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Schuldscheindarlehen (SSD) – A Tool for Long-Term Bilateral Corporate Loans

June 14th, 2017

Corporate Schuldschein

Basic Product Information

Schuldschein at a glance

- **Definition:** Certified loan agreement, no security
- **Transfer:** Transferable, not exchange-tradeable
- **Issue Volume:** Minimum size EUR 10 million
- **Maturities:** 3 – 10 years, longer maturities possible (subject to market conditions)
- **Credit Margin:** Depending on (internal) credit rating and current market conditions
- **Coupon:** Fix / floating
- **Repayment:** Bullet, contractually agreed redemption structures possible
- **Collaterals:** Unsecured, depending on existing security structure, negative pledge if necessary
- **Status / Covenants:** senior, negative pledge, pari passu, cross-default, change of control,
  tbd: Financial covenants (in accordance with existing bilateral/syndicated loan agreements)
- **Documentation:** German law
- **Information requirements:** Banking standard – annual report

Required Marketing Material

- Termsheet, subscription form
- Issuer Profile
- Investor presentation (conference call / live presentation)
- Schuldschein loan agreement (documentation)
- Recent three audited annual reports, quarterly/halfyear
- KYC documents such as excerpt from commercial register, articles of association

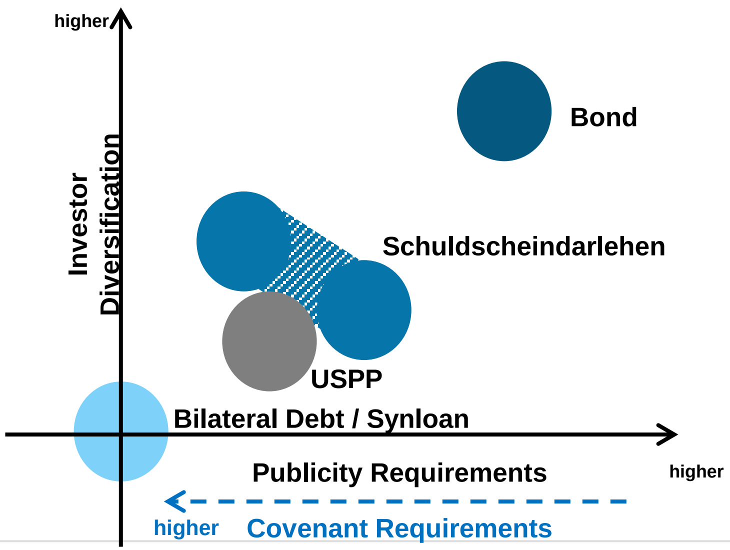
Influencing Factors on Pricing

Issuer
Credit Quality
Issue Size
Tenors
History
Brandname

Peer
Comparable transactions

Market
Primary market
Interest rate curve
Demand
Liquidity

Investor
Preferences and trends
Liquidity and demand



Corporate Schuldscheindarlehen

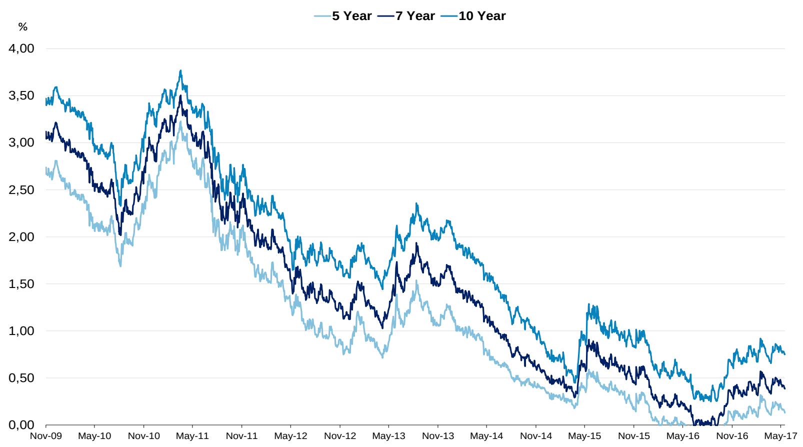
Comparison of main criteria of major refinancing instruments

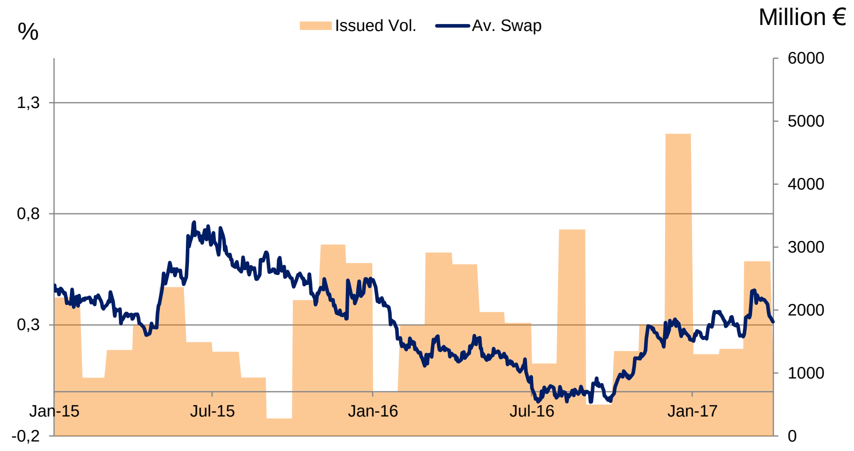
Comparison	Schuldscheindarlehen	Corporate Bond	US Private Placement	Syndicated Loan
Volume	starting from EUR 10 m	starting from EUR 100 m	starting from USD 50 m	Club Deals starting from EUR 25 m
Rating Agency	no rating required	external rating is market standard, but also unrated issues possible	NAIC or rating agency	no rating required
Currency	Euro, USD, GBP (or other currencies)	Euro (or other currencies)	USD, EUR	Euro (multi currency possible)
Maturities	3-10 years (on case to case up to 30 years) different maturities offered	1-10 years (on case to case longer)	7-15 years	364 days - 7 years (or with option 3+1+1)
Coupon	fix / floating (both alternatives will be offered)	usually fix coupon, floating coupon when shorter duration	usually fix	usually floating
Repayment	usually bullet repayment at the end of the maturity, but also redemption structures possbile	bullet repayment at the end of the maturity	bullet repayment at the end of the maturity	*RCF*: bullet repayment at the end of the maturity / period of contracion *Term Loan*: bullet repayment at the end ot the maturity / redemption structure
Documentation	SSD-documentation (15-20 pages)	prospectus (80-100 pages)	USPP-documentation (100-150 p.)	Syndicated loan agreement (100-150 p.)
	German law, Pari Passu, Negative Pledge, Cross Default, CoC, MAC, credit-dependent financial covenants, Step-up agreements are possible; no collateral securities	Acquisition- and Agenca Agreement or EMTN-/DIP-programm, conditions similar to the Schuldschein; no collateral securities	Security under US law; The basis is the NAIC standard form (Financial Covenants)	comprehensive contract by LMA standard (much more detailed than SSD or bond), conditions similar to the Schuldschein
	transfer certificate, Agency agreement, Legal Opinion	Legal Opinions	Legal Opinions	Legal Opinions security contracts
Creditor / Investors	saving banks, banks (domestic, non-domestic), insurance, pension funds, AM, > Buy-and-hold orientation > exclusion of certain investors	anonymous capital market with institutional investors (banks, insurance companies, mutual funds, asset managers) but also private investors (retail bond)	non-bank investors, particularly insurance companies, pension funds	only banks (savings banks as sub-participation)
Secondary market	no liquid secondary market, only OTC transferable (restrictions may possible - not hedge funds)	generally high fungibility, secondary market liquidity (market makers)	no liquid secondary market, only OTC transferable	no liquid secondary market, only OTC transferable
Publicity	statutory reporting requirements (§ 18 KWG) compared to Schuldschein creditors; no public disclosure requirements	public disclosure- and securities prospectus obligation of the issuer; capital market communications	bank disclosure requirements acverse to investors, i.d.R. Create a NAIC rating	bank disclosure requirements referred to KWG only adverse to underwriting banks; no public disclosure requirements
Costs	arrangement fee (success fee), legal fee (for Legal Opinion), investor presentation, much lower current costs (paying agent)	arrangement fee, legal fees, prospectus preparation, Road show, cost for external rating, listing	arrangement fee, success fee, Road show, costs for NAIC Rating	arrangement fee, Upfront-Fee structur, legal fees, low running costs (Agency)
Transaction process	6-9 weeks (including 4 weeks of marketing)	10-16 weeks (long preparation, marketing usually 1 day), short-term for EMTN program	10-12 weks (including 3-4 weeks of marketing)	10-16 weeks (at least 4 marketing weeks)

General Interest Rate and Swap Environment

Favorable but volatile swap levels for issuers

Euro Swap Development and Issuance Volume in the Schuldschein Market (monthly)





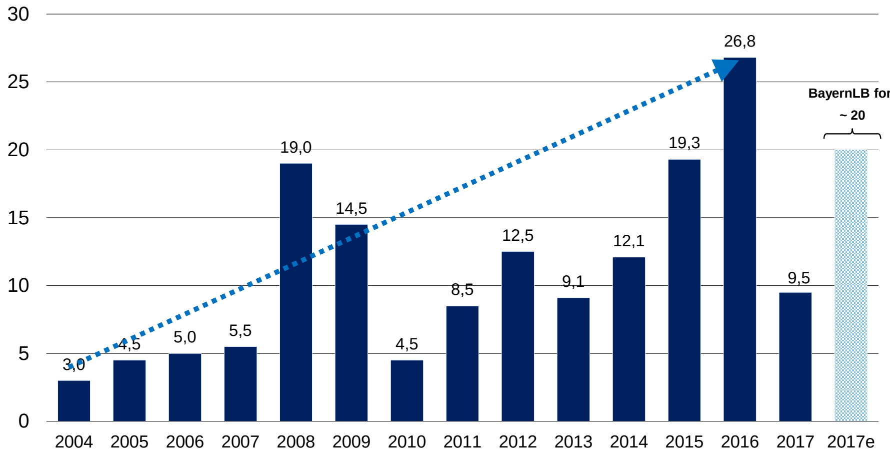
- Swap levels are still at historically low levels: negative in the short end and lower than 100 bps in the longer end (10years).
- Issuers in the Schuldschein market take advantage of these low levels and are extensively accessing liquidity.
- M&A and investment activities increase with cashflows being above the long term average.
- Many issuers have managed to price at historical lowest levels, with fixed outstanding favorable coupons.
- Throughout 2016, swaps dropped significantly which has boosted the issue volume in the Schuldschein Market to a new record.
- 2016 drawed an atypical picture of the Schuldschein Market: strong first quarter, strong summer, strong year end and an increasing number of cross over and international issuers which resulted in a new record breaking year.

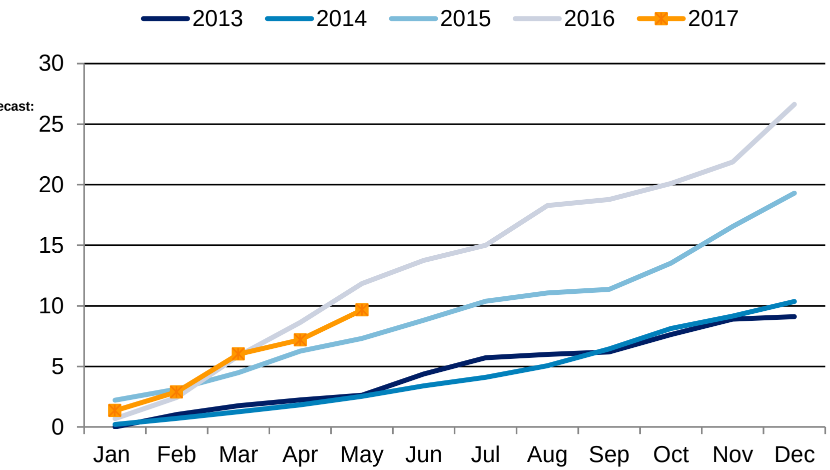
Sources: Bloomberg; BayernLB DCM

Corporate Schuldschein Market

Rising popularity

New Issue dynamic on the SSD Market





- The last year represents the absolute record year in the history of the SSD market with a total issue volume of almost EUR 27 billion spread over 128 transactions (previous year: EUR 19.3 billion 106 deals).
- The first quarter of 2017 turned out to be somewhat quieter due to an extremely active Q4/2016, but was able to make good progress with large-scale transactions (VW, KION, Hochtief, United Internet).
- By the end of April, new issue dynamics had increased significantly, as measured by the number of new transactions. Currently there are more than 20 transactions with a term sheet volume of around EUR 2.3 billion in marketing, six of which are with BayernLB as an arranger.
- We estimate the total volume for 2017, not least because of refinancings of upcoming SSD maturities, to about EUR 20 billion

Source: BayernLB DCM

Corporate Schuldschein Market

Current transactions

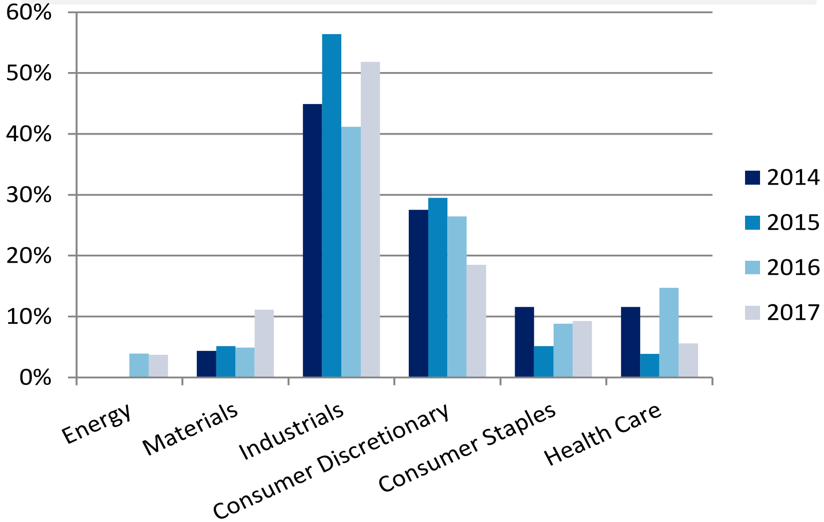
Value Date	Issuer	Country	Target Size	Final Size	Sector
25.07.2017	Walter Frey Holding AG	CH	300.000.000 €		Consumer Discretionary
24.07.2017	MOL Hungarian Oil and Gas Public Limited C(	HUN	75.000.000 €		Energy
20.07.2017	**ELG Haniel GmbH**	**DE**	**75.000.000 €**		**Industrials**
14.07.2017	ElringKlinger AG, Dettingen/Erms	DE	100.000.000 €		Consumer Discretionary
14.07.2017	format GmbH & Co. KG	DE	30.000.000 €		Real Estate
12.07.2017	Oiltanking Finance B.V.	NL	200.000.000 €		Energy
12.07.2017	Vossloh AG	DE	100.000.000 €		Industrials
10.07.2017	**Amprion GmbH**	**DE**	**100.000.000 €**		**Utilities**
07.07.2017	Holzwerkstoffe Vertriebsholding AG	AT	20.000.000 €		Materials
07.07.2017	B. Braun Melsungen AG	DE	150.000.000 €		Health Care
06.07.2017	ECOM Agroindustrial Corp. Limited	CH	50.000.000 €		Consumer Staples
05.07.2017	Orpea SA	FR	100.000.000 €		Real Estate
03.07.2017	AmRest Holdings SE	PL	75.000.000 €		Consumer Discretionary
30.06.2017	Schnellecke Group AG & Co KG	DE	50.000.000 €		Industrials
30.06.2017	ÖBB- Personenverkehr AG	AT	200.000.000 €		Consumer Discretionary
29.06.2017	Lasselsberger GmbH	AT	75.000.000 €		Industrials
28.06.2017	**Preh GmbH**	**DE**	**100.000.000 €**		**Consumer Discretionary**
28.06.2017	ZKW Group GmbH	AT	100.000.000 €		Industrials
27.06.2017	Treofan Germany GmbH & Co. KG	DE	100.000.000 €		Industrials
27.06.2017	Benteler International AG	AT	150.000.000 €		Industrials
23.06.2017	**Qiagen N.V.**	**NL**	**150.000.000 €**		**Health Care**
21.06.2017	GWH Wohnungsgesellschaft mbH Hessen	DE	100.000.000 €		Real Estate
21.06.2017	Andritz AG	AT	200.000.000 €		Industrials
19.06.2017	**Meyer Werft GmbH & Co. KG**	**DE**	**50.000.000 €**		**Industrials**
14.06.2017	Airbus Group Bank GmbH	DE	50.000.000 €		Industrials
12.06.2017	DMK Deutsches Milchkontor GmbH	DE	100.000.000 €	150.000.000 €	Consumer Staples
09.06.2017	Comparex AG	DE	50.000.000 €		Information Technology
09.06.2017	Implenia AG	CH	60.000.000 €	60.000.000 €	Industrials
08.06.2017	Mahle GmbH	DE	200.000.000 €	250.000.000 €	Consumer Discretionary
31.05.2017	Wieland-Werke AG	DE	75.000.000 €		Industrials
30.05.2017	**Axel Springer SE**	**DE**	**300.000.000 €**	**625.500.000 €**	**Consumer Discretionary**

BayernLB as Lead Arranger

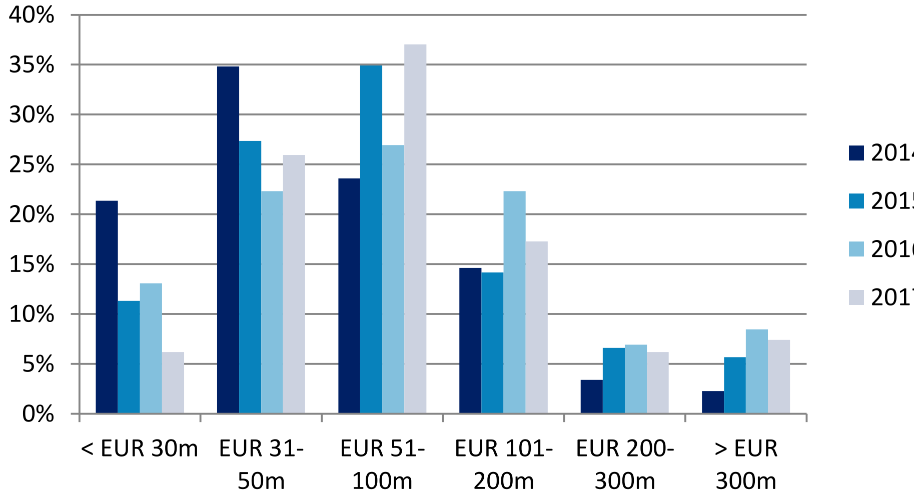
Corporate Schuldschein Market

Analysis of distribution

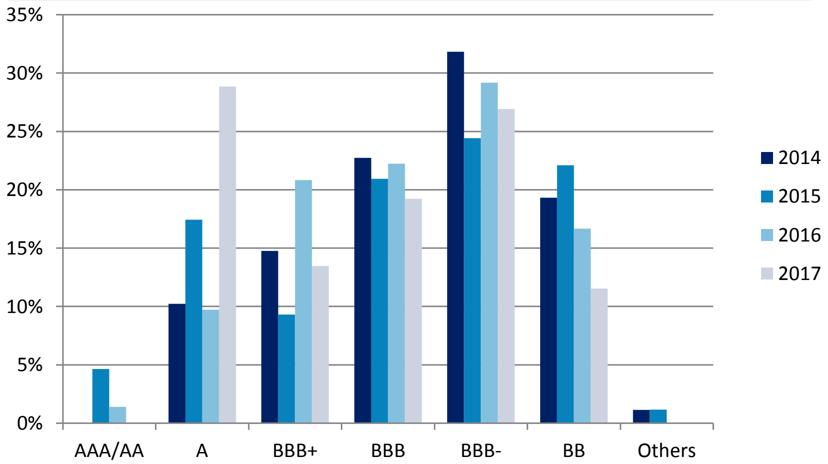
by sector



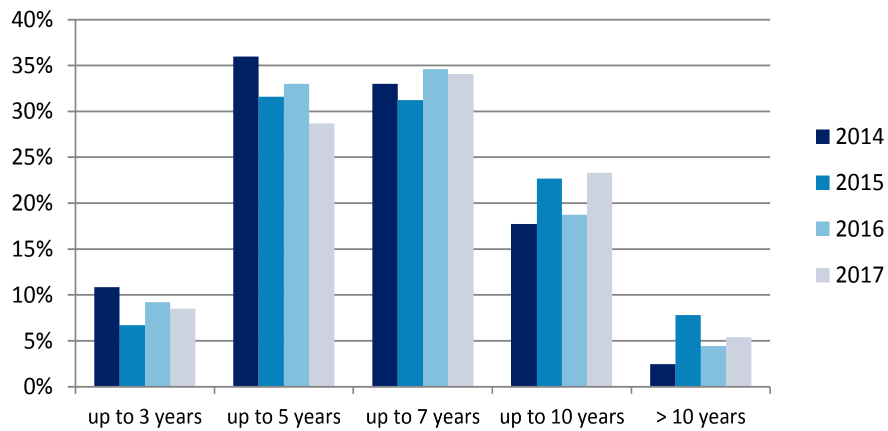
by volume



by rating



by maturity



Corporate Schuldscheindarlehen

Current trends and developments

Acquisition related (re-)financing	Examples: ZF Friedrichshafen - United Internet - AGCO
Refinancing of outstanding Schuldschein debt	Especially the early refinancing of floating rate tranches and also repurchase / exchange offers for fixed rates tranches to optimize the maturity profile; floating rate issues have no “make whole“ provision
Schuldschein attracts “typical” bond issuers	Taking advantage of the SSD instrument due to: • Spread advantage compared to bond issuances for those in the middle and lower IG range • Higher flexibility in volumes and maturities
Internationalization	• Increasing number of international investors and issuers • Apart from EUR, GBP and USD become common in the SSD Market
Complex transactions	• Issuers from the cross over segment enter the market: • Increasing number of complex transactions such as real estate companies or adjustments in terms of documentation compared to outstanding debt
Further trends	• „Green SSD“ – similar to Green Bonds, needs Second Party Opinion in order to be classified as “Green” • Return of southern European issuers • Zero Floor of the reference rate

Corporate Schuldschein Market

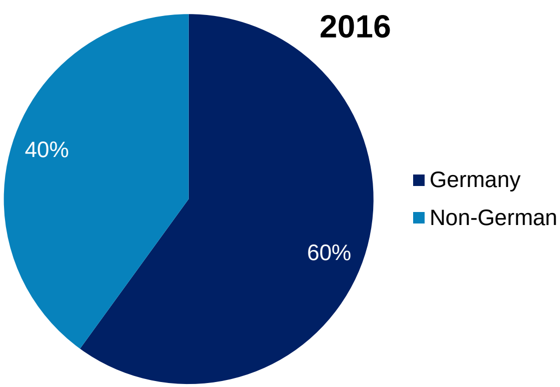
Growing out of the niche – Spotlight on two main drivers

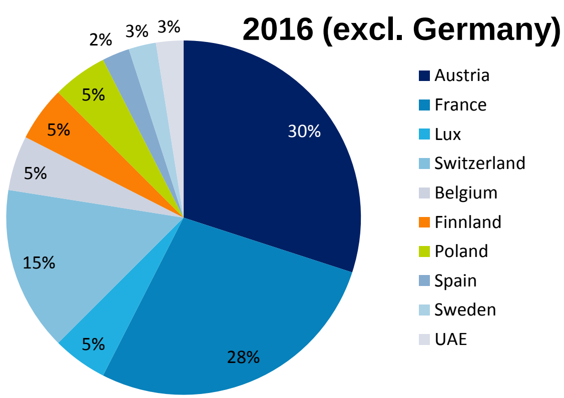
Selected Deals with significant Size listed Companies

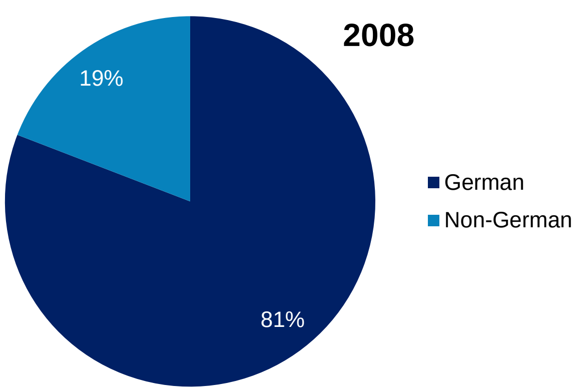
	Issuer	Final Size
2017	HOCHTIEF AG	500.000.000,00 €
2017	Metro/CECONOMY AG	250.000.000,00 €
2017	United Internet AG	500.000.000,00 €
2017	VW Financial Services	900.000.000,00 €
2017	Fresenius SE & Co. KGaA	1.000.000.000,00 €
2016	Groupe SEB	800.000.000,00 €
2016	Deutsche Lufthansa	1.200.000.000,00 €
2016	ProSiebenSat.1 Media SE	500.000.000,00 €
2016	Robert Bosch GmbH	1.300.000.000,00 €
2016	Porsche AG	1.150.000.000,00 €
2016	HeidelbergCement AG	625.000.000,00 €
2016	LafargeHolcim	1.000.000.000,00 €

Solely totalling to EUR 6.6 bn, approx. 25% of total annual issuance volume

Internationalization





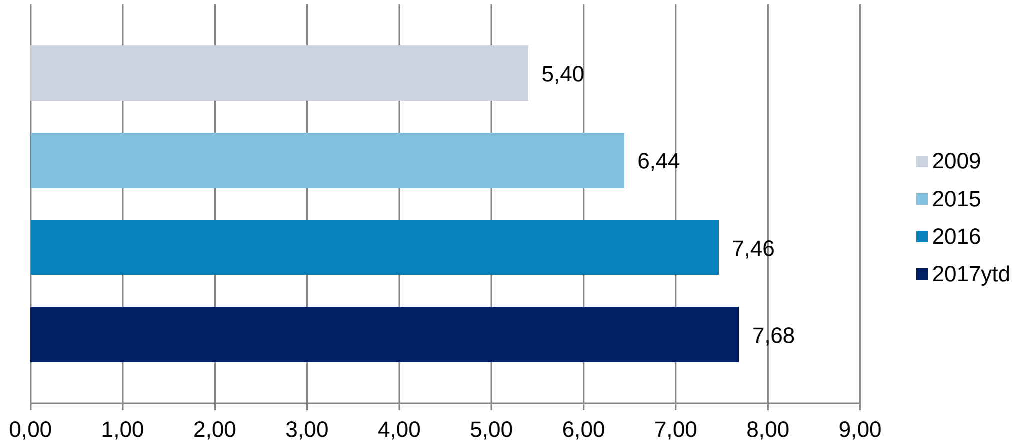


Source: BayernLB DCM

Corporate Schuldscheindarlehen

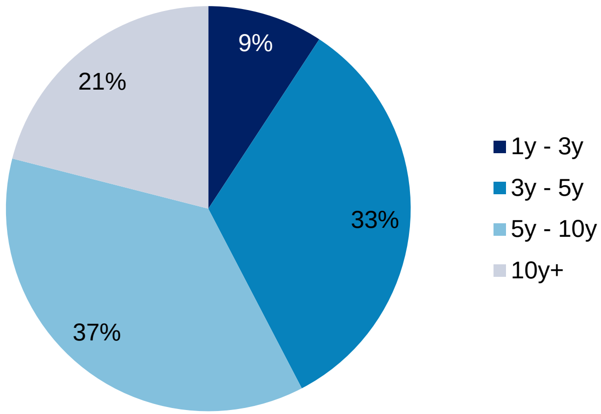
Extension of average maturity and implications

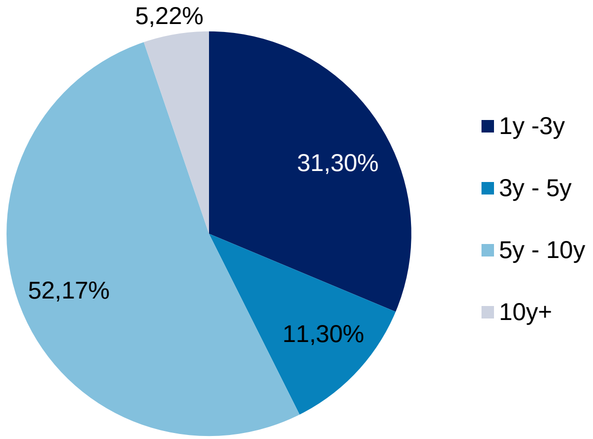
Extension of average maturity 2009 vs. 2015, 2016 and 2017 ytd



- Over the last few years, the average maturity in the Schuldschein Market increased by approx. 2.2 years from 5.4 to 7.6 years
- Furthermore the share of maturies of 1-3 years declined drastically
- An increasing number of issuers go for maturities of 5-10y when issuing Schuldschein
- It is eye-catching that the share of Schuldschein issued with maturities of 10y+ increased by approx. 15%
- This also underlines the good credit quality of issuers using Schuldschein for refinancing

Allocation of maturities 2016 (left side) compared to 2009 (right side)





Corporate Schuldschein Market

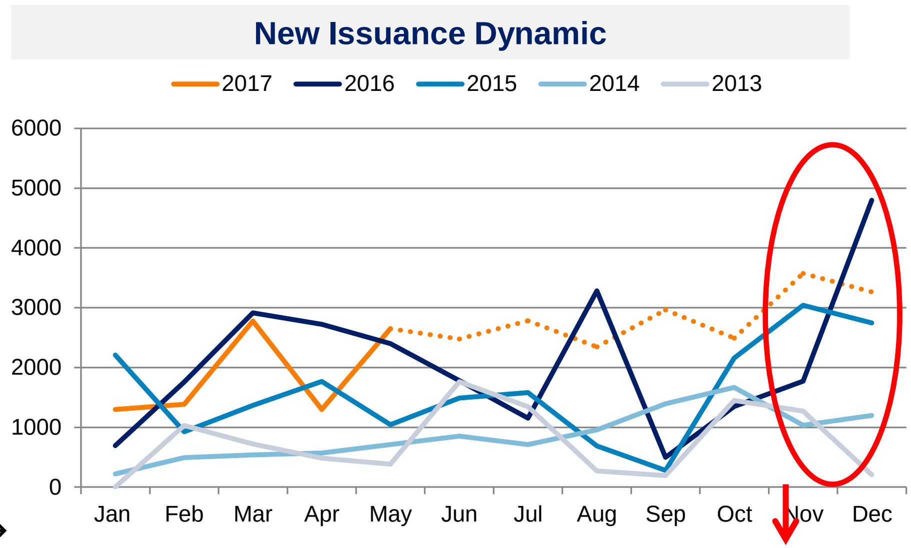
New issuance dynamic / SWOT analysis

Strengths

- Resilient against negative influences that the bond market faces, mainly volatility caused by monetary and political events
- Impact of CSPP delayed in regard to spread tightening and new investors entering the market
- Less onerous documentation and a high flexibility in terms of deal structure

Chances

- Investors searching for pickup at reasonable risk → SSD coupons are higher than bond coupons due to the low liquidity in secondary market
- Investors are hold-to-maturity-orientated
- Internationalization/flexibility



Increadably Strong Dec. compared to previous years boosts 2016 total issuance volume to new record

Weaknesses

- Slow primary and illiquid secondary market
- Investors aren‘t just looking for the typical fixed income asset but also for a credit relationship
- Strong similarities in investment process to traditional credit process
- In many cases, new investors have to initiate a new-product procedure before participating in a Schuldschein.

Threats

- Flooding of the market
- Too issuer friendly documentation, too aggressive pricings/lower spreads due to higher CSPP impact
- Rapid interest hike
- Bad credit quality
- Structural Subordination

Source: BayernLB DCM

Corporate Schuldscheindarlehen

General time table for Schuldschein issuance

Phase	Structuring	Documentation	Marketing / Sales	Closing/ Valuta
Targets	▪ Analysis and preparation of all relevant documents	▪ Addressing previously determined investor basis ▪ Providing information for investors		▪ Closing order book with highest possible amount and best pricing
Major Focus	▪ Structuring („Fine Tuning“) of the SSD (volume, tenors, coupon, covenants) ▪ Coordination of mandate agreement	▪ Coordination of SSD documentation ▪ Integration of potential external consultants/lawyers ▪ Structuring according to SynLoan / RCF, SSD standards and company targets	▪ Research Report (Issuer Profile) ▪ Addressing investors due to coordinated process (marketing) ▪ Opening of order books ▪ Investor presentation / call (optional) ▪ Order book update calls	▪ Closing order book ▪ Allocation of investors ▪ Pricing of Fix tranches ▪ Signing of SSD contracts ▪ Pricing of FRN tranches ▪ Valuta/settlement ▪ Paying agent and providing information after settlement
Result	▪ Signing of mandate agreement	▪ Determination of a coordinated documentation	▪ Allocation of adequate investor basis	▪ Settlement of the transaction
Time Table	2 weeks	5 weeks		2 weeks

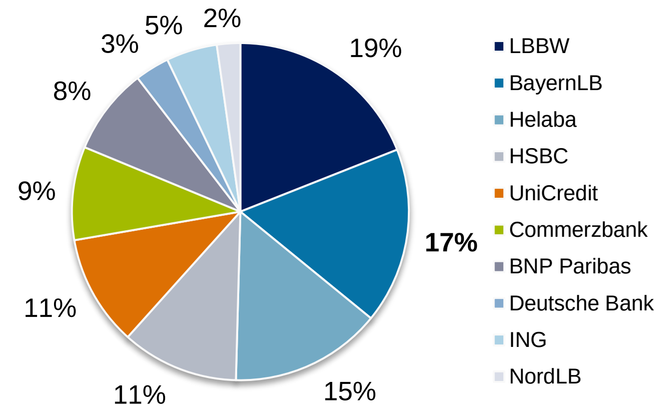
Corporate Schuldschein Market

Market positioning of BayernLB

Thomson Reuters FY2016 Corporate SSD League Table

Rank	Arranger	Full Credit (Euros)	Market Share	Deals
1	LBBW	10.717.999.990,00	19,01%	43
2	**BayernLB**	**9.514.990.121,44**	16,88%	**32**
3	Helaba	8.191.226.049,19	14,53%	32
4	HSBC	6.328.724.217,15	11,23%	16
5	UniCredit	5.995.255.494,99	10,64%	18
6	Commerzbank	5.045.969.065,66	8,95%	20
7	BNP Paribas	4.692.521.599,02	8,32%	16
8	Deutsche Bank	1.862.825.516,87	3,30%	14
9	ING	2.756.477.204,57	4,89%	7
10	NordLB	1.264.556.393,72	2,24%	13

Market Shares by Full Credit FY 2016



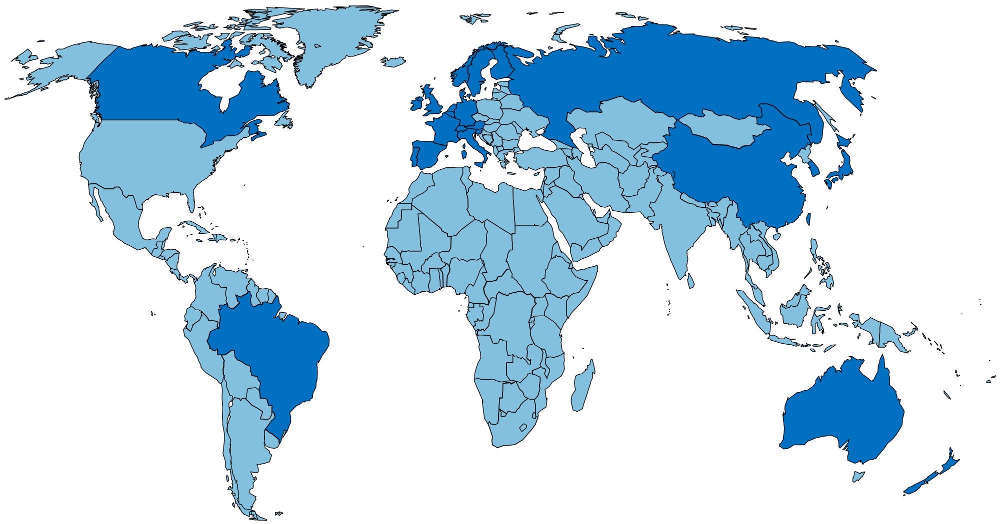
GlobalCapital Awards

BEST ARRANGER OF SCHULDSCHEINE
- 2016 -
BAYERNLB

- BayernLB always amongst **Top3** for years regarding transactions and issuance volume → **Full year 2016 Top2 (2015: Top2).**
- In contrast to our competitors, we do not run a trading book for SSD and manage to place full volumes externally – except for specific issuer requests.
- Due to our long-lasting expertise on the Schuldschein market we foster best connections to a **worldwide investor´s network (about 500 active investors).**
- BayernLB has been awarded as **Best Arranger of Schuldscheindarlehen 2016** by Global Capital. The prize is awarded on the basis of a survey of the market participants in November of the previous year.

Corporate Schuldschein Market
International Investor Base

Our national and international investor basis



Our Savings Banks Network

- Long lasting and solid customer relations resulting from successful transactions secure a deep and broad access to national and international investor basis.
- Expansion of sales units take account of the increasing and advancing internationalization of the Schuldschein market.

- Our sales department takes care of a comprehensive network including more than 360 Savings Banks in Germany, from which 68 are located in Bavaria and have a Fixed Income portfolio of EUR 40 bn.

Corporate Schuldscheindarlehen

BayernLB as leading partner for non-german issuers

- BayernLB is market leader in the issuance of non-German SSD for corporations.
- In the last 2 years, BayernLB has arranged more than 20 SSD for non-domestic issuers totaling in a volume of over EUR 5.5bn.
- BayernLB does not require complementary partner for most transactions.
- Foreign companies with existing German presence will find positive acceptance among investors.

Date	Issuer	Volume	Tenors	Role
April 2017	**Umicore SA**	EUR 330m	Tenors 6, 7, 10 years	Joint Lead Arranger
February 2017	**Etihad Airways**	EUR 50m / USD 20m	Tenors 3, 5 and 7 years	Joint Lead Arranger
January 2017	**POLYTEC Holding AG**	EUR 45m	Tenors 5 and 7 years	Sole Lead Arranger
January 2017	**Carillion plc**	GBP 112.5	Tenors 3, 5 and 7 years	Joint Lead Arranger
January 2017	**Agrial**	EUR 150m	Tenors 6, 7 and 10 years	Joint Lead Arranger
December 2016	**Etihad Airways**	EUR 174m / USD 110m	Tenors 3, 5 and 7 years	Joint Lead Arranger
December 2016	**Montana Tech Components**	EUR 135m	Tenors 4 and 7 years	Joint Lead Arranger
November 2016	**Sodiaal International SA**	EUR 120m	Tenors 5, 6 and 7 years	Sole Lead Arranger
September 2016	**Acciona S.A.**	EUR 150m	Tenors 3, 5 and 7 years	Joint Lead Arranger
September 2016	**AGCO Corp**	EUR 375m	Tenors 3, 5, 7, 10 years	Joint Lead Arranger
June 2016	**EDENRED**	EUR 250m	Tenors 5 and 7 years	Joint Lead Arranger
June 2016	**Compagnie Plastic Omnium**	EUR 300m	Tenor 7 years	Joint Lead Arranger
May 2016	**LafargeHolcim**	EUR 1bn	Tenors 5, 7 and 10 years	Joint Lead Arranger
April 2016	**Koninklijke FrieslandCampina N.V.**	EUR 300m	Tenors 5, 7, 8,5 and 10yr	Joint Lead Arranger
February 2016	**Hofer**			Joint Lead Arranger
September 2015	**Jacquet Metal Service SA**	EUR 88m	Tenor 5 years	Sole Lead Arranger
May 2015	**Bureau Veritas BV**	EUR 200m	Tenors 5 and 7 years	Joint Lead Arranger
May 2015	**Steinhoff Europe AG**	EUR 730m	Tenor 5, 7 and 10 years	Joint Lead Arranger

Corporate Schuldscheindarlehen

Benefits …

… for Issuers

- Extension and diversification of the existing investor base / most investors are buy-and-hold
- Reduction in usage of existing credit lines
- Lean and standardized documentation based on German law (no MTN program, no prospectus → lower costs, significantly less time-consuming)
- Reporting, bilateral in accordance with the German Banking Act (KWG) (no public reporting, no filing of reports)
- No external rating necessary
- Standard Covenants, usually based on existing syndicated loans or bonds of the issuer and adapted to the German Schuldschein Market
- Security structure, usually unsecured
- Pricing is usually between a syndicated loan and a corporate bond and is geared to comparable Schuldschein issues

… for Investors

- Extension and diversification of the borrower base due to investments in issuers investors would not have access to
- Additional potential yield
- No depreciation due to changed market valuation (compared to listed bonds)
- Standardized product (following the German law), low liquidity compared to publicly traded bonds due to a rather inactive secondary market → Arrangers provide a “light” secondary market
- Issuers are often not rated by rating agencies, however an issuer profile in most cases is available
- Banks, saving banks and cooperative banks are obliged to adhere §18 KWG and receive the relevant information

Attractive financing and investment instrument
supports the optimization of financing costs and structure of issuers
as well as the optimization of borrower base for investors

The Schuldschein Market – a market with strong future perspective?

- Schuldschein nowadays are a popular refinancing instrument especially in a volatile market environment.
- A trend in favor of refinancing through the debt capital markets and other benefits such as greater flexibility, confidentiality and low overall costs make the Schuldscheindarlehen a perfect refinancing instrument for a corporate borrower.
- Investors are often interested in investing in SSD because of the favorable accounting standards (no mark-to-market valuation) and the good possibility for diversification (region, sectors, credit quality).
- At the moment, Schuldscheindarlehen are providing appealing pickup in comparison to other fixed income assets at a reasonable risk.
- Especially Non-Frequent Issuers whose financing needs aren‘t large enough to be satisfied by a bond issue or who favour greater flexibility and less onerous documentation are providing supply at the Schuldschein new issue market.
- It is noteworthy that companies who have used SSD in the past are now returning to access the Schuldschein market. Thus, it has become a basic refinancing instrument for those companies.
- The refinancing of outstanding Schuldschein debt is one of the main drivers for the record year 2016.
- Through the issuance of various SSD or tranches with different maturities, most issuers are better able to achieve a more well-balanced debt maturity profile that is similar or better than other bond frequent issuers.
- Because of the ongoing internationalization and the growing issue volumes, an increasing number of bond issuers are using Schuldschein for diversification reasons in their funding mix as well.
- As issuers have the possibility to develop the documentation based on the bond prospectus, it is relatively easy and efficient for bond issuers to enter the SSD market.

Forecast: No end of the success story of the corporate Schuldschein on the horizon– on issuers’ side as well as on investors’ side increasing demand and further positive development and internationalization of market participants!

General Note

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