Münchener Hypothekenbank eG | Annual Report 2001

results
outlook
management report
annual statements
information

Münchener Hypothekenbank eG

a n n u a l   r e p o r t   2 0 0 1

Münchener Hypothekenbank eG
105th Year

contents

Overview

Board of Management

Horst-Dieter Thiel, Hans-Rainer Förger,
Hans-Ludwig Bungert, Erich Rödel [from left]

Dear shareholders and business associates,

the mood in the markets is increasingly returning to a realistic appraisal of the economic and business situations after an initial outbreak of excessive expectations at the beginning of the emotional cycle, which was followed up by irrational exuberance and, ultimately, disappointment. The current "buzz words" are prudence, quality, risk awareness, competence, reliability and transparency. All in all, the current situation benefits the mortgage bank sector and the Münchener Hypothekenbank.

For the second year in a row, fixed income securities again outperformed equities in 2001. We also noted that the highly publicized earnings superiority of investment banks declined and numerous major projects failed to generate their anticipated market gains, customer satisfaction or hoped-for synergies. For all of these reasons, analysts specialized in the banking sector have generally characterized 2001 as an annus horribilis. We are encouraged by the end of a boisterous phase of market euphoria and a return to sober realism as it confirms our long-term approach to business policy and its validity,

In comparison with our long term performance, 2001 was also marked by a disproportionate increase in our new business results. Growth in this business segment was powered equally by both our residential construction lending activities and loans made to finance commercial property projects. In terms of regional importance, neighboring European countries continued to gain in importance for us. The attractive development of interest rates in 2001 benefited our customers and assisted the Bank indirectly. Major mergers in 2001 led to an uncertain situation among some of our competitors and caused their customers to pause and reflect on their existing banking relationships. We noted that MünchenerHyp is being increasingly "discovered" by these customers as an independent, reliable, and strong performing business partner – and an attractive alternative to their previous relationship.

The banking sector is undergoing major changes and only time will tell which of these changes will lead to genuine improvements. The mortgage bank sector has seen the creation of totally new structures arise in the wake of two mega mergers. The balanced relationships between large, mid-sized, and smaller banks has become history. In the past it was fair to say that there was not much noticeable difference between mortgage banks. This is no longer true as banks are increasingly crafting individual profiles to distinguish themselves from their competitors. These profiles also take into account that the mortgage banks' main business emphasis is currently quite different from what it once was: big market players are focusing their efforts on financing major commercial real estate projects in Germany and abroad. In contrast, MünchenerHyp's core business area remains practically unchanged and is still focused on financing small scale residential and commercial property projects – the classical definition of mortgage banking.

The cooperative FinanzVerbund has also undergone continuous change. A comprehensive restructuring plan at the central institution level is taking place independently of a new orientation process, which has been underway throughout the FinanzVerbund for quite some time, under the motto of "Bundling Strengths." These efforts do not have an immediate effect on our business activities. We believe that it is self-evident and important for a strong and capable partner to be present at the central level of the FinanzVerbund. However, for us and all other partners within the FinanzVerbund, the decisive issue is the strength and capabilities of members at the primary level. For this reason it is of inestimable importance that the "Bundling Strengths" project significantly strengthens decentralized entrepreneurial skills as well as the local market responsibilities of the Volksbanken and Raiffeisenbanken. Our role within the Finanzverbund remains important and unchanged: we tap the international financial markets to provide the FinanzVerbund [Financial Alliance] with long term, attractively priced, capital. As the best rated issuer within the cooperative this role bestows great responsibility on MünchenerHyp and also demands our utmost competence. We will continue to fulfill this role in the future as an independent bank and the only mortgage bank operating as a registered cooperative [eingetragene Genossenschaft, or eG].

Almost all of market players focus on the same priorities during times of economic decline: unify IT developments, streamline business processes, get a tighter grip on managing risks, and cut costs. These tasks are being addressed throughout the FinanzVerbund as part of the joint "Bundling Strengths" project. This project was initiated and is being coordinated by the National Association of Volksbanken and Raiffeisenbanken. In the future we will be giving our full support to this project. Independent of these efforts we have adjusted our internal processes and capacities to better reflect market opportunities.

As part of their efforts to revive the markets the American Federal Reserve Bank has repeatedly cut interest rates at a brisk pace since the start of the year. The European Central bank followed its example to a certain extent and only after a delay. At the end of the year the effective interest rate for our 10 year financing instruments was 5.89%.

Due to the terrorist attacks on September 11, 2001 all of the ongoing economic difficulties took a back seat. The human tragedy of the attacks escalated into a war in Afghanistan. Unfortunately, the volatile international political arena did not calm down as this conflict came to an end.
We have also seen a general increase in the level of uncertainty within our market environment. We quickly responded and put all measures needed to secure our future in place rapidly at all levels: we have advanced in our domestic and international financing business; for the first time ever we went on a road show to present ourselves to institutional investors in Asia; we kept our two major projects – new headquarters building and the upgrading of our systems – on schedule; we have established our business model in the Internet; founded our new subsidiary, M-Service; and we again convinced Moody's Investors Service, a rating agency, of our qualities.

Our excellent rating is an important prerequisite for maintaining our independence and expanding our market position. The other prerequisite is that we win customers and market share shed or lost by our competitors during their restructuring efforts. Moreover, we further strengthened our Board of Management in 2001.

Both internally and externally, the measures we have taken demonstrated that we are capable of recognizing and profiting from opportunities that strategically benefit the FinanzVerbund and our shareholders during a turbulent and volatile business environment.

The decisive factor for our shareholders is that our record of success is distinguished by continuity and the attainment of ambitious plans. Despite an unchanged high level of capital investments in 2001 we managed to increase our operating results by 5.2%.

Last year a change in federal tax law resulted in a unique opportunity to initiate a special measure to benefit our shareholders as well as achieve numerous other goals at the same time: we were able to directly pass on the benefits of the Tax

Reform Act to our shareholders and simultaneously benefit the Bank. Our shareholders received a special dividend payment of 50.13% via a "pay-out, take-back" procedure in May 2001, which led to a net increase in their holdings of 37%.

During the current year we will return to a normal dividend level within the framework of long term expectations. A new change in tax rules will result in the first time application of the German "Halbeinkünfteverfahrens" rule. Independent of these events it was once again rewarding to hold shares in the Münchener Hypothekenbank in 2001.

Munich, March 11, 2002
Yours sincerely

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

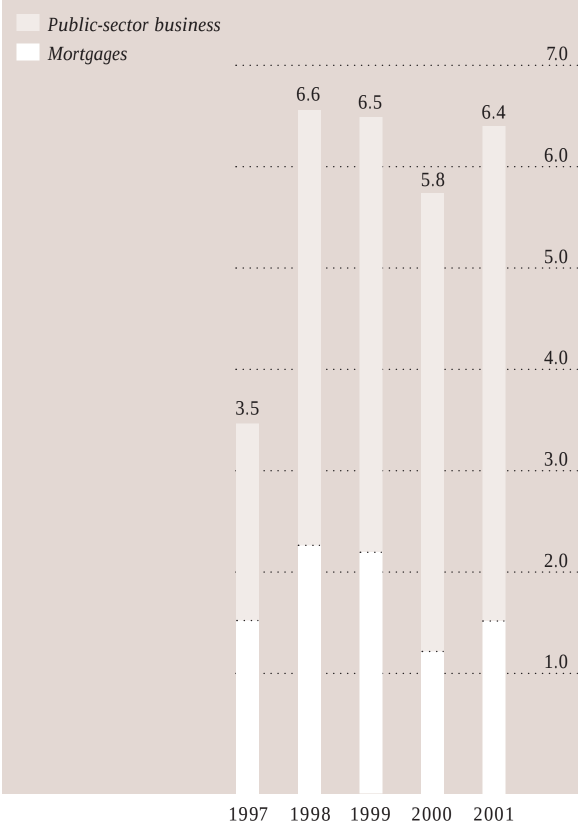
View

Management Report for Fiscal Year 2001

Favorable results noted in a mixed business environment
The year 2001 was a good business year for us due to the significant increase in our new mortgage business, gains recorded in all major earning categories despite an unchanged high level of capital expenditures, and our unbroken top standing in key capital markets.

This is even more noteworthy as the economic environment for our business activities barely improved and in fact became even more difficult in some sectors of the economy. Capital market interest rate trends remained unclear during the first six months of the year and long term interest rates were higher in May and July than they were at the start of the year. In addition, we faced a flat interest rate structure, which was an added unfavorable market factor for long-term financiers such as mortgage banks. Starting in mid-July, however, a slight decline in bond market interest rates began. This development was heavily reinforced in the wake of the September 11th terror attacks as the U.S. Federal Reserve slashed interest rates. Interest rates began to swing around towards the end of the year as the long bond market gave up some of the earlier gains noted during the fall. This change in sentiment was driven mainly by the appearance

New lending business
Development from 1997 to 2001 in Mrd €



“New commitments for property loans rise by 26.0% …”

of the first signs of an economic recovery in 2002. The year 2001 saw the American economy slide into a recession and was also marked by a sluggish global economy. In Germany, the construction industry was the most troubled area within the country's overall business development.

Strong growth in mortgage business

New lending commitments for real estate loans rose over the previous year's figure by 26.0 % to € 1.5 billion. When viewed on a long-term basis this performance is better than average and was only surpassed during the 1998/1999 boom years. Both the residential and commercial real estate lending segments contributed to the improved results. Our new mortgage business – including € 317.9 million in prolonged loans – amounted to € 1.8 billion.

In the commercial segment, new lending commitments consisted of € 560,7 million, or an increase of 60.3 %, and set a new record in commercial loans where new lending commitments in Germany rose disproportionately by 76.3 % to € 255,9 million. This development was driven by a notable increase in demand stemming mainly from business centers in western Germany. New business activities also received a boost from the recent new organizational activities of other real estate financiers. These activities resulted in a revised market orientation on the part of the competition and their customers. As an established and continuously active market player, we were able to benefit from these developments.
New lending commitments for commercial real estate projects in Europe [excluding Germany] rose by 48,9 % to € 304,8 million, with the lion's share of commitments made in Great Britain and the Netherlands.

Our business results in the residential construction finance sector were supported by low interest rates although economic conditions remain unfavorable in this segment. Investments in residential construction have declined for the past two years and single-family housing starts, a key element of our core business, recorded sharp declines. Despite these events, new lending commitments climbed to € 928,6 million for a gain of 15.2 %.
Of the total new lending commitments made in the mortgage business, 20,4 % were for European projects [excluding Germany]. Within Germany, new lending commitments were once again concentrated [45 %] in southern Germany, where we were even able to expand our market position;

10 % of our new lending commitments were made in eastern Germany. The property market in this region remains difficult and the Bank's lending criteria – borrower's credit-worthiness, appraisal of the future rental income/valuation of the property – remain justifiably strict.

Slight increase recorded in public-sector lending business
The previously described interest rate developments coupled with our conservative interest risk policy led to occasional phases of good business opportunities in the public-sector lending segment. We expanded our new business results in this segment from € 4.6 billion to € 4.9 billion. A major portion consisted of loans to domestic credit institutions under public law whose issues and promissory notes are guaranteed by a designated government body. These guarantees run until the end of the term of the security so that their paper represents a safe and comparably higher yielding investment possibility.
We also expanded our originating lending business with municipalities and other public-sector bodies. We cooperate closely with local Volksbanken and Raiffeisenbanken in this area of business and we provide support to these institutions in this product area. Good business opportunities arose during the year 2001 as both the volume of lending commitments and the related interest rate margins expanded.

Refinancing volume expands to € 8.3 billion.
Pfandbriefe issued by MünchenerHyp were sought after investment securities in both the national and international capital markets in 2001. We sold a total of € 8,3 billion in refinancing papers, of which € 2.7 billion were Jumbo Pfandbriefe. In this segment the liquidity of existing Jumbos was, above all, raised by increasing the volume issued. In view of the market situation, the placement of new benchmark issues appeared to be less attractive. The key issue here was the fact that the spread between public-sector bonds and Pfandbriefe narrowed in favor of Pfandbriefe. This situation offered attractive opportunities for institutional investors, who orient their actions based on the yield of government bonds, to switch to government bonds. Mortgage banks understood this as a signal that they should act cautiously to foster the best interests of Pfandbrief investors. This was especially valid for new fixed-income, long-term Jumbo issues. In contrast, there was strong demand noted for short-term papers and variable-rate issues. We believe this was driven by investors who moved significant amounts of money

“Lending volume and recorded interest margins expand in 2001”

out of the equities market and parked it in money market funds and other no-risk investments. We also noted increasing profit taking in the area of registered securities. Paper offered by MünchenerHyp was dealt with at fair conditions.

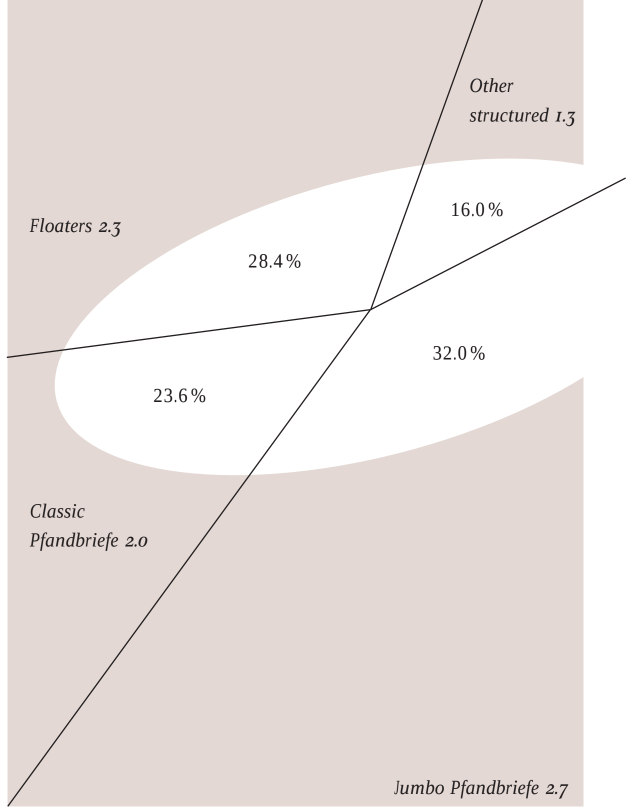
Fair pricing of new issues is a key prerequisite to maintaining and caring for our Bank’s good market standing. MünchenerHyp is dedicated to an investor-oriented issuance policy and positions its offers to meet the best interests of buyers as well as the holders of the Bank’s outstanding securities.

Liquidity and interest rate risk controls have been strictly separated from each other for years. For this reason risks associated with interest rate shifts do not arise from our issuing and market actions. We primarily use derivatives to manage interest rate related risks as the spot market, especially in difficult market situations, does not offer the liquidity of, for example, the swap market.

In light of the events of September 11. the derivative markets have clearly documented their ability to function and their stability. Their ability to hedge risks is far superior to the spot markets.

Summary of refinancing sources in 2001

in € billions



First class rating with a stable outlook

Ratings issued by major rating agencies represent the main influencing factor behind investors' decisions, and are a significant competitive factor for issuers. First class ratings form the basis for favorable refinancing conditions. During 2001 we saw a continued firming in the rising price differentials between banks which issue Pfandbriefe. Here ratings for the individual Pfandbrief issues play a role in addition to the individual ratings of the issuing bank. Both MünchenerHyp's Mortgage Pfandbriefe and Public Sector Pfandbriefe retained their Aaa ratings, the best rating available from Moody's Investors Service. The other ratings for MünchenerHyp securities are also among the best in our business. The Aa3 senior unsecured rating, for unsecured long-term paper and the Prime-1 rating for short-term liabilities were reconfirmed. In April 2001 the Bank's financial strength rating was raised from C+ to B– as a result of a new classification given by Moody's. This is another good rating for MünchenerHyp and we share it with only four other B-rated financial institutions in Germany: HVB, DePfa, Deutsche Bank, and the Stadtsparkasse Cologne. In general, and in view of the stable outlook for all of the Bank's ratings, MünchenerHyp is the best rated bank within the cooperative financial association [genossenschaftlichen Finanz-Verbunds].

Leading example for the FinanzVerbund

With its first class ratings and € 24.7 billion in Pfandbriefe in circulation, MünchenerHyp plays an important role in anchoring the standing of the cooperative FinanzVerbund in the international capital markets. This is even more important as MünchenerHyp is the only mortgage bank operating as a registered cooperative [eingetragene Genossenschaft, or eG], and we are the only mortgage bank whose Pfandbrief issues carry the "eG" initials as a unique brand. During 2001 we included the Asian markets for the first time in our efforts to place our new issues. The internationalization of the capital markets means that our Pfandbriefe not only compete against paper issued by other mortgage banks, they also compete against quasi-Pfandbrief products from Spain, France, and Luxembourg as well as products like asset-backed securities or paper issued by the major American agencies. This means that institutional investors are facing an almost immeasurable spectrum of issuers and will only consider addresses they know and whose credit standing they are convinced of. For this reason the care and enhancement of

"MünchenerHyp's ratings are among the best in the industry"

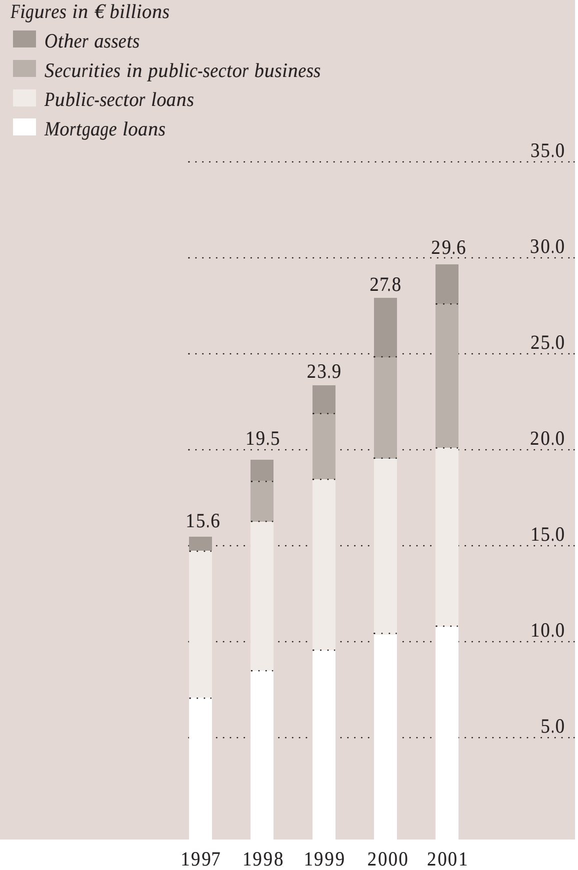
the Bank's name recognition via roadshows and other measures are indispensable elements of our modern refinancing strategy.

Solid, stable balance sheet structures

Total assets rose 6.4 % in 2001 to € 29.6 billion. Our loan portfolio, including securities in our municipal sector business area, represented 92 % of this figure and is characterized by balanced and low-risk structures. Mortgage loans hold a comparatively high 39 % share and this segment has hovered around the 40 % level for years; € 8.8 billion are allocated as coverage for Pfandbriefe, of which the lion's share of 88.8 % is related to low-risk residential construction financing where the average loan made amounted to € 0.08 million. The portfolio of mortgage loans serving as cover for commercial real estate is widely diversified by regions and industries, and the average size loan is € 0.2 million; 55.8 % of the cover mortgages pertain to real estate in southern Germany, while eastern Germany holds a less than proportional share of 11 % because of our reluctance to finance large prefabricated buildings [Plattenbauten] and property developments based mainly on tax-reduction schemes.

Balance sheet growth

Figures in € billions



The volume of loans generated by our public-sector lending activities, which serve as collateral for our Public Pfandbriefe, rose by 18.8 % in 2001 to € 16.7 billion; 42.9 % of this sum was represented by public-sector security issues. We clearly favor documented claims in securities over promissory notes, especially in our lending activities outside of Germany. The advantages of this policy are high liquidity and fungibility as well as standardized documentation. Our quality standards for borrowers far exceed the strict legal requirements set for mortgage bank loans. This is why about 75 % of the portfolios providing cover for Public Pfandbriefe carry a Double A or Triple A rating. The approximately 25 % of non-rated claims consist primarily of loans to domestic municipalities and regional authorities, which are highly secure due to constitutionally anchored federal standby obligations.

Operational results rise despite ongoing investments

The Bank's earnings situation was marked by a continual increase in interest income and high levels of capital expenditures. The Bank erected a new main office building at a prominent location on Munich's Altstadtring and plans call for the building to be occupied in the spring of 2002.

The second major internal investment project involves our IT systems. The three year long IT project was started in 1999 with the goal of upgrading the Bank's IT systems with forward looking, high performance, standard software. The major investments in IT systems are part of our strategic efforts as a supporting institution within the cooperative FinanzVerbund. In addition to the standard dependencies normally associated with mortgage banks, such as the level of interest rates, interest rate movements, construction industry situation and the situation in the real estate markets, we also have to cope with being dependent on business inflows from the local cooperative banks. A computer assisted and, as far as possible, automated processing of loans makes it possible for us to cushion the sizable volume swings in our core business area and is also the prerequisite for successfully handling smaller volume residential construction loans in the future.

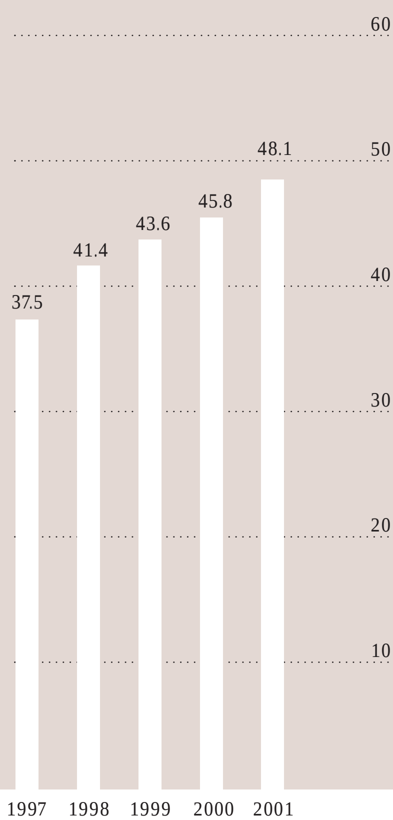
Earnings from business operations surpassed last year's performance despite the heavy burdens related to our capital investments. Our results were driven by increased interest income, which rose from € 112.9 million to € 119.1 million, and lower [– € 1.2 million] commission payments due to less

“Net interest income rises from € 112.9 million to € 119.1 million”

commissionable business. Net interest and commission income increased by 7.1% over last year's figure to € 111.1 million. Total administrative costs rose by 9.1% to € 51.9 million, while related personnel expenses rose by a moderate 3.3%, and other administrative expenses increased by 12.2%. Provisions made for risks mirrored the poor overall economic situation as we allocated additional funds for adjustments in our lending portfolio. In contrast, we only recorded marginal write-downs in our securities business due to lower interest rate levels. However, these were more than offset by higher prices and gains on redemptions. Overall provisions for risks rose by € 1.9 million to € 10.4 million, which is still low in comparison to other mortgage banks and especially vis-à-vis to other banking institutions. The bottom line was our operating results amounted to € 48.1 million, or 5,2% more than in the previous year. The Tax Reduction Act led to a significant reduction in our tax burden that was lower than in the previous year despite posting higher income. The unusually low tax expenses incurred in the previous year can not be compared to this year's figure due to the increase in capital which involved a “pay-out, take-back” procedure.

Operating profits after risk provision

Figures in € millions



Equity capital strengthens significantly
Pursuant to a decision taken at the last representatives' meeting, the value of the Bank's individual capital shares was raised in value from € 51.13 to € 70.0 using a "pay-out, take-back" procedure. This move increased the value of the amount paid up on members' shares by € 20.2 million. Moreover, the subordinated liabilities – which are accounted for as supplemental capital – were notably increased to € 66.3 million. The improved operating results and the effects of the Tax Reduction Act allowed the Bank to significantly increase its allocation of funds to reserves to € 13 million [previous year € 10.2 million].

It is recommended that the remaining distributable profits amounting to € 8,386,938.15 should be distributed as follows:

6.5 % Dividends	€ 4,909,245.83
Allocation to statutory reserves	€ 3,000,000.00
Carried forward to the new year	€ 477,692.32

Upon approval of the Board's recommendation by the representatives' meeting, reserves will be increased to € 212.4 million. After taking the proposed allocation of distributable profits into account the Bank's equity capital exceeds € 750 million.

Our employees are open for change
The conversion of our IT systems, new business areas and far reaching changes within our traditional market environment all pose new challenges to our employees. For these reasons personnel training and qualification courses play an increasingly important role. The success of these efforts is reflected by our employees' willingness to accept change and take on new assignments: we were able to fill 17 positions with our own staff thereby allowing us to fill a major portion of new personnel requirements internally. This internal approach to filling vacancies has also contributed to the relatively low level of employee fluctuation within the Bank.

On December 31, 2001 a total of 383 persons were employed by the Bank, and 16 by our subsidiary, M-Wert. At the end of the year our newly founded subsidiary company, M-Service, had 7 employees. We anticipate that the overall number of employees will remain at these levels in the foreseeable future.

"Planned move to newly built headquarters building scheduled for May 2002"

Our new bank building takes shape

Construction work began in 2000 and continued as scheduled as work on the building shell was completed in March. Numerous personalities from the world of politics and business joined us to celebrate the topping-out ceremonies on April 2nd. Munich's Mayor, Christian Ude, joined us and complimented the Bank on the architectural and urban importance of our new main office building that is located prominently on Munich's Altstadtring.

During the remainder of the year the main emphasis at the building site was on interior work including numerous complex technical features that ensure the future continuation of our top business performance as well as the flexible use of space and economical facility operation. The building's features also include the most modern IT and communications networks, which are indispensable platforms for creating modern workplaces and optimal business processes. Plans call for the building to be completed by the end of the first quarter 2002. Furniture will be moved in shortly thereafter and we expect to move in and begin operations in our new building in May 2002.

The market honors our favorable risk structures and our risk control measures

As in the previous year's report this section will closely review the subject of risks and the procedures we use to control, monitor and limit them. No mortgage bank has ever defaulted on a Pfandbrief since the passage of the Mortgage Bank Act on January 1. 1900. This distinction places German mortgage bank issues among the world's safest investments. Nevertheless, the market, especially institutional investors, is increasingly demanding that issuers enhance the transparency of their risk reporting. Institutions with conservative policies, like MünchenerHyp, benefit from their increased transparency and achieve competitive advantages in their refinancing activities, which should not be underestimated. MünchenerHyp has taken extensive risk related measures and installed a comprehensive risk controlling system that enables the Bank to identify, analyze, measure and control all relevant risks categorized as:

– Borrower failure risks
– Liquidity risks
– Market risks and
– Other risks

MünchenerHyp employs up-to-date methods for early recognition and quantification of risks. Within the framework of a risk budgeting procedure all risks for the entire Bank are aggregated and compared with available risk capital. The derived limits and control procedures ensure that risks do not – at any point in time – exceed the Bank's abilities to deal with them.

Borrower failure risks

We define "borrower failure risks" as all losses of value which could arise due to a deterioration in creditworthiness or default on the part of loan customers, or counter-parties in the securities and derivative business.

We employ comprehensive measures to handle these risks. All of the responsibilities and steps within the primarily IT-supported lending process are defined in writing. Deviations are not tolerated. Our debt enforcement proceedings are triggered automatically in the event of non-performance or missed payments. Additional measures are in place for bigger and more complex transactions requiring particularly intensive monitoring and reporting to the Board of Management [standby monitoring]. The valuation of collateral property pledged for mortgage loans limits risks as we employ appropriately conservative valuation standards based on the principle of prudence and on the basis of the written valuation instructions established by senior management which have been submitted to, and approved by, the Federal Banking Supervisory Authority [BAKred]. Moreover, MünchenerHyp can call upon its own appraisal firm, M-Wert GmbH, and its independent experts.

In addition to preventive measures pertaining to individual transactions, credit risks are also monitored on a portfolio basis. An internal rating system has been established to classify loans within our lending portfolio into risk categories. The system reviews creditworthiness and property risks separately from each other and then utilizes an aggregation matrix to combine them. Procedures to avoid concentrations of risk ensure adequate differentiation within the lending portfolio based on properties, borrowers, regions, etc. Furthermore, there are arrangements to control the volume relationships of the relevant credit portfolios. Counter-party risks involved in securities, derivatives and money market transactions are already limited by the statutory provisions for mortgage banks [limitation to "suitable credit institutions"], *“Internal rating to monitor lending risks…”*

as well as by a differentiated limit system. Management regularly receives comprehensive reports detailing the extent of borrower failure risks and the extent to which risks are within set limits.

Liquidity Risks

“Liquidity risks” refer to risks related to late or incomplete payment of obligations. These risks are countered by careful liquidity planning and control procedures based on precise, day-by-day forecasts.

These forecasts also take sudden negative market developments into consideration. The Bank's liquidity is assured by a sufficiently large disposition account as well as our money market business relations with a large number of top rated banks, and also by our access to the money market transactions of the ECB [European Central Bank].

Market Price Risks

“Market price risks” are to potential losses of value due to price changes on the financial markets. In general, these risks can involve changes in interest rates, currency rates or stock prices. Due to the legal requirements governing mortgage banks the only risks considered to be especially relevant are risks arising from changes in interest rates. MünchenerHyp employs the present value concept as its basis for measuring, limiting, and controlling market price risks.

Based on this concept our procedures include all balance-sheet and off-balance-sheet risk items, which exceed the “Minimum Requirements for the Operation of Commercial Activities of Credit Institutions” issued by the BAKred. Monitoring of the Bank's interest rate risks takes place continuously [quasi real-time monitoring] and the measured key risk figures as well as the extent to which risks are within set limits are reported daily to management.

Measures are in place that will immediately identify and report breached limits to the Board of Management.

Stringent criteria are used to set interest rate risk limits. These limits ensure that the Bank's earning power remains sufficient to cover the resulting interest rate risks, even under the assumption of a worst case scenario for capital markets. This means that the remaining interest earnings, which are not exposed to market risks, are sufficient to earn the standard dividend and strengthen the Bank's reserves as required.

The BAKred introduced a "color code" assisted valuation score in order to increase the transparency of mortgage banks' risks related to interest rate changes. The score measures the change in relationship between the present value of interest rate change risk and a mortgage bank's net worth assuming a 100 basis point change in interest rates. The resulting percentage rate reflects the acceptability of the interest rate change risk facing the bank. The "color code" refers to the danger level of the risk: the green area is for scores up to 10%, and the yellow area is up to 20%. Based on this valuation system as at December 31. 2001 MünchenerHyp's interest rate change risk was scored at 0.8%. During 2001 a maximum score of 7.4% was reached, while the Bank's average score was 3.0%

Other Risks

Other risks consist of operational risks such as legal and tax risks, fraud, risks from malfunctioning or failed IT systems, and other operating risks. Standard banking industry preventive measures to avoid or limit these risks are in place. In addition, special emergency plans exist to cover very serious disturbances of our computer systems. The Bank's computer centers are located in separate sites to enhance fail-safe operability during a catastrophe. Arrangements in our new main office building also include separate locations for stand-alone computer facilities. The necessary personnel and property insurance policies were obtained to the extent available and for the appropriate amounts. All relevant processes within the Bank are defined in writing to minimize risks arising from improper procedures. Careful staff selection as well as intensive orientation and training programs help minimize operational risks. Our internal audit system, which reports directly to senior management, regularly examines compliance with internal and external regulations. Along with borrower failure risks and market price risks, other risks are included in the risk budgeting procedure and sufficient risk capital is allocated to cover them.

Risk control procedures are permanently monitored and improved in order to ensure their state-of-the-art status.

"Capacities further expanded at M-Wert GmbH…"

Our subsidiary, M-Wert GmbH, well received by FinanzVerbund

Our subsidiary company, M-Wert GmbH, has been preparing property appraisals since 1999. In addition, the firm's qualified and certified appraisers conduct seminars, training courses, and also provide consulting services.

All of these services are available to the cooperative's partner banks. Demand for these services rose sharply in 2001 mirroring the more difficult environment in the increasingly volatile property markets. In response to this situation the company expanded once again. M-Wert employed 16 employees in 8 locations across Germany as of December 31, 2001.

The company once again recorded good business results in its second year of business. Profits were carried forward into the new business year.

M-Service GmbH founded as property services company

In February 2001 the Bank founded its fully owned subsidiary company, M-Service GmbH. The company's business is providing a full range of property-related services to customers as permitted by the Mortgage Bank Act. The planned changes to the Mortgage Bank Act, which should be passed during the current legislative session, will lead to an expansion of property related business activities. In light of this scenario MünchenerHyp has taken the initiative by founding M-Service GmbH and gained a head start in the market.

Tasks and scope of the firm's business activities will be expanded gradually in the coming years. In the interim, the new company manages and administers the Bank's proprietary real estate portfolio and also provides other property-related services.

The real estate competencies available within M-Service GmbH represent a valuable addition to the support services provided by the Bank within the cooperative FinanzVerbund. For this reason future plans call for sharing the know-how of our subsidiary with local Volksbanken and Raiffeisenbanken in cooperation with our sales activities.

Outlook

The business situation we faced at the beginning of 2002 shared some similarities with the start of 2001, especially the interest rate situation that still has not revealed any clear trend and is characterized by sidewards movement and high volatility. This uncertainty is based on the difficulty of predicting when the global economy will begin to recover. In contrast to previous recessions, Europe, the USA and the Asian markets have all been simultaneously hit by declining economic conditions. Evidence indicates that the American economy will have to rebound first and pull the global economy out of its slump due to the still unresolved structural problems in Europe and in Asia. At the start of 2002 the situation on the American side of the Atlantic was marked by mostly unfavorable fundamental data. At the same time we have noted some signs of early business optimism and an upturn that has led to an ambivalent response by the financial markets. Forecasts for the construction industry in Germany are all of the same opinion – unfortunately they are all negative, especially for residential housing, which is very important for our new business activities. Preliminary estimates made by economic experts predict a further decline in completed properties in 2002. Nevertheless, we remain confident that we will be able to repeat the good business performance we achieved in 2001.

A review of the individual business areas shows we only expect a modest increase in the volume of new commitments for residential construction financing although we do anticipate that there is a good chance that the upwards trend in our new business activities will rise in the commercial property segment. This optimism also applies to the markets outside of Germany where market sectors, in which we are active, continue to remain attractive. We are hopeful that the domestic commercial property lending business will expand and the isolated sparks of business revival noted in 2001 will expand into a broader positive trend; for this reason we are forecasting continued double-digit growth in this business area. We anticipate that we will continue to act cautiously within the public-sector financing sector although we will take advantage of market opportunities as they present themselves. On an overall basis, our forecast for new lending activities foresees the Bank once again exceeding the 5 billion euros level. As far as our issuing activities are concerned we already successfully floated a ten year € 1.5 billion Jumbo Pfandbrief benchmark issue in January 2002, which received heavy attention in the market. We anticipate that the Jumbo segment will again have a somewhat heavier share of sales this year and represent about 40 % of total sales of refinancing instruments. We also anticipate lively demand for variable rate issues and

“Our € 1.5 billion benchmark issue received great attention…”

structured bonds that we also issue within our debt issuance program.

We are forecasting a moderate increase of operational results in 2002. In this context we also foresee that this year will mark the end of the extensive expenses associated with our new main office building and the conversion of our IT systems.
Plans call for us to move into our new main office building in May. With its modern workspaces and an advanced floor plan design that encourages interaction and communication, our new building, with its forward looking IT systems and equipment, represents a solid foundation for the Bank's continued successful development.
In the mid-term we also see very good potential for the continuing development of the Pfandbrief market and we continue our investor oriented issuance policies. These represents the basis for successful lending activities where we also expect good market opportunities to appear in the mid-term coupled with rising new business results even though the slump in the residential construction area is broader than in previous cycles. The conclusion of our IT conversion project, which will take place as scheduled in early 2003, marks the end of a three year period of particularly high capital investments. We anticipate that this phase will be followed by a positive development of our expenses/earnings ratio.

Concluded in February 2002

Financial Statements

assets	€	€	dec 31, 00 €'000
1. Cash reserve			
a] Cash on hand	29,535.98		166
b] Balances with central banks	64,222,577.55		36,702
Of which with Deutsche Bundesbank € 64,222,577.55			
		64,252,113.53	**36,868**
2. Claims on banks			
a] Mortgage loans	311,784,961.85		293,622
b] Public-sector loans	3,436,485,318.73		3,057,314
c] Other claims	1,360,900,877.46		1,079,887
Of which payable on demand € 520,762,165.27			
		5,109,171,158.04	**4,430,823**
3. Claims on customers			
a] Mortgage loans	10,244,359,094.16		9,833,150
b] Public-sector loans	6,092,605,014.31		5,777,608
c] Other claims	96,500,642.60		84,773
Of which with securities pledged as collateral € 37,392.64			
		16,433,464,751.07	**15,695,531**
4. Bonds and other fixed-income securities			
a] Bonds and notes	7,157,132,522.08		6,830,190
aa] Public-sector issuers € 1,996,622,455.59			[1,713,907]
Of which eligible as collateral for Deutsche Bundesbank advances € 1,621,322,721.31			
ab] Other issuers € 5,160,510,066.49			[5,116,283]
Of which eligible as collateral for Deutsche Bundesbank advances € 4,724,026,752.22			
b] Own bonds and notes	219,705,858.13		244,604
Nominal value € 214,306,661.48			
		7,376,838,380.21	**7,074,794**
Carried forward		*28,983,726,402.85*	*27,238,016*

liabilities, capital and reserves	€	€	dec 31, 00 €'000
1. Liabilities to banks			
a] Registered mortgage Pfandbriefe issued	829,906,140.45		658,941
b] Registered public-sector Pfandbriefe issued	525,124,430.34		637,363
c] Other liabilities	785,874,775.55		427,530
Of which:			
Payable on demand € 1,297,276.44			
Delivered to lenders as collateral for loans received			
registered mortgage Pfandbriefe € 2,614,035.27			
and registered public-sector Pfandbriefe € 4,517,169.83			
		2,140,905,346.34	**1,723,834**
2. Liabilities to customers			
a] Registered mortgage Pfandbriefe issued	3,426,227,672.26		3,258,434
b] Registered public-sector Pfandbriefe issued	1,671,512,851.50		1,663,960
c] Savings deposits	25,141.45		40
with agreed notice periods of three months € 25,141.45			[40]
d] Other liabilities	782,445,614.92		814,846
Of which:			
Payable on demand € 800,218.47			
Delivered to lenders as collateral for loans received			
registered mortgage Pfandbriefe € 123,203,179.74			
and registered public-sector Pfandbriefe € 26,587,177.84			
		5,880,211,280.13	**5,737,280**
3. Certificated liabilities			
a] Mortgage Pfandbriefe issued	5,423,776,941.78		4,568,929
b] Public-sector Pfandbriefe issued	12,788,414,479.49		12,805,401
c] Other bonds issued	2,365,895,612.78		2,047,898
		20,578,087,034.05	**19,422,228**
4. Liabilities incurred as trustee		**590,147.39**	**628**
Of which loans € 590,147.39			
5. Other liabilities		**322,827,606.91**	**341,023**
Carried forward		*28,922,621,414.82*	*27,224,993*

assets	€	€	dec 31, 00 €'000
Brought forward		*28,983,726,402.85*	*27.238,016*
5. Equities and other variable-yield securities		**122,732,720.24**	**100,740**
6. Participating interests and shares in cooperatives			
a] Participating interests	11,715,998.85		11,254
Of which in banks € 4,274,175.50			
b] Shares in cooperatives	1,104,790.44		1,087
Of which in credit cooperatives € 1,081,338.76			
		12,820,789.29	**12,341**
7. Shares in affiliated companies		**151,088.34**	**50**
8. Assets held in trust		**590,147.39**	**628**
Of which loans € 590,147.39			
9. Tangible assets		**96,887,897.18**	**75,467**
10. Other assets		**252,867,966.50**	**287,974**
11. Deferred items			
a] From issuing and lending business	144,545,883.91		116,443
b] Other	1,635,394.35		2,903
		146,181,278.26	**119,346**
Total assets		**29,615,958,290.05**	**27,834,562**

liabilities, capital and reserves	€	€	dec 31, 00 €'000
Brought forward		*28,922,621,414.82*	*27,224,993*
6. Deferred items			
a] From issuing and lending business	63,354,463.60		60,449
b] Other items	0.00		25
		63,354,463.60	**60,474**
7. Provisions			
a] Provisions for pensions and similar obligations	12,194,914.00		11,094
b] Provisions for taxes	14,649,529.23		3,374
c] Other provisions	6,671,421.84		4,935
		33,515,865.07	**19,403**
8. Subordinated liabilities		**66,300,000.00**	**13,300**
9. Profit-participation certificates		**103,280,960.02**	**103,281**
10. Capital and reserves			
a] Subscribed capital	209,060,307.64		188,762
aa] Members' capital contributions € 75,526,858.97			[55,229]
ab] Silent participations € 133,533,448.67			[133,533]
b] Revenue reserves	209,438,340.75		194,904
ba] Legal reserve € 207,904,465.11			[193,370]
bb] Other revenue reserves € 1,533,875.64			[1,534]
c] Unappropriated profit	8,386,938.15		29,445
		426,885,586.54	**413,111**
Total liabilities, capital and reserves		**29,615,958,290.05**	**27,834,562**

1. Contingent liabilities			
Contingent liability on guarantees and indemnities		**43,823,481.09**	**37.643**
2. Other commitments			
Irrevocable loan commitments		**601,881,143.18**	**608.731**

expenses	€	€	dec 31, 00 €'000
1. Interest expense		**1,458,644,717.95**	**1,375,041**
2. Commission paid		**10,486,134.92**	**11,608**
3. General administrative expenses			
a] Personnel expenses	24,951,792.56		24,161
aa] Wages and salaries € 19,674,505.95			[18,791]
ab] Social security contributions and cost of pensions and other benefits € 5,277,286.61			[5,370]
Of which for pensions € 2,291,383.94			
b] Other administrative expenses	23,452,679.15		20,909
		48,404,471.71	**45,070**
4. Amortization and depreciation of intangible and tangible assets		**3,514,989.99**	**2,522**
5. Other operating expenses		**2,347,523.86**	**2,185**
6. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses		**10,439,219.39**	**8,556**
7. Write-downs on and adjustments to the value of investments, shares in associated companies and securities accounted for as fixed assets.		**0.00**	**1,171**
8. Taxes on income		**26,874,255.71**	**6,115**
9. Other taxes not included under "Other operating expenses"		**101,040.80**	**73**
10. Net income		**21,162,396.65**	**39,581**
Total expenses		**1,581,974,750.98**	**1,491,922**

1. Net income	**21,162,396.65**	**39,581**
2. Retained earnings brought forward from previous year	**224,541.50**	**90**
	21,386,938.15	**39,671**
3. Transfer to legal reserve	**13,000,000.00**	**10,226**
4. Unappropriated profit	**8,386,938.15**	**29,445**

income	€	€	dec 31, 00 €'000
1. Interest income from			
a] Lending and money market operations	1,229,751,492.43		1,170,702
b] Fixed-income securities and government debt-register claims	344,834,124.25		311,334
		1,574,585,616.68	**1,482,036**
2. Current income from			
a] Shares and other variable-yield securities	2,512,569.69		5,317
b] Participating interests and shares in cooperatives	638,562.61		632
		3,151,132.30	**5,949**
3. Commission received		**2,526,378.31**	**2,405**
4. Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets		**32,507.94**	**0**
5. Other operating income		**1,679,115.75**	**1,532**
Total income		**1,581,974,750.98**	**1,491,922**

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. In addition to scheduled depreciation, which was taken in accordance with standard tax tables for depreciation, minor value items were fully written off in the year they were acquired.
Liabilities are stated at the amounts repayable. Differences between nominal amounts and actual amounts disbursed are included under deferred items.Provisions have been made 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, 01 in €'000
Claims on banks	5,109,171
≤ Three months	1,272,762
> Three months ≤ one year	544,493
> One year ≤ five years	2,088,168
> Five years	1,203,748
Claims on customers	16,433,465
≤ Three months	509,724
> Three months ≤ one year	616,264
< One year ≤ five years	3,265,325
> Five years	12,042,152
Bonds and other fixed-income securities	
≤ One year	1,634,396

liabilities	dec 31, 01 in €'000
Liabilities to banks	2,140,905
≤ Three months	517,227
> Three months ≤ one year	359,942
> One year ≤ five years	490,069
> Five years	773,667
Liabilities to customers [excluding savings deposits]	5,880,186
≤ Three months	251,563
> Three months ≤ one year	236,538
> One year ≤ five years	2,398,215
> Five years	2,993,870
Certificated liabilities	20,578,087
≤ Three months	2,666,502
> Three months ≤ one year	3,044,519
> One year ≤ five years	9,356,429
> Five years	5,510,637

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

	dec 31, 01 in €'000	dec 31, 00 in €'000
Claims on		
– Banks	80,411	152,820
– Customers	12,854	12,991
Liabilities to		
– Banks	58,821	35,790
– Customers	0	0

Claims on and liabilities to affiliated companies

	dec 31, 01 in €'000	dec 31, 00 in €'000
Claims on		
– Customers	1.576	26
Liabilities to		
– Customers	406	264

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

	dec 31, 01 in €'000		dec 31, 00 in €'000	
Asset category	*listed*	*unlisted*	*listed*	*unlisted*
Bonds and other fixed-income securities	6,951,768	79,976	6,706,224	0
Participating interests	332	0	332	1

Repurchase agreements

The net book value of assets sold under repurchase agreements was € 146,710 thousand [dec 31, 00 € 23,918 thousand]. Within the framework of open market transactions with the European Central Bank, securities worth € 150,000,000 were pledged as collateral for an equal amount of liabilities.

Details of fixed assets

	Cost	*Additions*	*Disposals*	*Depreciation provided in 2001*	*Accumulated depreciation*	*Net book value Dec 31, 01*	*Net book value Dec 31, 00*
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Tangible assets	94,746	24,940	641	3,516	22,157	96,888	75,467
		Changes +/– *]					
Participating interests and shares in cooperatives	12,341		+ 480			12,821	12,341
Shares in affiliated companies	50		+ 101			151	50
Bonds and other fixed-income securities	4,621,149		– 359,761			4,261,388	4,621,149

*]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 € 33,299 thousand [dec 31, 00 € 33,364 thousand].

Subordinated assets
Claims on banks include an amount of € 11,534 thousand [dec 31, 00 € 11,534 thousand].

Subordinated liabilities
This item includes € 66,300 [previous year € 13,300]. Prorated interest of dm € 3,274 was incurred on subordinated liabilities. Subordinated liabilities that exceeded 10 % of total returns consisted of:

Nominal amount	*Currency*	*Interest rate*	*Maturity date*
18,000,000.00	Euro	6.28 %	February 07, 2011
30,000,000.00	Euro	6.25 %	June 01, 2011

Fund raising activities did not include any conditions that deviated from Art. 10 Para. 5 a. 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 not foreseen.

Profit-participation certificates

The amount of profit-participation certificates satisfying the criteria of section 10[5] of the Banking Act is € 102.921 thousand.

Details of revenue reserves

	Legal reserve €'000	*Other revenue reserves* €'000
January 1, 2001	193,370	1,534
Transfer from 2000 retained earnings	1,534	0
Transfer from 2001 net income	13,000	0
December 31, 2001	207,904	1,534

Member's capital contributions

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

	dec 31, 01 in €	dec 31, 00 in €
Capital contributions	75,526,858.97	55,229,049.24
a] Of remaining members	74,655,358.97	54,690,454.37
b] Of former members	867,440.00	532,152.59
c] In respect of shares under notice	4,060.00	6,442.28
Outstanding obligatory payments in respect of shares	1,391.03	699.76

Silent participations

The silent participations of € 133,533 thousand satisfy the criteria of section 10[4] of the Banking Act.
The interest expense attributable to these participations amounted to € 8,399 thousand.

Foreign currency items

Foreign currency items included in assets and liabilities amounted to [in assets] € 613,252 thousand [dec 31, 00 € 590,407 thousand] and [in liabilities] € 537,809 thousand [dec 31, 00 € 245,353 thousand]. All foreign currency transactions were hedged to protect the Bank against the risk of exchange rate movements.

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 €]				
	Residual term ≤ one year	*Residual term > one year ≤ five years*	*Residual term > five years*	*Total*	*Counterparty risk*
interest-rate-related transactions					
Interest rate swaps	1,958	4,091	7,793	13,842	183
Interest rate options					
– Calls	15	5	51	71	0
– Puts	251	243	387	881	0
currency-related transactions					
Cross-currency swaps	283	277	330	890	15
Other interest rate contracts	0	118	0	118	0

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 counterparty risk is the sum of all positive market values [replacement costs].

Analysis of cover for Pfandbriefe

a. mortgage pfandbriefe	dec 31, 01 in €'000
Ordinary cover	8,837,698
1. Claims on banks [mortgage loans]	211,106
2. Claims on customers [mortgage loans]	8,612,506
3. Tangible assets [charges on land owned by the Bank]	14,086
Surrogate cover	809,226
Total cover	9,646,924
Total mortgage Pfandbriefe requiring cover	9,479,726
Surplus cover	167,198

b. public-sector pfandbriefe	dec 31, 01 in €'000
Ordinary cover	15,197,201
1. Claims on banks [public-sector loans]	3,310,398
2. Claims on customers [public-sector loans]	5,706,471
3. Bonds and other fixed-income securities	6,180,332
Surrogate cover	0
Total cover	15,197,201
Total public-sector Pfandbriefe requiring cover	14,715,902
Surplus cover	481,299

Repayments in mortgage portfolio

	€'000
– Scheduled redemptions	280,100
– Redemptions due to non-acceptance of prolongation offer	178,908
– Non-scheduled redemptions	201,865

Mortgage loans employed as cover were granted on

	Items	€'000
– Residential properties	99,436	7,715,609
– New buildings with no revenue-generating capacity as yet	1,320	109,158
– Mortgages on construction sites	110	10,337
– Business properties	3,409	969,541
– Agricultural properties	1,040	18,968
	105,315	8,823,613

Analysis of mortgage loans employed as cover

a. by size

	> €'000	≤ €'000	*Number of properties*	*Number of loans*	€'000
		51	29,433	30,537	1,034,991
	51	511	62,754	73,280	6,511,906
	511		977	1,498	1,276,716
total			93,164	105,315	8,823,613

b. by geographical location of properties charged

	Number of properties	*Number of loans*	€'000
Baden-Württemberg	18,863	21,084	1,640,709
Bavaria	21,149	24,279	2,066,830
Berlin	687	836	189,443
Brandenburg	847	959	91,345
Bremen	153	181	10,106
Hamburg	347	411	59,709
Hesse	7,485	8,393	794,438
Mecklenburg-Lower Pomerania	796	875	89,931
Lower Saxony	8,400	9,494	635,515
North Rhine-Westphalia	17,676	20,213	1,598,798
Rhineland Palatinate	3,527	3,870	297,398
Saarland	1,276	1,367	92,050
Saxony	2,512	2,805	332,777
Saxony-Anhalt	968	1,063	113,167
Schleswig-Holstein	6,739	7,544	601,560
Thuringia	1,731	1,932	155,808
Foreign countries	8	9	54,029
total	93,164	105,315	8,823,613

Interest outstanding

Unpaid interest on mortgage loans that was due for payment between October 1, 2000, and September 30, 2001, has been written off or value adjustments have been provided for the full amount of the interest outstanding. Interest outstanding consisted of

		of which housing sector	*of which business sector*
	€'000	€'000	€'000
Interest on mortgage loans	6,918	5,658	1,260

Forced auctions and receiverships

		of which housing sector	*of which business sector*
The number of proceedings pending at December 31, 2001, was			
– Forced auctions	331	296	35
– Receiverships	177	153	24
	115 *]	99 *]	16 *]
The number of forced auctions conducted in 2001 was	83	72	11

*] 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.

Membership data

	Number of members	*Number of shares*	*Members' liability for additional contributions €*
Beginning of 2001	95,018	1,069,666	273,460,112.90
Additions in 2001	1,278	21,345	5,456,849.25
Reductions in 2001	1,565	24,486	6,259,845.90
End of 2001	94,731	1,066,525	272,657,116.25

	€
Increase in members' capital contributions in 2001	19,964,904.60
Increase in members' liability for additional contributions in 2001	– 802,996.65
Amount of each share	70.00
Liability for additional contributions, per share	255.65

Personnel statistics

The average number of persons employed by the Bank in 2001 was as follows	*Male*	*Female*	*Total*
Full-time employees	171	157	328
Part-time employees	2	36	38
Total employees	173	193	366
Apprenticed trainees	3	19	22

Shareholdings

	Percentage of capital held %	*Capital* €'000	*Prior-year profit/loss [-]* €'000
M-Wert GmbH, Munich	100	50	92
Immobilienservice GmbH der Münchener Hypothekenbank eG, [M-Service], Munich	100	101	0
Patio Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	33	9	–105

Supervisory Board and Board of Management

supervisory board

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

Michael Glos, Member of the Bundestag … Berlin, [Deputy Chairman]

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

Dr. Manfred Biehal … Stuttgart, [until June 7, 2001] Member of the Board of Management of GZ-Bank AG Frankfurt / Stuttgart

Josef Graßl … Ingolstadt, [died January 13, 2002] 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 Genosenschaftszentralbank eG

Hans-Joachim Tonnellier … Frankfurt/Main, Chairman of the Board of Management of Frankfurter Volksbank eG

Dr. Manfred Wächtershäuser … Frankfurt/Main, Exekutive-Director, DZ-Bank Deutsche Zentral-Genossenschaftsbank AG Frankfurt am Main

board of management

Dr. Hans-Ludwig Bungert … Dr. Hans-Rainer Förger … Erich Rödel [since November 11, 2001] … Horst-Dieter Thiel

Loans to board members amounted to € 275 thousand [to members of the Board of Management] and € 33,325 thousand [to members of the Supervisory Board]. Pension provisions for former members of the Board of Management amounted to € 5,032 thousand.
Total emoluments of members of the Supervisory Board in 2001 amounted to € 183 thousand.
Total emoluments of former members of the Board of Management or their surviving dependants amounted to € 524 thousand.

Auditing Association

Deutscher Genossenschafts- und Raiffeisenverband e.V., Berlin, Schellingstraße 4

Contingent liability

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 € 3,215 thousand.

Munich, February 15, 2002

m ü n c h e n e r h y p o t h e k e n b a n k e g
The Board of Management

Dr. Hans-Ludwig Bungert Dr. Hans-Rainer Förger Erich Rödel 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, 2001, 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.

Berlin, March 15, 2002

deutscher genossenschafts- und raiffeisenverband e.v.

Spanier	i.V. Huber
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

During the 2001 business year the Supervisory Board carried out its assigned tasks in accordance with legal requirements and the Bank's Articles of Association. The Supervisory Board kept itself continuously informed of the Bank's business situation, financial status and significant matters by means of regular discussions and written reports submitted by the Board of Management, and noted that all business matters were handled in an orderly manner. Basic business policy issues as well as business risks were jointly reviewed with the Board of Management.

Three committees dealt with special issues concerning Working Matters, Auditing, and Lending. Construction of our new main office building was monitored by the Building Committee, which also provided advice as required. These committees met numerous times during the past business year with the Board of Management and made necessary decisions. The Supervisory Board was kept continuously informed about the committees' work.

The Management Report and the annual financial statements were audited by the Deutsche Genossenschafts- und Raiffeisenverband e.V., Berlin, for the period January 1 to December 31, 2001 and has given them its unqualified certificate. No objections were noted. Pursuant to Article 58 of the Cooperatives Law [Genossenschaftsgesetz], the results of the audit examination were discussed in a meeting attended by the auditors and the Board of Management.

The Supervisory Board has examined and agrees with the audit results, the 2001 annual financial statements, including the therein contained allocations to reserves, as well as the Management Report. The Supervisory Board recommends that the Representatives' Meeting approve the annual financial statement and agrees with the Board of Managemet's proposal for the allocation of distributable income.

Mr. Erich Rödel was newly appointed to the Bank's Board of Management as of November 1, 2001.

Dr. Manfred Biehal resigned from the Supervisory Board effective July 20, 2001. He had been a member since April 24, 1999. MünchenerHyp wishes to thank Dr. Biehal for his dedication and expert efforts while he was a member of the Supervisory Board.

Josef Graßl who had been a member of the Supervisory Board since April 27, 1996 died on January 13, 2002. His broad scope of business knowledge and his friendly personality will be sorely missed. The Supervisory Board is grateful for having had the honor to have known him. We will remember him fondly.

Munich, March 15, 2001
Prof. Dr. Willibald J. Folz | Chairman of the Supervisory Board


Volksbanken
Raiffeisenbanken
HEADLINES

Business-Horizon

Perspectives in a dynamic business environment

Market: Focus on customer benefits

Our partners' and customers' needs and requirements will continue to increase in their demands, scope, and variety in the future. MünchenerHyp's flexibility and quality represent convincing arguments to both long-term and new customers. This ability requires that we expand our range of services, provide innovative products, enhance information and communications, invest in new technologies and sales channels, increase employee qualifications and motivational efforts, and continually adjust our internal processes and structures to meet market demands.

We already began to expand our range of services in 1999 when we founded *M-Wert*, the cooperative banks' and Raiffeisen banks' first property assessment company, and provided our recognized know-how to all our partner banks throughout Germany. Our subsidiary company's assessors and property experts are being called on increasingly to assist in complex valuation issues. Especially during difficult economic times and volatile property markets, proven experience and competence are indispensable for success. The qualified and certified assessors at M-Wert have these qualities. They prepare expert assessment papers needed by our partner banks for risk management purposes and also offer seminars, training courses, and consulting services. During the year under review, M-Wert's great flexibility and regional presence [locations in Munich, Berlin, Dresden, Frankfurt, Freiburg, Düsseldorf, Hanover and Münster] formed the based for the firm's business success.

Numerous internal services were bundled together and concentrated in *M-Service* GmbH, a legally independent subsidiary that was founded in February 2001. This move helped to streamline the organization while creating a platform for a wider range of services. The company provides a broad spectrum of property-related services, although only to its parent company at this time. The planned revision of the Mortgage Bank Law will lead to an extension of the firm's business activities providing customers with comprehensive property-related services. The new subsidiary provides Münchener Hypothekenbank with the option of expanding its range of services as needed in the future. Since the company was first registered in the Commercial Register its scope of business has been expanded gradually. In the interim, the company manages and administers all of the assets in the Bank's own property portfolio.

Communication: Focus on new media

We have been using our Internet pages since May 2001 to provide comprehensive information to institutional investors, and to private customers seeking a solid financial solution to their property needs and who want to check out the available offers first before they decide. In addition, the Internet offers all members of the Finanzverbund [finance association] new opportunities to position themselves in the Self-Service segment. We believe that a small, yet very interesting, target group expects all categories of financial services to be offered via the Internet. Our online transaction service meets customer expectations for low-cost, self-service, direct online financing services. We are not participating in the current wide-spread practice of offering interest conditions at dumping rates as it violates elementary business principles. In addition, we also have to act in the best interests of our partner banks. In the future a greater differentiation will be possible between the consulting and deal closure processes handled by the local Volksbank and Raiffeisenbank and the electronic handling of simple business transactions. Our business model reinforces local banks' competitive advantage and lets members of the FinanzVerbund fully benefit from their traditional superiority in fixed-location sales and also provides them with a promising position in the Internet market. The prerequisite for this scenario, however, is that the software modules used for property financing transactions are integrated into the FinanzVerbunds' shared computing system.

Technology: Focus on productivity

Within the framework of a major project involving years of work, the modernization of our IT systems continued during the year under review as we achieved a stable and yet flexible technical platform for efficient business processes. The phasing out of major mainframe programs, which began last year, and their replacement by applications based on SAP standard software represented a major milestone for the project.

Working together with our partner banks we continued to generate further service improvements with the introduction of a new version of HypoLine, our notes application for the direct handling of lending approvals. In addition to the existing functions, local banks will now be able to electronically prolong loans.

At the end of the year we smoothly completed the currency conversion of over 125,000 accounts to the euro.

New building: Focus on the future

Following a mild winter the building shell of our new main office building was completed in the spring. In April 2001 we celebrated the topping-out ceremony with the Mayor of Munich Christian Ude, our employees and numerous guests. The mayor was one of the main speakers and he congratulated us on our new building and its attractive location on Karl-Scharnagl-Ring.

Our new main office building will be completed by May 2002. In the future MünchenerHyp employees will be reunited under a single roof and will work with the latest equipment and in the most modern surroundings. The new building features a large attractive foyer as well as significantly larger conference facilities, which may be used for a variety of events such as public or private gatherings with special guests and partner bank representatives.

Employees: Focus on realizing potential

"Nothing is more continuous than change." Based on this bit of wisdom we have continued to prepare our staff to meet constantly changing market requirements via our employee education program consisting of in-house training sessions and external seminars. The conversion of our IT systems, the entry into new areas of business – such as our international business or our direct commercial property business – as well as the establishment of a Customer Service Center, posed numerous new professional challenges to our employees.

In addition to the skills and leadership seminars that our employees have attended for many years, during the year under review all interested employees were offered the opportunity to attend a series of events presenting the Bank's expanded areas of business and its new tasks. Discussions were expressly welcomed at these events. A clear reflection of our employees' willingness to embrace change and new assignments is the number of employees who changed jobs within the Bank. A total of 17 positions were filled by internal applicants thereby enabling the Bank to fill most vacancies with its employees.

Our long-term oriented personnel development measures were complemented by a new element intended to personally support promising younger individuals and prepare them to handle new assignments and challenges: for the first time we conducted individual assessments that identified individual

"…New career challenges for our employees"

potential, strengths and weaknesses. This new development is a further reflection of the Banks forward looking strategy to meet anticipated new market demands flexibly and professionally.

Our personnel development measures assisted in keeping employee fluctuation at a relatively low level. Continuity and team spirit are reflected in the number of years of employment: during the year under review fourteen employees celebrated their ten year anniversary with the Bank and two celebrated their 25th anniversary.

Our cooperation with the Works Council and the Senior Employees Committee was constructive and marked by mutual trust. This year we would like to give special thanks to our employees whose dedication made it possible to complete our numerous major projects despite the additional direct and indirect burdens they encountered.

Contact

headquarters

Münchener Hypothekenbank eG

Karl-Scharnagl-Ring 10 | 80539 Munich

PO Box 22 13 51 | 80503 Munich

Fon [+49] 89 - 53 87 - 800 | Fax [+49] 89 - 53 87 - 900

e-mail Serviceteam800@muenchenerhyp.de

Internet www.muenchenerhyp.de

direct commercial business

Thomas Ertl ... Fon [+49] 89 - 53 87 - 633

real estate financing

Dr. Peter Ditges ... Fon [+49] 89 - 53 87 - 151

marketing | communication

Egmont Kakarot-Handtke ... Fon [+49] 89 - 53 87 - 514

treasury

Richard-Peter Leib ... Fon [+49] 89 - 53 87 - 127

office of the board of management

Dr. Hans-Ludwig Bungert ... Fon [+49] 89 - 53 87 - 403

Dr. Hans-Rainer Förger ... Fon [+49] 89 - 53 87 - 404

Erich Rödel ... Fon [+49] 89 - 53 87 - 401

Horst-Dieter Thiel ... Fon [+49] 89 - 53 87 - 407 representative offices

austria

Dr. Georg Formanek GmbH
Dr. Georg Formanek
Riemergasse 9 | A-1010 Wien
Fon [+43] 1 - 5 13 29 38 | Fax [+43] 1 - 5 13 48 63

great britain

B.U.W. Finance Ltd.
Mr. Ray Mowll
13 Austin Friars | GB London EC2N 2JX
Fon [+44] 20 - 76 70 16 92 | Fax [+44] 20 - 76 70 16 94

netherlands

Petersen Management B.V.
Dr. Wolfgang Petersen
Keizersgracht 62/64 | NL-1015 CS Amsterdam
Fon [+31] 20 - 5 20 74 57 | Fax [+31] 20 - 5 20 74 93

Imprint

published by

Registergericht Gen.-Reg. 396

concept
Marketing | Communication
Egmont Kakarot-Handtke, Thomas H. Roßmann

design
Liquid Agentur für Gestaltung, Augsburg
www.liquidnet.de

photos
Bernd Müller, Augsburg

translation
Paul E. Reichmann, Frankfurt/Main

printing
Druckerei M. Saupe & Co. GmbH, Munich

information
This annual report is also available in German