Sparkassen-Finanzgruppe (Sparkassen)

Full Rating Report

Ratings

Foreign Currency

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

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 17	31 Dec 16
Total assets (USDbn)	1,412.4	1,218.0
Total assets (EURbn)	1,177.7	1,155.5
Total equity (EURm)	105,600	98,744
Op. profit (EURm)	9,933	10,050
Net income (EURm)	2,113	2,037
Operating ROAA (%)	0.9	0.9
Operating ROAE (%)	9.7	10.5
Fitch Core Capital (%)	15.7	15.2
CET 1 ratio (%)	15.8	15.1
Total capital ratio (%)	17.4	16.9
Tang.common equity/ tang.assets (%)	9.0	8.6
Loans/customer deposits (%)	91.6	91.4

Source: Fitch Ratings, Fitch Solutions

Related Research

Fitch Ratings: Central Institution Would Help German Savings Banks' Cohesion (May 2019)

Sparkassen-Finanzgruppe (Sparkassen) - Ratings Navigator (February 2019)

Fitch Affirms Sparkassen-Finanzgruppe at 'A+'; Outlook Stable (November 2018)

[a] Deposit ratings are assigned to individual member banks and not SFG as it is not a legal entity

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Key Rating Drivers

Mutual Support Drives Ratings: The Issuer Default Ratings (IDRs) of the 332 savings banks, or Sparkassen, are group ratings based on mutual support. The Viability Rating (VR) is assigned to Sparkassen-Finanzgruppe (SFG), but not to the individual Sparkassen. The 49 Sparkassen based in Hesse and Thuringia are rated separately as part of Sparkassen-Finanzgruppe Hessen-Thueringen (A+/Stable).

Leading Domestic Franchise: The ratings are underpinned by SFG's leading domestic retail and SME franchise, granular and moderate credit risk. They are also based on sound capitalisation and funding, as well as still robust earnings and profitability, despite ongoing pressure from low interest rates.

Strong Asset Quality: SFG's asset quality has been strong owing to a supportive operating environment and, based on Fitch's growth projection for Germany, Fitch Ratings does not expect loan impairment charges to increase materially in the near future. Contingent risks, notably from the Sparkassen's exposure to the group's regional central institutions, the Landesbanken, are elevated but remain under control.

Decreasing Profitability but Still Robust: The aggregated operating performance indicators of SFG are among the strongest and most stable in the German banking sector. The net interest income decline in 2017 was almost fully absorbed by higher fees and commission income. We do not expect this to be the case in the future. However, continued loan growth, tighter cost discipline and moderate risk costs should largely contain the operating profit decline in the short term.

Strong Capitalisation: The group's Tier 1 capital ratio improved to 16.2% at end-2018 as profit distribution remains low. The ratio compares well with that of 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 leverage ratio was a very strong 8.5%.

High Interest-Rate Risk: The Sparkassens' risk appetite is low, but their wide use of unhedged maturity mismatches makes them vulnerable to interest-rate shocks and interest-rate risk remains high. SFG's credit risk is moderate, driven by conservative underwriting standards, strong collateral and low concentrations.

Rating Sensitivities

Cohesion Weakness: A VR upgrade is unlikely unless SFG significantly strengthens its corporate governance by streamlining its decision-making process and disclosure. This includes audited consolidated financial statements as reflected by its '4' Environmental, Social and Governance (ESG) relevance score. We see a low likelihood of an upgrade in the short-term as long as low interest rates persist and put pressure on SFG's financial profile.

Economic Downturn: Downward pressure could result from a severe and prolonged domestic recession that would weaken SFG's asset quality and capital generation. 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.

Contingent Liabilities: SFG's ratings are sensitive to changes in contingent liabilities. This risk could materialise if distressed Norddeutsche Girozentrale (NORD/LB; A-; RWN) requires significantly higher capital contributions than currently expected.

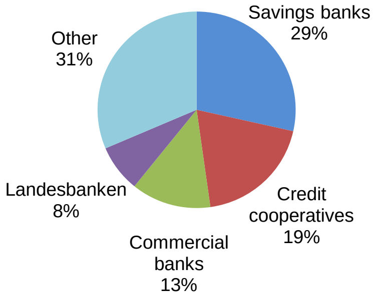
Operating Environment

World Bank Ease of Doing Business[a]

Germany		>85	70-85	55-70	40-55
GDP/ capita (USD 000)	>45	aa	aa	a	a
	35-45	aa	a	a	bbb
	15-35	a	bbb	bbb	bb
	6-15	bbb	bb	bb	b

[a] Percentile rank
Source: Fitch Ratings

Domestic Customer Loans
End-February 2019



Source: Fitch Ratings, Bundesbank

Related Criteria

Bank Rating Criteria (October 2018)

Short-Term Ratings Criteria (May 2019)

Operating Environment

Solid Asset Quality Underpinned By Benign German Economic Environment

SFG's business is almost exclusively in its home market. Germany's 'AAA'/Stable sovereign IDR reflects the country's diversified, high value-added economy, strong institutions and sound public debt management. In March 2019, Fitch revised its GDP growth forecast for 2019 to 1.0% from 1.6% following a sharp deceleration in 3Q18. This was mainly due to cooling world trade and uncertain post-Brexit trade arrangements with the UK, particularly for German manufacturers, and potential US tariffs on cars and weak Chinese growth.

The economic cycle is increasingly likely to have peaked, but Fitch believes any worsening of the credit environment would be contained in the next two years, without major economic shocks. Domestic economic fundamentals remain sound for now, underpinned by the strong labour market, moderate fiscal easing and investment growth supported by high capacity utilisation and a buoyant construction sector. Unemployment has fallen to historic lows, leading to continued wage increases, which supports household spending.

Above-Average Credit Growth but Margin Pressure from Fierce Competition

The resilient domestic economy and the accommodating monetary policy should continue to drive strong demand for cheap SME and housing loans in the near term. This is despite more than eight years of strong house price increases, especially in large cities.

The above-average lending growth in recent years has delayed the long-term erosion of net interest income, the banking sector's dominant source of revenue. However, weak profitability will remain the sector's main challenge in the foreseeable future as strong competition compounds the effects of the extra-low interest rates. Margin compression has absorbed most of the competitive pressure for now, particularly in CRE and corporate lending. However, a loosening of underwriting is increasingly likely to be necessary to maintain strong loan growth at this stage of the credit cycle. The German banks' reduced foreign presence since the 2008 crisis has also significantly increased their vulnerability to a downturn of the domestic economy.

Company Profile

Pure Retail/SME Group with a Leading Nationwide Franchise

SFG is a financial services group and bank network, but not a legal entity. We rate 332 Sparkassen as part of SFG based on Fitch's criteria for banking structures backed by mutual support schemes. A total of 49 Sparkassen located in Hessen and Thueringen are rated separately as Sparkassen-Finanzgruppe Hessen-Thueringen.

Sparkassen's business model is based on retail and SME lending in a specific local area, where each bank is allowed to operate. This creates a nationwide presence of the group, including rural areas, where competition is less intense and explains above-average pricing power in the banks' core retail and small business banking businesses. SFG's leading market shares of about 30% of loans and deposits in retail and SME banking in Germany form the basis of the group's strong and resilient performance. It also ensures strong links to local economies and communities through social engagement and low personnel fluctuation, among others, underpinning strong client relationship and loyalty.

Sparkassen also cooperate with specialist members of the broader SFG group and financial institutions outside of it to meet specific client needs. Most of the Sparkassen do not engage in trading activities and hold securities primarily for liquidity purposes.

Balance-sheet size dispersion among Sparkassen is high and relates to the size and wealth of the respective regional area the bank operates in. Almost half of the member banks have total assets of less than EUR2 billion compared with the biggest Sparkassen, mainly operating in large cities, with total assets of up to EUR46 billion at end-2018.

Structure Diagram

Sequence of Support Actions

Liquid Funds from The Regional Fund of the Affected Savings Bank

Capital Contributions from The Regional Fund

Liquid Funds from The Other Regional Funds (Supra-Regional Compensation)

Subsequent Capital Contributions from The Other Regional Funds

Funds from The Landesbanken and Landesbausparkassen (Institution Protection Scheme)

Source: Fitch Ratings, transaction documents

Fitch expects a further systematic but not aggressive consolidation within the sector as smaller banks are disproportionally affected by expenses linked with increasing regulation. Mergers between Sparkassen require a political consent among its responsible public bodies and typically take place between neighbouring banks.

Mutual Support Mechanism at the Core of SFG's Group Ratings

SFG's mutual support mechanism is designed as an institutional protection scheme (IPS), and the prevention of members' failure is its central objective. It was recognised as a deposit guarantee scheme under Germany's Deposit Guarantee Act on 3 July 2015. An internal risk monitoring system is a key component of the IPS, which aims to detect potential risks at an early stage. It also defines members' financial contribution to the scheme based on their individual risk profile.

The IPS is organised in the 12 regional Sparkassen associations, which carry out support and risk management functions, including the administration of regional guarantee funds. Other funds that include contributions from Sparkassen in other regions, are available if a regional fund's resources (including potential subsequent capital contributions from regional members) prove insufficient to resolve a problem. At end-2017, SFG's IPS had a paid-in endowment of EUR3 billion. The guarantee funds for other parts of the sector, including the funds for the Landesbanken and building societies, may be utilised to support a member bank if the Sparkassens' resources are not sufficient.

Fitch believes that the Sparkassens' regional support funds have adequate resources to support the individual member banks under plausible stress scenarios. The support ability is underpinned by the small size of most member banks and the group's demonstrated high propensity to provide support to protect the brand and common franchise. The Landesbanken's recourse to the system-wide support mechanisms is possible after their own guarantee funds and their top-up resources are fully exhausted. This results in the Sparkassens' contingent exposure to these large wholesale institutions, in addition to their credit exposure and participation interest.

Planned Recapitalisation of NORD/LB Highlights Support Commitment

In April 2019, SFG and the regional state owners of NORD/LB publicly stated their willingness to recapitalise the bank, which suffered from a consolidated loss of EUR2.35 billion in 2018 owing to the run-down of bad loans from its large ship financing business.

The owners agreed on capital strengthening measures worth around EUR3.5 billion, including a cash capital injection of EUR2.835 million, to address the resulting regulatory capital shortfall. Of this sum, SFG will provide EUR1.135 million. NORD/LB will also be restructured, targeting a materially smaller balance sheet as well as sustainable and lower-risk business model.

Implementation of these measures is subject to the approval of regulatory authorities and the EU Commission's state-aid assessment. Local Sparkassen, Landesbanken and other regional Sparkassen are to contribute equal amounts of funds, which deviate from the usual sequence of support as described above. It underlines a strong support commitment to any failing member of the sector. However, a wind-down scenario is still a possibility if the EU considers NORD/LB's business non-viable.

Discussions over Evolving Future Group Structure

The chairman of the Deutscher Sparkassen- and Giroverband (DSGV) stated his intention in May 2019 to review the Sparkassen and Landesbanken's structure and relationship. He proposed a central institution that could ultimately replace the five Landesbanken that currently provide the Sparkassen with wholesale banking products on a regional basis. This could mirror developments in Germany's cooperative banking sector, where DZ Bank became the sole central institution in 2016 after merging with a smaller central institution.

In Fitch's opinion, a single central institution exclusively owned by the Sparkassen would bring several advantages to them as a group. It would facilitate cooperation and simplify the group structure, increasing transparency and reducing costs. It could also improve alignment of Landesbanken objectives with those of the Sparkassen, reducing conflicts of interest. A central institution may be better able to help the banks with access to syndication business and capital markets, for example. The prospect of such benefits is likely to make the proposal popular among the Sparkasssen, particularly given the pressure on their earnings from persistently low interest rates. However, it may take time to build consensus for the proposal, given the complexity of such a project and its political dimension.

ESG Governance Score of '4' Highlights Weak Cohesion

Fitch assigns SFG a '4' ESG relevance score for group structure, as it is one of the least cohesive groups to which Fitch assigns group ratings. Under Fitch's Bank Criteria, we may assign group ratings to banks that are members of a mutual support mechanism. SFG does not produce consolidated financial accounts and its aggregated risk reporting is less advanced than other European mutual support banking groups rated by Fitch. However, we acknowledge initiatives by the DSGV to increase the acceptance and adherence of the individual Sparkassen to common strategic projects, including digitalisation, process automation and standardisation, data collection, analytics and risk management.

Management and Strategy

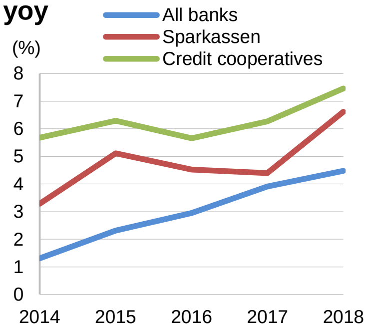
Development of Digital Solutions Alongside Traditional Branch Network

Sparkassen have a public mandate to support their local economies and the public sector. The individual member banks are operationally independent, and DSGV coordinates the regional associations and represents the group at the national level. It maintains a central transparency and risk monitoring committee.

SFG managed to defend its strong franchise and has maintained a large network of branches throughout the country. The number of Sparkassen branches (around 13.000) is, however, gradually declining and the share of self-service branches is increasing (currently almost 30%). We believe that the group will maintain a relatively large branch network, which the sector considers a core attribute of the brand.

SFG has been investing considerable resources to develop digital solutions to offer multi-channel banking to its clients. The sector has a common strategy to provide mobile current account, payment and other services, which are supported by a specialised in-house IT firm that is part of the sector.

Housing Loans Growth Rates yoy



Domectic retail and corporate housing loans
Source: Fitch Ratings, Bundesbank

Risk Appetite

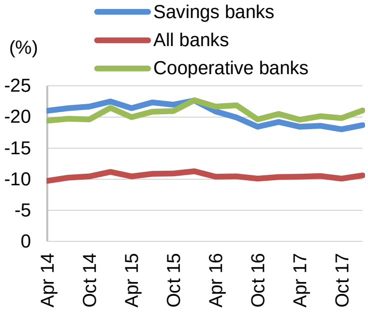
Strong Loan Growth Driven by Deposit Inflows

We view SFG's risk appetite as conservative, demonstrated by the stability of the group's results throughout the economic cycle. However, the group's growth in its loan portfolio has been faster than the sector's average on aggregate, and particularly high in lending to corporates and self-employed customers (5.5% in 2018) and in residential mortgage lending (3.6% in 2018) reflecting strong customer demand and an effort to employ its rising customer deposit base.

Prolonged credit expansion above GDP growth could exacerbate the impact of the next cyclical downturn on loan quality. However, the still rapidly rising property prices and the less favourable market outlook should moderate demand for credit in the medium term.

The local banks' diversified and granular exposures and adequate levels of good quality collateral mitigate credit risk. The low complexity of transactions positively influences Fitch's assessment of SFG's underwriting standards. However, the Sparkssens' regional focus could result in an over-exposure to a key local industry, a larger company or an oversized or mismanaged public project.

Interest-Rate Risk Exposure



Calculated as a change in present value of the banking book of the respective banking groups given 200bp yield curve shift as a percentage of the regulaltory own funds
Source: Fitch Ratings, Bundesbank

SFG's member banks use a shared internal credit rating system (DSGV rating scale) provided by the group's own service company. In combination with some Landesbanken, SFG operates a credit pooling platform, which helps manage concentration risks of the local banks.

High Structural Interest-Rate Risk Exposure in the Banking Books

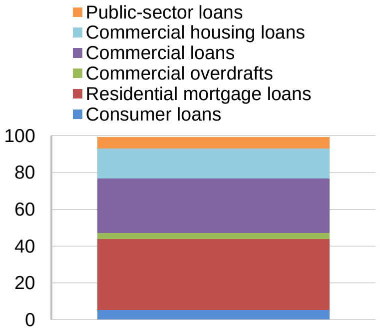
Each local bank manages its market risk individually, based on its own risk-bearing capacity. Extensive maturity transformation is inherent in Sparkassen's business model, where sight deposits are a dominant source of funding to finance longer-dated mortgage loans. This drives material vulnerability to upward interest-rate shocks. Typically larger Sparkassen use interest-rate swaps to reduce the risk, resulting in under a third of customer loans being hedged. The proportion of Sparkassen with high interest-rate exposure, as defined by the Basel interest-rate risk coefficient, stabilised in 2017 but remains high at just below 40% at end-2017.

To address this risk exposure, a regulatory capital requirement add-on was established as part of the Supervisory Review and Evaluation Process, which was completed for all member banks in 2017. In Fitch's opinion, the capital buffers above regulatory capital requirements mitigate the banks' elevated exposure to interest-rate risk in the banking book.

Traded market risk is limited as trading is undertaken by only about 15% of Sparkassen and is mostly related to public-sector bonds and covered bonds, and to a lesser extent corporates. Currency, equity and commodity risk exposures are low.

Savings Banks Loan Portfolio

End-2017



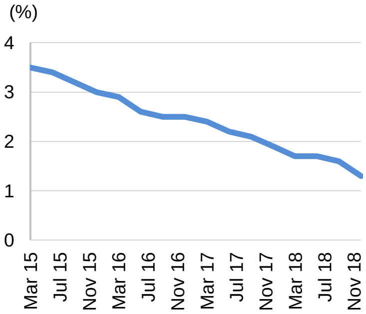
Source: Fitch Ratings, SFG

Uniform Risk Monitoring

Group-wide risk monitoring and prevention is the basis for the functioning and the viability of the group's IPS and a requisite for their regulatory recognition. The group operates a centralised monitoring system, which uses standardised key ratios and a qualitative risk assessment to monitor individual member banks. These standards set the minimum requirements, while each regional association can apply tighter requirements. The system classifies member banks in one of four monitoring categories and clusters the applied information and intervention measures in line with the banks' risk profile.

Data collection and monitoring is conducted by the regional Sparkassen associations, which regularly report the local monitoring results to a central transparency committee at the national association for a group-wide risk monitoring. The regional guarantee schemes have access to information at the local banks and intervention rights if deemed necessary. We believe the monitoring mechanisms installed by the SFG are suitable to provide a sufficient overview of the risk of the individual members and the IPS as a whole, and to enforce corrective measures if needed.

German Banking Sector NPL Ratio



Source: Fitch Ratings, EBA Risk Dashboard

Financial Profile

Asset Quality

Loan Book Quality Further Improving

The aggregated Sparkassens' asset-quality data disclosure is limited, but the sector's aggregated loan book is well balanced and regionally diversified. Fitch estimates an end-2017 non-performing loan ratio of about 1.5% for the sector based on a representative sample of individual banks in the sector. We believe that this is consistent with the end-2018 non-performing loan ratio of 1.3% reported by the European Banking Authority for the German banking sector as a whole (down from 1.9% at end-2017), given SFG's lower-risk credit risk compared with the overall sector.

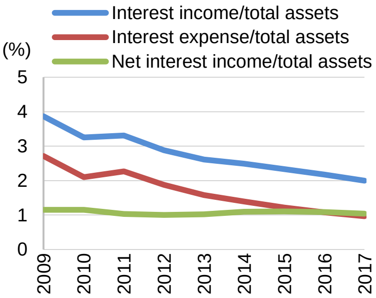
The sector's credit-risk indicators are at an historical low, in our view, with limited potential for further improvements. However, we do not expect them to materially deteriorate in 2019. We believe that there is a low risk of broad house-price correction or mortgage loan defaults in Germany. Retail asset quality is only modestly vulnerable to interest-rate cycles as domestic mortgage loans are predominantly extended at fixed rates.

Moderate Risk in Securities Portfolio

For most Sparkassen, securities holdings do not represent a large potential source of asset-quality risk as their balance sheets are dominated by customer loans. At end-2017, Sparkassen held securities investments of EUR318 billion (27% of total assets). Their aggregated portfolio mainly included fixed-income securities and, to a lesser extent, investment funds. Direct equity holdings were immaterial. Bank bonds represent a substantial part of the total securities portfolio, followed by sovereign and sovereign-like exposure. The portfolio of bank bonds mostly comprises highly rated bonds and a material, although declining, exposure to Landesbanken. We believe the portfolio has an overall satisfactory credit quality, and half of the investments are central bank repo-eligible instruments.

Net Interest Income/Total Assets

All German banks



Source: Fitch Ratings, Bundesbank

Earnings and Profitability

The group does not produce consolidated financial statements and Fitch's analysis is based on the aggregated 2017 results of the Sparkassen as at the time of the publication of this report a full set of 2018 data was not yet available.

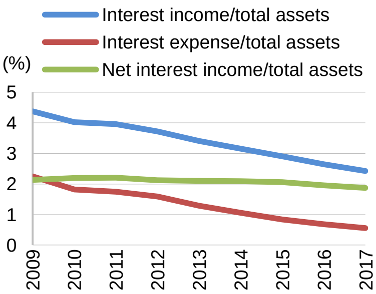
Resilient Performance but Mounting Earnings Pressure

The Sparkassens' aggregated operating profit has been stable and resilient. Their performance indicators are among the strongest in the sector, which is a reflection of their strong franchises and the banks' ability to maintain good pricing discipline and a healthy risk-return profile.

Operating profit/RWAs, the core metric used in Fitch's analysis of banks' earnings and profitability, have been around 1.5% for the last four years to end-2017. This result is understated as the Sparkassen use the standardised approach to calculate RWAs, which results in a RWA density of 57% at end-2017, materially higher than for most German peers.

Net Interest Income/Total Assets

Savings banks

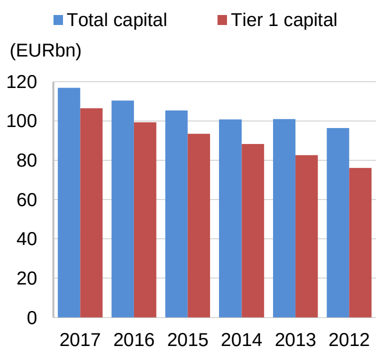


Source: Fitch Ratings, Bundesbank

Net interest income is the banks' main revenue source, accounting for roughly three quarters of operating revenue. It has been gradually declining since 2009 as the net interest margin has remained under pressure and volume growth was not sufficient to offset this pressure. We expect SFG's net interest margin to reduce further as higher-yielding loans and securities continue to mature and with liabilities' repricing completed. However, the overall level still remains higher than at many peers at a level of just under 2%.

Relative to the domestic sector average, Sparkassen are in a better position to absorb pressure from the adverse interest-rate environment. This is driven by their leading franchise in several retail and SME segments and above-average pricing power. Fee income has been partly compensating the interest income decline, as banks increased fees for current account and payment services (50% of the total fee income). However further scope to significantly increase fees in the short term is limited as it might undermine customer loyalty.

SFG Aggregated Capital



Source: Fitch Ratings, SFG

Disciplined Cost Management

Cost management has become a priority for the members of the group. The group is working on accelerating process standardisation as well as optimisation of group-wide data management and reporting. This should help with fixed costs associated with reporting infrastructure.

About two-thirds of operating expenses relate to personnel costs, which are harder to reduce due to the dense branch network and regional commitment. However, the group has been making progress in branch consolidation, with a special focus on the smaller branches with typically two-to-five employees.

Capitalisation and Leverage

Resilient Capital Generation Drives Strong Capitalisation and Leverage

Fitch views SFG's capitalisation as solid and commensurate with the group's risk exposure and the banks' conservative RWA calculation limits the group's vulnerability to regulatory RWA inflation.

Capitalisation has been gradually and consistently improving owing to the stable internal capital generation and low profit distributions. Adjusted for provisions for general banking risks (under Article 340g of the commercial code), the internal capital generation ratio would have reached 6%-7% on average over 2013-2017. Capital is of good quality, consisting mostly of retained earnings and reserves with a limited share of additional Tier 1 capital. SFG's regulatory leverage ratio was a strong 8.5% at end-2018.

We expect SFG's organic capital generation to remain solid but expect its momentum to slow. Rising earnings pressure and sustained loan-driven growth of RWAs are increasingly challenging a further material build-up of capital ratios. Risk factors also include a weakening political consensus on the extent of profit retention among the Sparkassens' responsible public bodies.

Material Risks from Contingent Landesbank Exposure

Sparkassen are exposed to Landesbanken through their equity participations, through direct funding exposure and by the joint mutual support mechanisms. Sparkassen are also exposed to the public-sector insurance companies and building societies – although on a smaller scale.

In Fitch's view, the risks arising from this exposure are elevated but remain under control as the problems of the troubled northern German Landesbanken have been addressed. The former HSH Nordbank AG, now renamed Hamburg Commercial Bank, was successfully privatised in 2018, but it will remain a member in the sector's IPS until end-2021. This refers to all securities, except equity or regulatory capital that the bank has issued. The public-sector solution for NORD/LB's capital strengthening measures has been agreed by its owners but remains subject to regulatory approval. Meanwhile, the southern German Landesbanken have performed adequately over the last three years and benefit from low loan impairment charges.

Funding and Liquidity

Stable, Diversified and Granular Deposit Base

Stable and granular deposits, originated through the sector's nationwide branch network, are the SFG's main funding source and a key strength. SFG is Germany's largest taker of sight and savings deposits with a market share of about 30%. In Fitch's view, the group's size and resilience in previous crises means that its deposit base is less sensitive to market sentiment than its smaller competitors'.

Managing increased sight deposit volumes is becoming a challenge for the group, despite efforts to direct flows into securities investments. This means that significant inflow in sight deposits persisted and their share of total deposits increased to about 60% of total funding at end-2017 from 44% at end-2012. SFG's liquidity coverage ratio was 199.6% at end-2018.

Strong Potential for Covered Bonds Issuance

Only 10% of Sparkassen issue covered bonds (outstanding volume of EUR25 billion at end-2018). However, they have strong potential for diversification of funding sources, especially if preference for long-term funding increases and the cost of deposits rises. This is because Sparkassen held over EUR250 billion in real estate lending and EUR40 billion in municipal financing at end-2017, which are eligible as a covered bond pool assets. Individual Sparkassen can make use of central resources to support them in the process of covered bond issuance.

Deposit Ratings in Line with IDRs

The Sparkassens' Deposit Ratings are aligned with their IDRs. In our view, SFG's aggregated junior and senior non-preferred debt buffers do not offer sufficient default protection to depositors or provide comfort that recoveries in a default scenario would be above average. This is because we define SFG as consisting of the predominantly retail deposit-funded Sparkassen, excluding their central institutions, the Landesbanken. We do not assign Deposit Ratings to SFG as it is not a legal entity.

Short-Term Ratings Driven by Strong Funding

SFG and Sparkassen's 'F1+' Short-Term IDR and Sparkassen's deposit ratings are at the higher level of the two Short-Term IDRs that lead to an 'A+' Long-Term IDR on Fitch's rating scale. The higher rating is driven by SFG's strong funding and liquidity profile, as reflected in the 'aa-' score of the Funding and Liquidity factor, the principal determinant of whether or not a higher Short-Term IDR is assigned.

Spreadsheets[1]

Sparkassen-Finanzgruppe (Sparkassen)

Income Statement

	31 Dec 2017 Year End EURm Audited - Report Not Seen	31 Dec 2016 Year End EURm Audited - Report Not Seen	31 Dec 2015 Year End EURm Audited - Report Not Seen	31 Dec 2014 Year End EURm Audited - Report Not Seen
1. Interest Income on Loans	28,378.0	28,812.0	32,413.0	34,925.0
2. Other Interest Income	0.0	n.a.	0.0	n.a.
3. Dividend Income	n.a.	n.a.	n.a.	n.a.
4. Gross Interest and Dividend Income	**28,378.0**	**28,812.0**	**32,413.0**	**34,925.0**
5. Interest Expense on Customer Deposits	6,673.0	6,458.0	9,404.0	11,795.0
6. Other Interest Expense	0.0	n.a.	n.a.	n.a.
7. Total Interest Expense	**6,673.0**	**6,458.0**	**9,404.0**	**11,795.0**
8. Net Interest Income	**21,705.0**	**22,354.0**	**23,009.0**	**23,130.0**
9. Net Fees and Commissions	7,576.0	6,965.0	6,946.0	6,608.0
10. Net Gains (Losses) on Trading and Derivatives	0.0	n.a.	(1.0)	n.a.
11. Net Gains (Losses) on Assets and Liabilities at FV	n.a.	n.a.	n.a.	n.a.
12. Net Gains (Losses) on Other Securities	n.a.	n.a.	n.a.	n.a.
13. Net Insurance Income	n.a.	n.a.	n.a.	n.a.
14. Other Operating Income	11.0	15.0	253.0	249.0
15. Total Non-Interest Operating Income	**7,587.0**	**6,980.0**	**7,198.0**	**6,857.0**
16. Total Operating Income	**29,292.0**	**29,334.0**	**30,207.0**	**29,987.0**
17. Personnel Expenses	12,467.0	12,952.0	12,845.0	12,459.0
18. Other Operating Expenses	7,122.0	7,635.0	7,356.0	7,428.0
19. Total Non-Interest Expenses	**19,589.0**	**20,587.0**	**20,201.0**	**19,887.0**
20. Equity-accounted Profit/ Loss - Operating	160.0	1,010.0	(1,212.0)	(1,332.0)
21. Pre-Impairment Operating Profit	**9,863.0**	**9,757.0**	**8,794.0**	**8,768.0**
22. Loan Impairment Charge	(70.0)	(293.0)	(207.0)	24.0
23. Securities and Other Credit Impairment Charges	n.a.	n.a.	n.a.	n.a.
24. Operating Profit	**9,933.0**	**10,050.0**	**9,001.0**	**8,744.0**
25. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	n.a.	n.a.
26. Goodwill Impairment	n.a.	n.a.	n.a.	n.a.
27. Non-recurring Income	0.0	n.a.	n.a.	n.a.
28. Non-recurring Expense	4,958.0	5,072.0	4,117.0	3,987.0
29. Change in Fair Value of Own Debt	n.a.	n.a.	n.a.	n.a.
30. Other Non-operating Income and Expenses	0.0	n.a.	n.a.	n.a.
31. Pre-tax Profit	**4,975.0**	**4,978.0**	**4,884.0**	**4,757.0**
32. Tax expense	2,862.0	2,941.0	2,911.0	2,788.0
33. Profit/Loss from Discontinued Operations	n.a.	n.a.	n.a.	n.a.
34. Net Income	**2,113.0**	**2,037.0**	**1,973.0**	**1,969.0**
35. Change in Value of AFS Investments	n.a.	n.a.	n.a.	n.a.
36. Revaluation of Fixed Assets	n.a.	n.a.	n.a.	n.a.
37. Currency Translation Differences	n.a.	n.a.	n.a.	n.a.
38. Remaining OCI Gains/(losses)	n.a.	n.a.	n.a.	n.a.
39. Fitch Comprehensive Income	**2,113.0**	**2,037.0**	**1,973.0**	**1,969.0**
40. Memo: Profit Allocation to Non-controlling Interests	n.a.	n.a.	n.a.	n.a.
41. Memo: Net Income after Allocation to Non-controlling Interests	2,113.0	2,037.0	1,973.0	1,969.0
42. Memo: Common Dividends Relating to the Period	n.a.	n.a.	n.a.	n.a.
43. Memo: Preferred Dividends and Interest on Hybrid Capital Accounted for as Equity Related to the Period	n.a.	n.a.	n.a.	n.a.

[1] Our assessment of the group's financial profile is based on the aggregated 2017 data from the 390 individual Sparkassen that were SFG members at end-2017. It excludes the sector's specialist institutions (public-sector insurers, leasing and factoring companies), Landesbanken and building societies (which together with individual savings banks we define as broader SFG). 390 Sparkassen members at end-2017 represented 55% of the broader SFG's total assets and 80% of its 2017 aggregated operating income before impairment.

Sparkassen-Finanzgruppe (Sparkassen)
Balance Sheet

	31 Dec 2017 Year End EURm	31 Dec 2016 Year End EURm	31 Dec 2015 Year End EURm	31 Dec 2014 Year End EURm
Assets				
A. Loans				
1. Residential Mortgage Loans	266,838.1	257,786.9	246,729.9	236,882.1
2. Other Mortgage Loans	n.a.	n.a.	n.a.	n.a.
3. Other Consumer/ Retail Loans	42,762.0	44,500.6	45,740.4	47,093.6
4. Corporate & Commercial Loans	417,427.0	398,370.9	387,417.1	378,003.7
5. Other Loans	41,396.7	42,435.1	40,594.4	41,165.6
6. Less: Loan Loss Allowances	n.a.	n.a.	n.a.	n.a.
7. Net Loans	**768,423.8**	**743,093.5**	**720,481.8**	**703,145.0**
8. Gross Loans	**768,423.8**	**743,093.5**	**720,481.8**	**703,145.0**
9. Memo: Impaired Loans included above	n.a.	n.a.	n.a.	n.a.
10. Memo: Specific Loan Loss Allowances	n.a.	n.a.	n.a.	n.a.
B. Other Earning Assets				
1. Loans and Advances to Banks	52,724.4	50,264.2	54,050.3	55,606.7
2. Reverse Repos and Securities Borrowing	n.a.	n.a.	n.a.	n.a.
3. Derivatives	n.a.	n.a.	n.a.	n.a.
4. Trading Securities and at FV through Income	129,045.7	130,784.3	130,876.5	125,868.5
5. Securities at FV through OCI / Available for Sale	n.a.	n.a.	n.a.	n.a.
6. Securities at Amortised Cost / Held to Maturity	143,868.4	144,420.0	142,555.1	140,504.0
7. Other Securities	44,637.9	49,126.2	48,816.8	50,763.2
8. Total Securities	**317,552.0**	**324,330.5**	**322,248.4**	**317,135.7**
9. Memo: Government Securities included Above	0.0	n.a.	n.a.	n.a.
10. Memo: Total Securities Pledged	n.a.	n.a.	n.a.	n.a.
11. Equity Investments in Associates	13,607.4	13,746.0	13,844.3	14,671.8
12. Investments in Property	n.a.	n.a.	n.a.	n.a.
13. Insurance Assets	n.a.	n.a.	n.a.	n.a.
14. Other Earning Assets	n.a.	n.a.	n.a.	n.a.
15. Total Earning Assets	**1,152,307.6**	**1,131,434.2**	**1,110,624.8**	**1,090,559.2**
C. Non-Earning Assets				
1. Cash and Due From Banks	8,283.5	7,032.2	6,230.7	5,895.9
2. Memo: Mandatory Reserves included above	n.a.	n.a.	n.a.	n.a.
3. Foreclosed Assets	n.a.	n.a.	n.a.	n.a.
4. Fixed Assets	10,204.3	10,541.2	10,869.7	11,044.5
5. Goodwill	n.a.	n.a.	n.a.	n.a.
6. Other Intangibles	n.a.	n.a.	n.a.	n.a.
7. Current Tax Assets	n.a.	n.a.	n.a.	n.a.
8. Deferred Tax Assets	n.a.	n.a.	n.a.	n.a.
9. Discontinued Operations	n.a.	n.a.	n.a.	n.a.
10. Other Assets	6,872.7	6,536.0	6,720.1	7,681.2
11. Total Assets	**1,177,668.1**	**1,155,543.6**	**1,134,445.3**	**1,115,180.8**
Liabilities and Equity				
D. Interest-Bearing Liabilities				
1. Total Customer Deposits	838,667.0	812,837.5	776,581.0	746,324.0
2. Deposits from Banks	147,757.1	144,291.3	154,464.7	159,445.2
3. Repos and Securities Lending	n.a.	n.a.	n.a.	n.a.
4. Commercial Paper and Short-term Borrowings	n.a.	n.a.	n.a.	n.a.
5. Customer Deposits and Short-term Funding	**986,424.1**	**957,128.8**	**931,045.7**	**905,769.2**
6. Senior Unsecured Debt	n.a.	n.a.	n.a.	n.a.
7. Subordinated Borrowing	0.0	3,974.0	5,067.0	7,135.0
8. Covered Bonds	n.a.	n.a.	n.a.	n.a.
9. Other Long-term Funding	42,616.8	43,549.4	50,260.0	57,773.6
10. Total LT Funding	**42,616.8**	**47,523.4**	**55,327.0**	**64,908.6**
11. Memo: o/w matures in less than 1 year	n.a.	n.a.	n.a.	n.a.
12. Trading Liabilities	31.9	42.7	51.4	49.9
13. Total Funding	**1,029,072.8**	**1,004,694.9**	**986,424.1**	**970,727.7**
14. Derivatives	n.a.	n.a.	n.a.	n.a.
15. Total Funding and Derivatives	**1,029,072.8**	**1,004,694.9**	**986,424.1**	**970,727.7**
E. Non-Interest Bearing Liabilities				
1. Fair Value Portion of Debt	n.a.	n.a.	n.a.	n.a.
2. Credit impairment reserves	n.a.	n.a.	n.a.	n.a.
3. Reserves for Pensions and Other	18,132.5	18,686.0	18,861.2	18,328.6
4. Current Tax Liabilities	n.a.	n.a.	n.a.	n.a.
5. Deferred Tax Liabilities	n.a.	n.a.	n.a.	n.a.
6. Other Deferred Liabilities	n.a.	n.a.	n.a.	n.a.
7. Discontinued Operations	n.a.	n.a.	n.a.	n.a.
8. Insurance Liabilities	n.a.	n.a.	n.a.	n.a.
9. Other Liabilities	24,863.2	33,419.1	35,997.1	38,489.3
10. Total Liabilities	**1,072,068.5**	**1,056,800.0**	**1,041,282.4**	**1,027,545.6**
F. Hybrid Capital				
1. Pref. Shares and Hybrid Capital accounted for as Debt	n.a.	n.a.	n.a.	n.a.
2. Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	n.a.	n.a.
G. Equity				
1. Common Equity	105,599.6	98,743.6	93,162.9	87,635.2
2. Non-controlling Interest	n.a.	n.a.	n.a.	n.a.
3. Securities Revaluation Reserves	n.a.	n.a.	n.a.	n.a.
4. Foreign Exchange Revaluation Reserves	n.a.	n.a.	n.a.	n.a.
5. Fixed Asset Revaluations and Other Accumulated OCI	n.a.	n.a.	n.a.	n.a.
6. Total Equity	**105,599.6**	**98,743.6**	**93,162.9**	**87,635.2**
7. Memo: Equity plus Pref. Shares and Hybrid Capital accounted for as Equity	105,599.6	98,743.6	93,162.9	87,635.2
8. Total Liabilities and Equity	**1,177,668.1**	**1,155,543.6**	**1,134,445.3**	**1,115,180.8**
9. Memo: Fitch Core Capital	105,599.6	98,743.6	93,162.9	87,635.2

Sparkassen-Finanzgruppe (Sparkassen)
Summary Analytics

	31 Dec 2017 Year End	31 Dec 2016 Year End	31 Dec 2015 Year End	31 Dec 2014 Year End
A. Interest Ratios				
1. Interest Income/ Average Earning Assets	2.49	2.57	2.95	3.22
2. Interest Income on Loans/ Average Gross Loans	3.75	3.94	4.55	5.00
3. Interest Expense on Customer Deposits/ Average Customer Deposits	0.81	0.81	1.24	1.61
4. Interest Expense/ Average Interest-bearing Liabilities	0.66	0.65	0.96	1.22
5. Net Interest Income/ Average Earning Assets	1.90	1.99	2.09	2.13
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	1.91	2.02	2.11	2.13
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets	1.90	1.99	2.09	2.13
B. Other Operating Profitability Ratios				
1. Operating Profit/ Risk Weighted Assets	1.48	1.54	1.43	1.44
2. Non-Interest Expense/ Gross Revenues	66.87	70.18	66.88	66.32
3. Loans and securities impairment charges/ Pre-impairment Op. Profit	(0.71)	(3.00)	(2.35)	0.27
4. Operating Profit/ Average Total Assets	0.85	0.88	0.80	0.79
5. Non-Interest Income/ Gross Revenues	25.90	23.79	23.83	22.87
6. Non-Interest Expense/ Average Total Assets	1.68	1.80	1.80	1.79
7. Pre-impairment Op. Profit/ Average Equity	9.65	10.17	9.73	10.32
8. Pre-impairment Op. Profit/ Average Total Assets	0.85	0.85	0.78	0.79
9. Operating Profit/ Average Equity	9.72	10.47	9.96	10.29
C. Other Profitability Ratios				
1. Net Income/ Average Total Equity	2.07	2.12	2.18	2.32
2. Net Income/ Average Total Assets	0.18	0.18	0.18	0.18
3. Fitch Comprehensive Income/ Average Total Equity	2.07	2.12	2.18	2.32
4. Fitch Comprehensive Income/ Average Total Assets	0.18	0.18	0.18	0.18
5. Taxes/ Pre-tax Profit	57.53	59.08	59.60	58.61
6. Net Income/ Risk Weighted Assets	0.31	0.31	0.31	0.32
D. Capitalization				
1. FCC/ FCC-Adjusted Risk Weighted Assets	15.72	15.17	14.77	14.42
2. Tangible Common Equity/ Tangible Assets	8.97	8.55	8.21	7.86
3. Equity/ Total Assets	8.97	8.55	8.21	7.86
4. Basel Leverage Ratio	n.a.	n.a.	n.a.	n.a.
5. Common Equity Tier 1 Capital Ratio	15.81	15.11	14.68	14.38
6. Fully Loaded Common Equity Tier 1 Capital Ratio	n.a.	n.a.	n.a.	n.a.
7. Tier 1 Capital Ratio	15.85	15.24	14.82	14.53
8. Total Capital Ratio	17.38	16.94	16.71	17.00
9. Impaired Loans less Loan Loss Allowances/ Fitch Core Capital	n.a.	n.a.	n.a.	n.a.
10. Impaired Loans less Loan Loss Allowances/ Equity	n.a.	n.a.	n.a.	n.a.
11. Cash Dividends Paid & Declared/ Net Income	n.a.	n.a.	n.a.	n.a.
12. Risk Weighted Assets/ Total Assets	57.06	56.35	55.60	54.50
13. Risk Weighted Assets - Standardised/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
14. Risk Weighted Assets - Advanced Method/ Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
E. Loan Quality				
1. Impaired Loans/ Gross Loans	n.a.	n.a.	n.a.	n.a.
2. Growth of Gross Loans	3.41	3.14	2.47	1.35
3. Loan Loss Allowances/ Impaired Loans	n.a.	n.a.	n.a.	n.a.
4. Loan Impairment Charges/ Average Gross Loans	(0.01)	(0.04)	(0.03)	0.00
5. Growth of Total Assets	1.91	1.86	1.73	0.97
6. Loan Loss Allowances/ Gross Loans	n.a.	n.a.	n.a.	n.a.
7. Net Charge-offs/ Average Gross Loans	n.a.	n.a.	n.a.	n.a.
8. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	n.a.	n.a.	n.a.	n.a.
F. Funding and Liquidity				
1. Loans/ Customer Deposits	91.62	91.42	92.78	94.21
2. Liquidity Coverage Ratio	n.a.	n.a.	n.a.	n.a.
3. Customer Deposits/ Total Funding (including Pref. Shares & Hybrids)	81.50	80.90	78.73	76.88
4. Interbank Assets/ Interbank Liabilities	35.68	34.84	34.99	34.88
5. Net Stable Funding Ratio	n.a.	n.a.	n.a.	n.a.
6. Growth of Total Customer Deposits	3.18	4.67	4.05	3.98

Sparkassen-Finanzgruppe (Sparkassen)
Reference Data

	31 Dec 2017 Year End EURm	31 Dec 2016 Year End EURm	31 Dec 2015 Year End EURm	31 Dec 2014 Year End EURm
A. Off-Balance Sheet Items				
1. Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	n.a.	n.a.
2. Other off-balance sheet exposure to securitizations	n.a.	n.a.	n.a.	n.a.
3. Guarantees	0.0	n.a.	n.a.	n.a.
4. Acceptances and documentary credits reported off-balance sheet	n.a.	n.a.	n.a.	n.a.
5. Committed Credit Lines	n.a.	n.a.	n.a.	n.a.
6. Other Contingent Liabilities	0.0	n.a.	n.a.	n.a.
7. Other Off-Balance Sheet items	n.a.	n.a.	n.a.	n.a.
8. Total Assets under Management	n.a.	n.a.	n.a.	n.a.
B. Average Balance Sheet				
1. Average Loans	755,758.7	731,787.7	711,813.4	698,448.5
2. Average Earning Assets	1,141,870.9	1,121,029.5	1,100,592.0	1,085,419.7
3. Average Total Assets	1,166,605.9	1,144,994.5	1,124,813.1	1,109,800.9
4. Average Managed Securitized Assets (OBS)	n.a.	n.a.	n.a.	n.a.
5. Average Interest-Bearing Liabilities	1,016,883.9	995,559.5	978,575.9	966,933.4
6. Average Common equity	102,171.6	95,953.3	90,399.1	84,947.6
7. Average Equity	102,171.6	95,953.3	90,399.1	84,947.6
8. Average Customer Deposits	825,752.3	794,709.3	761,452.5	732,028.5
C. Maturities				
Asset Maturities:				
Loans & Advances < 3 months	n.a.	n.a.	n.a.	n.a.
Loans & Advances 3 - 12 Months	n.a.	n.a.	n.a.	n.a.
Loans and Advances 1 - 5 Years	n.a.	n.a.	n.a.	n.a.
Loans & Advances > 5 years	n.a.	n.a.	n.a.	n.a.
Debt Securities < 3 Months	n.a.	n.a.	n.a.	n.a.
Debt Securities 3 - 12 Months	n.a.	n.a.	n.a.	n.a.
Debt Securities 1 - 5 Years	n.a.	n.a.	n.a.	n.a.
Debt Securities > 5 Years	n.a.	n.a.	n.a.	n.a.
Loans & Advances to Banks < 3 Months	n.a.	n.a.	n.a.	n.a.
Loans & Advances to Banks 3 - 12 Months	n.a.	n.a.	n.a.	n.a.
Loans & Advances to Banks 1 - 5 Years	n.a.	n.a.	n.a.	n.a.
Loans & Advances to Banks > 5 Years	n.a.	n.a.	n.a.	n.a.
Liability Maturities:				
Retail Deposits < 3 months	n.a.	n.a.	n.a.	n.a.
Retail Deposits 3 - 12 Months	n.a.	n.a.	n.a.	n.a.
Retail Deposits 1 - 5 Years	n.a.	n.a.	n.a.	n.a.
Retail Deposits > 5 Years	n.a.	n.a.	n.a.	n.a.
Other Deposits < 3 Months	n.a.	n.a.	n.a.	n.a.
Other Deposits 3 - 12 Months	n.a.	n.a.	n.a.	n.a.
Other Deposits 1 - 5 Years	n.a.	n.a.	n.a.	n.a.
Other Deposits > 5 Years	n.a.	n.a.	n.a.	n.a.
Deposits from Banks < 3 Months	n.a.	n.a.	n.a.	n.a.
Deposits from Banks 3 - 12 Months	n.a.	n.a.	n.a.	n.a.
Deposits from Banks 1 - 5 Years	n.a.	n.a.	n.a.	n.a.
Deposits from Banks > 5 Years	n.a.	n.a.	n.a.	n.a.
Senior Debt Maturing < 3 months	n.a.	n.a.	n.a.	n.a.
Senior Debt Maturing 3-12 Months	n.a.	n.a.	n.a.	n.a.
Senior Debt Maturing 1- 5 Years	n.a.	n.a.	n.a.	n.a.
Senior Debt Maturing > 5 Years	n.a.	n.a.	n.a.	n.a.
Total Senior Debt on Balance Sheet	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Fair Value Portion of Senior Debt	n.a.	n.a.	n.a.	n.a.
Subordinated Debt Maturing < 3 months	n.a.	n.a.	n.a.	n.a.
Subordinated Debt Maturing 3-12 Months	n.a.	n.a.	n.a.	n.a.
Subordinated Debt Maturing 1- 5 Year	n.a.	n.a.	n.a.	n.a.
Subordinated Debt Maturing > 5 Years	n.a.	n.a.	n.a.	n.a.
Total Subordinated Debt on Balance Sheet	**0.0**	**3,974.0**	**5,067.0**	**7,135.0**
Fair Value Portion of Subordinated Debt	n.a.	n.a.	n.a.	n.a.
D. Risk Weighted Assets				
1. Risk Weighted Assets (RWA)	671,944.0	651,103.0	630,796.0	607,799.0
2. Fitch Core Capital Adjustments for Insurance and Securitisation RWA	n.a.	n.a.	n.a.	n.a.
3. Fitch Core Capital Adjusted Risk Weighted Assets	**671,944.0**	**651,103.0**	**630,796.0**	**607,799.0**
4. Other Fitch Adjustments to Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.
5. Fitch Adjusted Risk Weighted Assets	**671,944.0**	**651,103.0**	**630,796.0**	**607,799.0**
E. Fitch Core Capital Reconciliation				
1. Total Equity as reported (including non-controlling interests)	105,599.6	98,743.6	93,162.9	87,635.2
2. Fair-value adjustments relating to own credit risk on debt issued	0.0	0.0	0.0	0.0
3. Non-loss-absorbing non-controlling interests	0.0	0.0	0.0	0.0
4. Goodwill	0.0	0.0	0.0	0.0
5. Other intangibles	0.0	0.0	0.0	0.0
6. Deferred tax assets deduction	0.0	0.0	0.0	0.0
7. Net asset value of insurance subsidiaries	0.0	0.0	0.0	0.0
8. First loss tranches of off-balance sheet securitizations	0.0	0.0	0.0	0.0
9. Fund for general banking risks if not already included and readily convertible into equity	0.0	0.0	0.0	0.0
10. Fitch Core Capital	**105,599.6**	**98,743.6**	**93,162.9**	**87,635.2**

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.