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Bailout For Subprime Casualty: Baden-Württemberg Bank to Buy SachsenLB

Landesbank Baden-Württemberg is to buy SachsenLB, the German state bank which ran into trouble over the US subprime mortgage crisis. The move is likely to increase pressure on state banks to consolidate.

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LBBW has bailed out its eastern rival SachsenLB.

In a sign of just how globalized financial markets are, the Eastern German state bank of SachsenLB ran into trouble over the recent US subprime mortgage crisis. Now a Western German rival has stepped in to bail out the stricken bank. German state-backed bank Landesbank Baden-Württemberg (LBBW) agreed on Sunday to buy Leipzig-based SachsenLB. LBBW will immediately inject €250 million (\$340 million) in capital to supply liquidity for the troubled bank as part of the deal.

LBBW is also expected to pay SachsenLB's owners -- the German state of Saxony and its regional savings banks -- at least €300 million in cash and shares. The final price will be fixed at the end of this year. LBBW, which is the biggest of Germany's regional state banks, will take control of SachsenLB in early 2008.

"Who else could have done it besides us?" said Baden-Württemberg Governor Günther Oettinger Sunday. For LBBW, SachsenLB will offer a bridgehead to Eastern Europe, chairman of the LBBW board Siegfried Jaschinski said. The state of Saxony borders on Poland and the Czech Republic.

The sale came after apparent pressure from the German financial services regulator BaFin to sell SachsenLB in order to minimize the bank's losses. SachsenLB was bailed out just over a week ago by the German association of savings banks.

Sachsen LB ran into trouble earlier this month over investments linked to risky mortgages in the United States as part of the global credit crunch. Germany is the European country which has suffered most from the crisis.

The sale is regarded as a step forward in the consolidation of Germany's state banks. LBBW is also seen as a strong contender for a possible merger with another state bank, Düsseldorf-based WestLB, which was also burnt by the subprime crisis.

Meanwhile British newspaper *The Times* reported Monday that UK-based Barclays Bank helped set up one of the financing vehicles that caused SachsenLB to get into trouble. Sachsen Funding I, a Dublin-registered fund created jointly by Sachsen and Barclays Capital, was one of the offshore investment vehicles known as "conduits" that ran into trouble after the mortgage crisis, the paper said. The two banks are thought to have had a particularly close relationship, and SachsenLB's woes are helping to drag Barclays itself deeper into the subprime crisis.

dgs/reuters

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