Sparkassen-Finanzgruppe (Sparkassen)

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR (Group Rating)	A+
Short-Term IDR (Group Rating)	F1+
Viability Rating	a+
Support Rating	1
Support Rating Floor (SRF)	A+

Sovereign Risk

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable

Financial Data

Sparkassen-Finanzgruppe (Sparkassen)

	2011	2010
Total assets (USDbn)	1,421	1,437
Total assets (EURbn)	1,098	1,084
Total equity (EURm)	63.0	57.6
Operating profit (EURm)	7.8	8.7
Published net income (EURm)	2.0	2.0
Operating ROAA (%)	0.72	0.81
Operating ROAE (%)	13.0	15.5
Fitch core capital/RWA (%)	10.9	10.2
Regulatory Tier 1 ratio (%)	10.5	9.9
Tangible equity/tangible assets (%)	5.7	5.3
Cost/income ratio (%)	62	63
Client loans/client deposits (%)	96	96
Client deposits/total funding (%)	72	71

Related Research

Fitch Affirms German Savings Banks & LBB at 'A+'; Stable Outlook (February 2013)

List of 365 rated savings banks (February 2013)

S - Finanzgruppe Hessen-Thueringen (February 2013)

2013 Outlook: German Banks (December 2012)

Planned Split of Landesbank Berlin Would Make Bank More Efficient (December 2012)

Conclusion of State-Aid Reviews Positive for Landesbanken (August 2012)

Fitch Affirms S-Verbund HT's IDR at 'A+' & VR at 'a+' (July 2012)

Fitch Affirms Landesbank Berlin and Berlin Hyp at 'A+'; VRs Affirmed at 'bbb-' (May 2012)

German Landesbanks – Refocusing on Core Strength (November 2011)

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Key Rating Drivers

Group Ratings: Under Fitch Ratings' *Rating Criteria for Banking Structures Backed by Mutual Support Mechanisms*, the Sparkassen's IDRs apply as Group Ratings to 365 savings banks (out of a total of 422) within the German public banking sector (SFG, an unconsolidated group of 600 institutions with over EUR3.0trn of assets and 360,000 employees).

Savings Banks (Sparkassen) Only: The ratings do not apply to other members of SFG such as Landesbanken, building and loans associations (Landesbausparkassen; LBS), insurance and leasing companies, which together form Germany's public financial services sector.

Strong, Resilient Credit Profile: The IDRs reflect the savings banks' strong collective franchise as Germany's largest retail banking group, focusing on retail and small business clients. They also reflect the banks' high and resilient profitability, relatively low-risk profile, limited capital market exposure, strong funding and liquidity profile, and strong capitalisation.

Manageable Challenges: The ratings also reflect the savings banks' high cost base and Fitch's expectation that they will successfully defend their retail deposit franchise from strong competition over the next few years. The significant profit contribution of maturity transformation is likely to create some pressure on earnings, as interest rates are likely to remain low in the medium term.

Limited Cohesion, Governance Deficits: SFG's mutual support mechanism is not as strong as Fitch would normally require before assigning Group Ratings based on the above criteria. The absence of consolidated accounts and the limited integration of some of its members weaken SFG's cohesion. SFG's decentralised structure also weakens its corporate governance.

Strong, Tested Mutual Support: In Fitch's view, the following factors mitigate the above limitations sufficiently to make a Group Rating possible: the savings banks' mutual support scheme, longstanding and stable relationships with their public bodies (municipalities) and deep intragroup integration. To date, the scheme and the group's strategic cohesion have always managed to support – at times together with the relevant municipalities – even large savings banks, and Fitch expects this to remain the case.

Landesbanken Main Contingent Risk: Collectively, if not always individually, the Sparkassen should be able to absorb sizeable contingent liabilities and contagion risks from the Landesbanken. But further bailouts of large Landesbanken would again require state support.

Systemic Support Extremely Likely: A substantial systemic risk would arise from the unlikely scenario of the mutual support scheme being unable to deal with the consequences of a systemic crisis on a group of savings banks. This systemic risk is due to the banks' crucial role as providers of financial services to retail and small business clients. Thus, the relevant local authorities, regional states and ultimately the German government would be extremely likely to support individual savings banks. The group's Support Rating Floor (SRF) of 'A+' reflects this.

Rating Sensitivities

Sovereign Downgrade: A downgrade of the IDRs would only occur if – in addition to a weakening of the group's intrinsic credit profile – we were to change our view on Germany's ability or propensity to support the group, notably if the sovereign rating were to be downgraded. Improved corporate governance within SFG and major, sustainable de-risking of the most vulnerable Landesbanken would be necessary conditions for an upgrade of the Viability Rating (and, thus, of the Long-Term IDR). We expect this de-risking to take several years at best.

- Germany's savings banks group.
- Cohesion based on mutual support scheme, shared strategy and brand.
- IDRs are driven by intrinsic strength.
- Strong earnings, funding and capital.
- Strongest risk/return profile among domestic and European peers.

Profile

Strong Franchise in Relatively Low-Risk, Resilient and Predictable Segments

The Group Ratings reflect the savings banks' very strong collective risk/return profile. It is underpinned by the individual banks' generally low-risk business models and strong, longstanding local franchises, based on their focus on the relatively sound German residential mortgage and SME markets and generally balanced, client-focused asset-liability structures.

Figure 1

Generally Low-Risk Characteristics

Risk drivers	Characteristics
Profitability	Strong
Earnings cyclicality	Low
Reliance on capital markets	Low
Exposure to foreign markets	Very low
Exposure to vulnerable asset classes	Low
Granularity of assets and liabilities	Very high
Main funding sources	Retail
Economic capitalisation	Strong
Shareholder structure	Public and stable
Strategic orientation	Focused and stable
External support ever needed?	Not as group
Overall risk profile	**Low-risk**

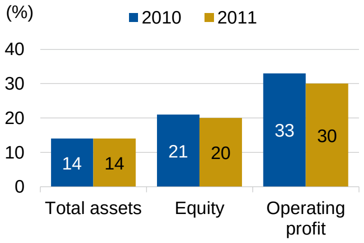
Source: Fitch

Each individual savings bank focuses on providing current accounts, lending, payment and deposit-taking products within a clearly defined local area. In cooperation with specialist members of the broader SFG, they fulfil a utility-like role centred on the nationwide provision of a full range of commoditised banking, investment, insurance and corporate finance products. This, together with their stable, generally public ownership, allows continuity in their business strategies.

Figure 2

Key Pillar of Banking System

Contribution to German banking system



Excludes state-owned develop. banks, FMS Wertmanagement, Erste Abwicklungsanstalt
Source: Fitch

Savings Banks: A Cohesive Group Within SFG

The 422 German savings banks ("Sparkassen" or "the group") form a homogeneous and cohesive banking group, which shares common risk management tools. Regional associations administer the regional support funds of the mutual support scheme (see *Appendix 2*) and have the power to impose sanctions at individual banks in need of restructuring. Fitch believes that the regional support funds are adequately funded to support individual savings banks or groups of savings banks under plausible (ie not extreme) stress scenarios.

Fitch separately rates S-Finanzgruppe Hessen-Thueringen (A+/Stable, a+), an integrated sub-group within SFG consisting of 50 savings banks in the regions of Hessen and Thueringen and their central bank, Landesbank Hessen-Thueringen Girozentrale (Helaba; A+/Stable).

- Competition cut 2013 contribution to the German and low interest rates likely to moderately n banking system's profit.

The savings banks have demonstrated on various occasions their very high propensity to protect their common franchise by supporting each other. Beside several bailouts of Sparkassen by their peers over the last decades, the group demonstrated its high cohesion by paying a high price (EUR6.4bn) to acquire Landesbank Berlin AG (LBB; A+/Stable, bbb−) in 2007, primarily motivated by a strong reluctance to allow third parties to buy LBB-owned Berliner Sparkasse and by a commitment to protect the strong Sparkassen brand.

- Legally independent, public-sector.

Deutscher Sparkassen-und Giroverband (DSGV), the association of regional savings bank associations, represents the savings banks and the broader SFG (*Appendix 1*). With the exception of six so-called "freie" (free) Sparkassen, the banks' responsible public bodies ("Träger") are (associations of) municipalities or districts. This legal status results in greater operating independence of the local management boards than their European peers.

Related Criteria

Global Financial Institutions Rating Criteria (August 2012)

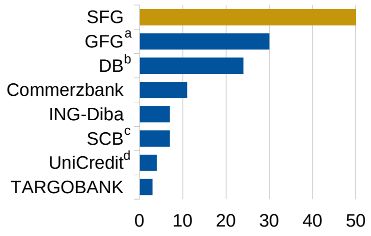
Rating Criteria for Banking Structures Backed by Mutual Support Mechanisms (December 2012)

Evaluating Corporate Governance (December 2012)

Figure 3

Leading Domestic Players

Million clients at end-2011 - Germany

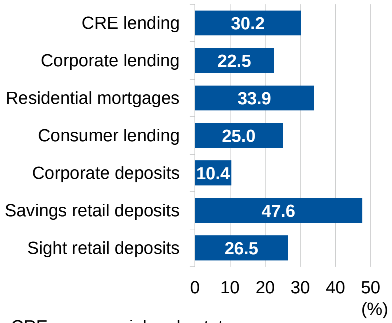


[a] Genossenschaftliche FinanzGruppe (German Cooperative Banking Group)
[b] Deutsche Bank incl. Deutsche Postbank
[c] Santander Consumer Bank AG
[d] UniCredit Bank AG

Figure 4

Leading Market Shares

Domestic market shares at end-Q312



CRE: commercial real estate
Sources: DSGV, Deutsche Bundesbank, Fitch

- Supervisors treat SFG as a group…
- …but cohesion between Sparkassen and Landesbanken is evolving.
- Individual savings banks' IDRs derived from Group Ratings.

Group Ratings Reflect the Savings Banks' High Cohesion

The support scheme is not strong enough to normally warrant a Group Rating under Fitch's rating criteria. To assign a Group Rating, Fitch would expect any legally independent member of the banking group to have full and unconditional access to all group resources in case of need. However, SFG's mutual support scheme is not set up to provide this.

The cohesion within SFG is further weakened by the limited degree of integration of some individual member banks. The sector's decentralised decision-making processes also weaken its corporate governance. Another limitation is the fact that the savings banks only produce aggregated (ie not consolidated) accounts. Furthermore, they do not provide a consolidated view of their capitalisation, nor do they report regularly on single-name concentration risk.

We consider, however, that the savings banks' strong and proven track record of cohesion compensates for these limitations enough to justify a Group Rating being assigned. This is reflected in the savings banks' high degree of readiness to support other members, as has been proven on several occasions.

The savings banks' mutual support scheme safeguards their liquidity and solvency: the institutional protection scheme ("Institutssicherung") protects all member banks' viability, ensuring that troubled members meet their obligations to all counterparties, not only depositors. Since the introduction of the mutual support scheme in the 1970s, no savings bank has been liquidated and no creditor has suffered losses.

The integration of the savings banks and their stable, close relationship with their responsible public bodies are further factors that justify a Group Rating. We expect that the support scheme should be sufficient for any Sparkasse in need of support in the future.

The Group Ratings Apply to Savings Banks But Not to Landesbanken

The German supervisors view the support scheme shared by the savings banks, the Landesbanken and the Landesbausparkassen as strong enough to apply a 0% regulatory risk weighting to all SFG's intragroup exposures.

This favourable regulatory treatment conceals the complex dynamics currently affecting SFG. In Fitch's opinion, the Sparkassen's decentralised organisation and the Landesbanken's historical dual ownership shared between the savings banks and their regional states effectively prevent SFG from being managed as a group. This has notably hindered the Landesbanken's necessary restructuring (see *German Landesbanks – Refocusing on Core Strength,* published on 4 November 2011).

Furthermore, we consider that the higher use of intra-group funding observed at points during the crisis is more guided by an opportunistic use of the 0% regulatory risk weighting than by long-term strategic considerations.

We also view as questionable the savings banks' long-term propensity to support some Landesbanken whose future strategic role within SFG is uncertain. The clarification of several Landesbanken's ownership structures in the last few years is a step in the right direction. However, the Landesbanken's high funding reliance on the Sparkassen is unlikely to decrease any time soon and will thus continue to represent a high contingent risk for the Sparkassen.

The Group Ratings reflect the cohesion of the savings banks and the resulting contingent liability arising from weaker group entities prevent the stronger members from achieving higher standalone ratings. Thus, the IDRs of all savings banks are derived from the Group Ratings. Fitch does not perform standalone assessments of the individual savings banks' credit profiles.

Individually, the vast majority (97%) of the savings banks each account for less than 1% of SFG's aggregate assets. While a few of the members are sizeable, with total assets exceeding

EUR10bn (in one case around EUR40bn), none is dominant and all have franchises limited to their respective local area.

Figure 5

Granular Group[a]

Total number of Sparkassen	422
Average total assets (EURbn)	2.6
Share of total group assets in (%)	
- Average per bank	0.23
- Largest bank	3.6
- 10 largest banks	17
- 50 largest banks	42

End-2012
Source: DSGV, Fitch

SRF Reflects Extremely High Likelihood of State Support if Required

The Group Ratings reflect the savings banks' collective intrinsic creditworthiness as a group. They are not driven by potential state support, which is expressed by their SRF, also coincidentally at 'A+'. The SRF is underpinned by the extremely high likelihood that, should one or several savings banks in an entire region need support, this would be forthcoming from local and regional authorities (municipalities and regional states) and ultimately from the German state ('AAA'/Stable). This view is based on the savings banks' public-sector ownership and crucial provision of financial services to SMEs and households in Germany.

Performance

Performance Reflects Strong Recurring Pricing and Earning Power

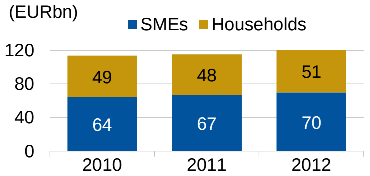
- Robust mid-term performance likely. But current best-case operating conditions unlikely to last beyond 2012.
- Benefit from challenging environment.

In March we expect the savings banks to announce strong preliminary earnings for 2012, close to their 2011 performance. This would confirm the considerable headroom available ahead of the next economic downturn. In our view, the exceptionally favourable combination of operating conditions prevailing in Germany since 2010 are unlikely to last in 2013 and beyond.

Thus, some weakening to a still robust – but more sustainable – profitability is likely from 2013. Low interest rates, rising competition for deposits and a slight increase in loan impairment charges (LIC) from their current unsustainably low level will build up gradual but manageable pressure. The degree to which securities revaluation gains can offset lower revenues from maturity transformation should be significantly lower than in 2012, when the ECB-induced rally generated windfall profits. Replicating the strong 2010-2012 performance in this context would require the group to realise a material share of its vast cost savings potential, which seems unlikely in the medium term.

Figure 6

Robust New Lending Growth



Source: DSGV, Fitch

Despite their lack of focus on profit maximisation, we expect the Sparkassen's performance to continue to compare favourably with that of their European peers, which are more exposed to market volatility, the eurozone crisis, regulatory pressure, and rising funding and capital costs. The group's new business will continue – albeit to a lesser degree than in recent years – to benefit from the capital and funding constraints, and thus restricted new lending, of domestic competitors.

Similarly, the fact that the Sparkassen's business model requires no major changes to adapt to Basel III creates a competitive advantage, in our view. German commercial real estate (CRE) is an example of a market where we expect the Sparkassen's to use their favourable position to attract an increasing share of the robust domestic demand in the next few years.

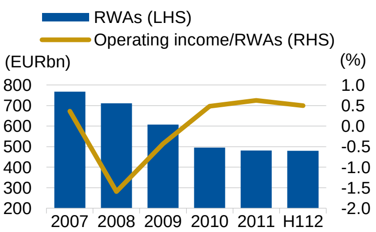
Landesbanken: Sizeable but Increasingly Manageable Performance Burden

We expect the Sparkassen's strong aggregated performance to continue to comfortably absorb new write-downs of their equity stakes in Landesbanken, although these may again put severe stress on weaker members. The write-down of their stake in LBB by EUR910m in 2012 should cost a slightly higher share of their operating income than the EUR850m already written down in 2011 (10% of the group's operating profit). While equivalent to modest 3% of the Sparkassen's Fitch core capital (FCC) in two years, the LBB write-downs give an indication of the potential implications of a severe systemic crisis affecting all Landesbanken simultaneously.

Figure 7

Fragile Recovery

Landesbanken's Aggregated Risk/Return



Seven Landesbanken groups and Dekabank
Source: company reports, Fitch

Similarly, HSH Nordbank AG's (HSH) weak medium-term performance outlook could trigger further write-downs of the Schleswig-Holstein savings banks' stake in the Landesbank, thus potentially aggravating their already weak capitalisation ahead of Basel III.

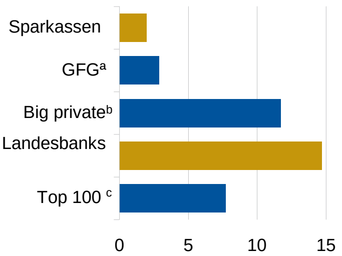
With EUR1.2bn operating profit from EUR1.5trn of assets, the aggregated performance of the Landesbanken and Dekabank Deutsche Girozentrale (Dekabank) in H112 remained subdued even by their own modest standards. The fact that all but one achieved an operating profit is encouraging. However, since 2010 the eurozone crisis has considerably impeded their efforts to return to acceptable risk/return profiles. We expect that the need for the Landesbanken to strengthen their capital ahead of Basel III, the risk of rising margin pressure and the inevitable increase of LICs will constrain their profit distribution to the Sparkassen at an inadequate level in the medium term.

During the crisis, the Landesbanken with the more vulnerable risk/return profiles have been particularly unable to reward the Sparkassen adequately for the high contingent risk that they represent. In our view, their ability to do so will remain structurally poor even in a post-crisis environment. However, we believe that the more robust business models of the fully or predominantly Sparkassen-owned Dekabank, Helaba and LBB (once refocused on its retail operations) entail acceptable long-term dividend payment potential.

Figure 8

Standard Deviation of RoE

Average 2000-09 in percentage



[a] German coop. group (local banks only)
[b] Large German private banks
[c] 100 largest European banks
Sources: Bankscope, IMF

Growing Competition for Retail Deposits Will Increase Margin Pressure

We expect the low interest rates to continue to expose the Sparkassen to intense competition. Largely online-driven price pressure has eroded their market share of retail deposits by 500bp over the past 10 years. Beneficiaries include: foreign-owned institutions with genuine German franchises, German wholesale asset-based lenders (in the past two years) with restricted access to senior unsecured funding but also foreign players with no material German presence.

The generous voluntary deposit insurance scheme of private-sector banks largely encourages this competition, especially for corporate and institutional deposits *(Unlimited German Deposit Insurance Is Inefficient*, February 2012*)*. Most of these niche players, which focus on simple retail products such as sight deposits or consumer and mortgage loans, are comparatively small. But their cost efficiency allows competitive pricing, and thus rapid growth.

While less aggressive, competition for deposits, current accounts and mortgage loans from universal banks Commerzbank and Deutsche Bank (both A+/Stable) should remain high as the re-regulation process makes them refocus on once-overlooked retail banking.

- Face rising competition from a position of strength. Some erosion of deposit market share appears inevitable.
- Very gradual cost savings at best. Full potential unlikely to be realised.

The Sparkassen have reacted by enhancing their service quality, through, for example, innovative payment solutions and the launch in 2011 of a consumer lending joint-venture between LBB and Deutsche Leasing (SFG's main leasing specialist). This offers significant potential to recover the market share lost to specialist competitors in the high-margin consumer finance market.

The Sparkassen's decentralised structure prevents unified pricing at a nationwide level. This limits the group's ability to react to online competition. At the same time, combined with their strong local franchises, it enables focused responses to local demand patterns. Their cooperation with SFG's central product providers (insurance, leasing, building and loans) will continue to act as powerful client retention instruments to fend off competition from less diversified competitors.

Figure 9

Efficiency Challenge

	Productivity (EUR000)		CIR (%)	
	2011	Av.	2011	Av.
Sparkassen[a]	33	33	61	64
GFG[a]	30	36	71	66
Rabobank	51	49	65	65
CA	25	32	63	62
CM11-CIC	54	53	62	60
BPCE	40	30	68	74
Intesa	-92	-9	63	62
Swedbank	106	41	55	57
Median	**37**	**35**	**63**	**63**

Productivity: operating income/employee
CIR: cost/income ratio
Av.: Average 2009-2011
[a] Before allocation to 340f/g reserves
Source: Annual reports, Fitch

Cost Savings Potential Likely to Remain Untapped

The individual Sparkassen's high autonomy structurally restricts their efficiency. Unlike most large European cooperative peers, the group has not delegated much of its decision-making processes to a dominant central entity. We believe that this burdens its efficiency and partly drives its large headcount, which in turn explains its productivity gap relative to its strongest peers. Thus, having broadly matched its peers' efficiency in recent years is a notable achievement which will be challenging to repeat in the next few years as rising LICs and lower revenues from maturity transformation will erode the Sparkassen's earnings.

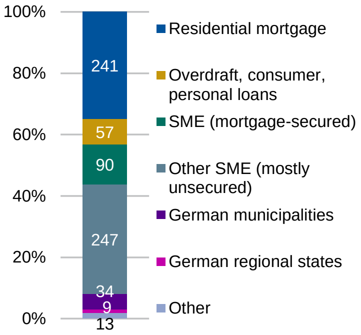
The group's cultural resistance to cost savings will remain high, due to its public ownership and focus on support from the local economy and the provision of basic banking products rather than profit maximisation. Recent proposals to streamline back office and cut duplication hint at the potential for large-scale cost savings. While we view the group's willingness to implement such measures as uncertain, it could help to address (albeit only gradually) the rising competitive and regulatory pressure.

Risk Management

SFG's performance during the financial crisis supports Fitch's view that the strict decentralisation has, on balance, positive risk management implications, despite limiting its ability to anticipate or quickly coordinate reactions to external shocks. It generally limits risk correlations and promotes local management's cautious approach to risk and fairly effective checks and balances.

Figure 10

EUR691bn Client Loans



Notional loan exposures in EURbn at end-Q312
Source: Deutsche Bundesbank

Favourable Credit Risk Environment to Continue in 2013

Credit risk, the savings banks' dominant source of risk, is relatively low, thanks to the group's highly granular nature and focus on the currently generally sound German market.

The German mortgage market did not experience any widespread valuation or growth excesses ahead of the crisis. We stated in Q312 *(No Signs of Real-Estate Bubble in Germany)* that the current rise in residential real estate prices (+5.5% in 2011, according to the Bundesbank) is no grounds for concern yet. Double-digit growth in some individual savings bank's new mortgage lending in 2012 signals catch-up effects after years of underinvestment in some local areas. In a few areas, credit and price growth seems to have drifted away from the economic fundamentals, potentially creating pockets of future LICs. However, the group's nationwide presence still mitigates potential local excesses adequately.

Barring worst-case eurozone developments, the Sparkassen's LICs (EUR0.6bn, or 1% of FCC in 2011) should remain modest by historical standards in 2013 and rise gradually afterwards as the low domestic unemployment rate (c.6%) and the SMEs' strengthened balance sheets enhance their ability to absorb the next slowdown. 2.49% of the savings banks' SME loans and 1.98% of their commercial real estate loans were non-performing (90 days overdue) at end-2011, a level which is unlikely to deteriorate markedly in 2013.

Figure 11

Asset Quality

		LIC/total loans	
(%)	VR	2011	Av.
Sparkassen	a+	0.09	0.23
GFG	a+	0.12	0.22
Rabobank	aa	0.35	0.36
CA	a	0.67	0.70
CM11-CIC	a+	0.37	0.57
BPCE	a−	0.26	0.37
Intesa	a−	1.18	0.98
Swedbank	a+	-0.1	0.67
Median		**0.36**	**0.47**

Av.: Average 2009-2011
Sources: Annual reports, Fitch

The savings banks manage their securities portfolios (EUR258bn at end-2011, on which we only have limited information, and EUR135bn of which consisted of domestic bank bonds) as a source of interest income from maturity transformation. The banks' generally large excess funding considerably limits the valuation risk arising from liquidity-driven "fire sales" prior to maturity. These securities are generally the banks' sole sizeable concentration. We understand that the banks' exposure to Greece, Italy, Ireland, Portugal and Spain is modest.

Contagion Risk From Landesbanken Will Remain High but Manageable

- Landesbanken and WestLB's run-off institution are main contingent risk.
- Exposure includes capital, funding and (until 2015) debt grandfathering.
- Weaker Sparkassen may need support in case of Landesbanken bailouts.

Despite their ongoing restructuring and de-risking process, the wholesale- and capital-market-oriented Landesbanken will remain by far the Sparkassen's main contingent risk via large equity stakes and intragroup funding. This risk is compounded by the Landesbanken's large size and more vulnerable business models than those of the Sparkassen.

However, the Sparkassen's strong performance and capitalisation should remain sufficient to collectively – if not always individually – absorb potential contagion. We believe that the most vulnerable Landesbanken are more likely to receive support from their state-owners than from the Sparkassen. This would be particularly crucial in case of a systemic crisis.

Market Risk: Low Interest Rates Dominate

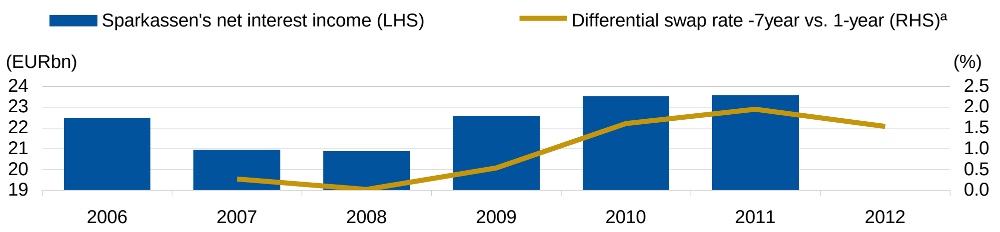
- Manageable risk from maturity transformation.
- Few extreme negative outliers.

We view a medium-term persistence of the current low interest rates as the Sparkassen's key market risk, potentially eroding their large earnings from maturity transformation. The profit contribution of maturity transformation has increased significantly since 2008, in line with the contribution of sight deposits to total funding. Even so, their strong pricing power should enable them to maintain acceptable performance for several years. The savings banks' low capital market exposures also make them less vulnerable than most peers to a worsening of the eurozone crisis and the resulting market volatility.

The savings banks are exposed to few market risks other than interest rate risk. The combination of buy-and-hold securities investments (ie modest active trading), large excess funding and German GAAP accounting (which limits valuation-driven volatility) limits credit spread risk considerably.

Figure 12

Gradual Pressure on Net Interest Income Likely From 2013



[a] Average of differential rate at the beginning and at the end of the respective previous year is used as proxy
Source: Fitch

The savings banks measure interest rate risk in their trading and loan books using historical value at risk and benchmark it against the return on risk-adjusted capital achieved on this portfolio. The vast majority of the banks are clustered as expected along a positive line in terms of their risk/return profile. In terms of regulatory criteria, when faced by a ±200bp interest rate shock, only 0.3% of all savings banks are expected to need to raise additional capital to counter their interest rate risk.

According to DSGV, maturity transformation has historically contributed to 10%-15% of net interest income (negative and positive). In Fitch's view, the banks' controlled appetite for interest rate risk adds material but manageable volatility to their pre-impairment profit.

Funding and Liquidity

- Leading domestic retail franchise.
- Competitive advantage under Basel III.

Figure 13

Client-Driven Funding

	Deposits/ total funding		Loans/ deposits	
(%)	**2011**	**Av.**	**2011**	**Av.**
Sparkassen	70	68	97	99
GFG	75	72	94	94
Rabobank	55	54	143	150
CA	55	53	130	132
CM11-CIC	56	51	136	144
BPCE	44	44	148	150
Intesa	43	45	204	192
Swedbank	37	36	211	233
Median	**51**	**52**	**136**	**147**

Av.: average 2009-2011
Source: Annual reports, DSGV, Fitch

- Loans/ deposits ratio may increase somewhat but should remain strong.

Covering about a third of sight deposits and half of savings retail deposits in a country characterised by a stable household savings rate (close to 11%), and with client deposits up by 16% from end-2007 to end-2012, the savings banks, from a strong position, are likely to face fierce competition for German retail deposits in the medium term. Their modest reliance on unsecured market funding will also be increasingly valuable. The quality of their deposits is high, as client relationships are typically originated at branch level and their clients remain more loyal and less price-sensitive than those of rapidly growing new entrants and online competitors.

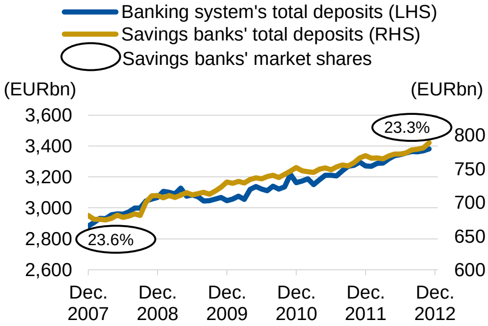
This comfortable funding profile should create a rising competitive advantage under Basel III. While a small minority of savings banks may require corrective actions to meet the new requirements, the availability of collective intragroup solutions should make these easily manageable. The Sparkassen's pro-forma average aggregated Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) were 130% and 95% respectively (subject to revised definitions) at end-2010. Even though these ratios conceal the diversity of the individual banks' positions, these adequate levels reflect the group's sound asset-liability profile.

The savings banks' traditional, client-focused funding mix relies much less than most peers' on capital markets: their client deposits structurally exceed client loans by about EUR100bn. The comprehensive protection of German retail deposits fosters price-driven competition. Thus, the savings banks' likely maintenance of acceptable deposit-pricing discipline may moderately and gradually erode their market shares.

Figure 14

Steady Deposit Growth

Deposit market share defended

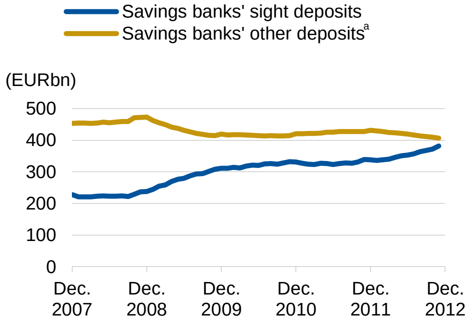


Non-bank retail and wholesale deposits
Source: Deutsche Bundesbank

Figure 15

Sight Deposits on the Rise

Deposit mix reflects low interest rates



[a] Savings and term deposits, Sparbriefe
Source: Deutsche Bundesbank

This could put some pressure on the loans/deposits ratio of individual Sparkassen, notably those with large excess deposits in weaker regions such as eastern Germany. However, we do not expect the group's ratio to significantly exceed 100% in the medium term, a level that we view as a major strength relative to peers.

The protracted eurozone crisis appears increasingly likely to prolong the current low interest rates – and therefore the Sparkassen's high share of sight deposits – in the medium term. Sight deposits amounted to almost half of total deposits and over a third of total assets at end-2012, well above the group's long-term average. However, we note that the net funds accumulated since the beginning of the crisis account for two-thirds of the rise in sight deposits, with only one third resulting from a shift from term deposits and Sparbriefe.

- Vast covered bond issuance potential.

We expect the group to increasingly use its large German retail mortgage exposures to enhance its funding flexibility and mitigate pressure on weaker banks from Basel III by addressing maturity mismatches. These mortgage assets represent vast but hitherto scarcely used pools of collateral, which we expect the banks to use increasingly for Pfandbrief issuance to diversify their already strong funding profile. The potential collateral available amounts to about EUR200bn in eligible mortgages and about EUR22bn in public-sector assets

Only a small but increasing minority of Sparkassen have to date issued Pfandbriefe. These are generally larger Sparkassen with relatively diversified cover pools. The group offers asset-pooling to smaller members that would find it challenging to issue on a standalone basis.

Capital

- Strong, high-quality capital despite deduction of Landesbanken's stake.
- Strong internal capital generation.
- Manageable negative outliers.

Fitch expects high, resilient internal capital generation and restrictive profit distribution to gradually enhance the savings banks' solid, high-quality capitalisation in the medium term. Their aggregate capitalisation is in line with current general market expectations. Not being a legal entity, the group has no legal obligation to report combined or consolidated regulatory capital ratios. Thus, this ratio is based on DSGV's voluntary calculation.

- Conservative RWA assessment.

The savings banks apply the Basel II standard approach for all credit portfolios, whereas the non-German peers use the internal ratings-based (IRB) approach for more than half of their assets on average. This leads to a conservative valuation of the Sparkassen's RWA, as illustrated by their ratio of RWA/total assets, which is at the top end of the peer group despite the Sparkassen's above-average focus on relatively low-risk assets. Their robust leverage ratio confirms this conservative character. As most savings banks are unlikely to adopt the IRB approach any time soon, their RWA will remain higher than their historical loss rates imply.

Figure 16

Conservative Risk Weights Understate the Sparkassen's Capitalisation

(%)	VR	RWA/total assets[b] 2011	Basel II credit risk Approach	Fitch core capital ratio 2011	Fitch core capital ratio Av.	Tier 1 capital ratio 2011	Tier 1 capital ratio Av.	Tangible equity/ tangible assets 2011	Tangible equity/ tangible assets Av.
Sparkassen	a+	53	100% standard	10.9	10.2	10.5	10.0	5.5	5.3
GFG[a]	a+	47	Over 70% standard	12.0	11.7	9.1	8.8	6.0	5.8
Rabobank	aa	31	100% adv. IRB	12.5	10.7	17.0	15.5	4.5	4.6
CA	a	31	70% IRB	6.9	6.7	10.5	10.2	2.8	2.9
CM11-CIC	a+	42	60% adv. IRB	8.4	7.8	11.0	10.6	4.6	4.3
BPCE	a−	33	41% standard	7.6	6.6	10.6	9.9	3.5	3.2
Intesa	a−	51	55% IRB	8.8	7.7	11.5	9.8	5.2	4.7
Swedbank	a+	41	Mostly IRB	10.5	9.8	11.2	10.9	4.5	4.4
Median		**41**	**Ca. 40% standard**	**9.7**	**8.8**	**10.8**	**10.1**	**4.6**	**4.5**

Av.: Average 2009-2011
[a] 53% RWA/total assets at the local cooperative banks (excluding GFG's central institutions), which are comparable to the Sparkassen in terms of business profile; the local banks use the standard approach for 100% of their exposures
[b] Percentages reflect asset split
Source: Annual reports, Fitch

We adjust the savings banks' reported aggregate capital to converge with its own definition of core capital. This includes the addition of the §340f German GAAP reserves, which are fully loss-absorbing on a going-concern basis. We also deduct the estimated contingent risk arising from the Sparkassen's stakes in the Landesbanken and in SFG's insurance companies. These adjustments neutralise each other, leading to an FCC of roughly EUR64bn and an FCC ratio of 11% at end-2011, which is solid in light of the group's low-risk business model and conservative regulatory risk measurement.

We believe that, collectively, the Sparkassen will face limited challenges from the implementation of Basel III. The pro forma Basel III average Tier 1 and leverage ratios of all Sparkassen were 8.8% and 4.8% respectively at end-2010, and DSGV estimates the Basel III Tier 1 ratio to exceed 9% after one year of earnings retention in a volume similar to 2010-2011.

- Manageable Basel III pressure.

DSGV estimates that fewer than 10% of Sparkassen will find it challenging to fulfil the Basel III requirements on their own merits on time. The group has developed credit and liquidity pooling solutions and an SME fund that can be activated by all member banks, and which should help Basel III outliers overcome specific challenges.

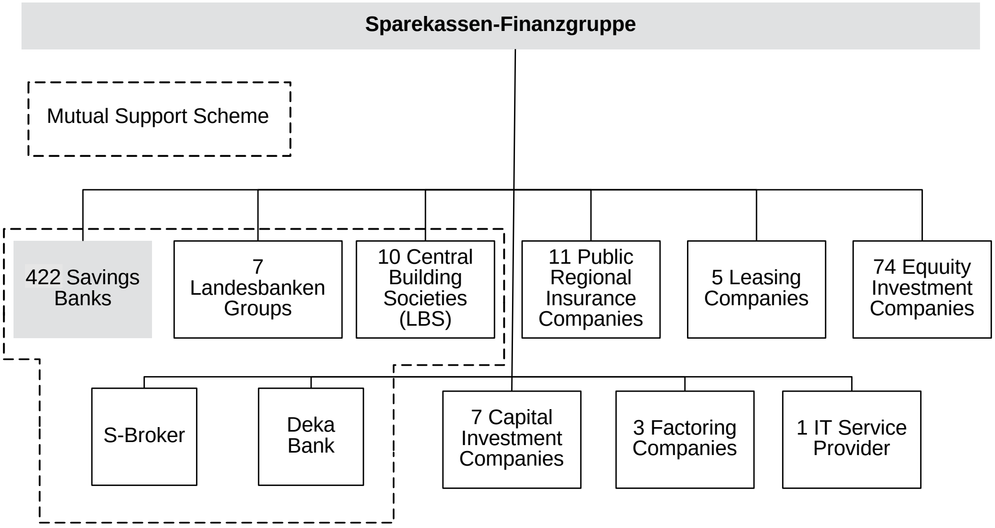
Appendix 1: Profile

The savings banks provide basic financial services locally for retail and SME clients and local (groups of) municipalities. They are public-sector entities, and their responsible public body is usually (groups of) municipalities. Their decentralised organisation structure ensures that clients identify with their local savings bank, but strategic decision-making among banking group members is sometimes slow, reducing the group's overall flexibility.

German savings banks indirectly, partly or wholly own Landesbanken, central building societies, DekaBank, Deutsche Leasing and regional insurance companies. If measured on combined insurance premiums, these insurance companies would represent the second-largest insurance group in Germany. In the case of the central building and loans associations (Landesbausparkassen), they represent the largest building society in Germany and are an important customer retention instrument for the savings banks. DekaBank is Germany's third-largest mutual fund manager.

Figure 17

Group Structure



Source: DSGV, Fitch

Figure 18

Peer Group: Large European Retail-Focused Banking Groups

(EURbn)	Country	LT IDR/ outlook	Viability rating	Operating profit 2011	Total assets at end-2011
SFG	Germany	Not rated	Not rated	5.1[a]	2,568
Sparkassen	Germany	A+/Stable	a+	8.3	1,098
GFG[b]	Germany	A+/Stable	a+	5.7	1,058
Rabobank Group (Rabobank)	Netherlands	AA/Stable	aa	2.4	732
Crédit Agricole (CA)	France	A+/Negative	a	6.1	1,880
Crédit Mutuel (CM11-CIC)[a,c]	France	A+/Stable	a+	2.7	468
Groupe BPCE (BPCE)	France	A+/Negative	a−	4.6	1,138
Intesa Sanpaolo (Intesa)	Italy	A−/Negative	a−	0.7	639
Swedbank AB (Swedbank)	Sweden	A/Stable	a+	1.7	208

[a] Pre-tax profit as reported
[b] Genossenschaftliche FinanzGruppe (GFG), the German cooperative banking group
[c] CM11-CIC is the dominant sub-group within the broader Crédit Mutuel group
Source: Company data, Fitch

Appendix 2: Mutual Support Scheme

Support Funds

SFG's members benefit from a mutual support scheme (Haftungsverbund), which comprises 11 guarantee funds of the regional savings banks, the guarantee fund of the Landesbanken and the guarantee fund of the Landesbausparkassen.

The guarantee funds safeguard their members' liquidity and solvency (Institutsschutz = protection of the bank, not just its regulated deposits). However, the mutual support scheme and guarantee funds do not constitute a legally binding guarantee, and members have no legal claim to specific support from the group.

The savings banks' mutual support scheme replicates the group's federal structure, which means that the first line of defence for a savings bank in trouble is the regional support fund. If the resources available at the regional fund (cash and mandatory follow-up contributions) are insufficient, the resources of other regional funds are called upon. If these resources also prove insufficient, the funds of the Landesbanken and Landesbausparkassen are drawn upon.

The resources of the regional support funds available to savings banks are capped, so that in a large rescue scenario within one region, the financial resources of the regional group are not stretched to their limits. Instead, the other regional funds are asked to contribute to the rescue to mitigate the impact for the region in which the problem has occurred. This way, bailouts that may threaten the fundamentals of healthy savings banks in the failed bank's region (if the problem is relatively large) can draw on the larger resources of the entire savings bank group.

Regional associations manage the support funds, auditing and benchmarking the savings banks within their regions with a ratio-driven monitoring system. The savings banks use the same rating tools and the same regional IT systems. The associations are entitled to call a supervisory board meeting to discuss a savings bank's risk profile. To prevent further deterioration, they can ask for changes in the bank's management board or business conduct.

DSGV coordinates the regional associations and support funds nationally.

Recent Rescues

The savings banks' support scheme rescued Sparkasse Suedholstein (which failed due to its exposure to Lehman Brothers, Icelandic banks and HSH) in 2009 and Nord-Ostsee Sparkasse (which fell victim to its large regional loan concentration) in 2010. Since 1971, the mutual support scheme has shown its ability to support savings banks through the regional funds. Supra-regional compensation from other regions' funds has rarely been necessary. Nord-Ostsee Sparkasse was the first case of this kind in 10 years.

The bailouts of Landesbank Baden-Wuerttemberg (LBBW), Sachsen LB (now merged into LBBW), HSH, Bayerische Landesbank (BayernLB) and WestLB during the current crisis have shown that Landesbanken are most likely to be supported by their owners – in the cases above primarily by their respective regional states – as their large scale and the depth of their problems would have overstretched their respective regional funds.

Available Funds

SFG does not publicly disclose the committed volume of funds of the mutual support scheme. Fitch views the amount available to savings banks as sufficient to deal even with large savings banks at short notice on a case-by-case basis. At least 33% of the committed funds must be held in cash, and the balance is made up by pledges of funds that can be drawn upon request.

Regulatory Treatment

The savings banks' membership in the mutual support scheme exempts them from the obligation to be members of a deposit insurance scheme and allows a 0% weighting of SFG's intra-group receivables (standardised approach).

Potential Regulatory Changes

The EC's communication on bank resolution funds is proposing the establishment of a network of bank resolution funds in European countries to ensure that future bank failures are not at the cost of the taxpayer. The outcome of these proceedings is currently difficult to assess, as many member states have expressed concern over the excessive financial burden placed on the financial sector, particularly in combination with other regulatory measures (such as Basel III). Germany has already established a national resolution fund, in which the German private sector banks also participate.

On 12 July 2010, the EC adopted a legislative proposal for a thorough revision of the Directive on Deposit Guarantee Schemes. It mainly deals with a harmonisation and simplification of protected deposits, faster payout, and improved financing of schemes. Furthermore, the system of protection of the bank (Institutsschutz) is intended to be an alternative to deposit protection.

Therefore, we would not expect these EC initiatives to result in a watering-down of the mutual support scheme for German public-sector banks such that it becomes purely a deposit insurance scheme.

Appendix 3: Landesbanken Overview

Figure 19

The Crisis Has Altered the Landesbanken's Ownership Structure

(%)	Pre-crisis (end-2007)	Current (Q113)	
BayernLB[a]	50.0	94.0	Free State of Bavaria (indirectly via BayernLB Holding AG)
	50.0	**6.0**	**Association of the Bavarian Savings Banks**
Bremer Landesbank Kreditanstalt Oldenburg (BremerLB)	92.5	54.8	Norddeutsche Landesbank Girozentrale
	7.5	41.2	Free Hanseatic City of Bremen
	0	**4.0**	**Savings Banks Association of Lower Saxony**
HSH	-	65.0	HSH Finanzfonds (joint SPV of Hamburg and Schleswig-Holstein)
	35.4	10.8	Free and Hanseatic City of Hamburg
	20.0	9.6	State of Schleswig-Holstein
	26.2	9.3	9 trusts advised by J.C. Flowers & Co. LLC (2007: 7 trusts)
	18.1	**5.3**	**Savings Banks Association of Schleswig-Holstein**
LBBW	**35.6**	**40.5**	**Savings bank Association of Baden-Wuerttemberg**
	35.6	25.0	State of Baden-Wuerttemberg
	18.9	18.9	City of Stuttgart
	4.9	**-**	**Savings Banks Association of Rheinland-Pfalz**
	-	13.5	Landesbeteiligungen Baden-Wuerttemberg GmbH
	4.9	2.0	Landeskreditbank Baden-Wuerttemberg (L-Bank)
LBB	**98.7**	**100.0**	**German Savings Banks via various holding entities**
	1.3	0	Free float
Helaba	**85.0**	**68.9**	**Savings and Giro Association Hesse-Thuringia**
	0	**4.8**	**Savings Banks and Giro Associations of the Rhineland**
	0	**4.8**	**Savings Banks Associations of Westphalia-Lippe**
	10.0	8.1	State of Hesse
	5.0	4.0	State of Thuringia
	0	**9.5**	**FIDES Beta GmbH and FIDES Alpha GmbH**
Landesbank Saar (SaarLB)	75.1	49.9	BayernLB
	10.0	35.2	State of Saarland
	14.9	**14.9**	**Saar Savings Bank Association**
Norddeutsche Landesbank Girozentrale (NORD/LB)[b]	41.8	59.1	State of Lower Saxony
	37.3	**26.4**	**Savings Banks Association of Lower Saxony**
	8.3	5.6	State of Saxony-Anhalt
	7.5	**5.3**	**Savings Banks Holding Association in Saxony-Anhalt**
	5.2	**3.7**	**Special Purpose Holding Association of the Savings Banks in Mecklenburg-Western Pomerania**

[a] The split will evolve from 94%/6% to 80%/20% in 2013 due to a ruling from the European Commission that the savings banks must retroactively contribute to BayernLB's 2009 bail-out (see Fitch's comment *Conclusion of State-Aid Reviews Positive for Landesbanken*, August 2012)
Sources: Banks' annual reports and websites

The Sparkassen's exposures to the Landesbanken include: EUR24bn (Fitch's estimate) equity and Tier 1 hybrid instruments (including loss participation in Erste Abwicklungsanstalt (EAA, AAA/Stable); large (but maturing until 2015) joint and several debt guarantees with the Landesbanken's regional state-owners; and large direct funding. Moreover, the Sparkassen's support scheme is linked to the Landesbanken's scheme.

Figure 20

Sparkassen and Landesbanken Ratings

	Issuer Default Rating		Viability	Support	Grandfathered
	Long-Term	Short-Term	Rating	Rating Floor	debt[a]
365 Sparkassen	A+	F1+	a+	A+	n.a.
BayernLB	A+	F1+	bb+	A+	AAA
BremerLB	A	F1	bbb−	A	AAA
HSH	A−	F1	b/RWN	A-	AAA
LBBW	A+	F1+	bbb−	A+	AAA
LBB	A+	F1+	bbb−	n.a.[b]	AAA
Helaba	A+[c]	F1+	n.a.[d]	n.a.[c]	AAA
SaarLB	A	F1	bb+	A	AAA
NORD/LB	A	F1	bbb−	A	AAA

[a] Based on grandfathering provided by owners in the form of Gewährträgerhaftung (guarantor liability)
[b] Based on institutional support from SFG
[c] The IDRs assigned to Landesbank Hessen-Thueringen Girozentrale (Helaba) reflect its integration within S-Finanzgruppe Hessen-Thueringen. All group members – 50 savings banks and Helaba – have the same ratings, which are driven by support from the owners in the event of need
[d] Owing to Helaba's integration within S – Finanzgruppe Hessen-Thueringen, Fitch assigns no Viability Rating
Source: Fitch

Appendix 4: Performance

Figure 21

Peer Comparison – Profitability

		Operating profit pre-LIC/RWA		NIM post LICs		Operating RoAA		Operating RoAE	
(%)	VR	2011	Average	2011	Average	2011	Average	2011	Average
Sparkassen	a+	1.7	1.7	2.2	2.1	0.76	0.76	14.1	14.4
GFG	a+	1.3	1.7	1.9	1.8	0.55	0.67	9.0	11.6
Rabobank	aa	2.1	2.1	1.2	1.2	0.45	0.42	8.7	8.2
CA	a	2.2	2.3	1.2	1.1	0.34	0.37	8.0	8.9
CM11-CIC	a+	2.2	2.4	1.3	1.2	0.58	0.61	10.3	11.9
BPCE	a−	1.8	1.4	1.2	1.1	0.44	0.29	10.0	6.7
Intesa	a−	1.9	2.0	1.3	1.4	0.11	0.39	1.3	4.7
Swedbank	a+	2.0	1.9	1.2	0.6	0.84	0.28	15.8	4.6
Median		**2.0**	**2.0**	**1.3**	**1.2**	**0.50**	**0.40**	**9.5**	**8.6**

NIM: Net interest margin; LIC: loan impairment charges
Averages refer to the 2009-2011 period
Source: DSGV, Annual reports, Fitch

The savings banks' pre-impairment operating profit/RWA ratio would have amounted to 2.2% in 2011 if their average regulatory risk weights – which we deem conservative in light of their use of the standard approach – were in line with the peer median.

Sparkassen-Finanzgruppe (Sparkassen)
Income Statement

	31 Dec 2011 Year End EURm Unaudited	31 Dec 2010 Year End EURm Unaudited	31 Dec 2009 Year End EURm Unaudited
1. Interest Income on Loans	42,597.0	42,649.0	46,401.0
2. Other Interest Income	n.a.	n.a.	n.a.
3. Dividend Income	n.a.	n.a.	n.a.
4. Gross Interest and Dividend Income	**42,597.0**	**42,649.0**	**46,401.0**
5. Interest Expense on Customer Deposits	19,043.0	19,560.0	23,831.0
6. Other Interest Expense	n.a.	n.a.	n.a.
7. Total Interest Expense	**19,043.0**	**19,560.0**	**23,831.0**
8. Net Interest Income	**23,554.0**	**23,089.0**	**22,570.0**
9. Net Gains (Losses) on Trading and Derivatives	n.a.	n.a.	n.a.
10. Net Gains (Losses) on Other Securities	(16.0)	63.0	172.0
11. Net Gains (Losses) on Assets at FV through Income Statement	n.a.	n.a.	n.a.
12. Net Insurance Income	n.a.	n.a.	n.a.
13. Net Fees and Commissions	6,356.0	6,290.0	5,857.0
14. Other Operating Income	93.0	125.0	(294.0)
15. Total Non-Interest Operating Income	**6,433.0**	**6,478.0**	**5,735.0**
16. Personnel Expenses	11,448.0	11,359.0	11,910.0
17. Other Operating Expenses	7,154.0	7,176.0	7,191.0
18. Total Non-Interest Expenses	**18,602.0**	**18,535.0**	**19,101.0**
19. Equity-accounted Profit/ Loss - Operating	(1,589.0)	(453.0)	n.a.
20. Pre-Impairment Operating Profit	**9,796.0**	**10,579.0**	**9,204.0**
21. Loan Impairment Charge	623.0	1,568.0	2,295.0
22. Securities and Other Credit Impairment Charges	1,329.0	289.0	(582.0)
23. Operating Profit	**7,844.0**	**8,722.0**	**7,491.0**
24. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	n.a.
25. Non-recurring Income	n.a.	n.a.	n.a.
26. Non-recurring Expense	3,108.0	4,251.0	2,778.0
27. Change in Fair Value of Own Debt	n.a.	n.a.	n.a.
28. Other Non-operating Income and Expenses	n.a.	n.a.	n.a.
29. Pre-tax Profit	**4,736.0**	**4,471.0**	**4,713.0**
30. Tax expense	2,736.0	2,521.0	2,250.0
31. Profit/Loss from Discontinued Operations	n.a.	n.a.	n.a.
32. Net Income	**2,000.0**	**1,950.0**	**2,463.0**
33. Change in Value of AFS Investments	n.a.	n.a.	n.a.
34. Revaluation of Fixed Assets	n.a.	n.a.	n.a.
35. Currency Translation Differences	n.a.	n.a.	n.a.
36. Remaining OCI Gains/(losses)	n.a.	n.a.	n.a.
37. Fitch Comprehensive Income	**2,000.0**	**1,950.0**	**2,463.0**
38. Memo: Profit Allocation to Non-controlling Interests	n.a.	n.a.	n.a.
39. Memo: Net Income after Allocation to Non-controlling Interests	2,000.0	1,950.0	2,463.0
40. Memo: Common Dividends Relating to the Period	n.a.	n.a.	n.a.
41. Memo: Preferred Dividends Related to the Period	n.a.	n.a.	n.a.

Notes:

- All data are an aggregation (ie, no consolidation) of the Sparkassen's individual German GAAP accounts.
- Line 26 (Non-recurring expense) includes allocations to the §340f and §340g reserves.

Sparkassen-Finanzgruppe (Sparkassen)
Balance Sheet

	31 Dec 2011 Year End EURm	31 Dec 2010 Year End EURm	31 Dec 2009 Year End EURm
Assets			
A. Loans			
1. Residential Mortgage Loans	236,877.0	n.a.	n.a.
2. Other Mortgage Loans	n.a.	n.a.	n.a.
3. Other Consumer/ Retail Loans	57,155.0	n.a.	n.a.
4. Corporate & Commercial Loans	326,487.0	n.a.	n.a.
5. Other Loans	56,588.0	660,358.0	642,619.0
6. Less: Reserves for Impaired Loans/ NPLs	0.0	0.0	0.0
7. Net Loans	**677,107.0**	**660,358.0**	**642,619.0**
8. Gross Loans	**677,107.0**	**660,358.0**	**642,619.0**
9. Memo: Impaired Loans included above	0.0	0.0	0.0
10. Memo: Loans at Fair Value included above	n.a.	n.a.	n.a.
B. Other Earning Assets			
1. Loans and Advances to Banks	103,509.0	92,234.0	100,117.0
2. Reverse Repos and Cash Collateral	n.a.	n.a.	n.a.
3. Trading Securities and at FV through Income	n.a.	n.a.	n.a.
4. Derivatives	n.a.	n.a.	n.a.
5. Available for Sale Securities	n.a.	n.a.	n.a.
6. Held to Maturity Securities	193,374.0	206,137.0	204,723.0
7. At-equity Investments in Associates	17,316.0	17,230.0	18,722.0
8. Other Securities	64,944.0	66,499.0	64,534.0
9. Total Securities	**275,634.0**	**289,866.0**	**287,979.0**
10. Memo: Government Securities included Above	n.a.	n.a.	n.a.
11. Memo: Total Securities Pledged	n.a.	n.a.	n.a.
12. Investments in Property	n.a.	n.a.	n.a.
13. Insurance Assets	n.a.	n.a.	n.a.
14. Other Earning Assets	n.a.	n.a.	n.a.
15. Total Earning Assets	**1,056,250.0**	**1,042,458.0**	**1,030,715.0**
C. Non-Earning Assets			
1. Cash and Due From Banks	22,002.0	21,757.0	23,285.0
2. Memo: Mandatory Reserves included above	n.a.	n.a.	n.a.
3. Foreclosed Real Estate	n.a.	n.a.	n.a.
4. Fixed Assets	10,921.0	11,141.0	11,456.0
5. Goodwill	n.a.	n.a.	n.a.
6. Other Intangibles	n.a.	n.a.	n.a.
7. Current Tax Assets	n.a.	n.a.	n.a.
8. Deferred Tax Assets	n.a.	n.a.	n.a.
9. Discontinued Operations	n.a.	n.a.	n.a.
10. Other Assets	8,784.0	8,978.0	7,873.0
11. Total Assets	**1,097,957.0**	**1,084,334.0**	**1,073,329.0**
Liabilities and Equity			
D. Interest-Bearing Liabilities			
1. Customer Deposits - Current	338,060.0	331,500.0	268,000.0
2. Customer Deposits - Savings	300,147.0	299,800.0	275,700.0
3. Customer Deposits - Term	65,087.0	57,800.0	68,900.0
4. Total Customer Deposits	**703,294.0**	**689,100.0**	**612,600.0**
5. Deposits from Banks	181,809.0	187,986.0	200,763.0
6. Repos and Cash Collateral	n.a.	n.a.	n.a.
7. Other Deposits and Short-term Borrowings	232.0	309.0	374.0
8. Total Deposits, Money Market and Short-term Funding	**885,335.0**	**877,395.0**	**813,737.0**
9. Senior Debt Maturing after 1 Year	n.a.	n.a.	n.a.
10. Subordinated Borrowing	13,189.0	14,699.0	15,732.0
11. Other Funding	76,761.0	75,655.0	138,597.0
12. Total Long Term Funding	**89,950.0**	**90,354.0**	**154,329.0**
13. Derivatives	n.a.	n.a.	n.a.
14. Trading Liabilities	n.a.	n.a.	n.a.
15. Total Funding	**975,285.0**	**967,749.0**	**968,066.0**
E. Non-Interest Bearing Liabilities			
1. Fair Value Portion of Debt	n.a.	n.a.	n.a.
2. Credit impairment reserves	n.a.	n.a.	n.a.
3. Reserves for Pensions and Other	12,054.0	11,900.0	10,964.0
4. Current Tax Liabilities	n.a.	n.a.	n.a.
5. Deferred Tax Liabilities	n.a.	n.a.	n.a.
6. Other Deferred Liabilities	n.a.	n.a.	n.a.
7. Discontinued Operations	n.a.	n.a.	n.a.
8. Insurance Liabilities	n.a.	n.a.	n.a.
9. Other Liabilities	47,602.0	46,225.0	38,321.0
10. Total Liabilities	**1,034,941.0**	**1,025,874.0**	**1,017,351.0**
F. Hybrid Capital			
1. Pref. Shares and Hybrid Capital accounted for as Debt	n.a.	n.a.	n.a.
2. Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	860.0	860.0
G. Equity			
1. Common Equity	63,016.0	57,600.0	55,118.0
2. Non-controlling Interest	n.a.	n.a.	n.a.
3. Securities Revaluation Reserves	n.a.	n.a.	n.a.
4. Foreign Exchange Revaluation Reserves	n.a.	n.a.	n.a.
5. Fixed Asset Revaluations and Other Accumulated OCI	n.a.	n.a.	n.a.
6. Total Equity	**63,016.0**	**57,600.0**	**55,118.0**
7. Total Liabilities and Equity	**1,097,957.0**	**1,084,334.0**	**1,073,329.0**
8. Memo: Fitch Core Capital	n.a.	n.a.	n.a.

Sparkassen-Finanzgruppe (Sparkassen)
Summary Analytics

	31 Dec 2011 Year End	31 Dec 2010 Year End	31 Dec 2009 Year End
A. Interest Ratios			
1. Interest Income on Loans/ Average Gross Loans	6.37	6.55	7.28
2. Interest Expense on Customer Deposits/ Average Customer Deposits	2.74	3.01	4.02
3. Interest Income/ Average Earning Assets	4.06	4.11	4.51
4. Interest Expense/ Average Interest-bearing Liabilities	1.96	2.02	2.47
5. Net Interest Income/ Average Earning Assets	2.24	2.23	2.19
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	2.19	2.08	1.97
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Asset:	2.24	2.23	2.19
B. Other Operating Profitability Ratios			
1. Non-Interest Income/ Gross Revenues	21.45	21.91	20.26
2. Non-Interest Expense/ Gross Revenues	62.03	62.69	67.48
3. Non-Interest Expense/ Average Assets	1.70	1.72	1.78
4. Pre-impairment Op. Profit/ Average Equity	16.24	18.77	16.77
5. Pre-impairment Op. Profit/ Average Total Assets	0.90	0.98	0.86
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	19.93	17.55	18.61
7. Operating Profit/ Average Equity	13.01	15.48	13.65
8. Operating Profit/ Average Total Assets	0.72	0.81	0.70
9. Taxes/ Pre-tax Profit	57.77	56.39	47.74
10. Pre-Impairment Operating Profit / Risk Weighted Assets	1.67	1.83	1.62
11. Operating Profit / Risk Weighted Assets	1.34	1.51	1.32
C. Other Profitability Ratios			
1. Net Income/ Average Total Equity	3.32	3.46	4.49
2. Net Income/ Average Total Assets	0.18	0.18	0.23
3. Fitch Comprehensive Income/ Average Total Equity	3.32	3.46	4.49
4. Fitch Comprehensive Income/ Average Total Assets	0.18	0.18	0.23
5. Net Income/ Av. Total Assets plus Av. Managed Securitized Assets	n.a.	n.a.	n.a.
6. Net Income/ Risk Weighted Assets	0.34	0.34	0.43
7. Fitch Comprehensive Income/ Risk Weighted Assets	0.34	0.34	0.43
D. Capitalization			
1. Fitch Core Capital/Weighted Risks	n.a.	n.a.	n.a.
3. Tangible Common Equity/ Tangible Assets	5.74	5.31	5.14
4. Tier 1 Regulatory Capital Ratio	10.50	9.94	9.69
5. Total Regulatory Capital Ratio	15.80	15.13	14.71
6. Core Tier 1 Regulatory Capital Ratio	n.a.	n.a.	n.a.
7. Equity/ Total Assets	5.74	5.31	5.14
8. Cash Dividends Paid & Declared/ Net Income	n.a.	n.a.	n.a.
9. Cash Dividend Paid & Declared/ Fitch Comprehensive Income	n.a.	n.a.	n.a.
10. Cash Dividends & Share Repurchase/Net Income	n.a.	n.a.	n.a.
11. Net Income - Cash Dividends/ Total Equity	3.17	3.39	4.47
E. Loan Quality			
1. Growth of Total Assets	1.26	1.03	0.24
2. Growth of Gross Loans	2.54	2.76	1.78
3. Impaired Loans(NPLs)/ Gross Loans	n.a.	n.a.	n.a.
4. Reserves for Impaired Loans/ Gross loans	n.a.	n.a.	n.a.
5. Reserves for Impaired Loans/ Impaired Loans	n.a.	n.a.	n.a.
6. Impaired Loans less Reserves for Imp Loans/ Equity	n.a.	n.a.	n.a.
7. Loan Impairment Charges/ Average Gross Loans	0.09	0.24	0.36
8. Net Charge-offs/ Average Gross Loans	n.a.	n.a.	n.a.
9. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Asse	n.a.	n.a.	n.a.
F. Funding			
1. Loans/ Customer Deposits	96.28	95.83	104.90
2. Interbank Assets/ Interbank Liabilities	56.93	49.06	49.87
3. Customer Deposits/ Total Funding excl Derivatives	72.11	71.21	63.28

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.