

INTERIM REPORT
SEPTEMBER 30th 2007 >>



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DEAR SHAREHOLDERS AND BUSINESS ASSOCIATES,

The financial crisis that originated in the American subprime mortgage market has reached the European banking market. Just like in the USA, the crisis of confidence was set in motion when a few European banks found themselves in a precarious position. Banks have hesitated to lend money to each other and have kept surplus funds in their vaults and out of the marketplace. Despite the fact that the European Central Bank (ECB) repeatedly provided additional liquidity to European banks, the overnight and three month interest rates rose notably and remained over the ECB's key interest rate of 4 percent.

So far the real economy has not been affected by the financial crisis and higher interest rates, and the German economy was also extremely robust in the third quarter.

However, the construction industry was only able to profit marginally from the economic situation. Although incoming orders in the commercial construction sector rose by over 17 percent by the end of July 2007, overall revenues only grew moderately. This was primarily due to construction in the residential housing segment of the market: between January and August building permits were issued for a total of 120,300 housing units – one third less than in the same year-ago period. It is likely that the end of state subsidies for home building was the main reason for the significant decline.

Following weak demand for residential housing loans in the first quarter the situation in Germany stabilised in the second quarter. Nevertheless, by the end of August total new business volume for residential housing loans was about 3 percent lower than the comparable level seen in the previous year. Furthermore, total residential housing loans outstanding fell by 0.7 percent by the end of the first half of the year.

NEW BUSINESS GROWS AT FAST PACE

Despite the sluggish construction industry we were able to significantly expand our new business results once again in the third quarter. As of September 30th we had made commitments for mortgage loans and other property finance loans totalling € 2,895.8 mil-

lion, of which € 710.4 million stems from a purchased portfolio of residential housing loans.

This represents an increase of 90.6 percent over to the same year-ago period, or a gain of € 1,376.3 million. Excluding the portfolio we acquired, our new business grew by 43.8 percent or € 665.9 million.

Our two main areas of business, residential housing loans and commercial property finance, provide us with two strong and stable income pillars: our private residential housing lending business rose by 32.2 percent to € 1,095.5 million, while our commercial property finance business surged by 57.8 percent to € 1,089.9 million.

The favourable developments we achieved in new private residential housing loans were driven by a high demand for forward financing. However, demand for forward financing has weakened a bit due to the current interest rate situation. Our ongoing high volume of new business enabled us to compensate for this.

Despite the unchanged high level of competitive pressure we were once again able to expand our share of market. This is ultimately proof of the unusually successful combination of the very competent advisory services provided by the Volksbanken and Raiffeisenbanken, and MünchenerHyp's product and service expertise.

Our commercial property finance business grew by 64.7 percent and was primarily driven by our business activities outside of Germany, where the USA was once again the dominant market. Working from a solid market position, we primarily participate in financing office property – without changing our conservative risk strategy. We concentrate mainly on senior secured financing deals. We are not engaged in the subprime sector of the market. This is why our portfolio does not contain any investments in this market segment.

Commitments made to public sector borrowers totalled € 1,301.8 million (- 27.5 percent).

LIQUIDITY REMAINS AT HIGH AND SUFFICIENT LEVELS

The poorer refinancing possibilities caused by the current crisis of confidence in the financial markets have not affected MünchenerHyp. Our pool of coverage has excess coverage that provides us with a comfortable and adequate level of liquidity. We have no liquidity requirements to meet prior to mid-2008. For this reason, there was no need to float large volume issues in the third quarter.

TOTAL ASSETS AND MORTGAGE PORTFOLIO EXPAND

As of September 30th, our total assets – including the purchased loan portfolio – rose by 2.9 percent to € 32.8 billion.

Our inventory of mortgages and other construction finance loans again expanded by € 1.2 billion to € 13.4 billion. The increase stems in part from the newly acquired loan portfolio as well as our successful new business results, which enabled us to increase our inventory of mortgages during the third quarter at a faster pace than in the previous years.

Members' capital contributions grew by € 1.7 million to € 126.5 million.

EARNINGS DEVELOP FAVOURABLY

Net interest income rose further in the third quarter. In comparison to the same year-ago period, it increased by € 12.2 million (+ 15.2 percent) to € 92.5 million. Due to our successful gains in new business, commission expenses doubled in comparison to the same year-ago period. Total net interest income less commissions rose by € 3.0 million (+ 4.2 percent) to € 74.0 million.

COSTS REMAIN STABLE

Our costs developed as planned. Total administrative expenses remained almost unchanged and amounted to € 37.0 million (+ € 0.4 million). Personnel expenses were slightly higher than in the same year-ago period because of new hires and increased salaries. The remaining administrative expenses also remained con-

stant. We are convinced that we will be able to stay within the € 50 million limit we set ourselves for this year's administrative costs.

RESULTS FROM BUSINESS OPERATIONS IMPROVE AS PLANNED – FAVOURABLE RISK SITUATION

Results from business operations before provisions for risk totalled € 35.7 million and were slightly higher than the € 35.0 million posted in the same year-ago period. The risk situation remained stable at a low level. We anticipate that our net allocations to individual adjustments to value for the entire year will amount to approximately € 14 million, or the same level as in 2006. After making provisions for risk, our results from operations increased as planned to € 22.5 million (+ 17.2 percent).

STABLE RATINGS

In mid-October Moody's, a rating agency, reaffirmed their Aa3 rating for our long-term unsecured liabilities, as well as their C+ rating for MünchenerHyp's financial strength. The rating for the Bank's secured Pfandbriefe remained unchanged at Aaa. The outlook for all ratings remained set at stable.

MERGER TALKS WITH DG HYP END

At the end of September, the boards of management of the Münchener Hypothekbank and DG HYP mutually agreed to end their merger negotiations. Following an in-depth examination of the situation, no agreement could be reached regarding key aspects of the merger.

Münchener Hypothekbank will continue to strategically develop its business model in collaboration with the Volksbanken and Raiffeisenbanken, and also further improve its range of offers and services. These efforts will enable us to reinforce and further expand our position as the leading provider of financing for private property within the cooperative financial services network (FinanzVerbund).

We will continue to expand our commercial property lending business at the national and international levels.

OUTLOOK

The cooling of the global economy, higher interest rates, the rising euro and the soaring price of oil combined to chill the business climate in the autumn. Although these factors caused Germany's economy to slow its pace of growth, it is still healthy enough to avoid a complete stop. This is the view held by the majority of economic experts who also see stable economic growth for the remainder of the year.

The construction industry will only be able to continue its modest rate of growth during the last quarter of the year. Even though the residential housing sector continues to contract, the overall market volume for residential housing loans should rise to the comparable level seen in the previous year by the end of this year.

Despite the overall difficult conditions in our markets, we are confident that by the end of the year we will not only have achieved our new business targets, we will have surpassed them. We anticipate that our two main business areas will continue to grow at equally fast rate in the fourth quarter.

Munich, October 2007
Board of Management



FROM THE BALANCE SHEET

in million €	Sept 30, 2007	Dec 31, 2006
Claims on banks	4,897.3	4,934.8
Of which:		
Mortgage loans	169.0	210.7
Public-sector loans	3,039.2	3,233.0
Other claims	1,689.1	1,491.1
Claims on customers	19,889.3	19,256.7
Of which:		
Mortgage loans	13,030.4	11,828.4
Public-sector loans	6,670.2	7,308.6
Other claims	188.7	119.7
Bonds and other fixed-income securities	7,349.9	6,996.4
Liabilities to banks	2,821.1	2,686.1
Of which:		
Registered mortgage Pfandbrief issued	751.2	946.7
Registered public-sector Pfandbrief issued	285.5	196.6
Liabilities to clients	7,995.0	8,167.7
Of which:		
Registered mortgage Pfandbrief issued	2,878.1	2,811.6
Registered public-sector Pfandbrief issued	4,329.0	4,623.4
Certified liabilities	21,070.8	20,027.7
Of which:		
Mortgage Pfandbrief issued	6,692.2	6,676.9
Public-sector Pfandbrief issued	9,933.1	9,876.9
Other bonds issued	4,445.5	3,473.9
Subordinated liabilities	66.3	66.3
Profit participation certificates	57.3	91.0
Capital and reserves (excl. addition to member's uncalled liability)	637.9	636.0
Of which:		
Members' capital contributions	126.5	124.8
Silent participations	243.1	242.9
Reserves	268.3	268.3
Balance-sheet total	32,843.5	31,932.5

FIGURES FROM THE PROFIT AND LOSS ACCOUNT

in million € ... for period January 1st to September 30th	2007	2006
Interest income	1,153.2	1,177.3
Interest expense	1,075.5	1,112.5
Current income	14.8	15.5
Net interest income	92.5	80.3
Net commission income	-18.5	-9.3
Net interest income and commission income	74.0	71.0
Personnel expenses	20.0	19.5
Other administrative expenses including amortisation and depreciation of intangible and tangible assets	17.0	17.1
Administrative expenses	37.0	36.6
Other operating expenses/income	-1.3	0.6
Net Provisions for risk	-12.4	-26.3
Valuation results of financial investments	-0.8	10.5
Operating result	22.5	19.2

NEW BUSINESS

in million € ... for period January 1st to September 30th	2007	2006
Loan commitments	4,197.6	3,314.0
Of which:		
Mortgage commitments	2,787.5	1,519.5
Of which:		
Residential property loans	1,095.5	828.9
Commercial property loans	981.6	690.6
Acquisition of a loan portfolio	710.4	-
Other construction loans	108.3	-
Public-sector business	1,301.8	1,794.5
Mortgage loan disbursements	3,656.0	2,801.7
Of which:		
Mortgage loans	2,265.6	1,007.3
Other construction loans	83.6	-
Public-sector business	1,306.8	1,794.4
Gross sales of bonds	4,761.3	6,060.9

EMPLOYMENT FIGURES

for period January 1st to September 30th	2007	2006
Average number of employees	346	344
Of which:		
Part-time employees	51	48
Trainees	8	13

Supervisory Board

Prof. Dr. Willibald J. Folz (Chairman), S.K.H. Herzog Max in Bayern (Deputy Chairman), Dr. Hans-Ludwig Bungert, Joachim Herrmann (until October 17, 2007), Heinz Hilgert (until October 4, 2007), Konrad Irtel, Michael Jung, Wilfried Mocken, Hans Pfeifer, Hans-Joachim Tonnellier

Board of Management

Erich Rödel (Chairman), Dr. Bernhard Scholz, Klaus Sturm



Im FinanzVerbund der
Volksbanken Raiffeisenbanken

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