

INTERIM FINANCIAL
STATEMENTS

FOR THE PERIOD

1 JANUARY TO 30 JUNE 2007 >>



IMPRINT

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INTERIM MANAGEMENT REPORT

OVERALL ECONOMIC CONDITIONS

ECONOMIC DEVELOPMENT

The continually expanding global economy has led to a dynamic increase in orders for the German industry, as well as solid growth that has exceeded expectations to date. The international competitiveness of German companies has been significantly strengthened due to low wage demands and rationalisation measures seen in the past years. This has also limited the impact of the euro's most recent upward moves on Germany's export success. Despite a decline in the number of unemployed to 3.7 million people – or 8.8 percent – in June 2007, private consumption has been dampened by the increase in VAT and has remained hesitant.

During the first three months of the year the German construction industry recorded a 12.5 percent increase in orders due mainly to the 21.6 percent rise in commercial construction projects. On the other hand, orders for private housing construction declined by 3.2 percent due to higher VAT and the discontinuation of the state subsidy for private housing.

However, economic growth slowed to 0.3 percent in both the euro-zone and in Germany in the second quarter. Forecasts had anticipated 0.7 percent in the euro-zone and 0.5 percent for Germany. The slower pace of growth in Germany was mainly attributable to a decline in construction outlays, which declined by 2.1 percent from the first quarter.

FINANCIAL MARKETS

Interest rates continued to rise in the first half of 2007. The European Central Bank increased its key lending rate in two steps of 0.25 percentage points each to 4 percent. The benchmark 10-year German government bond yielded 4.7 percent in mid-June, the highest level in five years. The Federal Reserve did not change the federal funds rate and left it at 5.25 percent in light of uncertain economic development in the USA.

During the first six months of the year prices continued to rise rapidly in the stock markets. The most important stock indices achieved highs for the year, and in some cases even all-time highs. The German DAX stock index climbed by about 20 percent in the first half of 2007.

Participants in the financial markets have been closely following the crisis in the American market for residential property mortgages. At the core of the crisis are mortgage loans made to borrowers with less than ideal credit status, known as subprime. The American economy had not yet begun to suffer from the crisis during the first half of 2007 because the effects were still limited to the subprime segment of the market, which is a relatively small loan market. However, investors were becoming more aware of risk, and this led to a widening in spreads in the credit market for lower rated loan tranches.

The subprime crisis worsened in July and halted rising prices in the stock markets. By mid-August, the leading indices on the world's largest stock markets had fallen by 10 percent and more. Investors around the world shifted their money out of bonds and into government bonds in a flight to safety. Central banks responded to these developments by providing added liquidity to the money markets. In addition, the Federal Reserve cut its discount rate by half a percentage point to 5.75 percent.

PROPERTY MARKETS

RESIDENTIAL PROPERTY MARKET – GERMANY

In contrast to original expectation, the German residential property market contracted: during the first quarter of 2007, only 40,600 building permits were issued for new residential property in Germany. This drop of almost 50 percent is the biggest decline since 1970 and was only surpassed by the collapse in the number of building permits issued for one and two-family houses, which fell by about 60 percent. The number of building permits issued has risen since then. However, the total number of permits issued in April and May was for 31,800 residential properties, or still 26 percent below the same year-ago figure.



Almost all experts believe that the discontinuation of the housing subsidy caused the decline, which has been sharper than previously estimated.

Prices for private housing continued to develop unevenly during the first half of the year with significant increases and decreases noted due to regional reasons. Higher prices were primarily noted in structurally weak regions that have experienced economic improvement. In contrast, prices continued to decline in regions with less promising prospects for the future. On average, price indices moved slightly lower. Prices for one and two-family houses improved modestly, while average prices for condominiums in Germany fell marginally.

COMMERCIAL PROPERTY MARKET – GERMANY

Following the rally seen at the end of 2006, the German office market got off to a hesitant start in the new year. Office space turnover declined by 3.4 percent in the first quarter, although markets accelerated notably in the second quarter. In the main five property markets – Berlin, Duesseldorf, Frankfurt/Main, Hamburg and Munich – a total of 1.23 million square meters of office space was let, or 16 percent higher than in the same year-ago period, with considerable regional differences. The overall favourable developments were also influenced by good economic conditions in Germany.

Vacancy rates declined further. The volume of vacant space in the property strongholds, including sub-leased office space, which were let but still unoccupied, rose by about 4 percent in the second quarter to approximately 7.4 million square meters. The reduced volume of vacant space was due on one hand by subleased office space that was taken off the market. The other reason was that the vacancy rate for top-quality office space declined at a disproportionate rate because less new space has entered the market.

During the second quarter top rents noted in the main five markets rose by a further 0.4 percent over the comparable year-ago period. This figure was primarily driven by the 4 percent increase in top rents paid in Munich to 29 euros per square meter.

As we predicted, investment activities in the German commercial property market continued without interruption in the first half. The market was dominated by foreign investors who accounted for 73 percent of the capital invested in the market and caused sales to rise. The volume of investments in first half of 2007 amounted to € 26.4 billion – an increase of 34 percent. 38 percent of the transactions were for office properties, 27 percent for mixed-use properties, and 20 percent for retail sales properties with 63 percent generated by portfolio transactions.

Rising interest rates and comparatively low yields led to a change in the investor profile. Financial investors, who counted on the difference between interest rates and yields, retreated and were replaced in the German market by property experts who rely on asset management skills to achieve their target yields.

RESIDENTIAL PROPERTY MARKETS – INTERNATIONAL

The pace of growth in European private property prices has slowed. Rising interest rates were the main reason for this development. The price level in France has further stabilised, while the pace of price increases fell by half in the UK in June. A decline in private property prices is also becoming visible in Spain. The new EU member countries remain the exception as their prices continued to rise significantly.

Residential property prices in the USA also fell further in the first quarter of 2007, although they are still at a high level. The pace of price declines decelerated for the first time in April. In general, this situation is having a favourable effect on the rental market. Rental prices rose by 3.5 percent in the second quarter of 2007.

COMMERCIAL PROPERTY MARKETS – INTERNATIONAL

Demand for office space is rising all across Europe due to the economic upswing and rising employment figures. The increase exceeded 6 percent in the first quarter of 2007. Top rents showed a corresponding increase in the first quarter as they climbed by 8.9 percent and were led by Madrid with a 28.1 percent increase.

Tight availability of newly built space led to a further 0.3 percent decline in the aggregate European vacancy rate to 7.8 percent.

The volume of office space rented in the USA during the first quarter contracted by almost 10 million square feet (sq. ft.) to 12.8 million sq. ft. Driven by favourable employment figures, top rents in central business districts rose by 5.2 percent in the first quarter. The central business district vacancy rate slipped to below 10 percent. Heavy pressures on the purchase price returns are increasingly shifting over to the value-added area. This means that buyers are paying higher prices in return for potential increases in value using active asset management methods that typically include modernisation and expansion measures.

MORTGAGE MARKET

An increase in the demand for loans, which was expected by the German banking industry – especially for residential property loans –, did not take place in first half of 2007. According to the Deutsche Bundesbank, the total volume of new business in residential property loans noted until June 2007 was about € 94 billion less, or 5.6 percent lower than the comparable year-ago figure. Significantly weaker figures were noted for the first quarter, in particular. The development of outstanding loans reflected the decline in demand. The total volume of outstanding residential property loans declined for the first time since the start of 2005 and slipped by 0.7 percent between January and June 2007.

The decline in market volume led to continuing high pressure on margins, which was exacerbated by intensive competition. Margin pressures are greater in Germany than in any other European country.

Interest rates for mortgage loans continued to rise. In June 2007, the interest rate for ten-year, fixed-rate loans was about 1.6 percentage points over the lowest level seen in the fall of 2005.

BUSINESS DEVELOPMENT REPORT

Münchener Hypothekenbank recorded favourable development in the first half. Results for the first six months were in line with planned growth.

MORTGAGE BUSINESS

We significantly expanded our new business during the first half. Net commitments made for mortgages and other property finance loans increased by € 201.6 million (+17.9 percent) to € 1,330.7 million.

In contrast to the general development seen in the market, we were able to expand our business in the area of residential property loans. We generated € 764.1 million in new business, or € 114.6 million (+17.6 percent) more than in comparable year-ago figure. Due to weaker construction of new housing, the majority of new commitments were made to finance existing apartments and buildings instead of financing new housing.

Rising interest rates drove a distinct demand for forward loans that allow property owners to secure the current rate of interest for their follow-up financing up to five years before the end of their agreed fixed-interest period.

The sales campaigns we ran together with the Volksbanken and Raiffeisenbanken were an important basis for our success in the residential property finance area. During the first six months, our direct marketing activities alone reached one million households, of which about 750,000 were targeted for forward loan products. We improved our loan prolongation service to our cooperative partner banks by, for example, contacting cus-



tomers earlier and advising them more intensely. As a result, our prolongation ratio rose to about 60 percent.

In addition, we integrated our software for processing loan applications into the new "bank 21" network system. The introduction of this system provides the entire German cooperative FinanzVerbund Financial Services Network with a standard loan processing procedure within the area serviced by GAD, the cooperatives' IT centre. Customer service representatives at the Volksbanken and Raiffeisenbanken now have access to the latest product information, lending conditions as well as existing customer data. This avoids duplication, streamlines processes and makes them more cost-efficient. Starting in the fall of 2007, a similar solution, should be established within the area serviced by the cooperatives' IT centre FIDUCIA.

The volume of commitments made in the commercial property financing area of business increased by € 87 million (+18.1 percent) to € 566.6 million.

The share of commercial property loans generated outside of Germany declined from 58.9 percent to 52.4 percent. Approximately 84 percent of these commitments were made for property in the USA. The basis for this high ratio has not changed in comparison to the last Annual Report. Our success in this market is primarily driven by our good relationships with the major American financing firms and our solid market position. Münchener Hypothekbank's business activities are not directly affected by the crisis in the subprime segment of the credit market because we are solely engaged in the commercial property and residential rental property construction sectors. We do not provide financing for either residential property or condominiums in the USA. We are primarily engaged in financing office properties and, in accordance with our risk strategy, primarily limit our financing activities to the senior tiers of financing tranches. As a result, we were once again able to solely acquire business with acceptable levels of risk in the first half of 2007.

New business activities in the rest of Western Europe developed hesitantly. Rising interest rates and generally low returns

on purchase prices continued to place unchanging heavy pressures on financing margins and further softened the overall conditions for financing deals. We were not willing to engage in these kinds of transactions. The only exception was in the French market. Our new sales structures in France enabled us to selectively expand our direct business activities in the first half of the year. We anticipate that the volume of new business in France will rise further in second half of 2007.

The commercial property business in Germany experienced only slightly different developments than the rest of the European market during the first half of the year. Our activities in Germany were made very selectively and primarily in the area of low loan-to-value financing structures. We only engaged in high loan-to-value financing deals in collaboration with financing partners. We were able to post a moderate increase in new business with open-end property funds as purchases were once again being made following a phase of portfolio divestments.

PUBLIC-SECTOR LENDING AND MUNICIPAL LOANS

Münchener Hypothekbank continues to operate in the public-sector and municipal lending business areas without setting any volume targets. Loans are made solely based on attainable returns. Operating in a highly competitive market environment, and in line with our strategy, we made total commitments for € 1,052.3 million in loans in comparison to the € 1,687.0 million we made in the same year-ago period.

REFINANCING

During the first six months of 2007, our refinancing business seamlessly continued the success we noted in 2006. Gross sales totalled € 4 billion, or 8.6 percent more than in the first half of 2006. Of this total, fixed-income bonds accounted for € 2.9 billion, variable-rate bonds for € 0.9 billion, and structured bonds for € 0.2 billion.

The maturity of a € 1.5 billion Jumbo Pfandbrief in April 2007 was offset by new borrowings of liable funds. We did not issue a Jumbo Pfandbrief during the first half of 2007.

Münchener Hypothekenbank's big appeal to international investors was once again reflected in the reception we noted for our first issue of a Swiss franc denominated fixed-income bond in May. The strong demand, as well as a very high participation ratio of nearly 85 percent of the investors visited, exceeded our ambitious goals. The bond is part of our strategy of continuously broadening our investor base. This way we will also be able to tap favourable financing opportunities in the future, reduce our dependence on the euro and permanently provide our customers with attractively priced loans.

Equally in demand are our SLIMBO bond issues. They serve as a source of short-term refinancing as well as for covered bond issues, finer covered bond management. We issued and placed a ten-month € 500 million SLIMBO issue in the international capital market in February. We followed up with another € 500 million SLIMBO issue in June, which had a 4-month term to maturity. Our SLIMBO customers are international central banks, investment funds, and insurance companies, as well as investors in trustee securities, because MünchenerHyp is the sole issuer of collateralised SLIMBO bonds as of now.

CREDIT TREASURY

During the first half of the year, we participated in syndicated property finance deals worth about € 350 million. Of this, total € 200 million were for Germany with the remaining € 150 million for deals outside of Germany – primarily in the USA. For the first time ever MünchenerHyp participated in a letter of credit financing deal within the framework of an 80/20 program in the USA. These programs use tax-free bonds to finance multi-family houses, which are rented in part to socially weak families. A letter of credit is then issued by a bank for these tax-free bonds, which gives them the same rating the bank has, and at the same time makes them acceptable to the capital markets.

Due to the favourable volume of new business in the area of commercial property financing, the volume of credit tranches for syndication was also comparatively high in the first half. By the middle of the year, all of the credit tranches earmarked for syndication were successfully placed with other banks, and at good margins.

Within the portfolio lending business, we were able to acquire a well-diversified, low loan-to-value property loan portfolio worth € 715 million, which was almost fully suitable to serve as collateral in a pool of coverage, from the Allgemeine HypothekenBank Rheinboden AG (AHBR) under the terms of a true-buy transaction. All of the approximately 16,800 loans in the portfolio are performing loans, which mean that they are not impaired. The loans were made by AHBR to finance residential properties in Germany. The deal, including payment of the purchase price and transfer of the claims, took place in July and therefore was not included on the balance sheet as of 30 June 2007.

REPORT ON EARNINGS, FINANCIAL, AND ASSET SITUATION

BALANCE SHEET DEVELOPMENT

Total assets increased over the figure noted at year-end 2006 by € 0.5 billion to € 32.4 billion.

Holdings of mortgage and other construction finance loans rose by 2.0 percent and were driven by the favourable growth of new business. This development was in contrast to the downward trend noted in the market. As of 30 June 2007, our portfolio of mortgage and other construction finance loans totalled € 12.4 billion – compared to € 12.2 billion posted at year-end 2006.

Our holdings in the public-sector area of business declined further reflecting our strictly returns-based business policy.



Our portfolio of public-sector loans, including securities, contracted in the first half from € 16.2 billion to € 15.3 billion.

On the liabilities side, our portfolio of refinancing funds expanded by € 655 million to nearly € 30 billion.

Liabe equity capital declined from € 990.1 million to € 944.6 million due to maturing profit-sharing certificates.

Core capital remained at the previous year's date of record and amounted to € 623 million. This is the equivalent of a 7.1 per cent core capital ratio and a total capital ratio of 10.8 percent based on the standard approach for evaluating lending risks.

DEVELOPMENT OF EARNINGS

Our earnings continued to develop favourably mirroring our business success. Net interest income advanced by 14.0 per cent over the same year-ago period to € 63.7 million. This increase is only partially visible in the net interest income less commissions figure as our increased volume of new business also meant that we paid higher broker commissions to our partner banks. Our net interest income less commissions figure increased by € 1.4 million, or 2.9 percent to € 50.5 million.

Administration expenses amounted to € 24.7 million, a slight decline from the same year-ago figures. Based on this performance in the first half, we believe that our target of € 50 million for the entire year remains realistic. Results seen in the first six months demonstrate that we were able to achieve a sustained reduction in administrative expenses in recent years. Our cost-income ratio improved again by almost 2 percentage points to 49.0 percent.

The sum of other operational expenses and income was negative and amounted to minus € 1.6 million. A positive figure of € 0.4 million was recorded in the same year-ago period. The negative reported figure was due to the creation of higher other reserves.

This means that partial results from operations for the first half amounted to € 24.1, which is comparable to figure noted for the same year-ago period.

Together, the net valuation of the lending business and financial assets resulted in a negative figure € 8.6 million as opposed to a negative € 11.0 million posted for the same year-ago period. Total individual adjustments to value of nearly € 5 million were recorded.

Results from operations after deducting provisions for risks rose by € 2 million, or 14.8 percent, over the same year-ago figure to € 15.5 million. This means that Münchener Hypothekbank is on track to achieve its growth goal for the entire year.

RATING

Moody's introduced a new rating model for banks in the spring of 2007: the Joint-Default-Analysis Method. The new model did not result in any changes in Münchener Hypothekbank's ratings. The C+ rating for the bank's fundamental financial strength was reconfirmed as was the Aa3 rating for our long-term unsecured liabilities.

SUMMARY OF MÜNCHENERHYP'S RATINGS:

	Rating	Outlook
Public Pfandbriefe	Aaa	stable
Mortgage Pfandbriefe	Aaa	stable
Long-term liabilities	Aa3	stable
Short-term liabilities	Aa3/P-1	stable
Fundamental financial strength	C+	stable

RISK REPORT

The method used to calculate the credit value-at-risk was further refined in the borrower failure risk category. Municipal, public-sector loans, and our securities business, as well as major positions in our mortgage portfolios were valued using a modified CreditMetrics method that operates in the default mode. Münchener Hypothekenbank uses a model based on CreditRisk+ to determine credit value-at-risk for small positions in its mortgage business.

SUBSIDIARY COMPANIES

Münchener Hypothekenbank's three subsidiary companies – M-Wert GmbH, M-Service GmbH and MURECON GmbH – developed as planned during the period under review.

In December 2006, M-Service GmbH received permission to conduct business as a collection agency and began its activities in this area during the first half of 2007. In addition, M-Service GmbH is functioning as the general partner within the property company established to renovate the Bank's previous main office building located at Nußbaum-/Mathildenstraße in Munich. Construction measures will be completed as scheduled in 2007. We were already able to sell all of the units for the estimated prices.

BODIES

An Advisory Council was established at the start of the new year. The purpose of this new body is to promote the exchange of expertise with the Volksbanken and Raiffeisenbanken. We anticipate that this body will provide important impetus for advancing property finance business knowledge within the German cooperative FinanzVerbund (Financial Services Network). The constituent session of the Advisory Council took place on 6 March.

The delegates meeting elected Joachim Herrmann to the Supervisory Board on 21 April. The Supervisory Board once again consists of 10 members.

On 1 May, Klaus Sturm was appointed a full member of the Board of Management of Münchener Hypothekenbank. Mr Sturm is responsible for the Capital Market Business/Treasury, and Municipal Business areas of operation as well as other internal areas within the Bank.

OUTLOOK

MARKET AND BUSINESS DEVELOPMENT

The global economy is expected to continue growing at a significant pace in the second half, despite the international effects of the crisis in the American subprime segment. Forecasts call for the global gross domestic product to increase by about 4.8 percent.

However, additional consequences of this crisis on the international credit and stock markets, as well as the economy, cannot be ruled out at this time. Falling prices and shrinking investments in the residential property markets in the USA have already led to a slowdown of economic growth this year. The Federal Reserve fears that the weakness seen in parts of the American property market may last longer than expected and have a negative effect on the economy.

The subprime-crisis caused turbulence in the stock market and the banking business in Germany. The Bundesbank, however, does not anticipate that the situation within the German banking industry will not become more challenging as the overall exposure of German banks to the American property market is limited and is primarily focused on highly rated investments.

Forecasts call for the economic upswing to continue within the euro-zone and in Germany due to overall positive economic



data. It is anticipated that burdens arising from the VAT increase will further recede in the second half of the year. An increase in consumer spending is also anticipated to take place over the remainder of the year.

Robust economic conditions will not yet, however, be sufficient to revive the German residential property markets. In fact, the number of building permits issued for the entire year is expected to hit a new low of just 200,000 housing units. This will create an ever-growing gap in demand in light of the rising number of households, and for 2007 alone is estimated at approximately 100,000 housing units.

In spite of this, the idea of owning their own four walls is still a very significant goal for Germans. We anticipate that more people will be willing to take out a loan to finance a home as the economy continues its steady growth and the employment situation improves. Based on this scenario we believe that demand for residential property will rise over the mid-term.

Within a market environment, which continues to be marked by very intensive competition and correspondingly low gross interest rate margins, we believe that our new product concept – the building block principle – puts us in a favourable position. It gives us the flexibility to satisfy the requirements of almost all customers because we can combine individual financing solutions with attractive conditions. Additionally, joint sales campaigns with our partner banks enable us to realise the potential in the regional markets to a great extent. For these reasons, we anticipate that, in contrast to the overall market trend, we will continue to record additional growth in our residential property financing business in the second half, even if it might not be as strong as the performance seen in the first six months. The development of interest rates will be the key influencing factor in this segment. An unexpectedly sharp increase in long-term interest rates and a steep interest rate curve could weaken demand for our forward financing business.

We anticipate that the results posted in the first half for the commercial property finance segment will continue to grow

moderately. We will remain active in the German market on a selective basis. We mainly see growth opportunities being driven by increased activities by asset management investors seeking partners who are experts for property financing. Moreover, we anticipate that domestic institutional investors will be increasingly active in Germany. For these reasons, we anticipate that we will be able to expand our new business activities in the second half of 2007, despite high pressures on profit margins.

Internationally, we will continue our business model in the USA. We will use our stable network of American financing partners to primarily acquire senior-tier financing deals. By the end of the year, we expect to see increased syndication activities by foreign competitors within the rest of Western Europe. These activities will be initiated via the European financial hub in London and will involve financing deals on the European continent. Beyond that, we are focusing our efforts on France where we expect to expand our direct business activities considerably.

We have seen first signs of an improvement in the market situation within the Municipal Lending area of business. The economic recovery has generated increased business tax income for the municipalities as their budget situations have eased a bit. However, municipalities still have high investment and financing requirements. For this reason, they are increasingly searching for alternative financing instruments to disburden or optimise their budgets. These efforts provide new long-term earnings opportunities in the municipal lending business, especially for structured municipal loans.

In the Credit Treasury area, we anticipate that favourable business developments seen in the first half, will continue and drive the volume of syndicated loans higher. Preparations for investments in MBSs have been completed. In the second half, we plan to solely invest in Commercial Mortgage Backed Securities (CMBS) and Residential Mortgage Backed Securities (RMBS) with good ratings and good risk-return profiles. Our investment activities have a mid to long-term horizon. In general, Münchener Hypothekenbank has a buy-and-hold strategy.

Our overall view is that business will continue to develop favourably in the second half of the year. Should the upwards economic trend remain stable as predicted we anticipate that we will be able to increase our results once again.

PLANNED MERGER BETWEEN MÜNCHENER HYPOTHEKENBANK AND DG HYP

Over the long term, the property financing markets in Germany and abroad will be increasingly marked by more and tougher competition. Already today, the competitive situation in Germany is more intense than in any other European country. Gross interest rate margins attainable in the residential property lending business have been declining for years. In addition, this situation can be only partially offset by cost savings generated by increasing the efficiency of business process. Furthermore, it is predicted that the German property market will only be able to continue growing weakly in the coming years, making it more difficult for finance providers to achieve economies of scale through organic growth.

These business conditions make it necessary for banks to make special efforts in order to ensure their sustained presence in the property financing market. Moreover, this is why Münchener Hypothekbank has to utilise all possibilities to strengthen its long-term ability to compete. One option is to bundle strengths in the property finance market to reinforce market share and secure opportunities for future growth.

This was the reason why we initiated exploratory talks about a merger with the Deutsche Genossenschafts-Hypothekbank AG (DG HYP) in the spring of 2007. A merger would not only make it possible to achieve a united and more efficient development of the market, it would lead to major synergies and more operations that are efficient. Both banks basically view the opportunities offered by a merger positively. In May they signed a letter of intent wherein they agreed to closely examine the possibility of merging.

Following additional intensive talks, the key elements of the planned merger were defined in a memorandum of understanding in early July. Based on the contents of the memorandum, the Supervisory Boards of MünchenerHyp and DG HYP authorised their respective Boards of Management to continue preparations for the merger.

The memorandum of understanding contains, in particular, statements regarding the merger's legal format, the name and location of the future bank as well as the future business strategy.

Plans call for the merger to be legally completed in two phases: Münchener Hypothekbank eG will initially bring their business activities into an interim company and will retain its current legal status as a cooperative. The interim company will then merge with DG HYP. Plans call for the Münchener Hypothekbank eG (old) and DZ BANK AG (sole parent company of DG HYP) to own shares in the new bank with the majority held by DZ BANK AG. According to the memorandum of understanding, the new bank will be named Münchener Hypothekbank AG and its main office will be located in Munich.

We want to bring together the best of both banks in the merger in order to sustainably expand the market position of the cooperative FinanzVerbund in the property finance sector. We want to provide the Volksbanken and Raiffeisenbanken with innovative product and sales strategies, as well as efficient processes so they can unlock additional market opportunities. In addition, we want to decisively realise the income and cost synergies for the new bank.



It is planned that the new Münchener Hypothekbank AG will have four core areas of business:

- >> Residential property loans will remain the main pillar of the business model. Residential property finance is a central anchor product in the Volksbanken and Raiffeisenbanken's private customer business. At the same time, competition in this market is exceptionally tough because of the long-term customer relationships involved here. As a subsidiary partner in the cooperative FinanzVerbund we view our primary task as a provider of innovative product and sales strategies in order to reinforce and expand the market share of the cooperative FinanzVerbund.
- >> Our expansion efforts in the commercial property finance business in Germany and abroad should be decisively continued. Domestically this includes improving our commercial property finance business with the Volksbanken and Raiffeisenbanken.
- >> Together, we already have a strong market position in the municipal lending business and treasury areas that should be decisively expanded. This will strengthen the position of the cooperative banks in the municipal lending business within the regional markets.
- >> The top priority in the credit treasury area of business is the optimisation of the return/risk profile of the property lending portfolios. This applies to both our own portfolio as well as to the provision of advice and services to the Volksbanken and Raiffeisenbanken.

We are convinced that the planned merger will generate significant synergies in production, sales and processes, and will successfully strengthen the market position of the cooperative FinanzVerbund in the areas of domestic and international property finance.

The due diligence process began after the memorandum of understanding was approved and will be followed by an evaluation of the parties involved in the merger. The final terms of the merger agreement will be prepared while these activities are taking place. It is anticipated that the ownership bodies of both banks will approve the terms of the agreement thereby enabling the merger to be take place this year.

BALANCE SHEET AS OF 30 JUNE 2007

ASSETS		30 June 07	31 Dec. 06
	€	€	€ 000
1. Cash reserve			
a) Cash on hand	9,367.34		19
b) Balances with Central Banks	37,750,316.64		46,802
of which			
with Deutsche Bundesbank € 37,750,316.64			
		37,759,683.98	46,821
2. Claims on banks			
a) Mortgage loans	188,393,558.43		210,747
b) Public-sector loans	3,199,881,975.11		3,233,004
c) Other Claims	1,383,859,940.50		1,491,068
of which			
payable on demand € 1,131,930.26			
		4,772,135,474.04	4,934,819
3. Claims on Customers			
a) Mortgage loans	12,066,698,152.79		11,828,401
b) Public-sector loans	6,922,692,257.70		7,308,651
c) Other claims	140,147,811.42		119,692
of which			
with securities pledged as collateral € 768,775.51			
		19,129,538,221.91	19,256,744
4. Bonds and other fixed-income securities			
a) Bonds and notes	7,598,600,573.42		6,974,351
aa) Public-sector issuers € 1,934,340,504.35			(1,912,381)
of which			
eligible as collateral for Deutsche Bundesbank advances € 1,711,064,099.14			
ab) Other issuers € 5,664,260,069.07			(5,061,970)
of which			
eligible as collateral for Deutsche Bundesbank advances € 5,136,503,853.33			
b) Own bonds and notes	46,994,764.54		22,008
Nominal Value € 48,654,500.00			
		7,645,595,337.96	6,996,359
Carried forward		31,585,028,717.89	31,234,743



LIABILITIES, CAPITAL AND RESERVES	30 June 07	31 Dec. 06
	€	€ 000
1. Liabilities to banks		
a) Registered mortgage Pfandbriefe issued	821,319,948.72	946,667
b) Registered public-sector Pfandbriefe issued	241,995,822.50	196,626
c) Other liabilities	1,346,457,797.10	1,542,783
of which		
payable on demand € 27,625,376.57		
delivered to lenders as collateral		
for loans received		
registered mortgage Pfandbriefe € 1,269,047.76		
and registered public-sector Pfandbriefe € 756,408.73		
	2,409,773,568.32	2,686,076
2. Liabilities to customers		
a) Registered mortgage Pfandbriefe issued	2,889,191,065.59	2,811,562
b) Registered public-sector Pfandbriefe issued	4,595,381,112.61	4,623,405
c) Other liabilities	736,538,785.37	732,752
of which		
payable on demand € 23,142,937.59		
delivered to lenders as collateral for loans		
received registered mortgage Pfandbriefe		
registered mortgage Pfandbriefe € 5,000,000.00		
and registered public-sector Pfandbriefe € 0.00		
	8,221,110,963.57	8,167,719
3. Certificated liabilities		
a) Mortgage Pfandbriefe issued	6,129,786,080.96	6,676,922
b) Public-sector Pfandbriefe issued	9,911,589,860.79	9,876,888
c) Other bonds issued	4,589,436,050.73	3,473,918
	20,630,811,992.48	20,027,728
4. Liabilities incurred as trustee	319,687.60	337
of which		
loans € 319,687.60		
5. Other liabilities	133,115,933.76	181,418
Carried forward	31,395,132,145.73	31,063,278

BALANCE SHEET AS OF 30 JUNE 2007

ASSETS		30 June 07	31 Dec. 06
	€	€	€ 000
Brought forward		31,585,028,717.89	31,234,743
5. Shares and other variable-yield securities		306,894,789.77	306,378
6. Participating interests and shares in cooperatives			
a) Participating interests	63,129,041.02		56,460
of which			
in banks € 16,728,732.18			
b) Shares in cooperatives	18,500.00		18
of which			
in credit cooperatives € 15,500.00			
		63,147,541.02	56,478
7. Shares in affiliated companies		831,101.64	802
8. Assets held in trust		319,687.60	337
of which			
loans € 319,687.60			
9. Intangible assets		1,097,188.55	1,339
10. Tangible assets		91,403,932.60	92,526
11. Other assets		51,210,750.72	90,993
12. Deferred Items			
a) From issuing and lending business	127,319,815.53		147,150
b) Other	3,901,513.39		1,743
		131,221,328.92	148,893
Total assets		32,231,155,038.71	31,932,489



LIABILITIES, CAPITAL AND RESERVES	30 June 07	31 Dec. 06
	€	€ 000
Brought forward	31,395,132,145.73	31,063,278
6. Deferred items		
From issuing and lending business	27,185,755.70	28,513
	27,185,755.70	28,513
7. Provisions		
a) Provisions for pensions and similar obligations	21,640,583.00	21,221
b) Provisions for taxes	6,546,303.26	6,178
c) Other provisions	13,186,293.53	12,395
	41,373,179.79	39,794
8. Subordinated liabilities	66,300,000.00	66,300
9. Profit-participation certificates	57,264,690.70	91,010
of which		
€ 35,790,431.69 are due within two years		
10. Capital and reserves		
a) Subscribed capital	368,876,731.16	367,688
aa) Members' capital contributions € 125,822,470.60		(124,795)
ab) Silent participations € 243,054,260.56		(242,893)
b) Revenue reserves	268,338,340.75	268,338
ba) Legal reserve € 266,804,465.11		(266,804)
bb) Other revenue reserves € 1,533,875.64		(1,534)
c) Unappropriated profit	6,684,194.88	7,568
	643,899,266.79	643,594
Total liabilities, capital and reserves	32,231,155,038.71	31,932,489
1. Contingent liabilities		
Contingent liability on guarantees and indemnities	8,088,582.25	16,987
2. Other commitments		
Irrevocable loan commitments	1,072,696,511.06	812,644

INCOME STATEMENT

1 JANUARY THROUGH 30 JUNE 2007

EXPENSES	30 June 07	30 June 06
	€	€ 000
1. Interest expenses	711,878,311.03	736,152
2. Commission paid	15,595,130.55	9,361
3. General administrative expenses		
a) Personnel expenses	13,636,798.28	13,000
aa) Wages and salaries € 10,859,119.85		(10,625)
ab) Social security contributions and cost of pensions and other benefits € 2,777,678.43		(2,375)
of which for pensions € 1,275,718.09		
b) Other administrative expenses	9,255,644.17	9,824
	22,892,442.45	22,824
4. Depreciation and write-downs of intangible and tangible assets	1,785,096.05	2,150
5. Other operating expenses	2,695,583.33	681
6. Write-downs on and adjustments to claims and certain securities and additions to provisions for possible loan losses	7,798,198.31	17,500
7. Write-downs and adjustments to participating interests, shares in affiliated companies and securities treated as fixed assets	813,095.62	0
8. Taxes on income and earnings	1,885,616.25	702
9. Other taxes not included under "Other operating expenses"	34,231.73	55
10. Profits paid out due to a profit pooling agreement, a profit transfer agreement or a partial profit transfer agreement	7,744,534.62	7,739
11. Net income	5,903,973.89	5,011
Total expenses	779,026,213.83	802,175

NOTES TO THE HALF-YEARLY FINANCIAL STATEMENT AS OF 30.06.2007 (ABRIDGED)

GENERAL INFORMATION ON ACCOUNTING POLICIES

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. Securities held as assets, which were mainly acquired in the course of the Bank's public-sector lending business, are valued at cost. 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.

Tangible assets are stated at cost or production costs less accumulated depreciation. In addition to scheduled depreciation, taken in accordance with the standard operating lifetime, minor value items were fully written off.

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 date of record exchange rate in accordance with Art. 340h (1) of the German Commercial Code. Income and expense items are valued at the respective individual daily exchange rate.

A provision for taxes was established based on earnings as of 30 June 2007.

AUDITING ASSOCIATION

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

AFFIRMATION OF THE LEGAL REPRESENTATIVES

To the best of our knowledge and in accordance with applicable reporting principles for interim financial reporting, the interim financial statements give a true and fair view of the assets, liabilities, financial position and earnings situation of the company, and the interim 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 for the remaining business year.

Munich, 14 August 2007

MÜNCHENER HYPOTHEKENBANK eG
Board of Management



Erich Rödel



Dr. Bernhard Scholz



Klaus Sturm



CERTIFICATION FOLLOWING REVIEW

To Münchener Hypothekbank eG, Munich

We have conducted a review of the abridged interim financial statements – comprising the balance sheet, the income statement, as well as the abridged notes to the financial statements and the interim management report of Münchener Hypothekbank eG, Munich, for the period 1 January to 30 June 2007, all of which are elements of the half-yearly financial report pursuant to Art. 37w Securities Trading Act (WpHG). The preparation of the abridged interim financial statements in accordance with German commercial law, and the interim management report pursuant to the applicable terms of the WpHG, are the responsibility of the cooperative's legal representatives. Our responsibility is to issue a certificate for the abridged interim financial statements and the interim management report based on our review.

We have conducted our review of the abridged interim financial statements and interim management report in accordance with the generally accepted German standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) in Germany. These standards require that we plan and perform the review so that, by way of a critical assessment, we can exclude with a reasonable measure of certainty that the principal elements of the abridged interim financial statements have not been drawn up in conformity with the German commercial rules, and that the principal elements of the interim management report have not been drawn up in conformity with the WpHG regulations applicable to the interim manage-

ment report. A review is limited primarily to interviewing the personnel of the cooperative and to analytical assessments and therefore does not achieve the level of certainty provided by an audit cannot be achieved. As we were not assigned to conduct an audit we cannot issue an audit certificate.

Based on the information gained from our review, we are unaware of any circumstances that could lead us to the conclusion that principal elements of the abridged interim financial statements were not drawn up in conformity with the requirements of German commercial law, or that the principal elements of the interim management report were not drawn up in conformity with the applicable terms of the WpHG.

Berlin, 17 August 2007

DEUTSCHER GENOSSENSCHAFTS- UND RAIFFEISENVERBAND e.V.

Dr. Ott
Auditor

i.V. Lenkawa
Auditor

BODIES

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 Dr. Bernhard Scholz
 Klaus Sturm (as of 1 May 2007)

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 Chairman of the Board of Management of
 Semper Idem-Underberg AG

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

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 Lawyer, *Chairman of the Supervisory Board*

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

S.K.H. Herzog Max in Bayern ... Tegernsee
 Deputy *Chairman of the Supervisory Board*

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 Bank Director (ret.)

Rainer Jenniches ... Bonn, *Chairman*
 Helmuth Lutz ... Beuerberg, *Deputy Chairman*
 Georg Schäfer ... Nortorf, *Deputy Chairman*

Joachim Herrmann ... Erlangen (as of 21 April 2007)
 Lawyer

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 Norbert Beek ... Muenster
 Dr. Maximilian Binzer ... Herrenberg

Heinz Hilgert ... Frankfurt am Main
 Deputy *Chairman of the Board of Management of DZ Bank AG*
 Deutsche Zentral-Genossenschaftsbank

Oskar-Dieter Epp ... Rudolstadt
 Othmar Heck ... Weiterstadt
 Karl Magenau ... Heubach

Konrad Irtel ... Rosenheim
Speaker of the Board of Management of
 Raiffeisenbank Rosenheim eG

Richard Oldewurtel ... Wardenburg
 Claus Preiss ... Bühl
 Richard Riedmaier ... Ingolstadt

Michael Jung ... Maulbronn
Speaker of the Board of Management of
 Volksbank Maulbronn-Oberderdingen eG

Gregor Scheller ... Forchheim
 Franz Schmid ... Altshausen
 Erich Schönle ... Achern
 Jürgen von Seggern ... Hude
 Thomas Sterthoff ... Gütersloh



MEMBERS OF THE DELEGATES MEETING

Johannes Altenwerth ... Bank director
Hermann Arens ... Bank director
Marianne Baalcke ... Managing director
Dr. Wolfgang Baecker ... Bank director
Manfred Basler ... Bank director
Claus-Rüdiger Bauer ... Bank director
Dr. Christoph Berndorff ... Bank director
Johann Biersack ... Lawyer
Dietmar Bock ... Managing director
Dr. Michael Brandt ... Bank director
Siegfried A. Cofalka ... Member of senior management
Eckhard Dämon ... Bank director
Rolf Domikowsky ... Bank director
Karl-Heinz Dunkel ... Banker
Lothar Erbers ... Bank director
Johann Fuhlendorf ... Bank director
Dr. Roman Glaser ... Bank director
Jens Gomille ... Bank director
Michael Haas ... Bank director
Dr. Tilman Hickl ... Managing director
Dr. Christoph Hiltl ... Lawyer
Karl Hippeli ... Bank director
Jürgen Jung ... Legal advisor
Hermann-Josef Kanders ... Bank director
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Norbert Kaufmann ... Bank director
Peter Koch ... Bank director
Klaus Korte ... Bank director
Manfred Kübler ... Bank director
Roland Kuffler ... Businessman
Hans-Georg Leute ... Bank director
Helmuth Lutz ... Bank director
Michael Müller ... Lawyer
Dr. Hans-Wolfgang Neumann ... Mathematician
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Dieter Söll ... Builder
Dipl.-Kfm. Ludwig O. Stadler ... Auditor
Jörg Stahl ... Bank director
Theo Stauder ... Bank director
Dr. Rainer Sturies ... Lawyer
Ulrich Tolksdorf ... Bank director
Heinz-Walter Wiedbrauck ... Bank director



Im Finanzverbund der
Volksbanken Raiffeisenbanken

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