

# 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 bylaws. 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.

During the year under review the Supervisory Board held its constituent meeting and four regularly scheduled meetings with the Board of Management. The key subjects and advisory issues covered during these meetings were the development and planning of the Bank's business activities, the business and risk strategy, the Bank's risk situation, regulatory issues and topics related to governance.

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

The accounting documents, the annual financial statements and the Management Report for the 2016 financial year were audited as assigned by the Deutsche Genossenschafts- und Raiffeisenverband e.V., Berlin, and received an unqualified certificate from the auditors. There were no reservations. The auditors gave an extensive oral presentation of the primary results of their audit during a meeting of the Supervisory Board's 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 2016 annual statement of accounts 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 are also stated during the Delegates Meeting.

The annual financial statements, the Management Report, and the Board of Management's proposal for the allocation of distributable income were examined by the Supervisory Board and endorsed. The Supervisory Board recommends that the Delegates' Meeting approve the annual financial statements for 2016 – 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.

During the year under review Konrad Irtel, and HSH Albrecht Prince of Oettingen-Spielberg stepped down as members of the Supervisory Board as planned due to age reasons at the conclusion of the Delegates Meeting. Mr Irtel had served as a member of the Supervisory Board of MünchenerHyp since 2006 and was elected Chairman in 2010. Major changes took place in banking sector during his term of office including far reaching regulatory reforms, and especially the ECB's decision to classify MünchenerHyp as a systemically important institution subject to direct supervision by the ECB. Mr Irtel's strong commitment to the Bank and his high level of professional competence made important contributions that enabled MünchenerHyp to continue its favourable development during this period.

HSH Albrecht Prince of Oettingen-Spielberg had served as a member of MünchenerHyp's Supervisory Board since 2011 and was elected Deputy Chairman of the Supervisory Board in 2014. MünchenerHyp greatly benefited from his vast entrepreneurial expertise and global perspective during these years as it increasingly expanded internationally and entered European structures.

The Delegates Meeting elected Dr. Hermann Starnecker as a new member of MünchenerHyp's Supervisory Board. Dr. Starnecker is the Spokesman of the Board of Management of the VR Bank Kaufbeuren-Ostallgäu eG. In addition, he is the District President, Swabia, of the Bavarian Cooperative Association (Genossenschaftsverband Bayern) and a member of the Association Council of the Bavarian Cooperative Association.

Following the end of the Delegates Meeting the members of the MünchenerHyp Supervisory Board elected Wolfhard Binder as their Chairman and Dr. Hermann Starnecker as their Deputy Chairman.

Following MünchenerHyp's notable growth over the past years, the number of the Bank's employees has also increased. Currently the Bank sustainably employs more than 500 persons. For this reason the 2016 Delegates Meeting resolved that, pursuant to the terms of the One-Third Participation Act (Drittelbeteiligungsgesetz), in the future the Supervisory Board will consist of twelve members of which eight members of the Supervisory Board will be elected by the Delegates Meeting and four members of the Supervisory Board will be elected by the employees. The four members representing the employees were elected on 12 July 2016.

MünchenerHyp was able to continue its successful development in the 2016 business year as its volume of new business reached the high level recorded in the previous year. This allowed the Bank to further reinforce its position in the market and thus its important role as Pfandbriefbank in the Cooperative Financial Network. The Bank also expanded its equity capital base thereby preparing it at an early date to meet future regulatory challenges – especially the introduction of the leverage ratio as of 2019. In addition, the Bank again improved its earning power. These steps are important prerequisites that will allow the Bank to continue growing as an independent institute in the future and retain its position as a sustainably stable and reliable partner within the Cooperative Financial Network.

MünchenerHyp's corporate culture is noted for its strong sense of team spirit and high level of commitment. The performance generated by these values have made the Bank's sustained success possible – even in the face of enormous regulatory burdens. For this reason, the Supervisory Board would like to extend its warm thanks to all of the Bank's employees for their dedicated efforts.

Munich, April 2017  
MÜNCHENER HYPOTHEKENBANK eG

Wolfhard Binder  
Chairman of the Supervisory Board