

Bayerische Landesbank (/gws/en/esp/issr/81203048)**Fitch Affirms BayernLB's Public Sector Pfandbriefe at 'AAA'; Outlook Stable**

Fitch Ratings-Frankfurt/London-15 March 2018: Fitch Ratings has affirmed Bayerische Landesbank's (BayernLB, A-/Stable/F1/bbb) outstanding public sector Pfandbriefe at 'AAA'. The Outlook is Stable.

KEY RATING DRIVERS

The 'AAA' rating is based on BayernLB's Long-Term Issuer Default Rating (IDR) of 'A-', an IDR uplift of one notch, a payment continuity uplift (PCU) of five notches, two notches recovery uplift and the 38.0% overcollateralisation (OC) Fitch relies upon, which provides more protection than the 'AAA' breakeven (BE) OC of 10%.

BayernLB's 'AAA' breakeven OC has increased to 10% from 9%. The main constituent is the credit loss, which has increased slightly by 50bp to 3.8%. The increase largely stems from updated maturities on floating rate loans. The credit loss remains low compared with peers, which also reflects the geographical concentration of the cover pool to Germany, accounting for 94% of the cover pool. The programme continues to be credit-linked to Germany (AAA/Stable/F1+).

The second largest component is the cash flow valuation, which improved to 3.7% from 4.6%, reflecting the now driving low prepayment scenario. Low prepayments enable the programme to earn excess spread of around 4.5% over the life of the programme. On the other hand, low prepayments correspond to less cash available to redeem maturing Pfandbriefe, increasing the need for forced asset sales. Thus the programme's asset disposal loss increased to 2.5% (from 1.3%).

RATING SENSITIVITIES

BayernLB's public sector Pfandbrief 'AAA' rating would be vulnerable to downgrade if any of the following occurs: (i) BayernLB's Long-Term Issuer Default Rating (IDR) is downgraded by three or more notches to 'BBB-' or below; or (ii) the OC that Fitch considers in its analysis drops below Fitch's 'AAA' breakeven level of 10%; or (iii) the German sovereign is downgraded to 'AA+' or below.

If the OC that Fitch considers in its analysis drops to the legal minimum requirement of 2% on a net present value basis, the rating would likely be

downgraded to 'A+', reflecting an IDR uplift of one notch and a single-notch recovery uplift.

Fitch's 'AAA' breakeven OC for the covered bond rating will be affected, among other things, by the profile of the cover assets relative to outstanding covered bonds, which can change over time, even in the absence of new issuance. Therefore, it cannot be assumed that the 'AAA' breakeven OC, which maintains the covered bond rating, will remain stable over time.

Contact:

Primary Analyst

Reber Acar

Analyst

+49 69 768076 129

Fitch Deutschland GmbH

Neue Mainzer Strasse 46-50

Frankfurt am Main

Secondary Analyst

Timo Dums

Associate Director

+49 69 768076 132

Committee Chairperson

Rebecca Holter

Senior Director

+49 69 768076 261

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email: athos.larkou@fitchratings.com

Additional information is available on www.fitchratings.com

Applicable Criteria

CLOs and Corporate CDOs Rating Criteria (pub. 23 Feb 2018)

(<https://www.fitchratings.com/site/re/10020715>)

Covered Bonds Rating Criteria (pub. 02 Mar 2018)

(<https://www.fitchratings.com/site/re/10021721>)

Covered Bonds and CDOs Public Entities' Asset Analysis Rating Criteria (pub. 21 Dec 2017) (<https://www.fitchratings.com/site/re/911872>)

Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 02 Feb 2018)

(<https://www.fitchratings.com/site/re/10018863>)

Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance – Excel File (pub. 30 Oct 2017) (<https://www.fitchratings.com/site/re/10008156>)

Global Bank Rating Criteria (pub. 25 Nov 2016)

(<https://www.fitchratings.com/site/re/891051>)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 23 May 2017) (<https://www.fitchratings.com/site/re/898537>)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 02 Feb 2018) (<https://www.fitchratings.com/site/re/10018549>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

(<https://www.fitchratings.com/site/dodd-frank-disclosure/10023793>)

Solicitation Status (<https://www.fitchratings.com/site/pr/10023793#solicitation>)

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual

information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a

recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Endorsement Policy - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all

International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.