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Dear shareholders and business associates

The economic environment continued to be difficult in the first half of 2005. As a consequence, growth forecasts had to be adjusted for the entire year several times. The gap between the growing export and the largely weak domestic economic situation remained great.

Long-term interest reached a historically low level – but enterprises and the private sector are still cautious, withholding their investments. The federal election scheduled for the 18th of September might provide a new stimulus and give confidence in the future and in the real estate markets.

"MHB Strategy 2008"

With this macroeconomic background, Münchener Hyp has adapted in time to the changed general conditions in order to maintain and further develop its strength in the real estate financing sector. After the difficult financial year 2004 with a reduced operating result, we are consistently aiming at promoting our operative earnings power and reducing costs by taking our strategic goals into account.

We have prepared a comprehensive set of measures in the context of our "MHB Strategy 2008". Our medium-term goal is to achieve a return on equity of 8 % , a cost-income ratio of 40 – 45 % and a solid equity capital basis. The developments in the last six months of 2004 and the first half of 2005 have shown that we are on the right path.

New Business

By means of the consistent expansion of our sales activities in the cooperative FinanzVerbund and commercial direct business in Germany and abroad, we have seen positive new business development in the first half of 2005.

We were able to increase our commitments in the mortgage business by 23.3 % as compared to the first half of 2004: from € 800.6 million to € 987.4 million. And this with our unchanged conservative risk policy. As a consequence, we are approximately 11 % above our targets for the first six months of 2005 with regard to our new business.

New business in residential property financing transactions increased by 14.6 % to € 540.7 million and in the commercial credit business by 36.3 % to € 446.7 million. Foreign commercial transactions developed according to plan: We succeeded in doubling our commitment volume with a value of € 267.3 million. Through our cooperation partners in London, New York, Paris, Madrid and Vienna we are present in the strategically important target markets. In the foreign business, we are growing organically and carefully, starting from a low level. We will structure planned growth in the domestic and foreign commercial credit business under credit portfolio aspects in such a manner that our basic character as a bank of the cooperative FinanzVerbund, concentrating on the private housing market will be retained.

As regards the public-sector lending business, our minimum requirements regarding the interest return on equity capital can hardly be fulfilled. In compliance with our earnings targets, we reduced the commitment volume in this segment by 60 % to € 1.259 billion.

Refinancing

Due to our above-average rating, the demand in our Pfandbriefe and bonds remained at an equally high level, both in Germany and abroad. At the beginning of 2005, we issued a Jumbo transaction of more than € 1 billion. Gross sales fell to € 3.3 billion due to the cautious public-sector credit business. Net sales amounted to € 417.8 million, thus being below the comparable value of the previous year of € 2,141.7 million.

Balance Sheet and Equity Capital

Total assets rose by 2.7 % to € 33.8 billion. The liability equity capital amounts to € 838.1 million and declined as compared to € 862.9 million on June 30, 2004 due to the reduced recognition of portions of the profit-participation certificates.

Earnings - A Clear Upwards Leap

In the profit and loss statement, the balance of interest and commission income rose by

24.4 % to € 48.9 million as compared to the first half of 2004. This was due mainly to the increase in the interest income by € 9.9 million to € 50.1 million.

Costs

Total administrative expenses were at the previous year's level of € 26 million. Personnel costs of € 13.0 million are 4.4 % or € 0.6 million below the previous year's comparable figure, while other administrative expenses of € 10.3 million are again above the comparable figures of the previous year. The measures we introduced for cost reductions are currently still encumbered by externally imposed project costs, mainly for Basel II. According to our forecasts, administrative expenses are expected to decline below the previous year's figure by the end of the year.

Risk Situation

Thanks to our broad diversification by type and location of the objects, the great number of borrowers and the avoidance of cluster risks, the quality of our credit portfolio is well balanced. In addition, in April 2005 we sold a portfolio non-performing loans of 700 individual loans in the amount of approximately € 150 million. Owing to this NPL transaction, the number of non-performing loans was reduced by 40 %. The sale has no negative effect on the operating results, increases the processing efficiency in the Workout Management and strengthens the risk quality of our entire portfolio.

Operating Results

The operating result before net provisions for risks increased by almost 50 %, which corresponds to an amount of € 23.2 million. The cost-income ratio improved by 12 percentage points to 53 %.

The positive fact regarding the extraordinary results is that the pro-rata writing-back to the individual valuation allowances amounts to some € 10 million as compared to € 16 million in the comparable period of the previous year. The assessment made at the end of 2004 about the zenith of the individual value allowances seems to be coming true.

Operating results after risk provisions amount to € 11.9 million, which is € 3.6 million above the previous year's value. In this way, we see significant success regarding a turnaround in the development of earnings.

Outlook

In view of the development in the first six months, which was according to plan, we are confident that we will achieve the results planned by the end of the year. The consistent strengthening of sales activities in connection with a further development of risk management is the precondition for our success in the market. In addition, we are strategically reducing our costs – both at the material cost level and at the personnel expenses level – and optimizing our processes. The measures initiated in the context of the “MHB strategy 2008” show their effects and are continued consistently. We expect declining administrative costs by the end of the year.

Numerous well-established studies have shown that many people are willing to invest their money in real estate, since they recognize the significance of real property for old-age provision. At the same time, slight improvements can be seen in the densely populated areas in the commercial sector, especially as regards office premises. The current investment jam has resulted to a high degree from the understandable caution of potential investors.

From our point of view, politics and economy must succeed in creating confidence in the future development and in removing the brake blocks for investments.

MünchenerHyp has adapted to the challenges in a difficult economic environment and created the prerequisite for profiting from a more favorable economic development.

FIGURES FROM THE BALANCE SHEET

In € million	30 June 05	31 Dec. 04
Claims on banks	5,974.0	6,333.1
Of which:		
Mortgage loans	274.5	283.3
Public-sector loans	4,220.2	4,583.3
Other claims	1,479.3	1,466.5
Claims on customers	18,871.1	18,446.8
Of which:		
Mortgage loans	11,325.5	11,120.7
Public-sector loans	7,529.4	7,303.1
Other claims	16.2	23.0
Bonds and other fixed-income securities	8,232.1	7,386.2
Liabilities to banks	2,254.7	2,340.0
Of which:		
Registered mortgage Pfandbriefe issued	700.6	695.5
Registered public-sector Pfandbriefe issued	334.6	417.4
Liabilities to customers	7,817.6	7,371.5
Of which:		
Registered mortgage Pfandbriefe issued	2,468.9	2,582.4
Registered public-sector Pfandbriefe issued	4,689.4	4,187.8
Certified liabilities	22,720.6	22,258.5
Of which:		
Mortgage Pfandbriefe issued	6,794.7	5,765.6
Public-sector Pfandbriefe issued	12,147.2	11,997.4
Other bonds issued	3,778.7	4,495.5
Subordinated liabilities	66.3	66.3
Profit-participation certificates	100.7	100.7
Capital and reserves (without member's uncalled liabilities to capital)	513.2	506.8
Of which:		
Members' capital contributions	119.2	112.8
Silent participations	133.5	133.5
Reserves	260.5	260.5
Balance sheet total	33,753.7	32,882.4

FIGURES FROM THE INCOME STATEMENT

In € million ... For Period January 1st to June 30th	2005	2004
Interest income	766.9	758.1
Interest expense	722.3	726.4
Current income	5.5	8.5
Net interest income	50.1	40.2
Net commission income	-1.2	-0.9
Net interest income and commission income	48.9	39.3
General administrative expenses		
a) Personnel expenses	13.0	13.6
b) Other administrative expenses	10.3	8.7
Amortization and depreciation of intangible and tangible assets	2.7	3.5
Administrative expenses	26.0	25.8
Other operating expenses income	0.3	2.1
Net provision for risks	-8.5	-11.3
Valuation results of financial assets	-2.8	4.0
Operating result	11.9	8.3

NEW BUSINESS

In € million ... For period January 1st to June 30th	2005	2004
Loan commitments	2,246.8	3,899.7
Of which:		
Mortgage loan commitments	987.4	800.6
Of which:		
Residential property lending	540.7	472.8
Commercial property lending	446.7	327.8
Public-sector business	1,259.4	3,099.1
Mortgage loan disbursements	1,776.4	3,666.9
Of which:		
Mortgage loans	627.4	614.3
Public-sector business	1,149.0	3,052.6
Gross sales of bonds	3,262.0	4,928.6

EMPLOYMENT FIGURES

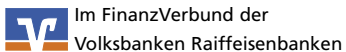
For period January 1st to June 30th	2005	2004
Average number of employees	381	383
Of which:		
Part-time employees	51	45
Apprenticed trainees	24	19

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