Finance Group
German Savings Banks Association

Check against delivery!

Statement by

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DSGV's Financial Press Conference
6 March 2019, Frankfurt/Main

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Ladies and Gentlemen,

A warm welcome to the Financial Press Conference of the German Savings Banks Association.

2018 was clearly a challenging year for Savings Banks, Landesbanken and the companies associated with the Savings Banks Finance Group:

- The interest-rate environment continued to be very difficult.
- Customer expectations became more demanding.
- And investment needs – the buzzword here is digitalisation – continued to grow.

Against this background, Germany's current 384 Savings Banks delivered good operating results in 2018.

I would like to begin by highlighting three points before I address the figures in detail:

- First: Savings Banks are very pleased about the growth they achieved in both deposits and loans. In this context, they paid particular attention to the sustainable value of the lending business. For this reason, they did not seize each and every conceivable business opportunity.

- Secondly: The Savings Bank business is to a large extent interest-based and therefore depends on the general interest-rate situation. For this reason, we have communicated for quite some time now that extremely low and negative interest rates would result in gradually declining net interest income. What is remarkable, however, is how Savings Banks managed this entrepreneurial challenge and delivered very solid operating results that enabled them to continue to strengthen their asset base.

- Thirdly: We massively invested in our core product – current accounts – by introducing new payment and digital services. This is where we will continue to focus our efforts because it will be crucial for our access to customers in the future.

I will now address the key financials of the Savings Banks and the companies associated with the Savings Banks Finance Group.

I. Key financials of Savings Banks

(Lending business)

2018 was a year of strong loan growth, which reflected not only the sound economy but also the Savings Banks' close business relationship with their business clients. As of the end of 2018, **loans to customers** in the portfolios of Savings Banks amounted to a total of EUR 823 billion, which was 3.7 percent more than in 2017. The development of the portfolio of **loans to enterprises and self-employed persons** was particularly positive: The volume of these loans increased by EUR 21.8 billion to a record level of EUR 419.7 billion, which was 5.5 percent more than in the previous year. This loan portfolio included new commitments of EUR 89.2 billion, which was as much as 6.6 percent more than in the previous year. Last year, Savings Banks therefore demonstrated once again that they are the key financing partner for enterprises and self-employed persons in Germany. In 2018, our Group – including Landesbanken – accounted for approx. 40 percent of all loans to enterprises in Germany.

The **portfolio of loans to private individuals increased** by +2.8 percent in 2018. The **portfolio of loans to households for home purchases** increased by EUR 10.5 billion, which was 3.6 percent more than in 2017[1]. Since this portfolio figure also includes repayments made in the interim, new business in **loans for home purchases** is even more informative: In 2018, new loan commitments made by Savings Banks for home purchases amounted to EUR 50.3 billion, which represented a remarkable increase of 5.4 percent.

Against the background of the more challenging environment with shorter supply and higher prices, such strong performance in terms of new business was not a foregone conclusion. However, with good advice and solid financing, it is still possible and sensible to acquire one's own four walls, even in today's more challenging market environment. Moreover, in light of the current housing shortage, particularly in conurbations, there continues to be an urgent need for new properties.

However, in view of the highly dynamic development of construction prices, we are suggesting to policymakers that the burden on potential home builders should be eased by lowering the land transfer tax rates, which in some cases are very high. And when the property tax is revised, property prices – which have increased significantly in many places – should not be included on a one-to-one basis in the calculation of the value of properties and land because this would mainly increase the costs borne by tenants.

[1] 2017: +3.4 percent

(Deposit business)

The Savings Banks' **customer deposits** amounted to EUR 950.3 billion as of the end of the year, which was 4.3 percent more than in the previous year. The growth rate surpasses that of previous years.[2]

This growth was mainly achieve in the **retail customer business**. Deposits made by retail customers increased by 4.5 percent[3], which was more than in the previous year. Deposits of business clients increased by 2.8 percent[4]. Because of the continuing low level of interest, the inflow of funds was once again almost exclusively due to sight deposits (+8 percent) in 2018. More than half of all the deposits are now overnight deposits.

Of course, Savings Banks have mixed feelings about the rapid growth of deposits. Given the current interest situation with negative interest rates for credit institutions, each euro in new deposits can cost the institutions real money. For this reason, it was very important that Savings Banks were able to transform EUR 29.4 billion of the EUR 39.1 billion of new deposits into valuable lending business. On the other hand, we are very pleased about our customers' trust that is reflected in the growth of deposits despite zero interest. Customers rightly assume that if they deposit their money with Savings Banks in times like these, their money is in good hands.

Nevertheless, there is one thing that none of us should overlook: The high percentage of overnight deposits in part also reflects the fact that many customers do not see any attractive investments for themselves. Savings deposits do not yield any interest. Real estate prices have increased significantly. For this reason, accumulating savings by investing in securities now plays a very important role.

(Securities trading business)

In the securities trading business, **net sales** increased significantly (+27.2 percent). With an increase of EUR +13.8 billion, we achieved the highest growth in over 15 years. At the same time, however, the **securities trading volume** decreased by 11.8 percent[5].

So what is the bottom line?

First: Customers with securities exposure tend to hold on to their investments.

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[2] 2017: +2.4 percent
2016: +3.3 percent
[3] EUR +31.8 billion
[4] EUR +3.9 billion, 2017: -3.7 percent
[5] EUR -14.1 billion

And secondly: The efforts made by Deka and Savings Banks to encourage more customers to accumulate savings through investments in securities are gradually bearing fruit.

We still see great opportunities for the future in this field – both for our customers and for ourselves. Accumulating savings through investments in securities has become virtually the only option for the population at large to achieve reasonable growth of assets. In 2019, we will therefore continue to focus our efforts in this field in cooperation with DekaBank.

(Acquisition of financial assets)

Because of the portfolio growth in the deposit business and the high positive net sales of securities, Savings Bank customers acquired more financial assets last year than ever before. Overall, our customers accumulated EUR 56.2 billion in additional assets. Year-on-year, this was an increase of over 56 percent.[6] Retail customers benefited more than other customer segments. They increased their financial assets at Savings Banks by EUR 47.5 billion. Year-on-year, this was an increase of 26.4 percent.[7]

II. Profitability of Savings Banks

Ladies and gentlemen, in times like these it is quite remarkable, in my view, when banks generate an operating result of EUR 10 billion before valuation. Germany's Savings Banks have succeeded in doing this.

(Net interest and commission income)

The institutions had to grapple with significant declines in **net interest income**. In absolute terms, a drop of 3.5 percent amounts to a total of EUR 747 million. I had already predicted this development at last year's financial press conference. Funding spreads are declining in all the deposit categories – because of negative interest rates at the short end and falling moving average interest rates at the long end, which are relevant for calculating the spreads. Margins are also declining slightly in the lending business.

In addition, the earnings components provided by the return on equity are of course no longer as high as they used to be. The recent substantial increase in equity was no longer sufficient to fully offset the drop in earnings due to falling average returns. It is precisely for this reason that it is very important that the largest part of the new deposits was invested in valuable lending business which still yields high margins. This is a great business achievement. Without this success, net interest income would have fallen much more.

[6] Total of 56.3 percent, i.e. EUR +20.2 billion
[7] EUR +10.0 billion

In recent years, Savings Banks have been able to offset a large part of the decline in net interest income by higher net commission income. This development is approaching its natural limits. In 2018, however, the Savings Banks' **net commission income** increased by EUR 209 million (i.e. 2.7 percent), reaching an impressive level of EUR 7.8 billion. This once again demonstrates the important role played by **money transmission and clearing transactions and by the card business**. Income from the latter business increased by 4.7 percent.

Our strategy in this field has fully paid off:

- Although competition has increased considerably, Savings Banks have clearly defended their leading market shares as principal banks.

- And our customers appreciate their current accounts with Savings Banks, not least due to new services and innovative payment applications. I will come back to this in a moment.

Savings Banks were well advised not to follow the strategy of some competitors who decided to provide their valuable services for free. Services that are valuable should be worth paying for.

Other drivers of net commission income were the real estate brokerage business and the significant increase in Savings Bank retail loans arranged via Sparkassen-Kreditpartner GmbH (SKP). The consumer loan portfolio of SKP once again increased substantially, rising by 37.5 percent to EUR 5.2 billion. If the Savings Banks' consumer loan business and the business generated by SKP are added up, overall growth amounts to 2.3 percent. Due to the declining securities trading volume, the contribution made by the customer securities trading business was slightly lower.

(Expense side)

Last year, Savings Banks demonstrated once again that they have managed their business very well and that, most importantly, they have kept their costs under control. **Administrative expenses** remained stable at EUR 18.9 billion.[8] Personnel expenses decreased slightly to EUR 12.1 billion.[9] Their cautious workforce consolidation measures have therefore borne fruit.

A total of 209,588 persons were employed by Savings Banks – either part-time or full-time – at the end of 2018, i.e. 6,529 employees fewer than in the previous year. The reduction of the workforce was mainly due to higher staff turnover and an increasing number of part-time contracts for older employees. In my view, the challenge for the future will not be posed by a mere reduction of the workforce, but by demographically robust restructuring of the Savings

[8] corresponds to 1.56 percent of average balance sheet total
[9] down EUR 39 million / 1.00 percent of average balance sheet total

Banks' staff. For this reason, we have stepped up our efforts to attract qualified young, well-trained professionals, as well as apprentices for a wide range of training occupations and activities with very good prospects for the future.

Among many of our employees, there is a considerable interest in part-time employment models. As much as 38.7 percent[10] of our employees no longer work full-time.

In the past year, **material expenses** were unchanged at a level of EUR 6.8 billion.[11] Decentralised IT expenses declined, while we increased the level of centralised investments in the digitalisation and standardisation of processes. Operating expenses for operating and business equipment, as well as for land and buildings increased, and modernisation investments had an impact. However, this increase in expenses was offset by making adjustments in the density of the branch network and by improving energy efficiency.

Savings Banks currently have 9,383 staffed branches and 3,638 self-service branches. This means that the number of staffed branches has declined by 485. Most of the adjustments affected branches with two to five employees. This is a result of our strategy designed to provide a broader and deeper range of high-quality services in our branches. Such a strategy bundles a wider range of skills in one place. Incidentally, this process is much more prevalent in urban than in rural regions, contrary to what is assumed by the public.

The **operating result before valuation** is EUR 543 million[12] lower than in the previous year and reached a level of EUR 10 billion, as already mentioned.

In 2018, **valuation expenses** amounted to EUR 4.1 billion.[13] Savings Banks virtually do not have to accrue any **additional loan loss provisions**. In the **securities trading business**, on the other hand, there were significant write-downs of EUR 1.4 billion,[14] almost entirely due to valuation adjustments in the liquidity reserve. Savings Banks allocated approx. EUR 2.7 billion[15] to **prudential reserves**. This has again significantly strengthened the capital base of the Savings Banks.

In the past year, **earnings before taxes** increased slightly by EUR 44 million to EUR 5.0 billion.[16]

In 2018, Savings Banks paid approx. EUR 2.8 billion in income **taxes**, virtually the same amount as in the previous year.[17] Savings Banks therefore continue to be one of Germany's

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[10] 2017: 37.9 percent
[11] EUR +34 million, i.e. +0.5 percent / 0.56 percent of average balance sheet total
[12] -5.2 percent / now 0.82 percent of average balance sheet total
[13] -0.34 percent of average balance sheet total
[14] corresponds to -0.11 percent of average balance sheet total
[15] compared with EUR 4.7 billion in the previous year
[16] +0.9 percent / corresponds to 0.41 percent of average balance sheet total
[17] EUR -46 million

biggest taxpayers. **Net income** after taxes amounted to EUR 2.2 billion,[18] which was nearly EUR 100 million or 4.3 percent more than in 2017.[19]

The Savings Banks' cost-income ratio before valuation amounted to 65.5 percent.[20] And the tier-1 ratio amounted to a very solid level of 16.2 percent.[21]

(Value added to Germany's economy)

Year after year, Savings Banks make a substantial contribution to Germany's economy with their successful work.

In our view, this is illustrated by

- the gross value added,
- the demand for goods and services,
- paid wages, salaries and social security contributions
- the gross investments of institutions,
- paid taxes and levies,
- as well as funds provided for charitable causes and institutions in the regions.

We can present the relevant figures in accordance with the approach adopted in the National Accounts.

In 2018, the Savings Banks' direct contribution to economic prosperity in Germany, as defined above, amounted to an impressive EUR 40 billion. In addition to this direct contribution, the employees of Savings Banks paid approx. EUR 4 billion in taxes and social security contributions from their own wages and salaries. In purely mathematical terms, each Savings Bank employee[22] therefore contributes approx. EUR 260,000 per year through his or her work to our country's economic prosperity.

In 2016, the gross value added by all the credit institutions in Germany amounted to EUR 70 billion – more recent figures are not yet available from Germany's Federal Statistical Office. In 2016, Savings Banks accounted for a share of EUR 18.2 billion. I would like to compare this with the contributions made by other economic sectors:

- Germany's entire agricultural sector contributes EUR 17.2 billion.
- The contribution of shipping and aviation amounts to a total of EUR 13.2 billion.

[18] 2017: EUR 2.1 billion
[19] Precisely EUR +91 million / 0.18 percent of average balance sheet total, following EUR 2.1 billion in 2017
[20] +1.2 percentage points, following 64.3 percent in 2017
[21] +0.3 percentage points, following 15.9 percent in 2017
[22] Calculated on the basis of FTEs, i.e. full-time equivalents, not heads

These figures impressively highlight the importance of Savings Banks for the German economy. We depend on this country and its citizens. At the same time, however, we make a substantial contribution to Germany!

III. Business performance of major associated companies

I would now like to comment on some of the financials of the Finance Group's associated companies. The Group's associated companies will provide more details at their own financial press conferences.

Landesbanken

In the past 10 years, the Landesbanken have reduced their risk-bearing assets by far more than half. As of June 2018, the Landesbanken[23] recorded another slight increase in risk-bearing assets for the first time; the total volume amounted to EUR 275.7 billion, which was 0.8 percent higher than in the previous month. The tier-1 ratio slightly improved – from 14.8 percent in the first half of 2017 to 14.9 percent by mid-2018. With the remaining four large Landesbanken, we have come very close to an optimum structure.

As you know, NORD/LB is currently facing quite a number of challenges in connection with earlier ship financing deals. In this context, we are currently conducting constructive talks with the bank's owners and the banking regulator. The objective is to transform the credit institution's business model in a value-preserving manner. That is what we are working on in close coordination with the persons in charge and in accordance with the given division of responsibilities. Please bear with me if I cannot – and do not want to – anticipate the outcome of these talks. In any case, we expect that these talks will lead to significant and necessary changes.

Some people like to raise the question of whether it would make sense to establish a **Central Bank for Savings Banks**. Today, I would like to make the following comments on this topic:

- Germany's Savings Banks would like to have a single institution in which Savings Banks hold the majority stake. We also believe that this would be in the interest of the other owners of Landesbanken.

- I predict that such a central bank will be established because Savings Banks – as the most important partners and customers of Landesbanken – are in favour of it.

- However, all of us also know that there will not be a "big bang"; instead, it will be a tedious process made up of many steps. My role will be to support this process. And that is what I plan to do.

[23] LBBW, BayernLB, NORD/LB, Helaba, S-Erwerbsgesellschaft-Konzern/LBB, SaarLB

DekaBank

For DekaBank, the Savings Banks' investment firm, 2018 was a special year – on 1 February, the bank celebrated its 100th anniversary. In its anniversary year, DekaBank once again demonstrated its strength.

Depite a challenging market environment, the Savings Banks' investment firm achieved a strong Economic Result. The Deka Group's net sales performance was in the double-digit billion range again.

It is encouraging to see that more and more Savings Bank customers are discovering investments in securities. This is also confirmed by the growing number of DekaBank securities deposit accounts (nearly 200,000 net in the past year) and Deka securities savings plans.

The products, which are developed and provided by Deka for the Savings Banks' multi-channel sales and which have been integrated by more than 290 institutions into their online branches, are proving to be an increasingly important success factor for the sales of securities.

Nevertheless, total assets were below the previous year's level as a result of market conditions. At the end of 2018, total assets amounted to EUR 275.9 billion. DekaBank will provide detailed information on its performance at its financial press conference on 9 April.

Landesbausparkassen

The group of the eight Landesbausparkassen delivered a sound performance in fiscal year 2018. **New business in terms of the target contract sums** reached a level of approx. **EUR 33 billion** – an increase of **6.3 percent** compared to the previous year.

This demonstrates that home savings and loan agreements remain particularly attractive, especially in the current capital market situation. As a type of "interest insurance", home savings and loan agreements protect people from the risk of rising interest rates and thus provide "a unique benefit" – that's what the consumer finance magazine Finanztest stated in 2018 and 2019. In the past fiscal year, the **average target contract sum** amounted to just above **EUR 50,000**, which was **11.7 percent above the previous year** – a new record in the history of Landesbausparkassen. Customers have also realised that, because of the significant increase in real estate prices, they need much more equity.

At the end of the year, Landesbausparkassen had a total of approx. **8.5 million customers** and approx. **10 million home savings and loan agreements** with a total volume of **EUR 302**

billion. In the home savings and loan market, they are clearly number one, with a market share of approx. **37 percent of new business**.
Because of this important role for potential home builders in Germany, we welcome the fact that, in their coalition agreement, the two parties in Germany's coalition government agreed to promote home ownership. With the introduction of an **allowance granted to families with children** who plan to build a home, the Grand Coalition has already implemented an important project. This allowance will enable 58,000 additional young families to become home owners.

Other plans included in the coalition agreement in the field of housing policy, which are also designed to ease the burden on home builders and buyers, have not yet been implemented. This includes a plan to "improve the **home ownership savings bonus**". This could act as an incentive for more households to set money aside early on for future home ownership, and at the same time, this would be a way for households to protect themselves from the risk of rising interest rates.

The Savings Banks' insurance companies

Based on initial forecasts, the premium income generated by the Savings Banks' insurance companies in fiscal year 2018 amounted to approx. EUR 21 billion – a stable high level. The performance of the **life assurance** business was characterised by a shift of new business from traditional products to policies with novel guarantees and products for income protection. Premium income was at a similar level as in 2017 (approx. EUR 9 billion). With a stable long-term market share of approx. 10 percent, our insurance companies are among the most important product providers in Germany's **retirement pension market**.

Property and casualty insurance companies increased their business slightly to just under EUR 9.4 billion across all classes. Particular mention should be made of the strong performance of the **home owners insurance business**. In a class of insurance in which the Savings Banks' insurance companies are already the clear market leader, they have further strengthened their position.

The **health insurers** of the Savings Banks Finance Group – Bayerische Beamtenkrankenkasse and Union Krankenversicherung – increased their premium volume to approx. EUR 2.5 billion. In 2018, they again did particularly well in the supplemental insurance business for statutory **health and nursing care insurance**. The Savings Banks' insurance companies hold a leading position in this business. Overall, our health insurers are the third largest private health insurance group in Germany, with over three million policyholders.

III. Outlook and conclusions

Ladies and Gentlemen, in conclusion I would like to give you a brief outlook on the future priorities of the Savings Banks' business operations.

We believe that our key challenge will be to ensure that we will remain the direct and most important partner in all financial matters for people in Germany. Defending this position will be the most important issue in the future. Whoever is at the interface with the customer will be able to develop all of their business activities from that position. In the competition for closeness to the customer, our future competitors will no longer be other credit institutions but, above all, big digital corporations – not only contenders from the United States, but increasingly state-controlled Internet companies from China.

We know that their strategy is to squeeze their products and platforms between the final consumers and the traditional vendors in nearly all sectors of the economy. We believe that this poses a major challenge to our entire national economy. If European consumers do not want to become merely patient users and if European enterprises do not want to become merely tolerated suppliers, we will have to fight for exclusive access to customers. We will take on the challenge.

We believe that, with our base of private customers and business clients, we are one of the few German contenders capable of successfully implementing such a strategy. It is therefore important for us

- to protect the data streams of our customers and to process the data to facilitate the financial transactions of our customers, so much so that they do not have to expose themselves to the relentless data collection of third parties.
- We want to ensure that all the payment systems that are important today and those that will become important in the future will be designed in such a way that their use by customers does not have to involve third parties.
- And we want to enhance our personal relationship with customers by means of on-site relationship managers and a particular proximity to our customers.

The key point of access for these services is, and will continue to be, the current account.

We have designed our S-App and the online branch in such a way that our customers can deal with <u>all</u> of their financial matters via <u>one</u> platform – including matters for which they have chosen the services of a competitor. In future, automatic classification and the graphic display of transactions will provide clarity. The current account balance will be displayed, along with a forecast of the future account balance – so that customers will know today how much they can spend tomorrow. In the next few years, we will be gradually introducing new digital products on our financial platform, beyond pure banking. As of this year, the "contract check" will help customers to manage subscriptions and to meet deadlines.

While tax returns will still not fit on a single page of paper in future, customers will be able to prepare their tax returns directly in the online branch. Bit by bit, the online banking site of one's own Savings Bank will therefore become the digital control centre onto which other functions can be docked. The basic prerequisite is that we route as many payment transactions as possible via our systems; for this reason, we must be the market leader in payment solutions and control the value chain on our own.

For our strategy in the payments segment, it is particularly important to ensure that our customers will be free to choose the payment options they prefer. As the market leader, we will therefore provide a very broad range of options.

Last year, we introduced **mobile payments** at retail checkouts using Android smart phones. In January 2019, i.e. only a few months after the launch, we were able to report the one-millionth transaction[24] – a fantastic achievement for a method of payment that was completely new in the market at the time. In the course of the current year, we also want to enable Savings Bank customers with iOS devices to make mobile payments. To this end, we are engaged in a very positive exchange with Apple and hope that we will soon be able to finalise these talks.

In 2018, we were the first and biggest group of credit institutions in Germany and Europe to offer **real-time transfers**. Savings Bank customers currently carry out approx. 60,000 real-time transfers per day – i.e. a total of 1.95 million transfers in the month of January 2019. And we expect the number of transfers to continue to grow substantially – now that other banks have followed suit and are also offering real-time transfers. In the course of the year, customers will also be able to make batch-file transfers. This will give new impetus to this technology because large paying agents such as pension insurers will then be able to manage their payments precisely. We believe that the real-time technology will also make us more competitive in online trading and at the point of sale. Many unnecessary intermediaries who take a share of the profit at the expense of retailers and consumers will then become superfluous.

Last year, the co-operative banks and quite a large number of medium-sized and smaller private banks also introduced **Kwitt**, our mobile-to-mobile payment function. With 1.3 million registered users, Kwitt is now the market standard for peer-to-peer payments in Germany. This system is made available to all the other providers in the German market within the framework of non-discriminatory partnership. In addition, Kwitt will also become European, step by step, as we develop interfaces with other established systems.

The future of our core business will depend on data, data platforms and data streams. They will help us to identify the future needs of our customers and to develop suitable products.

[24] since the launch

However, despite all our innovative progress, we will always remain Savings Banks. We are at home in the regions where we are available for our customers with approx. 13,000 branches.

Thank you very much for your attention.