

RATING ACTION COMMENTARY

Fitch Revises LBBW's Outlook to Stable on Similar Action on Sparkassen-Finanzgruppe

Feedback

Mon 05 Jul, 2021 - 9:51 AM ET

Fitch Ratings - Frankfurt am Main - 05 Jul 2021: Fitch Ratings has revised LBBW's Outlook to Stable from Negative, while affirming the bank's long-Term Issuer Default Rating (IDR) at 'A-'. The Outlook revision follows a recent similar rating action on LBBW's ultimate provider of support, Sparkassen-Finanzgruppe (SFG; see 'Fitch Revises SFG Outlook to Stable, Affirms IDR at 'A+' on 30 June 2021).

The IDRs of LBBW are based on Fitch's assessment of institutional support from SFG and LBBW's federal and municipal owners. LBBW's Viability Rating (VR) of 'bbb' is unaffected by today's rating action.

A full list of rating actions is detailed below.

KEY RATING DRIVERS**IDRs, SUPPORT RATING (SR) AND SENIOR NON-PREFERRED (SNP) DEBT**

Unless noted below, the key rating drivers for LBBW are those outlined in our Rating Action Commentary published on 29 March 2021 ('Fitch Affirms LBBW's -Term IDR at 'A-, Outlook Negative').

LBBW's Long-Term IDR, Support Rating and SNP debt ratings are driven by Fitch's view of a strong likelihood of support from the bank's owners. Fitch uses SFG's Long-Term IDR as the anchor rating for determining the bank's support-driven ratings. Fitch believes support would need to be forthcoming from both SFG and the State of Baden Wuerttemberg to avoid triggering state-aid considerations and resolution under the German Recovery and Resolution Act if LBBW fails.

We notch LBBW's Long-Term IDR down twice from SFG's 'A+' to reflect regulatory restrictions to support due to the requirement for state-aid examination under EU competition rules. The two-notch difference also reflects LBBW's strategic, but not key and integral role, for its owners.

The Stable Outlook on LBBW's Long-Term IDR mirrors that on SFG.

DCR, DEPOSIT AND SENIOR PREFERRED DEBT RATINGS

LBBW's Derivative Counterparty Rating (DCR), long-term deposit rating and senior preferred debt ratings are rated one notch above the Long-Term IDR. This uplift reflects the respective creditors' preferential status over LBBW's large buffer of qualifying junior and SNP debt.

LBBW's short-term deposit rating is the lower of two options that map to an 'A' long-term deposit rating. This is because we believe that, despite the owners' very high propensity to provide support to LBBW, we see potential impediments to the prompt flow of funds that are not commensurate with an 'F1+' short-term rating given the lengthy process required to support a Landesbank.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upgrade of LBBW's IDRs and SNP debt ratings would require an upgrade of SFG's ratings.

An upgrade of LBBW's IDRs would trigger an upgrade of the DCR, senior preferred debt and deposit ratings provided the bank also maintains a buffer of junior and SNP debt above 10% of its risk-weighted assets (RWAs).

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A downgrade of SFG's IDRs, an unfavourable change in the ownership structure or in the owners' strategic commitment to LBBW could lead to a downgrade of LBBW's IDRs and SNP debt ratings.

A downgrade of LBBW's IDRs would trigger a downgrade of the DCR, senior preferred debt and deposit ratings. We could also downgrade these ratings if we expect the sum of junior and SNP debt to decrease, in particular, if the buffer is likely to fall and remain sustainably below 10% of the bank's RWAs.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

LBBW's ratings are driven by potential support from SFG and the State of Baden Wuerttemberg.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being

managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Landesbank Baden- Wuerttemberg	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Negative
	ST IDR	F1	Affirmed	F1
	Support	1	Affirmed	1
	DCR	A(dcr)	Affirmed	A(dcr)
● Senior non- preferred	LT	A-	Affirmed	A-
● long-term deposits	LT	A	Affirmed	A

Feedback

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Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Landesbank Baden-Wuerttemberg

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