

Morningstar DBRS Confirms Landesbank Baden-Württemberg's Long-Term Issuer Rating at A (high), Stable Trends

BANKING ORGANIZATIONS

DBRS Ratings GmbH (Morningstar DBRS) confirmed its credit ratings on Landesbank Baden-Württemberg (LBBW or the Bank), including its Long-Term Issuer Rating at A (high) and its Short-Term Issuer Rating at R-1 (middle). Morningstar DBRS also confirmed the Bank's Senior Non-Preferred Debt credit rating at "A", the Subordinated Debt credit rating at A (low), the Long-Term Critical Obligations Ratings at AA, and the Short-Term Critical Obligations Rating at R-1 (high). The trends on all credit ratings are Stable. The credit ratings and the trends are all in line with those of the broader Sparkassen-Finanzgruppe (SFG) network. LBBW's Intrinsic Assessment (IA) is "A", and its Support Assessment is SA1 reflecting the internal support provided by SFG. For a complete list of credit ratings, please see the table at the end of this press release.

KEY CREDIT RATING CONSIDERATIONS

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

LBBW's IA reflects its strong franchise, particularly as a leading commercial lender in the wealthy region of Baden-Württemberg, in Germany. As a Landesbank, it serves as a central institution and clearing bank for savings banks in Baden-Württemberg, Rhineland-Palatinate, and Saxony. While the Bank's liquidity and funding profile leans towards wholesale funding because of its smaller retail deposit base, its resilience is supported by a well-established covered bond franchise and membership of SFG, which provides access to savings banks' liquidity. Capital ratios improved in H1 2025 on the back of the first-time application of CRR 3 as well as profit retention.

The IA also considers LBBW's higher underlying profitability over recent years. Despite lower interest rates affecting net interest income (NII) in 2024 and H1 2025 as well as an increased cost base on the back of higher employee costs and IT investments, LBBW's business performance was solid across all business segments in H1 2025. In addition, the Bank made its first-time contribution of EUR 77 million to an additional guarantee fund for Deutscher Sparkassen- und Giroverband (DSGV) in the period. This framework satisfies banking regulatory requirements while also enabling a nimbler response to the affected institutions within the decentralised banking structure of SFG. This additional contribution increases LBBW's cost base; however, Morningstar DBRS expects the Bank's earnings capacity will comfortably absorb it.

Despite a slight decrease in risk provisioning year over year (YOY) in H1 2025, the persistent challenges in the Banks' commercial real estate (CRE) exposure and a lesser extent in corporate loan book continue to drive risk provisioning. Asset quality continued to soften in H1 2025 because of Germany's economic slowdown, particularly in some corporate segments that are vulnerable to the tariff turmoil and supply chain disruptions. On

the other hand, the Bank's CRE portfolio, which saw significant asset quality deterioration in F2024, showed signs of stabilisation in H1 2025. However, price developments in CRE remain uncertain and potentially volatile because of the still limited transaction volumes. The Stable trends incorporate Morningstar DBRS' view that risks to the credit ratings are broadly balanced.

LBBW's IA of "A" is at the lower end of the IA Range. This reflects the potential challenges in the operating environment and also considers the Bank's concentration in highly cyclical sectors, such as CRE, and some corporate sectors that are more vulnerable to current economic headwinds.

CREDIT RATING DRIVERS

LBBW's Issuer Ratings benefit from the SFG's IPS, and therefore a change in SFG's credit ratings would lead to a change in LBBW's credit ratings.

Morningstar DBRS would raise the Bank's IA if it were to improve profitability on a sustainable basis while maintaining solid asset quality.

A significant deterioration in asset quality or a material decline in profitability would lead Morningstar DBRS to lower the IA.

CREDIT RATING RATIONALE

Franchise Combined Building Block Assessment: Strong/Good

With total assets of EUR 369 billion at the end of June 2025, LBBW is a medium-size commercial bank and the largest Landesbank in Germany. The Bank provides universal banking services primarily to corporate clients across a diverse range of industrial and corporate sectors. It is also the clearing bank for savings banks in its core regions in Germany. In addition, LBBW serves individuals and savings banks while providing specialised services in real estate and project finance, alongside maintaining a significant presence in capital markets. The Bank's leading position in German CRE was further strengthened following the acquisition of Berlin Hyp in 2022 and its business integration at the beginning of August 2025. The Bank expects to complete the IT migration by the end of the year and to achieve higher operating efficiency through synergies in the medium term. Furthermore, LBBW is an institution incorporated under German public law with legal capacity and a member of SFG, and therefore part of the group's joint liability scheme.

Earnings Combined Building Block Assessment: Good/Moderate

In Morningstar DBRS's view, LBBW's has made some progress in improving its profitability, although its levels remain behind those of its European peers. While the Bank has strategically focused on expanding targeted areas and broadening revenue streams, structural and market-specific constraints continue to weigh on efficiency metrics. These include the competitive German banking landscape, the social and political mandate of the Bank, given its public-sector role, and LBBW's comparatively elevated reliance on wholesale funding channels. Despite the lower interest rate environment and a somewhat higher cost base, the Bank delivered solid performance across all business segments during H1 2025. Loan loss provisions (LLPs) declined slightly to EUR 107 million in H1 2025 from EUR 118 million in H1 2024. However, CRE exposures remained the primary driver for provisioning needs. While the German CRE market showed signs of stabilisation, provisioning remains elevated because of the persisting challenges in the U.S. office segment.

In H1 2025, LBBW reported a profit before tax of EUR 705 million, down 4% YOY from EUR 731 million a year earlier. Nevertheless, excluding the integrations costs related to Berlin Hyp, the result would have been up 4%

YOY to EUR 759 million for the period. For F2025, Morningstar DBRS anticipates the Bank's earnings before taxes to remain above the level of EUR 1.0 billion, in line with LBBW's expectations.

The Bank's operating income was up 3% YOY to EUR 2.1 billion in H1 2025 despite a slight decrease in net interest income (NII) by 1% YOY to EUR 1.3 billion, as the increased lending volumes could offset the competitive market and the lower-interest-rate environment. The result was also supported by net fee and commission income, which was up 9% YOY to EUR 349 million in H1 2025 on the back of positive momentum in the securities and custody business. Nonetheless, the key contributor to the positive development of operating income in H1 2025 was the net valuation result, which increased substantially by 36% YOY to EUR 336 million, mostly driven by favourable valuation results from the LBBW's portfolio of derivatives and structured finance products.

Total expenses increased by 9.0% YOY to EUR 1.3 billion in H1 2025, mostly because of the Berlin Hyp integration effect, as well as an expanded employee base in growth areas, IT investments (particularly in cybersecurity), and the implementation of the additional DSGV's guarantee fund. As a result, LBBW's reported cost-to-income ratio slightly deteriorated to 61.8% in H1 2025 from 58.6% in H1 2024, while the Bank's pretax return on equity (ROE) was 8.6% in H1 2025, down from 9.3% in H1 2024.

Risk Combined Building Block Assessment: Strong/Good

Morningstar DBRS views LBBW's risk profile as well-managed. However, Morningstar DBRS notes a significant concentration in the highly cyclical CRE sector, accounting for around 21% of the Bank's total customer exposures at the end of June 2025 (gross exposure within the scope of the impairment requirements of IFRS 9), as well as to a number of corporate sectors that are vulnerable to the current economic downturn in Germany and heightened trade tensions. The Bank's asset quality continued to deteriorate in H1 2025 following the path of the previous two years because of the economic slowdown in Germany. In H1 2025, the Bank's most affected portfolios were TM & Electronics / IT and Transport & Logistics. The Bank's nonperforming loan ratio as calculated by Morningstar DBRS was 1.8% at the end of June 2025 compared with 1.7% at YE2024.

Funding and Liquidity Combined Building Block Assessment: Strong/Good

The high reliance on wholesale funding reflects the Bank's commercial business model, which lacks large retail franchise with granular and stable deposits. However, Morningstar DBRS views this as mitigated by the good access to Pfandbriefe (German covered bonds), which Morningstar DBRS considers a stable source of funding. In 2025, LBBW and Berlin Hyp have been issuing Pfandbriefe, but from 2026 onwards, only LBBW will remain active as an issuer as Berlin Hyp's cover pools were integrated into LBBW at the beginning of August 2025. The Bank also has access to the savings banks' liquidity pool and benefits from the confidence derived from its membership of the SFG. Moreover, the Bank has put in place measures to further diversify its profile.

At the end of June 2025, the Liquidity Coverage Ratio was 138.7% and the Net Stable Funding Ratio (NSFR) was 120.2%, well above minimum requirements.

Capitalisation Combined Building Block Assessment: Strong/Good

Morningstar DBRS views LBBW's capital position as adequate, broadly in line with peers, and with ample cushions over regulatory requirements. The Bank's phase-in CET 1 ratio increased significantly to 16.6% (in accordance with CRR 3) at the end of June 2025 from 14.4% (in accordance with CRR 2) at YE2024, mostly because of a sharp decline in risk-weighted assets (RWAs). RWAs fell to EUR 85.7 billion at end-June 2025 from EUR 97.1 billion at YE2024, primarily because of the first-time implementation of CRR 3 at the beginning of 2025. In addition, profits retention and a positively developed revaluation reserve also contributed to a higher ratio. The phase-in total capital ratio also increased to 21.6% at the end of June 2025 (CRR 3) from 19.2% at YE2024.

(CRR 2).

This provides adequate cushions against potential further asset quality pressure. Some of these risks and potential capital implications were also highlighted by the recent EBA stress tests. Maintaining ample capital buffers is particularly important given the Bank's limited access to capital markets for the issuance of equity because of its ownership structure.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://dbrs.morningstar.com/research/467875>.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

ESG Considerations had a relevant effect on the credit analysis.

Governance (G) Factors

The following Governance factor(s) had a relevant effect on the credit analysis: The subfactor Corporate Governance is relevant to the rating of Sparkassen-Finanzgruppe, and this is reflected in the franchise grid grades for the Bank.

In Morningstar DBRS' view, the ownership mix and the parliamentary process involved in decision making at the Landesbanken has made it difficult at times for SFG to swiftly react to challenges. In addition, the level of transparency and financial disclosure of SFG is limited compared with that of international peers.

There were no Environmental or Social factors that had a significant or relevant effect on the credit analysis.

Credit rating actions on Sparkassen-Finanzgruppe are likely to have an impact on these credit ratings. ESG factors that have a significant or relevant effect on the credit analysis of Sparkassen-Finanzgruppe are discussed separately at <https://dbrs.morningstar.com/issuers/10051>.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (16 May 2025), <https://dbrs.morningstar.com/research/454196>

Notes:

All figures are in euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (23 May 2025) <https://dbrs.morningstar.com/research/454637>. In addition, Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (16 May 2025) <https://dbrs.morningstar.com/research/454196> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://dbrs.morningstar.com/about/methodologies>.

The sources of information used for these credit ratings include Morningstar Inc. and company documents. Other sources include LBBW's annual reports from 2019 to 2024, H1 2025 results presentation, H1 2025 press release,

and H1 2025 disclosure report. Morningstar DBRS considers the information available to it for the purposes of providing these credit ratings to be of satisfactory quality.

Morningstar DBRS does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS' trends and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <https://registers.esma.europa.eu/cerep-publication>. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see <https://data.fca.org.uk/#/ceres/craStats>.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: <https://dbrs.morningstar.com/research/467874>.

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.

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Initial Rating Date: 21 April 2022

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For more information on this credit or on this industry, visit <https://dbrs.morningstar.com>.

Ratings

Landesbank Baden-Wuerttemberg

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
21-Nov-25	Long-Term Issuer Rating	Confirmed	A (high)	Stb	EU U
21-Nov-25	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stb	EU U
21-Nov-25	Short-Term Debt	Confirmed	R-1 (middle)	Stb	EU U
21-Nov-25	Short-Term Deposits	Confirmed	R-1 (middle)	Stb	EU U

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
21-Nov-25	Long-Term Critical Obligations Rating	Confirmed	AA	Stb	EU U
21-Nov-25	Short-Term Critical Obligations Rating	Confirmed	R-1 (high)	Stb	EU U
21-Nov-25	Senior Non-Preferred Debt	Confirmed	A	Stb	EU U
21-Nov-25	Long-Term Deposits	Confirmed	A (high)	Stb	EU U
21-Nov-25	Long-Term Senior Debt	Confirmed	A (high)	Stb	EU U
21-Nov-25	Subordinated Debt	Confirmed	A (low)	Stb	EU U
21-Nov-25	LBBW EUR 10,000,000,000 Commercial Paper Programme 2019	Confirmed	R-1 (middle)	Stb	EU U
21-Nov-25	LBBW EUR 5,000,000,000 Negotiable European Commercial Paper Programme 2022	Confirmed	R-1 (middle)	Stb	EU U

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