CREDIT OPINION
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Update

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Sparkassen-Finanzgruppe

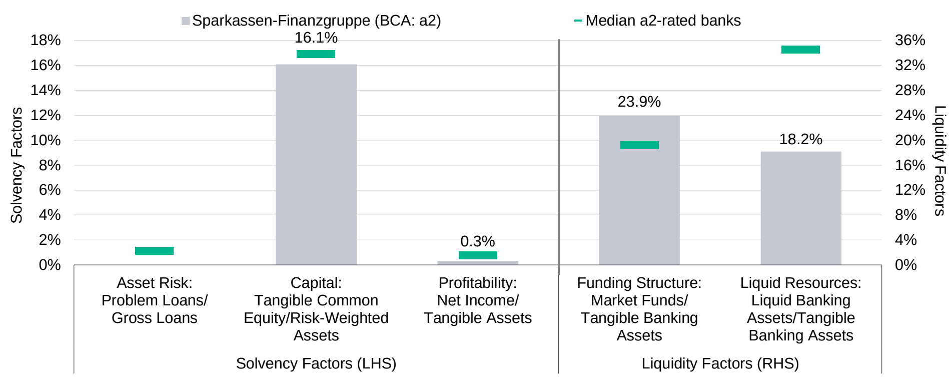
Update to credit analysis

Summary

Sparkassen-Finanzgruppe's (S-Finanzgruppe) Aa2 (stable) Corporate Family Rating (CFR) reflects its a2 BCA and Adjusted BCA, two notches of rating uplift from our Advanced Loss Given Failure (LGF) analysis, which incorporates the relative loss severity of a liability class; and one notch of rating uplift from our assumption of moderate government support, reflecting S-Finanzgruppe's high market share and relevance for financial stability in Germany. S-Finanzgruppe, Germany's (Aaa stable[1]) largest banking group comprised of savings banks, Landesbanks and some specialized institutions, remains among the strongest banking groups globally.

S-Finanzgruppe's a2 BCA reflects the group's high resilience stemming from its diversified banking operations, anchored around its defensive, market-share leading deposit-taking franchise, paired with a track record of sound risk management through-the-cycle, an established strong capitalization and increasing risk-protection from a rising profitability amid normalised interest rates, combined with sufficient liquidity to mitigate even unlikely outflow scenarios. Its credit profile also reflects the strong cohesion and support commitment among member banks, as well as the perceived strong reputation it enjoys among its customers.

Exhibit 1
Rating Scorecard - Key financial ratios



The financial ratios for S-Finanzgruppe are as of year-end 2023.
Source: Moody's Ratings

In assigning the BCA and CFR to S-Finanzgruppe, we assess the group as if it operates as a single entity. This approach takes into consideration group member institutions' cohesion, solidarity — particularly among savings banks — and their high level of co-operation. However, the members of S-Finanzgruppe do not constitute a single entity that functions with centralised management and control at the group level. The BCA and CFR apply only to the creditworthiness of the group as a whole rather than to individual members of the group.

Credit strengths

» Strong capitalisation, which provides an ample buffer against unexpected shocks

» Good asset quality, benefiting from its focus on domestic borrowers and a diversified loan book

» Defensive funding profile, which benefits from prime access to German savings from granular retail, and small and medium-sized enterprise (SME) deposits

Credit challenges

» Germany's subdued economic performance pressures corporate credit quality, while tail risks with regards to commercial real exposures persist

» Capital generation is entirely reliant on earnings retention given limited access to capital injections by public sector owners or its municipal trustees.

» Decentralized legal structure of the group limits efficiency potential and implies higher complexity

Outlook

The outlook on S-Finanzgruppe's CFR is stable, underpinned by its diversified banking model and our expectation that its strong creditworthiness is unlikely to change materially. Despite a contained asset risk deterioration in coming quarters, the group's and member banks' creditworthiness will continue to benefit from a strong sector cohesion, a diversified risk profile, good capitalisation and highly defensive deposit franchise over the outlook horizon.

Factors that could lead to an upgrade

» A higher BCA could result from a meaningful improvement in its overall profitability and capitalisation without increasing its risk appetite.

Factors that could lead to a downgrade

» S-Finanzgruppe's ratings could be downgraded as a result of weaker sector cohesion amongst member banks, such as the denial of support for member banks in financially adverse situations, which appears unlikely given the recent strengthening of the IPS. Such a scenario would be accompanied by the costly loss of sector privilege, with negative repercussions for the overall credit profile for S-Finanzgruppe, but also for individual member banks' credit profiles.

» Further, a weakening of asset quality beyond our expectations, reducing the current strong capital position, or a deterioration of profitability could lead to lower ratings.

Key indicators

Exhibit 2
Sparkassen-Finanzgruppe (Consolidated Financials) [1]

	12-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	2,492.8	2,539.2	2,431.9	2,346.1	2,273.5	2.3[4]
Total Assets (USD Billion)	2,753.7	2,709.9	2,755.7	2,870.6	2,552.0	1.9[4]
Tangible Common Equity (EUR Billion)	187.6	183.7	178.3	173.7	173.0	2.0[4]
Tangible Common Equity (USD Billion)	207.2	196.1	202.0	212.6	194.2	1.6[4]
Tangible Common Equity / Risk Weighted Assets (%)	16.1	15.9	15.9	16.5	16.4	16.2[5]
Net Interest Margin (%)	1.5	1.2	1.1	1.2	1.3	1.3[5]
PPI / Average RWA (%)	1.9	1.5	1.0	1.0	1.0	1.3[5]
Net Income / Tangible Assets (%)	0.5	0.2	0.2	0.2	0.3	0.3[5]
Cost / Income Ratio (%)	56.6	62.4	71.0	71.6	73.5	67.0[5]
Market Funds / Tangible Banking Assets (%)	23.9	24.7	26.6	26.2	25.7	25.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	18.2	19.0	20.3	19.7	17.2	18.9[5]
Gross Loans / Due to Customers (%)	97.6	97.2	96.1	94.3	97.4	96.5[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of Basel III periods. [6] Simple average of periods for the latest accounting regime.
Sources: Moody's Ratings and company filings

Profile

Sparkassen-Finanzgruppe (S-Finanzgruppe) is a German financial institutions group that consists of 500 independent enterprises, including 343 savings banks as of January 2025; six central institutions, including five Landesbanks, the five Landesbausparkassen (regional building societies) and eight primary insurance groups, and a number of other financial service companies.

As Germany's largest banking group, S-Finanzgruppe has a market share for lending to domestic companies and self-employed individuals of around 40%, and around 36% for mortgage lending to private households. As of 31 December 2023, S-Finanzgruppe reported total aggregated assets of €2.5 trillion (2022: €2.5 trillion), of which 61% relate to the group of savings banks.

Entities of S-Finanzgruppe are independent and managed on a decentralised basis. Most of the group's savings banks are institutions incorporated under public law and operate under municipal trusteeship. For more information, please see S-Finanzgruppe's Issuer Profile, the German Banking System Profile and the German Banking System Outlook.

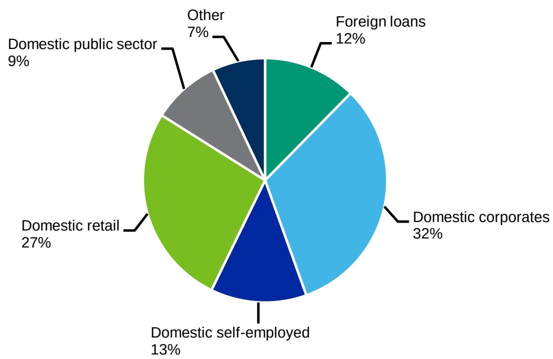
Detailed credit considerations

Focus on lending activities to the German economy exposes S-Finanzgruppe to the domestic economic cycle but diversification provides stability

S-Finanzgruppe's Asset Risk score of a2 reflects its strong risk profile, which benefits from low-risk retail exposures and strong diversification across economic sectors, while also accounting for some moderate tail risk from concentrations in highly cyclical sectors like commercial real estate (CRE).

The group has a well-diversified loan book, focusing on mortgages for retail clients and domestic corporates, with limited international or non-core exposures. The low-risk retail mortgage book provides a strong foundation, with healthy performance expected due to stable and low unemployment rates. Corporate lending faces more exposure to the modest performance of the German economy, but we anticipate only a limited increase in loan loss charges, with higher provisioning needs for more cyclical industries and CRE.

Exhibit 3
S-Finanzgruppe's loan book breakdown shows focus on domestic retail and domestic corporate clients
Data as of June 2024



Aggregate Landesbank and Savings Bank data
Source: Deutsche Bundesbank

As of year-end 2023, financially stronger savings banks accounted for about 61% of the combined assets of savings banks and Landesbanks. A decade earlier, the financially weaker Landesbanks held most of the assets. This shift towards the more stable, retail-client-focused savings banks, along with the long-term de-risking and restructuring of Landesbanks since the global financial crisis, has significantly reduced the group's asset risks. These risks now better align with the economic strengths and challenges of its home market.

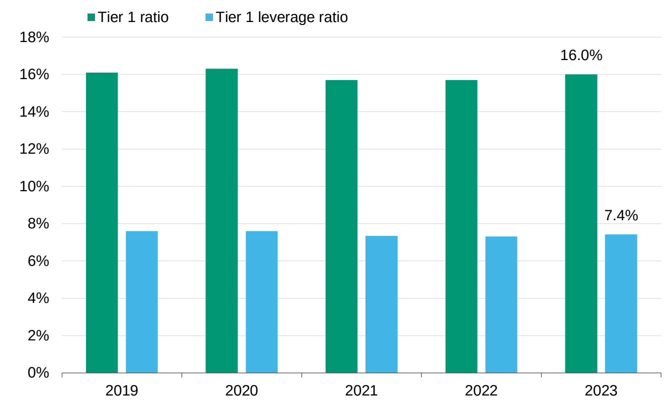
Sound capital provides an ample buffer against shocks

Our assigned aa2 Capital score for S-Finanzgruppe, in line with the initial score, reflects the group's strong 16.1% Tangible Common Equity (TCE) Ratio, additional capital-equivalent reserves that provide further protection, conservatively managed risk weighted assets (RWA), but also certain limitations around capital fungibility within members of the group and challenges around access to external capital sources.

Our assessment considers S-Finanzgruppe's substantial buffer against severe economic downturns, reflected in its reported Tier 1 ratio of 16.0% at year-end 2023 and additional undisclosed, fully taxed reserves per local accounting rules (HGB), especially at the savings banks level. The aa2 Capital score also reflects a solid Tier 1 leverage ratio of 7.4%, highlighting S-Finanzgruppe's conservative RWA management, with savings banks using the standard approach and Landesbanks using model-driven RWA calculations. For the group, RWA was 47% of total assets.

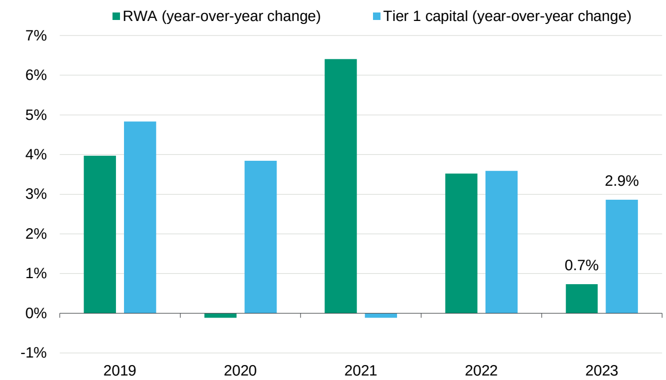
We expect S-Finanzgruppe's capital ratios to improve in 2024 due to strong earnings and stabilize in 2025. A less dynamic earnings momentum, driven by lower rates and increased risk costs from moderately deteriorating asset quality, leading to higher RWA and modest loan growth recovery, are key factors.

Exhibit 4
S-Finanzgruppe's Tier 1 and leverage ratios have been broadly stable over the last five years



Tier 1 leverage ratio: Compares average Tier 1 capital with average total assets
Source: Moody's Ratings and company filings

Exhibit 5
RWA growth is usually funded by high earnings retention



Source: Moody's Ratings and company filings

Due to S-Finanzgruppe's decentralized structure, capital fungibility is somewhat limited, although the IPS allows access to members' capital reserves if needed. However, a consolidated banking group has more flexibility in capital allocation than S-Finanzgruppe, which consists of legally independent entities. Since S-Finanzgruppe members are owned by public sector entities or are under municipal trusteeship, they have less access to external capital compared to listed public companies. Public sector related institutions must comply with state aid rules, making capital increases more complex.

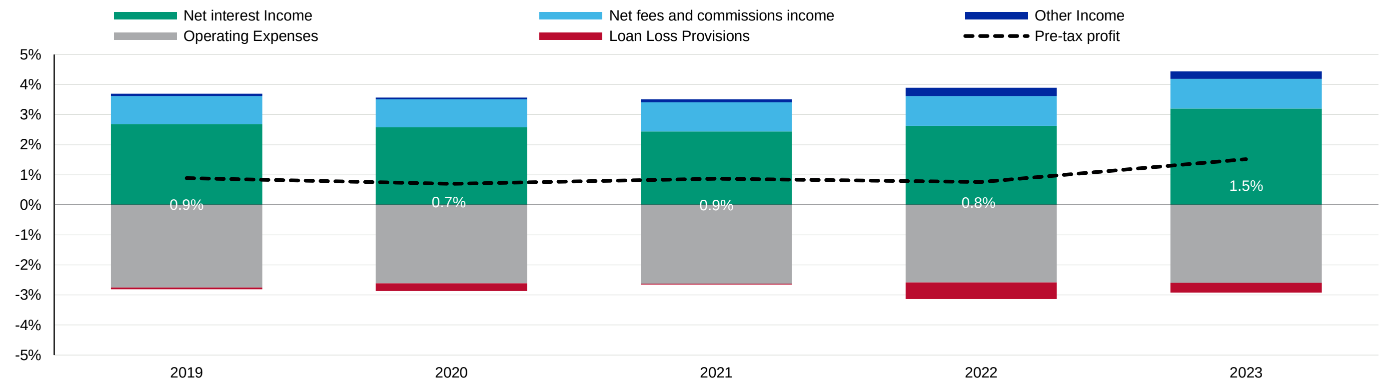
Interest rates support a sustainably improved profitability; challenges include rising risk costs and cost pressures

S-Finanzgruppe's assigned ba1 Profitability score, one notch above the initial ba2 score reflects both our expectations around the normalized, higher profitability of S-Finanzgruppe in a normalised interest rate environment, and that reported profitability understates the underlying strength of the group's financial performance given the conservative risk provisioning building allowed under German GAAP.

Still strong net interest income (NII) and improved margins due to slow deposit repricing and low risk costs will have supported S-Finanzgruppe's aggregate earnings in 2024. Profit retention will remain high due to limited payouts and the creation of further capital reserves via risk provisions, a common practice under German GAAP that leads to understated reported profitability and capital reserve accumulation.

Profitability will continue to benefit from more normalised interest rates in 2025. However, the sluggish economic environment will lead to higher risk costs, particularly for commercial real estate and corporate exposures. Additionally, managing costs amid expected collective wage increases will become more challenging in 2025.

Exhibit 6
S-Finanzgruppe's profitability structure has improved



Profit and loss components in % of average risk-weighted assets
Source: Moody's Ratings and company filings

In 2023, Sparkassen-Finanzgruppe's cost-to-income ratio dropped to 57% from around 70%-75% during the negative rates environment of 2020/2021, as revenue growth outpaced the modest rise in costs. This level is now comparable to international peers, though maintaining revenue-driven improvements is harder in adverse conditions than sustaining a good cost-to-income ratio based on a flexible cost structure.

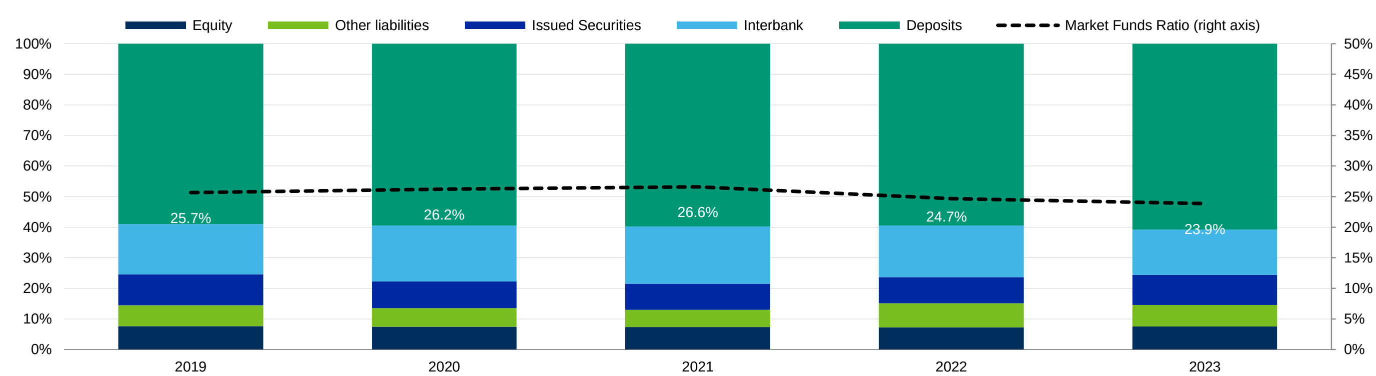
Strong funding profile, benefiting from prime access to German depositors

S-Finanzgruppe's credit strength is strongly supported by its funding profile. This view is reflected in our assigned a1 Funding Structure score, which is three notches above the group's baa1 initial score, based on a 23.9% market funds ratio. The positive adjustments take into account the leading market share for retail deposits and S-Finanzgruppe's role as a safe haven, intragroup plus development bank funding, that we do not regards as confidence sensitive market funding.

Our assessment reflects S-Finanzgruppe's strong market position, with leading market shares and a notable inflow of deposits at the savings banks level during economic dire times. Other member banks also benefit from this positive effect due to the sector's institutional protection scheme, which limits risks for investors.

Additionally, the reported aggregated numbers overstate market funding dependence. Interbank funding includes not only the reduced recourse to the European Central Bank's TLTRO but also intra-sector funding, particularly excess liquidity from primary banks made available to other members. This is because the entity reports aggregated, not consolidated, numbers, which would eliminate such intragroup exposures. Furthermore, S-Finanzgruppe's member banks have a well-developed covered bond franchise and good access to state development funding, both of which are less dependent on market sentiment.

Exhibit 7
S-Finanzgruppe benefits from a strong retail deposit base



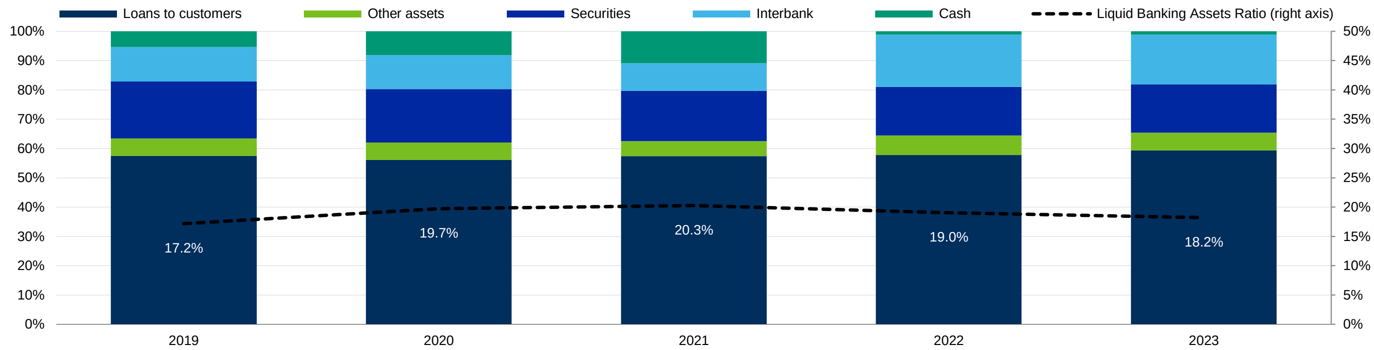
Market funds ratio = Market funds/tangible banking assets
Source: Moody's Ratings and company filings

Sizeable liquidity supported by high-quality financial securities

S-Finanzgruppe's assigned Liquid Resources score of baa1 is one notch above the group's initial baa2 score, derived from 18.2% of liquid assets. Our positive adjustment is based on additional available, high quality and ECB-eligible securities, that provide a further liquidity cushion, but also considers certain consolidation effects and asset encumbrance.

Exhibit 8

S-Finanzgruppe's liquid assets have remained stable with the focus shifting to interbank



Liquid banking assets ratio = Liquid banking assets/tangible banking assets
Source: Moody's Ratings and company filings

S-Finanzgruppe's €408.1 billion of financial securities, of which a significant part is ECB eligible and of high quality are not included in the ratio of liquid assets but provide additional resources in case of need. On the other hand, the reported ratio is somewhat overstated as it includes parts of the upstreamed excess deposits of savings banks.

The sectors sound liquidity profile is underpinned by the regulatory liquidity coverage ratios: The savings banks' liquidity coverage ratio (LCR) stood at 186% as of year-end 2023 while the reported LCRs for Landesbanks ranged between 135% and 210% in 2023.

Strong+ macro profile

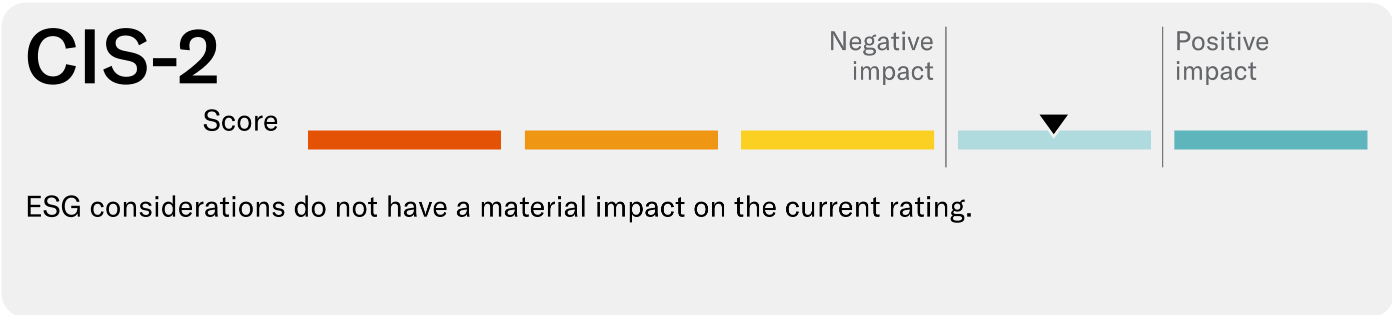
S-Finanzgruppe's BCA is supported by its Strong+ macro profile, which is derived from the group's weighted average credit exposures, reflecting an around 84% exposure to Germany, around 10% to the European Union (EU) and around 6% worldwide. S-Finanzgruppe's Strong+ macro profile matches the assigned German macro profile, which is largely determined by the country's very high economic, institutional and government financial strength.

ESG considerations

Sparkassen-Finanzgruppe's ESG credit impact score is CIS-2

Exhibit 9

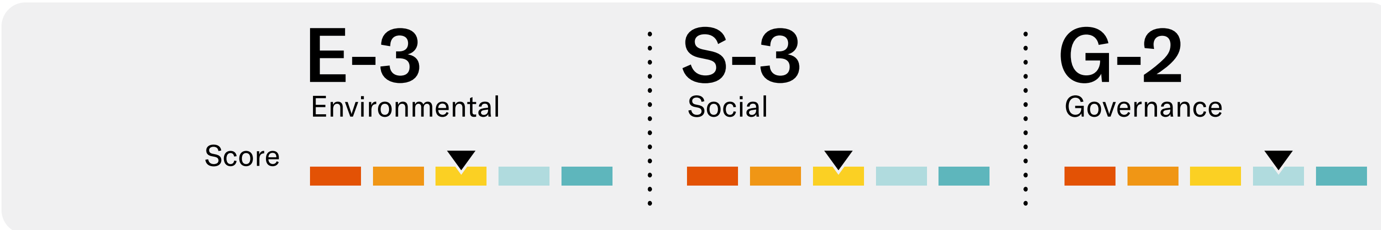
ESG credit impact score



Source: Moody's Ratings

Sparkassen-Finanzgruppe's **CIS-2** indicates that ESG considerations have no material impact on the current ratings.

Exhibit 10
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Sparkassen-Finanzgruppe faces moderate exposure to environmental risks primarily because of its member banks' portfolio exposure to carbon transition risks. In line with its peers, Sparkassen-Finanzgruppe is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. Carbon transition risks relate mostly to the member banks' corporate loan book. In response, the member banks are actively engaging in optimising their loan portfolios towards less carbon-intensive assets, though progress varies significantly amongst members.

Social

Sparkassen-Finanzgruppe member banks face moderate social risks related to customer relations as well as to demographic and societal trends. Risks related to the distribution of financial products such as regulatory and reputational risks, as well as exposure to litigation are mitigated by developed policies and procedures, many of which are standardized across the sector. High cyber and personal data risks are managed by continued investment in technology by member banks, complemented by the access to and collaboration with dedicated centralized IT functions of the group. Operating mostly in Germany, Sparkassen-Finanzgruppe's member banks face challenges from aging population affecting long-term economic growth prospects and impacting demand for certain banking products. The group's scale should support its ability to adapt to consumer preferences, regulatory changes, and societal trends such as digitization.

Governance

Sparkassen-Finanzgruppe faces low governance risks. The member banks' risk management and financial strategy as reflected in a recovered profitability are in line with industry practices. This also applies to policies and procedures, despite Sparkassen-Finanzgruppe's decentralized structure which entails a meaningful degree of autonomy for member banks in setting business strategy and risk appetite. The strengthened Institutional Protection Scheme (IPS) ensures better cohesion among member banks due to tighter support governance expectations and practices within the decentralized structure, despite certain limitations to central empowerment and higher co-ordination needs around strategic decisions. With regards to the composition of board of directors, representatives of public sector owners play a prominent role. Germany's developed institutional framework mitigates associated governance risks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Notching for CFR

S-Finanzgruppe is a conglomerate of diverse financial institutions in Germany. Therefore, it is not a banking group in the context of the European Capital Requirement Regulation. S-Finanzgruppe is, therefore, not a regulated group (Konzern), but all of its affiliated institutions are subject to the applicable regulation for banks or other financial institutions. As a result, the EU's Bank Recovery and Resolution Directive, which is an operational resolution regime, does not apply to S-Finanzgruppe but only to its member banking institutions individually. Thus, our CFR for S-Finanzgruppe reflects the risk characteristics of a notional single class of debt assumed to fund its aggregate balance sheet.

Our Advanced LGF analysis suggests that this notional instrument would face very low losses in resolution. This results in two notches of uplift to the CFR compared with S-Finanzgruppe's BCA of a2, and hence, a Preliminary Rating Assessment of aa3.

Government support considerations
We expect a moderate probability of government support, resulting in a one-notch rating uplift for S-Finanzgruppe. Our government support assumption reflects S-Finanzgruppe's size and high relevance to Germany's financial stability.

Methodology and scorecard

Methodology
The principal methodology we use in rating S-Finanzgruppe is the Banks Methodology, published in November 2024.

About Moody's Bank Scorecard
Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 11
Rating Factors

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	-	-	-	a2	Quality of assets	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	16.1%	aa2	↑	aa2	Capital retention	Capital fungibility
Profitability						
Net Income / Tangible Assets	0.3%	ba2	↑	ba1	Return on assets	Expected trend
Combined Solvency Score		a2		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	23.9%	baa1	↑↑	a1	Market funding quality	Deposit quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	18.2%	baa2	↑	baa1	Quality of liquid assets	Additional liquidity resources
Combined Liquidity Score		baa1		a2		
Financial Profile		a3		a2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a1 - a3		
Assigned BCA				a2		
Affiliate Support notching				0		
Adjusted BCA				a2		

Balance Sheet is not applicable.

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 12

Category	Moody's Rating
SPARKASSEN-FINANZGRUPPE	
Outlook	Stable
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a2
Corporate Family Rating -Dom Curr	Aa2

Source: Moody's Ratings

Endnotes

1 Ratings shown are Germany's Issuer Ratings and Outlook

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