

## Commerzbank AG

## Full Rating Report

## Ratings

## Foreign Currency

Long-Term IDR	BBB+
Short-Term IDR	F2, UCO

Viability Rating	bbb+
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Support Rating	5
Support Rating Floor	NF
Derivative Counterparty Rating	A-(dcr)
Long-Term Deposit Rating	A-
Short-Term Deposit Rating	F2, UCO

## Sovereign Risk

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA

## Outlooks

Long-Term Foreign-Currency Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

## Financial Data

## Commerzbank AG

	1H19	2018
Total assets (USDbn)	590	530
Total assets (EURbn)	518	462
Total equity (EURbn)	29	29
Operating profit (EURm)	538	1,109
Net interest margin (%)	1.2	1.2
Operating profit/RWAs (%)	0.6	0.6
Impaired loans/gross loans (%)	n.a.	1.1
Fitch Core Capital/RWAs (%)	13.4	13.9
CET1 ratio (%)	12.9	12.9
Total capital ratio (%)	16.0	16.3
Loans/client deposits (%)	88.1	91.3

Source: Fitch Ratings, Fitch Solutions

## Related Research

Fitch Places 31 EMEA Bank ST Issuer Ratings Under Criteria Observation (May 2019)

Commerzbank AG - Ratings Navigator (February 2019)

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## Key Rating Drivers

**Robust Balance Sheet, Modest Profits:** Commerzbank AG's (CBK) Issuer Default Ratings (IDRs) and Viability Rating (VR) reflect its modest profitability, sound asset quality, funding and liquidity and adequate capitalisation. They also reflect decreasing execution risk but a protracted rise in revenue generation from the progressing implementation of its digital banking model.

**Challenging Targets for 2020:** CBK's corporate and retail banking franchises are among the largest in Germany. However, its weak pricing power suffers from intense competition, especially in domestic corporate banking. Consequently, its operating profitability remains low compared with that of large European peers. CBK's reliance on low loan impairment charges (LICs) and high loan growth appears increasingly unsustainable given the deteriorating economic outlook. Its operating costs are sticky as efficiency-raising measures take time to feed through.

**Slow Revenue Growth:** Client growth and digitalisation are progressing well, driven by the Commerzbank 4.0 restructuring started in 2016. In 2018, the core segments Private and Small Business Customers (PSBC) and Corporate Clients (CC) gained new clients in excess of CBK's targets. However, revenue growth is modest in PSBC and declined in CC.

**Trading Activities Reduced:** In 4Q18, CBK agreed to sell its equity markets and commodity trading operations, which includes its exchange-traded funds and equity derivatives trading business. This will further reduce its already moderate exposure to traded market risk.

**Sound Asset Quality:** CBK's asset quality improved further in 2018 and 1H19, helped by the robust German economy. Its non-performing loan (NPL) ratio is very low, its NPL provisioning ratio is adequate and its corporate loans are well diversified by industry. Having run down its shipping and commercial real estate loans to immaterial levels, CBK closed its Asset & Capital Recovery unit (ACR), where it had managed down these legacy assets, in mid-2019. Most residual legacy exposures are to the UK public sector, with manageable risk implications.

**Reasonable Capitalisation:** CBK's capital ratios are broadly in line with peer average despite erosion in 2018 due to 8% loan growth and the implementation of IFRS 9. Its common equity Tier 1 (CET1) ratio offers a reasonable buffer over its 2019 SREP requirement of 10.11%. This allows it to absorb risk-weighted asset (RWA) inflation from future growth of its client base, the revision of the Basel III standards (output floor) and the ECB's review of internal models. Its fully loaded leverage ratio of 4.5% at end-1H19 is acceptable given its improved risk profile.

**Diversified Funding, Sound Liquidity:** CBK's funding mix includes a broad base of retail, corporate and institutional deposits and established access to the international capital markets. Its covered bond franchise provides resilient access to long-term funding and limits its reliance on unsecured debt. Its large stock of highly liquid assets results in a sound liquidity profile.

**Buffers Drive Preferred Ratings' Uplift:** CBK's Derivative Counterparty Rating and long-term deposit and senior preferred debt ratings are one notch above its Long-Term IDR. This reflects Fitch Ratings' view that CBK's junior and senior non-preferred (SNP) debt buffer would suffice to recapitalise it, restore its viability and prevent default on preferred obligations in a resolution.

## Rating Sensitivities

**Effective Restructuring, Profit Development:** We could downgrade CBK's ratings if its restructuring fails to improve revenue generation and contain costs, or if it undermines its franchise. An upgrade would require significant and sustainable strengthening of its profitability.

## Operating Environment

### German Banks' Profitability under Pressure as Economic Outlook Worsens

Germany's GDP growth decelerated sharply in 2H18 and fell to 1.4% in 2018, the weakest growth since 2013. Fitch forecasts a further deceleration to 0.9% in 2019, mainly due to cooling world trade and uncertainty, mostly for German manufacturers, around potential US tariffs on cars, weak Chinese growth and trade agreements with the UK. German banks' reduced foreign presence since 2008 increases their vulnerability to a downturn of the domestic economy.

However, sound domestic fundamentals have, so far, underpinned record low unemployment, nominal wage growth and solid consumer confidence in Germany. Together with the ECB's expansive monetary policy, this continues to fuel vigorous demand for loans from households, SMEs and corporates. Demand for housing loans has been particularly buoyant over the last decade, strongly inflating house prices in large cities. The resulting risk of late-cycle imbalances has prompted the German authorities to activate the counter-cyclical capital buffer for domestic exposures from mid-2020, although initially to a low level of 25bp.

### Above-Average Credit Growth but Margin Pressure from Intense Competition

German banks' funding and liquidity are sound, capitalisation is adequate and the sector's NPL ratio of less than 2% is one of the lowest in the eurozone. Above-average loan growth has somewhat delayed the long-term erosion of net interest income in recent years. However, low interest rates and slow progress in addressing high costs and reviving revenue generation due to intense competition are depressing banks' profits ahead of the cyclical downturn. Margin tightening has absorbed most of the competitive pressure so far, especially in commercial real estate and corporate lending. However, the banking sector's strong loan growth is increasingly likely to imply a loosening of underwriting standards at this late stage of the credit cycle.

### Supportive Economic Environment in Poland

CBK is also significantly exposed to the Polish market via its local subsidiary mBank S.A. (BBB/Stable/F2/bbb-). Poland's (A-/Stable/F2) economic environment has evolved favourably in recent years owing to its sound financial system and falling unemployment. However, corruption allegations involving KNF, the national banking regulator, recently triggered the resignation of KNF's head and weighed on Polish lenders' valuation amid political uncertainty.

## Company Profile

### Large Retail and Corporate Banking Franchises in Germany and Poland

CBK is a universal bank focusing on Germany with operations in almost 50 countries. Its nationwide network of about 1,000 branches and its online subsidiaries serve 12 million household and wealth management clients in Germany. It is one of the largest German banks by assets, but its market share in retail banking is modest by international comparison due to the sector's high fragmentation and strong penetration by foreign banks.

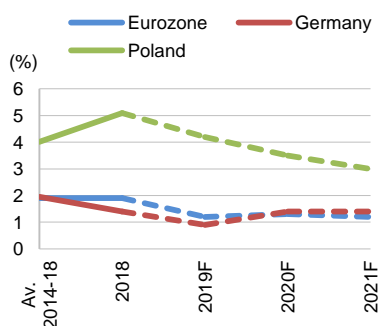
As a leading German corporate bank, it offers a broad range of services to mid-sized corporates (Mittelstand) and, increasingly, to small business clients. As the leading trade finance provider, it settles, by its own account, about 30% of Germany's export volume. mBank provides some geographic diversification with its well-established franchise of 5.7 million household and 23,700 corporate clients at end-2018 in Poland, where it is the fourth-largest bank by assets.

CBK is one of very few large German banks that are publicly listed. It is 52% owned by institutional investors and 20% by private individuals. The German government retains a non-strategic 15% stake resulting from the support provided after the 2008 financial crisis. Cerberus Capital Management, a US-based private equity firm, has owned a 5% stake since 3Q17.

### Commerzbank 4.0's Challenging 2020 Targets

CBK aims to cut its annual costs by EUR1.1 billion by 2020 by completing its transformation

### Real GDP Growth



Source: Fitch Ratings, Global Eco. Outlook (June 2019)

### Related Criteria

[Bank Rating Criteria \(October 2018\)](#)

[Short-Term Rating Criteria \(May 2019\)](#)

into a multi-channel digital bank focusing on private, small business and corporate clients. It is thereby reacting to the low interest rates, intensifying competition and regulatory requirements and the need to invest in technology. In 2018, PSBC gained nearly 420,000 net new clients and CC about 3,500, both ahead of targets. We acknowledge the efforts to raise cost efficiency, but we view the cost cutting target as challenging given the limited progress achieved in terms of staff costs. In addition, we believe that the success of Commerzbank 4.0 will largely hinge on CBK's ability to generate large and recurring revenue growth from its expanded client base.

### Focus on Core Segments PSBC and CC Reduces Complexity

PSBC (30% of CBK's total assets) serves households and small businesses with sales of up to EUR15 million. It includes CBK's domestic branch network and its subsidiaries comdirect (online banking), Commerz Real (real estate) and mBank. CC (39% of total assets) includes the corporate banking and capital market activities. We view CBK's revised annual revenue growth target of 3% on average in PSBC and CC to end-2020 as challenging given the progress achieved so far and the deteriorating economic outlook.

CBK is exiting or downsizing volatile or capital-intensive capital market and investment banking activities and scaling back its structured investments and financial products business. We do not expect these cuts to materially weaken its core corporate franchise as it will notably continue to offer essential fixed-income, currency investment and hedging products. The sale of the equity markets and commodity division is resulting in the gradual transfer of the division's trading books, clients, staff and parts of the related IT infrastructure.

### Management and Strategy

#### Focus on Strategic Plan Following Aborted Merger Talks with Deutsche Bank

The exploratory merger talks, initiated by CBK and Deutsche Bank in March 2019 and aborted in April 2019, highlight the pressure on management to defend CBK's earnings. We view the termination of the merger talks positively due to the high execution risk and uncertain synergies that the envisaged combination would have entailed, as well as the merger's questionable ability to spur a much needed tightening of pricing discipline in the German banking sector.

However, CBK's 2020 strategic targets appear increasingly challenging ahead of the upcoming cyclical downturn, which will eventually constrain its loan growth potential and inflate risk costs. CBK's loan book has grown by 27% since end-2016, but CC, where harsh competition makes cross-selling notoriously challenging, has driven continuous revenue erosion over the last quarters. This shows CBK's still limited ability to convert client growth into additional earnings.

#### Untested Ability of Restructuring Plan to Restore Pricing Power

Following the break-up of the merger talks, CBK has continued to execute its strategic plan based on organic growth. Two thirds into its four-year implementation, Commerzbank 4.0 remains a complex and demanding project. However, the related execution risk has been receding as the transformation progresses.

We view the measures contained therein as necessary to mitigate CBK's earnings weaknesses, but the plan's ability to restore adequate pricing power remains uncertain. CBK will continue to significantly lag the savings and cooperative banks' size, franchise breadth and entrenched presence in areas less exposed to intense competition. Both groups' universal bancassurance franchises underpin their unmatched cross-selling record, including leading presences in high-margin segments such as consumer finance.

Since its buyout of BNP Paribas' stake in their common consumer finance joint venture in 2017, CBK has been able to capture the full value creation and seek more ambitious growth from this product, which offers a superior risk/return profile in Germany. However, its consumer loan book has been growing from a modest basis and it will need some time for its profit contribution to significantly mitigate the earnings pressure in the much larger corporate banking segment.

### Commerzbank 4.0

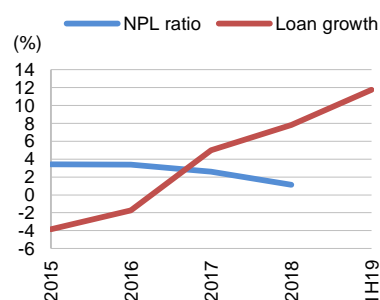
#### 2020 Targets

Consumer loans new business (EURbn)	6
Assets under control <sup>a</sup> (EURbn)	>400
Customers in Germany (m)	>14
Additional revenue (EURbn p.a.)	>1.4
Digitalisation ratio (%)	80
Staff (full-time equivalent)	>38,000
Market share small business customers (%)	8
Market share trade finance & services (%)	32

<sup>a</sup> Loans + deposits + securities  
Source: Fitch Ratings, CBK

## Sound Asset Quality

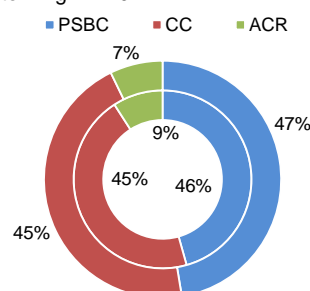
Helped by strong loan growth  
(1H19 NPL ratio - n.a.)



Source: Fitch Ratings, CBK

## EaD by Segment

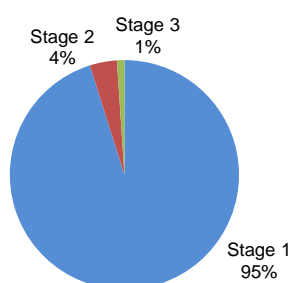
Inner ring: 2018  
Outer ring: 1H19



Source: Fitch Ratings, CBK

## Loan Stock by IFRS 9 Stage

End-2018



Source: Fitch Ratings, CBK

## Risk Appetite

### Reasonable Risk Appetite and Underwriting Standards

CBK's risk profile benefits from its focus on German corporate and retail clients and high share of investment-grade exposures. Risk appetite in unsecured consumer lending tends to be more moderate in Germany than in other European markets. However, underwriting standards have yet to be tested in a downturn after an unusually long period of economic growth. The risk of loosening standards generally rises at this late stage of the cycle, particularly given German banks' increasing reliance on loan growth to mitigate the dilution of their net interest income.

### Identified Conduct Risks Appear Manageable

CBK's business model inherently creates material conduct and operational risks, notably given the scale of CC's international trade finance operations and network of correspondent banks or PSBC's investment advisory business with retail clients. Similarly to most large banks, CBK is involved in a variety of legal and arbitration cases, claims and legal proceedings. The residual financial risk arising from the main cases identified so far appears manageable. Undisclosed pending cases have been provisioned for but may entail non-quantifiable reputational risk.

### Reduced Market Risk

Interest rates and currencies drive most of CBK's traded market risk, followed by credit spreads and equity. The bank is exiting or reducing its activities in volatile markets (e.g. exotic interest-rate derivatives). This should reduce its already moderate exposure to traded market risk.

CBK reported a value at risk of EUR9 million (99% confidence level, one-day holding period) in its trading book at end-1H19. Interest-rate risk in its banking book is captured in the value at risk for the overall book, which fell to EUR34 million at end-2018 from EUR54 million at end-2017 following the switch to IFRS 9. The vulnerability of its banking book to interest-rate shocks is broadly in line with wholesale banks with more maturity-matched balance sheets. It also compares favourably with the savings and cooperative banks, which, however, have much larger capital buffers. The impact of a 200bp upward parallel shift of the yield curve on the economic value of CBK's banking book would have eroded its CET1 capital by EUR1.6 billion or 6% at end-2018, which is well below the regulatory threshold of 20% of total capital.

## Asset Quality

### Sound Asset Quality in Core Segments; ACR's Closure Completes Clean-Up

CBK's stock of NPLs broadly stabilised in 1H19 after a rapid decline in 2018, primarily driven by the ACR's run-off and supported by the sound asset quality of the core PSBC and CC segments amid benign economic conditions. Its NPL ratio (IFRS 9 Stage 3 assets/gross client loans) of 1.1% at end-2018 is now lower than the solid German sector average. Its NPL provisioning ratio (according to CBK) declined to 42% in 2018, mainly due to the reclassification of shipping loans to fair value under IFRS 9, but remains broadly in line with comparable peers.

PSBC's asset quality is strong, with an NPL ratio of 1% at end-2018. Low-risk, granular owner-occupied housing and real estate capital investment exposures represent about 50% of PSBC's total EaD. CC's NPL ratio declined to 0.9%. The segment is well diversified across industries and benefited from reversals of valuation allowances on specific positions in 2018.

The ACR's exposure at default (EaD) fell by EUR1 billion to EUR4 billion and the segment's NPLs stabilised at EUR0.3 billion in 1H19. This reflects the continued asset run-off and valuation gains, mostly from the reclassification of shipping loans at fair value upon the implementation of IFRS 9. As a result, the ACR accounted for only 8% of CBK's total NPLs at end-1H19 and 13% of total LICs in 1H19.

The bank transferred its remaining legacy assets (predominantly long-dated UK public-sector loans) to the others/consolidation segment following the ACR's closure in mid-2019. The risk arising from this residual portfolio appears manageable.

## Tail Risk in Peripheral Country-Risk Exposure

CBK had a large EUR8.4 billion exposure to Italian sovereign bonds (BBB/Negative) at end-2018, of which some are very long-dated. This exposure is vulnerable to a deterioration of the country's credit profile, resulting market risk and, in the long-term, to the potential introduction of regulatory risk weightings on sovereign debt. CBK actively manages its exposure to Russian and Chinese corporates and banks due to geopolitical developments. After a substantial reduction following the sanctions imposed on Russia since 2014, it once again increased its exposure to the country to EUR2.6 billion in 2018, which appears manageable. Its exposures to China and Turkey amounted to EUR6.4 billion and EUR1.7 billion, respectively, at end-2018.

## Earnings and Profitability

### Profitability Stagnates Well Below That of European Peers

Since 2016, CBK's operating profit/RWAs has stagnated at about 0.6%, which is less than a third of the average level achieved by the 20 largest European banks in 1H19. Within this peer group, only Deutsche Bank's performance is currently lower. CBK's net return on tangible equity of 3.1% in 1H19 after 3.4% in 2018 remains well short of its cost of capital, and its updated 5%-6% target by 2020 is becoming increasingly challenging.

### Stagnating Revenue, Sticky Costs and Reliance on Low-Risk Costs

A lasting improvement of CBK's performance will notably rely on its ability to generate additional recurring revenue from each new client. This will be crucial to counter the increased likelihood that interest rates will remain very low for a long time as well as the worsening outlook for the German economy, which could rapidly constrain demand and drive LICs up.

The deteriorating environment may prompt CBK to sharpen its cost-cutting measures to move closer to its ambitious cost/income ratio target of 66% by 2020. Operating costs declined by 4% in 1H19 yoy as digitalisation investments start to feed through, but staff costs are sticky.

CBK's stagnating net interest income (NII) since 2016, the year it launched Commerzbank 4.0, despite 27% loan growth since end-2016, illustrates the pressure on margins. The relative contribution of net commission income (NCI) has stagnated at 35% of total operating income in the meantime. This shows the difficulty to enforce higher NCI to counter the NII erosion.

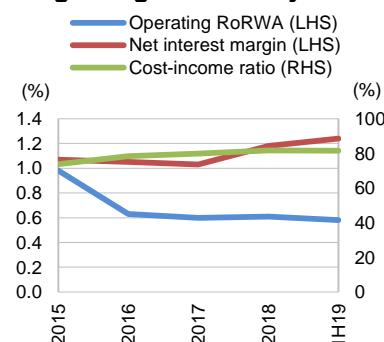
CBK estimates that a moderate 100bp rise in interest rates would suffice to improve its NII by EUR500 million in the first year and by up to EUR900 million in the fourth year, which is roughly equivalent to its 2018 net profit. This shows that the bank's performance will remain highly sensitive to the interest-rate environment as long as the intense competition in German banking prevents a significant increase in lending margins, even for large players such as CBK.

The bank's NII/average earning assets improved to 124bp in 1H19 from 105bp in 2016 but could not match the loan growth, which was mostly driven by CC, where the pricing pressure is the strongest. However, the encouraging growth of high-yielding unsecured consumer loans (for which management targets a growth to EUR6 billion in 2020 from EUR2.3 billion in 2016) is mitigating the margin erosion in the much larger housing and corporate books.

CBK retained large excess client deposits of EUR35 billion at end-1H19, with a loan/deposit ratio around 88% in the last few years despite its recent strong loan growth. Excess deposits will remain a significant drag on CBK's profitability, as long as savings rate in Germany remain structurally high and German banks are not more successful at converting their deposit surpluses to more remunerating, NCI-generating asset management products. This is because the cost of depositing excess liquidity at the ECB may soon increase beyond the current -40bp and the range of low-risk securities investments offering positive yields is rapidly dwindling.

Additional pressure is likely to arise from higher LICs in the medium term. CBK's LIC increase in 1H19 was driven by a limited number of larger exposures, and the bank's guidance of at

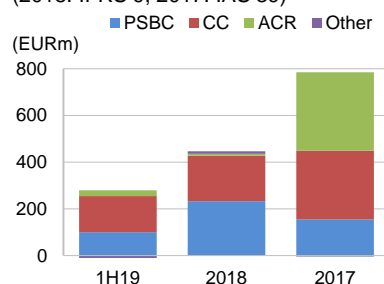
### Stagnating Profitability



Source: Fitch Ratings, CBK

### Loan Impairment Charges<sup>a</sup>

(2018: IFRS 9; 2017: IAS 39)



<sup>a</sup> Net of releases on securities and other credits

Source: Fitch Ratings, CBK

least EUR550 million for 2019 still appears attainable. However, domestic peers' 1H19 data suggest that it is becoming increasingly challenging to contain LICs close to the record-low levels of recent years, even taking into account the recent liquidation of the ACR.

Fitch expects lasting positive performance implications from CBK's decision to scale back its capital market and investment banking activities. This is because CBK's historical lack of scale and high cost base, inherent earnings volatility and limited cross-selling potential have not been justified by comparatively higher capital-adjusted revenue from these businesses.

## Capitalisation and Leverage

### Reasonable Capitalisation

CBK's fully loaded CET1 ratio fell from 14.1% at end-2017 to 12.9% at end-1H19, close to its target of 12.75% for 2019 and 2020. In the short term, the ECB's targeted review of banks' internal models is likely to add some pressure, which CBK expects to be manageable. Its CET1 ratio and its fully loaded regulatory leverage ratio of 4.5% at end-1H19 are broadly in line with that of large European peers but is not particularly strong.

In July 2019, CBK issued its first EUR1 billion additional Tier 1 bond compliant with the Capital Requirements Regulation (CRR), increasing its total capital ratio by over 50bp. Demand for the bond benefitted from the CRR's recent revision that greatly broadens the definition of German banks' available distributable items, therefore, reducing these instruments' non-performance risk.

### IFRS 9 and Loan Growth Dilute Capital Relief from ACR Run-Off

The transition to IFRS 9 and particularly the switch of the ACR's shipping loans to fair value accounting reduced CBK's equity by EUR1.8 billion in 2018. Strong loan growth in PSBC and CC (the bank's loan book increased by 20% from end-2017 to end-1H19) diluted the RWA relief from the ACR's run-off, leading to a 5.3% increase of the bank's RWAs in 2018. RWA growth accelerated to 3.5% in 1H19 as the RWAs of the ACR's assets stagnated. The non-core assets remaining after the ACR's closure at mid-2019 are unlikely to bring meaningful short-term RWA relief given their very long residual maturities.

### Reasonable Buffer over SREP Requirement

The phasing-in of the capital conservation buffer to 2.5% has raised CBK's CET1 SREP requirement to 10.11% of RWAs for 2019 from 9.625% for 2018. This was mitigated by the ECB's reduction of CBK's Pillar 2 requirement to 200bp and by the German regulators' decision to keep the bank's add-on for domestically important institutions at 100bp, which both reflect its improved risk profile. This leaves CBK with an excess CET1 buffer of about 250bp when anticipating the activation of the German countercyclical capital buffer of 25bp from mid-2020.

### Modest Profit Retention Likely to Further Constrain Capital Build-Up

CBK plans to maintain for 2019 a dividend pay-out ratio comparable with 2018 given its depressed share price and the pressure to maintain reasonably attractive profit distribution. Combined with its modest profits, this should constrain its ability to generate capital in the short term. In combination with sustained loan growth and the largely exhausted relief potential from the run-off of legacy assets, this could put significant pressure on its regulatory capital ratios.

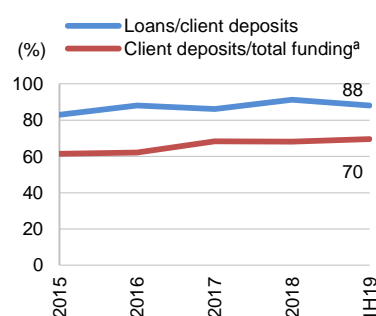
In the long term, this pressure will be compounded by the revised Basel III framework, which restricts the use of internal rating models and is likely to inflate RWAs on lower-risk secured portfolios such as housing loans. However, the long phasing-in will provide time to react.

## Funding and Liquidity

### Stable, Diversified Funding Mix and Established Access to Capital Markets

CBK's broad and diversified base of (mostly domestic) retail and corporate deposits accounts for two thirds of its total funding excluding derivatives. This limits its annual long-term debt issuance needs to modest EUR10 billion on average. Out of the EUR5.9 billion raised in 1H19,

### Stable Funding Profile



<sup>a</sup> Excluding derivatives  
Source: Fitch Ratings, CBK

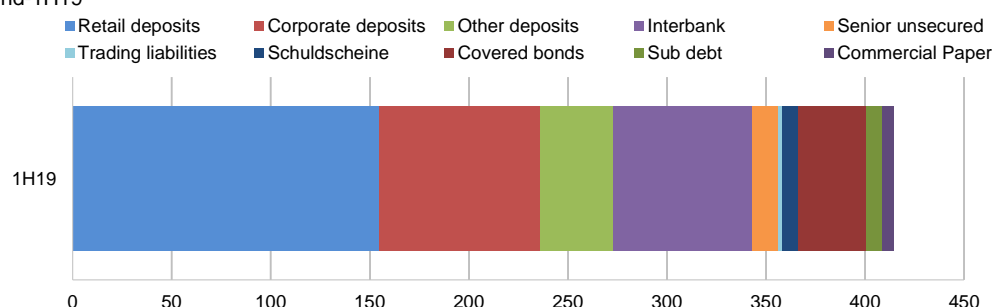
42% was covered bonds, of which CBK is a regular issuer, and which are a reliable funding source even during market stress.

### Sound Liquidity

CBK has a large pool of highly liquid assets (EUR88 billion, of which 94% level 1 assets, at end-1H19) and significant unencumbered central bank eligible assets. We consider its stock of readily available assets that can be liquidated via outright sale or repurchase agreements to withstand market disruptions as adequate. It holds a part of this liquidity reserve as a segregated portfolio dedicated to stress situations. In addition, it held a liquidity pool to manage intraday needs of EUR10.2 billion at end-1H19. Its liquidity coverage ratio comfortably exceeded the minimum regulatory requirement over the past 12 months to end-1H19, with an average month-end value of 136%.

### Funding Mix

End-1H19



Source: Fitch Ratings, CBK

### Short-Term Ratings Could be Upgraded

Fitch placed CBK's short-term ratings (IDR, deposit rating, senior preferred debt and commercial paper programmes) and the short-term rating of Commerzbank US Finance Inc's guaranteed commercial paper programme 'under criteria observation' (UCO) on 2 May 2019. This follows the publication of Fitch's cross-sector criteria for Short-Term Ratings. We expect to upgrade these ratings to 'F1' from 'F2' upon completion of our review, providing CBK's funding and liquidity profile score remains at least 'a', which is the minimum required for a 'F1'.

### Debt Ratings

#### Large Debt Buffers Drive Uplift of Preferred Obligations' Long-Term Ratings

CBK's Derivative Counterparty Rating as well as its long-term deposit and senior preferred debt ratings are one notch above its Long-Term IDR. This reflects our view that the bank has sufficient buffers of qualifying junior and SNP debt that could be used to recapitalise it, restore its viability and prevent default on preferred obligations in a resolution.

The vast majority of German banks' outstanding senior unsecured debt ranks pari passu with new-style SNP debt issued since July 2018 owing to the retroactive application of the country's amended bail-in regime in force since early 2017. As a result, with eligible debt amounting to 28.8% of its RWAs at end-2018, CBK already fulfils its minimum requirement for own funds and eligible liabilities of 27.27%. Therefore, its SNP debt issuance needs will be limited to the replacement of maturing legacy senior unsecured bonds in the foreseeable future.

We notch down CBK and Dresdner Funding Trust IV's Tier 2 notes once from the VR to reflect their higher loss severity relative to senior debt. HT1 Funding GmbH's Tier 1 notes, which have a distributable profit trigger, are rated four notches below the VR, twice each for loss severity and non-performance risk. Dresdner Funding Trust I's notes, which have a regulatory capital ratio trigger, are rated three notches below the VR, twice for loss severity and once for non-performance risk. Dresdner Funding Trust I has always paid its coupons, but CBK's legacy Tier 1 notes with a distributable profit trigger have not. This explains the one-notch difference.

### ESG Considerations

CBK's highest level of ESG credit relevance is a score of 3. This means that ESG issues are credit neutral or have only a minimal credit impact on CBK, either due to their nature or the way in which they are being managed by the bank. For more information on our ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

# Commerzbank AG Income Statement

	30 Jun 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016
	6 Months - Interim	Year End	Year End	Year End
	EURm	EURm	EURm	EURm
	Reviewed -	Audited -	Audited -	Audited -
	Unqualified	Unqualified	Unqualified	Unqualified
1. Interest Income on Loans	3,573	6,891	6,823	7,325
2. Other Interest Income	876	1,779	1,600	2,435
3. Dividend Income	11	36	106	88
<b>4. Gross Interest and Dividend Income</b>	<b>4,460</b>	<b>8,706</b>	<b>8,529</b>	<b>9,848</b>
5. Interest Expense on Customer Deposits	n.a.	n.a.	n.a.	n.a.
6. Other Interest Expense	1,944	3,922	4,222	4,771
<b>7. Total Interest Expense</b>	<b>1,944</b>	<b>3,922</b>	<b>4,222</b>	<b>4,771</b>
<b>8. Net Interest Income</b>	<b>2,516</b>	<b>4,784</b>	<b>4,307</b>	<b>5,077</b>
9. Net Fees and Commissions	1,506	3,089	3,178	3,212
10. Net Gains (Losses) on Trading and Derivatives	185	179	960	288
11. Net Gains (Losses) on Assets and Liabilities at FV	24	235	46	32
12. Net Gains (Losses) on Other Securities	11	26	170	221
13. Net Insurance Income	n.a.	n.a.	0	0
14. Other Operating Income	32	109	200	220
<b>15. Total Non-Interest Operating Income</b>	<b>1,758</b>	<b>3,638</b>	<b>4,554</b>	<b>3,973</b>
<b>16. Total Operating Income</b>	<b>4,274</b>	<b>8,422</b>	<b>8,861</b>	<b>9,050</b>
17. Personnel Expenses	1,814	3,441	3,986	3,854
18. Other Operating Expenses	1,673	3,438	3,092	3,246
<b>19. Total Non-Interest Expenses</b>	<b>3,487</b>	<b>6,879</b>	<b>7,078</b>	<b>7,100</b>
20. Equity-accounted Profit/ Loss - Operating	7	12	23	150
<b>21. Pre-Impairment Operating Profit</b>	<b>794</b>	<b>1,555</b>	<b>1,806</b>	<b>2,100</b>
22. Loan Impairment Charge	269	462	794	900
23. Securities and Other Credit Impairment Charges	(13)	(16)	(13)	n.a.
<b>24. Operating Profit</b>	<b>538</b>	<b>1,109</b>	<b>1,025</b>	<b>1,200</b>
25. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	n.a.	n.a.
26. Goodwill Impairment	n.a.	n.a.	n.a.	n.a.
27. Non-recurring Income	5	146	283	204
28. Non-recurring Expense	1	10	813	761
29. Change in Fair Value of Own Debt	n.a.	n.a.	n.a.	n.a.
30. Other Non-operating Income and Expenses	n.a.	n.a.	n.a.	n.a.
<b>31. Pre-tax Profit</b>	<b>542</b>	<b>1,245</b>	<b>495</b>	<b>643</b>
32. Tax expense	122	267	245	261
33. Profit/Loss from Discontinued Operations	12	(10)	n.a.	n.a.
<b>34. Net Income</b>	<b>432</b>	<b>968</b>	<b>250</b>	<b>382</b>
35. Change in Value of AFS Investments	49	(93)	287	(135)
36. Revaluation of Fixed Assets	n.a.	n.a.	n.a.	n.a.
37. Currency Translation Differences	56	(102)	7	(143)
38. Remaining OCI Gains/(losses)	(279)	(147)	(3)	(405)
<b>39. Fitch Comprehensive Income</b>	<b>258</b>	<b>626</b>	<b>541</b>	<b>(301)</b>
40. Memo: Profit Allocation to Non-controlling Interests	41	103	94	103
41. Memo: Net Income after Allocation to Non-controlling Interests	391	865	156	279
42. Memo: Common Dividends Relating to the Period	n.a.	n.a.	n.a.	n.a.
43. Memo: Preferred Dividends and Interest on Hybrid Capital Accounted for as Equity Related to the Period	n.a.	n.a.	n.a.	n.a.

## Commerzbank AG

### Balance Sheet

	30 Jun 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016
	6 Months - Interim	Year End	Year End	Year End
	EURm	EURm	EURm	EURm
<b>Assets</b>				
<b>A. Loans</b>				
1. Residential Mortgage Loans	n.a.	n.a.	n.a.	n.a.
2. Other Mortgage Loans	n.a.	n.a.	n.a.	n.a.
3. Other Consumer/ Retail Loans	105,673	101,164	n.a.	n.a.
4. Corporate & Commercial Loans	135,532	112,171	90,468	59,488
5. Other Loans	17,074	17,784	123,908	144,668
6. Less: Loan Loss Allowances	2,137	2,113	3,076	3,670
<b>7. Net Loans</b>	<b>256,142</b>	<b>229,006</b>	<b>211,300</b>	<b>200,486</b>
<b>8. Gross Loans</b>	<b>258,279</b>	<b>231,119</b>	<b>214,376</b>	<b>204,156</b>
9. Memo: Impaired Loans included above	n.a.	2,628	5,569	6,914
10. Memo: Specific Loan Loss Allowances	n.a.	n.a.	n.a.	n.a.
<b>B. Other Earning Assets</b>				
1. Loans and Advances to Banks	56,063	51,067	30,408	25,134
2. Reverse Repos and Securities Borrowing	n.a.	n.a.	n.a.	45,757
3. Derivatives	43,929	39,723	49,400	64,590
4. Trading Securities and at FV through Income	10,127	7,121	39,628	27,504
5. Securities at FV through OCI / Available for Sale	27,825	25,359	31,021	39,635
6. Securities at Amortised Cost / Held to Maturity	32,121	31,750	n.a.	n.a.
7. Other Securities	n.a.	n.a.	24,004	29,546
<b>8. Total Securities</b>	<b>70,073</b>	<b>64,230</b>	<b>94,653</b>	<b>96,685</b>
9. Memo: Government Securities included Above	34,026	30,685	31,928	43,142
10. Memo: Total Securities Pledged	6,347	3,623	1,996	5,092
11. Equity Investments in Associates	178	173	315	332
12. Investments in Property	13	13	16	16
13. Insurance Assets	n.a.	n.a.	n.a.	n.a.
14. Other Earning Assets	n.a.	n.a.	n.a.	n.a.
<b>15. Total Earning Assets</b>	<b>426,398</b>	<b>384,212</b>	<b>386,092</b>	<b>433,000</b>
<b>C. Non-Earning Assets</b>				
1. Cash and Due From Banks	64,947	53,914	55,733	34,802
2. Memo: Mandatory Reserves included above	n.a.	n.a.	n.a.	n.a.
3. Foreclosed Assets	n.a.	n.a.	n.a.	n.a.
4. Fixed Assets	3,643	1,547	1,600	1,723
5. Goodwill	1,511	1,507	1,507	1,484
6. Other Intangibles	1,630	1,739	1,805	1,563
7. Current Tax Assets	769	783	767	629
8. Deferred Tax Assets	3,126	3,116	2,950	3,049
9. Discontinued Operations	14,158	13,433	78	1,188
10. Other Assets	1,848	2,118	1,961	3,012
<b>11. Total Assets</b>	<b>518,030</b>	<b>462,369</b>	<b>452,493</b>	<b>480,450</b>
<b>Liabilities and Equity</b>				
<b>D. Interest-Bearing Liabilities</b>				
1. Total Customer Deposits	293,259	253,113	248,995	231,774
2. Deposits from Banks	76,813	48,031	48,895	47,615
3. Repos and Securities Lending	n.a.	n.a.	n.a.	25,218
4. Commercial Paper and Short-term Borrowings	5,705	n.a.	n.a.	9,564
<b>5. Customer Deposits and Short-term Funding</b>	<b>375,777</b>	<b>301,144</b>	<b>297,890</b>	<b>314,171</b>
6. Senior Unsecured Debt	13,380	16,371	16,232	14,853
7. Subordinated Borrowing	8,280	9,380	9,900	10,969
8. Covered Bonds	20,602	18,869	17,237	27,338
9. Other Long-term Funding	n.a.	n.a.	n.a.	n.a.
<b>10. Total LT Funding</b>	<b>42,262</b>	<b>44,620</b>	<b>43,369</b>	<b>53,160</b>
11. Memo: o/w matures in less than 1 year	n.a.	n.a.	n.a.	n.a.
12. Trading Liabilities	2,240	25,089	22,972	5,692
<b>13. Total Funding</b>	<b>420,279</b>	<b>370,853</b>	<b>364,231</b>	<b>373,023</b>
14. Derivatives	46,387	42,258	51,198	70,033
<b>15. Total Funding and Derivatives</b>	<b>466,666</b>	<b>413,111</b>	<b>415,429</b>	<b>443,056</b>
<b>E. Non-Interest Bearing Liabilities</b>				
1. Fair Value Portion of Debt	n.a.	n.a.	n.a.	n.a.
2. Credit impairment reserves	n.a.	n.a.	n.a.	n.a.
3. Reserves for Pensions and Other	2,900	3,153	3,291	3,436
4. Current Tax Liabilities	370	472	673	574
5. Deferred Tax Liabilities	26	20	34	49
6. Other Deferred Liabilities	333	312	274	322
7. Discontinued Operations	13,365	12,914	0	0
8. Insurance Liabilities	n.a.	n.a.	n.a.	n.a.
9. Other Liabilities	4,146	2,072	2,751	3,373
<b>10. Total Liabilities</b>	<b>487,806</b>	<b>432,054</b>	<b>422,452</b>	<b>450,810</b>
<b>F. Hybrid Capital</b>				
1. Pref. Shares and Hybrid Capital accounted for as Debt	807	904	n.a.	n.a.
2. Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	n.a.	n.a.
<b>G. Equity</b>				
1. Common Equity	28,365	28,499	29,694	29,628
2. Non-controlling Interest	1,244	1,200	1,164	1,027
3. Securities Revaluation Reserves	38	(9)	(571)	(781)
4. Foreign Exchange Revaluation Reserves	(221)	(264)	(192)	(137)
5. Fixed Asset Revaluations and Other Accumulated OCI	(9)	(15)	(54)	(97)
<b>6. Total Equity</b>	<b>29,417</b>	<b>29,411</b>	<b>30,041</b>	<b>29,640</b>
7. Memo: Equity plus Pref. Shares and Hybrid Capital accounted for as E	29,417	29,411	30,041	29,640
<b>8. Total Liabilities and Equity</b>	<b>518,030</b>	<b>462,369</b>	<b>452,493</b>	<b>480,450</b>
9. Memo: Fitch Core Capital	24,931	25,005	25,384	25,369

## Commerzbank AG Summary Analytics

	30 Jun 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016
	6 Months - Interim	Year End	Year End	Year End
<b>A. Interest Ratios</b>				
1. Interest Income/ Average Earning Assets	2.2	2.2	2.0	2.0
2. Interest Income on Loans/ Average Gross Loans	2.9	3.0	3.3	3.5
3. Interest Expense on Customer Deposits/ Average Customer Deposits	n.a.	n.a.	n.a.	n.a.
4. Interest Expense/ Average Interest-bearing Liabilities	0.9	0.9	1.0	1.0
5. Net Interest Income/ Average Earning Assets	1.2	1.2	1.0	1.1
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	1.1	1.1	0.8	0.9
7. Net Interest Inc Less Pref. Stock Dividend/Average Earning Assets	1.2	1.2	1.0	1.1
<b>B. Other Operating Profitability Ratios</b>				
1. Operating Profit/ Risk Weighted Assets	0.6	0.6	0.6	0.6
2. Non-Interest Expense/ Gross Revenues	81.6	81.7	79.9	78.5
3. Loans and securities impairment charges/ Pre-impairment Op. Profit	32.2	28.7	43.2	42.9
4. Operating Profit/ Average Total Assets	0.2	0.2	0.2	0.2
5. Non-Interest Income/ Gross Revenues	41.1	43.2	51.4	43.9
6. Non-Interest Expense/ Average Total Assets	1.4	1.5	1.5	1.4
7. Pre-impairment Op. Profit/ Average Equity	5.5	5.3	6.1	7.0
8. Pre-impairment Op. Profit/ Average Total Assets	0.3	0.3	0.4	0.4
9. Operating Profit/ Average Equity	3.7	3.8	3.5	4.0
<b>C. Other Profitability Ratios</b>				
1. Net Income/ Average Total Equity	3.0	3.3	0.8	1.3
2. Net Income/ Average Total Assets	0.2	0.2	0.1	0.1
3. Fitch Comprehensive Income/ Average Total Equity	1.8	2.1	1.8	(1.0)
4. Fitch Comprehensive Income/ Average Total Assets	0.1	0.1	0.1	(0.1)
5. Taxes/ Pre-tax Profit	22.5	21.5	49.5	40.6
6. Net Income/ Risk Weighted Assets	0.5	0.5	0.2	0.2
<b>D. Capitalization</b>				
1. FCC/ FCC-Adjusted Risk Weighted Assets	13.4	13.9	14.8	13.3
2. Tangible Common Equity/ Tangible Assets	4.9	5.5	5.7	5.3
3. Equity/ Total Assets	5.7	6.4	6.6	6.2
4. Basel Leverage Ratio	4.6	5.0	5.5	5.4
5. Common Equity Tier 1 Capital Ratio	12.9	12.9	14.9	13.9
6. Fully Loaded Common Equity Tier 1 Capital Ratio	12.9	12.9	14.1	12.3
7. Tier 1 Capital Ratio	13.3	13.4	15.2	13.9
8. Total Capital Ratio	16.0	16.3	18.3	16.9
9. Impaired Loans less Loan Loss Allowances/ Fitch Core Capital	n.a.	2.1	9.8	12.8
10. Impaired Loans less Loan Loss Allowances/ Equity	n.a.	1.8	8.3	10.9
11. Cash Dividends Paid & Declared/ Net Income	n.a.	n.a.	n.a.	n.a.
12. Risk Weighted Assets/ Total Assets	36.1	39.0	37.9	39.7
13. Risk Weighted Assets - Standardised/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
14. Risk Weighted Assets - Advanced Method/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
<b>E. Loan Quality</b>				
1. Impaired Loans/ Gross Loans	n.a.	1.1	2.6	3.4
2. Growth of Gross Loans	11.8	7.8	5.0	(1.7)
3. Loan Loss Allowances/ Impaired Loans	n.a.	80.4	55.2	53.1
4. Loan Impairment Charges/ Average Gross Loans	0.2	0.2	0.4	0.4
5. Growth of Total Assets	12.0	2.2	(5.8)	(9.8)
6. Loan Loss Allowances/ Gross Loans	0.8	0.9	1.4	1.8
7. Net Charge-offs/ Average Gross Loans	0.2	0.2	0.4	0.5
8. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	n.a.	1.1	2.6	3.4
<b>F. Funding and Liquidity</b>				
1. Loans/ Customer Deposits	88.1	91.3	86.1	88.1
2. Liquidity Coverage Ratio	136.0	135.7	144.6	n.a.
3. Customer Deposits/ Total Funding (including Pref. Shares & Hybrids)	69.6	68.1	68.4	62.1
4. Interbank Assets/ Interbank Liabilities	73.0	106.3	62.2	52.8
5. Net Stable Funding Ratio	n.a.	n.a.	n.a.	n.a.
6. Growth of Total Customer Deposits	15.9	1.7	7.4	(7.5)

## Commerzbank AG

### Reference Data

	30 Jun 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016
	6 Months - Interim	Year End	Year End	Year End
	EURm	EURm	EURm	EURm
<b>A. Off-Balance Sheet Items</b>				
1. Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	n.a.	n.a.
2. Other off-balance sheet exposure to securitizations	n.a.	n.a.	n.a.	n.a.
3. Guarantees	n.a.	n.a.	n.a.	34,917
4. Acceptances and documentary credits reported off-balance sheet	n.a.	n.a.	n.a.	n.a.
5. Committed Credit Lines	81,242	78,387	79,896	78,245
6. Other Contingent Liabilities	40,806	38,439	36,179	80
7. Other Off-Balance Sheet items	n.a.	n.a.	n.a.	n.a.
8. Total Assets under Management	n.a.	n.a.	n.a.	n.a.
<b>B. Average Balance Sheet</b>				
1. Average Loans	247,281	230,824	209,286	208,403
2. Average Earning Assets	408,520	404,064	418,326	481,948
3. Average Total Assets	494,548	473,131	480,073	519,004
4. Average Managed Securitized Assets (OBS)	n.a.	n.a.	n.a.	n.a.
5. Average Interest-Bearing Liabilities	443,769	434,357	442,516	476,595
6. Average Common equity	28,420	28,628	29,586	29,797
7. Average Equity	29,405	29,439	29,719	29,817
8. Average Customer Deposits	269,963	252,035	247,090	241,331
<b>C. Maturities</b>				
<b>Asset Maturities:</b>				
Loans & Advances < 3 months	n.a.	n.a.	n.a.	n.a.
Loans & Advances 3 - 12 Months	n.a.	n.a.	n.a.	n.a.
Loans and Advances 1 - 5 Years	n.a.	n.a.	n.a.	n.a.
Loans & Advances > 5 years	n.a.	n.a.	n.a.	n.a.
Debt Securities < 3 Months	n.a.	n.a.	n.a.	n.a.
Debt Securities 3 - 12 Months	n.a.	n.a.	n.a.	n.a.
Debt Securities 1 - 5 Years	n.a.	n.a.	n.a.	n.a.
Debt Securities > 5 Years	n.a.	n.a.	n.a.	n.a.
Loans & Advances to Banks < 3 Months	n.a.	n.a.	n.a.	n.a.
Loans & Advances to Banks 3 - 12 Months	n.a.	n.a.	n.a.	n.a.
Loans & Advances to Banks 1 - 5 Years	n.a.	n.a.	n.a.	n.a.
Loans & Advances to Banks > 5 Years	n.a.	n.a.	n.a.	n.a.
<b>Liability Maturities:</b>				
Retail Deposits < 3 months	n.a.	n.a.	n.a.	190,996
Retail Deposits 3 - 12 Months	n.a.	n.a.	n.a.	25,172
Retail Deposits 1 - 5 Years	n.a.	n.a.	n.a.	8,411
Retail Deposits > 5 Years	n.a.	n.a.	n.a.	19,294
Other Deposits < 3 Months	n.a.	n.a.	n.a.	n.a.
Other Deposits 3 - 12 Months	n.a.	n.a.	n.a.	n.a.
Other Deposits 1 - 5 Years	n.a.	n.a.	n.a.	n.a.
Other Deposits > 5 Years	n.a.	n.a.	n.a.	n.a.
Deposits from Banks < 3 Months	n.a.	n.a.	n.a.	21,048
Deposits from Banks 3 - 12 Months	n.a.	n.a.	n.a.	5,711
Deposits from Banks 1 - 5 Years	n.a.	n.a.	n.a.	8,898
Deposits from Banks > 5 Years	n.a.	n.a.	n.a.	13,120
Senior Debt Maturing < 3 months	n.a.	n.a.	n.a.	4,043
Senior Debt Maturing 3-12 Months	n.a.	n.a.	n.a.	5,521
Senior Debt Maturing 1- 5 Years	n.a.	n.a.	n.a.	13,429
Senior Debt Maturing > 5 Years	n.a.	n.a.	n.a.	15,501
<b>Total Senior Debt on Balance Sheet</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>38,494</b>
Fair Value Portion of Senior Debt	n.a.	n.a.	n.a.	n.a.
Subordinated Debt Maturing < 3 months	n.a.	n.a.	n.a.	409
Subordinated Debt Maturing 3-12 Months	n.a.	n.a.	n.a.	918
Subordinated Debt Maturing 1- 5 Year	n.a.	n.a.	n.a.	3,526
Subordinated Debt Maturing > 5 Years	n.a.	n.a.	n.a.	6,116
<b>Total Subordinated Debt on Balance Sheet</b>	<b>8,280</b>	<b>9,380</b>	<b>9,900</b>	<b>10,969</b>
Fair Value Portion of Subordinated Debt	n.a.	n.a.	n.a.	n.a.
<b>D. Risk Weighted Assets</b>				
1. Risk Weighted Assets	186,797	180,498	171,369	190,527
2. Fitch Core Capital Adjustments for Insurance and Securitisation Risk V	n.a.	n.a.	n.a.	n.a.
<b>3. Fitch Core Capital Adjusted Risk Weighted Assets</b>	<b>186,797</b>	<b>180,498</b>	<b>171,369</b>	<b>190,527</b>
4. Other Fitch Adjustments to Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
<b>5. Fitch Adjusted Risk Weighted Assets</b>	<b>186,797</b>	<b>180,498</b>	<b>171,369</b>	<b>190,527</b>
<b>E. Fitch Core Capital Reconciliation</b>				
1. Total Equity as reported (including non-controlling interests)	29,417	29,411	30,041	29,640
2. Fair-value adjustments relating to own credit risk on debt issued	0	220	36	240
3. Non-loss-absorbing non-controlling interests	0	0	0	0
4. Goodwill	1,511	1,507	1,507	1,484
5. Other intangibles	1,630	1,739	1,805	1,563
6. Deferred tax assets deduction	1,181	1,181	1,168	1,163
7. Net asset value of insurance subsidiaries	0	0	0	0
8. First loss tranches of off-balance sheet securitizations	164	199	213	301
9. Fund for general banking risks if not already included and readily conve	0	0	0	0
<b>10. Fitch Core Capital</b>	<b>24,931</b>	<b>25,005</b>	<b>25,384</b>	<b>25,369</b>

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