MÜNCHENER HYPOTHEKENBANK EG

GESCHÄFTSBERICHT 2003

ANNUAL REPORT 2003

Münchener Hypothekenbank eG

INHALT | CONTENT

DEAR SHAREHOLDERS AND BUSINESS ASSOCIATES,

THE ONGOING STRUCTURAL CHANGES in the banking sector continued throughout 2003. Yet, in light of the unfavorable economic conditions and the weak real estate markets, these changes were even more urgently needed and even more difficult to realize.

The to-do list for the banking industry includes
… increasing earnings capabilities, cutting costs, focusing on core business areas, and outsourcing of routine processes,
… increased preventive measures to protect against lending, market, and systemic risks,
… raising sales efficiency,
… cutting back on assets risks by securitization [True Sale Initiative],
… increasing equity capital,
… as well as consolidating and eliminating surplus capacities.

Measures also need to be taken by both the co-operative FinanzVerbund as a whole and the MünchenerHyp, a member institution. As a decentralized customer and shareholder-oriented group we are comparatively well positioned to master the tasks at hand. The existing strengths vis-à-vis the other two pillars of the German banking industry, however, need to be quickly and decisively expanded. Both the National Association of German Volksbanken and Raiffeisenbanken as well as the regional associations have already made significant progress towards reaching these goals.

Our two main tasks during the year under review were increasing the performance of our new business activities and restructuring our internal organization as well as our processes.

In comparison to the previous year we were able to increase the volume of mortgage commitments made to € 1.6 billion, or a gain of 19.4 %. Commitments made in our public-sector lending business rose by 28.8 % to € 5.8 billion.

Our efforts to focus the entire Bank's energies on the best market segments, that most appropriately matched the Bank's size as well as risk/return demands, were at the core of our internal measures in 2003.

The creation of the new *Domestic Sales/Verbund* and *Direct Commercial Business Domestic/International* departments and the increase in the number of employees in these departments put in place the needed capacities to acquire the desired levels of new business, both in terms of quantity and quality.

High and reliable levels of service are at the core of our sales approach. In addition, we emphasize quality-awareness and are pro-active in our dealings with customers, and develop markets in a structured and systematic manner. We are well prepared to realize business opportunities in our target markets because of our two sales departments, our twelve regional sales offices in Germany, and our representative offices abroad. The continued optimization of our sales structures will be at the center of our future efforts.

In addition we are continuously engaged in ensuring that the leadership and performance culture of the internal departments corresponds to our market presence. Fast decisions in connection with understandable standards for quality and risk, ability to communicate, and quick handling are all indispensable elements of this culture.

The restructuring of our internal organization, which has been completed in the interim, brought with it numerous changes for our employees. The new responsibilities, competencies, and lines of reporting permit the Bank to fulfill the future official Minimum Requirements for the Credit Business [Mindestanforderungen an das Kreditgeschäft – MaK] in addition to future market requirements.

Our internal communications were intensified. In several open discussion groups the Board of Management presented concepts, plans, and measures and thoroughly discussed them with the participants.

The Bank can build upon its stable approach to business which has proven its value over many years and forms the basis for the continual improvement process. The top priority here is our ability to deliver the best performance in our business dealings with our partners in the co-operative FinanzVerbund and with customers in the direct commercial business. As an independent issuer with good ratings we have all the preconditions in place to generate additional qualitative growth in the future, even if we have to do so under the still ongoing market conditions which are challenging the entire banking sector.

Munich, March 17, 2004
Sincerely yours,

Erich Rödel — Dr. Hans-Rainer Förger

Friedrich Munsberg — Horst-Dieter Thiel

MANAGEMENT REPORT

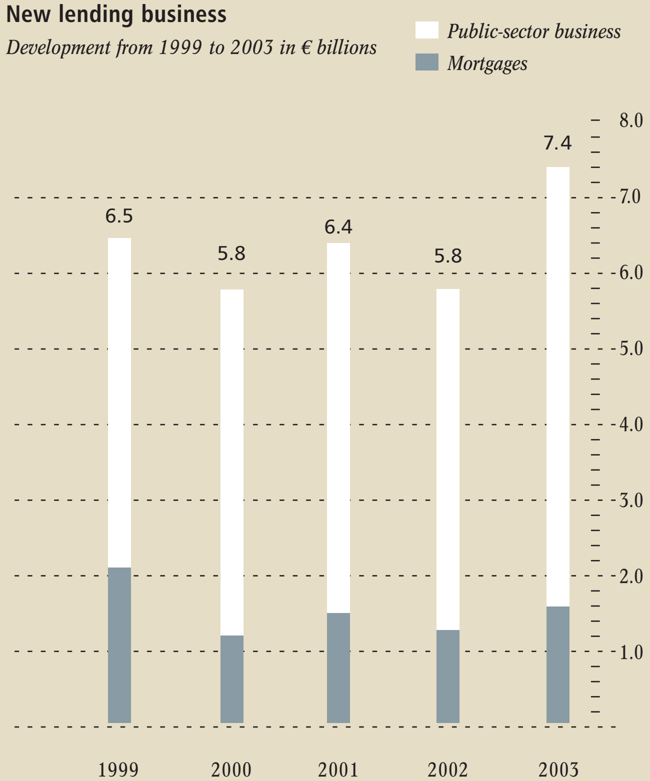
Overall economic conditions

Following three years of economic stagnation, a few sectors of the German economy began to show signs of improvement last year. However, a general and sustainable recovery did not take place in 2003. This was particularly true for the German real estate market where private residential housing was the only relatively stable sector in an environment marked by uncertainty and declining investments.

Long-term interest rates dropped during the first half of the year as the trend we saw in 2002 continued into the new year. This was due to weak economic growth in important industrial countries as well as the rapidly rising uncertainty ahead of the war in Iraq. At the start of the year the current yield stood at 3.94 %. It went on to fall to a year's low of 3.15 % in June only to rise again to 3.95 % at the end of 2003. Both the American Federal Reserve [Fed] and the European Central Bank [ECB] kept their interest rates low during the year and on June 5th the ECB cut its interest rate by 50 basis points to 2 %. Following this decision short-term interest rates fell to their lowest level since 1875 – the first year when statistics were recorded. On the 25th of June the Fed lowered their rates – the thirteenth cut in a row – to 1 % in order to support the recovery process of the American economy.

New lending business

Development from 1999 to 2003 in € billions



In March we saw the start of a powerful recovery in stock markets and new peaks were reached in Europe towards the end of the year. On the foreign exchange markets the US dollar came under pressure because of the rapid expansion of the American budget and trade deficits. By the end of the year the euro had risen to $ 1.263.

The ongoing discussions concerning the structure and stability of the German banking system moved again to the center stage of public interest. This is mainly due the fact that the volume of non-performing loans in 2002 was exceptionally high because of overall weak economic growth. In the spring of 2003, a team from the International Monetary Fund [IMF] began an extensive review of the German financial services industry, including the insurance sector, as part of their Financial Sector Assessment Program [FSAP]. The results were published on November 3rd.

When compared internationally, the German three-column system is heavily bank-oriented because of the primarily *Mittelstand* [mid-sized companies] customer structure, while Anglo-Saxon systems are more heavily capital markets oriented. This structural peculiarity is viewed critically because the earnings strength of German banks is currently below average in comparison to earnings generated by their foreign competitors. As the end of state guarantees for liabilities incurred by public sector banks draws closer, and brings with it far-reaching changes, the IMF report recommends a greater opening of the three-column system.

With regard to the stability of the banking sector, the report notes that the stress tests were completed satisfactorily. According to Moody's, a rating agency, German banks regained some of their scope for maneuver in 2003. As a result, the outlook was upgraded from negative to stable.

The MünchenerHyp in 2003

Our two main tasks during the year under review were to increase the volume of new business while maintaining our proven standards for evaluating risk, and secondly, restructuring our internal organization and processes to meet the higher standards required by the official Minimum Requirements for the Credit Business [Mindestanforderungen an das Kreditgeschäft – MaK] and Basel II.

We surpassed our new business targets.

Our internal measures consisted of:

- increasing the number of personnel in the *Direct Commercial Business Domestic/International* department in order to place our direct commercial business activities on a regionally broader basis,
- the restructuring of regional sales responsibilities and the addition of personnel in our *Domestic Sales/Verbund* department, for the purpose of increasing the efficiency of our market activities and easing the administrative burden on the regional offices,
- implementing consultant-supported analysis of the lending processes in our core business area in order to convert the potential benefits of our newly installed IT systems into increased productivity and improved levels of customer service,
- expanding the *Workout-Management* department in order to bundle together the separate functions of restructuring, asset realization, individual value adjustment management and cause-analysis of poorly performing loans in one central unit,
- completing the detailed systemic and technological adjustments arising from the conversion of our IT systems to SAP/MBS.

In several intensive workshops with selected partner banks, our sales team developed more efficient sales procedures based on new demands stemming from recent changes in market conditions. These results were quickly acted upon in order to further enhance the competitiveness of our partners in the area of property financing.

VR-Immobilien-Holding began business operations in September. Changing market conditions are cause for a critical analysis of how we conduct our business. The final conclusion is that MünchenerHyp will continue to operate as an independent legal and business entity, and in doing so will secure the substantial benefits that an issuer with an outstanding reputation can provide to the entire FinanzVerbund. The Bank has accordingly communicated its future role as it continues to co-operate with the Volksbanken and Raiffeisenbanken and work within the FinanzVerbund. Possible synergies in the back office and IT areas will be examined together with VR-Immobilien-Holding to see if benefits can be identified.

Mortgage business

In comparison to the previous year, we were able to increase the volume of new mortgage commitments made by 19.4% to € 1.6 billion.

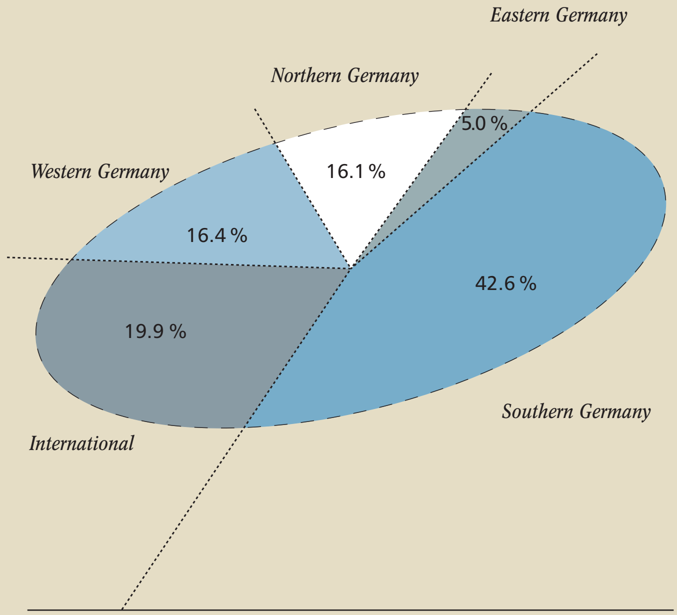
Within the residential property finance segment the volume of new commitments rose sharply by an above average 38.7% and totaled € 1.1 billion. In contrast, commercial property finance deals fell by 8.5% to € 490.0 million due to the weaker domestic market. Outside of Germany our commercial property business climbed by 25.6% to € 311.7 million thanks to good business opportunities in neighboring countries. As a result, the share of total new mortgage commitments held by residential property deals increased to almost 70% versus 60% posted in the previous year.

The regional breakdown of domestic residential property lending continues to reflect the well-known situation noted in previous years: southern Germany remains the focal point of our business activities.

Once again our customers put high priority on locking in long-term favorable interest rates. Fixed interest rates for ten year terms and longer represented 85% [2002: 81%] of all loans made.

No signs of a sustainable economic upswing were seen in the residential property construction sector. Modernization measures and improvements needed to maintain the quality of apartments built in the 1960s and 1970s, as well as the perceived need for more private retirement efforts on the part of individuals, helped to stabilize the situation in this sector. Over the mid-term we can see a continued demand for private residential property, which has significant upward potential if the long-term expectations of private and corporate investors are reinforced by reliable overall conditions. As far as interest rates are concerned, investment conditions remain favorable.

Regional profiles of new mortgage business



Property finance retains its significance as a key business area for the Volksbanken and Raiffeisenbanken. The efforts made by the FinanzVerbund to expand its market position are beginning to show results as reflected in the increasing volume of referral business sent to MünchenerHyp.

The high number of insolvencies, which we are still seeing today, as well as the weak real estate markets noted in some regions encouraged us to stick to our cautious lending policy and to our already strict risk standards. For these reasons we booked less new business for commercial real estate in Germany, despite the fact that interest rates remain very attractive.

During the current business year we anticipate an increase in the volume of new commitments, especially in the areas of direct and syndicated business deals. This forecast should also be viewed in light of our new emphasis on sales activities within these segments as well as the increased privatization of major property portfolios which is expected to take place in 2004.

Despite weaker real estate markets, which were also seen in neighboring European countries, we noted greater investment activities in these markets. This situation provided us with business opportunities – especially in the segment of office properties – which we benefited from. We have continued to place major emphasis on prime properties with long term rental agreements with top quality tenants. In addition, these criteria mean that these properties will provide a stable cash flow and thus represent solid financing opportunities even during times of difficult market conditions. We also began financing activities in the USA.

We anticipate that new commitments in our international business activities will also increase in 2004 as we expand our efforts in the key target markets of Great Britain, France, the USA, Spain, the Netherlands, Austria, and Switzerland. Our business activities in this area will focus on supporting institutional investors.

MünchenerHyp has successfully positioned itself in the market as a Senior Lender that prefers to assume the top tier portion of structured finance deals.

Public-Sector Financing Business

Public-sector financing commitments rose year-over-year by 28.8% to € 5.8 billion [2002: € 4.5 billion].

We do not pursue volume or market share targets with our purchases of securities issued by public-sector debtors. Transactions are only concluded if pre-determined profitability and creditworthiness criteria are met.

The Bank does not actively trade securities in its portfolio [non-trading book institution]. For this reason the Bank places great importance on congruent refinancing to avoid follow-up refinancing risks.

In our domestic business area we acquired a total volume of € 5.1 billion in securities and negotiable promissory notes from federal states, local and regional authorities, and public-sector banks [resp. paper guaranteed by them].

Our new business activities abroad were also focused on very creditworthy debtors. Within this area of business we signed agreements worth € 0.7 billion, of which € 110 million were with Spanish, € 108 million with Austrian, and € 100 million with Hungarian borrowers.

We co-operate 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

The Pfandbrief, the largest asset class in the European bond market, maintained its top-quality position and acceptance as it competed with numerous new, Pfandbrief-like products. The fact that mortgage banks quickly adjusted to the liquidity, transparency, and safety requirements posed by national and international investors played a major role in the Pfandbrief's success.

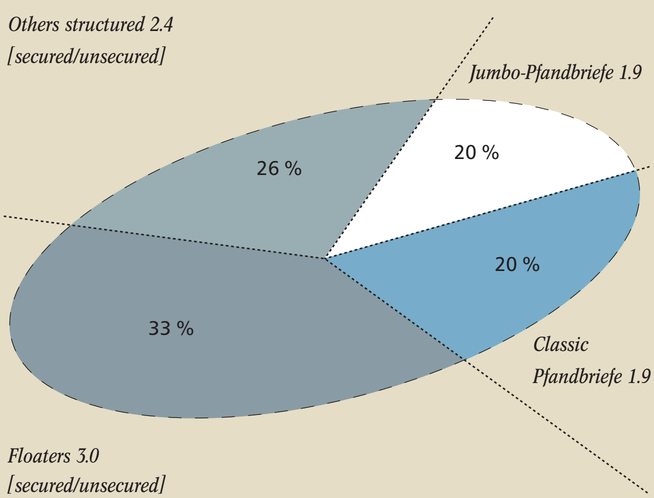
Thanks to its good ratings the MünchenerHyp remained a sought after address for institutional investors. Two of our recognized advantages are that we are a "rare name" and do not belong to any group. Major institutional investors active in the international capital markets must observe specific limitations per debtor. Standard practice here calls for lumping together all the claims against the parent company and its subsidiaries. The legally independent MünchenerHyp is positioned outside of any group limitations and thus broadens the FinanzVerbund's refinancing platform. Investors need group-independent issuers for risk diversification purposes.

In comparison to the savings bank sector and the big private banks, the co-operative FinanzVerbund is not as strongly represented in the international capital markets. Standard & Poor's, a rating agency, has noted this as a bottleneck factor that may hinder future development. This is why it is of strategic importance to the FinanzVerbund to have numerous fully independent refinancing channels at its disposal.

During 2003 we tapped the capital markets for a total gross volume of € 9.1 billion [2002: € 8.4 billion] in refinancing funds. Throughout the year we noted a continuous and strong demand for our Pfandbriefe and our other issues which exceeded our liquidity and refinancing requirements. During the course of the year we saw a narrowing of swap spreads, a good indicator of the improved refinancing conditions for Pfandbriefe.

Investor demand was more sharply focused on variable rate bonds, of which € 3 billion were sold in contrast to € 1.7 billion in the previous year. The sale of structured issues – primarily callable and multi-callable paper – declined to € 1.7 billion [2002: € 2.1 billion]. We were also able to achieve better refinancing levels in this area vis-à-vis the swap curve than in the previous year. The volume of Jumbo Pfandbriefe issued by the Bank remained unchanged at € 1.85 billion. Sales of classical Pfandbriefe rose to € 1.9 billion [2002: € 1.7 billion].

Summary of refinancing sources in 2003
in € billions



Variable rate bonds were the preferred purchases by banks and money market funds, while insurance companies, in particular, were interested in structured products and registered securities. In general, demand was greater for shorter maturity paper.

Competition has become more lively. Our European neighbors are increasingly recognizing the advantages of Covered Bonds and more and more issuers from outside Germany are supplying the markets with Pfandbrief-like products.

Within the framework of our issuance policy we aim to place one to two Jumbo Pfandbriefe per year. Important goals associated with this policy include maintaining name awareness, servicing our Jumbo Pfandbrief clientele, and offering an as complete as possible Jumbo-Pfandbrief curve to provide investors a broad spectrum of maturities for the liquid securities issued by MünchenerHyp.

The volume of derivatives amounted to € 40.0 billion, with the lion's share [€ 36.6 billion] held by interest rate swaps.

Rating

Moody's published its Opinion Update for the MünchenerHyp in September. Our ratings were confirmed. The rating outlook remains stable.

Public Pfandbriefe	Aaa
Mortgage Pfandbriefe	Aaa
Senior Unsecured	Aa3
Bank Deposits	Aa3/Prime-1
Bank Financial Strength	B-

The Bank's membership in the co-operative network and its focus on its core business with the Volksbanken and Raiffeisenbanken was viewed positively.

In October 2003 the three largest rating agencies presented a joint evaluation of the German and European credit co-operatives which confirmed that the co-operative banks are, and will remain, a strong force in the European financial sector. Ratings for all of the larger co-operative organizations in Europe were in the AA range. The report noted the strong unity within the German FinanzVerbund and its proven safety system.

New Cash Value Regulation

As part of the 4th Law to Promote Financial Markets, cash value requirements were anchored in the Mortgage Bank Act in addition to the existing nominal value coverage requirements. Therefore, derivatives that serve to hedge interest rate and exchange rate risks may also be used to a certain extent as coverage.

As a result of the cash value requirements that took effect on January 1, 2004 the Federal Financial Supervisory Authority [Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin] set the extent of cash value requirements for safe coverage of Pfandbriefe applying stress tests to the pools of coverage using scenarios that take the impact of extreme interest rate and foreign exchange swings into account. The cash value of derivatives may now be used as coverage for up to 12 % of the Pfandbriefe in circulation including those derivative obligations recorded in the coverage register.

MünchenerHyp has installed a system to calculate the daily cash value coverage and will introduce the stress tests within the defined transition period by the end of April 2004.

Amendments to the Mortgage Bank Act, which are expected to become law in the first quarter of 2004, will introduce an additional safety buffer in liquid substitute coverage of up to 2 % of the cash value of the Pfandbriefe in circulation, including derivative obligations recorded in the register.

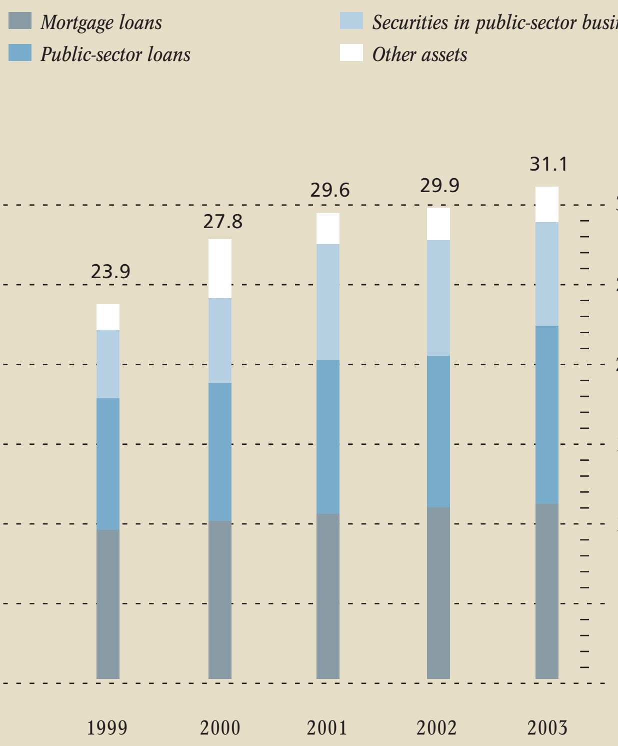
Balance Sheet Structure

Total assets rose by € 1.3 billion to € 31.1 billion [+4.3 %].

Assets valued at € 29.0 billion on December 31, 2003 consisted of € 11.3 billion in mortgage loans [+3.1 %], € 11.0 billion in municipal loans [+15.2 %] and € 6.7 billion worth of securities issued by domestic and foreign public-sector borrowers [–7.3 %].

Balance sheet growth

Figures in € billions



Our volume of refinancing increased by € 1.2 billion to € 29.7 billion [+4.3 %].

In 2003 € 9.3 billion of our total mortgage portfolio served as coverage for outstanding Pfandbriefe. We have a broadly diversified pool of coverage: 84.9 % is derived from residential construction lending, where the average size loan is € 80,000. The average size of mortgage loans serving as coverage for commercially used real estate amounted to € 420,000.

The fine composition of the collateral in the pool of coverage for residential construction loans as well as the collateral for our commercial real estate loans reflects the broad diversification over all property categories and regions. The regional focus is on southern Germany [52.9 %]. Eastern Germany, including Berlin, represents 11.0 %, far below the industry average.

In 2003, € 16.6 billion of the Bank's entire portfolio of public-sector loans served as cover for Public Pfandbriefe in circulation. High creditworthiness requirements are in place to ensure the quality of the Bank's portfolio: nearly 71 % of the claims are rated double A or triple A; non-rated claims, consisting of about 26 % of the portfolio, mainly involve loans to municipalities and local or regional authorities in Germany that, based on internal rating processes, have similarly high credit standings.

The quality of the risks within our pools of coverage is reflected in the triple A rating of our Mortgage Pfandbriefe and Public Pfandbriefe.

Development of Earnings

In line with the stability of the assets in our portfolio, interest income and expenses, the two major items on our profit and loss statement, developed continually. A remarkable change was noted in the item Other Administrative Expenses, which declined as forecast by 11 % due to the completion of major investment projects in the previous year.

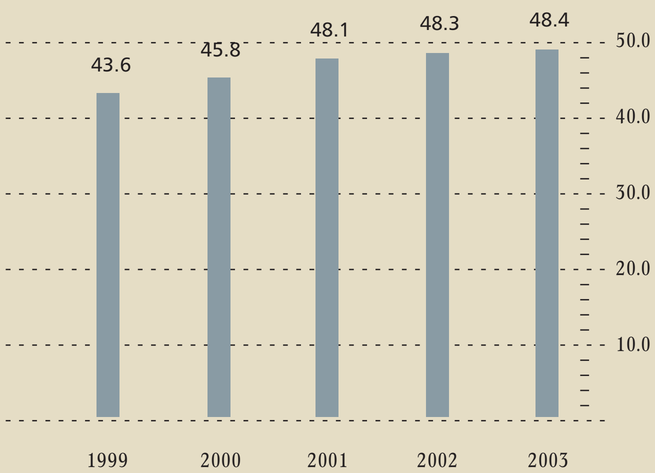
Total net interest and commission income amounted to € 114.9 million, remaining close to € 114.8 million posted in the previous year, while total administrative costs declined by 3.4 % to € 53.8 million. This meant that our total results from operations before provisions for risks amounted to € 61.3 million, or € 2.8 million [+4.8 %] greater than the previous year's performance.

Weak economic conditions continue to also have a negative effect on real estate markets. This meant that we increased our provisions for non-performing loans. Adjusted for profits generated by our securities business and after the dissolution of taxed reserves, the total allocations for risk provisions amounted to € 21.1 million or € 2.6 million more than in the previous year. To ensure tax-exempt status we also realized profits generated by our financial investments. For this reason our tax burden declined to € 5.1 million.

Total results from operations after making provisions for risks amounted to € 48.4 million and remained at last year's level.

Operating profits after risk provision

Figures in € millions



After deduction of costs for undisclosed participations we posted a net income of € 34.8 million, which was significantly better than last year's performance.

Allocations to Reserves

Our net income, which was influenced by special factors, enabled us to additionally reinforce our core capital: € 26 million were allocated in advance to declared reserves. In accordance with the proposed distribution of profits it is recommended that the remaining distributable profits of € 9,418,351.34 should be distributed as follows:

6.5 % Dividend	€ 4,977,729.17
Allocation to statutory reserves	€ 4,000,000.00
Carried forward to the new year	€ 440,622.17

Pending approval of the recommendation by the representatives' meeting, the Bank's reserves will rise by € 30 million to € 258.4 million.

Together with the almost unchanged € 76.1 in member share capital deposits, undisclosed participations valued at € 133.5 million, profit sharing right capital of € 103.3 million, subordinated liabilities of € 66.3 million, and member's uncalled liability, the MünchenerHyp has adequate equity capital for future expansion.

Employees

The increasing number of changes in our organizational structure and processes due to external and internal reasons posed major challenges to our employees' flexibility. Their willingness to actively support the required changes made a decisive contribution towards achieving the milestones we set for ourselves in 2003.

Adjustments had to be made to our basic organization in order to prepare the Bank for the future target markets. We began early to implement the steps needed to put into practice the various regulatory requirements such as the "Minimum Requirements for the Credit Business" [Mindestanforderung an das Kreditgeschäft – MaK] or Basel II. A major part of the additionally required implementation work is included as a binding requirement in the Bank's overall planning for 2004.

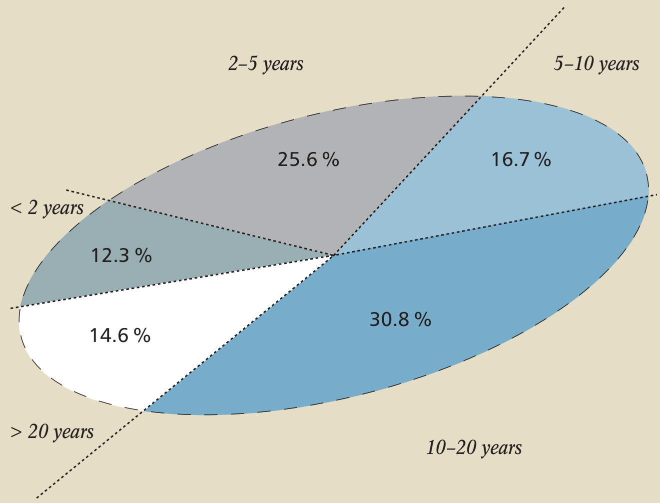
The departmental-based separation of market, back office, and control functions, as well as the functional division of loan processing activities into new and existing business, brought with them far-reaching changes for our employees. During this transitional process we provided support to our sales team and loan processing employees in the form of coaching sessions. These sessions focused on improved market development measures, more efficient handling of loans, and increasing customer satisfaction.

During the year under review we again increased the number of apprenticeships to a total of 23. The above average number of apprentices who stay with the Bank after completing their apprenticeships is a strong sign of trust and confidence that strengthens our commitment to continue our emphasis on giving our employees opportunities to enhance their qualifications and to grow within the Bank.

The average number of total employees declined marginally to 357 [2002: 359].

Job tenure

Ø 10.7 years



It would not have been possible for us to master the additional challenges we faced in 2003 without the reliable co-operation of all departments and managerial levels. The identification of our employees with their bank has traditionally provided us, as a mid-sized mortgage bank, with a real competitive advantage that is extremely important for our continued mutual success in a market that's passing through rough overall conditions.

The special loyalty felt by our employees is also reflected by their many years of employment with us. Last year we congratulated 25 employees on their tenth anniversaries with the Bank, five on their 25^{th} anniversaries and one employee who had been with the Bank for 40 years.

Risk Review

For decades now MünchenerHyp has been positioned in the market as a FinanzVerbund member conducting its business based on a very clearly defined and logical strategy that can be summarized as follows: broadly diversified new business with emphasis on lending for residential purposes which means low risks, which leads to above average ratings, which lead to favorable refinancing conditions, which lead to highly competitive offers for partner banks/customers, and ultimately to qualitative growth.

A key element of this proven business model is a consistent risk policy throughout the entire Bank and its individual business segments. This policy is based on legal and regulatory requirements. This is reflected in the risk budgeting process that accumulates all individual risks and sets this sum against total available capital. Responsibilities for identification, measuring, analyzing, reporting, and limit supervision are handled by the Bank's *Controlling/Corporate Planning* Department and *Back Office Treasury.*
Implementation of the controlling-related decisions taken by the Board of Managing Directors is the responsibility of the individual operational units.

Borrower failure risks are countered with preventive measures that encompass individual business transactions as well as portfolio-based considerations.

Risk requirements are already in place to guide the Bank's procedures during the acquisition phase. The lending processes are structured and, for the most part, IT-supported. Internal and external reviews enable the Bank to identify areas for improvement and implement them without delay. Dependent of the volume, complexity, and the risks involved in a potential deal, the Bank follows pre-set procedures to ensure continual monitoring of risks as well as an early warning against risk. The basis for evaluating collateral are the Guidelines for Determining Value, which have been approved by the Federal Financial Supervisory Authority [Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin]. Regular internal and external audits are conducted to ensure compliance with these guidelines. Independent property appraisers working for the Bank's real-estate appraisal company, M-Wert GmbH, are tasked with evaluating the value of the collateral.

In addition to preventive measures taken for individual transactions in the lending business, lending risks are also monitored at the portfolio level. Furthermore, special reporting and supervisory mechanisms are also in place for portfolio segments containing major loan volumes, the Bank also imposes limits to ensure that an appropriate granularity is maintained.

A differentiated limit system is in place to limit counter-party risks in the securities, derivatives and money market business areas.

Regularly submitted reports keep senior management comprehensively informed of the current status of borrower failure risks and the remaining safety margins within the pre-set limits.

The monitoring and control of liquidity risks takes place using IT-supported liquidity planning and a daily-based preview calculation.

Our inventory of highly liquid assets is continually adjusted to ensure that sudden, negative market developments cannot lead to any bottlenecks.

The quantification, limitation, and control of market risks which are relevant to us as a mortgage bank are based on the present value concept. This approach goes beyond the "Minimum Requirements for the Credit Business" issued by the BaFin and uniformly includes all on and off-balance sheet business items. Risks are continually monitored by the Bank. Key risk figures as well as the extent to which risks are still within set limits, and the status of our positions at risk, are reported to senior management on a daily basis.

The Bank's internal limit system is more restrictive than the "color code" model for risks used by banking regulators. Based on this valuation system, MünchenerHyp's interest rate risks on December 31, 2003 was scored at 1.2 %, while the Bank's average score for the year was 2.3 %.

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

Special importance is placed on maintaining operational security. Detailed emergency plans have been prepared to counter a major disturbance of the Bank's IT systems. Written plans exist for all relevant processes and procedures. Furthermore, the careful selection of personnel and intensive training and education of our employees also plays a role in minimizing operational risks.

As part of the Bank's internal control system, the internal audit department – which reports directly to senior management – regularly checks that all procedures, processes, and other rules are being observed. Moreover, the necessary personnel and property insurance policies have also been obtained to the extent available.

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 agreement on equity capital requirements, and the interpretation of these requirements as contained in guidelines prepared by the European Community, is of great importance for MünchenerHyp. Equity capital costs impact on competitiveness.

The results of the 3rd Basel Quantitative Impact Study confirm that in the future a more risk-conform amount of equity capital will be required for mortgage banks and especially for MünchenerHyp with its high share of retail loans as well as first-class state and communal loans. This already applies in a modified standard version as special real-estate financing is less burdened in comparison to currently valid equity capital requirements.

Beyond the modified standard version, additional important equity capital requirements can be eased through the usage of internal rating approaches, and most significantly through the advanced approaches. However, the benefits of reduced equity capital requirements are only achievable via massive investments to expand the needed procedures and systems and to obtain approval for these measures from BaFin. MünchenerHyp has initiated a project which makes it possible for the Bank to convert to IRB standards, while taking economic consequences into consideration.

The fulfillment of the overall Basel II requirements means far more for MünchenerHyp than doing something for its own sake. On the contrary, these efforts will enable the Bank to implement worthwhile developments based on business management and controlling considerations. The goal is to actively develop the Bank's steering systems with regard to earnings and risk aspects.

Subsidiary Companies

As the first real estate appraisal firm within the FinanzVerbund, M-Wert GmbH celebrated its fifth anniversary as a company on February 22nd. Our fully owned subsidiary was again successful during the year under review and was able to further expand its core appraisal business and secure a high level of quality in its property evaluations.

M-Wert GmbH's core business is preparing appraisals of properties used as collateral for loans per Article 12 of the Mortgage Bank Act, and determining market/current values. In addition, M-Wert is also active in evaluating building plans and project developments, property reviews, documenting construction progress, examining external appraisals, and providing expert advice during compulsory measures.

Revenues at M-Wert GmbH have risen by 55 % over the past three years. The company has twenty employees working at nine locations and about 60 % of its revenues were generated by assignments from MünchenerHyp and approximately 40 % from external customers, where the vast majority of work came from the Volksbanken and Raiffeisenbanken. In the interim, about 300 different institutions have given one or more jobs to M-Wert GmbH.

The company anticipates that future growth will be mainly driven by external sales and new service offers [e.g. real estate ratings].

Some of the work carried out by M-Service GmbH ended successively following the completion of the Bank's new main office during the year under review. The new task facing M-Service is to realize the potential of the Bank's old headquarters building on Nussbaumstrasse. At the same time, M-Service continues to serve the Bank's Workout-Management department.

Outlook

Improved consumer and investor confidence will be a decisive influencing factor if the tentative economic recovery is to gain breadth and momentum. The reduced tax burden is intended to lead to a significant increase in consumption and investments. At the same time, however, the state has trimmed back numerous tax breaks, and costs have risen in the German social and medical care areas. For these reasons it is still unclear if we will really experience improved consumer sentiment and if anticipated higher domestic demand for goods and services will actually materialize as hoped for.

The situation in the German labor market remained grim at the beginning of 2004. Layoffs, especially in the construction and retail trade industries, are forecast to continue in the coming months.

In their current monthly report the ECB still maintained its opinion that although exports may decline a bit due to the euro's strength, business conditions in Euroland are supported by the growing demand shown by the most important trading partners. The increased value of the euro has had a positive effect on the development of prices and interest rates. The majority of economists anticipates that the second half of the year will be the earliest moment for the ECB to begin raising interest rates from the current 2%.

Experience has shown that there is a delay in the time needed by domestic property markets to respond to an economic recovery. The outlook for overall conditions in the property finance market remains difficult. This situation has been aggravated because tax benefits that previously supported real estate investments have been decreased.

The challenge facing the FinanzVerbund as a whole, as well as the Bank as their alternative source of financing, is to increase market share in direct competition with other banking groups. We think that this can be done and we have accordingly raised our new business targets for 2004.

We anticipate continued good business opportunities in our international business area within the markets where we have focused our efforts. We also expect to book increases in new business deals in this segment, which is also gaining importance for the diversification of our lending portfolio and to help balance out swings in the overall volume of new business. As a prerequisite we will gradually, and selectively, increase our presence in Europe and the USA during the current business year.

We have no volume targets in our public-sector lending business. The flexible, situation-related utilization of profit opportunities available with congruent maturity and liquidity conditions will be continued in this business segment.

Our ratings and our issuance policy, which is clearly oriented to meet the demands of institutional investors, remain the decisive determinants for our refinancing activities.

Starting in the 4th quarter of 2003 we began to expand the possibilities to acquire our shares as we offered this opportunity to closely allied partner banks and their employees. The offer was well received. Based on the currently noted subscription applications, our equity capital, including members', uncalled liability, will increase by about € 54 million. Due to the appeal of the participation offer we anticipate that demand for our shares will continue to be lively.

Because the measures we have taken to increase efficiency, reduce costs, and improve earnings are designed to take place over several years, and because external cost pressures are continuing, further efforts will be required this year in all areas of the Bank. These efforts also include the further development of systems and methods to ensure a precise steering of our sales activities.

We anticipate that the mandatory need to improve returns on equity capital facing the entire banking sector will have a disciplinary effect and that the chances for individually structured risk-profile-oriented lending conditions will improve. As we are generally well positioned in the appropriate segments of the mortgage and capital market business areas the pre-conditions for a continuation of the satisfactory development of our business are favorable.

Concluded in February 2004

FINANCIAL STATEMENTS

BALANCE SHEET, DECEMBER 31, 2003
INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2003
NOTES

ASSETS	€	€	DEC 31,02 €'000
1. Cash reserve			
a] Cash on hand	38,334.20		41
b] Balances with central banks	61,832,585.36		45,338
Of which with Deutschen Bundesbank € 61,832,585.36			
		61,870,919.56	**45,379**
2. Claims on banks			
a] Mortgage loans	296,038,516.36		315,134
b] Public-sector loans	4,142,959,563.35		3,181,269
c] Other claims	1,247,630,661.79		1,391,328
Of which payable on demand € 85,721,396.97			
		5,686,628,741.50	**4,887,731**
3. Claims on customers			
a] Mortgage loans	11,011,704,104.26		10,651,198
b] Public-sector loans	6,833,029,148.95		6,347,130
c] Other claims	55,733,493.11		68,125
Of which with securities pledged as collateral € 847,474.86			
		17,900,466,746.32	**17,066,453**
4. Bonds and other fixed-income securities			
a] Bonds and notes	6,733,486,120.79		7,259,570
aa] Public-sector issuers € 2,018,536,286.35			[1,873,271]
Of which eligible as collateral for Deutsche Bundesbank advances € 1,534,921,366.38			
ab] Other issuers € 4,714,949,834.44			[5,386,299]
Of which eligible as collateral for Deutsche Bundesbank advances € 4,155,059,564.62			
b] Own bonds and notes	44,391,645.68		121,029
Nominal value € 42,731,299.38			
		6,777,877,766.47	**7,380,599**
Carried forward		*30,426,844,173.85*	*29,380,162*

LIABILITIES, CAPITAL AND RESERVES	€	€	DEC 31,02 €'000
1. Liabilities to banks			
a] Registered mortgage Pfandbriefe issued	644,667,751.47		754,388
b] Registered public-sector Pfandbriefe issued	392,837,960.27		402,708
c] Other liabilities	864,988,140.94		735,804
Of which:			
Payable on demand € 2,825,797.18			
Delivered to lenders as collateral for loans received			
registered mortgage Pfandbriefe € 5,433,994.43			
and registered public-sector Pfandbriefe € 2,700,284.57			
		1,902,493,852.68	**1,892,900**
2. Liabilities to customers			
a] Registered mortgage Pfandbriefe issued	2,929,553,600.55		3,638,085
b] Registered public-sector Pfandbriefe issued	3,056,488,002.51		2,052,117
c] Savings deposits	15,217.75		23
with agreed notice periods of three months € 15,217.75			[23]
d] Other liabilities	576,503,403.63		683,359
Of which:			
Payable on demand € 18,896,956.21			
Delivered to lenders as collateral for loans received			
registered mortgage Pfandbriefe € 29,299,550.58			
and registered public-sector Pfandbriefe € 15,338,756.44			
		6,562,560,224.44	**6,373,584**
3. Certificated liabilities			
a] Mortgage Pfandbriefe issued	5,482,119,397.38		5,874,179
b] Public-sector Pfandbriefe issued	13,257,179,792.35		12,947,377
c] Other bonds issued	3,032,161,980.61		1,812,243
		21,771,461,170.34	**20,633,799**
4. Liabilities incurred as trustee		**489,019.12**	**527**
Of which loans € 489,019.12			
5. Other liabilities		**191,755,411.57**	**267,503**
Carried forward		*30,428,759,678.15*	*29,168,313*

ASSETS	€	€	DEC 31,02 €'000
Brought forward		*30,426,844,173.85*	*29,380,162*
5. Equities and other variable-yield securities		**256,624,414.33**	**125,284**
6. Participating interests and shares in co-operatives			
a] Participating interests	25,158,513.18		18,715
b] Shares in co-operatives	1,084,500.00		1,105
Of which in credit co-operatives € 1,081,500.00			
		26,243,013.18	**19,820**
7. Shares in affiliated companies		**551,088.34**	**551**
8. Assets held in trust		**489,019.12**	**527**
Of which loans € 489,019.12			
9. Tangible assets		**107,564,069.61**	**108,942**
10. Other assets		**70,240,290.25**	**42,791**
11. Deferred items			
a] From issuing and lending business	263,877,167.71		187,536
b] Other	846,643.44		1,225
		264,723,811.15	**188,761**
Total assets		**31,153,279,879.83**	**29,866,838**

LIABILITIES, CAPITAL AND RESERVES	€	€	DEC 31,02 €'000
Brought forward		*30,428,759,678.15*	*29,168,313*
6. Deferred items			
From issuing and lending business	51,454,365.45		58,670
		51,454,365.45	**58,670**
7. Provisions			
a] Provisions for pensions and similar obligations	14,510,222.00		13,633
b] Provisions for taxes	2,850,000.00		5,568
c] Other provisions	12,154,064.72		7,071
		29,514,286.72	**26,272**
8. Subordinated liabilities		**66,300,000.00**	**66,300**
9. Profit-participation certificates		**103,280,960.02**	**103,281**
Of which € 2,556,459.41 are due within two years			
10. Capital and reserves			
a] Subscribed capital	210,113,897.40		210,003
aa] Members' capital contributions € 76.580.448,73			[76,470]
ab] Silent participations € 133.533.448,67			[133,533]
b] Revenue reserves	254,438,340.75		225,438
ba] Legal reserve € 252.904.465,11			[223,904]
bb] Other revenue reserves € 1.533.875,64			[1,534]
c] Unappropriated profit	9,418,351.34		8,561
		473,970,589.49	**444,002**
Total liabilities, capital and reserves		**31,153,279,879.83**	**29,866,838**
1. Contingent liabilities			
Contingent liability on guarantees and indemnities		**12,266,570.61**	**21,786**
2. Other commitments			
Irrevocable loan commitments		**471,182,632.41**	**518,958**

EXPENSES	€	€	DEC 31,02 €'000
1. Interest expense		**1,453,196,175.99**	**1,459,434**
2. Commission paid		**12,738,450.46**	**10,265**
3. General administrative expenses			
a] Personnel expenses	26,666,310.81		25,679
aa] Wages and salaries € 21,247,988.17			[19,991]
ab] Social security contributions and cost of pensions and other benefits € 5,418,322.64			[5,688]
Of which for pensions € 2,241,834.37			
b] Other administrative expenses	21,383,627.33		24,051
		48,049,938.14	**49,730**
4. Amortization and depreciation of intangible and tangible assets		**5,774,640.98**	**6,012**
5. Other operating expenses		**2,241,625.68**	**2,522**
6. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses		**21,069,937.58**	**18,425**
7. Taxes on income		**5,096,750.76**	**18,699**
8. Other taxes not included under "Other operating expenses"		**87,542.24**	**111**
9. Profits paid out due to a profit pooling agreement, a profit transfer agreement or a partial profit transfer agreement		**8,398,651.20**	**8,399**
10. Net income		**34,828,243.04**	**21,083**
Total expenses		**1,591,481,956.07**	**1,594,680**

1. Net income	**34,828,243.04**	**21,083**
2. Retained earnings brought forward from previous year	**590,108.30**	**478**
	35,418,351.34	**21,561**
3. Transfer to legal reserve	**26,000,000.00**	**13,000**
4. Unappropriated profit	**9,418,351.34**	**8,561**

INCOME	€	€	DEC 31,02 €'000
1. Interest income from			
a] Lending and money market operations	1,254,657,879.21		1,224,418
b] Fixed-income securities and government debt-register claims	305,671,934.80		342,620
		1,560,329,814.01	**1,567,038**
2. Current income from			
a] Shares and other variable-yield securities	15,200,256.62		13,757
b] Participating interests and shares in co-operatives	150,539.48		431
		15,350,796.10	**14,188**
3. Commission received		**5,118,222.33**	**3,256**
4. Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets		**8,216,156.91**	**8,241**
5. Other operating income		**2,466,966.72**	**1,957**
Total income		**1,591,481,956.07**	**1,594,680**

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 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 public-sector lending 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 operating lifetime, minor value items were fully written off in the year they were acquired.

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 based on the "Teilwert" method and on principles of actuarial mathematics using a 6% rate of interest.

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, 03 IN €'000
Claims on banks	5,686,629
≤ Three months	1,205,009
> Three months ≤ one year	386,594
> One year ≤ five years	2,716,203
> Five years	1,378,823
Claims on customers	17,900,467
≤ Three months	267,961
> Three months ≤ one year	593,449
> One year ≤ five years	3,948,625
> Five years	13,090,432
Bonds and other fixed-income securities	
≤ One year	1,454,007

LIABILITIES	DEC 31, 03 IN €'000
Liabilities to banks	1,902,494
≤ Three months	642,758
> Three months ≤ one year	87,506
> One year ≤ five years	637,790
> Five years	534,440
Liabilities to customers [excluding savings deposits]	6,562,545
≤ Three months	416,875
> Three months ≤ one year	211,974
> One year ≤ five years	1,939,096
> Five years	3,994,600
Certificated liabilities	21,771,461
≤ Three months	1,040,939
> Three months ≤ one year	2,636,283
> One year ≤ five years	10,500,684
> Five years	7,593,555

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

	DEC 31, 03 IN €'000	DEC 31, 02 IN €'000
Claims on		
– Banks	0	154,391
– Customers	66,085	39,881
Liabilities to		
– Banks	0	111,252
– Customers	0	0

Claims on and liabilities to affiliated companies

	DEC 31, 03 IN €'000	DEC 31, 02 IN €'000
Claims on		
– Customers	1,917	1,919
Liabilities to		
– Customers	1,341	1,033

Securities marketable on the stock exchange

	DEC 31, 03 IN €'000		DEC 31, 02 IN €'000	
Asset category	*listed*	*unlisted*	*listed*	*unlisted*
Bonds and other fixed-income securities	6,429,967	215,104	6,972,083	274,948
Participating interests	332	0	332	0

Details of fixed assets

	Cost	*Additions*	*Disposals*	*Depreciation provided in 2003*	*Accumulated depreciation*	*Net book value Dec 31, 03*	*Net book value Dec 31, 02*
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Tangible assets	129,330	4,505	763	5,775	25,508	107,564	108,942
		Changes +/– *]					
Participating interests and shares in co-operatives	19,820		+6,423			26,243	19,820
Shares in affiliated companies	551					551	551
Bonds and other fixed-income securities	4,023,013		–300,753			3,722,260	4,023,013

*]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 € 73,485 thousand [DEC 31, 02 € 74,190 thousand], and of equipment 8,289 thousand [DEC 31, 02 € 9,237 thousand].

Subordinated assets

Claims on banks include an amount of € 11,534 thousand [DEC 31, 02 € 11,534 thousand].

Subordinated liabilities

Subordinated liabilities incurred interest expenses of € 4,229 thousand [DEC 31, 02 € 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 € 100,475 thousand.

Details of revenue reserves

	Legal reserve €'000	Other revenue reserves €'000
January 1, 2003	223,904	1,534
Transfer from 2002 retained earnings	3,000	0
Transfer from 2003 net income	26,000	0
December 31, 2003	252,904	1,534

Member's capital contributions

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

	DEC 31, 03 IN €	DEC 31, 02 IN €
Capital contributions	76,580,448.73	76,469,831.97
a] Of remaining members	76,060,978.73	75,968,491.97
b] Of former members	498,890.00	496,230.00
c] In respect of shares under notice	20,580.00	5,110.00
Outstanding obligatory payments in respect of shares	881.27	1,108.03

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

Assets and liabilities included items denominated in foreign currencies as follows:
Assets € 572,634 thousand [DEC 31, 02 € 532,929 thousand] and liabilities € 936,899 thousand [DEC 31, 02 € 810,717 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	6,381	12,306	17,170	35,857	563
Interest rate options					
– Calls	0	323	454	777	2
– Puts	0	485	489	974	0
– Other interest rate contracts	500	40	319	859	1
CURRENCY-RELATED TRANSACTIONS					
Cross-Currency Swaps	226	894	407	1,527	22

All of the counter-parties are exclusively banks and/or insurance companies located in OECD countries.
These transactions serve as hedges against swings in interest and exchange rates. The Borrower failure risks is the sum of all positive unnetted market values. After consideration of all netting arrangements, the sum of the positive market values amounted to € 50 million.

Analysis of cover for Pfandbriefe

A. MORTGAGE PFANDBRIEFE	DEC 31, 03 IN €'000
Ordinary cover	9,322,143
1. Claims on banks [mortgage loans]	221,244
2. Claims on customers [mortgage loans]	9,079,462
3. Tangible assets [charges on land owned by the Bank]	21,437
Surrogate cover	0
Total cover	9,322,143
Total mortgage Pfandbriefe requiring cover	8,866,846
Surplus cover	455,297

B. PUBLIC-SECTOR PFANDBRIEFE	DEC 31, 03 IN €'000
Ordinary cover	16,582,654
1. Claims on banks [public-sector loans]	4,054,217
2. Claims on customers [public-sector loans]	6,619,424
3. Bonds and other fixed-income securities	5,909,013
Surrogate cover	544,000
Total cover	17,126,654
Total public-sector Pfandbriefe requiring cover	16,347,518
Surplus cover	779,136

Repayments in mortgage portfolio

	€'000
– Scheduled redemptions	292,931
– Redemptions due to non-acceptance of prolongation offer	317,120
– Non-scheduled redemptions	249,572

Analysis of mortgage loans employed as cover

A. BY SIZE

> €'000	≤ €'000	*Number of loans*	€'000
	50	39,039	1,271,516
50	500	63,823	6,273,482
500		1,156	1,755,708
		104,018	9,300,706

B. BY GEOGRAPHICAL LOCATION OF PROPERTIES CHARGED

	Number of loans	€'000
Baden-Württemberg	20,053	1,595,796
Bavaria	24,141	2,132,847
Berlin	881	238,699
Brandenburg	1,005	91,422
Bremen	163	11,958
Hamburg	422	99,996
Hessen	8,163	831,568
Mecklenburg-Lower Pomerania	945	89,356
Lower Saxony	9,653	654,327
North Rhine-Westphalia	19,993	1,670,840
Rhineland Palatinate	3,631	284,656
Saarland	1,186	75,787
Saxony	2,886	323,172
Saxony-Anhalt	1,087	112,832
Schleswig-Holstein	7,736	665,064
Thurinia	2,032	163,322
Foreign countries	41	259,064
Total	104,018	9,300,706

Mortgage loans employed as cover were granted on

	Numbers of loans	€'000
– Residential properties	98,549	7,902,265
– New buildings with no revenue-generating capacity as yet	1,541	140,229
– Mortgages on construction sites	72	8,664
– Business properties	2,908	1,223,335
– Agricultural properties	948	26,213
Total	104,018	9,300,706

Interest outstanding

Unpaid interest on mortgage loans that was due for payment between October 1, 2002, and September 30, 2003, 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	10,582	8,331	2,251

Forced auctions and receiverships

		of which housing sector	*of which business sector*
The number of proceedings pending at December 31, 2003, was			
– Forced auctions	424	356	68
– Receiverships	294	245	49
	206*]	168*]	38*]
The number of forced auctions conducted in 2003 was	144	130	14

*] 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 2003	94,780	1,085,280	277,451,832.00
Additions in 2003	1,620	23,674	6,052,258.10
Reductions in 2003	1,663	22,356	5,715,311.40
End of 2003	94,737	1,086,598	277,788,778.70

	€
Increase in members' capital contributions in 2003	92,486.76
Increase in members' liability for additional contributions in 2003	336,946.70
Amount of each share	70.00
Liability for additional contributions	255.65

Personnel statistics

The average number of persons employed by the Bank in 2003 was as follows	Male	Female	Total
Full-time employees	171	144	315
Part-time employees	1	41	42
Total employees	172	185	357
Apprenticed trainees	2	18	20

Shareholdings

	Percentage of capital held %	Capital €'000	Prior-year profit/loss [-] €'000
M-Wert GmbH, Munich	100	50	137
Immobilienservice GmbH der Münchener Hypothekenbank eG, [M-Service], Munich	100	500	2
Patio Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	33	8	–101

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. Hans-Ludwig Bungert ... Straßlach, [since May 3rd, 2003] Bank Director [ret.]

Heinz Hilgert ... Frankfurt am Main, [since May 3rd, 2003] Member of the Board of Management of DZ Bank AG Deutsche Zentral-Genossenschaftsbank

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, Member of the Board of Management of WGZ-Bank Westdeutsche Genossenschaftszentralbank eG

Hans-Joachim Tonnellier ... Frankfurt am Main, Chairman of the Board of Management of Frankfurter Volksbank eG

Dr. Manfred Wächtershäuser ... Frankfurt am Main, [until May 3rd, 2003] Executive-Director of Management of DZ Bank AG Deutsche Zentral-Genossenschaftsbank

BOARD OF MANAGEMENT

Erich Rödel ... Dr. Hans-Rainer Förger ... Friedrich Munsberg [since July 1st, 2003] ... Horst-Dieter Thiel

Loans to members of the Board of Management amounted to € 221 thousand and € 28,649 thousand to members of the Supervisory Board. Pension provisions for former members of the Board of Management amounted to € 6,511 thousand.
Total emoluments of members of the Supervisory Board during the year under review amounted to € 202 thousand. Total emoluments of former members of the Board of Management or their surviving dependents amounted to € 881 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 17, 2004

MÜNCHENER HYPOTHEKENBANK EG

The Board of Management

Erich Rödel | Dr. Hans-Rainer Förger | Friedrich Munsberg | 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, 2003, in accordance with § 53[2] of the Co-operatives 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 of 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 so that misstatements which materially affect the presentation of the net assets, the financial position and results of operations as presented in the annual financial statements and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the 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 16, 2004

DEUTSCHER GENOSSENSCHAFTS- UND RAIFFEISENVERBAND E.V.

Spanier	i.V. Huber
Wirtschaftsprüfer	Wirtschaftsprüfer

Report of the Supervisory Board

During the year under review 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 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 during numerous meetings.

Various committees dealt with special issues. These committees met several times during the 2003 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 for the 2003 business year were audited by the Deutsche Genossenschafts- und Raiffeisenverband e.V., Berlin, and received the auditor's unqualified certificate. Pursuant to Article 58 of the Co-operatives 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 concurs with the audit results, the 2003 annual financial statements, including the therein contained allocations to reserves. The Supervisory Board also agrees with the Management Report and recommends that the Representatives' Meeting approve the annual financial statement and the Board of Management's proposal for the allocation of distributable income.

During the year under review Dr. Manfred Wächtershäuser resigned from the Supervisory Board at the close of the Representatives' Meeting. He had been elected to the Supervisory Board in 1998. We wish to thank Dr. Wächtershäuser for his expertise and dedicated efforts as a member of the Supervisory Board and for his efforts on behalf of our bank within the co-operative FinanzVerbund.
Dr. Hans-Ludwig Bungert and Mr. Heinz Hilgert were elected as new members of the Supervisory Board by the Representatives' Meeting.
Effective July 1, 2003, Mr. Friedrich Munsberg was appointed a member of the Bank's Board of Management.

Munich, March 16, 2004
Prof. Dr. Willibald J. Folz | Chairman of the Supervisory Board

Heiko Kleinhenz

DEUTSCHE BANK

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 DOMESTIC | INTERNATIONAL

Leonhard Goebel ... Fon [+49] 89 - 53 87 - 605

INTERNATIONAL CREDIT DEPT.

Dr. Peter Ditges ... Fon [+49] 89 - 53 87 - 359

MARKETING | COMMUNICATION

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

CAPITAL MARKETS | TREASURY

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

OFFICE OF THE BOARD OF MANAGEMENT

Erich Rödel [Spokesman for the Board of Management]
... Fon [+49] 89 - 53 87 - 403
Dr. Hans-Rainer Förger ... Fon [+49] 89 - 53 87 - 404
Friedrich Munsberg ... Fon [+49] 89 - 53 87 - 401
Horst-Dieter Thiel ... Fon [+49] 89 - 53 87 - 407

REPRESENTATIVE OFFICES | COOPERATION PARTNERS

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 17 17

SPAIN

REALCIS, S.L.
Peter von Puttkamer – Presidente
Lagasca, 10-1° | ZDA
E-28001 Madrid
Fon [+34] 91 - 435 7457 | Fax [+34] 91 - 431 2609

USA

Carr Realty Advisors, LLC
Richard T. Carr – Chairman
Richard T. Carr, Jr. – President
65 W. 55th Street | Suite 8 B
New York, NY 10019
Fon [+1] 212 - 262 0259 | Fax [+1] 212 - 262 0375

IMPRESSUM | IMPRINT

HERAUSGEBER | PUBLISHED BY

Registergericht Gen.-Reg. 396

KONZEPTION | CONCEPT
Marketing | Kommunikation
Egmont Kakarot-Handtke

GESTALTUNG | DESIGN
Liquid Agentur für Gestaltung, Augsburg
www.liquidnet.de

FOTOS | PHOTOS
Bernd Müller, Augsburg

ÜBERSETZUNG | TRANSLATION
Paul E. Reichman, Frankfurt am Main

DRUCK | PRINTING
Druckerei M. Saupe & Co. GmbH, München