

Dear shareholders and investors,

Following the boom phase in our our new business activities that lasted until the end of the previous year, the anticipated normalization took place during the first half of the year 2000. The trend towards higher capital market interest rates also contributed to the normalization. Apparently most borrowers took advantage of the lower rates as they switched over to long term mortgages. This means that most of this potential has already been realized in this segment.

In comparison with the same period last year, our mortgage commitments declined 38.8% to DM 1.3 billion [or € 0.7 billion]. However, our municipal lending activities increased and our new lending commitments amounted to DM 6.4 [€ 3.7 billion.], or DM 1.2 billion. [€ 0.6 billion.] more than in the same year-ago period. Direct municipal loans continue to play a major role within this segment, where we actively cooperate with the local Volksbanken and Raiffeisenbanks.

Total assets increased 15.4% to DM 53.9 billion. [€ 27.6] during the first six months. Our mortgage and municipal loans represented equal parts of our lending portfolio. In addition, we recorded DM 11.0 billion [€ 5.6] in securities generated by our municipal lending business.

During the first half year issuing activities were marked by investor interest in classical long maturity Pfandbriefe whenever certain interest rate levels were reached. On the other hand, we noted heavy demand for short maturity issues. Variable rate issues were also in demand. In line with the actual prevailing market situation we took advantage of the trends and generated significant refinancing resources by issuing short maturity paper which was offset for liquidity purposes by short term assts.

This mode of business was additionally interesting because large investment banks bid very attractive prices in order to show success in the League tables.

Total gross volume of refinancing amounted to DM 10 billion. [€ 5.1] or 24.2% over the same year-ago period.

Interest income rose by DM 8.5 million. [€ 4.4 million] or 8.5%. The planned implementation of our larger IT projects led to an increase in general administration costs to DM 46.1 million [€ 23.6].

Together with our partner banks, other allied firms and the National Association of Volksbanken and Raiffeisenbanks, we were active in various teams that were engaged in implementing actions stemming from the previous year's study [„One association – One strategy“ [Ein Verbund, eine Strategie]. The positioning of the financial association [FinanzVerbunds] in an extremely dynamic competitive environment will be of major significance in future efforts to realize the potential in the unchanged attractive real estate finance market.

The construction of our own main office building is right on schedule and the cornerstone laying ceremony at Karl-Scharnagl-Ring will take place this month.

We anticipate that the normalization of our lending activities will continue into the second half of the year. On the funding side, we can see good opportunities to convince additional international investors to purchase our paper.

Munich, July 2000
The Board of Management

FIGURES FROM THE BALANCE SHEET

in million DM . . .

	30.6.2000	31.12.1999
Claims on banks	9,176.8	8,503.7
Of which:		
Mortgage loans	566.9	459.5
Public-sector loans	6,726.1	6,790.1
Other claims	1,883.8	1,254.1
Claims on customers	29,321.6	27,901.8
Of which:		
Mortgage loans	18,709.5	18,037.1
Public-sector loans	10,471.1	9,753.2
Other claims	141.0	111.5
Bonds and other fixed-income securities	14,739.2	9,569.1
Liabilities to banks	4,831.4	4,252.9
Of which:		
Registered mortgage Pfandbriefe issued	1,415.7	1,327.7
Registered public-sector Pfandbriefe issued	1,355.5	1,355.0
Liabilities to customers	11,155.0	10,810.4
Of which:		
Registered mortgage Pfandbriefe issued	6,225.8	6,051.8
Registered public-sector Pfandbriefe issued	3,296.2	3,071.4
Certificated liabilities	36,524.2	30,082.7
Of which:		
Mortgage Pfandbriefe issued	9,229.0	7,195.4
Public-sector Pfandbriefe issued	23,340.4	19,274.9
Other bonds issued	3,954.8	3,612.4
Profit-participation certificates	202.0	202.0
Capital and reserves [without member's uncalled liabilities to capital]	730.4	725.7
Of which:		
Members' capital contributions	108.0	106.3
Silent participations	261.2	261.2
Reserves	361.2	358.2
Balance-sheet total	53,860.8	46,673.7

FIGURES FROM THE PROFIT AND LOSS ACCOUNT

in million DM . . . For period January 1st to June 30th

	2000	1999
Interest income from	1,854.9	1,453.7
Interest expense	1,747.1	1,356.3
Current income from	0.4	2.3
Net interest income	108.2	99.7
Net commission income	-9.5	-13.5
Net interest income and commission income	98.7	86.2
General administrative expenses		
a) Personnel expenses	23.7	21.5
b) Other administrative expenses	19.9	14.9
Amortization and depreciation of intangible and tangible assets	2.5	3.5
Administrative expense	46.1	39.9
Other operating expenses	0.1	-0.4
Net provision for risk	-9.1	-5.2
Operating result	43.6	40.7

NEW BUSINESS

in million DM . . . For period January 1st to June 30th

	2000	1999
Loan commitments	7,629.8	7,238.1
Of which:		
Mortgage loan commitments	1,263.6	2,065.0
Of which:		
Residential property lending	941.2	1,837.4
Commercial property lending and other loan commitments	322.4	227.6
Public-sector business	6,366.2	5,173.1
Mortgage loan disbursements	7,646.8	6,662.3
Of which:		
Mortgage loans	1,290.0	1,713.0
Public-sector business	6,356.8	4,949.2
Renewals	366.1	500.9
Gross sales of bonds	10,011.2	8,062.3

EMPLOYMENT FIGURES

. . . For period January 1st to June 30th

	2000	1999
Average no of employees	393	363
Of which:		
Part-timers	33	36
Trainees	22	15

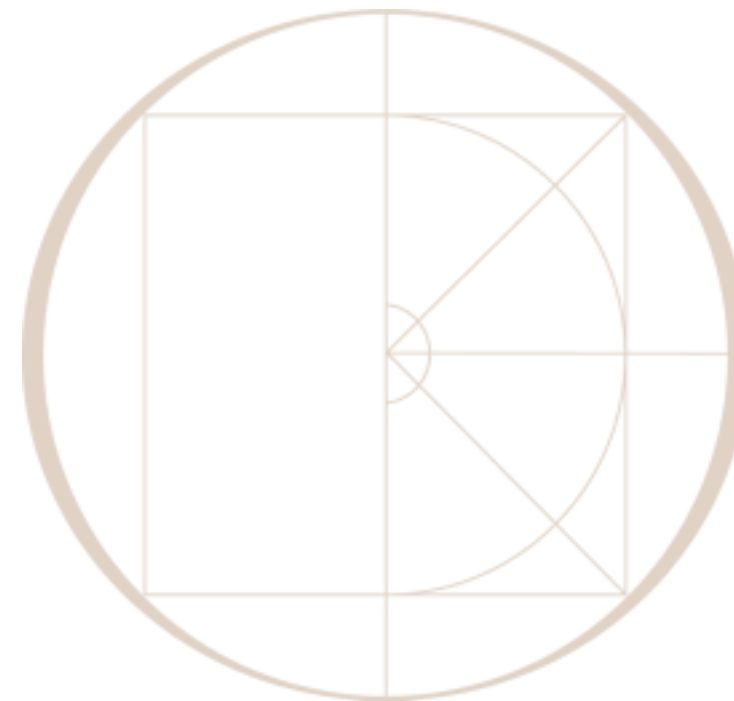
Board of management

Dr. Hans-Ludwig Bungert | Dr. Hans-Rainer Förger | Horst-Dieter Thiel

Chairman of the Supervisory Board

Prof. Dr. Willibald J. Folz

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FIGURES FROM THE BALANCE SHEET
 FIGURES FROM THE PROFIT AND LOSS ACCOUNT
 NEW BUSINESS
 EMPLOYMENT FIGURES

Im Finanzverbund der
 Volksbanken und Raiffeisenbanken

