

Rating Action: Muenchener Hypothekenbank eG

Moody's affirms Muenchener Hyp at Aa3; downgrades FSR to C+

Outlook changed to stable from negative

Frankfurt, August 29, 2006 -- Moody's Investors Service today affirmed the Aa3 long-term and Prime-1 short-term debt and deposit ratings of Muenchener Hypothekenbank eG ("Muenchener Hyp") and downgraded the bank's financial strength rating ("FSR") to C+ from B-. The outlook on all ratings has been changed to stable from negative.

The downgrade of Muenchener Hyp's FSR is based on Moody's view that the bank's financial fundamentals are stable and sound but are nevertheless better reflected by an FSR level of C+ relative to similarly rated banks. More specifically, the bank's fundamentals reflect its low risk profile, with good asset quality and efficiency but relatively low, albeit stable, risk-weighted profitability. The bank's economic capital base is satisfactory.

Moody's noted that Muenchener Hyp's C+ FSR is strongly supported by the bank's well-defined and stable business strategy as a residential mortgage lender and real estate financier in Germany. The business model is based on the bank's integrated position as a service provider within the German cooperative banking sector ("Finanzverbund"), which provides it with consistent access to the sector's large retail client base.

The FSR additionally takes into account the bank's improved risk awareness and risk management. Muenchener Hyp also intends to further strengthen its client relationships in the commercial real estate market -- which Moody's believes should help to diversify its revenue sources and enhance profitability.

The change in outlook to stable reflects Moody's expectation that Muenchener Hyp will maintain its low risk business profile and will make further progress in its efforts to strengthen efficiency and operating profitability.

Although Moody's downgraded the bank's FSR to reflect its limited business profile, the rating agency does not believe that this rating action signals an increased default risk -- hence the affirmation of the bank's debt and deposit ratings. Moody's noted that, given Muenchener Hyp's key role as a residential mortgage lender in Germany and a well-established issuer in the Pfandbrief market, it would likely benefit from external systemic support in the event that it required such support to avoid a default.

The following ratings were affirmed:

- Aa3 long-term debt and deposits
- Prime-1 short-term debt and deposits

The following rating was downgraded:

- Bank financial strength rating to C+ from B-.

The previous rating action was the change in outlook to negative in July 2004.

Muenchener Hypothekenbank eG is headquartered in Munich, Germany and had total assets of EUR34 billion as of end-December 2005.

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