

FITCH: RWN ON IDRS OF GERMAN LANDESBANKEN HAS NO IMPACT ON COVERED BOND RATINGS

Fitch Ratings-London/Frankfurt-15 September 2009: Fitch Ratings has affirmed the unguaranteed public sector Pfandbriefe issued by Bayerische Landesbank and Landesbank Baden-Wuerttemberg, as well as the guaranteed Pfandbriefe issued by Bayerische Landesbank, Landesbank Baden-Wuerttemberg and HSH Nordbank AG at 'AAA'. This follows the Rating Watch Negative placed on the Issuer Default Ratings (IDR) of these German Landesbanken (see commentary dated 14 September 2009 on www.fitchratings.com). In addition, the 'AAA' rating of the unguaranteed mortgage Pfandbriefe issued by Bayerische Landesbank is not affected by a potential IDR downgrade, but remains under analysis due to the implementation of the agency's new refinancing cost assumptions (see commentary dated 7 July 2009).

While the IDRs of the concerned issuers are on RWN, Fitch anticipates that they will remain within the 'A' category in the foreseeable future. Fitch has verified that, all else being equal, a worst case IDR of 'A-' combined with the Discontinuity Factors (D-Factors) assigned by the agency to the respective programmes would still allow the maximum achievable covered bond ratings to be 'AAA'. Fitch's D-Factors measure the likelihood of an interruption of payments on the covered bonds at the time of an assumed default of their issuer on a scale between 0% and 100%, with 0% reflecting perfect continuity and 100% equivalent to a concomitant default of the issuer and its covered bonds. As the ratings of the guaranteed Pfandbriefe are directly credit-linked to the rating of their guarantors, they remain unaffected by the RWN placed on the issuers' IDRs.

The 'AAA' rating of Bayerische Landesbank's unguaranteed public sector Pfandbriefe is currently based on the IDR of 'A+' and a D-Factor of 8.3%, the combination of which allows the covered bonds to be rated 'AAA' on a probability of default basis. An IDR of 'A-' and an unchanged D-Factor of 8.3% would allow the public sector Pfandbriefe to be rated 'AA+' on a probability of default basis and 'AAA' after taking recoveries into account. Under Fitch's covered bond rating criteria, the covered bonds rating is allowed an uplift of maximum two notches from the probability of default basis rating if it is in the investment grade range.

The 'AAA' rating of Bayerische Landesbank's unguaranteed mortgage Pfandbriefe is currently based on the IDR of 'A+' and a D-Factor of 19%, the combination of which allows the covered bonds to be rated 'AA+' on a probability of default basis and 'AAA' after taking recoveries into account. An IDR of 'A-' and an unchanged D-Factor of 19% would allow the mortgage Pfandbriefe to be rated 'AA' and 'AAA' respectively. Bayerische Landesbank's mortgage Pfandbriefe remain under analysis due to the implementation of the agency's new refinancing cost assumptions.

The 'AAA' ratings of Bayerische Landesbank's guaranteed mortgage and public sector Pfandbriefe are driven by the rating of the German federal state of Bavaria ('AAA'/Outlook Stable).

The 'AAA' rating of Landesbank Baden-Wuerttemberg's unguaranteed public sector Pfandbriefe is currently based on the IDR of 'A+' and a D-Factor of 7.4%, the combination of which allows covered bonds to be rated 'AAA' on a probability of default basis. An IDR of 'A-' and an unchanged D-Factor of 7.4% would still allow the public sector Pfandbriefe to be rated 'AAA' on a probability of default basis.

The 'AAA' rating of Landesbank Baden-Wuerttemberg's guaranteed mortgage Pfandbriefe is driven by the rating of the German federal state of Baden-Wuerttemberg ('AAA'/Outlook Stable).

The 'AAA' ratings of HSH Nordbank AG's guaranteed mortgage and public sector Pfandbriefe are driven by the rating of the German federal states of Schleswig-Holstein ('AAA'/Outlook Stable) and Hamburg ('AAA'/Outlook Stable).

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