Rating Report
Landesbank Baden-Württemberg

Morningstar DBRS
8 May 2024

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Credit Ratings

Debt	Credit Rating	Credit Rating Action	Trend
Long-Term Issuer Rating	A (high)	Confirmed Apr. '24	Stable
Short-Term Issuer Rating	R-1 (middle)	Confirmed Apr. '24	Stable
Intrinsic Assessment	A	Confirmed Apr. '24	--

Credit Rating Drivers

Factors with Positive Rating Implications

- LBBW's Issuer Ratings benefit from the SFG's IPS, and therefore a change in SFG's ratings would lead to a change in LBBW's credit ratings.
- The Bank's Intrinsic Assessment (IA) would be upgraded if the Bank improves its profitability on a sustainable basis, while maintaining solid asset quality.

Factors with Negative Rating Implications

- LBBW's Issuer Ratings benefit from the SFG's IPS, and therefore a change in SFG's ratings would lead to a change in LBBW's credit ratings.
- A significant deterioration in asset quality or a material decline in profitability would lead to a downgrade of the IA.

Credit Rating Considerations

Franchise Strength (Strong / Good)

- LBBW provides universal banking services mostly to commercial clients with a focus on Southern Germany. LBBW is the market leader in CRE lending in Germany. The Bank also has a growing asset and wealth management franchise, and acts as a central bank to savings banks in its designated region.

Earnings Power (Good / Moderate)

- LBBW's earnings power has benefitted from the rise in interest rates as well as the Bank's investments in certain growth areas and efficiency measures implemented in recent years. Near-term earnings are expected to weaken as margins have peaked and challenges related to the economic environment persists.

Risk Profile (Strong / Good)

- Risk is well managed, However, the current economic uncertainties, high interest rates and the high concentration in CRE in particular drive an elevated credit risk.

Funding and Liquidity (Strong / Good)

- The Bank's liquidity position is solid and is supported by its membership in the SFG and its established covered bond franchise.

Capitalisation (Good)

- LBBW has healthy capital ratios with cushions well over minimum requirements, which we expect to be maintained over the medium-term.

Financial Data Through 2023	Scorecard Building Block (BB) Assessment	Grids BB Assessment	Combined BB Assessment
Franchise	S	G	S/G
Earnings	M	G/M	G/M
Risk	S/G	S/G	S/G
Funding & Liquidity	G	S	S/G
Capitalisation	G/M	G	G

Overall Assessment	Intrinsic Assessment Range (IAR)	Assigned IA
G	['A (high)', 'A', 'A (low)']	A

Financial Information

	For the Year Ended December 31 (IFRS)				
(In EUR Millions unless otherwise stated)	**2023**	**2022**	**2021**	**2020**	**2019**
Total Assets	333,305	324,174	282,344	276,444	256,667
Gross Loans to Customers	148,872	145,008	116,297	109,265	106,798
Income Before Provisions and Taxes (IBPT)	1,643	1,167	1,056	829	796
Net Attributable Income	999	1,517	418	172	442
Net Interest Margin	0.8%	0.8%	0.7%	0.7%	0.7%
Cost / Income ratio	60.2%	66.9%	66.7%	70.3%	72.2%
LLP / IBPT	15.5%	20.5%	22.7%	65.7%	19.0%
Cost of Risk	0.17%	0.19%	0.22%	0.50%	0.14%
CET1 Ratio	14.90%	14.50%	14.80%	15.10%	14.60%

Source: Morningstar Inc., Company Documents

Issuer Description

Landesbank Baden-Württemberg (LBBW or the Bank) is a public-sector bank headquartered in Stuttgart, Baden-Württemberg and provides universal banking services to corporates, and to a lesser extent to retail clients in its core regions of Baden-Württemberg, Rhineland-Palatinate and Saxony. The Bank also performs central banking and clearing functions for the savings bank associations in this region.

Rating Rationale

LBBW's ratings reflect its membership in the Sparkassen-Finanzgruppe (SFG) and in the Institutional Protection Scheme (IPS) of the SFG. Each member of the IPS, including LBBW, is generally rated at the floor level, which is currently A (high) with a Stable trend.

The 'A' Intrinsic Assessment (IA) is supported by LBBW's solid franchise mostly in commercial banking with a regional focus on Southern Germany. In particular, the Bank is the leading provider of commercial real estate (CRE) loans in Germany. In its function as a Landesbank, LBBW also acts as a central institution and clearing bank for the savings banks in its designated regions of Baden-Württemberg, Rhineland-Palatinate and Saxony. LBBW's liquidity and funding profile is skewed towards wholesale funding, as the Bank's retail deposit franchise is rather small. However, in our view, LBBW's well-established covered bond franchise and its membership in the SFG with access to the savings banks liquidity add to the Bank's resilience. In addition, LBBW has solid capital ratios with cushions well above minimum requirements, which we expect to be maintained over the medium-term. The IA also considers the improvement in earnings as a result of the higher interest rate environment. However, relative to European peers profitability remains on the weaker side. Asset quality metrics have softened somewhat, but performance is still strong, especially in light of the Bank's large CRE exposure, which, in our view, is attributable to prudent underwriting. We expect pressure in the CRE market to persist for some time, however, which could lead to elevated loan loss provisions, albeit at a manageable level.

The Stable trend takes into consideration that 2024 earnings will likely weaken from higher levels, as margins have peaked, while wage inflation and higher credit costs may still prevail for some time. However, we expect economic indicators to improve along with lower rates in 2025, and combined with the Bank's own growth initiatives, earnings should return to a path of steady, albeit modest, improvement

Franchise Strength

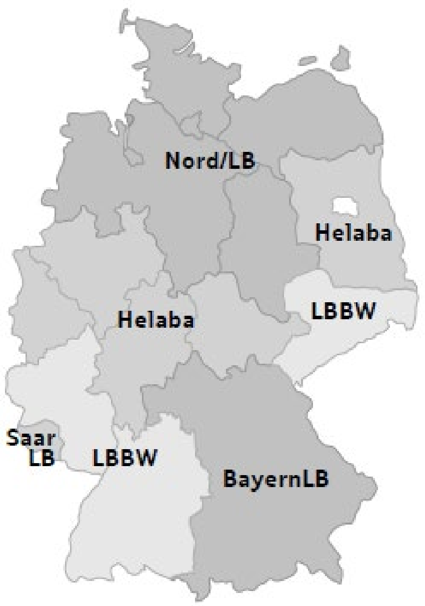
Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Strong	Good	Strong/Good

With total assets of EUR 333 billion at end-2023, LBBW is a medium-sized commercial bank and provides universal banking services to primarily corporate clients, with a focus on the regions of Baden-Württemberg, Rhineland-Palatinate and Saxony. The Bank holds a strong market share in its core regions and has market leading positions in a number of products, including commercial real estate (CRE) finance in Germany, particularly after the acquisition of Berlin Hyp in 2022. As a Landesbank, the Bank also performs central banking and clearing functions for the savings bank associations in these regions. Among the Landesbanken, LBBW has also become the main provider for rates, currency and commodity risk management services for the savings banks. LBBW is an institution incorporated under German public law with legal capacity (rechtsfähige Anstalt des öffentlichen Rechts, AöR) and is a member of the Sparkassen-Finanzgruppe and therefore part of the Group's joint liability scheme. LBBW is designated as an 'other systemically important institution' within Germany, given its position as a major counterparty in the German capital markets.

LBBW's franchise consists of four business segments: i) Corporate Customers, ii) Real Estate and Project Finance, iii) Capital Markets, and iv) Private Customers/Savings Banks. LBBW is mainly focused on its core regions, but selectively also engages in other geographic areas, notably in North Rhine Westphalia, Bavaria and the greater Hamburg area. While LBBW largely operates under the LBBW or group company brands, within Baden-Württemberg the Private Customer business, the Private Asset Management business and the SME business operate under the BW-Bank brand. The franchise value of LBBW is moderated by the lack of a nationwide/global franchise and limited revenue diversification.

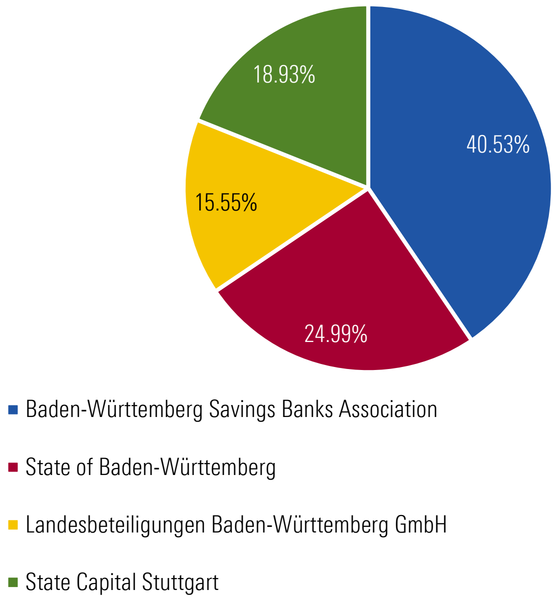
On July 1 2022, LBBW completed the acquisition of Berlin Hyp, a commercial real estate finance provider mainly for commercial clients in Germany, to a lesser extent in France and Benelux. The acquisition added EUR 37.6 billion in assets. Currently, CRE gross exposure amounts to 20% of total exposure. This has enhanced LBBW's market position in CRE financing and ESG bond issuances, but also increased concentration risk at a time when the CRE cycle is facing a challenging environment. Berlin Hyp continues to be managed separately with its own name and franchise.

Exhibit 1 LBBW Geographic Focus



Source: DSGV.

Exhibit 2 LBBW Ownership Structure (As of end-2023)



Source: Morningstar DBRS, Company Documents.

The Bank's strategy is to gradually improve profitability and diversify revenues by growing revenues in targeted areas while keeping expense increases tightly managed. In particular, the Bank is pursuing growth in Corporate Finance with a focus on sustainability advisors and M&A. The expansion in Asset and Wealth Management (AWM) is also expected to continue. In addition, the Bank also plans to grow in project finance and sustainable real estate finance. LBBW has also continued its investments in digitalisation, yielding benefits for both customers and internal operations. Given that margins having peaked in 2023, inflation is still impacting expenses and loan loss provisions remain elevated, we expect profits to decline in 2024.

LBBW currently operates in the following 4 business segments:

Corporate Customers

(2023 revenues: EUR 1,481 million; 2023 pre-tax profit: EUR 678 million)

The Corporate Customers segment is LBBW's largest business, and a key driver of income. It offers various forms of financing, payment solutions, hedging, factoring, leasing and asset management services to public sector, and corporate customers from SMEs to large corporates in its core markets and selective geographies. LBBW is among the top banks in the German corporate finance business with a particular strength in SME lending and sustainable financing. LBBW is the number one lender in the form of promissory notes (Schuldscheine) and has a strong position in ABS and structured finance. Given its base in Baden-Württemberg, LBBW has traditionally had a large exposure to the automobile sector. In recent years, the Bank has made a deliberate effort to reduce this exposure, while increasing exposure to pharma and healthcare, TM and electronics/IT and utilities and energy.

Real Estate / Project Finance

(2023 revenues: EUR 1,000 million; 2023 pre-tax profit: EUR 361 million)

LBBW is a leader in the German CRE sector, especially following the completion of the acquisition of Berlin Hyp in July 2022. The Bank has an exposure to commercial properties of EUR 71 billion as of end-2023. Despite increased provisioning needs in 2023, CRE lending is a profitable segment, supporting overall earnings capacity. However, additional capital requirements for residential real estate financing (see capital section) and a weaking of the sector as a result of higher interest rates could temporarily lower profitability. Also, concentration risk in CRE is high at 20% of total exposure (see risk section).

Capital Markets

(2023 revenues: EUR 816 million; 2023 pre-tax profit: EUR 230 million)

The Capital Markets segment serves savings banks, institutional customers and banks, and offers capital market products and services, and central bank services for savings banks in its core markets, as well as asset management solutions. Capital market products are customer-oriented and include financing, investments, risk management products, custodial services, and research. In addition, LBBW's international network supports customers in conducting their foreign business. In Germany, LBBW is one of the leading institutions in covered bonds and retail certificates. As part of a consolidation process within the Landesbanken sector, LBBW has taken over rates, currency and commodities management (RCCM) for customers of the savings banks from other Landesbanken. This will further strengthen LBBW's position as the main provider of RCCM in the public banking sector.

Private Customers / Savings Banks

(2023 revenues: EUR 787 million; 2023 pre-tax profit: EUR 267 million)

This segment includes retail customers, private banking as well as services supporting the savings banks and their customers. Through BW-Bank, LBBW also acts as a savings bank in the territory of the state capital Stuttgart. Outside the Stuttgart area, LBBW mostly targets affluent private customers. Products and services include checking accounts, credit cards, commercial finance, securities management, asset managements and pension solutions.

Exhibit 3 Segments' Contribution to Revenues

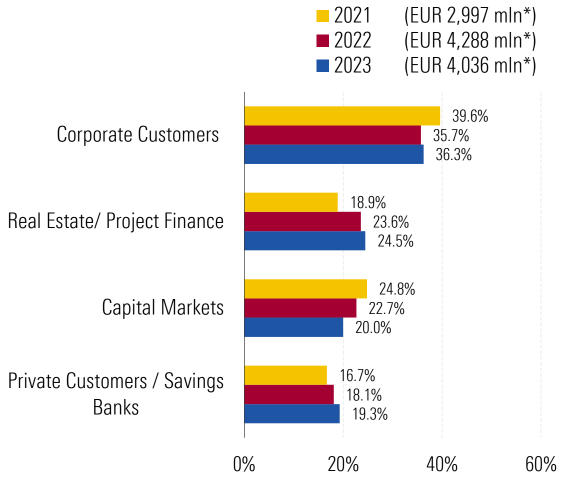
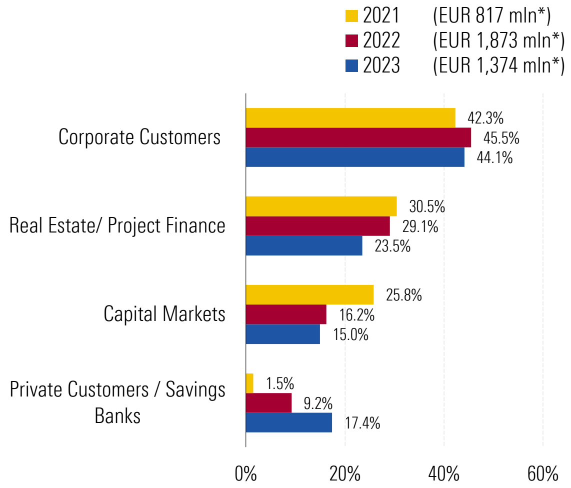


Exhibit 4 Segments' Contribution to Profits Before Taxes



Source: Morningstar DBRS, Company Documents.
Notes: *Incl. Corp. Items / Reconsolidation / Consolidation.

Earnings Power[1]

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Moderate	Good/Moderate	Good/Moderate

LBBW's earnings metrics improved significantly in 2023, however, profitability remains weaker than European peers. This is due to various factors such as a competitive German banking market, the specific roles Landesbanken play, and a relatively high proportion of wholesale funding. In 2023, LBBW reported a profit before tax of EUR 1,374 million down from EUR 1,873 million a year earlier, when results benefitted from badwill of EUR 972 million related to the acquisition of Berlin Hyp. On an operating basis (excluding badwill), the Bank's net profit before tax increased by 52.5% (YOY) to EUR 1,374 million in 2023 from EUR 901 million in the previous year, underpinned by a 22.6% YOY increase in net interest income (NII), which more than offset a decrease in net fee and commission income by 6.2%, while administrative expenses increased by 12.2% and loan loss provisions increased by 6.1%. 2024 earnings are expected to weaken due to a combination of margin pressure, wage inflation and elevated provisioning needs. The Bank's strategy to improve efficiency through selective revenue growth while keeping costs tightly managed is expected to result in a gradual decline in its cost-to-income ratio and an improved return on equity (ROE), thereafter, but also depends on the overall economic environment.

NII increased by 23% YOY to EUR 2,826 million in 2023, benefitting from the high interest rate environment, the full year inclusion of Berlin Hyp, and the strategic credit expansion in the Corporate Customers and Private Customers / Savings Bank segments. This outweighed the loss of TLTRO III contributions, which were EUR 68 million in 2022 and weaker net fee and commission

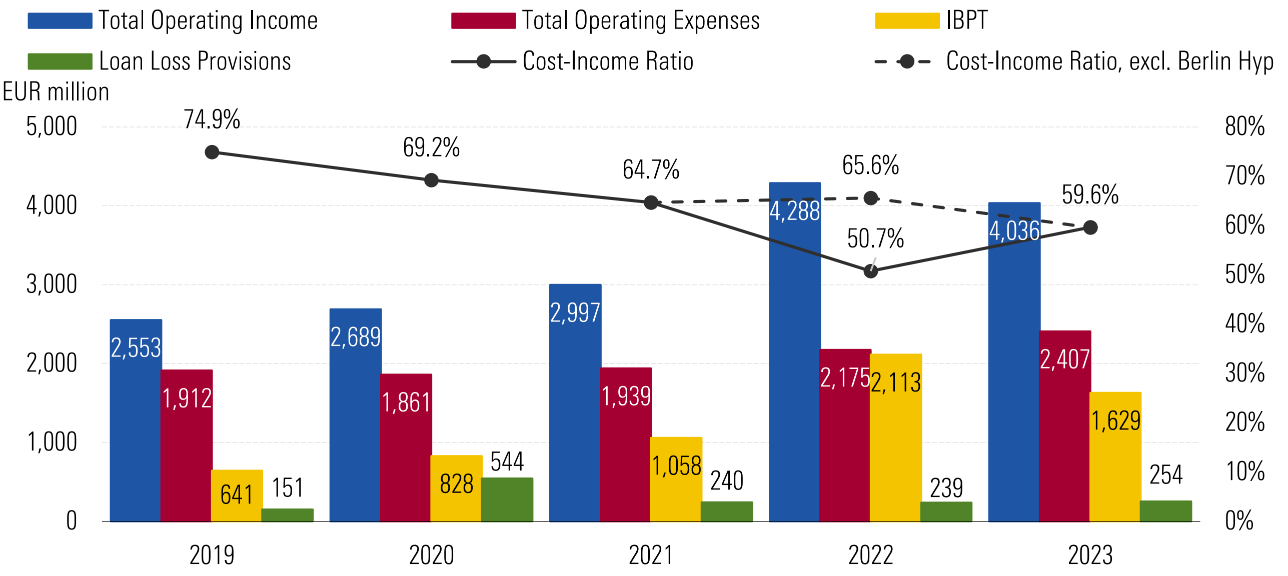
[1] Figures as reported

income, which declined by 6% YOY to EUR 589 million. The decline was mostly driven by the effect of higher interest rates and lower market volatility on the Corporate Customers and Private Customers / Savings Bank segments in particular, which was not fully offset by higher revenues from payment transactions and other commission-bearing activities. Fees related to the lending business, including guarantees, declined also by EUR 20 million to EUR 114 million.

On the cost side, LBBW reported an increase in expenses of 11% YOY to EUR 2,407 million driven by the full-year inclusion of Berlin Hyp, higher employee costs, and strategic growth initiatives. Regulatory expenses (bank levy and deposit guarantee) remained flat YOY but at relatively high level, and represent ca. 9% of expenses. The cost-to-income ratio (CIR) was 59.6% at end-2023 significantly up from 50.7% a year earlier, (though down from 65.6% when excluding the non-recurring effect from badwill from the Berlin Hyp acquisition). The allowance for losses on loan and securities increased by 6% YOY to EUR 254 million, partly driven by model adjustments.

Going forward, the Bank considers elevated borrowing costs and prices, labour shortage, and geopolitical factors as the main economic burdens for borrowers. Following a mild recession in Germany in 2023, a moderate recovery is expected in 2024 alongside a normalisation of the real estate sector. These factors are expected to be reflected in higher loan loss provisions (LLPs) in 2024.

Exhibit 5 Profitability, As Reported



Source: Morningstar DBRS, Company Documents.

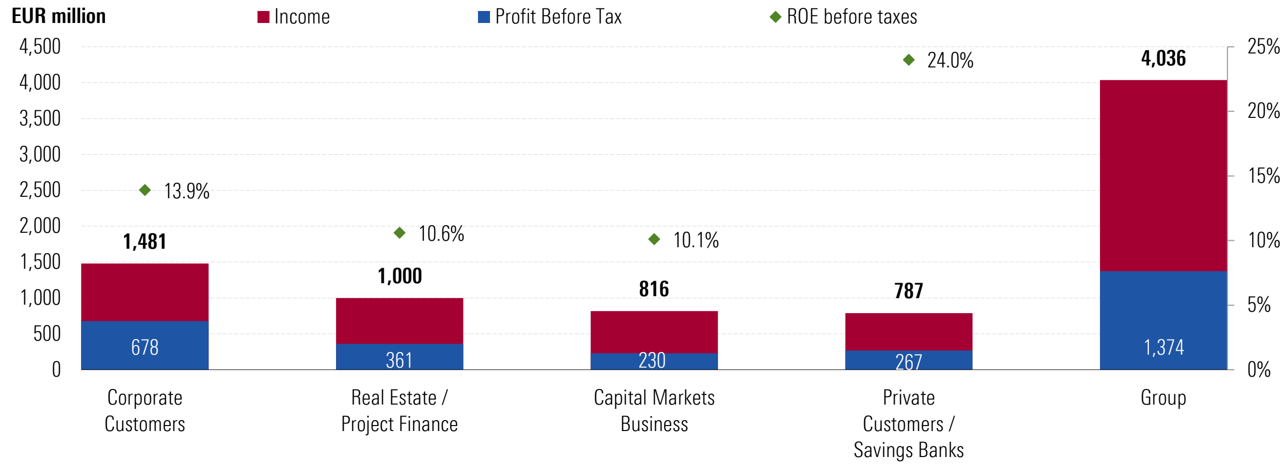
The Corporate Customer segment reported an increase in pre-tax profit of 32% YOY to EUR 678 million, driven mainly by 19% growth in operating income from deposit and corporate finance product, and factoring and leasing, while expenses increased moderately by 4%. Loan loss provisions increased by 62%, but were still moderate at EUR 98 million, reflecting the good portfolio quality despite the difficult market environment. The segment continued to perform well despite lacking the contribution from TLTRO III in 2023.

Revenues from Real Estate & Project Finance were up by 21% YOY to EUR 1,000 million, reflecting the integration of Berlin Hyp and positive project finance demand, while expenses increased by 40% YOY. Loan loss provisions increased by 7% (to EUR 180 million) reflecting additional management adjustment due to the weaker outlook for commercial real estate, and to a lesser extent due to Stage 3 loan provisions. This is still a very manageable level and pre-tax profit increased by 10% to EUR 361 million from EUR 328 million a year earlier. However, in terms of ROE the results slipped from 12.1% to 10.6%. Despite the good performance so far we remain cautious going forward, as the negative dynamics in the commercial real estate sector still persist.

Revenues in Capital Markets rose by 3% in 2022 to EUR 830 million YOY benefiting from increased demand for retail-targeted structured notes, international financial services and credit products. Expenses also increased by 3% YOY to EUR 600 million, driven by investments in Asset Management and Depository Business. 2023 also benefitted from a reversal of loan loss provisions of EUR 44 million, contributing to a pre-tax profit increase of 26% YOY to EUR 230 million.

The Private Customers and Savings Banks segment has been the biggest beneficiary of the increase in interest rates. Pre-tax profit increased to EUR 267 million in 2023 from EUR104 million in 2022 and EUR 14 million in 2021. Revenues increased by 25% YOY to EUR 798 million as the deposit business benefitted from a rise in rates, only increased by 4%. In addition, a reversal in loan loss provisions also added EUR 31 million to profits.

Exhibit 6 Segment Profits 2023



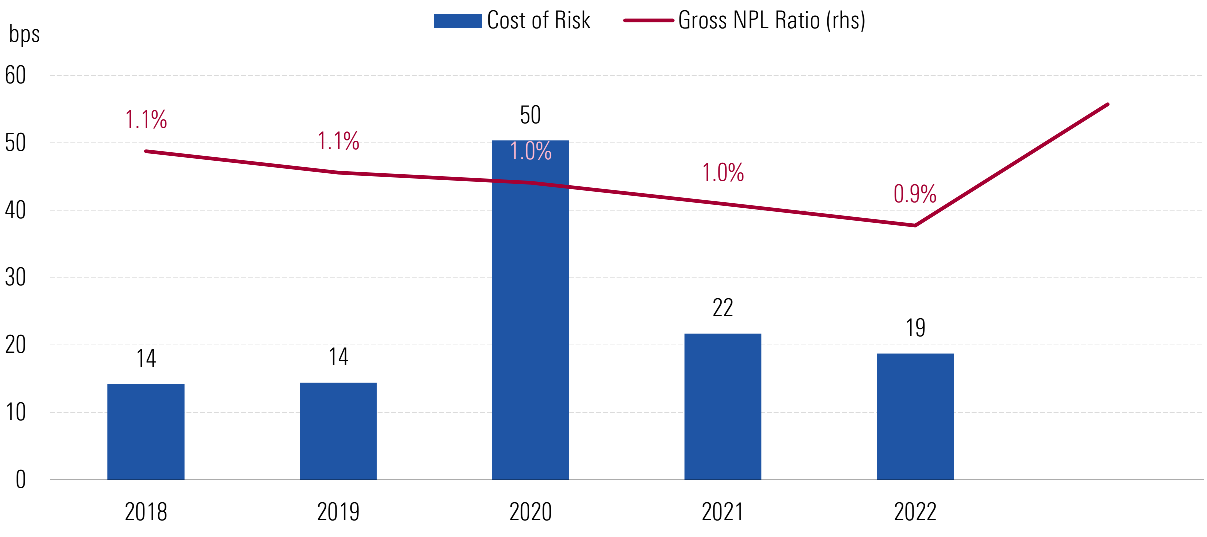
Source: Morningstar DBRS, Company Documents.
Note:* As reported.

Risk Profile

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Strong/Good	Strong/Good	Strong/Good

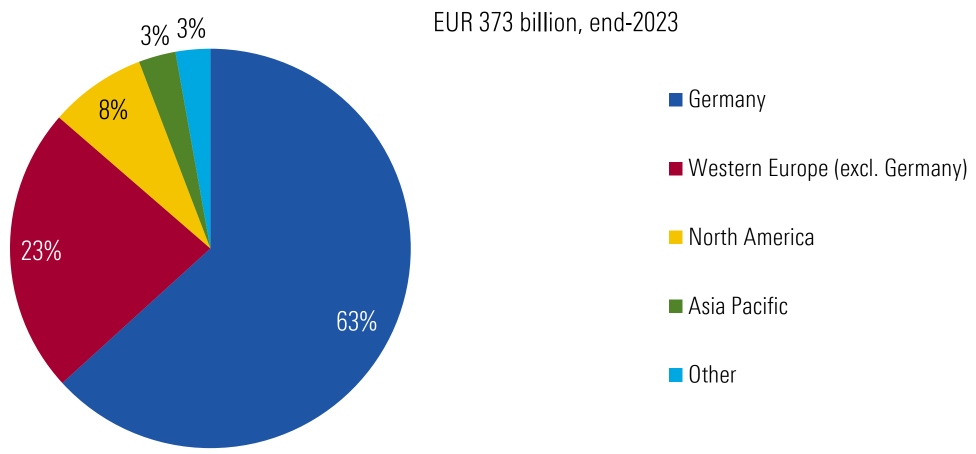
As expected LBBW's asset quality metrics weakened somewhat over the course of 2023, but have remained relatively resilient, especially given the large exposure to CRE. The NPL ratio as calculated by Morningstar DBRS at end-2023 compared to 0.9% at end-2022. Cost of risk as calculated by Morningstar DBRS remained relatively stable at 17 basis points (bps) in 2023 compared to 19 bps in 2022, as loans to customers increased. Geographically, LBBW mainly operates in stable, mature economies. Most of LBBW's loan exposure is to Germany and Western Europe, followed by North America. LBBW's corporate loan book shows a well-balanced sector mix, as the traditionally high exposure to the automobile industry has been reduced in recent years to reflect structural changes in the industry. However, LBBW's CRE concentration is very high at 20% of total exposure. The portfolio has been resilient so far, but the operating environment remains challenging, characterised by weak economic growth and still elevated interest rates. We consider that potential asset quality deterioration will remain manageable given LBBW's strong underwriting standards, and solid buffers stemming from solid loan loss reserves and loan collateralisation.

Exhibit 7 Cost of Risk and Gross NPL Ratio



Source: Morningstar DBRS, Company Documents.

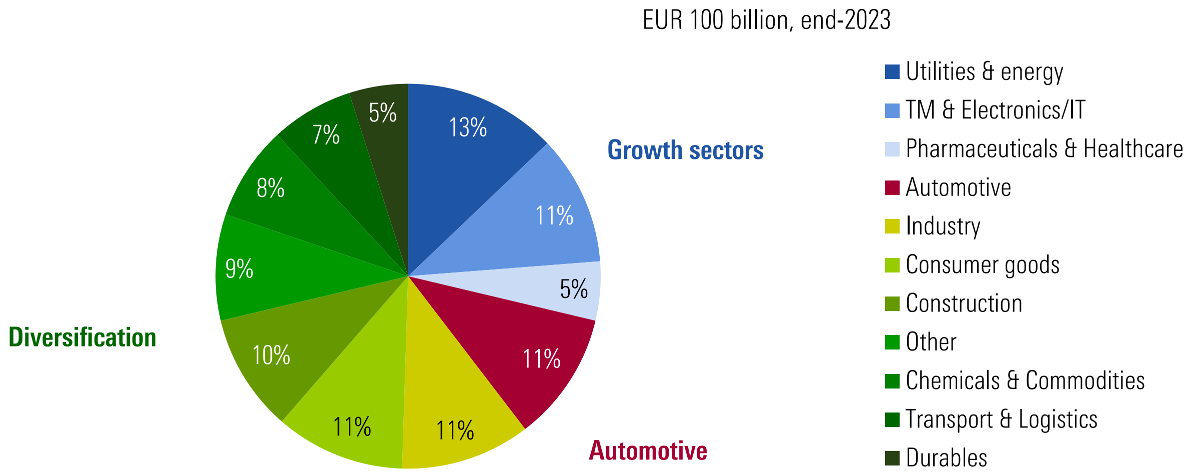
Exhibit 8 Risk Exposure by Region



Source: Morningstar DBRS, Company Documents.

Geographically, LBBW mainly operates in stable, mature economies. Most of LBBW's loan exposure is to Germany and Western Europe, followed by North America. Within Western Europe the Bank mainly operates in the UK, Austria, Switzerland, France and the Netherlands. In the corporate sector there are sector concentration and individual counterparty credit limits. As part of the Bank's overall strategy the exposure to the automobile sector has been reduced from 17% of net exposure at end-2018 to 11% at end-2023, as the industry is affected by structural changes during the transition to electric vehicles. At the same time, exposure to growth sectors identified by the Bank such as consumer goods, utilities and energy, TM and electronics/IT, and pharmaceuticals and healthcare has increased from 35% to 40% of net exposure.

Exhibit 9 Net Corporate Credit Exposure by industry sector, end-2023



Source: Morningstar DBRS, Company Documents.

Focus on CRE:

LBBW is a leader in German CRE lending with a strengthened market position following the acquisition of Berlin Hyp in 2022. At end-2023, LBBW's exposure to CRE was 20% of total exposure. This implies a significant concentration risk in a cyclical sector at a time the market has been deteriorating. LBBW's CRE portfolio has demonstrated resilience so far, especially when compared to peers. However, structural changes in demand for office space are likely to play out over an extended period of time, and we could see more downside.

LBBW's CRE portfolio at end-2023 consisted of offices (38%), followed by residential housing (31%), retail (11%), and all other (19%). The biggest markets were Germany (68%), North America[2] (8%) and the UK (4%). The rating distribution of the CRE portfolio was mostly investment grade (80%), while around 1% was in default. 87% of the exposure had an LTV below 75%, and 8% of the exposure had an LTV above 75%. 5% of the exposure did not have an LTV assigned, mostly consisting of development/project finance loans. The average LTV was 53%. The reported average LTV for the North American portfolio was 58% based on H1 2023 portfolio appraisals, and 56% of North American exposure is to office properties. For the U.S. office portfolio the average LTV was 56% and the default rate was 4%, which compares favourably to other banks, supported by a vacancy rate of around 11%.

Overall, the asset quality metrics in LBBW's CRE lending book underscore the Bank's prudent lending policies, supported by conservative LTVs, high quality properties and solid cash flow generation. However, the real estate market remains challenging as higher borrowing and construction costs combines with structural changes in the workspace is still weighing on demand.

Exhibit 10 CRE - Breakdown by Property Type, end-2023

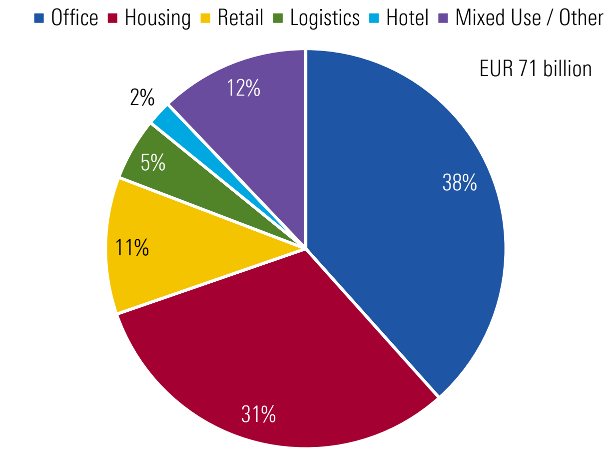
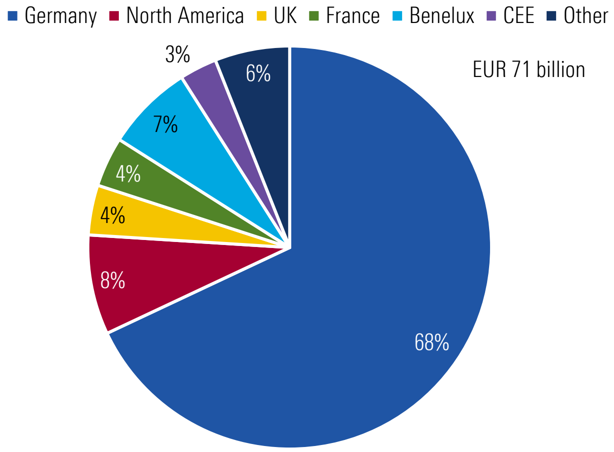


Exhibit 11 CRE - Breakdown by Geography, end-2023



Source: Morningstar DBRS, Company Documents.

[2] 85% U.S.; 15% Canada

Operational Risk

Generally, no outsized operational risks have emerged at LBBW. The Bank produces a quarterly nonfinancial risk report. In light of the geopolitical environment and the increasing number cyberattacks in the banking sector, the Bank has continued to invest into a more resilient IT infrastructure.

Market Risk

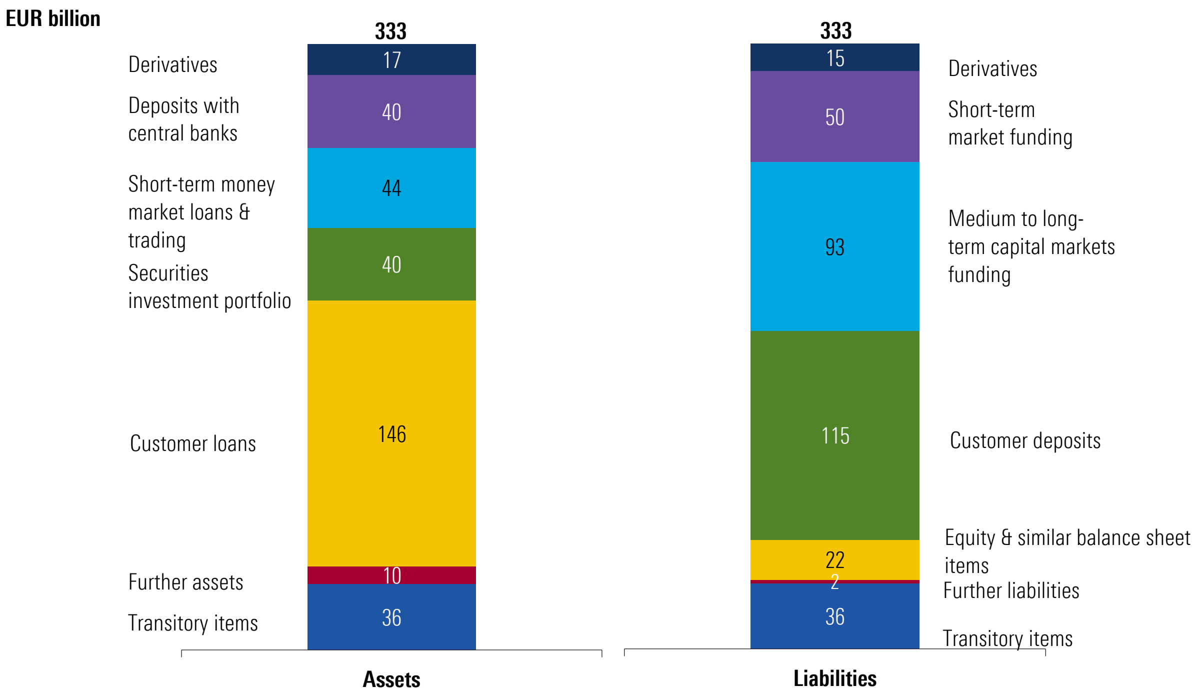
The main market risk for LBBW is interest rate risk, while currency and equity risks remain limited. The effects of an interest rate shock are calculated on a monthly basis. Regulatory requirements mandate that the result may not exceed a 20% share of liable equity, and this limit was not breached in 2023. The Bank uses VaR to measure the maximum loss over a period of 10 days with a confidence level interval of 99%. LBBW's VaR declined from EUR 272 million at ened-2022 to EUR 166 million at end-2023. The marked decline was driven by changes in market data and a smaller interest risk position. At end-2023, Berlin Hyp accounted for less that the entire Group's total VaR.

Funding and Liquidity

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Good	Strong	Strong/Good

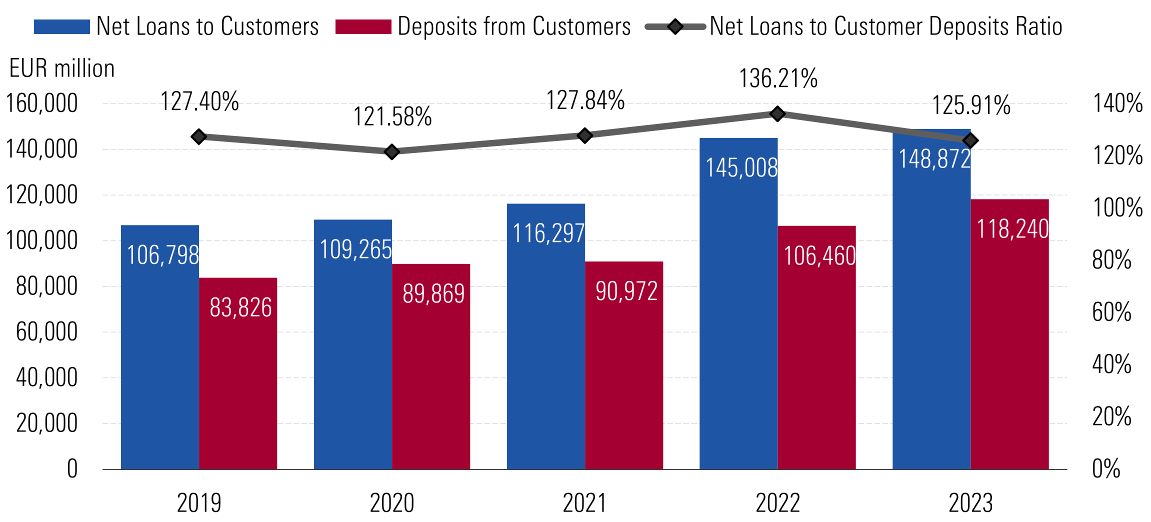
We view LBBW's funding and liquidity profile as sound. The high reliance on wholesale funding, is a reflection of the Bank's business model, with a relatively limited retail customer base. However, we see this as mitigated by a well- matched asset/liability profile and good access to the covered bond market, which we consider a stable source of funding. In addition, LBBW has a solid liquidity position with Liquid Assets (cash, deposits with central banks, and securities) accounting for 24% of total assets. The Bank also has access to the savings banks' liquidity pool and benefits from the confidence derived from its membership in the Sparkassen-Finanzgruppe. At end-2023, the Liquidity Coverage Ratio (LCR) was 150.5% and the Net Stable Funding Ratio (NSFR) was 109.7%, well above minimum requirements.

Exhibit 12 Asset Liability Structure



Source: Morningstar DBRS, Company Documents.

Exhibit 13 Loans to Deposits Evolution



Source: Morningstar DBRS, Company Documents.

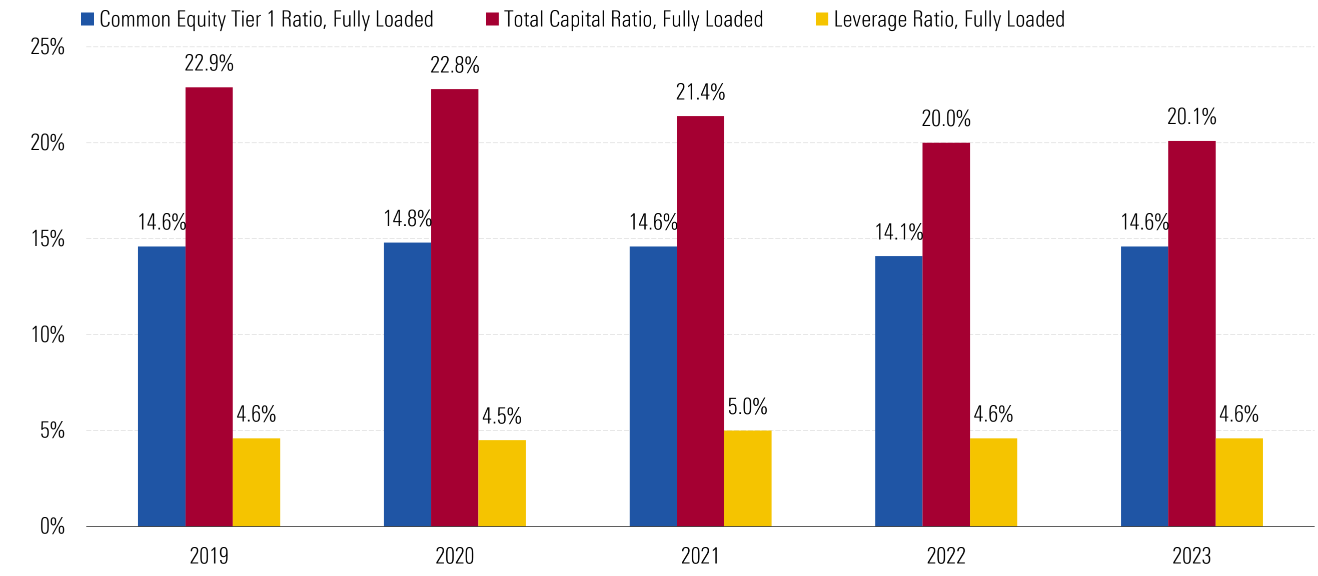
Capitalisation

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Good/Moderate	Good	Good

LBBW strengthened its capital ratios in 2023 by retaining profits, reducing risk-weighted assets (RWAs) through methodological changes, and through securitisation. The Bank reported a fully loaded CET1 ratio of 14.6% at and a total capital ratio of 20.1% end-2023 up from 14.1% and 20.0% a year before, respectively. LBBW maintained cushions well over minimum requirements. LBBW's SREP requirement for CET1 increased significantly by 178 bps in the course of 2023 to 10.56% (as of March-2024) due to the incorporation of new requirements such as a countercyclical capital buffer of 0.64%, an AT1 shortfall buffer of 1.03% and a buffer for systemic risks of 0.1%. The healthy capital cushions should protect the Bank in case of increased pressure on asset quality. This is particularly important given the Bank's limited access to capital markets due to its ownership structure.

RWAs decreased to EUR 92.1 billion at end-2023 from EUR 93.5 billion in the previous year, when it increased driven by the acquisition of Berlin Hyp. The RWA relief in 2023 was mainly driven by methodological effects, including the elimination of outliers in the internal risk and business growth. Similar to other German banks, LBBW's MREL ratios also comfortably exceed minimum requirements as shown in the chart below. Related to leverage ratio exposure the Bank's MREL ratio was 14.59% as of end-2023, comfortably exceeding the requirement of 7.02%. The MREL ratio related to the total risk exposure amount was 49.0% compared to a requirement of 25.6%.

Exhibit 14 Capital Position



Source: Morningstar DBRS, Company Documents.

Exhibit 15 Regulatory Requirements, Phased-In

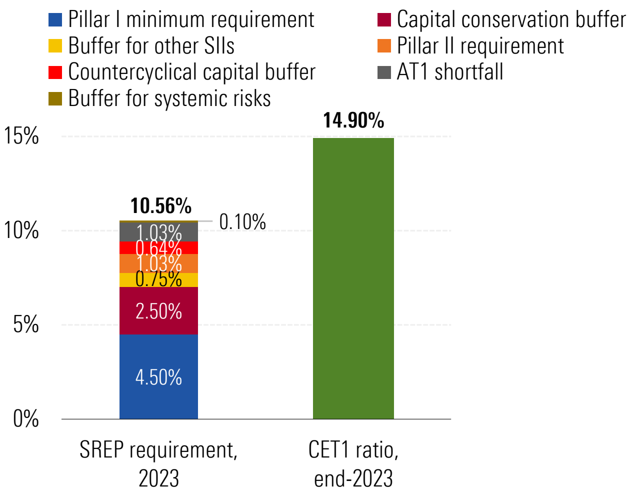
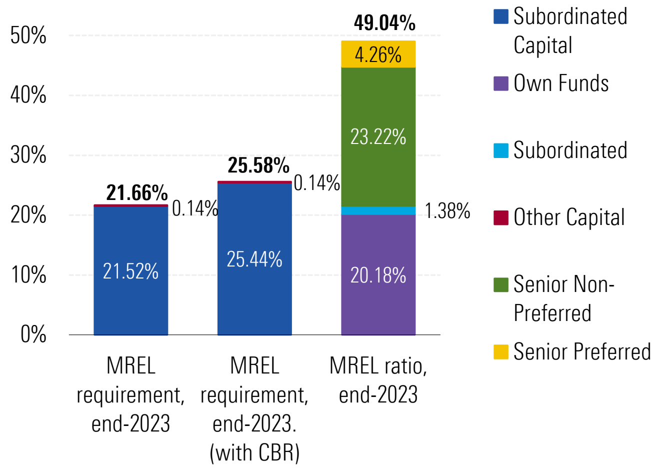


Exhibit 16 MREL Requirement & Ratio, Related to Total Risk Exposure



Source: Morningstar DBRS, Company Documents.

Landesbank Baden-Wuerttemberg

ESG Checklist

ESG Factor		ESG Credit Consideration Applicable to the Credit Analysis: Y/N		Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		**Overall:**	N	N
	Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuer's financial, operational, and/or reputational standing?	N	N
	Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long-term credit profile?	N	N
	Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	N	N
		In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially under key IPCC climate scenarios up to a 2°C rise in temperature by 2050?	N	N
		Climate and Weather Risks	N	N
	Passed-through Environmental credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	N	N
Social		**Overall:**	N	N
	Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services pose a financial or regulatory risk to the issuer?	N	N
	Human Capital and Human Rights	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts, that could result in a material financial or operational impact?	N	N
		Do violations of rights create a potential liability that could can negatively affect the issuer's financial wellbeing or reputation?	N	N
		Human Capital and Human Rights	N	N
	Product Governance	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	N	N
	Data Privacy and Security	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could it result, in financial penalties or client attrition to the issuer?	N	N
	Community Relations	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N
	Access to Basic Services	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	N	N
	Passed-through Social credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	N	N
Governance		**Overall:**	Y	R
	Bribery, Corruption, and Political Risks	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	N	N
		Are there any political risks that could affect the issuer's financial position or its reputation?	N	N
		Bribery, Corruption, and Political Risks	N	N
	Business Ethics	Do general professional ethics pose a financial or reputational risk to the issuer?	N	N
	Corporate / Transaction Governance	Does the issuer's corporate structure allow for appropriate board and audit independence?	N	N
		Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	N	N
		Does the board and/or management have a formal framework to assess climate-related financial risks to the issuer?	N	N
		Corporate / Transaction Governance	N	N
	Passed-through Governance credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	Y	R
		Consolidated ESG Criteria Output:	Y	R

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.
A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

Environmental

The environmental factor does not affect the rating or trend assigned to LBBW. The Bank supports the targets of the UN Global Compact and is working on higher transparency for sustainability risks and CO2 emissions of the portfolio and the definition of sector goals. The ECB climate risk stress-test results were published on July 8, 2022, with participating European banks being advised that they need to enhance their climate risk stress testing framework. The results will be integrated into two SREP elements in a qualitative manner: (i) business model assessment, and (ii) internal governance and risk management. Given LBBW's large exposure to CRE, increasingly stringent environmental standards in the EU and Germany will lead to considerable investment needs at a time when interest costs have increased. This could potentially lead to weakening credit profiles of building managers and tenants.

Social

The social factor does not affect the rating or trend assigned to LBBW. Similar to most large financial institutions, LBBW is exposed to a certain level of product risk as well as data security risk. No material pending issues are known. However, there is a constant risk of cyber-attacks targeted towards banks, and any significant data breach or cybersecurity attack could have significant reputational and financial consequences.

Governance

This factor does currently not affect the rating or trend assigned to LBBW. There are no known material ethics or other corporate governance violations. However, the governance structure resulting from predominantly State ownership may have contributed to inadequate risk controls in the past at various Landesbanken in the past and is an area We closely monitors.

Credit rating actions on Sparkassen-Finanzgruppe are likely to have an impact on this credit rating.

The subfactor Corporate Governance is relevant to the rating of Sparkassen-Finanzgruppe, and this is reflected in the franchise grid grades for the bank. We view certain weaknesses in the group structure as relevant from a corporate government perspective. Notably, the Landesbanken are majority or part-owned by German Federal States. State governments, in our view, have limited capabilities to effectively supervise the banks' activities. In the past, Landesbanken have taken outsized risks, resulting in high costs to tax payers and the Sparkassen. Sparkassen associations, while part-owners of some Landesbanken have had only limited influence over the risk taking by the Landesbanken. The ownership mix and the parliamentary process involved in decision making, has also made it difficult at times to swiftly react to challenges. In 2020, the ECB requested better pre-emptive risk controls within the IPS and more transparent processes in case of a need for recapitalisation, which has been addressed in 2023. In addition, aggregate financial information for the Group is limited.

Landesbank Baden-Württemberg

	1		2	3	4	5
Financial Data Through 2023	**Scorecard Indicator**	**Scorecard Indicator Data**	**Scorecard Indicator Assessment**	**Scorecard Building Block (BB) Assessment**	**Grids BB Assessment**	**Combined BB Assessment**
Franchise	Adjusted Assets	297	S/G	**S**	**G**	**S/G**
	Sovereign Rating Category	20	VS			
Earnings	Return on Equity	6.44%	G/M	**M**	**G/M**	**G/M**
	Return on Assets	0.35%	G/M			
	IBPT/Avg.Assets	0.48%	M/W			
Risk	Net NPLs/Net Loans	0.01%	VS/S	**S/G**	**S/G**	**S/G**
	Provisions/IBPT	21.11%	S/G			
Funding & Liquidity	Sovereign-Adjusted Funding Ratio	127.9%	G	**G**	**S**	**S/G**
Capitalisation	Sovereign-Adjusted Capital Ratio	14.76%	S	**G/M**	**G**	**G**
	NPL/[Equity + Loan Loss Reserves]	8.84%	S			
	5-Year Accumulated Net Income/Total Assets	1.36%	G/M			

6	7			8
Overall Assessment	**Intrinsic Assessment Range (IAR)**			**Assigned IA**
G	A (high)	A	A (low)	**A**

Notes: (1) based on financial data as of FY 2023. (2) For more information see Global Methodology for Rating Banks and Banking Organisations published on 22 June 2023.. (3) IAR and IA refer to bank level rating.

Annual Financial Information

	For the Year Ended December 31 (IFRS)				
	2023	2022	2021	2020	2019
Balance Sheet (EUR Millions)					
Cash & Cash Equivalents*	84,059	84,965	76,513	71,916	62,739
Investments in Financial Assets	61,322	62,002	57,691	63,788	56,756
Gross Loans to Customers	148,872	145,008	116,297	109,265	106,798
Loan Loss Reserves	(1,641)	(1,364)	(1,288)	(1,077)	(877)
Net Lending to Customers	147,231	143,644	115,009	108,188	105,921
Total Assets	333,305	324,174	282,344	276,444	256,667
Deposits from Customers	118,240	106,460	90,972	89,869	83,826
Debt & Capital Lease Obligations	98,654	85,479	59,143	58,328	56,108
Total Liabilities	317,238	308,732	268,146	262,458	242,828
Total Equity	16,067	15,442	14,198	13,986	13,839
Income Statement (EUR Millions)					
Net Interest Income	2,768	2,257	1,959	1,749	1,642
Non Interest Income	1,366	1,317	1,208	1,027	1,213
Equity Method Results	(6)	(44)	23	5	6
Total Operating Income	4,128	3,530	3,190	2,781	2,861
Total Operating Expenses	2,487	2,360	2,129	1,954	2,066
Income Before Provisions and Taxes (IBPT)	1,643	1,167	1,056	829	796
Loan Loss Provisions	254	239	240	545	151
Irregular Income/Expenses	15	(945)	(1)	32	35
Net Attributable Income	999	1,517	418	172	442
Growth (%) - YoY Change					
Net Interest Income	22.64%	15.21%	12.01%	6.52%	8.53%
Total Operating Income	16.94%	10.66%	14.71%	-2.80%	7.15%
Total Operating Expenses	5.38%	10.85%	8.96%	-5.42%	4.93%
IBPT	40.79%	10.51%	27.38%	4.15%	13.88%
Net Attributable Income	-34.15%	262.92%	143.02%	-61.09%	7.02%
Gross Loans & Advances	2.66%	24.69%	6.44%	2.31%	4.44%
Deposits from Customers	11.07%	17.03%	1.23%	7.21%	9.57%
Earnings (%)					
Net Interest Margin	0.85%	0.76%	0.71%	0.67%	0.67%
Non-Interest Income / Total Revenue	33.09%	37.31%	37.87%	36.93%	42.40%
Cost / Income ratio	60.25%	66.86%	66.74%	70.26%	72.21%
LLP / IBPT	15.46%	20.48%	22.73%	65.74%	18.97%
Return on Avg Assets (ROAA)	0.29%	0.48%	0.15%	0.06%	0.17%
Return on Avg Equity (ROAE)	6.36%	10.39%	2.96%	1.24%	3.32%
IBPT over Avg RWAs	1.77%	1.31%	1.27%	1.00%	0.98%
Internal Capital Generation	4.84%	8.82%	0.42%	1.24%	1.44%
Risk Profile (%)					
Cost of Risk	0.17%	0.19%	0.22%	0.50%	0.14%
Gross NPLs over Gross Loans	1.30%	0.88%	0.96%	1.03%	1.06%
NPL Coverage Ratio	84.72%	106.65%	115.93%	95.82%	77.20%
Net NPLs over Net Loans	0.18%	-0.11%	-0.18%	0.03%	0.23%
NPLs to Equity and Loan Loss Reserves Ratio	10.95%	7.62%	7.19%	7.48%	7.74%
Funding & Liquidity (%)					
Net Loan to Deposit Ratio	124.52%	134.93%	126.42%	120.38%	126.36%
Liquidity Coverage Ratio	151%	129%	140%	142%	124%
Net Stable Funding Ratio	110%	111%	109%	NA	NA
Capitalization (%)					
CET1 Ratio	14.90%	14.50%	14.80%	15.10%	14.60%
Tier1 Ratio	15.70%	15.30%	15.90%	16.60%	16.50%
Total Capital Ratio	20.20%	20.10%	21.40%	22.80%	23.00%
Leverage Ratio	4.60%	4.70%	5.14%	4.71%	4.90%
Dividend Payout Ratio	24.0%	15.2%	85.6%	0.0%	56.6%

Source: Morningstar Inc., Company Documents

*Includes Loans to Banks

Rating Methodology

The applicable methodologies are the *Global Methodology for Rating Banks and Banking Organisations* (22 June 2023) and *Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* (23 January 2024). which can be found on our website under Methodologies.

Credit Ratings

Issuer	Debt Rated	Credit Rating Action	Credit Rating	Trend
Landesbank Baden-Württemberg	Long-Term Issuer Rating	Confirmed	A (high)	Stable
Landesbank Baden-Württemberg	Long-Term Senior Debt	Confirmed	A (high)	Stable
Landesbank Baden-Württemberg	Long-Term Deposits	Confirmed	A (high)	Stable
Landesbank Baden-Württemberg	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stable
Landesbank Baden-Württemberg	Short-Term Debt	Confirmed	R-1 (middle)	Stable
Landesbank Baden-Württemberg	Short-Term Deposits	Confirmed	R-1 (middle)	Stable
Landesbank Baden-Württemberg	Senior Non-Preferred Debt	Confirmed	A	Stable
Landesbank Baden-Württemberg	Subordinated Debt	Confirmed	A (low)	Stable
Landesbank Baden-Württemberg	Long-Term Critical Obligations Rating	Confirmed	AA	Stable
Landesbank Baden-Württemberg	Short-Term Critical Obligations Rating	Confirmed	R-1 (high)	Stable
Landesbank Baden-Württemberg	LBBW EUR 10,000,000,000 Commercial Paper Programme 2019	Confirmed	R-1 (middle)	Stable
Landesbank Baden-Württemberg	LBBW EUR 5,000,000,000 Negotiable European Commercial Paper Programme 2022	Confirmed	R-1 (middle)	Stable

Credit Ratings History

Issuer	Debt Rated	Current	2023	2022
Landesbank Baden-Württemberg	Long-Term Issuer Rating	A (high)	A (high)	A (high)
Landesbank Baden-Württemberg	Long-Term Senior Debt	A (high)	A (high)	A (high)
Landesbank Baden-Württemberg	Long-Term Deposits	A (high)	A (high)	A (high)
Landesbank Baden-Württemberg	Short-Term Issuer Rating	R-1 (middle)	R-1 (middle)	R-1 (middle)
Landesbank Baden-Württemberg	Short-Term Debt	R-1 (middle)	R-1 (middle)	R-1 (middle)
Landesbank Baden-Württemberg	Short-Term Deposits	R-1 (middle)	R-1 (middle)	R-1 (middle)
Landesbank Baden-Württemberg	Senior Non-Preferred Debt	A	A	A
Landesbank Baden-Württemberg	Subordinated Debt	A (low)	A (low)	A (low)
Landesbank Baden-Württemberg	Long-Term Critical Obligations Rating	AA	AA	AA
Landesbank Baden-Württemberg	Short-Term Critical Obligations Rating	R-1 (high)	R-1 (high)	R-1 (high)
Landesbank Baden-Württemberg	LBBW EUR 10,000,000,000 Commercial Paper Programme 2019	R-1 (middle)	R-1 (middle)	R-1 (middle)
Landesbank Baden-Württemberg	LBBW EUR 5,000,000,000 Negotiable European Commercial Paper Programme 2022	R-1 (middle)	R-1 (middle)	R-1 (middle)

Previous Actions

- Morningstar DBRS Confirms Landesbank Baden-Württemberg LT Issuer Rating at A (high), Trend Remains Stable, 17 April 2024.
- Morningstar DBRS Confirms Landesbank Baden-Württemberg LT Issuer Rating at A (high), Trend Remains Stable, 19 April 2023.
- Morningstar DBRS Assigns R-1 (middle) Rating to Two of LBBW's Commercial Paper Programmes, 21 June 2022.
- Morningstar DBRS Assigns First-Time Ratings to Landesbank Baden-Württemberg; LT Issuer Rating at 'A' (high), Stable Trend, 21 April 2022.

Related Research

- German Banks' CRE Lending: U.S. Office Loans Driving Increasing NPLs, 17 April 2024.
- German Landesbanken: Improved Profitability Amidst CRE Challenges, 27 March 2024.
- European Banks' Office Loans: More Price Declines are Likely as Office Vacancy Rates Remain High, 6 March 2024.
- European Banks' ESG Risk Factors and 2024 Outlook, 15 February 2024.
- Banks' CRE Exposures: Steep Rise in Provisions on CRE Loans amid Rising Risks on Property Valuations, 14 February 2024.
- Global 2024 FIG Credit Outlook: Mostly Sound With Pockets of Vulnerabilities, 6 February 2024.
- German CRE—Risks Are Rising, But Likely to Remain Under Control, 14 December 2023.
- European Banks Shed Light on Their CRE Exposures Amid Rising Concerns for the Sector, 20 September 2023.
- EU Banks Proved Resilient in the 2023 EBA Stress Test, 7 August 2023.
- Can EU Banks Maintain Deposit Rates at Current Levels? A Test for European Banks' Structural Profitability, 20 June 2023.

Previous Reports

- Landesbank Baden-Württemberg: Rating Report, 16 May 2023.
- Landesbank Baden-Württemberg: Rating Report, 27 May 2022.

European Bank Ratios & Definitions

- Bank Ratio Definitions, 14 March 2022

About Morningstar DBRS

Morningstar DBRS is a full-service global credit ratings business with approximately 700 employees around the world. We're a market leader in Canada, and in multiple asset classes across the U.S. and Europe.

We rate more than 4,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

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