Press Release

Creditreform Rating

Rated entity:

Public Sector Covered Bond Program issued by Landesbank Baden-Württemberg

Rating:

AAA

Rating outlook / watch:

Outlook stable

Rating summary:

This monitoring report covers our update of the public sector covered bond program issued under German law by Landesbank Baden-Württemberg („LBBW"). Our rating of LBBW Public Sector Covered Bond Program is reflected by our issuer rating opinion of LBBW (Group) due to its group structure. On 24 September 2021, Creditreform Rating affirmed the unsolicited long-term issuer rating of LBBW at "A-" with stable outlook. In the course of the Corona crisis, earnings and risk provisions of LBBW showed a strong negative development. However, Creditreform Rating does not expect these effects to have a sustained negative impact on earnings power and asset quality; the half-yearly figures already suggest a rapid recovery, at least in terms of earnings power. In the analysts' view, the expected sharp rise in defaults is unlikely to take place due to generous support programs. There is no further notching within the scope of the Institutional Support Assessment.

During our covered bonds monitoring, we did not come to any new findings that could have an impact on the final rating outcome of the program with regard to legal and regulatory framework, the liquidity and refinancing risk and the credit and portfolio risk. Therefore, we maintain a rating uplift of 4 notches for the legal and regulatory framework and a rating uplift of 1 notch for the liquidity and refinancing risk. Furthermore, the credit metrics from the last rating of 31 March 2021 are valid. The cover pool and cash flow analysis resulted in AAA, which ensures a secondary uplift of one (+1) notch and the final covered bond program rating of AAA.

Taking into consideration the updated issuer rating, our analysis of the regulatory framework, liquidity and refinancing risks, as well as our cover pool assessment and results of the cash flow analysis with credit metrics as of 31 March 2021, CRA affirms the covered bond program at AAA. The outlook of the covered bond program was set at stable. The AAA rating represents the highest level of credit quality and the lowest investment risk.

Risk Factor	Result
Issuer rating	A- (rating as of 24 September 2021)
+ Legal and regulatory framework	+4 Notches
+ Liquidity and refinancing risk	+1 Notch
= Rating after 1st uplift	AA+
Cover pool & cash flow analysis	AAA (credit metrics as of 31 March 2021)
+ 2nd rating uplift	+1 Notch
= Rating covered bond program	**AAA**

Primary key rating driver:

+ Covered Bonds are subject to strict German legal framework for covered bonds

+ Covered bondholders have full recourse to the issuer

+ Good asset quality of the issuer, and cover bonds are backed by appropriate cover asset class

+/- Covid-19 can lead to sustained impacts on cover assets and the issuer rating

- Comparatively low profitability with high Cost Income Ratio of the issuer even before the Corona crisis

Rating sensitivities:

Best-case scenario: In this scenario, the base case assumptions remained stable, resulting in a cover pool rating of AAA.

Worst-case scenario: In this scenario, we (ceteris paribus) reduced recoveries by 50% and increased credit risk by 50%, resulting in a cover pool rating of AAA. This would not affect the 2nd rating uplift, still resulting in a rating of AAA for the covered bond program.

ESG-criteria:

CRA generally takes ESG-relevant factors (environmental, social and governance) into account when assessing Covered Bond ratings. Overall, ESG factors have a significant impact on the current rating of this Covered Bond program. CRA identifies governance factors, in particular, to have a highly significant impact on Covered Bond ratings. Since Covered Bonds are subject to strict legal requirements, regulatory risk plays an important role in assessing the credit rating.

The German covered bond legislation (PfandBG) defines clear rules to mitigate risks in particular regarding: insolvency remoteness, asset segregation, investor's special claim vis-à-vis other creditors, the roll and appointment of a special administrator, among other provisions. Additionally, Risk management and internal controls as well as the macroeconomic factors such as hedging strategies, interest rates and yield curve are considered to have a highly significant impact on the assessment of the credit rating. Other individual factors with a potential key rating influence were not identified, and therefore did not affect the final rating.

On the subject of ESG (environment, social and governance), Creditreform Rating AG has published the basic document ("The Impact of ESG Factors on Credit Ratings"), which is available on the homepage under the following link:

https://creditreform-rating.de/en/about-us/regulatory-requirements.html

Rating Date / disclosure to rated entity / maximum validity:

November 15, 2021 / November 15, 2021 / January 1, 2050

Between the disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

Initial rating date / rating:

March 31, 2021 / AAA - Outlook stable

Lead-analyst – position / Person approving (PAC):

AFM Kamruzzaman (Lead) – Analyst

Christian Konieczny (PAC) – Senior Analyst

Name & address of legal entity:

Creditreform Rating AG, Europadamm 2-6, 41460 Neuss, Germany

Status of solicitation:

The rating is an unsolicited rating. The degree of participation was as follows:

With Rated Entity or Related Third Party Participation: No

With Access to Internal Documents: No

With Access to Management: No

Rating methodology / Version / Date of application / Link:

Rating Criteria and Definitions, Version 1.3, January 2018

Technical Documentation Portfolio Loss Distributions, Version 1.4, July 2018

Rating Methodology Covered Bonds, Version 1.0, July 2017

Information on the meaning of a rating category, definition of default and sensitivity analysis of relevant key rating assumptions can be found at "Creditreform Rating AG, Rating Criteria and Definitions".

https://creditreform-rating.de/en/about-us/regulatory-requirements.html

Endorsement:

Creditreform Rating did not endorse the rating according Article 4 (3), CRA-Regulation.

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity. To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction structure and participants

2. Transaction documents

3. Issuing documents

4. Other rating relevant documentation

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore, CRA considers the quality and extent of information available on the rated entity as satisfactory. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.