

MOODY'S

RATINGS

Rating Action: Moody's Ratings upgrades Muenchener Hypothekbank eG's long-term deposit and senior unsecured ratings to Aa2, stable outlook

31 May 2024

Frankfurt am Main, May 31, 2024 -- Moody's Ratings (Moody's) has today upgraded Muenchener Hypothekbank eG's (Muenchener Hyp) long-term deposit, issuer, and senior unsecured ratings to Aa2 from Aa3, the outlook on these ratings remains stable. The rating agency has also upgraded the bank's long-term Counterparty Risk Ratings (CRR) to Aa2 from Aa3, the senior unsecured MTN programme ratings to (P)Aa2 from (P)Aa3, the junior senior unsecured ratings to A1 from A2, the junior senior unsecured MTN programme ratings to (P)A1 from (P)A2, the subordinate ratings to Baa1 from Baa2 and the bank's preferred stock non-cumulative rating to Baa3(hyb) from Ba1(hyb).

Concurrently Moody's affirmed the bank's P-1 short-term CRRs, deposit and issuer ratings, its P-1 Commercial Paper rating and its (P)P-1 Other Short Term rating.

In addition, Moody's affirmed Muenchener Hyp's Baseline Credit Assessment (BCA) at ba1, upgraded its Adjusted BCA to a3 from baa1, upgraded the long-term Counterparty Risk Assessment (CR Assessment) to Aa2(cr) from Aa3(cr), and affirmed the short-term CR Assessment at P-1(cr).

RATINGS RATIONALE

AFFIRMATION OF THE BCA

The affirmation of the ba1 BCA reflects Muenchener Hyp's solid asset quality, despite headwinds in commercial real estate (CRE) finance, its balanced capitalisation with a strong risk-weighted capitalization but some leverage ratio weakness, as well as its improved profitability and unchanged satisfactory funding profile, where a very high market funding dependence is mitigated by the bank's well-established access to member banks of the German cooperative banking sector and its customers as investors in its issued securities. The BCA further reflects the bank's extremely focused business model as a cooperative real estate lending specialist, which

exposes the bank to considerable concentration risks and results in a lack of business diversification.

UPGRADE OF THE ADJUSTED BCA

The upgrade of the bank's Adjusted BCA to a3 from baa1 reflects the very high probability of expected cross-sector support from Genossenschaftliche FinanzGruppe (G-Finanzgruppe) in case of need, which now results in four notches of rating uplift from affiliate support. Previously, the bank received three notches of rating uplift. G-Finanzgruppe's member banks operate a regulated and supervised institutional protection scheme.

In its assessment Moody's considers Muenchener Hyp value proposition for the sector, serving as a center of competence for residential real estate and its close ties to member banks, also given it is majority-owned by the sector's primary banks. Further, Moody's has considered the resulting Adjusted BCA to that of other core member banks and concluded it was appropriate to better align these, despite Muenchener Hyp's weaker BCA, also taking into account a clear track record of sector support provided in the past and the potential economic costs for the sector of a no-support situation.

UPGRADE OF THE LONG-TERM RATINGS

The upgrade of the long-term ratings follows the upgrade of the bank's Adjusted BCA and incorporates unchanged results from Moody's Advanced Loss Given Failure (LGF) analysis and unchanged assumptions for government support.

The LGF analysis continues to yield three notches of rating uplift for the CRR, the CR Assessment, deposits, and senior unsecured debt, and two notches of rating uplift for junior senior unsecured liabilities. Because subordinated debts and the deeply subordinated Additional Tier 1 (AT1) notes do not benefit from protection beyond equity and face a high loss severity, they are rated one notch and three notches, respectively, below the Adjusted BCA.

The unchanged moderate government support assumption for liabilities ranking above junior senior unsecured debt and the resulting one notch of rating uplift reflects the Muenchener Hyp's membership in G-Finanzgruppe, which Moody's considers as a whole a systemic group within the German banking system.

OUTLOOK

The stable outlook on the long-term deposit, issuer and senior unsecured ratings reflects Moody's expectation that G-Finanzgruppe's financial profile remains highly resilient despite Germany's weak economic outlook and that Muenchener Hyp's intrinsic strength and liability structure will remain broadly stable over the next 12-18 months.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Muenchener Hyp's long-term ratings could be upgraded following an improvement in the cooperative sector's financial strength, or an upgrade of Muenchener Hyp's BCA. Also, Muenchener Hyp's junior senior unsecured debt instruments could receive additional rating uplift from our Advanced LGF analysis if the bank massively increases the volume of its capital instruments (subordinated debt and AT1), translating into a lower loss severity for this debt class.

Muenchener Hyp's BCA could be upgraded as a result of a combined improvement in the bank's solvency and liquidity metrics. However, an upgrade of the BCA could be offset by a reduction in the rating uplift from affiliate support.

Muenchener Hyp's ratings could be downgraded following a downgrade of the Adjusted BCA, in case the cooperative sector's financial strength deteriorates or in case of developments that indicate a reduced likelihood of support from G-Finanzgruppe. Additionally, the ratings could be downgraded if the outcome of the Advanced LGF analysis would result in a higher loss severity for Muenchener Hyp's respective debt classes.

Muenchener Hyp's BCA could be downgraded as a result of deterioration in the bank's asset quality or a decline in its capital buffers or as a result of a further increase in its dependence on market funding or a decline in its liquidity buffer.

A downgrade of Muenchener Hyp's BCA could be offset by higher affiliate support uplift.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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