

Rating Action: Moody's affirms Bayerische Landesbank's Aa3 deposit and senior unsecured debt ratings

15 May 2019

Baseline Credit Assessment upgraded to baa2 from baa3

Frankfurt am Main, May 15, 2019 -- Moody's Investors Service (Moody's) has today affirmed all ratings of Bayerische Landesbank (BayernLB) that are not explicitly guaranteed by the Free State of Bavaria (Aaa stable), including its Aa3 deposit, issuer and senior unsecured debt ratings; the outlook on these ratings remains stable. At the same time, the rating agency upgraded BayernLB's Baseline Credit Assessment (BCA) to baa2 from baa3 and affirmed the bank's baa1 Adjusted BCA.

Today's rating action incorporates the continued broad-based strengthening of the bank's financial fundamentals, including the final elimination of legacy tail risks and the strengthening of its liquidity profile, as reflected in the upgrade of the BCA to baa2. At the same time, unchanged assumptions under Moody's assessment of high affiliate support from Sparkassen-Finanzgruppe (S-Finanzgruppe, corporate family rating Aa2 stable, BCA a2) in conjunction with a higher BCA now closer to that of the support provider led to an affirmation of the Adjusted BCA. Together with unchanged results from Moody's Advanced Loss Given Failure (LGF) analysis these factors have led to the affirmation of BayernLB's ratings.

BayernLB's backed senior unsecured and subordinated debt obligations, which qualify for 'grandfathering' under the public law guarantee ('Gewährträgerhaftung') and are rated Aaa stable remain unaffected by today's rating action.

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 baa2 from baa3 foremost reflects the rating agency's increased degree of confidence into BayernLB's ability to access readily available and additional liquid resources through a variety of funding channels which compares well with domestic competitors and which helps BayernLB to mitigate its partial dependence on wholesale market funding.

The BCA upgrade also incorporates the bank's better coverage of asset risks through its improved capitalisation and moderate earnings potential. The latter is to an increasing degree supported by the group's subsidiary Deutsche Kreditbank AG (DKB, deposits A1 stable/issuer rating A1 stable, BCA baa2), whose rising earnings contributions support BayernLB's profit generation capacity which overall compares favorably against domestic peers while still trailing peers across the euro-area. Following BayernLB's settlement of all pending lawsuits with Heta Asset Resolution AG (government-guaranteed subordinated debt Aa1), the successor of a former subsidiary, BayernLB eliminated its most relevant legal tail risk and improved its asset quality, as reflected in a 1.3% problem loan ratio as of year-end 2018, down from 2.6% as of year-end 2017.

Today's BCA upgrade also incorporates the rating agency's expectation that BayernLB's core capitalisation will sustainably exceed the management's target level of 15% Common Equity Tier 1 (CET1) ratio. Moody's further expects BayernLB to be able to achieve sustainable annual profits of around 0.2% of the group's tangible assets, foremost as a result of the strong earnings contribution of DKB.

The group's liquidity profile benefits from access to a broad range of funding tools, which include the covered bond programs of BayernLB and DKB and related existing collateral pools under which the group possesses significant further issuance leeway that complements its other readily available liquid resources.

BayernLB's BCA remains constrained by the bank's concentrated exposures to the commercial real estate (CRE) and renewable energy sectors and by the low profitability of the bank's operations excluding DKB. Furthermore, the bank's low level of nominal leverage continues to weigh on its overall financial profile. The group's BCA also considers the relevance of development bank Bayerische Landesbodenkreditanstalt

(BayernLabo, guaranteed deposits Aaa stable/guaranteed senior unsecured debt Aaa stable), which is organizationally embedded into BayernLB, and its implications for the group's financial profile.

-- AFFIRMATION OF RATINGS

The affirmation of BayernLB's ratings follows the affirmation of the bank's baa1 Adjusted BCA, incorporating Moody's unchanged assessment of a high probability of BayernLB receiving affiliate support from S-Finanzgruppe. However, the rating uplift is compressed to one from two notches, despite unchanged support assumptions as BayernLB's higher BCA has converged towards that of S-Finanzgruppe.

The affirmation also reflects the unchanged results of Moody's Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by the different liability classes in resolution and which provides three notches of rating uplift to the bank's deposit and senior unsecured debt ratings and two notches of rating uplift to its junior senior unsecured debt ratings from its baa1 Adjusted BCA.

Finally, the ratings reflect an unchanged assumption of "moderate" government support for exposures not explicitly designated as loss-absorbing in resolution, resulting in one notch of additional rating uplift for BayernLB's senior unsecured debt and deposit ratings. In combination, these assumptions result in four notches of rating uplift to BayernLB's instruments ranking above junior senior unsecured debt in resolution from its Adjusted BCA, two notches for junior senior unsecured debt and a positioning one notch below the Adjusted BCA for subordinated debt.

-- RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation of only moderate changes to the bank's financial profile and its liability structure over the outlook horizon.

WHAT WOULD MOVE THE RATING UP / DOWN

An upgrade of BayernLB's ratings would be likely in the event of an upgrade of the bank's BCA. BayernLB's junior senior unsecured and lower ranking liabilities could also experience upward rating pressure if the volume of the bank's subordinated instruments increases meaningfully relative to the bank's tangible banking assets, which could result in additional rating uplift from Moody's Advanced LGF analysis. The bank's deposit and senior unsecured ratings already benefit from the maximum possible rating uplift from the Advanced LGF analysis.

An upgrade of BayernLB's baa2 BCA could result from a further strengthening of the group's solvency, for example (1) a meaningful reduction of the bank's concentration risk, specifically with regard to CRE exposures; and (2) a sustained improvement in its capitalization, predominantly its leverage ratio, and (3) a significant sustainable improvement in group-wide profitability.

A downgrade of BayernLB's ratings could be triggered following (1) a multi-notch downgrade of the bank's BCA; (2) a deterioration in the creditworthiness of S-Finanzgruppe; (3) developments that would result in a downward revision of current cross-sector support assumptions; or (4) a reduction in rating uplift as a result of Moody's Advanced LGF analysis, for example lower volumes of instruments explicitly designated to absorb losses in resolution.

Downward pressure on the bank's BCA could occur because of (1) a significant modification of its business focus and strategy (2) a meaningful deterioration in the bank's financial strength, especially if resulting from an unexpected and sustained weakening in its capital adequacy metrics; or a material deterioration in the bank's asset quality.

LIST OF AFFECTED RATINGS

Upgrades:

..Issuer: Bayerische Landesbank

... Baseline Credit Assessment, Upgraded to baa2 from baa3

Affirmations:

..Issuer: Bayerische Landesbank

.... LT Bank Deposits (domestic and foreign currency), Affirmed Aa3 Stable
.... ST Bank Deposits (domestic and foreign currency), Affirmed P-1
.... LT senior unsecured debt (domestic and foreign currency), Affirmed Aa3 Stable
.... Commercial Paper (domestic currency), Affirmed P-1
. Other short term (domestic currency), Affirmed (P)P-1
.... LT senior unsecured MTN (domestic currency), Affirmed (P)Aa3
.... LT issuer rating (foreign currency), Affirmed Aa3 Stable
.... LT junior senior unsecured debt (domestic and foreign currency), Affirmed A2
.... LT junior senior unsecured MTN (domestic currency), Affirmed (P)A2
.... LT subordinate debt (domestic and foreign currency), Affirmed Baa2
.... LT subordinate MTN (domestic currency), Affirmed (P)Baa2
LT junior subordinate debt (domestic currency), Affirmed Baa3(hyb)
.... LT Counterparty Risk Rating (domestic and foreign currency), Affirmed Aa3
.... ST Counterparty Risk Rating (domestic and foreign currency), Affirmed P-1
.... LT Counterparty Risk Assessment, Affirmed Aa3(cr)
.... ST Counterparty Risk Assessment, Affirmed P-1(cr)
. Adjusted Baseline Credit Assessment, Affirmed baa1
..Issuer: Bayerische Landesbank, (New York Branch)
.... LT Bank Deposits (domestic currency), Affirmed Aa3 Stable
.... LT senior unsecured debt (domestic currency), Affirmed Aa3 Stable
.... LT Counterparty Risk Rating (domestic and foreign currency), Affirmed Aa3
.... ST Counterparty Risk Rating (domestic and foreign currency), Affirmed P-1
.... LT Counterparty Risk Assessment, Affirmed Aa3(cr)
.... ST Counterparty Risk Assessment, Affirmed P-1(cr)
.... Commercial Paper (domestic currency), Affirmed P-1
..Issuer: Bayerische Landesbank, (London Branch)
.... LT Bank Deposits (domestic and foreign currency), Affirmed Aa3 Stable
.... LT Counterparty Risk Rating (domestic and foreign currency), Affirmed Aa3
.... ST Counterparty Risk Rating (domestic and foreign currency), Affirmed P-1
.... LT Counterparty Risk Assessment, Affirmed Aa3(cr)
.... ST Counterparty Risk Assessment, Affirmed P-1(cr)
..Issuer: Bayerische Landesbank, (Paris Branch)
.... LT Bank Deposits (domestic and foreign currency), Affirmed Aa3 Stable
.... LT Counterparty Risk Rating (domestic and foreign currency), Affirmed Aa3

.... ST Counterparty Risk Rating (domestic and foreign currency), Affirmed P-1

.... LT Counterparty Risk Assessment, Affirmed Aa3(cr)

.... ST Counterparty Risk Assessment, Affirmed P-1(cr)

Outlook Actions:

..Issuer: Bayerische Landesbank

....Outlook, Remains Stable

..Issuer: Bayerische Landesbank, (New York Branch)

....Outlook, Remains Stable

..Issuer: Bayerische Landesbank, (London Branch)

....Outlook, Remains Stable

..Issuer: Bayerische Landesbank, (Paris Branch)

....Outlook, Remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. 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.

Bernhard Held
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
Client Service: 44 20 7772 5454

Alexander Hendricks, CFA
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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



© 2019 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 OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. 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.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

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 CREDIT 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 ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. 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.moodys.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.

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 ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

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