

# Interim Report June 30th 2006 >>

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# Dear shareholders and business associates,

At the end of the first half of the year, the German economy is in good shape. Domestic demand has increased and has given additional impetus to the economy during the second quarter.

Since its historic low in September 2005, long-term interest rates have again risen during 2006.

During the first four months of the year, building permits were around a fifth higher than the comparatively low level in the previous year. Amongst other things, this increase is due to building applications, which were still submitted in 2005 due to the imminent elimination of the home ownership grant, which were only approved this year.

The demand for mortgages has increased simultaneously. By comparison with the previous year, the mortgage loan portfolio in Germany increased by 5.6 percent by the end of the first quarter 2006.

## On course with the "MHB 2008" strategy

As planned, our MHB 2008 strategy is producing results:

- >> New loan business is benefiting from our improved range of services with a modular range of products and a clear orientation on sales.
- >> Through strict process orientation, sales and transaction management have become more efficient and thus also more productive.

- >> Due to our consistent cost management, administrative expenses have continued to decline.

## New business continues to grow

During the first half of the year, we were able to increase our new business by EUR 142m (+ 14%) to EUR 1,129m.

Lending commitments made for financing residential housing increased by around EUR 109m (+ 20%) to about EUR 650m. This is where our new platform strategy with the basic "Home Classic" product comes into its own. It complies with the motto "Individual in sales, standardised in handling".

The introduction of the updated software HypoLine 5.0 concurrently formed the basis for the planned integration into the sales workplace (VAP) of the cooperative sector.

Our commercial property finance business also developed in line with our strategy as new commitments increased by EUR 33m (+ 7%) to around EUR 480m.

The favourable and at the same time controlled growth in both our main areas of business ensures that our new business is balanced in accordance with our conservative risk policy.

New public-sector commitments rose by EUR 428m (+34%) to EUR 1,687m year on year. The increase was mainly driven by loans to municipalities.

## Refinancing operations expanded

During the first six months we sold about EUR 3,6bn refinancing funds. We are thus about EUR 387m (+12%) above the same period last year. After deduction of return flows net sales amounted to almost EUR 100m.

We held extensive road shows at international financial centres in Europe and Asia as we prepared to float our planned EUR 1.5bn Jumbo Pfandbrief issue in September.

## Balance sheet and equity constant

Total assets of almost EUR 34.2bn remained virtually unchanged. Due to the maturity of undisclosed holdings, the liable equity fell by EUR 30m to EUR 955.4m. To compensate we had already issued a Tier 1 bond last year. Consequently, in accordance with Principle 1 of the German Banking Act, there is currently an aggregated capital ratio of 10.6% and a core capital ratio of 7.0%.

## Earnings trend on the up

In the profit and loss account the net interest income rose by EUR 5.8m (+11.6%) to EUR 55.9m. The net interest and commission income of EUR 49.1m is only slightly above that of the previous year. This is due to the

altered listing of the commission expenditure in the balance sheet. When adjusted for this effect, the net interest and commission income would have risen by about 9%.

## Cost trend under control

Compared with the same period last year, our administrative expenses were reduced by a further EUR 1m. Staffing costs, which were cut last year by EUR 2m, remained at the same level as 2005 with EUR 13.0m, despite qualified additional staffing in forward-looking sectors and increases in the standard wage. The other administrative expenses and depreciation declined by around EUR 1m.

## Risk situation continues to ease

The risk situation has continued to develop favourably. The number of adjusted loans has stabilized at a low level. Individual adjustments have continued to decline, amongst others due to optimising the structures in workout management.

When calculating the valuation results for financial assets, a proportionately positive figure of EUR 6.5m is produced due to revenue from the sale of equity investments, which is to be allocated to the reserves in accordance with Article 340 f of the German Commercial Code. This sum is included as an expense of EUR -17.5m in the extraordinary result.

# FIGURES FROM THE BALANCE SHEET

In € million	30 June 06	31 Dec. 05
<b>Claims on banks</b>	<b>6,727.2</b>	<b>6,910.1</b>
Of which:		
Mortgage loans	227.4	265.1
Public-sector loans	3,935.9	4,156.1
Other claims	2,563.9	2,488.9
<b>Claims on customers</b>	<b>19,047.0</b>	<b>19,021.4</b>
Of which:		
Mortgage loans	11,578.4	11,510.7
Public-sector loans	7,452.8	7,504.5
Other claims	15.8	6.2
<b>Bonds and other fixed-income securities</b>	<b>7,674.1</b>	<b>7,395.6</b>
<b>Liabilities to banks</b>	<b>2,557.6</b>	<b>2,389.6</b>
Of which:		
Registered mortgage Pfandbriefe issued	1,040.8	772.4
Registered public-sector Pfandbriefe issued	321.0	312.2
<b>Liabilities to customers</b>	<b>7,987.1</b>	<b>7,779.1</b>
Of which:		
Registered mortgage Pfandbriefe issued	2,694.8	2,316.5
Registered public-sector Pfandbriefe issued	4,506.0	4,719.0
<b>Certified liabilities</b>	<b>22,608.1</b>	<b>22,801.1</b>
Of which:		
Mortgage Pfandbriefe issued	7,034.1	7,325.0
Public-sector Pfandbriefe issued	12,313.3	11,780.9
Other bonds issued	3,260.7	3,695.2
<b>Subordinated liabilities</b>	<b>66.3</b>	<b>66.3</b>
<b>Profit-participation certificates</b>	<b>91.0</b>	<b>100.7</b>
<b>Capital and reserves</b> <b>(without member's uncalled liabilities to capital)</b>	<b>629.6</b>	<b>658.9</b>
Of which:		
Members' capital contributions	122.9	121.6
Silent participations	242.9	273.5
Reserves	263.8	263.8
<b>Balance sheet total</b>	<b>34,157.4</b>	<b>34,014.8</b>

# FIGURES FROM THE INCOME STATEMENT

In € million ... For period January 1st to June 30th	2006	2005
Interest income	785.1	766.9
Interest expense	736.2	722.3
Current income	7.0	5.5
Net interest income	55.9	50.1
Net commission income	-6.8	-1.2
Net interest income and commission income	49.1	48.9
Personal expenses	13.0	13.0
Other administrative expenses including amortization and depreciation of intangible and tangible assets	12.0	13.0
Administrative expenses	25.0	26.0
Other operating expenses   income	0.4	0.3
Net provision for risks	-17.5	-8.5
Valuation results of financial assets	6.5	-2.8
Operating result	13.5	11.9

# NEW BUSINESS

In € million ... For period January 1st to June 30th	2006	2005
<b>Loan commitments</b>	<b>2.816,2</b>	<b>2.246,8</b>
Of which:		
Mortgage loan commitments	1.129,1	987,4
Of which:		
Residential property lending	649,5	540,7
Commercial property lending	479,6	446,7
Public-sector business	1.687,1	1.259,4
<b>Mortgage loan disbursements</b>	<b>2.440,7</b>	<b>1.776,4</b>
Of which:		
Mortgage loans	753,7	627,4
Public-sector business	1.687,0	1.149,0
<b>Gross sales of bonds</b>	<b>3.649,0</b>	<b>3.262,0</b>

# EMPLOYMENT FIGURES

For period January 1st to June 30th	2006	2005
<b>Average number of employees</b>	<b>346</b>	<b>381</b>
Of which:		
Part-time employees	48	51
Apprenticed trainees	15	24

## SUPERVISORY BOARD

Prof. Dr. Willibald J. Folz (Chairman), S.K.H. Herzog Max in Bayern (Deputy Chairman), Dr. Hans-Ludwig Bungert, Heinz Hilgert, Konrad Irtel, Michael Jung, Wilfried Mocken, Hans Pfeifer, Hans-Joachim Tonnellier

## BOARD OF MANAGEMENT

Erich Rödel (Spokesman), Friedrich Munsberg, Dr. Bernhard Scholz

## Improved operating results

Operating results before taking provisions for risk improved in the first six months by about 5% from EUR 23.2m to EUR 24.5m. The cost-income ratio improved by around two percentage points to 51%.

As per 30 June 2006, we can show total operating results after risk provisioning amounting to EUR 13.5m. This figure is around EUR 1.6m (+13.4%) over the previous year's figure of EUR 11.9m.

The result confirms the positive earnings and risk development of the MünchenerHyp.

## Outlook

The early indicators recently published for Germany and Euroland allow the expectation of a comparatively robust economic development for the second half of the year, which will probably also have a positive effect on the demand for private and commercial property finance.

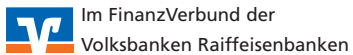
In the hard-fought mortgage loan market our success depends on competitive products, a good sales concept, fast and secure handling and a high level of customer satisfaction.

The basis for this has been created. We will continue to do all that we can to offer our customers in private and commercial property finance as well as our most important sales partners, the Volksbanken and Raiffeisenbanken, exceptional service and outstanding product quality.

Where earnings are concerned we will concentrate on a structured market approach, continuous process optimization, continued prudent risk policies and extending our core business with additional activities, such as in the credit treasury.

The good development at MünchenerHyp in the first half of the year strengthens us with regard to our business strategy. We are confident that we will not only be able to reach our last year's good figures, but will also be able to continue our upward trend.

Munich, July 2006  
The Board of Management



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