

Bayerische Landesbank

Public Sector Pfandbriefe

Update

Rating/Outlook

Public sector Pfandbriefe	AAA/Stable
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Rating Rationale

IDR/Outlook	A-/Stable
IDR uplift	1 notch
Payment continuity uplift	5 notches
Tested rating on a probability of default (PD) basis	AA
Recovery given default uplift	2 notches
Covered bond rating	AAA
OC Fitch considers in analysis (%)	38.0
'AAA' breakeven OC (%)	10.5

Key Data

	Dec 17
Asset type	Public sector
Cover assets (EURbn)	23.2
Pfandbriefe (EURbn)	16.6
Nominal OC (%)	39.4
Stressed WAL of assets (years)	13.2
WAL of liabilities (years)	7.4

Related Research

[Fitch Affirms BayernLB's Public Sector Pfandbriefe at 'AAA'; Outlook Stable \(March 2018\)](#)

[No Impact on BayernLB's 'AAA' Pfandbriefe from Breakeven OC Revision \(March 2018\)](#)

[Fitch 2018 Outlook: Covered Bonds \(December 2017\)](#)

[Covered Bonds Surveillance Snapshot \(January 2018\)](#)

[Banks' Use of Covered Bonds: 2017 Update \(January 2018\)](#)

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Key Rating Drivers

Two-Notch Downgrade Buffer: The 'AAA' rating of Bayerische Landesbank's (BayernLB, A-/Stable/F1/bbb) public sector Pfandbriefe is based on BayernLB's Long-Term Issuer Default Rating (IDR), an IDR uplift of one notch, a payment continuity uplift (PCU) of five notches, and the overcollateralisation (OC) Fitch Ratings relies upon of 38.0%, which provides more protection than the 'AAA' breakeven (BE) OC of 10.5%. The Outlook is Stable.

High Credit Quality: The credit loss remains low compared with the peer average, which reflects the geographical concentration of the cover pool to Germany, accounting for 94% of the cover pool. It increased slightly by 50bp to 3.8% in the 12 months to this review, largely stemming from updated maturities on floating-rate loans, which account for about 7% of the cover pool. The programme continues to be credit-linked to Germany (AAA/Stable/F1+).

Unchanged One-Notch IDR Uplift: BayernLB's public sector programme has an unchanged IDR uplift of one notch. This is because the bank's Long-Term IDR is support-driven, Pfandbriefe are exempt from bail-in in a resolution scenario, Fitch does not expect resolution of the issuer to result in the direct enforcement of recourse against the cover pool and the risk of undercollateralisation at the point of resolution is assessed as low.

Unchanged PCU of Five Notches: The unchanged PCU of five notches reflects the mandatory inclusion of liquid assets in the cover pool matching the maximum negative accumulated balance of cash flows for the next 180 days, which provides effective protection for interest and principal payments for standard German public sector Pfandbriefe.

Unchanged Two-Notch Recovery Uplift: Fitch has a two-notch recovery uplift to BayernLB's public sector covered bonds as we expect the programme to benefit from outstanding recoveries and no material risks to these recovery expectations were identified.

Programme Highlights

Highly Granular Cover Pool: As of December 2017, the cover pool comprised 94,931 assets with an average loan amount of EUR243,986, significantly below peers. In line with peers, the exposure is regionally concentrated (Bavaria accounts for about two-thirds of the cover pool). International exposure is almost entirely to highly rated countries.

Vulnerability to Low Prepayments: The modelled worst-case low prepayment scenario increases the need for forced asset sales to ensure the timely payment of the outstanding Pfandbriefe. The programme's asset disposal loss component rose to 2.6% from 1.3% as a result. The negative impact of the low prepayments is partly offset by an improved cash flow valuation, which improved by 50bp to 4.1%. Low prepayments enable the programme to earn a significant excess spread over the life of the programme.

High Maturity Mismatches: The programme exhibits significant maturity mismatches, as the weighted average (WA) life of cover assets with 13.2 years considerably exceeds the WA life of outstanding Pfandbriefe (7.4 years). The programme further has an open foreign-currency position of 4.3%, which is higher than peers and not mitigated by hedges in the form of registered privileged derivatives.

Cover Pool

Characteristics: Dec 17

General	
Number of assets	94,931
Final obligors	1,978
Average loan amount (EUR)	243,986

Geographical breakdown (%)	
Germany	94
United Kingdom	4
France	2
Other	0

German exposure breakdown (%) ^a	
Bavaria	66
North Rhine-Westphalia	8
Hesse	5
Lower Saxony	4
Hamburg	3
Rhineland-Palatinate	2
Berlin	2
Thuringia	2
Baden-Wuerttemberg	2
Bremen	2
Other	4

Instrument type (%)	
Loans	85
Promissory notes	11
Bonds	4

Rate type	
Fixed assets (%)	93
Fixed Pfandbriefe (%)	92

Redemption type (%)	
Annuity	38
Bullet	37
Instalment	25

Currency breakdown (EURbn)		
	Assets	Pfandbriefe
EUR	22.2	15.3
GBP	0.6	0.6
USD	0.3	0.5
CHF	0.0	0.2
CAD	0.0	-

^a Excluding Euler Hermes guaranteed assets
Source: Fitch/BayernLB

Related Criteria

[Covered Bonds Rating Criteria \(March 2018\)](#)

[Bank Rating Criteria \(March 2018\)](#)

[Covered Bonds and CDOs Public Entities' Asset Analysis Rating Criteria \(December 2017\)](#)

[Structured Finance and Covered Bonds](#)

[Country Risk Rating Criteria \(September 2017\)](#)

[Counterparty Criteria for Structure Finance and Covered Bonds \(May 2017\)](#)

[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(February 2018\)](#)

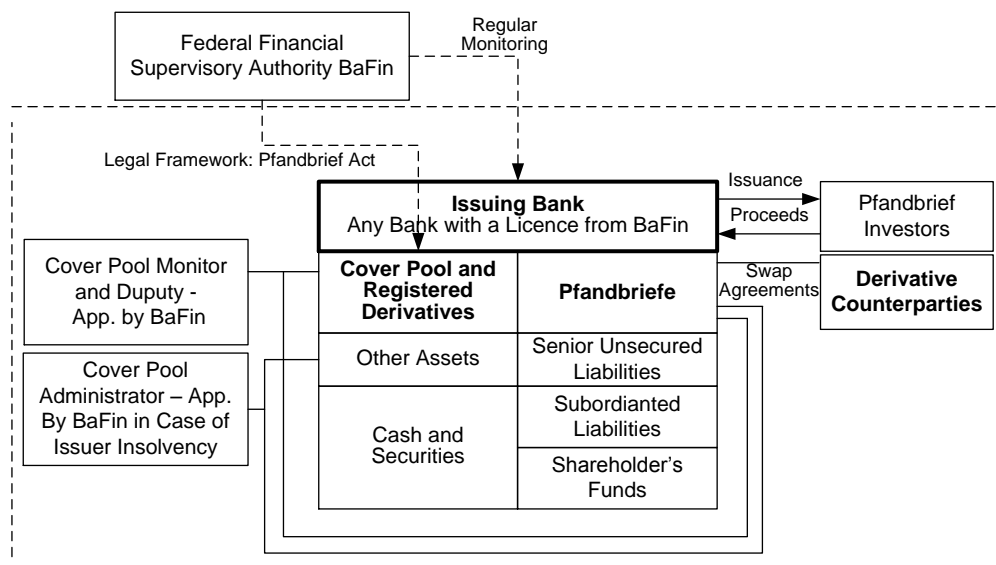
[Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds – Excel File \(February 2018\)](#)

[Fitch's Foreign-Currency Stress](#)

[Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance – Excel File \(October 2017\)](#)

[CLOs and Corporate CDOs Rating Criteria \(February 2018\)](#)

Diagram of a Pfandbrief Issuance



Source: Fitch

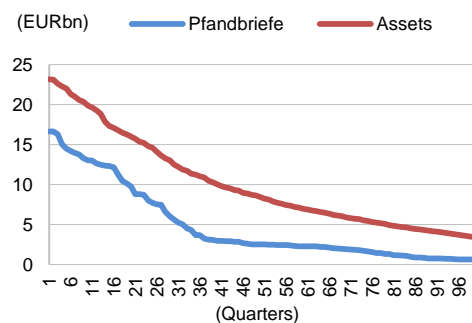
Fitch Default Model Output (%)

Rating level	AAA	AA+	AA
Rating Default Rate (RDR)	17.1	15.5	13.5
Rating Recovery Rate (RRR)	62.6	71.0	72.6

Source: Fitch

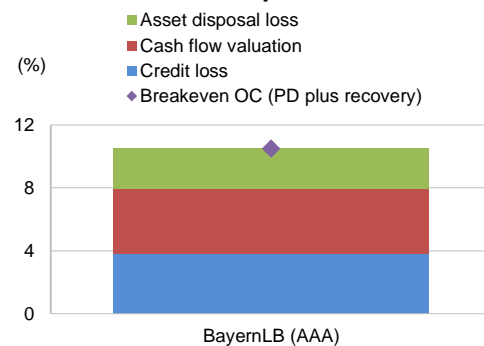
Amortisation Profile

(As of December 2017)



Source: Fitch/BayernLB

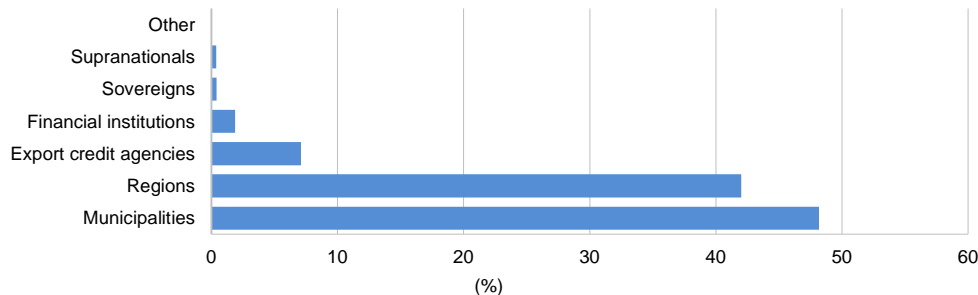
Breakeven OC Components



Source: Fitch

Distribution by Exposure Type

(% of cover assets)



Source: Fitch/BayernLB

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