

Rating Action: Moody's assigns (P)Ba1 ratings to Landesbank Baden-Wuerttemberg's AT1 programme

17 Oct 2019

Frankfurt am Main, October 17, 2019 -- Moody's Investors Service ("Moody's") has today assigned (P)Ba1 ratings to Landesbank Baden-Wuerttemberg (LBBW)'s EUR 1.5billion " Additional Tier 1 Notes Programme ". The ratings assigned refer to "low-trigger" Additional Tier 1 (AT1) instruments, to be issued under this programme, only, with a trigger level of 5.125% CET1.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

The (P)Ba1 rating assigned to LBBW's AT1 programme takes into account the instrument's undated deeply subordinated claim in liquidation as well as its non-cumulative coupon deferral features. The rated AT1 securities to be issued under the programme are 'low-trigger' AT1 instruments, senior only to LBBW's capital instruments that qualify as Common Equity Tier 1 (CET1). In addition, the instrument's principal is subject to a write-down on a contractual basis if: LBBW's consolidated or standalone CET1 ratio falls below 5.125%; and/or a competent resolution authority determines that the conditions for a write-down of the instrument are fulfilled and orders such a write-down as a measure to prevent in the solvency.

According to Moody's framework for rating non-viability securities under its bank rating methodology, the agency typically positions the rating of low-trigger AT1 securities three notches below the bank's Adjusted Baseline Credit Assessment (BCA). One notch reflects the high loss-given-failure that these securities are likely to face in a resolution scenario, due to their deep subordination, small volume and limited protection from residual equity. Moody's rating for non-viability securities also incorporates two additional notches to reflect the higher risk associated with the non-cumulative coupon skip mechanism, which could take effect prior to the issuer reaching the point of non-viability.

The ratings reflect LBBW's baa1 Adjusted BCA; a high loss-given-failure for the AT1 instrument under Moody's Advanced Loss Given Failure (LGF) analysis, which results in a position one notch below the bank's Adjusted BCA; and the instrument's coupon skip mechanism and write-down features, which reduce the rating by an additional two notches.

Factors That Could Lead to an Upgrade/Downgrade

An upgrade of LBBW's AT1 programme ratings would be subject to an upgrade of its BCA.

Upward pressure on LBBW's BCA could develop by the evolution of a more broadly diversified lending book, thereby reducing material sector concentration risks, in combination with a meaningful and sustained reduction in the bank's reliance on capital market-sensitive funding or a material increase in liquid resources.

A downgrade of LBBW's AT1 programme ratings could result from a multi-notch downgrade of its BCA; developments within the Sparkassen-Finanzgruppe (Aa2 stable, a2) that would trigger a reduction in our affiliate support assumptions.

Moody's may also consider a wider notching between LBBW's Adjusted BCA and the AT1 ratings, if LBBW's capitalisation and subsequently its available distributable items for instrument coupon payments, were to weaken beyond Moody's expectations.

Downward pressure on LBBW's BCA could result from a significant deterioration in its overall credit profile, especially if caused by significantly higher-than-expected loan-loss charges or an unexpected and sustained weakening in the bank's capital adequacy metrics.

LIST OF AFFECTED RATINGS

Issuer: Landesbank Baden-Wuerttemberg

..Assignments:

....Preferred Stock Non-cumulative Medium-Term Note Program (Local and Foreign Currency), assigned (P)Ba1

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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