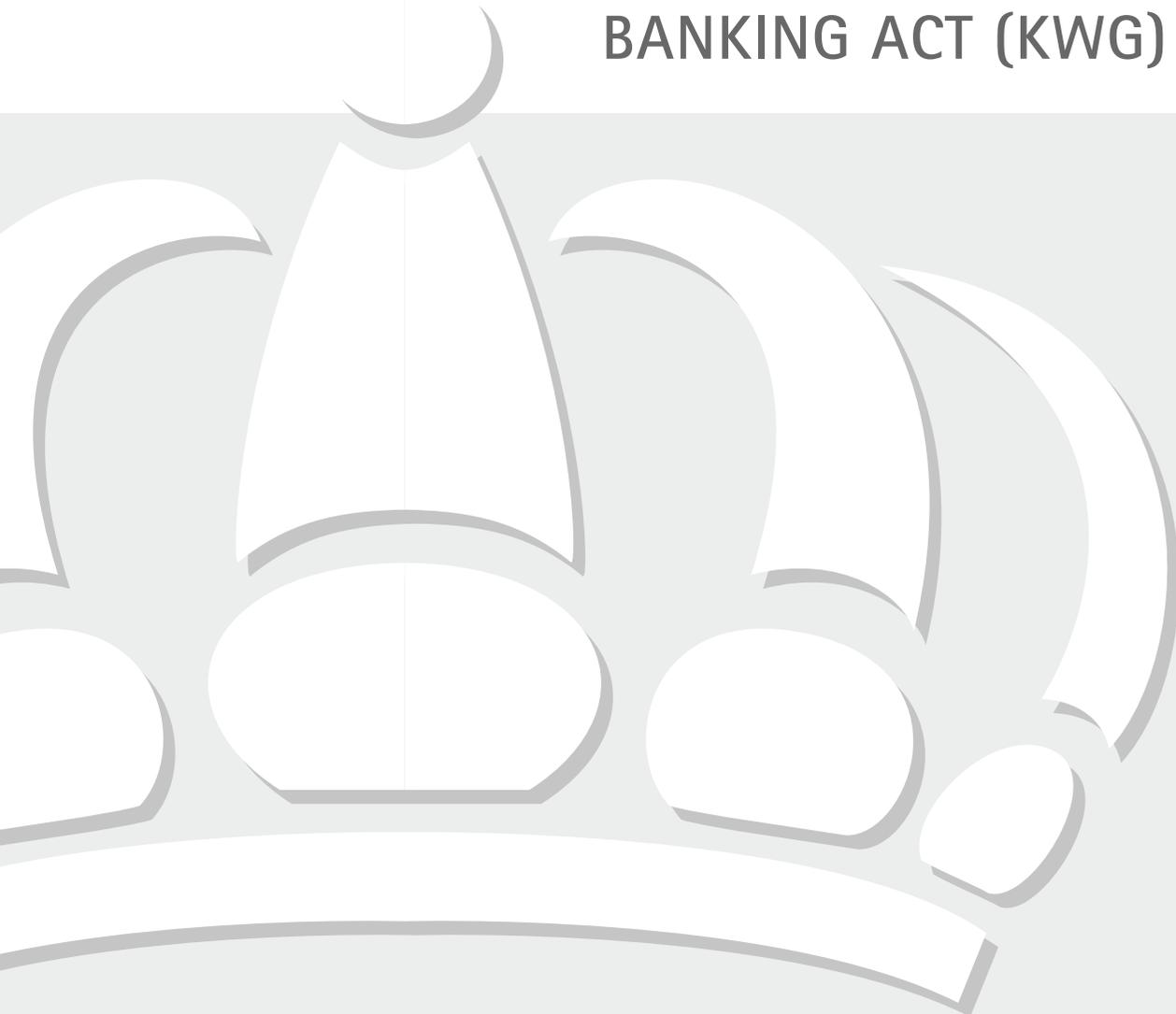




Münchener
Hypothekenbank eG



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





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

DESCRIPTION OF RISK MANAGEMENT

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

The business and risk strategy defines the parameters of the Bank's business activities. MünchenerHyp's entire Board of Management is responsible for this strategy, which is regularly – at least once a year – reviewed and updated as necessary 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 basis of risk management consists of, on one hand, the analysis and presentation of existing risks, and, on the other, comparing these risks with the collateral available to cover them (ability to bear risk). Appropriate monitoring processes are in place involving internal process-dependent supervision to ensure that this balance is maintained. Our internal audit department, as process-independent unit, has the monitoring function within the Bank. The analysis and presentation of existing risks primarily distinguishes between borrower failure, market price, liquidity and operational risks. Additional risks such as credit spread risks, placement risk, reputational risk, business risk etc., are viewed as parts of the abovementioned risks and are taken into consideration in the appropriate manner in the individual calculations.

Borrower failure risk – also referred to as lending risk – is of major 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 competencies and procedural requirements of entities involved in lending, as well as the Bank's credit products. The Bank's business and risk strategy contains additional explanations pertaining to sub-strategies regarding target customers and target markets, as well as definitions for measuring and controlling credit risks at the level of individual deals and the portfolio level. A procedure based on the credit risk value-at-risk (Credit-VaR) is used to determine lending limits. The specific contribution of every entity/borrower – called the Marginal Credit-VaR – to the Bank's total credit risk is limited. Furthermore, limits are also set for each category of transaction and property. There are also limits for each country to ensure adequate regional diversification.



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

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

| Mortgage Lending Value | 31 Dec. 2010 | | 31 Dec. 2009 | |
|------------------------|-----------------------|----------------|-----------------------|----------------|
| | € | relative | € | relative |
| Up to 60 % | 11,310,372,250 | 57.8 % | 10,141,547,305 | 58.4 % |
| 60.01 % to 70 % | 3,025,631,274 | 15.5 % | 2,650,148,116 | 15.2 % |
| 70.01 % to 80 % | 2,953,495,554 | 15.1 % | 2,647,529,744 | 15.2 % |
| 80.01 % to 90 % | 1,373,253,082 | 7.0 % | 1,232,932,116 | 7.1 % |
| 90.01 % to 100 % | 424,556,450 | 2.2 % | 253,624,326 | 1.5 % |
| over 100 % | 472,297,803 | 2.4 % | 437,660,646 | 2.5 % |
| without | 7,660,040 | 0.0 % | 15,704,882 | 0.1 % |
| Total | 19,567,266,454 | 100.0 % | 17,379,147,136 | 100.0 % |

The regional breakdowns within Germany and abroad are as follows:

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

| Region | 31 Dec. 2010 | | 31 Dec. 2009 | |
|-----------------------------|-----------------------|---------------|-----------------------|---------------|
| | € | relative | € | relative |
| Baden-Wuerttemberg | 1,638,060,756 | 8.4 % | 1,600,276,430 | 9.2 % |
| Bavaria | 3,334,955,732 | 17.0 % | 3,119,747,610 | 18.0 % |
| Berlin | 690,203,743 | 3.5 % | 603,103,260 | 3.5 % |
| Brandenburg | 173,534,561 | 0.9 % | 147,507,055 | 0.8 % |
| Bremen | 30,636,924 | 0.2 % | 28,391,182 | 0.2 % |
| Hamburg | 441,876,264 | 2.3 % | 426,451,047 | 2.5 % |
| Hesse | 1,219,178,503 | 6.2 % | 1,199,182,165 | 6.9 % |
| Mecklenburg-Lower Pomerania | 110,890,787 | 0.6 % | 90,459,626 | 0.5 % |
| Lower Saxony | 979,384,037 | 5.0 % | 891,430,253 | 5.1 % |
| North Rhine-Westphalia | 2,536,588,259 | 13.0 % | 2,508,236,195 | 14.4 % |
| Rhineland-Palatinate | 423,569,439 | 2.2 % | 404,671,310 | 2.3 % |
| Saarland | 34,475,104 | 0.2 % | 36,462,887 | 0.2 % |
| Saxony | 508,690,088 | 2.6 % | 476,735,406 | 2.7 % |
| Saxony-Anhalt | 110,620,343 | 0.6 % | 97,927,727 | 0.6 % |
| Schleswig-Holstein | 988,401,956 | 5.1 % | 916,096,377 | 5.3 % |
| Thuringia | 173,958,222 | 0.9 % | 178,914,525 | 1.0 % |
| Total domestic | 13,395,024,719 | 68.5 % | 12,725,593,056 | 73.2 % |


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

| Region | 31 Dec. 2010 | | 31 Dec. 2009 | |
|-----------------------------------|-----------------------|----------------|-----------------------|----------------|
| | € | relative | € | relative |
| Austria | 49,605,952 | 0.3 % | 45,907,411 | 0.3 % |
| France | 273,073,462 | 1.4 % | 295,638,708 | 1.7 % |
| UK | 231,880,880 | 1.2 % | 199,730,257 | 1.1 % |
| Spain | 102,714,104 | 0.5 % | 113,367,940 | 0.7 % |
| Luxembourg | 64,633,156 | 0.3 % | 64,287,318 | 0.4 % |
| Sweden | 43,576,711 | 0.2 % | 38,167,026 | 0.2 % |
| Switzerland | 2,632,836,226 | 13.5 % | 1,128,322,027 | 6.5 % |
| The Netherlands | 194,051,647 | 1.0 % | 209,511,618 | 1.2 % |
| USA | 2,579,869,597 | 13.2 % | 2,558,621,775 | 14.7 % |
| Total foreign | 6,172,241,735 | 31.5 % | 4,653,554,080 | 26.8 % |
| Total domestic and foreign | 19,567,266,454 | 100.0 % | 17,379,147,136 | 100.0 % |

The management of lending risks begins with the selection of the target business when drafting the terms of the loan, using risk-cost functions that are validated by a continuous back-testing process. A variety of rating or scoring procedures are used, depending on the type and risk content of the transaction.

In addition, a computer-based early warning system is used to spot risks on a timely basis.

A widely diversified property finance portfolio with an emphasis on private property financing, combined with our credit approval procedures, which have proven their value over many years, ensures a portfolio with a manageable level of credit risk. Our lending business with public sector borrowers and banks is primarily focused on central and regional governments, regional and local authorities, and west European banks with above-average creditworthiness, whereby our goal is to reduce our portfolio of bank loans for reasons including future liquidity coverage ratio requirements.

Depending on their ratings, mortgage loans are examined to determine any non-performance or other negative factors which could trigger an individual adjustment to value. Furthermore, an additional system to monitor individual adjustment to value is used by the Bank's work-out management group, especially for non-mass market business.

Generally, if it is determined that the value of a loan needs to be adjusted in the mass market segment the portion of the loan exceeding 60 percent of the mortgage lending value, or 70 percent of its current market value, plus the outstanding interest payments, is value adjusted. Individual deviations from this policy must be justified.

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



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

The key default rate is calculated using 60 percent of the average volume of defaults that took place over the last five years 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.

Individual adjustments to value created remained comparatively low for our private property lending business due to the great stability of the residential property market. We continued to pay special attention on our portfolio of commercial property loans in the USA. Following a careful examination of this portfolio we decided to make provisions for risk for certain individual loans. In the past our USA business generally focused on loans secured by top tier mortgages and with moderate mortgage lending value ratios, whereby the sustainable mortgage lending value was employed. In the interim, this area of business has been defined as being discontinued pursuant to the terms of Art. 69 of the German Solvency Regulation. This means that MünchenerHyp will no longer enter into any new business deals in the USA. Accordingly, the existing portfolio of loans will continuously shrink. We will continue to monitor the further development with undiminished intensity and diligence and take appropriate measures as they become necessary until all of our business has been wound down.

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.

Borrower failure risks also include migration risk, which is defined as the risk of a loss occurring due to drop in ratings, which is normally accompanied by an implied increase in yield.

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

Changes in interest rate risk refers to risk arising from changes in the market value of investments or liabilities that are dependent on the level of interest rates, and which will react negatively 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. Credit Spread is the term used to describe the difference between the yield generated by a risk-less bond and a risky bond. Spread risks take into account the danger that this difference in interest rates can change 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 rating, as well as macro-economic factors that influence creditworthiness categories.

This risk was in the forefront of attention in 2010 due to the erosion of market confidence in the financial standing of certain European countries. The sharply widening spreads seen in some cases, like Greece or Ireland, also impacted on the valuation of our portfolio of securities. The scope of the Bank's investments in countries that



were more affected by the crisis in the financial markets, or in bonds issued by banks domiciled in these countries is moderate:

| | SOVEREIGN STATES | BANKS | TOTAL |
|---------------------------------------|------------------|--------------|--------------|
| Portugal | 95 | 257 | 352 |
| Italy | 122 | 55 | 177 |
| Ireland | 30 | 60 | 90 |
| Greece | 109 | 0 | 109 |
| Spain | 152 | 705 | 857 |
| Total | 508 | 1,077 | 1,585 |
| Status: 31.12.10. In million € | | | |

Figures shown under Sovereign States also include claims against non-government debtors, which are additionally secured by direct and immediate guarantees issued by the respective state, in addition to government bonds or other public-sector bonds.

We do not believe that our investments are in danger of default. The measures taken by the individual states, as well as protective mechanisms enacted at EU levels, are sufficient to ensure that the affected liabilities will be repaid. In the case of bank bonds, almost all of these bonds are covered bonds so that in this instance it may also be anticipated that they will mature and be honoured without delay.

Among other risks, options involve the following risks: volatility risk (Vega; risk that the value of a derivative instrument will change due to increasing or decreasing volatility), time risk (Theta; time risk measures how passage of time impacts on the value of a derivative instrument when part of the value is determined by the remaining time left until a contract expires), Rho risk (risk associated with a change in the value of the option due to a change in a risk-less rate of interest), and Gamma risk (risk of a change in the option's Delta due to a change in the price of the underlying security). The volume of risks assumed is moderate as the Bank generally does not employ options for speculative purposes. Option positions are generally entered into on an implied basis due to the debtors' option rights (for example the right to give legal notice of termination per Art. 489 of the German Civil Code – BGB) and are then hedged. Nonetheless, these risks are attentively monitored in the daily risk report and are limited.

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

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

Market price risks are controlled by determining the present value of all of MünchenerHyp's transaction on a daily basis. Transactions whose values are established by discounting cash flows are evaluated by the Bank's



SAP inventory control system. 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 change incurred per range of maturities when the mid-swap curve is affected by one basis point. MünchenerHyp uses the value-at-risk figure to identify and limit market risks. Linear as well as non-linear risks are taken into consideration using a Delta-Gamma approach when calculating value at risk. Additional stress scenarios are used here to measure the effect of extreme shifts in risk factors and the effects of other risk categories.

The current (daily) stress scenarios are:

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

The maximum Value at Risk (VaR) of the Banks books (interest and currencies) at a confidence level of 99.5 percent at a ten day holding period was € 25 million. The average comparable figure noted in the previous year was about € 12 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. Furthermore, these trades are also integrated into our normal reporting.

MünchenerHyp controls its credit spread risks by calculating the present value of its asset related capital market transactions on a daily basis. Based on the cash flow data generated by the SAP system, the Bank uses its own applications to calculate the Credit Spread VaR, the Credit Spread sensitivities and various credit spread stress scenarios.

MünchenerHyp uses the value-at-risk (VaR) figure to identify and limit credit spread risks. The VaR figure is calculated based on historical simulation.

The current (daily) credit spread stress scenarios are:

- >> Parallel shifts: All credit spreads are shifted up and down by 100 base points. The worst result of the two shifts is used for calculation purposes.



- >> Historical simulation of the collapse of Lehman Brothers: the scenario assumes an immediate change in the spread based on the changes that occurred one working day before the collapse of the investment bank until four weeks after this date.
- >> Worst Case Scenario: The maximum widening of spreads for all classes of securities in the Bank's portfolio since January 2, 2007 is calculated. The average value of these calculations is used as the parallel shift to the respective class of security.
- >> Flight into government bonds: The scenario simulates a significantly visible aversion to risk that was previously seen in the markets. Spreads for riskier classes of paper widen while spreads for safer government bonds narrow.
- >> Worst Case Scenario up to the collapse of Lehman Brothers: this scenario is derived from the Worst Case Scenario. The time period used here starts on January 2, 2007 and ends one banking work day before the collapse of the investment bank.

The maximum credit spread VaR for the entire portfolio using a 99.5 percent level of confidence and holding period of one year was € 402 million, the average figure noted in the previous year was about € 355 million.

The maximum credit spread VaR for current assets (only third-party securities) using a 90 percent level of confidence and holding period of one year was € 6 million, the average figure noted in the previous year was about € 3.4 million.

Liquidity risks include the following risks:

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

MünchenerHyp differentiates between short-term solvency protection and mid-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. New requirements have been taken into account in the Bank's project planning and will be implemented as scheduled.

The purpose of structural liquidity planning is to ensure mid-term liquidity and involves the following key liquidity figures as components for determining results across all due dates:

- >> accumulated total cash flow requirement,
- >> available potential covered funding included planned new business and prolongations in line with the surplus cover requirements set by Moody's, a rating agency,
- >> uncovered refinancing needs,
- >> additional detailed data for planning and control activities.



Callable balance sheet items are taken into account for 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 connected to cover requirements for Pfandbriefe, forecasts for liquidity and cover are technically linked by IT systems.

Additional stress scenarios are conducted based on structural liquidity planning. An integrated stress test concept was developed in order to achieve the best possible structured and flexible measure of risk:

- >> Various liquidity risk factors were identified for MünchenerHyp. These factors are focused on to either market or reputational effects.
- >> A total of five stress tests were defined on the basis of these risk factors.
 - 1) Reputation scenario (high stress)
 - 2) Market scenario (high stress)
 - 3) Market and reputations scenario (light stress)
 - 4) Market and reputations scenario (high stress)
 - 5) Worst Case scenario
- >> Complementary to the risk factors and their varying stress test combinations, corresponding measures were defined for simulation purposes to reduce the liquidity risks in the respective cases.

The limitation of liquidity risks takes place using the structured liquidity forecast and the stress scenarios based on the Bank's uncovered refinancing needs.

In order to keep refinancing risks at a minimum, MünchenerHyp strives to refinance loans with concordant amounts and maturity dates and continuously checks if its relevant refinancing sources (primarily those within the Cooperative Financial Network) remain available. In order to limit market liquidity risks in its lending business with public-sector borrowers and banks, MünchenerHyp primarily acquires securities that are acceptable as collateral by the European Central Bank, and which can be used for open market business at any time. Investments in less liquid bonds, like Mortgage Backed Securities (MBS), are no longer being made. We currently hold 7 securities valued at € 125 million as of December 31, 2010 (previous year € 191 million) consisting solely of Commercial Mortgage Backed Securities (CMBS) and Residential Mortgage Backed Securities (RMBS), secured by property in Germany, France and Spain. All of the MBS have two or three ratings issued by the major rating agencies – and for over half of the MBS the second best rating is still AAA. The lowest rating in the group is an A. As of December 31, 2010 the weighted anticipated time-to-maturity of the MBS in our portfolio was 1.2 years.

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

We minimise our operational risks by qualifying our employees, by using transparent procedures, automating standard procedures, and by having fixed working instructions, comprehensive functional testing, 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 most important method used for control purposes. This scenario is used to determine if the bank still would have an adequate equity capital ratio exceeding the legally required minimums of 4 percent core capital and total capital of 8 percent after the occurrence of risks contained in all of the risk categories. The only cover potential that may be used to cover risks in this scenario is the available regulatory equity capital.

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

MünchenerHyp was continuously able to bear risks throughout the 2010 fiscal year.

USE OF FINANCE INSTRUMENTS FOR HEDGING PURPOSES

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

ACCOUNTING-BASED INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

The accounting-based internal control system is documented in organisational guidelines, descriptions of work processes, financial reporting handbooks, and numerous operating instructions. It contains organisational security measures, and ongoing 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 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.

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

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



1. STRUCTURE OF LIABLE EQUITY CAPITAL

Münchener Hypothekbank eG is legally operated as a registered cooperative. Participation in our cooperative takes place in the form of shares in the business. A single share costs € 70, with an additional uncalled liability of € 255.65 per share. As of December 31, 2010, the volume of these shares was € 156.1 million, of which € 4.6 million was called.

In addition, the Bank has silent participations amounting to € 342.1 million in assets, of which € 340.6 million can be considered liable equity capital. The average interest for these silent participations is 7.68 percent; their expiration dates fall between December 31, 2010 and perpetual maturity, with an unlimited term of validity.

In addition to the cooperative's premium for the members' uncalled liability, supplementary capital primarily includes lower-ranked liabilities with an average interest of 5.78 percent and expiration dates from February 7, 2011 to December 1, 2022. The profit-sharing certificates included in the supplementary capital have an average interest of 7.35 percent, with terms running from April 30, 2012 to April 30, 2018.

COMPONENTS OF LIABLE EQUITY CAPITAL

| | 31 Dec. 2010 in € million |
|--|------------------------------|
| Core capital | 762.8 |
| Members' capital holding | 151.5 |
| Reserves | 279.3 |
| Silent participations | 340.7 |
| Other deducted items | - 8.7 |
| Supplementary capital | 435.1 |
| Tier III capital | 1.9 |
| Information only: Deducted items per Art. 10 para. 6 KWG | 0.0 |
| Total available capital and reserves | 1,199.8 |

2. LOWER LIMIT OF EQUITY CAPITAL

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

In total, core capital increased by € 23.9 million during the 2010 financial year. This increase is primarily due to collection of silent participations.

Supplementary capital provided by our investors, and which is recognised by supervisory law, also expanded, due mainly to the successful placement of € 39.3 million of subordinated paper.



Münchener Hypothekbank eG's total capital adequacy ratio is 10.0 percent and therefore fully meets the relevant regulatory minimum equity capital ratio requirement of 8 percent as the required ratio of equity capital to existing risk-weighted assets.

MünchenerHyp is currently involved in converting the method it uses to evaluate equity capital adequacy to the Internal Ratings Based Approach (IRBA). Münchener Hypothekbank eG anticipates that the high quality of the Bank's loan portfolio will be better reflected using the IRBA's more precise measurement of risk and will lead to a substantial reduction on equity capital requirements.

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

| | Equity capital requirement in € million | Total in € million |
|--|---|--------------------|
| Credit risk standardised approach | | 940.8 |
| 1. Central governments | 0.6 | |
| 2. Regional authorities and local authorities | 0.4 | |
| 3. Other public-sector bodies | 3.1 | |
| 4. Multilateral development banks | 0.0 | |
| 5. International organisations | 0.0 | |
| 6. Institutions | 61.3 | |
| 7. Covered bonds issued by credit institutions | 20.9 | |
| 8. Companies | 288.4 | |
| 9. Volume business | 57.4 | |
| 10. Positions collateralised with property | 423.4 | |
| 11. Investment shares | 0.4 | |
| 12. Participations | 7.1 | |
| 13. Securitisation | 2.5 | |
| 14. Other items | 7.5 | |
| 15. Overdue items | 67.8 | |
| Operational risks | | 15.4 |
| Basic Indicator Approach | 15.3 | |



| | Equity capital requirement in € million | Total in € million |
|--|---|--------------------|
| Market risks | | 2.6 |
| Overall currency position | 2.6 | |
| Risk of change in interest rate for trading book | 0.0 | |
| Other risks | 0.0 | |
| Total equity capital requirement | | 958.8 |
| Total capital adequacy ratio | | 10.01 % |
| Core capital rate | | 6.36 % |

3. DERIVATIVE BORROWER FAILURE RISK ITEMS AND OFFSET ITEMS

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

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

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

In terms of internal risk management for the entire Bank, exposure for derivatives is taken into account using their market value plus add-on and taking netting agreements into account.



DERIVATIVES AND OFFSET ITEMS

| | Derivates in € million |
|--|------------------------|
| Total positive replacement values before offsetting and before collateral | 1,958.0 |
| of which, interest-related contracts | 1,688.1 |
| of which, currency-related contracts | 269.9 |
| Netting opportunities | 1,570.6 |
| Collateral | 98.3 |
| Total positive replacement values after offsetting and after collateral | 289.1 |

4. GENERAL CREDIT RISK

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

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

We consider the criteria used by MünchenerHyp to create value adjustments to be conservative.

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

5. DISCLOSURE BY TYPE OF CLAIMS

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

| Type of claim | Total |
|------------------------------------|----------|
| Item values before CRM (€ million) | 35,937.8 |
| Average amount | 35,283.7 |



ANALYSIS OF TOTAL CLAIMS BY REGION IN € MILLION

| | Credits collateralised with property rights (incl. commitments) | Other credits (incl. commitments) | Securities | Derivates | Securiti-sation | Sum |
|--|---|-----------------------------------|----------------|--------------|-----------------|-----------------|
| Federal Republic of Germany | 14,079.4 | 7,804.1 | 1,920.7 | 176.0 | 0.0 | 23,980.2 |
| Switzerland | 2,632.8 | 260.5 | 41.0 | 11.6 | 0.0 | 2,945.9 |
| Europe (excluding Germany and Switzerland) | 1,006.7 | 792.9 | 4,379.6 | 82.2 | 124.9 | 6,386.3 |
| North America | 2,496.9 | 58.8 | 50.4 | 19.3 | 0.0 | 2,625.4 |
| Total | 20,215.8 | 8,916.3 | 6,391.7 | 289.1 | 124.9 | 35,937.8 |

DISTRIBUTION OF TOTAL CLAIMS BY SECTOR IN € MILLION

| | Credits collateralised with property rights (incl. commitments) | Other credits (incl. commitments) | Securities | Derivates | Securiti-sation | Sum |
|--|---|-----------------------------------|----------------|--------------|-----------------|-----------------|
| Banks | 67.4 | 2,408.1 | 4,489.2 | 288.9 | 0.0 | 7,253.6 |
| Companies | 6,117.2 | 844.1 | 500.5 | 0.2 | 124.9 | 7,586.9 |
| Economically independent private persons | 3,117.0 | 6.0 | 0.0 | 0.0 | 0.0 | 3,123.0 |
| Economically dependent individuals and other private persons | 10,901.8 | 0.9 | 0.0 | 0.0 | 0.0 | 10,902.7 |
| Public budgets | 0.0 | 5,551.7 | 1,402.0 | 0.0 | 0.0 | 6,953.7 |
| Other | 12.4 | 105.5 | 0.0 | 0.0 | 0.0 | 117.9 |
| Total | 20,215.8 | 8,916.3 | 6,391.7 | 289.1 | 124.9 | 35,937.8 |


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

| | Credits collateralised with property rights (incl. commitments) | Other credits (incl. commitments) | Securities | Securitisation | Sum |
|---------------------|---|-----------------------------------|----------------|----------------|-----------------|
| Up to 1 year | 1,165.7 | 1,506.3 | 644.6 | 41.1 | 3,357.7 |
| 1 to 5 years | 4,999.5 | 1,807.9 | 3,206.9 | 83.8 | 10,098.1 |
| 5 to 10 years | 2,733.4 | 1,423.6 | 1,778.9 | 0.0 | 5,935.9 |
| More than 10 years | 11,317.2 | 3,963.4 | 761.3 | 0.0 | 16,041.9 |
| No term of maturity | 0.0 | 215.1 | 0.0 | 0.0 | 215.1 |
| Total | 20,215.8 | 8,916.3 | 6,391.7 | 124.9 | 35,648.7 |

6. DISCLOSURE OF PROVISIONS FOR RISK

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

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

NON-PERFORMING AND OVERDUE CLAIMS BY SECTOR IN € MILLION

| | Total claims | Individual adjustment to value | Overdue without individual adjustment to value |
|--|--------------|--------------------------------|--|
| Banks | 0.0 | 0.0 | 0.0 |
| Companies | 477.5 | 38.9 | 438.6 |
| Economically independent private persons | 134.6 | 41.5 | 93.1 |
| Economically dependent individuals and other private persons | 71.0 | 9.3 | 61.7 |
| Public budgets | 0.0 | 0.0 | 0.0 |
| Other | 0.6 | 0.3 | 0.3 |
| Total | 683.7 | 90.0 | 593.7 |



NON-PERFORMING AND OVERDUE CLAIMS BY REGION IN € MILLION

| | Total claims | Individual adjustment to value | Overdue without individual adjustment to value |
|--|--------------|--------------------------------|--|
| Federal Republic of Germany | 217.0 | 22.5 | 194.5 |
| Switzerland | 27.3 | 0.0 | 27.3 |
| Europe (excluding Germany and Switzerland) | 16.0 | 2.3 | 13.7 |
| North America | 423.4 | 65.2 | 358.2 |
| Total | 683.7 | 90.0 | 593.7 |

PROVISIONS FOR RISK BY SECTOR IN € MILLION

| | Net allocation from individual and general adjustments to value | Direct write-down | Receipts of written-off claims |
|--|---|-------------------|--------------------------------|
| Banks | 0.0 | 0.0 | 0.0 |
| Companies | 31.2 | 0.0 | 0.0 |
| Economically independent private persons | 1.5 | 0.4 | 0.0 |
| Economically dependent individuals and other private persons | 1.0 | 1.0 | 0.5 |
| Public budgets | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 |
| Total | 33.7 | 1.4 | 0.5 |

TOTAL LENDING BUSINESS IN € MILLION

| | Opening balance | Adjustments | Dissolution | Usage | Changes related to exchange rate shifts and other factors | Closing balance |
|--------------------------------|-----------------|-------------|-------------|-------|---|-----------------|
| Individual adjustment to value | 63.6 | 41.1 | 6.7 | 10.6 | 2.6 | 90.0 |
| General adjustment to value | 17.4 | 0.0 | 3.3 | 0.0 | 0.0 | 14.1 |
| Provisions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |



7. STANDARDISED APPROACH TO CREDIT RISK

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

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

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

| Creditworthiness level | Item values in € million | |
|------------------------|--------------------------|-----------------|
| | before CRM | after CRM |
| 0 % | 8,347.4 | 9,292.4 |
| 10 % | 1,840.1 | 1,840.1 |
| 20 % | 4,295.9 | 4,108.0 |
| 35 % | 12,920.1 | 12,920.1 |
| 50 % | 1,745.5 | 1,661.2 |
| 75 % | 971.7 | 956.0 |
| 100 % | 4,621.7 | 3,964.8 |
| 150 % | 459.2 | 459.2 |
| Total | 35,201.8 | 35,201.8 |

8. OPERATIONAL RISK

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

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

As at December 31, 2010, the requirement for capital and reserves was € 15.4 million.

9. PARTICIPATIONS IN THE BANKING BOOK

MünchenerHyp's participations are made primarily for strategic reasons.

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

The participations carried in the MünchenerHyp banking book are neither listed investments nor investments in a diversified portfolio. The book value is € 89.0 million.



10. RISK OF A CHANGE IN INTEREST RATES IN THE BANKING BOOK

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

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

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

11. MARKET PRICE RISKS IN THE TRADING BOOK

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

MünchenerHyp's activities in the trading book exclusively involve futures transactions. As of December 31, 2010, there were no risk items.

No significant risks exist in foreign currencies.

There are no commodity-related or other risks requiring underlying capital.

12. SECURITISATION

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

The supervisory report is carried out in accordance with the standardised credit risk model and is based on the external ratings.

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



13. CREDIT-RISK REDUCTION

13.1 NETTING

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

13.2 PRINCIPLES OF COLLATERALISATION

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

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

The business and risk strategy defines in detail the type and fundamental framework conditions of the security accepted by MünchenerHyp as a Pfandbrief Bank. This applies especially to the security provided for property as this is particularly relevant for a mortgage bank.

13.3 TYPES OF SECURITIES

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

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

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

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

13.4 GUARANTORS AND COUNTERPARTIES FOR CREDIT DERIVATIVES

The guarantors of the guarantees we used to reduce our risks primarily consist of public-sector bodies or domestic credit institutions.

No credit derivatives were used.



13.5 RISK CONCENTRATIONS

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

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

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

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

14. SCOPE AND COLLATERALISATION PROVIDED BY FINANCIAL COLLATERAL AND GUARANTEES

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

STANDARDISED APPROACH FOR CLASSES OF CLAIMS BEFORE SECURITISATION

| | Item values of securities/secured items in € million | |
|--|--|------------|
| | Financial securities | Guarantees |
| 1. Central governments | | 0.0 |
| 2. Regional governments and local authorities | | 0.2 |
| 3. Other public bodies | | 0.8 |
| 4. Multilateral development banks | | 0.0 |
| 5. International organisations | | 0.0 |
| 6. Institutions | | 724.5 |
| 7. Covered bonds issued by credit institutions | | 0.0 |
| 8. Companies | | 595.0 |
| 9. Volume business | | 15.7 |
| 10. Positions secured by property | | 0.0 |
| 11. Investment shares | | 0.0 |
| 12. Participations | | 0.0 |
| 13. Securitisation | | 0.0 |
| 14. Other items | | 0.0 |
| 15. Overdue items | | 0.2 |



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