FitchRatings

Banks

Germany

# 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 Local-Currency IDR | Stable |

### Financial Data

**Sparkassen-Finanzgruppe (Sparkassen)**

| | 2011 | 2010 |
|---|---|---|
| Total assets (USDbn) | 1,422 | 1,437 |
| Total assets (EURbn) | 1,098 | 1,084 |
| Total equity (EURm) | 60.4 | 57.6 |
| Operating profit (EURm) | 8.3 | 8.7 |
| Published net income (EURm) | 2.0 | 4.1 |
| Operating ROAA (%) | 0.76 | 0.81 |
| Operating ROAE (%) | 14.1 | 15.5 |
| Fitch core capital/RWA (%) | 10.9 | 10.2 |
| Regulatory tier 1 ratio (%) | 10.5 | 9.9 |
| Tangible equity/tangible assets (%) | 5.5 | 5.3 |
| Cost/income ratio (%) | 61 | 64 |
| Client loans/client deposits (%) | 97 | 96 |
| Client deposits/total funding (%) | 70 | 71 |

### Related Research

List of 362 savings banks (March 2012)
Fitch: German Savings Banks, Co-Ops to Support Stability in 2012 (March 2012)
2012 Outlook: German Banks (December 2011)
German Landesbanks – Refocusing on Core Strength (November 2011)
Fitch Affirms S-Verbund HT's IDR at 'A+' & VR at 'a+' (July 2012)
Fitch Downgrades Landesbank Berlin and Berlin Hyp to 'A+' (October 2011)
S-Finanzgruppe Hessen-Thueringen (December 2010)
Germany's Run-Off Institutions: Potential Rating Implications (March 2010)
Greek Exit Scenario for Eurozone Banks (June 2012)
European Banks and Market Turmoil (January 2012)
Rating Banks in a Changing World (October 2011)
Fitch Comments on Support for Euro Banks; Takes Various Support-Driven Rating Actions (October 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 362 savings banks (out of a total of 429) within the broader Sparkassen-Finanzgruppe (SFG, an unconsolidated group of 620 institutions with over EUR2.6trn of assets and 360,000 employees.

**Savings Banks 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 and entrenched 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 sound capitalisation.

**Manageable Challenges:** The ratings also reflect the savings banks' relative cost inefficiency and Fitch's expectation that they will successfully defend their retail deposit franchise from intense competition over the next few years. Sizeable interest rate risk from maturity transformation potentially gives rise to volatile returns, which is compounded by the unpredictable environment.

**Limited Cohesiveness, Perfectible Governance:** SFG's mutual support mechanism is not as strong as would be normally expected to assign Group Ratings under the above criteria. The absence of consolidated accounts and the limited integration of some of its members weaken SFG's cohesiveness. SFG's decentralised structure also weakens its corporate governance.

**Strong, Tested Mutual Support:** In Fitch's view, the following factors sufficiently mitigate the above limitations and make a Group Rating possible: the savings banks' mutual support scheme, entrenched and stable relationships with their public bodies (municipalities) and deep integration. Thus far, the scheme and the group's strategic cohesion have always sufficed to support – at times with the respective municipalities – even large savings banks, and Fitch expects the scheme to be sufficient to support any individual savings banks in distress.

**Landesbanken Major Contingent Risk:** Collectively, if not always individually, the savings banks could absorb sizeable contingent liabilities and contagion risks from the Landesbanken. However, further outright bailouts of large Landesbanken would again require state support.

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

## What Could Trigger a Rating Action

**Remote Downgrade Risk:** A downgrade of the IDRs would only occur if – in addition to a weakening of the group's intrinsic credit profile – Fitch changed its view on Germany's ability or propensity to support the group, notably if Germany's sovereign rating ('AAA'/Stable) was downgraded. Enhanced corporate governance within SFG and significant, sustainable de-risking of the most vulnerable Landesbanken would be a necessary condition for an upgrade of the IDRs. Fitch expects this de-risking process to take several years at best.

- Germany's savings banks group.
- Mostly public-sector institutions.
- Homogeneous part of SFG, Germany's largest financial services group, sharing strategic focus and brand.
- IDRs driven by intrinsic strength, not by state support.
- Strong performance, resilient funding, solid capitalisation.
- Most resilient sub-sector of the German banking system beside the cooperative banking group.
- Alongside the cooperative banking group, strongest financial profile in their domestic and European peer groups.
- Relative strength and resilience likely to rise in 2012.
- Adequate mutual support scheme, monitoring and risk management.
- Entrenched, stable strategic relationship with public owners.
- Landesbanken are main contingent risk due to some vulnerable standalone profiles and exposure to wholesale and capital markets; but manageable for the savings banks and increasingly mitigated.

## Profile

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

The Group Ratings reflect the savings banks' superior collective risk/return profile. This is underpinned by the individual banks' resilient business models and strong, long-established local franchises, which arise from their focus on the relatively sound German retail (mostly residential mortgage) and SME markets and their 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 |
| Capitalisation | Solid |
| 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 the provision of current accounts, lending, payment and deposit-taking products in a clearly delimited local area. In cooperation with other 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, in combination with their stable, generally public ownership, prevents strategic disruptions.

Figure 2

**Peer Group: Large European Retail-Focused Banking Groups**

| (EURbn) | Country | LT IDR/ Outlook | Viability Rating | Operating profit 2011 | Total assets at end-2011 |
|---|---|---|---|---|---|
| SFG[a] | Germany | Not rated | Not rated | - | 2,602 |
| Sparkassen | Germany | 'A+'/Stable | 'a+' | 8.3 | 1,098 |
| GFG[a,b] | Germany | 'A+'/Stable | 'a+' | 8.1 | 1,020 |
| Rabobank Group (Rabobank) | Netherlands | 'AA'/Stable | 'aa' | 3.1 | 732 |
| Crédit Agricole (CA) | France | 'A+'/Negative | 'a' | 6.1 | 1,880 |
| Crédit Mutuel (CM11-CIC)[a,c] | France | 'A+'/Stable | 'a+' | 3.3 | 434 |
| Groupe BPCE (BPCE) | France | 'A+'/Negative | 'a−' | 4.7 | 1,138 |
| Intesa Sanpaolo (Intesa) | Italy | 'A−'/Negative | 'a−' | 2.0 | 639 |
| Swedbank AB (Swedbank) | Sweden | 'A'/Stable | 'a' | 1.7 | 208 |

[a] Operating profit and total assets per end-2010
[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

### Savings Banks: A Cohesive Group within SFG

The 429 German savings banks (Sparkassen or the group) form a homogeneous and cohesive banking group, which shares uniform risk management tools. Regional associations administer the regional support funds of the mutual support scheme (see *Appendix 2*) and are entitled to enforce 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) (see *S-Finanzgruppe Hessen-Thueringen*, published on 9 December 2010).

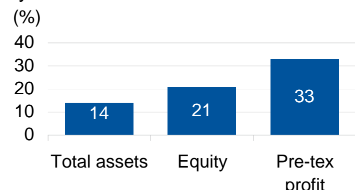
**Related Criteria**

Global Financial Institutions Rating Criteria (August 2011)
Rating Criteria for Banking Structures Backed by Mutual Support Mechanisms (April 2012)
Evaluating Corporate Governance (December 2011)

Figure 3

**Key Pillar of Banking System**

2010 contributions to German system[a]




[a] Excl. state-owned develop. Bank, FMS Wertmanagement, Erste Abwicklungsanstalt

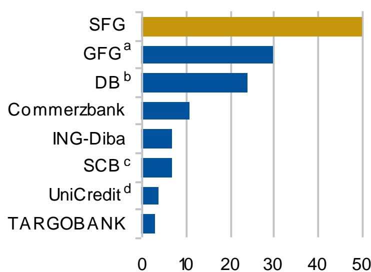
Source: Fitch

- 2012 contributions to the German banking system's profit likely to be slightly below 2010 and 2011 due to the recovery in other sectors.

Figure 4

**Leading Domestic Players**

Million clients at end-2010 - Germany




[a] Genossenschaftliche FinanzGruppe (German Cooperative Banking Group)

[b] Deutsche Bank incl. Deutsche Postbank

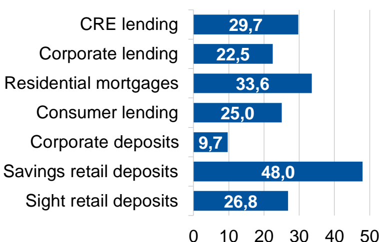
[c] Santander Consumer Bank AG

[d] UniCredit Bank AG

Figure 5

**Leading Market Shares**

Domestic market shares end-2011 in %




CRE: commercial real estate

Sources: DSGV, Deutsche Bundesbank, Fitch

- Fitch will publish shortly an accompanying special report on the evolutions of the Sparkassen/ Landesbanken links and likely risk implications for the Sparkassen.

The savings banks have effectively 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.

The savings banks are members of SFG, which is represented by the Deutscher Sparkassen- und Giroverband (DSGV). DSGV is the association of regional savings bank associations, which in turn represent the savings banks (see *Appendix 1*).

### *Savings Banks are Legally Independent, Predominantly Public-Sector Institutions*

Their responsible public bodies (Träger) are municipalities, associations of municipalities or districts. The exceptions are the six so-called “freie” (free) Sparkassen – including the largest savings bank, Hamburger Sparkasse – which are owned by foundations, societies (Vereinen) or entities governed by regional laws. This legal status results in a high degree of operating independence of the local management boards compared with Sparkassen’s European peers.

## Group Ratings reflect the Savings Banks’ High Cohesion

The support scheme is not so strong as to normally warrant a Group Rating under Fitch’s *Rating Criteria for Banking Structures Backed by Mutual Support Mechanisms*. 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 individual member banks. The decentralised decision-making structure also weakens the corporate governance of the sector. 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 or regular reporting on single-name concentration risk.

Fitch takes the view, however, that the strong and proven record for cohesion of the savings banks sufficiently compensates for these limitations such that the assignment of a Group Rating is justifiable. This is reflected in the high degree of readiness of the savings banks to support other members, as has been proven on several occasions.

Furthermore, the savings banks’ mutual support scheme safeguards their liquidity and solvency: the so-called Institutssicherung ensures the maintenance of the banks as a whole, not just their regulated deposits. Since the introduction of the mutual support scheme in the 1970s, no savings bank has ever been liquidated and no creditor has ever suffered losses.

The extensive integration of the savings banks and their stable, close relationship with their responsible public bodies are further compensating elements that justify a Group Rating. Fitch expects that the support scheme should be sufficient for any individual banks that are in need of support in the future.

## The Group Ratings Apply to Savings Banks Only, Not to Landesbanken

### *Regulatory Authorities Treat SFG as a Group…*

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

### *… But Cohesion Between Sparkassen and Landesbanken is Evolving*

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 the respective regional states

Figure 6

**Granular Group Structure**[a]

| End-2010 | Spar-kassen | GFG |
|---|---|---|
| Total number of banks | 429 | 1,121 |
| Average total assets (EURbn) | 2.5 | 0.7 |
| Individual bank's contribution to total group assets in (%) | | |
| - Average | 0.23 | 0.10 |
| - Largest bank | 3.5 | 1.3 |
| - 100 largest banks | 59 | 46 |

[a] GFG: Local cooperative banks excluding central institutions
Source: DSGV, GFG, Fitch

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, Fitch considers that the higher use of intra-group funding observed in some cases during the crisis is more guided by an opportunistic use of the 0% regulatory risk weighting than by long-term strategic considerations.

Fitch also views 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 achieved in the last few years represents 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.

### All Savings Banks' IDRs Are Derived from the Group Ratings

The Group Ratings reflect the cohesiveness among savings banks and the resulting contingent liability arising from weaker group entities prevent the stronger members from achieving higher standalone ratings on their own merit. 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.

97% of the individual savings banks' total assets account for less than 1% of SFG's aggregate assets (see Figure 6). While a few members are sizeable, with total assets exceeding EUR10bn and in one case amounting to EUR38bn, there are no dominant savings banks within the group and all have franchises limited to their respective local area.

### SRF Reflects Extremely High Likelihood of State Support if Required

To avoid confusion, Fitch notes that the Group Ratings reflect the savings banks' collective intrinsic creditworthiness as a group. This is not driven by potential state support, which is expressed by their Support Rating Floor, also coincidentally at 'A+' (see *Fitch Comments on Support for Euro Banks; Takes Various Support-Driven Rating Actions*, published on 13 October 2011).

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 Federal Republic of Germany ('AAA'/Stable). This view is based on the savings banks' public-sector ownership and crucial role in the provision of financial services to SMEs and households in Germany.

## Performance

- 2011 earnings close to strong 2010 performance.
- Moderate decline likely in 2012.
- Flattened yield curve, low interest rates, rising competition for deposits and moderately rising LICs from a very low level to exert manageable pressure in 2012.

Figure 7

**Peer Comparison – Profitability**

| | Operating profit pre-LIC/RWA | | | Net interest margin post LICs | | | Operating RoAA | | | Operating RoAE | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (%) | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 |
| Sparkassen | 1.7 | 1.8 | 1.6 | 2.2 | 2.1 | 2.0 | 0.8 | 0.8 | 0.7 | 14.1 | 15.5 | 13.7 |
| GFG | n.a. | 1.9 | 1.8 | n.a. | 1.9 | 1.6 | n.a. | 0.8 | 0.7 | n.a | 13.6 | 12.1 |
| Rabobank | 2.1 | 2.1 | 2.2 | 1.2 | 1.2 | 1.1 | 0.5 | 0.5 | 0.3 | 8.8 | 9.9 | 6.4 |
| CA | 2.2 | 2.4 | 2.2 | 1.1 | 1.1 | 1.0 | 0.3 | 0.5 | 0.3 | 8.0 | 11.0 | 7.7 |
| CM11-CIC | 2.2 | 2.5 | 2.4 | 1.3 | 1.2 | 1.0 | 0.6 | 0.7 | 0.5 | 10.3 | 14.2 | 11.2 |
| BPCE | 1.8 | 1.8 | 0.7 | 1.2 | 1.1 | 1.0 | 0.4 | 0.5 | -0.1 | 10.0 | 13.2 | -3.2 |
| Intesa | 1.9 | 1.9 | 2.1 | 0.9 | 1.4 | 1.5 | 0.3 | 0.5 | 0.6 | 3.7 | 6.1 | 6.7 |
| Swedbank | 2.0 | 1.8 | 1.9 | 1.2 | 0.8 | -0.2 | 0.9 | 0.5 | -0.6 | 15.8 | 10.7 | -12.6 |

LIC: Loan impairment charges
Source: DSGV, Annual reports, Fitch

- New business benefits from domestic competitors' challenges.

### Resilient Performance Reflects Strong Recurring Pricing and Earning Power

The savings banks should again achieve very solid earnings in 2012 despite likely moderate

deterioration from a high level, thus providing considerable headroom to face the next economic slowdown.

- 2009-2011 earnings unlikely to be topped without bold cost savings.
- Cost efficiency focus may gradually rise but short-term relief unlikely.

Figure 7 should be viewed in light of the more conservative regulatory risk weighting of the Sparkassen than similar groups elsewhere in Europe (see also *Capital* section). Were the Sparkassen to, instead of 53%, have an average risk weighting of 40%, as is the case for their European peers, operating profit pre-LIC/RWA would have improved to 2.4% for end-2010, which would have been one of the best results in the peer group.

### *Post-Crisis Environment Should Represent Growing Competitive Advantage*

Despite their lack of focus on profit maximisation, Fitch expects the Sparkassen's performance to compare increasingly favourably with those of their European peers, which are more exposed to market volatility, the eurozone crisis, regulatory pressure, and rising funding and capital costs.

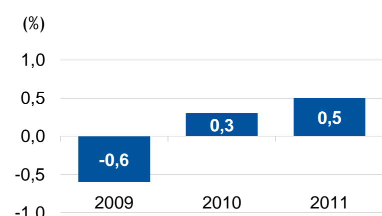
Albeit to a lesser extent than in previous years, the Sparkassen will continue to benefit from the enduring restructuring of major domestic competitors (with the notable exception of GFG), some of which continue to significantly restrict lending in 2012 to fulfil their recapitalisation targets derived from the European Banking Authority's (EBA) latest stress tests. The Sparkassen's new lending amounted to EUR124bn in 2011 (+1.8% yoy), of which EUR67bn was to small SMEs and self-employed clients (+3.9%), EUR48bn to retail clients (−2.5%) and the remaining EUR9bn to local public authorities and institutional clients. This 1.8% increase yoy confirms the Sparkassen's favourable position to meet robust domestic demand.

Fitch considers that it will be challenging to replicate the performance achieved in 2010 and 2011 without seizing the group's vast cost reduction potential. This is notably due to the extremely benign LICs, which should rise to a more sustainable level from 2012, reflecting the expected moderate cooling-off of the German economy. For instance, the Sparkassen in Baden-Wuerttemberg, which account for 16% of the group's total assets, reported LICs of less than EUR50m for 2011, which is 11% of their long-term average.

Figure 8

**Recovering But Still Vulnerable**

Landesbanks' Aggregated Performance[a]




[a]Operating income/End-year RWA
Source: annual reports, Fitch

### *Landesbanken's Adverse Performance Implications Should Remain Manageable*

The Sparkassen's resilient operating revenues should comfortably alleviate potential negative revaluations of their equity stakes in Landesbanken similar to the EUR850m write-down of their stake in LBB, which was equivalent to 10% of their 2011 operating income. While the resulting burden should be no concern for the group as a whole, it may put significant stress on some weaker individual banks.

With EUR3.2bn aggregated pre-tax profit and no loss at the individual level for the first time since 2006, the Landesbanken's – including Dekabank Deutsche Girozentrale (Dekabank; not rated) – performance in 2011 was acceptable by their own generally modest standards. But the worsening of the eurozone crisis since H211, the need to strengthen capital ahead of Basel III and the expectation of rising funding costs and LICs will probably result in renewed modest profit distribution to the Sparkassen if any in 2012 and 2013.

- Burden from contribution to Landesbank restructuring expected in 2012.
- Potential further write-down of equity stakes in Landesbanken.

While currently exacerbated by the crisis, this poor reward of the contingent risk arising from the Landesbanken should remain a structural feature at the group of Landesbanken with the more vulnerable risk/return profiles. However, Fitch believes the fully or predominantly Sparkassen-owned and more robust Dekabank, Helaba and – to a lesser extent – LBB have the potential to resume acceptable dividend payments when market conditions normalise.

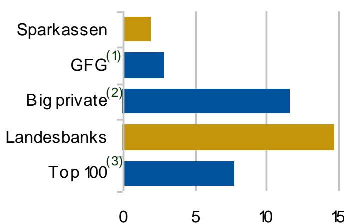
## Mounting Competition for Retail Deposits Will Increase Margin Pressure

The Sparkassen are exposed to – largely online-driven – price competition, which has eroded their market share in retail deposits by 500bp over the past 10 years. This competition is likely to intensify and primarily arises from two distinct groups of banks. The most significant are foreign-owned players with genuine German franchises such as ING-Diba and Santander

Figure 9

**Standard Deviation of RoE**

Average 2000-09 in percentage points




(1) German coop. group (local banks only)
(2) Large German private banks
(3) 100 largest European banks
Sources: Bankscope, IMF

Consumer Bank (both not rated) and captive finance divisions of German automotive manufacturers. While still comparatively small, these niche players, which focus on core retail products such as deposit-taking, consumer finance and mortgage lending, are rapidly growing, leaner and thus more cost-efficient.

Pressure on corporate and institutional deposits also arises from the generous availability of the voluntary deposit insurance scheme of private-sector banks (Einlagensicherungsfonds; ESF). This German peculiarity allows German wholesale banks without retail deposit franchises such as IKB Deutsche Industriebank (not rated) and foreign institutions without a material German presence to collect ESF-protected online retail deposits. While the volume collected by each bank remains modest, the cumulative effect of the resulting competitive distortion should further increase, in Fitch's view, as the system's reform announced in late 2011 is unlikely to have material implications (see Fitch comment, *Unlimited German Deposit Insurance Is Inefficient*, published on 16 February 2012).

The leading German retail banking networks of the savings and co-operative banks have historically faced fairly high competition from the large universal banks' retail banking activities. Despite the concentration resulting from Commerzbank's ('A+'/Stable) acquisition of Dresdner Bank and Deutsche Bank's ongoing integration of Deutsche Postbank (both 'A+'/Stable), competition for deposits, current accounts and mortgage lending should remain high.

The Sparkassen's reactions to these challenges notably include service quality enhancements such as innovative payment solutions and the launch in 2011 of a consumer and car lending platform combining the capabilities of LBB and Deutsche Leasing (SFG's leasing specialist, not rated). Fitch views the latter as an important move, which offers significant potential to regain the market share lost to specialist competitors in the high-margin consumer finance market.

The Sparkassen's decentralised structure results in each local bank independently pricing its products, which prevents unified pricing at a nationwide level. While this enables adequate responses to local demand patterns, it somewhat hinders the group's reactivity, especially to online competition. Nevertheless, in light of their strong local franchises, the Sparkassen are well equipped to face this rising competition, even though moderate erosion of their share of the deposit market appears inevitable.

In addition, further development of the savings banks' brokerage sales/securities investments should prove challenging despite their strong franchise and the high level of trust that they enjoy in Germany. Fitch also notes that the savings banks' aggregated accounts do not include SFG's central product providers such as the insurance and leasing companies, which distribute their products mainly via their own networks, and thus do not reflect their economic success.

## Significant Room for Efficiency Improvement

- The Sparkassen's large number of employees (c.250,000 vs 160,000 at CA and 125,000 at BPCE, which both include large wholesale operations) explains the modest pre-tax income/ employee compared with peers.

Figure 10

**Peer Comparison – Efficiency**

| | Pre-tax income/ employee (EUR000) | | | Cost/income ratio (%) | | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 |
| Sparkassen[a] | 32 | 35 | 30 | 61 | 64 | 67 |
| GFG[a] | n.a. | 51 | 42 | n.a. | 63 | 63 |
| Rabobank | 52 | 56 | 41 | 65 | 67 | 63 |
| CA | 25 | 41 | 29 | 63 | 61 | 62 |
| CM11-CIC | 54 | 65 | 41 | 62 | 58 | 59 |
| BPCE | 37 | 46 | 3 | 68 | 69 | 84 |
| Intesa | -90 | 32 | 33 | 54 | 63 | 61 |
| Swedbank | 90 | 58 | -48 | 55 | 58 | 59 |

[a] Before allocation to para. 340f/g reserves
Source: Annual reports, Fitch

Unlike most European peers, which regularly increased lending at double-digit annual rates in the decade to 2008, the Sparkassen have long faced modest growth due to their already high market shares in a German market characterised by a decade of sluggish growth. This contributes to explain the Sparkassen's lower loan exposure per client and employee. While domestic demand regained dynamism during 2011, this structural handicap is unlikely to materially decline in the foreseeable future.

- Awareness of cost inefficiencies may start to gain momentum.
- But any actions likely to be gradual and full potential unlikely to be exploited even long term.

The Sparkassen's relative inefficiencies also result from their high level of operational independence even compared with European cooperative banking groups, where a significant part of the decision-making processes is delegated to a central wholesale entity, thus diluting the cooperative principle of decentralised management.

The absence of a central institution in the Sparkassen's aggregated figures positively influences their performance ratios compared with peers, as central banks normally have lower net interest margins. However, it has a negative effect on their cost/income ratio because central banks do not have large branch networks. Against this backdrop, the Sparkassen's cost/income ratio of 61% in 2011, matching their peer group's average, is a respectable performance, which will be difficult to replicate in the next few years as LICs and lower interest income from maturity transformation will erode their earnings base.

*Significant Cost-Cutting Potential Available*

This potential arises from the savings banks' limited focus on cost optimisation. However, cultural resistance to cost cutting is high in light of the banks' special relationships with the public sector and the hierarchy of their business objectives, which places the development of the local economy and provision of basic banking products ahead of profit maximisation. Thus, Fitch expects this potential to remain largely unexploited in the foreseeable future.

Recently discussed proposals to streamline the group's large back-office functions and reduce overlaps hint at significant cost saving potential. While Fitch views the willingness to implement such measures on a large scale as uncertain, they represent an important buffer available to address a structural rise in competitive and regulatory pressure.

- Landesbanken main contingent risk.
- Landesbanken's "captive" funding providers; considerable direct and contingent funding exposure.
- Sizeable but manageable interest rate risk from term transformation; few extreme negative outliers.
- Manageable credit risk from granular, German-focused loans.
- Moderate GIIPS exposure.
- No coordinated risk management despite use of uniform tools.
- LICs likely to have bottomed out in 2011 and to rise moderately in 2012.

## Risk Management

### Overall Favourable Risk Environment

Fitch views a persistence of the flat interest rate yield curve at a low level during an extended period as the Sparkassen's most imminent source of risk, as this will erode their structurally substantial earnings from maturity transformation. However, the agency views this scenario as manageable in light of the group's strong pricing resulting from its leading franchise.

In addition, the Sparkassen are less vulnerable to a worsening of the eurozone crisis and capital market volatility than most large European banking groups thanks to their strong focus on the fairly resilient German economy, leading retail franchise and moderate GIIPS exposures.

### Moderate Credit Risk

*Generally Sound Loan Portfolio*

Credit risk, the savings banks' dominant source of risk, is relatively low at the aggregated level thanks to the group's highly granular nature. This is supported by a generally sound German mortgage market, which, unlike in many other developed economies, has not experienced any widespread valuation excesses or double-digit annual growth rates ahead of the crisis.

Barring worst-case eurozone developments, LICs should remain modest by historical standards in 2012 as the current low domestic unemployment rate close to 6% and the strengthened balance sheets of German SMEs enhance the savings banks' core clients' ability to absorb the next slowdown. In 2011, the Sparkassen's loan exposure to SMEs and self-employed clients increased by EUR10bn to EUR326bn, or 5.7x equity.

Figure 11

## Peer Comparison – Asset Quality

| | LIC/average gross loans | | |
|---|---|---|---|
| (%) | 2011 | 2010 | 2009 |
| Sparkassen | 0.09 | 0.24 | 0.36 |
| GFG | n.a. | 0.15 | 0.39 |
| Rabobank | 0.35 | 0.27 | 0.45 |
| CA | 0.85 | 0.62 | 0.82 |
| CM11-CIC | 0.37 | 0.56 | 0.78 |
| BPCE | 0.26 | 0.29 | 0.57 |
| Intesa | 1.14 | 0.81 | 0.95 |
| Swedbank | -0.14 | 0.22 | 1.89 |

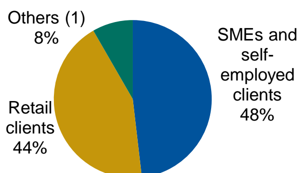
Sources: Annual reports, Fitch

Client loans of EUR677bn at end-2011 comprised: EUR237bn (35% of total client loans) of retail residential mortgages; EUR57bn (8%) of overdrafts, consumer finance and other personal loans; EUR44bn (6%) of public-sector loans (of which EUR9bn to German regional states and EUR34bn to German municipalities or municipalities associations); and around EUR326bn of domestic corporate loans (the balance consists of miscellaneous loans). Of the EUR326bn of loans to commercial clients, EUR87bn (13%) were secured by mortgages (mainly for residential property) and EUR239bn (35%) were other loans, predominantly unsecured loans to small businesses and self-employed customers (micro SMEs with sales of under EUR1m). (All figures are based on Deutsche Bundesbank's preliminary public data at end-2011.)

The savings banks use scoring and rating models developed centrally and approved by the German regulator. According to DSGV's estimates, 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. At EUR0.6bn in 2011, LICs were exceptionally low by historical standards, driven by the sound domestic economy, and are likely to gradually increase in 2012.

Figure 12

**Loan Book Split[1]**
End-2011




(1) Notional exposures
(2) Mostly local public authorities and institutionals
Source: DSGV

*Large Securities Portfolio*

The savings banks' securities portfolio of EUR255bn at end-2011 mainly consists of domestic bank bonds (EUR135bn). The large size of this portfolio results from many years of depressed loan growth, which has generated structural excess liquidity. The banks also manage their portfolios as a strategic source of interest income from maturity transformation. The bonds carry spread risks for banks wanting to sell them prior to maturity and single-event risk as they generally represent the only portfolios in which the banks may face sizeable concentration.

Exposure to sub-prime bonds is negligible and exposure to GIIPS sovereigns is modest.

## Contagion Risk from Landesbanken Will Remain High but Manageable

- While manageable collectively, outright bailouts or write-down of equity stakes in Landesbanken may again indirectly trigger mutual support of individual Sparkassen.
- See *Appendix 2* for support mechanism and *Appendix 3* for Landesbank ownership structures.
- WestLB's run-off institution is substantial contingency risk.

Despite the ongoing restructuring and de-risking of a large part of the Landesbank sector, 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 is compounded by the Landesbanken's large size and relatively vulnerable business models relative to the Sparkassen.

However, the Sparkassen's strong resilience and flexibility should remain sufficient to collectively – if not always individually – absorb potential contagion from Landesbanken. This is because, as Fitch believes, the most vulnerable Landesbanken are more likely to receive support from their respective state-owners than from the Sparkassen if ever needed. This would be particularly crucial in case of systemic crisis.

The Sparkassen's exposure to Landesbanken at end-2011 consisted of: EUR24bn (Fitch's estimate) of equity and Tier 1 hybrid instruments (including loss participation in Erste Abwicklungsanstalt (EAA, 'AAA'/Stable); see below); large debt guarantees (jointly and severally with the Landesbanken's respective regional state-owners); and considerable direct

funding exposure. Moreover, the Sparkassen's support scheme is linked to the Landesbanken's scheme.

The Sparkassen also have a contractual contingent exposure to EAA, the state-guaranteed run-off institution to which WestLB AG's ('A−'/RWP) non-strategic and structured investments have been transferred. This liability is limited to EAA's unexpected losses of EUR5.5bn, of which the savings banks in North-Rhine Westphalia can contribute up to EUR4.5bn over 25 years (see *Germany's Run-Off Institutions: Potential Rating Implications*, dated 2 March 2010). However, Fitch does not expect the full amount to crystallise into losses.

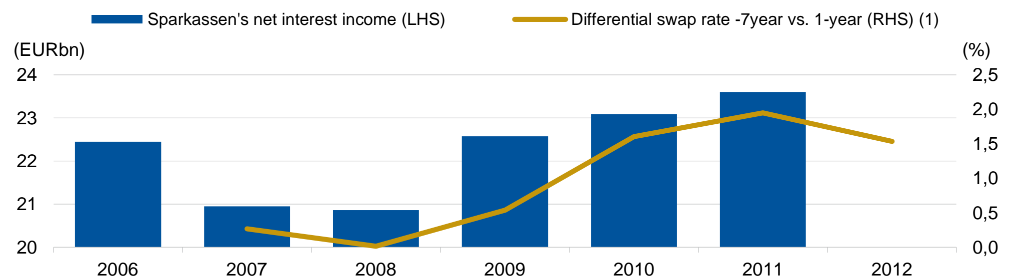
## Market Risk

The savings banks take few market risks other than interest rate risk. Credit spread risk from their securities investments is typically mitigated by their status as buy-and-hold investors, which is enabled by their financial flexibility and stable asset-liability profile. However, the latter also leads to significant maturity transformation risk, which has increased with the significant increase of their sight deposits base since 2008. Based on a long-term benchmark, they manage their maturity transformation risk through interest rate cycles.

This reliance on maturity mismatches somewhat increases the Sparkassen's vulnerability to the flattening of the interest yield curve initiated in H211, and which Fitch expects to continue in the next few quarters.

Figure 13

**Flattening Yield Curve Hints at Modest Pressure on Net Interest Income in 2012**




(1) 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. The number of outliers where losses rates exceed regulatory capital by more than 20% if faced by a sudden increase in interest rates is relatively small (3%).

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. The agency expects pressure from the flattened interest yield curve to be fairly modest in 2012 (Figure 13).

# Funding and Liquidity

- Strong balance sheet ensures sound funding profile.
- Comfortable funding and capitalisation likely to be increasingly competitive advantages in the Basel III environment.
- Covered bond issuance potential hardly explored.

## Resilient Funding Profile Based on Leading Domestic Retail Franchise

Covering about a third of sight and half of savings deposits in a country characterised by a high household savings rate (11.4% in 2010), and having increased their customer deposit base by 13% from end-2007 to end-2011, the savings banks will face from a position of strength what Fitch expects to be fierce competition for German retail deposits in the medium term. Their moderate reliance on unsecured market funding will also be increasingly valuable.

Moreover, Fitch views the Sparkassen's deposit quality as high, as client relationships continue to be predominantly originated by the branch network and the Sparkassen's clients remain more loyal and less price-sensitive than those of rapidly growing online competitors.

Figure 14

### Peer Comparison – Funding Profile

| | Client deposits/total funding | | | Client loans/client deposits | | |
|---|---|---|---|---|---|---|
| (%) | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 |
| Sparkassen | 70 | 71 | 63 | 97 | 96 | 105 |
| GFG | n.a. | 73 | 69 | n.a. | 94 | 95 |
| Rabobank | 55 | 54 | 52 | 142 | 154 | 153 |
| CA | 55 | 53 | 51 | 130 | 132 | 134 |
| CM11-CIC | 56 | 51 | 46 | 136 | 145 | 152 |
| BPCE | 44 | 44 | 43 | 148 | 150 | 151 |
| Intesa | 70 | 46 | 46 | 105 | 186 | 187 |
| Swedbank | 37 | 38 | 34 | 218 | 226 | 261 |

Source: Annual reports, DSGV, Fitch

## Basel III Appears Manageable

Collectively, this comfortable funding profile is likely to become an increasingly competitive advantage in the Basel III environment. While a limited minority of savings banks may require corrective actions to fulfil Basel III requirements, Fitch estimates these to be easily manageable as collective solutions would be available if needed.

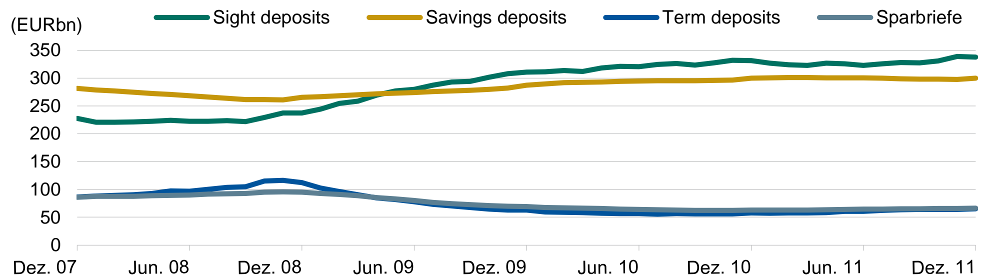
The Sparkassen's pro-forma average aggregated Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) were respectively 130% and 95% (subject to fine-tuning of definitions) at end-2010. Even though these ratios conceal the diversity of the individual banks' situations, these adequate levels reflect the group's sound asset-liability profile.

Depositors have massively reallocated their funds from term to sight deposits since the start of the financial crisis, broadly awaiting a steepening of the interest yield curve to return to term and savings deposits. Fitch estimates that, in light of the latest developments in the eurozone crisis, depositors are increasingly expecting the flattened yield curve to persist for a longer time.

Figure 15

### Sight Deposits on the Rise

Evolution of the savings banks' deposit structure during the crisis




Source: Deutsche Bundesbank

- Sight deposits amounted to almost one-third of total assets at end-2011, up from 22% at end-2007.

This could trigger some reallocation to term and savings deposits over the next few quarters. However, as the market environment is unlikely to normalise rapidly, sight deposits, which accounted for 44% of total deposits at end-2011, should remain well above their long-term average over the next few quarters.

## Loans/Deposits Ratio May Increase Moderately but Should Remain Strong

- Two Concurring Trends.

Fitch estimates that the savings banks' loans/deposits ratio may moderately increase in the medium term. While the agency does not expect this increase to significantly exceed 500bp for

the group as a whole, it could be significantly higher at members with structurally high excess deposits, notably in weaker regions such as eastern Germany.

On the one hand, ongoing restructuring and market-driven funding and capital restrictions are likely to slightly erode the SME lending market shares of some German universal banks, specialised lenders and Landesbanken, which should benefit the savings and cooperative banks.

On the other hand, Fitch expects the savings and cooperative banks to maintain acceptable pricing discipline on retail deposits, which may slightly erode their market shares, especially when short-term rates increase again, as competition for retail deposits is mostly price-driven. Further moderate pressure should come from German households' current propensity to put a higher priority on consumption than in the last few years.

### Vast, Largely Retail, Deposit Base Largely Insulates from Capital Markets

The savings banks have retained a traditional, client-focused funding profile that relies much less on capital market funding than most European retail banking groups apart from GFG. Their client deposits amounted to EUR769bn at end-2011, based on Bundesbank data.

This amount includes development banks' pass-through funding, ie, loans funded by development banks and where savings banks are intermediaries between the corporate customer and the development banks. This amount continues to exceed client loans (EUR677bn) by almost EUR100bn. Including corporate bonds held as credit surrogates (around EUR3.6bn), the client loans/deposits ratio would still be a strong 97%, which Fitch views as a major strength relative to peers (Figure 14).

When calculating the group's loans/deposits ratio, Fitch excludes from client deposits bonds sold to retail clients (Sparbriefe). The agency does not exclude from client loans the development banks' pass-through funding. Thus, in order to compensate for the fact that these loans are fully match-funded by development banks, Fitch includes in the deposit base the funding from development banks. Therefore, the Sparkassen's adjusted loans/deposits ratio shown in Figure 14 is different from the standardised calculation of Fitch's bank statistics.

From a funding and liquidity perspective, holding more securities relative to SME loans or mortgage loans than other European retail banks is beneficial, in Fitch's view, if:

- a rundown of bond portfolios, if ever required under stricter regulatory requirements, is possible without a negative impact on savings banks' franchise and reputation; or
- the vast majority of the bonds are ECB-eligible.

- Mortgage loan portfolios offer additional funding flexibility and mitigate pressure in the Basel III environment by addressing maturity mismatches.

The Sparkassen's large retail mortgage loan portfolios represent vast but hitherto hardly used collateral pools, which Fitch expects the banks increasingly to use for Pfandbrief issuance to further improve their already strong funding profile. This potential collateral amounts to an estimated EUR200bn in eligible mortgages and about EUR22bn in public-sector assets.

32 Sparkassen already have a Pfandbrief licence, and an increasing number have effectively issued Pfandbriefe in the last few years. These are generally among the largest Sparkassen, as their size allows for sufficient diversification of the cover pools. While the smaller Sparkassen would probably find it challenging to issue on a standalone basis, the group offers them the possibility to pool their assets to achieve a critical level of size and diversification.

## Capital

- Solid capitalisation despite deduction of large stakes in Landesbanken.
- Strong earnings retention to continue in 2012.
- Negative outliers manageable at group level.

### Solid, High-Quality Capitalisation

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.

Equivalent to a regulatory Tier 1 ratio of 10.5% at end-2011, their aggregate capitalisation is in line with current general market expectations. No 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.

Figure 16

## Peer Comparison – Capitalisation

| (%) | Fitch core capital ratio 2011 | 2010 | 2009 | Tier 1 capital ratio 2011 | 2010 | 2009 | Tangible equity/ tangible assets 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|---|---|
| Sparkassen | 10.9 | 10.0 | 9.7 | 10.5 | 9.9 | 9.7 | 5.5 | 5.3 | 5.1 |
| GFG | n.a. | 12.3 | 11.3 | n.a. | 8.9 | 8.3 | n.a. | 6.0 | 5.5 |
| Rabobank | 12.5 | 11.1 | 8.6 | 17.0 | 15.7 | 13.8 | 4.5 | 4.7 | 4.5 |
| CA | 6.9 | 6.9 | 6.3 | 10.5 | 10.3 | 9.7 | 2.8 | 3.0 | 2.8 |
| CM11-CIC | 8.4 | 7.8 | 7.1 | 11.0 | 10.8 | 10.0 | 4.6 | 4.4 | 3.9 |
| BPCE | 7.6 | 7.2 | 4.9 | 10.6 | 10.1 | 9.1 | 3.5 | 3.7 | 2.3 |
| Intesa | 8.8 | 7.5 | 6.9 | 11.5 | 9.4 | 8.4 | 5.2 | 4.4 | 4.6 |
| Swedbank | 10.5 | 10.0 | 8.8 | 11.2 | 11.0 | 10.4 | 4.5 | 4.6 | 4.0 |

Source: Annual reports, Fitch

Figure 17

## Conservative Risk Weights

| (%) | Basel II credit risk approach [b] | RWA/ total assets (2011) |
|---|---|---|
| Sparkassen | 100% standard | 53 |
| GFG [a,c] | >80% standard | 47 |
| Rabo | 100% adv. IRB | 31 |
| CA[c] | 70% IRB | 31 |
| CM11-CIC[c] | 60% adv. IRB | 42 |
| BPCE | 56% standard | 36 |
| Intesa[c] | 55% IRB (partly adv. IRB) | 51 |
| Swedbank | Mostly IRB | 41 |

[a] 49% at local coop. banks (excluding central institutions), i.e. comparable to the Sparkassen
[b] Percentages reflect asset split
[c] Figures per end-2010
Source: Annual reports, Fitch

## Conservative Regulatory Risk Weight Assessment

The use of the Basel II standard approach by all savings banks for all credit portfolios results in a conservative valuation of their RWA compared with peers, as illustrated by their ratio of RWA to total assets, which, at 53% at end-2011, is at the top end of the peer group range. This is despite the fact that the non-German peers use the internal ratings-based (IRB) approach for between half and all of their assets (Figure 17). This is compounded by the fact that most peers – unlike the Sparkassen – include sizeable wholesale and capital market businesses, which generally carry higher risk weights. The Sparkassen's similarly robust leverage ratio supports this conservative assessment.

Fitch does not expect many savings banks to adopt the IRB approach any time soon, thus their RWA will remain higher than their historical loss rates would imply.

## Extensive Capital Adjustments

Fitch adjusts the savings banks' reported aggregate capital (Figure 18) to converge to its own definition of core capital (see *Fitch Core Capital: The Primary Measure of Bank Capitalisation*, dated 19 January 2012). This includes the addition of the §340f ("hidden") reserves.

Figure 18

## Capital (EURm) Adjustments Based on Fitch's Estimates

| | | End-2011 | End-2010 |
|---|---|---|---|
| Tier 1 capital as reported by DSGV | | 61,527 | 58,400 |
| §340f German GAAP reserves | + | 27,463 | 25,400 |
| Estimated equity stakes in Landesbanken and insurance subsidiaries[a] | - | 24,000 | 24,000 |
| Hybrid capital (tier 1 silent participations) | - | 1,081 | 860 |
| **Fitch core capital (FCC)** | **=** | **63,909** | **58,940** |

[a] Includes EUR5.3bn of EAA loss participation
Source: DSGV, Fitch estimates

Accounted for net of tax under German GAAP, these reserves are fully loss-absorbing on a going-concern basis. Fitch also deducts 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 ratio of 11% at end-2011, which is solid in light of the group's low-risk business model and conservative regulatory risk measurement.

## Moderate Basel III Implications Expected

Fitch believes that, collectively, the Sparkassen will face moderate 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.

DSGV estimates that fewer than 10% of Sparkassen will find it challenging to fulfil the Basel III requirements on their own merits in due 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

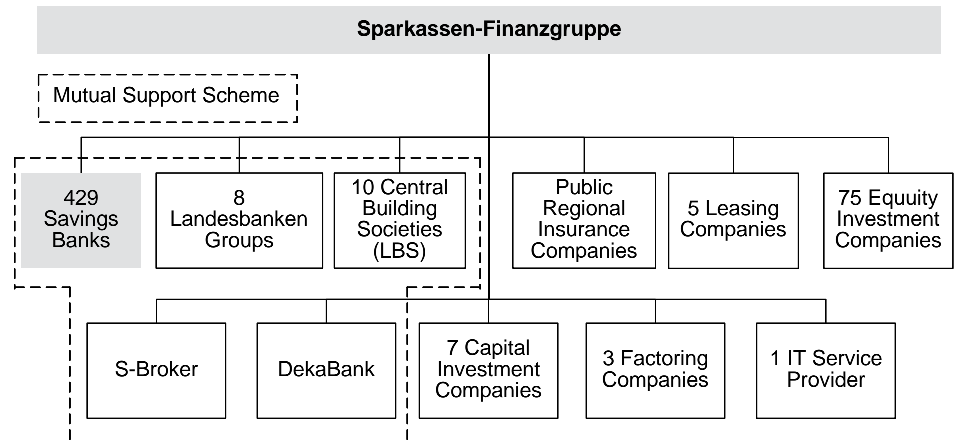
The savings banks are local banks that provide basic financial services for retail and SME customers and local municipalities or groups of municipalities (Kreisen). Savings banks are public-sector entities, and their responsible public body is usually a municipality or a group of municipalities.

However, there are six so-called “free” savings banks, which are owned by foundations, societies or entities based on regional law. The decentralised organisation ensures that customers 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 19

**Group Structure**




Source: DSGV, Fitch

## Appendix 2

### 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 Nordbank AG (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

Their membership in the mutual support scheme exempts the savings banks 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 about 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, Fitch would not expect these EC initiatives to result in a watering-down of the mutual support scheme for German public-sector banks so that it becomes purely a deposit insurance scheme.

## Appendix 3

Figure 20

### Ownership Structure of Several Landesbanken Altered by the Crisis

| | Pre-crisis (end-2007) (%) | Current (Q212) (%) | |
|---|---|---|---|
| BayernLB | 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 | 92.5 | Norddeutsche Landesbank Girozentrale |
| | 7.5 | 7.5 | Free Hanseatic City of Bremen |
| 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 | 19.6 | State of Baden-Wuerttemberg |
| | 18.9 | 18.9 | City of Stuttgart |
| | 4.9 | - | Savings Banks Association of Rheinland-Pfalz |
| | - | 18.3 | Landesbeteiligungen Baden-Wuerttemberg GmbH |
| | 4.9 | 2.7 | Landeskreditbank Baden-Wuerttemberg (L-Bank) |
| LBB[a] | **98.7** | **98.7** | **German Savings Banks via various holding entities** |
| | 1.3 | 1.3 | Free float |
| Helaba[b] | **85.0** | **85.0** | **Savings and Giro Association Hesse-Thuringia** |
| | 10.0 | 10.0 | State of Hesse |
| | 5.0 | 5.0 | State of Thuringia |
| 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 | 56.0 | State of Lower Saxony |
| | **37.3** | **28.4** | **Savings Banks Association of Lower Saxony** |
| | 8.3 | 6.0 | State of Saxony-Anhalt |
| | **7.5** | **5.7** | **Savings Banks Holding Association in Saxony-Anhalt** |
| | **5.2** | **3.9** | **Special Purpose Holding Association of the Savings Banks in Mecklenburg-Western Pomerania** |
| WestLB | 31.2 | 30.9 | NRW.Bank, 100%-owned by state of North Rhine-Westphalia (2007: 64.7%-owned by North Rhine-Westphalia) |
| | **25.2** | **25.0** | **Savings Banks and Giro Associations of the Rhineland** |
| | **25.2** | **25.0** | **Savings Banks Associations of Westphalia-Lippe** |
| | 17.5 | 17.8 | State of North Rhine-Westphalia |
| | 0.5 | 0.7 | Regional Association of the Rhineland |
| | 0.5 | 0.7 | Regional Association of Westphalia-Lippe |

[a] The savings banks' stake will increase to 100% following the announced squeeze-out of minority shareholders in 2012
[b] Includes the capital increases performed in Q411 and Q112 following the EBA's stress tests
Sources: Banks' annual reports 2007 and 2011

## Appendix 4

Figure 21

### Sparkassen and Landesbanken Ratings

| | Issuer Default Rating | | | | |
|---|---|---|---|---|---|
| | Long-Term | Short-Term | Viability Rating | Support Rating Floor | Grandfathered debt[a] |
| 362 Sparkassen | A+ | F1+ | a+ | A+ | n.a. |
| BayernLB | A+ | F1+ | bb+ | A+ | AAA |
| BremerLB | A | F1 | bbb | A | AAA |
| HSH | A− | F1 | bb− | 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 |
| WestLB | A−/RWP | F1 | WD[e] | A−/RWP | 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 plus Helaba – have the same ratings, which are driven by support from its owners in the event of need
[d] Owing to Helaba's integration within S-Finanzgruppe Hessen-Thueringen, Fitch assigns no Viability Rating
[e] Withdrawn (see *Fitch Maintains WestLB on RWP; VR Affirmed at 'b' and Withdrawn*, dated 26/09/2011)
Source: Fitch

## Sparkassen-Finanzgruppe (Sparkassen)
## Income Statement

| | 31 Dec 2011 Year End EURm | 31 Dec 2010 Year End EURm | 31 Dec 2009 Year End EURm | 31 Dec 2008 Year End EURm | 31 Dec 2007 Year End EURm |
|---|---|---|---|---|---|
| 1. Interest Income on Loans* | 43,000.0 | 42,649.0 | 46,401.0 | 51,861.0 | 48,987.0 |
| 2. Other Interest Income | n.a. | n.a. | n.a. | n.a. | n.a. |
| 3. Dividend Income | n.a. | n.a. | n.a. | n.a. | n.a. |
| **4. Gross Interest and Dividend Income** | **43,000.0** | **42,649.0** | **46,401.0** | **51,861.0** | **48,987.0** |
| 5. Interest Expense on Customer Deposits* | 19,400.0 | 19,560.0 | 23,831.0 | 31,000.0 | 28,038.0 |
| 6. Other Interest Expense | n.a. | n.a. | n.a. | n.a. | n.a. |
| **7. Total Interest Expense** | **19,400.0** | **19,560.0** | **23,831.0** | **31,000.0** | **28,038.0** |
| **8. Net Interest Income** | **23,600.0** | **23,089.0** | **22,570.0** | **20,861.0** | **20,949.0** |
| 9. Net Gains (Losses) on Trading and Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| 10. Net Gains (Losses) on Other Securities | n.a. | 63.0 | 172.0 | 35.0 | 151.0 |
| 11. Net Gains (Losses) on Assets at FV through Income Statement | n.a. | n.a. | n.a. | n.a. | n.a. |
| 12. Net Insurance Income | n.a. | n.a. | n.a. | n.a. | n.a. |
| 13. Net Fees and Commissions | 6,400.0 | 6,290.0 | 5,857.0 | 5,994.0 | 6,082.0 |
| 14. Other Operating Income | n.a. | -316.0 | -294.0 | -964.0 | 326.0 |
| **15. Total Non-Interest Operating Income** | **6,400.0** | **6,037.0** | **5,735.0** | **5,065.0** | **6,559.0** |
| 16. Personnel Expenses | 11,300.0 | 11,359.0 | 11,910.0 | 11,534.0 | 11,338.0 |
| 17. Other Operating Expenses | 6,900.0 | 7,176.0 | 7,191.0 | 7,331.0 | 8,035.0 |
| **18. Total Non-Interest Expenses** | **18,200.0** | **18,535.0** | **19,101.0** | **18,865.0** | **19,373.0** |
| 19. Equity-accounted Profit/ Loss - Operating | -1,700.0 | n.a. | n.a. | n.a. | n.a. |
| **20. Pre-Impairment Operating Profit** | **10,100.0** | **10,591.0** | **9,204.0** | **7,061.0** | **8,135.0** |
| 21. Loan Impairment Charge | 600.0 | 1,568.0 | 2,295.0 | 2,200.0 | 2,000.0 |
| 22. Securities and Other Credit Impairment Charges | 1,200.0 | 289.0 | -582.0 | 3,000.0 | 1,776.0 |
| **23. Operating Profit** | **8,300.0** | **8,734.0** | **7,491.0** | **1,861.0** | **4,359.0** |
| 24. Equity-accounted Profit/ Loss - Non-operating | n.a. | n.a. | n.a. | n.a. | n.a. |
| 25. Non-recurring Income | n.a. | n.a. | n.a. | 300.0 | n.a. |
| 26. Non-recurring Expense | 3,600.0 | 2,114.0 | 2,778.0 | n.a. | 600.0 |
| 27. Change in Fair Value of Own Debt | n.a. | n.a. | n.a. | n.a. | n.a. |
| 28. Other Non-operating Income and Expenses | n.a. | n.a. | n.a. | n.a. | n.a. |
| **29. Pre-tax Profit** | **4,700.0** | **6,620.0** | **4,713.0** | **2,161.0** | **3,759.0** |
| 30. Tax expense | 2,700.0 | 2,521.0 | 2,250.0 | 1,016.0 | 1,574.0 |
| 31. Profit/Loss from Discontinued Operations | n.a. | n.a. | n.a. | n.a. | n.a. |
| **32. Net Income** | **2,000.0** | **4,099.0** | **2,463.0** | **1,145.0** | **2,185.0** |
| 33. Change in Value of AFS Investments | n.a. | n.a. | n.a. | n.a. | n.a. |
| 34. Revaluation of Fixed Assets | n.a. | n.a. | n.a. | n.a. | n.a. |
| 35. Currency Translation Differences | n.a. | n.a. | n.a. | n.a. | n.a. |
| 36. Remaining OCI Gains/(losses) | n.a. | n.a. | n.a. | n.a. | n.a. |
| **37. Fitch Comprehensive Income** | **2,000.0** | **4,099.0** | **2,463.0** | **1,145.0** | **2,185.0** |
| 38. Memo: Profit Allocation to Non-controlling Interests | n.a. | n.a. | n.a. | n.a. | n.a. |
| 39. Memo: Net Income after Allocation to Non-controlling Interests | 2,000.0 | 4,099.0 | 2,463.0 | 1,145.0 | 2,185.0 |
| 40. Memo: Common Dividends Relating to the Period | n.a. | n.a. | n.a. | n.a. | n.a. |
| 41. Memo: Preferred Dividends Related to the Period | n.a. | n.a. | n.a. | n.a. | n.a. |

Notes:

- All data are an aggregation (ie, no consolidation) of the Sparkassen's individual German GAAP accounts.
- 2011 data are based on the rounded preliminary accounts published by DSGV on 7 March 2012. Thus, the actual data may show minor differences when they are released later in the year.
- As some non-critical items of the 2011 preliminary data have not been disclosed by DSGV, Fitch's spreadsheets have been completed by using data published by Deutsche Bundesbank and non-critical assumptions.
- Line 26 (Non-recurring expense) includes allocations to the §340f reserves for the years 2007-2010, while the allocations to the §340g reserves (of EUR2.1bn for 2010) has been treated as an appropriation of net income and was stripped out of this position. Because the allocation between the §340f and §340g reserves is not yet available for 2011, the EUR3.6bn shown above represents the total allocation to both reserves.

# Sparkassen-Finanzgruppe (Sparkassen)
## Balance Sheet

| | 31 Dec 2011 Year End EURm | 31 Dec 2010 Year End EURm | 31 Dec 2009 Year End EURm | 31 Dec 2008 Year End EURm | 31 Dec 2007 Year End EURm |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **A. Loans** | | | | | |
| 1. Residential Mortgage Loans | 236,800.0 | n.a. | n.a. | n.a. | n.a. |
| 2. Other Mortgage Loans | 89,700.0 | n.a. | n.a. | n.a. | n.a. |
| 3. Other Consumer/ Retail Loans | 57,200.0 | n.a. | n.a. | n.a. | n.a. |
| 4. Corporate & Commercial Loans | 236,800.0 | n.a. | n.a. | n.a. | n.a. |
| 5. Other Loans | 55,700.0 | 660,358.0 | 642,619.0 | 631,352.0 | 617,507.0 |
| 6. Less: Reserves for Impaired Loans/ NPLs | n.a. | n.a. | n.a. | n.a. | n.a. |
| **7. Net Loans** | **676,200.0** | **660,358.0** | **642,619.0** | **631,352.0** | **617,507.0** |
| **8. Gross Loans** | **676,200.0** | **660,358.0** | **642,619.0** | **631,352.0** | **617,507.0** |
| 9. Memo: Impaired Loans included above | n.a. | n.a. | n.a. | n.a. | n.a. |
| 10. Memo: Loans at Fair Value included above | n.a. | n.a. | n.a. | n.a. | n.a. |
| **B. Other Earning Assets** | | | | | |
| 1. Loans and Advances to Banks | 68,800.0 | 92,234.0 | 100,117.0 | 128,361.0 | 123,970.0 |
| 2. Reverse Repos and Cash Collateral | n.a. | n.a. | n.a. | n.a. | n.a. |
| 3. Trading Securities and at FV through Income | n.a. | n.a. | n.a. | n.a. | n.a. |
| 4. Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| 5. Available for Sale Securities | n.a. | n.a. | n.a. | n.a. | n.a. |
| 6. Held to Maturity Securities | 257,500.0 | 206,137.0 | 204,723.0 | 179,178.0 | 166,639.0 |
| 7. At-equity Investments in Associates* | 17,000.0 | 17,230.0 | 18,722.0 | 19,997.0 | 19,720.0 |
| 8. Other Securities* | 38,500.0 | 66,499.0 | 64,534.0 | 68,036.0 | 73,894.0 |
| **9. Total Securities** | **313,000.0** | **289,866.0** | **287,979.0** | **267,211.0** | **260,253.0** |
| 10. Memo: Government Securities included Above | n.a. | n.a. | n.a. | n.a. | n.a. |
| 11. Memo: Total Securities Pledged | n.a. | n.a. | n.a. | n.a. | n.a. |
| 12. Investments in Property | n.a. | n.a. | n.a. | n.a. | n.a. |
| 13. Insurance Assets | n.a. | n.a. | n.a. | n.a. | n.a. |
| 14. Other Earning Assets | n.a. | n.a. | n.a. | n.a. | n.a. |
| **15. Total Earning Assets** | **1,058,000.0** | **1,042,458.0** | **1,030,715.0** | **1,026,924.0** | **1,001,730.0** |
| **C. Non-Earning Assets** | | | | | |
| 1. Cash and Due From Banks* | 21,000.0 | 21,757.0 | 23,285.0 | 22,706.0 | 21,536.0 |
| 2. Memo: Mandatory Reserves included above | n.a. | n.a. | n.a. | n.a. | n.a. |
| 3. Foreclosed Real Estate | n.a. | n.a. | n.a. | n.a. | n.a. |
| 4. Fixed Assets* | 11,000.0 | 11,141.0 | 11,456.0 | 11,770.0 | 12,177.0 |
| 5. Goodwill | n.a. | n.a. | n.a. | n.a. | n.a. |
| 6. Other Intangibles | n.a. | n.a. | n.a. | n.a. | n.a. |
| 7. Current Tax Assets | n.a. | n.a. | n.a. | n.a. | n.a. |
| 8. Deferred Tax Assets | n.a. | n.a. | n.a. | n.a. | n.a. |
| 9. Discontinued Operations | n.a. | n.a. | n.a. | n.a. | n.a. |
| 10. Other Assets* | 8,000.0 | 8,978.0 | 7,873.0 | 9,353.0 | 9,577.0 |
| **11. Total Assets** | **1,098,000.0** | **1,084,334.0** | **1,073,329.0** | **1,070,753.0** | **1,045,020.0** |
| **Liabilities and Equity** | | | | | |
| **D. Interest-Bearing Liabilities** | | | | | |
| 1. Customer Deposits - Current | 338,100.0 | 331,500.0 | 268,000.0 | 213,500.0 | 206,800.0 |
| 2. Customer Deposits - Savings | 300,300.0 | 299,800.0 | 275,700.0 | 270,000.0 | 290,100.0 |
| 3. Customer Deposits - Term | 57,300.0 | 57,800.0 | 68,900.0 | 89,500.0 | 67,900.0 |
| **4. Total Customer Deposits** | **695,700.0** | **689,100.0** | **612,600.0** | **573,000.0** | **564,800.0** |
| 5. Deposits from Banks | 190,100.0 | 187,986.0 | 200,763.0 | 207,303.0 | 208,957.0 |
| 6. Repos and Cash Collateral | n.a. | n.a. | n.a. | n.a. | n.a. |
| 7. Other Deposits and Short-term Borrowings | 300.0 | 309.0 | 374.0 | 2,587.0 | 2,868.0 |
| **8. Total Deposits, Money Market and Short-term Funding** | **886,100.0** | **877,395.0** | **813,737.0** | **782,890.0** | **776,625.0** |
| 9. Senior Debt Maturing after 1 Year | n.a. | n.a. | n.a. | n.a. | n.a. |
| 10. Subordinated Borrowing* | 15,000.0 | 14,699.0 | 15,732.0 | 15,436.0 | 16,285.0 |
| 11. Other Funding | 87,700.0 | 75,655.0 | 138,597.0 | 165,677.0 | 149,486.0 |
| **12. Total Long Term Funding** | **102,700.0** | **90,354.0** | **154,329.0** | **181,113.0** | **165,771.0** |
| 13. Derivatives | n.a. | n.a. | n.a. | n.a. | n.a. |
| 14. Trading Liabilities | n.a. | n.a. | n.a. | n.a. | n.a. |
| **15. Total Funding** | **988,800.0** | **967,749.0** | **968,066.0** | **964,003.0** | **942,396.0** |
| **E. Non-Interest Bearing Liabilities** | | | | | |
| 1. Fair Value Portion of Debt | n.a. | n.a. | n.a. | n.a. | n.a. |
| 2. Credit impairment reserves | n.a. | n.a. | n.a. | n.a. | n.a. |
| 3. Reserves for Pensions and Other* | 12,000.0 | 11,900.0 | 10,964.0 | 13,145.0 | 12,173.0 |
| 4. Current Tax Liabilities | n.a. | n.a. | n.a. | n.a. | n.a. |
| 5. Deferred Tax Liabilities | n.a. | n.a. | n.a. | n.a. | n.a. |
| 6. Other Deferred Liabilities | n.a. | n.a. | n.a. | n.a. | n.a. |
| 7. Discontinued Operations | n.a. | n.a. | n.a. | n.a. | n.a. |
| 8. Insurance Liabilities | n.a. | n.a. | n.a. | n.a. | n.a. |
| 9. Other Liabilities* | 35,673.0 | 46,225.0 | 38,321.0 | 38,978.0 | 37,725.0 |
| **10. Total Liabilities** | **1,036,473.0** | **1,025,874.0** | **1,017,351.0** | **1,016,126.0** | **992,294.0** |
| **F. Hybrid Capital** | | | | | |
| 1. Pref. Shares and Hybrid Capital accounted for as Debt | n.a. | n.a. | n.a. | n.a. | n.a. |
| 2. Pref. Shares and Hybrid Capital accounted for as Equity* | 1,081.0 | 860.0 | 860.0 | n.a. | n.a. |
| **G. Equity** | | | | | |
| 1. Common Equity* | 60,446.0 | 57,600.0 | 55,118.0 | 54,627.0 | 52,726.0 |
| 2. Non-controlling Interest | n.a. | n.a. | n.a. | n.a. | n.a. |
| 3. Securities Revaluation Reserves | n.a. | n.a. | n.a. | n.a. | n.a. |
| 4. Foreign Exchange Revaluation Reserves | n.a. | n.a. | n.a. | n.a. | n.a. |
| 5. Fixed Asset Revaluations and Other Accumulated OCI | n.a. | n.a. | n.a. | n.a. | n.a. |
| **6. Total Equity** | **60,446.0** | **57,600.0** | **55,118.0** | **54,627.0** | **52,726.0** |
| **7. Total Liabilities and Equity** | **1,098,000.0** | **1,084,334.0** | **1,073,329.0** | **1,070,753.0** | **1,045,020.0** |
| 8. Memo: Fitch Core Capital | n.a. | n.a. | n.a. | n.a. | n.a. |
| 9. Memo: Fitch Eligible Capital | n.a. | n.a. | 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 | 31 Dec 2008 Year End | 31 Dec 2007 Year End |
|---|---|---|---|---|---|
| **A. Interest Ratios** | | | | | |
| 1. Interest Income on Loans/ Average Gross Loans | 6.43 | 6.55 | 7.28 | 8.31 | n.a. |
| 2. Interest Expense on Customer Deposits/ Average Customer Deposits | 2.81 | 3.01 | 4.02 | 5.43 | n.a. |
| 3. Interest Income/ Average Earning Assets | 4.11 | 4.11 | 4.51 | 5.10 | n.a. |
| 4. Interest Expense/ Average Interest-bearing Liabilities | 1.99 | 2.02 | 2.47 | 3.24 | n.a. |
| 5. Net Interest Income/ Average Earning Assets | 2.25 | 2.23 | 2.19 | 2.05 | n.a. |
| 6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets | 2.20 | 2.08 | 1.97 | 1.83 | n.a. |
| 7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets | 2.25 | 2.23 | 2.19 | 2.05 | n.a. |
| **B. Other Operating Profitability Ratios** | | | | | |
| 1. Non-Interest Income/ Gross Revenues | 21.33 | 20.73 | 20.26 | 19.54 | 23.84 |
| 2. Non-Interest Expense/ Gross Revenues | 60.67 | 63.64 | 67.48 | 72.76 | 70.43 |
| 3. Non-Interest Expense/ Average Assets | 1.67 | 1.72 | 1.78 | 1.78 | n.a. |
| 4. Pre-impairment Op. Profit/ Average Equity | 17.16 | 18.79 | 16.77 | 13.12 | n.a. |
| 5. Pre-impairment Op. Profit/ Average Total Assets | 0.93 | 0.98 | 0.86 | 0.67 | n.a. |
| 6. Loans and securities impairment charges/ Pre-impairment Op. Profit | 17.82 | 17.53 | 18.61 | 73.64 | 46.42 |
| 7. Operating Profit/ Average Equity | 14.10 | 15.50 | 13.65 | 3.46 | n.a. |
| 8. Operating Profit/ Average Total Assets | 0.76 | 0.81 | 0.70 | 0.18 | n.a. |
| 9. Taxes/ Pre-tax Profit | 57.45 | 38.08 | 47.74 | 47.02 | 41.87 |
| 10. Pre-Impairment Operating Profit / Risk Weighted Assets | 1.73 | 1.84 | 1.62 | n.a. | n.a. |
| 11. Operating Profit / Risk Weighted Assets | 1.42 | 1.51 | 1.32 | n.a. | n.a. |
| **C. Other Profitability Ratios** | | | | | |
| 1. Net Income/ Average Total Equity | 3.40 | 7.27 | 4.49 | 2.13 | n.a. |
| 2. Net Income/ Average Total Assets | 0.18 | 0.38 | 0.23 | 0.11 | n.a. |
| 3. Fitch Comprehensive Income/ Average Total Equity | 3.40 | 7.27 | 4.49 | 2.13 | n.a. |
| 4. Fitch Comprehensive Income/ Average Total Assets | 0.18 | 0.38 | 0.23 | 0.11 | n.a. |
| 5. Net Income/ Av. Total Assets plus Av. Managed Securitized Assets | n.a. | n.a. | n.a. | n.a. | n.a. |
| 6. Net Income/ Risk Weighted Assets | 0.34 | 0.71 | 0.43 | n.a. | n.a. |
| 7. Fitch Comprehensive Income/ Risk Weighted Assets | 0.34 | 0.71 | 0.43 | n.a. | n.a. |
| **D. Capitalization** | | | | | |
| 1. Fitch Core Capital/Weighted Risks | n.a. | n.a. | n.a. | n.a. | n.a. |
| 2. Fitch Eligible Capital/ Weighted Risks | n.a. | n.a. | n.a. | n.a. | n.a. |
| 3. Tangible Common Equity/ Tangible Assets | 5.51 | 5.31 | 5.14 | 5.10 | 5.05 |
| 4. Tier 1 Regulatory Capital Ratio | 10.50 | 9.94 | 9.69 | 9.50 | 8.50 |
| 5. Total Regulatory Capital Ratio | 15.80 | 15.13 | 14.71 | 14.50 | 13.20 |
| 6. Core Tier 1 Regulatory Capital Ratio | n.a. | n.a. | n.a. | n.a. | n.a. |
| 7. Equity/ Total Assets | 5.51 | 5.31 | 5.14 | 5.10 | 5.05 |
| 8. Cash Dividends Paid & Declared/ Net Income | n.a. | n.a. | n.a. | n.a. | n.a. |
| 9. Cash Dividend Paid & Declared/ Fitch Comprehensive Income | n.a. | n.a. | n.a. | n.a. | n.a. |
| 10. Cash Dividends & Share Repurchase/Net Income | n.a. | n.a. | n.a. | n.a. | n.a. |
| 11. Net Income - Cash Dividends/ Total Equity | 3.32 | 7.12 | 4.47 | 2.09 | 4.16 |
| **E. Loan Quality** | | | | | |
| 1. Growth of Total Assets | 1.26 | 1.03 | 0.24 | 2.46 | n.a. |
| 2. Growth of Gross Loans | 2.40 | 2.76 | 1.78 | 2.24 | n.a. |
| 3. Impaired Loans(NPLs)/ Gross Loans | n.a. | n.a. | n.a. | n.a. | n.a. |
| 4. Reserves for Impaired Loans/ Gross loans | n.a. | n.a. | n.a. | n.a. | n.a. |
| 5. Reserves for Impaired Loans/ Impaired Loans | n.a. | n.a. | n.a. | n.a. | n.a. |
| 6. Impaired Loans less Reserves for Imp Loans/ Equity | n.a. | n.a. | n.a. | n.a. | n.a. |
| 7. Loan Impairment Charges/ Average Gross Loans | 0.09 | 0.24 | 0.36 | 0.35 | n.a. |
| 8. Net Charge-offs/ Average Gross Loans | n.a. | n.a. | n.a. | n.a. | n.a. |
| 9. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Asse | n.a. | n.a. | n.a. | n.a. | n.a. |
| **F. Funding** | | | | | |
| 1. Loans/ Customer Deposits | 97.20 | 95.83 | 104.90 | 110.18 | 109.33 |
| 2. Interbank Assets/ Interbank Liabilities | 36.19 | 49.06 | 49.87 | 61.92 | 59.33 |
| 3. Customer Deposits/ Total Funding excl Derivatives | 70.36 | 71.21 | 63.28 | 59.44 | 59.93 |

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