FitchRatings

Banks

Germany

Sparkassen-Finanzgruppe (Sparkassen)

Full Rating Report

Ratings

Long-Term IDR	A+
Short-Term IDR	F1+
Viability Rating	a+
Support Rating	1
Support Rating Floor	A+

Sovereign Risk

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

Outlooks

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

Financial Data

Sparkassen-Finanzgruppe (Sparkassen)

	31 Dec 13[a]	31 Dec 12
Total assets (USDbn)	1,533	1,456
Total assets (EURbn)	1,112	1,103
Total equity (EURm)	80.6	75.1
Operating profit (EURbn)	8.9	9.5
Published net income (EURbn)	2.1	2.0
Operating ROAA (%)	0.80	0.86
Operating ROAE (%)	11.4	13.8
Fitch core capital/RWA (%)	n.a.	12.4
Regulatory tier 1 ratio (%)	13.4	12.5
Tangible equity/tangible assets (%)	7.3	6.9
Cost/income ratio (%)	65.6	64.0
Client loans/client deposits (%)	94.4	98.3
Client deposits/total funding (%)	76.6	71.3

[a] Unaudited preliminary figures

Related Research

Fitch Affirms Sparkassen and S-Verbund HT at 'A+'; Outlook Stable (28 January 2014)

2014 Outlook: German Banks (December 2013)

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Key Rating Drivers

Savings Bank Group Ratings: The IDRs assigned by Fitch Ratings to 360 savings banks (out of a total 417) within the German public financial services sector (SFG) are "group ratings", in line with Fitch's *Rating Criteria for Banking Structures Backed by Mutual Support Mechanisms*. Sparkassen's Viability Rating (VR), Support Rating and Support Rating Floor (SRF) only apply to the group as a whole, not to the individual savings banks. The ratings do not apply to other SFG members such as Landesbanken or building and loan associations.

Integral to German Retail Banking: With leading nationwide franchises in retail and small business banking, the Sparkassen are an integral part of both the German banking sector and the SFG, an unconsolidated group of 600 institutions with over EUR2.6trn of assets (excluding leasing and insurance subsidiaries) and 355,000 employees at end-2012.

Strong, Stable Risk Profile: Sparkassen's VR, which underpins the savings banks' IDRs, reflects the group's solid and resilient profitability, granular and good-quality credit risk exposure, negligible wholesale funding reliance, strong funding profile and solid capitalisation.

More Decentralised: The ratings also take into account the savings banks' relatively high cost base, pressure on net interest income (NII) from continued low interest rates, and Sparkassen's less cohesive governance structure than peers. Risk management and risk reporting are more decentralised than at peers, somewhat weakening corporate governance.

Strong, Tested Mutual Support: These deficits are largely mitigated by the savings banks' tested 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: Sparkassen's exposure to Landesbanken (both participations and funding) is considerable but has diminished somewhat as the Landesbanken continue to be restructured. In case further bailouts of large Landesbanken would be required, we would expect support to be provided by both the respective states and the savings banks.

High Systemic Importance: The 'A+' SRF reflects Fitch's view that the relevant local authorities, regional states and ultimately the federal government would be extremely likely to support Sparkassen should its mutual support scheme prove unable to deal with a group-wide crisis.

Rating Sensitivities

Major German Recession: Fitch is in the process of reviewing SRFs, given political and regulatory developments regarding the availability of sovereign support for systemically important banks and large banking groups. In the case of Sparkassen, a downward revision of its SRF would only affect its IDRs if its VR were to be downgraded at the same time, for instance as a result of a major domestic recession.

VR Downside Risk Limited: Downside risk to its VR is limited, given Sparkassen's stable performance and risk profile, as well as the benign operating environment in Germany. Fitch could consider an upgrade of the VR if corporate governance, including risk controlling/reporting within SFG, were to be improved or if the contingent risk from the Landesbanken sector were to diminish. The latter could be driven by further de-risking at the most vulnerable Landesbanken or by a reduction of Sparkassen's direct exposure to the sector.

Operating Environment

Benign Operating Environment

SFG is primarily a domestic banking group and its risk profile is correlated with economic conditions in Germany (AAA/Stable). Both the fiscal and macroeconomic situation in Germany compare favourably with its European and other 'AAA' peers, providing SFG with a generally benign operating environment. Germany's debt/GDP ratio is on a downward trend (estimated at 79.4% at end-2013; 81% at end-2012), economic growth is accelerating (GDP growth of 0.6% in 2013, 1.5% Fitch forecast for 2014) and nominal interest rates are low.

The new coalition government is committed to reducing public debt which should ensure a structurally balanced budget in the medium-term. The government has also maintained its commitment to reducing debt/GDP to 70% in this parliament's lifetime (by 2017). The risk from contingent liabilities from the eurozone crisis continues to ease on improved regional governance, economic recovery and ECB policy. Germany's contribution to the European Financial Stability Facility (EFSF) has already added about 2pp to the government debt to GDP ratio and the EFSF's total commitments add 1.3% of GDP to contingent liabilities. Commitments to the European Stability Mechanism (ESM) are capped at German contributions paid in capital, which is around 0.8% of GDP.

The economic environment continues to be favourable for German banks in 2014. Asset values, in particular real estate, should remain resilient driven by a low interest rate environment, low domestic unemployment and increasing private consumption.

Figure 1
Fitch Forecasts

	2014	2015
Real GDP growth (%)	1.5	1.5
General government balance (% of GDP)	0.0	0.1
General government debt (% of GDP)	77.9	75.5
Consumer prices (annual avg. % growth)	1.5	1.5

Source: Fitch

German banks benefit from well-developed and deep financial markets and the banking system as a whole is well capitalised (banking system capital ratio of 17.3% at end-2013 compared to 15.7% for the 'AAA' median). Both Fitch's banking system indicator (BSI; 'a') and macro-prudential indicator (MPI; '1') indicate a low risk of system-wide problems in the German banking sector.

Fitch views the legal and regulatory framework in Germany as strong. Banks are subject to regulatory oversight by the German regulator (Federal Financial Supervisory Authority; BaFin) and Germany's largest banks will from late 2014 be under the direct supervision of the ECB.

Regulatory Treatment Under Basel III Clarified

In early 2014, BaFin confirmed that the existing regulatory forbearance for decentralised banking groups' institutional protection scheme (IPS) will remain unchanged under the Basel III implementation in the EU. As a result, Sparkassen should be able to maintain its comprehensive protection scheme which significantly exceeds other private sector deposit guarantee schemes.

At the same time, BaFin confirmed that the 0% regulatory risk-weighting on Sparkassen's intragroup exposures would remain unchanged. This regulatory forbearance is a key element of Sparkassen's cohesiveness as it improves funding fungibility and facilitates intragroup risk transfers.

While "banking union" developments could potentially weaken Sparkassen's IPS (through EU-wide risk collectivisation) the fact that any collectivisation will be phased in over ten years means that Fitch's base case for Sparkassen does not yet include this risks.

Terminology

- *Sparkassen-Finanzgruppe* or *SFG*: refers to the German public financial services sector including (as of end-2013) 417 savings banks, seven Landesbanken, DekaBank, 11 insurance companies, 10 building and loan associations (Landes-bausparkassen) and various other financial sector companies
- *Sparkassen* (or *group)*: refers to both the 417 savings banks within SFG and the 360 rated savings banks within SFG; financial data used in this reports relates to all 417 savings banks combined
- *Savings bank(s)*: refers to individual savings bank(s) within Sparkassen
- *Deutscher Sparkassen- und Giroverband (DSGV)*: the umbrella body for the regional savings bank associations

Related Criteria

Global Financial Institutions Rating Criteria (January 2014)
Banking Structures Backed by Mutual Support Mechanisms (December 2013)
Evaluating Corporate Governance (December 2012)

- Germany's savings banks group with a leading nationwide franchise in retail and SME banking
- Most stable and profitable part of SFG, Germany's public financial services sector
- Cohesion based on mutual support scheme, shared strategy and brand
- Landesbanken represent main contingent risk factor for Sparkassen

Company Profile

Savings Banks: A Cornerstone of SFG (See Also Appendix 1)

SFG includes 417 savings banks, 360 of which Fitch has assigned a group rating. The savings banks form a homogenous and relatively cohesive group within SFG and are organised into 12 regional savings banks associations. At the national level, Deutscher Sparkassen- und Giroverband (DSGV), the association of regional savings bank associations, represents the savings banks and the broader SFG including the Landesbanken.

Each individual savings bank focuses on providing standard banking 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 responsible public bodies, allows continuity in their business strategies.

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 at European peers.

At end-2012, the Sparkassen accounted for around 85% of SFG's EUR5.5bn pre-tax income, 46% of its EUR2.4trn balance sheet, 57% of its EUR1.2trn customer loans, 68% of its EUR1.2trn customer deposits and 69% of its 355,000 staff. The Sparkassen have leading domestic market shares in corporate lending (25%), residential mortgage lending (34%), consumer lending (24%) and retail deposits (39%; all data end-2012).

Individually, the vast majority of the savings banks account for less than 1% of SFG's total assets. While a few members are sizeable (in one case around EUR40bn total assets), none is dominant and all have franchises limited to their respective local area.

The IDRs assigned by Fitch to the individual savings banks are group ratings. Fitch has not performed standalone assessments of the individual banks' creditworthiness. The group ratings reflect the cohesion of the savings banks, and the resulting contingent liability arising from weaker group entities prevents the stronger banks from achieving higher IDRs.

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

Tried and Tested Support Mechanism (See Also Appendix 2)

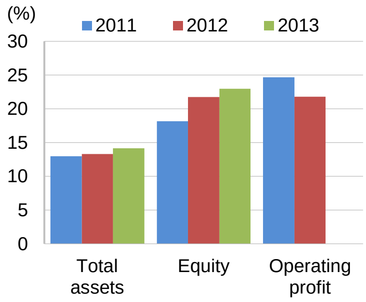
While the Sparkassen are not a consolidated legal entity, they fulfil the requirements of Fitch's relevant criteria for mutual banking groups. Although many risk management functions are at the level of the regional associations, DSGV ensures that a sufficient degree of standardisation and cohesiveness is in place. Regional associations also administer the regional support funds of the mutual support scheme 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 the Sparkassen under plausible (ie, not extreme) stress scenarios.

While the ownership structure of the Landesbanken has changed considerably since the onset of the financial crisis, with municipalities or more often regional states acquiring stakes in Landesbanken previously held by savings banks (see *Appendix 2*), the savings banks have demonstrated a very high propensity to provide support within the Sparkassen sector of SFG in order to protect their common franchise. Examples include the bailouts of several savings banks by their peers and notably the acquisition of Landesbank Berlin AG (LBB) 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.

Figure 2

Sparkassen in the German Banking Sector

(% contribution of savings banks to total sector)

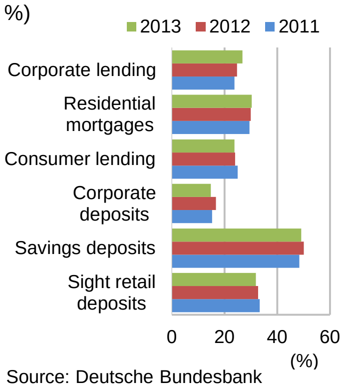


Source: Fitch

Figure 3

Leading Market Shares

(Market shares of savings banks in %)



Source: Deutsche Bundesbank

Figure 4

Granular Group[a]

Total number of Sparkassen	418
Average total assets (EURbn)	2.6
Share of total group assets in (%)	
- Average per bank	0.24
- Largest bank	3.6
- 10 largest banks	17
- 50 largest banks	42

[a] End-2012

Source: DSGV, Fitch

Features of Support Mechanism Weaker Than at Many Peers

Fitch considers Sparkassen's mutual support mechanism to be weaker than that of most European peers. Unlike at more cohesive groups, the savings banks' access to group resources in case of need is not full and unconditional since, in the first instance, support would be provided at the regional level. 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 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. Still, the German supervisory authorities 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 intragroup exposures.

Nonetheless, 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.

Landesbanken Still a Considerable, Albeit Declining, Contingent Liability

Fitch deducts the savings banks' (estimated) stake in Landesbanken when assessing Sparkassen's capitalisation (see *Capital* below). Despite this prudent approach and the generally improving credit profiles of many Landesbanken, Landesbanken represent a considerable contingent liability for Sparkassen. While the Landesbanken's historical dual ownership – shared between the savings banks and their regional states – has since the financial crisis hindered a more comprehensive restructuring of the Landesbanken sector, it has allowed the Sparkassen to significantly dilute their stakes in some Landesbanken (see *Appendix 1*).

Nonetheless, the Landesbanken's funding reliance on Sparkassen remains high (also because of the 0% risk weighting applied) and is, in Fitch's view, unlikely to change in the medium term. More positively, SFG has made progress in better defining the strategic role of individual Landesbanken within the sector. Apart from LBB, which is fully owned by SFG and is being comprehensively restructured, DekaBank and Helaba are at the core of SFG's strategy as asset management and payment platforms respectively. All other Landesbanken (see *Appendix 1*) are focusing predominantly on their respective regions.

Management

Three Tier Management Structure

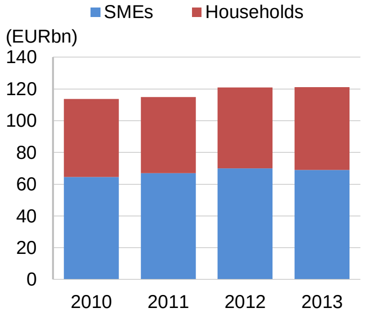
- Decentralised risk management approach with limited central risk controlling; significant diversification as mitigating factor
- Credit risk from core lending activities and contingent risks from exposure to Landesbanken are Sparkassen's main risk sources
- Granular and good-quality loan book ensures strong asset quality; moderate deterioration in 2014 likely
- Moderate market risk exposure essentially limited to structural interest rate risk

Reflecting its decentralised group structure, individual savings banks enjoy a considerable degree of strategic independence and as such, local management at savings bank level is responsible for both the bank's longer-term strategy and day-to-day operations. In a second tier, regional associations manage the support funds, auditing and benchmarking the savings banks within their regions. 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. In a third tier, DSGV coordinates the regional associations and support funds nationally.

Risk Appetite

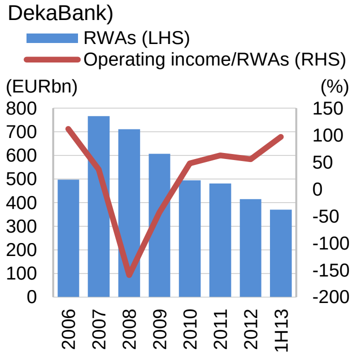
Sparkassen's risk management approach is more decentralised than those of its international peers, with most decision-making authority located at the individual savings bank level. The regional associations are responsible for risk monitoring and have authority to impose sanctions against underperforming savings banks. Risk management authority at the group (ie, DSGV) level is more limited.

Figure 5
Strong New Loan Growth



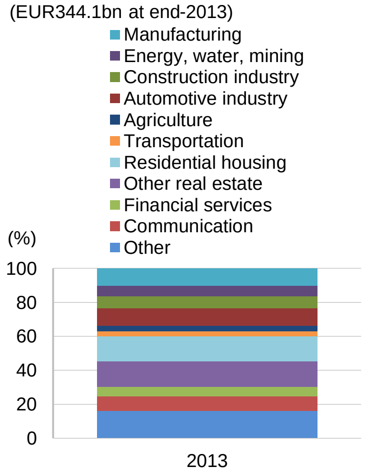
Source: DSGV

Figure 6
Recovering Landesbanken Sector
(Data for seven Landesbanken and DekaBank)



Source: Banks' financial statements; Fitch

Figure 7
Corporate Loans By Industry
(EUR344.1bn at end-2013)



Source: Deutsche Bundesbank

While this strict decentralisation means that risk reporting at the group level is rudimentary and Sparkassen's anticipation of and reaction to exogenous shocks is potentially slow, in practice Sparkassen's decentralised approach has performed well during and since the financial crisis: risk correlations are generally limited and Sparkassen's emphasis on local management responsibility has limited excessive risk taking at the savings bank level.

Reflecting their business model, credit risk relating to lending and treasury activities is by far Sparkassen's most important source of risk, followed by risks relating to their equity participations in Landesbanken and structural interest rate risk.

Credit Risk Benefiting From Benign Environment and Granularity

Credit risk overwhelmingly relates to lending exposure (around two-thirds of Sparkassen's balance sheet), followed by fixed-income investments (around 23%) and interbank exposure (around 8%). Fitch views Sparkassen's credit risk exposure as moderate since it almost exclusively relates to sound asset classes in the well-performing German market and benefits from considerable granularity.

In Sparkassen's EUR700bn loan book at end-3Q13, exposures to the German residential mortgage market (EUR252bn) and German corporates and SMEs (EUR344bn; EUR96bn of which secured by real estate) are the savings banks' primary risk concentrations.

While the German residential real estate market started to show signs of localised overheating in 2013, notably in larger cities, overall risks in German real estate remain lower than in many other European real estate markets. Still, overall, Sparkassen grew relatively aggressively in residential mortgage lending. Some savings banks increased their residential mortgage books significantly faster than the average, which could indicate a catch-up effect after years of underinvestment in some local areas but also excessive risk taking by a small number of individual savings banks. However, Sparkassen's nationwide presence still mitigates potential local excesses adequately.

While property-related lending continued to increase strongly in 9M13, non-property-related corporate and SME lending slowed down somewhat. By industry, Sparkassen's corporate and SME loan book is well diversified, with the exception of the sector's significant exposure to construction and real estate.

Financial Profile

Asset Quality to Remain Solid in 2014

Asset quality information at the Sparkassen level is limited. However, given the strong correlation of Sparkassen's well-balanced loan book with that of the German economy as a whole, Fitch uses sector-wide and peer data as a proxy to assess Sparkassen's asset quality.

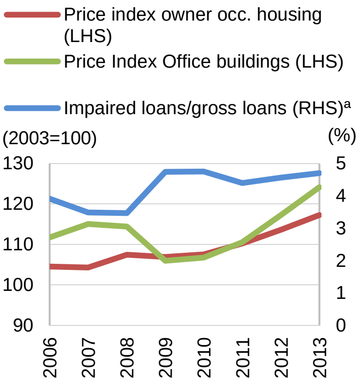
At end-2012, the impaired loans ratio for the German banking sector stood at around 4.5%. Given the strong macroeconomic performance in 2013 including Germany's low unemployment rate (around 6%) and improving SME and corporate balance sheets, Fitch expects this ratio will have remained unchanged or even have slightly improved during 2013. Based on this and on data available from individual savings banks, Fitch views it as unlikely that Sparkassen's current impaired loans ratio will exceed 4.5%.

Sizeable but Good-Quality Non-Lending Credit Exposure

At end-2012, fixed-income investments amounted to EUR253bn or a high 23% of total assets and were held for both liquidity and earnings (maturity transformation) purposes. They were split: EUR145bn fixed-rate bonds (largely senior unsecured); EUR54bn variable-rate bonds; and EUR54bn promissory notes (Schuldscheine). By counterparty type, domestic bank bonds (EUR131bn as per Bundesbank data) were Sparkassen's largest sub-portfolio, followed by public-sector bonds (EUR32bn) and foreign bank bonds (EUR17bn). Fitch understands that Sparkassen's bond exposure to Greece, Italy, Ireland, Portugal and Spain is modest.

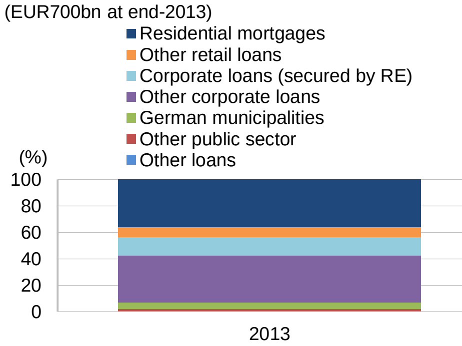
Bank placements at end-2012 amounted to EUR90bn as per Bundesbank data, EUR87bn of which was with domestic banks. Sparkassen's remaining credit exposure largely relates to investment funds (EUR55bn at end-2012 with ultimate investments largely in fixed-income instruments) and negligible balances of other securities (EUR4bn) and equities (less than EUR1bn).

Figure 8
Stable Sector Asset Quality



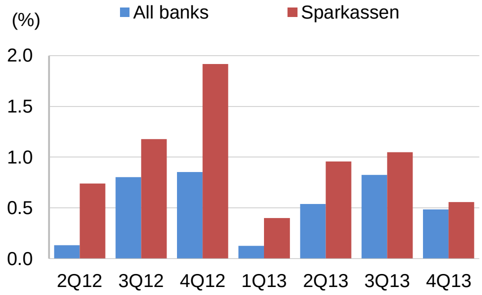
[a] Based on data from 10 largest German banks by total assets
Source: Fitch, VdP

Figure 9
Domestic Loan Book Breakdown
(EUR700bn at end-2013)



Source: Deutsche Bundesbank

Figure 10
Residential Mortgage Loan Growth
(q-o-q change)



Source: Deutsche Bundesbank

Contagion Risk From Landesbanken Will Remain High but Manageable

Off-balance-sheet exposure is generally limited, with the exception of the Sparkassen's contingent risks related to Landesbanken (see also *Performance* above). Apart from their direct equity participations in Landesbanken (see *Capital* below), funding exposure of savings banks to Landesbanken is also significant. Fitch estimates the Sparkassen's total exposure to Landesbanken bonds amount to around EUR100bn, while Sparkassen's total intragroup exposure (large Sparkassen to Landesbanken with limited Sparkassen to Sparkassen exposure) is estimated to stand at between EUR125bn and EUR190bn.

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

Market Risk: Mainly Structural Interest Rate Risk

Fitch views a medium-term persistence of the current low interest rates as the Sparkassen's key market risk exposure, potentially eroding their large earnings from maturity transformation. With both sight deposits and mortgage loans increasing disproportionately fast in 2012 and 2013, Fitch believes Sparkassen's structural interest rate exposure has increased. According to DSGV, maturity transformation has historically contributed 10%-15% of net interest income or NII (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 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. However, a significant number of savings banks (36% of all savings banks at end-2013) have been classified as "banks with elevated exposure to interest rate risk" by BaFin; ie, a ±200bp interest rate shock would have an impact of greater than 20% on the respective bank's regulatory capital. Still, Sparkassen's significant diversification ensures, in Fitch's view, that structural interest rate risk at the group level remains manageable.

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

Figure 11
Asset Quality

		LICs/total loans	
(%)	**VR**	**2012**	**Av.**
Sparkassen	a+	0.13	0.15
GFG	a+	0.17	0.15
Rabobank	aa−	0.50	0.37
CA	a	0.55	0.62
CM11-CIC	a+	0.37	0.44
BPCE	a	0.29	0.28
Intesa	bbb+	1.17	1.04
Swedbank	a+	0.06	0.05
Median		**0.33**	**0.33**

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

- Sound profitability benefits from stable and predictable earnings base
- Pressure on net interest income from low interest rates represents moderate threat to good profitability
- Adequate cost efficiency with significant potential for efficiency gains
- Loan impairment charges below historical average; moderate increase in LICs in 2014 likely

Sparkassen do not produce consolidated accounts and Fitch's analysis is based on aggregate figures. Sparkassen typically present preliminary results for the preceding year-end in early March. More comprehensive accounts normally become available the following July or August.

Earnings and Profitability

Solid and Resilient Performance Despite Pressure on NII

Sparkassen account for the bulk of SFG's profitability, with operating profit contributions from Landesbanken historically being modest or negative (eg, in 2008 and 2009). Excluding the Landesbanken and any write-downs of stakes in Landesbanken, the savings banks' profitability has been remarkably stable and predictable, reflecting their retail-focused and deposit-funded business model. Even taking into account Sparkassen's decentralised organisation and relatively low balance sheet leverage (tangible common equity ratio of around 6%), its operating profitability compares well with domestic and international peers' and its operating return on average equity (ROAE) typically oscillates between 12% and 15%, which Fitch views as sound.

Figures for 2013 confirm the resilience of Sparkassen's profitability: NII was slightly weaker than in 2012 (when it reached EUR23.2bn) as the low and flat yield curve negatively affected NII from maturity transformation. Net fee income, Sparkassen's second major revenue source (EUR6.3bn in 2012), remained broadly unchanged, in line with similar lending and asset management-related volumes. Operating expenses increased broadly in line with inflation (staff expenses increased to EUR11.9bn from EUR11.7bn). As a result, pre-impairment operating profit remained steady at around EUR10.6bn (EUR10.7bn in 2012). Loan impairment charges (LICs) decreased slightly (to around EUR600m from EUR729m in 2012) and remained extraordinarily low compared to longer-term averages. Other credit impairment charges were limited to EUR600m.

As in previous years, Sparkassen transferred a sizeable part of its operating profit (EUR3bn) to its voluntary equity reserves. Pre-tax income for 2013 amounted to EUR4.4bn, 5.3% lower than in 2012, largely due to higher write-downs of the savings banks' equity stakes in Landesbanken, notably LBB.

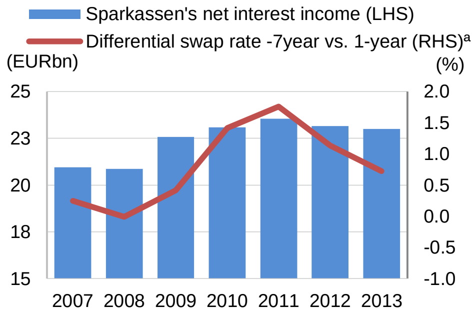
NII Pressure to Continue in 2014 but Profitability Will Remain Sound

With typically around 80% of total operating revenue, NII is by far Sparkassen's most important revenue source. Despite the low interest rate environment and increasing competition for retail deposits from direct and internet banks, Sparkassen's net interest margin (NIM) remained remarkably stable in 2013 (at around 2.2%), reflecting sound volume growth and the individual savings banks' considerable local pricing power. As long as interest rates remain unchanged, Fitch expects NII from maturity transformation to continue to decline, exacerbating the pressure on Sparkassen's NII. Still, any NII decline should be gradual, moderate and easily absorbable by the savings banks' generally sound profitability.

Sparkassen's other core revenue streams, net fee income and net trading income, are likely to remain broadly unchanged in 2014, although securities revaluation gains are likely to be somewhat lower than in 2013 when ECB measures led to considerable windfall profits.

Figure 12

Moderate Pressure on Net Interest Income to Continue in 2014



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

Intensifying Deposit Competition the Main P&L Downside Risk

Competition in the German deposit market has intensified in recent years as previously wholesale-funded domestic banks, direct/online banks and increasingly foreign banks attempt to gain a foothold in one of Europe's largest funding markets. So far, increasing deposit competition has not materially affected the savings banks' NIM, but as one of the market leaders, Sparkassen remains exposed to intensifying deposit competition. Still, given their good balance sheet liquidity and leading franchise, the savings banks are not forced to defend their deposit market shares at all costs, making them somewhat less sensitive to increasing deposit competition than some of their smaller peers.

Well Positioned for Solid Loan Growth

While competition for retail lending products is likely to increase somewhat as private-sector domestic peers refocus on growing in retail banking, the Sparkassen's excess liquidity and solid capitalisation with limited impact from the implementation of Basel III (see *Capital*) means that they are better positioned than many peers to increase their loan books. Fitch expects Sparkassen to growth faster than most peers in commercial real estate (CRE) but also in residential mortgage lending.

In addition, while the Sparkassen's decentralised structure prevents unified pricing at a nationwide level, it increases the individual savings banks' flexibility to react quickly to local deposit-taking or lending competition. 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.

Significant Cost Savings Potential if Earnings Pressure Continues

With a cost/income ratio of typically around 65% and a cost/average assets ratio of 1.7%, Fitch views Sparkassen's cost efficiency as adequate and – due to low earnings volatility and limited discretionary compensation – remarkably stable. Moreover, the sector's decentralised structure and to a lesser extent its limited focus on profit maximisation mean that Sparkassen's cost savings potential is significantly bigger than that of most peers. However, due to the group's historical roots and public ownership structure – which emphasises support for local economies and communities over profit maximisation – Fitch believes that any cost efficiency progress will be gradual and slow. Still, discussions among savings banks to streamline back-office functions and cut duplication – also in light of increasing regulatory and reporting requirements – have intensified in recent years.

Modest Increase in LICs Likely as Operating Environment Cools Down

In 2012 and 2013, LICs remained extraordinarily low (at around 0.1% of gross loans), reflecting the benign operating environment in Germany and Sparkassen's limited exposure to more vulnerable asset classes (which tend to be concentrated at the Landesbanken). For 2014, Fitch expects LICs to increase moderately, but any increase will be easily absorbable by Sparkassen's sound pre-impairment profitability.

Progress in Landesbank Restructuring Should Limit Further Write-Downs

Since the Landesbanken are outside the scope of consolidation of Sparkassen (as defined for the purpose of this rating), developments at Landesbanken only indirectly affect Sparkassen through write-downs in equity stakes Sparkassen hold in Landesbanken and through capital injections in Landesbanken. In recent years, write-downs have been sizeable (between EUR1bn and EUR1.5bn per year, largely relating to LBB) but were easily absorbed by Sparkassen's sound operating profitability. Fitch expects further, albeit smaller, write-downs in 2014.

While write-downs are manageable for Sparkassen as a whole, significant write-downs in individual Landesbanken could put a strain on performance and capitalisation of individual savings banks or their respective regional association. In addition, the unsatisfactory, but improving, performance at most Landesbanken and their need to improve capitalisation during the period of Basel III implementation mean that their profit distribution to Sparkassen will be low or non-existent.

- Strong capitalisation and leverage
- Quality of capital further improved by swapping Tier 2 into Tier 1 capital
- Limited impact from Basel III/CRDIV due to unchanged treatment of intragroup exposures
- Conservative RWA calculation; significant scope for optimisation of capital structure

Capitalisation and Leverage

Fitch considers Sparkassen's capitalisation to be sound. Regulatory Tier 1 capital (EUR76.1bn at end-2012) predominantly consists of paid-in capital, capital reserves and the fund for general banking risks (§340g German GAAP reserves); Tier 2 capital (EUR20.2bn) includes among other items voluntary reserves (§340f German GAAP reserves).

In preparation for Basel III, the savings banks have since 2011 improved the quality of their capital base by transferring §340f Tier 2 capital (EUR12.3bn at end-2012 compared to EUR21.2bn at end-2011) to §340g Tier 1 capital. As a result of these transfers, Sparkassen's regulatory Tier 1 ratio has increased significantly (to 13.4% at end-2013 from 12.5% at end-2012 and 10.5% at end-2011) and is now more in line with Fitch core capital (FCC; 12.1% at end-2012 compared to 11.0% at end-2011) which includes §340f reserves as Fitch considers them to be fully loss-absorbing on a going-concern basis. Landesbanken and to a lesser extent SFG's insurance companies represent contingent risks for Sparkassen. To account for these risks Fitch deducts the estimated book value of the savings banks' stakes in Landesbanken and insurance companies from FCC.

Figure 13

Capital Adjustments

(EURbn)	End-2012	End-2011
Tier 1 capital[a]	76.1	61.5
Undisclosed adjustments based on confidential information	20.2	26.4
Stakes in Landesbanken/ insurance subsidiaries[b]	-23.0	-24.0
Fitch core capital	**73.3**	**63.9**

[a] As reported by DSGV
[b] Fitch's estimates, include EUR5.3bn of EAA loss participation
Source: DSGV, Fitch estimates

Figure 14

Conservative Risk Weights Understate Sparkassen's Capitalisation

(%)	VR	RWA/total assets[b] 2012	Basel II credit risk Approach	Fitch core capital ratio 2012	Fitch core capital ratio Av.	Tier 1 capital ratio 2012	Tier 1 capital ratio Av.	Tangible equity/ tangible assets 2012	Tangible equity/ tangible assets Av.
Sparkassen	a+	55	100% standard	12.4	11.7	12.5	11.0	7.1	6.0
GFG[a]	a+	47	Over 70% standard	12.9	12.3	10.1	9.4	6.5	6.2
Rabobank	aa	30	100% adv. IRB	12.3	11.6	17.2	16.6	4.5	4.6
CA	a	24	70% IRB	9.8	7.9	12.9	11.2	2.9	2.9
CM11-CIC	a+	31	60% adv. IRB	11.8	9.2	14.1	12.0	5.0	4.6
BPCE	a−	33	41% standard	9.6	8.0	12.2	11.0	3.6	3.4
Intesa	a−	44	55% IRB	10.5	8.9	12.1	11.0	5.4	5.0
Swedbank	a+	42	Mostly IRB	10.9	10.4	10.9	11.0	4.9	4.7
Median		**37**	**Ca. 40% standard**	**10.7**	n.a.	**12.4**	**11.0**	**4.9**	**4.7**

Av.: Average 2010-2012
[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

Sparkassen are not obliged to report consolidated regulatory capital ratios. All capital ratios used in this report are based on voluntary DSGV calculations.

The current regulatory treatment of intragroup participations and intragroup funding (ie, no deduction and 0% risk-weighting respectively) will remain unchanged under Basel III (BaFin confirmed this in a letter to Sparkassen in early 2014). As a result, collectively, the Sparkassen will face limited challenges from the implementation of Basel III. Sparkassen estimates that the

Basel III total capital and common equity Tier 1 (CET1) ratios will amount to around 13% and between 9% and 10% respectively. Sparkassen's leverage is low and Basel III leverage ratios should, in Fitch's view, be easily met.

While a small number of savings banks will find it challenging to fulfil Basel III requirements on a standalone basis, 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.

Unlike most of its domestic and foreign peers, Sparkassen exclusively uses the Basel II standardised approach to calculate credit risk weights (see Figure 14). Consequently, balance sheet leverage at Sparkassen is lower than at peers, and if required the savings banks could improve risk-weighted capitalisation by introducing the internal ratings-based (IRB) approach for credit risk calculations. However, as most savings banks are unlikely to adopt the IRB approach any time soon, their risk-weighted assets (RWA) will remain higher than historical loss rates imply.

Funding and Liquidity

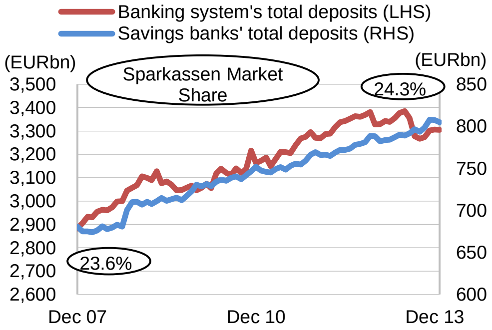
- Leading nationwide deposit franchise ensures good balance sheet liquidity
- Excess liquidity and pricing power means Sparkassen are well placed in increasingly competitive German deposit market
- Vast covered bond issuance potential
- Competitive advantage under Basel III

Fitch views Sparkassen’s sound funding and liquidity profile as a key rating strength. While the savings banks have gradually lost market share in retail deposits (except sight deposits) due to increasing competition from direct and foreign banks, they still command considerable pricing power and leading deposit market shares (see also Figure 3) of between 30% (total retail deposits) and close to 50% (savings deposits). Moreover, Germany remains one of Europe’s most attractive funding markets with an above-average household savings rate (10.6% in 2012) and consequently increasing deposit balances.

Including bonds issued to retail investors (Sparbriefe; see Figure 19), retail funding sources accounted for almost three-quarters of Sparkassen’s non-equity liabilities at end-2013, highlighting Sparkassen’s limited reliance on wholesale funding sources. The quality of the savings banks’ deposit base is high, as client relationships are typically originated at the branch level and their clients remain more loyal and less price-sensitive.

Figure 15

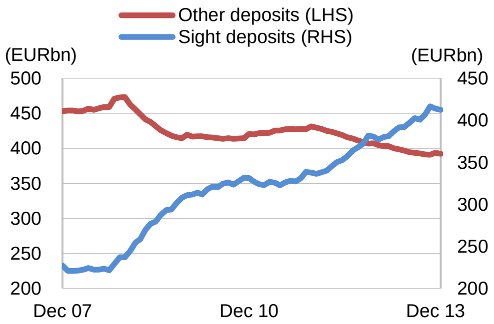
Resilient Deposit Franchise



Source: Deutsche Bundesbank; Fitch

Figure 16

Continued Increase in Sight Deposits



Source: Deutsche Bundesbank; Fitch

Figure 17

Retail Funding Profile

(%)	Deposits/ total funding 2012	Av.	Loans/ deposits 2012	Av.
Sparkassen	74	72	96	96
GFG	71	71	95	94
Rabobank	48	49	144	146
CA	40	41	120	127
CM11-CIC	57	54	128	136
BPCE	42	40	136	145
Intesa	40	40	184	189
Swedbank	35	35	215	219
Median	**45**	**45**	**132**	**140**

Av.: Average 2010-2012
Source: Annual reports, DSGV, Fitch

Figure 18

Funding Breakdown

End-2012	(EURbn)	(%)
Savings deposits	299.8	27
Term deposits	45.3	4
Sight deposits	344.1	31
Retail bonds	49.2	4
Institutional bonds	38.6	4
Banks	118.1	11
IFIs (eg KfW)	69.2	6
Other liabilities	62.7	6
Equity	75.1	7

Av.: Average 2010-2012
Source: Annual reports, DSGV, Fitch

While bond issuance is currently essentially limited to Sparbriefe, Sparkassen would, in Fitch’s view, be well placed to tap wholesale funding markets if necessary, in particular through the issuance of mortgage or public-sector covered bonds. The issuance of longer-dated bonds could also address current shortfalls in the Basel III liquidity coverage ratio (LCR; see *Liquidity* below). The potential collateral available for covered bonds 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.

Fitch expects the savings banks to continue to be disciplined regarding deposit pricing, which could lead to a further fall in their deposit market shares in a fiercely price-driven market. 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, Fitch does 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.

Liquidity

- Sound liquidity profile

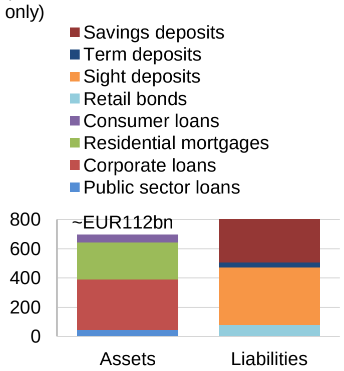
Fitch considers Sparkassen’s structural liquidity to be sound, with deposits (excluding Sparbriefe) typically exceeding loans by EUR100bn-EUR110bn. Stock liquidity is also strong, with the savings banks securities portfolio (excluding equities and investment funds) amounting to around EUR253bn or around a third of total deposits at end-2012.

Basel III liquidity ratios will pose a challenge for a small minority of savings banks, but the availability of collective intragroup solutions mitigates this. According to management, the Sparkassen’s pro-forma average aggregated LCR and Net Stable Funding Ratio (NSFR) exceeded the required 100% at end-2013.

Figure 19

Strong Excess Liquidity (End-2013)

(EURbn; domestic assets and liabilities only)



Source: Deutsche Bundesbank

Support

Clear Systemic Importance in Germany

In Fitch's opinion there is an extremely high probability that the federal government would support Sparkassen members banks, if ever needed, given their unquestioned systemic importance as Germany's and Europe's largest banking group. This is reflected in the SRF of 'A+'.

To date, the support mechanism and Sparkassen's strategic cohesion have always managed to support even larger member banks and Fitch expects this to remain the case. Therefore, we view the risk that the Sparkassen may require state support in the foreseeable future as remote.

Unquestioned Sovereign Ability to Support

While the German banking system is large compared to the country's GDP, this is being mitigated by Germany's exceptionally strong financial flexibility and the good average creditworthiness of its banks (reflected in an 'a' banking system indicator, BSI) which indicates that the size of the potential problem that would have to be remedied is relatively small compared to Germany's size and fiscal clout.

Declining Propensity to Support Due to BRRD

As a eurozone country, German banks will become subject to the national implementation of the EU's Bank Recovery & Resolution Directive (BRRD) which will ultimately prescribe senior debt bail-in in a single resolution mechanism scenario. Fitch believes extraordinary support for senior creditors, while still possible under BRRD, is becoming sufficiently uncertain to justify revising downwards the SRF from currently the 'A' range ('A+' for Sparkassen) to 'No Floor'. This is despite Germany's historically supportive stance regarding its banks and its impeccable support track record.

While Sparkassen as a decentralised group is not directly subject to ECB supervision, it will be subject to BRRD provisions. The Sparkassen's public bodies, largely municipalities, could provide a degree of institutional support but given the Sparkassen's decentralised and fairly heterogeneous structure, consistent institutional support across the group is too uncertain to merit a Support Rating other than '5'.

Fitch expects to revise Sparkassen's SRF to 'No Floor' in late 2014 or in 2015 once further progress regarding national BRRD implementation has been made and all major impediments to resolution have been resolved. As Sparkassen's IDRs are driven by its VR, a downward revision of Sparkassen's SRF will – all else being equal - not affect its IDRs.

Peer Analysis

Figure 20

Peer Group: Large European Retail-Focused Banking Groups

(EURbn)	Country	LT IDR/ Outlook	Viability Rating	Operating profit 2012	Assets end-2012
SFG	Germany	Not rated	Not rated	5.1[a]	2,308
Sparkassen	Germany	A+/Stable	a+	8.3	1,106
GFG[b]	Germany	A+/Stable	a+	5.7	1,090
Rabobank Group (Rabobank)	Netherlands	AA−/Negative	aa−	2.4	752
Crédit Agricole (CA)	France	A/Stable	a	6.1	2,008
Crédit Mutuel (CM11-CIC)[a,c]	France	A+/Stable	a+	2.7	499
Groupe BPCE (BPCE)	France	A/Stable	a	4.6	1,148
Intesa Sanpaolo S.p.A. (Intesa)	Italy	BBB+/Negative	bbb+	0.7	673
Swedbank AB (Swedbank)	Sweden	A+/Stable	a+	1.7	215

[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

Figure 21

Peer Comparison – Profitability

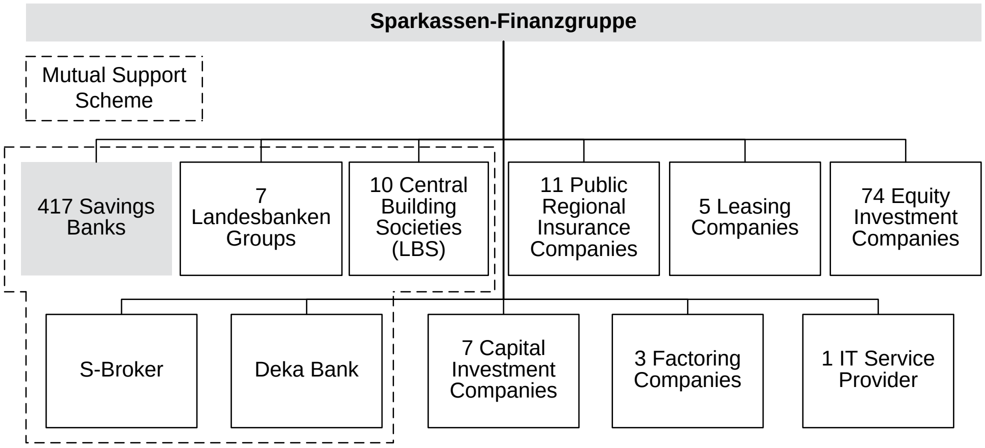
		Operating profit pre-LICs/RWA		NIM post LICs		Operating ROAA		Operating ROAE	
(%)	VR	2012	Average	2012	Average	2012	Average	2012	Average
Sparkassen	a+	1.4	1.6	2.1	2.2	0.79	0.77	12.3	13.6
GFG	a+	2.0	1.7	2.4	2.0	0.87	0.74	13.6	12.1
Rabobank	aa−	2.1	1.9	0.9	1.1	0.31	0.36	6.4	7.2
CA	a	2.4	2.3	1.1	1.2	0.35	0.38	9.0	9.3
CM11-CIC	a+	2.6	2.4	0.9	1.1	0.6	0.64	10.3	11.6
BPCE	a	1.7	1.8	0.9	1.8	0.36	0.44	8.4	10.4
Intesa	bbb+	2.7	2.2	1.2	1.3	0.47	0.36	6.3	4.6
Swedbank	a+	2.6	2.1	1.2	1.1	1.01	0.84	19.1	16.0
Median		2.2	2.0	1.2	1.2	0.5	0.5	9.6	11.0

Averages refer to the 2010-2012 period
Source: DSGV, Annual reports, Fitch

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 organisational 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.

Figure 22
Group Structure



Source: DSGV, Fitch

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.

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 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.

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) 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).

Appendix 3: Landesbanken Overview

Figure 23

SFG's Stakes in Landesbanken Diluted Since 2008

(%)	End-2007	End-1Q14	
BayernLB	50.0	75.0	Free State of Bavaria (indirectly via BayernLB Holding AG)
	50.0	**25.0**	**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 & 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**	**68.8**	**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	4.1	State of Thuringia
	0	**9.5**	**FIDES Beta GmbH and FIDES Alpha GmbH**
Landesbank Saar (SaarLB)	10.0	74.9	State of Saarland
	14.9	**25.1**	**Saar Savings Bank Association**
Norddeutsche Landesbank Girozentrale (NORD/LB)	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**

Source: Banks' annual reports and websites

Figure 24

Sparkassen and Landesbanken Ratings

	Issuer default rating		Viability	Support	Grandfathered
	Long-term	Short-term	rating	rating floor	debt[a]
360 Sparkassen	A+	F1+	a+	A+	n.a.
BayernLB	A+	F1+	bb+	A+	AAA
BremerLB	A	F1	bbb−	A	AAA
HSH	A−	F1	b	A−	AAA
LBBW	A+	F1+	bbb−	A+	AAA
LBB	A+	F1+	bbb−	n.a.	AAA
Helaba	A+[b]	F1+	n.a.	n.a.	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] 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
Source: Fitch

The Sparkassen's exposures to the Landesbanken include: EUR23bn (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.

Sparkassen-Finanzgruppe (Sparkassen)
Income Statement

	31 Dec 2013			31 Dec 2012		31 Dec 2011		31 Dec 2010		31 Dec 2009	
	Year End USDm No Opinion	Year End EURm No Opinion	As % of Earning Assets	Year End EURm Unknown	As % of Earning Assets	Year End EURm Unaudited	As % of Earning Assets	Year End EURm Unaudited	As % of Earning Assets	Year End EURm No Opinion	As % of Earning Assets
1. Interest Income on Loans	31,719.8	23,000.0	2.24	41,425.0	3.83	42,597.0	4.03	42,649.0	4.09	46,401.0	4.50
2. Other Interest Income	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Dividend Income	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Gross Interest and Dividend Income	**31,719.8**	**23,000.0**	**2.24**	**41,425.0**	**3.83**	**42,597.0**	**4.03**	**42,649.0**	**4.09**	**46,401.0**	**4.50**
5. Interest Expense on Customer Deposits	n.a.	n.a.	-	18,260.0	1.69	19,043.0	1.80	19,560.0	1.88	23,831.0	2.31
6. Other Interest Expense	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Total Interest Expense	**n.a.**	**n.a.**	**-**	**18,260.0**	**1.69**	**19,043.0**	**1.80**	**19,560.0**	**1.88**	**23,831.0**	**2.31**
8. Net Interest Income	**31,719.8**	**23,000.0**	**2.24**	**23,165.0**	**2.14**	**23,554.0**	**2.23**	**23,089.0**	**2.21**	**22,570.0**	**2.19**
9. Net Gains (Losses) on Trading and Derivatives	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Net Gains (Losses) on Other Securities	(1,241.2)	(900.0)	(0.09)	n.a.	-	(16.0)	(0.00)	63.0	0.01	172.0	0.02
11. Net Gains (Losses) on Assets at FV through Income Statement	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
12. Net Insurance Income	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
13. Net Fees and Commissions	8,826.4	6,400.0	0.62	6,314.0	0.58	6,356.0	0.60	6,290.0	0.60	5,857.0	0.57
14. Other Operating Income	n.a.	n.a.	-	248.0	0.02	93.0	0.01	125.0	0.01	(294.0)	(0.03)
15. Total Non-Interest Operating Income	**7,585.2**	**5,500.0**	**0.54**	**6,562.0**	**0.61**	**6,433.0**	**0.61**	**6,478.0**	**0.62**	**5,735.0**	**0.56**
16. Personnel Expenses	16,273.6	11,800.0	1.15	11,879.0	1.10	11,448.0	1.08	11,359.0	1.09	11,910.0	1.16
17. Other Operating Expenses	9,515.9	6,900.0	0.67	7,136.0	0.66	7,154.0	0.68	7,176.0	0.69	7,191.0	0.70
18. Total Non-Interest Expenses	**25,789.5**	**18,700.0**	**1.82**	**19,015.0**	**1.76**	**18,602.0**	**1.76**	**18,535.0**	**1.78**	**19,101.0**	**1.85**
19. Equity-accounted Profit/ Loss - Operating	n.a.	n.a.	-	(469.0)	(0.04)	(1,589.0)	(0.15)	(453.0)	(0.04)	n.a.	-
20. Pre-Impairment Operating Profit	**13,515.4**	**9,800.0**	**0.96**	**10,243.0**	**0.95**	**9,796.0**	**0.93**	**10,579.0**	**1.01**	**9,204.0**	**0.89**
21. Loan Impairment Charge	827.5	600.0	0.06	729.0	0.07	623.0	0.06	1,568.0	0.15	2,295.0	0.22
22. Securities and Other Credit Impairment Charges	413.7	300.0	0.03	n.a.	-	1,329.0	0.13	289.0	0.03	(582.0)	(0.06)
23. Operating Profit	**12,274.2**	**8,900.0**	**0.87**	**9,514.0**	**0.88**	**7,844.0**	**0.74**	**8,722.0**	**0.84**	**7,491.0**	**0.73**
24. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
25. Non-recurring Income	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
26. Non-recurring Expense	6,206.0	4,500.0	0.44	4,837.0	0.45	3,108.0	0.29	4,251.0	0.41	2,778.0	0.27
27. Change in Fair Value of Own Debt	n.a.	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.	-	n.a.	-
29. Pre-tax Profit	**6,068.1**	**4,400.0**	**0.43**	**4,677.0**	**0.43**	**4,736.0**	**0.45**	**4,471.0**	**0.43**	**4,713.0**	**0.46**
30. Tax expense	3,172.0	2,300.0	0.22	2,667.0	0.25	2,736.0	0.26	2,521.0	0.24	2,250.0	0.22
31. Profit/Loss from Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
32. Net Income	**2,896.2**	**2,100.0**	**0.20**	**2,010.0**	**0.19**	**2,000.0**	**0.19**	**1,950.0**	**0.19**	**2,463.0**	**0.24**
33. Change in Value of AFS Investments	n.a.	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.	-	n.a.	-
35. Currency Translation Differences	n.a.	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.	-	n.a.	-
37. Fitch Comprehensive Income	**2,896.2**	**2,100.0**	**0.20**	**2,010.0**	**0.19**	**2,000.0**	**0.19**	**1,950.0**	**0.19**	**2,463.0**	**0.24**
38. Memo: Profit Allocation to Non-controlling Interests	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
39. Memo: Net Income after Allocation to Non-controlling Interests	2,896.2	2,100.0	0.20	2,010.0	0.19	2,000.0	0.19	1,950.0	0.19	2,463.0	0.24
40. Memo: Common Dividends Relating to the Period	n.a.	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.	-	n.a.	-
Exchange rate		USD1 = EUR0.72510		USD1 = EUR0.75790		USD1 = EUR0.77290		USD1 = EUR0.74840		USD1 = EUR0.69416	

Sparkassen-Finanzgruppe (Sparkassen)
Balance Sheet

	31 Dec 2013			31 Dec 2012		31 Dec 2011		31 Dec 2010		31 Dec 2009	
	Year End USDm	Year End EURm	As % of Assets	Year End EURm	As % of Assets	Year End EURm	As % of Assets	Year End EURm	As % of Assets	Year End EURm	As % of Assets
Assets											
A. Loans											
1. Residential Mortgage Loans	n.a.	n.a.	-	221,715.4	20.11	236,877.0	21.57	n.a.	-	n.a.	-
2. Other Mortgage Loans	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Other Consumer/ Retail Loans	421,321.2	305,500.0	27.48	51,962.9	4.71	57,155.0	5.21	n.a.	-	n.a.	-
4. Corporate & Commercial Loans	474,555.2	344,100.0	30.96	362,783.6	32.90	326,487.0	29.74	n.a.	-	n.a.	-
5. Other Loans	81,092.3	58,800.0	5.29	41,341.4	3.75	56,588.0	5.15	660,358.0	60.90	642,619.0	59.87
6. Less: Reserves for Impaired Loans/ NPLs	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Net Loans	**976,968.7**	**708,400.0**	**63.73**	**677,803.3**	**61.46**	**677,107.0**	**61.67**	**660,358.0**	**60.90**	**642,619.0**	**59.87**
8. Gross Loans	**976,968.7**	**708,400.0**	**63.73**	**677,803.3**	**61.46**	**677,107.0**	**61.67**	**660,358.0**	**60.90**	**642,619.0**	**59.87**
9. Memo: Impaired Loans included above	n.a.	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.	-	n.a.	-
B. Other Earning Assets											
1. Loans and Advances to Banks	73,093.4	53,000.0	4.77	68,772.2	6.24	103,509.0	9.43	92,234.0	8.51	100,117.0	9.33
2. Reverse Repos and Cash Collateral	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Trading Securities and at FV through Income	n.a.	n.a.	-	116,085.2	10.53	n.a.	-	n.a.	-	n.a.	-
4. Derivatives	n.a.	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.	-	n.a.	-
6. Held to Maturity Securities	n.a.	n.a.	-	139,054.7	12.61	193,374.0	17.61	206,137.0	19.01	204,723.0	19.07
7. At-equity Investments in Associates	n.a.	n.a.	-	16,109.3	1.46	17,316.0	1.58	17,230.0	1.59	18,722.0	1.74
8. Other Securities	364,777.3	264,500.0	23.79	62,569.0	5.67	64,944.0	5.91	66,499.0	6.13	64,534.0	6.01
9. Total Securities	**364,777.3**	**264,500.0**	**23.79**	**333,818.2**	**30.27**	**275,634.0**	**25.10**	**289,866.0**	**26.73**	**287,979.0**	**26.83**
10. Memo: Government Securities included Above	n.a.	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.	-	n.a.	-
12. Investments in Property	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
13. Insurance Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
14. Other Earning Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
15. Total Earning Assets	**1,414,839.3**	**1,025,900.0**	**92.29**	**1,080,393.7**	**97.97**	**1,056,250.0**	**96.20**	**1,042,458.0**	**96.14**	**1,030,715.0**	**96.03**
C. Non-Earning Assets											
1. Cash and Due From Banks	n.a.	n.a.	-	5,642.8	0.51	22,002.0	2.00	21,757.0	2.01	23,285.0	2.17
2. Memo: Mandatory Reserves included above	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Foreclosed Real Estate	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Fixed Assets	n.a.	n.a.	-	11,232.5	1.02	10,921.0	0.99	11,141.0	1.03	11,456.0	1.07
5. Goodwill	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Other Intangibles	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Current Tax Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
8. Deferred Tax Assets	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Other Assets	118,190.6	85,700.0	7.71	5,509.7	0.50	8,784.0	0.80	8,978.0	0.83	7,873.0	0.73
11. Total Assets	**1,533,029.9**	**1,111,600.0**	**100.00**	**1,102,778.7**	**100.00**	**1,097,957.0**	**100.00**	**1,084,334.0**	**100.00**	**1,073,329.0**	**100.00**
Liabilities and Equity											
D. Interest-Bearing Liabilities											
1. Customer Deposits - Current	570,955.7	414,000.0	37.24	344,143.9	31.21	338,060.0	30.79	331,500.0	30.57	268,000.0	24.97
2. Customer Deposits - Savings	414,839.3	300,800.0	27.06	299,758.6	27.18	300,147.0	27.34	299,800.0	27.65	275,700.0	25.69
3. Customer Deposits - Term	49,234.6	35,700.0	3.21	45,345.4	4.11	65,087.0	5.93	57,800.0	5.33	68,900.0	6.42
4. Total Customer Deposits	**1,035,029.7**	**750,500.0**	**67.52**	**689,247.9**	**62.50**	**703,294.0**	**64.05**	**689,100.0**	**63.55**	**612,600.0**	**57.07**
5. Deposits from Banks	224,934.5	163,100.0	14.67	187,832.8	17.03	181,809.0	16.56	187,986.0	17.34	200,763.0	18.70
6. Repos and Cash Collateral	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Other Deposits and Short-term Borrowings	n.a.	n.a.	-	0.0	0.00	232.0	0.02	309.0	0.03	374.0	0.03
8. Total Deposits, Money Market and Short-term Funding	**1,259,964.1**	**913,600.0**	**82.19**	**877,080.7**	**79.53**	**885,335.0**	**80.63**	**877,395.0**	**80.92**	**813,737.0**	**75.81**
9. Senior Debt Maturing after 1 Year	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Subordinated Borrowing	n.a.	n.a.	-	11,219.0	1.02	13,189.0	1.20	14,699.0	1.36	15,732.0	1.47
11. Other Funding	91,159.8	66,100.0	5.95	76,601.2	6.95	76,761.0	6.99	75,655.0	6.98	138,597.0	12.91
12. Total Long Term Funding	**91,159.8**	**66,100.0**	**5.95**	**87,820.2**	**7.96**	**89,950.0**	**8.19**	**90,354.0**	**8.33**	**154,329.0**	**14.38**
13. Derivatives	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
14. Trading Liabilities	n.a.	n.a.	-	1,932.2	0.18	n.a.	-	n.a.	-	n.a.	-
15. Total Funding	**1,351,124.0**	**979,700.0**	**88.13**	**966,833.1**	**87.67**	**975,285.0**	**88.83**	**967,749.0**	**89.25**	**968,066.0**	**90.19**
E. Non-Interest Bearing Liabilities											
1. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Credit impairment reserves	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Reserves for Pensions and Other	n.a.	n.a.	-	19,716.0	1.79	12,054.0	1.10	11,900.0	1.10	10,964.0	1.02
4. Current Tax Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Deferred Tax Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Other Deferred Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Discontinued Operations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
8. Insurance Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
9. Other Liabilities	70,691.8	51,258.6	4.61	41,088.2	3.73	47,602.0	4.34	46,225.0	4.26	38,321.0	3.57
10. Total Liabilities	**1,421,815.7**	**1,030,958.6**	**92.75**	**1,027,637.3**	**93.19**	**1,034,941.0**	**94.26**	**1,025,874.0**	**94.61**	**1,017,351.0**	**94.78**
F. Hybrid Capital											
1. Pref. Shares and Hybrid Capital accounted for as Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	-	n.a.	-	n.a.	-	860.0	0.08	860.0	0.08
G. Equity											
1. Common Equity	111,214.2	80,641.4	7.25	75,141.4	6.81	63,016.0	5.74	57,600.0	5.31	55,118.0	5.14
2. Non-controlling Interest	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Securities Revaluation Reserves	n.a.	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.	-	n.a.	-
5. Fixed Asset Revaluations and Other Accumulated OCI	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Total Equity	**111,214.2**	**80,641.4**	**7.25**	**75,141.4**	**6.81**	**63,016.0**	**5.74**	**57,600.0**	**5.31**	**55,118.0**	**5.14**
7. Total Liabilities and Equity	**1,533,029.9**	**1,111,600.0**	**100.00**	**1,102,778.7**	**100.00**	**1,097,957.0**	**100.00**	**1,084,334.0**	**100.00**	**1,073,329.0**	**100.00**
8. Memo: Fitch Core Capital	111,214.2	80,641.4	7.25	75,141.4	6.81	n.a.	-	n.a.	-	n.a.	-
9. Memo: Fitch Eligible Capital	n.a.	n.a.	-	75,141.4	6.81	n.a.	-	n.a.	-	n.a.	-
Exchange rate	USD1 = EUR0.72510			USD1 = EUR0.75790		USD1 = EUR0.77290		USD1 = EUR0.74840		USD1 = EUR0.69416	

Sparkassen-Finanzgruppe (Sparkassen)
Summary Analytics

	31 Dec 2013 Year End	31 Dec 2012 Year End	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	3.32	6.11	6.37	6.55	7.28
2. Interest Expense on Customer Deposits/ Average Customer Deposits	n.a.	2.62	2.74	3.01	4.02
3. Interest Income/ Average Earning Assets	2.18	3.88	4.06	4.11	4.51
4. Interest Expense/ Average Interest-bearing Liabilities	n.a.	1.88	1.96	2.02	2.47
5. Net Interest Income/ Average Earning Assets	2.18	2.17	2.24	2.23	2.19
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	2.13	2.10	2.19	2.08	1.97
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Asset	2.18	2.17	2.24	2.23	2.19
B. Other Operating Profitability Ratios					
1. Non-Interest Income/ Gross Revenues	19.30	22.07	21.45	21.91	20.26
2. Non-Interest Expense/ Gross Revenues	65.61	63.97	62.03	62.69	67.48
3. Non-Interest Expense/ Average Assets	1.69	1.73	1.70	1.72	1.78
4. Pre-impairment Op. Profit/ Average Equity	12.58	14.83	16.24	18.77	16.77
5. Pre-impairment Op. Profit/ Average Total Assets	0.89	0.93	0.90	0.98	0.86
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	9.18	7.12	19.93	17.55	18.61
7. Operating Profit/ Average Equity	11.43	13.77	13.01	15.48	13.65
8. Operating Profit/ Average Total Assets	0.80	0.86	0.72	0.81	0.70
9. Taxes/ Pre-tax Profit	52.27	57.02	57.77	56.39	47.74
10. Pre-Impairment Operating Profit / Risk Weighted Assets	n.a.	1.69	1.67	1.83	1.62
11. Operating Profit / Risk Weighted Assets	n.a.	1.57	1.34	1.51	1.32
C. Other Profitability Ratios					
1. Net Income/ Average Total Equity	2.70	2.91	3.32	3.46	4.49
2. Net Income/ Average Total Assets	0.19	0.18	0.18	0.18	0.23
3. Fitch Comprehensive Income/ Average Total Equity	2.70	2.91	3.32	3.46	4.49
4. Fitch Comprehensive Income/ Average Total Assets	0.19	0.18	0.18	0.18	0.23
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	n.a.	0.33	0.34	0.34	0.43
7. Fitch Comprehensive Income/ Risk Weighted Assets	n.a.	0.33	0.34	0.34	0.43
D. Capitalization					
1. Fitch Core Capital/Weighted Risks	n.a.	12.41	n.a.	n.a.	n.a.
2. Fitch Eligible Capital/ Weighted Risks	n.a.	12.41	n.a.	n.a.	n.a.
3. Tangible Common Equity/ Tangible Assets	7.25	6.81	5.74	5.31	5.14
4. Tier 1 Regulatory Capital Ratio	n.a.	12.50	10.50	9.94	9.69
5. Total Regulatory Capital Ratio	n.a.	15.90	15.80	15.13	14.71
6. Core Tier 1 Regulatory Capital Ratio	n.a.	n.a.	n.a.	n.a.	n.a.
7. Equity/ Total Assets	7.25	6.81	5.74	5.31	5.14
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. Internal Capital Generation	2.60	2.67	3.17	3.39	4.47
E. Loan Quality					
1. Growth of Total Assets	0.80	0.44	1.26	1.03	0.24
2. Growth of Gross Loans	4.51	0.10	2.54	2.76	1.78
3. Impaired Loans/ Total 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 Impaired Loans/ Fitch Core Capital	n.a.	n.a.	n.a.	n.a.	n.a.
7. Impaired Loans less Reserves for Imp Loans/ Equity	n.a.	n.a.	n.a.	n.a.	n.a.
8. Loan Impairment Charges/ Average Gross Loans	0.09	0.11	0.09	0.24	0.36
9. Net Charge-offs/ Average Gross Loans	n.a.	n.a.	n.a.	n.a.	n.a.
10. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Ass	n.a.	n.a.	n.a.	n.a.	n.a.
F. Funding					
1. Loans/ Customer Deposits	94.39	98.34	96.28	95.83	104.90
2. Interbank Assets/ Interbank Liabilities	32.50	36.61	56.93	49.06	49.87
3. Customer Deposits/ Total Funding (excluding derivatives)	76.61	71.29	72.11	71.21	63.28

Sparkassen-Finanzgruppe (Sparkassen)
Reference Data

	31 Dec 2013			31 Dec 2012		31 Dec 2011		31 Dec 2010		31 Dec 2009	
	Year End USDm	Year End EURm	As % of Assets	Year End EURm	As % of Assets	Year End EURm	As % of Assets	Year End EURm	As % of Assets	Year End EURm	As % of Assets
A. Off-Balance Sheet Items											
1. Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
2. Other off-balance sheet exposure to securitizations	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
3. Guarantees	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Acceptances and documentary credits reported off-balance sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
5. Committed Credit Lines	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Other Contingent Liabilities	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
7. Total Business Volume	1,533,029.9	1,111,600.0	100.00	1,102,778.7	100.00	1,097,957.0	100.00	1,084,334.0	100.00	1,073,329.0	100.00
8. Memo: Total Weighted Risks	n.a.	n.a.	-	605,415.0	54.90	586,000.0	53.37	576,998.0	53.21	569,197.0	53.03
9. Fitch Adjustments to Weighted Risks.	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
10. Fitch Adjusted Weighted Risks	n.a.	n.a.	-	605,415.0	54.90	586,000.0	53.37	576,998.0	53.21	569,197.0	53.03
B. Average Balance Sheet											
Average Loans	955,870.5	693,101.7	62.35	677,455.2	61.43	668,732.5	60.91	651,488.5	60.08	636,985.5	59.35
Average Earning Assets	1,452,416.1	1,053,146.9	94.74	1,068,321.9	96.88	1,049,354.0	95.57	1,036,586.5	95.60	1,028,819.5	95.85
Average Assets	1,526,947.2	1,107,189.4	99.60	1,100,367.9	99.78	1,091,145.5	99.38	1,078,831.5	99.49	1,072,041.0	99.88
Average Managed Securitized Assets (OBS)	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Average Interest-Bearing Liabilities	1,342,251.6	973,266.6	87.56	971,059.1	88.06	971,517.0	88.48	967,907.5	89.26	966,034.5	90.00
Average Common equity	107,421.6	77,891.4	7.01	69,078.7	6.26	60,308.0	5.49	56,359.0	5.20	54,872.5	5.11
Average Equity	107,421.6	77,891.4	7.01	69,078.7	6.26	60,308.0	5.49	56,359.0	5.20	54,872.5	5.11
Average Customer Deposits	992,792.7	719,874.0	64.76	696,271.0	63.14	696,197.0	63.41	650,850.0	60.02	592,800.0	55.23
C. Maturities											
Asset Maturities:											
Loans & Advances < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans and Advances 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances > 5 years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Debt Securities > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Loans & Advances to Banks > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Liability Maturities:											
Retail Deposits < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Retail Deposits 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Retail Deposits 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Retail Deposits > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Other Deposits > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank < 3 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank 3 - 12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank 1 - 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Interbank > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing 3-12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing 1- 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Senior Debt Maturing > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Total Senior Debt on Balance Sheet	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Fair Value Portion of Senior Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Covered Bonds	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing < 3 months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing 3-12 Months	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing 1- 5 Year	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Subordinated Debt Maturing > 5 Years	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
Total Subordinated Debt on Balance Sheet	n.a.	n.a.	-	11,219.0	1.02	13,189.0	1.20	14,699.0	1.36	15,732.0	1.47
Fair Value Portion of Subordinated Debt	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
D. Equity Reconciliation											
1. Equity	111,214.2	80,641.4	7.25	75,141.4	6.81	63,016.0	5.74	57,600.0	5.31	55,118.0	5.14
2. Add: Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	-	n.a.	-	n.a.	-	860.0	0.08	860.0	0.08
3. Add: Other Adjustments	n.a.	n.a.	-	n.a.	-	n.a.	-	n.a.	-	n.a.	-
4. Published Equity	111,214.2	80,641.4	7.25	75,141.4	6.81	63,016.0	5.74	58,460.0	5.39	55,978.0	5.22
E. Fitch Eligible Capital Reconciliation											
1. Total Equity as reported (including non-controlling interests)	111,214.2	80,641.4	7.25	75,141.4	6.81	63,016.0	5.74	57,600.0	5.31	55,118.0	5.14
2. Fair value effect incl in own debt/borrowings at fv on the B/S- CC only	0.0	0.0	0.00	0.0	0.00	n.a.	-	n.a.	-	n.a.	-
3. Non-loss-absorbing non-controlling interests	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
4. Goodwill	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
5. Other intangibles	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
6. Deferred tax assets deduction	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
7. Net asset value of insurance subsidiaries	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
8. First loss tranches of off-balance sheet securitizations	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
9. Fitch Core Capital	**111,214.2**	**80,641.4**	**7.25**	**75,141.4**	**6.81**	**n.a.**	**-**	**n.a.**	**-**	**n.a.**	**-**
10. Eligible weighted Hybrid capital	n.a.	n.a.	-	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
11. Government held Hybrid Capital	0.0	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00
12. Fitch Eligible Capital	**n.a.**	**n.a.**	**-**	**75,141.4**	**6.81**	**n.a.**	**-**	**n.a.**	**-**	**n.a.**	**-**
Exchange Rate	USD1 = EUR0.72510			USD1 = EUR0.75790		USD1 = EUR0.77290		USD1 = EUR0.74840		USD1 = EUR0.69416	

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