



Rating Action: Moody's upgrades Landesbank Baden-Wuerttemberg's long-term deposit and senior unsecured ratings; stable outlook

15 Mar 2024

Review for upgrade extended for LBBW's junior senior unsecured debt ratings

Frankfurt am Main, March 15, 2024 – Moody's Ratings (Moody's) has today upgraded Landesbank Baden-Wuerttemberg (LBBW)'s long-term deposit, long-term issuer, and senior unsecured ratings to Aa2 from Aa3 with a stable outlook. Previously these ratings were on review for upgrade. At the same time, the rating agency upgraded the bank's long-term Counterparty Risk Ratings (CRR) to Aa2 from Aa3, and the subordinate rating to Baa1 from Baa2, among others. The rating agency affirmed LBBW's short-term deposit and issuer ratings at P-1.

In addition, Moody's affirmed LBBW's Baseline Credit Assessment (BCA) at baa2, upgraded its Adjusted BCA to a3 from baa1, upgraded the long-term Counterparty Risk Assessment (CR Assessment) to Aa2(cr) from Aa3(cr), and affirmed the short-term CR Assessment at P-1(cr).

Moody's also affirmed at Aaa the ratings of the backed junior senior unsecured debt and backed subordinate debt issued by LBBW or by entities assumed by the bank.

LBBW's A2 junior senior unsecured debt ratings and the bank's (P)A2 junior senior unsecured MTN program rating have been reviewed in the rating committee and remain unchanged, because the rating agency extended the review for upgrade for these instruments. For all other rated liabilities of LBBW, this rating action concludes the rating review Moody's initiated on 9 February 2024, where applicable.

A full list of affected ratings and assessments, which also pertain to rated branches and assumed entities of LBBW, can be found at the end of this press release.

RATINGS RATIONALE

– AFFIRMATION OF THE BCA

The affirmation of LBBW's baa2 BCA weighs the improvement in the bank's pre-provision income generation capacity against emerging credit risks in the bank's concentration risks in commercial real estate (CRE) loans as well as LBBW's exposure to the strained German economy. At the same time, the BCA incorporates the bank's sustained sound capitalisation, which provides LBBW with headroom to withstand continued adverse economic developments.

The BCA also takes into account LBBW's elevated market funding dependence, which remains significant despite the

bank's access to funding from the savings bank sector and development banks. LBBW's ample liquid resources continue to provide a strong mitigant against potential funding challenges, however.

– UPGRADE OF THE ADJUSTED BCA

The upgrade of LBBW's Adjusted BCA to a3 from baa1 reflects the affirmation of the bank's BCA and the very high probability of cross-sector support from Sparkassen-Finanzgruppe (S-Finanzgruppe; Corporate Family Rating Aa2 stable, BCA a2) in case of need and, which results in two notches of rating uplift from affiliate support. Previously, a high support assumption was assumed, which yielded one notch of rating uplift.

Moody's believes that the probability of LBBW receiving such support has risen following the strengthening of the institutional protection scheme (IPS) of S-Finanzgruppe, whose statutes were updated earlier in 2024[1]. The revised statutes result in a more rule-based IPS that implements an early intervention system with clearly identified triggers and timely escalation of decision-making steps as well as increased ex-ante funds over time, which, in the view of the rating agency, increase the likelihood and timeliness of support for LBBW. In its assessment, the rating agency considers the likelihood of support based on the new and improved governance structure of the IPS, the economic rationale to improve sector cohesion through swift and positive support decisions, and the capacity of the sector in different scenarios, including a situation in which a number of larger members require capital support concurrently.

–UPGRADE OF LONG-TERM RATINGS

The upgrade of LBBW's long-term ratings, where applicable and including deposits and senior unsecured debt, follows the upgrade of the bank's Adjusted BCA, and also considers unchanged results from Moody's Advanced Loss Given Failure (LGF) analysis and unchanged assumptions for government support.

Because of LBBW's high share of capital market funding and the resulting meaningful volume of bail-in-able debt instruments, the rating agency's Advanced LGF analysis continues to yield three notches of rating uplift for the CRR, the CR Assessment, deposits and senior unsecured debt. Because subordinated debts do not benefit from protection beyond equity and face a high loss severity, they are rated one notch below the Adjusted BCA, and by an additional two notches in case of Additional Tier 1 instruments to reflect higher coupon default risk.

The unchanged moderate support assumption for liabilities ranking above junior senior unsecured debt and the resulting one notch of rating uplift reflects the bank's membership in the systemically important S-Finanzgruppe.

– EXTENSION OF RATINGS REVIEW FOR JUNIOR SENIOR UNSECURED DEBT

LBBW's junior senior unsecured debt ratings remain under review for upgrade. During the extended rating review, Moody's will update its forward-looking expectations, in particular whether future issuance plans of the bank will continue to support a two-notch uplift for this debt class.

– AFFIRMATION OF SHORT-TERM RATINGS

Because LBBW's short-term ratings were already at the highest possible level prior to the upgrade of the respective

long-term ratings, the short-term ratings were affirmed at P-1.

– AFFIRMATION OF BACKED RATINGS

The affirmation of LBBW's backed junior senior unsecured debt and of its backed subordinate debt ratings at Aaa continues to reflect Moody's interpretation of the deficiency guarantee that was granted by the bank's owners at the time of issuance and its assessment of likelihood, willingness, and timeliness of support.

OUTLOOK

The stable outlook on LBBW's long-term deposit, issuer, and senior unsecured debt ratings reflects the stable outlook of S-Finanzgruppe. The stable outlook further incorporates the rating agency's expectation of a broadly unchanged liability structure.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of LBBW's long-term ratings could be triggered by an improvement in the financial strength of S-Finanzgruppe.

LBBW's subordinated ratings could potentially also be upgraded if the bank were to issue substantial additional volumes of instruments eligible as Tier 2 or Additional Tier 1 capital. In addition, as indicated by the extended review for upgrade, LBBW's junior senior unsecured liabilities may be upgraded if the bank's future issuance plan will continue to support a two-notch uplift for this debt class based on an expected increase in the stock of bail-in-able liabilities.

An upgrade of LBBW's BCA could result from a sustained improvement in the bank's financial profile, in particular an improved business diversification and reduced sector concentration risks, higher capital ratios along with a further strengthening of the bank's earnings.

LBBW's long-term senior unsecured debt and deposit ratings would be downgraded following a downgrade of the Adjusted BCA, either as a result of a deterioration in the financial strength of S-Finanzgruppe or caused by a significantly weaker BCA of LBBW. Further, a shift in the liability structure towards non-bail-in-able instruments, such that it increases the loss severity for a respective debt class and results in reduced rating uplift from Moody's Advanced LGF analysis could exert downwards ratings pressure.

LBBW's BCA could be downgraded in case of a sharp decline in its asset quality, particularly if CRE markets underperformance leads to a more pronounced problem loan formation than the rating agency currently anticipates. LBBW's BCA could also be downgraded in case of a concurrent decline in capitalization and profitability, and a deterioration of the bank's combined liquidity profile.

LIST OF AFFECTED RATINGS

Issuer: Landesbank Baden-Wuerttemberg

..Upgrades:

....LT Counterparty Risk Rating (Foreign Currency) , Upgraded to Aa2 from Aa3

....LT Counterparty Risk Rating (Local Currency) , Upgraded to Aa2 from Aa3

....LT Bank Deposits (Foreign Currency) , Upgraded to Aa2 STA from Aa3 RUR

....LT Bank Deposits (Local Currency) , Upgraded to Aa2 STA from Aa3 RUR

....LT Counterparty Risk Assessment , Upgraded to Aa2(cr) from Aa3(cr)

....LT Issuer Rating (Foreign Currency) , Upgraded to Aa2 STA from Aa3 RUR

....LT Issuer Rating (Local Currency) , Upgraded to Aa2 STA from Aa3 RUR

....Adjusted Baseline Credit Assessment , Upgraded to a3 from baa1

....Senior Unsecured Regular Bond/Debenture (Local Currency) , Upgraded to Aa2 STA from Aa3 RUR

....Senior Unsecured Medium-Term Note Program (Local Currency) , Upgraded to (P)Aa2 from (P)Aa3

....Subordinate Regular Bond/Debenture (Foreign Currency) , Upgraded to Baa1 from Baa2

....Subordinate Regular Bond/Debenture (Local Currency) , Upgraded to Baa1 from Baa2

....Subordinate Medium-Term Note Program (Local Currency) , Upgraded to (P)Baa1 from (P)Baa2

....Preferred Stock Non-cumulative (Local Currency) , Upgraded to Baa3 (hyb) from Ba1 (hyb)

..Outlook Actions:

....Outlook, Changed To Stable From Rating Under Review

..Affirmations:

....ST Counterparty Risk Rating (Foreign Currency) , Affirmed P-1

....ST Counterparty Risk Rating (Local Currency) , Affirmed P-1

....ST Bank Deposits (Foreign Currency) , Affirmed P-1

....ST Bank Deposits (Local Currency) , Affirmed P-1

....ST Counterparty Risk Assessment , Affirmed P-1(cr)

....ST Issuer Rating (Foreign Currency) , Affirmed P-1

....ST Issuer Rating (Local Currency) , Affirmed P-1

....Baseline Credit Assessment , Affirmed baa2

....BACKED Junior Senior Unsecured Regular Bond/Debenture (Local Currency) , Affirmed Aaa

....BACKED Subordinate Regular Bond/Debenture (Local Currency) , Affirmed Aaa

....Commercial Paper (Local Currency) , Affirmed P-1

....Other Short Term (Local Currency) , Affirmed (P)P-1

Issuer: Landesbank Baden-Wuerttemberg, New York

..Upgrades:

....LT Counterparty Risk Rating (Foreign Currency) , Upgraded to Aa2 from Aa3

....LT Counterparty Risk Rating (Local Currency) , Upgraded to Aa2 from Aa3

....LT Bank Deposits (Local Currency) , Upgraded to Aa2 STA from Aa3 RUR

....LT Counterparty Risk Assessment , Upgraded to Aa2(cr) from Aa3(cr)

....LT Issuer Rating (Foreign Currency) , Upgraded to Aa2 STA from Aa3 RUR

....LT Issuer Rating (Local Currency) , Upgraded to Aa2 STA from Aa3 RUR

....Senior Unsecured Medium-Term Note Program (Local Currency) , Upgraded to (P)Aa2 from (P)Aa3

....Subordinate Medium-Term Note Program (Local Currency) , Upgraded to (P)Baa1 from (P)Baa2

..Outlook Actions:

....Outlook, Changed To Stable From Rating Under Review

..Affirmations:

....ST Counterparty Risk Rating (Foreign Currency) , Affirmed P-1

....ST Counterparty Risk Rating (Local Currency) , Affirmed P-1

....ST Counterparty Risk Assessment , Affirmed P-1(cr)

....ST Issuer Rating (Foreign Currency) , Affirmed P-1

....ST Issuer Rating (Local Currency) , Affirmed P-1

....Commercial Paper (Local Currency) , Affirmed P-1

...Other Short Term (Local Currency) , Affirmed (P)P-1

Issuer: Landesbank Baden-Wuerttemberg, Singapore Br

..Upgrades:

....LT Counterparty Risk Rating (Foreign Currency) , Upgraded to Aa2 from Aa3

....LT Counterparty Risk Rating (Local Currency) , Upgraded to Aa2 from Aa3

....LT Counterparty Risk Assessment , Upgraded to Aa2(cr) from Aa3(cr)

....LT Issuer Rating (Foreign Currency) , Upgraded to Aa2 STA from Aa3 RUR

....LT Issuer Rating (Local Currency) , Upgraded to Aa2 STA from Aa3 RUR

..Outlook Actions:

....Outlook, Changed To Stable From Rating Under Review

..Affirmations:

....ST Counterparty Risk Rating (Foreign Currency) , Affirmed P-1

....ST Counterparty Risk Rating (Local Currency) , Affirmed P-1

....ST Counterparty Risk Assessment , Affirmed P-1(cr)

....ST Issuer Rating (Foreign Currency) , Affirmed P-1

....ST Issuer Rating (Local Currency) , Affirmed P-1

Issuer: LANDESBANK SACHSEN AG

..Outlook: NOO

..Affirmations:

....BACKED Subordinate Regular Bond/Debenture (Local Currency) , Affirmed Aaa (assumed by Landesbank Baden-Wuerttemberg)

Issuer: LRP Landesbank Rheinland-Pfalz

..Outlook: NOO

..Affirmations:

...BACKED Junior Senior Unsecured Regular Bond/Debenture (Local Currency) , Affirmed Aaa (assumed by Landesbank Baden-Wuerttemberg)

...BACKED Subordinate Regular Bond/Debenture (Foreign Currency) , Affirmed Aaa (assumed by Landesbank Baden-Wuerttemberg)

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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REFERENCES/CITATIONS

[1] Statutes of the institutional protection scheme of Sparkassen-Finanzgruppe (Rahmensatzung für das institutsbezogene Sicherungssystem der Sparkassen-Finanzgruppe), Deutscher Sparkassen- und Giroverband 22-Jan-2024

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