Rating Report

Sparkassen-Finanzgruppe

George Yiannakis
+44 20 7855 6675
gyiannakis@dbrs.com

Ruben Figueiredo
+44 20 3356 1537
rfigueiredo@dbrs.com

Elisabeth Rudman
+44 20 7855 6655
erudman@dbrs.com

DBRS
Insight beyond the rating.

Ratings

Issuer	Debt	Rating	Rating Action	Trend
Sparkassen-Finanzgruppe	Issuer Rating	A	Confirmed	Stable
Sparkassen-Finanzgruppe	Senior Long-Term Debt	A	Confirmed	Stable
Sparkassen-Finanzgruppe	Short-Term Instruments	R-1 (low)	Confirmed	Stable

Rating Considerations

Franchise Strength: The Sparkassen-Finanzgruppe's (SFG) regional savings banks (the Sparkassen) form the backbone of the organisation and enjoy a solid and stable franchise, maintaining strong market positions in German retail and SME banking. SFG's franchise is further complemented by the seven wholesale and clearing institutions (Landesbanken), several building societies, an important leasing franchise and 11 regional public insurance entities. Additionally the Group benefits from synergies from a centralized asset manager, DekaBank (the third largest mutual funds manager in Germany), providing key asset management products for savings banks retail customers. The above entities of Sparkassen-Finanzgruppe (except for the regional insurers) are bound together by an Institution Protection Scheme (IPS), which makes Group resources available to all members of the Group.

Sparkassen-Finanzgruppe's aggregated balance sheet of EUR 2.16 trillion makes the Group of vital importance for the German economy. Approximately three quarters of all German businesses have a banking relationship with the Group. With roughly 50 million current accounts, approximately 60% of Germany's population banks with the Group.

Earnings Power:	Risk Profile:	Funding and Liquidity:	Capitalisation:
Stable performance of the savings banks, albeit low levels of profitability with continuing pressure on interest margins.	Challenging transition of savings banks through the low-yield environment; sizable silent reserves provide decent transition buffer.	Strong deposit base and sound liquidity of the savings banks, partially offset by the more wholesale- oriented funding profile of the Landesbanken.	Sufficient combined level of capitalisation with stable capital generation at the savings banks, as well as the more challenging situation at some of the Landesbanken.

Rating Drivers

Factors with Positive Rating Implications

- Given the level of the ratings and DBRS's floor rating approach, upward rating momentum would be unlikely short of a meaningful external event. Nonetheless, DBRS views positively the stable earnings and balance sheet management at the Group level, the continued de-risking at Landesbanken level and efforts to strengthen the resources available to the Institution Protection Scheme (IPS).

Factors with Negative Rating Implications

- Negative rating pressure could result from any indication of weakening of the IPS and/or access to support for the Landesbanken from their public owners could negatively impact the floor rating. Likewise, downward rating pressure could be triggered by any weakening of the savings banks' franchise and their underlying financial performance and position.

Financial Information

Sparkassen-Finanzgruppe	31/12/2015	31/12/2014	31/12/2013	31/12/2012	31/12/2011
EUR Millions, unless otherwise noted	NGAAP	NGAAP	NGAAP	NGAAP	NGAAP
Total Assets (millions)	2,157,691	2,251,883	2,264,317	2,426,757	2,568,275
Equity (millions)	152,858	149,344	146,399	140,371	127,827
Net Income (millions)	2883.00	191.00	1615.00	2093.00	1624.00
Risk-Weighted Earning Capacity (%)	n/a	n/a	n/a	n/a	n/a
Post-provision Risk-Weighted Earning Capacity (%)	n/a	n/a	n/a	n/a	n/a
Yield on average earning assets	3.06	3.27	3.44	3.92	4.24
Cost of interest bearing liabilities	1.57	1.80	2.04	2.60	2.89
Efficiency Ratio (%)	67.46	69.66	66.05	63.22	61.35
Impaired Loans % Gross Loans	n/a	n/a	n/a	n/a	n/a
Tier 1 Capital Ratio (%)	15.10	14.60	14.60	13.10	10.50

Source: Company reports, DBRS

Issuer Description

Sparkassen-Finanzgruppe primarily comprises two main constituents with distinct franchises – the German savings banks (the Sparkassen) and the regional wholesale banks (Landesbanken). Together, the members of German Association of Savings Banks or Sparkassen-Finanzgruppe (SFG) form one of the largest financial Groups globally, with total aggregated assets of EUR 2.16 trillion as of year-end 2015 (the most recent date for which aggregated data is available).

Rating Rationale

The Group's Issuer Rating and Senior Long-Term Debt Rating is "A" and its Short-Term Instruments rating is R-1(low). These ratings also apply to each member of Sparkassen-Finanzgruppe's Institution Protection Scheme which as of February 2017 includes 396 German savings banks, the seven Landesbanken, nine public-sector building societies (LBS), the Group's central asset manager DekaBank and other specialised service providers. Each member of the Institution Protection Scheme's is generally rated at the floor level with Issuer and Senior Long-Term Debt at "A" and Short-Term Instruments at R-1 (low); however, this does not prevent members from either potentially achieving higher individual ratings based on their individual credit assessment or receiving a lower rating if there is an increased likelihood of departure from the Sparkassen-Finanzgruppe. The stable trend on the floor ratings reflects DBRS's expectation that the strengths of the Sparkassen Finanzgruppe's franchise and financial profile will be maintained.

The floor ratings are based on the depth and resources of the Institution Protection Scheme and the additional support for the Group's members from their public owners (Träger). In DBRS's view, the Institution Protection Scheme of Sparkassen-Finanzgruppe reduces the default risk for each individual member, because the Scheme makes financial resources available to each institution within the Group. However, DBRS recognises that the Institution Protection Scheme has limitations, as it does not amount to a legal cross-guarantee.

The ratings consider the underlying earnings potential and the solid franchise of the savings banks and the overall importance of the Group to the German banking sector. Offsetting these rating strengths are the riskier funding profile and weak overall earnings of several Landesbanken that are a meaningful part of the Group, as well as the high level of competition in the savings banks' core business of German retail banking.

The floor ratings reflect the overall franchise strength of the Sparkassen-Finanzgruppe. Sparkassen-Finanzgruppe's aggregated balance sheet of EUR 2.15 trillion, which makes the Group of vital importance for the German economy. Approximately three quarters of all German businesses have a banking relationship with the Group. With 47.5 million current accounts, approximately 60% of Germany's population banks with the Group. DBRS sees the Group's overall franchise strength as benefitting from the solid positioning and cooperative strategy of the savings banks.

The Sparkassen-Finanzgruppe does not produce audited consolidated financial statements under IFRS but provides aggregated numbers on the basis of local GAAP (HGB accounting rules). In 2015, the most recent year for which aggregate data is available, Sparkassen-Finanzgruppe recorded net income of EUR 2.88 billion compared to EUR 192 million in 2014 and EUR 1.6 billion in 2013. The stronger results in 2015 were driven by the absence of extraordinary items at certain Landesbanken, which impacted the aggregate results of the Group in the previous year.

In 2016 (based on 2016 preliminary, aggregated and largely unaudited figures under German HGB accounting standards), the Sparkassen experienced pressure from the low interest rate environment more intensely with net commission income increases unable to compensate for the decrease in net interest income, which remains by far the biggest revenue source for the Sparkassen. Net interest income decreased by 3.7% and was EUR 22.2 billion in YE2016. Net fee and commission income increased by 3.1% in YE2016 (5.1% in YE2015) and was EUR 7.2 billion. The overall cost base decreased by 1% to EUR 38.4 billion driven by decreasing administrative expenses and lower staff costs reflecting a lower headcount.

The Sparkassen posted in FY2016 relatively stable Income Before Provisions and Taxes (IBPT or operating result before revaluation) at EUR 10.4 billion in 2016 vs EUR 10.8 billion in 2015 reflecting mainly pressures in net interest income (EUR -800 million), balanced by lower overall costs, despite increased bank levy contributions of EUR 131 million (up by EUR 31 million year-on-year). Due to the benign domestic economic environment the credit charges were zero. The Sparkassen continued the increase of their reserves with a net addition of EUR 4.4 billion in 2016 (vs EUR 3.8 billion in the previous year). Net income was flat at EUR 2 billion as of year-end 2016.

DBRS expects margin erosion to continue in 2017 and margins to remain at low levels for a prolonged period of time. However, low credit charges, delayed and diluted Basel IV rules and a significant amount of silent reserves provide transition buffers for the Sparkassen.

In DBRS's view, the overall risk profile of Sparkassen-Finanzgruppe has improved with the deleveraging of the Landesbanken and is now less impacted by the higher volatility of their earnings, despite the ongoing burden of legacy issues at some Landesbanken. Given the geographic concentration in Germany, Sparkassen-Finanzgruppe is exposed to the German economic and credit cycle.

The strength of the Sparkassen-Finanzgruppe's overall liquidity and capitalisation are also considered in the ratings. The strong deposit base and sound liquidity of the savings banks is in part offset by the more wholesale- oriented funding profile of the Landesbanken. Nonetheless, the Landesbanken benefit from sizeable deposits from savings banks. In DBRS's view, this reduces potential demands on the Institution Protection Scheme and adds to the satisfactory evaluation for liquidity across the Group. Likewise, capitalisation remains adequate in DBRS' view. The savings banks reported a Tier 1 capital ratio of 15.2% (14.8 % in 2015) and a total capital ratio of 16.9% (16.7% in 2015) at year-end 2016.

In DBRS's view, the Sparkassen-Finanzgruppe continues to face several challenges. These include i) the transition of the savings banks from the very challenging environment for their retail-oriented business models of low-yields towards a more normalised interest rate environment; insulating especially smaller and mid-sized savings banks from interest rate risk will remain key, ii) defending the still dominant position of savings banks in German retail banking while also maintaining margins and solid profitability by improving distribution efficiency, rightsizing the branch network and promoting digitalisation and iii) continuing the de-risking and deleveraging process at the Landesbanken. In addition, the Group needs to adapt to the ever-changing regulatory environment.

While DBRS sees the Group as a whole as generally well-positioned to adapt to future challenges, the mix of increasing competition, higher regulatory requirements, increased interest rate risk and a potential turning of the credit cycle in Germany could present problems at the level of individual institutions. The lower likelihood of external support after the implementation of the BRRD could potentially pose challenges for Sparkassen-Finanzgruppe's larger and less risk averse members, such as the Landesbanken.

Franchise Strength

Together, the members of the German Association of Savings Banks or Sparkassen-Finanzgruppe form one of the largest financial Groups globally, with total aggregated assets of EUR 2.16 trillion as of year-end 2015. Sparkassen-Finanzgruppe primarily comprises two main constituents with distinct franchises – the German savings banks (the Sparkassen) and the regional wholesale banks (Landesbanken). The Sparkassen-Finanzgruppe's franchise is further completed by additional financial businesses: DekaBank, the Group's asset manager; the Landesbausparkassen (German building societies); Deutsche Leasing Group; as well as 11 regional public insurance entities. The Association coordinates reporting, debt ratings, strategy and lobbying efforts, while also respecting the bottom up autonomy of members. In DBRS'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. The Association launched a strategy aimed at maximising consumer satisfaction while optimising resources called "Modell Verbund". The strategy aims to coordinate activities across the Sparkassen, DekaBank, the building societies, and other members to more effectively and efficiently serve the Group's clients.

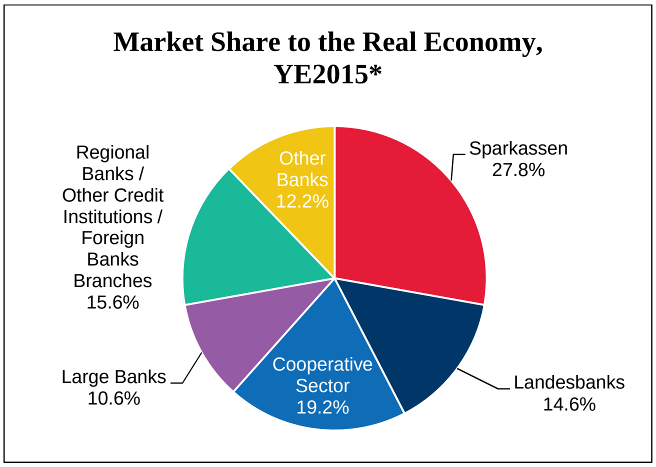
As per latest available data the organization comprised 396 German savings banks[1]. DBRS notes that due to the consolidation process in the last years within the SFG there has been a steadily declining number of savings banks. In DBRS' view intra-group consolidation generally results in larger, more viable and hence more cost-efficient and profitable entities.

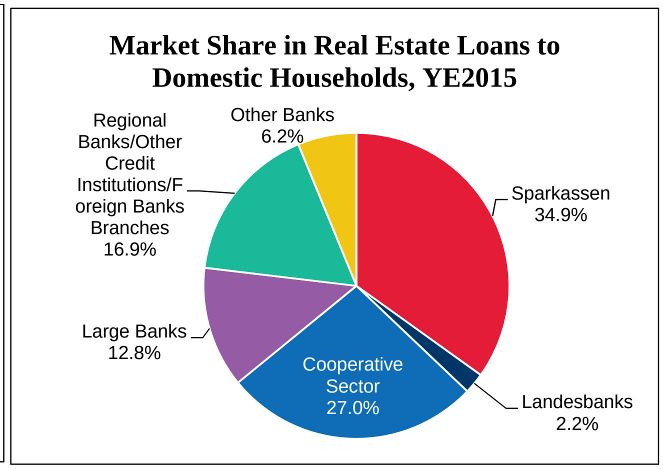
The savings banks with their solid and stable franchise form the backbone of the Sparkassen Finanzgruppe. The savings banks, which

[1] Number of total savings banks within the SFG as of 15.02.2017

already have reported separately year-end 2015 numbers, maintained a strong market position in 2015 and reported EUR 1,145 billion in total assets (EUR 1,127 billion in 2014), and EUR 861.5 billion customer deposits (EUR 836.7 billion in 2014, including certificated liabilities). 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. The public owners (Träger) of most savings banks are the municipalities and the regions in which they operate.

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 2015 the Sparkassen-Finanzgruppe reported a 40% market share in retail customer deposits and also 42% in business lending. At the savings banks level, deposits from households totaled EUR 682 billion at 31 December 2015, representing a market share of 37%. The Landesbanken posted EUR 43.8 billion (vs EUR 40.3 billion in 2014) in customer deposits or a 2.4% market share (vs. 2.3% in 2014). As of year-end 2015, the savings banks reported EUR 272.3 billion in domestic residential real estate loans, comprising a sizeable 35% market share, whilst the Landesbanken have an additional market share of 2.2%.





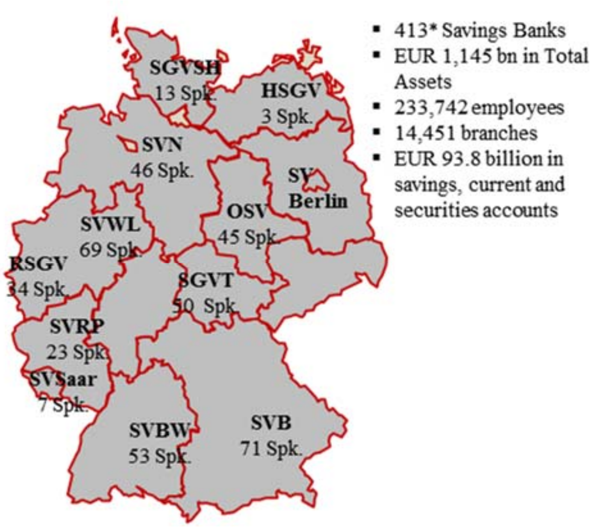
Source: DRBS, Company reports. * excluding loans to financial institutions

The seven 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. Nonetheless, 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. Nonetheless, the level of ownership and involvement of the savings banks with the Landesbanken can vary significantly. Indeed, some Landesbanken are in part 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, despite this variation and an improving risk profile, DBRS continues to view the Landesbanken as more vulnerable to market dislocations than the savings banks and also a potentially more challenging burden for the Institution Protection Scheme.

Note: Data as of as of Dec 2015; (*) Data as of February 15, 2017 there were 396 saving banks

The ten regionally-focused public-sector building societies (Landesbausparkassen, or LBS) which are members of the Sparkassen-Finanzgruppe enjoy a combined market-leading position in home savings and loans products which are mainly distributed by the savings banks. The LBS are mostly owned by regional savings banks associations and Landesbanken. Other members of the Institution Protection Scheme of Sparkassen-Finanzgruppe include DekaBank, the central asset manager of Sparkassen-Finanzgruppe, and other smaller providers of specialised financial products. The savings banks have collectively owned 100% of DekaBank since year-end 2011, following the EUR 2.3 billion purchase of 50% of DekaBank (previously owned by the Landesbanken). DekaBank is the third largest mutual funds manager in Germany, providing key asset management products that the savings banks offer to their retail customers. The broader Sparkassen-Finanzgruppe also includes 11 primary public-sector insurers that together occupy strong positions in individual products such as property insurance, life, retirement products and health insurance. However, the public-sector insurers are not part of the Institution Protection Scheme and therefore do not benefit from DBRS's floor ratings.

Savings Banks and their Regional Associations



* As of February 15, 2017 there were 396 saving banks

Landesbanken

Earnings Power

Sparkassen-Finanzgruppe (SFG)
The aggregated results from the Sparkassen-Finanzgruppe demonstrate its strong resiliency and sizeable earnings potential resulting from its diverse franchise across the German market. Group performance in 2015 reflected a strong recovery from the previous year result that was burdened by extraordinary items from the Landesbanken. In 2015, the overall Group reported net income of EUR 2.9 billion, for which the savings banks contributed EUR 2 billion, or 68% of total profit. The Landesbanken reported a net profit of EUR 868 million at end-2015 versus a net loss of EUR 1.73 billion in 2014. Significantly lower extraordinary items impacting upon the Group's financials marked the year 2015 compared to 2014. The Sparkassen-Finanzgruppe posted in FY2015 net operating income of EUR 12.9 billion benefitting from the strong domestic franchise, but affected by the low interest rate environment and challenges in reducing costs, particularly overhead costs.

Sparkassen
The Sparkassen maintained their ability to generate solid and sustainable revenues in 2015. Despite pressures from the low interest rate environment and rising staff costs, the savings banks continue to generate strong underlying earnings, which form the core of the Group's earnings profile. In 2015 net interest income (NII) was EUR 23 billion, down marginally by 1% year-on-year, slightly impacted by lower yields. Offsetting this, net commission income for the year grew by EUR 505 million or 7.8%, and reflected strength in income from payment transactions and larger volume on customer securities trading. Operating costs (administrative expenses) increased by 1.6% during 2015 to EUR 20.2 billion. Income before Provisions and Taxes (IBPT or operating result before revaluation) for the Sparkassen was relatively stable at EUR 10.8 billion in 2015 vs. EUR 10.9 billion in 2014, driven mainly by higher costs including bank levy contributions as well as increased reserve building against future uncertainties.

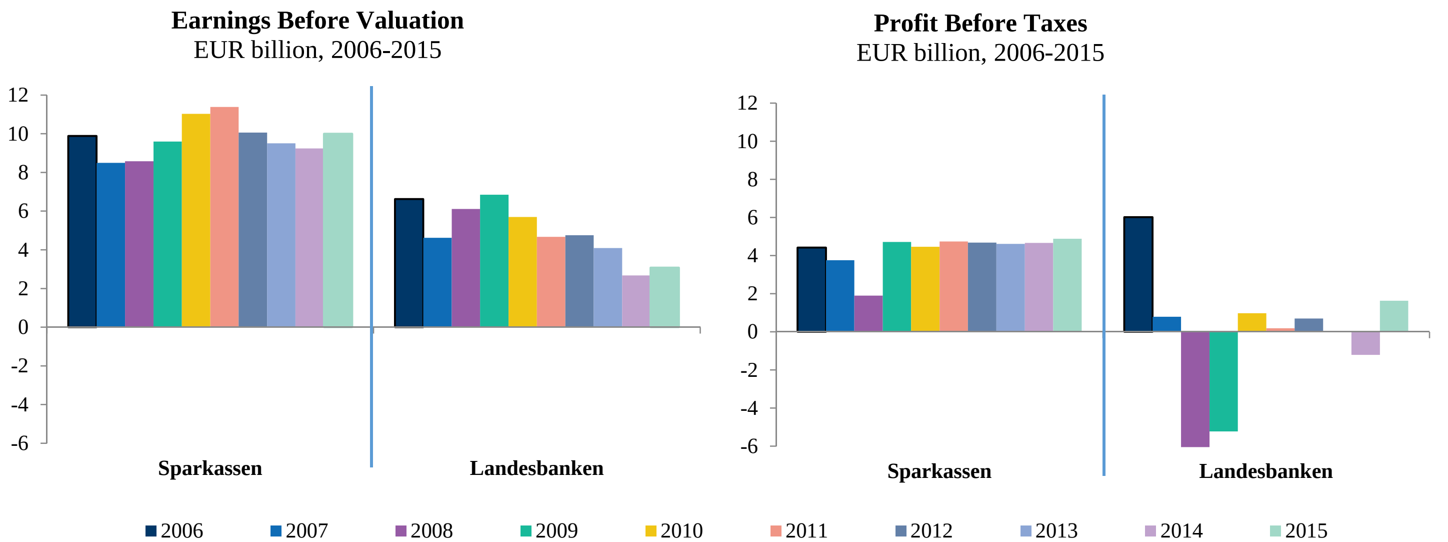
Overall the Sparkassen used the benign domestic economic environment, which allowed for a net release of loan loss provisions of EUR 200 million, to further continue the increase of their reserves with a net addition of EUR 4.2 billion as of year-end 2015 (vs. EUR 4.5 billion at end-2014). The Sparkassen view those accumulated buffers as a necessary precaution against the prolonged low-interest rate environment in Europe which exerts steady pressure on their net interest income, its biggest revenue contributor. Profit before tax increased by 4.1% to EUR 4.8 billion, while net income increased by 5.4% to EUR 1.9 billion as of year-end 2015 reflecting a slightly lower increase in income taxes paid.

Cost efficiency for the savings banks is relatively weak in an international context and has also been impacted by the low interest rate environment. The cost-income ratio of 69.1% in 2015 reflects the Group's decentralised structure with multiple legally independent entities. DBRS recognises that efforts by the savings banks to centralise back-office functions in recent years have shown some results, with all savings banks reaching a cost income ratio of 67.4% in 2015. Yet, efficiency at the aggregated Sparkassen- Finanzgruppe level continued to weaken in 2015 with a cost-income ratio of 69.1% compared to 68.1% in 2014. The "Modell Verbund" strategy introduced by the Association is aimed to contribute towards improved efficiency, however DBRS continues to view the Group's overall cost structure as high.

In 2016[2] the Sparkassen experienced pressure from the low interest rate environment more intensely with net commission income increases unable to compensate for the decrease in net interest income, which remains by far the biggest revenue source for the Sparkassen. Net interest income decreased by 3.7% and was EUR 22.2 billion in YE2016. Net fee and commission income increased by 3.1% in YE2016 (5.1% in YE2015) and was EUR 7.2 billion. The overall cost base decreased by 1% to EUR 38.4 billion driven by decreasing administrative expenses and lower staff costs reflecting a lower headcount (the number of fulltime employees was lowered by 3% mainly through natural attrition and voluntary retirements). The Sparkassen posted in FY2016 relatively stable (IBPT at EUR 10.4 billion in 2016 vs EUR 10.8 billion in 2015 (EUR 10.9 billion in 2014) reflecting mainly pressures in net interest income (EUR -800 million) balanced by lower overall costs, despite bank levy contributions of EUR 131 million. Due to the benign domestic economic environment the credit charges were zero. The Sparkassen continued the increase of their reserves (340g) with a net addition of EUR 4.4 billion in 2016 (vs EUR 3.8 billion in the previous year). Net income was flat at EUR 2 billion in 2016.

DBRS expects margin erosion to continue in 2017 and margins to remain at low levels for a prolonged period of time. However, low credit charges, delayed and diluted Basel IV rules and a significant amount of silent reserves provide transition buffers for the Sparkassen (see also our research commentary: *DBRS Comments: German Banks' Profits Conceal Underlying Margin Pressure*).

[2] Numbers based on preliminary, aggregated and largely unaudited figures under German accounting standards (HGB) for the FY2016



Source: DBRS, Company reports[3]

Landesbanken

DBRS notes the continuous asset deleveraging in the Landesbanken sector after the global financial crisis in 2008. Total assets decreased by 10.7% to EUR 948 billion in 2015. While significant legacy problems of the past consisting mainly of structured credit portfolios and extensive credit substitution business have been widely addressed, exposure to shipping, mainly concentrated in the Landesbanken located in the north of Germany continued to impact FY2015 bottom line results negatively with more pronounced losses in FY2016 (see below). In 2015 the Landesbanken, managed to return to profitability, posting EUR 868 million (net profit after taxes) after an aggregated EUR 1.7 billion net loss in 2014. For most Landesbanken, DBRS expects that earnings volatility should reduce going forward as legacy issues are increasingly resolved, reflecting the realignment of their business model towards more customer oriented business and continued de-risking activities. DBRS notes however the presence of sizable commercial real estate (CRE) exposures (see also Risk Profile section) which due to their cyclical nature continue to pose risks for the Landesbanken sector and for SFG overall.

Outlined below are some significant developments at two of the most challenged Landesbanken.

HSH Nordbank

Significant legacy issues remain with HSH Nordbank (HSH), which faced substantial and overlapping asset quality issues in the areas of structured credit portfolios, commercial real estate and shipping at the inception of the global financial crisis in 2008. The bank applied for a rescue package in 2009 in order to remain compliant with regulatory capital requirements and safeguard its liquidity. The rescue package, which was provided by its public owners (the northern federal sates of Hamburg and Schleswig-Holstein), consisted mainly in form of a EUR 3 billion recapitalisation and a EUR 10 billion first loss guarantee, triggering state aid procedures under EU law. In March 2016, HSH Nordbank reached an agreement with the EU Commission on the renewal of its EUR 10 billion risk shield. Overall, the new agreement has, in DBRS's view, brought material short-term relief for the financial position of HSH. The EU commission agreement came however with the strict conditionality that HSH has to be privatized by February 2018 or be wound down. The selection process to identify the most appropriate bidder is due to begin in April 2017 while the possibility of a wind down of HSH remains.

An orderly wind down would, in DBRS' view, shift the financial burden (including HSH's pension liabilities) mainly to its public sector owners the city of Hamburg and the federal state of Schleswig-Holstein with an ownership share of roughly 40% each. The continued IPS membership of HSH until the retirement of its legal entity could, however, leave the IPS potentially exposed to some contingent claims from HSH's senior and subordinated debt. A disorderly wind down would, in DBRS view, materialize in the event of an unsuccessful

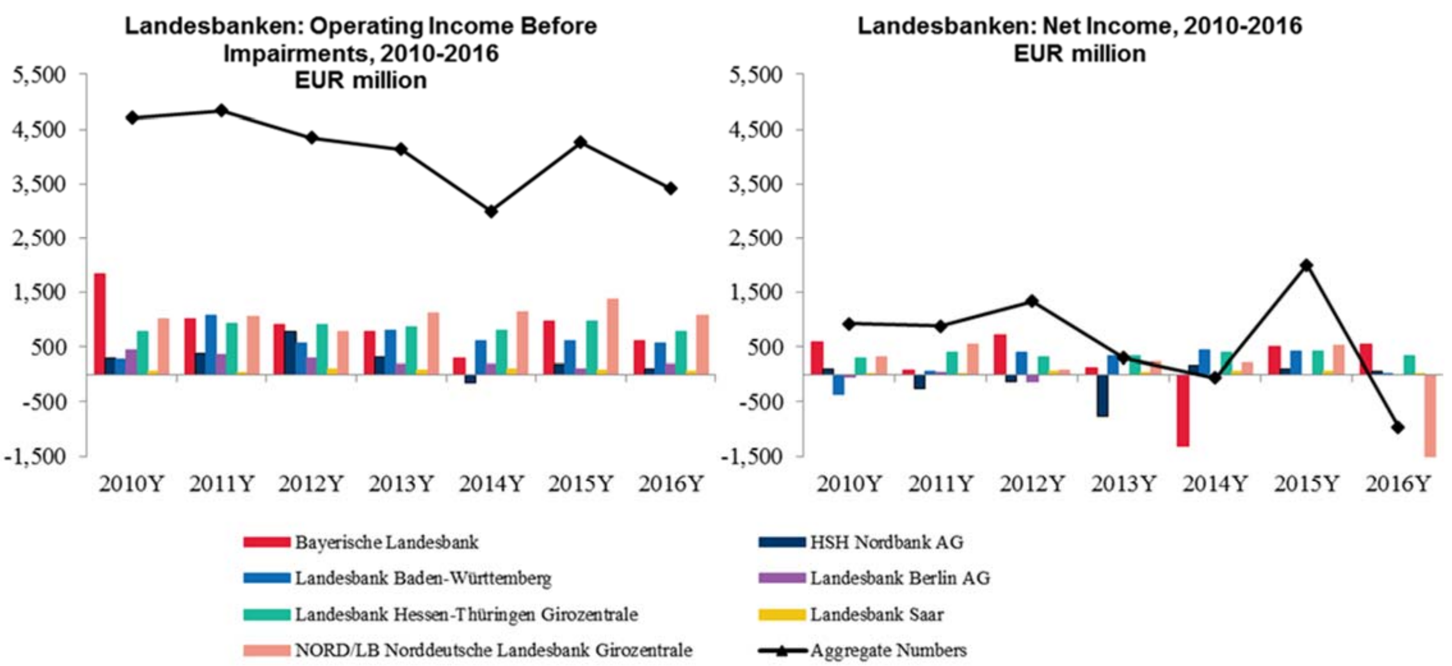
[3] The reported numbers are based on local GAAP in accordance with the German Commercial Code (HGB) and were preliminary figures (some of which yet unaudited) at the time of the publication of the financial statements. According to financial statement disclosures, additions to the fund for general banking risks (section 340g of the HGB are recognised as expenses, thereby reducing net income. Until 2010, SFG's financial reports had treated such additions, pursuant to section 340g of the HGB, as appropriation of profits (increasing net income and thus closer to IFRS logic) thereby adhering to the principles applied in Deutsche Bundesbank's income statement statistics.

privatization followed by a withdrawal of HSH's public owners and the denouncement of ownership responsibility. This could potentially trigger HSH's resolution under BRRD, which could leave the IPS potentially exposed. This however is not DBRS's central scenario.

NORD/LB and Bremer Landesbank

In April 2016 Bremer Landesbank a subsidiary of NORD/LB Group issued a guidance on a negative financial result for FY2016 after a significant deterioration in the credit quality of its shipping loan portfolio. NORD/LB's financial performance for FY2016 was overshadowed by a very challenging year in the shipping markets with a marked deterioration in the third quarter of 2016, after the collapse of a major Korean shipping company (see also: *DBRS Comments: Hanjin's Collapse Could Hurt European Shipping Lenders*). NORD/LB reported a sizable consolidated net loss of EUR 1.9 billion for the financial year 2016. The result was mainly driven by loan loss provisions of EUR 2,956 million due to continued asset quality deterioration in the Bank's shipping portfolio. The Bank announced a restructuring programme for its shipping segment in April 2016, aiming to reduce it to EUR 12-14 billion until year end of 2018 from EUR 19 billion. This plan translates into a deleveraging target of roughly EUR 2.3 billion per year up until the end of 2018. NORD/LB's shipping exposure was EUR 16.8 billion at year end 2016 measured as exposure at default (EaD). The Bank achieved significant deleveraging in 2016 during a very difficult market environment for shipping corporates. DBRS notes positively that the operating result of NORD/LB (excluding the impact of shipping impairments) remained robust. Income before provisions and taxes (IBPT) has remained firm, averaging slightly over EUR 1 billion over the last four years. The Bank's transitional CET1 ratio was 11.3% in FY2016 (down from 13.1% in 9M2016) against a SREP ratio of 8.33% for 2017. NORD/LB reported a fully loaded CET1 ratio of 9.9% (down from 11.5% in 9M2016). On an absolute basis the Bank's transitional CET1 capital shrank by EUR 1,568 million to EUR 6,752 million in FY2016 (down from 8,320 million in 9M2016) reflecting the Bank's sizable net loss for the financial year 2016.

In August 2016, NORD/LB announced a joint-declaration agreement by Bremer Landesbank's owners' Free Hanseatic City of Bremen and the Lower Saxony Association of Savings Banks to become the full owner of Bremer Landesbank. The full absorption of NORD/LB's subsidiary, Bremer Landesbank (total assets of EUR 30 billion) into the NORD/LB Group (total assets of EUR 182 billion), became necessary after regulatory pressure on the weakening stand-alone capital position of Bremer, weakening also NORD/LB's regulatory capital position.

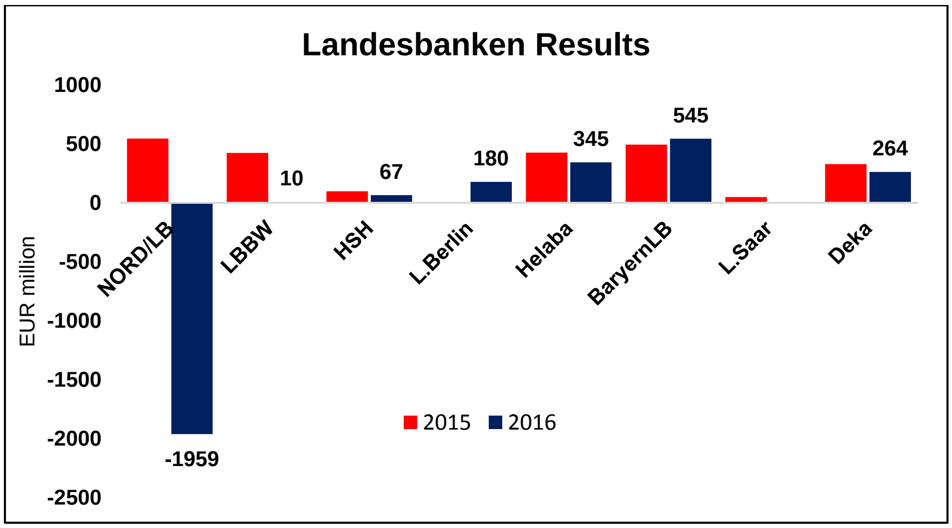


Source: Company reports, SNL Financial, DBRS. Note: 2016 figures not available for Landesbank Saar (6M2016 figures were annualised for aggregate numbers)

Update on Landesbanken

The Landesbanken sector (excluding the smaller Landesbank Saar) reported a total aggregated net loss in 2016 of EUR 812 million mainly driven by the large losses of NORD/LB's shipping segment (see chart below). Excluding NORD/LB the sector would have posted a positive result of EUR 1.15 billion. DBRS expects a continued improvement in operating results for the majority of the Landesbanken in the upcoming financial periods, with the northern Landesbanken to remain under pressure from their still sizable shipping exposures[4]. DBRS noted the stable performance of the majority of Landesbanken during 2016 on the back of lower credit charges reflecting the asset clean-up and the benign domestic economic environment with low corporate default rates, lower restructuring costs and reasonable growth opportunities in corporate and CRE lending, while their respective business models as wholesale lenders render them less receptive to disruption from the low-yield environment.

Looking ahead into 2017, DBRS expects the shipping markets to remain under pressure by an interplay of cyclical and structural factors, creating a challenging environment for the shipping corporates and, also for banks' lending to the industry (see also: *DBRS Comments: Banks' Shipping Exposure under Pressure in 2016*). Landesbanken in northern Germany are set to continue their recovery from oversized shipping exposures. Currently a number of German shipping banks (HSH, Commerzbank and NORD/LB, including its subsidiary Bremer Landesbank) are seeking to sell sizable portions of their shipping assets. This could lead to a crowded market for shipping portfolio sales in 2016-2017. Hanjin's collapse and the resulting confidence crisis in shipping have, in DBRS' view, led to a challenging restructuring environment for many ship lending units of European banks. DBRS notes additionally that the predominant share of shipping loans is US-Dollar denominated. A strongly appreciating U.S. dollar exchange rate, possibly triggered by a FED interest rate hike, could trigger an increase in risk-weighted assets (RWA) for European shipping lenders, potentially pressuring their regulatory capital ratios.



Source: Company reports

Risk Profile

Overall, the risk profile of Sparkassen- Finanzgruppe has improved given the restructuring and various risk reduction measures undertaken at the weaker Landesbanken since 2008. Although elevated risks remain at some Landesbanken, the steep reduction in total assets and the parallel reduction in securitised liabilities have helped towards de-risking the Landesbanken burden for the Group. DBRS views the overall risk reduction in the Landesbank sector as a key driver of the improved results exhibited since 2010. DBRS 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. Given the geographic concentration in Germany, Sparkassen-Finanzgruppe is exposed to the German economic and credit cycle. 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. As of end-2015 the Group had a market share of around 40% of German loans to domestic non-banks.

The Group's sizeable exposures to business lending was stable in 2015, with around 42% market share including combined lending of Sparkassen and Landesbanken, helped by the favourable economic development of the German SME sector (or Mittelstand). DBRS notes the sensitivity of SMEs to the economic cycle. However, DBRS also notes that the aggregated lending to businesses is well diversified which somewhat acts as a mitigant. The Group is also characterised by its large exposure to residential real estate, with around 37% market share driven mainly by the 35% share in housing loans of the Sparkassen. The Group's large real estate lending to private customers and

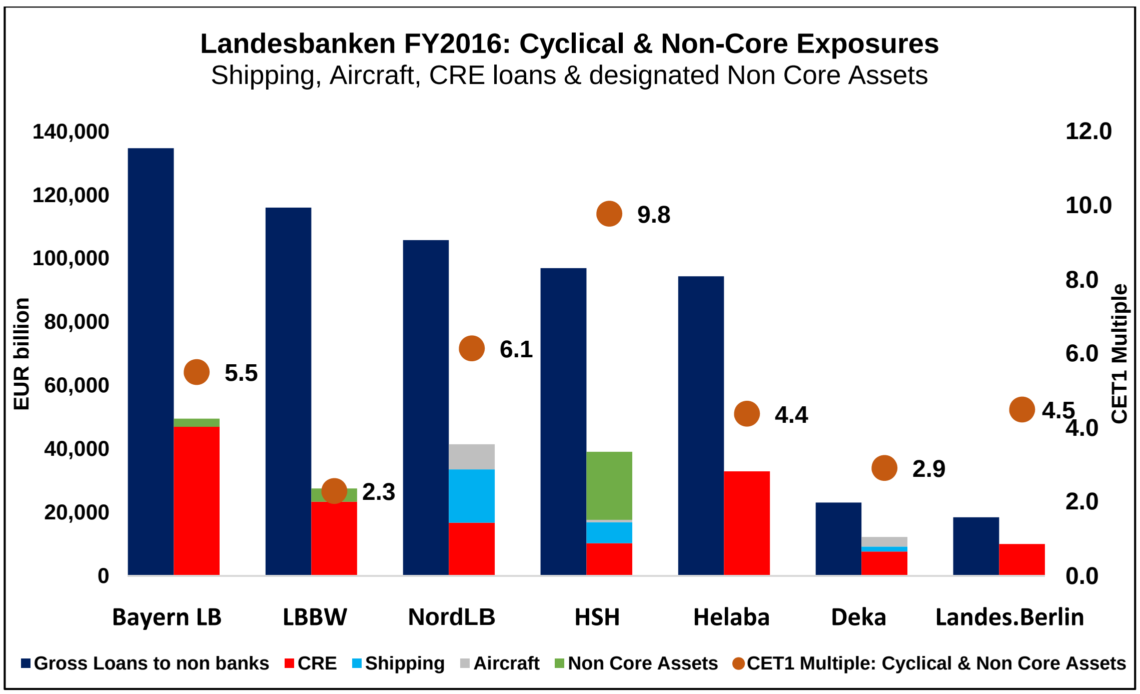
[4] DBRS notes however HSH's second loss guarantee, shielding the Bank from sizable income losses through compensation payments.

loans to public authorities have performed well through past economic cycles, a reflection of the strong real estate market environment in Germany, adding a level of stability to overall credit quality. The strong performance of German residential real estate market has had a positive impact on net interest income, allowing the associated volume effect to compensate for the negative rate effect stemming from low yields. In DBRS' view the overheating of residential housing prices, however, especially in larger German cities, indicates a likely end to extraordinary residential loan volume growth.

Furthermore, Sparkassen-Finanzgruppe's lending to public authorities and private individuals (excluding real estate) moderates the risk profile, given the public law guarantees which support local authorities, the high barriers to personal bankruptcy filings in Germany, as well as the long track record of the savings banks (which provide most of the private loans) in lending to their local customers.

The robust and solid German economy led to very low loan impairment charges for the Group (the savings banks recorded a net release of EUR 200 million in 2015) something which is also positively correlated to the low interest rate environment in Europe with low corporate delinquencies and a historical low unemployment rate in Germany. Losses from interest rate risk exposure in the banking book pose a future challenge for the Group. The gradual shift of customer deposits from longer term savings accounts towards sight deposits during the ultra-low yield environment poses a challenges for the maturity re-structuring of the banking book for many savings banks.

Historically, DBRS has viewed the highest credit risk for Sparkassen-Finanzgruppe in the cyclical part of the corporate loan portfolios of several Landesbanken. The financial crisis in 2008 primarily affected Landesbanken securities portfolios, yet the subsequent poor market conditions and capital pressure helped to de-risk the loan portfolios and in some cases forced restructuring at the Landesbanken level. In DBRS's view, the worst period for risk from the Landesbanken has passed, particularly as many have reined in riskier foreign bank and international corporate activities. 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.



Source: SNL, Company reports

Notes: Gross Loans refer to Gross Loans to non-banks including LaR assets reported under IFRS for FY2016; Exposures measured as Exposures at Default (EaD) as of FY2016; BayernLB's CRE exposures and Deka's exposures are measured in terms of gross credit volume; Landesbank Berlin's CRE exposures are Credit Exposure including issuer & counterparty risk; LB Saar is excluded due to limited size; Portions of non-core assets, CRE, shipping and aircraft exposures may be covered by public guarantees; HSH's non-core assets refer to assets held in its Non-Core Bank which contain EUR 9.5 billion of non-core shipping exposures.

As noted above, the savings banks are linked to the domestic economic cycle through their broad lending relationships to SMEs. Performance continues to be within DBRS's expectations. Nonetheless, there remain many factors including Eurozone concerns which could dampen the economic situation. DBRS 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 and centralised software and credit scoring systems which provide shared information and statistics useful in controlling credit decisions.

DBRS notes that the savings banks have significantly reduced their loan loss provisions over the last few years with EUR 200 million net releases reported for 2015, compared to historically much higher levels of EUR 1.6 billion back in 2010 and EUR 2.9 billion in 2009.

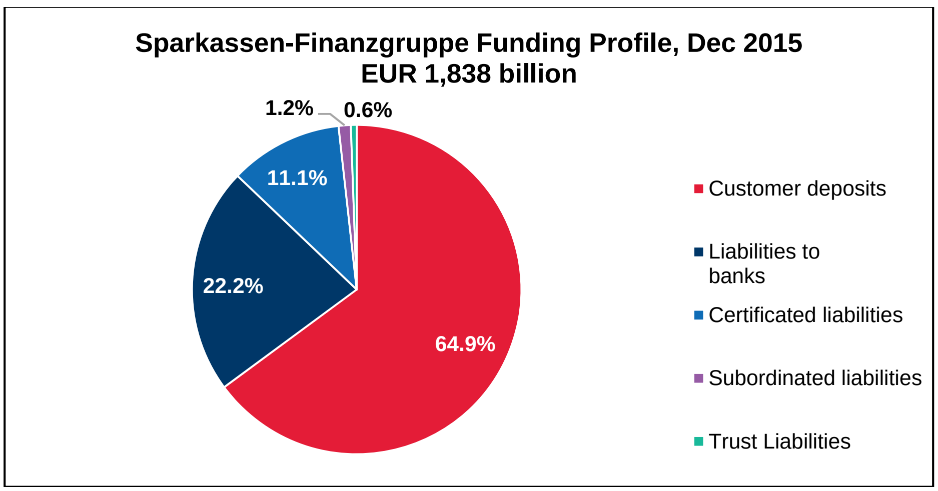
While DBRS recognises this improvement, a large portion of this is attributed to the more buoyant domestic economic environment in Germany. Nonetheless, given the loss mitigation efforts taken by the savings banks and the reduced risk profile of most of the Landesbanken, DBRS sees the Group's credit risk as significantly lower than in the past. In DBRS's view, this should be a positive factor for future credit quality, regardless of overall economic trends. Nevertheless, DBRS would still expect the risk provisioning requirements to increase to more normal levels as the credit cycle in Germany turns.

The Group's risk profile is further supported by the existence of an early warning system in relation to the Institution Protection Scheme and the use of guarantee schemes. Individual guarantee support funds monitor potential risk of their member institutions through risk monitoring committees, and report to the central transparency committee of the German Savings Banks Association. Guarantee schemes have right of information and response completed with 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.

Funding and Liquidity

DBRS views the liquidity and funding position of Sparkassen-Finanzgruppe as satisfactory, as the Group benefits from its increasing relevance as a retail banking organisation with substantial customer deposits providing the principal source of funding for most of its businesses. As a downside, wholesale funding is still an importance funding source for the Landesbanken, weakening the overall Group's funding profile.

Sparkassen-Finanzgruppe had total funding of EUR 1.8 trillion at end-2015, down by 3.6% YoY, in line with previous years funding reduction following a resizing on the overall Bank's structure through the deleveraging of the Landesbanken. Customer deposits of EUR 1.19 trillion at end-2015 accounted for nearly 65% of Group funding, increasing its funding importance within the Groups funding profile since 2011, when customer deposits accounted for 55% of total funding. DBRS views the deposit base of the savings banks as a core element in maintaining satisfactory liquidity. Wholesale funding accounts for the remaining bulk of the funding profile, corresponding to 35.1% at end-2015.



Source: Company reports

The savings banks' stable liabilities to customers of EUR 861.5 billion at year-end 2015, up 3.0% from the previous year, provide the foundation for the funding profile. Importantly, the savings banks' customer deposits demonstrated a stable increasing trend through the financial crisis, growing by close to 13% since year-end 2008. Liquidity at the savings banks is further illustrated by customer deposits exceeding customer loans by EUR 116.4 billion at year-end 2015– leading to a strong loan to deposit ratio of 86.5%. The liquidity ratio for the savings banks (defined as the ratio between the liquid assets available up to one month and the liability callable during this period) has typically been roughly 2.5% in recent years (2.6% as of Dec 2015). Despite the increased competition versus private sector and foreign banks, the Sparkassen continue to attract deposits via strong brand recognition and customer relationships, without the need for aggressive pricing.

Given their largely wholesale business models, the Landesbanken in aggregate rely much more on market funding. The funding pressures for some of the individual Landesbanken highlight their vulnerability to market disruption. Importantly, to relieve the funding stress and safeguard each Landesbank's funding ability through the crisis beginning in 2008, the state owners and the federal government promptly announced debt guarantees and capital support for the Landesbanken. As market conditions have normalised, the Landesbanken which were impacted have focused on restructuring their balance sheets and some, such as Bayern LB, have made substantial state aid capital repayments ahead of schedule to their guarantors in line with EU requirements (e.g. BayernLB repaid a total of EUR 1.3 billion of silent participations in 2016, with an outstanding balance of EUR 1 billion to be repaid by 2019).

DBRS recognises that several Landesbanken have relatively stable funding relationships with savings banks that keep a portion of their excess deposits with them. These funding relationships can help Landesbanken manage through periods of market disruption and can add a level of stability to their funding profile. One factor that contributes to the funding challenges for some Landesbanken is the large amount of maturing debt that was issued under explicit state guarantees before July 2005. Prior to the EU mandated “phase out” of public law guarantees for Landesbanken (e.g., Anstaltslast and Gewaehtraegerhaftung), Landesbanken benefited from the ability to issue at higher rating levels which benefitted from explicit government support). A large proportion of the grandfathered guaranteed debt has matured in 2015 and is being replaced by non-guaranteed funding as and when needed.

Capitalisation

DBRS views the Sparkassen-Finanzgruppe’s combined level of capitalisation as broadly sufficient. This considers the overall sound capital and solid underlying earnings of the savings banks, as well as the more challenging situation at some of the Landesbanken. The savings banks reported an aggregated Tier 1 ratio of 14.8% at year-end 2015 and a total capital ratio at year-end of 16.7%, both improving somewhat compared to the prior year. At the Landesbanken level (including DekaBank), Core Equity Tier 1 ratios increased slightly to 13.6% at end 2015 from 13.2% one year earlier. The development continued to reflect the reduction of risk at the Landesbanken, which has now fallen, while combined risk weighted assets have decreased by EUR 6.5 billion to EUR 347.3 billion.

The savings banks have increased their regulatory capitalisation in recent years largely through earnings retention and additions to prudential reserves. Internal capital generation and slow growth in risk-weighted assets (RWAs) led to consistent increases in the savings banks’ Tier 1 ratio. The capital of the savings banks is of solid quality. However, given the low interest environment, which is adding pressure to earnings, in DBRS’s view, some individual saving banks might be challenged to internally generate significant levels of capital. Likewise, given the legal and ownership 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.

DBRS notes the improved aggregated regulatory capital position of the Landesbanken highlighted above. This follows an important period of capital support beginning in 2008 during which the state owners and German Financial Markets Stabilisation Fund (SoFFin) had committed EUR 36.3 billion in risk guarantees and EUR 21 billion in capital to the Landesbanken. In parallel with some Landesbanken repaying portions of federal support (e.g., the BayernLB example mentioned above), the overall quality of the combined capital base of Landesbanken has also improved, as many state owners have completed the conversion of former silent participations into Basel III qualifying equity. Although challenges remain, DBRS views the overall development as positive.

Annex: Institution Protection Scheme

DBRS sees the Institution Protection Scheme as a key factor underpinning the 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 Institution Protection Scheme 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 banks 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 banks support funds can be activated. If this still proves insufficient, then the resources of the whole Institution Protection Scheme can be utilized, requiring a 75% majority vote. However, the decentralised structure of the system could pose a challenge in DBRS'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 mechanisms of the Institution Protection Scheme are available to strengthen and restructure savings banks that face challenges. In DBRS'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 Institution Protection Scheme 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 recognises that the combined resources of the Institution Protection Scheme are not sufficient, nor was the Scheme designed, to address a wider systemic crisis or the possible burden of larger and less risk averse Landesbanken should complementary 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 Landesbanks 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 Institution Protection Scheme (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 € 100,000 per depositor per institution. The Sparkassen-Finanzgruppe's Institution Protection Scheme has been officially recognised by the German regulator as a deposit guarantee scheme under the Deposit Guarantee Act. The Institution Protection Scheme 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.

As mentioned the Sparkassen-Finanzgruppe is taking steps to strengthen the pre-funding of resources available for the Institution Protection Scheme, something DBRS will continue to evaluate. The recent changes in the regulatory environment with 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 public owners (German federal states) are prohibited from providing emergency support to distressed Landesbanken. DBRS has in September 2015 removed the systemic support considerations from the floor rating of the SFG and the rating no longer incorporates uplift for broader systemic support. The removal of the one notch of systemic support reflected DBRS's view that there is less certainty about the likelihood of timely systemic support. This is reflected in an SA3 support assessment for the Sparkassen Finanzgruppe.

DBRS notes that the members of the Institution Protection Scheme 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.

Sparkassen-Finanzgruppe In EUR Millions	31/12/2015 NGAAP		31/12/2014 NGAAP		31/12/2013 NGAAP		31/12/2012 NGAAP		31/12/2011 NGAAP	
Balance Sheet										
Cash and deposits with central banks	30,837	1.43%	26,041	1.16%	23,120	1.02%	39,910	1.64%	30,968	1.21%
Lending to/deposits with credit institutions	294,241	13.64%	338,108	15.01%	371,863	16.42%	408,768	16.84%	500,605	19.49%
Financial securities	475,162	22.02%	502,051	22.29%	510,326	22.54%	508,610	20.96%	533,169	20.76%
- Trading portfolio	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
- At fair value	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
- Available for sale	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
- Held-to-maturity	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
- Other	475,162	22.02%	502,051	22.29%	510,326	22.54%	508,610	20.96%	533,169	20.76%
Financial derivatives instruments	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
- For hedging purposes	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
- Other	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Gross lending to customers	1,192,957	55.29%	1,186,005	52.67%	1,179,018	52.07%	1,215,967	50.11%	1,227,933	47.81%
- Loan loss provisions	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Insurance assets	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Investments in associates/subsidiaries	25,730	1.19%	27,620	1.23%	30,285	1.34%	33,523	1.38%	34,970	1.36%
Fixed assets	12,596	0.58%	12,206	0.54%	12,361	0.55%	12,530	0.52%	12,342	0.48%
Goodwill and other intangible assets	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Other assets	126,168	5.85%	159,852	7.10%	137,344	6.07%	207,449	8.55%	228,288	8.89%
Total assets	**2,157,691**	**100.00%**	**2,251,882**	**100.00%**	**2,264,317**	**100.00%**	**2,426,757**	**100.00%**	**2,568,275**	**100.00%**
Total assets (USD)			2,727,082		3,119,355		3,200,260		3,335,422	
Loans and deposits from credit institutions	408,855	18.95%	452,892	20.11%	475,006	20.98%	491,964	20.27%	550,774	21.45%
Deposits from customers	1,192,944	55.29%	1,166,101	51.78%	1,151,077	50.84%	1,177,587	48.53%	1,176,565	45.81%
- Demand	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
- Time and savings	1,192,944	55.29%	1,166,101	51.78%	1,151,077	50.84%	1,177,587	48.53%	1,176,565	45.81%
Issued debt securities	204,104	9.46%	247,959	11.01%	275,714	12.18%	322,494	13.29%	368,272	14.34%
Financial derivatives instruments	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
- For hedging purposes	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
- Other	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Insurance liabilities	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Other liabilities	174,772	8.10%	203,719	9.05%	183,586	8.11%	260,631	10.74%	303,969	11.84%
-Financial liabilities at fair value through P/L	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Subordinated debt	22,009	1.02%	29,518	1.31%	29,884	1.32%	30,604	1.26%	36,731	1.43%
Hybrid Capital	2,149	0.10%	2,350	0.10%	2,651	0.12%	3,106	0.13%	4,137	0.16%
Equity	152,858	7.08%	149,344	6.63%	146,399	6.47%	140,371	5.78%	127,827	4.98%
Total liabilities and equity funds	**2,157,691**	**100.00%**	**2,251,882**	**100.00%**	**2,264,317**	**100.00%**	**2,426,757**	**100.00%**	**2,568,275**	**100.00%**
Income Statement										
Interest income	61,036		66,739		72,058		86,219		97,191	
Interest expenses	-28,687		-34,100		-39,394		-52,766		-61,657	
Net interest income and credit commissions	32,349	79.62%	32,639	81.84%	32,664	80.01%	33,453	81.56%	35,534	83.77%
Net fees and commissions	7,759	19.10%	7,123	17.86%	6,802	16.66%	6,837	16.67%	7,293	17.19%
Trading / FX Income	522	1.28%	121	0.30%	1,359	3.33%	726	1.77%	-539	-1.27%
Net realised results on inv securities (AFS)	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Net results from other fin instr at fair value	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Net income from insurance operations	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Results from ass/subs accounted at equity	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Other operating income (incl. dividends)	0	0.00%	0	0.00%	0	0.00%	0	0.00%	133	0.31%
Total operating income	40,630	100.00%	39,883	100.00%	40,825	100.00%	41,016	100.00%	42,421	100.00%
Staff costs	-16,667	60.81%	-16,223	58.39%	-15,628	57.95%	-15,617	60.23%	-15,000	57.64%
Other operating costs	-10,742	39.19%	-11,560	41.61%	-11,338	42.05%	-10,312	39.77%	-11,024	42.36%
Depreciation/amortisation	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Total operating expenses	-27,409	100.00%	-27,783	100.00%	-26,966	100.00%	-25,929	100.00%	-26,024	100.00%
Pre-provision operating income	13,221		12,100		13,859		15,087		16,397	
Loan loss provisions	-1,026		-1,483		-3,237		-58		6,266	
Post-provision operating income	12,195		10,617		10,622		15,029		22,663	
Impairment on (in)tangible assets	0		0		0		0		0	
Net gains/losses on (in)tangible assets	0		0		0		0		0	
Other non-operating items	-5,591		-7,040		-5,780		-9,527		-17,551	
Pre-tax income	6,604		3,577		4,842		5,502		5,112	
Taxes	-3,721		-3,386		-3,227		-3,409		-3,488	
Minority interest	0		0		0		0		0	
Net income	**2,883**		**191**		**1,615**		**2,093**		**1,624**	
Net income (USD)	3,491		231		2,225		2,760		2,109	

Sparkassen-Finanzgruppe In EUR Millions	31/12/2015 NGAAP	31/12/2014 NGAAP	31/12/2013 NGAAP	31/12/2012 NGAAP	31/12/2011 NGAAP
Off-balance sheet and other items					
Asset under management	n/a	n/a	n/a	n/a	n/a
Derivatives (notional amount)	n/a	n/a	n/a	n/a	n/a
BIS Risk-w eighted assets (RWA)	n/a	n/a	n/a	n/a	n/a
No. of employees (end-period)	n/a	n/a	n/a	341,200	345,600
Earnings and Expenses					
Earnings					
Net interest margin [1]	1.62%	1.60%	1.56%	1.52%	1.55%
Pre-provision earning capacity (total assets basis) [2]	0.60%	0.54%	0.59%	0.60%	0.63%
Pre-provision earning capacity (risk-w eighted basis) [3]	n/a	n/a	n/a	n/a	n/a
Pre-provision earning capacity by employee	n/a	n/a	n/a	44,217	47,445
Post-provision earning capacity (total assets basis)	0.55%	0.47%	0.45%	0.60%	0.88%
Post-provision earning capacity (risk-w eighted basis)	n/a	n/a	n/a	n/a	n/a
Expenses					
Efficiency ratio (operating expenses / operating income)	67.46%	69.66%	66.05%	63.22%	61.35%
All inclusive costs to revenues [4]	81.22%	87.31%	80.21%	86.44%	102.72%
Operating expenses by employee	n/a	n/a	n/a	75,994	75,301
Loan loss provision / pre-provision operating income	7.76%	12.26%	23.36%	0.38%	-38.21%
Provision coverage by net interest income	3152.92%	2200.88%	1009.08%	n/m	-567.09%
Profitability Returns					
Pre-tax return on Tier 1 (excl. hybrids)	n/a	n/a	n/a	n/a	n/a
Return on equity	1.89%	0.13%	1.10%	1.49%	1.27%
Return on average total assets	0.13%	0.01%	0.07%	0.08%	0.06%
Return on average risk-w eighted assets	n/a	n/a	n/a	n/a	n/a
Dividend payout ratio [5]	n/a	n/a	n/a	n/a	n/a
Internal capital generation [6]	n/a	n/a	n/a	n/a	n/a
Growth					
Loans	0.59%	0.59%	-3.04%	-0.97%	1.12%
Deposits	2.30%	1.31%	-2.25%	0.09%	1.02%
Net interest income	-0.89%	-0.08%	-2.36%	-5.86%	0.78%
Fees and commissions	8.93%	4.72%	-0.51%	-6.25%	1.42%
Expenses	-1.35%	3.03%	4.00%	-0.37%	-0.47%
Pre-provision earning capacity	9.26%	-12.69%	-8.14%	-7.99%	-3.79%
Loan-loss provisions	n/a	n/a	n/a	-100.93%	n/a
Net income	1409.42%	-88.17%	-22.84%	28.88%	-46.89%
Risks					
RWA% total assets	n/a	n/a	n/a	n/a	n/a
Impaired loans (net of LLPs) % pre-provision operating income [7]	n/a	n/a	n/a	n/a	n/a
Impaired loans (net of LLPs) % equity	n/a	n/a	n/a	n/a	n/a
Liquidity and Funding					
Customer deposits % total funding	65.26%	61.49%	59.59%	58.22%	55.18%
Total w holesale funding % total funding [8]	34.74%	38.51%	40.41%	41.78%	44.82%
- Interbank % total funding	22.37%	23.88%	24.59%	24.32%	25.83%
- Debt securities % total funding	11.17%	13.07%	14.27%	15.94%	17.27%
- Subordinated debt % total funding	1.20%	1.56%	1.55%	1.51%	1.72%
Short-term w holesale funding % total w holesale funding	64.39%	62.01%	60.85%	58.22%	57.63%
Liquid assets % total assets	37.09%	38.47%	39.98%	39.45%	41.46%
Net short-term w holesale funding reliance [9]	-28.83%	-29.83%	-31.66%	-31.67%	-34.18%
Adjusted net short-term w holesale funding reliance [10]	-28.83%	-29.83%	-31.66%	-31.67%	-34.18%
Customer deposits % gross loans	100.00%	98.32%	97.63%	96.84%	95.82%
Capital [11]					
Tier 1 (As-reported)	15.10%	14.60%	14.60%	13.10%	11.50%
Total Capital	n/a	n/a	n/a	n/a	n/a

[1] (Net interest income + dividends)% average interest earning assets.
[2] Pre-provision operating income % average total assets.
[3] Pre-provision operating income % average total risk-w eighted assets.
[4] (Operating & non-op. costs) % (op. & non-op. revenues)
[5] Paid dividend % net income.
[6] (Net income - dividends) % shareholders' equity at t-1.
[7] We take into account the stock of LLPs in this ratio.
[8] Whole funding excludes corporate deposits.
[9] (Short-term w holesale funding - liquid assets) % illiquid assets
[10] (Short-term w holesale funding - liquid assets- loans maturing w ithin 1 year) % illiquid assets
[11] Capital ratios of Interim results exclude profits for the year

Methodologies

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (December 2016). Other applicable methodologies include the DBRS Criteria – Support Assessments for Banks and Banking Organisations (March 2017) and DBRS Criteria: Rating Bank Capital Securities – Subordinated, hybrid, Preferred & Contingent Capital Securities (February 2017).

Ratings

Issuer	Debt	Rating	Rating Action	Trend
Sparkassen-Finanzgruppe	Issuer Rating	A	Confirmed	Stable
Sparkassen-Finanzgruppe	Senior Long-Term Debt	A	Confirmed	Stable
Sparkassen-Finanzgruppe	Short-Term Instruments	R-1 (low)	Confirmed	Stable

Rating History

Issuer	Current	2016	2015	2014	2013
Issuer Rating	A	-	-	-	-
Senior Long-Term Debt	A	A	A	A (high)	A (high)
Short-Term Instruments	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (middle)	R-1 (middle)

Previous Action(s)

- DBRS Assigns Issuer Ratings to 43 European Banking Groups, March 7, 2017.

Previous Report

- Sparkassen-Finanzgruppe, Rating Report, April 22, 2016

Notes:
All figures are in EUR unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrs.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings Limited (England and Wales)(CRA, DRO affiliate); and DBRS Ratings México, Institución Calificadora de Valores S.A. de C.V. (Mexico)(CRA, NRSRO affiliate, DRO affiliate). Please note that DBRS Ratings Limited is not an NRSRO and ratings assigned by it are non-NRSRO ratings. For more information on regulatory registrations, recognitions and approvals, please see: http://www.dbrs.com/research/225752/highlights.pdf.