

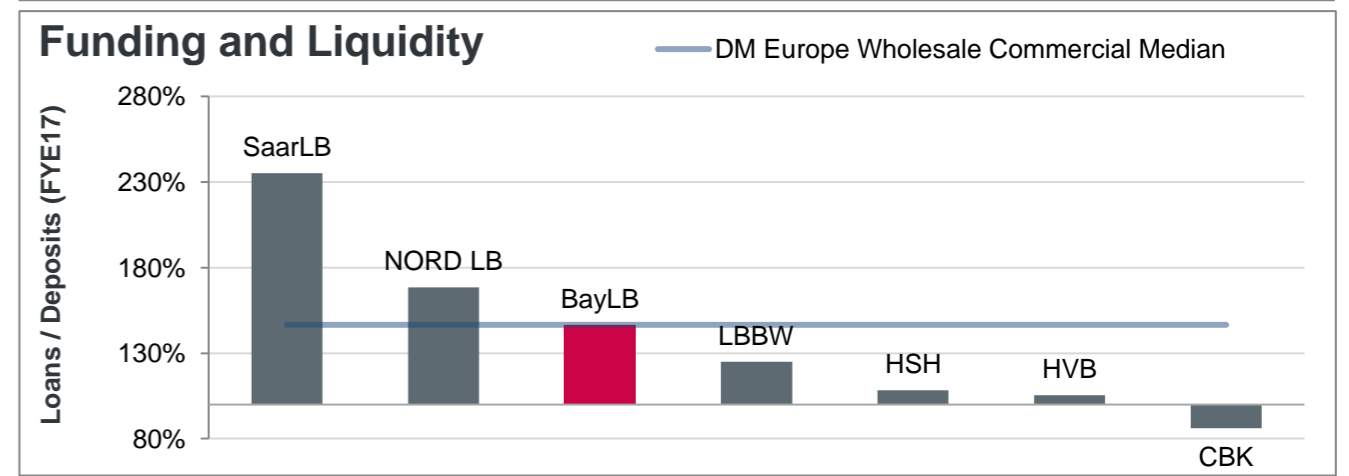
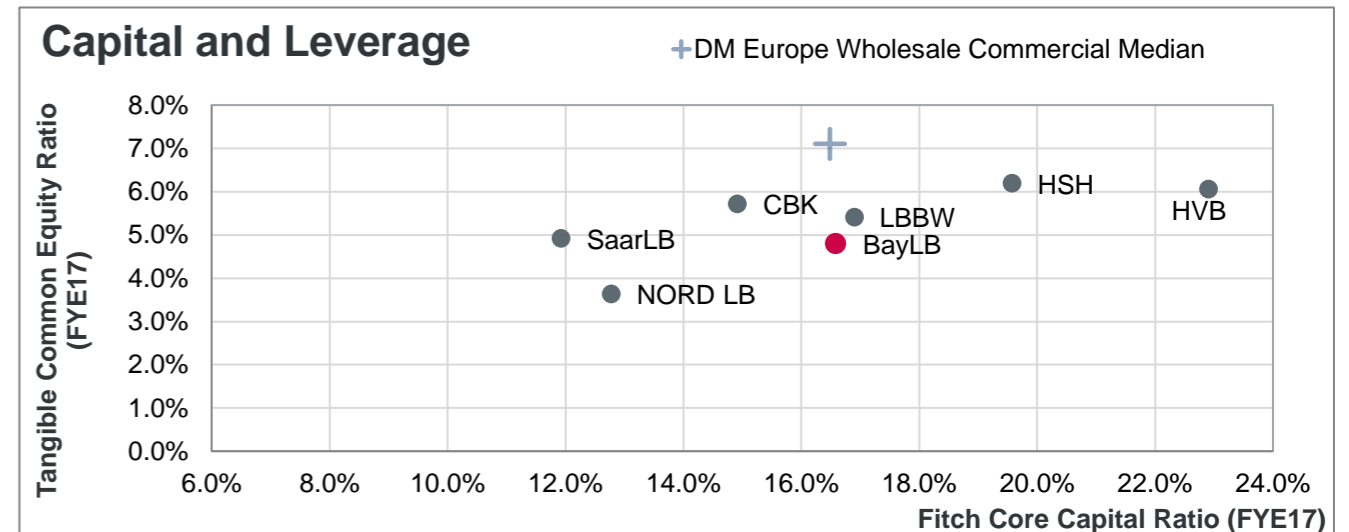
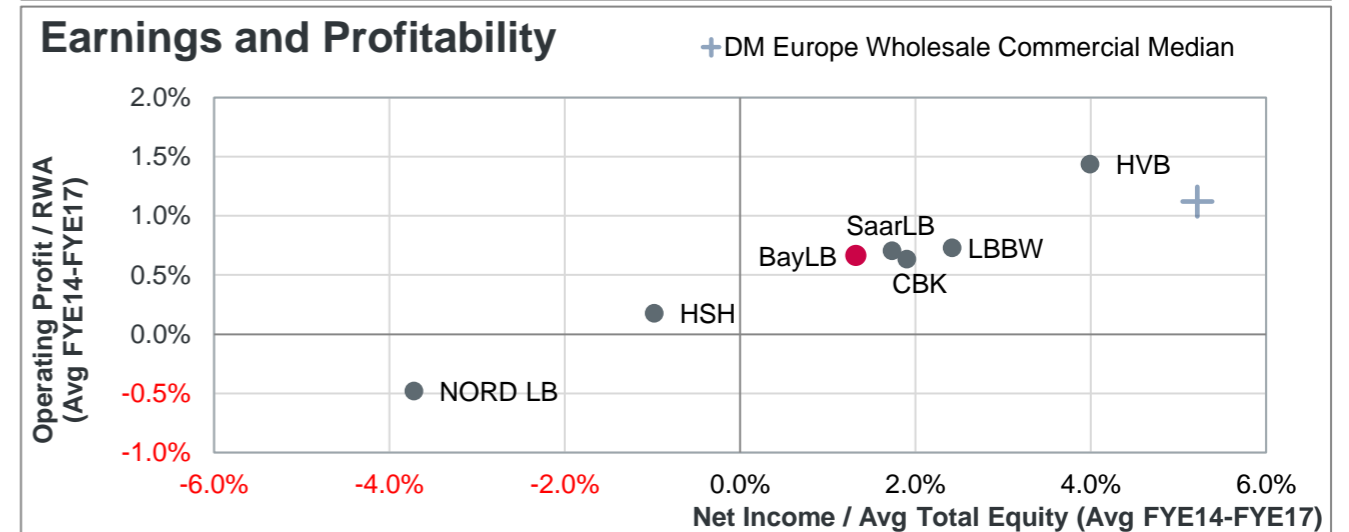
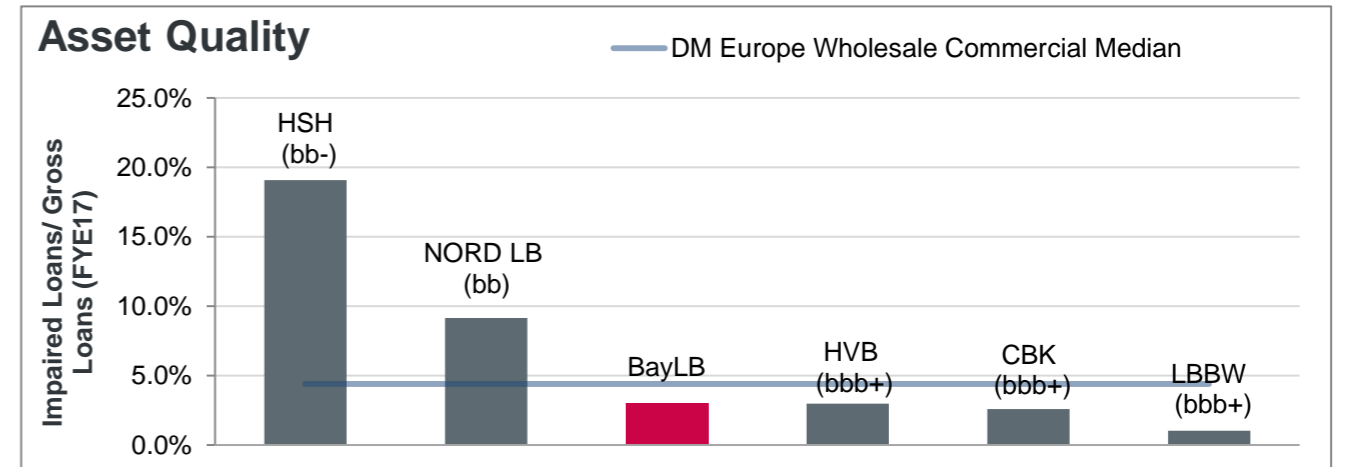
| Banks Ratings Navigator | | |
|--|--------------------------------|------------|
| Navigator date: | 07 Jun 2018 | |
| Last rating action: | 20 Apr 2018 | |
| Sector Details: | | |
| Bank sector: | Wholesale Commercial | |
| Region: | DM Europe | |
| Country: | Germany | |
| Country IDR: | AAA Stable | |
| Last action: | 09 Feb 18 Affirmed | |
| Country ceiling: | AAA | |
| Macro prudential indicator: | 1 | |
| Bank systemic indicator: | a | |
| Bank Rating History | | |
| Viability Rating (VR) | | |
| 20 Apr 18 | bbb+ | Upgrade |
| 04 May 17 | bbb | Affirmed |
| 12 May 16 | bbb | Upgrade |
| Issuer Default Rating (IDR) | | |
| 20 Apr 18 | A- Stable | Affirmed |
| 04 May 17 | A- Stable | Affirmed |
| 12 May 16 | A- Stable | Affirmed |
| Support Rating Floor (SRF) | | |
| 19 May 15 | WD | Withdrawn |
| 19 May 15 | NF | SRF Rev |
| 12 Jun 14 | A+ | Affirmed |
| Bar Chart Legend: | | |
| Vertical bars = VR range of Rating Factor | | |
| Bar Colors = Influence on final VR | | |
| ■ | Higher Influence | |
| ■ | Moderate Influence | |
| ■ | Lower Influence | |
| Bar Arrows = Rating Factor Outlook | | |
| ↑ | Positive | ↓ Negative |
| ↕ | Evolving | □ Stable |
| Peer Ratings bars = Count of banks | | |
| 21 | DM Europe Wholesale Commercial | |
| 6 | Germany Wholesale Commercial | |
| Relevant Criteria & References | | |
| Bank Rating Criteria (Mar 2018) | | |
| Macro-Prudential Risk Monitor (Mar 2018) | | |
| | | |
| | | |
| Analysts | | |
| Roger Schneider (+49 69 768076 242) | | |
| Sebastian Schimpf (+49 69 768 076 136) | | |

| Rating | Peer Ratings | Operating Environment | Company Profile | Management & Strategy | Risk Appetite | Financial Profile | | | | Viability Rating | Institutional Support | Issuer Default Rating |
|--------|--------------|-----------------------|-----------------|-----------------------|---------------|-------------------|--------------------------|---------------------------|---------------------|------------------|-----------------------|-----------------------|
| | | | | | | Asset Quality | Earnings & Profitability | Capitalisation & Leverage | Funding & Liquidity | | | |
| aaa | | | | | | | | | | aaa | AAA | AAA |
| aa+ | | ↑ | | | | | | | | aa+ | AA+ | AA+ |
| aa | | | | | | | | | | aa | AA | AA |
| aa- | | | | | | | | | | aa- | AA- | AA- |
| a+ | | | | | | | | | | a+ | A+ | A+ |
| a | ■ | | | | | | | | | a | A | A |
| a- | | | ↑ | ↑ | ↑ | ↑ | ↑ | ↑ | ↑ | a- | A- | A- Stable |
| bbb+ | ■ | | | | | | | | | bbb+ | BBB+ | BBB+ |
| bbb | ■ | | | | | | | | | bbb | BBB | BBB |
| bbb- | ■ | | | | | | | | | bbb- | BBB- | BBB- |
| bb+ | ■ | | | | | | | | | bb+ | BB+ | BB+ |
| bb | ■ | | | | | | | | | bb | BB | BB |
| bb- | ■ | | | | | | | | | bb- | BB- | BB- |
| b+ | | | | | | | | | | b+ | B+ | B+ |
| b | | | | | | | | | | b | B | B |
| b- | | | | | | | | | | b- | B- | B- |
| ccc+ | | | | | | | | | | ccc+ | CCC+ | CCC+ |
| ccc | | | | | | | | | | ccc | CCC | CCC |
| ccc- | | | | | | | | | | ccc- | CCC- | CCC- |
| cc | | | | | | | | | | cc | CC | CC |
| c | | | | | | | | | | c | C | C |
| f | | | | | | | | | | f | NF | D or RD |

| Institutional Support | | | | Value | | |
|---|--|--|--|-----------|---------|------------|
| Parent IDR | | | | A+ | | |
| Total Adjustments (notches) | | | | -2 | | |
| Institutional Support: | | | | A- | | |
| Support Factors (negative) | | | | Equalised | 1 Notch | 2+ Notches |
| Parent ability to support and subsidiary ability to use support | | | | | | |
| Parent/group regulation | | | | | | ✓ |
| Relative size | | | | | ✓ | |
| Country risks | | | | | | |
| Parent Propensity to Support | | | | | | |
| Role in group | | | | | ✓ | |
| Potential for disposal | | | | ✓ | | |
| Implication of subsidiary default | | | | | ✓ | |
| Integration | | | | | | ✓ |
| Size of ownership stake | | | | ✓ | | |
| Support track record | | | | ✓ | | |
| Subsidiary performance and prospects | | | | | ✓ | |
| Branding | | | | ✓ | | |
| Legal commitments | | | | | | ✓ |
| Cross-default clauses | | | | | | ✓ |

| Drivers & Sensitivities | |
|--|---|
| Owners' Support Drives Ratings | BayernLB's IDRs, Support Rating and senior debt rating reflect Fitch's view of a very strong likelihood of combined support from the bank's owners, the state of Bavaria, the regional savings banks and ultimately the German savings banks, Sparkassen-Finanzgruppe (SFG, A+/Stable). |
| Improved Capitalisation | BayernLB's fully loaded CET1 ratio increased to 15.3% at end-2017 from 13.2% at end-2016. This represents a comfortable buffer over regulatory requirements and allows BayernLB to accommodate modest asset growth despite the RWA inflation expected under the revised Basel rules. |
| Improved Company Profile | We believe the full repayment of state aid in 2Q17 has improved BayernLB's company profile by terminating all EU restrictions to which the bank had hitherto been subject. We expect the bank to prudently seize growth opportunities without fundamentally changing its risk profile. |
| Sound Asset Quality but High Concentrations | BayernLB's core portfolio is of good quality, and risk costs remain low. Legacy assets are declining but still form a substantial part of the bank's total NPLs. Significant sector and single-name loan concentration weighs on our asset quality assessment, similar to peers. |
| Adequate Profitability | BayernLB's 2017 pre-tax profit benefited from rising net interest income, driven by lower funding costs and low risk charges. Costs remained sticky due to infrastructure investments, but BayernLB's efficiency metrics are reasonable compared with peers. |
| Balanced Funding Profile | BayernLB's funding mix is adequately diversified by both funding sources and customer groups. The bank's material reliance on wholesale funding is mitigated by its access to the savings banks' strong liquidity and retail deposits at its online banking arm DKB. |
| IDRs Sensitive to Support Assumptions | BayernLB's IDRs are sensitive to changes in our assumptions on its owners' propensity and ability to provide timely support. This could result from changes affecting SFG's IDRs, the owners' strategic commitment or the bank's importance for Bavaria or for the savings banks. |
| VR Sensitive to Business Model Changes | An upgrade of the VR is unlikely as it would require significant changes to BayernLB's business model (including better diversification) to improve its earnings capacity. A materially weakening performance or economic environment would likely put downward pressure on the VR. |

| Key Financial Ratios (05 Jun 2018) | BayLB | | | | Direct Peers Median | | | | Region Sector Median | | | | | | | | |
|---|------------------|--------|--------|--------|---------------------|--------|--------|--------|----------------------|--------|--------|--------|-------|-------|-------|-------|--|
| | Number of Banks: | | | | 7 | | | | 7 | | | | | | | | |
| | Statement: | | | | FYE17 | FYE16 | FYE15 | FYE14 | FYE17 | FYE16 | FYE15 | FYE14 | FYE17 | FYE16 | FYE15 | FYE14 | |
| Size (EURbn) | | | | | | | | | | | | | | | | | |
| Total assets | 215 | 212 | 216 | 232 | 215 | 212 | 216 | 232 | 18 | 24 | 17 | 13 | | | | | |
| Risk weighted assets (RWA) | 61 | 65 | 70 | 77 | 61 | 65 | 70 | 77 | 9 | 8 | 8 | 7 | | | | | |
| Total equity | 11 | 10 | 10 | 10 | 11 | 10 | 10 | 10 | 1 | 1 | 1 | 1 | | | | | |
| Fitch core capital (FCC) | 10 | 9 | 9 | 9 | 10 | 9 | 9 | 9 | 2 | 1 | 1 | 1 | | | | | |
| Asset Quality | | | | | | | | | | | | | | | | | |
| Impaired loans/gross loans | 3.0% | 3.1% | 4.5% | 4.9% | 3.0% | 3.4% | 4.5% | 5.5% | 4.4% | 3.3% | 3.9% | 3.1% | | | | | |
| Growth of gross loans | -0.1% | -0.8% | 1.3% | -2.9% | -0.4% | -0.8% | -0.4% | -1.7% | 7.0% | 5.4% | 1.0% | 10.4% | | | | | |
| Reserves for impaired loans/impaired loans | 29.5% | 31.5% | 41.8% | 38.1% | 57.3% | 53.1% | 47.9% | 40.0% | 50.0% | 55.6% | 48.5% | 47.5% | | | | | |
| Loan impairment charges/avg gross loans | 0.1% | 0.1% | 0.2% | 1.1% | 0.2% | 0.2% | 0.1% | 0.2% | 0.3% | 0.2% | 0.4% | 0.9% | | | | | |
| Earnings and Profitability | | | | | | | | | | | | | | | | | |
| Operating profit/risk weighted assets | 1.1% | 0.8% | 1.0% | -0.3% | 0.7% | 0.6% | 1.0% | 0.4% | 1.5% | 1.0% | 1.1% | 0.9% | | | | | |
| Net interest income/average earning assets | 0.8% | 0.7% | 0.7% | 0.7% | 0.9% | 0.8% | 0.9% | 0.7% | 1.5% | 1.0% | 1.2% | 1.0% | | | | | |
| Non-interest expense/gross revenues | 64.6% | 68.4% | 56.4% | 47.8% | 64.6% | 73.6% | 73.7% | 73.7% | 60.2% | 67.1% | 56.4% | 58.6% | | | | | |
| Loans & secs imp charges/pre-imp op. profit | 12.6% | 13.7% | 27.1% | 116.6% | 14.2% | 30.8% | 14.5% | 62.3% | 13.6% | 18.0% | 16.1% | 35.1% | | | | | |
| Operating profit/average total assets | 0.3% | 0.3% | 0.3% | -0.1% | 0.2% | 0.2% | 0.3% | 0.2% | 0.7% | 0.3% | 0.4% | 0.3% | | | | | |
| Net income/average total equity | 6.4% | 5.5% | 4.7% | -11.3% | 2.2% | 1.3% | 3.7% | 2.5% | 6.4% | 3.1% | 6.3% | 5.2% | | | | | |
| Capital and Leverage | | | | | | | | | | | | | | | | | |
| FCC/FCC-adjusted risk weighted assets | 16.6% | 14.6% | 13.3% | 11.9% | 16.6% | 14.6% | 13.2% | 11.2% | 16.5% | 15.1% | 13.6% | 13.4% | | | | | |
| CET1 capital ratio | 15.3% | 14.7% | 14.0% | 12.5% | 15.3% | 13.9% | 13.8% | 11.7% | 12.5% | 13.5% | 13.3% | 12.8% | | | | | |
| Basel leverage ratio | 4.0% | 4.2% | n.a. | n.a. | 4.9% | 5.0% | 5.5% | 4.3% | 7.7% | 6.4% | 6.3% | 5.7% | | | | | |
| Tangible common equity/tangible assets | 4.8% | 4.5% | 4.3% | 4.0% | 5.4% | 5.2% | 4.9% | 4.1% | 7.1% | 5.7% | 6.5% | 6.3% | | | | | |
| Imp loans less reserves for imp Loans/FCC | 27.6% | 29.7% | 38.3% | 44.6% | 18.7% | 24.4% | 28.4% | 27.8% | 8.7% | 10.5% | 19.3% | 17.7% | | | | | |
| Funding and Liquidity | | | | | | | | | | | | | | | | | |
| Loans/customer deposits | 146.5% | 155.3% | 157.9% | 164.2% | 125.1% | 150.8% | 157.9% | 162.6% | 146.5% | 158.7% | 149.5% | 155.7% | | | | | |
| Liquidity coverage ratio | 159.0% | 136.0% | n.a. | n.a. | 164.0% | 136.0% | 106.4% | 143.0% | 189.5% | 136.0% | 112.0% | 128.0% | | | | | |
| Customer deposits/total funding excl derivs | 48.1% | 46.8% | 45.8% | 41.3% | 48.1% | 46.8% | 45.8% | 41.3% | 53.4% | 45.9% | 38.4% | 42.4% | | | | | |



Business Mix

(by profit or revenue)

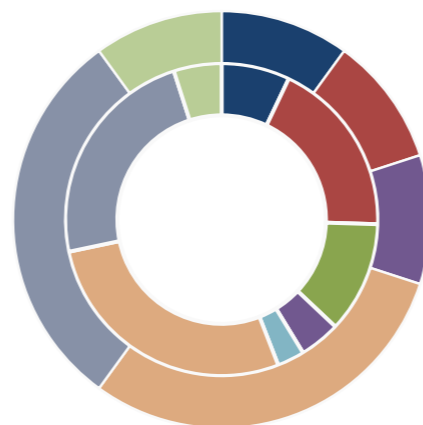
- Retail banking (20%)
- SME banking (30%)
- Corporate banking (20%)
- Investment banking (10%)
- Transaction banking (10%)
- Asset management (0%)
- Insurance (0%)
- Other (10%)



Outer: BayLB
Inner: Direct Peers Average

Lending Type

- Resi mortgages (10%)
- Comm mortgages (10%)
- Asset finance (0%)
- Other secured (10%)
- Personal unsecured (0%)
- Comm unsecured (30%)
- Fls & Sovs (30%)
- High yield (0%)
- Other unsecured (10%)



Outer: BayLB
Inner: Direct Peers Average

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