

Germany
Credit Update

Landesbank Baden-Wuerttemberg

Ratings

	Current Ratings
Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1+
Individual Rating	C/D
Support Rating	1
Support Rating Floor	A+
Guaranteed Long-Term Notes	AAA
Baden-Wuerttemberg L-Finance N.V. (LBBW)^a	
Long-Term Rating	AAA
Landesbank Baden-Wuerttemberg Capital Markets plc (LBBW)^a	
Long-Term Rating	AAA
^a Based on the grandfathering of the guarantee provided by the bank's owners	
Sovereign Risk	
Foreign-Currency Long-Term IDR	AAA
Local-Currency Long-Term IDR	AAA

Outlooks

Foreign-Currency Long-Term IDR	Stable
Baden-Wuerttemberg L-Finance N.V. (LBBW) Long-Term Rating	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Stable

Financial Data

Landesbank Baden-Wuerttemberg	31 Dec 08	31 Dec 07
Total assets (USDm)	623,383	652,731
Total assets (EURm)	447,932	443,400
Equity (EURm)	6,117	10,433
Op. profit (EURm)	-2,569.0	335.0
Published net income (EURm)	-2,055.0	326.0
Comprehensive income (EURm)	-4,148.0	9.0
Operating ROAA (%)	-0.6	0.1
Operating ROAE (%)	-30.6	3.2
Eligible capital/weighted risks (%)	4.4	7.5
Tier 1 ratio (%)	6.9 ^b	6.5

^b as reported, including net loss: 6.1%

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Rating Rationale

- Landesbank Baden-Wuerttemberg's (LBBW) Issuer Default Ratings (IDRs), Support Rating and Support Rating Floor are based on potential support from its owners, in particular the State of Baden-Wuerttemberg (BW; rated 'AAA'/Stable), which holds 35.6% in LBBW, and reflect a strong relationship with this state.
- The Individual Rating reflects the weakening of LBBW's financial profile in the financial market crisis and Fitch Ratings' view that its profitability and risk profile will remain under pressure in the current economic environment, as its EUR150bn loan book includes sizeable exposures to the automotive sector and to commercial real estate. LBBW has the largest SME exposure of all Landesbanks, which bolsters its regional franchise but makes it vulnerable during the recession. Fitch believes that LBBW's efforts to regain a more stable and predictable risk return profile are facing challenges.
- For 2008, LBBW reported a EUR2.6bn pre-tax loss, driven by negative effects totalling EUR3.3bn from the financial market crisis, relating to spread widening within its credit default swaps, bond and structured credit investment (SCI) portfolios, impairments and write-downs on Icelandic banks, Lehman Brothers and other troubled exposures. Excluding these effects, profitability decreased owing to higher provisioning needs in the corporate segment and revenue pressure in the retail business. Due to stronger contributions from the corporate and financial markets segments, LBBW reported a EUR360m Q109 pre-tax profit.
- A EUR12.7bn guarantee from the State of BW is reducing LBBW's SCI-related risks. It covers risks from EUR17.7bn out of LBBW's total on-balance-sheet SCIs of EUR28.5bn at end-April 2009 (LBBW takes EUR1.9bn first loss) and from EUR6bn junior loans (second loss) to Sealink Funding, a structured investment vehicle holding former Landesbank Sachsen's SCI portfolio. The remainder is of better credit quality and predominantly booked as loans and receivables.
- LBBW is mainly wholesale funded, although savings banks provided over 50% of unsecured funding in 2008. Liquidity has remained good. LBBW's owners have increased the bank's capital by EUR5bn, which the bank expects, together with the guarantee, to improve the Tier 1 capital ratio to about 8.0% at end-2009 from effectively 6.1% at end-2008. Currently it appears unlikely that the bank will participate in the "bad bank" scheme promoted by the government.

Support

- Fitch believes that there is an extremely high probability that support from the State of BW will continue to be forthcoming. LBBW's other owners are the savings banks association of Baden-Wuerttemberg (40.5%), the City of Stuttgart (18.9%) and Landeskreditbank BW (rated 'AAA'; 4.9%).

Key Rating Drivers

- The Stable Outlook reflects the fact that the Long-Term IDR is on its Support Rating Floor. In the unexpected event of an ownership change forced by the European Commission, currently reviewing LBBW's received state support, Fitch would review LBBW's IDRs. While upward potential for the Individual Rating is limited in the near term, downward pressure would result from a material deterioration in asset quality which is not absorbed by LBBW's earnings.

Profile

LBBW is one of the five largest German banks and the largest Landesbank.

LANDESBANK BADEN-WUERTTEMBERG

Income Statement

	31 Dec 2008 EURm Original	31 Dec 2007 EURm Original	31 Dec 2006 EURm Original
Income Statement			
Interest Income on Loans	14,606.0	n.a.	n.a.
Other Interest Income	18,847.0	28,706.0	25,686.0
Dividend Income	n.a.	n.a.	n.a.
Gross Interest and Dividend Income	33,453.0	28,706.0	25,686.0
Interest Expense on Customer Deposits	8,671.0	n.a.	n.a.
Preferred Dividends Paid & Declared	n.a.	n.a.	n.a.
Other Interest Expense	22,434.0	26,561.0	23,501.2
Total Interest Expense	31,105.0	26,561.0	23,501.2
Net Interest Income	2,348.0	2,145.0	2,184.8
Net Gains (Losses) on Trading and Derivatives	-1,411.0	-626.0	124.1
Net Gains (Losses) on Other Securities	-982.0	-118.0	-2.4
Net Gains (Losses) on Assets at FV through Income Statement	-646.0	-30.0	66.1
Net Insurance Income	n.a.	n.a.	n.a.
Net Fees and Commissions	549.0	584.0	499.7
Other Operating Income	358.0	212.0	443.8
Total Non-Interest Operating Income	-2,132.0	22.0	1,131.3
Personnel Expenses	1,012.0	969.0	939.5
Other Operating Expenses	886.0	687.0	920.7
Total Non-Interest Expenses	1,898.0	1,656.0	1,860.2
At Equity Profit/ Loss - Operating	16.0	10.0	-0.2
Change in Fair Value of Own Debt	n.a.	n.a.	n.a.
Pre-Impairment Operating Profit	-1,666.0	521.0	1,455.7
Loan Impairment Charge	903.0	186.0	158.4
Other Credit Impairment Charges	n.a.	n.a.	5.0
Operating Profit	-2,569.0	335.0	1,292.3
At Equity Profit/ Loss - Non-operating	n.a.	n.a.	n.a.
Non-recurring Income	n.a.	n.a.	n.a.
Non-recurring Expense	n.a.	n.a.	n.a.
Change in Fair Value of Own Debt	n.a.	n.a.	n.a.
Other Non-operating Income and Expenses	n.a.	n.a.	n.a.
Pre-tax Profit	-2,569.0	335.0	1,292.3
Taxes	-514.0	9.0	360.9
Net Income	-2,055.0	326.0	931.4
Less: Allocation to Non-controlling Interests	-24.0	8.3	5.2
Net Income after Allocation to Non-controlling Interests	-2,031.0	317.7	926.2
Profit/Loss from Discontinued Operations	n.a.	n.a.	n.a.
Change in Value of AFS Investments	-2,093.0	-317.0	973.0
Currency Translation Differences	n.a.	n.a.	n.a.
Other OCI Gains/(losses)	n.a.	n.a.	n.a.
Fitch Comprehensive Income	-4,148.0	9.0	1,904.4
Memo: Common Dividends Paid & Declared in respect to the Period	85.2	93.0	89.0

LANDESBANK BADEN-WUERTTEMBERG

Assets & Off-Balance Sheet Items

	31 Dec 2008 EURm Original	31 Dec 2007 EURm Original	31 Dec 2006 EURm Original
A. Loans			
Residential Mortgage Loans	12,624.0	9,886.0	10,132.0
Other Consumer/ Retail Loans	n.a.	n.a.	n.a.
Corporate & Commercial Loans	n.a.	n.a.	n.a.
Other Loans	137,318.0	136,522.0	111,259.0
Less: Reserves for Impaired Loans/ NPLs	2,279.0	1,951.0	2,152.0
Total Loans	147,663.0	144,457.0	119,239.0
Memo: Gross Loans	149,942.0	146,408.0	121,391.0
Memo: Impaired Loans included above	4,371.0	3,679.0	4,482.0
Memo: Loans at Fair Value included above	n.a.	n.a.	n.a.
B. Other Earning Assets			
Loans and Advances to Banks	120,138.0	143,628.0	150,607.0
Trading Securities	63,146.0	51,096.0	30,850.0
Derivatives	3,340.0	5,002.0	16,197.0
Available for Sale Securities	101,883.0	92,955.0	94,192.0
Held to Maturity Securities	n.a.	n.a.	n.a.
At-equity Investments	401.0	186.0	831.0
Other Securities	n.a.	n.a.	n.a.
Total Securities	168,770.0	149,239.0	142,070.0
Memo: Government Securities included Above	n.a.	8,144.0	35.0
Investments in Property	1,784.0	1,636.0	1,652.0
Insurance Assets	n.a.	n.a.	n.a.
Other Earning Assets	n.a.	n.a.	64.0
Total Earning Assets	438,355.0	438,960.0	413,632.0
C. Non-Earning Assets			
Cash and Due From Banks	3,480.0	1,477.0	1,543.0
Foreclosed Real Estate	n.a.	n.a.	n.a.
Fixed Assets	922.0	768.0	756.0
Goodwill	946.0	17.0	0.0
Other Intangibles	229.0	96.0	98.0
Current Tax Assets	803.0	684.0	451.0
Deferred Tax	1,535.0	401.0	321.0
Discontinued Operations	n.a.	n.a.	n.a.
Other Assets	1,662.0	997.0	484.0
Total Assets	447,932.0	443,400.0	417,285.0
D. Off-Balance Sheet Items			
Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	n.a.
Liquidity Lines to SPEs	n.a.	n.a.	n.a.
Guarantees	8,309.0	6,186.0	4,921.0
Acceptances Reported Off-Balance Sheet	n.a.	n.a.	n.a.
Committed Credit Lines	26,583.0	27,390.0	24,860.0
Other Contingent Liabilities	1,501.0	594.0	n.a.
Total Business Volume	484,325.0	477,570.0	447,066.0
Memo: Total Weighted Risks	177,450.0	191,402.0	169,939.0

LANDESBANK BADEN-WUERTTEMBERG

Liabilities and Equity

	31 Dec 2008	31 Dec 2007	31 Dec 2006
	EURm	EURm	EURm
	Original	Original	Original
E. Interest-Bearing Liabilities			
Customer Deposits - Current	98,295.0	90,742.0	78,791.0
Customer Deposits - Savings	4,937.0	5,709.0	6,645.0
Customer Deposits - Term	n.a.	n.a.	n.a.
Total Customer Deposits	103,232.0	96,451.0	85,436.0
Deposits from Banks	140,206.0	157,446.0	142,043.0
Other Deposits and Short-term Borrowings	n.a.	n.a.	n.a.
Total Deposits, Money Market and Short-term Funding	243,438.0	253,897.0	227,479.0
Long-term Borrowing	122,320.0	126,874.0	150,933.0
Subordinated Borrowing	7,332.0	7,520.0	4,603.0
Other Funding	15,188.0	17,220.0	n.a.
Total Long Term Funding	144,840.0	151,614.0	155,536.0
Derivatives	4,634.0	5,501.0	15,176.0
Trading Liabilities	39,989.0	15,276.0	1,614.0
Total Interest Bearing Liabilities	432,901.0	426,288.0	399,805.0
F. Non-Interest Bearing Liabilities			
Fair Value Portion of Debt	169.0	n.a.	n.a.
Credit impairment reserves	187.0	150.0	n.a.
Reserves for Pensions and Other	1,793.0	1,538.0	1,842.0
Current Tax Liabilities	398.0	318.0	393.0
Deferred Taxes	188.0	264.0	251.0
Other Deferred Liabilities	n.a.	n.a.	n.a.
Discontinued Operations	n.a.	n.a.	n.a.
Insurance	n.a.	n.a.	n.a.
Other Non-interest Bearing Liabilities	1,336.0	464.0	655.0
Total Liabilities	436,972.0	429,022.0	402,946.0
G. Hybrid Capital			
Pref. Shares and Hybrid Capital accounted for as Debt	4,843.0	3,945.0	3,985.0
Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	n.a.
H. Equity			
Common Equity	7,527.0	9,668.0	9,284.0
Non-controlling Interest	39.0	121.0	103.0
Securities Revaluation Reserves	-1,471.0	588.0	973.0
Other Accumulated OCI	22.0	56.0	-6.0
Total Equity	6,117.0	10,433.0	10,354.0
Total Liabilities and Equity	447,932.0	443,400.0	417,285.0
Memo: Fitch Core Capital	5,340.0	10,402.1	10,354.0
Memo: Fitch Eligible Capital	7,628.6	14,347.1	14,339.0

LANDESBANK BADEN-WUERTTEMBERG

Summary Analytics

	31 Dec 2008 EURm Original	31 Dec 2007 EURm Original	31 Dec 2006 EURm Original
Interest Ratios			
Interest Income on Loans/ Average Net Loans	9.9	n.a.	n.a.
Interest Expense on Customer Deposits/ Average Customer Deposits	8.5	n.a.	n.a.
Interest Income/ Average Earning Assets	7.3	6.7	n.a.
Interest Expense/ Average Interest-bearing Liabilities	6.9	6.4	n.a.
Net Interest Revenue/ Average Earning Assets	0.5	0.5	n.a.
Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	0.3	0.5	n.a.
Other Operating Profitability Ratios			
Non-interest Income/ Gross Revenues	-987.0	1.0	34.1
Non-Interest Expense/ Gross Revenues	878.7	76.4	56.1
Pre-impairment Op. Profit/ Average Equity	-19.8	5.0	n.a.
Pre-impairment Op. Profit/ Average Total Assets	-0.4	0.1	n.a.
Credit Impairment Charges/ Pre-impairment Op. Profit	-54.2	35.7	11.2
Operating Profit/ Average Equity	-30.6	3.2	n.a.
Operating Profit/ Average Total Assets	-0.6	0.1	n.a.
Taxes/ Pre-tax Profit	20.0	2.7	27.9
Other Profitability Ratios			
Net Income/ Average Total Equity	-24.5	3.1	n.a.
Net Income/ Average Total Assets	-0.4	0.1	n.a.
Fitch Comprehensive Income/ Average Total Equity	-49.4	0.1	n.a.
Fitch Comprehensive Income/ Average Total Assets	-0.9	0.0	n.a.
Net Income/ Av. Total Assets plus Av. Managed Assets	n.a.	n.a.	n.a.
Capitalization			
Fitch Eligible Capital/ Regulatory Weighted Risks	4.3	7.5	8.4
Tangible Common Equity/ Tangible Assets	1.1	2.3	2.5
Tier 1 Regulatory Capital Ratio	6.9	6.5	6.3
Total Regulatory Capital Ratio	10.1	9.7	10.6
Fitch Eligible Capital/ Tier 1 Regulatory Capital	62.4	115.5	134.0
Equity/ Total Assets	1.4	2.4	2.5
Cash Dividends Paid & Declared/ Net Income	-4.2	28.5	9.6
Cash Dividend Paid & Declared/ Fitch Comprehensive Income	-2.1	1,033.3	4.7
Net Income - Cash Dividends/ Total Equity	-35.0	2.2	8.1
Loan Quality			
Growth of Total Assets	1.0	6.3	n.a.
Growth of Gross Loans	2.4	20.6	n.a.
Impaired Loans(NPLs)/ Gross Loans	2.9	2.5	3.7
Loan Impairment Reserves/ Gross loans	1.5	1.3	1.8
Reserves for Impaired Loans/ Impaired Loans	52.1	53.0	48.0
Impaired Loans less Reserves for Imp Loans/ Equity	34.2	16.6	22.5
Loan Impairment Charges/ Average Gross Loans	0.6	0.1	n.a.
Net Charge-offs/ Average Gross Loans	0.0	0.0	n.a.
Impaired Loans plus Foreclosed Assets/ Gross Loans plus Foreclosed Assets	n.a.	n.a.	n.a.
Liquidity			
Loans/ Customer Deposits	145.3	151.8	142.1
Loans/ Deposits and Short-term Funding	61.6	57.7	53.4
Liquid Assets/ Total Assets	14.1	11.5	7.4
Liquid Assets/ Wholesale Funding	33.3	29.9	19.2
Wholesale Funding/ Total Funding and Capital	43.2	39.3	40.4