Rating Report

Report Date:
3 April 2014

Previous Report:
27 March 2013

Sparkassen-Finanzgruppe

Analysts

Peter Burbank
+44 20 7855 6615
pburbank@dbrs.com

Elisabeth Rudman
+44 20 7855 6655
erudman@dbrs.com

Thibault Godbillon
+44 20 7855 6648
tgodbillon@dbrs.com

Media Contact
Stephen Bernard
+1 212 806 3240
sbernard@dbrs.com

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 Landesbanks enjoy meaningful wholesale banking operations.

Recent Actions

22 April 2013
DBRS Confirms A high Floor Rating for Spk-Finanzgruppe Joint Liability Scheme Members, Stable Trend

27 March 2013
DBRS Confirms A (high) Floor Ratings on Sparkassen-Finanzgruppe with Stable Trend

31 May 2012
DBRS Rates 419 Members of Sparkassen-Finanzgruppe's Joint Liability Scheme at A (high), Trend Stable

Ratings

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

Rating Rationale

On 3 April 2014, DBRS Ratings Limited (DBRS) confirmed the ratings for Sparkassen-Finanzgruppe (Sparkassen-Finanzgruppe or the Group). The Trend on all ratings is 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 their public owners (Träger), as well as broader systemic support. The ratings also consider the underlying earnings potential and the solid franchise of the savings banks and the overall importance of the Group to the German banking sector. Offsetting these rating strengths are the riskier funding profile and weak overall earnings of several Landesbanks that are a meaningful part of the Group, and the high level of competition in the savings banks' core business of German retail banking.

The floor ratings of A (high) for Issuer & Senior Long-Term Debt and R-1 (middle) for Short-Term Instruments apply to each member of Sparkassen-Finanzgruppe's Joint Liability Scheme. The Joint Liability Scheme includes 417 German savings banks, the seven Landesbank groups, ten public-sector building societies (LBS), the Group's central asset manager DekaBank and other specialised service providers. The floor ratings indicate that each member of the Joint Liability Scheme is rated at least at A (high)/R-1 (middle); However, this does not prevent members from potentially achieving higher individual ratings based on their individual credit assessment. (Continued on page 2)

Rating Considerations

Strengths

(1) 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 Landesbanks
(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 Landesbanks, while also strengthening the cohesiveness and benefits across the Sparkassen-Finanzgruppe
(3) Managing impact from difficult regulatory environment while maintaining profitability and competitiveness

Financial Information

Sparkassen-Finanzgruppe	31/12/2012	31/12/2011	31/12/2010	31/12/2009	31/12/2008	31/12/2007
EUR Millions, unless otherwise noted	€	€	€	€	€	€
	NGAAP	NGAAP	NGAAP	NGAAP	NGAAP	NGAAP
Total Assets (millions)	2,426,757	2,568,275	2,601,695	2,582,782	2,684,968	1,160,191
Equity (millions)	140,371	127,827	122,231	126,678	115,307	0
Net Income (millions)	2,097	1,624	3,058	-2,860	-5,401	7,198
Risk-Weighted Earning Capacity (%)	n/a	n/a	n/a	n/a	n/a	n/a
Post-provision Risk-Weighted Earning Capacity (%)	n/a	n/a	n/a	n/a	n/a	n/a
Yield on average earning assets	3.96	4.24	3.97	4.44	8.11	12.56
Cost of interest bearing liabilities	2.64	2.89	2.67	3.21	4.71	10.57
Efficiency Ratio (%)	61.69	61.35	60.54	61.63	64.21	66.35
Impaired Loans % Gross Loans	n/a	n/a	n/a	n/a	n/a	n/a
Tier 1 Capital Ratio (%)	n/a	11.50	10.90	10.12	8.82	n/a

Source: Company Reports, DBRS.

Rating Rationale (Continued from page 1)

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 for the Group's Landesbank members, thereby adding a level of stability to the floor ratings. During the recent financial crisis, several Landesbanks received support from their public owners in the form of capital injections 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 reduce the need for additional support from within the Group; however, they do not fully eliminate it. Nonetheless, DBRS sees the availability of this external support as benefitting the Group, as it lessens the potential burden of the Landesbanks on the wider membership. However, any indication of reduced access to systemic support for the Landesbanks would likely lead to downward pressure on the floor ratings, as it could reduce the total financial resources available to the members of Sparkassen-Finanzgruppe.

The floor ratings also consider the overall strong market positions and the solid franchises of the institutions comprising the Sparkassen-Finanzgruppe. Despite some marginal share volatility in recent years, together, the Group's members 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. The sizeable combined market shares demonstrate the Group's importance to the German banking sector. Likewise, the close relationship of its members is illustrated by the increasing levels of cohesion that exists among the savings banks, which helps to promote cross selling. DBRS sees the Group's overall franchise strength as benefitting from the solid positioning of the savings banks, whereas the negative impact from weaker Landesbanks has diminished markedly following meaningful de-risking and restructuring.

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 2012, the most recent year for which aggregate data is available, Sparkassen-Finanzgruppe recorded EUR 15.7 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 compared to EUR 16.4 billion in 2011 and EUR 17.1 billion in 2010 reflecting the low interest environment, the large cost base and the lower contribution to results from the Landesbanks. However, lower provisions to the general banking risks' fund (Section 340g and 340e of the German Commercial code (HGB)) and lower income taxes led to a slightly improved net result.

In DBRS's view, the overall risk profile of Sparkassen-Finanzgruppe has improved with the deleveraging of the Landesbanks and is now less impacted by the higher volatility of their earnings, as well as the more wholesale orientation of the state level banks. 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 2012, loan loss provision returned to an all-time low of EUR 0.6 billion.

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 13.4 % and a total capital ratio of 16.4% at year-end 2013.

For DBRS, the Sparkassen-Finanzgruppe continues to face several challenges. These include defending the still dominant position of savings banks in German retail while also maintaining margins and solid profitability. Both are challenged by strong competition and remain under pressure due to the low interest rate environment. Maintaining the dominant position is particularly important, as the savings banks' solid retail franchise underpins the overall Group's franchise strength. Lastly, as with most financial institutions operating across the globe, the Group needs to manage business strategies to adapt to the ever-changing regulatory environment. While DBRS sees the 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.

The trend on the floor ratings is Stable. This reflects DBRS's expectation that the support mechanisms will remain intact, underscored by the stable performance of the savings banks and the general reduction in risk and volatility at the Landesbanks. Given the structure and strength of the Joint Liability Scheme is a key rating factor, regulatory or other changes that reduce the availability of support to the Group's members from the Scheme or from external support would have a negative impact on ratings.

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 Landesbanks could require significant support simultaneously. In a scenario where several Landesbanks faced challenges, DBRS would expect the availability of external support from their public owners, as well as systemic support from the federal government, to strengthen the financial resources of the Group's members, if needed. Indeed, this has been the case in the past. External support thereby complements the internal support provided by the Joint Liability Scheme. The expectation that such external support is available constitutes a key rating factor, as it stabilises the floor ratings. These considerations are reflected in an SA-2 support assessment for the members of the Joint Liability Scheme.

Rating 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, and the continued de-risking at Landesbank level.

Factors with Negative Rating Implications
Negative ratings pressure would result from indication that the Landesbanks' access to support from their public owners and the federal government was reduced. Furthermore, downward rating pressure could also be caused by a weakening of the savings banks franchise and their underlying earnings capability. Importantly, any weakening of the Joint Liability Scheme or reduced access to support from their public owners and the federal government could negatively impact the floor rating.

Franchise Strength - Description of Operations

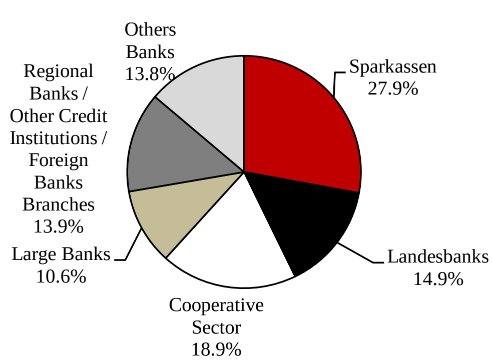
Together, the members of Sparkassen-Finanzgruppe's Joint Liability Scheme form one of the largest financial Groups globally, with total aggregated assets of EUR 2.43 trillion as of year-end 2012. Sparkassen-Finanzgruppe primarily comprises three constituent Groups with distinct franchises – the German savings banks, the Landesbanks and the public-sector building societies (Landesbausparkassen, or LBS). In DBRS's view, the strong, resilient franchise of the savings banks forms the core of Sparkassen-Finanzgruppe's franchise strength, while the weaker, more wholesale-oriented franchise of most Landesbanks negatively affects the overall Group. The 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 Landesbanks' activities.

The 417 German savings banks as of 31 December 2013 have a strong, relatively stable franchise, which, as discussed above, is a key rating consideration. With EUR 1,111.6 billion in total assets, and EUR 816.6 billion customer deposits (including certificated liabilities) at year-end 2013, the savings banks enjoy leading market positions 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.

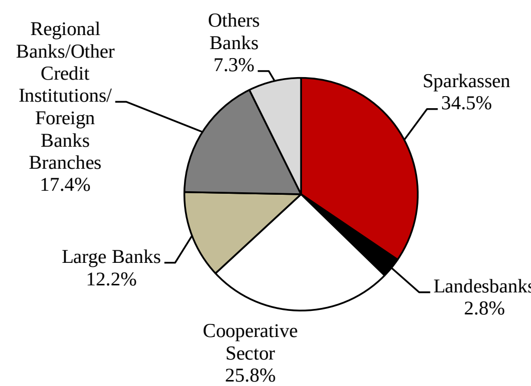
Despite an increase in competition since 2011, the member institutions of Sparkassen-Finanzgruppe continue to enjoy a very strong position in German banking as demonstrated by their market share in core products. In 2012 the Sparkassen-Finanzgruppe reported a 40.9% share in retail customer deposits and also 41.3% in business lending. At the savings banks level, deposits from households totalled EUR 633 billion at 31 December 2012, representing a market share of 38.5% which is down from 39.4% in 2011. The Landesbanks had EUR 39.5 billion in customer deposits or a 2.4% market share (vs. 2.6% in 2011). On a total deposit basis, including businesses, the savings banks reported a 27.4% national share and the Landesbanks a 9.7% share as of end 2012, a combined increase of 9 percentage points. In terms of aggregated household and business deposits, the Sparkassen-Finanzgruppe reported a national share of 37.1% at end 2012.

As of year-end 2013, the savings banks had EUR 253.4 billion in domestic residential real estate loans, comprising a sizeable 34.5% market share, whilst the Landesbanks have an additional market share of 2.9%.

SpK Finanzgruppe: Market Share Credit to the Real Economy*, December 2013



SpK Finanzgruppe: Market Share in Real Estate Loans to Domestic Households, December 2013

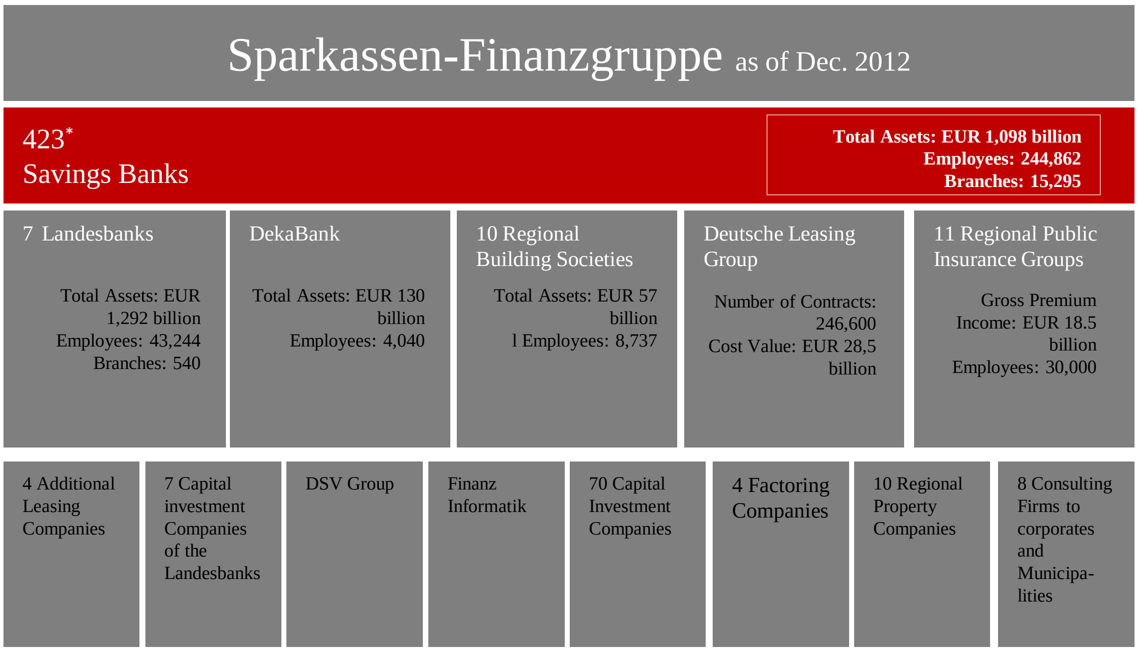


Source: DSGV
* *i.e.* Excluding loans to Financial Institutions

The seven Landesbank Groups are mostly active in wholesale banking, as well as serving as the central clearing banks for their respective regional savings banks associations. The Landesbanks are important lenders to medium- to large-sized corporations and public-sector entities in their domestic regions. The Landesbanks are also significant participants in international loan syndication, money markets, securitisation and asset-based financing. Nonetheless, since 2008 many Landesbanks have reduced some of their international activities and several have undergone significant de-risking and/or restructuring (35.4% reduction in total assets and 48.7% in risk exposure since 2008).

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

Some Landesbanks have developed more diverse franchises geographically and by business line and others less so. Overall, despite this variation and an improving risk profile, DBRS continues to view the Landesbanks as more vulnerable to market dislocations than the savings banks.



*As of December 2013 there are 417 Savings Banks.

The ten regionally-focused public-sector building societies (LBS) that also form part of Sparkassen-Finanzgruppe have a combined market-leading position in home savings and loans products which are mainly distributed by the savings banks. They are mostly owned by regional savings banks associations and Landesbanks. Other members of the joint liability scheme of Sparkassen-Finanzgruppe include DekaBank, the central asset manager of Sparkassen-Finanzgruppe, and other smaller providers of specialised financial products. The savings banks have collectively owned 100% of DekaBank since year end 2011, following the EUR 2.3 billion purchase of the 50% of DekaBank formerly owned by the Landesbanks. DekaBank is the third largest mutual funds manager in Germany, providing key asset management products that the savings banks offer to their retail customers. DekaBank is also assuming a larger role within the Group with the planned 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 Landesbanks 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 Landesbanks, most support cases of the Joint Liability Scheme have involved small institutions. Sparkasse Finanzgruppe reports that 90% of all support cases can be handled by the challenged member's regional support fund alone, without additional resources from the system of support funds. 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. This is viewed as a weakness that negatively affects the floor ratings. However, as discussed above, this weakness is partly mitigated by the access to additional sources of external support. These include important support from their public owners, from the federal German government, and from regional support funds that savings banks and Landesbanks have established. The administrators of the support funds can use their discretion to require additional support from the public owners of a challenged member and to effect management and business strategy changes to ensure a successful restructuring and protect the Scheme's funds. Member contributions to the Scheme are risk-based, providing an incentive for members for prudent risk management.

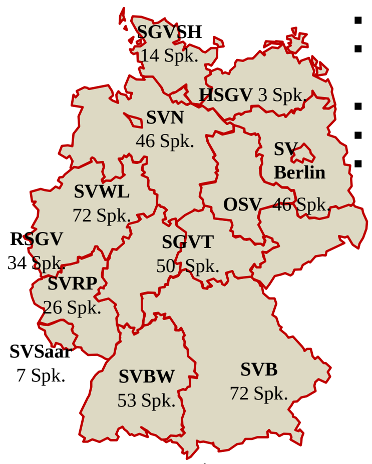
DBRS notes that the members of the Joint Liability Scheme have strong incentives to support each other, which is critical to ensure the functioning of the system, due to the lack of a legally binding cross-guarantee. A default by any member would cause reputational damage for the overall Group. Customers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

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

The case of the former WestLB, now known as Portigon AG, is a good example of orderly resolution. Following the need to unwind WestLB, the savings bank operations of Portigon AG, including the public sector and SME lending operations, were spun- off and transferred to Helaba. The remaining banking assets were transferred to the Erste Abwicklunganstalt (EAA), which is directly and indirectly owned by the State of North Rhine Westphalia and its Savings Banks. In parallel, the majority of former WestLB's obligations were legally transferred on 17 September 2012 to new issuers with retroactive effect. Senior Long-Term and Short-Term obligations went to either Helaba or EAA, whereas subordinated liabilities remain with Portigon AG. These senior obligations transferred to EAA no longer benefit from the joint liability support scheme of the Sparkassen-Finanzgruppe, whereas Portigon AG remains an associate member of the Scheme until privatization or the winding up of the business is completed.

Similarly, following the breakup of the former Bankgesellschaft Berlin, Landesbank Berlin (LBB) was separated as a stand-alone entity, with other portions of the former group spun off or sold. LBB was later acquired by the German Savings banks so that LBB would not fall into private hands. More recently, the Landesbank has undergone a meaningful restructuring. The Berlin operations are now being split between a savings bank (Berliner Sparkasse) and a commercial real estate lender capable of providing services across the Sparkasse Finanzgruppe. Concurrently, the capital markets operations of LBB are being transferred into Dekabank, the Group's asset manager. LBB will cease to be a Landesbank, with the main Berlin operations focusing on core services as a major Sparkasse.

Savings Banks and their Regional Associations



- 423* Saving Banks
- EUR 1,106 bn in Total Assets
- 244,862 employees
- 15,295 branches
- EUR 98 billion in savings, current and securities account

Landesbanks

- 7 Landesbank Groups
- DekaBank
- EUR 1,422 billion in total assets
- 47,284 employees

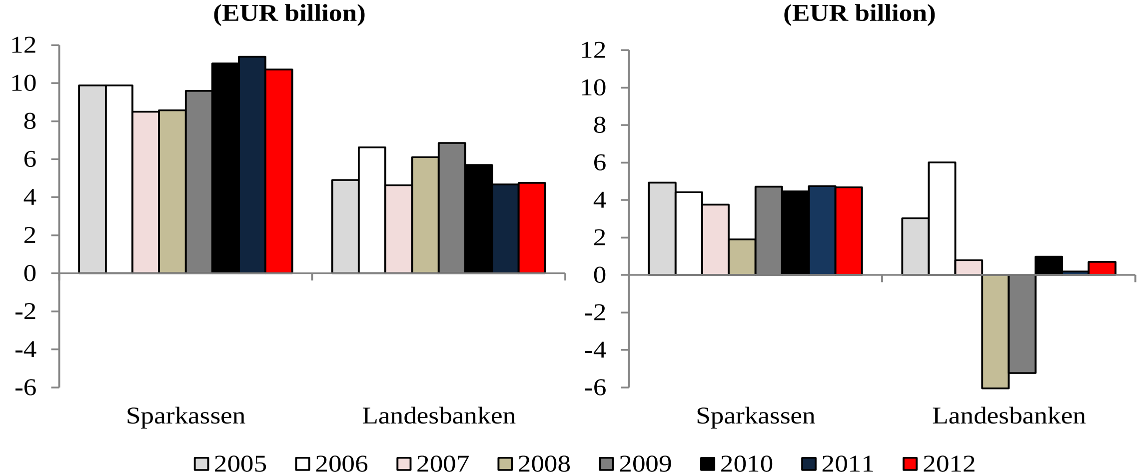
* 417 as of December 2013 [1]HELABA took over the West LB operation in July 2012

Earnings Power

Although Sparkassen-Finanzgruppe has sizeable earnings potential, the Group's net performance continues to be impacted by earnings volatility. At the Landesbanks in aggregate, sizeable valuation adjustments linked to the sovereign debt crisis, exposure to Greek securities and more recently the low interest rate environment, combined with a still rigid cost structure contributed to dampen overall Group earnings. In 2012, the most recent year for which aggregate data is available, the overall Group generated EUR 15.7 billion (down 2.0% from the prior year) of operating earnings before other and non-operating income/expenses and valuation results (which under German Commercial Code (*Handelsgesetzbuch*, or HGB) includes losses on loans, securities) while administrative cost increased driven by higher cost of staff costs. For the year ending 31 December 2012, the Group generated an after tax profit of EUR 2.1 billion, with a positive contribution of the Landesbanks of EUR 22 million vs. a net loss of EUR 0.5 billion the prior year.

Earnings Before Valuation (EUR billion)

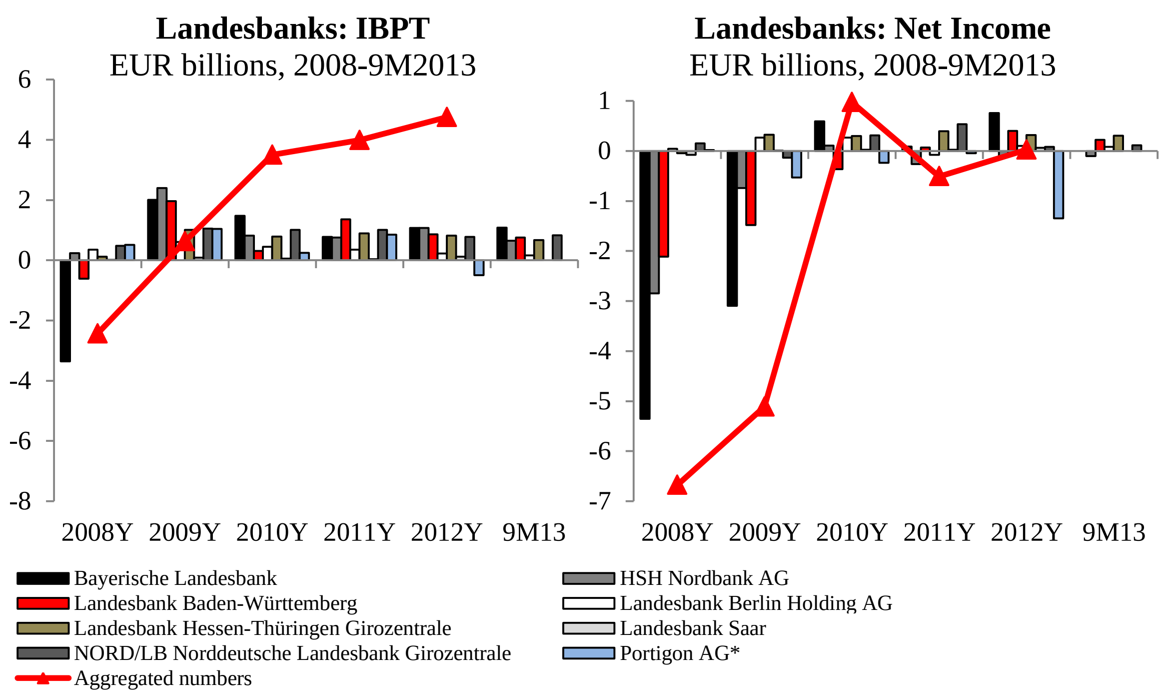
Profit Before Taxes (EUR billion)



Source: Company reports, DBRS

Even if pressured by low interest rates and high staff costs, the savings banks continue to generate strong underlying earnings, which form the core of the Group's earnings profile, and thereby support the ratings. In 2012, net interest income (NII) declined 2.3% as a result of the low interest environment, as well as increased pressure on the funding side due to competition for deposits in Germany. With net commission income marginally down as well, earnings before valuation adjustments fell by 4% to EUR 10.7 billion for 2012. The decrease versus the prior year reflected an increase in overall personnel expenses as well as the subdued revenue generation noted above. Similarly in 2013, the savings banks reported slightly weaker NII, and marginally higher administrative costs which was in part offset by a small increase in net commission income from credit cards businesses to EUR 6.4 billion from EUR 6.3 billion one year earlier. As opposed to the previous year the asset management business saw an increase in revenues for 2013 which returned to the more buoyant levels achieved back in 2011. For 2013 in total, bottom line results for the Savings Banks were in line with the previous year at EUR 2.1 billion.

While aggregated 2013 data for the Landesbanks is not yet available, given the individual results reported to date, DBRS expects a continued improvement in results for the bulk of the Landesbanks. However, significant asset quality issues in problem sectors such as shipbuilding finance could contribute to an aggregated loss. This would include the case of HSH Nordbank, which reported a quarterly loss of EUR 194 million in September 2013 and projects to report a loss in the three digit million range for 2013. In 2012, the Landesbanks returned to profit with an aggregated net income of EUR 689 million which is still lower than the 2010 EUR 1 billion profit, but remains far better than the aggregated losses of EUR 5.2 billion for 2009 and EUR 6 billion loss for 2008. For most Landesbanks, DBRS expects that the earnings volatility typically associated with the sector will continue to reduce going forward.



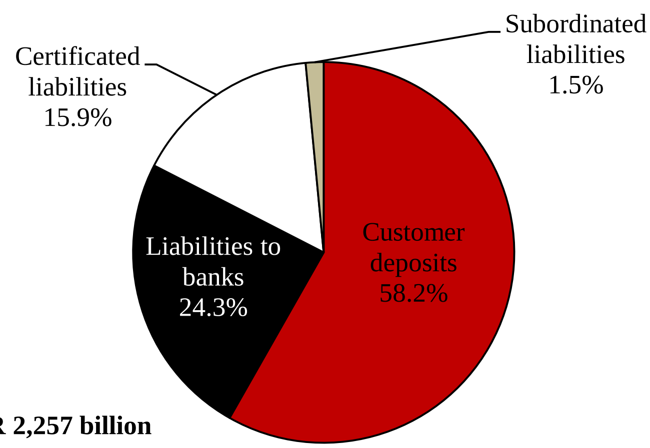
Source: SNL Financial, Company reports, DBRS
* Portigon (former West LB) included for illustrative purposes

Cost efficiency for Sparkassen-Finanzgruppe is relatively weak in an international context. The expense ratio reflects the Group's decentralised structure with multiple legally independent entities. DBRS recognises that efforts by the savings banks to centralise back-office functions in recent years have shown some results, with roughly 31% of all savings banks reaching a cost income ratio below the targeted 60% in 2011. Yet, efficiency at the Sparkassen-Finanzgruppe level has eroded slightly in 2012 with a cost-income ratio of 64.8% reported for 2012, compared to 60.6% in 2011. DBRS continues to view the Group's overall costs as high.

Funding and Liquidity

DBRS views the liquidity and funding position of Sparkassen-Finanzgruppe as satisfactory, as the Group benefits from the strong deposit franchise of the savings banks. Although the savings banks benefit from their solid deposit-gathering ability, the Landesbanks 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 Landesbanks, the Sparkassen-Finanzgruppe as a combined Group had a noteworthy, albeit decreasing, wholesale funding reliance of about 43% of total funding at year-end 2012. Customer deposits of EUR 1.17 trillion accounted for the remaining 58.2% 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 2012



Source: Company reports, DBRS

The savings banks' stable liabilities to customers of EUR 816.6 billion at year-end 2013 provide the foundation for the funding profile. Importantly, the savings banks' customer liabilities demonstrated a stable increasing trend through the financial crisis, growing by more than 9% since year-end 2007. Liquidity at the savings banks is further illustrated by liabilities to customers exceeding customer loans by EUR 108.2 billion at year-end 2013. The liquidity ratio for the savings banks has typically been roughly 2.5% in recent years and the Group has indicated an unspecified improvement during 2012. However the increased competition for deposits from national but also foreign banks through aggressive online banking offers contributes to inflate the cost of funding.

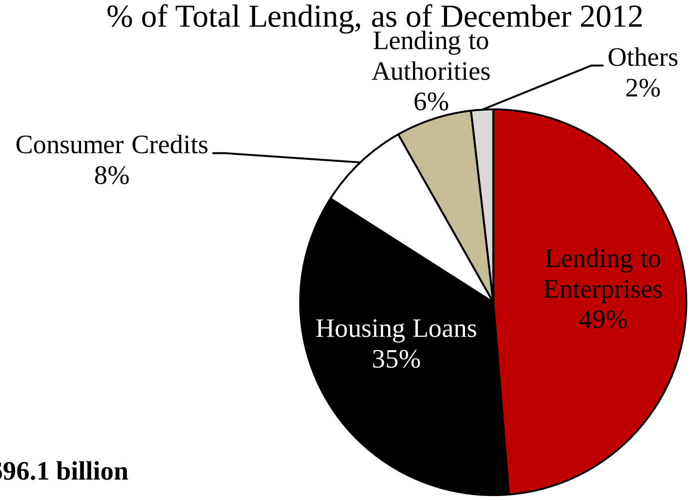
Given their largely wholesale business models, the Landesbanks in aggregate rely much more on market funding. The funding pressures for some of the individual Landesbanks helps to highlight vulnerability to market disruption. Importantly, to relieve the funding stress and safeguard each Landesbank's funding ability through the crisis, the state owners and the federal government promptly announced debt guarantees for the Landesbanks. As market conditions have normalised, the Landesbanks which were impacted have focused on restructuring and some, such as Bayern LB have made one-off payments to their guarantors in line with EU requirements (e.g., BayernLB repaid EUR 350 million in November 2012 and EUR 450 million in February 2013 out of EUR 5 billion to be repaid by 2019).

DBRS recognises that several Landesbanks have relatively stable funding relationships with savings banks that keep a portion of their excess deposits with them. These funding relationships helped several Landesbanks to manage through the recent period of market disruption, adding a level of stability to their funding profile. One factor that could add to the funding challenges for Landesbanks in the medium term 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 Landesbanks (e.g., Anstaltslast and

Gewaehtraegerhaftung), Landesbanks benefited from the ability to issue at higher rating levels which benefitted from explicit government support). This guaranteed debt will have to be replaced with unguaranteed funding. On the other hand, on-going asset reduction efforts at most Landesbanks will have an offsetting effect on funding needs in the near to medium term, meaning that much of the guaranteed debt can simply run-off.

DBRS expects that the Landesbanks would weather any renewed disruption in funding markets, helped by the availability of systemic support similar to what was provided since 2008. As noted above, the extent and coordination of support is demonstrated by the restructuring of Portigon AG (former WestLB) which was implemented following approval by the European Commission in December 2011. Portigon AG now operates as a service and portfolio management bank. Its core operations with the savings banks and public sector entities, including SME business, was spun off and merged with Helaba, whereas remaining unsold assets were transferred to the Erste Abwicklungsanstalt (EAA) established under the Financial Market Stabilization Authority.

Savings Banks: Lending Breakdown
% of Total Lending, as of December 2012



Total: EUR 696.1 billion

Source: Company reports, DBRS

Risk Profile

The risk profile of Sparkassen-Finanzgruppe has improved given the restructuring and various risk reduction measures undertaken at the weaker Landesbanks. Although there are elevated risks at some Landesbanks, 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 have a banking relationship with the Sparkassen-Finanzgruppe and 41.6% of German loans to domestic enterprises (including housing loans) come from the savings banks and the Landesbanks.

The Group's already sizeable exposures to business lending increased further during 2012, 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 vulnerability of SMEs to the economic cycle. Yet, the Group's large real estate lending to private customers and loans to public authorities have performed well through past economic cycles, adding a level of stability to overall credit quality. Real estate loans to private customers expanded further during 2013 and reached a combined market share for the Group of 37.3%. 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.

Historically, DBRS has viewed the highest credit risk for Sparkassen-Finanzgruppe in the corporate loan portfolios of several Landesbanks. The financial crisis in 2008 primarily affected Landesbank securities portfolios, yet the subsequent poor market conditions and capital pressure helped to the de-risking of loan portfolios and in some cases forced restructuring at the Landesbank level. In DBRS's view, the worst period for risk from the Landesbanks has passed, particularly as many have reined in riskier foreign bank and international corporate activities. Nonetheless, the wholesale nature of the Landesbanks' business models may continue to pose future risks relative to the more stable profile of the savings banks. 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. The savings banks' aggregate lending to businesses and sole proprietors is diversified across sectors and is somewhat representative of the overall German economy. DBRS sees the savings banks as benefitting from risk management tools offered by the Group's federal association, Deutscher Sparkassen- und Giroverband (DSGV). These include credit pooling programmes to limit concentration risks at the individual savings bank level and centralised software and credit scoring systems which provide shared information and statistics useful in controlling credit decisions.

DBRS notes that the savings banks have significantly reduced their loan loss provision over the last few years with EUR 0.6 billion reported for 2013, 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 Landesbanks, 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 Landesbanks. The savings banks reported an aggregated Tier 1 ratio of 13.4% at year-end 2013 and a total capital ratio at year-end of 16.4%, both improving compared to the prior year. At the Landesbank level, Tier 1 ratios also improved, rising to 14% at end 2013 from 12% one year earlier. The improvement continued to reflect the reduction of risk at the Landesbanks, which has now fallen, while combined total assets have decreased by 35.4%. On a combined basis for both the savings banks and Landesbanks, the Tier 1 ratio was 11.5% at end 2011, up from 10.9% at year-end 2010.

The savings banks have increased their regulatory capitalisation in recent years largely through earnings retention and additions to prudential reserves. Internal capital generation and slow growth in risk-weighted assets (RWAs) led to consistent increases in the savings banks' Tier 1 ratio. The capital of the savings banks is of solid quality. 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.

DBRS notes the improved aggregated regulatory capital position of the Landesbanks noted by the Sparkassen Finanzgruppe mentioned above. This follows an important period of capital support during which the state owners and SoFFin had committed EUR 36.3 billion in risk guarantees and EUR 21 billion in capital to the Landesbanks. In parallel with some Landesbanks repaying portions of federal support (e.g., the BayernLB example mentioned above), the overall quality of Landesbanks' 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.

Financial Information

Sparkassen-Finanzgruppe	31/12/2012	31/12/2011	31/12/2010	31/12/2009	31/12/2008	31/12/2007	31/12/2006
	€	€	€	€	€	€	€
In EUR Millions	**NGAAP**	**NGAAP**	**NGAAP**	**NGAAP**	**NGAAP**	**NGAAP**	**NGAAP**
Balance Sheet							
Cash and deposits with central banks	39,910	30,968	27,369	31,572	32,986	27,729	25,832
Lending to/deposits with credit institutions	408,768	500,605	544,914	615,887	731,111	788,376	693,883
Financial securities	508,610	533,169	566,413	599,251	572,299	580,774	573,160
- Trading portfolio	0	0	n/a	n/a	n/a	n/a	n/a
- At fair value	0	0	n/a	n/a	n/a	n/a	n/a
- Available for sale	0	0	n/a	n/a	n/a	n/a	n/a
- Held-to-maturity	0	0	n/a	n/a	n/a	n/a	n/a
- Other	508,610	533,169	566,413	599,251	572,299	580,774	573,160
Financial derivatives instruments	0	0	n/a	n/a	n/a	n/a	n/a
- For hedging purposes	0	0	n/a	n/a	n/a	n/a	n/a
- Other	0	0	n/a	n/a	n/a	n/a	n/a
Gross lending to customers	1,215,967	1,227,933	1,214,284	1,200,470	1,207,665	1,160,191	1,111,828
- Loan loss provisions	0	0	n/a	n/a	n/a	n/a	n/a
Insurance assets	0	0	n/a	n/a	0	0	0
Investments in associates/subsidiaries	33,523	34,970	37,519	41,722	49,559	48,407	41,812
Fixed assets	12,530	12,342	12,610	12,993	13,389	13,946	14,729
Goodwill and other intangible assets	0	0	0	0	n/a	n/a	n/a
Other assets	207,449	228,288	198,586	80,887	77,959	63,935	57,775
Total assets	**2,426,757**	**2,568,275**	**2,601,695**	**2,582,782**	**2,684,968**	**2,683,358**	**2,519,019**
Total assets (USD)	3,200,260	3,335,422	3,447,636	3,701,695	3,784,999	3,918,508	3,325,785
Loans and deposits from credit institutions	491,964	550,774	598,468	649,465	754,127	829,671	737,121
Deposits from customers	1,177,587	1,176,565	1,164,702	1,160,141	1,146,261	1,067,457	1,025,738
- Demand	0	0	n/a	n/a	n/a	n/a	n/a
- Time and savings	1,177,587	1,176,565	1,164,702	1,160,141	1,146,261	1,067,457	1,025,738
Issued debt securities	322,494	368,272	403,057	458,371	482,619	496,983	480,092
Financial derivatives instruments	0	0	n/a	n/a	n/a	n/a	n/a
- For hedging purposes	0	0	n/a	n/a	n/a	n/a	n/a
- Other	0	0	n/a	n/a	n/a	n/a	n/a
Insurance liabilities	0	0	n/a	n/a	n/a	n/a	n/a
Other liabilities	260,631	303,969	269,502	140,872	135,009	167,483	158,528
-Financial liabilities at fair value through P/L	0	0	0	0	0	167,484	158,529
Subordinated debt	30,604	36,731	38,151	39,827	41,220	11,714	12,550
Hybrid Capital	3,106	4,137	5,584	7,428	10,425	0	0
Equity	140,371	127,827	122,231	126,678	115,307	110,050	104,990
Total liabilities and equity funds	**2,426,757**	**2,568,275**	**2,601,695**	**2,582,782**	**2,684,968**	**2,683,358**	**2,519,019**
Income Statement							
Interest income	86,915	97,191	94,179	109,312	148,834	145,665	130,938
Interest expenses	-53,575	-61,657	-58,920	-74,267	-114,774	-112,887	-97,490
Net interest income and credit commissions	33,340	35,534	35,259	35,045	34,060	32,778	33,448
Net fees and commissions	7,014	7,293	7,191	6,948	8,098	8,296	8,050
Trading / FX Income	734	-539	500	1,079	-1,478	-1,576	1,186
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	133	239	631	1,237	1,202	1,483
Total operating income	41,088	42,421	43,189	43,703	41,917	40,700	44,167
Staff costs	-15,429	-15,000	-15,190	-15,899	-15,553	-15,425	-16,285
Other operating costs	-9,917	-11,024	-10,956	-11,037	-11,364	-11,857	-11,084
Depreciation/amortisation	0	0	0	0	0	n/a	n/a
Total operating expenses	-25,346	-26,024	-26,146	-26,936	-26,917	-27,282	-27,369
Pre-provision operating income	15,742	16,397	17,043	16,767	15,000	13,418	16,798
Post-provision operating income	-106	6,266	-5,739	-10,592	-13,530	-6,571	-3,918
Post-provision operating income	15,636	22,663	11,304	6,175	1,470	6,847	12,880
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	-10,120	-17,551	-5,602	-6,464	-5,124	-2,157	-2,297
Pre-tax income	5,516	5,112	5,702	-289	-3,654	4,690	10,583
Taxes	-3,419	-3,488	-2,644	-2,571	-1,747	-1,961	-2,907
Minority interest	0	0	0	0	0	0	0
Net income	**2,097**	**1,624**	**3,058**	**-2,860**	**-5,401**	**2,729**	**7,676**
Net income (USD)	2,765	2,109	4,052	-4,099	-7,614	3,985	10,134

Sparkassen-Finanzgruppe
Report Date:
3 April 2014

Sparkassen-Finanzgruppe	31/12/2012	31/12/2011	31/12/2010	31/12/2009	31/12/2008	31/12/2007	31/12/2006
	€	€	€	€	€	€	€
In EUR Millions	**NGAAP**	**NGAAP**	**NGAAP**	**NGAAP**	**NGAAP**	**NGAAP**	**NGAAP**
Off-balance sheet and other items							
Asset under management	n/a	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	n/a
BIS Risk-w eighted assets (RWA)	n/a	n/a	n/a	n/a	1,253,724	1,266,523	1,214,258
No. of employees (end-period)	341,200	345,600	348,500	366,500	377,229	356,000	370,000
Earnings and Expenses							
Earnings							
Net interest margin [1]	1.52%	1.55%	1.49%	1.42%	1.86%	1.34%	1.43%
Pre-provision earning capacity (total assets basis) [2]	0.63%	0.63%	0.66%	0.64%	0.78%	0.53%	0.69%
Pre-provision earning capacity (risk-w eighted basis) [3]	n/a	n/a	n/a	n/a	n/a	1.08%	1.40%
Pre-provision earning capacity by employee	46,137	47,445	48,904	45,749	39,764	37,691	45,400
Post-provision earning capacity (total assets basis)	0.63%	0.88%	0.44%	0.23%	0.08%	0.27%	0.53%
Post-provision earning capacity (risk-w eighted basis)	n/a	n/a	n/a	n/a	n/a	0.55%	1.08%
Expenses							
Efficiency ratio (operating expenses / operating income)	61.69%	61.35%	60.54%	61.63%	64.21%	67.03%	61.97%
All inclusive costs to revenues [4]	86.32%	102.72%	73.51%	76.42%	76.44%	72.33%	67.17%
Operating expenses by employee	74,285	75,301	75,024	73,495	71,355	76,635	73,970
Loan loss provision / pre-provision operating income	0.67%	-38.21%	33.67%	63.17%	90.20%	48.97%	23.32%
Provision coverage by net interest income	n/m	-567.09%	614.38%	330.86%	251.74%	498.83%	853.70%
Profitability Returns							
Pre-tax return on Tier 1 (excl. hybrids)	n/a	n/a	n/a	-0.23%	-3.17%	n/a	n/a
Return on equity	1.49%	1.27%	2.50%	-2.26%	-4.68%	2.48%	7.31%
Return on average total assets	0.08%	0.06%	0.12%	-0.11%	-0.28%	0.11%	0.32%
Return on average risk-w eighted assets	n/a	n/a	n/a	n/a	n/a	0.22%	0.64%
Dividend payout ratio [5]	n/a	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	2.60%	7.67%
Growth							
Loans	-0.97%	1.12%	1.15%	-0.60%	4.09%	4.35%	3.18%
Deposits	0.09%	1.02%	0.39%	1.21%	7.38%	4.07%	2.78%
Net interest income	-6.17%	0.78%	0.61%	2.89%	3.76%	-2.00%	-1.42%
Fees and commissions	-3.83%	1.42%	3.50%	-14.20%	-2.37%	3.06%	6.59%
Expenses	-2.61%	-0.47%	-2.93%	0.07%	-1.35%	-0.32%	1.22%
Pre-provision earning capacity	-3.99%	-3.79%	1.65%	11.78%	8.41%	-20.12%	11.51%
Loan-loss provisions	-101.69%	n/a	n/a	n/a	103.83%	67.71%	-31.54%
Net income	29.13%	-46.89%	-206.92%	-47.05%	-175.03%	-64.45%	42.76%
Risks							
RWA% total assets	n/a	n/a	n/a	n/a	46.69%	47.20%	48.20%
Impaired loans (net of LLPs) % pre-provision operating income [7]	n/a	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	n/a
Liquidity and Funding							
Customer deposits % total funding	58.22%	55.18%	52.84%	50.27%	47.28%	44.37%	45.48%
Total w holesale funding % total funding [8]	41.78%	44.82%	47.16%	49.73%	52.72%	55.63%	54.52%
- Interbank % total funding	24.32%	25.83%	27.15%	28.14%	31.11%	34.49%	32.68%
- Debt securities % total funding	15.94%	17.27%	18.28%	19.86%	19.91%	20.66%	21.29%
- Subordinated debt % total funding	1.51%	1.72%	1.73%	1.73%	1.70%	0.49%	0.56%
Short-term w holesale funding % total w holesale funding	58.22%	57.63%	58.89%	57.77%	61.20%	n/a	n/a
Liquid assets % total assets	39.45%	41.46%	43.77%	48.27%	49.77%	52.06%	51.32%
Net short-term w holesale funding reliance [9]	-31.67%	-34.18%	-35.99%	-43.68%	-41.10%	n/a	n/a
Adjusted net short-term w holesale funding reliance [10]	-31.67%	-34.18%	-35.99%	-43.68%	-41.10%	n/a	n/a
Customer deposits % gross loans	96.84%	95.82%	95.92%	96.64%	94.92%	92.01%	92.26%
Core Tier 1 (As-reported)	n/a	n/a	0.00%	10.12%	8.82%	13.24%	13.22%
Total Capital	n/a	n/a	0.00%	14.80%	13.47%	13.24%	13.22%

[1] (Net interest income + dividends)% average interest earning assets.
[2] Pre-provision operating income % average total assets.
[3] Pre-provision operating income % average total risk-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

Sparkassen-Finanzgruppe
Report Date:
3 April 2014

Ratings History

Issuer	Debt Rated	Current	2013	2012	2011
Sparkassen-Finanzgruppe	Issuer & Senior Long-Term Debt	A (high)	A (high)	A (high)	A (high)
Sparkassen-Finanzgruppe	Short-Term Instruments	R-1 (middle)	R-1 (middle)	R-1 (middle)	R-1 (middle)

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

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

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.