

ANNUAL REPORT 2006 >>





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Tradition and innovation come together in Munich. Just like MünchenerHyp, where experience has been successfully combined with forward-looking ideas since 1896.





LETTER FROM THE BOARD OF MANAGEMENT

DEAR SHAREHOLDERS AND BUSINESS ASSOCIATES,

Overall economic conditions affecting property markets improved significantly last year. Driven by favourable general economic development, expenditures for construction, and building permits rose again after several years – and in both the private housing and commercial property segments. Furthermore, vacancy rates declined in the commercial property segment.

At the same time, in international comparison, construction activity in Germany is still lower than in many other European countries. Furthermore, regional property markets within Germany are developing at increasingly different rates. Growth regions – especially the major metropolitan areas – and peripheral areas with shrinking populations and declining purchasing power, are continuing to grow even further apart.

This situation creates new challenges for property financiers. On one hand, it is becoming more and more important to understand local conditions really. On the other hand, the market volume will only grow modestly despite the improving economic situation. The competitive environment, which is already quite aggressive, is likely to get even more difficult.

This means that players who want to be successful in the German market in the future must exploit the available potential to the greatest extent possible and achieve a high level of customer acceptance. Studies have shown that the cooperative FinanzVerbund (Financial Services Network) has a good starting position. Customers are convinced that the Volksbanken, Raiffeisenbanken and their partners within the FinanzVerbund, like the Münchener Hypothekbank, are highly competent when it comes to financing property. Almost one out of three Germans can imagine financing their own home with the help of a cooperative bank.

Our goal is to jointly realise this potential with our partners in the Volksbanken and Raiffeisenbanken sector. We view ourselves

as a broadly based competency center for financing private housing within the cooperative FinanzVerbund.

We are committed to making our partners' sales activities even more successful. In addition, as part of these efforts we sharpened the profile of our business strategy in past years and decisively aligned it to meet future market demands. We have set two main focal points: first, we achieved the technical prerequisites. Together with our employees, we streamlined our processes and optimised them. We also established competitive cost structures and continued our proven risk policy.

Concurrently, we more clearly aligned the structure of our sales activities to meet the needs of our partners in the Volksbanken and Raiffeisenbanken. One important aspect here is that the partner banks' permanent contact persons at MünchenerHyp will remain unchanged. Because the banking business, in particular, is based on trust. And you can only trust someone if you know them very well on a personal basis. A very great portion of our employees in the sales and transaction management areas has built up personal and trustful relationships over years with loan consultants at the Volksbanken and Raiffeisenbanken. Not lastly, these relationships have also generated numerous suggestions that have helped us to improve our sales channels and our electronic loan processing.

Our partner banks clearly appreciate our strategic approach and the personal connections. This was reflected in the latest survey of FinanzVerbund banks that was conducted by the National Association of German Cooperative Banks (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken), and by the results of our own market research: over 80 percent of the cooperative banks rated their collaboration with MünchenerHyp as "very good" or "good".

The high level of our customers' satisfaction is very important for us. For this reason, we have further intensified our collaboration with our cooperative partner banks, especially our joint sales campaigns.



In addition, our new product concept has reinforced the market sovereignty of the Volksbanken and Raiffeisenbanken. During the previous year, we developed a flexible and innovative product offer that meets various market requirements. The new approach is based on a modular concept. Starting from an attractively priced basic offer, it is possible to add further modules to prepare an individual financing solution. These solutions can be standardised for low-cost processing – and give us a significant competitive advantage.

Attractive interest rate offers are a mandatory prerequisite for remaining competitive in the German market for private housing finance. Therefore products that are capital market-appropriate and have above-average ratings characterise our issuing policy. We structure our issues to meet investor requirements. This is why our bank has earned its excellent reputation in the international capital markets. This in turn generates refinancing advantages for us that enable us to offer very competitive conditions to our customers.

Along with our activities in our most important business area – private housing lending – we also expanded our domestic and foreign commercial property finance business and Credit Treasury. These measures further reduced the dependency on individual markets. We will continue on this path in line with our low-risk strategy and thereby concentrate our efforts on Western Europe and the United States. For this reason, we anticipate that our Credit Treasury will participate in a growing volume of syndicated loans.

The business results we posted in 2006 show that we are on the right track. During the previous year, we expanded our new business results as foreseen in our MHB2008 strategy and were able to record even better performance than the very good results we noted in 2005. In 2006, we fully achieved our key strategic targets regarding the costs of materials and personnel. The related personnel restructuring measures took place in a socially acceptable manner. Today, MünchenerHyp's employee structure is qualitatively well prepared to meet the current

and future demands in the different business areas. Our employees are the most important factor for our success.

Not least, that is why MünchenerHyp has decisively further expanded its personnel development concept. Working with the latest personnel development tools, we offer our employees opportunities to further improve their professional and social skills in order to increase their deployment and promotional chances. The Bank's success is also driven by their dedication. For this reason, we owe our employees our thanks and recognition.

MünchenerHyp got off to a good start in the current financial year. The robust economy provides a favourable outlook for the further development of our business in 2007. However, we also know that we cannot afford to rest on our accomplishments, because the market does not allow pauses. For this reason we will permanently develop our market presentation. This also includes the necessity of providing the cooperative FinanzVerbund with attractive and modern property financing solutions in the future. At the same time, we will decisively take advantage of market opportunities posed by direct commercial property financing as well as Credit Treasury. In so doing, we will be laying the foundation for the further positive development of the MünchenerHyp.

Sincerely yours,

Erich Rödel

Dr. Bernhard Scholz

THE MÜNCHENER HYPOTHEKENBANK

THE MÜNCHENER HYPOTHEKENBANK IN THE PRIVATE CUSTOMER BUSINESS SECTOR

For years now, Germans have been very hesitant to acquire their own piece of property. The volume of building permits is currently just half as high as it was during the mid-1990s, and private home ownership has stagnated at about 40 percent. However, the desire to own their own home remains very strong among Germans.

One reason, for the low rate of ownership is that the purchase of a personal home in Germany generally represents a heavier financial burden for the buyer than in other countries. However, the situation changed beginning in 1999. Interest rate burdens are fairly low and incomes have been developing more positively. The result is an improved house price to income ratio and a reduction in the cost of home buying. For this reason, it is anticipated that demand for property financing will rise.

Demand will also be additionally stimulated by socio-demographic trends in Germany. In the future more and more people will be living in one or two-person households. This will lead to a rise in the total number of households even though there will be barely more people living in Germany in the future than there are now. Most of these people will be older people who will live alone in their old age, rather than the classical singles. In some German cities, the proportion of people living alone is already 50 percent or more.

In addition, private pension schemes will become increasingly important as a way of maintaining the accustomed standard of living later on in life. Advanced in age, being able to live rent-free in one's own four walls will be a key factor in personal retirement planning.

The socio-demographic changes will also raise the demands made on financing one's own home. Just one standard offer alone will be less and less adequate for meeting the wide variety of customer requirements. The demand for flexible financ-

ing, which best meets the individual borrower's personal situation, will rise.

PROPERTY FINANCING BASED ON THE BUILDING BLOCK PRINCIPLE

Münchener Hypothekbank is meeting their customers' changing requirements with a new product concept. We have constructed it on the building block, or modular, principle. Starting from an attractive basic price offer, we then add modules to create a financial solution that is just right for the customer's needs. There is virtually no limit to the way the various building blocks, such as amortization and special amortization options or loan maturity options can be combined with each other. This makes it possible to offer financing solutions that are flexible and innovative – and hardly offered by any of our competitors.

In addition, we can use the concept to develop product innovations that respond to current developments in the market for property financing. We are currently establishing fixed-interest loans with flexible special amortization conditions without pre-maturity penalties, for which, however, an option premium has to be built in to the interest rate.

PARTNER OF THE VOLKSBANKEN AND RAIFFEISENBANKEN

In the area of private property finance the Münchener Hypothekbank is a member of the cooperative Financial Services Network (genossenschaftlicher FinanzVerbund) and thereby a partner of the Volksbanken and Raiffeisenbanken. Due to the immense sales strength of our cooperative partner banks, which have about 13,700 branches spread throughout Germany, we are locally present in every region of the country.

MünchenerHyp personnel in 12 regional offices maintain close and trustful relations with our partner banks. Our staff provides professional advice to customer service officers in the Volksbanken and Raiffeisenbanken for complex financing deals. They help their colleagues with IT-assisted credit processing and pay



attention to their ideas and experience, which helps us to make our products and processes better every day – and not only at the local bank level. Using their expert knowledge of property financing and making specific offers, our headquarters staff in Munich helps our Volksbanken and Raiffeisenbanken partners to develop the market together with us and gain new customers. This partnership, of many years standing and based on personal relationships, has developed into a strong performing team. The competencies bundled together in our partnerships ensure long-term and shared sales successes.

Our cooperation with the Volksbanken and Raiffeisenbanken sales partners boosts the importance of joint and active market measures. This is because in light of the vast number of providers of financial services customers are finding it increasingly difficult to assess the quality of the financing solutions being offered. Market success depends primarily on customer acceptance. This can only be achieved if customer perception has been sharpened. And this requires a more intensive approach, actively reaching out to the customers. In short, property financing has developed into a business where banks have to go out and actively look for new customers.

By setting up joint sales campaigns we have made an important contribution to specifically drawing potential customers' attention to the strengths of our partners and our products. In the last 12 months alone we have run about 220 campaigns and reached at least 1.2 million households. Within the framework of these campaigns we provided all of the logistical support together with one service provider. The customer counselling work is done by the local cooperative bank in whose name the campaign is conducted.

Customers benefit from the close partnership between our staff and their Volksbanken and Raiffeisenbanken colleagues when they are making – what is probably for many of them – the biggest and most important financial decision in their lives. Ninety percent of customers want to receive personal and individual advice on property financing. This is provided by the Volksbanken and Raiffeisenbanken with their professional counselling ser-

vices. At the same time customers also want favourable conditions, and that is the strength of MünchenerHyp as the property financing expert. Our financing solutions, based on the building block principle, give customers individually structured financing arrangements that can be processed on standardised lines and therefore at low-costs. The linkage of these two separate sources of strength makes the difference in the market.

PARTNER OF THE HOME BUILDING INDUSTRY

In providing financing for housing cooperatives and other housing construction companies we collaborate both with the cooperative banks and with specialised national partners. Our business strategy is to focus on the financing of properties in good locations with secure profitability for the long term. We have established ourselves in this market as a reliable provider who offers customers highly competitive conditions and fast credit decisions. We place great importance on having a high degree of flexibility in shaping the financing arrangements. This ensures that our partners get solutions that meet their needs – the basis for optimum financial planning and payments flow.

MÜNCHENER HYPOTHEKENBANK IN THE COMMERCIAL PROPERTY FINANCING BUSINESS

Münchener Hypothekbank engages in commercial property financing as

- >> a intermediary business with the Volksbanken and Raiffeisenbanken, which procure mortgage loans for us,
- >> and as large-volume financing, in Germany and internationally, as a direct business activity and as syndicated business, which we acquire through our own sales activities.

We view the direct commercial property financing business as one of the growth areas in our business strategy. Our aim is to grow this business area organically to achieve supplemental qualitative growth that will flank our private customer financing business with the cooperative Financial Services Network.

Within the direct area of business, Münchener Hypothekbank sees itself as a specialised provider for institutional property investors: for open and closed property funds; property companies; housing construction companies; leasing companies and large private investors. In recent years we have strongly intensified our relations with these institutional customers, sharpened our market profile and selectively expanded the business area in terms of content and personnel.

These kinds of financing deals are less important for the Volksbanken and Raiffeisenbanken because of the target customers' structure and the usual size of the deals in this business segment. However, as a provider of comprehensive financing services, it is important for the cooperative Financial Service Network to be present in this segment.

SYNDICATED BUSINESS IN GERMANY AND ABROAD

In the syndicated business area we participate in property financing offered to us by partner banks in Germany and abroad. We thus gain access to customers and markets, which we cannot acquire directly. Here our business strategy and target markets are identical with those in the direct acquisition business.

The long and solid experience of our employees enables us to more frequently act as the lead manager in consortium deals. In this capacity we offer tranches of the large loan business we have acquired ourselves to our partner banks as sub-participations.

Outside of Germany the cooperation partners maintain contact with partner banks and are thus an essential component of the sales channel "consortium business".

MARKET POSITIONING IN GERMANY AND ABROAD

Our domestic direct commercial business activities are headed by our main office in Munich, which is supplemented by sales offices in Frankfurt am Main and Hamburg. The financing concentrates on commercial property in good locations with a variety of uses and chiefly comprises office buildings, retail property, shopping centres and logistics properties.

We are represented internationally in the strategically important global markets with our own office in London and by cooperating partners in New York, Paris, Madrid and Vienna. Our partners are well connected locally and have years of experience of the market. Apart from the acquisition of new business our partners look after existing operations and advise us on market, risk and property assessments in their local markets.

Based on these measures we have been able to successfully expand our direct commercial business in recent years and gain market share, with direct business activities dominating in Germany and consortium activities in other countries. Particularly in the USA, we have made clear gains and strengthened our market position. The major American banks consider MünchenerHyp to be a reliable partner. We primarily participate in first-ranking loan tranches with low loan to value ratios. Our second regional focal point is Western Europe, where we are particularly active in the UK, France, the Benelux countries, Austria, Switzerland, Denmark, Sweden and Spain.

What we expect for the German commercial property market is that, following record investments of € 50 billion in 2006, investment will reach a similar level in 2007. The trend will be boosted in particular by portfolio sales of open-end funds and sustained sales activities concerning residential property in the public sector. We see expanded market potential here, though we note with concern a tendency in the financing market towards softer lending terms. For this reason, we will maintain our low-risk policy without any changes and our activities in the market will be highly selective.

OUR COMPETITIVE STRENGTHS: COMPETENT – FLEXIBLE – FAST

Competition is also fierce in the market for commercial property financing. Competitive conditions are essential for surviving at the national and the international levels in addition to product flexibility, fast decision-making and absolute reliability. MünchenerHyp is well equipped to meet these challenges. Our ratings, which are not only excellent in comparison to our peers in the industry, make it possible for us to obtain advantageous



refinancing conditions. As a registered cooperative, we operate independently and without any of the limitations associated with being within a group. This means that decisions can be made rapidly to the benefit of our customers. And we attach great importance to being a reliable partner. We offer individualised service in handling transactions, and our staff maintains trust-based relations with our partners in other countries.

In addition, our partner banks enjoy working together with us in the area of syndicated business in their home markets. This is because we do not compete with them in the direct customer business but serve as financing partners are willing to take on loan tranches at competitive conditions.

CREDIT TREASURY – MAKING RISK MANAGEMENT MORE EFFICIENT

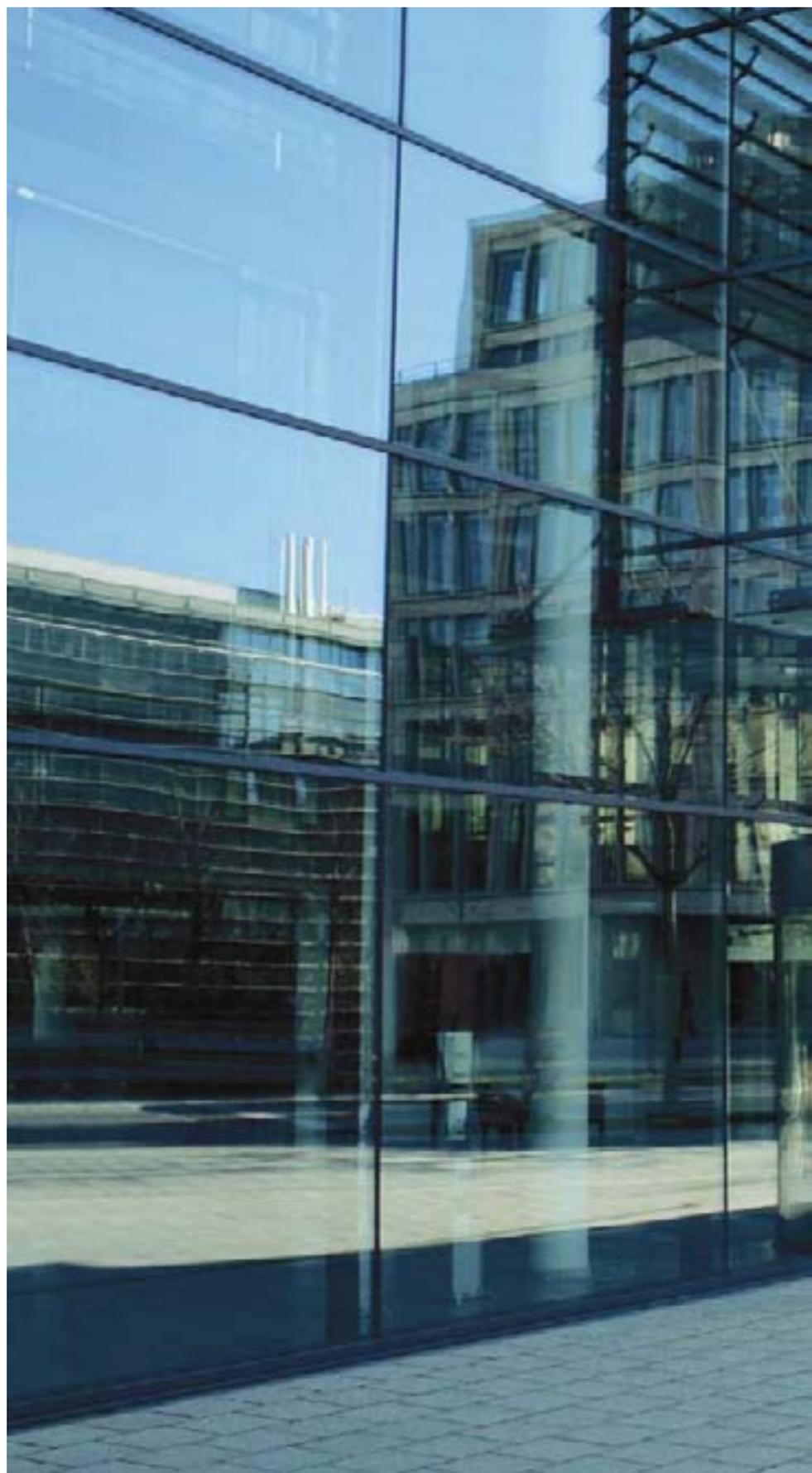
Today, more than ever before, the capital market plays a decisive role for establishing the price of a credit risk. The price set by the capital market for transferring a risk item is the essential foundation for both the primary credit transaction and a bank's portfolio management.

Within Münchener Hypothekenbank, credit treasury is the central unit that acts as the interface between the credit and the capital market. Our staff guarantees an efficient transfer of risk, within the framework of structuring individual transactions, and in the context of credit risk management on the overall Bank level. In this context, risk transfer means both the conscious transfer of risk and the precisely controlled acceptance of risk.

Credit treasury's responsibilities include: syndication and syndicated business; portfolio credit business; securitisation; loan structures; and investments in the property-related capital market like mortgage-backed securities. Our staff is internationally active and focussed primarily on Germany and the USA.



Dr. Michael Kaufmann, Speaker of the Board of Management of the VR-Bank Rhein-Sieg eG, has been working successfully with MünchenerHyp for many years.





"Partnership is the basis for profitable collaboration. And here MünchenerHyp stands out because of its range of flexible offers and personal service."

MANAGEMENT REPORT

OVERALL ECONOMIC CONDITIONS

With a rate of 2.7 percent, the German economy showed its strongest growth since 2000. Helped by a fall in oil prices over the year as a whole, the booming world economy gave a sharp boost to German exports. German export companies have been expanding their capacity in order to satisfy demand from abroad, while their own needs for more machinery and equipment have at last brought about the long-awaited revival of internal demand. Expenditure on plant and equipment rose by more than 7 percent.

Capital spending on new construction rose by 3.6 percent by the end of the year, bringing an end to the 10-year recession in the construction industry. In addition to commercial construction, the building industry also benefited from an increase in residential building. The state subsidy for private housing, which stopped at the end of 2005, caused a backlog effect, while the increase in value added tax at the beginning of 2007 triggered advance buying, presenting the construction industry with a welcome significant boost at both the start and the end of the year. Residential building increased overall by 2.3 percent. About half of this capital investment related to housing stock.

The upturn in the German economy also extended to the labour market. The creation of 350,000 new jobs brought the number of people in employment up by 0.7 percent to just short of 40 million. Unemployment fell below the 4 million mark for the first time in four years.

“Capital spending on new construction rose by 3.6 percent during 2006, bringing an end to the 10-year recession in the construction industry.”

The revival in the economy increased tax revenues by more than 6 percent. Despite an increase in expenditure, new public sector borrowing fell by about € 26 billion, falling below the 3 percent upper limit set by the European Stability and Growth Pact for the first time since 2001.





FINANCIAL MARKETS

Favourable profits forecasts and brisk takeover activity during 2006 pushed stock markets to their highest levels for some years – the highest level ever, in the case of the US. Bond markets were affected primarily by inconsistent expectations on inflation and the economy, and trends were uneven.

During the first half of 2006, good economic data pushed up interest rates strongly on international bond markets. In addition, the rise in oil prices up to the middle of the year resulted in increasingly high inflation forecasts. The US central bank continued its policy of increasing interest rates in small stages, raising the federal funds rate four times from 4.25 percent at the start of the year to 5.25 percent in the middle of the year. The European Central Bank likewise tightened up its monetary policy. From an initial rate of 2.25 percent, it increased its key lending rate in two stages up to 2.75 percent at the end of June. As a result of these interest rate increases returns on long-term government bonds also increased. The benchmark 10-year German government bond, which was paying 3.31 percent at the start of the year, reached 4.14 percent during the first week in July – its highest rate of the year.

During the second half of the year, European bond markets were affected by conflicting influences. The most important factors affecting short-term interest rates were the increase in the ECB key rate to 3.5 percent, followed by a further increase to 3.75 percent in March 2007. Long-term interest rates, on the other hand, were initially strongly influenced by the US where the growth outlook for the American economy was weakening and the residential property market was slowing down. As oil prices fell, so did the expected rate of inflation. Long-term interest rates in the US came down. The US central bank turned away from a further tightening of its fiscal policy and left the federal funds rate at 5.25 percent at the end of the year. The outcome was that capital market interest rates fell by about half a percentage point between the beginning of June to mid-November in both the dollar and euro areas. The yield on the 10-year German government bond fell to 3.6 percent.

Affected by robust economic figures, interest rate trends in the euro area diverged markedly from conditions in the US towards the end of the year. At the end of the year the 10-year German government bond was paying 3.94 percent, or 63 basis points more than at the beginning of the year but still 20 points below its high for the year.

“The European Central Bank tightened its monetary policy as it successively raised its key interest rate in several steps to the current level of 3.75 percent.”

The rise in interest rates was more marked in short-term loans than long-term. The flattening out of the yield curve, visible as early as 2005, continued during 2006. In the fourth quarter the curve was reversed, with short terms paying more than long terms.

Market observers see the high structural demand for fixed-interest securities as the cause of the pressure on interest rates in the long-term sector. Central banks in Asia, oil-exporting countries and pension funds are increasingly putting their reserves into euros instead of US dollars. The high level of demand had a positive effect on the value of fixed-income securities.

PROPERTY MARKETS

RESIDENTIAL PROPERTY MARKET – GERMANY

Between January and November 2006, building permits for about 231,000 residential building projects were issued in Germany – 7.6 percent more than in the corresponding period of the previous year. Permits for single-family houses showed a below-average rise of 5.5 percent, statistics revealing the biggest increase to be in two-family houses, where almost 14 percent more building permits were issued. The increase in the case of multiple-occupancy buildings was 8.5 percent.

The past year was marked by the bring-forward effect of the now discontinued state support for private housing. The subsidy, with an incentive period of 8 years, could be claimed only for building applications submitted before 1 January 2006. Some of the applications submitted during 2005 were not processed and approved until into the new year. The number of building permits issued during the first quarter of 2006 was correspondingly high at 79,000 – 30 percent more than in the previous year. The increase in the second quarter was only 8.6 percent, and during the third quarter the number of building permits was a good 2 percent lower than in the same quarter of the previous year. During October and November, people wishing to build submitted 15 percent fewer applications than in the same months of the previous year.

Private homebuilding in the form of single- and two-family houses and owner-occupied apartments accounted for about three quarters of all new residential housing. Apartments built for rental numbered only about 60,000 units last year; in the mid-90s, this figure was around 300,000.

Price trends for apartments and houses promote this change. During the past year, prices for private housing moved sideways when averaged out over the whole country, although there were marked regional variations. Moreover, lending terms continued at comparatively favourable levels, making home ownership

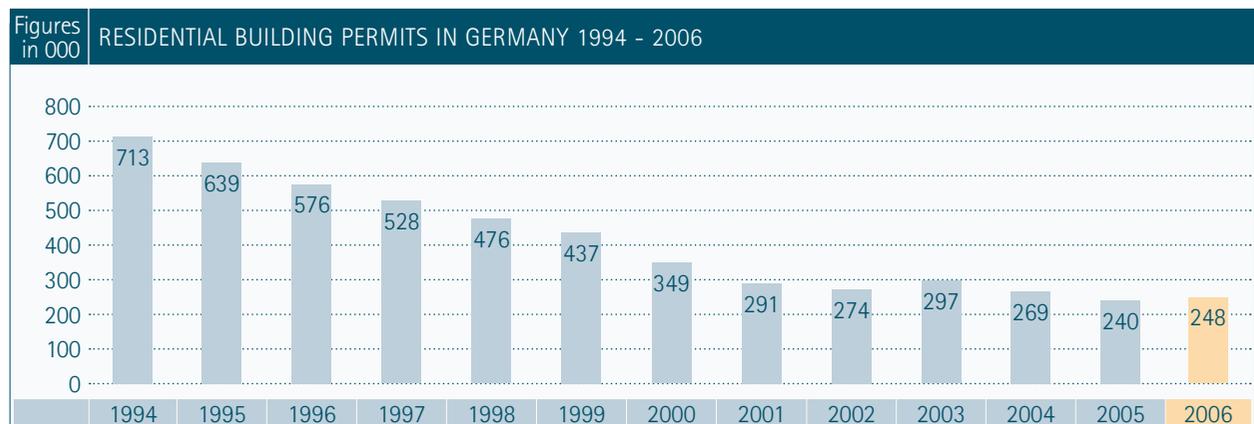
even more affordable in Germany over the past year. Whereas in 2002 borrowers had to spend, on average, 33 percent of their net income on interest and loan repayments, last year the figure was only 27 percent on average. Monthly payments fell from € 1,200 to less than € 1,000.

COMMERCIAL PROPERTY MARKET – GERMANY

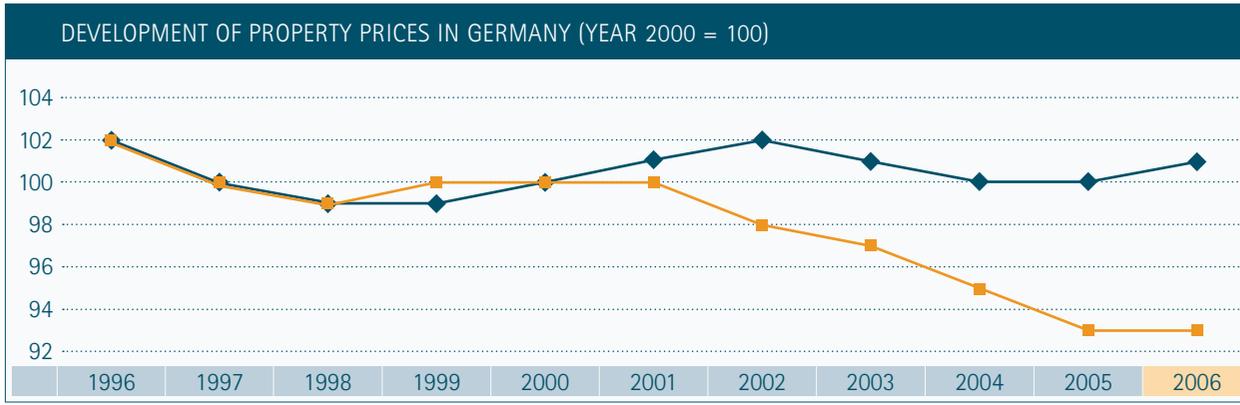
After years of stagnation, the situation in the commercial property market in Germany has improved. A major contributory factor here was the growth in demand resulting from the upturn in the economy. However, the high vacancy rate fell more slowly than expected.

The reason for this is that, although more and more office space was being leased, many offices – particularly those in outlying districts and in areas where the economy is underperforming – attracted few takers. The only notable declines in available space were noted for large volume office space in the main business centres. Top rents rose by 5 percent on average.

The average vacancy rate in the German property strongholds of Hamburg, Berlin, Duesseldorf, Cologne, Frankfurt and Munich fell by 11 percent. The greatest reduction was seen in Munich, where an absorption rate of 13 percent meant that vacancies fell to 9 percent, the best figure of all the property centres. Even so, German cities still compare unfavourably with Europe. In



Source: Statistisches Bundesamt www.destatis.de, 2006 = preliminary annual result



Source: Deutsche Bundesbank

Frankfurt am Main, about 17 percent of office space is looking for a tenant; the only European city with a rate higher than this is Amsterdam.

During 2006, the German commercial property market was dominated by portfolio sales, causing the volume of transactions in Germany to double as a result. It is estimated that between 45 and 50 billion euros moved into commercial property, of which 57 percent was in portfolios. In an international comparison, Germany accounted for around a quarter of all investment in commercial property as noted by market observers. Germany was the second-largest investment market, behind the UK and ahead of France. Investors concentrated primarily on retail and office property.

“The number of building permits rose again in Germany.”

Although rental returns in neighbouring European countries approached those from long-term fixed-income securities, in Germany they made 6 percent on average. This made the German market of interest to foreign investors, who accounted for around two-thirds of all purchases over the past year. In contrast, most German investors reduced their holdings in Ger-

many and diversified their portfolios abroad. This development is the result of Germany's closer integration into the global property capital market.

Along with rents, purchase prices also rose widely. Office and business premises on city sites rose on average by one year's rental. In the case of retail premises, prices rose by between one-and-a-half and two years' rental more than in 2005.

RESIDENTIAL PROPERTY MARKETS – INTERNATIONAL

Developments in international residential property markets were uneven during 2006.

After the rapid growth of the past few years, the residential market in the US for owner-occupied apartments and single-family houses showed signs of weakness. Falling demand led to a drop in investment in residential construction, which affected the entire economic growth of the US. House prices had risen strongly over recent years, leading to fears of a property bubble. However, numerous indicators suggest that the correction in the private property market is likely to be a soft one. Property values fell slightly at the end of the year, but purchase prices over the year were so high that a trend towards rental began to develop.

There continued to be substantial variations across the countries in the euro area. The northern and eastern countries as well as France, saw double-digit increases in property prices. Price rises in the UK and Spain exceeded 9 percent, and even in Switzerland and Luxembourg buyers had to pay, on average, 3 percent more.

Generally speaking, the trend towards the ever closer integration of the property and financial markets has continued. These structural changes increasingly give property investments a status comparable to that of shares or bonds. In terms of portfolios and returns, therefore, property is attracting increasing attention not only from institutional investors such as insurance companies, pension funds and private equity funds, but also from wealthy private investors.

COMMERCIAL PROPERTY MARKETS – INTERNATIONAL

US office property markets followed the upward trend of the economy and the accompanying increase in employment. This upward movement has been going on since 2004. Overall, demand for space showed more dynamic growth than supply, resulting in a fall in vacancy rates and rising rents.

European office property markets, too, continued to recover. Sales of property increased in most of the markets.

There was a marked drop in vacancy rates. In London, Madrid and Paris, a fall of over 20 percent over a 12-month comparison period led to notable shortages in available space. This led to higher rents, especially in the high-end office sector. Moreover, the high level of demand resulted in increased prices for commercial property of up to 50 percent in some European locations.

In these locations, price increases have put pressure on initial rates of return, which hit a historic low in some of Europe's main property markets. In London's West End and in Madrid, returns fell to less than 4 percent, which is below the level of government bonds.

MORTGAGE MARKET

Increased building activity led to a rise in demand for building loans. The total of residential property loans taken out in Germany went up by around 2 percent up to the end of 2006, thus exceeding the previous year's modest growth of 0.7 percent. However, this increase was far from being enough to alleviate the competitive pressures resulting from the appearance in the market of new providers, some from outside Germany.

“By the end of 2006 the total volume of outstanding homebuilder loans increased by about 2 percent.”

Trends in long-term interest rates also affected the mortgage market in Germany. In a comparison made over several years, financing terms remained favourable. During the past year, there was some limitation on efforts aimed at taking full advantage of market conditions by the use of aggressive terms. The demand for mortgages proved to be sensitive not only to price but also to quality: while the fiercer price competitors tried to conquer the market with standardised products, customers were not looking just at the terms on offer but also enquired to an increasing extent about the services being made available. They were looking for flexible financial arrangements combined with the best possible price-performance ratio. As a result, it was the standard of the advice given, quality, flexibility and reliable promises of performance that increasingly made the difference.

The German cooperative FinanzVerbund (Financial Services Network), with its organisation that is based on a division of labour is ready to meet these challenges. The high advisory service standards of the Volksbanken and Raiffeisenbanken, combined with the product and service expertise of partner banks like MünchenerHyp, have enabled the FinanzVerbund to maintain



its good market position. Nevertheless, greater efforts are still needed to be certain that the FinanzVerbund will assert its position over the long-term in the highly competitive property finance market.

THE MÜNCHENERHYP IN 2006

MünchenerHyp continued to grow in 2006. New business rose to € 2.42 billion, exceeding the previous year's best by 9 percent. For the first time ever, loans granted in commercial business passed the € 1 billion mark.

Operational results after making provision for risk rose by 13.0 percent to € 27.8 million. Overall, based on operational administration expenses, we had to spend 51.5 cents to generate 1 euro of profit. This figure was 52.9 cents in 2005.

The foundations of our repeated success were laid down some years ago by our MHB2008 strategy. During the past year we met important objectives of this strategy ahead of time.

The factors behind our success were the restructured sales organisation, which is more closely adapted to the needs of the Volksbanken and Raiffeisenbanken, and the new building block principle in private property lending with which we enable our partner banks to meet builders' needs more individually and flexibly. The Volksbanken and Raiffeisenbanken have supported this new product concept with their professional advisory services.

Last but not least, the very welcome new business was due also to our consistently making maximum use of the potential of the German regional markets. The number of sales campaigns planned and implemented in conjunction with the Volksbanken and Raiffeisenbanken rose once again; the result was that we added an increasing number of new customers who had hitherto had no connection to the FinanzVerbund.

Not only did we exceed our ambitious acquisition targets, we also met our process and cost objectives. Improvements in the market and transaction management areas brought us marked gains in efficiency. In some parts of the transaction management

MORTGAGE RATES MÜNCHENERHYP (TEN YEAR FIXED RATE)



area, productivity rose by around 30 percent on 2004, while at the same time maintaining the high levels of service that are of such importance in working with our partner banks.

“Our success factors in the private housing finance segment were our new sales concept, which was updated to meet the needs of the Volksbanken and Raiffeisenbanken even more closely, and the new building block principle.”

We have already increased efficiency even more by our closer integration with the cooperative IT landscape. In the future integrated property financing (IFI) will provide a standard user interface for construction financing in the cooperative Finanz-Verbund, making it even easier for the customer advisers in the Volksbanken and Raiffeisenbanken to advise on and grant loans.

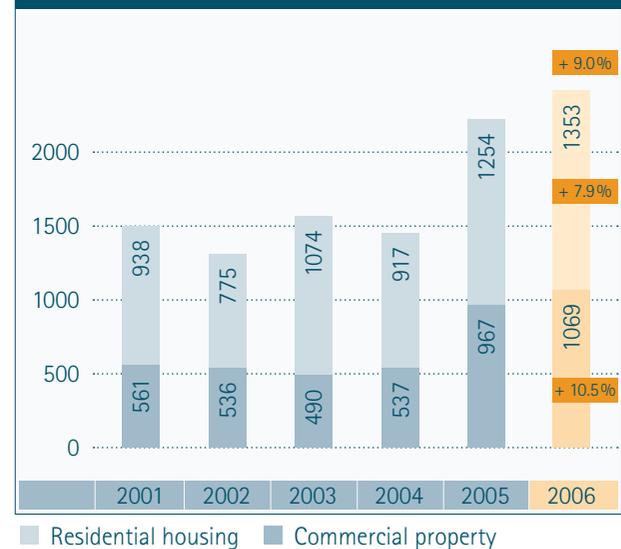
In addition to residential property finance, which remains our main area of business, we continued to develop the areas of foreign and domestic commercial property finance and credit treasury. The result was that we have been able to further reduce our dependence on certain regional markets.

MünchenerHyp's risk situation remained at a low level due to our consistent low-risk strategy, which ensures that increasing success is not achieved at the expense of the risk situation.

MORTGAGE BUSINESS

In 2006 we made mortgage loan commitments for € 2.42 billion, exceeding the previous year's volume by € 201 million or 9 percent. This growth was split equally over our two main business areas of residential housing and commercial property. Residential housing loans accounted for € 1.35 billion, a rise of 7,9 percent, while our commercial property loan business improved by 10,5 percent to € 1.07 billion.

MÜNCHENERHYP NEW MORTGAGE BUSINESS 2001 - 2006
Commitments in € million



As expectations of rising interest rates climbed, demand grew in the market for forward loans, which allows property owners to secure the current interest rate until that rate comes up for renewal. This offer was particularly attractive in view of the flat interest structure curve. As one of the first providers of forward loans for private customers, MünchenerHyp is well positioned among its competitors in this area of the financing market. As experts in long-term property finance we were also able to meet customers' wishes, when interest rates were low, to lock in interest rates for as long a term as possible.



Because the market for residential financing has mainly been moving sideways over the last few years, our competitors have been concentrating primarily on existing customers. This was evident in the number of loan prolongations. A prolongation naturally requires little in the way of an advisory service, and the result is that competition is based solely on conditions. In many cases customers also took the opportunity of reducing their liabilities, and this too was reflected in a lower prolongation ratio last year.

“MünchenerHyp is staying on track to grow and our new business performance once again surpassed the previous year’s volume.”

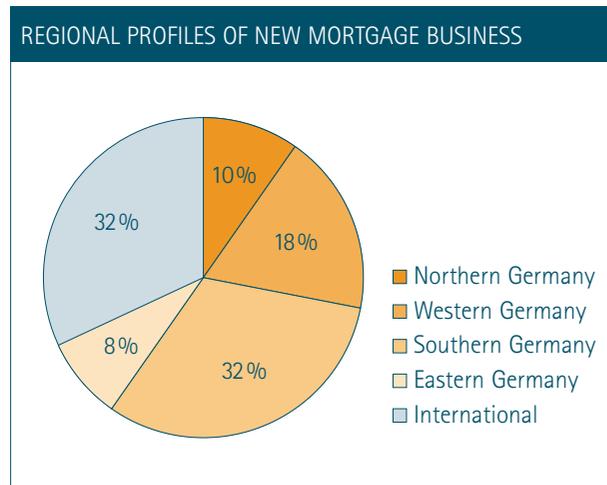
In the area of commercial property finance we were able to raise the volume of loan commitments made above the billion euro level for the first time at € 1.07 billion. The previous year’s figure was € 966.9 million.

Especially noteworthy was the growth in business outside of Germany. New business rose by 27.3 percent, or € 161.2 million, to € 752.0 million. Most of this growth was achieved in the US: the proportion of the US business in total new business outside Germany rose from 38 percent to around 84 percent. This ratio reflects MünchenerHyp’s firmly established market position in the US, which is based on our good relations with the big American financing companies. By restricting ourselves to taking on first-ranking loan tranches, or tranches with low loan to value it was possible over the year as a whole to gain business at an acceptable level of risk.

The market situation was rather more complex in the rest of Europe. Continuing high demand for investment, coupled with returns that were under serious pressure, motivated many institutional funds towards selling. In total, assets amounting to € 56 billion were sold, of which three-quarters affected Germany itself and about € 14 billion related to the rest of Europe. Large outflows from open-ended funds (approx. € 7 billion net outflow) meant that investors made use of the favourable mar-

ket to restructure their portfolios. Consequently, the financing requirements of these institutional partners fell markedly.

The commercial property market in Germany benefited from very high inflows of capital, but these were accompanied by extremely stiff competition on interest rates. Against this backdrop, investors frequently also tried to readjust risk parameters; this, however, is not compatible with MünchenerHyp’s low-risk strategy. Under these circumstances we preferred not to put our focus on an increase in volume. Loan commitments amounted to € 316.6 million, or 16 percent less than in the same year-ago period.



Since January 2006 we have had our own representative office in the financial hub of London, through which we have been successful in arranging and completing finance deals in continental Europe.



Harald Graßl is head of one of our Transaction Management groups and is responsible for ensuring that new loan applications are processed without delay.





"We are committed to providing the Volksbanken and Raiffeisenbanken with the best possible service. And that is why our partner banks have permanent partners here within the Bank."

PUBLIC-SECTOR LENDING AND MUNICIPAL LOANS

MünchenerHyp continues to operate in the public-sector lending area without setting any volume targets. Loans are agreed purely on the basis of returns, and in particular include negotiable promissory notes issued by federal states, regional and local authorities, and public-sector credit institutions.

The consolidation of government budgets and the unexpectedly high income from taxation led to reduced borrowing by the public sector. Although the level of debt of public-sector budgets reached a new high, borrowings by the public sector from German banks fell by around 4.5 percent over the year. Even so, we were able to increase the volume of new business from € 1.9 billion to € 2.3 billion.

In municipal lending, too, our commitments are dependent on the return that can be achieved. We concentrate on granting loans for which regional and local authorities have liability or take full liability or guarantorship. Borrowers in this area include cities, rural districts, special-purpose associations, and private borrowers who are secured to the level of 100 percent by modified non-performance guarantees of a regional or local authority. In principle, we work in conjunction with the Volksbanken and Raiffeisenbanken in order to support and foster our close connection with the cooperative FinanzVerbund in this business area.

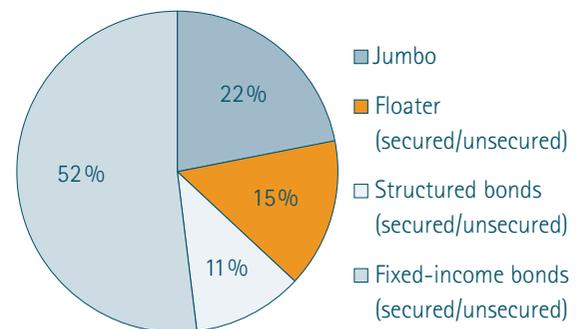
REFINANCING

We were very successful in our refinancing business in 2006. Gross sales rose by 5.9 percent, from € 6.4 billion to € 6.8 billion. Of this, Jumbo Pfandbriefe represented about 22 percent, fixed-income bonds 52 percent, structured bonds 11 percent, and variable-rate bonds about 15 percent.

The marked increase in redemption of liabilities in bearer bonds is mainly due to the maturity of € 3 billion euros worth of Jumbo Pfandbriefe. Overall, return flows from refinancing transactions exceeded the volume of initial issues during the year under review by € 2.2 billion, leading to a net reduction of refinancing funds taken up.

In September, the launch of our public Jumbo Pfandbrief attracted worldwide attention. The bond, with its three-year maturity and a volume of € 1.5 billion, was in great demand by investors. Within a very short time, the order book was oversubscribed several times and was closed ahead of schedule. In total, there were more than 180 orders from 25 countries. Market observers referred to it as one of the best Jumbo transactions ever.

SUMMARY OF REFINANCING SOURCES IN 2006



The success of the Jumbo transaction meant that we diversified MünchenerHyp's investor base more widely. The largest proportion by a very wide margin is accounted for by the German insurance industry, although its share has declined slightly due to increased interest shown by foreign investors.



In spring 2006 we issued for the first time a Slimbo bond secured by a public-sector pool of coverage. The volume was € 500 million. This bond was also received with great interest, and was in demand particularly by investors looking for trust-eligible, near-cash paper. Because of the high demand we very quickly increased the volume by € 250 million.

“The introduction of our public Jumbo Pfandbrief to the market in September 2006 drew worldwide attention. Market observers called it one of the best Jumbo transactions ever.”

Investors especially like our transparent refinancing strategy and our investor-friendly, investor-oriented market presence. This includes our regularly updated presentations for investors in German, English, French, Japanese and Mandarin. MünchenerHyp is one of very few issuers to offer its investors this kind of service.

The volume of derivatives was € 51.2 billion as of 31 December 2006. At the end of 2005 it was € 50 billion. The greatest proportion was interest rate swaps, with € 48 billion.

CREDIT TREASURY

The Credit Treasury department was established at the end of 2005. Acting as an interface between the credit market and the capital market, it complements the bank's returns-oriented credit risk management. The transfer of risk that is carried out as part of credit risk management takes place in two directions, so that by using a suitable range of instruments, credit risks are both transferred and discounted. The range of duties currently handled by Credit Treasury comprises syndication, portfolio lending, investments in mortgage-backed securities (MBS), capital market oriented property lending and the bank's securitisation activities.

The department has an international focus. Its staff was increased during the year under review, and the department was expanded in view of the capital-market-based structuring of property loans and the acquisition of capital-market-related new business. Its main focus during 2006 was on the US and Germany. Its syndication activities, in particular, resulted in an above-target contribution to the bank's results. In addition, we took out borrower failure insurance for the private customer sector for a high loan to value property loans. In this way, we secure the bank against any possible failures in repayment, and can pass the whole of this benefit on to our customers.

RATING

In August of last year, Moody's Investors Service confirmed its Aa3 rating of MünchenerHyp's long-term unsecured liabilities, which is key for the bank's business. Secured Pfandbriefe received an unchanged rating of Aaa. The Prime-1 rating for short-term liabilities was also confirmed.

“Moody's reaffirmed their Aa3 rating for our long-term unsecured liabilities and the outlook was set at stable.”

At the same time, the agency raised the outlook for the rating for long-term unsecured liabilities from "negative" to "stable". This means that all of MünchenerHyp's ratings are now "stable".

By giving this rating, Moody's is expressing its expectation that MünchenerHyp will maintain its low-risk strategy and make further progress in increasing its efficiency and profitability.

Moody's rates MünchenerHyp's financial status as stable and sound, as characterised by its good risk profile and good portfolio quality, high efficiency and stable, risk-adjusted profitability.

The financial strength rating was reduced from B- to C+. This grading does not mean that there has been any change in MünchenerHyp's internal conditions; it simply reflects Moody's view that the general economic situation is more accurately described by C+ when compared to banks with a similar rating. Moody's stressed that the financial strength rating is solidly underpinned by the bank's clearly defined and steady business strategy with its focus on residential building and property finance in Germany. The financial strength rating also takes into account the progress made in risk monitoring and risk management.

In addition, a positive evaluation is given to MünchenerHyp's integration into the cooperative FinanzVerbund, which gives the bank unlimited access to the broad customer base of the cooperative sector.

The financial strength of the cooperative FinanzVerbund is shown in particular in the joint association rating. The internationally renowned Fitch rating agency classifies the cooperative banking group with A+ and a stable outlook.

SUMMARISED, THE MÜNCHENERHYP RATINGS ARE AS FOLLOWS:

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

BALANCE SHEET STRUCTURE

Total assets contracted from € 34.0 billion to € 31.9 billion. The main reason for this was a smaller loan portfolio in public-sector borrowing. As we continue to operate with caution in this type of business, holdings of government loans, including securities, fell from € 18.5 billion to € 16.2 billion. At the same time, growth in new business has pushed the portfolio of mortgages and other loans by 3.2 percent to € 12.2 billion. Because of the continuing rise in new-business loans outside Germany, the share of foreign mortgages increased from 7.5 percent to 10 percent of our entire loan portfolio. About half of this – € 585 million – came from the US.

Of our entire mortgage portfolio, € 10 billion was used to cover the Pfandbriefe issues. We have maintained the existing broad diversification of our mortgage portfolio across commercial sectors, different types of property and regions. About half of the properties collateralised by our covering mortgages are still in southern Germany.

On the liabilities side, Jumbo Pfandbriefe of € 3 billion matured during the fourth quarter. The portfolio of refinancing funds with long maturity dates fell accordingly from € 32.2 billion to € 29.9 billion.

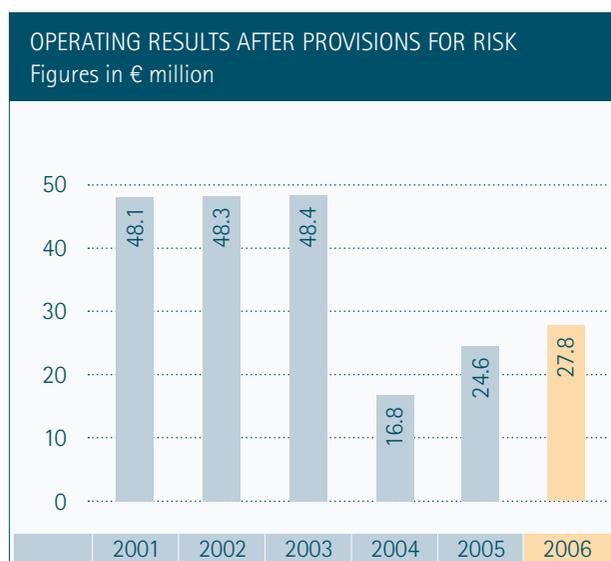
Core capital decreased by € 24.2 million to € 629.0 million. The main decline was in undisclosed holdings, which contracted by € 30.6 million to € 242.9 million. In contrast, paid-up capital increased by € 2.7 million, reaching € 123.6 million by the end of the year.

Liable equity capital is € 958.7 million, giving a Principle I key figure for the core capital of 6.8 percent, and for total capital of 10.4 percent. The bank thus has the necessary assets to grow on the basis of its own resources.



DEVELOPMENT OF EARNINGS

Although demand for building loans grew fairly modestly across the country as a whole, we managed to exceed the previous year's operational result on the basis of our success in new business and our progress in process and cost optimisation.



At € 110.5 million, net interest income was € 2.4 million higher than the previous year's result of € 108.1 million. At the same time, our favourable new business performance meant that we paid out more in broker commissions to our partner banks, reducing our net interest income less commissions figure by € 1.1 million to € 96.9 million.

Reported administration expenses increased by € 1.8 million to € 53.6 million, or 3.5 percent over same year-ago figure. However, reported administration expenses were substantially affected by a one-time effect, which caused reported personnel expenses to rise to € 29.9 million. The increase is due to a reduction in the discount rate for our pension reserves. In order to calculate these at a more realistic level, we reduced the interest rate from 6 percent to 4 percent, thereby debiting the in-

come statement with a one-time sum of € 3.8 million. Regular staff costs were kept at roughly the same level as the previous year.

Using the same valuation standards as the previous year, operational administration expenditure amounted to € 49.9 million – that is, € 1.9 million or 3.7 percent less than the previous year.

The effects of the restructuring measures introduced in the previous years thus became apparent during the last financial year.

Omitting the special factor in staff costs, the result is a further improvement in the cost-income ratio of 51.5 percent. In the previous year it was 52.9 percent.

The sum of other operational expenses and income was affected positively by an extraordinary income item of € 19.2 million. This was the result of a change of law in December 2006, which meant that the credit balance arising from the former corporation tax imputation system was capitalised and shown in the balance sheet. The credit balance will be paid out, independently of the dividend, over a period of 10 years from 2008 onwards. The cash value of this receivable – € 20.3 million – has been entered under other operating income with effect on the current period's results.

Results from operations before making provisions for risk rose by € 16.8 million to € 62.5 million, or 36.8 percent above the previous year's level of € 45.7 million, although a year-on-year comparison is only possible to a limited extent because of the tax refund.

The change in the net valuation of claims and securities held as current assets should be regarded as positive despite the sharp increase to minus € 49.0 million. With individual value adjustments declining once again, the increase by almost € 30 million is largely due to the reserves under Art. 340f of the German Commercial Code (HGB).

Following a negative value last year of € 1.5 million in the net valuation of financial assets, a positive figure of € 14.3 million was posted for 2006. This is partially due to sales of securities held as assets. In addition, we activated the non-taxable reserves in our participations, which were then placed into reserves pursuant to Art. 340f HGB.

At € 27.8 million, operating results after deducting provisions for risks rose by € 3.2 million, or 13 percent above the previous year's level. This figure is marked by two countervailing influences; firstly by the extraordinary income from the corporation tax credit and holdings, and secondly by expenses incurred to create reserves under Art. 340f HGB.

"With the successes recorded in the new business area and the advances made in optimising our processes and costs, MünchenerHyp was able to surpass its previous year's results from operations."

After deduction of interest for undisclosed holdings and the Tier 1 bond, annual net profit amounts to € 11.3 million. Tax expenditure fell to € 0.9 million due to special factors.

PROPOSED APPROPRIATION OF DISTRIBUTABLE INCOME

The annual net income is € 11,311,930.68. In order to strengthen our equity capital position, an allocation to statutory reserves of € 4.5 million is proposed. 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 € 7,567,834.05 should therefore be allocated as follows:

5.5 percent dividend	€ 6,787,613.06
Carried forward to the new year	€ 780,220.99

SUBSIDIARY COMPANIES

MünchenerHyp has three subsidiaries: M-Wert GmbH, M-Service (the MünchenerHyp property service company) and Munich Real Estate Consulting GmbH (MURECON). The share capital of M-Wert GmbH and M-Service GmbH is fully owned by MünchenerHyp. In the case of MURECON GmbH, MünchenerHyp has a 45 percent holding in the share capital.

M-Wert GmbH was established in 1999 as part of a divestment programme. The outsourcing move was very successful, as M-Wert GmbH has achieved a highly regarded position as an appraisal company both within and outside of the cooperative FinanzVerbund. The expertise and competitiveness of M-Wert GmbH are appreciated and rewarded by its customers.

The core business of M-Wert GmbH is to prepare market and current value appraisals and to determine lending values under Art. 16 of the German Pfandbrief Act. Qualified specialist staff in nine different locations throughout Germany assess properties and issue appraisals that form a major basis for important decisions in the property lending business.

Its commitment to the training of appraisers and its involvement with influential boards and committees ensure that M-Wert GmbH is always operating at up-to-date standards.

Following the very good performance in 2005, the fee revenues of M-Wert GmbH fell slightly during the period under review. However, this result is still a satisfactory one given the tight market environment.

M-Service GmbH was established in 2001. It supports the bank's workout management and property management departments. The function of the company was expanded during the period under review in order to enhance its support to these two areas. M-Service GmbH is now capable of providing services for



dealing with non-performing loans. The company was granted a collection permit in December 2006.

A profit and loss transfer agreement was signed with MünchenerHyp in 2006.

As part of the property company, M-Service GmbH also has the additional function of redeveloping the former bank premises on Nussbaumstrasse and Mathildenstrasse. The building measures have been successful and will be completed in 2007.

The company also holds a small property portfolio of its own.

MURECON GmbH was founded last year and began operating as a company on 1 July 2006.

The company advises investors in Germany and abroad on investment in property in Germany and Switzerland. It offers the following services:

- >> Investment and transaction management
- >> Financial advice
- >> Portfolio structuring
- >> Assistance in obtaining equity capital and capital from outside sources.

International investors in particular, who have been investing capital in the German property market to a growing extent over the last few years, are looking for these services more and more. In addition, property is increasingly being handled professionally as part of portfolio improvement programmes. The result is an increase in the volume of transactions on the property market, which in turn increases the need for consultancy services.

The MünchenerHyp holding in MURECON GmbH provides the latter with access to an extensive network and allows it to benefit from our expertise in structured financing.

In its first half year in business MURECON GmbH undertook extensive marketing activities, and has already succeeded in obtaining a number of mandates.

RISK REPORT

Accepting and managing risks is one of a bank's fundamental business activities. Exposure to risk is very often a precondition of putting business opportunities into action. An appropriate risk management system is therefore all the more important. In addition to compliance with regulatory requirements, increasing the bank's overall present value is the primary objective.

The starting point for risk management is to determine the type and extent of risk exposure involved. Risk management must ensure that risks are dealt with using specialist expertise, a suitable organisational set-up, an internal control system and appropriate assessment procedures. The requirements involved in dealing with these types of risk were laid down by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) in its "Minimum Requirements for Risk Management" (MaRisk) and officially published on 20 December 2005.

MaRisk brings together, in one integrated and comprehensive document, the regulatory requirements in specialised areas of application, replaces the former Minimum Requirements for the performance of trading transactions (MaH), credit business (MaK) and internal auditing (MaIR), and also includes new regulations on risk management. MünchenerHyp meets these requirements. We used the 2006 financial year to adapt our procedures in every situation where the new MaRisk rulings differed from those of the earlier circulars.

The main area for adjustment was in the "General Section" (AT) of the new Minimum Requirements (MaRisk AT):

- >> The existing calculation of risk-bearing ability has been replaced by a new and more comprehensive calculation (MaRisk AT 4.1). Both the risk coverage potential and the risks that these cover funds are exposed to are now calculated consistently in accordance with financial standards. The earlier mixture of balance-sheet-related and regulatory components is now no longer used. The standard for recourse to the risk coverage potential is the value-at-risk, and this applies to both market risks and credit risks. Operational risks are set off on a flat-rate basis. The cover funds consist essentially of the bank's share capital established in a calculation of its overall cash value.
- >> The requirements for activities involving new products or in new markets have been redrafted (MaRisk AT 8). The existing procedure is now comprehensively covered by new rulings.
- >> The credit risk strategy, which had hitherto been required under the Minimum Requirements for credit business (MaK), has been merged with other existing instructions to form a comprehensive business and risk strategy (MaRisk AT 4.2).

In addition to the above adjustments, there were also some minor changes, mostly in procedural documentation.

Measuring risk, monitoring limits and preparing risk reports are the responsibility of the Controlling/Corporate Planning and Transaction Management Treasury departments at MünchenerHyp. Risk management – including the responsibility of the board – is organisationally and functionally independent. The responsibility for formulating the business and risk strategy and for risk budgeting lies with the entire board of management. The supervisory board, which monitors the bank's risk profile every quarter (MaRisk AT 4.3.2), is informed of the strategy (MaRisk AT 4.2).

Typical risks in banking business are classified in the categories of borrower failure, market price, liquidity and operational risks.

Borrower failure risks cover potential losses arising from the default or reduction in creditworthiness of business partners. We try to minimise these risks by carrying out an assessment of each individual risk and by taking a cautious approach to loan approval within our credit risk management structure.

The MünchenerHyp Credit Handbook is the basis for managing our lending risks. It brings together the competences and procedural requirements of entities involved in lending, and catalogues the bank's credit products. Any topics over and above these operational regulations are now incorporated into the outline document for business and risk strategy. These include establishing credit limits and the collateral requirements needed to provide cover, guidelines for measuring and monitoring credit risks at both individual transaction and portfolio level, defining target customers and markets for every strategy element, describing the methods involved in opening up and handling markets, the company organisation for each area of business, and outlining the IT systems that relate to them.

The management of lending risks begins with the selection of the target business when drafting the terms of the loan, using risk-cost functions that are validated by a continuous backtesting process. A variety of scoring procedures are used, depending on the type and risk content of the transaction. During the past financial year we have introduced, among other measures, a new private client scorecard and a new LRG (local and regional governments) rating. A computer-based early warning system is used to spot risks on a timely basis.

Establishing strategic credit limits is effected over all business areas by a standard procedure based on the credit risk value-at-risk (Credit-VaR). Every borrowing entity contributes to a specific extent to the overall Credit-VaR. This contribution – the Marginal Credit-VaR – is subject to limits. For practical purposes, the sales departments are issued with tables, which list the nominal limits corresponding to the Marginal Credit-VaR as a function



of the probability of failure and the rate of loss. Additional limits for each property are derived from the limits for borrowing entities, in the case of those types of business where this is materially necessary. There are also limits for each federal state to ensure adequate regional diversification.

All the limits, and the overall credit limits pursuant to Art. 13 of the German Banking Act, are continuously monitored. In addition, every quarter the managing board and supervisory board receive a comprehensive credit risk report, which reveals the status of the bank's risk profile, particularly from the viewpoint of portfolio management. In the report, credit risk is shown in detail, classified by business areas, by score, volume and property categories, by region and by federal state.

In the case of property finance, a widely diversified range of properties with emphasis on residential building finance, combined with our tried and tested credit approval procedures, are reflected in our loan portfolio that has below-average credit risk. Our public-sector lending business is restricted to central and regional governments, central and local authorities, and public banks with excellent creditworthiness.

Market price risks are the possible losses arising from detrimental changes in market prices or in parameters that could affect the prices of securities, foreign exchange and derivatives. A distinction is made between, among other factors, the risks resulting from changes in interest rates and changes in exchange rates.

Risk from interest rate changes is the most important component as far as MünchenerHyp is concerned. MünchenerHyp's dealings outside Germany are hedged against currency risks.

Market price risks are controlled by evaluating the present value of each MünchenerHyp transaction on a daily basis. Transactions whose values are established by discounting cash flows are evaluated by the bank's SAP inventory system. The valuation of structured transactions – mainly interest rate capping, swaptions and termination rights that are lawful and agreed – is carried out in a dedicated system.

The backbone of our interest rate risk control system is the Delta vector, which is calculated on a daily basis. This figure is determined by calculating the present value of the loss incurred for each range of maturities when the mid-swap curve is increased by one basis point. At MünchenerHyp, market risks are recognised and limited by the value-at-risk index. The effects of extreme movements in market risk factors on the bank's present value are measured using scenario analyses.

Liquidity risks include not only the risk of a potential inability to pay but also that of costly follow-up financing. The most important principle in our liquidity management system is compliance with the regulatory requirements on liquid reserves held by banks, as stated in section 11 of the German Banking Act and in Principle II. In addition to complying with this ruling, MünchenerHyp also makes use of a 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 retain sufficient liquidity reserves in the form of securities deemed eligible to serve as reserves by the ECB.

Short-term liquidity planning is supported by IT systems that report all inflows and outflows of payments on a precise 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 taken into account for liquidity outlook scenario analysis as required: by next redemption date, by legal termination date, or weighted with the probability of their being redeemed. A mortgage bank's liquidity management is closely linked to the requirements of cover for Pfandbriefe, so the outlooks for liquidity and cover are linked by IT systems.



Barbara von Grafenstein has been the manager of the Munich regional office for many years and supports the Volksbanken and Raiffeisenbanken in the area of property finance.





"Property finance is the core business of the Volksbanken and Raiffeisenbanken. We support the professional consulting approach of our cooperative partners with our financing offers based on the building block principle."

Operational risks comprise possible losses caused by personal misconduct, weaknesses in procedural or project management, technical failure or negative outside influences. They also include legal risks and other general risks. Personal misconduct also includes unlawful actions, improper sales practices, unauthorised actions and transaction errors. We take steps to minimise operational risks by qualifying our staff, by using transparent and well-documented procedures, by automating standard procedures, and by having rigorous working instructions, comprehensive functional testing, and appropriate emergency planning and preventive measures. Insurable risks are covered by insurance to the normal extent required by banks.

USE OF FINANCE INSTRUMENTS FOR HEDGING PURPOSES

We engage in hedging activities – interest rate and currency derivatives – in order to further reduce our risks and to hedge our business activities. We do not employ credit derivatives. At the level of individual transactions, we use asset swaps as micro-hedges. Structured fundamental transactions such as callable securities were thus hedged accordingly with structured asset swaps during the year under review. Interest-currency swaps are used to hedge exchange rate risks arising from commitments outside Germany. At portfolio level, the main hedging instruments we use are interest swaps. Bermudan options on interest swaps (swaptions) or interest options (caps and floors) are used as macro-hedges for embedded legal termination rights or arrangements to limit interest rates.

REGULATORY FRAMEWORK

Following the publication of the German Banking Act, on 20 December 2006 the Capital Adequacy Solvency regulation, the regulation covering large exposures and loans, and the liquidity regulation were published in the Official Federal Gazette. This completes the national implementation of the Basle II framework, based on EU guideline 2006/48/EC of September 2005. The Capital Adequacy Solvency regulation came into force on

1 January 2007, and all credit institutions must change to the standard form by the beginning of 2008. MünchenerHyp will complete the changeover at the beginning of 2007 in order to be able to realise credit entries in comparison with the existing equity capital guideline.

EMPLOYEES

The success of any company depends on the people who work for it. Over the past year, MünchenerHyp's employees have worked hard for the bank with great ability and commitment. They have not only brought our business strategy to reality: they have also ensured the high quality of our advisory service and products with which we have had such great success in the market over the past year. We would therefore like to take this opportunity to express our appreciation and gratitude to MünchenerHyp's employees. Our repeated success would not have been possible without them.

We would also like to thank the employees' representative bodies. They have participated in our staff restructuring programme critically yet constructively and responsibly. Because of this we were able to complete the proposed changes in our staff structure ahead of schedule without any compulsory redundancies.

Over the year, MünchenerHyp employed an average of 346 employees. We were successful in adapting our staff structure to meet organisational and market needs, bearing in mind the qualitative demands that the future will bring. By strengthening our staff and upgrading income-yielding areas, MünchenerHyp is well equipped to take on future challenges.

Employee turnover has been very low for many years, an indication that the employees identify strongly with the bank. This can also be seen in the length of service: about half of the staff have been with the bank for 10 years or more, and last year two members of staff celebrated 25 years of service.



In order to retain our staff's high standards of ability, it is part of our strategy to promote the continued qualification enhancement and training of our employees. In addition to individual initiatives, the bank promoted staff training by means of development programmes for all staff on the subjects of work methodology/time management, self-presentation, healthcare and market orientation. The courses offered were very well received.

Using assessment centres, employees with potential were selectively supported by giving them tasks with new responsibilities, so that vacancies were filled internally. In this way we managed to keep experienced, qualified staff at MünchenerHyp. At the same time we were also successful in attracting qualified employees from outside to develop new areas of business.

Our annual planning procedure, with the setting of agreed targets combined with a success-oriented system of pay, was further developed. The trainee programme was restructured in the areas of private customers, commercial customers and Treasury.

A process of continuous improvement was introduced in order to make operating procedures more efficient and more streamlined. Under the motto "Better together every day", a project team collected suggestions and ideas from all divisions, with the aim of improving operating procedures in the bank.

CORPORATE PLANNING

The principal aims of MünchenerHyp corporate planning are:

1. To achieve our revenue and cost targets
2. To ensure that revenue is sustainable
3. To ensure that risks are covered in all the business activities employed in order to reach these revenue and cost targets.

The keynote of our corporate planning is the MHB2008 strategic programme. This includes the quantitative goals and initiatives for the next few years. In order to achieve these goals, a

wide range of measures is specified to reduce costs and improve procedures as well as to increase revenue. The last of the planned measures were begun during 2006. All of the measures are on target. Several of them have already been completed, with the result that we can expect to see more planned positive effects in the years to come.

"MHB2008, our strategic plan guides our company planning. All of the measures are on schedule, and we were able to already complete some of them so that we anticipate benefiting from additional favourable effects in the coming years."

During 2006, the main focus of the implemented measures was in the areas of revenue and costs. MünchenerHyp reached the planned operative target levels in administration expenditure ahead of time, and the implemented measures also resulted in a noticeable cost reduction in the area of material costs.

The MünchenerHyp operational sales targets are set realistically so that they can be attained, achieve the desired P&L result, and are commercially sustainable.

To put our strategy into action, we have further developed the planning process, which synchronises the operational sales targets, agreed individual targets and the bank's project portfolio. The annual review of the business and risk strategy under MaRisk is the start of this integrated planning process.

The annual planning process is continuously quality-assured. Constant monitoring of sales performance means that the opportunities and risks involved in achieving the strategic goals can be recognised quickly. In this way, the bank is able to react without delay to fluctuations in margins or to changes in market conditions. Most business activities that are aimed at the achievement of our revenue and cost goals involve inherent risks. These risks have to be covered by equity capital. Budgeting for risk is a permanent element of MünchenerHyp's annual

strategic review, and ensures that new and strategically important business activities are always covered by adequate risk capital.

OUTLOOK

Confidence levels in Germany showed constant improvement at the start of 2007. This indicates that the economy will cope better than expected with the increase in value added tax, and that the economic recovery in Germany will continue. Many of the economic forecasts from 2006 have since been raised. It is looking more and more feasible that in 2007 the German economy will achieve growth not far below the previous year's level of 2.7 percent.

The additional fiscal burdens in some EU countries and the somewhat slower pace of the world economy could act to slow down economic growth in the euro area during 2007. However, relatively stable confidence indicators and the high level of capacity utilisation make any significant slump unlikely. Experts anticipate that economic growth for the thirteen euro countries will slow down to about 2 percent over 2007.

"We see MünchenerHyp well positioned to further improve its business success in the coming years."

Many economists are predicting a soft landing for the American economy in 2007, including a cooling-down of the labour market. A rise of between 2 and 2.5 percent will bring the growth rate in the US economy close to that of the euro area. Exports are likely to play an important role in supporting the economy as it grows at a weaker pace. The level of investment is expected to be below the average of the last few years, and personal consumption is expected to fall.

At the beginning of this year the European Central Bank decided to use resolute and well-timed measures in order to peg inflation expectations throughout the euro currency area at a level in line with price stability. Further interest rate changes are expected from the ECB in view of the continuing economic upswing in the euro area.

The overall outlook for property markets is good. Moderate growth is expected in the German construction industry over the next few years, stimulated primarily by commercial building and to a lesser extent by residential and public sector building.

Steady positive growth in the economy as a whole, and in particular a further improvement of the situation in the job market – which would give people a more optimistic outlook for the future – could increasingly overcome the current reluctance to buy property. The desire for a home of one's own is very widespread: 57 percent of tenants strive to buy their own homes. However, worry about the future has been the main reason cited for reluctance to buy: 68 percent of tenants wishing to buy say that concern about taking on too much debt is the main reason they have not realised their wish to have their own four walls.

The investments made in 2006 on the basis of the planned increase in value added tax will be absent in 2007. This applies in particular to redevelopment and renovation initiatives. We expect the effects on financing levels in the private customer sector to be limited, as many of the initiatives taken in 2006 were in any case financed with own resources.

"Within the private housing business unit our collaboration with the Volksbanken and Raiffeisenbanken is at the centre of all our activities. Specific measures in the direct marketing area will further strengthen our cooperation and support the Volksbanken and Raiffeisenbanken in their efforts to develop the markets."



In private property, medium-term forecasts predict moderate but continuous growth of 1.4 percent on average each year. Price increases of more than 40 percent – equal to 2.4 percent per year – are forecast for the Munich metropolitan area until 2015, and more than 30 percent is expected in a number of other major metropolitan areas. In some regions, though, prices are stagnant. The outlook in Eastern Germany continues to be difficult, although there are an increasing number of economic growth centres promoting areas where property prices are going up.

Overall, in Germany we expect stable demand for residential property and property financing.

In the commercial property sector we assume that the capital flow into Germany will remain at the same level as in 2006. This could also have a favourable effect on the development of new business in this sector. The improved economic environment should lead to more financing contracts being signed, without any change to our risk-strategy parameters. It could be helped by the introduction of G-REITs, as their expected financing structures are in accordance with MünchenerHyp's low-risk strategy.

Among the property markets in Europe, we expect the big metropolitan areas to be especially significant for MünchenerHyp during 2007 as they continue to be the focus of institutional investors – above all, cities such as London, Paris, Madrid and Barcelona.

In 2007, we may assume that the existing positive trend in the American economy will continue to have a stabilising effect on the market for office property. Over the country as a whole, average vacancy rates have already reached their lowest level since the recession following the attacks of September 2001. In many places, the trend is still downwards. The expected soft landing of the US economy is likely to have little effect on the office property market in 2007, as the volume of new construction is said to be well below the level of the expected demand for space. Returns on property investment last year fell even

lower in the US. In the case of properties of institutional quality in central locations, returns reached rates that are only slightly above the levels that are used as a starting point in London or Madrid. Despite low returns and high prices, there is still great demand for office premises, for example in New York and Washington D.C. This clearly shows that capital investors connect investment in these locations with a heightened sensitivity for security considerations.

Against a setting of a continuing upward movement in the economy and comparatively low interest rates, we are confident of once again increasing our volume of new business in 2007.

In the area of private property finance, our cooperation with the Volksbanken and Raiffeisenbanken is at the centre of all our activities. Selective direct marketing initiatives will strengthen this cooperation and will support the Volksbanken and Raiffeisenbanken in their handling of the market.

In order to boost the cooperative sector in private property financing we intend to look at additional sales channels and, if necessary, expand these in a way that is appropriate for the association.

In addition, the new structure of our product range will provide even better support to the sales units, and we have expanded and improved our range of products for this purpose. By doing this, we will make it easier for tenants to buy their own property, and we will also open up opportunities for existing property owners to obtain attractive interest rates for follow-up loans.

Our commercial property lending business will continue to be expanded in line with our strategy. There is a growing trend for financing transactions from all over Europe to be channelled through London, so our office in London – opened in early 2006 – will allow us to participate in the London market's activities as a hub for European property finance. Further initiatives are also planned for our commercial property finance business within Germany.

In the area of Credit Treasury, increasing financing activity in the loan markets both at home and abroad will also result in growth in the volume of syndication. This applies both to loan components put on the market by MünchenerHyp and to MünchenerHyp's participation in loans by third-party banks.

“Our commercial property lending business will be expanded in line with our strategic plans. Our London office places us at the hub of the European property finance market.”

In mortgage-backed securities (MBS), we are expecting the increase in issues seen in the last few years to continue during 2007. However, the rate of development seen in the past in Europe, and especially in Germany, will slow down. We are expecting spreads to see a sideways trend on average over the year, as both supply and demand should grow at the same rate. In this market situation, the Credit Treasury department will invest selectively.

Overall, our view is that MünchenerHyp is well equipped to further increase its business success in the coming years, and we expect to continue the good results achieved in 2006.





Mike Lowery manages our London representative office and takes advantage of London's hub function to decisively expand our international property financing business.





"Expertise and fast decisions have made us an attractive financing partner in the commercial property market. This is the foundation for our solid positioning in the international property finance business."

BALANCE SHEET, 31 DECEMBER 2006

ASSETS		31 Dec. 06	31 Dec. 05
	€	€	€ 000
1. Cash reserve			
a) Cash on hand	18,833.98		23
b) Balances with Central Banks	46,801,696.86		70,626
of which			
with Deutsche Bundesbank € 46,801,696.86			
		46,820,530.84	70,649
2. Claims on banks			
a) Mortgage loans	210,746,740.64		265,116
b) Public-sector loans	3,233,004,795.77		4,156,089
c) Other claims	1,491,068,015.60		2,488,876
of which			
payable on demand € 343,053,775.30			
		4,934,819,552.01	6,910,081
3. Claims on customers			
a) Mortgage loans	11,828,400,527.79		11,510,695
b) Public-sector loans	7,308,651,038.19		7,504,565
c) Other claims	119,692,288.50		6,178
of which			
with securities pledged as collateral € 773,687.44			
		19,256,743,854.48	19,021,438
4. Bonds and other fixed-income securities			
a) Bonds and notes	6,974,350,899.75		7,324,738
aa) Public-sector issuers € 1,912,380,842.16			(2,446,383)
of which			
eligible as collateral for Deutsche Bundesbank advances € 1,610,433,979.63			
ab) Other issuers € 5,061,970,057.59			(4,878,355)
of which			
eligible as collateral for Deutsche Bundesbank advances € 4,622,406,597.45			
b) Own bonds and notes	22,007,891.90		70,870
Nominal value € 21,962,096.57			
		6,996,358,791.65	7,395,608
Carried forward		31,234,742,728.98	33,397,776



LIABILITIES, CAPITAL AND RESERVES	31 Dec. 06	31 Dec. 05
	€	€ 000
1. Liabilities to banks		
a) Registered mortgage Pfandbriefe issued	946,666,919.29	772,353
b) Registered public-sector Pfandbriefe issued	196,626,078.60	312,243
c) Other liabilities	1,542,782,892.36	1,304,964
of which		
payable on demand € 2,807,297.79		
delivered to lenders as collateral for loans received		
registered mortgage Pfandbriefe € 1,415,739.02		
and registered public-sector Pfandbriefe € 923,662.15		
	2,686,075,890.25	2,389,560
2. Liabilities to customers		
a) Registered mortgage Pfandbriefe issued	2,811,562,263.60	2,316,490
b) Registered public-sector Pfandbriefe issued	4,623,405,027.46	4,719,025
c) Other liabilities	732,751,878.35	743,584
of which		
payable on demand € 6,379,568.78		
delivered to lenders as collateral for loans received		
registered mortgage Pfandbriefe € 5,000,000.00		
and registered public-sector Pfandbriefe € 5,112,918.81		
	8,167,719,169.41	7,779,099
3. Certificated liabilities		
a) Mortgage Pfandbriefe issued	6,676,921,691.57	7,324,970
b) Public-sector Pfandbriefe issued	9,876,888,476.12	11,780,917
c) Other bonds issued	3,473,917,673.35	3,695,203
	20,027,727,841.04	22,801,090
4. Liabilities incurred as trustee	336,914.44	402
of which		
loans € 336,914.44		
5. Other liabilities	181,418,529.64	140,511
Carried forward	31,063,278,344.78	33,110,662

ASSETS		31 Dec. 06	31 Dec. 05
	€	€	€ 000
Brought forward		31,234,742,728.98	33,397,776
5. Equities and other variable-yield securities		306,378,483.35	233,454
6. Participating interests and shares in cooperatives			
a) Participating interests	56,459,914.42		42,646
b) Shares in cooperatives	18,500.00		18
of which			
in credit cooperatives € 15,500.00			
		56,478,414.42	42,664
7. Shares in affiliated companies		801,601.64	802
8. Assets held in trust		336,914.44	402
of which			
loans € 336,914.44			
9. Intangible assets		1,338,604.76	1,755
10. Tangible assets		92,526,220.53	98,036
11. Other assets		90,992,470.30	46,103
12. Deferred items			
a) From issuing and lending business	147,149,587.48		191,780
b) Other	1,743,619.20		2,046
		148,893,206.68	193,826
Total assets		31,932,488,645.10	34,014,818



LIABILITIES, CAPITAL AND RESERVES	31 Dec. 06	31 Dec. 05
	€	€ 000
Brought forward	31,063,278,344.78	33,110,662
6. Deferred items		
From issuing and lending business	28,512,912.21	34,506
	28,512,912.21	34,506
7. Provisions		
a) Provisions for pensions and similar obligations	21,221,279.00	16,720
b) Provisions for taxes	6,178,053.26	7,288
c) Other provisions	12,394,480.61	12,297
	39,793,812.87	36,305
8. Subordinated liabilities	66,300,000.00	66,300
9. Profit-participation certificates	91,009,954.87	100,725
of which		
€ 33,745,264.16 are due within two years		
10. Capital and reserves		
a) Subscribed capital	367,687,445.57	395,154
aa) Members' capital contributions € 124,794,428.57		(121,620)
ab) Silent participations € 242,893,017.00		(273,534)
b) Revenue reserves	268,338,340.75	263,838
ba) Legal reserve € 266,804,465.11		(262,304)
bb) Other revenue reserves € 1,533,875.64		(1,534)
c) Unappropriated profit	7,567,834.05	7,328
	643,593,620.37	666,320
Total liabilities, capital and reserves	31,932,488,645.10	34,014,818
1. Contingent liabilities		
Contingent liability on guarantees and indemnities	16,987,093.16	7,816
2. Other commitments		
Irrevocable loan commitments	812,644,373.25	514,168

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

EXPENSES	31 Dec. 06	31 Dec. 05
	€	€ 000
1. Interest expenses	1,470,513,417.55	1,472,375
2. Commission paid	18,534,531.20	15,901
3. General administrative expenses		
a) Personnel expenses	29,913,395.06	25,912
aa) Wages and salaries € 20,527,215.64		(19,311)
ab) Social security contributions and cost of pensions and other benefits € 9,386,179.42		(6,601)
of which for pensions € 6,297,235.12		
b) Other administrative expenses	19,490,305.75	21,297
	49,403,700.81	47,209
4. Depreciation and write-downs of intangible and tangible assets	4,230,218.73	4,596
5. Other operating expenses	4,026,275.74	3,315
6. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses	48,983,649.57	19,601
7. Write-downs and adjustments to participating interests, shares in affiliated companies and securities treated as fixed assets	0.00	1,471
8. Taxes on income	824,421.73	5,552
9. Other taxes not included under "Other operating expenses"	101,126.92	86
10. Profits paid out due to a profit pooling agreement, a profit transfer agreement or a partial profit transfer agreement	15,553,002.33	8,723
11. Net income	11,311,930.68	10,205
Total expenses	1,623,482,275.26	1,589,034
1. Net income	11,311,930.68	10,205
2. Retained earnings brought forward from previous year	755,903.37	423
	12,067,834.05	10,628
3. Transfer to legal reserve	4,500,000.00	3,300
4. Unappropriated profit	7,567,834.05	7,328



One year ago, Bernd Fuhrmann's dream of owning his own house in the south of Munich came true.





"Every homebuilder has different financing requirements. A financial solution that was structured to meet my individual situation made it possible for me to own my home."

NOTES

GENERAL INFORMATION ON ACCOUNTING POLICIES

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

Securities held in the liquidity portfolio are strictly valued at the lower of cost or market principle. Securities held as assets, which were mainly acquired in the course of the Bank's public-sector lending business are valued at cost. Discounts and premiums are recognised as interest income or expense over the terms of the securities. Securities associated with swap agreements are valued together with these agreements, as a single item. To the extent that they are used to hedge risks, derivatives are not valued individually.

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 principles of actuarial mathematics using a 4% rate of interest. During the year under review the discounting rate was reduced from 6% to 4%.

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



NOTES TO THE BALANCE SHEET

MATURITY ANALYSIS BY RESIDUAL TERM ASSETS

	€ 000
Claims on banks	4,934,820
≤ Three months	1,288,586
> Three months ≤ one year	521,595
> One year ≤ five years	2,324,521
> Five years	800,118
Claims on customers	19,256,744
≤ Three months	385,604
> Three months ≤ one year	1,184,130
> One year ≤ five years	3,904,882
> Five years	13,782,128
Bonds and other fixed-income securities ≤ one year	1,254,463

LIABILITIES

	€ 000
Liabilities to banks	2,686,076
≤ Three months	1,064,228
> Three months ≤ one year	277,054
> One year ≤ five years	715,721
> Five years	629,073
Liabilities to customers	8,167,719
≤ Three months	486,933
> Three months ≤ one year	301,272
> One year ≤ five years	1,439,338
> Five years	5,940,176
Certificated liabilities	20,027,728
≤ Three months	1,235,267
> Three months ≤ one year	3,180,065
> One year ≤ five years	10,916,228
> Five years	4,696,168

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

	31 Dec. 06 € 000	31 Dec. 05 € 000
Claims on		
Banks	5,254	19,508
Customers	51,734	61,168
Liabilities to		
Banks	154,919	214,836
Customers	0	0

CLAIMS ON AND LIABILITIES TO AFFILIATED COMPANIES

	31 Dec. 06 € 000	31 Dec. 05 € 000
Claims on customers	9,176	11,542
Liabilities to customers	1,859	2,017

SECURITIES MARKETABLE ON THE STOCK EXCHANGE

Asset category	31 Dec. 06 € 000		31 Dec. 05 € 000	
	listed	unlisted	listed	unlisted
Bonds and other fixed-income securities	6,786,264	78,107	7,164,146	96,490
Participating interests	0	1,689	0	1,689



DETAILS OF FIXED ASSETS

	Cost	Additions	Rebook- ings	Disposals	Depreciation provided in 2006	Accumula- ted depre- ciation	Net book value 31 Dec. 06	Net book value 31 Dec. 05
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Intangible assets	12,161	699	0	0	1,115	11,521	1,339	1,755
Tangible assets	118,444	266	0	3,913	3,115	22,271	92,526	98,036
	Changes +/- *)							
Participating in- terests and shares in cooperatives	42,664			+13,814			56,478	42,664
Shares in affiliated companies	802			0			802	802
Bonds and other fixed-income securities	3,947,464			- 926,043			3,021,421	3,947,464

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

As of the date of record there was no indication that the present value of the Bank's participations and capital holdings at cooperatives or the value of the affiliated companies was less than their book values.

The item "Bonds and other fixed-income securities" includes securities with a book value of € thousand 1,145,218 exceeding the present value of € thousand 1,138,403. 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. 06 € 000	31 Dec. 05 € 000
Trust assets		
Claims on customers	337	402
Trust liabilities		
Liabilities to banks	337	402

TANGIBLE ASSETS

The portion of the total value attributable to the land and buildings used by the Bank is € thousand 70,553 (31 Dec. 05 € thousand 71,544), and of plant and office equipment € thousand 2,969 (31 Dec. 05 € thousand 4,070).

SUBORDINATED ASSETS

Claims on banks include an amount of € thousand 10,000 (31 Dec. 05 € thousand 10,000).

OTHER ASSETS

In addition to deferred items related to the derivative business, the item "Other assets" primarily includes claims on the German tax authorities (Finanzamt) for corporation tax credit.

SUBORDINATED LIABILITIES

Subordinated liabilities incurred interest expenses of € thousand 4,232 (31 Dec. 05 € thousand 4,232). Subordinated liabilities which individually exceed 10% of the overall statement amount to:

Nominal amount	Currency	Interest rate	Maturity date
16,000,000.00	euro	6.28%	07 Feb. 2011
30,000,000.00	euro	6.25%	01 Jun. 2011

Fund-raising activities did not include any conditions that deviated from Art. 10 (5a) of the German Banking Act. Premature repayment obligations are excluded in all cases. The conversion of these funds into capital or other forms of debt has either not been agreed upon or is foreseen.

PROFIT-PARTICIPATION CERTIFICATES

The amount of profit-participation certificates of € thousand 91,010 satisfying the criteria of section 10 (5) of the German Banking Act is € thousand 57,180.

DETAILS OF REVENUE RESERVES

	Legal reserve € 000	Other revenue reserves € 000
1 Jan. 2006	262,304	1,534
Transfer from 2005 retained earnings	0	0
Transfer from 2006 net income	4,500	0
31 Dec. 2006	266,804	1,534



MEMBERS' CAPITAL CONTRIBUTIONS

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

	31 Dec. 06 €	31 Dec. 05 €
Capital contributions	124,794,428.57	121,620,341.57
a) of remaining members	123,633,058.57	120,901,330.61
b) of former members	1,039,780.00	689,260.96
c) in respect of shares under notice	121,590.00	29,750.00
Outstanding obligatory payments in respect of shares	171.43	668.43

SILENT PARTICIPATIONS

The silent participations of € thousand 242,893 satisfy the criteria of Art. 10 (4) of the German Banking Act. The interest expense attributable to these participations amounted to € thousand 15,553.

FOREIGN CURRENCY ITEMS

Assets and liabilities included items denominated in foreign currencies as follows:

Assets € thousand 1,376,082 (31 Dec. 05 € thousand 909,235) and liabilities € thousand 873,145 (31 Dec. 05 € thousand 570,048).

All transactions denominated in foreign currencies were hedged to protect against currency risks.

PERSONNEL EXPENSES

The increase in personnel expenses was mainly due to the reduction of the discounting rate used to calculate pension obligations from 6% to 4%; this change had an impact of € million 3.8.

WRITE-DOWNS AND ADJUSTMENTS TO CLAIMS AND CERTAIN SECURITIES, AND ADDITIONS TO PROVISIONS FOR POSSIBLE LOAN LOSSES

The increase over the year-ago figure was primarily due to allocations to reserves pursuant to Art. 340f of the German Commercial Code.

INCOME FROM WRITING UP VALUE OF PARTICIPATIONS, SHARES IN AFFILIATED COMPANIES AND SECURITIES TREATED AS FIXED ASSETS

In addition to income from the sale of securities treated as fixed assets, this item mainly contains income derived from participations.

OTHER OPERATING INCOME

Other operating income contains € thousand 20,322 which is the amount of the corporate tax credit due to the Bank.

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 €)			Total	Counterparty risk *)
	Residual term ≤ one year	Residual term > one year ≤ five years	Residual term > five years		
Interest-Rate-Related Transactions					
Interest rate swaps	7,412	17,437	23,190	48,039	- 461
Interest rate options					
- Calls	97	327	175	599	10
- Puts	123	294	66	483	- 10
- Other interest rate contracts	0	6	907	913	- 6
Currency-Related Transactions					
Cross-currency swaps	458	583	130	1,171	- 48

*) 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 price models using generally accepted basic assumptions. In general the price of the underlying value, its volatility, the agreed strike price, a risk-free interest rate, and the remaining term to the expiration date are used to calculate the particular value of an option.

The derivative financial instruments noted involve premiums stemming from option trades in the amount of € thousand 1,850 or € thousand 75 which are contained in the balance sheet items "Other assets" and "Other liabilities."

Interest attributable to derivative deals is shown in the balance sheet items "Claims on banks" with € million 362.0 and "Liabilities to banks" with € million 374.6. The accrual of compensatory payments made is entered under "Other assets" with € million 12.1; the accrual of compensatory payments received is entered under "Other liabilities" with € million 58.1.

Compensatory items in the amounts of € million 32.5 and € million 75.1 related to the valuation of foreign currency swaps are contained in the balance sheet items "Other assets" and "Other liabilities", respectively.

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 are reflected in the appropriate on-balance-sheet transaction items.



ANALYSIS OF COVER FOR PFANDBRIEFE

A. MORTGAGE PFANDBRIEFE

	€ 000
Ordinary cover	10,065,117
1. Claims on banks (mortgage loans)	188,695
2. Claims on customers (mortgage loans)	9,821,534
3. Tangible assets (charges on land owned by the Bank)	54,888
Substitute cover	849,948
1. Other claims on banks	93,348
2. Bonds and other fixed-income securities	756,600
Total cover	10,915,065
Total mortgage Pfandbriefe requiring cover	10,215,070
Surplus cover	699,995

B. PUBLIC-SECTOR PFANDBRIEFE

	€ 000
Ordinary cover	15,297,077
1. Claims on banks (public-sector loans)	3,161,157
2. Claims on customers (public-sector loans)	7,163,138
3. Bonds and other fixed-income securities	4,972,474
4. Other assets (offsetting currency derivatives)	308
Substitute cover	324,464
Other claims on banks	324,464
Total cover	15,621,541
Total public-sector Pfandbriefe requiring cover	14,336,612
Surplus cover	1,284,929

REGULATORY REPORTING IN ACCORDANCE WITH ART. 28 PFANDBRIEF ACT PARA 1 NO. 1 TO 3 (PFANDBG)

MORTGAGE PFANDBRIEFE OUTSTANDING AND CORRESPONDING COVER POOLS

	Nominal value	
	31 Dec. 06 € 000	31 Dec. 05 € 000
Mortgage Pfandbriefe	10,215,070	10,213,871
Cover pools	10,915,065	10,588,086
of which		
further cover assets	904,836	682,871
derivatives	0	0
Surplus cover	699,995	374,215

	Net present value	
	31 Dec. 06 € 000	31 Dec. 05 € 000
Mortgage Pfandbriefe	10,363,141	10,694,282
Cover pools	11,404,731	11,518,151
of which		
further cover assets	876,651	629,436
derivatives	0	0
Surplus cover	1,041,590	823,869

	Risk-adjusted net present value *)	
	31 Dec. 06 € 000	31 Dec. 05 € 000
Value of excess cover after stress test	929,790	705,300

*) 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. 06 € 000			
		> one year	> five years	
	≤ one year	≤ five years	≤ ten years	> ten years
Mortgage Pfandbriefe	1,342,726	4,406,797	3,249,778	1,215,769
Cover pools	1,197,022	4,242,375	4,207,715	1,267,953

	Maturity analysis by residual term 31 Dec. 05 € 000			
		> one year	> five years	
	≤ one year	≤ five years	≤ ten years	> ten years
Mortgage Pfandbriefe	1,891,363	4,734,686	3,095,458	492,364
Cover pools	1,443,527	4,375,406	3,904,505	864,648



PUBLIC PFANDBRIEFE OUTSTANDING AND CORRESPONDING COVER POOLS

	Nominal value	
	31 Dec. 06 € 000	31 Dec. 05 € 000
Public Pfandbriefe	14,336,612	16,422,260
Cover pools	15,621,541	17,862,657
of which		
further cover assets	324,464	376,500
derivatives	308	101
Excess cover	1,284,929	1,440,397

	Net present value	
	31 Dec. 06 € 000	31 Dec. 05 € 000
Public Pfandbriefe	15,008,841	17,774,975
Cover pools	16,442,887	19,245,069
of which		
further cover assets	326,591	377,111
derivatives	15,554	28,805
Excess cover	1,434,046	1,470,094

	Risk-adjusted net present value *)	
	31 Dec. 06 € 000	31 Dec. 05 € 000
Value of excess cover after stress test	1,277,243	1,412,900

*) 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. 06 € 000

	> one year		> five years	
	≤ one year	≤ five years	≤ ten years	> ten years
Public Pfandbriefe	2,164,318	5,991,347	2,161,922	4,019,025
Cover pools	2,740,498	6,992,168	4,187,932	1,700,943

Maturity analysis by residual term 31 Dec. 05 € 000

	> one year		> five years	
	≤ one year	≤ five years	≤ ten years	> ten years
Public Pfandbriefe	3,558,955	5,318,578	3,565,948	3,978,779
Cover pools	3,293,347	8,365,938	4,544,589	1,658,783

**TOTAL VOLUME OF CLAIMS USED TO COVER MORTGAGE PFANDBRIEFE ACCORDING TO THEIR AMOUNT IN TRANCHES
A. ACCORDING TO SIZE**

	31 Dec. 06 € 000	31 Dec. 05 € 000
≤ € 300,000	6,754,589	6,982,214
> € 300,000 ≤ € 5 million	1,964,494	1,888,750
> € 5 million	1,291,146	1,034,251
Total	10,010,229	9,905,215

**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. 06 € 000		31 Dec. 05 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Federal Republic of Germany				
Apartments		2,001,190		1,914,500
Single-family houses		3,309,814		3,397,726
Multiple-family dwellings		2,659,336		2,751,600
Office buildings	557,482		512,921	
Retail buildings	436,245		403,844	
Industrial buildings	92,474		97,870	
Other commercially used properties	153,393		167,996	
New buildings and buildings not yet capable of producing a yield	1,320	120,540	1,765	118,674
Buildings under construction	1,015	1,282	97	912
	1,241,929	8,092,162	1,184,493	8,183,412
of which in				
Baden-Württemberg	241,036	1,234,367	264,226	1,291,814
Bavaria	303,809	2,087,915	262,676	2,086,361
Berlin	20,057	214,924	20,544	216,501
Brandenburg	7,640	71,375	7,746	76,014
Bremen	231	15,545	686	16,201
Hamburg	63,569	137,354	31,889	125,609
Hessen	172,168	713,074	166,268	705,088
Mecklenburg-Lower Pomerania	5,771	71,264	7,406	79,815
Lower Saxony	62,416	600,224	43,331	615,122
North Rhine-Westphalia	220,296	1,566,942	225,754	1,564,250



	31 Dec. 06 € 000		31 Dec. 05 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Rheinland Palatinate	22,933	235,289	22,023	249,548
Saarland	8,743	37,357	9,355	44,902
Saxony	34,480	272,984	34,852	294,208
Saxony-Anhalt	7,825	84,555	8,766	88,477
Schleswig-Holstein	54,469	609,995	60,471	575,892
Thuringia	16,486	138,998	18,500	153,610
Belgium				
Office buildings	5,837		12,390	
	5,837		12,390	
France				
Office buildings	76,207		59,305	
	76,207		59,305	
Great Britain				
Office buildings	109,046		94,617	
	109,046		94,617	
Luxembourg				
Retail buildings	4,250		4,250	
	4,250		4,250	
The Netherlands				
Single-family houses		0		874
Office buildings	186,367		162,506	
Retail buildings	12,631		18,117	
Other commercially used properties	7,787		11,567	
	206,785	0	192,190	874
Austria				
Single-family houses		80		83
Office buildings	38,656		39,321	
	38,656	80	39,321	83
Sweden				
Office buildings	33,984		32,724	
	33,984		32,724	

	31 Dec. 06 € 000		31 Dec. 05 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Spain				
Office buildings	8,100		8,100	
	8,100		8,100	
USA				
Multiple-family dwellings		42,045		0
Office buildings	112,004		57,514	
Retail buildings	39,144		35,942	
	151,148	42,045	93,456	0
Total	1,875,942	8,134,287	1,720,846	8,184,369
Apartments		2,001,190		1,914,500
Single-family houses		3,309,894		3,398,683
Multiple-family dwellings		2,701,381		2,751,600
Office buildings	1,127,683		979,398	
Retail buildings	492,270		462,153	
Industrial buildings	92,474		97,870	
Other commercially used properties	161,180		179,563	
New buildings and buildings not yet capable of producing a yield	1,320	120,540	1,765	118,674
Buildings under construction	1,015	1,282	97	912

PAYMENTS IN ARREARS ON COVERING MORTGAGES

	31 Dec. 06 € 000	31 Dec. 05 € 000
Federal Republic of Germany	24,695	13,188
The Netherlands	2,453	0
Total amount of payments in arrears for at least 90 days	27,148	13,188



TOTAL VOLUME OF CLAIMS USED TO COVER PUBLIC PFANDBRIEFE

Value of cover

	31 Dec. 06 € 000	31 Dec. 05 € 000
Federal Republic of Germany		
State	61,129	117,258
Regional authorities	4,749,299	4,817,989
Local authorities	2,481,363	2,921,878
Other debtors	6,200,641	7,567,839
	13,492,432	15,424,964
Belgium		
State	175,000	199,789
	175,000	199,789
Denmark		
State	2,784	2,543
	2,784	2,543
France		
Local authorities	2,006	2,256
	2,006	2,256
Greece		
State	160,663	163,079
	160,663	163,079
Ireland		
State	22,695	22,695
	22,695	22,695
Iceland		
State	60,000	60,000
	60,000	60,000
Italy		
State	139,462	308,000
Regional authorities	5,000	5,000
	144,462	313,000
Lithuania		
State	30,000	0
	30,000	0
The Netherlands		
State	1,475	1,475
	1,475	1,475

	31 Dec. 06 € 000	31 Dec. 05 € 000
Austria		
State	141,034	216,406
Regional authorities	167,500	208,100
	308,534	424,506
Poland		
State	65,000	97,750
	65,000	97,750
Portugal		
State	35,000	35,000
Regional authorities	10,000	10,000
	45,000	45,000
Sweden		
State	10,226	10,226
	10,226	10,226
Switzerland		
Regional authorities	186,695	192,914
Other debtors	100,000	0
	286,695	192,914
Slovenia		
State	70,000	0
	70,000	0
Spain		
State	240,354	243,954
Regional authorities	177,081	169,081
	417,435	413,035
Hungary		
State	0	100,000
	0	100,000
European Institutions		
State	2,362	12,824
	2,362	12,824
Total	15,296,769	17,486,056
State	1,217,184	1,590,999
Regional authorities	5,295,575	5,403,084
Local authorities	2,483,369	2,924,134
Other debtors	6,300,641	7,567,839



REPAYMENTS OF COVERING MORTGAGES

	€ 000	of which housing sector € 000	of which commercial property sector € 000
Redemptions	234,287	195,422	38,865
Other forms of repayment	910,479	607,715	302,764
	1,144,766	803,137	341,629

INTEREST OUTSTANDING

Unpaid interest on mortgage loans due for payment between 1 October 2005 and 30 September 2006 has been fully written off or value adjustments have been made. Interest outstanding consisted of

	€ 000	of which housing sector € 000	of which commercial property sector € 000
Interest on mortgage loans	2,001	1,741	260

FORCED AUCTIONS AND RECEIVERSHIPS OF COVERING MORTGAGES

		of which housing sector	of which commercial property sector
The number of proceedings pending at 31 Dec. 06 was			
- Forced auctions	256	238	18
- Receiverships	136	121	15
	106*)	96*)	10*)
The number of forced auctions conducted in 2006	97	92	5

*) of which included in pending forced auctions

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

OTHER DISCLOSURES

MEMBERSHIP DATA

	Number of members	Number of shares	Members' liability for additional contributions €
Beginning of 2006	94,488	1,727,171	441,551,266.15
Additions in 2006	1,323	70,055	17,909,560.75
Reductions in 2006	2,457	31,037	7,934,609.05
End of 2006	93,354	1,766,189	451,526,217.85
			€
Increase in members' capital contributions in 2006			2,731,727.96
Increase in members' liability for additional contributions in 2006			9,974,951.70
Amount of each share			70.00
Liability for additional share			255.65

PERSONNEL STATISTICS

The average number of persons employed by the Bank in 2006 was as follows:

	Male	Female	Total
Full-time employees	175	110	285
Part-time employees	1	48	49
Total employees	176	158	334
Apprenticed trainees	4	8	12

SHAREHOLDINGS

	Percentage of capital held	Capital in € 000	Profit/Loss in € 000
M-Wert GmbH, Munich	100	1,073	212
Immobilien-service GmbH der Münchener Hypothekenbank eG (M-Service), Munich	100	509	0
Nussbaumstrasse GmbH & Co. KG, Munich	100	134	- 84
Patio Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz	33	- 3,325	- 212
MURECON Munich Real Estate Consulting GmbH, Munich	45	100	0



BODIES

SUPERVISORY BOARD

Prof. Dr. Willibald J. Folz ... Munich
Attorney, Chairman of the Supervisory Board

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

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

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

Konrad Irtel ... Rosenheim (as of 29 April 2006)
Speaker of the Board of Management of
Raiffeisenbank Rosenheim eG

Michael Jung ... Maulbronn (as of 29 April 2006)
Speaker of the Board of Management of
Volksbank Maulbronn-Oberderdingen eG

Dr. Rainer Märklin ... Reutlingen (until 29 April 2006)
Bank Director (ret.)

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

Jürgen Partenheimer ... Munich (until 29 April 2006)
Bank Director (ret.)

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

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

BOARD OF MANAGEMENT

Erich Rödel, Friedrich Munsberg (until 13 February 2007),
Dr. Bernhard Scholz

Loans to members of the Supervisory Board amounted to € thousand 31,079. Pension provisions for former members of the Board of Management amounted to € thousand 13,306. Total emoluments of members of the Supervisory Board during the year under review amounted to € thousand 306. Total emoluments of former members of the Board of Management or their surviving dependants amounted to € thousand 1,061.

AUDITING ASSOCIATION

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

Pursuant to Art. 53 of the Cooperatives Act, in association with Art. 340k of the German Commercial Code, total costs of € thousand 630 were incurred for the audit of the annual financial statements and the management report, for examining the cooperative's organizational structures as well as for examining the Bank's management during the year under review. € thousand 15 were incurred for other confirmation and evaluation services; € thousand 40 were incurred for other services.

CONTINGENT LIABILITY

Our Bank is a member of the Security System of the Federal Association of German Commercial and Rural Credit Associations (Sicherungseinrichtung des Bundesverbandes der Deutschen Volksbanken und Raiffeisenbanken e.V.) Per the statutes of the Safety System we have issued a guarantee to the Federal Association of German Commercial and Rural Credit Associations. As a result, we have a contingent liability of € thousand 9,733.

Munich, 14 February 2007
MÜNCHENER HYPOTHEKENBANK eG
The Board of Management

Erich Rödel

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 2006. The maintenance of the books and records and the preparation of the annual financial statements, and the management report were prepared in accordance with German commercial law and supplementary provisions in the articles of incorporation and are the responsibility of the cooperative's legal representatives. Our responsibility is to express an opinion on the annual financial statements, the bookkeeping system and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 53 (2) of the Cooperatives Act and § 340k and § 317 of the German Commercial Code and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit so that misstatements and violations which materially affect the presentation of the net assets, the financial position and results of operations as presented in the annual financial statements and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the cooperative and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on the basis of random samples within the framework of the audit. The audit includes an assessment of the accounting principles used and significant estimates made by the company's Board of Management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Berlin, 21 March 2007

DEUTSCHER
GENOSSENSCHAFTS- UND RAIFFEISENVERBAND e.V.

Dr. Ott
Auditor

i.V. Lenkawa
Auditor



REPORT OF THE SUPERVISORY BOARD

During the 2006 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 required approval to these actions after being convinced that they were being handled in an orderly manner.

The members of the Supervisory Board and the Board of Management jointly reviewed basic business policy issues affecting the Bank during numerous meetings. The strategic course of the Bank, in particular, was discussed in 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 2006 business year with the Board of Management to make required decisions. The Supervisory Board was informed about the committees' work in the meeting held immediately after the committees' meetings; during the year under review the relevant committees reporting were the Personnel Committee, the Lending Committee and the Audit Committee.

The accounting documents, the annual financial statements and the Management Report for the 2006 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 Art. 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 2006 annual financial statements, including the allocation to reserves contained therein. The Supervisory Board also agrees with the 2006 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.

The Münchener Hypothekbank eG and Mr Friedrich Munsberg, member of the Board of Management, mutually agreed to end their collaboration effective 13 February 2007. We wish to express our thanks to Mr Munsberg for his successful work on behalf of the Bank. We hope Mr Munsberg will do well in his future personal and business endeavors.

During the year under review Dr. Rainer Märklin and Mr Jürgen Partenheimer retired from the Supervisory Board. Dr. Märklin had been elected to the body in 1993, while Mr Partenheimer was elected in 1996. With the retirement of Dr. Märklin and Mr Partenheimer the Supervisory Board loses two highly valued and knowledgeable colleagues. We thank them for their dedicated work as members of the Supervisory Board and their decisive efforts on behalf of MünchenerHyp within the cooperative FinanzVerbund. Mr Konrad Irtel, Speaker of the Board of Management Raiffeisenbank Rosenheim eG, and Mr Michael Jung, Speaker of the Board of Management of the Volksbank Maulbronn-Oberderdingen eG, were elected as new members of the Supervisory Board during the Delegates' Meeting.

Munich, 22 March 2007
MÜNCHENER HYPOTHEKENBANK eG

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

THE MEMBERS OF THE DELEGATES MEETING

AS OF 31 DECEMBER 2006

Johannes Altenwerth ... Bank director	Peter Koch ... Bank director
Hermann Arens ... Bank director	Klaus Korte ... Bank director
Marianne Baalcke ... Managing director	Manfred Kübler ... Bank director
Dr. Wolfgang Baecker ... Bank director	Roland Kuffler ... Businessman
Manfred Basler ... Bank director	Hans-Georg Leute ... Bank director
Claus-Rüdiger Bauer ... Bank director	Helmuth Lutz ... Bank director
Dr. Christoph Berndorff ... Bank director	Michael Müller ... Lawyer
Johann Biersack ... Lawyer	Dr. Hans-Wolfgang Neumann ... Mathematician
Dietmar Bock ... Managing director	Klaus Pohl ... Auditor
Dr. Michael Brandt ... Bank director	Erhard Probst ... Bank director
Siegfried A. Cofalka ... Member of senior management	Dr. Günter Reimund ... Bank director
Eckhard Dämon ... Bank director	Dr. Rüdiger Renk ... Association director
Rolf Domikowsky ... Bank director	Frank Ritter ... Lawyer, Notary
Karl-Heinz Dunkel ... Banker	Albrecht Ruchser ... Bank director
Lothar Erbers ... Bank director	Christian Scheinert ... Bank director
Johann Fuhlendorf ... Bank director	Hans Schmitt ... Bank director
Dr. Roman Glaser ... Bank director	Prof. Dr. Leo Schuster ... University Professor
Jens Gomille ... Bank director	Jochen Seiff ... Bank director
Michael Haas ... Bank director	Wolfgang Siemers ... Managing director
Dr. Tilman Hickl ... Managing director	Dieter Söll ... Builder
Dr. Christoph Hiltl ... Lawyer	Dipl.-Kfm. Ludwig O. Stadler ... Auditor
Karl Hippeli ... Bank director	Jörg Stahl ... Bank director
Jürgen Jung ... Legal advisor	Theo Stauder ... Bank director
Hermann-Josef Kanders ... Bank director	Dr. Rainer Sturies ... Lawyer
Dr. Michael Kaufmann ... Bank director	Ulrich Tolksdorf ... Bank director
Norbert Kaufmann ... Bank director	Heinz-Walter Wiedbrauck ... Bank director

AGENDA – GENERAL (DELEGATES) MEETING ON 21 APRIL 2007, 10.30 A.M.

1. Report on the 2006 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 2006 Annual Statement of Accounts
 - b) proposed appropriation of distributable profits
 - c) the acts of the Board of Management and the Supervisory Board for the 2006 business year
5. Election to the Supervisory Board
6. Amendments to the Articles of Association
7. Other issues



TRUSTEES

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

BOARD OF MANAGEMENT

Erich Rödel ... Spokesman
Friedrich Munsberg (until 13.02.2007)
Dr. Bernhard Scholz

SUPERVISORY BOARD

Prof. Dr. Willibald J. Folz ... Munich,
Chairman
S.K.H. Herzog Max in Bayern ... Tegernsee,
Deputy Chairman
Dr. Hans-Ludwig Bungert ... Strasslach
Heinz Hilgert ... Frankfurt am Main
Konrad Irtel ... Rosenheim (as of 29.04.2006)
Michael Jung ... Maulbronn (as of 29.04.2006)
Dr. Rainer Märklin ... Reutlingen (until 29.04.2006)
Wilfried Mocken ... Rheinberg
Jürgen Partenheimer ... Munich (until 29.04.2006)
Hans Pfeifer ... Muenster
Hans-Joachim Tonnellier ... Frankfurt am Main

EXECUTIVE DIRECTORS

Bernhard Heinlein
Reinhard Raab

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