Bank. In this context we will accompany domestic customers outside of Germany as well as foreign clients in their respective target markets. Our activities in the USA will continue to be limited to participating in other banks US financing arrangements.

We anticipate that syndication markets will see lively growth in 2018 as there is a clear trend towards ever larger financing deals. Only few banks, however, are willing to completely carry larger lending volumes of € 100 million or more on their balance sheet. For this reason, we expect that the number of club deals will expand in 2018 along with growing volumes in the secondary market. This is why we are planning to intensify our syndication business. On the one hand we will significantly participate in third-party financing deals, and on the other we will again pass on bigger volumes of loans we generated to other banks. The objective of these efforts is to attain a good diversification of risk. In achieving this we will also expand our successful syndication programme with the Cooperative Financial Network.

Our lending business with the public-sector and banks will remain unchanged and primarily serve to control liquidity and cover pools. For this reason, we will strive to further reduce our capital market business portfolio in 2018, which is anticipated to be smaller than in the previous years.

Our refinancing needs in 2018 are planned to be between € 6 billion and € 7 billion, of which we expect to obtain € 5.5 billion from the capital market, with the remaining volume sourced via the money market. As in the previous year, we anticipate that we will float two large volume issues and have additional potential to tap existing bonds. MünchenerHyp will continue to need Swiss francs due to its collaboration with Swiss PostFinance. Beyond these activities we will take advantage of attractive opportunities offered by other foreign currencies to further diversify our investor base.

We developed a deposit product for private customers in 2017 to broaden our refinancing mix. This product meets the requirements of the Cooperative Financial Network and will be sold by cooperative partner banks. The product's procedures and marketability were successfully tested during pilot phases. As a result, we plan to offer this deposit product on a permanent basis in the future.

We will also expand our sustainability activities in 2018. As part of these efforts we are pursuing the goal of successfully launching the MünchenerHyp Family Loan into the market, thereby expanding our portfolio of sustainable financing. Furthermore, we are working on obtaining the required volume of mortgages eligible to serve as cover to enable us to issue another Sustainable Pfandbrief.

We are striving to achieve a moderate increase in net interest income from business operations in 2018. The stable development in our core markets continues to offer us opportunities to once again expand our new business and thus our portfolio of mortgage loans.

This will continue to have an increasingly favourable impact on the Bank's performance. As a result, we anticipate that our earnings will improve again in 2018.

We anticipate that our administrative expenses will increase anew in 2018. Nevertheless, we currently expect that our cost-income ratio will decline slightly.

Based on the currently available information, we expect that provisions for lending risks will develop stably.

In view of the anticipated favourable market conditions, we are confident that we will achieve our targets for the 2018 business year and further expand our market position. We expect that our net income will exceed the previous year's level.

DISCLAIMER REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains statements concerning future expectations and forecasts. These forward-looking statements, especially those pertaining to the development of MünchenerHyp's business and income, are based on our planned assumptions and estimates and are subject to risks and uncertainties. There are a number of factors that could affect our business and which are mainly beyond our sphere of influence. These include, above all, economic developments, the state and further development of the financial and capital markets in general and our refinancing conditions in particular, as well as unexpected defaults on the part of our borrowers. Therefore, the actual results and developments may vary from the assumptions that have been made today. For this reason, they are only valid at the time this report was prepared.

"COOPERATIVE COLLABORATION IS LIKE WORKING TOGETHER IN A BIG FAMILY."

Markus Dünnebacke, member of the Board of Management of the Dortmunder Volksbank eG, and Deputy Chairman of MünchenerHyp's Advisory Committee, reviews the collaboration between his bank and MünchenerHyp, and especially how a mutual awareness of responsibility can be reflected by actions in a partnership of equals.

Click here to access the video.

ANNUAL STATEMENT OF ACCOUNTS.

ANNUAL STATEMENT OF ACCOUNTS

BALANCE SHEET, 31 DECEMBER 2017

ASSETS		31 Dec. 17	31 Dec. 16
	€	€	€ 000
1. Cash reserve			
a) Cash on hand	14,336.33		19
b) Balances with Central Banks	685,748,889.97		291,634
of which			
with Deutsche Bundesbank € 685,748,889.97			
		685,763,226.30	**291,653**
2. Claims on banks			
a) Mortgage loans	7,990,755.97		9,987
b) Public-sector loans	226,076,400.03		343,041
c) Other claims	1,752,360,522.44		2,626,199
of which			
payable on demand € 918,097,995.99			
		1,986,427,678.44	**2,979,227**
3. Claims on customers			
a) Mortgage loans	29,130,016,525.27		27,707,189
b) Public-sector loans	3,127,166,605.24		3,597,899
c) Other claims	184,119,442.05		46,627
		32,441,302,572.56	**31,351,715**
4. Bonds and other fixed-income securities			
a) Bonds and notes	2,481,231,213.15		2,936,256
aa) Public-sector issuers € 1,334,884,373.99			(1,422,146)
of which			
eligible as collateral for Deutsche Bundesbank advances € 1,232,785,125.54			
ab) Other issuers € 1,146,346,839.16			(1,514,110)
of which			
eligible as collateral for Deutsche Bundesbank advance € 1,060,234,278.73			
b) Own bonds and notes	800,020,416.67		600,000
Nominal value € 800,000,000.00			
		3,281,251,629.82	**3,536,256**
Carried forward		38,394,745,107.12	38,158,851

LIABILITIES, CAPITAL AND RESERVES

		31 Dec. 17	31 Dec. 16
	€	€	€ 000
1. Liabilities to banks			
a) Registered Mortgage Pfandbriefe issued	876,903,377.86		663,345
b) Registered Public Pfandbriefe issued	172,504,361.57		127,368
c) Other liabilities	3,738,572,446.94		3,815,153
of which			
payable on demand € 824,164,091.48			
		4,787,980,186.37	**4,605,866**
2. Liabilities to customers			
a) Registered Mortgage Pfandbriefe issued	9,362,855,464.96		8,782,709
b) Registered Public Pfandbriefe issued	2,244,004,663.87		2,710,773
c) Other liabilities	2,820,672,238.73		3,497,502
of which			
payable on demand € 6,490,217.92			
		14,427,532,367.56	**14,990,984**
3. Certificated liabilities			
a) Bonds issued	17,519,989,574.04		16,228,040
aa) Mortgage Pfandbriefe € 13,040,764,686.00			(11,009,435)
ab) Public Pfandbriefe € 1,028,055,756.45			(1,968,997)
ac) Other bonds and fixed-income securities € 3,451,169,131.59			(3,249,608)
b) Other certificated liabilities	393,173,415.17		699,618
of which			
Money market paper € 393,173,415.17			
		17,913,162,989.21	**16,927,658**
4. Liabilities incurred as trustee		**9,797.82**	**21**
of which			
loans € 9,797.82			
5. Other liabilities		**143,181,331.35**	**406,989**
Carried forward		37,271,866,672.31	36,931,518

ASSETS		31 Dec. 17	31 Dec. 16
	€	€	€ 000
Brought forward		38,394,745,107.12	38,158,851
5. Equities and other variable-yield securities		**155,307,114.40**	**12,336**
6. Participations and shares in cooperatives			
a) Participations	104,535,199.49		104,535
of which			
credit institutions € 22,955,936.29			
b) Shares in cooperatives	18,500.00		19
of which			
in credit cooperatives € 15,500.00			
		104,553,699.49	**104,554**
7. Shares in affiliated companies		**11,151,601.64**	**11,152**
8. Assets held in trust		**9,797.82**	**21**
of which			
loans € 9,797.82			
9. Intangible assets			
Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	5,000,107.36		4,339
		5,000,107.36	**4,339**
10. Tangible assets		**70,164,777.75**	**71,090**
11. Other assets		**114,080,357.31**	**100,365**
12. Deferred items			
From issuing and lending business	50,013,051.08		46,285
		50,013,051.08	**46,285**
Total assets		**38,905,025,613.97**	**38,508,993**

LIABILITIES, CAPITAL AND RESERVES

		31 Dec. 17	31 Dec. 16
	€	€	€ 000
Brought forward		37,271,866,672.31	36,931,518
6. Deferred items			
From issuing and lending business	23,142,203.45		23,539
		23,142,203.45	**23,539**
7. Provisions			
a) Provisions for pensions and similar obligations	29,899,175.00		28,838
b) Provisions for taxes	7,845,000.00		30
c) Other provisions	34,648,725.00		30,076
		72,392,900.00	**58,944**
8. Subordinated liabilities		**156,200,000.00**	**156,200**
9. Profit-participation certificates		**2,556,459.40**	**6,136**
of which			
due in less than two years € 2,556,459.40			
10. Fund for general banking risks		**35,000,000.00**	**30,000**
11. Capital and reserves			
a) Subscribed capital	1,006,914,120.00		986,710
aa) Members' capital contributions € 1,004,914,120.00			(955,961)
ab) Silent participations € 2,000,000.00			(30,749)
b) Revenue reserves	304,500,000.00		290,500
ba) Legal reserve € 298,500,000.00			(286,000)
bb) Other revenue reserves € 6,000,000.00			(4,500)
c) Unappropriated profit	32,453,258.81		25,446
		1,343,867,378.81	**1,302,656**
Total liabilities, capital and reserves		**38,905,025,613.97**	**38,508,993**
1. Contingent liabilities			
Contingent liability on guarantees and indemnities		**766.94**	**252**
2. Other commitments			
Irrevocable loan commitments		**3,620,173,705.45**	**3,223,168**

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

			1 Jan. to 31 Dec. 17	1 Jan. to 31 Dec. 16
	€	€	€	€ 000
1. Interest income from			**1,025,996,320.68**	**1,066,816**
a) Lending and money market operations		963,897,166.13		976,719
b) Fixed-income securities and government debt register claims		62,099,154.55		90,097
2. Interest expenses			**772,069,809.74**	**836,214**
3. Current income from			**2,379,322.20**	**2,615**
a) Shares and other non-fixed income securities		0.00		112
b) Participating interests and shares in cooperatives		1,929,322.20		2,103
c) Investments in affiliated companies		450,000.00		400
4. Income from profit-pooling, profit transfer or partial profit transfer agreements			**336,835.54**	**216**
5. Commission received			**8,112,472.03**	**8,204**
6. Commission paid			**82,617,076.75**	**82,399**
7. Other operating income			**1,943,448.51**	**855**
8. General administrative expenses			**93,630,780.64**	**86,071**
a) Personnel expenses		45,849,726.55		43,946
aa) Wages and salaries	38,607,790.77			(37,667)
ab) Social security contributions and cost of pensions and other benefits	7,241,935.78			(6,279)
of which for pensions € 1,543,943.12				(979)
b) Other administrative expenses		47,781,054.09		42,125
9. Depreciation and write-downs of intangible and tangible assets			**5,976,574.43**	**6,168**
10. Other operating expenses			**5,825,876.23**	**4,388**
11. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses			**0**	**7,844**
12. Income from reversals of write-downs to claims and certain securities, as well as from reversals of provisions for possible loan losses			**1,481,624.73**	**0**
13. Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets			**4,937,914.02**	**11,694**
14. Results from ordinary business activities			**85,067,819.92**	**67,316**
15. Taxes on revenue and income			**33,815,429.40**	**28,379**
16. Allocation to fund for general banking risks			**5,000,000.00**	**7,000**
17. Net income			**46,252,390.52**	**31,937**
18. Retained earnings brought forward from previous year			**200,868.29**	**171**
19. Allocation to revenue reserves			**14,000,000.00**	**6,662**
a) Legal reserve		12,500,000.00		3,696
b) Other revenue reserves		1,500,000.00		2,966
20. Unappropriated profit			**32,453,258.81**	**25,446**

STATEMENT OF DEVELOPMENT IN EQUITY CAPITAL AND CASH FLOW STATEMENT

STATEMENT OF DEVELOPMENT IN EQUITY CAPITAL FOR 2017

	Subscribed capital				
	Members' capital contributions	Silent participations	Revenue reserves	Unappropriated profit	Total capital and reserves
	€ 000	€ 000	€ 000	€ 000	€ 000
Capital and reserves as at 01.01.2016	705,334	170,749	283,838	22,442	1,182,363
Net change in capital	250,627	-140,000	0	0	110,627
Dividends paid	0	0	0	22,270	22,270
Net income	0	0	6,662	25,274	31,936
Capital and reserves as at 31.12.2016	955,961	30,749	290,500	25,446	1,302,656
Net change in capital	48,953	-28,749	0	0	20,204
Dividends paid	0	0	0	25,245	25,245
Net income	0	0	14,000	32,252	46,252
Capital and reserves as at 31.12.2017	1,004,914	2,000	304,500	32,453	1,343,867

CASH FLOW STATEMENT FOR 2017

		31 Dec. 17 in € millions
1.	Profit for the period	46.3
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	10.5
3.	Increase/decrease in provisions	13.5
4.	Other non-cash expenses/income	7.4
5.	Gain/loss on disposal of fixed assets	4.9
6.	Other adjustments (net)	0.0
7.	Increase/decrease in receivables from credit institutions	963.6
8.	Increase/decrease in receivables from customers	-1,082.7
9.	Increase/decrease in securities (unless classified as long term financial assets)	-200.2
10.	Increase/decrease in other assets relating to operating activities	-110.7
11.	Increase/decrease in liabilities to credit institutions	245.1
12.	Increase/decrease in liabilities to customers	-570.7
13.	Increase/decrease in securitised liabilities	990.2
14.	Increase/decrease in other liabilities relating operating activities	-568.9
15.	Interest expense/Interest income	-245.4
16.	Income tax expense/income	-7.9
17.	Interest and dividend payments received	590.9
18.	Interest paid	-88.9
19.	Income taxes paid	-26.0
20.	**Cash flows from operating activities (total of lines 1 to 19)**	**-29.0**
21.	Proceeds from disposal of long-term financial assets	462.8
22.	Payments to acquire long-term financial assets	-29.0
23.	Proceeds from disposal of tangible fixed assets	0.0
24.	Payments to acquire tangible fixed assets	-1.5
25.	Proceeds from disposal of intangible fixed assets	0.0
26.	Payments to acquire intangible fixed assets	-4.2
27.	**Cash flows from investing activities (total of lines 21 to 26)**	**428.1**
28.	Proceeds from capital contributions	49.0
29.	Dividends paid to shareholders	-25.2
30.	Changes in cash funds relating to other capital (net)	-28.7
31.	**Cash flows from financing activities (total of lines 28 to 30)**	**-4.9**
32.	Net change in cash funds	394.2
33.	Effect on cash funds of exchange rate movements and remeasurements	0.0
34.	Cash funds at beginning of period	291.7
35.	**Cash funds at end of period (total of lines 32 to 34)**	**685.8**

MünchenerHyp accepts responsibility for its employees. It offers them the freedom to be personally responsible for their work, their individual area of work within the Bank and their working hours. Florian Lang, Deputy Head of the Business Process Optimisation department and two employees describe their daily routines and how they balance the professional and personal sides of their lives.

Click here to access the video.

“FOR ME, A COOPERATIVE MEANS ROLLING UP MY SLEEVES TO GET THINGS DONE FOR THE GOOD OF OUR COMMUNITY.”

NOTES.

NOTES 2017

GENERAL INFORMATION ON ACCOUNTING POLICIES

The Münchener Hypothekenbank eG annual financial statement as of December 31, 2017 was prepared in accordance with the provisions of the German Commercial Code (HGB), in conjunction with the accounting regulation for banks and financial service institutions (RechKredV), and in accordance with the rules contained in the Cooperatives Act (GenG) and the Pfandbrief Act (PfandBG).

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

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

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

Borrowed securities do not appear on the balance sheet.

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

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

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 their settlement value. Zero bonds are carried in the accounts at the issuing price plus earned interest based on the yield at the time of purchase in accordance with the issuing conditions. The difference between the nominal amount of liabilities and the amount disbursed is shown under deferred items. Based on the principles of prudent business practice, provisions have been made for uncertain liabilities in the amount of settlement value of these liabilities. Provisions with a remaining term of more than one year were discounted using the commensurate average rate of market interest rates. Provisions made for pension obligations are calculated based on the Projected Unit Credit Method, a discount rate of 3.68 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 2005 G" prepared by Prof. Klaus Heubeck. In accordance with the terms of Art. 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 Art. 256a of the German Commercial Code, monetary assets and liabilities denoted 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 is 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 write-ups to claims and certain securities as well as from write-downs to 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

	31 Dec. 17 € 000	31 Dec. 16 € 000
Claims on banks	1,986,428	2,979,227
≤ Three months	1,753,571	2,632,845
> Three months ≤ one year	99,063	111,939
> One year ≤ five years	27,790	126,716
> Five years	106,003	107,727
Claims on customers	32,441,302	31,351,715
≤ Three months	787,912	650,678
> Three months ≤ one year	1,293,023	1,422,099
> One year ≤ five years	7,479,878	7,177,370
> Five years	22,880,489	22,101,568
Bonds and other fixed-income securities ≤ one year	201,781	442,686

LIABILITIES, CAPITAL AND RESERVES

	31 Dec. 17 € 000	31 Dec. 16 € 000
Liabilities to banks	4,787,980	4,605,866
≤ Three months	1,219,648	1,680,548
> Three months ≤ one year	581,463	407,394
> One year ≤ five years	1,643,964	1,343,252
> Five years	1,342,905	1,174,673
Liabilities to customers	14,427,532	14,990,984
≤ Three months	526,464	997,271
> Three months ≤ one year	516,600	620,000
> One year ≤ five years	1,402,358	1,800,069
> Five years	11,982,110	11,573,644
Certificated liabilities	17,913,163	16,927,658
Bonds issued		
≤ Three months	793,695	391,464
> Three months ≤ one year	1,781,708	1,835,424
> One year ≤ five years	8,174,403	8,477,652
> Five years	6,770,184	5,523,500
Other certificated liabilities		
≤ Three months	149,696	286,495
> Three months ≤ one year	243,478	413,123

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

	Affiliated companies 31 Dec. 17 € 000		Companies in which participating interests are held 31 Dec. 17 € 000		Affiliated companies 31 Dec. 16 € 000		Companies in which participating interests are held 31 Dec. 16 € 000	
	certificated	non-certificated	certificated	non-certificated	certificated	non-certificated	certificated	non-certificated
Claims on banks	0	0	0	629,922	0	0	0	779,665
Claims on customers	0	0	0	0	0	718	0	0
Bonds and other fixed-income securities	0	0	22,400	0	0	0	22,400	0
Liabilities to banks	0	0	0	515,258	0	0	0	281,784
Liabilities to customers	0	1,554	0	0	0	6	0	0
Certificated liabilities	0	0	0	0	0	0	0	0
Subordinated liabilities	0	0	0	15,120	0	0	0	15,120

SECURITIES MARKETABLE ON THE STOCK EXCHANGE

	31 Dec. 17 € 000		31 Dec. 16 € 000	
Asset category	listed	unlisted	listed	unlisted
Bonds and other fixed-income securities	2,279,536	146,063	2,720,214	173,269
Shares and other non-fixed-income securities	0	8,030	8,050	0
Participations	0	7,916	0	7,916

SHARES IN SEPARATE FUNDS

Description of the fund	Investment goal	Valuation pursuant to Art. 168 and 278 Capital Investment Code (KAGB), or Art. 36 Investment Act (old version) (InvG a. F.), or comparable foreign regulations € 000	Difference to book value € 000	Distribution paid out for fiscal year € 000
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	149,877	2,877	0

SUBORDINATED ASSETS

	31 Dec. 17 € 000	31 Dec. 16 € 000
Bonds and other fixed-income securities	22,400	22,400
Shares and other non-fixed-income securities	8,030	8,050

TRADING BOOK

As at 31.12.2017 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.

DEVELOPMENT OF FIXED ASSETS

	Acquisition and production costs	Changes total +/- *)	Net book value on 31 Dec. 17	Net book value on 31 Dec. 16
Bonds and other fixed-income securities	2,936,256	-455,025	2,481,231	2,936,256
Shares and other non fixed-income securities	8,050	-20	8,030	8,050
Participations and shares in cooperatives	104,554	0	104,554	104,554
Shares in affiliated companies	11,152	0	11,152	11,152

	Acquisition and production costs at start of business year	Additions during business year	Disposals during business year	Transfers during business year	Acquisition and production costs at end of business year	Accumulated depreciation at start of business year	Depreciation during business year	Additions during business year	Changes in legal depreciation taken related to			Accumulated depreciation at end of business year	Net book value on 31 Dec. 17	Net book value on 31 Dec. 16
									Additions	Disposals	Transfers			
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Intangible assets	32,582	4,186	0	0	36,768	28,242	3,526	0	0	0	0	31,768	5,000	4,340
Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	32,582	4,186	0	0	36,768	28,242	3,526	0	0	0	0	31,768	5,000	4,340
Tangible assets	98,665	1,527	623	0	99,569	27,575	2,450	0	0	621	0	29,404	70,165	71,090

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

As of the balance sheet date there was no indication that the present value of the Bank's participations and capital holdings at cooperatives, holdings in affiliated companies, as well as the value of shares and other non-fixed-income securities was less than their book values.
The item "Bonds and other fixed-income securities" includes securities with a book value of € 352,012 (thousand) (previous year € 1,086,213 (thousand)) exceeding the present value of € 349,231 (thousand) (previous year € 1,075,049 (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 € 2,425,599 (thousand) (previous year 2,871,083 (thousand)) are marketable securities.

SHAREHOLDINGS

	Percentage of capital held	Equity in € 000	Profit/Loss in € 000
M-Wert GmbH, Munich*	100.00	434	212
Immobilienservice GmbH der Münchener Hypothekenbank eG (M-Service), Munich (profit transfer agreement)**	100.00	509	337
Nußbaumstrasse GmbH & Co. KG, Munich*	100.00	11,271	253

* Annual financial statements 2016, ** Annual financial statements 2017

TRUST TRANSACTIONS

	31 Dec. 17 € 000	31 Dec. 16 € 000
Assets held in trusts		
Claims on customers	10	21
Liabilities incurred as trustee		
Liabilities to banks	10	21

TANGIBLE ASSETS

The portion of the total value attributable to the land and buildings used by the Bank is € 57,814 (thousand) (previous year € 58,772 (thousand)), and of plant and office equipment € 2,563 (thousand) (previous year € 2,340 (thousand)).

OTHER ASSETS

The item "Other assets" includes deferred items of € 43,627 (thousand) related to the derivative business, and € 53,353 (thousand) in commissions for mortgage loans that will be paid after the balance sheet date. In addition, this item also includes a participation held for sale recorded at € 5,560 (thousand) and tax claims of € 940 (thousand). Furthermore, this item also includes € 7,726 (thousand) in cash collateral pledged within the framework of the banking levy.

DEFERRED ITEMS FROM THE ISSUING AND LOAN BUSINESS

	31 Dec. 17 € 000	31 Dec. 16 € 000
Assets side 12.		
Discount from liabilities	46,572	41,224
Premium from claims	3,441	5,061
Other deferred charges	0	0
Liabilities side 6.		
Premium from liabilities	20,492	18,911
Discount from claims	2,647	4,623
Other deferred income	3	6

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 € 1,000,000 (thousand) (previous year € 500,000 (thousand)) were pledged as collateral to secure the same amount of liabilities. The book value of the pledged assets (genuine repurchase agreements) was € 0 (previous year € 0). Within the framework of security arrangements for derivative transactions, cash collateral of € 1,582,686 (thousand) (previous year € 2,231,773 (thousand)) was provided. Securities valued at € 14,438 (thousand) (previous year € 14,588 (thousand)) were pledged to secure pension obligations and requirements of the partial retirement model for older employees. Securities valued at € 18,000 (thousand) (previous year € 18,000 (thousand)) were pledged to secure financial aid obligations within the framework of a Contractual Trust Arrangement (CTA). Claims in respect of loans valued at € 368,543 (thousand) (previous year € 344,215 (thousand)) were assigned to secure loans obtained from credit institutions. Pursuant to Art. 12 para. 5 of the Restructuring Fund Act (Restrukturierungsfondsgesetz – RStruktFG) € 7,726 (thousand) in cash collateral has been pledged.

OTHER LIABILITIES

The item "Other liabilities" consists of € 76,593 (thousand) for deferred items and adjustment items for valuation of foreign currency items, and € 65,028 (thousand) related to derivative transactions.

SUBORDINATED LIABILITIES

Subordinated liabilities incurred interest expenses of € 8,679 (thousand) (previous year € 8,704 (thousand)). Subordinated liabilities which individually exceed 10 percent of the overall statement amount to:

Nominal amount	Currency	Interest rate	Maturity date
20,000,000.00	Euro	6.02%	20.03.2018

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

PROFIT-PARTICIPATION CAPITAL

Profit-participation capital in the nominal amount of € 2,556 (thousand) (previous year € 6,136 (thousand)) includes four profit-participation certificates bearing fixed rates of interest. It fulfils the requirements of Art. 63 CRR with a value of € 2,556 (thousand) (previous year € 6,136 (thousand)).

MEMBERS' CAPITAL CONTRIBUTIONS

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

	31 Dec. 17 €	31 Dec. 16 €
Capital contributions	1,004,914,120.00	955,961,431.48
a) of remaining members	1,002,161,510.00	952,925,251.48
b) of former members	2,654,050.00	2,770,880.00
c) in respect of shares under notice	98,560.00	265,300.00
Outstanding obligatory payments in respect of shares	0.00	8.52

SILENT PARTICIPATIONS

As of the date of record there were two silent participations in the amount of € 2,000 (thousand) (previous year € 30,749 (thousand)) bearing fixed rates of interest recorded, which incurred expenses of € 1,343 (thousand) (previous year € 5,643 (thousand)).

DETAILS OF REVENUE RESERVES

	Legal reserve € 000	Other revenue reserves € 000
01 Jan. 2017	286,000	4,500
Transfer from 2016 retained earnings	0	0
Transfer from 2017 net income	12,500	1,500
31 Dec. 2017	298,500	6,000

The increase in the assessment period used for defining the average discount rate from 7 to 10 years resulted in a positive contribution to income of € 3,419 (thousand), which is barred from being distributed and is included under the item "Other revenue reserves".

FOREIGN CURRENCY ITEMS

	31 Dec. 17 € 000	31 Dec. 16 € 000
Assets side	4,914,567	5,190,695
Liabilities side	2,126,997	2,226,003
Contingent liabilities and other obligations	348,027	323,732

OTHER OBLIGATIONS

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.

OTHER OPERATING EXPENSES

This item contains expenses arising from adding interest effects of € 3,073 (thousand) (previous year € 1,643 (thousand)) for established provisions.

FORWARD TRADES AND DERIVATIVES

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

Nominal amounts (in millions of €)

	Residual term ≤ one year	Residual term > one year ≤ five years	Residual term > five years	Total	Fair value at balance sheet date*) neg. (-)
Interest-Rate-Related Transaction					
Interest rate swaps	3,769	18,259	40,982	63,008	-740
Interest rate options					
- Calls	47	17	704	768	35
- Puts	28	100	49	177	-3
Other interest rate contracts	60	151	2,173	2,383	-1
Currency-Related Transactions					
Cross-currency swaps	223	2,092	1,492	3,807	-58
Currency swaps	342	0	0	342	3

*) 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 € 34.9 million (previous year € 24.4 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 € 319.1 million (previous year € 348.2 million) and "Liabilities to banks" with € 334.2 million (previous year € 399.2 million) or "Claims on customers", which amounted to € 15.7 million (previous year € 0.00 million) while "Liabilities to customers" were € 21.7 million (previous year € 0.00 million). The accrual of compensatory payments made is entered under "Other assets" with € 8.6 million (previous year € 11.8 million); the accrual of compensatory payments received is entered under "Other liabilities" with € 65.0 million (previous year € 65.8 million).

Compensatory items in the amount of € 76.6 million (previous year € 337.2 million) related to the valuation of foreign currency swaps are carried under the balance sheet item "Other liabilities".

The counterparties are banks and providers of financial services, as well as insurance companies 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, € 2,143 million (previous year € 2,565 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 € 168 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 31.12.2017.

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

COVER STATEMENT FOR PFANDBRIEFE

A. MORTGAGE PFANDBRIEFE

	31 Dec. 17 € 000	31 Dec. 16 € 000
Ordinary cover assets	23,421,614	21,956,884
1. Claims on banks (mortgage loans)	7,946	9,891
2. Claims on customers (mortgage loans)	23,361,204	21,894,529
3. Tangible assets (charges on land owned by the Bank)	52,464	52,464
Substitute cover assets	663,000	546,150
1. Other claims on banks	0	0
2. Bonds and other fixed-income securities	663,000	546,150
Total cover	24,084,614	22,503,034
Total Mortgage Pfandbriefe requiring cover	23,073,183	20,255,026
Surplus cover	1,011,431	2,248,008

B. PUBLIC PFANDBRIEFE

	31 Dec. 17 € 000	31 Dec. 16 € 000
Ordinary cover assets	3,849,441	4,684,426
1. Claims on banks (public-sector loans)	205,565	313,565
2. Claims on customers (public-sector loans)	3,052,884	3,510,844
3. Bonds and other fixed-income securities	590,992	860,017
Substitute cover assets	115,000	162,000
1. Other claims on banks	0	0
2. Bonds and other fixed-income securities	115,000	162,000
Total cover	3,964,441	4,846,426
Total public-sector Pfandbriefe requiring cover	3,383,480	4,727,245
Surplus cover	580,961	119,181

PUBLICATION IN ACCORDANCE WITH SECTION 28 PFANDBRIEF ACT

MORTGAGE PFANDBRIEFE OUTSTANDING AND THEIR COVER

	Nominal value		Net present value		Risk-adjusted net present value*	
	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Mortgage Pfandbriefe	23,073,183	20,255,026	24,940,323	22,646,023	27,208,168	24,395,461
Cover pool	24,084,614	22,503,034	27,355,621	26,273,687	29,017,710	27,242,803
of which						
further cover assets	663,000	546,150	773,990	675,762	831,498	709,799
Over-collateralisation	**1,011,431**	**2,248,008**	**2,415,298**	**3,627,664**	**1,809,542**	**2,847,342**

* 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			
	31 Dec. 17		31 Dec. 16	
	Mortgage Pfandbriefe	Cover pool	Mortgage Pfandbriefe	Cover pool
Residual term	€ 000	€ 000	€ 000	€ 000
≤ 0.5 year	596,673	633,892	166,300	612,471
> 0.5 year and ≤ 1 year	309,334	817,897	428,665	956,306
> 1 year and ≤ 1.5 years	910,848	814,999	625,632	892,337
> 1.5 years and ≤ 2 years	1,494,188	831,318	625,807	913,146
> 2 years and ≤ 3 years	1,334,656	1,872,793	1,882,951	1,733,514
> 3 years and ≤ 4 years	1,340,226	1,861,261	1,232,044	1,755,273
> 4 years and ≤ 5 years	1,464,700	2,124,428	1,337,505	1,725,852
> 5 years and ≤ 10 years	5,317,077	8,825,665	4,716,707	8,368,874
> 10 years	10,305,481	6,302,361	9,239,415	5,545,261

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

	31 Dec. 17				31 Dec. 16			
		thereof				thereof		
		money claims in accordance with section 19 (1) no 2				money claims in accordance with section 19 (1) no 2		
		Overall	thereof			Overall	thereof	
	Total		Covered bonds from banks in accord-ance with Article 129 Regulation (EU) no 575/2013	Bonds in accord-ance with section 19 (1) no 3	Total		Covered bonds from banks in accord-ance with Article 129 Regulation (EU) no 575/2013	Bonds in accord-ance with section 19 (1) no 3
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Germany	**440,000**	0	0	440,000	**250,000**	0	0	250,000
Belgium	**38,000**	0	0	38,000	**38,000**	0	0	38,000
Finland	**75,000**	0	0	75,000	**75,000**	0	0	75,000
France	**110,000**	0	0	110,000	**160,000**	0	0	160,000
Austria	**0**	0	0	0	**23,150**	0	0	23,150
Total – all states	**663,000**	**0**	**0**	**663,000**	**546,150**	**0**	**0**	**546,150**

KEY FIGURES FOR PFANDBRIEFE OUTSTANDING AND THEIR COVER

		31 Dec. 17	31 Dec. 16
Outstanding Mortgage Pfandbriefe	€ 000	23,073,183	20,255,026
thereof share of fixed-rate Pfandbriefe section 28 (1) no 9	%	92	90

		31 Dec. 17	31 Dec. 16
Cover pool	€ 000	24,084,614	22,503,034
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	%	98	98
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)	-372,804	-576,781
	GBP (€ 000)	23,781	-59,535
	CHF (€ 000)	2,060,007	2,563,904
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	%	51	51

MORTGAGE LOANS USED AS COVER FOR MORTGAGE PFANDBRIEFE
A. ACCORDING TO THEIR AMOUNTS IN TRANCHES

	31 Dec. 17 € 000	31 Dec. 16 € 000
up to € 300.000	15,443,583	14,547,243
more than € 300.000 up to 1m euros	2,274,125	2,376,801
more than 1m euros up to 10m euros	2,054,329	1,932,359
more than 10m euros	3,649,577	3,100,481
Total	**23,421,614**	**21,956,884**

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

			Residential						Commercial						
		Total	Total	Apartments	Single and two-family houses	Multi-family houses	Buildings under construction	Building land	Total	Office buildings	Retail buildings	Industrial-buildings	Other commercially used buildings	Buildings under construction	Building land
		€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Germany	31 Dec. 17	19,389,948	17,126,564	2,339,825	10,436,290	4,329,495	20,372	582	2,263,384	1,379,402	707,897	13,582	162,182	86	235
	31 Dec. 16	17,881,893	15,956,163	2,156,518	9,682,670	4,090,572	25,821	582	1,925,730	1,218,269	550,479	16,413	140,207	117	245
Belgium	31 Dec. 17	13,668	0	0	0	0	0	0	13,668	13,668	0	0	0	0	0
	31 Dec. 16	9,576	0	0	0	0	0	0	9,576	9,576	0	0	0	0	0
France	31 Dec. 17	184,483	7,440	0	0	7,440	0	0	177,043	164,674	12,369	0	0	0	0
	31 Dec. 16	155,285	7,440	0	0	7,440	0	0	147,845	135,070	12,775	0	0	0	0
Great Britain	31 Dec. 17	260,689	0	0	0	0	0	0	260,689	155,773	82,722	0	22,194	0	0
	31 Dec. 16	190,712	0	0	0	0	0	0	190,712	102,223	60,338	0	28,151	0	0
Luxembourg	31 Dec. 17	46,586	0	0	0	0	0	0	46,586	46,586	0	0	0	0	0
	31 Dec. 16	46,586	0	0	0	0	0	0	46,586	46,586	0	0	0	0	0
The Netherlands	31 Dec. 17	234,348	119,394	10,375	0	109,019	0	0	114,954	84,111	26,694	0	4,149	0	0
	31 Dec. 16	214,400	85,794	0	0	85,794	0	0	128,606	109,442	16,374	0	2,790	0	0
Austria	31 Dec. 17	91,893	5	0	5	0	0	0	91,888	0	91,888	0	0	0	0
	31 Dec. 16	113,844	5	0	5	0	0	0	113,839	20,940	92,899	0	0	0	0
Spain	31 Dec. 17	166,459	0	0	0	0	0	0	166,459	16,422	150,037	0	0	0	0
	31 Dec. 16	142,066	0	0	0	0	0	0	142,066	16,422	125,644	0	0	0	0
Switzerland	31 Dec. 17	2,925,835	2,925,835	975,408	1,950,427	0	0	0	0	0	0	0	0	0	0
	31 Dec. 16	3,045,419	3,045,419	989,528	2,055,891	0	0	0	0	0	0	0	0	0	0
USA	31 Dec. 17	107,705	0	0	0	0	0	0	107,705	84,820	22,885	0	0	0	0
	31 Dec. 16	157,103	0	0	0	0	0	0	157,103	130,716	26,387	0	0	0	0
Total - all states	**31 Dec. 17**	**23,421,614**	**20,179,238**	**3,325,608**	**12,386,722**	**4,445,954**	**20,372**	**582**	**3,242,376**	**1,945,456**	**1,094,492**	**13,582**	**188,525**	**86**	**235**
	31 Dec. 16	**21,956,884**	**19,094,821**	**3,146,046**	**11,738,566**	**4,183,806**	**25,821**	**582**	**2,862,063**	**1,789,244**	**884,896**	**16,413**	**171,148**	**117**	**245**

PAYMENTS IN ARREARS ON COVERING MORTGAGES

	31 Dec. 17		31 Dec. 16	
	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 percent 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 percent of the claim
	€ 000	€ 000	€ 000	€ 000
Germany	10,601	12,548	12,556	15,919
Switzerland	10	0	5	0
Total – all states	**10,611**	**12,548**	**12,561**	**15,919**

PUBLIC PFANDBRIEFE OUTSTANDING AND THEIR COVER

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

	Nominal value		Net present value		Risk-adjusted net present value*	
	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Public Pfandbriefe	3,383,480	4,727,245	4,108,742	5,675,947	3,859,002	5,305,800
Cover pool	3,964,441	4,846,426	5,065,863	6,276,442	4,627,711	5,773,773
of which						
further cover assets	0	0	0	0	0	0
of which						
derivatives	0	0	38,646	43,833	26,700	27,756
Over-Collateralisation	**580,961**	**119,181**	**957,121**	**600,495**	**768,709**	**467,973**

* 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			
	31 Dec. 17		31 Dec. 16	
	Public Pfandbriefe	Cover pool	Public Pfandbriefe	Cover pool
Residual term	€ 000	€ 000	€ 000	€ 000
≤ 0.5 year	121,037	253,681	296,013	291,726
> 0.5 year and ≤ 1 year	834,936	89,294	731,655	130,676
> 1 year and ≤ 1.5 years	42,857	191,903	129,985	265,541
> 1.5 years and ≤ 2 years	2,997	25,106	839,290	89,372
> 2 years and ≤ 3 years	173,928	290,238	64,740	221,007
> 3 years and ≤ 4 years	163,843	91,319	239,716	370,454
> 4 years and ≤ 5 years	57,302	147,226	207,592	156,459
> 5 years and ≤ 10 years	454,314	852,166	608,763	1,042,749
> 10 years	1,532,266	2,023,508	1,609,491	2,278,442

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

	31 Dec. 17		31 Dec. 16	
	money claims in accordance with section 20 (2) no 2		money claims in accordance with section 20 (2) no 2	
	Overall	thereof	**Overall**	thereof
		Covered bonds from banks in accordance with Article 129 Regulation (EU) no 575/2013		**Covered bonds from banks in accordance with Article 129 Regulation (EU) no 575/2013**
	€ 000	€ 000	€ 000	€ 000
Germany	0	0	0	0
Total – all states	**0**	**0**	**0**	**0**

KEY FIGURES ON PFANDBRIEFE OUTSTANDING AND THEIR COVER

		31 Dec. 17	31 Dec. 16
Outstanding Public Pfandbriefe	€ 000	3,383,480	4,727,245
thereof percentage share of fixed-rate Pfandbriefe section 28 (1) no 9	%	94	92

		31 Dec. 17	31 Dec. 16
Cover pool	€ 000	3,964,441	4,846,426
thereof total amount of claims, which exceed the limits of section 20 (2) section 28 (1) no 8	€ 000	0	0
thereof percentage share of fixed-rate Cover pool section 28 (1) no 9	%	92	88
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)	CHF (€ 000)	82,669	-147,382
	JPY (€ 000)	-65,266	-3,268

MORTGAGE LOANS USED AS COVER FOR PUBLIC PFANDBRIEFE
A. ACCORDING TO THEIR AMOUNTS IN TRANCHES

	31 Dec. 17 € 000	31 Dec. 16 € 000
up to 10m euros	285,844	397,671
more than 10m euros up to 100m euros	1,078,521	1,142,114
more than 100m euros	2,600,076	3,306,641
Total	**3,964,441**	**4,846,426**

B. ACCORDING TO GROUP OF BORROWERS AND REGIONS

		Total – all states	of which owed by					of which guaranteed by				
			Total	State	Regional authorities	Local authorities	Other debtors	Total	State	Regional authorities	Local authorities	Other debtors
		€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Germany	31 Dec. 17	3,303,421	3,273,323	0	2,665,790	289,358	318,175	30,098	0	0	30,098	0
	31 Dec. 16	4,006,128	3,972,396	0	3,287,356	365,820	319,220	33,732	0	0	33,732	0
Belgium	31 Dec. 17	170,000	70,000	0	70,000	0	0	100,000	100,000	0	0	0
	31 Dec. 16	195,000	95,000	0	95,000	0	0	100,000	100,000	0	0	0
Finland	31 Dec. 17	25,000	25,000	25,000	0	0	0	0	0	0	0	0
	31 Dec. 16	25,000	25,000	25,000	0	0	0	0	0	0	0	0
France	31 Dec. 17	25,000	25,000	25,000	0	0	0	0	0	0	0	0
	31 Dec. 16	0	0	0	0	0	0	0	0	0	0	0
Ireland	31 Dec. 17	22,695	0	0	0	0	0	22,695	22,695	0	0	0
	31 Dec. 16	22,695	0	0	0	0	0	22,695	22,695	0	0	0
Iceland	31 Dec. 17	15,000	0	0	0	0	0	15,000	15,000	0	0	0
	31 Dec. 16	15,000	0	0	0	0	0	15,000	15,000	0	0	0
Italy	31 Dec. 17	16,546	16,546	16,546	0	0	0	0	0	0	0	0
	31 Dec. 16	17,312	17,312	17,312	0	0	0	0	0	0	0	0
Austria	31 Dec. 17	180,414	165,414	130,414	35,000	0	0	15,000	0	15,000	0	0
	31 Dec. 16	193,414	165,414	130,414	35,000	0	0	28,000	0	28,000	0	0
Poland	31 Dec. 17	42,728	42,728	42,728	0	0	0	0	0	0	0	0
	31 Dec. 16	46,559	46,559	46,559	0	0	0	0	0	0	0	0
Portugal	31 Dec. 17	50,000	0	0	0	0	0	50,000	50,000	0	0	0
	31 Dec. 16	45,500	0	0	0	0	0	45,500	45,500	0	0	0
Switzerland	31 Dec. 17	75,637	25,637	0	25,637	0	0	50,000	0	50,000	0	0
	31 Dec. 16	152,936	27,936	0	27,936	0	0	125,000	0	125,000	0	0
Slovenia	31 Dec. 17	0	0	0	0	0	0	0	0	0	0	0
	31 Dec. 16	20,000	0	0	0	0	0	20,000	20,000	0	0	0
Spain	31 Dec. 17	13,000	13,000	0	13,000	0	0	0	0	0	0	0
	31 Dec. 16	13,000	13,000	0	13,000	0	0	0	0	0	0	0
EU institutions	31 Dec. 17	0	0	0	0	0	0	0	0	0	0	0
	31 Dec. 16	68,882	68,882	0	0	0	68,882	0	0	0	0	0
Other institutions	31 Dec. 17	25,000	25,000	0	0	0	25,000	0	0	0	0	0
	31 Dec. 16	25,000	25,000	0	0	0	25,000	0	0	0	0	0
Total – all states	**31 Dec. 17**	**3,964,441**	**3,681,648**	**239,688**	**2,809,427**	**289,358**	**343,175**	**282,793**	**187,695**	**65,000**	**30,098**	**0**
	31 Dec. 16	**4,846,426**	**4,456,499**	**219,285**	**3,458,292**	**365,820**	**413,102**	**389,927**	**203,195**	**153,000**	**33,732**	**0**

COVERING MORTGAGES WITH OVERDUE INTEREST

	overall		thereof residential		thereof commercial	
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
	2017	2016	2017	2016	2017	2016
Overdue interest for period 1.10.2016 (14) to 30.9.2017 (15)	309	284	307	283	2	1
Overall overdue not adjusted to value	278	271	274	266	4	6

FORECLOSURES AND RECEIVERSHIPS OF MORTGAGES USED AS COVER

	overall		thereof residential		thereof commercial	
Pending on balance sheet date	2017	2016	2017	2016	2017	2016
- Foreclosure proceedings	138	153	128	142	10	11
- Receivership proceedings	55	73	50	67	5	6
	50*)	61*)	45*)	56*)	5*)	5*)
Foreclosures completed during business year	38	69	37	69	1	0

*) Thereof included in pending foreclosures proceedings.

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

OTHER DISCLOSURES

MEMBERSHIP DATA

	Number of members
Beginning of 2017	69,601
Additions in 2017	667
Reductions in 2017*	2,066
End of 2017	68,202

	€
Increase in remaining members' capital contributions in 2017	49,236,258.52
Amount of each share	70.00
Members´ liability	0.00

PERSONNEL STATISTICS

The average number of employees employed by the Bank in 2017 was as follows:

	Male	Female	Total
Full-time employees	246	147	393
Part-time employees	18	98	116
Total number of employees	264	245	509

These figures do not include:

Apprenticed trainees	6	5	11
Employees participating in parental leave, early retirement, partial retirement (non-working phase), or employees suspended with pay	13	17	30

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 0.1189 percent.

PROPOSED APPROPRIATION OF DISTRIBUTABLE INCOME

Net income for the year amounted to € 46,252,390.52. An advance allocation of € 12,500,000 to legal reserves and another allocation of € 1,500,000 to other revenue reserves is presented in the current annual financial statements.

A dividend distribution of 3.25 percent will be proposed at the Delegates Meeting. The remaining unappropriated profit for the year – including profit carried forward from the previous year – amounting to € 32,453,258.81 should therefore be allocated as follows:

3.25 percent dividend	€ 32,190,200.00
Carried forward to new year	€ 263,058.81

REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

Events of material importance did not take place after the balance sheet date.

COMPANY

Münchener Hypothekenbank eG
Karl-Scharnagl-Ring 10 | 80539 Munich
Register of cooperatives of the District Court of Munich
Gen.-Reg 396

BODIES

SUPERVISORY BOARD

Wolfhard Binder ... Grafing
Chairman of the Board of Management of
Raiffeisen-Volksbank Ebersberg eG
Chairman of the Supervisory Board

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

Heinz Fohrer ... Esslingen (until 08.04.2017)
Member of the Board of Management of
Volksbank Esslingen eG

Barbara von Grafenstein ... Munich
Employee representative

Josef Hodrus ... Leutkirch im Allgäu (as of 08.04.2017)
Spokesman of the Board of Management of
Volksbank Allgäu-Oberschwaben eG

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

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

Reimund Käsbauer ... Munich
Employee representative

Dr. Peter Ramsauer ... Traunwalchen
Master Craftsman (Miller)

Michael Schäffler ... Munich
Employee representative

Gregor Scheller ... Forchheim
Chairman of the Board of Management of
Volksbank Forchheim eG

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

Frank Wolf-Kunz ... Munich
Employee representative

BOARD OF MANAGEMENT

Dr. Louis Hagen
Chairman
Bernhard Heinlein
Michael Jung

Mandates

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

As of the balance sheet date loans to members of the Supervisory Board amounted to € 1,016 (thousand) (previous year € 1,095 (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 € 14,658 (thousand) (previous year € 16,745 (thousand)) were made for former members of the Board of Management. Total remuneration received by the members of the Board of Management during the year under review amounted to € 2,033 (thousand) (previous year € 1,785 (thousand)), for members of the Supervisory Board € 341 (thousand) (previous year € 302 (thousand)). Total compensation received by the members of Advisory Committee amounted to € 58 (thousand) (previous year € 54 (thousand)). Total compensation received by former members of the Board of Management and their surviving dependants amounted to € 1,170 (thousand) (previous year € 1,239 (thousand)).

AUDITING ASSOCITATION

DGRV – Deutscher Genossenschafts- und Raiffeisenverband e. V., Berlin, Pariser Platz 3

During the year under review total costs of € 822 (thousand) (previous year € 791 (thousand)), including value-added tax, were incurred for auditing the annual financial statements, and € 24 (thousand) (previous year € 14 (thousand)) in charges were incurred for other assurance services. As in the previous year, no costs were incurred for either tax advisory services or other services during the year under review.

OTHER FINANCIAL OBLIGATIONS

Pursuant to Art. 12 para. 5 of the Restructuring Fund Act (Restrukturierungsfondsgesetz – RStruktFG) irrevocable payment obligations of € 7,726 (thousand) was 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 € 17,329 (thousand). In addition, pursuant to Article 7 of the Accession and Declaration of Commitment to the bank-related protection scheme of the BVR Institutssicherung GmbH (BVR-ISG), a premium guarantee is in force. This pertains to special contributions and special payments in the event of insufficient financial resources in order to pay for damages of depositors of one of the CRR credit institutions belonging to the protection scheme in the event of a compensation case, as well as to meet refunding obligations pursuant to cover measures.

Munich, 30 January 2018

Münchener Hypothekenbank eG
The Board of Management

Dr. Louis Hagen   Bernhard Heinlein   Michael Jung

INDEPENDENT AUDITOR'S REPORT

TO MÜNCHENER HYPOTHEKENBANK eG, MUNICH

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

AUDIT OPINIONS

We have audited the annual financial statements of Münchener Hypothekenbank eG, hereinafter the "cooperative", comprising the balance sheet as of 31 December 2017, the income statement, cash flow statement and statement of changes in equity for the financial year from 1 January to 31 December 2017, along with the notes including the description of accounting policies. We have also audited the management report of the cooperative for the financial year from 1 January to 31 December 2017. In accordance with German law, we have not audited the content of the parts of the management report specified in the "Other information" section of our auditor's report.

In our opinion, based on the findings of our audit,

- the accompanying financial statements comply in all material respects with the applicable provisions of German commercial law for large corporations and present a true and fair view of the cooperative's net assets and financial position as of 31 December 2017 and its results of operations for the financial year from 1 January to 31 December 2017 in accordance with German generally accepted accounting principles, and
- the accompanying management report as a whole provides a suitable view of the cooperative's position. This management report is consistent in all material respects with the annual financial statements, has been prepared in accordance with the requirements of German law and suitably presents the opportunities and risks of future development. Our audit opinion on the management report does not cover the content of the parts of the management report specified in the "Other information" section.

In accordance with Art. 322 (3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any reservations with respect to the propriety of the annual financial statements or management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the annual financial statements and management report in accordance with Art. 53 (2) of the Cooperatives Act (GenG), Art. 340k and Art. 317 HGB and EU audit regulation No. 537/2014 (hereinafter "EU Audit Regulation") and in compliance with the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Our responsibility under these regulations and standards is described more extensively in the "Auditor's responsibility for the audit of the annual financial statements and management report" section of our auditor's report. We are independent of the cooperative in accordance with European law and German commercial and professional regulations and have fulfilled our other German professional duties in compliance with these requirements. We also declare, pursuant to Art. 10 (2) f) of the EU Audit Regulation in conjunction with Art. 55 (2) and Art. 38 (1a) GenG that no persons employed by us who could influence the outcome of the audit have provided any prohibited non-audit services referred to in Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the annual financial statements and 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 to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In the following, we describe the areas we regard as the key audit matters:
1. Value of loans and advances to customers
2. Other provisions

We have structured our presentation of these key audit matters as follows:
a) Circumstances and description of the matter
b) Audit procedures and findings
c) Reference to further information

On 1. Value of loans and advances to customers

a) The annual financial statements of Münchener Hypothekenbank eG as of 31 December 2017 report loans and advances to customers of EUR 32.4 billion. As of 31 December 2017, loan loss provisions totalling EUR 59.5 million (individual and general adjustments to value) were recognised on the balance sheet for loans and advances to customers.

Münchener Hypothekenbank analyses borrowers' financial circumstances using, among other things, their presented annual financial statements and business planning, along with business analyses, and regularly reviews the market values of the associated collateral. These results feed into the borrower's credit rating.

The risk for the annual financial statements is that the need for a valuation adjustment will not be recognised in sufficient time or on a sufficient scale.

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

Taking into consideration the information available, our audit found that management had made appropriate assumptions in reviewing the value of loans and advances.

c) On the process of counterparty risk management, we refer to chapter 2.1. "Risk Report" and the section of this on "Counterparty risk".

On 2. Other provisions

a) The annual financial statements of Münchener Hypothekenbank eG as of 31 December 2017 report other provisions of EUR 34.6 million.

The recognition and measurement of provisions is subject to considerable estimation uncertainty and the exercise of judgement. The risk for the financial statements is that a need for provisions may not be recognised in good time or that the amount of the provision may be insufficient.

b) Art. 249 (1) HGB requires provisions to be recognised for uncertain liabilities and anticipated losses from pending transactions. For a provision to be recognised, an obligation to a third party must have arisen legally or financially in the past financial year. There must also be a serious expectation that the provision will be used. We examined the process for recognising provisions. As part of our audit, we obtained appropriate evidence from the cooperative's management as well as confirmation from a lawyer. In so doing, we satisfied ourselves that the matters concerned and the estimates and assumptions made by management for recognition and measurement were sufficiently documented and explained.

c) The cooperative's disclosures on other provisions can be found in the notes in the "General information on accounting policies" section.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the following section of the management report, the content of which we have not audited:

- the Corporate governance statement pursuant to Art. 289f (4) HGB (disclosures on the proportion of women).

The other information also comprises:

- the remaining sections of the annual report – without further cross references to external information – except for the audited annual financial statements and management report and our audit opinion.

We expect to be provided with the following after the date of our audit opinion:

- the remaining sections of the annual report.

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

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

RESPONSIBILITY OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT

The cooperative's management is responsible for preparing annual financial statements that comply in all material respects with the applicable provisions of German commercial law for large corporations and present a true and fair view of the cooperative's net assets, financial position and results of operations in accordance with German generally accepted accounting principles. Management is also responsible for such internal controls as it deems necessary in accordance with German generally accepted accounting principles 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, management is responsible for assessing the cooperative's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. It is also responsible for using the going concern basis of accounting unless factual or legal circumstances conflict with this.

In addition, management is responsible for preparing a management report that as a whole provides a suitable view of the cooperative's position, is consistent in all material respects with the annual financial statements, complies with the requirements of German law, and suitably presents the opportunities and risks of future development. Management is further responsible for the precautions and measures (systems) it regards as necessary in order to enable the preparation of a management report that complies with the requirements of German law and the provision of sufficient suitable evidence for the statements 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 management report.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT

Our objective is to obtain reasonable assurance as to 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 a suitable view of the cooperative's position, is consistent in all material respects with the annual financial statements and the findings of the audit, complies with the requirements of German law, and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinion on the annual financial statements and management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Art. 53 (2) GenG, Art. 340k and Art. 317 HGB and the EU Audit Regulation, in compliance with the German generally accepted standards for the audit of financial statements 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 economic decisions of users taken on the basis of these annual financial statements and this management report.

As part of the audit, we exercise professional judgement and maintain professional scepticism. We also

- identify and assess the risks of material misstatement of the annual financial statements and 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 opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of the internal control system relevant to the audit of the annual financial statements and of the precautions and measures relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by management and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness 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 cooperative's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements and 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 continue as a going concern.
- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events such that the annual financial statements, in compliance with German generally accepted accounting principles, present a true and fair view of the cooperative's net assets, financial position and results of operations.
- evaluate whether the management report is consistent with the annual financial statements, complies with the legal requirements and provides a suitable view of the cooperative's position.
- conduct audit procedures on the prospective information presented by management in the management report. Based on sufficient and appropriate audit evidence, we hereby, in particular, evaluate the material assumptions used by management as a basis for the prospective information and assess the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate audit opinion on the prospective information or the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.

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

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with the Supervisory Board all relationships and other matters that may reasonably be thought to bear on our independence, and related safeguards

From the matters communicated with the Supervisory Board, 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

OTHER DISCLOSURES IN ACCORDANCE WITH ARTICLE 10 OF THE EU AUDIT REGULATION

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

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

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

- Other assurance services for banking supervision
- Other assurance services in relation to deposit protection
- Review of the interim report
- Issue of a letter of comfort

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Mr Thorsten Schraer.

Berlin, 12 March 2018
DGRV – Deutscher Genossenschafts- und Raiffeisenverband e.V.

Dieter Gahlen	Thorsten Schraer
German Public Auditor	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, 30 January 2018

Münchener Hypothekenbank eG
The Board of Management

Dr. Louis Hagen   Bernhard Heinlein   Michael Jung

ANNEX TO ANNUAL FINANCIAL STATEMENTS PURSUANT TO ART. 26a PARA. 1 SENTENCE 2 OF THE GERMAN BANKING ACT (KWG)

FOR THE PERIOD ENDING 31.12.2017 ("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 2017 were € 184,082 (thousand).

The number of full-time equivalent salaried employees is 467.65.

Profit before tax amounts to € 80,068 (thousand).

Taxes on income amount to € 33,815 (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 year under review the Supervisory Board carried out its supervisory functions in accordance with the legal requirements, the Bank's Articles of Association and its bylaws. The Board of Management reported in a timely manner to the Supervisory Board regarding the Bank's corporate planning, its business and financial situation, as well as the Bank's further strategic development. The Supervisory Board thereby advised the Board of Management and supervised its management of business. The Supervisory Board's decisions on actions requiring its approval were made on the basis of reports and materials submitted by the Board of Management.

TOPICS REVIEWED DURING SUPERVISORY BOARD MEETINGS

During the last business year the Supervisory Board held its constituent meeting and four regularly scheduled meetings during which MünchenerHyp's company management was continuously advised and supervised in accordance with the legal requirements and those defined in the Bank's Articles of Association. The key subjects and advisory issues covered were the development and planning of the Bank's business activities, the Bank's business and risk strategy, the Bank's risk situation, the further development of the IT strategy, and topics related to governance.

The Supervisory Board regularly received reports from the Board of Management concerning the Bank's important issues in a timely manner and comprehensively, both in writing and verbally. The Board of Management reported about the Bank's situation, the development of the Bank's business, important key financial figures, and the further development of the IT strategy. In addition, the Supervisory Board was kept comprehensively informed of the most current status of the liquidity situation and measures to manage liquidity, as well as the risk situation, measures to control risk, and the Bank's risk management measures. The Supervisory Board also received comprehensive information regarding the status of operational and strategic planning. It played an integral role in all important decisions. A focal point of the work and reporting was the conduct of business in an unchanged challenging market environment within the Cooperative Financial Network and its possible effects on MünchenerHyp. Measures dealing with responses to the continuing low interest rate environment were also thoroughly discussed. Furthermore, the Supervisory Board extensively discussed changes within the regulatory environment. Moreover, the Board of Management comprehensively reported to the Supervisory Board regarding the Bank's corporate planning, as well as topics related to corporate governance. The necessary resolutions were passed and implemented.

SELF-ASSESSMENT OF THE SUPERVISORY BOARD

As required by, and in accordance with the terms of Art. 25d of the German Banking Act (KWG), the Supervisory Board conducted a self-assessment and extensively reviewed the results during its meeting held in December 2017. The results reflect that the structure, size, composition and performance of the Supervisory Board, as well as the knowledge, abilities and experience of the individual members of the Supervisory Board, as well as the Supervisory Board as a whole, meet both legal requirements and those defined in the Bank's Articles of Association.

It can be confirmed that no conflicts of interest arose within the framework of preparing decisions taken by the Supervisory Board.

COLLABORATION WITH THE BOARD OF MANAGEMENT

The Chairman of the Supervisory Boards was in regular and close contact with the Chairman of the Board of Management for the purpose of examining important issues and decisions in personal discussions.

In addition to the regularly scheduled reports, the Chairman of the Board of Management also reported continuously in writing and verbally to the Chairman of the Supervisory Board between the individual meetings regarding all important developments affecting the Bank.

ACTIVITIES OF THE SUPERVISORY BOARD COMMITTEES

The Supervisory Board has established four committees to enable it to carry out its duties efficiently. These committees 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's meetings.

The Nomination Committee convened five times in 2017. During the year under review it particularly dealt with finding a replacement for a member of the Supervisory Board who was stepping down as scheduled, as well as finding a successor to replace a member of the Board of Management retiring in 2018. Additional subjects were the self-assessment of the Supervisory Board and the Board of Management, as well as the fulfilment of the quota of women.

The Audit Committee dealt with the results of the audit of the annual financial statements and the management report. Additional topics addressed were the new requirements of the Audit Directive and the Audit Guidelines, non-audit services, the internal audit report, and the report prepared by the compliance officer, as well as the topics and requirements covered during talks with banking supervision officials. The Audit committee met four times during the year under review.

The Risk Committee convened ten times. The Board of Management provided the committee with comprehensive reports concerning the development of markets where the Bank provides property financing. The committee dealt with the banking and regulatory environment. In addition, it also reviewed and approved loans requiring approval, and took note of reportable transactions. The Board of Management presented the committee individual exposures that were important to the Bank and discussed them. Extensive reports were also presented concerning the provision and management of liquidity, and refinancing. These reports reviewed and examined the risk categories of the Bank's business in detail. In addition to credit risks these include, in particular, market, liquidity, sales, and operational risks while taking into consideration the ability to bear risk per the terms of the Minimum Requirements for Risk Management (MaRisk). The committee regularly received reports of the Bank's risk situation, which were explained by the Board of Management. The members of the committee discussed the contents of these reports with the Board of Management and noted them favourably.

The four meetings of the Remuneration Control Committee primarily focused on the Bank's remuneration system and related issues. The committee determined that MünchenerHyp's remuneration systems met the terms of Art 15 para.2 of the Remuneration Ordinance for Institutions (Institutsvergütungsverordnung) and had passed the test for appropriateness. The committee recommended to the Supervisory Board that it takes note of the results of the appropriateness test.

ANNUAL ACCOUNTS

The accounting documents, the annual financial statements and the Management Report for the 2017 financial year were audited as assigned by the Deutscher Genossenschafts- und Raiffeisenverband e.V., Berlin, and received an unqualified certificate from the auditors. There were no reservations. The auditors provided an extensive report on the primary results of their audit during a meeting of the Audit Committee. Moreover, the auditors were also available to provide additional information. Each member of the Supervisory Board received a copy of the audit report of the legal audit prepared by the auditors in accordance with Article 53 of the Cooperatives Act (Genossenschaftsgesetz), including the audit of the 2017 annual financial statements for the Münchener Hypothekenbank eG, for their information on a timely basis. The results of the audit were examined during a joint meeting of the Board of Management and the Supervisory Board attended by the auditor. The results of the audit will also be reported during the Delegates Meeting.

The annual financial statements, the Management Report, and the Board of Management's proposal for the allocation of distributable income were examined by the Supervisory Board and endorsed. The Supervisory Board recommends that the Delegates Meeting approve the annual financial statements for 2017 – as explained – and endorse the Board of Management's proposal for the allocation of net income. The proposal is in accordance with the terms of the Bank's Articles of Association

CHANGES IN THE SUPERVISORY BOARD

During the year under review Mr Heinz Fohrer, member of the Board of Management of the Volksbank Esslingen eG, stepped down as scheduled from the Supervisory Board of Münchener Hypothekenbank at the end of his term of office. Mr Fohrer had been a member of the Supervisory Board since 2012. During these years his wide experience and professional expertise contributed greatly to MünchenerHyp's success. We wish to thank him for his hard work and dedication.

During the Delegates Meeting Mr Josef Hodrus was elected as a new member of MünchenerHyp's Supervisory Board. He is the Spokesman of the Board of Management of the Volksbank Allgäu-Oberschwaben eG.

DEVELOPMENT OF MÜNCHENERHYP DURING THE YEAR UNDER REVIEW

MünchenerHyp was able to further consolidate its course of growth in 2017. For many years the Bank has grown organically and continually improved its new business results and it earnings strength. On the one hand, MünchenerHyp is meeting the expectations of its partners as a strong property bank within the Cooperative Financial Network. And on the other, it is therefore able to play a more important role outside of the Cooperative Financial Network. This includes, in particular, its successful international business and its high reputation as an issuer of Pfandbriefe.

The fact that MünchenerHyp was able to again achieve record results is due, in particular, to the strong and continuing dedication of its employees. The Supervisory Board would like to sincerely thank all of them for their outstanding performance and successful work.

Munich, April 2018
Münchener Hypothekenbank eG

Wolfhard Binder
Chairman of the Supervisory Board

THE MEMBERS OF THE DELEGATES MEETING

AS OF 31 DECEMBER 2017

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

AGENDA – GENERAL (DELEGATES)MEETING

14 APRIL 2018 AT 10:30 AM

1. Report of the Board of Management about the 2017 business year

2. Report of the Supervisory Board

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 2017
   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

7. Resolution regarding the level of remuneration of the Supervisory Board

8. Resolution regarding the level of attendance fee for delegates

9. Resolution to introduce new Articles of Association
   The draft version of the Articles of Association may be read by delegates/members during office hours at the main office of Münchener Hypothekenbank located at Karl-Scharnagl-Ring 10. The new Articles of Association as well as a synopsis of the Articles of Association are enclosed in the invitation.

10. Resolution to introduce election rules
   The draft version of the election rules may be read by delegates/members during office hours at the main office of Münchener Hypothekenbank located at Karl-Scharnagl-Ring 10. The election rules as well as a synopsis of the previous rules defined by the Articles of Association are enclosed in the invitation.

11. Other issues

EXECUTIVE MANAGEMENT AND BODIES

BOARD OF MANAGEMENT

Dr. Louis Hagen
Chairman
Bernhard Heinlein
Michael Jung

SUPERVISORY BOARD

Wolfhard Binder ... Grafing
Chairman
Dr. Hermann Starnecker ... Marktoberdorf
Deputy Chairman
Heinz Fohrer ... Esslingen (until 08.04.2017)
Barbara von Grafenstein ... Munich
Josef Hodrus ... Leutkirch im Allgäu (as of 08.04.2017)
Jürgen Hölscher ... Lingen
Rainer Jenniches ... Bonn
Reimund Käsbauer ... Munich
Dr. Peter Ramsauer ... Traunwalchen
Michael Schäffler ... Munich
Gregor Scheller ... Forchheim
Kai Schubert ... Trittau
Frank Wolf-Kunz ... Munich

ADVISORY COMMITTEE

Thomas Höbel ... Dachau
Chairman
Markus Dünnebacke ... Dortmund
Deputy Chairman
Frank Ostertag ... Wildeshausen
Deputy Chairman
Oliver Conradi ... Heidenheim
Ralf Daase ... Waren (Müritz)
Dietmar Dertwinkel ... Greven
Gerhard Eisenhut ... Ehningen
Josef Frauenlob ... Bad Reichenhall
Christian Glasauer ... Beuerberg
Johannes Hofmann ... Erlangen
Dr. Martin Kühling ... Vechta
Jan Mackenberg ... Osterholz-Scharmbeck
Thomas Mamier ... Wyhl am Kaiserstuhl
Wilhelm Oberhofer ... Sonthofen
Josef Pölt ... Seeshaupt
Ralf Schmitt ... Frankenberg
Michael Schneider ... Tauberbischofsheim
Manfred Stevermann ... Düsseldorf
Remo Teichert ... Dresden
Karsten Voß ... Hamburg
Horst Weyand ... Bad Kreuznach

TRUSTEES

Dr. Joseph Köpfer ... Senior Ministerial Counsellor (ret.), Munich
Dr. Günter Graf ... Ministry director, Egmating
Deputy

EXECUTIVE DIRECTOR

Ingo Schramm

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PUBLISHED BY
© Münchener Hypothekenbank eG
Karl-Scharnagl-Ring 10 | 80539 Munich
Register of cooperatives of the District Court
of Munich Gen.-Reg 396

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