



Moody's Investors Service

Rating Action: **Moody's assigns new Aa3 issuer rating to SVBW**

Global Credit Research - 20 Jul 2009

New York, July 20, 2009 -- Moody's Investors Service has today assigned an Aa3 issuer rating to Sparkassenverband Baden Württemberg (SVBW), based in Stuttgart. The outlook for the rating is stable.

SVBW is the regional savings banks association for the 54 independent German savings banks in Baden-Württemberg. Its rating is based on (i) the strong legal and statutory links between SVBW and the regional savings banks, which are liable for the association's obligations, (ii) the strong franchise and sound financial profile of the savings banks in the region, and; (iii) Moody's opinion that there is a very high probability of support.

Aa3 RATING UNDERPINNED BY SAVINGS BANKS' AGGREGATE CREDIT STANDING

According to Moody's, the Aa3 rating is based on the strong legal and statutory links between SVBW and the savings banks, which effectively allows SVBW to rely on the savings banks' aggregate financial strength and creditworthiness. The savings banks are thus fully and jointly liable for any of SVBW's costs and risks, including potential risks arising from the association's portfolio of participations, chiefly consisting of stakes in LBBW, DSGV ö.K. and LBS Landesbausparkasse Baden-Württemberg. Notwithstanding this well-tested framework, Moody's emphasised that SVBW's creditors do not have direct recourse to the savings banks.

Regarding the aggregate position of these 54 savings banks, Moody's notes positively their sustainable franchise, their leading and stable position in the retail and SME markets of the affluent state of Baden Württemberg, their overall sound risk profile and satisfactory financial fundamentals.

Backed by predictable recurring earnings, the savings banks enjoy stable internal capital generation capacity, which has led to strong current capital levels. Moody's notes that although reported profitability indicators appear unfavourably compared to its European peers, they already incorporate, on an aggregate basis, allocations to undisclosed reserves and the fund for general banking risks, thereby adding to the savings banks' solid aggregate economic and regulatory capitalisation and understating somewhat their intrinsic earnings power.

With regard to the financial risk resulting from the savings banks' substantial equity participations held via SVBW, in particular their 40.5% stake in LBBW, Moody's believes that even in adverse circumstances, the savings banks' aggregate resources would be sufficient to even absorb material losses and that the overall impact on the savings banks' profitability and capital strength should remain within manageable limits.

SVBW WOULD RECEIVE SUPPORT IN THE UNLIKELY EVENT OF STRESS

Moody's adds that SVBW's Aa3 issuer rating is also based on Moody's view that the probability of support in the event of need is very high, both from the savings banks' public-sector owners -- which include various counties and municipalities in Baden-Württemberg -- and from the government of the Federal Republic of Germany (Aaa, stable). The support assessment is based on (i) public-sector ownership considerations, (ii) the fact that the vast majority of the association's members are of vital importance to their respective local retail and SME markets, given that they have leading market positions and strong links to their local economies, (iii) the often significant contribution of the members to the tax revenues of their respective regional and local governments, and (iv) the banks' important role in the national banking system.

Finally, Moody's emphasises that, while the issuer rating for SVBW is ultimately based on the savings banks' aggregate strength, the newly assigned rating should not be interpreted as an indication of the credit strength of each individual member bank or of the combination of all these institutions, due to meaningful differences in savings banks obligations vis-à-vis SVBW and among each other.

SVBW's PROFILE

SVBW is a public-law institution and membership is mandatory by law for all savings banks in the State of Baden-Württemberg (Aaa, stable) and their public sector owners, i.e. the regional and local governments, indicative of SVBW's important function for the savings banks.

The association's main purpose is to (i) represent the savings banks' interests in discussions with legislators, regulators and other public authorities, (ii) provide various support services to its member banks, and (iii) manage the sector's regional support mechanisms established to ensure the solvency and liquidity of the member banks. SVBW also

coordinates for the savings banks' interests in associated companies that are considered of strategic importance for the sector, such as LBBW, DSGV ö.K., LBS Landesbausparkasse Baden-Württemberg and SV Sparkassen Versicherung. Finally, the association is responsible for auditing the accounts of the member banks. SVBW is not a bank or financial holding company and therefore not subject to German banking regulation and supervision. However, the association, as well as the savings banks, is subject to the formal control of the Ministry of the Interior of Baden-Württemberg.

The principal methodologies used in rating SVWB are "Bank Financial Strength Ratings: Global Methodology" and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology", which can be found on www.moody.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory. Other methodologies and factors that may have been considered in the process of rating SVBW can also be found in the Credit Policy & Methodologies directory.

Located in south-western Germany, these savings banks jointly reported total assets of EUR172 billion and equity of EUR12.9 billion at the end of 2008.

Frankfurt
Uwe Barth
Asst Vice President - Analyst
Financial Institutions Group
Moody's Deutschland GmbH
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Frankfurt
Carola Schuler
Managing Director
Financial Institutions Group
Moody's Deutschland GmbH
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454



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