MOODY'S RATINGS

ISSUER COMMENT
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Contacts

Stanislav Nastassine +49.69.70730.714
VP-Senior Analyst
stanislav.nastassine@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Landesbank Baden-Wuerttemberg - Mortgage Covered Bonds

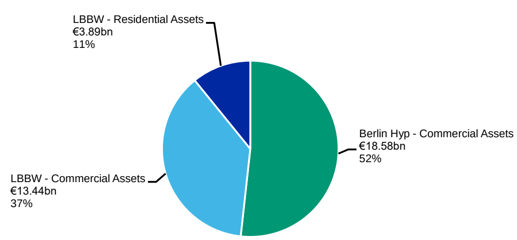
Berlin Hyp asset transfer lowers cover pool credit risk

On 1 August, Landesbank Baden-Wuerttemberg (LBBW, Aa2 stable, Aa2, Aa2(cr), baa2)[1] completed the merger of its covered bond programme with that of Berlin Hyp. The merger is credit positive for LBBW's covered bonds because it lessens credit risk by lowering borrower concentration risks and decreasing the relative foreign-currency asset exposure.

LBBW acquired Berlin Hyp, a commercial real estate financier, in July 2022 and has operated it as a subsidiary for the past three years. On 1 August, LBBW completed the legal process of fully integrating Berlin Hyp. As a result of the transfer, not only do Berlin Hyp's cover assets become part of LBBW's cover pool, but Berlin Hyp's outstanding Pfandbriefe are transferred to LBBW and are also backed by the merged cover pool.

Berlin Hyp's cover pool has positively contributed to the combined pool by reducing concentration risks and decreasing the relative foreign-currency asset exposure, thus lowering credit risk. The combined pool also has very low overall arrears levels. A downside to the merger is that it will increase the relative share of commercial real estate mortgage assets in LBBW's cover pool, because commercial mortgages are generally riskier than residential mortgages. Exhibit 1 shows the composition of the combined cover pool, based on 31 March 2025 data.

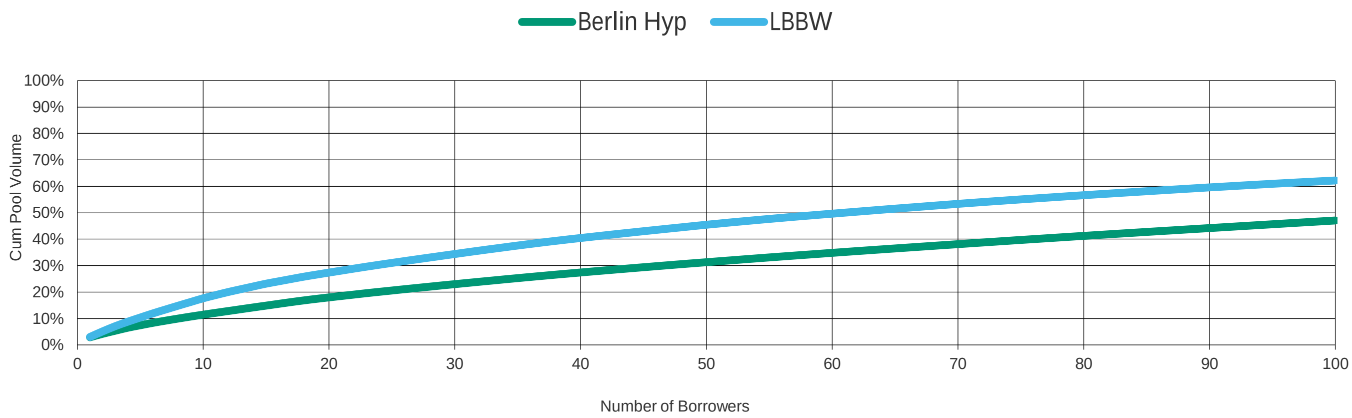
Exhibit 1
Combined cover pool dominated by commercial mortgage loans
Composition of combined LBBW and Berlin Hyp cover pool



Sources: LBBW and Moody's Ratings

The cover pool of LBBW exhibits relatively higher borrower concentration (see Exhibit 2). Thus, the merger is positive for concentration risks.

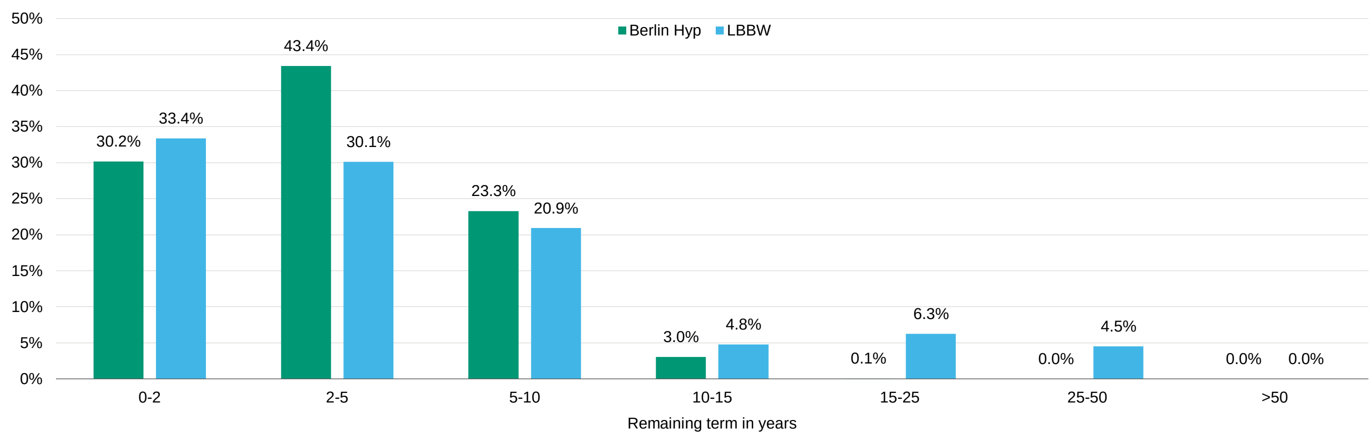
Exhibit 2
Berlin Hyp's commercial mortgage pool has lower borrower concentration



Sources: LBBW and Moody's Ratings

Of the remaining term, Berlin Hyp's cover pool has only a few loans with a remaining term of more than 15 years and no loans with a remaining term of more than 25 years. In contrast, 6.3% of LBBW's commercial pool consists of loans with terms between 15-25 years and 4.5% with terms between 25-50 years (see Exhibit 3).

Exhibit 3
LBBW's commercial mortgage loans exhibit relatively longer maturity



Sources: LBBW and Moody's Ratings

Both cover pools had very low arrears levels prior to the merger. As of 31 March 2025, Berlin Hyp said that 0.3% of the loans in its cover pool were in arrears for longer than two months. LBBW reported that no loans in its cover pool were in arrears as of 31 March 2025.

With other pool characteristics, such as property type distribution, regional distribution in Germany and loan principal repayment method, both cover pools were much the same before the merger.

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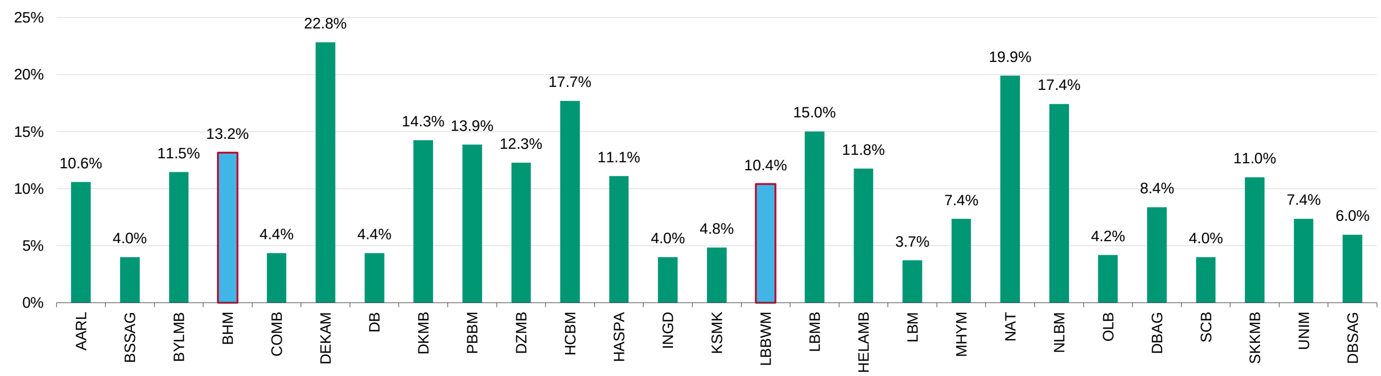
Before merger, the collateral scores – our collateral risk measures – for both LBBW and Berlin Hyp cover pools at 10.4% and 13.2%, respectively, were slightly above the average of 10.2% for German mortgage covered bond programmes (see Exhibit 4).

Exhibit 4

LBBW's collateral score ranks lower than Berlin Hyp's but both scores are consistent with Germany's mortgage average
The data as of 31.12.2025



See Exhibit 5 for programme keys
Sources: LBBW and Moody's Ratings

Exhibit 5

German mortgage covered bond programmes and programme keys

Programme Name	Type	Key
Aareal Bank AG - Mortgage Covered Bonds	Mortgage	AARL
Bausparkasse Schwaebisch Hall AG - Mortgage Covered Bonds	Mortgage	BSSAG
Bayerische Landesbank - Mortgage Covered Bonds	Mortgage	BYLMB
Berlin Hyp AG - Mortgage Covered Bonds	Mortgage	BHM
Commerzbank AG - Mortgage Covered Bonds	Mortgage	COMB
DekaBank Deutsche Girozentrale - Mortgage Covered Bonds	Mortgage	DEKAM
Deutsche Bank AG - Mortgage Covered Bonds	Mortgage	DB
Deutsche Kreditbank AG - Mortgage Covered Bonds	Mortgage	DKMB
Deutsche Pfandbriefbank AG - Mortgage Covered Bonds	Mortgage	PBBM
DZ HYP AG - Mortgage Covered Bonds	Mortgage	DZMB
Hamburg Commercial Bank AG - Mortgage Covered Bonds	Mortgage	HCBM
Hamburger Sparkasse AG - Mortgage Covered Bonds	Mortgage	HASPA
ING-Diba AG - Mortgage Covered Bonds	Mortgage	INGD
Kreissparkasse Koeln - Mortgage Covered Bonds	Mortgage	KSMK

Programme Name	Type	Key
Landesbank Baden-Wuerttemberg - Mortgage Covered Bonds	Mortgage	LBBWM
Landesbank Berlin AG - Mortgage Covered Bonds	Mortgage	LBMB
Landesbank Hessen-Thueringen GZ - Mortgage Covered Bonds	Mortgage	HELAMB
Lloyds Bank GmbH - Mortgage Covered Bonds	Mortgage	LBM
Muenchener Hypothekenbank eG - Mortgage Covered Bonds	Mortgage	MHYM
NATIXIS Pfandbriefbank AG - Mortgage Covered Bonds	Mortgage	NAT
Norddeutsche Landesbank GZ - Mortgage Covered Bonds	Mortgage	NLBM
Oldenburgische Landesbank - Mortgage Covered Bonds	Mortgage	OLB
Oldenburgische Landesbank AG - Degussa - Mortgage Covered Bonds	Mortgage	DBAG
Santander Consumer Bank AG - Mortgage Covered Bonds	Mortgage	SCB
Sparkasse KoelnBonn - Mortgage Covered Bonds	Mortgage	SKKMB
UniCredit Bank GmbH - Mortgage Covered Bonds	Mortgage	UNIM
Deutsche Bank AG - Structured Mortgage Covered Bonds	Mortgage	DBSAG

Source: Moody's Ratings

The level of over-collateralisation (OC) and any relevant market risks, such as currency risk, are important factors in our assessment of the credit risks of covered bonds.

LBBW maintained relatively high OC for its mortgage covered bond programme, which was significantly higher than the OC available in Berlin Hyp's programme: 70.7% compared with 7.6% on an unstressed net-present value (NPV) basis as of 31 March 2025. After the merger, the available OC will drop significantly to around 30%, which will still provide solid credit protection. Because of the relatively high Covered Bond Anchor of Aa1 (which is the CR-assessment of LBBW plus one notch), the OC required to achieve the Aaa rating remains unchanged at 0.0%.

The merger will reduce the relative share of foreign-currency assets in LBBW's cover pool, because all of Berlin Hyp's loans are euro denominated. Consequently, the currency risk in the combined pool will decrease. Before the merger, around 12.6% of LBBW's cover pool assets were foreign-currency loans (UK pound at 6.9% and US dollar at 5.7%).[2]

Endnotes

1 The ratings are the long-term bank deposits rating (outlook), senior unsecured rating, long-term counterparty risk assessment and baseline credit assessment.

2 Currency risk is the risk of a currency mismatch stemming from the different durations of and different payment promises made on the cover pool collateral and covered bonds. Currency risk addresses the length of exposure, typically from the point at which a mismatch first materialises (which may be the date a swap terminates) to the point at which the value of the cover pool is realised (which may be the date the cover pool is sold).

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REPORT NUMBER 1454305

Contacts

Juan Pablo Soriano +34.91.768.8233
MD-Structured Finance
juanpablo.soriano@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454