

Morningstar DBRS Confirms Sparkassen-Finanzgruppe's Long-Term Issuer Rating at A (high), Stable Trend

BANKING ORGANIZATIONS

DBRS Ratings GmbH (Morningstar DBRS) confirmed the floor ratings on Sparkassen-Finanzgruppe (SFG or the Group), including the Long-Term Issuer Rating at A (high) and the Short-Term Issuer Rating at R-1 (middle). The trend on all credit ratings is Stable. The Support Assessment for the Group remains unchanged at SA3.

These credit ratings also apply in line with Morningstar DBRS's floor ratings concept to each member of the Group's Institutional Protection Scheme (IPS), also rated by Morningstar DBRS. As of March 2025, the members of the IPS include 343 German savings banks (the Sparkassen); five regional wholesale banks (Landesbanken); five regional building societies (LBS); the Group's central asset manager, DekaBank; and other specialised service providers. For the complete list of credit ratings, please see the table at the end of this press release.

KEY CREDIT RATING CONSIDERATIONS

The credit rating confirmations take into account the dominant position of the Sparkassen in the German retail banking space resulting from their extensive and resilient footprint, complemented by a number of specialised financial service providers and the wholesale-oriented Landesbanken. The credit ratings continue to be supported by solid asset quality metrics despite some deterioration in 2023 and 2024, at both the Sparkassen and Landesbanken levels, reflecting the country's sluggish economy and heightened geopolitical risks.

Furthermore, SFG maintains solid capital ratios above the German banking average. The Group's liquidity position benefits from the granular and strong deposit franchise of the Sparkassen, supplemented by wholesale funding access at the larger savings banks and the Landesbanken.

The Group's profitability levels have improved on the back of higher interest rates as well as successful de-risking at the Landesbanken. Nonetheless, SFG's profitability metrics remain below the levels of its international peers. This in part reflects the public mandate of its members as well as their complex structures.

The Stable trends reflect Morningstar DBRS' expectations that the Group will keep its solid financial fundamentals, despite some deterioration in Germany's economic environment.

The Group's floor rating of A (high) is positioned at the midpoint of the Intrinsic Assessment Range as Morningstar DBRS views SFG's credit fundamentals and performance as commensurate with those of similarly rated peers.

CREDIT RATING DRIVERS

A credit rating upgrade would require higher and sustained profitability while demonstrating strong risk management across all major constituents of the Group and maintaining strong capital ratios.

A significant deterioration in the Group's financial performance and/or material challenges faced by larger members would result in a credit rating downgrade. Any indication of a weakening of the IPS scheme would also lead to a downgrade.

CREDIT RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Very Strong / Strong

With an aggregated balance sheet of EUR 2.5 trillion at YE2023, SFG is Germany's largest financial services provider and a leading financial group globally, encompassing around 500 independently run entities in a decentralised structure. Morningstar DBRS views the Sparkassen franchise as the core and main strength of the Group, thanks to its extensive outreach and resilient network across the country. This strong retail footprint is complemented by the wholesale banking activities of the Landesbanken, ensuring the dominant overall market shares of 37% of customer loans and 34% of deposits in Germany at YE2023. In addition, SFG's business model is diversified through other activities such as asset management, building societies, leasing, and regional public insurance entities. Most SFG members operate under public-law structures, maintaining independent governance while collaborating under a shared brand. The Group is increasing its investments in digitalisation with the launch of the Wero payment system in collaboration with other European banking groups as well as enhancing its efficiency and product services through the implementation of artificial intelligence tools.

Earnings Combined Building Block (BB) Assessment: Moderate

SFG's profitability is generally stable and has improved recently, benefitting from higher interest margins as well as improved earnings capacity at the Landesbanken. Nevertheless, SFG's profitability levels are only moderate compared with similarly rated peers. This in part reflects the public mandate of its members, the complexity of its extensive decentralised network, and the highly competitive market in Germany.

Morningstar DBRS' analysis includes the Group's results for 2023. As of today, the aggregate results for 2024 are not yet available. Moreover, Morningstar DBRS notes that there is a time lag between the release of the results of the individual members and the publication of the Group's aggregate numbers, which typically takes place in the second half of the year.

In 2023, SFG demonstrated a strong financial performance as the Group's reported net income was up 80% year over year (YOY) to EUR 4.38 billion, reflecting the higher operating result and lower valuation expenses. Morningstar DBRS also takes into account the net additions to the Fund for General Banking Risks (340(g) reserves) as part of net income for its scorecard.

The results benefitted from a 24.2% YOY increase in net interest income (NII). The Group's administrative expenses increased by 5.5% to EUR 29.2 billion in 2023, driven by higher workforce costs and IT digitalisation as well as legal and regulatory compliance. As a result, the cost-to-income ratio (CIR) improved to 56.6% in 2023 from 62.4% in 2022. Furthermore, the Group's cost of risk as calculated by Morningstar DBRS was 26 basis points (bps) in 2023 down from 44 bps in 2022.

The Sparkassen reported a total income before valuation of EUR 18.2 billion in 2024, flat YOY on the back of a stabilisation in NII and higher fee income, which somewhat offset higher operating expenses. The Landesbanken reported higher income in 2024 based on the results available so far, despite an increase in provisioning mainly related to commercial real estate (CRE) loans and corporate exposures.

Risk Combined Building Block (BB) Assessment: Strong / Good

Morningstar DBRS sees the risk profile of SFG as robust as it benefits from the highly diversified and granular exposures of the Sparkassen and the successful de-risking and reorganisation of the Landesbanken in recent years. Given the size of the Group's balance sheet and its geographic concentration in Germany, SFG is primarily exposed to the German business cycle. While the Sparkassen business is granular and, on aggregate, well diversified within the country, some savings banks might face concentration risks.

Credit exposures at the Landesbanken are generally more significant; however, concentration risk and exposure to highly cyclical sectors such as shipping, aviation, and automotive have been significantly reduced since the last financial crisis. Regarding asset quality, there are no consolidated metrics available for the Group, however, the data released by the Landesbanken and savings banks in H1 2024 and YE2024 showed a deterioration in credit quality, reflecting the economic headwinds domestically and heightened geopolitical risks. The increase in interest rates has contributed to the rise in the number of insolvencies across several sectors, including real estate and construction. CRE lending was a major contributor to the increase in gross nonperforming loans across all Landesbanken in 2023 and H1 2024, and was also reflected in higher risk provisioning. Moreover, key export-oriented sectors, such as the automotive industry, face the risk of higher U.S. tariffs. In Morningstar DBRS' view, the plan for new stimulus from the federal government could help to strengthen the country's economic prospects in the medium to long term.

Funding and Liquidity Combined Building Block (BB) Assessment: Strong

Morningstar DBRS views the robustness of SFG's funding and liquidity position as a key strength for the rating. This is largely driven by the extensive and granular deposit base of the Sparkassen that serves as the major funding source for the Group, further supported by the wholesale-oriented funding profile of the Landesbanken. In 2023, the Group's customer deposits grew slightly by 0.4% YOY to EUR 1.52 trillion. According to preliminary 2024 figures, the Sparkassen experienced a 2.9% YOY increase in customer deposits in 2024 resulting in a total of EUR 1.18 trillion. The liquidity coverage ratio for the Sparkassen was strong at 196% at YE2024.

Capitalisation Combined Building Block (BB) Assessment: Strong / Good

In Morningstar DBRS's opinion, SFG maintains solid capital ratios that are higher than the German banking average, with capital cushions well above regulatory minimum requirements supported mostly by earnings retention. Morningstar DBRS notes that the Group's aggregated Tier 1 ratio (including Landesbausparkassen) was 16.9% at YE2023, up from 15.7% at YE2022, as capital retention could offset a slight increase in risk-weighted assets. In Morningstar DBRS' view, it is important for the Group to maintain healthy capital cushions, as options to raise external capital are limited due to its public ownership structure.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://dbrs.morningstar.com/research/450605>

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

Governance (G) Factors

The Governance factor has changed from the prior credit rating disclosure. Morningstar DBRS no longer views the Passed-Through Governance Credit Considerations subfactor as relevant to the credit ratings or trend assigned to SFG. This reflects the Morningstar DBRS view that the risk profile of the Landesbanken has improved substantially over the past years. Nevertheless, the Corporate Governance subfactor remains relevant to the rating of SFG, and this is reflected in the franchise grid grades for the bank.

In Morningstar DBRS' view, the ownership mix and the parliamentary process involved in decision making at the Landesbanken has made it difficult at times for SFG to swiftly react to challenges. In addition, the level of transparency and financial disclosure of SFG is limited compared with that of international peers.

There were no Environmental or Social factors that had a significant or relevant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (13 August 2024) at <https://dbrs.morningstar.com/research/437781>.

Notes:

All figures are in euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (4 June 2024), <https://dbrs.morningstar.com/research/433881>. In addition, Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings, <https://dbrs.morningstar.com/research/437781>, in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://www.dbrsmorningstar.com/about/methodologies>.

The sources of information used for this credit rating include Morningstar, Inc. and company documents, Sparkassen-Finanzgruppe 2019-2023 Annual Reports, Bilanzpressekonferenz der Sparkassen 2025. Morningstar DBRS considers the information available to it for the purposes of providing this credit rating to be of satisfactory quality. Morningstar DBRS does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS' outlooks and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <https://registers.esma.europa.eu/cerep-publication>. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see <https://data.fca.org.uk/#/ceres/craStats>.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: <https://dbrs.morningstar.com/research/450607>

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.

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For more information on this credit or on this industry, visit <https://dbrs.morningstar.com>.

Ratings

Sparkassen-Finanzgruppe

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
25-Mar-25	Long-Term Issuer Rating	Confirmed	A (high)	Stb	EU U
25-Mar-25	Short-Term Issuer Rating	Confirmed	R-1 (middle)	Stb	EU U
25-Mar-25	Senior Non-Preferred Debt	Confirmed	A	Stb	EU U
25-Mar-25	Short-Term Debt	Confirmed	R-1 (middle)	Stb	EU U
25-Mar-25	Long-Term Senior Debt	Confirmed	A (high)	Stb	EU U

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