

Rating Action: Bayerische Landesbank

Moody's reviews for downgrade BayernLB's Aa2/C- ratings

London, 02 December 2008 -- Moody's Investors Service today placed the Aa2 long-term debt and deposit ratings and the C- bank financial strength rating ("BFSR") of Bayerische Landesbank ("BayernLB") on review for possible downgrade.

Concurrently, the Aa3 ratings for BayernLB's upper Tier 2 Genussscheine and the A1 rating for the Tier 1 securities issued by BayernLB Capital Trust I were also placed on review for possible downgrade.

Moody's affirmed, with a stable outlook, BayernLB's Aaa rating for obligations qualifying for the grandfathering of "Anstaltslast" (a maintenance obligation) and "Gewehrtraegerhaftung" (a guarantee obligation), which were abolished in July 2005. The bank's Prime-1 short-term rating was also affirmed.

Moody's decision to place BayernLB's C- BFSR on review for possible downgrade was prompted by the bank's announcement that it requires a capital injection of EUR10 billion to strengthen its capital base, which it will receive from the Free State of Bavaria (rated Aaa), the bank's 50% owner. In addition, the bank is expected to benefit from a EUR4.8 billion risk shield for its structured credit products from the Free State of Bavaria and funding guarantees from SoFFin (the German financial market stabilisation fund) amounting to EUR15 billion.

The review process is expected to conclude in the next couple of weeks and will focus on:

- 1) The extent to which BayernLB's financial profile has been impaired by the developments of recent months. Moody's notes that the additional capital and the risk shield is mainly needed to compensate the multibillion-euro losses stemming from valuation adjustments and impairments on its securities portfolio, in particular with regard to structured credit products as well as its exposure to Icelandic banks and Lehman Brothers. The capital injection will also have the effect of increasing the Tier 1 ratio to 8%. The review will assess the extent to which the bank has become solely reliant on its shareholders and government support to remain financially viable, and the extent to which its intrinsic financial flexibility remains sufficient to provide a buffer against the cyclical imponderabilities of the next couple of years.
- 2) The expected impact on the bank's profitability in 2009 and beyond stemming from the significant and volatile capital markets activities as well as from the deteriorating operating environment in Central and Eastern Europe into which the bank had diversified in recent years, in conjunction with its exposure to cyclical industries, including commercial real estate and automotive.
- 3) The measures that the bank and its shareholders may take in order to restore financial flexibility and a viable franchise.

Moody's believes that, in view of the challenges BayernLB is facing in the above areas, the review of the bank's BFSR could result in a downgrade of more than one notch. The bank's Aa2 long-term debt and deposit ratings have also been placed on review for possible downgrade, reflecting both the pressure on the BFSR as well as the changing shareholder structure. The review will also examine the extent to which the probability of support from the savings bank, the Free State of Bavaria and systemic support -- which is a key driver of current ratings - may change as a result of any shareholder changes.

The review for possible downgrade of BayernLB's Aa3 rated upper Tier 2 Genussscheine and A1 rated Tier 1 securities issued by BayernLB Capital Trust I will assess the extent to which the possible downgrade of the BFSR would increase the risk of payment deferral or non-payment of interest or principal of these deeply subordinated instruments in case of potential losses at the bank, in line with Moody's standard notching guidelines.

Rating impact on BayernLB's subsidiaries:

- 1) Following the rating action on BayernLB, Moody's also placed on review for possible downgrade Landesbank Saar's Aa2 debt and deposit ratings while the D+ BSFR and the Prime-1 short-term rating were affirmed. Concurrently, SaarLB's Aa3 rating for the subordinated liabilities and the A1 rating for hybrid capital ("silent participations") were placed on review for possible downgrade.

2) The current rating action has no impact on the debt and deposit ratings of Hype Group Alpe Adria since these ratings are already on review for possible downgrade.

3) Finally, this press release does not cover the following subsidiaries: MKB Bank Rt (Hungary) and MKB Union Bank AD (Bulgaria) as these entities will be covered in a separate press release.

Moody's previous rating action on BayernLB was on 17 June 2008, when the outlook on the C- BFSR was changed to negative.

The principal methodologies used in rating BayernLB are "Bank Financial Strength Ratings: Global Methodology" and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", which can be found on www.moody's.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating BayernLB can also be found in the Credit Policy & Methodologies directory.

Based in Munich, Germany, BayernLB reported 2007 net income of EUR92 million and total assets of EUR415 billion.

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