

Rating Report

Sparkassen-Finanzgruppe

DBRS Morningstar

21 May 2021

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Ratings

Debt	Rating Action	Rating	Trend
Long-Term Issuer Rating	Upgraded March '21	A (high)	Stable
Short-Term Issuer Rating	Upgraded March '21	R-1 (middle)	Stable
Long-Term Senior Debt	Upgraded March '21	A (high)	Stable
Short-Term Debt	Upgraded March '21	R-1 (middle)	Stable
Senior Non-Preferred Debt	Upgraded March '21	A	Stable

Rating Drivers

Factors with Positive Rating Implications

- Given the recent upgrade, and the challenges related to the COVID-19 pandemic, a rating upgrade is unlikely. A further rating upgrade would require the Group to significantly improve profitability while maintaining prudent risk management.

Factors with Negative Rating Implications

- A significant deterioration in the Group's financial profile and/or strategic challenges faced by larger members, would result in a rating downgrade. Any indication of a weakening of the IPS scheme would also lead to negative rating actions.

Rating Considerations

Franchise Strength (Very Strong/Strong)

- The Sparkassen-Finanzgruppe's (SFG) aggregated balance sheet of close to EUR 2.3 trillion makes the Group of vital importance for the German economy, offering a full set of financial services to their customers with considerable market share in their respective markets.

Earnings Power (Good)

- While SFG remained profitable in 2020, earnings across the Group were negatively affected by higher provisions and valuation adjustments for fixed income securities holdings. For 2021, weaker asset quality and the continuation of the low rate environment are still expected to have a negative impact on earnings.

Risk Profile (Strong)

- The stable risk profile of the Sparkassen is reflective of their well-diversified and highly granular exposures and sound underwriting. The overall Group risk profile has improved with the continued deleveraging and de-risking of the Landesbanken. However, the current crisis is affecting large parts of the economy and credit costs are expected to remain elevated in 2020.

Funding and Liquidity (Strong)

- The Sparkassen have a strong deposit base and sound liquidity. The Landesbanken have a more wholesale-oriented funding profile, albeit this is based partly on the stable covered bond franchise. In addition, the measures put in place by the ECB in response to the crisis, further support liquidity.

Capitalisation (Strong/Good)

- Capitalisation is solid on an aggregate basis, incorporating healthy capital ratios and stable internal capital generation at the savings banks, as well as the much-improved capital position in the Landesbanken sector. This is partly offset by the fact that SFG cannot raise capital at the Group level.

Financial Information

Sparkassen-Finanzgruppe	2019Y	2018Y	2017Y	2016Y	2015Y
EUR Millions					
Total Assets	2,273,491	2,178,182	2,129,466	2,118,773	2,157,691
Equity Attributable to Parent	173,047	167,846	161,491	157,943	152,858
Income Before Provisions and Taxes (IBPT)	10,216	11,338	12,454	13,472	12,493
Net Attributable Income	1,951	(95)	2,331	2,070	2,888
IBPT over Avg RWAs (%)	0.99	1.15	1.29	1.39	1.30
Cost / Income ratio (%)	73.28	70.82	68.72	66.79	69.19
Return on Avg Equity (ROAE) (%)	3.68	2.24	4.81	4.30	4.92
Gross NPLs over Gross Loans (%)	NA	NA	NA	NA	NA
CET1 Ratio (Fully-Loaded) (%)	15.77	15.60	15.90	15.16	14.63

Source: DBRS Morningstar Analysis; Copyright © 2021, S&P Global Market Intelligence.

Notes: ROAE and CET1 Ratio (Fully-Loaded) as reported.

Issuer Description

[Sparkassen-Finanzgruppe](#) (SFG, or the Group) primarily comprises two main constituents with distinct franchises – the German savings banks (the Sparkassen) and the regional wholesale banks (the Landesbanken). Together, the members of German Association of Savings Banks or Sparkassen-Finanzgruppe) form one of the largest financial Groups globally.

Rating Rationale

DBRS Morningstar assigns an A (high) Issuer and Debt Rating to SFG, which is a floor rating that is applied to the constituent members of the Sparkassen-Finanzgruppe, based on the cohesion and support within the Group and its Institution Protection Scheme (see further information in the Appendix).

The rating reflects the de-risking of the Landesbanken sector and the consistent progress the Group has made in improving its capital position in recent years. The ratings continue to incorporate the very strong franchise of the Sparkassen which is a vital component of the Group. With an aggregate balance sheet of EUR 2.3 trillion the Group commands significant market shares in all business segments, underscoring the Group's importance to the German banking sector and the German economy overall. The ratings also reflect the relative stability of earnings of the Sparkassen. Offsetting these rating strengths are modest profitability and risks associated with the Landesbanken sector that remains a meaningful part of the Group, as well as the high dependence on net interest income in a low rate environment.

The Stable trend reflects the limited ratings upside due to near-to mid-term revenue pressures for German banks in the current low interest rate environment and the still elevated provisioning needs due to the COVID-19 pandemic.

Franchise Strength

Grid Grade: Very Strong/Strong

Together, the members of the German Association of Savings Banks (DSGV) form one of the largest financial groups globally, with total aggregated assets of EUR 2.27 trillion as of end-FY2019. SFG primarily comprises the German savings banks (the Sparkassen) and the regional wholesale banks (the Landesbanken), but the franchise is further supported by additional financial businesses including DekaBank, the Group's asset manager (a top five asset manager in Germany with AUM of EUR 313 billion at end-FY2019), the Landesbausparkassen (German building societies), the Deutsche Leasing Group, and 11 regional public insurance entities. The DSGV functions as an umbrella organisation, coordinating reporting, debt ratings, strategy, marketing & communication and lobbying efforts, while also respecting the autonomy of its members. In DBRS Morningstar's view, the strong, resilient franchise of the savings banks forms the core of Sparkassen-Finanzgruppe's franchise strength, while the weaker, more wholesale-oriented franchise of most Landesbanken negatively affects the overall Group. However, DBRS Morningstar notes the progress made in de-risking and refocussing of the Landesbanken in recent years.

As per the latest available data, the organisation included 371 German savings banks¹. DBRS Morningstar notes that due to the consolidation process in recent years there has been a steady reduction in the number of savings banks. In DBRS Morningstar's view this intra-group consolidation generally results in larger, more viable and hence more cost-efficient and profitable entities.

The savings banks with their solid and stable franchise form the backbone of the Sparkassen Finanzgruppe. The savings banks continue to have a strong market position, reporting aggregate total assets of EUR 1.3 trillion (EUR 1.243 trillion in 2018), and EUR 995 billion of customer deposits (EUR 950 billion in 2018) at end-2019. The Sparkassen are market leaders across a wide range of financial services provided to retail customers and small- and medium-sized enterprises (SMEs) in Germany. As institutions under public law, Sparkassen operate under municipal trusteeship. Their responsible public bodies (Träger) are municipalities (towns, cities), districts or special-purpose associations².

¹ Number of total savings banks within the SFG as of 15 April 2021.

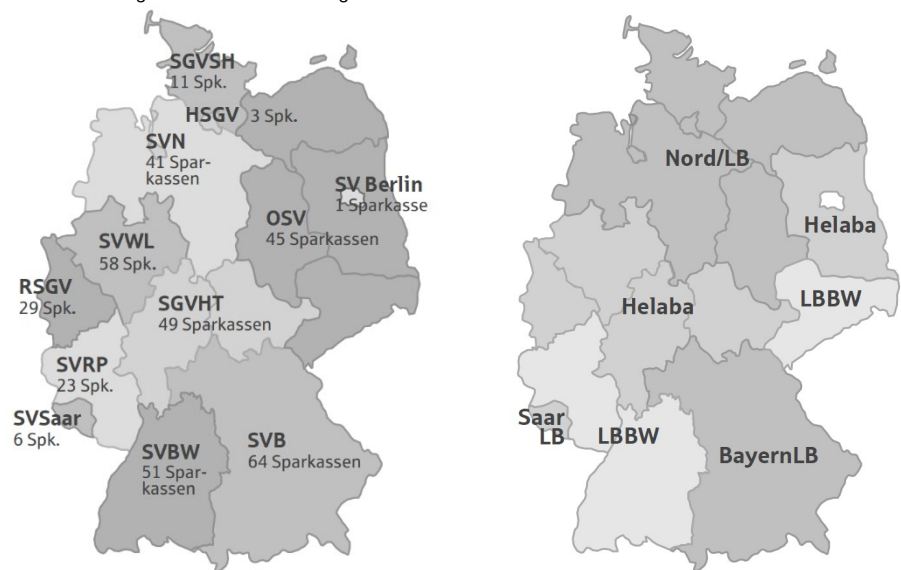
² Currently there are five savings banks which are organized under private law (Hamburger Sparkasse AG, Sparkasse Bremen AG, Sparkasse zu Lübeck AG, Bordesholmer Sparkasse AG, Sparkasse Mittelholstein AG, Sparkasse Westholstein).

Exhibit 1 Corporate Structure¹

Sparkassen-Finanzgruppe					Branches: 17,000 Employees: 293,700 Total Assets: 2.27 trillion				
520 Companies									
377 Savings Banks					Total assets: EUR 1,301 billion Employees: 204,988 Branches: 12,590				
5 Landesbanken		DekaBank		8 Regional Building Societies		Deutsche Leasing Group		10 Regional Public Insurance Groups	
Total Assets: EUR 882 billion Employees: 33,704		Total Assets: EUR 97 billion Employees: 4,723		Total Assets: EUR 73 billion Employees: 6,958		Total assets: EUR 22.1 billion Employees: 2,624		Gross Premium Income: EUR 22.2 billion Employees: 27,960	
Additional Leasing Companies	S-Kreditpartner	DSV Group	Finanz-Informatik	51 Capital Investment Companies		3 Factoring Companies	7 Regional Property Companies	2 IT & Credit analysis companies	

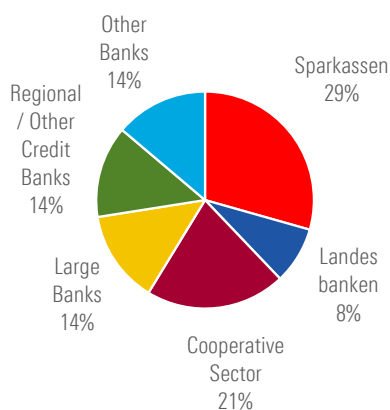
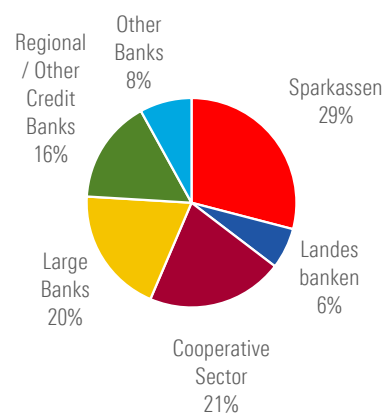
¹As of December 2019. As of 15 April 2021 there were 371 Sparkassen.
Source: Company Documents.

Exhibit 2 Savings Banks and their regional associations **Exhibit 3** Landesbanken



Source: Company Documents.

Despite ongoing competition, the member institutions of Sparkassen-Finanzgruppe enjoy a very strong position in German banking as demonstrated by their leading market shares in core products. In FY2019, the Sparkassen-Finanzgruppe was the biggest lender and deposit taker in Germany. In particular, the Group reported a 40.6% market share in corporate lending, of which 30.1% pertained to the Sparkassen and the remaining 10.5% to the Landesbanken. Furthermore, the Group reported a 36.7% market share in mortgage lending, almost entirely attributable to the Sparkassen (35.2%). In terms of retail deposits, the savings bank clearly dominate the German market with a share of 37.6%, while 1.4% of deposits accrue to the Landesbanken.

Exhibit 4 Loans to Domestic Non-Banks in 2019**Exhibit 5** Domestic Customer Deposits in 2019

Source: DBRS Morningstar, Company Documents based on Deutsche Bundesbank.

The Landesbanken are mostly active in wholesale banking, as well as serving as the central clearing banks for their respective regional savings bank associations. They are important lenders to medium- to large-sized corporations and public-sector entities mostly in their respective domestic regions. Landesbanken have also been significant participants in international loan syndication, money markets, securitisation and asset-based financing. However, much of this activity has been scaled back with most of the Landesbanken having reduced international activities and/or undergone significant de-risking and/or restructuring. Most Landesbanken are jointly owned by the German federal states in which they are headquartered (reflecting their origin as state banks) and their respective regional savings banks associations. The level of ownership and involvement of the savings banks with the Landesbanken can vary significantly. Indeed, some Landesbanken are vertically integrated via direct ownership of savings banks. Some Landesbanken have developed more diverse franchises geographically and by business line and others less so. Overall, DBRS Morningstar continues to view the Landesbanken as more vulnerable to market dislocations than the savings banks and also a potentially more challenging burden for the Institutional Protection Scheme as demonstrated by the recent issues at NORD/LB.

In the Landesbanken sector total assets at year-end FY2019 increased by 4.1% to EUR 899.6 billion. Loans to customers grew by 3.3% YoY to EUR 413 billion, driven by loans to the public sector, while corporate loan growth slowed. For the foreseeable future, DBRS Morningstar expects total assets and loans to reduce, driven by the planned balance sheet reduction of NORD/LB.

Privatisation of HSH Nordbank AG reduces the number of Landesbanken to five, but still under IPS umbrella until December 31, 2021

On November 28, 2018, HSH Nordbank was privatised and renamed as Hamburg Commercial Bank AG (HCB), bringing the number of Landesbanken down to five. HCB is now owned by a number of private investors comprising Cerberus, J.C. Flowers, Golden Tree Asset Management, Centaurus Capital and BAWAG.

As of January 1, 2022, HCB will join the private sector deposit insurance scheme. During the transition period the SFG will remain responsible for HCB's liabilities under the IPS scheme. DBRS Morningstar will continue to monitor HCB's performance until its full legal and economic exit from the IPS. Currently the bank is profitable. As part of the privatisation HCB had undergone a thorough restructuring, which significantly reduced the amount of NPLs and cyclical assets (such as shipping, aircraft and CRE exposures) as well as the size of the balance sheet overall. DBRS Morningstar views the privatisation and restructuring of HCB as positive for the SFG as this helped de-risk the Group by reducing the amount of cyclical assets within the SFG.

NORD/LB recapitalization and restructuring

On December 23, 2019, Norddeutsche Landesbank GZ (NORD/LB or the Bank) received a capital injection from its public State owners and the DSGV³ to help the Bank clean its balance sheet of non-performing shipping loans, which lifted the Bank's Common Equity Tier 1 (CET1) ratio from 6.6% at end-June 2019 to 14.5% at end-2019.

The capital injection was contingent on a large-scale restructuring programme, including an exit from the shipping business which previously had been one of the Bank's major business lines. DBRS Morningstar notes that this restructuring, which significantly reduced the NORD/LB's credit risk, carries significant execution risk as the Bank will shrink its assets to about EUR 95 billion by end-2024, down from EUR 145 billion at end-June 2019.

Centralised institution for the SFG

A discussion regarding further consolidation in the Landesbanken sector involving NORD/LB, Landesbank Baden-Württemberg, DekaBank Deutsche GZ and Berlin Hyp AG emerged in early 2019. A "Sparkassen-Zentralbank" (Sparkassen Central Bank) in Germany, to be owned by the Sparkassen and accomplished over time by gradually merging the above-mentioned institutions would mainly focus on the needs of the savings banks such as payment services, foreign transactions, larger syndicated loans or wealth management products and services. DBRS Morningstar would view such a development positively, as it would not only increase cost efficiencies, but also further lower the risk within the Landesbanken sector. However, due to the COVID-19 crisis priorities have shifted.

³ Nord/LB received a total cash capital injection of EUR 2.835 billion. The State of Lower Saxony contributed around EUR 1.5 billion, the State of Saxony-Anhalt around EUR 200 million and the DSGV EUR 1.135 billion. Lower Saxony also contributed EUR 800 million in other capital-relief measures.

Earnings Power

Grid Grade: Good

Sparkassen-Finanzgruppe

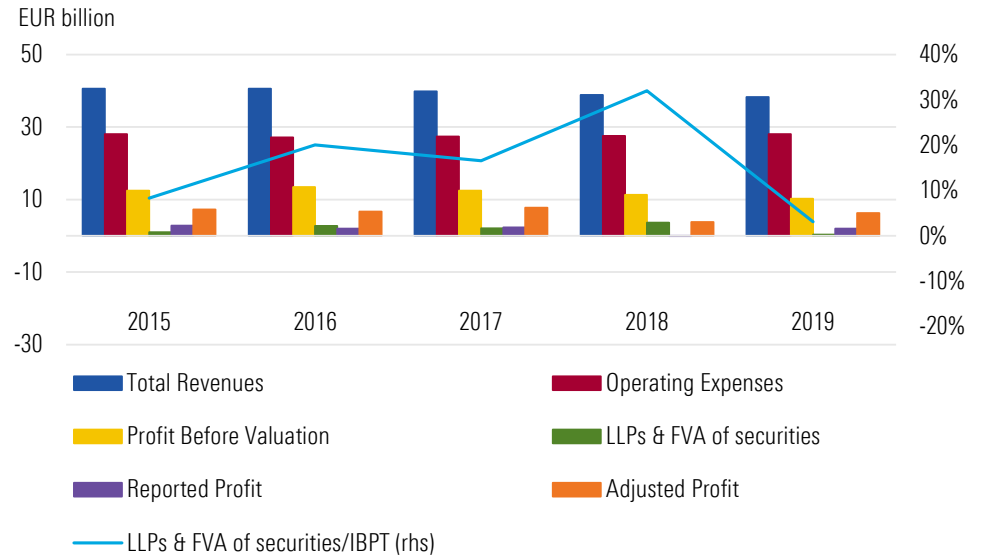
In FY2019 the Group reported a profit of EUR 1.95 billion. Adjusting the result for 340(g) reserves (see below), the result was a profit of EUR 6.3 billion, up from 3.8 billion a year earlier, when the restructuring of NORD/LB weighed on results. The Group posted a FY2019 income before valuation (Betriebsergebnis vor Bewertung) of EUR 10.2 billion (down 9.9% YoY), as lower net interest income (down 3.1% to EUR 27.8 billion) and income from financial investments (down 29% to EUR 474 million) could not be compensated by the large increase in net commission income (up 8.9% to EUR 9.6 billion). Administrative expenses increased by 1.9% to EUR 28.0 billion, reflecting the impact of new labour agreements despite lower headcount, as well as a 3.5% increase in other administrative expenses, owed to a large extent to digitalisation. In FY2019, the cost-income ratio (CIR) of the Group as a whole increased to 73.3% (2018: 70.8%), mainly due to the decline in net interest income (NII), and higher costs.

Net valuation expenses (a German GAAP accounting category which includes mainly provisions for loan losses and fair value adjustments of securities) dropped to EUR 318 million in FY2019 from EUR 3.6 billion in the previous year, which was driven by the large impairment at NORD/LB, but also due to a large valuation adjustment for the Group's securities portfolio as a result of weak capital markets in FY2018. Given the effect of the COVID 19 pandemic, we expect this line item to have turned more negative again in 2020.

The Group further recorded EUR 5.3 billion (up from EUR 4.6 billion in FY2018) under the category Extraordinary Result (außerordentliches Ergebnis), of which EUR 4.3 billion consisted of net additions to the Fund for General Banking Risks ("340(g) reserves"), which counts as regulatory capital. Therefore, DBRS Morningstar views the contribution to 340(g) reserves as part of profits, as would be the case under IFRS, and adjusts results accordingly. Extraordinary results also include items such as restructuring costs, which explain most of the YoY increase, as NORD/LB and Hamburg Commercial bank are executing their restructuring programmes.

DBRS Morningstar's view is that the COVID-19 crisis will continue to affect the Group's profitability in a meaningful way in 2021, as the low rate environment and the related margin pressure, higher loan loss provisions. More and more banks are charging negative rates for deposits. However, we do not expect this to fully offset the negative revenue impact from negative rates, as the pandemic has led to a large increase of deposits.

Exhibit 6 P&L - Sparkassen-Finanzgruppe



Source: DBRS Morningstar, Company Reports.

Exhibit 7 ROAE

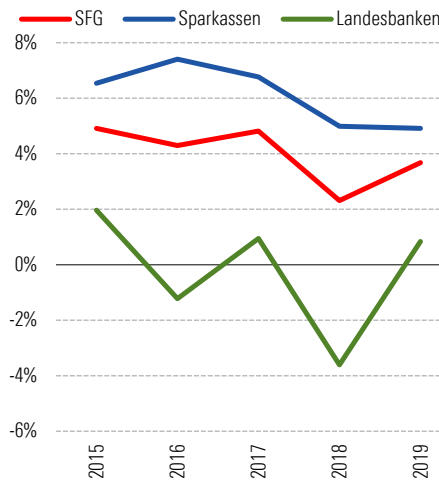
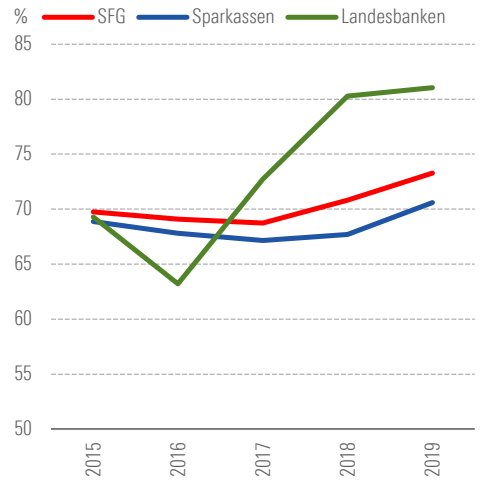


Exhibit 8 Cost-Income Ratio



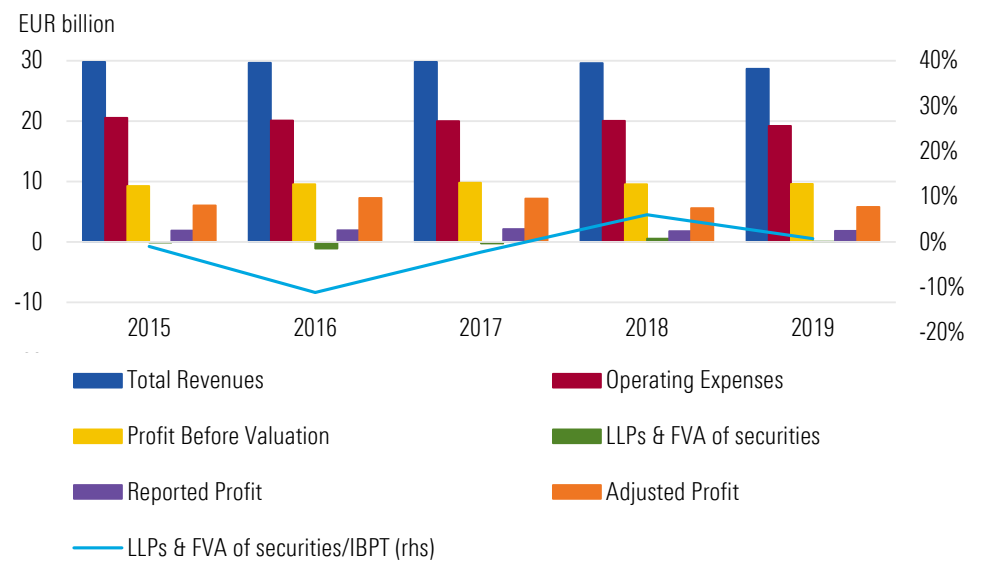
Source: DBRS Morningstar, Company Reports.

Note: Landesbanken incl. DekaBank.

Sparkassen

Reflecting the challenges in FY2020 the Sparkassen (according to preliminary unaudited FY2020 results) reported a 2.2% YoY decline of income before valuation to EUR 9.4 billion. Loan growth was strong at 5.2% YoY, but deposits increased even more by 7.9%. As a result, NII declined by 3.3% YoY, which was only marginally offset by a 2.4% increase in fees. Operating expenses declined by 1.4% due to more moderate pay raises, staff reductions and lower other administrative expenses. As expected, credit impairments increased significantly from EUR 600 million in 2019 to EUR 1.3 billion in 2020 reflecting the impact of the COVID-19 pandemic. Pre-tax profit as calculated by DBRS Morningstar fell by 19% YoY to 6.8 billion and net profit declined by 28% to EUR 4.3 billion. However, the savings banks also reduced the contribution to the Fund for General Banking risks by EUR 1.5 billion to EUR 2.7 billion respectively. Going forward, DBRS Morningstar expects negative rates to continue to weigh on revenues, and loans loss provisions are likely to remain elevated. Given the large inflow of deposits in recent years, the negative rates for ECB deposits alone have cost the savings banks EUR 120 million in FY2020 and the effect is estimated to be EUR 240 million in 2021.

Exhibit 9 P&L - Sparkassen



Source: DBRS Morningstar, Company Reports.

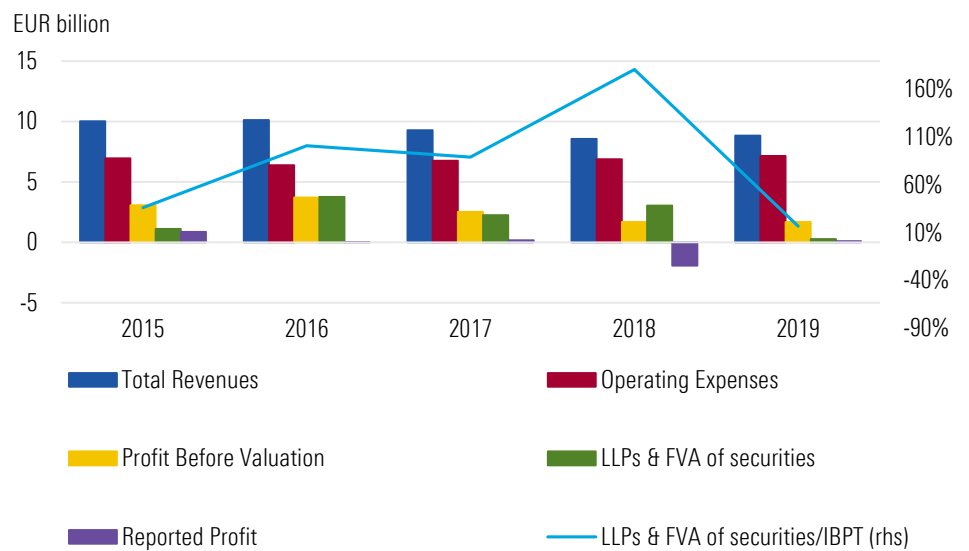
Aggregate cost efficiency for the savings banks is broadly in line with German and European cooperative banks and looks favourable when compared to German commercial banks. The CIR has remained stable in recent years and reflects the extended branch network, providing coverage in many rural areas in Germany, in accordance with their public-sector mission. DBRS Morningstar recognises that efforts by the savings banks to centralise back-office functions in recent years have shown some results in terms of branch reductions and number of employees. However, this has been mitigated by pay increases and the continuous need to invest in processes and technology.

Landesbanken⁴

In FY2019 the Landesbanken reported a small profit of EUR 95 million (according to German GAAP), following a loss of EUR 2.0 billion in FY2018, reflecting the large impairments taken in relation to NORD/LB’s shipping portfolio. However, profits are still held back by restructuring charges. NII for the sector decreased by 1.7% YoY to EUR 6.5 billion reflecting the continued margin pressure. However, fee income jumped by 25% to EUR 1.5 billion YoY, keeping IBPT flat at EUR 1.7 billion.

Based on results reported by the Landesbanken under IFRS, DBRS Morningstar calculated an aggregate net profit for the Landesbanken sector of EUR 939 million for FY2020, compared to EUR 1.56 billion a year earlier, as loan loss provisions increased. DBRS Morningstar expects profitability for the Landesbanken sector to remain modest in the near-term given the elevated provisioning needs, the low rate environment and the restructuring currently implemented at NORD/LB.

Exhibit 10 P&L - Landesbanken incl. DekaBank



Source: DBRS Morningstar, Company Reports.

⁴ Including DekaBank.

Risk Profile

Grid Grade: Strong

The stable risk profile of the Sparkassen is reflective of their well-diversified and highly granular exposures. The overall Group risk profile has improved with the continued deleveraging and de-risking of the Landesbanken. For the Group, net valuation expenses (a German GAAP accounting category which includes provisions for loan losses and fair value changes for securities) were EUR 0.3 billion in FY2019 down from EUR 3.6 billion in the previous year, in the absence of large impairments at the Landesbanken, but also due to a large valuation reversal for the Group's security portfolio as a result of stronger capital markets in FY2019. The Sparkassen reported (as part of their preliminary FY 2020 results) loan loss provisions of EUR 1.3 billion, up from EUR 0.6 billion in 2019. Aggregate customer loan impairments at the Landesbanken⁵ were EUR 1.8 billion in FY2020 after a year of minimal provisioning following the restructuring of NORD/LB and the previous HSH NordBank. Looking ahead DBRS Morningstar expects loan loss provisions could remain elevated.

Given the size of the Group's balance sheet and the geographic concentration in Germany, Sparkassen-Finanzgruppe is exposed to the German economic and credit cycle. In business lending the Group (Sparkassen and Landesbanken) had a market share of 41% in FY2019. While the savings bank's business is concentrated in Germany, it is well diversified within the country. Moreover, the exposures in the aggregate loan portfolio of the savings banks are highly granular and extend across the breadth of German industry and commerce. Exposure at Landesbanken tends to be more lumpy, however, concentration risk and exposure to highly cyclical sectors has been significantly reduced since the last financial crisis.

The Group is also characterised by its large exposure to residential real estate, with around 37% market share. The Group's real estate lending to private customers has performed well through the past economic cycles, a reflection of the strong real estate market environment in Germany, adding a level of stability to overall credit quality. Furthermore, the Sparkassen-Finanzgruppe engages in lending to public authorities, which in DBRS Morningstar view moderates the Group's risk profile given the public law guarantees which support local authorities.

As a result of COVID-19 DBRS Morningstar expects an increase in credit losses going forward, albeit from a low base. German companies entered the crisis with better capital levels and liquidity than in the previous financial crisis. In addition, the German economy has benefited from very low unemployment levels and solid public finances prior to the crisis, giving the government flexibility to provide support.

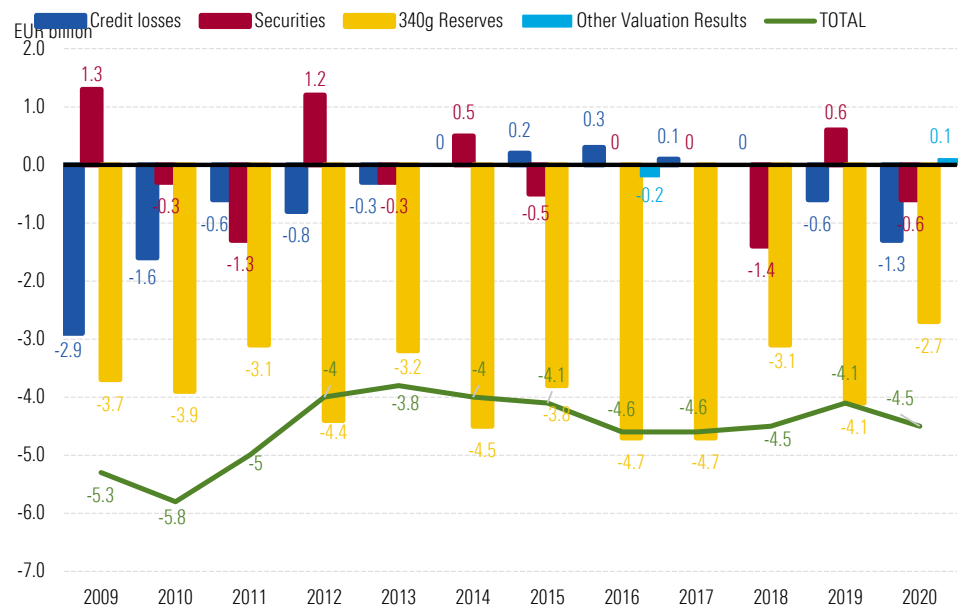
Sparkassen

DBRS Morningstar continues to view the risk profile of savings banks as stable and reflective of the broader German economic environment, to which its retail and SME lending is integrally linked. The Sparkassen, which make up for two thirds of the Group's assets reported preliminary FY2020 loan loss provisions of EUR 1.3 billion, up from EUR 0.6 billion in FY2019. This represents 15 basis points of total customer loans up from 7 basis points a year earlier, but very low when compared to

⁵ DBRS Morningstar calculations based on published annual reports for five Landesbanken plus HCB and Deka (IFRS accounting).

other banks. The low interest rate environment in Europe, solid credit underwriting often in form of secured lending, and the long-standing customer relationships support credit quality in DBRS Morningstar's view. However, some sectors such as retail, restaurants are particularly affected by the lockdowns. As support measures expire at some point, we expect a higher amount of failures and non-performing loans to increase.

Exhibit 11 Sparkassen - Valuation result



Source: DBRS Morningstar, Company Reports.

DBRS Morningstar sees the savings banks as benefitting from risk management tools offered by the Group's federal association, Deutscher Sparkassen- und Giroverband (DSGV). These include credit pooling programmes to limit concentration risks at the individual savings bank level, centralised software and credit scoring systems which provide shared information and statistics useful in controlling credit decisions. The Group's risk profile is further supported by the existence of an early warning system in relation to the Institutional Protection Scheme (IPS). The IPS has the power to conduct audits at all covered institutions at any time. If the risk situation deteriorates at any institution, the guarantee scheme can decide countermeasures to be implemented.

Landesbanken

Historically, DBRS Morningstar has viewed the highest credit risk for Sparkassen-Finanzgruppe to be in the cyclical part of the corporate loan as well as certain securities portfolios of several Landesbanken. Since the global financial crisis, a significant de-risking of loan portfolios and business activities has taken place at the Landesbanken level. Nonetheless, the wholesale nature of the Landesbanken business models may continue to pose future risks relative to the more stable profile of the savings banks. Also, in DBRS Morningstar's view State ownership at some of the Landesbanken poses corporate governance problems, which have contributed to deficiencies in risk control mechanisms in the past. As such, consolidation within the Landesbanken sector under the umbrella of the savings banks would be viewed positively.

In aggregate, Landesbanken (and Deka) reported EUR 1.8 billion in loan loss provisions⁶ for FY2020, or 35 basis points of customer loans, which is in line with the average of the previous 5 years and similar to other German banks. However, given the de-risking that has taken place we expect the long-term average to decline, though impairments could remain elevated in 2021. With regards to the most recently restructured banks, we note that for Hamburg Commercial Bank and NORD/LB problem loans are still the highest in the peer group. However, the impairments taken and guarantees in place should help mitigate outsized sector risks from the hard hit transportation sectors.

Funding & Liquidity

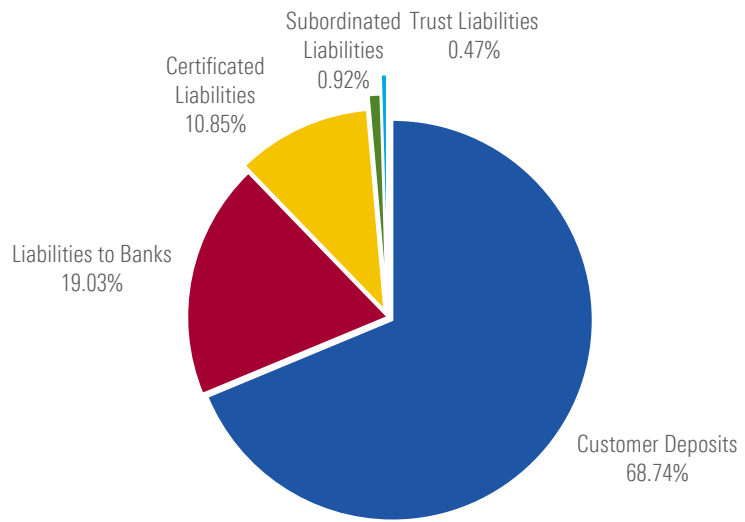
Grid Grade: Strong

DBRS Morningstar continues to view the liquidity and funding position of Sparkassen-Finanzgruppe as benefitting from its strong pillar of customer deposits providing the principal source of funding for most of its businesses. This is partially offset by the more wholesale-oriented funding profile of the Landesbanken. DBRS Morningstar notes that within the Sparkassen-Finanzgruppe allocating excess liquidity among its members plays an important role. This typically takes place when Sparkassen with excess liquidity place funds with Landesbanken (either in form of deposits and Schuldscheine or by subscribing to their debt issues). These funding relationships, which are helped by regulatory zero-risk weighting within the Group, can reduce the dependence of Landesbanken on volatile wholesale market funding. In DBRS Morningstar's view this can help Landesbanken manage through periods of market disruption and can add a level of stability to their funding profile. Customer deposits of EUR 1.34 trillion at end-FY2019 accounted for nearly two thirds of Group funding.

We do not expect the COVID-19 pandemic to have a negative impact on liquidity of the Group overall or the intra-Group lending mechanisms, given the Group's strong deposit base and the measures put in place by the ECB, including TLTRO III, which benefits the Landesbanken.

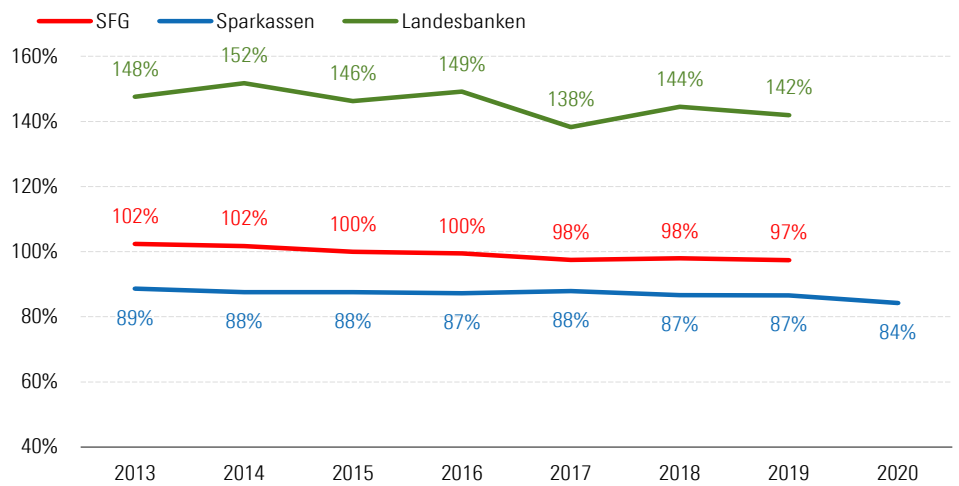
⁶ DBRS Morningstar calculations based on published annual reports for five Landesbanken plus HCB and Deka (IFRS accounting).

Exhibit 12 SFG - Funding Profile



Source: DBRS Morningstar, Company Reports.
 Note: Data as from December 2019.

Exhibit 13 Loans and Deposits Evolution



Source: DBRS Morningstar, Company Reports.

Sparkassen

Despite the increased competition from private sector and foreign banks, the Sparkassen continue to attract deposits via strong brand recognition and customer relationships, as evidenced by the 7.9% growth in FY2020 to EUR 1.07 trillion. Liquidity at the savings banks is further illustrated by customer deposits exceeding customer loans by EUR 169 billion in FY2020, leading to a strong loan to deposit ratio of 84.3%, almost flat YoY. The LCR ratio for the Sparkassen was 204.4 % at end-FY2020. However, given the low rate environment and the reduced needs at the Landesbanken due to TLTRO III, the deposit inflow is becoming more of a burden. The negative rates for ECB deposits alone have cost the savings banks EUR 120 million in 2020 and given the increase in deposits the effect is estimated to be EUR 240 million in 2021. As such, savings banks are looking to reduce deposits or charge negative rates.

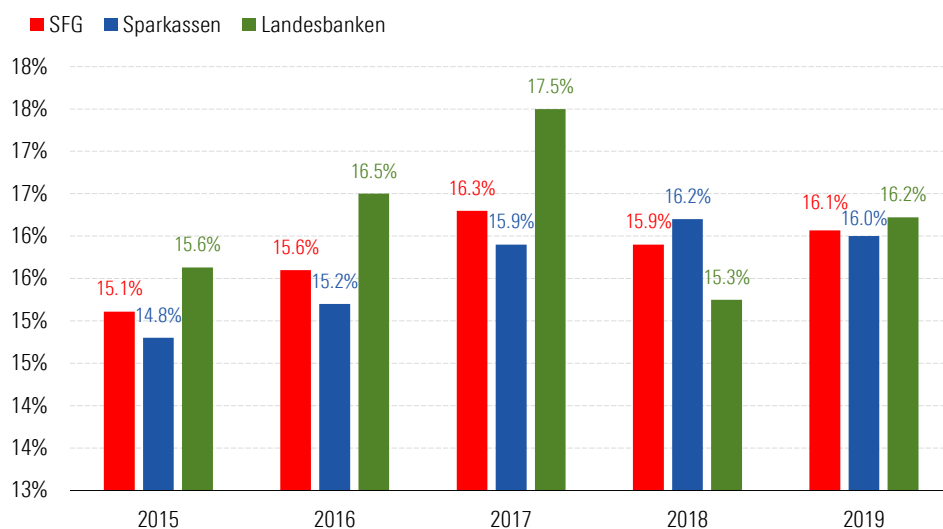
Landesbanken

Given their largely wholesale business models, the Landesbanken in aggregate rely much more on market funding, which makes them more vulnerable to market disruption. DBRS Morningstar notes, however, the rebalancing of the liability structure of Landesbanken after the global financial crisis in favour of deposits from their customer base (intra-group and corporate deposits). Additionally, DBRS Morningstar notes the strong covered bond franchise of the Landesbanken, which DBRS Morningstar views as a more stable form of market funding. Cover pools in the Landesbanken sector continue to benefit from wide-ranging CRE finance activities and the traditional close ties to public sector financing in Germany.

Capitalisation

Grid Grade: Strong / Good

SFG's capitalisation is at the higher end of its peer group. This considers the overall sound capital and solid underlying earnings of the savings banks, and the improved capital position of the Landesbanken. The Group's aggregated Tier 1 ratio (including Landesbausparkassen) increased to 16.1% at end-FY2019 from 15.9% a year earlier. All Landesbanken now carry capital cushions well above their regulatory requirements. DBRS Morningstar believes that this positions the Group well from a capital perspective.

Exhibit 14 Tier 1 Capitalisation

Source: DBRS Morningstar, Company Reports.

Sparkassen

The Sparkassen reported an aggregated Tier 1 capital ratio of 16.0% at year-end 2019 and a total capital ratio of 17.25%, both decreased compared to the prior year due to an increase in RWAs to EUR 741 billion from EUR 699 billion. These levels are well above regulatory requirements of 7.0% for Tier 1 capital and 10.5% for total capital as of 2019. According to preliminary FY2020 results, the Tier 1 capital and the total capital ratio increased YoY by 40 bps and 35 bps respectively, despite strong asset growth. Capitalisation at the savings banks has been supported by a significant build-up in 340(g) reserves, high rates of retained earnings combined with measured growth in risk-weighted assets. The leverage ratio at 8.5% for the Sparkassen is strong relative to peers.

However, these are aggregate numbers, and ratios could be significantly lower for individual members. Given the legal structures of the savings banks, raising capital externally is difficult, and in the past, capital improvement has often been achieved through mergers with stronger institutions. The low interest rate environment and a potential slowdown in the economy had already added pressure to earnings, and some individual saving banks might have been challenged to internally generate significant levels of capital. The consequences from COVID-19 have exacerbated this trend. Therefore, carrying a significant cushion above regulatory requirements is key to the financial flexibility of the savings banks.

Landesbanken

At the Landesbanken level, the aggregate Tier 1 ratio improved to 16.2% at end-FY2019 from 15.3% a year earlier, reflecting the recapitalisation of NORD/LB. DBRS Morningstar is of the opinion that NORD/LB constituted the last major restructuring within the Landesbanken sector. Overall, aggregate capital ratios of the Landesbanken have improved in recent years and are well above regulatory requirements. While Landesbanken are somewhat more flexible in accessing capital markets than Sparkassen, capital raises are still very restricted due to their ownership structure. As a result, DBRS Morningstar considers that it is necessary to maintain buffers well above regulatory capital requirements, especially considering the expected impact from COVID-19.

Appendix: Institutional Protection Scheme

DBRS Morningstar sees the Institutional Protection Scheme (IPS) as a key factor underpinning the SFG floor rating, as it allows for resources of the Group to be made available to all members. Since the Scheme's inception in 1973, no member of Sparkassen-Finanzgruppe has defaulted. However, the IPS is not equivalent to a cross-guarantee. Creditors and members do not have a legal claim on support from the scheme. Instead, the Scheme is based on mutual support between its members. Therefore, the structure of the system and the ability and willingness of its members to support each other become important components of the strength of the Scheme, and therefore factors considered in the floor ratings.

The Scheme comprises a system of connected support funds, including 11 regional savings bank support funds, plus one support fund each for the Landesbanken and the LBS. If a decision has been made to support a member, such support is initially provided by the regional support fund to which the institution belongs. If a savings bank requires support that exceeds the resources of its regional support fund, then in the next step the resources of all 11 savings bank support funds can be activated. If this still proves insufficient, then the resources of the whole IPS can be used, requiring a 75% majority vote. However, the decentralised structure of the system could pose a challenge in DBRS Morningstar's view, as it increases the number of steps that are needed to leverage the full resources of the system and could lead to a delay in the provision of timely support.

The IPS is available to strengthen and restructure savings banks that face challenges. In DBRS Morningstar's opinion, these cases, while generally involving smaller support amounts, help ensure the ability of the system to function smoothly. With the exception of the Landesbanken, most support cases of the IPS have involved small institutions. Sparkassen-Finanzgruppe reports that 90% of all support cases at the Sparkasse level can be handled by the challenged member's regional support fund alone, without additional resources from the system of support funds. Yet, DBRS Morningstar recognises that the combined resources of the IPS are not sufficient, nor was the Scheme designed, to address a wider systemic crisis or the possible burden from larger and less risk averse Landesbanken, should support from its public-sector owners prove unavailable. This is viewed as a weakness that negatively affects the floor ratings. In the past, examples of important support for the Landesbanken has included assistance from their public owners, from the central German government, and from regional support funds that savings banks and Landesbanken have established. The administrators of the support funds can use their discretion to require additional support from the public owners of a challenged member and to effect management and business strategy changes to ensure a successful restructuring and protect the Scheme's funds. Member contributions to the Scheme are risk-based, providing an incentive for members to exercise prudent risk management.

The Deposit Guarantee Act in Germany was introduced in July 2015 and transposed relevant EU directives into German national law. This development mandated modifications to the Group's IPS (formerly known as Joint Liability Scheme). The changes essentially entailed the implementation of i) early intervention rights for the IPS in order to stabilise ailing members at the early stages of financial distress, ii) a significant increase of rescue funds available to the IPS, which are also available for preventive support measures, iii) the inclusion of non-cash

support elements (e.g. guarantees). Additionally, the IPS has been enhanced by new governing and reporting structures within the Group, as well as investment in personnel, procedures and technology targeted to ensure that customers can be timely refunded the guaranteed amount of EUR 100,000 per depositor per institution. The Sparkassen-Finanzgruppe's IPS has been officially recognised by the German regulator as a deposit guarantee scheme under the Deposit Guarantee Act. The IPS serves therefore a mixed purpose as both a rescue scheme and a deposit guarantee scheme with common financial resources which are not mutually ring-fenced.

The Sparkassen-Finanzgruppe is taking steps to strengthen the pre-funding of resources available for the IPS, something DBRS Morningstar will continue to evaluate. The implementation of the European Bank Recovery and Resolution Directive (BRRD) in Germany in 2015 mean that the likelihood of State support has decreased and any form of State intervention, such as has been previously made available to the Landesbanken during the global financial crisis in 2008, has to be guided by the rules of the BRRD directive. This means that it is now very difficult for public owners (German federal states) to provide emergency support to distressed Landesbanken, except under very restrictive conditions, as demonstrated in the case of NORD/LB.

DBRS Morningstar notes that the members of the IPS have strong incentives to support each other, which is critical to ensure the functioning of the system, due to the lack of a legally binding cross-guarantee. A default by any member would cause reputational damage for the overall Group. Customers and counterparties may not differentiate between Group members and may view a default by any one member as a sign of weakness for the overall Group. This reputational link is furthered by the common "Sparkassen" brand and the red "S" logo shared by all savings banks. Similarly, most Landesbanken carry the "Landesbank", or short "LB", brand in their name, and all public-sector building societies share the "LBS" brand. The cost of such reputational damage likely outweighs the costs of providing the support mechanism in most stress cases. Also, as the NORD/LB example showed, the ECB expects the IPS to step in, when support is needed.

Appendix: 369 Rated Members of Sparkassen-Finanzgruppe⁷

Bezirkssparkasse Reichenau
Bordesholmer Sparkasse AG
Die Sparkasse Bremen AG
Erzgebirgssparkasse
Förde Sparkasse
Frankfurter Sparkasse
Hamburger Sparkasse AG
Harzsparkasse
Herner Sparkasse
Hohenzollerische Landesbank Kreissparkasse Sigmaringen
Kasseler Sparkasse
Kreis- und Stadtparkasse Erding-Dorfen
Kreis- und Stadtparkasse Kaufbeuren
Kreis- und Stadtparkasse Wasserburg
Kreissparkasse Ahrweiler
Kreissparkasse Anhalt-Bitterfeld
Kreissparkasse Augsburg
Kreissparkasse Bautzen
Kreissparkasse Bersenbrück
Kreissparkasse Biberach
Kreissparkasse Birkenfeld
Kreissparkasse Bitburg-Prüm
Kreissparkasse Böblingen
Kreissparkasse Börde
Kreissparkasse Döbeln
Kreissparkasse Düsseldorf
Kreissparkasse Eichsfeld
Kreissparkasse Esslingen-Nürtingen
Kreissparkasse Euskirchen
Kreissparkasse Freudenstadt
Kreissparkasse Garmisch-Partenkirchen
Kreissparkasse Gelnhausen
Kreissparkasse Göppingen
Kreissparkasse Gotha
Kreissparkasse Grafschaft Bentheim zu Nordhorn
Kreissparkasse Grafschaft Diepholz
Kreissparkasse Groß-Gerau
Kreissparkasse Halle
Kreissparkasse Heidenheim
Kreissparkasse Heilbronn
Kreissparkasse Heinsberg
Kreissparkasse Herzogtum Lauenburg

⁷ As of Rating Committee date, 15 March 2021.

Kreissparkasse Hildburghausen

Kreissparkasse Kelheim

Kreissparkasse Köln

Kreissparkasse Kusel

Kreissparkasse Limburg

Kreissparkasse Ludwigsburg

Kreissparkasse Mayen

Kreissparkasse Melle

Kreissparkasse Miesbach-Tegernsee

Kreissparkasse München Starnberg Ebersberg

Kreissparkasse Nordhausen

Kreissparkasse Northeim

Kreissparkasse Ostalb

Kreissparkasse Ravensburg

Kreissparkasse Reutlingen

Kreissparkasse Rhein-Hunsrück

Kreissparkasse Rottweil

Kreissparkasse Saale-Orla

Kreissparkasse Saalfeld-Rudolstadt

Kreissparkasse Saarlouis

Kreissparkasse Saarpfalz

Kreissparkasse Schlüchtern

Kreissparkasse Schwalm-Eder

Kreissparkasse Soltau

Kreissparkasse St. Wendel

Kreissparkasse Stade

Kreissparkasse Steinfurt

Kreissparkasse Stendal

Kreissparkasse Syke

Kreissparkasse Traunstein-Trostberg

Kreissparkasse Tübingen

Kreissparkasse Tuttlingen

Kreissparkasse Verden

Kreissparkasse Vulkaneifel

Kreissparkasse Waiblingen

Kreissparkasse Walsrode

Kreissparkasse Weilburg

Kreissparkasse Wiedenbrück

Kyffhäusersparkasse Artern-Sondershausen

Landesbank Saar

Landessparkasse zu Oldenburg

LBS Landesbausparkasse Saar

Mittelbrandenburgische Sparkasse

Müritz-Sparkasse

Nassauische Sparkasse (Naspa)

Niederrheinische Sparkasse Rhein-Lippe

Nord-Ostsee Sparkasse

Ostsächsische Sparkasse Dresden

OstseeSparkasse Rostock

Rhön-Rennsteig-Sparkasse

Saalesparkasse

Salzlandsparkasse

Sparkasse Aachen

Sparkasse Aichach-Schrobenhausen

Sparkasse Allgäu

Sparkasse Altenburger Land

Sparkasse Altmark West

Sparkasse Altötting-Mühldorf

Sparkasse am Niederrhein

Sparkasse Amberg-Sulzbach

Sparkasse an der Lippe

Sparkasse Arnberg-Sundern

Sparkasse Arnstadt-Ilmenau

Sparkasse Aschaffenburg-Alzenau

Sparkasse Attendorn-Lennestadt-Kirchhundem

Sparkasse Aurich-Norden

Sparkasse Bad Hersfeld-Rotenburg

Sparkasse Bad Kissingen

Sparkasse Bad Neustadt a. d. Saale

Sparkasse Bad Oeynhausen-Porta Westfalica

Sparkasse Bad Tölz-Wolfratshausen

Sparkasse Baden-Baden Gaggenau

Sparkasse Bamberg

Sparkasse Barnim

Sparkasse Battenberg

Sparkasse Bayreuth

Sparkasse Beckum-Wadersloh

Sparkasse Bensheim

Sparkasse Berchtesgadener Land

Sparkasse Bergkamen-Bönen

Sparkasse Bielefeld

Sparkasse Bochum

Sparkasse Bodensee

Sparkasse Bonndorf-Stühlingen

Sparkasse Bottrop

Sparkasse Bühl

Sparkasse Burbach-Neunkirchen

Sparkasse Burgenlandkreis

Sparkasse Celle-Gifhorn-Wolfsburg

Sparkasse Chemnitz

Sparkasse Coburg-Lichtenfels

Sparkasse Dachau

Sparkasse Darmstadt

Sparkasse Deggendorf

Sparkasse Dieburg

Sparkasse Dillenburg

Sparkasse Dillingen-Nördlingen

Sparkasse Donauwörth

Sparkasse Donnersberg

Sparkasse Dortmund

Sparkasse Duderstadt

Sparkasse Duisburg

Sparkasse Düren

Sparkasse Einbeck

Sparkasse Elbe-Elster

Sparkasse Elmshorn

Sparkasse Emden

Sparkasse Emsland

Sparkasse Engen-Gottmadingen

Sparkasse Ennepetal-Breckerfeld

Sparkasse Essen

Sparkasse Forchheim

Sparkasse Freiburg-Nördlicher Breisgau

Sparkasse Freising

Sparkasse Freyung-Grafenau

Sparkasse Fulda

Sparkasse Fürstenfeldbruck

Sparkasse Fürth

Sparkasse Gelsenkirchen

Sparkasse Gera-Greiz

Sparkasse Geseke

Sparkasse Gevelsberg-Wetter

Sparkasse Gießen

Sparkasse Göttingen

Sparkasse Grünberg

Sparkasse Gummersbach

Sparkasse Günzburg-Krumbach

Sparkasse Gütersloh-Rietberg

Sparkasse HagenHerdecke

Sparkasse Hameln-Weserbergland

Sparkasse Hamm

Sparkasse Hanau

Sparkasse Hanauerland

Sparkasse Hannover

Sparkasse Harburg-Buxtehude

Sparkasse Hattingen
Sparkasse Hegau-Bodensee
Sparkasse Heidelberg
Sparkasse Herford
Sparkasse Hilden-Ratingen-Velbert
Sparkasse Hildesheim Goslar Peine
Sparkasse Hochfranken
Sparkasse Hochrhein
Sparkasse Hochsauerland
Sparkasse Hochschwarzwald
Sparkasse Hohenlohekreis
Sparkasse Holstein
Sparkasse Höxter
Sparkasse im Landkreis Cham
Sparkasse im Landkreis Neustadt a. d. Aisch - Bad Windsheim
Sparkasse im Landkreis Schwandorf
Sparkasse Ingolstadt Eichstätt
Sparkasse Iserlohn
Sparkasse Jena-Saale-Holzland
Sparkasse Kaiserslautern
Sparkasse Karlsruhe
Sparkasse Kierspe-Meinerzhagen
Sparkasse Kinzigtal
Sparkasse Koblenz
Sparkasse KölnBonn
Sparkasse Kraichgau
Sparkasse Krefeld
Sparkasse Kulmbach-Kronach
Sparkasse Landsberg-Dießen
Sparkasse Landshut
Sparkasse Langen-Seligenstadt
Sparkasse Laubach-Hungen
Sparkasse LeerWittmund
Sparkasse Lemgo
Sparkasse Leverkusen
Sparkasse Lippstadt
Sparkasse Lörrach-Rheinfelden
Sparkasse Lüdenscheid
Sparkasse Lüneburg
Sparkasse MagdeBurg
Sparkasse Mainz
Sparkasse Mansfeld-Südharz
Sparkasse Marburg-Biedenkopf
Sparkasse Markgräflerland
Sparkasse Märkisches Sauerland

Sparkasse Märkisch-Oderland

Sparkasse Mecklenburg-Nordwest

Sparkasse Mecklenburg-Schwerin

Sparkasse Mecklenburg-Strelitz

Sparkasse Meißen

Sparkasse Memmingen-Lindau-Mindelheim

Sparkasse Merzig-Wadern

Sparkasse Miltenberg-Obernburg

Sparkasse Minden-Lübbecke

Sparkasse Mittelfranken-Süd

Sparkasse Mittelholstein AG

Sparkasse Mittelmosel

Sparkasse Mittelsachsen

Sparkasse Mittelthüringen

Sparkasse Mitten im Sauerland

Sparkasse Muldental

Sparkasse Mülheim an der Ruhr

Sparkasse Münsterland Ost

Sparkasse Neckartal-Odenwald

Sparkasse Neubrandenburg-Demmin

Sparkasse Neuburg-Rain

Sparkasse Neumarkt-Parseberg

Sparkasse Neunkirchen

Sparkasse Neuss

Sparkasse Neu-Ulm-Illertissen

Sparkasse Neuwied

Sparkasse Niederbayern-Mitte

Sparkasse Niederlausitz

Sparkasse Nienburg

Sparkasse Oberhessen

Sparkasse Oberland

Sparkasse Oberlausitz-Niederschlesien

Sparkasse Oberpfalz Nord

Sparkasse Odenwaldkreis

Sparkasse Oder-Spree

Sparkasse Offenburg/Ortenau

Sparkasse Olpe-Drolshagen-Wenden

Sparkasse Osnabrück

Sparkasse Osterode am Harz

Sparkasse Ostprignitz-Ruppin

Sparkasse Paderborn-Detmold

Sparkasse Passau

Sparkasse Pfaffenhofen

Sparkasse Pforzheim Calw

Sparkasse Pfullendorf-Meißkirch

Sparkasse Prignitz
Sparkasse Radevormwald-Hückeswagen
Sparkasse Rastatt-Gernsbach
Sparkasse Regensburg
Sparkasse Regen-Viechtach
Sparkasse Rhein Neckar Nord
Sparkasse Rhein-Haardt
Sparkasse Rhein-Maas
Sparkasse Rhein-Nahe
Sparkasse Rosenheim-Bad-Aibling
Sparkasse Rotenburg Osterholz
Sparkasse Rottal-Inn
Sparkasse Saarbrücken
Sparkasse Salem-Heiligenberg
Sparkasse Schaumburg
Sparkasse Scheeßel
Sparkasse Schwäbisch Hall - Crailsheim
Sparkasse Schwarzwald-Baar
Sparkasse Schweinfurt-Haßberge
Sparkasse Siegen
Sparkasse SoestWerl
Sparkasse Sonneberg
Sparkasse Spree-Neiße
Sparkasse St. Blasien
Sparkasse Stade-Altes Land
Sparkasse Starkenburg
Sparkasse Staufeu-Breisach
Sparkasse Südholstein
Sparkasse Südpfalz
Sparkasse Südwestpfalz
Sparkasse Tauberfranken
Sparkasse Trier
Sparkasse Uckermark
Sparkasse Uecker-Randow
Sparkasse Uelzen Lüchow-Dannenberg
Sparkasse Ulm
Sparkasse UnnaKamen
Sparkasse Unstrut-Hainich
Sparkasse Vest Recklinghausen
Sparkasse Vogtland
Sparkasse Vorderpfalz
Sparkasse Vorpommern
Sparkasse Waldeck-Frankenberg
Sparkasse Werra-Meißner
Sparkasse Westerwald-Sieg

Sparkasse Westholstein
Sparkasse Westmünsterland
Sparkasse Wetzlar
Sparkasse Wiesental
Sparkasse Wilhelmshaven
Sparkasse Witten
Sparkasse Wittenberg
Sparkasse Wittgenstein
Sparkasse Wolfach
Sparkasse Worms-Alzey-Ried
Sparkasse Zollernalb
Sparkasse zu Lübeck AG
Sparkasse Zwickau
Stadt- und Kreissparkasse Erlangen Höchststadt Herzogenaurach
Stadt- und Kreissparkasse Leipzig
Stadt- und Kreissparkasse Moosburg
Städtische Sparkasse Offenbach
Stadtsparkasse Augsburg
Stadtsparkasse Bad Pyrmont
Stadtsparkasse Barsinghausen
Stadtsparkasse Bocholt
Stadtsparkasse Borken (Hessen)
Stadtsparkasse Burgdorf
Stadtsparkasse Cuxhaven
Stadtsparkasse Delbrück
Stadtsparkasse Dessau
Stadtsparkasse Düsseldorf
Stadtsparkasse Grebenstein
Stadt-Sparkasse Haan (Rheinl.)
Stadtsparkasse Haltern am See
Stadtsparkasse Langenfeld
Stadtsparkasse Mönchengladbach
Stadtsparkasse München
Stadtsparkasse Oberhausen
Stadtsparkasse Rahden
Stadtsparkasse Remscheid
Stadtsparkasse Rheine
Stadtsparkasse Schwalmstadt
Stadtsparkasse Schwedt
Stadtsparkasse Schwelm
Stadtsparkasse Schwerte
Stadt-Sparkasse Solingen
Stadtsparkasse Sprockhövel
Stadtsparkasse Versmold
Stadtsparkasse Wedel

Stadtparkasse Wermelskirchen

Stadtparkasse Wunstorf

Stadtparkasse Wuppertal

Taunus-Sparkasse

Verbandssparkasse Goch-Kevelaer-Weeze

VerbundSparkasse Emsdetten-Ochtrup

Vereinigte Sparkasse im Märkischen Kreis

Vereinigte Sparkassen Eschenbach i. d. Opf. Neustadt a. d. Waldnaab
Vohenstrauß

Vereinigte Sparkassen Gunzenhausen

Vereinigte Sparkassen Stadt und Landkreis Ansbach

Wartburg-Sparkasse

Weser-Elbe Sparkasse

Sparkassen-Finanzgruppe ESG Checklist

ESG Factor	ESG Credit Consideration Applicable to the Credit Analysis:	Y/N	Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*
Environmental		Overall:	N
Emissions, Effluents, and Waste	Do we consider the costs or risks result, or could result in changes to an issuer's financial, operational, and/or reputational standing?	N	N
Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs?	N	N
Climate and Weather Risks	Will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	N	N
Social		Overall:	N
Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose a financial or regulatory risk to the issuer?	N	N
Human Capital and Human Rights	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts that could result in a material financial or	N	N
	Do violations of rights create a potential liability that could negatively affect the issuer's financial wellbeing or reputation?	N	N
Human Capital and Human Rights:		N	N
Product Governance	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	N	N
Data Privacy and Security	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer?	N	N
Community Relations	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N
Access to Basic Services	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	N	N
Governance		Overall:	Y
Bribery, Corruption, and Political Risks	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	N	N
	Are there any political risks that could impact the issuer's financial position or its reputation?	N	N
	Bribery, Corruption, and Political Risks:		N
Business Ethics	Do general professional ethics pose a financial or reputational risk to the issuer?	N	N
Corporate / Transaction Governance	Does the issuer's corporate structure limit appropriate board and audit independence?	N	N
	Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	Y	R
	Corporate / Transaction Governance:		Y
Consolidated ESG Criteria Output:		Y	R

* A **Relevant Effect** means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.

A **Significant Effect** means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

If any factor is proposed to have a Significant Effect, this should be reflected in the Press Release

ESG Considerations

Environmental

SFG is not exposed to significant environmental risk. The Group provides credit to approximately one third of the German economy, which results in a highly diversified loan book. At the same time, this means that the Group's loan book is not particularly 'green' from a sustainability perspective.

Social

We do not view SFG as carrying social risk that would negatively affect the Group's credit quality. Similar to most large financial institutions, there is a certain level of product risk. However, no material pending issues are known.

Governance

DBRS Morningstar views certain weaknesses in the group structure as relevant from a corporate government perspective. Notably, the Landesbanken are majority or part-owned by German Federal States. State governments, in our view, have limited capabilities to effectively supervise the banks' activities. In the past, Landesbanken have taken outsized risks, resulting in high costs to tax payers and the Sparkassen. Sparkassen associations, while part-owners of some Landesbanken have had only limited influence over the risk taking by the Landesbanken. The ownership mix and the parliamentary process involved in decision making, has also made it difficult at times to swiftly react to challenges. In 2020, the ECB has requested better pre-emptive risk controls within the IPS and more transparent processes in case of a recapitalisation. This factor is reflected in the risk and franchise score. In addition, aggregate information for the Group, in particular related to risk such as nonperforming loans, loan loss reserves or sector exposure is somewhat limited reducing transparency, which is also reflected in the risk and franchise score.

	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe
EUR Millions	2019Y	2018Y	2017Y	2016Y	2015Y
Balance Sheet	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015
Cash and Deposits with Central Banks	121,016	104,487	86,446	316,091	325,078
Lending to/Deposits with Credit Institutions	268,573	268,628	271,056	265,222	294,241
Financial Securities	427,009	428,297	429,611	447,241	475,162
Financial Derivatives Instruments	NA	NA	NA	NA	NA
Net Lending to Customers	1,307,380	1,254,119	1,212,232	1,204,590	1,192,957
- Gross Lending to Customers	NA	NA	NA	NA	NA
- Loan Loss Reserves	NA	NA	NA	NA	NA
Investment in Associates or Subsidiaries	24,467	24,243	24,154	25,037	25,730
Total Intangible Assets	0	0	0	0	0
Fixed Assets	11,854	11,743	11,831	NA	NA
Insurance Assets	NA	NA	NA	NA	NA
Other Assets (including DTAs)	113,192	86,665	94,136	-139,408	-155,477
Assets	2,273,491	2,178,182	2,129,466	2,118,773	2,157,691
Deposits from Banks	371,439	376,127	369,612	371,422	408,855
Deposits from Central Banks	NA	NA	NA	NA	NA
Deposits from Credit Institutions	NA	NA	NA	NA	NA
Deposits from Customers	1,341,961	1,280,220	1,243,222	1,211,165	1,192,943
Issued Debt Securities	211,823	203,107	201,145	203,340	204,104
Issued Subordinated Debt	19,628	19,091	18,005	23,430	24,158
Financial Derivatives Instruments	NA	NA	NA	NA	NA
Insurance Liabilities	0	0	0	NA	NA
Other Liabilities	155,593	131,791	135,991	151,473	174,773
Equity Attributable to Parent	173,047	167,846	161,491	157,943	152,858
Minority Interests	0	0	0	0	0
Liabilities & Equity	2,273,491	2,178,182	2,129,466	2,118,773	2,157,691

	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe
EUR Millions	2019Y	2018Y	2017Y	2016Y	2015Y
Income Statement	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015
Interest Income	58,221	58,592	56,251	55,491	61,434
Interest Expenses	30,442	29,931	26,458	24,325	28,807
Net Interest Income	27,779	28,661	29,793	31,165	32,627
Net Fees and Commissions	9,590	8,806	8,723	8,050	7,588
Results from Financial Operations	474	668	1,065	1,033	516
Equity Method Results	NA	NA	NA	NA	NA
Net Income from Insurance Operations	0	0	0	NA	NA
Other Operating Income	397	715	237	314	-188
Total Operating Income	38,240	38,850	39,818	40,562	40,543
Staff Costs	16,371	16,256	16,092	15,799	16,772
Other Operating Costs	11,653	11,256	11,272	NA	NA
Depreciation/Amortisation	NA	NA	NA	NA	NA
Total Operating Expenses	28,024	27,512	27,364	27,090	28,050
Income Before Provisions and Taxes (IBPT)	10,216	11,338	12,454	13,472	12,493
Loan Loss Provisions	318	3,631	2,063	2,724	1,052
Securities & Other Financial Assets Impairment	0	0	0	0	0
Other Impairments	0	0	0	0	0
Other Non-Operating Income (Net)	-5,270	-4,577	-4,697	-5,179	-4,830
Income Before Taxes (IBT)	4,628	3,130	5,694	5,569	6,611
Tax on Profit	2,676	3,225	3,363	3,499	3,723
Discontinued Operations	0	0	0	0	0
Other After-tax Items	0	0	0	0	0
Minority Interest	0	0	0	0	0
Net Attributable Income	1,951	-95	2,331	2,070	2,888

	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe
EUR Millions	2019Y	2018Y	2017Y	2016Y	2015Y
Other Items	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015
NPLs	NA	NA	NA	NA	NA
Assets Under Management	NA	NA	NA	NA	NA
No. of Employees (end-period)	293,700	301,600	312,800	321,572	332,100
Risk-Weighted Assets (RWA)	1,052,200	1,012,000	967,100	965,700	969,700
RWA over Total Assets (%)	46.28	46.46	45.42	45.58	44.94

Source: DBRS Morningstar Analysis; Copyright © 2021, S&P Global Market Intelligence.

	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe	Sparkassen- Finanzgruppe
	2019Y	2018Y	2017Y	2016Y	2015Y
Earnings Power					
Earnings					
Net Interest Margin (%)	1.33	1.41	1.39	1.35	1.38
Yield on Average Earning Assets (%)	2.79	2.89	2.63	2.41	2.60
Cost of Interest Bearing Liabilities (%)	1.59	1.61	1.45	1.34	1.55
IBPT over Avg Assets (%)	0.46	0.53	0.59	0.63	0.57
IBPT over Avg RWAs (%)	0.99	1.15	1.29	1.39	1.30
Expenses					
Cost / Income ratio (%)	73.28	70.82	68.72	66.79	69.19
Operating Expenses by Employee	95,417	91,220	87,481	84,242	84,463
LLP / IBPT (%)	3.11	32.03	16.56	20.22	8.42
Profitability Returns					
Return on Avg Equity (ROAE) (%)	3.68	2.24	4.81	4.30	4.92
Return on Avg Assets (ROAA) (%)	0.09	0.00	0.11	0.10	0.13
Return on Avg RWAs (%)	0.19	-0.01	0.24	0.21	0.30
Dividend Payout Ratio (%)	NA	NA	NA	NA	NA
Internal Capital Generation (%)	NA	NA	NA	NA	NA
Risk Profile					
Gross NPLs over Gross Loans (%)	NA	NA	NA	NA	NA
Net NPLs over Net Loans (%)	NA	NA	NA	NA	NA
NPL Coverage Ratio (%)	NA	NA	NA	NA	NA
Net NPLs over IBPT (%)	NA	NA	NA	NA	NA
Net NPLs over CET1 (%)	NA	NA	NA	NA	NA
Texas Ratio (%)	NA	NA	NA	NA	NA
Cost of Risk (%)	0.03	0.30	0.17	0.23	0.09
Level 2 Assets/ Total Assets (%)	NA	NA	NA	NA	NA
Level 3 Assets/ Total Assets (%)	NA	NA	NA	NA	NA
Funding and Liquidity					
Bank Deposits over Funding (%)	19.08	20.01	20.16	20.51	22.31
- Interbank over Funding (%)	NA	NA	NA	NA	NA
- Central Bank over Funding (%)	NA	NA	NA	NA	NA
Customer Deposits over Funding (%)	68.94	68.11	67.81	66.87	65.11
Wholesale Funding over Funding (%)	11.97	11.88	12.03	12.63	12.58
- Debt Securities over Funding (%)	10.88	10.81	10.97	11.23	11.14
- Subordinated Debt over Funding (%)	1.09	1.08	1.06	1.40	1.44
Liquid Assets over Assets (%)	35.92	36.79	36.96	48.54	50.72
Non-Deposit Funding Ratio (%)	36.11	36.32	36.83	38.23	40.50
Net Loan to Deposit Ratio (%)	97.42	97.96	97.51	99.46	100.00
LCR (Phased-in) (%)	NA	NA	NA	NA	NA
NSFR (%)	NA	NA	NA	NA	NA
Capitalisation					
CET1 Ratio (Phased-In) (%)	NA	NA	NA	NA	NA
CET1 Ratio (Fully-Loaded) (%)	15.77	NA	NA	NA	NA
Tier 1 Capital Ratio (Phased-In) (%)	16.07	15.94	16.32	15.62	15.11
Total Capital Ratio (Phased-In) (%)	NA	NA	NA	NA	NA
Tang. Equity / Tang. Assets (%)	7.61	7.71	7.58	7.45	7.08
Leverage Ratio (DBRS) (%)	NA	NA	NA	NA	NA
Growth					
Net Attributable Income YoY (%)	NA	NA	12.6	-28.3	1,404.2
Net Fees and Commissions YoY (%)	8.9	1.0	8.4	6.1	6.5
Total Operating Expenses YoY (%)	1.9	0.5	1.0	-3.4	3.6
IBPT YoY (%)	-9.9	-9.0	-7.6	7.8	3.2
Assets YoY (%)	4.4	2.3	0.5	-1.8	-4.2
Gross Lending to Customers YoY (%)	NA	NA	NA	NA	NA
Net Lending to Customers YoY (%)	4.2	3.5	0.6	1.0	0.6
Loan Loss Provisions YoY (%)	-91.2	76.0	-24.3	158.9	-29.1
Deposits from Customers YoY (%)	4.8	3.0	2.6	1.5	2.3

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Notes: ROAE and CET1 Ratio (Fully-Loaded) as reported.

Ratings

Issuer	Debt	Rating Action	Rating	Trend
Sparkassen-Finanzgruppe	Long-Term Issuer Rating	Upgraded	A (high)	Stable
Sparkassen-Finanzgruppe	Short-Term Issuer Rating	Upgraded	R-1 (middle)	Stable
Sparkassen-Finanzgruppe	Long-Term Senior Debt	Upgraded	A (high)	Stable
Sparkassen-Finanzgruppe	Short-Term Debt	Upgraded	R-1 (middle)	Stable
Sparkassen-Finanzgruppe	Senior Non-Preferred Debt	Upgraded	A	Stable

Issuer	Debt	Rating Action	Rating	Trend
369 Members of SFG	Long-Term Issuer Rating	Upgraded	A (high)	Stable
369 Members of SFG	Short-Term Issuer Rating	Upgraded	R-1 (middle)	Stable
369 Members of SFG	Long-Term Senior Debt	Upgraded	A (high)	Stable
369 Members of SFG	Short-Term Debt	Upgraded	R-1 (middle)	Stable
369 Members of SFG	Long-Term Deposits	Upgraded	A (high)	Stable
369 Members of SFG	Short-Term Deposits	Upgraded	R-1 (middle)	Stable

Ratings History

Issuer	Debt	Current	2020	2019	2018
Sparkassen-Finanzgruppe	Long-Term Issuer Rating	A (high)	A	A	A
Sparkassen-Finanzgruppe	Short-Term Issuer Rating	R-1 (middle)	R-1 (low)	R-1 (low)	R-1 (low)
Sparkassen-Finanzgruppe	Long-Term Senior Debt	A (high)	A	A	A
Sparkassen-Finanzgruppe	Short-Term Debt	R-1 (middle)	R-1 (low)	R-1 (low)	R-1 (low)
Sparkassen-Finanzgruppe	Senior Non-Preferred Debt	A	A (low)	A (low)	A (low)

Previous Action

- [DBRS Morningstar confirms Sparkassen-Finanzgruppe LT Issuer Rating at 'A', Trend remains Positive, 27 March 2020.](#)
- [DBRS Morningstar confirms 375 Members of Sparkassen-Finanzgruppe's IPS at 'A', Trend still Positive, 27 March 2020.](#)

Related Research

- [ESG Factors for Financial Institutions, Part One: Environmental Factors, 27 April 2021.](#)
- [DBRS Morningstar: Gender Diversity at European Banking Boards: Still a Long Way to Go, 22 February 2021.](#)
- [Assessing Global Bank Exposure to Commercial Real Estate: Hindered by Disclosure Limitations, 9 February 2021.](#)
- [European Banks' Outlook Remains Challenging in 2021, 14 January 2021.](#)
- [Norddeutsche Landesbank Girozentrale: Rating Report, 18 December 2020.](#)
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- [European Banks Report Lower Cost of Risk in Q3; Asset Quality Deterioration Still To Materialise, 17 November 2020.](#)
- [Assessing CRE Credit Risk in Bank Loan Portfolios Globally: Better Disclosures Would be Applauded, 16 November 2020.](#)
- [DBRS Morningstar Withdraws Certain Debt Ratings of Individual Members of the Sparkassen-Finanzgruppe, 22 May 2020.](#)

Previous Report

- [Sparkassen-Finanzgruppe: Ratingbericht](#), 25 August 2020.
- [Sparkassen-Finanzgruppe: Rating Report](#), 20 May 2020.
- [Sparkassen-Finanzgruppe: Ratingbericht](#), 6 August 2019.
- [Sparkassen-Finanzgruppe: Rating Report](#), 8 May 2019.
- [Sparkassen-Finanzgruppe: Ratingbericht](#), 19 July 2018.
- [Sparkassen-Finanzgruppe: Rating Report](#), 20 May 2018.

European Bank Ratios & Definitions

- [European Bank Ratios & Definitions](#), 11 June 2019.

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