Münchener Hypothekenbank eG

ANNUAL REPORT 2011 >>


Münchener
Hypothekenbank eG

The property and capital markets have been undergoing profound changes for some time now. An enterprise that wishes to assert itself in this kind of environment has to continually question the familiar, the routine way of doing business and step back to look at what it's doing from a new, unfamiliar and surprising perspective.

We fully believe in this credo at Münchener Hypothekenbank as we continuously create NEW PERSPECTIVES for ourselves, our customers, partners and investors to provide them what they have learned to expect from us: attractive and individually tailored financing solutions that fit their needs – exactly.


2002


2012

Münchener Hypothekenbank found its new home in the heart of the Bavarian capital ten years ago. When our new main office was inaugurated in 2002 it not only made us a more visible again within Munich's cityscape, it also laid the foundation for the Bank's successful work over the past years.

The building's open architecture, with extensive glass spaces created a "display window" for the houses in the attractive Lehel district behind our building, thereby creating a new perspective on one of Munich's oldest neighbourhoods. New perspectives for the dawn of a new era. An era that has remained marked by repeated crises in the property and financial markets – and an era where we also grew to become Germany's fifth largest property financer.

Over the years our view of our building has changed. We learned to appreciate all of its facets, and yet even now – ten years later – we still discover many unexpected and inspiring aspects. We would like to share these aspects with you in this year's annual report. Because we not only feel at ease here, we also feel that our building's architectural design also clearly reflects our business principles and values. Perhaps, all you have to do is take a moment to look a little bit closer.

OVERVIEW

BUSINESS DEVELOPMENT (IN MILLIONS OF €)

	2011	2010	Change %
Lending Business			
a) Mortgage loans	3,391	3,553	-5
aa) Residential property financing	2,808	3,208	-12
ab) Commercial property financing	583	345	69
b) Loans to public sector and banks	1,449	1,884	-23
Total	**4,840**	**5,437**	**-11**

BALANCE SHEET (IN MILLIONS OF €)

	2011	2010	Change %
Total assets	37,348	35,225	6
Mortage loans	19,410	18,455	5
Loans to public sector and banks	13,293	13,597	-2
MBS	69	125	-45
Pfandbriefe and other promissory notes	31,511	31,195	1
Liable equity capital	1,157	1,198	-3

INCOME STATEMENT (IN MILLIONS OF €)

	2011	2010	Change %
Net interest income less commissions	80	97	-18
Administrative expenses	64	59	8
Results from operations before deducting provisions for risks	11	32	-66
Results from operations after deducting provisions for risks	7	17	-60
Transfer to the Fund for General Banking Risks	-2		
Net income	5	11	-55

EMPLOYEES (NUMBER)

	2011	2010	Change %
Average number of employees per year	375	366	2
Apprentices	12	17	-29
Employees participating in parental leave, early retirement and partial retirement (non-working phase)	24	23	4

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LETTER FROM THE BOARD OF MANAGEMENT

DEAR SHAREHOLDERS AND BUSINESS ASSOCIATES,

Last year was mixed for the Münchener Hypothekenbank. The worsening European sovereign debt crisis, as well as heightened uncertainties surrounding the future of the currency union, led to greater demand for safer capital investments among professional and private investors. German residential property, in particular, was viewed as a safe investment. Demand for private residential property financing, especially in Germany, rose notably as owner-occupiers also increasingly invested their capital in houses or apartments, while interest rates fell to historic lows.

Our new business benefited considerably from these developments as we greatly exceeded some of our targets. Our partnership with the Volksbanken and Raiffeisenbanken was further reinforced, and our portfolio of mortgages grew further.

We were, however, unable to avoid being affected by the impact of the European sovereign debt crisis and, in particular, the exacerbation of the financial situation in Greece. We had to take corresponding write-downs of our holdings of Greek government bonds. These write-downs burdened our 2011 business results. Following the compulsory exchange of bonds, an additional write-down will be required in 2012. Nevertheless, we were able to bear these heavy burdens with our own resources during the year under review.

BUSINESS STRATEGY WILL BE CONTINUED

The core principles of our business and risk strategy, which we further developed in 2010, proved their value as a stable platform even during last year's more challenging overall conditions. This is why we will continue our business and risk strategy, especially in light of the selective course of growth we foresee for the Bank. In view of the current sovereign financial situation in the economically weaker European countries and beyond, we will, however, closely examine our lending business with the public sector and banks. The new regulatory requirements will be an important aspect of this review. For this reason we

The Board of Management of the Münchener Hypothekenbank eG. From left to right: Bernhard Heinlein, Dr. Louis Hagen (Spokesman), Michael Jung will be even more cautious to lend to the public sector in the future. We have defined this area as supplemental business, and it has been shrinking over the past few years. As a result, we have not made any loans to peripheral states of the eurozone, in particular, for a longer while.

NEW BUSINESS AND LOAN PORTFOLIOS DEVELOP FAVOURABLY

Our focus on the two core areas of business, residential property and commercial property financing, has proven its worth. In 2011 we made a total volume of € 3.4 billion of mortgage loans. The majority of these loans according to our strategic focus were made to finance residential property – including housing companies.

Once again the Volksbanken and Raiffeisenbanken were our most important sales partners, and together we were able to substantially expand the volume of financing made. And there are two good reasons for this: first, private customers preferred having the Volksbanken and Raiffeisenbanken as their financing partners as they were greatly trusted during the current uncertainties. Secondly, many customers still wanted to take advantage of the very favourable level of interest rates and lock in fixed-interest financing over longer terms of up to 30 years. MünchenerHyp is one of the leading providers in this segment in Germany.

Investor interest in the commercial property financing area of business remained focused on stable markets and safe investments. This was reflected by our new business results, which rose strongly in comparison to the previous year. The major portion of the financing made was for transactions in Germany.

Our favourable new business results enabled us to increase our portfolio of mortgage loans by € 1 billion to € 19.4 billion. The weighting of the business areas shifted further – as planned strategically – in favour of residential property financing. Our portfolio of commercial property loans in the USA, in particular, has been shrinking. In recent years we successfully restructured the existing loans and today they are developing very satisfactorily in terms of margins and risk.

INVESTORS SHOW CONFIDENCE

The European debt crisis visibly burdened the capital markets. Refinancing costs rose for all market participants from the financial sector as investors became increasingly uncertain. Refinancing premiums for covered bonds widened substantially, too. Although MünchenerHyp was not completely exempted from this development, we did pay significantly lower premiums for risk over long periods of the year in comparison to other banks that refinance their activities via the capital market. Thus our Pfandbriefe, in particular, were hardly affected by the sharp widening of spreads noted in the covered bond markets.

This was a reflection of the great trust investors have in MünchenerHyp. This trust is based on our Pfandbriefe's high level of quality, as well as the intensive support and care we have been providing to our investors for years. Furthermore, our standing is also strengthened by our membership in the Volksbanken Raiffeisenbanken Cooperative Financial Network. We benefit from our cooperative network's high level of refinancing strength, especially in the area of uncovered refinancing.

IMPROVED EQUITY CAPITAL RATIO

The increased demands placed on credit institutions' equity capital requirements are a central element of the new supervisory regulations. After two and a half years of preparatory work, we converted the method we use to calculate the level of equity capital required to back loans on our books to the internal ratings based approach, or IRBA, in order to meet these demands. Using this process the level of capital required to back loans is based on internal risk assessments, which permits a far more precise measurement of risks than previously. Last year we received authorisation from the banking supervisory authority to use IRBA. This is an important success for our Bank. The use of IRBA will far better reflect our low-risk lending business. IRBA will ease our required level of equity capital by about € 270 million. Our core capital ratio rose from 6.4 percent in the previous year to 8.9 percent at the end of 2011, while the total capital ratio climbed from 10.0 percent to 13.3 percent.

GRATITUDE FOR DEDICATION AND COLLABORATION

Once again, our employees showed extraordinary dedication for their MünchenerHyp last year. We would like to thank all of them for their special achievements. The support and advice we received from our committees was also very valuable for us in a difficult banking year. We are also grateful for the constructive collaboration shown during the year. We would also like to thank our members for the trust they put in us, even during these times. Thus, paid up capital rose by € 7.3 million to € 158.9 million.

GROWTH COURSE WILL BE CONTINUED

Despite the sovereign debt crisis and its considerable effects on our Bank, we can look back at a successful year of business operations in 2011. The unbroken high demand for property financing experienced by our Bank, the high standing of our Pfandbriefe among investors, and our members' trust in us strengthen our determination to stay on our course. We will further deepen the close and trustful collaboration with our partners in the Volksbanken Raiffeisenbanken Cooperative Financial Network. It would be desirable to see a calming of the sovereign debt crisis. We are confident that we will achieve satisfactory business results, even in the face of the currently adverse overall conditions.

Sincerely yours,

Dr. Louis Hagen   Bernhard Heinlein   Michael Jung

MANAGEMENT REPORT 2011

OVERALL ECONOMIC CONDITIONS

"Achieving more together – the basic idea behind every cooperative, and the **UNDERLYING FOUNDATION** of our business policy. As the only Pfandbriefbank doing business as a legally registered cooperative, Münchener Hypothekenbank feels particularly obligated to this idea. This is why we have oriented our business policy in Germany and internationally to be sustainable, also in the best interests of our members. This is why we are very pleased that the 'International Year of Cooperatives – 2012' is giving the cooperative principle the special recognition it deserves."

Helmut Maurer
Group Head, Member Service
Münchener Hypothekenbank eG

MANAGEMENT REPORT 2011

OVERALL ECONOMIC CONDITIONS

ECONOMIC DEVELOPMENT

The global economy continued to grow in 2011 and expanded by 3.8 percent. The pace of growth was, however, slower than in the previous year due to numerous dramatic events that limited the development of the global economy. Above all else, the increasingly dire sovereign debt crisis in Europe, as well as the consequences of the catastrophic earthquake in Japan, which led to production problems around the world, were the most significant factors. The economy was further dampened by a sharp increase in commodity prices. Economic development within the eurozone was hit particularly by the effects of the sovereign debt crisis, with the financially weaker countries along the periphery of Europe recording little or even negative economic growth. It was due to these factors that the eurozone's gross domestic product (GDP) only grew by 1.5 percent.

With a 3 percent rate of growth the German economy once again expanded at a substantially stronger pace than the average rate noted for Europe. Despite the difficult environment, the pace of economic development in Germany only slowed towards the end of the year. Growth was primarily driven by strong domestic demand, which accounted for about two-thirds of the total figure. Furthermore, German foreign trade also flourished as exports once again contributed significantly to the growing economy.

Investments in residential housing, in particular, benefited from the unchanged uncertainty in the capital markets and rose by almost 6 percent. Investments in for commercial property and public-sector property construction grew more modestly. Expenditures for public-sector construction projects were affected by the expiration of the federal government's investment programme. Total investments in the construction industry increased by 5.4 percent.

Development of consumer prices was primarily influenced by sharply higher prices for energy. The rate of inflation climbed significantly at an average annual rate of 2.3 percent in 2011, although the pace of inflation began to ebb towards the end of the year. The situation in the labour market improved further. The average number of employed persons for the year set a new record at over 41 million; concurrently, the average number of unemployed fell for the first time in many years to less than 3 million. The average rate of unemployment for the year decreased to 7.1 percent.

FINANCIAL MARKETS

The financial markets in 2011 were again marked by a lack of confidence and trust. This was primarily due to the sovereign debt crisis, especially the increasingly critical situation in the eurozone, which was driven by the rising refinancing problems facing its financially weaker member countries. Above all, this situation was brought into sharp focus by the repeated measures to rescue Greece, as well as by the growing doubts held by market players concerning the creditworthiness and debt consolidation abilities of Italy and the other countries on the periphery of Europe.

"The financial markets were dominated by the European sovereign debt crisis."

Multi-faceted efforts by Europe's political leaders to stabilise the situation in the eurozone were unable to restore the needed level of confidence in the financial markets last year. Instead of building confidence, the 50 percent haircut that European policymakers demanded of investors holding bonds issued by Greece actually solidified investors' mistrust in the eurozone. This led to yet another EU summit meeting in December where extensive measures were approved to strengthen the currency union and monitor member states' budgetary discipline even more closely than in the past. Investors, however, took a wait-and-see attitude as they doubted the effectiveness of the new rules to limit sovereign deficits in Europe, and also feared the negative consequences that the consolidation measures would have on the economy.

Investors' distrustful attitude was clearly visible in the equity markets as the indices became increasingly volatile after getting off to relatively good start at the beginning of the year. The DAX index, in particular, turned in a weaker performance, and at the end of 2011 was about 15 percent lower than it was at the beginning of the year.

On the currency side, the euro initially gained in value over the US dollar during the course of the year due the Fed's continued expansive monetary policy. However, the US dollar recovered again as the European sovereign debt crisis worsened and the American economy improved towards the middle of the year. Investors viewed the Swiss franc as a safe haven last year as it gained notably vis-à-vis the euro and almost reached parity. This development placed such great pressure on the Swiss economy that in September the Swiss National Bank declared that they would enforce a minimum exchange rate of CHF 1.20 per euro. To date, this measure has proven to be an effective restraint on the Swiss franc's exchange rate.

"Pfandbriefe and other covered bonds originating in EU core states also proved to be reliable refinancing instruments during the turbulence experienced by the markets in 2011."

The European Central Bank's (ECB) interest rate policy was driven by the rising rate of inflation until the fall of 2011. By July the ECB had increased its key interest rate in two steps of 25 basis points each to 1.5 percent. However, the ECB later reversed course and lowered its main rate back to 1 percent in two back-to-back steps in November and December as favourable development in the eurozone slowed and the sovereign debt crisis widened. The Fed did not change its main interest rate and continued to hold it at a target range of 0 percent to 0.25 percent and declared that it intended to hold rates at this level until 2014. The ECB continued to provide extensive liquidity as part of its efforts to support the European banking system and strengthen sovereign bonds issued by the weaker EU member states. It offered banks almost unlimited liquidity and in October 2011 took the additional step of reintroducing its longer term refinancing operations that offered maturities of longer than one year. These measures were viewed as a response to the increasingly tighter situation in the interbank market, which in turn led to far greater use of the ECB's deposit facilities by banks.

Pfandbriefe and other covered bonds originating in EU core states also proved to be reliable refinancing instruments during the turbulence experienced by the markets last year. Total new issues of benchmark covered bonds denominated in euro floated in 2011 amounted to € 179 billion. Investors were primarily interested in German Pfandbriefe and French covered bonds, as well as in Scandinavian covered bonds. As a result, spreads for

Figures in % | YIELD ON TEN-YEAR BUNDS 2011

Source: Bloomberg

these securities remained comparatively tight in contrast to spreads noted for covered bonds originating in Great Britain and in countries on the periphery of Europe, as their spreads widened substantially in some cases. Nevertheless, the debt crisis also affected the issuing activities of Pfandbriefe as of the second half of 2011, with Public Pfandbriefe, in particular, retreating. Despite the good start, the volume of new issues fell to € 70 billion last year. In November 2011 the ECB launched a new covered bond purchasing program for an intended amount of € 40 billion for the purpose of stabilising the markets.

The development of long-term interest rates was primarily influenced by economic perspectives. The continuing upswing led to rising yields for 10-year German government bonds (Bunds), especially in the first half of the year, when they hit their peak yield of 3.5 percent in April. Returns also declined as the economic outlook worsened. Yields stood at 1.7 percent at the end of the year. The sovereign debt crisis played a substantial role in driving yields down as investors viewed Bunds as a particularly safe place to put their money and demand rose correspondingly.

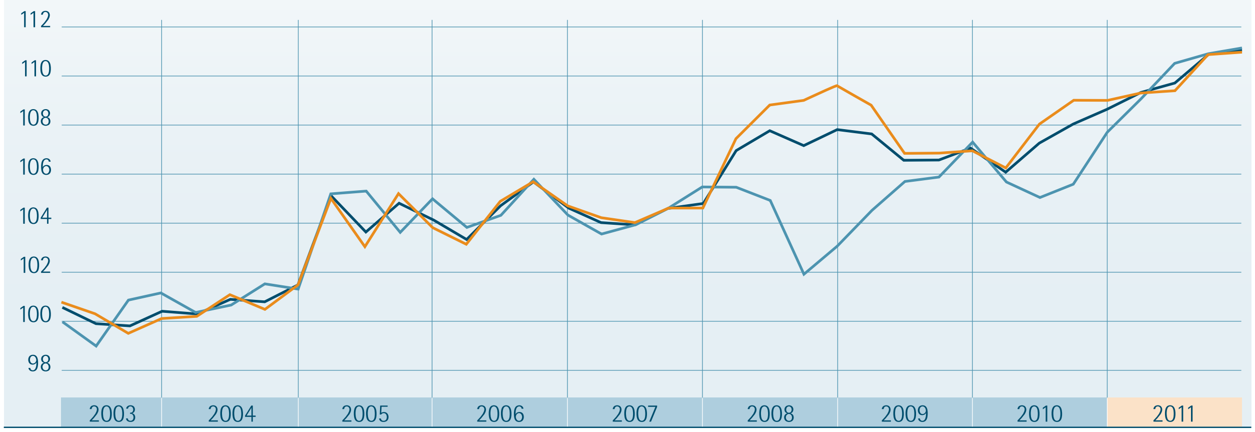
PROPERTY AND PROPERTY FINANCING MARKETS

RESIDENTIAL PROPERTY – GERMANY

Strong demand for residential property remained undiminished in 2011 and was also driven by the uncertainty surrounding the future of Europe and its currency union, as well as by a lack of investment alternatives. Safe investments offering reasonable returns, like those offered by German residential property, in particular, were very sought after by professional investors and private individuals.

The ongoing attractive level of interest rates had a favourable effect on the demand for property and property loans. Following an initial rise in interest rates, the interest rate for ten-year property loans fell to a historic low of less than 3 percent in 2011. Even conditions for long-term, fixed rate loans with maturities of up to 30 years were extremely attractive and during the fall of 2011 stood at only about 3.5 percent at times. In addition, the stable development noted in the labour market coupled with higher wages strengthened potential private home-owners' ability to afford and finance residential property.

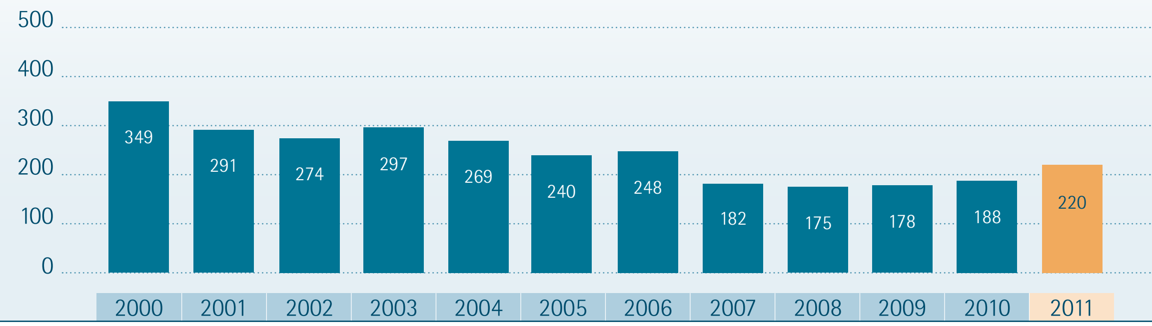
DEVELOPMENT OF PROPERTY PRICES IN GERMANY (YEAR 2003 = 100)



– Owner-occupied residential property – houses – condominiums

Source: German Association of Pfandbrief Banks

Figures in 000 | RESIDENTIAL BUILDING PERMITS IN GERMANY 2000 – 2011



Source: German Federal Statistics Office, www.destatis.de, 2011 = estimated

At the same time, price differentials within the residential property market continued to widen. In particular, prices noted for houses and apartments in major metropolitan areas like Munich, Hamburg, Frankfurt/Main or Berlin rose significantly last year. This further widened the existing price gap vis-à-vis less developed regions. Price differences even expanded further within metropolitan areas. Substantial premiums were paid for top properties in the best locations as supply tightened and individual cases of exuberant pricing began to appear in certain segments of the market. However, this kind of danger was not visible in the overall German residential property market. Based on calculations prepared by the Association of German Pfandbrief Banks (vdp), prices for owner occupied residential property rose by a moderate 2.5 percent on a nationwide basis, which was far removed from the price increases that marked the overheated markets seen in countries like Spain, Ireland and the USA prior to the outbreak of the financial market crisis in 2008.

Despite the growing housing shortage in metropolitan areas, the overall supply of housing in Germany still remained good. The number of building permits issued for housing was substantially higher than in the previous year with a good 205,000 permits issued for housing by November 2011, or 20 percent more. It is anticipated that about 220,000 building permits were issued for new housing for the full year. This, however, did not meet the actual demand for new housing and barely eased pressures in markets where the supply of housing was tight.

The volume of new business generated by residential property financing grew further due to the strong demand seen in the property market. Nevertheless, competitive pressures in the German private property financing sector remained undiminished. The Volksbanken Raiffeisenbanken Cooperative Financial Network was also well positioned to face this environment in 2011. Based on information provided by the German Association of Volksbanken and Raiffeisenbanken (BVR), the Financial Network's share of residential property financing transactions grew at a faster pace than the overall market. The reasons for this remain unchanged: customers value trustworthy financing partners that can offer safe financing and provide high quality advice.

> **"German residential property was highly sought after as a safe capital investment as well as for owner-occupied purposes."**

RESIDENTIAL PROPERTY – INTERNATIONAL

Development of the residential property markets outside of Germany was burdened by the rather weak economy in the rest of Europe and rising pressures to tighten government spending in many EU member states.

The volume of transactions remained at quite a low level, especially in the UK and France where demand for houses and apartments only rose in individual cases, above all in major urban centres and particularly in Paris and London. The markets developed very differently on a nationwide basis with a few urban centres holding up well while the volume of transactions and purchase prices generally fell further in rural regions.

> **"Residential property markets in many European countries were burdened by the weak economy and the sovereign debt crisis."**

Attractive interest rates had a favourable effect. However, they did not add momentum to new residential property financing business as the criteria for granting loans still remained very restrictive.

In addition to Germany, the Swiss residential property, in particular, also remained in stable condition. A high level of construction, unchanged inflows of immigrants, and the low level of interest rates had a favourable impact on the market. Purchase prices again rose notably last year with prices for condominiums rising a bit faster than prices for single-family homes. Fears that the residential property market in Switzerland was overheating were heard in some cases among experts.

Demand for rental properties was high in European metropolitan areas. This meant that both rents and yields from rental apartments paid out to investors, especially in the UK, rose further.

The difficult situation in the residential property market in the USA remained unchanged. House prices fell again as unemployment figures slowly contracted, lenders kept conditions tight, and overall economic conditions remained uncertain.

In contrast, the market for rental homes recorded a notable upswing as vacancy rates decreased and in some cases rents paid grew at a rapid pace. As a result national and international investors focused their attention even more on this market. The financing market for this class of property was marked by intensive competition, especially between banks and life insurance companies.

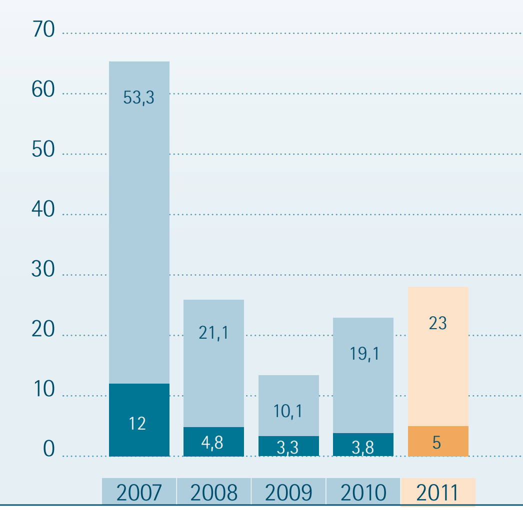
COMMERCIAL PROPERTY – GERMANY

The German commercial property market developed favourably last year, as investors viewed Germany as a stable place. The volume of transaction rose by a good 20 percent to about € 23 billion. Investors were primarily focused on retail and residential property portfolios. More than € 10 billion was invested in German retail properties in 2011, or almost as much as the total sum invested in the previous two years together. Investments in residential property hit a three year peak with € 5 billion.

The rental market for office properties was robust and asserted itself in the face of worsening overall economic conditions. Rented office space in major German metropolitan areas increased to about 3.4 million square meters as vacancy rates fell and top rents paid climbed or, at a minimum, remained stable.

As in the previous years both investors and providers of financing remained focused on core properties: easy-to-rent, prime

DEVELOPMENT OF COMMERCIAL PROPERTY TRANSACTIONS IN GERMANY 2007 - 2011
Figures in € billion



Commercial
Residential (only portfolio)
Source: Ernst & Young Research, January 2012

location properties with high quality amenities. The one-sided demand for core properties not only tightened their availability, it also caused the gap between prices paid for A and B location properties to widen even further.

> **"Demand for commercial property rose as investors viewed Germany as a safe location."**

Changes were noted last year on the provider side of the commercial property financing market as some foreign and domestic financiers pulled out of the market. These changes, however, only had an immaterial effect on the market as sufficient numbers of commercial property financiers continued to compete with each other in this segment. The low level of interest rates led to attractive financing conditions in most cases, too. Nevertheless, during the course of the year discussions arose concerning a possible credit crunch in the property financing sector due to the new, stricter regulatory requirements facing banks. These requirements were reflected by in lending levels as banks frequently tightened their requirements for investors' equity capital participation, customer creditworthiness, and the stability of the cash flow generated by the collateral property. This development was generally accompanied by investors' reduced appetite for risk, as well as their focus on safe properties offering stable value.

COMMERCIAL PROPERTY – INTERNATIONAL

Demand noted by the European commercial property markets in 2011 was impeded to a great extent by the difficult economic environment, with turnover only recovering substantially in the fourth quarter. As a result, the total volume of transactions recorded for the entire year only rose modestly to € 115 billion.

Investors throughout Europe focused on core properties and stable markets. In addition to Germany, they primarily concentrated on strong economic regions located in the UK, France and Scandinavia. These countries recorded greater investments in 2011 while activities in countries like Italy, Portugal and Spain declined.

Professional investors acted cautiously in the UK due to the weak economy and budget consolidation measures. Demand for office property was only very selective. The situation was similar in the retail property segment, where higher prices were only observed in individual cases. Only London and a few other major cities, where national and international investors focused their efforts, were exempted from this development. Above all other locations, prices paid for core properties in London rose. Investors in France were primarily interested in properties located in Paris and regions with strong economies.

Financing requirements for commercial property loans remained significantly higher than they were prior to the outbreak of the crisis in the financial markets. Banks expected investors to participate in their financing packages with substantially higher levels of equity capital. At the same time, banks also reduced their average volume of financing to limit their risks.

> **"Investors in the European commercial property markets remained focused on easy-to-rent, prime location properties with high quality amenities."**

Despite the rather slow moving American economy, the favourable trends noted for the commercial property market in the USA also continued into 2011. Attention remained focused on the core markets of New York City, San Francisco, Washington DC, Boston and Los Angeles. Demand for core properties with stable rents exceeded supply. This led investors to once again taking a closer look at central business district properties in secondary markets, as well as properties located along the fringes of primary markets. The market situation in secondary markets eased slightly.

In contrast, the American financing market for commercial property only functioned to a limited extent in 2011. Furthermore, the recovering commercial mortgage-backed securities (CMBS) market also experienced setbacks during the second half of the year. Financiers primarily lent money for property transactions backed by properties with long-term tenants in the aforementioned five core markets, as well as to first-class borrowers.

MANAGEMENT REPORT 2011

BUSINESS DEVELOPMENT AND OVERALL CONDITIONS

"The Cooperative Financial Network is a **STRONG NETWORK.** With Münchener Hypothekenbank we have a high-performing partner that offers us an attractive range of products, top quality service, and also adds tangible value to our business development activities. This gives us a clear competitive advantage in the highly contested property financing market."

Rainer Jenniches
Member of the Board of Management of VR-Bank Bonn eG,
and Chairman of the Advisory Board of
Münchener Hypothekenbank eG

BUSINESS DEVELOPMENT AND OVERALL CONDITIONS

MÜNCHENERHYP IN 2011

MünchenerHyp was able to withstand the pressures stemming from the difficult environment in the capital markets in 2011. Our new business results developed very well as we exceeded our targets in both the residential property financing and commercial property financing areas.

A large portion of our new business was generated by financing private property transactions, which in turn stemmed primarily from our Cooperative Financial Network business with the Volksbanken and Raiffeisenbanken. The competitive strengths of our cooperative partner banks coupled with heavy demand for property in Germany and unchanged low interest rates were the most important reasons for this success.

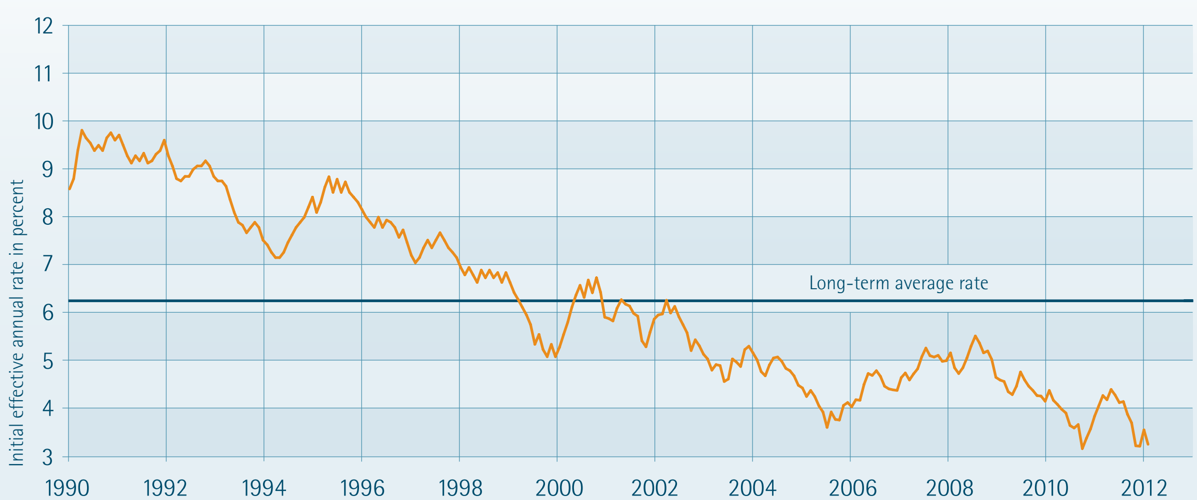
Demand was also very strong for commercial property financing, and especially for financing residential property portfolios. Our business outside of Germany benefited from the overall stable situation in our core markets of France and the UK. Our portfolio of loans in our receding property finance business in the USA developed according to strategy and continued to contract successively while posting very satisfactory results in terms of margins and declining risks.

Against the background of the sovereign debt crisis, we focused our lending business with the public-sector and banks on core countries in Western Europe and system-relevant banks within these countries. As a result, this area of business declined substantially. Our good new business results and the improved risk position noted for our American lending business assisted us in writing down our Greek portfolio on our own.

"MünchenerHyp's new business developed very successfully, as targets in our core areas of business were even exceeded in some cases."

The volume of lending commitments made across all of our areas of business totalled € 4.8 billion, or about € 600 million less than in the previous year. This change was due to reduced level of lending business with the public-sector and banks, as well as in Switzerland. Our good new business performance favourably

MORTGAGE RATES MÜNCHENERHYP (TEN YEAR FIXED RATE)



Source: MünchenerHyp

As of: 02.01.2012

influenced our portfolio of mortgages and other property finance loans, which rose by € 1 billion to € 19.4 billion.

Regulatory approval received from the Federal Financial Supervisory Authority (BaFin) that allowed MünchenerHyp to use the Internal Ratings Based Approach (IRBA) to calculate its equity capital requirements represented a major success for the Bank in 2011. IRBA permits a far more precise control of equity capital requirements than was possible with the previously used standard approach. Risks in the lending area will now be valued by their internally calculated level of risk. This will lead to a substantial increase in the Bank's equity capital ratio as MünchenerHyp's low-risk business requires a significantly lower level of equity capital.

We ended the year under review with annual net profits of € 4.9 million.

MÜNCHENERHYP NEW MORTGAGE BUSINESS 2006 – 2011
Commitments in € million

Residential housing
Commercial property including housing companies

NEW MORTGAGE BUSINESS

Heavy demand for property financing, above all in Germany resulted in higher regular new business results in both our residential and commercial property financing business areas. After posting € 3.6 billion in new business in 2010, our volume of lending commitments made last year amounted to € 3.4 billion. We exceeded our 2011 business targets, which were based on the previous year's regular new business results, above all in our residential property financing area of business.

We were able to employ our specific competitive strengths to a very great extent against the background of attractive interest rates and the uncertainty surrounding Europe's future. Above all, these strengths included our ability to offer customers long-term fixed rates of interest for up to 30 years. Far more customers than in the past wanted to lock-in low interest rates for as long as possible. This demand was also fuelled by consumer associations last year as they strongly recommended obtaining long terms of fixed mortgage rates as an important factor for solid financing. As a result, a substantial portion of our new business was for mortgages with fixed rates of interest for over 20 years.

Beyond this, MünchenerHyp enjoys a good reputation in the market as a provider of safe, flexible and innovative financing solutions. Customers expect that their financing will adjust to their changing personal circumstances and financial possibilities.

"The favourable level of interest rates bolstered demand for long-term fixed rates of interest of up to 30 years, an area where MünchenerHyp has a particularly strong competitive position."

We once again received awards for the quality and flexibility of our financing solutions. In early 2012 we won "The most innovative property financer in 2011" prize from PlanetHome AG, and we were also a top-ranked finisher for the FMH "Best Property Financer in Germany" award.

Turnover of residental property financing generated via independent financial service providers rose by more than one-third to € 530 million. Last year Swiss PostFinance expanded its position in the Swiss residential property financing market, which assured a stable volume of broker sales.

Our commercial property financing business – including financing housing companies – rose by about € 800 million, or more than 20 percent, over the previous year's figure. More than one-third of the volume of new business posted originated outside of Germany, with the UK accounting for the largest share. Margins also developed favourably. In addition to our classical business with housing companies, we played a far more active role in financing larger residential property portfolios in Germany last year than we did in previous years. Our entire volume of new business in the commercial property financing segment last year was once again fully in accordance with our conservative lending policy.

PUBLIC-SECTOR AND BANK LENDING, AND MUNICIPAL LOANS

Spreads widened for bonds issued by the public-sector and banks as the sovereign debt crisis widened and worsened. In this difficult environment, we were very cautious in our lending business with the public-sector and banks and placed even greater emphasis on the quality of our commitments. In general, we only invested in very creditworthy addresses.

The current situation has basically placed a question mark next to the public-sector and bank lending area of business. Regulatory requirements have led to a situation wherein these loans affect the ability to carry risk, despite lower equity capital requirements, as their values have declined in the interim thereby forcing banks to raise their equity capital levels. As a result, credit institutions will be increasingly reluctant to lend to the public-sector and will withdraw from the interbank market, which in turn can place a burden on the financial system.

The total volume of new loans made fell from € 1.9 billion in the previous year to € 1.4 billion in 2011 due to our observance of our strategic guidelines.

REFINANCING

MünchenerHyp was able to obtain refinancing at favourable and appropriate conditions throughout the entire year. In comparison to banks that sought financing via the capital market, and which were not members of the Cooperative Financial Network, we paid notably lower risk premiums over longer periods of the year for our covered refinancing needs – due to our membership in the Cooperative Financial Network – as well as for uncovered refinancing.

"Once again in 2011, investors valued MünchenerHyp as a reliable partner in the capital market."

Furthermore, our outstanding Jumbo Pfandbriefe remained mostly exempt from the considerable widening of spreads seen in the covered bond markets. The reason behind the stability of our Pfandbriefe is our open and regular communication with investors, who are honouring our low-risk business model, as well as MünchenerHyp's membership in the Cooperative Financial Network. In addition, our strategy of regularly issuing euro-denominated Jumbo Pfandbriefe has established Münchener Hypothekenbank as a reliable partner in the capital market. This is reflected by the Jumbo Mortgage Pfandbrief we issued at the start of 2011, which we increased in February 2012 with two additional issues of € 125 million each for a total nominal amount of € 1.25 billion, with low premiums of 5 basis points and most recently 1 basis point over mid-swap.

One of MünchenerHyp's strengths is its flexibility in issuing private placements, which once again represented the most significant share of our refinancing efforts. Being embedded in the Cooperative Financial Network as a central partner has eased our access to uncovered refinancing resources.

During the 2011 financial year we obtained total refinancing of € 6.6 billion, of which Mortgage Pfandbriefe issues represented € 2.8 billion, and Public Pfandbriefe € 1.0 billion. The sale of uncovered securities for refinancing purposes amounted to € 2.8 billion. Outflows in the refinancing business totalled € 6.3 billion, resulting in net sales volume of € 0.3 billion.

The rise in uncovered refinancing over the previous year's figure is due to higher regulatory requirements regarding liquidity.

RATING

Rating agencies again raised their creditworthiness requirements as the sovereign debt crisis worsened. As a result, Moody's also reduced their rating for MünchenerHyp's uncovered liabilities in September 2011. However, ratings awarded to many other banks were cut to an even greater degree. Thanks to our good standing in the capital market, Moody's downgrade from A1 (outlook negative) to A2 (outlook stable) for uncovered liabilities did not have a material effect on our ability to access refinancing, or the conditions we faced.

On an overall basis we still have a good rating in comparison to our peers. Furthermore, the outlook for all ratings was stated as "stable".

Current ratings at a glance:

	Rating	Outlook
Public Pfandbriefe	Aaa	stable
Mortgage Pfandbriefe	Aaa	stable
Uncovered liabilities	A2	stable
Short-term liabilities	Prime-1	stable
Fundamental financial strength	D+	stable

Moody's again commented favourably on our loan portfolio, which they viewed as more heavily diversified in comparison to other Pfandbrief banks' loan portfolios. They also viewed MünchenerHyp's risk profile favourably as the mortgage lending value ratios are moderate in comparison to the figure for the market. Moreover, our close collaboration with the Cooperative Financial Network continued to be viewed as a positive factor.

Moody's commented critically on the Bank's profitability and level of equity in international comparison, as well as our ability to fulfill future Basel III equity capital requirements.

The complete Moody's document, and additional information regarding our ratings, is available at MünchenerHyp's website.

OVERALL LEGAL CONDITIONS

BASEL III

In 2011 we successfully completed the first phase of the project to introduce the Internal Ratings Based Approach (IRBA). IRBA is a procedure whereby banks set capital requirements for loans they have made using their own assessment of the risks associated with these loans. IRBA replaces the standardised approach for credit risk defined by the supervisory authority. In July the supervisory authority confirmed that MünchenerHyp's internal methods and processes had met the strict and comprehensive requirements for all of the rating systems for which it had applied to receive regulatory approval. As a result, effective October 1, 2011, the Federal Financial Supervisory Authority (BaFin) authorised the Bank to employ IRBA. This means that due to the low-risk nature of its lending business, MünchenerHyp's equity capital requirements have been eased by about € 270 million.

> **"Approval received from the supervisory authority for the Bank to use IRBA to calculate its equity capital requirements represented a major success in 2011. This new approach permits a far more precise control of equity capital requirements."**

The project must be continued until all of our loan portfolio except for minor portions is switched over to IRBA within a maximum period of 5 years. We anticipate that this will provide additional relief for our capital requirements as the loans and receivables classes not yet covered by IRBA contain less risk than assumed under the standardised approach to credit risk. This makes the IRBA project an important measure enabling MünchenerHyp to create the conditions needed for the coming equity capital requirements.

We voluntarily participate in the Basel Committee on Banking Supervision (BCBS) monitoring of Basel III, whereby all key figures required under the future terms of Basel III are calculated several times a year. The insights gained from our participation make it possible to assess the effects of the future binding minimum standards before they become legal requirements and, if necessary, make adjustments as needed. Münchener Hypothekenbank's voluntarily participation enables it to continually monitor all important key figures at this time and have them available to steer the Bank's activities, thereby making it possible for the Bank to prepare early to meet the coming requirements.

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 amendments to or requirements arising from the updating of MaRisk are noted, analysed without delay and then implemented. The modification of MaRisk dated December 15, 2010 was fully implemented prior to December 31, 2011. The new liquidity buffer demanded by capital market-oriented institutions is continually calculated and the required limits are observed.

Currently, no set standards or guidelines exist for the various new requirements, such as the inverse stress tests or the calculation of the liquidity buffer. For this reason we will closely follow professional discussions and, in agreement with the supervisory authority, adjust our methods and processes accordingly as needed.

APPOINTMENTS

The following changes took place in the Supervisory Board: Following twenty years of membership, His Royal Highness Duke Max in Bavaria, Deputy Chairman of Münchener Hypothekenbank's Supervisory Board, stepped down at the end of his term of office following the close of the Delegates Meeting on April 16, 2011. The Chairman of Münchener Hypothekenbank's Supervisory Board, Konrad Irtel, praised his extraordinary commitment and his merits. Duke Max in Bavaria was a member of several of the Supervisory Board's committees including the Lending Committee, which he most recently chaired.

The members of the Supervisory Board elected one of their colleagues, Michael Glos, a former federal minister, as the new Deputy Chairman of the Supervisory Board.

The Delegates Meeting elected His Serene Highness Albrecht Prince of Oettingen-Spielberg as a new member of the Supervisory Board. Konrad Irtel, Spokesman of the Board of Management of the VR Bank Rosenheim-Chiemsee eG was re-elected as a member of the Supervisory Board by the Delegates Meeting. During their constitutive meeting held on April 16, 2011, the members of the Supervisory Board elected Konrad Irtel again as Chairman of the Supervisory Board.

The close of the 2011 Delegates Meeting also marked the end of the term of office of delegates representing the members of the MünchenerHyp cooperative. The Supervisory Board and the Board of Management thanked the delegates for their work and support over the past five years, which contributed towards successfully steering the bank through turbulent times. A total of 52 delegates were elected directly after the Delegates Meeting, along with 10 alternate delegates. The list of the elected delegates is shown on page 90 of this annual report.

EMPLOYEES

We further developed our personnel strategy last year to adjust to the demands posed by our growth path. The goal of our personnel strategy is to win and retain the best employees, as well as to further develop the skills of all of our colleagues. Beyond this we are working on appropriate structures and processes that will enable us to utilise our existing personnel capacities even more effectively. The extensive project work – especially the efforts to attain authorisation and further extension of IRBA – clearly demonstrated how important it is to ensure that employees can work at their optimal levels and at the same time reinforce their motivation and performance capabilities.

In conjunction with these efforts we conducted a survey of new employees who joined the Bank during the past two years. The results noted were very favourable with 90 percent of the new employees participating. The employees surveyed stated that they were very satisfied with their assignments, the friendly atmosphere in the Bank, as well as with their supervisors. Almost all of them would recommend the MünchenerHyp as an employer.

Within the framework of our personnel development activities we have made special efforts to expand our advanced training programs and provide support to younger talent in response to the increasing professional and regulatory demands facing banks today. Beyond this, we also introduced new benefits to assist employees in making their work more compatible with the needs of their families. For example, as of 2012 we support employees in finding good day-care facilities for their children. As part of this support we work together with a reputable provider who offers expert advice and practical assistance in finding, for example, child minders or day nurseries. Furthermore, our working hours are now far more flexibly structured to meet the increased demands and, secondly, to give employees greater scope to in planning their time in the Bank.

The average number of persons employed at MünchenerHyp during the year was 375[1], plus 12 apprenticed trainees. Our Bank is known for having employees who have been with the Bank for many years. The average number of years of employment is over 11. Last year 22 employees celebrated their tenth anniversary with the Bank while 16 marked their 25th year with the Bank. Two employees even observed 40 successful years at the Münchener Hypothekenbank.

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.

MANAGEMENT REPORT 2011

EARNINGS, FINANCIAL AND ASSET SITUATION

"Life is full of changes. That's why it's so important to have a property finance arrangement that is flexible enough to repeatedly adjust to the changes that occur during a person's lifetime. This is why we offer **INDIVIDUAL SOLUTIONS** that give our customers great scope and safety for financing their own homes. This approach is not only valued by our customers – we have also received numerous awards for our innovative financing solutions."

Thomas Hügler
Head of Private Property Financing – Cooperative Financial Network
Münchener Hypothekenbank eG

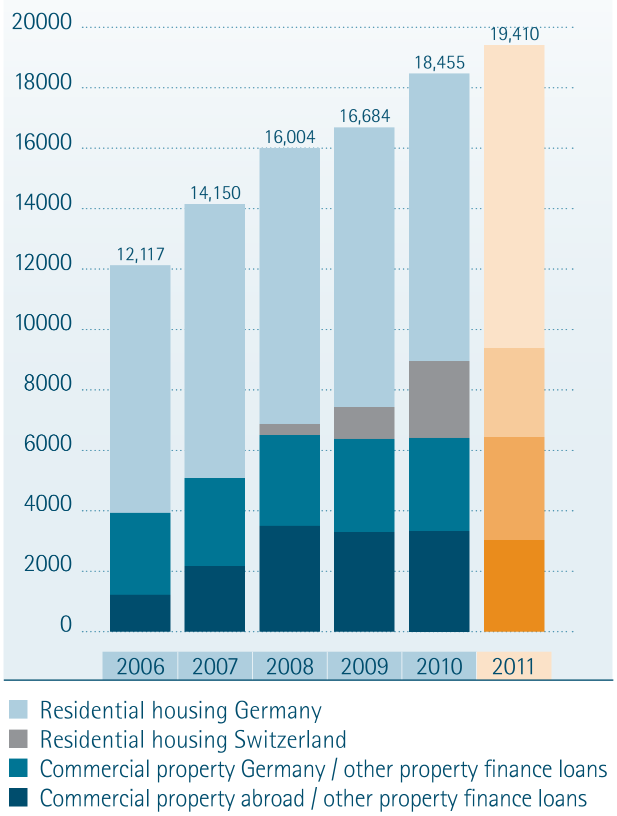
EARNINGS, FINANCIAL AND ASSET SITUATION

BALANCE SHEET STRUCTURE

As of December 31, 2011 total assets amounted to € 37.3 billion, following € 35.2 billion recorded in the previous year. The increase in assets was due to the higher volume of outstanding mortgage loans and a temporary rise in liquidity in anticipation of a maturing Jumbo Pfandbrief for over € 1.8 billion maturing in January 2012.

We were able to significantly expand our portfolio of mortgages and other property financing loans thanks to our good new business results, especially in the area of residential property financing. As of December 31, 2011 our total lending portfolio amounted to € 19.4 billion, or € 1.0 billion more than in the previous year. Loans made outside of Germany represented approximately one-third of the portfolio, or € 6.0 billion (previous year € 5.9 billion). Of this total 50 percent were for loans made in Switzerland, 34 percent in the USA and 16 percent in countries within the European Union; € 15.6 billion of the mortgage loan portfolio serves as cover for the Pfandbriefe we issued.

PORTFOLIO DEVELOPMENT MÜNCHENERHYP 2006 – 2011
in Mio. €



Loans and securities arising from our business with the public-sector and banks declined in accordance with our business and risk strategy from € 13.6 billion to € 13.3 billion. This figure contains € 6.2 billion in securities and promissory notes of which almost all are carried as fixed assets in our accounts. At the end of 2011 our portfolio of mortgage backed securities had declined to € 69 million (previous year € 125 million). As we are no longer investing in mortgage backed securities the portfolio will shrink further commensurate to the maturity profile of the securities.

At the end of 2011 our portfolio of securities had unrealised losses of € 406 million (previous year € 331 million). We wrote down the value of bonds issued by Greece, and Greek corporate bonds guaranteed by the Greek government with total nominal value of € 108 million by € 65.3 million.

Following a detailed examination of all the remaining securities we came to the conclusion that the loss in value is not permanent in these cases. MünchenerHyp is carrying these bonds in their books with the intention of holding them as long-term investments. Therefore, additional write-downs to the lower of cost or market value were not necessary. Our unrealised losses increased as the sovereign debt crisis in the European Union led to a widening of credit spreads in almost all market segments.

We are also of the opinion that policymakers will take all measures to hinder a renewed escalation of the debt crisis. For this reason we do not see any particular risk – with the exception of bonds issued by, or guaranteed by, the Greek government, for which we have taken corresponding write-downs – for bonds issued by the public sector or sub-sovereign borrowers. This also applies to covered bank bonds – due to the coverage provided by the underlying assts.

Our portfolio of long-term refinancing funds rose by € 0.3 billion to € 31.5 billion. Total refinancing funds – including money market – increased from € 33.6 billion in the previous year to € 35.6 billion as of December 31, 2011.

Paid up capital rose by € 7.3 million over the previous year to € 158.9 million. Total liable equity amounted to € 1,157.3 million and was slightly below the previous year's figure due to the maturity of a subordinated liability.

> **"Our portfolio of mortgage loans grew substantially due to the good new business results, especially in the residential property financing segment."**

Core capital amounted to € 773.7 million (previous year € 762.8 million). The solvency figure for core capital on December 31, 2011 was 8.9 percent (previous year 6.4 percent) and 13.3 percent for total capital (previous year 10.0 percent). The higher capital ratios resulted in the change in approach used to calculate equity capital requirements from the standardised approach to credit risk to IRBA.

DEVELOPMENT OF EARNINGS

We recorded net interest income[2] of € 117.9 million for 2011, which was slightly lower than the previous year's figure. The change was mainly due to higher refinancing costs caused by the uncertainty and crisis of confidence seen in the capital markets. Our favourable new property financing business was not able to offset these higher costs. The earnings figure also includes income from the early termination of interest rate swaps.

Due to higher volumes paid out for private property loans generated by broker sales, the amount of commissions paid rose by 26 percent to € 47.4 million. A slight decline in commission income led to a net commission balance[3] of minus € 38.3 million (previous year minus € 27.6 million).

This resulted in a net interest less commission income figure of € 79.6 million, or € 17.3 million less than the same year-ago figure. Net results for the trading portfolio amounted to a minus € 3.6 million.

Total administrative expenses for the year under review grew by 4.5 million to € 58.9 million, while personnel expenses declined by € 1.7 million to € 29.6 million. In contrast, the remaining administrative expenses rose from € 23.0 million in 2010 to € 29.3 million. The reasons for the change were the bank levy, which had to be paid for the first time and amounted to € 2.2 million for the MünchenerHyp, as well as other expenses incurred for the introduction and approval of IRBA. Moreover, we also recorded charges for a release change for our SAP system.

The item "Depreciation and write-downs of intangible and tangible assets" amounted to € 4.6 million, and was at the previous year's level.

Total administrative expenses[4] amounted to € 63.5 million (previous year: € 58.9 million). Excluding interest expenses arising from silent participations, the cost-income ratio was 62 percent.

The net sum of other operating expenses and income amounted to a minus € 1.7 million. Results from operations before provisions for risk[5] amounted to € 10.7 million.

The item "Write-downs on and adjustments to claims and certain securities and reversals to provisions for possible loan losses," totalled € 57.6 million. In particular, our success in restructuring our lending business in the USA resulted in posting a favourable balance for provisions for lending risks. This figure includes the net sum of adjustments to the value of loans (including general valuation adjustments and direct write-downs) of € 11.8 million (previous year minus € 35.2 million). We recorded € 10.3 million

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) Net sum of Income Statement expense items 1. 2. 3. 4. 5. 6. and income items 1. 2. 3. 4. 7.

in income from maturing securities and the sale of securities held as current assets, as well as from the sale of promissory note loans. Reserves were released pursuant to Art. 340 f of the German Commercial Code in order to achieve favourable results despite the write-down required for Greek bonds.

The item "Write-downs on and adjustments to the value of participating interests, shares in affiliated companies and securities treated as fixed assets," amounted to minus € 61.9 million. This figure was due, in particular, to the write-down of bonds issued by the Greek government, and by a Greek company that were guaranteed by the Greek government, which amounted to € 65.3 million. This was offset by € 3.4 million of proceeds from the sale of securities treated as fixed assets.

Prior to the transfer of funds to the Fund for General Banking Risks, results from operations after making provisions for risk amounted to € 6.5 million. After transferring € 1.7 million to the Fund for General Banking Risks, and a tax income item of € 0.1 million, annual net profits amounted to € 4.9 million.

PROPOSED ALLOCATION OF DISTRIBUTABLE INCOME

Net income for the year amounted to € 4,857,889.27.

A dividend distribution of 3.25 percent will be proposed at the delegates' meeting. The net income for the year – including the profit brought forward from the previous year – amounting to € 5,159,902.34 should therefore be allocated as follows:

3.25 percent dividend	€ 5,109,684.74
Carried forward to new year	€ 50,217.60

REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

Greece's situation worsened at the start of 2012. Negotiations were initiated concerning a second aid package and higher markdown of debt held by private creditors, which soon proved to be quite difficult. Although these negotiations had reached a decisive stage, they had not been concluded by the balance sheet date. The results of these negotiations and the implementation of the resulting measures will determine if we have made sufficient provisions for risk.

MANAGEMENT REPORT 2011

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 reviewed regarding the attainment of goals and updated as necessary and then submitted 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 a process-independent unit, has the monitoring function within the Bank. The analysis and presentation of existing risks primarily distinguishes between counterparty, 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.

COUNTERPARTY RISK

Counterparty risk – also referred to as lending risk – is of major significance for MünchenerHyp. Counterparty 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 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 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 based on mortgage lending value is as follows:

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)				
MORTGAGE LENDING VALUE	31 Dec. 2011		31 Dec. 2010	
	€	relative	€	relative
Up to 60 %	11,712,013,807.23	56.3 %	11,310,372,250.23	57.8 %
60.01 % to 70 %	3,042,638,814.13	14.6 %	3,025,631,274.18	15.5 %
70.01 % to 80 %	3,157,970,545.63	15.2 %	2,953,495,554.10	15.1 %
80.01 % to 90 %	1,591,093,816.80	7.7 %	1,373,253,082.44	7.0 %
90.01 % to 100 %	536,215,753.48	2.6 %	424,556,450.04	2.2 %
over 100 %	627,630,798.59	3.0 %	472,297,803.29	2.4 %
without	127,054,111.58	0.6 %	7,660,040.04	0.0 %
TOTAL	**20,794,617,647.44**	**100.0 %**	**19,567,266,454.32**	**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. 2011		31 Dec. 2010	
	€	relative	€	relative
Baden-Wuerttemberg	1,769,177,830.06	8.5 %	1,638,060,756.43	8.4 %
Bavaria	3,568,774,128.00	17.2 %	3,334,955,731.73	17.0 %
Berlin	858,205,340.26	4.1 %	690,203,743.18	3.5 %
Brandenburg	207,954,402.52	1.0 %	173,534,561.37	0.9 %
Bremen	37,040,349.46	0.2 %	30,636,924.47	0.2 %
Hamburg	556,686,653.35	2.7 %	441,876,263.52	2.3 %
Hesse	1,216,602,997.37	5.9 %	1,219,178,502.53	6.2 %
Mecklenburg-Lower Pomerania	133,532,265.31	0.6 %	110,890,787.30	0.6 %
Lower Saxony	1,085,762,958.63	5.2 %	979,384,037.04	5.0 %
North Rhine-Westphalia	2,730,597,072.09	13.1 %	2,536,588,259.18	13.0 %
Rhineland-Palatinate	446,118,073.33	2.1 %	423,569,439.27	2.2 %
Saarland	38,795,318.08	0.2 %	34,475,104.39	0.2 %
Saxony	551,074,792.13	2.7 %	508,690,088.28	2.6 %
Saxony-Anhalt	122,604,073.04	0.6 %	110,620,343.36	0.6 %
Schleswig-Holstein	1,104,092,310.70	5.3 %	988,401,955.72	5.1 %
Thuringia	150,598,896.45	0.7 %	173,958,221.66	0.9 %
TOTAL DOMESTIC	**14,577,617,460.78**	**70.1 %**	**13,395,024,719.43**	**68.5 %**

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)				
SOVEREIGN STATE	31 Dec. 2011		31 Dec. 2010	
	€	relative	€	relative
Austria	50,256,385.41	0.2%	49,605,951.95	0.3%
France	269,243,746.63	1.3%	273,073,462.35	1.4%
UK	371,790,449.67	1.8%	231,880,879.94	1.2%
Spain	97,828,714.99	0.5%	102,714,104.09	0.5%
Luxembourg	64,619,180.61	0.3%	64,633,155.78	0.3%
Sweden	5,126,458.71	0.0%	43,576,710.72	0.2%
Switzerland	3,023,614,478.29	14.5%	2,632,836,226.25	13.5%
The Netherlands	193,011,306.37	0.9%	194,051,646.72	1.0%
USA	2,141,509,465.98	10.3%	2,579,869,597.09	13.2%
TOTAL FOREIGN	**6,217,000,186.66**	**29.9%**	**6,172,241,734.89**	**31.5%**
TOTAL DOMESTIC AND FOREIGN	**20,794,617,647.44**	**100.0%**	**19,567,266,454.32**	**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 identify risks on a timely basis.

A widely diversified property finance portfolio with an emphasis on residential 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, whereby our goal is to reduce our portfolio of bank loans over the mid-term. Very creditworthy bonds issued by sovereign states will continue to be required in significant volumes as they can be rapidly converted into cash during stress situations thereby make it possible to fulfil liquidity 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.

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

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 vis-à-vis 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 balance sheet date.

diligence and take appropriate measures as they become necessary.

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.

The individual and general adjustments to value developed as follows in 2011:

TOTAL LENDING BUSINESS

in million euros	Opening balance	Addition	Reversals	Utilisation	Changes related to exchange rate shifts and other factors	Closing balance
individual adjustment to value	90.0	11.3	25.7	14.1	0.1	61.6
general adjustment to value	14.1	0.0	1.2	0.0	0.0	12.9

Individual adjustments to value taken remained comparatively low for our residential property lending business due to the great stability of the residential property market. We continued to pay special attention to our portfolio of commercial property loans in the USA. The result of a careful examination of this portfolio we decided to make provisions for risk for certain individual loans. However, due to our successful restructuring of these loans we were able to reverse individual adjustments to value. In the past our USA business generally focused on loans secured by top tier mortgages and with moderate mortgage lending value ratios. 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, as it did in 2011. We will continue to monitor the further development with undiminished intensity and

MARKET PRICE RISKS

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

Interest rate risks are divided into two categories: general and specific interest rate risks. General interest change risks 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 if interest rates change. It represents the most important component of market price risks for MünchenerHyp.

Specific interest risks are also referred to as (credit) spread risks, and are included under market price risks. 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 although creditworthiness ratings remain unchanged. The reasons for altered yield premiums are:

>> varying opinions in the market,
>> the creditworthiness of the issuer actually changes although the issuer's credit rating does not yet reflect this change,
>> macro-economic factors that influence creditworthiness categories.

This risk was at the forefront of attention in 2011 due to debt and confidence crisis in certain sovereign states in Europe. The sharply widening spreads seen in some cases, especially in Greece, also affected the valuation of our portfolio of securities. The extent of the Bank's investments in bonds issued by euro-zone countries that were more affected by the sovereign crisis, or in bonds issued by banks domiciled in these countries, is moderate.

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 currently in danger of default. However, as a result of the political decisions made at EU level we have taken a write-off of € 65.3 million on our entire portfolio of Greek securities. We are of the opinion that the measures taken by individual states, as well as protective mechanisms enacted at EU levels, are appropriate 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

	SOVEREIGN STATES		BANKS				TOTAL	
Nominal value in million €			covered		uncovered			
	31 Dec. 11	31 Dec. 10	31 Dec. 11	31 Dec. 10	31 Dec. 11	31 Dec. 10	31 Dec. 11	31 Dec. 10
Portugal	95	95	197	227	20	30	312	352
Italy	97	121	60	40	40	15	197	176
Ireland	30	30	60	60	0	0	90	90
Greece	108	108	0	0	0	0	108	108
Spain	122	152	700	700	5*	5*	827	857
Total	**452**	**506**	**1,017**	**1,027**	**65**	**50**	**1,534**	**1,583**

***With explicit state guarantee**

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 option's Delta therefore describes the change in the value of the option due to the change in the value of the underlying security). The volume of risks assumed is moderate as the Bank generally does not employ options for speculative purposes. 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. These risks are attentively monitored in the daily risk report and are limited.

Currency risk is the term used for risks arising from negative 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. A dedicated system is used to set the value of structured transactions – mainly interest rate capping agreements, swaptions and individually agreed and legal termination rights agreed. The backbone of our interest 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. Additionally different 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 and down by 200 base points for every separate currency used. 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 accross all currencies. 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 Bank's books (interest and currencies) at a confidence level of 99.5 percent at a ten-day holding period was about € 22 million. The average comparable figure noted in the previous year was about € 15 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 intraday 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 the investment bank Lehman Brothers: the scenario assumes an immediate change in spreads 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 Lehman Brothers.

The maximum credit spread VaR for the entire portfolio using a 99.5 percent level of confidence and holding period of one year was € 442 million, the average figure noted in the previous year was about € 398 million.

The maximum credit spread VaR for current assets (only third-party securities) using a 95 percent level of confidence and holding period of one year was € 3 million, the average figure noted in the previous year was about € 2 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),
- 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.

SHORT-TERM ASSURANCE OF SOLVENCY

The purpose of short-term assurance of solvency is to ensure that the Bank is fully able to meet (payment willingness) its required payment obligations as agreed on a daily basis, even during stress situations. In meeting this obligation the Bank fully implements all of the applicable legal supervisory requirements regarding liquidity reserves that must be held by banks. In doing so, MünchenerHyp has categorised itself as a capital market oriented institution per the terms of MaRisk, and therefore also fulfils requirements pursuant to BTR 3.2.

MaRisk distinguishes between four different scenarios, which were implemented accordingly:

1) Base Case: corresponds to the bank's control case.
2) Bank stress: The institutions' reputation deteriorates, for example, due to high balance sheet losses.
3) Market stress: Short-lived event that affects a segment of the financial markets. Examples of this are the September 11, 2001 terror attack (9/11), or the financial market/sovereign debt crisis.
4) Combined stress: Simultaneous occurrence of bank and market stress. MaRisk demands that an institution must be able to meet the liquidity requirements arising from this scenario for at least 30 days.

Varying model assumptions for all important cash flow were derived for each scenario; for example accessing our liquidity lines or guarantees (Aval), the temporary utilisation of previously made lending commitments, or the development of collateral. Beyond this, all securities were divided into different liquidity categories. Based on this, we determined the volume that would be sold, over which time period – or could be used for a repo transaction – to generate additional liquidity to meet the requirements for each individual scenario. Legal restrictions, like the Pfandbrief Act's 180 day rule, were always observed in all cases. The result is a day-certain presentation of the available liquidity for a one year horizon in three currencies: euro, US dollar, and Swiss francs.

MID-TERM STRUCTURAL LIQUIDITY PLANNING

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 scenario analysis for the purpose of liquidity preview as required: either 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 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 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, Münchener Hypothekenbank 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. The portfolio of 6 securities was valued at € 69 million as of December 31, 2011 (previous year € 125 million) and consisted solely of Commercial Mortgage Backed Securities (CMBS) and Residential Mortgage Backed Securities (RMBS), backed by property in Germany, France and Spain. All of the MBS have ratings issued by the major rating agencies – whereby the average rating is AA and the lowest rating within the group is an A. As of December 31, 2011 the weighted anticipated time-to-maturity of the MBS in our portfolio was about 1.25 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 of the IT-systems, as well as appropriate emergency plans and preventive measures. Insurable risks are covered by insurance to the normal extent required by banks.

ABILITY TO BEAR RISKS

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 the period-oriented approach. 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 entire 2011 fiscal year. MünchenerHyp is currently engaged in revising its risk bearing ability concept in response to the additional requirements ordered by the banking supervisory authority towards the end of the 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 used 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 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 procedure 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.

MANAGEMENT REPORT 2011

CORPORATE PLANNING AND OUTLOOK

"Anyone who invests professionally in property places very great value on having a **TRUSTWORTHY RELATIONSHIP** with a competent financing partner. This is why we personally accompany our clients from the very start and work together with them to develop the ideal, individual financing solution for their particular requirements. We are known for providing tailor-made financing structures quickly and reliably, especially for complex transactions involving several partners."

Renata Kornek
Syndication and Consortium Business
Commercial Property Financing
Münchener Hypothekenbank eG

CORPORATE PLANNING AND OUTLOOK

CORPORATE PLANNING

MünchenerHyp is continuing a growth strategy focused on residential and commercial property financing. Our successful implementation of this strategy in 2012 will also depend on taking advantage of market opportunities while maintaining an appropriate cost-income ratio. The overarching strategic goal will remain the sustainable improvement of our earning power.

Our approval as an IRBA bank by the supervisory authority puts MünchenerHyp in a position to achieve core capital rates and total capital rates in line with the market, even for a growing volume of risk-associated assets. As a result, we should have sufficient equity capital to implement our strategy.

The annual adjustment of our business and risk strategy provides the formal planning framework for this. Our integrated planning process will play a key role in the context of operational planning and management. 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. 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 – OPPORTUNITIES AND RISKS

ECONOMIC DEVELOPMENT AND FINANCIAL MARKETS

Expectations for a global economic recovery clouded over at the start of 2012 as fears rose that Europe's sovereign debt crisis would spread to the global economy. As a result, the World Bank lowered its forecast for global economic growth in 2012 by more than 1 percentage point, to 2.5 percent. For 2013, it is assuming a reduced growth rate of 3.1 percent. The International Monetary Fund (IMF) also adjusted its expectations for an economic recovery downward, but is anticipating slightly higher growth rates. Both institutions are forecasting that the eurozone will enter a recession in 2012, with negative growth between 0.3 and 0.5 percent, due to the effects of the sovereign debt crisis and the state of many European national economies. The eurozone economy is expected to see slight growth again in 2013. However, in order for the economic recovery to gain traction in Europe, as well as around the world, the industrialised nations that were particularly affected by the debt crisis will need to regain the trust of the capital markets and strengthen their refinancing capabilities. In general, uncertainty surrounding economic development will remain high.

"The economy will weaken in 2012 due to the effects of the sovereign debt crisis."

Germany will also see the pace of its economic growth slow substantially. However, a recession is not expected. In its annual economic report presented in January 2012, the Federal Government estimates that Germany's gross domestic product (GDP) will grow by 0.7 percent. It is expected that the economy will begin to recover over the course of the year, after initially weakening. The growth dynamic is expected to be solely driven by domestic demand. Imports are expected to post stronger growth than exports in 2012. It is therefore anticipated the export sector will make a slightly negative contribution to the development of GDP.

Positive growth should also come from construction investments. The German construction industry is projecting revenues to grow at a nominal rate of 2.5 percent. The main growth driver will be residential construction, as the level of interest rates will remain relatively low and residential properties will continue to be in demand as safe capital investments. The number of building permits could therefore increase once again in 2012.

Due to the robust nature of the German economy, forecasts for the job market are also positive. The Federal Government expects the unemployment rate to continue to drop to 6.8 percent in 2012. Income levels are also expected to rise. Inflation had already eased slightly by the end of 2011, with further declines projected in 2012 by the German Bundesbank, which expects that the average rate of inflation will be 1.8 percent for the year.

The dampened growth prospects also influence measures taken by central banks, which will continue their policy of low interest and extensive liquidity in 2012 and 2013. The American Federal Reserve Bank (Fed), for instance, announced at the end of January 2012 that it did not intend to change the current key interest rate until the end of 2014. The ECB is not expected to increase its interest rate in 2012. Furthermore, another cut in interest rates cannot be ruled out if the inflation rate in Europe reaches the ECB's target range of about 2 percent.

As was the case previously, development in the financial markets will continue to depend largely on the further development of the European sovereign debt crisis. Therefore covered bonds from the core EU nations will continue to be valued by investors as a safe security. This particularly applies to German Pfandbriefe. The Pfandbrief market will be driven by two main factors in 2012. The volume of new Public Pfandbriefe issued will probably continue to decline due to the sovereign financial situation in Europe, while the volume of Mortgage Pfandbriefe issued will increase. The spreads among individual Pfandbrief issuers will remain at a high level; Münchener Hypothekenbank's Pfandbriefe are expected to remain very popular with investors. Overall, the Association of German Pfandbrief banks anticipates that the volume of new Pfandbriefe issued will increase slightly to about € 74 billion.

PROPERTY AND PROPERTY FINANCING MARKETS

It's likely that the economic slowdown in Germany will only have minor effects on the German residential property market. As long as uncertainty persists about the future of Europe and its currency, German residential property will remain in demand as a solid investment.

As a result, prices for residential property will continue to increase; however, there are indications that this growth will be smaller than it was during the year under review. Thus the average price increases will remain at a moderate level nationwide. Still, exaggerations cannot be ruled out in certain markets, especially in large metropolitan areas. Interest rates are expected to remain at a relatively low level. Over the course of the year, however, depending on the further development of the sovereign debt crisis, an increase is anticipated for long-term interest rates. Thus in the area of private property financing, we expect to see a steady demand for longer-term loans with terms of 20 years or more.

The future of all the other European residential property and financing markets will also depend heavily on the further development in the European Union. Because of the high pressure to consolidate state budgets and the low level of trust in the financial markets, prospects for an early recovery and a notable upswing in the residential property market are poor in the short to medium term.

"German residential property will remain in demand as a solid investment."

The forecast for the Swiss residential property market in 2012 still foresees mostly stable development and rising prices. This applies in particular to single-family homes and condominiums; there is already some slowing in the area of new construction projects for multi-family homes. Forecasts for interest rates assume consistently low levels for residential property financing. An increased risk of a downturn is expected in 2013 as economic growth is also slowing in Switzerland.

The residential property market in the USA is again not expected to see a sustainable upswing in the near future. The recovery in the rental apartment market may continue to stabilise further in the short to medium term. Due to current high demand by renters and investors, there is also a possibility that this market segment will see a slowdown in the medium term – following the completion of new housing projects.

According to experts, the transaction volume for the German commercial property market will remain approximately at the level noted in 2011. Investors will continue to prefer core properties and avoid risky investments. Supply is expected to exceed demand in "B" locations and for riskier properties. Moderate rent increases are possible for good office properties in the rental segment, and the retail sector is expected to develop similarly. The financing market will largely be shaped by the increasing regulatory requirements for banks, and by the increasing number of maturing loans.

The situation in the European commercial property markets will not change significantly in comparison to the year under review. Property brokers anticipate that the investment volume in Europe will remain the same or decrease slightly, as a decline is expected in France and the UK, in particular. The security of invested capital will continue to be more important for investors than the return on their invested capital. Commercial properties in the core segment will benefit from this attitude in the area of European-wide commercial property financing, along with commercial housing properties in Germany. Individual pricing exaggerations cannot be ruled out in these areas. However, this will lead to a higher level of equity capital participation by investors and not necessarily to a greater willingness on the part of the banks to provide financing. Rents for good-quality office properties will be fundamentally stable in individual countries, depending on their economic development.

"The security of invested capital will continue to be more important in the commercial property segment than the return on invested capital."

In the commercial property market in the USA, core markets with above-average job growth, such as the technology hub of San Francisco, will continue to stabilise in 2012. At the same time, supply is expected to decline and rental prices to increase. Nonetheless, these developments can always weaken or reverse, as the overall economic conditions in the USA remain uncertain. Demand is currently expected to remain at a low level in secondary markets

DEVELOPMENT OF BUSINESS AT MÜNCHENER HYPOTHEKENBANK

Despite the wide range of burdens posed by the capital markets, MünchenerHyp expects to post organic growth in its core business areas, while strengthening the Bank's sustained profitability in the medium to long term.

We want to continue our growth course in the coming years with an unchanged high level of risk-awareness. The focal points of our business areas will gradually shift.

The main focus will remain on residential property financing. Our goal is to act as a reliable and strong partner, particularly in our Cooperative Financial Network business with the Volksbanken and Raiffeisenbanken. We see great potential in this business to continue expanding our new business in the coming years. This is a realistic target due to the strong market share held by the Volksbanken and Raiffeisenbanken in residential property financing and, secondly, because of the quality of our financing solutions, for which we have received many awards. For this reason we are confident that our products will enable us to be well positioned in the market environment foreseen in 2012. This especially applies to our strengths in the areas of long-term financing and forward financing transactions. In addition, we will continue to improve the efficiency of our loan processing system.

We also expect to be able to expand the volume of residential property financing sold via the independent financial services providers sales channel in 2012 and 2013. Since the establishment of this area of business, we have built up a good reputation here with the providers and financing platforms, which will support our course of growth. Because of the intense competition in this market, however, we expect that the strong growth in new business seen in this segment over the past few years will weaken a bit in the future.

We plan to continue our cooperation with PostFinance. Despite the positive forecasts for the Swiss residential property market in 2012, we expect to see a decline in the volume of new business here, as PostFinance expanded its group of brokerage partners in the area of residential property financing last year due to strategic reasons.

"MünchenerHyp want to further grow organically 2012 in order to reinforce its sustainable earnings power over the middle to long term."

In the commercial property financing business, we will again concentrate on top-tier financing for very creditworthy borrowers, primarily in the areas of direct and syndicated business with institutional investors and professional private investors.

Thereby in doing so we will focus on the metropolitan areas in Germany, as well as our core markets of France, the UK and the Benelux countries. Our property focus will be on multi-use commercial properties, particularly in the office and retail sectors, and also on logistics properties, which are generally rented for long periods of time and are in good locations. We consider the potential for new-business growth to be good, since our core markets are stable and the commercial property financing business has consolidated since the outbreak of the financial market crisis. We also anticipate that our domestic business will see another increase in the area of commercial housing portfolio financing. We finance housing cooperatives and housing companies in this segment in Germany whose core expertise is managing and renting residential properties.

We anticipate that our volume of new business generated by our lending business with the public sector and banks will decline. This is driven by the shift in risk aspects noted since the outbreak of the sovereign debt crisis, as well as by future regulatory requirements.

The Pfandbrief will remain the most important refinancing product for MünchenerHyp in the future. Two of the Bank's Jumbo issues mature in 2012. The first, a Jumbo Public Pfandbrief with a volume of € 1.75 billion, was repaid in mid-January. We are planning to issue at least one Jumbo Pfandbrief this year. However, it should be noted that, due to the sovereign debt crisis, there is currently a higher risk associated with placing Jumbos. Nonetheless, because of our good reputation as an issuer, we expect comparatively stable spreads for our issues, although it is unlikely that they will remain unaffected by general developments.

Demand for uncovered refinancing will be largely met via the Volksbanken Raiffeisenbanken Cooperative Financial Network.

We will strive to achieve higher net interest income from our normal business operations in 2012 and beyond from the basis of our growth objectives. The development of property markets in our core markets, in particular, provides opportunities in this area, and favours a further increase in new business performance. As the mortgage banking business is a long-term business by definition, the favourable figures for new business will only become gradually visible in our future results. Thus for 2012 we expect to see a slight improvement at first, which will continue to grow in the following years. In terms of our net interest income targets, this means that we again count on an appropriate contribution from capital market activities for the current year.

"MünchenerHyp's Pfandbriefe will continue to be held in very high esteem by investors."

We anticipate that our administrative expenses will show stable development in 2012. We will still incur relatively high expenses for projects. In particular, this includes the full assumption of risk assets into our equity capital backing in accordance with the IRBA guidelines, as well as the implementation of an improved trading and risk management system. Added to these factors are the ongoing adjustments to our systems to optimise the processing of loan applications.

MünchenerHyp is very carefully monitoring the development of all regulatory adjustments, and we are also taking part in the ongoing Basel III monitoring of banking supervision.

One step we have already taken in order to fulfil the stricter equity capital requirements was to implement the calculation of equity capital backing in accordance with the IRBA guidelines. In the next years, we will take further measures to reinforce core capital. It has not yet been determined whether the leverage ratio will be introduced as an upper limit. A corresponding project was carried out during the year under review to calculate the future liquidity requirements according to Basel III – Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The specifications and action mechanisms for the new liquidity figures are now being actively integrated into our liquidity management system in preparation for the upcoming requirements. In particular, the classification of the liquidity buffer will affect individual investment decisions. While income and risk criteria were previously the primary decision-making factors, the Bank's portfolio and cash-flow structures will be increasingly significant in the future. To this end, MünchenerHyp has created an integrated management concept that will be continuously further developed with the participation of all the players involved in the overall Bank management process.

Based on current information, we do not anticipate that we will need to make greater provisions for risks in our lending business than we did during the year under review. However, we do not anticipate any reversal effects of the kind that led to a positive balance in 2011. Depending on the further development in Greece, there may be a need for additional write-downs.

We are striving to achieve annual net profits for 2012 that will be higher than those recorded for the year under review.

BALANCE SHEET, 31 DECEMBER 2011

ASSETS		31 Dec. 11	31 Dec. 10
	€	€	€ 000
1. Cash reserve			
a) Cash on hand	8,996.41		11
b) Balances with Central Banks	3,039,729.83		78,562
of which			
with Deutsche Bundesbank € 3,039,729.83			
		3,048,726.24	**78,573**
2. Claims on banks			
a) Mortgage loans	48,753,937.98		67,273
b) Public-sector loans	1,298,265,847.51		1,258,645
c) Other claims	4,030,332,778.51		2,491,213
of which			
payable on demand € 1,736,478,253.38			
		5,377,352,564.00	**3,817,131**
3. Claims on customers			
a) Mortgage loans	19,175,525,619.60		18,121,271
b) Public-sector loans	5,956,214,207.40		6,202,688
c) Other claims	166,133,289.03		169,136
of which			
with securities pledged as collateral € 38,835.48			
		25,297,873,116.03	**24,493,095**
4. Bonds and other fixed-income securities			
a) Bonds and Notes	6,349,719,932.03		6,508,216
aa) Public-sector issuers € 1,479,421,083.86			(1,409,424)
of which			
eligible as collateral for Deutsche Bundesbank advances € 1,352,138,074.78			
ab) Other issuers € 4,870,298,848.17			(5,098,792)
of which			
eligible as collateral for Deutsche Bundesbank advances € 4,442,900,245.19			
b) Own bonds and notes	21,070,159.08		28,584
Nominal value € 21,346,700.00			
		6,370,790,091.11	**6,536,800**
Carried forward		37,049,064,497.38	34,925,599

LIABILITIES, CAPITAL AND RESERVES		31 Dec. 11	31 Dec. 10
	€	€	€ 000
1. Liabilities to banks			
a) Registered mortgage Pfandbriefe issued	702,526,925.01		632,653
b) Registered Public Pfandbriefe issued	188,619,388.44		213,407
c) Other liabilities	5,355,426,138.38		3,086,715
of which			
payable on demand € 309,472,734.01			
delivered to lenders as collateral for loans received registered mortgage Pfandbriefe € 64,357.55			
and registered public-sector Pfandbriefe € 85,513.57			
		6,246,572,451.83	**3,932,775**
2. Liabilities to customers			
a) Registered mortgage Pfandbriefe issued	4,514,716,471.36		3,846,882
b) Registered Public Pfandbriefe issued	4,308,071,536.40		4,136,324
c) Other liabilities	1,708,791,365.97		1,357,728
of which			
payable on demand € 5,647,604.70			
		10,531,579,373.73	**9,340,934**
3. Certificated liabilities			
a) Bonds issued	19,219,449,400.73		20,376,104
aa) Mortgage Pfandbriefe € 10,722,625,545.37			(9,816,379)
ab) Public Pfandbriefe € 3,750,345,701.73			(6,397,916)
ac) Other bonds and fixed-income securities € 4,746,478,153.63			(4,161,809)
b) Other certificated liabilities	84,419,345.71		444,344
of which			
Money market paper € 84,419,345.71			
		19,303,868,746.44	**20,820,448**
4. Liabilities incurred as trustee		**139,989.11**	**167**
of which			
loans € 139,989.11			
5. Other liabilities		**236,264,939.68**	**69,610**
Carried forward		36,318,425,500.79	34,163,934

ASSETS		31 Dec. 11	31 Dec. 10
	€	€	€ 000
Brought forward		37,049,064,497.38	34,925,599
5. Equities and other variable-yield securities		**13,241,488.00**	**13,198**
6. Participations and shares in cooperatives			
a) Participations	77,808,262.10		77,808
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	**77,826**
7. Shares in affiliated companies		**11,151,601.64**	**11,175**
8. Assets held in trust		**139,989.11**	**167**
of which			
loans € 139,989.11			
9. Intangible assets			
a) Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	6,043,845.36		7,906
b) Payments made on account	3,579,723.52		785
		9,623,568.88	**8,691**
10. Tangible assets		**76,734,384.41**	**78,155**
11. Other assets		**53,621,920.86**	**47,625**
12. Deferred items			
a) From issuing and lending business	55,631,183.23		60,986
b) Other	1,260,197.38		1,599
		56,891,380.61	**62,585**
Total assets		**37,348,295,592.99**	**35,225,021**

LIABILITIES, CAPITAL AND RESERVES		31 Dec. 11	31 Dec. 10
	€	€	€ 000
Brought forward		36,318,425,500.79	34,163,934
6. Deferred items			
From issuing and lending business	14,329,727.84		14,013
		14,329,727.84	**14,013**
7. Provisions			
a) Provisions for pensions and similar obligations	26,728,000.00		26,802
b) Provisions for taxes	2,008.52		490
c) Other provisions	17,531,399.00		14,877
		44,261,407.52	**42,169**
8. Subordinated liabilities		**156,200,000.00**	**194,200**
9. Profit-participation certificates		**21,474,259.01**	**21,474**
of which			
€ 15,338,756.44 are due within two years			
10. Fund for general banking risks		**1,750,000.00**	**0**
11. Capital and reserves			
a) Subscribed capital	502,856,454.74		498,261
aa) Members' capital contributions € 161,209,276.92			(156,114)
ab) Silent participations € 341,647,177.82			(342,147)
b) Revenue reserves	283,838,340.75		282,338
ba) Legal reserve € 282,304,465.11			(280,804)
bb) Other revenue reserves € 1,533,875.64			(1,534)
c) Unappropriated profit	5,159,902.34		8,632
		791,854,697.83	**789,231**
Total liabilities, capital and reserves		**37,348,295,592.99**	**35,225,021**
1. Contingent liabilities			
Contingent liability on guarantees and indemnities		**70,162,003.72**	**75,779**
2. Other commitments			
Irrevocable loan commitments		**2,218,243,845.13**	**1,824,222**

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2011

EXPENSES		31 Dec. 11	31 Dec. 10
	€	€	€ 000
1. Interest expenses		1,198,452,130.41	1,209,602
2. Commission paid		47,431,937.57	37,729
3. Net expenses of trading book		3,640,090.00	4,559
4. General administrative expenses			
a) Personnel expenses	29,588,738.12		31,308
aa) Wages and salaries € 24,871,134.26			(25,096)
ab) Social security contributions and cost of pensions and other benefits € 4,717,603.86			(6,212)
of which			
for pensions € 964,280.45			
b) Other administrative expenses	29,286,697.83		23,028
		58,875,435.95	54,336
5. Depreciation and write-downs of intangible and tangible assets		4,647,365.17	4,557
6. Other operating expenses		3,928,489.14	2,984
7. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses		0.00	17,804
8. Depreciation and write-downs of participating interests, shares of affiliated companies and securities treated as fixed assets		61,853,361.06	0
9. Payment to fund for general banking risks		1,750,000.00	0
10. Extraordinary expenses		0.00	1,053
11. Taxes on revenue and income		-227,179.92	4,612
12. Other taxes not included under "Other operating expenses"		94,120.14	96
13. Net income		4,857,889.27	10,999
Total expenses		1,385,303,638.79	1,348,331

1. Net income		4,857,889.27	10,999
2. Retained earnings brought forward from previous year		302,013.07	633
		5,159,902.34	11,632
3. Transfer to legal reserve		0.00	3,000
4. Unappropriated profit		5,159,902.34	8,632

INCOME		31 Dec. 11	31 Dec. 10
	€	€	€ 000
1. Interest income from			
a) Lending and money market operations	1,080,773,260.52		1,081,583
b) Fixed-income securities and government debt register claims	233,480,313.61		249,176
		1,314,253,574.13	**1,330,759**
2. Current income from			
a) Participating interests and shares in cooperatives	1,174,522.35		1,367
b) Investments in affiliated companies	870,000.00		1,950
		2,044,522.35	**3,317**
3. Income from profit-pooling, profit transfer or partial profit transfer agreements		**41,337.42**	**61**
4. Commission received		**9,145,322.79**	**10,079**
5. Income frome write-up of claims and individual securities, as well as from the reversal of provisions made for loan losses		**57,627,826.02**	**0**
6. Income from reversals of write-downs on participating interests, shares in affiliated companies and securities treated as fixed assets		**0.00**	**2,281**
7. Other operating income		**2,191,056.08**	**1,834**
Total income		**1,385,303,638.79**	**1,348,331**

STATEMENT OF DEVELOPMENT IN EQUITY CAPITAL AND CASH FLOW STATEMENT

STATEMENT OF DEVELOPMENT IN EQUITY CAPITAL FOR 2011

	Subscribed capital				
	Members' capital contributions	Silent participations	Revenue reserves	Unappropriated profit	Total capital and reserves
	€ 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
Net change in capital	5,095	-500	1,500	-1,500	4,595
Dividends paid	0	0	0	6,830	6,830
Net income	0	0	0	4,858	4,858
Capital and reserves as at 31.12.2011	161,209	341,647	283,838	5,160	791,854

CASH FLOW STATEMENT FOR 2011

	31.12.2011 in € millions	31.12.2010 in € millions
Net income before extraordinary items	4.8	12.1
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	18.2	46.4
Changes in reserves	2.1	1.8
Changes in other non-cash items	17.8	15.0
Gains/losses from the disposal of tangible fixed assets and financial assets	3.5	0.0
Other adjustments	0.0	0.0
Sub-total	**46.4**	**75.3**

CASH FLOW STATEMENT FOR 2011

	31.12.2011 in € millions	31.12.2010 in € millions
Changes in assets and liabilities from operating activities		
Claims		
- on banks	-1,602.4	106.3
- on customers	-744.4	-1,835.3
Securities (to the extent not financial investments)	21.8	2,138.0
Other assets from operating activities	35.4	128.5
Liabilities		
- to banks	2,300.2	-1,371.0
- to customers	1,176.5	66.8
Securitised liabilities	-1,473.8	833.3
Other liabilities from operating activities	-44.9	-238.9
Interest and dividends received	1,316.3	1,334.1
Interest paid	-1,198.5	-1,209.6
Extraordinary amounts received/paid	0.0	-1.1
Income taxes paid	0.2	-4.6
Cash flow from operating activities	**-167.2**	**21.8**
Cash receipts from the disposal of		
- Financial assets	883.5	1,019.4
- Tangible fixed assets	0.1	0.2
Cash payments for acquisition of		
- Financial assets	-785.6	-1,031.0
- Tangible fixed assets	-0.7	-0.8
Cash receipts/payments from gains/losses in subsidiary companies	0.0	0.0
Net increase/decrease in funds from other investing activities	-3.5	-4.4
Cash flow from investing activities	**93.8**	**-16.6**
Cash receipts from changes in capital	5.1	7.4
Dividends paid	-6.8	-8.0
Increase/decrease in funds from other capital	-0.5	7.0
Cash flow from financing activities	**-2.2**	**6.4**
Cash and cash equivalents at start of reporting period	78.6	67.0
+/- Cash flow from operating activities	-167.2	21.8
+/- Cash flow from investing activities	93.8	-16.6
+/- Cash flow from financing activities	-2.2	6.4
+/- 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	**3.0**	**78.6**

NOTES 2011

GENERAL INFORMATION ON ACCOUNTING POLICIES

The Münchener Hypothekenbank eG annual financial statement as of December 31, 2011 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.

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 as cover for Public Pfandbriefe and for other coverage purposes, are valued at their cost of purchase. Discounts and premiums are recognised as interest income or expense over the terms of the securities. Securities associated with swap agreements are valued together with these agreements, as a single item. To the extent that they are used to hedge risks, derivatives are not valued individually. As was the case in the previous year, securities held as fixed assets during the financial year, and which were not subject to a permanent reduction in value, were valued at the mitigated lower of cost or market principle. Appropriate writedowns in value were taken as of the date of record for those securities held as fixed assets for which a permanent impairment of value must be anticipated.

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 based on the Projected Unit Credit Method, a discount rate of 5.14 percent and a 2.5 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.

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 carried under net interest income. Costs and income are valued at the individual daily exchange rate.

NOTES TO THE BALANCE SHEET INCOME STATEMENT

MATURITY ANALYSIS BY RESIDUAL TERM

ASSETS

	31 Dec. 11 € 000	31 Dec. 10 € 000
Claims on banks	5,377,353	3,817,131
≤ Three months	4,030,389	2,311,590
> Three months ≤ one year	244,008	248,202
> One year ≤ five years	706,891	712,095
> Five years	396,065	545,244
Claims on customers	25,297,873	24,493,095
≤ Three months	721,780	860,709
> Three months ≤ one year	1,485,234	1,148,222
> One year ≤ five years	7,219,306	7,708,967
> Five years	15,871,553	14,775,197
Bonds and other fixed-income securities ≤ one year	484,431	756,398

PASSIVSEITE

	31 Dec. 11 € 000	31 Dec. 10 € 000
Liabilities to banks	6,246,572	3,932,775
≤ Three months	2,341,619	2,032,279
> Three months ≤ one year	1,345,974	604,999
> One year ≤ five years	2,012,898	815,834
> Five years	546,081	479,663
Liabilities to customers	10,531,579	9,340,934
≤ Three months	701,024	312,116
> Three months ≤ one year	173,384	297,923
> One year ≤ five years	928,110	1,107,338
> Five years	8,729,061	7,623,557
Certificated liabilities	19,303,869	20,820,449
Bonds issued		
≤ Three months	2,872,255	1,114,852
> Three months ≤ one year	3,163,303	4,447,569
> One year ≤ five years	11,517,278	13,238,511
> Five years	1,666,614	1,575,173
Other certificated liabilities		
≤ Three months	46,878	429,399
> Three months ≤ one year	37,541	14,945

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

	31 Dec. 11 € 000	31 Dec. 10 € 000
Claims on		
Banks	170,732	183,517
Customers	61,343	66,191
Liabilities to		
Banks	361,099	298,588
Customers	0	0

CLAIMS ON AND LIABILITIES TO AFFILIATED COMPANIES

	31 Dec. 11 € 000	31 Dec. 10 € 000
Claims on customers	2,566	2,468
Liabilities to customers	1,085	3,219

SECURITIES MARKETABLE ON THE STOCK EXCHANGE

	31 Dec. 11 € 000		31 Dec. 10 € 000	
Asset category	listed	unlisted	listed	unlisted
Bonds and other fixed-income securities	5,994,020	259,792	6,268,954	151,118
Shares and other non-fixed-income securities	8,150	0	8,170	0
Participations	0	2,150	0	2,150

TRADING BOOK

As at 31.12.2011 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 production costs	Additions	Write-ups	Transfers	Disposals	Depreciation taken in 2011	Accumulated depreciation	Net book value on 31 Dec. 11	Net book value on 31 Dec. 10
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Intangible assets	24,235	3,518	0	0	235	2,585	17,894	9,624	8,691
a) Concessions acquired for consideration, commercial rights and similar rights and values, as well as licenses to these rights and values	23,449	724	0	0	235	2,585	17,894	6,044	7,906
b) Payments made on account	786	2,794	0	0	0	0	0	3,580	785
Tangible assets	101,087	696	0	0	129	2,062	24,920	76,734	78,155
	Acquisition and production costs				Changes total +/-*)			Net book value on 31 Dec. 11	Net book value on 31 Dec. 10
Participations and shares in cooperatives	77,827				0			77,827	77,827
Shares in affiliated companies	11,175				-23			11,152	11,175
Bonds and other fixed-income securities	6,359,554				-59,224			6,300,330	6,359,554
Shares and other non fixed-income securities	8,170				-20			8,150	8,170

*) 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 € 4,256,401 (thousand) (previous year 4,578,940 (thousand)) exceeding the present value of € 3,850,759 (thousand) (previous year € 4,247,782) (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 require additional unscheduled depreciation.

TRUST TRANSACTIONS

	31 Dec. 11 € 000	31 Dec. 10 € 000
Assets held in trusts		
Claims on customers	140	167
Liabilities incurred as trustee		
Liabilities to banks	140	167

TANGIBLE ASSETS

The portion of the total value attributable to the land and buildings used by the Bank is € 63,925 (thousand) (previous year € 64,897 (thousand)), and of plant and office equipment € 1,874 (thousand) (previous year € 2,130 (thousand)).

SUBORDINATED ASSETS

	31 Dec. 11 € 000	31 Dec. 10 € 000
Claims on banks	0	10,000
Shares and other non-fixed-income securities	8,150	8,170

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 and adjustment entries for valuation of foreign currency items related to derivative transactions as well as, above all, all liabilities for accrued interest related to registered profit-participation certificates and silent participations.

DEFERRED ITEMS FROM THE ISSUING AND LOAN BUSINESS

	31 Dec. 11 € 000	31 Dec. 10 € 000
Assets side 12.		
Discount from liabilities	26,752	28,653
Premium from claims	24,602	24,829
Other deferred charges	5,537	7,504
Liabilities side 6.		
Premium from liabilities	2,327	2,617
Discount from claims	11,595	10,895
Other deferred income	408	500

DEFERRED TAXES

Deferred tax liabilities were primarily related to the low valuation of bank buildings taken for tax purposes. Deferred tax assets arise from provisions made for pensions, 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 € 9,683 (thousand) (previous year € 11,188 (thousand)). Subordinated liabilities which individually exceed 10 percent of the overall statement amount to:

Nominal amount	Currency	Interest rate	Maturity date
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 Art. 10 (5) of the German Banking Act with € 6,136 (thousand) (previous year € 16,361 (thousand)).

DETAILS OF REVENUE RESERVES

	Legal reserve € 000	Other revenue reserves € 000
01 Jan. 2011	280,804	1,534
Transfer from 2010 retained earnings	1,500	0
Transfer from 2011 net income	0	0
31 Dec. 2011	282,304	1,534

MEMBERS' CAPITAL CONTRIBUTIONS

Members' capital contributions disclosed under capital and reserves item 11aa) consisted of:

	31 Dec. 11 €	31 Dec. 10 €
Capital contributions	161,209,276.92	156,113,623.21
a) of remaining members	158,859,446.92	151,537,023.21
b) of former members	2,192,540.00	4,407,620.00
c) in respect of shares under notice	157,290.00	168,980.00
Outstanding obligatory payments in respect of shares	23.08	26.79

SILENT PARTICIPATIONS

The silent participations valued at € 341,647 (thousand) (previous year € 342,147 (thousand)) satisfy the criteria of Art. 10 (4) of the German Banking Act for the amount of € 340,647 (thousand) (previous year € 340,647 (thousand)). Expenses attributable to these participations amounted to € 26,376 (thousand) (previous year € 24,821 (thousand)).

ASSETS PLEDGED TO SECURE LIABILITIES

Within the framework of open market deals with the European Central Bank, securities valued at € 1,247,786 (thousand) (previous year € 0 thousands) were pledged as collateral to secure the same amount of liabilities. The book value of the pledged assets (genuine repurchase agreements) was € 1,343,937 (thousand) (previous year € 1,040,320 (thousand)). Within the framework of security arrangements for derivative transactions, cash collateral of € 1,807,260 (thousand) (previous year € 1,001,560 (thousand)) was provided. Securities valued at € 12,414 (thousand) (previous year € 12,189 (thousand)) were pledged to secure pension obligations and requirements of the partial retirement model for older employees. Securities valued at € 26,764 (thousand) (previous year € 26,777 (thousand)) were pledged to secure financial aid obligations within the framework of a Contractual Trust Arrangement (CTA).

FOREIGN CURRENCY ITEMS

	31 Dec. 11 € 000	31 Dec. 10 € 000
Assets side	5,699,758	5,542,426
Liabilities side	2,760,535	3,014,264
Contingent liabilities and other obligations	306,217	271,687

OTHER OBLIGATIONS

The irrevocable loan commitments contained in this item consist almost solely of mortgage loan commitments made to customers. It is anticipated that the irrevocable loan commitments will be drawn down. Against the background of the ongoing monitoring of loans, the probable need to create provisions for risks related to the remaining obligations is viewed as minor.

A retrospective obligation pursuant to Art. 3 (3) of the Restructuring Fund Regulation in the amount of € 4,398 (thousand) is not shown under other financial liabilities in the balance sheet.

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 expenses arising from accrued interest effects of € 1,703 (thousands) (previous year € 1,992 (thousands)) for established provisions.

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 €)				
	Residual term ≤ one year	Residual term > one year ≤ five years	Residual term > five years	Total	Fair value at date of record *) neg. (-)
Interest-Rate-Related Transactions					
Interest rate swaps	8,254	22,563	25,139	55,956	-1,474
Interest rate options					
- Calls	21	145	74	240	11
- Puts	21	80	15	116	-5
Other interest rate contracts	60	50	230	340	0
Currency-Related Transactions					
Cross-currency swaps	1,617	528	1,589	3,734	29

*) Valuation methods:
Interest rate swaps are valued using the present value method based on the current interest rate curve on the date of record. 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 and generally accepted basic assumptions. In general, the particular value of an option is calculated using 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 of the option.

The derivative financial instruments noted involve premiums stemming from option trades in the amount of € 1.9 million (previous year € 1.8 million) which are carried under the balance sheet item "Other assets".

Interest attributable to derivative deals is carried under the balance sheet items "Claims on banks" with € 374.0 million (previous year € 418.3 million) and "Liabilities to banks" with € 430.5 million (previous year € 425.1 million). The accrual of compensatory payments made is entered under "Other assets" with € 6.6 million (previous year € 9.6 million); the accrual of compensatory payments received is entered under "Other liabilities" with € 46.5 million (previous year € 47.2 million).

Compensatory items in the amount of € 169.1 million (previous year € 2.3 million) related to the valuation of foreign currency swaps are carried under the balance sheet item "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, € 3,114 million (previous year € 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 valuation 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. 11 € 000	31 Dec. 10 € 000
Ordinary cover assets	15,701,768	14,686,337
1. Claims on banks (mortgage loans)	45,521	61,824
2. Claims on customers (mortgage loans)	15,603,783	14,572,049
3. Tangible assets (charges on land owned by the Bank)	52,464	52,464
Substitute cover assets	2,088,122	1,566,289
1. Other claims on banks	1,066,000	375,000
2. Bonds and other fixed-income securities	1,022,122	1,194,200
3. Other assets (offsetting currency derivatives)	0	-2,911
Total cover	17,789,890	16,252,626
Total mortgage Pfandbriefe requiring cover	15,695,158	14,094,173
Surplus cover	2,094,732	2,158,453

B. PUBLIC PFANDBRIEFE

	31 Dec. 11 € 000	31 Dec. 10 € 000
Ordinary cover assets	9,005,781	9,824,763
1. Claims on banks (public-sector loans)	1,283,495	1,244,220
2. Claims on customers (public-sector loans)	5,806,877	6,038,954
3. Bonds and other fixed-income securities	1,915,409	2,541,589
Substitute cover assets	475,000	1,158,638
1. Other claims on banks	475,000	525,000
2. Bonds and other fixed-income securities	0	622,500
3. Other assets (offsetting currency derivatives)	0	11,138
Total cover	9,480,781	10,983,401
Total public-sector Pfandbriefe requiring cover	8,039,410	10,457,915
Surplus cover	1,441,371	525,486

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

MORTGAGE PFANDBRIEFE OUTSTANDING AND CORRESPONDING COVER ASSETS

	Nominal value	
	31 Dec. 11 € 000	31 Dec. 10 € 000
Mortgage Pfandbriefe	15,695,158	14,097,084
of which		
derivatives	2,103	2,911
Cover pools	17,789,890	16,255,537
of which		
further cover assets	2,088,122	1,569,200
Surplus cover	2,094,732	2,158,453

	Net present value	
	31 Dec. 11 € 000	31 Dec. 10 € 000
Mortgage Pfandbriefe	16,887,507	14,686,119
of which		
derivatives	2,130	2,949
Cover pools	19,693,833	17,510,600
of which		
further cover assets	2,201,609	1,629,114
Surplus cover	2,806,326	2,824,481

	Risk-adjusted net present value *)	
	31 Dec. 11 € 000	31 Dec. 10 € 000
Mortgage Pfandbriefe	17,211,795	15,769,593
Cover pools	19,419,571	18,059,876
Value of surplus cover after stress test	2,207,776	2,290,283

*) 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. 11 € 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	2,652,496	2,870,105	1,441,809	2,354,742	1,819,686	2,174,583	2,381,737
Cover pools	2,830,569	2,155,573	2,152,549	1,838,289	1,557,577	5,470,193	1,785,140

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

PUBLIC PFANDBRIEFE OUTSTANDING AND CORRESPONDING COVER ASSETS

	Nominal value	
	31 Dec. 11 € 000	31 Dec. 10 € 000
Public Pfandbriefe	8,039,410	10,457,915
Cover pools	9,480,781	10,983,401
of which		
further cover assets	475,000	1,147,500
derivatives	0	11,138
Surplus cover	1,441,371	525,486

	Net present value	
	31 Dec. 11 € 000	31 Dec. 10 € 000
Public Pfandbriefe	9,018,928	11,292,654
Cover pools	10,981,128	12,102,876
of which		
further cover assets	475,806	1,218,310
derivatives	28,617	27,140
Surplus cover	1,962,200	810,222

	Risk-adjusted net present value *)	
	31 Dec. 11 € 000	31 Dec. 10 € 000
Public Pfandbriefe	8,591,892	10,790,898
Cover pools	10,461,520	11,494,324
Value of surplus cover after stress test	1,869,628	703,426

*) 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. 11 € 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	2,001,573	1,999,678	340,963	356,662	127,235	1,220,315	1,992,984
Cover pools	1,366,837	985,559	1,101,922	810,658	765,330	1,759,935	2,690,540

	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

TOTAL VOLUME OF CLAIMS USED TO COVER MORTGAGE PFANDBRIEFE
A. ACCORDING TO SIZE

	31 Dec. 11 € 000	31 Dec. 10 € 000
≤ € 300,000	9,231,217	8,406,863
> € 300,000 ≤ € 5 million	2,569,903	2,348,910
> € 5 million	3,848,184	3,878,100
Total	15,649,304	14,633,873

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

	31 Dec. 11 € 000		31 Dec. 10 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Federal Republic of Germany				
Apartments		2,447,805		2,388,640
Single-family houses		3,887,961		3,742,940
Multiple-family dwellings		3,164,549		2,932,065
Office buildings	798,848		814,466	
Retail buildings	617,860		553,544	
Industrial buildings	53,391		59,438	
Other commercially used properties	266,528		291,179	
New buildings and buildings not yet capable of producing a yield	250	58,390	887	73,369
Buildings under construction	1,007	545	1,132	985
	1,737,884	**9,559,250**	**1,720,646**	**9,137,999**
of which in				
Baden-Wuerttemberg	209,260	1,172,391	218,579	1,165,535
Bavaria	330,533	2,381,764	331,944	2,293,051
Berlin	206,156	425,693	172,514	351,774
Brandenburg	6,175	137,727	6,006	122,897
Bremen	275	27,198	328	25,360
Hamburg	167,020	255,145	135,448	242,322
Hesse	315,942	675,906	326,327	681,331
Mecklenburg-Lower Pomerania	4,669	83,157	4,667	71,495
Lower Saxony	47,293	768,671	49,685	723,661
North Rhine-Westphalia	233,521	1,980,194	224,316	1,900,347
Rhineland-Palatinate	100,868	262,204	106,161	254,103

	31 Dec. 11 € 000		31 Dec. 10 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Saarland	4,406	24,735	5,224	25,219
Saxony	64,975	321,685	67,812	314,797
Saxony-Anhalt	3,046	85,702	3,608	78,610
Schleswig-Holstein	40,649	839,080	49,775	764,593
Thuringia	3,096	117,998	18,252	122,904
France				
Office buildings	129,896		167,930	
Retail buildings	28,440		20,370	
	158,336		**188,300**	
Great Britain				
Office buildings	127,370		99,700	
Retail buildings	89,680		8,225	
Other commercially used properties	12,888		12,507	
	229,938		**120,432**	
Luxembourg				
Office buildings	60,000		60,000	
Retail buildings	4,250		4,250	
	64,250		**64,250**	
The Netherlands				
Office buildings	159,602		160,474	
Retail buildings	9,654		9,654	
	169,256		**170,128**	
Austria				
Single-family houses		7		7
Office buildings	35,516		34,572	
	35,516	**7**	**34,572**	**7**
Sweden				
Office buildings	0		33,997	
	0		**33,997**	

	31 Dec. 11 € 000		31 Dec. 10 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Switzerland				
Apartments		671,441		395,569
Single-family houses		1,542,314		995,612
Multiple-family dwellings		1,871		0
Office buildings	0		27,122	
	0	**2,215,626**	**27,122**	**1,391,181**
Spain				
Retail buildings	12,330		12,330	
Other commercially used properties	40,737		40,737	
	53,067		**53,067**	
USA				
Apartments		175,336		237,471
Office buildings	1,037,289		1,047,567	
Retail buildings	16,011		126,862	
Other commercially used properties	185,461		268,577	
New buildings and buildings not yet capable of producing a yield	12,077		11,695	
	1,250,838	**175,336**	**1,454,701**	**237,471**
Total	**3,699,085**	**11,950,219**	**3,867,215**	**10,766,658**
Apartments		3,294,582		3,021,680
Single-family houses		5,430,282		4,738,559
Multiple-family dwellings		3,166,420		2,932,065
Office buildings	2,348,521		2,445,828	
Retail buildings	778,225		735,235	
Industrial buildings	53,391		59,438	
Other commercially used properties	505,614		613,000	
Incomplete new buildings with no revenue-generating capacity as yet	12,327	58,390	12,582	73,369
Buildings under construction	1,007	545	1,132	985

PAYMENTS IN ARREARS ON COVERING MORTGAGES

	31 Dec. 11 € 000	31 Dec. 10 € 000
Federal Republic of Germany	24,480	24,669
Total amount of payments in arrears for at least 90 days	**24,480**	**24,669**

TOTAL VOLUME OF CLAIMS USED TO COVER PUBLIC PFANDBRIEFE

Value of cover

	31 Dec. 11 € 000	31 Dec. 10 € 000
Federal Republic of Germany		
Regional authorities	4,698,385	4,647,410
Local authorities	1,116,830	1,359,081
Other debtors	1,508,438	1,896,752
	7,323,653	**7,903,243**
Belgium		
State	175,000	175,000
Regional authorities	50,000	50,000
	225,000	**225,000**
France		
Regional authorities	20,000	0
Local authorities	756	1,006
	20,756	**1,006**
Greece		
State	34,000	68,000
	34,000	**68,000**
Ireland		
State	22,695	22,695
	22,695	**22,695**
Iceland		
State	15,000	50,000
	15,000	**50,000**
Italy		
State	46,226	120,998
	46,226	**120,998**
Lithuania		
State	30,000	30,000
	30,000	**30,000**

	31 Dec. 11 € 000	31 Dec. 10 € 000
Austria		
State	160,451	160,722
Regional authorities	20,000	35,000
Other debtors	242,000	175,000
	422,451	**370,722**
Poland		
State	55,132	123,987
	55,132	**123,987**
Portugal		
State	85,000	85,000
Regional authorities	10,000	10,000
	95,000	**95,000**
Sweden		
Local authorities	38,500	38,500
	38,500	**38,500**
Switzerland		
Regional authorities	24,679	23,992
Other debtors	175,000	175,000
	199,679	**198,992**
Slovakia		
State	19,000	19,000
	19,000	**19,000**
Slovenia		
State	100,000	100,000
	100,000	**100,000**
Spain		
State	5,000	5,000
Regional authorities	121,958	151,958
	126,958	**156,958**
The Czech Republic		
State	95,000	95,000
	95,000	**95,000**

	31 Dec. 11 € 000	31 Dec. 10 € 000
Hungary		
State	10,000	70,000
	10,000	**70,000**
European institutions		
Other debtors	126,731	135,662
	126,731	**135,662**
Total	**9,005,781**	**9,824,763**
State	852,504	1,125,402
Regional authorities	4,945,022	4,918,360
Local authorities	1,156,086	1,398,587
Other debtors	2,052,169	2,382,414

INTEREST OUTSTANDING FROM COVERING MORTGAGES

in € 000	total		of which housing sector		of which commercial property sector	
	2011	2010	2011	2010	2011	2010
Interest owed and not paid for period 1.10.2010 to 30.9.2011	766	930	679	801	87	129
Total interest payments in arrears and not value adjusted	535	0	489	0	46	0

FORCED AUCTIONS AND RECEIVERSHIPS OF COVERING MORTGAGES

	total		of which housing sector		of which commercial property sector	
	2011	2010	2011	2010	2011	2010
The number of proceedings pending on the date of record was:						
- Forced auctions	245	260	226	238	19	22
- Receiverships	114	129	103	122	11	7
	107*)	115*)	97*)	107*)	10*)	8*)
The number of forced auctions conducted in 2011	98	72	93	68	5	4

*) of which included in pending forced auctions

It was not necessary for the Bank to take over any property during the year under review to obtain satisfaction for amounts owed.

OTHER DISCLOSURES

MEMBERSHIP DATA

	Number of members	Number of shares	Members' liability for additional contributions €
Beginning of 2011	83,782	2,164,815	553,434,954.75
Additions in 2011	476	155,813	39,833,593.45
Reductions in 2011	2,977	51,207	13,091,069.55
End of 2011	81,281	2,269,421	580,177,478.65

	€
Increase in members' capital contributions in 2011	7,322,423.71
Increase in members' liability for additional contributions in 2011	26,742,523.90
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 2011 was as follows:

	Male	Female	Total
Full-time employees	194	113	307
Part-time employees	10	58	68
Total employees	204	171	375
These figures do not include:			
Apprenticed trainees	5	7	12
Employees participating in parental leave, early retirement, partial retirement (non-working phase), or employees suspended with pay.	9	15	24

SHAREHOLDINGS

	Percentage of capital held	Capital in € 000	Profit/Loss in € 000
M-Wert GmbH, Munich*)	100	438	140
Immobilienservice GmbH der Münchener Hypothekenbank eG (M-Service), Munich (profit transfer agreement)**)	100	509	41
Nussbaumstrasse GmbH & Co. KG, Munich*)	100	11,591	284

* annual financial statements 2010, ** annual financial statements 2011

BODIES

SUPERVISORY BOARD

Konrad Irtel … Rosenheim
Spokesman of the Board of Management of
VR Bank Rosenheim-Chiemsee eG
Chairman of the Supervisory Board

HRH Duke Max in Bavaria … Frasdorf (until 16.04.2011)
Deputy Chairman of the Supervisory Board

Michael Glos … Prichsenstadt
Master Craftsman (Miller)
Deputy Chairman of the Supervisory Board (as of 16.04.2011)

Wolfhard Binder … Grafing
Chairman of the Board of Management of
Raiffeisen-Volksbank Ebersberg eG

Wilfried Mocken … Rheinberg
General Attorney in Fact of Underberg KG

HSH Albrecht Prince of Oettingen-Spielberg … Oettingen
(as of 16.04.2011)

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

Erich Rödel … Ingolstadt
Bank Director (ret.)

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

BOARD OF MANAGEMENT

Dr. Louis Hagen, Spokesman
Bernhard Heinlein
Michael Jung

Mandates

Dr. Louis Hagen	Bau- und Land-Entwicklungsgesellschaft Bayern GmbH Member of the Supervisory Board
	HypZert GmbH Chairman of the Supervisory Board

Loans to members of the Supervisory Board amounted to € 15,909 (thousand) (previous year € 17,274 (thousand)), and € 117 (thousand) (previous year € 68 (thousand)) to members of the Board of Management. Pension provisions for former members of the Board of Management amounted to € 18,740 (thousand) (previous year € 19,272 (thousand)). Total remuneration received by the members of the Board of Management during the year under review amounted to € 1,469 (thousand) (previous year € 1,661 (thousand)), for members of the supervisory Board € 237 (thousand) (previous year € 284 (thousand)). Total compensation received by the members of Advisory Board amounted to € 40 (thousand) (previous year € 71 (thousand)). Total compensation received by former members of the Board of Management and their surviving dependants amounted to € 1,403 (thousand) (previous year € 1,335 (thousand)).

AUDITING ASSOCITATION

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 € 700 (thousand) (previous year € 805 (thousand)) were incurred for auditing the annual financial statements and the management report, the cooperatives organisational structures, and to examine the Bank's management during the year under review. Total costs of € 62 (thousand) (previous year € 60 (thousand)) were incurred for other confirmation services, and € 43 (thousand) (previous year € 60 (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 € 15,851 (thousand).

Munich, 14 February 2012

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 2011. The maintenance of the books and records and the preparation of the annual financial statements, and the management report were prepared in accordance with German commercial law and supplementary provisions in the articles of incorporation and are the responsibility of the cooperative's legal representatives. Our responsibility is to express an opinion on the annual financial statements, the bookkeeping system and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Art. 53 (2) of the Cooperatives Act and Art. 340k and Art. 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 legal representatives, 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, 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 association, 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, 6 March 2012

DGRV - DEUTSCHER
GENOSSENSCHAFTS- UND RAIFFEISENVERBAND e.V.

Dr. Ott	Gahlen
Auditor	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, 14 February 2012

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.

The Supervisory Board held its constituent meeting and four regularly scheduled meetings with the Board of Management during the year under review. The key subjects and advisory issues covered were the development and planning of the Bank's business activities, the business and risk strategy, planning of the Bank's equity capital and the risk situation, especially the effects of the sovereign debt crisis. The Supervisory Board has established committees to enable it to carry out its duties efficiently. The committees are: the Personnel Committee, the Lending Committee and the Audit Committee. The committees regularly reported on their activities during the Supervisory Board's meetings.

The accounting documents, the annual financial statements and the Management Report for the 2011 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 an extensive oral presentation of the primary results of their audit during a meeting of the Supervisory Board's Personnel Committee. Moreover, the auditors were also available to provide additional information. 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 2011 annual statement of accounts for the Münchener Hypothekenbank eG, for their information on a timely basis. The results of the audit were examined during a joint meeting of the Board of Management and the Supervisory Board attended by the auditor. The results of the audit are also stated during the Delegates Meeting.

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 2011 – 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.

During the year under review His Royal Highness Duke Max in Bavaria stepped down from the Supervisory Board at the end of his term of office. He originally became a member of the Supervisory Board in 1991, and in 2005 was appointed Deputy Chairman of the Supervisory Board. Duke Max in Bavaria also contributed his vast experience and business acumen to the Supervisory Board's committees, including the Lending Committee, which he joined in 1992 and most recently chaired, and the Personnel Committee, where he served as a valued member from 2005 until now. The Supervisory Board wishes to express its gratitude to His Royal Highness for his extraordinary efforts on behalf of the Bank. The Münchener Hypothekenbank and its Supervisory Board benefited greatly from his extensive knowledge.

His Serene Highness Albrecht Prince of Oettingen-Spielberg was newly elected to the Supervisory Board. Konrad Irtel, the Spokesman of the Board of Management of the VR Bank Rosenheim-Chiemsee eG, was confirmed as a member of the Supervisory Board for another term of office. During their constitutive meeting held on April 16, 2011, the members of the Supervisory Board re-elected as Mr. Irtel as Chairman of the Supervisory Board. Michael Glos, a former federal minister, was elected as the new Deputy Chairman of the Supervisory Board.

The Supervisory Board thanks the members of the Board of Management and all of the Bank's employees for their hard work during a particularly difficult banking year, especially for their major efforts related to the successful regulatory approval for the Bank to use the Internal Ratings Based Approach (IRBA).

During the year under review MünchenerHyp was able to master the demanding challenges posed by the sovereign debt crisis. Very good new mortgage business results confirmed the Bank's importance in this sector and gave us confidence to face future challenges.

Munich, in April 2012
MÜNCHENER HYPOTHEKENBANK eG

Konrad Irtel
Chairman of the Supervisory Board

THE MEMBERS OF THE DELEGATES MEETING

AS OF 31 DECEMBER 2011

Hermann Arens … Bank director
Dr. Wolfgang Baecker … Bank director
Manfred Basler … Bank director (ret.)
Claus-Rüdiger Bauer … Bank director
Norbert Beek … Bank director
Heinrich Beerenwinkel … Bank director
Dr. Christoph Berndorff … Bank director
Dietmar Bock … Managing director
Helmut Böing … Bank director
Dr. Christine Bortenlänger … Member of the Board of Management
Dr. Michael Brandt … Bank director
Gebhard Brennauer … Bank director (ret.), as of 29 March 2012
Eckhard Dämon … Bank director
Lothar Erbers … Bank director
Johann Fuhlendorf … Bank director
Dr. Roman Glaser … Bank director
Klaus Graniki … Managing director
Markus Gschwandtner … Bank director
Michael Haas … Bank director
Eberhard Heim … Bank director
Joachim Hettler … Bank director
Dr. Christoph Hiltl … Attorney
Karl Hippeli … Bank director
Carsten Jung … Bank director
Jürgen Jung … Legal advisor
Norbert Kaufmann … Bank director
Herbert Kellner … Bank director
Michael Kittel … Bank director
Klaus Korte … Bank director
Roland Kuffler … Businessman
Helmuth Lutz … Bank director
Michael Müller … Attorney
Dr. Hans-Wolfgang Neumann … General Manager
Thomas Petersen … Bank director
Klaus Pohl … Managing director
Erhard Probst … Bank director † March 2012
Dr. Rüdiger Renk … Association director
Frank Ritter … Attorney, Notary
Christian Scheinert … Bank director
Dr. Martin Schilling … Bank director
Andreas Schmidt … Certified Property Specialist
Hans Schmitt … Bank director
Klaus Otmar Schneider … Bank director
Thorsten Schwengels … Bank director
Wolfgang Siemers … Managing director
Jörg Stahl … Bank director
Theo Stauder … Bank director
Dr. Rainer Sturies … Attorney
Ulrich Tolksdorf … Bank director
Martin Trahe … Bank director
Florian Uhl … Managing director
Heinz-Walter Wiedbrauck … Bank director
Michael Zaigler … Managing director

AGENDA – GENERAL (DELEGATES) MEETING ON 21 APRIL 2012, 10.30 A.M.

1. Report on the 2011 business year by the Board of Management and presentation of the Annual Statement of Accounts and the 2011 Management Report
2. Report of the Supervisory Board
3. Auditors' report
4. Resolutions to ratify:
   a) the 2011 Annual Statement of Accounts
   b) proposed appropriation of distributable profits
   c) the acts of the Board of Management and the Supervisory Board for the 2011 business year
5. Amendment to the Articles of Association
6. Elections to the Supervisory Board
7. Other issues

EXECUTIVE MANAGEMENT AND BODIES

BOARD OF MANAGEMENT

Dr. Louis Hagen, Spokesman
Bernhard Heinlein
Michael Jung

SUPERVISORY BOARD

Konrad Irtel ... Rosenheim
Chairman of the Supervisory Board
HRH Duke Max in Bavaria ... Frasdorf,
until 16 April 2011
Deputy Chairman of the Supervisory Board
Michael Glos ... Prichsenstadt
Deputy Chairman of the Supervisory Board,
as of 16 April 2011
Wolfhard Binder ... Grafing
Wilfried Mocken ... Rheinberg
HSH Albrecht Prince of Oettingen-Spielberg ... Oettingen,
as of 16 April 2011
Hans Pfeifer ... Muenster
Erich Rödel ... Ingolstadt
Hans-Joachim Tonnellier ... Frankfurt am Main

TRUSTEES

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

ADVISORY BOARD

Rainer Jenniches ... Bonn
Chairman
Helmuth Lutz ... Beuerberg
Deputy Chairman
Georg Schäfer ... Osterroenfeld
Deputy Chairman
Peter Bahlmann ... Hatten
Dr. Maximilian Binzer ... Herrenberg
Bernd Ehrlicher ... Erlangen
Ludger Ellert ... Vechta
Clemens Fritz ... Achern
Walter Hoffmann ... Glan-Muenchweiler
Eberhard Kreck ... Bottrop
Dietmar Küsters ... Straubing
Karl Magenau ... Heubach
Claus Preiss ... Buehl
Richard Riedmaier ... Ingolstadt
Martin Rötz ... Rostock
Michael Schlagenhaufer ... Mittweida
Franz Schmid ... Altshausen
Kai Schubert ... Moelln
Thomas Sterthoff ... Guetersloh

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