FitchRatings

Banks
Wholesale Commercial Banks
Germany

Bayerische Landesbank

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F1
Derivative Counterparty Rating	A(dcr)
Viability Rating	bbb+
Shareholder Support Rating	a-

Sovereign Risk (Germany)	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Key Rating Drivers

Support Drives IDR: Bayerische Landesbank's (BayernLB) Issuer Default Ratings (IDRs) and Shareholder Support Rating (SSR) are driven by Fitch Ratings' view of support from the bank's owners, the savings banks (Sparkassen-Finanzgruppe (Sparkassen); SFG, A+/Stable) and the State of Bavaria. Fitch uses SFG's Long-Term IDR as the anchor rating because support would need to be forthcoming from both SFG and the State of Bavaria to avoid triggering state-aid considerations and resolution under the German Recovery and Resolution Act if BayernLB fails.

The Stable Outlook on BayernLB's Long-Term IDR mirrors that of SFG. Fitch believes that Bavaria, which owns 75% of BayernLB, would participate in support measures for the bank, but BayernLB's SSR does not factor in support from the federal state as it is based on the lower of the two owners' ratings.

Adequate Business Profile: BayernLB's Viability Rating (VR) reflects the bank's largely wholesale-driven business model, moderate earnings-generation capacity, and adequate asset quality. It also reflects its healthy capital ratios, which provide satisfactory buffers over regulatory minimums, and the fairly stable funding profile.

Mainly Wholesale-Driven: BayernLB's business model is largely wholesale driven and sensitive to interest rates, given its reliance on net interest income, similar to its Landesbanken peers. Intense competition in most business segments structurally limits BayernLB's pricing power and weighs on its profitability.

The bank's selective approach to foreign business results in moderate geographic diversification. Its retail-banking activities undertaken by its subsidiary Deutsche Kreditbank AG (DKB) enhance the group's revenue mix and are critical to maintaining acceptable profitability.

Moderate Profitability: We expect the bank's four-year average operating profit to remain at about 1% of risk-weighted assets (RWAs) through the economic cycle. However, profitability could temporarily fall below this level as a challenging operating environment in Germany is likely to weaken loan demand and lead to higher loan impairment charges (LICs), which might only be partially offset by higher revenue from higher interest rates.

Resilient Asset Quality: We expect BayernLB's impaired loans ratio to deteriorate modestly in 2023 as a result of the economic downturn, rising interest rates and inflation, but for it to remain below 2% in the medium term. The bank's large sector exposure to certain industries, including mobility and energy, in addition to its focus on cyclical commercial real estate lending with inherently high loan concentration, constrains our asset-quality assessment.

Robust Capital: BayernLB's common equity Tier 1 (CET1) ratio (end-3Q22: 16.1%) is strong compared with peers and above the bank's year-end target of above 15%. It provides a reasonable cushion against a more adverse economic environment and offers a reasonable buffer over regulatory requirements. BayernLB could face challenges from an increase in RWAs resulting from loan growth and potential rating migration due to the recession, but we expect BayernLB's CET1 ratio to remain well above 15% in the medium term.

Sound Funding and Liquidity: BayernLB is primarily wholesale-funded, which is reflected in a moderately higher loans/deposits ratio than commercial bank peers'. However, it benefits from a high share of deposit-driven retail business at DKB and moderate capital-market funding requirements, due to the bank's reliable placement capacity within the savings bank sector. Its liquidity position is strong, covered by a large portfolio of liquid assets.

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Upgrades BayernLB's Viability Rating to 'bbb+'; Affirms IDR at 'A-'/Stable (March 2023)
Fitch Affirms Sparkassen-Finanzgruppe at 'A+'; Outlook Stable (June 2022)
Western European Banks Outlook 2023 (December 2022)

Analysts

Markus Glabach
+49 69 768076 195
markus.glabach@fitchratings.com

Marco Diamantini
+49 69 768076 114
marco.diamantini@fitchratings.com

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of SFG's IDRs, or an adverse change in BayernLB's ownership structure or in SFG's strategic commitment, could lead to a downgrade of BayernLB's IDRs and SSR.

The VR would likely be downgraded if we expect the bank's impaired loans ratio to rise to and remain above 3%, if the CET1 ratio falls durably below 13% or if operating profit declines below 0.7% of RWAs on a sustained basis without clear recovery prospects. In addition, a significant adverse change in its corporate structure could put pressure on the bank's VR, particularly if it impairs the bank's revenue-generating capacity.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of the IDRs and SSR are primarily sensitive to positive changes in our assumptions around the propensity or ability of BayernLB's owners, primarily SFG, to provide timely support. An upgrade of SFG's IDRs could lead to an upgrade of BayernLB's IDRs.

An upgrade of the VR would require a significantly stronger franchise, including more diversified customer and revenue bases, which would take considerable time to achieve. An upgrade would also be contingent on a structural improvement in BayernLB's profitability, with an operating profit sustainably above 2% of RWAs, without negatively affecting the bank's risk profile and capitalisation.

Other Debt and Issuer Ratings

Rating level	Rating
Deposits	A/F1
Senior non-preferred debt (SNP)	A-
Senior preferred debt (SP)	A/F1
Tier 2 subordinated notes	BBB-
State-guaranteed senior unsecured and Tier 2 debt	AAA

Source: Fitch Ratings

BayernLB's Derivative Counterparty Rating (DCR), long-term deposit rating and senior preferred debt ratings are one notch above its Long-Term IDR. This reflects the protection of preferred creditors arising from the bank's large resolution buffers including senior non-preferred and more junior debt. For the same reason, the senior non-preferred debt rating is in line with the bank's Long-Term IDR.

The short-term deposit rating is the lower of two ratings that map to its 'A' long-term deposit rating, in line with Landesbanken peers'. This is because we believe that, despite the owners' very high propensity to provide support to BayernLB, we believe there are potential impediments to the prompt flow of funds, given the lengthy process required to support a Landesbank, which are not commensurate with an 'F1+' short-term rating.

The 'AAA' ratings of BayernLB's grandfathered state-guaranteed senior unsecured and Tier 2 subordinated notes reflect our view of the creditworthiness of the State of Bavaria, which is closely linked to that of Germany (AAA/Stable), and reflect outstanding recovery prospects arising from the guarantee of Bavaria. BayernLB's non-guaranteed Tier 2 subordinated bond rating is notched down twice from the bank's VR to reflect loss severity that is in line with Fitch's baseline approach.

Ratings Navigator

Bayerische Landesbank

ESG Relevance:

Banks
Ratings Navigator

	Operating Environment	Business Profile	Risk Profile	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Implied Viability Rating	Viability Rating	Shareholder Support	Issuer Default Rating
				Financial Profile							
		20%	10%	20%	15%	25%	10%				
aaa								aaa	aaa	aaa	AAA
aa+								aa+	aa+	aa+	AA+
aa								aa	aa	aa	AA
aa-								aa-	aa-	aa-	AA-
a+								a+	a+	a+	A+
a								a	a	a	A
a-								a-	a-	a-	A- Sta
bbb+								bbb+	bbb+	bbb+	BBB+
bbb								bbb	bbb	bbb	BBB
bbb-								bbb-	bbb-	bbb-	BBB-
bb+								bb+	bb+	bb+	BB+
bb								bb	bb	bb	BB
bb-								bb-	bb-	bb-	BB-
b+								b+	b+	b+	B+
b								b	b	b	B
b-								b-	b-	b-	B-
ccc+								ccc+	ccc+	ccc+	CCC+
ccc								ccc	ccc	ccc	CCC
ccc-								ccc-	ccc-	ccc-	CCC-
cc								cc	cc	cc	CC
c								c	c	c	C
f								f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The business profile score of 'bbb' is below the 'a' implied category score, due to the following adjustment reason: business model (negative).

The asset quality score of 'a-' is below the 'aa' implied category score, due to the following adjustment reason: concentrations (negative).

The capitalisation and leverage score of 'a-' is below the 'aa' implied category score, due to the following adjustment reasons: internal capital generation and growth (negative)

Company Summary and Key Qualitative Factors

Business Profile

Medium-Sized Commercial Bank with Regional Corporate Focus

BayernLB is a publicly-owned wholesale bank that performs a statutory role as a Landesbank for the State of Bavaria and the Bavarian savings banks. It has a solid commercial franchise in its core region and operates in some segments across Germany, primarily in corporate lending, including renewable energy (RE) and commercial real estate (CRE). BayernLB's business profile benefits from diversification arising from DKB's retail and SME businesses, which are key contributors to the group's pre-tax profit.

BayernLB's limited pricing power in its corporate banking weighs on its profitability, and is only partly offset by its established relationships with large corporates of high importance for the Bavarian economy. BayernLB's modest international franchise focuses on western Europe, but the bank supports corporate customers globally from key international financial centres.

CRE lending is predominantly domestic and dominated by lower-risk residential assets, partially backed by local government guarantees. BayernLB consolidates a development bank, Bayerische Landesbodenkreditanstalt, which primarily engages in subsidised housing and municipal business in Bavaria, and whose liabilities (less than 10% of BayernLB's total liabilities) are irrevocably guaranteed by the State of Bavaria.

Risk Profile

Like all Landesbanken, BayernLB's risk profile is dominated by credit risk and benefits from the bank's past deleveraging and low appetite for higher-risk segments, such as leveraged finance. The recent transformation process and focus on core growth segments leads to increased concentration risks – including large single-name CRE exposure and cluster risks in several industries, such as mobility and energy, which is mitigated by a higher level of loan granularity at DKB.

BayernLB's underwriting standards are sound, as reflected in a high 90% proportion of credit exposure to investment-grade counterparties and to German commercial and retail customers at end-1H22, whose financial strength has proven resilient. However, the unusual length of the current credit cycle means that underwriting standards have yet to be tested in the recent downturn. BayernLB's foreign lending stems predominantly from CRE lending on properties in capital regions in the EU, with reasonably prudent underwriting standards and stricter requirements than for domestic loans.

Financial Profile

Asset Quality

Modest Increase in Impaired Loans Likely

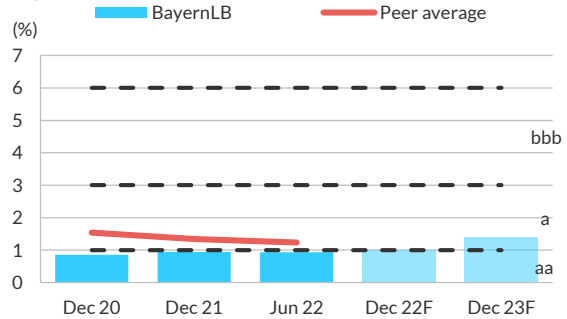
BayernLB's asset quality has been resilient so far, despite the gradually worsening operating environment in Germany. The impaired loans ratio reported by the bank remained low at 0.9% at end-1H22, and is significantly stronger than the German banking sector average. It continues to benefit from prudent underwriting standards, including in international lending. However, given the economic downturn in Germany, we expect an increase in impaired loans of up to 60bp/gross loans over the next 24 months. The potential deterioration in asset quality is less pronounced compared with peers, given BayernLB's exposure mix, benefitting from less vulnerable retail mortgage loans.

BayernLB's corporate loan book (22% of its total credit exposure at end-1H22) is vulnerable to adverse economic developments due to the expected recession in Germany, as it is exposed to cyclical industries and sectors we consider to be more affected by high inflation (such as retail) as well as industries (such as mobility and energy) exposed to rising energy prices and supply issues. The exposure to the energy sector is high (about 300% of the bank's CET1 capital at end-1H22); however, this is mitigated by the fact that about 60% of the exposure relates to renewable energy, such as solar and wind farms. The majority of these transactions are structured as project financings that benefit to a large degree from long-term, legally guaranteed feed-in tariffs under German law.

BayernLB's CRE business also includes inherently high loan concentrations, which is mitigated by adequate provisioning and strong collateralisation, in our view. However, structural changes in the market, some of which have been accelerated by the pandemic – including lower office demand due to flexible working arrangements and the shift to online shopping – could also weigh on the quality of CRE assets in the longer term.

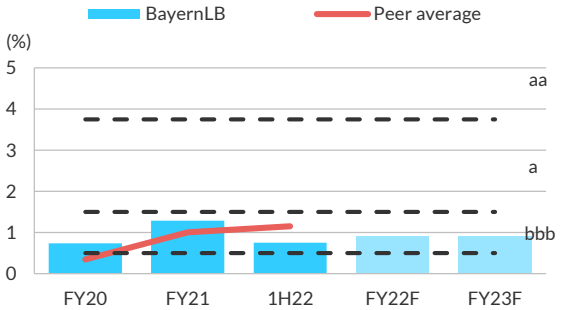
About 39% of the group's RWA reside at DKB, where loan exposures are generally more granular, supporting the group's asset quality. DKB's impaired loan ratio is about the same level as BayernLB despite its different business mix.

Impaired Loans/Gross Loans



Source: Fitch Ratings, BayernLB

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, BayernLB

Earnings and Profitability

Revenue Benefitting from Higher Rates

BayernLB's profitability is modestly increasing. We expect BayernLB's operating return on RWA to be about 1% through the cycle. This is moderate compared with international peers but in line with that of most German commercial banks. Given the higher interest rate environment, net interest income (NII) is likely to benefit from higher income resulting from its securities portfolio, but this will be diluted by cost inflation and increasing LICs, due to the recessionary environment in Germany. Impaired loans and Stage 2 exposures are adequately covered by loan loss allowances including management adjustments, which support the bank's capacity to cover impaired loans resulting from the economic downturn.

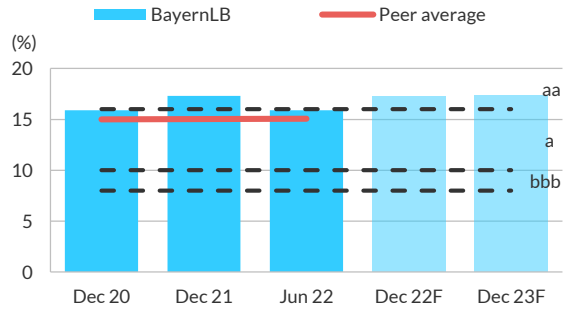
Structurally, with a share of about 75%, BayernLB's revenues are dominated by NII, with some diversification from fee income (mostly commissions from asset management and securities activities). The largest part of NII is generated in DKB, which accounted for 56% of the group's total in 1H22. Overall beneficial funding conditions in recent years, combined with volume growth and DKB's higher margins in retail business, support BayernLB's earnings performance and stability. BayernLB has capped its strategic loan growth to be no higher than EUR70 billion RWAs by end-2024, which somewhat constrains its longer-term earnings potential. However, DKB's growth should support profitability due to higher margins than in the group's wholesale business.

Capital and Leverage

BayernLB's CET1 ratio benefits from the retention of most of its profits and stable RWAs, including through the pandemic, and is now higher than the average of German and European peers. We expect a further improvement at end-2022, assuming a profitable 4Q22.

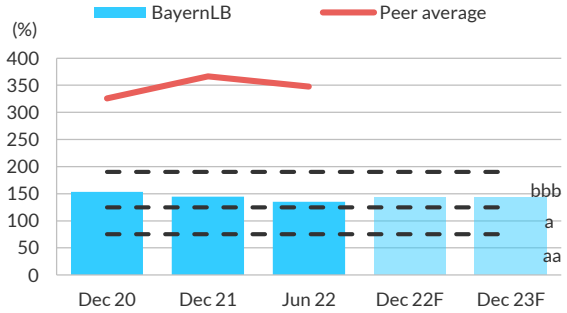
The bank's 14% CET1 ratio target offers a sizeable buffer over its regulatory requirement of 8.6%. The ratio could face pressure from 2023 due to increasing RWAs caused by negative rating migration resulting from the recession in Germany or stronger-than-anticipated loan growth.

CET1 Ratio



Source: Fitch Ratings, BayernLB

Gross Loans/Customer Deposits



Source: Fitch Ratings, BayernLB

Funding and Liquidity

Funding and Liquidity Profile Benefits from Close Links with SFG

BayernLB's funding and liquidity are sound and its refinancing structure is stable. Its wholesale funding benefits from its strong institutional client base and covered bond franchise (including DKB). BayernLB generally does not use DKB's retail deposits for intragroup funding. Given its membership in SFG's mutual protection scheme, its good placement capacity within SFG offers valuable insulation from funding market disruptions. Investments by SFG's member in the bank's unsecured debt benefit from a 0% regulatory risk weight.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category. Light-blue columns represent Fitch's forecasts.

Peer average includes Landesbank Baden-Wuerttemberg (VR: bbb+), Landesbank Saar (bbb-), Norddeutsche Landesbank Girozentrale (bb), UniCredit Bank AG (bbb+), Berlin Hyp AG (bbb+).

Financials

Financial Statements

	30 Jun 22		31 Dec 21	31 Dec 20	31 Dec 19
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
Summary income statement					
Net interest and dividend income	964	928	1,864	1,763	1,875
Net fees and commissions	227	219	380	331	287
Other operating income	-28	-27	409	211	33
Total operating income	1,163	1,120	2,653	2,305	2,195
Operating costs	955	919	1,791	1,682	1,580
Pre-impairment operating profit	209	201	862	623	615
Loan and other impairment charges	-48	-46	48	142	-251
Operating profit	257	247	814	481	866
Other non-operating items (net)	31	30	2	-286	-213
Tax	104	100	260	-37	187
Net income	184	177	556	232	466
Summary balance sheet					
Assets					
Gross loans	171,998	165,589	158,988	152,376	144,997
- Of which impaired	1,600	1,540	1,492	1,317	1,488
Loan loss allowances	1,103	1,062	1,102	1,073	963
Net loans	170,895	164,527	157,886	151,303	144,034
Interbank	52,290	50,342	56,251	56,166	31,096
Derivatives	5,887	5,668	7,925	10,944	10,348
Other securities and earning assets	22,471	21,634	21,806	24,965	28,638
Total earning assets	251,544	242,171	243,868	243,378	214,116
Cash and due from banks	39,129	37,671	17,542	9,342	8,512
Other assets	5,674	5,463	5,144	3,551	3,337
Total assets	296,347	285,305	266,554	256,271	225,965
Liabilities					
Customer deposits	127,351	122,606	109,932	99,527	89,540
Interbank and other short-term funding	90,026	86,672	82,023	78,354	54,044
Other long-term funding	51,197	49,289	51,406	53,283	53,398
Trading liabilities and derivatives	12,430	11,967	9,416	10,552	11,536
Total funding and derivatives	281,004	270,534	252,777	241,716	208,518
Other liabilities	1,991	1,917	1,440	2,948	5,490
Preference shares and hybrid capital	31	30	30	31	427
Total equity	13,320	12,824	12,307	11,576	11,530
Total liabilities and equity	296,347	285,305	266,554	256,271	225,965
Exchange rate		USD1 = EUR0.96274	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, Bayerische Landesbank

Key Ratios

	30 Jun 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.8	1.3	0.7	1.3
Net interest income/average earning assets	0.8	0.8	0.8	0.8
Non-interest expense/gross revenue	82.1	67.5	73.0	72.0
Net income/average equity	2.9	4.6	2.0	4.1
Asset quality				
Impaired loans ratio	0.9	0.9	0.9	1.0
Growth in gross loans	4.2	4.3	5.1	4.4
Loan loss allowances/impaired loans	69.0	73.9	81.5	64.7
Loan impairment charges/average gross loans	-0.1	0.0	0.1	-0.2
Capitalisation				
Common equity Tier 1 ratio	15.9	17.3	15.9	15.9
Tangible common equity/tangible assets	4.3	4.5	4.3	4.9
Basel leverage ratio	3.8	5.3	4.3	4.2
Net impaired loans/common equity Tier 1	4.6	3.6	2.4	5.1
Funding and liquidity				
Gross loans/customer deposits	135.1	144.6	153.1	161.9
Liquidity coverage ratio	202.8	211.0	245.0	168.0
Customer deposits/total non-equity funding	47.2	45.0	42.9	44.8
Net stable funding ratio	131.5	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Bayerische Landesbank

Support Assessment

Shareholder Support	
Shareholder IDR	A+
Total Adjustments (notches)	-2
Shareholder Support Rating	a-
Shareholder ability to support	
Shareholder Rating	A+/ Stable
Shareholder regulation	2+ Notches
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	1 Notch
Reputational risk	1 Notch
Integration	2+ Notches
Support record	Equalised
Subsidiary performance and prospects	1 Notch
Legal commitments	1 Notch

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

High Probability of Support from SFG

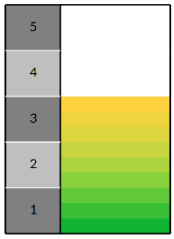
BayernLB's IDRs and SSR reflect Fitch's view that there is a very high probability that support from the bank's owners, the Sparkassen and the State of Bavaria, would be forthcoming, if needed. Fitch uses SFG's Long-Term IDR as the anchor rating because support would need to be forthcoming from both SFG and the State of Bavaria to avoid triggering state-aid considerations and resolution under the German Recovery and Resolution Act if BayernLB fails.

The Stable Outlook on BayernLB's Long-Term IDR mirrors that of SFG. Fitch believes that Bavaria, which owns 75% of BayernLB, would participate in support measures for the bank, but BayernLB's SSR does not factor in support from the federal state as it is based on the lower of the two owners' ratings.

We notch down BayernLB's Long-Term IDR twice from SFG's 'A+' to reflect regulatory restrictions on support, due to the requirement for state-aid examination under the EU competition rules. The two-notch difference also reflects BayernLB's strategic, but not key and integral, role for its owners.

Environmental, Social and Governance Considerations

Overall ESG



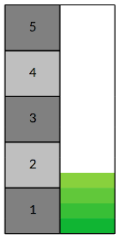
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Environmental (E)

General Issues	Score	Impact	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1		n.a.	n.a.
Energy Management	1		n.a.	n.a.
Water & Wastewater Management	1		n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1		n.a.	n.a.
Exposure to Environmental Impacts	2		Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality

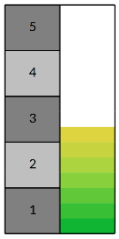
E Scale



Social (S)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2		Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile
Customer Welfare - Fair Messaging, Privacy & Data Security	3		Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile
Labor Relations & Practices	2		Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)
Employee Wellbeing	1		n.a.	n.a.
Exposure to Social Impacts	2		Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile

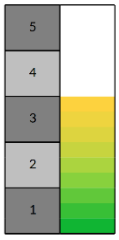
S Scale



Governance (G)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Management Strategy	3		Operational implementation of strategy	Business Profile (incl. Management & governance)
Governance Structure	3		Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage
Group Structure	3		Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)
Financial Transparency	3		Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)

G Scale



Unless stated otherwise in this section Bayern LB's highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact, either due to their nature or the way in which they are being managed by the bank. For more information see www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.