

A high-angle photograph of a modern building's atrium. The space is characterized by a large glass ceiling and several white cylindrical columns. On the right wall, there is a blue and orange crown logo. In the center, a circular, illuminated structure is visible. The overall atmosphere is bright and architectural.

NON-FINANCIAL

REPORT

2018

Münchener Hypothekenbank eG

# Münchener Hypothekbank eG

## Non-Financial Report 2018

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 for the first time required to publish a non-financial statement for the 2018 fiscal year (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, and anti-corruption and anti-bribery (section 289c(2) HGB).

# BUSINESS MODEL

Münchener Hypothekenbank eG was founded in 1896 as the "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 67,000 members. The majority of the Bank's shareholders are credit unions and private individuals – mostly customers. With assets totalling around € 40 billion and over 500 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 over 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. 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 cooperative Volksbanken and Raiffeisenbanken and independent financial advisers and brokers. MünchenerHyp also works with PostFinance in Switzerland. 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 properties and apart-

ment 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, Düsseldorf and Berlin. Internationally, MünchenerHyp works with cooperation partners in Madrid, Paris and Vienna.

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.

As required under the German Federal Financial Supervisory Authority's Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement, MaRisk) circular, MünchenerHyp has established a risk management system which has high priority in the Bank's integrated performance and risk management.

An initial assessment of potential risks was carried out on the basis of the different definition of risk in the CSR-RUG. During the financial year and as at the reporting date, and having regard to the risk management process employed (the net method), no material reportable risks were identified which are highly likely to have, or to have in future, serious negative impacts on the aspects referred to above or which exceed those set out in the 2018 management report. The nature of MünchenerHyp's business model and operations means that there are also no material reportable risks connected with the Bank's business dealings, products and services anywhere in the company's value chain. Information on the risks connected with the aspects covered by this report – such as compliance risks or HR risks – is provided in the section "Risk Report, Operational Risks" of the Management Report.

In October 2018, sustainability ratings agency ISS-oekom rated MünchenerHyp "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".

# METHODOLOGY

Münchener Hypothekenbank published its first sustainability report in 2012, and has reported on corporate social responsibility at the Bank every year since then, until 2017 in the form of a sustainability presentation and since then as a sustainability report including a GRI report. MünchenerHyp's report documents the material economic, financial and social impacts of the Bank's operations.

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 entry into force of 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 circum-

stances 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, environmental 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 ASPECT

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

Our operations as a financial institution produce impacts on the environmental and social aspects. 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 risks wherever possible – rest. Our primary strategic objective is the achievement of sustainable business performance.

### Sustainability criteria for lending

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 apply legal requirements around consumer protection in full. 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). Legally permissible options are also applied in the customer's favour. Our objective when dealing with loans in arrears is to support the customer through instalment agreements, temporary payment breaks or referring them to an ombudsperson. To prevent potential borrower over-indebtedness, we impose minimum budgetary requirements for credit applications 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 or uranium mining.

### Environmental and social added value of our sustainable products

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.

With the MünchenerHyp Green Loan we contribute indirectly to a reduction in CO<sub>2</sub> emissions. The Green Loan is a lower-interest loan intended for retail customers 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/m<sup>2</sup> 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 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 were refinanced via an ecological ESG Pfandbrief issued in November 2018. This sustainable benchmark Pfandbrief with a nominal volume of €500 million was several times oversubscribed on issue and demonstrably helped diversify the investor base. The sustainability performance of the ecological Pfandbrief was verified in a second party opinion prepared by the sustainability ratings agency ISS-oekom.

In keeping with our holistic approach to sustainability, however, we attach importance to social as well as environmental issues. It was for this reason that we launched the MünchenerHyp Family Loan in early 2018. The social benefit of the Family Loan resides in its support for families and reduced interest rates for lower and middle-income borrowers. With the Family Loan we want to contribute to the creation and securing of intergenerational prosperity and take account of aspects such as equality of opportunity, participation and quality of life and the developments brought about by demographic change.

## EMPLOYEE-RELATED MATTERS

### Other environmentally and socially relevant impacts of our operations

MünchenerHyp is also transparent about the environmental impact of its internal operations. Data on water, energy and paper consumption at MünchenerHyp are collected, analysed annually, and published in the sustainability report/GRI report.

Another aspect of social importance is MünchenerHyp's role as an employer (see section "Employee-related matters") and 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.

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

MünchenerHyp has always had a social and familial corporate culture based on cooperative principles such as solidarity, subsidiarity, fairness and respect. 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 including 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.

To foster leadership skills, the "Leadership Days" internal management programme was introduced in 2017 and was expanded in 2018. The programme introduces managers to leadership tools through situational exercises. Managers are also trained on values, rules, responsibilities and capabilities to enable them to implement the management-related aspects of the MünchenerHyp mission statement.

In its compensation strategy and compensation principles, MünchenerHyp has established the relationship between business strategy, risk strategy and remuneration. The pay of around 58% of the Bank's employees is determined by collective agreement. 91% of staff are employees on permanent contracts.

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 in MünchenerHyp's Disclosure Report as required under section 16 of the Regulations.

### Employer attractiveness

In an environment of increasing competition for highly qualified employees and managerial staff, MünchenerHyp attaches great importance to offering attractive future prospects to long-term employees and recruiting qualified specialists and young talent.

We have responded to the increasing digitalisation of the working world 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 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, 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.

#### EMPLOYEE SATISFACTION IN POINTS OF 100



Overall, a low staff turnover rate of 5.3% (excluding retirements) and average length of service of 10.9 years point to high employee satisfaction and commitment.

So that we can continue to retain staff and profitably deploy their qualifications for the development of the company, we offer employees the opportunity to develop their skills. Our human resources strategy comprises 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. For example, the Bank can pay up to 50% of the fees for a course or grant an employee exam leave.

The advancement of young talent from within the company ranks is addressed by an in-house graduate 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.

Our responsibility for younger employees in particular is also apparent from the fact that MünchenerHyp has for many years been one of the few companies to offer vocational training on a part-time basis, offering young mothers in particular a path into a self-determined and independent future.

### Diversity and equal opportunity

We believe that diversity enriches the Bank and contributes towards our success. So we value every employee, regardless of their origin, religion, skin colour, age, sex, sexual orientation or disability.

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 SEX AND AGE 2018

Diversity category	Number of employees	Proportion of employees (in %)
Total workforce	633	100%
By gender		
Female	304	48%
Male	329	52%
Age group		
< 30 years	80	13%
30 – 50 years	335	53%
> 50 years	218	34%

As at 31 December 2018, the Bank had a total of 633 employees (excluding Board of Management, temporary staff or 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% of positions on the Supervisory Board and in the two executive levels below the Board of Management and 33% 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, 17.5% at the second level and 29% at the third level. Overall, 48% of the Bank's employees and 8% 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 full-time and part-time working models, flexible working times and home office concepts. The variety of working time models available also helps promote equal opportunities and equality.

**Health management and occupational health and safety**

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 including sports and relaxation courses, providing company healthcare, and holding information sessions on nutrition, risk prevention and mental balance. For example, in 2018 MünchenerHyp participated in the "Global Challenge" international health initiative, which addresses the areas of physical activity, nutrition, sleep and mental health and encourages increased physical and sporting activity through playful competition. This opportunity was taken up by 252 employees – around two fifths of the workforce.

Of the Bank's approximately 600 employees, 100% of them work in Germany. The relevant provisions of employment and health and safety law are applicable, and established processes ensure compliance. 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. 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 and the HR department. A safety officer is appointed as required by the German Occupational Health and Safety Act (Arbeits-sicherheitsgesetz, 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 2018. This will be continued and updated annually.

## RESPECT FOR HUMAN RIGHTS

Human rights are fundamental rights and protect the freedom of every individual. 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. Through compliance with statutory requirements, and in view of the fact that MünchenerHyp's private property financing business is limited to Germany and Switzerland and, from 2019, Austria, there is no material risk that we will infringe the rights of indigenous peoples or come into conflict with rules on forced or child labour. 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 commercial 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 (Betriebsrat) 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 trades 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.

The German federal government is aiming to improve the human rights situation with its National Action Plan for Business and Human Rights (Nationaler Aktionsplan Menschenrechte or NAP), adopted in 2016. The plan requires companies to assume their share of responsibility based on an impact assessment. From 2017 to 2018, MünchenerHyp participated in the "Fit für den NAP" programme to develop its processes relating to human rights due diligence.

## 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 2018.

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 laundering risk analysis as a basis, measures to reduce money laundering risks identified 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 her deputy report directly to the Board of Management member with responsibility for steering. The requirements of the 4th EU Money Laundering Directive are systematically applied. One key new requirement concerns identification and recording of the beneficial owner. Alongside beneficial owners, "fictional" beneficial owners must now also be recorded. This must be done when no beneficial owner can be identified by reference to ownership or control. As regards politically exposed persons (PePs), German or foreign PePs subject to enhanced due diligence are treated equally in a category of customers with an elevated money laundering risk.

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 she 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.

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#### MONEY LAUNDERING AND FRAUD 2018

Number of suspected money laundering cases	3
Number of confirmed money laundering cases in 2018	0
Number of money laundering training sessions completed	110
Number of cases of fraud	1

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 on the date they are published.

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.

# REPORT

on the limited assurance engagement of the non-financial reporting for the period from 1 January 2018 to 31 December 2018

of

**Münchener Hypothekenbank eG**  
Munich

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

To Münchener Hypothekenbank eG, Munich

We have performed a limited assurance engagement on the separate non-financial report (hereinafter: "non-financial report") of Münchener Hypothekenbank eG, Munich (hereinafter: "the cooperative") in accordance with section 340a (1a) in conjunction with paragraph 289b (3) HGB for the period from 1 January 2018 to 31 December 2018.

### 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 reasonable assurance as to whether the non-financial report of the cooperative in all material respects has 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 2019, we performed the following audit procedures and other activities among other things:

- Providing 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 appropriateness of 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 2018 to 31 December 2018 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.

#### 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, 11 March 2019

DGRV - Deutscher  
Genossenschafts- und Raiffeisenverband e.V.

On behalf of  
Dorothee Mende  
German Public Auditor

On behalf of  
Thorsten Schraer  
German Public Auditor

# Imprint

## Published by

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

## Coordination

Board of Management Staff | Organisation | Human Resources  
Münchener Hypothekenbank eG

## Concept | Design

MPM Corporate Communication Solutions  
Mainz and Düsseldorf  
[www.mpm.de](http://www.mpm.de)

## Photo credits

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