

## ANNUAL REPORT 2008 >>







Why are we the crown of  
property finance?



Because we develop our financing products with our customers in mind.

If serving customers' requirements is considered innovative, then innovation has always been an outstanding quality of Münchener Hypothekenbank eG. A quality that also relies on our image as a cooperative, competent, credible and friendly partner. Our advertising supports this image with the message: "The Crown of Property Finance". MünchenerHyp crowns its customers and partners, turning the brand logo into a seal of quality and into visible proof of our expertise.



## OVERVIEW

### BUSINESS DEVELOPMENT (IN MILLIONS OF €)

	2008	2007	Change %
<b>Lending Business</b>			
a) Mortgage loans	4,101	3,433	19.5
aa) Private property financing	1,814	1,623	11.8
ab) Commercial property financing	2,287	1,810	26.4
b) Loans to public sector and banks	2,021	3,218	37.2
c) MBS	124	137	- 9.0
<b>Total</b>	<b>6,246</b>	<b>6,788</b>	<b>- 8.0</b>

### BALANCE SHEET (IN MILLIONS OF €)

	2008	2007	Change %
Total assets	36,134	32,933	9.7
Mortgage loans	15,933	14,076	13.2
Loans to public sector and banks	15,810	16,574	- 4.6
MBS	228	137	66.1
Pfandbriefe and other promissory notes	32,234	30,100	7.1
Liabe equity capital	1,016	934	8.7

### INCOME STATEMENT (IN MILLIONS OF €)

	2008	2007	Change %
Net interest income less commissions	101	100	0.8
Administrative expenses	53	50	6.4
Results from operations before deducting provisions for risks	55	49	11.6
Results from operations after deducting provisions for risks	26	32	- 19.3
Net income	10	12	- 15.0

### EMPLOYEES (NUMBER)

	2008	2007	Change %
Average number of employees per year	376	340	10.6
Apprentices	16	10	60.0



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## LETTER FROM THE BOARD OF MANAGEMENT

### DEAR SHAREHOLDERS AND BUSINESS ASSOCIATES,

The international financial crisis led to deep changes in the money and capital markets in 2008. The difficult overall conditions we had already observed at the start of the year worsened even further. The decline continued until the markets collapsed in the fourth quarter following the bankruptcy of Lehman Brothers, a major traditional American investment bank, and the difficulties at Hypo Real Estate. Market players no longer trusted each other as confidence vanished and liquidity dried up making it significantly more difficult for all credit institutions to obtain refinancing. Governments and central banks lost no time in responding to the situation by creating extensive programs to provide liquidity to the markets, recapitalising particularly affected banks and

guaranteeing the safety of deposits. In the interim, the banking industry is beginning to reorient itself to a certain extent. In view of the intensity and length of the crisis in the financial markets, greater emphasis is being placed on the viability and sustainability of business models. Currently classical banking business models and a more conservative approach to risk awareness are being more closely embraced than before.

Münchener Hypothekbank's strategy is founded on a business model that is focused on classical property lending, and combines the two main segments of property finance: private property and commercial property financing. This model has



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





enabled us to better absorb swings in the market as both business areas alternately support each other, which has a stabilising effect during difficult economic times.

Based on this business model we decisively implemented our MHB 2008 strategic programme in recent years. We employed an extensive range of measures to strengthen the foundation of MünchenerHyp's success. The main emphasis here was placed on enhancing our sales performance and income while lowering structural costs. As planned, all of the major measures were realised by 2008. This is why we further developed our strategy in the previous year under the title of "5x4plus". The goal of this programme is to achieve new mortgage business worth at least € 4 billion every year to use commensurate economies of scale that will provide us with a sustainable stabilisation of our earnings situation. The volume of new business written in 2008 already achieved this goal – and it was achieved within the parameters of our strategic guidelines: a pronounced awareness of costs and resolute approach to limiting risks.

Overall conditions for new mortgage business activities deteriorated substantially in 2008, especially in the fourth quarter. Economic development continued to contract more and more as the crisis in the financial markets grew worse and became a recession that quickly gripped all of the world's important industrialised countries as well as the rapidly growing emerging markets. In light of this development fewer potential buyers of residential property in Germany realised their hopes for a new home. Moreover, the volume of transactions noted for the commercial property markets – inside Germany and internationally – declined notably.

Despite all of this, we were able to maintain our new mortgage business at a high level in 2008 as we made new commitments worth € 4.1 billion. This represents an increase of about 20 per cent over the previous year. We posted gains in both our private and commercial property financing areas of business. Our new business results in the private property area benefited from our numerous product innovations, which not only promptly responded to the latest developments in the markets, they also

met the increasingly diverse needs of customers who wanted to finance the purchase of their own home. Our efforts were honoured by the FMH awards jury that selects the best property financiers every year. At the start of 2009 we received their award as the most innovative German bank. Against the background of the crisis in the financial markets customers seeking financing for residential property are once again placing more value on the performance capabilities and financial solidity of their financing partner. Above all, however, they want a bank they can trust. Current market research results confirm that the MünchenerHyp and its cooperative partners, the Volksbanken and Raiffeisenbanken, enjoy a very high level of trust.

Even though the altered overall conditions, and especially the turmoil on the refinancing side, hinder us from realising our original strategic goals for 2009, we still want to continue pursuing our long-term brand strategy. In the private property financing area the slogan we use is "The Crown of Property Finance". The goals of this strategy as well as a selection of the new advertisements are presented in this Annual Report.

As a classical mortgage bank we primarily use Pfandbriefe to refinance our activities. Thanks to their excellent reputation, Pfandbriefe were able to defy the turbulence related to the crisis in the financial markets for a long time. However, as the crisis accelerated, refinancing costs rose in the fourth quarter of 2008 due to the higher spreads demanded of Pfandbriefe. Prior to this, we were able to use a comparatively favourable environment at the end of August 2008 to place a three-year public sector Jumbo Pfandbrief, which met very high investor demand. We were awarded the internationally renowned "Covered Bond of the Year 2008" award for this transaction.

The high level of our new business volume and the awards received by MünchenerHyp are reflections of our employees' deep commitment to making their bank more successful. Especially in these difficult times their willingness to do more than the expected, their creativity and their flexibility are key to our continued success. We value these attributes, which are visible every day in our employees' work, very highly. At this point we



would like to extend our gratitude and recognition to all of our employees for their efforts.

Against the background of the global recession and the continuing crisis in the financial markets, the outlook for 2009 is marked by great uncertainty in numerous areas. As a result, we reviewed our business plans and lowered our new business targets for the current year. Despite more difficult refinancing conditions, our new business intention for 2009 is maintain our good business relationships with our partner banks, commercial customers and investors. Sales targets are ultimately based on available equity capital resources and refinancing possibilities.

Against the background of the crisis in the financial markets and the recessionary development of the global economy it must be noted that our forecasts for 2009 and business estimates are substantially marked by uncertainty.

Sincerely yours,

Erich Rödel

Dr. Bernhard Scholz

Klaus Sturm

Bernhard Heinlein



# MANAGEMENT REPORT

## OVERALL ECONOMIC CONDITIONS







My loan will have to be  
renewed in five years.





But I don't have to wait  
that long.



“MünchenerHyp’s forward loans make it possible to arrange follow-up financing at current attractive interest rates up to 60 months before the end of a loan’s fixed period of interest. As a long-standing partner of MünchenerHyp, we benefit from their innovative products because they help us in our long-term customer retention efforts and to sign up new business.”

Martin Bauer, Chairman of the Board of Management, Raiffeisenbank Pfaffenhofen a.d. Glonn eG





# MANAGEMENT REPORT

## 1. OVERALL ECONOMIC CONDITIONS

The year 2008 was heavily affected by the global financial market crisis. During the course of the year this crisis expanded far beyond its origin in the subprime segment of the American mortgage market. Growing problems experienced by American investment banks, especially the insolvency of Lehman Brothers in September 2008, caused the situation in the financial markets to worsen substantially in the fourth quarter. Uncertainties stemming from the crisis placed additional burdens on the development of the global economy. At the end of the year the already anticipated economic weakening had deteriorated further to become a global economic crisis.

Governments and central banks around the world quickly enacted measures to stabilise their respective economies. In Germany the Federal Government passed the Financial Market Stabilisation Act in October 2008, and an economic stimulus programme in December. A second economic stimulus programme worth € 50 billion followed in January 2009.

### 1.1. ECONOMIC DEVELOPMENT

The effects of the economic crisis area were already reflected in last year's economic data. Although the world's economy grew by 3.4 percent, the increase was primarily driven by the comparatively high pace of growth noted in the first half of the year. In contrast, the gross domestic product (GNP) of the industrialised countries rose by only 1.0 percent.

The German economy was also unable to avoid the impact of the global downturn as its GDP began contracting in the second quarter of 2008. At the end of the year Germany was in a recession, despite the fact that its economy had grown by 1.3 percent for the full year. In contrast to the previous years, economic growth in Germany was primarily driven by domestic factors with the biggest contribution made by investments. Economic growth was mainly pulled down by a rapid decline in exports. Imports posted a 5.2 percent gain and rose notably faster than exports, which only managed an increase of 3.9 percent after 7.5

percent in the previous year. This decline was driven by the collapse of the global economy that led to a sharp drop in demand for German goods, especially in the second half of the year.

Private consumption stagnated last year. However, private spending was stabilised to a certain extent by government outlays, a favourable development seen in the employment market, as well as the shrinking rate of inflation observed in the second half of the year. For the first time ever, more than 40 million people in Germany were employed as the jobless number declined on a year-over-year basis by 500,000 to an average of about 3.3 million for the year 2008. However, favourable developments in the employment market were abruptly ended by the global economic crisis: more than 100,000 additional persons registered for unemployment benefits in December than in the previous month. At the same time twice as many applications were filed by companies wanting to put their employees on Kurzarbeit (short-time work).

Consumer prices again climbed notably by 2.6 percent and inflation remained very volatile over the course of the entire year. Driven by high prices for heating oil, other fuels and food, the rate of inflation peaked in June with 3.3 percent. Declining prices for oil as well as for food allowed inflation to fall once again to 1.1 percent in December.

### 1.2. FINANCIAL MARKETS

The crisis in the financial markets had a deeper and longer lasting impact on the capital markets than had been expected by many market players at the beginning of the year. More and more areas of the financial industry succumbed to the crisis:

Capital markets were marked by growing uncertainty, increased volatility and by an inverse interest structure in certain maturity categories in 2008. Turbulence in the markets led to a crisis of confidence among banks, as liquidity in the money markets almost dried up completely at the end of September 2008. Central banks' measures to add liquidity to the system were only partially effective.



The German Pfandbrief proved itself to be a stable and reliable refinancing instrument for a long time during the crisis. A total of € 27 billion of new Jumbo emissions were floated in Germany in 2008. However, volume was 17 percent lower than in the previous year. Total new Jumbo covered bonds issued in Europe amounted to € 94 billion, which was almost 50 percent less than in 2007. Despite the financial market crisis the number of issuers of covered bonds rose further. Eighteen debut emissions were placed, including first-time paper placed by issuers in Italy, Hungary and Denmark.

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**"Capital markets were marked by growing uncertainty and heightened volatility throughout the entire year."**

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In particular, the insolvency of Lehman Brothers led to a significant deterioration in refinancing conditions. As a result, government rescue packages were established in the USA and in major economies in Western Europe. The goal was to improve the banks' capital ratios and use government-guaranteed bonds to ease refinancing needs. Despite extensive assistance measures, trust among market players did not return to previous levels. As a result, the Pfandbrief was no longer able to resist the effects of this negative environment. For this reason, we also faced more difficult refinancing conditions.

The first signs of stabilisation in the capital markets were seen in January 2009, a month that is especially marked by major volumes of investment capital – especially among institutional investors – seeking a new home due to the extensive level of securities maturing at the start of the year. Consequently, many banks that had taken shelter under the German government's Special Fund Financial Market Stabilisation (SoFFin) floated billions of euros worth of SoFFin-guaranteed issues. Investors preferred these quasi state-guaranteed securities to such a degree that most of the issues with maturities of up to three years were oversubscribed. The appearance of this new market segment also meant that the traditional Pfandbrief now faced a new competitor.

Furthermore, last year we also noted that there was a heavier volume of issues in the shorter maturities segment. This was driven by the temporarily observed inverse structure of interest rates as well as investors' shrinking appetite for risk as the year progressed.

The world's stock markets contracted against the backdrop marked by the crisis in the financial markets and growing economic weakness. The stock market indices of the major industrialised countries recorded major losses at the end of the year: the Dax posted a loss of about 40 percent while the Dow Jones Index in the USA ended the year 34 percent lower than at same time in 2007. Equity markets started 2009 facing burdens caused by recession-driven fears and uncertainty surrounding the further effects of the crisis situation in financial markets and the global economy. Investor hesitancy remained unchanged and stock prices declined further.

The European Central Bank (ECB) kept its key interest rate at 4.0 percent during the first half of 2008 and then raised it to 4.25 percent in the summer in light of robust economic data and to hinder anticipated higher inflation. The ECB changed its interest rate strategy in the second half in response to the worsening crisis in the financial markets, shrinking overall economic development, and an easing of inflationary pressures. By December it had lowered its key interest rate in numerous steps by a total of 1.75 percentage points to 2.5 percent. The last cut made was for 75 basis points, which was the biggest reduction in the history of the ECB. By the start of March 2009 it had cut the key interest rate another two times to 1.5 percent and kept the door open for additional interest rate cuts.

The drop in the key Fed interest rate in the USA was far more decisive as the Fed had already cut its rate to 2.0 percent during the first half of 2008. Additional cuts were made at the end of the year to a target corridor of 0 to 0.25 percent as the economic situation in the USA remained bad and because of fears that deflation could gain traction. At the same time, the Fed also signalled that it would keep its key interest rate at an extraordinarily low level for a longer period of time.



The upheavals in the international capital markets also led to greater volatility in the euro/US dollar exchange rate. While the euro climbed to nearly \$1.60 in the summer of 2008 due to the weak US economy, the situation reversed in August as growing bad news about the Euro Zone's economy put pressure in the euro and forced it down to \$1.25. By the end of the year the euro had recovered and was once again moving towards \$1.40.

Ten-year Bunds yielded 4.3 percent at the start of the year. As in the previous year, yields peaked at mid-year with 4.7 percent. The yield on ten-year Bunds fell continuously in the second half of 2008 and dropped to 2.9 percent at the end of the year.

### 1.3. PROPERTY MARKETS

#### 1.3.1. RESIDENTIAL PROPERTY MARKET – GERMANY

New construction continued to decline in 2008 along with the inflow of new orders for expanding residential housing. However, housing prices and rents remained stable, although development here varied sharply from region to region.

The decline in building permits, which had been noted for a number of years, came to a temporary halt in the first half of

2008 and then resumed: based on first estimates the number of housing unit permits declined by about 175,000 in 2008, or almost 4 percent less than at same year-ago date in 2007. As in the previous year, the decline in permits was most noticeable in the single-family houses segment. By the end of September 2008 there had been 5.6 percent fewer permits issued. The number of approved two- and multi-family houses declined in the same period by 2.5 and 2.7 percent respectively.

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**"The shrinking number of building permits issued for residential housing, which had been already noted for a number of years, continued in 2008."**

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The gap in the supply of residential housing widened further. According to the Federal Office for Building and Regional Planning, 278,000 housing units need to be built every year to meet the demand for housing. The result is that already today there is a noticeable and growing shortage of residential housing in major metropolitan areas like Munich, Hamburg, Cologne or Stuttgart.





Construction of residential housing remained slow throughout the year with turnover advancing only marginally over the previous year's level. In contrast, the volume of incoming orders to October 2008 declined by 4.4 percent. Diminishing demand has not yet affected the entire construction industry as the backlog of orders, especially in the commercial and public sector construction segments, are currently as high as they were in 2001. Residential housing construction is being mainly supported by building measures on existing housing, in particular modernisation and renovation work.

The high cost of property and construction in the major populated areas are two of the reasons why residential construction has not revived, because many people who would like to buy or build simply cannot afford the prices. Furthermore, the housing subsidy portion of the government's Riester Rente (Riester Retirement) programme, which was launched in 2008, has not yet stimulated the housing market as policymakers had originally hoped.

The price and rental indices reflect the high level of stability in the residential property markets. The average price paid for condominiums across Germany rose slightly while the average

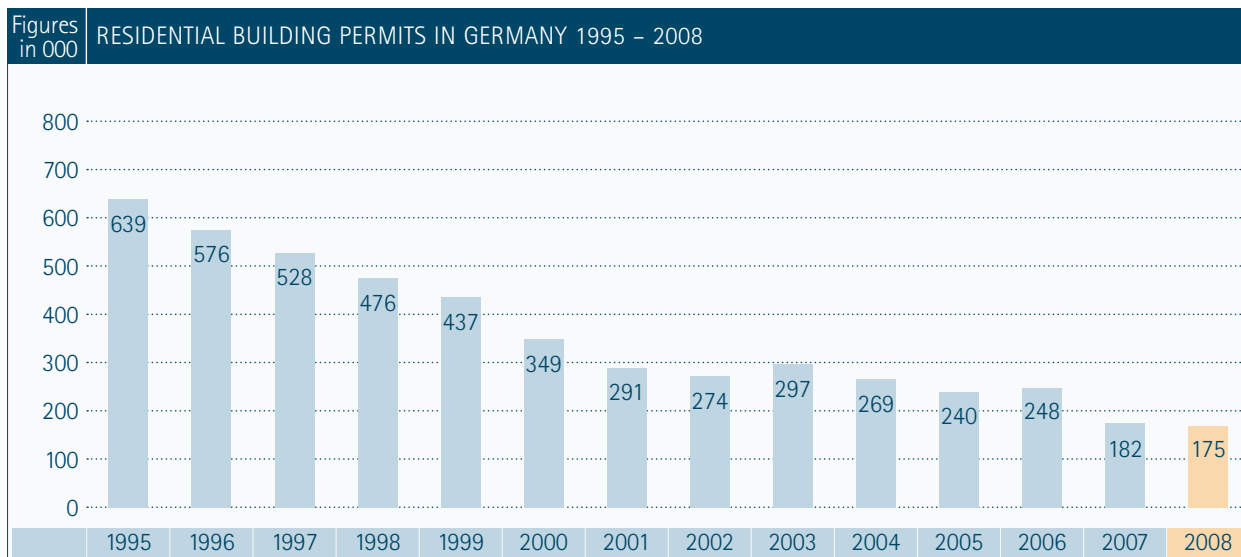
price of single-family houses remained unchanged from the previous year. However, prices developed on a very regionally differentiated basis. Rents rose on average across Germany thereby further improving the comparative benefits of owning over renting as interest rates remained favourable. Furthermore, rents are likely to rise in view of growing demand for housing thereby further enhancing the attractiveness of return on investment from financed property for long-term investors. These developments did not, however, have a favourable effect on demand for residential property in 2008.

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**"The volume of new business for residential property loans in Germany fell by 2.9 percent to € 176 billion."**

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Against the background of slow demand for residential property, the German mortgage market was also unable to show any vigour. According to statistics prepared by the Deutsche Bundesbank, the volume of new business for residential property loans in Germany fell by 2.9 percent to € 176 billion. As this property market became increasingly tight, the level of competitive pressure remained unchanged at a high level. Margins



Source: Statistisches Bundesamt [www.destatis.de](http://www.destatis.de), 2008 = estimated annual result



also stayed under pressure although they have most recently improved slightly. Nevertheless, margins in Germany retained their status as the lowest in Europe.

In addition, the volume of all existing residential housing loans in Germany contracted further in 2008, and was 0.8 percent less at the end of September 2008 than the same year-ago figure.

Interest rates for housing loans remained favourable. However, during the first half of the year they temporarily rose by 0.75 percentage points for 10-year loans and by over 1.5 percentage points for short and medium-term loans. This increase caused numerous willing buyers to wait. Interest rates once again declined notably at the end of the year and in the 10-year segment were once again as low as they had been in at the start of 2007.

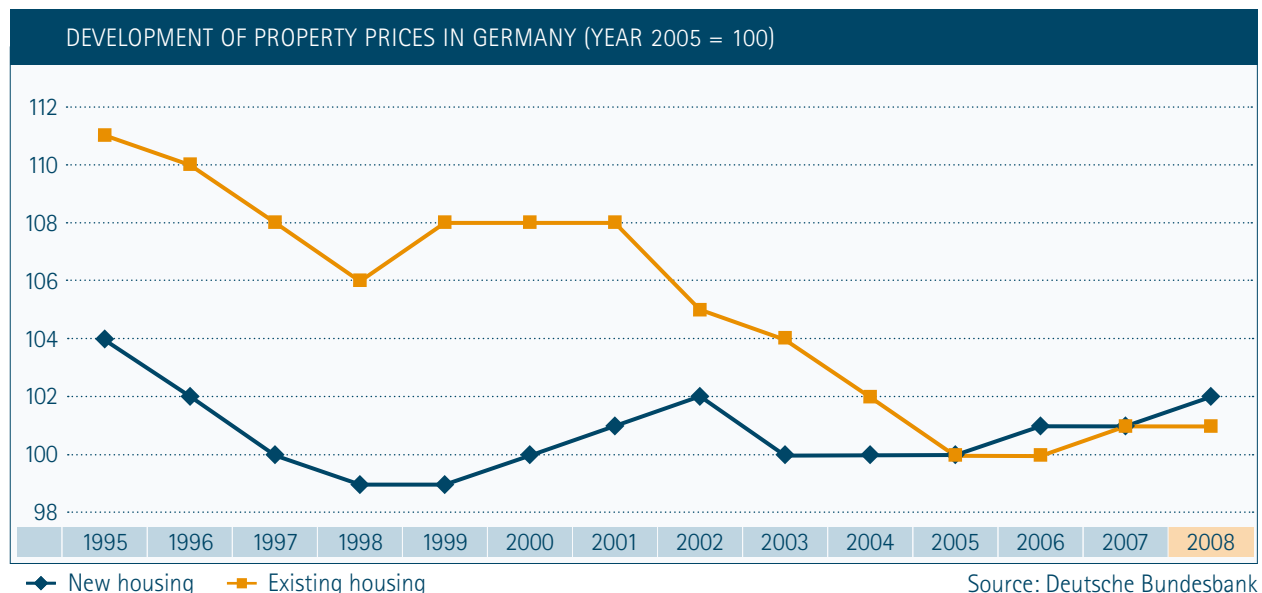
It was clearly noted that customers are placing greater value on personal advice and good service when they are looking to finance property. Because – driven by events in the financial crisis – the importance of trust and competence has increased substantially for people facing financial decisions for their personal housing. At the same time, 2008 saw great public discussion and controversy regarding the sale of property loans to fi-

nancial investors. We were able to notably strengthen the trust our customers have in us because of the public statement we made in 2007 that we do not engage in the sale of contractually serviced loans. We also benefited from the great trust that our partners, Volksbanken and Raiffeisenbanken, placed in us during the crisis in the financial markets. According to a current market study, the cooperative banks have the highest standing among all the financial institutions in Germany.

### 1.3.2. COMMERCIAL PROPERTY MARKET – GERMANY

The effects of the financial market crisis and an increasingly weaker economy impacted heavily on the German commercial property market. The volume of transactions dropped by over 65 percent in comparison to the same year-ago period and declined to the level last seen in 2005. On an overall basis, about € 20 billion was invested in German commercial property in 2008 as prices paid in the commercial property in past months declined on average by 14 percent.

Top rents paid for office property vary very strongly from region to region. While prices per square meter stated in new leases signed in Frankfurt am Main, and to a certain extent also in Munich, remained unchanged at notably more than € 30, the





comparable figure in Hamburg, Berlin and Düsseldorf was no more than € 25 per square meter. Property offers in top locations in city centres remained tight due to limited availability. Average rents in these locations stabilised or even increased.

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**"The volume of transactions made in the German commercial property market contracted to the 2005 level."**

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Rents for new properties coming on the market in the retail store segment were still at a relatively high level as most of the rental contracts had been signed earlier while the economy was on an upswing.

Vacancy rates reflected tighter availability of offers and contracted by approximately 0.5 percent to 9.2 percent. The rental markets developed favourably into the third quarter, when the financial markets crisis expanded into the real economy and reversed this trend. However, demand for new, high quality commercial property with the latest amenities remained high. In contrast, more and more older office space, or offices located at the edge of cities were vacant.

### 1.3.3. RESIDENTIAL PROPERTY MARKETS – INTERNATIONAL

Previously booming residential property markets, especially those in the USA, the UK and Spain, were particularly affected by the crisis in the financial markets in 2008.

The residential property market in the USA suffered the effects from a growing recession that further raised the risk of default for private property loans. It was noted last year that the crisis was making it impossible for many borrowers to continue making timely payments on their property loans, which in some cases contained escalator clauses that regularly raised the interest rate on the loan.

Speculative buying was one of the reasons why the gap between supply and demand for residential property in the USA widened considerably. House prices fell on average by 20 percent from

their level in 2007 as the housing surplus remained intact. Weak demand also impacted on new construction activity. The year 2008 also marked the lowest level of new building permits issued for single-family houses since the end of World War II. The bottom line in the segment was that the volume of investments made in residential property was only about 60 percent of the level noted during the boom years.

The rental housing market developed unevenly: the subprime crisis increased demand for rental units as many ex-house owners were forced to rent, and tenants who had wanted to buy a house hesitated and waited for economic conditions to calm and house prices to drop even further. At the same time many unsold houses were offered as rental properties than in the past.

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**"Previously booming residential property markets, especially those in the USA, the UK and Spain, were particularly affected by the crisis in the financial markets in 2008."**

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By the end of September the housing price index for British residential property had fallen by over 10 percent. The volume of transactions was about 60 percent below the previous year's level – a level that had been last seen in 1978.

Demand for residential property in Spain fell notably as many potential buyers considered prices to be too high. This led to a surplus offer of residential property, which in turn resulted in a sharp decline in new construction measures. Almost 60 percent less new residential property was built than in the previous year.

The majority of the residential property market in Switzerland was able to avoid effects stemming from the turbulence in the global economy and the crisis in the financial markets. Despite an extensive supply, housing prices rose on average by almost 5 percent. Prices for condominiums also climbed due to great demand and limited supply. Condominiums located in major Swiss cities are practically unavailable. The highest prices for



houses and apartments were noted in the greater Geneva area, although first signs that prices in this area may be overheating were seen. Demand for rental apartments also remained very high. Once again, there were hardly any vacant apartments available in Swiss city centre areas in this segment of the market.

#### 1.3.4. COMMERCIAL PROPERTY MARKETS – INTERNATIONAL

Many areas of the international commercial property markets were affected by declining prices in 2008 due to the deteriorating overall economic conditions as well as diminished availability of outside capital.

Average vacancy rates for office space in the USA climbed to 13.7 percent. There were, however, vast regional differences. Top quality properties in central locations like Manhattan (New York), Boston, Washington DC or Chicago saw almost unchanged vacancy rates. However, vacant space is just one of the indicators for the actual situation in the office property markets. The sharply reduced volume of newly rented space far more accurately reflects the weaker overall economic conditions. This, however, takes a certain time to work its way through to the office space market. In addition, rents are also declining even in central locations.

Demand for space in the logistics property segment declined slightly. On the other hand, the volume of newly available space tended to rise. The average vacancy rate across the country rose to 8.7 percent in the fall in response to increasing pressure on rental prices. Rents paid for logistics property space fell on average by almost two percent during the course of 2008. The only exceptions to this were markets with top quality space offers and excellent locations where rents continued to climb and vacancy rates declined in some cases. However, even in these favoured situations, the level of new rentals contracted.

Overall conditions for retail trade space worsened in the previous year. Growing uncertainty in the labour market and the American consumers' pessimistic expectations reduced the urge to shop and led to a notable drop in retail sales. Vacancy rates rose as a result while rents – and thus the return on investment (ROI) in retail space – contracted.

Within Europe considerable downward corrections took place in the British commercial property market. The market value of commercial property decreased across all market segments in 2008 by an average of 27 percent, while the level of rent paid fell by close to 2.5 percent. On average, the value of London commercial property dropped by about 30 percent while average rents shrank by 12 percent.

Hardly any investing took place in this market. Only € 1.4 billion, or just 13 percent of the volume noted in same year-ago period, was invested in the office space market in the centre of London in the third quarter of 2008. Many potential investors waited on the sidelines in anticipation of further downward moves and hopes that they could buy at even lower market prices in the future.

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**"Many areas of the international commercial property markets were affected by declining prices in 2008 due to the deteriorating overall economic conditions as well as diminished availability of outside capital."**

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The reduced market values increased the ROI for office property in certain sections of London to nearly 7 percent. Higher ROI figures were also achieved for space in the retail trade and logistics segments.

The volume of investments noted in the French market plunged by 57 percent during the first three quarters of 2008. Reduced demand was mainly attributable to the disappearance of investors with comparatively low equity capital resources who were unable to meet the market's changed equity capital requirements for financing commercial property.

The ROI for top quality office properties in the centre of Paris climbed up to 6.5 percent. Yields of up to 10 percent were even achieved in peripheral neighbourhoods around the city. Increases were lower in other regions of France as these markets had not enjoyed the same strong upswing as Paris had in recent years.





Vacancy rates noted for office property were not under that much pressure in comparison to other international markets because only limited amounts of new space came on to the market. Less than 5 percent of office space is vacant in some parts of Paris. Furthermore, office space that was available was frequently of lower quality. The French market for logistics space benefited from extensive demand for space in regional areas. About 70 percent total space rented in the previous year was rented in the first three quarters of 2008. Vacancy rates also remained low in this segment.

The trend seen in the Spanish market for commercial property was primarily for investments in existing properties and away from speculative development measures. The total volume of investments had fallen by 60 percent by the end of the third quarter. The peak ROI for top quality office property in Madrid and Barcelona rose by up to 5.5 percent.

Approximately the same volume of office space was newly rented as in the same year-ago period. Rents also rose in the face of very low vacancy rates in city centres. At the end of the year, however, vacancy rates rose, which also put pressure on rental prices.

There was good demand for logistics space in 2008 because there was only a limited amount of top quality space available, especially in Madrid and Barcelona. Top rents for logistic space were recorded in the greater Madrid and Barcelona metropolitan areas.





## BUSINESS DEVELOPMENT







**Who's going to make the financing of  
our office building become a reality?**



**Our reliable partner for commercial  
property finance – MünchenerHyp.**





“MünchenerHyp offers investors innovative commercial property financing solutions that provide added value because of the Bank’s personalised advice and quick decisions. This is what my customers in France expect and value.”

Pascal Roth, ARP Conseil Sàrl, Haguenau, France, Cooperation Partner of Münchener Hypothekenbank eG





## 2. BUSINESS DEVELOPMENT

### 2.1. MÜNCHENERHYP IN 2008

Münchener Hypothekbank successfully held its position in the markets in a year that was quite difficult for the banking business. We were able to maintain our entire spectrum of new business activities – consisting of the mortgage business and providing financing to public-sector borrowers and banks – at a high level. We made a total of € 6.2 billion in lending commitments. This figure represents a decline of 17 percent in comparison to the same year-ago figure of € 7.5 billion. This change is due to the fact that the 2007 figure included a € 0.7 billion portfolio of residential property loans we acquired. Another reason for the decline is that our new business with the public-sector and banks fell by 37 percent in comparison to the previous year. Although our results from operations after making provisions for risks were € 25.5 million and below the comparable same year-ago figure of € 31.6 million, this performance can still be considered as being stable in comparison to the rest of the banking sector.

The basis for these results is our synergetic business model, which combines the commercial and private property lending areas of business that alternately provide support during times of unforeseen market influences.

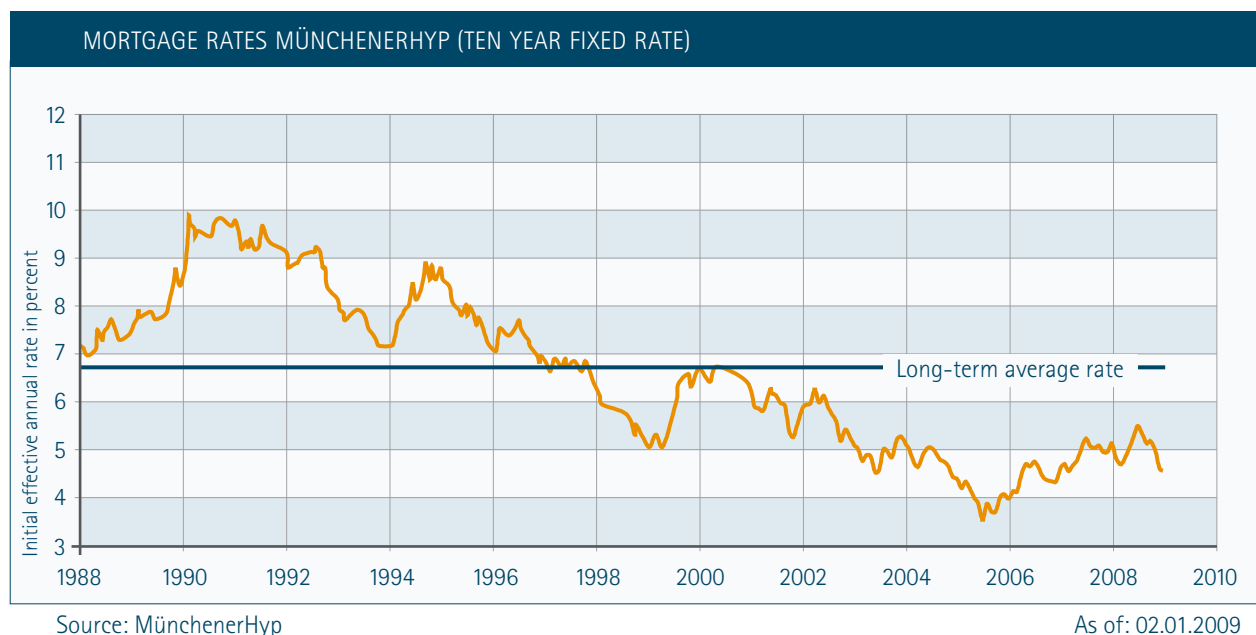
The "MHB2008" strategy developed in 2004 is founded on this business model and consists of an extensive range of measures to increase income while lowering structural costs. As planned, all of the major measures were realised by 2008.

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**"We were able to maintain our entire spectrum of new business activities at a high level."**

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The "5x4plus" strategy was developed last year and builds on the previous strategy. The purpose of the new strategy is to ensure that the focus of future business policy will remain on a pronounced awareness of costs and resolute approach to limiting risks.





This programme is intended to organically achieve new mortgage business worth at least € 4 billion every year so we can realise commensurate economies of scale that will enable us to stabilise our earnings situation on a sustainable basis. The volume of new business written in 2008 already allowed us to achieve this volume. In the interim we have defined the IT and process-support projects needed to handle this volume of business at the higher levels of required efficiency.

Our close partnership with the Volksbanken and Raiffeisenbanken enabled us to record stable new business results for our private property lending business. These results were also driven by sales promotion actions we took together with local cooperative banks. Our high levels of service and our product innovations have given us a very high standing with our banking partners. At the beginning of 2009 FMH Finance Advisory and n-tv, a news television station, awarded us their prize for being the most innovative German bank.

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**"At the beginning of 2009 FMH Finance Advisory and the news television station n-tv awarded us their prize for being the most innovative German bank."**

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In line with our strategy and the requirements of the Financial Services Network (FinanzVerbund), we further expanded our collaboration with broker sales companies in the area of residential property financing last year. Furthermore, at the end of 2007 we concluded a cooperation agreement with Swiss PostFinance that foresees them passing on mortgage loans to MünchenerHyp. Cooperation began as planned in June 2008.

Our business model in the area of commercial property financing is primarily based on classical, prior ranking property financing. For this reason we benefited from the breakdown of the securitisation market. The commercial property finance markets also had to adjust to the changed overall conditions as the financial market crisis came to a head in the second half of 2008. As a result, new business contracted to a notable extent. This development was paralleled by activities seen in the syndication markets.

MünchenerHyp's main focus on the classical property finance business remains unchanged. For example, we have never securitised our loans. Furthermore, we have no involvement at all with either subprime loans or securities backed by subprime mortgages. Our business policy has excluded, and will continue to exclude, any investments in highly speculative securities. Due to the development of spreads in the lending business with public-sector borrowers and banks, we were quite cautious in this segment of our business in the previous year.

## 2.2. MORTGAGE BUSINESS

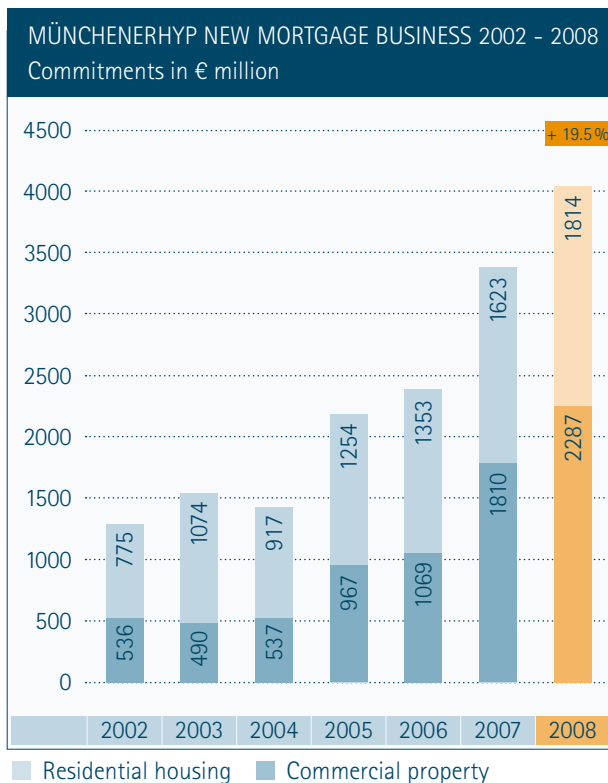
We made € 4.1 billion in mortgage loan commitments in 2008. We recorded gains in both the private property and the commercial property financing areas of business. The volume of our original new mortgage business rose by about 20 percent. Even after the acquisition of the portfolio of residential property loans in 2007 is included for comparison purposes, our total new mortgage business remained stable in 2008.

Despite difficult overall competitive conditions and shrinking market volume, we were still able to further expand our new business results in the private property financing area. Although the first months of the year were still a bit slow we were able to notably accelerate our gains starting in the summer months. At the end of the year the volume of our original new business was € 1.81 billion, which was € 0.2 billion or about 12 percent more than the comparable same year-ago figure.

Due to the weak level of new construction in Germany, most of the loans made in 2008 were used to finance the purchase of existing houses, just like in the previous year. We were able to more than offset reduced demand for new residential property loans. Our flexible products we used to finance existing houses, and which are based on the building block principle, gave us advantages in the areas of conditions and terms that put us ahead of competition. Our business also received additional stimulus from our collaboration with broker sales companies and our partnership with the Swiss PostFinance. New business generated via brokerage sales companies also developed favourably.



The main drivers of our new business results were our innovative products, our quality of loan processing services we provided customers, as well as our marketing measures together with the cooperative banks. These measures included a series of newly launched products such as "Münchener Reverse", which gave customers the right to a refund of advance payments of principal they made. In addition, our "Take 30! Pay for 10!" ("Nimm 30! Zahl 10!") promotion was very well received by the market. Here we offered a 30-year fixed-interest loan at the conditions of a 10-year fixed-interest loan. This was made possible by the temporary inverse structure of interest rates seen in 2008. We also further expanded our services during the year under review. Among other measures, we further increased the efficiency of our loan handling processes in our business with our cooperative partner banks. Direct mailing campaigns once again proved to be a successful tool that we used to reach more than one million households in Germany.



The prolongation business reflected the fact that Germans further reduced their level of personal debt in 2008. There was an increase in the use of personal resources to repay existing loans. Furthermore, more arranging banks assumed existing loans than in the previous year. We were unable to maintain our prolongation ratio because of these reasons as it fell by 7 percentage points to 50 percent.

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**"MünchenerHyp's main focus on the classical property finance business remains unchanged. For example, we have never securitised our loans. Furthermore, we have no involvement at all with either subprime loans or securities backed by subprime mortgages."**

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We were able to stick to our strategy for the greater part of the year in the commercial property financing area as we continued to focus on the top tier segment of the financing business. Our new business in this area amounted to € 2.29 billion, which is about € 0.5 billion, or 26 percent, more than in the previous year.

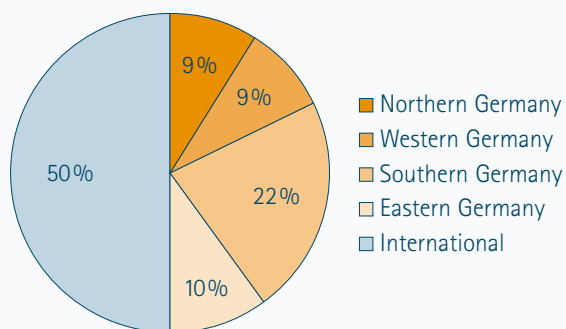
The volume of financing deals conducted in the international area of business rose by over € 0.5 billion to € 1.6 billion. The regional distribution of transactions widened. Although new business in the USA represented about 70 percent of total private and commercial property new business generated outside of Germany in 2007, this figure fell to about 60 percent in 2008. We could expand the share of new business generated by the rest of Western Europe.

In our domestic business we were unable to fully achieve the volume posted in the previous year due to the collapse of the market. Although investments in German commercial property declined by more than half, we were able to almost maintain last year's level of lending commitments as we posted € 685 million in new commitments made.

The trend towards notably more conservative lending standards continued in the syndication area. We recorded a total of



## REGIONAL PROFILES OF NEW MORTGAGE BUSINESS



€ 911 million in commercial property financing from our syndicated business activities.

Furthermore, we invested selectively in mortgage backed securities (MBS). The new volume of investments here was about € 125 million, of which about € 100 million was for European residential mortgage backed securities. All of the securities acquired were in the prime segment and all of them, without exception, had AAA ratings. We focused solely on the properties used to back the securities when we evaluated their creditworthiness. Our investment strategy is mid- to long-term oriented. Münchener Hypothekendarlehenbank primarily follows a buy-and-hold strategy.

**"The main drivers of our new business results were our innovative products and our quality of loan processing services we provided customers."**

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

We were cautious in our lending business with the public-sector and banks, as well as when providing financing to municipalities. Spreads in the lending business with public-sector borrowers and

banks widened notably in the previous year due to the crisis in the financial market.

For this reason the volume of new loans made to the public-sector and banks declined by 37 percent to € 2.0 billion from € 3.2 billion in 2007.

### 2.4. REFINANCING

The worsening financial market crisis, which worsened further with the insolvency of Lehman Brothers, made the refinancing business more difficult for credit institutions around the world. Due to these events and other influences, the money and capital markets came to a complete halt at times. It was in these times, in particular, that MünchenerHyp's involvement in the cooperative Financial Services Network proved to be very beneficial for managing its liquidity.

Our issuance activities had to deal with totally new conditions in the fourth quarter. We were able to place a large portion of our issues within the Financial Services Network due to its good level of liquidity. In addition, our good reputation as a reliable issuer also made it possible for us to complete transactions outside of the Financial Services Network.

Despite the subprime crisis, our issuing activities remained mostly unhindered during the first three quarters of 2008. This enabled us to realise our refinancing goals during this period.

We took advantage of the environment for new issues in the second half of August to float a 3-year public-sector Jumbo Pfandbrief for € 1 billion. The transaction was significantly oversubscribed as we received orders for € 1.8 billion; this Jumbo Pfandbrief was sold to 130 investors in 20 countries.

More than 40 percent of the volume issued was bought by foreign central banks. The response to this issue was very favourable: International Financing Review (IFR), a financial trade publication, gave MünchenerHyp its internationally renowned "Covered Bond of the Year" award for 2008. The award was last won by a German Pfandbrief issuer in 2002.



One of the facets accompanying the financial market crisis was that the term of refinancing resources was increasingly reduced. While the use of interest rate swaps to insure against swings in interest rates was still possible across all maturity periods at unchanged previous conditions in the first half of the year, the situation changed in the second half as it became increasingly difficult to place longer maturity paper.

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**"The financial trade publication International Financing Review (IFR) gave MünchenerHyp its internationally renowned 'Covered Bond of the Year' award for 2008."**

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Gross sales amounted to about € 9 billion, of which 73 percent consisted of fixed-income bonds, 11 percent were variable-rate bonds and 16 percent were structured bonds. Outflows in the refinancing business amounted to € 7.4 billion resulting in net sales of € 1.6 billion.



## EARNINGS, FINANCIAL AND ASSET SITUATION









Flexible, fixed-rate financing –  
how can that fit together?



For example, by giving us more  
freedom to repay earlier.



“Everybody offers standard financing. However, property financing that’s tailored to personal requirements is unique in the market, and there is growing demand for it. MünchenerHyp’s financing solutions enable us to offer our cooperative partner banks more ways and possibilities to meet customers’ needs.”

Karl-Heinz Meyer, Regional Director, Regional Office Hanover,  
Münchener Hypothekenbank eG



### 3. EARNINGS, FINANCIAL AND ASSET SITUATION

#### 3.1. BALANCE SHEET STRUCTURE

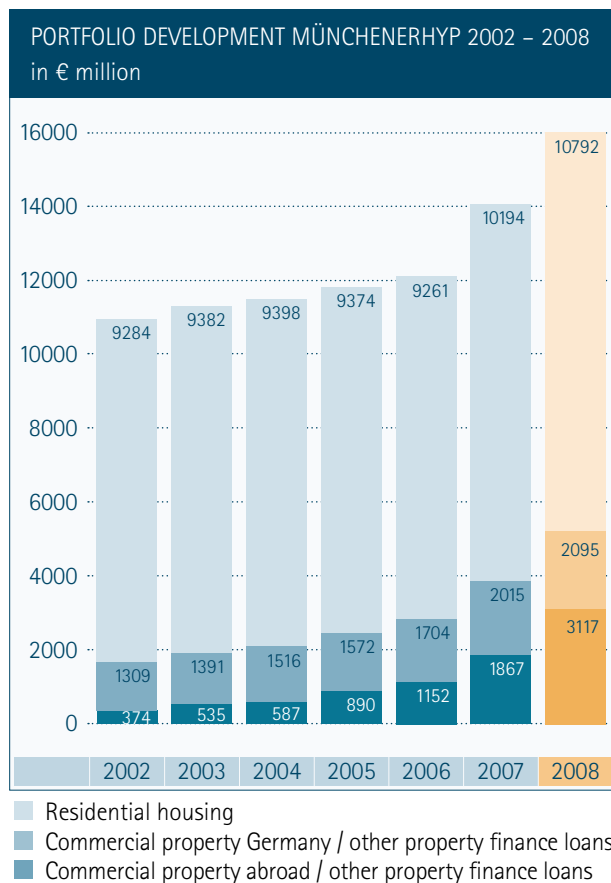
Total assets rose from € 32.9 billion to € 36.1 billion. This increase was driven by our new mortgage business and higher amounts of cash and cash equivalents on hand due to the maturity of a Jumbo Pfandbrief in January 2009.

Despite the general trend noted in the banking business, we were able to expand our portfolio of mortgage and other property finance loans during the year under review. The value of this portfolio exceeded the value of our portfolio of loans made to

public-sector borrowers and banks for the first time as it rose by about € 1.9 billion to € 16.0 billion.

The portfolio of residential housing loans grew by € 0.5 billion to € 10.8 billion. The portfolio of commercial property loans posted stronger growth as it expanded by € 1.3 billion. Total commercial property loans amount to € 5.2 billion and represent about 30 percent of the mortgage portfolio.

Approximately one-quarter of the mortgage portfolio consists of € 3.7 billion in international loans, of which € 2.5 billion were generated by our business in the USA; € 13.1 billion of the mortgage portfolio serves as cover for Pfandbriefe we issued.



**"Despite the general trend noted in the banking business, we were able to expand our portfolio of mortgage and other property finance loans during the year under review."**

The portfolio of loans to the public-sector and banks amounts to € 15.8 billion, of which € 7.2 billion consists of securities and promissory notes. Almost all of these are carried as assets in our accounts. Due to the upheavals in the capital markets the spreads noted for these securities widened and led to lower prices.

Prices noted for the securities on the stock market were primarily used in order to arrive at a valuation that most closely reflected the actual value of securities. To a certain extent there was no reliable market price information available because some of the markets are illiquid. In these cases the generally accepted discounted cash flow method was employed. Our portfolio of investments contains € 173 million in latent burdens consisting of securities and promissory notes, including mortgage backed securities, as well as the value of the corresponding derivatives acquired to hedge against swings in interest rates.

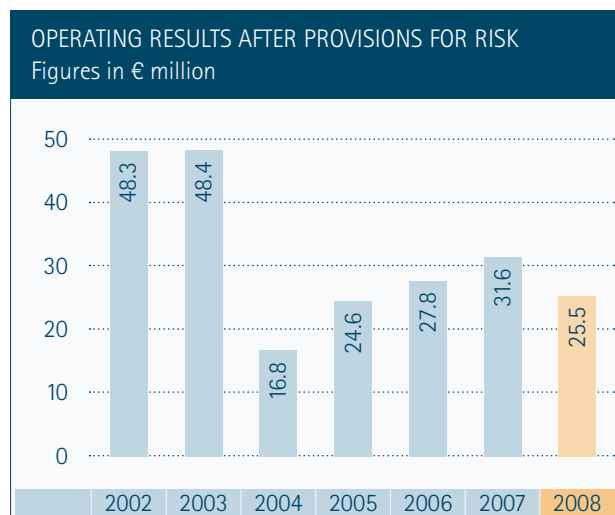
After having conducted a thorough examination of these investments we concluded that none of the declines in value noted are permanent. As a result, writedowns to the lower attributable value are not necessary.



Our portfolio of securities includes € 60 million (nominal value) bonds issued by Landsvirkjun, an energy company based in Iceland that is, by far, the country's biggest provider of energy. Moreover, the bonds are jointly and severally guaranteed by the government of Iceland, the City of Reykjavik and the municipality of Akureyri. The company's earning situation, balance sheet as well as its equity capital ratios are in order. As the company bills about 70 percent of its revenues in US dollars this fact provides extensive protection against devaluation of the Iceland currency. Furthermore, it also notably reduces the transfer risk associated with the service of capital. The treatment of the securities on the balance sheet is primarily based on the creditworthiness of the issuers. The securities are shown under assets. Based on our information, the company has floated about 30 bonds on the international capital market. Service of capital has taken place as planned to date.

The portfolio of refinancing funds rose from € 30.1 billion to € 32.2 billion.

Paid up capital grew by € 16.7 million to € 142.7 million. As a result of this rise, and an increase in subordinated liabilities, total liable equity capital amounted to € 1,015.7 million and exceeded 1 billion for the first time.



In its original structure the realisation of the newly formulated "5x4plus" strategy would have required an increase in equity capital. The prerequisite change in the Bank's articles of association was made during an extraordinary delegates meeting held on September 19, 2008. Measures to acquire additional equity capital took place without delay and were particularly directed to our partners in the cooperative Financial Services Network.

The continual increase in burdens arising in the capital markets in the fourth quarter of 2008 caused us to once again revise our business model in light of the altered refinancing situation. For this reason, and following intensive consideration, we postponed the originally initiated measures to increase equity capital to December 2008.

Core capital amounts to € 642.3 million. The solvency figure for core capital on December 31, 2008 was 5.6 percent and 8.9 percent for total capital.

### 3.2. DEVELOPMENT OF EARNINGS

Although refinancing conditions became more expensive because of the financial market crisis, especially in the fourth quarter of 2008, we were still able to increase our net interest income by € 7.4 million to € 128.6 million. This change is based on the favourable development of our new mortgage business, the corresponding increase of the mortgage portfolio, and solid capital market results.

The greater amount of new business also led to a higher level of broker commissions paid to originating partners – especially the Volksbanken and Raiffeisenbanken. Commissions paid have an immediate effect on earnings. This in turn led to a negative commission balance of € 27.8 million. This figure stood at € 21.2 million in 2007.

The increase in commissions paid fully impacted on the net interest less commission income figure, which was € 100.8 million, or € 0.8 million more than the same year-ago figure. Net result from financial activities was a minus € 0.7 million. This item is shown for the first time in the Income Statement because



MünchenerHyp was officially established as a Handelsbuchinstitut (trading book institution) effective July 1, 2008.

Numerous new employees were hired over the course of the year in order to handle the increased volume of new business. Personnel expenses rose by € 2.8 million to € 30.1 million due to new hiring as well as increases included in standard wage agreements and other salaries. In contrast, other administrative expenses and depreciation only posted a moderate increase as they rose by € 0.4 million to € 22.9 million.

Total administrative expenses rose by € 3.2 million to € 53.0 million. All in all, the higher expenses generated by commissions and the required increases in personnel resulted in a cost-income ratio of 52.9 percent in contrast to the 49.8 percent recorded in the previous year.

The sum of other operating expenses and income was € 7.6 million and heavily influenced by special factors. These primarily involve transferring a bank-owned apartment building to Nussbaumstrasse GmbH & Co. KG, and the necessary dissolving of provisions for taxes following the conclusion of a tax audit that examined the years 1999 to 2005.

This led to results from operations before making provisions for risk of € 54.7 million, or € 5.7 million over the same year-ago figure.

The valuation of claims in the lending business and securities from current assets amounted to a minus € 29.7 million, or € 2.9 million more than in the previous year. In contrast to expectations noted in the last quarter, individual value adjustments rose more strongly. This item was also affected because it includes write-downs of securities held as assets. The valuation result appropriately reflects risks contained in asset items.

In comparison to the previous year the valuation of financial investments declined by € 8.8 million. Results from operations after making provisions for risk were € 25.5 million, or € 6.1 million less than the same year-ago figure.

After deduction of € 15.1 million in interest for silent participations, annual net profits amount to € 10.2 million. In comparison to the previous year this figure represents a decline of € 1.8 million.

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**"With a net income for the year of € 10.2 million, or € 1.8 million less than in the previous year, MünchenerHyp's earnings situation remained comparatively stable."**

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### 3.2.1. PROPOSED APPROPRIATION OF DISTRIBUTABLE INCOME

An advance allocation to statutory reserves amounting to € 3.0 million is foreseen. 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 € 7,960,614.29 should therefore be used as follows:

5.5 percent dividend	€ 7,325,319.03
Carried forward to the new year	€ 635,295.26

### 3.3. RATING

In August 2008 Moody's Investors Service confirmed MünchenerHyp's Aa3 rating for its uncovered long-term liabilities. In addition, the Bank's Public Pfandbriefe and Mortgage Pfandbriefe retained their Aaa ratings.

The outlook for all of MünchenerHyp's ratings is stated as "stable".

Moody's especially noted MünchenerHyp's Bank's positioning in the market, as well as its risk profile. Our collaboration with banks in the cooperative Financial Services Network, in particular, was viewed favourably as was the Bank's conservative risk policy in terms of borrower failure risk and market risk.

The resulting quality of the Bank's assets, and especially MünchenerHyp's pools of coverage, are 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

### 3.4. SUBSIDIARY COMPANIES

MünchenerHyp fully owns two subsidiary companies: M-Wert GmbH and M-Service GmbH.

The **M-Wert-GmbH** was founded in 1999 as one of the first appraisal companies. The company's core competence is the preparation of market and lending value appraisals. Appraisal reports prepared by M-Wert make a major contribution towards making qualified decisions in the property financing business. Competition is quite intense in the market for property appraisals with numerous competitors of different orientations. Thanks to its favourable market image M-Wert was able to further reinforce its position among customers both inside and outside of the cooperative Financial Services Network. Customers especially valued the high professional qualifications of the company's employees as well as the quality and seriousness of the services provided.

Following the moderate results posted in 2007, M-Wert was able to increase its revenues again during the year under review as they recorded the highest fee income since the company was founded, as well as one of their best results from operations.

Founded in 2001, **M-Service GmbH** supports MünchenerHyp's workout management and property management departments. In addition, the company has also been active as a collection agency on behalf of MünchenerHyp since 2007. Plans call for collection activities to expand in 2009.

M-Service GmbH also holds its own very limited property portfolio derived from so-called salvage purchases. This portfolio

expanded marginally in 2008. Plans call for both the acquisition and the sale of properties in 2009.

The company has a profit and loss transfer agreement with MünchenerHyp.

The M-Service carries out the function of a general partner at Nussbaumstrasse GmbH & Co. KG property company, which was originally founded to redevelop the Bank's former premises on Nussbaum-/Mathildenstrasse. Following the successful sale of the property in 2007 the business purpose of the limited partnership (Kommanditgesellschaft) was expanded by taking over additional Bank-owned properties for the purpose of administering and marketing them. Against this background, a further Bank-owned property was transferred to the limited partnership in 2008.

### 3.5. RISK REPORT

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

The business and risk strategy defines the parameters of the primary 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 and refers, in particular, to the Credit Risk Report in its review.

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 observed, analysed in a timely manner and implemented.



On 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** – also referred to as lending risk – is the most significant category of risk for MünchenerHyp. Borrower failure risk refers to the danger that a borrower or group of borrowers may delay, make partial repayment or even default on repaying a loan to the lender.

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.

A widely diversified property finance portfolio with an emphasis on private property finance, combined with our tried and tested

credit approval procedures, ensures a manageable level of lending risk. Our lending business with the public sector and banks is primarily focused on central and regional governments, regional and local authorities, and banks with excellent creditworthiness in Western Europe.

**Market price risks** consist of the risk of possible declines in the value of positions or portfolios arising from changes in market parameters including interest rates and exchange rates. These risks are quantified as 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 refers to risk arising from changes in the market value of investments dependent on the level of interest rates, and which will react negatively due to changes in interest rates. It represents the most important component of market price risks for MünchenerHyp.

Market price risks also include (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 a no-risk bond can change without an adjustment being made to 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.

Among other risks, 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 asset).

Currency risk is the term used for risks arising from changes in the value of investments that are dependent on currency exchange rates, and which 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 and every 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. Stress scenario analysis is used to measure the effect of external shifts in market risk factors on present value.

Because MünchenerHyp was officially established as a trading book institution (only for futures) in 2008 we use special applications to control potential risks in this area, also on an intra-day basis.

**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 fully able to 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 ensure 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 re-financing measures. 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. Because a mortgage bank's liquidity management is closely linked to cover requirements for Pfandbriefe, the outlooks for liquidity and cover are technically linked by IT systems.

**Operational risks** refer to 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 procedures, by automating standard procedures, and by having fixed working instructions, comprehensive functional testing, as well as appropriate emergency plans and preventive measures. Insurable risks are covered by insurance to the normal extent required by banks.

The professional concepts and models used to calculate abilities to bear risks were further developed in accordance with legal supervisory requirements.

### 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 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. APPOINTMENTS

Bernhard Heinlein was appointed a deputy member of the Münchener Hypothekbank's Board of Management as of August 1st. His primary area of responsibility is the further expansion of the private property financing area of business.

In early December the Supervisory Board appointed Dr. Louis Hagen a member of the Münchener Hypothekbank's Board of Management. It is anticipated that he will begin his duties in Munich as of July 1, 2009. He will be responsible for the transaction management area of business.

### 3.7. EMPLOYEES

Employees who are just as dedicated as they are qualified are absolutely vital for staying on course during times of difficult market conditions. This is why we focus on having a personnel development program with a wide variety of measures aimed at improving our employees' professional and social skills.

MünchenerHyp enjoys a good reputation in the labour market as a desired employer. Last year we were easily able to meet our personnel requirements by using our Website as a recruiting tool. Our trainee positions in the areas of Private Property Finance, Commercial Property Finance, Treasury and Information Processing areas of our business were very coveted and were quickly filled.

We have been involved in the area of occupational training for years with an above average training ratio. Ten young people began their apprenticeships as banking specialists and office communication specialists in 2008.

Within the framework of supporting junior executives, we reinforced our contacts to universities of applied sciences: in cooperation with the business faculty of Munich University of Applied

Sciences we are offering internship positions. We have arranged a partnership for the transfer of know-how between the Bank and science with the Business Information Centre of Competence at Munich University of Applied Sciences. The goal here is to allow scientific findings in the form of Bachelor and Masters papers to flow into practical IT application projects.

In the area of task-related advanced education we are currently conducting a special training programme for our executive staff. The main purpose here is to optimise our internal communications within the framework of our quality management measures. Various workshops are being held with primary emphasis on improving communications between market and transaction management.

We try to ease the re-entry of our employees into their positions at the Bank following parental leaves of absence by permitting them to work part-time to the extent practicable in the individual department. In addition, upon request we will allow employees to work on a single day basis during parent leave and make it possible for them to participate in general training measures within the scope of our evening courses.

We support our employees' health and their participation in sports by sponsoring our very active and successful women's and men's football teams, in addition to a free fitness course, including special back exercises, offered to all employees.

MünchenerHyp had 392 employees in 2008. As in the previous years, personnel fluctuation remained low. Despite new hires, the average number of years of employment with MünchenerHyp, as well as the average age of our employees, barely changed. 16 employees celebrated their 10th anniversary with the Bank, and 5 celebrated their 25th anniversary. Due to the expansion of our new business the share of employees working in staff positions fell while those in market and transaction management grew. More than 70 percent of our employees hold a university degree or have completed a recognised programme to become a banking specialist.



Our employees identify very strongly with their MünchenerHyp. This is particularly reflected by the fact that the great majority of them are also shareholders in our Bank. Their great loyalty and commitment to performance are an important foundation for our sustainable success in the market. We wish to thank all of our employees for their commitment and their dedicated efforts on behalf of the Bank.

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**"Our employees identify very strongly with their MünchenerHyp. This is particularly reflected by the fact that the great majority of them are also shareholders in our Bank."**

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Continuous and firmly established communication with the works council, the executive employees' speakers committee, and the business committee represents an important basis for successful personnel policy. We wish to thank them for their constructive and trustful cooperation in the previous year.







## CORPORATE PLANNING AND OUTLOOK







We thought that our loan would  
take a while to be approved.



And then it all went faster  
than we could pack.



“Our clear criteria for making loan decisions, and the high quality of processing, ensure reliability when providing loans – an important foundation for long-term business success.”

Kurt Herold, Division Manager Loans, Münchener Hypothekenbank eG



## 4. CORPORATE PLANNING AND OUTLOOK

### 4.1. CORPORATE PLANNING

As previously mentioned, we further developed our business strategy in order to continue our mid-term planning. This strategy is primarily focused on securing sustained earnings with an appropriate cost income ratio, as well as a corresponding business and risk strategy. The success of this strategic programme depends a great deal on functioning capital markets. Pfandbrief refinancing, in particular, plays a main role.

A review of the overall economic conditions prevailing in the current crisis in the financial market made it necessary to make a series of adjustment to our plans for 2009. The goal is to ensure the preservation of the Bank's equity capital resources and to secure our sustainable levels of liquidity while taking risk compatibility into consideration.

Against this background, we revised our new business plans and substantially reduced the target volumes. In doing so the main goal was to ensure that the co-operative Financial Services Network's customers were provided with credit and existing customer relationships in our direct business in the commercial property sector were cared for. By doing this we also make a contribution towards the financial stability of our customers, even in difficult economic times. This course of action is called for, also in light of securing our loan portfolio. In 2009 we temporarily discontinued our mid-term plan of generating € 4 billion in new business every year.

### 4.2. OUTLOOK

#### ECONOMIC AND FINANCIAL MARKETS

All of the economic indicators are pointing towards a massive downturn in 2009. The IMF anticipates that global economic growth will decline sharply. A recession is expected to grip the industrialised nations. Due to the crisis in the financial markets, the end of which can still not be predicted reliably, forecasts made at this time are subject to contain substantial uncertainties.

Above all else, exports in almost all industrialised countries will contract notably due to weaker growth in emerging countries. This in turn will lead to declining production, lower capital expenditures and rising unemployment. Personal consumption has already been shrinking for quite some time in the USA, and will probably continue to contract in 2009. The number of housing permits will also fall further. It is still open to what extent the extensive economic programme proposed by the new American President, Barack Obama, will be able to improve the economic situation. The IMF has forecast that American economic output will shrink by 1.6 percent in 2009.

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**"All of the economic indicators are pointing towards a massive downturn in 2009. There is still no end in sight to the crisis in the financial markets."**

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It is forecast that Germany will experience the worst recession since the end of World War II. As stated in their annual economic report, the Federal Government anticipates that German GDP will decline by 2.25 percent. Pressures felt by private households could be eased a bit from the expected drop in inflation, cheaper energy prices, as well as lower taxes included in the second half of the Federal Government's economic programme. In contrast, the number of unemployed may rise to about four million as production shrinks. Many experts believe that the positive effects of the economic programme – especially personal consumption – will only become visible in the following year. And then, as the global economy revives slightly, German exports could pick up again and lead to a better outlook for sales.

There is still no end in sight to the crisis in the financial markets. Banks are still facing further write-downs and shrinking profits because of the bad economic environment. Experts anticipate that the stock markets will deteriorate further in the coming year.

The Pfandbrief's reputation as a quality product remained intact even in the face of the crisis in the financial market. However, spreads have widened noticeably for outstanding Pfandbriefe since the fourth quarter of 2008. New issues could only be





floated as private placements. Jumbo Pfandbrief issues only reappeared at the beginning of February 2009 – with premiums of about 80 basis points over the mid-swap rate. Based on current knowledge we must anticipate that higher levels of issues, in terms of the spreads, will have an effect on the Pfandbrief over the entire course of 2009.

#### PROPERTY MARKETS

The effects of the recession will have a negative effect on the German private property market in 2009. It is expected that the number of building permits will once again decline. The future expectations of private households have become considerably gloomier – especially regarding their income. Despite lower financing costs, this fact has made the decision to buy a house or an apartment more difficult in some cases.

We anticipate that the primary drivers of property finance in 2009 will once again be modernisation measures as well as re-scheduling of debt. To the extent that long-term interest rates remain at their currently favourable level, market volume for private property financing in Germany could again reach the level seen in 2008. On the other hand, the construction business should still be able to benefit from their good level of existing orders, although they will feel the effects of the recession even more strongly in 2010.

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**"The effects of the recession will have a negative effect on the German private property market in 2009. It is expected that the number of building permits will once again decline."**

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Residential property markets in the USA and in Western Europe will also be unable to resist the further deterioration in overall economic conditions. Only minimal corrections are expected in Switzerland for owner-occupied and rented private property.

In the commercial property financing area we expect that lending will remain very limited within Germany and abroad in 2009 due to the continuing difficult situation in the capital markets.

We anticipate that this situation will lead to more attractive margins for commercial property financing and concurrently more conservative lending standards. A major share of the transactions will stem from prolonging existing and maturing loans.

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**"It is anticipated that investments in property will be made on a significantly more conservative basis in the future. Both investors and banks will make greater demands regarding the economic feasibility of an investment concept before they agree to finance a project."**

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Investments in the German commercial property market are likely to stagnate in 2009. This is because open-end German property funds and other key investor groups are currently only examining the market so that they can return to making property transactions when overall conditions have improved. Estimates foresee a volume of € 20 billion, or the same level as in 2008. A similar amount is expected for 2010.

Revenues from rents are expected to shrink in the domestic office market. The net absorption level, or the difference between newly rented space and space that becomes vacant during the year, will be close to zero. Due to the volume of space that will be completed in 2009 in the face of a shrinking economy, it is expected that rental prices and leasing periods will decline moderately. Market observers expect that top rents paid for office space, in particular, will fall. Vacancy rates will rise slightly once again in the top six German property locations. Despite shrinking demand, rents for retail space in prime locations will remain stable. However, it is already noticeable that larger chains are slowing their expansion efforts here.

Prices for especially top quality office property have dropped by 14 percent in the last twelve months. It is anticipated that this trend will continue in 2009.

The economy is forecast to weaken in the USA along with a further massive consolidation of the financial sector. For this reason it is expected that – on a different level from region to region –



vacancy rates for commercial property, even in good locations, will climb and market prices will fall further. It will take, however, some time for the American property markets – especially the private property markets – to recover from the current recession and from the subprime crisis.

As a result, it is anticipated that investments in property will be made on a significantly more conservative basis in the future. Both investors and banks will make greater demands regarding the economic feasibility of an investment concept before they agree to finance a project. It may also be expected that the share of pure non-recourse financing deals, which solely involve the property and the related cash flow, will shrink and investors will tend to be held liable for amounts beyond the capital they invested and assume a greater share of investment risks. Currently investors are waiting on the sidelines for offered prices to drop further. However, some segments of the market currently offer investment potential again.

The correction in investment and rental prices will also continue in the European property markets. It is expected that the property markets in Germany, in particular, and a few other European countries will stabilise at a faster pace than in the USA. This is because the exuberant exaggeration that characterised commercial property markets in the USA was less visible in these countries, or that the required price corrections, a major prerequisite for a consolidation, have already taken place. The sooner the government stimulus measures for the financial sector and the economy gain traction, the sooner investors will also return. These investors will, however, be far more inclined to avoid risks than they were in the past. Experts anticipate that the volume of transactions in the Europe in 2009 will reach € 66 billion.

#### DEVELOPMENT OF BUSINESS AT MÜNCHENER HYPOTHEKENBANK

Ever since the crisis in the financial market expanded to grip the real economy it has become increasingly difficult to reliably estimate the possible effects of the crisis on MünchenerHyp's lending business. Furthermore, more difficult refinancing conditions, the higher cost of equity capital as well as an expected increase in minimum capital requirements must all be included

in planning the Bank's business strategy for the 2009 financial year and beyond. With the special attentiveness behaving credit institutions in this kind of situation, we therefore adjusted our business plans to reflect the intensifying crisis in the financial market.

In our business with the Volksbanken and Raiffeisenbanken we support our partner banks with an offer appropriate to the market to enable them to also successfully develop their individual local markets again in 2009. We will continue our collaboration with broker sales teams. After taking into consideration the overall economic conditions, we will ensure that the appropriate resources are employed, and that improved processing standards will generate a further increase in customer satisfaction. Our collaboration with the Swiss PostFinance will also be continued according to plan. This partner is very solidly anchored in the unchanged, stable Swiss property market.

Based on current estimates, the market for commercial property financing will also offer financing opportunities in 2009 despite the recessionary economic situation. In realising these opportunities we will proceed selectively within the scope of our resources and focus on top tier, low loan-to-value, financing deals for commercial property in stable and very good locations.

In the syndication business we anticipate – based on the assumption that the markets recover – that we will initially focus on Germany and Western Europe. Positive impetus can only be expected when the financing parameters have adjusted to the changed, more conservative lending guidelines. Against this background, no concrete targets have been set for either commercial property financing or syndication activities.

We will only resume our lending business with the public sector and banks, which we previously handled on an opportunistic basis, when the refinancing and liquidity situation in the financial markets has normalised to a large extent.

The crisis in the financial market has influenced key parameters of our business model. Currently it cannot be discerned which effects will be permanent in nature and which will just have a



temporary impact. Against this background we see ourselves obliged to continuously monitor the opportunities and risks associated with our business model. In doing so we pay attention to making the required short-term adjustments as well as taking into consideration the emerging paradigm shifts taking place in key markets.

The proven fundamental principles of our synergetic business model should be retained to the greatest extent possible. Our business model is based on a first class standing as an issuer, which together with a conservative lending policy makes it possible for us to generate stable earnings at an appropriate level for a cooperative bank. In the future we will also continue to focus on top tier financing of marketable properties in good locations. Based on the current and future market possibilities we will continue to revise the composition of our new business in accordance with the relevant business segments. The goal here is to evaluate risks as well as possible and take advantage of opportunities while retaining a sense of proportion. Sales targets are ultimately based primarily on the equity resources that are available and the refinancing possibilities.

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**"Our business model is based on a first class standing as an issuer, which together with a conservative lending policy makes it possible for us to generate stable earnings at an appropriate level for a cooperative bank."**

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Our liquidity and refinancing planning is based on the following assumptions:

>> Even if the refinancing situation is severely impaired at this time, the German Pfandbrief will continue to assert itself as a recognised quality product in the markets. We are, however, preparing for Pfandbrief investors' preferences to change. Due to our standing as an issuer, and the Jumbo Pfandbriefe which in the interim have been floated in the market by other issuers, we believe that it can be assumed that liquidity is once again available in the market – however, at comparatively high interest premiums.

>> In making our evaluation we anticipate that the measures enacted by governments around the world to stabilise the banking sector will gain traction.

>> The design and future handling of the Financial Market Stabilisation Fund (SoFFin) measures to support liquidity will not lead to any further distortions in the market. This also applies to the currently discussed extension of the hitherto three-year guarantee periods.

>> Liquidity facilities made available to date by the European Central Bank continue to complement the money and capital markets to the extent that their ability to function has been impaired by the financial crisis.

In the current financial year our considerations for refinancing our loans and ensuring that our liquidity requirements are covered do not anticipate that a fundamental easing in the situation will take place.

Major volumes are in line to be refinanced in 2009. The total sum of our issuing activities will be oriented towards the gross sales recorded in previous years. In particular, two Jumbo Pfandbrief issues will mature. The first of these issues was already completely redeemed in January 2009. The redemption of the second Jumbo issue due in September can be covered to a great extent by assets that are due then.

Despite having access to the refinancing possibilities available from the European Central Bank, our goal is avoid any additional increase in our short-term liquidity requirements. Instead, we are striving to continually reduce them in the current year by making appropriate capital market transactions.

More than half of our refinancing requirements in 2009 are in the Pfandbrief area. Our last Jumbo Pfandbrief issue in August 2008 put the Bank's liquidity situation in a position that so far the Bank did not have enter into any new transactions at drastically poorer market conditions. However, we plan to use improved market conditions, to the extent that they become available, to place longer-term Pfandbrief issues. In placing these issues we want to care for our business relationships with our investors and also retain our very good standing as an issuer.



In addition to the Pfandbrief area, MünchenerHyp's participation in the cooperative Financial Services Network has proven its value in these difficult economic times. The Financial Services Network's provision of liquidity has proven to be stable and sustainable. In particular, the cooperatives' central banks liquidity management functioned smoothly, even during the times when the market had reached its tightest level in the second half of 2008. This was not lastly an important confidence building sign for our investors outside of the Financial Services Network.

In 2009 we will also acquire funds by means of uncovered refinancing resources, however to a lesser extent than compared to issuing Pfandbriefe for refinancing purposes. In addition to the extensive uncovered liquidity facilities available from the cooperative Financial Services Network, the revival of the interbank market means that we can increasingly turn to it as an additional refinancing source where we can also place uncovered paper. This opens up a certain amount of additional scope for us to obtain financing from sources beyond Pfandbrief refinancing.

The fundamental goal of our refinancing activities is to successively reduce the possible effects on income arising from liquidity incongruence incurred during the crisis in the financial market by increasingly obtaining long-term resources.

We anticipate that both the desired obtainment of longer term liquidity as well as the additional premiums involved in obtaining funds denominated in foreign currency will burden our net interest income and have a negative influence on our ordinary results.

Entrepreneurial caution also demands that the possible effects of a worldwide recession – especially a decline of economic growth and an increase in unemployment – are taken into consideration when planning income. For this reason we are including greater provisions for risk in our plans. We anticipate that our business with private customers may see a slight increase in delayed or failed mortgage payments due to the higher risk of unemployment. In the area of commercial property financing the

risks associated with the effects of a shrinking economy are muted due to our conservative business policy. Nevertheless, we take into consideration that in individual cases of bigger exposure it is possible – at least temporarily – that reduced valuations could occur. Our portfolio of loans continues to have only a low level of shortfalls in performance, which thus far have not shown any tendency to increase. The undisclosed reserves available for this purpose have not yet been tapped. Due to the opaque situation in the markets it is not possible to make a conclusive judgement if, or to what extent, the aforementioned influences will impact on net income for 2009.

Because it is anticipated that estimations of further economic development in the foreseeable future will continue to be marked by great uncertainty, we believe that a concluding remark noting the heightened incertitude embodied in forecasts and predicted calculations made in this environment is necessary. This not only applies to 2009, it also applies to a greater extent to the year 2010.



## BALANCE SHEET INCOME STATEMENT





## BALANCE SHEET, 31 DECEMBER 2008

ASSETS		31 Dec. 08	31 Dec. 07
	€	€	€ 000
<b>1. Cash reserve</b>			
a) Cash on hand	14,762.46		26
b) Balances with Central Banks	57,122,612.28		82,104
of which			
with Deutsche Bundesbank € 57,122,612.28			
		<b>57,137,374.74</b>	<b>82,130</b>
<b>2. Claims on banks</b>			
a) Mortgage loans	100,409,861.01		150,732
b) Public-sector loans	2,203,058,545.91		2,991,323
c) Other claims	2,914,954,669.88		1,319,306
of which			
payable on demand € 1,427,644,304.64			
		<b>5,218,423,076.80</b>	<b>4,461,361</b>
<b>3. Claims on customers</b>			
a) Mortgage loans	15,593,704,221.09		13,724,923
b) Public-sector loans	6,451,636,917.59		6,647,097
c) Other claims	238,756,000.16		199,120
of which			
with securities pledged as collateral € 575,720.68			
		<b>22,284,097,138.84</b>	<b>20,571,140</b>
<b>4. Bonds and other fixed-income securities</b>			
a) Bonds and notes	7,383,814,240.03		7,073,323
aa) Public-sector issuers € 1,321,571,853.72			( 1,417,529 )
of which			
eligible as collateral for Deutsche Bundesbank advances € 1,103,252,186.41			
ab) Other issuers € 6,062,242,386.31			( 5,655,794 )
of which			
eligible as collateral for Deutsche Bundesbank advances € 5,701,332,675.52			
b) Own bonds and notes	521,220,553.05		50,646
Nominal value € 520,070,031.79			
		<b>7,905,034,793.08</b>	<b>7,123,969</b>
Carried forward		<b>35,464,692,383.46</b>	<b>32,238,600</b>





LIABILITIES, CAPITAL AND RESERVES	31 Dec. 08	31 Dec. 07
€	€	€ 000
<b>1. Liabilities to banks</b>		
a) Registered mortgage Pfandbriefe issued	624,579,857.56	715,448
b) Registered public-sector Pfandbriefe issued	216,690,352.60	258,115
c) Other liabilities	3,369,516,387.40	2,374,595
of which		
payable on demand € 260,065,359.00		
delivered to lenders as collateral for loans received		
registered mortgage Pfandbriefe € 464,239.59		
and registered public-sector Pfandbriefe € 441,289.60		
	<b>4,210,786,597.56</b>	<b>3,348,158</b>
<b>2. Liabilities to customers</b>		
a) Registered mortgage Pfandbriefe issued	3,690,250,127.21	3,012,272
b) Registered public-sector Pfandbriefe issued	4,466,346,260.21	4,342,510
c) Other liabilities	958,291,314.93	731,172
of which		
payable on demand € 5,801,384.23		
delivered to lenders as collateral for loans received		
registered mortgage Pfandbriefe € 5,000,000.00		
and registered public-sector Pfandbriefe € 0.00		
	<b>9,114,887,702.35</b>	<b>8,085,954</b>
<b>3. Certificated liabilities</b>		
a) Bonds issued	21,700,590,898.67	20,559,079
aa) Mortgage Pfandbriefe € 8,166,379,760.88		( 7,144,155 )
ab) Public-sector Pfandbriefe € 8,701,229,785.49		( 9,082,569 )
ac) Other bonds and fixed income securities		
€ 4,832,981,352.30		( 4,332,355 )
b) Other certificated liabilities	129,019,723.83	0
of which		
Money market paper € 129,019,723.83		
	<b>21,829,610,622.50</b>	<b>20,559,079</b>
<b>4. Liabilities incurred as trustee</b>	<b>257,267.19</b>	<b>302</b>
of which		
loans € 257,267.19		
<b>5. Other liabilities</b>	<b>70,859,805.64</b>	<b>98,572</b>
Carried forward	35,226,401,995.24	32,092,065



ASSETS	31 Dec. 08	31 Dec. 07
	€	€ 000
Brought forward	35,464,692,383.46	32,238,600
<b>5. Equities and other variable-yield securities</b>	<b>334,199,142.13</b>	<b>321,078</b>
<b>6. Participating interests and shares in cooperatives</b>		
a) Participating interests	73,910,525.25	73,131
of which		
credit institutions € 16,728,732.18		
b) Shares in cooperatives	18,500.00	18
of which		
in credit cooperatives € 15,500.00		
	<b>73,929,025.25</b>	<b>73,149</b>
<b>7. Shares in affiliated companies</b>	<b>11,181,101.64</b>	<b>831</b>
<b>8. Assets held in trust</b>	<b>257,267.19</b>	<b>302</b>
of which		
loans € 257,267.19		
<b>9. Intangible assets</b>	<b>6,658,753.67</b>	<b>2,525</b>
<b>10. Tangible assets</b>	<b>81,731,385.06</b>	<b>88,940</b>
<b>11. Other assets</b>	<b>81,566,355.96</b>	<b>100,612</b>
<b>12. Deferred items</b>		
a) From issuing and lending business	79,022,844.91	105,812
b) Other	1,138,164.70	1,441
	<b>80,161,009.61</b>	<b>107,253</b>
<b>Total assets</b>	<b>36,134,376,423.97</b>	<b>32,933,290</b>



LIABILITIES, CAPITAL AND RESERVES	31 Dec. 08	31 Dec. 07
€	€	€ 000
Brought forward	35,226,401,995.24	32,092,065
<b>6. Deferred items</b>		
From issuing and lending business	22,684,199.99	26,259
	<b>22,684,199.99</b>	<b>26,259</b>
<b>7. Provisions</b>		
a) Provisions for pensions and similar obligations	23,830,766.00	21,938
b) Provisions for taxes	1,500,000.00	6,059
c) Other provisions	12,600,320.13	11,882
	<b>37,931,086.13</b>	<b>39,879</b>
<b>8. Subordinated liabilities</b>	<b>116,300,000.00</b>	<b>66,300</b>
<b>9. Profit-participation certificates</b>	<b>57,264,690.70</b>	<b>57,265</b>
of which		
€ 35,790,431.69 are due within two years		
<b>10. Capital and reserves</b>		
a) Subscribed capital	389,495,496.87	370,449
aa) Members' capital contributions € 144,073,246.59		( 127,121 )
ab) Silent participations € 245,422,250.28		( 243,328 )
b) Revenue reserves	276,338,340.75	273,338
ba) Legal reserve € 274,804,465.11		( 271,804 )
bb) Other revenue reserves € 1,533,875.64		( 1,534 )
c) Unappropriated profit	7,960,614.29	7,735
	<b>673,794,451.91</b>	<b>651,522</b>
<b>Total liabilities, capital and reserves</b>	<b>36,134,376,423.97</b>	<b>32,933,290</b>
<b>1. Contingent liabilities</b>		
Contingent liability on guarantees and indemnities	<b>106,595,512.33</b>	<b>55,876</b>
<b>2. Other commitments</b>		
Irrevocable loan commitments	<b>2,099,548,896.37</b>	<b>1,313,651</b>



# INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

EXPENSES	31 Dec. 08	31 Dec. 07
	€	€ 000
1. Interest expenses	1,504,509,526.64	1,445,108
2. Commission paid	37,639,254.93	29,437
3. Net costs of financial transactions	738,304.86	0
4. General administrative expenses		
a) Personnel expenses	30,141,089.10	27,293
aa) Wages and salaries € 22,959,981.10		( 21,723 )
ab) Social security contributions and cost of pensions and other benefits € 7,181,108.00		( 5,570 )
of which		
for pensions € 3,884,798.24		
b) Other administrative expenses	19,714,463.12	19,071
	49,855,552.22	46,364
5. Depreciation and write-downs of intangible and tangible assets	3,189,118.72	3,456
6. Other operating expenses	2,694,965.03	3,300
7. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses	29,746,745.15	26,719
8. Extraordinary expenses	0.00	2,675
9. Taxes on income	0.00	1,259
10. Other taxes not included under "Other operating expenses"	93,426.78	83
11. Profits paid out due to a profit pooling agreement, a profit transfer agreement or a partial profit transfer agreement	15,131,943.93	15,551
12. Net income	10,154,007.50	11,955
Total expenses	1,653,752,845.76	1,585,907
1. Net income	10,154,007.50	11,955
2. Retained earnings brought forward from previous year	806,606.79	780
	10,960,614.29	12,735
3. Transfer to legal reserve	3,000,000.00	5,000
4. Unappropriated profit	7,960,614.29	7,735



INCOME		31 Dec. 08	31 Dec. 07
	€	€	€ 000
<b>1. Interest income from</b>			
a) Lending and money market operations	1,261,839,497.51		1,223,176
b) Fixed-income securities and government debt register claims	357,612,009.90		326,547
		<b>1,619,451,507.41</b>	<b>1,549,723</b>
<b>2. Current income from</b>			
a) Shares and other variable-yield securities	12,358,592.11		15,025
b) Participating interests and shares in cooperatives	1,347,006.03		1,549
		<b>13,705,598.14</b>	<b>16,574</b>
<b>3. Commission received</b>		<b>9,808,027.62</b>	<b>8,237</b>
<b>4. Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets</b>		<b>468,899.61</b>	<b>9,282</b>
<b>5. Other operating income</b>		<b>10,318,812.98</b>	<b>2,091</b>
<b>Total income</b>		<b>1,653,752,845.76</b>	<b>1,585,907</b>





## 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 German Commercial Code have also been made.

Securities held in the liquidity portfolio are strictly valued at the lower of cost or market principle. The present value shown basically reflects the current price as noted on the stock market, or the market price. To the extent that no reliable price was available in the market or on the stock market due to the effects of the current crisis in the financial markets, the corresponding present value was determined using the discounted cash-flow method. This method forecasts future interest and principle payments, which are then discounted to reflect present value based on risk-appropriate interest rates and the remaining term to maturity. The interest rates used for discounting purposes consist of three components: the risk-free basis interest rate, the surcharge for the credit risk (credit spread), and the surcharge for the liquidity risk (liquidity spread). The liquidity spread is determined on the basis of the most recent liquidity spreads observed in an active market after taking the current market development into appropriate consideration. 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. Unscheduled depreciation in accordance with Art. 253 (2) 3s of the German

Commercial Code (HGB) was not taken for market-price related changes in the value of securities because we do not anticipate that the reduction in value will be permanent.

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.

Tangible assets are stated at cost or production costs less accumulated depreciation. Planned depreciation was taken in accordance with normal useful lifetimes. Minor value assets were treated in accordance with tax rules.

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

	31 Dec. 08 € 000	31 Dec. 07 € 000
<b>Claims on banks</b>	5,218,423	4,461,361
≤ Three months	2,986,668	1,064,688
> Three months ≤ one year	511,686	1,057,167
> One year ≤ five years	1,035,043	1,478,945
> Five years	685,026	860,561
<b>Claims on customers</b>	22,284,097	20,571,140
≤ Three months	437,168	370,047
> Three months ≤ one year	1,393,125	913,149
> One year ≤ five years	4,688,034	4,452,507
> Five years	15,765,770	14,835,437
<b>Bonds and other fixed-income securities ≤ one year</b>	1,194,749	994,699

#### LIABILITIES

	31 Dec. 08 € 000	31 Dec. 07 € 000
<b>Liabilities to banks</b>	4,210,787	3,348,158
≤ Three months	2,549,661	1,922,019
> Three months ≤ one year	529,684	157,639
> One year ≤ five years	741,483	686,227
> Five years	389,959	582,273
<b>Liabilities to customers</b>	9,114,888	8,085,954
≤ Three months	462,935	296,956
> Three months ≤ one year	357,534	373,667
> One year ≤ five years	1,220,254	1,480,650
> Five years	7,074,165	5,934,681
<b>Certificated liabilities</b>	21,829,611	20,559,079
≤ Three months	2,578,490	1,662,058
> Three months ≤ one year	6,513,455	4,503,125
> One year ≤ five years	11,812,491	11,773,012
> Five years	925,175	2,620,884

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

	31 Dec. 08 € 000	31 Dec. 07 € 000
<b>Claims on</b>		
Banks	226,549	3,913
Customers	71,357	55,923
<b>Liabilities to</b>		
Banks	229,500	148,902
Customers	0	0

**CLAIMS ON AND LIABILITIES TO AFFILIATED COMPANIES**

	31 Dec. 08 € 000	31 Dec. 07 € 000
Claims on customers	1,917	1,917
Liabilities to customers	2,141	2,234

**SECURITIES MARKETABLE ON THE STOCK EXCHANGE**

	31 Dec. 2008 in € 000		31 Dez. 2007 in € 000	
Asset category	listed	unlisted	listed	unlisted
Bonds and other fixed-income securities	7,583,075	170,263	6,963,846	17,884
Participating interests	0	1,689	0	1,689

**DETAILS OF FIXED ASSETS**

	Cost	Addi- tions	Writing up fixed assets	Disposals	Depreciation provided in 2008	Accumulat- ed depre- ciation	Net book value 31 Dec. 08	Net book value 31 Dec. 07
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Intangible assets	14,787	4,784	0	1,144	647	11,768	6,659	2,524
Tangible assets	112,592	1,544	29	11,826	2,542	20,608	81,731	88,940
Changes +/- *)								
Participating in- terests and shares in cooperatives	73,149			+ 780			73,929	73,149
Shares in affiliated companies	831			+ 10,350			11,181	831
Bonds and other fixed-income securities	5,577,044			+ 732,089			6,309,133	5,577,044

\*) 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 € 4,528,825 (thousand) (previous year € 3,200,352 (thousand)) exceeding the present value of € 4,356,315 (thousand) (previous year € 3,155,001 (thousand)). To the extent that these securities are associated with a swap transaction, they are valued together with the transaction as a single item. 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. 08 € 000	31 Dec. 07 € 000
Trust assets		
Claims on customers	257	302
Trust liabilities		
Liabilities to banks	257	302

**TANGIBLE ASSETS**

The portion of the total value attributable to the land and buildings used by the Bank is € 66,468 (thousand) (previous year € 67,220 (thousand)), and of plant and office equipment € 3,077 (thousand) (previous year € 2,819 (thousand)).

**SUBORDINATED ASSETS**

Claims on banks include an amount of € 10,000 (thousand) (previous year € 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.

**ACCOUNTING APPORTIONMENT ITEMS ARISING FROM THE ISSUING AND LENDING BUSINESS**

	31 Dec. 08 € 000	31 Dec. 07 € 000
Assets side 12.		
Discount from liabilities	35,599	43,210
Premium from claims	26,567	41,208
Other deferred charges	16,857	21,394
Liabilities side 6.		
Premium from liabilities	5,305	6,332
Discount from claims	17,209	19,866
Other deferred income	170	61

**SUBORDINATED LIABILITIES**

Subordinated liabilities incurred interest expenses of € 6,603 (thousand) (previous year € 4,229 (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
20,000,000.00	euro	6.02%	20 Mar. 2018

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. Reporting on the balance sheet is shown at nominal value.

**PROFIT-PARTICIPATION CERTIFICATES**

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

**DETAILS OF REVENUE RESERVES**

	Legal reserve € 000	Other revenue reserves € 000
1 Jan. 2008	271,804	1,534
Transfer from 2007 retained earnings	0	0
Transfer from 2008 net income	3,000	0
31 Dec. 2008	274,804	1,534

**MEMBERS' CAPITAL CONTRIBUTIONS**

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

	31 Dec. 08 €	31 Dec. 07 €
Capital contributions	144,073,246.59	127,120,620.60
a) of remaining members	142,692,636.59	126,029,040.60
b) of former members	1,323,770.00	993,860.00
c) in respect of shares under notice	56,840.00	97,720.00
Outstanding obligatory payments in respect of shares	53.41	79.40

**SILENT PARTICIPATIONS**

The silent participations of € 245,422 (thousand) (previous year € 243,328 (thousand)) satisfy the criteria of Art. 10 (4) of the German Banking Act is € 232,896 (thousand) (previous year € 241,828 (thousand)). The interest expense attributable to these participations amounted to € 15,132 (thousand) (previous year € 15,551 (thousand)).

**ASSETS PLEDGED TO SECURE LIABILITIES**

Within the course of our open market dealings with the European Central Bank, securities valued at € 1,308,102 (thousand) (previous year € 178,892 (thousand)) were pledged to secure liabilities in the same amount. Security of € 730,220 (thousand) (previous year € 231,120 (thousand)) in cash was provided within the framework of security agreements for derivative deals. Securities worth € 10,216 (thousand) (previous year € 9,605 (thousand)) was pledged as security to meet pension obligations and claims related to the partial retirement model.

**FOREIGN CURRENCY ITEMS**

	31 Dec. 08 € 000	31 Dec. 07 € 000
Assets side	4,028,469	2,221,153
Liabilities side	2,653,102	1,524,274
Contingent liabilities and other obligations	550,119	249,339

**OTHER OBLIGATIONS**

The irrevocable loan commitments contained in this item consist almost solely of mortgage loan commitments made to customers.

**NET EXPENSES FROM FINANCIAL TRANSACTIONS**

As of 1 July 2008, the Bank's future transactions are carried in the trading book. The results of these transactions are netted out and shown as net expenses from financial transactions.

**OTHER OPERATIONAL INCOME**

Other operational income includes € 5,011 (thousand) from bringing a property into Nussbaumstrasse GmbH & Co. KG.

**FUTURES AND DERIVATIVES**

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

Nominal amounts (in millions of €)					
	Residual term ≤ one year	Residual term > one year ≤ five years	Residual term > five years	Total	Counterparty risk *) neg. (-)
<b>Interest-Rate-Related Transactions</b>					
Interest rate swaps	12,184	21,385	20,228	53,797	- 891
Interest rate options					
- Calls	53	164	112	329	12
- Puts	62	155	0	217	- 11
- Other interest rate contracts	150	345	376	871	3
<b>Currency-Related Transactions</b>					
Cross-currency swaps	865	812	281	1,958	33

\*) 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 € 1.8 million (previous year € 1.8 million) which are contained in the balance sheet items "Other assets".

Interest attributable to derivative deals is shown in the balance sheet items "Claims on banks" with € 383.2 million (previous year € 298.0 million) and "Liabilities to banks" with € 367.8 million (previous year € 332.0 million). The accrual of compensatory payments made is entered under "Other assets" with € 14.4 million (previous year € 18.4 million); the accrual of compensatory payments received is entered under "Other liabilities" with € 45.4 million (previous year € 56.3 million).

Compensatory items in the amounts of € 26.3 million (previous year € 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 made 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

	31 Dec. 08 € 000	31 Dec. 07 € 000
Ordinary cover	13,131,807	10,624,873
1. Claims on banks (mortgage loans)	86,412	133,661
2. Claims on customers (mortgage loans)	12,999,577	10,437,774
3. Tangible assets (charges on land owned by the Bank)	45,818	53,438
Substitute cover	807,406	590,660
1. Other claims on banks	465,000	282,871
2. Bonds and other fixed-income securities	343,550	300,775
3. Other assets (offsetting currency derivatives)	- 1,144	7,014
Total cover	13,939,213	11,215,533
Total mortgage Pfandbriefe requiring cover	12,207,912	10,644,644
Surplus cover	1,731,301	570,889

### B. PUBLIC-SECTOR PFANDBRIEFE

	31 Dec. 08 € 000	31 Dec. 07 € 000
Ordinary cover	12,363,495	12,687,936
1. Claims on banks (public-sector loans)	2,162,266	2,930,498
2. Claims on customers (public-sector loans)	6,306,525	6,431,987
3. Bonds and other fixed-income securities	3,894,704	3,325,451
Substitute cover	1,037,521	1,202,146
1. Other claims on banks	355,000	355,396
2. Bonds and other fixed-income securities	675,850	846,750
3. Other assets (offsetting currency derivatives)	6,671	0
Total cover	13,401,016	13,890,082
Total public-sector Pfandbriefe requiring cover	13,019,155	13,323,256
Surplus cover	381,861	566,826

**REGULATORY REPORTING IN ACCORDANCE WITH ART. 28 PFANDBRIEF ACT (PFANDBG)****MORTGAGE PFANDBRIEFE OUTSTANDING AND  
CORRESPONDING COVER POOLS**

	Nominal value	
	31 Dec. 08 € 000	31 Dec. 07 € 000
Mortgage Pfandbriefe	12,207,912	10,644,644
Cover pools	13,939,213	11,215,533
of which		
further cover assets	854,368	637,084
derivatives	- 1,144	7,014
Surplus cover	1,731,301	570,889

	Net present value	
	31 Dec. 08 € 000	31 Dec. 07 € 000
Mortgage Pfandbriefe	12,793,236	10,661,967
Cover pools	14,845,732	11,471,274
of which		
further cover assets	854,162	597,252
derivatives	- 2,174	7,020
Surplus cover	2,052,496	809,307

	Risk-adjusted net present value *)	
	31 Dec. 08 € 000	31 Dec. 07 € 000
Mortgage Pfandbriefe	12,090,264	10,230,717
Public-sector Pfandbriefe	13,407,121	10,908,348
Value of excess cover after stress test	1,316,857	677,631

\*) 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. 08 € 000			
	≤ one year	> one year ≤ five years	> five years ≤ ten years	> ten years
Mortgage Pfandbriefe	3,723,127	5,513,473	1,183,590	1,787,722
Cover pools	2,310,653	5,410,158	4,871,798	1,346,604

	Maturity analysis by residual term 31 Dec. 07 € 000			
	≤ one year	> one year ≤ five years	> 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



# PUBLIC PFANDBRIEFE OUTSTANDING AND CORRESPONDING COVER POOLS

	Nominal value	
	31 Dec. 08 € 000	31 Dec. 07 € 000
Public Pfandbriefe	13,019,155	13,323,256
Cover pools	13,401,016	13,890,082
of which		
further cover assets	1,030,850	1,202,146
derivatives	6,671	0
Excess cover	381,861	566,826

	Net present value	
	31 Dec. 08 € 000	31 Dec. 07 € 000
Public Pfandbriefe	13,764,382	13,605,047
Cover pools	14,597,007	14,424,353
of which		
further cover assets	1,125,228	1,260,996
derivatives	19,040	2,669
Excess cover	832,625	819,306

	Risk-adjusted net present value *)	
	31 Dec. 08 € 000	31 Dec. 07 € 000
Public Pfandbriefe	12,911,228	14,234,075
Cover pools	13,722,750	14,959,566
Value of excess cover after stress test	811,522	725,491

\*) 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. 08 € 000				
	≤ one year	> one year ≤ five years	> five years ≤ ten years	> ten years
Public Pfandbriefe	2,442,996	7,121,749	1,312,845	2,141,565
Cover pools	1,913,160	5,257,205	4,008,744	2,221,907

Maturity analysis by residual term 31 Dec. 07 € 000				
	≤ one year	> one year ≤ five years	> 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



## TOTAL VOLUME OF CLAIMS USED TO COVER MORTGAGE PFANDBRIEFE

## A. ACCORDING TO SIZE

	31 Dec. 08 € 000	31 Dec. 07 € 000
≤ € 300,000	7,106,117	7,072,859
> € 300,000 ≤ € 5 million	2,161,039	1,964,067
> € 5 million	3,818,833	1,534,509
Total	13,085,989	10,571,435

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. 08 € 000		31 Dec. 07 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
<b>Federal Republic of Germany</b>				
Apartments		2,313,533		2,177,888
Single-family houses		3,570,987		3,554,593
Multiple-family dwellings		2,809,261		2,704,370
Office buildings	906,915		540,838	
Retail buildings	572,144		437,967	
Industrial buildings	88,448		83,727	
Other commercially used properties	161,775		139,768	
New buildings and buildings not yet capable of producing a yield	1,142	104,196	1,298	105,314
Buildings under construction	1,517	2,117	1,665	1,096
	<b>1,731,941</b>	<b>8,800,094</b>	<b>1,205,263</b>	<b>8,543,261</b>
of which in				
Baden-Württemberg	207,641	1,178,714	192,410	1,219,701
Bavaria	360,562	2,244,064	278,224	2,117,438
Berlin	29,448	304,132	27,228	227,694
Brandenburg	5,215	95,770	5,177	95,365
Bremen	443	24,333	475	23,672
Hamburg	150,904	186,378	43,738	164,923
Hesse	337,437	716,437	202,386	748,250
Mecklenburg-Lower Pomerania	5,164	54,447	2,816	62,710
Lower Saxony	58,847	646,911	56,828	622,801
North Rhine-Westphalia	317,065	1,876,003	246,364	1,815,759
Rhineland-Palatinate	106,274	240,769	25,206	239,469



	31 Dec. 08 € 000		31 Dec. 07 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Saarland	6,950	30,993	6,098	34,024
Saxony	74,077	300,380	47,987	297,630
Saxony-Anhalt	4,643	74,702	5,741	85,058
Schleswig-Holstein	62,233	691,934	57,529	644,317
Thuringia	5,038	134,127	7,056	144,450
<b>France</b>				
Apartments		12,580		0
Office buildings	154,961		113,700	
Retail buildings	16,344		0	
	<b>171,305</b>	<b>12,580</b>	<b>113,700</b>	<b>0</b>
<b>Great Britain</b>				
Office buildings	109,564		98,849	
Other commercially used properties	11,303		0	
	<b>120,867</b>		<b>98,849</b>	
<b>Luxembourg</b>				
Office buildings	12,000		0	
Retail buildings	4,250		4,250	
	<b>16,250</b>		<b>4,250</b>	
<b>The Netherlands</b>				
Office buildings	180,886		175,694	
Retail buildings	9,654		9,654	
	<b>190,540</b>		<b>185,348</b>	
<b>Austria</b>				
Single-family houses		75		78
Office buildings	34,531		38,079	
	<b>34,531</b>	<b>75</b>	<b>38,079</b>	<b>78</b>
<b>Sweden</b>				
Office buildings	28,041		32,541	
	<b>28,041</b>		<b>32,541</b>	
<b>Spain</b>				
Office buildings	7,900		8,100	
	<b>7,900</b>		<b>8,100</b>	



	31 Dec. 08 € 000		31 Dec. 07 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
<b>Switzerland</b>				
Office buildings	23,750		0	
	<b>23,750</b>		<b>0</b>	
<b>USA</b>				
Apartments		234,833		0
Multiple-family dwellings		29,480		25,384
Office buildings	1,154,903		280,056	
Retail buildings	138,258		36,526	
Other commercially used properties	320,722		0	
New buildings and buildings not yet capable of producing a yield	23,085	46,834	0	0
	<b>1,636,968</b>	<b>311,147</b>	<b>316,582</b>	<b>25,384</b>
<b>Total sum</b>	<b>3,962,093</b>	<b>9,123,896</b>	<b>2,002,712</b>	<b>8,568,723</b>
Apartments		2,560,946		2,177,888
Single-family houses		3,571,062		3,554,671
Multiple-family dwellings		2,838,741		2,729,754
Office buildings	2,613,451		1,287,857	
Retail buildings	740,650		488,397	
Industrial buildings	88,448		83,727	
Other commercially used properties	493,800		139,768	
Incomplete new buildings with no revenue-generating capacity as yet	24,227	151,030	1,298	105,314
Buildings under construction	1,517	2,117	1,665	1,096

#### PAYMENTS IN ARREARS ON COVERING MORTGAGES

	31 Dec. 08 € 000	31 Dec. 07 € 000
Federal Republic of Germany	17,743	27,656
Total amount of payments in arrears for at least 90 days	<b>17,743</b>	<b>27,656</b>

**TOTAL VOLUME OF CLAIMS USED TO COVER PUBLIC PFANDBRIEFE****Value of cover**

	31 Dec. 08 € 000	31 Dec. 07 € 000
<b>Federal Republic of Germany</b>		
Regional authorities	4,680,217	4,225,848
Local authorities	1,811,185	2,138,860
Other debtors	3,931,903	4,443,449
	<b>10,423,305</b>	<b>10,808,157</b>
<b>Belgium</b>		
State	175,000	175,000
	<b>175,000</b>	<b>175,000</b>
<b>France</b>		
Local authorities	1,506	1,756
	<b>1,506</b>	<b>1,756</b>
<b>Greece</b>		
State	110,087	127,070
	<b>110,087</b>	<b>127,070</b>
<b>Great Britain</b>		
State	20,997	0
	<b>20,997</b>	<b>0</b>
<b>Ireland</b>		
State	22,695	22,695
	<b>22,695</b>	<b>22,695</b>
<b>Iceland</b>		
State	60,000	60,000
	<b>60,000</b>	<b>60,000</b>
<b>Italy</b>		
State	119,734	109,043
Regional authorities	5,000	0
	<b>124,734</b>	<b>109,043</b>
<b>Lithuania</b>		
State	30,000	30,000
	<b>30,000</b>	<b>30,000</b>
<b>The Netherlands</b>		
State	1,475	1,475
	<b>1,475</b>	<b>1,475</b>





	31 Dec. 08 € 000	31 Dec. 07 € 000
<b>Austria</b>		
State	185,045	196,971
Other debtors	172,500	167,500
	<b>357,545</b>	<b>364,471</b>
<b>Poland</b>		
State	118,670	50,217
	<b>118,670</b>	<b>50,217</b>
<b>Portugal</b>		
State	85,000	85,000
Regional authorities	10,000	10,000
	<b>95,000</b>	<b>95,000</b>
<b>Sweden</b>		
State	10,226	10,226
	<b>10,226</b>	<b>10,226</b>
<b>Switzerland</b>		
Regional authorities	154,882	181,302
Other debtors	208,670	205,217
	<b>363,552</b>	<b>386,519</b>
<b>Slovakia</b>		
State	5,000	5,000
	<b>5,000</b>	<b>5,000</b>
<b>Slovenia</b>		
State	100,000	100,000
	<b>100,000</b>	<b>100,000</b>
<b>Spain</b>		
State	0	87,349
Regional authorities	141,958	118,958
	<b>141,958</b>	<b>206,307</b>
<b>The Czech Republic</b>		
State	95,000	75,000
	<b>95,000</b>	<b>75,000</b>
<b>Hungary</b>		
State	70,000	60,000
	<b>70,000</b>	<b>60,000</b>
<b>European Institutions</b>		
Other debtors	36,745	0
	<b>36,745</b>	<b>0</b>



	31 Dec. 08 € 000	31 Dec. 07 € 000
<b>Total</b>	<b>12,363,495</b>	<b>12,687,936</b>
State	1,208,929	1,195,046
Regional authorities	4,992,057	4,536,108
Local authorities	1,812,691	2,140,616
Other debtors	4,349,818	4,816,166

#### REPAYMENTS OF COVERING MORTGAGES

	of which housing sector		of which commercial property sector	
	€ 000		€ 000	
	2008	2007	2008	2007
Redemptions	257,890	251,316	226,426	204,851
Other forms of repayment	899,257	812,642	744,761	599,829
	<b>1,157,147</b>	<b>1,063,958</b>	<b>971,187</b>	<b>804,680</b>

#### INTEREST OUTSTANDING

Unpaid interest on mortgage loans due for payment between 1 October 2007 and 30 September 2008 has been fully written off or value adjustments have been made. Interest outstanding consisted of:

	of which housing sector		of which commercial property sector	
	€ 000		€ 000	
Interest on mortgage loans	893 (previous year 1,527)	699 (previous year 1,261)	194 (previous year 266)	

#### FORCED AUCTIONS AND RECEIVERSHIPS OF COVERING MORTGAGES

	of which housing sector		of which commercial property sector	
	2008	2007	2008	2007
The number of proceedings pending at 31 Dec. 08 was				
- Forced auctions	123	288	113	272
- Receiverships	77	148	65	138
	55*)	132*)	48*)	125*)
The number of forced auctions conducted in 2008	72	73	66	66

\*) 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 2008	91,649	1,800,416	460,276,350.40
Additions in 2008	937	282,498	72,220,613.70
Reductions in 2008	2,615	44,447	11,362,875.55
End of 2008	89,971	2,038,467	521,134,088.55

	€
Increase in members' capital contributions in 2008	16,663,595.99
Increase in members' liability for additional contributions in 2008	60,857,738.15
Amount of each share	70.00
Liability for additional share	255.65

### PERSONNEL STATISTICS

The average number of persons employed by the Bank in 2008 was as follows:

	Male	Female	Total
Full-time employees	192	128	320
Part-time employees	4	52	56
Total employees	196	180	376
Apprenticed trainees	2	14	16

### SHAREHOLDINGS

	Percentage of capital held	Capital in € 000	Profit/Loss in € 000
M-Wert GmbH, Munich*)	100	1.328	82
Immobilien-service GmbH der Münchener Hypothekenbank eG (M-Service), Munich (profit transfer agreement)**)	100	509	0
Nussbaumstrasse GmbH & Co. KG, Munich*)	100	751	416
Patio Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz*)	33	- 3,618	- 167
CM Komplementär 07-868 GmbH & Co. KG, Munich*)	100	0	0
Blitz 07-671 GmbH, Munich*)	100	24	- 1

\*) annual financial statements 2007, \*\*) annual financial statements 2008



## 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 (until 26 April 2008)  
Bank Director (ret.)

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

Michael Jung ... Bretten  
Deputy Chairman of the Board of Management of  
Volksbank Bruchsal-Bretten 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

Bernhard Heinlein (deputy), as of 1 August 2008

Loans to members of the Supervisory Board amounted to € 28,680 (thousand) (previous year € 27,601 (thousand)), and € 71 (thousand) to members of the Board of Management. Pension provisions for former members of the Board of Management amounted to € 13,544 (thousand) (previous year € 13,502 (thousand)). Total remuneration received by the members of the Board of Management during the year under review amounted to € 1,492 (thousand), for members of the supervisory Board € 262 (thousand) (previous year € 309 (thousand)). Total compensation received by the members of Advisory Board amounted to € 52 (thousand) (previous year € 64 (thousand)). Total compensation received by former members of the Board of Management and their surviving dependants amounted to € 1,144 (thousand) (previous year € 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 € 616 (thousand) (previous year € 600 (thousand)) were incurred for auditing the annual financial statements and the management report, the cooperative's organisational structures, as well as for examining the conduct of the cooperative's business activities. Total costs of € 24 (thousand) (previous year € 199 (thousand)) were incurred for other confirmation and evaluation services, and € 51 (thousand) was incurred for other 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 € 9,452 (thousand).

Munich, 3 February 2009

MÜNCHENER HYPOTHEKENBANK eG  
The Board of Management

Erich Rödel

Dr. Bernhard Scholz

Klaus Sturm

Bernhard Heinlein



## 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 2008. 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, 12 March 2009

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, 3 February 2009

MÜNCHENER HYPOTHEKENBANK eG  
The Board of Management

Erich Rödel

Dr. Bernhard Scholz

Klaus Sturm

Bernhard Heinlein





## 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 depth 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 business model, which was addressed by the entire Supervisory Board and the special committees.

Various committees were appointed to deal with special issues. These committees met numerous times during the 2008 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 2008 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 2008 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 2008 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 2008 – as explained – and endorse the Board of Management's proposal for the allocation of net income.

Dr. Hans-Ludwig Bungert resigned his position as member of the Supervisory Board during the year under review. We wish to express our thanks to Dr. Bungert, who contributed his knowledge and experience to work of the Supervisory Board after his many years as a member of the Board of Management. Our Lending Committee, in particular, benefited from Dr. Bungert's decades of experience in the domestic and international lending business. We would like to especially thank Dr. Bungert for his many years of continuous and deep loyalty and commitment to the MünchenerHyp.

The following changes took place in the Board of Management during the year under review: Mr Bernhard Heinlein was appointed deputy member of the Board of Management of the Münchener Hypothekbank by the Supervisory Board effective August 1, 2008. In his new assignment Mr. Heinlein is primarily responsible for the further expansion of the private residential property finance area of business. In December 2008 the Supervisory Board appointed Dr. Louis Hagen as a member of the Board of Management. It is expected that Dr. Hagen assume his duties in Munich as of July 1, 2009 and be mainly responsible for Transaction Management activities.

Munich, in April 2009  
MÜNCHENER HYPOTHEKENBANK eG

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



## THE MEMBERS OF THE DELEGATES MEETING

### AS OF 31 DECEMBER 2008

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 25 APRIL 2009, 10.30 A.M.

1. Report on the 2008 business year by the Board of Management and presentation of the Annual Statement of Accounts and the 2008 Management Report
2. Report of the Supervisory Board
3. Auditors' report
4. Resolutions to ratify:
  - a) the 2008 Annual Statement of Accounts
  - b) proposed appropriation of distributable profits
  - c) the acts of the Board of Management and the Supervisory Board for the 2008 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  
Bernhard Heinlein (deputy) (as of 1 August 2008)

### 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 (until 26 April 2008)  
Konrad Irtel ... Rosenheim  
Michael Jung ... Bretten  
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  
Dietmar Küsters ... Straubing  
Karl Magenau ... Heubach  
Richard Oldewurtel ... Hatten  
Claus Preiss ... Buehl  
Richard Riedmaier ... Ingolstadt  
Gregor Scheller ... Forchheim  
Franz Schmid ... Altshausen  
Erich Schönle ... Achern  
Jürgen von Seggern ... Hude  
Thomas Sterthoff ... Guetersloh

### EXECUTIVE DIRECTOR

Ingo Schramm



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Klaus Sturm ... Phone +49 (0) 89 / 53 87 - 404  
Bernhard Heinlein (deputy) ... Phone +49 (0) 89 / 53 87 - 401

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Dr. Phil Zundel  
Board of Management Staff  
Münchener Hypothekenbank eG

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