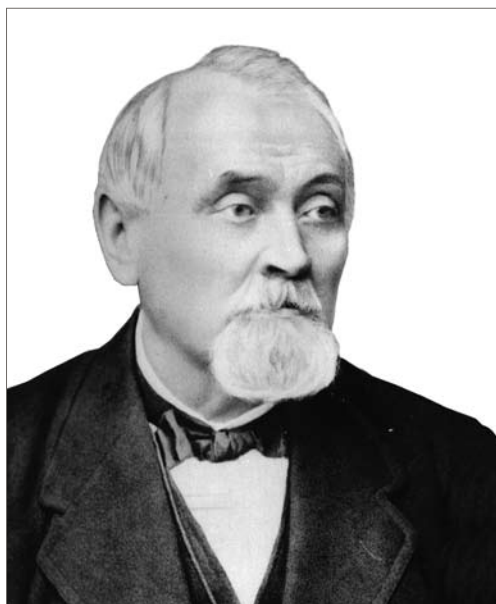


ANNUAL REPORT 2007 >>



A BIG IDEA –
SHARED BY
MANY.



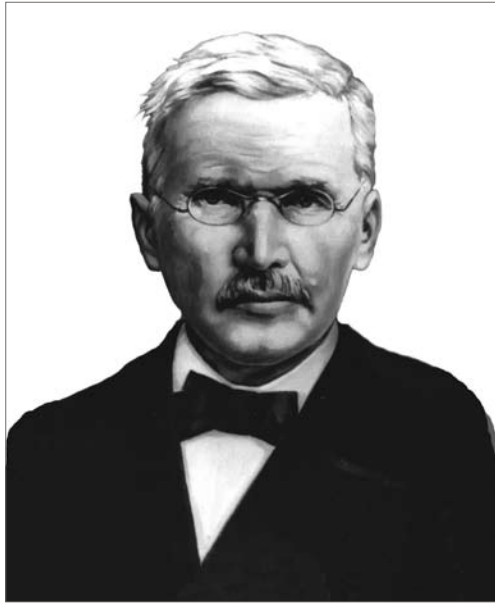
“Uniting many small strengths to become a big strength ...”

Hermann Schulze-Delitzsch (1808–1883),
Initiator of the cooperative advance and loan associations, the forerunners of today's Volksbanken

The cooperative banking idea was originally driven by the desire to provide help during times of extreme need. The Industrial Revolution that took place during the mid-1800's threatened the economic existence of many craftsmen and farmers. Independently of each other, Hermann Schulze-Delitzsch and Friedrich Wilhelm Raiffeisen founded the first cooperatives during these troubled times. Craftsmen and farmers joined the cooperatives and together were able to pool their resources to achieve a sustainable improvement in their economic situation. They were guided by the principles of self-help, self-administration and self-responsibility.

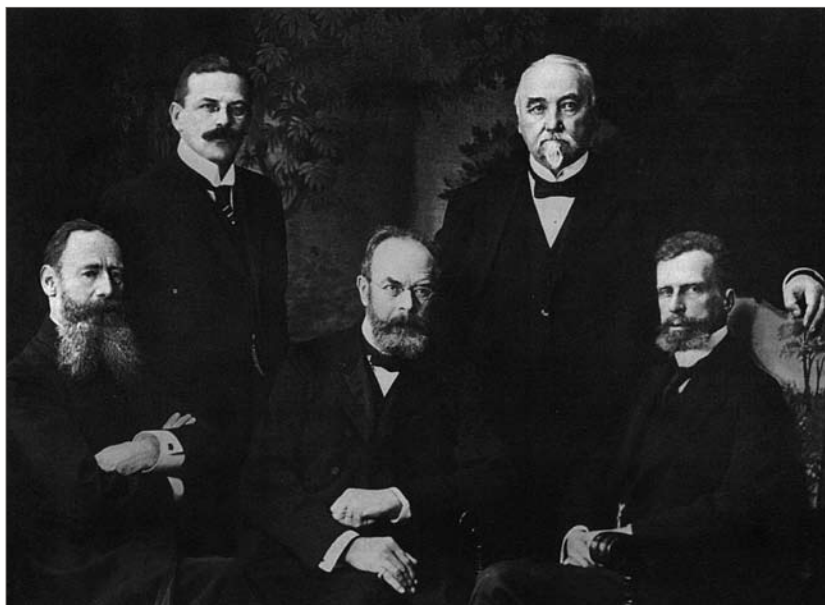
These were also the main principles behind the establishment of the Münchener Hypothekenbank, which was founded to help farmers master their economic problems. The Bank's founders were convinced supporters of the cooperative idea. They were also supported by the Bavarian government and this led to the founding of the Bayerische Landwirtschaftsbank, which opened its doors for business as a registered cooperative in 1896. The Bank changed its name to Münchener Hypothekenbank in 1971.

From its origins as a primarily agriculture-oriented loan institute for the Kingdom of Bavaria, the Münchener Hypothekenbank has grown to become a modern mortgage bank that is active internationally and across all of Germany. Today, MünchenerHyp still conducts its business as a registered cooperative and as before continues to play its role within the cooperative Financial Services Network (genossenschaftlicher FinanzVerbund).



"Many can do what a single individual can not."

Friedrich Wilhelm Raiffeisen (1818 - 1888), founder of the Raiffeisen Cooperatives



The first Board of Management and Chairman of the Supervisory Board of the Bayerische Landwirtschaftsbank. From left to right: Matterstock, Bonschab, Freiherr von Cetto-Reichertshausen, Süskind, Freiherr von Soden-Fraunhofen.

Clear principles from the start:

Self-help. Self-responsibility. Self-administration.





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LETTER FROM THE BOARD OF MANAGEMENT

DEAR SHAREHOLDERS AND BUSINESS ASSOCIATES,

The last financial year was initially marked by favourable general economic conditions. Continuing good economic development seen in the first half of the year was noted in Germany and around the world. However, even at this early date, the first warning signs of a possible slowdown of the American economy were visible. Even before 2007 experts, who closely watch and have extensive knowledge of the US market, had already posed the question if the assumed risks in the subprime sector of the private housing lending market would remain controllable. Scenarios were in fact developed showing that possible disruptions in the financial markets could take place and ultimately cause a bubble to burst. The hopes of many market participants that the disruptions would not expand and become a crisis of confidence and liquidity were disappointed in the second half of the year. Currently no one can say what the final extent of the crisis in the financial markets will look like and when it will end.

Against this background, the Münchener Hypothekbank benefited from having put classical property lending at the core of its business strategy and its corporate planning. Our business model is based on the pillars of financing private and commercial properties in Germany and abroad. Our business is dominated by top-tier financing. Moreover, MünchenerHyp's business model benefited from the current situation as the subprime crisis caused the securitisation market to suffer heavily, which in turn gave renewed importance to classical syndicated or consortium lending deals. As this form of financing has dominated our transactions in commercial property lending, we tended to benefit from the current development.

Our business model is based on the MHB 2008 strategic programme. During the last financial year, we again worked decisively on the programme's implementation. In previous years, we had further developed the structures of our sales and transaction management activities to make them capable of performing at high levels and remaining resilient during periods of rapid growth. These measures have helped us to earn a



The Board of Management of the Münchener Hypothekbank. From left to right: Erich Rödel (Chairman), Dr. Bernhard Scholz, Klaus Sturm.



good reputation as a reliable and recognised partner in the market. Our business figures show that this strategic positioning enabled us to not only reinforce our pathway to further growth, we were also able to generally expand it.

In extending our new business activities, we have always been guided by our proven risk parameters. The lasting value of this approach to risk policy is especially evident in light of the subprime crisis in the American private housing lending sector; because no investments in the subprime segment were or are included in either our loan or securities portfolio.

We sharply increased the number of commitments made in our new mortgage business by almost 42 percent to € 3.43 billion as we posted notable rates of growth in our main business areas of private property lending and commercial property finance. We were able to significantly expand our mortgage portfolio due to our good new business results. We improved our cost-income ratio to below 50 percent. A favourable cost-income ratio is a precondition for a bank of our size to assert itself successfully in the market. Between 2004 and 2007, we succeeded in reducing our administrative expenses significantly and at the same time, we more than doubled our new mortgage business. In the future, we will continue to concentrate on achieving further improvements in our cost-income ratio without losing sight of the Bank's targets.

As a mortgage bank doing business under the legal form of a registered cooperative we put great value on ensuring that the growth of our new business takes place in accordance with the basic cooperative principles. Just like our partners in the FinanzVerbund, the Volksbanken and Raiffeisenbanken, we want to have long-lasting relationships with our customers. This means that we maintain a reliable and trustworthy financing partnership with our customers – and many of them are members of MünchenerHyp too. This is why we took the position in the current discussions that we would not sell performing private property loans to private investors.

As a long established mortgage bank, MünchenerHyp's refinancing model is primarily based on the Pfandbrief, which, especially in light of the crisis in the financial markets, has proven its value as a solid refinancing tool. Pfandbriefe have proven to be significantly better performing and more robust than other kinds of covered bonds. For this reason, we anticipate that the current situation will lead the Pfandbrief to experience a renaissance. This is an important development for us as an issuer of Pfandbriefe, and a development that will also benefit the cooperative Financial Services Network.

Our employees' performance in 2007 deserves special recognition. They not only made exemplary contributions to the success of the Bank's various business areas, their efforts were also very motivated and goal-oriented during the merger talks we held with DG HYP in 2007. Every single employee worked hard to make MünchenerHyp successful – despite the uncertainties always associated with merger negotiations. We would like to thank all of our employees for their efforts.

In the coming years we have set ourselves the goal of continuing and stabilising our growth. We are also aiming to exploit the existing market potential in both the private and commercial lending business more systematically within the Financial Services Network and outside it, and also to further strengthen our market position. In doing so, we will continue to monitor our risks and costs as we have in the past. On this foundation, we will continuously strengthen our earnings power and expand MünchenerHyp's capabilities to achieve success in the future.

Sincerely yours,

Erich Rödel

Dr. Bernhard Scholz

Klaus Sturm



“His Royal Highness Prince Luitpold, Royal Administrator of the Kingdom of Bavaria, has in his mercy approved that the Bayerische Landwirtschaftsbank may carry a seal ...”

Prince Regent, Luitpold von Bayern

1897

A sign of trust was there at the beginning: in 1897, Bavarian State Ministry of Interior Affairs, on behalf of Prince Regent Luitpold, granted the Bayerische Landwirtschaftsbank the right to use the King's Crown on the Bavarian coat of arms as its seal.

The Bayerische Landwirtschaftsbank rapidly outgrew its initial task, and today is known as a reputable mortgage bank.



2007

"Münchener Hypothekenbank also stands for clear principles today: performance for the benefit of its members as well as assuring and promoting the Bank's ability to perform and its independence through economic self-control."

S.K.H. Herzog Max in Bayern, Deputy Chairman of the Supervisory Board and member of the Münchener Hypothekenbank eG

ACCOMPLISHING MORE TOGETHER: MEMBERSHIP IN THE MÜNCHENER HYPOTHEKENBANK

When a group of people join together they can always accomplish more than any of them can individually – this is the founding principle of every cooperative. And it is also the basic distinction that sets cooperatives apart from enterprises that want to, or must, maximise their profits. Cooperatives were founded, and are still being founded, by people who wish to strengthen their own economic interests and at the same time promote the development of their regional surroundings.

Almost 170 years ago, Hermann Schulze-Delitzsch and Friedrich Wilhelm Raiffeisen initiated the establishment of the first cooperatives. Their ideas were convincing, and they worked. And they were so successful that up until today all of the cooperatives in Germany operate on the same principles set out by Schulze-Delitzsch and Raiffeisen: self-help, self-administration, and self-responsibility.

Self-help is the decisive factor behind the establishment of a cooperative. People who voluntarily work together with others not only strengthen their own material situation they, above all, promote the economic well being of many other people. Today, in times marked by far-reaching economic upheaval, self-help and a sense of personal responsibility are more important than ever. Horst Köhler, the Federal President of Germany, also pointed out the social significance of these principles. In a speech given at the end of 2007 he said: "Accepting responsibility means caring, it means being active on your own, and not waiting for others to help, it means acting to strengthen society."

COOPERATIVES: A FORWARD-LOOKING MODEL FOR COLLABORATION

Today 800 million people around the world belong to a cooperative. And there are 17.6 million cooperative members in Germany, making it the form of economic organisation with the most members, as well as an important stabilising actor for the labour market.

Credit cooperatives are especially well known. More than nine out of ten people in Germany know the Volksbanken and Raif-

feisenbanken. The Cooperative Financial Services Network, or genossenschaftliche FinanzVerbund, represents one of the three pillars of the banking sector. The FinanzVerbund comprises about 1230 Volksbanken and Raiffeisenbanken as well as numerous associated firms, like Münchener Hypothekbank. Together, they had total assets of 961 billion euros and about 190,000 employees in 2006. These figures make the FinanzVerbund an important guarantor of the German banking industry's stability and strength.

The credit cooperative's closeness to their customers and markets is the key to their success. The Volksbanken and Raiffeisenbanken, in particular, are firmly anchored in their respective regions' business activities. The deep understanding of people and the regional structures is an important advantage under the conditions of a globalised economy. Today, when markets are increasingly interlocked with each other, business success depends more and more on companies' abilities to react quickly and flexibly to change, and on short and simple decision paths. This is where flexible collaboration, like in the cooperative Financial Services Network, is significantly superior to centrally controlled corporations. Because independent enterprises collaborate together in the network, without having to sacrifice their independence. This makes the basic cooperative idea – strengthening the individual by cooperating voluntarily – more up-to-date than ever.

AT THE CENTRE OF LIFE: THE FOUNDATIONS OF MEMBERSHIP

The members are the heart of every cooperative and at the forefront of its business activities; because the purpose of a cooperative is "to promote their members' activities in trade or industry by means of a commonly owned enterprise," according to Art. 1 of the Cooperatives Act.

A person becomes a member when they join a cooperative. Membership can take place regardless of age and occupation, and even companies and clubs can become members. In general, the customers of a credit cooperative are also its members.



***“COOPERATIVES ARE CLOSE TO PEOPLE.
THEY PROVIDE SUPPORT IN TODAY’S GLOBALISED ECONOMY.”***

Michael Glos, German Minister for Economics and Technology

Membership offers more than just a customer relationship. Members provide capital, and are co-owners, entitled to a share of profits, and thus the owners of the cooperative. As owners the members are involved in their enterprise's democratic decision-making process. The forum for this is the members' or general meeting.

Membership is also attractive as a capital investment. At the end of the financial year every member is paid a dividend from current profits. In recent years the average dividend paid by the cooperative banks was over 5 percent.

MÜNCHENERHYP AND ITS MEMBERS

With about 91,500 members, the Münchener Hypothekbank is one of the biggest cooperatives in Germany. In addition, we are the only mortgage bank doing business under the legal form as a registered cooperative. This unique feature dates back to when the MünchenerHyp was founded in 1896. This was a period of rapid industrialisation that threatened the existence of many farmers. The purpose of the new mortgage bank was to provide farmers with loans they needed to continue farming, and which other banks were not available for. The liberal thinking Bavarian state government did not, however, want to found another state-owned joint-stock mortgage bank and therefore supported the idea of establishing a cooperative mortgage bank. The Bayerische Landwirtschaftsbank was created as a result, and was renamed Münchener Hypothekbank in the 1970's after its original purpose – providing support for agriculture-related activities – was fulfilled. The Bank's legal form as a cooperative remained unchanged as MünchenerHyp still felt obligated to respect its duty to support its members and continue its partnership with the FinanzVerbund, especially with the Volksbanken and Raiffeisenbanken.

This means that today MünchenerHyp's business policy is primarily oriented to benefit its members, of which about 98 percent were, or still are, the Bank's customers. For us this means:

- >> We maintain relationships built on mutual trust and a spirit of partnership with our customers. This means that we intend to accompany the financing of our customers' own four walls over the long term. And this also means that we do not sell performing loans to third parties. And because this is a natural part of a partnership type of relationship, we do not charge a premium for waiving this right.
- >> Our business policy is a long-term oriented policy. Attracted by higher returns, many mortgage banks are currently giving up their private housing lending business to focus on international and major size, commercial loans. We are convinced that private housing loans can provide good – and above all sustainable – earnings, if reliable customer relationships exist. Naturally it was always part of the self-image of a cooperative to maintain proven traditions and at the same time to confront new challenges with innovative thinking. For these reasons our core areas of business consist of providing financing for private and commercially used properties within Germany and abroad, as well as our capital market business activities.
- >> We are part of a strong community. MünchenerHyp belongs to the cooperative Financial Services Network and is locally present via the approximately 13,700 branch offices of the Volksbanken and Raiffeisenbanken.
- >> Membership in MünchenerHyp offers an interesting return on investment. We have continuously distributed attractive dividends in the past, and last the dividend was 5.5 percent per cooperative share.
- >> We live the cooperative spirit in our daily work. Almost all of our employees are members of the MünchenerHyp. This makes the Bank's success their personal success.

THE PFANDBRIEF – A RELIABLE SOURCE OF REFINANCING AND SOUGHT AFTER INVESTMENT

Since the subprime virus began to spread, the markets for Mortgage Backed Securities (MBS) have dried up and the mark-ups investors demand for unsecured bank bonds have increased. This has also made access to capital more difficult or considerably more costly for German financial institutions.

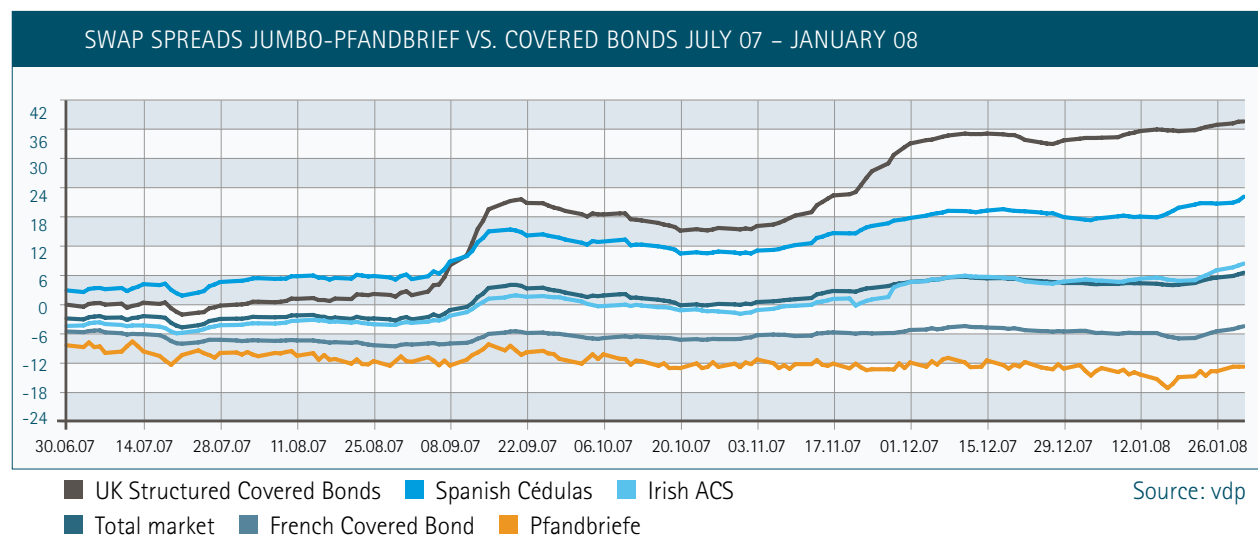
However, the situation facing the Pfandbrief issuers differs substantially from that of other banks in that, thanks to the Pfandbrief, the former have capital market access at favourable conditions at all times. This is because the Pfandbrief's special level of safety and high market penetration make it a safe haven for investors, even when times get rough.

PFANDBRIEF SHORES UP BANKS' LIQUIDITY

The credit history of Pfandbriefe is impeccable. Not one case of Pfandbrief default has been recorded since the Mortgage Bank Act, the predecessor of the Pfandbrief Act, entered into force over 100 years ago. Because the Pfandbrief's credit quality is recognised at home and abroad, issuers are also able to raise liquidity in more difficult times; not so with Mortgage Backed Securities. The Pfandbrief market as a "market of last resort" mobilises liquidity in situations in which it is otherwise not available, or available only at appreciably less favourable conditions.

In addition to the benchmark issues of € one billion upwards (Jumbo Pfandbriefe), Pfandbrief banks issue large volumes of traditional bearer and registered Pfandbriefe, which are in constant and high demand from investors. This is due to the deep-rooted and long-standing tradition the Pfandbrief has among its buyers, which include insurers, banks as well as pension and investment funds, on the German market. Alone in the months August to December 2007 – after the subprime crisis flared up – the Pfandbrief banks raised a total of € 50 billion on the market with traditional bearer and registered Pfandbriefe. Including Jumbo issues and add-ons, the aggregate amount came to € 58 billion.

It is remarkable that during this period, funding costs barely rose compared with the first seven months of the year 2007. Pfandbriefe continued to trade 10 basis points below Euribor as the mean for all maturities, whereas securitisations and a number of foreign Pfandbrief-similar products (Covered Bonds) saw spreads widen by between 40 and 80 basis points.





All this is the result of the statutory quality requirements, the Pfandbrief banks' disciplined and investor-friendly issuing behaviour as well as the unique market-making and product support provided by the issuers, which bundle their strength within one common association.

PFANDBRIEF ACT PROTECTS INVESTORS

The Pfandbrief Act offers Pfandbrief investors a tight-knit safety net. The leitmotif of the legal framework for the issuance of Pfandbriefe is the principle of investor protection. Financial institutions must satisfy stringent requirements in order to receive a license to issue Pfandbriefe. The Mortgage, Ship and Public Pfandbriefe outstanding must be covered by mortgage, ship mortgage or public-sector loans of at least an equal amount. These cover assets are entered into separate cover registers. In the event of an issuer's insolvency, the claims of the Pfandbrief creditors are privileged by a preferential right in respect of the cover assets in the registers. Pfandbrief business is subject to special supervision by the Federal Financial Supervisory Authority (BaFin). In addition to the ongoing supervision on the basis of the German Banking Act, a Pfandbrief department monitors fulfilment of the provisions set down in the Pfandbrief Act. The obligation to disclose key data concerning the cover pools on a quarterly basis makes the composition of the cover pools transparent and comparable over time. The standardisation as a result of the Pfandbrief Act gives the Pfandbrief market, which weighed in at approximately € 890 billion as at end December 2007, a depth that is exceeded only by the market for public-sector bonds.

SUBPRIME RISKS RULED OUT BY CONSERVATIVE CREDIT STANDARDS

When the subprime crisis hit, holdings of residential property cover assets in the USA totalled € 200 million or approximately 0.01 percent of all Mortgage Pfandbrief cover assets. The rigorous credit standards that apply under the Pfandbrief Act prevent inferior credit qualities from finding their way into the

Pfandbrief issuers' cover pools. With Mortgage Pfandbriefe, only 60 percent of the prudently calculated mortgage lending value of financed properties is eligible as cover and refinancable through the Pfandbrief. When there is a risk of falling prices, the issuers are required to examine whether the value of the properties and ships lent against is affected.

Where public-sector lendings are concerned, strict selection criteria ensure that the value of the cover assets remains stable on a long-term basis. In this way, only claims on public-sector debtors from the European Union, the EEA states as well as the USA, Canada, Japan and Switzerland may be included in cover, and only if the existence of state liability is beyond doubt.

SUMMARY

Even when the credit and capital markets are in a state of general upheaval, the Pfandbrief market is open to issuers at all times. The rigorous credit standards under the Pfandbrief Act keep subprime out of Pfandbrief issuers' cover pools.

Thanks to its legally stipulated standards of quality, its transparency and its well-developed market infrastructure, the Pfandbrief has matured to become a capital market product that is in international demand. With a volume outstanding close to € 900 billion, the Pfandbrief is today the benchmark of a European Covered Bond market in its own right that boasts a volume outstanding of nearly € 2 trillion.

The subprime crisis has also shown the value of serious liquidity planning. It is the basis for Münchener Hypothekenbank's reliability vis-à-vis its investors. This is also an important service that has benefited the cooperative Financial Services Network.

MANAGEMENT REPORT



OVERALL ECONOMIC CONDITIONS





"The cooperatives are commercial enterprises, and their owners are fully responsible for their actions; and that is why they must also independently keep control themselves."

Friedrich Wilhelm Raiffeisen

1861



2007

"Münchener Hypothekenbank's solid business activities on behalf of its members are the basis for the Bank's further successful and independent development in the future."

Helmuth Lutz, Chairman of the Board of Management of the Raiffeisenbank Beuerberg-Eurasburg eG and member of the Delegates Meeting of the Münchener Hypothekenbank eG

MANAGEMENT REPORT

1. OVERALL ECONOMIC CONDITIONS

1.1. ECONOMIC DEVELOPMENT

Economic trends were robust over the entire year in 2007. Based on current estimates, the global economy grew by 5.1 percent. The stability of the global economy proved all the more noteworthy when financial markets worldwide were hit by a severe and prolonged crisis in the second half of the year. This was of such gravity that it was feared it would have an impact on the economic trend, especially in the industrial countries. And in fact, as the crisis progressed, world economic development began to slow down, but at different levels, toward the end of the year.

The upswing in the German economy continued during the previous year. Gross domestic product grew by 2.5 percent following 2.9 percent in 2006. Growth was mainly driven by exports and increased investment. As expected, the Value Added Tax increase slowed private consumption as consumer spending fell by 0.3 percent in comparison to the same year-ago

period. The labour market situation improved considerably during the course of the upswing as unemployment once again dropped significantly.

During the year, the annual average number of unemployed persons stood at 3.6 million, or about 650,000 less than in the previous year. The unemployment rate dropped by 1.8 percent, to an average of 9 percent. The number of employed persons, at 39.7 million, reached its highest level since German reunification. The robust economic trend and increased tax revenues also benefited public finances. The Federal Government was able to submit a balanced budget for the first time since 1989.

The cost of living rose sharply, especially in the second half of the year. Price increases reached their highest level in November, at 3.1 percent, compared to the same month of the previous year. The inflation rate, at 2.2 percent for the year, was not this high since 1994. The price increases are mainly due to three factors: the increase in the Value Added Tax, increased energy costs – especially due to the high price of oil – and higher food prices.

YIELD ON TEN-YEAR BUNDS 2007





1.2. FINANCIAL MARKETS

In 2007, the financial markets were characterised by two strongly opposing developments. In the first half of the year, the upward development continued, in particular in the stock markets. In contrast, in the second half, the financial market crisis put a strain on the markets. The crisis was triggered by the US market for private housing financing for customers with doubtful creditworthiness, the so-called "subprime segment". For a number of years, American banks had extended variable-interest loans to these customers, securitised them and passed them on to investors. The failure rates on these loans rose as interest rates climbed. This meant that these generally securitised loans had to be reappraised, which led to write-downs for investors on a previously unseen scale. This initially brought about a liquidity crisis among investors in subprime loans, which, due to the appraisal risks, developed into a deep crisis of confidence in the financial and securitisation markets. And this ultimately spread to the global financial markets. In view of the situation, central banks, above all, the US and European central banks, were forced to jump in and repeatedly use large-scale support measures to inject liquidity into money markets.

Against the backdrop of the robust economic trend noted in the first half of the year, the European Central Bank increased its key interest rate again in two steps by 0.25 basis points at a time, from 3.5 percent to 4.0 percent. Yields on long-term government bonds rose in tandem with higher interest rates in Europe. At the beginning of 2007 10-year German government bonds yielded 3.95 percent. But by midyear, they were yielding 4.7 percent or their highest level in five years. In the US, the Federal Reserve, in view of the cautious economic prospects, adopted a wait-and-see approach, and left its key rate unchanged, at 5.25 percent.

In the second half, central bank policy in the US and in Europe was reversed. The ECB left its key interest rate unchanged, at 4.0 percent. The US Federal Reserve, however, responded to the effects of the subprime crisis and lowered its key interest rate in several steps, from 5.25 percent to the current 3.0 percent,

in order to prevent the American economy from slowing down. During the second half of the year, yields on 10-year Bunds fell to about 4 percent.

"In 2007, the financial markets were characterised by two strongly opposing developments. In the first half of the year, the upward development continued, in particular in the stock markets. In contrast, in the second half, the financial market crisis put a strain on the markets."

The turbulence unleashed in the capital markets by the subprime crisis also altered the yield curve. Short-term money up to twelve months became very expensive, due to the increased needs for liquidity of the credit business. This led to a partially inverse yield curve: the normally higher interest rates for periods between one and twelve years yielded lower returns than short-term rates for up to one year.

On an overall basis, global portfolio markets developed quite favourably in 2007, with the DAX up for the fifth year in a row. Its high soaring flight continued almost uninterrupted until midyear. In mid-July, the DAX even hit its all-time high of 8,151 points. In the second half of the year, the financial market crisis did drag prices down. The financial markets, however, revealed themselves to be unexpectedly stable, as even the DAX was able to recover from these setbacks and ended 2007 at 8,067 points, for a gain of 22.3 percent. However, the slump in share prices expected in 2007 did occur at the start of 2008.

Due to the weaker growth prospects for the American economy, the euro continued to gain strength against the dollar during the year. The subprime crisis and emerging fears of recession in the US caused the dollar to slide to its lowest level to the euro in the fourth quarter. In the interim, one euro was worth up to 1.50 dollars. By year-end, there was a slight recovery as the exchange rate closed at 1.4583 dollars.

1.3. PROPERTY MARKETS

1.3.1. RESIDENTIAL PROPERTY MARKET – GERMANY

The market for residential property in 2007 was characterised, on the one hand, by significant declines in new construction activity and on the other by a regionally differentiated development in rents and prices.

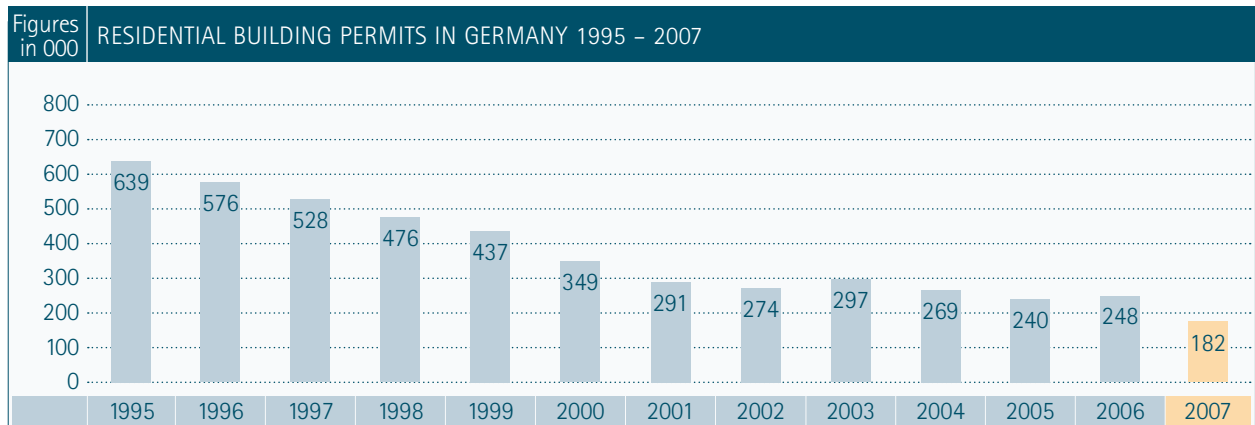
Building permits for new residential housing dropped sharply by almost 50 percent in the first quarter. During the further course of the year, the gap to the previous year's figures narrowed. By the end of the year construction of about 182,000 housing units had been approved, or 26 percent less than in same year-ago period. The number of approved single- and two-family houses declined even more dramatically as the number of permits issued for this housing category fell by over 35 percent. In contrast, the drop in permits for multiple-family buildings, at 12 percent, was significantly less.

The numbers clearly show that the discontinuation of the state subsidy for private housing caused the slump in home building permits. The bring-forward effects that had still given a slight boost to building permits in 2006 proved to be even stronger than expected by many experts. The government subsidy of home ownership within the context of the Riester pension, the so-called "Wohn-Riester" (Residential Riester), announced upon the termination of the state subsidy for private housing, was further discussed during the previous year but not yet implemented.

"The number of building permits issued for private housing units declined sharply. About 26 percent fewer housing units were approved than in the same year-ago period."

Construction spendings for housing units only proceeded very cautiously during 2007 and rose by a marginal 0.3 percent, or significantly lower than the previous year's growth rate of 4.3 percent. The reason for this was, in particular, the bring-forward effects due to the increase in Value Added Tax at the beginning of 2007.

Average prices nationwide for privately owned homes and condominiums remained stable to slightly lower - with sharp



Source: Statistisches Bundesamt www.destatis.de, 2007 = preliminary annual result



regional differences. Above-average price increases were noted, in particular, in the structurally weak regions where local economies have started to pick up.

Due to the positive economic trend, property ownership has become more affordable. However, this only applies on a limited basis to major metropolitan areas, where the price of an average, privately-owned home still costs eight times as much as the average annual income.

The rent and price indices overall demonstrated the great stability of the residential property market. Everyone who acquired residential property for their own use benefited from this. However, investors who were counting on price increases in residential property were disappointed by the market.

1.3.2. COMMERCIAL PROPERTY MARKET – GERMANY

The crisis in the financial markets barely affected the commercial property markets. Local and regional markets developed with increasing employment, accompanied by increased usage of office space.

This was also true for investments. The volume of transactions grew again in 2007, as about € 55 billion were invested in German commercial property.

The basically more restrictive granting of loans of the second

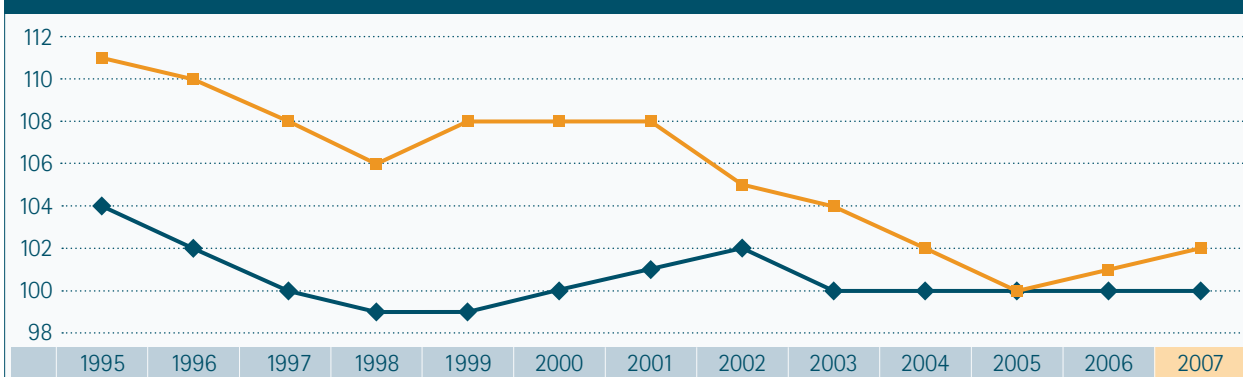
half and the higher risk premiums demanded by financial institutions, however, hindered financial commitments with higher levels of borrowed capital. Thus, the competitive situation for investors with a higher equity capital basis improved. This was reflected by the fact that property investment corporations were the second-biggest investor group in the third quarter.

“The volume of transactions grew again in 2007, as about € 55 billion were invested in German commercial properties.”

Turnover of office space in major German metropolitan areas increased in the previous year by 11 percent, to about 3.75 million square meters. This made 2007 the third-best sales year after 2000 and 2001. However, growth was restricted to the western federal states, where about 3.0 million square meters and an approximately 15 percent higher use of space were recorded. In the eastern federal states, sales of office space fell by 7 percent, to 730,000 square meters.

Vacancies continued to decline. Large-space leases prevailed in the five biggest German property markets of Frankfurt, Hamburg, Munich, Berlin and Duesseldorf. Net absorption remained at a constantly high level, and sub-leased office space was increasingly taken off the market.

DEVELOPMENT OF PROPERTY PRICES IN GERMANY (YEAR 2005 = 100)



Source: Deutsche Bundesbank

Thus, the quality differences in vacant property increased. While very well equipped vacant space was highly sought-after, qualitatively lower-valued space found no interested parties and, given the current level of rents, also stood hardly a chance of being rented. The trend toward leasing space that is either planned or under construction was confirmed during the previous year. This shows that the supply of suitable space is already insufficient for tenants who are willing to relocate. In all, the vacancy rate in the German property centres fell from 11 percent to a total of 9.7 percent, or a total of 6.73 million square meters.

Office rents continued to increase. In 2007 the top rentals price index reached its highest level in four years.

Initial returns on office property increased by about 10 to 25 basis points in all five main property centres. The leaders in initial returns were again Munich, followed by Frankfurt, Hamburg, Duesseldorf and Berlin.

New construction reached a low point during the previous year. Total volume dropped by 12 percent, to about 570,000 square meters.

1.3.3. RESIDENTIAL PROPERTY MARKETS – INTERNATIONAL

In recent years, the residential property market has grown quickly and with considerable price increases in the USA and numerous countries in Europe. However, last year the upsurge not only weakened in these markets, signs of a reversal became more visible. The crisis in the financial markets strengthened this development.

In the USA booming rates of home ownership, which most recently grew by double-digits, came to an abrupt end when the subprime crisis broke out. Many homeowners, who had borrowed heavily against their property because they thought housing prices could only rise, ended up facing payment difficulties due to rising interest rates. House prices subsequently declined, especially in the second half year, at a moderate rate at first and far from the same pace at which they had previously

increased. But by the end of the year, the pace of price declines had accelerated and led to a correspondingly lower level of investments in residential property construction.

In this situation, many homeowners who were unable to satisfy their payment obligations were forced to sell their property and move into a rented apartment. This led to an increase in rents that was already noted in the second quarter.

In Europe, the markets in Great Britain and Spain came under particular pressure. Variable interest rate arrangements are customary when financing property in these countries. This makes loans especially sensitive to rising interest rates and stricter requirements on granting loans.

As a result, the market for private residential property in Great Britain has already shown signs of cooling off. Both the number of buyers and new loan approvals fell. House prices also dropped for the first time in years.

“In the USA booming rates of home ownership, which most recently grew by double-digits, came to an abrupt end when the subprime crisis broke out.”

The mounting problems in the residential property markets also reinvigorated the British rental markets. The number of residential properties purchased for use as rentals increased by almost 13 percent in the first half of 2007 in comparison to the same year-ago period. By the summer of 2007 rents in London – already the city with the world's most expensive living space – had again increased by almost 5 percent.

In Spain, the rising level of interest rates within the Euro Zone had a direct impact on the private mortgage market, as about 96 percent of all private mortgage loans were variable interest rate loans. Furthermore, there is also the fact that the Spanish residential property market has tended to be overvalued, and many Spaniards had taken out consumer loans on a large scale



during the economic boom times of recent years. This is why a downturn in property prices also began to appear in Spain.

The consequences of rising interest rates were far less severe in those European countries where private mortgages are largely financed by long-term, fixed-interest loans.

One example of this is the French housing market, where both builders and homebuyers assume that fixed interest rates will rise and are now seeking to secure long-term financing at favourable conditions. Rental and purchase prices, however, continue to rise, but only at moderate rates.

1.3.4. COMMERCIAL PROPERTY MARKETS – INTERNATIONAL

International office property markets expanded at a high level. Vacancies declined for the third year in a row, since expanding companies had high requirements for space. Due to weakening economic conditions, however, demand lost its dynamism by the end of the year.

Rents for office property continued to get more expensive. This was due, on the one hand, to low vacancy rates in the big cities, and, on the other, to a tight supply of property. In the USA there tended to be more orders for building renovations than new construction in 2007, as the increase in energy prices led to higher construction costs.

European office property markets booked record investments due to the initially strong economy. The volume of rental activities in most markets in 2007 is expected to come out above the high level noted in the previous year.

The vacancy and rent levels were able to move in a positive direction. At the end of the third quarter of 2007, the average vacancy level in central London had fallen to close to 4 percent, and in central Paris, to 5 percent. Even the top rents increased significantly, to a monthly € 154/square meter in London and € 69/square meter in Paris.

The crisis in the financial markets overshadowed the commercial property markets in the second half. Investors no longer expected the strong gains in value to continue in the major locations. Many sellers therefore reduced the prices they had originally sought for transactions.

In the interim, the underlying returns in many locations have rebounded from their low point. Thus, in London, returns on investments in high-value office property again increased to 4 percent, and in Madrid to 4.3 percent. Pressure on returns has also eased in central Paris as well and ultimately stabilised most recently at 3.8 percent. A comparable situation exists for the so-called "secondary locations", such as the big cities in the French provinces.

"The international office property markets grew at a high level and in some cases booked record investments due to the initially strong economy."

Just as the German commercial property markets have changed, the profile of investors has also changed due to the financial market crisis. Since refinancing resources are currently becoming more expensive, investors with a low level of equity capital are being increasingly crowded out by institutional investors with large amounts of capital, including German open-end property funds. This was accompanied by a trend toward conservative financing structures with lower loan-to-value ratios.

1.4. MORTGAGE MARKET

The German mortgage market has been marked for years by intense competition that is mainly driven by lending conditions. New providers, such as direct banks, brokerage firms, as well as foreign financial institutions have forced their way into the market and have increased competitive pressures year after year. At the same time, this has increasingly put rising pressure on private property finance margins, which are lower in Germany than in any other country in Europe. In addition, the increasing number of providers also had to share a market volume that has been stagnant for years.

The continuing weak conditions in the residential construction sector also led to a further tightening in overall conditions last year. Based on Deutsche Bundesbank statistics, the volume of total new business reported by financial institutions for residential property loans was about € 182 billion, or 3.4 percent below the level reported in the previous year.

The cautious development of new business was thus unable to offset the decline in the overall volume of residential property loans made in Germany, which dropped by 1.2 percent, after rising by 2 percent in the previous year.

The level of interest rates for long-term property financing also remained favourable in 2007. Although the level of conditions continues to be a decisive criterion in making property financing decision, it is, however, becoming more clearly recognisable that customers are again placing more value on the quality of the financing – including in particular, consulting, service and the ability of the financing partner to deliver. Despite this fact, they continue to place great importance on competitive prices for their property financing requirements.

Changing customer demands confirm the strategic orientation of the Cooperative Financial Services Network (FinanzVerbund). The Volksbanken and Raiffeisenbanken, as well as their FinanzVerbund partners in private property financing, like Münchener Hypothekenbank, have positioned themselves as quality providers

for years and expanded their consulting and service competence. Thus, an important differentiation to competition was achieved, and the market potential of the FinanzVerbund was enhanced.

"The continuing weak conditions in the residential construction sector resulted in even tougher competition in the German mortgage market."

Customers are also placing higher demands on the reliability and fairness of a credit relationship. This aspect was an especially important factor in a comprehensive and targeted report in the media regarding the sale of loans to private investors. The reports unsettled numerous private property owners because they felt that their property loans could be resold against their will.

It is Münchener Hypothekenbank's stated business policy to act in partnership with customers to foster relationships based on trust. For this reason, we have drawn a clear position on the question of true sale by stating openly that we do not engage in the sale of contractually serviced loans. In so doing, we concurrently support the strategy of the Volksbanken and Raiffeisenbanken, which is to serve their customers on a lasting basis.

"Münchener Hypothekenbank's declared business policy is to maintain customer relationships based on mutual trust and a spirit of partnership. This is why we do not sell performing loans to third parties."



BUSINESS DEVELOPMENT





"The purpose of the enterprise is limited to acquiring funds that will enable the institute to maintain its liquidity and overcome unfavourable situations in the capital market while it continues to expand."

Dr. h.c. Maximilian Maria Freiherr von Soden-Fraunhofen,
first Chairman of the Supervisory Board of
Bayerische Landwirtschaftsbank

1912



2007

"The numbers are what count. The only way to be successful over the long term is to do business in a solid and risk-conscious way. This is also my personal philosophy as an employee and member of the MünchenerHyp."

Johann Götz, Accounting Department Manager
and member of the Münchener Hypothekenbank eG

2. BUSINESS DEVELOPMENT

2.1. MÜNCHENERHYP IN 2007

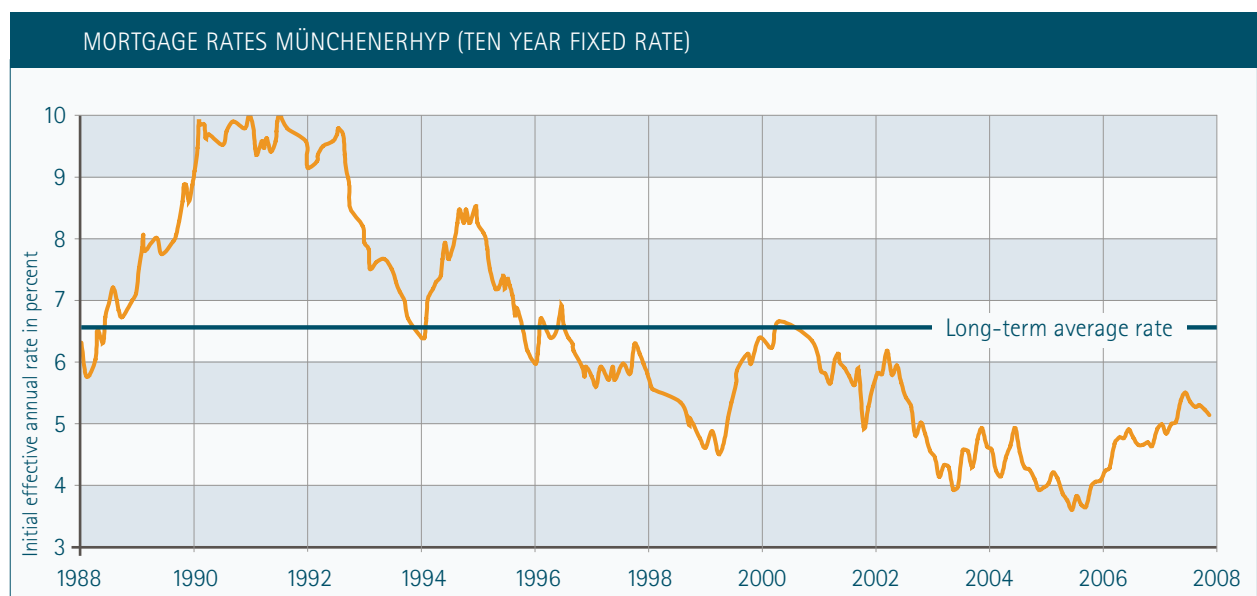
Münchener Hypothekbank managed to hold its position quite well in the competition-intensive and low-margin German mortgage market, as well as in the competitive international area. Within the cooperative FinanzVerbund, we emerged as the market leader among mortgage banks in private property financing.

New business developed very well, rising yet again from the high level of the previous year by 41.7 percent to € 3.43 billion. Results from operations after making provisions for risks rose by 13.4 percent, to € 31.6 million. Here, it must be taken into account that good new business results achieved by expanding our portfolio of loans will only affect income successively over the term. Due to the narrow margins in domestic private property financing, in contrast to the commercial credit business, this area of business only made a less than proportionate contribution toward results from operations. The cost-income ratio was brought down once again, from 51.5 percent to 49.8 percent.

Our good business development is based on a successful growth strategy in both of our core business sectors of residential property finance and the commercial credit business. We are therefore one of the few German mortgage banks offering private and commercial property financing in equal measure. Our business model is based on these two pillars of income.

"New business developed very well, rising yet again from the high level of the previous year by 41.7 percent to € 3.43 billion."

In the area of private property financing we strengthened our traditionally close partnership with Volksbanken and Raiffeisenbanken by further enhancing processes in granting and processing loans, and were able to expand our intermediary activities. We provide our partners with a comprehensive range of products for private property financing that combines a wide product spectrum with lean, IT-supported processing. This has allowed the Volksbanken and Raiffeisenbanken to fully realise their consulting competence and distinguish themselves from



Source: MünchenerHyp

As of: 02.01.2008



the competition by applying very individualised product solutions that are optimally oriented toward the customers' wishes.

The FinanzVerbund's IT-centres created uniform loan processing procedures across the entire network using the bank21 and agreeBAP software solutions. This resulted in considerable increases in efficiency in sales because the uniform user interface used throughout the entire loan approval process eased the workload on customer service representatives – from processing loan applications to making commitments – leaving them more time for consultation and sales.

Furthermore, in 2007 we succeeded in expanding our customer base: in June we acquired a low-maturity, well-diversified portfolio of almost completely coverable, private property loans from COREALCREDIT BANK AG – successor to Allgemeine Hypothekbank Rheinboden AG (AHBR). The portfolio consisted of about 16,800 residential property loans in Germany, with a volume of € 0.7 billion. All of the loans are performing and meeting the conditions of their contracts.

In December, we agreed on a cooperative venture with the Swiss PostFinance that was subsequently signed in February 2008. PostFinance is the financial institution of Schweizerische Post. It has been brokering mortgage loans since 2003, as it is not allowed by law to carry any mortgages or loans extended on its own books. Therefore, PostFinance is dependent on cooperation partners. The first joint loans should be concluded in the summer of 2008.

Last year MünchenerHyp managed to gain its first experience in cooperation with brokerage operations in private property financing last year. Business developed according to strategy and plan, and is expected to be expanded over the upcoming years, in conformity with the FinanzVerbund.

In the commercial property business, we were able to expand the volume of financing considerably and further strengthen our market position. In addition to the strong US business, we were able to grow significantly, both in the domestic, commercial

property business as well as in Western Europe, in particular, in France.

“Münchener Hypothekbank is not directly impacted by the effects of the subprime crisis. No investments in the subprime segment were or are included in either our loan or securities portfolio.”

The subprime crisis and its consequences for the international financial market have had no direct impact on MünchenerHyp. No investments in the subprime segment were or are included in our portfolio because we are only engaged in the prime segment due to our cautious risk policy. Due to the depressed securitisation markets, traditional lending – especially the syndication business – experienced a certain renaissance, and provided us with additional, attractive business possibilities. And in this area we have the necessary experience and expertise to make us an attractive financial partner.

Last year, against the background of ever-increasing competitive pressure in the German mortgage market, merger talks were initiated with DG HYP. The goal of these discussions was to investigate the extent to which a bundling of strengths would allow market share to be increased in property financing and growth prospects better realised. Regrettably, following a detailed review, no agreement could be reached on significant aspects of the merger and its effects. The managing boards of MünchenerHyp and DG HYP subsequently ended the merger talks by mutual agreement at the end of September.

2.2. MORTGAGE BUSINESS

Our commitments in mortgage loans and other property financing loans increased by 41.7 percent in 2007 to € 3.43 billion.

In private residential property financing, our original new business activities developed counter to the trend in the sector and continued its upward trend. After a slightly cautious start at the beginning of the year, by March we had significantly surpassed the figures noted in the same year-ago period. Over the entire year we made € 1.62 billion in new commitments. This corresponds to an increase of € 270 million, or 20.2 percent.

After inclusion of the newly acquired COREALCREDIT BANK portfolio in our new business results, we made € 2.33 billion in commitments for private residential property area of business. In total, new business thus increased to € 4.14 billion.

New business in private residential financing was driven by the very strong demand for forward loans, which increased once again in 2007. The development of interest rates was the decisive factor behind this development. Due to the flat interest rate curve, on the one hand, surcharges for forward loans were

low, and on the other, rising interest rates motivated numerous customers to secure favourable interest rates before their financing expired out.

Sales success with forward loans, but also with other products, was brought about to a great extent by direct mailing campaigns carried out with partner banks in the FinanzVerbund. We significantly intensified these successful actions last year and reached over 1.5 million households.

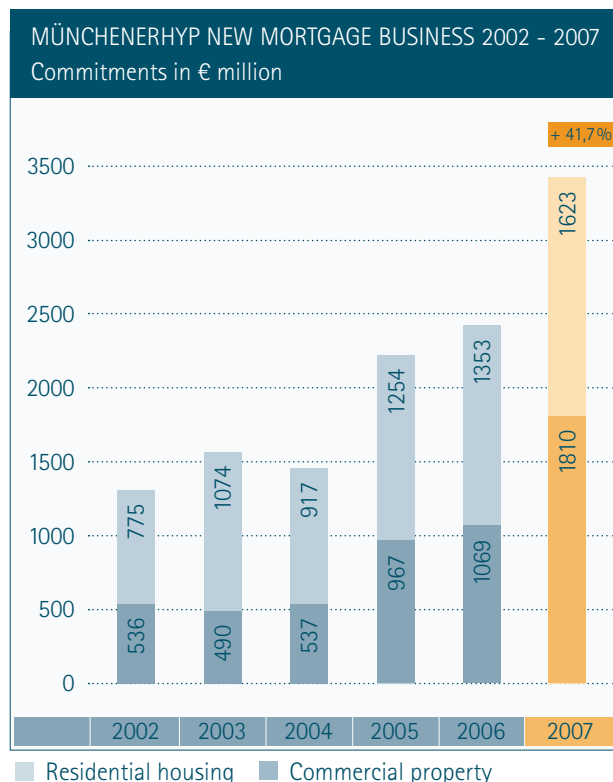
We noted the weak business cycle for new construction as the focus of new commitments shifted toward financing existing buildings. This is why we were not only able to offset the cautious demand in new construction, we more than compensated for it.

The hesitant tone of new business noted by the German credit industry in residential property financing further intensified the competition in the prolongation business. Nonetheless, we were able to improve our share of prolongation deals in the previous year by 57 percent. Including prolongations brought forward, the prolongation volume in residential property amounted to € 553 million.

This success is largely due to the expansion of our prolongation services for Volksbanken and Raiffeisenbanken. In an initial campaign, we reached customers earlier than previously, which gave our partner banks the possibility to consult with their customers in greater detail. This service, which is currently being expanded due to its positive results, will be made available to all banks in the FinanzVerbund in the future.

We were able to book stronger gains in the commercial credit business than in private residential property financing. The volume of new business grew by € 740 million, or 69.2 percent, to € 1.81 billion.

Growth in international business was again particularly pronounced. New business grew by 49.5 percent, or by € 361.2 million, to € 1.09 billion. Again, for the most part we achieved

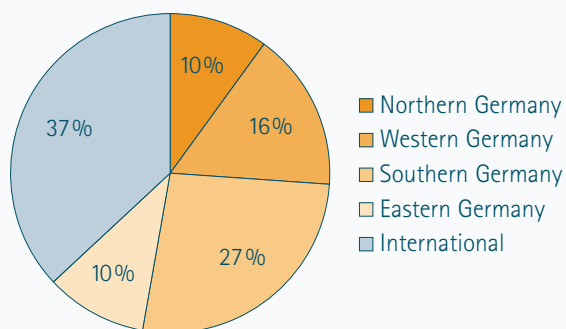




this increase in the USA. Even in the previous year, we were able to implement successfully our strategy of taking over first-class or low-maturity financing tranches. Our relationships with the big and high-performing American banks have been further strengthened and have provided for a constant flow of new business. As in previous years, the subprime segment was not a part of our business activity, and is thus also not included in our loan portfolio. The share of the USA business represented about 77 percent of total new foreign business, or 7 percent less than in the previous year.

This percentage decline results from the fact that we were able to expand new business in the rest of Europe, in particular, in France. We have been active in direct business in France since the middle of 2007, with a focus on Paris. The share of the French business in foreign new business amounts to 8.6 percent.

REGIONAL PROFILES OF NEW MORTGAGE BUSINESS



We experienced above-average growth in new business in the German commercial property market of 127 percent, to € 719.2 million. In view of the marked competition with regard to conditions and risk parameters, we are very satisfied with these results, especially since we did not deviate from our high risk standards when making commitments. Furthermore, at the end of the year the competitive situation improved as the financing market moved in the direction of our risk policy due to more restrictive credit conditions.

2.3. PUBLIC-SECTOR AND BANK LENDING, AND MUNICIPAL LOANS

MünchenerHyp conducts almost all of its lending business with the public sector and banks within Germany. Internationally, we are solely active in Europe. Commitments are only made from an income-related perspective.

In our securities business with public-sector debtors and local authorities, we primarily acquire negotiable debt certificates from the federal states, local authorities, as well as from financial institutions under public law for our own portfolios. We traditionally work closely together with the Volksbanken and Raiffeisenbanken in the classical municipal lending business.

The volume of new business loans to the public sector and banks, as well as in the municipal lending business, amounted to € 1.9 billion, after € 2.3 billion in the previous year.

“Our new business in the commercial property markets grew at an above average rate, although we did not deviate from our conservative risk policy.”

2.4. REFINANCING

Persistent turbulence in the financial markets posed great challenges for the refinancing business at financial institutions during the second half of the year. Despite worsening conditions for new issues, we were able to completely achieve our goals in the refinancing business. Gross sales amounted to € 6.1 billion in the year under review. Of this amount, about 70 percent was accounted for by fixed-income bonds, about 26 percent by variable-rate bonds, and about 4 percent by structured bonds. Outflows in the refinancing business amounted to € 6.0 billion resulting in net sales of € 0.1 billion.

Our own liquidity gained particular significance against the background of the crisis of confidence in the financial markets. Here, MünchenerHyp is in a very solid position. Sufficient liquidity was and is present at all times. Thus, there was no need for high-volume issues. Accordingly, no Jumbo Pfandbrief was issued in the last year.

In May 2007 for the first time we placed a fixed-income, public-sector Pfandbrief in Swiss francs. The volume of the transaction was 250 million Swiss francs, with a 10-year maturity. Our debut was extremely successful, and demand was exceedingly high. Further issues are planned for the Swiss capital market, as this offers attractive refinancing possibilities for us and we can expand the investor group for our securities.

We again used Slimbo bonds for short-term refinancing purpose. We issued two bonds in February and June with maturities of ten and four months, respectively and a total volume of € 1 billion. Slimbo bonds, which are secured by the public pool of coverage, are very popular among investors looking for highly liquid, short-term securities.

Once again in the previous year, investors and market participants valued the transparent refinancing strategy, investor-oriented market introduction, and good service of MünchenerHyp.

The derivative volume at year-end was € 47.2 billion. The largest share consisted of interest rate swaps at € 44.2 billion.

2.5. CREDIT TREASURY

The Credit Treasury department is responsible for the syndication, the portfolio lending business, investments in mortgage-backed securities (MBS), the capital market oriented property financing business, and for possible securitisations of the bank. Credit Treasury activities are internationally oriented.

Within the context of the syndication business, € 851 million were collected from financing participations, of which about € 501 million were recorded just in the second half of 2007. Moreover, all designated loans for sell-down were successfully syndicated to other financial institutions at market-appropriate margins.

The financial market crisis disrupted the entire securitisation market. Many banks that had previously been able to quickly securitise their commercial property financing returned to the syndication market to a great extent once this option was eliminated. Since we have remained very active in this segment of the market for years, we were able to profit significantly from the increased syndication volumes.

The effects of the financial market crisis on the financing business thus provided additional business opportunities for Credit Treasury. The crisis ended the occasionally irrational narrowing of the spreads among mortgage-backed securities, as was previously observed for many years. In the secondary market, the prices sank on a wide front. In this changed setting, we were able to build up an attractive, low-risk portfolio in European residential and commercial mortgage-backed securities. All securities acquired belong to the prime segment, and have AAA ratings.



EARNINGS, FINANCIAL AND ASSET SITUATION





"The profits generated by the lending business ..., will be used solely by the Landwirtschaftsbank to benefit its members."

Dr. h. c. Karl Freiherr von Cetto-Reichertshausen,
member of the Board of Management and first Director of the
Bayerische Landwirtschaftsbank

1898



2007

"The membership in the MünchenerHyp means more to me than an attractive capital investment. Representing members at the Delegates Meeting also means helping to shape the Bank's future."

Siegfried Cofalka, member of the Delegates Meeting
of the Münchener Hypothekenbank eG



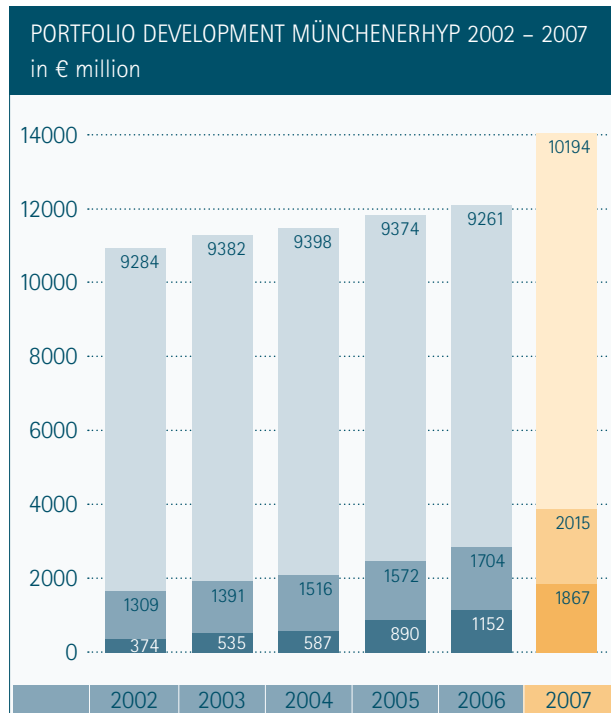
3. EARNINGS, FINANCIAL AND ASSET SITUATION

3.1. BALANCE SHEET STRUCTURE

Total assets increased from € 31.9 billion to € 32.9 billion, due to the good new mortgage business.

Our portfolio of mortgage and other property finance loans rose from € 12.2 billion by close to € 2 billion, to € 14.1 billion. This reflects an increase of 15.8 percent, which also includes the acquisition of the new loan portfolio valued at € 0.7 billion.

The portfolio of foreign loans increased from 10 percent to 16 percent of the total portfolio. At € 1.4 billion, the largest share went to the USA business.



- Residential housing
- Commercial property Germany / other property finance loans
- Commercial property abroad / other property finance loans

In the mortgage portfolio, € 10.6 billion worth of paper is used as coverage for issued Pfandbriefe. The mortgage portfolio continues to be broadly diversified across segments, types of properties and regions. The regional focus continues to be southern Germany.

“Our portfolio of mortgage and other building finance loans rose from € 12.2 billion by close to € 2 billion, to € 14.1 billion. This reflects an increase of 15.8 percent, which also includes the acquisition of the new loan portfolio valued at € 0.7 billion.”

The public-sector lending portfolio, including securities in the credit business with the public sector and banks, dropped from € 16.2 billion to € 14.1 billion, while the portfolio of other securities grew by € 1.3 billion.

In accordance with Bank-internal criteria, bonds and debentures were assigned to fixed assets, at € 5.6 billion, and to the liquidity reserve, at € 1.6 billion.

The portfolio of refinancing funds rose from € 29.9 billion to € 30.1 billion.

Core capital amounts to € 619.1 million. Of this amount, € 126 million went to paid-up capital, which thus grew by € 2.4 million.

Liable equity capital amounts € 926.6 million. The solvency figure for core capital is 6.5 percent, and for total capital it is 9.7 percent.

3.2. DEVELOPMENT OF EARNINGS

Thanks to our good new business and the expansion of the portfolio of mortgages, we were once again able to improve our results from operations.

Net interest income increased to € 121.2 million, or € 10.7 million higher than the same year-ago figure € 110.5 million.



More new business also means higher commissions paid to the originating partner banks by MünchenerHyp. This raised the negative commission balance from € 7.6 million to € 21.2 million. This, in turn had an effect on the net interest less commission income figure, which was € 100.0 million, or € 3.1 million higher than the comparable same year-ago figure of € 96.9 million.

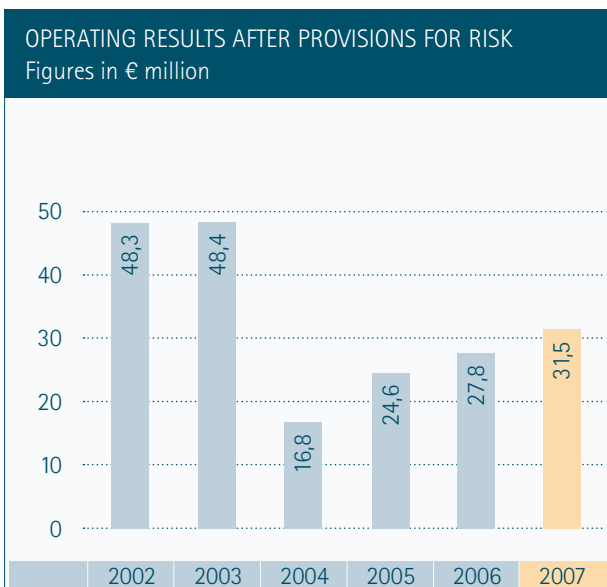
Administrative expenditures of € 49.8 million prove that we succeeded in staying below the target mark of € 50 million. The previous year's amount of € 53.6 million was influenced by the one-time effect of € 3.8 million due to reducing the discounting rate applied to pension reserves. If this one-time effect is subtracted from the previous year's expenditures, then administrative expenditures have remained stable as compared to 2006, although the sharp increase in new business has clearly placed greater demands on our resources.

For personnel expenditures we posted a value of € 27.3 million. Other administrative expenditures, including depreciations, amount to € 22.5 million.

Administrative expenditures of just under € 50 million, show that the restructuring measures introduced in 2004 have gained full traction and are having a sustained effect. Administrative expenditures in 2004 were € 54.4 million, or € 4.6 million higher than today.

Due to the higher net interest less commission income figure and lower administrative expenditures, our cost-income ratio of 51.5 percent (without the special item of pension reserves) further improved, to 49.8 percent. A favourable cost-income ratio is a prerequisite for a bank with our structure, so we can successfully assert ourselves in the market. Therefore, we will also focus in the future on the further improvement of the cost-income ratio, without losing sight of the Bank's goals.

"Administrative expenditures of just under € 50 million show that the restructuring measures introduced in 2004 have gained full traction and are having a sustained effect."



The negative balance of other operating expenses and income primarily results from the book loss associated with the sale of a building. The effect of this income item cannot be compared to the previous year, because it included a tax credit of € 20 million.

This also applies to results from operations before making provisions for risk, amounting to € 49.0 million.

The valuation of claims in the lending business and securities from current assets amounts to minus € 26.8 million, and is significantly lower than in the previous year. This value is only conditionally comparable to the previous year's amount, since it was possible, due to the tax credit in 2006, to significantly strengthen reserves in accordance with Art. 340 (f) of the German Commercial Code (HGB). The individual value adjustments, which have been declining for years, were again reduced.

The valuation of financial investments shows a positive value of € 9.3 million. This is due to sales of securities held as assets, as well as the scheduled increase in tax-free reserves taken by participations.

Results from operations after making provisions for risk totalled € 31.6 million, an increase of € 3.8 million, or 13.4 percent over the previous year's results of € 27.8 million.

After the deduction of extraordinary expenses of € 2.7 million incurred for due diligence audits conducted during the merger discussions, interest for silent participations amounting to € 15.6 million, and a tax expense of € 1.3 million, annual net profit amounts to € 12.0 million.

3.2.1. PROPOSED APPROPRIATION OF DISTRIBUTABLE INCOME

In order to strengthen the equity capital position, an advance allocation to statutory reserves amounting to € 5.0 million is proposed. A dividend distribution of 5.5 percent, the same as last year, will be proposed at the Delegates' Meeting. The remaining net income – including profit brought forward from the previous year – amounting to € 7,735,187.14 should therefore be used as follows:

| | |
|---------------------------------|----------------|
| 5.5 percent dividend | € 6,928,580.35 |
| Carried forward to the new year | € 806,606.79 |

3.3. RATING

After the end of the merger talks with DG HYP in October, Moody's confirmed its good rating of Aa3 for MünchenerHyp's unsecured, long-term liabilities. Ratings for the public-sector Pfandbriefe and mortgage Pfandbriefe remained unchanged at Aaa. In July, Moody's had placed the long-term liabilities and the fundamental financial strength under observance. This addendum was subsequently deleted. The outlook for all of MünchenerHyp's ratings is stated as "stable".

In its report, the agency stressed MünchenerHyp's positioning in the market, as well as its risk profile. In particular, our

collaboration with banks in the cooperative FinanzVerbund was viewed favourably. Moody's, moreover, praised the Bank's conservative risk policy and resulting high quality of its pool of coverage, which is reflected in the ratings.

Rating overview

| | Rating | Outlook |
|--------------------------------|-------------|---------|
| Public Pfandbriefe | Aaa | stable |
| Mortgage Pfandbriefe | Aaa | stable |
| Long-term liabilities | Aa3 | stable |
| Short-term liabilities | Aa3/Prime-1 | stable |
| Fundamental financial strength | C+ | stable |

"Moody's confirmed its good rating of Aa3 for MünchenerHyp's unsecured long-term liabilities. Ratings for the public-sector Pfandbriefe and mortgage Pfandbriefe remained unchanged at Aaa. The outlook for all of MünchenerHyp's ratings is stated as 'stable'".

3.4. SUBSIDIARY COMPANIES

M-Wert GmbH and M-Service GmbH are fully-owned subsidiaries of MünchenerHyp.

The core business of M-Wert GmbH is to prepare market and current value appraisals of all categories of properties and to determine lending values under Art. 16 of the German Pfandbrief Act. Their appraisals form a major basis for important decisions in the property lending business.

When M-Wert was founded in 1999 it was one of the first property appraisal companies in the market. Today, M-Wert is present in eight locations in Germany. The company has recorded positive results in all of its financial years.

In the interim competition between property appraisal companies has notably intensified. Numerous property appraisal



companies have been founded by financial institutions, corporate law firms and brokers. In addition, independent experts are also pushing their way into the market. Within this competitive environment the seriousness and quality of service is becoming increasingly important and makes it possible to provide the distinguishing characteristics needed to compete. This is why M-Wert places high demands on the quality of its employees' qualifications and the quality of their appraisals to ensure that all legal and supervisory requirements are always met.

M-Wert's appraisals are highly valued for their expert knowledge by customers both inside and outside of the FinanzVerbund because they meet customers' needs, above all, for quality and seriousness. This was reflected in the results of a survey conducted by the Bavarian Academy of Advertising and Marketing (Bayerische Akademie für Werbung und Marketing) in 2007 on behalf of M-Wert.

M-Wert's revenues declined slightly from the previous year's high level during the year under review. At the same time, however, the company was able to cut its expenses, and this meant that overall favourable results were again posted for the 2007 financial year.

M-Service GmbH supports MünchenerHyp's workout management and property management departments. The company was granted a collection permit in 2006 and has also been active as a collection agency on behalf of MünchenerHyp since 2007.

As part of the property company, M-Service GmbH also has the additional function of redeveloping the former bank premises on Nussbaumstrasse and Mathildenstrasse. The building measures were successfully completed as planned in the previous year. All of the units have been sold for the expected prices.

M-Service also holds a small property portfolio of its own. The company has a profit and loss transfer agreement with MünchenerHyp.

3.5. RISK REPORT

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

MünchenerHyp's business and risk strategy defines the parameters of the Bank's main business activities. MünchenerHyp's entire Board of Management is responsible for this strategy. It is regularly – at least once a year – updated. As part of its supervisory duties, the Supervisory Board examines the Bank's risk profile every quarter.

The requirements for structuring a risk management system were defined by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) in its "Minimum Requirements for Risk Management" (MaRisk). MünchenerHyp fully observes the rules set out in these regulations. The effects of, or amendments to, the requirements arising from the updating of MaRisk are analysed and implemented in a timely manner.

On the one hand, the basis of risk managements is the analysis and presentation of existing risks, and, on the other, the available coverage to cover them. To ensure this balance is maintained we put appropriate monitoring processes in place involving internal process-dependent supervision whereby internal audit, as process-independent unit has the monitoring function.

The analysis and presentation of existing risks distinguishes between borrower failure, market price, liquidity and operational risks.

Borrower failure risk is the most important category of risk for the property finance business. Borrower failure risk pertains to the danger of that a borrower or group of borrowers may delay, make partial repayment or even default on repaying a loan to the lender. Borrower failure risk also includes (credit) spread risk.

Credit Spread is the term used to describe the difference between the yield generated by a risk less bond and an endangered bond. Spread risks take into account the danger that the difference in interest rates between a risky and no-risk bond can change without a change in creditworthiness. The reasons for altered yield premiums are:

- >> varying opinions in the market regarding the creditworthiness of the issuer,
- >> the creditworthiness of the issuer actually changes,
- >> and macro-economic factors that influence creditworthiness categories.

The Credit Handbook presents the competences and procedural requirements of entities involved in lending, and catalogues the Bank's credit products. The Bank's business and risk strategy contains additional explanations pertaining to the sub-strategies regarding target customers and target markets, as well as definitions for measuring and controlling credit risks at the level of individual deals and the portfolio level. A procedure based on the credit risk value-at-risk (Credit-VaR) is used to determine strategic lending limits. The specific contribution of every entity/borrower – called the Marginal Credit-VaR – to the Bank's total credit risk is limited. Furthermore, limits are also set for each category of transaction and property. There are also limits for each federal state to ensure adequate regional diversification.

The management of lending risks begins with the selection of the target business when drafting the terms of the loan, using risk-cost functions that are validated by a continuous back testing process. A variety of scoring procedures are used, depending on the type and risk content of the transaction. A computer-based early warning system is used to spot risks on a timely basis.

In the case of property finance, a widely diversified portfolio with the emphasis on residential building finance, combined with our tried and tested credit approval procedures, are reflected in a loan portfolio that has a below-average credit risk. Our public-sector lending business is restricted to central and

regional governments, central and local authorities, and public banks with excellent creditworthiness. These activities are flanked by our dealings in the area of promissory notes and time deposits with banks as well as investments in securities issued by banks, which are covered by their debt certificates.

Market price risks consist of risk of possible declines in the value of positions or portfolios arising from changes in market parameters including interest rates or exchange rates. These risks are quantified a potential losses of present value using a present value model that differentiates between changes in interest rates, as well as risks arising from options and currency rates.

Interest rate risk is used to define risks arising from changes in the value of investments that are dependent on the level of interest rates, and will react negatively due to changes in interest rates. It is the most important component of market price risks for MünchenerHyp.

Options involve the following risks: volatility risk (Vega; risk that the value of a derivative instrument will change due to increasing or decreasing volatility impacting on the volatility of the value of the underlying object), time risk (Theta; time risk measures how passage of time impacts on the value of a derivative instrument when part of the value is determined by the remaining time left until a contract expires), Rho risk (risk associated with a change in the value of the option due to a change in a risk less rate of interest), and Gamma risk (risk of a change in the option's Delta due to a change in the price of the underlying object).

Currency risk is used to define risks arising from changes in the value of investments that are dependent on currency exchange rates, and will react negatively due to changes in currency exchange rates. MünchenerHyp's transactions outside Germany are hedged against currency risks.



Market price risks are controlled by determining the present value of each MünchenerHyp transaction on a daily basis. Transactions whose values are established by discounting cash flows are evaluated by the Bank's SAP inventory system. The valuation of structured transactions – mainly interest rate capping, swaptions and termination rights that are lawful and agreed – is carried out in a dedicated system.

The backbone of our risk control operations is the Delta-vector, which is calculated on a daily basis. This figure is determined by the present value of the loss incurred per range of maturities when the mid-swap curve is raised by one basis point. MünchenerHyp uses the value-at-risk figure to identify and limit market risks. Scenario analysis is used to measure the effect of external shifts in market risk factors on present value.

Liquidity risks include all risks arising from incomplete payment of obligations that could endanger the Bank's net income and capital. MünchenerHyp differentiates between short-term liquidity protection and short, mid-term, and long-term structural liquidity planning. The purpose of short-term liquidity protection is to ensure that the Bank is able to fully meet (payment willingness) its required payment obligations as agreed on a daily basis. In meeting this obligation the Bank fully implements all of the applicable supervisory requirements regarding liquidity reserves that must be held by banks. The purpose of structural liquidity planning is to secure short, mid-term, and long-term liquidity. A liquidity forecast is used to identify structural liquidity gaps at early stage in order to close them with appropriate refinancing measures.

Short-term liquidity planning is supported by IT systems that report all inflows and outflows of payments on a precise daily basis over a one-year period. IT applications used for strategic liquidity planning purposes, on the other hand, cover a period of thirty years and show differential and cumulative liquidity requirements as well as the maximum cash outflow. Callable balance sheet items are taken into account for liquidity outlook scenario analysis as required: by next redemption date, by legal termination date, or weighted with the probability of

their being redeemed. A mortgage bank's liquidity management is closely linked to the requirements of cover for Pfandbriefe, which is why the outlooks for liquidity and cover are linked by IT systems.

Operational risks comprise possible losses caused by personal misconduct, weaknesses in procedural or project management, technical failure or negative outside influences. They also include legal risks and other general risks. Personal misconduct also includes unlawful actions, improper sales practices, unauthorised actions and transaction errors.

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

3.5.1. USE OF FINANCE INSTRUMENTS FOR HEDGING PURPOSES

We engage in hedging activities – interest rate and currency derivatives – in order to further reduce our risks and to hedge our business activities. We do not employ credit derivatives. At the level of individual transactions, we use asset swaps as micro-hedges. Structured fundamental transactions such as callable securities were thus hedged accordingly with structured asset swaps. Interest-currency swaps are used to hedge exchange rate risks arising from commitments outside Germany. At the portfolio level, the main hedging instruments we use are interest swaps. Bermudan options on interest swaps (swaptions) or interest options (caps and floors) are used as macro-hedges for embedded legal termination rights or arrangements to limit interest rates.

3.6. EMPLOYEES

Our employees represent an outstanding strategic success factor for our Bank. We place great value on their further development and supporting their professional and social competencies. And this is why we are so proud of our employees' commitment to Münchener Hypothekbank. Their dedication and loyalty to our Bank were of major importance during the previous year when we had to master many difficult challenges that were vital for the future development of our success. In particular, the merger talks with DG HYP placed major burdens on our capacities over a period of months. Despite these added burdens our employees continued to decisively deliver full service to their customers, and generated good increases in new business. At this point we would like to especially thank all of our employees for their special commitment and service in 2007.

We would also like to thank the Works Council and the Speakers Committee for Managerial Employees for their constructive and trustful cooperation.

Over the year MünchenerHyp employed an average of 350 employees. We successfully completed the restructuring measures in our IT department. The necessary reduction in personnel took place in a socially acceptable way. Some of the employees were retrained for new duties within the Bank.

For years MünchenerHyp has maintained high levels of employee training. One in six of our employees completed their apprenticeships as either a banking specialist or office communications specialist. Last year we hired all of the trainees and apprentices, who met the necessary requirements, as full-time employees.

In addition, MünchenerHyp has earned a very attractive reputation in the labour market as an employer who pays fair, performance-driven market salaries. This good reputation was also reflected last year in the notably higher number of unsolicited job applications we received.

We anticipate that the planned increase in new business and the strategic further development of the complementary sales channels will require that we expand our capacities. To the extent that we cannot meet these needs from within our own ranks we plan to make a limited amount of new hires.

We are also implementing an advanced management training concept as part of strengthening our strategic personnel policy. The goal is to use successful management practices to better realise our business opportunities.

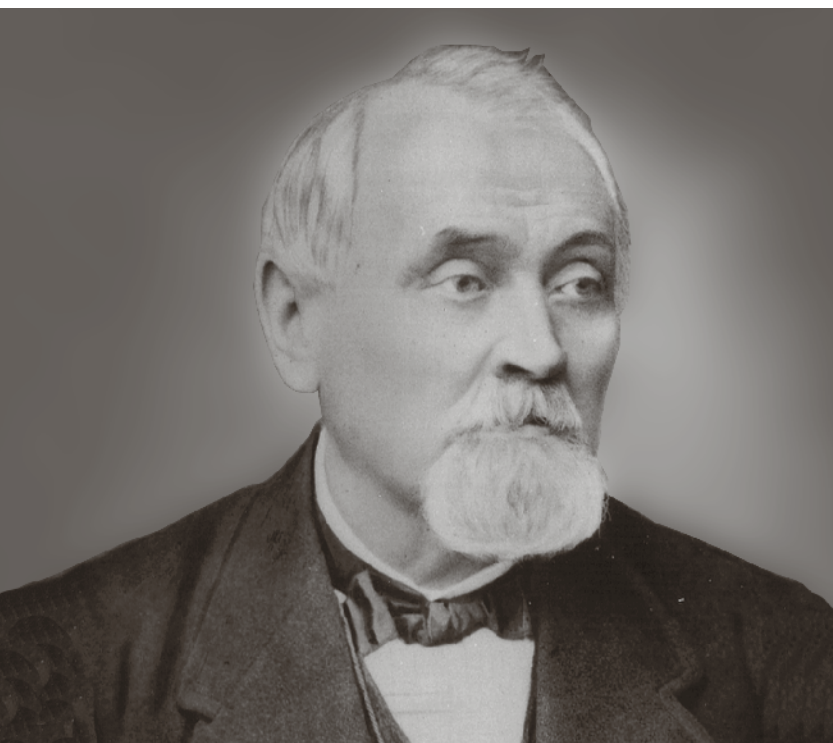
We view the targeted development of our employees as an investment in the future capabilities of our Bank, as well as a commitment to strengthen the professional and personal outlook of our employees. And this is why we expect that our employees will take the initiative to learn more professional skills and methods and that they will be open to change. We support this position with our personnel development measures including a broad range of advanced educational courses and training programmes we use to help our employees gain key qualifications for their professional careers. So far over 700 persons have voluntarily participated in these courses.

As in previous years, employee turnover remained low in 2007. Days lost due to sickness have also been below average for years. Twelve employees celebrated their 10th anniversary with us, and three celebrated their 25th year with MünchenerHyp. This shows that our employees enjoy working for the Bank and that they very strongly identify with their Bank.



CORPORATE PLANNING AND OUTLOOK





"A person can only create an independent and secure existence for himself based on his own efforts if he depends on himself and on his support."

Hermann Schulze-Delitzsch (1808–1883),
Initiator of the cooperative advance and loan associations,
the forerunners of today's Volksbanken

1859



2007

"As a customer I not only receive fair financing at good conditions from the Münchener Hypothekbank, I also benefit directly from the Bank's business success as a member."

Alina Mertens, customer and member of the Münchener Hypothekbank eG



4. CORPORATE PLANNING AND OUTLOOK

4.1. CORPORATE PLANNING

The primary goals of MünchenerHyp's corporate planning are:

1. to achieve our earnings and cost targets,
2. to ensure that revenue is sustainable,
3. to ensure that risks are covered in all the business activities in such a manner that we can achieve our income and cost targets.

The basis for our corporate planning is our Strategic Programme "MHB 2008", which defines our quantitative targets and measures. In order to achieve these goals, a wide range of measures is specified to reduce costs and improve processes, as well as to increase revenues. The measures are largely progressing as planned. Most of them have already been concluded, with the result that we can expect to see further positive effects in the years to come. During 2007 the main focus of the implemented measures was in the areas of revenue and costs. MünchenerHyp again reached the planned operative target levels in administration expenditures ahead of time in 2007. Parallel to this, the Bank's strategic further development is currently taking place to meet the challenges of upcoming years.

MünchenerHyp's operational sales targets are set so that they can be attained realistically, achieve the desired profit and loss results, and are commercially sustainable.

To successfully put our strategy into action we use our proven planning process, which synchronises the Bank's operational sales targets, agreed individual targets, and the project portfolio. This integrated planning process begins with the annual review of the business and risk strategy under MaRisk.

The annual planning process is continuously quality-assured. Constant monitoring of sales performance means that the opportunities and risks involved in achieving the strategic goals can be recognised quickly. In this way, the Bank is able to react

without delay to fluctuations in margins or to changes in market conditions.

"Extensive measures to reduce costs and optimise processes, as well as to increase earnings, were defined in order to achieve the goals of the MHB 2008 strategic programme. The measures are largely progressing as planned. Most of the measures have already been completed and therefore additional favourable effects are anticipated to take place in the coming years."

4.2. OUTLOOK

Economic expectations for 2008 are being driven by concerns about the duration of the financial market crisis and the increasing risk of a decline in growth in the USA. As early as in January, numerous large financial institutions, especially in the USA, reported a significantly greater need for write-offs. Furthermore, the pace of growth of the American economy posted a strong loss of momentum at the beginning of the year, as even labour market data fell behind expectations. This compelled the American government to implement a major programme to stimulate the economy. Following dramatic drops in global stock markets, the American Federal Reserve in a bold step dropped the key interest rate by 0.75 percent, to 3.5 percent in mid-January. A further reduction of 0.5 percent to the current 3.0 percent followed shortly thereafter. Due to cloudy economic prospects, markets anticipate that interest rates in the USA will be cut further to 2.0 percent by midyear.

Because of the uncertain prospects of the American economy and the questions surrounding the duration of the financial crisis, many business cycle forecasters are expecting the pace of growth of the world economy to decline to about 4 percent. Business conditions in the Euro Zone are, however, expected to soften moderately and develop at a weaker pace than in the past.



Economic researchers are assuming that the pace of growth will decelerate. Economic growth of between 1.5 percent and 2.0 percent was predicted for Germany for the years 2008 and 2009, and was closer to the upper end of the range in the first year and closer to lower end in the second. The favourable development of the labour market, in any case, could provide some support to growth. However, it is difficult to estimate the extent to which higher energy and food prices will hamper purchasing power and private consumption.

Confidence in the financial markets may return only very haltingly. The securitisation markets still aren't functioning as they used to, money markets do not operate without restrictions, and market players only provide each other with liquidity at a high premium. This has significantly increased refinancing costs for financial institutions.

Münchener Hypothekenbank adjusted to the changed market conditions at an early stage. We shall continue to pursue a conservative risk policy. On the refinancing side, we again expect to see increased activity on the part of investors. We will strengthen our marketing activities and continue to expand our investor base. Thus, we can also offer our lending customers attractive conditions in the future.

Based on current estimates, we anticipate that the European Central Bank will initially cut interest rates during the second half of 2008, which may be followed by others. The higher euro rate, as well as deteriorating economic data in the Euro Zone could accelerate this development in the future. This would halt the downward trend in the US Dollar in the second half of the year.

Many market observers are predicting that the German residential property market will stabilise following the strong decline in building permits. Currently, there are no signs that new residential construction will give a new impulse to the construction business cycle. However, this may change if the Federal Government enacts the "Residential Riester". If this measure is structured simply and clearly, we believe that it will have a

positive effect on new residential construction. Even under favourable conditions such an effect, however, would only have a slight impact on the home building industry in 2008, which would only benefit from its full effects as of 2009.

The improved situation in the labour market and the associated optimistic estimates of individual prospects for the future will gradually ease the hesitation currently shown by potential builders and buyers of property. However, the key factor is that the pace of economic growth does not slow too strongly in 2008.

Total market volume for private property financing in the coming two years should be about at the level seen in 2007. If economic conditions continue to develop in a stable manner in the future, and if interest rates stay low, we anticipate that we will, once again, increase our new business figures in our private residential lending area of business in 2008. Continued strong demand for forward financing – to the extent that interest rates do not rise notably – leads us to believe that new private property business will also be favourable in 2009.

"In the area of private property financing, we aim to reinforce our position as market leader among the mortgage banks in the cooperative FinanzVerbund and further deepen our collaboration with the Volksbanken and Raiffeisenbanken."

In the area of private property financing, we aim to reinforce and expand our market leadership among the mortgage banks in the cooperative FinanzVerbund. To this end, we will deepen our collaboration with the Volksbanken and Raiffeisenbanken by making a comprehensive range of products and services available to our brokerage partners that combines a wide variety of offers with lean, IT-supported processing.

In particular, we will expand our product spectrum, strengthen price competence through attractive and competitive offers of conditions, strengthen our market support of partner banks by intensifying shared marketing campaigns, as well as further expanding the already high levels of service we provide.

In doing so, we are seeking to make a contribution toward strengthening the competence of the cooperative FinanzVerbund in private property financing, and enhancing customers' perception of Volksbanken and Raiffeisenbanken as quality providers offering attractive prices.

Around 80 percent of private property financing customers borrow their money from sources outside the cooperative Financial Services Network. For this reason we would like to continue to look for meaningful ways, which are appropriate for us and the cooperative FinanzVerbund to realise and expand additional market potential. To this end, we will intensify our existing efforts to collaborate with independent brokers.

According to forecasts, investments in the German commercial property market will stabilise at a high level. The transformation of the investors' profile will continue. The dominance of globally oriented private equity funds and hedge funds will, however, decrease and be replaced by equity capital intensive, long-term oriented investors.

Turnover of office space will depend, in particular, on economic development, as well as the level of new commercial construction. However, we are looking forward to another increase in construction completion figures. Based on current estimates, about 645,000 square meters of new space will enter the market in 2008. Almost half of this has already been sold. Rents will remain stable, increased rents are only expected for high-value office space in the best locations.

In light of this business environment, we anticipate that Münchener Hypothekbank's domestic commercial property finance business will grow moderately in the years 2008 and 2009. With the renaissance in the classical credit business, we

also view ourselves in an improved competitive position. In February 2008, we opened another regional office for our commercial financing business in Berlin. Together with our representatives in Hamburg, Frankfurt am Main and Munich, we are now locally represented in four of the five top German property markets.

Within the USA there is no end in sight to the subprime crisis in residential property markets. Many homeowners whose initial, favourable interest rates are about to reset to higher rates will be forced to sell their property and move into rental units. This will keep up the pressure on house prices. Due to the high default rates expected in private property loans, the residential rental market is viewed favourably for the coming years.

Weaker economic development in the USA has thus far had only a slight effect on the office property market. A slight decline in prices in commercial property, good rent levels, the potential for rent increases in very good locations, as well as, an overall balanced relationship of supply and demand, should, as was previously the case, provide for predictable and stable overall conditions for investors.

Investors continue to place confidence in the commercial property market - despite current refinancing difficulties experienced by some buyers. In doing so, they clearly distinguish between the difficult capital market situation and the commercial property market, which remains intact. In fact, the costs of borrowed capital have increased, as banks have tightened their lending conditions. However, this primarily causes problems for investors who financed their property with short-term loans. Therefore, it is anticipated that long-term, more conservative investors with greater levels of equity capital will increasingly determine the direction of the market in the future.

In Europe, a significant correction has been anticipated in the residential property markets of Great Britain and Spain in the coming years. Many homeowners affected by interest rate increases may run the risk of having to sell their homes. In Great Britain up to 1.4 million short-term, refinanced mortgage



loans will mature in 2008 alone, which to a great extent were concluded with relatively high loan-to-value ratios or relatively low disposable income. Many of these borrowers will now have difficulty finding new, favourable sources of refinancing. Even now, a significant decline in a house prices has become visible in the UK. Here, the same is true as in the USA: the more people who are forced to sell their homes and rent an apartment, the more lively the market for rental space will become.

The residential property market in Switzerland shows more favourable prospects. Given the currently good economic situation and the low level of interest rates, we expect to see increased demand. Under current overall conditions, experts assume that the home ownership level of 39 percent will increase to 44 percent over the next 15 years. With a view to the underlying market potential, we have entered into a cooperative arrangement with PostFinance, which will enable us to have broad access to the Swiss property financing market.

The European commercial property markets are once again expected to develop favourably in 2008 and 2009, since substantial investment capital will also be available in the future and business conditions appear stable.

In principle, prospects for rentals are also positive. However, it is already becoming apparent that investors are expecting rent increases in many Western European markets, which will mean higher returns, even with a rather cautious development of prices.

In our international area of business, we will continue to consistently pursue the strategy of previous years and provide financing in the first-class range with moderate maturities. The USA and Western Europe remain our focal regions. In Western Europe, we consider our competitive position to be improved. In view of the changing market conditions in the core markets of France and Great Britain, we are looking forward to an increase in the volume of new business.

We anticipate that business development will continue to be favourable for our Credit Treasury activities. As the consequences of the subprime crisis have not yet run their course, we are expecting to see a continued, above-average, active syndication market. Although the securitisation market will slowly restart, securitisations will no longer be able to be made under the favourable conditions possible before the subprime crisis for an indefinite time. As early as 2007, we noted that many internationally active banks had also responded organisationally to these circumstances by increasing their syndication activities.

“We have set ourselves the goal of booking close to € 4 billion in commitments stemming from our regular business activities in the originating mortgage business.”

We are also expecting a favourable setting for our investments in mortgage-backed securities (MBS). Here, we anticipate that the situation in the MBS markets will gradually calm down again. Nevertheless, spreads over the next 18 to 24 months, in either the primary market or secondary market, will not return to the low level prevailing before the crisis broke out. In this attractive investment setting, we will invest further in prime segment mortgage-backed securities with good ratings and good risk-income profiles.

In light of the aforementioned overall conditions, we aim to grow organically based on our own strength in 2008 in both of our main areas of business private property finance and commercial property lending. We have set ourselves the goal of booking close to € 4 billion in commitments stemming from our regular business activities in the originating mortgage business.

In view of the situation in the financial markets and the lower overall economic growth prospects, we consider this goal to be feasible for the following reasons:

- >> The partial restructuring of private property financing in the FinanzVerbund, as well as our close and trusting relationships with our partner cooperative banks offer great market potential.
- >> The trend in private property financing towards fair and dependable financing partnerships under attractive conditions strengthens our competitive position.
- >> We have continuously and persistently expanded our position in the international property financing markets. We have gained a very good reputation as a dependable and high-performance financing partner.
- >> Given the current situation in the financial markets, our expertise in classical financing, including syndications, as well as in refinancing using Pfandbriefe, has opened up additional business opportunities to us.

We are therefore confident that we will be able to continue our growth strategy successfully and prudently in 2008, and also further improve the earning power of MünchenerHyp.



BALANCE SHEET INCOME STATEMENT



BALANCE SHEET, 31 DECEMBER 2007

| ASSETS | | 31 Dec. 07 | 31 Dec. 06 |
|--|-------------------|--------------------------|-------------------|
| | € | € | € 000 |
| 1. Cash reserve | | | |
| a) Cash on hand | 26,233.15 | | 19 |
| b) Balances with Central Banks | 82,103,907.87 | | 46,802 |
| of which | | | |
| with Deutsche Bundesbank € 82,103,907.87 | | | |
| | | 82,130,141.02 | 46,821 |
| 2. Claims on banks | | | |
| a) Mortgage loans | 150,731,987.58 | | 210,746 |
| b) Public-sector loans | 2,991,323,408.45 | | 3,233,005 |
| c) Other claims | 1,319,305,343.82 | | 1,491,068 |
| of which | | | |
| payable on demand € 76,130,228.14 | | | |
| | | 4,461,360,739.85 | 4,934,819 |
| 3. Claims on customers | | | |
| a) Mortgage loans | 13,724,923,070.12 | | 11,828,401 |
| b) Public-sector loans | 6,647,096,930.27 | | 7,308,651 |
| c) Other claims | 199,120,371.88 | | 119,692 |
| of which | | | |
| with securities pledged as collateral € 45,061.55 | | | |
| | | 20,571,140,372.27 | 19,256,744 |
| 4. Bonds and other fixed-income securities | | | |
| a) Bonds and notes | 7,073,323,071.24 | | 6,974,351 |
| aa) Public-sector issuers € 1,417,528,790.83 | | | (1,912,381) |
| of which | | | |
| eligible as collateral for Deutsche Bundesbank advances € 1,199,177,221.11 | | | |
| ab) Other issuers € 5,655,794,280.41 | | | (5,061,970) |
| of which | | | |
| eligible as collateral for Deutsche Bundesbank advances € 5,297,955,559.61 | | | |
| b) Own bonds and notes | 50,645,858.37 | | 22,008 |
| Nominal value € 51,331,360.29 | | | |
| | | 7,123,968,929.61 | 6,996,359 |
| Carried forward | | 32,238,600,182.75 | 31,234,743 |



| LIABILITIES, CAPITAL AND RESERVES | 31 Dec. 07 | 31 Dec. 06 |
|---|--------------------------|-------------------|
| | € | € 000 |
| 1. Liabilities to banks | | |
| a) Registered mortgage Pfandbriefe issued | 715,447,867.06 | 946,667 |
| b) Registered public-sector Pfandbriefe issued | 258,115,349.43 | 196,626 |
| c) Other liabilities | 2,374,594,366.82 | 1,542,783 |
| of which | | |
| payable on demand € 183,850,670.84 | | |
| delivered to lenders as collateral for loans received | | |
| registered mortgage Pfandbriefe € 651,276.79 | | |
| and registered public-sector Pfandbriefe € 639,522.23 | | |
| | 3,348,157,583.31 | 2,686,076 |
| 2. Liabilities to customers | | |
| a) Registered mortgage Pfandbriefe issued | 3,012,271,678.15 | 2,811,562 |
| b) Registered public-sector Pfandbriefe issued | 4,342,509,773.40 | 4,623,405 |
| c) Other liabilities | 731,172,359.11 | 732,752 |
| of which | | |
| payable on demand € 4,860,730.96 | | |
| delivered to lenders as collateral for loans received | | |
| registered mortgage Pfandbriefe € 5,000,000.00 | | |
| and registered public-sector Pfandbriefe € 0.00 | | |
| | 8,085,953,810.66 | 8,167,719 |
| 3. Certificated liabilities | | |
| a) Mortgage Pfandbriefe issued | 7,144,155,303.38 | 6,676,922 |
| b) Public-sector Pfandbriefe issued | 9,082,568,831.08 | 9,876,888 |
| c) Other bonds issued | 4,332,354,848.55 | 3,473,918 |
| | 20,559,078,983.01 | 20,027,728 |
| 4. Liabilities incurred as trustee | 302,374.64 | 337 |
| of which | | |
| loans € 302,374.64 | | |
| 5. Other liabilities | 98,572,091.03 | 181,418 |
| | | |
| | | |
| | | |
| Carried forward | 32,092,064,842.65 | 31,063,278 |

| ASSETS | | 31 Dec. 07 | 31 Dec. 06 |
|--|----------------|--------------------------|-------------------|
| | € | € | € 000 |
| Brought forward | | 32,238,600,182.75 | 31,234,743 |
| 5. Equities and other variable-yield securities | | 321,078,328.33 | 306,378 |
| 6. Participating interests and shares in cooperatives | | | |
| a) Participating interests | 73,130,848.25 | | 56,460 |
| of which | | | |
| credit institutions € 16,728,732.18 | | | |
| b) Shares in cooperatives | 18,500.00 | | 18 |
| of which | | | |
| in credit cooperatives € 15,500.00 | | | |
| | | 73,149,348.25 | 56,478 |
| 7. Shares in affiliated companies | | 831,101.64 | 802 |
| 8. Assets held in trust | | 302,374.64 | 337 |
| of which | | | |
| loans € 302,374.64 | | | |
| 9. Intangible assets | | 2,524,435.19 | 1,339 |
| 10. Tangible assets | | 88,939,639.60 | 92,526 |
| 11. Other assets | | 100,611,411.94 | 90,993 |
| 12. Deferred items | | | |
| a) From issuing and lending business | 105,811,831.49 | | 147,149 |
| b) Other | 1,441,302.63 | | 1,744 |
| | | 107,253,134.12 | 148,893 |
| Total assets | | 32,933,289,956.46 | 31,932,489 |



| LIABILITIES, CAPITAL AND RESERVES | 31 Dec. 07 | 31 Dec. 06 |
|---|--------------------------|-------------------|
| | € | € 000 |
| Brought forward | 32,092,064,842.65 | 31,063,278 |
| 6. Deferred items | | |
| From issuing and lending business | 26,259,080.87 | 28,513 |
| | 26,259,080.87 | 28,513 |
| 7. Provisions | | |
| a) Provisions for pensions and similar obligations | 21,937,729.00 | 21,221 |
| b) Provisions for taxes | 6,059,381.31 | 6,178 |
| c) Other provisions | 11,881,660.50 | 12,395 |
| | 39,878,770.81 | 39,794 |
| 8. Subordinated liabilities | 66,300,000.00 | 66,300 |
| 9. Profit-participation certificates | 57,264,690.70 | 91,010 |
| of which | | |
| € 35,790,431.69 are due within two years | | |
| 10. Capital and reserves | | |
| a) Subscribed capital | 370,449,043.54 | 367,688 |
| aa) Members' capital contributions € 127,120,620.60 | | (124,795) |
| ab) Silent participations € 243,328,422.94 | | (242,893) |
| b) Revenue reserves | 273,338,340.75 | 268,338 |
| ba) Legal reserve € 271,804,465.11 | | (266,804) |
| bb) Other revenue reserves € 1,533,875.64 | | (1,534) |
| c) Unappropriated profit | 7,735,187.14 | 7,568 |
| | 651,522,571.43 | 643,594 |
| Total liabilities, capital and reserves | 32,933,289,956.46 | 31,932,489 |
| 1. Contingent liabilities | | |
| Contingent liability on guarantees and indemnities | 55,875,921.24 | 16,987 |
| 2. Other commitments | | |
| Irrevocable loan commitments | 1,313,651,206.60 | 812,644 |

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

| EXPENSES | 31 Dec. 07 | 31 Dec. 06 |
|---|-------------------------|------------------|
| | € | € 000 |
| 1. Interest expenses | 1,445,107,222.87 | 1,470,513 |
| 2. Commission paid | 29,437,332.64 | 18,535 |
| 3. General administrative expenses | | |
| a) Personnel expenses | 27,292,823.45 | 29,913 |
| aa) Wages and salaries € 21,722,526.89 | | (20,527) |
| ab) Social security contributions and cost of pensions and other benefits € 5,570,296.56 | | (9,386) |
| of which for pensions € 2,620,443.84 | | |
| b) Other administrative expenses | 19,070,883.04 | 19,491 |
| | 46,363,706.49 | 49,404 |
| 4. Depreciation and write-downs of intangible and tangible assets | 3,456,372.49 | 4,230 |
| 5. Other operating expenses | 3,300,019.73 | 4,026 |
| 6. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses | 26,719,427.52 | 48,984 |
| 7. Extraordinary expenses | 2,674,402.07 | 0 |
| 8. Taxes on income | 1,259,404.34 | 824 |
| 9. Other taxes not included under "Other operating expenses" | 82,831.53 | 101 |
| 10. Profits paid out due to a profit pooling agreement, a profit transfer agreement or a partial profit transfer agreement | 15,551,458.16 | 15,553 |
| 11. Net income | 11,954,966.15 | 11,312 |
| Total expenses | 1,585,907,143.99 | 1,623,482 |
| 1. Net income | 11,954,966.15 | 11,312 |
| 2. Retained earnings brought forward from previous year | 780,220.99 | 756 |
| | 12,735,187.14 | 12,068 |
| 3. Transfer to legal reserve | 5,000,000.00 | 4,500 |
| 4. Unappropriated profit | 7,735,187.14 | 7,568 |

NOTES



NOTES

GENERAL INFORMATION ON ACCOUNTING POLICIES

All claims are stated at nominal amounts in accordance with Art. 340e (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, provisions for risks pursuant to Art. 340f of the Commercial Code have also been made.

Securities held in the liquidity portfolio are strictly valued at the lower of cost or market principle. Securities held as assets, which were mainly acquired as cover for Public Pfandbriefe and for additional coverage purposes, are valued at their cost of purchase. Discounts and premiums are recognised 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. To the extent that they are used to hedge risks, derivatives are not valued individually.

In accordance with the rules pertaining to the valuation of assets, participations and holdings in affiliated companies are valued at their cost of purchase. Depreciation is taken on those assets where the reduction in value is expected to be long-term. No indications were given for short-term reductions in value.

Tangible assets are stated at cost or production costs less accumulated depreciation. In addition to scheduled depreciation, taken in accordance with the standard operating lifetime, minor value items were fully written off.

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 in accordance with the issuing conditions. Differences between nominal amounts of liabilities and the 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 principles of actuarial mathematics using a 4 percent rate of interest.

Balance sheet items denominated in a foreign currency are valued at the European Central Bank reference exchange rate at the date of record in accordance with Art. 340h (1) of the German Commercial Code. Income and expense items are valued at the respective individual daily exchange rate.



NOTES TO THE BALANCE SHEET

MATURITY ANALYSIS BY RESIDUAL TERM

ASSETS

| | € 000 |
|--|------------|
| Claims on banks | 4,461,361 |
| ≤ Three months | 1,064,688 |
| > Three months ≤ one year | 1,057,167 |
| > One year ≤ five years | 1,478,945 |
| > Five years | 860,561 |
| Claims on customers | 20,571,140 |
| ≤ Three months | 370,047 |
| > Three months ≤ one year | 913,149 |
| > One year ≤ five years | 4,452,507 |
| > Five years | 14,835,437 |
| Bonds and other fixed-income securities ≤ one year | 994,699 |

LIABILITIES

| | € 000 |
|---------------------------------|------------|
| Liabilities to banks | 3,348,158 |
| ≤ Three months | 1,922,019 |
| > Three months ≤ one year | 157,639 |
| > One year ≤ five years | 686,227 |
| > Five years | 582,273 |
| Liabilities to customers | 8,085,954 |
| ≤ Three months | 296,956 |
| > Three months ≤ one year | 373,667 |
| > One year ≤ five years | 1,480,650 |
| > Five years | 5,934,681 |
| Certificated liabilities | 20,559,079 |
| ≤ Three months | 1,662,058 |
| > Three months ≤ one year | 4,503,125 |
| > One year ≤ five years | 11,773,012 |
| > Five years | 2,620,884 |

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

| | 31 Dec. 07 € 000 | 31 Dec. 06 € 000 |
|-----------------------|------------------|------------------|
| Claims on | | |
| Banks | 3,913 | 5,254 |
| Customers | 55,923 | 51,734 |
| Liabilities to | | |
| Banks | 148,902 | 154,919 |
| Customers | 0 | 0 |

CLAIMS ON AND LIABILITIES TO AFFILIATED COMPANIES

| | 31 Dec. 07 € 000 | 31 Dec. 06 € 000 |
|--------------------------|------------------|------------------|
| Claims on customers | 1,917 | 9,176 |
| Liabilities to customers | 2,234 | 1,859 |

SECURITIES MARKETABLE ON THE STOCK EXCHANGE

| Asset category | 31 Dec. 2007 in € 000 | | 31 Dez. 2006 in € 000 | |
|-------------------------|-----------------------|----------|-----------------------|----------|
| | listed | unlisted | listed | unlisted |
| Bonds and other | | | | |
| fixed-income securities | 6,963,846 | 17,884 | 6,786,264 | 78,107 |
| Participating interests | 0 | 1,689 | 0 | 1,689 |



DETAILS OF FIXED ASSETS

| | Cost | Additions | Rebook-ings | Disposals | Depreciation provided in 2007 | Accumulat-ed depre-ciation | Net book value 31 Dec. 07 | Net book value 31 Dec. 06 |
|---|----------------|-----------|-------------|------------|-------------------------------|----------------------------|---------------------------|---------------------------|
| | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 |
| Intangible assets | 12,860 | 1,927 | 0 | 0 | 741 | 12,263 | 2,524 | 1,339 |
| Tangible assets | 114,797 | 1,151 | 0 | 3,355 | 2,715 | 23,653 | 88,940 | 92,526 |
| | Changes +/- *) | | | | | | | |
| Participating in-terests and shares in cooperatives | 56,478 | | | +16,671 | | | 73,149 | 56,478 |
| Shares in affiliated companies | 802 | | | +29 | | | 831 | 802 |
| Bonds and other fixed-income securities | 3,021,421 | | | +2,555,623 | | | +5,577,044 | 3,021,421 |

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

As of the date of record there was no indication that the present value of the Bank's participations and capital holdings at cooperatives or the value of the affiliated companies was less than their book values.

The item "Bonds and other fixed-income securities" includes securities with a book value of € 3,200,352 (thousand) exceeding the present value of € 3,155,001 (thousand). As of the date of record we had no knowledge of a permanent reduction in value that would warrant unscheduled depreciation.

TRUST TRANSACTIONS

| | 31 Dec. 07 € 000 | 31 Dec. 06 € 000 |
|----------------------|------------------|------------------|
| Trust assets | | |
| Claims on customers | 302 | 337 |
| Trust liabilities | | |
| Liabilities to banks | 302 | 337 |

TANGIBLE ASSETS

The portion of the total value attributable to the land and buildings used by the Bank is € 67,220 (thousand) (31 Dec. 06: € 70,533 [thousand]), and of plant and office equipment € 2,819 (thousand) (31 Dec. 06: € 2,969 [thousand]).

SUBORDINATED ASSETS

Claims on banks include an amount of € 10,000 (thousand) (31 Dec. 06: € 10,000 [thousand]).

OTHER ASSETS

In addition to deferred items related to the derivative business, the item "Other assets" primarily includes claims on the German tax authorities (Finanzamt) for corporation tax credit.

SUBORDINATED LIABILITIES

Subordinated liabilities incurred interest expenses of € 4,229 (thousand) (31 Dec. 06: € 4,232 [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% | 07 Feb. 2011 |
| 30,000,000.00 | euro | 6.25% | 01 Jun. 2011 |

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

PROFIT-PARTICIPATION CERTIFICATES

The amount of profit-participation certificates of € 57,265 (thousand) satisfying the criteria of section 10 (5) of the German Banking Act is € 21,474 (thousand).

DETAILS OF REVENUE RESERVES

| | Legal reserve € 000 | Other revenue reserves € 000 |
|--------------------------------------|---------------------|------------------------------|
| 1 Jan. 2007 | 266,804 | 1,534 |
| Transfer from 2006 retained earnings | 0 | 0 |
| Transfer from 2007 net income | 5,000 | 0 |
| 31 Dec. 2007 | 271,804 | 1,534 |



MEMBERS' CAPITAL CONTRIBUTIONS

Members' capital contributions disclosed under capital and reserves item 10aa) consisted of:

| | 31 Dec. 07 € | 31 Dec. 06 € |
|--|----------------|----------------|
| Capital contributions | 127,120,620.60 | 124,794,428.57 |
| a) of remaining members | 126,029,040.60 | 123,633,058.57 |
| b) of former members | 993,860.00 | 1,039,780.00 |
| c) in respect of shares under notice | 97,720.00 | 121,590.00 |
| Outstanding obligatory payments in respect of shares | 79.40 | 171.43 |

SILENT PARTICIPATIONS

The silent participations of € 243,328 (thousand) satisfy the criteria of Art. 10 (4) of the German Banking Act. The interest expense attributable to these participations amounted to € 15,551 (thousand).

ASSETS PLEDGED TO SECURE LIABILITIES

Within the course of our open market dealings with the European Central Bank, securities valued at € 178,892 (thousand) were pledged to secure liabilities in the same amount. The book value of assets pledged for repurchase (genuine repurchase deals) totalled € 156,175 (thousand). Security of € 231,120 (thousand) in cash was provided within the framework of security agreements for derivative deals. Securities worth € 9,605 (thousand) was pledged as security to meet pension obligations and claims related to the partial retirement model.

FOREIGN CURRENCY ITEMS

Assets and liabilities included items denominated in foreign currencies as follows:

Assets € 2,221,153 (thousand) (31 Dec. 06: € 1,376,082 [thousand]) and liabilities € 1,524,274 (thousand) (31 Dec. 06: € 873,145 [thousand]). All transactions denominated in foreign currencies were hedged to protect against currency risks.

INCOME FROM WRITING UP VALUE OF PARTICIPATIONS, SHARES IN AFFILIATED COMPANIES AND SECURITIES TREATED AS FIXED ASSETS

In addition to income from the sale of securities treated as fixed assets, this item mainly contains income derived from participations.

EXTRAORDINARY EXPENSES

These expenses involve costs that were incurred during merger talks with the Deutschen Genossenschafts-Hypothekenbank AG.

FUTURES AND DERIVATIVES

The following transactions were entered to hedge swings in interest rates, or exchange rate risks, and to increase our margin.

| | Nominal amounts (in millions of €) | | | Total | Counterparty risk *) |
|---|------------------------------------|---|-------------------------------|--------|----------------------|
| | Residual term ≤ one year | Residual term > one year ≤ five years | Residual term > five years | | |
| Interest-Rate-Related Transactions | | | | | |
| Interest rate swaps | 5,835 | 17,711 | 20,612 | 44,158 | - 508 |
| Interest rate options | | | | | |
| - Calls | 63 | 311 | 112 | 486 | 3 |
| - Puts | 51 | 309 | 0 | 360 | - 2 |
| - Other interest rate contracts | 0 | 21 | 780 | 801 | - 1 |
| Currency-Related Transactions | | | | | |
| Cross-currency swaps | 729 | 467 | 177 | 1,373 | 46 |

*) Valuation methods:

Interest rate swaps are valued using the present value method on the date of record using the current interest rate curve. In doing so the cash flows are discounted using market interest rates appropriate for the related risks and remaining terms to maturity.

The value of options is calculated using option price models using generally accepted basic assumptions. In general the price of the underlying value, its volatility, the agreed strike price, a risk-free interest rate, and the remaining term to the expiration date are used to calculate the particular value of an option.

The derivative financial instruments noted involve premiums stemming from option trades in the amount of € 1,847 (thousand) or € 9 (thousand) which are contained in the balance sheet items "Other assets" and "Other liabilities".

Interest attributable to derivative deals is shown in the balance sheet items "Claims on banks" with € 298.0 million and "Liabilities to banks" with € 332.0 million. The accrual of compensatory payments made is entered under "Other assets" with € 18.4 million: the accrual of compensatory payments received is entered under "Other liabilities" with € 56.3 million.

Compensatory items in the amounts of € 48.5 million related to the valuation of foreign currency swaps are contained in the balance sheet items "Other assets".

All of the counterparties are exclusively banks and insurance companies located in OECD countries.

Hedging arrangements were entered into with the individual business partners in order to reduce credit risks associated with these contracts. Within the framework of these arrangements collateral was provided – for the net claims/liabilities arising after the positions were netted.

Because the transactions serve to hedge against swings in interest and exchange rates, the related present values of the derivatives are reflected in the appropriate on-balance-sheet transaction items.



ANALYSIS OF COVER FOR PFANDBRIEFE

A. MORTGAGE PFANDBRIEFE

| | € 000 |
|--|------------|
| Ordinary cover | 10,624,873 |
| 1. Claims on banks (mortgage loans) | 133,661 |
| 2. Claims on customers (mortgage loans) | 10,437,774 |
| 3. Tangible assets (charges on land owned by the Bank) | 53,438 |
| Substitute cover | 590,660 |
| 1. Other claims on banks | 282,871 |
| 2. Bonds and other fixed-income securities | 300,775 |
| 3. Other assets (offsetting currency derivatives) | 7,014 |
| Total cover | 11,215,533 |
| Total mortgage Pfandbriefe requiring cover | 10,644,644 |
| Surplus cover | 570,889 |

B. PUBLIC-SECTOR PFANDBRIEFE

| | € 000 |
|---|------------|
| Ordinary cover | 12,687,936 |
| 1. Claims on banks (public-sector loans) | 2,930,498 |
| 2. Claims on customers (public-sector loans) | 6,431,987 |
| 3. Bonds and other fixed-income securities | 3,325,451 |
| Substitute cover | 1,202,146 |
| 1. Other claims on banks | 355,396 |
| 2. Bonds and other fixed-income securities | 846,750 |
| Total cover | 13,890,082 |
| Total public-sector Pfandbriefe requiring cover | 13,323,256 |
| Surplus cover | 566,826 |

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

MORTGAGE PFANDBRIEFE OUTSTANDING AND
CORRESPONDING COVER POOLS

| | Nominal value | |
|----------------------|------------------|------------------|
| | 31 Dec. 07 € 000 | 31 Dec. 06 € 000 |
| Mortgage Pfandbriefe | 10,644,644 | 10,215,070 |
| Cover pools | 11,215,533 | 10,915,065 |
| of which | | |
| further cover assets | 637,084 | 904,836 |
| derivatives | 7,014 | 0 |
| Surplus cover | 570,889 | 699,995 |

| | Net present value | |
|----------------------|-------------------|------------------|
| | 31 Dec. 07 € 000 | 31 Dec. 06 € 000 |
| Mortgage Pfandbriefe | 10,661,967 | 10,363,141 |
| Cover pools | 11,471,274 | 11,404,731 |
| of which | | |
| further cover assets | 597,252 | 876,651 |
| derivatives | 7,020 | 0 |
| Surplus cover | 809,307 | 1,041,590 |

| | Risk-adjusted net present value *) | |
|---|------------------------------------|------------------|
| | 31 Dec. 07 € 000 | 31 Dec. 06 € 000 |
| Mortgage Pfandbriefe | 10,230,717 | 9,906,537 |
| Public-sector Pfandbriefe | 10,908,348 | 10,836,327 |
| Value of excess cover after stress test | 677,631 | 929,790 |

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

Maturity analysis by residual term 31 Dec. 07 € 000

| | > one year | | > five years | |
|----------------------|------------|--------------|--------------|-------------|
| | ≤ one year | ≤ five years | ≤ ten years | > ten years |
| Mortgage Pfandbriefe | 1,530,857 | 5,040,093 | 2,649,595 | 1,424,099 |
| Cover pools | 1,441,778 | 4,067,590 | 4,512,492 | 1,193,673 |

Maturity analysis by residual term 31 Dec. 06 € 000

| | > one year | | > five years | |
|----------------------|------------|--------------|--------------|-------------|
| | ≤ one year | ≤ five years | ≤ ten years | > ten years |
| Mortgage Pfandbriefe | 1,342,726 | 4,406,797 | 3,249,778 | 1,215,769 |
| Cover pools | 1,197,022 | 4,242,375 | 4,207,715 | 1,267,953 |



PUBLIC PFANDBRIEFE OUTSTANDING AND CORRESPONDING COVER POOLS

| | Nominal value | |
|----------------------|------------------|------------------|
| | 31 Dec. 07 € 000 | 31 Dec. 06 € 000 |
| Public Pfandbriefe | 13,323,256 | 14,336,612 |
| Cover pools | 13,890,082 | 15,621,541 |
| of which | | |
| further cover assets | 1,202,146 | 324,464 |
| derivatives | 0 | 308 |
| Excess cover | 566,826 | 1,284,929 |

| | Net present value | |
|----------------------|-------------------|------------------|
| | 31 Dec. 07 € 000 | 31 Dec. 06 € 000 |
| Public Pfandbriefe | 13,605,047 | 15,008,841 |
| Cover pools | 14,424,353 | 16,442,887 |
| of which | | |
| further cover assets | 1,260,996 | 326,591 |
| derivatives | 2,669 | 15,554 |
| Excess cover | 819,306 | 1,434,046 |

| | Risk-adjusted net present value *) | |
|---|------------------------------------|------------------|
| | 31 Dec. 07 € 000 | 31 Dec. 06 € 000 |
| Public Pfandbriefe | 14,234,075 | 15,764,673 |
| Cover pools | 14,959,566 | 17,041,916 |
| Value of excess cover after stress test | 725,491 | 1,277,243 |

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

Maturity analysis by residual term 31 Dec. 07 € 000

| | > one year | | > five years | |
|--------------------|------------|--------------|--------------|-------------|
| | ≤ one year | ≤ five years | ≤ ten years | > ten years |
| Public Pfandbriefe | 2,423,038 | 7,080,344 | 1,571,712 | 2,248,162 |
| Cover pools | 2,611,637 | 5,142,813 | 4,318,639 | 1,816,993 |

Maturity analysis by residual term 31 Dec. 06 € 000

| | > one year | | > five years | |
|--------------------|------------|--------------|--------------|-------------|
| | ≤ one year | ≤ five years | ≤ ten years | > ten years |
| Public Pfandbriefe | 2,164,318 | 5,991,347 | 2,161,922 | 4,019,025 |
| Cover pools | 2,740,498 | 6,992,168 | 4,187,932 | 1,700,943 |

TOTAL VOLUME OF CLAIMS USED TO COVER MORTGAGE PFANDBRIEFE

A. ACCORDING TO SIZE

| | 31 Dec. 07 € 000 | 31 Dec. 06 € 000 |
|---------------------------|------------------|------------------|
| ≤ € 300,000 | 7,072,859 | 6,754,589 |
| > € 300,000 ≤ € 5 million | 1,964,067 | 1,964,494 |
| > € 5 million | 1,534,509 | 1,291,146 |
| Total | 10,571,435 | 10,010,229 |

B. CLAIMS USED TO COVER MORTGAGE PFANDBRIEFE ACCORDING TO THE STATES
IN WHICH THE REAL PROPERTY COLLATERAL IS LOCATED AND TYPE OF USAGE

| | 31 Dec. 07 € 000 | | 31 Dec. 06 € 000 | |
|--|-----------------------|------------------------|-----------------------|------------------------|
| | Commercial properties | Residential properties | Commercial properties | Residential properties |
| Federal Republic of Germany | | | | |
| Apartments | | 2,177,888 | | 2,001,190 |
| Single-family houses | | 3,554,593 | | 3,309,814 |
| Multiple-family dwellings | | 2,704,370 | | 2,659,336 |
| Office buildings | 540,838 | | 557,482 | |
| Retail buildings | 437,967 | | 436,245 | |
| Industrial buildings | 83,727 | | 92,474 | |
| Other commercially used properties | 139,768 | | 153,393 | |
| New buildings and buildings not yet capable of producing a yield | 1,298 | 105,314 | 1,320 | 120,540 |
| Buildings under construction | 1,665 | 1,096 | 1,015 | 1,282 |
| | 1,205,263 | 8,543,261 | 1,241,929 | 8,092,162 |
| of which in | | | | |
| Baden-Württemberg | 192,410 | 1,219,701 | 241,036 | 1,234,367 |
| Bavaria | 278,224 | 2,117,438 | 303,809 | 2,087,915 |
| Berlin | 27,228 | 227,694 | 20,057 | 214,924 |
| Brandenburg | 5,177 | 95,365 | 7,640 | 71,375 |
| Bremen | 475 | 23,672 | 231 | 15,545 |
| Hamburg | 43,738 | 164,923 | 63,569 | 137,354 |
| Hessen | 202,386 | 748,250 | 172,168 | 713,074 |
| Mecklenburg-Lower Pomerania | 2,816 | 62,710 | 5,771 | 71,264 |
| Lower Saxony | 56,828 | 622,801 | 62,416 | 600,224 |
| North Rhine-Westphalia | 246,364 | 1,815,759 | 220,296 | 1,566,942 |



| | 31 Dec. 07 € 000 | | 31 Dec. 06 € 000 | |
|------------------------------------|-----------------------|------------------------|-----------------------|------------------------|
| | Commercial properties | Residential properties | Commercial properties | Residential properties |
| Rhineland-Palatinate | 25,206 | 239,469 | 22,933 | 235,289 |
| Saarland | 6,098 | 34,024 | 8,743 | 37,357 |
| Saxony | 47,987 | 297,630 | 34,480 | 272,984 |
| Saxony-Anhalt | 5,741 | 85,058 | 7,825 | 84,555 |
| Schleswig-Holstein | 57,529 | 644,317 | 54,469 | 609,995 |
| Thuringia | 7,056 | 144,450 | 16,486 | 138,998 |
| Belgium | | | | |
| Office buildings | 0 | | 5,837 | |
| | 0 | | 5,837 | |
| France | | | | |
| Office buildings | 113,700 | | 76,207 | |
| | 113,700 | | 76,207 | |
| Great Britain | | | | |
| Office buildings | 98,849 | | 109,046 | |
| | 98,849 | | 109,046 | |
| Luxembourg | | | | |
| Retail buildings | 4,250 | | 4,250 | |
| | 4,250 | | 4,250 | |
| The Netherlands | | | | |
| Office buildings | 175,694 | | 186,367 | |
| Retail buildings | 9,654 | | 12,631 | |
| Other commercially used properties | 0 | | 7,787 | |
| | 185,348 | | 206,785 | |
| Austria | | | | |
| Single-family houses | | 78 | | 80 |
| Office buildings | 38,079 | | 38,656 | |
| | 38,079 | 78 | 38,656 | 80 |
| Sweden | | | | |
| Office buildings | 32,541 | | 33,984 | |
| | 32,541 | | 33,984 | |

| | 31 Dec. 07 € 000 | | 31 Dec. 06 € 000 | |
|--|-----------------------|------------------------|-----------------------|------------------------|
| | Commercial properties | Residential properties | Commercial properties | Residential properties |
| Spain | | | | |
| Office buildings | 8,100 | | 8,100 | |
| | 8,100 | | 8,100 | |
| USA | | | | |
| Multiple-family dwellings | | 25,384 | | 42,045 |
| Office buildings | 280,056 | | 112,004 | |
| Retail buildings | 36,526 | | 39,144 | |
| | 316,582 | 25,384 | 151,148 | 42,045 |
| Total | 2,002,712 | 8,568,723 | 1,875,942 | 8,134,287 |
| Apartments | | 2,177,888 | | 2,001,190 |
| Single-family houses | | 3,554,671 | | 3,309,894 |
| Multiple-family dwellings | | 2,729,754 | | 2,701,381 |
| Office buildings | 1,287,857 | | 1,127,683 | |
| Retail buildings | 488,397 | | 492,270 | |
| Industrial buildings | 83,727 | | 92,474 | |
| Other commercially used properties | 139,768 | | 161,180 | |
| New buildings and buildings not yet capable of producing a yield | 1,298 | 105,314 | 1,320 | 120,540 |
| Buildings under construction | 1,665 | 1,096 | 1,015 | 1,282 |

PAYMENTS IN ARREARS ON COVERING MORTGAGES

| | 31 Dec. 07 € 000 | 31 Dec. 06 € 000 |
|--|------------------|------------------|
| Federal Republic of Germany | 27,656 | 24,695 |
| The Netherlands | 0 | 2,453 |
| Total amount of payments in arrears for at least 90 days | 27,656 | 27,148 |



TOTAL VOLUME OF CLAIMS USED TO COVER PUBLIC PFANDBRIEFE

Value of cover

| | 31 Dec. 07 € 000 | 31 Dec. 06 € 000 |
|------------------------------------|-------------------|-------------------|
| Federal Republic of Germany | | |
| State | 0 | 61,129 |
| Regional authorities | 4,225,848 | 4,749,299 |
| Local authorities | 2,138,860 | 2,481,363 |
| Other debtors | 4,443,449 | 6,200,641 |
| | 10,808,157 | 13,492,432 |
| Belgium | | |
| State | 175,000 | 175,000 |
| | 175,000 | 175,000 |
| Denmark | | |
| State | 0 | 2,784 |
| | 0 | 2,784 |
| France | | |
| Local authorities | 1,756 | 2,006 |
| | 1,756 | 2,006 |
| Greece | | |
| State | 127,070 | 160,663 |
| | 127,070 | 160,663 |
| Ireland | | |
| State | 22,695 | 22,695 |
| | 22,695 | 22,695 |
| Iceland | | |
| State | 60,000 | 60,000 |
| | 60,000 | 60,000 |
| Italy | | |
| State | 109,043 | 139,462 |
| Regional authorities | 0 | 5,000 |
| | 109,043 | 144,462 |
| Lithuania | | |
| State | 30,000 | 30,000 |
| | 30,000 | 30,000 |
| The Netherlands | | |
| State | 1,475 | 1,475 |
| | 1,475 | 1,475 |

| | 31 Dec. 07 € 000 | 31 Dec. 06 € 000 |
|------------------------------|------------------|------------------|
| Austria | | |
| State | 196,971 | 141,034 |
| Other debtors | 167,500 | 167,500 |
| | 364,471 | 308,534 |
| Poland | | |
| State | 50,217 | 65,000 |
| | 50,217 | 65,000 |
| Portugal | | |
| State | 85,000 | 35,000 |
| Regional authorities | 10,000 | 10,000 |
| | 95,000 | 45,000 |
| Sweden | | |
| State | 10,226 | 10,226 |
| | 10,226 | 10,226 |
| Switzerland | | |
| Regional authorities | 181,302 | 186,695 |
| Other debtors | 205,217 | 100,000 |
| | 386,519 | 286,695 |
| Slovakia | | |
| State | 5,000 | 0 |
| | 5,000 | 0 |
| Slovenia | | |
| State | 100,000 | 70,000 |
| | 100,000 | 70,000 |
| Spain | | |
| State | 87,349 | 240,354 |
| Regional authorities | 118,958 | 177,081 |
| | 206,307 | 417,435 |
| The Czech Republic | | |
| State | 75,000 | 0 |
| | 75,000 | 0 |
| Hungary | | |
| State | 60,000 | 0 |
| | 60,000 | 0 |
| European Institutions | | |
| State | 0 | 2,362 |
| | 0 | 2,362 |



| | 31 Dec. 07 € 000 | 31 Dec. 06 € 000 |
|----------------------|-------------------|-------------------|
| Total | 12,687,936 | 15,296,769 |
| State | 1,195,046 | 1,217,184 |
| Regional authorities | 4,536,108 | 5,128,075 |
| Local authorities | 2,140,616 | 2,483,369 |
| Other debtors | 4,816,166 | 6,468,141 |

REPAYMENTS OF COVERING MORTGAGES

| | € 000 | of which housing sector € 000 | of which commercial property sector € 000 |
|--------------------------|------------------|----------------------------------|--|
| Redemptions | 251,316 | 204,851 | 46,465 |
| Other forms of repayment | 812,642 | 599,829 | 212,813 |
| | 1,063,958 | 804,680 | 259,278 |

INTEREST OUTSTANDING

Unpaid interest on mortgage loans due for payment between 1 October 2006 and 30 September 2007 has been fully written off or value adjustments have been made. Interest outstanding consisted of

| | € 000 | of which housing sector € 000 | of which commercial property sector € 000 |
|----------------------------|-------|----------------------------------|--|
| Interest on mortgage loans | 1,527 | 1,261 | 266 |

FORCED AUCTIONS AND RECEIVERSHIPS OF COVERING MORTGAGES

| | | of which housing sector | of which commercial property sector |
|---|-------|-------------------------|-------------------------------------|
| The number of proceedings pending at 31 Dec. 07 was | | | |
| - Forced auctions | 288 | 272 | 16 |
| - Receiverships | 148 | 138 | 10 |
| | 132*) | 125*) | 7*) |
| The number of forced auctions conducted in 2007 | 73 | 66 | 7 |

*) 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.

OTHER DISCLOSURES

MEMBERSHIP DATA

| | Number of members | Number of shares | Members' liability for additional contributions € |
|---|----------------------|------------------|---|
| Beginning of 2007 | 93,354 | 1,766,189 | 451,526,217.85 |
| Additions in 2007 | 834 | 60,249 | 15,402,656.85 |
| Reductions in 2007 | 2,539 | 26,022 | 6,652,524.30 |
| End of 2007 | 91,649 | 1,800,416 | 460,276,350.40 |
| | | | € |
| Increase in members' capital contributions in 2007 | | | 2,395,982.03 |
| Increase in members' liability for additional contributions in 2007 | | | 8,750,132.55 |
| Amount of each share | | | 70.00 |
| Liability for additional share | | | 255.65 |

PERSONNEL STATISTICS

The average number of persons employed by the Bank in 2007 was as follows:

| | Male | Female | Total |
|----------------------|------|--------|-------|
| Full-time employees | 178 | 111 | 289 |
| Part-time employees | 3 | 48 | 51 |
| Total employees | 181 | 159 | 340 |
| Apprenticed trainees | 1 | 9 | 10 |

SHAREHOLDINGS

| | Percentage of capital held | Capital in € 000 | Profit/Loss in € 000 |
|--|-------------------------------|------------------|----------------------|
| M-Wert GmbH, Munich | 100 | 1,246 | 173 |
| Immobilien-service GmbH der Münchener Hypothekenbank eG (M-Service), Munich (profit transfer agreement) | 100 | 509 | 0 |
| Nussbaumstrasse GmbH & Co. KG, Munich | 100 | 335 | 202 |
| Patio Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz | 33 | - 3,449 | - 123 |
| MURECON Munich Real Estate Consulting GmbH, Munich | 45 | 24 | - 76 |
| CM Komplementär 07-868 GmbH & Co. KG, Munich | 100 | 1 | 0 |
| Blitz 07-671 GmbH, Munich | 100 | 25 | 0 |



BODIES

SUPERVISORY BOARD

Prof. Dr. Willibald J. Folz ... Munich
Attorney, Chairman of the Supervisory Board

S.K.H. Herzog Max in Bayern ... Tegernsee
Deputy Chairman of the Supervisory Board

Dr. Hans-Ludwig Bungert ... Strasslach
Bank Director (ret.)

Heinz Hilgert ... Frankfurt am Main (until 4 October 2007)
Deputy Chairman of the Board of Management of DZ Bank AG
Deutsche Zentral-Genossenschaftsbank (until 15 October 2007)

Joachim Herrmann ... Erlangen
(from 21 April 2007 until 17 October 2007)
Attorney

Konrad Irtel ... Rosenheim
Speaker of the Board of Management of
Raiffeisenbank Rosenheim - Chiemsee eG

Michael Jung ... Maulbronn
Speaker of the Board of Management of
Volksbank Maulbronn-Oberderdingen eG

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

Hans Pfeifer ... Muenster
Chairman of the Board of Management of
Rheinisch-Westfälischer Genossenschaftsverband e.V.

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

BOARD OF MANAGEMENT

Erich Rödel (Chairman), Dr. Bernhard Scholz,
Klaus Sturm (as of 1 May 2007), Friedrich Munsberg
(until 13 February 2007)

Loans to members of the Supervisory Board amounted to € 27,601 (thousand). Pension provisions for former members of the Board of Management amounted to € 13,502 (thousand). Based on the rules of exemption stated in Art. 286 (4) of the German Commercial Code (HGB), total remuneration received by the members of the Board of Management is not presented. Total emoluments of members of the Supervisory Board during the year under review amounted to € 309 (thousand). Total emoluments of members of the Advisory Board amounted to € 64 (thousand). Total emoluments of former members of the Board of Management or their surviving dependants amounted to € 1,084 (thousand).

AUDITING ASSOCIATION

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

Pursuant to Art. 53 of the Cooperatives Act, in association with Art 340k of the German Commercial Code, total costs of € 600 (thousand) were incurred for the audit of the annual financial statements and the management report, for examining the cooperative's organisational structures as well as for examining the Bank's management during the year under review. Total costs of € 199 (thousand) were incurred for other confirmation and evaluation services.

CONTINGENT LIABILITY

Our Bank is a member of the Security System of the Federal Association of German Commercial and Rural Credit Associations (Sicherungseinrichtung des Bundesverbandes der Deutschen Volksbanken und Raiffeisenbanken e.V.) Per the statutes of the Safety System we have issued a guarantee to the Federal Association of German Commercial and Rural Credit Associations. As a result, we have a contingent liability of € 10,068 (thousand).

Munich, 23 January 2008

MÜNCHENER HYPOTHEKENBANK eG
The Board of Management



Erich Rödel



Dr. Bernhard Scholz



Klaus Sturm



AUDITORS' REPORT

We have audited the annual financial statements - comprising the balance sheet, the income statement, as well as the notes - including the bookkeeping system, and the management report of Münchener Hypothekenbank eG for the business year from 1 January to 31 December 2007. The maintenance of the books and records and the preparation of the annual financial statements, and the management report were prepared in accordance with German commercial law and supplementary provisions in the articles of incorporation and are the responsibility of the cooperative's legal representatives. Our responsibility is to express an opinion on the annual financial statements, the bookkeeping system and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 53 (2) of the Cooperatives Act and § 340k and § 317 of the German Commercial Code and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit so that misstatements and violations which materially affect the presentation of the net assets, the financial position and results of operations as presented in the annual financial statements and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the cooperative and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on the basis of random samples within the framework of the audit. The audit includes an assessment of the accounting principles used and significant estimates made by the company's 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, and based on the information gained from the examination, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German legal requirements as well as the supplementary provisions contained in the articles of incorporation, and principles of proper accounting. The management report is in agreement with the annual statement of accounts and on the whole provides an accurate understanding of the cooperative's position and suitably presents the opportunities and risks of future development.

Berlin, 15 March 2008

DGRV-DEUTSCHER
GENOSSENSCHAFTS- UND RAIFFEISENVERBAND e.V.

Dr. Ott
Auditor

Lenkawa
Auditor

AFFIRMATION BY THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with applicable reporting principles for annual financial reporting, the annual financial statements give a true and fair view of the assets, liabilities, financial position and earnings situation of the company, and the management report of the company includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the anticipated development of the company.

Munich, 23 January 2008

MÜNCHENER HYPOTHEKENBANK eG
The Board of Management



Erich Rödel



Dr. Bernhard Scholz



Klaus Sturm



REPORT OF THE SUPERVISORY BOARD

During the year under review the Supervisory Board carried out its assigned tasks in accordance with the 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 verbal and written reports. Moreover, the Chairman of the Supervisory Board and the Chairman of the Board of Management maintained continuous contact with each other. The Supervisory Board repeatedly examined business matters and gave its required approval to these actions after being convinced that they were being handled in an orderly manner.

The members of the Supervisory Board and the Board of Management jointly reviewed basic business policy issues affecting the Bank during numerous meetings. The strategic course of the Bank, in particular, was discussed in special committees and during meetings of the entire Supervisory Board with the Board of Management, and agreement was reached on the Bank's future strategy. In this context, particular attention was paid to the Bank's risk strategy, which was addressed by the entire Supervisory Board and the special committees, as well as the negotiations regarding a possible merger of Münchener Hypothekbank eG with the Deutsche Genossenschafts-Hypothekbank AG (DG HYP). The Supervisory Board was always kept informed of the current status of the talks in a timely manner. The decisions were always made amicably.

Various committees were appointed to deal with special issues. These committees met numerous times during the 2007 business year with the Board of Management to make required decisions. The Supervisory Board was informed about the committees' work in the meeting held immediately after the committees' meetings; during the year under review the relevant committees reporting were the Personnel Committee, the Lending Committee and the Audit Committee.

The accounting documents, the annual financial statements and the Management Report for the 2007 financial year were audited by the Deutsche Genossenschafts- und Raiffeisenverband e.V., Berlin, and received an unqualified certificate from the auditors. There were no reservations. The auditors gave a detailed presentation of the anticipated results of the audit during a meeting of the Supervisory Board's Personnel Committee. The auditors reported on the major results of the audit during a meeting attended by the Supervisory Board and the Board of Management. Moreover, they were also available to

provide additional information. Prior to the meeting of the Supervisory Board, each member of the Supervisory Board received a copy of the audit report of the legal audit prepared by the auditors in accordance with Art. 53 of the Cooperatives Law (Genossenschaftsgesetz), including the audit of the 2007 annual statement of accounts for the Münchener Hypothekbank eG, for their information on a timely basis.

The Supervisory Board concurs with the audit results. The 2007 annual financial statements, the Management Report, and the Board of Management's proposal for the allocation of distributable income were carefully examined by the Supervisory Board and endorsed. The Supervisory Board recommends that the Delegates' Meeting approve the annual financial statements for 2007 – as explained – and endorse the Board of Management's proposal for the allocation of net income.

The following changes took place in the Supervisory Board during the year under review: on April 21, 2007 Mr. Joachim Herrmann was newly elected to the Board during the Delegate's Meeting. He resigned from the Board effective October 17, 2007 following his appointment as Bavarian Minister of the Interior. We thank Minister Herrmann for his dedicated collaboration in the Supervisory Board. He provided us valuable support with his counsel and experience. Effective October 4, 2007 Mr. Heinz Hilgert retired from the Supervisory Board. Mr. Hilgert had been elected to the Board in 2003. We wish to thank Mr. Hilgert for his dedication and his expert advice.

The following changes took place in the Board of Management: On March 28, 2007 the Supervisory Board appointed Mr. Erich Rödel the Chairman of the Management Board of Münchener Hypothekbank. Mr. Rödel had been a member of the Board of Management since 2001 and had served as its Speaker since 2003. Effective May 1, 2007 the Supervisory Board appointed Mr. Klaus Sturm as a full member of the Management Board of Münchener Hypothekbank. Mr. Sturm is responsible for the Capital Markets Business/Treasury, Municipalities Business, as well as various internal areas of business.

Munich, in April 2008
MÜNCHENER HYPOTHEKENBANK eG

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

THE MEMBERS OF THE DELEGATES MEETING

AS OF 31 DECEMBER 2007

| | |
|--|---|
| Johannes Altenwerth ... Bank director | Peter Koch ... Bank director |
| Hermann Arens ... Bank director | Klaus Korte ... Bank director |
| Marianne Baalcke ... Managing director | Manfred Kübler ... Bank director |
| Dr. Wolfgang Baecker ... Bank director | Roland Kuffler ... Businessman |
| Manfred Basler ... Bank director | Hans-Georg Leute ... Bank director |
| Claus-Rüdiger Bauer ... Bank director | Helmuth Lutz ... Bank director |
| Dr. Christoph Berndorff ... Bank director | Michael Müller ... Attorney |
| Johann Biersack ... Attorney | Dr. Hans-Wolfgang Neumann ... Mathematician |
| Dietmar Bock ... Managing director | Dipl.-Kfm Klaus Pohl ... Auditor |
| Dr. Michael Brandt ... Bank director | Erhard Probst ... Bank director |
| Siegfried A. Cofalka ... Member of Board of Management | Dr. Günter Reimund ... Bank director |
| Eckhard Dämon ... Bank director | Dr. Rüdiger Renk ... Association director |
| Rolf Domikowsky ... Bank director | Frank Ritter ... Attorney, Notary |
| Karl-Heinz Dunkel ... Banker | Albrecht Ruchser ... Bank director |
| Lothar Erbers ... Bank director | Christian Scheinert ... Bank director |
| Johann Fuhlendorf ... Bank director | Hans Schmitt ... Bank director |
| Dr. Roman Glaser ... Bank director | Prof. Dr. Leo Schuster ... University Professor |
| Jens Gomille ... Bank director | Jochen Seiff ... Bank director |
| Michael Haas ... Bank director | Wolfgang Siemers ... Managing director |
| Dr. Tilman Hickl ... Managing director | Dieter Söll ... Builder |
| Dr. Christoph Hiltl ... Attorney | Dipl.-Kfm. Ludwig O. Stadler ... Auditor |
| Karl Hippeli ... Bank director | Jörg Stahl ... Bank director |
| Jürgen Jung ... Legal advisor | Theo Stauder ... Bank director |
| Hermann-Josef Kanders ... Bank director | Dr. Rainer Sturies ... Attorney |
| Dr. Michael Kaufmann ... Bank director | Ulrich Tolksdorf ... Bank director |
| Norbert Kaufmann ... Bank director | Heinz-Walter Wiedbrauck ... Bank director |

AGENDA – GENERAL (DELEGATES) MEETING ON 26 APRIL 2008, 10.30 A.M.

1. Report on the 2007 business year by the Board of Management and presentation of the Annual Statement of Accounts and the 2007 Management Report
2. Report of the Supervisory Board
3. Auditors' report
4. Resolutions to ratify:
 - a) the 2007 Annual Statement of Accounts
 - b) proposed appropriation of distributable profits
 - c) the acts of the Board of Management and the Supervisory Board for the 2007 business year
5. Election to the Supervisory Board
6. Other issues



EXECUTIVE MANAGEMENT AND BODIES

TRUSTEES

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

BOARD OF MANAGEMENT

Erich Rödel ... [Chairman](#)
 Dr. Bernhard Scholz
 Klaus Sturm (as of 1 May 2007)

SUPERVISORY BOARD

Prof. Dr. Willibald J. Folz ... Munich,
[Chairman of the Supervisory Board](#)
 S.K.H. Herzog Max in Bayern ... Tegernsee,
[Deputy Chairman of the Supervisory Board](#)
 Dr. Hans-Ludwig Bungert ... Strasslach
 Joachim Herrmann ... Erlangen (from 21 April 2007 to
 17 October 2007)
 Heinz Hilgert ... Frankfurt am Main (until 4 October 2007)
 Konrad Irtel ... Rosenheim
 Michael Jung ... Maulbronn
 Wilfried Mocken ... Rheinberg
 Hans Pfeifer ... Muenster
 Hans-Joachim Tonnellier ... Frankfurt am Main

ADVISORY BOARD

Rainer Jenniches ... Bonn, [Chairman](#)
 Helmuth Lutz ... Beuerberg, [Deputy Chairman](#)
 Georg Schäfer ... Osterroenfeld, [Deputy Chairman](#)
 Dr. Konrad Baumüller ... Erlangen
 Norbert Beek ... Muenster
 Dr. Maximilian Binzer ... Herrenberg
 Oskar-Dieter Epp ... Rudolstadt
 Othmar Heck ... Weiterstadt
 Karl Magenau ... Heubach
 Richard Oldewurtel ... Wardenburg
 Claus Preiss ... Buehl
 Richard Riedmaier ... Ingolstadt
 Gregor Scheller ... Forchheim
 Franz Schmid ... Altshausen
 Erich Schönle ... Achern
 Jürgen von Seggern ... Hude
 Thomas Sterthoff ... Guetersloh

EXECUTIVE DIRECTOR

Bernhard Heinlein

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Dr. Phil Zundel
Board of Management Staff
Münchener Hypothekenbank eG

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