

SME DIAGNOSIS 2021

Crisis-proof and fit for the future –
SMEs face their next big challenge





Three out of four enterprises in Germany are customers of the Savings Banks Finance Group (Sparkassen-Finanzgruppe). Giving advice to and providing financing for small and medium-sized enterprises is the core business of the Savings Banks and Landesbanken in Germany. To this end, they use their strengths: a precise knowledge of their customers and their personal circumstances, and a nationwide presence throughout Germany's regions.

The SME Diagnosis 2021 is the twenty-first analysis conducted by the German Savings Banks Association (Deutscher Sparkassen- und Giroverband), providing representative data on the current status of small and medium-sized enterprises in Germany.

Content

1	Foreword by the President	2
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2	S-SME Fitness Index 2021	6
	Six quick facts	6
	Powerhouse or couch potato?	7
	S-SME Fitness Index 2021 in detail	8
	SMEs show their resilience	10
	The challenge of sustainability	13
	Latest key figures for Savings Banks 2021	15
	S-SME Fitness Survey 2021	17

3	Focus Topic	20
	Prospects for German SMEs	
	3.1 General economic conditions	20
	3.2 Impact of the Corona pandemic on German SMEs	24
	3.2.1 Turnover trends, profit changes and equity ratio of selected industries	26
	3.2.2 Savings Bank lending provides reliable support for German SMEs	32
	3.3 Policy framework needed for the successful development of SMEs in the aftermath of the pandemic	39

4	Survey of Savings Banks' Experts	40
	Part 1: Current business performance, outlook and economic environment	41
	Part 2: Prospects for small and medium-sized enterprises in Germany	45

	Imprint	50
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HELMUT SCHLEWEIS
President of the German Savings Banks Association



“With the transformation to a more sustainable economy, the next mammoth task is upon us. The transition to greater sustainability is probably the most significant investment programme of this decade.”

Berlin, November 2021

Ladies and Gentlemen,

Small and medium-sized enterprises are the driving force of our economy. SMEs demonstrated their ability to overcome economic turbulence during the Corona pandemic. Despite the lockdowns and downturns in orders, more than 90 percent of companies were able to report a profit in 2020. By the third quarter of 2021, most German companies were already back on a positive track. So the chances are good that the recovery will continue in autumn 2021.

“Germany’s SMEs are already committed to driving the transformation towards sustainability. They have built up solid equity reserves and have comfortable liquidity buffers.”

Nevertheless, there are also considerable obstacles to the upswing. Supply bottlenecks and the rapid rise in raw material prices are currently slowing the recovery of many companies. Corona-related regulations are still weighing on some sectors.

However, the widely feared wave of bankruptcies has so far failed to materialise. This is due on the one hand to government aid programmes such as bridging assistance or short-time working allowances, and on the other hand to the possibility of obtaining deferrals and payment moratoria from their principal banks in order to secure their liquidity. As a result, more than 213,000 corporate customers (as of August 2021) have taken advantage of

the Savings Banks' offer and temporarily suspended interest and redemption payments. Above all, however, the SMEs have kept their costs under control with far-sighted management – and have even been able to build up further equity reserves and liquidity buffers.

Savings Banks have once again demonstrated that they are always the reliable partner of SMEs. They consequently have a stabilising effect on the entire German economy.

The Savings Banks will continue to be in great demand in this role, because SMEs are facing another major challenge: the transformation to greater sustainability, probably the most significant investment programme of the decade. This involves combining environmentally and climate-friendly production with social and societal responsibility. This is a mammoth task that cannot be accomplished without reliable and economically efficient framework conditions.

The “SME Diagnosis 2021” describes and evaluates the current economic environment, the prospects and the challenges facing small and medium-sized enterprises. The basis of the trend analysis is a survey of almost 300 SME experts in Savings Banks throughout Germany. The economic company data comes from the annual financial statements of around 300,000 commercial Savings Bank customers. This is the largest pool of anonymised annual financial statement data in Germany.

The “SME Diagnosis” enables Savings Banks and Landesbanken – the SMEs' most important financial partners – to make their findings from this data pool available to the public.

A handwritten signature in black ink, appearing to read 'Hendrik...' followed by a stylized flourish.

93%

of companies also made a profit in 2020.



Losses exceeded equity in only

0.7%

of companies in 2020.



Increase in liquidity holdings in the 1st half of 2021 by approx.

€ 3 billion



31.7%

Market share

Savings Banks and Landesbanken had a market share of 31.7% in loans to the real economy at the end of June 2021.



Over

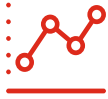
213,000

Corporate customers have taken advantage of the offer of interest rate and repayment suspensions.



2 S-SME FITNESS INDEX 2021

Six quick facts



S-SME Fitness Index 2021 shows a relatively mild Corona progression

Although some industries have been hit very hard, the effects of the Corona pandemic have been less dramatic than initially feared. A high degree of flexibility on the part of German SMEs, coupled with strong financial robustness, ensured that sales and profits did not fall as much as expected. Added to this were the numerous government aid measures such as short-time working allowances and bridging assistance.



No wave of insolvencies anticipated despite many difficult developments

In spite of the overall stable condition of the German SME segment, no sector was spared completely. In some areas, there were numerous severe developments. However, 93 percent of the companies also generated a profit in 2020. Just under 7 percent of companies suffered a balance sheet loss due to Corona, although losses exceeded equity in only 0.7 percent of companies. We therefore do not anticipate a wave of insolvencies.



Economic recovery in the coming years: Growth in all sectors

For 2021, we expect growth in all sectors. On average, German SMEs will be able to achieve sales growth of over 5 percent this year. However, a full return to pre-crisis levels will not be achieved in some sectors before 2023. Current challenges include supply bottlenecks for semiconductors and a shortage of materials in construction. In the medium term, however, we expect the situation to return to normal. Additionally, the fundamental growth drivers remain intact and German companies are benefiting from their excellent reputation around the world.



Loan transactions and liquidity holdings of Savings Banks' corporate customers at a high level

Investments continue even in times of crisis. The Savings Banks' 2021 half-year figures show around EUR 50 billion in new loan commitments. EUR 19 billion is attributable to commercial housing construction and just under EUR 32 billion to investment loans. In addition, there were high increases in liquidity at companies. Together with the solid equity holdings, these are the foundations from which growth opportunities will be realised when the economy picks up.



The new challenge of sustainability

The transformation in Germany towards a more sustainable economy is the largest investment programme of this decade. As the number one financing partner for Germany's SMEs, the Savings Banks are embarking on this path together with their corporate customers. Here, too, German SMEs have the potential to lead the way. But at the same time, this transformation entails a considerable increase in bureaucracy for the Savings Banks and their customers. If the transformation is to succeed, it is essential that the regulatory measures are designed in a way that is both SME-friendly and practical.



The majority of companies see sustainability as an opportunity

Three quarters of all enterprises in Germany have a business relationship with an institution in the Savings Banks Finance Group. This year, we asked the SME experts at the German Savings Banks how the issue of sustainability was affecting their companies. A good two-thirds of the experts said that their corporate customers see the transformation of the German economy towards greater sustainability as an opportunity rather than a burden. More than half of the respondents reported that their corporate customers have already taken concrete measures.

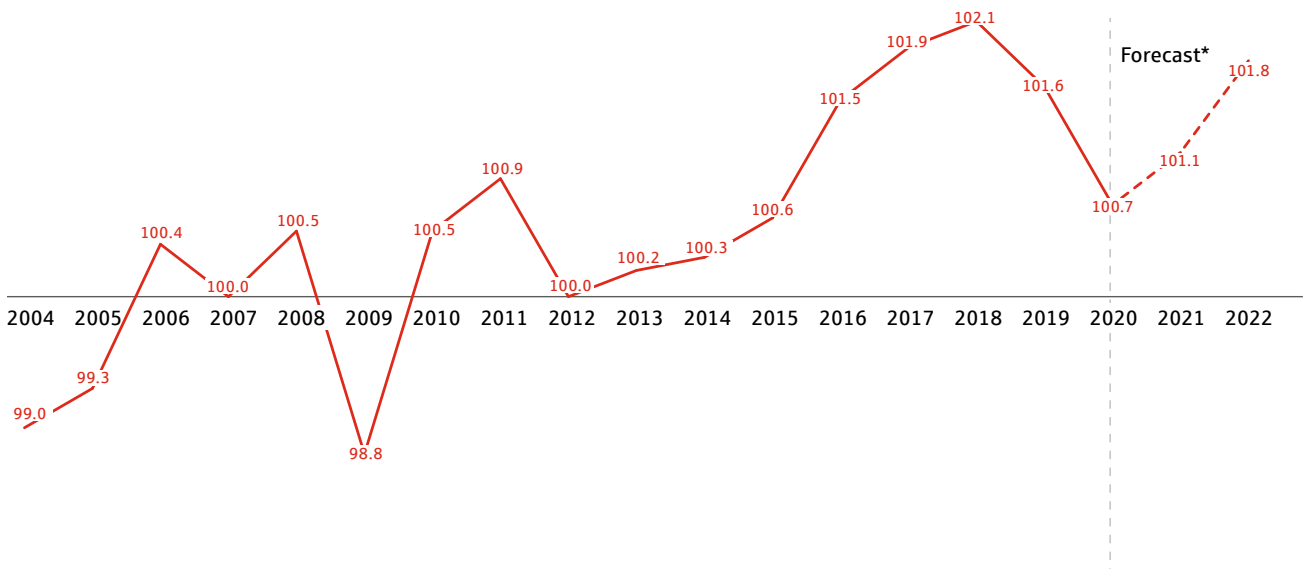
Powerhouse or couch potato?

“**Zukunft Mittelstand**” (“The future of SMEs”) is a survey based on an analysis of the key performance indicators of business clients and of the Savings Banks’ loans to enterprises, as well as the DSGV’s sector forecast. The study sheds light on the economic situation and the future of Germany’s small and medium-sized enterprises. The central component is the S-SME Fitness Index, which measures the long-term performance, productivity, innovative strength and financial robustness of SMEs.

Powerhouse or couch potato: the **S-SME Fitness Index** gauges the fitness level of Germany’s SMEs. What are the enterprises capable of achieving? How productive are the companies and their employees? And how well prepared are they for the future? Answers to these and other questions can be found in an analysis of key figures gathered by the DSGV’s sector service (Branchendienst) from approx. 300,000 anonymised balance sheets per year. The S-SME Fitness Index, which is compiled on the basis of these data, provides information on the condition and sustainability of Germany’s SMEs.

How fit are Germany’s SMEs?

S-SME Fitness Index



Average fitness 2004 to 2014 = 100, companies with sales of up to EUR 250 million

* Forecast values for 2021 to 2022.

Source: DSGV-Branchendienst

S-SME Fitness Index 2021 in detail



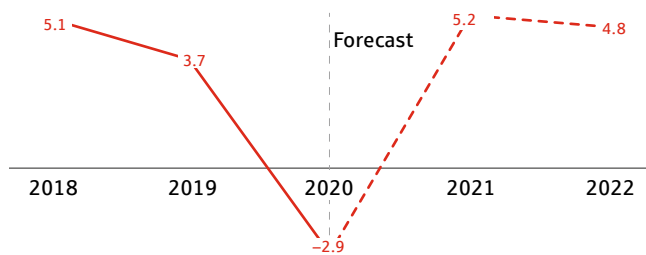
Performance:

Business and profits

How attractive are the markets and how successfully do enterprises operate in them?

How fast are enterprises growing?

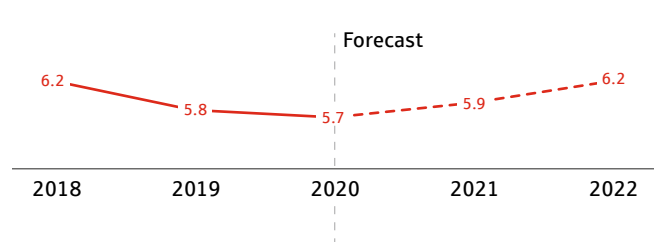
Turnover growth as a percentage*



* Change in turnover vs. previous year.

How profitable are enterprises?

Return on sales as a percentage*



* Operating result relative to turnover.



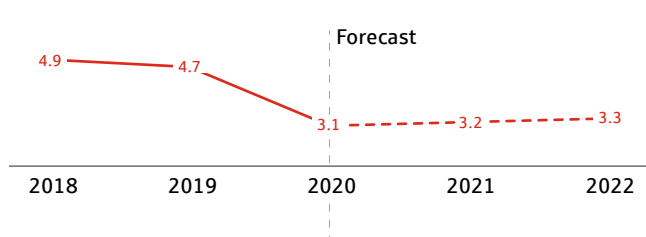
Strength:

Investment and innovation

How much do enterprises invest and how innovative are they?

How much do enterprises invest?

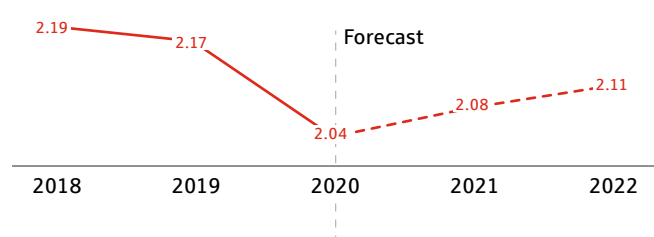
Investment growth as a percentage*



* Fixed asset growth vs. previous year.

How many euros in turnover are generated with one euro of fixed assets?

Asset efficiency in euros*



* Turnover relative to fixed assets

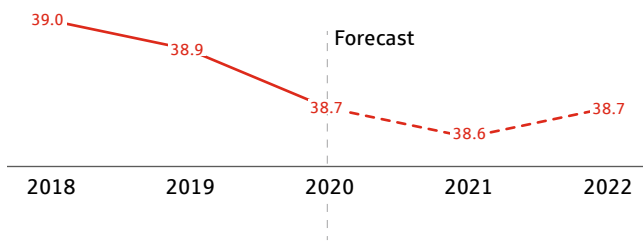


**Resilience:
Stability and sustainability**

How robust is the financing of enterprises and how attractive is it to their owners?

What is the financial stability of enterprises?

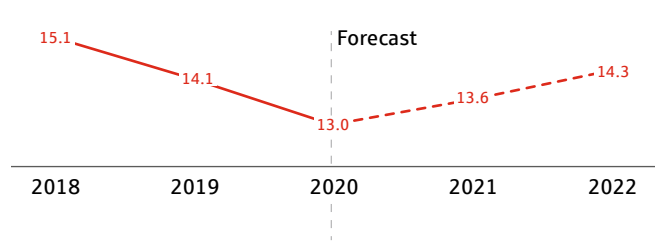
Equity ratio as a percentage*



* Equity relative to the balance sheet total

How good is the return on capital?

Return on capital as a percentage*



* Operating result relative to equity.

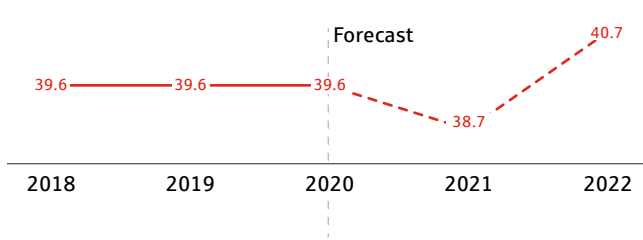


**Team spirit:
Employees and their contribution**

How productive are employees, and what is their contribution to the success of an enterprise?

What is an individual employee's contribution to the success of the enterprise?

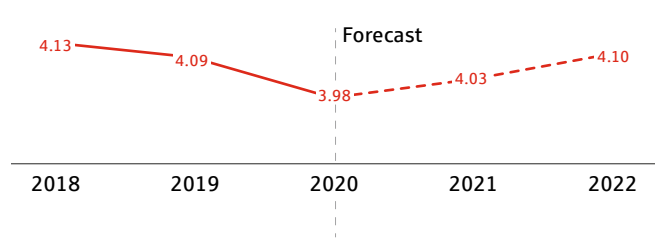
Gross profit per employee in thousand euros*



* Turnover less cost of materials and personnel expenses relative to the number of employees.

How many euros in turnover are generated with one euro of personnel expenditure?

Employee productivity in euros*



* Turnover relative to personnel expenditure.

SMEs show their resilience

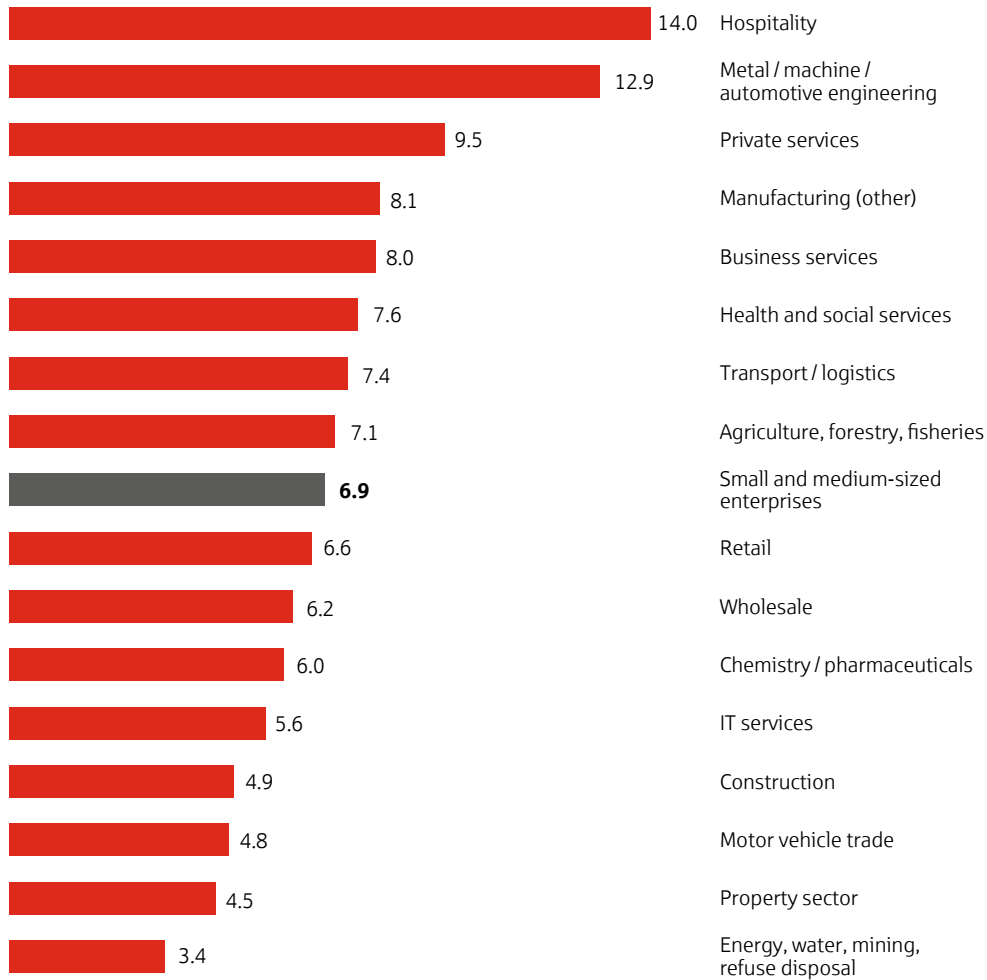
The Corona pandemic dealt a heavy blow to the German SME sector. Nevertheless, the impact of the pandemic has been milder than expected. Our analysis of corporate balance sheets for companies with sales of up to EUR 250 million shows: 93 percent of companies still made a profit in 2020. Despite this, there have been severe outcomes in every sector. The share of companies that suffered a balance sheet loss in 2020 due to Corona is on average just under 7 percent. In the vast majority of cases, however, the capital buffers were sufficient to compensate for these losses. In only 0.7 percent of the companies did the losses exceed equity capital. These results are consistent with the simulation result of our Corona scenario.

There are currently many signs of economic recovery. Admittedly, not all parts of the economy are running smoothly again – for example, there are supply bottlenecks for semiconductors, material shortages in construction and rising energy and raw material costs. However, on the whole we expect a return to normal in the medium term. In addition, the fundamental growth drivers remain intact. The world population is growing and driving general demand. The middle class is expanding, especially in Asia. German companies in particular, with their good reputation, are benefiting from this development. Interest rates are also still at a historic low. These are favourable conditions for capital-intensive sectors such as construction or industry.



Percentage of companies with Corona-related losses by sector in 2020

Figures as percentages



Enterprises with an annual turnover of up to EUR 250 million

Source: DSGV-Branchendienst



Another factor for Germany is the labour market, which continues to perform well. Even during the crisis, companies maintained their workforces, so the starting position for a rapid recovery is given and we therefore still do not foresee a wave of insolvencies. Assuming there is no further lockdown, we anticipate strong growth in all sectors in 2021.

In some sectors, however, pre-crisis levels will not be regained this year. The hospitality industry, for example, will only be able to recoup a relatively small portion of its high Corona losses this year, with sales growth of around 11 percent. Due to the positive export situation and the recovering domestic economy, the mechanical engineering and automotive industries are also recording growth rates. The aforementioned growth drivers and the technological leadership of the companies play a key role here. However, since a return to pre-crisis levels cannot yet be expected in 2021 and high sustainability investments are also planned, a continuation of the positive sales development can also be envisaged for the following years.

The IT industry should continue to record stable growth due to advancing digitalisation, driven by working from home or increased software use in industrial production. The chemical industry will be impacted positively by developments, especially in the health sector. The pandemic-related investments in new applications form the starting point for a positive long-term development. Nevertheless, a certain degree of uncertainty remains with regard to the progress of the pandemic and the effectiveness of the vaccination campaigns.

The challenge of sustainability

The Corona crisis may appear to have been almost overcome, but there is no shortage of new challenges. The flood disasters in parts of Germany show more than ever that the transformation towards a sustainable economy cannot be postponed. We consider this transition to be the most significant investment programme of the decade. Here, too, we are confident. German companies have established themselves as global market and technology leaders in many areas. German SMEs also have the potential to lead the way in climate protection technology. As the number one financing partner for Germany's SMEs, the Savings Banks are pursuing this path together with their business customers.

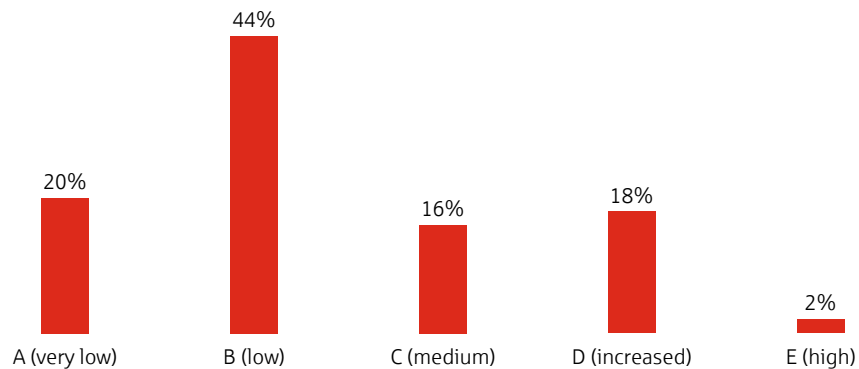
The regulatory requirements within the context of sustainable finance are intended to channel capital flows preferentially into sustainable investment projects. However, the large number of requirements and complex reporting obligations already entail a considerable increase in bureaucracy, not only for the Savings Banks, but also for their business customers. The legislators have not yet succeeded in making the measures SME-friendly and practical. They remain more of a burden than an incentive.



Assessing the sustainability of our business customers will be one of the duties of every Savings Bank in the future – it is already mandatory for the largest institutions. We have therefore focused intensively on this topic. With the Savings Banks S-ESG Score, we use a model to measure the average extent to which a sector is affected by sustainability issues. Suitable indicators have been identified, which are assigned to the three areas of environment (E), social affairs (S) and governance (G). The most important factor here is greenhouse gas emissions. However, aspects such as appropriate remuneration and fair conditions in the workplace are also taken into account.

Savings Banks ESG Score – sustainability risks within sectors

Distribution of scores among the main economic sectors



Source: DSGV-Branchendienst

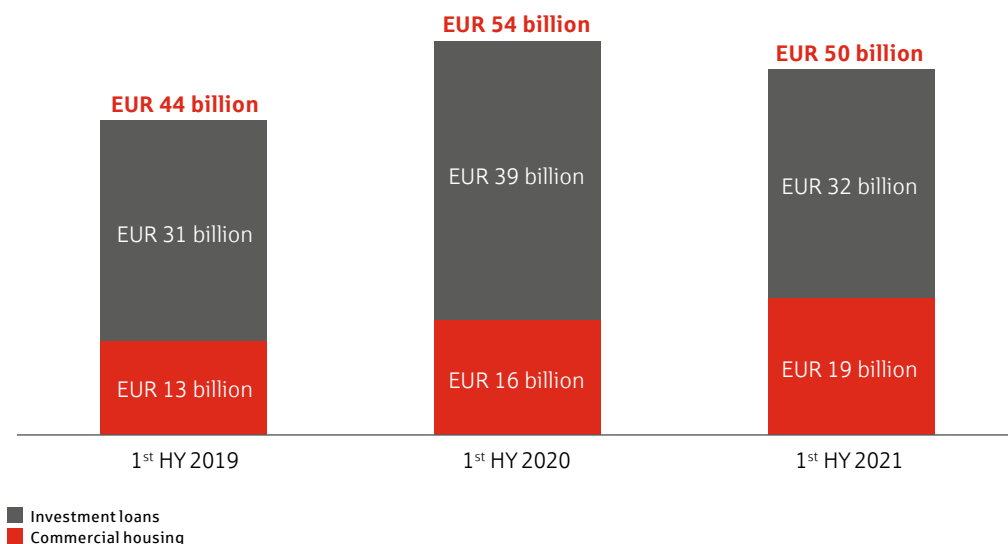
Qualitative assessments by our DSGVO Industry Service experts complete the model. The S-ESG score is calculated regularly for all sectors of the German economy and enables direct sector comparisons. Our sustainability analyses show that on average around 20 percent of sectors display increased or high sustainability risks. Loans in these sectors will require special justification in future. This is where the Savings Banks' proximity to their customers is particularly valuable. Only a thorough understanding of a company's business model can enable the identification of development potential and an accurate assessment of sustainability risks.

Latest key figures for Savings Banks 2021

Investments continue to be strong. The Savings Banks committed EUR 50 billion in new corporate loans in the first half of 2021. Of this, almost EUR 19 billion was for commercial housing construction and almost EUR 32 billion for investments. If this is adjusted for the extensive Corona special loans from KfW and the state development banks that the Savings Banks have made available to companies, the Savings Banks granted around EUR 1 billion more in loans in the first half of 2021 than in the first half of 2020. This is an indication of the continued high level of willingness to invest on the part of companies.

New lending business

Commitments in billion euros



New loan commitments of the Savings Banks in Germany

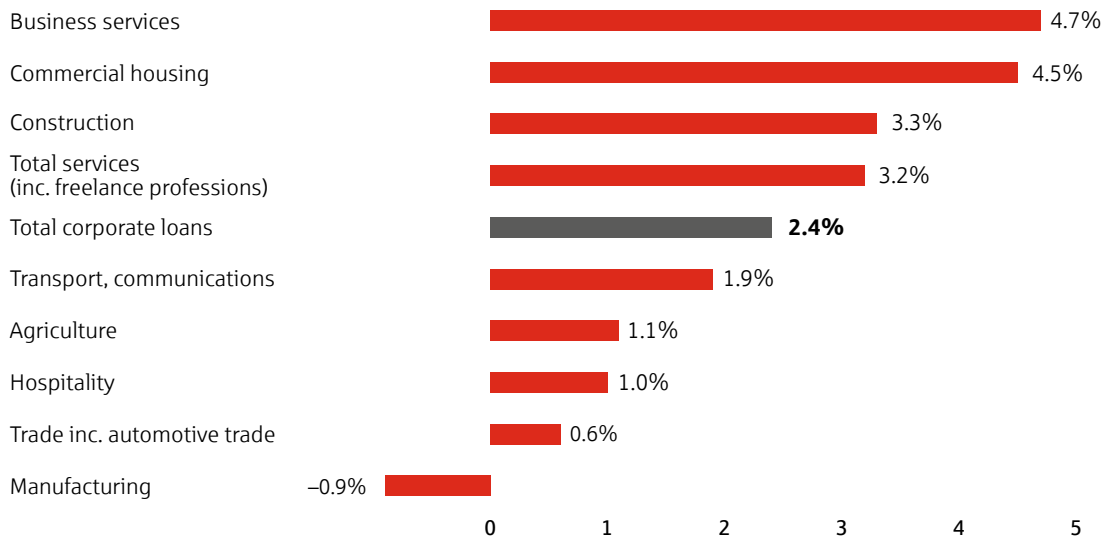
Source: DSGV

The loan portfolios of companies increased by 2.4 percent overall in the first half of 2021. Business-related service providers recorded particularly high portfolio growth. The dynamic credit growth in the real estate industry has not come as a surprise. The construction industry, now in its tenth year, has continued its usual development. Even at the height of the pandemic, the sector was one of the growth drivers of the German economy.

With the high liquidity increases we observed last year, companies have retained their flexibility during the crisis. In the first half of 2021, liquidity holdings continued to increase slightly and have reached a very high level. Together with the solid equity holdings, they are the foundations from which growth opportunities will be realised when the economy picks up.

Credit trends in selected sectors

Changes in inventories in the first half of 2021

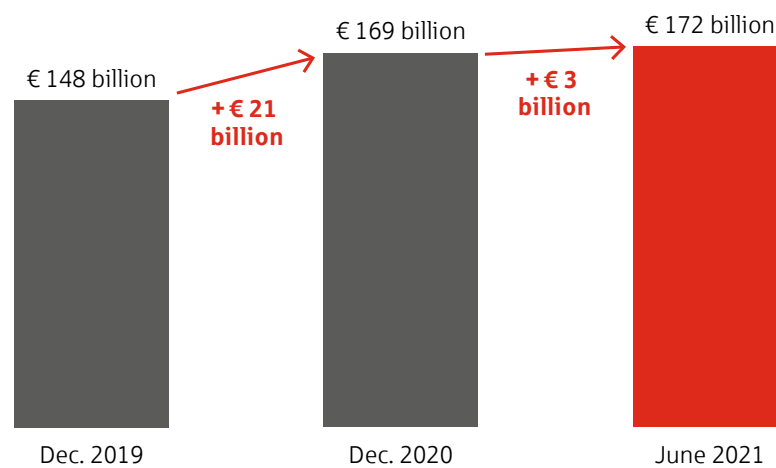


Year-to-date portfolio changes at the end of June 2021, business of Savings Banks

Source: DSGV

Liquidity holdings of business customers

Holdings at the Savings Banks in € billion



SavingsBanks' Business

Source: DSGV

S-SME Fitness Survey 2021

What are the concerns of Germany's SMEs? What are the current trends in investment and financing? These and other topics are discussed by the Savings Banks' business customer relationship managers every year with Germany's small and medium-sized enterprises. Three-quarters of all companies in Germany have a business relationship with the Savings Banks Finance Group. During the peak phase of the Corona crisis, the employees of the 370 Savings Banks held countless advisory meetings with their business customers. The S-SME Fitness Survey provides a concise summary of the findings of our SME experts. Insights from the market leader: direct, up-to-date, relevant.

Current topic: The challenge of sustainability

Sustainability is the defining issue of the day. It entails comprehensive change for all players in the global economy. To date, German SMEs have always proven that they can adapt quickly to changing conditions in their market environment. How do companies assess the issue of sustainability? What measures are they taking?





1. Relevance for the business model

Question:

How important is sustainability for companies' business models?



Answer from the experts:

There is hardly anyone who still attaches only minor importance to the topic of sustainability for companies. Slightly more than **20 percent** of the business customer experts even attribute a high level of importance to the topic of sustainability for the business model of their corporate customers – e.g. because they are producers of climate protection products or because they have particularly energy-intensive manufacturing processes. **Three-quarters** of the experts see a balanced relevance of the topic for their corporate customers.



2. Opportunity or risk

Question:

How do companies assess the topic of sustainability? Do the opportunities outweigh the risks?



Answer from the experts:

Almost **two-thirds** of the Savings Banks' financing experts surveyed report that their business clients tend to see the shift towards a more sustainable economy as an opportunity. For around **20 percent**, the risks outweigh the benefits. **17 percent** are still undecided. To date, German SMEs have always demonstrated a high degree of adaptability. The predominantly positive view of the transition process ahead reflects this.



3. Investment programme for sustainability

Question:

Have companies already taken measures in the area of sustainability? Have specific investments already been made?



Answer from the experts:

More than half (**55 percent**) of the experts surveyed report that their business customers have already taken concrete action – for example, investing in CO₂-efficient production technologies. Just under a **third** of the experts know of customers who will implement plans in the near future. Only **13 percent** say that no concrete measures in the area of sustainability are currently planned or have already been implemented.



4. Drivers of change

Question:

What are the drivers? Why are companies addressing the issue of sustainability?



Answer from the experts:

According to our experts, the three main reasons why companies are currently addressing the issue of sustainability (multiple answers possible) are image reasons (**81 percent**), regulatory requirements resulting, for example, from the German Federal Climate Protection Act (**70 percent**) and social responsibility (**66 percent**). Additional business potential was named by **39 percent** of our SME experts as a driver for sustainable activities. Cost savings (**34 percent**) or competitive pressure (**28 percent**) remain of less importance. We anticipate that the order of these reasons will change in the future with an intensification of political measures, such as increased pricing of greenhouse gas emissions.

3 FOCUS TOPIC

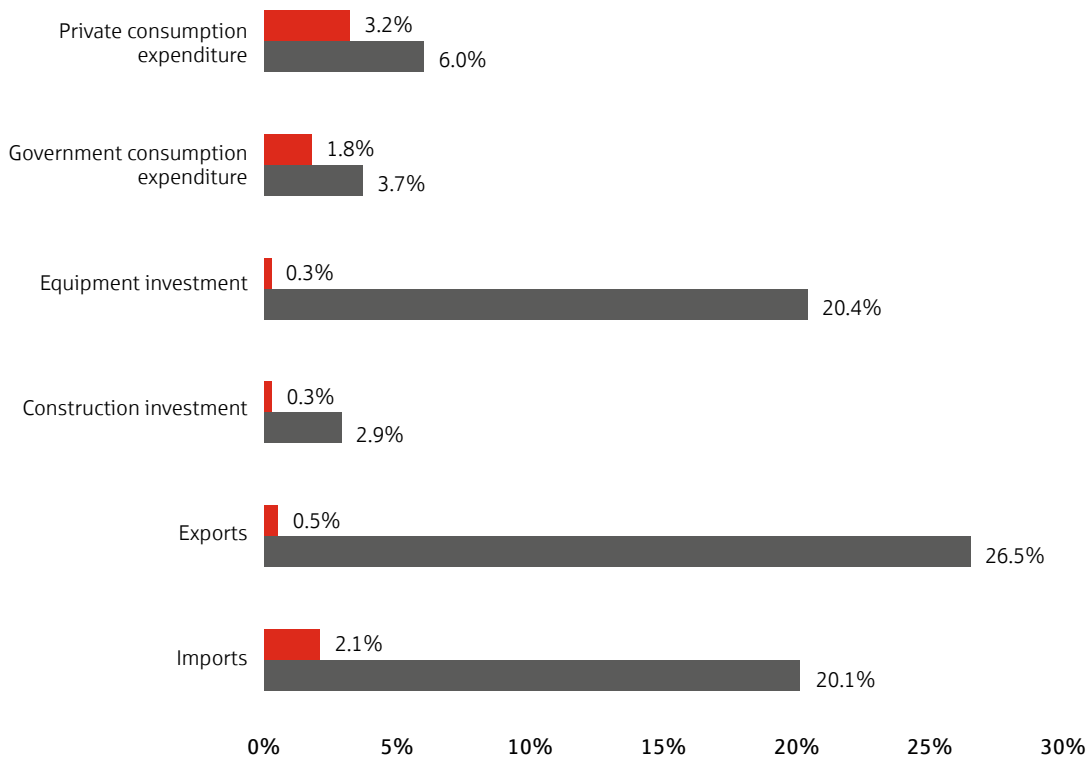
Prospects for German SMEs

3.1 General economic conditions

The German economy continued to recover in the third quarter of 2021. However, supply bottlenecks in raw materials and advance services as well as in global logistics are proving to be more persistent and protracted than had been expected in the spring and are thus slowing down development.

Expenditure components of GDP in the second quarter

G01

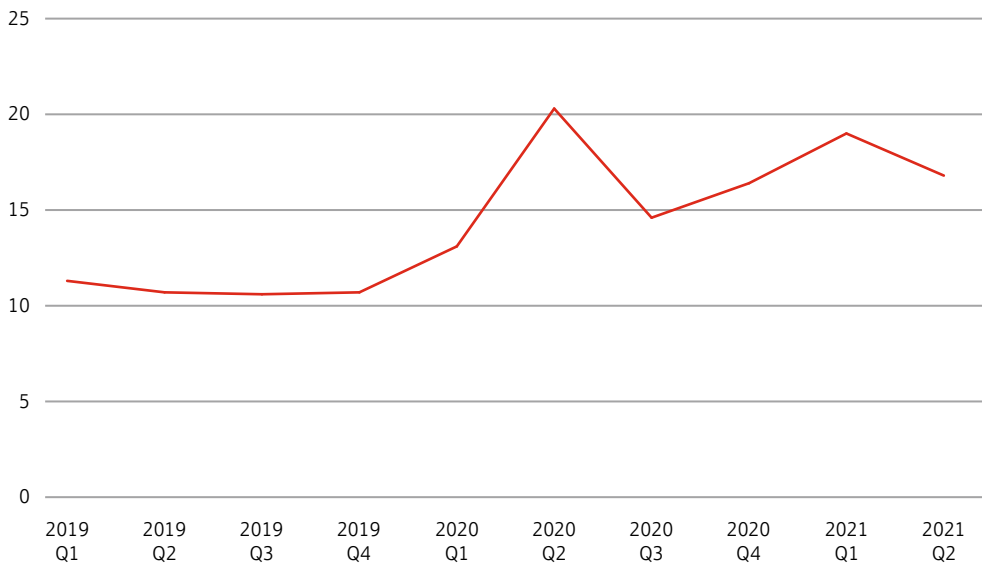


■ Change previous quarter ■ Change previous year's quarter

Source: Destatis



Savings rate of private households in Germany (seasonally adjusted quarterly figures as a percentage of disposable income) G02



The recovery, which progressed well in the second quarter, was driven primarily by the reopening of shops, restaurants and cultural venues. Private consumption increased by more than 3 percent compared with the previous quarter. The increase was about 6 percent in comparison with the same quarter last year, which at the time marked the bottom of the economic downturn in the first lockdown of 2020. Nevertheless, consumer spending remains well below pre-pandemic levels.

The inclination of people to save more money continues. The savings rate declined somewhat in the second quarter, mirroring the revived consumption. However, it did not reach the record levels seen during the lockdowns. Overall, people are still putting aside significantly more money than in normal times.

Government consumption expenditure, which was increased deliberately during the pandemic to support economic development, also continues to contribute to growth. In the second quarter of 2021, it rose by 1.8 percent year-on-year.

Investments and exports, on the other hand, were still subdued in the second quarter. Although they were well above their levels of a year ago, which had completely collapsed, the momentum of the recovery has slowed considerably.

Hopes for a further revival therefore rest largely on the prospect of an upturn in investment. There are in fact a particularly large number of orders and plans for investment projects at present. But they have not yet been realised due to persistent supply bottlenecks.

Supply bottlenecks as well as subdued investment and exports could slow down the momentum of the economy's recovery.

Government spending continues to contribute to growth. It increased by 1.8 percent in the second quarter of 2021 compared to the previous year.

Supply bottlenecks for raw materials and intermediate products lead to renewed short-time shifts or the temporary closure of entire production lines, especially for car manufacturers.

Bottlenecks slow down the recovery

One tangible constraint on global recovery is the persistence of logistical bottlenecks. There continues to be a shortage of raw materials, intermediate goods and transport capacity. It has now become apparent that the bottlenecks are more prolonged than previously thought, and these changes appear to be structural rather than just temporary.

There continues to be a shortage of semiconductor products, not only in the automotive industry, but also in other industries. Some car manufacturers are again running short-time shifts or temporarily closing entire production lines, this time due to material shortages. Over the last year and a half, car production in Germany has at best shown a W-shaped performance. The decisive factor will be whether the industry recovers this year or next.

Furthermore, there is an international shortage of construction timber, which is being bought up by buyers from China and the USA on the world market and also from Europe. Bitumen is scarce and expensive. Steel production, which complained of overcapacity for years, is now experiencing supply bottlenecks for many grades and products. Shipping freight rates are rising, containers are in short supply or in the wrong places in traffic with Asia.

Logistical bottlenecks have led to a divergence between incoming orders and production in Germany. Processing times and delivery periods are now becoming increasingly longer in large parts of the economy.

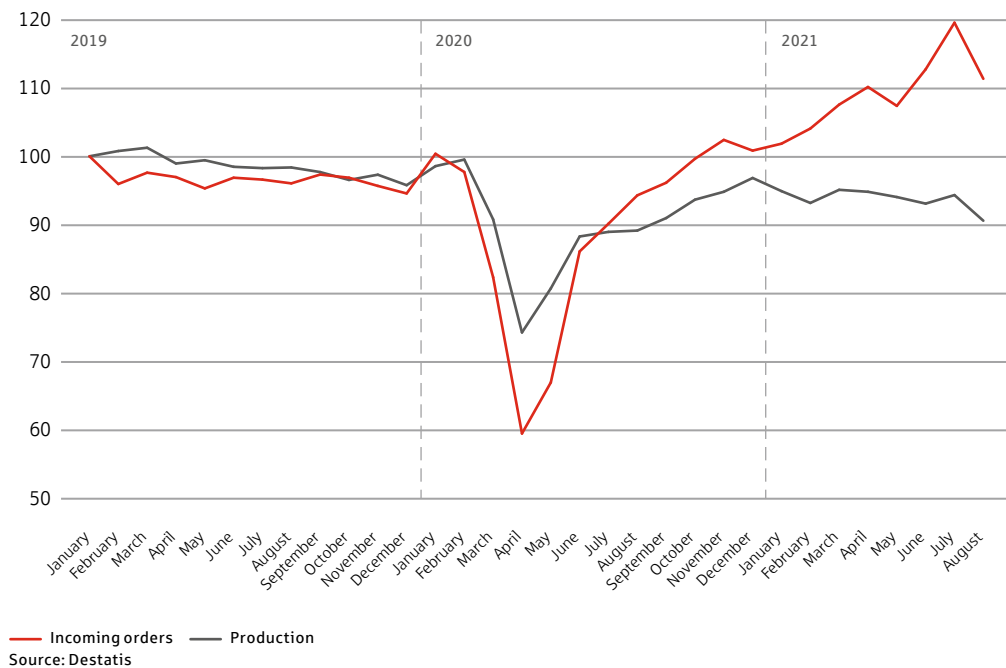
Orders outpace production possibilities

The various bottlenecks have also led to a divergence between incoming orders and production in Germany. Processing times and delivery periods are becoming increasingly longer. These are not just developments in individual sectors, but in large parts of the economy.

Incoming orders recovered very quickly from their fall in 2020 and continued to rise until recently. The number of orders is now even higher than the pre-Corona level.

New orders and production in the manufacturing sector, Germany
Index January 2019 = 100

G03



From an overall economic perspective, the pandemic period could lead to a sustained decline in production capacity in Germany, which would then be reflected both in production for the domestic market and in export production.

From an overall economic perspective, the pandemic period could lead to a sustained decline in production capacity in Germany.

Companies with scope for price increases

However, the situation described is not necessarily negative for the earnings situation of the companies. Due to the cross-sector supply bottlenecks, there is scope for companies to pass on price increases. The bottlenecks are a problem for the pace of recovery, but not for the creditworthiness of companies.

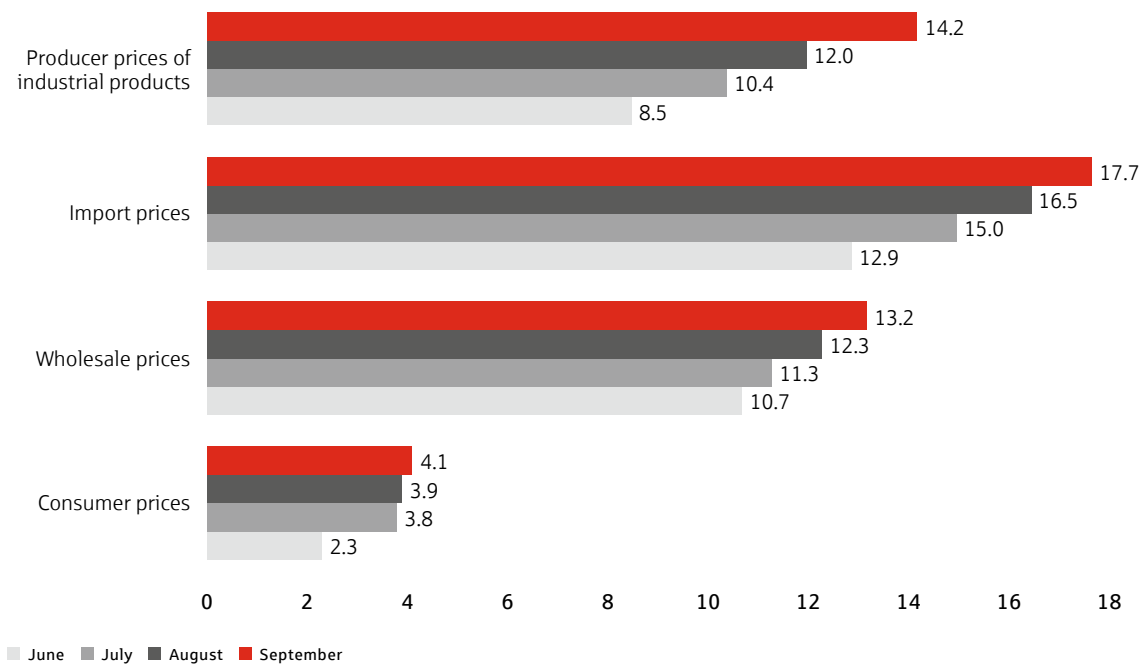
Accumulated savings could further fuel price inflation in the event of a possible meltdown and catch-up in consumption.

Price pressure likely to last longer than was expected a few months ago

Ultimately, it will probably be the end consumers who will have to dig deeper into their pockets for their consumption due to rising prices. Accumulated savings could further fuel price inflation in the event of a possible meltdown and catch-up in consumption.

Price increases compared to the same month of the previous year in Germany in percent

G04



Wholesale prices, import prices and producer prices all rose by double-digit percentages in Germany in the summer of 2021. Even if some of the current increases can be seen as a counter-movement to previous falls in prices, this only explains half of the story.

3.2 Impact of the Corona pandemic on German SMEs

The Corona pandemic has hit the German economy hard. The continuing regulations and restrictions in many industries are slowing down economic recovery.

Supply chains were temporarily interrupted, with supply and demand massively reduced by the first lockdown in spring 2020. The closures and hygiene requirements that followed in autumn/winter 2020/2021 have led to further sales losses in the affected sectors of the economy.

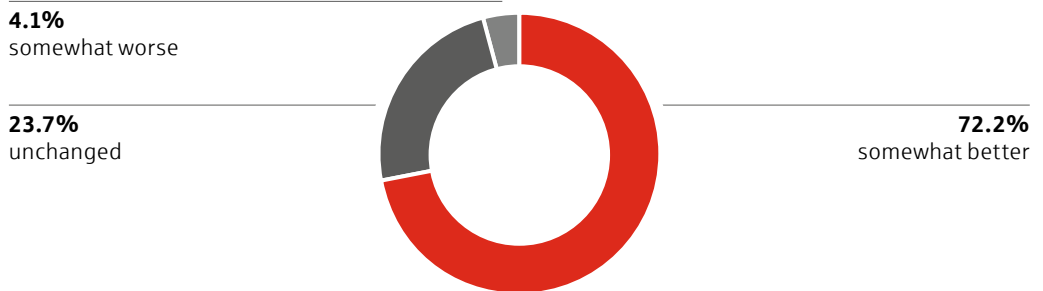
Despite considerable sales losses in 2020, the sales trend in 2021 has recovered in almost all sectors. More than 70 percent of Savings Banks experts also assess the current business situation of their corporate customers as improving again.

The federal and state governments have provided extensive support measures: bridging aid, new start-up aid for solo self-employed persons, hardship aid, sureties and guarantees, tax aid measures, KfW loans and labour market policy measures. These instruments, combined with the suspension of the obligation to file for insolvency, have prevented a large number of insolvencies. Nevertheless, many companies and self-employed persons are still under pressure.

Most industries had to accept – in some cases considerable – losses in turnover in 2020. Only a few sectors of the economy, such as construction, retail or healthcare, were able to achieve sales growth. In 2021, the sales trend will recover in almost all industries.

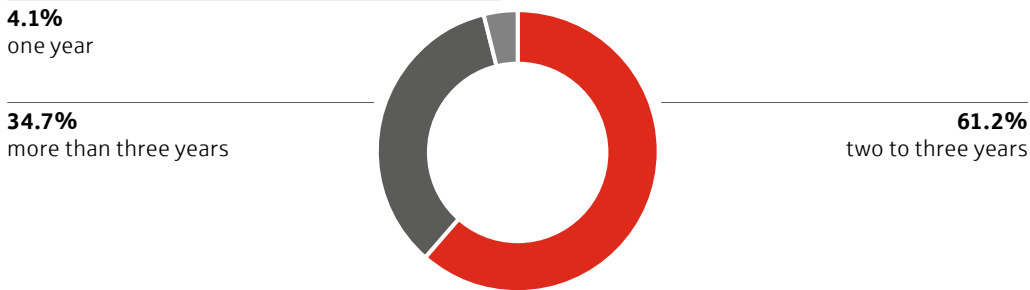
This is also confirmed by a survey of business customer advisors at the Savings Banks, who have identified economic recovery in 2021 for more than 70 percent of their SME customers. It is interesting to note that the recovery appears to have been better among urban SMEs than among SMEs in rural regions.

How do you assess the current business situation (orders, sales, earnings situation) of your medium-sized business customers compared to the previous year? 605



Nonetheless, more than 60 percent of respondents expect it will take another two to three years for companies hit hardest by Corona to fully recover from the effects of the pandemic.

How long do you think it will take for the section of your business customers who were hit particularly hard by the Corona crisis to fully recover? G06



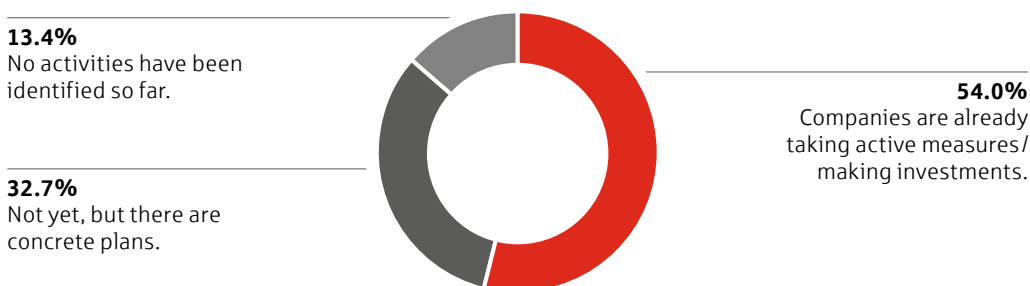
While industry was already able to stabilise over the course of 2020, particularly those sectors in which a high level of physical contact is required suffered and continue to suffer from the ongoing contact restrictions.

For example, the hospitality industry, travel agencies and tour operators, as well as the arts, sports and entertainment sectors were the hardest hit by the effects of the Corona pandemic, suffering declines in turnover of up to 60 percent in 2020. We do expect revenue growth to return in these segments in 2021. However, how quickly turnover will increase again depends largely on the development of the pandemic situation.

The topic of sustainability will gain in importance in all sectors and, in addition to the topic of environmental friendliness/climate compatibility, it will increasingly include the areas of social and corporate governance. Thus, more than 95 percent of the Savings Banks' business customers already attach medium and great importance to the topic of sustainability. According to their Savings Banks advisors, more than 50 percent of commercial Savings Banks customers have already started to make investments in this area.

However, almost two-thirds of the Savings Bank experts estimate that the section of SMEs hit particularly hard by Corona will need around two to three years to fully recover from the drop in sales and profits.

Are investments already being made or measures taken in the area of sustainability? G07



Despite the difficult pandemic year of 2020, small and medium-sized enterprises experienced a manageable decline in sales of around 6 percent, which was roughly the same level as during the financial and economic crisis of 2008/2009.

3.2.1 Turnover trends, profit changes and equity ratio of selected sectors

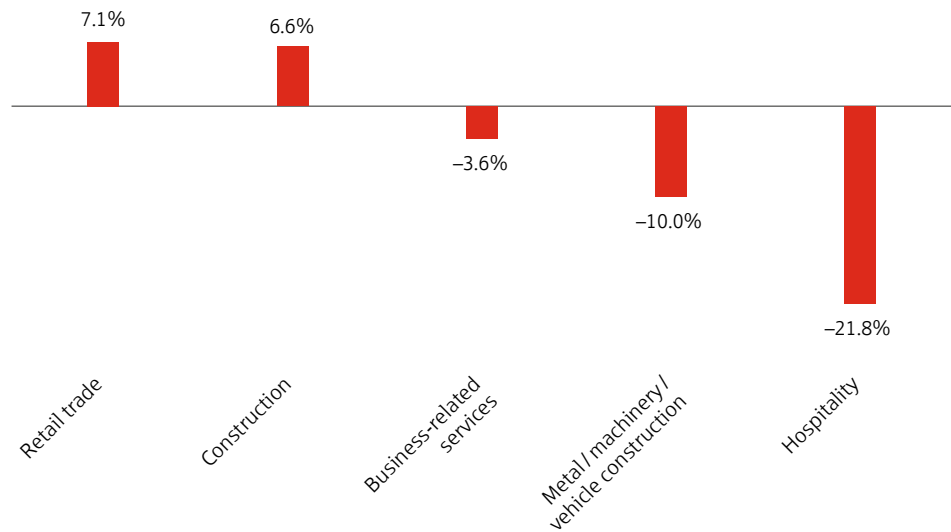
As one of the largest financiers of German SMEs, the Savings Banks Finance Group has access to an unrivalled body of data and information on companies. To assess the financial situation, the Savings Banks can access a data pool of almost 300,000 annual financial statements. This provides a detailed view to analyse the impact of the Corona pandemic on the economic results of the companies.

Despite the very difficult conditions in some cases, companies have recorded comparatively bearable losses in turnover overall. In the pandemic year 2020, SMEs faced a downturn of around 6 percent. This is roughly on a similar level to the financial and economic crisis of 2008/2009.

As was the case back then, the effects within the sectors are highly differentiated. This asymmetrical development has led to some sectors even benefiting from the pandemic and thus recording top results. For example, the food retail trade or the construction industry were able to record high earnings growth. For a time, food retailing was one of the only options for physical shopping. Furthermore, especially at the beginning of the pandemic, food and everyday goods were hoarded, which in turn had a positive effect on sales.

Change in turnover 2020 vs. 2019 selected industries in percent

G08



Source: DSGV Branchendienst

The construction industry was able to continue its years of growth even during the pandemic. Low interest rates, a stable labour market and a great need for housing were and continue to be the foundations of the ongoing high demand in this sector.

However, there were also industries that were hit very hard by the pandemic. In particular, the hospitality sector (tourism and food services) and creative industries saw unprecedented declines in sales. The double lockdown, with its accompanying contact restrictions, has made operations in these segments extremely difficult for much of 2020 and 2021. While some companies were able to maintain parts of their business through takeaway/delivery services, this was not possible or practical for all companies.

The basic competitive position of the companies remains good. Although the business models in some segments are undergoing major changes, SMEs are responding to the new demands of the market with corresponding initiatives.

However, even heavyweights in the German economy, such as the metal, mechanical engineering and vehicle manufacturing segments, had to record heavy losses in turnover. The economy in these sectors had already cooled down before the pandemic. Therefore, the impact hit them in an unfortunate situation. Due to the interrupted supply chains, production was initially hit particularly hard. The lockdown then in turn blocked sales channels. Nevertheless, the basic competitive position of the companies remains good. Although business models in the segment are undergoing significant changes, German companies are responding to the new demands of the market with corresponding initiatives (e.g. the switch to electric drives in the automotive industry or the expansion of usage-based offers as opposed to purchasing the goods).

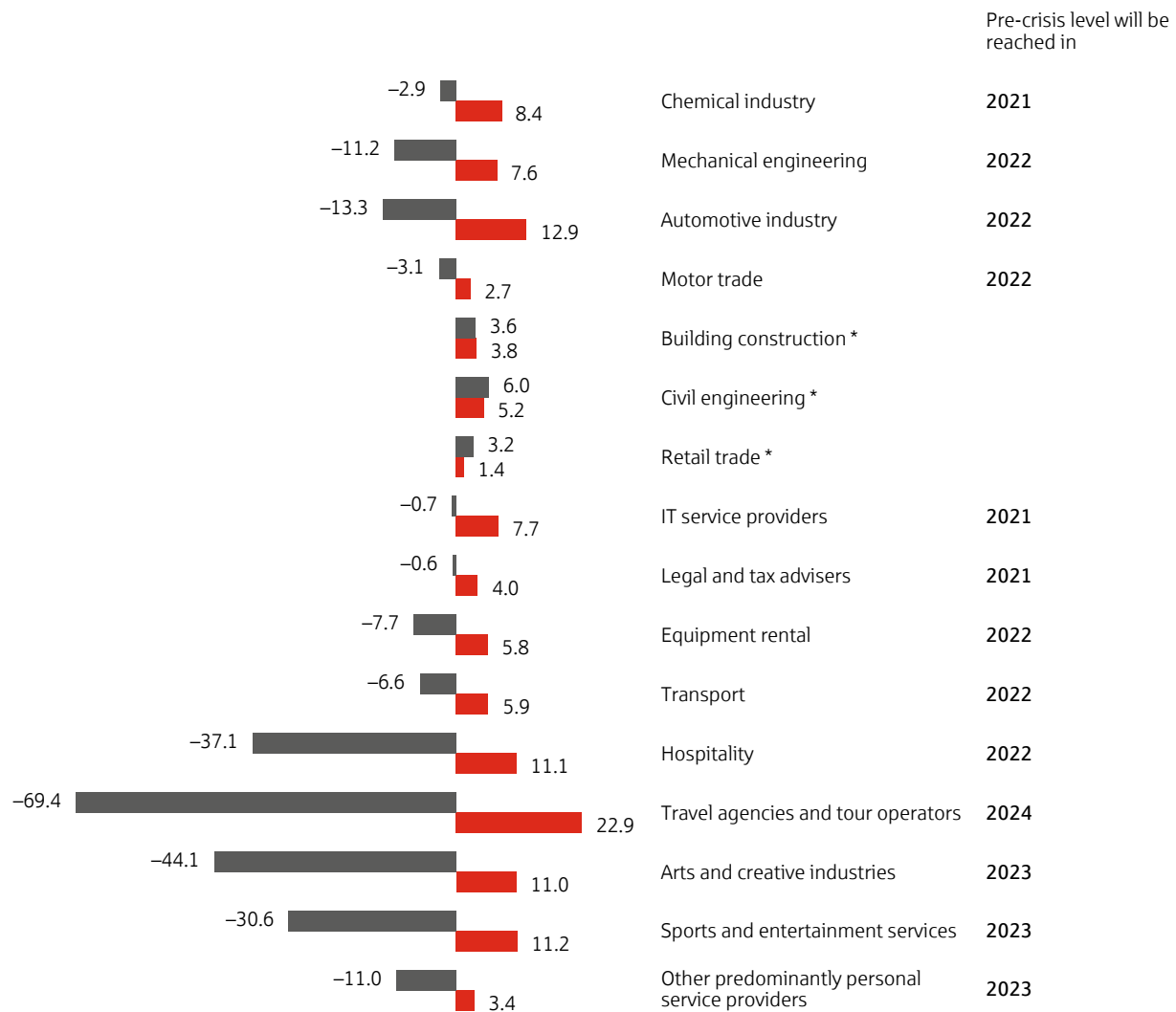
All in all, the impact of the Corona pandemic on results has been milder than expected. Having been shaped by the financial and economic crisis of 2008/2009, the German SME sector has acquired a high degree of flexibility and a strong financial robustness. In addition, there were numerous government aid programmes, such as the short-time working allowance or bridging aid.

Despite the sometimes dramatic declines in revenue in 2020, the economic momentum picking up in the second and third quarters of 2021 could already lead to an initial recovery in companies' business performance and they could return to revenue growth in 2021 as a whole (see chart 09).

Despite the sometimes dramatic decline in sales in some sectors, the impact on results was milder than expected. Shaped by the financial and economic crisis of 2008/2009, SMEs have acquired a high degree of flexibility and strong financial robustness.

Turnover development in percent compared to the previous year

G09



* No pre-crisis level is shown for building construction, civil engineering and retail trade due to sales growth.

■ Forecast 2021 ■ 2020

Source: DSGV-Branchendienst;
partly divergent sector definitions

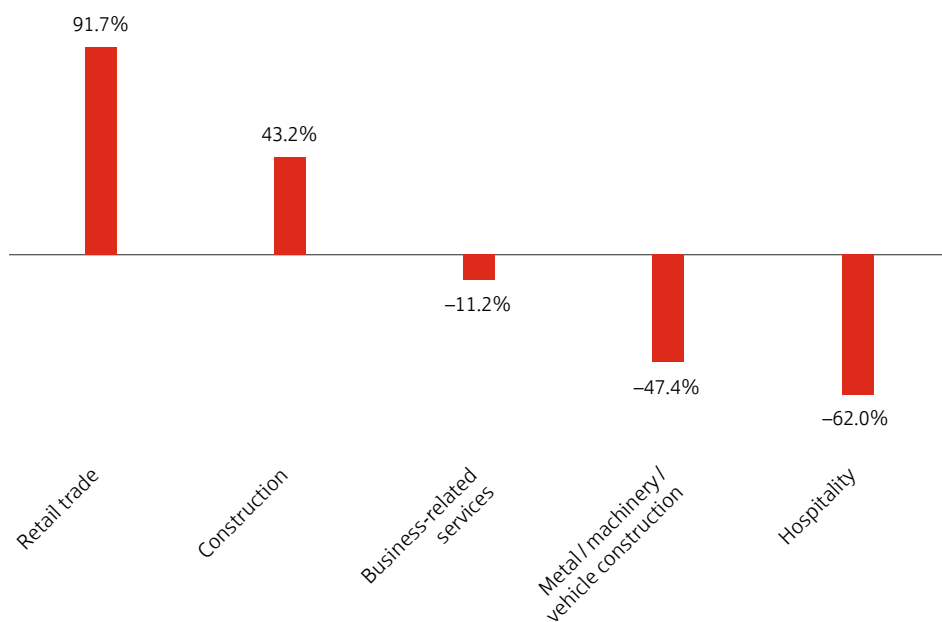
However, rising raw material prices, disrupted supply chains and the related material shortages in some sectors are placing an increasing burden on companies and dampening optimism.

The declines in earnings were dramatic in some cases. The hotel and restaurant industry lost around two-thirds of the previous year's result. Earnings in the industrial sector fell similarly sharply. Here, returns had already come under pressure from the difficult previous years, which made the renewed decline all the more pronounced (see chart 10).

In addition to the partly dramatic declines in earnings in some sectors, there were also winners. The retail sector was able to achieve a significantly improved result due to its good sales development.

Change in profits 2020 vs. 2019 selected industries in percent

G10



Source: DSGV-Branchendienst

However, there are not only losers of the pandemic. Above all, the retail sector was able to achieve significantly improved results due to its good sales development. However, it must be taken into account that this was achieved from a low base. Therefore, the more than 90 percent increase in profits of this sector in 2020 should be put into perspective.

Overall, according to our analyses, 93 percent of companies still achieved positive results in 2020. Given the severity of the pandemic, this is an impressive performance by the companies.

Overall, 93 percent of the companies still recorded positive results in 2020. Against the backdrop of the pandemic, this is an impressive achievement.

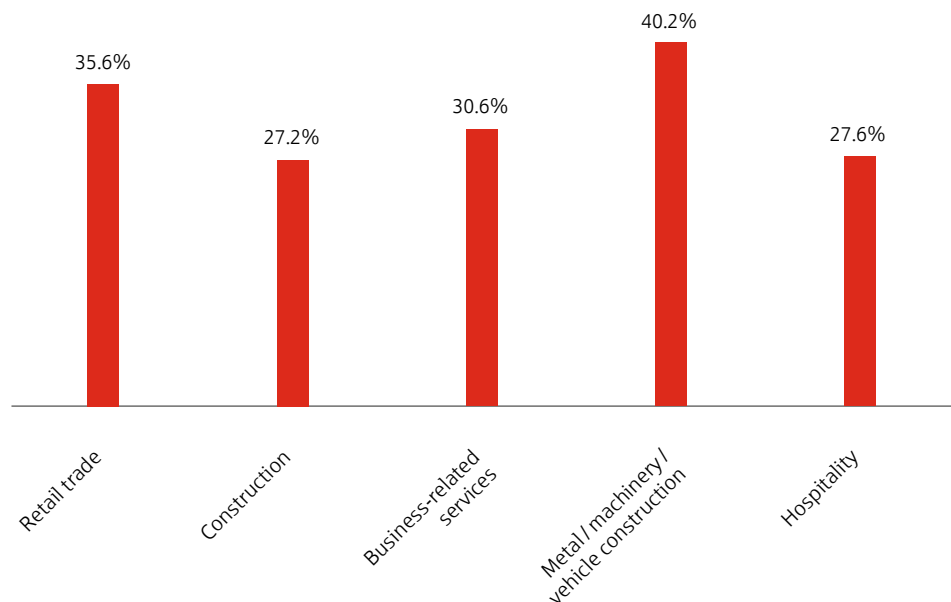
Just under 7 percent of SMEs suffered a balance sheet loss in 2020. In only 0.7 percent of SMEs did the losses exceed equity. Even in the hard-hit sectors, the equity ratio is still at an adequate level. The majority of companies have survived the pandemic in good shape.

The share of companies that suffered a balance sheet loss due to Corona amounts to just under 7 percent on average. In the vast majority of cases, however, the capital buffers were sufficient to compensate for these losses. In only 0.7 percent of the companies did the losses exceed equity. And in around half of these cases, it was still possible to maintain a positive equity balance through additional contributions. This development is also the basis for the essentially stable equity base. Due to the partly strong increase in the balance sheet total, there is a slight decrease in the equity ratio. However, this should not be viewed critically. Even in the hard-hit sectors, the equity ratio is still at an adequate level. Overall, it can therefore be said that the majority of companies have survived the pandemic in good shape.

The high resilience of the German SME sector is remarkable, but not surprising. Similar developments were already evident in the 2008/2009 crisis. The continued sound financial behaviour of companies has proven its worth during the pandemic.

Equity ratio 2020, selected industries in percent

G11



Source: DSGV-Branchendienst

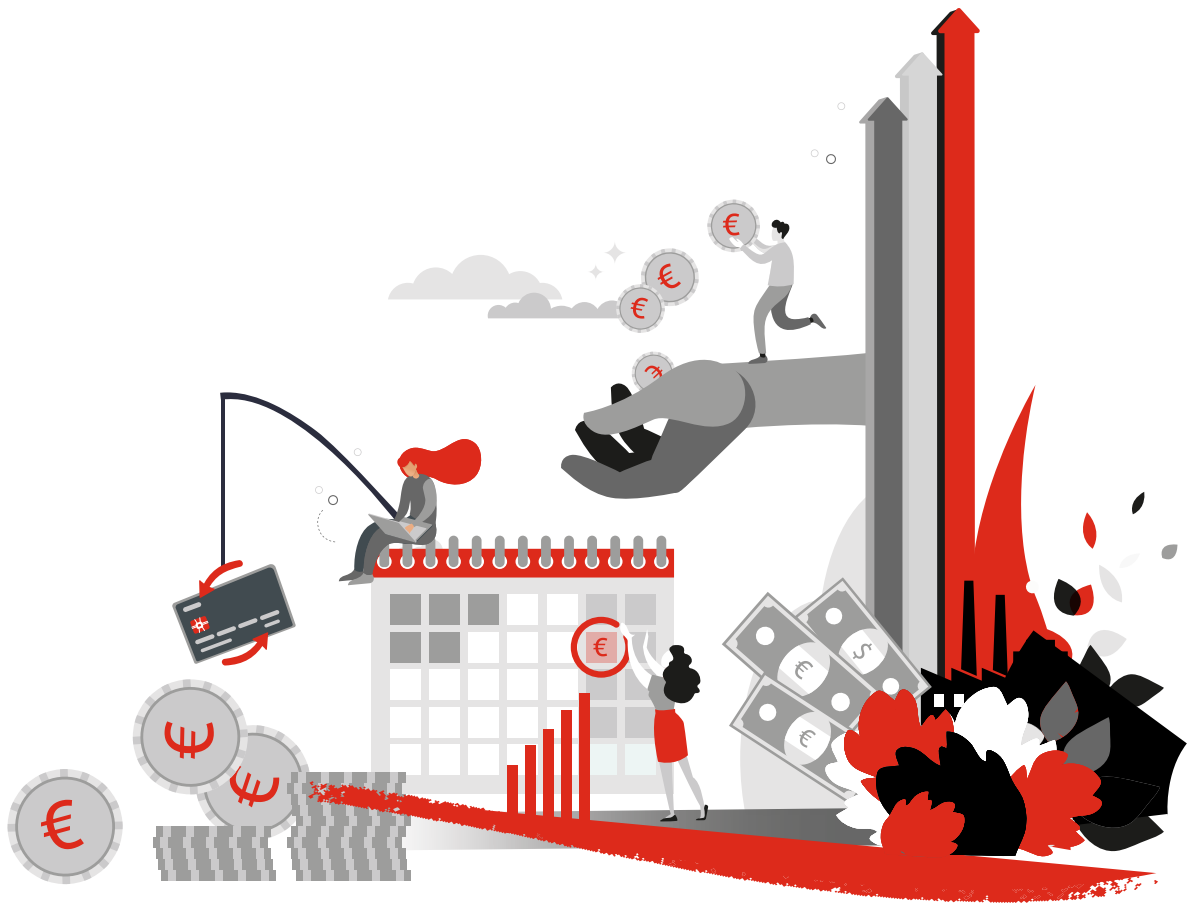
The overall high resilience of the German SME sector is remarkable, but not surprising. Similar developments were already evident in the 2008/2009 crisis. Here, too, companies had to contend with sharp declines in sales. However, a high degree of flexibility in cost management or the use of labour market policy instruments enabled the slump in sales to be largely absorbed. Solid financial behaviour also proved its worth during the pandemic.

This means that companies are well equipped to tackle the challenges of the future on a solid footing. For the SME customers of the Savings Banks, aspects such as planning security, the training of skilled workers or the digital infrastructure are of particular importance.

The issue of sustainability is also becoming an important trend among companies and is gaining importance in all sectors. Initially, the main focus will be on the areas of environmental friendliness / climate compatibility. Here, the focus is primarily on agriculture, manufacturing and the energy sector. Increasingly, however, social and corporate governance issues will also come to the fore, affecting trade and service companies in particular. In order to survive in the market, companies will have to address these issues.

While sustainability is certainly one of the biggest challenges, change is a constant in business. Businesses have come through two major economic crises with flying colours. They have demonstrated a high degree of flexibility and sound economic management. As a result, they have laid the financial and entrepreneurial foundations to tackle this epochal change. In this, the economy and SMEs in particular can rely on the Savings Banks as long-term partners.

The issue of sustainability is gaining in importance in all sectors and will be one of the greatest challenges for German SMEs. Their high degree of flexibility as well as the solid positioning of their finances are important factors in tackling these enormous changes.



Companies and self-employed persons were supported during the pandemic period with rapid credit and liquidity assistance from their credit institutions as well as supplementary support from KfW and the state development institutions.

3.2.2 Savings Banks provide reliable lending support to German SMEs

SMEs in particular have shown themselves to be particularly resilient during the pandemic. Due to a good equity base and the ability to react extremely flexibly to changing circumstances, 93 percent of companies continued to make a profit in 2020. In addition, businesses and the self-employed were supported during the pandemic by the rapid credit and liquidity assistance provided by their credit institutions, as well as supplementary support from the KfW and the state development institutions. There were also short-time working allowances and Corona subsidies for particularly hard-hit sectors.

It is therefore no surprise that more than half of the Savings Banks' SME commercial customers were satisfied with the German government's crisis management, according to a survey of the Savings Banks' business customer advisors. The short-time working allowance and the KfW rapid and auxiliary loans were listed in first place here.

KfW's promotional loans extended by the institutions of the Savings Banks Finance Group in 2020 amounted to EUR 30 billion, which represents a market share of 38.4 percent.

Due to the particularly strong SME company structures in Germany, financing is mainly provided via bank loans. On average, more than 40 percent of debt capital is financed by banks. The smaller the company, the higher this share. A significant advantage of loan financing over capital market financing for business customers is its flexibility: deferrals and moratoriums in the form of bilateral agreements could be implemented very quickly at the beginning of the Corona pandemic.

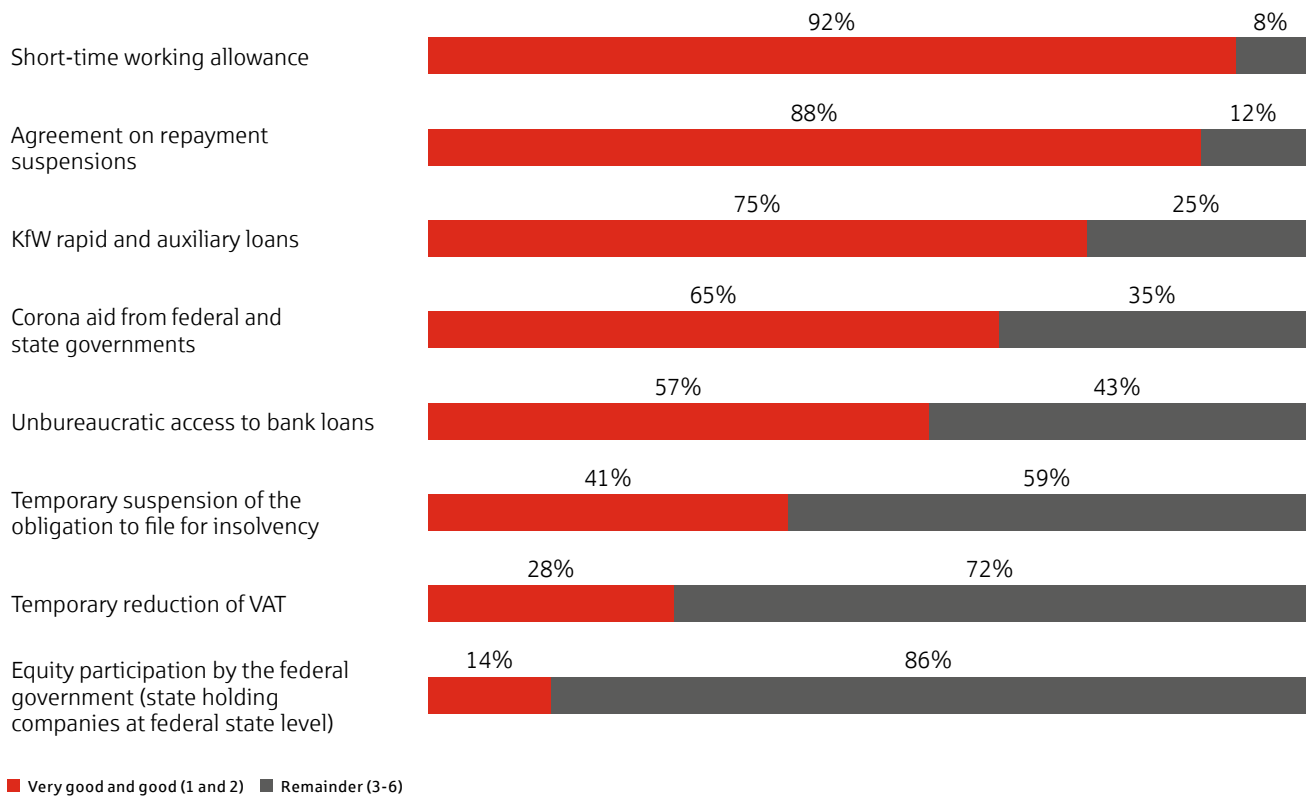
Financing for German SMEs is mainly provided by bank loans, which gives companies greater flexibility. Thus, 213,000 of the Savings Banks' business customers have taken advantage of their offer to suspend interest and redemption payments.

More than 213,000 business customers (as of August 2021) have taken advantage of the Savings Banks' Corona-related offer to suspend interest and redemption payments. Currently, the number of business customers with deferrals is decreasing again, but is still above the pre-pandemic level.

According to the survey, these measures were rated as good or very good by more than 90 percent of business customers.

How do your business customers rate the following measures on a scale of 1 (very good) to 6 (insufficient)?

G12



More than two-thirds of Savings Banks business customer advisors say that the intensity of cooperation with their business customers has increased during the pandemic.

At the same time, more than two-thirds of the Savings Banks' business customer advisors say that the intensity of cooperation with their business customers has increased during the Corona pandemic.

How has the intensity of cooperation with your business customers developed during the Corona crisis?

G13



Savings Banks have a market share in the total market for loans to the real economy of EUR 460.7 billion or 31.7 percent, Landesbanken of EUR 129.4 billion or 8.9 percent. This makes them among the largest providers of credit finance to German SMEs.

In 2020 as a whole, around EUR 55 billion in additional loans¹ were requested by companies and the self-employed. This corresponds to growth of 4.0 percent compared with the end of the previous year. It was mainly driven by the Savings Banks (5.5 percent or EUR 23.3 billion), the credit cooperatives (7.1 percent or EUR 19.7 billion) and the special purpose banks² (15.1 percent or EUR 11.7 billion). These banking groups were able to increase their market share in corporate loans accordingly. Large banks and branches of foreign banks did not grow as strongly as the market.

Although growth in the overall market in the first half of 2021 was lower than in the same period of the previous year (3.6 percent), at 1.6 percent it is nevertheless remarkable that the already high loan portfolio was expanded once again. After the extraordinary effects of the lockdown in the first half of 2020, the start-up of the economy is now shaping the demand for loans. With an increase in loans of 2.4 percent the Savings Banks are once again providing above-average levels of funding. A significant portion of the loan growth in the market is being driven by commercial housing construction.

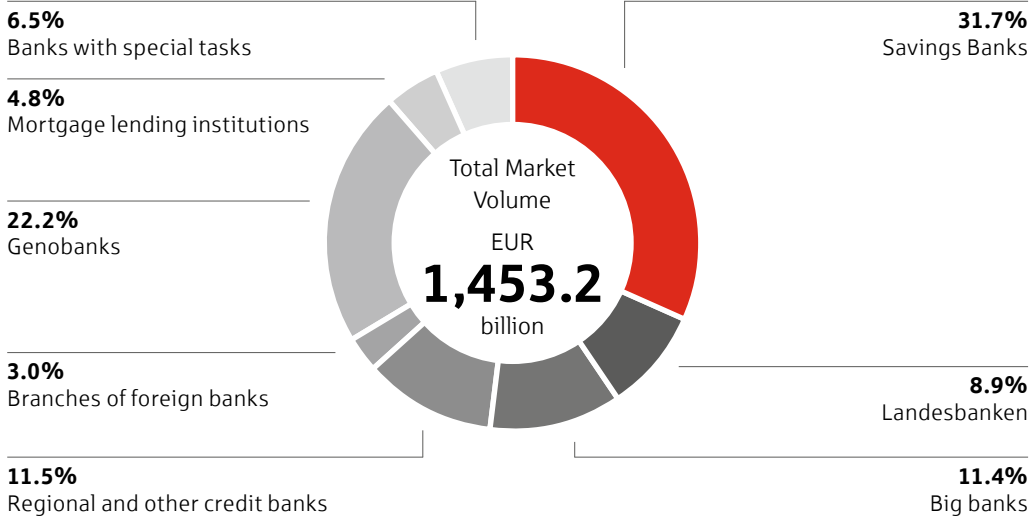
At the end of the first half of 2021, the total market volume of loans to the real economy amounted to EUR 1,453 billion. Of this amount, the Savings Banks provided their customers with EUR 460.7 billion and, together with the Landesbanken, EUR 590.1 billion. This gives the Savings Banks a market share of 31.7 percent and, together with the Landesbanken, 40.6 Percent. Thus, Savings Banks and Landesbanken are among the largest providers of credit finance to the German SME sector.

¹ These are defined here continuously as "loans to the real economy" – including commercial housing but excluding loans to financial institutions and insurers.

² This group of banks includes KfW and the promotional institutions of the federal states.

Market shares of banking groups in loans to the real economy (including commercial housing)

G14



Source: Deutsche Bundesbank banking statistics and own calculations

From the beginning of 2020 up to and including June 2021, around EUR 79 billion of additional lending volume was demanded by companies and the self-employed in the overall market. They were largely serviced by Savings Banks (EUR 33.0 billion) and credit cooperatives (EUR 30.1 billion).

Companies have now built up high liquidity reserves. As of June 2021, companies have deposits of around EUR 170 billion with the Savings Banks. Unhindered global trade and sufficient supplies of primary products are essential for the upcoming recovery of the economy.

Savings Banks have a stabilising effect on lending. Despite significant declines in demand for loans in the retail sector, they were able to expand their market share in this segment to 31%.

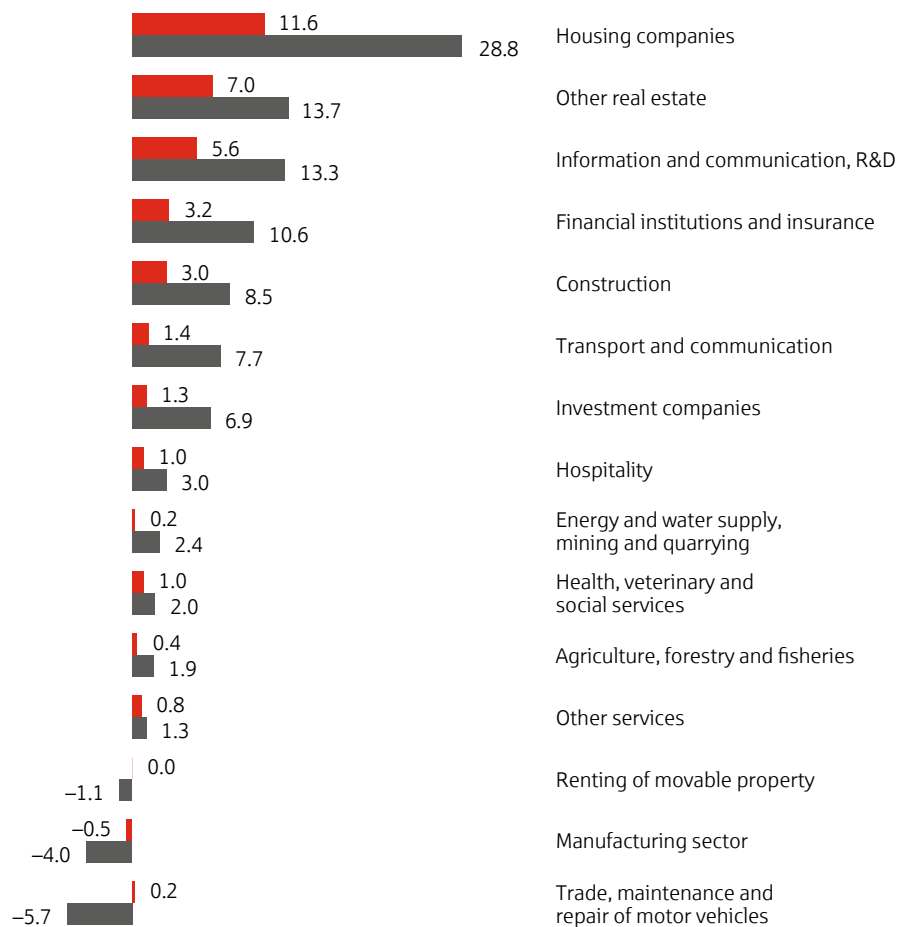
Credit development in the economic sectors

The industries with the largest declines in loan portfolios over the period from the beginning of 2020 to the end of the first half of 2021 are among some of those most affected by the Corona pandemic: retail, in particular, saw a significant decline in demand for credit (see G15). In the period under review, loan portfolios fell by EUR –5.7 billion; the majority of this was attributable to 2020. The manufacturing sector also saw significant declines in loan volumes, by a total of EUR –4.0 billion. In the first half of 2020, EUR 18.0 billion more in loans were granted here, which were almost repaid again in the second half of the year. Loans to the “rental of movable property” sector also declined by just under EUR –1.1 billion.

Savings Banks act as a stabilising element in these sectors: in manufacturing, their credit exposure did not fall as much as in the market, and in trade they were even able to expand it. As a result, their market share in the retail sector increased to 31.0 percent and in the manufacturing sector to 27.0 percent.

Net lending by economic sector in 2020 and the first half of 2021 in billions of euros

G15



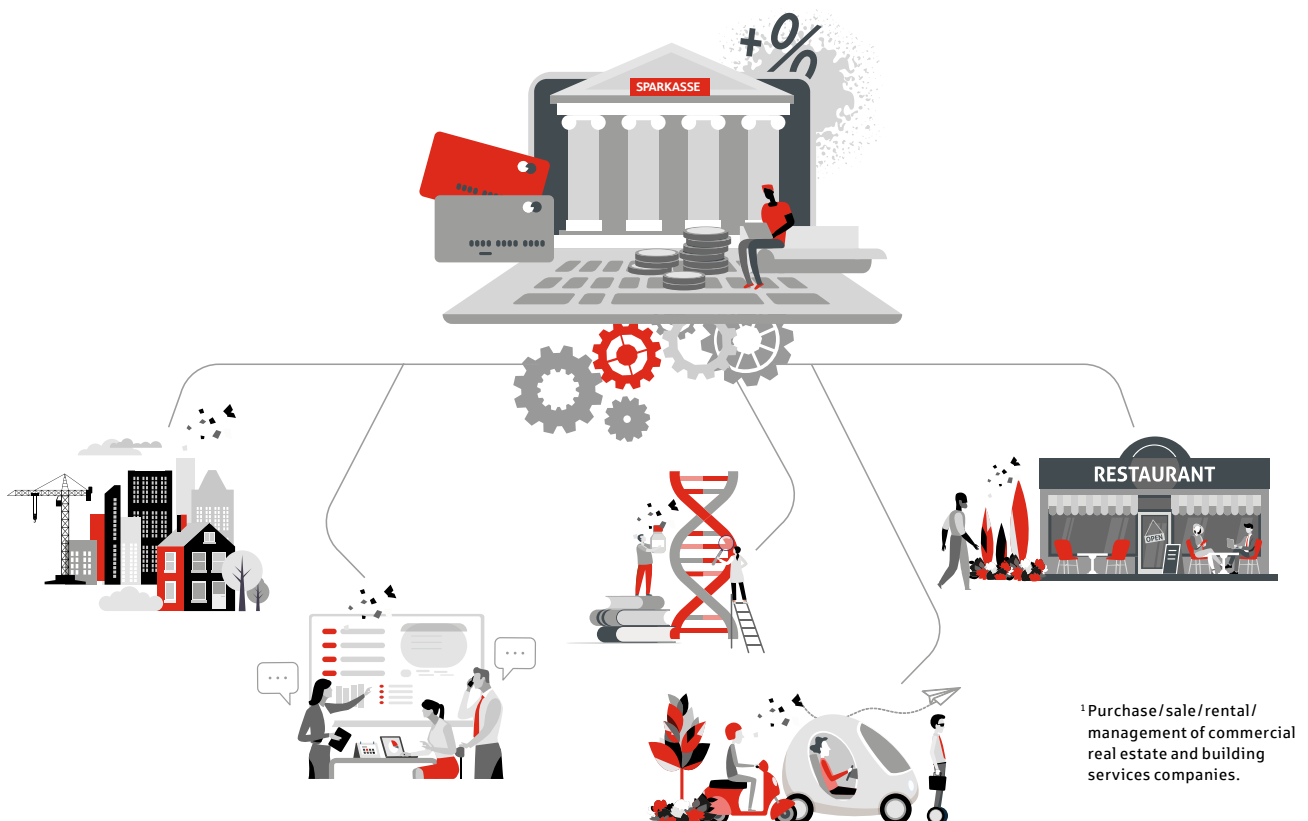
■ Savings Banks ■ All banking groups

Source: Deutsche Bundesbank banking statistics and own calculations

There was very strong growth in the German banking market in sectors related to the construction and real estate industries: housing companies were able to increase their lending volume by EUR 28.8 billion and “other real estate¹” by EUR 13.7 billion, while loans to the construction industry grew by EUR 8.5 billion. Other growth drivers in lending were the sectors “information and communication, research and development” with EUR 13.3 billion, “Transport and information transmission” with EUR 7.7 billion and the investment companies with EUR 6.9 billion. In the hotel and restaurant industry, which was hit very hard by the Corona pandemic, loan stocks increased by EUR 3.0 billion. The sectors mentioned here experienced very high growth rates during the period under review, ranging from 7.1 percent (other real estate) to 15.2 percent (transport and information transmission).

Compared with the market, the Savings Banks grew much more strongly in corporate lending business, as can be seen from their increasing market shares.

The aforementioned service sectors and the construction industry are also among the sectors in which the highest volume of loans was extended by Savings Banks: here, these sectors are responsible for around 80 percent of the portfolio growth in corporate lending during the year and a half Corona pandemic. Compared to the market, Savings Banks grew much more strongly in corporate lending, as can also be seen from their increasing market shares. For example, Savings Banks had an overall market share in the services sector of 33.4 percent and in its sub-sectors “real estate and housing” of 34.7 percent or “information and communication, research and development” of 32.4 percent.

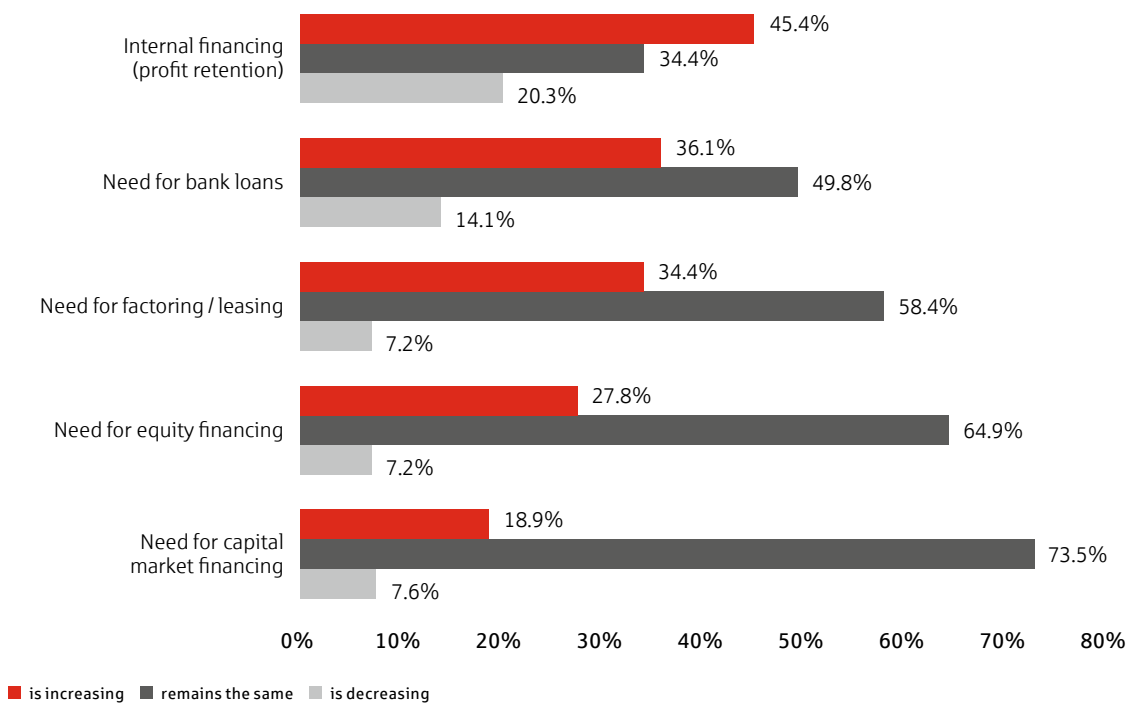


This shows that Savings Banks are a reliable financing partner for companies and the self-employed, even in times of the Corona pandemic. They make a significant contribution to the financing of the SME economy.

The Savings Banks' business customer advisors believe that the need for bank loans has actually increased as a result of the Corona pandemic for around one third of their SME customers. At the same time, however, they also see a tendency among almost half of their commercial customers to leave realised profits in the company rather than withdraw them from the company in the form of dividends or profit distributions.

Financing behaviour of SME business customers

G16



3.3 Necessary policy framework for the successful development of SMEs after the pandemic

The new problems for SMEs are much the same as the old ones. The current survey of business customer advisors at the Savings Banks on the prospects for German SMEs again lists the increasing shortage of skilled workers and the persistently high bureaucratic hurdles as the two greatest obstacles to growth for SMEs. New additions are uncertainties in connection with the Corona pandemic and the introduction of a carbon price. This is also linked to the greater importance of sustainability in business decisions and investments.

The greatest obstacles to growth remain the lack of skilled workers and bureaucratic hurdles. New additions are the uncertainties regarding the Corona pandemic and the introduction of the carbon price.

We stand ready to actively support the transformation of the economy towards greater sustainability. Policymakers must create good conditions for this – both for the real economy and for the financial sector. SMEs should not be overburdened by excessive bureaucratic requirements.

Helmut Schleweis

In order to provide SMEs with the best possible support in the sustainability transition and to enable them to advance climate protection investments, a reliable, plannable and economically efficient framework must be created. Bureaucratic burdens with only minor ecological and financial benefits should be avoided.

In order to support SMEs for the future challenges, especially in the sustainability transition, a reliable, plannable and economically efficient framework must be created. Bureaucratic burdens with only minor ecological and financial benefits should be avoided.

The European single market is one of the European Union's greatest achievements. Small and medium-sized enterprises are the economic and social backbone of Europe. They depend on transparent and unbureaucratic regulations for the provision of services as well as robust, well-functioning systems for standardisation and certification. That is why the completion of the EU's internal market must have top priority, taking into account the principle of subsidiarity.

In order to strengthen innovation, infrastructures and competitiveness in Germany, higher investment at all levels and effective incentive policies are needed. Therefore, the regulations of banking supervision law should also be designed in such a way that they do not provoke a credit crunch. New impetus is more likely to come from a simplification of the framework conditions for lending.

Only with stable and reliable business relationships with regionally-oriented credit institutions can German companies master the transformation to a sustainable, digital and resilient economy. The German Savings Banks stand ready to actively support the transformation of the economy towards greater sustainability. Policymakers must create good conditions for this – both for the real economy and for the financial sector.

4 SURVEY OF SAVINGS BANKS' EXPERTS

The survey of the Savings Banks experts complements the results of the S-SME Fitness Index and the focus topic of the SME diagnosis. To this end, a total of 291 of the Savings Banks' business customer advisors were surveyed throughout Germany in August and September 2021. Not only do they have a very sound knowledge of the SME sector, they also regularly conduct a large number of discussions with their SME customers. As a result, they are in a good position to provide a technically sound and highly up-to-date assessment of the economic situation and the evaluations and plans of their more than two million commercial customers.

SMEs are cautiously optimistic about the future

The past year and a half has dealt a heavy blow to the German SME sector. Despite the sometimes severe losses in sales and profits, around 70 percent of respondents assess the current business situation to be improving. Around 50 percent are of the opinion that the general business situation of SMEs will further improve in the coming twelve months. However, almost two-thirds of respondents also estimate that the particularly hard-hit section of business customers will still need around two to three years to fully recover from the drop in sales and profits during the Corona pandemic.

According to the business customer advisors, planning reliability and training of skilled workers (95 percent each), as well as high-performance internet access (90 percent) are crucial for the fast recovery of their business customers.

The issue of sustainability is seen as the major future challenge for SMEs. In fact more than 70 percent of the Savings Banks experts consider the stronger focus of their corporate customers on sustainability to be an opportunity. Just over 50 percent of respondents say that their commercial customers have already made investments in this area.

The political and economic framework conditions will be decisive for mastering the future economic transformations. A wise investment policy on the part of the German government, characterised in particular by a reduction in bureaucracy and an increase in the attractiveness of training for skilled workers, is necessary to provide German SMEs with a reliable framework for mastering the major changes of the future.

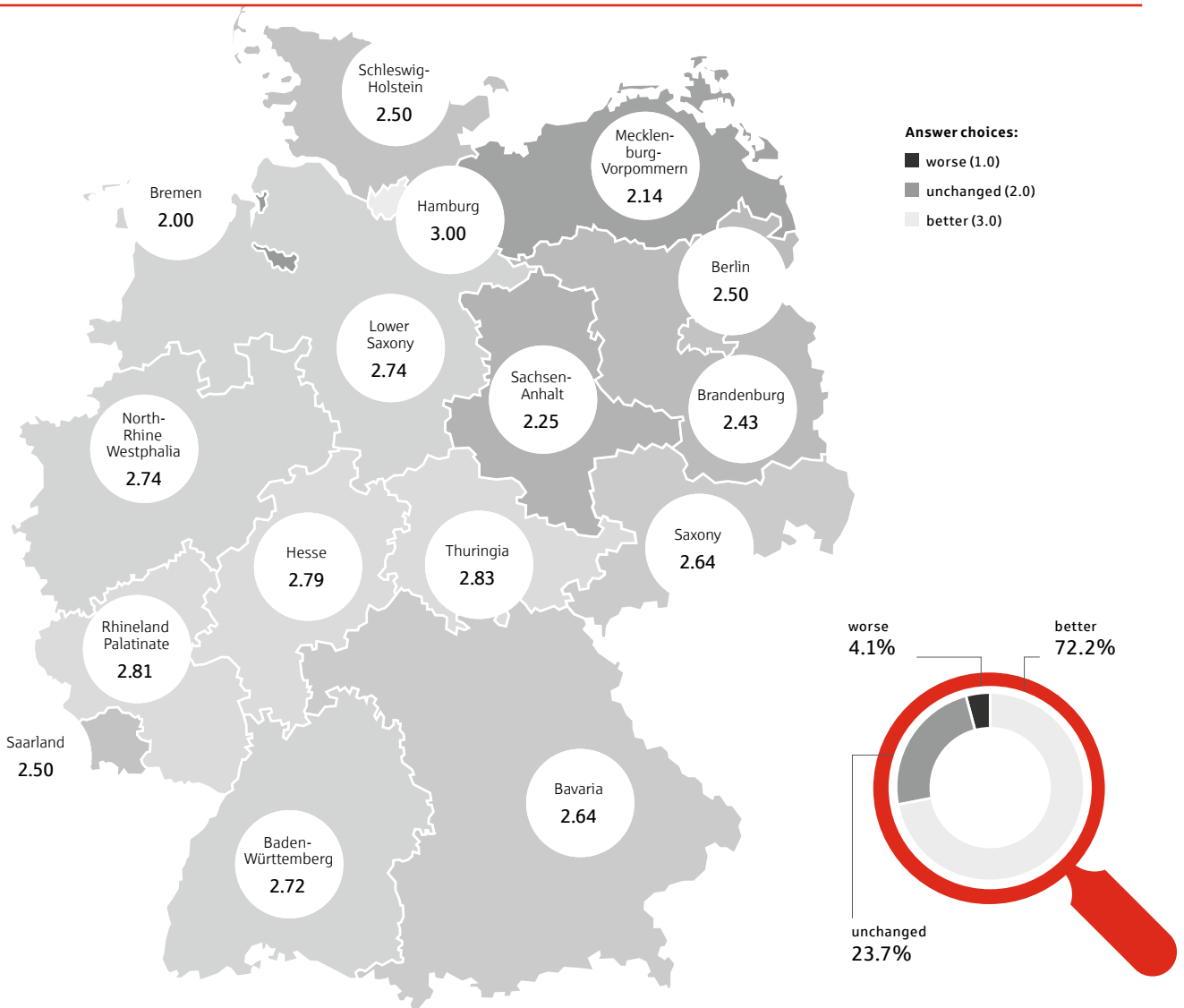


Part 1: Current business performance, outlook and economic environment



Question 1: How would you assess the current business situation (orders, turnover, earnings) of your SME business customers compared to the previous year?

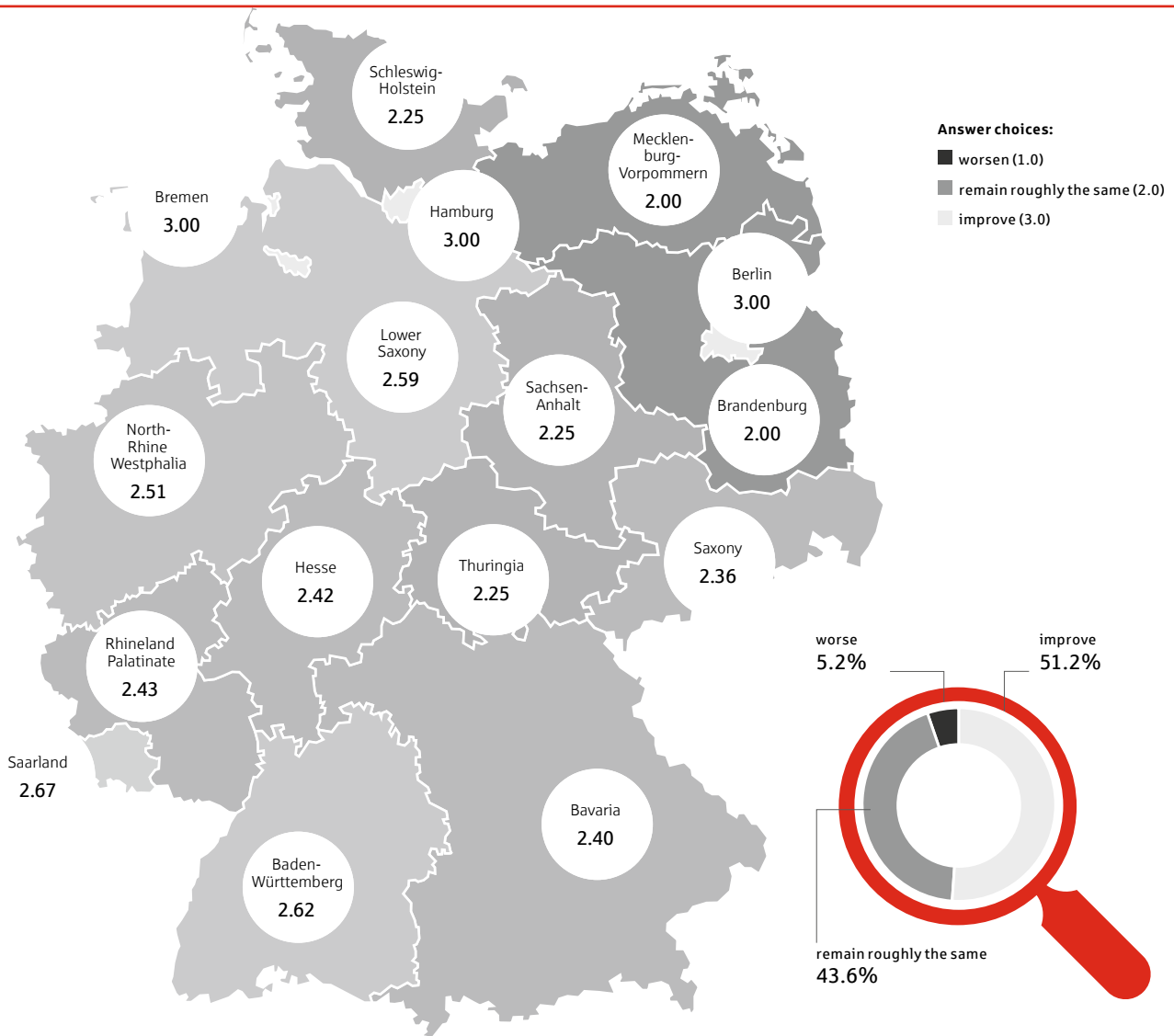
72 percent of the Savings Banks' business customer advisors believe that their customers' business situation has improved compared to the previous year. This is encouraging and also understandable against the background of the normalisation of economic and social activities in Germany in the second and third quarters of this year. The 5.7 percent decline in sales forecast last year for 2020 turned out to be somewhat smaller in reality, at 2.9 percent. For 2021, the experts of the DSGV industry service (Branchendienst) expect sales growth of 5.2 percent year-on-year. Provided the Corona-related uncertainties continue to recede, sectors such as mechanical engineering, transportation or the automotive industry could return to their pre-crisis levels in 2022. However, hard-hit sectors such as the culture and travel industries are unlikely to return to their pre-crisis levels before 2023. The 3.5 percent return on sales forecast by the DSGV industry service for 2020 could even be exceeded at 5.7 percent and is expected to rise to 5.9 percent in 2021.





Question 2: For the next twelve months, do your SME corporate customers on average expect that the business situation will: remain roughly the same, improve or worsen?

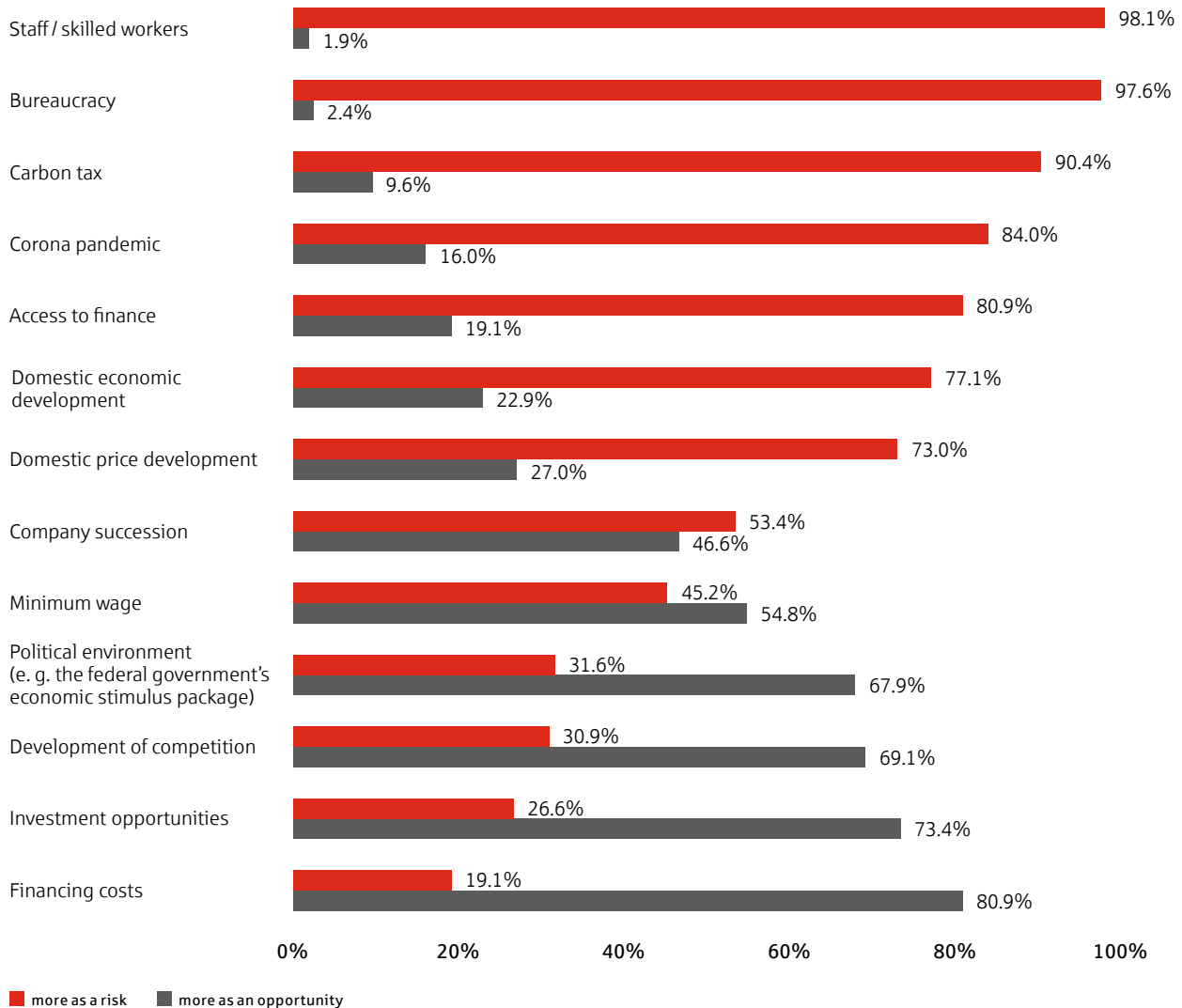
Here, too, the mood among SME experts has brightened. Whereas last year a third of the experts still expected negative business development for their SME customers in the following twelve months, around 50 percent of the respondents now expect an improved and over 40 percent a constant business situation for SMEs in the coming twelve months. However, according to the ifo business climate index from the end of August 2021, business expectations are becoming gloomier again – a warning sign that the recovery could falter. 5 percent of Savings Banks experts also see the first clouds on the horizon and expect a decline in the business results of their SME customers over the next twelve months.





Question 3: How do the majority of your SME business customers assess the following factors in terms of the future development of their companies?

When asked about the greatest risks to the further successful development of companies, the experts named in first place the shortage of staff and skilled workers (98 percent, previous year 81 percent) and the bureaucracy involved (98 percent, previous year 95 percent). 90 percent (previous year 77 percent) also consider the still unresolved issues in connection with the carbon tax as a risk. This confirms the ongoing need for action in these policy areas, which were also named as the main risks in previous years. However, Corona-related uncertainties, domestic price and economic trends, and access to financing are also seen as risks. The latter could be related to the stricter regulations of the Basel capital standards for credit institutions (Basel III), which are associated with the risk of a credit crunch. In contrast, the cost of financing is again viewed positively at just under 81 percent (previous year 79 percent). A turnaround in the ECB’s monetary policy continues to seem unlikely – despite an already sharply rising inflation rate.



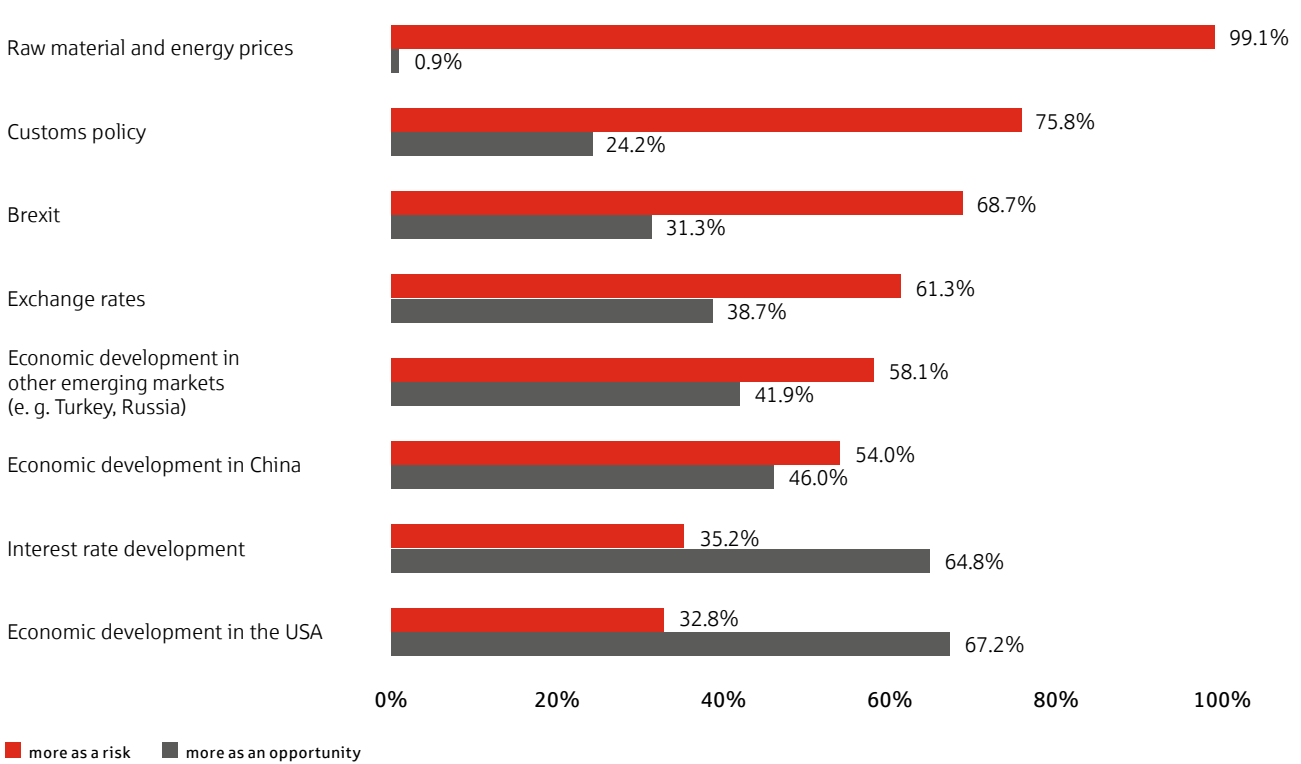


Question 4: How do the majority of your SME business customers assess the following global economic factors with regard to the future development of their companies?

As in the previous year, the increasing rise in raw material and energy prices, customs policy and Brexit are seen as the main negative factors for future development, whereby the risk assessment for the development of raw material and energy prices has risen sharply to 99 percent (previous year 66 percent). This is easy to understand, given the marked increase in prices for timber, coal, natural gas and crude oil. Conversely, the risk assessment of economic development in the USA has fallen from 86 percent in 2020 to 33 percent in 2021. This could be due to the change of government in the USA and the associated hope that American economic policy will become more Europe-friendly again.

The economic development in China as well as in Russia continues to be assessed critically. In China, this could be due to the real estate sector, which has been booming for years, but is facing ever greater problems. The risk assessment for Russia is related to the ongoing economic sanctions, which not only unsettle SMEs but also harm them directly.

The persistently low interest rates continue to be seen as an opportunity for the future by 65 percent (previous year 79 percent).

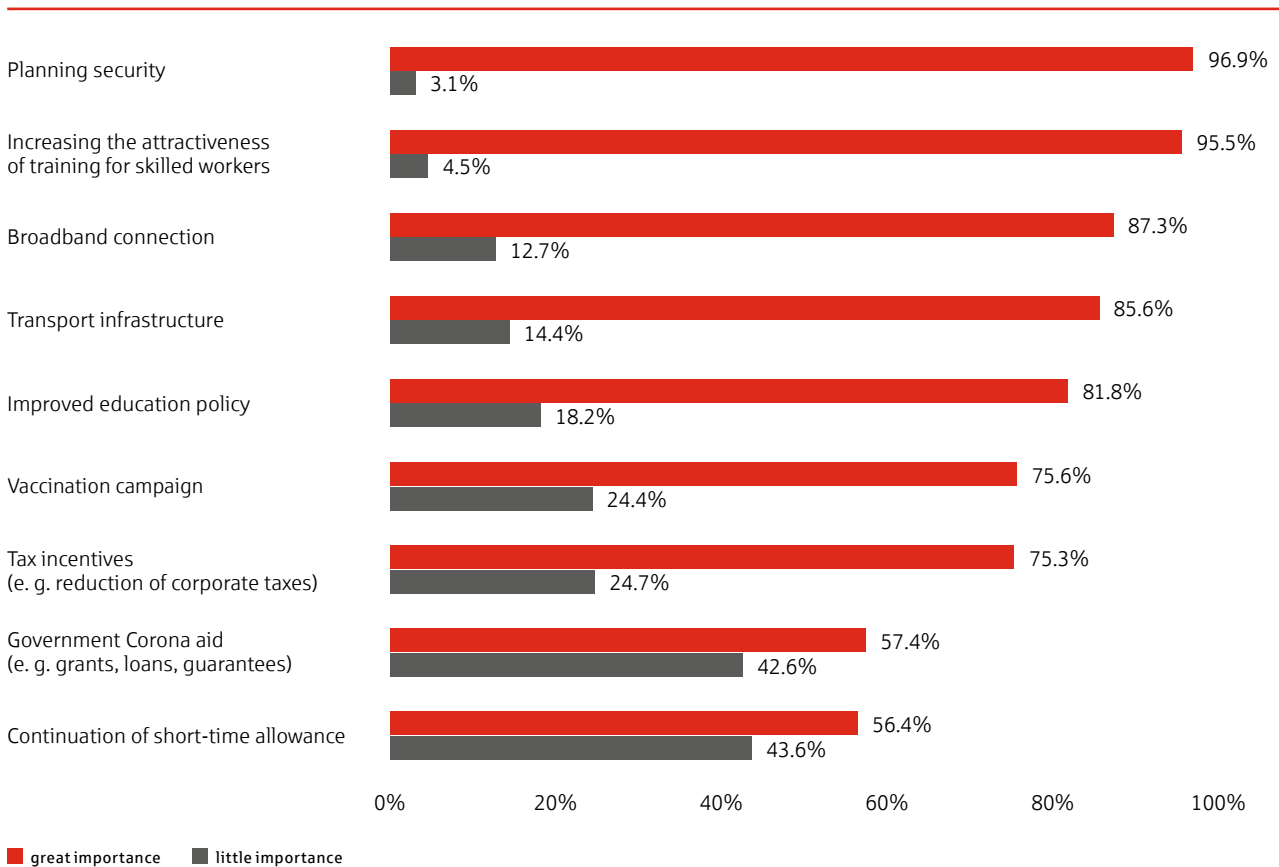


Part 2: Prospects for small and medium-sized enterprises in Germany



Question 5: According to your business customers, which measures are most important for a fast recovery of their companies?

The Corona pandemic has posed major challenges for German SMEs. Uncertainty and a lack of perspective have characterised the last one and a half years. While some industries achieved growth in turnover and profits despite the crisis, other sectors are still fighting for their existence. It is therefore not surprising that planning security is seen as the most important criterion for the rapid recovery of SMEs, at 97 percent. However, intensifying the training of skilled workers, improving education policy and investing in an efficient digital infrastructure, especially in rural areas, are still of immense importance. Government measures such as Corona aid or short-time working allowances are currently accorded less importance, at 43 percent and 44 percent respectively. This assessment is no doubt based on the assumption that further pandemic developments and the increase in vaccination rates will prevent further company closures or drastic hygiene requirements.

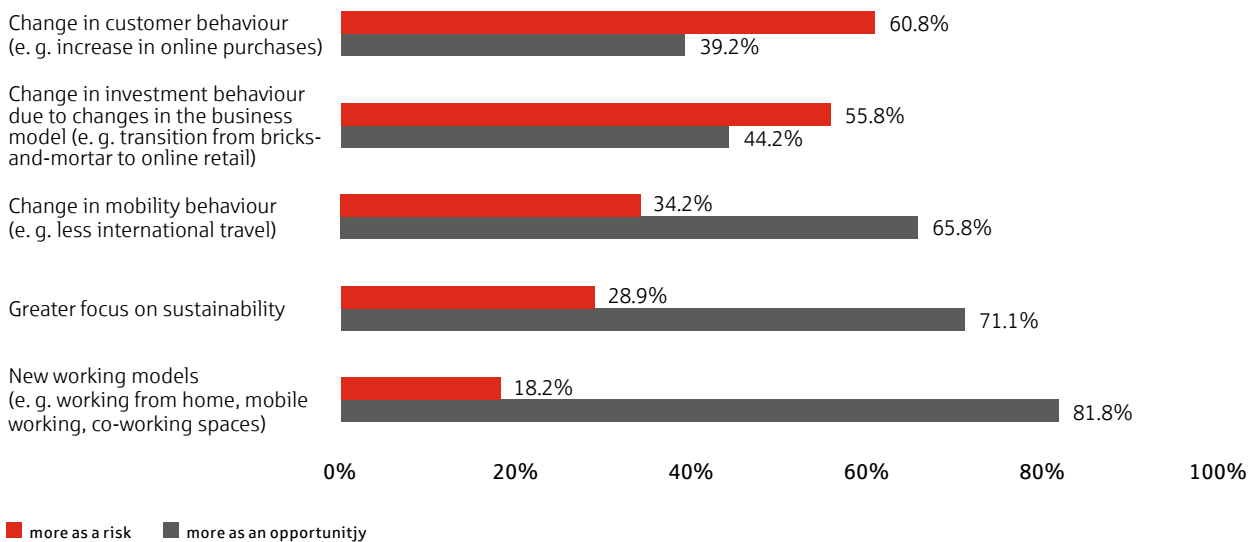




Question 6: How do your corporate customers assess the following effects of the Corona pandemic in relation to their future business model?

During the period of the pandemic, SMEs largely succeeded in adapting their business models to the changed framework conditions through flexibility and creativity – be it through changed working methods, sales channels or products and services. It is therefore not surprising that almost 82 percent of those surveyed see new working models such as mobile working and co-working spaces as a future opportunity for companies. The trend towards less business and international travel is also perceived as an opportunity rather than a risk by around 66 percent of respondents. This goes hand in hand with a stronger focus on sustainability, which is seen as an opportunity by 71 percent of the Savings Banks experts. More than half of the respondents report that their business customers are already taking active measures and investing in the sustainable development of their companies.

However, a majority of respondents see changing customer behavior (61 percent) and the resulting changes in business models, such as the transformation of bricks-and-mortar stores into online retail (56 percent), as more of a risk to the future development of SMEs in Germany. The shift towards online retail requires high investments in digital distribution channels, which are often not affordable by small and medium-sized enterprises. There is a risk that city centres will lose their attractiveness as a result of the loss of local shops and service providers, which in turn may have a negative impact on other traders who depend to a greater or lesser extent on walk-in customers.

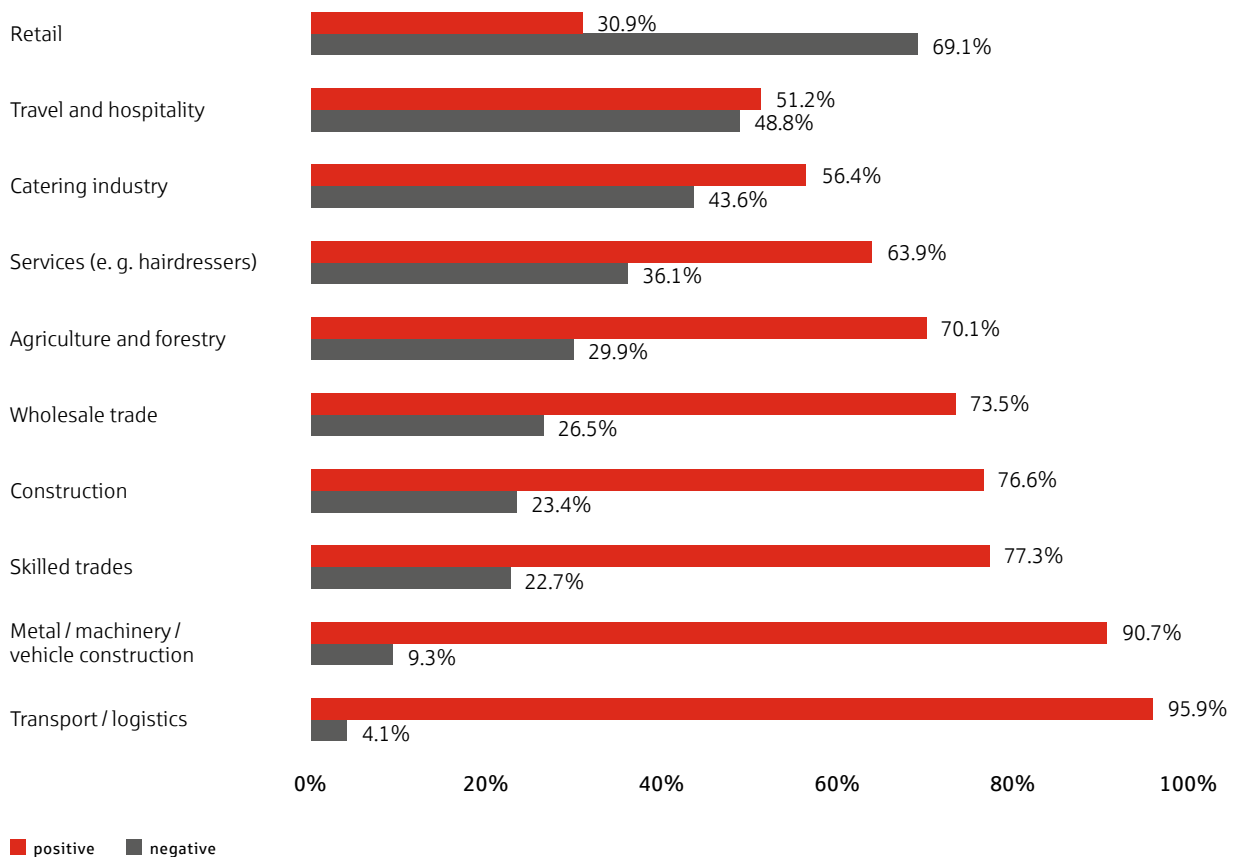




Question 7: How do your business customers assess the digitalisation push triggered by the Corona crisis and the associated effects on the regional SME economy in the individual sectors?

The Corona pandemic has led to a significant shift in market potential from SMEs to large, internationally active platform companies. This has hit the retail sector particularly hard. For this reason, 69 percent of respondents also view the digitalisation push for this sector as negative. In the travel and hospitality sector, on the other hand, more than half of the experts tend to view the advancing digitalisation as positive. This could be due to the improved and faster booking and delivery services, which ultimately also benefit the customers of these companies.

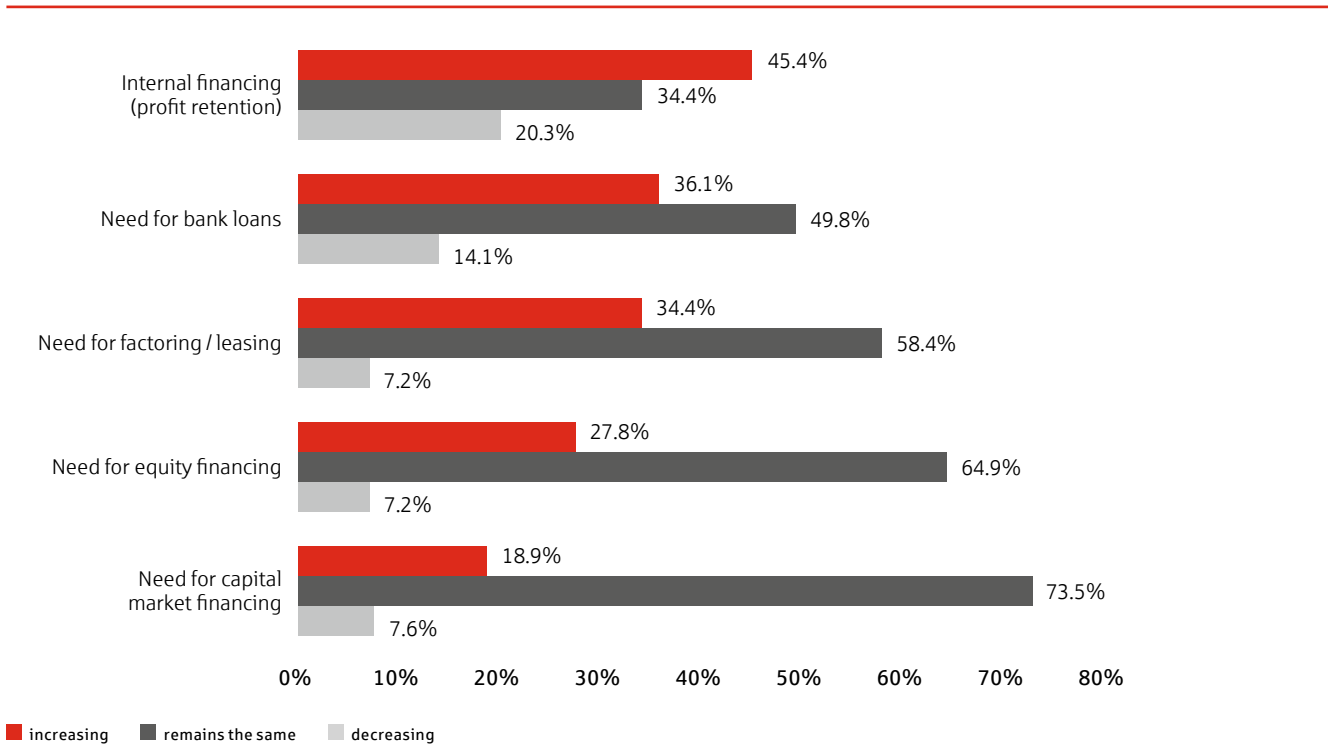
90 percent of respondents also believe that more digitalisation in the mechanical engineering and the transport and logistics sectors is a good thing, as it allows delivery and production processes to be coordinated more efficiently. Overall, it can be stated that the digitalisation push triggered by Corona is predominantly seen as positive by SMEs.





Question 8: What impact do you expect the Corona crisis to have on the financing behaviour of your business customers?

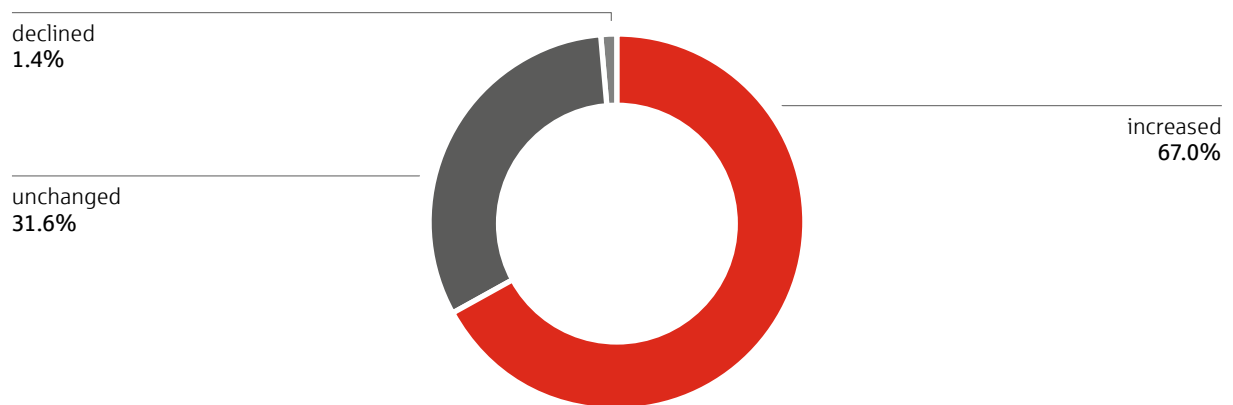
During the Corona crisis, demand for short-term business loans developed very dynamically. The increased demand for financing served to a large extent to bridge liquidity shortfalls and thus ensured the survival of many companies. Together with the solid equity portfolios that companies have built up over the past ten to twelve years, this provides a solid basis for the future. According to the experts, 34 percent and 45 percent of companies respectively are not dependent on outside capital or can even increase the equity financing of future investments. However, traditional bank loans and lease financing also remain proven forms of financing for SMEs. For example, the new lending business of the Savings Banks increased by around EUR 1 billion in the first half of 2021 compared to the first half of 2020, meaning that bank loans remain the number one source of financing for German SMEs.





Question 9: How did the intensity of cooperation with your business customers develop during the Corona crisis?

The Corona pandemic has once again shown how important stable banking relationships are for companies – especially in times of increased stress. This is also reflected in the fact that 67 percent of the Savings Banks' business customer advisors say that cooperation with their corporate customers has strengthened during the Corona pandemic. The Savings Banks have thus played their part in helping the economy to overcome the Corona pandemic and have once again demonstrated the importance of regional, real economy credit institutions for the stability of the German economy.



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➤ www.dsgv.de/en/facts/publications-reports/sme/SME-Diagnosis-2021.html

In case of discrepancies, the German version is definitive.

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