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Figures from the balance sheet  
Figures from the income statement  
New business  
Employment figures



# Dear shareholders and business associates,

The recovery of the German economy further strengthened during the third quarter and was increasingly driven by rising domestic demand in addition to the unchanged robust growth of exports. Investments made in new construction projects, a key driver of our business, also rose noticeably as they once again became a growth factor. Currently it is uncertain if this increase is sustainable or if it was due to follow-up effects stemming from the termination of state subsidies for private home building.

Most of the special effects have already worked their way through the issuance of new building permits, which were still about 20 percent higher than the same year-ago during the first four months of the year. During the period May-August the increase in new permits issued had slowed down to about 4 percent. However, the number of building permits issued during the first eight months of the year was still about 13 percent higher than the comparable year-ago figure.

The volume of mortgages in Germany showed little change between the first and second quarters of the year. Quarterly growth in new mortgage commitments declined on a year-to-year basis from 5.6 percent at the end of the first quarter to 4.1 percent at the end of the second.

## MHB remains on successful course

MünchenerHypotheckenbank's new business results continued to expand in the third quarter. We are continuing to implement our "MHB 2008" strategic plan, and its positive effects are visible in both our new business figures as well as our latest income statement.

## Moody's affirms MHB's good rating

At the beginning of September Moody's affirmed its Aa3 rating for MünchenerHypotheckenbank's long-term debt. This rating is key to the Bank's strong standing in the capital markets. The Bank's Aaa rating for its covered Pfandbriefe remained unchanged. Moody's raised its overall outlook for all of the Bank's ratings to "stable". This reflects Moody's opinion of the Bank's well defined business model as well as our significantly improved efficiency and profitability.

Moody's downgraded the Bank's financial strength rating ("FSR") to C+ from B-. The downgrade of MünchenerHyp's FSR is based on Moody's view that although the Bank's economic capital base is satisfactory and its financial fundamentals are stable and sound, the new FSR level of C+ nevertheless better reflects the Bank's position in international comparison to similarly rated banks.

MünchenerHypotheckenbank's latest ratings are excellent in comparison with the rest of the mortgage bank sector. The ratings also strengthen MünchenerHypotheckenbank's leading role as an independent and reputable issuer within the cooperative FinanzVerbund (financial association of the Volksbanken and Raiffeisenbanken).

## New mortgage business develops favourably

Despite the basically unchanged market volume, we were once again able to increase our new business performance. At the end of the third quarter our mortgage commitments amounted to 1,669 million euros, or 239 million euros (+17 percent) over the figure for the same year-ago. The volume of our new mortgage commitments made in the residential housing sector during the third quarter was not as dynamic as the figure we posted during the first half of the year. The reason for this was the fact that during the first half we benefited from the follow-up effects stemming from the termination of state subsidies for private home building. Nevertheless, new commitments made during the first nine months surpassed the results posted during the same year-ago period by 951 million euros, or about 4 percent. Our increased share of market was partially driven by our new product platform "HypoLine Home Classic" and sales campaigns we ran jointly with numerous Volksbanken and Raiffeisenbanken.

The commercial property segment was the main driver behind the double-digit increase in our new mortgage commitments. Here we increased our volume of new business over the same year-ago period by 206 million euros (+40 percent) to 718 million euros.

Commitments made to public sector borrowers amounted to 1.8 billion euros, or marginally higher than in the comparable period of 2005.

## Refinancing business expanded further

During the first nine months we floated approximately 6.1 billion euros worth of paper for refinancing purposes, or about 1.5 billion euros more than in the same year-ago period. After deduction of return flows, net sales amounted to 730 million euros.

We successfully placed a 1.5 billion euro 3-year Jumbo Public Pfandbrief in September. Due to heavy demand the order books were closed after just two hours in the face of 5.5 billion euros worth of orders. Market observers commented that this issue was one of the best Jumbo transactions ever.

## Total assets and paid up capital rise

Total assets rose to 35.4 billion euros (+3.9 percent) during the first nine months of the year, while total paid-in capital climbed by 2.6 million euros to 124.2 million euros. Due to the maturity of undisclosed holdings carried as chargeable equity capital, our liable equity capital declined by approximately 28 million euros to 957 million euros.

## Earnings show stable development

Within the income statement net interest income rose by 6.2 percent (4.7 million euros)

# FIGURES FROM THE BALANCE SHEET

in € million	30 Sept. 06	31 Dec. 05
<b>Claims on banks</b>	<b>7,927.2</b>	<b>6,910.1</b>
Of which:		
Mortgage loans	222.9	265.1
Public-sector loans	3,402.1	4,156.1
Other claims	4,302.2	2,488.9
<b>Claims on customers</b>	<b>18,999.3</b>	<b>19,021.4</b>
Of which:		
Mortgage loans	11,627.7	11,510.7
Public-sector loans	7,357.3	7,504.5
Other claims	14.3	6.2
<b>Bonds and other fixed-income securities</b>	<b>7,763.1</b>	<b>7,395.6</b>
<b>Liabilities to banks</b>	<b>2,568.2</b>	<b>2,389.6</b>
Of which:		
Registered mortgage Pfandbriefe issued	999.5	772.4
Registered public-sector Pfandbriefe issued	269.2	312.2
<b>Liabilities to customers</b>	<b>7,998.2</b>	<b>7,779.1</b>
Of which:		
Registered mortgage Pfandbriefe issued	2,697.3	2,316.5
Registered public-sector Pfandbriefe issued	4,578.6	4,719.0
<b>Certificated liabilities</b>	<b>23,761.2</b>	<b>22,801.1</b>
Of which:		
Mortgage Pfandbriefe issued	7,111.3	7,325.0
Public-sector Pfandbriefe issued	12,949.0	11,780.9
Other bonds issued	3,700.9	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 (without member's uncalled liabilities to capital)</b>	<b>630.9</b>	<b>658.9</b>
Of which:		
Members' capital contributions	124.2	121.6
Silent participations	242.9	273.5
Reserves	263.8	263.8
<b>Balance-sheet total</b>	<b>35,351.0</b>	<b>34,014.8</b>

# FIGURES FROM THE INCOME STATEMENT

In € million ... For period January 1st to September 30th	2006	2005
Interest income	1,177.3	1,153.1
Interest expense	1,112.5	1,085.8
Current income	15.5	8.3
<b>Net interest income</b>	<b>80.3</b>	<b>75.6</b>
Net commission income	-9.3	-1.6
<b>Net interest income and commission income</b>	<b>71.0</b>	<b>74.0</b>
Personnel expenses	19.5	19.5
Other administrative expenses including amortization and depreciation of intangible and tangible assets	17.1	20.3
<b>Administrative expenses</b>	<b>36.6</b>	<b>39.8</b>
Other operating expenses   income	0.6	0.4
Net provision for risks	-26.3	-13.4
Valuation results of financial assets	10.5	-2.8
<b>Operating result</b>	<b>19.2</b>	<b>18.4</b>

# NEW BUSINESS

In € million ... For period January 1st to September 30th	2006	2005
<b>Loan commitments</b>	<b>3,463.0</b>	<b>3,155.2</b>
Of which:		
Mortgage loan commitments	1,668.5	1,429.4
Of which:		
Residential property lending	950.8	917.2
Commercial property lending and other loan commitments	717.7	512.2
Public-sector business	1,794.5	1,725.8
<b>Mortgage loan disbursements</b>	<b>2,801.7</b>	<b>2,788.8</b>
Of which:		
Mortgage loans	1,007.3	1,060.3
Public-sector business	1,794.4	1,728.5
<b>Gross sales of bonds</b>	<b>6,060.9</b>	<b>4,557.0</b>

# EMPLOYMENT FIGURES

For period January 1st to September 30th	2006	2005
<b>Average number of employees</b>	<b>344</b>	<b>375</b>
Of which:		
Part-time employees	48	50
Apprenticed trainees	13	22

## 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

to 80.3 million euros. Net interest income less commissions paid was 71 million euros, or 3 million euros (4.1 percent) less than in the same year-ago period. The decline shown was due to a change in the presentation of commission expenses in the balance sheet.

## Costs are under control

We were once again able to significantly lower our administrative expenses. We anticipate that total costs will decline by about 2 million euros in 2006. In comparison with the same year-ago figure, the stronger decline noted on September 30th was mainly due to special factors in 2005. Personnel expenses remained at last year's level of 19.5 million euros despite the increased qualifications of new employees and rising salaries.

## Risk exposure remains low

Our exposure to risk has stabilised at a low level. We anticipate that our net allocations to individual adjustments to value will remain close to last year's figure and amount to approximately 16 million euros.

## Results from operations improve modestly

Results from operations before making provisions for risk improved to 35 million euros from 34.6 million euros recorded during the same year-ago period.

After making provisions for risk our results from operations totalled 19.2 million euros, or 0.8 million euros (+4.4 percent) more than the amount posted in the same period last year.

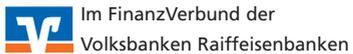
## Outlook

The German economy will grow by about 2.3 percent in 2006. We anticipate that production will continue to expand at an unchanged pace during the fourth quarter of the year. We also believe that private households will bring forward their major purchases to the last weeks of 2006 to avoid paying the three percentage point increase in the value added tax that will take effect January 1, 2007. Business research firms predict that the bring-forward effect in the private housing sector will amount to about 500 million euros. This will also give a boost to the mortgage market.

We are confident that our highly competitive products, our good sales concept, above average service, as well as our fast and safe handling of loans will enable us to book a significant share of this business.

This is why we are convinced that 2006 will see a continuation of the good performance we posted last year, and that we will exceed it by the end of the year.

Munich, October 2006  
The Board of Management



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