Rating Report

Report Date:
15 May 2012

Previous Report:
28 June 2011

Insight beyond the rating.

Sparkassen-Finanzgruppe

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The Company

Sparkassen-Finanzgruppe is a decentralised group of German public-sector financial institutions with strong market shares in many product categories of banking in Germany.

Recent Actions

25 April 2012
DBRS Confirms Floor Ratings on Sparkassen-Finanzgruppe at A (high), Stable Trend

30 June 2010
DBRS Rates 410 Members of Sparkassen-Finanzgruppe's Joint Liability Scheme at A (high), Trend Stable

Ratings

Issuer	Debt Rated	Rating	Trend
Sparkassen-Finanzgruppe	Issuer & Senior Long-Term Debt	A (high)	Stable
Sparkassen-Finanzgruppe	Short-Term Instruments	R-1 (middle)	Stable

Rating Rationale

On 25 April 2012, DBRS Ratings Limited (DBRS) confirmed its floor ratings for all members of the joint liability scheme (Haftungsverbund or the Scheme) of Sparkassen-Finanzgruppe (Sparkassen-Finanzgruppe or the Group). The floor ratings are based on the depth and resources of the joint liability scheme, the additional support for the Group's members from their public owners (Träger), as well as broader systemic support. The ratings also consider the underlying earnings potential and the solid franchise of the savings banks and the overall importance of the Group to the German banking sector. Offsetting these rating strengths are the elevated risk profile and weak overall earnings of several Landesbanks that are a significant part of the Group, and the level of competition in the savings banks' core business of German retail banking.

The floor ratings of A (high) for Issuer & Senior Long-Term Debt and R-1 (middle) for Short-Term Instruments apply to each member of Sparkassen-Finanzgruppe's joint liability scheme. The joint liability scheme includes 426 German savings banks, the eight Landesbank groups, ten public-sector building societies (LBS), the Group's central asset manager DekaBank and other specialised service providers. The floor ratings indicate that each member of the joint liability scheme is rated at least at A (high) / R-1 (middle); however, this does not prevent members from potentially achieving higher individual ratings based on their individual credit assessment. (Continued on page 2)

Rating Considerations

Strengths

(1) Structure of the joint liability scheme, which makes Group resources available to all members of the Group and systemic support for Landesbanks
(2) Underlying earnings potential of Sparkassen-Finanzgruppe
(3) Solid franchise of the savings banks and the overall importance of the Group to the German banking sector

Challenges

(1) Defending strong position of savings banks in German retail banking amid intense competition
(2) Minimising the impact of still elevated risks at the Landesbanks, while also strengthening the cohesiveness and benefits across the Sparkassen-Finanzgruppe
(3) Managing impact from difficult regulatory environment while maintaining profitability and competitiveness

Financial Information

Sparkassen-Finanzgruppe EUR Millions, unless otherwise noted	31/12/2010 € NGAAP	31/12/2009 € NGAAP	31/12/2008 € NGAAP	31/12/2007 € NGAAP
Total Assets (millions)	2,601,695	2,582,782	2,684,968	1,160,191
Equity (millions)	122,231	126,678	115,307	0
Net Income (millions)	6,031	-2,860	-5,401	7,198
Risk-Weighted Earning Capacity (%)	n/a	n/a	n/a	n/a
Post-provision Risk-Weighted Earning Capacity (%)	n/a	n/a	n/a	n/a
Yield on average earning assets	3.96	4.44	8.11	12.56
Cost of interest bearing liabilities	2.67	3.21	4.71	10.57
Efficiency Ratio (%)	60.45	61.63	64.21	66.35
Impaired Loans % Gross Loans	n/a	n/a	n/a	n/a
Tier 1 Capital Ratio (%)	10.95	10.12	8.82	n/a

Source: Company Reports

Rating Rationale (Continued from page 1)

In DBRS's view, the joint liability scheme of Sparkassen-Finanzgruppe reduces the default risk for each member, because the Scheme makes financial resources available to each member of the Group. As such, the strength and structure of the Scheme is a key factor considered in the floor ratings. The joint liability scheme is designed to ensure the solvency and viability of each member, thereby protecting creditors and counterparties. Since the Scheme's inception in 1973, no member has defaulted, which DBRS sees as indicating that the scheme fulfils its function. DBRS recognises, however, that the joint liability scheme has limitations, as it does not amount to a legal cross-guarantee. Moreover, while the combined resources of the joint liability scheme enable it to cope with most stress scenarios, they may be insufficient in a wider systemic crisis. These limitations are factored into the floor ratings.

As mentioned above, the internal support mechanism of Sparkassen-Finanzgruppe is complemented by external support for the Landesbanks, which form part of the Group, thereby adding a level of stability to the floor ratings. During the recent financial crisis, several Landesbanks received support from their public owners in the form of capital injections and other forms of support, such as risk shielding from the federal government. In DBRS's view, these measures reduce the need for additional support from the Group; however, they do not eliminate it. Further, DBRS sees the availability of this support as benefitting the Group, as it lessens the potential burden of the Landesbanks on the Group. Importantly, however, any indication of reduced access to systemic support by the Landesbanks would likely lead to downward pressure on the floor ratings, as it would reduce the financial resources available to the members of Sparkassen-Finanzgruppe.

The floor ratings also consider the overall strong market positions and the solid franchises of the institutions forming Sparkassen-Finanzgruppe, as a whole entity. Together, the Group's members maintain leading positions across many areas of German banking, as demonstrated by the strong combined market shares of c. 43% in business lending, and also a 43% share in retail customer deposits at year-end 2010. The Group continues to see solid lending and deposits activity, especially within the savings banks. The sizeable combined market share demonstrates its importance in the functioning of the German banking sector. The importance of the Group and the close relationship of its members is illustrated by the increasing levels of cohesion that exists between the savings banks, which allows for crosss selling. DBRS sees the Group's overall franchise strength as benefitting from the solid positioning of the savings banks, whereas the negative impact from weaker Landesbanks has diminished somewhat following meaningful de-risking and restructuring.

The Sparkassen-Finanzgruppe's underlying earnings generation ability is factored into the rating and reflects both the stability of the savings banks performance, as well as the improving risk profile of most of the Landesbanks, which DBRS expects may contribute lower earnings volatility in the future. In 2010, the most recent year for which aggregate data is available, Sparkassen-Finanzgruppe recorded EUR 17.3 billion of operating earnings before other and non-operating income/expenses and before valuation results (which under German GAAP include losses on loans, securities, and prudential reserves). However, like other financial institutions across the globe, Sparkassen-Finanzgruppe's earnings are vulnerable to market disruption. In 2010, after considering negative valuation results of EUR 6.2 billion across assets and investments at both the savings banks and Landesbanks, the Group recorded a pre-tax profit of EUR 8.7 billion. This was a sharp increase over the prior year and reflected the return to profitability of the Landesbanks on an aggregated basis in 2010. Following two years of heavy losses, the Landesbanks contributed EUR 1.8 billion to the overall Group net results of EUR 6.0 billion for 2010 and have remained profitable in aggregate for 2011.

In DBRS's view, the overall risk profile of Sparkassen-Finanzgruppe remains negatively impacted by the higher earnings volatility potential from the Landesbank sector, as well as the more wholesale orientation of the state level banks. Nonetheless, DBRS acknowledges that significant de-risking and restructuring has reduced the level of future volatility. Likewise, credit quality of the savings banks has also improved and has benefited from the stronger domestic economy, as well as improved credit standards and processes. Indeed, at the savings bank level, the allowance for loan losses decreased by EUR 1 billion to EUR 600 million in 2011.

The Sparkassen-Finanzgruppe's overall satisfactory liquidity and capitalisation are also considered in the ratings. Importantly, DBRS recognises that the strong deposit base and sound liquidity of the savings banks enables them to keep significant deposits with the Landesbanks, which assisted the Landesbanks' liquidity needs in recent years. The Group benefits from the strong, stable deposit franchise of the savings banks, while the wholesale-oriented funding profile of the Landesbanks weakens the overall Group's funding profile. The strong governmental liquidity support offered to the Landesbanks during the recent crisis reduced the potential demands on the joint liability scheme during the financial crisis, thereby adding additional cushion to the floor. Capitalisation remains appropriate. The savings banks reported a Tier 1 capital ratio of 10.5% at year-end 2011 and a total capital ratio of 15.8%. On a combined basis for both the savings banks and Landesbanks, the Tier 1 ratio was 11.5% at end 2011, up from 10.9% at year end 2010.

DBRS views Sparkassen-Finanzgruppe as facing several challenges, which include defending the still dominant position of savings banks in German retail banking in the face of strong competition. The savings banks face intense competition for retail banking products and in maintaining margins and solid profitability in the core German retail banking operations. This is particularly important, as the savings banks' solid retail franchise underpins the overall Group's franchise strength. Lastly, as with most financial institutions operating across the globe, the Group needs to manage business strategies to adapt to the ever-changing regulatory environment. While DBRS sees the savings banks as well-positioned given their liquidity and capital positions, the Group, as a whole, including the Landesbanks, faces additional challenges in maintaining the competitive advantages given the changing environment. Nonetheless, given the importance of the Group to the German banking industry, DBRS sees Sparkassen-Finanzgruppe as well positioned to confront this challenge.

The trend on the floor ratings is Stable, reflecting DBRS's expectation that the support mechanisms will remain intact. Meanwhile, the positive performance of the savings banks and the longer-term expected lowered risk profile of the Landesbanks add stability, as the needs of support continue to be reduced. Given that the structure and strength of the joint liability scheme is a key rating factor, regulatory or other changes that would reduce the availability of support to the Group's members from the joint liability Scheme and from external systemic support could negatively affect the support assessment.

Support Assessment (SA)
DBRS's expectation that the members of Sparkassen-Finanzgruppe's joint liability scheme have access to several sources of support is a key factor underpinning the floor ratings. One important source of support is the joint liability scheme, which makes internal resources of the Group available to members facing challenges. While the scheme's resources allow it to support even large savings banks, the scheme's resources may not be sufficient to address a systemic crisis where a large number of savings banks or Landesbanks require support. In a scenario where several Landesbanks faced challenges, DBRS would expect external support from their public owners, as well as systemic support from the federal government, to strengthen the financial resources of the Group's members, if needed. External support would thereby complement the internal support provided by the joint liability scheme. The expectation that such external support is available constitutes a key rating factor, as it stabilises the floor ratings. These considerations are reflected in an SA-2 support assessment for the members of the joint liability Scheme.

Rating Consideration Details

Strengths
(1) Structure of the joint liability scheme, which makes Group resources available to all members, and systemic support for Landesbanks
DBRS views the depth of the joint liability scheme and the resources it makes available to all Group members as the key factor underpinning the floor ratings. The joint liability scheme is designed to ensure the viability of each member institution. In DBRS's view, the joint liability scheme, combined with the availability of additional public owner and systemic support, reduces the default probability for each member. Moreover, DBRS sees the substantial support for the Landesbanks from their government owners and the federal government as beneficial for Sparkassen-Finanzgruppe. This support helped safeguard the liquidity and capitalisation of several Landesbanks that faced challenges during the recent financial crisis. DBRS sees systemic support for the Landesbanks as

reducing the potential demands on the joint liability scheme and on other members of the Group, which adds a level of stability to the floor ratings.

(2) Underlying earnings potential of Sparkassen-Finanzgruppe
The Group generates sizeable underlying earnings from the strong franchise positions of its members. While consolidated financials for the Group are not available, the savings banks generated a pre-tax income of EUR 4.7 billion for 2011, a solid result. Moreover, the Landesbank sector returned to profitability in 2010 following significant restructuring and de-risking. As such, DBRS expects profitability for the Group to be significantly better than in the past. For 2010, Sparkassen-Finanzgruppe posted a net profit of EUR 6.0 billion as Landesbank profits of EUR 1.8 billion helped to bolster improved profits of EUR 4.1 billion from the savings banks. DBRS sees Sparkassen Finanzgruppe's overall profitability metrics as greatly improved following the restructuring of weaker Landesbanks.

(3) Solid franchise of the savings banks and overall importance of the Group to the German banking sector
The solid franchise of the savings banks positively affects the overall franchise strength of Sparkassen-Finanzgruppe. The savings banks have particularly strong positions in transactional accounts, savings deposits and retail lending in Germany, with market position in excess of 40% in customer penetration in some products. In addition to generating relatively stable earnings, the solid market share illustrates the overall importance of the Group to the German banking sector. The dense network of the savings banks, with 15,626 branch locations, makes them key providers of financial services in Germany. Further illustrating the critical role of the savings banks is their mandate under public law to promote savings and improve access to banking services in the communities they serve. The franchise strength of the savings banks is also reflected in their EUR 783.4 billion of customer liabilities (including certificated liabilities) at year-end 2011, which underpins their sound funding profile.

Challenges
(1) Defending strong position of savings banks in German retail banking amid intense competition
As the market leader in many areas of German retail banking, the savings banks continue to face strong competition. Defending their strong retail position poses an important task, as this franchise underpins the strength of Sparkassen-Finanzgruppe overall. Competitive pressure is intense, as the financial crisis has led many banks to re-focus on traditional deposit-gathering and retail lending activities. Net interest income remained under pressure in 2011 and DBRS expects that competitive pressure may continue to constrain margins. Nonetheless, DBRS recognises the increase in deposits and the increased level of lending volumes at the savings banks, which in DBRS's view, illustrates the strength of the franchise and the safety of the Sparkassen name.

(2) Minimising the impact of still elevated risks at the Landesbanks, while also strengthening the cohesiveness and benefits of the wider Sparkassen-Finanzgruppe
In DBRS's view, the future impact of earnings volatility and risk from the Landesbanks has been reduced. Nonetheless, relative to the savings banks, the Landesbanks' business models remain more wholesale oriented, and as history indicates, these businesses have been often volatile. Nonetheless, DBRS recognises the significant de-risking of the sector and the return to profitability by most of the Landesbanks. Important to the rating is the cohesiveness between the savings banks and the Landesdanks. With the de-risking and rightsizing of the Landesbank sector, DBRS views keeping the cohesion amongst members as a key task in order to protect the ongoing relationships and the competitive advantage for the public sector banks.

(3) Managing the impact of the difficult regulatory environment while maintaining profitability and competitiveness
As with most financial institutions operating across the globe, the Group faces the challenge of managing their business model to adapt to the ever-changing regulatory environment. This may include the need to adjust its operations and strategy as capital requirements and costs impact business models. DBRS sees the savings banks as well-positioned given their liquidity and capital positions, and the reduced risk at the Landesbanks.

Rating Drivers

Factors with Positive Rating Implications
Given the level of the ratings and DBRS's floor concept, upward rating momentum would be unlikely short of an external event. Nonetheless, DBRS views positively the solid earnings and balance sheet management at the Group level, and the de-risking at the Landesbank level.

Factors with Negative Rating Implications
Negative ratings pressure would result from indication that the Landesbanks' access to support from their public owners and the federal government was reduced. Furthermore, downward rating pressure could also be caused by a weakening of the savings banks franchise and their underlying earnings capability. Moreover, indications that the de-risking of the Landesbanks' operations is not sustained, which could lead to sizeable losses thereby weakening the Group's resources could have a negative impact on the ratings. Importantly, any weakening of the joint liability scheme or reduced access to support from their public owners and the federal government could negatively impact the floor rating.

Franchise Strength - Description of Operations

Together, the members of Sparkassen-Finanzgruppe's joint liability Scheme form one of the largest financial groups globally, with total aggregated assets of EUR 2,568 billion as of year-end 2011. Sparkassen-Finanzgruppe primarily comprises three constituent groups with distinct franchises – the German savings banks, the Landesbanks and the public-sector building societies (Landesbausparkassen, or LBS). In DBRS's view, the strong, resilient franchise of the savings banks forms the core of Sparkassen-Finanzgruppe's franchise strength, while the weaker, more wholesale-oriented franchise of most Landesbanks negatively affects the overall Group.

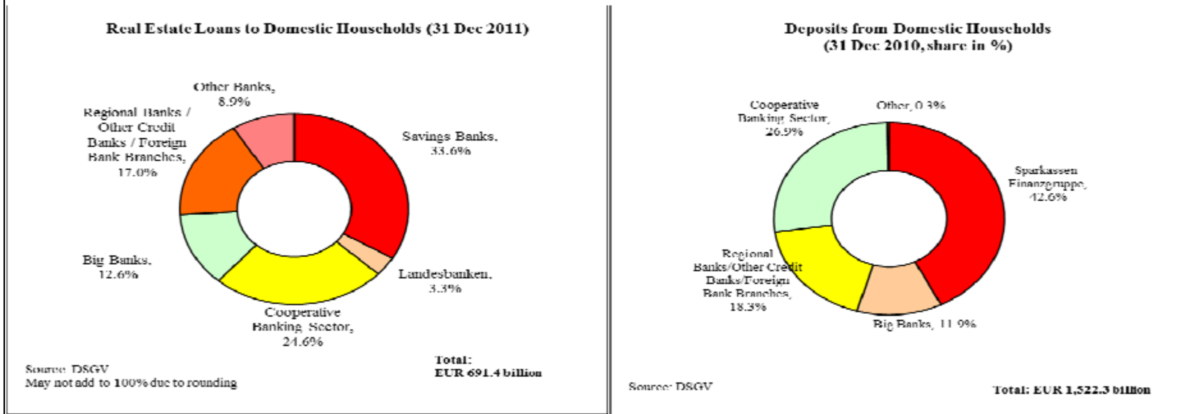
The 426 German savings banks as of 31 December 2011 have a strong, relatively stable franchise, which, as discussed above, is a key rating consideration. With EUR 1,098 billion in total assets, and over EUR 783.4 billion in customer deposits (including certificated liabilities) at year-end 2011, the savings banks enjoy leading market positions across a wide range of financial services provided to retail customers and SMEs in Germany. The public owners (Träger) of most savings banks are the municipalities and the regions in which they operate.

The strong combined position of the member institutions of Sparkassen-Finanzgruppe in German banking is demonstrated by their market share in core products, with a combined 43% share in retail customer deposits (including LBS) and also 43% in business lending at year-end 2010. The savings banks had EUR 236.9 billion in domestic residential real estate loans at year end 2011, comprising a sizeable 33.6% market share, whilst the Landesbanks have an additional EUR 23.3 billion in real estate loans to domestic households, or 3.3% of the total. The members of Sparkassen-Finanzgruppe also have strong customer deposit franchises. At the savings bank level, deposits from households totalled EUR 610.4 billion at 31 December 2010, representing a market share of 40.1%. The Landesbanks had EUR 38.0 billion in customer deposits or a 2.5% market share in customer deposits. On a total deposit basis, including businesses, the savings banks reported a 31.4% national share with the Landesbanks a 9.0% share as of end 2010. In terms of aggregate household and business deposits, the Sparkassen-Finanzgruppe reported a national share of 40.4% at end 2010.

Sparkassen-Finanzgruppe

Report Date:
15 May 2012

Exhibit 1:



The eight Landesbank groups are mostly active in wholesale banking. The Landesbanks are important lenders to medium- to large-sized corporations and public-sector entities in their domestic regions. The Landesbanks are also significant participants in international loan syndication, money markets, securitisation and asset-based financing. Nonetheless, since 2008 many Landesbanks have reduced some of their international activities and several have undergone significant de-risking and/or restructuring. Most Landesbanks are jointly owned by the states in which they are headquartered (reflecting their origin as state banks) and regional savings banks associations. Nonetheless, the level of ownership and involvement of the Savings Banks with the Landesbanks can vary significantly. Indeed, some Landesbanks are part vertically integrated via direct ownership of savings banks. Some Landesbanks have developed more diverse franchises geographically and by business line and others less so. Overall, despite this variation and an improving risk profile, DBRS continues to view the Landesbanks as more vulnerable to market dislocations than the savings banks.

The ten regionally-focused public-sector building societies (LBS) that also form part of Sparkassen-Finanzgruppe have a combined market-leading position in home savings and loans products which are mainly distributed by the savings banks. They are mostly owned by regional savings banks associations and Landesbanks. Other members of the joint liability scheme of Sparkassen-Finanzgruppe include DekaBank, the central asset manager of Sparkassen-Finanzgruppe, and other smaller providers of specialised financial products. The savings banks collectively own 100% of DekaBank as of end 2011. This follows their EUR 2.3 billion purchase of the 50% of DekaBank formerly owned by the Landesbanks. DekaBank is the third largest mutual funds manager in Germany, providing key asset management products that the savings banks offer to their retail customers. The broader Sparkassen-Finanzgruppe also includes 11 primary public-sector insurers that together occupy strong positions in individual products such as property insurance, life, retirement products and health insurance. However, the public-sector insurers are not part of the joint liability scheme and therefore do not benefit from DBRS's floor ratings.

Joint Liability Scheme

DBRS sees the joint liability Scheme as a key factor underpinning the floor rating, as it makes resources of the Group available to all members. Since the scheme's inception in 1973, no member of Sparkassen-Finanzgruppe has defaulted. The joint liability scheme is not tantamount to a cross-guarantee, which negatively affects the floor ratings. Creditors and members do not have a legal claim on support from the scheme. Instead, the scheme is based on mutual support between its members. Therefore, the structure of the system and the ability and willingness of its members to support each other become important components of the strength of the Scheme, and therefore are factors considered in the floor ratings.

The Scheme comprises a system of connected support funds, including 11 regional savings banks support funds, plus one support fund each for the Landesbanks and the LBS. If a decision has been made to support a member, such support is initially provided by that regional support fund to which the institution belongs. If a savings bank requires support that exceeds the resources of its regional support fund, then in the next step the resources of all 11 savings banks support funds can be activated. If this still proves insufficient, then the resources of the whole joint liability scheme can be utilised. However, the decentralised structure of the system could pose a challenge in DBRS's view, as it increases the number of steps that are needed to leverage the full resources of the system.

In support cases, the mechanisms of the joint liability scheme are available to strengthen and restructure savings banks that face challenges. In DBRS's opinion, these cases, while generally involving smaller support amounts, help ensure the ability of the system to function smoothly. With the exception of the Landesbanks, most support cases of the joint liability scheme involve small institutions. 90% of all support cases can be handled by the challenged member's regional support fund alone, without additional resources from the system of support funds. DBRS recognises, however, that the combined resources of the joint liability scheme are not sufficient, nor was the Scheme designed, to address a wider systemic crisis. This is viewed as a weakness that negatively affects the floor ratings. However, as discussed above, this weakness is partly mitigated by the access to additional sources of external support that the members of Sparkassen-Finanzgruppe enjoy, most importantly from their public owners, from the federal German government, and from regional support funds that savings banks and Landesbanks have established. The administrators of the support funds can use their discretion to require additional support from the public owners of a challenged member and to effect management and business strategy changes to ensure a successful restructuring and protect the Scheme's funds. Member contributions to the Scheme are risk-based, providing an incentive for members for prudent risk management.

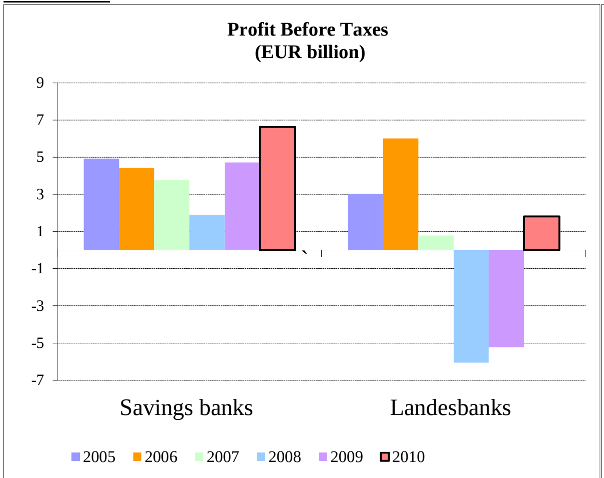
DBRS notes that the members of the joint liability scheme have strong incentives to support each other, which is critical to ensure the functioning of the system, due to the lack of a legally binding cross-guarantee. A default by any member would cause reputational damage for the overall Group. Customers and counterparties may not differentiate between Group members and may view a default by any one member as a sign of weakness for the overall Group. This reputational link is furthered by the common "Sparkassen" brand and the red "S" logo used by all savings banks. Similarly, most Landesbanks carry the "Landesbank", or short "LB", brand in their name, and all public-sector building societies share the "LBS" brand. The cost of such reputational damage likely outweighs the costs of utilising the support mechanism in most stress cases.

In addition, DBRS sees strong economic incentives for the Scheme's members to support each other. Savings banks that run into difficulties typically have strong market positions, which constitute a franchise value for Sparkassen-Finanzgruppe. In addition, the significant joint business that the Group members conduct with each other creates an economic incentive to provide support. The savings banks are also major shareholders of most Landesbanks, creating an economic incentive to support them. For those Landesbanks where the savings banks no longer own substantial interests, the economic incentive to provide support has declined; however, this has been replaced by support from the state owners of these Landesbanks.

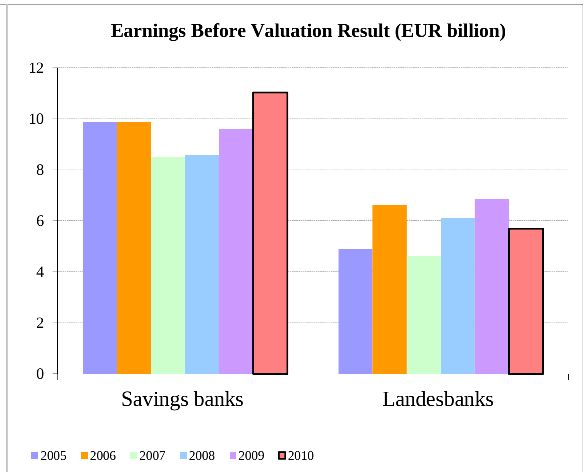
Earnings Power

Although Sparkassen-Finanzgruppe has sizeable earnings potential, the Group's net performance has been negatively affected by the earnings volatility, past losses generated by the Landesbanks in aggregate, as well as sizeable valuation adjustments linked to the sovereign debt crisis and exposure to Greek securities. In 2010, the most recent year for which aggregate data is available, the overall Group generated a stable EUR 17.3 billion of operating earnings before other and non-operating income/expenses and valuation results (which under German Commercial Code (HGB) includes losses on loans, securities and prudential reserves). For the year ending 31 December 2010, the Group generated an after tax profit of EUR 6.0 billion, of which EUR 1.8 billion was attributed to the Landesbanks with the bulk EUR 4.1 billion from the savings banks. The greatest impact on the aggregated result was the return to profitability at the Landesbanks following two years of heavy losses. Importantly, the operating earnings before valuation result for Sparkassen-Finanzgruppe continue to show stability, reflecting relatively stable net interest income, some improvement in commissions and good cost control. However, as discussed earlier, the EUR 6.2 billion of valuation losses during the year sharply reduced the bottom line in 2010.

Exhibit 2:



Source: DSGV



Excl other and non-operating income

Source: DSGV

The savings banks generate relatively stable underlying earnings, which positively impact the Group's earnings profile, and thereby support the ratings. Operating earnings of EUR 11.8 billion were largely unchanged and reflected stability across net interest income and commissions, as well as lower credit costs. Just like the prior year, bottom line results were impacted by significant adjustments. Of note, this included EUR 1.2 billion in valuation adjustments, principally due to the sovereign debt crisis and write downs on Greek exposure. During the year, the savings banks also took a EUR 1.4 billion charge to investments, including EUR 850 million to reduce the value of the ownership stake in Landesbank Berlin, first purchased in 2007. On an after-tax basis, the savings banks' EUR 2.0 billion net income for the year was unchanged versus 2010.

While aggregated 2011 data for the Landesbanks is not yet available, given the individual results reported to date, DBRS expects that despite ongoing pressure from valuation adjustments and the sovereign crisis, aggregated results should remain positive. DBRS notes that most Landesbanks either remained profitable or returned to profitability in 2010. In 2010, the Landesbanken reported an aggregated profit of EUR 1.8 billion which was a sharp reversal of the aggregated losses of EUR 5.2 billion for 2009 and EUR 6 billion loss for 2008. The turnaround in performance at many of the Landesbanks was strongly driven by the restructuring and de-risking across the sector. As a result, DBRS expects that the earnings volatility typically associated with the Landesbank sector may be reduced going forward.

At the savings banks, net interest income for 2011 increased marginally to EUR 23.6 billion and remained the most important contributor to earnings. NIM remained under pressure during the year, influenced by higher funding costs and competition for deposits. Given the current economic environment, DBRS expects that interest margins for the savings banks will remain under pressure. The Landesbanks generate relatively low interest spreads, on average, reflecting relatively narrow spreads on their large corporate lending and securities and the cost of their wholesale funding.

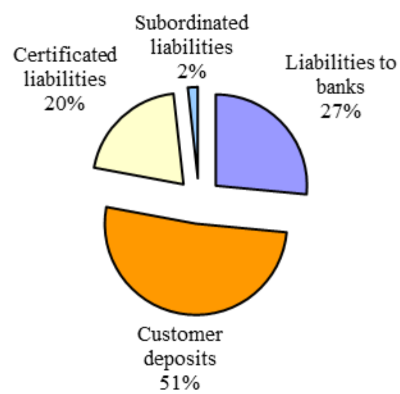
Cost efficiency for Sparkassen-Finanzgruppe is relatively low in an international context. The expense ratio reflects the Group's decentralised structure with multiple legally independent entities. DBRS recognises that efforts by the savings banks to centralise back-office functions in recent years have shown some results, with roughly 40% of all savings banks reaching a cost income ratio below the targeted 60% in 2010. The overall cost-income ratio was reported at 60.6% for both 2011 and 2010, just above the target level. Although this is an improvement from 63% in 2009 and even higher levels in prior years, DBRS continues to view the Group's overall costs as high.

Funding and Liquidity

DBRS views the liquidity and funding position of Sparkassen-Finanzgruppe as satisfactory, as the Group benefits from the strong deposit franchise of the savings banks. Although the savings banks benefit from their solid deposit-gathering ability, the Landesbanks are largely wholesale-funded, which in turn weakens the overall Group's funding profile. Reflecting the combination of the strong deposit base of the savings banks and the wholesale-oriented funding profile of the Landesbanks, Sparkassen-Finanzgruppe overall had a noteworthy wholesale funding reliance of more than 48.6% of total funding at year-end 2010. Customer deposits of EUR 1.16 trillion accounted for the remaining 51.4% of Group funding. DBRS views the deposit base of the savings banks as a core element in maintaining satisfactory liquidity.

Exhibit 3:

Sparkassen-Finanzgruppe Funding EUR bill (31/12/10)



Total: EUR 2,308 billion Source: DSGV

The savings banks' stable liabilities to customers of EUR 783.4 billion (including certificated liabilities) at year-end 2011, provide the foundation for the funding profile. Importantly, the savings banks' customer liabilities demonstrated stable increasing trend through the financial crisis, growing by more than 9% since year-end 2007. Liquidity at the savings banks is further illustrated by liabilities to customers exceeding customer loans by EUR 106 billion at year-end 2011. The liquidity ratio for the savings banks has typically been roughly 2.5%.

Given their largely wholesale business models, the Landesbanks in aggregate rely much more on market funding. The funding pressures for some Landesbanks highlight the vulnerability to market disruption. Importantly, to relieve the funding stress and safeguard each Landesbank's funding ability through the crisis, the state owners and the federal government promptly announced debt guarantees for the Landesbanks. As market conditions have normalised, the Landesbanks' most impacted have focused on restructuring and some, such as HSH Nordbank, have made one-off payments to their guarantors in line with EU requirements.

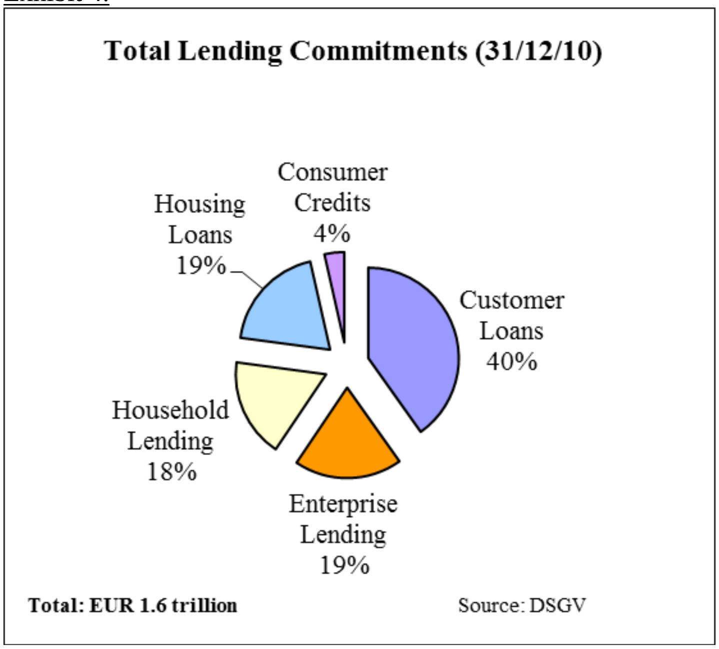
DBRS recognises that several Landesbanks have relatively stable funding relationships with savings banks that keep a portion of their excess deposits with them. These funding relationships helped several Landesbanks manage through the recent period of market disruption, adding a level of stability to their funding profile.

One factor that will add to the funding needs for Landesbanks in coming years is the large amount of maturing debt that was issued under explicit state guarantees before July 2005. This debt will have to be replaced with unguaranteed funding. On the other hand, on-going asset reduction efforts at most Landesbanks will have an offsetting effect on funding needs in the near to medium term. DBRS expects that the Landesbanks would weather any renewed disruption in funding markets, helped by the availability of systemic support similar or in line with that demonstrated since 2008. The extent and coordination of support is demonstrated by the restructuring of WestLB which is now being implemented following approval by the European Commission in December 2011. Going forward, WestLB will operate as a service and portfolio management bank. Its core operations with the savings banks and public sector entities, including SME business, is being spun off and merged with Helaba, whereas any remaining unsold assets will be transferred to the Erste Abwicklungsanstalt (EAA) established under the Financial Market Stabilization Authority.

Risk Profile

The risk profile of Sparkassen-Finanzgruppe has improved given the restructuring and various risk reduction measures undertaken at the weaker Landesbanks. Although there is still elevated concern at some Landesbanks, the steep reduction in total assets and the parallel reduction in securitised liabilities have helped towards de-risking many of the Landesbanks. DBRS views the overall risk reduction in the Landesbank sector as a key driver of the improved results exhibited in the past two years. DBRS continues to view the risk profile of the savings banks as stable and reflective of the broader German economic environment to which its retail and SME lending is integrally linked.

Exhibit 4:



Given the geographic concentration in Germany, Sparkassen-Finanzgruppe is exposed to the German economic and credit cycle. While the savings banks' business is concentrated in Germany, it is well diversified within the country. Moreover, the exposures in the aggregate loan portfolio of the savings banks are highly granular and extend across the breadth of German industry and commerce. Exemplifying the Group's ties with the German economy, three quarters of all German businesses have a banking relationship with the Sparkassen-Finanzgruppe and 42.8% of German loans to domestic enterprises come from the savings banks and the Landesbanks.

The Group's already sizeable exposures to business lending increased by a further 3% during 2011 to EUR 326.5 billion, helped by the favourable economic development of the German SME sector (or Mittelstand) in recent periods. DBRS views this portfolio as increasing the overall risk profile of the Group due to the vulnerability of SMEs to the economic cycle. Yet, the Group's large real estate lending to private customers and loans to public authorities have performed well through past economic cycles, adding a level of stability to overall credit quality. Real estate loans to private customers amounted to EUR 236.9 billion as of end

2011, an increase of just under 2%. Furthermore, Sparkassen-Finanzgruppe's lending to public authorities and private individuals (excluding real estate) moderates the risk profile, given the public law guarantees which support local authorities, the high barriers to personal bankruptcy filings in Germany, as well as the long track record of the savings banks (which account for most private loans) in lending to their local customers. Historically, DBRS has viewed the highest credit risk for Sparkassen-Finanzgruppe in the corporate loan portfolios of several Landesbanks. The financial crisis in 2008 primarily affected Landesbank securities portfolios, yet the subsequent recession and capital pressure helped the de-risking of loan portfolios and in some cases forced restructuring. In DBRS's view, the worst period for risk from the Landesbanks has passed, particularly as many have reined in riskier foreign bank and international corporate activities. Nonetheless, the wholesale nature of the Landesbanks' business models may continue to pose future risks relative to the more stable profile of the savings banks.

As noted above, the savings banks are linked to the domestic economic cycle through its broad lending relationships to SMEs. Within this group, roughly 42.2% of all lending to sole proprietors originates from the Sparkassen-Finanzguppe. Performance continues to be within DBRS's expectations, and 2011 results indicated improved credit performance domestically. Nonetheless, there remain many factors including Eurozone concerns which could dampen the economic situation. The savings banks' aggregate lending to businesses and sole proprietors is diversified across sectors and is somewhat representative of the overall German economy. DBRS sees the savings banks as benefitting from risk management tools offered by the Group's federal association, Deutscher Sparkassen- und Giroverband (DSGV). These include credit pooling programmes to limit concentration risks at the individual savings bank level and centralised software and credit scoring systems which provide shared information and statistics useful in controlling credit decisions.

DBRS notes that the savings banks have recorded significantly lower credit losses for two consecutive years, with levels for 2011 of EUR 600 million, a full EUR 1 billion lower than the prior year. While DBRS recognises the strength of this improvement, a large portion of this momentum is attributed to the more buoyant domestic economic environment in Germany. Nonetheless, given the loss mitigation efforts taken by the savings banks and the reduced risk profile of most of the Landesbanks, DBRS sees the Group's credit risk as significantly lower than in the past. In DBRS's view, this should bode well for future credit quality, regardless of overall economic trends.

Capitalisation: Structure and Adequacy

DBRS views Sparkassen-Finanzgruppe's overall capitalisation as sufficient. This view considers the overall sound capital and solid underlying earnings of the savings banks. The savings banks reported a Tier 1 ratio of 10.5% at year-end 2011 and a total capital ratio of 15.8% at year-end 2011, both increasing from a year before. On a combined basis for both the savings banks and Landesbanks, the last reported Tier 1 ratio was 10.1% at year-end 2009. On a combined basis for both the savings banks and Landesbanks, the Tier 1 ratio was 11.5% at end 2011, up from 10.9% at year end 2010.

The savings banks have increased their regulatory capitalisation in recent years largely through earnings retention and additions to prudential reserves. Internal capital generation and slow growth in risk-weighted assets (RWAs) led to consistent increases in the savings banks' Tier 1 ratio. The capital of the savings banks is of solid quality. Almost all their Tier 1 capital of EUR 58.5 billion at year-end 2010 consisted of subscribed capital, open reserves and prudential reserves, with only a small contribution from hybrids (silent participations).

While relative capital weakness at the Landesbanks continues to dilute the capital strength of the Sparkassen-Finanzgruppe, in DBRS's view, the negative impact is beginning to subside. Although net losses from the Landesbanks in 2009 and first recognised in 2010 led to a 10.2% decline in combined Landesbank equity to EUR 61.1 billion, the Landesbanks' return to profitability in 2010 helps provide the platform for future capital generation. To ensure compliance with minimum capital standards throughout the financial crisis, the state owners and SoFFin had committed EUR 36.3 billion in risk guarantees and EUR 21 billion in capital to the Landesbanks. In 2010, the Landesbanks made strong progress towards achieving asset reduction targets, with combined assets falling 9.6% to EUR 1.3 trillion. Together with a parallel phase out of SoFFin guaranteed issues, this helped to drive a strong reduction in securitised liabilities of nearly 12% to EUR 377.5 billion on a combined basis.

The quality of capital at the Landesbanks has also been a weakness due to the proportion of silent participations within the capital base. Yet some Landesbanks are taking steps to improve capital quality by converting these into Basel III eligible capital. Silent participations are subject to non-payment of interest and to write-downs under certain conditions. However, any written-down amounts are written back in subsequent years, provided that the issuer generates sufficient earnings. Several Landesbanks utilised the non-payment and write-down features of their silent participations and other hybrids (such as profit participation rights, which are part of Tier 2 capital) in recent periods but some have begun to replenish principal values via write backs funded by profits in 2010 and 2011.

Sparkassen-Finanzgruppe

Report Date:
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Sparkassen-Finanzgruppe – Financial Data

Sparkassen-Finanzgruppe	31/12/2010		31/12/2009		31/12/2008		31/12/2007		31/12/2006	
	€		€		€		€		€	
In EUR Millions	**NGAAP**		**NGAAP**		**NGAAP**		**NGAAP**		**NGAAP**	
Balance Sheet										
Cash and deposits with central banks	27,369	1.05%	31,572	1.22%	32,986	1.2%	27,729	1.0%	25,832	1.0%
Lending to/deposits with credit institutions	544,914	20.94%	615,887	23.85%	731,111	27.2%	788,376	29.4%	693,883	27.5%
Financial securities	566,413	21.77%	599,251	23.20%	572,299	21.3%	580,774	21.6%	573,160	22.8%
- Trading portfolio	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
- At fair value	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
- Available for sale	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
- Held-to-maturity	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
- Other	566,413	21.77%	599,251	23.20%	572,299	21.3%	580,774	21.6%	573,160	22.8%
Financial derivatives instruments	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
- For hedging purposes	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
- Other	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
Gross lending to customers	1,214,284	46.67%	1,200,470	46.48%	1,207,665	45.0%	1,160,191	43.2%	1,111,828	44.1%
- Loan loss provisions	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
Insurance assets	n/a	-	n/a	-	0	0.0%	0	0.0%	0	0.0%
Investments in associates/subsidiaries	37,519	1.44%	41,722	1.62%	49,559	1.8%	48,407	1.8%	41,812	1.7%
Fixed assets	12,610	0.48%	12,993	0.50%	13,389	0.5%	13,946	0.5%	14,729	0.6%
Goodwill and other intangible assets	0	0.00%	0	0.00%	n/a	n/a	n/a	n/a	n/a	n/a
Other assets	198,586	7.63%	80,887	3.13%	77,959	2.9%	63,935	2.4%	57,775	2.3%
Total assets	**2,601,695**	**100.00%**	**2,582,782**	**100.00%**	**2,684,968**	**100.0%**	**2,683,358**	**100.0%**	**2,519,019**	**100.0%**
Total assets (USD)	3,447,636		3,701,695		3,784,999		3,918,508		3,325,785	
Loans and deposits from credit institutions	598,468	23.00%	649,465	25.15%	754,127	28.1%	829,671	30.9%	737,121	29.3%
Deposits from customers	1,164,702	44.77%	1,160,141	44.92%	1,146,261	42.7%	1,067,457	39.8%	1,025,738	40.7%
- Demand	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
- Time and savings	1,164,702	44.77%	1,160,141	44.92%	1,146,261	42.7%	1,067,457	39.8%	1,025,738	40.7%
Issued debt securities	403,057	15.49%	458,371	17.75%	482,619	18.0%	496,983	18.5%	480,092	19.1%
Financial derivatives instruments	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
- For hedging purposes	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
- Other	n/a	-	n/a	-	n/a	-	n/a	-	n/a	-
Insurance liabilities	n/a	-	n/a	-	n/a	0.0%	n/a	0.0%	n/a	0.0%
Other liabilities	269,502	10.36%	140,872	5.45%	135,009	5.0%	167,483	6.2%	158,528	6.3%
-Financial liabilities at fair value through P/L	0	0.00%	0	0.00%	0	0.0%	167,484	106.2%	158,529	106.3%
Subordinated debt	38,151	1.47%	39,827	1.54%	41,220	1.5%	11,714	0.4%	12,550	0.5%
Hybrid Capital	5,584	0.21%	7,428	0.29%	10,425	0.4%	0	0.0%	0	0.0%
Equity	122,231	4.70%	126,678	4.90%	115,307	4.3%	110,050	4.1%	104,990	4.2%
Total liabilities and equity funds	**2,601,695**	**100.00%**	**2,582,782**	**100.00%**	**2,684,968**	**100.0%**	**2,683,358**	**100.0%**	**2,519,019**	**100.0%**
Income Statement										
Interest income	93,813		109,312		148,834		145,665		130,938	
Interest expenses	-58,970		-74,267		-114,774		-112,887		-97,490	
Net interest income and credit commissions	34,843	80.94%	35,045	80.19%	34,060	81.3%	32,778	80.5%	33,448	75.7%
Net fees and commissions	7,357	17.09%	6,948	15.90%	8,098	19.3%	8,296	20.4%	8,050	18.2%
Trading / FX Income	517	1.20%	1,079	2.47%	-1,478	-3.5%	-1,576	-3.9%	1,186	2.7%
Net realised results on inv securities (AFS)	0	0.00%	0	0.00%	0	0.0%	0	0.0%	0	0.0%
Net results from other fin instr at fair value	0	0.00%	0	0.00%	0	0.0%	0	0.0%	0	0.0%
Net income from insurance operations	0	0.00%	0	0.00%	0	0.0%	0	0.0%	0	0.0%
Results from ass/subs accounted at equity	0	0.00%	0	0.00%	0	0.0%	0	0.0%	0	0.0%
Other operating income (incl. dividends)	331	0.77%	631	1.44%	1,237	3.0%	1,202	3.0%	1,483	3.4%
Total operating income	43,048	100.00%	43,703	100.00%	41,917	100.0%	40,700	100.0%	44,167	100.0%
Staff costs	-15,006	57.67%	-15,899	59.03%	-15,553	57.8%	-15,425	56.5%	-16,285	59.5%
Other operating costs	-11,016	42.33%	-11,037	40.97%	-11,364	42.2%	-11,857	43.5%	-11,084	40.5%
Depreciation/amortisation	0	0.00%	0	0.00%	0	0.0%	n/a	n/a	n/a	n/a
Total operating expenses	-26,022	100.00%	-26,936	100.00%	-26,917	100.0%	-27,282	100.0%	-27,369	100.0%
Pre-provision operating income	17,026		16,767		15,000		13,418		16,798	
Valuation result	-6,172		-10,592		-13,530		-6,571		-3,918	
Post-provision operating income	10,854		6,175		1,470		6,847		12,880	
Impairment on (in)tangible assets	0		0		0		0		0	
Net gains/losses on (in)tangible assets	0		0		0		0		0	
Other non-operating items	-2,158		-6,464		-5,124		-2,157		-2,297	
Pre-tax income	8,696		-289		-3,654		4,690		10,583	
Taxes	-2,665		-2,571		-1,747		-1,961		-2,907	
Minority interest	0		0		0		0		0	
Net income	**6,031**		**-2,860**		**-5,401**		**2,729**		**7,676**	
Net income (USD)	7,992		-4,099		-7,614		3,985		10,134	

Sparkassen-Finanzgruppe

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Sparkassen-Finanzgruppe	31/12/2010 €	31/12/2009 €	31/12/2008 €	31/12/2007 €	31/12/2006 €
In EUR Millions	NGAAP	NGAAP	NGAAP	NGAAP	NGAAP
Off-balance sheet and other items					
Asset under management	n/a	n/a	n/a	n/a	n/a
Derivatives (notional amount)	n/a	n/a	n/a	n/a	n/a
BIS Risk-weighted assets (RWA)	n/a	n/a	1,253,724	1,266,523	1,214,258
No. of employees (end-period)	348,500	366,500	377,229	356,000	370,000
Earnings and Expenses					
Earnings					
Net interest margin [1]	1.47%	1.42%	1.86%	1.34%	1.43%
Pre-provision earning capacity (total assets basis) [2]	0.66%	0.64%	0.78%	0.53%	0.69%
Pre-provision earning capacity (risk-weighted basis) [3]	n/a	n/a	n/a	1.08%	1.40%
Pre-provision earning capacity by employee	48,855	45,749	39,764	37,691	45,400
Post-provision earning capacity (total assets basis)	0.42%	0.23%	0.08%	0.27%	0.53%
Post-provision earning capacity (risk-weighted basis)	n/a	n/a	n/a	0.55%	1.08%
Expenses					
Efficiency ratio (operating expenses / operating income)	60.45%	61.63%	64.21%	67.03%	61.97%
All inclusive costs to revenues [4]	65.46%	76.42%	76.44%	72.33%	67.17%
Operating expenses by employee	74,669	73,495	71,355	76,635	73,970
Loan loss provision / pre-provision operating income	36.25%	63.17%	90.20%	48.97%	23.32%
Provision coverage by net interest income	564.53%	330.86%	251.74%	498.83%	853.70%
Profitability Returns					
Pre-tax return on Tier 1 (excl. hybrids)	n/a	-0.23%	-3.17%	n/a	n/a
Return on equity	4.93%	-2.26%	-4.68%	2.48%	7.31%
Return on average total assets	0.23%	-0.11%	-0.28%	0.11%	0.32%
Return on average risk-weighted assets	n/a	n/a	n/a	0.22%	0.64%
Dividend payout ratio [5]	n/a	n/a	n/a	n/a	n/a
Internal capital generation [6]	n/a	n/a	n/a	2.60%	7.67%
Growth					
Loans	1.15%	-0.60%	4.09%	4.35%	3.18%
Deposits	0.39%	1.21%	7.38%	4.07%	2.78%
Net interest income	-0.58%	2.89%	3.76%	-2.00%	-1.42%
Fees and commissions	5.89%	-14.20%	-2.37%	3.06%	6.59%
Expenses	-3.39%	0.07%	-1.35%	-0.32%	1.22%
Pre-provision earning capacity	1.54%	11.78%	8.41%	-20.12%	11.51%
Loan-loss provisions	n/a	n/a	103.83%	67.71%	-31.54%
Net income	-310.87%	-47.05%	-175.03%	-64.45%	42.76%
Risks					
RWA% total assets	n/a	n/a	46.69%	47.20%	48.20%
Credit Risks					
Impaired loans % gross loans	n/a	n/a	n/a	n/a	n/a
Loss loan provisions % impaired loans	n/a	n/a	n/a	n/a	n/a
Impaired loans (net of LLPs) % pre-provision operating income [7]	n/a	n/a	n/a	n/a	n/a
Impaired loans (net of LLPs) % equity	n/a	n/a	n/a	n/a	n/a
Liquidity and Funding					
Customer deposits % total funding	52.84%	50.27%	47.28%	44.37%	45.48%
Total wholesale funding % total funding [8]	47.16%	49.73%	52.72%	55.63%	54.52%
- Interbank % total funding	27.15%	28.14%	31.11%	34.49%	32.68%
- Debt securities % total funding	18.28%	19.86%	19.91%	20.66%	21.29%
- Subordinated debt % total funding	1.73%	1.73%	1.70%	0.49%	0.56%
Short-term wholesale funding % total wholesale funding	58.89%	57.77%	61.20%	n/a	n/a
Liquid assets % total assets	43.77%	48.27%	49.77%	52.06%	51.32%
Net short-term wholesale funding reliance [9]	-35.99%	-43.68%	-41.10%	n/a	n/a
Adjusted net short-term wholesale funding reliance [10]	-35.99%	-43.68%	-41.10%	n/a	n/a
Customer deposits % gross loans	95.92%	96.64%	94.92%	92.01%	92.26%
Capital [11]					
Tier 1	10.95%	10.12%	8.82%	8.50%	8.36%
Total Capital	15.10%	14.80%	13.47%	13.24%	13.22%

[1] (Net interest income + dividends)% average interest earning assets.
[2] Pre-provision operating income % average total assets.
[3] Pre-provision operating income % average total risk-weighted assets.
[4] (Operating & non-op. costs) % (op. & non-op. revenues)
[5] Paid dividend % net income.
[6] (Net income - dividends) % shareholders' equity at t-1.
[7] We take into account the stock of LLPs in this ratio.
[8] Whole funding excludes corporate deposits.

* Interim information is annualised where needed.

Sparkassen-Finanzgruppe

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Ratings History

Issuer	Debt Rated	Current	2011	2010	2009
Sparkassen-Finanzgruppe	Issuer & Senior Long-Term Debt	A (high)	A (high)	A (high)	A (high)
Sparkassen-Finanzgruppe	Short-Term Instruments	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)

Notes:
All figures are in Euros (EUR) unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrs.com.

Issuer ratings apply to all general senior unsecured obligations of the issuer in question.