MÜNCHENER HYPOTHEKENBANK EG

ANNUAL REPORT 2002

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Münchener Hypothekenbank eG

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MEHR OFFENHEIT

MORE OPEN-MINDEDNESS

DEAR SHAREHOLDERS AND BUSINESS ASSOCIATES,

optimism is good, realism is better – this sobering insight was again confirmed for banks in general, and mortgage backs in particular, during the 2002 business year.

It is absolutely correct to say that a positive outlook for the future, a willingness to take risks, and entrepreneurial courage are the forces that drive a dynamic economy, and we can never have enough of these characteristics. However, it is equally correct to state that optimism needs to be accompanied by a critical partner – and banks play this role. Their core competence is the ability to correctly evaluate risks and take all measures to ensure that risks remain manageable at all times.

Mortgage banks differ from commercial banks as they are governed by the rules of the Mortgage Bank Act, which traditionally has required them to meet higher risk management standards. This is why it is of decisive importance that they maintain an objective distance from fast-changing market sentiments.

Unfortunately, expectations that 2002 would be better than the difficult previous year and lead to an improvement in the banks' situation did not materialize. A realistic analysis of the current economic situation leads to the conclusion that a change in business trends is unlikely to occur during the coming months, and even if the situation changend for the better, it would take some time before its positive effects were felt in the banking sector.

The general uncertainty prevailing today has risen due to the ongoing drain of confidence in the equity markets, opaque geopolitical risks in the Near East, and because of rising unemployment and insolvencies. For mortgage banks the hesitancy shown by consumers and investors is very clearly reflected by weak property markets. Moreover, construction of residential housing, which was already declining, suffered an additional blow from the government in November 2002 when it proposed a law that would radically shrink state subsidies for private housing. In the interim, this position is being rethought, although results are still not visible.

In terms of prices and interest rates, the overall conditions for property financing are extraordinarily favorable: the effective rate of interest for our ten-year loan was 5.12 % at the end of the year. In the interim, developments in the capital markets have led to a further improvement in conditions for our customers.

Interest rate moves have generated significant potential for growth that remains blocked, however, until the generel economic horizon

Erich Rödel *Dr. Hans-Rainer Förger* *Horst-Dieter Thiel*

lightens up. Based on the most likely planning scenario, the volume of our new business deals – with varying weighting in our domestic and international markets – will be bigger than the level noted in 2002.

Because almost no relief can be expected from the economy, the banking sector will have to rely almost solely on its own resources to overcome the current challenges. Despite all of the individual differences within this sector, action is needed because of the generally sluggish earnings growth, increasing needs to make provisions for non-performing loans, rising risks, and the unavoidable requirement to cut costs. Compared to its competitors or the industry average, MünchenerHyp has improved its relative position. Nevertheless, we also have to deal with these challenges. No one can afford to simply sit and wait for the economy to recover.

Within the market we see potential for us to increase our share of new business. This is our most important objective in the current business year.

The Bank will continue to decisively orient its activities to meet the demands of the market and its customers. We will further develop our sales strategy in light of the intensive competition in the mortgage sector, potential alliances and changing structures within the FinanzVerbund. This will give us a realistic chance to achieve the required qualitative expansion both domestically and internationally.

In June 2002 we moved into our new headquarters located in Munich's banking and insurance district. Now we are enjoying better working conditions, shorter distances, and we are proud of our new building's innovative architectural design.

The conversion of our IT system to the new SAP standard software marked the accomplishment of an important interim goal. The next task we face is to rapidly amortize these investments through higher earnings and lower costs.

In order to achieve this goal we initiated a project with a qualified consulting firm in August to optimize our organization and processes. In January 2003 we began to implement the list of measures previously agreed with each department.

Our strategic targets remain unchanged: continue our excellent relationship with our partners in the FinanzVerbund, maintain our earnings power, reinforce our ability to provide excellent services and secure our ratings. Because overall business conditions are continuously changing, we must be open to new ways of doing business. Demanding tasks await all of us – the Board of Management, management and staff.

Competition among Pfandbrief issuers to win investors' favor has gotten even tougher. Today, Pfandbriefe additionally compete with mortgage-backed securities, agency bonds, sovereign bond issues, corporate bonds, Jumbo bonds issued by the German states, as well as with other new investments alternatives. Our rating provides us with a very good starting position. This in turn means that in the future we must be prepared at any time to meet rating criteria, which are become increasingly differentiated and demanding, in order to maintain our head start in refinancing activities.

Investor confidence in the high quality of the Pfandbrief is a valuable asset for Germany as a financial center and proof of the stable yet flexible capabilities of the mortgage bank system, which has existed for over 100 years. MünchenerHyp benefits as an issuer from the liquidity and market depth and breadth of Europe's biggest bond market. This also brings with it the obligation to contribute towards the continued attractiveness of this market, which we do by providing tailor-made issues for demanding institutional investors.

"Within the market we see potential *for us to increase our share of* new business.

This is our most important objective in the current business year."

The Mortgage Bank Act minimizes investors' risk because of its stringent cover requirements, comprehensive auditing obligations enforced by independent trustees, lending guidelines, and the general restriction to only engage in low-risk businesses, and other precautionary requirements. This legally defined business model has withstood extreme tests over time, and has ensured its viability into the future through continuous modification.

In December 2002 the Federal Supervisory Agency for Financial Services [Bundesanstalt für Finanzdienstleistungsaufsicht] published minimum requirements for banks' lending business *[MaK]*, which define the qualitative standards for the organization of the lending business. The new international equity capital rules *[Basel II]*, which are anticipated to come into effect at the end of 2006, also contain qualitative lending requirements. Both of these regulatory measures provide a uniform basis for banks' risk-management tasks. For mortgage banks, which have always been obliged to meet higher safety standards because of the Specialist Bank principle, these new rules will not lead to a fundamental reorientation of business policies, although they will lead to numerous changes in organizational details that now need to be implemented.

The ongoing struggle for customer business in the property and public-sector financing segments between the three major groups that make up the German banking industry puts pressure on profit margins. At the same time customer expectations have risen along with legal requirements, qualification requirements demanded of employees, and IT systems have also become more complex. We, like all other banks, not only have to endure the twin pressures of costs and earnings, we have to counter them.

In responding to this task we will respect the interests of all our stakeholders. Investors are primarily interested in the safety and fungibility of our Pfandbriefe. Our partners within the FinanzVerbund look to our capabilities as a source of credit and as a top standing issuer in the capital markets. The quality of their place of work is the prime consideration for our employees, as is an attractive dividend for the shareholders in our cooperative.
Only by respecting all of these valid interests can we be certain that our shares will remain a desirable investment in the future.

Munich, March 10, 2003

Yours sincerely,

Erich Rödel

Dr. Hans-Rainer Förger

Horst-Dieter Thiel

ANNUAL REPORT

MANAGEMENT REPORT

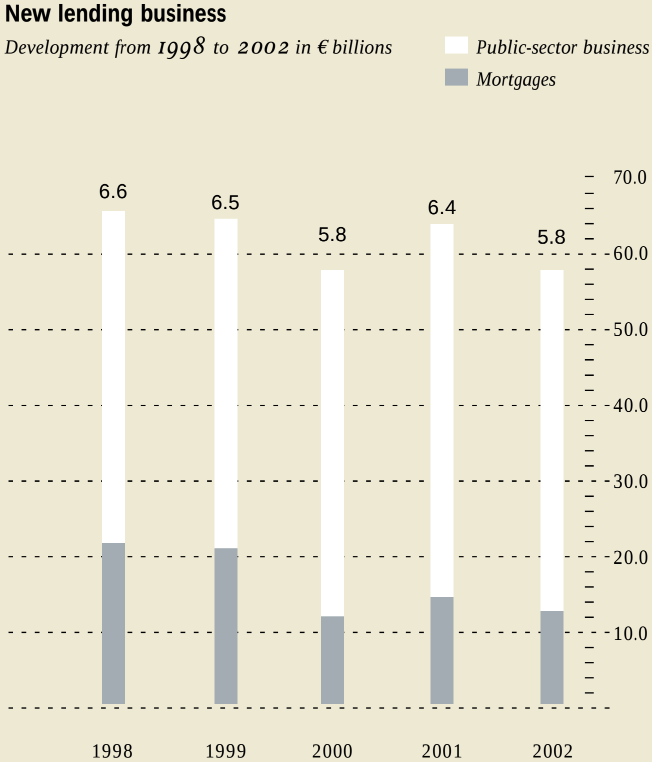
Overall economic conditions

Germany was once again one of the weakest performers among the major industrial nations in terms of economic growth and dynamism during the year under review. Along with the construction industry, the German banking industry was the hardest-hit industry, as reflected in the rating agencies' downgrades. The average ratings for German banks' financial strength declined. Even the long-term liabilities and issues of some mortgage banks were downgraded. Despite the business environment, MünchenerHyp improved its relative position: our ratings were confirmed and the outlook for the future was noted as being stable.

The weak overall economic situation, as well as the more than 6% decline in new orders in the building industry also impacted on MünchenerHyp's property financing business. Moreover, due to our strict lending standards, we turned down numerous requests for loans from businesses whose outlook had clouded over. For these economic reasons, growth in our new lending business was more modest in 2002. This was particularly apparent in the residential construction financing sector where even historically low interest rates were unable to revive the market.

New lending business

Development from 1998 to 2002 in € billions



On an overall basis, long-term capital market interest rates declined, although this trend was accompanied by sharp swings in both direction during 2002. Interest rates rose strongly during the first and second quarters – by about 0.5% in the five year category – and peaked in April and May. The subsequent decline in interest rates was erratic: following an interim high in the fall, rates fell anew in expectation that the ECB would cut key rates, which did in fact occur on December 6. This marked the fourth time that the ECB cut rates during the year under review.

Mortgage business

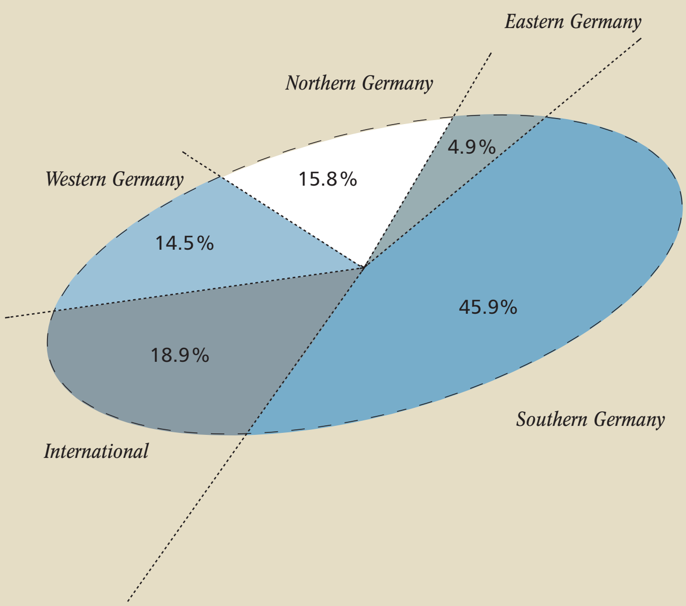
Our new mortgage business amounted to € 1.3 billion or 12.6 % below the previous year's figure. Our individual areas of business posted varying results. New lending commitments for commercial properties in Germany continued to expand following last year's strong performance climbing 12.1 % to € 287.0 million. We benefited from opportunities in the market arising from restructuring activities carried out by our competitors and the ensuing unease among their clientele as our posture of continuity and reliability contrasted with the prevailing uncertainties.

Conditions in the property and credit markets within the rest of Europe, outside of Germany, must be viewed differently, and were generally favorable. Some signs of a possible overheating of the property market were noted in Great Britain. The latest input will be taken into consideration when making acquisitions and will be integrated into the credit decision process. Business received a boost during the year because of the increased demand for tranche financing. Our favorable purchase conditions provided us with a competitive advantage and we established ourselves among an extended customer group as a partner for the lower-risk first ranking tranches; € 248.2 million in commitments were made following € 305.9 million noted in the previous year.

In the residential construction finance sector business focused on financing existing housing and refinancing deals, which together represented about 70 % of the volume. Here, we were able to again achieve last year's levels. In contrast, financing of new construction fell due in part to further declines in new housing starts. Total commitments made for residential construction finance amounted to € 773.0 million, or € 155.6 million below the previous year's figure.

On a regional basis, Germany's share of our total financing volume rose slightly to 81.1 % [2001: 79.6 %]. Southern Germany was again the focal point of our domestic new business activities with a 56.6 % [2001: 55.1 %] share. Northern Germany's share of business rose [19.5 %], while eastern Germany's share dropped significantly from 13.1 % to 6.0 %. European financing activities were again concentrated in Great Britain, which held a 61.3 % share of business volume.

Regional profiles of new mortgage business



In view of the extraordinarily favorable interest rates, customers increasingly preferred longer term agreements in order to lock in low rates: 81.4 % of the commitments made were for fixed rates for terms of ten years and longer.

Public-sector financing

MünchenerHyp has also traditionally favored quality over quantity in its public-sector financing business and has only expanded in this segment when market developments offered sufficient earnings opportunities. This was only occasionally the case during the year under review and resulted in signed agreements worth € 4.5 billion in contrast to the € 4.9 billion posted last year. The Bank purchased securities issued by public-sector banks due to the attractive yields arising from the significant widening of their spreads because of discussions in the market that local authorities would no longer serve as guarantors for the institutions' obligations. Because these securities have state guarantees, it was possible to enter a low-risk business with good margins in the Bank's books.

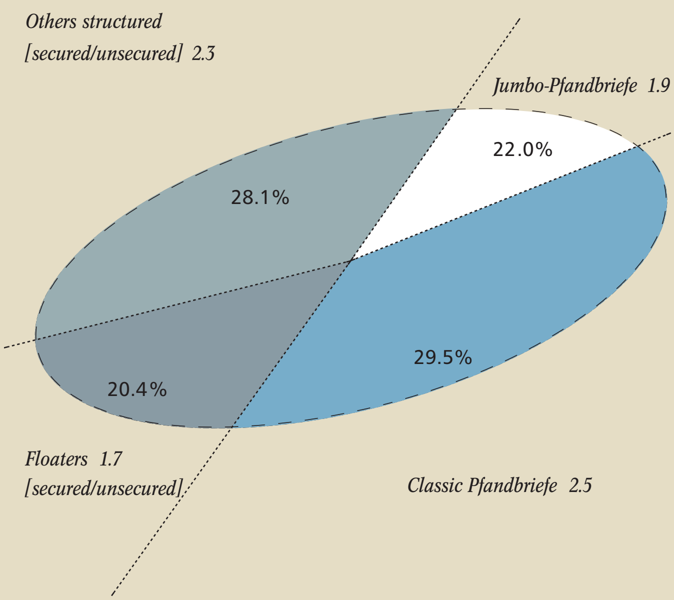
We cooperate closely with the Volksbanken and Raiffeisenbanken in the area of classical municipal loans to cities, communities and other public-law bodies and institutions. Our goal here is to support our partners locally with this product offer. In this segment we were also able to record good interest rate margins without having to incur maturity conversion risks.

Refinancing

During 2002 MünchenerHyp was again a sought-after address in national and international financial markets. Lively demand for our Pfandbriefe and other securities far exceeded our liquidity and refinancing requirements. Total sales of our refinancing paper rose from € 8.3 billion to € 8.4 billion. Due to its first class – and stable – ratings, MünchenerHyp was far less affected by the widening spreads vis-à-vis swaps observed in the Pfandbrief market than other players.

As in previous years, significant shifts in demand were noted between the various market segments during the year under review. These were primarily due to low interest rates, the very difficult situation in the equities markets, and a tense geopolitical situation. The Pfandbrief market benefited from a shift in investor preferences to safe haven investments. Above all, smaller issues were sought-after because they offered tailor-made coupons to meet individual investor requirements. As a result, sales of classical Pfandbriefe rose by 26.5 % to € 2.5 billion or 29.5 % of total sales.

Summary of refinancing sources in 2002
in € billions



Investor demand for variable rate securities was initially lower than in the previous year. However, during the second half of 2002, money market funds were mainly responsible for a notable upswing that led to a respectable 20.4 % share of sales for this category of paper.

Investor interest in foreign currency denominated bonds and structured products continued to strengthen. MünchenerHyp has been successful in raising its awareness level in both the national and international capital markets. Roadshows through Europe and Asia have helped broaden the Bank's investor base and concurrently our refinancing spectrum.

Although the Jumbo issue planned for the end of 2002 was postponed due to insufficient pricing, 22.0 % of sales were, however, generated by the Jumbo segment. The € 1.5 billion benchmark issue in the 10 year category, in particular, received strong attention in the markets at the beginning of the year.

An investor-oriented market support policy is equally important for sustainable success as are regular roadshows and a reliable presence in capital markets. Among the key elements of our issuance and capital markets strategy are a cautious approach to increasing the volume of issues and maintaining an efficient secondary market for our securities. Our partners in the Finanzverbund [cooperative financial association] also benefit from our solid standing as an issuer and the strong awareness of our Bank as a registered cooperative [eingetragene Genossenschaft, or eG].

Ratings

Ratings issued by major rating agencies determine the level of refinancing costs incurred by financial institutions as they compete in international capital markets with their security issues. During the year under review we observed an increasing tendency for the prices of Pfandbriefe issues to vary depending on the issuer. Differences in refinancing costs in the mortgage business already represent 20 % – and sometimes even more – of interest margins and thus gross earnings.

MünchenerHyp's first-class ratings were confirmed by Moody's Investors Service in December 2002. The rating outlook is stable. Our Pfandbriefe are rated Aaa. The Bank's other ratings also make it one of the top-ranked banks in the German financial sector.

The Aa3 senior unsecured rating for our unsecured notes and other long-term obligations is currently unsurpassed by any other German mortgage bank.

The Bank's financial strength received a B– rating. Within Germany this rating is only surpassed by ratings held by the Deutsche Bank, DePfa and Stadtsparkasse Köln.
MünchenerHyp is the best rated bank within the cooperative financial association and thus has the most favorable refinancing possibilities.

Balance sheet structure

Total assets increased by € 250.8 million to € 29.9 billion.

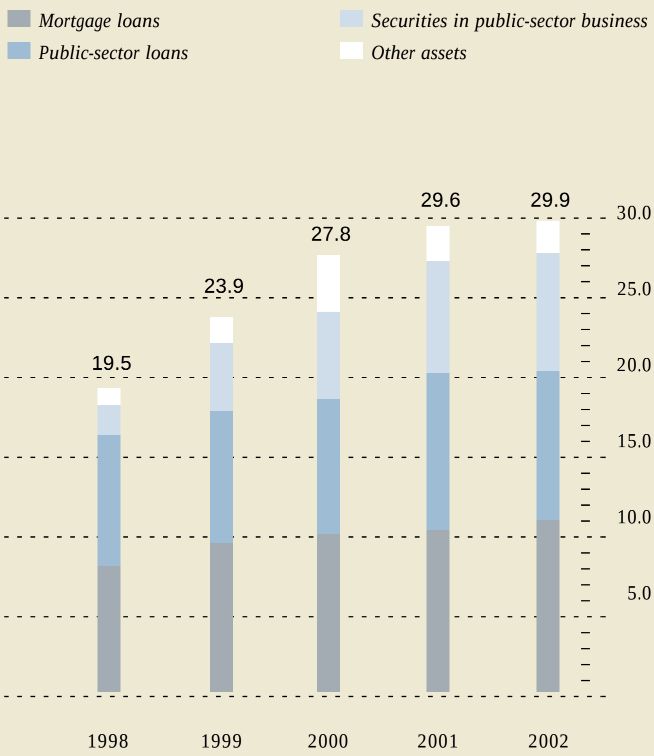
Assets consisted of our lending portfolio of property and public-sector loans, which together represented 93% of total assets. These items correspond to the Mortgage Pfandbriefe, Public Pfandbriefe and other promissory notes shown on the liabilities side.

Due to the long-term nature of our lending business and our expansion strategy that is founded on continuity, our balance sheet structures are subject to far fewer swings than those noted in our new lending business every year. Thus, our mortgage business represents about 40 % of our loan portfolio, and has hovered around this figure for years.

The value of our mortgage portfolio rose by 3.9% to € 11.0 billion, of which € 9.1 billion serve as cover for Mortgage Pfandbriefe we have issued. The structure of the covering mortgages shows a clear focus on low-risk credit segments and a favorable risk diversification profile across a broad number of debtors and pledged properties; 86.6% of this lending is for residential property loans with an average value of € 0.078 million.

Balance sheet growth

Figures in € billions



The average individual value of mortgages serving as cover for commercial real estate is € 0.387 million. This loan portfolio is also widely diversified by industries, types of properties and regions. The regional emphasis here, as in our new lending business, is southern Germany, which holds a 55.5 % share of this business area. Eastern Germany only holds an 11 % share of covering mortgages, which is significantly below the industry average.

As in 2001, the total volume of outstanding loans within our public-sector finance amounted to € 9.5 billion. We also held public-sector security issues valued at € 7.3 billion. € 15.3 billion were used as cover for Public Pfandbriefe. This figure represents an increase of 0.9 %.

We clearly favor securities over classical promissory notes, especially in our public-sector lending activities outside of Germany, because of their high liquidity and fungibility as well as standardized documentation.

We place high demands on our borrowers in order to ensure the quality of our portfolio. This is why about 70 % of our claims have either 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 comparably credit-worthy as indicated by our internal ratings.

Development of earnings

The development of our net interest income and the completion of a 3-year capital investment phase were key factors for our earnings in 2002, and also led to slightly improved operational results.

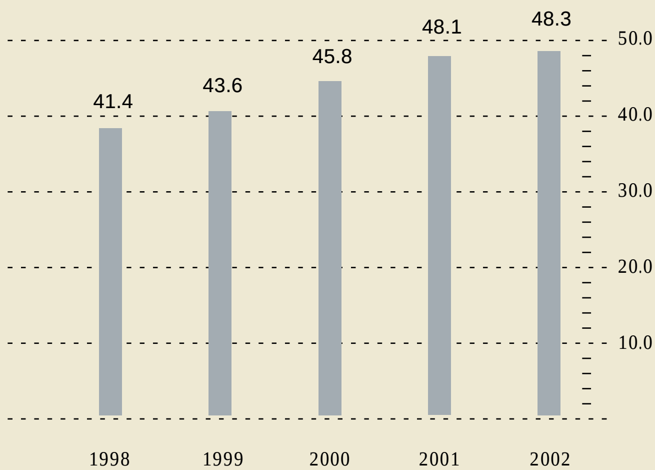
Net interest income rose to € 121.8 million [2001: € 119.1 million]. It should be noted that interest expenses for undisclosed holdings are no longer included in this item but are shown as a separate item in order to permit easier comparison with other mortgage banks. Due to a slight decline in loan payouts in our mortgage area, commission expenses fell from € 8.0 million to € 7.0 million; this led to a total net interest and commission income of € 114.8 million, or 3.3 % more than last year.

Our two major investment projects made their last major impact on our general administrative expenses in 2002. IT expenses incurred due to our conversion to standard SAP software over the past three years came to an end as all of our asset and liability positions were integrated into the new system. The second major project that ended in 2002 was completion of our new main office building located at Karl-Scharnagl-Ring 10 in Munich, and the subsequent move of our entire staff into new quarters. Both projects resulted in outlays for materials and personnel. Nevertheless, personnel expenses and other administrative costs only increased marginally by 2.9 % and 2.6 %, respectively, to a total of € 49.7 million. The previous increased levels reached during previous years should be taken into account when viewing this figure.

Depreciation of buildings and business fixtures rose from € 3.5 million to € 6.0 million. This figure includes very high non-recurring depreciation of minor value assets related to the move to our new building.

Operating profits after risk provision

Figures in € millions



Provisions for risks were increased in light of the unchanged overall poor economic situation. Net provisions for non-performing individual loans, however, were lower than last year. Because of tax reasons, profits realized from financial holdings were completely transferred to undisclosed reserves, and increased our reserves for risks. Overall provisions for risks rose from € 10.4 million to € 18.3 million.

Results from business operations amounted to € 48.3 million.

Allocations to reserves

The € 48.3 million generated by our business operations made it possible to allocate the same amount of funds to reserves as we did in the previous year. This year's annual report shows an allocation of € 13.0 million to reserves. It is recommended that the remaining distributable profits of € 8,560,647.38 should be distributed as follows:

6.5 % dividends	€ 4,970,539.08
Allocation to statutory reserves	€ 3,000,000.00
Carried forward to the new year	€ 590,108.30

Upon approval of the Board's recommendation by the representatives' meeting, the Bank's reserves will be increased to € 228.4 million. After taking the proposed allocation of distributable profits into account the Bank's equity capital exceeds € 750 million. Added to this figure should be € 76.0 million in member share capital deposits that we hold on behalf of our 94,780 members.

After inclusion of undisclosed holdings worth € 133.5 million, € 103.3 million in special dividend rights capital [Genussrechtskapital], subordinated liabilities of € 66.3 million, and the addition to the members' uncalled liabilities, it is clear that MünchenerHyp has a good equity capital base and thus the best position to continue quality-driven growth.

Employees

Our employees' commitment to the Bank is the prerequisite for successfully dealing with rapidly changing conditions in a forward-looking and active manner. The complete revision of our IT systems and the move into our new main office building initiated major change processes. The launch of a project to optimize our organization and processes created the conditions for future improvements in efficiency. All of these efforts require a high level of flexibility from management and employees.

Education and training continue to be highly valued by the Bank. During the year under review, 20 employees completed their education/advanced education programs and earned titles, e.g. Banking Specialist. We are also pleased about the high number [81 %] of our banking apprentices who remained with the Bank after completing their training. We view this as confirmation of our good working atmosphere and the interesting career prospects within our Bank. The focal point of our personnel development measures involves the optimization of our sales activities and the promotion of market-related behavior in all areas.

The Bank employed a total of 378 persons on December 31, 2002, while 21 persons were employed by our subsidiary, M-Wert. At the end of the year our other subsidiary, M-Service, had 6 employees.

Our new main office

The move into our new headquarters marked an important milestone in the more than 100-year-old history of the Bank, in addition to creating the physical and organizational prerequisites for continued development and expansion.

The move took place smoothly thanks to the willingness and efforts of all concerned and made it possible for us to continue business operations in our new quarters on June 3 without any interruptions. The official inauguration of our new building took place on June 19 and many guests from the worlds of politics and business joined us. Prior to the celebrations our employees brought their families in to tour the building and see their new offices during our Open House day.

Risk review

In light of very opaque market developments and heightened uncertainty, the proven ability to deal successfully with risks has become a convincing argument for investors. MünchenerHyp benefits from increased risk awareness and transparency because of its extensive measures and the operation of a comprehensive risk control system to identify, analyze, measure and control all relevant risks categorized as:

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

Within the framework of a risk budgeting procedure all risks at all levels within the Bank are aggregated and compared with available risk capital. The derived limits, in conjunction with appropriate control procedures and early-warning risk recognition systems, represent the linkage between assumed risks and the Bank's ability to deal with them.

Borrower failure risks

Borrower failure risks are all losses of value, which could arise due to deterioration in creditworthiness, or default, on the part of loan customers, or counter-parties in the securities and derivative business. These risks are taken into account by comprehensive individual-transaction-related and portfolio-oriented preventive measures.

The lending processes are primarily supported by IT programs. Deviations from written guidelines defining fixed procedural processes are not tolerated. Processes to continually monitor and provide early warning of risks are in place and vary according to the size, complexity and the risk content of the individual situation.

The valuation of collateral property is based on due prudence and on written evaluation guidelines approved by the Federal Banking Supervisory Authority [BAKred]. The independent appraisers employed by the Bank's subsidiary, M-Wert GmbH, conduct the necessary property appraisals.

In addition to preventive measures pertaining to individual transactions, appropriate instruments are also used to monitor credit risks on a portfolio basis. An internal rating system has been established to classify loans into risk categories. The system reviews creditworthiness and property value risks [property risk] 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. Parts of portfolios containing major credit commitments are subject to special scrutiny including arrangements to control the size relationships, or granularity, of the loans within the relevant credit portfolio.

A differentiated limit system is in place to restrict counter-party risks involved in securities, derivatives and money-market transactions.

The Bank's executive management regularly receives comprehensive reports detailing the extent of borrower failure risks and the status of risks within the defined limits.

The effectiveness of the implemented measures is again reflected in the key structural figures and the comparatively moderate number of non-performing loans. The effectiveness is also shown by the net value of the adjustments necessary in our lending business, which was below 0.05 % of total assets.

Liquidity risks

Liquidity risks refer to risks related to late or incomplete payment of obligations. These risks are countered by careful IT-supported liquidity planning and control procedures based on precise, day-by-day forecasts. The measures in place also take into account that sudden negative market developments can also have a negative impact on liquidity. The Bank's liquidity is assured by a sufficiently large disposition account at the European Central Bank [ECB], as well as our participation in the ECB's money-market activities and our numerous money-market business relationships with a large number of top-rated banks.

Market price risks

Market price risks refer to potential losses of value due to price changes on the financial markets. Due to the legal requirements governing the risk limits of mortgage banks, the only risks considered to be relevant are risks arising from changes in interest rates. The measuring, limitation, and controlling of market price risks takes place using modern methods and is based on the present value concept. Using this concept, our processes include all balance sheet and off-balance-sheet risk items. This approach exceeds the Minimum Requirements for the Operation of Commercial Activities of Credit Institutions issued by the BAKred. The monitoring of these risks takes place continuously. The noted key risk figures, the extent to which risks are still within set limits, and the results of risk shifts are reported daily to executive management.

Stringent criteria have been used to set interest rate risk limits and 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. These limits are stricter than the BAKred's "color code" model for risks. This model measures the change in relationship between the present value of interest rate risk and a mortgage bank's liable equity capital 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, MünchenerHyp's interest rate change risk on December 31, 2002 was scored at 0.5 %.
During 2002 a maximum score of 5.1 % was reached, while the Bank's average score was 2.1 %

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. We employ a number of standard banking industry preventive measures to avoid or limit these risks.

Even during the planning stages of our new main office building we were already placing great emphasis on avoiding or minimizing future risks. Arrangements in our new main office building include separate locations for stand-alone computer facilities. Detailed contingency plans are in place in the event of a major disturbance of our IT systems. All relevant processes and procedures within the Bank are defined in writing. In addition, careful staff selection as well as intensive orientation and training programs also help to minimize operational risks.

Our internal audit system, which reports directly to senior management, regularly examines compliance with internal and external regulations. The necessary personnel and property insurance policies have been obtained to the extent available. Along with borrower failure risks and market price risks, "other risks" are included in the above-mentioned risk budgeting procedure and are taken into consideration accordingly when allocating risk capital.

Basel II

The new Basel Capital Accords defining equity capital requirements for banks will be finalized in May 2003. The impact of the new Capital Accords is also of great importance for MünchenerHyp as we wish to best utilize benefits arising from a more exact differentiation of risks.

MünchenerHyp participated in the Quantitative Impact Study 3 – a study commissioned by the banking supervisory agency. The purpose of the study was to use the collected data to define model parameters to measure credit and operational risks. Our results also showed that the more differentiated the methods used to measure risks are, the lower the amount of required equity capital will be. The current generalized approach to measuring risk requires the highest level of equity capital. The new modified standard approach permits a notable reduction in equity capital coverage due to the high percentage of our current property-secured, residential property loans as well as our top quality public-sector and municipal loans. Internal ratings based on the IRB approach will lead to significantly lower equity capital requirements because of the prime quality of our loan portfolio.

M-Wert GmbH and M-Service GmbH

Our subsidiary firm, M-Wert GmbH, continued to develop successfully. The company grew again in comparison to the previous year and on December 31, 2002 employed 21 persons, who are locally present in the most important regions of Germany.

The firm's qualified appraisers are becoming increasingly established as competent partners for evaluating property by a growing number of banks within the cooperative Finanzverbund. M-Wert GmbH's comprehensive property expertise is also available to various associations, committees and other bodies. A great deal of interest has been noted for the seminars and training courses that are offered.

The demand for M-Wert GmbH's services is rising strongly in light of risk diversification measures within the Bank and supervisory requirements.

Positive operational results were posted again in the third, full, year of business. The profits earned were carried forward into the new business year.

Fully owned by Münchener Hypothekenbank, Immobilienservice GmbH [M-Service] manages and administers the Bank's proprietary real estate portfolio and also provides other property-related services with the goal of optimizing the Bank's property portfolio.

During the year under review major emphasis was focused on the completion, and start of operations, of our new main office building, in addition to the renovation of a protected historical landmark building next to the main office, which had been purchased by the Bank.

Outlook

Our start in the 2003 business year has to be viewed against the background of worsening economic conditions and structural hindrances. Unfortunately, the anticipated light at the end of the economic tunnel remains out of sight. A revived American economy is the prerequisite for upward movement on this side of the Atlantic. Until the results of war in Iraq are fully visible the German economy will – at best – move sideways. Private residential housing construction is one of the special problem areas for our business. So far, the significant reduction in interest rates at the beginning of the year has not helped the construction industry recover. At the same time, however, we do note that, despite the current conditions, there are business opportunities to be had. Against this business background, the Bank got off to a successful start in 2003.

The areas of the European markets where the Bank has been previously active are still viewed as promising. The notable cooling of the economies in neighboring countries has naturally made it more difficult to do business there. Great Britain still stands out from the other member states of the European Union because of the exceptional increase in its gross national product stemming from major structural adjustments and changes made in the UK over the past 20 years. For this reason, the Bank's international activities will continue to focus on this region, with particular attention paid to developments in the property markets.

For 2003, our goal is to surpass the volume of commitments made in our new mortgages business in 2002 – we are aiming at the € 1.5 billion mark. In order to achieve this goal we have improved our sales operations. We see no need to alter our cautious approach to public-sector financing. We will only enter into deals when suitable interest margins can be attained through refinancing with congruent maturity and liquidity. Based on this business approach, we have not set ourselves volume targets and believe that a decline in lending volume would be tolerable if it should occur.

We will continue our investor-oriented business policy in our issuance and securities business. We anticipate that, in the current demand situation, we could float one or, at best, two benchmark issues. We expect that institutional investor demand will remain lively for structured issues. In this sector we offer investors our € 10 billion comprehensive debt issuance program including documentation in accordance with international standards.

The level of our earnings will depend on the rapid reduction of expense items that expanded during our recent capital investment phase. In order to accomplish this goal we launched a project to optimize our organizational and process structures in the fall of 2002. We expect to see a notable reduction in administrative costs already in 2003. In general, we anticipate that our annual results will continue to develop favorably.

Concluded in February 2003

FINANCIAL STATEMENTS

balance sheet, december 31, 2002
income statement for the year ended december 31, 2002
notes

ASSETS	€	€	DEC 31,01 €'000
1. Cash reserve			
a] Cash on hand	40,669.36		29
b] Balances with central banks	45,338,016.22		64,223
Of which with Deutsche Bundesbank € 45,338,016.22			
		45,378,685.58	**64,252**
2. Claims on banks			
a] Mortgage loans	315,134,182.22		311,785
b] Public-sector loans	3,181,269,224.76		3,436,485
c] Other claims	1,391,328,491.39		1,360,901
Of which payable on demand € 140,538,740.31			
		4,887,731,898.37	**5,109,171**
3. Claims on customers			
a] Mortgage loans	10,651,197,670.65		10,244,359
b] Public-sector loans	6,347,129,791.06		6,092,605
c] Other claims	68,125,124.30		96,501
Of which with securities pledged as collateral € 29,082.10			
		17,066,452,586.01	**16,433,465**
4. Bonds and other fixed-income securities			
a] Bonds and notes	7,259,569,874.20		7,157,132
aa] Public-sector issuers € 1,873,270,888.66			[1,996,622]
Of which eligible as collateral for Deutsche Bundesbank advances € 1,583,631,737.99			
ab] Other issuers € 5,386,298,985.54			[5,160,510]
Of which eligible as collateral for Deutsche Bundesbank advances € 5,061,937,700.32			
b] Own bonds and notes	121,028,621.57		219,706
Nominal value € 118,056,452.43			
		7,380,598,495.77	**7,376,838**
Carried forward		*29,380,161,665.73*	*28,983,726*

LIABILITIES, CAPITAL AND RESERVES	€	€	DEC 31,01 €'000
1. Liabilities to banks			
a] Registered mortgage Pfandbriefe issued	754,388,220.23		829,906
b] Registered public-sector Pfandbriefe issued	402,707,841.49		525,124
c] Other liabilities	735,803,717.77		785,875
Of which:			
Payable on demand € 1,358,501.06			
Delivered to lenders as collateral for loans received			
registered mortgage Pfandbriefe € 2,240,669.82			
and registered public-sector Pfandbriefe € 3,592,238.62			
		1,892,899,779.49	**2,140,905**
2. Liabilities to customers			
a] Registered mortgage Pfandbriefe issued	3,638,085,190.19		3,426,228
b] Registered public-sector Pfandbriefe issued	2,052,116,567.20		1,671,513
c] Savings deposits	23,255.54		25
with agreed notice periods of three months € 23,255.54			[25]
d] Other liabilities	683,359,315.22		782,445
Of which:			
Payable on demand € 18,091,685.84			
Delivered to lenders as collateral for loans received			
registered mortgage Pfandbriefe € 74,799,829.24			
and registered public-sector Pfandbriefe € 23,008,134.67			
		6,373,584,328.15	**5,880,211**
3. Certificated liabilities			
a] Mortgage Pfandbriefe issued	5,874,178,594.17		5,423,777
b] Public-sector Pfandbriefe issued	12,947,376,493.08		12,788,414
c] Other bonds issued	1,812,243,470.03		2,365,896
		20,633,798,557.28	**20,578,087**
4. Liabilities incurred as trustee		**526,657.73**	**590**
Of which loans € 526,657.73			
5. Other liabilities		**267,502,552.02**	**322,828**
Carried forward		*29,168,311,874.67*	*28,922,621*

ASSETS	€	€	DEC 31,01 €'000
Brought forward		*29,380,161,665.73*	*28,983,726*
5. Equities and other variable-yield securities		**125,283,603.13**	**122,733**
6. Participating interests and shares in cooperatives			
a] Participating interests	18,715,248.77		11,716
Of which in banks € 2,633,127.09			
b] Shares in cooperatives	1,104,500.00		1,105
Of which in credit cooperatives € 1,081,500.00			
		19,819,748.77	**12,821**
7. Shares in affiliated companies		**551,088.34**	**151**
8. Assets held in trust		**526,657.73**	**590**
Of which loans € 526,657.73			
9. Tangible assets		**108,942,051.48**	**96,888**
10. Other assets		**42,791,447.12**	**252,868**
11. Deferred items			
a] From issuing and lending business	187,536,383.10		144,546
b] Other	1,225,225.96		1,635
		188,761,609.06	**146,181**
Total assets		**29,866,837,871.36**	**29,615,958**

LIABILITIES, CAPITAL AND RESERVES	€	€	DEC 31,01 €'000
Brought forward		*29,168,311,874.67*	*28,922,621*
6. Deferred items			
From issuing and lending business	58,670,357.39		63,354
		58,670,357.39	**63,354**
7. Provisions			
a] Provisions for pensions and similar obligations	13,632,940.00		12,195
b] Provisions for taxes	5,567,826.03		14,650
c] Other provisions	7,071,644.48		6,671
		26,272,410.51	**33,516**
8. Subordinated liabilities		**66,300,000.00**	**66,300**
9. Profit-participation certificates		**103,280,960.02**	**103,281**
10. Capital and reserves			
a] Subscribed capital	210,003,280.64		209,060
aa] Members' capital contributions € 76,469,831.97			[75,527]
ab] Silent participations € 133,533,448.67			[133,533]
b] Revenue reserves	225,438,340.75		209,439
ba] Legal reserve € 223,904,465.11			[207,905]
bb] Other revenue reserves € 1,533,875.64			[1,534]
c] Unappropriated profit	8,560,647.38		8,387
		444,002,268.77	**426,886**
Total liabilities, capital and reserves		**29,866,837,871.36**	**29,615,958**
1. Contingent liabilities			
Contingent liability on guarantees and indemnities		**21,786,047.25**	**43,823**
2. Other commitments			
Irrevocable loan commitments		**518,957,817.46**	**601,881**

EXPENSES	€	€	DEC 31,01 €'000
1. Interest expense		**1,459,434,482.43**	**1,458,645**
2. Commission paid		**10,264,561.16**	**10,486**
3. General administrative expenses			
a] Personnel expenses	25,678,994.21		24,952
aa] Wages and salaries € 19,991,244.72			[19,675]
ab] Social security contributions and cost of pensions and other benefits € 5,687,749.49			[5,277]
Of which for pensions € 2,678,831.61			
b] Other administrative expenses	24,050,623.54		23,453
		49,729,617.75	**48,405**
4. Amortization and depreciation of intangible and tangible assets		**6,011,863.67**	**3,515**
5. Other operating expenses		**2,522,239.06**	**2,348**
6. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses		**18,425,197.62**	**10,439**
7. Taxes on income		**18,698,749.00**	**26,874**
8. Other taxes not included under "Other operating expenses"		**111,293.93**	**101**
9. Profits paid out due to a profit pooling agreement, a profit transfer agreement or a partial profit transfer agreement		**8,398,651.20**	**0**
10. Net income		**21,082,955.06**	**21,162**
Total expenses		**1,594,679,610.88**	**1,581,975**

1. Net income	**21,082,955.06**	**21,162**
2. Retained earnings brought forward from previous year	**477,692.32**	**225**
	21,560,647.38	**21,387**
3. Transfer to legal reserve	**13,000,000.00**	**13,000**
4. Unappropriated profit	**8,560,647.38**	**8,387**

INCOME	€	€	DEC 31,01 €'000
1. Interest income from			
a] Lending and money market operations	1,224,417,673.92		1,229,752
b] Fixed-income securities and government debt-register claims	342,620,555.99		344,834
		1,567,038,229.91	**1,574,586**
2. Current income from			
a] Shares and other variable-yield securities	13,757,036.49		2,513
b] Participating interests and shares in cooperatives	430,799.57		638
		14,187,836.06	**3,151**
3. Commission received		**3,255,769.78**	**2,526**
4. Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets		**8,241,062.45**	**33**
5. Other operating income		**1,956,712.68**	**1,679**
Total income		**1,594,679,610.88**	**1,581,975**

liabilities, capital and reserves	€	€	dec 31,01 €'000
1. Liabilities to banks			
a] Registered mortgage Pfandbriefe issued	754,388,220.23		829,906
b] Registered public-sector Pfandbriefe issued	402,707,841.49		525,124
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Of which:			
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with agreed notice periods of three months € 23,255.54			[25]
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Of which:			
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Of which loans € 526,657.73			
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Carried forward		*29,168,311,874.67*	*28,922,621*

ANNUAL REPORT

assets	€	€	dec 31,01 €'000
Brought forward		*29,380,161,665.73*	*28,983,726*
5. Equities and other variable-yield securities		**125,283,603.13**	**122,733**
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5. Other operating income		**1,956,712.68**	**1,679**
Total income		**1,594,679,610.88**	**1,581,975**

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 individual credit risks s are covered by specific value adjustments and provisions set up against claims for repayment of principal and payment of interest. Contingent risks are covered by general value adjustments. In addition, 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 or 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. Derivative financial instruments are not valued individually because they are employed to hedge risks.

Tangible assets are stated at cost or production costs 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. Expenses related to undisclosed holdings, which were previously shown under Interest Expense are included for the first time under Expense item 9. Proportionate interest arising from derivative transactions are shown under Claims on/Other Liabilities owed to Banks. In the previous year this item was included under Other Assets and Other Liabilities. Liabilities are stated at the amounts repayable. Zero bonds are carried in the accounts at the issuing price plus earned interest based on the yield at the time of purchase. 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 %.

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

Maturity analysis by residual term

assets	dec 31, 02 in €'000
Claims on banks	4,887,732
≤ Three months	1,270,728
> Three months ≤ one year	581,652
> One year ≤ five years	1,799,951
> Five years	1,235,401
Claims on customers	17,066,453
≤ Three months	433,504
> Three months ≤ one year	640,203
< One year ≤ five years	3,097,134
> Five years	12,895,612
Bonds and other fixed-income securities	
≤ One year	3,039,342

liabilities	dec 31, 02 in €'000
Liabilities to banks	1,892,900
≤ Three months	509,124
> Three months ≤ one year	125,185
> One year ≤ five years	646,781
> Five years	611,810
Liabilities to customers [excluding savings deposits]	6,373,561
≤ Three months	320,665
> Three months ≤ one year	373,366
> One year ≤ five years	2,244,093
> Five years	3,435,437
Certificated liabilities	20,633,799
≤ Three months	1,628,518
> Three months ≤ one year	3,050,542
> One year ≤ five years	8,798,955
> Five years	7,155,784

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

	dec 31, 02 in €'000	dec 31, 01 in €'000
Claims on		
– Banks	154,391	80,411
– Customers	39,881	12,854
Liabilities to		
– Banks	111,252	58,821
– Customers	0	0

Claims on and liabilities to affiliated companies

	dec 31, 02 in €'000	dec 31, 01 in €'000
Claims on		
– Customers	1,919	1,576
Liabilities to		
– Customers	1,033	406

Securities marketable on the stock exchange

	dec 31, 02 in €'000		dec 31, 01 in €'000	
Asset category	*listed*	*unlisted*	*listed*	*unlisted*
Bonds and other fixed-income securities	6,972,083	274,948	6,951,768	79,976
Participating interests	332	0	332	0

Details of fixed assets

	Cost	*Additions*	*Disposals*	*Depreciation provided in 2002*	*Accumulated depreciation*	*Net book value Dec 31, 02*	*Net book value Dec 31, 01*
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Tangible assets	119,008	18,518	8,196	6,012	20,388	108,942	96,888
			Changes +/– *]				
Participating interests and shares in cooperatives	12,821		+ 6,999			19,820	12,821
Shares in affiliated companies	151		+ 400			551	151
Bonds and other fixed-income securities	4,261,388		–238,375			4,023,013	4,261,388

*]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 € 74,190 thousand [dec 31, 01 € 33,299 thousand].

Subordinated assets

Claims on banks include an amount of € 11,534 thousand [dec 31, 01 € 11,534 thousand].

Subordinated liabilities

Subordinated liabilities incurred interest expenses of € 4,213 thousand. Subordinated liabilities which individually exceed 10% of the overall statement amount to:

Nominal amount	*Currency*	*Interest rate*	*Maturity date*
15,000,000.00	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. 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 not foreseen.

Profit-participation certificates

The amount of profit-participation certificates of € 103,281 thousand satisfying the criteria of section 10 [5] of the Banking Act is € 100,421 thousand.

Details of revenue reserves

	Legal reserve €'000	*Other revenue reserves* €'000
January 1, 2002	207,904	1,534
Transfer from 2001 retained earnings	3,000	0
Transfer from 2002 net income	13,000	0
December 31, 2002	223,904	1,534

Member's capital contributions

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

	dec 31, 02 in €	dec 31, 01 in €
Capital contributions	76,469,831.97	75,526,858.97
a] Of remaining members	75,968,491.97	74,655,358.97
b] Of former members	496,230.00	867,440.00
c] In respect of shares under notice	5,110.00	4,060.00
Outstanding obligatory payments in respect of shares	1,108.03	1,391.03

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] € 532,929 thousand [DEC 31, 01 € 613,252 thousand] and [in liabilities] € 810,717 thousand [DEC 31, 01 € 537,809 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	599	11,622	12,586	24,807	473
Interest rate options					
– Calls	0	56	0	56	0
– Puts	326	278	275	879	0
– Other interest rate contracts	0	0	201	201	0
currency-related transactions					
Cross-Currency Swaps	193	767	306	1,266	8

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, 02 in €'000
Ordinary cover	9,146,345
1. Claims on banks [mortgage loans]	215,340
2. Claims on customers [mortgage loans]	8,909,568
3. Tangible assets [charges on land owned by the Bank]	21,437
Surrogate cover	1,053,000
Total cover	10,199,345
Total mortgage Pfandbriefe requiring cover	10,080,376
Surplus cover	118,969

b. public-sector pfandbriefe	dec 31, 02 in €'000
Ordinary cover	15,335,321
1. Claims on banks [public-sector loans]	2,972,070
2. Claims on customers [public-sector loans]	5,981,356
3. Bonds and other fixed-income securities	6,381,895
Surrogate cover	0
Total cover	15,335,321
Total public-sector Pfandbriefe requiring cover	15,090,192
Surplus cover	245,129

Repayments in mortgage portfolio

	€'000
– Scheduled redemptions	285,534
– Redemptions due to non-acceptance of prolongation offer	169,775
– Non-scheduled redemptions	174,706

Mortgage loans employed as cover were granted on

	Numbers of loans	€'000
– Residential properties	99,693	7,774,970
– New buildings with no revenue-generating capacity as yet	1,634	135,355
– Mortgages on construction sites	79	9,464
– Business properties	3,033	1,178,118
– Agricultural properties	1,036	27,001
Total	105,475	9,124,908

Analysis of mortgage loans employed as cover

a. by size

> €'000	≤ €'000	Number of loans	€'000
	50	39,499	1,284,691
50	500	64,926	6,349,232
500		1,050	1,490,985
		105,475	9,124,908

b. by geographical location of properties charged

	Number of loans	€'000
Baden-Württemberg	20,828	1,647,415
Bavaria	24,458	2,088,299
Berlin	859	209,522
Brandenburg	981	94,371
Bremen	175	11,708
Hamburg	422	71,240
Hessen	8,360	816,627
Mecklenburg-Lower Pomerania	890	88,731
Lower Saxony	9,597	638,134
North Rhine-Westphalia	20,146	1,608,596
Rhineland Palatinate	3,803	291,071
Saarland	1,293	86,520
Saxony	2,893	322,191
Saxony-Anhalt	1,065	113,477
Schleswig-Holstein	7,661	635,944
Thurinia	2,006	162,298
Foreign countries	38	238,764
Total	105,475	9,124,908

Interest outstanding

Unpaid interest on mortgage loans that was due for payment between October 1, 2001, and September 30, 2002, 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	8,983	7,327	1,656

Forced auctions and receiverships

		of which housing sector	*of which business sector*
The number of proceedings pending at December 31, 2002, was			
– Forced auctions	390	346	44
– Receiverships	233	206	27
	149*]	132*]	17*]
The number of forced auctions conducted in 2002 was	96	87	9

*] 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.

ANNUAL REPORT

Membership data

	Number of members	Number of shares	Members' liability for additional contributions €
Beginning of 2002	94,731	1,066,525	272,657,116.25
Additions in 2002	1,612	36,205	9,255,808.25
Reductions in 2002	1,563	17,450	4,461,092.50
End of 2002	94,780	1,085,280	277,451,832.00

	€
Increase in members' capital contributions in 2002	1,313,133.00
Increase in members' liability for additional contributions in 2002	4,794,715.75
Amount of each share	70.00
Liability for additional contributions	255.65

Personnel statistics

The average number of persons employed by the Bank in 2002 was as follows	Male	Female	Total
Full-time employees	172	145	317
Part-time employees	2	40	42
Total employees	174	185	359
Apprenticed trainees	2	17	19

Shareholdings

	Percentage of capital held %	Capital €'000	Prior-year profit/loss [-] €'000
M-Wert GmbH, Munich	100	50	166
Immobilienservice GmbH der Münchener Hypothekenbank eG, [M-Service], Munich	100	501	0
Patio Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	33	9	–121

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

Josef Graßl … Ingolstadt [died January 13, 2002] Member of the Board of Management of Raiffeisenbank Ingolstadt-Pfaffenhofen-Eichstätt eG

Dr. Rainer Märklin … Reutlingen, Bank Director [ret.]

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

Jürgen Partenheimer … Munich, Bank Director [ret.]

Hans Pfeifer … Düsseldorf, Bank Director

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 [until December 31, 2002] … Erich Rödel … Dr. Hans-Rainer Förger … Horst-Dieter Thiel

Loans to board members amounted to € 248 thousand [to members of the Board of Management] and € 26,146 thousand [to members of the Supervisory Board]. Pension provisions for former members of the Board of Management amounted to € 4,939 thousand.
Total emoluments of members of the Supervisory Board in 2002 amounted to € 165 thousand. Total emoluments of former members of the Board of Management or their surviving dependants amounted to € 537 thousand.

Auditing Association

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

Contingent liability

The Bank is a member of the Security System 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 € 8,239 thousand.

Munich, February 19, 2003

MÜNCHENER HYPOTHEKENBANK EG

The Board of Management

Erich Rödel | 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, 2002, in accordance with § 53[2] of the Cooperatives Act and § 340 k 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 incooperation 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 22, 2003

deutscher genossenschafts- und raiffeisenverband e.v.

Spanier	i.V. Huber
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

During the 2002 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 Management Board. The Supervisory Board regularly reviewed business matters conducted by the Management Board and gave its approval to these actions after noting that they were handled in an orderly manner. Basic business policy issues as well as business risk policy were jointly reviewed with the Board of Management. Three committees dealt with special issues concerning Working Matters, Auditing, and Lending. The Building Committee monitored construction of the new main office building. 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, the annual financial statements and related accounting documents were audited by the Deutsche Genossenschafts- und Raiffeisenverband e.V., Berlin, for the period January 1 until December 31, 2002, and received the auditor's 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 2002 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 Management's proposal for the allocation of distributable income.

Dr. Hans-Ludwig Bungert resigned at the end of the business year on the Board of Management. He had been appointed to the Board in October 1984 and had served as the Board's chairman since 1995. The Bank expanded quite successfully during these 18 years.
The Supervisory Board wishes to thank him for his long years of dedicated service to the Bank and wishes him well in his retirement.

We were saddened by the death of Dr. Anton Sirch on January 3, 2003. Dr. Sirch had been a member of the Board of Management from 1963 until 1985, and served on our Supervisory Board from 1985 until 1993 and as its chairman from 1985 until 1989. His vision, his commitment to excellence in all areas and his strong abilities to unite different opinions have made a lasting impression on the Bank and enhanced its reputation. We are very grateful for all that he has done and we will remember him fondly.
Josef Hadler, who had been a member of our Supervisory Board from 1990 until 1995, died on March 9, 2003. His vast experience and competence reinforced the Bank's standing and reputation within the cooperative financial association. The Supervisory Board is thankful for his work and will remember him fondly and gratefully.

Munich, March 22, 2003

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

MEHR MOBILITÄT

MORE MOBILITY

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