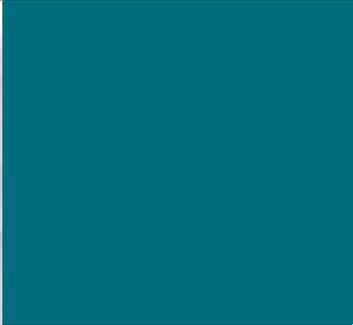
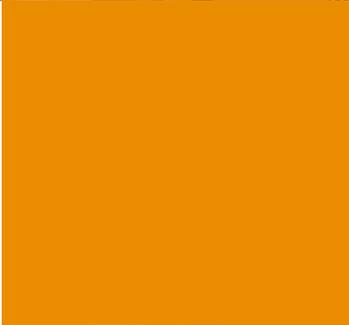
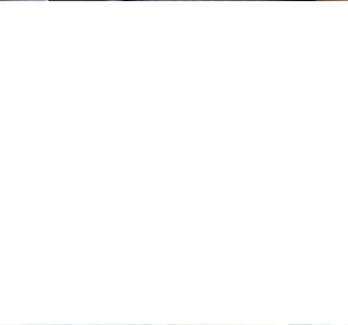
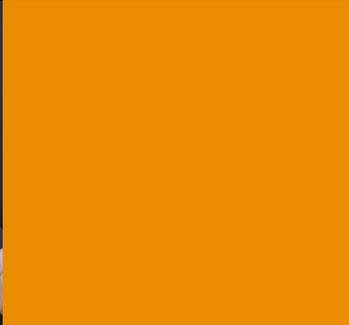


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2019
NON-FINANCIAL REPORT



Münchener Hypothekbank eG

Non-Financial Report 2019

In accordance with the German statute implementing the CSR Directive (the Act to reinforce non-financial reporting by companies in their management reports and group management reports (Gesetz zur Stärkung der nichtfinanziellen Berichterstattung der Unternehmen in ihren Lage- und Konzernlageberichten, CSR-RUG)), Münchener Hypothekbank eG is required to publish a non-financial statement (Section 340a(1a) of the German Commercial Code (Handelsgesetzbuch, HGB). MünchenerHyp is complying with that obligation with this non-financial report in accordance with Section 289b(3) HGB, which presents the material impacts of the Bank's operations with regard to the non-financial aspects of environmental, social and employee-related matters, respect for human rights, anti-corruption and anti-bribery (Section 289c(2) HGB).

Business model

Münchener Hypothekenbank eG is a credit institution specialising in residential and commercial property financing for private and professional customers. It was founded in 1896 as "Bayerische Landwirtschaftsbank eGmbH" with the support of the Kingdom of Bavaria. Over the years, Bayerische Landwirtschaftsbank has evolved from its agrarian-oriented origins to become the Münchener Hypothekenbank of today, an organisation active in both national and international markets. The Bank is an independent financial institution with no majority shareholder and currently has around 65,000 members. The majority of the bank's shareholders are credit unions and private individuals – mostly customers. With assets totalling more than € 42 billion and around 670 employees, MünchenerHyp is categorised as a significant financial institution and is therefore subject to direct supervision by the ECB.

MünchenerHyp is part of the Genossenschaftliche Finanz-Gruppe (Cooperative Financial Network), which comprises almost 900 Volksbanken and Raiffeisenbanken and other specialist institutions such as the Cooperative Financial Network's lead institution DZ BANK, the insurer R+V Versicherung, and the building society Bausparkasse Schwäbisch Hall.

MünchenerHyp operates in three business areas. Its core areas of business are residential and commercial property financing in Germany and abroad, making it one of only a small number of providers offering property financing for retail customers as well as large-scale commercial lending. It is also active in a third area, lending to banks and sovereigns, but as non-core business this has a supporting function only.

In the residential property financing segment, MünchenerHyp lends to private customers in Germany via its cooperation partners including the Volksbanken and Raiffeisenbanken and other cooperative credit institutions as well as independent financial advisers and brokers. MünchenerHyp also works with PostFinance in Switzerland and with selected brokers in Austria. Cooperation with the Volksbanken and Raiffeisenbanken is managed via eleven regional offices located in Augsburg, Berlin, Dresden, Frankfurt am Main, Hamburg, Hanover, Cologne, Munich, Münster, Nuremberg and Stuttgart.

In the commercial property segment, the bank chiefly finances office buildings, hotels, retail and logistics properties, and apartment blocks in Germany and abroad. Once again, part of this business is arranged via the Volksbanken and Raiffeisenbanken. The majority, however, comprises direct acquisition and syndicated business. The bank's commercial property lending business is managed centrally from Munich. Other German offices are located in Frankfurt am Main, Hamburg, Cologne and Berlin. Internationally, MünchenerHyp works with cooperation partners in Madrid and Paris.

The bank refinances its business activities chiefly via Mortgage Pfandbriefe and Public Pfandbriefe. Both are rated Aaa, the highest possible rating, by Moody's. The bank also issues unsecured paper, such as bearer bonds and promissory notes, as well as various money market instruments. Its customers comprise both private investors and in particular institutional investors such as investment funds, pension funds, insurance companies and (central) banks.

In accordance with the German Federal Financial Supervisory Authority's Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement, MaRisk) circular, the risk report in the management report provides comprehensive information on our risk management system, which has high priority in the bank's integrated performance and risk management. This report provides information on risks that we have identified in connection with our operations, products and services, as well as our business relationships. In the year under review, MünchenerHyp analysed potential sustainability risks within all types of risk for the first time, and described these risks under the relevant risk types (counterparty risks and reputational risks). Viewing sustainability risks as an aspect of the existing risk types is also consistent with the supervisory view so the risks are not reported as a separate risk type. The nature of MünchenerHyp's business model and operations means no material sustainability risks of any type could be identified as a result of the analysis. Information on the risks connected with the aspects covered by this report – such as compliance risks and HR risks – is provided in the Management Report.

Since 2018, sustainability ratings agency ISS-ESG has rated us "B-", the highest rating ever awarded in the Financials/Mortgage & Public Sector category. This means that the bank has "Prime Status" and is categorised as "good". The imug agency slightly increased its rating within the rating category at the beginning of 2020 but this did not result in a higher rating. The sustainability rating therefore remains "positive", while Mortgage Pfandbriefe are assessed as "positive" and Public Pfandbriefe "very positive". The rating awarded by Sustainalytics remained unchanged at 65 out of 100 points.

Methodology

MünchenerHyp has been publishing its sustainability report since 2012, which documents the material economic, environmental and social impacts of the bank's operations, in various reporting formats. For MünchenerHyp, the starting point and central criterion is the achievement of sustainable business performance through our long-term-oriented business model and responsible and risk-aware property lending policy. We also pay particular attention to the non-financial aspects of property financing.

The CSR-RUG has expanded the statutory requirements in relation to documentation of the impacts of the operations of Münchener Hypothekenbank. This document satisfies MünchenerHyp's obligation under Section 340a(1a) HGB to report on information to the extent necessary for an understanding of the performance, environment and future development of MünchenerHyp and the impacts of these on non-financial aspects. It does this in a separate non-financial report (Section 289b(3) HGB), which is published in the German Electronic Federal Gazette (elektronischer Bundesanzeiger) together with the management report.

The content of the non-financial report is structured in accordance with the statutory requirements and is intended to ensure transparency around the non-financial aspects of Münchener Hypothekenbank's operations. It takes as a basis the standards published by the Global Reporting Initiative (GRI). Those standards serve as a framework for the descriptions of management approaches and concepts in this report.

In an interdisciplinary, multi-stage process, the relevance of the non-financial aspects for Münchener Hypothekenbank was reviewed and the materiality of the individual circumstances for the purposes of Section 289c(3) HGB was assessed.

To assess materiality, the relevance of a topic for our business model was weighed in relation to the social, ecological and economic impacts of MünchenerHyp on stakeholders. The data and information provided in the non-financial report focus on the topics material for MünchenerHyp thus determined, which in accordance with Section 289c(2) HGB are divided into the aspects of environmental matters, employee-related matters, social matters, respect for human rights, and anti-corruption and bribery.

NON-FINANCIAL ASPECTS

Non-financial aspect	Material topics
Environmental and social matters	Low-risk, long-term-oriented business model, corporate governance, environmental and social added value of own products
Employee-related matters	Sustainable human resources management (corporate and management culture, employer attractiveness, human resources development, diversity and equal opportunity, work-life balance, health management and occupational health and safety)
Respect for human rights	Freedom of association and collective bargaining, non-discrimination, exclusion of certain controversial business areas in commercial property lending
Anti-corruption and anti-bribery	Corporate governance (including prevention of money-laundering and terrorist financing, action in case of fraud and suspected fraud, anti-corruption measures, whistleblowing procedure)

Environmental and social matters

We impact on the economy through our financial services offering and see it as part of our role to honour our non-financial social responsibility through our long-term-oriented, low-risk business model. As one of Germany's largest cooperative banks, we are particularly committed to the cooperative values of solidarity, fairness, partnership, responsibility and proximity. These form the foundation on which the basic pillars of our business model – responsible, low-risk lending and long-term-oriented refinancing with maturities as closely matched as possible through issue of our Pfandbriefe to avoid future liquidity and interest rate risks wherever possible – rest. Our primary strategic objective is the achievement of sustainable business performance.

Effective corporate governance rules are required to achieve this objective. The effectiveness of the Board of Management and Supervisory Board, as well as effective performance of duties by key personnel, are of central importance. The Supervisory Board has introduced guidelines for assessing the suitability of members of the Board of Management and Supervisory Board and key personnel, and guidelines on handling conflicts of interest concerning members of the Board of Management and Supervisory Board. The rules include detailed criteria for assessing individual and collective knowledge, skills and experience, as well as the reliability, independence and availability of members of the Board of Management and Supervisory Board. Diversity aspects (gender, age, educational background and geographical origin) are also considered.

Long-term succession planning for the Board of Management and Supervisory Board is to be undertaken in 2020 based on the strategic direction and business model, and taking account of diversity targets.

Our operations as a financial institution produce impacts on the environmental and social aspects. Climate protection is a key component of our commitment to corporate social responsibility and sustainable business activity. We make our biggest contribution towards a climate-friendly economy not in our own banking operations but through financial services that promote environmental protection by way of energy efficiency measures and through our decision not to engage in certain business.

Sustainability criteria

We have put in place various sustainability criteria for lending to minimise potential negative impacts from property financing. In our retail property financing activities, working responsibly for customers is a central concern. We therefore take into account legal requirements around consumer protection. These include in particular the EU Consumer Rights Directive, the EU Mortgage Credit Directive, the German Consumer Dispute Resolution Act (Verbraucherstreitbeilegungsgesetz, VSBG) and the German Risk Limitation Act (Risikobegrenzungsgesetz). Our objective when dealing with loans in arrears is to support the customer through instalment agreements,

temporary payment breaks or referring them to an ombuds-person. To prevent potential borrower over-indebtedness, we impose minimum budgetary requirements before granting a loan, relating to the applicant's income and living expenses and the costs of any other loans. The foreclosure rate stands at 0.02% of individual loans extended. We also do not sell private property loans serviced in accordance with the contract.

In the commercial property financing field, we apply various criteria excluding potential borrowers (natural persons and legal entities) operating in controversial business areas such as alcohol, gambling, pornography, armaments, tobacco and uranium mining.

We have also defined strict criteria for our own investments, relating to respecting human rights, democratic structures in the respective countries, citizens' opportunities for political participation, and protection of civil rights. We are guided by the Freedom House index and the Democracy Index. Our investments are screened annually as part of an established process which is defined in more detail in a sustainable investment policy.

Environmental and social added value of our sustainable products

In keeping with our holistic approach to sustainability, we attach importance to social as well as environmental issues. Our product range therefore includes lower-interest sustainability loans, which contribute to climate change mitigation while also providing a social benefit for low- and middle-income families.

While the MünchenerHyp Family Loan helps to create and secure intergenerational prosperity, taking account of aspects such as equal opportunity, participation, quality of life and demographic change, the MünchenerHyp Green Loan aims to reduce CO₂ emissions. This loan is for use in financing properties with a low primary energy requirement, which therefore adds environmental value in comparison with the average energy consumption of residential buildings in Germany. The qualifying primary energy requirement of just 70 kWh/m² per year is verified using information from the property's Energy Performance Certificate or a confirmation that the property satisfies the requirements of the relevant energy-efficient construction programme of the KfW. In 2020, the annual maximum primary energy requirement criterion will be reduced to 55 kWh. The proportion of sustainable loans in private customer new business has now reached 20 per cent, meaning that one in every five new loans granted is a sustainable loan.

In line with our "sustainability cycle", in which sustainable property lending is in turn refinanced sustainably, energy-efficient loans in both the retail and commercial segments are refinanced via sustainable refinancing products (ESG Pfandbrief, green commercial papers, senior bonds). In 2019, the Green Bond Framework was revised accordingly and the quality of our Green Loan portfolio once again received a positive assessment from the respected sustainability rating agency ISS-ESG.

In the year under review, we calculated the impact of our green loan portfolio for the first time with the assistance of the Wuppertal Institute for Climate, Environment and Energy. The 2019 Impact Report discloses to investors the contribution to climate protection made by the Green Loans and sustainability certified commercial property. According to the report, a saving of 117,000 tonnes of CO₂ was achieved during the year. This means that 3.8 tonnes of CO₂ was avoided with every million euro lent by the bank.

Other environmentally and socially relevant impacts of our operations

As we operate in the financial services sector and have relatively few business locations, our resource consumption is not deemed relevant under the CSR-RUG; however, we are still transparent about the environmental impact of our internal operations. Data on water, energy and paper consumption at

MünchenerHyp is collected, analysed annually, and published in the sustainability report/GRI report. The contractual documents and other mail we send has been carbon neutral since 2019.

In addition to our role as an employer (see section "Employee-related matters"), another aspect of social importance is our role as a taxpayer. With the revenues and profits we achieve and the salaries and taxes we pay we make an important contribution to economic and social prosperity. To avoid reputational damage and potential criminal sanctions resulting from tax avoidance and tax evasion, MünchenerHyp has undertaken to comply with certain principles, including a commitment not to shift revenues to low-tax jurisdictions and not to establish any special-purpose entities for tax minimisation purposes in countries on Oxfam's tax haven list.

Social commitment within the meaning of the "CSR reporting obligation" is considered to be non-material. Nevertheless, MünchenerHyp shows social engagement through charitable donations and support for non-profit initiatives.

Employee-related matters

The knowledge and experience of MünchenerHyp's employees is a key factor in the bank's long-term success as a credit institution in the financial services sector. As an employer, we believe that it is our responsibility to offer employees a secure job for every phase of their career and every stage of life and an environment that they enjoy working in and so ensure our success in the long term. Accordingly, our management approach for employees rests on a number of pillars:

- Corporate and management culture
- Securing and enhancing our attractiveness as an employer
- Human resources development
- Diversity and equal opportunity
- Work-life balance and family-friendly policies
- Health management and occupational health and safety

Corporate and management culture

As a cooperative bank, we place great importance on the principles of solidarity, subsidiarity, fairness and respect. MünchenerHyp has always had a social and familial corporate culture based on these cooperative principles. A collaborative environment, supportive teamwork and an interest in our joint success are paramount.

As part of our stakeholder dialogue, we worked with our employees to formulate a mission statement, which includes the following principles:

- Our employees make the difference.
- Systematic employee development and effective leadership are a matter of course for us.
- We all make a contribution to the whole.

Managers are trained on values, rules, responsibilities and capabilities to enable them to implement the management-related aspects of the MünchenerHyp mission statement. Our "Leadership Days" management training programme continued in 2019. Our employee guidance and development centres around feedback and appraisals, which each employee receives from their manager at least once per year.

To prevent potentially preferential and inappropriate risk behaviour in the compensation system, the business strategy and risk strategy define the degree of flexibility for staff. A compensation strategy and compensation principles for appropriate pay have been established to manage this risk. The compensation systems for both bank employees and the Board of Management are in compliance with the German Financial Institutions Compensation Regulations (Institutsvergütungsverordnung, InstitutsVergV) and are published

annually in MünchenerHyp's Disclosure Report as required under Section 16 of the Regulations. The pay of about 55% of the bank's employees is determined by collective agreement.

Employer attractiveness

Competition for highly qualified employees and managerial staff is constantly increasing, so MünchenerHyp attaches great importance to offering attractive future prospects to long-term employees and recruiting qualified specialists and young talent.

The increasing digitalisation of the working world is changing the framework conditions and the demands upon us as an employer. We have responded to these developments by making changes to the way we organise work (mobile technical applications) and introducing agile project management and flexibility in relation to work location and working hours. We also continue to expand our activities around work-life balance. We offer our employees various solutions depending on their phase of life: flexible working time models and the option to work from home, sabbaticals, action to facilitate a return to work after parental leave, arrangements accommodating caring responsibilities, and part-time working models for older employees.

Human resources development

Human resources development at MünchenerHyp means systematically designing HR processes to identify and maintain employees' potential and skills and to foster these based on operational requirements. The satisfaction of our employees is a key priority here.

There has been a slight increase in the staff turnover rate compared to 2018, which is now 6.8% (excluding retirements). This reflects the current dynamic in the job market but remains slightly below the industry average; this, in combination with an average length of service of 10.4 years, points to a high level of employee satisfaction. 95% of staff are employees on permanent contracts.

It is extremely important that we offer our employees continuous personal and professional development as part of MünchenerHyp's human resources strategy so that we can continue to retain staff and profitably deploy their qualifications for the development of the company. We offer a wide variety of individual training opportunities, as well as the opportunity to access continuing professional development and non-vocational training with financial support and study leave allowed by the bank. The training available ranges from business English courses to conflict and project management methods and business administration qualifications. The bank can pay up to 50 per cent of the fees for a course or grant an employee exam leave.

The shortage of specialist staff is a challenge that also affects MünchenerHyp. The advancement of young talent from within the company ranks is addressed by an in-house trainee programme for key business areas. Alongside training courses, trainees are also offered a mentoring programme, in which they are assigned a mentor separate from their manager to provide support and advice. In 2019, a programme for internal lateral moves was developed to provide re-training to fill vacant posts.

MünchenerHyp also provides training for young people working to become qualified bankers and office administrators. For many years, we have been one of the few companies to offer vocational training on a part-time basis, offering young parents in particular a path into a self-determined and independent future.

Diversity and equal opportunity

We value every employee, regardless of their origin, religion, skin colour, age, gender, sexual orientation or disability. We believe that diversity enriches the bank and contributes towards our success. There is zero tolerance for any kind of discrimination within MünchenerHyp, and we are committed to equal opportunities at all levels. To underscore this stance we have, among other things, signed the German Diversity Charter.

The following section provides a breakdown of employees by diversity categories.

COMPOSITION OF STAFF BY GENDER AND AGE

Diversity category	Number of employees	Proportion of employees (in %)
Total workforce*	671	100%
By gender		
Female	330	49%
Male	341	51%
Age group		
< 30 years	79	12%
30 – 50 years	373	56%
> 50 years	219	33%

* As of 31 December 2019, the bank had a total of 671 employees (excluding Board of Management, temporary staff, student trainees and agency workers).

To bring more women into leadership positions, the Supervisory Board has introduced a gender quota. The goal is to ensure that women occupy 20 per cent of positions on the Supervisory Board and in the two executive levels below the Board of Management and 33 per cent of positions on the Board of Management. In the year under review, women comprised 0% of Board of Management members, 16.7% of executives at the level immediately below the Board of Management, 14.3% at the second level and 29.7% at the third level. Overall, 49.2% of the bank's employees and 17% of Supervisory Board members were women.

In 2017, the Nomination Committee of the MünchenerHyp Supervisory Board recommended that these targets should be achieved by the end of October 2021.

Work-life balance and family-friendly policies

To address our employees' need to unwind from work and enable them to balance work and family, we offer various flexible working options. These include full-time and part-time working models, flexible working times and work from home concepts. The variety of working time models available also helps promote equal opportunities and equality. To support working parents with school-age children, childcare is offered on the Day of Repentance and Prayer school holiday in Bavaria.

Health management and occupational health and safety

We attach great importance to the health of our employees. In addition to compliance with legal requirements relating to occupational health and safety, the objective of health management at MünchenerHyp is to support the mental and physical health and social well-being of its employees. Workers spend a significant portion of their lives at work, so the conditions they work in have a significant impact on their overall physical and mental well-being. We are mindful of our duty of care towards our employees and express our commitment to employee health by, among other things, offering sports and relaxation courses, providing company healthcare, and

holding information sessions on nutrition, risk prevention and mental balance. For example, in 2019, MünchenerHyp offered screening for skin cancer, flu vaccinations, mindfulness training and a health day on the subject of coping with and managing stress. These opportunities were taken up by 270 of the bank's employees.

We have more than 650 employees, all of whom work in Germany. The relevant provisions of employment and health and safety law are applicable, and compliance is ensured via established processes regarding protection of property, occupational health and safety, and health protection. The bank's central body for occupational health and safety is the Health and Safety Committee, which meets four times a year and focusses on identifying and averting risks and hazards and taking appropriate action regarding workplace health care and risk prevention. The objective is to ensure safe and trouble-free business operations and compliance with the legal requirements in relation to the bank's responsibility as operator of its premises. The Committee is chaired by the relevant member of the Board of Management and discusses and agrees on occupational health and safety and health protection matters with bodies including the Works Council, the specialist department and the HR department. A safety officer

is appointed as required by the German Occupational Health and Safety Act (Arbeitssicherheitsgesetz, ASiG).

Using risk assessments, it is ensured that hazards that employees are exposed to in the course of their work are identified and evaluated and that appropriate countermeasures are put in place. MünchenerHyp last carried out a psychological stress risk assessment in 2019. All standard workstations in the bank are checked during documented fire protection inspections and hazard assessments.

Respect for human rights

Human rights are fundamental individual rights and freedoms. Respect for human rights is a central standard for all of MünchenerHyp's business operations and an integral part of its identity as a company in cooperative ownership. In view of the fact that MünchenerHyp's private property financing business is limited to Germany, Austria and Switzerland and we comply with legal requirements in all of our markets, there is no material risk that we will come into conflict with infringements of human rights. Even so, we expressly acknowledge our social responsibility to respect human rights beyond simple compliance with the legal framework. This is expressed in our internal policy "Human Rights and Diversity at MünchenerHyp", which also explicitly references our recognition of the core labour standards of the International Labour Organisation (ILO).

Due to our low-risk business model focussing on private portfolio properties in Germany, the risk of human rights impacts for customers was assessed as being rather low. In the com-

mercial property financing field, various criteria excluding controversial business areas which could indirectly have negative human rights impacts are in place. If MünchenerHyp has any evidence of human rights violations or discrimination on the part of a potential business associate, this will, after investigation, result in the business being declined.

Protection of employees' freedom of association and right to collective wage bargaining has a special status: In accordance with the German Works Constitution Act (Betriebsverfassungsgesetz, BetrVG), MünchenerHyp employees – both those covered by collective wage agreements and those not – have elected a Works Council that acts as an important and trusted partner and point of contact for company management. Münchener Hypothekenbank is also a member of the Arbeitgeberverband des privaten Bankgewerbes, the employers' association for the private banking industry, and applies the

collective wage agreements negotiated between the association and the relevant trade unions for those of its employees who are paid according to a collectively agreed pay scale. Internal bodies are available and can be contacted with confidence by any employee who feels that he or she has experienced discrimination.

Anti-corruption and anti-bribery

Strict compliance with local, national and international laws and regulations is the basis of our management approach in this area. Every Board of Management and Supervisory Board member has pledged to comply with the relevant legal rules and requirements. MünchenerHyp does not tolerate corruption, bribery or unfair business practices of any kind by employees, the Board of Management, the Supervisory Board or third parties working on behalf of the bank.

It is the role of the Compliance unit to ensure compliance with the key rules and requirements. The bank has an extensive legal monitoring function which ensures that requirements arising from regulatory changes are analysed at an early stage – usually when the first consultation documents are published – and that the process of implementing those requirements is commenced in good time. The department helps the Board of Management and the bank's business areas recognise and prevent compliance risks and take appropriate action to counter them. For example, a "Gift Policy", containing binding rules on acceptance and giving of gifts, hospitality and invitations, ensures transparency in this area.

Employees are made aware of potential corruption risks. Employee briefings and training sessions on new fraudulent practices and ways of preventing them are held as necessary. A Code of Conduct establishes MünchenerHyp's expectations of its employees as regards conflicts of interest, corruption, and confidential information in their daily work with cooperative members, suppliers, colleagues and public bodies. Gifts to holders of public office are not permitted.

MünchenerHyp has put in place a whistleblowing system. It has created a reporting channel, with a low threshold for access, the purpose of which is to make it easier to expose criminal acts and other rule violations while protecting the anonymity of informants. The aim of whistleblowing processes of this kind is to leverage employee knowledge internally to make it more likely that abuses will be uncovered. As part of the bank's compliance organisation, a functional whistleblowing system helps prevent economic and other crime and protect the reputation and assets of MünchenerHyp. Clear organisational structures, including defined responsibilities and competences, are in place to quickly determine the response to proven or suspected fraud or other criminal acts. No cases of corruption or fraud were reported to MünchenerHyp using the whistleblowing procedure in 2019.

MünchenerHyp has made an explicit commitment to combating money laundering and terrorist financing and strives to manage its legal, regulatory and reputational risks actively within the company. In accordance with the German Money Laundering Act (Geldwäschegesetz, GwG), MünchenerHyp's money laundering risk management system comprises internal safeguards and a money laundering risk analysis. The purpose of this analysis is to identify and evaluate MünchenerHyp's institute-specific risks in relation to money laundering and terrorist financing. It is carried out at least annually by the money laundering officer with the involvement of the operational units and is presented for approval to the Board of Management member with responsibility for money laundering risk management. Using the money laun-

dering risk analysis as a basis, measures to reduce any money laundering risks are determined. These include changes to the internal safeguards and the control and monitoring activities of the money laundering officer.

The money laundering officer and his deputy report directly to the Board of Management member with responsibility for control (from 2020, transaction management). The requirements of the 4th EU Money Laundering Directive are systematically applied by Münchener Hypothekbank. One key requirement concerns identification and recording of the beneficial owner. Alongside beneficial owners, "fictitious" beneficial owners must now also be recorded. This must be done when no beneficial owner can be identified by reference to ownership or control.

All MünchenerHyp employees are required to complete training on prevention of money laundering and terrorist financing. The bank follows the reports of the Financial Action Task Force on Money Laundering (FATF) and other German and foreign studies attentively and initiates additional user-oriented training sessions to raise awareness among employees of typical money laundering offence profiles in the property transaction and financing field.

Suspicious activity reports are submitted to the Financial Intelligence Unit (FIU) via a digitally encrypted portal only. In the absence of prior approval by the FIU or public prosecutor's office, transactions must be approved after three working days at the earliest. Responsibility for ensuring that suspicions

and notifications are reported to the Financial Intelligence Unit without delay lies with the money laundering officer. The money laundering officer is not subject to the instructions of the Board of Management in relation to the submission of suspicious activity reports. If he does not submit a report – for whatever reason – the informant has the option of using the bank's whistleblowing system, or the system put in place by the Federal Financial Supervisory Authority BaFin, to raise what he or she considers to be incorrect handling of his or her report.

For the purpose of compliance with regulations relating to international financial sanctions and embargoes, all relevant individuals involved in the bank's active business relationships are subject to internal screening. All lists for the relevant EU regulations must be used when screening individuals and transactions. The software tool also contains other international sanctions and embargo lists. Regulatory changes in relation to financial sanctions/embargoes are applied.

MünchenerHyp's internal control system is based on the "three lines of defence" principle:

- Operational units (1st line): Implement requirements laid down by Compliance, e.g. in relevant work and process instructions, carry out checks in business relationships, apply the four-eyes principle consistently
- Compliance (2nd line): Prepares guidelines for the operational units, carries out monitoring, provides day-to-day advice to the operational units, prepares annual money laundering reports
- Internal audit (3rd Line): Carries out non-process-oriented and downstream audits

Documentation and monitoring are carried out for all three lines of defence. An annual compliance report is prepared for management.

CASES OF MONEY LAUNDERING AND FRAUD IN 2019:

Number of suspected money laundering cases	3
Number of confirmed money laundering cases	0
Number of cases of fraud	0
Number of money laundering training sessions completed	approx. 220

Report

on the limited assurance engagement of the non-financial reporting for the period from 1 January 2019 to 31 December 2019

of

**Münchener Hypothekbank eG
Munich**

Auditor's report on the limited assurance engagement of non-financial reporting

To Münchener Hypothekbank eG, Munich

We have performed a limited assurance engagement on the separate non-financial report (hereinafter: "non-financial report") of Münchener Hypothekbank eG, Munich (hereinafter: "the cooperative") in accordance with Section 340a (1a) in conjunction with paragraph 289b (3) HGB for the period from 1 January 2019 to 31 December 2019.

Responsibility of the legal representatives

The cooperative's legal representatives are responsible for preparing the non-financial report in compliance with Section 340a (1a) in conjunction with Sections 289c to 289e HGB.

This responsibility of the cooperative's legal representatives includes selecting and applying appropriate non-financial reporting methods and making assumptions and estimates of individual non-financial disclosures that are appropriate given the circumstances. Furthermore, the legal representatives are responsible for the internal controls that they deemed necessary to enable the preparation of the non-financial report that is free from material misstatement whether due to fraud or error.

Statements by the auditor regarding independence and quality assurance

We are independent of the cooperative in compliance with the provisions of German commercial law and professional law and have fulfilled our other professional obligations in compliance with these requirements.

Our auditing association applies the national legal regulations and professional pronouncements for quality assurance, in particular the Professional Charter for Professional Accountants in Public Practice and the IDW Standards on Assurance: Requirements for Quality Control in Audit Firms (IDW QS 1).

Auditor's responsibility

It is our responsibility to express an audit opinion on the non-financial report based on our audit.

We have performed our audit in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information published by the IAASB. This standard requires that we plan and perform the audit to obtain limited assurance about whether we have become aware of facts that lead us to believe that the non-financial report of the cooperative has in all material respects not been prepared in accordance with Section 340a (1a) in conjunction with Sections 289c to 289e HGB.

In a limited assurance engagement, the audit procedures performed are less comprehensive than those required in a reasonable assurance engagement, thus significantly reducing audit assurance. The audit procedures selected depend on the auditor's judgement.

As part of our audit, which was conducted primarily in February and March 2020, we performed the following audit procedures and other activities among other things:

- Obtaining an understanding of the structure of the sustainability organisation
- Interviewing staff involved in the preparation of the non-financial report, the preparation process, the internal control system related to this process and details in the non-financial report
- Identification of likely risks of material misstatement in the non-financial report
- Analytical assessment of information in the non-financial report
- Comparison of information with the corresponding data in the annual financial statements and management report
- Assessing the presentation of the information in the non-financial report

Audit opinion

Based on the audit procedures performed and the audit evidence obtained, we have not been informed of any facts that lead us to believe that the cooperative's non-financial report for the period from 1 January 2019 to 31 December 2019 has in all material respects not been prepared in accordance with Section 340a (1a) in conjunction with Sections 289c and 289e HGB.

Purpose of the report

We issue this report based on the contract concluded with the cooperative. The audit was performed for the purpose of the cooperative and the report is only for the cooperative's information on the result of the audit.

Contract conditions and limitation of liability

This report is not intended to enable third parties to make decisions (concerning assets) based upon it. Our responsibility is solely with the cooperative and is limited in accordance with the General Terms of Contract of the DGRV – German Cooperative and Raiffeisen Association e.V. dated 1 August 2017 agreed with the cooperative. However, we do not assume any liability for third parties.

Bonn, 16 March 2020

DGRV – Deutscher Genossenschafts- und Raiffeisenverband e.V.

On behalf of Peter Krüper
German Public Auditor

On behalf of Dorothee Mende
German Public Auditor

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