

# NOTES

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## GENERAL INFORMATION ON ACCOUNTING POLICIES

The Münchener Hypothekbank eG annual financial statement as at 31 December 2018 was prepared in accordance with the provisions of the German Commercial Code (HGB), in conjunction with the accounting regulation for banks and financial service institutions (RechKredV), and in accordance with the rules contained in the Cooperatives Act (GenG) and the Pfandbrief Act (PfandBG).

All claims are stated at nominal amounts in accordance with Art. 340e (2) of the German Commercial Code. The difference between the amounts disbursed and the nominal amount is shown under deferred items. All identifiable individual credit risks are covered by specific value adjustments and provisions set up against claims for repayment of principal and payment of interest. Contingent risks are covered by general value adjustments. In addition, contingency reserves were formed pursuant to Art. 340f of the German Commercial Code.

Securities held in the liquidity portfolio are strictly valued at the lower of cost or market principle. The present value corresponds to the current exchange or market price.

Securities held as fixed assets, which were mainly acquired as cover for Public Pfandbriefe and for other coverage purposes, are valued at their cost of purchase. Discounts and premiums are recognised as interest income or expense over the residual life of the securities. Securities associated with swap agreements are valued together with these agreements as a single item. To the extent that derivatives are used to hedge risks they are not valued individually. As in the previous year, securities held as fixed assets in the business year, and which were not subject to a sustained decrease in value, are valued in accordance with the modified lower of cost or market principle. In cases involving securities treated as fixed assets where a permanent decrease in value is anticipated, the write-down to the fair value takes place on the balance sheet date.

Borrowed securities do not appear on the balance sheet.

In accordance with the rules pertaining to the valuation of fixed assets, participations and holdings in affiliated companies are valued at their cost of purchase. Depreciation is taken on those assets where the reduction in value is expected to be long-term. Participations of current assets are shown under the item "Other assets".

Intangible assets and tangible assets are valued at cost or production costs less accumulated depreciation. Planned depreciation was taken in accordance with normal useful lifetimes. Minor value assets were treated in accordance with tax rules.

Existing deferred taxes arising due to temporary differences between values calculated for trading and tax purposes are cleared. A backlog of deferred tax assets is not recorded in the balance sheet.

Liabilities are shown at their settlement value. Zero bonds are carried in the accounts at the issuing price plus earned interest based on the yield at the time of purchase in accordance with the issuing conditions. The difference between the nominal amount of liabilities and the amount disbursed is shown under deferred items. Based on the principles of prudent business practice, provisions have been made for uncertain liabilities in the amount of settlement value of these liabilities. Provisions with a remaining term of more than one year were discounted using the commensurate average rate of market interest rates. Provisions made for pension obligations are calculated based on the Projected Unit Credit Method, a discount rate of 3.21 percent and a 2.5 percent rate of salary growth, as well as a 2.0 percent rate of pension growth. The calculation is made on the basis of "Guideline tables 2018 G" prepared by Prof. Dr. Klaus Heubeck. In accordance with the terms of Art. 253 (2) of the German Commercial Code the average market rate of interest of the last 10 business years is used for discount purposes with an assumed remaining term to maturity of 15 years.

Per the terms of Art. 256a of the German Commercial Code, monetary assets and liabilities denoted in foreign currencies are calculated using the European Central Bank's exchange rate valid on the balance sheet date. Results realised from the conversion of particularly covered foreign currency positions are carried under net interest income. Results realised from the conversion of specific value adjustments denominated in foreign currencies are shown under the item "Income from write-ups to claims and certain securities as well as from write-downs to provisions for possible loan losses". Costs and income are valued at the individual daily exchange rate.

Negative interest on financial assets or financial liabilities has been deducted from the related interest income items or interest expense items shown on the income statement.

# NOTES TO THE BALANCE SHEET INCOME STATEMENT

## Maturity analysis by residual term

ASSETS IN € 000	31 Dec. 18	31 Dec. 17
Claims on banks	1,740,919	1,986,428
≤ Three months	1,609,780	1,753,571
> Three months ≤ one year	8,933	99,063
> One year ≤ five years	18,317	27,790
> Five years	103,889	106,003
Claims on customers	34,284,890	32,441,302
≤ Three months	690,397	787,912
> Three months ≤ one year	1,414,788	1,293,023
> One year ≤ five years	8,476,544	7,479,878
> Five years	23,703,161	22,880,489
Bonds and other fixed-income securities ≤ one year	468,284	201,781

**LIABILITIES, CAPITAL AND RESERVES**  
**IN € 000**

	31 Dec. 18	31 Dec. 17
Liabilities to banks	5,089,832	4,787,980
≤ Three months	1,520,338	1,219,648
> Three months ≤ one year	648,066	581,463
> One year ≤ five years	1,677,388	1,643,964
> Five years	1,244,040	1,342,905
Liabilities to customers	15,238,002	14,427,532
≤ Three months	562,748	526,464
> Three months ≤ one year	735,916	516,600
> One year ≤ five years	1,709,532	1,402,358
> Five years	12,229,806	11,982,110
Certificated liabilities	18,235,100	17,913,163
Bonds issued		
≤ Three months	631,799	793,695
> Three months ≤ one year	2,034,593	1,781,708
> One year ≤ five years	7,729,904	8,174,403
> Five years	7,788,754	6,770,184
Other certificated liabilities		
≤ Three months	0	149,696
> Three months ≤ one year	50,050	243,478

## Claims on | Liabilities

### CLAIMS ON AND LIABILITIES TO AFFILIATED COMPANIES AND COMPANIES, IN WHICH PARTICIPATING INTERESTS ARE HELD IN € 000

	31 Dec. 18				31 Dec. 17			
	Affiliated companies		Companies in which participating interests are held		Affiliated companies		Companies in which participating interests are held	
	certificated	non-certificated	certificated	non-certificated	certificated	non-certificated	certificated	non-certificated
Claims on banks	0	0	0	633,470	0	0	0	629,922
Claims on customers	0	0	0	0	0	0	0	0
Bonds and other fixed-income securities	0	0	22,400	0	0	0	22,400	0
Liabilities to banks	0	0	0	765,892	0	0	0	515,258
Liabilities to customers	0	1,340	0	0	0	1,554	0	0
Certificated liabilities	0	0	0	0	0	0	0	0
Subordinated liabilities	0	0	0	15,000	0	0	0	15,120

## Securities

### SECURITIES MARKETABLE ON THE STOCK EXCHANGE IN € 000

Asset category	31 Dec. 18		31 Dec. 17	
	listed	unlisted	listed	unlisted
Bonds and other fixed-income securities	2,064,172	165,862	2,279,536	146,063
Shares and other non-fixed-income securities	0	8,010	0	8,030
Participations	0	0	0	7,916

## Separate funds

### SHARES IN SEPARATE FUNDS

Description of the fund	Investment goal	Valuation pursuant to Art. 168 and 278 Capital Investment Code (KAGB), or Art. 36 Investment Act (old version) or comparable foreign regulations	Difference to book value	Distribution paid out for fiscal year
UIN-Fonds No. 903	Long term return and diversification benefits compared to a direct investment in shares, taking the structure of the Bank's portfolio into consideration	145,771	0	0

## Subordinated assets

### SUBORDINATED ASSETS

IN € 000

	31 Dec. 18	31 Dec. 17
Bonds and other fixed-income securities	22,400	22,400
Shares and other non-fixed-income securities	8,010	8,030

## Trading book

As at 31 December 2018 the portfolio contained no financial instruments used in the trading book. During the year under review no changes were made to the Bank's internal criteria for including financial instruments in the trading portfolio.



## Fixed assets

### DEVELOPMENT OF FIXED ASSETS IN € 000

	Acquisition and production costs	Changes total +/- <sup>1</sup>
Bonds and other fixed-income securities	2,481,231	-222,312
Shares and other non fixed-income securities	8,030	-20
Participations and shares in cooperatives	104,554	
Shares in affiliated companies	11,152	

	Acquisition and production costs at start of business year	Additions during business year	Disposals during business year	Transfers during business year	Acquisition and production costs at end of business year	Accumulated depreciation at start of business year	Depreciation
Intangible assets	36,768	1,201			37,969	31,768	
Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	36,768	1,201			37,969	31,768	
Tangible assets	99,569	1,974	501		101,042	29,404	

<sup>1</sup> The Bank has exercised the option, available under Art. 34 (3) of the accounting regulation for banks and financial services institutions, to combine certain items.

As at the balance sheet date there was no indication that the present value of the Bank's participations and capital holdings at cooperatives, holdings in affiliated companies, as well as the value of shares and other non-fixed-income securities was less than their book values.

The item "Bonds and other fixed-income securities" includes securities with a book value of € 758,716 thousand (previous year € 352,012 thousand) exceeding the present value of € 754,584 thousand (previous year € 349,231 thousand). To the extent that these securities are associated with a swap transaction, they are valued together with the transaction as a single item.

Securities held as fixed assets, which are separately identified in the portfolio management system and are not expected to be subject to a permanent impairment in value, are valued in accordance with the moderated lower of cost or market principle. In light of our intention to hold these securities until they mature, we generally assume that market price-related decreases in value will not become effective and that these securities will be repaid in full at their nominal value at maturity. Of the securities that are not valued in accordance with the moderated lower of cost or market principle € 2,230,033 thousand (previous year € 2,425,599 thousand) are marketable securities.

		Net book value on	
		31 Dec. 18	31 Dec. 17
		2,258,919	2,481,231
		8,010	8,030
		104,554	104,554
		11,152	11,152

Depreciation during business year	Additions during business year	Changes in legal depreciation taken related to			Accumulated depreciation at end of business year	Net book value on	
		Additions	Disposals	Transfers		31 Dec. 18	31 Dec. 17
2,455					34,223	3,746	5,000
2,455					34,223	3,746	5,000
2,681			496		31,589	69,453	70,165

## Shareholdings

SHAREHOLDINGS IN € 000			
	Percentage of capital held	Equity	Profit/Loss
M-Wert GmbH, Munich <sup>1</sup>	100.00	518	284
Immobilien-service GmbH der Münchener Hypothekenbank eG (M-Service), Munich (profit transfer agreement) <sup>2</sup>	100.00	509	196
Nußbaumstrasse GmbH & Co. KG, Munich <sup>2</sup>	100.00	11,384	363

<sup>1</sup> Annual financial statements 2017.

<sup>2</sup> Annual financial statements 2018.

## Trust transactions

TRUST TRANSACTIONS IN € 000		
	31 Dec. 18	31 Dec. 17
Assets held in trusts		
Claims on customers	2	10
Liabilities incurred as trustee		
Liabilities to banks	2	10

## Tangible assets

The portion of the total value attributable to the land and buildings used by the Bank is € 56,856 thousand (previous year € 57,814 thousand), and of plant and office equipment € 2,999 thousand (previous year € 2,563 thousand).

## Other assets

The item "Other assets" includes deferred items of € 46,058 thousand related to the derivative business, and € 56,796 thousand in commissions for mortgage loans that will be paid after the balance sheet date. In addition, this item also includes a participation held for sale recorded at € 3,760 thousand and tax claims of € 715 thousand. Furthermore, this item also includes € 9,881 thousand in cash collateral pledged within the framework of the banking levy.

## Deferred items

DEFERRED ITEMS FROM THE ISSUING AND LOAN BUSINESS IN € 000		
	31 Dec. 18	31 Dec. 17
Assets side 12.		
Discount from liabilities	49,835	46,572
Premium from claims	2,828	3,441
Other deferred charges	0	0
Liabilities side 6.		
Premium from liabilities	19,866	20,492
Discount from claims	1,469	2,647
Other deferred income	32	3

## Deferred taxes

Deferred tax liabilities mainly result from the low valuation of bank buildings taken for tax purposes. Deferred tax assets arise from provisions made for pensions, and the different methods used to value premiums from swap options that were exercised. The remaining backlog of deferred tax assets arising after clearing is not recorded in the balance sheet.

## Assets pledged to secure liabilities

Within the framework of open market deals with the European Central Bank, securities valued at € 1,000,000 thousand (previous year €1,000,000 thousand) were pledged as collateral to secure the same amount of liabilities. The book value of the pledged assets (genuine repurchase agreements) was € 0 (previous year € 0). Within the framework of security arrangements for derivative transactions, cash collateral of € 1,454,140 thousand (previous year € 1,582,686 thousand) was provided. Securities valued at € 14,067 thousand (previous year € 14,438 thousand) were pledged to secure pension obligations and requirements of the partial retirement model for older employees. Securities valued at € 18,000 thousand (previous year € 18,000 thousand) were pledged to secure financial aid obligations within the framework of a Contractual Trust Arrangement (CTA). Claims in respect of loans valued at € 391,703 thousand (previous year € 368,543 thousand) were assigned to secure loans obtained from credit institutions. Pursuant to Art. 12 para. 5 of the Restructuring Fund Act (Restrukturierungsfondsgesetz – RStruktFG) € 9,881 thousand in cash collateral has been pledged.

## Other liabilities

The item "Other liabilities" consists of € 149,580 thousand for deferred items and adjustment items for valuation of foreign currency items, and € 53,756 thousand related to derivative transactions.

## Subordinated liabilities

Subordinated liabilities incurred interest expenses of € 6,312 thousand (previous year € 8,679 thousand). Subordinated liabilities which individually exceed 10 percent of the overall statement amount to:

Nominal amount	Currency	Interest rate	Maturity date
15,000,000.00	Euro	3.18 %	01.04.2019

The instruments comply with the provisions of Art. 63 of the Capital Requirements Regulation (CRR). Premature repayment obligations are excluded in all cases. The conversion of these funds into capital or other forms of debt has not been agreed upon nor is foreseen. Reporting on the balance sheet is shown at nominal value.

## Members' capital contributions

Members' capital contributions disclosed under capital and reserves item 11aa) consisted of:

MEMBERS' CAPITAL CONTRIBUTIONS		
IN €		
	31 Dec. 18	31 Dec. 17
Capital contributions	1,032,630,340.00	1,004,914,120.00
a) of remaining members	1,030,593,620.00	1,002,161,510.00
b) of former members	1,867,320.00	2,654,050.00
c) in respect of shares under notice	169,400.00	98,560.00
Outstanding obligatory payments in respect of shares	0.00	0.00

## Silent participations

As at the date of record there were two silent participations in the amount of € 2,000 thousand (previous year € 2,000 thousand) bearing fixed rates of interest recorded, which incurred expenses of € 170 thousand (previous year € 1,343 thousand).

## Details of revenue reserves

DEVELOPMENT OF REVENUE RESERVES		
IN € 000		
	Legal reserve	Other revenue reserves
01 Jan. 2018	298,500	6,000
Transfer from 2017 retained earnings		
Transfer from 2018 net income	15,500	
31 Dec. 2018	314,000	6,000

The increase in the assessment period used for defining the average discount rate from 7 to 10 years resulted in a positive contribution to income of € 3,623 thousand, which is barred from being distributed and is included under the item "Other revenue reserves".

## Foreign currency items

FOREIGN CURRENCY ITEMS		
IN € 000		
	31 Dec. 18	31 Dec. 17
Assets side	5,523,167	4,914,567
Liabilities side	2,483,466	2,126,997
Contingent liabilities and other obligations	289,340	348,027

## Other obligations

The irrevocable loan commitments contained in this item consist almost solely of mortgage loan commitments made to customers. It is anticipated that the irrevocable loan commitments will be drawn down. Against the background of the ongoing monitoring of loans, the probable need to create provisions for risks related to contingent obligations and other obligations is viewed as minor.

## Interest expenses

This item includes the premium for targeted longer-term refinancing operations (TLTRO II Programme) shown as a negative interest expense of € 8,661 thousand (previous year: € 0.00 thousand). The share for the years 2016 and 2017 amounts to € 4,606 thousand (previous year € 0.00 thousand).

## Other operating expenses

This item contains expenses arising from adding interest effects of € 3,724 thousand (previous year € 3,073 thousand) for established provisions. In addition, losses of € 2,084 thousand (previous year € 0.00 thousand) arising from the write-down of a property ownership company are also included.

## Taxes on revenue and income

This item contains extraordinary income of € 7,468 thousand from refunds of corporate income tax credits.

## Forward trades and derivatives

The following derivative transactions were made to hedge swings in interest rates or hedge against exchange rate risks. These figures do not include derivatives embedded in underlying basic transactions stated on the balance sheet.

### NOMINAL AMOUNTS IN € MILLION

	Residual term ≤ one year	Residual term > one year ≤ five years	Residual term > five years	Total	Fair value at balance sheet date <sup>1</sup> neg. (-)
<b>Interest-rate-related transaction</b>					
Interest rate swaps	3,270	20,937	40,413	64,620	-375
Interest rate options					
- Calls	0	23	898	921	35
- Puts	27	83	39	149	-2
Other interest rate contracts	50	243	2,573	2,866	-61
<b>Currency-related transactions</b>					
Cross-currency swaps	1,101	1,840	1,378	4,319	-138
Currency swaps	614	0	0	614	7

<sup>1</sup> Valuation methods:

Interest rate swaps are valued using the present value method based on the current interest rate curve at the balance sheet date. In doing so the cash flows are discounted using market interest rates appropriate for the related risks and remaining terms to maturity, interest that has been accrued but not yet paid is not taken into consideration. This approach is known as "clean price" valuation. The value of options is calculated using option price models and generally accepted basic assumptions. In general, the particular value of an option is calculated using the price of the underlying value, its volatility, the agreed strike price, a risk-free interest rate and the remaining term to the expiration date of the option.

The derivative financial instruments noted involve premiums stemming from option trades in the amount of € 39.8 million (previous year € 34.9 million) which are carried under the balance sheet item "Other assets".

Interest attributable to derivative deals is carried under the balance sheet items "Claims on banks" with € 298.5 million (previous year € 319.1 million) and "Liabilities to banks" with € 316.4 million (previous year € 334.2 million) or "Claims on customers", which amounted to € 13.4 million (previous year € 15.7 million) while "Liabilities to customers" were € 21.2 million (previous year € 21.7 million). The accrual of compensatory payments made is entered under "Other assets" with € 6.3 million (previous year € 8.6 million); the accrual of compensatory payments received is entered under "Other liabilities" with € 53.8 million (previous year € 64,9 million).

Compensatory items in the amount of € 149.6 million (previous year € 76.6 million) related to the valuation of foreign currency swaps are carried under the balance sheet item "Other liabilities".

The counterparties are banks and providers of financial services, as well as insurance companies located in OECD countries, and separate funds under public law in Germany.

Hedging arrangements were made to reduce credit risks associated with these contracts. Within the framework of these arrangements collateral was provided for the net claims/liabilities arising after the positions were netted.

In the context of the Bank's hedging positions, € 1,988 million (previous year € 2,143 million) in balance sheet hedging positions were designated in accounting to hedge interest rate risks associated with securities carried on the balance sheet under "Bonds and other fixed-income securities". It may be assumed that the effectiveness of the hedging positions will remain unchanged over the entire term of the transaction as the conditions of the securities correspond to those of the hedging derivatives (Critical Term Match Method). Offsetting changes in value are not shown in the balance sheet; uncovered risks are treated in accordance with standard valuation principles. The total amount of offsetting value changes for all valuation units amounted to € 148 million.

Interest-based finance instruments carried in the banking book are valued without losses within the framework of an overall valuation, whereby the interest rate driven present values are compared to the book values and then deducted from the positive surplus of the risk and portfolio management expenses. In the event of a negative result a provision for contingent risks has to be made.

A related provision did not have to be made based on the results of the calculation made on 31 December 2018.

As on the date of record the portfolio contained no derivatives used in the trading book.

## Cover statement for Pfandbriefe

### A. MORTGAGE PFANDBRIEFE

IN € 000

	31 Dec. 18	31 Dec. 17
Ordinary cover assets	25,433,899	23,421,614
1. Claims on banks (mortgage loans)	4,907	7,946
2. Claims on customers (mortgage loans)	25,376,528	23,361,204
3. Tangible assets (charges on land owned by the Bank)	52,464	52,464
Substitute cover assets	511,414	663,000
1. Other claims on banks	0	0
2. Bonds and other fixed-income securities	511,414	663,000
Total cover	25,945,313	24,084,614
Total Mortgage Pfandbriefe requiring cover	24,937,537	23,073,183
Surplus cover	1,007,776	1,011,431

### B. PUBLIC PFANDBRIEFE

IN € 000

	31 Dec. 18	31 Dec. 17
Ordinary cover assets	2,431,519	3,849,441
1. Claims on banks (public-sector loans)	115,565	205,565
2. Claims on customers (public-sector loans)	2,174,666	3,052,884
3. Bonds and other fixed-income securities	141,288	590,992
Substitute cover assets	70,000	115,000
1. Other claims on banks	0	0
2. Bonds and other fixed-income securities	70,000	115,000
Total cover	2,501,519	3,964,441
Total public-sector Pfandbriefe requiring cover	2,404,688	3,383,480
Surplus cover	96,831	580,961



# PUBLICATION IN ACCORDANCE WITH SECTION 28 PFANDBRIEF ACT

## MORTGAGE PFANDBRIEF E

### Mortgage Pfandbriefe outstanding and their cover

#### ORDINARY COVER ASSETS IN € 000

	Nominal value		Net present value		Risk-adjusted net present value <sup>1</sup>	
	31 Dec. 18	31 Dec. 17	31 Dec. 18	31 Dec. 17	31 Dec. 18	31 Dec. 17
Mortgage Pfandbriefe	24,937,537	23,073,183	26,933,894	24,940,323	29,026,921	27,208,168
Cover pool	25,945,313	24,084,614	29,573,638	27,355,621	31,170,314	29,017,710
of which further cover assets	511,414	663,000	590,183	773,990	625,693	831,498
<b>Over-collateralisation</b>	<b>1,007,776</b>	<b>1,011,431</b>	<b>2,639,744</b>	<b>2,415,298</b>	<b>2,143,393</b>	<b>1,809,542</b>

<sup>1</sup> Pursuant to Section. 5 (1) no 1 of the Pfandbrief-Net Present Value Directive (PfandBarwertV), the dynamic approach was used to calculate the present value of risk.

#### MATURITY STRUCTURE IN € 000

Residual term	31 Dec. 18		31 Dec. 17	
	Mortgage Pfandbriefe	Cover pool	Mortgage Pfandbriefe	Cover pool
≤ 0.5 year	923,844	619,940	596,673	633,892
> 0.5 year and ≤ 1 year	1,520,886	956,150	309,334	817,897
> 1 year and ≤ 1.5 years	539,329	911,024	910,848	814,999
> 1.5 years and ≤ 2 years	1,435,563	1,021,137	1,494,188	831,318
> 2 years and ≤ 3 years	1,339,689	1,977,262	1,334,656	1,872,793
> 3 years and ≤ 4 years	1,467,155	2,341,015	1,340,226	1,861,261
> 4 years and ≤ 5 years	1,748,020	2,277,426	1,464,700	2,124,428
> 5 years and ≤ 10 years	6,359,549	8,922,847	5,317,077	8,825,665
> 10 years	9,603,502	6,918,512	10,305,481	6,302,361

**FURTHER COVER ASSETS IN ACCORDANCE WITH SECTION 19 (1) NO 2 AND 3 PFANDBRIEF ACT**  
 IN € 000

	31 Dec. 18				31 Dec. 17			
	Total	thereof			Total	thereof		
		money claims in accordance with section 19 (1) no 2				money claims in accordance with section 19 (1) no 2		
		Overall	thereof covered bonds from banks in accordance with Article 129 Regulation (EU) no 575/2013	Bonds in accordance with section 19 (1) no 3		Overall	thereof covered bonds from banks in accordance with Article 129 Regulation (EU) no 575/2013	Bonds in accordance with section 19 (1) no 3
Germany	378,000	0	0	378,000	440,000	0	0	440,000
Belgium	38,000	0	0	38,000	38,000	0	0	38,000
Finland	25,000	0	0	25,000	75,000	0	0	75,000
France	60,000	0	0	60,000	110,000	0	0	110,000
Austria	10,414	0	0	10,414	0	0	0	0
<b>Total – all states</b>	<b>511,414</b>	<b>0</b>	<b>0</b>	<b>511,414</b>	<b>663,000</b>	<b>0</b>	<b>0</b>	<b>663,000</b>

**Key figures for Pfandbriefe outstanding and their cover**
**OUTSTANDING MORTGAGE PFANDBRIEFE**

	Figures in	31 Dec. 18	31 Dec. 17
Outstanding Mortgage Pfandbriefe	€ 000	24,937,537	23,073,183
thereof share of fixed-rate Pfandbriefe, section 28 (1) no 9	%	91	92

**COVER ASSETS**

	Figures in	31 Dec. 18	31 Dec. 17
Cover pool	€ 000	25,945,313	24,084,614
thereof total amount of claims, which exceed the limits laid down in section 13 (1) section 28 (1) no 7	€ 000	0	0
thereof total amount of claims, which exceed the limits laid down in section 19 (1) no 2 section 28 (1) no 8	€ 000	0	0
thereof total amount of claims, which exceed the limits laid down in section 19 (1) no 3 section 28 (1) no 8	€ 000	0	0
thereof share of fixed-rate Cover pool, section 28 (1) no 9	%	97	98
Net present value pursuant to section 6 Pfandbrief-Net Present Value Regulation for each foreign currency in EUR, section 28 (1) no 10 (Net Total)	USD (€ 000)	-331,931	-372,804
	GBP (€ 000)	379,855	23,781
	CHF (€ 000)	2,092,086	2,060,007
Volume-weighted average of the maturity that has passed since the loan was granted (seasoning), section 28 (1) no 11	Years	5	5
Average loan-to-value ratio using the mortgage lending value, section 28 (2) no 3	%	52	51

## Mortgage loans used as cover for Mortgage Pfandbriefe

## A. ACCORDING TO THEIR AMOUNTS IN TRANCHES

IN € 000

	31 Dec. 18	31 Dec. 17
Up to € 300,000	16,229,219	15,443,583
More than € 300,000 up to € 1,000,000	2,712,317	2,274,125
More than € 1,000,000 up to € 10,000,000	2,170,267	2,054,329
More than € 10,000,000	4,322,096	3,649,577
<b>Total</b>	<b>25,433,899</b>	<b>23,421,614</b>

## B. ACCORDING TO STATES IN WHICH THE REAL PROPERTY IS LOCATED AND TO PROPERTY TYPE

IN € 000

		Total		Residential			
		Total	Overall	Apartments	Single and two-family houses	Multi-family houses	Buildings under construction
Germany	31 Dec. 18	20,548,926	17,910,487	2,461,284	11,054,402	4,378,149	15,954
	31 Dec. 17	19,389,948	17,126,564	2,339,825	10,436,290	4,329,495	20,372
Belgium	31 Dec. 18	33,708	0	0	0	0	0
	31 Dec. 17	13,668	0	0	0	0	0
France	31 Dec. 18	214,387	7,440	0	0	7,440	0
	31 Dec. 17	184,483	7,440	0	0	7,440	0
Great Britain	31 Dec. 18	360,702	0	0	0	0	0
	31 Dec. 17	260,689	0	0	0	0	0
Luxembourg	31 Dec. 18	33,500	0	0	0	0	0
	31 Dec. 17	46,586	0	0	0	0	0
The Netherlands	31 Dec. 18	296,626	165,637	10,375	0	155,262	0
	31 Dec. 17	234,348	119,394	10,375	0	109,019	0
Austria	31 Dec. 18	123,990	5	0	5	0	0
	31 Dec. 17	91,893	5	0	5	0	0
Spain	31 Dec. 18	214,972	0	0	0	0	0
	31 Dec. 17	166,459	0	0	0	0	0
Switzerland	31 Dec. 18	3,436,605	3,436,605	1,190,598	2,246,007	0	0
	31 Dec. 17	2,925,835	2,925,835	975,408	1,950,427	0	0
USA	31 Dec. 18	170,483	0	0	0	0	0
	31 Dec. 17	107,705	0	0	0	0	0
<b>Total - all states</b>	<b>31 Dec. 18</b>	<b>25,433,899</b>	<b>21,520,174</b>	<b>3,662,257</b>	<b>13,300,414</b>	<b>4,540,851</b>	<b>15,954</b>
	<b>31 Dec. 17</b>	<b>23,421,614</b>	<b>20,179,238</b>	<b>3,325,608</b>	<b>12,386,722</b>	<b>4,445,954</b>	<b>20,372</b>

## Commercial

Building land	Overall	Office buildings	Retail buildings	Industrial buildings	Other commercially used buildings	Buildings under construction	Building land
698	2,638,439	1,701,250	723,286	10,709	203,194	0	0
582	2,263,384	1,379,402	707,897	13,582	162,182	86	235
0	33,708	33,708	0	0	0	0	0
0	13,668	13,668	0	0	0	0	0
0	206,947	194,890	12,057	0	0	0	0
0	177,043	164,674	12,369	0	0	0	0
0	360,702	271,498	82,047	0	7,157	0	0
0	260,689	155,773	82,722	0	22,194	0	0
0	33,500	33,500	0	0	0	0	0
0	46,586	46,586	0	0	0	0	0
0	130,989	69,100	57,740	0	4,149	0	0
0	114,954	84,111	26,694	0	4,149	0	0
0	123,985	17,280	106,705	0	0	0	0
0	91,888	0	91,888	0	0	0	0
0	214,972	44,885	170,087	0	0	0	0
0	166,459	16,422	150,037	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	170,483	75,165	24,418	0	70,900	0	0
0	107,705	84,820	22,885	0	0	0	0
698	3,913,725	2,441,276	1,176,340	10,709	285,400	0	0
582	3,242,376	1,945,456	1,094,492	13,582	188,525	86	235

## Payments in arrears on covering mortgages

### PAYMENTS IN ARREARS ON COVERING MORTGAGES IN € 000

	31 Dec. 18		31 Dec. 17	
	Total amount of payments in arrears for at least 90 days	Total amount of these claims inasmuch as the respective amount in arrears is at least 5 percent of the claim	Total amount of payments in arrears for at least 90 days	Total amount of these claims inasmuch as the respective amount in arrears is at least 5 percent of the claim
Germany	9,238	10,514	10,601	12,548
Switzerland	191	208	10	0
<b>Total - all states</b>	<b>9,429</b>	<b>10,722</b>	<b>10,611</b>	<b>12,548</b>

## PUBLIC PFANDBRIEFE

### Public Pfandbriefe outstanding and their cover

Discounts based on the vdp credit quality differentiation model were taken into consideration in calculating the cover pool.

### OUTSTANDING PAYMENTS ON MORTGAGE LOANS SERVING AS COVER IN € 000

	Nominal value		Net present value		Risk-adjusted net present value <sup>1</sup>	
	31 Dec. 18	31 Dec. 17	31 Dec. 18	31 Dec. 17	31 Dec. 18	31 Dec. 17
Public Pfandbriefe	2,404,688	3,383,480	3,086,143	4,108,742	2,874,225	3,859,002
Cover pool	2,501,519	3,964,441	3,290,526	5,065,863	2,981,400	4,627,711
of which further cover assets	0	0	0	0	0	0
of which derivatives	0	0	37,864	38,646	27,069	26,700
Over-collateralisation	<b>96,831</b>	<b>580,961</b>	<b>204,383</b>	<b>957,121</b>	<b>107,175</b>	<b>768,709</b>

<sup>1</sup> Pursuant to Section. 5 (1) no 1 of the Pfandbrief-Net Present Value Directive (PfandBarwertV), the dynamic approach was used to calculate the present value of risk.

### MATURITY STRUCTURE IN € 000

Residual term	31 Dec. 18		31 Dec. 17	
	Public Pfandbriefe	Cover pool	Public Pfandbriefe	Cover pool
≤ 0.5 year	48,838	171,053	121,037	253,681
> 0.5 year and ≤ 1 year	1,864	31,982	834,936	89,294
> 1 year and ≤ 1.5 years	77,168	147,374	42,857	191,903
> 1.5 years and ≤ 2 years	81,949	23,644	2,997	25,106
> 2 years and ≤ 3 years	163,992	41,869	173,928	290,238
> 3 years and ≤ 4 years	57,457	48,894	163,843	91,319
> 4 years and ≤ 5 years	117,398	20,989	57,302	147,226
> 5 years and ≤ 10 years	566,187	454,113	454,314	852,166
> 10 years	1,289,835	1,561,601	1,532,266	2,023,508

**FURTHER COVER ASSETS FOR PUBLIC PFANDBRIEF IN ACCORDANCE WITH SECTION 20 (2) NO 2 PFANDBRIEF ACT**  
 IN € 000

	31 Dec. 18		31 Dec. 17	
	money claims in accordance with section 20 (2) no 2		money claims in accordance with section 20 (2) no 2	
	Overall	thereof covered bonds from banks in accordance with Article 129 Regulation (EU) no 575/2013	Overall	thereof covered bonds from banks in accordance with Article 129 Regulation (EU) no 575/2013
Germany	0	0	0	0
<b>Total – all states</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Key figures on Pfandbriefe outstanding and their cover**
**OUTSTANDING PUBLIC PFANDBRIEF**

	Figures in	31 Dec. 18	31 Dec. 17
Outstanding Public Pfandbriefe	€ 000	2,404,688	3,383,480
thereof percentage share of fixed-rate Pfandbriefe, section 28 (1) no 9	%	92	94

**COVER ASSETS**

	Figures in	31 Dec. 18	31 Dec. 17
Cover pool	€ 000	2,501,519	3,964,441
thereof total amount of claims, which exceed the limits of section 20 (2) section 28 (1) no 8	€ 000	0	0
thereof percentage share of fixed-rate cover pool, section 28 (1) no 9	%	91	92
Net present value pursuant to section 6 Pfandbrief-Net Present Value Regulation for each foreign currency in EUR, section 28 (1) no 10 (Net Total)	CHF (€ 000)	74,550	82,669
	JPY (€ 000)	-68,424	-65,266

## Mortgage loans used as cover for Public Pfandbriefe

A. ACCORDING TO THEIR AMOUNTS IN TRANCHES  
IN € 000

	31 Dec. 18	31 Dec. 17
Up to € 10,000,000	226,700	285,844
More than € 10,000,000 up to € 100,000,000	763,351	1,078,521
More than € 100,000,000	1,511,468	2,600,076
<b>Total</b>	<b>2,501,519</b>	<b>3,964,441</b>

B. ACCORDING TO GROUP OF BORROWERS AND REGIONS  
IN € 000

		Total		Of which owed by	
		All states	Total	State	Regional authorities
Germany	31 Dec. 18	2,110,476	2,094,572	0	1,697,032
	31 Dec. 17	3,303,421	3,273,323	0	2,665,790
Belgium	31 Dec. 18	150,000	50,000	0	50,000
	31 Dec. 17	170,000	70,000	0	70,000
Finland	31 Dec. 18	0	0	0	0
	31 Dec. 17	25,000	25,000	25,000	0
France	31 Dec. 18	0	0	0	0
	31 Dec. 17	25,000	25,000	25,000	0
Ireland	31 Dec. 18	0	0	0	0
	31 Dec. 17	22,695	0	0	0
Iceland	31 Dec. 18	0	0	0	0
	31 Dec. 17	15,000	0	0	0
Italy	31 Dec. 18	0	0	0	0
	31 Dec. 17	16,546	16,546	16,546	0
Austria	31 Dec. 18	170,000	155,000	120,000	35,000
	31 Dec. 17	180,414	165,414	130,414	35,000
Poland	31 Dec. 18	44,535	44,535	44,535	0
	31 Dec. 17	42,728	42,728	42,728	0
Portugal	31 Dec. 18	0	0	0	0
	31 Dec. 17	50,000	0	0	0
Switzerland	31 Dec. 18	26,508	26,508	0	26,508
	31 Dec. 17	75,637	25,637	0	25,637
Spain	31 Dec. 18	0	0	0	0
	31 Dec. 17	13,000	13,000	0	13,000
Other institutions	31 Dec. 18	0	0	0	0
	31 Dec. 17	25,000	25,000	0	0
<b>Total - all states</b>	<b>31 Dec. 18</b>	<b>2,501,519</b>	<b>2,370,615</b>	<b>164,535</b>	<b>1,808,540</b>
	<b>31 Dec. 17</b>	<b>3,964,441</b>	<b>3,681,648</b>	<b>239,688</b>	<b>2,809,427</b>

of which guaranteed by

Local authorities	Other debtors	Total	State	Regional authorities	Local authorities	Other debtors
235,108	162,432	15,904	0	0	15,904	0
289,358	318,175	30,098	0	0	30,098	0
0	0	100,000	100,000	0	0	0
0	0	100,000	100,000	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	22,695	22,695	0	0	0
0	0	0	0	0	0	0
0	0	15,000	15,000	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	15,000	0	15,000	0	0
0	0	15,000	0	15,000	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	50,000	50,000	0	0	0
0	0	0	0	0	0	0
0	0	50,000	0	50,000	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	25,000	0	0	0	0	0
235,108	162,432	130,904	100,000	15,000	15,904	0
289,358	343,175	282,793	187,695	65,000	30,098	0



## Overdue interest

### COVERING MORTGAGES WITH OVERDUE INTEREST IN € 000

	Overall		Thereof residential		Thereof commercial	
	2018	2017	2018	2017	2018	2017
Overdue interest for period 01.10.2017 (16) to 30.09.2018 (17)	229	309	227	307	2	2
Overall overdue not adjusted to value	220	278	217	274	3	4

## Foreclosures and receiverships of mortgages used as cover

### FORECLOSURES AND RECEIVERSHIPS

	Overall		Thereof residential		Thereof commercial	
	2018	2017	2018	2017	2018	2017
Pending on balance sheet date						
- Foreclosure proceedings	96	138	90	128	6	10
- Receivership proceedings	27	55	27	50	0	5
	25 <sup>1</sup>	50 <sup>1</sup>	25 <sup>1</sup>	45 <sup>1</sup>	0 <sup>1</sup>	5 <sup>1</sup>
Foreclosures completed during business year	32	38	30	37	2	1

<sup>1</sup> Thereof included in pending foreclosures proceedings.

During the year under review no objects had to be taken over to salvage our claims.

# OTHER DISCLOSURES

## Membership data

MEMBERS MOVEMENT		Number of members
Beginning of 2018		68,202
Additions in 2018		659
Reductions in 2018*		2,321
<b>End of 2018</b>		<b>66,540</b>

## CAPITAL CONTRIBUTIONS IN €

	31 Dec. 18
Increase in remaining members' capital contributions	28,432,110.00
Amount of each share	70.00
Members' liability	0.00

## Personnel statistics

### THE AVERAGE NUMBER OF EMPLOYEES EMPLOYED BY THE BANK IN 2018

	Male	Female	Total
Full-time employees	246	156	420
Part-time employees	24	106	130
<b>Total number of employees</b>	<b>288</b>	<b>262</b>	<b>550</b>
These figures do not include:			
Apprenticed trainees	5	7	12
Employees participating in parental leave, early retirement, partial retirement (non-working phase), or employees suspended with pay	13	17	30

## Special disclosure requirements

Pursuant to section 8 CRR (Articles 435 to 455), Münchener Hypothekenbank publishes information it is required to disclose in a separate disclosure report in the Federal Gazette (Bundesanzeiger), as well as on the Bank's homepage.

Pursuant to section 26a (1) (4) of the German Banking Act (KWG), the quotient of net income and total assets is equal to 0.1206 percent.

### Proposed appropriation of distributable income

Net income for the year amounted to € 48,698,598.47. An advance allocation of € 15,500,000 to legal reserves is presented in the current annual financial statements.

A dividend distribution of 3.25 percent will be proposed at the Delegates Meeting. The remaining unappropriated profit for the year – including profit carried forward from the previous year – amounting to € 33,461,657.28 should therefore be allocated as follows:

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#### ALLOCATION OF RETAINED EARNINGS IN €

	31 Dec. 18
3.25 percent dividend	33,155,000.00
Carried forward to new year	306,657.28

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### Report on events after the balance sheet date

Events of material importance did not take place after the balance sheet date.

### Company

Münchener Hypothekbank eG  
Karl-Scharnagl-Ring 10  
80539 Munich

Register of cooperatives of the District Court of Munich  
Gen.-Reg 396

# BODIES

## Supervisory Board

Wolfhard Binder » Grafing  
Chairman of the Board of Management of  
Raiffeisen-Volksbank Ebersberg eG (until 31.12.2018)  
**Chairman of the Supervisory Board**

Dr. Hermann Starnecker » Marktoberdorf  
Spokesman of the Board of Management of  
VR Bank Kaufbeuren-Ostallgäu eG  
**Deputy Chairman of the Supervisory Board**

Barbara von Grafenstein » Munich  
Employee representative

Josef Hodrus » Leutkirch im Allgäu  
Spokesman of the Board of Management of  
Volksbank Allgäu-Oberschwaben eG

Jürgen Hölscher » Lingen  
Member of the Board of Management of  
Volksbank Lingen eG

Rainer Jenniches » Bonn  
Chairman of the Board of Management of  
VR-Bank Bonn eG

Reimund Käsbauer » Munich  
Employee representative

Dr. Peter Ramsauer » Traunwalchen  
Master Craftsman (Miller)

Michael Schäffler » Munich  
Employee representative

Gregor Scheller » Forchheim  
Chairman of the Board of Management of  
Volksbank Forchheim eG

Kai Schubert » Trittau  
Member of the Board of Management of  
Raiffeisenbank Südstormarn Mölln eG

Frank Wolf-Kunz » Munich  
Employee representative

## Board of Management

Dr. Louis Hagen  
Chairman

Bernhard Heinlein (until 31.12.2018)  
Member of the Board of Management

Dr. Holger Horn (from 01.01.2019)  
Member of the Board of Management

Michael Jung  
Member of the Board of Management

## Mandates

Dr. Louis Hagen  
KfW  
Member of the Board of Supervisory Directors

As at the balance sheet date loans to members of the Supervisory Board amounted to € 933 thousand (previous year € 1,016 thousand). As in the previous year the lending portfolio did not include any loans made to members of the Board of Management. Pension provisions of € 14,994 thousand (previous year € 14,658 thousand) were made for former members of the Board of Management. Total remuneration received by the members of the Board of Management during the year under review amounted to € 2,195 thousand (previous year € 2,033 thousand), for members of the Supervisory Board € 542 thousand (previous year € 341 thousand). Total compensation received by the members of Advisory Committee amounted to € 61 thousand (previous year € 58 thousand). Total compensation received by former members of the Board of Management and their surviving dependants amounted to € 1,106 thousand (previous year € 1,170 thousand).

## AUDITING ASSOCIATION

DGRV – Deutscher Genossenschafts- und Raiffeisenverband e.V.,  
Linkstraße 12, 10785 Berlin

During the year under review total costs of € 723 thousand (previous year € 822 thousand), including value-added tax, were incurred for auditing the annual financial statements, and € 27 thousand (previous year € 24 thousand) in charges were incurred for other assurance services. As in the previous year, no costs were incurred for either tax advisory services or other services during the year under review.

## OTHER FINANCIAL OBLIGATIONS

Pursuant to Art. 12 para. 5 of the Restructuring Fund Act (Restrukturierungsfondsgesetz – RStruktFG) irrevocable payment obligations of € 9,881 thousand was recorded at the balance sheet date.

# CONTINGENT LIABILITY

Our Bank is a member of the protection scheme of the National Association of German Cooperative Banks (Sicherungseinrichtung des Bundesverbandes der Deutschen Volksbanken und Raiffeisenbanken e. V.). Per the statutes of the protection scheme we have issued a guarantee to the National Association of German Cooperative Banks. As a result, we have a contingent liability of € 17,507 thousand. In addition, pursuant to Article 7 of the Accession and Declaration of Commitment to the bank-related protection scheme of the BVR Institutssicherung GmbH (BVR-ISG), a premium guarantee is in force. This pertains to special contributions and special payments in the event of insufficient financial resources in order to pay for damages of depositors of one of the CRR credit institutions belonging to the protection scheme in the event of a compensation case, as well as to meet refunding obligations pursuant to cover measures.

Munich, 29 January 2019

Münchener Hypothekenbank eG

The Board of Management



**Dr. Louis Hagen**  
Chairman of the Board of Management



**Dr. Holger Horn**  
Member of the Board of Management



**Michael Jung**  
Member of the Board of Management

# INDEPENDENT AUDITOR'S REPORT TO MÜNCHENER HYPOTHEKENBANK EG, MUNICH

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

### Audit Opinions

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

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

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

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

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

### Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with § 53 (2) GenG [Genossenschaftsgesetz; Cooperatives Act], § 340k and § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the cooperative in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation in conjunction with § 55 (2) and § 38 (1a) GenG, we declare that that no persons employed by us who could influence the outcome of the audit have provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

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

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

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

### Claims on customers

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

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

Münchener Hypothekbank eG analyses borrowers' financial circumstances using, among other things, the annual financial statements and business plans they have presented, along with business analyses, and regularly reviews of the mortgage lending values and market values of the associated collateral. These results feed into the borrower's credit rating.

The risk for the annual financial statements is that the need for a value adjustment will not be recognised in sufficient time or on a sufficient scale.

b) Using, among other things, a random sample of credit exposures, we examined, as part of our audit, the available documentation relating to the monitoring of financial circumstances and the value of collateral and satisfied ourselves that the ratings had been carried out in a proper and timely manner.

Taking into consideration the information available, our audit found that management had made appropriate assumptions in reviewing the value of claims on customers.

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

### Other Information

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

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

The other information also comprises:

- the remaining sections of the annual report – without further cross references to external information – except for the audited annual financial statements and management report and our audit opinion.

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

Our opinion on the annual financial statements and management report does not cover the other information and we therefore do not express an audit opinion or any other form of audit conclusion thereon. In connection with our



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

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

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

### German Public Auditor Responsible for the Engagement

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

Bonn, 11 March 2019

DGRV – Deutscher Genossenschafts- und Raiffeisenverband e.V.

**Dorothee Mende**  
Wirtschaftsprüfer  
[German Public Auditor]

**Thorsten Schraer**  
Wirtschaftsprüfer  
[German Public Auditor]

## AFFIRMATION BY THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with applicable reporting principles for annual financial reporting, the annual financial statements give a true and fair view of the assets, liabilities, financial position and earnings situation of the company, and the management report of the company includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the anticipated development of the company.

Munich, 29 January 2019

Münchener Hypothekbank eG


The Board of Management



**Dr. Louis Hagen**  
Chairman of the Board of Management



**Dr. Holger Horn**  
Member of the Board of Management



**Michael Jung**  
Member of the Board of Management

## ANNEX TO ANNUAL FINANCIAL STATEMENTS

### PURSUANT TO ART. 26A PARA. 1 SENTENCE 2 OF THE GERMAN BANKING ACT (KWG) FOR THE PERIOD ENDING 31.12.2018 ("COUNTRY BY COUNTRY REPORTING")

Münchener Hypothekbank eG is a Pfandbrief Bank operating in the legal format of a registered cooperative. The Bank's core areas of business are granting mortgage loans for residential and commercial property, as well as issuing Mortgage Pfandbriefe. The Bank's most important market is Germany. Furthermore, business relationships are also maintained with clients in other European countries, in particular. All of the Bank's business is processed at its head office in Munich. The Bank does not maintain any branch offices outside of Germany.

Münchener Hypothekbank eG defines its revenues as the sum of the following components of the income statement pursuant to the rules of the German Commercial Code (HGB): interest income, interest expenses, current income from participating interests and shares in cooperatives and investments in affiliated companies, income from profit-pooling, profit transfer or partial profit transfer agreements, commission received, commission paid and other operating income. Revenues for the period 1 January to 31 December 2018 were € 210,082 thousand.

The number of full-time equivalent salaried employees is 504.45.

Profit before tax amounts to € 76,038 thousand.

Taxes on income amount to € 27,339 thousand and, after netting extraordinary income of € 7,468 thousand from refunds of corporate income tax credits, refer to current taxes of € 34,807 thousand.

Münchener Hypothekbank eG did not receive any public assistance during the current business year.

# REPORT OF THE SUPERVISORY BOARD

During the year under review the Supervisory Board carried out its supervisory functions in accordance with the legal requirements, the Bank's Articles of Association and its by-laws. The Board of Management reported in a timely manner to the Supervisory Board regarding the Bank's corporate planning, its business and financial situation, as well as the Bank's further strategic development. The Supervisory Board thereby advised the Board of Management and supervised its management of business. The Supervisory Board's decisions on actions requiring its approval were made on the basis of reports and materials submitted by the Board of Management.

## Topics reviewed during Supervisory Board meetings

During the last business year the Supervisory Board held its constituent meeting and four regularly scheduled meetings during which MünchenerHyp's company management was continuously advised and supervised in accordance with legal requirements and those defined in the Bank's Articles of Association. The key subjects and advisory issues covered were the development and planning of the Bank's business activities, the Bank's business and risk strategy, the Bank's risk situation, the further development of the IT strategy, and topics related to governance. In an additional meeting the Supervisory Board also covered the issue of a successor to fill a position on MünchenerHyp's Board of Management at the end of 2018.

The Supervisory Board regularly received reports from the Board of Management concerning the Bank's important issues in a timely manner and comprehensively, both in writing and verbally. The Board of Management reported about the Bank's situation, the development of the Bank's business, important key financial figures, and the further development of the business and risk strategy. In addition, the Supervisory Board was kept comprehensively informed of the most current status of the liquidity situation and measures to manage liquidity, as well as the risk situation, measures to control risk and the Bank's risk management

measures. The Supervisory Board also received comprehensive information regarding the status of operational and strategic planning. It was involved in all important decisions. A focal point of the work and reporting was on the current developments in the property market, as well as the latest developments in private and commercial property financing. Furthermore, the Supervisory Board extensively discussed the growing regulatory requirements and their implementation.

The annual meetings of the joint supervisory teams with the Chairman of the Supervisory Board as well as with the heads of the committees established by the Supervisory Board took place again.

## Self-assessment of the Supervisory Board

As required by, and in accordance with the terms of Art. 25d of the German Banking Act (KWG), the Supervisory Board conducted a self-assessment and extensively reviewed the results during its meeting held in December 2018. The results reflect that the structure, size, composition and performance of the Supervisory Board, as well as the knowledge, abilities and experience of the individual members of the Supervisory Board, as well as the Supervisory Board as a whole, meet both legal requirements and those defined in the Bank's Articles of Association.

It can be confirmed that no conflicts of interest arose within the framework of preparing decisions taken by the Supervisory Board. The Supervisory Board took a course of instruction regarding current regulatory topics and legal developments.

## Collaboration with the Board of Management

The Chairman of the Supervisory Board was in regular and close contact with the Chairman of the Board of Management for the purpose of examining important issues and decisions in personal discussions.

In addition to the regularly scheduled reports, the Chairman of the Board of Management also reported continuously in writing and verbally to the Chairman of the Supervisory Board between the individual meetings regarding all important developments affecting the Bank.

### Activities of the Supervisory Board committees

The Supervisory Board has established four committees to enable it to carry out its duties efficiently. These committees are: the Nomination Committee, the Audit Committee, the Risk Committee, and the Remuneration Control Committee. The committees regularly reported on their activities during the Supervisory Board's meetings.

The Nomination Committee convened six times. During the year under review it particularly dealt with the succession of two members of the Supervisory Board who will step down due to age reasons at the end of 2019 Delegates Meeting, as well as finding a successor to replace a member of the Board of Management. The self-assessment of the Supervisory Board and the Board of Management was another topic covered by the committee.

The Audit Committee dealt with the results of the audit of the annual financial statements and the management report. Additional topics addressed were the Bank's risk management system and its data management system, the internal audit report, and the report prepared by the compliance officer, as well as the realignment of the compliance function, in addition to topics and requirements covered during meetings with banking supervision officials. The Audit Committee met three times during the year under review.

The Risk Committee convened twelve times. The Board of Management provided the committee with comprehensive reports concerning the development of markets where the Bank provides property financing, as well as the status of the Bank's planned market entry into Austria. The committee also dealt with the regulatory environment, including the results of the current ECB stress test. In addition, it also reviewed and approved loans requiring approval, and took note of reportable transactions. The Board of Management presented the committee individual exposures that were important to the Bank and discussed them. Extensive reports were also presented concerning the provision and management of liquidity, as well as refinancing. These

reports discussed and examined the risk types of the Bank's business in detail. In addition to credit risks these include, in particular, market, liquidity, sales, and operational risks while taking into consideration the ability to bear risk per the terms of the Minimum Requirements for Risk Management (MaRisk). The committee regularly received reports of the Bank's risk situation, which were explained by the Board of Management and the CRO. The members of the committee discussed the contents of these reports with the Board of Management and noted them favourably. In addition, the committee also dealt with the sales report, the report prepared by the OpRisk officer, and the data protection report.

The seven meetings of the Remuneration Control Committee primarily focused on the Bank's remuneration system and all related issues. The committee determined that MünchenerHyp's remuneration systems had passed the test for appropriateness. The committee recommended to the Supervisory Board that it take note of the results of the appropriateness test.

### Annual accounts

The accounting documents, the annual financial statements and the management report for the 2018 financial year were audited as assigned by the Deutscher Genossenschafts- und Raiffeisenverband e.V., Berlin, and received an unqualified certificate from the auditors. There were no reservations. The auditors provided an extensive report on the key results of their audit during a meeting of the Audit Committee. Moreover, the auditors were also available to provide additional information. Each member of the Supervisory Board received a copy of the audit report of the legal audit prepared by the auditors in accordance with Article 53 of the Cooperatives Act (Genossenschaftsgesetz), including the audit of the 2018 annual financial statements for the Münchener Hypothekenbank eG, for their information on a timely basis. The results of the audit were examined during a joint meeting of the Board of Management and the Supervisory Board attended by the auditor. The results of the audit will be reported during the Delegates Meeting.

The annual financial statements, the management report, the Board of Management's proposal for the allocation of distributable income, and the non-financial report were examined by the Supervisory Board and endorsed. The Supervisory Board recommends that the Delegates Meeting approve the annual financial statements for 2018 – as

explained – and endorse the Board of Management's proposal for the allocation of net income. The proposal is in accordance with the terms of the Bank's Articles of Association.

### Changes in the Board of Management

At the end of the year under review Mr Bernhard Heinlein stepped down from MünchenerHyp's Board of Management and entered retirement. Mr. Heinlein devoted almost 35 years of great dedication towards the success of MünchenerHyp, of which ten were served as a member of the Board of Management. We owe Mr. Heinlein our gratitude and recognition for his extraordinary achievements on behalf of the Bank.

The Supervisory Board appointed Dr. Holger Horn as member of the MünchenerHyp Board of Management effective 1 January 2019. Prior to this appointment Dr. Horn was a member of the Board of Management of the Depfa Bank in Dublin. We look forward to working together with Dr. Horn and wish him success in his new duties.

### Development of MünchenerHyp during the year under review

MünchenerHyp set the course for the future in important respects during its 2018 business year. The further development of the Bank's business and risk strategy decisively positions it to meet the challenges related to the digital evolution of markets, and customer demands.

Despite the demanding market environment, MünchenerHyp was nevertheless able to set a new record for its new mortgage business. Furthermore, the Bank's issues set accents once again in the capital market. This applies in particular to the issue of the Bank's ecological ESG Pfandbrief.

The Bank's success in the property finance and capital markets is based on the impressive team performance turned in by all employees in 2018. In return, they deserve the sincere thanks of the Supervisory Board.

Munich, April 2019

Münchener Hypothekenbank eG

**Wolfhard Binder**

Chairman of the Supervisory Board