



Münchener Hypothekenbank eG | **Annual Report 2000**

RESULTS
OUTLOOK
MANAGEMENT REPORT
ANNUAL STATEMENTS
INFORMATION



Münchener
Hypothekenbank eG

ANNUAL REPORT 2000

Münchener Hypothekenbank eG
104th Year

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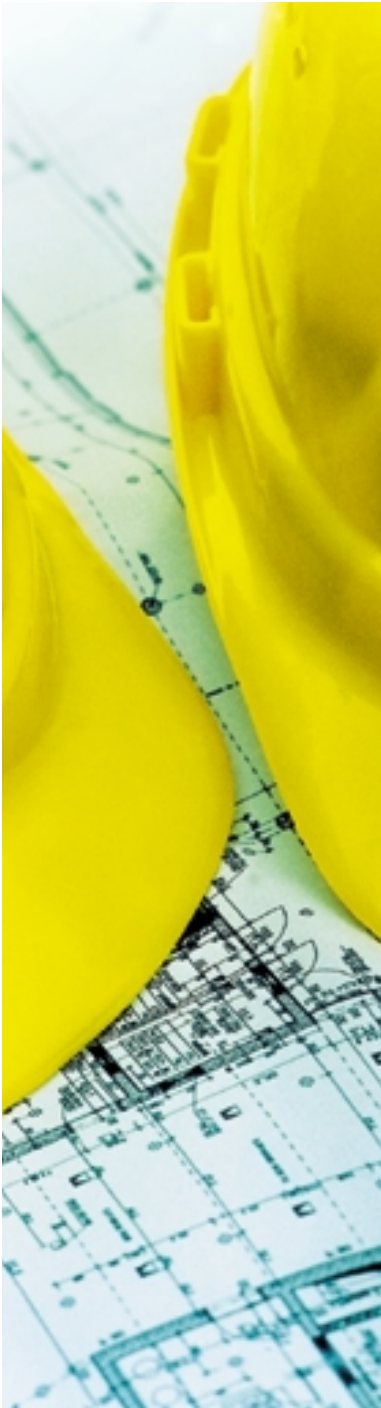
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Dear shareholders and investors,

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The year 2000 brought rich rewards for bondholders. Following a relatively weak phase, yields for German bonds were again leaders and far ahead of blue-chip stocks. Because of its attractive combination of yield and security, the Pfandbrief again enjoyed the favor of investors in Germany and abroad. After the spectacular gains on the stock markets had weakened – and in some cases dramatically reversed during the course of the year – investor sensitivity to risk increased noticeably. Quality and substance, the recognized strengths of the Old Economy, again enjoyed regained their major role in investment considerations over the hopes and promises of the New Economy. This all had a positive effect on the demand for Pfandbriefe.

Supported by the favorable market trend, our sales of refinancing funds reached a new record at DM 14.7 billion [€ 7.5 billion]. In the interim, the segment of Jumbo Pfandbriefe has become a rich source for obtaining liquidity. Thanks to the top ratings of our securities we were able to issue them at favorable rates. In the lending business, we passed this advantage on to our partners – the cooperative and Raiffeisen banks throughout Germany. Thus we successfully fulfilled our dual function as the representative of the

cooperative banks on the international capital markets and as provider of favorable long-term funds for the entire FinanzVerbund [financial alliance].

We provided a total of DM 11.4 billion [€ 5.8 billion] in new loans. Even when compared directly, these results were still quite satisfactory, it cannot fail to be recognized that on a time comparison basis, our industry is well below its last cyclical high. But this is not a new or surprising insight. We anticipate that the economic decline of domestic real estate financing will continue in the near term.

In the interim, our team of specialists for commercial loans, which is primarily soliciting business in the metropolitan areas of Great Britain and the Netherlands, is providing us with better opportunities to offset fluctuations in new business volume levels as we shift emphasis a bit between German and foreign activity. The regional distribution of business was achieved without any compromises regarding credit quality.

In order to sustain long term success in a market marked by strong fluctuations, mortgage banks must have a high

degree of organizational flexibility. For us, the cooling off in demand for new lending during the year under review coincided with an increased requirement for resources for important strategic IT projects. We met these requirements by reorganizing our internal operations thus enabling qualified employees to be freed up for work on IT projects.

The internationalization of Pfandbriefe continued to make rapid progress. Under the leadership of the Verband Deutscher Hypothekenbanken [Association of German Mortgage Banks], which did pioneer work for member institutions within the target markets, Pfandbrief marketing focused on the United States and Asia. We will personally present our issues in 2001 for the first time in Tokyo within a road show.

The technology-driven American economic boom fostered the impression in recent years that fundamental economic laws were no longer applicable in the Internet economy. However, since then a rethinking has begun. In particular, the connection between risks and earnings opportunities has again become visible – highly visible. For mortgage banks, this development is a welcome affirmation as they, always particularly self-critical, evaluate their own performance.

In this connection, it is necessary to differentiate between different markets. Undoubtedly it is possible to achieve extremely high pioneer profits through the introduction of technological innovations. Chances of success, however, are slim and comparable with odds in a casino. These new markets are competing with established markets offering relatively certain, although not spectacular, returns. This category includes the financial services sector.

Independent of this, higher equity capital returns are being demanded across the board in the name of shareholder value. Banks have reacted accordingly as they intensify their search for lucrative lines of business, assume higher risks, initiate numerous innovations in products and processes, and promote expansion or mergers in order to win back market power. Some of these initiatives have already failed, and for others the outlook for success is doubtful.

As a mortgage bank in the FinanzVerbund, we are also facing the challenge of finding the right path for us in an uncertain environment. We are moving into new markets in terms of our funding and lending activities as we invest significant amounts in productivity-enhancing software, accelerate

processes and improve customer service. During the current year we have offered our partner banks a new product, HypoLine-discount, which offers them clear advantages in competing with Internet brokers.

Through all of this, our proven risk policy remains unchanged and will be presented in detail in the Management Report.

Our strategy is driven by the conviction that in our market, a long-term dedication to quality is the critical prerequisite for success. The fact that this approach also leads to consistent yields will be seen by our 95,018 shareholders when they receive their dividend notice for this year. At this time we are pleased to be able to offer the prospect of a spectacular surprise.

Munich, February 11, 2001
Yours sincerely



Dr. Hans-Ludwig Bungert



Dr. Hans-Rainer Förger



Horst-Dieter Thiel

clarity



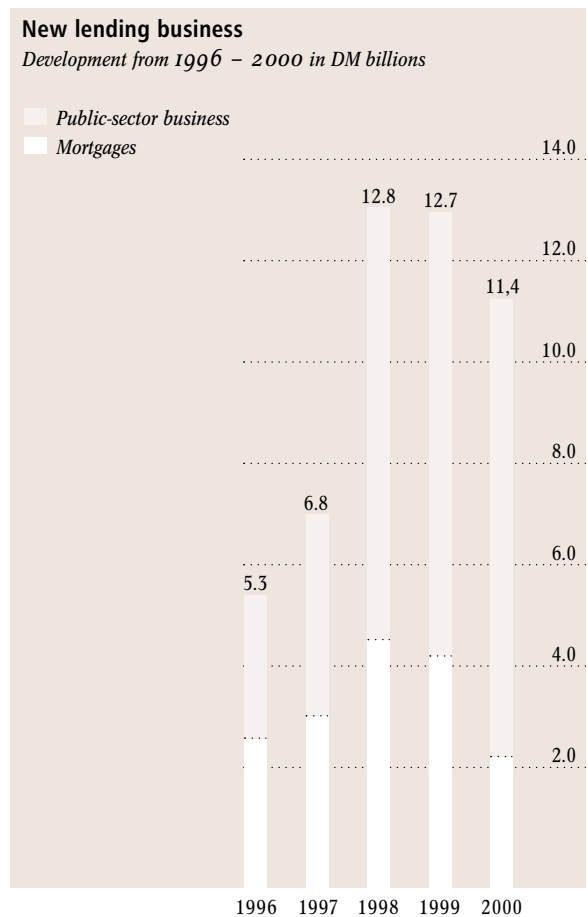


Management Report for Fiscal Year 2000

Financial Markets in Unrest

“I can calculate the movement of the heavenly bodies, but not the madness of people.” Isaac Newton expressed this insight in 1720 after he had suffered a total loss in the “South Sea Speculation.” Similar self-doubt may well have befallen many investors who were active in the stock market during the year 2000 as the DAX, after setting new price records in the spring, ended the year with a loss for the first time since 1994.

The mortgage banks were not affected by the swings of stock prices as the Mortgage Bank Act forbids them from making investments in the stock market. The repercussions of the stock markets on the fixed income market did, however, have an indirect effect on the mortgage banks. Yields on the fixed income market initially rose with the stock prices at the beginning of the year and the 10-year capital market interest rate, which is so important for our business, was already threatening to break through the 6% level in January. Then an initially volatile, subsequently quieter sideways move set in, before a definite downward trend took hold toward the end of the year. In contrast, short-term interest rates clearly rose until November and from that point tracked the general



“As a mortgage bank, we were not effected by the ups and downs of the stock market...”

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downward movement. All in all, the interest rate environment was comparably favorable for the mortgage bank business.

New Loans Continue at High Level

At DM 11.4 billion [€ 5.8 billion], new loans exceeded the DM 10 billion level for the third time in a row. The 5-year outlook makes it clear that, despite the slight drop in comparison to the prior year, we are progressing at a high level.

Demand for Real Estate Financing Returns to Normal

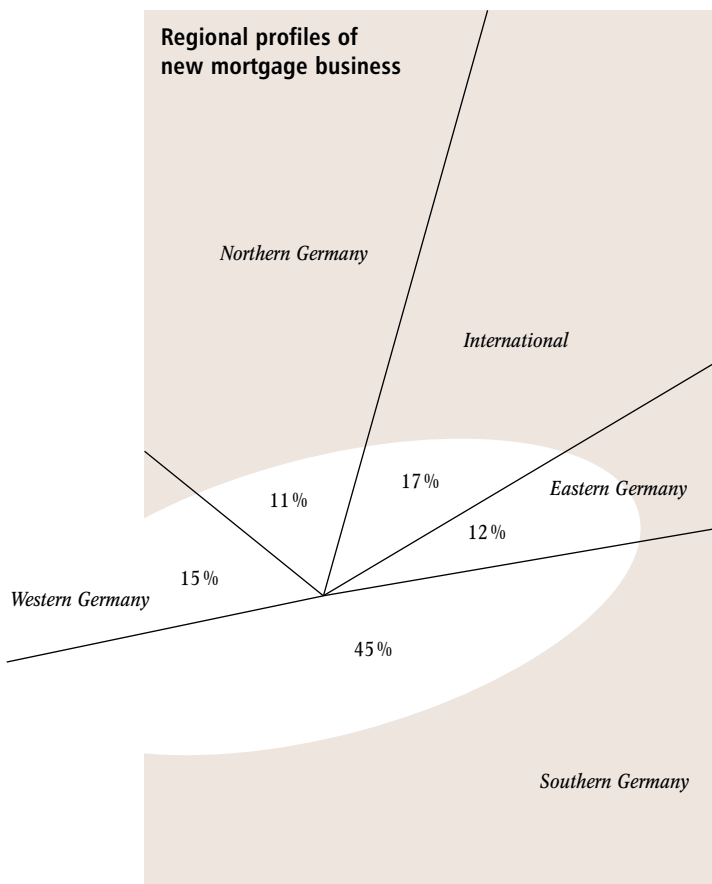
In the mortgage loans sector, market conditions, despite a favorable interest level in comparison to numerous years, on the whole were not as good as in previous years.

Construction activity in the year 2000 was the problem child within an economic development which otherwise was positive. The lapsing of tax incentive programs and rental laws, which are not very investor-friendly, offered little incentive in Germany for stronger capital investments in real estate despite the tapering off of the stock boom.

Following two boom years with more than DM 4.0 [€ 2.1] billion new loan commitments, the demand for real estate loans normalized. With DM 2.3 [€ 1.2] billion new commitments

and DM 0.7 [€ 0.4] billion renewals, new volume of DM 3.0 [€ 1.5] was achieved. A good two-thirds of the new commitments went to residential construction loans. Here the cooling of the economy was particularly evident, as was also the case for domestic commercial loans. The situation was better in other European countries where we have been involved to a limited extent since 1999, primarily in Great Britain and in the Netherlands. The saturation phenomena, which occurred here at home, were not to be felt in these markets, enabling commitments for DM 405.4 [€ 207.3] million to be made. The focal point of these transactions was first-class office real estate in the large business centers.

For domestic commercial real estate loans, the market conditions in some cases continued to be difficult. On the one hand, in many major cities in western Germany, in particular Munich, the supply of modern office real estate cannot meet the existing demand, and a pick-up in market developments can also be detected in other major urban areas in western Germany. On the other hand, the situation in less desirable regions of the old Länder [federal states] and in the new Länder, has not yet significantly improved. During the year under review we again maintained our



proven, selective lending policy and set high requirements in our lending on the creditworthiness of the customers and the quality of the collateral properties. We, along with our cooperative partners, the Volksbanken and Raiffeisenbanken, are concentrating on smaller, more marketable projects. The average amount of these loans is approximately DM 1.4 [€ 0.7] million.

In total, new commitments for commercial loans amounted to DM 684.2 [€ 349.8] million, a 9.0% increase over the prior year.

Nevertheless, the emphasis of mortgage activity, with a 2/3 share, continues to be the financing of domestic residential real estate. As in the prior year, residential construction loans are divided between new construction loans, representing about 40% of the total, and refinancing, modernization projects, and other loans on existing real estate at around 60%. Certainty of interest rates in a long-term real estate loan was again a convincing argument for customers in the year 2000. Although the interest level rose slightly, fixed interest periods of 10 years or more were in demand in 81% of new commitments [1999: 86%]. The regional distribution of new lending shows a clear increase of foreign activity to

“... New municipal lending commitments rise by 5.5 % ...”

17% [1999: 5%]. The figures for Germany reflect – with a share of 45% – the traditionally good market position of MünchenerHyp in Southern Germany. Involvement in eastern Germany is below average. This is attributable in no small part to the fact that from the beginning we have financed large prefabricated buildings [Plattenbauten], for example, only in very rare exceptional cases, with good rental situations and favorable evaluation of the future renting situation and usability factors. In view of the related risk situation, our resolve to continue this business policy has been confirmed.

Thanks to a product selection, which is always adapted quickly to meet the needs of the Volksbanken and Raiffeisenbanken, and to our great flexibility in marketing and processing, we were able to hold our position in the real estate financing market, which is generally declining, and to even win market share in some cases. Our HypoLine Discount product was particularly well received. It was designed for in-house marketing by our cooperative partners. As a low-risk, low-processing product requiring very little counseling, it is almost an Internet format product but, in contrast to many true Internet products, it is not limited to simple existing loans or renewals.

Municipal Financing Rose Slightly

In municipal financing, new lending commitments reached DM 9.1 [€ 4.7] billion, or 5.5% more than in 1999. Above all, issues of domestic credit institutions under public law were accepted to an increased extent, and offer slightly higher yields than issues of the federal government or of the Länder, for example. Therefore more than half of new municipal lending was to domestic credit institutions. An additional 15% represents foreign activity where our clients are primarily European central and regional governments. Strict limits and stringent quality requirements [minimum ratings] ensure the high quality of the portfolio. An additional pillar of our government financing activity in the year 2000 was again original municipal lending for cities, municipalities, and other domestic regional bodies. Here we were able to write up DM 1.2 [€ 0.6] billion and thus support the cooperative and Raiffeisen banks against local competition.

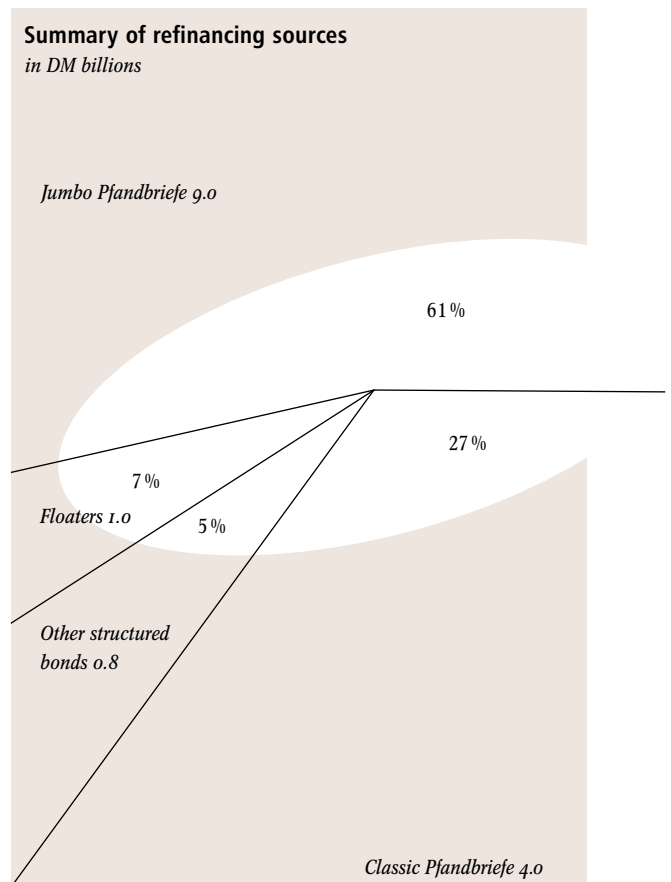
New Service Center for our Cooperative Partners

During the year 2000 we established a new B2B [business to business] service center in order to optimally utilize today's new communications technologies. Under the name

ServiceTeam800, the emphasis of the newly created organizational unit is on communications with our cooperative partner banks via telephone, fax, and e-mail. In line with this goal, the team is staffed with credit professionals from the area of real estate finance who quickly and competently answer questions concerning loans, conditions, and our software, HypoLine. The ServiceTeam800 service number is staffed from 8:00 a.m. to 6:00 p.m. The core team can be flexibly reinforced as needed with the addition of overflow agents from the loan departments in order to ensure optimal accessibility.

Further Development of Investor-Oriented Issuance Policy

The volume of refinancing funds with DM 14.7 [€ 7.5] billion [1999: DM 13.2 [€ 6.7] billion] was in line with the demands of our new lending business and at a high level. In the meantime, the Jumbo Pfandbrief segment has developed into the main refinancing pillar. Two-thirds of the gross volume in the year 2000 were generated by these large volume issues. As a result of the first-class ratings of our Pfandbriefe and our good market standing, it was possible to obtain favorable issuing rates. The prerequisite for this was an issuance policy that met the desires and needs of the



“... Sales of refinancing issues were at a high level and reached DM 14.7 billion ...”

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investors. In line with this strategy, the increase in the liquidity of existing issues was given special emphasis in the year 2000. Thus five of our Jumbo issues were increased by a combined amount of DM 1.7 [€ 0.9] billion. In total, DM 9.0 [€ 4.6] billion was issued in this segment.

MünchenerHyp Makes an Important Contribution to the Success of the FinanzVerbund on International Capital Markets.

Access to the international capital markets is increasingly proving to be a strategic competitive factor for the success not only of individual institutions, but also of entire groups of banks.

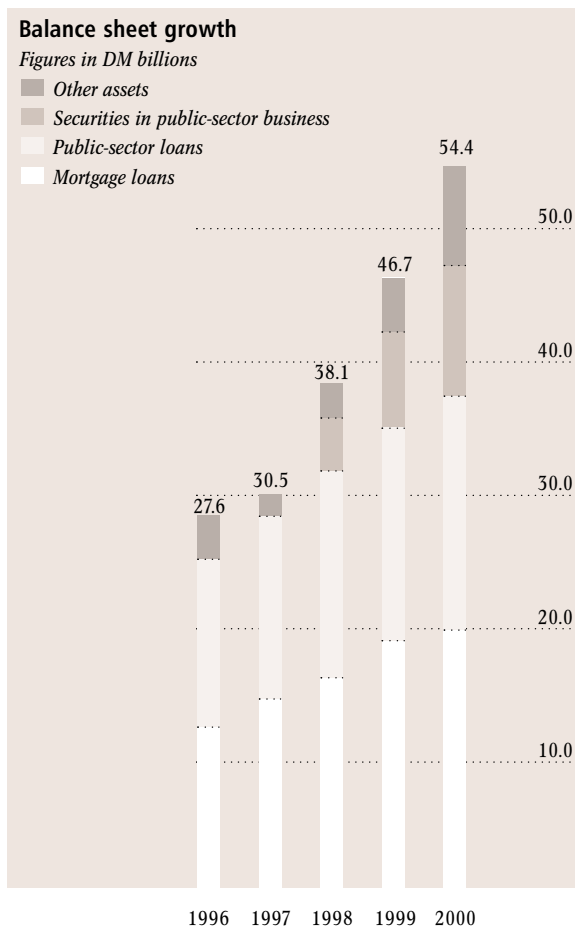
In this area, MünchenerHyp is making an important contribution for the continued successful development of the cooperative FinanzVerbund. Since the cooperative banking group can only rely on a comparatively small number of issuers, we are called upon to a special degree. In addition to this, as the only mortgage bank which is a registered cooperative [eingetragene Genossenschaft or eG], the “eG” we place on our Pfandbriefe serves as our unique brand. In the interim, our Jumbo issues cover the spectrum of

maturities from one through ten years. Our issuance strategy is investor oriented and serves as our foundation of trust which is the prerequisite for a group of institutions to be able to operate successfully within the international capital markets.

First-Class Ratings Were Again Affirmed

The evaluation the large rating services is indispensable for a successful, internationally oriented issuance strategy. MünchenerHyp and its issues were rated by Moody's Investors Service in the year 2000, and once again our Mortgage Pfandbriefe as well as our Public Pfandbriefe received the best possible rating of Aaa.

The other ratings by Moody's [Aa3 for unsecured long-term items, prime 1 for short-term deposits, C+ for financial strength] also stand up in comparison with the best German institutions. Among mortgage banks, few institutions have a complete spectrum of ratings extending beyond the Pfandbrief area. An additional strong argument for institutional investors is the fact that MünchenerHyp issues do not count against corporate group limit amounts. This makes our institution a sought after entity.



Solid Balance sheet Growth, Favorable Balance Sheet Structure

Total assets reached DM 54.4 [€ 27.8]. While pure balance sheet growth has traditionally been of secondary importance in the framework of our strategic goals, we nevertheless achieved a satisfactory growth figure – plus 16.6% – even when compared within the industry.

More important than balance sheet growth are the structural balance sheet ratios, in particular favorable relationships in the loan portfolio. These are characterized through a comparably high inventory of mortgage loans and within the mortgage loans, by a high percentage of residential construction loans.

The mortgage loans represent 53% of our loan portfolio of which DM 16.5 [€ 8.4] provides coverage for Pfandbriefe. The breakdowns contained in the notes to the financial statements demonstrate the favorable risk structures. The average loan amount is DM 0.16 [€ 0.08] million. Only 13% of the loans are larger than DM 1.0 [€ 0.5] million. The focal point, with a share of 87% of loan volume, is on residential real estate.

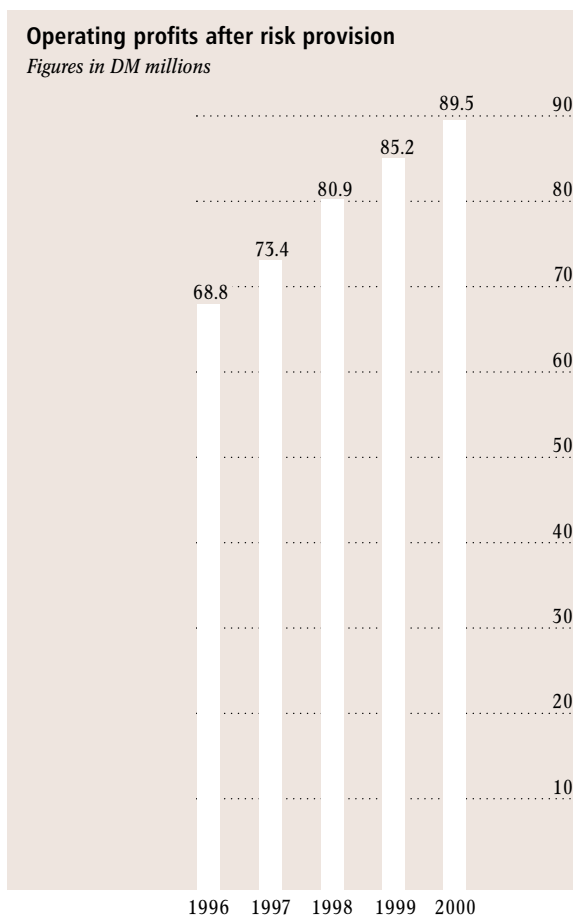
The second pillar of our mortgage bank business consists of

“Total assets increased by 16.6% to DM 54.4 billion ...”

public-sector lending and represents 47% of MünchenerHyp's net loan portfolio; including the securities of public issuers used to cover Pfandbriefe obligations, public-sector lending holds a 58% share. Especially in foreign activity we utilize the possibility of holding securities rather than promissory notes as coverage. But domestic public-sector borrowers are also increasingly seeing the advantages of securitization in obtaining credit: higher liquidity and fungibility as well as simple, standardized documentation. In addition to our large-volume activity with European central and regional public-sector bodies and banks under public law, we are also involved in rather small-volume lending activity with domestic municipalities and regional bodies.

Satisfactory Growth in Income and Continued High Capital Investment

Net interest income increased to DM 220.9 [€ 112.9] million, while the net expense of commission activity declined in tandem with new mortgage loan activity. Thus the interest and commission results exceeded DM 200 [€ 102.3] million for the first time, as they rose by 15.2%. Commission expenses dropped from DM 33.1 [€ 16.9] million to DM 22.7 [€ 11.6] million, or almost one third.



IT investments were the major expense item in the income statement. As repeatedly reported, we are converting our IT system by 2002 to an up-to-date standard software. During this period, increased expenditures will be incurred. Administrative expenses, including amortization of intangible assets and depreciation of fixed assets, therefore rose by 14.8% to DM 93.1 [€ 47.6] million. With a work force of 383 employees, we have completed the required build-up of capacity. The corresponding expense item therefore increased by only 6.0%. Since total administrative costs increased in the same degree as interest and commission results, the operating results before risk reserves also increased by 15.6% and broke through the DM 100 million level. With respect the situation in the real estate market, which continues in some cases to be unsatisfactory, we increased provisions for losses by DM 5.5 [€ 2.8] million to DM 16.7 [€ 8.5] million. Operating results increased by 5.1% to DM 89.5 [€ 45.8] million and thus is at the planned level. Despite better earnings, the reduction in tax expense in comparison with the prior year is attributable to the planned build up of capital shares in the “pay-out take-back” procedure and the introduction of the “half income” method for taxes.

Further Strengthening of Equity Capital

The operating results of DM 89.5 [€ 45.8] million makes it possible to again allocate DM 20 [€ 10.2] [prior year: DM 20 [€ 10.2] million] to reserves.

After this, unappropriated net income in the amount of DM 57.6 [€ 29.4] remains, which in accordance with the recommendation for distribution of profit should be used as follows:

50.13% [rounded] Dividends DM 54,149,574.86

which will be used in the “pay out, take back” method to increase capital share from formerly DM 100.00 [€ 51.13] per share to DM 136.91 [€ 70.0]

Allocation to statutory reserves DM 3,000,000.00

Carried forward to the new year DM 439,165.01

Upon approval by the representatives' meeting of this recommendation, reserves will increase to DM 384.2 [€ 196.4] million. In addition to strengthening equity capital out of current earnings, for the first time, subordinated liabilities in the amount of DM 26.0 [€ 13.3] million have

*“Operating results advanced by 5.1% to
DM 89.5 million ...”*

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been obtained, which can be counted as supplemental capital. Taking into consideration the increased share amounts and the undisclosed capital contributions received, MünchenerHyp with more than DM 1.3 [€ 0.7] billion will have a solid equity capital basis to continue its course of quality growth.

Highly Qualified Employees Ensure Success

Highly qualified, committed employees are needed in order for the Bank to recognize and make use of market opportunities and to be able to flexibly and successfully meet changing market conditions. Therefore a market and performance-oriented personnel policy is an essential element in our path forwards a successful future. Our customers and partners expect a high degree of professionalism. For this reason, permanent continuing education is a matter of course in the everyday life of our employees. During the 2000 business year, our employees completed over 900 days of seminars.

On December 31, 2000, 383 persons were employed in the bank; 15 persons were employed in our M-Wert subsidiary. The yearly average number of employees rose from 377 in 1999 to 390 and was in line with our forecasts.

Construction of Our New Bank Building Is Moving Forward as Scheduled

While the year 1999 was marked by the planning of our new bank building, actual excavation work began for the two underground levels in March 2000. In the meantime, our new headquarters is taking shape. The cornerstone laying celebration took place on July 20, 2000. The raw shell construction work on the two below ground levels was completed at the beginning of October 2000 and by the end of the year 2000, the four above-ground floors were largely completed.

Completion of construction of the shell is planned for the end of February 2001. Following that, work on finishing out the interior will begin. If work proceeds according to plan, the new construction will be ready for occupancy in March/April 2002.

It is already clear at this point how the development of the Altstadttring will be completed and complemented through the construction of a modern building with a high degree of character, which on the other hand also reflects the historical connection. The new building, almost 120 meters long, will have a five-story glassed entrance hall facing the Hofgarten.

Controlling Risks as a Competitive Factor

Reliable mastery of risk is increasingly becoming a competitive factor for credit institutions. Mortgage banks, in particular, which are restricted by the terms of the specialty bank principle to low-risk fields, have recognized that this restriction of business possibilities contains a competitive advantage which should not be underestimated.

Institutional investors reward a conservative risk policy with more favorable issuing conditions for securities and derivatives issued. Gone are the days when one Pfandbrief was the same as another. International investors, in particular, now distinguish even between Aaa-rated Pfandbriefe. This differentiation provides MünchenerHyp with an advantage as it achieves refinancing advantages due, in no small part, to its conservative risk policy. We have installed a comprehensive risk controlling system to implement and monitor this strategy. Our system enables us to identify, analyze, and control all relevant risks which are broken down by the system into the following categories:

- Borrower failure risks
- Liquidity risks
- Market risks and
- Other risks

MünchenerHyp has up-to-date methods for early recognition and measurement of the risk in each of the above categories. The most important tools and methods are described below. All risks are aggregated on the level of the entire bank. A so-called risk budgeting procedure determines the available risk capital and ensures that risks do not at any point in time exceed the ability of the bank to bear risks.

Borrower failure risks

Included under this heading are all losses of value which could arise as a result of a deterioration in creditworthiness or default of loan customers, or counter-parties in the securities and derivative business.

Risks in lending business are taken into account by a number of individual-transaction-related and portfolio-oriented preventative measures which taken together constitute the traditionally conservative credit culture of MünchenerHyp.

The preventative measures extend beyond the careful implementation of the statutory requirements of Articles 13, 18, and 19 of the German Banking Act [KWG] and the credit limitation under Article 49 of the Cooperative Association

“MünchenerHyp’s risk policy led to refinancing benefits...”

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Act. Property risks are limited through appropriate, conservative valuation on the basis of the valuation instructions established in writing by the management and submitted to the Federal Banking Supervisory Office [BAKred]. The independent experts of our subsidiary M-Wert GmbH are called upon to provide the appraisals. The entire loan decision and monitoring process is to a large degree computer-supported. Deviations from the written and documented process steps are not tolerated. Collection and posting of payments due is automated. In the event of payment delinquencies, a dunning procedure which is also automated is initiated. Relatively large and complex loans are subject to additional ongoing monitoring [stand-by monitoring]. Management regularly receives written reports on all risk-related developments. In addition to the preventive measures related to individual transactions, credit risks are also monitored on a portfolio basis. For this purpose, a credit scoring system has been set up to classify the loans within our lending portfolio into risk categories with creditworthiness and property risks distinguished from each other.

Procedures to avoid concentrations of risk provide for appropriate differentiation within the lending portfolio

based on properties, borrowers, regions, etc. Furthermore, there are arrangements to control the granularity of the relevant credit portfolios. The monitoring of these aspects is also integrated into the risk controlling system and results are regularly reported to management. Counter-part risks are countered, beyond the statutory provisions for mortgage banks, [limitation to “suitable credit institutions”], through a differentiated limit system.

Liquidity Risks

Liquidity risks are controlled through the use of precise, daily-prepared, forecast and planning statements.

In liquidity planning, even a short-term negative development in the markets is taken into consideration. To ensure liquidity, even taking into consideration difficult market conditions, we have at our disposal adequate securities reserved for lombard facilities with the central bank, in addition to our money market business relations with a large number of financially sound, first-class banks as well as access to the money market transactions of the ECB [European Central Bank], and participation in the further development of the repo markets.

Market Price Risks

Market price risks refer to potential losses of value due to price changes on the financial markets. Risks arising from changes in interest rates are especially relevant for mortgage banks. The basis of measurement, limitation, and control of market price risks is the present value concept, which is used nationally and internationally as the standard for all larger institutions. We go beyond the “Minimum Requirements for the Operation of Commercial Activities of Credit Institutions” issued by the BAKred and include all balance-sheet and off-balance-sheet risk items. The parameters used for measurement are selected conservatively and are based, as worst-case scenario, on the maximum interest changes observed during the last ten years. The interest rate risk of the bank is continually monitored on this basis [quasi real-time monitoring] and is reported daily to management.

In setting the risk limits, stringent benchmarks are applied. Even under the assumption of the worst case for the development of capital markets, related interest rate risks are covered by the Bank's earning power. The limits established by management, and the measurement methods employed for risk monitoring, together with organizational preventive

measures ensure that even under extreme conditions interest earnings, which are not exposed to market risks, will be sufficient to earn the standard dividends and to strengthen the Bank's reserves to the required extent. We welcome the BAKred regulations for increasing transparency of the interest rate change risks for mortgage banks, which will become effective April 2001.

Other Risks

Other risks consist mainly of operational risks such as fraud risks, legal and tax risks, risks from malfunctioning or failure of IT systems, and other operating risks. The customary preventive measures of the industry to avoid or limit these risks are in place. In particular there are emergency plans to cover interruptions of the computer systems.

The possibility of switching over to an emergency computer system is ensured through periodic tests and we have entered into contractual agreements to ensure the availability of the required resources. To the extent that insurance against operating risks could be obtained, the necessary personal and property insurance policies were obtained in the amounts customary for the industry. The internal audit system which reports directly to the Board of Management

“As expected, M-Wert GmbH posted expected favorable results...”

examines compliance with the preventive measures on a regular basis. Within the framework of the above-described risk budgeting procedure, risk capital is also provided in appropriate amounts to cover other risks.

Risk control procedures are continually further developed in order to ensure their state-of-the-art status.

Our Subsidiary M-Wert Meets Expectations

Founded in 1999, our wholly owned subsidiary M-Wert GmbH became the first appraisal firm of the cooperative FinanzVerbund. During its first full business year M-Wert turned in the anticipated positive performance.

New, tighter provisions both for crediting collateral loans in Principle 1, as well as the privilege of crediting collateral loans to the large loan limits led to a significant increase in demand for qualified appraisers within the entire banking industry. Against this background, many cooperative primary banks decided to make use of the resources available in Munich. In some cases, primary banks transfer the complete appraisal process for larger loans to M-Wert GmbH. In addition, our partners profit from the know-how transfer offered. As

a result, M-Wert GmbH is becoming increasingly important as a provider of property appraisal knowledge and training to primary banks' employees.

M-Wert GmbH was also very heavily involved in the preparation of the new value determination instructions and the lending guidelines by the BVR.

M-Wert GmbH makes its services available throughout Germany at seven locations with over a dozen experts who are generally certified or publicly appointed appraisers. Additional regional and personnel expansions are planned.

Significantly positive operating results were already booked for the firm's first business year. Profits earned were carried forward to the new fiscal year.

The Year 2001 Begins with Falling Interest Rates

The downward movement of the long-term capital market interest rates which was observed at the end of 2000 continued into the second millennium, which has now begun – even for mathematical purists. Against the background of this development we saw a noticeable cooling off of the

“... we have set ourselves especially ambitious goals for 2001 in the new issues business...”

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economy in the United States which led the Fed to unexpectedly lower interest rates by 0.5 % as soon as January 3rd. The next 0.5 % cut in interest rates occurred on January 31st. With the somewhat firmer course of the euro and slightly lower inflation risks, this mood spread into the European capital markets. Thus the danger that long-term interest rates would soon climb above the important 6 % level for ten-year maturities – a key benchmark for mortgage banks – declined.

Nevertheless, we do not believe that the favorable interest situation will be enough to pull the construction sector out of its slump. Early indicators for private housing construction – an important sector for the Volksbanken and Raiffeisenbanken, and therefore also for us – do not look promising. For these reasons our forecasts are based on the assumption that new mortgage activity will remain at the level seen in the year 2000. We are taking a defensive stance in the public-sector finance sector and we will exploit favorable market developments. Overall we anticipate that new loan activity in 2001 will again remain at the above average level noted in the last three years and that we will once again reach the DM 10 billion level.

We have set particularly ambitious issuance goals as we plan, above all, to expand our international investor base. For this purpose, a € 10 billion debt issuance program was set up at the turn of the year. This will make activity in covered and uncovered MünchenerHyp issues possible on the basis of a uniform, internationally recognized documentation standard. An attractive outlook that is of special interest to international investors. Far more than 50 % of the planned gross volume of refinancing funds – approximately DM 12.0 [€ 6.1] billion – is expected to consist of Jumbo issues, with, in contrast to the year 2000, a new benchmark issue also being expected. This, however, assumes that the markets will have a corresponding ability to absorb new paper.

As we continue our high level of capital expenditures into 2001 we anticipate that our earnings situation will permit a moderate rise in net operating income. We currently estimate that the favorable effects of the tax reform program will enable our net income to significantly exceed the figures posted in recent years, excluding the year 2000 and its special circumstances.

Our mid-term forecast anticipates a continued positive development of the Pfandbrief market and we will continue

our successful, investor-oriented issuance policy. This will involve a further broadening of our international refinancing base. A revival of the construction sector is the prerequisite for a lasting increase in the demand for real estate financing as well as a key driver of our domestic lending activities. No signs of this needed revival are currently visible. Thus, based on our involvement with the aggressive cooperative FinanzVerbund, we can assume that the current level of new business activity forms a sound platform for 2001. Based on this platform we do not anticipate a return to the levels noted during the boom years of 1998 and 1999. We expect the completion of our current investment phase in the IT area and the construction of our new bank building will lead to further positive developments. Both activities form the foundation for additional increases in productivity.

Completed in February 2001

Financial Statements

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Balance Sheet, December 31, 2000

Income Statement for the year ended December 31, 2000

Notes

ASSETS	DM	DM	DEC 31, 99 DM'000
1. Cash reserve			
a) Cash on hand	324,486.47		335
b) Balances with central banks	71,783,460.67		14,296
<i>Of which with</i>			
<i>Deutsche Bundesbank DM 71,783,460.67</i>		72,107,947.14	14,631
2. Claims on banks			
a) Mortgage loans	574,273,879.38		459,484
b) Public-sector loans	5,979,587,239.87		6,790,125
c) Other claims	2,112,075,789.64		1,254,126
<i>Of which payable</i>			
<i>on demand DM 654,107,417.40</i>		8,665,936,908.89	8,503,735
3. Claims on customers			
a) Mortgage loans	19,231,969,551.59		18,037,095
b) Public-sector loans	11,300,019,990.54		9,753,252
c) Other claims	165,802,178.17		111,495
<i>Of which with securities</i>			
<i>pledged as collateral DM 90,199.47</i>		30,697,791,720.30	27,901,842
4. Bonds and other			
fixed-income securities			
a) Bonds and notes	13,358,690,604.03		9,125,093
aa) Public-sector issuers DM 3,352,110,765.04			[3,055,402]
<i>Of which eligible as collateral for</i>			
<i>Deutsche Bundesbank advances DM 2,476,043,479.62</i>			
ab) Other issuers DM 10,006,579,838.99			[6,069,691]
<i>Of which eligible as collateral for</i>			
<i>Deutsche Bundesbank advances DM 7,684,834,831.69</i>			
b) Own bonds and notes	478,403,661.34		443,958
<i>Nominal value DM 477,144,010.98</i>		13,837,094,265.37	9,569,051
<i>Carried forward</i>		53,272,930,841.70	45,989,259

DEC 31, 99
DM'000

LIABILITIES, CAPITAL AND RESERVES

DM

DM

1. Liabilities to banks

a) Registered mortgage Pfandbriefe issued	1,288,776,868.22		1,327,699
b) Registered public-sector Pfandbriefe issued	1,246,573,311.11		1,355,043
c) Other liabilities	836,175,812.63		1,570,167
<i>Of which:</i>			
<i>Payable on demand DM 72,288,586.24</i>			
<i>Delivered to lenders as collateral for loans received</i>			
<i>registered mortgage Pfandbriefe DM 8,926,228.73</i>			
<i>and registered public-sector Pfandbriefe DM 10,694,915.63</i>			
		3,371,525,991.96	4,252,909

2. Liabilities to customers

a) Registered mortgage Pfandbriefe issued	6,372,942,436.95		6,051,785
b) Registered public-sector Pfandbriefe issued	3,254,422,991.02		3,071,415
c) Savings deposits	78,986.77		80
<i>with agreed notice periods of three months DM 78,986.77</i>			[80]
d) Other liabilities	1,593,699,599.60		1,687,095
<i>Of which:</i>			
<i>Payable on demand DM 1,745,982.39</i>			
<i>Delivered to lenders as collateral for loans received</i>			
<i>registered mortgage Pfandbriefe DM 204,118,725.03</i>			
<i>and registered public-sector Pfandbriefe DM 64,000,000.02</i>			
		11,221,144,014.34	10,810,375

3. Certificated liabilities

a) Mortgage Pfandbriefe issued	8,936,048,975.38		7,195,338
b) Public-sector Pfandbriefe issued	25,045,186,782.12		19,274,941
c) Other bonds issued	4,005,340,572.39		3,612,372
		37,986,576,329.89	30,082,651

4. Liabilities incurred as trustee

<i>Of which loans DM 1,228,517.97</i>		1,228,517.97	6,254
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5. Other liabilities

		666,983,397.25	380,401
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Carried forward

		53,247,458,251.41	45,532,590
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ASSETS	DM	DM	DEC 31, 99 DM'000
<i>Brought forward</i>		53,272,930,841.70	45,989,259
5. Equities and other variable-yield securities		197,030,180.50	177,027
6. Participating interests and shares in cooperatives			
a) Participating interests	22,011,028.69		19,168
<i>Of which in banks DM 8,359,578.54</i>			
b) Shares in cooperatives	2,125,867.49		2,124
<i>Of which in credit cooperatives DM 2,080,000.00</i>			
		24,136,896.18	21,292
7. Shares in affiliated companies		97,791.50	98
8. Assets held in trust		1,228,517.97	6,254
<i>Of which loans DM 1,228,517.97</i>			
9. Tangible assets		147,599,898.67	100,900
10. Other assets		563,228,832.39	160,675
11. Deferred items			
a) From issuing and lending business	227,741,960.18		211,925
b) Other	5,678,235.21		6,288
		233,420,195.39	218,213
Total assets		54,439,673,154.30	46,673,718

DEC 31, 99
DM'000

LIABILITIES, CAPITAL AND RESERVES

DM

DM

<i>Brought forward</i>		53,247,458,251.41	45,532,590
6. Deferred items			
a) From issuing and lending business	118,227,739.85		159,449
b) Other items	49,088.92		57
		118,276,828.77	159,506
7. Provisions			
a) Provisions for pensions and similar obligations	21,698,215.00		19,363
b) Provisions for taxes	6,598,619.00		11,635
c) Other provisions	9,652,604.87		10,466
		37,949,438.87	41,464
8. Subordinated liabilities		26,012,539.00	0
9. Profit-participation certificates		202,000,000.00	202,000
10. Capital and reserves			
a) Subscribed capital	369,187,356.38		367,480
aa) Members' capital contributions DM 108,018,631.38			[106,311]
ab) Silent participations DM 261,168,725.00			[261,169]
b) Revenue reserves	381,200,000.00		358,200
ba) Legal reserve DM 378,200,000.00			[355,200]
bb) Other revenue reserves DM 3,000,000.00			[3,000]
c) Unappropriated profit	57,588,739.87		12,478
		807,976,096.25	738,158
Total liabilities, capital and reserves		54,439,673,154.30	46,673,718
1. Contingent liabilities			
Contingent liability on guarantees and indemnities		73,623,500.95	187,743
2. Other commitments			
Irrevocable loan commitments		1,190,574,821.99	2,197,383

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EXPENSES	DM	DM	DEC 31, 99 DM'000
1. Interest expense		2,689,347,356.39	2,196,934
2. Commission paid		22,702,976.34	33,066
3. General administrative expenses			
a) Personnel expenses	47,255,690.92		44,585
aa) Wages and salaries DM 36,752,590.73			[34,010]
ab) Social security contributions and cost of pensions and other benefits DM 10,503,100.19 <i>Of which for pensions DM 4,723,937.47</i>			[10,575]
b) Other administrative expenses	40,895,275.10		30,761
		88,150,966.02	75,346
4. Amortization and depreciation of intangible and tangible assets		4,933,095.27	5,726
5. Other operating expenses		4,272,869.41	3,295
6. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses		16,734,217.65	11,229
7. Write-downs on and adjustments to the value of investments, shares in associated companies and securities accounted for as fixed assets.		2,290,930.67	0
8. Taxes on income		11,959,940.37	59,936
9. Other taxes not included under "Other operating expenses"		142,998.54	-7,041
10. Net income		77,413,006.85	32,272
Total expenses		2,917,948,357.51	2,410,763
1. Net income		77,413,006.85	32,272
2. Retained earnings brought forward from previous year		175,733.02	206
		77,588,739.87	32,478
3. Transfer to legal reserve		20,000,000.00	20,000
4. Unappropriated profit		57,588,739.87	12,478

INCOME	DEC 31, 99	
	DM	DM'000
1. Interest income from		
a) Lending and money market operations	2,289,693,728.97	2,062,631
b) Fixed-income securities and government debt-register claims	608,916,447.80	336,842
	2,898,610,176.77	2,399,473
2. Current income from		
a) Shares and other variable-yield securities	10,400,126.03	0
b) Participating interests and shares in cooperatives	1,236,166.26	966
	11,636,292.29	966
3. Commission received		5,739
4. Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets		2,465
		0.00
5. Other operating income		2,120
		2,997,706.35
Total income		2,410,763
		2,917,948,357.51

Notes | GENERAL INFORMATION
ON ACCOUNTING POLICIES

General Information on Accounting Policies

All claims are stated at nominal amounts as permitted by section 340 e [2] of the German Commercial Code. Differences between amounts disbursed and nominal amounts are included under deferred items. All identifiable specific loan losses are covered by specific value adjustments and provisions set up against claims for repayment of principal and payment of interest. Possible losses are covered by general value adjustments. The Bank has also provisioned against general banking risks as permitted by section 340 f of the Commercial Code. Securities held in the liquidity portfolio are valued at the lower of cost and market. Securities acquired in the course of the Bank's local authority business are treated as fixed assets and valued at cost. Discounts and premiums are recognized as interest income or expense over the terms of the securities. Securities associated with swap agreements are valued together with these agreements, as a single item.

Compensation for early repayment of debts is treated as fully received income and no longer limited based on the fixed-interest term of the repaid loan.

Tangible assets are stated at cost less accumulated depreciation. Depreciation consists of systematic depreciation, and full depreciation of low value fixed assets [costing not more than DM 800 each excluding VAT] in the year of acquisition.

Liabilities are stated at the amounts repayable. Differences between nominal amounts and amounts disbursed are included under deferred items. Provisions have been set up for uncertain liabilities in the amounts expected to become payable.

Provisions for pension obligations were computed by the "Teilwert" method described in section 6a of the Income Tax Act [roughly equivalent to the "entry-age normal" method] using actuarial methods and an interest rate of 6%.

Derivative financial instruments are employed to hedge risks inherent in on-balance sheet transactions and are therefore not valued individually.

Balance sheet items denominated in a foreign currency are translated at the year-end exchange rate in accordance with section 340 h [1] of the Commercial Code. Income and expense items are translated at the historical rate.

Maturity analysis by residual term

ASSETS	DEC 31, 00 IN DM'000
Claims on banks	8,665,937
≤ Three months	1,297,698
> Three months ≤ one year	1,050,335
> One year ≤ five years	3,786,155
> Five years	2,531,749
Claims on customers	30,697,792
≤ Three months	774,682
> Three months ≤ one year	1,351,111
< One year ≤ five years	5,598,551
> Five years	22,973,448
Bonds and other fixed-income securities	
≤ One year	4,495,867
LIABILITIES	DEC 31, 00 IN DM'000
Liabilities to banks	3,371,526
≤ Three months	217,463
> Three months ≤ one year	466,153
> One year ≤ five years	1,563,460
> Five years	1,124,450
Liabilities to customers [excluding savings deposits]	11,221,144
≤ Three months	432,399
> Three months ≤ one year	306,187
> One year ≤ five years	4,269,447
> Five years	6,213,111
Certificated liabilities	37,986,576
≤ Three months	4,096,798
> Three months ≤ one year	6,573,672
> One year ≤ five years	14,248,830
> Five years	13,067,276

Claims on and liabilities to companies in which participating interests are held

	DEC 31, 00 IN DM'000		DEC 31, 99 IN DM'000	
Claims on				
- Banks	298,889		506,332	
- Customers	25,408		25,947	
Liabilities to				
- Banks	70,000		175,221	
- Customers	0		0	

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Claims on and liabilities to affiliated companies

	DEC 31, 00 IN DM'000		DEC 31, 99 IN DM'000	
Claims on				
- Customers	51		101	
Liabilities to				
- Customers	517		271	

Analysis of assets eligible for stock exchange listing between listed and unlisted securities

Asset category	DEC 31, 00 IN DM'000		DEC 31, 99 IN DM'000	
	<i>listed</i>	<i>unlisted</i>	<i>listed</i>	<i>unlisted</i>
Bonds and other fixed-income securities	13,116,235	0	8,942,377	0
Participating interests	650	2	650	2

Repurchase agreements

The net book value of assets sold under repurchase agreements was DM 46,780 thousand [DEC 31, 99 DM 840,712 thousand].

Notes | NOTES TO THE BALANCE SHEET AND
INCOME STATEMENT

Details of fixed assets

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	<i>Cost</i>	<i>Additions</i>	<i>Disposals</i>	<i>Depreciation provided in 2000</i>	<i>Accumulated depreciation</i>	<i>Net book value Dec 31, 00</i>	<i>Net book value Dec 31, 99</i>
	DM'000	DM'000	DM'000	DM'000	DM'000	DM'000	DM'000
Tangible assets	134,291	51,653	637	4,933	37,707	147,600	100,900
		Changes +/- *]					
Participating interests and shares in cooperatives	21,292		+ 2,845			24,137	21,292
Shares in affiliated companies	98					98	98
Bonds and other fixed-income securities	6,629,307		+ 2,408,876			9,038,183	6,629,307

*]The Bank has exercised the option, available under section 34[3] of the Accounting Regulation for Banks and Financial Services Institutions, to combine certain items.

The additions to securities carried as fixed assets consisted of public-sector issues as referred to in the Third Financial Market Promotion Act.

Tangible assets

The portion of the total value attributable to the land and buildings used by the Bank is DM 65,254 thousand [DEC 31, 99 DM 58,319 thousand].

Subordinated assets

Claims on banks include an amount of DM 22,558 thousand [DEC 31, 99 DM 3,000 thousand].

Subordinated liabilities

This item includes DM 26,013,000 [previous year DM 0]. Prorated interest of DM 245,000 was incurred on subordinated liabilities. Subordinated liabilities that exceeded 10% of total returns consisted of:

<i>Nominal amount</i>	<i>Currency</i>	<i>Interest rate</i>	<i>Maturity date</i>
5,000	Euro	6.63 %	October 26, 2010
1,500	Euro	6.63 %	November 08, 2010
3,000	Euro	6.66 %	November 15, 2010
2,500	Euro	6.56 %	November 29, 2010

Fund raising activities did not include any conditions that deviated from Art. 10 Para. 5a. of the Banking Act. Premature repayment obligations are excluded in all cases. The conversion of these funds into capital or other form of debt has not been agreed on or is foreseen.

Profit-participation certificates

The amount of profit-participation certificates satisfying the criteria of section 10[5] of the Banking Act is DM 201,184 thousand.

Details of revenue reserves	<i>Legal reserve</i>	<i>Other revenue reserves</i>
	DM'000	DM'000
January 1, 2000	355,200	3,000
Transfer from 1999 retained earnings	3,000	0
Transfer from 2000 net income	20,000	0
December 31, 2000	378,200	3,000

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Member's capital contributions

Members' capital contributions disclosed under capital and reserves consisted of:

	DEC 31, 00 IN DM	DEC 31, 99 IN DM
Capital contributions	108,018,631.38	106,311,060.72
a) Of remaining members	106,965,231.38	105,900,060.72
b) Of former members	1,040,800.00	406,100.00
c) In respect of shares under notice	12,600.00	4,900.00
Outstanding obligatory payments in respect of shares	1,368.62	939.28

Silent participations

The silent participations of DM 261,169 thousand satisfy the criteria of section 10[4] of the Banking Act. The interest expense attributable to these participations amounted to DM 16,426 thousand.

Foreign currency items

Foreign currency items included in assets and liabilities amounted to [in assets] DM 1,154,735 thousand [DEC 31, 99 DM 541,979 thousand] and [in liabilities] DM 479,869 thousand [DEC 31, 99 DM 649,539 thousand]. All foreign currency transactions were hedged to protect the Bank against the risk of exchange rate movements.

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Futures and derivatives

The Bank entered into the following transactions to protect itself against the risk of interest rate or exchange rate movements.

NOMINAL AMOUNTS [IN MILLIONS OF DM]

	<i>Residual term ≤ one year</i>	<i>Residual term > one year ≤ five years</i>	<i>Residual term > five years</i>	<i>Total</i>	<i>Counterparty risk [value at risk]</i>
INTEREST-RATE-RELATED TRANSACTIONS					
Interest rate swaps	3,815	6,606	13,996	24,417	240
Interest rate options					
- Calls	98	40	0	138	1
- Pulls	686	455	190	1,331	0
Other interest-rate contracts	157	0	215	372	0
CURRENCY-RELATED TRANSACTIONS					
Cross-currency swaps	468	248	587	1,303	82

The counterparties are all banks in OECD countries. These transactions were entered into to hedge risks inherent in on-balance-sheet items; the only risk associated with them is therefore that of non-settlement. The value at risk is the sum of all positive market values [replacement costs].

Analysis of cover for Pfandbriefe

A. MORTGAGE PFANDBRIEFE

DEC 31, 00 IN DM'000

Ordinary cover	16,575,912
1. Claims on banks [mortgage loans]	383,069
2. Claims on customers [mortgage loans]	16,165,294
3. Tangible assets [charges on land owned by the Bank]	27,549
Surrogate cover	0
Total cover	16,575,912
Total mortgage Pfandbriefe requiring cover	16,347,313
Surplus cover	228,599

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B. PUBLIC-SECTOR PFANDBRIEFE

DEC 31, 00 IN DM'000

Ordinary cover	28,224,870
1. Claims on banks [public-sector loans]	5,732,811
2. Claims on customers [public-sector loans]	10,727,069
3. Bonds and other fixed-income securities	11,764,990
Surrogate cover	1,631,604
Total cover	29,856,474
Total public-sector Pfandbriefe requiring cover	28,931,075
Surplus cover	925,399

Details of the mortgage loans portfolio

DM IN THOUSANDS

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December 31, 1999			DM 18,496,579
Additions in 2000			
- Disbursements	DM	2,382,780	
- Reclassifications	DM	- 6,481	DM 2,376,299
Reductions in 2000			
- Scheduled repayments	DM	450,259	
- Renewals proposed but not accepted	DM	339,867	
- Unscheduled repayments and other reductions	DM	276,509	- DM 1,066,635
December 31, 2000	<i>Items</i>	109,606	DM 19,806,243
Of which employed as cover			DM 16,548,363
Mortgage loans employed as cover were granted on			
	<i>Items</i>		DM
- Residential properties	96,000		14,463,550
- New buildings with no revenue-generating capacity as yet	1,803		276,053
- Mortgages on construction sites	118		19,116
- Business properties	3,408		1,750,620
- Agricultural properties	1,101		39,024
	102,430		16,548,363

Analysis of mortgage loans employed as cover

A. BY SIZE

	> DM'000	≤ DM'000	<i>Number of properties</i>	<i>Number of loans</i>	DM'000
		100	29,468	30,549	2,050,125
	100	1,000	60,078	70,431	12,269,754
	1,000		938	1,450	2,228,484
total			90,484	102,430	16,548,363

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B. BY GEOGRAPHICAL LOCATION OF PROPERTIES CHARGED

	<i>Number of properties</i>	<i>Number of loans</i>	DM'000
Baden-Württemberg	18,730	20,974	3,229,779
Bavaria	20,460	23,482	3,857,038
Berlin	632	789	352,716
Brandenburg	794	906	169,364
Bremen	153	178	19,247
Hamburg	336	399	98,589
Hesse	7,276	8,165	1,505,639
Mecklenburg-Lower Pomerania	731	804	169,720
Lower Saxony	8,045	9,127	1,191,845
North Rhine-Westphalia	17,156	19,665	2,970,350
Rhineland Palatinate	3,529	3,879	581,122
Saarland	1,312	1,405	180,766
Saxony	2,337	2,615	621,925
Saxony-Anhalt	916	1,015	218,584
Schleswig-Holstein	6,461	7,222	1,091,730
Thuringia	1,615	1,803	289,782
Foreign countries	1	2	167
total	90,484	102,430	16,548,363

Interest outstanding

Unpaid interest on mortgage loans that was due for payment between October 1, 1999, and September 30, 2000, has been written off or value adjustments have been provided for the full amount of the interest outstanding. Interest outstanding consisted of

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		<i>of which housing sector</i>	<i>of which business sector</i>
	DM'000	DM'000	DM'000
Interest on mortgage loans	10,608	8,633	1,975

Forced auctions and receiverships

		<i>of which housing sector</i>	<i>of which business sector</i>
The number of proceedings pending at December 31, 2000, was			
- Forced auctions	262	233	29
- Receiverships	85	71	14
	69*]	59*]	10*]
The number of forced auctions conducted in 2000 was	80	75	5
*] Of which included in pending forced auctions			

It was not necessary for the Bank to take over any property to obtain satisfaction for amounts owed to it.

Membership data

	<i>Number of members</i>	<i>Number of shares</i>	<i>Members' liability for additional contributions</i> D M
Beginning of 2000	94,450	1,059,009	529,504,500.00
Additions in 2000	2,152	35,659	17,829,500.00
Reductions in 2000	1,584	25,002	12,501,000.00
End of 2000	95,018	1,069,666	534,833,000.00
			D M
Increase in members' capital contributions in 2000			1,065,170.66
Increase in members' liability for additional contributions in 2000			5,328,500.00
Amount of each share			100.00
Liability for additional contributions, per share			500.00

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Personnel statistics

The average number of persons employed by the Bank in 2000 was as follows	<i>Male</i>	<i>Female</i>	<i>Total</i>
Full-time employees	169	164	333
Part-time employees	2	33	35
Total employees	171	197	368
Apprenticed trainees	4	18	22

Shareholdings

	<i>Percentage of capital held</i> %	<i>Capital</i> D M ' 0 0 0	<i>Prior-year profit/loss [-]</i> D M ' 0 0 0
M-Wert GmbH, Munich	100	98	32
Patio Grundstücksverwaltungs- gesellschaft mbH & Co. Vermietungs KG, Mainz	33	17	-313

Supervisory Board and Board of Management

SUPERVISORY BOARD

Prof. Dr. Willibald J. Folz ... Munich, Attorney [Chairman]

Michael Glos, Member of the Bundestag ... Berlin, [from May 6th, 2000 Deputy Chairman]

Eberhard Heinke ... Düsseldorf, [until May 6th, 2000] President of Landeszentralbank Nordrhein-Westfalen
[Deputy Chairman]

S.K.H. Herzog Max in Bayern ... Tegernsee

Dr. Manfred Biehal ... Stuttgart, Member of the Board of Management of GZ-Bank AG Frankfurt / Stuttgart

Josef Graßl ... Ingolstadt, Member of the Board of Management of Raiffeisenbank Ingolstadt-Pfaffenhofen-Eichstätt eG

Dr. Rainer Märklin ... Reutlingen, Spokesman for the Board of Management of Volksbank Reutlingen eG

Wilfried Mocken ... Rheinberg, Chairman of the Board of Management of Semper Idem-Underberg AG

Jürgen Partenheimer ... Munich, Chairman of the Board of Management of Münchner Bank eG

Hans Pfeifer ... Düsseldorf, Member of the Board of Management WGZ-Bank Westdeutsche Genossenschaftszentralbank eG
[from May 6th, 2000]

Hans-Joachim Tonnellier ... Frankfurt/Main, Chairman of the Board of Management of Frankfurter Volksbank eG
[from May 6th, 2000]

Dr. Manfred Wächtershäuser ... Frankfurt/Main, Member of the Board of Management of GZ-Bank AG Frankfurt / Stuttgart

BOARD OF MANAGEMENT

Dr. Hans-Ludwig Bungert ... Dr. Hans-Rainer Förger ... Horst-Dieter Thiel

Loans to board members amounted to DM 759 thousand [to members of the Board of Management] and DM 68,010 thousand [to members of the Supervisory Board]. Pension provisions for former members of the Board of Management amounted to DM 9,836 thousand.

Total emoluments of members of the Supervisory Board in 2000 amounted to DM 377 thousand.

Total emoluments of former members of the Board of Management or their surviving dependants amounted to DM 1,006 thousand.

Auditing Association

Deutscher Genossenschafts- und Raiffeisenverband e.V., Bonn, Adenauerallee 127

Contingent liability

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The Bank is a member of the Security System [Guarantee Association] of the Federal Association of German Commercial and Rural Credit Associations [Sicherungseinrichtung [Garantieverbund] des Bundesverbandes der Deutschen Volksbanken und Raiffeisenbanken e.V. [“BVR”]]. The Bank may thus be obligated to indemnify the BVR up to a maximum amount of DM 6,288 thousand.

Munich, February 16, 2001

MÜNCHENER HYPOTHEKENBANK EG

The Board of Management



Dr. Hans-Ludwig Bungert Dr. Hans-Rainer Förger Horst-Dieter Thiel

Auditors' Report

We have audited the annual financial statements, together with the bookkeeping system, and the management report of Münchener Hypothekenbank eG for the business year from January 1 to December 31, 2000, in accordance with § 53[2] of the Cooperatives Act and § 340k of the German Commercial Code. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the articles incorporation are the responsibility of the company's Board of Management. 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 § 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 such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Bank 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 the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the company's Board of Management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German principles of proper accounting. On the whole the management report provides a suitable understanding of the company's position and suitably presents the risks of future development.

Bonn, March 15, 2001

DEUTSCHER GENOSSENSCHAFTS- UND RAIFFEISENVERBAND E.V.

Spanier
Wirtschaftsprüfer

i.V. Huber
Wirtschaftsprüfer

Report of the Supervisory Board

In 2000 the Supervisory Board carried out the duties incumbent upon it under applicable law and the Bank's statutes and was kept informed of the Bank's situation by the Board of Management by means of oral and written reports. The Supervisory Board satisfied itself that the Bank's affairs were being properly managed and discussed fundamental issues concerning business policies and banking risks with the Board of Management.

The Supervisory Board's long-standing committees [the Working, Internal Audit and Loans Committees] were supplemented some time ago by the formation of a Construction Committee which attends to the planning and construction of the new building for the Bank. The committees met several times with the Board of Management in 2000 for consultations and passed the necessary resolutions.

The Supervisory Board was kept informed of the committees' activities.

The accounting records, financial statements and management report have been audited by the relevant auditing association, the Deutscher Genossenschafts- und Raiffeisenverband e.V., Bonn, which expressed an unqualified opinion on them. The audit revealed no shortcomings. The results of the audit were discussed at a joint meeting with the auditors and the Board of Management in accordance with § 58 of the Cooperatives Act.

The Supervisory Board concurs with the results of the audit, the financial statements for 2000 and the advance transfer to revenue reserves that they contain. It agrees with the management report for 2000 and recommends the Delegates' Meeting to approve the financial statements and to deal with the retained earnings in the manner proposed by the Board of Management.

During the year under review Mr. Eberhard Heinke resigned his position as Deputy Chairman of the Supervisory Board, which he held since 1990. He had previously been a member of the Supervisory Board since 1983. During these year Mr. Heinke served the Bank well with his high level of expertise and his dedication to fostering the Bank's further progress.

Mr. Heinke has been appointed President of the State Central Bank [Landeszentralbank] in North Rhine-Westphalia. The Supervisory Board wishes to thank him for his many years of dedicated efforts on behalf of the Bank and wishes him all the best in his important and responsible task which is vital for the entire Federal Republic of Germany.

On May 5, 2000 the representative's assembly elected Messrs. Hans Pfeifer and Hans-Joachim Tonnellier to become new members of the Supervisory Board.

Munich, March 21, 2001

Prof. Dr. Willibald J. Folz | Chairman of the Supervisory Board

advanced





Our new building will
be opened in 2002

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