

Münchener Hypothekenbank: good first-half results – new business expands further

Münchener Hypothekenbank eG is continuing to grow. The Bank's results from operations after deducting provisions for risks rose by about 15 percent to € 15.5 million during the first six months of 2007. Income and expenses developed favourably. Net interest income increased by 14 percent to € 63.7 million. In addition, administration expenses were further reduced and amounted to € 24.7 million. As a result, the Bank's cost-income ratio improved by almost 2 percentage points to 49.0 percent. Total assets amounted to € 32.4 billion, or 1.6 percent higher than at year-end 2006. The total capital ratio was 10.8 percent. "These results are a seamless continuation of our successful development in the previous year," said Erich Rödel, Chairman of the Münchener Hypothekenbank's Board of Management on the occasion of announcing the results for the first half 2007.

The unbroken growth of the Bank's new business activities made an important contribution to the good results, which – despite the weakness seen in the volume of new construction in Germany – rose by 18 percent from € 1,129 million to a total of € 1,330.7 million. Both of MünchenerHyp's core areas of business – residential property lending and commercial property financing – posted similar rates of growth.

Additional growth noted in the Bank's residential property finance business was primarily driven by further intensified collaboration with the Volksbanken and Raiffeisenbanken. The volume of new business, excluding prolonged loans, increased by € 115 million to € 764.1 million. "Our business with the German cooperative FinanzVerbund (Financial Services Network) has been developing favourable for years based on our strategy of decisively

expanding our sales efforts and implementing a future-oriented product concept. Our joint sales campaigns with our partner banks in the FinanzVerbund played a major role in signing up new customers," noted Erich Rödel. With the recently completed integration of software to process loan applications into the IT resources used by the FinanzVerbund, a standardised loan application process was established within the regions served by GAD, one of the two IT centres of the cooperatives' FinanzVerbund. This new software further eases the processing of mortgage loan applications with MünchenerHyp. "This solution positions us as a pioneer in the German cooperative FinanzVerbund and also reinforces our standing in the residential property finance area," added Erich Rödel.

As part of its efforts to expand its core business of residential property lending, MünchenerHyp acquired a portfolio of residential property loans from the Allgemeine HypothekenBank Rheinboden AG (AHBR). The portfolio has a total volume of approx. €715 million and consists of about 16,800 loans in Germany, of which over 98 percent are senior secured loans with very low average loan-to-value ratios. "The portfolio's regional diversity is a very good complementary addition to our current inventory of loans," said Erich Rödel. Although this transaction did not take effect for balance sheet purposes before 30 June, our inventory of property loans was fueled by the good growth of our new business activities and rose by 2 Percent to €12.4 billion. This increase meant that the Bank's development contrasted with the declining inventories trend seen in the market.

The volume of our new commitments made within the commercial property lending business rose by €87 million to €566.6 million. This increase was primarily driven by the Bank's expanding international business activities, with most of the commitments made for property loans in the USA. Münchener Hypothekenbank's main business within the USA is the financing of office properties with mainly senior secured loans, which reflects the Bank's conservative risk strategy. MünchenerHyp is not engaged in any way in the subprime segment of the American mortgage market, and is not affected by the current situation.

Based on the results seen in the first half, Erich Rödel anticipates that MünchenerHyp will once again record an increase in earnings over the previous year.

Merger discussions with DG HYP are progressing as planned. Upon conclusion of the currently active due diligence phase and the valuation of both banks, the bank's executive bodies will examine the results. The prerequisites for the merger will be met after all of the bodies of both banks have agreed. This should be completed this year. Erich Rödel: "The merger will enable us to realize significant synergies in the area of production, sales and processing. The merger represents an important foundation for ensuring sustainable growth in the future as well as a strengthening of the cooperative FinanzVerbund's market position in the property finance sector as competitive and margin pressures will continue to increase in the future."

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