Rating Report
Landesbank Baden-Württemberg

DBRS Morningstar
27 May 2022

Contents

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Ratings

Debt	Rating	Rating Action	Trend
Long-Term Issuer Rating	A (high)	Assigned Apr. '22	Stable
Short-Term Issuer Rating	R-1 (middle)	Assigned Apr. '22	Stable
Intrinsic Assessment	A	Assigned Apr. '22	--

Rating Drivers

Factors with Positive Rating Implications

- LBBW's Issuer Ratings benefit from the SFG's IPS, and therefore an upgrade of SFG's ratings would lead to an upgrade of LBBW's ratings.
- The Bank's Intrinsic Assessment (IA) would be upgraded if the Bank improves its profitability metrics, while maintaining solid asset quality.

Factors with Negative Rating Implications

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

Rating Considerations

Franchise Strength (Strong / Good)

- LBBW provides universal banking services largely to commercial clients with a strong focus on Southern Germany. The Bank also serves retail banking clients in the greater Stuttgart area, has a growing asset and wealth management franchise, and acts as a central bank to savings banks in its designated region.

Earnings Power (Moderate / Weak)

- The still modest earnings power is expected to increase over time as volumes and margins increase as the Bank is targeting certain growth areas. Near-term earnings uncertainty due to various challenges related to the economic environment.

Risk Profile (Strong / Good)

- Risk is well managed and also benefits from the relatively benign German economic environment. However, some concentration risk exists and the current economic uncertainties could increase 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 solid capital ratios with cushions well over minimum requirements, which we expect to be maintained over the medium-term.

2021	Scorecard Building Block (BB) Assessment	Grids BB Assessment	Combined BB Assessment
Franchise	S	G	S/G
Earnings	M/W	M	M/W
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	[AL-AH]	A

Financial Information

	For the Year Ended December 31 (IFRS)				
(In EUR Millions unless otherwise stated)	2021	2020	2019	2018	2017
Total Assets	282,344	276,449	256,630	241,214	237,713
Gross Loans to Customers	116,297	109,265	110,320	102,259	101,928
Income Before Provisions and Taxes (IBPT)	1,056	829	799	708	650
Net Attributable Income	418	172	443	420	416
Net Interest Margin	0.7%	0.7%	0.7%	0.7%	0.6%
Cost / Income ratio	66.8%	70.2%	72.1%	73.5%	76.0%
LLP / IBPT	22.7%	65.7%	18.9%	19.9%	14.2%
Cost of Risk	0.22%	0.50%	0.14%	0.14%	0.09%
CET1 Ratio	14.80%	15.10%	14.60%	15.10%	15.80%

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 of the Sparkassen-Finanzgruppe (SFG) and 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) takes into account LBBW's well established universal banking franchise with an emphasis on commercial clients and a regional focus on Southern Germany. The Bank acts as a central institution and clearing bank for the savings banks in its designated regions of Baden-Württemberg, Rhineland-Palatinate and Saxony, has its own savings bank in Stuttgart, and has a growing asset and wealth management franchise. The Bank's liquidity position is solid and is supported by its membership in the SFG and its established covered bond franchise. LBBW has healthy capital ratios with cushions well above minimum requirements, which we expect to be maintained over the medium-term. The IA also takes into account the still modest earnings power, which is somewhat mitigated by the stability of earnings. Although DBRS Morningstar expects to see an increase in profitability over time as the Bank implements its growth strategy, the repercussions from the war in Ukraine, measures by central banks globally to fight inflation and delayed effects from the COVID-19 pandemic could adversely affect profitability in the near-term.

Risk is well managed and has benefitted from the relatively benign German economic environment, both of which are reflected in favourable asset quality metrics. However, some concentration risk exists, and the same factors affecting earnings could lead to weaker asset quality.

The A (low) Subordinated Debt Rating is two notches below the floor rating, reflecting the support for the Bank as a member of the IPS.

The AA / R-1 (high) Critical Obligations Ratings (COR) reflect LBBW's status as an 'other systemically important institution' within Germany, its position as a major counterparty in the German capital markets, and its complex role in the local market, including its position as the central bank to savings banks with its designated area. The Long-Term COR is placed two notches above the SFG floor rating, rather than the Bank's IA, reflecting our expectation of initial support from the IPS scheme which targets to protect the institution as a whole and not individual creditor groups.

Franchise Strength

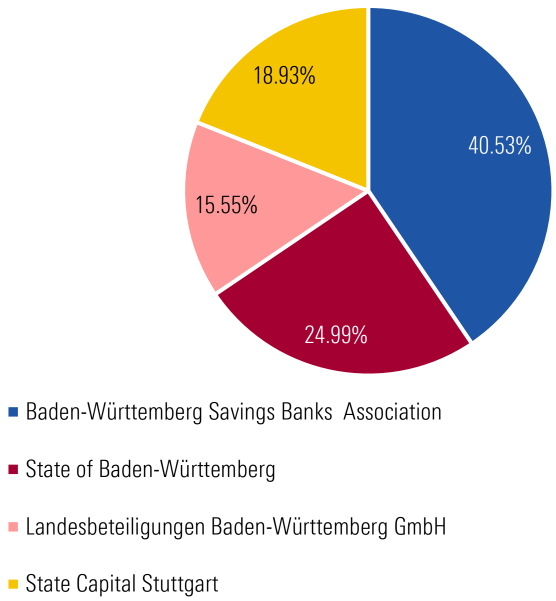
Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Strong	Good	Strong / Good

LBBW 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. 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 which benefits from a joint liability scheme. LBBW operates in 4 business segments: i) Corporate Customers, ii) Real Estate and Project Finance, iii) Capital Markets, and iv) Private Customers/Savings Banks. LBBW mainly operates in 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.

Exhibit 1 LBBW Geographic Focus

Source: DSGV.

Exhibit 2 LBBW Ownership Structure (As of end-2021)



Source: DBRS Morningstar, Company Documents

LBBW's Strategic Priorities

Going forward, LBBW aims to improve profitability while maintaining solid capital ratios. The Bank targets an ROE of approximately 6%. This should be mainly be achieved by revenue increases, supported by higher volumes and margins, while costs are expected to increase only moderately. In particular, the Bank is pursuing growth in Corporate Finance, Asset and Wealth Management (AWM), Commercial Real Estate and Project Finance. The Bank also intends to focus on advisory businesses such as sustainability advisory, M&A and export finance. In order to realise economies of scale the Bank also participates in the consolidation of certain functions within the Landesbanken sector, and has taken over the interest rates, currency and commodities management (RCCM) business from other Landesbanken. Digitalisation and sustainability towards the Paris climate goals also remain core priorities. In DBRS Morningstar's view, the profitability goals could experience challenges over the near-to medium term due to potential cost pressure from high inflation, revenue uncertainty and potential credit deterioration as a result of secondary and tertiary effects from the war in Ukraine. However, we do not anticipate a fundamental change in strategy resulting from this.

Exhibit 3 LBBW's Corporate Strategic Goals

Goal	Key Figure	Long-Term Target
Long-Term Profitability	Pre-Tax Return on Equity (ROE)	~6%
Solid Capitalisation	CET 1 Ratio	13%
Increased Efficiency	Cost-Income Ratio	<60%

Source: DBRS Morningstar, Company Documents. .

Corporate Customers

(2021 revenues: EUR 1,230 million; 2021 pre-tax profit: EUR 405 million)

The Corporate Customers segment is LBBW's largest and most important business and offers various forms of financing, payment solutions, hedging and asset management services to corporate customers from SMEs to large corporates in its core markets and select geographies. LBBW is a market leader in the German corporate finance business with a particular strength in the SME market where it is one of the market leaders. LBBW is the number one lender in the form of promissory notes (Schuldscheine). 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. Corporate Customers, traditionally the core customer base of Landesbanken, are expected to continue to remain the most important contributor to revenues and earnings. There is a special focus on sustainable finance and export finance.

Real estate / Project Finance

(2021 revenues: EUR 587 million; 2021 pre-tax profit: EUR 292 million)

The Bank has a EUR 38 billion commercial real estate portfolio, and will add another EUR 25 billion through the acquisition of Berlin Hyp later in 2022. CRE lending is LBBW's most profitable segment, thus, growing this segment should increase overall profitability. However, new capital requirements for residential real estate financing (see capital section) and higher interest rates could lower profitability going forward. The acquisition of Berlin Hyp also increases concentration risk towards the real estate sector. Project Finance/Transportation is still a small part of the business, but is expected to grow with a focus on renewable energies. The segment also includes a real estate focused subsidiary specialising in development, asset and investment management and other services related to real estate.

Capital Markets

(2021 revenues: EUR 771 million; 2021 pre-tax profit: EUR 247 million)

The Capital Market segment services savings banks, institutional customers and banks and offers capital market products, 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 RCCM for customers of the savings banks from various other banks. This will further strengthen LBBW's position as the main provider of RCCM in the public banking sector. LBBW has been growing its AWM business in recent years and plans to grow this segment further. The LBBW Asset and Wealth Management business area comprises special funds and direct investment mandates for institutional investors and mutual funds for institutional and private investors. High net-worth private clients and foundations are serviced under BW Bank brand, while institutional customers are serviced under the group subsidiary LBBW Asset Management Investmentgesellschaft mbH.

Private Customers / Savings Banks

(2021 revenues: EUR 519 million; 2021 pre-tax profit: EUR 14 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. This segment has been adversely affected by the negative rate environment, but the focus on the growth of asset and wealth management is expected to gradually improve profitability.

Exhibit 4 Segments' Contribution to Revenues

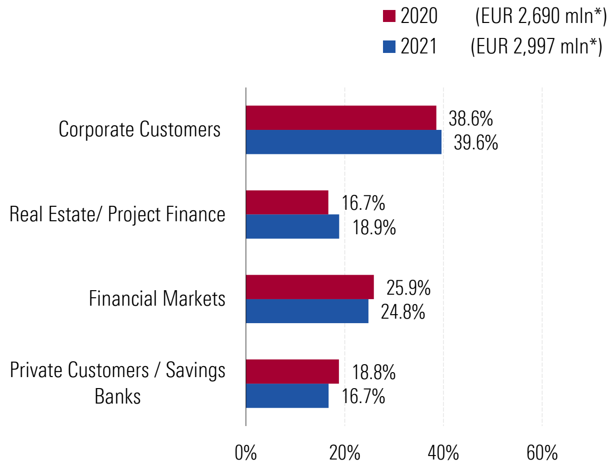
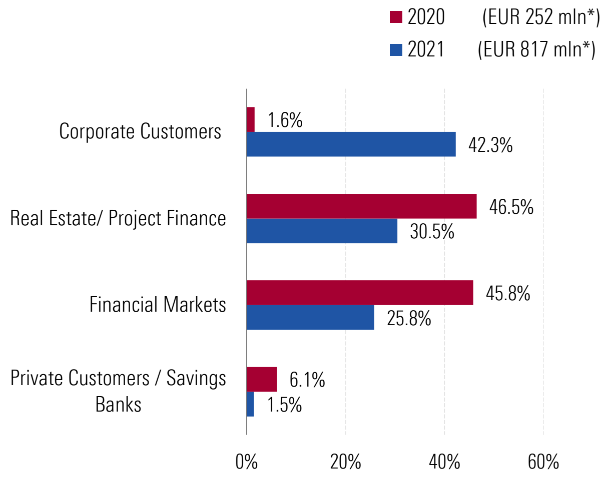


Exhibit 5 Segments' Contribution to Profits Before Taxes



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

Earnings Power[1]

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Moderate / Weak	Moderate	Moderate / Weak

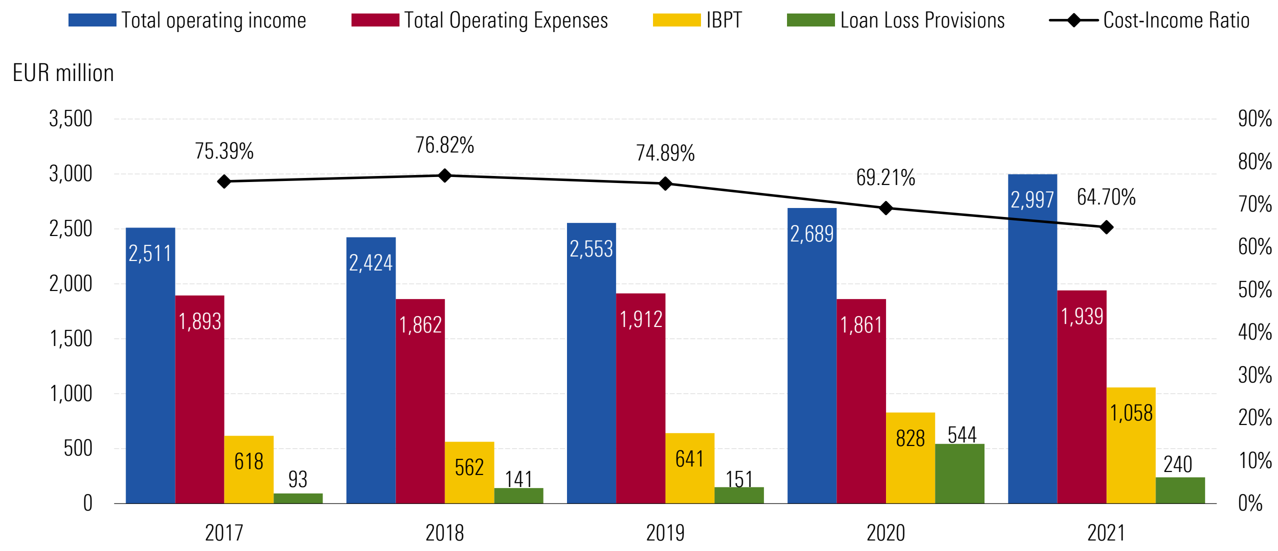
LBBW has been consistently profitable in recent years, displaying a relatively high degree of stability in revenues and profits, with the exception of 2020, when higher provision needs, driven by the pandemic, suppressed profits. While LBBW compares well to German peers in terms of profitability, metrics are at the lower end when compared to international peers. Reasons for this include the low rate environment, the highly competitive German market, a high cost structure, and relatively high regulatory levies. In addition, German labour laws make swift cost cutting measures difficult. As a result, the Bank is pursuing a strategy to improve efficiency through revenue growth in order to create operating leverage supported by increased digitalisation.

In 2021, LBBW reported a profit before tax of EUR 817 million up from EUR 252 million a year earlier, as revenues increased by 11.4% year-on-year (YoY) on strong customer business and TLTRO III benefits, while provisioning needs declined by EUR 304 million to EUR 240 million. Meanwhile, expenses increased by 4.2%, in part driven by regulatory factors, driving an improvement in the cost/income ratio (CIR) to 64.7%. The Bank also concluded an agreement to cut 700 jobs. For 2022, DBRS Morningstar expects profits to decline as the additional TLTRO III benefits are expected to be phased out, while regulatory levies will still be elevated. In addition, economic activity is expected

[1] Figures as reported

to slow with the war in Ukraine exacerbating existing challenges such as supply chain disruption, high energy costs, and general inflationary pressures.

Exhibit 6 P&L Details, as reported



Source: DBRS Morningstar, Company Documents.

Corporate Customers

The Corporate Customer segment experienced a 16% YoY increase in 2021 revenues to EUR 1,230 million with strength in corporate finance and export finance. In corporate finance the Bank succeeded in increasing volumes in designated growth sectors. The segment also benefitted from a TLTRO III bonus allocation. The Bank was able to keep expenses flat YoY, while the loan loss allowance declined significantly from EUR 411 million in the previous year to EUR 190 million in 2021, resulting in a pre-tax profit of EUR 405 million, after EUR 15 million a year earlier, when loan loss provisions reflected uncertainty related to the COVID-19 pandemic as well as charges related to Wirecard. For 2022, the outlook has become more uncertain with the corporate customer segment being most affected by supply chain disruptions, high energy prices and other factors.

Real Estate / Project Finance

Real Estate/Project Finance benefitted from strong new business and a TLTRO III bonus allocation in 2021, resulting in a 28% YoY revenue increase to EUR 587 million and a 44% increase in pre-tax profits to EUR 292 million. Expenses increased by 7%, reflecting higher business volumes and regulatory costs. The loan loss allowance, albeit at EUR 94 million up on the EUR 68 million reported in the previous year, was still at relatively low levels. Pro-forma numbers including the Berlin Hyp acquisition are not available yet, but we do not expect the acquisition to be dilutive to profitability. While the segment displays solid profitability we are cautious going forward, as historically low credit costs and high real estate prices may not be sustainable when interest rates rise. In addition, uncertainty around future office trends exists and retail. With BaFin imposing a sectoral systemic risk buffer (sSyRB) on all real estate related lending starting April 1, 2022 and fully implemented in 2023, margins and volumes could also be affected.

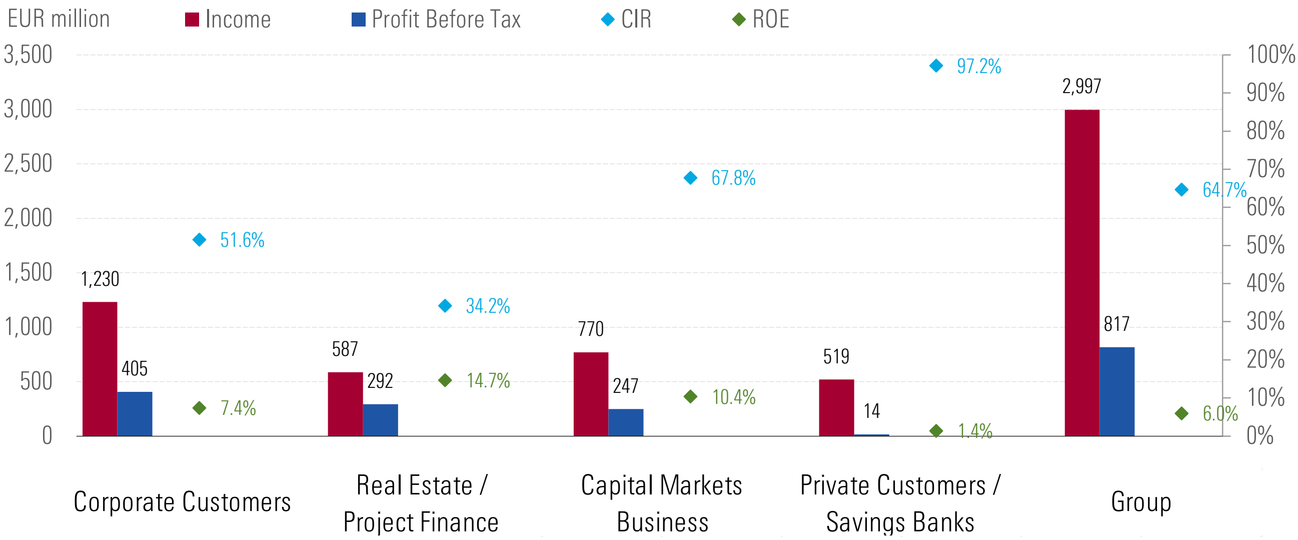
Capital Markets

The Capital Markets business reported a 10% YoY increase in revenues in 2022 to EUR 770 million and pre-tax profits increased by 25% to EUR 247 million, benefitting from factors such as an increase in retail-targeted structured notes, large individual mandates in primary markets and growth in asset management. In addition, overall expenses increased by 4% YoY due to higher bank levies and an increase in administrative expenses by 3% YoY.

Private Customers / Savings Banks

Despite an 7% YoY expansion of lending volumes to private customers in 2021, revenues increased only by 1% YoY to EUR 519 million and pre-tax profit was EUR 14 million down from EUR 25 million a year earlier. Results continue to be negatively affected by the low rate environment and the payment business was subdued due to the lock down in H1 2021. In addition, the Federal Court of Justice ruling, that bank account fee increases require the explicit consent of customers has had an adverse effect on revenues. Expenses declined by 1% YoY due to cost discipline and higher digitalisation.

Exhibit 7 Segment Profits 2021



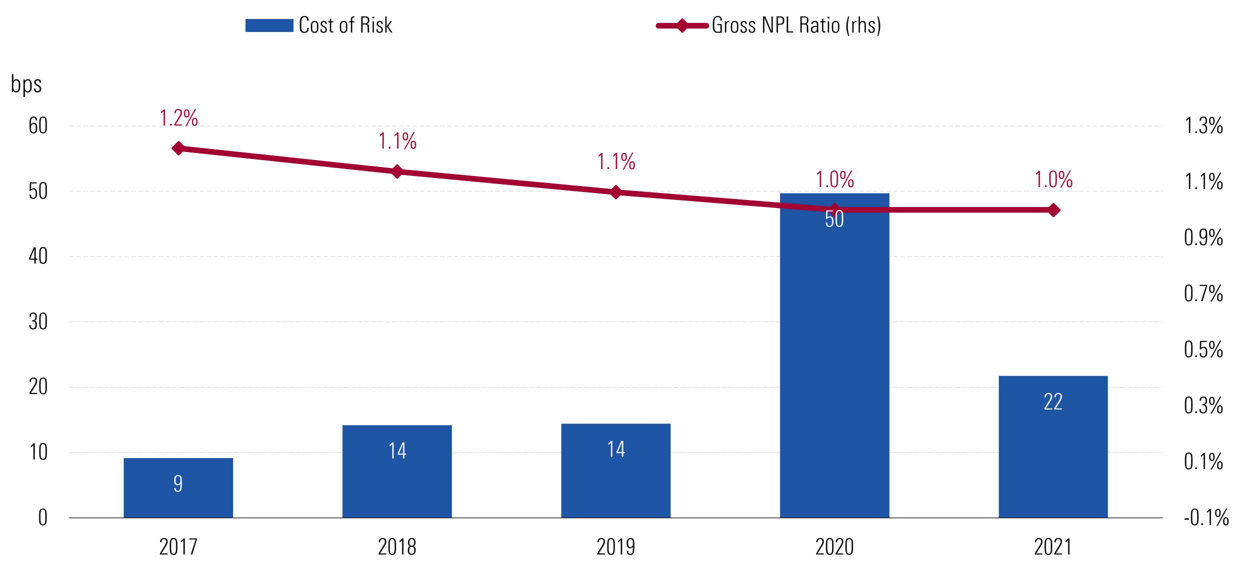
Source: DBRS Morningstar, Company Documents.

Risk Profile

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

In DBRS Morningstar's view risk is generally well managed and also has benefited from the recent benign German economic environment, which is reflected in relatively strong asset quality metrics. With the exception of 2020, the cost of risk has been historically low. The NPL ratio as calculated by DBRS Morningstar was 1.0% in 2021 and the NPL coverage ratio was a high 119%. Being based in Southern Germany, LBBW has traditionally had significant exposure to the automobile industry, however this has been reduced in recent years to reflect structural changes in the industry. DBRS Morningstar does note that with the announced acquisition of Berlin Hyp, commercial real estate (CRE) concentration is expected to increase. While the gross NPL ratio has been improving in recent years, we note that a reversal in this trend could be driven by delayed effects from the pandemic and the war in Ukraine, including factors such as supply chain disruptions, high energy prices and possibly higher interest rates. This adversely affects certain sectors and is likely to lead to a broader slowdown of the economy.

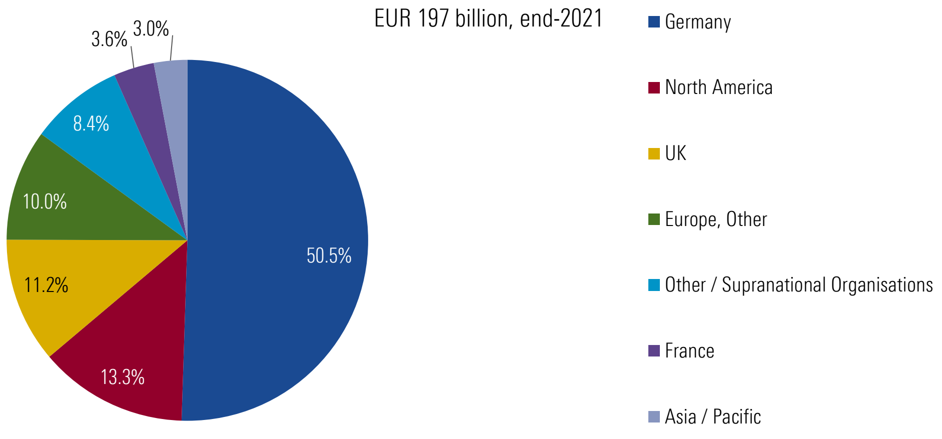
Exhibit 8 Cost of Risk and Gross NPL Ratio



Source: DBRS Morningstar, Company Documents.

LBBW mainly operates in very stable, mature economies. Most of LBBW's loan exposure is to Germany and Western Europe, followed by North America. Top countries in Western Europe are the UK, Austria, Switzerland, France and the Netherlands.

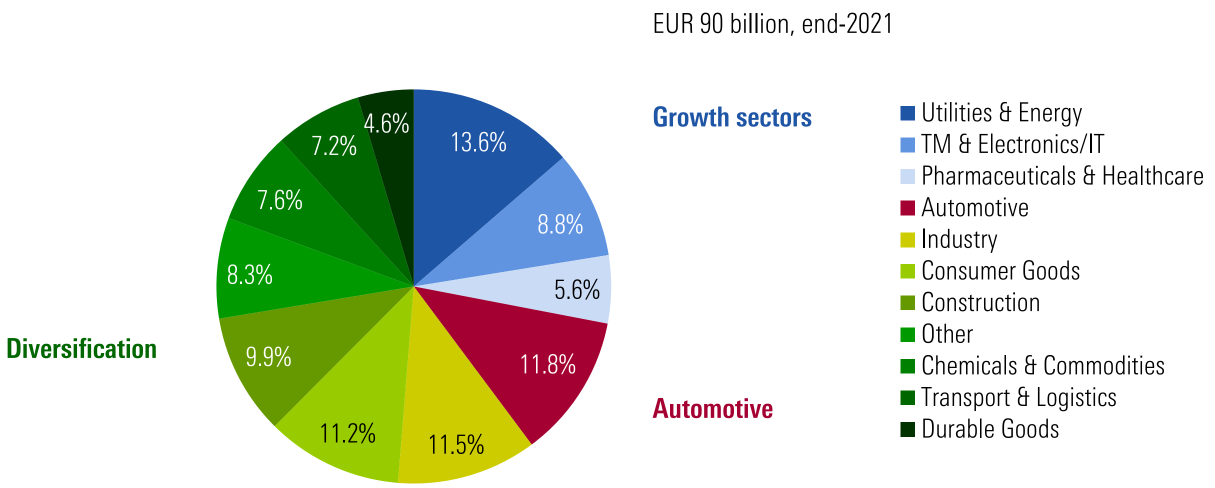
Exhibit 9 Risk Exposure by Region



Source: DBRS Morningstar, Company Documents.

The Bank has 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 17.3% of net exposure at end-2018 to 11.8% at end-2021, 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 pharma and healthcare, TM and electronics/IT and utilities and energy has increased from 23% to 28% of net exposure.

Exhibit 10 Corporate Credit Exposure by industry sector, end-2021



Source: DBRS Morningstar, Company Documents.

Focus on CRE:

Historically, Landesbanken have been important lenders in the German CRE market, supported by their Pfandbrief (covered bond) franchises. We estimate that the acquisition of Berlin Hyp, will increase exposure to CRE from approximately 12% at end 2021 to approximately 19%.
The high sector concentration combined with cyclical nature of the business warrants close attention, especially given current default rates are at unusually low levels and could increase in the future.

LBBW’s current CRE portfolio consists of 29% offices, followed by residential housing (28%), retail 10%, mixed use 25% and all other 8%. The biggest markets are Germany (76%), North America (12%) and the UK (7%). Overall, DBRS Morningstar views the portfolio as conservatively managed. The rating distribution is skewed towards investment grade (84%), while only 0.6% is in in or near default. The average LTV is 51% and only 5% of the portfolio is above 80%. In our opinion, Berlin Hyp’s lending portfolio has also been conservatively managed.

Operational Risk

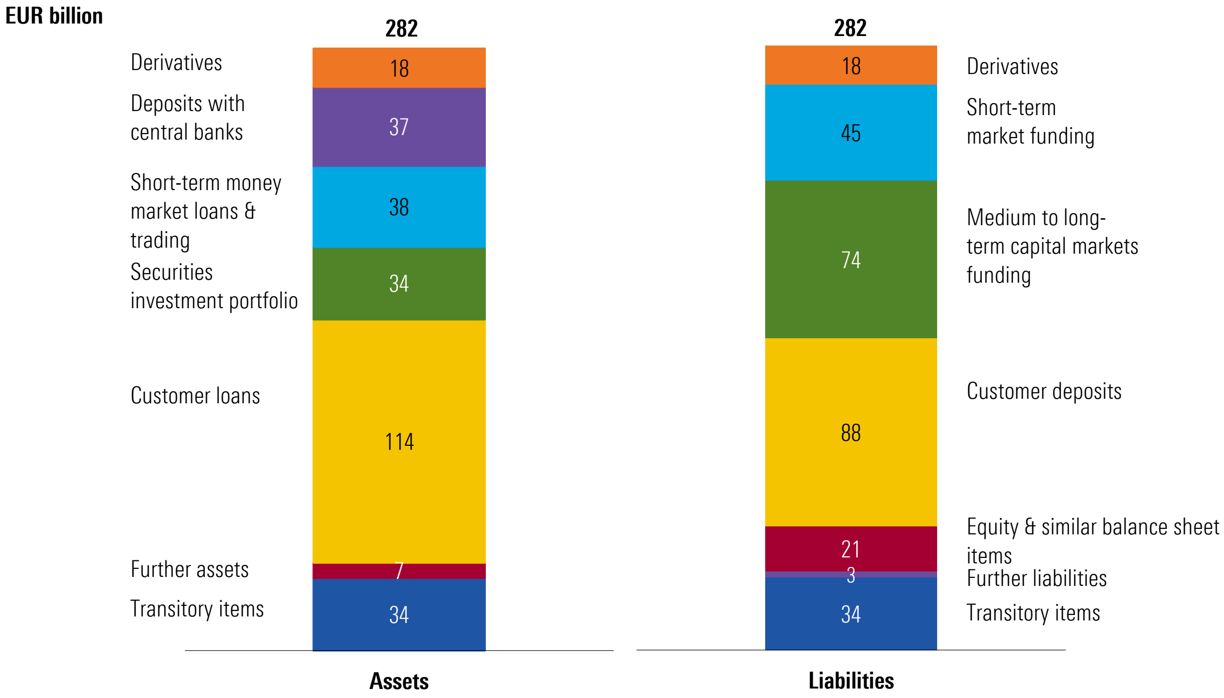
Generally, no outsized operational risks have emerged at LBBW. However, complex banks such as LBBW are always subject to risk related to areas such IT/data security, compliance with anti-money laundering requirements, as well as product governance. We note that the war in Ukraine has increased cyber risks and requirements to comply with imposed on Russia has increased operational and reputational risks.

Funding and Liquidity

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

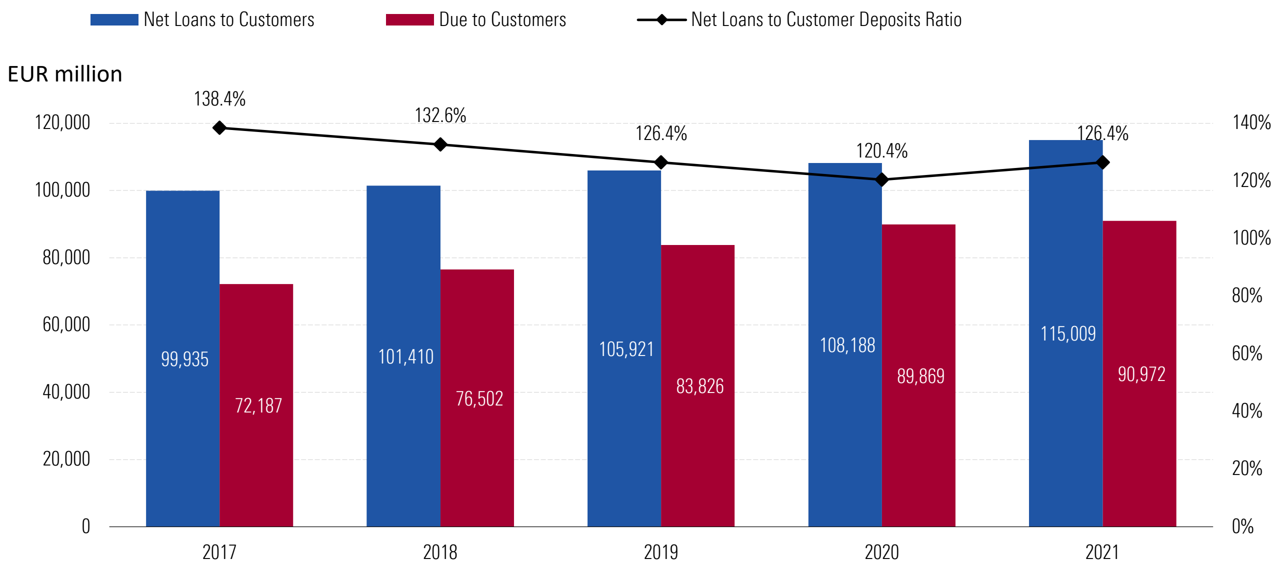
DBRS Morningstar views LBBW's funding and liquidity profile as solid. The loan-to-deposit ratio of 115% is in line with similarly rated peers. While LBBW does not have a large retail deposit base, this is mitigated by (i) the Bank's access to the savings banks liquidity pool, (ii) the well-established access to the covered bond market, which DBRS Morningstar considers a stable source of funding, (iii) the access to the unsecured market. At end-2021 the Liquidity Coverage Ratio (LCR) was 141.1% and the Net Stable Funding Ratio (NSFR) was 108.5%.

Exhibit 11 Asset Liability Structure



Source: DBRS Morningstar, Company Documents.

Exhibit 12 Loans to Deposits Evolution



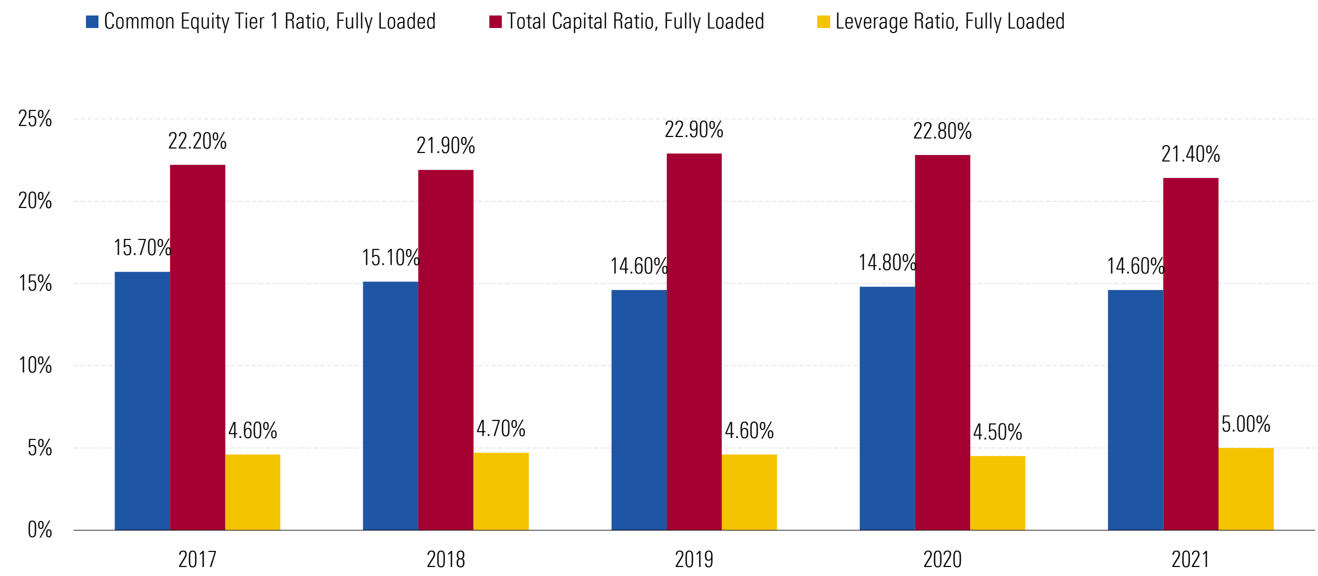
Source: DBRS Morningstar, Company Documents.

Capitalisation

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

With a fully loaded CET1 ratio of 14.6% at end-2021 and a total capital ratio of 21.4% LBBW has solid capital ratios with cushions well over minimum requirements. Minimum CET1 requirements for LBBW increased to 8.81% as of March 1, 2022 from 8.73%. In addition, by February 1, 2023 the Bank has to fully comply with an additional countercyclical buffer of 0.75% of risk-weighted German receivables and the sectoral systemic risk buffer of 2.0% of risk-weighted German receivables backed by residential real estate. Even though we believe that a deterioration of the economic outlook could prompt regulators to revisit the buffers, in DBRS Morningstar's view the Bank's healthy capital cushions provide management flexibility in response to the new requirements. A moderate decline in capital cushions would still be commensurate with the current ratings. The financial strength derived from the solid capital cushions is partly mitigated by the modest capital generation capacity through retained earnings and the Bank's limited access to capital markets due to its ownership structure.

Exhibit 13 Capital Position



Source: DBRS Morningstar, Company Documents.

Risk-weighted assets increased to EUR 84.6 billion at end-2021 from EUR 82.3 billion in the previous year, driven by business growth and CRR II related calculation changes (counterpart credit risk for derivative transactions and the SME Support Factor). 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 13.4% overall and 12.4% subordinate as of end-2021, compared to a requirement of 7.0%.

Exhibit 14 Regulatory requirements, Fully Loaded

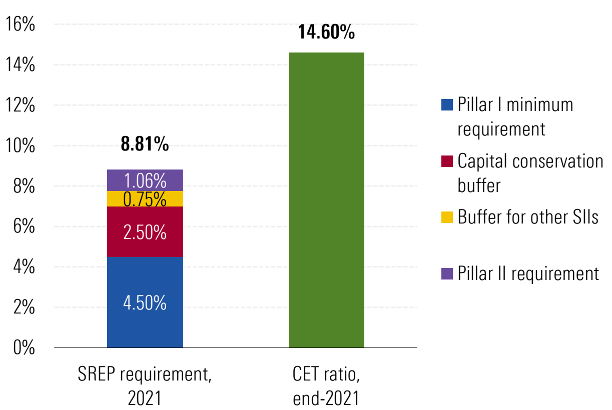
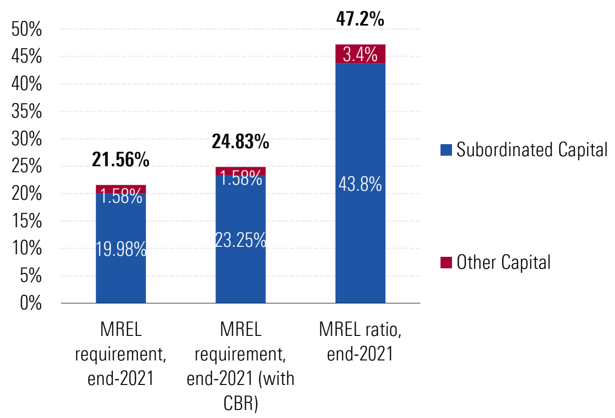


Exhibit 15 MREL requirement & ratio, related to total risk exposure



Source: DBRS Morningstar, Company Documents.

Landesbank Baden-Württemberg

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 the costs or risks 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?	N	N
Climate and Weather Risks	Will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	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 could 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	N	N
	Do violations of rights create a potential liability that could 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 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
Governance	**Overall:**	**N**	**N**
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 impact 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 limit 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
	Corporate / Transaction Governance:	**N**	**N**
	Consolidated ESG Criteria Output:	**N**	**N**

* 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 has been offering sustainable finance solutions for customer and is one of the largest commercial bond issuer of ESG bonds in Europe. Next steps will be higher transparency for sustainability risks and CO2 emissions of the portfolio and the definition of sector goals. In April, 2022, the Bank announced a new Green Bond Framework that is aligned with EU taxonomy. Like all ECB regulated banks, LBBW will be subject to an annual supervisory stress test that will include a stress test exercise on climate risk in 2022. Results are expected to be published in Q3 2022 and the output will be integrated into the Supervisory Review and Evaluation Process (SREP) using a qualitative approach as opposed to a quantitative approach. However, there won't be any direct capital impact via the Pillar 2 guidance as a result of this climate-related stress test.

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. While no material pending issues are known, regulators have flagged to banks the need to strengthen their operational risk frameworks as a consequence of the war in Ukraine, including their cybersecurity defences, as well as measures to comply with the sanctions imposed.

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 DBRS Morningstar closely monitors. The ownership mix and the parliamentary process involved in decision making, have also made it difficult at times to swiftly react to challenges. In 2020, the ECB has requested better pre-emptive risk controls within the IPS and more transparent processes in case of a recapitalisation, which has been addressed in 2021. Also, given the sanctions imposed on Russia, EU banks need to ensure that they are blocking and identifying any potential illicit payments from sanctioned individuals and/or businesses, and any non-compliance with the sanctions imposed could lead to fines and reputational consequences.

Landesbank Baden-Württemberg

2021	1 Scorecard Indicator	Scorecard Indicator Data	2 Scorecard Indicator Assessment	3 Scorecard Building Block (BB) Assessment	4 Grids BB Assessment	5 Combined BB Assessment
Franchise	Adjusted Assets	268	S/G	S	G	S/G
	Sovereign Rating	20	VS			
Earnings	Return on Equity	2.53%	W	M/W	M	M/W
	Return on Assets	0.15%	M/W			
	IBPT/Avg.Assets	0.39%	M/W			
Risk	Net NPLs/Net Loans	0.01%	VS/S	S/G	S/G	S/G
	Provisions/IBPT	34.38%	G			
Funding & Liquidity	Sovereign-Adjusted Funding Ratio	123.9%	G	G	S	S/G
Capitalisation	Sovereign-Adjusted Capital Ratio	14.92%	S	G/M	G	G
	NPL/Equity + Loan Loss Reserves	7.43%	S			
	5-Year Accumulated Net Income/Total Assets	0.82%	M			

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

Notes: (1) based on financial data as of 2021. (2) For more information see Global Methodology for Rating Banks and Banking Organisations published on 19 July 2021.

Annual Financial Information

	For the Year Ended December 31 (IFRS)				
	2021	**2020**	**2019**	**2018**	**2017**
Balance Sheet (EUR Millions)					
Cash & Cash Equivalents*	76,513	71,923	62,739	63,798	60,759
Investments in Financial Assets	57,690	63,788	56,756	46,592	51,781
Gross Loans to Customers	116,297	109,265	110,320	102,259	101,928
Loan Loss Reserves	(1,320)	(1,097)	(896)	(855)	(684)
Net Lending to Customers	114,977	108,168	109,424	101,404	101,244
Total Assets	282,344	276,449	256,630	241,214	237,713
Deposits from Customers	90,972	89,869	90,319	76,502	76,502
Debt & Capital Lease Obligations	61,764	61,165	59,260	60,013	62,358
Total Liabilities	268,146	262,458	242,707	228,035	224,336
Total Equity	14,198	13,991	13,923	13,179	13,377
Income Statement (EUR Millions)					
Net Interest Income	1,958	1,749	1,642	1,513	1,547
Non Interest Income	1,207	1,027	1,211	1,141	1,129
Equity Method Results	23	5	6	24	31
Total Operating Income	3,188	2,781	2,859	2,678	2,707
Total Operating Expenses	2,130	1,952	2,061	1,968	2,057
Income Before Provisions and Taxes (IBPT)	1,056	829	799	708	650
Loan Loss Provisions	240	545	151	141	92
Irregular Income/Expenses	(1)	32	36	9	43
Net Attributable Income	418	172	443	420	416
Growth (%) - YoY Change					
Net Interest Income	11.95%	6.52%	8.53%	-2.20%	-4.45%
Total Operating Income	14.64%	-2.80%	7.15%	-1.22%	-0.66%
Total Operating Expenses	9.12%	-5.52%	4.93%	-3.67%	-0.82%
IBPT	27.38%	4.15%	13.88%	6.23%	-0.45%
Net Attributable Income	143.02%	-61.09%	7.02%	-0.72%	4060.00%
Gross Loans & Advances	6.44%	-0.96%	7.88%	0.32%	-0.41%
Deposits from Customers	1.23%	-0.50%	18.06%	-3.31%	33.77%
Earnings (%)					
Net Interest Margin	0.71%	0.68%	0.67%	0.65%	0.65%
Non-Interest Income / Total Revenue	37.86%	36.93%	42.36%	42.61%	41.71%
Cost / Income ratio	66.81%	70.19%	72.09%	73.49%	75.99%
LLP / IBPT	22.73%	65.74%	18.90%	19.92%	14.15%
Return on Avg Assets (ROAA)	0.15%	0.06%	0.17%	0.17%	0.17%
Return on Avg Equity (ROAE)	2.96%	1.24%	3.32%	3.20%	3.16%
IBPT over Avg RWAs	1.27%	1.00%	0.98%	0.90%	0.85%
Internal Capital Generation	2.96%	1.24%	1.45%	1.88%	1.49%
Risk Profile (%)					
Cost of Risk	0.22%	0.50%	0.14%	0.14%	0.09%
Gross NPLs over Gross Loans	0.96%	0.99%	1.03%	1.14%	1.20%
NPL Coverage Ratio	118.81%	101.48%	78.87%	73.52%	55.70%
Net NPLs over Net Loans	-0.18%	-0.01%	0.22%	0.30%	0.54%
NPLs to Equity and Loan Loss Reserves Ratio	7.18%	7.18%	7.73%	8.31%	8.88%
Funding & Liquidity (%)					
Net Loan to Deposit Ratio	126.39%	120.36%	121.15%	132.55%	132.34%
Liquidity Coverage Ratio	140%	142%	134%	136%	NA
Net Stable Funding Ratio	109%	108%	109%	NA	NA
Capitalization (%)					
CET1 Ratio	14.80%	15.10%	14.60%	15.10%	15.80%
Tier1 Ratio	15.90%	16.60%	16.50%	16.20%	16.90%
Total Capital Ratio	21.40%	22.80%	23.00%	22.00%	22.30%
Leverage Ratio	5.00%	4.70%	4.90%	5.00%	5.00%
Dividend Payout Ratio	85.7%	0.0%	56.4%	41.2%	52.6%

Source: Morningstar Inc., Company Documents

*Includes Loans to Banks

Rating Methodology

The applicable methodologies are the *Global Methodology for Rating Banks and Banking Organisations* (19 July 2021), and *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* (3 February 2021) which can be found on our website under Methodologies.

Ratings

Issuer	Obligation	Rating Action	Rating	Trend
Landesbank Baden-Württemberg	Long-Term Issuer Rating	Assigned	A (high)	Stable
Landesbank Baden-Württemberg	Short-Term Issuer Rating	Assigned	R-1 (middle)	Stable
Landesbank Baden-Württemberg	Long-Term Senior Debt	Assigned	A (high)	Stable
Landesbank Baden-Württemberg	Short-Term Debt	Assigned	R-1 (middle)	Stable
Landesbank Baden-Württemberg	Long-Term Deposits	Assigned	A (high)	Stable
Landesbank Baden-Württemberg	Short-Term Deposits	Assigned	R-1 (middle)	Stable
Landesbank Baden-Württemberg	Senior Non-Preferred Debt	Assigned	A	Stable
Landesbank Baden-Württemberg	Subordinated Debt	Assigned	A (low)	Stable
Landesbank Baden-Württemberg	Long-Term Critical Obligations Rating	Assigned	AA	Stable
Landesbank Baden-Württemberg	Short-Term Critical Obligations Rating	Assigned	R-1 (high)	Stable

Previous Actions

- DBRS Morningstar Assigns First-Time Ratings to Landesbank Baden-Württemberg; LT Issuer Rating at 'A' (high), Stable Trend, 21 April 2022.

Related Research

- ESG Factors for Banks, Part Three: Social Factors, 11 April 2022.
- European Banks: Lower Cost of Risk in FY21; However, Likely to Worsen After Ukraine War, 22 March 2022.
- European Banks' Direct Exposure to Russia and Ukraine Is Manageable, But Risks Have Increased, 16 March 2022.
- BaFin Introduces Countercyclical and Sectoral Systemic Risk Buffer, 1 February 2022.
- European Banks: Rating Outlook Stable for 2022, 27 January 2022.
- European Banks' Cost of Risk Supported by Loan Loss Releases in Q3, 29 November 2021.
- ESG Factors for Banks, Part Two: Governance Factors, 19 October 2021.
- DBRS Morningstar Publishes Banks' Intrinsic Assessment Frameworks, 5 October 2021.
- ESG Factors for Financial Institutions, Part One: Environmental Factors, 27 April 2021.
- DBRS Morningstar: Gender Diversity at European Banking Boards: Still a Long Way to Go, 22 February 2021.

European Bank Ratios & Definitions

- Bank Ratio Definitions, 14 March 2022

About DBRS Morningstar

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