

CREDIT OPINION

14 June 2024

Update



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RATINGS

Bayerische Landesbodenkreditanstalt

Domicile	Munich, Germany
Long Term CRR	Not Assigned
Long Term Debt	Aaa
Type	Senior Unsecured - Dom Curr
Outlook	Stable
Long Term Deposit	Not Assigned

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Bayerische Landesbodenkreditanstalt

Update to credit analysis

Summary

[Bayerische Landesbodenkreditanstalt's](#) (BayernLabo) backed ratings are based on the guarantee framework provided by the [Free State of Bavaria](#) (Bavaria, Aaa stable), and the Aaa/P-1 senior unsecured and issuer ratings are aligned with that of Bavaria. The guarantee framework comprises a guarantee obligation (Gewährträgerhaftung), and a full, explicit and unconditional guarantee for the bank's existing and future obligations in respect of money borrowed, bonds issued and derivative transactions entered into by the bank (explicit refinancing guarantee).

BayernLabo serves Bavaria's public policy objectives with respect to social housing and municipal construction, and also extends loans to the Bavarian state and local authorities. It is a semi-independent Bavarian regional development bank that is consolidated within [Bayerische Landesbank](#) (BayernLB, Aa2/Aa2 stable, baa1¹). Although it is a legally dependent part (Anstalt in der Anstalt) of BayernLB, it has its own management board and independent commercial activities, which are, however, directed by Bavaria in the context of the federal state's economic policies for the region.

As a subsidiary-like unit of BayernLB, which is 75% owned by Bavaria and 25% owned by the Association of Bavarian savings banks, BayernLabo is included in the resolution perimeter of BayernLB under the European Union's (EU) Bank Recovery and Resolution Directive (BRRD) and its debt is, hence, bail-in-able. However, in the unlikely event of resolution, creditors of BayernLabo would have direct recourse to Bavaria for indemnification, given the explicit refinancing guarantee.

Credit strengths

- » Strong support from Bavaria and an extensive guarantee framework
- » Minimal asset risk, given its mostly guaranteed lending book
- » Access to funding at very favourable rates because of the guarantee framework

Credit challenges

- » BayernLabo's participation in BayernLB could result in potential losses because of its specific legal set-up

Outlook

- » The stable outlook on BayernLabo's ratings reflects the stable outlook on the rating of the bank's guarantor, the Free State of Bavaria.

Factors that could lead to an upgrade

- » BayernLabo's ratings are at the highest level and, therefore, cannot be upgraded.

Factors that could lead to a downgrade

- » BayernLabo's ratings could be downgraded if the credit profile of the guarantor, the Free State of Bavaria, deteriorates or if the guarantee mechanism weakens or gets disallowed, which is highly unlikely at present.

Profile

Bayerische Landesbodenkreditanstalt (BayernLabo) is a development bank operating in the Free State of Bavaria and is headquartered in Munich. BayernLabo is one of the two development banks guaranteed and mandated by the Free State of Bavaria, the other being [LfA Foerderbank Bayern](#) (LfA, Aaa stable/Aaa stable²). While LfA focuses on commercial and infrastructure projects, and environmental protection programmes in Bavaria, the remit of BayernLabo is to promote social housing and municipal construction in the region, and to extend loans to the Bavarian state and local authorities.

With total assets of €21.8 billion and 213 full-time equivalent employees as of year-end 2023, BayernLabo is the sixth largest of the 17 state development banks in Germany. For more information, please see the German [Banking System Outlook](#).

Detailed credit considerations

BayernLabo's franchise is supported by an extensive guarantee framework

Similar to that of other development banks, BayernLabo's franchise value is incomparable with that of commercially oriented banks. BayernLabo operates under a public policy mandate, as stipulated by [Law on Bayerische Landesbank](#) (Art. 20), which is in line with the [Understanding II](#) agreement reached between the Federal Republic of Germany and the European Commission in 2002.³ This results in a narrow public mandate, focusing on the fulfillment of public development activities, participation in projects in the interest of the European Community, granting of loans to public legal entities, financing measures with a purely social character and export financing in line with World Trade Organization (WTO) rules. BayernLabo pursues a competition-neutral business model, extending its loans (which have a second-lien status) in conjunction with commercial banks, such as the Bavarian savings or cooperative banks.

The state guarantees in place encompass BayernLabo's guarantor liability (Gewährträgerhaftung) by its ultimate owners, Bavaria and the Association of Bavarian Savings Banks, which jointly, on a pro rata basis of ownership (75% and 25%, respectively), are fully and directly liable for BayernLabo's liabilities. An even more explicit refinancing guarantee is, in addition, provided by Bavaria on its own, which fully, unconditionally and irrevocably guarantees, upon first demand, all liabilities issued by BayernLabo, and which is the basis for the backed Aaa/P-1 ratings.

Participation in BayernLB can lead to potential net losses in a highly adverse scenario

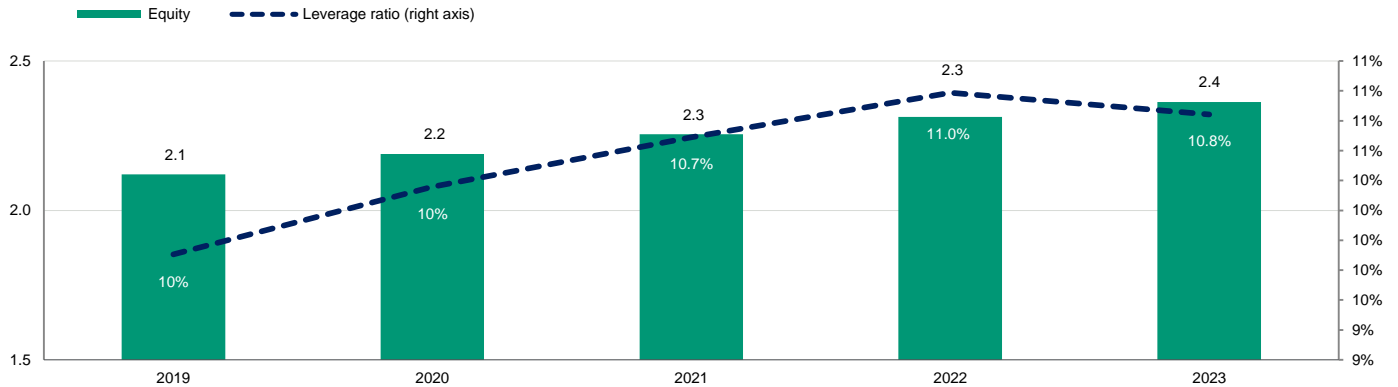
Because BayernLabo is a subsidiary-like unit of BayernLB, the bank's results are reported within the Real Estate and Savings Banks/ Financial Institutions segment of BayernLB. BayernLabo is also included in the resolution perimeter of its parent, BayernLB, under the BRRD and its debt is, hence, bail-in-able. However, in the unlikely event of resolution, creditors of BayernLabo would have direct recourse to Bavaria for indemnification, given the explicit refinancing guarantee.

As part of BayernLB, BayernLabo is supervised by the European Central Bank under its Single Supervisory Mechanism, with its total capital being fully reflected in BayernLB's regulatory capital under the EU's Capital Requirements Regulation and Directive (CRR/ CRD IV). However, BayernLabo's capital cannot be transferred to the parent bank at management's discretion and is only fungible for

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BayernLB by absorbing net losses that are created at the parent bank level⁴ on a pro rata basis of capital. In return, BayernLabo also benefits if BayernLB generates distributable net profit under German GAAP, which was the case over the period 2016-23. Hence, capital retention will likely remain high at BayernLabo, and only outsized losses at BayernLB could diminish BayernLabo's capital base.

Exhibit 1
BayernLabo's capital and leverage ratio improved over the past years
 Equity in € billion



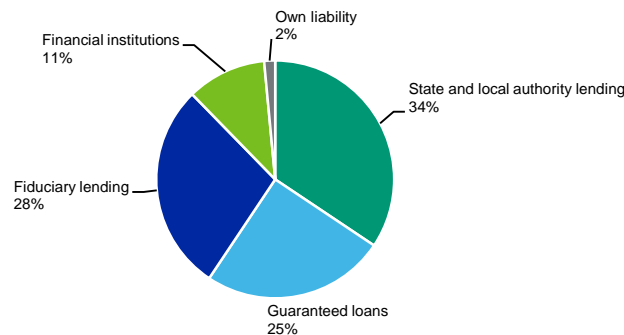
Leverage ratio = Equity/total assets.
 Sources: Company data, Moody's Ratings

Very low asset risk, given BayernLabo's mostly guaranteed lending book

As of year-end 2023, BayernLabo was active in five business areas as shown in the exhibit below. BayernLabo faces no credit risk from exposures to state and local authority lending because credit losses are directly written off against fiduciary liabilities extended by the states. Similarly, the bank does not face credit risks in guaranteed loans since those are guaranteed by the Bavarian or Thuringian municipalities or states.

Business at BayernLabo's own risk of €0.3 billion as of year-end 2023 (1% of total loans) represents follow-up financing for clients who are no longer entitled to benefit from any guaranteed loan programmes. It is the only area where the bank faces any credit risk, but loan loss charges have so far been negligible and are immediately written off, generating no balance-sheet provisions. BayernLabo extends such loans at a maximum 80% loan-to-value ratio.

Exhibit 2
BayernLabo's asset breakdown
 Total assets of €21.8 billion; the share of state and local authority lending has been decreasing since 2015



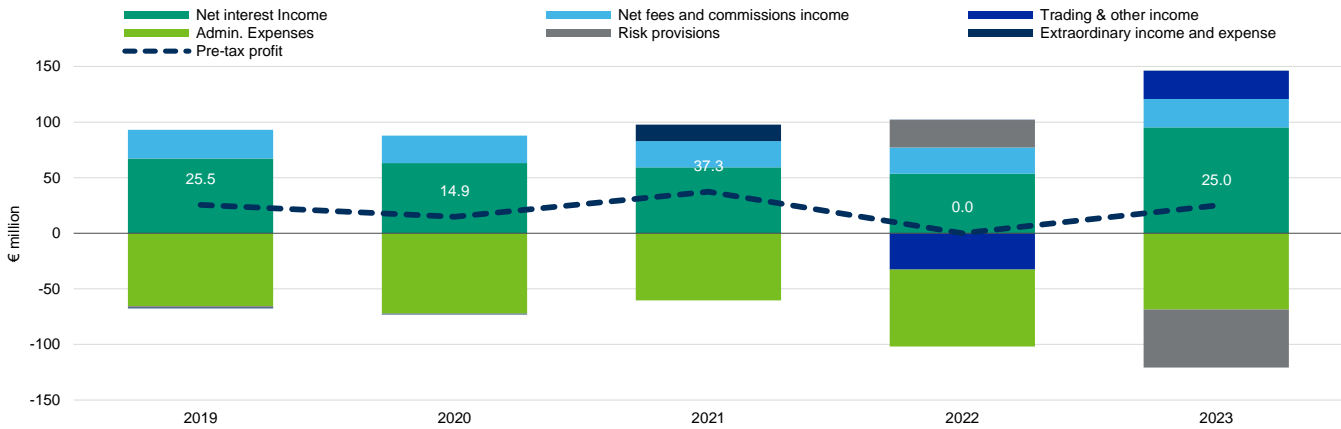
Sources: Company data, Moody's Ratings

The bank's public mission limits BayernLabo's profit generation; meaningful improvement expected with higher interest rates

In line with BayernLabo's public mandate, profit maximisation is not the bank's primary target. The bank focuses on supporting regional social housing and municipal construction activities with subsidised loans and interest waivers. In addition, a high share of its underlying profitability is conservatively placed in reserves according to Art. 340g and 340f of the German commercial code (HGB).

Under local GAAP (HGB) accounting rules, BayernLabo reported a net profit of €25 million in 2023 (2022: €0 million). For 2024, we expect the bank to continue to benefit from higher interest rates supporting net interest income.

Exhibit 3
BayernLabo's low profitability reflects its public mission and high reserve building



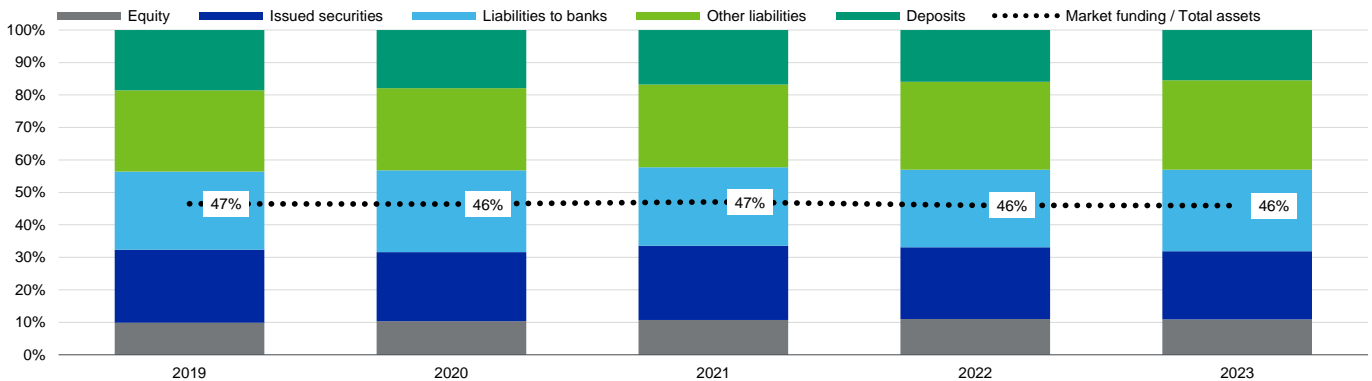
Sources: Company reports, Moody's Ratings

Favourable access to funding supported by the guarantee framework

BayernLabo relies highly on market funding and depends on regular market access. However, the bank's status as a quasi-subsovereign prime issuer has ensured uninterrupted access to domestic and international capital markets at very attractive rates.

BayernLabo's very stable funding mix (see Exhibit 4) largely consists of confidence-sensitive capital market funding, including bearer bonds, benchmark bonds and structured bonds. In addition, the bank issues registered bonds, promissory notes and other customer debt. Besides these issuances, BayernLabo holds interbank liabilities consisting promotional funding from [Kreditanstalt fuer Wiederaufbau](#) (KfW; Aaa stable/Aaa stable⁵) and [Landwirtschaftliche Rentenbank](#) (Aaa/Aaa stable⁶) and other banks.

Exhibit 4
BayernLabo's funding is driven by capital market refinancing



Market funding includes issued securities and liabilities to banks.

Sources: Company reports, Moody's Ratings

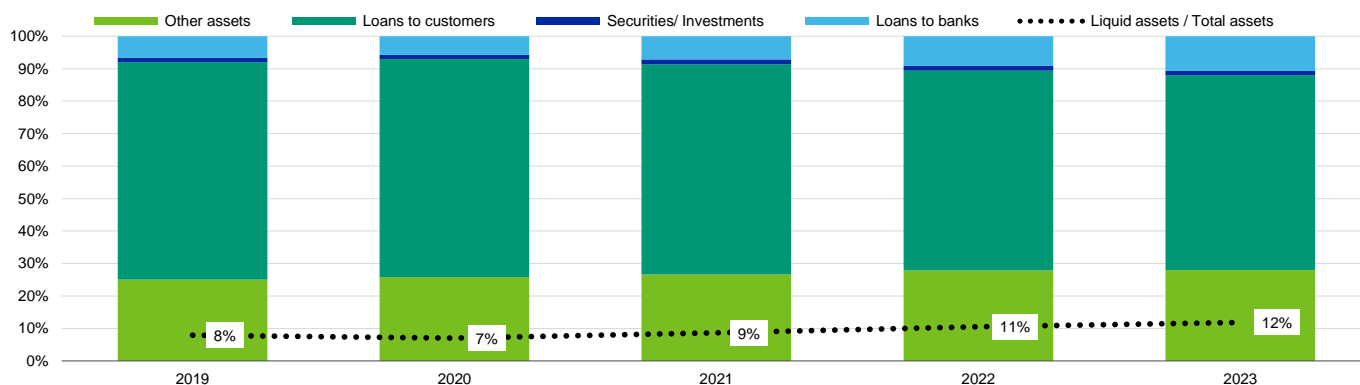
Adequate liquid resources

BayernLabo is by and large match funded, and the bank's liquid resources, although low in absolute terms, are adequate as a result. BayernLabo's liquid assets comprise the bank's liquidity portfolio of German federal and state government bonds, development bank bonds of and interbank loans (mostly BayernLB) as of year-end 2023.

BayernLabo benefits from the so-called Solva-0 status, meaning that banks that purchase BayernLabo's debt are not required to allocate capital against it (zero risk weight) and the bank's debt does not count towards (German) large loan limits. Furthermore, BayernLabo's debt is classified as a Level 1² high-quality liquid asset for the calculation of the liquidity coverage ratio.

Exhibit 5

BayernLabo's liquid resources are adequate and mostly consist of interbank lending



Liquid assets include securities and loans to banks.

Sources: Company data, Moody's Ratings

ESG considerations

In line with our general view of the banking sector, BayernLabo has low exposure to environmental risks (see our [environmental risk heat map](#)⁸ for further information). Given BayernLabo's public mandate and core activities, BayernLabo is particularly involved in financing projects with a positive impact on environmental and climate protection.

For social risks, we also place BayernLabo in line with our general view of the banking sector, which indicates moderate exposure (see our [social risk heat map](#)⁹).

In line with its public mandate and in line with the sustainability strategy of the Free State of Bavaria, BayernLabo has issued three social bonds of €500 million each. Underlying loans result from the bank's promotional programmes for the creation of rental properties, low-interest loans for private housing and modernisation programme totaling €1.72 billion as of 31 December 2023.

Governance¹⁰ is highly relevant to BayernLabo, as it is to all banks. We do not have any particular governance concern for BayernLabo, and we do not apply any corporate behaviour adjustment to the bank. Nonetheless, corporate governance remains a key credit consideration and remains a subject of our ongoing monitoring.

Methodology and scorecard

The principal methodology used for rating BayernLabo is the [Banks Methodology](#), published in March 2024.

Ratings

Exhibit 6

Category	Moody's Rating
BAYERISCHE LANDESBODENKREDITANSTALT	
Outlook	Stable
Bkd Bank Deposits	Aaa/P-1
Bkd Issuer Rating	Aaa
Bkd Senior Unsecured -Dom Curr	Aaa
Bkd ST Issuer Rating	P-1
PARENT: BAYERISCHE LANDESBANK AOR	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa2/P-1
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	a3
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa2
Senior Unsecured	Aa2
Junior Senior Unsecured -Dom Curr	A1
Junior Senior Unsecured MTN -Dom Curr	(P)A1
Subordinate	Baa1
Commercial Paper -Dom Curr	P-1
Other Short Term -Dom Curr	(P)P-1

Source: Moody's Ratings

Endnotes

- [1](#) The ratings shown are BayernLB's deposit and senior unsecured ratings, and Baseline Credit Assessment.
- [2](#) The ratings shown are LfA's deposit and senior unsecured ratings.
- [3](#) The Understanding II agreement ensures that German development banks can continue to benefit from public-sector support in the form of state guarantees without breaching the EU state aid rules.
- [4](#) Under German local GAAP or HGB. This scenario played out in 2013 and 2014, when BayernLB booked sizeable net losses related to its Heta Asset Resolution AG, ABS portfolio and [Hungary](#) (Baa2 stable) exposures, which were then partly borne by BayernLabo.
- [5](#) The ratings shown are KfW's backed deposit and backed senior unsecured ratings.
- [6](#) The ratings shown are Landwirtschaftliche Rentenbank's backed deposit and backed senior unsecured ratings.
- [7](#) Level 1 securities are high quality, highly liquid assets
- [8](#) Environmental risks can be defined as environmental hazards encompassing the impact of air pollution, soil/water pollution, water shortages, and natural and human-made hazards (physical risks). Additionally, regulatory or policy risks, such as the impact of carbon regulation or other regulatory restrictions, including the related transition risks such as policy, legal, technology and market shifts, that could impair the evaluation of assets, are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.
- [9](#) Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and social trends, health and safety, and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are further social risks. Social trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services, increasing information technology costs, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas translating into regulations that affect banks' revenue bases.
- [10](#) Corporate governance is a well-established key driver for banks, and related risks are typically included in our evaluation of banks' financial profile. Further, factors such as specific corporate behaviour, key-person risk, insider and related-party risk, strategy and management risk factors, and dividend policy may be captured in individual adjustments to the Baseline Credit Assessment, if deemed applicable. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, whereas governance strengths can benefit its credit profile. When credit quality deteriorates because of poor governance, such as a breakdown in controls resulting in financial misconduct, recovery can take a long time. Governance risks are also largely internal rather than externally driven.

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