

Germany
UpdateLandesbank Baden-Wuerttemberg
Public Sector Pfandbriefe**Rating**

Public sector Pfandbriefe AAA

Key Data

Jun 10

Cover assets (EURbn)	64.78
Covered bonds (EURbn)	54.76
Nominal overcollateralisation (OC, %)	18.28
Committed OC	None
Supporting OC (%)	14.0
Weighted-average asset maturity (years)	4.29
Weighted-average liability maturity (years)	3.31
D-factor (%)	7.4

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Related Research

Applicable Criteria

- [Covered Bonds Rating Criteria \(August 2010\)](#)
- [Assessment of Liquidity Risk in Covered Bonds \(August 2010\)](#)

Other Research

- [German Municipalities - Important Role Within the Federal System \(January 2010\)](#)
- [Credit Analysis on Landesbank Baden-Wuerttemberg - Public Sector Pfandbriefe \(September 2007\)](#)
- [Fitch Affirms LBBW's Public Sector Covered Bonds at 'AAA' \(July 2010\)](#)

Rating Rationale

- The 'AAA' rating of Landesbank Baden-Wuerttemberg's (LBBW) public sector Pfandbriefe relies on the banks Long-Term Issuer Default Rating of 'A+' and a Discontinuity Factor (D-Factor) of 7.4%. This combination supports a 'AAA' rating of the public sector Pfandbriefe on a probability of default (PD) basis.
- The D-Factor assigned to this programme is driven by: the Pfandbrief law's strength in isolating the cover assets from the estate of the issuer; the 180-day mandatory liquidity provision, compared to an average 1.7 months deemed necessary to liquidate public sector assets in a stress scenario; LBBW's operational capacity; the role of the cover pool administrator (to be appointed following the insolvency of the issuer); and the comfort derived from dedicated covered bonds oversight. All else being equal, LBBW's covered bonds rating could be maintained at 'AAA' if the issuer is rated at least 'BBB'.
- Fitch Ratings has revised supporting OC (SOC) to 14.0% from 10.1% for a 'AAA' rating on a PD basis. The SOC is mainly driven by (in the order of weight): Credit risk of the assets within the cover pool, the open interest-rate position and the maturity mismatches between the cover assets and Pfandbriefe. The lowest OC in the past 12 months was 13.35% and the current OC stands at 18.3%. The issuer intends to maintain a level of OC in line with the SOC.

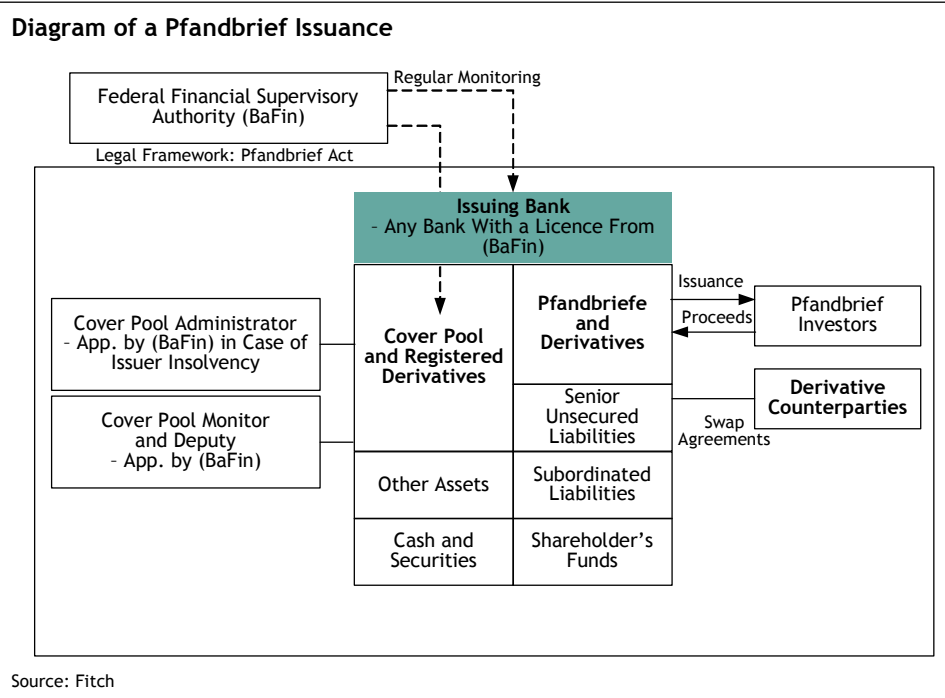
Highlights

- As at end-June 2010, LBBW's outstanding public sector Pfandbriefe were backed by a EUR64.78bn cover pool. The borrowers are mainly located in Germany (95.9% of the cover assets) and within Germany, Baden-Wuerttemberg (33.9%). Due to German Pfandbrief legislation, all debt is either against public bodies or guaranteed by the same. In the absence of line-by-line information for Fitch's original analysis in July, conservative assumptions were used to allocate ratings for German sub-sovereign exposure in its default modelling, which also caused the SOC to increase. LBBW has since provided line-by-line information, which Fitch will use in its next credit analysis.
- Fitch regards the support mechanism in Germany as strong. This feeds into high ratings on the respective exposures (mainly at the sovereign or state level) as well as outstanding recovery rate expectations for the municipalities that may have much weaker creditworthiness. As a result, the rating of the public sector Pfandbriefe is strongly influenced by the rating of Germany ('AAA', Stable).
- The programme is well matched by currency but less so in the interest-rate position. The weighted-average residual maturities of cover assets and Pfandbriefe are 4.29 and 3.31 years, respectively. Overall, the cash-flow profiles of assets and liabilities are reasonably well matched, leading to manageable liquidity gaps in the agency's cash-flow model. The cover pool includes no privileged swaps.

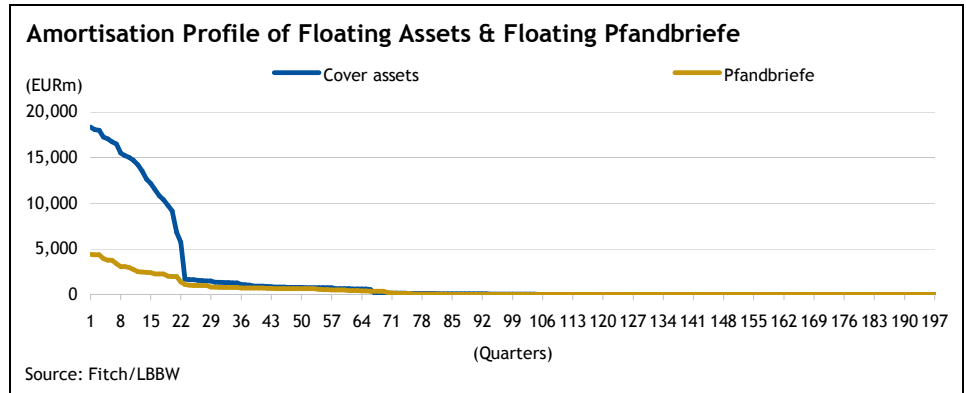
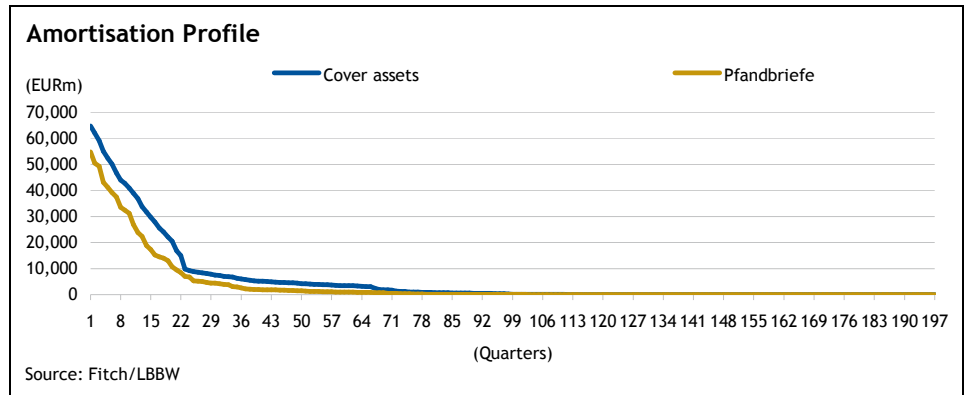
Background

- LBBW is the largest Landesbank by assets and one of the five largest banks in Germany. It serves corporate and private clients and is the local savings bank in Stuttgart, the capital of Baden-Wuerttemberg. At end-June 2010, LBBW's outstanding public sector Pfandbriefe represented around 14% of the bank's total liabilities.

Appendix 1



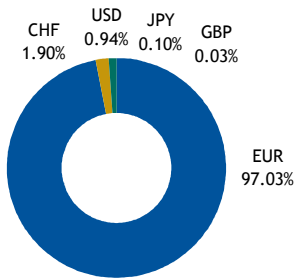
Appendix 2



Appendix 3

Distribution by Currency of the Cover Assets

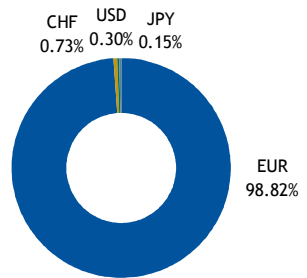
In % by balance as of 30 Jun 2010



Source: LBBW

Distribution by Currency of the Pfandbriefe

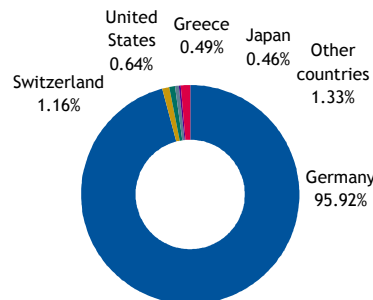
In % by balance as of 30 Jun 2010



Source: LBBW

Country Distribution by Borrower

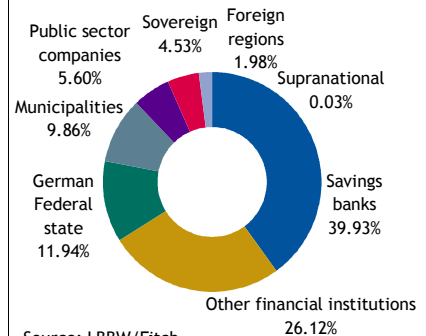
In % by balance as of 30 Jun 2010



Source: LBBW/Fitch

Distribution by Borrower Type

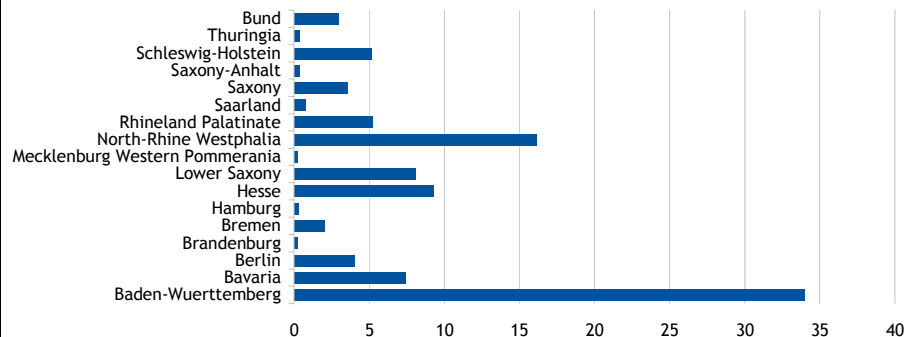
In % by balance as of 30 Jun 2010



Source: LBBW/Fitch

Distribution by Federal State

In % of total German exposure as of 30 Jun 2010



Source: LBBW / Fitch

Appendix 4

Cover Pool Characteristics as of 30 June 2010

	Assets	Liabilities
Current principal balance (EURbn)	64.777	54.765
- Thereof substitute assets	1.574	-
WA remaining maturity (years)	4.29	3.31
Floating rate (%)	28.31	8.08
Fixed rate (%)	71.69	91.92
EUR denomination (%)	97.03	98.82
GBP denomination (%)	0.03	-
CHF denomination (%)	1.90	0.73
USD denomination (%)	0.94	0.30
JPY denomination (%)	0.10	0.15
Fitch default model output (%)	'AAA' rating level	'AA' rating level
Rating default rate (RDR)	22.2	18.1
Rating recovery rate (RRR)	76.1	81.8

Source: LBBW, Fitch

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