

Rating Action: Moody's affirms Bayerische Landesbank's Aa3 deposit and senior unsecured debt ratings and changes the outlook to positive from stable

15 Jul 2022

Frankfurt am Main, July 15, 2022 -- Moody's Investors Service (Moody's) has today affirmed Bayerische Landesbank (BayernLB)'s Aa3 long-term deposit and senior unsecured debt ratings and changed the outlook on these to positive from stable. At the same time, the rating agency affirmed all of BayernLB's ratings and rating inputs that are not explicitly guaranteed by the Free State of Bavaria (Aaa stable), including BayernLB's baa2 Baseline Credit Assessment (BCA) and its baa1 Adjusted BCA.

Today's rating affirmations with a positive outlook reflect Moody's assessment of the progress BayernLB has been making towards a sustained improvement of its capitalization, while maintaining a sound asset quality and funding profile.

BayernLB's Aaa-rated backed junior senior unsecured and backed subordinate liabilities as well as the Aaa (stable)-rated backed senior unsecured debt obligation issued out of its London branch, all of which qualify for 'grandfathering' under the public law guarantee ('Gewährträgerhaftung'), 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

-- AFFIRMATION OF BAYERNLB'S BASELINE CREDIT ASSESSMENT

The affirmation of BayernLB's baa2 BCA reflects the resilience of BayernLB's financial strength despite economic headwinds from the pandemic in the past years and considers Moody's expectation that in particular BayernLB's strong and increased risk-weighted capitalization will protect the bank's credit profile against rising challenges from slowing economic growth, resulting from emerged geopolitical risks. The rating agency's assessment takes into account that BayernLB's solvency is somewhat stronger than that of its direct peers carrying the same BCA.

Slowing economic momentum from supply chain disruptions, energy security risks and rising inflation will exert some pressure on German corporate and small and mid-sized enterprises (SME), which Moody's believes will moderately weaken BayernLB's asset quality and temporarily put pressure on the bank's profitability because of rising loan loss provisions.

Whereas a growing corporate sector focus of BayernLB's lending exposures and a strong emphasis on commercial real estate exposures in line with the bank's strategy adds to asset concentration risks, Moody's expects that BayernLB's more specialized risk management expertise in these areas will enable the bank to keep its asset risks well-controlled.

BayernLB benefits from a solid funding profile, with a high share of liabilities that have low sensitivity to market confidence, including customer deposits sourced through its subsidiary Deutsche Kreditbank AG (DKB, deposits A1 stable/senior unsecured debt A1 stable, BCA baa1), funding provided by fellow member banks of Sparkassen-Finanzgruppe (S-Finanzgruppe, Corporate Family Rating Aa2 stable, BCA a2), and pass-through funds from development banks.

-- AFFIRMATION OF BAYERNLB'S DEPOSIT AND SENIOR UNSECURED DEBT RATINGS

The affirmation of BayernLB's ratings follows the affirmation of the bank's baa2 BCA and of its baa1 Adjusted BCA. The Adjusted BCA incorporates Moody's unchanged assessment of a high probability of BayernLB receiving affiliate support from S-Finanzgruppe. BayernLB is a member of S-Finanzgruppe's institutional protection scheme, which constitutes a strong intra-sector going concern support mechanism.

The affirmation of BayernLB's ratings 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 from the bank's 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 from BayernLB's Adjusted BCA to instruments ranking above junior senior unsecured debt in resolution, two notches for junior senior unsecured debt and a rating one notch below the Adjusted BCA for subordinated debt.

-- OUTLOOK CHANGE TO POSITIVE FROM STABLE

The outlook change on the long-term deposit and senior unsecured debt ratings to positive reflects a further strengthening of BayernLB's solvency, mostly resulting from an increase in its capitalization, which positions the bank favorably against a background of growing industry-wide asset risks in a challenging operating environment. The improvement in BayernLB's capital buffer has also been accompanied by a declining share of problem loans covered by sound loan loss reserve buffers, which have strengthened the bank's capacity to absorb future problem loan formation. The positive outlook further reflects Moody's expectation that the bank's liability structure does not change in a way that it would indicate a higher loss given failure than presently.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

BayernLB's Aa3 long-term senior unsecured debt and deposit ratings may be upgraded in case of an upgrade of its baa2 BCA and baa1 Adjusted BCA. In addition, BayernLB's junior senior unsecured and lower-ranking liabilities may be upgraded following an increase in the stock of bail-in-able liabilities.

A BCA upgrade could result if the bank maintains its strong capitalization and successfully navigates the challenging operating environment without a material increase in problem loans beyond the rating agency's current expectations.

BayernLB's Aa3 long-term senior unsecured debt and deposit ratings could be downgraded if the creditworthiness of both BayernLB and S-Finanzgruppe weakens, if Moody's lowered its cross-sector support assumptions or if the rating uplift arising from Moody's Advanced LGF analysis decreases.

As indicated by the positive outlook, a downgrade of BayernLB's BCA is currently unlikely. Ratings could nevertheless be affirmed and the positive outlook be retracted to stable as a result of a pronounced negative deviation of BayernLB's future financial performance from the solvency and liquidity metrics that Moody's currently expects, particularly if the German economy was to undergo significant strain as a result of energy supply shortages.

LIST OF AFFECTED RATINGS

Issuer: Bayerische Landesbank

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Aa3

....Short-term Counterparty Risk Ratings, affirmed P-1

....Long-term Bank Deposits, affirmed Aa3, outlook changed to Positive from Stable

....Short-term Bank Deposits, affirmed P-1

....Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

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

....Long-term Issuer Rating, affirmed Aa3, outlook changed to Positive from Stable

....Baseline Credit Assessment, affirmed baa2

....Adjusted Baseline Credit Assessment, affirmed baa1

...Senior Unsecured Regular Bond/Debenture, affirmed Aa3, outlook changed to Positive from Stable

...Senior Unsecured Medium-Term Note Program, affirmed (P)Aa3

...Junior Senior Unsecured Regular Bond/Debenture, affirmed A2

...Junior Senior Unsecured Medium-Term Note Program, affirmed (P)A2

...Subordinate Regular Bond/Debenture, affirmed Baa2

...Subordinate Medium-Term Note Program, affirmed (P)Baa2

...Commercial Paper, affirmed P-1

...Other Short Term, affirmed (P)P-1

..Outlook Action:

...Outlook changed to Positive from Stable

Issuer: Bayerische Landesbank, (London Branch)

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Aa3

...Short-term Counterparty Risk Ratings, affirmed P-1

...Long-term Bank Deposits, affirmed Aa3, outlook changed to Positive from Stable

...Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

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

..Outlook Action:

...Outlook changed to Positive from Stable

Issuer: Bayerische Landesbank, (New York Branch)

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Aa3

...Short-term Counterparty Risk Ratings, affirmed P-1

...Long-term Bank Deposits, affirmed Aa3, outlook changed to Positive from Stable

...Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

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

...Commercial Paper, affirmed P-1

..Outlook Action:

...Outlook changed to Positive from Stable

Issuer: Bayerische Landesbank, (Paris Branch)

..Affirmations:

...Long-term Counterparty Risk Ratings, affirmed Aa3

...Short-term Counterparty Risk Ratings, affirmed P-1

...Long-term Bank Deposits, affirmed Aa3, outlook changed to Positive from Stable

...Long-term Counterparty Risk Assessment, affirmed Aa3(cr)

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

..Outlook Action:

...Outlook changed to Positive from Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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