

German Public Sector Pfandbrief Programmes – Peer Review

'AAA' rated, Differing IDRs: The Pfandbriefe in this peer review are rated 'AAA' with the Long-Term Issuer Default Ratings (LT IDR) ranging between 'BBB+' and 'A+'.

Ratings Credit-Linked to Germany: All the programmes' ratings remain credit-linked to the German sovereign rating (AAA/Stable/F1+). Between 68.2% and 94.3% of the cover assets are concentrated within Germany which significantly outweighs the next largest countries.

Main 'AAA' Breakeven OC Components: Credit loss is the main component of the 'AAA' breakeven overcollateralisation (OC) for Helaba's and SaarLB's programmes, whereas the ALM loss component is the largest component of the 'AAA' breakeven OC for BayernLB's programme. The two 'AAA' breakeven OC components are of similar size for UniCredit's programme.

For Helaba's Pfandbriefe, Fitch Ratings' 'AAA' breakeven OC is driven by the credit loss as the 'AAA' rating is based on a two-notch recovery uplift above the IDR plus an IDR uplift. BayernLB's programme has a significant maturity mismatch between assets and liabilities arising from long-dated pound sterling denominated assets. For UniCredit's programme, there is both an interest rate and currency mismatch. SaarLB's programme is characterised by interest rate mismatches.

French Exposure: The cover pools of UniCredit and SaarLB comprise exposure to France (AA/Stable/F1+). Under Fitch's criteria, if the French sovereign defaults, 80% of the French subnational exposure in the cover pool would be assumed to default as well and be subject to low sovereign recoveries of 15% in a 'AAA' rating scenario. This is far below the recoveries of 70% assumed for German subnational public entities in a 'AAA' rating scenario.

Large OC Cushions: The four issuers maintain OC levels of 29.2% on average, well above Fitch's 'AAA' breakeven OC for the ratings. These protect the Pfandbrief ratings from deterioration in cover pool credit quality or asset-liability mismatches. In its analysis Fitch relies on the lowest level of OC in the last 12 months.

Resilience Amid Issuer Downgrades: All four programmes benefit from uplifts above the IDR, providing a cushion against an issuer downgrade of two to five notches. This limits the sensitivity of the Pfandbrief ratings to issuers' downgrades.

Stable Outlook: The Stable Outlook assigned to the four programmes reflects the buffers against an issuer downgrade.



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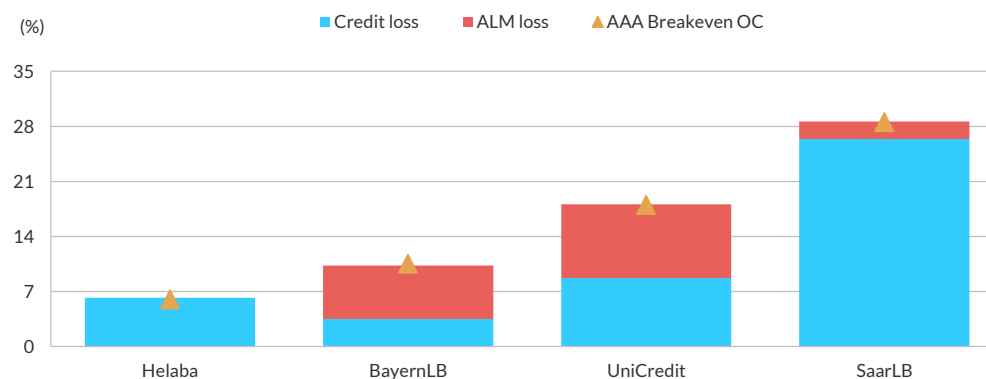
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Key Rating Drivers

Programme	Helaba	BayernLB	UniCredit	SaarLB
LT IDR/Outlook	A+/Stable	A-/Stable	BBB+/Negative	A-/Stable
IDR uplift (notches)	2	1	2	1
PCU (notches)	5	5	5	5
Tested rating on a PD basis	n.a.	AA	AA	AA+
Recovery uplift (notches)	2	2	2	2
CVB rating	AAA	AAA	AAA	AAA
CVB Outlook	Stable	Stable	Stable	Stable
Buffer against IDR downgrade	5	2	2	2
Breakeven OC for rating (%)	6.0	10.5	18.0	28.5
OC Fitch relies upon (%)	21.4	20.6	39.9	34.9

Source: Fitch Ratings

AAA Breakeven OC



Source: Fitch Ratings

Cover Pool – Peer Analysis

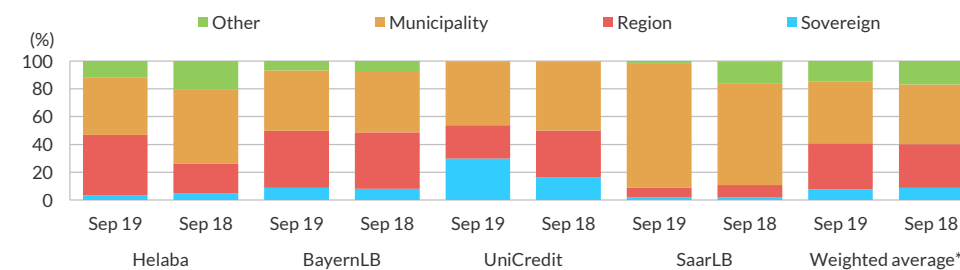
Cover Assets Credit Analysis

	Helaba	BayernLB	UniCredit	SaarLB
Covered bonds rating	AAA	AAA	AAA	AAA
Rating default rate (RDR) for rating (%)	14.0	17.2	14.6	36.2
Rating recovery rate (RRR) for rating (%)	58.6	64.5	31.5	34.0
Rating loss rate (RDR(1-RRR)) for rating (%)	5.8	6.1	10.0	23.9
'B' case loss rate (%)	0.4	0.7	0.3	1.9

Source: Fitch Ratings

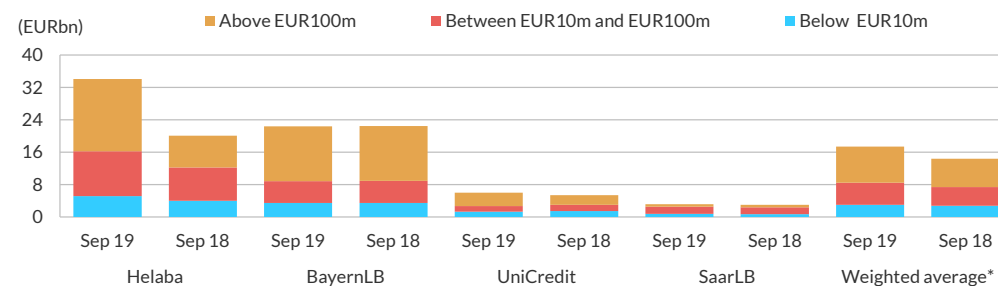
- The cover pools of the programmes consist of public sector loans, with Municipalities being the most common borrower (44.9% on weighted average for the four programmes), and Regions the second largest borrower (39.1%). Sovereigns only account on average for 7.5% of the cover assets (at 3Q2019).
- In September 2019 the cover pool of former Dexia was transferred to Helaba leading to an increase of its cover pool to EUR34 billion in Q3 2019, compared to EUR 20.1 billion one year before. The cover pool sizes in the other programmes remained stable over the last 12 months.
- All programmes remain credit-linked to Germany (AAA/Stable/F1+) as the cover pools are highly exposed to the country (Helaba: 91.4%; BayernLB: 94.3%; UniCredit: 86.8%; SaarLB: 68.2%). Based on the German tax equalisation system, the credit-linked exposure does not only comprise German sovereign assets but also loans directly exposed to or guaranteed by the Federal states. These credit-linked assets are not assumed to default in Fitch's analysis.
- The larger share of French assets in UniCredit's (7.1%) and SaarLB's (31.9%) cover pools drives the high credit loss and the higher 'AAA' breakeven OC in these programmes compared to both Helaba (1.4%) and BayernLB (1.2%). In Fitch's criteria, 80% of the French subnational exposure would be assumed to default if the French sovereign (AA/Stable/F1+) defaults. The subnational French exposure would then be subject to low sovereign recoveries of only 15% in a 'AAA' rating scenario, far below the 60% 'AAA' recovery rate assumption if only the French subnational exposure were to default.

Borrower Type Distribution



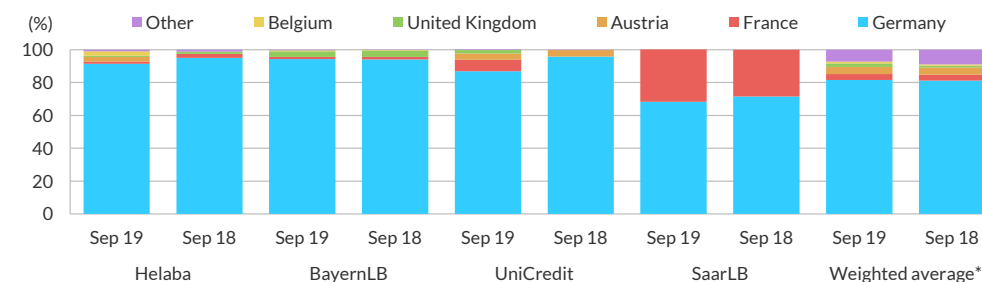
* Weighted average refers to active German public sector Pfandbrief programmes
Source: Fitch Ratings, vdp

Cover Assets Size Distribution



* Weighted average refers to active German public sector Pfandbrief programmes
Source: Fitch Ratings, vdp

Geographic Distribution of Cover Assets



* Weighted average refers to active German public sector Pfandbrief programmes
Source: Fitch Ratings, vdp

Breakeven Overcollateralisation – Peer Analysis

AAA Breakeven OC Components

Programme	ALM loss (%)	Credit loss (%)
Helaba	n.a.	6.2
BayernLB	6.8	3.5
UniCredit	9.4	8.7
SaarLB	2.2	26.4

Source: Fitch Ratings

Credit Loss

- The credit loss component of the Fitch 'AAA' breakeven OC for both UniCredit's (8.7%) and SaarLB's (26.4%) Pfandbrief programmes are driven by the share of French assets in the respective cover pool. BayernLB's credit loss component of the Fitch 'AAA' breakeven OC amounts to 3.5%.
- The 'AAA' rating of Helaba's Pfandbrief programme is based on a two-notch recovery uplift above the IDR plus IDR Uplift. Therefore the credit loss drives Fitch's 'AAA' breakeven OC of 6.0% and no test for timely payments on the Pfandbriefe is performed.

ALM Loss

- BayernLB' programme does not have significant asset and liability interest rate mismatches. UniCredit's programme has a share of fixed rate assets of 64.5%, while the proportion of fixed rate liabilities is 92.9%. In a low interest-rate environment, the driving scenario for UniCredit's programme 'AAA' breakeven OC, the excess spread earned by the programme is low, resulting in higher ALM loss levels. For SaarLB there is an interest rate mismatch as well (fixed rate assets: 73.2%; fixed rate liabilities: 92.9%).
- In a high prepayment scenario, the modelled weighted average life (WAL) of assets is effectively reduced and, as a consequence, there is lower excess spread available. This effect is partially offset by more cash being available, and therefore lower modelled asset sales are necessary to ensure the timely payment of outstanding Pfandbriefe. For both UniCredit and SaarLB, the driving prepayment scenario is high. However, in the case of SaarLB, only a very low proportion of cover assets could be prepaid.
- The programmes of BayernLB¹ and UniCredit² have a proportion of assets and liabilities in foreign currency. In general, these positions are well-matched, however, for BayernLB the maturity mismatches are due to very long-dated sterling denominated assets. In the case of UniCredit, the interest rate mismatch is partially triggered by the USD position as all USD liabilities are fixed, whereas only 14.4% of USD assets have a fixed interest rate.

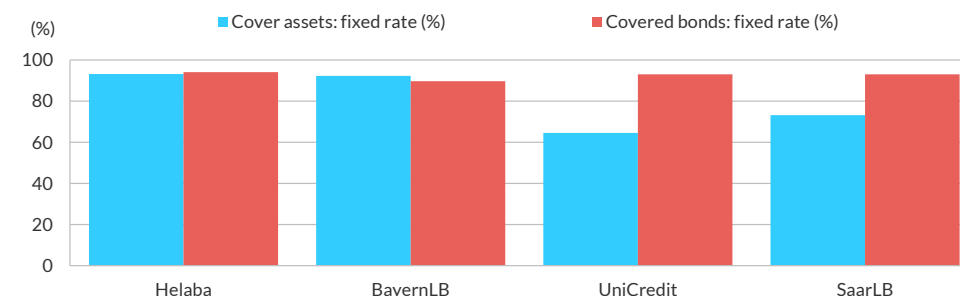
¹ See Appendix 1B for details.
² See Appendix 1C for details

Cash Flow Model Driving Scenarios

Programme	Driving prepayment scenario	Driving interest-rate scenario
Helaba	n.a.	n.a.
BayernLB	Low	Up
UniCredit	High	Down
SaarLB	High	Base

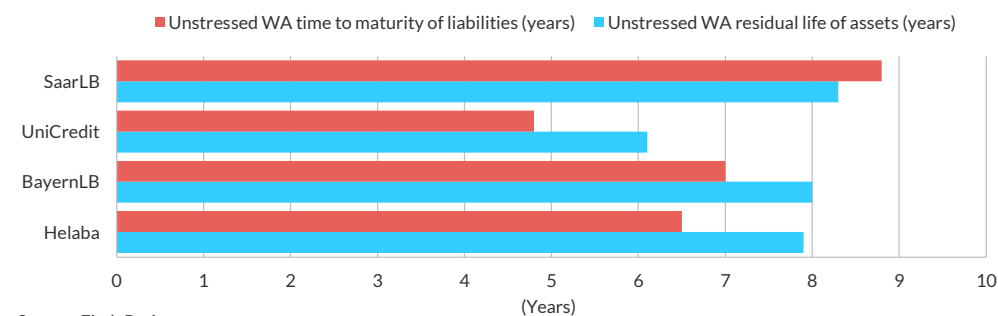
Source: Fitch Ratings

Assets and Liabilities Interest Rate Mismatches (Sep 19)



Source: Fitch Ratings

Unstressed Assets & Liabilities Maturity Mismatches (Sep 19)



Source: Fitch Ratings

IDR Uplift, PCU and Recovery Uplift – Peer Analysis

Continuity Assessment

Programme	IDR uplift (notches)	PCU (notches)	Maximum achievable recovery uplift (notches)
Helaba	2	5	2
BayernLB	1	5	2
UniCredit	2	5	2
SaarLB	1	5	2

Source: Fitch Ratings

IDR Uplift

- German public sector Pfandbriefe are eligible for a two-notch IDR uplift as they are exempt from bail-in. Fitch deems the risk of under-collateralisation at the point of resolution to be sufficiently low and a resolution, should it happen, is not likely to result in the direct enforcement of recourse against the cover pool.
- An IDR uplift of two notches has been assigned to Helaba and UniCredit. For Helaba this reflects that the banks' LT IDR is based on participation in a mutual support scheme. With respect to UniCredit, the rationale is that its LT IDR is driven by the viability rating.
- For the BayernLB and SaarLB programmes the IDR uplift is one notch as their LT IDRs are support-driven.

Payment Continuity Uplift (PCU)

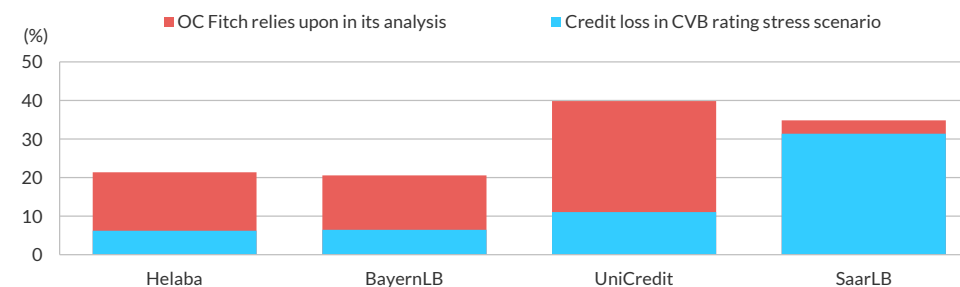
- The five-notch PCU for all programmes reflects the principal liquidity protection provided. This protection comes from the mandatory inclusion of liquid assets in the cover pool matching the maximum negative accumulated balance of cash flows for 180 days under the Pfandbrief law. Fitch does not consider that other PCU components, namely Asset Segregation and Alternative Risk Management, present high risks to payment continuity.
- The PCU for Helaba's programme is unused and serves as buffer against an issuer downgrade as the Pfandbriefe 'AAA' rating is based on a two-notch recovery uplift above the issuer rating plus IDR uplift. The breakeven OC would likely go up if the PCU is utilised and the test for timely payments on the Pfandbriefe is performed.
- For both BayernLB's and UniCredit's programmes two-notches of the PCU are unused and serve as buffers against issuer downgrade.

- The 'AAA' rating of SaarLB's programme is achieved on a 'AA+' tested rating on a PD basis and a one-notch recovery uplift which gives two-notches buffer against an issuer downgrade. However, utilising the second notch of recovery uplift would likely increase the 'AAA' breakeven OC.

Recovery Uplift

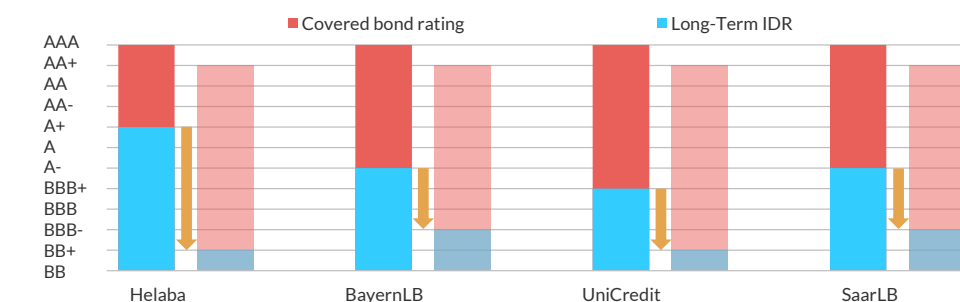
- The recovery uplift granted for all programmes is two notches as we expect the Pfandbriefe to benefit from outstanding recoveries as no material risks to these recovery expectations were identified.

Continuity Assessment



Source: Fitch Ratings

Cushions Against Issuer Downgrades



Source: Fitch Ratings

ESG Considerations

ESG Relevance Scores Recap

		Helaba	BayernLB	UniCredit	SaarLB
Environmental	GHG emissions & air quality	1	1	1	1
	Energy management	1	1	1	1
	Water & wastewater management	1	1	1	1
	Waste & hazardous materials management; ecological impacts	2	2	2	2
	Exposure to environmental impacts	2	2	2	2
Social	Human rights, community relations, access & affordability	2	2	2	2
	Customer welfare - fair messaging, privacy & data security	3	3	3	3
	Labour relations & practices	1	1	1	1
	Employee wellbeing	1	1	1	1
	Exposure to social impacts	3	3	3	3
Governance	Rule of law, institutional and regulatory quality	3	3	3	3
	Transaction & collateral structure	3	3	3	3
	Transaction parties & operational risk	3	3	3	3
	Data transparency & privacy	3	3	3	3

Source: Fitch Ratings

The highest level of ESG credit relevance for all programmes is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the covered bonds, either due to their nature or the way in which they are being managed by the programmes.

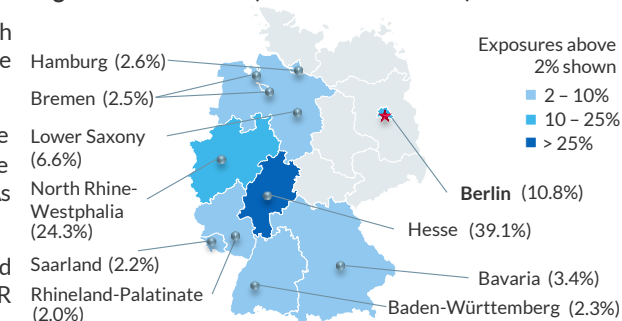
For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Appendix 1A – Focus on Helaba

Programme Structure

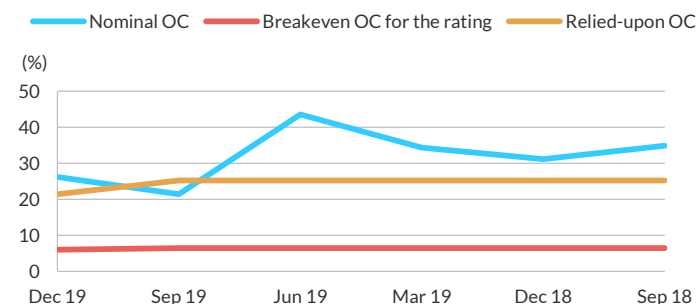
- Rating Rationale:** The 'AAA' rating of the Pfandbrief is based on Helaba's LT IDR of 'A+', an IDR uplift of two notches, a two-notch recovery uplift and the OC Fitch relies upon of 21.4%, providing more protection than Fitch's 'AAA' breakeven OC of 6.0%. The Stable Outlook on the rating reflects a five-notch buffer against an IDR downgrade due to the unused PCU.
- Rating Sensitivities:** The 'AAA' rating would be vulnerable to downgrade if Helaba's IDR is downgraded to 'BB+' 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 single-notch recovery uplift. As a result, the Pfandbrief rating would likely be downgraded to 'AA+', one notch above Helaba's LT IDR as adjusted by the IDR uplift.
- Cover Pool Transfer:** In September this year former Dexia's cover pool was transferred to Helaba and since then Helaba's and former Dexia's outstanding Pfandbriefe rank pari passu and are secured jointly by one cover pool. The cover pool amounts to EUR 34.2 billion and the outstanding Pfandbriefe had a total notional of EUR 28.2 billion at September 2019.

Regional Distribution (% of German Assets):



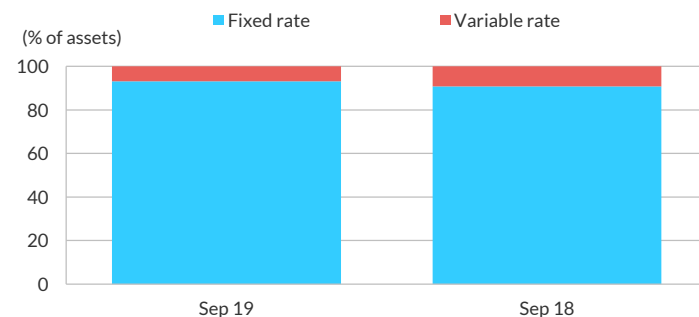
Source: Fitch Ratings

Overcollateralisation Breakdown



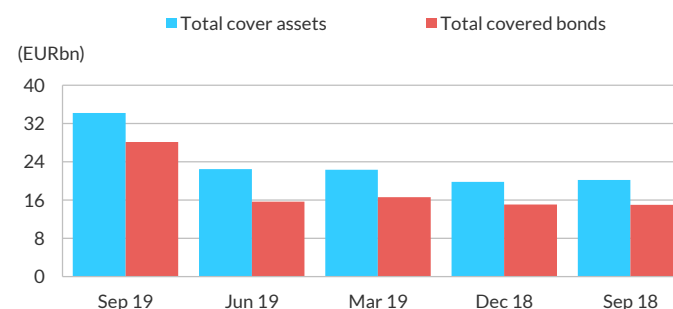
Source: Fitch Ratings

Asset Payment Type



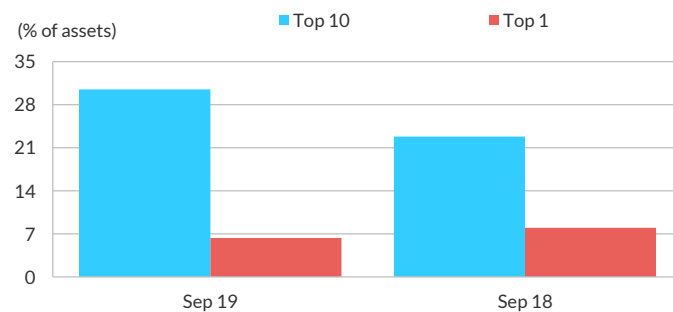
Source: Fitch Ratings

Assets and Liabilities



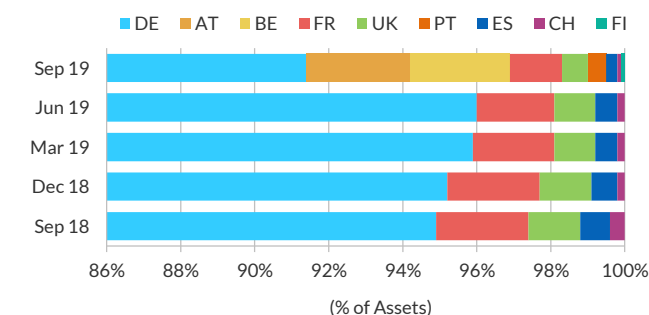
Source: Fitch Ratings

Obligor Concentration



Source: Fitch Ratings

Country Breakdown



Source: Fitch Ratings

Currency Breakdown

Currency (%)	Cover assets		Covered bonds	
	Sep 19	Sep 18	Sep 19	Sep 18
EUR	98.7	97.4	98.0	96.6
USD	0.8	1.5	1.9	3.5
CHF	0.5	1.0	-	-

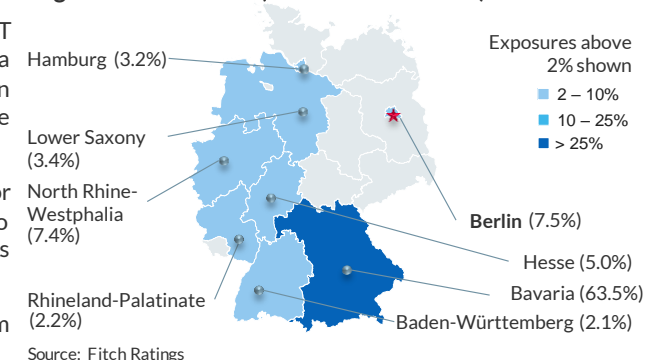
Source: Fitch Ratings

Appendix 1B – Focus on BayernLB

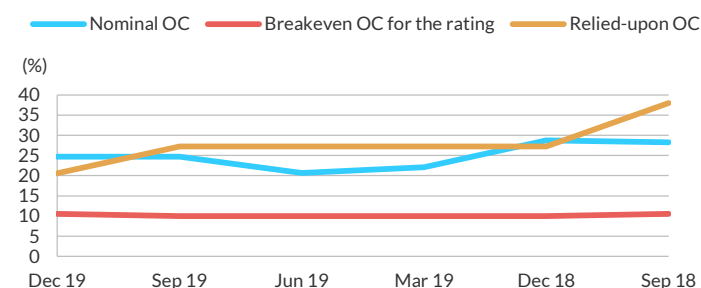
Programme Structure

- Rating Rationale:** BayernLB's LT IDR of 'A-' is the basis of the 'AAA' rating of the Pfandbriefe which is six notches above the bank's LT IDR. This is out of a maximum achievable uplift of eight notches, consisting of an IDR uplift of one notch, a PCU of five notches and a recovery uplift of two notches. The OC relied upon of 20.6% is above Fitch's 'AAA' breakeven OC of 10.5%. The Stable Outlook on the rating is based on the fact that there is a two-notch buffer against an IDR downgrade due to the different uplift factors above the bank's LT IDR.
- Rating Sensitivities:** The 'AAA' rating would be vulnerable to downgrade if BayernLB's LT IDR was 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 LT IDR as adjusted by the IDR uplift.
- Cover Pool composition:** The Pfandbriefe are secured by EUR 22.3 billion of public sector loans and bonds, most of them from Germany (94.3%), and a substitute volume of EUR 0.3 billion consisting of German savings bank exposure.

Regional Distribution (% of German Assets):

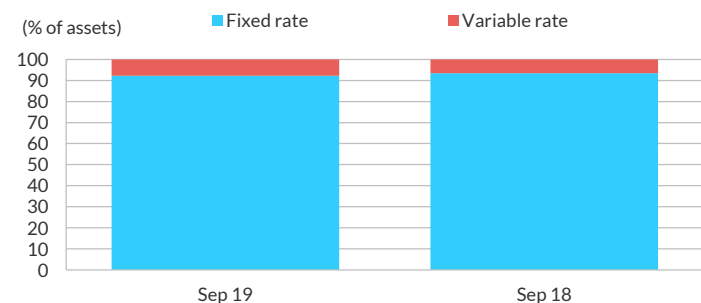


Overcollateralisation Breakdown



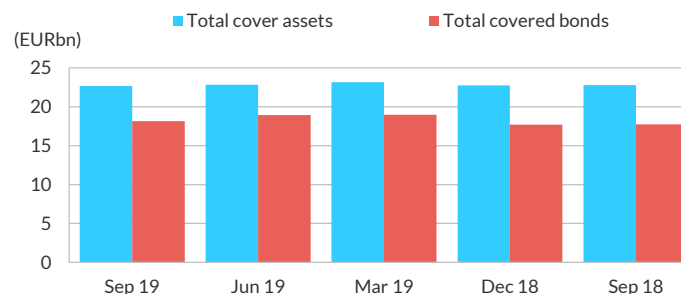
Source: Fitch Ratings

Asset Payment Type



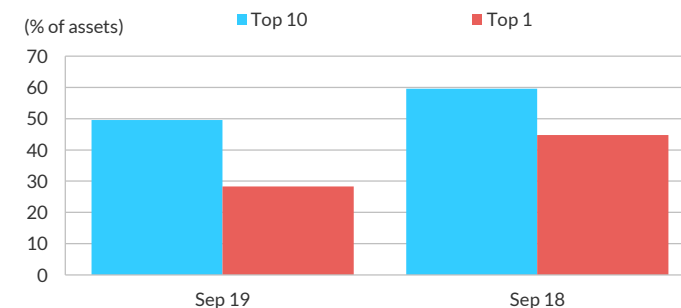
Source: Fitch Ratings

Assets and Liabilities



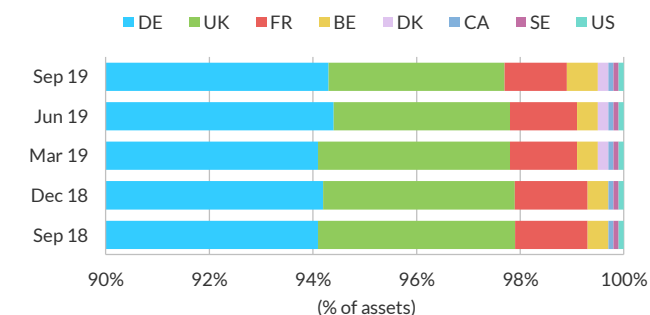
Source: Fitch Ratings

Obligor Concentration



Source: Fitch Ratings

Country Breakdown



Source: Fitch Ratings

Currency Breakdown

Currency (%)	Cover assets		Covered bonds	
	Sep 19	Sep 18	Sep 19	Sep 18
EUR	96.2	95.9	93.5	95.6
GBP	2.6	2.6	3.7	3.8
USD	1.2	1.3	2.8	0.6
CAD	0.1	0.1	-	-

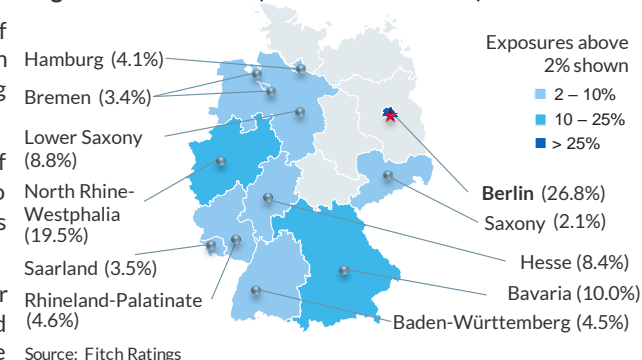
Source: Fitch Ratings

Appendix 1C – Focus on UniCredit

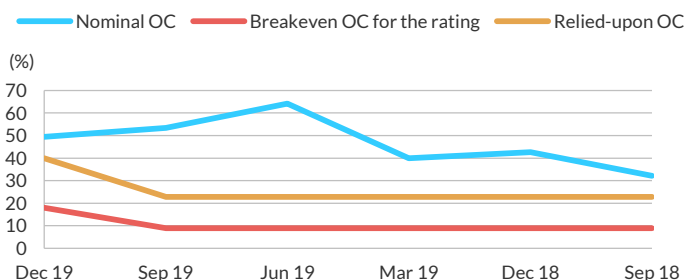
Programme Structure

- Rating Rationale:** The 'AAA' rating of the Pfandbrief is based on UniCredit's LT IDR of 'BBB+', an IDR uplift of two notches, a PCU of five notches, a two-notch recovery uplift. It also reflects the fact that the OC Fitch relies upon (39.9%) provides more protection than Fitch's 'AAA' breakeven OC of 18.0%. As there is a two-notch buffer against an IDR downgrade the Outlook on the Pfandbrief rating is Stable despite the Negative Outlook on UniCredit's LT IDR.
- Rating Sensitivities:** The 'AAA' rating would be vulnerable to downgrade if UniCredit's LT IDR is downgraded to 'BB+' 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 UniCredit's LT IDR as adjusted by the IDR uplift.
- USD Exposure:** In July last year UniCredit issued USD0.5 billion which was the first issuance in USD from their public sector programme. At the same time the cover pool size was increased by USD0.45 billion. Although the assets and liabilities denominated in USD do not have significant maturity mismatches, there is a substantial interest rate mismatch. In contrast to the liability side where the interest rates are fixed, 85.6% of the USD assets in the cover pool have floating interest rates.

Regional Distribution (% of German Assets):

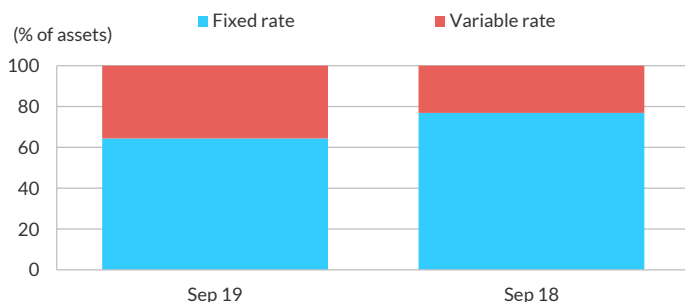


Overcollateralisation Breakdown



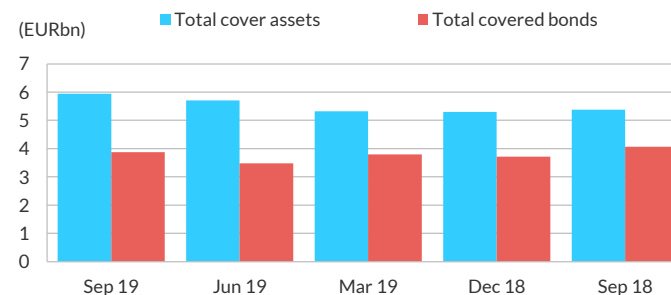
Source: Fitch Ratings

Asset Payment Type



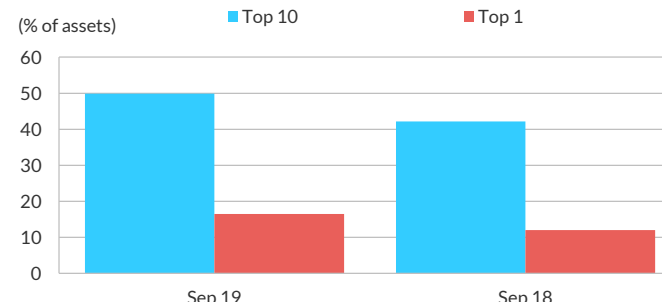
Source: Fitch Ratings

Assets and Liabilities



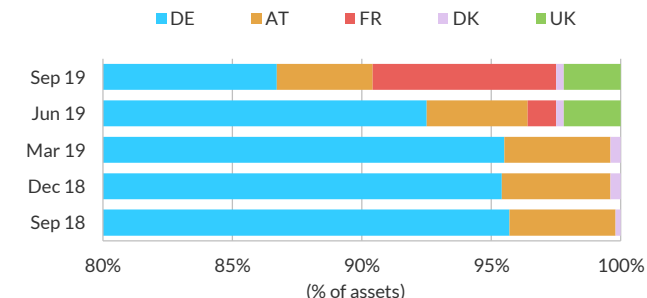
Source: Fitch Ratings

Obligor Concentration



Source: Fitch Ratings

Country Breakdown



Source: Fitch Ratings

Currency Breakdown

Currency (%)	Cover assets		Covered bonds	
	Sep 19	Sep 18	Sep 19	Sep 18
EUR	93.0	100.0	88.2	100.0
USD	7.0	-	11.9	-

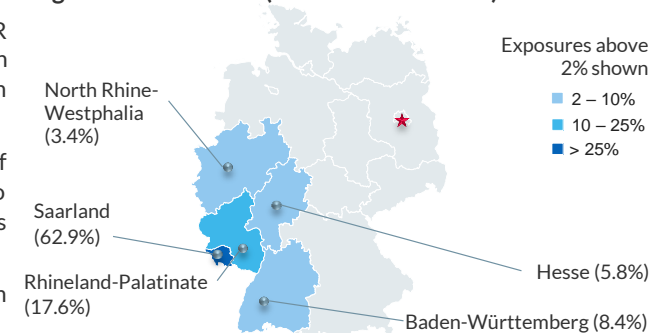
Source: Fitch Ratings

Appendix 1D- Focus on SaarLB

Programme Structure

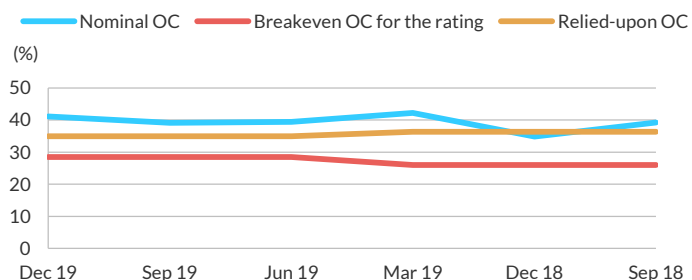
- Rating Rationale:** The 'AAA' rating of the Pfandbriefe is based on SaarLB's LT IDR of 'A-' and the various uplifts above the IDR granted to the programme (maximum achievable uplift of eight notches – a one-notch IDR uplift, a five-notch PCU, and a two-notch recovery uplift). It also reflects OC protection for Pfandbrief holders as the OC relied upon of 34.9% is above Fitch's 'AAA' breakeven OC of 28.5%. The Stable Outlook on the rating reflects a two-notch buffer against an IDR downgrade.
- Rating Sensitivities:** The 'AAA' rating would be vulnerable to downgrade if SaarLB's LT 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 SaarLB's LT IDR as adjusted by the IDR uplift.
- Cover Pool composition:** The Pfandbriefe are secured by EUR3.1 billion of public sector loans and bonds, of which 68.2% are from Germany and 31.9% from France (Q3 2019).

Regional Distribution (% of German Assets):



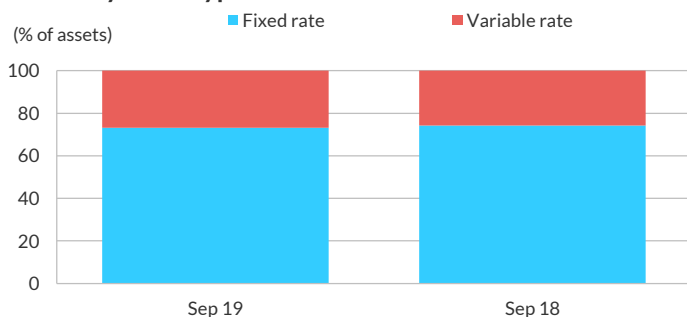
Source: Fitch Ratings

Overcollateralisation Breakdown



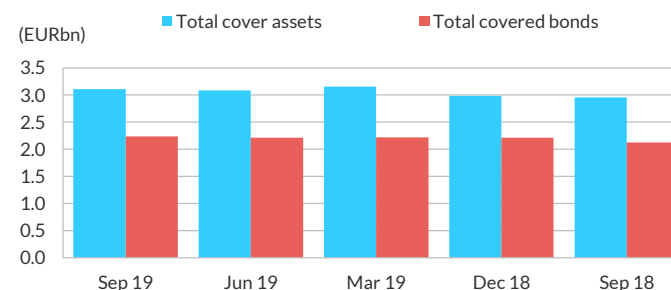
Source: Fitch Ratings

Asset Payment Type



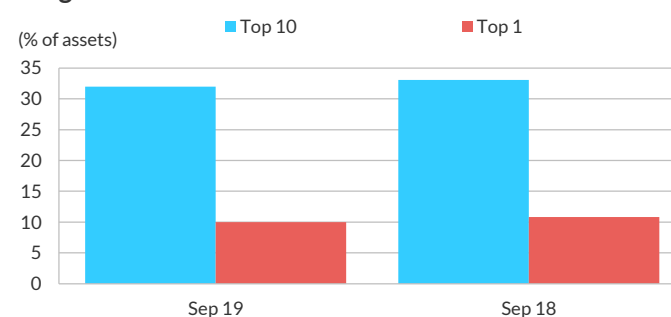
Source: Fitch Ratings

Assets and Liabilities



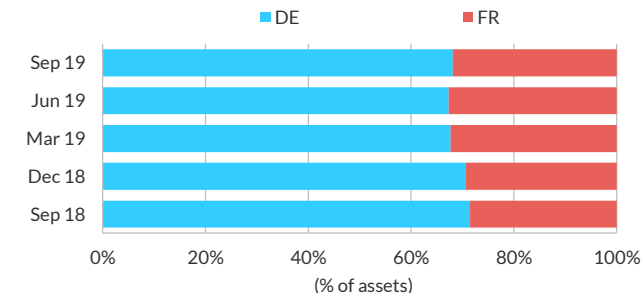
Source: Fitch Ratings

Obligor Concentration



Source: Fitch Ratings

Country Breakdown



Source: Fitch Ratings

Currency Breakdown

Currency (%)	Cover assets		Covered bonds	
	Sep 19	Sep 18	Sep 19	Sep 18
EUR	100.0	100.0	100.0	100.0

Source: Fitch Ratings

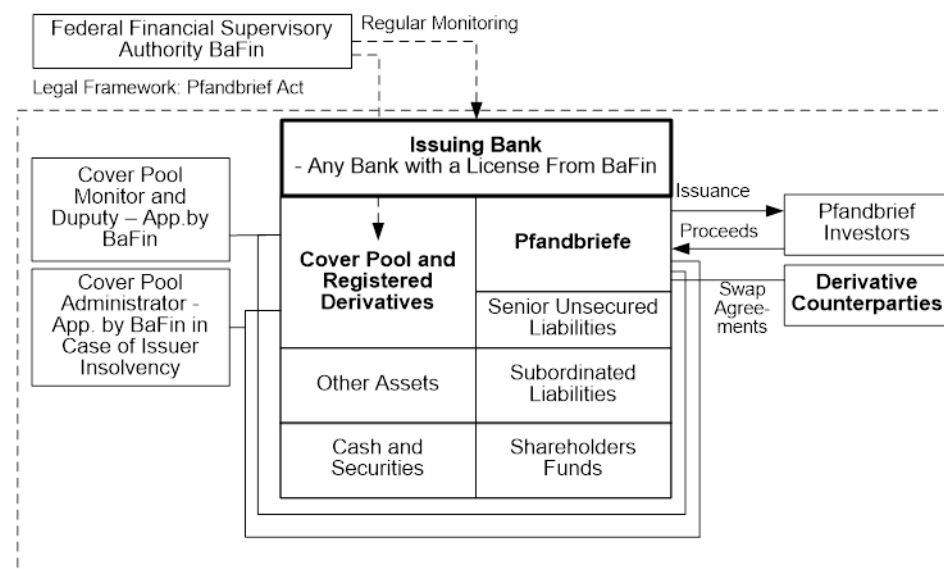
Appendix 2 – Summary of Applicable Covered Bonds Legislation

Main Characteristics of German Legislative Pfandbriefe, German Pfandbrief Act (PfandBG, January 2020):

Issuers	Financial institutions with a licence to issue Pfandbriefe.
Supervision	German Federal Financial Supervisory Authority (BaFin).
Mortgage collateral	<ul style="list-style-type: none"> Residential or commercial mortgages; Geographical scope to the EU/EEA, Switzerland, the US, Canada, Japan, Australia, New Zealand or Singapore, United Kingdom (from Jan 2021); Up to 20% of the outstanding Pfandbriefe can be substitute assets.
Loan-to-value limits for mortgage loans	60% LTV based on the mortgage lending value.
Public sector assets	<ul style="list-style-type: none"> Geographical scope to the EU/EEA; For assets from the US, Canada, Japan and Switzerland, United Kingdom (from Jan 2021) the debtor must be assigned to credit quality step one; Up to 10% of the outstanding Pfandbriefe can be substitute assets.
Transfer of assets	Integrated template, assets remain on the issuer's balance sheet.
Cover register	Cover register is required for the respective cover pool.
Cover pool monitor	Independent cover pool monitor (Treuhänder) appointed by BaFin.
Alternative manager (Sachwalter)	A dedicated alternative manager would take over the management of the cover assets and outstanding liabilities post issuer default. The manager would be appointed by a court at the request of BaFin, at the latest upon the issuer's insolvency.
Minimum OC	<ul style="list-style-type: none"> 0% nominal value; 2% stressed net present value. The net present value calculation is detailed in a specific net present value regulation (Barwertverordnung) including procedures, stress scenarios and risk models. The approach can be static or dynamic, or based on internal models.
Treatment of swap counterparties	Derivative counterparties rank pari-passu with the claims of the covered bond holders.
Pfandbriefbank with limited business activity (PBwLBA)	The cover pool constitutes an insolvency-free asset and continues to exist post issuer default as a PBwLBA to ensure the timely payment of the liability obligations. The PBwLBA would be managed by the alternative manager.

Source: Fitch Ratings, Pfandbrief Act.

Diagram of a Pfandbrief Issuance



Source: Fitch Ratings

Appendix 3 – Related Research & Definitions of Terms Used

Related Research

Details of the latest rating actions for the programmes and related research can be found in the following publications:

- [Fitch Affirms Helaba's Public Sector Pfandbriefe at 'AAA' on former Dexia's Pfandbriefe Transfer \(October 2020\)](#)
- [Fitch Affirms BayernLB's Public Sector Pfandbriefe at 'AAA', Outlook Stable; Fitch Affirms BayernLB's Public Sector Pfandbriefe at 'AAA', Outlook Stable \(October 2019\)](#)
- [Fitch Affirms UniCredit Bank AG Public Sector Pfandbriefe at 'AAA'; Outlook Stable](#)
[Fitch Affirms UniCredit Bank AG Public Sector Pfandbriefe at 'AAA'; Outlook Stable \(October 2019\)](#)
- [Fitch Affirms Landesbank Saar's Public Sector Pfandbriefe at 'AAA', Outlook Stable \(June 2019\)](#)
- [Covered Bonds Surveillance Snapshot \(January 2020\)](#)
- [Extension Provisions to Be Key in Transposing EU Covered Bond Directive \(January 2020\)](#)
- [Introducing ESG Relevance Scores for Structured Finance and Covered Bonds \(October 2019\)](#)

Definitions of Terms Used

CVB	Covered Bonds
LT IDR	Long Term Issuer Default Rating
IDR	Issuer Default Rating
PCU	Payment Continuity Uplift
WA	Weighted Average
WAL	Weighted Average Life
OC	Overcollateralisation
Helaba	Landesbank Hessen-Thüringen Girozentrale Public Sector Pfandbriefe
BayernLB	Bayerische Landesbank Public Sector Pfandbriefe
UniCredit	UniCredit Bank AG Public Sector Pfandbriefe
SaarLB	Landesbank Saar Public Sector Pfandbriefe
Dexia	Dexia Kommunalbank Deutschland
vdv	Verband deutscher Pfandbriefbanken
PfandBG	German Legislative Pfandbriefe, German Pfandbrief Act
BaFin	German Federal Financial Supervisory Authority
PBwLBA	Pfandbriefbank with limited business activity

Source: Fitch Ratings

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