

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 Hypothekenbank eG, hereinafter the "cooperative", comprising the balance sheet as of 31 December 2017, the income statement, cash flow statement and statement of changes in equity for the financial year from 1 January to 31 December 2017, along with the notes including the description of accounting policies. We have also audited the management report of the cooperative for the financial year from 1 January to 31 December 2017. In accordance with German law, we have not audited the content of the parts of the management report specified in the "Other information" section of our auditor's report.

In our opinion, based on the findings of our audit,

- the accompanying financial statements comply in all material respects with the applicable provisions of German commercial law for large corporations and present a true and fair view of the cooperative's net assets and financial position as of 31 December 2017 and its results of operations for the financial year from 1 January to 31 December 2017 in accordance with German generally accepted accounting principles, and
- the accompanying management report as a whole provides a suitable view of the cooperative's position. This management report is consistent in all material respects with the annual financial statements, has been prepared in accordance with the requirements of German law and suitably 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 "Other information" section.

In accordance with Art. 322 (3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any reservations with respect to the propriety of the annual financial statements or management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the annual financial statements and management report in accordance with Art. 53 (2) of the Cooperatives Act (GenG), Art. 340k and Art. 317 HGB and EU audit regulation No. 537/2014 (hereinafter "EU Audit Regulation") and in compliance with the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Our responsibility under these regulations and standards is described more extensively in the "Auditor's responsibility for the audit of the annual financial statements and management report" section of our auditor's report. We are independent of the cooperative in accordance with European law and German commercial and professional regulations and have fulfilled our other German professional duties in compliance with these requirements. We also declare, pursuant to Art. 10 (2) f) of the EU Audit Regulation in conjunction with Art. 55 (2) and Art. 38 (1a) GenG that no persons employed by us who could influence the outcome of the audit have provided any prohibited non-audit services referred to in Art. 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 opinion on the annual financial statements and management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

1. Value of loans and advances to customers
2. Other provisions

We have structured our presentation of these key audit matters as follows:

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

On 1. Value of loans and advances to customers

a) The annual financial statements of Münchener Hypothekenbank eG as of 31 December 2017 report loans and advances to customers of EUR 32.4 billion. As of 31 December 2017, loan loss provisions totalling EUR 59.5 million (individual and general adjustments to value) were recognised on the balance sheet for loans and advances to customers.

Münchener Hypothekenbank analyses borrowers' financial circumstances using, among other things, their presented annual financial statements and business planning, along with business analyses, and regularly reviews the 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 valuation 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 loans and advances.

c) On the process of counterparty risk management, we refer to chapter 2.1. "Risk Report" and the section of this on "Counterparty risk".

On 2. Other provisions

a) The annual financial statements of Münchener Hypothekenbank eG as of 31 December 2017 report other provisions of EUR 34.6 million.

The recognition and measurement of provisions is subject to considerable estimation uncertainty and the exercise of judgement. The risk for the financial statements is that a need for provisions may not be recognised in good time or that the amount of the provision may be insufficient.

b) Art. 249 (1) HGB requires provisions to be recognised for uncertain liabilities and anticipated losses from pending transactions. For a provision to be recognised, an obligation to a third party must have arisen legally or financially in the past financial year. There must also be a serious expectation that the provision will be used. We examined the process for recognising provisions. As part of our audit, we obtained appropriate evidence from the cooperative's management as well as confirmation from a lawyer. In so doing, we satisfied ourselves that the matters concerned and the estimates and assumptions made by management for recognition and measurement were sufficiently documented and explained.

c) The cooperative's disclosures on other provisions can be found in the notes in the "General information on accounting policies" section.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the following section of the management report, the content of which we have not audited:

- the Corporate governance statement pursuant to Art. 289f (4) HGB (disclosures on the proportion of women).

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 to be provided with the following after the date of our audit opinion:

- the remaining sections of the annual report.

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 form of audit conclusion thereon. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information

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

RESPONSIBILITY OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT

The cooperative's management is responsible for preparing annual financial statements that comply in all material respects with the applicable provisions of German commercial law for large corporations and present a true and fair view of the cooperative's net assets, financial position and results of operations in accordance with German generally accepted accounting principles. Management is also responsible for such internal controls as it deems necessary in accordance with German generally accepted accounting principles 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, management is responsible for assessing the cooperative's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. It is also responsible for using the going concern basis of accounting unless factual or legal circumstances conflict with this.

In addition, management is responsible for preparing a management report that as a whole provides a suitable view of the cooperative's position, is consistent in all material respects with the annual

financial statements, complies with the requirements of German law, and suitably presents the opportunities and risks of future development. Management is further responsible for the precautions and measures (systems) it regards as necessary in order to enable the preparation of a management report that complies with the requirements of German law and the provision of sufficient suitable evidence for the statements 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 management report.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT

Our objective is to obtain reasonable assurance as to 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 a suitable view of the cooperative's position, is consistent in all material respects with the annual financial statements and the findings of the audit, complies with the requirements of German law, and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our audit opinion on the annual financial statements and management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Art. 53 (2) GenG, Art. 340k and Art. 317 HGB and the EU Audit Regulation, in compliance with the German generally accepted standards for the audit of financial statements promulgated by the 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 economic decisions of users taken on the basis of these annual financial statements and this management report.

As part of the audit, we exercise professional judgement and maintain professional scepticism. We also

- identify and assess the risks of material misstatement of the annual financial statements and 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 opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of the internal control system relevant to the audit of the annual financial statements and of the precautions and measures relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by management and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of 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 our auditor's report to the related disclosures in the annual financial statements and management report or, if such disclosures are inadequate, to modify our opinion. 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 continue as a going concern.
- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events such that the annual financial statements, in compliance with German generally accepted accounting principles, present a true and fair view of the cooperative's net assets, financial position and results of operations.

- evaluate whether the management report is consistent with the annual financial statements, complies with the legal requirements and provides a suitable view of the cooperative's position.
- conduct audit procedures on the prospective information presented by management in the management report. Based on sufficient and appropriate audit evidence, we hereby, in particular, evaluate the material assumptions used by management as a basis for the prospective information and assess the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate audit opinion on the prospective information or the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.

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

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with the Supervisory Board all relationships and other matters that may reasonably be thought to bear on our independence, and related safeguards

From the matters communicated with the Supervisory Board, 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

OTHER DISCLOSURES IN ACCORDANCE WITH ARTICLE 10 OF THE EU AUDIT REGULATION

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

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

Persons employed by us who could influence the outcome of the audit have provided the audited cooperative or companies controlled by it with the following services not mentioned in the audited cooperative's annual financial statements or management report in addition to the audit:

- Other assurance services for banking supervision
- Other assurance services in relation to deposit protection
- Review of the interim report
- Issue of a letter of comfort

RESPONSIBLE AUDITOR

The auditor responsible for the audit is Mr Thorsten Schraer.

Berlin, 12 March 2018

DGRV – Deutscher Genossenschafts- und Raiffeisenverband e.V.

Dieter Gahlen
German Public Auditor

Thorsten Schraer
German Public Auditor