

FITCH AFFIRMS LBBW AT 'A+', OFF RWN ON EC ANNOUNCEMENT

Fitch Ratings-London/Frankfurt-18 December 2009: Fitch Ratings has today affirmed Germany-based Landesbank Baden-Wuerttemberg's (LBBW) Long-term Issuer Default Rating (IDR) at 'A+', Short-term IDR at 'F1+' and Support Rating Floor at 'A+', and removed all the ratings from Rating Watch Negative (RWN). The Outlook on the Long-term IDR is Stable. Fitch has simultaneously placed LBBW's Individual Rating of 'C/D' on RWN, reflecting concerns over the bank's deteriorating loan quality. The agency has affirmed LBBW's Support Rating at '1' and affirmed its guaranteed obligations at 'AAA'.

The Long-term rating for issues of Baden-Wuerttemberg L-Finance N.V. and LBBW Capital Markets plc are affirmed at 'AAA', based on the grandfathering of the guarantee provided by LBBW's owners. This rating action has no impact on the 'AAA' rating of the public sector Pfandbriefe issued by LBBW.

The rating action reflects the approval of LBBW's impaired asset relief measures and the restructuring plan by the European Commission (EC), which was formally announced on 15 December 2009. LBBW received an injection of EUR5bn of Tier 1 capital from its owners and guarantees of EUR12.7bn for two portfolios of structured securities totalling EUR23.6bn (EUR17.7bn out of LBBW's EUR27.6bn total on-balance-sheet structured credit investments at end-June 2009 and EUR6bn junior loans (second loss) to Sealink Funding) from Land Baden Wurttemberg. The EC concluded that these measures are compatible with EU rules on state aid to prevent a distortion of competition in a member state's economy.

According to the EC, the restructuring plan demonstrates that LBBW has a viable business model, allowing for its return to profitability. A change in the ownership structure is not part of the EC's requirements. As a result, Land Baden-Wuerttemberg (a 19.6% owner, rated 'AAA'/Stable), Landesbeteiligungen Baden-Wuerttemberg (18.3%), Landeskreditbank Baden-Wuerttemberg (2.7%), the Savings Banks Association of Baden-Wuerttemberg (40.5%) and the city of Stuttgart (18.9%) will remain LBBW's owners. Unless LBBW participates in further sector consolidation, Fitch expects this structure to remain stable in the medium term, even though LBBW will change its current legal status from an institution under public law to that of a joint stock corporation, improving corporate governance.

LBBW's IDRs and Support Rating Floor were placed on RWN on 14 September 2009 due to the possibility of an ownership change and a related diminution in the importance of the bank to its state owners. Fitch has removed the RWN as an ownership change is not imminent. The ratings benefit from the bank's strong relationship with the state.

The RWN on LBBW's Individual Rating reflects Fitch expectation that the bank's sizeable corporate loan book, which includes some concentrations in critical sectors, will see a further deterioration in quality amid the depressed economic environment. The RWN will be resolved following a detailed review of portfolios, which Fitch believes will exhibit increasing default rates in 2010 as weakened economic conditions feed through to SME and commercial real estate related exposure and other portfolio sub-segments with a time lag. Although LBBW's tier 1 capital ratio, at 9.6% at end-September 2009, is comfortable, higher risk provisions may increase the bank's net losses over the next two years, which could reduce the capital buffer by more than expected.

LBBW's silent participations and upper Tier 2 capital are not expected to pay coupons for 2009 and will participate in the loss, while reserves will not be released. In this respect, the bank has accepted to meet the EC's criteria on burden sharing. LBBW offers the bearers of profit participations certificates (Genussscheine) and silent participations maturing in 2009 and 2010 a term extension of 10 years.

LBBW, Germany's largest Landesbank serves corporate and private clients and is the local savings bank in Stuttgart. Furthermore it is the central bank for the savings banks in Baden-Wuerttemberg, Rheinland Pfalz, and Saxony, and the main bank for Baden-Wuerttemberg and the City of Stuttgart. Under its restructuring plan LBBW will shrink its balance sheet total by 40% compared with end-2008 and focus on core businesses relating to small and medium-sized corporate customers, private customers, savings banks and financial markets business.

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