Sparkassen-Finanzgruppe (Sparkassen)

Update

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1+
Viability Rating	a+
Support Rating	5
Support Rating Floor	NF

Sovereign Risk

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

Outlooks

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

Financial Data

Sparkassen-Finanzgruppe (Sparkassen)

	31 Dec 2016	31 Dec 2015
Total assets (EURbn)	1,155.5	1,134.4
Total equity (EURm)	98,744	93,163
Operating profit (EURm)	10,050	9,001
Net income after allocation to the fund for general banking risk (EURm)	2,037	1,973
Operating ROAA (%)	0.9	0.8
Common equity Tier 1 (%)	15.1	14.7
Total regulatory capital ratio (%)	16.9	16.7

Related Research

Sparkassen-Finanzgruppe (Sparkassen) - Ratings Navigator (January 2018)

Fitch Affirms Sparkassen-Finanzgruppe at 'A+'; Outlook Stable (December 2017)

Fitch 2018 Outlook: Western European Banks (December 2017)

Fitch Withdraws 5 German Savings Banks' Ratings Following Merger (October 2017)

Germany (September 2017)

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Key Rating Drivers

Group Ratings: The Issuer Default Ratings (IDRs) of the 337 savings banks, or Sparkassen, are group ratings based on mutual support. The Viability Rating (VR) is assigned to Sparkassen-Finanzgruppe (Sparkassen), known as SFG, but not to the individual savings banks. The ratings do not apply to other SFG members. The 49 savings banks based in Hesse and Thuringia are rated separately as part of S - Finanzgruppe Hessen-Thueringen (A+/Stable).

Retail Market Leader: The Sparkassen are, as public-sector banks, an integral part of Germany's financial services sector. They have leading domestic retail and SME franchises, which helps them generate good earnings and results in a granular and low-risk exposure.

Strong Asset Quality: The group's asset quality is strong and improving, and the savings banks have continued to release loan-loss provisions thanks to a good operating environment. Based on Fitch Ratings' forecast for economic growth for Germany, we believe that loan losses will remain low. Contingent risks, primarily from the savings banks' exposure to the group's regional central institutions, the Landesbanken, remain under control.

Resilient Performance but Challenges Ahead: The aggregated operating performance indicators of the Sparkassen are among the strongest and most stable in the German banking sector. However, pressure from low interest rates is mounting. Operational efficiency has become increasingly important because fee income cannot compensate the interest income decline and we expect moderately lower profitability in 2017 when reported.

Sound Capitalisation: The group's common equity Tier 1 capital ratio improved further to 15.1% at end-2016 and is likely to strengthen in 2017 because we expect high profit retention. The ratio compares well with peers' as the Sparkassen use the standardised approach to calculate risk-weighted assets (RWAs), which also limits their vulnerability to regulatory RWA inflation. The group's tangible equity-to-total assets ratio was a strong 8.6% at end-2016.

Heightened Interest-Rate Risk: The Sparkassen continue to make wide use of unhedged maturity transformation, which makes them vulnerable to interest-rate shocks. Although the number of Sparkassen with higher interest-rate risk declined in 2016 to about 40% and the average exposure to interest-rate risk in the banking book fell, overall interest-rate risk remains high in German retail banking groups. The Sparkassen's credit risk is moderate, driven by conservative underwriting standards, strong collateral and low concentration risk.

Rating Sensitivities

Strengthening Cohesion: A VR upgrade is unlikely until the group has further strengthened its corporate governance by streamlining its decision-making process and by preparing audited consolidated financial statements. Strengthening of SFG's capitalisation and stability in asset quality could be the catalyst for a higher VR, but we believe this is unlikely in the short term as long as interest rates remain low and put pressure on the group's financial profile.

Economic Downturn: Downward pressure could result from a severe and prolonged domestic recession that would impair the Sparkassen's growth prospects, and weaken the group's asset quality and internal capital generation, which is not Fitch's base case. An unexpected sharp rise in interest rates that crystallises losses from interest-rate risk exposure in the banking book could also put ratings under pressure.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Related Criteria

Global Bank Rating Criteria (November 2016)