FitchRatings

Landesbank Baden-Wuerttemberg

Update

Banks
Universal Commercial Banks
Germany

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1+
Derivative Counterparty Rating	AA-(dcr)
Viability Rating	bbb+
Shareholder Support Rating	a+

Sovereign Risk (Germany)

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Key Rating Drivers

Support Drives IDRs: Landesbank Baden-Wuerttenberg's (LBBW) Issuer Default Ratings (IDRs) and Shareholder Support Rating (SSR) are aligned with the IDRs of the German savings bank group, Sparkassen-Finanzgruppe (Sparkassen) (SFG, A+/Stable/F1+). This reflects Fitch Ratings' view of a very high probability of support from SFG if needed. We believe SFG's revised Institutional Protection Scheme (IPS), with clear rules for addressing weaknesses at member banks, including Landesbanken, has resulted in an increased propensity for SFG to provide timely support.

We believe support would also be available from its other owners, the state of Baden-Wuerttemberg (BW) and the City of Stuttgart, but LBBW's SSR does not factor in support from its public-sector owners as it is based on the lowest of the owners' ratings. We use SFG's Long-Term IDR as the anchor rating as support would need to be forthcoming from both SFG and its public owners to avoid triggering state-aid considerations and resolution under the German Recovery and Resolution Act if LBBW fails. The Stable Outlook on LBBW's Long-Term IDR mirrors that on SFG.

Large German Corporate Bank: LBBW's Viability Rating (VR) reflects the bank's wholesale-driven business model with its focus on corporate clients, with high sector concentrations and moderate earnings-generation capacity compared with international peers. This is balanced by its good asset quality, adequate capitalisation, and access to the savings banks' excess liquidity.

High Sector Concentrations: LBBW's strong regional corporate-banking franchise benefits from BW's large economy. However, this regional focus leads to concentrations on cyclical industries and, to some extent, on large borrowers, in particular in commercial real estate (CRE). Stiff competition in most of LBBW's business lines limits the bank's pricing power and weighs on its profitability.

Good Asset Quality: LBBW's impaired loans ratio remained resilient at 1.5% at end-1H24, with a good level of coverage by loan impairment allowances. We expect loan impairment charges (LICs) and impaired loans to rise in 2H24 due to the weak German economy, but for the four-year average gross impaired loans ratio to remain below 2% in the medium term. Large buffers of precautionary loan loss allowances should absorb a large portion of LICs.

Moderate Profitability: LBBW's operating profits/risk-weighted assets (RWAs) ratio declined slightly in 1H24 due to tighter net interest margins, in line with policy rate cuts in the eurozone, rising LICs and cost inflation. We believe LBBW's revenue will gradually improve in the medium term as the bank executes its growth strategy, compensating for regulatory RWA inflation. We expect the bank's four-year average operating profit to remain above 1.0% of RWAs.

Adequate Capitalisation: LBBW's common equity Tier 1 (CET1) ratio of 14.7% at end-1H24 is well above its regulatory requirements. We view this level as adequate, but not strong, for the bank's business model, which exposes LBBW to potential cyclical performance swings. Profit retention will be key in offsetting higher RWAs from the execution of the bank's growth strategy and the phasing-in of final Basel III rules.

Sound Funding and Liquidity: LBBW is primarily wholesale-funded, reflected in a moderately higher loans/deposits ratio than commercial bank peers. However, the bank benefits from moderate capital market funding requirements, due to 'its reliable placement capacity within the savings bank sector. Its liquidity position is sound, underpinned by a large portfolio of cash and liquid securities.

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Upgrades LBBW's IDR to 'A+'/Stable; Affirms VR at 'bbb+' (July 2024)

Fitch Affirms Sparkassen-Finanzgruppe at 'A+'; Outlook Stable (April 2024)

Global Economic Outlook (December 2024)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

A downgrade of SFG's IDRs would likely lead to a downgrade of LBBW's IDRs and SSR.

LBBW's VR would likely be downgraded if we expect the bank's impaired loans ratio to rise to and remain above 3%, or if the CET1 ratio falls durably below 13%.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of SFG's IDRs would likely lead to an upgrade of LBBW's IDRs.

An upgrade of the bank's VR would require a stronger franchise with a more diversified revenue base and significantly lower sector and single-name concentrations. An upgrade would also be contingent on a structural improvement of LBBW's profitability, with average operating profit above 2% of RWAs, without material increase in risk appetite.

Other Debt and Issuer Ratings

Rating level	Rating
Deposits and senior preferred debt	AA-/F1+
Senior non-preferred debt	A+
Guaranteed senior and subordinated debt	AAA
Subordinated debt	A-

Source: Fitch Ratings

LBBW's Short-Term IDR is the higher of two ratings mapping to its Long-Term IDR and is equalised with SFG's Short-Term IDR to reflect our view that propensity to support is more certain in the short term.

LBBW's Derivative Counterparty Rating (DCR), long-term deposit rating and senior preferred debt ratings are one notch above its Long-Term IDR. This reflects the protection of preferred creditors arising from the bank's large resolution buffers, including senior non-preferred and more junior debt. For the same reason, the senior non-preferred debt rating is in line with the bank's Long-Term IDR.

LBBW's short-term deposit and senior preferred debt ratings are the only short-term ratings mapping to the long-term deposit and senior preferred ratings, respectively.

The 'AAA' ratings of LBBW's grandfathered state-guaranteed senior unsecured and Tier 2 subordinated notes reflect our view of the creditworthiness of the state of Baden-Wuerttemberg, which is closely linked to that of Germany (AAA/Stable), and our expectation that Baden-Wuerttemberg will honour its guarantee.

The rating of LBBW's non-guaranteed Tier 2 subordinated debt is notched down twice from LBBW's Long-Term IDR to reflect poor recoveries in case of non-performance. Fitch uses LBBW's Long-Term IDR rather than its VR as the anchor rating because we expect shareholder support from SFG to be extended to the bank's Tier 2 instruments under the revised statutes, which we believe has reduced the likelihood of regulatory resolution measures at LBBW.

Significant Changes from Last Review

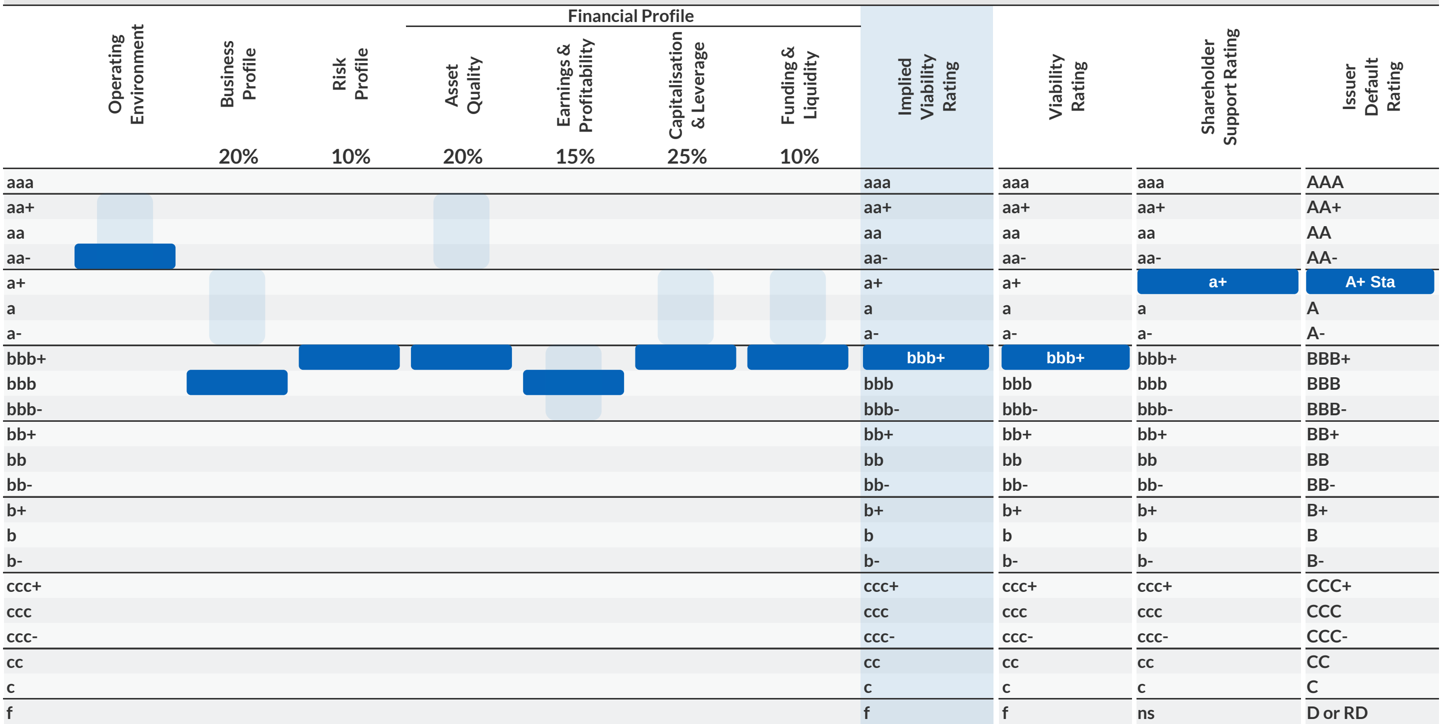
After LBBW's solid performance in 1H24, we have revised our forecast for the 2024 operating profit/RWAs ratio to 1.4% from 1.1%, mainly due to stronger-than-expected net interest income (NII), resilient fee and other operating income and moderate LICs. We expect this ratio to be overall stable in 2025, at 1.3%, due to broadly unchanged income coupled with a slight cost increase and higher LICs.

LBBW's NII stabilisation exceeded our expectation in 1H24 as it benefitted from resilient deposit margins and lucrative new business. We expect NII to dip in 2024 as interest rates decline in the eurozone. Growth in CRE will remain sluggish in 2025 due to limited demand and amortisations. We expect a gradual recovery only from 2H25, as property prices should be close to reach their new equilibriums. Corporate lending could continue to grow slightly, and we expect LBBW to remain selective in new lending, particularly in CRE.

We maintain our expectation that asset quality should remain under control, underpinned by prudent underwriting and collateralisation. We expect LBBW's impaired loan ratio to peak in 2024 at 1.7%, driven by further impaired loan inflows from CRE and the corporate sector.

Ratings Navigator

Landesbank Baden-Wuerttemberg — ESG Relevance: — **Banks** Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The business profile score of ‘bbb’ has been assigned below the ‘a’ implied category score, due to the following adjustment reason: business model (negative).

The asset quality score of ‘bbb+’ has been assigned below the ‘aa’ implied category score, due to the following adjustment reason: concentrations (negative).

The capitalisation and leverage score of ‘bbb+’ has been assigned below the ‘a’ implied category score, due to the following adjustment reason: internal capital generation and growth (negative).

The funding and liquidity score of ‘bbb+’ has been assigned below the ‘a’ implied category score, due to the following adjustment reason: deposit structure (negative).

Financials

Financial Statements

	30 Jun 24		31 Dec 23	31 Dec 22	31 Dec 21
	1st half	1st half	12 months	12 months	12 months
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Reviewed – unqualified	Reviewed – unqualified	Audited – unqualified	Audited – unqualified	Audited – unqualified
Summary income statement					
Net interest and dividend income	1,391	1,295	2,826	2,305	2,031
Net fees and commissions	345	321	589	628	598
Other operating income	470	437	620	446	372
Total operating income	2,206	2,053	4,035	3,379	3,001
Operating costs	1,283	1,194	2,397	2,169	1,928
Pre-impairment operating profit	923	859	1,638	1,210	1,073
Loan and other impairment charges	126	117	254	239	240
Operating profit	797	742	1,384	971	833
Other non-operating items (net)	-12	-11	-10	902	-16
Tax	239	222	378	363	399
Net income	547	509	996	1,510	418
Other comprehensive income	69	64	-95	-6	180
Fitch comprehensive income	616	573	901	1,504	598
Summary balance sheet					
Assets					
Gross loans	157,971	147,018	145,722	140,965	112,644
– Of which impaired	2,349	2,186	1,826	1,156	1,002
Loan loss allowances	1,912	1,779	1,641	1,364	1,288
Net loans	156,059	145,239	144,081	139,601	111,356
Interbank	96,608	89,910	72,035	74,397	39,640
Derivatives	16,556	15,408	17,032	19,562	19,073
Other securities and earning assets	98,449	91,623	80,352	73,704	70,678
Total earning assets	367,673	342,180	313,500	307,264	240,747
Cash and due from banks	12,972	12,073	12,026	10,569	36,871
Other assets	6,650	6,189	7,779	6,341	4,726
Total assets	387,295	360,442	333,305	324,174	282,344
Liabilities					
Customer deposits	142,147	132,291	122,581	110,416	93,646
Interbank and other short-term funding	85,122	79,220	73,852	85,094	89,569
Other long-term funding	115,309	107,314	94,060	81,312	56,110
Trading liabilities and derivatives	21,672	20,169	21,080	26,188	23,533
Total funding and derivatives	364,249	338,994	311,573	303,010	262,858
Other liabilities	4,713	4,386	4,772	4,831	4,378
Preference shares and hybrid capital	1,728	1,608	1,638	1,636	1,656
Total equity	16,605	15,454	15,322	14,697	13,452
Total liabilities and equity	387,295	360,442	333,305	324,174	282,344
Exchange rate		USD1 = EUR0.930665	USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173

Source: Fitch Ratings, Fitch Solutions, Landesbank Baden-Wuerttemberg

Key Ratios

	30 Jun 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.6	1.5	1.0	1.0
Net interest income/average earning assets	0.8	0.9	0.9	0.8
Non-interest expense/gross revenue	58.4	59.5	64.7	65.1
Net income/average equity	6.7	6.7	10.9	3.1
Asset quality				
Impaired loans ratio	1.5	1.3	0.8	0.9
Growth in gross loans	0.9	3.4	25.1	7.8
Loan loss allowances/impaired loans	81.4	89.9	118.0	128.5
Loan impairment charges/average gross loans	0.2	0.2	0.2	0.2
Capitalisation				
Common equity Tier 1 ratio	14.7	14.9	14.5	14.8
Fully loaded common equity Tier 1 ratio	14.6	14.6	14.1	14.6
Tangible common equity/tangible assets	4.2	4.5	4.4	4.7
Basel leverage ratio	4.2	4.6	4.6	5.1
Net impaired loans/common equity Tier 1	3.0	1.4	-1.5	-2.3
Funding and liquidity				
Gross loans/customer deposits	111.1	118.9	127.7	120.3
Gross loans/customer deposits + covered bonds	85.2	91.8	99.5	105.0
Liquidity coverage ratio	141.1	150.5	144.2	141.1
Customer deposits/total non-equity funding	40.3	40.9	38.6	37.7
Net stable funding ratio	112.2	109.7	111.3	108.5

Source: Fitch Ratings, Fitch Solutions, Landesbank Baden-Wuerttemberg

Support Assessment

Shareholder Support	
Shareholder IDR	A+
Total Adjustments (notches)	0
Shareholder Support Rating	a+
Shareholder ability to support	
Shareholder Rating	A+/ Stable
Shareholder regulation	Equalised
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	1 Notch
Reputational risk	Equalised
Integration	2+ Notches
Support record	Equalised
Subsidiary performance and prospects	1 Notch
Legal commitments	Equalised

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Very High Probability of Support from SFG

LBBW's SSR reflects our view of very high support propensity and ability from its owners.

Fitch uses SFG's Long-Term IDR as the anchor rating for determining LBBW's support-driven ratings, the lower of the two owners' ratings. This is because Fitch believes support would need to be forthcoming from both SFG and BW to avoid triggering state-aid considerations and resolution under the German Recovery and Resolution Act if LBBW fails. Fitch believes that BW would participate in any support measures for the bank, but LBBW's SSR does not factor in support from the federal state.

Fitch's assumptions on support from SFG are underpinned by the provisions contained in the statutes of the IPS of SFG and the Landesbanken. SFG initiated a reform of its IPS in 2021, which came into force in January 2024. In Fitch's view, the amendments to the statutes of the IPS have substantially strengthened its governance, risk monitoring capabilities and available funds.

Fitch believes that the reformed IPS, underpinned by a dedicated rulebook, now defines the responsibilities and timelines in a potential support scenario more clearly. Decision-making within the IPS is streamlined and more efficient, and the role and powers of the IPS's central body have been strengthened under the revised statutes. The central body decides over recovery and support measures, including the raising of the required funds from its members, with a simple majority within two weeks of the receipt of the request for intervention. We therefore believe that the IPS would provide support to a member in need in a timelier manner than before.

The risk-monitoring system was strengthened with quantitative triggers, allowing for an early identification of member with a deteriorating financial profile and enabling early intervention measures. This is also supported by a newly created internal audit unit within the IPS. In our view, this should result in timely interventions and avoid a protracted decision-making process that could result in late support measures.

The creation of an additional support fund as part of the reform, which we estimate will reach EUR5 billion–EUR6 billion by 2033, also improves the IPS's ability to support a larger number of members that may require capital support at the same time. This is in addition to SFG's sound pre-impairment operating profitability and strong capitalisation, which already provide it with sufficient financial flexibility to support the Landesbanken.

Fitch's support assumptions are also underpinned by LBBW's focus on its statutory roles, which include supporting the regional economy, as well as acting as the central institution for regional savings banks and as house bank for its federal state owners.

Environmental, Social and Governance Considerations

FitchRatings **Landesbank Baden-Wuerttemberg**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

				ESG Relevance to Credit Rating
Landesbank Baden-Wuerttemberg has 5 ESG potential rating drivers Landesbank Baden-Wuerttemberg has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating. Governance is minimally relevant to the rating and is not currently a driver.	key driver	0	issues	5
	driver	0	issues	4
	potential driver	5	issues	3
	not a rating driver	4	issues	2
		5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.