FitchRatings

Banks
Retail & Consumer Banks
Germany

Sparkassen-Finanzgruppe (Sparkassen)

Key Rating Drivers

Leading Franchise, Stable Business Model: Sparkassen-Finanzgruppe's (Sparkassen; SFG) ratings reflect the group's leading domestic retail and SME franchise, underpinned by the savings banks' close ties to their local communities. They also reflect the group's stable business model, granular and mostly collateralised credit exposure, strong capitalisation, stable deposit-driven funding, and excess liquidity. SFG's satisfactory profitability is supported by a high proportion of recurring operating revenue.

Mutual Support Group: SFG is not a legal entity but a savings banks network, whose cohesion is supported by an institutional protection scheme (IPS). Fitch Ratings assigns group ratings to SFG and its savings banks. The Issuer Default Ratings (IDRs) are based on the group's Viability Rating (VR) and apply to each individual savings bank.

The group has an impeccable record of providing protection to depositors by safeguarding its member banks' viability. Members of the group share a common strategy, brand, and joint marketing activities.

Conservative Risk Profile: The savings banks' underwriting standards are generally prudent, underpinned by a high share of collateralised lending, a fairly standard product offering, and long-standing client relationships. Group risk controls were strengthened and centralised as part of the IPS reform in 2024, allowing for early identification of deteriorating financial profiles.

The banks' local focus also ensures granularity and increases diversification at group level. Interest-rate risk is high in most savings banks' loan and bond portfolios due to their asset/liability duration mismatches and the modest use of interest-rate hedging.

Sound Asset Quality: SFG's asset quality benefits from the savings banks' generally prudent risk appetites, a high proportion of residential mortgage loans, and overall benign economic conditions in Germany over the past 15 years. We expect SFG's impaired loans ratio to increase to above 2% in 2025 and 2026 because of Germany's economic downturn and rising corporate insolvencies.

Stable Earnings: Revenues have substantially benefitted from higher interest rates, as a large portion of these increases were not passed on to depositors. Operating profit remained strong in 2024, close to 2023 levels, but should decline in 2025 in line with lower average interest rates and higher costs. SFG's average operating profit should comfortably remain above 1% of risk-weighted assets (RWAs) over the economic cycle, based on the savings banks' conservative RWA calculation.

Strong Capitalisation: SFG's capitalisation is much stronger than the German banking sector's average and reflects the savings banks' consistently high profit retention. Its common equity Tier 1 (CET1) capital ratio of 16.9% at end-2024 is robust, although it understates the strength of the group's capitalisation due to the high RWA density from the savings banks' use of the standardised approach for measuring credit risk. SFG's leverage ratio was a sound 9.9% at end-2024.

Stable and Granular Deposits: The savings banks' large, stable retail and granular SME deposit base supports the group's strong funding and structural excess liquidity. This ensures low funding costs and low sensitivity to market sentiment and underpins the group's 'F1+' Short Term IDR.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1+
Viability Rating	a+
Government Support Rating	ns

Sovereign Risk (Germany)	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

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

Highest ESG Relevance Scores

Environmental	2
Social	3
Governance	3

Applicable Criteria

Bank Rating Criteria (March 2025)

Related Research

Fitch Affirms Sparkassen-Finanzgruppe at 'A+'; Outlook Stable (March 2025)

German Landesbanken – Peer Review 2024 (September 2024)

Western European Banks Outlook 2025 (December 2024)

Global Economic Outlook – April 2025 Update

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Negative rating pressure could arise from a persistent and material deterioration in asset quality and earnings, especially if this results in an impaired loans ratio above 3% and operating profit below 0.7% of RWAs, on a sustained basis.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of SFG's Long-Term IDR would require a record of operating profit of around 1.5% of RWAs, which may translate into an improved assessment of the group's business profile. An upgrade would also be contingent on SFG maintaining its sound asset quality and strong capitalisation.

Other Debt and Issuer Ratings

Debt Rating Classes

Savings banks	Rating
Long-Term IDR	A+
Short-Term IDR	F1+
Long-term deposit ratings	A+
Short-term deposit ratings	F1+

Source: Fitch Ratings

The Long- and Short-Term IDRs of SFG savings banks members are aligned with SFG's IDRs.

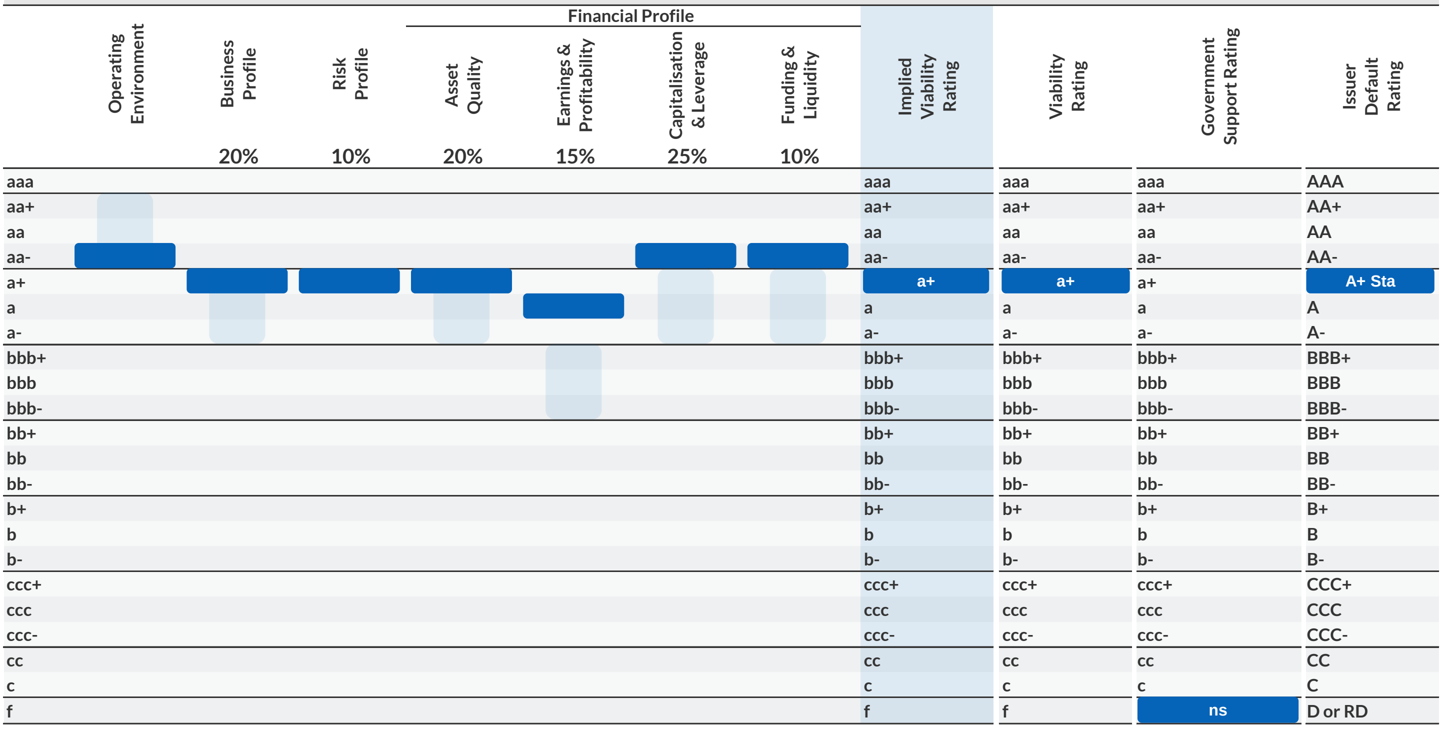
The savings banks' deposit ratings are aligned with their IDRs due to the banks' lack of material resolution debt buffers that would provide their depositors with additional protection in the highly unlikely event of SFG's IPS failing to protect their viability. The German regulators' preferred resolution strategy for most savings banks consists of standard insolvency procedures, and most savings banks therefore have no incentive to build up resolution buffers.

Ratings Navigator

Sparkassen-Finanzgruppe (Sparkassen)

ESG Relevance:

Banks
Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The earnings & profitability score of 'a' is above the 'bbb' implied category score due to the following adjustment reason: risk-weight calculation (positive).

The capitalisation & leverage score of 'aa-' is above the 'a' implied category score due to the following adjustment reason: leverage and risk-weight calculation (positive).

The funding & liquidity score of 'aa-' is above the 'a' implied category score due to the following adjustment reason: deposit structure (positive).

Company Summary and Key Qualitative Factors

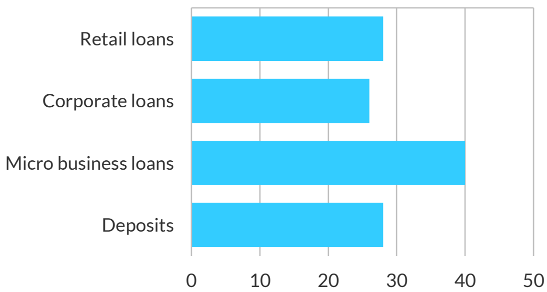
Business Profile

Most savings banks are institutions under public law controlled by their respective municipalities. They primarily provide basic financial services to the local population and SMEs through a dense branch network, and also have a presence in less densely populated or less economically dynamic regions, where competition is less intense. This ensures high client loyalty within their local communities, where the banks are also socially engaged, and contributes to SFG's strong brand recognition, underpinning its above-average market position. SFG has leading nationwide market shares in mortgage and SME lending and deposits, close to 30% in many products.

The savings banks' business model does not rely on volatile businesses and only few large savings banks engage in sizeable trading activities or offer complex products of their own. In general, they closely cooperate with specialist members of the broader public-sector banking group, including Landesbanken, insurers and asset managers, to broaden their product spectrum beyond standard retail and SME loans and deposits. The savings banks also managed or administered EUR339 billion securities at end-2023.

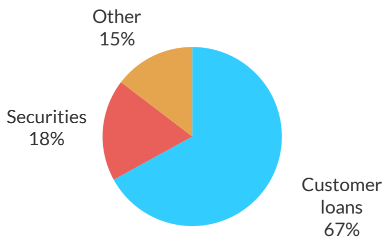
The national savings bank association's initiatives to encourage savings banks adhere to common strategic projects – including digitalisation, process automation, standardisation, data collection, analytics, and risk management – are producing positive results, even though the complexity of the organisation often results in protracted implementation times.

Market Share (%)
End-2024



Source: Fitch Ratings, Fitch Solutions, Bundesbank

Balance Sheet Split
End-2024E



Source: Fitch Ratings, Fitch Solutions, SFG

Risk Profile

Each savings bank defines its risk appetite, and underwriting decisions are not subject to SFG-wide centralised approvals or limits. Instead, the savings banks use a shared internal credit rating system for retail and SME loans and centralised synthetic risk diversification tools. The regional savings banks associations and, ultimately, the DSGV (German savings banks association) are responsible for data collection and risk monitoring, ensuring that members with deteriorating financial profiles are identified at an early stage. This enables prevention and remediation measures well ahead of support from the IPS. SFG does not produce consolidated financial accounts, and its aggregated risk reporting is less sophisticated than at peers.

The savings banks focus on typically highly collateralised granular lending and their risk management is commensurate with the generally low complexity of their business. Their risk profiles also benefit from their proximity to their regions of operations and their long-standing business relationships, which result in extensive knowledge of their customers.

The duration mismatch between the savings banks' assets and liabilities is high compared to that of other large European banking groups. Savings banks typically do not fully hedge their loans, deposits or securities, which makes them more vulnerable to rapid changes in interest rates than large universal banks. The increased interest rates in 2022 resulted in large temporary valuation losses in that year. Unrealised losses in the savings banks' banking books decreased significantly to around 6% of CET1 capital by end-1H24 (end-3Q22: around 20%) due to declining long-term interest rates and pull-to-par effects.

Financial Profile

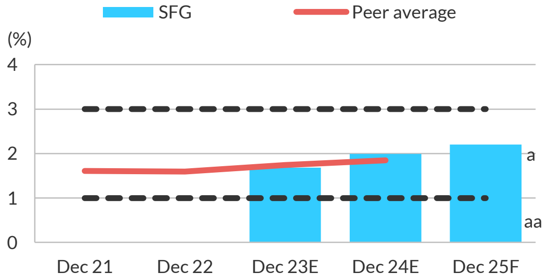
Asset Quality

SFG's asset quality has been fairly resilient, despite two recession years in Germany. Fitch estimates the impaired loans ratio to have increased to about 2% at end-2024, which is below the German banking sector average. Asset quality benefits from the savings banks' granular loan portfolio, which focuses on domestic mass retail and SME customers.

We expect impaired loans to rise further over the next two years, driven by an increase in SME default rates, but only a little pressure on residential mortgage loans, which account for 59% of the loan portfolio at end-2024. This is due to a large proportion of owner-occupied homes, robust labour market indicators, adequate collateralisation and resilient house prices. Consumer and municipal loans form only a minor part of the loan book. The corporate portfolio, including self-employed clients and micro businesses, is granular and accounts for 53% of total loans. The highest sector concentrations are to housing companies (20% of corporate loans at end-2024), commercial real estate (CRE; 16%) and construction (7%). Only the large savings banks finance large, non-recourse CRE transactions on their own, while others cooperate as part of syndicates with the Landesbanken. In general, the savings banks' good knowledge of their regional markets and a large proportion of recourse structures or municipal sponsors limit the risk in this business.

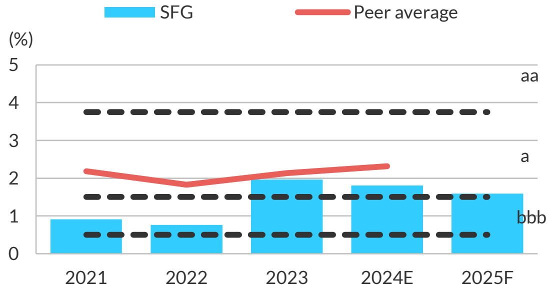
SFG's aggregate securities portfolio composition is stable and of very high quality, but we do not rule out possible opportunistic investments at single savings banks. Government bonds and covered bonds account for a large share of the portfolio, while the Landesbanken account for the majority of unsecured financial institution bonds.

Impaired Loans/Gross Loans



SFG does not disclose an impaired loans ratio
Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Our assessment of SFG's profitability reflects its leading franchise in lower-risk domestic activities, strong execution through several credit cycles and well above-average resilience during previous crises.

SFG's preliminary 2024 results indicate that operating profit before valuations was stable at a record high level of EUR18.2 billion (1.2% of average total assets). This performance was driven by an increase in net interest income by 1.1% and continued fee growth of 6.2%, offset by cost inflation of 4.2%. SFG's reported cost/income ratio before valuations was also broadly stable, at 54% (2023: 53%). The return on equity before taxes was almost unchanged, at 10.1% (2023: 10.3%), benefitting from low loan impairment charges (LICs) of EUR2.3 billion (22bp of gross loans). Deposit margins remained high, supported by the savings banks' strong local deposit franchises.

We expect SFG's operating profit/RWAs ratio, which we assess considering its conservative RWA calculation, to decline in 2025, but to remain above its long-term average at about 1.5%, as the repricing of loans and securities in combination with balance sheet growth will likely not be sufficient to compensate lower overnight interest rates, cost inflation and heightened LICs.

Capitalisation and Leverage

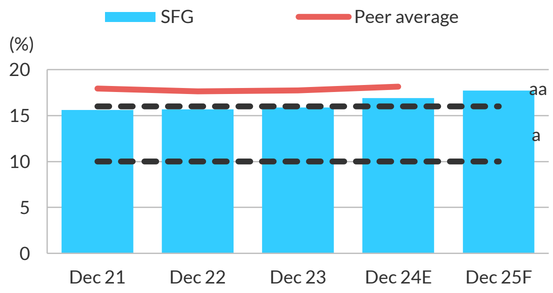
SFG's CET1 capital ratio improved to a sound 16.9% at end-2024 (end-2023: 15.9%) on low RWA inflation, broadly in line with the 1.0% loan growth. We expect SFG's earnings retention to remain strong and support the CET1 capital ratio above 16% in the medium term.

Most saving banks' use of the standardised approach for the calculation of credit-risk RWAs for all asset classes means the vulnerability of SFG's capital ratios is limited to negative rating migration and regulatory RWA inflation. However, this understates the group's CET1 and total capital ratios by about a third compared with European mutual banking groups that operate with similar risk profiles, but that make extensive use of the internal rating-based approach. SFG's sound Basel leverage ratio (end-2024: 9.9%) is much stronger than that of most domestic and foreign peers.

SFG is not regulated as a group. Therefore, it is not subject to regulatory capital or resolution-planning requirements at group level. Each savings bank is subject to individual SREP (Supervisory Review and Evaluation Process) requirements, which vary mainly depending on its vulnerability to interest-rate risks in their banking books.

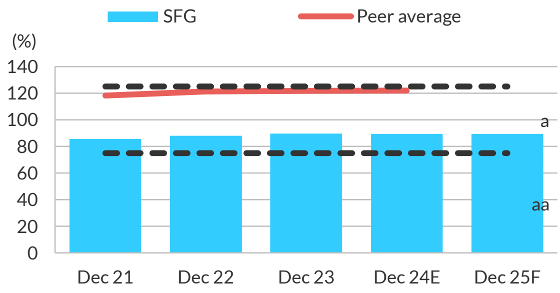
The savings banks' status as public-law institutions constrains their ability to raise capital. Instead, capital weaknesses at individual savings banks are generally proactively addressed by merging them into stronger neighbouring savings banks.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

SFG's customer deposits increased by 2.9% to EUR1.18 billion by end-2024. Lower inflation, along with an increase in household incomes and subdued consumer spending, contributed to the higher deposit volumes. Clients' demand for term deposits has abated and term deposits likely peaked at end-2024, at 10% of SFG's customer deposits (end-2021: 2%). Granular and sticky retail deposits account for about 60% of total deposits.

Only 43 savings banks (~12% of the total) issue covered bonds, with about EUR30 billion outstanding at end-2023. As a result, most of the group's loan book is unencumbered. Savings banks typically have large liquid securities portfolios, which is reflected in SFG's high aggregated liquidity coverage ratio of 196% at end-2024.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent boundaries for indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category. Peer average includes Genossenschaftliche FinanzGruppe (aa-), Desjardins Group (aa-), Credit Agricole (a+), Groupe BPCE (a), Credit Mutuel Alliance Federale (a+), Svenska Handelsbanken AB (aa). Latest data used for Sparkassen-Finanzgruppe (Sparkassen), Genossenschaftliche FinanzGruppe is for FY23. Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report.

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	12 months (USDm)	12 months (EURm)	12 months (EURm)	12 months (EURm)	12 months (EURm)
Summary income statement					
Net interest and dividend income	30,852	28,160	22,210	19,262	19,944
Net fees and commissions	10,583	9,660	9,340	8,974	8,402
Other operating income	11	10	10	14	9
Total operating income	41,447	37,830	31,560	28,250	28,355
Operating costs	22,536	20,570	19,050	19,597	19,615
Pre-impairment operating profit	18,910	17,260	12,510	8,653	8,740
Loan and other impairment charges	438	400	6,090	1,200	1,822
Operating profit	18,472	16,860	6,420	7,453	6,918
Other non-operating items (net)	-10,989	-10,030	-2,420	-3,110	-2,909
Tax	4,722	4,310	2,610	2,687	2,528
Net income	2,761	2,520	1,390	1,656	1,481
Summary balance sheet					
Assets					
Gross loans	1,117,975	1,020,423	1,009,507	954,990	905,586
Net loans	1,117,975	1,020,423	1,009,507	954,990	905,586
Interbank	168,471	153,771	164,597	50,721	58,783
Other securities and earning assets	319,275	291,416	301,325	300,955	295,111
Total earning assets	1,605,722	1,465,610	1,475,429	1,306,666	1,259,480
Cash and due from banks	25,839	23,584	25,232	171,124	135,108
Other assets	22,209	20,271	18,842	17,552	16,838
Total assets	1,653,770	1,509,465	1,519,503	1,495,342	1,411,426
Liabilities					
Customer deposits	1,247,378	1,138,534	1,145,930	1,115,898	1,067,029
Interbank and other short-term funding	173,838	158,669	173,717	190,237	161,654
Other long-term funding	23,785	21,710	17,391	17,292	16,569
Total funding and derivatives	1,445,001	1,318,913	1,337,038	1,323,427	1,245,252
Other liabilities	57,187	52,197	47,740	42,316	40,669
Total equity	151,582	138,355	134,725	129,599	125,505
Total liabilities and equity	1,653,770	1,509,465	1,519,503	1,495,342	1,411,426
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solutions, SFG

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.0	0.8	0.9	0.9
Net interest income/average earning assets	1.9	1.6	1.5	1.6
Non-interest expense/gross revenue	54.4	60.4	69.4	69.2
Net income/average equity	1.9	1.1	1.3	1.2
Asset quality				
Growth in gross loans	1.1	5.7	5.5	5.2
Loan impairment charges/average gross loans	0.3	0.0	0.0	0.2
Capitalisation				
Common equity Tier 1 ratio	15.9	15.7	15.6	16.4
Tangible common equity/tangible assets	9.2	8.9	8.7	8.9
Basel leverage ratio	9.3	9.0	9.2	8.5
Funding and liquidity				
Gross loans/customer deposits	89.6	88.1	85.6	84.9
Liquidity coverage ratio	186.3	168.3	174.1	204.4
Customer deposits/total non-equity funding	86.3	85.7	84.3	85.7

Source: Fitch Ratings, Fitch Solutions, SFG

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A+ to A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	**ns**
Government ability to support D-SIBs	
Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Positive
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

No Sovereign Support Assumed:

SFG's Government Support Rating (GSR) of 'no support' reflects Fitch's view that the EU's resolution framework is likely to require senior creditors participating in losses ahead of a bank receiving sovereign support.

We would upgrade SFG's GSR only if there is growing propensity from the sovereign to support systemically important banks, which is highly unlikely in the current regulatory environment.

Environmental, Social and Governance Considerations

FitchRatings **Sparkassen-Finanzgruppe (Sparkassen)**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Sparkassen-Finanzgruppe (Sparkassen) has 5 ESG potential rating drivers

- Sparkassen-Finanzgruppe (Sparkassen) has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

DISCLAIMER & DISCLOSURES