

Presentation for Investors

ESG Pfandbrief

September 2014





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“Royal Bank of Bavaria”

- founded in 1896
- strongly enabled and supported by the former Bavarian royal family
- more than 118 years successful within the mortgage business
- independent from any corporate group and member of the cooperative FinanzGruppe
- headquarters in Munich
- benefit from a strong foothold in Bavaria



Crown of the Kings of Bavaria



MünchenerHyp's Headquarters



Key Facts at a Glance

- Top50 Bank in Germany:
 - 35.7 bn Euro total assets
 - around 450 employees
 - broad based ownership; no predominant owner
 - Moody's issuer rating: A2 stable

- favourable funding by Pfandbrief privilege:
 - Pfandbrief licence: continuous issuing of mortgage Pfandbriefe and public-sector Pfandbriefe
 - fourth biggest mortgage cover pool of all german Pfandbrief issuers
 - Moody's Pfandbrief rating: both Aaa

- deep roots within the Cooperative Financial Network ("FinanzGruppe"):
 - partner of Volksbanken and Raiffeisenbanken in the mortgage lending business
 - excellent access to liquidity via the cooperative institutions
 - strong protection scheme with guarantee fund and guarantee network in the worldwide oldest exclusively private financed protection scheme for banks

- sustainable business model:
 - long-term and risk conservative business model
 - focus on co-operative mission, no profit maximisation
 - sustainability as integral part of our business activities
 - major developments in 2013 and 2014 with economic, ecological and social actions and strategies



Business Performance H1 2014

- earnings increased substantially:
 - net interest income rose by 16 percent to 82.1 mn Euro

- ongoing growth of the mortgage portfolio:
 - increase by around 0.7 bn Euro to a total of 22.2 bn Euro

- growing CRR capital ratios:
 - significantly improved capital ratios by raising about EUR 400 mn CET1 capital
 - common equity tier 1 capital at 11.1%, tier 1 capital at 14.4% and total capital ratio at 18.6%

- positive outlook:
 - organic growth with emphasis on residential property financing
 - further expand of market position
 - achievement of net results above the previous year's level



Financial Figures

	2009	2010*	2011*	2012*	2013*	30/06/2014	e2014
Net interest income	132.7	124.5	117.9	129.0	143.6	82.1	169.0
Commission income	-30.0	-27.6	-38.3	-50.6	-49.3	-28.6	-49.0
Total administrative expenses	-59.4	-58.9	-63.5	-65.5	-73.5	-40.4	-79.0
Operating profit before risk provisions	40.9	32.2	10.7	10.6	22.4	12.6	34.0
Operating profit after risk provisions	29.2	16.7	6.5	9.8	21.2	16.7	35.0
Payment to fund for general banking risks			-1.7	-2.5	-5.0		-5.8
Net Income	11.0	11.0	4.9	5.4	6.7	11.1	17.0
Cost-Income-Ratio**	59.3	50.3	62.0	62.3	60.7	60.8	58.0
ROE (Return on equity before tax)	3.8%	5.5%	4.2%	5.0%	6.3%		5.0%
CET 1 Ratio						11.1%	11.6%
Tier 1 Ratio	6.5%	6.4%	8.9%	9.1%	11.7%	14.4%	13.5%
Total assets	35,733.4	35,225.0	37,348.0	36,642.9	34,898.5	35,733.0	35,000.0
	2009	2010	2011	2012	2013	30/06/2014	e2014
New mortgage loan commitments	1,902.0	3,553.4	3,390.8	3,620.4	3,618.3	2,052.1	4,000.0
- of which residential mortgage loans	1,817.5	3,208.2	2,807.9	2,958.7	2,879.0	1,762.1	2,700.0
- of which commercial mortgage loans	84.5	345.2	582.9	661.7	739.3	290.0	1,300.0
New public-sector and municipal loan commitments	912.3	1,883.4	1,449.0	662.9	552.2	621.4	800.0

* from 2010 the interest expenses for the silent participations are within the net interest income

** from 2010 without the interest expenses for the silent participations

Figures in EUR millions



Ratings

■ Münchener Hypothekenbank eG

	Moody's Rating	Outlook
public-sector Pfandbriefe	Aaa	stable
mortgage Pfandbriefe	Aaa	stable
senior unsecured bonds	A2	stable
bank deposits	P-1	
bank financial strength	D	stable

■ Münchener Hypothekenbank eG within the Cooperative Financial Network

	Fitch Rating	Outlook
long-term	A+	stable
short-term	F1+	stable

■ Cooperative Financial Network

	S&P Rating	Outlook
long-term	AA-	stable
short-term	A-1+	stable



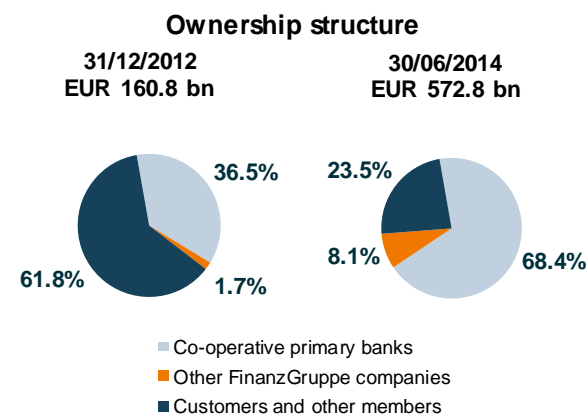
Ownership

- membership:
 - 77,625 members
 - 8.184 million co-operative shares
 - 70 Euro nominal value, no trading
 - 572.8 million Euro total amount
 - individuals up to 500 shares
 - “one man, one vote”
 - declaration to terminate membership

- liability:
 - per share: 255.65 Euro
 - total additional liability: 2,092.1 million Euro

- impact on strategy and business:
 - long-term profitability and business sustainability
 - conservative risk policy
 - no major shareholder
 - stable and continuous dividend payments

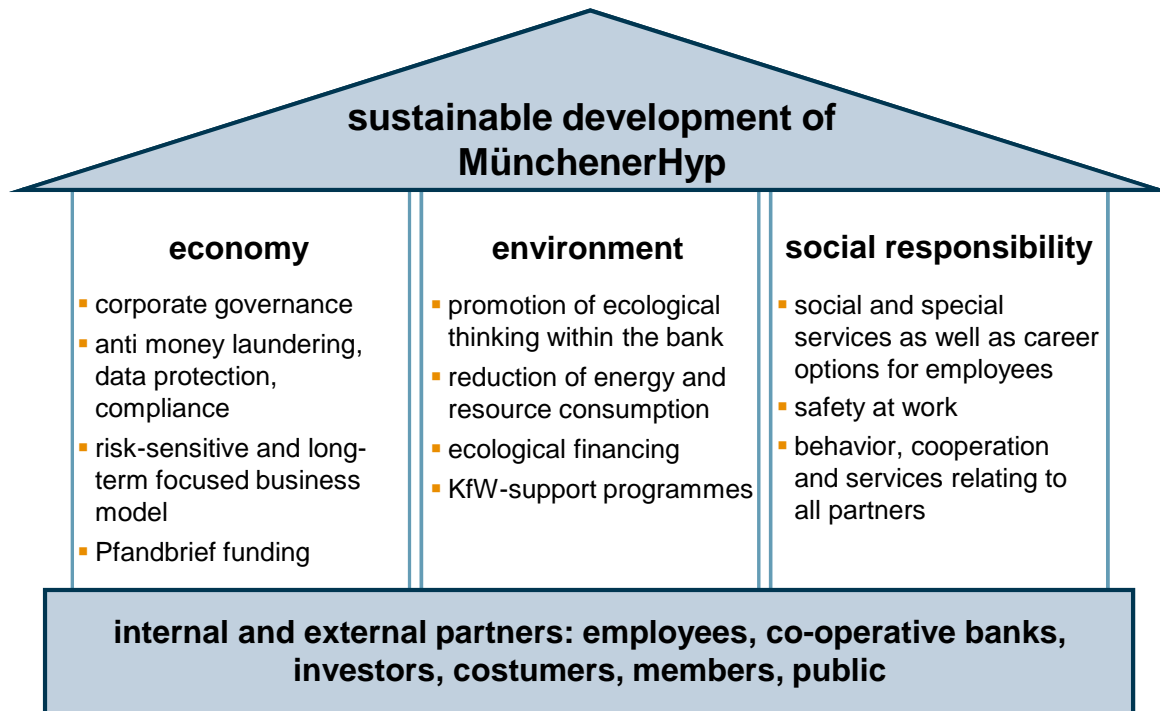
Equity Components 30/06/2014	
in € million	
Common Equity Tier 1	852.0
Paid-up capital	566.4
Reserves	283.8
Special items for general banking risk	9.2
Deductible items	-7.4
Additional Equity Tier 1	251.8
Undisclosed holdings	272.5
Deductible items	-20.7
Tier 2 Capital	323.3
Total Equity	1,427.1



Date of information: 30/06/2014



Sustainability at MünchenerHyp



■ Ratings

	2012	2014
oekom research		
Social Rating	D	C
Environmental Rating	D	C
Corporate Rating	D	C *
imug		
Public-sector Pfandbriefe	neutral	very positive
Mortgage Pfandbriefe	neutral	neutral
Senior unsecured bonds	negative	neutral

* MünchenerHyp is one of the three "Industry Leaders" in the sector Financials/Mortgage & Public Sector Finance (57 companies)

sustainability report and presentation:

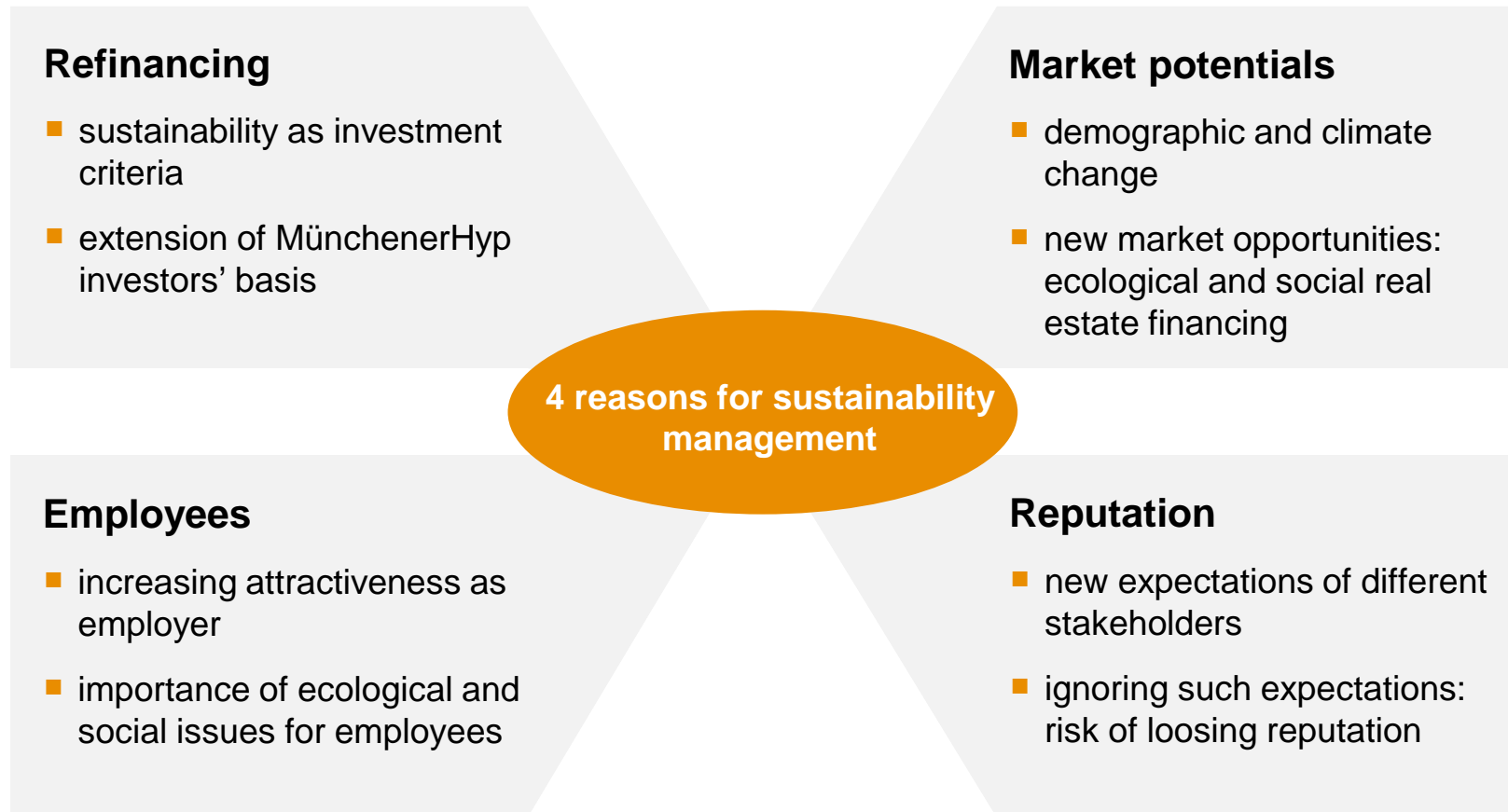
<http://www.muenchenerhyp.de/de/meta/nachhaltigkeit/leitbild/index.html>



Date of information: 31/08/2014

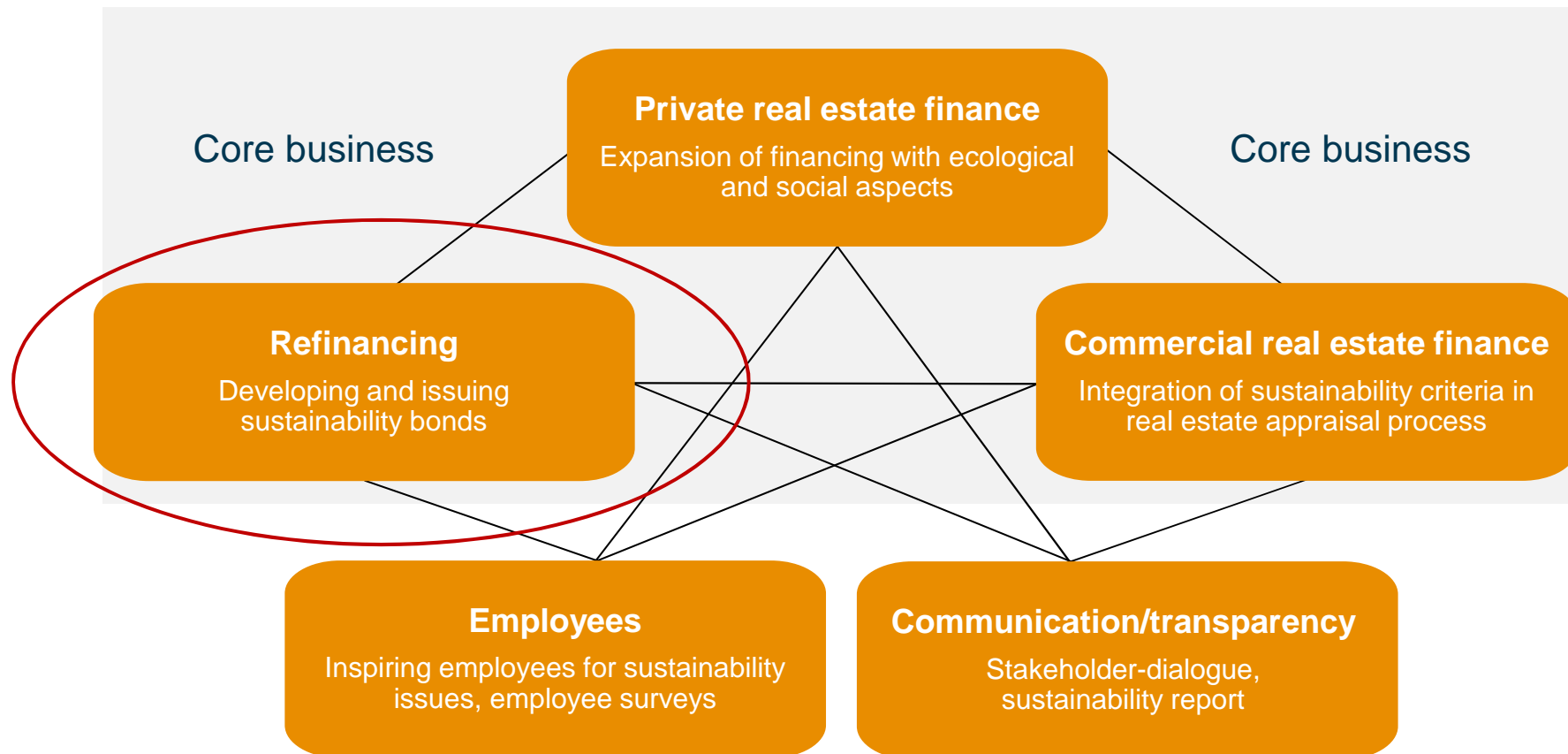


Sustainability as competitive factor





Core areas for the future





Sustainable refinancing

Refinancing

Developing and issuing
sustainability bonds



„MünchenerHyp ESG Pfandbrief“
→ Financing of housing cooperatives



In line with Green Bond Principles (GBP)

“The GBP recommend concrete process and disclosure for issuers which investors, banks, investment banks, underwriters, placement agents and others may use to understand the characteristics of any given Green Bond.”

The GBP have four components:

- 1) Use of Proceeds**
- 2) Process for Project Evaluation and Selection**
- 3) Management of Proceeds**
- 4) Reporting**

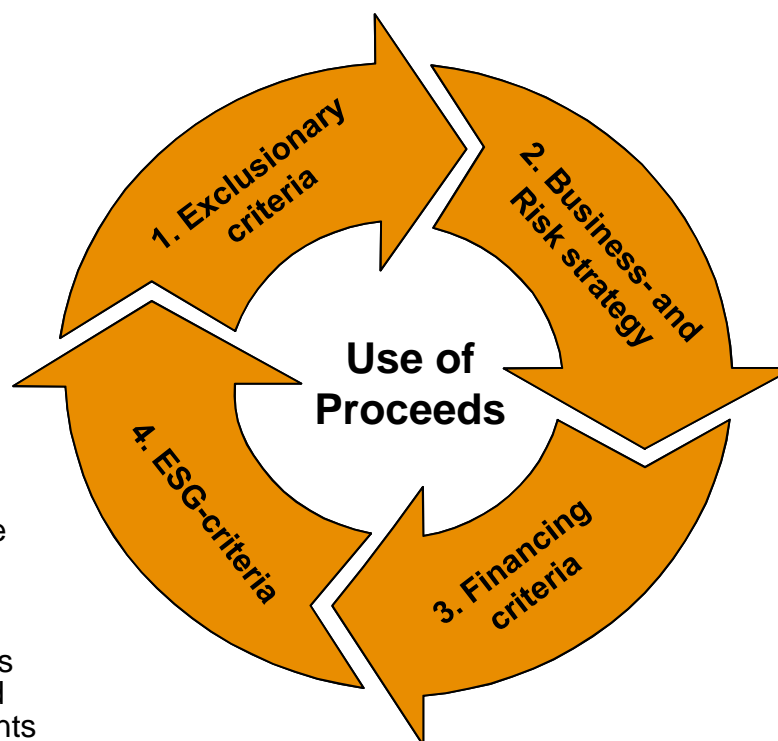
1. Use of Proceeds

■ Exclusionary Criteria:

- controversial business areas
 - alcohol
 - gambling
 - military weapons
 - pornography
 - tobacco
 - uranium mining

■ Possible ESG-Criteria:

- socially responsible rental structures and user-friendly building constructions
- permanent right of residence for tenants
- democratic structures
- avoidance of speculation in housing, rents and vacancies
- sustainable construction and energy efficient refurbishments as per KfW standards



■ MünchenerHyp business and risk strategy:

- partner for the German cooperative banks for providing the full spectrum of residential and commercial property financing
- consideration of borrowers default risk, market price risk, liquidity risk, operational risks and risk-bearing potential

■ Financing criteria for commercial real-estate:

- completed, good state of maintenance properties
- good located objects with positive prognosis for the future
- Comfortable Debt Service Coverage (ISCR/DSCR)
- suitability for third party use of the property
- First-ranking financing



1. Use of Proceeds

- Financing of housing cooperatives that provide private and affordable residential property for their members
- Current coverage capital:
471,653,285 € (663 loans)

Sizes

Sizes of cooperative loans				30.06.2014
size range	EUR	%	loans	
up to € 300,000	19,558,939.74	4.15	352	
€ 300,000 - € 1 millions	91,887,562.93	19.48	159	
€ 1 million - € 10 millions	305,979,128.13	64.87	148	
more than € 10 millions	54,227,654.44	11.50	4	
	471,653,285.24	100.00	663	

Maturities

Maturities of cooperative loans							
	until 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	5 - 10 years	> 10 years
30.06.2014	45,906,301.86	25,896,511.00	48,252,561.91	47,035,084.37	43,302,854.83	186,156,068.48	75,103,902.79
30.06.2013	67,960,893.14	31,577,994.02	26,052,242.47	51,123,856.75	51,635,417.17	183,314,876.41	70,773,917.37

Regional distribution

Regional distribution				30.06.2014
region	EUR	%	loans	
Baden-Württemberg	18,452,699.58	3.9	16	
Bayern	61,146,711.26	13.0	179	
Berlin	103,608,545.79	22.0	52	
Brandenburg	8,250,341.90	1.7	11	
Bremen	6,273,053.93	1.3	6	
Hamburg	81,273,035.51	17.2	67	
Hessen	16,363,625.31	3.5	16	
Mecklenburg-Vorpommern	12,274,373.32	2.6	11	
Niedersachsen	34,353,554.24	7.3	59	
Nordrhein-Westfalen	68,568,170.32	14.5	143	
Rheinland-Pfalz	2,053,209.43	0.4	6	
Sachsen	19,708,450.21	4.2	21	
Sachsen-Anhalt	3,699,519.06	0.8	4	
Schleswig-Holstein	32,102,213.00	6.8	56	
Thüringen	3,525,782.38	0.7	16	
	471,653,285.24	100.0	663	

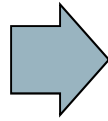


2. Project Selection

Environment, Social, Governance

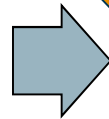
Sustainability criteria

Social



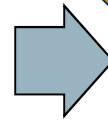
- Social purpose of cooperatives
- Democratic principle
- Permanent right of abode
- Renting levels mainly dependent on social concerns

Environment



- Maintenance, modernisation, redevelopment
- Moderate operating costs
- KfW environmental criteria loans
- Future projects, new construction

Governance



- Low loan to values
- High equity ratios
- Little vacancy

Financing of housing cooperatives



2. Project Selection

Social criteria

Social purpose

- Social purpose deep-rooted in cooperative statutes: provision of good, secure and social residential property for the cooperative's members
- No profit orientation, no speculation within housing business

Social renting levels

- Renting levels must be consistent with cooperative principles
- Average renting levels of housing cooperatives lower than general rent indexes in particular German regions (overall: 5.32 €/m² compared to 6.73 €/m²)*

Social character of housing cooperatives deep-rooted in cooperative statutes

Permanent right of abode

- Receiving a cooperative residence automatically leads to a member's permanent right of abode
- Life-time right of abode guarantees protection against eviction much more than common legal protection

Democratic principle

- Cooperative participation in decision making → "one man, one vote": independent of the number of shares, all members have only one vote
- No dominant member who is able to enforce a profit-orientated residential policy e.g.

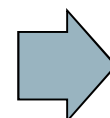
* Calculation based on values of 10 housing cooperatives with highest MünchenerHyp loans



2. Project Selection Economic criteria

Little vacancy

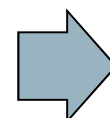
Average vacancy rates of MünchenerHyp's financed housing cooperatives: 1.15%*



Very little vacancy compared to nationwide average: 3.3%**

High equity ratios

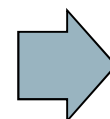
High equity ratios (Ø 36.2%*) of housing cooperatives: low-risk and responsible business policy



Consistency with MünchenerHyp's business strategy: low-risk real estate financing

Low Loan to Values

Coverage capital in € divided in LTV-classes			
LTV	< 30%	30% - 60%	> 60%
Coverage capital €	54,245,186	417,408,099	106,315,970



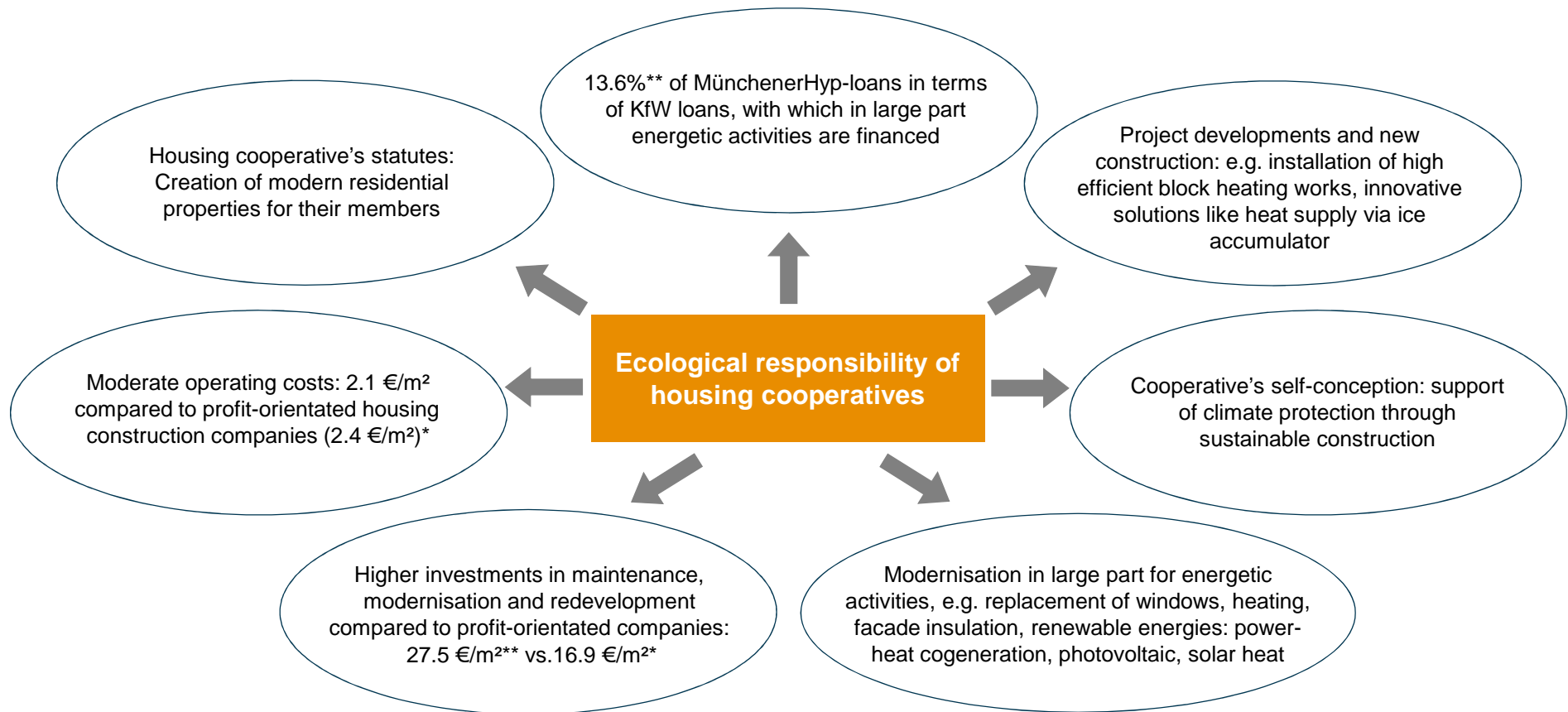
Security for housing cooperatives, MünchenerHyp and investors based on long-term and solid financing structure

* Calculation based on values of 10 housing cooperatives with highest MünchenerHyp loans

** Source: empirica ag



2. Project Selection Ecological criteria



* Calculation based on values of 3 biggest construction companies (GmbH, AG, SE) in Germany

** Calculation based on values of 10 housing cooperatives with highest MünchenerHyp loans

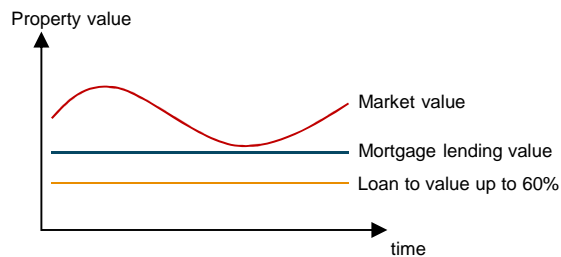
3. Management of Proceeds

Sustainable refinancing by Mortgage Pfandbrief

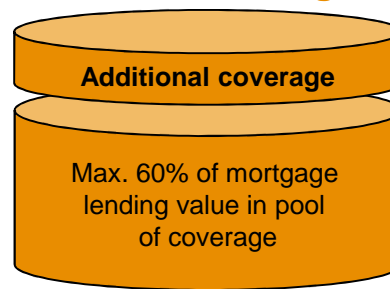


Mortgage lending value calculation

- Strict legal standards on coverage capital
- Very careful, conservative appraisal
- Constant review



Pool of Coverage



Trustee verifies covered capital

BaFin monitors complete mortgage bank (KWG, Pfandbrief act, Beleihungswertverordnung)

Security for Pfandbrief investors

- Insolvency law for creditors: settlement of creditor's claims from pool of coverage prior to all other creditors
- Secured by a land charge



3. Management of Proceeds

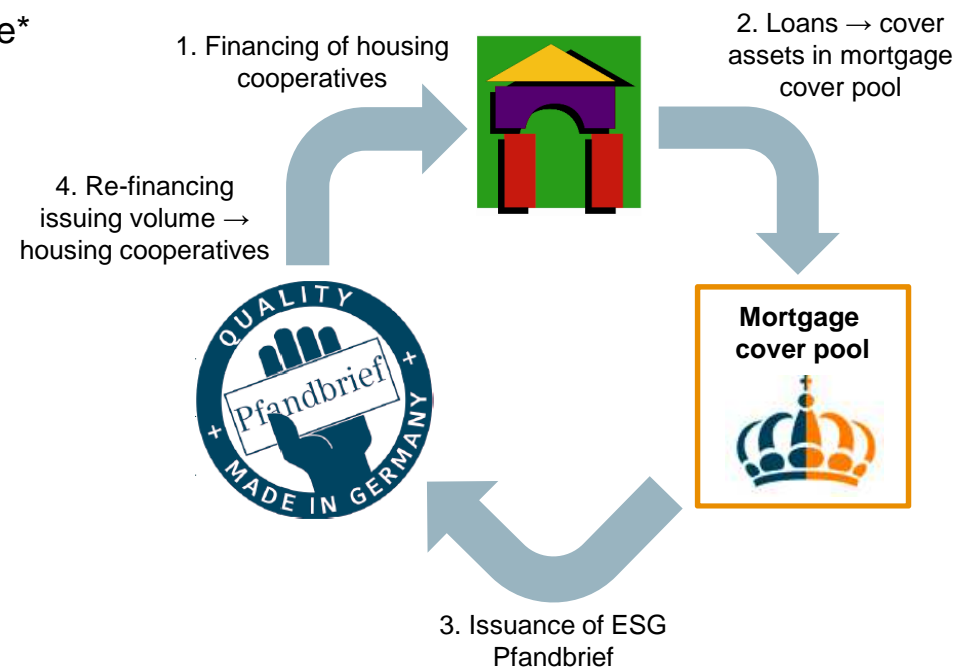
Ring fencing

Mortgage cover pool:

- Complete issuing volume already used for loans to housing cooperatives and in pool of coverage*
→ “Investors immediately invested into socially important loans”

Ring fencing:

- Financing of housing cooperatives again in the future
- Annual planned new loans for housing cooperatives: EUR 50 -100 millions
→ EUR 300 millions reached within 3 years at the earliest, 6 years at the latest



* Special regulations of Pfandbrief act determine that the Mortgage cover pool cannot be separated → issuing volume cannot be immediately assigned to individual financing. It relates to entirety of cover assets within the cover pool.



4. Reporting Public disclosure

- Constant information on ESG Pfandbrief: MünchenerHyp-website and investor presentation
- Quarterly update on cooperative mortgage loans (re-)financed with ESG Pfandbrief: amongst others cooperative's duration, regional structure, LTVs (concentration on § 28 Pfandbrief act)
- Independent supervision through trustee and "second opinion" through rating agency oekom research ("verification statement") on ESG Pfandbrief and therefore identified data



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Second Party Opinion



oekom research

“this ESG Pfandbrief is a product which can be assessed as positive from a sustainability point of view”





Benefits for investors

- **Aspects for socially important loans to housing cooperatives:**
 - Funding and support for non-profit-oriented and democratically managed housing organisations in Germany
 - Socially responsible rental structures
 - Permanent right of residence for the tenants
 - Creation/provision of affordable housing
 - User-friendly building construction
 - Energy efficiency

- **Prime rating and Second Party Opinion from oekom research**

- **Growth of an ESG bond market**

- **Further development of sustainability standards**



MünchenerHyp's ESG Pfandbrief

Issuer	Münchener Hypothekenbank eG
Rating	Mortgage Pfandbriefe: Aaa (Moody's)
Product	ESG Pfandbrief
Type	Mortgage Pfandbrief
Qualified assets	Loans to housing cooperatives
Expected size	EUR 300 million
Interest	Fixed-rate
Expected issue	September 2014
Maturity	5 years
Denomination	100,000 Euro
Listing	Munich Stock Exchange
Target investors	Socially responsible investors
Lead Managers	Crédit Agricole, LBBW, WGZ BANK
Second opinion	oekom reseach



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Die Präsentation enthält zukunftsbezogene Aussagen. Diese zukunftsbezogenen Aussagen basieren auf den derzeitigen Erwartungen und Prognosen der Bank im Hinblick auf zukünftige Ergebnisse und sind mit Risiken, Unsicherheiten und Vermutungen verbunden, die die Bank und ihr Geschäftsfeld betreffen.

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