

# Independent Auditor's Report

## TO MÜNCHENER HYPOTHEKENBANK EG, MUNICH

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

#### Audit Opinions

We have audited the annual financial statements of Münchener Hypothekbank eG, Munich (hereinafter the "Cooperative"), which comprise the balance sheet as of 31 December 2019, the income statement, the cash flow statement and the statement of changes in equity for the financial year from 1 January 2019 to 31 December 2019, and the notes to the financial statements, including the description of accounting policies presented therein. In addition, we have audited the management report of the Cooperative for the financial year from 1 January 2019 to 31 December 2019. 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 during our audit:

- the accompanying annual financial statements comply, in all material respects, with the provisions of German commercial law applicable for capital-market-oriented credit cooperatives and give a true and fair view of the Cooperative's net assets and financial position as of 31 December 2019 and of its financial performance

for the financial year from 1 January 2019 to 31 December 2019 in accordance with German generally accepted 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, has been prepared in accordance with the requirements of German law 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 Section 322 (3) sentence 1 HGB (Handelsgesetzbuch – German Commercial Code), we declare that our audit has not led to any reservations in terms of the propriety of the annual financial statements and 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 Section 53 (2) GenG (Genossenschaftsgesetz – Cooperatives Act), Section 340k and Section 317 HGB and EU Audit Regulation No 537/2014 (hereinafter: "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the "Institut der Wirtschaftsprüfer in Deutschland – IDW" (Institute of Public Auditors in Germany). Our responsibilities under these provi-

sions and standards are described in greater detail in the section of our auditor's report entitled "Auditor's responsibilities for the audit of the annual financial statements and of the management report". We are independent of the Cooperative, as required under EU 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) f) of the EU Audit Regulation in conjunction with Section 55 (2) and Section 38 (1a) GenG, we declare that no persons employed by us who could influence the outcome of the audit have provided any 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 management report.

#### Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those issues that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2019 to 31 December 2019. 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.

Matters we consider to be key audit matters are set out below.

### Recoverability of receivables from customers

Our presentation of this key audit matter is structured as follows:

- a) Circumstances and description of the matter
- b) Audit approach and findings
- c) Reference to further information

a) The annual financial statements of Münchener Hypothekbank eG as of 31 December 2019 report claims on customers of €37.6 billion. At 31 December 2019, loan loss provisions totalling €33.5 million (specific loan loss provisions and general loan loss provisions) 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 submitted, along with business analyses, and regularly reviews the mortgage lending values and market values of the associated collateral. These results are integrated into the borrower's credit rating.

The risk in terms of the annual financial statements is that the need for a provision due to impairment will not be identified in time or to a sufficient extent.

b) As part of our audit procedures, among other things we examined, for a random sample of credit exposures, the available documentation relating to the monitoring of financial circumstances and the recoverability 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 recoverability of receivables.

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

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 under Section 289f (4) HGB included in the management report (disclosures on the proportion of women). We have not audited the content of this part of the management report.
- the separate non-financial report pursuant to Section 289b (3) HGB.

Other information also includes:

- the remaining sections of the annual report – without any further cross-references to external information – with the exception of the audited annual financial statements and management report and our auditor's report.

We expect the remaining sections of the annual report to be provided to us after the date of this auditor's report.

Our audit opinion on the annual financial statements and on the management report does not cover the other information and, as a result, we do not express an audit opinion or any other form of audit conclusion in this regard. 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, the management report or the knowledge we obtained as part of our audit, or
- otherwise appears to be materially misstated.

### Responsibility of Management and the Supervisory Board for the Annual Financial Statements and the Management Report

The management of the Cooperative is responsible for preparing annual financial statements that comply, in all material respects, with the provisions of German commercial law applicable for capital market-oriented credit cooperatives, and for ensuring that the annual financial statements give a true and fair view of the Cooperative's net assets, financial position and financial performance, in accordance with German generally accepted accounting principles. In addition, the management is responsible for the internal controls that they have identified as necessary in accordance with German generally accepted accounting principles to ensure that the annual financial statements 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 is also responsible for disclosing, where applicable, matters concerning the ability of the Cooperative to continue as a going concern. Furthermore, the management is responsible for financial reporting using the going concern basis of accounting, unless actual or legal circumstances preclude this.

In addition, the management is responsible for preparing a management report that as a whole provides an accurate 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 appropriately presents the opportunities and risks of future development. Furthermore, the management is responsible for the arrangements and measures (systems) it deems necessary to enable the preparation of a management report that complies with the requirements of German law and to enable sufficient appropriate evidence be provided to support 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 objective is 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 gives an accurate view of the Cooperative's position, and, in all material respects, is consistent with the annual financial statements and the knowledge obtained during the audit, complies with the requirements of German law and appropriately presents the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinions 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 Section 53 (2) GenG, Sections 340k and 317 HGB and the

EU Audit Regulation, and in compliance with the German Generally Accepted Standards for Financial Statement Audits of financial statements 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 judgement and maintain professional scepticism throughout our audit. In addition, we:

- 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 in response to such risks, and obtain audit evidence that is sufficient and appropriate to provide as a basis for our audit 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 arrangements 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 applied by the management and the reasonableness of accounting 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, in our auditor's report, to draw attention 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 circumstances may result in the Cooperative being unable 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, give a true and fair view of the Cooperative's net assets, financial position and financial performance.
- Evaluate whether the management report is consistent with the annual financial statements, complies with legal requirements and provides an accurate view of the Cooperative's position.
- Perform audit procedures on the prospective information presented by the management in the management report. Based on sufficient and appropriate audit evidence, we evaluate in particular the significant assumptions used by management as a basis for the prospective information and assess whether the prospective information based on these assumptions has been derived in an appropriate manner. We do not express a separate audit opinion on the prospective information or on the underlying assumptions. There is a significant, unavoidable risk that future events may differ materially from the prospective information.

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

From the matters communicated to those in charge of governance, we determine those matters that were of most significance in the audit of the annual financial statements for the current reporting period and are therefore key audit matters. We describe these matters in our auditor's report, unless laws or other regulations preclude public disclosure of such matters.

## OTHER LEGAL AND REGULATORY REQUIREMENTS

### Further Disclosures pursuant to Article 10 of the EU Audit Regulation

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

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

Persons employed by us who could influence the outcome of the audit have provided the audited Cooperative and/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
- Audit review of the condensed interim financial statements and the interim management report
- Audit of the separate non-financial report
- Preparation of a comfort letter.

### GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Bonn, 16 March 2020

DGRV – Deutscher Genossenschafts- und Raiffeisenverband e.V. (German Cooperative and Raiffeisen Confederation – reg. assoc.)

**Peter Krüper**  
(German Public Auditor)

**Dorothee Mende**  
(German Public Auditor)