

**Rating Action: Moody's affirms Muenchener Hypothekenbank eG's Aa3 long-term senior unsecured debt and deposit ratings**

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01 Oct 2021

**Outlook changed to stable from negative**

Frankfurt am Main, October 01, 2021 -- Moody's Investors Service (Moody's) has today affirmed Muenchener Hypothekenbank eG's (Muenchener Hyp) Aa3 long-term senior unsecured debt, issuer, and deposit ratings and changed the outlook to stable from negative. Concurrently, the rating agency affirmed Muenchener Hyp's ba1 Baseline Credit Assessment (BCA) and a baa1 Adjusted BCA.

Further, Moody's affirmed Muenchener Hyp's P-1 short-term deposit and commercial paper ratings, its (P)P-1 short-term program ratings, its A2 junior senior unsecured debt ratings, as well as the bank's Aa3(cr)/P-1(cr) Counterparty Risk Assessments.

The rating actions was triggered by a downward revision of Moody's assessment of the financial strength of Germany's cooperative banking sector, Genossenschaftliche FinanzGruppe (G-Finanzgruppe), which, despite the reassessment, remains among the strongest universal banking group's globally.

For a list of all affected ratings, please refer to the end of this press release.

**RATINGS RATIONALE**

**AFFIRMATION OF THE BCA**

The affirmation of Muenchener Hyp's ba1 BCA reflects the bank's overall resilience of its solvency despite an adverse economic environment caused by the pandemic and the ongoing low interest rate environment, as well as the rating agency's assessment that the bank can continue to defend its high asset quality and satisfying capital buffers despite its weak profitability. The weak leverage ratio and significant dependence on market funding, though mitigated by Muenchener Hyp's access to the ample surplus liquidity in the German cooperative banking sector, continue to constrain the bank's financial profile. The bank's ba1 BCA is additionally constrained by the bank's monoline business model as a real estate lending specialist, exposing the bank to considerable concentration risks, arising particularly from its commercial real estate portfolio.

**AFFIRMATION OF THE ADJUSTED BCA**

Despite the downward revision of Moody's assessment of the financial strength of Germany's cooperative banking sector, G-Finanzgruppe, the rating agency affirmed Muenchener Hyp's Adjusted BCA at baa1. While the lowered creditworthiness of G-Finanzgruppe reduces the capacity to provide support to its member banks, in the case of Muenchener Hyp the rating agency concluded that under its joint-default analysis it would nevertheless be strong enough to be commensurate with an unchanged rating uplift of three notches.

**AFFIRMATION OF LONG-TERM RATINGS**

The affirmation of the Aa3 long-term senior unsecured debt, issuer and deposit ratings reflects the affirmation of the bank's ba1 BCA; unchanged rating uplift from affiliate support which Muenchener Hyp receives from G-Finanzgruppe; unchanged rating uplift from Moody's Advanced LGF analysis; and the unchanged one notch of uplift for the bank's senior unsecured debt and deposit ratings from Moody's assumption of moderate government support, given Muenchener Hyp's membership in systemically relevant G-Finanzgruppe.

**CHANGE IN OUTLOOK TO STABLE FROM NEGATIVE**

The change in outlook of Muenchener Hyp's long-term senior unsecured debt, issuer and deposit ratings to stable from negative reflects Moody's expectation that the bank's financial profile and its liability structure will remain broadly stable over the 12 to 18 months outlook horizon.

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

An upgrade of Muenchener Hyp's ratings could be triggered by an upgrade of the bank's BCA. Additional rating uplift from Moody's Advanced LGF analysis could occur for junior senior unsecured debt instruments, if the bank massively increases volumes of capital instruments (subordinated debt and Additional Tier 1) so that it translates into a lower loss severity for this debt class.

An upgrade of Muenchener Hyp's BCA could be prompted by a significant improvement in the leverage ratio on a sustained basis, combined with a substantial increase in profitability without compromising on credit quality; and a greater diversification of funding tools.

A downgrade of Muenchener Hyp's ratings could arise from a downgrade of its BCA. The bank's ratings could also be downgraded in case of changes in the bank's liability structure, which could result in fewer notches of rating uplift from our Advanced LGF analysis.

Muenchener Hyp's BCA could be downgraded as a result of a deterioration in asset quality, a decline in risk-weighted capital buffers, further weakening of profitability, a further increase in its dependence on market funding or a decline in liquidity buffer.

#### LIST OF AFFECTED RATINGS

Issuer: Muenchener Hypothekbank eG

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Aa3

....Short-term Counterparty Risk Ratings, affirmed P-1

....Long-term Bank Deposits, affirmed Aa3, outlook changed to Stable from Negative

....Short-term Bank Deposits, affirmed P-1

....Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-1(cr)

....Long-term Issuer Ratings, affirmed Aa3, outlook changed to Stable from Negative

....Short-term Issuer Ratings, affirmed P-1

....Baseline Credit Assessment, affirmed ba1

....Adjusted Baseline Credit Assessment, affirmed baa1

....Senior Unsecured Regular Bond/Debenture, affirmed Aa3, outlook changed to Stable from Negative

....Senior Unsecured Medium-Term Note Program, affirmed (P)Aa3

....Junior Senior Unsecured Regular Bond/Debenture, affirmed A2

....Junior Senior Unsecured Medium-Term Note Program, affirmed (P)A2

....Preferred Stock Non-cumulative, affirmed Ba1(hyb)

....Commercial Paper, affirmed P-1

....Other Short Term, affirmed (P)P-1

..Outlook Action:

....Outlook changed to Stable from Negative

#### PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1269625](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1269625). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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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 at: [https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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