

ANNUAL REPORT 2009 >>







# Partnership



# Dialogue



# Trust

**Münchener Hypothekendarlehenbank –  
The Crown of Property Finance. >>**

The Crown of Property Finance stands for cooperating as partners.  
For an open dialogue with our customers. And for the trust our  
investors have placed in us.



## OVERVIEW

### BUSINESS DEVELOPMENT (IN MILLIONS OF €)

	2009	2008	Change %
<b>Lending Business</b>			
a) Mortgage loans	1,902	4,101	-54
aa) Private property financing	1,817	1,814	0
ab) Commercial property financing	85	2,287	-96
b) Loans to public sector and banks	912	2,021	-55
c) MBS	0	124	-100
<b>Total</b>	<b>2,814</b>	<b>6,246</b>	<b>-55</b>

### BALANCE SHEET (IN MILLIONS OF €)

	2009	2008	Change %
Total assets	35,733	36,134	-1
Mortgage loans	16,591	15,933	4
Loans to public sector and banks	14,378	15,810	-9
MBS	191	228	-16
Pfandbriefe and other promissory notes	30,491	32,234	-5
Liable equity capital	1,135	1,016	12

### INCOME STATEMENT (IN MILLIONS OF €)

	2009	2008	Change %
Net interest income less commissions	103	101	2
Administrative expenses	59	53	12
Results from operations before deducting provisions for risks	41	55	-25
Results from operations after deducting provisions for risks	29	26	11
Net income	11	10	8

### EMPLOYEES (NUMBER)

	2009	2008	Change %
Average number of employees per year	391	376	4
Apprentices	19	16	19



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## LETTER FROM THE BOARD OF MANAGEMENT

### DEAR SHAREHOLDERS AND BUSINESS ASSOCIATES,

The annual report in front of you reviews one of the most difficult banking years since the end of World War II. The quality and substance of markets, strategies and products were tested and had to surmount severe challenges.

Thanks to its high quality characteristics, the Pfandbrief mastered these challenges. Despite the fact that the Pfandbrief was not always able to fully avoid the effects of the crisis, and also had to prevail over competition from government-guaranteed bank bonds, it quickly returned to its accustomed position of strength. The market, however, has become more differentiated and the gap between Pfandbriefe and other covered bonds has

become sustainably manifested. MünchenerHyp's Pfandbriefe were quite able to maintain their position in the face of these developments.

Nevertheless, even today the economic and financial market crisis is still not over. Certain signs of an economic recovery do not make an upswing. The discussions surrounding the creditworthiness of Greece and other EU member states show just how quickly the situation can return to being precarious. The accompanying speculation against sovereign states and asset classes illustrates the fact that financial markets are still very fragile.



The Board of Management of the Münchener Hypothekbank. From left to right: Bernhard Heinlein, Erich Rödel (Chairman), Klaus Sturm, Dr. Louis Hagen.



The crisis-like developments and their effects also impacted on the Münchener Hypothekendarlehenbank – despite its traditional risk-conscious business policy – and led to higher burdens and numerous challenges.

For this reason we adjusted our business and risk strategy at the end of the last reporting year to meet the altered overall conditions. Thus, we recalibrated the planned expansion course of the previous years and conducted our business very cautiously, especially during the first half of 2009. Our new business activities were decisively aligned with our equity capital resources, refinancing conditions and our ability to contain risk. Thus, we were able to cope with last year's challenges on our own and post stable results.

As we anticipated in our revised planning, our new mortgage business was about € 1.9 billion and less than in the previous years. During this difficult period we viewed our most important task as remaining reliably at the side of our partners – the Volksbanken and Raiffeisenbanken – in the cooperative Financial Services Network (FinanzVerbund). We kept this promise. The year 2009 was successful for our Financial Services Network business. This sales channel also played a major role in the overall new business recorded in the area of private property financing. Our Financial Services Network business will also remain our most important sales channel for private property financing in the future.

In our commercial property financing area of business we focused on enhancing our relationships with existing customers. We closely tracked our existing commitments in order to respond to our customers' financial requirements. Our customers honoured this. We reinforced our reputation as a reliable financing partner.

As a matter of principle, we concentrated on top tier financing deals and low loan-to-value ratios in our lending commitments in the area of commercial property financing – both domestically and abroad. As a result, declining prices seen in the markets only had a below average effect on the intrinsic value of our claims.

However, we still had to increase our provisions for risks in 2009 in line with the precautionary principle.

Our income situation was influenced on one side by lower new business. On the other side, the average length of maturities in our portfolio increased, which resulted in a notable expansion of our portfolio. Over the near term, the volume of loans in our books is a more important factor for net interest income than new business. Moreover, within the framework of prolongations, especially in our commercial business, we were frequently able to arrange higher margins. The total volume of mortgage and other property financing deals in our portfolio expanded by about € 700 million over the same year-ago figure.

Last year MünchenerHyp once again benefited from the excellent reputation it has in the capital markets. At the beginning of 2010 the British trade publication, "The Cover/Euroweek", presented the Bank an award for the best covered bond issue of the past decade. Despite higher refinancing premiums that were occasionally required, we were able to refinance our activities at reasonable conditions. Even though Moody's reduced their ratings for our fundamental financial strength and our uncovered long-term liabilities last year, we anticipate that this will have a relatively minor effect on our refinancing conditions. We still have good ratings in comparison to our sector and the current level of our ratings is the same as for the entire cooperative Financial Services Network.

The successful mastering of the challenges we faced in 2009 required the greatest commitment on the part of our employees. We wouldn't have been able to achieve this without their motivation and dedication, as well as the good and trustful collaboration we experienced in the bodies. We are grateful to all who worked to ensure the success of MünchenerHyp. They have earned our thanks and appreciation.

The crisis in the financial markets tested the business models of all credit institutions in Germany, including MünchenerHyp's. On an overall basis we were able to master the burdens that arose from the economic and financial market crisis, in particular



because MünchenerHyp is highly conscious of risks. However, this business policy restricts the Bank's possibilities to earn income. For this reason, one important challenge facing us in the future is to sustainably strengthen the Bank's earning power without having to take on greater risks. A starting point for this, among others, is a restrictive cost management programme coupled with continual increases in efficiency. This task requires a high degree of attention and decisive action on the part of MünchenerHyp's management.

Property markets are currently only recovering slowly. It is anticipated that the situation in the commercial property market, in particular, will only improve over the mid-term. Furthermore, economic and general business conditions remain fragile. Our planning for 2010 will therefore be oriented towards the criteria of our cautious risk policy. In total, we are striving to achieve results that will be at last year's level.

Sincerely yours,

Erich Rödel

Dr. Louis Hagen

Bernhard Heinlein

Klaus Sturm



# MANAGEMENT REPORT

## OVERALL ECONOMIC CONDITIONS





**"For me The Crown of Property Finance means working together perfectly and sharing the same goal: completely satisfied customers."**





We are always there for our partners – so they can always be there for their customers.

“Property financing customers are demanding: they expect a tailor-made solution that will ideally meet their needs. And they expect it at an attractive price. So it’s important to set yourself favourably apart from competition. That’s how we support our colleagues at the Volksbanken and Raiffeisenbanken. We are committed to strengthening our cooperative partners’ expertise and sales capabilities: by working together personally, providing innovative products and offering efficient handling processes. This way our partner banks can fully focus on fulfilling their customers’ wishes.”

**Peter Birgmeier, Regional Director  
Head of Augsburg Regional Office  
Münchener Hypothekenbank eG**



# MANAGEMENT REPORT

## 1. OVERALL ECONOMIC CONDITIONS

### 1.1. ECONOMIC DEVELOPMENT

In 2009 the financial market crisis led to the worst recession in the postwar period as global economic performance contracted for the first time in over 60 years. Manufacturing, international trade and investments were affected by deep declines. Global trade alone fell by almost 12 percent in comparison to the previous year.

Quick action on the part of policymakers hindered an even deeper downturn. Government stimulus programmes and measures taken to support the financial sectors began to show first results in the first half of 2009. This led to a recovery in both manufacturing and global trade in the second half of the year. However, the global economy did not improve equally in all of the world's regions. While the emerging market economies in Asia, especially China and India, recovered fairly quickly, the industrialised countries struggled to return to robust growth.

The recession was exacerbated in Germany due to the economy's heavy dependence on exports as GDP fell by 5 percent in 2009, or more than in most European countries and the USA. Government stimulus programmes were also able to slow the fast and deep decline of economic performance in Germany in the second quarter. Economic recovery, however, remained fragile and lost momentum again in the fourth quarter and stagnated.

The economic stimulus programmes helped to strengthen consumption, in particular, as consumer spending by private households rose by 0.4 percent and government spending climbed by 2.7 percent. In contrast, exports and capital expenditures contracted notably. Consumer prices rose by only 0.4 percent, as prices for energy and food were considerably lower than in the previous year. The labour market developed more favourably than expected. Although the total number of unemployed increased by over 150,000 in comparison to the same year-ago figure, the rise was substantially lower than widely feared as many companies made intensive use of the short-time work (Kurzarbeit) option.

The economic crisis led to a significant drop in turnover and incoming orders in the construction industry. Construction of commercially-used buildings was hit the hardest as many companies decided to postpone new construction due to difficult business conditions. Construction of residential housing also declined. Public-sector construction, on the other hand, benefited from the government's economic stimulus programmes. As a result of these measures, capital expenditures for construction remained almost unchanged in comparison to the previous year.

### 1.2. FINANCIAL MARKETS

The effects of the crisis in the financial markets continued to dominate events in the markets in 2009. Central banks around the world lowered their key interest rates and initiated additional liquidity measures to support the financial markets. The European Central Bank (ECB) lowered its key interest rate in successive steps from 2.50 percent to 1.00 percent, the lowest level since the launch of the euro. The American Federal Reserve had already switched to what was actually a zero percent interest rate policy at the start of 2009 as it set the range for its benchmark Fed Funds Rate at 0 percent to 0.25 percent. Furthermore, the Fed also purchased US Treasury bonds in order to increase the money supply and prevent deflationary pressures from arising.

Central banks used a variety of measures to strengthen the money markets. The ECB continued to provide extensive liquidity. The one-year tender introduced by the ECB in June 2009, in particular, gave banks greater certainty for their liquidity and planning requirements. As a result the overnight rate fell below the ECB's primary refinancing rate. Fears of insufficient liquidity seen at the beginning of the crisis in the financial markets disappeared following the massive provision of liquidity.

Investors again focused on a broader spectrum of asset classes in the capital markets during the second half of the year. Corporate bonds, in particular, were sought by investors. In addition, banks were able to float new bond issues with substantially lower premiums during the course of the year. While increased volumes



of government-backed bonds were issued and well received at the start of the year, emphasis shifted during the remaining months of the year to favouring covered bonds, including Pfandbriefe. The ECB gave the covered bond market important support in May when it announced a new programme to buy up to € 60 billion of covered bonds until the middle of 2010. By the end of 2009 the ECB had purchased about half of the agreed volume. Not least as a result of this measure, investor confidence in the stability of covered bonds was notably reinforced.

The Pfandbrief was also unable to avoid the effects of the negative market situation. However, on an overall basis it still proved that it is a strong and solid investment even in the face of more difficult overall conditions. Margin spreads remained notably lower in comparison to other covered bonds. Sales of Mortgage Pfandbriefe remained close to the level seen in the previous year with about € 57 billion. Sales of Public Pfandbriefe decreased by about 40 percent to approximately € 52 billion due to the continued consolidation of the Pfandbrief banks' sovereign lending business.

Stock markets were burdened by the poor outlook for economic growth and corporate profits at the start of the year as the DAX

fell to a multi-year low in early March 2009. However, favourable sentiment indicators, low interest rates and the government's economic stimulus programmes helped the DAX to rebound sharply to nearly 6,000 at the end of 2009 to advance by 24 percent over the same year-ago figure.

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**"The Pfandbrief proved that it is a strong and solid investment even during the financial market crises. Margin spreads remained notably lower in comparison to other covered bonds."**

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The global economic crisis was also reflected by the volatile euro/US dollar exchange rate. By March 2009 the euro had fallen to US \$ 1.25. Driven by an improved economic outlook for the euro zone, the decline was later reversed as the euro rose to US \$ 1.51 in the fall of 2009. The upward move of the euro, however, led to fears that if the euro was too strong it could endanger the economic recovery in Europe. In January 2010 the euro/US dollar exchange rate was pushed down due to the very high debt levels noted in Greece, Ireland and Portugal and declined to about US \$ 1.40.

Figures in % YIELD ON TEN-YEAR BUNDS 2009





Due to the effects of the crisis in the financial markets, ten-year bunds were yielding less than in 2008. Yields were 3.2 percent at the start of the year, peaked in early June at 3.7 percent and then slipped to 3.4 percent at the end of the year.

### 1.3. PROPERTY AND PROPERTY FINANCE MARKETS

#### 1.3.1. RESIDENTIAL PROPERTY MARKET – GERMANY

Property markets around the world were upset due to the economic and financial market crisis. However, in comparison to the global markets, the German residential property market retained its robustness and was not greatly influenced by the effects of the global crisis.

The market for residential property finance expanded as demand for housing loans was even greater than in the previous year. Based on Bundesbank statistics, banks reported total new housing loans made to private households amounted to about € 195 billion, or a gain of over 10 percent compared to 2008.

Gains reported in new business did not, however, generate significant growth in the volume of existing loans. The volume

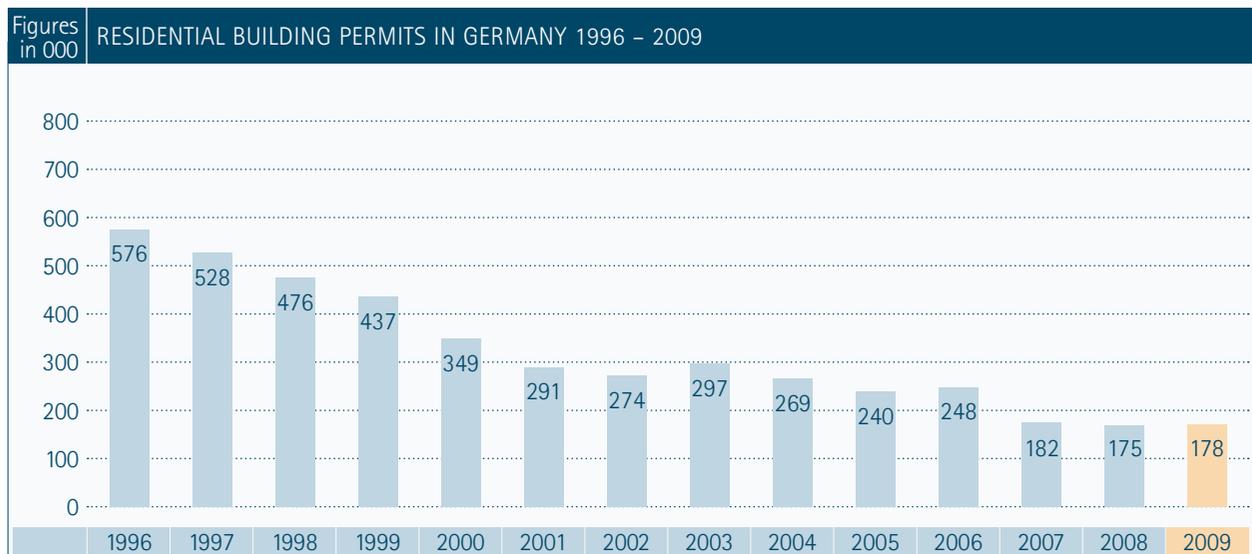
of all existing housing loans made in Germany has stagnated since the government's housing subsidy programme (Eigenheimzulage) came to an end. At the end of 2009 the total volume of existing loans had increased by only a marginal 0.4 percent over the same year-ago figure.

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**"In comparison to the global markets, the German residential property market retained its robustness and was not greatly influenced by the effects of the global crisis."**

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Against the background of the economic and financial market crisis, residential property in Germany became even more attractive as a solid investment for both investors and owner-occupants. Property's image was strengthened as a stable investment that retains its value and protects against inflation as other asset classes either yield low returns or are associated with greater uncertainty. Furthermore, average prices for houses and condominiums have remained at the same level for the past ten years. These are the reasons why wealthy private clients, above all



Source: Statistisches Bundesamt [www.destatis.de](http://www.destatis.de), 2009 = preliminary annual result



others, as well as institutional investors, like pension funds or insurance companies, have shown increasing interest in buying residential property.

The total volume of available housing in Germany is becoming increasingly tight. Experts estimate that the number of households is growing substantially faster than the volume of available housing. For years now, far too few houses and apartments have been built in the major metropolitan areas in Germany, and, in addition, the number of building permits issued has continually contracted since the middle of the 1990's. It appears that this development bottomed out last year. Approximately 178,000 building permits were issued for new housing in 2009. This marked the first time since 2006 that a slight increase was noted.

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**“Residential property in Germany became even more attractive as a solid investment for both investors and owner-occupants.”**

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Conditions for property finance were notably more favourable than before the crisis due to repeated reductions in the key rate by the ECB. At the end of 2009 interest rates were almost one percentage point less than the peak rates seen in the summer of 2008.

Competitive pressures remained high in the private property finance market in Germany. More than ever before, property financiers have to distinguish themselves favourably from the competition if they want to realise market success. Lower prices alone are becoming increasingly insufficient tools to achieve this goal as customers were greatly troubled by the economic and financial market crisis. Customers placed special value on the quality of the advice received regarding their property finance needs and their confidence in the lender. This attitude led to a renaissance in the classical personal bank, or "Hausbank", model, which primarily benefited credit institutions that maintained close relationships with their customers and had a very good

understanding of local conditions – like the Volksbanken and Raiffeisenbanken, as well as the MünchenerHyp as a subsidiary partner to these banks within the cooperative Financial Services Network.

### 1.3.2. RESIDENTIAL PROPERTY MARKETS – INTERNATIONAL

Development noted in the international residential property markets varied significantly. During the second half of the year rising prices were once again seen in the UK and France for the first time. It remains to be seen if the situation has truly stabilised as a lot depends on further economic development. In the interim, first signs have been seen that demand may be weakening again as overall economic conditions remain unsatisfactory.

Spain is one of the residential property markets that has yet to show any sign of recovering due to the difficult economic situation and a vast surplus of available housing. By the end of the third quarter 2009 average prices for houses had fallen by about 8 percent in comparison to the same year-ago figure.

In contrast, demand for residential property in Switzerland remained good. Although the economic crisis led to higher unemployment, which in turn had a dampening effect on the market, this effect was offset by lower interest rates and immigration. The construction industry was also in fine shape as the number of housing units under construction was about 10 percent higher than in the previous year. Prices for residential property in the total Swiss market developed stably.

Driven by effects stemming from the sub-prime crisis, in 2009 the residential property market in the USA experienced its worst downturn since the end of World War II. An extensive surplus of single family homes, in particular, exists due to the fact that major volumes of residential property continued to be built during the sub-prime crisis. This has led to a significant drop in house prices which has also been exacerbated by foreclosures.

At the beginning of 2009 market participants anticipated that the property and economic crisis would play out less harshly.



This was based on the assumption that many people who were no longer able to afford financing to buy a home would, at least, tend to keep demand for rental housing stable or even give it a boost. In the interim, however, the rental market has generally tracked the overall downward trend with a delay of several months, although it has been weaker in some cases. This development is primarily due, in particular, to the economic situation in the USA, rising unemployment, as well as the subsequent effects of high construction activity.

### 1.3.3. COMMERCIAL PROPERTY MARKET – GERMANY

Investments in commercial property in Germany once again contracted notably in the first half of 2009. Despite the fact that the market began to stabilise again in the second half of the year, total transaction volume over the entire year only amounted to about € 10 billion, or half of the volume recorded in the previous year.

The decline in the volume of transactions was primarily due to two reasons: one, investors have become more hesitant as many believe that market prices will fall further. And two, investors are mainly interested in very good selected properties in excellent locations, with long-term, creditworthy tenants.

Open-ended funds and private investors were the main active buyers in 2009, while sellers consisted chiefly of the leading boom-year players such as property corporations (Reits), private equity firms and hedge funds. Foreign investors began to partially withdraw from the German market as they were unable to realise the anticipated gains in value and, secondly, the liquidity needed for deals was no longer present.

**“Investments in commercial property in Germany once again contracted notably in the first half of 2009. Total transaction volume over the entire year only amounted to about € 10 billion, or half of the volume recorded in the previous year.”**

Financiers of commercial property transactions have returned to conservative lending principles. In particular, investors were required to put up more of their own capital for property projects. The market began to show initial signs of recovering towards the end of the year.

The commercial rental market was under pressure throughout the year under review as the weighted average of top





rents in 15 German office markets fell by about 8 percent in 2009. Space rented in the major office centres fell by about 25 percent to below 3 million square metres. The vacancy rate noted for modern office space climbed to 9.3 percent. Development of vacancy rates is primarily dependent on the future economic situation.

#### 1.3.4. COMMERCIAL PROPERTY MARKETS – INTERNATIONAL

Property markets outside of Germany remained under pressure due to difficult overall economic conditions as demand for office space declined around the world. This situation resulted because many companies re-evaluated their needs for office space in the light of cost-cutting programmes and personnel layoffs.

The market in the USA was influenced by a weak economy and restricted lending activities on the part of banks. Declining rental income, rising vacancy rates, as well as noticeable adjustments to market value resulted in some cases in the renegotiation of credit conditions within the framework of restructuring loans. Noteworthy volumes of new business were not observed.

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**“The market in the USA was influenced by a weak economy and restricted lending activities on the part of banks.”**

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The national average figure for office building vacancy rates in the USA had risen to 17.7 percent by the third quarter of the year. Even top quality properties in central locations like Manhattan in New York City, or in Boston, Washington D.C. or Chicago were unable to escape this trend. Based on the most recent transactions in the major markets, rental prices for top quality space have shrunk by 10 to 30 percent since the start of 2009. Return on investment in all US markets and across all categories of space have risen by about 250 basis points and more since the low point reached at the beginning of 2007. Demand for logistical and retail trade property space has also declined. Vacancy rates in this segment have risen correspondingly while rental prices have dropped.

Last year the volume of transactions in Europe fell by about one-third to € 75 billion. Above all, rental prices in the office property segment fell – as clearly reflected by the volume of newly signed rental agreements.

Figures for newly rented space in the UK were notably below the average posted for recent years. This development was accompanied by higher vacancy rates and shorter, more flexible rental agreements. In contrast, the volume of investments made in the British commercial property market last year partially recovered from the massive corrections in value previously seen, along with an increasingly stable situation in returns on investments made. Rentals also contracted in France, especially in the greater Paris area. Top rents fell last year as vacancy rates continued to grow. The Spanish commercial property market was marked by a shrinking volume of investments, higher vacancy rates and lower rents.





# BUSINESS DEVELOPMENT





“For my latest property project I’m looking for much more than just a salesman who only knows his business. I’m really looking for a competent partner, like MünchenerHyp, who also understands my business.”





You need a professional partner who's at your level when you're planning something big.

“The financing partner has to fit perfectly into the overall deal when you're planning to invest in property. You have to be sure that you're talking to someone who knows the market and understands your business, and can offer flexible and transparent financing arrangements – and, who can handle his end of the deal quickly and reliably. This is why we put so much individual attention into every financing inquiry and deliver tailor-made solutions. And, in addition, we cultivate long-term relationships with our commercial property customers, especially during difficult times like these.”

**Rembert Schult**  
Account Manager  
Commercial Property Customers  
Münchener Hypothekenbank eG



## 2. BUSINESS DEVELOPMENT

### 2.1. MÜNCHENERHYP IN 2009

Difficult overall conditions in the property markets, the continued crisis in the capital markets and the overall economic situation also posed major challenges to MünchenerHyp. As a result, we adjusted our business planning to accommodate these circumstances early on. Important tasks involved in this process included safeguarding liquidity, managing changed refinancing conditions, ensuring proactive control of credit risks and increasing undisclosed holdings as planned since 2008. After considering all of the external factors influencing these areas, our decision to readjust our originally planned growth course charted in previous years for 2009, and to operate with special care, especially in the first half of the year proved to be right.

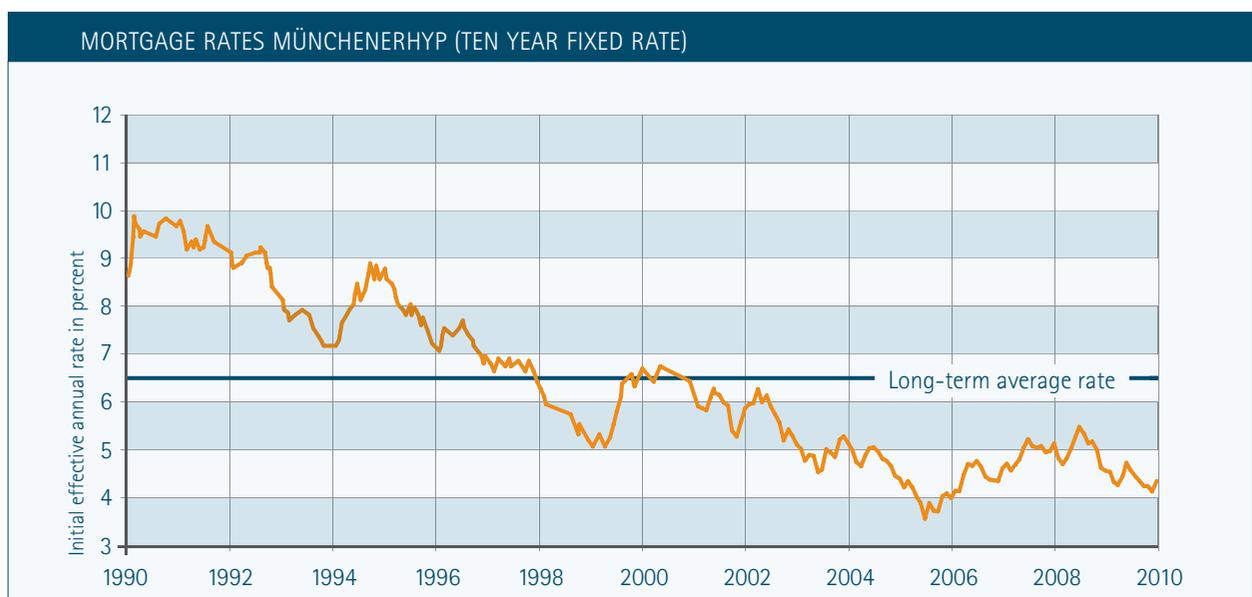
We aligned our new business activities with our equity capital resources, refinancing conditions and our ability to take on risk. As a result, the total volume of lending commitments made decreased from € 6.2 billion to € 2.8 billion. The declines were due in part to our commercial property financing activities,

where we responded to the critical developments seen in the market. Another factor was that we were cautious in our lending business with the public sector and banks, not lastly due to the uncertain conditions in the capital market, where refinancing conditions were distorted in some cases.

Our results from operations before making provisions for risk totalled € 40.9 million, or about 25 percent less than the comparable same year-ago figure. This development is due primarily to the following factors:

Net interest income was burdened by the application of stricter refinancing conditions and by the decrease in new business. We were, however, able to offset most of this decline by posting satisfactory results for our capital market activities. In addition, administrative expenses rose as a result of preparatory investments in personnel and fixed assets due to earlier expansion plans and a number of major projects that were required in order to meet legal supervisory requirements. This raised our cost income ratio.

We were able to close out 2009 with annual net profits of € 11 million.



Source: MünchenerHyp

As of: 02.01.2010



## 2.2. MORTGAGE BUSINESS

We made € 1.9 billion in mortgage loan commitments in 2009. The main focus of our new business was on financing private property. Lending volume was about € 1.8 billion, which allowed us to record gains of more than 6 percent over the comparable same year-ago figure in this segment.

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**“Even under the altered refinancing conditions we continued to be a dependable partner to the cooperative banks.”**

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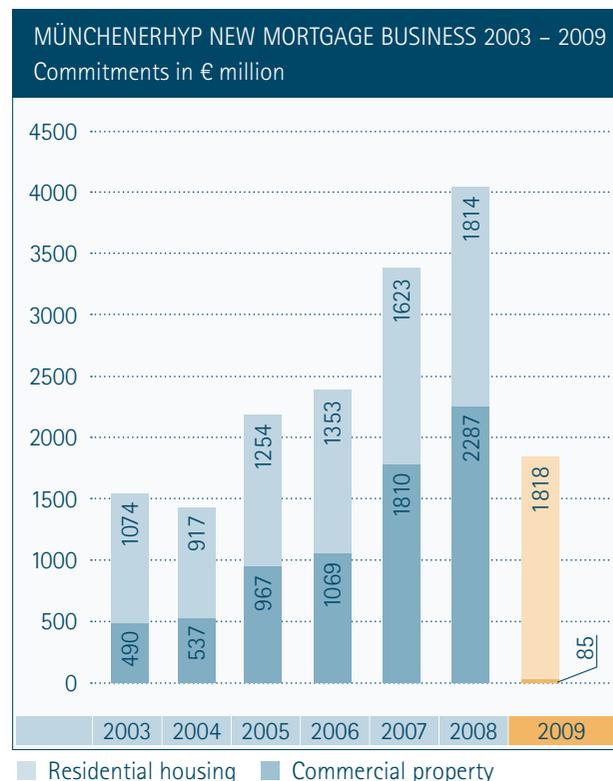
In the area of **private property financing**, we are firmly integrated into the Financial Services Network (FinanzVerbund) in the legal format of a registered cooperative. We maintain close and longstanding partnerships with most of the Volksbanken and Raiffeisenbanken. For this reason it was especially important to us – in spite of the altered refinancing conditions – to continue being a dependable partner to the cooperative banks as well as to our customers outside the Financial Services Network. We were able to keep to this promise thanks to our efficient handling procedures and market-driven conditions. Our collaboration with broker sales companies and the Swiss PostFinance were expanded in accordance with Financial Services Network requirements, as planned.

Competition to sign-up existing customers has become increasingly tougher as market volume in this area of business in Germany has stagnated since the end of the government's housing subsidy programme. Our demand-driven products, especially for forward financing transactions, have enabled us to favourably distinguish ourselves from our competitors last year. Not lastly due to these measures, our prolongation ratio increased from 50 to 54 percent.

Last year's launch of our new image campaign “Münchener Hypothekendarlehenbank – The Crown of Property Finance” (Die Krone der Baufinanzierung), marked the start of our efforts to position ourselves even more clearly as a high-quality provider of

property finance. At the same time, we reinforced our reputation with innovative products and numerous promotions. One of our innovative products was the “Münchener Reverse”. This is a fixed-interest loan that allows customers to use their advance payments of principal as financial reserves by entitling them to a refund of these payments as needed. This option gave many customers an important measure of planning certainty during the recession.

In the area of **commercial property financing** we considered it necessary to operate cautiously. We did not seek out any original new business in the area of foreign financing, primarily because follow-up transactions from the previous year still needed to be processed first, and it was necessary to wait and see how the market would develop further. After calm returned to the capital markets, we began to conclude commercial property financing deals once again in the third quarter of 2009.





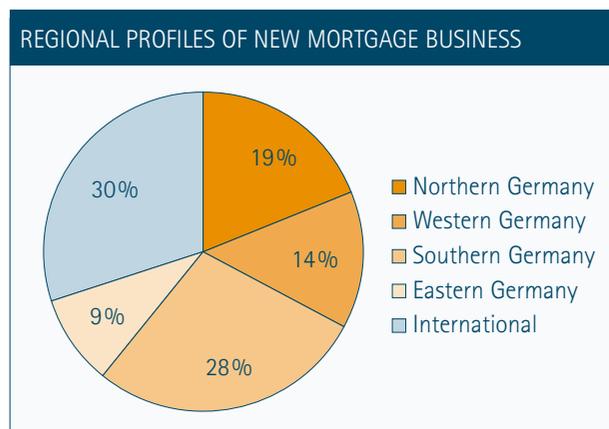
We did not enter into any new business in the USA. Our activities in this area focused on the existing portfolio of commercial property loans, of which large portions were either prolonged or – in cooperation with our partner banks – successfully modified or restructured. In many cases, we were also able to achieve improved conditions for our bank when we made these changes.

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**"In the area of commercial property financing we considered it necessary to operate cautiously. We began to conclude commercial property financing deals once again in the third quarter of 2009."**

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Our commercial lending business is primarily focused on top tier financing. At the same time, our financing activities are geared mainly to the sustained lending value of collateral in accordance with the Pfandbrief Act. Against this background, corrections in market prices had a lesser effect on collateral used for securing loans we had made. To the extent necessary, we applied principles of due diligence to adjust value in individual cases to reflect changes in market prices and make corresponding individual adjustments to value.



### 2.3. PUBLIC-SECTOR AND BANK LENDING, AND MUNICIPAL LOANS

We continue to be very cautious in our lending business with the public-sector and banks. Uncertainty in the market regarding the creditworthiness of states and banks increased the volatility of credit spreads in the first half of the year. Only in the fourth quarter, after the financial markets had begun to show signs of strengthening during the earlier part of the year, and spreads had narrowed again, did we resume making new loans on a selective basis and in line with our conservative risk profile.

Total volume of new loans made to the public-sector and banks, as well as our municipal lending, was € 0.9 billion. The previous year's figure was € 2.0 billion.

### 2.4. REFINANCING

We adjusted our refinancing strategy early on to take account of the changed overall conditions. Despite the outstanding quality features that distinguish Pfandbriefe from other covered bonds, Pfandbriefe were also hit by the effects of the financial market crisis in the first half of 2009. In addition, the Pfandbrief faced substantial competition, especially in the first quarter, from bonds that were backed by the Special Fund for Financial Market Stabilisation (SoFFin) with a quasi-governmental guarantee. In the interim, this has resulted in considerably higher refinancing costs. During this phase, we made relatively cautious use of the short-term refinancing funds provided by the ECB, in order to avoid higher risks related to interest rate changes and liquidity risks.

Additional refinancing premiums also began to recede as markets gradually eased. This trend was bolstered by the ECB's extensive purchase programme for covered bonds. We benefited from these developments due to our good standing as an issuer in the capital markets. At the beginning of 2010 the high quality of our issues was rewarded when the British trade publication, "The Cover/Euroweek", awarded us their "Deal of the Decade" title for the best transaction during the past decade. During



the second half of the year spreads for MünchenerHyp's Pfandbriefe were almost at the level last seen before the insolvency of Lehman Brothers.

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**Due to our good standing as an issuer we were able to refinance our activities at appropriate conditions, despite higher refinancing premiums that were noted during the year.**

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Due to our inclusion in the cooperative Financial Services Network, which has a high level of refinancing strength, we were able to meet our demand for non-covered funding at all times.

During the year under review, we obtained about € 9.4 billion in refinancing funds through sales of € 5.5 billion of Mortgage Pfandbriefe, € 0.5 million of Public Pfandbriefe, about € 3.4 billion in uncovered securities. Outflows in the refinancing business amounted to € 12.1 billion resulting in net sales of minus € 2.7 billion.

## 2.5. RATING

In the wake of the crisis in the financial markets and difficult overall economic conditions experienced in the previous year, the rating agencies were accused of having underestimated the extent of existing risks thereby playing a role in causing the crisis. Against this background they tightened up their creditworthiness requirements and assumed an increasingly critical attitude towards banks. MünchenerHyp, like most other banks, was unable to avoid these consequences and had to accept a downgrade of its rating.

In December 2009 Moody's Investors Service reduced its rating for the Bank's fundamental financial strength by two levels to C-, and cut its rating for our uncovered long-term liabilities by one level to A1. This rating now places MünchenerHyp at the same level as the cooperative Financial Services Network; it also means that the Bank still has a good rating in comparison to its

sector. The Aaa ratings for the Bank's Public Pfandbriefe and Mortgage Pfandbriefe remained unchanged.

Moody's commented favourably on the Bank's loan portfolio, which is more heavily diversified in comparison to other Pfandbrief banks' portfolios. Moody's also viewed MünchenerHyp's risk profile favourably, as the Bank's loan-to-value is moderate in comparison to the market's figure. The same also applies for the Bank's close collaboration with the cooperative Financial Services Network, the successful issue of a Tier 1 bond, as well as the conservative risk strategy as it applies to borrower failure and market price risks.

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**"The current rating places MünchenerHyp at the same level as the cooperative Financial Services Network; it also means that the Bank still has a good rating in comparison to its sector."**

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Moody's commented critically on the Bank's profitability and level of equity capital as both areas were worthy of improvement vis-à-vis comparable levels in the international markets. Furthermore, Moody's also opined that the general economic downturn could lead to higher adjustments to value in the area of commercial property loans.

### Rating overview

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



## 2.6. OVERALL LEGAL CONDITIONS

### 2.6.1. BASEL II

MünchenerHyp plans to introduce the Internal Ratings Based Approach (IRBA) in 2010. We anticipate that this will lead to a substantial improvement of our equity capital ratio that will take effect as of 2011. We will therefore initially introduce the so-called foundation-IRBA. We submitted our application to use IRBA at the end of 2009 and approval by the Federal Financial Supervisory Authority (BaFin) should take place in the summer of 2010.

The extent to which the resolutions passed by the Basel Committee on Banking Supervision in December 2009 regarding the treatment of hybrid capital, key liquidity and debt figures will affect MünchenerHyp will become visible following the final determination of the rules in the coming months.

### 2.6.2. AMENDMENT OF PFANDBRIEF ACT

The first amendment to the Pfandbrief Act – Amendment to Further Develop the Pfandbrief Law – took effect on March 26, 2009. The amendment was the lawmakers' response to discussions that had arisen during the crisis in the financial markets regarding the safety of the Pfandbrief.

The Amendment further improved the German Pfandbrief's high levels of transparency and quality. This was accomplished, in particular, by introducing a liquidity buffer within cover pools. Based on this, Pfandbrief issuers have to maintain sufficient liquidity to cover liabilities related to Pfandbriefe and coverage derivatives coming due within the next 180 days. We implemented this expanded requirement and included it in our liquidity planning.

## 2.7. APPOINTMENTS

The Delegates Meeting appointed Mr. Michael Glos, the former Federal Minister of Economics and Technology, to the Supervisory Board on April 25, 2009. The Supervisory Board is now composed of eight members.

Mr. Bernhard Heinlein, formerly a deputy member of the Board of Management, was appointed a full member of the Board of Management as of April 1, 2009. He is responsible for the Market area of business, and the Information Processing and Organisation area as of 2010.

Dr. Louis Hagen began his duties as a member of the Board of Management of MünchenerHyp on July 1, 2009. He is responsible for the Transaction Management, Controlling, and Legal Affairs areas of business as of 2010.

Dr. Bernhard Scholz resigned from the Board of Management of MünchenerHyp as of December 31, 2009. The Board of Management would like to thank Dr. Scholz for his work within the Board and wishes him all the best in his new position.

## 2.8. EMPLOYEES

The corporate culture of MünchenerHyp is characterised by constructive teamwork and by mutual respect and trust. It is a major factor behind our employees' hard work and dedication to the future of "their" MünchenerHyp. It is due in no small measure to this corporate culture that the Bank has repeatedly been able to retain its position during periods of major upheaval and reorientation. Maintaining this deep-seated corporate culture while at the same time further developing it is of major importance to us.

One of the major focuses of our personnel policy in the past year was supporting junior executives, who were given further training and development. The impetus for these activities came from our management. Our aim in this area is to build an increasing pool of talent that can grow into senior positions while giving employees more opportunities for interdepartmental career paths than before. Systematic succession planning and the development and support of employees with high potential are central to our efforts in this field. Professional development should be possible in both specialist and executive career tracks. Decisions concerning placement of employees in a pool of talent are taken in agreement with senior management and the personnel department.



High efficiency in operational workflows is an important criterion for success if we want to maintain our position over the long term in the face of stiff competition in the German market for property financing. With this in mind, we restructured our private property financing area of business during the past year. Our aim was to strengthen teamwork, thereby enhancing quality in processing and further improving customer satisfaction. By capturing and analysing key figures and applying these findings, our goal is to work with our employees to optimise operational workflows.

The average number of persons employed at MünchenerHyp during the year was 410, many of whom have worked for the Bank for numerous years. Twenty-seven employees celebrated their 10th anniversary with the Bank, three marked their 25th anniversary, and one employee was able to look back on 40 successful years at MünchenerHyp.

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**“We wish to thank all employees for their hard work and dedication during an especially difficult banking year.”**

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We analysed our compensation standards in accordance with the terms of the Federal Financial Supervisory Authority's regulations, "Supervisory Legal Requirements for the Compensation Systems of Institutions" and determined that we meet these requirements. In line with our business strategy we avoid giving employees strong incentives to enter into transactions involving disproportionately high risks. The proportion of performance-based/variable compensation has been established to ensure that employees are not dependent on variable compensation to any significant degree.

A performance-based compensation system was introduced for management employees several years ago, and its principles apply to all departments. In this system, the variable portion of an executive's compensation depends on the extent of that executive's responsibility for the performance of the Bank as a whole. The amount of the performance bonus is set according

to the degree to which the executive meets his individual targets and the performance of the Bank as a whole. Restrictive limits are placed on the amount of an employee's overall earnings that can consist of performance-based compensation. This policy helps guarantee that the existing performance incentives do not encourage employees to take on high risks.

We wish to thank all employees for their hard work and dedication during an especially difficult banking year. We would also like to thank the works council, the business committee, and the executive employees' speakers committee for their constructive cooperation.





# EARNINGS, FINANCIAL AND ASSET SITUATION





### 3. EARNINGS, FINANCIAL AND ASSET SITUATION

#### 3.1. BALANCE SHEET STRUCTURE

Total assets declined from € 36.1 billion to € 35.7 billion at the end of 2009 as we did not strive for growth in our lending business with public-sector borrowers and banks due to the crisis in the financial markets.

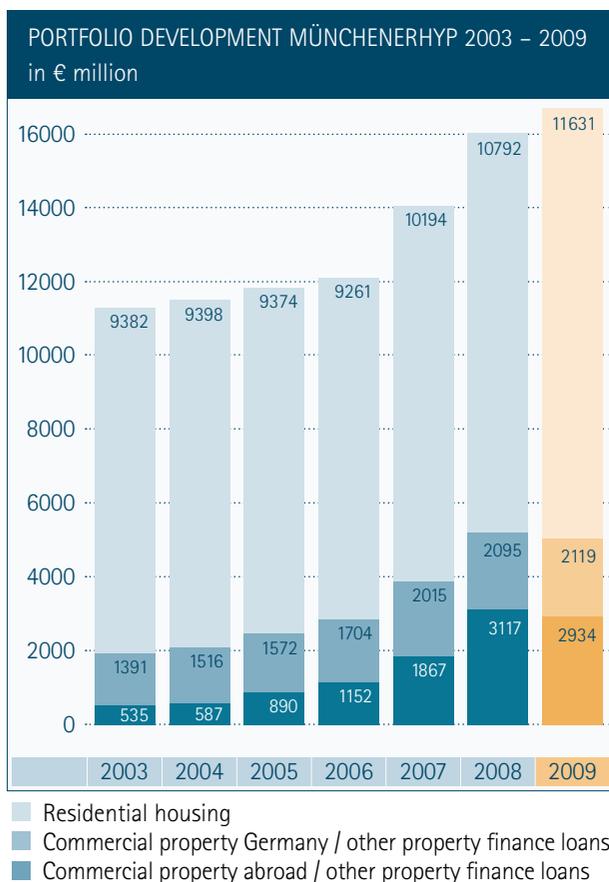
Despite the necessary adjustments we made to our business strategy, we were still able to once again expand our portfolio of mortgage and other property finance loans. Our portfolio of

residential housing loans grew by € 0.8 billion to € 11.6 billion as our portfolio of commercial property loans totalled € 5.1 billion, and remained close to the previous year's level. The total of all mortgage and other property finance loans in our loan portfolio increased by € 0.7 billion to € 16.7 billion.

International loans represented € 4.4 billion, or, as in the previous year, about one quarter of total mortgage loans in our portfolio. Of these loans 53 percent were made in the USA, 25 percent in Switzerland, 6 percent in France and 3 percent in the UK. € 13.8 billion of the mortgage portfolio serves as cover for Pfandbriefe we issued.

Our portfolio of loans to the public-sector and banks fell in line with the strategy we followed in this area of business from € 15.8 billion to € 14.4 billion. This figure contains € 6.6 billion in securities and promissory notes of which almost all are carried as fixed assets in our accounts. At the end of the year our portfolio of Mortgage Backed Securities totalled € 191 million (previous year € 230 million). As we will no longer be making any further investments in Mortgage Backed Securities, their total remaining value in our portfolio will decline accordingly as they mature.

Numerous markets were temporarily illiquid at the end of 2008 due to the effects of the crisis in the financial markets making it impossible to obtain reliable and verifiable information about market prices. We employed the discounted cash flow method to achieve, at the minimum, approximate prices for our portfolio of securities. Market prices were again available for our entire portfolio of securities as we prepared our annual financial statements for 2009. Total unrealised losses in our portfolio of securities on December 31, 2009 amounted to € 175 million (previous year € 173 million). After conducting a thorough examination of these investments we concluded that none of the declines in value noted are permanent. As a result, write downs to the lower attributable value were not necessary. Among other reasons, the high quality of our portfolio of loans and securities with the public sector and banks is confirmed by the fact that total unrealised losses slightly increased from the previous year's figure.





Our portfolio of long-term refinancing funds decreased by € 1.7 billion to € 30.5 billion. This change was primarily driven by our reluctance to make loans to public-sector borrowers and banks and the related decline in the volume of Public Pfandbriefe outstanding. Total refinancing funds (including money market) contracted from € 34.5 billion in the previous year to € 33.7 billion as of December 31, 2009.

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**“Despite the necessary adjustments we made to our business strategy, we were still able to once again expand our portfolio of mortgage and other property finance loans.”**

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Paid up capital rose by € 4.2 million to € 146.9 million. Total liable equity capital amounted to € 1,134.7 million, or € 119.0 million more than the same year-ago figure. The major portion of this increase stemmed from the successful issue of a Tier 1 bond with a nominal value of € 100 million in November 2009. We had originally planned to issue this bond in 2008. However, we did not float this issue due to the bankruptcy of Lehman Brothers.

Core capital amounts to € 738.9 million (previous year € 642.3 million). The solvency figure for core capital on December 31, 2009 was 6.5 percent (previous year 5.6 percent) and 10.0 percent for total capital (previous year 8.9 percent).

### 3.2. DEVELOPMENT OF EARNINGS

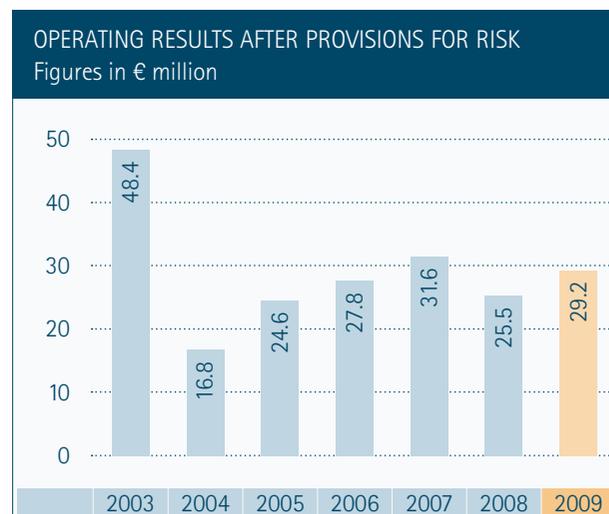
Although our earnings situation was burdened by various factors, we were still able to expand our net interest income figure<sup>1</sup> by € 4.1 million to € 132.7 million. Despite the fact that net interest income was dampened by altered refinancing conditions and lower new business results, the decline was mostly offset by

favourable capital market results. Earnings also include income from the early termination of interest rate swaps.

The higher volume of residential property loans made was paralleled by higher commissions paid to the originating banks than in the previous year. The net commission balance<sup>2</sup> was thus a minus € 30.0 million (previous year minus € 27.8 million).

This change resulted in a net interest less commission income figure of € 102.7 million, or € 1.9 million more than the same year-ago figure. Net results from financial activities was a minus € 2.6 million.

Administrative expenses rose at a faster pace than earnings. This is not unusual in a year that saw a cautious development of new business as most of the costs arising from our originally planned growth strategy could not be reduced in the short term. As a result, our personnel expenses increased by € 2.5 million to € 32.6 million. In addition to higher collectively negotiated wages and other salaries, these expenses include new hires



1 Net sum of interest expenses, interest income and current income

2 Net sum of commission costs less commission income



made in 2008, which only had a full impact on the 2009 fiscal year.

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**“Although our earnings situation was burdened by various factors, we were still able to expand our net interest income figure by € 4.1 million to € 132.7 million.”**

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The remaining administrative expenses totalled € 22.5 million and were also higher than the same year-ago figure of € 19.7 million. This change was also influenced by a significant increase in the Bank's contribution to the protection scheme operated by the National Association of German Cooperative Banks (BVR), as well as costs incurred during the year under review related to the introduction of the Internal Ratings Based Approach (IRBA) for determining equity capital. Added to these costs are expenses arising from continuous technical adjustments made to control instruments required by legal regulations as well as by business management reasons.

Depreciation and write-downs of intangible assets and fixed assets totalled € 4.3 million, or € 1.1 million more than the same year-ago figure. This increase was due to depreciation charges we took in 2009 for an accounting system based on IFRS standards.

Total administrative expenses<sup>3</sup> amounted to € 59.4 million compared to € 53.0 million posted in the previous year. As gains in net interest income rose at a slower pace than administrative costs due to negative effects related to the crisis in the financial markets, our cost income ratio<sup>4</sup> rose from 52.9 percent to 59.3 percent.

We launched a comprehensive cost-cutting and efficiency enhancing project aimed at sustainably reducing administrative expenses and adjusting MünchenerHyp's future business possibilities. However, significant costs will still be incurred in 2010 due to the IRBA Project, as well as introduction of an integrated trading system, which is due to both business and regulatory reasons. As a result, the initial benefits of the cost-cutting programme in 2010 will be offset by these additional costs.

The net sum of other operating costs and income is almost completely balanced at € 0.2 million. The same year-ago figure of € 7.6 million was primarily driven by special factors.

Results from operations before provisions for risk<sup>5</sup> amounted to € 40.9 million, or € 13.8 million less than the same year-ago figure. This change is primarily due to higher administrative expenses as well as lower income from special factors contained in other operating income in comparison to the previous year.

The item "Write-downs and adjustments to claims and certain securities and additions to provisions for possible loan losses" totalled € 24.3 million. This figure includes adjustments to value of loans (including general valuation adjustments and direct write-downs) of € 32.4 million (previous year € 19.8 million). This figure is offset by income from securities held as current assets of € 8.1 million.

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**“Results from operations after making provisions for risk were € 29.2 million, or € 3.7 million more than the same year-ago figure. Annual net profits amounted to € 11.0 million, or € 0.8 million over the previous year's figure.”**

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

4 Ratio of the sum of General Administrative Expenses, and Depreciation and write-downs of intangible and tangible assets, to net interest less commission income, as well as net results from financial investments

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



Income from writing up the value of participating interests, shares in affiliated companies and securities treated as fixed assets was € 12.6 million. This figure was generated by the sale of securities held as fixed assets and served to reduce the impact of the higher volume of individual adjustments to value taken.

Results from operations after making provisions for risk were € 29.2 million, or € 3.7 million more than the same year-ago figure. After deduction of € 16.2 million in interest for silent participations<sup>6</sup> (previous year € 15.1 million) and tax expenses of € 2.0 million, annual net profits amounted to € 11.0 million, or € 0.8 million over the previous year's figure.

### 3.3. PROPOSED APPROPRIATION OF DISTRIBUTABLE INCOME

Net income for the year amounted to € 10,993,773.17. The current annual statement of accounts contains an advance allocation to statutory reserves amounting to € 3.0 million to strengthen the equity capital base.

A dividend distribution 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 € 8,629,068.43 should therefore be used as follows:

5.5 percent dividend	€ 7,995,761.80
Carried forward to the new year	€ 633,306.63

### 3.4. REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

No significant events took place after the balance sheet date.





# RISK REPORT





## 4. RISK REPORT

The ability to monitor and keep risks under control at all times is essential for the successful steering of business development at MünchenerHyp. For this reason, risk management plays a very important role in the overall management of the Bank.

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

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

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

The basis of risk management consists of, on one hand, the analysis and presentation of existing risks, and, on the other, comparing these risks with the collateral available to cover them. Appropriate monitoring processes are in place involving internal process-dependent supervision to ensure that this balance is maintained. Our internal audit department, as process-independent unit, has the monitoring function within the Bank.

The analysis and presentation of existing risks distinguishes between borrower failure, market price, liquidity and operational risks. Additional risks such as placement risk, reputational risk,

business risk etc., are viewed as parts of the abovementioned risks and are taken into consideration in the appropriate manner in the individual calculations.

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

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

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



TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)				
LOAN-TO-VALUE	31 Dec. 09		31 Dec. 08	
	€	relative	€	relative
Up to 60 %	10,141,547,305	58.4 %	9,813,397,566	58.0 %
60.01 % to 70 %	2,650,148,116	15.2 %	2,410,679,530	14.2 %
70.01 % to 80 %	2,647,529,744	15.2 %	2,697,823,387	15.9 %
80.01 % to 90 %	1,232,932,116	7.1 %	1,016,760,548	6.0 %
90.01 % to 100 %	253,624,326	1.5 %	414,745,521	2.5 %
over 100 %	437,660,646	2.5 %	454,409,024	2.7 %
without	15,704,882	0.1 %	116,715,361	0.7 %
<b>TOTAL</b>	<b>17,379,147,136</b>	<b>100.0 %</b>	<b>16,924,530,938</b>	<b>100.0 %</b>

The regional breakdown of lending is as follows:

TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)				
REGION	31 Dec. 09		31 Dec. 08	
	€	relative	€	relative
Baden-Wuerttemberg	1,600,276,430	9.2 %	1,696,837,679	10.0 %
Bavaria	3,119,747,610	18.0 %	3,158,696,605	18.7 %
Berlin	603,103,260	3.5 %	455,575,996	2.7 %
Brandenburg	147,507,055	0.8 %	148,698,823	0.9 %
Bremen	28,391,182	0.2 %	28,715,016	0.2 %
Hamburg	426,451,047	2.5 %	403,297,705	2.4 %
Hesse	1,199,182,165	6.9 %	1,210,348,520	7.2 %
Mecklenburg-Lower Pomerania	90,459,626	0.5 %	79,571,507	0.5 %
Lower Saxony	891,430,253	5.1 %	876,642,113	5.2 %
North Rhine-Westphalia	2,508,236,195	14.4 %	2,632,242,768	15.6 %
Rhineland-Palatinate	404,671,310	2.3 %	435,343,437	2.6 %
Saarland	36,462,887	0.2 %	41,809,294	0.2 %
Saxony	476,735,406	2.7 %	485,494,110	2.9 %
Saxony-Anhalt	97,927,727	0.6 %	95,012,443	0.6 %
Schleswig-Holstein	916,096,377	5.3 %	903,212,566	5.3 %
Thuringia	178,914,525	1.0 %	189,579,862	1.1 %
<b>TOTAL DOMESTIC</b>	<b>12,725,593,056</b>	<b>73.2 %</b>	<b>12,841,078,445</b>	<b>75.9 %</b>



TOTAL PORTFOLIO OF MORTGAGE AND OTHER LOANS (INCLUDING OPEN COMMITMENTS)				
REGION	31 Dec. 09		31 Dec. 08	
	€	relative	€	relative
Austria	45,907,411	0.3 %	45,815,404	0.3 %
France	295,638,708	1.7 %	305,279,486	1.8 %
UK	199,730,257	1.1 %	139,017,969	0.8 %
Spain	113,367,940	0.7 %	117,768,125	0.7 %
Luxembourg	64,287,318	0.4 %	64,250,000	0.4 %
Sweden	38,167,026	0.2 %	35,941,766	0.2 %
Switzerland	1,128,322,027	6.5 %	385,830,784	2.3 %
The Netherlands	209,511,618	1.2 %	220,219,633	1.3 %
USA	2,558,621,775	14.7 %	2,769,329,326	16.4 %
<b>TOTAL FOREIGN</b>	<b>4,653,554,080</b>	<b>26.8 %</b>	<b>4,083,452,493</b>	<b>24.1 %</b>
<b>TOTAL DOMESTIC AND FOREIGN</b>	<b>17,379,147,136</b>	<b>100.0 %</b>	<b>16,924,530,938</b>	<b>100.0 %</b>

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

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

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

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

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

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



The individual and general adjustments to value developed as follows in 2009:

TOTAL LENDING BUSINESS						
in million euros	Starting volume	Additions	Repayment	Decline	Changes due to exchange rate shifts and other reasons	End volume
individual adjustment to value	46.5	33.1	5.9	9.7	0.4	63.6
general adjustment to value	16.5	0.9	0.0	0.0	0.0	17.4

Individual adjustments to value created remained comparatively low for our private property lending business due to the aforementioned great stability of the residential property market. Special attention was focused on our portfolio of commercial property loans in the USA due to the negative development of market prices. Following a careful examination of our USA portfolio we decided to make provisions for risk for certain individual loans. When making loans in the USA we generally concentrate on loans secured by top tier mortgages and with moderate loan-to-value ratios whereby the sustainable loan value was employed. We will continue to intensely and carefully observe further developments in the USA and take appropriate measures as they are needed.

Provisions for non-performing loans were not required in our lending business.

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

**Market price risks** consist of the risk of possible declines in the value of positions or portfolios arising from changes in market parameters including interest rates and exchange rates. These risks are quantified as potential losses of present value using a

present value model that differentiates between changes in interest rates, as well as risks arising from options and currency rates.

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

Market price risks also include (credit) spread risk and migration risks. Credit Spread is the term used to describe the difference between the yield generated by a risk-less bond and a risky bond. Spread risks take into account the danger that the difference in interest rates between a risky and a no-risk bond can change without an adjustment being made to creditworthiness. The reasons for altered yield premiums are: varying opinions in the market regarding the creditworthiness of the issuer, the creditworthiness of the issuer actually changes although this change is not yet reflected in the issuer's credit ratings, and macro-economic factors that influence creditworthiness categories. Migration risk is defined as the danger that a loss can arise due to drop in ratings, which is normally accompanied by an implied increase in yield.



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

Currency risk is the term used for risks arising from changes in the market value of investments that are dependent on currency exchange rates, and which will react negatively due to changes in currency exchange rates. MünchenerHyp's foreign transactions are hedged against currency risks to the greatest extent possible and only margins involved in payment of interest can be unhedged.

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

Market price risks are controlled by determining the present value of all MünchenerHyp's transaction on a daily basis. Transactions whose values are established by discounting cash flows are evaluated by the bank's SAP inventory system. The valuation of structured transactions – mainly interest rate capping, swaptions and termination rights that are lawful and agreed – is carried out in a dedicated system. The backbone of our risk control operations is the Delta-vector, which is calculated on a daily basis. This figure is determined by the present value of the loss incurred per range of maturities when the mid-swap curve is raised by one basis point. MünchenerHyp uses the value-at-risk figure to identify and limit market risks. Stress scenarios are used here to measure the effect of extreme shifts in risk factors and the effects of other risk categories.

The current (daily) stress scenarios are:

- >> Parallel shifts: The current interest rate curve is completely shifted up and down by 100 base points.
- >> Steepening/flattening: The interest rate curve is rotated in both directions around the 5-year rate as the fixed point.
- >> September 11, 2001 terror attack in New York: Changes seen in market prices between September 10, 2001 and September 24, 2001 – the immediate market reaction to the attack – are played out using the current levels as a base level.
- >> The 2008 crisis in the financial markets: Changes in interest rates seen between September 12, 2008 (last banking day before the bankruptcy of Lehman Brothers) and October 10, 2009 are played out using the current levels.
- >> Changes in legal regulatory requirements: The interest rate curve is completely parallel shifted up by 130 base points and down by 190 base points. The worst result of the two shifts is used for calculation purposes.

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

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

**Liquidity risks** include the following risks:

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



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

In order to keep refinancing risks at a minimum, MünchenerHyp strives to refinance loans in accordance with their amounts and maturity dates and continuously checks if its relevant refinancing sources (primarily those within the Financial Services Network) remain available. In order to limit market liquidity risks in its lending business with public-sector borrowers and banks, MünchenerHyp primarily acquires securities that are acceptable as collateral by the ECB, and which can be used for open market business at any time.

Investments in less liquid bonds, like Mortgage Backed Securities (MBS), are no longer being made. Our current inventory of € 191 million (previous year € 230 million) consists solely of Commercial Mortgage Backed Securities (CMBS) and Residential Mortgage Backed Securities (RMBS), secured by property in Germany, France and Spain. The majority of these securities are rated Aaa.

**Operational risks** refer to possible losses caused by personal misconduct, weaknesses in procedural or project management, technical failure or negative outside influences. They also include

legal risks and other general risks. Personal misconduct also includes unlawful actions, improper sales practices, unauthorised actions and transaction errors.

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

The professional concepts and models used to calculate abilities to bear risks are being continuously further developed in accordance with legal supervisory requirements. MünchenerHyp calculates its ability to bear risks based on present value and period-oriented approaches. The Going Concern scenario is the more important method used for control purposes. This scenario is used to determine if the bank still would have an adequate equity capital ratio exceeding the legally required minimums of 4 percent core capital and total capital of 8 percent after the occurrence of risks contained in all of the risk categories. The only cover for potential risks that may be used in this scenario is the available regulatory equity capital. Future earnings may not be included.

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

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



#### 4.1. USE OF FINANCE INSTRUMENTS FOR HEDGING PURPOSES

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

#### 4.2. ACCOUNTING-BASED INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

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

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

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

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

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



# CORPORATE PLANNING AND OUTLOOK





**"I not only have good reasons to invest in MünchenerHyp – I have the best reason: trust."**





Trust is an obligation that has to be earned every day.

“An investment in Pfandbriefe usually represents a long-term commitment of funds. The prerequisite for this is that you trust the issuer to be solid and stable. This trust has to be earned. Because professional investors are also guided by a simple principle: I have to know you first before I can trust you. This is why investors in MünchenerHyp can always reach a competent partner at the bank. Our investors value our individual approach to customer relationships. This was reflected this year when the British trade publication, “The Cover/Euroweek”, awarded us their “Deal of the Decade” title for the best transaction during the past ten years. This sign of trust means a great deal to us.”

**Claudia Bärldges-Koch**  
Group Director  
Capital Markets and Treasury  
Münchener Hypothekenbank eG



## 5. CORPORATE PLANNING AND OUTLOOK

### 5.1. CORPORATE PLANNING

Our mid- to long-term planning was heavily influenced last year by the crisis in the financial markets. As our primary goal was to conserve our equity capital resources and ensure sufficient liquidity at all times, we accordingly adjusted our plans for new business last year and reduced the originally anticipated volume. Against the background of the overall favourable development of our mortgage portfolio, the Bank was able to retain and expand its market position.

In line with the Bank's ability to carry risk, MünchenerHyp plans to accordingly expand its portfolio of loans again in 2010, albeit at a lower pace than originally foreseen in earlier plans. While we anticipate that our residential property lending business will gradually return to the previous growth strategy, expansion in the commercial property financing area of business will be lower. It should also be taken into consideration that the crisis in the financial markets caused maturities originally foreseen in our portfolio of international loans to be extended. Within the framework of prolongations, modifications, and restructurings, the loans in our international portfolio have mid- to long-term maturities. In order to return to a cost income ratio of about 45 percent, which is appropriate for a Pfandbrief bank of our size, and in view of the limited opportunities to increase income, restrictive cost management is especially important.

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**"MünchenerHyp plans to expand its portfolio of loans again in 2010, albeit at a lower pace than originally foreseen."**

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Our integrated planning process will play a key role towards the successful implementation of our 2010 plans. This process synchronises operational sales goals, supervision of the decentral and central components of administrative expenses – including our project portfolio – with profit and loss plans as they develop

during the course of the year. The formal planning framework for these activities consists of our annually updated business and risk strategy, respectively their new IRBA-approved format. All of the income and expense items, as well as the ability to bear risk are continually monitored, respectively planned on a continuous basis thereby enabling the Bank to respond appropriately to shifts in earnings or costs.

### 5.2. OUTLOOK

#### ECONOMIC AND FINANCIAL MARKETS

The world economic situation was still fragile in all regions at the beginning of 2010. While there are signs that the global economy will recover this year, current expectations are that the recovery will be moderate, especially in the industrialised countries, as their further economic development still depends on the economic stimulus programmes that have been put in place. In addition, the risk of setbacks in the financial sector has not yet passed. The euro zone is expected to see only a slight upturn. The fact that the IMF is still forecasting nearly 4 percent growth for the global economy in 2010 is primarily due to increasing levels of economic growth in emerging countries. The global economy is expected to grow by more than 4 percent in 2011, however with major regional differences.

The outlook for Germany remains muted for 2010 and beyond. The Federal Government estimates that real economic output will grow by 1.4 percent in the current year. Growth will be mainly driven by rising exports, which will benefit from the resumed growth of worldwide demand. It is still open, however, when the German economy will return to its pre-crisis level. Although it has not yet taken place, a noticeable rise in unemployment is also expected. At present, many companies are still relying on short-time work (Kurzarbeit) to maintain their existing labour capacities. As a result, labour productivity in Germany declined substantially in 2009. Widespread layoffs are expected if the economy does not pick up again quickly. Unlike the previous year, private consumption is expected to provide no relief. Against rising unemployment figures and low income growth, forecasts indicate that consumption will, at best, stagnate.



Inflation is also expected to rise slightly, but remain below its long-term average.

Construction investments are expected to rise slightly. In 2010, as in the previous year, the public construction sector is anticipated to benefit from stimulus measures and generate positive reactions. Construction in the commercial sector will continue to contract while residential construction, on the other hand, may benefit from the continued favourable conditions for building loans. As a result, a slight increase is forecast in that segment.

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**“While there are signs that the global economy will recover this year, the risk of setbacks in the financial sector has not yet passed.”**

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In light of the hesitant recovery of the economies in the industrialised countries, the world's major central banks are currently expected not to raise key interest rates. The second half of 2010 is the earliest time when a possible moderate interest rate increase cycle could be expected to begin. Before then, however, the central banks will likely begin to scale back the extensive provision of liquidity and their purchase programmes for government bonds and covered bonds. This process may be initiated in the euro zone when the first big annual tender becomes due in mid-2010.

In the interim the bond markets have reached a very low level of interest. This situation could lead to discussions as of the middle of the year regarding possible increases in interest rates, which would have a heavier impact on the short-term segment. Due to the rather cloudy prospects of growth and low inflation risk, the overall interest level is expected to stay relatively low despite fluctuations.

The positive trend seen in the second half of 2009 in the market for covered bonds is expected to continue, accompanied by a rise in the volume of new issues.

## PROPERTY MARKETS

The development of the residential property market in Germany in this year and the next will depend, even more than before, on how confidently people view the future. For this reason the upward tendencies on the markets, which mainly took shape in the second half of the year, are not very stable. Early indicators show that the development of the labour market and modest income prospects are already having a dampening effect on confidence among the German public. As a result, building permits cannot be expected to rise significantly, and even a further decline cannot be ruled out.

As long as interest rates remain at their current favourable level, residential property will remain affordable in comparison to historic terms. The market volume of private property financing should therefore be higher than the level recorded in 2009. The property financing business will be driven primarily by government subsidies, renovation and restoration projects as well as energy-related measures. In light of the muted development seen in the construction industry the share of property loans made for new construction purposes will continue to contract in favour of purchases of existing properties.

The recovery of the European residential property markets will continue to depend on a stabilisation of overall economic conditions. This will require effective regulatory measures, especially in the medium to long term, to strengthen confidence in the European economic area and strengthen the long-range income situation of both property owners and tenants.

Construction activity in the Swiss residential property market is expected to slide by about 3 percent in 2010 in comparison to the previous year. Immigration to Switzerland is also forecast to decline. This will likely lead to a slight increase in vacancy rates, and as a result, the price increases seen of recent years will probably be more moderate. In light of the generally low vacancy rates, however, major price declines are considered unlikely.



Brief phases of slightly increasing house prices have been observed recently in the residential property market in the USA. In most cases, gains were driven by government support programs. The market is therefore not expected to recover in 2010. It can be assumed that rents for residential property will tend to fall as vacancy rates climb. Even though there have been initial signs that the market has reached its bottom, the rental market is not expected to recover before 2011.

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**"The recovery of the residential property markets will continue to depend on a stabilisation of overall economic conditions."**

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Experts expect to see consolidation on the commercial property markets, but do not yet anticipate that there will be any broad, stable growth. Rather, there are signs that the investment and rental markets will develop differently. While the investment markets are already showing signs of increased vitality, rental activities are lagging behind the already tepid recovery of the economy on the whole. With regard to investment activities, a two-class market should be expected. For prime properties in top locations, net initial yields will dip again in 2010. Property prices will rise in some markets because the supply of high-quality properties will be limited, while so-called "B" locations and sites will not experience any increase in demand. Returns in this segment will be more closely aligned to the overall economic situation than those of prime properties. Market observers expect that the volume of deals in Europe will be about € 100 billion. While this represents an increase over 2009 levels, it is still equal to only 40 percent of the level seen in 2006 and 2007.

The commercial property market in the USA will continue to be dominated by high vacancy rates, diminished property values, and falling rents. As a result, no turnaround is expected either in this year or the next. Instead, tighter lending standards and the risk of a rising number of foreclosures will continue to exert pressure on the prices of commercial properties in the USA for some time to come. Additional burdens on high loan-to-value

financing deals, in particular, cannot be ruled out as a result of this development.

In principle, there is a danger that the development observed in the USA may be exacerbated by the market for Commercial Mortgage Backed Securities (CMBS). The market for CMBS plays an important role in overcoming the property crisis, because property lending in the USA was refinanced chiefly by securitising loans before the onset of the crisis. Since that time, this source of refinancing has been almost completely eliminated. Due to the problems that may arise from the outstanding volume of CMBS, this segment is not expected to recover quickly and notably.

While the majority of these CMBS will not mature until after 2010, an increase in both delayed payments and the default rate for these securities is already visible at this time. Just how heavy an impact this situation will have on the commercial property markets will depend to a great degree on whether the properties underlying the CMBS are subject to foreclosure, and if so, to what extent and over what period.

The German commercial property market should see comparatively stable development in the current year. As a result, the rental market in Germany may recover more quickly than in many other industrialised countries. Experts predict that transaction volume on the German transaction market will increase only slightly, to € 12 billion because the average deal size has shrunk.

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**"The commercial property markets are expected to consolidate. However, it is not anticipated that there will be any broad, stable growth."**

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Commercial property markets may begin to recover in 2011. There is, however, still a risk both in Germany and internationally that a recovery will not last. Market stabilisation will depend, above all, on a continuing improvement in overall economic



conditions, and on Europe experiencing a stable, and especially a long-term, economic upturn.

We anticipate that the volume of new business in the syndication markets will be low in both Europe and the USA. We expect that the banks' financing activities will continue to be restricted. Risks will rise for banks that initially take larger amounts of financing onto their own books with the goal of subsequently outplacing them, as they may be forced to keep the entire open loans on their balance sheet longer than planned.

#### DEVELOPMENT OF BUSINESS AT MÜNCHENER HYPOTHEKENBANK

We have a modestly positive view of the prospects of the overall economy, financial markets, and property markets for our business, especially as all of them are still marked by uncertainty. As a result, a cautious, disciplined approach to risk remains necessary. Our new business and earnings plan for 2010 is thus aligned to both current market conditions and the Bank's available internal resources.

We will be focusing, in particular, on securing liquidity and achieving competitive refinancing conditions as well as on complying with tightening regulatory capital requirements.

In total, we are planning for achieve new business volume of € 5.7 billion across all business areas. We anticipate that we will be able to expand our new business results in our private property financing area of business above 2009 levels due to further improved refinancing conditions and the stability of the German residential property market. Our focus will remain on our Financial Services Network business, in which we operate as a subsidiary partner to the Volksbanken and Raiffeisenbanken. We support our cooperative partner banks in the Financial Services Network wherever our expertise and experience in long-term property financing can provide a competitive advantage.

The market for private property financing will again be characterised by a high level of crowding-out competition in 2010 and

2011, even though current margins have tended to improve slightly. Gaining market share in this environment calls for a concept in which products, sales campaigns, and consulting activities mesh like a set of gears. With our flexible product strategy – our building block principle – and joint sales campaigns with our partners, along with high service levels, we have a competitive foundation, and we will also continue to further expand it in this year.

We see additional shared business potential in our customers' increased quality orientation. This trend will benefit MünchenerHyp: First, we are clearly positioned as a high-quality provider. Second, customers attribute a high level of expertise and capability to the financial institutions that belong to the cooperative Financial Services Network, and they place a great deal of trust in these institutions. We are among the institutions that benefit from this, as we are firmly integrated into the Financial Services Network.

In our collaboration with broker sales companies, we will continue to develop this market segment in 2010 and 2011, and expect that this strategy will generate further increases in revenues and income. We also anticipate that our collaboration with PostFinance will continue to develop favourably, as the Swiss property market is stable and our collaboration is built on a solid foundation based on a spirit of partnership.

In the commercial property financing business, we will give priority to serving our target customers and will continue our risk-conscious business policy, i.e., making top tier loans with moderate loan-to-value ratios. In addition to Germany, our target market is Western Europe, with a certain concentration on France and the UK. We will not be making any new investments in the USA or in mortgage backed securities (MBS) for the time being. This fundamental strategy is oriented toward the long term and will also apply beyond 2010. We will, however, continue to follow economic and global developments closely so that we can be flexible in fine-tuning our approach as needed in the case of conspicuous market changes.



Our lending business with the public sector and banks will continue only with first-class entities and with a positive contribution towards cover.

Our liquidity and refinancing planning is based on the following fundamental assumptions:

- >> The refinancing situation has improved further from the situation seen in 2009. Nevertheless, appropriate caution is called for, as confidence among banks has not yet regained the level seen before the start of the crisis in the financial markets.
- >> The Pfandbrief has proven its quality during the crisis in the financial markets and will continue to be the cornerstone of our refinancing strategy in the future.
- >> We do not anticipate that 2010 will see spreads widen to the extent, in some cases quite substantial, as they did in the Pfandbrief market in the previous year. Spreads will reflect lower levels of volatility.
- >> The Pfandbrief purchase programme of the ECB will end as planned in summer of 2010. We therefore do not expect spreads for MünchenerHyp Pfandbrief issues to come under pressure.
- >> There will be no shortage of liquidity on the market.

One important support in the area of refinancing is the cooperative Financial Services Network, which has shown itself to be highly reliable and stable during the crisis in the financial markets.

The funding volume expected for 2010 will be at about the same level as the previous year. Two Jumbo Pfandbrief issues of € 1 billion each will mature in 2010, one in May and one in September. The redemption of the Jumbo issue due in September, in particular, can be covered to a great extent by assets that are due then.

In 2009, we made limited use of the refinancing options offered by the ECB due to economic reasons. Our goal in this year is to cover all of our refinancing needs via the national and interna-

tional money market and capital market, in accordance with our assumptions regarding the development of the market.

Well over half of our refinancing requirements in 2010 will be met using Pfandbrief issues, especially Mortgage Pfandbriefe. We were able to reduce liquidity risks with the duration planned and realised in 2009. This year we are once again striving to ensure that our issuing activities are oriented toward these maturities. We are planning to issue a Jumbo Pfandbrief in 2010. It will be a Mortgage Pfandbrief with a maturity date based on market conditions and investor requirements in effect when we float it.

We will cover our limited uncovered refinancing requirements once again this year through small-volume placements, primarily within the cooperative Financial Services Network. We do not expect any large-volume transactions in this segment. Instead, we will be guided by the wishes of our partners in the Financial Services Network.

In addition, we aim to uphold and further strengthen the excellent reputation of MünchenerHyp and its securities among investors. High levels of investor confidence made a substantial contribution to the fact that MünchenerHyp was able to positively distinguish itself from competitors during the crisis in the financial markets.

Following an extraordinarily difficult 2009, we have to assume, as things currently stand, that the overall conditions – with regard to the revenue situation and future equity capital requirements – will continue to pose major challenges.

During the current financial year, we will strive to achieve higher net interest income from operating activities. The reasons for this are, first, our expectations of an increase in new business, and second, the tapering off of negative effects related to the crisis seen in the financial market in 2009. We anticipate that we will be less severely affected in our refinancing activities this year, as in the interim we have once again been able to float issues with lower spreads. Our plans also foresee that our capital



market activities will generate an appropriate contribution to help us meet our net interest income goal.

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

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We anticipate that our administrative expenses will be only slightly above the level of 2009, especially due to our project aimed at cutting costs and enhancing efficiency. Cost-reduction measures will be offset by higher expenses for our contribution to the protection scheme of the National Association of German Cooperative Banks (BVR) and costs for the project launched in 2009 to adjust our equity capital requirements in accordance with the IRBA guidelines. Added to these factors are the ongoing technical adjustments to control instruments needed for regulatory and business administration reasons.

Based on current information, the risk provisions we have made for our lending business are appropriate and are founded on the assumption that the level of burdens in 2010 will be similar to what was noted in the previous year.

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

In conclusion, we believe that the future development of the real economy and the financial markets still contain a number of uncertainties. Based on current knowledge, therefore, predictions and forecast figures for 2010 and 2011 are subject to a level of uncertainty that exceeds normal standards.





# BALANCE SHEET INCOME STATEMENT





## BALANCE SHEET, 31 DECEMBER 2009

ASSETS		31 Dec. 09	31 Dec. 08
	€	€	€ 000
<b>1. Cash reserve</b>			
a) Cash on hand	16,895.28		15
b) Balances with Central Banks	66,955,118.28		57,123
of which			
with Deutsche Bundesbank € 66,955,118.28			
		<b>66,972,013.56</b>	<b>57,138</b>
<b>2. Claims on banks</b>			
a) Mortgage loans	79,315,652.45		100,410
b) Public-sector loans	1,578,829,093.01		2,203,058
c) Other claims	2,350,268,238.38		2,914,955
of which			
payable on demand € 898,731,868.46			
		<b>4,008,412,983.84</b>	<b>5,218,423</b>
<b>3. Claims on customers</b>			
a) Mortgage loans	16,335,718,527.62		15,593,704
b) Public-sector loans	6,160,047,803.94		6,451,637
c) Other claims	182,350,287.12		238,756
of which			
with securities pledged as collateral € 568,242.66			
		<b>22,678,116,618.68</b>	<b>22,284,097</b>
<b>4. Bonds and other fixed-income securities</b>			
a) Bonds and notes	6,830,856,004.54		7,383,814
aa) Public-sector issuers € 1,181,908,730.39			( 1,321,572 )
of which			
eligible as collateral for Deutsche Bundesbank advances € 939,547,319.94			
ab) Other issuers € 5,648,947,274.15			( 6,062,242 )
of which			
eligible as collateral for Deutsche Bundesbank advances € 5,386,826,598.17			
b) Own bonds and notes	1,809,693,509.50		521,221
Nominal value € 1,820,278,200.00			
		<b>8,640,549,514.04</b>	<b>7,905,035</b>
Carried forward		35,394,051,130.12	35,464,693



LIABILITIES, CAPITAL AND RESERVES	31 Dec. 09	31 Dec. 08
	€	€ 000
<b>1. Liabilities to banks</b>		
a) Registered mortgage Pfandbriefe issued	678,591,587.06	624,580
b) Registered public-sector Pfandbriefe issued	223,640,334.27	216,690
c) Other liabilities	4,457,581,742.48	3,369,516
of which		
payable on demand € 259,432,124.86		
delivered to lenders as collateral for loans received		
registered mortgage Pfandbriefe € 285,885.28		
and registered public-sector Pfandbriefe € 311,236.55		
	<b>5,359,813,663.81</b>	<b>4,210,786</b>
<b>2. Liabilities to customers</b>		
a) Registered mortgage Pfandbriefe issued	3,753,170,402.21	3,690,250
b) Registered public-sector Pfandbriefe issued	4,435,930,427.27	4,466,346
c) Other liabilities	1,092,431,540.99	958,292
of which		
payable on demand € 4,156,812.56		
delivered to lenders as collateral for loans received		
registered mortgage Pfandbriefe € 0.00		
and registered public-sector Pfandbriefe € 0.00		
	<b>9,281,532,370.47</b>	<b>9,114,888</b>
<b>3. Certificated liabilities</b>		
a) Bonds issued	19,674,630,484.40	21,700,591
aa) Mortgage Pfandbriefe € 9,272,032,544.19		( 8,166,380 )
ab) Public-sector Pfandbriefe € 6,584,359,781.83		( 8,701,230 )
ac) Other bonds and fixed income securities		
€ 3,818,238,158.38		( 4,832,981 )
b) Other certificated liabilities	342,756,222.98	129,020
of which		
Money market paper € 342,756,222.98		
	<b>20,017,386,707.38</b>	<b>21,829,611</b>
<b>4. Liabilities incurred as trustee</b>	<b>206,150.76</b>	<b>257</b>
of which		
loans € 206,150.76		
<b>5. Other liabilities</b>	<b>65,945,781.50</b>	<b>70,860</b>
Carried forward	34,724,884,673.92	35,226,402



ASSETS	31 Dec. 09		31 Dec. 08
	€	€	€ 000
Brought forward		35,394,051,130.12	35,464,693
<b>5. Equities and other variable-yield securities</b>		<b>13,180,044.04</b>	<b>334,199</b>
<b>6. Participating interests and shares in cooperatives</b>			
a) Participating interests	78,063,133.75		73,911
of which			
credit institutions € 17,189,982.18			
b) Shares in cooperatives	18,500.00		18
of which			
in credit cooperatives € 15,500.00			
		<b>78,081,633.75</b>	<b>73,929</b>
<b>7. Shares in affiliated companies</b>		<b>11,181,101.64</b>	<b>11,181</b>
<b>8. Assets held in trust</b>		<b>206,150.76</b>	<b>257</b>
of which			
loans € 206,150.76			
<b>9. Intangible assets</b>		<b>6,497,172.07</b>	<b>6,659</b>
<b>10. Tangible assets</b>		<b>79,910,413.49</b>	<b>81,731</b>
<b>11. Other assets</b>		<b>75,976,276.66</b>	<b>81,566</b>
<b>12. Deferred items</b>			
a) From issuing and lending business	72,357,558.40		79,023
b) Other	1,937,514.72		1,138
		<b>74,295,073.12</b>	<b>80,161</b>
<b>Total assets</b>		<b>35,733,378,995.65</b>	<b>36,134,376</b>



LIABILITIES, CAPITAL AND RESERVES	31 Dec. 09	31 Dec. 08
	€	€ 000
Brought forward	34,724,884,673.92	35,226,402
<b>6. Deferred items</b>		
From issuing and lending business	18,463,735.85	22,684
	<b>18,463,735.85</b>	<b>22,684</b>
<b>7. Provisions</b>		
a) Provisions for pensions and similar obligations	25,277,595.00	23,831
b) Provisions for taxes	1,656,200.00	1,500
c) Other provisions	13,417,495.00	12,600
	<b>40,351,290.00</b>	<b>37,931</b>
<b>8. Subordinated liabilities</b>	<b>156,300,000.00</b>	<b>116,300</b>
<b>9. Profit-participation certificates</b>	<b>21,474,259.01</b>	<b>57,265</b>
of which		
€ 0.00 are due within two years		
<b>10. Capital and reserves</b>		
a) Subscribed capital	483,937,627.69	389,495
aa) Members' capital contributions € 148,741,215.03		( 144,073 )
ab) Silent participations € 335,196,412.66		( 245,422 )
b) Revenue reserves	279,338,340.75	276,338
ba) Legal reserve € 277,804,465.11		( 274,804 )
bb) Other revenue reserves € 1,533,875.64		( 1,534 )
c) Unappropriated profit	8,629,068.43	7,961
	<b>771,905,036.87</b>	<b>673,794</b>
<b>Total liabilities, capital and reserves</b>	<b>35,733,378,995.65</b>	<b>36,134,376</b>
<b>1. Contingent liabilities</b>		
Contingent liability on guarantees and indemnities	<b>109,025,911.18</b>	<b>106,596</b>
<b>2. Other commitments</b>		
Irrevocable loan commitments	<b>1,182,599,833.14</b>	<b>2,099,549</b>



# INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

EXPENSES	31 Dec. 09	31 Dec. 08
	€	€ 000
1. Interest expenses	1,303,740,148.76	1,504,510
2. Commission paid	38,500,366.46	37,639
3. Net costs of financial transactions	2,645,701.48	738
4. General administrative expenses		
a) Personnel expenses	32,615,642.18	30,141
aa) Wages and salaries € 25,371,744.36		( 22,960 )
ab) Social security contributions and cost of pensions and other benefits € 7,243,897.82		( 7,181 )
of which		
for pensions € 3,704,565.15		
b) Other administrative expenses	22,475,444.96	19,715
	55,091,087.14	49,856
5. Depreciation and write-downs of intangible and tangible assets	4,306,066.79	3,189
6. Other operating expenses	2,451,908.47	2,695
7. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses	24,252,093.31	29,747
8. Taxes on revenue and income	1,961,541.47	0.00
9. Other taxes not included under "Other operating expenses"	90,051.30	93
10. Profits paid out due to a profit pooling agreement, a profit transfer agreement or a partial profit transfer agreement	16,166,445.11	15,132
11. Net income	10,993,773.17	10,154
<b>Total expenses</b>	<b>1,460,199,183.46</b>	<b>1,653,753</b>
1. Net income	10,993,773.17	10,154
2. Retained earnings brought forward from previous year	635,295.26	807
	11,629,068.43	10,961
3. Transfer to legal reserve	3,000,000.00	3,000
4. Unappropriated profit	8,629,068.43	7,961







# NOTES





## NOTES

### GENERAL INFORMATION ON ACCOUNTING POLICIES

The Münchener Hypothekbank eG annual financial statement as of December 31, 2009 was prepared in accordance with the provisions of the German Commercial Code (HGB), in conjunction with the accounting regulation for banks and financial service institutions (RechKredV), and in accordance with the rules contained in the Cooperatives Act (GenG) and the Pfandbrief Act (PfandBG).

All claims are stated at nominal amounts in accordance with Art. 340e (2) of the German Commercial Code. 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 German Commercial Code have also been made.

Securities held in the liquidity portfolio are strictly valued at the lower of cost or market principle. The present value corresponds to the current exchange or market price.

Securities held as fixed assets, which were mainly acquired in the course of the Bank's public-sector lending business, are valued at their cost of purchase. Discounts and premiums are recognised as interest income or expense over the terms of the securities. Securities associated with swap agreements are valued together with these agreements, as a single item. To the extent that they are used to hedge risks, derivatives are not valued individually. Unscheduled depreciation in accordance with Art. 253 (2) 3s of the German Commercial Code (HGB) was not taken for market-price related changes in the value of securities because we do not anticipate that the reduction in value will be permanent.

In accordance with the rules pertaining to the valuation of assets, participations and holdings in affiliated companies are valued

at their cost of purchase. Depreciation is taken on those assets where the reduction in value is expected to be long-term.

Immaterial assets and tangible assets are valued at cost or production costs less accumulated depreciation. Planned depreciation was taken in accordance with normal useful lifetimes. Minor value assets were treated in accordance with tax rules.

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 percent rate of interest.

Balance sheet items denominated in a foreign currency are valued at the European Central Bank reference exchange rate at the date of record 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 INCOME STATEMENT

### MATURITY ANALYSIS BY RESIDUAL TERM ASSETS

	31 Dec. 09 € 000	31 Dec. 08 € 000
<b>Claims on banks</b>	4,008,413	5,218,423
≤ Three months	2,301,219	2,986,668
> Three months ≤ one year	360,844	511,686
> One year ≤ five years	721,878	1,035,043
> Five years	624,472	685,026
<b>Claims on customers</b>	22,678,117	22,284,097
≤ Three months	1,017,301	437,168
> Three months ≤ one year	883,550	1,393,125
> One year ≤ five years	7,867,425	4,688,034
> Five years	12,909,841	15,765,770
<b>Bonds and other fixed-income securities ≤ one year</b>	873,004	1,194,749

### LIABILITIES

	31 Dec. 09 € 000	31 Dec. 08 € 000
<b>Liabilities to banks</b>	5,359,814	4,210,787
≤ Three months	2,131,748	2,549,661
> Three months ≤ one year	1,844,636	529,684
> One year ≤ five years	764,717	741,483
> Five years	618,713	389,959
<b>Liabilities to customers</b>	9,281,532	9,114,888
≤ Three months	431,366	462,935
> Three months ≤ one year	189,426	357,534
> One year ≤ five years	1,071,146	1,220,254
> Five years	7,589,594	7,074,165
<b>Certificated liabilities</b>	20,017,387	21,829,611
≤ Three months	1,837,901	2,578,490
> Three months ≤ one year	3,146,423	6,513,455
> One year ≤ five years	13,033,789	11,812,491
> Five years	1,999,274	925,175

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

	31 Dec. 09 € 000	31 Dec. 08 € 000
<b>Claims on</b>		
Banks	314,463	226,549
Customers	81,840	71,357
<b>Liabilities to</b>		
Banks	844,214	229,500
Customers	0	0

**CLAIMS ON AND LIABILITIES TO AFFILIATED COMPANIES**

	31 Dec. 09 € 000	31 Dec. 08 € 000
Claims on customers	2,679	1,917
Liabilities to customers	2,840	2,141

**SECURITIES MARKETABLE ON THE STOCK EXCHANGE**

Asset category	31 Dec. 09 € 000		31 Dec. 08 € 000	
	listed	unlisted	listed	unlisted
Bonds and other fixed-income securities	8,366,280	153,430	7,583,075	170,263
Shares and other non-fixed-income securities	8,190	0	0	0
Participating interests	0	2,150	0	1,689

**DETAILS OF FIXED ASSETS**

	Cost	Addi- tions	Writing up fixed assets	Disposals	Depreciation provided in 2009	Accumulat- ed depre- ciation	Net book value 31 Dec. 09	Net book value 31 Dec. 08
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Intangible assets	18,427	1,900	0	176	1,895	13,654	6,497	6,659
Tangible assets	102,339	858	0	2,234	2,411	21,053	79,910	81,731
Changes +/- *)								
Participating in- terests and shares in cooperatives	73,929			+ 4,153			78,082	73,929
Shares in affiliated companies	11,181			0			11,181	11,181
Bonds and other fixed-income securities	6,309,133			+ 127,101			6,436,234	6,309,133
Shares and other non-fixed income securities	0			+ 8,190			8,190	0

\*) The Bank has exercised the option, available under Art. 34 (3) of the accounting regulation for banks and financial services institutions, to combine certain items.

As of the date of record there was no indication that the present value of the Bank's participations and capital holdings at cooperatives, holdings in affiliated companies, as well as the value of shares and other non-fixed-income securities was less than their book values.

The item "Bonds and other fixed-income securities" includes securities with a book value of € 4,763,464 (thousand) (previous year € 4,528,825 (thousand)) exceeding the present value of € 4,588,265 (thousand) (previous year € 4,356,315 (thousand)). To the extent that these securities are associated with a swap transaction, they are valued together with the transaction as a single item. As of the date of record we had no knowledge of a permanent reduction in value that would warrant unscheduled depreciation.

**TRUST TRANSACTIONS**

	31 Dec. 09 € 000	31 Dec. 08 € 000
Trust assets		
Claims on customers	206	257
Trust liabilities		
Liabilities to banks	206	257



### TANGIBLE ASSETS

The portion of the total value attributable to the land and buildings used by the Bank is € 65,868 (thousand) (previous year € 66,468 (thousand)), and of plant and office equipment € 2,703 (thousand) (previous year € 3,077 (thousand)).

### SUBORDINATED ASSETS

	31 Dec. 09 € 000	31 Dec. 08 € 000
Claims on banks	10,000	10,000
Shares and other non-fixed-income securities	8,190	0

### 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.

### OTHER LIABILITIES

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

### ACCOUNTING APPORTIONMENT ITEMS ARISING FROM THE ISSUING AND LENDING BUSINESS

	31 Dec. 09 € 000	31 Dec. 08 € 000
Assets side 12.		
Discount from liabilities	33,613	35,599
Premium from claims	27,862	26,567
Other deferred charges	10,883	16,857
Liabilities side 6.		
Premium from liabilities	5,376	5,305
Discount from claims	12,794	17,209
Other deferred income	294	170

### SUBORDINATED LIABILITIES

Subordinated liabilities incurred interest expenses of € 7,805 (thousand) (previous year € 6,603 (thousand)). Subordinated liabilities which individually exceed 10 percent of the overall statement amount to:

Nominal amount	Currency	Interest rate	Maturity date
30,000,000.00	euro	6.25%	01 Jun. 2011
20,000,000.00	euro	6.02%	20 Mar. 2018

Fund-raising activities did not include any conditions that deviated from Art. 10 (5a) of the German Banking Act. Premature repayment obligations are excluded in all cases. The conversion of these funds into capital or other forms of debt has not been agreed upon nor is foreseen. Reporting on the balance sheet is shown at nominal value.



### PROFIT-PARTICIPATION CAPITAL

The amount of profit-participation capital of € 21,474 (thousand) (previous year € 57,265 (thousand)) fulfills the criteria of section 10 (5) of the German Banking Act with € 21,474 (thousand) (previous year € 21,474 (thousand)).

### DETAILS OF REVENUE RESERVES

	Legal reserve € 000	Other revenue reserves € 000
1 Jan. 2009	274,804	1,534
Transfer from 2008 retained earnings	0	0
Transfer from 2009 net income	3,000	0
31 Dec. 2009	277,804	1,534

### MEMBERS' CAPITAL CONTRIBUTIONS

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

	31 Dec. 09 €	31 Dec. 08 €
Capital contributions	148,741,215.03	144,073,246.59
a) of remaining members	146,922,055.03	142,692,636.59
b) of former members	1,768,410.00	1,323,770.00
c) in respect of shares under notice	50,750.00	56,840.00
Outstanding obligatory payments in respect of shares	34.97	53.41

### SILENT PARTICIPATIONS

The silent participations of € 335,196 (thousand) (previous year € 245,422 (thousand)) satisfy the criteria of Art. 10 (4) of the German Banking Act is € 322,170 (thousand) (previous year € 232,896 (thousand)). The interest expense attributable to these participations amounted to € 16,166 (thousand) (previous year € 15,132 (thousand)).

### ASSETS PLEDGED TO SECURE LIABILITIES

Within the framework of open market transactions with the European Central Bank, securities of equal value were pledged as collateral to secure liabilities of € 1,500,000 (thousand) (previous year: € 1,308,102 (thousand)). The book value of the pledged assets (genuine repurchase agreements) was € 880,248 (thousand) (previous year: € 0 (thousand)). Within the framework of security arrangements for derivative transactions, cash collateral of € 792,411 (thousand) (previous year: € 730,220 (thousand)) was provided. Securities valued at € 12,208 (thousand) (previous year: € 10,216 (thousand)) were pledged to secure pension obligations and requirements of the partial retirement model for older employees. Securities valued at € 21,976 (thousand) were pledged to secure financial aid obligations within the framework of a new Contractual Trust Arrangement (CTA) that was established in 2007.

### FOREIGN CURRENCY ITEMS

	31 Dec. 09 € 000	31 Dec. 08 € 000
Assets side	4,147,218	4,028,469
Liabilities side	1,899,937	2,653,102
Contingent liabilities and other obligations	267,984	550,119



## OTHER OBLIGATIONS

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

## NET EXPENSES FROM FINANCIAL TRANSACTIONS

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

## OTHER INCOME FROM OPERATIONS

Discounted claims on tax authorities for corporate tax credits contained in the item Other assets have resulted in interest effects in 2009 of € 1,517 (thousands), primarily due to a reduction in the remaining time to maturity.

## FUTURES AND DERIVATIVES

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

	Nominal amounts (in millions of €)			Total	Counterparty risk *) neg. (-)
	Residual term ≤ one year	Residual term > one year ≤ five years	Residual term > five years		
<b>Interest-Rate-Related Transactions</b>					
Interest rate swaps	9,812	20,911	20,248	50,971	- 905
Interest rate options					
- Calls	37	151	117	305	7
- Puts	29	146	10	185	- 5
- Other interest rate contracts	380	435	444	1,259	5
<b>Currency-Related Transactions</b>					
Cross-currency swaps	1,676	200	253	2,129	36
Currency swaps	464	0	0	464	- 9

\*) Valuation methods:

Interest rate swaps are valued using the present value method on the date of record using the current interest rate curve. In doing so the cash flows are discounted using market interest rates appropriate for the related risks and remaining terms to maturity, interest that has been accrued but not yet paid is not taken into consideration. This approach is known as "clean price" valuation. The value of options is calculated using option price models using generally accepted basic assumptions. In general the price of the underlying value, its volatility, the agreed strike price, a risk-free interest rate, and the remaining term to the expiration date are used to calculate the particular value of an option.

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

Interest attributable to derivative deals is shown in the balance sheet items "Claims on banks" with € 497.5 million (previous year € 383.2 million) and "Liabilities to banks" with € 470.8 million (previous year € 367.8 million). The accrual of compensatory payments made is entered under "Other assets" with € 19.1 million (previous year € 14.4 million); the accrual of compensatory payments received is entered under "Other liabilities" with € 45.5 million (previous year € 45.4 million).



Compensatory items in the amounts of € 24.1 million (previous year € 26.3 million) related to the valuation of foreign currency swaps are contained in the balance sheet items "Other assets".

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

Hedging arrangements were made to reduce credit risks associated with these contracts. Within the framework of these arrangements collateral was provided – for the net claims/liabilities arising after the positions were netted.

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

	31 Dec. 09 € 000	31 Dec. 08 € 000
Ordinary cover	13,826,353	13,131,807
1. Claims on banks (mortgage loans)	73,420	86,412
2. Claims on customers (mortgage loans)	13,700,469	12,999,577
3. Tangible assets (charges on land owned by the Bank)	52,464	45,818
Substitute cover	1,470,498	807,406
1. Other claims on banks	615,000	465,000
2. Bonds and other fixed-income securities	853,500	343,550
3. Other assets (offsetting currency derivatives)	1,998	- 1,144
Total cover	15,296,851	13,939,213
Total mortgage Pfandbriefe requiring cover	13,003,529	12,207,912
Surplus cover	2,293,322	1,731,301

### B. PUBLIC-SECTOR PFANDBRIEFE

	31 Dec. 09 € 000	31 Dec. 08 € 000
Ordinary cover	10,518,363	12,363,495
1. Claims on banks (public-sector loans)	1,558,208	2,162,266
2. Claims on customers (public-sector loans)	6,022,667	6,306,525
3. Bonds and other fixed-income securities	2,937,488	3,894,704
Substitute cover	1,145,209	1,037,521
1. Other claims on banks	275,000	355,000
2. Bonds and other fixed-income securities	865,000	675,850
3. Other assets (offsetting currency derivatives)	5,209	6,671
Total cover	11,663,572	13,401,016
Total public-sector Pfandbriefe requiring cover	10,894,593	13,019,155
Surplus cover	768,979	381,861


**REGULATORY REPORTING IN ACCORDANCE WITH ART. 28 PFANDBRIEF ACT (PFANDBG)**
**MORTGAGE PFANDBRIEFE OUTSTANDING AND CORRESPONDING COVER POOLS**

	Nominal value	
	31 Dec. 09 € 000	31 Dec. 08 € 000
Mortgage Pfandbriefe	13,003,529	12,207,912
Cover pools	15,296,851	13,939,213
of which		
further cover assets	1,468,500	854,368
derivatives	1,998	- 1,144
Surplus cover	2,293,322	1,731,301

	Net present value	
	31 Dec. 09 € 000	31 Dec. 08 € 000
Mortgage Pfandbriefe	13,535,996	12,793,236
Cover pools	16,377,116	14,845,732
of which		
further cover assets	1,514,790	854,162
derivatives	1,485	-2,174
Surplus cover	2,841,120	2,052,496

	Risk-adjusted net present value *)	
	31 Dec. 09 € 000	31 Dec. 08 € 000
Mortgage Pfandbriefe	13,024,772	12,090,264
Public-sector Pfandbriefe	15,149,888	13,407,121
Value of surplus cover after stress test	2,125,116	1,316,857

\*) 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. 09 € 000**

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

**Maturity analysis by residual term 31 Dec. 08 € 000**

	≤ one year	> one year ≤ two years	> two years ≤ three years	> three years ≤ four years	> four years ≤ five years	> five years ≤ ten years	> ten years
Mortgage Pfandbriefe	3,723,126	1,876,822	390,389	1,311,645	1,934,617	1,183,590	1,787,723
Cover pools	2,310,652	1,671,121	1,185,431	1,080,949	1,472,658	4,871,798	1,346,604



**PUBLIC PFANDBRIEFE OUTSTANDING AND CORRESPONDING COVER POOLS**

	Nominal value	
	31 Dec. 09 € 000	31 Dec. 08 € 000
Public Pfandbriefe	10,894,593	13,019,155
Cover pools	11,663,572	13,401,016
of which		
further cover assets	1,140,000	1,030,850
derivatives	5,209	6,671
Surplus cover	768,979	381,861

	Net present value	
	31 Dec. 09 € 000	31 Dec. 08 € 000
Public Pfandbriefe	11,821,629	13,764,382
Cover pools	12,709,232	14,597,007
of which		
further cover assets	1,208,275	1,125,228
derivatives	18,650	19,040
Surplus cover	887,603	832,625

	Risk-adjusted net present value *)	
	31 Dec. 09 € 000	31 Dec. 08 € 000
Public Pfandbriefe	12,567,078	12,911,228
Cover pools	13,426,918	13,722,750
Value of surplus cover after stress test	859,840	811,522

\*) 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. 09 € 000**

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

**Maturity analysis by residual term 31 Dec. 08 € 000**

	≤ one year	> one year ≤ two years	> two years ≤ three years	> three years ≤ four years	> four years ≤ five years	> five years ≤ ten years	> ten years
Public Pfandbriefe	2,442,996	1,381,045	3,067,772	1,972,396	700,536	1,312,845	2,141,565
Cover pools	1,913,160	1,811,904	1,168,226	984,289	1,292,786	4,008,744	2,221,907


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

	31 Dec. 09 € 000	31 Dec. 08 € 000
≤ € 300,000	7,691,796	7,106,117
> € 300,000 ≤ € 5 million	2,178,234	2,161,039
> € 5 million	3,903,859	3,818,833
<b>Total</b>	<b>13,773,889</b>	<b>13,085,989</b>

**B. CLAIMS USED TO COVER MORTGAGE PFANDBRIEFE ACCORDING TO THE LOCATIONS OF THE REAL PROPERTY COLLATERAL, AND TYPE OF USAGE**

	31 Dec. 09 € 000		31 Dec. 08 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
<b>Federal Republic of Germany</b>				
Apartments		2,360,918		2,313,533
Single-family houses		3,677,115		3,570,987
Multiple-family dwellings		2,893,743		2,809,261
Office buildings	915,598		906,915	
Retail buildings	569,776		572,144	
Industrial buildings	69,052		88,448	
Other commercially used properties	302,664		161,775	
New buildings and buildings not yet capable of producing a yield	1,118	85,998	1,142	104,196
Buildings under construction	1,175	2,085	1,517	2,117
	<b>1,859,383</b>	<b>9,019,859</b>	<b>1,731,941</b>	<b>8,800,094</b>
of which in				
Baden-Wuerttemberg	222,978	1,178,542	207,641	1,178,714
Bavaria	340,660	2,283,492	360,562	2,244,064
Berlin	176,670	326,783	29,448	304,132
Brandenburg	4,722	109,421	5,215	95,770
Bremen	378	23,239	443	24,333
Hamburg	147,621	217,843	150,904	186,378
Hesse	358,361	696,749	337,437	716,437
Mecklenburg-Lower Pomerania	4,849	61,507	5,164	54,447
Lower Saxony	52,878	698,426	58,847	646,911
North Rhine-Westphalia	285,305	1,909,566	317,065	1,876,003
Rhineland-Palatinate	107,899	249,702	106,274	240,769



	31 Dec. 09 € 000		31 Dec. 08 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
Saarland	6,241	27,269	6,950	30,993
Saxony	71,355	307,508	74,077	300,380
Saxony-Anhalt	3,923	74,968	4,643	74,702
Schleswig-Holstein	56,034	725,510	62,233	691,934
Thuringia	19,509	129,334	5,038	134,127
<b>France</b>				
Apartments		0		12,580
Office buildings	209,716		154,961	
Retail buildings	20,520		16,344	
	<b>230,236</b>	<b>0</b>	<b>171,305</b>	<b>12,580</b>
<b>Great Britain</b>				
Office buildings	80,307		109,564	
Other commercially used properties	12,122		11,303	
	<b>92,429</b>		<b>120,867</b>	
<b>Luxembourg</b>				
Office buildings	60,000		12,000	
Retail buildings	4,250		4,250	
	<b>64,250</b>		<b>16,250</b>	
<b>The Netherlands</b>				
Office buildings	173,006		180,886	
Retail buildings	9,654		9,654	
	<b>182,660</b>		<b>190,540</b>	
<b>Austria</b>				
Single-family houses		73		75
Office buildings	34,546		34,531	
	<b>34,546</b>	<b>73</b>	<b>34,531</b>	<b>75</b>
<b>Sweden</b>				
Office buildings	29,731		28,041	
	<b>29,731</b>		<b>28,041</b>	



	31 Dec. 09 € 000		31 Dec. 08 € 000	
	Commercial properties	Residential properties	Commercial properties	Residential properties
<b>Switzerland</b>				
Apartments		149,063		0
Single-family houses		383,610		0
Office buildings	23,772		23,750	
	<b>23,772</b>	<b>532,673</b>	<b>23,750</b>	<b>0</b>
<b>Spain</b>				
Office buildings	7,900		7,900	
Retail buildings	15,450		0	
Other commercially used properties	40,737		0	
	<b>64,087</b>		<b>7,900</b>	
<b>USA</b>				
Apartments		276,103		234,833
Multiple-family dwellings		0		29,480
Office buildings	1,061,401		1,154,903	
Retail buildings	130,050		138,258	
Other commercially used properties	158,873		320,722	
New buildings and buildings not yet capable of producing a yield	13,763		23,085	46,834
	<b>1,364,087</b>	<b>276,103</b>	<b>1,636,968</b>	<b>311,147</b>
<b>Total sum</b>	<b>3,945,181</b>	<b>9,828,708</b>	<b>3,962,093</b>	<b>9,123,896</b>
Apartments		2,786,084		2,560,946
Single-family houses		4,060,798		3,571,062
Multiple-family dwellings		2,893,743		2,838,741
Office buildings	2,595,977		2,613,451	
Retail buildings	749,700		740,650	
Industrial buildings	69,052		88,448	
Other commercially used properties	514,396		493,800	
Incomplete new buildings with no revenue-generating capacity as yet	14,881	85,998	24,227	151,030
Buildings under construction	1,175	2,085	1,517	2,117

**PAYMENTS IN ARREARS ON COVERING MORTGAGES**

	31 Dec. 09 € 000	31 Dec. 08 € 000
Federal Republic of Germany	22,842	17,743
<b>Total amount of payments in arrears for at least 90 days</b>	<b>22,842</b>	<b>17,743</b>

**TOTAL VOLUME OF CLAIMS USED TO COVER PUBLIC PFANDBRIEFE****Value of cover**

	31 Dec. 09 € 000	31 Dec. 08 € 000
<b>Federal Republic of Germany</b>		
State	71,114	0
Regional authorities	4,227,140	4,680,217
Local authorities	1,578,895	1,811,185
Other debtors	2,762,189	3,931,903
	<b>8,639,338</b>	<b>10,423,305</b>
<b>Belgium</b>		
State	175,000	175,000
	<b>175,000</b>	<b>175,000</b>
<b>France</b>		
Local authorities	1,256	1,506
	<b>1,256</b>	<b>1,506</b>
<b>Greece</b>		
State	68,000	110,087
	<b>68,000</b>	<b>110,087</b>
<b>Great Britain</b>		
State	0	20,997
	<b>0</b>	<b>20,997</b>
<b>Ireland</b>		
State	22,695	22,695
	<b>22,695</b>	<b>22,695</b>
<b>Iceland</b>		
State	60,000	60,000
	<b>60,000</b>	<b>60,000</b>
<b>Italy</b>		
State	119,740	119,734
Regional authorities	0	5,000
	<b>119,740</b>	<b>124,734</b>
<b>Lithuania</b>		
State	30,000	30,000
	<b>30,000</b>	<b>30,000</b>



	31 Dec. 09 € 000	31 Dec. 08 € 000
<b>The Netherlands</b>		
State	1,475	1,475
	<b>1,475</b>	<b>1,475</b>
<b>Austria</b>		
State	141,333	185,045
Other debtors	160,000	172,500
	<b>301,333</b>	<b>357,545</b>
<b>Poland</b>		
State	118,702	118,670
	<b>118,702</b>	<b>118,670</b>
<b>Portugal</b>		
State	85,000	85,000
Regional authorities	10,000	10,000
	<b>95,000</b>	<b>95,000</b>
<b>Sweden</b>		
State	10,226	10,226
Local authorities	38,500	0
	<b>48,726</b>	<b>10,226</b>
<b>Switzerland</b>		
Regional authorities	155,028	154,882
Other debtors	208,702	208,670
	<b>363,730</b>	<b>363,552</b>
<b>Slovakia</b>		
State	5,000	5,000
	<b>5,000</b>	<b>5,000</b>
<b>Slovenia</b>		
State	100,000	100,000
	<b>100,000</b>	<b>100,000</b>
<b>Spain</b>		
Regional authorities	163,958	141,958
	<b>163,958</b>	<b>141,958</b>
<b>The Czech Republic</b>		
State	95,000	95,000
	<b>95,000</b>	<b>95,000</b>



	31 Dec. 09 € 000	31 Dec. 08 € 000
<b>Hungary</b>		
State	70,000	70,000
	<b>70,000</b>	<b>70,000</b>
<b>European Institutions</b>		
Other debtors	39,410	36,745
	<b>39,410</b>	<b>36,745</b>
<b>Total</b>	<b>10,518,363</b>	<b>12,363,495</b>
State	1,173,285	1,208,929
Regional authorities	4,556,126	4,992,057
Local authorities	1,618,651	1,812,691
Other debtors	3,170,301	4,349,818

#### INTEREST OUTSTANDING

Unpaid interest on mortgage loans due for payment between 1 October 2008 and 30 September 2009 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 covering mortgages	872 (previous year 893)	795 (previous year 699)	77 (previous year 194)

#### FORCED AUCTIONS AND RECEIVERSHIPS OF COVERING MORTGAGES

	2009		2008		of which housing sector		of which commercial property sector	
	2009	2008	2009	2008	2009	2008	2009	2008
The number of proceedings pending at 31 Dec. 09 was								
- Forced auctions	118	123	108	113	10	10		
- Receiverships	92	77	83	65	9	12		
	78*)	55*)	70*)	48*)	8*)	7*)		
The number of forced auctions conducted in 2009	53	72	48	66	5	6		

\*) 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 2009	89,971	2,038,467	521,134,088.55
Additions in 2009	452	125,558	32,098,902.70
Reductions in 2009	2,896	65,138	16,652,529.70
End of 2009	87,527	2,098,887	536,580,461.55
			€
Increase in members' capital contributions in 2009			4,229,418.44
Increase in members' liability for additional contributions in 2009			15,446,373.00
Amount of each share			70.00
Members' liability for additional contributions per share			255.65

### PERSONNEL STATISTICS

The average number of persons employed by the Bank in 2009 was as follows:

	Male	Female	Total
Full-time employees	199	131	330
Part-time employees	5	56	61
Total employees	204	187	391
Apprenticed trainees	5	14	19

### SHAREHOLDINGS

	Percentage of capital held	Capital in € 000	Profit/Loss in € 000
M-Wert GmbH, Munich*)	100	1,559	231
Immobilien-service GmbH der Münchener Hypothekenbank eG (M-Service), Munich (profit transfer agreement)**)	100	509	0
Nussbaumstrasse GmbH & Co. KG, Munich*)	100	10,895	114
Patio Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz*)	33	- 3,769	- 152
CM Komplementär 07-868 GmbH & Co. KG, Munich*)	100	0	0
Blitz 07-671 GmbH, Munich*)	100	24	0

\*) annual financial statements 2008, \*\*) annual financial statements 2009



## 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

Michael Glos ... Prichsenstadt (as of 25 April 2009)  
Master Craftsman (Miller)

Konrad Irtel ... Rosenheim  
Speaker of the Board of Management of  
VR Bank Rosenheim-Chiemsee eG

Michael Jung ... Bretten  
Deputy Chairman of the Board of Management of  
Volksbank Bruchsal-Bretten eG

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

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

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

### BOARD OF MANAGEMENT

Erich Rödel (Chairman)  
Dr. Louis Hagen, as of 1 July 2009  
Bernhard Heinlein  
Dr. Bernhard Scholz, until 31 December 2009  
Klaus Sturm

Loans to members of the Supervisory Board amounted to € 18,043 (thousand) (previous year € 28,680 (thousand)), and € 70 (thousand) (previous year € 71 (thousand)) to members of the Board of Management. Pension provisions for former members of the Board of Management amounted to € 13,822 (thousand) (previous year € 13,544 (thousand)). Total remuneration received by the members of the Board of Management during the year under review amounted to € 2,028 (thousand) (previous year € 1,492 (thousand)), for members of the supervisory Board € 241 (thousand) (previous year € 262 (thousand)). Total compensation received by the members of Advisory Board amounted to € 53 (thousand) (previous year € 52 (thousand)). Total compensation received by former members of the Board of Management and their surviving dependants amounted to € 1,207 (thousand) (previous year € 1,144 (thousand)).



## AUDITING ASSOCIATION

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

Pursuant to Art. 53 of the Cooperatives Act, in association with Art 340k of the German Commercial Code, total costs of € 719 (thousand) (previous year € 616 (thousand)) were incurred for auditing the annual financial statements and the management report, the cooperative's organisational structures, as well as for examining the conduct of the cooperative's business activities. Total costs of € 48 (thousand) (previous year € 24 (thousand)) were incurred for other confirmation and evaluation services, and € 84 (thousand) (previous year € 51 (thousand)) was incurred for other services.

## CONTINGENT LIABILITY

Our Bank is a member of the protection scheme of the National Association of German Cooperative Banks (Sicherungseinrichtung des Bundesverbandes der Deutschen Volksbanken und Raiffeisenbanken e.V.) Per the statutes of the protection scheme we have issued a guarantee to the National Association of German Cooperative Banks. As a result, we have a contingent liability of € 9,748 (thousand).

Munich, 2 February 2010

MÜNCHENER HYPOTHEKENBANK eG  
The Board of Management

Erich Rödel

Dr. Louis Hagen

Bernhard Heinlein

Klaus Sturm



## 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 Hypothekenbank eG for the business year from 1 January to 31 December 2009. 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 sufficiently safe basis for our opinion.

Our audit has not led to any reservations.

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

Berlin, 15 March 2010

DGRV-DEUTSCHER  
GENOSSENSCHAFTS- UND RAIFFEISENVERBAND e.V.

Dr. Ott  
Auditor

Lenkawa  
Auditor



## AFFIRMATION BY THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with applicable reporting principles for annual financial reporting, the annual financial statements give a true and fair view of the assets, liabilities, financial position and earnings situation of the company, and the management report of the company includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the anticipated development of the company.

Munich, 2 February 2010

MÜNCHENER HYPOTHEKENBANK eG  
The Board of Management

Erich Rödel

Dr. Louis Hagen

Bernhard Heinlein

Klaus Sturm



## REPORT OF THE SUPERVISORY BOARD

During the year under review 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 Chairman 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 depth 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 business model, which was addressed by the entire Supervisory Board and the special committees.

Various committees were appointed to deal with special issues. These committees met numerous times during the 2009 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 2009 financial year were audited by the Deutsche Genossenschafts- und Raiffeisenverband e.V., Berlin, and received an unqualified certificate from the auditors. There were no reservations. The auditors gave a detailed presentation of the anticipated results of the audit during a meeting of the Supervisory Board's Personnel Committee. The auditors informed the members of the Supervisory Board and Board of Management about the major results of the audit during a joint meeting. Moreover, they were also available to provide additional information. Prior to the meeting of the Supervisory Board, each member of the Supervisory Board received a copy of the audit report of the legal audit prepared by the auditors in accordance with Art. 53 of the Co-

operatives Act (Genossenschaftsgesetz), including the audit of the 2009 annual statement of accounts for the Münchener Hypothekbank eG, for their information on a timely basis.

During a meeting to review the final audit results, which was held in accordance with the terms of Article 57 Paragraph 4 of the Cooperatives Act, the Supervisory Board concurred with the audit results. The 2009 annual financial statements, the Management Report – which was expressly referred to (as of page 7) – and the Board of Management's proposal for the allocation of distributable income were carefully examined by the Supervisory Board and endorsed. The Supervisory Board recommends that the Delegates' Meeting approve the annual financial statements for 2009 – as explained – and endorse the Board of Management's proposal for the allocation of net income.

During the delegates meeting held on April 25, 2009, Mr. Michael Glos, the former German Federal Minister of Economics and Technology, was elected as a member of the Supervisory Board of the Münchener Hypothekbank.

During the year under review the following changes took place in the Board of Management: Mr. Bernhard Heinlein, who had previously been a deputy member of the Board, was appointed a full member of the Board effective April 1, 2009. Mr. Heinlein's responsibilities include the market departments as well as the Information Processing and Organisation areas. Dr. Louis Hagen assumed his responsibilities as member of the Board of Management responsible for the areas of Transaction Management, Controlling and Legal Affairs as of July 1, 2009. Dr. Bernhard Scholz stepped down from the Münchener Hypothekbank's Board of Management effective December 31, 2009. The Supervisory Board extends its thanks to Dr. Scholz for his successful work on behalf of the Bank.

Munich, in April 2010  
MÜNCHENER HYPOTHEKENBANK eG

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



## THE MEMBERS OF THE DELEGATES MEETING

### AS OF 31 DECEMBER 2009

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 ... Attorney
Johann Biersack ... Attorney	Dr. Hans-Wolfgang Neumann ... Mathematician
Dietmar Bock ... Managing director	Dipl.-Kfm. Klaus Pohl ... Auditor
Dr. Michael Brandt ... Bank director	Erhard Probst ... Bank director
Siegfried A. Cofalka ... Member of Board of Management	Dr. Günter Reimund ... Bank director
Eckhard Dämon ... Bank director	Dr. Rüdiger Renk ... Association director
Rolf Domikowsky ... Bank director	Frank Ritter ... Attorney, Notary
Karl-Heinz Dunkel ... Banker	Albrecht Ruchser ... Bank director
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 ... Attorney	Dipl.-Kfm. Ludwig O. Stadler ... Auditor
Karl Hippeli ... Bank director	Jörg Stahl ... Bank director
Jürgen Jung ... Legal advisor	Theo Stauder ... Bank director
Hermann-Josef Kanders ... Bank director	Dr. Rainer Sturies ... Attorney
Dr. Michael Kaufmann ... Bank director	Ulrich Tolksdorf ... Bank director
Norbert Kaufmann ... Bank director	Heinz-Walter Wiedbrauck ... Bank director

### AGENDA – GENERAL (DELEGATES) MEETING ON 17 APRIL 2010, 10.30 A.M.

1. Report on the 2009 business year by the Board of Management and presentation of the Annual Statement of Accounts and the 2009 Management Report
2. Report of the Supervisory Board
3. Auditors' report
4. Resolutions to ratify:
  - a) the 2009 Annual Statement of Accounts
  - b) proposed appropriation of distributable profits
  - c) the acts of the Board of Management and the Supervisory Board for the 2009 business year
5. Amendment to the Articles of Association
6. Elections to the Supervisory Board
7. Other issues



## EXECUTIVE MANAGEMENT AND BODIES

### TRUSTEES

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

### BOARD OF MANAGEMENT

Erich Rödel ... **Chairman**  
Dr. Louis Hagen, as of 1 July 2009  
Bernhard Heinlein  
Dr. Bernhard Scholz, until 31 December 2009  
Klaus Sturm

### SUPERVISORY BOARD

Prof. Dr. Willibald J. Folz ... Munich,  
**Chairman of the Supervisory Board**  
S.K.H. Herzog Max in Bayern ... Tegernsee,  
**Deputy Chairman of the Supervisory Board**  
Michael Glos ... Prichsenstadt (as of 25 April 2009)  
Konrad Irtel ... Rosenheim  
Michael Jung ... Bretten  
Wilfried Mocken ... Rheinberg  
Hans Pfeifer ... Muenster  
Hans-Joachim Tonnellier ... Frankfurt am Main

### ADVISORY BOARD (as of 2010)

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

### EXECUTIVE DIRECTOR

Ingo Schramm



## CONTACT

### HEADQUARTERS

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

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Ingo Schramm ... Phone +49 (0) 89 / 53 87 - 940

### Individual Customers

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### International

Susanne Falkenberg ... Phone +49 (0) 89 / 53 87 - 359

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### ACCOUNTING/TAXES

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### LEGAL

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### CAPITAL MARKETS/TREASURY

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

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

### PRIVATE CUSTOMERS/PRIVATE HOUSING BUSINESS/ VERBUND

Dieter Feustel ... Phone +49 (0) 89 / 53 87 - 647

### PRIVATE CUSTOMERS/PRIVATE HOUSING BUSINESS/ BROKERS

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

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Erich Rödel (Chairman) ... Phone +49 (0) 89 / 53 87 - 401

Dr. Louis Hagen ... Phone +49 (0) 89 / 53 87 - 407

Bernhard Heinlein ... Phone +49 (0) 89 / 53 87 - 401

Klaus Sturm ... Phone +49 (0) 89 / 53 87 - 404

### BOARD OF MANAGEMENT STAFF

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

### WORKOUT MANAGEMENT

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



## CONTACTS IN THE FEDERAL STATES

### REGIONAL OFFICE AUGSBURG

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