

ISSUER COMMENT

Muenchener Hypothekbank's Larger-than-Expected Capital Raise Is Credit Positive

From [Credit Outlook](#)

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Last Tuesday, [Muenchener Hypothekbank eG](#) (MueHyp, A2 stable, D/ba2 stable¹) announced that it had increased its core Tier 1 capital by €400 million, or 84%, over December 2013 levels. The larger-than-expected increase, which exceeds the bank's initial target of raising €240 million of additional capital, is credit positive.

As a result of the capital raise, MueHyp increased its core Tier 1 capital ratio to 11.1% as of 30 June from 6.3% at year-end 2013 (both ratios are Basel III-based). Its reported total capital ratio was 18.2%, according to our estimates, up from 15.0%. These figures position the bank well to comply with any additional capital requirements that arise as a result of the publication of results of the European Central Bank's asset quality review and stress test, which we expect in October.

MueHyp's capital increase further underscores the commitment of the primary cooperative banks, which are key business partners for the bank. Of the €400 million in additional member capital, €370 million came from entities affiliated with Germany's Federal Association of German Co-operative Banks (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken, unrated).

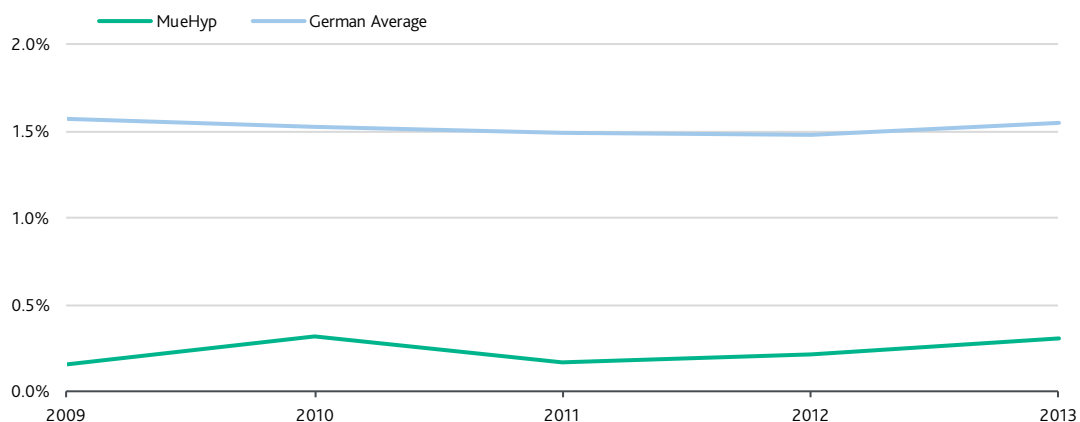
MueHyp's cooperation with the primary cooperative banks is a symbiotic one, because MueHyp benefits from the cooperative banks' broad domestic distribution in exchange for attractive origination fees paid by MueHyp. However, these high fees constrain MueHyp's earnings, leading to a substantially lower profitability compared with its German peers (Exhibit 1).

What is Moody's Credit Outlook?

Published every Monday and Thursday morning, Moody's [Credit Outlook](#) informs our research clients of the credit implications of current events.

¹ The bank ratings shown in this report are MueHyp's deposit rating, its standalone bank financial strength rating/baseline credit assessment and the corresponding rating outlooks.

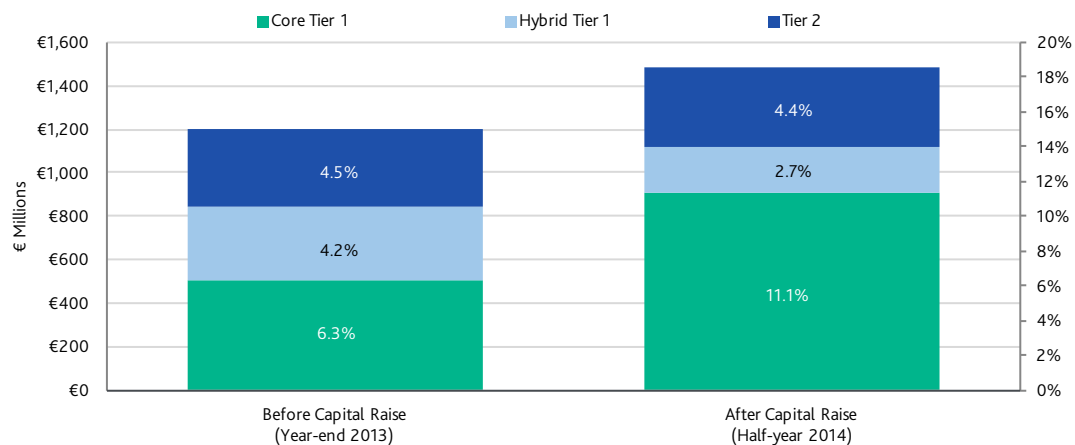
EXHIBIT 1

MueHyp's Ratio of Pre-Provision Income to Average Risk-Weighted Assets Is Weaker than Its Peers'

Source: Moody's Banking Financial Metrics

To a small extent, the member capital increase was accompanied by redemptions of silent participations held by the subscribing members. To improve its capital efficiency further, we expect MueHyp to reduce more costly lower quality capital components that gradually lose recognition as core capital under the Basel III regulatory framework by partly replacing these with Basel III-eligible additional Tier 1 instruments. Redeeming hybrid Tier 1 capital, which, on average, carried a 7.9% coupon as of December 2013, will help to improve MueHyp's below-average earnings. We expect the bank's total capital ratio to gradually decline to 15% as the additional buffer generated over the past months falls (Exhibit 2).

EXHIBIT 2

MueHyp's Composition of Total Capital

Source: MueHyp and Moody's Investors Service estimates

This publication does not announce a credit rating action. For research publications that reference Credit Ratings, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated Credit Rating Action information and rating history.

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