



Moody's Investors Service

Rating Action: **Moody's downgrades LBBW's Upper T2 Genussschein ratings to Caa1**

Global Credit Research - 17 Feb 2010

Frankfurt, February 17, 2010 -- Moody's Investors Service today downgraded the Upper Tier 2 instruments ("Genussscheine") of Landesbank Baden-Wuerttemberg (LBBW) that will mature in December 2011 to Caa1 from Ba2, based on the individual expected-loss analysis on these instruments.

The Caa1 ratings are based on Moody's assumption that only a minor portion of the three coupons that accumulate between now and the repayment date in June 2012 can be repaid. Moody's further assumes that the principal of the instruments will be fully repaid in 2012, even though it will share in the 2009 loss (based on local GAAP) and thus be written down by roughly 10%; however, Moody's expects the principal to be fully written back before maturity, implying no expected loss on the principal. These ratings carry a stable outlook.

"The rating action was prompted by our revised assumptions regarding the expected losses for 2009," said Katharina Barten, a Moody's Vice President/Senior Analyst in Frankfurt. "As a result of the expected local GAAP loss that may have to be taken by LBBW's hybrid instruments, more of LBBW's profits in future years will be required to write back the principal of its upper Tier 2 instruments, leaving less financial flexibility to pay deferred coupons as well," Ms. Barten added.

Moody's only rates those upper Tier 2 instruments of LBBW that fall due in December 2011 and need to be repaid in June 2012. It should be noted that similar instruments that carry a longer maturity have a considerably higher chance of a full repayment that includes deferred coupons, and can thus be considered lower risk. The three instruments that are affected by today's rating action are the following:

EUR250 million 6.50% Genussschein due 31 December 2011 (ISIN: DE0008065095)

EUR100 million 6.60% Genussschein due 31 December 2011 (ISIN: DE0002978657)

EUR20 million 6.65% Genussschein due 31 December 2011 (ISIN: DE0002978673)

RATING HISTORY AND MOODY'S METHODOLOGIES

The last rating action on LBBW was on 23 July 2009, when Moody's downgraded LBBW's BFSR to C- from C, its senior debt and deposit ratings to Aa2 from Aa1 and its rating for senior subordinated debt to Aa3 from Aa2. Concurrently Moody's downgraded LBBW's Genussscheine to Ba2 from Aa2, based on the assumption that the coupons may be deferred for two years and not fully paid by the time the instruments fall due, both with a medium probability.

The principal methodologies used in rating LBBW are "Moody's Bank Financial Strength Ratings: Global Methodology", published in February 2007, "Incorporation of Joint-Default Analysis into Moody's Bank Ratings", published in March 2007, and "Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt", published in November 2009, which are available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Domiciled in Stuttgart, Germany, LBBW reported total assets of EUR440 billion at 30 September 2009 and a consolidated net loss for the nine months of EUR620 million.

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