Dear shareholders and business associates,

although the revival of the German economy, which began in the second half of 2003, continued during the first half of 2004, the recovery itself was not nearly as rapid or widespread as forecast by economists at the beginning of the year. Moreover, the improvement in business conditions has been solely driven by economic factors originating outside of Germany. Domestically, the overall economic situation remained weak and far below expectations, due not lastly to the shrinking job market. In the face of this poor business environment not even historically low interest rates were able to stimulate demand for either private or commercial property financing. On an industry-wide basis the volume of mortgage commitments made by financial institutions declined by 7.4% between January and May 2004.

In addition, the upswing in the capital markets also took place significantly later and to a lesser extent than predicted. In contrast to expectations, capital market yields continued to decline during the first quarter of 2004. The situation only reversed itself in the second quarter. At the end of the second quarter ten year-Bunds were yielding 4.32%, and still below the market's original expectations.

Despite this environment, the Münchener Hypothekenbank was still able to position itself favourably vis-à-vis its competitors for new business. However, the Bank was unable to avoid the unexpected developments in the capital markets and as a result posted lower revenues.

New Business

The volume of mortgage commitments made by the Bank rose by 6.7% to € 800.6 million, of which 84.2% were generated domestically.
This meant that we were successful despite difficult business conditions and once again were able to rise above the negative trends seen in our industry whilst maintaining our strict standards for borrower creditworthiness. The expansion of our new business performance was driven by commercial property finance deals, which rose significantly to € 327.8 million and thus more than offset the nearly 16 % drop in residential property financing transactions which declined to € 471.8 million. The share of business brokered by the Volksbanken and Raiffeisenbanken fell from 50% to 45.5% of the Bank's total new business.

Although commercial property financing transactions represented 41% of our business, (2003: 25%) this figure is still significantly below the approx. 54% average figure noted for the other German mortgage banks. This reinforces the fact that our main business focus continues to be the private housing market and our alliance with the Volksbanken and Raiffeisenbanken within the co-operative FinanzVerbund.

Concurrently, our public sector lending business fell by 17% to € 3.1 billion due to shrinking margins. This meant that, despite good performance in our new mortgages business, overall commitments for new loans declined by 13.1% (–€ 586.2 million) from the previous year's comparable figure.

Refinancing

Thanks to the absorptive capacity of the capital markets we were able to successfully float a gross volume of € 4.9 billion of attractively priced new issues. The biggest individual issue was a € 1.25 billion Jumbo Pfandbrief. Net sales amounted to € 2.1 billion.

Balance Sheet and Equity Capital

Total assets increased by 8.4% to € 33.8 billion. Capital plus reserves and retained profits rose from € 818.7 million (at December 31, 2003) to € 862.9 million.

Earnings

Our net interest and commission income for the first half amounted to € 39.3 million and was € 18.2 million lower than the previous year's comparable figure. This decline was primarily because of a negative result in our treasury operations, which contributed more than 20% to our net interest income figure during the same period in 2003.
Due to the first time period-related accounting for commissions paid, the negative total for commissions declined from € 2.8 million to € 0.9 million.

Costs

Total administrative expenses declined by 3% from the previous year's comparable figure of € 26.6 million to € 25.8 million. The light 3% increase in personnel costs to € 13.6 million, which was mainly due to collective wage obligations, was compensated for by a significant drop in other administrative costs. Thanks to measures we introduced in 2002 to optimise our organization and processes these costs fell by another 9.4% (2003: –11%) to € 8.7 million. However, certain projects will be accounted for as costs during the second half of 2004 and will offset these savings.

Risk Situation

The vast majority, or 83%, of our mortgage loan portfolio is eligible to serve as coverage. This figure reflects our strong risk diversification position.

However, the overall poor economic situation has made an impact on our business. The delayed economic recovery has held back the anticipated easing of the risk situation. During first six months of 2004 we made € 16.3 million in net provisions for lending risks, significantly more than in the comparable period which ended June 30, 2003. After adjusting for earnings from our securities business and a pro rata writing back of taxed reserves, total provisions for risks increased by € 0.8 million to –€ 11.3 million (+7.6%).

We restructured our Workout Management department in order to meet increased demands to successfully identify and respond to risks at an early stage.

Operating Results

Due to the previously mentioned individual effects our operating results for the first half of 2004 amounted to € 8.3 million or 34.7% of the figure recorded in the same period last year.

Outlook

Although key indicators are pointing towards continuing economic improvement for the remainder of the year, we anticipate that the domestic economy will remain weak. Based on this we expect overall business conditions to remain difficult, especially for the private housing sector. We believe that the new mortgage business will develop at a subdued pace.

The announced reduction, or even elimination, of state subsidies for residential construction could lead to a mild improvement in new mortgage commitments if consumers bring their building plans forward. However, it remains to be seen if, and to what extent, this effect will take place.

We anticipate that that our interest and commissions income figure for the full year will be substantially lower than the previous year's results. A sustainable strengthening of our earnings structure as well as a decisive reduction in costs are unavoidable and imperative steps to stabilize our operating results. To achieve this goal we will continue and intensify the organisation and process optimisation measures we successfully introduced in 2003.

Munich, July 2004
Board of Management

figures from the balance sheet

in million € . . .	*Jun 30, 04*	*Dec 31, 03*
Claims on banks	**7,254.1**	**5,686.6**
Of which:		
Mortgage loans	287.6	296.0
Public-sector loans	4,437.9	4,143.0
Other claims	2,528.6	1,247.6
Claims on customers	**18,385.7**	**17,900.4**
Of which:		
Mortgage loans	11,164.5	11,011.7
Public-sector loans	7,185.6	6,833.0
Other claims	35.6	55.7
Bonds and other fixed-income securities	**7,175.6**	**6,777.9**
Liabilities to banks	**2,262.4**	**1,902.5**
Of which:		
Registered mortgage Pfandbriefe issued	699.9	644.7
Registered public-sector Pfandbriefe issued	477.7	392.8
Liabilities to customers	**7,228.1**	**6,562.6**
Of which:		
Registered mortgage Pfandbriefe issued	2,771.2	2,929.6
Registered public-sector Pfandbriefe issued	3,869.8	3,056.5
Certificated liabilities	**23,411.6**	**21,771.5**
Of which:		
Mortgage Pfandbriefe issued	5,204.6	5,482.1
Public-sector Pfandbriefe issued	13,804.0	13,257.2
Other bonds issued	4,403.0	3,032.2
Subordinated liabilities	**66.3**	**66.3**
Profit-participation certificates	**100.7**	**103.3**
Capital and reserves [without member's uncalled liabilities to capital]	**504.7**	**464.5**
Of which:		
Members' capital contributions	112.8	76.6
Silent participations	133.5	133.5
Reserves	258.4	254.4
Balance-sheet total	**33,776.5**	**31,153.3**

figures from the profit and loss account

in million € . . . For period January 1st to June 30th	*2004*	*2003*
Interest income	758.1	790.2
Interest expense	726.4	735.2
Current income	8.5	6.2
Net interest income	40.2	61.2
Net commission income	–0.9	–3.7
Net interest income and commission income	**39.3**	**57.5**
General administrative expenses		
a] Personnel expenses	13.6	13.2
b] Other administrative expenses	8.7	9.6
Amortization and depreciation of intangible and tangible assets	3.5	3.8
Administrative expense	**25.8**	**26.6**
Other operating expenses	2.1	0.0
Net provision for risks	–11.3	–10.5
Valuation results of financial investments	4.0	3.5
Operating result	**8.3**	**23.9**

Board of Management
Erich Rödel [Spokesman] | Dr. Hans-Rainer Förger | Friedrich Munsberg | Dr. Bernhard Scholz | Horst-Dieter Thiel

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

new business

in millionen € . . . For period January 1st to June 30th	*2004*	*2003*
Loan commitments	**3,899.7**	**4,485.9**
Of which:		
Mortgage loan commitments	800.6	750.5
Of which:		
Residential property lending	471.8	558.4
Commercial property lending and other loan commitments	327.8	190.2
Other Property Lendings	1.0	1.9
Public-sector business	3,099.1	3,735.4
Mortgage loan disbursements	**3,667.0**	**4,216.3**
Of which:		
Mortgage loans	614.3	487.0
Public-sector business	3,052.6	3,729.3
Gross sales of bonds	**4,928.6**	**4,649.3**

employment figures

. . . For period January 1st to June 30th	*2004*	*2003*
Average number of employees	**383**	**373**
Of which:		
Part-timers	45	42
Trainees	19	19

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