

## Dear shareholders and investors,

assuming that an attractive property is involved, developers and builders have no reason to be hesitant in light of the current interest rate situation. Nevertheless, the mortgage banking business had to record a significant decline in its new residential lending business. This is most visible in the single family housing sector, which was previously a pillar of strength for the construction industry. This is an unexpected development in light of the overall economic conditions. Up until the third quarter both the economy and real income levels had risen strongly.

At the end of the third quarter, our mortgage loan commitments amounted to DM 1.7 billion [€ 0.9 billion], or 44.6% below the figure for the same year-ago period. After surpassing the cyclical high this figure enabled us to maintain our position within the industry.

Throughout all of Germany, overall demand for real estate financing was weaker at our partners, the Volksbanken and Raiffeisenbanks. In line with this weakness we also saw a decline in referral business and our proprietary business activities.

We were able to partially offset weaker domestic demand with better business results in Western Europe. New mortgage commitments contained DM 401.5 million [€ 205.3 million] for financing projects in Great Britain, the Netherlands and in France.

Competition increased in the German real estate finance market with the focus on conditions. Internet companies, in particular, were quite aggressive and offered classical limited price-leader offers. We already responded to these competitors last year with the launch of our new special product: HypoLine-Discount. This product, with automatic processing features and highly competitive conditions, enables our partner banks to meet the challenges posed by the Internet start-ups. The magazine "Finanztest" noted in a comparison test that "the desired loan was far cheaper at the Münchener Hypothekenbank – and is traditionally available at all Volksbanken and Raiffeisenbanks branch offices."

New loan commitments rose in the municipal sector by 4.7% to DM 7.3 billion [€ 3.7 billion]. Here we were active in both the large volume segment as well as in the originating municipal business where we closely cooperate with our locally based partner banks.

Total assets rose by 19.6% to DM 55.8 billion [€ 28.5 billion]. The largest items within our portfolio were: DM 19.6 billion [€ 10.0 billion] Mortgage loans, DM 17.2 billion [€ 8.8 billion] Municipal loans and DM 10.8 billion [€ 5.5 billion] Securities stemming from municipal business.

Our refinancing plans were strongly influenced by the fact that interest rate curves continued to flatten out during the third quarter, although a rise was particularly visible in the front of the curve. This caused some investors to hesitate and postpone entering into new positions. The weakness of the euro, which we believe is not warranted by any important measure of economic performance, once again irritated the capital markets as it influenced expectations regarding inflation and interest rates.

Among our larger issues we launched a new 10 year € 1 billion-plus Jumbo issue. The volume of our first Jumbo issue [due July 1, 2004] was increased by € 1.25 billion. The total gross refinancing volume amounted to DM 13.5 billion [€ 6.9 billion]. This means that the majority of our refinancing requirements for the rest of the year are covered.

Interest income and commission income rose by DM 21.5 million [€ 11.0 million] or 17.2% to DM 146.3 million [€ 74.8 million]. The restructuring of our IT activities, which will take numerous years, led to higher costs as total administrative costs increased by 18.9% to DM 69.8 million [€ 35.7 million].

Against the background of weaker markets, we anticipate that our new business activities will continue at their current pace until the end of the year and that, in general, we will post satisfactory results.

Munich, November 2000  
The Board of Management

## FIGURES FROM THE BALANCE SHEET

*in million DM . . .*

	30.9.2000	31.12.1999
<b>Claims on banks</b>	<b>9,961.6</b>	<b>8,503.7</b>
Of which:		
Mortgage loans	569.2	459.5
Public-sector loans	6,556.6	6,790.1
Other claims	2,835.8	1,254.1
<b>Claims on customers</b>	<b>29,877.5</b>	<b>27,901.8</b>
Of which:		
Mortgage loans	19,044.3	18,037.1
Public-sector loans	10,680.1	9,753.2
Other claims	153.1	111.5
<b>Bonds and other fixed-income securities</b>	<b>14,580.7</b>	<b>9,569.1</b>
<b>Liabilities to banks</b>	<b>3,887.1</b>	<b>4,252.9</b>
Of which:		
Registered mortgage Pfandbriefe issued	1,296.8	1,327.7
Registered public-sector Pfandbriefe issued	1,285.6	1,355.0
<b>Liabilities to customers</b>	<b>11,241.8</b>	<b>10,810.4</b>
Of which:		
Registered mortgage Pfandbriefe issued	6,335.0	6,051.8
Registered public-sector Pfandbriefe issued	3,273.1	3,071.4
<b>Certificated liabilities</b>	<b>38,770.1</b>	<b>30,082.7</b>
Of which:		
Mortgage Pfandbriefe issued	9,577.5	7,195.4
Public-sector Pfandbriefe issued	25,340.7	19,274.9
Other bonds issued	3,851.9	3,612.4
<b>Profit-participation certificates</b>	<b>202.0</b>	<b>202.0</b>
<b>Capital and reserves</b> [without member's uncalled liabilities to capital]	<b>730.4</b>	<b>725.7</b>
Of which:		
Members' capital contributions	108.0	106.3
Silent participations	261.2	261.2
Reserves	361.2	358.2
<b>Balance-sheet total</b>	<b>55,803.1</b>	<b>46,673.7</b>

## FIGURES FROM THE PROFIT AND LOSS ACCOUNT

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

	2000	1999
Interest income from	2,893.5	2,215.3
Interest expense	2,734.1	2,074.0
Current income from	0.7	3.7
Net interest income	160.1	145.0
Net commission income	-13.8	-20.2
<b>Net interest income and commission income</b>	<b>146.3</b>	<b>124.8</b>
General administrative expenses		
a) Personnel expenses	35.5	32.9
b) Other administrative expenses	30.5	21.3
Amortization and depreciation of intangible and tangible assets	3.8	4.5
<b>Administrative expense</b>	<b>69.8</b>	<b>58.7</b>
Other operating expenses	0.4	-0.5
Net provision for risks	-13.5	-6.8
<b>Operating result</b>	<b>63.4</b>	<b>58.8</b>

NEW BUSINESS

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

	2000	1999
<b>Loan commitments</b>	<b>9,042.6</b>	<b>10,101.5</b>
Of which:		
Mortgage loan commitments	1,727.9	3,117.0
Of which:		
Residential property lending	1,163.6	2,718.4
Commercial property lending and other loan commitments	564.3	398.6
Public-sector business	7,314.7	6,984.5
<b>Mortgage loan disbursements</b>	<b>8,709.2</b>	<b>8,912.5</b>
Of which:		
Mortgage loans	1,863.3	2,573.8
Public-sector business	6,845.9	6,338.6
<b>Renewals</b>	<b>475.4</b>	<b>695.7</b>
<b>Gross sales of bonds</b>	<b>13,468.9</b>	<b>9,342.4</b>

EMPLOYMENT FIGURES

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

	2000	1999
<b>Average no of employees</b>	<b>392</b>	<b>372</b>
Of which:		
Part-timers	33	36
Trainees	22	16

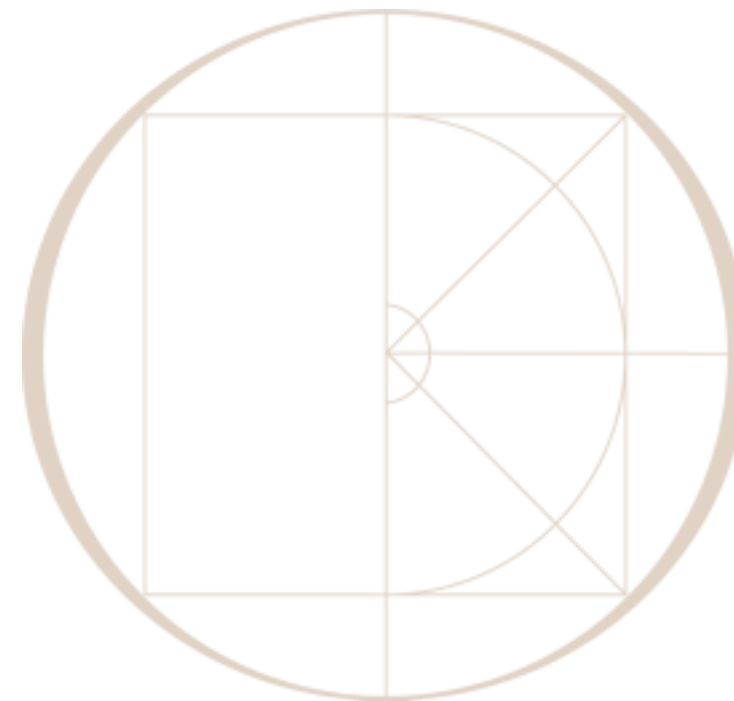
**Board of management**

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

