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CREDIT OPINION
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Update

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Sparkassen-Finanzgruppe

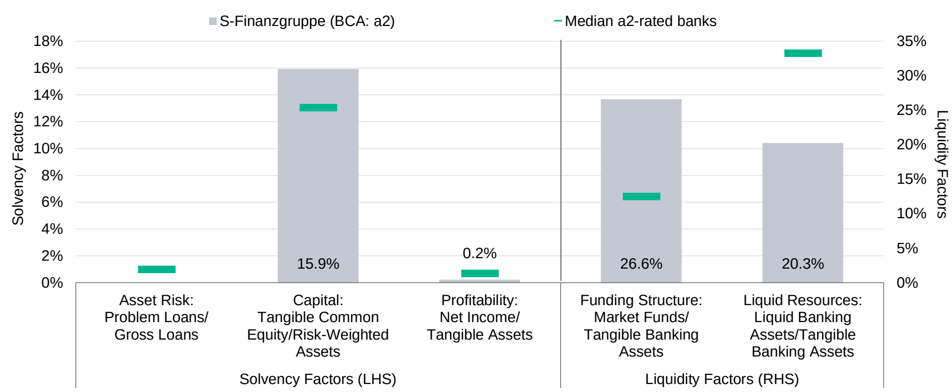
Update to credit analysis

Summary

Sparkassen-Finanzgruppe's (S-Finanzgruppe) Aa2 (stable) corporate family rating (CFR) reflects the group's a2 Baseline Credit Assessment (BCA) and Adjusted BCA; two notches of rating uplift from our Advanced Loss Given Failure (LGF) analysis, which results in a very low loss given failure; and one notch of rating uplift from our assumption of moderate government support, reflecting S-Finanzgruppe's scale and high relevance to Germany's financial stability.

S-Finanzgruppe's a2 BCA reflects its strong asset quality; very strong and stable capitalisation; a defensive, deposit-focused funding profile; and sufficient balance-sheet liquidity. The BCA also takes into account the group's overall robustness given its leading market shares in Germany. Despite the economic downswing in the country, we expect S-Finanzgruppe to protect its capitalisation. Profitability challenges remain, as weakening asset quality as a result of rising financial challenges for companies and household will lead to higher risk costs, more than offsetting the positive effect rising net interest margins on profitability.

Exhibit 1
Rating Scorecard - Key financial ratios



The financial ratios for S-Finanzgruppe are as of year-end 2021.
Source: Moody's Financial Metrics™

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 the savings banks — and their high level of co-operation. However, the members of S-Finanzgruppe do not constitute a single economic 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 ample buffer against unexpected shocks

» Good asset quality, benefitting from focus on German borrowers and reduction in concentration risks stemming from individual Landesbanks

» Defensive funding profile, which benefits from prime access to German savings from granular retail and SME deposits

» Cohesion among member institutions of S-Finanzgruppe, codified in the institutional protection schemes (IPS)

Credit challenges

» Despite being supported by low credit risk costs, profitability lags that of international peers, and is challenged by the rising risk costs and a stubbornly high cost base.

» Moderate tail risks from German Landesbanks' international exposures persist and mainly relate to commercial real estate lending.

Outlook

The stable outlook reflects our expectation that the German savings banks sector and its member banks will maintain stable fundamental credit strength with broadly unchanged key financial ratios over the outlook horizon of 12-18 months.

Factors that could lead to an upgrade

» Upward pressure on S-Finanzgruppe's CFR could only arise from upward pressure on its BCA, which will be driven by significantly and sustainably higher profitability of the sector, together with improvement in the group's asset-risk profile through reduced concentration risks and sustained capital levels.

Factors that could lead to a downgrade

» Downward pressure on S-Finanzgruppe's CFR could originate from pressure on its BCA, in particular if the group's overall solvency is weakened by its low profitability, or if Germany's Strong+ Macro Profile were to be deteriorate.

» A support scenario for a number of member banks, in which necessary funds significantly compress the sector's overall capitalisation, could also strain the rating.

Key indicators

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

	12-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	2,431.9	2,346.1	2,273.5	2,178.2	2,129.5	3.4[4]
Total Assets (USD Billion)	2,755.7	2,870.6	2,552.0	2,490.0	2,557.1	1.9[4]
Tangible Common Equity (EUR Billion)	178.3	173.7	173.0	167.8	161.5	2.5[4]
Tangible Common Equity (USD Billion)	202.0	212.6	194.2	191.9	193.9	1.0[4]
Tangible Common Equity / Risk Weighted Assets (%)	15.9	16.5	16.4	16.6	16.7	16.4[5]
Net Interest Margin (%)	1.1	1.2	1.3	1.3	1.4	1.3[5]
PPI / Average RWA (%)	1.0	1.0	1.0	1.1	1.3	1.1[5]
Net Income / Tangible Assets (%)	0.2	0.2	0.3	0.2	0.4	0.3[5]
Cost / Income Ratio (%)	70.4	71.6	73.5	70.8	68.7	71.0[5]
Market Funds / Tangible Banking Assets (%)	26.6	26.2	25.7	26.6	26.8	26.4[5]
Liquid Banking Assets / Tangible Banking Assets (%)	20.3	19.7	17.2	17.1	16.8	18.2[5]
Gross Loans / Due to Customers (%)	96.1	94.3	97.4	98.0	97.5	96.6[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 Investors Service and company filings

Profile

S-Finanzgruppe is a German financial institutions group that consists of more than 500 independent enterprises, including 361 savings banks[1], and five Landesbanks, including Bayerische Landesbank (BayernLB, Aa3 stable/Aa3 positive, baa2)[2], Landesbank Baden-Wuerttemberg (LBBW, Aa3 stable/Aa3 stable, baa2), Landesbank Berlin AG (LBB, Aa3 stable/Aa3 stable, ba1), Landesbank Hessen-Thueringen GZ (Helaba, Aa3 stable/Aa3 stable, baa2), Landesbank Saar (SaarLB, A1 stable/A1 stable, ba1), Norddeutsche Landesbank GZ (NORD/LB, A3 stable/A3 stable, ba3), the asset manager DekaBank Deutsche Girozentrale (DekaBank, Aa2 stable/Aa2 stable, baa2), eight Landesbausparkassen (regional building societies) and nine 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 corporates and self-employed individuals of around 40%, and around 35% for mortgage lending to private households. As of 31 December 2021, S-Finanzgruppe reported total aggregated assets of €2.4 trillion (2020: €2.4 trillion; 2019: €2.3 trillion), of which around 67% relate to the group of savings banks (2020: 61%; 2019: 59%).

The German Savings Banks Association (*Deutscher Sparkassen- und Giroverband*, DSGV) is the umbrella organisation of S-Finanzgruppe. 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 update on the German banking system published on 2 November 2022, when we changed the outlook for the German banking system to negative because of weakening asset quality and profitability pressures.

Detailed credit considerations

Sound capital provides an ample buffer against unexpected shocks

Our assigned a aa2 Capital score for S-Finanzgruppe reflects the group's strong capitalisation, which provides a substantial buffer against severe economic downturns. Our assessment takes into account additional capital-equivalent reserves and limitations around capital fungibility within members of the group. As of year-end 2021, S-Finanzgruppe's reported Tier 1 ratio was 15.7%, compared with 16.5% in 2020 and 16.1% in 2019. The decrease reflects around 2.6% higher equity over that period, including the addition to capital reserves (*Fonds für allgemeine Bankrisiken*); however, risk-weighted assets (RWA) grew by 6% driven by loan growth, overcompensating the capital accumulation.

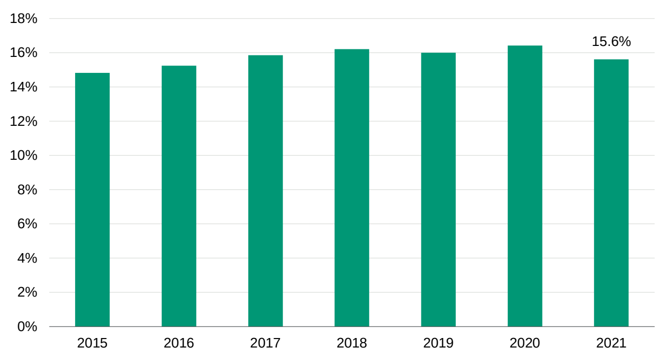
The German savings banks have ample capital to absorb considerable adverse market developments. In addition to disclosed and required capital, these banks have additional fully taxed reserves, which are undisclosed and exist in accordance with local accounting rules (Handelgesetzbuch, HGB). We do not expect any significant increase in capital ratios for S-Finanzgruppe in 2022 and beyond, reflecting moderately deteriorating asset quality and lending growth, which increases RWA, while capital generation from earnings remains only moderate at best.

Savings banks usually apply the standard approach, which leads to higher RWA compared with the internal ratings-based approaches, which prevail at Landesbanks. For savings banks, we estimate that RWA accounted for more than 50% of assets as of year-end 2021, while the average ratio for Landesbanks was around 30%. At the same time, the savings banks' Common Equity Tier 1 (CET1) ratio was 15.6% as of year-end 2021 (2020: 16.4%)[3]. This compares with an averageThis reflects the average ratio for BayernLB, DekaBank, Helaba, LBBW, NORD/LB and SaarLB. CET 1 ratio of 15.1% for Landesbanks as of year-end 2021 (2020: 16%).

Exhibit 3

Savings banks show strong CET1 capital ratios

Data in percentage terms, comparing average CET1 capital to RWA

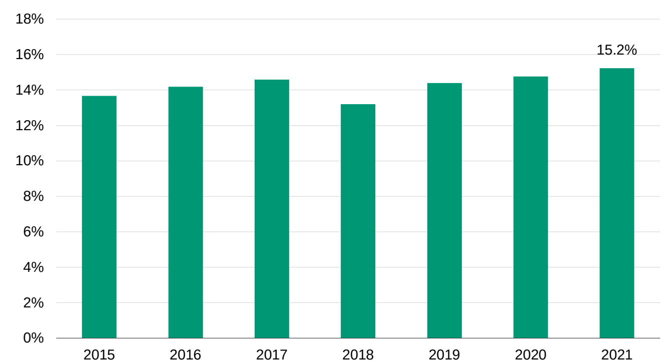


Source: DSGV

Exhibit 4

Landesbanks' average CET1 ratio is broadly stable

Data in percentage terms, comparing CET1 capital to RWA



This group includes BayernLB, DekaBank, Helaba, LBBW, NORD/LB and SaarLB, similar to Deutsche Bundesbank's breakdown of "Landesbanks".
Source: Company reports

Our favourable capital assessment for S-Finanzgruppe also takes into account the savings banks' high leverage ratio, because equity accounted for 8.5% of their assets as of 2021 (2020: 8.7%, 2019: 9.1%). This compares with 5.4% for the group of Landesbanks (2020: 5.3%, 2019: 5.4%), which is broadly stable at around 5% since 2013 but is significantly lower than that for savings banks.

Our capital assessment for S-Finanzgruppe takes into consideration certain advantages, which arise from their mutual support, codified in the group's set of several IPS[4]. Member banks of S-Finanzgruppe benefit from the omission of large lending limits and lower regulatory capital requirements because intragroup exposures benefit from 0% risk weight. Losing these sector-specific regulations, for example, triggered by the absence of support for a troubled member bank, will have negative repercussions for their capital ratios. Although such a scenario is unlikely, the effect would be significantly negative for creditors.

Because S-Finanzgruppe is a large, diverse group of independent financial institutions, capital cannot be freely allocated within it and the risk of member banks requiring support cannot be ruled out. Following the balance-sheet cleanup and capital strengthening measures for NORD/LB in December 2019, the risk profiles for all Landesbanks are better aligned with their core banking activities, rendering them more robust in the face of event risks or adverse economic conditions.

Profitability pressure from rising risk provisions

S-Finanzgruppe's assigned ba3 Profitability score is one notch above its initial score, the weakest individual factor score that we assign to Germany's largest financial institutions group. Our assessment is based on the combined results of all member banks and reflects the challenges that savings banks and Landesbanks face, including the negative economic repercussions from the energy and geopolitical crisis, which will increase credit provisions. Following the successful wind-down of non-core assets at the group's larger institutions, the absence of extraordinary losses will support S-Finanzgruppe's aggregate earnings.

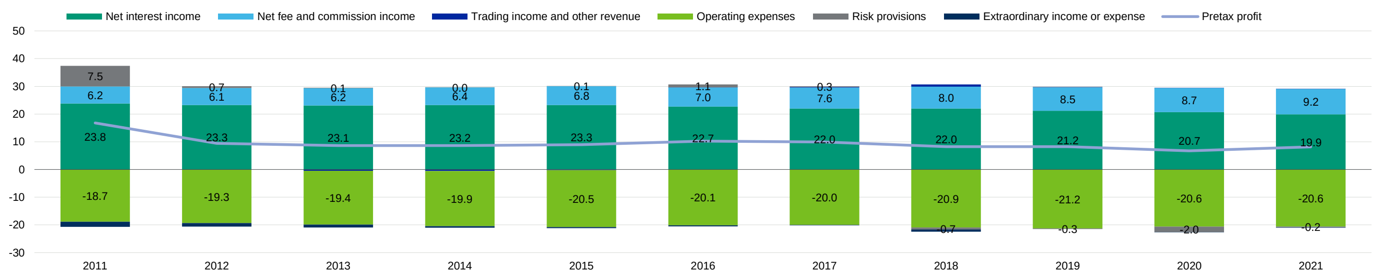
For the savings banks, benign asset quality and ample loan growth helped balance the decline in interest margins and the rise in operating expenses, with the latter mostly driven by nonpersonnel-related costs in recent years, though we expect slower loan growth going forward. Over 2019-H1 2022, savings banks' loans increased in aggregate by 14.4%. In the first six months 2022, for example, loans increased by 3.3% (2021: 5.4%), driven by 3.7% higher lending to corporates and self-employed individuals (2021: +5.4%), and 3.0% higher mortgages to private households and corporates (2021: +6.3%)[5]

For 2022-23, we expect earnings pressures to persist. While the interest rate environment will be more favourable, the long tenor of outstanding loans will limit the positive impact on net interest income, while the uncertain operating environment could lead to a rise in risk costs and slower loan demand. We expect the savings banks to make gradual progress in cost management, though non-interest income generation is challenged by the volatile equity markets and the decline in disposable household income because of high energy prices and the related inflationary trends. However, given their public mandate to offer financial services through an extensive branch network countrywide, we expect moderate potential for achieving sizeable cost savings. The cost pressure facing the savings banks is mitigated by a gradual reduction in workforce, by 2.8% in 2021, after 1% in 2020 and around 2.6% in 2019, a development that is comparable with the previous years.

Over the last years, the savings banks' cost-to-income ratio remained stable at 69.5% in 2021, which also reflects their rising investments in digital solutions[6].

Exhibit 5

Savings banks reported stable pretax profit over the last decade and benefited from very benign asset quality
Data in € billions



The savings banks' pretax profit is before the addition to capital reserves.
Source: Deutsche Bundesbank

The pretax and net income figures published by Deutsche Bundesbank for savings banks somewhat differ from the numbers disclosed by DSGV. This is mainly because the savings banks' association considers the addition to capital reserves (*Fonds für allgemeine Bankrisiken*) as provision expense, which reduces pretax profit. In contrast, the disclosures by Deutsche Bundesbank follow the breakdown of local accounting rules (HGB), where the fully taxed addition to capital reserves is reported "below the line", that is, after net income.

According to Deutsche Bundesbank data, German savings banks reported pretax profit (before the addition to capital reserves) of €8.2 billion in 2021, up from 6.7 billion in 2020 and in line with the €8.2 billion in 2019 and 2018. The recovery in earnings contrasts a lower pre-provision income of €8.5 billion (2020: €8.8 billion; 2019: €8.5 billion), reflecting lower net interest income of €19.9 billion (2020: €20.7 billion; 2019: €21.2 billion), balanced by higher fee income of €9.2 billion (2020: €8.7 billion; 2019: €8.5 billion) and stable operating expenses of €20.6 billion (2020: €20.6bn billion). The improved results for 2021 are largely driven by lower credit provisions, which decreased to €0.2 billion in 2021, from €2.0 billion in 2020 (2019: €0.3 billion). In 2021, the savings banks added around €4.2 billion to capital reserves (2020: €2.9 billion, 2019: €4.4 billion).

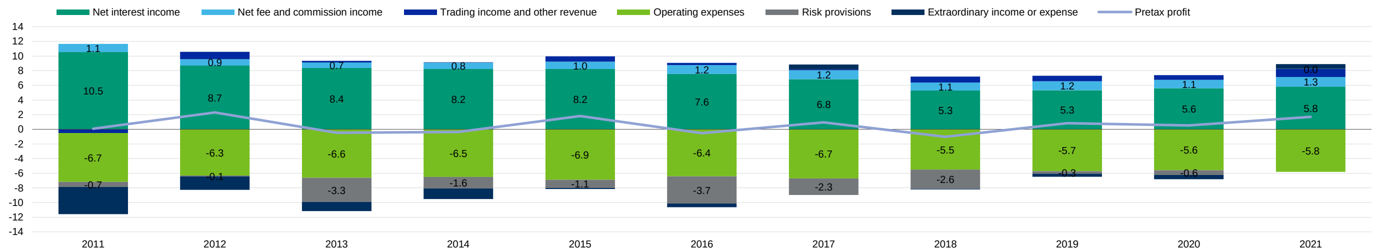
For the first time since 2012, the Landesbanks' pre-tax profit exceeded €1 billion in 2021, rising to €1.7 billion, driven by a neutral risk result and also positive one-off effects of €0.7 billion. Pretax profit for the group of German Landesbanks oscillated around breakeven for more than a decade, reflecting large swings in trading income and risk provisions, with the latter mostly driven by the deterioration in asset quality of ship loans. The sizeable reduction in revenue over the last decade from around €12.2 billion in 2010 to around €8.2

billion in 2021 reflects the reduction in assets by around 47% over the same period and a decline in the number of banks in this group[7]. During 2021, Landesbanks' assets remained stable at around €805 billion.

Exhibit 6

Compared with savings banks, Landesbanks' pretax profit is very low and volatile

Data in € billions



Included banks are BayernLB, DekaBank, Helaba, LBBW, NORD/LB and SaarLB.
Sources: Deutsche Bundesbank and company reports

According to aggregate data for S-Finanzgruppe, Germany's largest financial institutions group reported pretax profit of €6.0 billion in 2021, compared with €4.2 billion in 2020 and €4.8 billion in 2019. The stronger results in 2021 reflect lower credit provisions of €0.1 billion, compared with €2.9 billion in 2020 and €0.3 billion in 2019. In 2021, the group's aggregate pre-provision income increased by around 6% to €11.3 billion from €10.7 billion in 2020 (2019: €10.2 billion).

The main growth drivers were its slightly stronger revenue, at around €38.3 billion, and moderately lower operating expenses, at €27.0 billion. Aggregate net interest income for the group declined to €26.7 billion in 2021, down from €27.6 billion in 2020 (2019: €27.8 billion), mostly balanced by stronger fee income of €10.6 billion (2020: €9.8 billion; 2019: €9.6 billion). In 2021, S-Finanzgruppe managed to reduce personnel expenses by around 2% to €15.7 billion (2020: €16.0 billion; 2019: €16.4 billion), while other administrative expenses, including regulatory charges, slightly increased to €11.3 billion (2020: 10.9 billion). S-Finanzgruppe's revenue remains highly dependent on net interest income (NII), which constitutes 70% of it. However, because the share of fee income is rising, the group's dependence on NII has somewhat softened, down from 80% in 2015. During 2021, the group's aggregate net interest margin (calculated as net interest income (as a % of customer loans) declined further to 1.9% in 2021 from 2.1% in 2020 and 2019 (2017: 2.46%).

S-Finanzgruppe's sector efficiency metrics compare less favourably with those of its international peers, as reflected by a cost-to-income ratio of around 70% in 2021 (2020: 72%, 2019: 73%, 2018: 71%). Cost containment is a key challenge for the group in the low interest rate environment and investments in digitalisation. To achieve a cost-to-income ratio similar to that of other highly rated banks or groups of banks, S-Finanzgruppe needs to reduce operating expenses by around 20% compared with its 2021 cost base.

Focus of lending activities to the German economy exposes S-Finanzgruppe to the domestic economic cycle

S-Finanzgruppe's Asset Risk score of a1 reflects strong risk profiles of its member savings banks and captures the business profiles of the group of Landesbanks, which have successfully and sustainably been de-risked over several years. However, as Germany's largest financial institutions group, S-Finanzgruppe needs to manage risk concentrations in export-driven industries, such as the automotive and the cyclical construction sectors, which are key features of Germany's economic structure, that are exposed to the overall economic cycle, that we expect to significantly cool off towards the end of 2022 and the beginning of 2023. Savings banks, in contrast, manage a highly diversified and granular loan book, a credit positive, though exposures in small and medium sized entities and self-employed are particularly exposed to a deterioration of their financial strengths due to their lower diversification and weaker ability to raise prices.

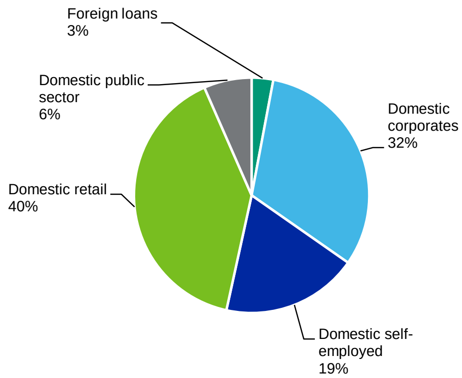
As of year-end 2021, the financially stronger savings banks accounted for around 67% of the aggregate assets of savings banks and Landesbanks, whereas a decade earlier, the financially weaker Landesbanks contributed most of combined assets. This shift towards the more resilient, primarily retail-client-focused savings banks, together with the long-term de-risking and restructuring of the Landesbanks, which started after the global financial crisis, has resulted in a significant decline in the group's asset risks, which now better reflect the economic strengths and challenges of its home market.

Between 2015 and H1 2022, savings banks increased their exposure to domestic corporate loans (including self-employed) from around 52.5% to around 55.4%[8]. The sizeable growth in loans to these borrowers to €536 billion in H1 2022 (2021: €517 billion; 2020: €490 billion) exposes the banks to the risk of higher credit provisions in stressed economic conditions. Germany's savings banks have high concentrations to the property sector, at around 58% of total loans (2015: around 51%). The banks apply conservative underwriting criteria, leading to moderate loan-to-value ratios. However, German residential real estate prices accelerated until summer 2022, with indications of price growth outpacing fundamentals, particularly in large metropolitan areas. The savings banks' high exposure to this asset class could pose risks to asset quality and profitability, for example, if significant price corrections or rising unemployment triggers an increase in problem loans and thus in loan-loss charges.

Exhibit 7

Loan-book breakdown for savings banks

Data as of H1 2022

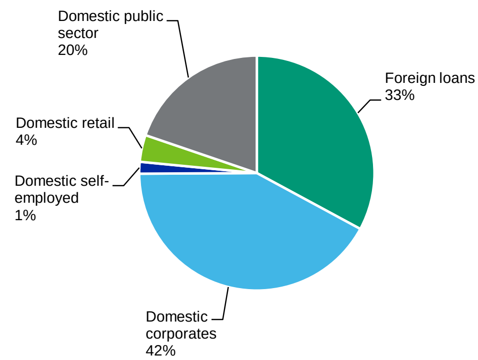


The chart shows selected loan categories in accordance with the classification of Deutsche Bundesbank.
Source: Deutsche Bundesbank

Exhibit 8

Landesbanks have sizeable foreign loans

Data as of H1 2022



Included banks are BayernLB, DekaBank, Helaba, LBBW, NORD/LB and SaarLB.
Source: Deutsche Bundesbank

S-Finanzgruppe's risk profile benefits from the reduction in assets at the group of Landesbanks by around 47% to €805 billion as of year-end 2021 from €1.5 trillion in 2010[9]. While this group of banks remains exposed to asset concentration risks, reflecting commercial real estate exposures, international lending and asset-based finance activities, their susceptibility to unexpected losses has significantly declined, reflecting their sizeable restructuring efforts over the last few years. This will lead to moderate credit costs associated with a certain deterioration in asset quality of their primarily domestic customers.

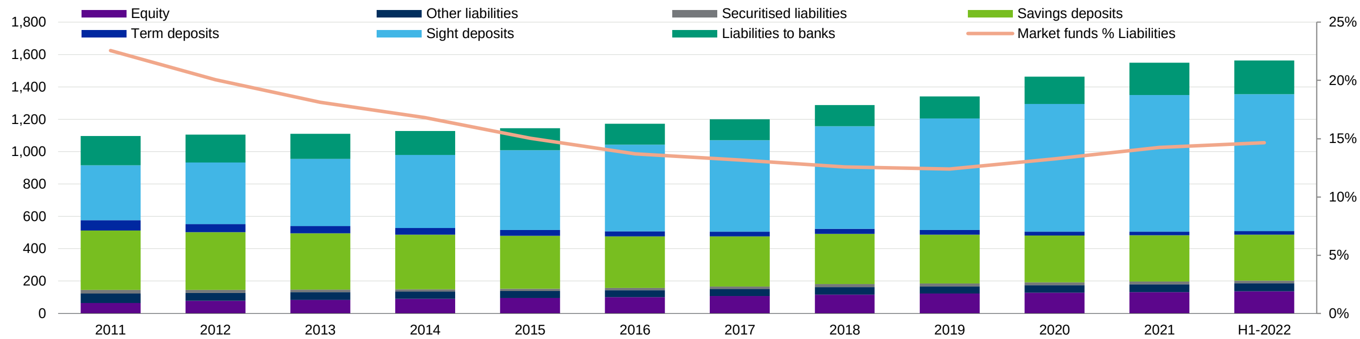
Strong funding benefiting from prime access to German depositors

S-Finanzgruppe's credit strength is strongly supported by sizeable and well-diversified deposits. This view is reflected in our assigned a2 Funding Structure score, which is three notches above the group's baa2 initial score. The positive adjustments take into account S-Finanzgruppe's high deposit granularity, reflecting its market leadership across Germany; the significant potential of savings banks to use their substantial mortgage books for secured funding in the capital markets, if needed; and the existence of sizeable covered bonds and promotional loans, provided by sovereign-related entities. These latter funding sources are less sensitive to credit developments and are therefore more reliable. However, our assessment also reflects the German Landesbanks' dependence on wholesale funding.

The strong funding profile for S-Finanzgruppe is supported by the savings banks' strong market position and its perceived stability. This allows for the collection of diversified and highly granular deposits. As of H1 2022, the savings banks' aggregate deposits of €1.157 trillion compared with aggregate loans of €1 trillion, resulting in a favourable a loan-to-deposit ratio of 88%, up from the very favourable level of 85% in recent years and in line with the levels observed in 2015 and 2010 [10]. A large portion of the savings banks' excess funding — reflecting the difference between deposits and loans — of around €141 billion as of H1 2022 (2021: €170 billion, 2020: €169 billion, 2019: €131 billion) is shared within member institutions of S-Finanzgruppe [11].

The moderate increase in the savings banks' market fund ratio to around 14.7% as of H1 2022, compared with 12.9% in 2019, largely reflects their participation in the European Central Bank's (ECB) TLTRO III programme. We estimate this funding component accounted for around 4% of their assets.

Exhibit 9
Rising deposits at savings banks helped reduce their dependence on market funding
Data in € billions

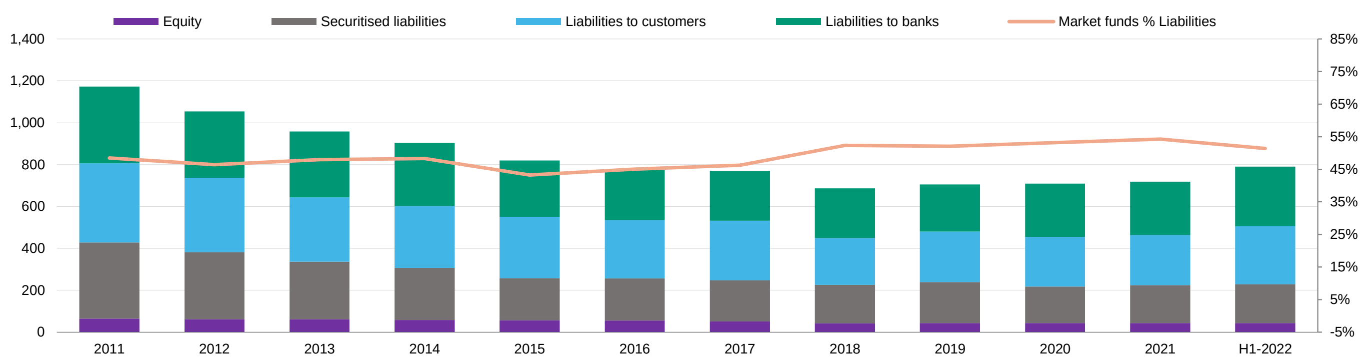


We include liabilities to banks and securitised liabilities to calculate a proxy for the savings banks' market funding dependence.
Source: Deutsche Bundesbank

The savings banks' sizeable and very granular deposits support the Landesbanks' funding needs, which exhibit a high dependence on market funds. As of year-end, Landesbanks' loan-to-deposit ratio was 139%, reflecting the fact that loans of €386 billion are higher than liabilities to customers of €277 billion (2021: €157%, 2020: 147%)[12]. Despite the Landesbanks' significant efforts to reduce leverage — between 2008 and 2021, their aggregate assets declined from €1.7 trillion to €805 billion — their relative market funding dependence remained broadly stable, as expressed by a loan-to-deposit ratio of 135%-157% over the last decade.

We estimate that the favourable funding from TLTRO accounted for around 10% of German Landesbanks' assets as of year-end 2021 and largely explains the moderate increase in their market fund ratio to around 54% in 2021, compared with 52% in 2019. For H1 2022, the ratio declined to 51% as deposits grew stronger than loans.

Exhibit 10
Landesbanks' market funding dependence remained broadly unchanged over the last decade
Data in € billions



We include liabilities to banks and securitised liabilities to calculate a proxy for the Landesbanks' market funding.
Source: Deutsche Bundesbank

Sizeable liquidity supported by high-quality financial securities

S-Finanzgruppe's assigned Liquid Resources score of baa1 is in line with the group's initial score. Our assessment takes into consideration the high quality of liquid assets and additional, ECB-eligible securities held in savings banks' held-to-maturity portfolios, balanced by asset encumbrance, which arises from issued covered bonds, repurchase (repo) activities and intragroup exposures.

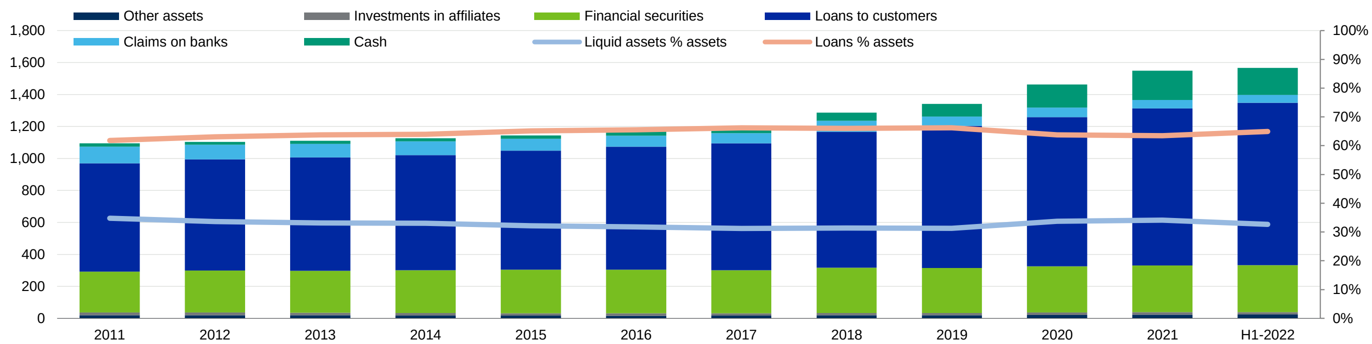
S-Finanzgruppe's liquidity strongly supports our assessment of the group's favourable credit profile. As of year-end 2021, aggregate liquid assets within the group were €799 billion and included €266 billion in cash, €227 billion in claims on banks and €306 billion of financial securities (2020: €778 billion, 2019: €711 billion)[13].

As of H1 2022, liquid assets at savings banks accounted for 33% of their balance sheets, stable compared with that in 2021 and 2020, and up from around 31% in 2019, largely because of higher cash (around 11% of assets as of H1 2022; 2019: 6%), while claims on banks (3%) and financial securities (19%) declined slightly[14]. Rising loans over the last decade, in combination with declining interest rates, triggered a moderate, relative reduction in savings banks' liquidity until 2019 and somewhat benefited from the ECB's extraordinary liquidity provided via the long-term refinancing programmes.

The savings banks' liquidity coverage ratio (LCR) was around 175% as of year-end 2021, compared with 204% in 2020 and 188% in 2019[15].

Exhibit 11

The savings banks' liquid assets have remained stable over time

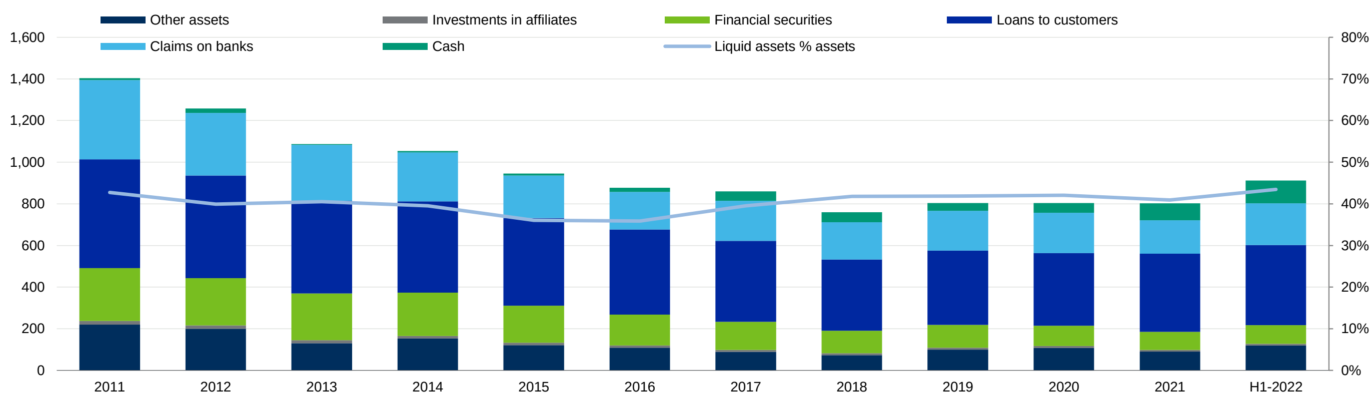


We include cash, claims on banks and financial securities for calculating the savings banks' liquid assets.
Source: Deutsche Bundesbank

As of H1 2022, liquid assets at German Landesbanks accounted for around 44% of assets, compared with 41% in 2021, and 42% both in 2020 and 2019. The ratio remained broadly stable since 2017, despite the banks' incremental TLTRO participations. This is reflected in higher cash, which represented around 12% of assets as of the end of H1 2022, compared with around 6% in 2020 and 4.6% in 2019. For our calculation of liquid assets for the group of Landesbanks, we also include claims on banks (22%) and financial securities (10%)[16]. Reported LCRs for Landesbanks ranged between 135% and 250% in 2021 (2019: 124% and 225%).

Exhibit 12

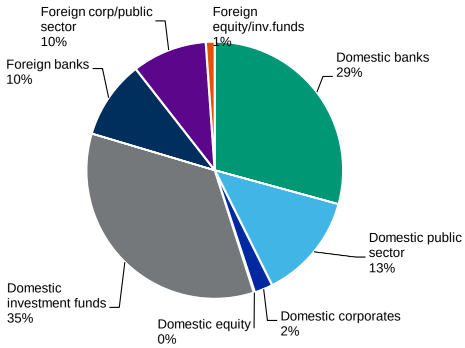
Compared with savings banks, Landesbanks operate with larger claims on banks (light blue) and lower financial securities (light green)
Data in € billions



We include cash, claims on banks and financial securities for calculating the Landesbanks' liquid assets.
Source: Deutsche Bundesbank

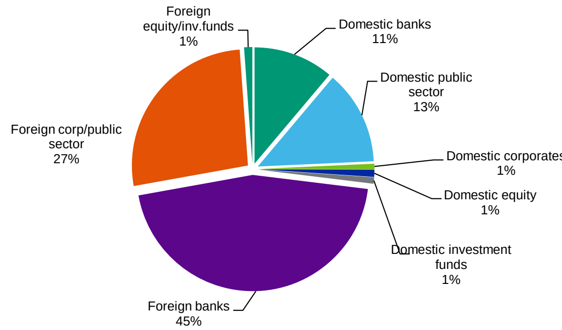
The savings banks' financial securities have very high quality, reflecting the large share of domestic issuers, including German public-sector entities. This view is supported by the lack of exposure to equities and somewhat balanced by the relatively high portion of investment funds, which mostly relate to fixed-income securities.

Exhibit 13
Around 80% of savings banks' financial securities are to domestic issuers
Data in percentage terms, as of H1 2022



Source: Deutsche Bundesbank

Exhibit 14
More than two-thirds of Landesbanks' financial securities are exposed to foreign issuers
Data in percentage terms, as of H1 2022



This group includes BayernLB, DekaBank, Helaba, LBBW, NORD/LB and SaarLB.
Source: Deutsche Bundesbank

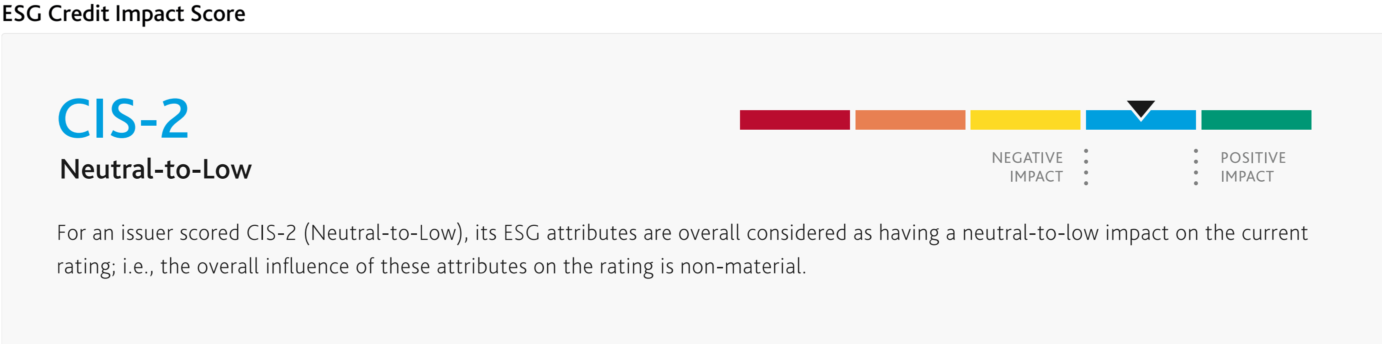
Macro Profile of Strong +

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 80% exposure to Germany, around 15% to the European Union and around 5% 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 and very low susceptibility to event risk.

ESG considerations

Sparkassen-Finanzgruppe's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 15
ESG Credit Impact Score



Source: Moody's Investors Service

Sparkassen-Finanzgruppe's ESG Credit Impact Score is neutral-to-low (**CIS-2**). This reflects the mitigating rating benefits of the entire group, which include advantages from its diversified legal and business configuration and its overall dominant domestic market position, all of which offsetting moderate governance risks. The group's corporate governance risks are largely reflective of relative weaknesses at the level of its member banks, including most Landesbanks, and represent largely subdued operational efficiency and an unambitious financial strategy particularly at the Landesbanks. Environmental and social factors have a limited impact on the bank's credit profile to date.

Exhibit 16
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-4	G-3
Moderately Negative	Highly Negative	Moderately Negative

Source: Moody's Investors Service

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's members face high industrywide customer relations risks related to regulatory risk, litigation exposure and high compliance standards in their operations. High cyber and personal data risks are mitigated by technology solutions and organisational measures to prevent data breaches.

Governance

Sparkassen-Finangruppe's governance risks are moderate, reflecting the member banks' largely unambitious financial strategy and relatively subdued profitability and elevated cost structures, in addition to above average political representation on individual supervisory boards. Sparkassen-Finanzgruppe's decentralized structure embeds limits to central empowerment and usually requires a lengthier debate before important strategic decisions get taken, although member banks' risk management and organisational structures are in line with industry practices. Managements' ability to address the member banks' subdued profitability remains a concern because it provides only a limited buffer against adverse developments. With regards to the composition of board of directors, political representatives of owners still 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. As such, 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 rating methodology, published in July 2021.

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 17

Sparkassen-Finanzgruppe

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		-	-	-	a1	Quality of assets	Sector concentration
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		15.9%	aa3	↔	aa2	Risk-weighted capitalisation	Expected trend
Profitability							
Net Income / Tangible Assets		0.2%	b1	↔	ba3	Return on assets	Expected trend
Combined Solvency Score			a2		a2		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		26.6%	baa2	↔	a2	Market funding quality	Deposit quality
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		20.3%	baa1	↔	baa1	Quality of liquid assets	Additional liquidity resources
Combined Liquidity Score			baa2		a3		
Financial Profile					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 Investors Service

Ratings

Exhibit 18

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 Investors Service

Endnotes

1 As of August 2022.

2 The ratings shown are the bank's deposit rating and outlook/senior unsecured rating and outlook, and its BCA.

3 Source: DSGV

4 This scheme includes rules for mutual support within groups of banks to ensure the liquidity and solvency of their member institutions.

5 Source: Deutsche Bundesbank.

6 Source: DSGV.

7 Deutsche Bundesbank's group of Landesbanks had 10 banks in 2010 and five in 2022.

8 Source: Deutsche Bundesbank.

9 Source: Deutsche Bundesbank.

10 Source: Deutsche Bundesbank

11 Source: Deutsche Bundesbank

12 Source: Deutsche Bundesbank.

13 Source: DSGV.

14 Source: Deutsche Bundesbank.

15 Source: DSGV.

16 Source: Deutsche Bundesbank.

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