

Landesbank Baden-Wuerttemberg

Update

Key Rating Drivers

Owners' Support Drives IDRs: Landesbank Baden-Wuerttemberg's (LBBW) Issuer Default Ratings (IDRs) and senior debt ratings are driven by Fitch Ratings' view of a strong likelihood of support from its owners, the state of Baden-Wuerttemberg, the City of Stuttgart and the regional members of Germany's savings banks group, Sparkassen-Finanzgruppe (Sparkassen) (SFG; A+/Stable).

Outlook Revised to Stable: We revised the Outlook on LBBW's Long-Term IDR to Stable from Negative in July 2021 to mirror the revision of SFG's Outlook at end-June 2021.

Sufficient VR Headroom: LBBW's Viability Rating (VR) reflects the bank's exposure to cyclical corporates and high single-name concentrations, weak pre-impairment profits and adequate capitalisation. It also reflects our expectation that asset quality metrics will moderately deteriorate in the aftermath of the Covid-19 pandemic. But we believe the risk of significant deterioration in asset quality, capitalisation and profitability has subsided since our last review, leading to the revision of outlooks on these factors to stable from negative.

Profitability Is a Relative Weakness: At the beginning of 2021, LBBW said it expects to achieve EUR100 million of cost savings by 2024 to complement its plan to grow selectively in corporate lending, debt capital markets and asset and wealth management. However, we expect the bank to operate with a fairly high cost/income ratio in the medium term. We also expect profitability to remain weak in 2021 before improving in 2022 due to lower loan impairment charges and the first visible impact from the bank's cost-saving and revenue-growth plans.

Low Impaired Loan Volumes: The impact of the pandemic on LBBW's asset quality has so far only led to a material increase in Stage 2 loans. Large government support has contained the number of corporate insolvencies at a low level until end-2020 and LBBW's Stage 3 loan ratio was unchanged at 0.9% of gross loans end-2020. We expect Stage 3 loans to rise in 2021, but the Stage 3 ratio should remain on average below 2% in the medium term.

Sound Capitalisation and Funding: LBBW's capital ratios solidly exceed regulatory requirements, but we believe these buffers are necessary for its business model. We expect them to decline in the next two years due to loan growth, risk-weighted assets (RWAs) inflation driven by regulation and re-ratings, as well as profit distribution. LBBW's membership of SFG's institutional protection scheme mitigates its reliance on wholesale funding. The bank benefited from capital markets pre-funding in early 2020 and participation in central bank tenders.

Rating Sensitivities

Change in SFG's IDRs: The IDRs and senior debt ratings are primarily sensitive to changes in our assumptions around the propensity or ability of LBBW's owners to provide timely support. This could result from a change to SFG's IDRs, to the owners' strategic commitment to LBBW or to the bank's importance for its home region or for the savings bank sector.

Profitability Improvements: An upgrade of LBBW's VR would require a sustainable economic recovery and a limited impact from the pandemic on the bank's asset quality and capitalisation. An upgrade would also be contingent on a structural improvement in LBBW's profitability, with an average operating profit/RWAs of at least 1%, without a material increase in risk appetite. The VR would likely be downgraded if we expect the bank's Stage 3 loans ratio to rise to and remain above 3%, or if the common equity Tier 1 ratio fell durably below 12.5%.

Ratings

Foreign Currency

Long-Term IDR	A-
Short-Term IDR	F1
Derivative Counterparty Rating	A(dcr)

Local Currency

Viability Rating	bbb
Support Rating	1

Sovereign Risk

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

Outlooks

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

Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

Related Research

[Fitch Revises LBBW's Outlook to Stable on Similar Action on Sparkassen-Finanzgruppe \(July 2021\)](#)

[Landesbank Baden-Wuerttemberg \(April 2021\)](#)

[Fitch Revises Sparkassen-Finanzgruppe's Outlook to Stable from Negative; Affirms at 'A+' \(June 2021\)](#)

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Debt Rating Classes

Rating Level	Rating
Deposit ratings	A/F1
Senior preferred (SP) debt	A/F1
Senior non-preferred debt (SNP)	A-
State-guaranteed senior unsecured and subordinated debt	AAA
Non-guaranteed Tier 2 subordinated debt	BB+

Source: Fitch Ratings

LBBW's long-term deposit and SP debt ratings and Derivative Counterparty Rating are rated one notch above its Long-Term IDR because of the protection provided by resolution buffers to preferred creditors. The short-term deposit and SP ratings are the lower of the two ratings that map to an 'A' long-term deposit rating. This is because we believe that, despite the owners' very high propensity to support 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 agree on owners' support to Landesbanken.

Institutional Support Assessment

Institutional Support				Value
Parent IDR				A+
Total Adjustments (notches)				-2
Institutional Support:				A-
Support Factors (negative)	Equalised	1 Notch	2+ Notches	
Parent ability to support and subsidiary ability to use support				
Parent/group regulation				✓
Relative size		✓		
Country risks	✓			
Parent Propensity to Support				
Role in group		✓		
Potential for disposal	✓			
Implication of subsidiary default		✓		
Integration			✓	
Size of ownership stake		✓		
Support track record	✓			
Subsidiary performance and prospects		✓		
Branding			✓	
Legal commitments			✓	
Cross-default clauses			✓	

Bar Chart Legend	
Vertical bars – VR range of Rating Factor	
Bar Colors – Influence on final VR	
■	Higher influence
■	Moderate influence
■	Lower influence
Bar Arrows – Rating Factor Outlook	
↑	Positive
↓	Negative
↕	Evolving
□	Stable

High Probability of Support from Owners

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's support assumptions are underpinned by the statutes of the institutional protection fund of SFG and the Landesbanken. Our support considerations are also based on our view that the owners consider their investment in LBBW as long-term and strategic. This is underpinned by LBBW's statutory roles, which include supporting the regional economy as well as acting as the central institution for regional savings banks and as a house bank for the State of Baden Wuerttemberg.

Fitch uses SFG's Long-Term IDR as the anchor rating for determining LBBW's support-driven ratings. This is because we believe 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 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.

Ratings Navigator

Landesbank Baden-Wuerttemberg



Banks
Ratings Navigator

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Institutional Support	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+										a+	A+	A+
a										a	A	A
a-										a-	A-	A- Stable
bbb+										bbb+	BBB+	BBB+
bbb										bbb	BBB	BBB
bbb-										bbb-	BBB-	BBB-
bb+										bb+	BB+	BB+
bb										bb	BB	BB
bb-										bb-	BB-	BB-

Navigator Peer Comparison

Peer Group Summary

	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Rating Action
Norddeutsche Landesbank Girozentrale	aa- ▼	bb	bb	bbb-	bbb-	b+	bbb	bbb-	bb	03-Jan-20
Bayerische Landesbank	aa- ▼	bbb	bbb	bbb+	bbb+	bbb-	bbb+	bbb+	bbb	29-Mar-21
Landesbank Baden-Wuerttemberg	aa- ▼	bbb	bbb	bbb+	bbb+	bbb-	bbb+	bbb+	bbb	29-Mar-21
Landesbank Saar	aa- ▼	bb+	bbb-	bbb-	bbb-	bbb-	bb+	bbb	bb+	29-Mar-21

Source: Fitch Ratings

Significant Changes

Outlook on SFG's IDR Stabilised as Downside from Pandemic Has Subsided

We revised the outlooks on SFG's Long-Term IDR, Asset Quality and Earnings & Profitability to stable from negative in June 2021 because the risk of a significant deterioration in SFG's financial metrics has subsided since our previous review in August 2020, and we expect SFG's VR of 'a+' to be sufficiently resilient to plausible downside scenarios. SFG's business model, which focuses on lending to German SMEs and households, proved resilient in 2020 despite a severe decline in GDP from repeated and extended lockdowns in Germany. We revised the Outlook on LBBW's Long-Term IDR in July 2021 to mirror the revision of SFG's Outlook.

Summary Financials and Key Ratios

	31 Dec 2020 EURm	31 Dec 2019 EURm	31 Dec 2018 EURm	31 Dec 2017 EURm
Summary Income Statement				
Net interest and dividend income	1,771	1,676	1,558	1,587
Net fees and commissions	538	558	513	473
Other operating income	381	467	503	665
Operating costs	1,861	1,908	1,863	2,077
Pre-impairment operating profit	829	793	711	648
Loan and other impairment charges	545	151	142	92
Operating profit	284	642	569	556
Other non-operating items (net)	-32	-30	-11	-41
Net income	172	444	420	419
Summary Balance Sheet				
Gross loans	104,481	102,774	98,133	97,502
- of which impaired	935	968	854	996
Loan loss allowances	1,077	877	849	679
Net loans	103,404	101,897	97,284	96,823
Interbank	58,274	44,409	39,076	38,031
Derivatives	25,369	22,047	18,036	20,309
Other securities and earning assets	70,678	65,037	58,093	56,308
Total earning assets	257,725	233,390	212,489	211,471
Cash and due from banks	13,650	18,331	24,721	22,729
Other assets	5,074	4,909	4,004	3,513
Total assets	276,449	256,630	241,214	237,713
Customer deposits	92,101	85,989	78,424	74,090
Interbank and other short-term funding	79,229	68,069	63,881	62,322
Other long-term funding	55,854	46,748	47,002	53,590
Trading liabilities and derivatives	29,508	34,202	32,388	28,162
Total funding	256,692	235,008	221,695	218,164
Other liabilities	4,815	6,614	5,259	5,068
Preference shares and hybrid capital	1,695	1,830	1,081	1,104
Total equity	13,247	13,178	13,179	13,377
Total liabilities and equity	276,449	256,630	241,214	237,713
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.4	0.8	0.7	0.7
Net interest income/average earning assets	0.7	0.7	0.7	0.7
Non-interest expense/gross revenue	69.3	70.8	73.1	77.1
Net income/average equity	1.3	3.4	3.2	3.2
Asset quality				
Impaired loans ratio	0.9	0.9	0.9	1.0
Growth in gross loans	1.7	4.7	0.7	-1.4
Loan loss allowances/impaired loans	115.2	90.6	99.4	68.2
Loan impairment charges/average gross loans	0.5	0.2	0.2	0.1

Source: Fitch Ratings, Fitch Solutions, LBBW

Summary Financials and Key Ratios

	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017
Capitalisation				
Common equity Tier 1 ratio	15.1	14.6	15.1	15.8
Tangible common equity/tangible assets	4.7	5.0	5.3	5.4
Basel leverage ratio	4.5	4.6	4.7	4.6
Net impaired loans/common equity Tier 1	-1.1	0.8	0.0	2.7
Funding and liquidity				
Loans/customer deposits	113.4	119.5	125.1	131.6
Liquidity coverage ratio	135.4	123.6	114.8	145.8
Customer deposits/funding	39.1	39.7	38.2	37.0

Source: Fitch Ratings, Fitch Solutions, LBBW

Environmental, Social and Governance 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.

FitchRatings Landesbank Baden-Wuerttemberg

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

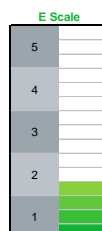
Landesbank Baden-Wuerttemberg has 5 ESG potential rating drivers

- Landesbank Baden-Wuerttemberg has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale	
key driver	0	issues	5	
driver	0	issues	4	
potential driver	5	issues	3	
not a rating driver	4	issues	2	
not a rating driver	5	issues	1	

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

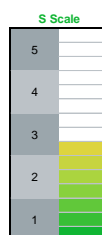
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

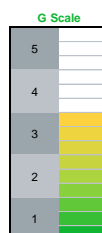
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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