

Annual Report 2005 >>



A solid basis ...



Contents

Letter from the Board of Management >> 4

Management Report >> 8

Balance Sheet >> 24

Income Statement >> 28

Notes >> 32

Report of the Supervisory Board >> 51

Members of the Delegates Meeting >> 54

Contact >> 56

Imprint >> 58

Dear shareholders and business associates,



Erich Rödel



Friedrich Munsberg



Dr. Bernhard Scholz

The year 2005 was a successful year for MünchenerHyp.

Despite the fact that economic conditions remained difficult, we were able to post the best new business results in the Bank's 110-year history. Our results clearly mirrored the effects of measures we implemented to increase earnings and decrease costs. This also is proof that our MHB 2008 strategy is having an impact and showing first results.

However, these results did not happen by themselves. Above all, we have to thank our employees for their dedicated efforts that led to the business success we posted in 2005. At this point we would like to show our recognition for their hard work and express our special thanks to them.

Our special targeted measures made it possible to act together to reduce our costs without sacrificing any of the quality of our services. Above all, we made very certain that we did not eliminate any potential opportunities required to ensure our future success. For this reason we focused on investing in our future business needs in addition to cutting costs.

The positive new business results prove that our business mix is balanced. MünchenerHyp is well positioned as a low-risk property financier in its sales activities. Our modular product range is paying off as it is designed to provide the market with a diverse selection of products which can be efficiently processed internally. Thus, we are able to respond flexibly to our

customers' individual wishes – especially the wishes of our most important partners, the Volksbanken and Raiffeisenbanken. They once again trusted us to provide them with fast and professional property finance services. Our success is also their success.

Our commercial property finance business area also benefited from our decisive market orientation, improved cost situation and high flexibility. The rate of growth in this area met the MünchenerHyp's strategic goals and was just as strong as the increase recorded in the private property segment. Growth was driven by business generated outside of Germany. This is convincing proof that MünchenerHyp has also gained a reputation as a reliable partner in the international markets.

Finally, the developments noted in our refinancing business also show that we are on the right track. Our innovative strengths and our ratings make us a reputable issuer in the global markets.

However, even if our successful business results enabled us to achieve certain important benchmarks, they should only be viewed as intermediate targets. Our strategic plan, MHB 2008, foresees a cost/earnings ratio of no more than 45 percent and a pre-tax return on capital of at least eight percent by 2008. The hitherto success we have had in realising this plan shows that these goals are realistic yet demanding. We still have significant challenges ahead of us before we return to an appropriate level of profitability.

The chances of achieving this are, however, good. The German property market has potential. The coming introduction of Real Estate Investment Trusts (REITs) will enliven the market and private housing will not remain in the doldrums forever. Germans have to invest increasingly more in their private retirement plans, and property remains the number one consideration in these plans: more than 80 percent of the population view property as the best investment for a safe and good retirement. Germans will increasingly come to grips with the fact that they will have to do more to ensure a decent life after they stop working and this will lead to a steadier demand for property. The end of state subsidies for private housing will be offset by market adjustments – other European markets are flourishing without this kind of state support.

The anticipated rise in the attraction of the German property market will, however, lead to intensified competition. The German credit institutions have regained strength as their risk situation has noticeably improved and their profitability has been reinforced. The need to write-off non-performing loans has declined. The crisis that arose with the bursting of the stock market bubble and the burdens stemming from the weakening of the property markets appear to be behind us. In addition, international providers have increasingly discovered the appeal of small-scale property loans in the German market.

Therefore, it is crucial that we continually review our own positioning and explore creative solutions to improve our sales performance in order to stay ahead of future developments as the market changes and market shares are reshuffled.

We are responding to competition, in particular from the direct banks and Internet provided, with innovative products and alternative sales channels.

But this is not enough. Although diverse products, optimal processes, innovative strength and flexibility are indispensable, they only represent one important aspect. The essential factor, and not one bit less important, is reliability.

According to statistical information, Germans buy a house or apartment 0.8 times in their life. This is different from the situation in the USA or the United Kingdom. In Germany the purchase of property is a one-time event and a long-term binding decision. For most people the purchase of real estate is not only the most significant financial decision they will ever make, it is also the decision that will obligate them for the longest time. This is why they want to find a financing partner that they can count on in the long term.

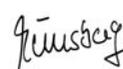
Customers know they can count on MünchenerHyp. Innovation and reliability are not contradictions. On the contrary. They are inter-related. Thanks to continual innovations that have made us – and kept us – more competitive, our customers can be sure that we will be a long-term reliable partner. And they put their trust in this. This was not given as a present. We earned it over many years of hard work. Both in our lending and refinancing business areas.

The trust that our customers have placed in us is our most important asset.

But trust is only given to those who trust themselves. Our trust in our business model forms the basis for MünchenerHyp's future success. Our close partnership relationship with the Volksbanken and Raiffeisenbanken forms a solid foundation.

The 2005 business year showed that we can trust this foundation. We will continue to advance from this foundation. And upon this foundation we will continue to be successful together.

Sincerely yours,



Erich Rödel Friedrich Munsberg Dr. Bernhard Scholz





Teamwork...

... requires strong partners.

We work closely with the FinanzVerbund.

> Erich Rödel >>

Management Report

Overall economic conditions

Good economic developments abroad and ongoing stagnation at home once again summed up the economic situation in Germany last year. As noted in previous years, German consumers continued to limit their consumption in light of the poor employment outlook, rising energy prices and a generally uncertain mood. This constellation led to a further 0.5 percent decline in consumer spending in comparison to 2004 as Germans bought less and saved approximately eleven percent of their income.

Although the change in government in September raised confidence levels in the business sector, the German economy's initial reaction remained tepid.

Interest rates fell to a new historic level in autumn and were accompanied by a new low in residential construction in Germany, as property sales remained stagnant despite very attractive interest rates. The decline in real purchasing power and an unappealing outlook for mid- to long-term income growth discouraged potential builders from taking on long-term financial obligations as real investments in residential construction in 2005 declined by about 2 percent from the previous year's figure.

Financial markets

In February 2005 Alan Greenspan, Chairman of the American Federal Reserve System (Fed), noted that the USA was experiencing "reasonable growth." This fuelled fears that the pace of interest rate hikes would accelerate, and also led to lower prices for sovereign bonds in Europe. It appeared that the slide in interest rates, which began in June 2004, had come to a halt. By March the yield of the benchmark ten-year Bund had risen to 3.78 percent from the 3.65 percent noted at the start of year.

Rising oil prices, a leading indicator of a slowdown in the global economy, as well as acute problems at General Motors, the largest American

car manufacturer and one of the world's biggest private borrowers, pushed stock prices down sharply around the world in April.

The bond markets profited from investors' flight to safety. At the end of April the yield of the ten-year Bund had fallen back to 3.38 percent, although bonds gave back some of their gains over the following months. A continuing pessimistic outlook for the world's economy, coupled with terrorist attacks in London drove investors into safe investments as they sought shelter from risk. Long-term Euro bonds were paying about three percent in September. In Germany yields on the ten-year Bund temporarily dropped to 2.99 percent on September 22nd, a level not seen for decades. After adjusting for inflation, real long-term yields amounted to less than 1 percent.

Pundits who had already started to predict that the European money market would shortly experience Japanese style deflation were soon silenced by events. By the end of the year the weaker Euro and the spread difference to American bonds were placing an increasing burden on European bond markets. Since the Fed began hiking interest rates in June 2004 it had raised the key fed fund rate 13 times, moving the rate from 1.00 percent up to 4.25 percent at the end of 2005. Long-term interest rates did not track this move and declined slightly during this period. The yield curve flattened to such an extent that ten-year US Treasury Notes were yielding less than three-month money market rates as of the end of 2005.

Yield on ten-year Bunds



Flourishing economies abroad Stagnant situation in Germany

Mortgage rates MHB

Ten year fixed rate

Initial effective annual rate in percent



- >> Historically low interest rates
- >> Nevertheless: New housing starts in Germany hit a low – because real purchasing power declines
- >> ECB raises its key rate in December to 2.25 percent

The accelerated rise in consumer prices, accompanied by an expanding money supply, which was significantly above the European Central Bank's (ECB) target range, plus increased expectations of greater inflation, forced the ECB to act in December 2005. For the first time in two-and-a-half years the ECB raised its key rate by 25 basis points to 2.25 percent. Long-term interest rates in Germany were about 3.3 percent at the end of the year.

These developments, especially the changes in long-term interest rates, also impacted on the German mortgage market. Mortgage rates reached their lowest point in the autumn. In the face of almost stagnant property markets, borrowers took advantage of low interest rates to secure long-term financing for periods of ten years and longer. In light of the flatter yield curve our partner banks were less inclined to engage in maturity transformation.

Property markets

Residential property market

Residential property prices in the USA – with significant regional differences – have increased by up to 60 percent since 2000. Property prices in Europe have also risen in recent years. In France and Spain housing prices climbed by about 15 percent – just in the past year alone – and by 12 percent in the United Kingdom. Similar gains were also noted in Finland, Ireland and the Netherlands.

The German property sector posted less dynamic growth during 2005 in comparison to its neighbours. After years of decline property prices, including the national average, showed a minor improvement for the first time; residential property prices advanced marginally by 0.3 percent.

We also observed that the previous east-west divide in the development of property prices across the nation was being increasingly replaced by differentiations based on regional and specific city considerations, which were driven by positive or less positive estimates of future growth.

Despite the sluggish recovery, a gap in yields has emerged in the meantime between certain European markets and Germany, which international investors, in particular, view as an opportunity. By the end of the previous year international investors had invested about thirty billion Euros in German property with the lion's share going to residential property. It is quite apparent that these

Development of property prices in Germany

(Year 2000 = 100)



between January and November 2004, this figure fell to about 192,000 in the same period in 2005.

The bring-forward effect caused by the end of state subsidies for private housing dampened the trend but could not reverse it. However, annual demand for new apartments generated by the uninterrupted marginal increase in the number of households (about 300,000) opened a gap between supply and demand. This was quite apparent as shown by the rising prices and rents noted in densely populated regions and urban areas with growing populations.

investors believe that the German property market holds greater potential to gain value than comparable markets in other countries. The reasons behind this optimism are German property prices, which are attractively low in comparison to international alternatives, low interest rates, and the comparatively low level (42 percent) of privately owned housing. Together, these factors create an inviting scenario to enter the German property market with a promising outlook for good profits.

The entry of international investors has increasingly changed the property investment culture in Germany: rental properties are being seen as economic goods whose value can be raised to realise gains. The timing question remains open: how long, if at all possible, will it take for investors to realize their planned exit strategy.

Despite historically low interest rates, domestic demand remained sluggish, although the desire to own private property still remained very strong in Germany. Property investments were and remain the unchallenged number one preferred asset for private retirement planning purposes. However, without a sustained economic upswing consumer confidence in longer-term income stability, the prerequisite for buying real estate will remain in short supply. And so will consumer willingness to take on the obligations involved in long-term property financing. This hesitation is particularly noticeable in sluggish new housing starts. The number of building permits issued has been declining for the past ten years. While permits for just 220,000 apartments were approved

In the interim, newly built housing represents only one third of the volume of residential construction while renovation and modernisation measures account for the vast majority, which recorded stable and slightly expanding growth in 2005.

Commercial property market in Germany

Vacancy rates rose in many German office markets in previous years. This was due, on one hand, to weak demand, and on the other to a strong increase in the supply of properties arising from the vast increase in newly built office properties in earlier years.

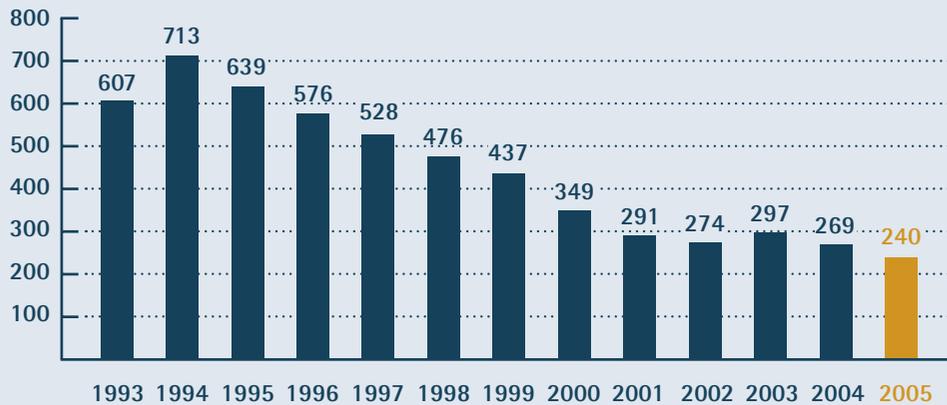
Vacancy rates in the most important office centres stabilised over the course of 2005 and even began to slowly decline in some areas. Rents rose by nearly 20 percent last year in the five German property centres of Berlin, Düsseldorf, Frankfurt, Hamburg and Munich. The reduced volume of new construction in Germany indicates that rents may have bottomed out.

Foreign investors are showing great interest in German office properties in response to the relatively favourable prices: for example, the average price of a modern office building in the UK is significantly higher than in comparable German cities.

The volume of available sales space in the retail business property segment has continued to grow at its previous pace despite sluggish sales revenues. International investors continued to show strong demand for retail shopping space. However, when compared internationally, Germany is still lagging behind in the development of shopping centres.

Residential building permits in Germany

Figures in T€



Source: Statistisches Bundesamt www.destatis.de, 2005 = preliminary results

- >> By 2005 international investors will have invested approx. € 30 billion in German residential market
- >> Building permits for private housing in Germany decline by 17.73 percent while outlays for renovation and modernization measures rise
- >> Office property market on the upswing after bottoming out – both domestically and abroad

The growing capital market orientation noted in the property markets, plus the new rating culture and the creditworthiness-based differentiation of third-party capital costs have led to an increasing concentration of properties held by specialised professional firms.

Commercial property market outside of Germany

The economic upswing experienced by most of Germany's neighbours last year led to notably improved conditions in their local commercial property markets. Following numerous years of recession, declining rents and rising vacancy rates, the worst appears to be over. At the same time, there is enormous pressure to invest, which, in combination with low interest rates, has helped boost prices resulting in historically low returns.

Vacancy rates are declining in office property markets in cities like London, Dublin, Paris or Madrid. In addition to the highly centralised structure of these countries, the fact that there is hardly any real estate left for building purposes in the centres of these metropolitan areas has also fuelled lower vacancy rates in all of these cities. Rents for office space are even increasing in certain individual cases because of the brightening economic situation and special circumstances: for example in Madrid where a major volume of office space has been converted into residential space. In contrast to this favourable example, Dutch office markets, like their German counterparts, bottomed out in 2005.

Following an almost ten-year upswing in most European markets, the retail commercial property market has attained a very high level of prices and rents. Chain stores continued to expand their presence in the central districts of large cities as well as in major shopping centres, as they elbowed out smaller locally owned shops into secondary areas. Rents paid for retail space in Paris and London are not only at record levels in Europe, they are also top-ranked on a global basis.

The market for logistics-related property is showing particularly strong growth in central and eastern European countries, while western and southern Europe are already showing significant signs of saturation. The increased migration of additional manufacturing plants to countries like Slovakia, Bulgaria or Romania will necessitate further infrastructure development as well as additional logistics-related properties in eastern and south-east Europe. The trend away from simple storage facilities to "intelligent" logistical properties for suppliers, retailers or delivery storage facilities will continue further, not lastly in light of uninterrupted rising property prices in major metropolitan areas.

Office property markets in most cities in the USA recorded significant gains: 200,000 new jobs in each month last year led to rising rents in preferred locations in New York, Boston and Washington. In other cities owners were able to cut back the previously noted rental inducements offered to new tenants.

Mortgage market

The market for residential property loans in Germany grew marginally in 2005 as the total value of outstanding residential property mortgages rose by just 0.7 percent to 1,093.3 billion.

Competition within this relatively stable segment of the property finance market further intensified in 2005. Many of our competitors increased their market activities. The consolidation process within the mortgage-banking sector continued as some mortgage banks merged with their parent companies. At the same time, direct banks and Internet-based lenders increasingly offered property loans to their customers and recorded significant growth in this area of business.

Nevertheless, cooperative banks, savings banks and private banks still dominated the market, with the first two holding approximately 50 percent. While MünchenerHyp was able to expand its mortgage portfolio, mortgage banks as a group saw their market share decline from 13.4 to 12.9 percent.

MünchenerHyp in 2005

We not only managed to achieve our goals in 2005, we also exceeded some of them – especially our target for new mortgage business where performance increased by 52.7 percent. On one hand MünchenerHyp profited from favourable market conditions: low interest rates, a flat interest rate curve, as well as the announced end of state support for private housing, all of which helped generate demand for long-term loans. We further benefited because we made preparations well in advance in anticipation of this situation.

On the other hand, our success was also due to the decisive implementation of our business strategy. The series of measures we introduced last year to increase earnings and decrease costs showed first results in 2005.

The primary element of our business strategy is to expand our sales activities within the association of cooperative banks and to increase our direct property loan business. We purposely tailored products within the private customer segment to meet the sales needs of the Volksbanken and Raiffeisenbanken and to fully support their top quality advisory services. We also streamlined our internal business procedures to achieve leaner processes and shorter handling times. These steps enabled us to successfully handle the higher volume of new business.

MünchenerHyp's commercial direct business activities also benefited from reduced costs, clear market orientation and shorter decision-making paths.

We continued to place great value on ensuring that our unchanged strict lending standards were observed in both business categories as we absorbed strong inflows of new business.

Although total assets rose moderately by 3.4 percent to € 34.0 billion, we were able to increase our operational results, after provisions for risk, from € 16.8 million to € 24.6 million. Our net income improved from € 8.3 million to € 10.2 million.

A significant improvement in the non-operating area was driven by a lower figure for individual write-offs. The Non-Performing Loan (NPL) transaction we concluded in August 2005 did not lead to any charges due to the precautionary measures we took in previous years.

Mortgage business

In 2005 MünchenerHyp made commitments for € 2.2 billion worth of mortgage loans. This figure not only surpassed our previous year's figure by 52.7 percent or € 766.3 million, it also topped our earlier records set in 1998 and 1999. The significant recovery of new business activities took place in our commercial property and residential property sectors.

New business performance within our residential construction area advanced by 36.7 percent from € 336.5 million to € 1,253.6 million. Against the background of very low interest rates we saw lower demand for variable-rate loans and short-term loans, while demand for long-term loans rose noticeably. We were able to particularly benefit from borrowers' preferences because our key strength is our ability to provide loans with terms of over ten years. The demand for forward financing also rose sharply as many customers wanted to lock-in favourable interest rates for pending follow-up loans. This situation also helped us because we have been offering tailor-made products for many years and MünchenerHyp is one of the leading players in this area.

In addition, our new business results in the residential lending area were greatly helped by the flat interest rate curve as it narrowed the possibilities to engage in maturity transformation, thereby enhancing the willingness of the Volksbanken and Raiffeisenbanken to refer loans to us. Many partner banks took advantage of the favourable market constellation and, with our assistance, intensified their market activities in this segment. In many instances the Volksbanken and Raiffeisenbanken used the "Münchener Forward" product to win customers from other banks.

The prolongation ratio declined marginally to 56.0 percent from 56.6 percent noted in the previous year. The primary reasons for repayment were redemption by the referring bank, and

Strong new business results

repayment using own funds. Redemptions by other banks played a negligible role.

Mortgage commitments made in the commercial property sector rose by € 429.8 million or 80.0 percent to € 966.9 million and were primarily driven by business generated outside of Germany, which more than doubled to € 590.8 million (+154.4 percent). Following a notable increase in 2004, we recorded new commitments of € 376.1 million in our domestic commercial property business in 2005, just below the previous year's level.

The competitive situation in the domestic commercial property business became more crowded last year as globally active investment banks became more noticeable in the market. They initiated numerous highly leveraged major transactions and securitised debts via the capital market. Margins were very narrow and under extreme pressure as competitors increasingly employed alternatives to classical liens to secure property collateral rights. Within this environment we maintained our conservative risk strategy and consolidated our market position.

Private investors and funds represented the lion's share of new business while the share of business generated by consortium deals declined noticeably. The trend of syndicate members to place their entire share of the transaction on their own books, which was already apparent in 2004, continued at an ever higher level throughout 2005.

The increase in our business activities abroad was achieved without deviating from our conservative approach to dealing with risk in our direct business deals in Europe and in the completion of structured finance deals in the USA, where we mainly assumed senior tranches of loans. In these transactions we benefited from the fact that the MünchenerHyp has gained a reputation in the market of being a steady and professional financing partner. We leveraged this in our new business activities, especially in our dealings with banking partners in the USA as well as with institutional funds.

This enabled us to vastly exceed our target in our international commercial property business. Our presence in the USA, where we have been active since 2003, has generated impressive gains. Our volume of new business in the USA expanded significantly as we pushed our market penetration faster and widened the regional parameters of our strategy to include cities with more than two million inhabitants. In making these advances we retained our major emphasis on financing only well-let commercial properties.

Funds continue to represent our largest customer segment, followed by private investors. Within the syndication sector we successfully participated in complex, tailor-made structured deals and made major progress in the underwriting area and in our own structured deals.

The opening of a representative office in London at the start of 2006 laid the cornerstone for our carefully planned expansion of our presence in the UK market. We anticipate that new business generators will not be solely restricted to the United Kingdom but, based on London's superb position as Europe's financial hub, will also lead to investments in continental Europe. The rising share of business generated outside of Germany is clearly reflected in the regional distribution of the new mortgage business figure, where foreign-origin business rose from 16.0 percent to 29.3 percent.

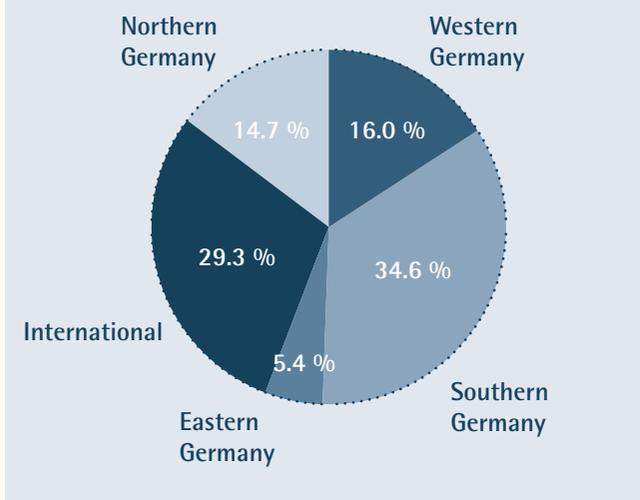
- >> Weak growth seen in German market for property loans in 2005
- >> However, MünchenerHyp achieves its goals and even exceeds them in some cases
- >> New record set in mortgage business

MHB new mortgage business

Commitments in € million



Regional profiles of new mortgage business



Public-sector lending business

MünchenerHyp does not pursue volume targets in the public-sector lending business. Our commitments in the public-sector lending sector, which mainly consisted of negotiable promissory notes issued by federal states, regional and local authorities, and public-sector credit institutions, were based solely on earnings considerations. The margin situation, which further worsened in comparison to last year, as well as the end of the full-performance guarantees given by government guarantors for Landesbanken (state banks), led to lower market volumes and a decline in our loan commitments from € 5.3 billion in the previous year to € 1.9 billion in 2005.

Refinancing

Our issuing business is known for its reliability, transparency, and investor-friendly market support activities. Last year investors once again showed their appreciation for our business approach. MünchenerHyp remained an attractive address for domestic and international investors as demand for our issues remained quite strong. However, despite lively demand we floated a smaller volume of paper in 2005 than in 2004 as the public-sector lending business did not require high volumes of liquidity.

Gross sales declined by 11.8 percent from € 7.3 billion to € 6.4 billion, of which Jumbo Pfandbriefe represented about 31 percent, fixed-interest bonds 34 percent, structured bonds 18 percent, and variable-rate bonds at about 17 percent.

After deduction of return flows, net sales amounted to € 1.0 billion, or 20.7 percent lower than the previous year's € 1.2 billion.

The German insurance industry was once again the most important source of demand for our structured issues in 2005. We were able to place an especially high volume of long-term callable bonds redeemable at multiple dates with insurers.

In May we floated a five-year Jumbo Pfandbrief, which was followed by a seven-year Jumbo Pfandbrief in November. Each of these € 1 billion issues were fully placed at good conditions, and over half of the buyers were located abroad. Major buyers were banks and funds from Asia, Scandinavia, the UK and Switzerland. As at December 31, 2005 the total volume of our Jumbo Pfandbriefe in circulation amounted to € 3.75 billion.

In the summer of 2005 we floated our first highly liquid Short Liquid Money Market Bond (SLIMBO: minimum volume is € 500 million, maximum maturity is two years) for over € 500 million and an eight month maturity. This bond met such lively demand that we increased the issue by € 250 million within a short time in order to maintain liquidity.

As at December 31, 2005 the total volume of derivatives consisted of € 50.0 billion (2004: € 45.8 billion), with interest rate swaps representing the vast majority with € 45.8 billion.

Rating

Moody's Investors Service confirmed its ratings for MünchenerHyp in July 2005. Ratings for the Bank's Public Pfandbriefe and Mortgage Pfandbriefe remained unchanged with triple-A ratings.

The key reason behind the good ratings of our Pfandbriefe is the high quality of the coverage pools. The individual ratings for MünchenerHyp are as follows:

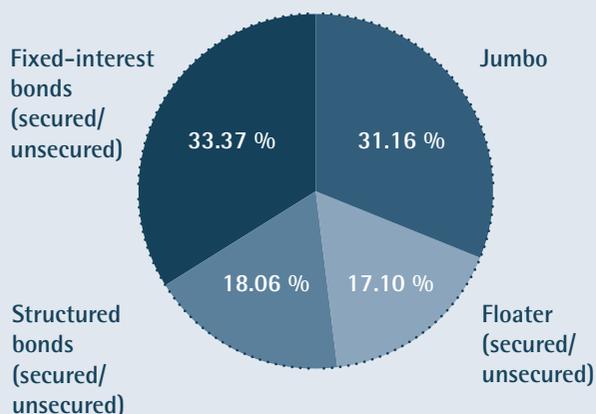
Rating overview

	Rating	Outlook
Public Pfandbriefe	Aaa	stable
Mortgage Pfandbriefe	Aaa	stable
Long-term liabilities	Aa3	negative
Short-term liabilities	Aa3/P-1	stable
Fundamental financial strength	B-	negative

Strong demand, excellent rating

Summary of refinancing sources in 2005

Figures in € billion



In October 2005 Fitch Ratings, one of the world's leading rating agencies, issued for the first time a rating for an association and gave the German cooperative finance association (genossenschaftlicher FinanzVerbund) a collective A + rating, Fitch's third highest rating. This rating not only underlines the strength of the cooperative FinanzVerbund, it also confirms the cooperative banking group's successful business model, which is based on close cooperation with knowledgeable local banks and top-performing firms within the association.

Balance sheet structure

Our total assets rose by 3.4 percent to € 34.0 billion. Due to our improved new business performance, our portfolio of mortgage loans rose by € 371.8 million, or 3.3 percent, to € 11.8 billion. On the other hand, our hesitancy to generate new public-sector business led to a 0.5 percent (€ 97.5 million) decline in our loan portfolio and related securities in this sector to € 18.5 billion.

At the end of the year the value of our covered mortgages totalled € 9.9 billion, of which nearly 83 percent, or € 8.2 billion, represented residential housing loans. More than half of the properties serving as collateral in the covered mortgages were located in southern Germany. The average size of our residential construction loans declined from about T€ 100 to around T€ 91, while the average size of our commercial property loans fell from about T€ 700 to about T€ 640. We were able to maintain our level of risk at a favourable level, which was already better than

the industry average. This is because our loans are widely spread across various industries, property categories and regions.

We sold our claims to cancelled property mortgages in order to concentrate our energies on our core business area and maintain our lean processes. This also improved the quality of risk in our remaining portfolio.

The sum of refinancing funds expanded by 3.3 percent to € 32.2 billion.

The Bank's expansion of its equity capital basis was mainly driven by the issuance of a Tier 1 bond for € 140 million. The proceeds of the issue were used to cover liabilities coming due for undisclosed holdings, and for future business growth. The value of our undisclosed holdings rose to € 273.5 million.

MünchenerHyp's shareholders increased their paid up capital by € 8.9 million to € 120.9 million, our profit sharing certificates (Genussrechte), which are considered part of supplementary capital, declined by € 33.7 million.

Core capital increased by 29.6 percent to € 653.2 million. The Bank's liable equity capital rose by 13.6 percent or € 122.9 million to € 979.8 million, making MünchenerHyp well equipped for further expansion.

Development of earnings

Our increasingly positive new business results plus the cost-reduction measures initiated in previous years, as well as our improved working processes, all contributed to our improved earnings.

Net interest income rose over the previous year's figure by 24.6 percent from € 21.3 million to € 108.1 million. Net interest income less commissions paid rose by € 13.1 million or 15.5 percent to € 98 million.

Our administrative expenses were trimmed by € 2.6 million to € 51.8 million. Over the course of the year the number of our employees declined by 44 to 355, as reflected in our lower personnel expenses, which fell by € 2.0 million to € 25.9 million. We recorded an increase of € 0.9 million euros in other administrative

- >> Great demand seen for MünchenerHyp's securities
- >> MünchenerHyp's Pfandbriefe retain their Aaa rating
- >> Interest income rises, net interest income less commissions figure increases

costs due to project costs. Despite our increased level of new business results and the increase in related expenses, reduced depreciation expenses also helped us to reduce total administrative expenses by 4.8 percent.

Reduced costs and increased income led to an improved cost/income ratio of 52.9 percent in contrast to 64.1 percent recorded in 2004. After including the net sum of other expenses and earnings, operating results before provisions for risk were € 45.6 million, or € 10.8 million better than the previous year's figure.

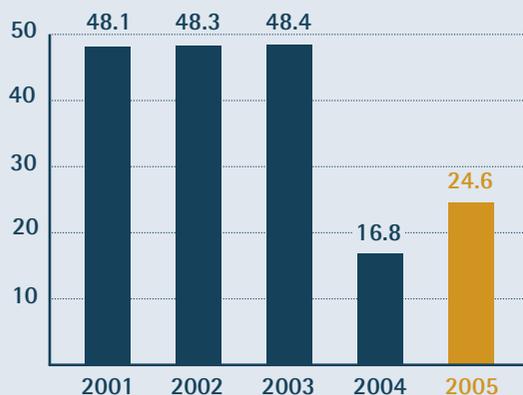
The net valuation of claims and of securities held as current assets developed favourably. While we still had to post comparatively high expenses of € 30.2 million in 2004 – although it was shrinking at that time – we managed to reduce this figure by € 10.6 million to € 19.6 million in 2005.

Following the positive valuation of our financial assets in the previous year (due mainly to the sale of securities previously held as current assets, which resulted in a surplus of € 12.2 million) we posted a negative balance of € 1.5 million for 2005.

Results from operations after deducting provisions for risk amounted to € 24.6 million or € 7.8 million more than the previous year's results of € 16.8 million. After deduction of interest paid for our undisclosed interests and the corresponding interest due on the Tier 1 bond, net income amounted to € 10.2 million, an improvement over the previous year's performance of € 8.3 million. As a result of our improved operational results our tax burden rose to € 5.6 million.

Operating results after provisions for risk

Figures in € million



Proposed appropriation of distributable income

Our net income for 2005 amounted to € 10,205,212.43. The annual statement of accounts for the current business year foresees an allocation of € 3.3 million to statutory reserves to strengthen the Bank's equity capital position. A dividend of 5.5 percent – the same as last year, will be proposed at the delegates' meeting. The remaining net income – including profit brought forward from the previous year – amounting to € 7,327,601.26 should therefore be allocated as follows:

5.5 percent dividend	€ 6,571,697.89
Carried forward to the new year	€ 755,903.37

Subsidiary companies

MünchenerHyp has two fully owned subsidiary companies, M-Wert GmbH and M-Service-GmbH.

M-Wert GmbH's core business is preparing market and current value appraisals of property, and determining the lending value of properties per Article 16 of the German Pfandbrief Act. The company maintains offices in ten locations in Germany. The appraisals and expert opinions prepared by M-Wert GmbH's specialists form a solid platform for making prudent property loan decisions. The skilled competency of the appraisers and the good value provided by the firm helped increase fee revenues from the already high levels achieved in 2004.

Within its core business area M-Service-GmbH provides support to the Bank's Workout Management department and MünchenerHyp's properties and services. As part of the measures needed to provide this support, the company expanded its scope of business by assuming the role of a general partner in a property-related limited partnership. In this function M-Service-GmbH is currently handling efforts to realise the potential of the Bank's previous headquarters building on Nussbaum-/ Mathildenstrasse. In addition, M-Service-GmbH also owns a small property portfolio.

Risk report

The acceptance and management of risks are part of a bank's fundamental business tasks. Exposure to risk is frequently the prerequisite for realising a business opportunity. This makes it even more important to have an appropriate risk management programme in place.

The starting point for risk management is determining the type and extent of risk exposure involved. Risk management must ensure that risks are monitored and controlled using expert know-how, a suitable organisation, an internal control system and an appropriate assessment process. Requirements for dealing with these types of risks have been defined by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin) in their Minimum Requirements for the Credit Business (Mindestanforderungen für das Kreditgeschäft - MaK) and in the Minimum Requirements for the Performance of Trading Transactions (Mindestanforderungen an das Betreiben von Handelsgeschäften - MaH). Both of these regulations were replaced on December 20, 2005 with the official publication of the Minimum Requirements for Risk Management (Mindestanforderungen an das Risikomanagement - MaRisk).

MünchenerHyp meets the requirements of the MaK and the MaH. Our processes are currently being adjusted to the extent that the requirements of the new MaRisk differ from previous rules. In addition to observing supervisory requirements, the primary goal of risk management is to increase the Bank's overall cash value.

Measuring risk, monitoring limits and preparing risk reports are the responsibilities of the Controlling/Corporate Planning department and follow-up Market Treasury at MünchenerHyp. Risk management – one responsibility of the Board of Management – is organisationally and functionally independent within the Bank. The entire Board of Management is responsible for formulating the Bank's risk strategy and risk budgeting. The Supervisory Board monitors the Bank's risk profile.

Typical risks associated with the banking business are split into four risk categories: borrower failure, market price, liquidity, and operational risks.

Borrower failure risks consist of all possible losses of value that could arise due to default or deterioration in the creditworthiness of business partners. We try to minimise these risks by reviewing each individual risk and by prudently making loans within the framework of our credit risk management policy.

The MünchenerHyp's Credit Handbook is the basis for managing our lending risks. This basic document specifically describes how the MaK requirements are implemented by MünchenerHyp. Examples of subjects covered include: lending risk strategy; determining collateral requirements needed to provide cover against risks; budgeting requirements to meet risks; standards for measuring and managing credit risks at the individual loan level and the portfolio level; it defines the responsibilities and processing rules applicable to departments involved in lending. Furthermore, the Handbook also sets out rules for the new

product process, and also catalogues and documents the Bank's loan products.

Managing lending risks begins with the selection of the target business when drafting the terms of the loan. This is accomplished using risk-cost functions that are validated by continuous back-testing. Various scoring procedures are used depending on the loan amount and category of risk involved in a deal. Previous scoring procedures are successively replaced by new ones in tandem with the implementation of the requirements defined by Basel II. The Bank uses an IT-supported advance-warning system to ensure early detection of risks.

A limit supervision system is in place and used to manage borrower-related risks pursuant to supervisory requirements as well as borrower-related limits and overall business-related limits. In addition to the continuous monitoring of risks, the Board of Management and the Supervisory Board receive a comprehensive risk report on a quarterly basis. This report closely examines the Bank's risk profile, and, in particular, reviews the status of the Bank's portfolio management activities. Lending risks are detailed in the report and shown by business areas, scores, volumes, and property categories based on regions and countries.

Our broadly diversified portfolio of property loans, with main emphasis on residential property loans, as well as our credit approval process – which has remained stable for years – has led to an inventory of loans with a lower-than-average credit risk. Our public-sector finance business is limited to central and regional governments, public authorities at the regional and local levels, and public-sector banks with excellent credit standings.

Market price risks refer to potential losses of value due to detrimental price changes on the financial markets, or factors which could influence prices for securities, exchange rates and derivatives. Risk categories are split into risks arising from changing interest rates, and risks associated with foreign exchange rates. Risks arising from changes in interest rates are the more important of the two categories for MünchenerHyp. The Bank's dealings outside of Germany are hedged against currency risks.

Market price risks are controlled by determining the present value of each of the MünchenerHyp's positions every day. Positions whose values are determined by discounting cash flows are valued by the Bank's main host SAP system. The value of structured deals – primarily interest rate caps, Swaptions as well as legal and agreed upon termination rights – is determined by a dedicated system.

The backbone of our interest rate risk control operations is the Delta-vector that is calculated on a daily basis. This figure is

determined by calculating 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 recognise and limit market risks. Scenario analyses are used to measure the impact of extreme market risk factors on the Bank's present value.

Liquidity risks refer to risks related to potential insolvency that could endanger the Bank's net income and capital. The most important principle of our liquidity management is to maintain the supervisory requirements defined in Article 11 of the German Banking Act and in Principle II, which define liquidity reserve requirements for banks. In addition to observing these rules, MünchenerHyp uses a proven conservative approach to maintaining liquidity standards. The Bank's basic principle is to maintain congruent maturities in capital commitments entered on the assets and liabilities sides of the balance sheet and to hold sufficient liquidity reserves in the form of securities deemed eligible to serve as reserves by the European Central Bank (ECB).

Short-term liquidity planning is supported by IT systems, which present all inflows and outflows of payments on an exact daily basis over a one-year period. IT applications used for strategic liquidity planning purposes, on the other hand, cover a period of thirty years and show differential and cumulative liquidity requirements as well as the maximum cash outflow. Callable balance sheet items are shown in varying liquidity outlook analysis scenarios as being (1) redeemed at the next termination date, or (2) on their legal date of termination, or (3) weighted based on their individual probability of being redeemed. The outlooks for liquidity and the collateral pools are linked via IT operations because a mortgage bank's liquidity management is closely linked to cover used for Pfandbriefe.

Operational risks comprise possible losses due to human misconduct, process or project management weakness, technical failures, or negative external influences. These risks also include legal risks and other general risks. Human misconduct encompasses illegal acts, inappropriate sales practices, unauthorised acts and transaction errors. We take steps to minimise our operational risks by training and qualifying our employees; having clearly organised and well documented processes; automating standard procedures; having fixed job descriptions and work assignments; extensively testing all functions; having suitable emergency plans, and preventive measures in place. Insurable risks are covered by insurance policies to the normal extent required by banks.

Use of financing instruments for hedging purposes

We engage in hedging activities – interest rate and currency derivatives – to further reduce our risks and to hedge our business activities. We do not employ credit derivatives.

We use asset swaps as micro-hedges at the individual deal level. Structured basic deals, like callable securities, are hedged accordingly with structured asset swaps. Interest rate-currency swaps are used to hedge exchange rate risks arising from commitments made outside of Germany. We primarily use interest rate swaps to hedge our positions at the portfolio level. Bermudian options on interest rate swaps (Swaptions) or interest rate options (Caps and Floors) are employed as macro-hedges in the case of embedded legal rights to call or arrangements to limit interest rates.

Corporate planning

MünchenerHyp's primary corporate planning goals are:

1. the attainment of our income and cost targets,
2. to ensure the sustainability of our income and cost targets, and
3. to ensure that there is sufficient capital to cover all of the risks involved in all business activities needed to achieve our income and cost goals.

Our strategic plan, MHB 2008, foresees a cost/income ratio of no more than 45 percent and at least an eight percent pre-tax return on equity (ROE) in 2008. In order to achieve these strategic targets the Bank will have to carry out extensive planning and implementation measures to enhance our operational earnings capabilities, cut costs and optimise processes.

However, the path towards achieving adequate profitability cannot avoid a moderate and, in the final analysis, inescapable reduction in personnel. The Bank has taken steps to ensure that these reductions are dealt with in a socially acceptable manner.

We developed a new personnel development programme to assist management in identifying and encouraging our employees' talents and abilities.

A bundle of measures were implemented to strengthen sales performance in the private housing finance category. In addition to specifically targeted sales measures, they also include a restructured range of products and a reorganisation of our sales force.

In November we set up our Credit Treasury department, which is responsible for the securitisation and syndication of mortgage loans. In addition, this department is also responsible for structuring property finance deals so they may benefit from capital markets, as well as the acquisition of capital market-related new business opportunities.

We opened a representative office in London in early 2006 as part of our efforts to strengthen our international lending business.

In light of these extensive measures and our achieving the goals we set ourselves in 2005, we believe that we are well on our way to achieving our strategic goals.

MünchenerHyp's sales targets are set realistically to make them attainable and commercially sustainable in order for the Bank to achieve its P&L goals. Continuous supervision of sales performance ensures that quality considerations are met when encountering opportunities and risks needed to achieve our strategic goals. This approach allows us to react swiftly to shifts in margins or market conditions.

Most business activities involved in attaining income and cost goals contain risks. These risks must be covered by equity capital. Budgeting for risks is a fixed element of MünchenerHyp's annual strategic reviews. This process ensures that new and strategically important business activities are always covered by adequate risk capital.

Legal conditions

Basel II

Last year the European Commission implemented the 2004 Basel equity capital guidelines in a European directive. We anticipate that this will become law in Germany during the course of 2006. This means that between the beginning of 2007 and the start of 2008 we will be obliged to apply the "Standardised Approach" to determine the equity capital requirements needed for our loans and then convert to a more risk-sensitive level of equity capital coverage needed for our portfolio of loans. The "Standardised Approach" will lead to significantly lower capital requirements for us because of the high number of private housing loans on our books and our first-class public-sector and municipal loans. The "Internal Ratings Based Approach" will permit us to achieve an even more accurate assessment of our risks and make it possible for us to finely adjust our own capital requirements to reflect the loans on our books.

The related required build-up of procedures, systems and coherent processes necessitates continuing high investments. However, benefits generated by these investments will not only help reduce the burden on equity capital requirements, they will also make a major contribution towards improving MünchenerHyp's situation in terms of income and risk aspects.

Pfandbrief Act

Since July of last year the new Pfandbrief Act permits every credit institution to engage in the Pfandbrief business if they fulfil the strict creditor protection stipulations of the Pfandbrief business and are licensed by the Federal Financial Supervisory Authority (BaFin) to issue securities.

The Pfandbrief Act ended all the restrictions on mortgage banks associated with the specialty bank principle. They now hold commercial banking licenses and are no longer subject to any further restrictions. We have only taken moderate advantage of the additional business possibilities provided by this change and decided that MünchenerHyp will continue to focus on its core business as a specialised provider of finance for property and public-sector purposes.

Employees

MünchenerHyp's positive new business results were mainly due to the efforts of its employees who showed great dedication in all departments in making the Bank more successful. At this point, we would like to express our thanks to all of our employees.

We also wish to extend our thanks to the employees' representative bodies for their critical and constructive cooperation, which was marked by a high sense of responsibility for our Bank.

MünchenerHyp employed an average of 369 persons in 2005. The average percentage of female employees declined slightly last year to 49.6 percent. The average age of our employees rose over the previous year's figure by about one year and was 41.4 years at the end of the year. The age structure within the Bank is very balanced. Almost 25 percent of our employees have been with the MünchenerHyp for up to five years, another 25 percent up to ten years, and the remaining 50 percent have been with us over ten years.

Due to the realignment within MünchenerHyp we were forced to reduce the number of jobs last year by 44. However, these reductions were carried out in a socially acceptable manner as we used the effects of natural fluctuation, early retirement programmes and voluntary termination agreements to achieve the cutbacks.

At the same time we invested in enhancing our employees' qualifications and further developed our personnel concept especially for this purpose.

- >> MünchenerHyp is adapting its processes to meet the new "Minimum Requirements for Risk Management"
- >> Primary goal: increase of cash value
- >> Corporate planning emphasis on
 - >> increasing revenues
 - >> keeping a grip on costs
 - >> managing risks

The concept includes an advanced training programme to improve professional and personal skills and consists of three parts:

- >> general education measures to ensure that our employees' qualifications keep pace with changes in the banking industry,
- >> task-related training to provide our employees the best possible prerequisite skills needed to accomplish their specific job assignments,
- >> training to advance employee careers and prepare selected persons to assume greater responsibilities within MünchenerHyp.

We regularly conducted assessment centres in 2005, which provided us opportunities to recognise individual development potential at an early career stage and then carefully nurture it.

Outlook

Despite the stagnation seen in the final quarter of 2005, we anticipate that the German economy will recover significantly during the current year. Forecasts made by economic experts about the growth of Germany's gross domestic product hover around 1.5 percent. The prerequisite for this forecast to become reality is, however, an improvement in the hitherto sluggish domestic demand. Chances are good that we will see this in 2006, although there are still risks involved. While Germans have become a bit more optimistic about the future, consumer confidence will only gain momentum when their income situation begins to show signs of improvement.

There are some indications that the construction industry will be able to maintain its modest upward momentum noted in last year's final quarter. It is anticipated that this will lead to at least a temporary end of the yearlong building crisis. The vast wave of orders and housing permits that formed before state subsidies for private housing ended at the end of 2005 will recede over the course of 2006.

Experts predict that Euroland's economy will grow by about two percent. This would offset the soft patch of growth experienced in 2005 when the economy expanded by just 1.4 percent and reconnect with growth levels seen in 2004. In contrast to the United States, where a majority of pundits predict that the hitherto robustly growing economy will weaken, it is anticipated that Euroland's economy will improve. If these forecasts come true they would lead to a significant narrowing of the growth gap between the United States and Euroland for the first time since 2003.

Despite the slowdown in the expansion of the money supply noted at the end of 2005, Euroland still has more than enough available liquidity at its disposal. After raising its key interest

rate on March 2, 2006, the ECB signalled willingness to further raise rates over the course of the year.

The residential property sector is not expected to see a nationwide rise in new housing starts in 2006. Added to the slowly coalescing economic recovery is the fact that planned state supports for property as part of a private retirement programme will only begin in 2007 – another reason for potential private home builders and buyers to wait and do nothing in 2006.

We do not believe that the end of state subsidies for private housing will have a lasting effect on our business. The visible effects differ by regions. The price for a row house in heavily populated areas is over € 300,000, and over € 400,000 in high-price regions like Munich, where the state subsidies (€ 1,250 a year for eight years) hardly play a role in private builders' calculations. However, the state subsidy was a major planning element in financing home construction in regions with lower property prices. We anticipate that the end of the subsidy will not discourage potential private builders. Although we believe that they will spend less on construction and furnishing costs and that construction companies will face pressure to lower their prices.

Investments in existing property are far more important than new construction loans and for years have driven demand for property financing. Further growth is anticipated in this sector in 2006. The planned increase in the value added tax scheduled to take effect in 2007 will most likely lead to a bring-forward effect for renovation and modernisation measures. In addition, the government's plan to limit the tax deductibility of repair costs will heighten the willingness to invest in building measures before tax increases take effect. Finally, long-term property loans will remain attractive due to interest rate levels, which are low in comparison to where rates were for many years, and the flat interest rate curve.

We will decisively take advantage of the opportunities arising from this constellation of circumstances. We will switch to a modular-based product range to make it easier for the Volksbanken and Raiffeisenbanken to offer their customers individually configured products that complement their individualised advice and services. This will also make it possible to offer an even wider and more easily understood variety of products. We will also continue to further the integration of MünchenerHyp's IT capabilities into the cooperative banks' IT systems.

Over the mid-term we view the continual improvement of MünchenerHyp's processes and service offers, coupled with the high level of market penetration and selling power of the Volksbanken and Raiffeisenbanken, as a chance to increase our share of market and further expand our new business activities.

Good outlook for 2006

We anticipate that our new business performance in the domestic commercial property sector in 2006 will remain at least at the same level noted in 2005. We view the steadily growing interest of foreign investors in German property (who accounted for almost two-thirds of all the property investments made in 2005) as a particularly strong source of potential new business.

Furthermore, we expect that the planned introduction of publicly traded real estate investment trusts (REITS) in 2007 will provide additional impetus to the market.

European office property markets will develop more favourably this year, although development will vary sharply by region and on a local basis. In general the European office markets are trending upwards. Vacancy rates will continue to fall and rents will keep on rising in growth markets like London, Dublin, Paris or Madrid.

In the USA, expected economic growth of about three percent will be sufficient enough to support positive development of the office property markets.

Viewed on an overall basis, we are confident that we will be able to continue our positive business momentum and the good results we achieved in 2005.

- >> MünchenerHyp continues to focus on its core business
- >> Outlook for 2006: German economy recovers; MünchenerHyp sets goal of continuing previous year's good performance

Flexibility ...

... is the key factor in everything we do.
For every customer. For every project.

> Dr. Bernhard Scholz >>



Balance Sheet, 31 December 2005

Assets

		31 Dec. 05	31 Dec. 04
	€	€	T€
1. Cash reserve			
a) Cash on hand	22,829.17		25
b) Balances with Central Banks	70,625,803.09		52,913
of which with			
Deutsche Bundesbank € 70,625,803.09			
		70,648,632.26	52,938
2. Claims on banks			
a) Mortgage loans	265,116,228.48		283,313
b) Public-sector loans	4,156,088,810.16		4,583,297
c) Other claims	2,488,876,151.80		1,466,468
of which payable			
on demand € 460,442,609.03			
		6,910,081,190.44	6,333,078
3. Claims on customers			
a) Mortgage loans	11,510,694,687.45		11,120,738
b) Public-sector loans	7,504,565,458.40		7,303,135
c) Other claims	6,177,613.89		22,995
of which with securities			
pledged as collateral € 791,156.21			
		19,021,437,759.74	18,446,868
4. Bonds and other			
fixed-income securities			
a) Bonds and notes	7,324,738,042.09		7,230,582
aa) Public-sector issuers € 2,446,383,356.23			(2,063,274)
of which eligible as collateral for			
Deutsche Bundesbank advances € 2,200,295,860.82			
ab) Other issuers € 4,878,354,685.86			(5,167,308)
of which eligible as collateral for			
Deutsche Bundesbank advances € 4,299,734,515.95			
b) Own bonds and notes	70,870,224.24		155,580
Nominal value € 69,826,262.23			
		7,395,608,266.33	7,386,162
Carried forward		33,397,775,848.77	32,219,046

Liabilities, capital and reserves

		31 Dec. 05	31 Dec. 04
	€	€	T€
1. Liabilities to banks			
a) Registered mortgage Pfandbriefe issued	772,353,312.99		695,486
b) Registered public-sector Pfandbriefe issued	312,243,499.18		417,408
c) Other liabilities	1,304,963,679.67		1,227,133
of which			
Payable on demand € 519,008.22			
Delivered to lenders as collateral for loans received			
registered mortgage Pfandbriefe € 1,206,382.34			
and registered public-sector Pfandbriefe € 1,347,426.09			
		2,389,560,491.84	2,340,027
2. Liabilities to customers			
a) Registered mortgage Pfandbriefe issued	2,316,489,527.60		2,582,414
b) Registered public-sector Pfandbriefe issued	4,719,025,376.13		4,187,785
c) Other liabilities	743,584,185.10		601,313
of which			
Payable on demand € 7,389,616.39			
Delivered to lenders as collateral for loans received			
registered mortgage Pfandbriefe € 5,511,291.88			
and registered public-sector Pfandbriefe € 5,112,918.81			
		7,779,099,088.83	7,371,512
3. Certificated liabilities			
a) Mortgage Pfandbriefe issued	7,324,970,311.87		5,765,571
b) Public-sector Pfandbriefe issued	11,780,917,135.43		11,997,436
c) Other bonds issued	3,695,202,381.32		4,495,477
		22,801,089,828.62	22,258,484
4. Liabilities incurred as trustee		401,597.38	438
Of which loans € 401,597.38			
5. Other liabilities		140,510,816.46	146,626
Carried forward		33,110,661,823.13	32,117,087

Balance Sheet, 31 December 2005

Assets

		31 Dec. 05	31 Dec. 04
	€	€	T€
Brought forward		33,397,775,848.77	32,219,046
5. Equities and other variable-yield securities		233,454,576.28	223,311
6. Participating interests and shares in cooperatives			
a) Participating interests	42,645,896.34		39,840
b) Shares in cooperatives	18,500.00		1,085
of which in credit cooperatives € 15,500.00			
		42,664,396.34	40,925
7. Shares in affiliated companies		801,601.64	802
8. Assets held in trust		401,597.38	438
Of which loans € 401,597.38			
9. Intangible assets		1,754,828.56	0
10. Tangible assets		98,035,833.11	103,710
11. Other assets		46,102,769.96	60,829
12. Deferred items			
a) From issuing and lending business	191,779,873.31		232,719
b) Other	2,045,935.77		594
		193,825,809.08	233,313
Total assets		34,014,817,261.12	32,882,374

Liabilities, capital and reserves

		31 Dec. 05	31 Dec. 04
	€	€	T€
Brought forward		33,110,661,823.13	32,117,087
6. Deferred items			
From issuing and lending business	34,505,890.18	34,505,890.18	50,879
7. Provisions			
a) Provisions for pensions and similar obligations	16,719,887.00		15,174
b) Provisions for taxes	7,288,000.00		3,660
c) Other provisions	12,297,427.95		15,099
		36,305,314.95	33,933
8. Subordinated liabilities		66,300,000.00	66,300
9. Profit-participation certificates		100,724,500.61	100,725
of which € 43,459,809.90 are due within two years			
10. Capital and reserves			
a) Subscribed capital	395,153,790.24		246,288
aa) Members' capital contributions € 121,620,341.57			(112,755)
ab) Silent participations € 273,533,448.67			(133,533)
b) Revenue reserves	263,838,340.75		260,538
ba) Legal reserve € 262,304,465.11			(259,004)
bb) Other revenue reserves € 1,533,875.64			(1,534)
c) Unappropriated profit	7,327,601.26		6,624
		666,319,732.25	513,450
Total liabilities, capital and reserves		34,014,817,261.12	32,882,374
1. Contingent liabilities			
Contingent liability on guarantees and indemnities		7,815,680.97	30,777
2. Other commitments			
Irrevocable loan commitments		514,168,050.77	386,217

Income Statement

for the year ended 31 December 2005

Expenses

		31 Dec. 05	31 Dec. 04
	€	€	T€
1. Interest expenses		1,472,375,269.64	1,457,367
2. Commission paid		15,900,736.82	7,050
3. General administrative expenses			
a) Personnel expenses	25,911,886.78		27,920
aa) Wages and salaries € 19,310,717.40			(22,566)
ab) Social security contributions and cost of pensions and other benefits € 6,601,169.38 of which for pensions € 3,524,608.27			(5,354)
b) Other administrative expenses	21,297,402.17		20,405
		47,209,288.95	48,325
4. Depreciation and write-downs of intangible and tangible assets		4,595,855.30	6,031
5. Other operating expenses		3,314,791.10	1,521
6. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses		19,601,432.08	30,177
7. Write-downs and adjustments to participating interests, shares in affiliated companies and securities treated as fixed assets		1,470,714.29	0
8. Taxes on income		5,552,078.97	86
9. Other taxes not included under “Other operating expenses”		85,460.29	38
10. Profits paid out due to a profit pooling agreement, a profit transfer agreement or a partial profit transfer agreement		8,722,760.79	8,399
11. Net income		10,205,212.43	8,283
Total expenses		1,589,033,600.66	1,567,277
1. Net income		10,205,212.43	8,283
2. Retained earnings brought forward from previous year		422,388.83	441
		10,627,601.26	8,724
3. Transfer to legal reserve		3,300,000.00	2,100
4. Unappropriated profit		7,327,601.26	6,624

Making use

... of connections and developing new markets –
one of our core competencies.

> Friedrich Munsberg >>



General Information on Accounting Policies

All claims are stated at nominal amounts in accordance with § 340e (2) of the German Commercial Code. Differences between amounts disbursed and nominal amounts are included under deferred items. All identifiable individual credit risks are covered by specific value adjustments and provisions set up against claims for repayment of principal and payment of interest. Contingent risks are covered by general value adjustments. In addition, provisions for risks pursuant to § 340f of the Commercial Code have also been made.

Securities held in the liquidity portfolio are strictly valued at the lower of cost or market principle. Securities acquired in the course of the Bank's public-sector lending business are treated as fixed assets and valued at cost. Discounts and premiums are recognized 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.

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

Liabilities are stated at the amounts repayable. Zero bonds are carried in the accounts at the issuing price plus earned interest based on the yield at the time of purchase in accordance with the issuing conditions. Differences between nominal amounts of liabilities and the actual amounts disbursed are included under deferred items. Provisions have been made for uncertain liabilities in the amounts expected to become payable. Provisions for pension obligations were computed based on the "Teilwert" method and on principles of actuarial mathematics using a six percent rate of interest. In addition, a taxed amount was also set aside as a provision.

Balance sheet items denominated in a foreign currency are valued at the year-end exchange rate in accordance with § 340h (1) of the Commercial Code. Income and expense items are valued at the respective individual daily exchange rate.

Notes to the Balance Sheet

Maturity analysis by residual term

ASSETS

	31 Dec. 05 T€
Claims on banks	6,910,081
≤ Three months	2,351,117
> Three months ≤ one year	1,168,227
> One year ≤ five years	2,621,251
> Five years	769,486
Claims on customers	19,021,438
≤ Three months	385,317
> Three months ≤ one year	1,018,994
> One year ≤ five years	4,363,629
> Five years	13,253,498
Bonds and other fixed-income securities ≤ one year	1,380,352

LIABILITIES

	31 Dec. 05 T€
Liabilities to banks	2,389,560
≤ Three months	825,786
> Three months ≤ one year	113,517
> One year ≤ five years	871,830
> Five years	578,427
Liabilities to customers	7,779,099
≤ Three months	354,698
> Three months ≤ one year	318,727
> One year ≤ five years	1,712,955
> Five years	5,392,719
Certificated liabilities	22,801,090
≤ Three months	2,012,388
> Three months ≤ one year	4,836,756
> One year ≤ five years	9,753,654
> Five years	6,198,292

Claims on and liabilities to companies in which participating interests are held

	31 Dec. 05 T€	31 Dec. 04 T€
Claims on		
- Banks	19,508	0
- Customers	61,168	64,466
Liabilities to		
- Banks	214,836	231,000
- Customers	0	0

Claims on and liabilities to affiliated companies

	31 Dec. 05 T€	31 Dec. 04 T€
Claims on customers	11,542	7,421
Liabilities to customers	2,017	1,628

Securities marketable on the stock exchange

Asset category	31 Dec. 05 T€		31 Dec. 04 T€	
	listed	unlisted	listed	unlisted
Bonds and other fixed-income securities	7,164,146	96,490	7,112,405	136,534
Participating interests	0	1,689	0	0

Repurchase transactions

The book value of pledged assets (real repurchase transactions) was T€ 112,082.

Details of fixed assets

	Cost	Additions	Rebookings	Disposals	Depreciation provided in 2005	Accumulated depreciation	Net book value 31 Dec. 05	Net book value 31 Dec. 04
	T€	T€	T€	T€	T€	T€	T€	T€
Intangible assets	0	488	11,673	0	969	10,406	1,755	0
Tangible assets	131,461	411	- 11,673	3,288	3,627	18,875	98,036	103,710
			Changes +/- *)					
Participating interests and shares in cooperatives	40,925			+ 1,739			42,664	40,925
Shares in affiliated companies	802			0			802	802
Bonds and other fixed-income securities	4,188,697			- 241,233			3,947,464	4,188,697

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

In accordance with the statement issued by the Main Expert Committee of the Auditors Institute (Hauptfachausschuss des Instituts der Wirtschaftsprüfer) we have now posted the item "Standard software", which previously appeared on the balance sheet under Tangible Assets, to appear under Intangible Assets. As of the date of record there was no indication that the present value of the Bank's participations and capital holdings at cooperatives or the value of the affiliated companies was less than their book value.

The item "Bonds and other fixed-income securities" includes securities with a book value of T€ 416,212, exceeding the present value of T€ 415,785. As of the date of record we had no knowledge of a permanent reduction in value that would warrant unscheduled depreciation.

Trust transactions

	31 Dec. 05 T€	31 Dec. 04 T€
Trust assets		
Claims on customers	402	438
Trust liabilities		
Liabilities to banks	402	438

Tangible assets

The portion of the total value attributable to the land and buildings used by the Bank is T€ 71,544 (31 Dec. 04 T€ 72,540), and of equipment T€ 4,070 (31 Dec. 04 T€ 7,809).

Subordinated assets

Claims on banks include an amount of T€ 10,000 (31 Dec. 04 T€ 10,000).

Subordinated liabilities

Subordinated liabilities incurred interest expenses of T€ 4,232 (31 Dec. 04 T€ 4,236).

Subordinated liabilities which individually exceed 10% of the overall statement amount to:

Nominal amount	Currency	Interest rate	Maturity date
15,000,000.00	euro	6.28%	02.07.2011
30,000,000.00	euro	6.25%	06.01.2011

Fund-raising activities did not include any conditions that deviated from Art. 10 Para. 5a of the German Banking Act.

Premature repayment obligations are excluded in all cases.

The conversion of these funds into capital or other forms of debt has either not been agreed upon or is foreseen.

Profit-participation certificates

The amount of profit-participation certificates of T€ 100,725 satisfying the criteria of section 10 (5) of the German Banking Act is T€ 57,107.

Details of revenue reserves

	Legal reserve T€	Other revenue reserves T€
1 January 2005	259,004	1,534
Transfer from 2004 retained earnings	0	0
Transfer from 2005 net income	3,300	0
31 December 2005	262,304	1,534

Members' capital contributions

Members' capital contributions disclosed under capital and reserves consisted of:

	31 Dec. 05 in €	31 Dec. 04 in €
Capital contributions	121,620,341.57	112,754,472.01
a) of remaining members	120,901,330.61	111,965,710.94
b) of former members	689,260.96	714,561.07
c) in respect of shares under notice	29,750.00	74,200.00
Outstanding obligatory payments in respect of shares	668.43	617.99

Silent participations

The silent participations of T€ 273,533 satisfy the criteria of section 10 (4) of the German Banking Act. The interest expense attributable to these participations amounted to T€ 8,723.

Foreign currency items

Assets and liabilities included items denominated in foreign currencies as follows: Assets T€ 909,235 (31 Dec. 04 T€ 604,172) and liabilities T€ 570,048 (31 Dec. 04 T€ 866,091).

Futures and derivatives

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

Nominal amounts (in millions of €)

	Residual term ≤ one year	Residual term > one year ≤ five years	Residual term > five years	Total	Counterparty risk
INTEREST-RATE-RELATED TRANSACTIONS					
Interest rate swaps	7,860	14,973	22,952	45,785	-452
Interest rate options					
- Calls	51	365	196	612	24
- Puts	210	408	156	774	-38
- Other interest rate contracts	150	720	836	1,706	3
CURRENCY-RELATED TRANSACTIONS					
Cross-currency swaps	239	707	180	1,126	-34

The derivative financial instruments noted involve premiums stemming from option trades in the amount of T€ 679, or € 1,148 million which are contained in the balance sheet items "Other assets" and "Other liabilities".

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

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

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

*) Valuation methods:

The value of interest rate swaps is calculated using the present value method on the date of record using the current interest rate curve.

In doing so the cash flows are discounted using market interest rates appropriate for the related risks and remaining terms to maturity. The value of options is calculated using option pricing models using generally accepted basic assumptions. In general, the price of the underlying value, its volatility, the agreed strike price, a risk-free interest rate and the remaining term to the expiration date are used to calculate the particular value of an option.

Analysis of cover for Pfandbriefe

A. MORTGAGE PFANDBRIEFE

	31 Dec. 2005 T€
Ordinary cover	9,961,428
1. Claims on banks (mortgage loans)	232,354
2. Claims on customers (mortgage loans)	9,672,861
3. Tangible assets (charges on land owned by the Bank)	56,213
Substitute cover	626,658
Other claims on banks	626,658
Total cover	10,588,086
Total mortgage Pfandbriefe requiring cover	10,213,871
Surplus cover	374,215

B. PUBLIC-SECTOR PFANDBRIEFE

	31 Dec. 2005 T€
Ordinary cover	17,486,157
1. Claims on banks (public-sector loans)	4,043,780
2. Claims on customers (public-sector loans)	7,353,272
3. Bonds and other fixed-income securities	6,089,004
4. Other assets (offsetting currency derivatives)	101
Substitute cover	376,500
Other claims on banks	376,500
Total cover	17,862,657
Total public-sector Pfandbriefe requiring cover	16,422,260
Surplus cover	1,440,397

Regulatory reporting in accordance with Art. 28 para.1 No. 1 to 3 Pfandbrief Act (PfandBG)

Mortgage Pfandbriefe outstanding and corresponding cover pools

Nominal value

	31 Dec. 2005 € million	31 Dec. 2004 € million
Mortgage Pfandbriefe	10,213.9	8,852.1
Cover pools	10,588.1	10,108.0
of which further cover assets	682.9	256.2
derivatives	0.0	0.0
Surplus cover	374.2	1,255.9

Net present value

	31 Dec. 2005 € million	31 Dec. 2004 € million
Mortgage Pfandbriefe	10,694.3	9,396.4
Cover pools	11,518.2	11,083.5
of which further cover assets	629.4	202.4
derivatives	0.0	0.0
Surplus cover	823.9	1,687.1

Risk-adjusted net present value *)

	31 Dec. 2005 € million	31 Dec. 2004 € million
Value of excess cover after stress test	705.3	1,476.8

*) 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. 2005 € million

	≤ one year	> one year ≤ five years	> five years ≤ ten years	> ten years
Mortgage Pfandbriefe	1,891.3	4,734.7	3,095.5	492.4
Cover pools	1,443.5	4,375.4	3,904.5	864.7

Public Pfandbriefe outstanding and corresponding cover pools

Nominal value

	31 Dec. 2005 € million	31 Dec. 2004 € million
Public Pfandbriefe	16,422.3	16,229.1
Cover pools	17,862.7	18,243.9
of which further cover assets	376.5	380.0
derivatives	0.1	0.1
Excess cover	1,440.4	2,014.8

Net present value

	31 Dec. 2005 € million	31 Dec. 2004 € million
Public Pfandbriefe	17,775.0	17,519.5
Cover pools	19,245.1	19,626.0
of which further cover assets	377.1	382.6
derivatives	28.8	20.2
Excess cover	1,470.1	2,106.5

Risk-adjusted net present value *)

	31 Dec. 2005 € million	31 Dec. 2004 € million
Value of excess cover after stress test	1,412.9	1,976.6

*) 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. 2005 € million

	≤ one year	> one year ≤ five years	> five years ≤ ten years	> ten years
Public Pfandbriefe	3,559.0	5,318.6	3,565.9	3,978.8
Cover pools	3,293.4	8,365.9	4,544.6	1,658.8

Total volume of claims used to cover mortgage Pfandbriefe according to their amounts in tranches

A. ACCORDING TO SIZE

	31 Dec. 2005 € million	31 Dec. 2004 € million
≤ 300,000	6,982.1	7,095.3
> 300,000 ≤ 5 million	1,888.8	1,856.1
> 5 million	1,034.3	900.4
Total	9,905.2	9,851.8

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

	31 Dec. 2005 € million		31 Dec. 2004 € million	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Federal Republic of Germany				
Apartments		1,914.5		1,860.6
Single-family houses		3,397.7		3,447.5
Multiple-family dwellings		2,751.6		2,834.8
Office buildings	512.9		507.2	
Retail buildings	403.8		420.3	
Industrial buildings	97.9		109.6	
Other commercially used properties	168.0		177.2	
New buildings and buildings not yet capable of producing a yield	1.8	118.7	1.3	87.8
Buildings under construction	0.1	0.9	0.6	4.4
	1,184.5	8,183.4	1,216.2	8,235.1
of which in				
Baden-Württemberg	264.2	1,291.8	255.6	1,348.7
Bavaria	262.7	2,086.3	259.4	2,017.5
Berlin	20.5	216.5	24.4	217.1
Brandenburg	7.7	76.0	10.5	82.0
Bremen	0.7	16.2	0.3	16.8
Hamburg	31.9	125.6	48.5	117.8
Hessen	166.2	705.1	165.8	726.2
Mecklenburg-Lower Pomerania	7.4	79.8	7.4	84.0
Lower Saxony	43.3	615.1	44.2	610.8
North Rhine-Westphalia	225.8	1,564.3	237.0	1,543.3
Rheinland Palatinate	22.0	249.6	21.0	252.1
Saarland	9.4	44.9	9.7	52.2
Saxony	34.9	294.2	37.5	304.6
Saxony-Anhalt	8.8	88.5	13.7	97.7
Schleswig-Holstein	60.5	575.9	65.9	606.3
Thuringia	18.5	153.6	15.3	158.0

	31 Dec. 2005 € million		31 Dec. 2004 € million	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Belgium				
Office buildings	12.4		0.0	
	12.4		0.0	
France				
Office buildings	59.3		39.9	
	59.3		39.9	
Great Britain				
Office buildings	94.6		179.8	
	94.6		179.8	
Luxembourg				
Retail buildings	4.3		0.0	
	4.3		0.0	
The Netherlands				
Single-family houses		0.9		0.9
Office buildings	162.5		109.8	
Retail buildings	18.1		18.1	
Other commercially used properties	11.6		12.4	
	192.2	0.9	140.3	0.9
Austria				
Single-family houses		0.1		0.1
Office buildings	39.3		39.5	
	39.3	0.1	39.5	0.1
Sweden				
Office buildings	32.7		0.0	
	32.7		0.0	
Spain				
Office buildings	8.1		0.0	
	8.1		0.0	
USA				
Office buildings	57.5		0.0	
Retail buildings	35.9		0.0	
	93.4		0.0	
Total	1,720.8	8,184.4	1,615.7	8,236.1
Apartments		1,914.5		1,860.6
Single-family houses		3,398.7		3,448.5
Multiple-family dwellings		2,751.6		2,834.8
Office buildings	979.3		876.2	
Retail buildings	462.1		438.4	
Industrial buildings	97.9		109.6	
Other commercially used properties	179.6		189.6	
New buildings and buildings not yet capable of producing a yield	1.8	118.7	1.3	87.8
Buildings under construction	0.1	0.9	0.6	4.4

Payments in arrears on covering mortgages

Federal Republic of Germany

31 Dec. 2005 € million

Total amount of payments in arrears for at least 90 days 13.2

Total volume of claims used to cover Public Pfandbriefe

Value of cover

	31 Dec. 2005 € million	31 Dec. 2004 € million
Federal Republic of Germany		
State	117.3	177.1
Regional authorities	4,817.9	4,381.6
Local authorities	2,921.7	3,320.3
Other debtors	7,568.0	8,168.2
	15,424.9	16,047.2
Belgium		
State	199.8	225.3
	199.8	225.3
Denmark		
State	2.5	9.6
	2.5	9.6
France		
Local authorities	2.3	2.6
	2.3	2.6
Greece		
State	163.1	162.7
	163.1	162.7
Ireland		
State	22.7	22.7
	22.7	22.7
Iceland		
State	60.0	60.0
	60.0	60.0
Italy		
State	308.0	133.0
Regional authorities	5.0	5.0
	313.0	138.0
The Netherlands		
State	1.5	1.5
	1.5	1.5
Austria		
State	216.4	277.4
Regional authorities	208.1	214.4
	424.5	491.8

	31 Dec. 2005 € million	31 Dec. 2004 € million
Poland		
State	97.8	97.8
	97.8	97.8
Portugal		
State	35.0	35.0
Regional authorities	10.0	10.0
	45.0	45.0
Sweden		
State	10.2	17.9
	10.2	17.9
Switzerland		
Regional authorities	192.9	175.0
	192.9	175.0
Spain		
State	244.0	84.9
Regional authorities	169.1	169.1
	413.1	254.0
Hungary		
State	100.0	100.0
	100.0	100.0
European Institutions		
State	12.8	12.8
	12.8	12.8
Total	17,486.1	17,863.9
State	1,591.1	1,417.7
Regional authorities	5,403.0	4,955.1
Local authorities	2,924.0	3,322.9
Other debtors	7,568.0	8,168.2

Repayments of covering mortgages

	T€	of which housing sector T€	of which business sector T€
Redemptions	225,874	189,337	36,537
Other forms of repayment	811,044	566,734	244,310
	1,036,918	756,071	280,847

Interest outstanding

Unpaid interest on mortgage loans due for payment between 1 October 2004 and 30 September 2005 has been written off or value adjustments have been provided for the full amount of the interest outstanding. Interest outstanding consisted of

	T€	of which housing sector T€	of which business sector T€
Interest on mortgage loans	3,161	2,824	337

Forced auctions and receiverships of covering mortgages

		of which housing sector	of which business sector
The number of proceedings pending at 31 December 2005 was			
-Forced auctions	271	252	19
-Receiverships	153	136	17
	118*)	110*)	8*)
The number of forced auctions conducted in 2005 was	100	93	7

*) of which included in pending forced auctions

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

Other Disclosures

Membership data

	Number of members	Number of shares	Members' liability for additional contributions €
Beginning of 2005	95,046	1,599,518	408,916,776.70
Additions in 2005	1,591	168,312	43,028,962.80
Reductions in 2005	2,149	40,659	10,394,473.35
End of 2005	94,488	1,727,171	441,551,266.15

Increase in members' capital contributions in 2005	8,935,619.67
Increase in members' liability for additional contributions in 2005	32,634,489.45
Amount of each share	70.00
Liability for additional contributions	255.65

Personnel statistics

The average number of persons employed by the Bank in 2005 was as follows

	Male	Female	Total
Full-time employees	177	122	299
Part-time employees	1	48	49
Total employees	178	170	348
Apprenticed trainees	8	13	21

Shareholdings

	Percentage of capital held %	Capital T€	Profit/Loss T€
M-Wert GmbH, Munich	100	862	234
Immobilien-service GmbH der Münchener Hypothekenbank eG (M-Service), Munich	100	509	3
Nussbaumstrasse GmbH & Co. KG, Munich	100	218	-32
Patio Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	33	- 3,111	-239

Ideas ...

... need people with a fine grasp of reality.

> Erich Rödel >>



Bodies

Supervisory Board

Prof. Dr. Willibald J. Folz ... Munich
Attorney, Chairman

Michael Glos ... Prichsenstadt
(until 21 Nov. 2005)
Master Miller, Deputy Chairman

S.K.H. Herzog Max in Bayern ... Tegernsee
Deputy Chairman
(from 14 Dec. 2005 onwards)

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

Heinz Hilgert ... Frankfurt am Main
Member of the Board of Management
of DZ Bank AG Deutsche Zentral-
Genossenschaftsbank

Dr. Rainer Märklin ... Reutlingen
Bank Director (ret.)

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

Jürgen Partenheimer ... Munich
Bank Director (ret.)

Hans Pfeifer ... Düsseldorf
Member of the Board of Management
of WGZ-Bank Westdeutsche
Genossenschafts-Zentralbank

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

Board of Management

Erich Rödel, Friedrich Munsberg,
Dr. Bernhard Scholz

Loans to members of the Supervisory Board
amounted to T€ 30,834.

Pension provisions for former members of the
Board of Management amounted to T€ 10,726.
Total emoluments of members of the Supervisory
Board during the year under review amounted
to T€ 279. Total emoluments of former members
of the Board of Management or their surviving
dependants amounted to T€ 948.

Auditing Association

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

Within the framework of the audit, and pursuant to § 53 of the Cooperatives Act in association with § 340 k of the German Commercial Code, costs of T€ 600 were incurred for examinations of the annual statement of accounts, the management report, and for audits of the cooperative's facilities as well as for the audit of the company's management. Costs of T€ 30 were incurred for additional authentication and valuation services.

Contingent liability

The Bank is a member of the Security System of the Federal Association of German Commercial and Rural Credit Associations (Sicherungseinrichtung/Garantieverbund des Bundesverbandes der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR)). The Bank may thus be obligated to indemnify the BVR up to a maximum amount of T€ 9,221.

Munich, 14 February 2006

MÜNCHENER HYPOTHEKENBANK EG
The Board of Management



Erich Rödel



Friedrich Munsberg



Dr. Bernhard Scholz

Auditors' Report

We have audited the annual financial statements - comprising the balance sheet, the income statement, as well as the notes - including the bookkeeping system, and the management report of Münchener Hypothekbank eG for the business year from 1 January to 31 December 2005. 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 company's Board of Management. Our responsibility is to express an opinion on the annual financial statements, the bookkeeping system and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 53 (2) of the Cooperatives Act and § 340k and § 317 of the German Commercial Code and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit so that misstatements and violations which materially affect the presentation of the net assets, the financial position and results of operations as presented in the annual financial statements and in the management report are detected with reasonable assurance.

Knowledge of the business activities and the economic and legal environment of the cooperative and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and evidence supporting the disclosures in the books and records, the annual financial statements

and the management report are examined primarily on the basis of random samples within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the company's Board of Management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, and based on the information gained from the examination, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German legal requirements as well as the supplementary provisions contained in the articles of incorporation, and principles of proper accounting. The management report is in agreement with the annual statement of accounts and on the whole provides an accurate understanding of the cooperative's position and suitably presents the opportunities and risks of future development.

Berlin, 15 March 2006

DEUTSCHER GENOSSENSCHAFTS- UND
RAIFFEISENVERBANK e.V.

Prof. Dr. Leuschner
Wirtschaftsprüfer

i.V. Lenkawa
Wirtschaftsprüfer

Report of the Supervisory Board

During the 2005 business year the Supervisory Board carried out its assigned tasks in accordance with the legal requirements and the Bank's Articles of Association. The Supervisory Board kept itself continuously informed of the Bank's business situation, financial status and significant matters by means of verbal and written reports. Moreover, the Chairman of the Supervisory Board and the Speaker of the Board of Management maintained continuous contact with each other. The Supervisory Board repeatedly examined business matters and gave its approval to these actions after being convinced that they were being handled in an orderly manner.

The members of the Supervisory Board and the Board of Management jointly reviewed basic business policy issues affecting the Bank during numerous meetings. The strategic course of the Bank, in particular, was discussed in special committees and during meetings of the entire Supervisory Board with the Board of Management, and agreement was reached on the Bank's future strategy. In this context, particular attention was paid to the Bank's risk strategy, which was addressed by the entire Supervisory Board and the special committee.

Various committees were appointed to deal with special issues. These committees met numerous times during the 2005 business year with the Board of Management to make required decisions. The Supervisory Board was informed about the committees' work in the meeting held immediately after the committees' meetings; during the year under review the relevant committees reporting were the Personnel Committee, the Lending Committee and the Audit Committee.

The Management Report, the annual financial statements and related accounting documents for the 2005 business year were audited by the Deutsche Genossenschafts- und Raiffeisenverband e.V., Berlin, and received an unqualified certificate from the auditors. There were no reservations. Pursuant to Article 58 of the Cooperatives Law (Genossenschaftsgesetz), the results of the

audit examination were discussed in a meeting attended by the auditors and the Board of Management.

The Supervisory Board concurs with the audit results, and the 2005 annual financial statements, including the allocation to reserves contained therein. The Supervisory Board also agrees with the 2005 Management Report and recommends that the Delegates' Meeting approve the annual financial statements and endorse the Board of Management's proposal for the allocation of distributable income.

During its meeting held on 6 April 2005 the Supervisory Board appointed Dr. Bernhard Scholz as a full member of the Board of Management effective 1 April 2005.

During its meeting held on 14 December 2005, the Supervisory Board elected HRH Duke Max in Bayern as the new Deputy Chairman of the Supervisory Board. Duke Max has been a member of our Supervisory Board since 1991. He assumes the deputy chairman position previously held by Mr. Michael Glos, who became the German Minister for Commerce and Technology on 22 November 2005 and, in accordance with the Minister Act, was required to resign his position as Deputy Chairman of the Supervisory Board, which he had held since 1993. Despite the heavy responsibilities of his political positions, Mr. Glos always had time for his duties on behalf of the Bank and was always open to discussions about our concerns. We thank him for his professional and dedicated efforts while he was a member of the Supervisory Board and for his efforts on behalf of the Bank. Along with these thanks we also wish him all the best for his significant and responsible tasks on behalf of the entire Federal Republic of Germany.

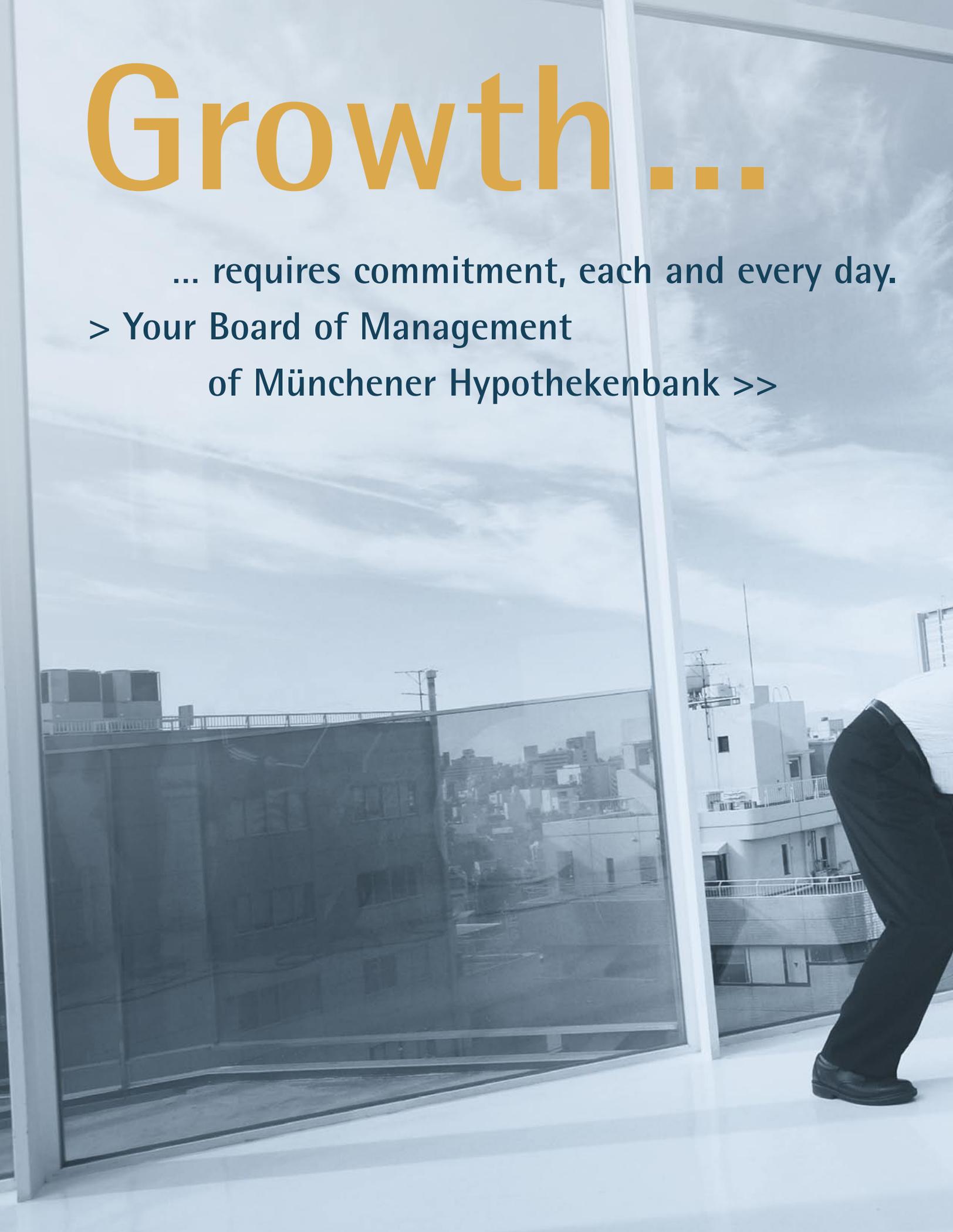
Munich, 16 March 2006
MÜNCHENER HYPOTHEKENBANK eG

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

Growth ...

... requires commitment, each and every day.

> Your Board of Management
of Münchener Hypothekenbank >>





The members of the delegates meeting as of 31 December 2005

Marianne Baalcke ...	Managing director	Manfred Kübler ...	Bank director
Günther Bartels ...	Bank director	Hans-Georg Leute ...	Bank director
Manfred Basler ...	Bank director	Dr. jur. utr. Harald Limprecht ...	Lawyer
Johann Biersack ...	Lawyer	Helmuth Lutz ...	Bank director
Walter Bühl ...	Bank director	Jürgen Maag ...	Bank director
Horst Dieling ...	Gardener	Werner Maaß ...	Bank director
Gerd W. F. Dollenmayer ...	Engineer	Michael Müller ...	Lawyer
Rolf Domikowsky ...	Bank director	Dr. Hans-W. Neumann ...	Mathematician
Karl-Heinz Dunkel ...	Banker	Klaus Pohl ...	Auditor
Wolfgang Frey ...	Lawyer	Dr. Günter Reimund ...	Bank director
Hans-Wilhelm Gehr ...	Bank director	Frank Ritter ...	Lawyer, Notary
Dr. Roman Glaser ...	Bank director	Albrecht Ruchser ...	Bank director
Jens Gomille ...	Bank director	Heinrich Rupp ...	Businessman
Klaus Graf ...	Chemical engineer	Franz J. Schäfer ...	Car appraiser
Dr. rer. pol. Albert Gresser ...		Hans Schmitt ...	Bank director
	Member of Board of Management	Wolfgang Schrader ...	Businessman
Bodo Guthke ...	Businessman	Dieter Schramm ...	Bank director
Michael Haas ...	Bank director	Professor Dr. Leo Schuster ...	University professor
Theo Hauber ...	Bank director	Jochen Seiff ...	Bank director
Dr. Christoph Hiltl ...	Lawyer	Professor Dr. Hartmut Söhn ...	University professor
Dr. Manfred Hofbauer ...	Lawyer	Dieter Söll ...	Builder
Franz-Josef Hörbelt ...	Association director	Ludwig O. Stadler ...	Auditor
Jürgen Jung ...	Legal advisor	Dr. Rainer Sturies ...	Lawyer
Michael Jung ...	Bank director	Johann Süß ...	Farming expert
Peter Koch ...	Bank director	Helmut Turi ...	Member of Board of Management
Gerhard Kötter ...	Bank director	Horst Volz ...	Bank director
Klaus Korte ...	Bank director		

Agenda – General (delegates) meeting on 29 April 2006, 10.30 a.m.

1. Report on the 2005 business year by the Board of Management and presentation of the Annual Statement of Accounts and the Management Report
2. Report of the Supervisory Board
3. Auditors' report
4. Resolutions to ratify:
 - a) the 2005 Annual Statement of Accounts
 - b) proposed appropriation of distributable profits
 - c) the acts of the Board of Management and the Supervisory Board for the 2005 business year
5. Election to the Supervisory Board
6. Amendments to the Articles of Association
7. Ratification of a Profit and Loss Transfer Agreement with M-Service GmbH
8. Other issues

Trustees

Walter Hermann ... Ministry director (ret.), Puchheim (until 31.3.2005)
Klaus Jasper ... Ministry director, Munich
Dr. Johann Haimerl ... Ministry director, Gilching, Deputy (from 1.4.2005 onwards)

Board of Management

Erich Rödel ... Spokesman
Friedrich Munsberg
Dr. Bernhard Scholz

Supervisory Board

Prof. Dr. Willibald J. Folz ... Munich
Chairman
Michael Glos ... Prichsenstadt (until 21 Nov. 2005)
Deputy Chairman
S.K.H. Herzog Max in Bayern ... Tegernsee (from 14 Dec. 2005 onwards)
Deputy Chairman
Dr. Hans-Ludwig Bungert ... Strasslach
Heinz Hilgert ... Frankfurt am Main
Dr. Rainer Märklin ... Reutlingen
Wilfried Mocken ... Rheinberg
Jürgen Partenheimer ... Munich
Hans Pfeifer ... Düsseldorf
Hans-Joachim Tonnellier ... Frankfurt am Main

Executive Directors

Bernhard Heinlein
Reinhard Raab

Contact

HEADQUARTERS

Münchener Hypothekenbank eG
Karl-Schamagl-Ring 10 | 80539 Munich
Postfach 22 13 51 | 80503 Munich
Phone +49 (0) 89 / 53 87 - 800
Fax +49 (0) 89 / 53 87 - 900

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

HYPOLINE HOTLINE

Phone +49 (0) 89 / 53 87 - 145

CONTROLLING

Dr. Peter Knorr, Phone +49 (0) 89 / 53 87 - 231

CREDIT TREASURY

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

COMMERCIAL

REAL ESTATE CUSTOMERS

Leonhard Goebel,
Phone +49 (0) 89 / 53 87 - 605

PROPERTIES | SERVICES

Hubert Mayr, Phone +49 (0) 89 / 53 87 - 639

INFORMATION PROCESSING | ORGANISATION

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

MUNICIPAL FINANCING

Ingeborg Eitler, Phone +49 (0) 89 / 53 87 - 608

TRANSACTION MANAGEMENT

PROPERTY FINANCE

Private Customers
Ingo Schramm, Phone +49 (0) 89 / 53 87 - 940

Individual Customers

Kurt Herold, Phone +49 (0) 89 / 53 87 - 167

TRANSACTION MANAGEMENT TREASURY

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

HUMAN RESOURCES

Manfred Schnaitter
Phone +49 (0) 89 / 53 87 - 650

ACCOUNTING | TAXES

Reinhard Raab, Phone +49 (0) 89 / 53 87 - 202

LEGAL

Ernst Feichtmeier, Phone +49 (0) 89 / 53 87 - 311

INTERNAL AUDIT

Klaus Brnabic, Phone +49 (0) 89 / 53 87 - 516

TREASURY

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

PRIVATE CUSTOMERS | PRIVATE HOUSING BUSINESS | VERBUND

Bernhard Heinlein
Phone +49 (0) 89 / 53 87 - 206

OFFICES OF THE BOARD OF MANAGEMENT

Erich Rödel (Spokesman)
Phone +49 (0) 89 / 53 87 - 403
Friedrich Munsberg
Phone +49 (0) 89 / 53 87 - 404
Dr. Bernhard Scholz
Phone +49 (0) 89 / 53 87 - 407

BOARD OF MANAGEMENT STAFF

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

WORKOUT MANAGEMENT

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

M-WERT GMBH

Rudolf Baumgartner
Phone +49 (0) 89 / 53 87 - 507

Contacts in the federal states

REGIONAL OFFICE AUGSBURG

Münchener Hypothekenbank eG
Schertlinstraße 23
86159 Augsburg
Phone +49 (0) 8 21 / 2 57 63 - 0
Fax +49 (0) 8 21 / 2 57 63 - 20
Regional director ... Peter Birgmeier

REGIONAL OFFICE BERLIN

Münchener Hypothekenbank eG
Rankestraße 26
10789 Berlin
Phone +49 (0) 30 / 32 90 07 - 0
Fax +49 (0) 30 / 32 90 07 - 20
Regional director ... Bernd Pagenhardt

REGIONAL OFFICE DRESDEN

Münchener Hypothekenbank eG
Cossebauder Straße 18
01157 Dresden
Phone +49 (0) 3 51 / 42 79 71 - 0
Fax +49 (0) 3 51 / 42 79 71 - 20
Regional director ... Cornelius Dachsel

REGIONAL OFFICE DÜSSELDORF

Münchener Hypothekenbank eG
Friedrichstraße 19
40217 Düsseldorf
Phone +49 (0) 2 11 / 87 67 11 - 0
Fax +49 (0) 2 11 / 87 67 11 - 20
Regional director ... Heinz-Peter Noethgen

REGIONAL OFFICE FRANKFURT

Münchener Hypothekenbank eG
Bettinastraße 56
60325 Frankfurt am Main
Phone +49 (0) 69 / 74 34 65 - 0
Fax +49 (0) 69 / 74 34 65 - 20
Regional director ... Jürgen Menz

REGIONAL OFFICE FREIBURG

Münchener Hypothekenbank eG
Rosastraße 21
79098 Freiburg
Phone +49 (0) 7 61 / 2 11 15 - 6
Fax +49 (0) 7 61 / 2 11 15 - 80
Regional director ... Conrad Himmelsbach

REGIONAL OFFICE HAMBURG

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

REGIONAL OFFICE HANOVER

Münchener Hypothekenbank eG
Berliner Allee 5
30175 Hannover
Phone +49 (0) 5 11 / 85 61 44 - 0
Fax +49 (0) 5 11 / 85 61 44 - 20
Regional director ... Karl-Heinz Meyer

REGIONAL OFFICE MUNICH

Münchener Hypothekenbank eG
Karl-Scharnagl-Ring 10
80539 München
Phone +49 (0) 89 / 53 87 - 521
Fax +49 (0) 89 / 53 87 - 566
Regional director ... Barbara von Grafenstein

REGIONAL OFFICE MÜNSTER

Münchener Hypothekenbank eG
Hafenweg 46 - 48
48155 Münster
Phone +49 (0) 2 51 / 9 19 97 - 0
Fax +49 (0) 2 51 / 9 19 97 - 20
Regional director ... Wolfgang von Carnap

REGIONAL OFFICE NUREMBERG

Münchener Hypothekenbank eG
Königstorgraben 11
90402 Nürnberg
Phone +49 (0) 9 11 / 21 46 75 - 0
Fax +49 (0) 9 11 / 21 46 75 - 20
Regional director ... Claus Döpfer

REGIONAL OFFICE STUTTGART

Münchener Hypothekenbank eG
Lange Straße 6
70173 Stuttgart
Phone +49 (0) 7 11 / 22 29 62 - 0
Fax +49 (0) 7 11 / 22 29 62 - 22
Regional director ... Wolfgang Höscheler

Representative Offices | Cooperation Partners

UNITED KINGDOM

LONDON

Münchener Hypothekenbank eG
Representative Office
Mike Lowery
Basildon House
7 Moorgate
London EC2R 6DB
Phone +44 (0) 20 / 77 26 98 10
Fax +44 (0) 20 / 77 26 98 15
E-Mail: mike.lowery@muenchenerhyp.de

SPAIN

MADRID

Realcis S.L.
Peter von Puttkamer – Presidente
Lagasca, 10-1° | Izda
28001 Madrid
Phone +34 (0) 91 / 4 35 74 57
Fax +34 (0) 91 / 4 31 26 09
E-Mail: info@realcis.com

USA

NEW YORK

Carr Realty Advisors LLC
Richard T. Carr – Chairman
65 West 55th Street | Suite 8 B
New York, NY 10019, U.S.A.
Phone +1 (0) 2 12 / 2 62 02 59
Fax +1 (0) 2 12 / 2 62 03 75
E-Mail: rtcarr@carradvisors.com

FRANCE

PARIS

Key Decisions S.A.R.L.
12, rue de Tourmon
75006 Paris
Phone +33 (0) 1 / 43 54 65 77
Fax +33 (0) 1 / 43 25 78 93
E-Mail: keydec@noos.fr

AUSTRIA

VIENNA

Dr. Georg Formanek GmbH
Dr. Georg Formanek
Hügelgasse 10
2540 Bad Vöslau
Phone +43 (0) 6 64 / 5 10 66 00
Fax +43 (0) 22 52 / 79 08 35
E-Mail: office@formanek-gmbh.at

Imprint

PUBLISHED BY

© Münchener Hypothekenbank eG
Karl-Scharnagl-Ring 10 | 80539 Munich
Registergericht Gen.-Reg. 396

CONCEPT | DESIGN | PHOTOS | PRINTING

heller & partner
communication GmbH
Possartstrasse 14 | 81679 Munich



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