

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 Hypothekbank eG, Munich (hereinafter the "cooperative"), which comprise the balance sheet as at 31 December 2018, the statement of profit and loss, the cash flow statement and the statement of changes in equity, for the financial year from 1 January 2018 to 31 December 2018, and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of the cooperative for the financial year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the parts of the management report specified in the section entitled "Other information".

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to capital-market-oriented credit cooperatives and give a true and fair view of the assets, liabilities and financial position of the cooperative as at 31 December 2018 and of its financial performance for the financial year from 1 January 2018 to 31 December 2018 in compliance with German legally required accounting principles, and
- the accompanying management report as a whole provides an appropriate view of the cooperative's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the management report does not

cover the content of the parts of the management report specified in the section entitled "Other information".

Pursuant to § 322 Abs. 3 Satz 1 HGB [Handelsgesetzbuch; German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 53 (2) GenG [Genossenschaftsgesetz; Cooperatives Act], § 340k and § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the cooperative in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation in conjunction with § 55 (2) and § 38 (1a) GenG, we declare that that no persons employed by us who could influence the outcome of the audit have provided non-audit services prohibited under Article 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 opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

In the following, we describe the areas we regard as the key audit matters:

Claims on customers

We have structured our presentation of this key audit matter as follows:

- a) Circumstances and description of the matter
 - b) Audit procedures and findings
 - c) Reference to further information
- a) The annual financial statements of Münchener Hypothekbank eG as at 31 December 2018 report claims on customers of EUR 34.3 billion. As at 31 December 2018, adjustments to value totalling EUR 53.6 million (individual adjustments to value and general adjustments to value) were recognised on the balance sheet for claims on customers.

Münchener Hypothekbank eG analyses borrowers' financial circumstances using, among other things, the annual financial statements and business plans they have presented, along with business analyses, and regularly reviews of the mortgage lending values and 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 value 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 claims on customers.

c) Regarding the process of counterparty risk management, we accordingly refer to the section entitled "Counterparty Risk" in the risk report contained in the management report.

Other Information

The management is responsible for the other information. Other information obtained by us prior to the date of this auditor's report includes:

- the corporate governance statement pursuant to § 289f (4) HGB (disclosures on the proportion of women) that is contained in the management report. We have not audited the content of this part of the management report.
- the separate non-financial report in accordance with § 289b (3) HGB.

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 the remaining sections of the annual report to be provided to us after the date of this audit opinion.

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 other form of audit conclusion thereon. In connection with our

audit, our responsibility is to read the other information and, in doing so, to consider whether the other information

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

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The cooperative's management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to capital-market-oriented credit cooperatives, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the cooperative in compliance with German legally required accounting principles. In addition, the management is responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The Supervisory Board is responsible for overseeing the cooperative's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the cooperative's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 53 (2) GenG, § 340k and § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems of the cooperative.

- Evaluate the appropriateness of accounting policies used by the management and the reasonableness of estimates made by the management and related disclosures.
- Conclude on the appropriateness of the 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 the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the cooperative to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the cooperative in compliance with German legally required accounting principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with German law, and the view of the cooperative's position it provides.
- Perform audit procedures on the prospective information presented by the management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

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

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the Supervisory Board and the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Persons employed by us who could influence the outcome of the audit have provided the audited cooperative or companies under that cooperative's control the following services that are not disclosed in the annual financial statements or in the management report of the audited cooperative:

- Other assurance services for banking supervision
- Other assurance services in relation to deposit protection
- Auditor's review of the interim report
- Audit of the separate non-financial report
- Issuance of a letter of comfort.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Mr Thorsten Schraer.

Bonn, 11 March 2019

DGRV – Deutscher Genossenschafts- und Raiffeisenverband e.V.

Dorothee Mende
Wirtschaftsprüfer
[German Public Auditor]

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