

Rating Action: Moody's upgrades Bayerische Landesbank's senior unsecured ratings to A1, deposit ratings to Aa3; outlook stable

Global Credit Research - 13 Apr 2017

Baseline credit assessment upgraded to baa3, reflecting sustained improvements in BayernLB's credit fundamentals

Frankfurt am Main, April 13, 2017 -- Moody's Investors Service (Moody's) has today upgraded Bayerische Landesbank's (BayernLB) long-term deposit and senior senior unsecured debt ratings to Aa3 from A1, as well as its senior unsecured debt and issuer ratings to A1 from A2. The outlook on the long-term ratings is stable. At the same time, the rating agency upgraded BayernLB's baseline credit assessment (BCA) to baa3 from ba1, its adjusted BCA to baa1 from baa2, and its long-term Counterparty Risk Assessment (CR Assessment) to Aa3(cr) from A1(cr). The bank's short-term program and deposit ratings were affirmed at (P) P-1 and P-1, respectively, as well as its short-term CR Assessment at P-1(cr).

As part of today's rating action, Moody's also upgraded BayernLB's subordinated debt ratings to Baa2 from Baa3, its junior subordinated debt rating to Baa3(hyb) from Ba1(hyb), and the non-cumulative preferred stock rating of BayernLB Capital Trust I to Ba2(hyb) from Ba3(hyb).

The rating upgrade reflects the continued strengthening of the bank's financial fundamentals, in particular the improvement of its capitalization and asset quality, including Moody's assessment of lower tail risks in BayernLB's remaining non-core exposure. The stable outlook reflects Moody's expectation that BayernLB will be able to sustain its more solid credit metrics going forward.

BayernLB's Aaa rated guaranteed senior unsecured and subordinated debt obligations that qualify for 'grandfathering' under the public law guarantee ('Gewährträgerhaftung') of the Free State of Bavaria (Aaa stable) remain unaffected.

A full list of affected ratings and rating inputs can be found at the end of this press release.

RATINGS RATIONALE

-- UPGRADE OF BAYERNLB'S BASELINE CREDIT ASSESSMENT

The upgrade of the BCA to baa3 from ba1 follows the strengthening of BayernLB's key credit metrics and reflects the bank's: (1) improved asset quality and lowered tail risks from its remaining non-core exposures; and (2) improved capital, which also benefited from ample earnings retention in 2016. At the same time, BayernLB's BCA continues to reflect its low risk-adjusted profitability and highly wholesale-dependent funding profile.

At end-2016, BayernLB's reported problem loans as a percentage of its gross credit exposure declined to 1.6% from 2.4% in 2015. The reduction reflects the overall benign domestic credit environment and the continued wind-down of the bank's non-core exposure, including the write-off of BayernLB's remaining impaired claim against Heta Asset Resolution AG (Heta, Carinthian state-guaranteed senior unsecured debt rating Ca stable). Moody's further believes that the tail risks from BayernLB's remaining non-core exposure are limited.

The upgrade of BayernLB's standalone BCA is further supported by the increase in its fully loaded Common Equity Tier 1 (CET1) capital ratio, which excludes the bank's remaining EUR1.0 billion of state aid it received from the Free State of Bavaria, to 13.2% at end-2016 from 12.0% in 2015. The improvement reflects the lowering of BayernLB's risk-weighted assets, which declined to EUR65.2 billion from EUR69.6 billion over the same time, and ample earnings retention. Excluding minorities, BayernLB reported net income of EUR545 million in 2016 compared with EUR495 million in 2015, benefiting from a reduction of credit provisions that declined to EUR87 million from EUR264 million.

However, BayernLB's BCA remains constrained by its highly wholesale-dependent funding profile and low risk-adjusted profitability. Moody's believes that BayernLB continues to face challenges to its profitability because of the bank's high dependence on interest income, which is under pressure from persistent low interest rates,

as well as general cost inflation pressure.

-- UPGRADE OF LONG-TERM RATINGS

The upgrade of BayernLB's long-term ratings by one notch follows the one-notch upgrade of the bank's BCA. BayernLB's long-term ratings reflect: (1) its standalone baa3 BCA and baa1 Adjusted BCA, incorporating Moody's unchanged assessment of a high probability of BayernLB receiving affiliate support from Sparkassen-Finanzgruppe (S-Finanzgruppe, Corporate Family Rating Aa2 stable, BCA a2), which continues to result in two notches of rating uplift; (2) the unchanged results of Moody's Advanced Loss Given Failure (LGF) analysis, which provides three notches of uplift to the bank's deposit ratings and two notches of uplift to its senior unsecured debt ratings from its adjusted BCA; and (3) the rating agency's unchanged assumption of "moderate" government support, resulting in one notch of additional rating uplift for BayernLB's long-term ratings. In combination, these assumptions result in four notches of uplift to BayernLB's deposit ratings and three notches of uplift to the bank's senior unsecured debt ratings from its adjusted BCA.

-- RATIONALE FOR THE STABLE OUTLOOK

The stable outlook on BayernLB's long-term ratings reflects Moody's expectation that the bank will be able to sustain its improved credit profile, which will be supported by the benign domestic operating environment over the next 12 to 18 months, despite continued pressures from the persistent low interest-rate environment on the bank's earnings.

WHAT WOULD MOVE THE RATING UP / DOWN

An upgrade of BayernLB's long-term ratings could be triggered following (1) a two notch upgrade of the bank's standalone BCA which would be needed to trigger upwards pressure on the bank's baa1 adjusted BCA based on high sector support assumptions; and/or (2) a reduction of the expected loss severity following a shift in the bank's funding mix, which could result in higher rating uplift for its senior unsecured debt and issuer ratings as a result of Moody's LGF analysis; the bank's deposit and senior unsecured debt ratings already benefit from the highest possible uplift under the Advanced LGF analysis which is three notches and would therefore not benefit from such changes in the bank's funding mix.

An upgrade of BayernLB's BCA could develop from: (1) further improvements in asset risk, including a reduction of sector concentrations; (2) further improvements of its fully-loaded capital ratios and balance sheet leverage; and/or (3) persistent strengthening of recurring earnings.

A downgrade of BayernLB's long-term ratings could be triggered following: (1) a downgrade of the bank's standalone BCA or its adjusted BCA; and/or (2) an increase in the expected loss severity following a shift in the bank's funding mix, which could result in less rating uplift for senior debts and deposits as a result of Moody's LGF analysis.

A downgrade of BayernLB's BCA and adjusted BCA could develop from: (1) a deterioration of credit fundamentals leading to a lowering of the bank's baa3 BCA; (2) a reduction of Moody's affiliate support assumptions from the S-Finanzgruppe or a weakening of the cross-sector support mechanisms.

LIST OF AFFECTED RATINGS

Issuer: Bayerische Landesbank

..Upgrades:

....Long-term Counterparty Risk Assessment, upgraded to Aa3(cr) from A1(cr)

....Long-term Bank Deposits, upgraded to Aa3 Stable from A1 Stable

....Senior Senior Unsecured Regular Bond/Debenture, upgraded to Aa3 Stable from A1 Stable

....Senior Senior Unsecured Medium-Term Note Program, upgraded to (P)Aa3 from (P)A1

....Long-term Issuer Rating, upgraded to A1 Stable from A2 Stable

....Senior Unsecured Regular Bond/Debenture, upgraded to A1 Stable from A2 Stable

....Senior Unsecured Medium-Term Note Program, upgraded to (P)A1 from (P)A2

...Subordinate Medium-Term Note Program, upgraded to (P)Baa2 from (P)Baa3
...Subordinate Regular Bond/Debenture, upgraded to Baa2 from Baa3
...Junior Subordinated Regular Bond/Debenture, upgraded to Baa3(hyb) from Ba1(hyb)
...Adjusted Baseline Credit Assessment, upgraded to baa1 from baa2
...Baseline Credit Assessment, upgraded to baa3 from ba1

..Affirmations:

...Short-term Counterparty Risk Assessment, affirmed P-1(cr)
...Short-term Bank Deposits, affirmed P-1
...Other Short Term (MTN), affirmed (P)P-1
...Commercial Paper, affirmed P-1

..Outlook Action:

....Outlook remains Stable

Issuer: Bayerische Landesbank, (London Branch)

..Upgrades:

...Long-term Counterparty Risk Assessment, upgraded to Aa3(cr) from A1(cr)
...Long-term Bank Deposits, upgraded to Aa3 Stable from A1 Stable
...Senior Unsecured Medium-Term Note Program, upgraded to (P)A1 from (P)A2
...Subordinate Medium-Term Note Program, upgraded to (P)Baa2 from (P)Baa3

..Affirmations:

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

..Outlook Action:

....Outlook remains Stable

Issuer: Bayerische Landesbank, (New York Branch)

..Upgrades:

...Long-term Counterparty Risk Assessment, upgraded to Aa3(cr) from A1(cr)
...Long-term Bank Deposits, upgraded to Aa3 Stable from A1 Stable
...Senior Senior Unsecured Regular Bond/Debenture, upgraded to Aa3 Stable from A1 Stable
...Senior Senior Unsecured Medium-Term Note Program, upgraded to (P)Aa3 from (P)A1
...Senior Unsecured Regular Bond/Debenture, upgraded to A1 Stable from A2 Stable

..Affirmation:

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

..Outlook Action:

....Outlook remains Stable

Issuer: Bayerische Landesbank, (Paris Branch)

..Upgrades:

....Long-term Counterparty Risk Assessment, upgraded to Aa3(cr) from A1(cr)

....Senior Unsecured Medium-Term Note Program, upgraded to (P)A1 from (P)A2

....Subordinate Medium-Term Note Program, upgraded to (P)Baa2 from (P)Baa3

....Long-term Bank Deposits, upgraded to Aa3 Stable from A1 Stable

..Affirmation:

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

..Outlook Action:

....Outlook remains Stable

Issuer: BayernLB Capital Trust I

..Upgrade:

....Pref. Stock Non-cumulative, upgraded to Ba2(hyb) from Ba3(hyb)

..Outlook Action:

....No Outlook assigned

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in January 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Swen Metzler
VP - Senior Credit Officer
Financial Institutions Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Carola Schuler
MD - Banking
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454



© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO,

COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary

of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.