Münchener Hypothekenbank eG

DISCLOSURE IN ACCORDANCE WITH ART. 26a OF THE GERMAN BANKING ACT (KWG) >>

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DESCRIPTION OF RISK MANAGEMENT

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 primary business activities. MünchenerHyp's entire Board of Management is responsible for this strategy. It is regularly – at least once a year – updated and presented to the Supervisory Board.

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

The requirements for structuring a risk management system are defined by the Federal Financial Supervisory Authority in the MaRisk rules. MünchenerHyp fully observes the terms of these rules. The effects of, or amendments to, the requirements arising from the updating of MaRisk are noted, analysed without delay and implemented in a timely manner. The modifications of MaRisk dated August 14, 2009 were implemented to the greatest extent possible by December 31, 2009. Remaining minor adjustments should be implemented no later than June 30, 2010.

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. Appropriate monitoring processes are in place involving internal process-dependent supervision to ensure that this balance is maintained. Our internal audit department, as process-independent unit, has the monitoring function within the Bank.

The analysis and presentation of existing risks distinguishes between borrower failure, market price, liquidity and operational risks. Additional risks such as placement risk, reputational risk, business risk etc., are viewed as parts of the abovementioned risks and are taken into consideration in the appropriate manner in the individual calculations.

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

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

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

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)

Loan-to-value	Dec. 31, 2009		Dec. 31, 2008	
	€	relative	€	relative
Up to 60 %	10,141,547,305	58.4 %	9,813,397,566	58.0 %
60.01 % to 70 %	2,650,148,116	15.2 %	2,410,679,530	14.2 %
70.01 % to 80 %	2,647,529,744	15.2 %	2,697,823,387	15.9 %
80.01 % to 90 %	1,232,932,116	7.1 %	1,016,760,548	6.0 %
90.01 % to 100 %	253,624,326	1.5 %	414,745,521	2.5 %
over 100 %	437,660,646	2.5 %	454,409,024	2.7 %
without	15,704,882	0.1 %	116,715,361	0.7 %
Total	**17,379,147,136**	**100.0 %**	**16,924,530,938**	**100.0 %**

The regional breakdown of lending is as follows:

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)

Region	Dec. 31, 2009		Dec. 31, 2008	
	€	relative	€	relative
Baden-Wuerttemberg	1,600,276,430	9.2 %	1,696,837,679	10.0 %
Bavaria	3,119,747,610	18.0 %	3,158,696,605	18.7 %
Berlin	603,103,260	3.5 %	455,575,996	2.7 %
Brandenburg	147,507,055	0.8 %	148,698,823	0.9 %
Bremen	28,391,182	0.2 %	28,715,016	0.2 %
Hamburg	426,451,047	2.5 %	403,297,705	2.4 %
Hesse	1,199,182,165	6.9 %	1,210,348,520	7.2 %
Mecklenburg-Lower Pomerania	90,459,626	0.5 %	79,571,507	0.5 %
Lower Saxony	891,430,253	5.1 %	876,642,113	5.2 %
North Rhine-Westphalia	2,508,236,195	14.4 %	2,632,242,768	15.6 %
Rhineland-Palatinate	404,671,310	2.3 %	435,343,437	2.6 %
Saarland	36,462,887	0.2 %	41,809,294	0.2 %
Saxony	476,735,406	2.7 %	485,494,110	2.9 %
Saxony-Anhalt	97,927,727	0.6 %	95,012,443	0.6 %
Schleswig-Holstein	916,096,377	5.3 %	903,212,566	5.3 %
Thuringia	178,914,525	1.0 %	189,579,862	1.1 %
Total Domestic	**12,725,593,056**	**73.2 %**	**12,841,078,445**	**75.9 %**

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)

Region	Dec. 31, 2009		Dec. 31, 2008	
	€	relative	€	relative
Austria	45,907,411	0.3 %	45,815,404	0.3 %
France	295,638,708	1.7 %	305,279,486	1.8 %
UK	199,730,257	1.1 %	139,017,969	0.8 %
Spain	113,367,940	0.7 %	117,768,125	0.7 %
Luxembourg	64,287,318	0.4 %	64,250,000	0.4 %
Sweden	38,167,026	0.2 %	35,941,766	0.2 %
Switzerland	1,128,322,027	6.5 %	385,830,784	2.3 %
The Netherlands	209,511,618	1.2 %	220,219,633	1.3 %
USA	2,558,621,775	14.7 %	2,769,329,326	16.4 %
Total Foreign	**4,653,554,080**	**26.8 %**	**4,083,452,493**	**24.1 %**
Total Domestic and Foreign	**17,379,147,136**	**100.0 %**	**16,924,530,938**	**100.0 %**

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

A widely diversified property finance portfolio, with an emphasis on private property financing, combined with our tried and tested credit approval procedures, ensures a manageable level of credit risk. Our lending business with public sector borrowers and banks is primarily focused on central and regional governments, regional and local authorities, and west European banks with above-average creditworthiness.

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

Interest rate risk refers to risk arising from changes in the market value of investments and liabilities dependent on the level of interest rates, and which will react negatively due to changes in interest rates. It represents the most important component of market price risks for MünchenerHyp.

Market price risks also include (credit) spread risk and migration 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 the difference in interest rates between a risky and a no-risk bond can change without an adjustment being made to creditworthiness. The reasons for altered yield premiums are: varying opinions in the market regarding the creditworthiness of the issuer, the creditworthiness of the issuer actually changes although this change is not yet reflected in the issuer's credit ratings, and macro-economic factors that influence creditworthiness categories.

Migration risk is defined as the danger that a loss can arise due to drop in ratings, which is normally accompanied by an implied increase in yield.

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

Currency risk is the term used for risks arising from changes in the market value of investments or liabilities that are dependent on currency exchange rates, and which will react negatively due to changes in currency exchange rates. MünchenerHyp's foreign transactions 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 MünchenerHyp's transaction on a daily basis. Transactions whose values are established by discounting cash flows are evaluated by the bank's SAP inventory system. The valuation of structured transactions – mainly interest rate capping, swaptions and termination rights that are lawful and agreed – is carried out in a dedicated system. The backbone of our risk control operations is the Delta-vector, which is calculated on a daily basis. This figure is determined by the present value of the loss incurred per range of maturities when the mid-swap curve is raised by one basis point. MünchenerHyp uses the value-at-risk figure to identify and limit market risks. Stress 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:

>> Parallel shifts: The current interest rate curve is completely shifted up and down by 100 base points.
>> Steepening/flattening: The interest rate curve is rotated in both directions around the 5-year rate as the fixed point.
>> 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, 2009 are played out using the current levels.
>> Changes in legal regulatory requirements: The interest rate curve is completely parallel shifted up by 130 base points and down by 190 base points. The worst result of the two shifts is used for calculation purposes.

The maximum Value at Risk (interest and currencies) at a confidence level of 99.5 percent at a ten day holding period was € 36 million. The average comparable figure noted in the previous year was € 13 million.

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

Liquidity risks include the following risks:

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

MünchenerHyp differentiates between short-term liquidity protection and short-term, mid-term, and long-term structural liquidity planning. The purpose of short-term liquidity protection is to ensure that the Bank is fully able to meet (payment willingness) its required payment obligations as agreed on a daily basis. In meeting this obligation the Bank fully implements all of the applicable supervisory requirements regarding liquidity reserves that must be held by banks. The purpose of structural liquidity planning is to ensure short-term, mid-term, and long-term liquidity. A liquidity forecast is used to identify structural liquidity gaps at early stage in order to close them with appropriate refinancing measures. Callable balance sheet items are taken into account for liquidity outlook scenario analysis as required: by next redemption date, by legal termination date, or weighted with the probability of their being redeemed. Because a mortgage bank's liquidity management is closely linked to cover requirements for Pfandbriefe, forecasts for liquidity and cover are technically linked by IT systems.

In order to keep refinancing risks at a minimum, MünchenerHyp strives to refinance loans in accordance with their amounts and maturity dates and continuously checks if its relevant refinancing sources (primarily those within the Financial Services 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 securities, like Mortgage Backed Securities (MBS), are no longer being made. Our current inventory of € 191 million (previous year € 230 million) consists solely of Commercial Mortgage Backed Securities (CMBS) and Residential Mortgage Backed Securities (RMBS), secured by property in Germany, France and Spain. The majority of these securities are rated Aaa.

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

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

The professional concepts and models used to calculate **abilities to bear risks** are being continuously further developed in accordance with legal supervisory requirements. MünchenerHyp calculates its ability to bear risks based on present value and period-oriented approaches. The Going Concern scenario is the more 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 for potential risks that may be used in this scenario is the available regulatory equity capital. Future earnings may not be included.

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.

Per the terms of this scenario, MünchenerHyp was able to bear risks on December 31, 2009.

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. We only occasionally insure individual loans or portfolios against borrower risk. At the level of individual transactions, we use asset swaps as micro-hedges. Structured fundamental transactions such as callable securities were hedged accordingly with structured asset swaps. Interest-currency swaps are used to hedge exchange rate risks. At the portfolio level, the main hedging instruments we use are interest swaps. Bermudan options on interest swaps (swaptions) or interest options (caps and floors) are used as macro-hedges for embedded legal termination rights or arrangements to limit interest rates.

ACCOUNTING-BASED INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

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

Process-independent measures are, above all, carried out by the internal audit department.

The risk management methods described in the risk report make qualitative and quantitative statements regarding MünchenerHyp's economic situation, including, for example, the development of performance. This evaluation involves aspects of all risk categories, including borrower risks, market price risks, liquidity risks and operational risks.

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

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

1. STRUCTURE OF LIABLE EQUITY CAPITAL

MünchenerHyp is legally operated as a registered cooperative. Participation in our cooperative takes place in the form of shares in the business. A single share costs € 70, with a members' liability for additional contributions of € 255.65 per share. As of December 31, 2009, the volume of these shares was € 148.7 million, of which € 1.8 million was called.

In addition, the Bank has silent participations amounting to € 335.2 million, of which € 322.2 million can be considered liable equity capital. The average interest for these silent participations is 7.59 percent; their expiration dates range between December 31, 2009 and a perpetual maturity.

In addition to the cooperative's premium for the members' liability for additional contributions, supplementary capital primarily includes lower-ranked liabilities with an average interest of 6.02 percent and expiration dates from October 26, 2010 to January 12, 2022. The profit-sharing certificates included in the supplementary capital have an average interest of 7.35 percent, with terms running from April 4, 2012 to April 30, 2018.

COMPONENTS OF LIABLE EQUITY CAPITAL

	31 Dec. 09 in € million	
Core capital		**738.9**
Members' capital holding	148.7	
Reserves	276.3	
Silent participations	322.2	
Other deducted items	- 8.3	
Supplementary capital		**395.8**
Information only: Deducted items per Art. 10 para. 6 KWG	0.0	
Total available capital and reserves		**1,134.7**

2. LOWER LIMIT OF EQUITY CAPITAL

MünchenerHyp internally evaluates the appropriateness of its equity capital based on the Basel II regulatory requirements. MünchenerHyp is currently employing the Credit Risk Standardised Approach (CRSA).

In total, core capital increased by € 96.7 million during the 2009 financial year. This increase is primarily due to the successful conclusion of a contract for a silent participation of € 100 million. Moreover, capital paid up by members of the cooperative rose by € 4.2 million.

Supplementary capital provided by our investors, and which is recognised by supervisory law, also expanded. This increase was mainly due to the successful placement of € 22.4 million of subordinated papers.

MünchenerHyp's total capital adequacy ratio is 10.0 percent. This means that the Bank fully meets the relevant regulatory minimum equity capital ratio requirement of 8 percent as the required ratio of equity capital to existing risk-weighted assets.

MünchenerHyp plans to convert the method it uses to evaluate equity capital adequacy to the Internal Ratings Based Approach (IRBA) in the 2010 financial year. MünchenerHyp anticipates that the high quality of the Bank's loan portfolio will be better reflected using the IRBA's more precise measurement of risk and will lead to a substantial reduction on equity capital requirements.

Planning equity capital levels is also part of MünchenerHyp's multi-year planning calculations and care is taken to ensure that regulatory equity capital requirements are fully met at all times.

		Equity capital requirement in € million	Total in € million
Standard projection for credit risk			**891.2**
1.	Central governments	10.0	
2.	Regional authorities and local authorities	2.5	
3.	Other public-sector bodies	0.3	
4.	Multilateral development banks	0.0	
5.	International organisations	0.0	
6.	Institutions	78.7	
7.	Covered bonds issued by credit institutions	18.9	
8.	Companies	297.6	
9.	Volume business	49.6	
10.	Positions collateralised with property	374.6	
11.	Investment shares	0.4	
12.	Participation	7.1	
13.	Securitisation	3.6	
14.	Other items	7.4	
15.	Overdue items	40.5	
Operational risks			
	Basic Indicator Approach		**15.2**
		15.2	
Market risks			**1.6**
	Overall currency position	1.6	
	Risk of change in interest rate for trading book	0.0	
	Other risks	0.0	
Total equity capital requirement			**908.0**
Total capital adequacy ratio			**10.00 %**
Core capital rate			**6.51 %**

3. DERIVATIVE BORROWER FAILURE RISK ITEMS AND OFFSET ITEMS

A limit system is used to restrict borrower failure risks for all of the borrowers carried in the Treasury area of business. In doing so, limits on counterparties and issuers are made on a case-by-case basis and are approved by the entire Board of Management after a presentation and vote by the market and the transaction management departments. Only banks and insurance companies located in OECD countries are accepted as counterparties for derivative deals.

After netting, derivatives are offset against the counter-party limit using their market values plus add-on. The limit is monitored on a daily basis. In the event that the limit is exceeded the entire Board of Management is informed immediately. Furthermore, a monitoring list is provided to the Board of Management on a monthly basis. The creditworthiness of the counterparties and the limits are examined at least once a year.

In creating offset agreements (netting), MünchenerHyp orients itself according to standard market practices. Within the framework of collateral agreements made to additionally secure net derivate positions, only cash deposits in euros are accepted as collateral. To a small extent, some collateral agreements contain exemptions that are dependent on creditworthiness. These exempt amounts are not subject to being automatically adjusted in the event of changed credit ratings so that no liquidity risk arises because of additional funding obligations.

In terms of internal risk management for the entire Bank, exposure for derivatives is taken into account using the market evaluation method (plus add-on). Netting agreements are also taken into account.

DERIVATIVES AND OFFSET ITEMS

	Derivates in € million
Total positive replacement values before netting and before collateral	**1,808.6**
of which, interest-related contracts	1,654.0
of which, currency-related contracts	154.6
Netting	1,412.6
Collateral	140.2
Total positive replacement values after netting and after collateral	**255.8**

4. GENERAL CREDIT RISK

MünchenerHyp defines nonperforming loans and/or overdue loans as credit obligations with shortfalls or at risk of default on the basis of other objective risk factors (i.e. threatened or initiated insolvency proceedings).

This forms the basis for creating value adjustments for the mortgage credit business.

We consider the criteria used in creating in-house value adjustments for MünchenerHyp to be conservative.

Mortgage loans are examined to determine if they warrant the creation of or addition to individual adjustments to value when one of following prerequisites exist:

>> An individual adjustment to value was already created or maintained in the previous year.
>> Foreclosure or enforced receivership proceedings are pending.
>> The customer has been unsuccessfully dunned, and the amount owed exceeds – depending on the possibilities of using the loan as cover – certain minimal thresholds.
>> The loan is default-endangered due to other objective criteria (e.g. threatened, or actually applied for insolvency).

As a matter of principle, the portion of the credit exceeding 60 percent of the mortgage value, the interest in arrears, and the costs in arrears are to be taken into account in the value adjustments.

The Bank has created a general adjustment to value 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 ten years compared to the average volume of loans-at-risk made over this period. The general adjustment to value is the result of multiplying the default rate by the volume of loans-at-risk on the date of record.

5. DISCLOSURE BY TYPE OF CLAIMS

The following overviews show the total amount and/or the distribution of claims, without allowances for credit-reducing measures. Since these amounts do not differ significantly from the average amounts, the average amounts are not given.

Type of receivable	Total
Item values before CRM (in € million)	34,690.3
Average amount	35,101.8

ANALYSIS OF TOTAL CLAIMS BY REGION IN € MILLION

	Credits collateralised with property rights (incl. commitments)	Other credits (incl. commitments	Securities	Derivates	Securitisation	Sum
Federal Republic of Germany	13,056.1	8,435.4	2,572.3	158.1	0.0	24,221.9
Switzerland	1,128.6	280.7	176.9	7.9	0.0	1,594.1
Europe (excluding Germany and Switzerland)	971.4	1,119.8	3,848.0	65.0	191.4	6,195.6
North America	2,436.6	166.9	50.4	24.8	0.0	2,678.7
Total	**17,592.7**	**10,002.8**	**6,647.6**	**255.8**	**191.4**	**34,690.3**

DISTRIBUTION OF TOTAL CLAIMS BY SECTOR IN € MILLION

	Credits collateralised with property rights (incl. commitments)	Other credits (incl. commitments)	Securities	Derivates	Securitisation	Sum
Banks	79.5	3,463.7	4.961,0	243.3	0.0	8,747.5
Companies	5,807.5	888.3	511.6	12.5	191.4	7,411.3
Economically independent private persons	2,991.2	33.7	0.0	0.0	0.0	3,024.9
Economically dependent individuals and other private persons	8,700.3	2.9	0.0	0.0	0.0	8,703.2
Public budgets	0.0	5,461.8	1,175.0	0.0	0.0	6,636.8
Other	14.2	152.4	0.0	0.0	0.0	166.6
Total	**17,592.7**	**10,002.8**	**6,647.6**	**255.8**	**191.4**	**34,690.3**

DISTRIBUTION OF TOTAL CLAIMS (EXCLUDING DERIVATIVES) BY THEIR REMAINING TERMS OF MATURITY IN € MILLION

	Credits collateralised with property rights (incl. commitments)	Other credits (incl. commitments)	Securities	Derivates	Securitisation
Less than 1 year	533.0	2,449.7	744.5	19.9	3,747.1
1 to 5 years	4,185.5	2,025.8	2,946.4	171.5	9,329.2
5 to 10 years	2,444.7	1,591.8	2,298.2	0.0	6,334.7
More than 10 years	10,429.5	3,536.4	658.5	0.0	14,624.4
No term of maturity	0.0	399.1	0.0	0.0	399.1
Total	**17,592.7**	**10,002.8**	**6,647.6**	**191.4**	**34,434.5**

6. DISCLOSURE OF PROVISIONS FOR RISK

The following overview contains non-performing and overdue claims and credits, according to significant sectors and regions that demonstrate a need for value adjustment.

Claims of more than € 50 that are overdue by more than 90 days are considered to be "defaulted items".

NON-PERFORMING AND OVERDUE CLAIMS BY SECTOR IN € MILLION

	Total claim	Assets with individual adjustments to value (capital)	Overdue without individual adjustments to value
Banks	0.0	0.0	0.0
Companies	153.4	19.8	133.6
Economically independent private persons	207.5	34.1	173.4
Economically dependent individuals and other private persons	66.8	9.6	57.2
Public budgets	0.0	0.0	0.0
Other	0.6	0.1	0.5
Total	**428.3**	**63.6**	**364.7**

NON-PERFORMING AND OVERDUE CLAIMS BY REGION IN € MILLION

	Total claim	Assets with individual adjustments to value (capital)	Overdue without individual adjustments to value
Federal Republic of Germany	128.8	28.8	100.0
Switzerland	0.0	0.0	0.0
Europe (excluding Germany and Switzerland)	16.2	1.2	15.0
North America	283.3	33.6	249.7
Total	**428.3**	**63.6**	**364.7**

PROVISIONS FOR RISK BY SECTOR IN € MILLION

	Net allocation from specific and general provisions (capital)	Direct write-down	Receipts of written-off claims
Banks	0.0	0.0	0.0
Companies	21.6	0.1	0.0
Economically independent private persons	0.0	1.5	0.0
Economically dependent individuals and other private persons	6.1	3.0	0.5
Public budgets	0.0	0.0	0.0
Other	0.0	0.1	0.0
Total	**27.7**	**4.7**	**0.5**

TOTAL LENDING BUSINESS IN € MILLION

	Opening balance	Adjust-ment	Dissolu-tion	Usage	Changes related to exchange rate and other factors	Closing balance
Individual adjustment to value	46.5	33.1	5.9	9.7	0.4	63.6
General adjust-ment to value	16.5	0.9	0.0	0.0	0.0	17.4
Provisions	0.0	0.0	0.0	0.0	0.0	0.0

7. STANDARDISED APPROACH TO CREDIT RISK

Ratings from S&P, Moody's and Fitch serve as the external evaluations of the creditworthiness of Credit Risk Standardised Approach (CRSA) models for types of claims, per Art. 25 of the German Solvency Regulation (SolvV).

The following receivable classes are taken into account: central governments, LRG, other public offices, MPs, institutions, covered promissory notes, companies, investment shares and securitisation.

The following overview contains the total for each item value that is assigned a fixed regulatory risk weight. For the standard credit risk approach, item values are given before and after the inclusion of credit-risk reduction measures (CRM) arising from securities.

	Item values in € million	
Creditworthiness level	before CRM	after CRM
0 %	7,942.9	8,718.9
10 %	2,358.8	2,358.8
20 %	5,394.5	5,367.7
35 %	11,047.6	11,047.6
50 %	1,997.2	1,961.9
75 %	896.2	876.3
100 %	4,769.9	4,076.2
150 %	283.2	282.9
Total	**34,690.3**	**34,690.3**

8. OPERATIONAL RISK

Operational risk is the danger of loss resulting from the inappropriate nature or failure of internal processes and systems, human error or external events. This definition includes legal risks.

MünchenerHyp uses the base indicator model to calculate the amount to be offset for operational risk.

As at December 31, 2009, the requirement for capital and reserves was € 15.2 million.

9. INVESTMENTS IN THE ASSET LEDGER

MünchenerHyp's investments are made primarily for strategic reasons.

Since the investments are kept in the asset ledger, an annual review is carried out to determine any lasting reductions in value. If such a reduction occurs, it is written off at fair value.

The investments in the MünchenerHyp asset ledger are neither listed investments nor investments in a diversified portfolio. The book value is € 78.1 million.

10. RISK OF A CHANGE IN INTEREST RATES IN THE ASSET LEDGER

The risk of a change in interest rate is controlled by determining the present value of every MünchenerHyp transaction on a daily basis. Transactions whose values are established by discounting cash flows are first aggregated and then evaluated jointly.

Structured transactions are generally insured by a micro-hedge, creating an equivalence in order to evaluate a synthetic floater when considering the risk of a change in interest rate.

The valuation of additional structured transactions – mainly interest rate capping, swaptions and termination rights that are lawful and agreed – is also carried out in relation to the present value. Capital contributions do not play any role at MünchenerHyp.

MünchenerHyp uses the value-at-risk figure (VaR) to identify and limit interest rate risks. Stress scenario analysis is used to measure the effect of external shifts in market risk factors on present value. As of the date of record, December 31, 2009, the VaR for the asset ledger as a whole is minus € 11.5 million (holding period of 10 days, confidence level at 99.5 percent).

The maximum present-value loss in the asset ledger, caused by an interest shock of +130/-190 BP, is minus € 50.8 million. This corresponds to 4.48 percent of the liable capital and reserves.

11. MARKET PRICE RISKS IN THE TRADING BOOK

The standard method is used to calculate for capital and reserve requirements for market price risks in the trading book.

MünchenerHyp's activities in the trading book exclusively involve futures transactions. As of December 31, 2009, there were no risk items.

No significant risks exist in foreign currencies.

There are no other risks to which they are subject, such as raw materials risks.

12. SECURITISATION

With regard to the securitisation market, MünchenerHyp only participated as an investor in mortgage backed securities (MBS). MBS investments were fundamentally made in order to develop a portfolio that is complementary to the credit business. MünchenerHyp only invested in securities that have at least two external ratings from Moody's, S&P or Fitch, and that have fundamental asset values which bore up well against an internal credit analysis comparable to that of the credit business.

The supervisory report is carried out in accordance with the standardised credit risk model and is based on the external ratings. Overall, MBS investments, with a volume of € 191.4 million, play a minor role in terms of volume compared to the mortgage business.

So far, MünchenerHyp has not carried out its own securitisations; however it does have the appropriate instruments to do so.

13. CREDIT-RISK REDUCTION

13.1 NETTING

In creating offset agreements, MünchenerHyp orients itself according to common market practices. Only cash deposits in euros are accepted as collateral. Derivatives that are used to cover mortgage or public Pfandbriefe as per Art.19 of the Pfandbrief Act are subject to separate netting evaluations for each contractor and collateral.

13.2 PRINCIPLES OF COLLATERALISATION

Because of its strategic direction, MünchenerHyp primarily uses mortgage securities for completed security objects, or for security objects that are to be completed by the time the credit has been paid out in full.

MünchenerHyp's principles of collateralisation are an integral part of its business and risk strategy, and are supplemented by internal organisational guidelines.

The business and risk strategy, in the sections entitled "Fundamentals of the mortgage business", "Properties" and "Securitisation", primarily provides information about the type and fundamental framework conditions of the securities that are accepted by MünchenerHyp as a Pfandbrief Bank.

13.3 TYPES OF SECURITIES

The securities that should be taken into consideration are named in Art. 155ff of the SolvV.

The collateral in question are separated using detailed information about country, property type, intended usage and other characteristics. More information about this can be found in the organisation handbook/credit handbook. This also contains the internal regulations that must be observed for ordering processes and methods (i.e. forms), and for the monitoring, administration and valuation of securities.

Other collateral, such as the assignment or pledging of rights and entitlements arising from building loan agreements, life insurance, assets, deposits, etc., are considered subordinate and generally serve as repayment or as a temporary bridging measure until the mortgages are recorded.

In selected individual cases in the area of commercial property financing, the traditional mortgage coverage is replaced by other accepted hedging instruments, such as the pledging of business shares or the assignment of claims for repayment of expenses.

13.4 GUARANTORS AND COUNTERPARTIES FOR CREDIT DERIVATIVES

To reduce our credit-risk we use guarantees primarily given by public-sector bodies or domestic credit institutions.

No credit derivatives were used.

13.5 RISK CONCENTRATIONS

MünchenerHyp carefully monitors all risk concentrations that it undertakes as part of its strategic vision as a Pfandbrief Bank.

Size categories, property types and the regional distribution of properties all play a role in this. These risk drivers are subject to strict supervision.

As an additional risk management tool, MünchenerHyp uses a limit system to oversee risk-bearing capacity. The most important goal in overseeing risk-bearing capacity is to design profit, cost and risk structures – to ensure the Bank's independence – in such a way that they can be controlled without external help. The limit system allows limits for both credit-user units and countries to be established and controlled regularly.

Furthermore, we would like to draw attention to our publication as per Art. 28 of the Pfandbrief Act, which clearly presents the risk concentrations in our cover pool on a quarterly basis.

14. SCOPE AND COLLATERALISATION PROVIDED BY FINANCIAL COLLATERAL AND GUARANTEES

The following collateral are taken into account in the credit risk standardised approach:

STANDARD APPROACH FOR CLASSES OF CLAIMS BEFORE SECURITISATION

		Item values of securities/the securitised items in € million	
		Financial securities	Guarantees
1.	Central governments		0.0
2.	Regional governments and local authorities		0.2
3.	Other public bodies		10.8
4.	Multilateral development banks		0.0
5.	International organisations		0.0
6.	Institutions		758.3
7.	Covered bonds issued by credit institutions		0.0
8.	Companies		601.0
9.	Volume business		19.9
10.	Positions secured by property		0.0
11.	Investment shares		0.0
12.	Participations		0.0
13.	Securitisation		0.0
14.	Other items		0.0
15.	Overdue items		0.4

Im FinanzVerbund der
Volksbanken Raiffeisenbanken

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