



ANNUAL REPORT

2010 >>



OVERVIEW

BUSINESS DEVELOPMENT (IN MILLIONS OF €)

	2010	2009	Change %
Lending Business			
a) Mortgage loans	3,553	1,902	87
aa) Private property financing	3,208	1,817	77
ab) Commercial property financing	345	85	309
b) Loans to public sector and banks	1,884	912	106
Total	5,437	2,814	93

BALANCE SHEET (IN MILLIONS OF €)

	2010	2009	Change %
Total assets	35,225	35,733	-1
Mortgage loans	18,455	16,591	11
Loans to public sector and banks	13,597	14,378	-5
MBS	125	191	-35
Pfandbriefe and other promissory notes	31,195	30,491	2
Liabe equity capital	1,198	1,135	6

INCOME STATEMENT (IN MILLIONS OF €)

	2010	2009	Change %
Net interest income less commissions	97	87	12
Administrative expenses	59	59	-1
Results from operations before deducting provisions for risks	32	25	30
Results from operations after deducting provisions for risks	17	13	28
Net income	11	11	0

EMPLOYEES (NUMBER)

	2010	2009	Change %
Average number of employees per year	366	369	-1
Apprentices	17	19	-11
Employees participating in parental leave, early retirement and partial retirement (non-working phase)	23	22	5



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Joining together to build lasting values.

“You should join together with others to achieve goals you can't attain by yourself” – our principle of cooperation based on partnership is founded on this guiding statement by Hermann Schulze-Delitzsch. We have aligned all of our actions with this principle ever since the Münchener Hypothekenbank was founded as a registered cooperative in 1896. With an overall goal that unites and motivates us: to create lasting values. For customers, partners and investors.

LETTER FROM THE BOARD OF MANAGEMENT

DEAR SHAREHOLDERS AND BUSINESS ASSOCIATES,

During the past year, the property markets relevant to the business of Münchener Hypothekbank were in good shape, or at least showed signs of recovery. Above all, the German residential property market advanced at an encouraging pace.

LONG-TERM BUSINESS STRATEGY

We took advantage of the opportunities arising from the improved market environment during the past year as we expanded our new business. In contrast to the previous year, the more stable overall conditions allowed us to make longer-term strategic plans, which had been only possible to a limited extent during

the crisis in the financial markets. During that time, our main focus was on coping with the extreme volatility and unpredictability in the property and capital markets in the short term and, above all, ensuring that we had the necessary level of liquidity available.

The business and risk strategy that we continued to develop during the past year is focused on long-term and sustainable growth. It includes an even stronger concentration on financing residential and commercial properties in Germany.



The Board of Management of the Münchener Hypothekbank eG. From left to right: Michael Jung, Dr. Louis Hagen (Spokesman), Bernhard Heinlein.



We see particularly great potential in the private residential property financing area. This is due in part to the extremely stable demand for residential property loans, and partly to the Volksbanken Raiffeisenbanken Cooperative Financial Network's (genossenschaftliche FinanzGruppe) market penetration in this business area, which is very strong but can still be further expanded. Our cooperative partner banks enjoy a high level of customer trust because of their expertise and proximity. Our goal is to help our cooperative partners offer their customers the best property financing options, regardless of the interest rate situation at any given time. This approach allowed us to achieve a very good placement volume in our business with the cooperative partner banks in the past year.

We also want to grow continuously and risk-consciously in the commercial property finance area. To achieve this we are focusing even more closely on a few core markets. In addition to Germany, these include the strong economic regions in the UK and France in particular. For the Cooperative Financial Network in Germany, we are pursuing a strategy that focuses on the Volksbanken and Raiffeisenbanken.

Our core business areas are supplemented by our credit business with the public sector and banks. This segment primarily plays a supportive role. On the one hand, it helps us manage liquidity and generate additional income; on the other, we want to maintain our international presence as an issuer of Public Pfandbriefe. A broad investor base is very important for Münchener Hypothekenbank because the Pfandbrief is our primary refinancing instrument.

THE FIFTH-LARGEST PROPERTY FINANCER IN GERMANY

We were able to assert ourselves quite well vis-à-vis our competitors as we moved on to a growth path. Our new mortgage business amounted to € 3.6 billion, which was nearly twice as much as the same year-ago figure in 2009. The largest portion of this growth came, as planned, from private property loans. Above all, this is the result of intensified market cultivation with our partner banks in the Cooperative Financial Network. In addition, we benefitted from the high demand for residential

property loans in Germany due to the very low interest rates, compared to long-term average rates, together with growing inflation concerns.

We only made loan commitments in the area of commercial property loans if our strict risk standards and interest-yield requirements were met. This meant that new business in this area grew, in absolute terms, at a significantly more moderate pace.

Our concentration on financing residential properties in Germany is also linked to our efforts to further improve the already high quality of our mortgage portfolio. We made good progress toward this goal during the past year. Thanks to our strong new business, we were able to expand our portfolio of mortgages and other property loans by more than 10 percent to € 18.4 billion. According to a review conducted by one of the large national business newspapers, last year we were among Germany's top five largest property financiers for the first time.

During the past financial year, as planned, we began to reduce our portfolio of loans in the USA. Our objective is to wind down our business in the USA. However, this can only take place gradually over the next few years. With this in mind, we are satisfied with the results of our proactive monitoring of our USA portfolio during the past year.

A STRONG REPUTATION IN THE CAPITAL MARKETS

Overall, the European Central Bank's covered-bond purchasing programme created a favourable climate for new issues in the covered bond market. In 2010, the Pfandbrief set the standard as a quality product in this environment and was able to distinguish itself from other covered bonds. Our Pfandbriefe were in high demand during the past year. This applied to all Pfandbrief categories and especially to our Jumbo Pfandbrief issues, which we were able to place at very attractive conditions. In addition to the high quality of the cover pools for our Pfandbriefe, we credit MünchenerHyp's good standing in the capital markets to the intensive support we provide to our investors and the fact that we are embedded in the Volksbanken Raiffeisenbanken

Cooperative Financial Network. We were able to meet investors' demands for issuer services, which increased as a result of the financial market crisis.

STABLE INCOME SITUATION

In highly competitive markets like residential property financing in Germany, additional business does not necessarily lead to a surge in income. Margins cannot be expanded in this area without incurring higher risks, and as a specialist financier we could only realise additional income by accepting risks arising from changing interest rates. However, both of these options are incompatible with our goal of increasing income in a sustainable and risk-conscious manner.

Therefore, as in 2010, we will have to continue working intensively to keep our administrative costs low and to steadily increase the efficiency of our processes. As a result, we will be able to achieve a cost-income ratio that is appropriate for the business model of MünchenerHyp in the long term. This is all the more important because the ongoing projects to meet future supervisory requirements, in particular, will lead to higher additional costs.

EFFECTS OF SUPERVISORY REQUIREMENTS

Since the outbreak of the crisis in the financial markets, the credit sector has become subject to increasingly strict and more varied regulations. The intent is to prevent future crises on international, European and national levels, which is understandable after the experiences of the financial market crisis. However, the new regulations do not sufficiently account for the fact that not every business model generates the same macroeconomic risks. In addition, in some cases the effects of the various regulations appear to be counterproductive.

This especially applies to the low-risk mortgage lending business at traditional Pfandbrief banks like MünchenerHyp. Specifically, the stricter bank credit rules contained in Basel III, and other requirements like the bank levy, will place a disproportionate burden on firms like MünchenerHyp because of their low-risk and low-margin business. In order to counteract

this, we would have to accentuate a higher-risk/higher-margin business. However, this would mean a departure from our strategy and is therefore not an option.

The significantly narrower definitions of equity capital restrict the accountability of equity capital while simultaneously increasing the demand for expensive capital resources. Furthermore, the higher liquidity requirements increase costs, especially because they are not coordinated with the existing liquidity requirements of the Pfandbrief Law. Without corrections or further coordination, refinancing via Pfandbriefe would become significantly more expensive. Finally, the threatened introduction of the so-called leverage ratio, which establishes an upper limit for a bank's volume of loan transactions regardless of the risk levels of the loans issued, creates a false incentive to reduce low-risk and low-margin business and to take on higher risks when making loans. The original goal of further limiting high-risk business is thus completely reversed. Lawmakers must therefore review the effects of the new rules once more in their entirety before implementing international regulations in European and German law, and when creating original German regulations.

GREAT DEDICATION SHOWN BY OUR EMPLOYEES

The commitment of our employees was one of the key foundations that enabled us to successfully expand our new business during the past year. They faced special demands associated with the implementation of cost and efficiency measures, intensive risk management strategies and projects for fulfilling the new supervisory requirements. We would like to thank them and assure that we recognise their energetic commitment to the future of our bank. We would also like to thank the MünchenerHyp committees for their constructive cooperation and expert advice.

OBJECTIVES FOR 2011

This year we plan to further develop our sustainable growth course and continue expanding our new business. As we do this we will continue to place special attention to risks and will maintain our high standards. Following our successful efforts



to reorganise our loan portfolio in the past year, we expect that there will be less need for specific provisions in the current financial year. On the refinancing side, the Pfandbrief will remain our most important instrument. We already began the new year on a favourable note by issuing a Jumbo Mortgage Pfandbrief in January.

Based on our new business targets, we are confident that we will be able to take a further step towards strengthening MünchenerHyp's sustainable earning power in 2011.

Sincerely yours,

Dr. Louis Hagen

Bernhard Heinlein

Michael Jung



MANAGEMENT REPORT

OVERALL ECONOMIC CONDITIONS

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It's easier to convince others if you're convinced yourself.



"It isn't easy to find the right private property financing. It is often hard for customers to differentiate between existing offers. We help our partner banks within the Volksbanken Raiffeisenbanken Cooperative Financial Network to set themselves apart from others by offering innovative and attractive financing solutions. Because we want them to be fully convinced when they offer our private property financing solutions."

Heinz-Peter Noethgen
Regional Director, Head of the Regional Office Cologne
Münchener Hypothekbank eG

MANAGEMENT REPORT

OVERALL ECONOMIC CONDITIONS

ECONOMIC DEVELOPMENT

The global economy recovered from the effects of the financial market crisis more quickly and strongly than was generally expected. The worldwide gross domestic product increased by about 5 percent in 2010. However, this growth began to slow again in the second half of the year. This was primarily due to slowing economic activity in many industrialised countries. With a 1.8 percent gain in economic performance, the euro zone in particular lagged behind the pace of global economic development. A series of factors had a dampening effect, including the lower growth rate for industrial manufacturing, the ending of government stimulus programmes and the effects of the European debt crisis in the form of tax increases and government spending cuts in some countries.

The economic development in Europe was largely driven by Germany. The German gross domestic product rose by 3.6 percent, thereby compensating for a significant portion of the manufacturing losses seen in the recession year of 2009. The upswing in the German economy was largely driven by increased domestic demand. About one-third of the growth resulted from the significant expansion of exports.

Investments in plant, equipment and construction strongly contributed to this growth. For the first time in many years, private residential construction once again was the engine driving the increase in construction spending. However, public-sector and commercial building projects also posted gains. Growth was also supported by the increase in government spending and to a lesser degree by private consumption, which rose by half a percent after shrinking in the previous year.

The increase in consumer prices was mainly noted in the last quarter of 2010. Over the course of the year, the average inflation rate increased by 0.7 percentage points to 1.1 percent. Prices for heating oil and fuels, in particular, grew along with food prices.

The upswing also brought further relief to the job market. The average number of employed persons for the year reached a new high of 40.5 million. This also reduced the unemployment rate. With an average of 7.7 percent for the year – approximately 3.2 million unemployed – it was even slightly lower than the pre-recession level.

FINANCIAL MARKETS

The European sovereign debt crisis was the most important issue for the financial markets in 2010. Above all, market participants were unsettled by the imbalances within the euro zone, especially by the relatively great differences between member states in terms of their economic growth, budget deficits and the debt ratio.

The EU and the IMF initially responded to the debt crisis with a support package for Greece, which soon needed to be expanded to include a new support mechanism: the European Financial Stability Facility. The so-called “euro rescue umbrella” was opened for the first time over Ireland in November 2010, in conjunction with IMF support. However, thus far the EU and IMF measures have not yet produced any long-term relief.

“The European sovereign debt crisis was the dominant issue for the financial markets in 2010.”

The high level of sovereign debt in some EU countries placed a serious strain on the exchange rate of the euro, which fell substantially in comparison to the Swiss franc, in particular. The euro did recover vis-à-vis the US dollar after measures were taken to support Greece, and due to Fed's expansive monetary policy the euro temporarily rose to over \$ 1.40. The exchange rate dropped back down to values around \$ 1.30 after support measures were taken for Ireland.

In the capital market, the value of bonds issued by weaker euro-zone states fell significantly as their credit spreads widened considerably. Bonds issued by banks also suffered because of the sovereign debt crisis. In particular, banks in the weaker euro-zone states found it nearly impossible to tap the market.

The stricter supervisory requirements planned per Basel III and the increased liability risks for senior unsecured bank bonds placed greater burdens on the holders of these bonds, and supported the growth of the covered bond segment.

The German Pfandbrief market was able to set itself even further apart from the other instruments in the covered bond market in 2010. It benefited from moderate spreads during the first half of the year as a result of the European Central Bank's (ECB) purchasing programme for covered bonds. The favourable development continued even after the end of the programme. Jumbo bonds with a total volume of nearly € 150 billion were issued in the European covered bond market in 2010. Just under € 35 billion worth of bonds were issued in the segment of bonds higher than € 0.5 billion and less than € 1.0 billion – so-called sub-jumbos –, or about four times higher than in the previous year.

The market share for the German Jumbo Pfandbrief shrank to 12 percent as total sales of German Pfandbriefe fell from the same year-ago figure of € 79 billion because fewer Public Pfandbriefe were issued. Sales of € 38 billion were noted for the Mortgage Pfandbriefe segment, and the same amount was also posted for Public Pfandbriefe.

"The Pfandbrief affirmed its position as a quality product in 2010 and developed more favourably than other covered bonds."

Driven by the economic recovery as well as by very good corporate profits, stock markets grew worldwide. The particularly robust development in Germany benefitted the DAX, which climbed to more than 6,900 points, or 16 percent over the same figure at the end of the previous year. The Dow Jones Index also posted strong growth as it advanced by 11 percent. Investors' fears of growing inflation rates and of the failure of government bonds led to a restructuring of portfolios, with an emphasis on stocks, property and gold. Stocks benefitted from high dividend yields in some instances and from asset value considerations.

Figures in % | YIELD ON TEN-YEAR BUNDS 2010



The central banks of the major industrialised nations maintained their expansive monetary policies and left their key interest rates at levels that were, and still are, historically low. Early in 2010 the ECB announced that it would recall its exceptional measures. However, the implementation took place hesitantly in the face of the sovereign debt crisis. Although not all of banks have secure access to the financial markets yet, a certain normalisation has taken place. The US central bank garnered worldwide criticism for continuing its lax monetary policy and purchasing massive quantities of US government bonds, since many countries feared that the value of their own currencies would appreciate vis-à-vis the dollar and give them a competitive disadvantage.

Ten-year German government bonds (Bunds) were in high demand by investors during the past year. Many investors valued the outstanding creditworthiness and optimal liquidity of these bonds more highly than the goal of earning high interest. As a result, the return on investment for ten-year Bunds dropped from 3.4 percent at the beginning of the year to 2.1 percent by the end of August, a contraction of more than 1 percentage point. Demand for Bunds fell in response to the continuous

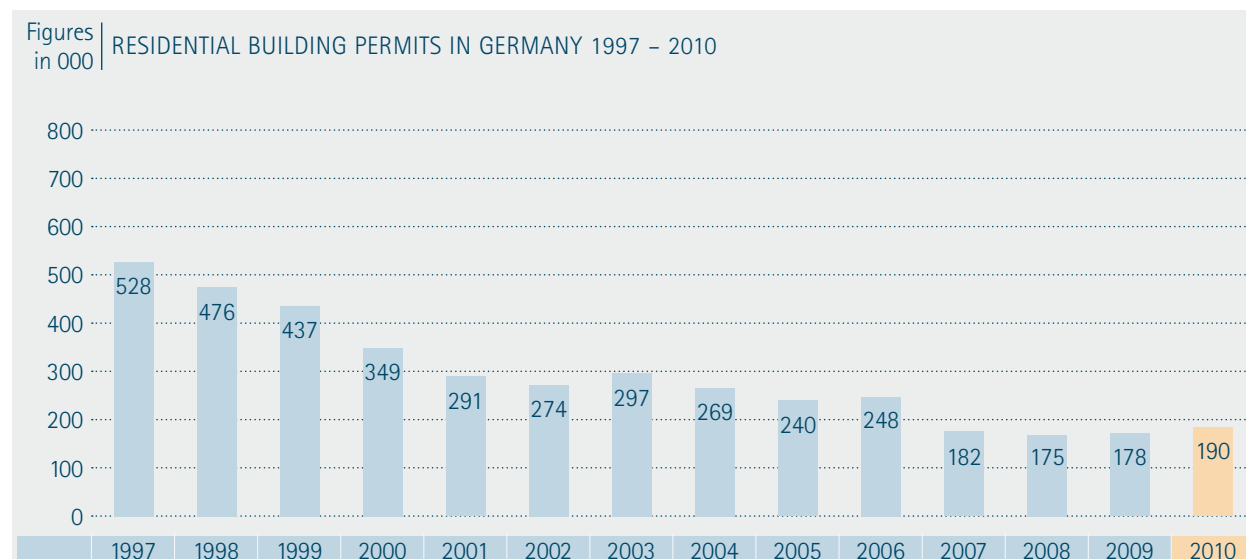
improvement in global growth perspectives and by the end of the year they were again yielding about 3 percent.

PROPERTY AND PROPERTY FINANCE MARKETS

RESIDENTIAL PROPERTY MARKET – GERMANY

The German residential property market continued to be robust and retained its value, not only in comparison with the international market. Private demand for owner-occupied and rented property increased due to discussions surrounding the future of the euro, fears of rising inflation and the very low level of interest rates. For these reasons, residential property was also in high demand as a secure capital investment.

As a result, in many areas prices for houses and apartments rose distinctly in the previous year. Price increases varied quite widely according to location. Particularly in metropolitan areas and prosperous regions, prices tracked rising demand, and the price differential between urban and rural areas also increased. In addition, high demand led to signs of a housing shortage in some places due to the low level of new residential construction in recent years, which was also reflected in rising



Source: Statistisches Bundesamt www.destatis.de, 2010 = estimated annual result



rental prices. On average, rents rose more quickly than purchase prices nationwide.

Last year's recovery of residential housing construction was accompanied by a notable increase in the number of building permits issued. Experts estimate that about 190,000 permits were issued for new housing. This corresponds to an increase of nearly 7 percent. However, the increase barely covered the minimum need for new residential housing, which meant that the housing situation remained tight in metropolitan areas.

Interest rates for property financing fell to historic lows in 2010. Even fixed interest rates for up to 30 years were occasionally available at effective annual interest rates of around 4 percent leading to demand for these loans. This trend was further reinforced by recommendations made by consumer associations to potential homeowners that securing a low fixed interest rate over the entire term of a loan was an important aspect of solid financing.

"Demand was very high for property bought for personal use as well as a secure capital investment. Prices in the major metropolitan areas rose in particular."

Furthermore, customers highly valued flexibility, in addition to secured interest rates, when financing property. Financing solutions were increasingly expected to adapt to the changed living conditions and financial situations. For this reason, unscheduled repayments and repayment rate modification options became more common in agreements.

During the second half of the year, interest rates once again rose significantly based on interest rate shifts seen in the capital markets. Between September and December, interest rates for ten-year loans rose by up to 0.7 percentage points. Despite this relatively rapid increase, interest rates remained low at the end of 2010 compared to long-term average rates.

The high demand and good interest levels also strengthened new business for credit institutions in the private property finance market. In particular, this benefited the Volksbanken Raiffeisenbanken Cooperative Financial Network (genossenschaftliche FinanzGruppe Volksbanken Raiffeisenbanken), which was able to expand its market share. This was largely due to increased customer focus on personal consultation, proximity and security.

"The Cooperative Financial Network was able to further expand its market share. This was largely due to increased customer focus on personal consultation, proximity and security."

RESIDENTIAL PROPERTY MARKETS – INTERNATIONAL

The economic and financial market crisis also left its mark on the international residential property markets. Residential property purchases declined significantly. As a result, there was a clear trend toward rental properties in many countries.

France, Austria and Switzerland were among the countries in Europe where residential property markets remained relatively stable. France benefited from a combination of economic policy measures and the provision of long-term outside capital at fixed interest rates, despite relatively unsatisfactory job-market data. Although demand for new owner-occupied property declined, the simultaneous drop in offerings and the very low inflation rate did, however, prevent these factors from having a negative effect on price development. At the same time, demand for rental housing increased.

In Switzerland, the substantial increase in residential property prices seen over the past few years slowed. Prices for multi-family homes rose slightly, while falling marginally for single-family homes. The pace of price increases even slowed in the cantons of Zug, Waadt and Geneva, where the price of housing had risen substantially in the past.

The picture was different in the UK. The initial signs of a recovery in residential property prices have not yet solidified, since fears of another recession have persisted. In addition, the poor job-market data, together with savings measures announced by the government, and the ongoing credit shortage, made it impossible for many Britons to purchase residential property. As a result, demand for rental housing increased significantly, driving the average rental price to its highest level since 2008. This made investments in rental housing more attractive to institutional investors.

"The effects of the economic and financial market crisis were still being felt in the international residential property markets. Countries that had previously experienced booming property markets were particularly affected as the sale of residential property fell notably in these markets."

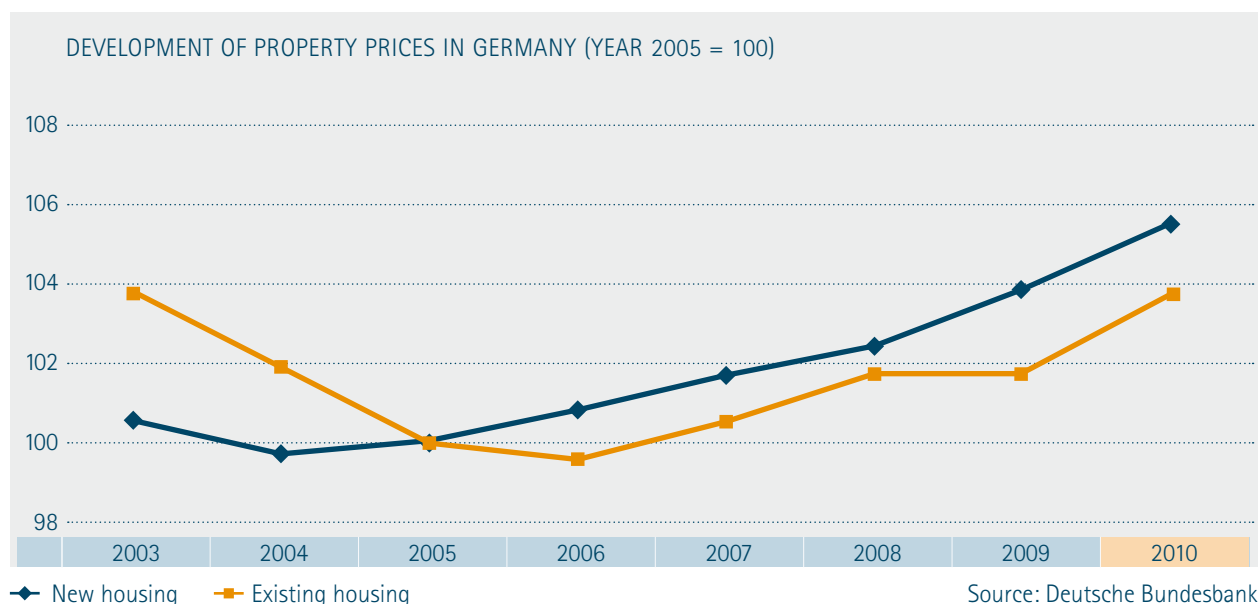
The situation in the Spanish residential property market remained critical. Both the continued surplus of available housing and the

high unemployment rate of nearly 20 percent prevented the residential property market from recovering. Neither the government nor the local banks have been able to stabilise the Spanish housing market to date.

The US market for residential properties remained in a difficult situation. The high unemployment rate, the large number of foreclosures, stricter lending criteria by banks and the generally uncertain overall economic conditions led to a further decline in housing prices. On average, single-family homes have lost approximately a quarter of their value since the start of the housing crisis in the USA. The market for rental housing, on the other hand, has seen a tangible recovery since the start of 2010, and has again become a focal point for national and international investors. Credit institutions were once again more willing to finance these properties or extend existing financing agreements.

COMMERCIAL PROPERTY MARKET – GERMANY

In Germany, investors in the commercial property market grew increasingly confident over the course of 2010. The trend of focusing property activities on top-quality properties in just a





few business centres, as seen in many other European countries, was also noted in Germany albeit to a lesser extent.

Nonetheless, with stable market prices, the transaction volume increased over the same figure noted in 2009 by two-thirds, to about € 22 billion. There were strong regional differences. While the transaction volume in Munich remained basically unchanged at a fairly constant high level in comparison to the same year-ago figure, it nearly doubled in Berlin, while Frankfurt also saw significant growth.

In particular, office and retail properties were sought in the commercial sector, and there was clear interest from foreign investors. The project volume also increased once again, indicating participants' confidence in the German commercial property sector.

"The German commercial property market recovered increasingly over the course of 2010 as the volume of transactions rose notably."

The rental market for office properties showed a similar situation. German cities with stronger economies reported stable to clearly rising turnover for rental space. On average, however, this did not lead to significant increases in rents. Rents for good to very good office space remained largely unchanged at a high level. A positive trend was seen for logistical properties. The strong recovery was reflected by a strong increase in property sales. In both the Berlin and Munich regions, for example, property sales increased by nearly 50 percent, and by about 60 percent in the Hamburg region.

COMMERCIAL PROPERTY MARKETS – INTERNATIONAL

Throughout Europe, commercial property markets continued to be influenced by the effects of the economic and financial market crisis, with regional differences. Basically, investors were seeking to invest in very good properties in excellent locations. The more critical investors believed a country's economic situation to be, the greater the emphasis they placed on a proper-

ty's quality and location. In Spain, for instance, the concentration on prime locations in large cities, especially Madrid, was more apparent than in France or the UK. On an overall basis, however, the number of property investments once again rose. The transaction volume in Europe increased by about 50 percent to € 105 billion with the fourth quarter accounting for one-third of sales.

Office properties in top locations in major European metropolitan areas were once again in much greater demand during the past year. Investors considered the cities of London, Paris, Brussels, Vienna, Zurich, Marseilles and also Madrid, along with their surrounding metropolitan areas, to be less susceptible to a recession. Thus the UK's unclear economic prospects did not prevent London from enjoying a high investment volume despite rising prices and sinking returns on investment.

Similar factors applied to the development of rental prices. Due to the significant decline in new construction and project volumes during the crisis, there was a serious shortage of modern, high-quality spaces in many major European metropolitan areas. As a result, rents remained stable or, in some cases, increased notably. At the same time, the first sign of recovery was seen in the immediate vicinity of top locations, as investors and renters were often no longer willing to pay the high prices even in the truly top locations. Rentals in second-tier and third-tier metropolitan locations remained difficult, along with those in weaker economic regions.

The US commercial property market was divided in 2010. Particularly in the second half of the year, the core markets of New York, Washington, D.C., Boston, San Francisco and Los Angeles saw a significant revitalisation. Financial institutions once again showed more willingness to finance stabilised commercial properties. In the "B" markets, on the other hand, the situation was still strained. Signs of stabilisation were not yet apparent there. This qualitative division of the property market could be seen for offices, retail stores, logistical and hotel properties in equal measure. Overall, the tangible revitalisation was based on still fragile favourable economic data.



BUSINESS DEVELOPMENT AND OVERALL CONDITIONS

1. Volksbank eG
 2. Münchner Bank eG
 3. Deutsche Apotheker- und Ärztebank eG
 4. Volksbank Börde eG
 5. Volksbank Bielefeld eG
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Happiness is the only thing that gets bigger when it's shared.



"For most of our customers happiness means making their big dream of home ownership come true. Our reliable partner MünchenerHyp helps us turn our customers' dreams into reality with their innovative and flexible products for every need. And their smooth handling of loans ensures that our customers receive their loans exactly when they need it."

Georg Schäfer

Member of the Board of Management Volksbank-
Raiffeisenbank im Kreis Rendsburg eG and Deputy
Chairman of the Advisory Board
Münchener Hypothekenbank eG

BUSINESS DEVELOPMENT AND OVERALL CONDITIONS

MÜNCHENERHYP IN 2010

We further developed our business and risk strategy during the year under review. We are planning a growth course that is primarily focused on private property financing in Germany. Due to positive development of this market in Germany coupled with the substantial expansion of our business with the Volksbanken and Raiffeisenbanken, we were able to realise significant potential in our Cooperative Financial Network business and beyond.

In the area of commercial property financing – following a notable decline in new business in 2009 – we were once again presented with attractive business possibilities, which we pursued gradually and in a risk-aware manner. Here we are focusing on the German market as well as on other countries in Western Europe, especially the UK and France.

Our objective in the credit business with the public-sector and banks was to keep our portfolio stable. We exercised particular caution in this segment given the ongoing uncertainties in the capital markets regarding the creditworthiness of governments and their banking sectors.

The total volume of lending commitment increased as planned, from € 2.8 billion in the previous year to € 5.4 billion. More than half of the total growth was driven by the expansion of new business in private property financing. This also allowed us to expand the portfolio of mortgage loans and other construction financing loans by € 1.8 billion, to € 18.4 billion.

“MünchenerHyp further developed its business and risk strategies in 2010. The Bank expanded its new mortgage business based on this foundation.”

MORTGAGE RATES MÜNCHENERHYP (TEN YEAR FIXED RATE)



Source: MünchenerHyp

As of: 01.01.2011



Results from operations after making provisions for risk increased by € 3.7 million to € 16.7 million.

We were able to close out the year under review with annual net profits of € 11.0 million.

MORTGAGE BUSINESS

Our new mortgage business showed positive development in the past year. Overall, we made € 3.6 billion in mortgage loan commitments, which largely compensated for the decline in 2009 caused by the financial market crisis and the recession. The majority of this new business was related to private property financing.

In the area of residential property financing, we benefited from the high demand for private property financing in Germany. After a fairly subdued start to the year, we were able to increase our new business by more than 75 percent to € 3.2 billion.

During the past year, our most important sales partners were once again the Volksbanken and Raiffeisenbanken. Our range of products with their secured long-term interest rates and high level of flexibility provided our cooperative partner banks with clear competitive advantages. Thus we were able to help the Volksbanken and Raiffeisenbanken expand their market position as quality providers for property financing during the last year.

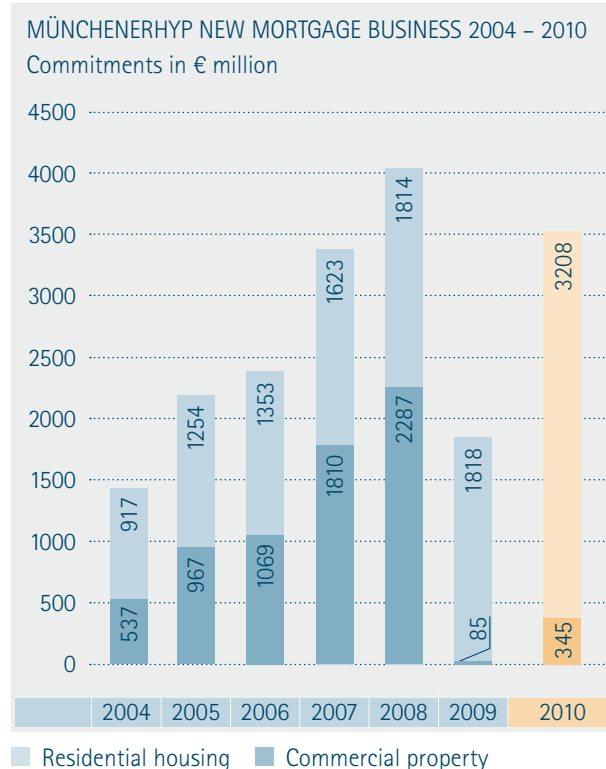
"The Bank's new mortgage business almost doubled in comparison to 2009 as we recorded a volume of € 3.6 billion. The main focus was on private property financing in Germany."

The sales of private property financing through independent financial service providers, known as broker sales, increased by 84 percent over the previous year, to € 390 million. Our cooperation with the Swiss PostFinance was also further expanded,

and it benefitted from one-time effects related to the acquisition of a large portfolio of private property loans.

Our financing business with housing companies was also intensified in 2010. New business reached a volume of € 315 million.

In the area of commercial property financing we once again started expanding new business during the past year based on our strict risk standards. The total volume of lending commitments made increased over the same year-ago figure to € 345 million, and, as planned, about 70 percent of this volume was domestic. In addition to Germany, the target markets for acquiring new business were the strong economic regions in Western Europe. No new business was concluded in the USA; instead, we provided active support to our existing portfolio.



PUBLIC-SECTOR AND BANK LENDING, AND MUNICIPAL LOANS

Uncertainty in the market regarding the creditworthiness of sovereign states resulted in highly volatile credit spreads. We therefore acted with corresponding caution in this business area. We made new loans in line with our conservative risk policies, with the objective of keeping the volume of outstanding loans to public-sector borrowers and banks stable within the cover pool. This was because many of the existing claims and securities matured and were repaid in the first half of 2010, in particular. Our excellent refinancing conditions allowed us to conclude transactions with very creditworthy parties at favourable margins.

Total volume of new loans made to the public sector and banks, as well as our municipal lending, amounted to about € 1.9 billion compared to the same year-ago figure of € 0.9 billion.

REFINANCING

While the first half of 2010 was generally influenced by the favourable effects of the ECB's purchasing programme for covered bonds, we were still able to tap the capital markets for refinancing purposes at favourable conditions after the programme ended. This also meant that we did not need to take advantage of the ECB refinancing options in 2010.

Our two Jumbo Pfandbrief issue were greeted with intense interest by the capital markets allowing us to refinance at very attractive conditions. In June we issued a 5-year Jumbo Mortgage Pfandbrief with a volume of € 1.25 billion. The order book was closed after just two-and-a-half hours with a volume of € 1.7 billion. Regional distribution was also very broad, with more than 100 orders from 16 countries. In the second half of 2010 this Jumbo was successfully increased to € 1.5 billion.

In September we issued a 3-year Jumbo Public Pfandbrief. A volume of € 1 billion was reached after only a few minutes. Shortly thereafter, the books were closed after the issue was

oversubscribed by 2.2 times. With more than 100 orders from 14 countries, including many Asian investors, regional distribution was also widely varied for this issue.

"The Jumbo Pfandbriefe issued by MünchenerHyp's in 2010 attracted a great deal of attention in the capital markets and encountered high demand."

On January 3, 2011, we issued a 5-year Jumbo Mortgage Pfandbrief. It was the first benchmark issue of the year for the covered bond markets. In a market environment that was still relatively calm due to the start of the new year, investor demand was nonetheless very high. The issue volume of € 1 billion was reached after the first hour. The order book was closed shortly thereafter with a volume of € 1.25 billion. Almost 100 orders were received from 13 countries. With a spread of 10 basis points over the mid-swap curve, we were once again able to refinance with advantageous conditions.

Many other issuers followed with covered bonds and other bond placements, resulting in a record level of new bonds in the first days and weeks of 2011. Making the first move in this environment turned out to be the right thing to do, since the high issuance volume led to widening spreads.

Decisive factors for the good sales of our Pfandbriefe are our good network of contacts in the capital market, the ongoing care we place in our relationships with our investors, and our company's good reputation as a member of the Volksbanken Raiffeisenbanken Cooperative Financial Network. As a result, Münchener Hypothekbank has built a strong reputation, and it enjoys the trust of many investors as a valued partner in the capital market. The Cooperative Financial Network was also an important refinancing partner for Münchener Hypothekbank in 2010.

During the year under review, we sold a total of € 8.3 billion in refinancing securities. Of this amount, Mortgage Pfandbriefe



accounted for € 5.5 billion, Public Pfandbriefe for € 1.1 billion, and uncovered securities for € 1.7 billion. Outflows in the refinancing business amounted to € 6.1 billion, resulting in net sales volume of € 2.2 billion.

RATING

After the rating agencies significantly tightened their creditworthiness requirements in 2009, Moody's only carried out one larger adjustment of its methodology in the past year. In evaluating subordinated bonds, the subordinate rating for all German banks was placed "on review for downgrade" in anticipation of the restructuring law that was to take effect on the first day of 2011. Moody's explained that on average this rating was expected to decrease by three levels for German credit institutions. For MünchenerHyp's subordinated rating, Moody's made an adjustment of one level, to A3, on February 18, 2011. Since we only have one such subordinated bond on the market and it comes due on June 1, 2011, this reduced rating has only a slight effect on the Bank.

The rating still places MünchenerHyp on the same level as the Volksbanken Raiffeisenbanken Cooperative Financial Network; it also means that we still have a good rating compared to other Pfandbrief banks. The Aaa ratings for our Public Pfandbriefe and Mortgage Pfandbriefe remain unchanged.

In the current Credit Opinion from January 2011, Moody's once again comments favourably on the Bank's loan portfolio, which is more heavily diversified in comparison to other Pfandbrief banks' portfolios. Moody's also viewed MünchenerHyp's risk profile favourably, as the mortgage lending value ratios are moderate in comparison to the market's figure. The same also applies to the Bank's close collaboration with and membership in the Volksbanken Raiffeisenbanken Cooperative Financial Network.

Moody's commented a bit more critically on the Bank's profitability and level of equity in international comparison. Furthermore, Moody's also opined that a renewed downturn in

the German and international economies could lead to higher adjustments in the area of commercial property loans.

Rating overview

	Rating	Outlook
Public Pfandbriefe	Aaa	stable
Mortgage Pfandbriefe	Aaa	stable
Uncovered liabilities	A1	negative
Subordinated liabilities	A3	stable
Short-term liabilities	Prime-1	negative
Fundamental financial strength	C-	negative

OVERALL LEGAL CONDITIONS

AMENDMENT OF PFANDBRIEF ACT

The second amendment to the Pfandbrief Act took effect on November 25, 2010. In particular, the amendment clearly defined the legal status of the cover pool should a Pfandbriefbank become insolvent. It also expands the administrator's access to cash and cash equivalents. The new amendment further strengthens the safety and quality of the Pfandbrief.

BASEL III

We have been working on the introduction of the Internal Ratings Based Approach (IRBA), using the so-called foundation-IRBA, since 2009. We submitted our application to use IRBA to the Federal Financial Supervisory Authority (BaFin) at the end of 2009. Approval of the first rating systems by the BaFin should take place in the summer of 2011. The substantial improvement in the equity capital ratio resulting from the IRBA should already take effect as of 2011.

The implementation of the resolutions passed by the Basel Committee on Banking Supervision into German law regarding the treatment of hybrid capital, as well as key liquidity and debt figures, were integrated into our business strategy and the related processes were adjusted as required.

MINIMUM REQUIREMENTS FOR RISK MANAGEMENT (MARISK)

The requirements for structuring a risk management system are defined by the Federal Financial Supervisory Authority in the MaRisk rules. The effects of, or amendments to, requirements arising from the updating of MaRisk are noted, analysed without delay and then implemented. The modifications of MaRisk dated August 14, 2009 were fully implemented. The amended version dated December 15, 2010 should be implemented as planned by December 31, 2011. We are already working on creating a liquidity buffer that is newly demanded for capital market-oriented institutes.

APPOINTMENTS

Prof. Dr. Willibald Folz's term as Chairman of the Supervisory Board of MünchenerHyp ended at the close of the Delegates Meeting on April 17, 2010. He stepped down from the Supervisory Board as of this date. The Supervisory Board elected one of their members as new Chairman: Mr. Konrad Irtel, Spokesman of the Board of Management of the VR Bank Rosenheim-Chiemsee eG. Mr. Irtel thanked Prof. Dr. Folz for the great merits on behalf of MünchenerHyp over the many years in his responsible position.

Newly elected to the Supervisory Board by the Delegates Meeting were Mr. Wolfhard Binder, Chairman of the Board of Management of the Raiffeisen-Volksbank Ebersberg eG, and Mr. Erich Rödel, who, due to age reasons, stepped down from the Board of Management of Münchener Hypothekenbank at the close of the Delegates Meeting. Mr. Hans Pfeifer, Chairman of the Board of Management of the Rheinisch-Westfälischer Genossenschaftsverband e.V. and Mr. Hans-Joachim Tonnellier, Chairman of the Board of Management of the Frankfurter Volksbank eG were re-elected as members of the Supervisory Board.

The following changes took place in the Board of Management:

On April 17, 2010 the Supervisory Board appointed Dr. Louis Hagen as Spokesman of the Board of Management.

Klaus Sturm, who as member of the Board of Management was primarily responsible for the Bank's capital market business activities, stepped down from the Board of Management at the end of 2010 to retire from active business life. The Supervisory Board and Board of Management thank Mr. Sturm for his successful efforts, particularly in the area of Pfandbrief issues, which were highly sought after by investors, and his efforts to further strengthen MünchenerHyp's good standing in the capital markets, especially during the crisis in the financial markets.

The Supervisory Board appointed Michael Jung as a full member of the Board of Management as of January 1, 2011. Mr. Jung resigned his mandate as member of the Supervisory Board of Münchener Hypothekenbank upon the announcement of his appointment. Mr. Jung's responsibilities are mainly focused on the areas of Transaction Management and IT.

EMPLOYEES

In addition to the adjustments we made to our business strategy, measures taken to reduce costs and increase efficiency, as well as the special demands posed by the introduction of IRBA and IFRS, the 2010 fiscal year was also marked by our personnel-related efforts. The aforementioned projects, in particular, placed heavy demands on our capacities during the year under review.

The fact that MünchenerHyp was again able to grow and post favourable business results, despite these additional burdens, was only possible because of our employees' strong commitment to the Bank and our good working atmosphere. Further-



more, the constructive and faithful cooperation of the works council and executive employees' speakers committee also made major contributions towards our success. We would like to thank all of our employees, the members of the works council as well as the speakers committee for their commitment and hard work that made the Bank's accomplishments in the past year possible.

The average number of persons employed at MünchenerHyp during the year was 366¹ plus 17 trainees. MünchenerHyp is known for having loyal employees who have been with the Bank for many years. The average number of years of employment is 11. Last year 14 employees celebrated their tenth anniversary with the Bank while six marked their 25th year with the Münchener Hypothekenbank.

"We would like to thank our employees for their active commitment in a year that again placed major demands on our capabilities."

1) Number of employees pursuant to Art. 267 § 5 German Commercial Code (HGB): excludes apprenticed trainees, employees participating in parental leave, partial retirement (non-working phase), early retirement, and employees suspended with pay.



EARNINGS, FINANCIAL AND ASSET SITUATION

[illegible]

A vision is easier to realise if it is shared with others.



"There's usually a long distance to go between the initial idea and the actual financing. It's good if you can go it with competent partners. From day one we provide real estate investors with expert advisers and offer them flexible and transparent financing structures, fitting any and all needs."

Jan Polland

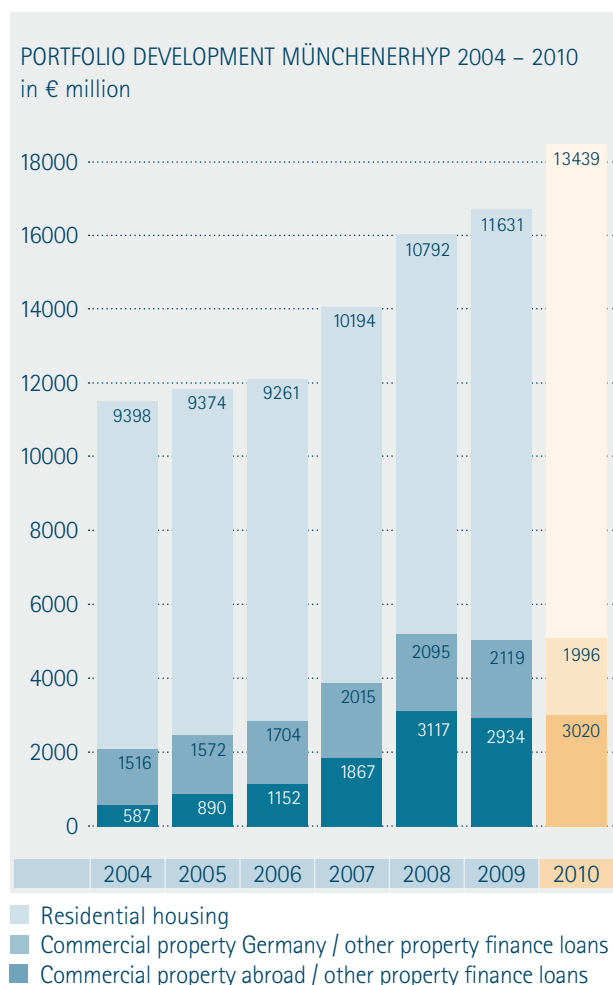
Senior Vice President, Head of Commercial
Real Estate Clients/Direct Business,
Münchener Hypothekenbank eG

EARNINGS, FINANCIAL AND ASSET SITUATION

BALANCE SHEET STRUCTURE

Total assets amounted to € 35.2 billion on December 31, 2010 following € 35.7 billion recorded on the same year-ago date. Total assets declined despite the increase in our mortgage portfolio as we reduced the volume of our outstanding bonds by € 1.8 billion.

During the previous year we were able to substantially expand our portfolio of mortgage and other property finance loans by € 1.8 billion. The increase was solely driven by residential property finance where we hold a loan portfolio of € 13.4 billion.



Our portfolio of commercial property loans remained stable and has a volume of € 5.0 billion. Our total lending portfolio thus amounts to € 18.4 billion.

International loans had a volume of € 5.9 billion (previous year € 4.4 billion) and represented about one-third of our mortgage loan portfolio. Of these loans 44 percent were made in Switzerland, 42 percent in the USA and 14 percent in countries within the European Union; € 14.6 billion of the mortgage loan portfolio serves as cover for Pfandbriefe we issued.

Our portfolio of loans and securities generated by our business with public-sector lenders and banks mirrored our business and risk strategy in this area of business and declined from € 14.4 billion to € 13.6 billion. This figure contains € 6.3 billion of securities and promissory notes of which almost all are carried as fixed assets in our accounts. As at the end of 2010 we held a portfolio of mortgage backed securities worth € 125 million (previous year € 191 million). As we are not making any further investments in mortgage backed securities the portfolio will shrink commensurate to the maturity profile of the securities.

"We were able to notably expand our portfolio of mortgage loans in 2010."

At the end of 2010 our portfolio of securities had unrealised losses of € 331 million (previous year € 175 million). Following a detailed examination of these securities we determined that the loss in value is not permanent in all cases. Therefore, write-downs to the lower of cost or market value were not necessary. The widening gap in credit spreads seen in 2010 led to greater unrealised losses in almost all market segments. Our investments in countries particularly affected by the European debt crisis currently consist of either securities guaranteed by the so-called "Euro Rescue umbrella" or are covered bonds issued by banks. For this reason we do not believe these securities involve special risk.



Our portfolio of long-term refinancing funds rose by € 0.7 billion to € 31.2 billion. Total refinancing funds – including money market – declined from € 34.1 billion in the previous year to € 33.6 billion as of December 31, 2010.

Paid up capital rose by € 4.6 million to € 151.5 million. Total liable equity increased by € 63.2 million over the same year-ago figure to € 1,198.0 million. The major portion of this increase was due to the issuance of subordinated loans.

Core capital amounts to € 762.8 million (previous year € 738.9 million). The solvency figure for core capital on December 31, 2010 was 6.4 percent (previous year 6.5 percent) and 10.0 percent for total capital (previous year 10.0 percent).

DEVELOPMENT OF EARNINGS

Driven by our good new business results as well as by the favourable overall business conditions we were able to increase our net interest income² by € 8.0 million to € 124.5 million. Earnings also include income from the early termination of interest rate swaps. Furthermore, € 24.8 million in interest on silent participations was booked under interest expenses. In order to ensure comparability with the previous year's figures, € 16.2 million in interest for silent participations posted in 2009 were transferred to interest expenses.

"Driven by our good new business results and our expanded loan portfolio, we were able to increase our net interest income by 7 percent."

Despite a higher volumes paid out the amount of commissions paid remained almost unchanged. Thanks to higher commission

income, the net commission balance³ was minus € 27.6 million (previous year minus € 30.0 million).

This resulted in a net interest less commission income figure of € 96.9 million, or an increase of € 10.3 million over the same year-ago figure. Net results for the trading portfolio amounted to a minus € 4.6 million.

Total administrative expenses for the year under review were at the previous year's level. Personnel expenses fell from € 32.6 million to € 31.3 million. It should be noted in this context, that as of 2010 the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz) requires that interest effects arising from provisions to be entered under "Other operating expenses".

The remaining administrative expenses were € 23.0 million and were higher than the same year-ago figure of € 22.5 million. This change was mainly driven by a doubling of the Bank's contribution to the protection scheme operated by the National Association of German Cooperative Banks (BVR) to € 4.8 million. Thanks to the successful execution of a comprehensive cost-cutting project and measures taken to increase efficiency we were able to keep remaining administrative expenses at almost the previous year's level despite this added burden.

The item "Depreciation and write-downs of intangible and tangible assets" rose by € 0.3 million over the same year-ago figure to € 4.6 million.

Total administrative expenses⁴ therefore amounted to € 58.9 million compared to € 59.4 million recorded in the previous year. Due to an increase in income the cost-income ratio⁵ fell from 59.3 percent to 50.3 percent.

2) Net sum of interest expenses, interest income and current income

3) Net sum of commission costs less commission income

4) General administrative expenses and depreciation, and adjustments to value of intangible and tangible assets

5) Ratio of the sum of „general administrative expenses“, and "depreciation and write-downs of intangible and tangible assets", to net interest less commission income excluding interests paid to silent participations, as well as net results from the trading portfolio

The net sum of other operating expenses and income amounted to a minus € 1.2 million. This was mainly due to the change made in posting interest effects to provisions of about € 2.0 million.

Results from operations before provisions for risk⁶ amounted to € 32.2 million, or € 7.5 million over the same year-ago figure. This increase was mainly driven by improved net interest income.

The item "Write-downs and adjustments to claims and certain securities and additions to provisions for possible loan losses," totalled € 17.8 million. This figure includes the net sum of adjustments to value of loans (including general valuation adjustments and direct write-downs) of € 35.2 million (previous year € 32.4 million), as well as the expenses related to the sale of a mortgage loan in the amount of € 8.5 million. This figure is offset by income from maturing securities and the sale of securities held as current assets, as well as by sales from promissory notes, of € 26.5 million.

Income from writing up the value of participating interests, shares in affiliated companies and securities treated as fixed assets was € 2.3 million.

Results from operations after making provisions for risk were € 16.7 million, or € 3.7 million more than the same year-ago figure. After deduction of € 4.7 million for tax expenses and € 1.0 million for extraordinary expenses, annual net profits amounted to € 11.0 million.

PROPOSED ALLOCATION OF DISTRIBUTABLE INCOME

Net income for the year amounted to € 10,998,933.96. An advance allocation to statutory reserves amounting to € 3.0 million to strengthen equity capital was taken in the previous year's annual statement of accounts.

A dividend distribution of 4.5 percent will be proposed at the delegates' meeting. The remaining net income – including profit brought forward from the previous year – amounting to € 8,632,240.59 should therefore be allocated as follows:

4.5 percent dividend	€ 6,830,227.52
Additional allocations to legal reserves	€ 1,500,000.00
Carried forward to new year	€ 302,013.07

REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

No significant events took place after the balance sheet date.

6) Sum of Income Statement expense items 1. 2. 3. 4. 5. 6. and income items 1. 2. 3. 5.



RISK REPORT

RISK REPORT

The ability to monitor and keep risks under control at all times is essential for the successful steering of business development at MünchenerHyp. 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 Bank's business activities. MünchenerHyp's entire Board of Management is responsible for this strategy, which is regularly – at least once a year – reviewed and updated as necessary and presented to the Supervisory Board.

As part of its supervisory duties, the Supervisory Board is advised about the Bank's risk profile on a quarterly basis. This takes place using the reports on the Bank's risk-taking capabilities, lending risks as well as the risk report prepared in accordance with the "Minimum Requirements for Risk Management" (MaRisk).

The basis of risk management consists of, on one hand, the analysis and presentation of existing risks, and, on the other, comparing these risks with the collateral available to cover them (ability to bear risk). Appropriate monitoring processes are in place involving internal process-dependent supervision to ensure that this balance is maintained. Our internal audit department, as process-independent unit, has the monitoring function within the Bank. The analysis and presentation of existing risks primarily distinguishes between borrower failure, market price, liquidity and operational risks. Additional risks such as credit spread risks, placement risk, reputational risk, business risk etc., are viewed as parts of the abovementioned risks and are taken into consideration in the appropriate manner in the individual calculations.

BORROWER FAILURE RISK

Borrower failure risk – also referred to as lending risk – is of major significance for MünchenerHyp. Borrower failure risk refers to the danger that a counterparty or group of counterparties may delay, make partial repayment or even default on repaying a loan to the lender.

The Credit Handbook presents the competencies and procedural requirements of entities involved in lending, as well as the Bank's

credit products. The Bank's business and risk strategy contains additional explanations pertaining to 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 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 country to ensure adequate regional diversification.

We always take care to ensure that the vast majority of our mortgage business activities consist of top tier mortgages with moderate mortgage lending value ratios. Currently, the breakdown of our loans based on mortgage lending value is as follows:



TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)				
MORTGAGE LENDING VALUE	31 Dec. 2010		31 Dec. 2009	
	€	relative	€	relative
Up to 60%	11,310,372,250	57.8%	10,141,547,305	58.4%
60.01% to 70%	3,025,631,274	15.5%	2,650,148,116	15.2%
70.01% to 80%	2,953,495,554	15.1%	2,647,529,744	15.2%
80.01% to 90%	1,373,253,082	7.0%	1,232,932,116	7.1%
90.01% to 100%	424,556,450	2.2%	253,624,326	1.5%
over 100%	472,297,803	2.4%	437,660,646	2.5%
without	7,660,040	0.0%	15,704,882	0.1%
TOTAL	19,567,266,454	100.0%	17,379,147,136	100.0%

The regional breakdowns within Germany and abroad are as follows:

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)				
REGION	31 Dec. 2010		31 Dec. 2009	
	€	relative	€	relative
Baden-Wuerttemberg	1,638,060,756	8.4%	1,600,276,430	9.2%
Bavaria	3,334,955,732	17.0%	3,119,747,610	18.0%
Berlin	690,203,743	3.5%	603,103,260	3.5%
Brandenburg	173,534,561	0.9%	147,507,055	0.8%
Bremen	30,636,924	0.2%	28,391,182	0.2%
Hamburg	441,876,264	2.3%	426,451,047	2.5%
Hesse	1,219,178,503	6.2%	1,199,182,165	6.9%
Mecklenburg-Lower Pomerania	110,890,787	0.6%	90,459,626	0.5%
Lower Saxony	979,384,037	5.0%	891,430,253	5.1%
North Rhine-Westphalia	2,536,588,259	13.0%	2,508,236,195	14.4%
Rhineland-Palatinate	423,569,439	2.2%	404,671,310	2.3%
Saarland	34,475,104	0.2%	36,462,887	0.2%
Saxony	508,690,088	2.6%	476,735,406	2.7%
Saxony-Anhalt	110,620,343	0.6%	97,927,727	0.6%
Schleswig-Holstein	988,401,956	5.1%	916,096,377	5.3%
Thuringia	173,958,222	0.9%	178,914,525	1.0%
TOTAL DOMESTIC	13,395,024,719	68.5%	12,725,593,056	73.2%

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)				
REGION	31 Dec. 2010		31 Dec. 2009	
	€	relative	€	relative
Austria	49,605,952	0.3%	45,907,411	0.3%
France	273,073,462	1.4%	295,638,708	1.7%
UK	231,880,880	1.2%	199,730,257	1.1%
Spain	102,714,104	0.5%	113,367,940	0.7%
Luxembourg	64,633,156	0.3%	64,287,318	0.4%
Sweden	43,576,711	0.2%	38,167,026	0.2%
Switzerland	2,632,836,226	13.5%	1,128,322,027	6.5%
The Netherlands	194,051,647	1.0%	209,511,618	1.2%
USA	2,579,869,597	13.2%	2,558,621,775	14.7%
TOTAL FOREIGN	6,172,241,735	31.5%	4,653,554,080	26.8%
TOTAL DOMESTIC AND FOREIGN	19,567,266,454	100.0%	17,379,147,136	100.0%

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 rating or scoring procedures are used, depending on the type and risk content of the transaction.

In addition, 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 financing, combined with our credit approval procedures, which have proven their value over many years, ensures a portfolio with a manageable level of credit risk. Our lending business with public sector borrowers and banks is primarily focused on central and regional governments, regional and local authorities, and west European banks with above-average creditworthiness, whereby our goal is to reduce our portfolio of bank loans for reasons including future liquidity coverage ratio requirements.

Depending on their ratings, mortgage loans are examined to determine any non-performance or other negative factors which could trigger an individual adjustment to value. Furthermore, an additional system to monitor individual adjustment to value is used by the Bank's work-out management group, especially for non-mass market business.

Generally, if it is determined that the value of a loan needs to be adjusted in the mass market segment the portion of the loan exceeding 60 percent of the mortgage lending value, or 70 percent of its current market value, plus the outstanding interest payments, is value adjusted. Individual deviations from this policy must be justified.

In principle, an adjustment to value in our non-mass market area of lending is based the current market value of the mortgage lending value minus an appropriate margin of safety, or 100 percent of break-up value exceeding the value of the loan plus the outstanding interest payments.



The individual and general adjustments to value developed as follows in 2010:

TOTAL LENDING BUSINESS						
in million euros	Opening balance	Adjustment	Dissolution	Usage	Changes related to exchange rate shifts and other factors	Closing balance
individual adjustment to value	63.6	41.1	6.7	10.6	2.6	90.0
general adjustment to value	17.4	0.0	3.3	0.0	0.0	14.1

The Bank has created a general adjustment to value reserve as a precautionary measure to cover latent lending risks. This general adjustment to value is calculated per the terms contained in a Federal Ministry of Finance notice dated January 10, 1994.

The key default rate is calculated using 60 percent of the average volume of defaults that took place over the last five years compared to the average volume of loans-at-risk made over this period. The general adjustment to value is the result of multiplying the default rate by the volume of loans-at-risk on the date of record.

Individual adjustments to value created remained comparatively low for our private property lending business due to the great stability of the residential property market. We continued to pay special attention on our portfolio of commercial property loans in the USA. Following a careful examination of this portfolio we decided to make provisions for risk for certain individual loans. In the past our USA business generally focused on loans secured by top tier mortgages and with moderate mortgage lending value ratios, whereby the sustainable mortgage lending value was employed. In the interim, this area of business has been defined as being discontinued pursuant to the terms of Art. 69 of the German Solvency Regulation. This means that MünchenerHyp will no longer enter into any new

business deals in the USA. Accordingly, the existing portfolio of loans will continuously shrink. We will continue to monitor the further development with undiminished intensity and diligence and take appropriate measures as they become necessary until all of our business has been wound down.

Business relationships with financial institutions are primarily based on master agreements that permit settlement of claims and liabilities (netting) vis-à-vis the other institution. In general, we also enter into collateral agreements.

Borrower failure risks also include migration risk, which is defined as the risk of a loss occurring due to drop in ratings, which is normally accompanied by an implied increase in yield.

MARKET PRICE RISKS

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 or 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.

Changes in interest rate risk refers to risk arising from changes in the market value of investments or liabilities that are 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 a risky bond. Spread risks take into account the danger that this difference in interest rates 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 although this change is not yet reflected in the issuer's credit rating, as well as macro-economic factors that influence creditworthiness categories.

This risk was in the forefront of attention in 2010 due to the erosion of market confidence in the financial standing of certain European countries. The sharply widening spreads seen in some cases, like Greece or Ireland, also impacted on the valuation of our portfolio of securities. The scope of the Bank's investments in countries that were more affected by the crisis in the financial markets, or in bonds issued by banks domiciled in these countries is moderate:

	SOVEREIGN STATES	BANKS	TOTAL
Portugal	95	257	352
Italy	122	55	177
Ireland	30	60	90
Greece	109	0	109
Spain	152	705	857
Total	508	1,077	1,585
Status: 31.12.10. In million €			

Figures shown under Sovereign States also include claims against non-government debtors, which are additionally secured by direct and immediate guarantees issued by the respective state, in addition to government bonds or other public-sector bonds.

We do not believe that our investments are in danger of default. The measures taken by the individual states, as well as protective mechanisms enacted at EU levels, are sufficient to ensure that the affected liabilities will be repaid. In the case of bank bonds, almost all of these bonds are covered bonds so that in this instance it may also be anticipated that they will mature and be honoured without delay.

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), 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 security). The volume of risks assumed is moderate as the Bank generally does not employ options for speculative purposes. Option positions are generally entered into on an implied basis due to the debtors' option rights (for example the right to give legal notice of termination per Art. 489 of the German Civil Code – BGB) and are then hedged. Nonetheless, these risks are attentively monitored in the daily risk report and are limited.

Currency risk is the term used for risks arising from changes in the market value of investments or liabilities 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 to the greatest extent possible and only margins involved in payment of interest can be unhedged.

Stock risks are not relevant for MünchenerHyp as our total investments in this asset class amount to less than € 5 million.



Market price risks are controlled by determining the present value of all of MünchenerHyp's transaction on a daily basis. Transactions whose values are established by discounting cash flows are evaluated by the Bank's SAP inventory control 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 change incurred per range of maturities when the mid-swap curve is affected by one basis point. Münchener Hypothekenbank uses the value-at-risk figure to identify and limit market risks. Linear as well as non-linear risks are taken into consideration using a Delta-Gamma approach when calculating value at risk. Additional stress scenarios are used here to measure the effect of extreme shifts in risk factors and the effects of other risk categories.

The current (daily) stress scenarios are:

- >> Changes in legal regulatory requirements: The current interest rate curve is completely parallel shifted up by 130 base points and down by 190 base points. The worst result of the two shifts is used for calculation purposes.
- >> Parallel shifts: The current interest rate curve is completely shifted up and down by 100 base points. The worst result of the two shifts is used for calculation purposes.
- >> Steepening/flattening: The current interest rate curve is rotated in both directions around the 5-year rate as the fixed point.
- >> Historical simulations:
 - September 11, 2001 terror attack in New York: Changes seen in market prices between September 10, 2001 and September 24, 2001 – the immediate market reaction to the attack – are played out using the current levels as a base level.
 - The 2008 crisis in the financial markets: Changes in interest rates seen between September 12, 2008 (last banking day before the collapse of Lehman Brothers) and October 10, 2008 are played out using the current levels.

The maximum Value at Risk (VaR) of the Banks books (interest and currencies) at a confidence level of 99.5 percent at a ten day holding period was € 25 million. The average comparable figure noted in the previous year was about € 12 million.

Because MünchenerHyp is a trading book institution (only for futures) we use a special application to control potential risks in this area, also on an intra-day basis. Furthermore, these trades are also integrated into our normal reporting.

MünchenerHyp controls its credit spread risks by calculating the present value of its asset related capital market transactions on a daily basis. Based on the cash flow data generated by the SAP system, the Bank uses its own applications to calculate the Credit Spread VaR, the Credit Spread sensitivities and various credit spread stress scenarios.

MünchenerHyp uses the value-at-risk (VaR) figure to identify and limit credit spread risks. The VaR figure is calculated based on historical simulation.

The current (daily) credit spread stress scenarios are:

- >> Parallel shifts: All credit spreads are shifted up and down by 100 base points. The worst result of the two shifts is used for calculation purposes.
- >> Historical simulation of the collapse of Lehman Brothers: the scenario assumes an immediate change in the spread based on the changes that occurred one working day before the collapse of the investment bank until four weeks after this date.
- >> Worst Case Scenario: The maximum widening of spreads for all classes of securities in the Bank's portfolio since January 2, 2007 is calculated. The average value of these calculations is used as the parallel shift to the respective class of security.
- >> Flight into government bonds: The scenario simulates a significantly visible aversion to risk that was previously seen in the markets. Spreads for riskier classes of paper widen while spreads for safer government bonds narrow.

>> Worst Case Scenario up to the collapse of Lehman Brothers: this scenario is derived from the Worst Case Scenario. The time period used here starts on January 2, 2007 and ends one banking work day before the collapse of the investment bank.

The maximum credit spread VaR for the entire portfolio using a 99.5 percent level of confidence and holding period of one year was € 402 million, the average figure noted in the previous year was about € 355 million.

The maximum credit spread VaR for current assets (only third-party securities) using a 90 percent level of confidence and holding period of one year was € 6 million, the average figure noted in the previous year was about € 3.4 million.

LIQUIDITY RISKS

Liquidity risks include the following risks:

- >> inability to fulfil payment obligations when they come due (liquidity risk in the narrow sense),
- >> inability to procure sufficient liquidity when needed at anticipated conditions (refinancing risk), or
- >> inability to terminate, extend or close out a transaction, or only be able to do so at a loss, due to insufficient market depth or market turbulence (market liquidity risk).

MünchenerHyp differentiates between short-term solvency protection and mid-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. New requirements have been taken into account in the Bank's project planning and will be implemented as scheduled.

The purpose of structural liquidity planning is to ensure mid-term liquidity and involves the following key liquidity figures as components for determining results across all due dates:

- >> accumulated total cash flow requirement,
- >> available potential covered funding included planned new business and prolongations in line with the surplus cover requirements set by Moody's, a rating agency,
- >> uncovered refinancing needs,
- >> additional detailed data for planning and control activities.

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 connected to cover requirements for Pfandbriefe, forecasts for liquidity and cover are technically linked by IT systems.

Additional stress scenarios are conducted based on structural liquidity planning. An integrated stress test concept was developed in order to achieve the best possible structured and flexible measure of risk:

- >> Various liquidity risk factors were identified for the Münchener Hypothekenbank. These factors are focused on to either market or reputational effects.
- >> A total of five stress tests were defined on the basis of these risk factors.
 - 1) Reputation scenario (high stress)
 - 2) Market scenario (high stress)
 - 3) Market and reputations scenario (light stress)
 - 4) Market and reputations scenario (high stress)
 - 5) Worst Case scenario
- >> Complementary to the risk factors and their varying stress test combinations, corresponding measures were defined for simulation purposes to reduce the liquidity risks in the respective cases.



The limitation of liquidity risks takes place using the structured liquidity forecast and the stress scenarios based on the Bank's uncovered refinancing needs.

In order to keep refinancing risks at a minimum, MünchenerHyp strives to refinance loans with concordant amounts and maturity dates and continuously checks if its relevant refinancing sources (primarily those within the Cooperative Financial Network) remain available. In order to limit market liquidity risks in its lending business with public-sector borrowers and banks, MünchenerHyp primarily acquires securities that are acceptable as collateral by the European Central Bank, and which can be used for open market business at any time. Investments in less liquid bonds, like Mortgage Backed Securities (MBS), are no longer being made. We currently hold 7 securities valued at € 125 million as of December 31, 2010 (previous year € 191 million) consisting solely of Commercial Mortgage Backed Securities (CMBS) and Residential Mortgage Backed Securities (RMBS), secured by property in Germany, France and Spain. All of the MBS have two or three ratings issued by the major rating agencies – and for over half of the MBS the second best rating is still AAA. The lowest rating in the group is an A. As of December 31, 2010 the weighted anticipated time-to-maturity of the MBS in our portfolio was 1.2 years.

OPERATIONAL RISKS

Operational risks refer to possible losses caused by personal misconduct, weaknesses in procedural or project management, technical failure or negative outside influences. 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, 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 are being continuously further developed in accordance with legal supervisory requirements. Münchener Hypothekenbank calculates its ability to bear risks based on present value and period-oriented approaches. The Going Concern scenario is the most important method used for control purposes. This scenario is used to determine if the bank still would have an adequate equity capital ratio exceeding the legally required minimums of 4 percent core capital and total capital of 8 percent after the occurrence of risks contained in all of the risk categories. The only cover potential that may be used to cover risks in this scenario is the available regulatory equity capital.

The scenario deducts market risks, borrower risks, operational risks, spread and migration risks, participation risks, as well as model risks containing other non-explicitly defined risks. All of these risks are taken into consideration conservatively and without diversification effects and using a 100 percent correlation level.

MünchenerHyp was continuously able to bear risks throughout the 2010 fiscal year.

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. In the past, we have only occasionally insured individual loans or portfolios against borrower risk. 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 were used to hedge exchange rate risks. At the portfolio level, the main hedging instruments we used were interest swaps and swaptions. Bermudan options on interest swaps (swaptions) and interest options (caps and floors) were used as macro-hedges for embedded legal termination rights or arrangements to limit interest rates.

ACCOUNTING-BASED INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

The accounting-based internal control system is documented in organisational guidelines, descriptions of work processes, financial reporting handbooks, and numerous operating instructions. It contains organisational security measures, and ongoing automatic measures and controls that are integrated in the work processes. These are, in particular, separation of functions, the double-check principle, access limitations, payment guidelines, new product process and balance confirmations. Process-independent measures are, above all, carried out by the internal audit department.

The management methods described in the risk report make qualitative and quantitative statements regarding Münchener Hypothekenbank's economic situation, including, for example, the development of performance. This evaluation involves aspects of all risk categories.

A close coordination procedure exists between the risk controlling and accounting departments at MünchenerHyp. This coordination process is supervised by the entire Board of Management.

The results from the risk management system form the basis for the multi-year planning calculations, year-end projections, and agreement procedures for approving the realised key figures generated by the Bank's accounting process.



CORPORATE PLANNING AND OUTLOOK

[illegible]

We don't take our investors' trust for granted. It must be earned anew every day in the market.



"Investors' demands are high. They expect transparency, continuity, and above all a trustful cooperation. However, the efforts are worth it: optimal refinancing conditions are founded on investor satisfaction. We have seen how important this is for us – especially in recent years."

Rafael Galuszkiewicz
Director, Head of Treasury
Münchener Hypothekenbank eG

CORPORATE PLANNING AND OUTLOOK

CORPORATE PLANNING

For 2011, MünchenerHyp is planning to continue the course established by the business and risk strategy to ensure a rate of portfolio growth in line with the Bank's ability to carry risk. This course primarily consists of gradually restructuring the loan portfolios, allowing MünchenerHyp to concentrate more heavily on domestic and private property financing without neglecting the other areas of business. In order to move the cost-income ratio back to about 45 percent, which is appropriate for a Pfandbriefbank of our size, and in view of the limited opportunities to increase income, restrictive cost management will continue to be especially important.

Our integrated planning process will play a key role towards the successful implementation of our 2011 plans. This process synchronises operational sales goals, supervision of the decentral and central components of administrative expenses – including our project portfolio – with profit and loss plans as they develop during the course of the year. The formal planning framework for these activities consists of our annually updated business and risk strategy. All of the income and expense items, as well as the ability to bear risk are continually monitored, respectively planned on a continuous basis thereby enabling the Bank to respond appropriately to shifts in earnings or costs.

OUTLOOK

ECONOMIC AND FINANCIAL MARKETS

According to current estimates, the global recovery will continue in 2011 and 2012. However, the pace of growth is expected to be somewhat slower than in the previous year. The IMF is forecasting 4.4 percent growth for the global gross domestic product in 2011, and 4.5 percent in 2012. Above all, uncertainties are caused by the high budget deficits and the expected strain on the economy resulting from their planned reduction. Thus, economic development forecasts, particularly in the euro zone, are modest. Most economic researchers expect to see growth of around 1.5 percent for 2011 and 2012.

Germany is expected to grow at a faster pace than the European average. The Federal Government estimates that the gross domestic product will grow by 2.3 percent in 2011. In contrast to previous years, domestic demand is expected to generate strong growth drivers. The increase in domestic demand is expected to be mainly influenced by capital expenditures, which are anticipated to grow by more than 4 percent. Construction investments will continue to develop favourably with a projected growth of 1.7 percent, especially in the areas of private residential construction and commercial construction. In the private residential construction sector, the ongoing interest in safe capital investments as well as the high need for modernisation measures and energy-efficient renovations should stimulate demand.

"The recovery of the global economy is expected to continue, although it is likely to lose momentum."

Along with the economic recovery in Germany, it is also expected that the job market will continue to improve. The Federal Government expects the unemployment rate to drop back below an annual average of 3 million for the first time again in 2011. In light of this positive job-market forecast, an increase in private consumer spending is also expected. The inflation rate should increase slightly in 2011, since it is very likely that commodity prices will continue to rise. A further increase in food costs is also expected in light of the poor annual harvest in 2010.

In the financial markets, in addition to the further development of the sovereign debt crisis, there will be a stronger focus in 2011 on central banks' phasing out their policy of low interests and extensive liquidity. The likelihood of interest rate increase will rise over the course of 2011. The ECB will observe inflation risks more vigilantly and, if necessary, will pursue its interest policy independently from its willingness to provide liquidity. If economic development in Europe is more favourable than expected, interest rates could rise in the second half of the year.



The American Federal Reserve Bank (Fed) will not act as quickly, and will probably not take initial steps to increase interest rates until 2012.

Starting in the third quarter of 2010, the bond markets responded to the economic development and higher inflation rates with lower prices and rising yields. Due to the high level of issuing activity by the public sector and banks, we also expect capital market interest rates to increase in 2011.

Following the newly drafted Basel III rules on bank capital, the covered bond market will continue to grow in 2011, as the future liquidity requirements and the new restructuring law will generate increased investor interest in covered bonds. The shrinking volumes of public sector loans on bank balance sheets will reduce the outstanding volume of public Pfandbriefe, which is expected to further increase the significance of the mortgage Pfandbrief.

PROPERTY MARKETS

The good overall economic conditions should also have a positive effect on the German property and property financing market. In particular, the robust job market and gains in real income will further strengthen demand for apartments and houses. In addition, financing conditions will continue to remain attractive in a long-term comparison. As a result, experts expect the volume of residential property loans held by German credit institutions to be slightly higher in 2011 following years of stagnation.

The number of building permits could once again exceed the 200,000 mark in the next year, which would cover the replacement needs resulting from phased out residential space. Driven by expected high demand, property prices should continue to increase moderately in regions with good economic and demographic development. Thus the Immobilienverband Deutschland (German Property Association) anticipates prices to rise by more than 2 percent in major cities.

Demand for residential rental space is expected to should remain high in most European countries. In light of uncertain job prospects and a clouded outlook for the future, consumers are less likely to buy their home. Thus, investments in rental properties are expected to remain an interesting investment area for property investors in the foreseeable future. Only countries that have almost fully recovered from the crisis will be able to avoid this scenario and in these countries demand for owner-occupied properties is more likely to rise.

"The international property markets will continue to grow at divergent rates. It is anticipated that the good demand noted in the German residential property market will remain unchanged."

In Switzerland, immigration figures will continue to decline. The high demand for property noted in recent years is thus likely to fall slightly. Despite the still low interest rates, it is nevertheless anticipated that property prices will weaken slightly. This, in turn, is likely to impact on demand for loans. The unchanged attractive level of interest rates is expected to lead to a trend toward longer-term fixed interest rates in 2011.

The residential property market in the USA has not yet shown any signs of recovering, and ownership rates will probably continue to decline in 2011. We expect the upward trend for rental apartment complexes to remain constant.

The positive development in the commercial property segment observed in Germany in 2010 is expected to continue. There will also be an increased demand for commercial properties – office and retail – outside the economically strong metropolitan areas. For the rental market, we anticipate a further decline in the vacancy rates for new and renovated properties with modern spaces, while the vacancy rates in older properties will increase. However, we do not expect to see a significant increase in rental prices in Germany.

More differentiated development is expected to be seen in Europe. Investors will probably continue to concentrate on high-quality office properties in top locations in the economically strong metropolitan areas. In these cities, particularly in France and the UK, we also anticipate construction activity to rebound and even a further increase in prices in some cases. As a result, investors can be expected to shift their focus toward areas in the near vicinity of the top locations, as was already noted in the previous year.

In the commercial property market in the USA, the core markets of New York, Washington, DC, Boston, San Francisco and Los Angeles will continue to stabilise, although a slight increase in rental prices can be expected. At the same time, the continuing uncertainty surrounding the overall economic conditions in the USA could weaken this development or even reverse it. Currently, the "B" markets are not expected to see their situation stabilise.

DEVELOPMENT OF BUSINESS AT MÜNCHENER HYPOTHEKENBANK

In 2011 we plan to remain on track for growth, which we returned to during the year under review based on our business and risk strategy. In this way we plan to strengthen Münchener Hypothekbank's sustained profitability and proceed, as always, with a high level of risk-consciousness.

To achieve this we plan to grow gradually and organically in our core business areas. Our focus will remain on private property financing. Our strategic goal is to expand our market position, particularly in our Cooperative Financial Network business with the Volksbanken and Raiffeisenbanken. We see great potential in our Cooperative Financial Network business, since customers strongly value the expertise and proximity of our partner banks. This can be seen from the growing market share held by the Volksbanken and Raiffeisenbanken in private property financing over the last five years. Our products help our partner banks increase customer loyalty and help them offer their customers the right financing solutions.

We want to take advantage of this potential by further strengthening the cooperation with our partner banks in the areas of sales, marketing and production, and particularly by optimising the efficient handling of loan processing.

"We plan to remain on track for growth based on our business and risk strategy. We want to continue growing in our core areas of business."

We will also plan to further intensify our collaboration with broker sales groups, and anticipate that we will increase the placement volume in 2011 at a similar size as in the previous year. We will continue our partnership with the Swiss company PostFinance in the area of private property financing. We do not anticipate that 2011 will see a repeat of the special items noted in 2010.

In the commercial property financing business, we will again concentrate on top-tier mortgage-backed loans in 2011, with relatively moderate mortgage lending value ratios. The significant markets will be Germany and in the strong economic regions in France and the UK. In principle, loans could also be made in the Benelux countries, Spain, Austria and Switzerland on a selective basis. Münchener Hypothekbank is striving to achieve consistent and risk-conscious growth for its portfolio of commercial property loans.

On the one hand, our lending business with the public sector and banks is intended to produce earnings. On the other hand, we want to stay engaged in this segment to ensure that we remain a regular issuer of public Pfandbriefe.

The overall conditions driving liquidity and refinancing planning are shaped by the capital needs of public sector budgets, and by regulatory requirements. In 2011, the Pfandbrief will need to assert its position as an attractive investment in the face of



the high liquidity needs of the public sector and government-guaranteed issuers. The increased offer of these bonds could lead to widening spreads. The coming years will be shaped by the new requirements arising from Basel III and MaRisk (liquidity buffer); the costs associated with these measures are still unknown.

The Pfandbrief will remain the most important refinancing product for MünchenerHyp in the future. We will continue to issue jumbo Pfandbriefe with a volume of € 1 billion and higher. Our refinancing needs for 2011 will remain at about the same level as in the year under review. Two public jumbo Pfandbriefe will mature in 2011: one in April with a volume of € 1.95 billion and one in September worth € 1 billion. Most of the funding volume will be met using Pfandbrief issues. Two to three jumbo Pfandbriefe may be issued this year. In addition, our refinancing will include specifically tailored registered and bearer securities.

"The Pfandbrief will remain as our central refinancing instrument. In this context we want to take further steps to ensure that our good standing in the capital market remains intact."

The Volksbanken Raiffeisenbanken Cooperative Financial Network will remain our most important partner in the area of unsecured refinancing. We also expect to see increased interest from several insurance companies in this segment, which reflects the high level of trust our investors place in us and which helps us to broaden our refinancing base. Our issuing activity here will involve small and large-volume transactions across all maturity bands.

Based on our growth objectives and the good new business results we booked during the year under review, we will strive to achieve higher net interest income from operating activities in 2011. We also plan to have our capital-market activities

make an appropriate contribution towards the achievement of our total net interest income target. Because of our long-term approach to the mortgage banking business, the favourable figures for new business will only become gradually noticeable in our future results. Thus we continue to anticipate a positive trend for the development of our net interest income, and starting in 2012 we expect to see further improvement in our earnings situation.

We expect a slight increase in administrative expenses for 2011 as we will incur additional expenses for projects, especially for projects to adjust our equity capital requirements in accordance with the IRBA guidelines, as well as the implementation of a trading and risk management system. Added to these factors are the ongoing technical adjustments to control instruments required for regulatory and business administration reasons.

Based on current information, given the risk provisions we have made for our lending business, we anticipate that the burdens we will face in 2011 will be slightly below the previous year's level.

We are striving to achieve annual net profits for the current year that are about the same as the year under review.



BALANCE SHEET
INCOME STATEMENT
STATEMENT OF DEVELOPMENT
IN EQUITY
CASH FLOW STATEMENT

BALANCE SHEET, 31 DECEMBER 2010

ASSETS		31 Dec. 10	31 Dec. 09
	€	€	€ 000
1. Cash reserve			
a) Cash on hand	11,135.11		17
b) Balances with Central Banks	78,562,179.97		66,955
of which			
with Deutsche Bundesbank € 78,562,179.97			
		78,573,315.08	66,972
2. Claims on banks			
a) Mortgage loans	67,273,369.16		79,316
b) Public-sector loans	1,258,644,566.63		1,578,829
c) Other claims	2,491,213,462.52		2,350,268
of which			
payable on demand € 1,001,978,212.81			
		3,817,131,398.31	4,008,413
3. Claims on customers			
a) Mortgage loans	18,121,271,037.06		16,335,719
b) Public-sector loans	6,202,688,313.01		6,160,048
c) Other claims	169,135,430.01		182,350
of which			
with securities pledged as collateral € 827,109.48			
		24,493,094,780.08	22,678,117
4. Bonds and other fixed-income securities			
a) Bonds and notes	6,508,216,071.94		6,830,856
aa) Public-sector issuers € 1,409,424,100.26			(1,181,909)
of which			
eligible as collateral for Deutsche Bundesbank advances € 1,284,888,846.34			
ab) Other issuers € 5,098,791,971.68			(5,648,947)
of which			
eligible as collateral for Deutsche Bundesbank advances € 4,879,088,092.37			
b) Own bonds and notes	28,583,673.25		1,809,694
Nominal value € 28,646,600.00			
		6,536,799,745.19	8,640,550
Carried forward		34,925,599,238.66	35,394,052



LIABILITIES, CAPITAL AND RESERVES

	31 Dec. 10	31 Dec. 09
€	€	€ 000
1. Liabilities to banks		
a) Registered mortgage Pfandbriefe issued	632,652,884.11	678,592
b) Registered public-sector Pfandbriefe issued	213,407,598.92	223,640
c) Other liabilities	3,086,714,936.82	4,457,582
of which		
payable on demand € 115,168,881.48		
delivered to lenders as collateral for loans received		
registered mortgage Pfandbriefe € 154,788.23		
and registered public-sector Pfandbriefe € 187,768.28		
	3,932,775,419.85	5,359,814
2. Liabilities to customers		
a) Registered mortgage Pfandbriefe issued	3,846,882,041.60	3,753,170
b) Registered public-sector Pfandbriefe issued	4,136,323,524.98	4,435,930
c) Other liabilities	1,357,727,948.70	1,092,432
of which		
payable on demand € 5,103,673.19		
	9,340,933,515.28	9,281,532
3. Certificated liabilities		
a) Bonds issued	20,376,104,252.20	19,674,631
aa) Mortgage Pfandbriefe € 9,816,378,894.41		(9,272,033)
ab) Public-sector Pfandbriefe € 6,397,916,440.95		(6,584,360)
ac) Other bonds and fixed-income securities		
€ 4,161,808,916.84		(3,818,238)
b) Other certificated liabilities	444,344,344.00	342,756
of which		
Money market paper € 444,344,344.00		
	20,820,448,596.20	20,017,387
4. Liabilities incurred as trustee	166,802.99	206
of which		
loans € 166,802.99		
5. Other liabilities	69,610,155.92	65,946
Carried forward	34,163,934,490.24	34,724,885

ASSETS		31 Dec. 10	31 Dec. 09
	€	€	€ 000
Brought forward		34,925,599,238.66	35,394,052
5. Equities and other variable-yield securities		13,198,396.57	13,180
6. Participations and shares in cooperatives			
a) Participations	77,808,262.10		78,063
of which			
credit institutions € 17,189,982.18			
b) Shares in cooperatives	18,500.00		18
of which			
in credit cooperatives € 15,500.00			
		77,826,762.10	78,081
7. Shares in affiliated companies		11,174,713.16	11,181
8. Assets held in trust		166,802.99	206
of which			
loans € 166,802.99			
9. Intangible assets			
a) Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	7,905,582.05		6,148
b) Payments made on account	785,400.00		349
		8,690,982.05	6,497
10. Tangible assets		78,154,709.07	79,910
11. Other assets		47,624,726.21	75,976
12. Deferred items			
a) From issuing and lending business	60,985,955.34		72,358
b) Other	1,598,856.05		1,938
		62,584,811.39	74,296
Total assets		35,225,021,142.20	35,733,379



LIABILITIES, CAPITAL AND RESERVES

	31 Dec. 10	31 Dec. 09
€	€	€ 000
Brought forward	34,163,934,490.24	34,724,885
6. Deferred items		
From issuing and lending business	14,012,215.58	18,464
	14,012,215.58	18,464
7. Provisions		
a) Provisions for pensions and similar obligations	26,802,155.00	25,278
b) Provisions for taxes	489,750.00	1,656
c) Other provisions	14,876,890.00	13,417
	42,168,795.00	40,351
8. Subordinated liabilities	194,200,000.00	156,300
9. Profit-participation certificates	21,474,259.01	21,474
of which		
€ 5,112,918.81 are due within two years		
10. Capital and reserves		
a) Subscribed capital	498,260,801.03	483,938
aa) Members' capital contributions € 156,113,623.21		(148,741)
ab) Silent participations € 342,147,177.82		(335,197)
b) Revenue reserves	282,338,340.75	279,338
ba) Legal reserve € 280,804,465.11		(277,804)
bb) Other revenue reserves € 1,533,875.64		(1,534)
c) Unappropriated profit	8,632,240.59	8,629
	789,231,382.37	771,905
Total liabilities, capital and reserves	35,225,021,142.20	35,733,379
1. Contingent liabilities		
Contingent liability on guarantees and indemnities	75,778,824.61	109,026
2. Other commitments		
Irrevocable loan commitments	1,824,221,679.13	1,182,600

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

EXPENSES	31 Dec. 10	31 Dec. 09
€	€	€ 000
1. Interest expenses	1,209,602,247.52	1,319,906
2. Commission paid	37,729,453.33	38,500
3. Net expenses of trading book	4,558,913.01	2,646
4. General administrative expenses		
a) Personnel expenses	31,308,213.57	32,616
aa) Wages and salaries € 25,096,173.68		(25,372)
ab) Social security contributions and cost of pensions and other benefits € 6,212,039.89		(7,244)
of which		
for pensions € 2,549,626.94		
b) Other administrative expenses	23,027,634.92	22,475
	54,335,848.49	55,091
5. Depreciation and write-downs of intangible and tangible assets	4,556,622.12	4,306
6. Other operating expenses	2,984,227.37	2,452
7. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses	17,803,630.75	24,252
8. Extraordinary Expenses	1,053,034.00	0
9. Taxes on revenue and income	4,612,072.14	1,962
10. Other taxes not included under "Other operating expenses"	95,822.98	90
11. Net income	10,998,933.96	10,994
Total expenses	1,348,330,805.67	1,460,199
1. Net income	10,998,933.96	10,994
2. Retained earnings brought forward from previous year	633,306.63	635
	11,632,240.59	11,629
3. Transfer to legal reserve	3,000,000.00	3,000
4. Unappropriated profit	8,632,240.59	8,629



INCOME	31 Dec. 10	31 Dec. 09
€	€	€ 000
1. Interest income from		
a) Lending and money market operations	1,081,582,865.54	1,146,752
b) Fixed-income securities and government debt register claims	249,176,604.28	283,834
	1,330,759,469.82	1,430,586
2. Current income from		
a) Shares and other non-fixed-income securities	0.00	4,744
b) Participating interests and shares in cooperatives	1,366,590.38	1,119
c) Investments in affiliated companies	1,950,000.00	0
	3,316,590.38	5,863
3. Income from profit-pooling, profit transfer or partial profit transfer agreements	60,870.52	0
4. Commission received	10,079,301.65	8,522
5. Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets	2,280,814.48	12,602
6. Other operating income	1,833,758.82	2,626
Total income	1,348,330,805.67	1,460,199

STATEMENT OF DEVELOPMENT IN EQUITY AND CASH FLOW STATEMENT

STATEMENT OF DEVELOPMENT IN EQUITY CAPITAL FOR 2010

	Subscribed capital		Revenue reserves	Unappropriated profit	Total capital and reserves
	Members' capital contributions	Silent participations			
	€ 000	€ 000	€ 000	€ 000	€ 000
Capital and reserves as at 01.01.2010	148,741	335,197	279,338	8,629	771,905
Net change in capital	7,373	6,950	0	0	14,323
Dividends paid	0	0	0	7,996	7,996
Net income	0	0	3,000	7,999	10,999
Capital and reserves as at 31.12.2010	156,114	342,147	282,338	8,632	789,231

CASH FLOW STATEMENT FOR 2010

	31.12.2010 in € millions	31.12.2009 in € millions
Net income before extraordinary items	12.1	11.0
Non-cash items contained in net income for the year and transferal to the cash flow from operating activities		
Depreciation, write-downs and write-ups on loans, tangible fixed assets and financial assets	46.4	31.3
Changes in reserves	1.8	2.4
Changes in other non-cash items	15.0	19.6
Gains/losses from the disposal of tangible fixed assets and financial assets	0.0	0.0
Other adjustments	0.0	0.0
Sub-total	75.3	64.3
Changes in assets and liabilities from operating activities		
Claims		
- on banks	106.3	1,300.2
- to customers	-1,835.3	-422.4
Securities (to the extent not financial investments)	2,138.0	-297.4
Other assets from operating activities	128.5	-42.4



CASH FLOW STATEMENT FOR 2010

	31.12.2010 in € millions	31.12.2009 in € millions
Liabilities		
- to banks	-1,371.0	1,047.5
- to customers	66.8	170.7
Securitised liabilities	833.3	-1,679.3
Other liabilities from operating activities	-238.9	-226.1
Interest and dividends received	1,334.1	1,436.4
Interest paid	-1,209.6	-1,303.7
Extraordinary amounts received/paid	-1.1	2.0
Income taxes paid	-4.6	-4.0
Cash flow from operating activities	21.8	45.8
Cash receipts from the disposal of		
- Financial assets	1,019.4	1,005.6
- Tangible fixed assets	0.2	0.3
Cash payments for acquisition of		
- Financial assets	-1,031.0	-1,130.5
- Tangible fixed assets	-0.8	-0.9
Cash receipts/payments from gains/losses in subsidiary companies	0.0	0.0
Net increase/decrease in funds from other investing activities	-4.4	-1.7
Cash flow from investing activities	-16.6	-127.2
Cash receipts from changes in capital	7.4	4.6
Dividends paid	-8.0	-7.3
Increase/decrease in funds from other capital	7.0	94.0
Cash flow from financing activities	6.4	91.3
Cash and cash equivalents at start of reporting period	67.0	57.1
+/- Cash flow from operating activities	21.8	45.8
+/- Cash flow from investing activities	-16.6	-127.2
+/- Cash flow from financing activities	6.4	91.3
+/- Changes in cash and cash equivalents due to changes in foreign exchange rates	0.0	0.0
Cash and cash equivalents at the end of the reporting period	78.6	67.0



NOTES 2010



NOTES 2010

GENERAL INFORMATION ON ACCOUNTING POLICIES

The Münchener Hypothekenbank eG annual financial statement as of December 31, 2010 was prepared in accordance with the provisions of the German Commercial Code (HGB), in conjunction with the accounting regulation for banks and financial service institutions (RechKredV), and in accordance with the rules contained in the Cooperatives Act (GenG) and the Pfandbrief Act (PfandBG).

All claims are stated at nominal amounts in accordance with Art. 340e (2) of the German Commercial Code. The difference between the amounts disbursed and the nominal amount is shown 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 corresponds to the current exchange or market price.

Securities held as fixed assets, which were mainly acquired in the course of the Bank's public-sector lending business, are valued at their cost of purchase. Discounts and premiums are recognised as interest income or expense over the terms of the securities. Securities associated with swap agreements are valued together with these agreements, as a single item. To the extent that they are used to hedge risks, derivatives are not valued individually. Unscheduled depreciation pursuant to Art. 253 (3) 3s of the German Commercial Code (HGB) was not taken for market price related changes in the value of securities as we do not believe 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.

Intangible assets and tangible assets are valued 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.

Existing deferred taxes arising due to temporary differences between values calculated for trading and tax purposes are cleared. A backlog of deferred tax assets is not recorded in the balance sheet.

Liabilities are shown at their settlement value. 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. The difference between the nominal amount of liabilities and the amount disbursed is shown under deferred items. Based on the principles of prudent business practice, provisions have been made for uncertain liabilities in the amount of settlement value of these liabilities. Provisions with a remaining term of more than one year were discounted using the commensurate average rate of market interest rates. Provisions made for pension obligations are calculated using the Projected Unit Credit Method, a discount rate of 5.15 percent, and a 2.50 percent rate of salary growth, as well as a 2.0 percent rate of pension growth. The calculation is made on the basis of "Guideline tables 2005 G" prepared by Prof. Klaus Heubeck. In accordance with the terms of Art. 253 (2) 2s of the HGB, the average market rate of interest is used for discount purposes with an assumed remaining term to maturity of 15 years. Necessary additions to pension reserves due to the conversion will be booked immediately as an expense.

Interest expenses from silent participations were carried under the interest expenses item for the first time in the year under review. The previous year's figures were adjusted to ensure comparability.

Per the terms of Art. 256a of the German Commercial Code, monetary assets and liabilities denoted in foreign currencies are translated at the European Central Bank's exchange rate valid on the balance sheet date. Income realised from the translation of particularly covered foreign currency positions is shown on the income statement. Costs and income are valued at the individual daily exchange rate.

The previous year's figures were not adjusted due to the changes in balance sheet and valuation requirements per the German Balance Sheet Law Modernisation Act (BilMoG).



NOTES TO THE BALANCE SHEET INCOME STATEMENT

MATURITY ANALYSIS BY RESIDUAL TERM

ASSETS

	31 Dec. 10 € 000	31 Dec. 09 € 000
Claims on banks	3,817,131	4,008,413
≤ Three months	2,311,590	2,301,219
> Three months ≤ one year	248,202	360,844
> One year ≤ five years	712,095	721,878
> Five years	545,244	624,472
Claims on customers	24,493,095	22,678,117
≤ Three months	860,709	1,017,301
> Three months ≤ one year	1,148,222	883,550
> One year ≤ five years	7,708,967	7,867,425
> Five years	14,775,197	12,909,841
Bonds and other fixed-income securities ≤ one year	756,398	873,004

LIABILITIES

	31 Dec. 10 € 000	31 Dec. 09 € 000
Liabilities to banks	3,932,775	5,359,814
≤ Three months	2,032,279	2,131,748
> Three months ≤ one year	604,999	1,844,636
> One year ≤ five years	815,834	764,717
> Five years	479,663	618,713
Liabilities to customers	9,340,934	9,281,532
≤ Three months	312,116	431,366
> Three months ≤ one year	297,923	189,426
> One year ≤ five years	1,107,338	1,071,146
> Five years	7,623,557	7,589,594
Certificated liabilities	20,820,449	20,017,387
Bonds issued		
≤ Three months	1,114,852	1,585,145
> Three months ≤ one year	4,447,569	3,056,423
> One year ≤ five years	13,238,511	13,033,789
> Five years	1,575,173	1,999,274
Other certificated liabilities		
≤ Three months	429,399	252,756
> Three months ≤ one year	14,945	90,000

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

	31 Dec. 10 € 000	31 Dec. 09 € 000
Claims on		
Banks	183,517	314,463
Customers	66,191	81,840
Liabilities to		
Banks	298,588	844,214
Customers	0	0

CLAIMS ON AND LIABILITIES TO AFFILIATED COMPANIES

	31 Dec. 10 € 000	31 Dec. 09 € 000
Claims on customers	2,468	2,679
Liabilities to customers	3,219	2,840

SECURITIES MARKETABLE ON THE STOCK EXCHANGE

	31 Dec. 10 € 000		31 Dec. 09 € 000	
Asset category	listed	unlisted	listed	unlisted
Bonds and other fixed-income securities	6,268,954	151,118	8,366,280	153,430
Shares and other non-fixed-income securities	8,170	0	8,190	0
Participations	0	2,150	0	2,150

TRADING BOOK

As at 31.12.2010 the portfolio contained no financial instruments used in the trading book. During the year under review no changes were made to the Bank's internal criteria for including financial instruments in the trading portfolio.



DEVELOPMENT OF FIXED ASSETS

	Acquisition and produc- tion Costs	Addi- tions	Write-ups	Trans- fers	Dispo- sals	Deprecia- tion taken in 2010	Accumu- lated de- preciation	Net book value on 31 Dec. 10	Net book value on 31 Dec. 09
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Intangible assets	20,151	4,415	0	0	331	2,221	15,544	8,691	6,497
a) Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	19,802	3,630	0	349	331	2,221	15,544	7,906	6,148
b) Payments made on account	349	785	0	-349	0	0	0	785	349
Tangible assets	100,963	978	0	0	855	2,336	22,931	78,155	79,910
	Acquisition and produc- tion Costs				Changes total +/-*)			Net book value on 31 Dec. 10	Net book value on 31 Dec. 09
Participations and shares in cooperatives	78,082				- 255			77,827	78,082
Shares in affiliated companies	11,181				- 6			11,175	11,181
Bonds and other fixed-income securities	6,436,234				- 76,680			6,359,554	6,436,234
Shares and other non fixed-in- come securities	8,190				- 20			8,170	8,190

*) 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, holdings in affiliated companies, as well as the value of shares and other non-fixed-income securities was less than their book values.

The item "Bonds and other fixed-income securities" includes securities with a book value of € 4,578,940 (thousand) (previous year 4,763,464 (thousand)) exceeding the present value of € 4,247,782 (thousand) (previous year € 4,588,265) (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. 10 € 000	31 Dec. 09 € 000
Assets held in trusts		
Claims on customers	167	206
Liabilities incurred as trustee		
Liabilities to banks	167	206

TANGIBLE ASSETS

The portion of the total value attributable to the land and buildings used by the Bank is € 64,897 (thousand) (previous year € 65,868 (thousand)), and of plant and office equipment € 2,130 (thousand) (previous year € 2,703 (thousand)).

SUBORDINATED ASSETS

	31 Dec. 10 € 000	31 Dec. 09 € 000
Claims on banks	10,000	10,000
Shares and other non-fixed-income securities	8,170	8,190

OTHER ASSETS

In addition to deferred items related to the derivative business, the item "Other assets" also includes commissions for mortgage loans that will be paid after the date of record, and mainly claims on the German tax authorities (Finanzamt) for corporation tax credit.

OTHER LIABILITIES

Other liabilities consist of deferred items related to derivative transactions as well as, above all, all liabilities for accrued interest related to a subordinated bearer issue, registered profit-participation certificates and silent participations.



DEFERRED ITEMS FROM THE ISSUING AND LOAN BUSINESS

	31 Dec. 10 € 000	31 Dec. 09 € 000
Assets side 12.		
Discount from liabilities	28,653	33,613
Premium from claims	24,829	27,862
Other deferred charges	7,504	10,883
Liabilities side 6.		
Premium from liabilities	2,617	5,376
Discount from claims	10,895	12,794
Other deferred income	500	294

DEFERRED TAXES

Deferred tax liabilities were primarily related to the low valuation of bank buildings taken for tax purposes. Deferred tax assets arise from the existing contingency reserves created in accordance with Art. 340f HGB, and the different methods used to value premiums from swap options that were exercised. A backlog of deferred tax assets arising after clearing is not recorded in the balance sheet.

SUBORDINATED LIABILITIES

Subordinated liabilities incurred interest expenses of € 11,188 (thousand) (previous year € 7,805 (thousand)). Subordinated liabilities which individually exceed 10 percent of the overall statement amount to:

Nominal amount	Currency	Interest rate	Maturity date
30,000,000.00	euro	6.25%	01 June 2011
20,000,000.00	euro	6.02%	20 March 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 not been agreed upon nor is foreseen. Reporting on the balance sheet is shown at nominal value.

**PROFIT-PARTICIPATION CERTIFICATES**

The amount of profit-participation capital of € 21,474 (thousand) (previous year € 21,474 (thousand)) fulfils the criteria of section 10 (5) of the German Banking Act with € 16,361 (thousand) (previous year € 21,474 (thousand)).

DETAILS OF REVENUE RESERVES

	Legal reserve € 000	Other revenue reserves € 000
01 Jan. 2010	277,804	1,534
Transfer from 2009 retained earnings	0	0
Transfer from 2010 net income	3,000	0
31 Dec. 2010	280,804	1,534

MEMBERS' CAPITAL CONTRIBUTIONS

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

	31 Dec. 10 €	31 Dec. 09 €
Capital contributions	156,113,623.21	148,741,215.03
a) of remaining members	151,537,023.21	146,922,055.03
b) of former members	4,407,620.00	1,768,410.00
c) in respect of shares under notice	168,980.00	50,750.00
Outstanding obligatory payments in respect of shares	26.79	34.97

SILENT PARTICIPATIONS

The silent participations valued at € 342,147 (thousand) (previous year € 335,196 (thousand)) satisfy the criteria of Art. 10 (4) of the German Banking Act for the amount of € 340,647 (thousand) (previous year € 322,170 (thousand)). Expenses attributable to these participations amounted to € 24,821 (thousand) (previous year € 16,166 (thousand)).

ASSETS PLEDGED TO SECURE LIABILITIES

No open market deals existed with the European Central Bank as at the date of record (previous year € 1,500,000 (thousand)). The book value of the pledged assets (genuine repurchase agreements) was € 1,040,320 (thousand) (previous year € 880,248 (thousand)). Within the framework of security arrangements for derivative transactions, cash collateral of € 1,001,560 (thousand) (previous year € 792,411 (thousand)) was provided. Securities valued at € 12,189 (thousand) (previous year € 12,208 (thousand)) were pledged to secure pension obligations and requirements of the partial retirement model for older employees. Securities valued at € 26,777 (thousand) (previous year € 21,976 (thousand)) were pledged to secure financial aid obligations within the framework of a Contractual Trust Arrangement (CTA).

FOREIGN CURRENCY ITEMS

	31 Dec. 10 € 000	31 Dec. 09 € 000
Assets side	5,542,426	4,147,218
Liabilities side	3,014,264	1,899,937
Contingent liabilities and other obligations	271,687	267,984

OTHER OBLIGATIONS

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

NET EXPENSES OF TRADING BOOK

The Bank's future transactions are carried in the trading book. The results of these transactions are netted and shown in the net expenses of the trading book.

OTHER OPERATING EXPENSES

This position contains accrued interest effects of € 1,992 (thousands) for established provisions.

EXTRAORDINARY EXPENSES

The initial application of the BilMoG by the calculation of provisions resulted in an effect of € 1,053 (thousand), which is carried under "Extraordinary expenses".

FORWARD TRADES AND DERIVATIVES

The following derivative transactions were made to hedge swings in interest rates or hedge against exchange rate risks. These figures do not include derivatives embedded in underlying basic transactions stated on the balance sheet.

	Nominal amounts (in millions of €)				Counterparty risk *) neg. (-)
	Residual term	Residual term	Residual term	Total	
	≤ one year	> one year ≤ five years	> five years		
Interest-Rate-Related Transactions					
Interest rate swaps	6,284	22,921	22,340	51,545	-1,025
Interest rate options					
- Calls	60	93	85	238	8
- Puts	0	45	20	65	-3
Other interest rate contracts	100	175	260	535	7
Currency-Related Transactions					
Cross-currency swaps	2,256	213	998	3,467	17

*) 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, interest that has been accrued but not yet paid is not taken into consideration. This approach is known as "clean price" valuation. 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 € 418.3 million (previous year € 497.5 million) and "Liabilities to banks" with € 425.1 million (previous year € 470.8 million). The accrual of compensatory payments made is entered under "Other assets" with € 9.6 million (previous year € 19.1 million); the accrual of compensatory payments received is entered under "Other liabilities" with € 47.2 million (previous year € 45.5 million).

Compensatory items in the amounts of € 2.3 million (previous year € 24.1 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.

In the context of the Bank's hedging positions, € 3,247 million in balance sheet hedging positions were designated in accounting to hedge interest rate risks associated with securities carried on the balance sheet under "Bonds and other fixed-income securities". It may be assumed that the effectiveness of the hedging positions will remain unchanged over the entire term of the transaction as conditions of the securities correspond to those of the hedging derivatives. Offsetting changes in value are not shown in the balance sheet, uncovered risks are treated in accordance with standard evaluation principles.

All of the remaining derivative positions serve as hedging instruments within the framework of controlling general risks related to changing interest rates in the Banking book are accounted for based on the principle of loss free valuation.

As on the date of record the portfolio contained no derivatives used in the trading book.



COVER STATEMENT FOR PFANDBRIEFE

A. MORTGAGE PFANDBRIEFE

	31 Dec. 10 € 000	31 Dec. 09 € 000
Ordinary cover	14,686,337	13,826,353
1. Claims on banks (mortgage loans)	61,824	73,420
2. Claims on customers (mortgage loans)	14,572,049	13,700,469
3. Tangible assets (charges on land owned by the Bank)	52,464	52,464
Substitute cover	1,566,289	1,470,498
1. Other claims on banks	375,000	615,000
2. Bonds and other fixed-income securities	1,194,200	853,500
3. Other assets (offsetting currency derivatives)	-2,911	1,998
Total cover	16,252,626	15,296,851
Total mortgage Pfandbriefe requiring cover	14,094,173	13,003,529
Surplus cover	2,158,453	2,293,322

B. PUBLIC-SECTOR PFANDBRIEFE

	31 Dec. 10 € 000	31 Dec. 09 € 000
Ordinary cover	9,824,763	10,518,363
1. Claims on banks (public-sector loans)	1,244,220	1,558,208
2. Claims on customers (public-sector loans)	6,038,954	6,022,667
3. Bonds and other fixed-income securities	2,541,589	2,937,488
Substitute cover	1,158,638	1,145,209
1. Other claims on banks	525,000	275,000
2. Bonds and other fixed-income securities	622,500	865,000
3. Other assets (offsetting currency derivatives)	11,138	5,209
Total cover	10,983,401	11,663,572
Total public-sector Pfandbriefe requiring cover	10,457,915	10,894,593
Surplus cover	525,486	768,979



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

MORTGAGE PFANDBRIEFE OUTSTANDING AND CORRESPONDING COVER POOLS

	Nominal value	
	31 Dec. 10 € 000	31 Dec. 09 € 000
Mortgage Pfandbriefe	14,097,084	13,003,529
of which		
derivatives	2,911	0
Cover pools	16,255,537	15,296,851
of which		
further cover assets	1,569,200	1,468,500
derivatives	0	1,998
Surplus cover	2,158,453	2,293,322

	Net present value	
	31 Dec. 10 € 000	31 Dec. 09 € 000
Mortgage Pfandbriefe	14,686,119	13,535,996
of which		
derivatives	2,949	0
Cover pools	17,510,600	16,377,116
of which		
further cover assets	1,629,114	1,514,790
derivatives	0	1,485
Surplus cover	2,824,481	2,841,120

	Risk-adjusted net present value *)	
	31 Dec. 10 € 000	31 Dec. 09 € 000
Mortgage Pfandbriefe	15,769,593	13,024,772
Cover pools	18,059,876	15,149,888
Value of surplus cover after stress test	2,290,283	2,125,116

*) 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. 10 € 000

	≤ one year	> one year ≤ two years	> two years ≤ three years	> three years ≤ four years	> four years ≤ five years	> five years ≤ ten years	> ten years
Mortgage Pfandbriefe	1,068,630	2,633,010	2,717,535	1,136,223	2,239,030	2,590,965	1,711,691
Cover pools	2,097,747	2,061,768	2,097,269	1,929,418	1,633,592	5,038,228	1,397,515

Maturity analysis by residual term 31 Dec. 09 € 000

	≤ one year	> one year ≤ two years	> two years ≤ three years	> three years ≤ four years	> four years ≤ five years	> five years ≤ ten years	> ten years
Mortgage Pfandbriefe	2,566,596	1,679,196	2,179,713	2,197,691	388,257	2,027,181	1,964,895
Cover pools	1,749,043	1,590,308	2,239,763	1,853,486	1,553,291	4,969,145	1,341,815



PUBLIC PFANDBRIEFE OUTSTANDING AND CORRESPONDING COVER POOLS

	Nominal value	
	31 Dec. 10 € 000	31 Dec. 09 € 000
Public Pfandbriefe	10,457,915	10,894,593
Cover pools	10,983,401	11,663,572
of which		
further cover assets	1,147,500	1,140,000
derivatives	11,138	5,209
Surplus cover	525,486	768,979

	Net present value	
	31 Dec. 10 € 000	31 Dec. 09 € 000
Public Pfandbriefe	11,292,654	11,821,629
Cover pools	12,102,876	12,709,232
of which		
further cover assets	1,218,310	1,208,275
derivatives	27,140	18,650
Surplus cover	810,222	887,603

	Risk-adjusted net present value *)	
	31 Dec. 10 € 000	31 Dec. 09 € 000
Public Pfandbriefe	10,790,898	12,567,078
Cover pools	11,494,324	13,426,918
Value of surplus cover after stress test	703,426	859,840

*) 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. 10 € 000

	≤ one year	> one year ≤ two years	> two years ≤ three years	> three years ≤ four years	> four years ≤ five years	> five years ≤ ten years	> ten years
Public Pfandbriefe	3,121,436	1,984,108	1,741,293	393,507	340,671	995,077	1,881,823
Cover pools	1,455,211	1,072,231	1,261,796	1,249,613	1,014,305	2,776,217	2,154,028

Maturity analysis by residual term 31 Dec. 09 € 000

	≤ one year	> one year ≤ two years	> two years ≤ three years	> three years ≤ four years	> four years ≤ five years	> five years ≤ ten years	> ten years
Public Pfandbriefe	1,544,310	3,117,753	1,947,933	679,405	355,903	929,951	2,319,338
Cover pools	1,934,632	1,133,135	1,104,890	1,335,559	1,212,491	3,216,113	1,726,752



TOTAL VOLUME OF CLAIMS USED TO COVER MORTGAGE PFANDBRIEFE

A. ACCORDING TO SIZE

	31 Dec. 10 € 000	31 Dec. 09 € 000
≤ € 300,000	8,406,863	7,691,796
> € 300,000 ≤ € 5 million	2,348,910	2,178,234
> € 5 million	3,878,100	3,903,859
Total	14,633,873	13,773,889

B. ACCORDING TO THE LOCATIONS OF THE REAL PROPERTY COLLATERAL, AND TYPE OF USAGE

	31 Dec. 10 € 000		31 Dec. 09 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Federal Republic of Germany				
Apartments		2,388,640		2,360,918
Single-family houses		3,742,940		3,677,115
Multiple-family dwellings		2,932,065		2,893,743
Office buildings	814,466		915,598	
Retail buildings	553,544		569,776	
Industrial buildings	59,438		69,052	
Other commercially used properties	291,179		302,664	
New buildings and buildings not yet capable of producing a yield	887	73,369	1,118	85,998
Buildings under construction	1,132	985	1,175	2,085
	1,720,646	9,137,999	1,859,383	9,019,859
of which in				
Baden-Wuerttemberg	218,579	1,165,535	222,978	1,178,542
Bavaria	331,944	2,293,051	340,660	2,283,492
Berlin	172,514	351,774	176,670	326,783
Brandenburg	6,006	122,897	4,722	109,421
Bremen	328	25,360	378	23,239
Hamburg	135,448	242,322	147,621	217,843
Hesse	326,327	681,331	358,361	696,749
Mecklenburg-Lower Pomerania	4,667	71,495	4,849	61,507
Lower Saxony	49,685	723,661	52,878	698,426
North Rhine-Westphalia	224,316	1,900,347	285,305	1,909,566
Rhineland-Palatinate	106,161	254,103	107,899	249,702



	31 Dec. 10 € 000		31 Dec. 09 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Saarland	5,224	25,219	6,241	27,269
Saxony	67,812	314,797	71,355	307,508
Saxony-Anhalt	3,608	78,610	3,923	74,968
Schleswig-Holstein	49,775	764,593	56,034	725,510
Thuringia	18,252	122,904	19,509	129,334
France				
Office buildings	167,930		209,716	
Retail buildings	20,370		20,520	
	188,300		230,236	
Great Britain				
Office buildings	99,700		80,307	
Retail buildings	8,225		0	
Other commercially used properties	12,507		12,122	
	120,432		92,429	
Luxembourg				
Office buildings	60,000		60,000	
Retail buildings	4,250		4,250	
	64,250		64,250	
The Netherlands				
Office buildings	160,474		173,006	
Retail buildings	9,654		9,654	
	170,128		182,660	
Austria				
Single-family houses		7		73
Office buildings	34,572		34,546	
	34,572	7	34,546	73
Sweden				
Office buildings	33,997		29,731	
	33,997		29,731	



	31 Dec. 10 € 000		31 Dec. 09 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Switzerland				
Apartments		395,569		149,063
Single-family houses		995,612		383,610
Office buildings	27,122		23,772	
	27,122	1,391,181	23,772	532,673
Spain				
Office buildings	0		7,900	
Retail buildings	12,330		15,450	
Other commercially used properties	40,737		40,737	
	53,067		64,087	
USA				
Apartments		237,471		276,103
Office buildings	1,047,567		1,061,401	
Retail buildings	126,862		130,050	
Other commercially used properties	268,577		158,873	
New buildings and buildings not yet capable of producing a yield	11,695		13,763	
	1,454,701	237,471	1,364,087	276,103
Total	3,867,215	10,766,658	3,945,181	9,828,708
Apartments		3,021,680		2,786,084
Single-family houses		4,738,559		4,060,798
Multiple-family dwellings		2,932,065		2,893,743
Office buildings	2,445,828		2,595,977	
Retail buildings	735,235		749,700	
Industrial buildings	59,438		69,052	
Other commercially used properties	613,000		514,396	
Incomplete new buildings with no revenue-generating capacity as yet	12,582	73,369	14,881	85,998
Buildings under construction	1,132	985	1,175	2,085



PAYMENTS IN ARREARS ON COVERING MORTGAGES

	31 Dec. 10 € 000	31 Dec. 09 € 000
Federal Republic of Germany	24,669	22,842
Total amount of payments in arrears for at least 90 days	24,669	22,842

TOTAL VOLUME OF CLAIMS USED TO COVER PUBLIC PFANDBRIEFE

Value of cover

	31 Dec. 10 € 000	31 Dec. 09 € 000
Federal Republic of Germany		
State	0	71,114
Regional authorities	4,647,410	4,227,140
Local authorities	1,359,081	1,578,895
Other debtors	1,896,752	2,762,189
	7,903,243	8,639,338
Belgium		
State	175,000	175,000
Regional authorities	50,000	0
	225,000	175,000
France		
Local authorities	1,006	1,256
	1,006	1,256
Greece		
State	68,000	68,000
	68,000	68,000
Ireland		
State	22,695	22,695
	22,695	22,695
Iceland		
State	50,000	60,000
	50,000	60,000
Italy		
State	120,998	119,740
	120,998	119,740
Lithuania		
State	30,000	30,000
	30,000	30,000



	31 Dec. 10 € 000	31 Dec. 09 € 000
The Netherlands		
State	0	1,475
	0	1,475
Austria		
State	160,722	141,333
Regional authorities	35,000	0
Other debtors	175,000	160,000
	370,722	301,333
Poland		
State	123,987	118,702
	123,987	118,702
Portugal		
State	85,000	85,000
Regional authorities	10,000	10,000
	95,000	95,000
Sweden		
State	0	10,226
Local authorities	38,500	38,500
	38,500	48,726
Switzerland		
Regional authorities	23,992	155,028
Other debtors	175,000	208,702
	198,992	363,730
Slovakia		
State	19,000	5,000
	19,000	5,000
Slovenia		
State	100,000	100,000
	100,000	100,000
Spain		
State	5,000	0
Regional authorities	151,958	163,958
	156,958	163,958
The Czech Republic		
State	95,000	95,000
	95,000	95,000



	31 Dec. 10 € 000	31 Dec. 09 € 000
Hungary		
State	70,000	70,000
	70,000	70,000
European Institutions		
Other debtors	135,662	39,410
	135,662	39,410
Total	9,824,763	10,518,363
State	1,125,402	1,173,285
Regional authorities	4,918,360	4,556,126
Local authorities	1,398,587	1,618,651
Other debtors	2,382,414	3,170,301

INTEREST OUTSTANDING

Unpaid interest on mortgage loans due for payment between 1 October 2009 and 30 September 2010 has been fully written off or fully value adjusted. Interest outstanding consisted of:

	€ 000	of which housing sector € 000	of which commercial property sector € 000
Interest on covering mortgages	930 (previous year 872)	801 (previous year 795)	129 (previous year 77)

FORCED AUCTIONS AND RECEIVERSHIPS OF COVERING MORTGAGES

	of which housing sector		of which commercial property sector	
	2010	2009	2010	2009
The number of proceedings pending at 31 Dec. 10 was				
- Forced auctions	260	118	238	108
- Receiverships	129	92	122	83
	115*)	78*)	107*)	70*)
The number of forced auctions conducted in 2010	72	53	68	48
			4	5

*) 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 2010	87,527	2,098,887	536,580,461.55
Additions in 2010	482	147,719	37,764,362.35
Reductions in 2010	4,227	81,791	20,909,869.15
End of 2010	83,782	2,164,815	553,434,954.75

	€
Increase in members' capital contributions in 2010	4,614,968.18
Increase in members' liability for additional contributions in 2010	16,854,493.20
Amount of each share	70.00
Members' liability for additional contributions per share	255.65

PERSONNEL STATISTICS

The average number of persons employed by the Bank in 2010 was as follows:

	Male	Female	Total
Full-time employees	191	115	306
Part-time employees	7	53	60
Total employees	198	168	366
These figures do not include:			
Apprenticed trainees	5	12	17
Employees participating in parental leave, early retirement, partial retirement (non-working phase), or employees sus- pended with pay.	9	14	23

SHAREHOLDINGS

	Percentage of capital held	Capital in € 000	Profit/Loss in € 000
M-Wert GmbH, Munich*)	100	1,797	238
Immobilien-service GmbH der Münchener Hypothekbank eG (M-Service), Munich (profit transfer agreement)**)	100	509	61
Nussbaumstrasse GmbH & Co. KG, Munich*)	100	11,307	411
Blitz 07-671 GmbH, Munich*)	100	24	0

*) annual financial statements 2009, **) annual financial statements 2010



BODIES

SUPERVISORY BOARD

Prof. Dr. Willibald J. Folz ... Munich (until 17 April 2010)
Attorney, Chairman of the Supervisory Board

Konrad Irtel ... Rosenheim
Speaker of the Board of Management of
VR Bank Rosenheim-Chiemsee eG
Chairman of the Supervisory Board (as of 17 April 2010)

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

Wolfhard Binder ... Grafing (as of 17 April 2010)
Chairman of the Board of Management of
Raiffeisen-Volksbank Ebersberg eG

Michael Glos ... Prichsenstadt
Master Craftsman (Miller)

Michael Jung ... Bretten (until 17 November 2010)
Deputy Chairman of the Board of Management of
Volksbank Bruchsal-Bretten eG

Wilfried Mocken ... Rheinberg
General Attorney in Fact of Underberg KG

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

Erich Rödel ... Ingolstadt (as of 17 April 2010)
Bank Director (ret.)

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

BOARD OF MANAGEMENT

Erich Rödel (until 17 April 2010) Chairman
Dr. Louis Hagen, Spokesman (as of 17 April 2010)
Bernhard Heinlein
Klaus Sturm (until 31 Dec. 2010)
Michael Jung (as of 1 Jan. 2011)

Loans to members of the Supervisory Board amounted to € 17,274 (thousand) (previous year € 18,043 (thousand)), and € 68 (thousand) (previous year € 70 (thousand)) to members of the Board of Management. Pension provisions for former members of the Board of Management amounted to € 19,272 (thousand) (previous year € 13,822 (thousand)). Total remuneration received by the members of the Board of Management during the year under review amounted to € 1,661 (thousand) (previous year € 2,028 (thousand)), for members of the supervisory Board € 284 (thousand) (previous year € 241 (thousand)). Total compensation received by the members of Advisory Board amounted to € 71 (thousand) (previous year € 53 (thousand)). Total compensation received by former members of the Board of Management and their surviving dependants amounted to € 1,335 (thousand) (previous year € 1,207 (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 € 855(thousand) (previous year € 719 (thousand)) were incurred during the year under review for auditing the annual financial statements and the management report, the cooperatives organisational structures, and to examine the Bank's management, as well as for an audit review of the interim financial statements. Total costs of € 10 (thousand) (previous year € 48 (thousand)) were incurred for other confirmation services, and € 60 (thousand) (previous year € 84 (thousand)) was incurred for other services.

CONTINGENT LIABILITY

Our Bank is a member of the protection scheme of the National Association of German Cooperative Banks (Sicherungseinrichtung des Bundesverbandes der Deutschen Volksbanken und Raiffeisenbanken e.V.). Per the statutes of the protection scheme we have issued a guarantee to the National Association of German Cooperative Banks. As a result, we have a contingent liability of € 16,080 (thousand).

Munich, 8 February 2011

MÜNCHENER HYPOTHEKENBANK eG
The Board of Management

Dr. Louis Hagen

Bernhard Heinlein

Michael Jung



AUDITORS' REPORT

We have audited the annual financial statements – comprising the balance sheet, the income statement, as well as the notes, the cash flow statement and the statement of development in equity capital – including the bookkeeping system, and the management report of Münchener Hypothekenbank eG for the business year from 1 January to 31 December 2010. 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.

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 sufficiently safe 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 cooperative 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, 16 March 2011

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, 8 February 2011

MÜNCHENER HYPOTHEKENBANK eG
The Board of Management

Dr. Louis Hagen

Bernhard Heinlein

Michael Jung



REPORT OF THE SUPERVISORY BOARD

During the year under review the Supervisory Board carried out its supervisory functions in accordance with the legal requirements, the Bank's Articles of Association and its bylaws. The Board of Management reported in a timely manner to the Supervisory Board regarding the Bank's corporate planning, as well as its business and financial situation and the Bank's further strategic development. The Supervisory Board thereby advised the Board of Management and supervised its management of business. The Supervisory Board's decisions on actions requiring its approval were made on the basis of reports and materials submitted by the Board of Management.

Four regularly scheduled Supervisory Board meetings with the Board of Management and the constituent meeting took place during the year under review. The key subjects and advisory issues covered were the Bank's business development and business planning, the further development of the business and risk strategy, the risk situation, and the development of the Münchener Hypothekenbank's equity capital.

The Supervisory Board established committees to enable it to carry out its duties efficiently. During the year under review these committees remained unchanged and were the Personnel Committee, the Lending Committee and the Audit Committee. The committees regularly reported to the Supervisory Board during their meetings that took place immediately after the committees' meetings.

The accounting documents, the annual financial statements and the Management Report for the 2010 financial year were audited as assigned 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 oral presentation of the primary results of the audit in a meeting of the Supervisory Board's Personnel Committee. This also took place during a subsequent joint meeting of the Supervisory Board and the Board of Management. Moreover, the auditors 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 Article 53 of the Cooperatives Act (Genossenschaftsgesetz), including the audit of the 2010 annual statement of accounts for the Münchener Hypothekenbank eG, for their information on a timely basis. In addition, the results of the audit are also stated during the Delegates Meeting.

The Supervisory Board noted the results of the audit during a meeting held to review the final audit results, which was held in accordance with the terms of Article 57 Paragraph 4 of the Cooperatives Act. The annual financial statements, the Management Report, and the Board of Management's proposal for the allocation of distributable income were examined by the Supervisory Board and endorsed. The Supervisory Board recommends that the Delegates' Meeting approve the annual financial statements for 2010 – as explained – and endorse the Board of Management's proposal for the allocation of net income. The proposal is in accordance with the terms of the Bank's Articles of Association.

In accordance with Article 14, Paragraph 1 of the Bank's Articles of Association, Prof. Dr. Willibald Folz stepped down from the Supervisory Board following the end of his term as member. Prof. Dr. Folz was elected to the Supervisory Board in 1990 and became its chairman in 1998. The Supervisory Board wishes to express its gratitude to Prof. Dr. Folz for his successful efforts on behalf of the Bank and his extraordinary dedication. Prof. Dr. Folz earned great recognition on behalf of the Bank as a member of the Supervisory Board and prior to this as the Spokesman of the Board of Management.

Newly elected to the Supervisory Board were Mr. Wolfhard Binder, Chairman of the Board of Management of the Raiffeisen-Volksbank Ebersberg eG, and Mr. Erich Rödel, who, due to age reasons, stepped down from the Board of Management of Münchener Hypothekenbank effective April 17, 2010 at the close of the Delegates' Meeting. The Supervisory Board thanks Mr. Rödel for his dedicated efforts during his nine years on the Münchener Hypothekenbank's Board of Management.



Mr. Hans Pfeifer, Chairman of the Board of Management of the Rheinisch-Westfälischer Genossenschaftsverband e.V. and Mr. Hans-Joachim Tonnellier, Chairman of the Board of Management of the Frankfurter Volksbank eG, were re-elected as members of the Supervisory Board for additional terms of office.

The Supervisory Board elected one of their members as new Chairman: Mr. Konrad Irtel, Spokesman of the Board of Management of the VR Bank Rosenheim-Chiemsee eG.

Moreover, the following changes took place in the Board of Management of MünchenerHyp: The Supervisory Board appointed Dr. Louis Hagen as Spokesman of the Board of Management upon the retirement of Mr. Rödel as Chairman of the Board of Management. Effective January 1, 2011, the Supervisory Board appointed Mr. Michael Jung as member of the Board of Management. Prior to his appointment Mr. Jung served as Deputy Chairman of the Board of Management of the Volksbank Bruchsal-Bretten eG. Upon his appointment to the Board of Management Mr. Jung laid down his mandate as a member of the Supervisory Board of MünchenerHyp. Mr. Klaus Sturm stepped down from the Board of Management at the end of 2010 to retire from active business life. Mr. Sturm has earned our thanks and recognition for his great dedication and success in the capital markets on behalf of MünchenerHyp.

The Supervisory Board extends their thanks to the Board of Management all of the Bank's employees for their efforts on behalf of the Bank and their personal dedication.

Forward-looking decisions were made in 2010 which permit us to anticipate the future success of the MünchenerHyp and our stable development in the market.

Munich, April 2011
MÜNCHENER HYPOTHEKENBANK eG

Konrad Irtel
Chairman of the Supervisory Board



THE MEMBERS OF THE DELEGATES MEETING

AS OF 31 DECEMBER 2010

Johannes Altenwerth ... Bank director (ret.)	Peter Koch ... Bank director (ret.)
Hermann Arens ... Bank director	Klaus Korte ... Bank director
Marianne Baalcke ... Certified hotel specialist	Manfred Kübler ... Bank director
Dr. Wolfgang Baecker ... Bank director	Roland Kuffler ... Businessman
Manfred Basler ... Bank director (ret.)	Hans Georg Leute ... Bank director (ret.)
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 (ret.)
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 (ret.)
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 (ret.)	Jochen Seiff ... Bank director (ret.)
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
Prof. Dr. Michael Kaufmann ... Professor	Ulrich Tolksdorf ... Bank director
Norbert Kaufmann ... Bank director	Heinz-Walter Wiedbrauck ... Bank director

AGENDA – GENERAL (DELEGATES) MEETING ON 16 APRIL 2011, 10.30 A.M.

1. Report on the 2010 business year by the Board of Management and presentation of the Annual Statement of Accounts and the 2010 Management Report
2. Report of the Supervisory Board
3. Auditors' report
4. Resolutions to ratify:
 - a) the 2010 Annual Statement of Accounts
 - b) proposed appropriation of distributable profits
 - c) the acts of the Board of Management and the Supervisory Board for the 2010 business year
5. Elections 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

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Dr. Louis Hagen ... Spokesman, as of 17 April 2010
Bernhard Heinlein
Michael Jung, as of 1 January 2011
Klaus Sturm, until 31 December 2010

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Chairman of the Supervisory Board, as of 17 April 2010
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EXECUTIVE DIRECTOR

Ingo Schramm



CONTACT

HEADQUARTERS

Münchener Hypothekenbank eG
 Karl-Scharnagl-Ring 10, 80539 Munich
 PO box 22 13 51, 80503 Munich
 Phone +49 (0) 89 / 53 87 – 0, Fax +49 (0) 89 / 53 87 – 900

E-mail: Serviceteam800@muenchenerhyp.de
 Internet: www.muenchenerhyp.de
 Lotus Notes Address: mhb_hotline@mhb_eg

SERVICETEAM 800

Phone +49 (0) 89 / 53 87 – 800, Fax +49 (0) 89 / 53 87 – 900

HYPOLINE HOTLINE

Phone +49 (0) 89 / 53 87 – 145

ACCOUNTING/TAXES

Johann Götz ... Phone +49 (0) 89 / 53 87 – 204

BOARD OF MANAGEMENT STAFF AND HUMAN RESOURCES

Dr. Phil Zundel ... Phone +49 (0) 89 / 53 87 – 319

CAPITAL MARKETS

Richard-Peter Leib ... Phone +49 (0) 89 / 53 87 – 127

COMMERCIAL REAL ESTATE FINANCE

Dr. Jan Peter Annecke ... Phone +49 (0) 89 / 53 87 – 116

CONTROLLING

Hannsjörg Eisenreich ... Phone +49 (0) 89 / 53 87 – 744

CREDIT PRINCIPLES

Kurt Herold ... Phone +49 (0) 89 / 53 87 – 167

INFORMATION PROCESSING/ORGANISATION

Andreas Werner-Scheer ... Phone +49 (0) 89 / 53 87 – 555

INTERNAL AUDIT

Klaus Brnabic ... Phone +49 (0) 89 / 53 87 – 516

LEGAL

Ernst Feichtmeier ... Phone +49 (0) 89 / 53 87 – 311

OFFICES OF THE BOARD OF MANAGEMENT

Dr. Louis Hagen (Spokesman) ... Phone +49 (0) 89 / 53 87 – 407
 Bernhard Heinlein ... Phone +49 (0) 89 / 53 87 – 401
 Michael Jung ... Phone +49 (0) 89 / 53 87 – 404

PRIVATE CUSTOMERS/PRIVATE HOUSING BUSINESS/ BROKERS

Dr. Peter Knorr ... Phone +49 (0) 89 / 53 87 – 593

PRIVATE CUSTOMERS/PRIVATE HOUSING BUSINESS/ VERBUND

Thomas Hügler ... Phone +49 (0) 89 / 53 87 – 644

PROPERTIES/SERVICES

Hubert Mayr ... Phone +49 (0) 89 / 53 87 – 639

SPECIAL ASSET MANAGEMENT

Guido Zeitler ... Phone +49 (0) 89 / 53 87 – 355

TRANSACTION MANAGEMENT CAPITAL MARKETS/ TREASURY

Ingeborg Eitler ... Phone +49 (0) 89 / 53 87 – 608

TRANSACTION MANAGEMENT PROPERTY FINANCE

Private Customers
 Ingo Schramm ... Phone +49 (0) 89 / 53 87 – 940

Commercial Real Estate Customers
 Susanne Falkenberg ... Phone +49 (0) 89 / 53 87 – 359

TREASURY

Rafael Galuszkiewicz ... Phone +49 (0) 89 / 53 87 – 106

WORKOUT MANAGEMENT

Karl-Heinz Reisach ... Phone +49 (0) 89 / 53 87 – 645

CONTACTS IN THE FEDERAL STATES

REGIONAL OFFICE AUGSBURG

Münchener Hypothekenbank eG
Schertlinstrasse 19
86159 Augsburg
Phone +49 (0) 8 21 / 2 57 63 - 0
Fax +49 (0) 8 21 / 2 57 63 - 20

REGIONAL OFFICE BERLIN

Münchener Hypothekenbank eG
Rankestrasse 26
10789 Berlin
Phone +49 (0) 30 / 32 90 07 - 0
Fax +49 (0) 30 / 32 90 07 - 20

REGIONAL OFFICE COLOGNE

Münchener Hypothekenbank eG
Hohenzollernring 55
50672 Cologne
Phone +49 (0) 2 21 / 50 06 16 - 0
Fax +49 (0) 2 21 / 50 06 16 - 20

REGIONAL OFFICE DRESDEN

Münchener Hypothekenbank eG
Cossebauder Strasse 18
01157 Dresden
Phone +49 (0) 3 51 / 42 79 71 - 0
Fax +49 (0) 3 51 / 42 79 71 - 20

REGIONAL OFFICE FRANKFURT

Münchener Hypothekenbank eG
Mainluststrasse 12
60329 Frankfurt am Main
Phone +49 (0) 69 / 74 34 65 - 0
Fax +49 (0) 69 / 74 34 65 - 20

REGIONAL OFFICE HAMBURG

Münchener Hypothekenbank eG
Beim Alten Gaswerk 1
22761 Hamburg
Phone +49 (0) 40 / 35 54 30 - 0
Fax +49 (0) 40 / 35 54 30 - 35

REGIONAL OFFICE HANOVER

Münchener Hypothekenbank eG
Berliner Allee 5
30175 Hanover
Phone +49 (0) 5 11 / 85 61 44 - 0
Fax +49 (0) 5 11 / 85 61 44 - 20

REGIONAL OFFICE MUNICH

Münchener Hypothekenbank eG
Karl-Scharnagl-Ring 10
80539 Munich
Phone +49 (0) 89 / 53 87 - 521
Fax +49 (0) 89 / 53 87 - 566

REGIONAL OFFICE MUENSTER

Münchener Hypothekenbank eG
Hafenweg 46-48
48155 Muenster
Phone +49 (0) 2 51 / 9 19 97 - 0
Fax +49 (0) 2 51 / 9 19 97 - 20

REGIONAL OFFICE NUREMBERG

Münchener Hypothekenbank eG
Wallensteinstrasse 61-63
90431 Nuremberg
Phone +49 (0) 9 11 / 21 46 75 - 0
Fax +49 (0) 9 11 / 21 46 75 - 20

REGIONAL OFFICE STUTTGART

Münchener Hypothekenbank eG
Lange Strasse 6
70173 Stuttgart
Phone +49 (0) 7 11 / 22 29 62 - 0
Fax +49 (0) 7 11 / 22 29 62 - 22



COOPERATION PARTNERS

UNITED KINGDOM

LONDON

Laxfield Capital Ltd
Adam Slater
Emma Huepfl
63 Curzon Street
GB-London W1J 8PD
Phone +44 (0) 20 / 74 93 50 26
Fax +44 (0) 20 / 74 91 71 82

SPAIN

MADRID

REALCIS S.L.
Peter von Puttkamer – Presidente
Ribera del Loira, 28
E-28042 Madrid
Phone +34 (0) 91 / 7 21 05 53
Fax +34 (0) 91 / 7 21 14 07
E-mail: info@realcis.com

USA

NEW YORK

Carr Realty Advisors LLC
Richard T. Carr – Chairman
65 West 55th Street | Suite 8 B
New York, NY 10019
Phone +1 (0) 212 / 2 62 02 59
Fax +1 (0) 212 / 2 62 03 75
E-mail: rtcarr@carradvisors.com

FRANCE

PARIS

ARP CONSEIL S.A.R.L.
Pascal Roth
4 Rue St Georges
F-67500 Haguenau
Phone +33 (0) 3 / 88 06 16 90
Fax +33 (0) 3 / 88 06 16 91
E-mail: info@arpconseil.fr

AUSTRIA

VIENNA

Dr. Georg Formanek GmbH
Dr. Georg Formanek
Huegelgasse 10
A-2540 Bad Vöslau
Phone +43 (0) 664 / 5 10 66 00
Fax +43 (0) 2252 / 79 08 35
E-mail: office@formanek-gmbh.at



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COORDINATION

Dr. Phil Zundel
Board of Management Staff and Human Resources
Münchener Hypothekbank eG

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www.hillertundco.de

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www.eitzenberger.de



Volksbanken Raiffeisenbanken
cooperative financial network

Münchener Hypothekenbank eG
Karl-Scharnagl-Ring 10 | 80539 Munich
PO Box 22 13 51 | 80503 Munich
Tel. + 49 (0) 89 / 53 87 - 800
Fax + 49 (0) 89 / 53 87 - 900
E-Mail: serviceteam800@muenchenerhyp.de
Web: www.muenchenerhyp.de

