



Fitch Affirms BayernLB's Public Sector Pfandbriefe at 'AAA'; Outlook Stable

Fitch Ratings - Frankfurt am Main - 29 October 2019:

Fitch Ratings has affirmed Bayerische Landesbank's (BayernLB; A-/Stable) public sector Pfandbriefe at 'AAA' with a Stable Outlook.

RATING ACTIONS		
ENTITY/DEBT	RATING	PRIOR
Bayerische Landesbank		
senior secured, Public Sector Covered Bonds, Public Sector Pfandbriefe	LT AAA ● Affirmed	AAA ●

KEY RATING DRIVERS

The 'AAA' rating of the Pfandbriefe is based on BayernLB's Long-Term Issuer Default Rating (IDR) of 'A-' and the various uplifts above the IDR granted to the programme. It also reflects overcollateralisation (OC) protection for Pfandbrief holders.

The Pfandbriefe are rated six notches above the bank's IDR. This is out of a maximum achievable uplift of eight notches, consisting of an IDR uplift of one notch, a payment continuity uplift (PCU) of five notches and a recovery uplift of two notches.

As the issuer's Short-Term IDR is 'F1', we rely in our analysis on the lowest available OC of the last 12 months, which amounts to 20.6%. This provides more protection than Fitch's 'AAA' breakeven OC of 10.5%.

Fitch's 'AAA' breakeven OC has increased to 10.5% (from 10%) over the last 12 months. A moderate increase of the ALM loss component (maturity, interest rate and FX mismatches) to 6.8% from 6.1% is partially compensated by a slightly lower credit loss component of 3.5% (from 3.8%).

The Stable Outlook reflects a two-notch buffer against an IDR downgrade of the issuing bank.

UPLIFTS

The IDR uplift of one notch granted to the programme is unchanged. This is because the bank's Long-Term IDR is support-driven, Pfandbriefe are exempt from bail-in in a resolution, 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.

The five-notch PCU reflects principal liquidity protection provided by the mandatory inclusion of liquid assets in the cover pool matching the maximum negative accumulated balance of cash flows for the next 180 days under the Pfandbrief law.

The recovery uplift for the programme is two notches as the tested rating on a probability of default (PD) basis is in the investment-grade range and also because we did not identify specific limitations to recovery expectations.

As the weighted average life (WAL) of BayernLB's cover assets exceeds eight years, the exposure is above the stress period considered in Fitch's FX stresses. As assets and liabilities denominated in sterling are broadly matched and are expected to remain so in the medium-term, the standard category 2 was applied for the euro-sterling currency pair under Fitch's FX stress assumptions.

RATING SENSITIVITIES

The 'AAA' rating would be vulnerable to downgrade if BayernLB's IDR is downgraded to 'BBB-' or below or if the relied-upon OC provides less protection than Fitch's 'AAA' breakeven OC.

If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 2% on a net present value basis, the programme could only achieve a one-notch recovery uplift. As a result, the Pfandbrief rating would likely be downgraded to 'A+', one notch above BayernLB's IDR as adjusted by the IDR uplift.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

BayernLB's public sector Pfandbrief rating remains credit-linked to Germany (AAA/Stable/F1+), reflecting their 94.5% exposure to German debtors.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is typically a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the BayernLB public sector Pfandbriefe, either due to their nature or to the way in which they are being managed.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg

Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 12 Oct 2018)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Oct 2018)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 18 Apr 2019)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 18 Apr 2019)

CLOs and Corporate CDOs Rating Criteria (pub. 03 Jul 2019)

Covered Bonds Rating Criteria (pub. 24 Jul 2019)

Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance (Excel) (pub. 24 Jul 2019)

Covered Bonds and CDOs Public Entities' Asset Analysis Rating Criteria (pub. 14 Oct 2019)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 28 Oct 2019)

Fitch Ratings Interest Rate Stress Assumptions for Structured Finance and Covered Bonds (pub. 28 Oct 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

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