MünchenerHyp

2012
ANNUAL REPORT

OVERVIEW

BUSINESS DEVELOPMENT (IN MILLIONS OF €)

	2012	2011	Change %
Lending Business			
a) Mortgage loans	3,621	3,391	7
aa) Residential property financing	2,959	2,808	5
ab) Commercial property financing	662	583	14
b) Loans to public sector and banks	663	1,449	-54
Total	**4,284**	**4,840**	**-12**

BALANCE SHEET (IN MILLIONS OF €)

	2012	2011	Change %
Total assets	36,643	37,348	-2
Mortage loans	20,986	19,410	8
Loans to public sector and banks	12,139	13,293	-9
MBS	29	69	-58
Pfandbriefe and other promissory notes	30,712	31,511	-3
Liable equity capital	1,161	1,157	0

INCOME STATEMENT (IN MILLIONS OF €)

	2012	2011	Change %
Net interest income less commissions	78	80	-2
Administrative expenses	66	64	3
Results from operations before deducting provisions for risks	11	11	0
Results from operations after deducting provisions for risks	10	7	43
Transfer to the Fund for General Banking Risks	-3	-2	50
Net income	5	5	0

EMPLOYEES (NUMBER)

	2012	2011	Change %
Average number of employees per year	410	375	9
Apprentices	13	12	8
Employees participating in parental leave, early retirement and partial retirement (non-working phase)	20	24	-17

CONTENTS


Innovation
Partnership
Proximity
Trust
Responsibility

As one of Germany's biggest cooperative banks, MünchenerHyp is especially committed to following a responsible and sustainable business policy. We are not interested in quick gains. We are interested in reliable relationships, particularly with our customers and investors. And this is why our activities are guided by five basic principles that we would like to tell you a little bit more about in this Annual Report. Our employees and our business partners share these principles and our values – our employees embody them every day in their work.

LETTER FROM THE BOARD OF MANAGEMENT

DEAR SHAREHOLDERS AND BUSINESS ASSOCIATES,

We look back upon a banking year that was once again uneven and volatile. In addition, 2012 also showed that the course we set for MünchenerHyp in recent years – expansion of our market position and sustainable development – was right as we decisively moved ahead.

The European sovereign debt crisis again remained the key factor influencing developments in the capital markets in 2012. Fortunately, this had a significantly lesser effect on our Bank than in the previous year. We completely divested all of our Greek investments during 2012. Our investments in the other peripheral eurozone countries are relatively manageable. Furthermore, we are continuing to reduce these holdings. Despite the ongoing difficult situation in the peripheral states, we anticipate that the political and monetary measures taken by European Union bodies and the European Central Bank will allow the eurozone to avoid serious consequences.

Driven by the prevailing uncertainty caused by the sovereign debt crisis, investors and individuals continued their search for

The Board of Management of the Münchener Hypothekenbank eG. From left to right: Michael Jung, Dr. Louis Hagen (Spokesman), Bernhard Heinlein safe investment opportunities. Both our new mortgage business and our refinancing activities benefited from this situation in 2012. This is because MünchenerHyp is highly valued by its partner banks, customers and investors as a solid reliable and trustworthy enterprise. This trust is an important underlying element of our strategy of solid and sustainable growth.

NEW MORTGAGE BUSINESS AND PORTFOLIO GROW ANEW

Our new business developed very favourably due to the heavy demand for long term residential property financing in Germany as in the previous year. We posted substantial gains. Above all, we were able to notably expand the volume of new lending commitments made in collaboration with our partner banks in the Cooperative Financial Network. This figure rose by about 25 percent.

New business results grew in both of our two core businesses of residential and commercial property financing. Our total new mortgage business amounted to € 3.6 billion, which was the highest level noted since the onset of the financial market crisis five years ago. We were once again able to acquire larger volumes of new commercial property financing business, especially in Germany, without deviating from our conservative lending policies.

The favourable development of our new business supported the expansion of our loan portfolio. Meanwhile, mortgage loans represent a good two-thirds of our total portfolio: We were able to increase the volume of mortgage loans in our portfolio by 8 percent to € 21.0 billion. This growth did not take place at the expense of the risk situation, which continued to improve last year.

Our lending business with the public sector and banks declined considerably. This change is the result of our strategic focus and at the same time reflects the current situation in the area of public sector financing.

MÜNCHENERHYP'S PFANDBRIEFE GENERATED ATTENTION IN THE MARKET

The Pfandbrief once again proved to be a reliable refinancing instrument during times of greater volatility in the capital markets. Its high quality combined with MünchenerHyp's excellent standing as an issuer with national and international investors enables us to obtain refinancing at very good conditions. As a result, we were able to place our Mortgage and Public Pfandbriefe with low risk premiums, which in some cases were at historic low levels. We received the renowned "Euro Deal of the Year" award for a Jumbo Mortgage Pfandbrief with a ten-year term.

Institutions within the Cooperative Financial Network were once again our most important and reliable partners in the uncovered refinancing segment.

REGULATORY CHALLENGES

Despite the previously described favourable developments, we were seriously challenged in numerous areas during 2012. This primarily refers to the effects of already implemented regulatory requirements, as well as those we will face in the future. The new regulations will materially influence the business models and capital adequacy requirements of credit institutions.

In order to be prepared for these changes we also worked on projects last year that were of significant importance for the sustainable development of MünchenerHyp, in addition to ensuring that we can fulfil regulatory requirements. One example of our project work was the continuation of the IRBA Project – Internal Ratings Based Approach to determine equity capital requirements –, which was successfully introduced in 2011. The expanded employment of IRBA will allow us to achieve a further easing of our capital requirements. Furthermore, it will also enable us to substantially meet the new equity capital requirements while continuing on our course of growth.

SUCCESS IS A JOINT EFFORT

Last year's successes were founded on the combined efforts of numerous persons. We would like to thank our employees for the great dedication they showed in a challenging environment. We also would like to thank our property finance partners for their good cooperation, as well as our customers and investors for the trust they put in us. The advice and expertise of the members of our bodies provided us with important support towards mastering the challenges posed by the market and supervisory requirements. We would also like to extend our thanks to them as well.

FOCUS ON SUSTAINABLE GROWTH

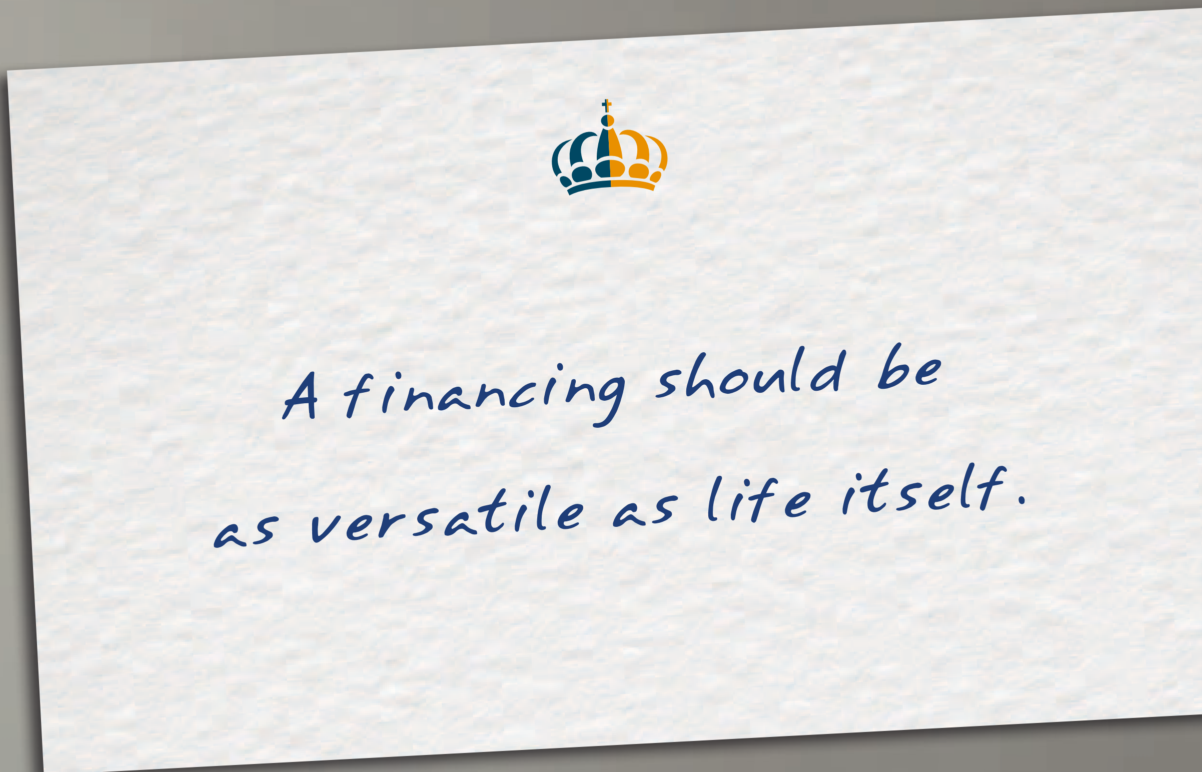
Our objectives are long-term oriented. We want to grow prudently in our core areas of business – residential and commercial property financing. This approach of acceptable risk is aimed at ensuring MünchenerHyp's continued ability to pay dividends and increase its earning power and asset base in the face of stricter regulatory requirements. We are confident that we will take another important step forward on this path in the current financial year.

Sincerely yours,

Dr. Louis Hagen   Bernhard Heinlein   Michael Jung

MANAGEMENT REPORT 2012

OVERALL ECONOMIC CONDITIONS



We know that our customers' goals and desires can change at any time. And this is why our financing solutions are designed to be easily adjusted to meet new requirements. This allows us to offer a perfect combination of safety and flexibility – especially for longer term loans. This has been acknowledged by independent experts and by the many awards we have received for our individual and flexible financing solutions.

Thomas Himstedt, Head of Hamburg Regional Office,
Münchener Hypothekenbank eG

MANAGEMENT REPORT 2012

OVERALL ECONOMIC CONDITIONS

ECONOMIC DEVELOPMENT

The pace of the global economy slowed further in 2012 and expanded by 3.2 percent, which was more than half a percentage point weaker than in the previous year. The effects of the European sovereign debt and economic crisis were partially responsible for the decline as economic performance in the eurozone contracted to minus 0.4 percent in 2012. The other reason was a deceleration in the previously strong economic growth posted by developing and emerging markets.

Despite the recessive economic development seen in Europe, the German economy performed comparatively well as its gross domestic product (GDP) rose by 0.7 percent. Although this was one of the highest growth figures noted for a European economy in 2012, the pace of growth recorded for the German economy slowed substantially over the course of the year.

Foreign trade was once again the biggest contributor to growth, although domestic consumption also had a favourable influence. Capital expenditures, in contrast, decreased notably and dampened economic growth. This was also the case for investments in construction, which fell by a total of 1.1 percent following the significant increase seen in the previous year. The decline was caused by a massive collapse in public sector construction due not least to the expiration of the German government's economic stimulus programmes. Residential construction, on the other hand, developed favourably as investments rose by 1.5 percent with sales climbing by even about 5 percent.

The rise in consumer prices weakened a bit in 2012 as the average annual figure amounted to 2 percent. Higher energy prices were once again the main driver that pushed prices up.

The good economy had a favourable effect on the labour market as the number of employed persons in Germany continued to rise from the previous year's record level to an annual average of 41.6 million in 2012, despite the deceleration in hiring seen in the second half of the year. The average unemployment figure continued to decline from 7.1 percent to 6.8 percent as the yearly average jobless number dropped by almost 80,000 to about 2.9 million.

FINANCIAL MARKETS

The European sovereign debt crisis was again the dominant theme in the international financial markets last year. The European Central Bank's (ECB) long-term tender transactions initially assured the markets that sufficient liquidity would be available and in the interim led to substantially more stable and favourable financing conditions. These circumstances also benefited the eurozone's peripheral countries and well as their banks.

"Policymakers and the European Central Bank made numerous efforts to reinforce trust in the markets."

Capital markets were heavily burdened by the restructuring of Greek government bonds that took place at the expense of private bondholders, as well as by the worsening creditworthiness of the peripheral countries that occurred at the same time. European policymakers made numerous efforts to reinforce trust in the markets including, in particular, using the European Stability Mechanism to recapitalise Spanish banks. Capital markets, however, continued to doubt the peripheral countries' willingness to enact sustainable reforms, as well as the eurozone's core countries' unwavering commitment to continue providing support. The market viewed Greece's exit from the monetary union as a possibility, which in turn led to massive increases in risk premiums demanded for the debt of non-core countries in the eurozone.

In addition, the global economy further weakened, which together with Europe's unresolved sovereign debt crisis led to rising recessionary fears around the world. The ECB responded to these fears in July 2012 by further reducing its key interest rate to a new historic low of 0.75 percent. The American central bank, the Fed, maintained its key interest rate in an unchanged range between 0 and 0.25 percent.

In this situation ECB President, Mario Draghi, announced that if needed the ECB would make unlimited purchases of sovereign bonds issued by the member states of the European Monetary Union to ensure the continued stability of the euro and the eurozone. Up until the end of the year none of the member states had accepted the ECB's offer to help. However, the announcement that the ECB was prepared to offer assistance was enough to calm the markets.

"Pfandbriefe proved to be a stable refinancing tool once again in 2012."

Declining interest rates and the comparatively good profitability noted for German companies fuelled a significant rise in the German stock index (DAX) over its previous year's performance. Investor interest in stocks rose due to high dividend yields paid by DAX firms and a lack of investment alternatives. As a result, during the course of the year the DAX climbed 29 percent over the previous year. Most of the European stock markets recorded smaller gains.

Driven by the ongoing sovereign debt crisis in Europe, the US dollar initially posted gains over the euro during the year and increased to 1.20 dollar per euro. However, following the announcement the ECB's bond purchase programme by ECB President Darghi, the trend reversed and the euro was able to recover its losses by the end of the year. In the USA, the Fed stated that it intended to continue its expansive monetary policy and said that it will only re-examine this policy following a notable improvement in the US labour market. The change in government in Japan also led to a switch in the Japanese central bank's monetary policy which became far more expansive and was intended to weaken the yen and overcome deflation. The Swiss central bank maintained its announced exchange rate cap of 1.20 Swiss francs to the euro.

Pfandbriefe proved to be a stable refinancing tool in 2012. Nevertheless, the volume of new issues fell substantially in comparison to the previous year's figure due primarily to the notably lower volume of new Public Pfandbriefe issues. During the year under review a total of € 106 billion worth of new euro-denominated benchmark covered bonds were issued. At the beginning of the year issuers located in core eurozone countries, above all others, benefited from the enormous volume of liquidity made available by the ECB. Issuers located in the peripheral

Figures in % | YIELD ON TEN-YEAR BUNDS 2012

Source: Bloomberg

countries turned to the mostly more attractive refinancing possibilities offered by the ECB due to high funding spreads. Very strong investor interest was noted across the board, which in turn led to continually narrowing spreads for issues. This improvement in the market meant that the ECB only partially realised its approved covered bond purchase programme and actually completely stopped it during the course of the year.

The Pfandbrief continued to benefit from the low volume of new issues, as well as from Germany's very good credit standing and the good quality of the cover pools. Total sales of Pfandbriefe declined by about € 16 billion to € 56.6 billion. The exit of many issuers from public sector financing led to a further contraction in the Public Pfandbrief's share of market, while the volume of newly issued Mortgage Pfandbriefe remained generally stable.

The development of long-term interest rates was mainly influenced by the weaker economic outlook, high availability of liquidity and declining short-term interest rates. These factors, as well as fears surrounding the continued existence of the European currency union, led to falling yields for 10-year Bunds during the first half of the year. At mid-year the yield had fallen to a historic low of less than 1.2 percent. Yields stabilised at a low level over the remaining course of the year.

PROPERTY AND PROPERTY FINANCING MARKETS

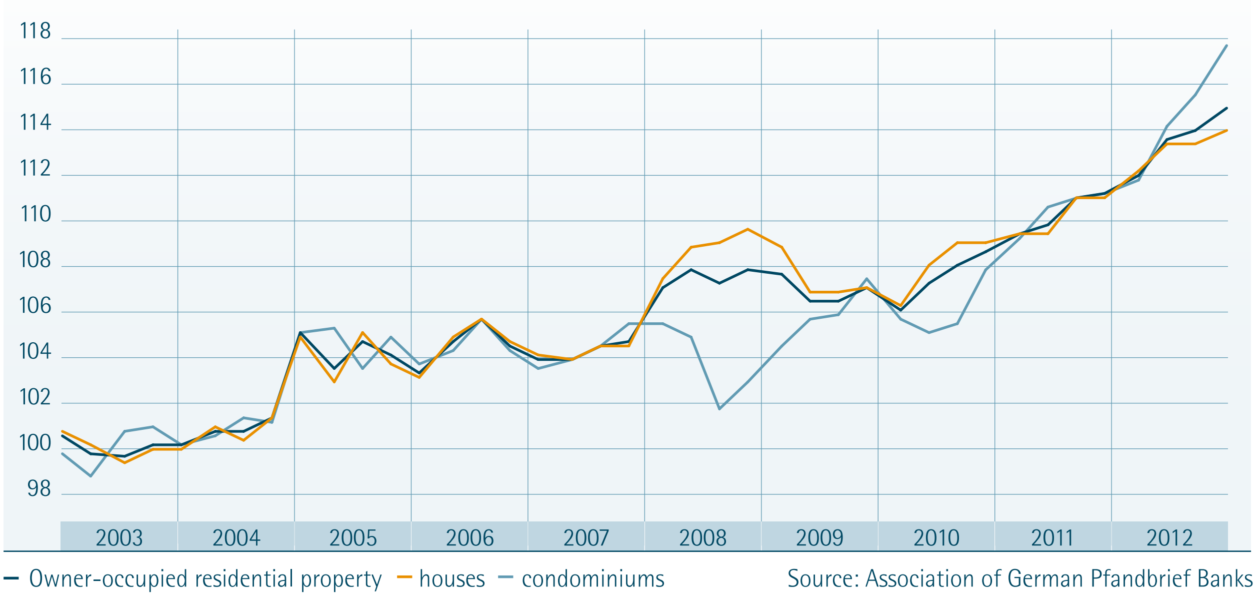
RESIDENTIAL PROPERTY – GERMANY

Demand for houses and apartments rose in many places, particularly in major metropolitan areas and in numerous university towns where prices for buying or renting property once again rose significantly. Some of Germany's major metropolitan areas saw local housing prices rise by over 10 percent within a year.

"Property prices rose notably due to heavy demand."

As a result of this situation, the general public, the media, and policymakers focused their attention more strongly on the property markets. This in turn led to growing discussions sur-

DEVELOPMENT OF PROPERTY PRICES IN GERMANY (YEAR 2003 = 100)



Source: Association of German Pfandbrief Banks

Figures in 000 | RESIDENTIAL BUILDING PERMITS IN GERMANY 2000 – 2012

Source: German Federal Statistics Office, www.destatis.de, 2012 = estimated

rounding the potential dangers facing the property market and the stability of the financial market if prices continued to rise. The media, above all, reported on exaggerations in the property markets and a possible price bubble. However, according to the Financial Stability Review prepared by the Bundesbank, no current danger of a price bubble exists although greater vigilance is advised in certain regional markets.

Prices did not develop uniformly across Germany as regional differences continued to widen. Purchase prices and rents stagnated, or even fell, in numerous regions, especially in structurally weak rural regions with shrinking populations.

In contrast, populations of major metropolitan areas rose. This fact, coupled with the limited volume of new residential housing that had been built in major German cities in the past, resulted in a growing shortage of available housing in recent years. This, in turn, further encouraged rising prices.

The average price of property increased notably on a nationwide basis as the Association of German Pfandbrief Banks (vdp) reported a 4 percent rise for 2012. The report showed that prices paid for condominiums rose at a faster pace of 5.8 percent compared to the 2.6 percent increase noted for one- and two-family houses. The annual average figure for net rents (excluding heat, utilities and services) paid did not keep up with this development as it rose by 1.2 percent on. This did, however, vary greatly by region.

Construction of residential housing was increasingly influenced by strong demand. Based on projected figures, the number of building permits issued for new houses and apartments rose to about 240,000 in 2012, or 35 percent more than the low point reached in 2008. However, in absolute terms, the number of approved building permits remained at a low level when viewed on a long-term basis. Furthermore, following a long period of stagnation, the rate of home ownership rose from 43 percent to 46 percent, which is still below the European average.

"The affordability of residential property improved further as interest rates fell again."

Interest rates paid for financing property declined further in the previous year. Many borrowers wanted to secure current interest rate levels for as long as possible. The Bundesbank's Financial Stability Review stated that over 70 percent of new property loans made in 2012 had fixed interest rates for terms of over five years and about one in three loans had fixed rates for ten-year loans. Terms of 20 years and even 30 years were not rare.

The lower interest rates further improved the affordability of residential property and more than compensated for the higher prices recorded in previous years. This is reflected in a vdp study which revealed that the average percentage of net household income allocated for paying interest and principal declined by ten percentage points since the end of the year 2000 and also fell by four percentage points to 23 percent in the last three years.

The total volume of residential property financing once again rose at just a moderate pace in 2012 despite the strong demand seen in the property market and rising property prices. According to information provided by the Bundesbank, this figure rose by 1.1 percent between the beginning of the year and the end of the third quarter. This reflects the fact that property buyers continue to provide a substantial amount of equity capital when entering into financing agreements. According to vdp figures, the average share of capital provided by borrowers has even risen in recent years and currently stands at 29 percent.

Within the described market environment the Cooperative Financial Network was able to further expand its position. Based on calculations made by the German Association of Volksbanken and Raiffeisenbanken (BVR), the Cooperative Financial Network's share of residential property financing transactions market has risen in the interim to almost 27 percent.

RESIDENTIAL PROPERTY – INTERNATIONAL

No fundamental changes were noted in the European residential property markets in 2012 as real purchase prices barely changed. There were only few exceptions to this, like the Netherlands and Spain – where prices fell. Activity in this sector remained at a low level.

The rental housing markets were relatively stable and average rises in rents paid generally corresponded to increases in the cost of living.

Based on long-term average figures, the residential property market in France was able to hold up at a lower but stable level. This situation was not least due to the fact that this market continues to benefit from state subsidies. The first signs, albeit weak ones, pointing to stability in the UK residential property market were noted as consumers' future expectations improved slightly. The average nominal price level for residential property only fell slightly and potential buyers once again showed greater interest. One of the reasons for this was that banks' lending practices were no longer quite as restrictive as in the recent past.

Prices for houses and apartments rose further in Switzerland. However, when viewed on an average nationwide basis, the rise was slower than in previous years. Prices developed quite differently from region to region with the rate of price increases noted in a few regions like Zurich, Lausanne or Davos remaining at high levels. Prices for condominiums even hit a new all-time high. This situation also led to a significant increase in the intensity of warnings heard that the Swiss property market was overheating. Swiss banks, in agreement with the Swiss central bank, worked to counter these conditions and established a set of rules for themselves defining how they could employ their equity capital, as well as the duration of loans they made.

The American residential property market was in considerably better shape than in the previous year as 82 of the 100 biggest urban regions in the USA reported higher prices, which in some cases were quite notable. In contrast, these conditions were only noted for twelve metropolitan regions in 2011. The fastest growing markets were primarily located in the West and Southwest of the USA as growth in these regions was driven by improved job markets. However, on an overall basis, the unemployment situation, the uncertain general economic outlook, as well as the continuing surplus of available properties, continued to burden certain sub-markets and concurrently endangered the upturn seen in markets that were in the midst of recovering.

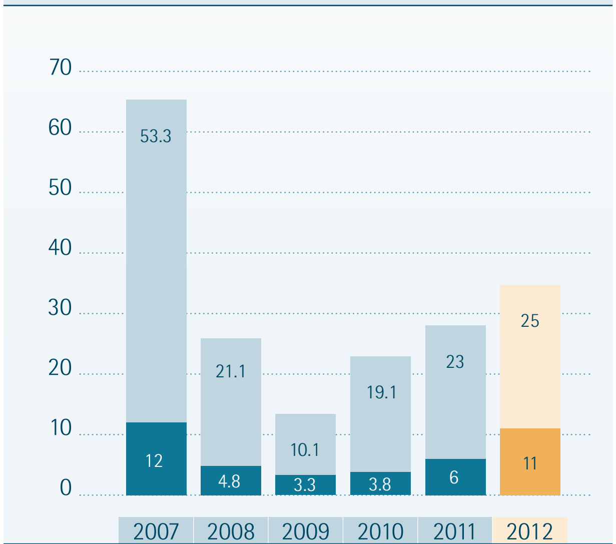
The market for rental apartment buildings continued to recover and remained the unchanged preferred asset class for investors. Furthermore, the financing market for these properties continued to be marked by intensive competition between state-supported mortgage financers, banks and American life insurance companies.

COMMERCIAL PROPERTY – GERMANY

The German commercial property market held up well in 2012. This was not least due to Germany's economic development, which was robust on a European basis. In addition to this, the stable labour market coupled with the low interest rate environment continued to generate a high level of investor interest. Following a strong surge at the end of the year involving some major deals, the volume of transactions (excluding residential property) rose on a year-over-year basis by € 2 billion to about € 25 billion. Foreign investors' share of these transactions remained at a constant level compared to the previous year at approximately 40 percent. The focus on major-volume transactions was striking as foreign investors alone accounted for a total of € 3.5 billion in four major portfolio transactions concluded in 2012.

Returns remained low as investor interest remained focused on core properties. This particular concentration was also reflected by the fact that about 60 percent of the volume of transactions were concluded in the seven top locations in Germany. In terms of usage categories, office properties were ranked first with a 40 percent share of total sales followed by retail properties with about 30 percent.

DEVELOPMENT OF COMMERCIAL PROPERTY TRANSACTIONS IN GERMANY 2007 – 2012
Figures in € billion



Commercial
Residential (only portfolio)
Source: Ernst & Young Research, January 2013

The residential property portfolio market was also very lively in 2012: investments of € 11 billion were made over the entire year which equalled an increase of about 70 percent.

> **"Demand for commercial property was strengthened by the robust German economy."**

The office rental market contracted slightly. Turnover of space in the seven top locations in Germany declined by 11 percent. Driven by the lowest volume of new construction in five years the vacancy rate in the seven top locations fell from 9.5 percent to 8.8 percent, while top rents in these locations rose by approximately 3 percent.

COMMERCIAL PROPERTY – INTERNATIONAL

The international commercial property markets developed modestly although an increase in activities was noted in the fourth quarter. In addition to Germany, investor interest was primarily focused on the UK. Towards the end of the year interest strengthened in France as well as Scandinavia.

The primary interest of international investors in the UK was once again focused on the core segment in London and cities with strong economies. The appeal of core properties fell as their prices rose and investors' interest shifted back to non-core segment properties. The development of rents paid varied. Slightly higher rents for office space were observed in good and very good locations. In contrast, minor declines in rents paid were noted in almost all of the other segments.

France was also viewed as a safe location for property investments. Nevertheless, total investments observed up to the end of the third quarter of 2012 were slightly lower. Investor interest in France was also mainly aimed at core properties. Demand exceeded supply in this segment. As a result, prices in this segment either rose or at least remained stable whereby the price gap to B-location properties widened. As a consequence, returns on investments in core properties came under pressure. The

French property market was even more strongly dominated by the Paris region than in previous years as sales in other regions fell by about 35 percent.

The difficult development noted in recent years in the Dutch market continued in 2012 as the volume of transactions fell by more than 10 percent. The gap between prices paid for core properties and B-location properties continued to widen. Due to stronger supply than demand – especially in the office property sector – vacancy rates were high and stood at over 20 percent in areas surrounding major urban areas.

Despite the unchanged uncertain development of the economy in the USA, favourable tendencies continued to be observed in most of the individual commercial property markets. Demand for core properties exceeded demand primarily in the core markets of New York City, San Francisco, Washington DC, Boston, Seattle, Houston and Los Angeles, which led to a further reduction in property yields. Due to the surplus of demand for core properties in key markets some investors turned their attention again to riskier and higher yielding properties in secondary markets, as well as properties on the peripheries of primary markets.

The financing market in the USA proved to be more liquid and stable than in previous years. This situation renewed stronger competition among financing providers, which primarily made loans to very creditworthy borrowers for long-tern rented properties located in the previously mentioned core markets. Financing providers also extended their lending spectrum to include selected transactions involving currently undervalued properties associated with slightly greater risk, as well as properties located in secondary markets. Furthermore, subordinated loans with higher lending value ratios were again more widely available for selected property transactions. The market for Commercial Mortgage Backed Securities (CMBS) also showed signs of recovery.

MANAGEMENT REPORT 2012

BUSINESS DEVELOPMENT AND OVERALL CONDITIONS

A strong partnership continuously releases new energies.

The property financing market is highly competitive. That's why it is a good feeling to know that you have a very capable partner at your side. The Volksbanken and Raiffeisenbanken have one of Europe's most closely knit networks of branch offices. And all across Germany customers can be sure that they will be looked after personally and receive highly competent advice. We value this partnership as the key foundation for our mutual success.

Josef Geserer, Member of the Board of Management,
Raiffeisenbank Oberpfalz Süd eG

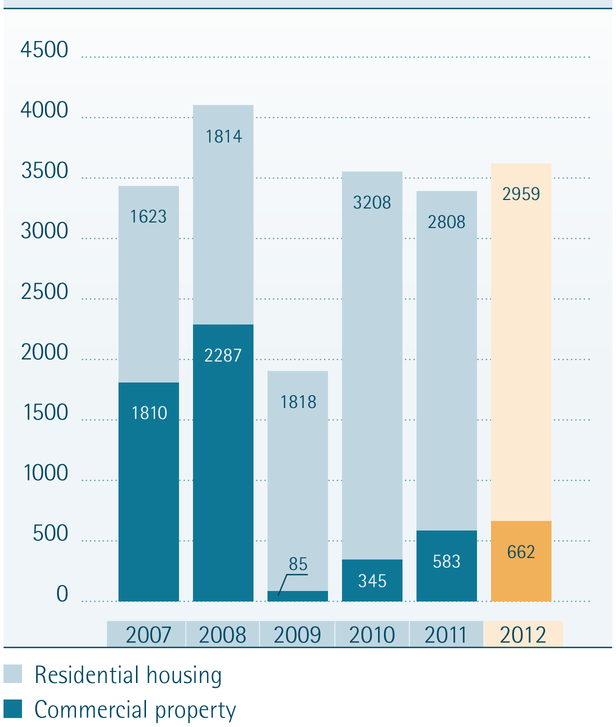
BUSINESS DEVELOPMENT AND OVERALL CONDITIONS

NEW MORTGAGE BUSINESS

Our new business activities were supported by the favourable overall conditions in our core markets – especially in the German residential property market. We recorded significant growth that exceeded our business targets in both the residential and the commercial property financing business areas. We made a total of € 3.6 billion of new mortgage loans, or about 7 percent more than in the same year-ago period.

With a volume of about € 3.0 billion, residential property financing represented more than three-quarters of our total new business in 2012. In achieving this we were, above all, able to once again substantially expand our business with the Volksbanken and Raiffeisenbanken. The volume of brokered new business in this segment rose by about 25 percent. Business with housing companies developed at a stable pace and attained the previous year's level.

MÜNCHENERHYP NEW MORTGAGE BUSINESS 2007 – 2012
Commitments in € million



Our fixed-rate loans featuring attractive conditions and terms of over 20 years met with strong demand from private customers. Our offer met the wishes of numerous customers who wanted to secure low interest rates over the entire lifetime of their loans. We again received an award for our residential property financing products in 2012 and this time we were honoured by n-tv, a German television station and by FMH, a financial consultancy.

"We recorded significant growth that exceeded our business targets in both the residential and the commercial property financing business areas."

Sales of residential property financing generated by independent financial service providers declined by 19 percent from the same year-ago figure to € 430 million. New business generated by PostFinance, our Swiss cooperation partner, continued to develop favourably.

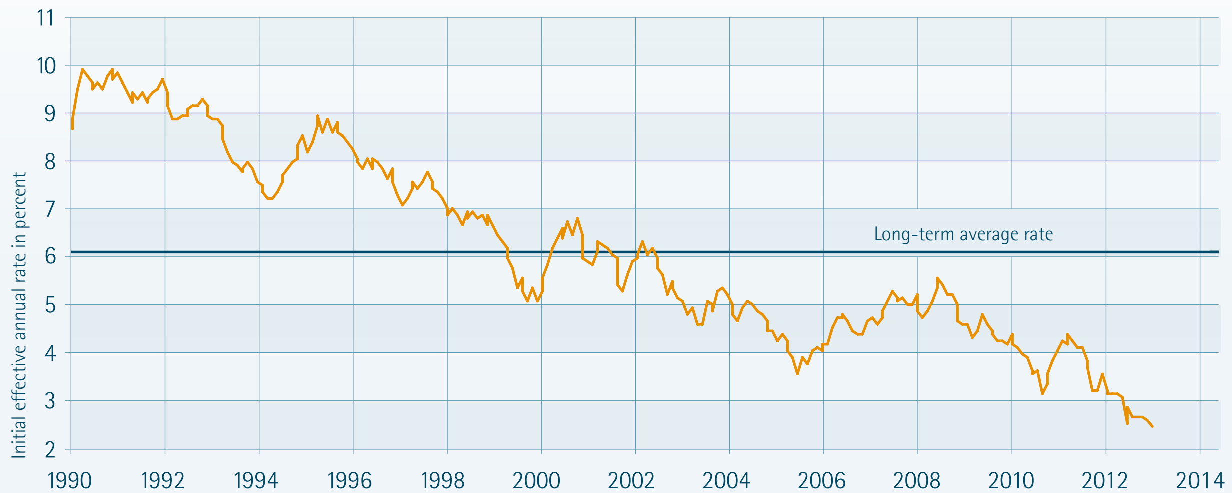
In addition to secure interest rates, many customers placed increasing value on flexible lending conditions. This was reflected by the increasing number of loans made in 2012 containing options concerning unscheduled repayments as well as altered repayment rates.

New commitments to finance commercial property grew by 14 percent to € 662 million. About two-thirds of the financing volume was made for domestic loans. The loan-to-value ratios were moderate in comparison to the market value, as well as to the mortgage lending value. Margins tended to develop firmly and in most cases the fixed-interest periods were for five to ten years.

PUBLIC-SECTOR AND BANK LENDING, AND MUNICIPAL LOANS

Overall conditions in the lending business with public-sector borrowers and banks remained difficult in 2012 as the European

MORTGAGE RATES MÜNCHENERHYP (TEN YEAR FIXED RATE)



Source: MünchenerHyp

As of: 02.01.2013

sovereign debt crisis continued virulently. As a consequence, spreads widened again at mid-year for bonds issued by the public-sector and banks in peripheral countries of the eurozone. Tensions eased notably towards the end of the year as the market's sentiment improved.

Our actions were very cautious and reserved in this business environment according to our business and risk strategy. Investments were only made in very creditworthy addresses located in European core countries. The volume of lending commitments made declined from € 1.4 billion in 2011 to € 0.7 billion. We plan to further reduce the volume of our portfolio through scheduled maturities and sales.

REFINANCING

MünchenerHyp was able to refinance its activities in the capital market at very good conditions in 2012. Our four large-volume Pfandbrief issues stood out in particular. They generated great attention in the markets and were warmly welcomed by investors.

The first of these issues – a ten-year Jumbo Mortgage Pfandbrief with a nominal volume of € 1 billion – was floated at the end of May. It was followed by a three-year Mortgage Pfandbrief that was nominally valued at over USD 500 million. This issue was our first US dollar denominated benchmark format Pfandbrief and marked a milestone for MünchenerHyp.

"Our large-volume Pfandbrief issues generated great attention in the markets and were warmly welcomed by investors."

During the fall months we placed two benchmark Public Pfandbriefe with a volume of € 500 million each and terms of five and two years. These issues recorded historically low spreads.

In comparison to other German Pfandbrief issuers, all of our aforementioned issues noted major purchases by foreign investors. This meant that our refinancing continued to be based on a broad and stable foundation.

Our ten-year Jumbo Mortgage Pfandbrief issue was honoured with the "Euro Deal of the Year" award from The Cover / Euroweek, an international trade magazine. The award is decided by an international jury of investors, investment banks and issuers. MünchenerHyp was nominated in five categories thereby receiving the highest number of nominations of all German banks. We were also top-ranked in other categories and came in second in three categories and third in one. Our success at the Covered Bond Awards underlines Münchener Hypothekenbank's high reputation in the capital market.

During the 2012 financial year we obtained total refinancing funds of € 7.8 billion with covered funding accounting for € 2.3 billion raised with Mortgage Pfandbriefe and € 3 billion via Public Pfandbriefe. Sales of uncovered securities for refinancing amounted to € 2.5 billion. The high amount of inflows € 8.5 billion from our refinancing business resulted in a net sales figure of minus € 0.7 billion.

RATING

Rating agencies further raised their creditworthiness requirements in light of Europe's continuing sovereign debt crisis. This was the reason behind Moody's decision in July 2012 to also lower their rating for MünchenerHyp's financial strength and change their outlook to "negative". Ratings for our uncovered liabilities and Pfandbriefe remained unchanged, which meant that this step did not have any noticeable effects on our refinancing conditions. As noted in the previous section, we were even able to place two large-volume Public Pfandbriefe at historically low prices after Moody's decision.

On an overall basis we continue to have good ratings in comparison to our peers.

Current ratings at a glance:

	Rating	Outlook
Public Pfandbriefe	Aaa	
Mortgage Pfandbriefe	Aaa	
Uncovered liabilities	A2	negative
Fundamental financial strength	D	negative
Short-term liabilities	Prime-1	

Moody's evaluation of MünchenerHyp's strengths and weaknesses remained unchanged. The rating agency viewed our loan portfolio favourably as they regarded it as being widely diversified in comparison to other Pfandfbrief banks' loan portfolios. They also considered MünchenerHyp's risk profile to be good as our mortgage lending value ratios are moderate in comparison to the figure noted for the overall market. Furthermore, Moody's also viewed our close collaboration with the Cooperative Financial Network as a favourable factor. In contrast, Moody's commented critically on the Bank's current profitability as well as its ability to fulfil future Basel III equity capital requirements.

The complete Moody's document, as well as additional information regarding our ratings, is available at MünchenerHyp's website.

OVERALL LEGAL CONDITIONS

BASEL III

Following the successful introduction of the Internal Ratings Based Approach (IRBA) for the first segments in 2011, additional rating systems were prepared for regulatory approval in 2012. We anticipate that widened IRBA coverage will further ease our equity capital requirements. This makes the IRBA project an important measure that MünchenerHyp will use to define its upcoming equity capital requirements.

Our next step will be to obtain acceptance of different commercial rating systems in the second quarter of 2013 based on the so-called "reference point" pursuant to the terms of Art. 65 of the German Solvency Regulation (SolvV). Based on current plans, the complete implementation of IRBA should be finalised by no later than the end of 2016. By this date we plan to have reached the so-called "exit threshold" pursuant to Art. 66 SolvV.

We voluntarily participate in the Basel Committee on Banking Supervision (BCBS) monitoring of Basel III, whereby key figures like the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are calculated several times a year. The insights gained from our participation make it possible to assess the effects of the future binding minimum standards before they become legal requirements and, if necessary, make adjustments as needed. Münchener Hypothekenbank's voluntarily participation enables it to continually monitor all important key figures at this time and have them available to steer the Bank's activities. Calculations made to date reveal that the LCR, which must be observed starting in 2015, is already being met at this time and will be fulfilled for numerous years. We are currently barely missing the NSFR figure, which becomes valid in 2018 and has thus far been foreseen as only an observation ratio. However, in this case we anticipate that the long observation phase will make adjustments possible similar to those made to the LCR.

The introduction of a Leverage Ratio is also foreseen within the framework of Basel III. This figure sets the maximum limit for a bank's total lending volume in relationship to its equity capital. The concrete configuration of the Leverage Ratio is still under discussion.

We are attentively following the discussions and publications of various bodies regarding Basel III. It is difficult to prepare to meet future requirements at this time as widely varying positions are still held by the different institutions involved in the current discussions at national, European and international levels. For this reason we want to prepare to the greatest extent possible, although we will wait to implement specifically target measures until the final version of the requirements has been approved. As the example of LCR shows, significant changes can still occur at the last minute. We anticipate that the regulators will give us sufficient time to implement the final measures.

MINIMUM REQUIREMENTS FOR RISK MANAGEMENT (MARISK)

The requirements for the structure of a risk management programme are defined by the banking supervisory authorities in the MaRisk rules. We immediately began to analyse the terms of MaRisk 5.0 after they were published on December 15, 2012. The resulting required actions will take place by the December 31, 2013 deadline. We have started a corresponding project.

In a letter to the banking sector the Federal Financial Supervisory Authority (BaFin) pointed out that the regulatory text alone, especially the provisions concerning the new subjects of "Compliance" and "Netting out of liquidity", is not unequivocal, and that questions concerning the interpretation of the text should be discussed by the MaRisk panel of experts during the first half of 2013. We will participate in these discussions and, in agreement with the Supervisory Authority, adjust our methods and processes as needed.

APPOINTMENTS

The 2012 Delegates Meeting elected the following persons as new members of the Supervisory Board: Heinz Fohrer, member of the Board of Management of Volksbank Esslingen eG, as well as Kai Schubert, member of the Board of Management of Raiffeisenbank Südstormarn Mölln eG.

They succeeded Wilfried Mocken and Hans-Joachim Tonnellier, who stepped down from the Supervisory Board at the conclusion of the Delegates Meeting. Wilfried Mocken's mandate ended as scheduled. He had served as a member of the Supervisory Board for a total of 20 years. Hans-Joachim Tonnellier, who had been the Chairman of the Frankfurter Volksbank eG's Board of Management for many years, resigned his mandate upon his retirement from the bank's Board of Management due to reasons of age. The Chairman of the Supervisory Board, Konrad Irtel, honoured the two men for their many years of dedicated service and achievements on behalf of MünchenerHyp and thanked them for their beneficial efforts on behalf of the Bank.

EMPLOYEES

The primary objective of MünchenerHyp's personnel strategy is to support the further growth of our Bank and to enable us to successfully cope with the rising professional and regulatory demands. This has resulted in substantial numbers of new hires in recent years. Therefore, the number of employees has increased by an annual average of 5 percent since 2005.

The recruitment of new employees was once again the primary focus of our personnel work last year. We used numerous measures and activities to enhance, in particular, MünchenerHyp's profile as an attractive employer. Despite the fact that there is almost full employment in the greater Munich area, we were still able to recruit numerous qualified people as new employees. We received more than 1,200 job applications.

Advanced qualifying training programmes played a key role in our personnel development measures. On one hand we offered internal training activities such as specialised project management seminars. These events were generally well received. On the other hand we worked together with external providers of educational services to offer our employees a wide spectrum of educational and advanced educational courses. These ranged from one day specialised seminars covering the latest developments in the fields of sales and IT, as well as recent legal and regulatory developments to long-term extra occupational study courses and part-time study courses leading to Bachelor's and Master's degrees. Beyond these opportunities special personalised career development plans were prepared to define individual needs. The introduction of this programme will be examined this year.

The average number of persons employed at MünchenerHyp during the year was 410[1], plus 13 apprenticed trainees. Despite the numerous new hires, the average number of years of employment per employee only declined slightly and remained at about 11 years. Thus many employment anniversaries were again celebrated in 2012 with 13 employees looking back at ten successful years at MünchenerHyp, while 9 even marked their 25th year with the bank.

1) Number of employees pursuant to Art. 267 (5) German Commercial Code (HGB): excludes apprenticed trainees, employees participating in parental leave, partial retirement (non-working phase), early retirement, and employees suspended with pay.

MANAGEMENT REPORT 2012

EARNINGS, FINANCIAL AND ASSET SITUATION

If you want to give a lot to your customer, you have to take something: time.

When it comes to making property investments it's essential that the financing partner fits in perfectly. This requires someone who fully understands the investor, his business and his requirements. This is why every MünchenerHyp customer has a personal partner at his side who will take the time needed to prepare the ideal, individualised, financing solution and accompany the transaction through to closing – and especially in the case of complex financing deals.

Christian Winges, Commercial Real Estate Finance –
Direct Clients Germany Centre, Münchener Hypothekenbank eG

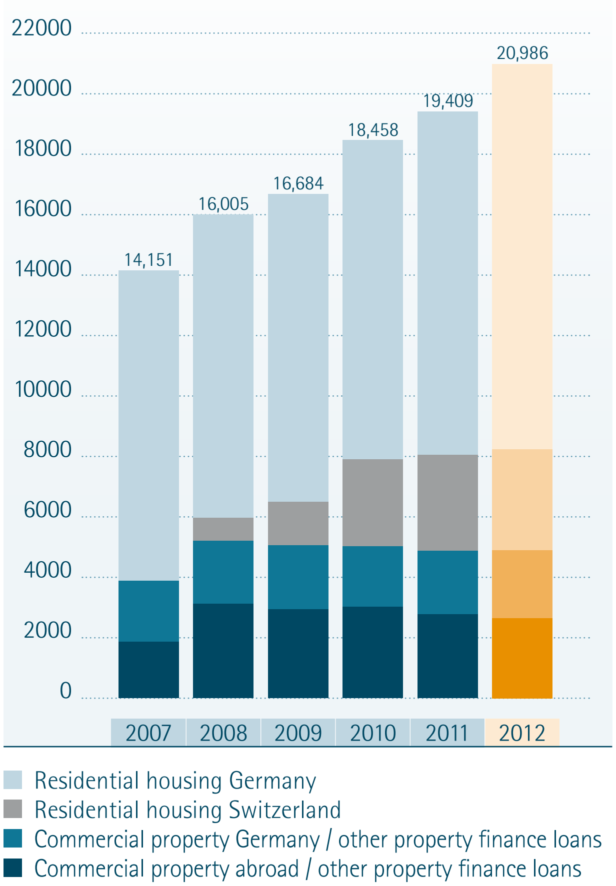
EARNINGS, FINANCIAL AND ASSET SITUATION

BALANCE SHEET STRUCTURE

As of December 31, 2012 total assets amounted to € 36.6 billion, following € 37.3 billion recorded on the same year-ago date.

We were able to once again expand our portfolio of mortgage loans as we recorded an increase of € 1.6 billion. This gain meant that our total volume exceeded the € 20 billion mark for the first time during the course of the year. As of December 31, 2012 our total portfolio of property loans amounted to € 21.0 billion, of which the vast majority was accounted for by domestic loans. Loans made outside of Germany remained at last year's level. This segment now has a volume of € 5.9 billion (previous year € 6.0 billion) and represents 29 percent (previous year 31 percent) of the total mortgage loan portfolio; 54 percent of this figure were for loans made in Switzerland, 27 percent in the USA and 19 percent in countries within the European Union; € 16.7 billion of the mortgage loan portfolio serves as cover for the Pfandbriefe we issue.

PORTFOLIO DEVELOPMENT MÜNCHENERHYP 2007 – 2012
in € million



Our portfolio of loans and securities arising from our business with the public sector and banks declined in accordance with our business and risk strategy from € 13.3 billion to € 12.1 billion. This figure contains € 5.7 billion in securities and promissory notes of which almost all are carried as fixed assets in our accounts. At the end of 2012 our portfolio of mortgage backed securities had contracted to € 29 million (previous year € 69 million). As we are no longer investing in mortgage backed securities the portfolio will shrink further commensurate to the maturity profile of the securities.

At the end of 2012 our portfolio of securities had unrealised losses of € 244 million (previous year € 406 million), of which € 202 million (previous year € 290 million) corresponded to loans made to peripheral eurozone countries (excluding Greece) and banks located in these countries. The total volume of these loans at the end of the year amounted to € 1.3 billion (previous year € 1.5 billion). We no longer held any bonds issued by Greece or Greek companies.

Following a detailed examination of all securities we concluded that the unrealised losses will not lead to any permanent reductions in value. We are carrying these bonds in our books with the intention of holding them as long-term investments. Therefore, write-downs to a lower applicable value were not necessary.

We continue to anticipate that the EU and its member states, as well as the ECB, will do all that is necessary to hinder a further escalation of the sovereign debt crisis.

Our portfolio of long-term refinancing funds decreased by € 0.7 billion to € 30.3 billion. Total refinancing funds – including money market – declined from € 35.6 billion in the previous year to € 34.8 billion as of December 31, 2012. This figure consisted of € 15.4 billion in Mortgage Pfandbriefe, € 7.7 billion in Public Pfandbriefe and € 7.7 billion in uncovered promissory notes.

Paid up capital rose by € 1.9 million to € 160.8 million. Total liable equity also rose slightly to € 1,161.1 million (previous year € 1,157.3 million).

"Our portfolio of mortgage loans increased further due to our favourable new business results. Total volume exceeded the € 20 billion mark for the first time."

Core capital amounted to € 776.5 million (previous year € 773.7 million). The solvency figure for core capital on December 31, 2012 was 9.1 percent (previous year 8.9 percent) and 13.5 percent for total capital (previous year 13.3 percent).

DEVELOPMENT OF EARNINGS

Net interest income[2] improved by 9.4 percent, or € 11.1 million, to € 129.0 million. This figure was supported by the very good new business results in the residential property financing area. The earnings figure also contains income derived from the early termination of interest rate swaps.

Driven by higher volumes paid out to referring partners in the residential property area of business – due to the higher volume of new business – the amount of commissions paid rose by 27 percent to € 60.3 million. The slight rise in commission income amounted to a net commission balance[3] of minus € 50.6 million following a minus of € 38.3 million recorded in the previous year.

This resulted in net interest less commission income[4] of € 78.4 million. Despite the additional burdens arising from commission payments, we were able maintain the level at the previous year's level.

Total administrative expenses rose by 1.5 million to € 60.3 million. Personnel expenses increased by € 2.9 million to € 32.5 million as our existing capacities could not cope with the additional volumes of new business and it became necessary to hire new personnel. This increase was partially offset by the decline recorded for remaining administrative expenses, which fell by € 1.5 million to € 27.8 million. Above all, we were able to reduce the high costs for projects from their previous year's level due to the completion of important projects in 2011, especially those for the introduction and approval of IRBA and the release change for our central IT system.

Depreciation and write-downs of intangible and tangible assets amounted to € 5.2 million, or € 0.6 million more than the same year-ago figure.

Total administrative expenses[5] amounted to € 65.5 million in contrast to the € 63.5 million recorded in the previous year. Excluding interest expenses arising from silent participations, the cost-income ratio was 62 percent.

The net sum of other operating expenses and income totalled minus € 2.3 million, while results from operations before provisions for risk[6] amounted to € 10.6 million.

The item "Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses," totalled minus € 14.0 million. This figure includes an addition to reserves pursuant to Art. 340f of the German Commercial Code. Our lending risk situation remains satisfactory. As a result we just needed to make a very moderate addition to provisions for possible loan losses. This figure (including general valuation

2) Net sum of interest expenses, interest income and current income
3) Net sum of commission costs less commission income
4) Net interest balance and net commission balance
5) General administrative expenses and depreciation, and adjustments to value of intangible and tangible assets
6) Net sum of Income Statement expense items 1. 2. 3. 4. 5. 6. and income items 1. 2. 3. 4. 7.

adjustments and direct write-downs) amounted to a minus € 3.9 million (previous year plus € 12.6 million). Maturing securities and the sale of securities held as current assets, as well as the sale of promissory note loans, resulted in expenses of € 5.0 million. The net sum of write-downs and write-ups to securities held as current assets was a minus € 1.2 million.

The item "Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets" amounted to a positive figure of € 13.2 million and included the remaining write-down of Greek bonds that we divested ourselves from. This figure is primarily the result of proceeds from the sale of securities held as assets.

Prior to the transfer of funds to the Fund for General Banking Risks pursuant to Art. 340g of the German Commercial Code, results from operations after making provisions for risk amounted to € 9.8 million. After transferring € 2.5 million to the Fund for General Banking Risks, and a tax expense item of € 1.9 million, annual net income amounted to about € 5.4 million.

PROPOSED ALLOCATION OF DISTRIBUTABLE INCOME

Net income for the year amounted to € 5,383,035.94.

A dividend distribution of 3.25 percent will be proposed at the delegates' meeting. The net income for the year – including the profit brought forward from the previous year (€ 50,127.60 Euro) – amounting to € 5,433,253.54 should therefore be allocated as follows:

3.25 percent dividend	5,232,829.00 Euro
Carried forward to new year	200,424.54 Euro

REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

No events of material importance took place after the balance sheet date.

MANAGEMENT REPORT 2012

RISK REPORT

Trust is a particularly valued commodity when there is turmoil in the capital markets. It is during these times that investors examine the quality of an issuer and their paper far more closely. We are committed to retaining and reinforcing investors' trust in Münchenerhyp as well as in the quality of our Pfandbriefe. Last year this trust was reflected in a very special way when we were honoured with the "Euro Deal of the Year" award. This is a particularly gratifying award to receive because the winner is chosen based on the votes of market players, instead of a jury.

Peter Hofmann, Authorised Signatory, Head of Trading Activities, KC Risk AG

RISK REPORT

The ability to monitor and keep risks under control at all times is essential for the successful management of business development at MünchenerHyp. For this reason risk management plays a very important role in the overall management of the Bank.

The business and risk strategy defines the parameters of the Bank's business activities. MünchenerHyp's entire Board of Management is responsible for this strategy, which is regularly reviewed regarding the attainment of goals and updated as necessary and then submitted to the Supervisory Board.

As part of its supervisory duties, the Supervisory Board is advised about the Bank's risk profile no less than on a quarterly basis and additionally as required. This takes place using the reports concerning the Bank's risk-taking capabilities, lending risks, as well as the risk report prepared in accordance with the "Minimum Requirements for Risk Management" (MaRisk).

The basis of risk management consists of, on one hand, the analysis and presentation of existing risks, and, on the other, comparing these risks with the risk cover potential (ability to bear risk). Appropriate monitoring processes are in place involving internal process-dependent supervision to ensure that this balance is maintained. Our internal audit department, as a process-independent unit, has the monitoring function within the Bank. The analysis and presentation of existing risks primarily distinguishes between counterparty, market price, credit spread, liquidity and operational risks. Additional risks such as placement risks, reputational risk, business risk etc., are viewed as parts of the abovementioned risks and are taken into consideration at the appropriate place in the individual calculations.

COUNTERPARTY RISK

Counterparty risk (lending risk) is of major importance for MünchenerHyp. Counterparty risk refers to the danger that counterparties may delay their payment obligations to the Bank, only make partial payments or even default.

The Credit Handbook presents the competencies and procedural requirements of entities involved in lending, as well as the Bank's credit products. The business and risk strategy contains additional explanations pertaining to sub-strategies regarding target customers and target markets, as well as definitions for measuring and controlling credit risks at the level of individual deals and the portfolio level. A procedure based on the credit value-at-risk (Credit-VaR) is used to determine lending limits. The individual contribution of every borrower (aggregate debtor or borrower unit as appropriate) – the Marginal Credit-VaR – to the Bank's total credit risk is limited. Furthermore, limits are also set for each country to ensure adequate regional diversification.

We always take care to ensure that the vast majority of our mortgage business activities consist of top tier mortgages with moderate mortgage lending value ratios. Currently, the breakdown based on mortgage lending value is as follows:

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)				
MORTGAGE LENDING VALUE	31 Dec. 2012		31 Dec. 2011	
	€	relative	€	relative
Up to 60 %	12,338,263,248.51	54.8%	11,712,013,807.23	56.3%
60.01 % to 70 %	3,532,158,613.42	15.7%	3,042,638,814.13	14.6%
70.01 % to 80 %	4,025,515,646.88	17.9%	3,157,970,545.63	15.2%
80.01 % to 90 %	1,607,375,621.07	7.1%	1,591,093,816.80	7.7%
90.01 % to 100 %	551,803,332.13	2.5%	536,215,753.48	2.6%
over 100 %	386,307,369.07	1.7%	627,630,798.59	3.0%
without	68,167,303.97	0.3%	127,054,111.58	0.6%
TOTAL	**22,509,591,135.05**	**100.0%**	**20,794,617,647**	**100.0%**

The regional breakdowns within Germany and abroad are as follows:

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)				
REGION	31 Dec. 2012		31 Dec. 2011	
	€	relative	€	relative
Baden-Wuerttemberg	1,896,189,042.33	8.4%	1,769,177,830.06	8.5%
Bavaria	4,057,843,875.25	18.0%	3,568,774,128.00	17.2%
Berlin	1,040,078,854.14	4.6%	858,205,340.26	4.1%
Brandenburg	304,289,719.63	1.4%	207,954,402.52	1.0%
Bremen	42,616,819.80	0.2%	37,040,349.46	0.2%
Hamburg	624,497,969.11	2.8%	556,686,653.35	2.7%
Hesse	1,301,855,724.15	5.8%	1,216,602,997.37	5.9%
Mecklenburg-Lower Pomerania	156,639,009.26	0.7%	133,532,265.31	0.6%
Lower Saxony	1,253,664,748.91	5.6%	1,085,762,958.63	5.2%
North Rhine-Westphalia	3,070,085,694.89	13.6%	2,730,597,072.09	13.1%
Rhineland-Palatinate	535,751,108.18	2.4%	446,118,073.33	2.1%
Saarland	56,456,790.62	0.3%	38,795,318.08	0.2%
Saxony	556,923,290.69	2.5%	551,074,792.13	2.7%
Saxony-Anhalt	140,292,967.66	0.6%	122,604,073.04	0.6%
Schleswig-Holstein	1,244,760,646.65	5.5%	1,104,092,310.70	5.3%
Thuringia	153,506,127.70	0.7%	150,598,896.45	0.7%
TOTAL DOMESTIC	**16,435,452,388.97**	**73.0%**	**14,577,617,460.78**	**70.1%**

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)				
SOVEREIGN STATE	31 Dec. 2012		31 Dec. 2011	
	€	relative	€	relative
Austria	48,234,102.30	0.2%	50,256,385.41	0.2%
France	333,525,403.97	1.5%	269,243,746.63	1.3%
UK	516,328,353.25	2.3%	371,790,449.67	1.8%
Spain	89,728,936.12	0.4%	97,828,714.99	0.5%
Luxembourg	52,279,856.25	0.2%	64,619,180.61	0.3%
Sweden	5,323,584.25	0.0%	5,126,458.71	0.0%
Switzerland	3,225,676,920.69	14.3%	3,023,614,478.29	14.5%
The Netherlands	192,105,590.27	0.9%	193,011,306.37	0.9%
Belgium	6,440,814.73	0.0%	0.00	0.0%
USA	1,604,495,184.25	7.1%	2,141,509,465.98	10.3%
TOTAL FOREIGN	**6,074,138,746.08**	**27.0%**	**6,217,000,186.66**	**29.9%**
TOTAL DOMESTIC AND FOREIGN	**22,509,591,135.05**	**100.0%**	**20,794,617,647.44**	**100.0%**

The management of lending risks begins with the selection of the target business when drafting the terms of the loan, using risk-cost functions that are validated by a continuous back-testing process. A variety of rating or scoring procedures are used, depending on the type and risk content of the transaction.

In addition, a computer-based early warning system is used to identify risks on a timely basis.

A widely diversified property finance portfolio with an emphasis on residential property financing, combined with our credit approval procedures, which have proven their value over many years, ensures a portfolio with a manageable level of credit risk. Our lending business with public sector borrowers and banks is primarily focused on central and regional governments, regional and local authorities, and west European banks. Regional emphasis is on Germany or Western Europe. Our goal is to gradually reduce our portfolio of bank loans. Very creditworthy bonds issued by sovereign states will continue to be required as they can also converted into cash during stress situations thereby making it possible to fulfil the new liquidity requirements within the framework of Basel III.

Depending on their ratings, mortgage loans are examined to determine any non-performance or other negative factors which could trigger an individual adjustment to value. Furthermore, an additional system to monitor individual adjustment to value is used by the Bank's work-out management group, especially for non-retail market business.

The Bank has created a general adjustment-to-value reserve as a precautionary measure to cover latent lending risks. This general adjustment to value is calculated per the terms contained in a Federal Ministry of Finance notice dated January 10, 1994.

The key default rate is calculated using 60 percent of the average volume of defaults that took place over the last five years vis-a-vis the average volume of loans-at-risk made over this period. The general adjustment to value is the result of multiplying the default rate by the volume of loans-at-risk on the balance sheet date.

The individual and general adjustments to value developed as follows in 2012:

TOTAL LENDING BUSINESS						
in million euros	Opening balance	Addition	Reversals	Utilisation	Changes related to exchange rate shifts and other factors	Closing balance
individual adjustment to value	61.6	10.3	-9.4	-13.9	-0.1	48.5
general adjustment to value	12.9	0.6	0.0	0.0	0.0	13.5

Individual adjustments to value taken remained at a low level for our residential property financing business due to the great stability of the residential property market. In the past our business in the USA, as well as in other key markets, generally focused on loans secured by top tier mortgages and with moderate mortgage lending value ratios. In the interim, this area of business has been defined as being discontinued pursuant to the terms of Art. 69 of the German Solvency Regulation (SolvV). This means that MünchenerHyp will no longer enter into any new business deals in the USA. Accordingly, the existing portfolio of loans will continuously shrink, as it did in 2012, too. Nevertheless, we will continue to monitor further developments with undiminished intensity and due diligence and accompany them with appropriate measures.

Business relationships with financial institutions are primarily based on master agreements that permit settlement of claims and liabilities (netting) vis-a-vis the other institution. In general, we also enter into collateral agreements.

MARKET PRICE RISKS

Market price risks consist of the risks to the value of positions due to changes in market parameters including interest rates, volatility and exchange rates among others. These risks are quantified as potential losses of present value using a present value model that differentiates between risks related to interest rates, options and currency rates.

Interest rate risks are divided into two categories: general and specific interest rate risks. General interest rate risks refers to risk arising from changes in the market value of investments or liabilities that are dependent on the general level of interest rates, and which will react negatively if interest rates change.

Specific interest rate risks are also referred to as (credit) spread risks, and are included under market price risks. Credit Spread is the term used to describe the difference between the yield generated by a risk-less bond and a risky bond. Spread risks take into account the danger that this difference in interest rates can change although creditworthiness ratings remain unchanged. The reasons for altered yield premiums are:

>> varying opinions in the market,
>> the creditworthiness of the issuer actually changes although the issuer's credit rating does not yet reflect this change,
>> macro-economic factors that influence creditworthiness categories.

This risk remained in the focus of attention in 2012 due to the debt and confidence crisis in certain European countries. The valuation of our securities portfolio was affected by the sharply widening spreads that were seen at times during the year. However, spreads narrowed substantially by the end of the year. The Bank's portfolio of bonds issued by eurozone countries that were more heavily affected by the sovereign debt crisis, or in bonds issued by banks domiciled in these countries, remained at a moderate level. The Bank completely divested its Greek holdings in the previous year. Furthermore, the Bank has stopped making new investments in countries locates on the periphery of eurozone since 2011.

Figures shown under "Sovereign states" also include claims against non-government debtors, which are additionally secured by direct and immediate guarantees issued by the respective state, in addition to government bonds or other public-sector bonds.

We do not believe that our investments are currently in danger of default. We are of the opinion that the measures taken by individual states, as well as protective mechanisms enacted at EU levels, are appropriate to ensure the repayment of the affected liabilities. In the case of bank bonds, almost all of these bonds are covered bonds so that in this instance it may also be anticipated that they will be repaid as contractually agreed.

Among other risks, options involve the following risks: volatility risk (Vega; risk that the value of a derivative instrument will change due to increasing or decreasing volatility), time risk (Theta; time risk measures how passage of time impacts on the value of a derivative instrument when part of the value is determined by the remaining time left until a contract expires), Rho risk (risk associated with a change in the value of the option due to a change in a risk-less rate of interest), and Gamma risk (risk of a change in the option's Delta due to a change in the price of the underlying security; the option's Delta therefore describes the change in the value of the option due to the change in the value of the underlying security). The volume of risks assumed is moderate as options are generally not employed in the capital market business for speculative purposes. Option positions are generally entered into on an implied basis due to the debtors' option rights (for example the right to give legal notice of termination per Art. 489 of the German Civil Code – BGB) and are then hedged as needed. These risks are attentively monitored in the daily risk report and are limited.

Currency risk is the term used for risks arising from negative changes in the market value of investments or liabilities that are dependent on currency exchange rates, and which will react negatively due to changes in currency exchange rates. MünchenerHyp's transactions outside Germany are hedged against currency risks to the greatest extent possible and only margins involved in payment of interest can be unhedged.

Stock risks are not relevant for MünchenerHyp as our total investments in this asset class amount to less than € 5 million.

Market price risks are controlled by determining the present value of all of MünchenerHyp's transaction on a daily basis. Transactions whose values are established by discounting cash flows are evaluated by the Bank's SAP inventory control system. A dedicated system is used to set the value of structured transactions – mainly interest rate capping agreements, swaptions and legal

	SOVEREIGN STATES		BANKS				TOTAL	
Nominal value in € million			covered		uncovered			
	31 Dec. 12	31 Dec. 11	31 Dec. 12	31 Dec. 11	31 Dec. 12	31 Dec. 11	31 Dec. 12	31 Dec. 11
Portugal	70	95	147	197	20	20	237	312
Italy	96	97	60	60	0	40	156	197
Ireland	30	30	60	60	0	0	90	90
Greece	0	108	0	0	0	0	0	108
Spain	122	122	700	700	5*	5*	827	827
Total	**318**	**452**	**967**	**1.017**	**25**	**65**	**1,310**	**1,534**

***With explicit state guarantee**

and individually agreed termination rights. The backbone of our interest risk control operations is the Delta vector, which is calculated on a daily basis. This figure is determined by the present value of the change incurred per range of maturities when the mid-swap curve is affected by one basis point. MünchenerHyp uses the value-at-risk figure to identify and limit market risks. Linear as well as non-linear risks are taken into consideration using a Delta-Gamma approach when calculating value at risk. Additionally different stress scenarios are used here to measure the effect of extreme shifts in risk factors and the effects of other risk categories.

The current (daily) stress scenarios are:

>> Legal supervisory requirements: The current interest rate curve is completely parallel shifted up and down by 200 base points for every separate currency used. The worst result of the two shifts is used for calculation purposes.
>> Parallel shifts: The current interest rate curve is completely shifted up and down by 100 base points across all currencies. The worst result of the two shifts is used for calculation purposes.
>> Steepening/flattening: The current interest rate curve is rotated in both directions around the 5-year rate as the fixed point.
>> Historical simulations:
- September 11, 2001 terror attack in New York: Changes seen in market prices between September 10, 2001 and September 24, 2001 – the immediate market reaction to the attack – are played out using the current levels.
- The 2008 crisis in the financial markets: Changes in interest rates seen between September 12, 2008 (last banking day before the collapse of Lehman Brothers) and October 10, 2008 are played out using the current levels.

The maximum Value at Risk (VaR) of the Bank's books (interest and currencies) at a confidence level of 99.5 percent at a ten-day holding period was just under € 24 million in 2012. The average figure was about € 14 million.

Due to the fact that MünchenerHyp is a trading book institution (only for futures) we use a special application to control potential risks in this area, also on an intraday basis. Furthermore, these trades are also integrated into our normal reporting. No futures deals were conducted in 2012.

MünchenerHyp controls its credit spread risks by calculating the present value of its asset-related capital market transactions on a daily basis. Based on the cash flow data generated by operations system, the Bank uses its own applications to calculate the Credit Spread VaR, the Credit Spread sensitivities and various credit spread stress scenarios.

MünchenerHyp uses the value-at-risk (VaR) figure to identify and limit credit spread risks. The VaR figure is calculated based on historical simulation.

The current (daily) credit spread stress scenarios are:

>> Parallel shifts: All credit spreads are shifted up and down by 100 base points. The worst result of the two shifts is used for calculation purposes.
>> Historical simulation of the collapse of the investment bank Lehman Brothers: the scenario assumes an immediate change in spreads based on the changes that occurred one working day before the collapse of Lehman Brothers until four weeks after this date.
>> Worst Case Scenario: The maximum widening of spreads for all classes of securities in the Bank's portfolio since January 2, 2007 is calculated. The average value of these calculations is used as the parallel shift to the respective class of security.
>> Flight into government bonds: The scenario simulates a significantly visible aversion to risk that was previously seen in the markets. Spreads for riskier classes of paper widen while spreads for safer government bonds narrow.
>> Euro-crisis: The scenario replicates the development of spreads during the Euro-crisis that took place from October 1, 2010 and November 8, 2011. During the period the spreads of less creditworthy government bonds, in particular, rose sharply.
>> Worst Case Scenario up to the collapse of Lehman Brothers: this scenario is derived from the Worst Case Scenario. The time period used here starts on January 2, 2007 and ends one banking work day before the collapse of Lehman Brothers.

The maximum credit spread VaR for the entire portfolio using a 99.5 percent level of confidence and holding period of one year was € 436 million in 2012. The average figure was about € 418 million.

The maximum credit spread VaR for current assets (only third-party securities) using a 95 percent level of confidence and holding period of one year was € 3 million in 2012. The average figure was about € 2 million.

LIQUIDITY RISK

The liquidity risk includes the following risks:

>> inability to fulfil payment obligations when they come due (liquidity risk in the narrow sense),
>> inability to procure sufficient liquidity when needed at anticipated conditions (refinancing risk),
>> inability to terminate, extend or close out a transaction, or only be able to do so at a loss, due to insufficient market depth or market turbulence (market liquidity risk).

MünchenerHyp differentiates between ability to ensure short-term solvency and mid-term structural liquidity planning.

SHORT-TERM ASSURANCE OF SOLVENCY

The purpose of short-term assurance of solvency is to ensure that the Bank is fully able to meet its required payment obligations (payment willingness) as agreed on a daily basis, even during stress situations. In meeting this obligation the Bank fully implements all of the applicable legal supervisory requirements regarding liquidity reserves that must be held by banks. In doing so, MünchenerHyp has categorised itself as a capital market oriented institution per the terms of MaRisk, and therefore also fulfils requirements pursuant to BTR 3.2.

MaRisk distinguishes between four different scenarios, which were implemented accordingly:

1) Base Case: corresponds to the bank's control case.
2) Bank stress: The institutions' reputation deteriorates, for example, due to high balance sheet losses.
3) Market stress: Short-lived event that affects a segment of the financial markets. Examples of this are the September 11, 2001 terror attack, or the financial market/sovereign debt crisis.
4) Combined stress: Simultaneous occurrence of bank and market stress. MaRisk demands that an institution must be able to meet the liquidity requirements arising from this scenario for at least 30 days.

Varying model assumptions for all important cash flows were derived for each scenario; for example accessing our liquidity lines or guarantees (Aval), the temporary utilisation of previously made lending commitments, or the development of collateral. Beyond this, all securities were divided into different liquidity categories. Based on this, we determined the volume that would be sold, over which time period, or could be used for a repo transaction to generate additional liquidity to meet the requirements for each individual scenario. Legal restrictions, like the Pfandbrief Act's 180 day rule, were always observed in all cases. The result is a day-certain presentation of the available liquidity for a one year horizon in three currencies: euro, US dollar, and Swiss francs.

MID-TERM STRUCTURAL LIQUIDITY PLANNING

The purpose of structural liquidity planning is to ensure mid-term liquidity and involves the following key liquidity figures as components for determining results across all due dates:

>> accumulated total cash flow requirements,
>> available potential covered funding included planned new business and prolongations in line with the surplus cover requirements set by the rating agency Moody's,
>> uncovered refinancing needs,
>> additional detailed data for planning and control activities.

Callable balance sheet items are taken into account for scenario analysis for the purpose of liquidity preview as required: either by next redemption date, by legal termination date, or weighted with the probability of their being redeemed.

Additional stress scenarios are conducted based on structural liquidity planning. An integrated stress test concept was developed to achieve the best possible structured and flexible measure of risk:

- >> Various liquidity risk factors were identified for the Münchener Hypothekenbank. These factors are focused on either market or reputational effects.
- >> A total of five stress tests were defined on the basis of these risk factors.
  1) Reputation scenario (high stress)
  2) Market scenario (high stress)
  3) Market and reputations scenario (light stress)
  4) Market and reputations scenario (high stress)
  5) Worst Case scenario
- >> Complementary to the stress tests corresponding measures were defined for simulation purposes to reduce the liquidity risks in the respective cases.

The limitation of liquidity risks takes place using the structured liquidity forecast and the stress scenarios based on the Bank's uncovered refinancing needs.

In order to reduce refinancing risks, Münchener Hypothekenbank strives to refinance loans with concordant amounts and maturity dates and continuously checks if its relevant refinancing sources (primarily those within the Cooperative Financial Network) remain available. In order to limit market liquidity risks in its lending business with public-sector borrowers and banks, MünchenerHyp primarily acquires securities that are acceptable as collateral by the European Central Bank (ECB), and which can be used for open market business at any time. Investments in less liquid bonds, like Mortgage Backed Securities (MBS), are no longer being made. The portfolio of 3 securities was valued at € 29 million as of December 31, 2012 (previous year € 69 million) and consisted solely of Commercial Mortgage Backed Securities (CMBS) and Residential Mortgage Backed Securities (RMBS), backed by property in Europe. All of the MBS have investmentgrade ratings issued by the major rating agencies. As of December 31, 2012 the weighted anticipated time-to-maturity of the MBS in our portfolio was about 3.25 years.

OPERATIONAL RISKS

Operational risks refer to possible losses caused by personal misconduct, weaknesses in procedural or project management, technical failure or negative outside influences. Personal misconduct also includes unlawful actions, improper sales practices, unauthorised actions and transaction errors. The major portion of damages incurred in 2012 stemmed from losses related to the disposal of too highly mortgaged properties.

We minimise our operational risks by qualifying our employees, using transparent processes, automating standard procedures, and by having fixed working instructions, comprehensive functional testing of the IT-systems, as well as appropriate emergency plans and preventive measures. Insurable risks are covered by insurance to the normal extent required by banks.

ABILITY TO BEAR RISKS

The professional concepts and models used to calculate the abilities to bear risks are continuously further developed in accordance with legal supervisory requirements. MünchenerHyp calculates its ability to bear risks based on the Going-Concern as well as the so-called Insolvency Case scenarios. The Going-Concern scenario is the relevant method used for control purposes. This scenario is used to determine if the bank still would have an adequate equity capital ratio exceeding the legally required minimums after the occurrence of risks contained in all of the risk categories. The only cover potential that may be used to cover risks in this scenario is the freely available regulatory equity capital.

The scenario deducts market risks, counterparty risks, operational risks, spread and migration risks, participation risks, as well as model risks containing other non-explicitly defined risks. Risks on cover potential for risks are accounted for on a conservative basis and without taking diversification effects between the risk categories into consideration.

MünchenerHyp's related risk-bearing capacity was continuously given throughout the entire 2012 business year.

The Gone-Concern, or insolvency scenario, was additionally introduced in 2012 to establish a method of controlling in accordance with the BaFin paper, "Supervisory assessment of banks' internal concepts concerning their ability to bear risks". This method of controlling takes all unrealised losses into consideration, as they, naturally, do not have an impact in the Going-Concern scenario. We are still in discussions with the banking supervisory authority regarding the method of controlling.

USE OF FINANCE INSTRUMENTS FOR HEDGING PURPOSES

We engage in hedging activities – interest rate and currency derivatives – in order to further reduce our risks and to hedge our business activities. Credit derivatives are not employed. In the past, we have only occasionally insured individual loans or portfolios against counterparty risk. At the level of individual transactions, we use asset swaps as micro-hedges. Structured fundamental transactions such as callable securities are hedged accordingly with structured asset swaps. (Interest)-currency swaps are used to hedge exchange rate risks. At the portfolio level, the main hedging instruments we use are interest swaps and swaptions. Bermudan options on interest swaps (swaptions) or interest options (caps and floors) are used as hedges for embedded legal termination rights or arrangements to limit interest rates.

ACCOUNTING-BASED INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

The accounting-based internal control system is documented in organisational guidelines, descriptions of work processes, financial reporting handbooks, and numerous operating instructions. It contains organisational security measures, and ongoing automatical measures and controls that are integrated in the work processes. These are, in particular, separation of functions, the double-check principle, access limitations, payment guidelines, new product process and balance confirmations. Process independent measures are, above all, carried out by the internal audit department.

The risk management methods described in the risk report make qualitative and quantitative statements regarding MünchenerHyp's economic situation, including, for example, the development of performance. This evaluation involves aspects of all risk categories.

A close coordination procedure exists between the risk controlling and accounting departments at MünchenerHyp. This coordination procedure is supervised by the entire Board of Management.

The results from the risk management system form the basis for the multi-year planning calculations, year-end projections, and agreement procedures for approving the realised key figures generated by the Bank's accounting process.

MANAGEMENT REPORT 2012

CORPORATE PLANNING AND OUTLOOK

I believe that everyone should take on responsibility.

We have a long-term oriented business policy. Ecological and social responsibility is just as important to us as trustworthy business relationships. And as a cooperative, the principle of responsibility is already anchored in our legal foundation. So it is no wonder that many customers and employees are also members of the MünchenerHyp cooperative.

Karin Gorgas, Deputy Chairman of the Works Council, Legal Department and member of the Münchener Hypothekenbank eG

CORPORATE PLANNING AND OUTLOOK

CORPORATE PLANNING

MünchenerHyp is continuing a growth strategy that is focused on residential and commercial property financing. Thereby we assume that the overall conditions for refinancing and property financing will remain largely unchanged. The overarching strategic goal will remain the sustainable improvement of our earning power.

Adequate equity-capital resources are of particular importance in this respect. Despite the easing effect on our equity capital requirements stemming from the approval as an IRBA bank last year, future increases in equity requirements are already casting a shadow. MünchenerHyp is correspondingly striving to achieve constant capital ratios, even as the volume of its assets rise, by reinforcing its equity capital. In this context, MünchenerHyp plans to take measures to increase its paid up capital.

The annual adjustment of our business and risk strategy provides the formal planning framework for this. Our integrated process plays a key role in the planning and management of our operations. This process synchronises our sales goals, supervision of the decentral and central components of our administrative expenses – including our project portfolio – with the profit and loss forecast as it develops over the course of the year. All of the income and expense items, as well as our ability to bear risk, are continually monitored respectively planned on a continuous basis, enabling the Bank to respond appropriately and in a timely manner to fluctuations in earnings or costs.

OUTLOOK – OPPORTUNITIES AND RISKS

ECONOMIC DEVELOPMENT AND FINANCIAL MARKETS

As of the beginning of 2013 the economic outlook is marked by uncertainty. In particular, it is difficult to estimate the further course of the sovereign debt crisis in the eurozone and the effects of the conflicts surrounding the budget and national debt in the United States. This uncertainty is also reflected in the economic forecasts of the International Monetary Fund (IMF) and the World Bank, which are markedly different. The IMF, for instance, expects the global economy to improve slightly and grow by 3.5 percent, while the World Bank lowered its prediction to 2.4 percent. The global economy is expected to improve notably in 2014.

Another recession year is expected for the eurozone as a whole, although the economy could gradually stabilise over the course of the year as long as the sovereign debt crisis does not intensify again. Economic development will once again vary widely in the individual member states. It is expected that it will take until 2014 before the situation in the eurozone can stabilise sufficiently and lead to slight economic growth of about 1 percent.

"The economic outlook for 2013 is restrained. It is expected to improve again next year."

According to the German government's annual economic report, the German economy's pace of growth will slow in 2013 and is expected to fall below 0.5 percent. However, Germany's economy is also expected to pick up steam over the course of the year and lead to a 1.5 percent increase in gross domestic product in 2014.

The Federal Government believes that domestic demand will be the main growth driver in 2013. Residential construction will account for most of the expected increases in construction investments. An increase in new construction activity and sales is forecast here. In contrast to the year under review, commercial construction and public-sector construction projects are also expected to record slight growth.

The economic slowdown will also be noticeable in the job market in 2013. Due to the strong German economy, current forecasts only expect employment growth to slow, and the number of unemployed to remain fairly stable. The inflation rate is expected to be close to the previous year's level and fluctuate around 2 percent.

Against the backdrop of these subdued economic prospects, central banks are not expected to make any major changes to their interest rate policies.

The Pfandbrief market will continue to benefit from investors' high demand for safe investments. The Pfandbrief is also supported by the regulatory environment. The German Pfandbrief market is counting on seeing the volume of new Mortgage Pfandbriefe issues rise further in 2013. The volume of Public Pfandbriefe issued will decrease further due to the difficult overall conditions in this segment. The resulting general decline in the volume of new Pfandbriefe issued on the market – especially in the benchmark area – will lead to stable spreads for new issues.

PROPERTY AND PROPERTY FINANCING MARKETS

Unchanging low interest rates, a stable job market, rising incomes and the search for safe capital investments all ensure that demand for residential property, in particular, will again remain high in many parts of Germany in 2013.

Prices for condominiums and houses will continue to grow here. Higher new construction activity will still be unable to fully meet the needs seen in Germany's metropolitan centres in 2013. As a result, demand for property financing should remain high. The fairly high share of equity capital provided by borrowers hinders excesses from occurring in the financing markets.

At the same time, the risks of higher prices in certain regions and localities cannot be ignored. We cannot exclude the possibility that rising speculative expectations may be linked to property purchases in certain areas.

In contrast, the outlook for most of the other European residential property markets remains dim. The Association of French Notaries expects cuts to state support measures and higher taxes in 2013, in particular, to reduce property purchases in the residential market by 25 percent below the average figure recorded in past years. The residential property market in the UK will also be characterised by uncertainty, and will only stabilise when the overall economic situation shows sufficiently stable development.

We expect that the overall conditions in the Swiss property market will not change significantly in 2013. The forecast for Switzerland includes a favourably developing real economy, steady immigration, a stable job market and low interest rates. These conditions should keep the demand for property stable. However, the pace of price increases will vary. In addition to regions with strong price increases like Zurich, Geneva and Lausanne, property prices are only expected to rise moderately in other regions of Switzerland. However, the current development of the property market will lead to further discussions concerning the dangers of it overheating. The Swiss National Bank is also continuing to issue warnings about overheating risks based on the ongoing increase in property prices, especially for condominiums. At the same time, motives for property purchases partially counter the creation of a property bubble because houses and apartments are still primarily purchased for personal use, and rarely for speculative reasons.

"Demand for residential property and property financing will remain high in many regions of Germany."

The American residential property market is expected to recover further, although the recovery could be hindered by the uncertain economic prospects and current discussions about tax increases, as well as government spending cuts. In the current economic situation, demand for rental apartments is likely to remain high among renters and investors over the medium term.

According to estimates from large brokerage agencies, the volume of transactions in the German commercial property market will develop stably in 2013. Investors will need to ease their previously strong focus on core properties before a noticeable increase can take place. Initial signs of this are already visible. No major changes are expected in financing conditions and interest rates, in particular, should continue to remain low.

The European commercial property markets will move sideways. Investors will continue to focus on Europe's liquid markets. In Western Europe, aside from the UK and France – with their property strongholds of London and Paris – these particularly include the Scandinavian countries. The gap in returns obtainable from core properties and properties in "B" locations will continue to widen, especially in Great Britain, although not as strongly as in 2012.

At best, rental prices in European property markets are expected to post slight growth in 2013. The peak price development in comparatively robust national economies will continue to become less dynamic. Further declines in rental prices can be expected in countries that have been hit hardest by the European sovereign debt crisis.

The outlook for commercial core property markets in the USA is favourable, with above-average growth in job centres like San Francisco and Houston. However, whether this trend continues will depend strongly on further economic development in the United States. Demand is expected to remain weaker in the secondary markets.

DEVELOPMENT OF BUSINESS AT MÜNCHENER HYPOTHEKENBANK

We want to continue our previous growth course and gradually develop our market position in 2013 and beyond. The related strategic objectives are: increase earnings on a sustained basis, realise potential opportunities to raise efficiency, and control existing risks.

The central focus of our growth course is residential property financing in Germany. The banks in the Cooperative Financial Network, primarily the Volksbanken and Raiffeisenbanken, remain our most important partners in this segment. We will further intensify and expand our collaboration with them. In the past, the cooperative banks have been able to steadily expand their market share of the residential property lending sector in Germany. According to BVR market research, our cooperative partner banks should continue to see above-average growth in 2013 due to the high level of trust that they enjoy from their customers. This unlocks opportunities for us to expand our business within the Cooperative Financial Network as planned.

We plan to further expand the volume of new business we generate together with independent financial service providers over the next two years. Our cooperation with Swiss PostFinance will also be further developed.

Since interest rates for residential property financing are expected to remain at a low level in 2013, we anticipate that 20-year or longer mortgages with fixed interest rates will be in high demand. We consider ourselves to still hold an unchanged strong position in this segment.

"We want to continue our previous growth course and gradually develop our market position in 2013 and beyond."

We plan to slightly expand our volume of new business in the commercial property financing business. We primarily want to acquire this new business in Germany. About one-third of the volume will come from international business, especially in France and Great Britain. The focus will remain on direct and syndicated loans with mainly institutional customers and professional private investors.

We assume that longer fixed-interest terms will continue to be in demand in this business area as well. This mainly applies to the residential property market where longer terms are the norm. We also plan to continue financing larger housing portfolios in Germany in this segment. Housing companies with a need for relatively low loan-to-value financing, as well as institutional investors requiring higher volumes of financing, remain the focal points of this segment. We expect to see lively demand here.

Our lending business with the public sector and banks will continue to contract, as it only plays a supporting role. Our level of activity in this area of business will depend on the further development of the European sovereign debt crisis in 2013.

We are planning to cover about 75 percent of our refinancing needs in 2013 by issuing Pfandbriefe. In case of an unchanging high level of investor interest, at least one jumbo transaction and several benchmark issues with volumes of at least 500 million euros each are conceivable this year. Refinancing will be supplemented by tailor-made private placements. Due to the large volume of maturing German Pfandbriefe, and the anticipated low volume of new issues in the overall market, we expect demand for Pfandbriefe to remain high, and spreads to remain low with only very minor fluctuations.

The Cooperative Financial Network will remain our most significant partner for uncovered refinancing.

We will continue striving to increase our net interest income from our business operations in 2013 and beyond on the basis of our objectives for future growth. The stable development noted in our core markets continues to provide opportunities to further expand our new business and thus our mortgage portfolio.

This will also have an increasingly positive effect on the Bank's profits. We already expect to see improved results in 2013, and we anticipate additional growth in the subsequent years.

We expect that administrative expenses will increase slightly in 2013 due to additional high costs resulting from strategically significant and regulatory projects.

"The stable development noted in our core markets continues to provide opportunities to further expand our new business and thus our mortgage portfolio."

Based on current information, we anticipate that provisions for risks in our lending business will remain at a stable level.

The situation in the peripheral eurozone countries remains critical. We will continue to monitor it with an unchanging high level of attention.

On an overall basis, we expect to continue and expand our course of growth in the current business year, which allows us to strive for higher net income for the year.

BALANCE SHEET, 31 DECEMBER 2012

ASSETS		31 Dec. 12	31 Dec. 11
	€	€	T€
1. Cash reserve			
a) Cash on hand	17,549.20		9
b) Balances with Central Banks	24,616,249.79		3,040
of which			
with Deutsche Bundesbank € 24,616,249.79			
		24,633,798.99	**3,049**
2. Claims on banks			
a) Mortgage loans	40,843,770.10		48,754
b) Public-sector loans	1,053,437,616.47		1,298,266
c) Other claims	2,947,950,514.91		4,030,333
of which			
payable on demand € 1,737,590,766.20			
		4,042,231,901.48	**5,377,353**
3. Claims on customers			
a) Mortgage loans	20,781,352,676.59		19,175,526
b) Public-sector loans	5,514,099,710.51		5,956,214
c) Other claims	140,509,445.41		166,133
of which			
with securities pledged as collateral € 36,993.41			
		26,435,961,832.51	**25,297,873**
4. Bonds and other fixed-income securities			
a) Bonds and Notes	5,817,355,334.18		6,349,720
aa) Public-sector issuers € 1,397,994,378.32			(1,479,421)
of which			
eligible as collateral for Deutsche Bundesbank advances € 1,306,474,858.32			
ab) Other issuers € 4,419,360,955.86			(4,870,299)
of which			
eligible as collateral for Deutsche Bundesbank advances € 4,220,811,835.77			
b) Own bonds and notes	17,102,540.13		21,070
Nominal value € 17,462,600.00			
		5,834,457,874.31	**6,370,790**
Carried forward		36,337,285,407,29	37,049,065

LIABILITIES, CAPITAL AND RESERVES

		31 Dec. 12	31 Dec. 11
	€	€	T€
1. Liabilities to banks			
a) Registered mortgage Pfandbriefe issued	626,744,178.50		702,527
b) Registered Public Pfandbriefe issued	207,329,432.44		188,620
c) Other liabilities	5,496,173,640.52		5,355,426
of which			
payable on demand € 646,166,540.97			
delivered to lenders as collateral for loans received registered mortgage Pfandbriefe € 27,150.16			
and registered public-sector Pfandbriefe € 7,009.94			
		6,330,247,251.46	**6,246,573**
2. Liabilities to customers			
a) Registered mortgage Pfandbriefe issued	4,515,973,908.53		4,514,716
b) Registered Public Pfandbriefe issued	4,200,885,045.47		4,308,072
c) Other liabilities	2,267,617,209.36		1,708,791
of which			
payable on demand € 1,564,019.25			
		10,984,476,163.36	**10,531,579**
3. Certificated liabilities			
a) Bonds issued	17,923,280,212.13		19,219,450
aa) Mortgage Pfandbriefe € 10,234,261,180.22			(10,722,626)
ab) Public Pfandbriefe € 3,243,749,245.36			(3,750,346)
ac) Other bonds and fixed-income securities € 4,445,269,786.55			(4,746,478)
b) Other certificated liabilities	218,661,047.50		84,419
of which			
Money market paper € 218,661,047.50			
		18,141,941,259.63	**19,303,869**
4. Liabilities incurred as trustee		**112,906.44**	**140**
of which			
loans € 112,906.44			
5. Other liabilities		**147,779,503.06**	**236,265**
Carried forward		35,604,557,083.95	36,318,426

ASSETS		31 Dec. 12	31 Dec. 11
	€	€	T€
Brought forward		36,337,285,407.29	37,049,065
5. Equities and other variable-yield securities		**13,258,350.01**	**13,242**
6. Participations and shares in cooperatives			
a) Participations	77,761,262.10		77,808
of which			
credit institutions € 17,189,982.18			
b) Shares in cooperatives	18,500.00		18
of which			
in credit cooperatives € 15,500.00			
		77,779,762.10	**77,826**
7. Shares in affiliated companies		**11,151,601.64**	**11,152**
8. Assets held in trust		**112,906.44**	**140**
of which			
loans € 112,906.44			
9. Intangible assets			
a) Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	10,499,429.58		6,044
b) Payments made on account	0.00		3,580
		10,499,429.58	**9,624**
10. Tangible assets		**75,224,493.17**	**76,734**
11. Other assets		**64,475,199.45**	**53,622**
12. Deferred items			
a) From issuing and lending business	52,231,438.90		55,631
b) Other	1,240,610.88		1,260
		53,472,049.78	**56,891**
Total assets		**36,643,259,199.46**	**37,348,296**

LIABILITIES, CAPITAL AND RESERVES

	€	31 Dec. 12 €	31 Dec. 11 T€
Brought forward		35,604,557,083.95	36,318,426
6. Deferred items			
From issuing and lending business	22,100,848.51		14,330
		22,100,848.51	**14,330**
7. Provisions			
a) Provisions for pensions and similar obligations	25,066,003.00		26,728
b) Provisions for taxes	2,030,000.00		2
c) Other provisions	20,183,232.00		17,532
		47,279,235.00	**44,262**
8. Subordinated liabilities		**156,200,000.00**	**156,200**
9. Profit-participation certificates		**16,361,340.20**	**21,474**
of which			
€ 10,225,837.63 are due within two years			
10. Fund for general banking risks		**4,250,000.00**	**1,750**
11. Capital and reserves			
a) Subscribed capital	503,239,097.51		502,856
aa) Members' capital contributions € 162,591,919.69			(161,209)
ab) Silent participations € 340,647,177.82			(341,647)
b) Revenue reserves	283,838,340.75		283,838
ba) Legal reserve € 282,304,465.11			(282,304)
bb) Other revenue reserves € 1,533,875.64			(1,534)
c) Unappropriated profit	5,433,253.54		5,160
		792,510,691.80	**791,854**
Total liabilities, capital and reserves		**36,643,259,199.46**	**37,348,296**
1. Contingent liabilities			
Contingent liability on guarantees and indemnities		**20,326,692.93**	**70,162**
2. Other commitments			
Irrevocable loan commitments		**2,531,926,954.38**	**2,218,244**

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

EXPENSES		31 Dec. 12	31 Dec. 11
	€	€	T€
1. Interest expenses		1,178,802,170.29	1,198,452
2. Commission paid		60,259,270.27	47,432
3. Net expenses of trading book		0.00	3,640
4. General administrative expenses			
a) Personnel expenses	32,556,880.48		29,589
aa) Wages and salaries € 27,864,550.94			(24,871)
ab) Social security contributions and cost of pensions and other benefits € 4,692,329.54			(4,718)
of which			
for pensions € 546,537.98			
b) Other administrative expenses	27,774,034.99		29,287
		60,330,915.47	58,876
5. Depreciation and write-downs of intangible and tangible assets		5,209,776.86	4,647
6. Other operating expenses		4,429,550.15	3,929
7. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses		13,987,245.15	0
8. Depreciation and write-downs of participating interests, shares of affiliated companies and securities treated as fixed assets		0.00	61,853
9. Payment to fund for general banking risks		2,500,000.00	1,750
10. Taxes on revenue and income		1,850,953.95	-227
11. Other taxes not included under "Other operating expenses"		0.00	94
12. Net income		5,383,035.94	4,858
Total expenses		1,332,752,918.08	1,385,304
1. Net income		5,383,035.94	4,858
2. Retained earnings brought forward from previous year		50,217.60	302
3. Unappropriated profit		5,433,253.54	5,160

INCOME		31 Dec. 12	31 Dec. 11
	€	€	T€
1. Interest income from			
a) Lending and money market operations	1,075,391,809.54		1,080,773
b) Fixed-income securities and government debt register claims	231,005,000.30		233,481
		1,306,396,809.84	**1,314,254**
2. Current income from			
a) Participating interests and shares in cooperatives	1,120,655.81		1,175
b) Investments in affiliated companies	0.00		870
		1,120,655.81	**2,045**
3. Income from profit-pooling, profit transfer or partial profit transfer agreements		**250,282.02**	**41**
4. Commission received		**9,690,375.10**	**9,145**
5. Income frome write-up of claims and individual securities, as well as from the reversal of provisions made for loan losses		**0.00**	**57,628**
6. Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets		**13,204,323.53**	**0**
7. Other operating income		**2,090,471.78**	**2,191**
Total income		**1,332,752,918.08**	**1,385,304**

STATEMENT OF DEVELOPMENT IN EQUITY CAPITAL AND CASH FLOW STATEMENT

STATEMENT OF DEVELOPMENT IN EQUITY CAPITAL FOR 2012

	Subscribed capital				
	Members' capital contributions	Silent participations	Revenue reserves	Unappropriated profit	Total capital and reserves
	€ 000	€ 000	€ 000	€ 000	€ 000
Capital and reserves as at 01.01.2011	156,114	342,147	282,338	8,632	789,231
Net change in capital	5,095	-500	1,500	-1,500	4,595
Dividends paid	0	0	0	6,830	6,830
Net income	0	0	0	4,858	4,858
Capital and reserves as at 31.12.2011	161,209	341,647	283,838	5,160	791,854
Net change in capital	1,383	-1,000	0	0	383
Dividends paid	0	0	0	5,110	5,110
Net income	0	0	0	5,383	5,383
Capital and reserves as at 31.12.2012	162,592	340,647	283,838	5,433	792,510

CASH FLOW STATEMENT FOR 2012

	31.12.2012 in € millions	31.12.2011 in € millions
Net income before extraordinary items	5.4	4.8
Non-cash items contained in net income for the year and transferal to the cash flow from operating activities		
Depreciation, write-downs and write-ups on loans, tangible fixed assets and financial assets	20.8	18.2
Changes in reserves	3.0	2.1
Changes in other non-cash items	-2.4	17.8
Gains/losses from the disposal of tangible fixed assets and financial assets	19.7	3.5
Other adjustments	0.0	0.0
Sub-total	**46.5**	**46.4**

CASH FLOW STATEMENT FOR 2012

	31.12.2012 in € millions	31.12.2011 in € millions
Changes in assets and liabilities from operating activities		
Claims		
- on banks	1,328.7	-1,602.4
- on customers	-1,138.5	-744.4
Securities (to the extent not financial investments)	20.8	21.8
Other assets from operating activities	25.1	35.4
Liabilities		
- to banks	35.1	2,300.2
- to customers	454.5	1,176.5
Securitised liabilities	-1,071.7	-1,473.8
Other liabilities from operating activities	-291.6	-44.9
Interest and dividends received	1,307.5	1,316.3
Interest paid	-1,178.8	-1,198.5
Extraordinary amounts received/paid	0.0	0.0
Income taxes paid	-1.9	0.2
Cash flow from operating activities	**-464.3**	**-167.2**
Cash receipts from the disposal of		
- Financial assets	1,140.4	883.5
- Tangible fixed assets	0.0	0.1
Cash payments for acquisition of		
- Financial assets	-645.2	-785.6
- Tangible fixed assets	-0.5	-0.7
Cash receipts/payments from gains/losses in subsidiary companies	0.0	0.0
Net increase/decrease in funds from other investing activities	-4.1	-3.5
Cash flow from investing activities	**490.6**	**93.8**
Cash receipts from changes in capital	1.4	5.1
Dividends paid	-5.1	-6.8
Increase/decrease in funds from other capital	-1.0	-0.5
Cash flow from financing activities	**-4.7**	**-2.2**
Cash and cash equivalents at start of reporting period	3.0	78.6
+/- Cash flow from operating activities	-464.3	-167.2
+/- Cash flow from investing activities	490.6	93.8
+/- Cash flow from financing activities	-4.7	-2.2
+/- Changes in cash and cash equivalents due to changes in foreign exchange rates	0.0	0.0
Cash and cash equivalents at the end of the reporting period	**24.6**	**3.0**

NOTES 2012

GENERAL INFORMATION ON ACCOUNTING POLICIES

The Münchener Hypothekenbank eG annual financial statement as of December 31, 2012 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. Unscheduled depreciation taken in accordance with Art. 253 (3) 3s of the German Commercial Code was not taken for market price related changes in the value of securities because we do not anticipate that the reduction in value will be permanent.

In accordance with the rules pertaining to the valuation of 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.

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 5.06 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 2005 G" prepared by Prof. Klaus Heubeck. In accordance with the terms of Art. 253 (2) 2s of the German Commercial Code, the average market rate of interest 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 translated at the European Central Bank's exchange rate valid on the balance sheet date. Income realised from the translation of particularly covered foreign currency positions is carried under net interest income. Costs and income are valued at the individual daily exchange rate.

NOTES TO THE BALANCE SHEET INCOME STATEMENT

MATURITY ANALYSIS BY RESIDUAL TERM

ASSETS

	31 Dec. 12 € 000	31 Dec. 11 € 000
Claims on banks	4,042,232	5,377,353
≤ Three months	2,945,271	4,030,389
> Three months ≤ one year	201,316	244,008
> One year ≤ five years	649,593	706,891
> Five years	246,052	396,065
Claims on customers	26,435,962	25,297,873
≤ Three months	1,117,174	721,780
> Three months ≤ one year	1,511,640	1,485,234
> One year ≤ five years	7,478,762	7,219,306
> Five years	16,328,386	15,871,553
Bonds and other fixed-income securities ≤ one year	1,083,027	484,431

LIABILITIES, CAPITAL AND RESERVES

	31 Dec. 12 € 000	31 Dec. 11 € 000
Liabilities to banks	6,330,247	6,246,572
≤ Three months	2,104,862	2,341,619
> Three months ≤ one year	739,279	1,345,974
> One year ≤ five years	2,867,824	2,012,898
> Five years	618,282	546,081
Liabilities to customers	10,984,476	10,531,579
≤ Three months	376,750	701,024
> Three months ≤ one year	464,230	173,384
> One year ≤ five years	1,189,015	928,110
> Five years	8,954,481	8,729,061
Certificated liabilities	18,141,941	19,303,869
Bonds issued		
≤ Three months	886,913	2,872,255
> Three months ≤ one year	5,072,559	3,163,303
> One year ≤ five years	9,918,645	11,517,278
> Five years	2,045,163	1,666,614
Other certificated liabilities		
≤ Three months	109,231	46,878
> Three months ≤ one year	109,430	37,541

CLAIMS ON AND LIABILITIES TO COMPANIES IN WHICH PARTICIPATING INTERESTS ARE HELD

	31 Dec. 12 € 000	31 Dec. 11 € 000
Claims on		
Banks	21,803	170,732
Customers	41,149	61,343
Liabilities to		
Banks	271,244	361,099
Customers	0	0

CLAIMS ON AND LIABILITIES TO AFFILIATED COMPANIES

	31 Dec. 12 € 000	31 Dec. 11 € 000
Claims on customers	2,421	2,566
Liabilities to customers	14	1,085

SECURITIES MARKETABLE ON THE STOCK EXCHANGE

	31 Dec. 12 € 000		31 Dec. 11 € 000	
Asset category	listed	unlisted	listed	unlisted
Bonds and other fixed-income securities	5,491,726	239,409	5,994,020	259,792
Shares and other non-fixed-income securities	8,130	0	8,150	0
Participations	0	2,150	0	2,150

TRADING BOOK

As at 31.12.2012 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.

DEVELOPMENT OF FIXED ASSETS

	Acquisition and production costs	Additions	Write-ups	Transfers	Disposals	Depreciation taken in 2012	Accumulated depreciation	Net book value on 31 Dec. 12	Net book value on 31 Dec. 11
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Intangible assets	27,518	4,070	0	0	854	3,164	20,235	10,499	9,624
a) Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	23,938	1,378	0	6,272	854	3,164	20,235	10,499	6,044
b) Payments made on account	3,580	2,692	0	-6,272	0	0	0	0	3,580
Tangible assets	101,655	537	0	0	203	2,046	26,765	75,224	76,734

	Acquisition and production costs	Changes total +/-*)	Net book value on 31 Dec. 12	Net book value on 31 Dec. 11
Participations and shares in cooperatives	77,827	-47	77,780	77,827
Shares in affiliated companies	11,152	0	11,152	11,152
Bonds and other fixed-income securities	6,300,330	-585,254	5,715,076	6,300,330
Shares and other non fixed-income securities	8,150	-20	8,130	8,150

*) 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 of the date of record 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 € 3,109,217 (thousand) (previous year 4,256,401 (thousand)) exceeding the present value of € 2,864,983 (thousand) (previous year € 3,850,759 (thousand)). To the extent that these securities are associated with a swap transaction, they are valued together with the transaction as a single item. As of the date of record we had no knowledge of a permanent reduction in value that would require additional unscheduled depreciation.

TRUST TRANSACTIONS

	31 Dec. 12 € 000	31 Dec. 11 € 000
Assets held in trusts		
Claims on customers	113	140
Liabilities incurred as trustee		
Liabilities to banks	113	140

TANGIBLE ASSETS

The portion of the total value attributable to the land and buildings used by the Bank is € 62,954 (thousand) (previous year € 63,925 (thousand)), and of plant and office equipment € 1,502 (thousand) (previous year € 1,874 (thousand)).

SUBORDINATED ASSETS

	31 Dec. 12 € 000	31 Dec. 11 € 000
Shares and other non-fixed-income securities	8,130	8,150

OTHER ASSETS

The item "Other assets" includes deferred items of € 16,093 (thousand) related to the derivative business, and € 32,132 (thousand) in commissions for mortgage loans that will be paid after the date of record, as well as, above all, claims of € 12,357 (thousand) on the German tax authorities (Finanzamt) for corporation tax credit.

OTHER LIABILITIES

The item "Other liabilities" consists of € 78,849 (thousand) for deferred items and adjustment entries for valuation of foreign currency items, and € 47,995 (thousand) related to derivative transactions as well as, above all, liabilities for accrued interest related to registered profit-participation certificates and silent participations valued at € 18,517 (thousand).

DEFERRED ITEMS FROM THE ISSUING AND LOAN BUSINESS

	31 Dec. 12 € 000	31 Dec. 11 € 000
Assets side 12.		
Discount from liabilities	34,350	26,752
Premium from claims	15,778	24,602
Other deferred charges	3,344	5,537
Liabilities side 6.		
Premium from liabilities	10,329	2,327
Discount from claims	11,588	11,595
Other deferred income	184	408

DEFERRED TAXES

Deferred tax liabilities were primarily related to 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. A backlog of deferred tax assets arising after clearing is not recorded in the balance sheet.

SUBORDINATED LIABILITIES

Subordinated liabilities incurred interest expenses of € 8,856 (thousand) (previous year € 9,683 (thousand)). Subordinated liabilities which individually exceed 10 percent of the overall statement amount to:

Nominal amount	Currency	Interest rate	Maturity date
20,000,000.00	euro	6.02 %	20 March 2018

Fund-raising activities did not include any conditions that deviated from Art. 10 (5a) of the German Banking Act. 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.

PROFIT-PARTICIPATION CERTIFICATES

The amount of profit-participation capital of € 16,361 (thousand) (previous year € 21,474 (thousand)) fulfils the criteria of Art. 10 (5) of the German Banking Act with € 6,136 (thousand) (previous year € 6,136 (thousand)).

DETAILS OF REVENUE RESERVES

	Legal reserve € 000	Other revenue reserves € 000
01 Jan. 2012	282,304	1,534
Transfer from 2011 retained earnings	0	0
Transfer from 2012 net income	0	0
31 Dec. 2012	282,304	1,534

MEMBERS' CAPITAL CONTRIBUTIONS

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

	31 Dec. 12 €	31 Dec. 11 €
Capital contributions	162,591,919.69	161,209,276.92
a) of remaining members	160,772,129.69	158,859,446.92
b) of former members	1,418,690.00	2,192,540.00
c) in respect of shares under notice	401,100.00	157,290.00
Outstanding obligatory payments in respect of shares	20.31	23.08

SILENT PARTICIPATIONS

The silent participations valued at € 340,647 (thousand) (previous year € 341,647 (thousand)) satisfy the criteria of Art. 10 (4) of the German Banking Act for the amount of € 340,647 (thousand) (previous year € 340,647 (thousand)). Expenses attributable to these participations amounted to € 26,807 (thousand) (previous year € 26,376 (thousand)).

ASSETS PLEDGED TO SECURE LIABILITIES

Within the framework of open market deals with the European Central Bank, securities valued at € 2,000,000 (thousand) (previous year € 1,247,786 (thousands)) were pledged as collateral to secure the same amount of liabilities. The book value of the pledged assets (genuine repurchase agreements) was € 220,305 (thousand) (previous year € 1,343,937 (thousand)). Within the framework of security arrangements for derivative transactions, cash collateral of € 2,301,740 (thousand) (previous year € 1,807,260 (thousand)) was provided. Securities valued at € 12,884 (thousand) (previous year € 12,414 (thousand)) were pledged to secure pension obligations and requirements of the partial retirement model for older employees. Securities valued at € 26,776 (thousand) (previous year € 26,764 (thousand)) were pledged to secure financial aid obligations within the framework of a Contractual Trust Arrangement (CTA).

FOREIGN CURRENCY ITEMS

	31 Dec. 12 € 000	31 Dec. 11 € 000
Assets side	5,702,278	5,699,758
Liabilities side	2,516,550	2,760,535
Contingent liabilities and other obligations	227,256	306,217

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 the remaining obligations is viewed as minor.

Pursuant to Art. 3 (3) of the Restructuring Fund Regulation, a retroactive amount of € 9,851 (thousand) is not shown under other financial liabilities in the balance sheet.

OTHER OPERATING EXPENSES

This position contains expenses arising from accrued interest effects of € 1,945 (thousand) (previous year € 1,703 (thousand)) for established provisions. For reasons of materiality, expenses of other taxes in the amount of € 96 (thousand) paid during the year under review are included under the item "Other Operating Expenses" for the first time.

TAXES ON INCOME AND PROFIT

The item "Taxes on Income and Profit" primarily consists of expenses incurred in other periods.

OTHER OPERATING INCOME

This item includes nonperiod income of € 1,170 (thousand) arising from reversals of provisions.

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 millions of €)				
	Residual term ≤ one year	Residual term > one year ≤ five years	Residual term > five years	Total	Fair value at date of record *) neg. (-)
Interest-Rate-Related Transactions					
Interest rate swaps	7,674	21,318	26,320	55,312	-1,695
Interest rate options					
- Calls	17	56	91	164	11
- Puts	10	85	0	95	0
Other interest rate contracts	0	50	1,288	1,338	-20
Currency-Related Transactions					
Cross-currency swaps	969	1,292	1,509	3,770	-79
Currency swaps	796	0	0	796	5

*) Valuation methods:

Interest rate swaps are valued using the present value method based on the current interest rate curve on the date of record. 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 € 3.2 million (previous year € 1.9 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 € 374.3 million (previous year € 374.0 million) and "Liabilities to banks" with € 468.5 million (previous year € 430.5 million). The accrual of compensatory payments made is entered under "Other assets" with € 12.9 million (previous year € 6.6 million); the accrual of compensatory payments received is entered under "Other liabilities" with € 48.0 million (previous year € 46.5 million).

Compensatory items in the amount of € 78.8 million (previous year € 169.1 million) related to the valuation of foreign currency swaps are carried under the balance sheet item "Other assets".

All of the counterparties are exclusively banks and insurance companies located in OECD countries, as well as 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, € 2,959 million (previous year € 3,114 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 conditions of the securities correspond to those of the hedging derivatives. 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 € 405 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 31.12.2012.

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

COVER STATEMENT FOR PFANDBRIEFE
A. MORTGAGE PFANDBRIEFE

	31 Dec. 12 € 000	31 Dec. 11 € 000
Ordinary cover assets	16,797,449	15,701,768
1. Claims on banks (mortgage loans)	38,241	45,521
2. Claims on customers (mortgage loans)	16,706,744	15,603,783
3. Tangible assets (charges on land owned by the Bank)	52,464	52,464
Substitute cover assets	1,447,237	2,088,122
1. Other claims on banks	100,000	1,066,000
2. Bonds and other fixed-income securities	1,347,237	1,022,122
3. Other assets (offsetting currency derivatives)	0	0
Total cover	18,244,686	17,789,890
Total mortgage Pfandbriefe requiring cover	15,135,375	15,695,158
Surplus cover	3,109,311	2,094,732

B. PUBLIC PFANDBRIEFE

	31 Dec. 12 € 000	31 Dec. 11 € 000
Ordinary cover assets	7,551,844	9,005,781
1. Claims on banks (public-sector loans)	1,042,630	1,283,495
2. Claims on customers (public-sector loans)	5,371,756	5,806,877
3. Bonds and other fixed-income securities	1,137,458	1,915,409
Substitute cover assets	344,580	475,000
1. Other claims on banks	100,000	475,000
2. Bonds and other fixed-income securities	244,580	0
3. Other assets (offsetting currency derivatives)	0	0
Total cover	7,896,424	9,480,781
Total public-sector Pfandbriefe requiring cover	7,526,058	8,039,410
Surplus cover	370,366	1,441,371

REGULATORY REPORTING IN ACCORDANCE WITH ART. 28 PFANDBRIEF ACT (PFANDBG)

MORTGAGE PFANDBRIEFE OUTSTANDING AND CORRESPONDING COVER ASSETS

	Nominal value	
	31 Dec. 12 € 000	31 Dec. 11 € 000
Mortgage Pfandbriefe	15,135,375	15,695,158
of which		
derivatives	1,888	2,103
Cover pools	18,244,686	17,789,890
of which		
further cover assets	1,447,237	2,088,122
Surplus cover	3,109,311	2,094,732

	Net present value	
	31 Dec. 12 € 000	31 Dec. 11 € 000
Mortgage Pfandbriefe	16,676,696	16,887,507
of which		
derivatives	1,891	2,130
Cover pools	20,941,256	19,693,833
of which		
further cover assets	1,617,763	2,201,609
Surplus cover	4,264,560	2,806,326

	Risk-adjusted net present value *)	
	31 Dec. 12 € 000	31 Dec. 11 € 000
Mortgage Pfandbriefe	15,771,816	17,211,795
Cover pools	19,669,500	19,419,571
Value of surplus cover after stress test	3,897,684	2,207,776

*) Stress test applying the dynamic approach in accordance with Art. 4 and Art. 5 Pfandbrief-Net Present Value Directive (PfandBarwertV)

Maturity analysis by residual term 31 Dec. 12 € 000

	≤ one year	> one year ≤ two years	> two years ≤ three years	> three years ≤ four years	> four years ≤ five years	> five years ≤ ten years	> ten years
Mortgage Pfandbriefe	2,974,541	1,442,988	2,743,460	2,060,217	547,528	2,945,528	2,421,113
Cover pools	2,070,930	2,206,574	2,421,308	2,067,457	1,562,712	5,658,389	2,257,316

Maturity analysis by residual term 31 Dec. 11 € 000

	≤ one year	> one year ≤ two years	> two years ≤ three years	> three years ≤ four years	> four years ≤ five years	> five years ≤ ten years	> ten years
Mortgage Pfandbriefe	2,652,496	2,870,105	1,441,809	2,354,742	1,819,686	2,174,583	2,381,737
Cover pools	2,830,569	2,155,573	2,152,549	1,838,289	1,557,577	5,470,193	1,785,140

PUBLIC PFANDBRIEFE OUTSTANDING AND CORRESPONDING COVER ASSETS

Discounts based on the vdp credit quality differentiation model were taken into consideration in calculating the cover pool as of 31.12.2012.

	Nominal value	
	31 Dec. 12 € 000	31 Dec. 11 € 000
Public Pfandbriefe	7,526,058	8,039,410
Cover pools	7,896,424	9,480,781
of which		
further cover assets	344,580	475,000
Surplus cover	370,366	1,441,371

	Net present value	
	31 Dec. 12 € 000	31 Dec. 11 € 000
Public Pfandbriefe	8,688,477	9,018,928
Cover pools	9,536,496	10,981,128
of which		
further cover assets	381,128	475,806
derivatives	36,697	28,617
Surplus cover	848,019	1,962,200

	Risk-adjusted net present value *)	
	31 Dec. 12 € 000	31 Dec. 11 € 000
Public Pfandbriefe	8,235,799	8,591,892
Cover pools	8,991,609	10,461,520
Value of surplus cover after stress test	755,810	1,869,628

*) Stress test applying the dynamic approach in accordance with Art. 4 and Art. 5 Pfandbrief-Net Present Value Directive (PfandBarwertV)

Maturity analysis by residual term 31 Dec. 12 € 000

	≤ one year	> one year ≤ two years	> two years ≤ three years	> three years ≤ four years	> four years ≤ five years	> five years ≤ ten years	> ten years
Public Pfandbriefe	2,006,613	860,768	368,051	232,032	1,114,781	1,025,577	1,918,236
Cover pools	881,687	807,719	713,864	659,602	569,703	1,414,708	2,849,141

Maturity analysis by residual term 31 Dec. 11 € 000

	≤ one year	> one year ≤ two years	> two years ≤ three years	> three years ≤ four years	> four years ≤ five years	> five years ≤ ten years	> ten years
Public Pfandbriefe	2,001,573	1,999,678	340,963	356,662	127,235	1,220,315	1,992,984
Cover pools	1,366,837	985,559	1,101,922	810,658	765,330	1,759,935	2,690,540

TOTAL VOLUME OF CLAIMS USED TO COVER MORTGAGE PFANDBRIEFE
A. ACCORDING TO SIZE

	31 Dec. 12 € 000	31 Dec. 11 € 000
≤ € 300,000	10,076,533	9,231,217
> € 300,000 ≤ € 5 million	2,693,622	2,569,903
> € 5 million	3,974,830	3,848,184
Total	16,744,985	15,649,304

B. ACCORDING TO THE LOCATIONS OF THE REAL PROPERTY COLLATERAL, AND TYPE OF USAGE

	31 Dec. 12 € 000		31 Dec. 11 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Federal Republic of Germany				
Apartments		2,515,755		2,447,805
Single-family houses		4,290,665		3,887,961
Multiple-family dwellings		3,619,387		3,164,549
Office buildings	898,308		798,848	
Retail buildings	643,236		617,860	
Industrial buildings	44,199		53,391	
Other commercially used properties	110,335		266,528	
New buildings and buildings not yet capable of producing a yield	226	48,793	250	58,390
Buildings under construction	970	921	1,007	545
	1,697,274	**10,475,521**	**1,737,884**	**9,559,250**
of which in				
Baden-Wuerttemberg	214,354	1,232,466	209,260	1,172,391
Bavaria	414,238	2,582,941	330,533	2,381,764
Berlin	93,759	516,894	206,156	425,693
Brandenburg	8,542	173,476	6,175	137,727
Bremen	963	28,923	275	27,198
Hamburg	203,487	295,988	167,020	255,145
Hesse	312,311	732,256	315,942	675,906
Mecklenburg-Lower Pomerania	4,448	100,344	4,669	83,157
Lower Saxony	45,743	886,678	47,293	768,671
North Rhine-Westphalia	282,330	2,084,948	233,521	1,980,194
Rhineland-Palatinate	24,211	292,157	100,868	262,204

	31 Dec. 12 € 000		31 Dec. 11 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Saarland	2,829	31,073	4,406	24,735
Saxony	46,505	371,015	64,975	321,685
Saxony-Anhalt	2,806	94,129	3,046	85,702
Schleswig-Holstein	38,312	934,733	40,649	839,080
Thuringia	2,436	117,500	3,096	117,998
Belgium				
Office buildings	6,440		0	
	6,440		**0**	
France				
Office buildings	177,752		129,896	
Retail buildings	47,149		28,440	
	224,901		**158,336**	
Great Britain				
Office buildings	245,619		127,370	
Retail buildings	110,872		89,680	
Other commercially used properties	0		12,888	
	356,491		**229,938**	
Luxembourg				
Office buildings	43,500		60,000	
Retail buildings	4,250		4,250	
	47,750		**64,250**	
The Netherlands				
Office buildings	143,348		159,602	
Retail buildings	9,654		9,654	
	153,002		**169,256**	
Austria				
Single-family houses		7		7
Office buildings	27,480		35,516	
	27,480	**7**	**35,516**	**7**

	31 Dec. 12 € 000		31 Dec. 11 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Switzerland				
Apartments		751,927		671,441
Single-family houses		1,679,346		1,542,314
Multiple-family dwellings		2,490		1,871
		2,433,763		**2,215,626**
Spain				
Retail buildings	33,506		12,330	
Other commercially used properties	37,563		40,737	
	71,069		**53,067**	
USA				
Apartments		115,922		175,336
Office buildings	926,443		1,037,289	
Retail buildings	33,488		16,011	
Other commercially used properties	175,434		185,461	
New buildings and buildings not yet capable of producing a yield	0		12,077	
	1,135,365	**115,922**	**1,250,838**	**175,336**
Total	**3,719,772**	**13,025,213**	**3,699,085**	**11,950,219**
Apartments		3,383,604		3,294,582
Single-family houses		5,970,018		5,430,282
Multiple-family dwellings		3,621,877		3,166,420
Office buildings	2,468,890		2,348,521	
Retail buildings	882,155		778,225	
Industrial buildings	44,199		53,391	
Other commercially used properties	323,332		505,614	
Incomplete new buildings with no revenue-generating capacity as yet	226	48,793	12,327	58,390
Buildings under construction	970	921	1,007	545

PAYMENTS IN ARREARS ON COVERING MORTGAGES

	31 Dec. 12 € 000	31 Dec. 11 € 000
Federal Republic of Germany	17,308	24,480
Total amount of payments in arrears for at least 90 days	**17,308**	**24,480**

TOTAL VOLUME OF CLAIMS USED TO COVER PUBLIC PFANDBRIEFE

Value of cover

	31 Dec. 12 € 000	31 Dec. 11 € 000
Federal Republic of Germany		
State	45,626	0
Regional authorities	4,227,626	4,698,385
Local authorities	804,886	1,116,830
Other debtors	1,162,535	1,508,438
	6,240,673	**7,323,653**
Belgium		
State	175,000	175,000
Regional authorities	50,000	50,000
	225,000	**225,000**
France		
State	25,000	0
Regional authorities	20,000	20,000
Local authorities	506	756
	45,506	**20,756**
Greece		
State	0	34,000
	0	**34,000**
Ireland		
State	22,695	22,695
	22,695	**22,695**
Iceland		
State	15,000	15,000
	15,000	**15,000**
Italy		
State	46,284	46,226
	46,284	**46,226**
Lithuania		
State	0	30,000
	0	**30,000**

	31 Dec. 12 € 000	31 Dec. 11 € 000
Austria		
State	158,455	160,451
Regional authorities	0	20,000
Other debtors	70,000	242,000
	228,455	**422,451**
Poland		
State	55,418	55,132
	55,418	**55,132**
Portugal		
State	53,400	85,000
Regional authorities	8,900	10,000
	62,300	**95,000**
Sweden		
Local authorities	0	38,500
	0	**38,500**
Switzerland		
Regional authorities	24,851	24,679
Other debtors	175,000	175,000
	199,851	**199,679**
Slovakia		
State	19,000	19,000
	19,000	**19,000**
Slovenia		
State	90,000	100,000
	90,000	**100,000**
Spain		
State	0	5,000
Regional authorities	121,958	121,958
	121,958	**126,958**
The Czech Republic		
State	62,000	95,000
	62,000	**95,000**

	31 Dec. 12 € 000	31 Dec. 11 € 000
Hungary		
State	0	10,000
	0	**10,000**
European institutions		
Other debtors	117,704	126,731
	117,704	**126,731**
Total	**7,551,844**	**9,005,781**
State	767,878	852,504
Regional authorities	4,453,335	4,945,022
Local authorities	805,392	1,156,086
Other debtors	1,525,239	2,052,169

INTEREST OUTSTANDING FROM COVERING MORTGAGES

in € 000	total		of which housing sector		of which commercial property sector	
	2012	2011	2012	2011	2012	2011
Interest owed and not paid for period 1.10.2011 to 30.9.2012	503	766	464	679	39	87
Total interest payments in arrears and not value adjusted	366	535	300	489	66	46

FORCED AUCTIONS AND RECEIVERSHIPS OF COVERING MORTGAGES

	total		of which housing sector		of which commercial property sector	
	2012	2011	2012	2011	2012	2011
The number of proceedings pending on the date of record was:						
- Forced auctions	161	245	150	226	11	19
- Receiverships	75	114	66	103	9	11
	71*)	107*)	62*)	97*)	9*)	10*)
The number of forced auctions conducted in 2012	77	98	70	93	7	5

*) of which included in pending forced auctions

It was not necessary for the Bank to take over any property during the year under review to obtain satisfaction for amounts owed.

OTHER DISCLOSURES

MEMBERSHIP DATA

	Number of members	Number of shares	Members' liability for additional contributions €
Beginning of 2012	81,281	2,269,421	580,177,478.65
Additions in 2012	287	75,065	19,190,367.25
Reductions in 2012	1,951	47,741	12,204,986.65
End of 2012	79,617	2,296,745	587,162,859.25

	€
Increase in remaining members' capital contributions in 2012	1,912,682.77
Increase in members' liability for additional contributions in 2012	6,985,380.60
Amount of each share	70.00
Members' liability for additional contributions per share	255.65

PERSONNEL STATISTICS

The average number of persons employed by the Bank in 2012 was as follows:

	Male	Female	Total
Full-time employees	208	122	330
Part-time employees	10	70	80
Total employees	218	192	410
These figures do not include:			
Apprenticed trainees	5	8	13
Employees participating in parental leave, early retirement, partial retirement (non-working phase), or employees suspended with pay.	7	13	20

SHAREHOLDINGS

	Percentage of capital held	Capital in € 000	Profit/Loss in € 000
M-Wert GmbH, Munich*)	100	554	116
Immobilienservice GmbH der Münchener Hypothekenbank eG (M-Service), Munich (profit transfer agreement)**)	100	509	250
Nussbaumstrasse GmbH & Co. KG, Munich*)	100	11,513	372

* annual financial statements 2011, ** annual financial statements 2012

BODIES

SUPERVISORY BOARD

Konrad Irtel … Rosenheim
Spokesman of the Board of Management of
VR Bank Rosenheim-Chiemsee eG
Chairman of the Supervisory Board

Michael Glos ... Prichsenstadt
Master Craftsman (Miller)
Deputy Chairman of the Supervisory Board

Wolfhard Binder … Grafing
Chairman of the Board of Management of
Raiffeisen-Volksbank Ebersberg eG

Heinz Fohrer … Esslingen (as of 21.04.2012)
Member of the Board of Management of
Volksbank Esslingen eG

Wilfried Mocken ... Rheinberg (until 21.04.2012)
General Attorney in Fact of Underberg KG

HSH Albrecht Prince of Oettingen-Spielberg … Oettingen

Hans Pfeifer ... Odenthal
Chairman of the Board of Management (ret.) of
Rheinisch-Westfälischer Genossenschaftsverband e.V.

Erich Rödel … Ingolstadt
Bank Director (ret.)

Kai Schubert ... Mölln (as of 21.04.2012)
Member of the Board of Management of
Raiffeisenbank Südstormarn Mölln eG

Hans-Joachim Tonnellier ... Frankfurt am Main (until 21.04.2012)
Chairman of the Board of Management of
Frankfurter Volksbank eG

BOARD OF MANAGEMENT

Dr. Louis Hagen, Spokesman
Bernhard Heinlein
Michael Jung

Mandates

Dr. Louis Hagen	Bau- und Land-Entwicklungsgesellschaft Bayern GmbH Member of the Supervisory Board
	HypZert GmbH Chairman of the Supervisory Board

As of the date of record no loans were outstanding to either the members of the Supervisory Board (previous year € 15,909 (thousand)) or members of the Board of Management (previous year € 117 (thousand)). Pension provisions of € 16,789 (thousand) (previous year € 18,740 (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 € 1,457 (thousand) (previous year € 1,469 (thousand)), for members of the supervisory Board € 241 (thousand) (previous year € 237 (thousand)). Total compensation received by the members of Advisory Board amounted to € 48 (thousand) (previous year € 40 (thousand)). Total compensation received by former members of the Board of Management and their surviving dependants amounted to € 1,356 (thousand) (previous year € 1,403 (thousand)).

AUDITING ASSOCITATION

DGRV – Deutscher Genossenschafts- und Raiffeisenverband e.V., Berlin, Pariser Platz 3

Pursuant to Art. 53 of the Cooperatives Act, in association with Art. 340k of the German Commercial Code, total costs of € 770 (thousand), including valued added tax, (previous year € 700 (thousand)) were incurred for auditing the annual financial statements and the management report, the cooperatives organisational structures, and to examine the Bank's management during the year under review. Total costs of € 70 (thousand) (previous year € 62 (thousand)) were incurred for other confirmation services. No costs were incurred for other services during the year under review (previous year € 43 (thousand)).

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 € 16,807 (thousand).

Munich, 29 January 2013

MÜNCHENER HYPOTHEKENBANK eG
The Board of Management

Dr. Louis Hagen Bernhard Heinlein Michael Jung

AUDITORS' REPORT

We have audited the annual financial statements – comprising the balance sheet, the income statement, as well as the notes, the cash flow statement and the statement of development in equity capital – including the bookkeeping system, and the management report of Münchener Hypothekenbank eG for the business year from 1 January to 31 December 2012. The maintenance of the books and records and the preparation of the annual financial statements, and the management report were prepared in accordance with German commercial law and supplementary provisions in the articles of incorporation and are the responsibility of the cooperative's legal representatives. Our responsibility is to express an opinion on the annual financial statements, the bookkeeping system and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Art. 53 (2) of the Cooperatives Act and Art. 340k and Art. 317 of the German Commercial Code and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit so that misstatements and violations which materially affect the presentation of the net assets, the financial position and results of operations as presented in the annual financial statements and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the cooperative and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on the basis of random samples within the framework of the audit. The audit includes an assessment of the accounting principles used and significant estimates made by the company's legal representatives, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a sufficiently safe basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the information gained from the examination, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the cooperative in accordance with German legal requirements as well as the supplementary provisions contained in the articles of association, and principles of proper accounting. The management report is in agreement with the annual statement of accounts and on the whole provides an accurate understanding of the cooperative's position and suitably presents the opportunities and risks of future development.

Berlin, 11 March 2013

DGRV - DEUTSCHER
GENOSSENSCHAFTS- UND RAIFFEISENVERBAND e.V.

Dr. Ott	Gahlen
Auditor	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 2013

MÜNCHENER HYPOTHEKENBANK eG
The Board of Management

Dr. Louis Hagen   Bernhard Heinlein   Michael Jung

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.

The Supervisory Board held its constituent meeting and four regularly scheduled meetings with the Board of Management during the year under review. The key subjects and advisory issues covered were the development and planning of the Bank's business activities, the business and risk strategy, equity capital planning, as well as the risk situation.

The Supervisory Board has established committees to enable it to carry out its duties efficiently. The committees are: the Personnel Committee, the Lending Committee and the Audit 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 2012 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 Personnel 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 2012 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 2012 – 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 Mr Wilfried Mocken and Mr Hans-Joachim Tonnellier stepped down from the Supervisory Board. Mr Mocken's term of office ended as scheduled at the conclusion of the 2012 Delegates Meeting. He had been a member of the Supervisory Board since 1992. During his term he made extraordinary achievements on behalf of MünchenerHyp and was an active member of the Personnel Committee and the Audit Committee for many years. Mr Hans-Joachim Tonnellier had been a member of the Supervisory Board since 2000. MünchenerHyp and its Supervisory Board benefited extensively from his considerable business experience gained as Chairman of the Board of Management of Frankfurter Volksbank. Furthermore, he also contributed his economic expertise as a member of the Personnel Committee. Mr Tonnellier resigned his mandate upon stepping down from the Board of Management of Frankfurter Volksbank eG due to reasons of age. The Supervisory Board extends their gratitude to Mr Mocken and Mr Tonnellier for the many year of trusted and fruitful collaboration. MünchenerHyp always viewed their expertise and counsel as valuable support.

Heinz Fohrer, member of the Board of Management of the Volksbank Esslingen eG and Kai Schubert, member of the Board of Management of the Raiffeisenbank Südstormarn Mölln eG, were newly elected as members of the Supervisory Board during the 2012 Delegates Meeting.

The Supervisory Board thanks the Board of Management and the Bank's employees for their efforts and dedication, which made it possible for MünchenerHyp to move ahead on its path of growth in a continuously difficult environment.

During the year under review the Bank made progress on this path as reflected by the very good new business results and the growing portfolio of mortgage loans. Against the background of the continuing sovereign debt crisis in Europe, 2013 will also be another very challenging year. However, by taking appropriate measures to strengthen its earning power, MünchenerHyp has put important prerequisites in place to assure its solid development even in difficult times.

Munich, April 2013
MÜNCHENER HYPOTHEKENBANK eG

Konrad Irtel
Chairman of the Supervisory Board

THE MEMBERS OF THE DELEGATES MEETING

AS OF 31 DECEMBER 2012

Hermann Arens … Bank director
Dr. Wolfgang Baecker … Bank director
Manfred Basler … Bank director (ret.)
Claus-Rüdiger Bauer … Bank director
Norbert Beek … Bank director
Heinrich Beerenwinkel … Bank director
Dr. Christoph Berndorff … Bank director
Gunnar Bertram … Bank director (as of 1 July 2012)
Dietmar Bock … Managing director
Helmut Böing … Bank director
Dr. Christine Bortenlänger … Member of the Board of Management
Dr. Michael Brandt … Bank director
Gebhard Brennauer … Bank director (ret.)
Eckhard Dämon … Bank director
Lothar Erbers … Bank director
Johann Fuhlendorf … Bank director
Dr. Roman Glaser … Bank director (until June 2012)
Klaus Graniki … Managing director
Markus Gschwandtner … Bank director
Michael Haas … Bank director
Eberhard Heim … Bank director
Joachim Hettler … Bank director
Dr. Christoph Hiltl … Attorney
Karl Hippeli … Bank director
Carsten Jung … Bank director
Jürgen Jung … Legal advisor
Norbert Kaufmann … Bank director
Herbert Kellner … Bank director
Michael Kittel … Bank director
Klaus Korte … Bank director
Roland Kuffler … Businessman
Helmuth Lutz … Bank director
Michael Müller … Attorney
Dr. Hans-Wolfgang Neumann … General Manager
Thomas Petersen … Bank director
Klaus Pohl … Managing director
Dr. Rüdiger Renk … Association director (until June 2012)
Frank Ritter … Attorney, Notary
Christian Scheinert … Bank director
Dr. Martin Schilling … Bank director
Andreas Schmidt … Certified Property Specialist
Hans Schmitt … Bank director
Klaus Otmar Schneider … Bank director
Thorsten Schwengels … Bank director
Wolfgang Siemers … Managing director
Jörg Stahl … Bank director
Theo Stauder … Bank director
Dr. Rainer Sturies … Attorney
Ulrich Tolksdorf … Bank director
Martin Trahe … Bank director
Birgit Türschmann … Bank director (as of 7 June 2012)
Florian Uhl … Managing director
Heinz-Walter Wiedbrauck … Bank director
Michael Zaigler … Managing director

AGENDA – GENERAL (DELEGATES) MEETING ON 13 APRIL 2013, 10.30 A.M.

1. Report on the 2012 business year by the Board of Management and presentation of the Annual Statement of Accounts and the 2012 Management Report
2. Report of the Supervisory Board
3. Auditors' report
4. Resolutions to ratify:
   a) the 2012 Annual Statement of Accounts
   b) proposed appropriation of distributable profits
   c) the acts of the Board of Management and the Supervisory Board for the 2012 business year
5. Amendment to the Articles of Association
6. Elections to the Supervisory Board
7. Other issues

EXECUTIVE MANAGEMENT AND BODIES

BOARD OF MANAGEMENT

Dr. Louis Hagen, Spokesman
Bernhard Heinlein
Michael Jung

SUPERVISORY BOARD

Konrad Irtel ... Rosenheim
Chairman
Michael Glos ... Prichsenstadt
Deputy Chairman
Wolfhard Binder ... Grafing
Heinz Fohrer ... Esslingen (as of 21 April 2012)
Wilfried Mocken ... Rheinberg (until 21 April 2012)
HSH Albrecht Prince of Oettingen-Spielberg ... Oettingen
Hans Pfeifer ... Odenthal
Erich Rödel ... Ingolstadt
Kai Schubert ... Mölln (as of 21 April 2012)
Hans-Joachim Tonnellier ... Frankfurt am Main
(until 21 April 2012)

TRUSTEES

Klaus Jasper ... Ministry director (ret.), Munich
Dr. Johann Haimerl... Ministry director (ret.), Gilching,
Deputy

ADVISORY BOARD

Uwe Augustin ... Pinneberg
Peter Bahlmann ... Hatten
Matthias Bungert ... Schwerin
Oliver Conradi ... Heidenheim
Markus Dünnebacke ... Hamm
Bernd Ehrlicher ... Erlangen
Gerhard Eisenhut ... Ehningen
Clemens Fritz ... Achern
Christian Glasauer ... Beuerberg
Thomas Höbel ... Dachau
Walter Hoffmann ... Glan-Münchweiler
Eberhard Kreck ... Bottrop
Dr. Martin Kühling ... Vechta
Dietmar Küsters ... Straubing
Jan Mackenberg ... Osterholz-Scharmbeck
Thomas Mamier ... Wyhl am Kaiserstuhl
Wilhelm Oberhofer ... Sonthofen
Josef Pölt ... Seeshaupt
Michael Schlagenhaufer ... Mittweida
Manfred Stevermann ... Düsseldorf
Horst Weyand ... Bad Kreuznach

EXECUTIVE DIRECTOR

Ingo Schramm

CONTACT

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LEGAL
Günther Schwarz ... Phone +49 (0) 89 / 53 87 – 642

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Bernhard Heinlein ... Phone +49 (0) 89 / 53 87 – 401
Michael Jung ... Phone +49 (0) 89 / 53 87 – 404

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Dr. Peter Knorr ... Phone +49 (0) 89 / 53 87 – 593

PRIVATE CUSTOMERS/PRIVATE HOUSING BUSINESS/ VERBUND
Thomas Hügler ... Phone +49 (0) 89 / 53 87 – 644

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