FITCH AFFIRMS LBBW'S IDR AT 'A+'; DOWNGRADES INDIVIDUAL RATING TO 'C/D'

Fitch Ratings-London/Frankfurt-02 April 2009: Fitch Ratings has today affirmed Germany-based Landesbank Baden-Wuerttemberg's (LBBW) Long-term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook, reflecting continued strong state support. Fitch has simultaneously downgraded LBBW's Individual Rating to 'C/D' from 'C' due to the pressure on its standalone credit profile arising from its vulnerability to deteriorating asset quality and the related risks for profitability. The agency has affirmed the bank's Short-term IDR at 'F1+', Support Rating at '1' and Support Rating Floor at 'A+'.

The agency has also affirmed the Long-term rating on LBBW's guaranteed obligations at 'AAA'. The respective debt ratings of Baden-Wuerttemberg L-Finance N.V., Landesbank Baden-Wuerttemberg Capital Markets plc and LBBW Dublin Management GmbH (issued by Sachsen LB Europe plc) have been affirmed at 'AAA', based on the grandfathering of the guarantee provided by LBBW's owners or the former owners of Sachsen LB. These rating actions have no impact on the 'AAA' rating of the public sector Pfandbriefe issued by LBBW.

The downgrade of LBBW's Individual Rating follows publication of its preliminary FY08 results and reflects Fitch's view that LBBW is likely to experience a more severe impact from the weakening domestic and global economic environment on its loan portfolio in 2009. In addition, LBBW's P&L and capital face continued risks from its EUR26.8bn structured credit investment portfolio because of ongoing market disruptions.

"Although LBBW has remained profitable, excluding the effects from the financial market crisis in 2008, the combined profitability of its three core segments has decreased due to higher provisioning needs in the corporate segment and revenue pressure in its retail business. Fitch expects these trends to become even more pronounced in the deteriorating economic climate, which will make it more difficult for LBBW to cope with the increased volatility arising from its large balance sheet," says Andrea von Schnurbein, Director in Fitch Ratings' Financial Institutions team.

The Individual Rating factors in the pending EUR5bn capital injection by LBBW's owners, its dependence on wholesale funding, although savings banks provided more than 50% of its unsecured funding in 2008, and good liquidity management. The capital increase, which is evidence of continued strong support from the bank's owners, is expected to improve LBBW's Tier 1 capital ratio to about 9% from 6.1% at end-2008 (after the release of reserves under German GAAP). By re-classifying securities into loans and receivables, LBBW avoided a EUR3.1bn negative impact on its revaluation reserve in 2008, which stood at minus EUR1.4bn at year-end. Fitch would take additional comfort from a guarantee for LBBW's structured credit portfolio, which is currently being discussed with the state of Baden-Wuerttemberg (BW, rated 'AAA'/Stable).

In line with the bank's expectations, LBBW's reported EUR2.5bn operating loss for 2008 was driven by a EUR3.3bn negative impact from the financial market crisis, largely relating to spread-widening and impairments within its credit investment portfolio, and EUR900m of write-downs largely related to exposures to Icelandic banks and Lehman Brothers. Following the release of reserves, LBBW reported a EUR94m balance sheet profit under German GAAP and intends to service its silent participations and lower Tier 2 capital.

LBBW's IDRs, Support Rating and Support Rating Floor reflect the extremely high potential support from its owners, in case of need, in particular from the state of BW, which holds 35.6% of the bank's capital.

LBBW, Germany's largest Landesbank by assets, is the central bank for the savings banks in BW, Rheinland Pfalz, Saxony and the main bank for BW and the City of Stuttgart. LBBW is positioning itself as a bank for German Mittelstand companies.

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