

## FITCH AFFIRMS LBBW AT 'A+'; OUTLOOK STABLE

Fitch Ratings-Frankfurt/London-21 November 2011: Fitch Ratings has affirmed Germany-based Landesbank Baden-Wuerttemberg's (LBBW) Long-term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook. Fitch has simultaneously affirmed LBBW's Viability Rating at 'bbb-', its Support Rating at '1' and its guaranteed obligations at 'AAA'.

Baden-Wuerttemberg L-Finance N.V.'s long-term debt has been affirmed at 'AAA', based on the grandfathering of the guarantee provided by LBBW's owners, specifically the State of Baden-Wuerttemberg (BW). LBBW Dublin Management GmbH's (issued by the former Sachsen LB Europe plc) long-term debt has been affirmed at 'AAA', based on the grandfathering of the guarantee by the Freistaat Sachsen. A full rating breakdown is below.

LBBW's Viability Rating is supported by improving capitalisation, driven the continuing reduction in risk-weighted assets, and the ring-fencing of troubled assets. LBBW's well-entrenched regional franchise in the SME segment of its home and neighbouring regions forms the base for the bank's sharpened strategy, which focuses on client-driven business and winding down non-core business activities. Combined with the requirements from the restructuring plan, Fitch expects this strategy to significantly lower LBBW's risk profile and make the bank a more stable credit.

In Fitch's opinion, the bank's exposure to peripheral European sovereign debt, which equalled 90% of Fitch core capital at end-H111, is one of the major sources of risk. In Q311, LBBW reported a consolidated loss of EUR191m before tax, which includes mark-to-market value adjustments on CDS for sovereign debt and further write-downs of Greek sovereign bonds to now around 40% of the nominal value. Overall, in 9M11 the bank took charges of around EUR750m in connection with the sovereign debt crisis. Given volatile market conditions, Fitch expects these exposures to continue putting pressure on the bank's earnings.

While the bank is somewhat reliant on wholesale funding, the investor base is well-diversified and LBBW maintained good access to market funding through the crisis. Despite challenging market conditions, LBBW generated a positive financial result in the nine months to September 2011. After a positive start in Q1 and Q2, the bank made a loss of EUR191m in Q3 as a result of continued and heightened market tension. While assessment of the bank's long-term profitability remains difficult, Fitch expects LBBW's profitability to remain modest. Concentrated exposures to more volatile industries are high and expose the bank to event risk.

The affirmation of the bank's IDRs reflects the unchanged strong relationship between the bank and its owners, BW (directly and indirectly 40.5% owner), the Savings Banks Association of Baden-Wuerttemberg (40.5%) and the City of Stuttgart (18.9%) and the extremely high probability of support if needed. If, in Fitch's view, there could be a significant change in the ability or propensity of LBBW's owners to support the bank, this could result in a downgrade of LBBW's IDR.

LBBW is Germany's largest Landesbank and serves corporate and private clients. It is Stuttgart's local savings bank with strong markets in its core markets. It is also the central bank for the savings banks in BW, Rhineland Palatinate, and Saxony, and the main bank for BW and the City of Stuttgart.

The rating actions are as follows:

**LBBW:**

Long-term IDR affirmed at 'A+'; Outlook Stable

Short-term IDR affirmed at 'F1+'

Viability Rating affirmed at 'bbb-'

Individual Rating affirmed at 'C/D'  
Support Rating Floor affirmed at 'A+'  
Support Rating affirmed at '1'  
Senior debt: affirmed at 'A+' / 'F1+'  
State-guaranteed/grandfathered debt: affirmed at 'AAA'/'F1+'  
State-guaranteed/grandfathered market-linked securities: affirmed at 'AAA emr'  
Subordinated lower Tier 2 debt: affirmed at 'A'

Baden-Wuerttemberg L-Finance N.V. and LBBW Dublin Management GmbH:  
Grandfathered Long-term debt affirmed at 'AAA'

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Additional information is available at [www.fitchratings.com](http://www.fitchratings.com). The ratings above were unsolicited and have been provided by Fitch as a service to investors.

Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 16 August 2011 are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:

Global Financial Institutions Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=649171](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=649171)

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