FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Deutsche Sparkassen Leasing at 'A+'; Outlook Stable

Mon 14 Jul, 2025 - 05:34 ET

Fitch Ratings - Frankfurt am Main - 14 Jul 2025: Fitch Ratings has affirmed Deutsche Sparkassen Leasing AG & Co. KG's (DSL) Long-Term Issuer Default Rating (IDR) at 'A+' with a Stable Outlook. The agency also affirmed DSL's Shareholder Support Rating (SSR) at 'a+'. Fitch upgraded DSL's Short-Term IDR to 'F1+' from 'F1'. A full list of ratings is below.

KEY RATING DRIVERS

Support Drives Ratings: DSL's ratings are driven by a very high probability of support if required from its ultimate shareholders, which are part of Sparkassen-Finanzgruppe (SFG; A+/Stable), the German savings bank network. This is reflected in DSL's SSR of 'a+'. The Stable Outlook on DSL's Long-Term IDR mirrors that on SFG's Long-Term IDR.

SCP Not Assigned: We do not assign a Standalone Credit Profile (SCP) to DSL because its franchise is highly correlated with that of SFG, and there is a high level of financial, operational and strategic integration with the group. DSL generates most of its business via its own sales network, but we believe its franchise value is ultimately derived from SFG, via the German savings banks' client relationships with SMEs and their broad market coverage. DSL has modest profitability and high leverage on a standalone basis.

Short-Term Ratings Equalised: Fitch has upgraded DSL's Short-Term IDR to the higher of two ratings that map to a 'A+' Long-Term IDR. This reflects Fitch's view of a very high probability of support for DSL if required from its ultimate shareholders.

Core Group Role: In Fitch's view, DSL plays a central role in supporting SFG's strategic objectives as a competence centre for leasing and factoring. Fitch believes a default of DSL would create huge reputational risk for SFG, and the record of ordinary and extraordinary support provided to DSL by SFG underpins our view of DSL's core role in the group. Further support, if needed, would be immaterial for SFG, in our view. SFG owns 100% of DSL via its individual members.

Leading Leasing Franchise: DSL serves as the central provider of leasing and factoring products for SFG's clients and is one of the largest leasing companies in Germany, with a new business volume of around EUR10.3 billion in the financial year to end-September 2024 (FY24). DSL's customers are primarily German SMEs, which are sourced internally and from SFG's savings banks (around 30% of new business), with which the company closely cooperates. DSL's leasing and other products are supplementary to SFG's product offering, demonstrating the strong alignment of DSL's market focus with SFG's.

Adequate Risk Profile: Fitch views DSL's sound execution record and well-tested risk-management framework as supportive of its credit and operational performance through economic cycles. DSL could be exposed to fraud and cyber security risks, which in Fitch's view, are inherent to smaller-ticket leasing and factoring businesses. Fitch believes these risks are well managed and mitigated by sound risk controls.

Acceptable Asset Quality: DSL's balance sheet is dominated by banking, factoring and other receivables (57% of total assets at end-FY24), and leasing assets (38%), with the problem receivables four-year average at 3.1% at end-FY24. DSL generates most of its business in Germany, but the portfolio is reasonably well diversified by client, asset type and segment, due to DSL's strong SME focus. In Fitch's view, DSL's asset quality benefits from the secured nature of most of its receivables and leasing assets, with only moderate exposure to residual value risk via its operating lease portfolio. Fitch views DSL's residual value risk approach as sound and commensurate with its peers.

Modest yet Stable Profitability: DSL's profitability has historically been modest, with its pre-tax income to average assets ratio (calculated under German GAAP) at 0.4% in FY24 (0.5% average in last four years). Fitch calculates DSL's profitability using German GAAP, under which it is lower than under IFRS. In Fitch's view, DSL's profitability could face pressure in the medium term as general uncertainty resulting from Germany's stagnating economy constrains portfolio growth and prompts increased credit costs.

In the longer term, we expect DSL's profitability to recover but remain modest. It benefits a well-matched balance sheet, gradually decreasing interest rates, lower inflation and the improving economic environment in Germany and other international markets.

High Leverage: DSL's tangible leverage ratio (gross debt/tangible equity including funds for general banking risks) was 14x at end-FY24. This is Fitch's core ratio for assessing and comparing leasing companies' capitalisation and leverage profiles. Fitch's tangible equity calculation therefore excludes net asset values, but it adds funds for general banking risks to total equity and treats DSL's subordinated liabilities as debt.

DSL does not plan to significantly deleverage in the medium term, as it aims to invest in its green finance business after the announced EUR300 million equity injection, of which EUR100 million has already been used. In our view, equity injections combined with internal equity generation benefits will support DSL's capitalisation profile in the longer term. DSL is not directly subject to regulatory capital (or leverage) requirements and remains primarily funded by SFG and its associated mutual banks.

Mostly Parent Funded: DSL is primarily funded by SFG members, including savings (54% of total non-equity funding at end-FY24) and federal state banks (19%), with the rest (27%) from development and commercial banks. Fitch does not expect DSL's funding mix to change in the medium to longer term. DSL is not part of SFG's Institutional Protection Scheme and does not collect private retail or corporate deposits. It has acceptable financial flexibility and liquidity, with around 70% of its debt unsecured at end-FY24 and liquid assets at around 7% of short-term debt, and substantial undrawn credit lines available. We believe any additional liquidity could be provided by SFG, if required.

RATING SENSITIVITIES

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

DSL's IDRs and SSR are primarily sensitive to adverse changes in our assessment of SFG's ability and propensity to provide timely support. A downgrade of SFG's Long-Term IDR would likely result in a downgrade of DSL's Long-Term IDR and SSR. DSL's Short-Term IDR would be downgraded if SFG's Short-Term IDR were downgraded.

A weakening of SFG's propensity to support DSL, for example if the company's role in the group diminishes or if it becomes less integrated, could lead to Fitch notching DSL's Long-Term IDR from SFG's Long-Term IDR, which would result in a downgrade. A weakening of DSL's role in the group could be indicated by a transfer of leasing activities to other providers within the group. Similarly, a reduction of funding ultimately received from SFG members by DSL, indicating weaker integration, could pressure DSL's ratings.

DSL's ratings would also come under pressure if Fitch believes the shareholders' ability to provide timely support have weakened. This could be the case if the decision-making processes among the owners impedes timely provision of support.

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

An upgrade of SFG would likely result in an upgrade of DSL's IDR and SSR.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

DSL's ratings are based on shareholder support from SFG.

ESG CONSIDERATIONS

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

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR

Deutsche Sparkassen Leasing AG & Co. KG	LT IDR A+ Affirmed	A+
	ST IDR F1+ Upgrade	F1
	Shareholder Support a+ Affirmed	a+

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

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APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 31 Jan 2025) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Deutsche Sparkassen Leasing AG & Co. KG	EU Issued, UK Endorsed

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