

**RATING ACTION COMMENTARY****Fitch Affirms LBBW at 'A+'; Outlook Stable**

Fri 13 Jun, 2025 - 9:53 AM ET

Fitch Ratings - Frankfurt am Main - 13 Jun 2025: Fitch Ratings has affirmed Landesbank Baden-Wuerttemberg's (LBBW) Long-Term Issuer Default Rating (IDR) at 'A+' with Stable Outlook. Fitch has also affirmed LBBW's Shareholder Support Rating (SSR) at 'a+' and Viability Rating (VR) at 'bbb+'. A full list of rating actions is below.

**KEY RATING DRIVERS**

**Support Drives IDRs:** LBBW's IDRs and SSR are aligned with the IDRs of the German savings bank group, Sparkassen-Finanzgruppe (Sparkassen) (SFG, A+/Stable/F1+). This reflects Fitch's view of a very high probability of timely support from SFG, based on LBBW's membership of the Institutional Protection Scheme. The Stable Outlook on LBBW's Long-Term IDR mirrors that on SFG. The Institutional Protection Scheme covers the savings banks and the Landesbanken, and its aim is to safeguard members' liquidity and solvency, and prevent them entering insolvency or resolution. It has an impeccable record in providing comprehensive protection to depositors and investors.

We believe support would also be available from the bank's other owners, the State of Baden-Wuerttemberg (BW; 40.5% stake) and the City of Stuttgart (10%), but LBBW's SSR does not factor in support from these public 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 SFG and its public owners to avoid triggering state-aid considerations and resolution under the German Recovery and Resolution Act if LBBW fails.

**Large German Corporate Bank:** LBBW's VR reflects its wholesale-driven business model with a focus on corporate clients and commercial real estate (CRE) lending, with high sector concentrations, and the structural improvement in profitability, although this remains weaker than higher-rated peers'. The VR also reflects good asset quality, adequate capitalisation, and access to the savings banks' excess liquidity.

**Significant Sector Concentrations:** LBBW has a good nationwide corporate-banking franchise and is the market leader in domestic CRE lending. Its business model leads to concentrations on cyclical industries and on large borrowers, particularly in CRE. Intense competition in most of LBBW's

products limits its pricing power and weighs on its profitability, as for its German peers. LBBW's asset management franchise and growing project finance activities add some revenue diversification.

**Resilient Asset Quality:** The bank's impaired loans ratio increased slightly, to 1.7% at end-2024 (end-2023: 1.3%), mainly driven by defaults in its CRE portfolio. The US CRE exposure (3% of total loans at end-2024) had good asset-quality performance with limited defaults, also compared with peers'. We expect loan impairment charges (LICs) and impaired loans to stabilise in 2025 despite a challenging operating environment and for the four-year average gross impaired loans ratio to remain below 2% in the medium term. Large buffers (60bp of gross loans at end-2024) of precautionary loan loss allowances are available to absorb a large portion of LICs.

**Improving Underlying Profitability:** LBBW's consistent execution of its business plan and gradual revenue growth has improved its structural profitability, although this remains lower than at higher-rated peers because of lower margins and higher costs. We forecast the operating profit/risk-weighted assets (RWAs) ratio to remain stable at about 1.3% over the next two years, well above its historical long-term average. In the short term, the weak operating environment and muted loan demand could put pressure on profitability.

**Adequate Capitalisation:** The bank's common equity Tier 1 (CET1) ratio of 14.6% at end-2024 is adequate, considering its business model and risk profile. We expect the ratio to increase towards 15% over the next two years, as capitalisation should benefit from earnings retention and RWA optimisation, offsetting LBBW's growth strategy and the phasing-in of final Basel III rules.

**Sound Funding and Liquidity:** LBBW is primarily wholesale-funded, as 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. LBBW's liquidity position is sound, underpinned by a large portfolio of cash and liquid securities.

## 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 expected the bank's impaired loans ratio to rise to and remain above 3%, if the CET1 ratio falls durably below 13%, or if the operating profit declines below 0.7% of RWAs on a sustained basis without clear recovery prospects.

### 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 business profile that benefits from economies of scale leading to a further structural improvement of LBBW's profitability, with an operating profit/RWAs ratio sustainably close to 2%. An upgrade would also be contingent on LBBW maintaining a moderate risk profile and an impaired loans ratio below 2%, while keeping the CET1 ratio consistently at or above current levels.

## **OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS**

LBBW's Derivative Counterparty Rating, 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.

## **OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES**

LBBW's Derivative Counterparty Rating, deposit, senior preferred and non-preferred debt ratings are sensitive to changes in its IDRs. We could also downgrade these ratings if we expect its senior non-preferred and more junior debt buffer to fall below 10% of its RWAs on a sustained basis.

LBBW's subordinated debt is primarily sensitive to changes in SFG's IDR. The subordinated debt could also be downgraded if Fitch no longer believes shareholder support would be extended to subordinated creditors, or that such support is moderately less likely for subordinated creditors than for senior creditors.

Adverse changes in Fitch's view of Baden-Wuerttemberg's creditworthiness, which is closely linked to that of Germany, would lead to a downgrade of LBBW's grandfathered state-guaranteed senior unsecured and Tier 2 subordinated debt ratings.

## **VR ADJUSTMENTS**

The business profile score of 'bbb+' is below the 'a' implied category score, due to the following adjustment reason: business model (negative).

The asset quality score of 'bbb+' is below the 'a' implied category score, due to the following adjustment reason: concentrations (negative).

The capitalisation and leverage score of 'bbb+' is below the 'a' implied category score, due to the following adjustment reason: risk profile and business model (negative).

The funding and liquidity score of 'bbb+' is below the 'a' implied category score, due to the following adjustment reason: deposit structure (negative).

**REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

**PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS**

LBBW's ratings are driven by potential support from SFG.

LBBW's grandfathered state-guaranteed senior unsecured and Tier 2 subordinated debt are linked to Fitch's assessment of Baden-Wuerttemberg's creditworthiness and, by extension, to Germany's ratings.

**ESG CONSIDERATIONS**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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 of the materiality and relevance of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

**RATING ACTIONS**

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Landesbank Baden-Wuerttemberg	LT IDR	A+	Affirmed	A+

	ST IDR	F1+	Affirmed	F1+
	Viability	bbb+	Affirmed	bbb+
	DCR	AA-(dcr)	Affirmed	AA-(dcr)
	Shareholder Support	a+	Affirmed	a+
senior unsecured	LT	AAA	Affirmed	AAA
subordinated	LT	AAA	Affirmed	AAA
subordinated	LT	A-	Affirmed	A-
long-term deposits	LT	AA-	Affirmed	AA-
Senior preferred	LT	AA-	Affirmed	AA-

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on [www.fitchratings.com](https://www.fitchratings.com)

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APPLICABLE CRITERIA

[Bank Rating Criteria \(pub. 21 Mar 2025\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

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## ENDORSEMENT STATUS

Landesbank Baden-Wuerttemberg

EU Issued, UK Endorsed

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