

Rating Report

Landesbank Baden-Württemberg

DBRS Morningstar

16 May 2023

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Ratings

Debt	Rating	Rating Action	Trend
Long-Term Issuer Rating	A (high)	Confirmed Apr. '23	Stable
Short-Term Issuer Rating	R-1 (middle)	Confirmed Apr. '23	Stable
Intrinsic Assessment	A	Confirmed Apr. '23	--

Rating Drivers

Factors with Positive Rating Implications

- LBBW's Issuer Ratings benefit from the SFG's IPS, and therefore an upgrade of SFG's ratings would lead to an upgrade of LBBW's ratings.
- The Bank's Intrinsic Assessment (IA) would be upgraded if the Bank improves its profitability metrics, while maintaining solid asset quality.

Factors with Negative Rating Implications

- LBBW's Issuer Ratings benefit from the SFG's IPS, and therefore a downgrade of SFG's ratings would lead to a downgrade of LBBW's ratings.
- A significant deterioration in asset quality or a material and sustained decline in profitability would lead to a downgrade of the IA.

Rating Considerations

Franchise Strength (Strong / Good)

- LBBW provides universal banking services mostly to commercial clients with a focus on Southern Germany. LBBW is the market leader in CRE lending in Germany. The Bank also has a growing asset and wealth management franchise, and acts as a central bank to savings banks in its designated region.

Earnings Power (Moderate)

- LBBW's earnings power has been gradually improving as the Bank has targeted certain growth areas and implemented efficiency measures. Near-term earnings uncertainty due to various challenges related to the economic environment.

Risk Profile (Strong / Good)

- Risk is well managed and also benefits from the relatively benign German economic environment. However, concentration risk in CRE has increased and the current economic uncertainties and higher rates could increase credit risk.

Funding and Liquidity (Strong / Good)

- The Bank's liquidity position is solid and is supported by its membership in the SFG and its established covered bond franchise.

Capitalisation (Good)

- LBBW has healthy capital ratios with cushions well over minimum requirements, which we expect to be maintained over the medium-term.

2022	Scorecard Building Block (BB) Assessment	Grids BB Assessment	Combined BB Assessment
Franchise	S	G	S/G
Earnings	M	M	M
Risk	S/G	S/G	S/G
Funding & Liquidity	G	S	S/G
Capitalisation	G/M	G	G
Overall Assessment	Intrinsic Assessment Range (IAR)		Assigned IA
G	[AL-AH]		A

Financial Information

(In EUR Millions unless otherwise stated)	For the Year Ended December 31 (IFRS)				
	2022	2021	2020	2019	2018
Total Assets	324,174	282,344	276,444	256,667	241,197
Gross Loans to Customers	140,966	112,643	104,480	106,798	102,259
Income Before Provisions and Taxes (IBPT)	2,159	1,057	829	796	699
Net Attributable Income	1,517	418	172	442	413
Net Interest Margin	0.8%	0.7%	0.7%	0.7%	0.7%
Cost / Income ratio	52.2%	66.7%	70.3%	72.2%	73.7%
LLP / IBPT	12.0%	22.8%	65.7%	19.0%	20.2%
Cost of Risk	0.21%	0.23%	0.52%	0.14%	0.14%
CET1 Ratio (Phased-In)	14.50%	14.80%	15.10%	14.60%	15.10%

Source: Morningstar Inc., Company Documents

Issuer Description

Landesbank Baden-Württemberg (LBBW or the Bank) is a public-sector bank headquartered in Stuttgart, Baden-Württemberg and provides universal banking services to corporates, and to a lesser extent to retail clients in its core regions of Baden-Württemberg, Rhineland-Palatinate and Saxony. The Bank also performs central banking and clearing functions for the savings bank associations in this region.

Rating Rationale

LBBW's ratings reflect its membership in the Sparkassen-Finanzgruppe (SFG) and in the Institutional Protection Scheme (IPS) of the SFG. Each member of the IPS, including LBBW, is generally rated at the floor level, which is currently A (high) with a Stable trend.

The 'A' Intrinsic Assessment (IA) takes into account LBBW's well established universal banking franchise with a regional focus on Southern Germany. Given its history, the Bank's clients are predominantly commercial clients and LBBW also acts as a central institution and clearing bank for the savings banks in its designated regions of Baden-Württemberg, Rhineland-Palatinate and Saxony. The franchise also includes a savings bank in Stuttgart, and a growing asset and wealth management business. LBBW's liquidity position is solid and funding is diversified, supported by its well-established covered bond franchise and its membership in the SFG, offsetting the lack of a large retail deposit base. LBBW has solid capital ratios with cushions well above minimum requirements, which we expect to be maintained over the medium-term. The IA also reflects that earnings power is still somewhat moderate, partly mitigated by resilient revenue generation. Asset

quality metrics are strong, supported by the relatively benign German economic environment, prudent underwriting and pro-active portfolio management. However, with the acquisition of Berlin Hyp, concentration risk has increased in commercial real estate (CRE), at a time when the CRE cycle is turning.

The Stable trend reflects our expectations that tailwinds from higher interest rates, the Bank's growth strategy, and ongoing cost control measures are likely to be offset by factors such as a weakening economic environment, inflationary pressures, and higher cost of funding.

Franchise Strength

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Strong	Good	Strong / Good

With total assets of EUR 324 billion at end-2022, LBBW is a medium-sized commercial bank providing universal banking services to corporate clients, and, to a lesser extent, to retail clients in its core regions of Baden-Württemberg, Rhineland-Palatinate and Saxony. The Bank also performs central banking and clearing functions for the savings bank associations in these regions. LBBW is an institution incorporated under German public law (Anstalt des öffentlichen Rechts, AöR) and is a member of the Sparkassen Finanzgruppe which benefits from a joint liability scheme. The Bank holds a strong market share in its core regions and has market leading positions in a number of products, including commercial real estate (CRE) finance in Germany. LBBW is designated as an 'other systemically important institution' within Germany, given its position as a major counterparty in the German capital markets.

LBBW's franchise consists of four business segments: i) Corporate Customers, ii) Real Estate and Project Finance, iii) Capital Markets, and iv) Private Customers/Savings Banks. LBBW is mainly focused on its core regions, but selectively also engages in other geographic areas, notably in North Rhine Westphalia, Bavaria and the greater Hamburg area. While LBBW largely operates under the LBBW or group company brands, within Baden-Württemberg the Private Customer business, the Private Asset Management business and the SME business operate under the BW Bank brand. The franchise value of LBBW is moderated by the lack of a nationwide/global franchise and limited revenue diversification.

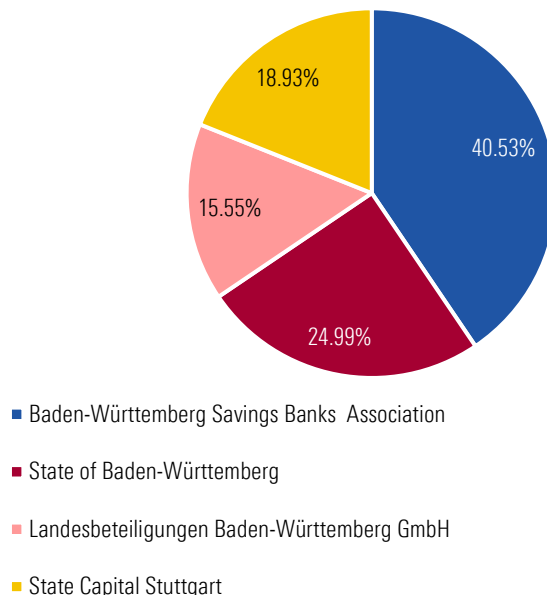
On July 1 2022, LBBW completed the acquisition of Berlin Hyp, a commercial real estate finance provider mainly for commercial clients in Germany, to a lesser extent in France and Benelux. The acquisition added EUR 37.6 billion in assets thereby increasing CRE gross exposure from 15.6% to 23.7% of LBBW's gross customer loan exposure. This further enhanced LBBW's market position in CRE financing and ESG bond issuances, but also increased concentration risk at a time when the CRE cycle is turning due to higher rates. Berlin Hyp continues to be managed separately with its own name and franchise.

Exhibit 1 LBBW Geographic Focus



Source: DSGV.

Exhibit 2 LBBW Ownership Structure (As of end-2022)



Source: DBRS Morningstar, Company Documents.

LBBW's Strategic Priorities

Going forward, LBBW aims to improve profitability while maintaining adequate capital buffers and sound asset quality. The Bank is targeting an ROE of approximately 6% and cost-to-income ratio of 65% in the long-term, mainly driven by revenue growth due to higher volumes and margins, while costs are expected to increase only moderately. In particular, the Bank is pursuing growth in Corporate Finance, Asset and Wealth Management (AWM). The Bank also intends to focus on advisory businesses, in particular in the area of sustainability, M&A and export finance. In order to realise economies of scale the Bank also participates in the consolidation of certain functions within the Landesbanken sector, and has taken over the interest rates, currency and commodities management (RCCM) business from other Landesbanken. Digitalisation and sustainability based on the Paris climate goals also remain core priorities.

Exhibit 3 LBBW's Corporate Strategic Goals

Goal	Key Figure	Long-Term Target
Long-Term Profitability	Pre-Tax Return on Equity (ROE)	~6%
Solid Capitalisation	CET 1 Ratio	13%
Increased Efficiency	Cost-Income Ratio	~65%

Source: DBRS Morningstar, Company Documents.

LBBW currently operates in the following 4 business segments:

Corporate Customers

(2022 revenues: EUR 1,249 million; 2022 pre-tax profit: EUR 513 million)

The Corporate Customers segment is LBBW's largest business, and a key driver of income. It offers various forms of financing, payment solutions, hedging, factoring, leasing and asset management services to public sector, and corporate customers from SMEs to large corporates in its core markets and selective geographies. LBBW is among the top three banks in the German corporate finance business with a particular strength in SME lending and sustainable financing. LBBW is the number one lender in the form of promissory notes (Schuldscheine) and has a strong position in ABS and structured finance. Given its base in Baden-Württemberg, LBBW has traditionally had a large exposure to the automobile sector. In recent years, the Bank has made a deliberate effort to reduce this exposure, while increasing exposure to pharma and healthcare, TM and electronics/IT and utilities and energy.

Real Estate / Project Finance

(2022 revenues: EUR 824 million; 2022 pre-tax profit: EUR 328 million)

Following the completion of the acquisition of Berlin Hyp in July 2022, LBBW's commercial real estate portfolio increased from EUR 26 billion as of end-June 2022 to EUR 49 billion as of end-2022. CRE lending is LBBW's most profitable segment, therefore, growing this segment should increase overall profitability. However, new capital requirements for residential real estate financing (see capital section) and a weakening of the sector as a result of higher interest rates could temporarily lower profitability going forward. The acquisition of Berlin Hyp has increased concentration risk as CRE exposure now represents 23.7% of LBBW's gross customer loan exposure (see risk section).

Capital Markets

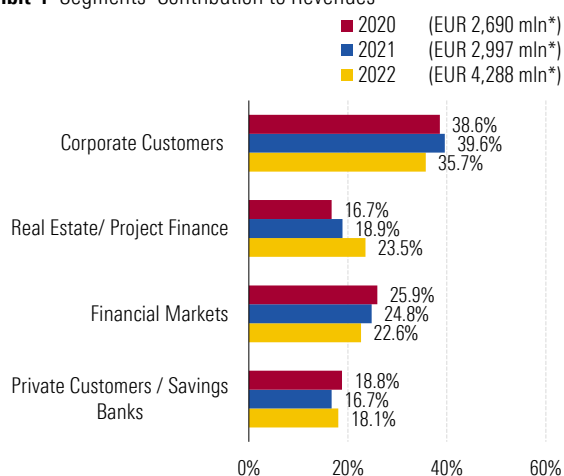
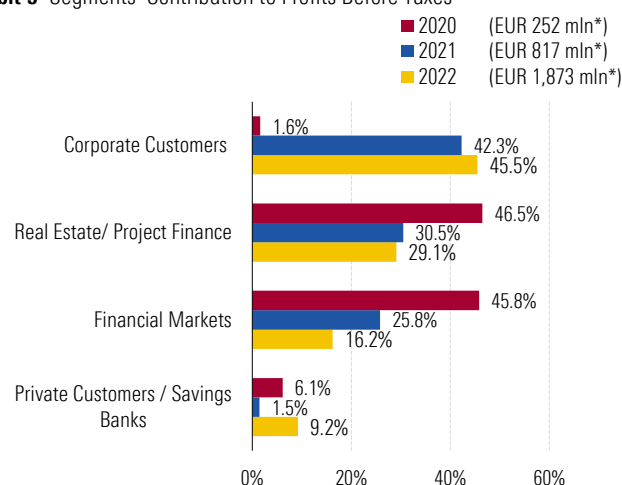
(2022 revenues: EUR 793 million; 2022 pre-tax profit: EUR 183 million)

The Capital Markets segment has a customer base of savings banks, institutional customers and banks and offers capital market products and services, and central bank services for savings banks in its core markets, as well as asset management solutions. Capital market products are customer-oriented and include financing, investments, risk management products, custodial services, and research. In addition, LBBW's international network supports customers in conducting their foreign business. In Germany, LBBW is one of the leading institutions in covered bonds and retail certificates. As part of a consolidation process within the Landesbanken sector, LBBW has taken over RCCM for customers of the savings banks from other Landesbanken. This will further strengthen LBBW's position as the main provider of RCCM in the public banking sector.

Private Customers / Savings Banks

(2022 revenues: EUR 632 million; 2021 pre-tax profit: EUR 104 million)

This segment includes retail customers, private banking as well as services supporting the savings banks and their customers. Through BW Bank, LBBW also acts as a savings bank in the territory of the state capital Stuttgart. Outside the Stuttgart area, LBBW mostly targets affluent private customers. Products and services include checking accounts, credit cards, commercial finance, securities management, asset managements and pension solutions.

Exhibit 4 Segments' Contribution to Revenues**Exhibit 5** Segments' Contribution to Profits Before Taxes

Source: DBRS Morningstar, Company Documents.

Notes: *Incl. Corp. Items / Reconsolidation / Consolidation.

Earnings Power¹

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Moderate	Moderate	Moderate

LBBW's profitability metrics are weaker than European peers, partly mitigated by relatively stable revenues. The Bank has been pursuing a strategy to improve efficiency through revenue growth while keeping costs relatively stable in order to create positive operating leverage. This has led to a gradual decline in its cost-to-income ratio and an improved return on equity (ROE), albeit from low levels. In 2022, LBBW reported a profit before tax of EUR 1,873 million up from EUR 817 million a year earlier mainly driven by the badwill of EUR 972 million generated from the acquisition of Berlin Hyp. On an operating basis, the Bank's net profit before tax increased by 10% (YOY) to EUR 901 million in 2022 underpinned by a 13% increase in net interest income (NII) and fee growth of 5%, while administrative expenses increased by 10% and loan loss provisions remained largely flat. Results reflect the first-time inclusion of Berlin Hyp. Despite tailwinds from higher interest rates and ongoing cost control measures combined with a medium-term growth strategy, we also see challenges given the weakening economic environment, inflationary pressures, and higher cost of funding. While we expect a positive revenue contribution from Berlin Hyp given its good income generation capacity, we also note that its historically low credit losses may not be sustainable.

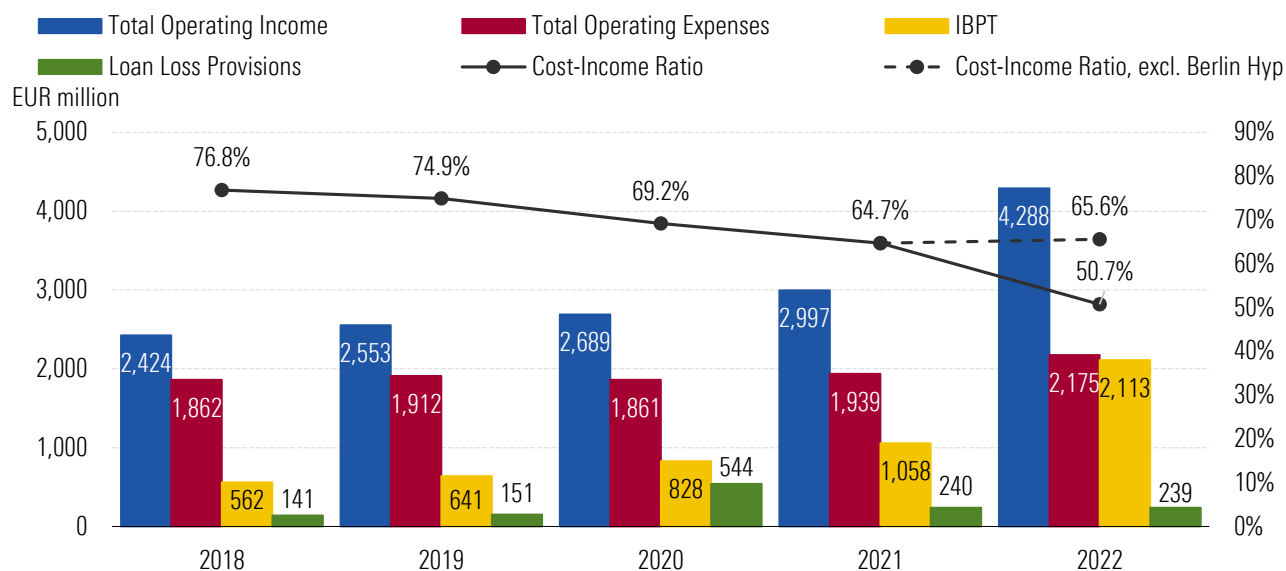
The increase in NII was largely driven by the addition of Berlin Hyp, supplemented by organic loan growth and better results from the deposit business due to higher interest rates, partly offset by a lower contribution from TLTRO III. Net fee and commission income improved by a more moderate EUR 30 million to EUR 628 million. Fees related to the lending business, including guarantees,

¹ Figures as reported

performed particularly well, picking up by EUR 20 million to EUR 135 million. The syndicated loan business and business with guarantees and bonds were particularly noteworthy.

Higher administrative expenses were also driven by the inclusion of Berlin Hyp. In addition, higher costs were driven by investments in growth initiatives, IT investment and a one-time inflation premium. Regulatory expenses represent ca. 10% of expenses and significantly increased from EUR 137 million to EUR 188 million, mainly driven by higher costs in relation to deposit guarantees. The cost-to-income ratio (CIR) excluding non-recurring effects was 65.6% at end-2022 slightly up from 64.7% a year earlier. At EUR 239 million the allowance for losses on loan and securities was virtually unchanged YOY.

Exhibit 6 Profitability, as reported



Source: DBRS Morningstar, Company Documents.

Corporate Customers

The Corporate Customer segment reported an increase in pre-tax profit of 26% YOY to EUR 513 million, driven mainly by significantly lower loans loss provisions as revenues were up slightly and expenses increased by 6% YOY. Revenues reflected the lower contribution from TLTRO III. Excluding TLTRO III, revenues would have been up by 9%, as the deposit business benefitted from higher rates, and in corporate finance the Bank succeeded in increasing volumes in designated growth sectors and hedging products.

Real Estate / Project Finance

Real Estate/Project Finance reported 2022 income before provisions and tax (IBPT) of EUR 496 million, up by 28% YOY results, reflecting the integration of Berlin Hyp. As a result, revenues were up by 40% YOY to EUR 824 million, while expenses increased by 63% YOY and loan loss provisions by 78% (to EUR 168 million) reflecting a management adjustment due to the weaker outlook for commercial real estate. Pre-tax profit increased by 12% to EUR 328 million from EUR 292 million a

year earlier. While the segment displays solid profitability we are cautious going forward, as historically low credit costs and high real estate prices may not be sustainable considering the rise in rates.

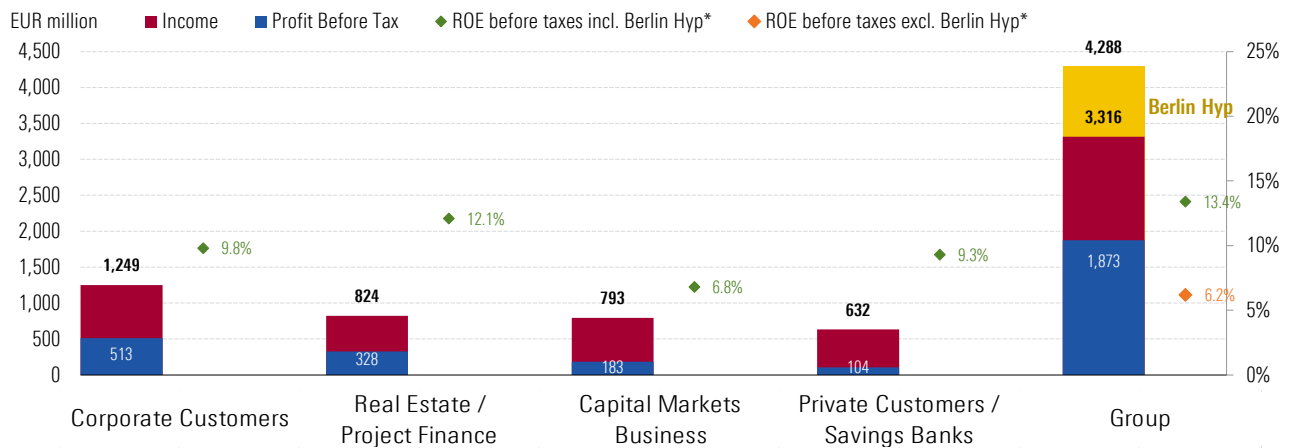
Capital Markets

After strong performance in 2021, revenues rose by only 3% in 2022 to EUR 793 million YOY benefiting from increase in hedging products and retail-targeted structured notes. In addition, the war in Ukraine has led the Bank to set aside EUR 50 million provisioning on loans and securities (EUR 0 million in 2021). Expenses were up by 11% YOY to EUR 580 million, driven by rising regulatory costs and IT investments. As a result, pre-tax profit declined by 26% YOY to EUR 183 million.

Private Customers / Savings Banks

Revenues increased by 18% YOY to EUR 612 million as the deposit business benefitted from a rise in rates, while expenses remained largely flat reflecting cost optimization measures. Provisioning costs were up to EUR 20 million given a weakening economic environment. Overall, pre-tax profit experienced a strong growth in 2022, standing at EUR 104 million up from EUR 14 million a year earlier.

Exhibit 7 Segment Profits 2022



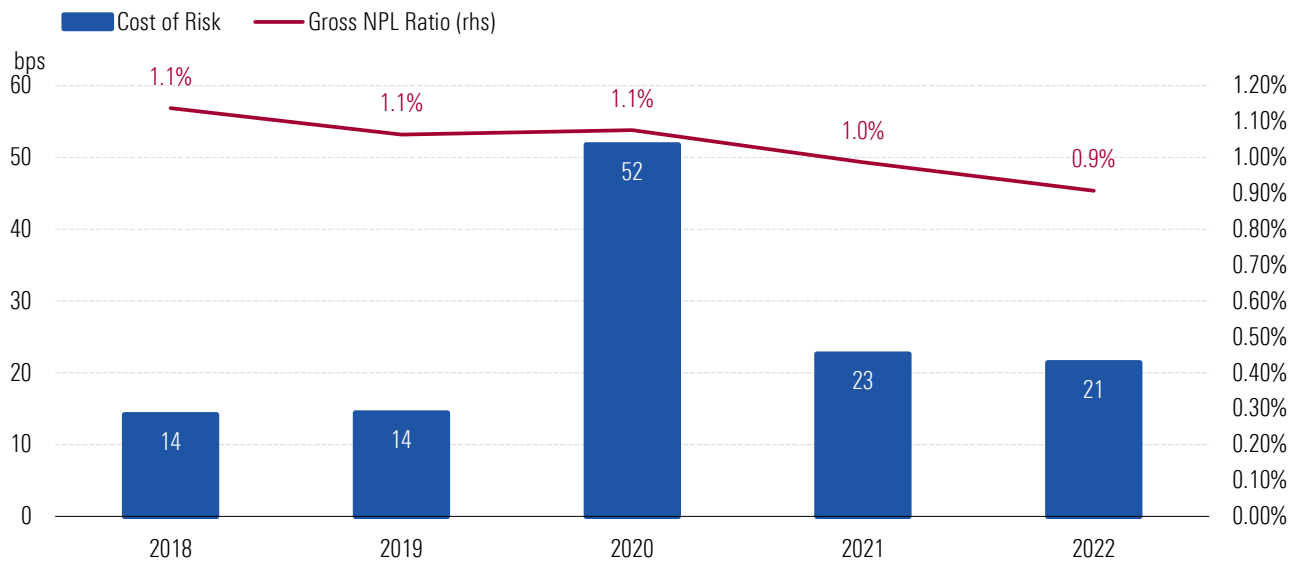
Source: DBRS Morningstar, Company Documents.
 Note:* As reported.

Risk Profile

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Strong / Good	Strong / Good	Strong / Good

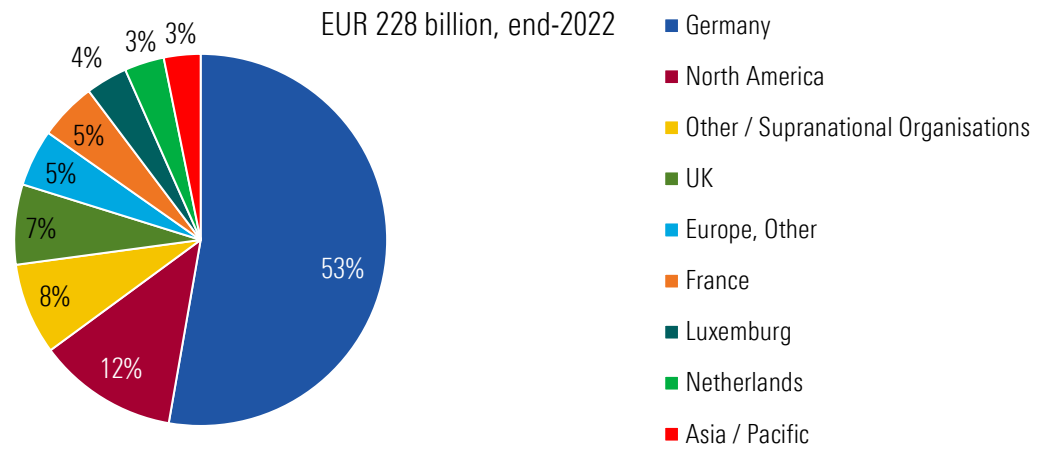
In our view, LBBW’s asset quality metrics are strong, backed by prudent underwriting and a benign credit environment. The NPL ratio as calculated by DBRS Morningstar was 0.9% in 2022 compared to 1.0% in 2021. Cost of risk as calculated by DBRS Morningstar was 21 basis points (bps) in 2022 compared to 23 bps in 2021. LBBW’s corporate loan book shows a well-balanced sector mix, as the traditionally high exposure to the automobile industry has been reduced in recent years to reflect structural changes in the industry. However, we note that with the acquisition of Berlin Hyp, CRE concentration has increased. Geographically, LBBW mainly operates in stable, mature economies. Most of LBBW’s loan exposure is to Germany and Western Europe, followed by North America. While asset quality has been improving in recent years, risks for 2023 are rising due to a challenging operating environment characterised by weak economic growth, rising interest rates and high inflation. In our view, potential asset quality deterioration is likely to remain manageable given LBBW’s strong underwriting standards, and solid buffers stemming from good provisioning level and loan collateralisation.

Exhibit 8 Cost of Risk and Gross NPL Ratio



Source: DBRS Morningstar, Company Documents.

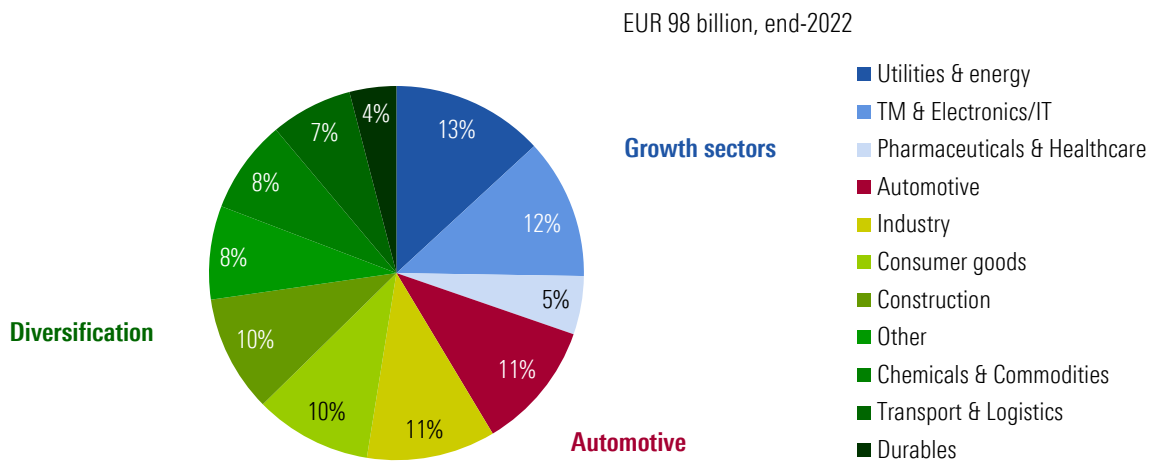
Exhibit 9 Risk Exposure by Region



Source: DBRS Morningstar, Company Documents.

Geographically, LBBW mainly operates in stable, mature economies. Most of LBBW’s loan exposure is to Germany and Western Europe, followed by North America. Within Western Europe the Bank mainly operates in the UK, Austria, Switzerland, France and the Netherlands. There are sector concentration and individual counterparty credit limits. As part of the Bank’s overall strategy the exposure to the automobile sector has been reduced from 17% of net exposure at end-2018 to 11% at end-2022, as the industry is affected by structural changes during the transition to electric vehicles. At the same time, exposure to growth sectors identified by the Bank such as TM and electronics/IT, utilities and energy, and especially pharmaceuticals and healthcare has increased from 23% to 30% of net exposure.

Exhibit 10 Corporate Credit Exposure by industry sector, end-2022



Source: DBRS Morningstar, Company Documents.

Focus on CRE:

LBBW's strong market position in German CRE lending was further strengthened by the acquisition of Berlin Hyp, making the Bank a leader in the CRE market. As a result, exposure to CRE lending as a proportion of gross customer loan exposure (excluding financials) increased to 23.7% at end-2022 a year earlier, increasing concentration risk in a more cyclical sector at a time the market is turning. We are therefore closely monitoring the performance of this segment.

LBBW CRE portfolio at end-2022 consisted of offices (38%), followed by residential housing (30%), retail (12%), and all other (20%). The biggest markets were Germany (65%), North America (8%) and the UK (5%). The rating distribution of CRE portfolio was mostly investment grade (78%), while less than 0.34% was in default. 81% of the exposure had an LTV below 75%, and 6% of the exposure had an LTV above 75%. 13% of the exposure did not have an LTV assigned, mostly consisting of development/project finance loans. The average LTV was 53%. While some risk features increased with the acquisition, others declined. In our view the U.S. and the UK CRE markets are more vulnerable. Post-acquisition, the exposure to these two countries declined from 27% as a proportion of the entire CRE portfolio to 14%. However, post-acquisition the exposure without LTV (recourse to borrower)/project finance increased.

Overall, we view the portfolio metrics as conservative. However, current default rates are at unusually low levels, and below the average default level of the entire loan portfolio. We anticipate an increase in the future amid subdued economic growth and rising interest rates. LBBW's conservative risk management backed by prudent underwriting standards remains a key mitigant factor against potential risks. In addition to standard credit risk practices, real estate risks are separately managed, and the Bank uses a real estate value-at-risk model to assess valuation risks.

Operational Risk

Generally, no outsized operational risks have emerged at LBBW. However, we note that in November 2022, Germany's Federal Financial Supervisory Authority (BaFin) fined LBBW EUR 498,000 fine over the company's failure to timely report suspected insider trading activity related to a customer. BaFin further found deficiencies in the company's management of suspicious transactions. In general, complex banks such as LBBW are also subject to operational risks related to IT/data security as well as product governance. We note that the war in Ukraine has increased cyber risks, and requirements to comply with sanctions imposed on Russia has increased operational and reputational risks.

Market Risk

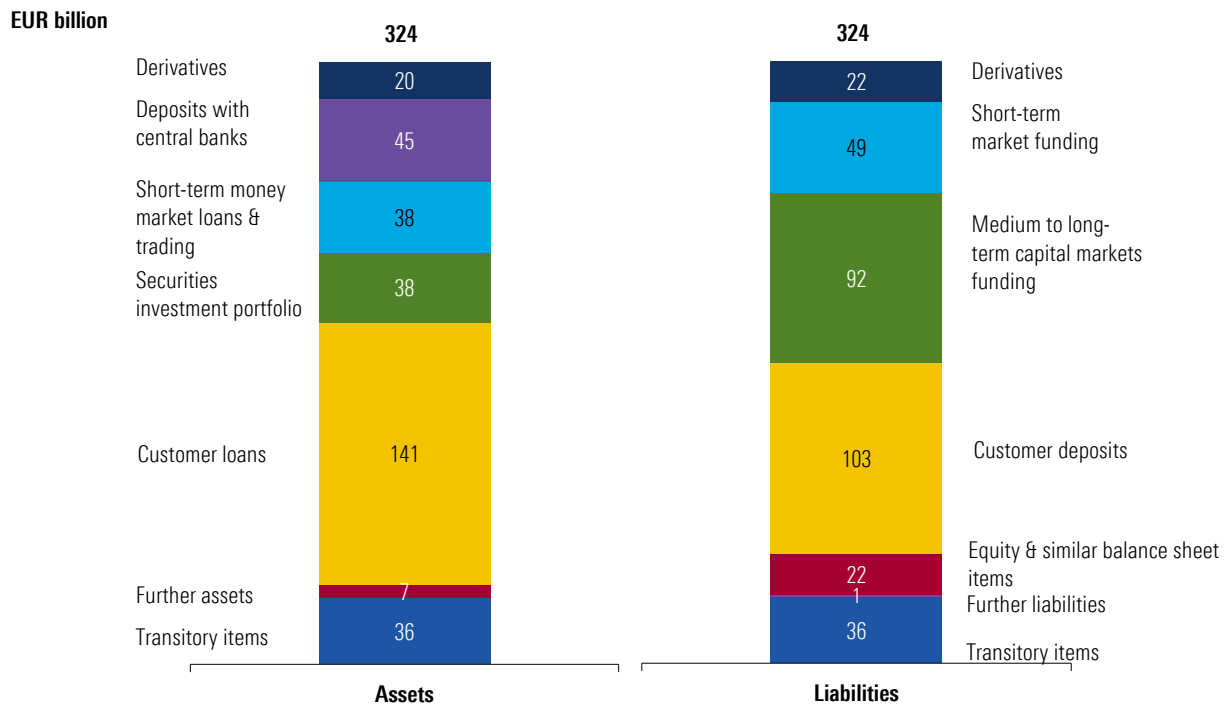
The main market risk for LBBW is interest rate risk, while currency and equity risks remain limited. The effects of an interest rate shock are calculated on a monthly basis. Regulatory requirements mandate that the result may not exceed a 20% share of liable equity, and this limit was not breached in 2022. The Bank uses VaR to measure the maximum loss over a period of 10 days with a confidence level interval of 99%. Average one-day VaR was EUR 172 million in 2022 (the maximum level at EUR 272 million) which sharply increased from EUR 95 million in 2021 as a result higher market volatility triggered by the war in Ukraine.

Funding and Liquidity

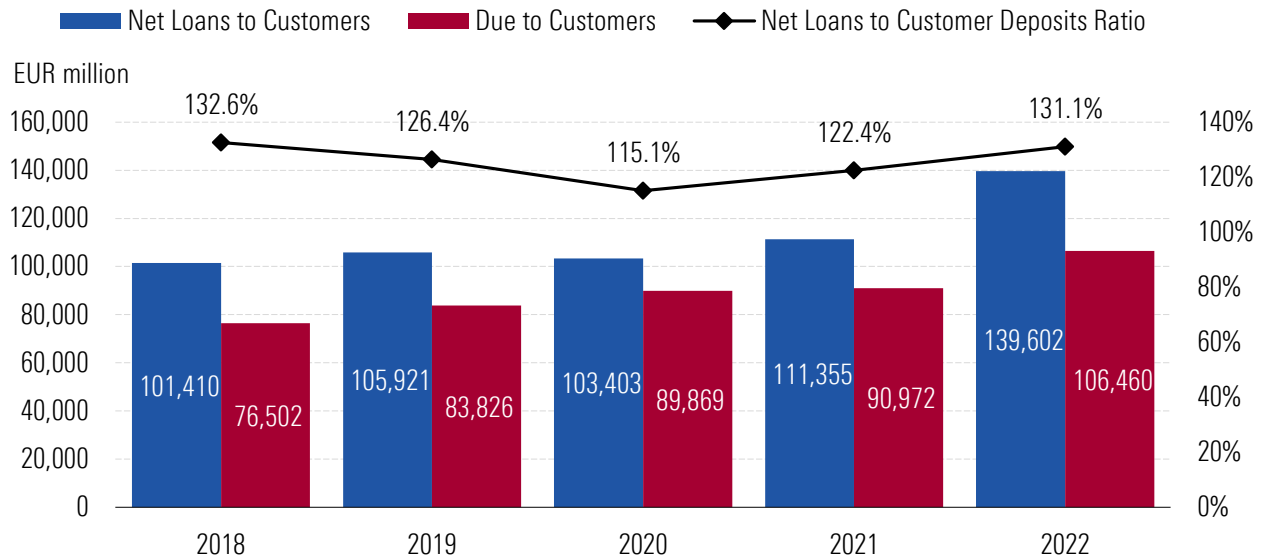
Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Good	Strong	Strong / Good

We view LBBW’s funding and liquidity profile as sound. The high reliance on wholesale funding increased further with acquisition of Berlin Hyp and the loan-to-deposit ratio as calculated by DBRS Morningstar climbed to 137% from 126% a year earlier, with a relatively limited retail deposit base, which could leave the Bank vulnerable. However, we see this as mitigated by (i) a well matched asset/liability profile; (ii) well-established access to the covered bond market, which we consider a stable source of funding; (iii) a solid liquidity position with Liquid Assets (cash, deposits with central banks, and securities) accounting for 26% of total assets; and (iv) the Bank’s access to the savings banks liquidity pool and the confidence derived from its membership in the Sparkassen-Finanzgruppe. At end-2022, the Liquidity Coverage Ratio (LCR) was 144.2% and the Net Stable Funding Ratio (NSFR) was 111.3%, well above minimum requirements.

Exhibit 11 Asset Liability Structure



Source: DBRS Morningstar, Company Documents.

Exhibit 12 Loans to Deposits Evolution

Source: DBRS Morningstar, Company Documents.

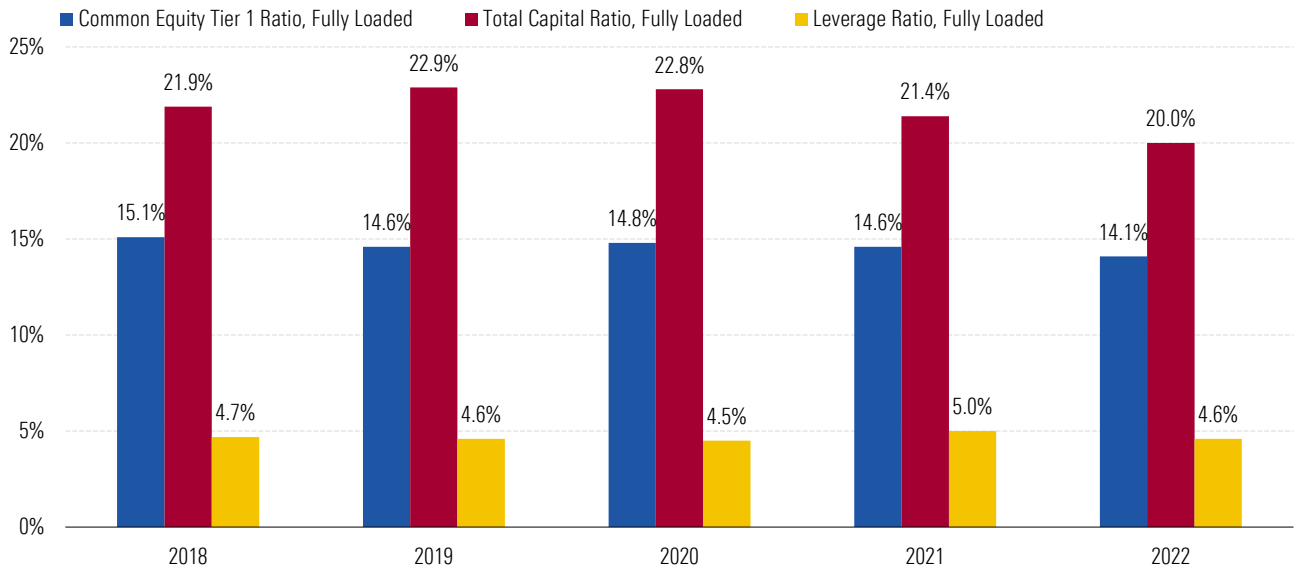
Capitalisation

Scorecard BB Assessment	Grids BB Assessment	Combined BB Assessment
Good /Moderate	Good	Good

In 2022, capital ratios experienced a modest decline due to a combination of the integration of Berlin Hyp, business growth and market volatility, all of which contributed to an increase in risk weighted assets. However, with a fully loaded CET1 ratio of 14.1% at end-2022 and a total capital ratio of 20.0%, LBBW maintained cushions well over minimum requirements. LBBW's SREP requirement for CET1 slightly declined by 3 bps in the course of 2022 to 8.78% (as of March-2023). In addition, since February 1, 2023, the Bank has to fully comply with an additional countercyclical buffer of 0.75% of risk-weighted German receivables and the sectoral systemic risk buffer of 2.0% of risk-weighted German receivables backed by residential real estate. The Bank's healthy capital cushions should provide management flexibility in response to the new requirements. In our view, solid capital cushions are important due to the somewhat modest capital generation capacity through retained earnings and the Bank's limited access to capital markets due to its ownership structure.

Risk-weighted assets increased to EUR 93.5 billion at end-2022 from EUR 84.6 billion in the previous year, mainly driven by the acquisition of Berlin Hyp. Similar to other German banks, LBBW's MREL ratios also comfortably exceed minimum requirements as shown in the chart below. Related to leverage ratio exposure the Bank's MREL ratio was 15.1% overall and 14.0% subordinated as of end-2022, compared to a requirement of 7.0%.

Exhibit 13 Capital Position



Source: DBRS Morningstar, Company Documents.

Exhibit 14 Regulatory requirements, Fully Loaded

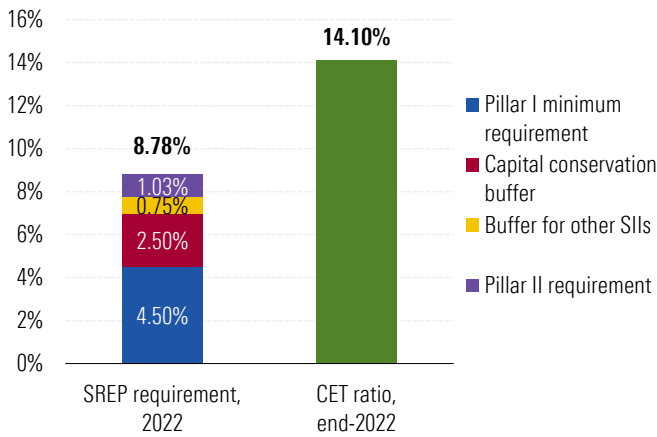
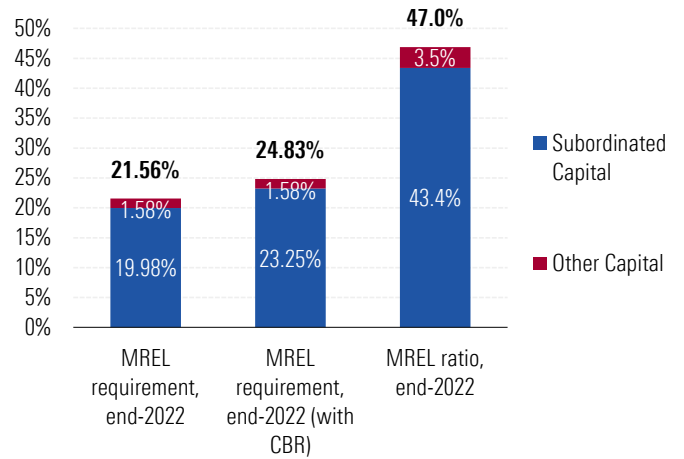


Exhibit 15 MREL requirement & ratio, related to total risk exposure



Source: DBRS Morningstar, Company Documents.

Landesbank Baden-Wuerttemberg ESG Checklist

ESG Factor	ESG Credit Consideration Applicable to the Credit Analysis: Y/N	Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*		
Environmental		Overall:	N	N
Emissions, Effluents, and Waste	Do we consider that the costs or risks for the issuer or its clients result, or could result, in changes to an issuer's financial, operational, and/or reputational standing?	N	N	N
Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs and/or will such costs increase over time affecting the long term credit profile?	N	N	N
Climate and Weather Risks	In the near term, will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	N	N	N
	In the long term, will the issuer's or client's business activities and infrastructure be materially affected financially by a 2°C rise in temperature?	N	N	N
	Climate and Weather Risks	N	N	N
Passed-through Environmental credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	N	N	N
Social		Overall:	N	N
Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose a financial or regulatory risk to the issuer?	N	N	N
Human Capital and Human Rights	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts that could result in a material financial or operational impact?	N	N	N
	Do violations of rights create a potential liability that could negatively affect the issuer's financial wellbeing or reputation?	N	N	N
	Human Capital and Human Rights	N	N	N
Product Governance	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	N	N	N
Data Privacy and Security	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer?	N	N	N
Community Relations	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N	N
Access to Basic Services	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	N	N	N
Passed-through Social credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	N	N	N
Governance		Overall:	Y	R
Bribery, Corruption, and Political Risks	Are there any political risks that could impact the issuer's financial position or its reputation?	N	N	N
	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	N	N	N
	Bribery, Corruption, and Political Risks	N	N	N
Business Ethics	Do general professional ethics pose a financial or reputational risk to the issuer?	N	N	N
Corporate / Transaction Governance	Does the issuer's corporate structure limit appropriate board and audit independence?	N	N	N
	Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	N	N	N
	Does the board and/or management have a formal framework to assess climate-related financial risks to the issuer?	N	N	N
	Corporate / Transaction Governance	N	N	N
Passed-through Governance credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	Y	R	R
Consolidated ESG Criteria Output:		Y	R	R

* A Relevant Effect means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.

A Significant Effect means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

Environmental

The environmental factor does not affect the rating or trend assigned to LBBW. The Bank supports the targets of the UN Global Compact and is working on higher transparency for sustainability risks and CO2 emissions of the portfolio and the definition of sector goals. The ECB climate risk stress-test results were published on July 8, 2022, with participating European banks being advised that they need to enhance their climate risk stress testing framework. The results will be integrated into two SREP elements in a qualitative manner: (i) business model assessment, and (ii) internal governance and risk management. Given LBBW's large exposure to CRE, increasingly stringent environmental standards in the EU and Germany will lead to considerable investment needs at a time when interest costs have increased. This could potentially lead to weakening credit profiles of building managers and tenants.

Social

The social factor does not affect the rating or trend assigned to LBBW. Similar to most large financial institutions, LBBW is exposed to a certain level of product risk as well as data security risk. No material pending issues are known. However, since the invasion of Ukraine, there is a heightened risk of cyber-attacks targeted towards banks, and any significant data breach or cybersecurity attack could have significant reputational and financial consequences.

Governance

This factor does currently not affect the rating or trend assigned to LBBW. There are no known material ethics or other corporate governance violations. However, the governance structure resulting from predominantly State ownership may have contributed to inadequate risk controls in the past at various Landesbanken in the past and is an area DBRS Morningstar closely monitors. The ownership mix and the parliamentary process involved in decision making, have also made it difficult at times to swiftly react to challenges. In 2020, the ECB has requested better pre-emptive risk controls within the IPS and more transparent processes in case of a recapitalisation, which has been addressed in 2021.

Credit rating actions on Sparkassen-Finanzgruppe are likely to have an impact on this credit rating.

The subfactor Corporate Governance is relevant to the rating of Sparkassen-Finanzgruppe, and this is reflected in the franchise grid grades for the bank. We view certain weaknesses in the group structure as relevant from a corporate government perspective. Notably, the Landesbanken are majority or part-owned by German Federal States. State governments, in our view, have limited capabilities to effectively supervise the banks' activities. In the past, Landesbanken have taken outsized risks, resulting in high costs to tax payers and the Sparkassen. Sparkassen associations, while part-owners of some Landesbanken have had only limited influence over the risk taking by the Landesbanken. The ownership mix and the parliamentary process involved in decision making, has also made it difficult at times to swiftly react to challenges. In 2020, the ECB requested better pre-emptive risk controls within the IPS and more transparent processes in case of a need for recapitalisation, which has been addressed in 2021. In addition, aggregate financial information for the Group is limited.

Landesbank Baden-Württemberg

	1		2	3	4	5
2022	Scorecard Indicator	Scorecard Indicator Data	Scorecard Indicator Assessment	Scorecard Building Block (BB) Assessment	Grids BB Assessment	Combined BB Assessment
Franchise	Adjusted Assets	284	S/G	S	G	S/G
	Sovereign Rating	20	VS			
Earnings	Return on Equity	5.56%	M	M	M	M
	Return on Assets	0.31%	G/M			
	IBPT/Avg.Assets	0.55%	M			
Risk	Net NPLs/Net Loans	-0.07%	VS/S	S/G	S/G	S/G
	Provisions/IBPT	26.74%	S/G			
Funding & Liquidity	Sovereign-Adjusted Funding Ratio	125.1%	G	G	S	S/G
Capitalisation	Sovereign-Adjusted Capital Ratio	14.75%	S	G/M	G	G
	NPL/(Equity + Loan Loss Reserves)	7.49%	S			
	5-Year Accumulated Net Income/Total Assets	1.22%	G/M			
		6	7			8
		Overall Assessment	Intrinsic Assessment Range (IAR)			Assigned IA
		G	A (high)	A	A (low)	A

Notes: (1) based on financial data as of 2022. (2) For more information see Global Methodology for Rating Banks and Banking Organisations published on 23 June 2022. (3) IAR and IA refer to bank level rating.

Annual Financial Information

	For the Year Ended December 31 (IFRS)				
	2022	2021	2020	2019	2018
Balance Sheet (EUR Millions)					
Cash & Cash Equivalents*	84,965	76,513	71,916	62,739	63,798
Investments in Financial Assets	66,044	61,345	68,573	56,756	46,568
Gross Loans to Customers	140,966	112,643	104,480	106,798	102,259
Loan Loss Reserves	(1,364)	(1,288)	(1,077)	(877)	(849)
Net Lending to Customers	139,602	111,355	103,403	105,921	101,410
Total Assets	324,174	282,344	276,444	256,667	241,197
Deposits from Customers	106,460	90,972	89,869	83,826	76,502
Debt & Capital Lease Obligations	85,479	59,143	58,328	56,108	56,608
Total Liabilities	308,732	268,146	262,458	242,828	228,035
Total Equity	15,442	14,198	13,986	13,839	13,162
Income Statement (EUR Millions)					
Net Interest Income	2,257	1,959	1,749	1,642	1,513
Non Interest Income	2,308	1,209	1,027	1,213	1,133
Equity Method Results	(44)	23	5	6	24
Total Operating Income	4,521	3,191	2,781	2,861	2,670
Total Operating Expenses	2,360	2,129	1,954	2,066	1,969
Income Before Provisions and Taxes (IBPT)	2,159	1,057	829	796	699
Loan Loss Provisions	259	241	545	151	141
Irregular Income/Expenses	27	(1)	32	35	9
Net Attributable Income	1,517	418	172	442	413
Growth (%) - YoY Change					
Net Interest Income	15.21%	12.01%	6.52%	8.53%	-2.20%
Total Operating Income	41.68%	14.74%	-2.80%	7.15%	-1.22%
Total Operating Expenses	10.85%	8.96%	-5.42%	4.93%	-3.67%
IBPT	104.26%	27.50%	4.15%	13.88%	6.23%
Net Attributable Income	262.92%	143.02%	-61.09%	7.02%	-0.72%
Gross Loans & Advances	25.14%	7.81%	-2.17%	4.44%	0.32%
Deposits from Customers	17.03%	1.23%	7.21%	9.57%	-3.31%
Earnings (%)					
Net Interest Margin	0.76%	0.71%	0.67%	0.67%	0.65%
Non-Interest Income / Total Revenue	51.05%	37.89%	36.93%	42.40%	42.43%
Cost / Income ratio	52.20%	66.72%	70.26%	72.21%	73.75%
LLP / IBPT	12.00%	22.80%	65.74%	18.97%	20.17%
Return on Avg Assets (ROAA)	0.48%	0.15%	0.06%	0.17%	0.17%
Return on Avg Equity (ROAE)	10.39%	2.96%	1.24%	3.32%	3.15%
IBPT over Avg RWAs	2.41%	1.27%	1.00%	0.98%	0.89%
Internal Capital Generation	8.82%	0.42%	1.24%	1.44%	1.83%
Risk Profile (%)					
Cost of Risk	0.21%	0.23%	0.52%	0.14%	0.14%
Gross NPLs over Gross Loans	0.91%	0.99%	1.08%	1.06%	1.14%
NPL Coverage Ratio	106.65%	115.93%	95.82%	77.20%	73.00%
Net NPLs over Net Loans	-0.11%	-0.19%	0.03%	0.23%	0.30%
NPLs to Equity and Loan Loss Reserves Ratio	8.39%	8.82%	8.28%	8.51%	7.91%
Funding & Liquidity (%)					
Net Loan to Deposit Ratio	131.13%	122.41%	115.06%	126.36%	132.56%
Liquidity Coverage Ratio	144%	141%	142%	124%	136%
Net Stable Funding Ratio	111%	109%	NA	NA	NA
Capitalization (%)					
CET1 Ratio (Phased-In)	14.50%	14.80%	15.10%	14.60%	15.10%
Tier1 Ratio (Phased-In)	15.30%	15.90%	16.60%	16.50%	16.20%
Total Capital Ratio (Phased-In)	20.10%	21.40%	22.80%	23.00%	22.00%
Leverage Ratio	4.60%	5.14%	4.71%	4.90%	5.00%
Dividend Payout Ratio	15.2%	85.6%	0.0%	56.6%	41.9%

Source: Morningstar Inc., Company Documents

*Includes Loans to Banks

Rating Methodology

The applicable methodologies are the *Global Methodology for Rating Banks and Banking Organisations* (23 June 2022), and *DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings* (17 May 2022) which can be found on our website under Methodologies.

Ratings

Issuer	Obligation	Rating Action	Rating	Trend
Landesbank Baden-Württemberg	Long-Term Issuer Rating	Confirmed	A (high)	Stable
Landesbank Baden-Württemberg	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stable
Landesbank Baden-Württemberg	Long-Term Senior Debt	Confirmed	A (high)	Stable
Landesbank Baden-Württemberg	Short-Term Debt	Confirmed	R-1 (middle)	Stable
Landesbank Baden-Württemberg	Long-Term Deposits	Confirmed	A (high)	Stable
Landesbank Baden-Württemberg	Short-Term Deposits	Confirmed	R-1 (middle)	Stable
Landesbank Baden-Württemberg	Senior Non-Preferred Debt	Confirmed	A	Stable
Landesbank Baden-Württemberg	Subordinated Debt	Confirmed	A (low)	Stable
Landesbank Baden-Württemberg	Long-Term Critical Obligations Rating	Confirmed	AA	Stable
Landesbank Baden-Württemberg	Short-Term Critical Obligations Rating	Confirmed	R-1 (high)	Stable
Landesbank Baden-Württemberg	LBBW EUR 10,000,000,000 Commercial Paper Programme 2019	Confirmed	R-1 (middle)	Stable
Landesbank Baden-Württemberg	LBBW EUR 5,000,000,000 Negotiable European Commercial Paper Programme 2022	Confirmed	R-1 (middle)	Stable

Ratings History

Issuer	Obligation	Current	2022
Landesbank Baden-Württemberg	Long-Term Issuer Rating	A (high)	A (high)
Landesbank Baden-Württemberg	Short-Term Issuer Rating	R-1 (middle)	R-1 (middle)
Landesbank Baden-Württemberg	Long-Term Senior Debt	A (high)	A (high)
Landesbank Baden-Württemberg	Short-Term Debt	R-1 (middle)	R-1 (middle)
Landesbank Baden-Württemberg	Long-Term Deposits	A (high)	A (high)
Landesbank Baden-Württemberg	Short-Term Deposits	R-1 (middle)	R-1 (middle)
Landesbank Baden-Württemberg	Senior Non-Preferred Debt	A	A
Landesbank Baden-Württemberg	Subordinated Debt	A (low)	A (low)
Landesbank Baden-Württemberg	Long-Term Critical Obligations Rating	AA	AA
Landesbank Baden-Württemberg	Short-Term Critical Obligations Rating	R-1 (high)	R-1 (high)
Landesbank Baden-Württemberg	LBBW EUR 10,000,000,000 Commercial Paper Programme 2019	R-1 (middle)	R-1 (middle)
Landesbank Baden-Württemberg	LBBW EUR 5,000,000,000 Negotiable European Commercial Paper Programme 2022	R-1 (middle)	R-1 (middle)

Previous Actions

- [DBRS Morningstar Confirms Landesbank Baden-Württemberg LT Issuer Rating at A \(high\), Trend Remains Stable](#), 19 April 2023.
- [DBRS Morningstar Assigns R-1 \(middle\) Rating to Two of LBBW's Commercial Paper Programmes](#), 21 June 2022.
- [DBRS Morningstar Assigns First-Time Ratings to Landesbank Baden-Württemberg; LT Issuer Rating at 'A' \(high\), Stable Trend](#), 21 April 2022.

Related Research

- [EU Banking Sector: Risks from Unrealised Losses Appear Manageable, but Challenges Remain](#), March 17, 2023
- [ESG Risk Factors for European Banks: Review of 2022](#), January 31, 2023
- [European Bank 2023 Outlook: Higher Rates Will Help in Navigating Weaker Economies](#), January 16, 2023
- [German Banks Relatively Well Protected Against a CRE Downturn](#), 1 August 2022.
- [European Banks: Disclosure Challenges in Commercial Real Estate](#), 4 July 2022.
- [BaFin Introduces Countercyclical and Sectoral Systemic Risk Buffer](#), 1 February 2022.

European Bank Ratios & Definitions

- [Bank Ratio Definitions](#), 14 March 2022

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