

**RATING ACTION COMMENTARY**

# Fitch Revises BayernLB's Outlook to Stable after Similar Action on Sparkassen-Finanzgruppe

Feedback

Mon 05 Jul, 2021 - 9:51 AM ET

Fitch Ratings - Frankfurt am Main - 05 Jul 2021: Fitch Ratings has revised BayernLB's Outlook to Stable from Negative, while affirming the bank's long-Term Issuer Default Rating (IDR) at 'A-'.

The Outlook revision follows a recent similar rating action on BayernLB's ultimate provider of support, Sparkassen-Finanzgruppe (SFG; see 'Fitch Revises SFG Outlook to Stable, Affirms IDR at 'A+' on 30 June 2021). The IDRs of BayernLB are based on Fitch's assessment of institutional support from SFG and Bavaria. BayernLB's Viability Rating (VR) of 'bbb' is unaffected by today's rating action.

**KEY RATING DRIVERS**

IDRs, SUPPORT RATING (SR) AND SENIOR NON-PREFERRED (SNP) DEBT

Unless noted below, the key rating drivers for BayernLB are those outlined in our Rating Action Commentary published on 29 March 2021 ('Fitch Affirms BayernLB's Long-Term IDR at 'A-'; Outlook Negative').

BayernLB's IDRs, SNP ratings and Support Rating are driven by Fitch's view of a strong likelihood of support from the bank's ultimate owners, the State of Bavaria and the savings banks (SFG, A+/Stable).

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. 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 EU competition rules. The two-notch difference reflects BayernLB's strategic, but not key and integral, role for their respective owners.

The Stable Outlook on BayernLB's IDR mirrors that of SFG.

## DCR, DEPOSIT AND SENIOR PREFERRED DEBT RATINGS

BayernLB's Derivative Counterparty Rating (DCR), long-term deposit rating and senior preferred debt ratings are rated one notch above the bank's Long-Term IDR. This uplift reflects the respective creditors' preferential status over BayernLB's large buffer of qualifying junior and SNP debt.

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

## RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of BayernLB's IDRs and SNP debt ratings would require an upgrade of SFG's ratings.

An upgrade of BayernLB's IDRs would trigger an upgrade of the Long-Term DCR, senior preferred debt and deposit ratings if the bank maintains a buffer of junior and SNP debt above 10% of its RWAs.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A downgrade of SFG's IDRs, an unfavourable change in the ownership structure or in the owners' strategic commitment to BayernLB could lead to a downgrade of BayernLB's IDRs and SNP debt ratings.

A downgrade of BayernLB's IDRs would trigger a downgrade of the DCR, senior preferred debt and deposit ratings. We could also downgrade these ratings if we expect the sum of junior and SNP debt to decrease, in particular, if the buffer is likely to fall and remain sustainably below 10% of its RWAs.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS**

BayernLB's ratings are driven by potential support from SFG.

## **ESG CONSIDERATIONS**

Unless otherwise disclosed in this section, the 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 on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

## RATING ACTIONS

| ENTITY/DEBT            | RATING  |                          |          | PRIOR                      |
|------------------------|---------|--------------------------|----------|----------------------------|
| Bayerische Landesbank  | LT IDR  | A- Rating Outlook Stable | Affirmed | A- Rating Outlook Negative |
|                        | ST IDR  | F1                       | Affirmed | F1                         |
|                        | Support | 1                        | Affirmed | 1                          |
|                        | DCR     | A(dcr)                   | Affirmed | A(dcr)                     |
| ● Senior non-preferred | LT      | A-                       | Affirmed | A-                         |
| ● long-term deposits   | LT      | A                        | Affirmed | A                          |

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## APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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Bayerische Landesbank

EU,UK Endorsed

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