Rating Report

Report Date:
20 July 2015

Previous Report:
29 April 2015

Insight beyond the rating.

Sparkassen-Finanzgruppe

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The Company

Sparkassen-Finanzgruppe is a decentralized group of German public-sector financial institutions with leading market shares in many product categories of banking in Germany. The Group's savings banks enjoy strong national shares in retail banking and its state based Landesbanken enjoy meaningful wholesale banking operations.

Recent Actions

29 May 2015
DBRS Places 413 Members of Sparkassen-Finanzgruppe's Joint Liability Scheme URN on Systemic Support

20 May 2015
DBRS Places 38 European Banking Groups Under Review Negative due to Systemic Support

13 May 2015
DBRS Rates 413 Members of Sparkassen-Finanzgruppe's Joint Liability Scheme at A (high), Stable Trend

21 April 2015
DBRS Confirms A (high) Floor Ratings on Sparkassen-Finanzgruppe with Stable Trend

Ratings

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

* Under Review Negative

Rating Rationale

On May 20, 2015, DBRS Ratings Limited (DBRS) placed the Sparkassen-Finanzgruppe Floor ratings Under Review with Negative implications (URN) as part of a global review of systemic support. These rating actions reflect DBRS's view that recent developments in European regulation and legislation mean that there is less certainty about the likelihood of timely systemic support for these systemically important banks (SIBs). Prior to the May review, DBRS had confirmed the ratings for Sparkassen-Finanzgruppe (DSGV, the Association or the Group). The Trend on all ratings at that time was Stable.

The floor ratings are based on the depth and resources of the Joint Liability Scheme, the additional support for the Group's members from the public entities responsible for them (Träger), as well as broader systemic support. The ratings also consider the underlying earnings potential and the solid franchise of the savings banks and the overall importance of the Group to the German banking sector. Offsetting these rating strengths are the riskier funding profile and weak overall earnings of several Landesbanken that are a meaningful part of the Group, as well as the high level of competition in the savings banks' core business of German retail banking.

(Continued on page 2)

Rating Considerations

Strengths

(1) Solid franchise of the savings banks and the overall importance of the Group to the German banking sector
(2) Structure of the Joint Liability Scheme, which makes Group resources available to all members of the Group, complemented by systemic support for Landesbanken
(3) Stable performance of the savings banks and underlying earnings potential of the overall Sparkassen-Finanzgruppe

Challenges

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

Financial Information*

Sparkassen-Finanzgruppe	31/12/2013	31/12/2012	31/12/2011	31/12/2010	31/12/2009
Eur Millions, unless otherwise noted	NGAAP	NGAAP	NGAAP	NGAAP	NGAAP
Total Assets	2,264,317	2,426,757	2,568,275	2,601,695	2,582,782
Equity	146,399	140,371	127,827	122,231	126,678
Net Income	1,665	2,093	1,624	3,058	-2,860
Yield on average earning assets	3.43	3.92	4.24	3.97	4.44
Cost of interest bearing liabilities	2.04	2.60	2.89	2.67	3.21
Efficiency Ratio (%)	64.15	63.22	61.35	60.54	61.63
Impaired Loans % Gross Loans	n/a	n/a	n/a	n/a	n/a
Tier 1 Capital Ratio (%)	14.60	13.10	11.50	10.90	10.12

*Figures reflect aggregated (non-consolidated) financials for the members of the Sparkassen Finanzgruppe, latest available aggregation is for year end 2013
NGAAP denotes that the figures are as per German GAAP. Source: Company Reports, DBRS.

Rating Rationale (Continued from page 1)

The floor ratings of A (high) URN for Issuer & Senior Long-Term Debt and R-1 (middle) URN for Short-Term Instruments apply to each member of Sparkassen-Finanzgruppe's Joint Liability Scheme. The Joint Liability Scheme includes 416 German savings banks, the seven Landesbanken, nine public-sector building societies (LBS), the Group's central asset manager DekaBank and other specialised service providers. The floor ratings indicate that each member of the Joint Liability Scheme is rated at least at A (high)/R-1 (middle) URN; however, this does not prevent members from potentially achieving higher individual ratings based on their individual credit assessment.

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

The internal support mechanism of Sparkassen-Finanzgruppe is complemented by external support which currently adds one notch of uplift within the floor rating. External support was evidenced during the recent financial crisis particularly for some of the Landesbanken which received help from their public owners in the form of capital injections or other forms of support, such as from the Sparkassen or via risk shielding from the German government. In DBRS's view, these external measures reduced the need for additional support from within the Group. However, they do not fully eliminate it. Indeed, the pressure placed on the Joint Liability Scheme could increase should external support become less likely. Over the three month review of the ratings that is expected to be completed in September, DBRS will assess the likelihood, timeliness and possibility of external support for the individual members of the Sparkassen-Finanzgruppe.

At its core, the floor ratings reflect the overall franchise strength of the Sparkassen within the Sparkassen-Finanzgruppe. Despite some marginal share volatility in recent years, together, the Group's members (which include the Landesbanken) maintain leading positions across many areas of German banking as demonstrated by the strong combined market shares of roughly 43% nationally in lending to businesses and sole proprietors, as well as leading national share in retail customer deposits at year-end 2013. The Group continues to see solid lending and deposit activity, especially at the savings bank level. DBRS sees the Group's overall franchise strength as benefitting from the solid positioning and cooperative strategy of the savings banks. Although the potential negative impact of the weaker Landesbanken has diminished following de-risking and re-structuring, their still larger and less risk averse profiles could contribute to pressure for the Group's support mechanisms.

The Sparkassen-Finanzgruppe's underlying earnings generation ability reflects both the stability of the savings banks' performance, as well as the improving risk profile of most of the Landesbanks, which DBRS expects may contribute to lower earnings volatility in the future. In 2013, the most recent year for which aggregate data is available, Sparkassen-Finanzgruppe recorded EUR 14.7 billion of operating earnings before other and non-operating income/expenses and before valuation results (which under German GAAP include losses on loans, securities). This was a decline of 2.8% compared to EUR 15.1 billion in 2012 and EUR 16.4 billion in 2011 reflecting the low interest environment, the large cost base and the negative contribution to results from the Landesbanks.

In DBRS's view, the overall risk profile of Sparkassen-Finanzgruppe has improved with the deleveraging of the Landesbanken and is now less impacted by the higher volatility of their earnings, despite the ongoing burden of legacy issues at some Landesbanks. Likewise, the credit quality of the savings banks has generally benefited from the stronger domestic economy, as well as improved credit standards and processes. In 2013, loan loss provision returned to an all-time low of EUR 0.3 billion, or roughly half the level of 2012.

The strength of the Sparkassen-Finanzgruppe's overall liquidity and capitalisation are also considered in the ratings. The strong deposit base and sound liquidity of the savings banks is in part offset by the more wholesale-oriented funding profile of the Landesbanks. Nonetheless, the Landesbanks benefit from sizeable deposits from savings banks, as well as the strong track-record of governmental liquidity support offered during the recent crisis. In DBRS's view, this reduces potential demands on the Joint Liability Scheme and adds to the satisfactory evaluation for liquidity across the Group. Likewise, capitalisation remains adequate in DBRS' view. The savings banks reported a Tier 1 capital ratio of 14.5 % and a total capital ratio of 16.6% at year-end 2014. For DBRS, the Sparkassen-Finanzgruppe continues to face several challenges. These include defending the still dominant position of savings banks in German retail banking while also maintaining margins and solid profitability. Both are challenged by strong competition and remain under pressure due to the low interest rate environment. In addition, the Group needs to manage its business strategies to adapt to the ever-changing regulatory environment. While DBRS sees the Group as a whole as generally well-positioned to adapt to challenges, increasing competition and regulatory requirements could present problems at the level of individual institutions, or indeed in terms of external support for larger and less risk averse members such as the Landesbanken.

The trend on the floor ratings is Stable. This reflects DBRS's expectation that the strengths of the Sparkassen Finanzgruppe's franchise and financial dynamic will be maintained.

Support Assessment (SA)
DBRS's expectation that the members of Sparkassen-Finanzgruppe's Joint Liability Scheme have access to several sources of support is a key factor underpinning the floor ratings. One important source of support is the Joint Liability Scheme itself, which makes internal resources of the Group available to members facing challenges. While the Scheme's resources allow it to support even large savings banks, the Scheme's resources may not be sufficient to address a systemic crisis where a large number of savings banks or Landesbanken could require significant support simultaneously. In a scenario where several Landesbanken faced challenges, DBRS would expect that external support from their public owners, as well as systemic support from the federal government could be available and this is reflected in an SA-2 support assessment for the members of the Joint Liability Scheme.

Rating Drivers

Factors with Positive Rating Implications
Given the level of the ratings and DBRS's floor concept, upward rating momentum would be unlikely short of a meaningful external event. Nonetheless, DBRS views positively the solid earnings and balance sheet management at the Group level, the continued de-risking at Landesbank level and efforts to strengthen the resources available to the Joint Liability Scheme.

Factors with Negative Rating Implications
Negative rating pressure could result from any indication of weakening of the Joint Liability Scheme and/or access to support for the Landesbanken from their public owners and/or the federal authorities could negatively impact the floor rating. Likewise, downward rating pressure could be triggered by any weakening of the savings banks' franchise and their underlying financial performance and position.

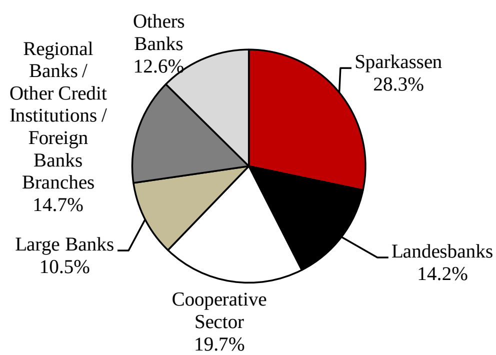
Franchise Strength - Description of Operations

Together, the members of German Association of Savings Banks or Sparkassen-Finanzgruppe's Joint Liability Scheme form one of the largest financial Groups globally, with total aggregated assets of EUR 2.26 trillion as of year-end 2013. Sparkassen-Finanzgruppe primarily comprises two main constituents with distinct franchises – the German savings banks (the Sparkassen) and the regional wholesale banks (Landesbanken). The Sparkassen-Finanzgruppe's franchise is further completed by additional financial businesses: Dekabank, the Group's asset manager; the Landesbausparkassen (German building societies); Deutsche Leasing Group; as well as 11 regional public insurance entities. The Association coordinates reporting, debt ratings, strategy and lobbying efforts, while also respecting the bottom up autonomy of members. In DBRS's view, the strong, resilient franchise of the savings banks forms the core of Sparkassen-Finanzgruppe's franchise strength, while the weaker, more wholesale-oriented franchise of most Landesbanken negatively affects the overall Group. The decrease in total assets for the Group over the last three years does not reflect a weaker performance in customer business but rather the ongoing effort towards a scale back of the Landesbanken's non-core activities. Most recently the Association launched a new strategy aimed at maximizing consumer satisfaction while optimizing resources called "Modell Verbund". The strategy aims to coordinate activities across the Sparkassen, Dekabank, the building societies, and other members to more effectively and efficiently serve the Group's clients.

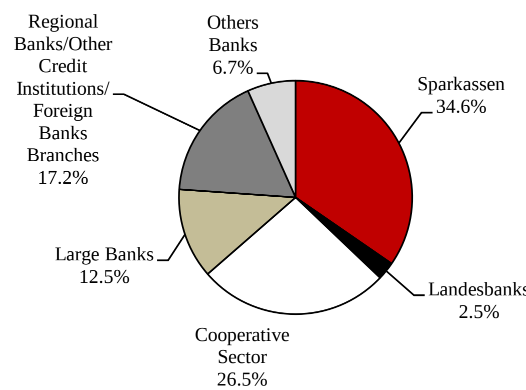
The 416 German savings banks as of 31 December 2014 enjoy a solid and stable franchise, which is a core rating consideration. The savings banks maintained a strong market position in 2014 and reported EUR 1,127.5 billion in total assets, and EUR 836.7 billion customer deposits (including certificated liabilities) at year-end. The Sparkassen are market leaders across a wide range of financial services provided to retail customers and small- and medium-sized enterprises (SMEs) in Germany. The public owners (Träger) of most savings banks are the municipalities and the regions in which they operate.

Despite ongoing competition, the member institutions of Sparkassen-Finanzgruppe enjoy a very strong position in German banking as demonstrated by their leading market shares in core products. In 2013 the Sparkassen-Finanzgruppe reported a 40.7% market share in retail customer deposits and also 42.7% in business lending. At the savings banks level, deposits from households totalled EUR 647 billion at 31 December 2013, representing a market share of 38.2% which is down from 38.5% in 2012. The Landesbanken had EUR 42.3 billion in customer deposits or a 2.5% market share (vs. 2.4% in 2012). As of year-end 2014, the savings banks reported EUR 260.5 billion in domestic residential real estate loans, comprising a sizeable 34.6% market share, whilst the Landesbanken have an additional market share of 2.5%.

SpK Finanzgruppe: Market Share Credit to the Real Economy*, December 2014



SpK Finanzgruppe: Market Share in Real Estate Loans to Domestic Households, December 2014



Source: DSGV
* *i.e.* Excluding loans to Financial Institutions

The seven Landesbanken are mostly active in wholesale banking, as well as serving as the central clearing banks for their respective regional savings bank associations. The Landesbanken are important lenders to medium- to large-sized corporations and public-sector entities in their respective domestic regions. The Landesbanken have also been significant participants in international loan syndication, money markets, securitisation and asset-based financing. Nonetheless, much of this activity has been scaled back with most Landesbanken having reduced international activities and/or undergone significant de-risking and/or restructuring. As at mid-year 2014, total assets at the Landesbanken had been reduced by 40.8% and total risk exposure was cut by 54.2% from pre-2008 levels. More recently several Landesbanken have developed partnerships with private sector entities such as Berenberg for Bayern LB or BNY for Helaba which may help the ongoing supply of products to Landesbank customers on a basis with is less capital and risk intensive.

Most Landesbanken are jointly owned by the states in which they are headquartered (reflecting their origin as state banks) and their respective regional savings banks associations. Nonetheless, the level of ownership and involvement of the savings banks with the Landesbanken can vary significantly. Indeed, some Landesbanken are in part vertically integrated via direct ownership of savings banks.

Some Landesbanken have developed more diverse franchises geographically and by business line and others less so. Overall, despite this variation and an improving risk profile, DBRS continues to view the Landesbanken as more vulnerable to market dislocations than the savings banks and also a potentially more challenging burden for the Joint Liability Scheme.

Sparkassen-Finanzgruppe as of Dec. 2013

417* Savings Banks — **Total Assets: EUR 1,112 billion; Employees: 244,038; Branches: 15,095**

- 7 Landesbanks — Total Assets: EUR 1,113 billion; Employees: 41,052; Branches: 471
- DekaBank — Total Assets: EUR 116 billion; Employees: 4,035
- 10 Regional Building Societies** — Total Assets: EUR 60 billion; l Employees: 8,527
- Deutsche Leasing Group — Number of Contracts: 246,400; Cost Value: EUR 27,9 billion
- 11 Regional Public Insurance Groups — Gross Premium Income: EUR 19.5 billion; Employees: 28,300

- 4 Additional Leasing Companies
- 7 Capital investment Companies of the Landesbanks
- DSV Group
- Finanz Informatik
- 70 Capital Investment Companies
- 4 Factoring Companies
- 9 Regional Property Companies
- 8 Consulting Firms to corporates and Municipa-lities

*As of December 2014 there are 416 Savings Banks, ** As of December 2014 9 regional building societies with 8,725 employees.

The ten regionally-focused public-sector building societies (LandesbauSparkassen, or LBS) which are members of the Sparkassen-Finanzgruppe enjoy a combined market-leading position in home savings and loans products which are mainly distributed by the savings banks. The LBS are mostly owned by regional savings banks associations and Landesbanken. Other members of the joint liability scheme of Sparkassen-Finanzgruppe include DekaBank, the central asset manager of Sparkassen-Finanzgruppe, and other smaller providers of specialised financial products. The savings banks have collectively owned 100% of DekaBank since year end 2011, following the EUR 2.3 billion purchase of the 50% of DekaBank which had been owned by the Landesbanken. DekaBank is the third largest mutual funds manager in Germany, providing key asset management products that the savings banks offer to their retail customers. DekaBank is also assuming a larger role within the Group with the transfer of capital markets activity to DekaBank from Landesbank Berlin – the latter also 100% owned by the central Group. The broader Sparkassen-Finanzgruppe also includes 11 primary public-sector insurers that together occupy strong positions in individual products such as property insurance, life, retirement products and health insurance. However, the public-sector insurers are not part of the joint liability scheme and therefore do not benefit from DBRS's floor ratings.

Joint Liability Scheme

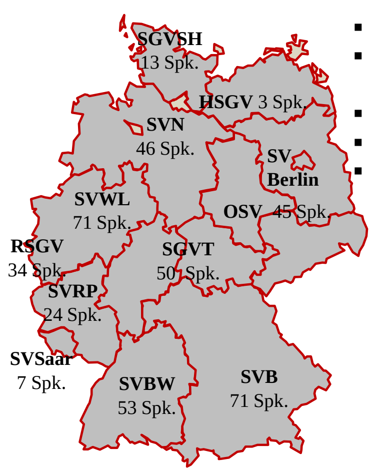
DBRS sees the Joint Liability Scheme as a key factor underpinning the floor rating, as it allows for resources of the Group to be made available to all members. Since the Scheme's inception in 1973, no member of Sparkassen-Finanzgruppe has defaulted. However, the Joint Liability Scheme is not equivalent to a cross-guarantee, which limits its benefit to ratings. Creditors and members do not have a legal claim on support from the scheme. Instead, the Scheme is based on mutual support between its members. Therefore, the structure of the system and the ability and willingness of its members to support each other become important components of the strength of the Scheme, and therefore factors considered in the floor ratings.

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

The mechanisms of the Joint Liability Scheme are available to strengthen and restructure savings banks that face challenges. In DBRS's opinion, these cases, while generally involving smaller support amounts, help ensure the ability of the system to function smoothly. With the exception of the Landesbanken, most support cases of the Joint Liability Scheme have involved small institutions. Sparkassen-Finanzgruppe reports that 90% of all support cases at the Sparkasse level can be handled by the challenged member's regional support fund alone, without additional resources from the system of support funds. Yet, DBRS recognises that the combined resources of the Joint Liability Scheme are not sufficient, nor was the Scheme designed, to address a wider systemic crisis or the possible burden of larger and less risk averse Landesbanken should complementary systemic support prove unavailable. This is viewed as a weakness that negatively affects the floor ratings. In the past, examples of important support for the Landesbanks has included assistance from their public owners, from the federal German government, and from regional support funds that savings banks and Landesbanken have established. The administrators of the support funds can use their discretion to require additional support from the public owners of a challenged member and to effect management and business strategy changes to ensure a successful restructuring and protect the Scheme's funds. Member contributions to the Scheme are risk-based, providing an incentive for members for prudent risk management. At present, the Sparkassen-Finanzgruppe is taking steps to strengthen the pre-funding of resources available for the Joint Liability Scheme. DBRS will continue to evaluate these developments, particularly given the regulatory environment.

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

Savings Banks and their Regional Associations



- 417* Saving Banks
- EUR 1,112 bn in Total Assets
- 244,038 employees
- 15,095 branches
- EUR 97 billion in savings, current and securities accounts

Landesbanken

- 7 Landesbank Groups
- DekaBank
- EUR 1,113 billion in total assets
- 41,052 employees

* 416 as of December 2014 [1]HELABA took over the West LB operation in July 2012

Earnings Power

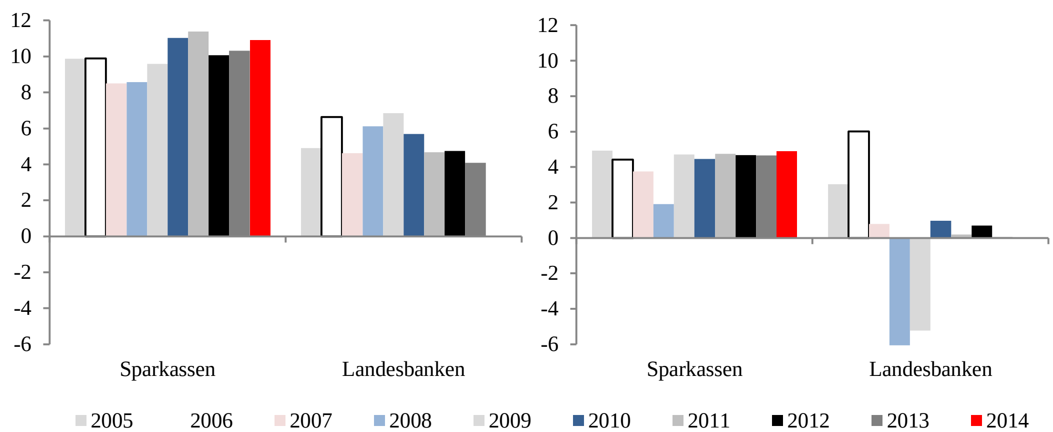
Although Sparkassen-Finanzgruppe has sizeable earnings potential, the Group's net performance continues to be impacted by earnings volatility. For the Landesbanken in aggregate, sizeable valuation adjustments linked to legacy issues - the sovereign debt crisis, exposure to Greek securities and more recently Hypo Alpe

Adria/HETA - combined with a still rigid cost structure contributed to dampen overall Group earnings. In 2013, the most recent year for which aggregate data is available, the overall Group reported an aggregated net income of EUR 1.7 billion. This represented a 20% decrease on the previous year and was mostly due to a EUR 433 million combined after tax loss from the Landesbanken. From an operating level perspective, the Group's earnings remained resilient with IBPT at EUR 14.7 billion only down 2.8% from the prior year while administrative cost increased only slightly (+1%) driven by higher cost of staff. Reflecting the risk profile of the Landesbanken, valuation adjustments for 2013 jumped to EUR 3.2 billion from EUR 58 million the previous year and reflected the combined impact from the items noted above.

Despite pressures from the low interest rate environment and rising staff costs, the savings banks continue to generate strong underlying earnings which form the core of the Group's earnings profile. For the second year running, net interest income (NII) declined marginally, by 1.2% in 2013 and was principally impacted by interest rates. Likewise, operating costs increased by 0.6% during the year. Offsetting this, net commission income for the year grew by close to EUR 300 million or 4.6%, and reflected strength in credit card volumes and increased demand for retail asset management products. During 2014, (for which aggregated data is only available at the Sparkassen level), NII began to recover and increased 0.4% driven by strong retail and SME loan demand, as well as the ongoing stable and low cost availability of funding. Again for 2014, net commission income at the Sparkassen level contributed positively (+2.8%). Despite these trends, wage increases during 2014 gapped higher by 2.4% and effectively offset the improved revenue dynamics. Overall, IBPT was stable at EUR 10.9 billion vs EUR 11 billion the previous year while lower impairments led to an increase in profit before tax close to 5% to EUR 4.9 billion

Earnings Before Valuation
EUR billion, 2005-2014*

Profit Before Taxes
EUR billion, 2005-2014*

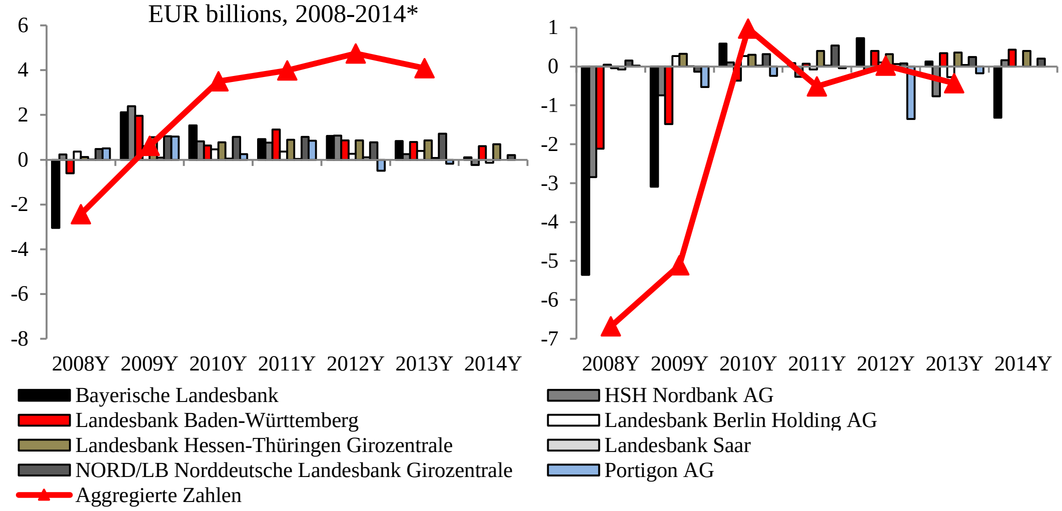


Source: Company reports, DBRS, *2014 aggregated figures only available for the savings banks

While aggregated 2014 data for the Landesbanken is not yet available, given the individual results reported to date, DBRS expects a continued improvement in operating results for the bulk of the Landesbanken. However, significant legacy issues, including the issue such as the exposure to HETA at Bayerische Landesbank, are expected to materially impact bottom line results negatively. In 2013, the Landesbanken reported an aggregated EUR 433 million net loss. For most Landesbanken, DBRS expects that earnings volatility should reduce going forward as legacy issues are resolved and the impact of overall de-risking is reflected.

Landesbanken: Operating Income before Impairments
EUR billions, 2008-2014*

Landesbanken: Net Income
EUR billions, 2008-2014*



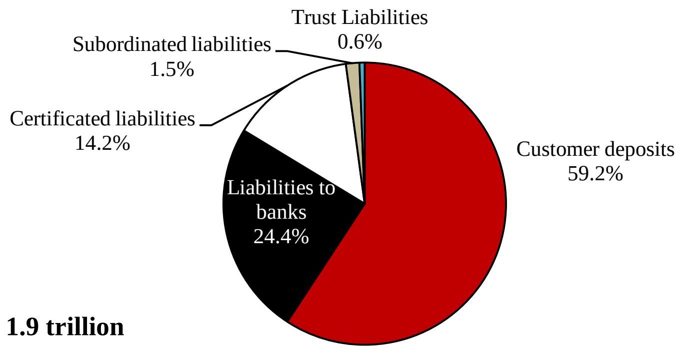
Source: SNL Financial, Company reports, DBRS, * 2014 numbers not available for Portigon and Landesbank Saar
Note: Portigon (former West LB) included for illustrative purposes

Cost efficiency for Sparkassen-Finanzgruppe is relatively weak in an international context and has also been impacted by the low interest rate environment. The expense ratio of 67.4% for 2013 reflects the Group's decentralised structure with multiple legally independent entities. DBRS recognises that efforts by the savings banks to centralise back-office functions in recent years have shown some results, with roughly 40% of all savings banks reaching a cost income ratio below the targeted 60% in 2013. Yet, efficiency at the Sparkassen-Finanzgruppe level continued to erode in 2013 with a cost-income ratio of 67.4% reported for 2013, compared to 65.5% in 2012 and 60.6% in 2011. The "Modell Verbund" strategy introduced by the Association is aimed to contribute towards improved efficiency, however DBRS continues to view the Group's overall cost structure as high.

Funding and Liquidity

DBRS views the liquidity and funding position of Sparkassen-Finanzgruppe as satisfactory, as the Group benefits from the strong deposit franchise of the savings banks. Despite the savings banks' solid deposit-gathering ability, the Landesbanken remain dependent on wholesale-funding, which in turn weakens the overall Group's funding profile. Reflecting the combination of the strong deposit base of the savings banks and the wholesale-oriented funding profile of the Landesbanken, the Sparkassen-Finanzgruppe as a combined Group had a noteworthy, albeit improving, wholesale funding reliance of about 41% of total funding at year-end 2013 compared to 43% for 2012. Customer deposits of EUR 1.15 trillion at end 2013 accounted for the remaining 59.2% of Group funding. DBRS views the deposit base of the savings banks as a core element in maintaining satisfactory liquidity.

Sparkassen-Finanzgruppe Funding Profile
% of Total Financing, as of December 2013



Total: EUR 1.9 trillion

Source: Company reports, DBRS

The savings banks' stable liabilities to customers of EUR 836.7 billion at year-end 2014, up 2.5% from the previous year, provide the foundation for the funding profile. Importantly, the savings banks' customer deposits demonstrated a stable increasing trend through the financial crisis, growing by close to 13% since year-end 2008. Liquidity at the savings banks is further illustrated by customer deposits to exceeding customer loans by EUR 116 billion at year-end 2014 – leading to a strong loan to deposit ratio at 80.2%. The liquidity ratio for the savings banks (defined as the ratio between the liquidid assets available up to one month and the liability callable during this period) has typically been roughly 2.5% in recent years (2.6 as of Dec 2014) . Despite the increased competition versus private sector and foreign banks, the Sparkassen continue to attract deposits via strong brand recognition and customer relationships, without the need for aggressive pricing.

Given their largely wholesale business models, the Landesbanken in aggregate rely much more on market funding. The funding pressures for some of the individual Landesbanken helps to highlight vulnerability to market disruption. Importantly, to relieve the funding stress and safeguard each Landesbank's funding ability through the crisis beginning in 2008, the state owners and the federal government promptly announced debt guarantees for the Landesbanken. As market conditions have normalised, the Landesbanken which were impacted have focused on restructuring and some, such as Bayern LB have made payments to their guarantors in line with EU requirements (e.g., BayernLB repaid a total of EUR 2.7 billion (EUR 0.7 billion in 2014 out of EUR 5 billion to be repaid by 2019).

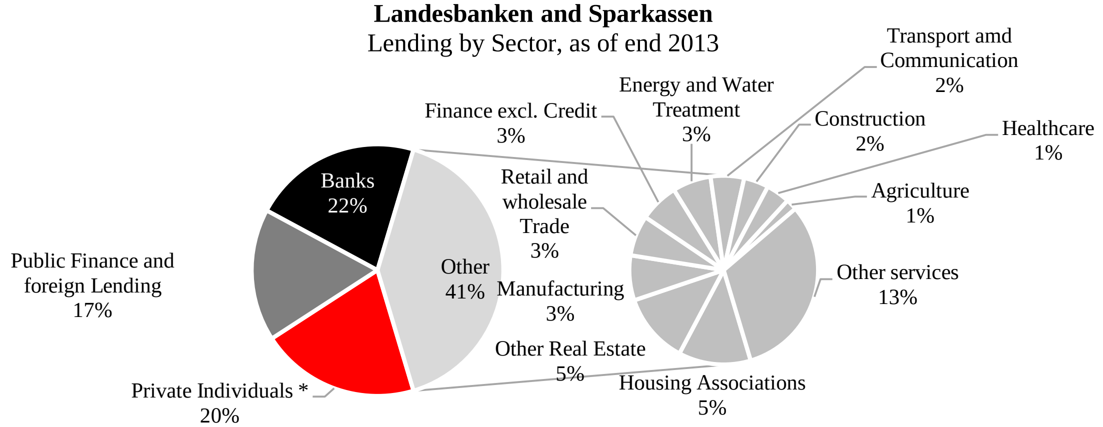
DBRS recognises that several Landesbanken have relatively stable funding relationships with savings banks that keep a portion of their excess deposits with them. These funding relationships can help Landesbanken manage through periods of market disruption and can add a level of stability to their funding profile. One factor that contributes to the funding challenges for some Landesbanken is the large amount of maturing debt that was issued under explicit state guarantees before July 2005. Prior to the EU mandated "phase out" of public law guarantees for Landesbanken (e.g., Anstaltslast and Gewaehtraegerhaftung), Landesbanken benefited from the ability to issue at higher rating levels which benefitted from explicit government support). A large proportion of the grandfathered guaranteed debt will mature in 2015 and is being replaced by non-guaranteed funding as and when needed. Fortunately, on-going asset reduction efforts at most Landesbanken will have an offsetting effect in the near to medium term, meaning that much of the guaranteed debt can simply run-off.

Risk Profile

DBRS notes that the financial information provided by the Sparkassen Finanzgruppe is on an aggregated (non-consolidated) basis and is only in part available for 2014. Overall, however, the risk profile of Sparkassen-Finanzgruppe has improved given the restructuring and various risk reduction measures undertaken at the weaker Landesbanken since 2008. Although elevated risks remain at some Landesbanken, the steep reduction in total assets and the parallel reduction in securitised liabilities have helped towards de-risking the Landesbank burden for the Group. DBRS views the overall risk reduction in the Landesbank sector as a key driver of the improved results exhibited since 2010. DBRS continues to view the risk profile of savings banks as stable and reflective of the broader German economic environment to which its retail and SME lending is integrally linked. Given the geographic concentration in Germany, Sparkassen-Finanzgruppe is exposed to the German economic and credit cycle. While the savings bank's business is concentrated in Germany, it is well diversified within the country. Moreover, the exposures in the aggregate loan portfolio of the savings banks are highly granular and extend across the breadth of German industry and commerce. Exemplifying the Group's ties with the German economy, in 2011 three quarters of all German businesses had a banking relationship with the Sparkassen-Finanzgruppe and as of end-2014 the Group had a market share of around 40% of German loans to domestic non-banks.

The Group's sizeable exposures to business lending was stable in 2013, at around 40% of the Sparkassen and Landesbanken combined lending, helped by the favourable economic development of the German SME sector (or Mittelstand). DBRS views this portfolio as increasing the overall risk profile of the Group due to the sensitivity of SMEs to the economic cycle. However, DBRS also notes that the aggregated lending to businesses is well diversified which somewhat mitigates the corporate exposure. The Group is also characterized by its large exposure to real estate, with lending for commercial and residential real estate representing around 26% of the combined outstanding exposure of the Sparkassen and Landesbanken. The Group's large real estate lending to private customers and loans to public authorities have performed well through past economic cycles, adding a level of stability to overall credit quality. Furthermore, Sparkassen-Finanzgruppe's lending to public authorities and private individuals (excluding real estate) moderates the risk profile, given the public law guarantees which support local authorities, the high barriers to personal bankruptcy filings in Germany, as well as the long track record of the savings banks (which provide most of the private loans) in lending to their local customers.

Landesbanken and Sparkassen
Lending by Sector, as of end 2013



Source: DSGV, DBRS Calculations, * incl. Mortgages

Historically, DBRS has viewed the highest credit risk for Sparkassen-Finanzgruppe in the corporate loan portfolios of several Landesbanken. The financial crisis in 2008 primarily affected Landesbank securities portfolios, yet the subsequent poor market conditions and capital pressure helped to the de-risking of loan portfolios and in some cases forced restructuring at the Landesbanken level. In DBRS's view, the worst period for risk from the Landesbanken has passed, particularly as many have reined in riskier foreign bank and international corporate activities. Nonetheless, the wholesale nature of the Landesbanken' business models may continue to pose future risks relative to the more stable profile of the savings banks. Indeed, the case of HSH and the ongoing risks linked to troubled sectors such as shipbuilding help to highlight this.

As noted above, the savings banks are linked to the domestic economic cycle through their broad lending relationships to SMEs. Performance continues to be within DBRS's expectations. Nonetheless, there remain many factors including Eurozone concerns which could dampen the economic situation. DBRS sees the savings banks as benefitting from risk management tools offered by the Group's federal association, Deutscher Sparkassen- und Giroverband (DSGV). These include credit pooling programmes to limit concentration risks at the individual savings bank level and centralised software and credit scoring systems which provide shared information and statistics useful in controlling credit decisions.

DBRS notes that the savings banks have significantly reduced their loan loss provision over the last few years with EUR 0.3 billion reported for 2014, compared to much higher levels of EUR 1.6 billion back in 2010 and EUR 2.9 billion in 2009. While DBRS recognises the strength of this improvement, a large portion of this is attributed to the more buoyant domestic economic environment in Germany. Nonetheless, given the loss mitigation efforts taken by the savings banks and the reduced risk profile of most of the Landesbanken, DBRS sees the Group's credit risk as significantly lower than in the past. In DBRS's view, this should be a positive factor for future credit quality, regardless of overall economic trends.

The Group's risk Profile is further supported by the existence of an early warning system in relation to the Joint Liability Scheme and the use of guarantee schemes. Individual guarantee support funds monitor potential risk of their member institutions through risk monitoring committees, and report to the central transparency committee of the German Savings Banks Association. Guarantee schemes have right of information and response completed with the power to conduct audits at all covered institutions at any time. If the risk situation deteriorates at any institution, the guarantee scheme can decide countermeasures to be implemented.

Capitalisation: Structure and Adequacy

DBRS views the Sparkassen-Finanzgruppe's combined level of capitalisation as broadly sufficient. This considers the overall sound capital and solid underlying earnings of the savings banks, as well as the more challenging situation at some of the Landesbanken. The savings banks reported an aggregated Tier 1 ratio of 14.5% at year-end 2014 and a total capital ratio at year-end of 16.6%, both improving somewhat compared to the prior year. At the Landesbank level (including DEKA), Tier 1 ratios were slightly down to 14.7% at end 2014 from 16.9% one year earlier but up from 14% at end 2012. The development continued to reflect the reduction of risk at the Landesbanken, which has now fallen, while combined total assets have decreased by 40.8%. On a combined basis for both the savings banks and Landesbanken, the Tier 1 ratio was 14.6% at end 2013, up from 13.1% at year-end 2012.

The savings banks have increased their regulatory capitalisation in recent years largely through earnings retention and additions to prudential reserves. Internal capital generation and slow growth in risk-weighted assets (RWAs) led to consistent increases in the savings banks' Tier 1 ratio. The capital of the savings banks is of solid quality. However, given the low interest environment which is adding pressure to earnings, in DBRS's view, some individual saving banks might be challenged to internally generate significant levels of capital if needed to reach future regulatory capital requirements. Likewise, given the legal and ownership structures of the savings banks, raising capital externally is difficult and in the past capital improvement has often been achieved through mergers with stronger institutions.

DBRS notes the improved aggregated regulatory capital position of the Landesbanken highlighted above. This follows an important period of capital support beginning in 2008 during which the state owners and German Financial Markets Stabilisation Fund (SoFFin) had committed EUR 36.3 billion in risk guarantees and EUR 21 billion in capital to the Landesbanken. In parallel with some Landesbanken repaying portions of federal support (e.g., the BayernLB example mentioned above), the overall quality of Landesbanken' combined capital base has also improved, as many state owners have completed the conversion of former silent participations into Basel III qualifying equity. Although challenges do remain, DBRS views the overall development as positive.

Sparkassen-Finanzgruppe

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Financial Information

Sparkassen-Finanzgruppe In EUR Millions	31/12/2013 NGAAP	31/12/2012 NGAAP	31/12/2011 NGAAP	31/12/2010 NGAAP	31/12/2009 NGAAP	31/12/2008 NGAAP	31/12/2007 NGAAP
Balance Sheet							
Cash and deposits with central banks	23,120	39,910	30,968	27,369	31,572	32,986	27,729
Lending to/deposits with credit institutions	371,863	408,768	500,605	544,914	615,887	731,111	788,376
Financial securities	510,326	508,610	533,169	566,413	599,251	572,299	580,774
- Trading portfolio	0	0	0	n/a	n/a	n/a	n/a
- At fair value	0	0	0	n/a	n/a	n/a	n/a
- Available for sale	0	0	0	n/a	n/a	n/a	n/a
- Held-to-maturity	0	0	0	n/a	n/a	n/a	n/a
- Other	510,326	508,610	533,169	566,413	599,251	572,299	580,774
Financial derivatives instruments	0	0	0	n/a	n/a	n/a	n/a
- For hedging purposes	0	0	0	n/a	n/a	n/a	n/a
- Other	0	0	0	n/a	n/a	n/a	n/a
Gross lending to customers	1,179,018	1,215,967	1,227,933	1,214,284	1,200,470	1,207,665	1,160,191
- Loan loss provisions	0	0	0	n/a	n/a	n/a	n/a
Insurance assets	0	0	0	n/a	n/a	0	0
Investments in associates/subsidiaries	30,285	33,523	34,970	37,519	41,722	49,559	48,407
Fixed assets	12,361	12,530	12,342	12,610	12,993	13,389	13,946
Goodwill and other intangible assets	0	0	0	0	0	n/a	n/a
Other assets	137,344	207,449	228,288	198,586	80,887	77,959	63,935
Total assets	**2,264,317**	**2,426,757**	**2,568,275**	**2,601,695**	**2,582,782**	**2,684,968**	**2,683,358**
Total assets (USD)	2,986,044	3,200,260	3,335,422	3,447,636	3,701,695	3,784,999	3,918,508
Loans and deposits from credit institutions	475,006	491,964	550,774	598,468	649,465	754,127	829,671
Deposits from customers	1,151,077	1,177,587	1,176,565	1,164,702	1,160,141	1,146,261	1,067,457
- Demand	0	0	0	n/a	n/a	n/a	n/a
- Time and savings	1,151,077	1,177,587	1,176,565	1,164,702	1,160,141	1,146,261	1,067,457
Issued debt securities	275,714	322,494	368,272	403,057	458,371	482,619	496,983
Financial derivatives instruments	0	0	0	n/a	n/a	n/a	n/a
- For hedging purposes	0	0	0	n/a	n/a	n/a	n/a
- Other	0	0	0	n/a	n/a	n/a	n/a
Insurance liabilities	0	0	0	n/a	n/a	n/a	n/a
Other liabilities	183,586	260,631	303,969	269,502	140,872	135,009	167,483
-Financial liabilities at fair value through P/L	0	0	0	0	0	0	167,484
Subordinated debt	29,884	30,604	36,731	38,151	39,827	41,220	11,714
Hybrid Capital	2,651	3,106	4,137	5,584	7,428	10,425	0
Equity	146,399	140,371	127,827	122,231	126,678	115,307	110,050
Total liabilities and equity funds	**2,264,317**	**2,426,757**	**2,568,275**	**2,601,695**	**2,582,782**	**2,684,968**	**2,683,358**
Income Statement							
Interest income	71,955	86,219	97,191	94,179	109,312	148,834	145,665
Interest expenses	-39,413	-52,766	-61,657	-58,920	-74,267	-114,774	-112,887
Net interest income and credit commissions	32,542	33,453	35,534	35,259	35,045	34,060	32,778
Net fees and commissions	6,983	6,837	7,293	7,191	6,948	8,098	8,296
Trading / FX Income	1,365	726	-539	500	1,079	-1,478	-1,576
Net realised results on inv securities (AFS)	0	0	0	0	0	0	0
Net results from other fin instr at fair value	0	0	0	0	0	0	0
Net income from insurance operations	0	0	0	0	0	0	0
Results from ass/subs accounted at equity	0	0	0	0	0	0	0
Other operating income (incl. dividends)	0	0	133	239	631	1,237	1,202
Total operating income	40,890	41,016	42,421	43,189	43,703	41,917	40,700
Staff costs	-15,730	-15,617	-15,000	-15,190	-15,899	-15,553	-15,425
Other operating costs	-10,500	-10,312	-11,024	-10,956	-11,037	-11,364	-11,857
Depreciation/amortisation	0	0	0	0	0	0	n/a
Total operating expenses	-26,230	-25,929	-26,024	-26,146	-26,936	-26,917	-27,282
Pre-provision operating income	14,660	15,087	16,397	17,043	16,767	15,000	13,418
Loan loss provisions	-3,208	-58	6,266	-5,739	-10,592	-13,530	-6,571
Post-provision operating income	11,452	15,029	22,663	11,304	6,175	1,470	6,847
Impairment on (in)tangible assets	0	0	0	0	0	0	0
Net gains/losses on (in)tangible assets	0	0	0	0	0	0	0
Other non-operating items	-6,546	-9,527	-17,551	-5,602	-6,464	-5,124	-2,157
Pre-tax income	4,906	5,502	5,112	5,702	-289	-3,654	4,690
Taxes	-3,241	-3,409	-3,488	-2,644	-2,571	-1,747	-1,961
Minority interest	0	0	0	0	0	0	0
Net income	**1,665**	**2,093**	**1,624**	**3,058**	**-2,860**	**-5,401**	**2,729**
Net income (USD)	2,196	2,760	2,109	4,052	-4,099	-7,614	3,985

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Sparkassen-Finanzgruppe In EUR Millions	31/12/2013 NGAAP	31/12/2012 NGAAP	31/12/2011 NGAAP	31/12/2010 NGAAP	31/12/2009 NGAAP	31/12/2008 NGAAP
Off-balance sheet and other items						
Asset under management	n/a	n/a	n/a	n/a	n/a	n/a
Derivatives (notional amount)	n/a	n/a	n/a	n/a	n/a	n/a
BIS Risk-w eighted assets (RWA)	n/a	n/a	n/a	n/a	n/a	1,253,724
No. of employees (end-period)	n/a	341,200	345,600	348,500	366,500	377,229
Earnings and Expenses						
Earnings						
Net interest margin [1]	1.55%	1.52%	1.55%	1.49%	1.42%	1.86%
Pre-provision earning capacity (total assets basis) [2]	0.63%	0.60%	0.63%	0.66%	0.64%	0.78%
Pre-provision earning capacity (risk-w eighted basis) [3]	n/a	n/a	n/a	n/a	n/a	n/a
Pre-provision earning capacity by employee	n/a	44,217	47,445	48,904	45,749	39,764
Post-provision earning capacity (total assets basis)	0.49%	0.60%	0.88%	0.44%	0.23%	0.08%
Post-provision earning capacity (risk-w eighted basis)	n/a	n/a	n/a	n/a	n/a	n/a
Expenses						
Efficiency ratio (operating expenses / operating income)	64.15%	63.22%	61.35%	60.54%	61.63%	64.21%
All inclusive costs to revenues [4]	80.16%	86.44%	102.72%	73.51%	76.42%	76.44%
Operating expenses by employee	n/a	75,994	75,301	75,024	73,495	71,355
Loan loss provision / pre-provision operating income	21.88%	0.38%	-38.21%	33.67%	63.17%	90.20%
Provision coverage by net interest income	1014.40%	n/m	-567.09%	614.38%	330.86%	251.74%
Profitability Returns						
Pre-tax return on Tier 1 (excl. hybrids)	n/a	n/a	n/a	n/a	-0.23%	-3.17%
Return on equity	1.14%	1.49%	1.27%	2.50%	-2.26%	-4.68%
Return on average total assets	0.07%	0.08%	0.06%	0.12%	-0.11%	-0.28%
Return on average risk-w eighted assets	n/a	n/a	n/a	n/a	n/a	n/a
Dividend payout ratio [5]	n/a	n/a	n/a	n/a	n/a	n/a
Internal capital generation [6]	n/a	n/a	n/a	n/a	n/a	n/a
Growth						
Loans	-3.04%	-0.97%	1.12%	1.15%	-0.60%	4.09%
Deposits	-2.25%	0.09%	1.02%	0.39%	1.21%	7.38%
Net interest income	-2.39%	-5.86%	0.78%	0.61%	2.89%	3.76%
Fees and commissions	-0.44%	-6.25%	1.42%	3.50%	-14.20%	-2.37%
Expenses	3.49%	-0.37%	-0.47%	-2.93%	0.07%	-1.35%
Pre-provision earning capacity	-6.87%	-7.99%	-3.79%	1.65%	11.78%	8.41%
Loan-loss provisions	n/a	-100.93%	n/a	n/a	n/a	103.83%
Net income	-20.60%	28.88%	-46.89%	-206.92%	-47.05%	-175.03%
Risks						
RWA% total assets	n/a	n/a	n/a	n/a	n/a	46.69%
Impaired loans (net of LLPs) % pre-provision operating income [7]	n/a	n/a	n/a	n/a	n/a	n/a
Impaired loans (net of LLPs) % equity	n/a	n/a	n/a	n/a	n/a	n/a
Liquidity and Funding						
Customer deposits % total funding	59.59%	58.22%	55.18%	52.84%	50.27%	47.28%
Total w holesale funding % total funding [8]	40.41%	41.78%	44.82%	47.16%	49.73%	52.72%
- Interbank % total funding	24.59%	24.32%	25.83%	27.15%	28.14%	31.11%
- Debt securities % total funding	14.27%	15.94%	17.27%	18.28%	19.86%	19.91%
- Subordinated debt % total funding	1.55%	1.51%	1.72%	1.73%	1.73%	1.70%
Short-term w holesale funding % total w holesale funding	60.85%	58.22%	57.63%	58.89%	57.77%	61.20%
Liquid assets % total assets	39.98%	39.45%	41.46%	43.77%	48.27%	49.77%
Net short-term w holesale funding reliance [9]	-31.66%	-31.67%	-34.18%	-35.99%	-43.68%	-41.10%
Adjusted net short-term w holesale funding reliance [10]	-31.66%	-31.67%	-34.18%	-35.99%	-43.68%	-41.10%
Customer deposits % gross loans	97.63%	96.84%	95.82%	95.92%	96.64%	94.92%
Capital [11]						
Tier 1 (As-reported)	14.60%	13.10%	10.50%	10.95%	10.12%	8.82%
Total Capital	n/a	n/a	n/a	15.80%	14.80%	13.47%

[1] (Net interest income + dividends)% average interest earning assets.
[2] Pre-provision operating income % average total assets.
[3] Pre-provision operating income % average total risk-w eighted assets.
[4] (Operating & non-op. costs) % (op. & non-op. revenues)
[5] Paid dividend % net income.
[6] (Net income - dividends) % shareholders' equity at t-1.
[7] We take into account the stock of LLPs in this ratio.
[8] Whole funding excludes corporate deposits.
[9] (Short-term w holesale funding - liquid assets) % illiquid assets
[10] (Short-term w holesale funding - liquid assets- loans maturing w ithin 1 year) % illiquid assets
[11] Capital ratios of Interim results exclude profits for the year

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Ratings History

Issuer	Debt Rated	Current	2014	2013	2012
Sparkassen-Finanzgruppe	Issuer & Senior Long-Term Debt	A (high)*	A (high)	A (high)	A (high)
Sparkassen-Finanzgruppe	Short-Term Instruments	R-1 (middle)*	R-1 (middle)	R-1 (middle)	R-1 (middle)

*Under Review Negative

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

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

Ratings assigned by DBRS Ratings Limited are subject to EU regulations only.

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