Finanzgruppe
Deutscher Sparkassen- und Giroverband

FINANCIAL REPORT 2018

of the Savings Banks Finance Group

The Savings Banks Finance Group

The Savings Banks Finance Group is Germany's biggest banking group. Its great strength results from the Savings Banks' locally rooted business model and the close co-operation among its 530 affiliated institutions within a strong group.

Together with its institutions and partner companies, the Savings Banks Finance Group covers the full range of financial needs for retail customers and enterprises in Germany.

Closeness and responsibility

Savings Banks are usually corporations under public law with local governments as their responsible public bodies. In line with their regional structure, their presence and their business operations are focused on their original home regions. They are independent, decentrally managed and rely on organic growth. To preserve this position, Savings Banks have to manage their business operations in a sustainable manner, and they have to ensure an economic balance for the long term. For this reason, Savings Banks use the profits they generate exclusively to strengthen their equity base and promote the development of their home regions.

Branches

17,530[5]

17,500[7]

Employees

301,600[5,6]

293,500[6,7]

Apprentices

14,917

Strong within the Group

The complement to the Savings Banks' local roots is their co-operation within the Savings Banks Finance Group. This co-operation enables the affiliated institutions to specialise and divide responsibilities among themselves, which strengthens the efficiency of all the institutions. Consequently, the affiliated institutions make a major contribution to the responsible and risk-conscious business policy pursued by the Savings Banks Finance Group. The Savings Banks' business model reflects their mission – acting locally, responsibly and with a customer focus.

Market presence

Savings Banks Finance Group

Companies[1]
530

Branches[2]
17,530[5]
17,500[7]

Employees[3]
301,600[5,6]
293,500[6,7]

Business volume[4]
EUR 2,830 billion[5]
EUR 2,700 billion[7]

Savings Banks

385*

Total assets ... EUR 1,243 billion
Branches ... 13,016
Employees ... 209,588

5 Landesbank Groups

(LBBW, BayernLB, Helaba, NORD/LB, SaarLB) + LB Berlin/Berliner Sparkasse

Total assets ... EUR 838 billion
Employees ... 32,741

Deka-Bank

Deutsche Girozentrale

Total assets
EUR 100 billion

Employees
4,716

Landesbausparkassen (LBS)

8

Total assets ... EUR 71 billion
Employees ... 6,932

Deutsche Leasing Group[8]

Total assets ... EUR 20.8 billion
New business volume ... EUR 9.2 billion
Assets under Management ... EUR 38.6 billion
Employees ... 2,575

Public direct insurance groups

11

Gross premium income ... EUR 21.1 billion
Employees ... 28,350

Capital investment companies

55

Investments ... 1,471
Total volume ... EUR 1.1 billion
Employees ... 192

S-Kreditpartner

Customer loan portfolio ... EUR 7.0 billion
Employees ... 415

Factoring companies

3

Annual turnover ... EUR 30.1 billion
Employees ... 366

LBS Real estate companies

7

Intermediated property volume ... EUR 8.3 billion
Employees ... 567

Other leasing companies

New business volume ... EUR 2.2 billion
Employees ... 726

DSV-Group

Deutscher Sparkassenverlag

Turnover
EUR 0.9 billion

Employees
2,271

Offices
10

Finanz Informatik

Employees
4,062

SIZ

Employees
206

Sparkassen Rating und Risikosysteme

Employees
211

[1] Including associations and other institutions; figures have been rounded
[2] Offices/information centres
[3] Office staff and field force, excluding part-time employees; figures have been rounded
[4] Business volume here = balance sheet total/portfolio volume/total assets/investment volume; figures have been rounded
[5] Including foreign branches as well as domestic and foreign subsidiaries of Landesbanken
[6] Including 3,365 employees of associations, their institutions and other institutions
[7] Excluding foreign branches, excluding domestic and foreign subsidiaries of Landesbanken
[8] As at 30 September 2018

* As at 31 December 2018; as at 15 June 2019: 384 Savings Banks.

Key financials of the Savings Banks Finance Group*

Selected balance sheet items

	As at year-end 2018 EUR billion	As at year-end 2017 EUR billion	Change in %
Loans and advances to banks (MFIs[1])	**268.6**	271.1	–0.9
Loans and advances to non-banks (non-MFIs)	**1,254.1**	1,212.2	+3.5
Liabilities to banks (MFIs)	**376.1**	369.6	+1.8
Liabilities to non-banks (non-MFIs)	**1,280.2**	1,243.2	+3.0
Equity	**167.8**	161.5	+3.9
Total assets	**2,178.2**	2,129.5	+2.3
Tier-1 ratio pursuant to CRR[2] (as a percentage; change in percentage points)	**15.9**	16.3	–0.4

Selected items of the P&L account[3]

	2018[4] EUR billion	2017 EUR billion	Change in %
Net interest income	**28.860**	29.793	–3.1
Net commission income	**8.903**	8.723	+2.1
Net income from financial transactions	**0.671**	1.065	–37.0
Administrative expenses	**27.506**	27.364	+0.5
Operating result before valuation	**11.055**	12.455	–11.2
Operating result after valuation	**7.053**	10.392	–32.1
Net income before taxes	**2.950**	5.694	–48.2
Income taxes	**3.161**	3.363	–6.0
Net income/loss after taxes	**–0.213**	2.331	–[5]
of which net income of Savings Banks after taxes	1.796	2.110	–14.9
of which net income/loss of Landesbanken after taxes	–2.035	0.187	–[5]
of which net income of Landesbausparkassen after taxes	0.026	0.033	–21.0

* Savings Banks Finance Group: 1. Savings Banks, 2. Landesbanken excluding foreign branches, excluding domestic and foreign group subsidiaries, and excluding Landesbausparkassen. 3. LBS: legally independent entities of LBS and legally dependent units of Landesbanken as well as Hamburg Commercial Bank (formerly HSH Nordbank) affiliated with the protection scheme.

[1] Monetary Financial Institutions.

[2] Capital Requirements Regulation.

[3] As in the "original" P&L account under German GAAP, additions to the fund for general banking risks pursuant to Section 340(g) of the German Commercial Code are recognised as expenses that reduce net income; in the DSGV's Financial Reports until 2010, such additions were treated - in line with Deutsche Bundesbank's P&L statistics - as appropriation of profits which increased net income.

[4] Provisional figures from financial statements prepared in accordance with German GAAP.

[5] Calculation would not make sense.

Contents

HELMUT SCHLEWEIS
President of the German Savings Banks Association

"In 2018, Savings Banks invested heavily in their core product, the current account, and now provide new payment solutions and new digital services to retail and corporate customers."

Berlin, July 2019

Ladies and Gentlemen,

The Savings Banks Finance Group performed well in 2018, which was a challenging year. The Group's institutions have promoted both the stability and the momentum of Germany's economy, and they have contributed to an innovative European banking market, in particular in the field of payments. They have done so in an economic environment that is characterised by persistent ultra-low interest rates and growing competition from international platform providers.

FOR MORE INFORMATION ON INNOVATION AND SMEs

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In 2018, Savings Banks invested heavily in their core product, the current account, and now provide new payment solutions and new digital services to retail and corporate customers. Savings Banks as the market leader have introduced instant payments, payments from mobile phone to mobile phone, and mobile payments with debit cards on a broad scale to the German market. Their current account services are based on the Savings Banks' own platform architecture. In addition, Savings Banks are investing in digital support for corporate clients, which also gives them easy access to smaller business clients outside the major urban areas.

Retail deposits have increased once again, and net sales of securities have grown significantly, which demonstrates that our customers continue to have confidence in Savings Banks when it comes to accumulating assets. In addition, 2018 was a year of dynamic lending growth, which reflects the strong economy, but is also due to the close business relationships with corporate clients. In 2018, our Group – including Landesbanken – accounted for approx. 40 percent of all loans to enterprises in Germany, with an emphasis on prudence rather than taking every available opportunity to provide finance.

In 2018, Germany's Savings Banks generated a respectable operating result of EUR 9.3 billion. Non-personnel expenses increased slightly, from EUR 7.3 billion to EUR 7.4 billion. The Savings Banks' net income after taxes decreased slightly to EUR 1.8 billion. With significant tax payments of EUR 2.7 billion, Savings Banks have considerably strengthened government budgets at local level.

In the past ten years, Landesbanken have reduced their risk-weighted assets by significantly more than half. As at December 2018, Landesbanken recorded a slight increase in risk-weighted assets for the first time in years. The tier-1 ratio decreased from 17.5 percent to 15.3 percent. Landesbausparkassen are clearly number one in the home savings and loan market, with a market share of approx. 37 percent of new business.

"Close customer relationships will remain the essence of our business model. In everyday digital life, these relationships will become even more individualised."

In 2018, every member of the Savings Banks Finance Group – with responsibility for their own corporate decision-making – once again made positive contributions to a strong group of companies. It is not only the individual performance that counts here, but also the collective performance. We have increased our centralised investments in digitalising and standardising processes, thereby strengthening our market presence in digital services.

Our key challenge will be to continue to be the direct and most important partner in all financial matters for people in Germany. In 2019, this will be at the core of all the upcoming changes and of the Savings Banks Finance Group's major technical investments.

Kind regards,

385[1]

Savings Banks

530

independent enterprises

Over

200

years close to our customers

3.2

billion euros in income taxes paid by Savings Banks, Landesbanken and Landesbausparkassen

422

million euros spent on social responsibility projects

[1] As at 31 December 2018; 384 Savings Banks as at 15 June 2019.

2. OVERVIEW OF THE SAVINGS BANKS FINANCE GROUP

The Savings Banks Finance Group is Germany's biggest banking group. Its unique strength is the Savings Banks' locally-based business model and the close co-operation among its 530 member institutions within a strong group of companies.

The institutions of the Savings Banks Finance Group operate in the market as independent and decentralised entities. With their nationwide network of branches and a wide range of digital products, they provide modern financial services in all of Germany's municipalities and counties.

With their strategy of local and digital presence, the institutions of the Savings Banks Finance Group fulfil their public service mission in competition with other banks. They supply the people living in their business regions with financial services, and they support the accumulation of assets by people from all walks of life.

Through their social commitment, the institutions of the Savings Banks Finance Group assume social responsibility nationwide.

The specialisation and division of labour among the institutions make our Group flexible, efficient and effective.

The Savings Banks Finance Group is composed of:
- Savings Banks,
- Landesbanken and DekaBank,
- Landesbausparkassen,
- BerlinHyp,
- public-sector insurance companies,
- leasing, factoring, capital investment, and consulting companies, and
- service enterprises, e.g. in the fields of IT, securities settlement, payment transactions, and publishing.

The 385* independent Savings Banks form the core of the Group.

* As at 31 December 2018; 384 Savings Banks as at 15 June 2019.

As universal credit institutions, Savings Banks carry out all standard banking operations and provide basic financial services and personalised advice to approx. 50 million customers nationwide.

Since their establishment over 200 years ago, Savings Banks have been linked to a specific, geographically defined region as their business area (regional principle). Since Savings Banks are banks under public law and their responsible public bodies are the local authorities, there is no town or district in Germany without a Savings Bank.

This decentralised structure characterises not only the Savings Banks' core business focused on deposits and loans, but also their willingness and their ability to continue to shape the economic and social development of their business area. Often, the two aspects are interconnected. New loan commitments made by Savings Banks to enterprises and self-employed persons amounted to EUR 89.2 billion, which was a new record level. In loans for home purchases, new business amounted to EUR 50.3 billion, which was EUR 2.6 billion more than in the previous year. The customer deposit business grew by EUR 39.1 billion to a level of EUR 950.3 billion. This was significantly higher than in previous years, which demonstrates that our customers continue to place a high level of confidence in Savings Banks.

Together, the institutions of the Savings Banks Finance Group form one of Germany's largest commercial employers and are among the biggest taxpayers, the leaders in training in the financial sector, and the biggest non-governmental sponsor of sports and cultural events in Germany. All of these services are of direct benefit to local communities. This is our contribution to a regionally balanced development of the economy and society as a whole.

The Savings Banks Finance Group

Division of labour and co-operation within the Group

Decentralised management responsibility

Commercial efficiency

Public legal status

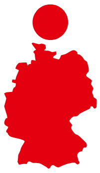
Local authorities are the responsible local bodies

Focus on public welfare

Regional structure

The mission

What sets us apart



FOR MORE THAN 200 YEARS, SAVINGS BANKS – AND TOGETHER WITH THEM, THE SAVINGS BANKS FINANCE GROUP – HAVE SUPPORTED ECONOMIC AND SOCIAL CHANGE IN GERMANY BY PROVIDING UP-TO-DATE FINANCIAL PRODUCTS AND ADVISORY SERVICES FOR ALL CUSTOMER GROUPS.

For more than 200 years, Savings Banks – and with them, the Savings Banks Finance Group – have supported economic and social change in Germany by providing up-to-date financial products and advisory services for all groups of customers. Over this period of time, our business model has withstood major turning points in history: the period of industrialisation in urban and rural areas, the new beginning after 1918 and 1945, and the unification of Germany after the fall of the wall. Currently, the Savings Banks Finance Group is facing the challenges of digitalisation.

Throughout the years, the essence of the Savings Bank concept has remained unchanged. For decades, this essence has also been enshrined in Germany's legislation on Savings Banks as a "public service mission", which includes the following elements:

→ Enabling all groups of customers to save money, to make provisions, and to access financial services. Financial inclusion is the foundation of our business model.

→ A second core element is the strong focus on local and regional development and its key players, i.e. mainly private households, craftsmen, small and medium-sized enterprises, and local governments.

→ Savings Banks stimulate competition in the German banking market. They do so by means of their broad positioning as retail banks and their presence in both economically strong and economically weak regions of Germany.

Based on their "public service mission", Savings Banks therefore have a key role to play – not only in the banking sector, but also in society as a whole. And in accordance with this mission, the success of a Savings Bank is measured by its local impact, which goes far beyond the basic expectation of sound business management.

Savings Banks and the institutions of the Savings Banks Finance Group fulfil their macroeconomic and social responsibility in a variety of ways.

For decades, for instance, they have developed teaching materials and have been engaged in improving the financial literacy of children, adolescents and private households. Furthermore, they offer a comprehensive internal training programme consisting of internal courses and in-house training and employ approx. 14,917 apprentices. In addition, Savings Banks and Landesbanken have remained reliable as the most important providers of finance for Germany's small and medium-sized enterprises, also over the past few years, which have been challenging for the global economy.

Many examples of what Savings Banks do to promote sustainable prosperity and quality of life in their home regions are illustrated in our "Report to Society":

↘ s.de/gesellschaft

Business model

Strengthening regions

The Savings Banks' business model has been an integral part of Germany's economic structure and culture for over 200 years. It has proven to be stable because it responds flexibly to changes. With their business model, Savings Banks provide reliability for the people and enterprises in their business areas and in Germany as a whole. In essence, Savings Banks guarantee reliability by ensuring access to high-quality financial services for retail customers, enterprises and the public sector.

THE SAVINGS BANKS' BUSINESS MODEL HAS BEEN AN INTEGRAL PART OF GERMANY'S ECONOMIC STRUCTURE AND CULTURE FOR OVER 200 YEARS.

The vast majority of Savings Banks are corporations under public law with the local governments as their responsible public bodies. In line with their regional structure, their presence and their business operations are focused on their original home region. They are independent, are managed in a decentralised manner and rely on organic growth. The five independent Savings Banks, in which the responsible public bodies are not the local governments, are nonetheless committed to the same principles.

To preserve this position, Savings Banks have to manage their business operations in a sustainable manner and they have to ensure economic equilibrium in the long term. For this reason, Savings Banks use the profits they generate exclusively to strengthen their equity base and to promote the development of their business areas.

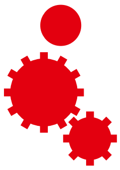
The indispensable complement to the Savings Banks' local roots is their co-operation within the Savings Banks Finance Group. This co-operation enables the affiliated institutions to specialise and divide responsibilities among themselves, which strengthens the efficiency of the institutions as a whole. The affiliated institutions thus make a major contribution to the responsible and risk-conscious business policy pursued by the Savings Banks Finance Group.

Long-term thinking

The Savings Banks' business model reflects their mission – acting locally, responsibly and with a customer focus. This also applies in our mobile and increasingly digital service society – whether customers use services in branches or by telephone, online or by means of an app.

With this in mind, Savings Banks continued to develop their business strategy in 2018: on the one hand, by providing more qualified and personalised advice as well as digital services, and on the other hand, by streamlining processes to create greater room for manoeuvre for business development. Savings Banks invest in both fields – to ensure that they continue to be reliable and preserve their close ties to customers in the future.

Identifying market requirements with our partners within the Savings Banks Finance Group



THE COMPANIES AFFILIATED WITH THE SAVINGS BANKS FINANCE GROUP COOPERATE WITHIN A STRONG GROUP.

The companies of the Savings Banks Finance Group co-operate within a strong group. While they operate as independent institutions, they network their services. The resulting synergy effects make the Group efficient and effective – and, at the same time, are useful in identifying future trends and finding suitable solutions.

Landesbausparkassen – number one in home savings and loan contracts

The eight Landesbausparkassen (LBS) are the market leaders in Germany, with a market share of 36.7 percent in terms of the number of new home savings and loan agreements concluded and with a share of 35.7 percent in terms of the portfolio of contracts (number). They operate more than 550 information centres and have 6,932 employees working in their offices and in their field force. At the end of 2018, the LBS Group's cumulative total assets reached a new record high of EUR 70.8 billion.

Landesbanken

Landesbanken are the regional lead institutions within the Savings Banks organisation. In their respective federal states, they act as principal banks for the state-level governments: they conduct banking operations and are entrusted with the promotion of regional economic development.

For instance, Landesbanken co-operate with Savings Banks – as their partners within the Savings Banks Finance Group – in attracting industrial enterprises, implementing infrastructure measures and funding housing construction. In addition, they provide a broad range of services for businesses and commercial enterprises. They grant loans, assist small and medium-sized enterprises in developing new business opportunities and support them in their ventures abroad.

Furthermore, as the central institutions of the Savings Banks, the Landesbank groups also act as clearing houses for cashless payment transactions. They are the Savings Banks' partners in retail business, providing them with efficient payments systems and specific expertise for complex products and joint projects.

Deutsche Leasing Group:
Increase in joint new business – potential for growth in the business and commercial customer segment

With the increase in new business to EUR 9.2 billion, the Deutsche Leasing Group consolidated its leading market position as the asset finance partner for Germany's SMEs. The economic result of EUR 159 million, which was above the previous year's level, contributed to the strengthening of the equity base.[1]

In the joint leasing business of Savings Banks and Deutsche Leasing, the volume of new business increased by 7 percent to approx. EUR 4.5 billion in 2018 (2017: EUR 4.2 billion)[2]. Individual transactions (corporate and business clients) made a particularly strong contribution, with growth of 16 percent year-on-year. New business in the networking business segment – customised solutions of Deutsche Leasing for Savings Banks and/or their customers in market segments such as health, transport and logistics, international business, fleet management, real estate and construction management – also grew by 5 percent year-on-year.[2]

[1] As at 30 September 2018 (fiscal year of Deutsche Leasing: 1 October 2017 to 30 September 2018).
[2] As at 31 December 2018 (fiscal year of partners in Savings Banks Finance Group: 1 January 2018 to 31 December 2018).

Faster and simpler financing and service solutions offer substantial potential for growth. For the online branch of the Savings Banks, Deutsche Leasing Introduced digital services in 2018 which enable customers – in particular business and commercial clients – to conclude contracts online for investment assets (up to EUR 50,000) within a few minutes.

In 2018, Deutsche Factoring Bank – a company of the Deutsche Leasing Group – further cemented its role as a centre of expertise for the factoring and receivables management of Savings Banks and their customers. In domestic and international business, factoring revenues increased by 8.1 percent to EUR 18.5 billion.[1] Import and export factoring, which accounts for about one-quarter of factoring revenues, is becoming increasingly important. Nationwide co-operation with Savings Banks was also an important pillar of the new factoring business in 2018. Over 90 percent of the new contracts concluded over the past year were intermediated by Savings Banks. Year-on-year, 16 percent more commissions were paid to Savings Banks for intermediated factoring contracts. To date, over 80 percent of Germany's Savings Banks have concluded a co-operation agreement with Deutsche Factoring Bank.

Within the Savings Banks Finance Group, the Deutsche Leasing Group is the centre of expertise for leasing and factoring, as well as for other SME-oriented asset finance solutions and supplementary services in Germany and other countries. Owing to the close co-operation between Savings Banks and Deutsche Leasing, business clients can draw on the entire range of leasing and financing services for movable equipment and real estate. The services provided range from solutions for machines, motor vehicles, IT and real estate to international investments, customised solutions (including transport and logistics, energy, health) as well as factoring and receivables management. The range is complemented by additional services such as insurance and fleet management. Abroad, Deutsche Leasing supports Savings Bank customers in more than 22 countries worldwide, including the United States and Canada, as well as Brazil, Europe and China.

TOGETHER WITH ALL ITS INSTITUTIONS AND PARTNER COMPANIES, THE SAVINGS BANKS FINANCE GROUP COVERS THE FULL RANGE OF FINANCIAL NEEDS OF PRIVATE INDIVIDUALS AND ENTERPRISES IN GERMANY.

Deka Group

DekaBank is the Savings Banks' investment firm; together with its subsidiaries, it forms the Deka Group. With total assets[2] of approx. EUR 276 billion and roughly 4.7 million managed securities deposit accounts[3], the Deka Group is one of Germany's largest investment service providers and real estate asset managers. It gives private and institutional investors access to a wide range of investment products and services. DekaBank is firmly anchored in the Savings Banks Finance Group and its portfolio of products and services is entirely tailored to the requirements of its owners and its sales partners in the securities trading business.

Public insurers – strong in their regions

In 2018, the gross premium income of the 11 public direct insurance groups amounted to EUR 21.1 billion, slightly surpassing their strong performance of the previous year and confirming their position as Germany's second largest insurance group. The regional associations of Savings Banks are the responsible bodies of nearly all public insurers.

Other financial service providers

The range of financial services offered by the Savings Banks Finance Group is complemented by a large number of associated companies and institutions, including five Landesbank investment companies, three factoring companies, seven real estate companies owned by Landesbausparkassen, 55 equity investment companies and other financial services companies, as well as five management consultancy firms.

[1] As at 31 December 2018 (fiscal year of partners in Savings Banks Finance Group: 1 January 2018 to 31 December 2018).
[2] Total assets include mutual and special funds, ETFs and certificates.
[3] As at 31 December 2018.

Risk aware: the protection scheme of the Savings Banks Finance Group

THE INSTITUTIONS AFFILIATED WITH THE SAVINGS BANKS FINANCE GROUP ARE PROTECTED BY THE GROUP'S OWN PROTECTION SCHEME.

We pursue a responsible and risk-conscious business policy. An important element of this policy is our own scheme that protects the institutions of the Savings Banks Finance Group. The scheme, which was established 40 years ago, provides maximum reliability for the customers of the Savings Banks Finance Group.

The protection scheme of the Savings Banks Finance Group protects deposits made with Savings Banks, Landesbanken and Landesbausparkassen. The purpose of the protection scheme is to prevent the affiliated institutions from running into financial difficulties. The scheme achieves this by affording voluntary institutional protection in line with statutory requirements. In this way, the business relationship with customers will continue as contractually agreed.

The protection scheme thus provides maximum reliability for customers of the Savings Banks Finance Group. Since the establishment of the protection scheme in the 1970s, no customers of affiliated institutions have ever suffered a loss of their deposits, no depositors have ever had to be indemnified and no affiliated institution has ever become insolvent.

In addition, the protection scheme meets all the requirements of a statutory deposit guarantee scheme. Under the statutory deposit guarantee scheme, customers have the right to have up to EUR 100,000 of their deposits refunded by the protection scheme. This is stipulated in Germany's Deposit Guarantee Act (EinSiG).

The protection scheme of the Savings Banks Finance Group is composed of a total of 13 guarantee funds:

- the eleven regional Savings Banks guarantee funds,
- the Guarantee Fund for Landesbanken and Girozentralen, and
- the Guarantee Fund for Landesbausparkassen.

These guarantee funds have been incorporated into a single protection scheme, which has been officially recognised as a deposit guarantee scheme under Section 43 of Germany's Deposit Guarantee Act (EinSiG).

For more information on the protection scheme of the Savings Banks Finance Group, see pages 75 to 77 of the Risk Report.

Ratings suitable for the capital markets

Three external rating agencies have confirmed the Savings Banks Finance Group's solid credit rating and have acknowledged that the Savings Banks Finance Group is well positioned – despite the challenging market environment.

The Savings Banks Finance Group has received external ratings from three agencies: Moody's Investors Service, Fitch Ratings and DBRS. In 2018, all three agencies once again awarded comparably high ratings for both long-term and short-term liabilities.

Moody's assigns a corporate family rating, which relates to the creditworthiness of the Savings Banks Finance Group as a whole. Fitch Ratings assigns a group rating to Savings Banks, while DBRS awards a Group-wide floor rating. This floor rating reflects the minimum creditworthiness of the members of the guarantee funds (Savings Banks, Landesbanken and Landesbausparkassen).

In addition, Fitch and DBRS may also award individual ratings, which can then be used as such by the institutions concerned.

The positive ratings by all three agencies were primarily influenced by:

→ the solid business model and the good credit standing, in particular on the part of Savings Banks,

→ the co-operation and solidarity within the Savings Banks Finance Group,

→ the Savings Banks' risk management,

→ the diversification of their risk exposure, and

→ the Group's protection schemes.

The ratings confirm the strong performance of its members and the high credit standing of the Savings Banks Finance Group at international level, while recognising their decentralised, locally-based business model.

These assessments still apply in 2019, as the rating agencies have confirmed their ratings.

Ratings of the Savings Banks Finance Group

	2019	2018	2017
Moody's corporate family rating			
Long-term	Aa2	Aa2	Aa2
Outlook	stable	stable	stable
Fitch floor rating			
Long-term	A+	A+	A+
Short-term	F1+	F1+	F1+
Outlook	stable	stable	stable
DBRS floor rating			
Long-term	A	A	A
Short-term	R-1 (low)	R-1 (low)	R-1 (low)
Outlook	positive	positive	stable

2018 highlights

Savings Banks' digital year 2018
The introduction of instant payments was followed in July by the new mobile payments service. Since then, customers have been able to make contactless payments digitally with their NFC[1]-capable android smartphones using their Savings Banks Card (debit card) or their Savings Banks credit card, wherever they previously made NFC card payments.

Making payments faster is easy with NFC[1] technology.

Savings Bank app is test winner
Stiftung Warentest, the German consumer organisation, has named the Savings Bank app Germany's best banking app. The Savings Bank app was given the top ranking mainly because of its many practical functions such as Kwitt for credit transfers from mobile phone to mobile phone, the simple handling of all accounts regardless of where customers have their bank accounts, and the direct investment opportunities in the free app. With approx. 27 million downloads and more than seven million active users, the Savings Bank app is the most popular banking app in Germany.

The Savings Bank app was also chosen as the test winner by a German business newspaper.

Parade of Germany's Olympic team during the opening ceremony of the 2018 Olympic Winter Games in Pyeongchang

2018 Olympic and Paralympic medal winners
2018 was the year of Olympic and Paralympic top athletes. During the Winter Games in Pyeongchang, Germany's Olympic team was more successful than ever before: the German team won 14 gold medals, ten silver medals and seven bronze medals. Germany's Paralympic team won seven gold medals, eight silver medals and four bronze medals.

When athletes deliver top performance during the Olympics and Paralympics, they do so with a strong and reliable partner by their side: Within the framework of its partnership with Germany's Olympic Sports Confederation (DOSB), the Savings Banks Finance Group has sponsored athletes since 2008, as they develop from promising talent to winning an Olympic medal; since 2013, the Savings Banks Finance Group has also sponsored Germany's Paralympic team.

[1] Near Field Communication.

Inauguration ceremony at Schlüterhof: New DSGV President Helmut Schleweis (centre back), surrounded by three of his predecessors – Dietrich H. Hoppenstedt (left), Heinrich Haasis (right) and Helmut Geiger.

90 years of the Savings Banks' Management Academy

The skills required of junior managers are becoming more demanding. The Savings Banks' training programme has responded to these requirements by continually improving its contents and its methods. The purpose of the professional development courses provided at the academy is not only to convey knowledge to participants but also to enable them to practice values and develop their personality. This was and still is the objective of the Management Academy for Local Savings Banks and Credit Institutions, which was established in 1928. One consequence of the ongoing developments is the new MBA programme, which combines professional training with academic education.

Inauguration of the new DSGV President

The inauguration ceremony of Helmut Schleweis, who was elected as the new DSGV President in December 2017, took place on 25 January 2018 in the German Historical Museum in Berlin.

20 years of Business Games of the Saving Banks Foundation

Financial literacy and business know-how made easy – the Business Games organised by the Savings Banks Foundation for International Co-operation has been a highlight in the field of financial literacy services for 20 years. The Business Games are a unique selling point for the Savings Banks Foundation in the field of knowledge transfer. In 2018, the Savings Banks Foundation organised seven Business Games worldwide – each addressed to different target groups – and reached close to 23,000 participants in 1,300 training sessions.

Deutsche Leasing – active abroad for 25 years

It all began in 1993 in Florence and Budapest: Deutsche Leasing established its first foreign subsidiaries in Italy and Hungary. Today, the Savings Banks Finance Group's Centre of Expertise for Leasing and Factoring supports Germany's small and medium-sized enterprises in Europe's most important export markets as well as in other countries, including China, Russia, the United States, Canada and Brazil. Overall, Deutsche Leasing is present in 22 countries aside from Germany. For more than 25 years, business clients have benefited from the bundled international expertise within the Savings Banks Finance Group, available from a single source.

3. SAVINGS BANKS: DIGITAL PARTNERS IN EVERYDAY LIFE AND IN BUSINESS

Well prepared with platform strategy and services tailored to business clients

Savings Banks aim to remain the most direct and important finance partner for people in Germany – both for their private and business banking needs. This means seizing the revolutionary developments in digitalisation, such as open banking, as an opportunity for the Savings Banks' own business. It also means providing our business clients – and in particular small and medium-sized enterprises – with increasing support across multiple channels.

In co-operation with Savings Banks, regional associations and associated partners within the Savings Banks Finance Group, the DSGV has developed recommendations for measures that can help to implement "open banking" and new sales strategies for business clients.

International platform providers and "open banking" have revolutionised the banking landscape. The Savings Banks' response is to upgrade digital media channels to a multi-banking platform of their own, centred around current accounts.

A key driver is a stipulation in the latest EU Payment Services Directive (PSD 2) [1] which states that, if requested by a customer, third-party service providers must be granted access to the customer's accounts. This development facilitates the development of digital ecosystems and reduces the entry barriers for start-ups and non-bank enterprises like FinTechs. By upgrading their digital media channels to a multi-banking platform of their own, Savings Banks are also able to provide their customers with the digital groundwork now required for all financial transactions. Such a platform meets the needs and expectations of these customers who are often travelling, who have little time and who prefer to use mobile communication and surf the Internet. At the same time, customers benefit from all the competitive advantages of Savings Banks: customers can rely on data security, the Savings Banks' exceptional risk assessment expertise and their handling of regulatory requirements.

The Savings Banks' sales strategy for small and medium-sized enterprises goes along the same lines. It specifically addresses the reality of businesses that wish to combine fast and easy access with the fastest possible processing of their requests. For this reason, Savings Banks have developed their own instruments and facilities designed to be available any time – whether in person or digitally – for all groups of corporate clients. Savings Banks and their associated companies within the Savings Banks Finance Group support small and medium-sized enterprises, not only as providers of finance but also as partners in the digitalisation process.

The multi-banking platform and new sales approaches in corporate banking business are two additional building blocks on the digital agenda of the Savings Banks Finance Group to ensure that local Savings Banks remain the number-one bank for their customers in future.

[1] PSD 2 stands for the second Payment Services Directive of the European Union (EU). The Directive, which has been in force since January 2018, deals with payment services and payment service providers in the EU and the European Economic Area. PSD 2 governs the access of payment service providers to the payment accounts held by customers with account-keeping institutions. Access is granted to these providers only if the account holder has given his or her explicit consent.

DIGITAL TRANSFORMATION OF SAVINGS BANKS

Interview with Helmut Schleweis

Disruption, transformation, change: people's everyday lives and economic development are changing radically. Savings Banks see their role as service providers who use foresight to support changes and innovation to shape those changes proactively. However, customers also need stability – particularly in times of change – and the assurance that they can do something themselves to provide for their future and to accumulate assets.

In his interview, DSGV President Helmut Schleweis describes how Savings Banks meet the everyday financial needs of 50 million customers and three-quarters of Germany's enterprises, whilst continuing to be their "financial home" in this digital environment.

Mr Schleweis, the Savings Banks Finance Group is market leader in the German retail market. What priorities do you set with regard to innovative and digital services?
→ We are making targeted investments in everyday services such as payment transactions. In this field, we want to provide our own products and services to cover the entire value chain. Savings Banks' current account holders can use all state-of-the-art forms of payment. To ensure that customers are comfortable with this variety of options, we will increasingly bundle the various methods, ultimately leading to a single application for consumers and vendors. This will make it easy for customers to rely on Savings Banks in money matters.

Because of its customer reach, the Savings Banks Finance Group can promote European solutions – this was already the case when the euro was introduced and when SEPA was implemented. How are you positioned today?
→ Our business model is based on a profound understanding of our customers' everyday lives – and also on our customers' ability to make decisions for themselves. However, in a world that is characterised by data streams, the right to self-determination of personal information is no longer a given. A digital platform economy that is dominated by a small number of globally operating providers is increasingly edging its way between today's providers and their customers. To counter this development, more large-scale European contenders will be needed. This will require greater investment in artificial intelligence and new forms of cooperation among European enterprises – including current competitors. We want to do both and, as a result, continue to improve services for our customers.

What will be the benefit for customers – how will the Savings Banks' visible services change?
→ We will gradually upgrade the Savings Banks' current accounts – of which there are roughly 40 million in the German market – to a digital financial platform, from which our customers can manage all of their bank accounts and, increasingly, other financial transactions. With our wide range of state-of-the-art payment services, we have prepared the ground to ensure the security of customer data.

What innovative services do Savings Banks provide to business clients?
→ In 2019, providing digital services for business and commercial clients will be an implementation priority. With our online branch for business clients, we are taking a major step towards our commercial customers. Business enterprises – in particular smaller businesses – only have time to deal with their financial matters during off-peak hours or between appointments. With specific solutions like our online loans, enhanced online account management and high-quality advice by telephone provided by the BusinessCenter, we can save the enterprises both time and trouble.

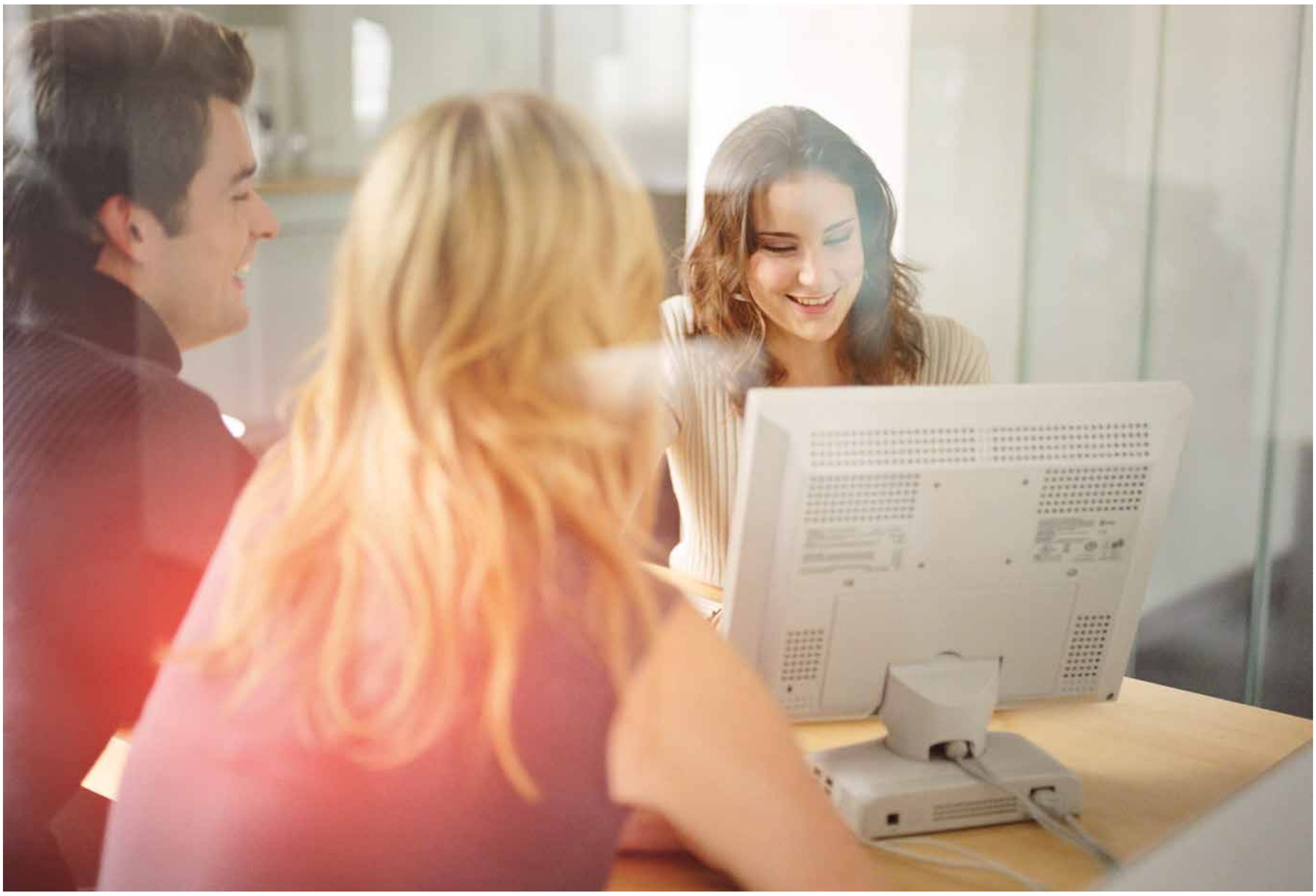
Savings Banks address all sectors of the economy and all sections of the population; they are at home both in strong and in weak regions. How does this affect your innovative capacity?
→ To start with, our interests are often very similar to those of our customers: Just like our commercial clients, Savings Banks also need an infrastructure that fosters innovation – through state-of-the-art transport and data links. As innovation drivers in the field of payments, it is also our responsibility to prepare retailers and businesses for their customers' new payment preferences. To this end, we offer the businesses targeted support and we are also broadening our range of instant payment services. Instant payment has great potential, especially for large paying agents. The money reaches the recipient in just a few seconds. This allows the payer to work with this liquidity right up to the last second.

Will so much digital innovation change the Savings Banks' business model?
→ We are used to changing conditions – one of the first German Savings Banks was established in 1778. What has remained unchanged is the people's desire to shape their own lives. Our role is to provide reliable and state-of-the-art support. For this reason, we strengthened share-based retirement provisions in 2018 and we helped 250,000 families to become home owners. Savings Banks provide finance for one in two start-ups in Germany. It is also a matter of course for our Group to help small and medium-sized enterprises to digitalise their own business models. Here, our institutions score particularly well with their sector expertise and their in-depth knowledge of their customers' business processes. All this shows that a long-term partnership is the bedrock for successful joint innovation projects.

Consolidation trends can currently be observed in the German banking market. Does this also apply to the Savings Banks Finance Group?
→ There can be no doubt that we will remain decentralised. Savings Banks, for which the responsible public bodies are predominantly the local governments, are the core of our Group. Their local market presence is our great strength. However, wherever close customer relationships are not the primary concern, we can use enormous economies of scale and improve the depth of our service. In the medium term, Savings Banks want and need a common central institution. We know that consolidating takes great effort – as the successful de-risking of the Landesbanken has demonstrated in the past ten years. However, this step is necessary to achieve stable growth and continue to operate successfully in the relevant business areas.

HYBRID ROAD TO THE FUTURE

Optimum combination of analogue and digital worlds



To retain their own customers and reach new target groups, Savings Banks will need to continue to be what they are, but they will also need to make drastic changes. In view of the competition from FinTechs and global players such as Google as well as new regulation like PSD 2[1], the road to the future will require the ability to integrate innovative services into their portfolio. At the same time, Savings Banks will also need to continue fostering personal customer relationships – their traditional strength. Succeeding in this balancing act with a hybrid business model will be the biggest challenge for the Group's 384 institutions.

Source: SparkassenZeitung

[1] Payment Services Directive 2

Traditionally, Savings Banks are places where customers go to get advice and deal with their money matters. But for some time now, this picture has only been a partial reflection of reality. Today, a great deal of banking business is carried out digitally. This may go unnoticed by customers when they buy something via an app without being aware of the underlying banking processes. In this day and age, banks are not a person or a facility, but more often than not, a website or a background process. On the other hand, there are still many cases where customers expect personal advice at a Savings Bank. For larger, non-routine transactions, such as housing loans, customers still expect a meeting in person with a customer relationship manager. In this regard, Savings Banks continue to perform their traditional role – with one important difference: Today, customers expect Savings Banks to meet them on an equal footing because, thanks to the Internet, customers have virtually the same level of information as their banks. This means that the interaction has changed and Savings Banks need to perform their role as service providers and partners much more strongly than in the past.

Already making good progress

If Savings Banks successfully implement the hybrid model combining the analogue with the digital world, they will have a great opportunity to establish themselves in the market as digital partners. Savings Banks are already making good progress, specifically with regard to the implementation of digital services. In this context, Professor Dirk Neuhaus – who is professor for banking information systems at the University of the Savings Banks Finance Group – sees two important areas of action: “Firstly, the range of digital services available within the Savings Banks’ own ecosystem will need to be further expanded so that Savings Banks can offer customers added value from the Savings Banks world. And secondly, we still see considerable potential in digital services for corporate banking business. With a portal of their own, Savings Banks could achieve market leadership and virtually set the standards.” According to Prof. Neuhaus, not only people but also machines, operating equipment and vehicles should be seen and served as customers. Many of them already have open interfaces to retrieve runtime, production or transaction data. This real-time information will need to be directly combined with the Savings Banks’ financial products.

»

In retail banking business, acceptance of digital services is currently growing as they are easy to process, available on mobile devices and affordable. The criteria which need to be met in corporate banking business are, above all, quality, coverage of operational functions, security, personalised support and availability at all times.

«

Professor Dr Dirk Neuhaus
University of the Savings Banks Finance Group

»

I am firmly convinced that Savings Banks will be successful in the long term if they can transfer what they have already built up to the digital world – i. e. security, customer relationships and the analogue platform.

«

Dr Christian Kastner
Managing Director of Star Finanz

Advantage: Regional presence

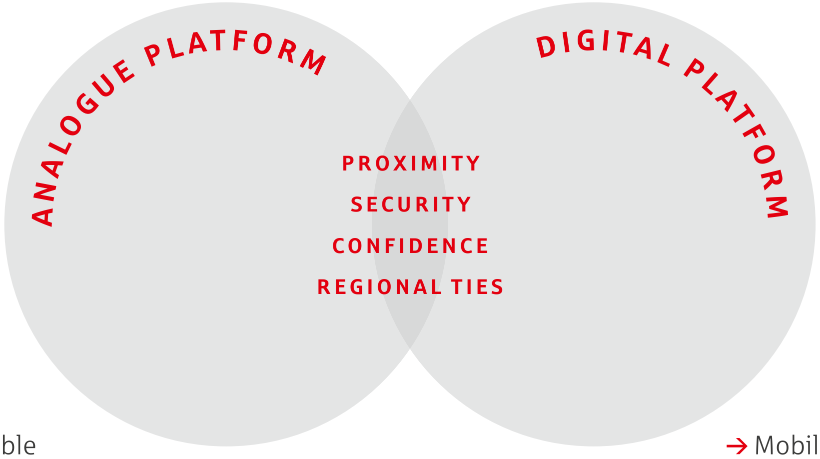
In addition to digital potential, Savings Banks have another major advantage: their regional presence. For Prof. Neuhaus, this is a key competitve advantage: "Savings Banks know their local customers well – both private and business clients – and have a strong, direct relationship with them." It is precisely this customer relationship that needs to be transferred to the digital world, along with the sense of security that Savings Banks have fostered and the analogue platform in the form of the local branch. Dr Christian Kastner, Managing Director of the Finanz Informatik subsidiary Star Finanz, is convinced: "In the future, our analogue platform will continue to be the great asset that it is today. After all, we will not give up our nationwide presence; instead, we will offer our customers an analogue/digital mix." On the road to the digital future, Savings Banks will rely heavily on the security that has been associated with their business for decades. This means that the future ecosystem will create added value for customers, but always under the umbrella of security. The big, secure Savings Bank building of former times will be complemented by an equally large and secure digital platform. Analysing the data streams that are generated on this platform, also due to the opportunities provided by PSD 2 [1], will enable Savings Banks to offer new, relevant services to customers. According to Marco Schöning, head of sales at Star Finanz, it is essential to consider the topic of security in all areas of data analytics from the onset: "I am convinced that the development of data-based services can also work hand-in-hand with data protection. Savings Banks just have to find the right way to implement their projects in this field."

Three key future challenges

According to Prof. Neuhaus, getting to know customers better by using data analytics and transferring available information into new needs-based solutions will be one of the key challenges for the Savings Banks' hybrid business model in the years to come. A second challenge will be the integration of the institutions into the customers' value-adding structures and innovation processes. This applies in particular when upgrading corporate banking business with digital services for networking with machinery and equipment. And the third challenge will be to steadily broaden the range of standardised financial products and services in order to make life as easy as possible for customers – whether in the analogue or the digital Savings Banks world.

[1] Payment Services Directive 2

The Savings Banks' hybrid business model



- → Sound and stable customer relationships
- → Local advice
- → In-person meetings

- → Mobile and online banking
- → Financial platform
  - → Own ecosystem
  - → Multi-bank capability
  - → PFM (Personal Financial Management)

» Savings Banks are still in the early stages of exploiting the potential provided by data analytics. The objective is to develop interdisciplinary services for customers and thereby to provide the desired added value. «

Marco Schöning
Head of Sales of Star Finanz

MULTI-PURPOSE PLATFORM

The ecosystem of the Savings Banks Finance Group

The traditional current account is at the centre of the Savings Banks' future ecosystem. It will provide a completely new way of communicating with customers in order to jointly shape the increasingly digitalised everyday life. In their own ecosystem, Savings Banks score points due to their expertise in banking business matters, their enduring customer relationships and the customers' reassurance that their data will be handled carefully. The ecosystem is based on a digital platform with the necessary APIs [1] to interlink services and permit an exchange of data. A platform forms the basis for standardised co-operation with others. Various products and services – both from the bank and from third parties – are aggregated and offered in a modular form via the platform in order to provide customers with a comprehensive range of services.

[1] Application Programming Interface

With their existing customer relationships, their customer data and their special customer confidence, Savings Banks are predestined to provide a platform of their own. The current account is the anchor point of the digital ecosystem, so its benefit for customers is considerably enhanced. Here, Savings Banks convey a unique sense of security because, on the one hand, they can build on competitive advantages such as their customers' confidence in data security, the Savings Banks' risk assessment expertise and their handling of regulatory requirements. On the other hand, Savings Banks also have the technical prerequisites, due to their multi-banking capability already established in the online branch and their improved data processing capability. The digital media channels will be upgraded to a platform.

Precisely aligned with user behaviour

This proven expertise in security and technology has led to features such as Personal Financial Management, which includes comparisons of income and expenses, a categorisation of account transactions and an intelligent search for transactions. In the current fiscal year, there are plans to add a liquidity preview, which will be based on a self-learning algorithm. How much money is left in my various accounts and will this last until the end of the month? Savings Banks answer this question for customers. With Personal Financial Management, Savings Banks optimally respond to the typical user behaviour of website quick checks. All in all, it enables customers to deal with their finances more actively and more independently, whether they are at home or travelling, whether they use an app or – in future – a voice command.

Reflecting real life

To ensure that the customers' real lives will be reflected on the platform, the multi-banking capability will also need further enhancement. Many customers also hold accounts with other banks. In addition, they pay instalments to commercial sellers using their customer account and they are investors, insurance policy holders, tenants or landlords. The objective is to give customers a full overview of all sources of income and expenses. A customer's full personal financial status, with a list of the transactions, will therefore be a core element of the Savings Banks' platform – the central presentation of all payment information. The other development stages planned for the future will also be based on this approach.

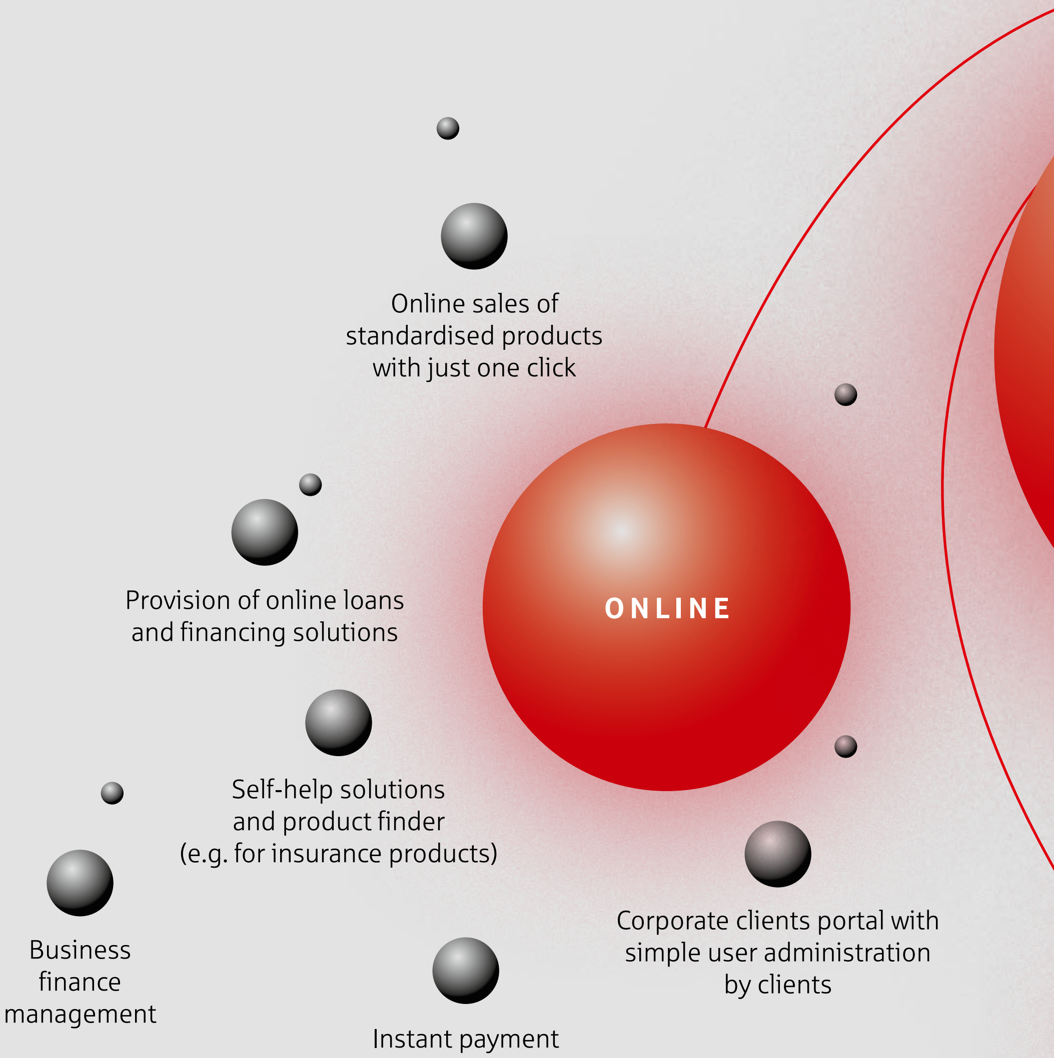
In addition, it will be possible to integrate services from third-party providers, such as booking portals and car-sharing companies, as well as service providers like insurance companies that are associated with the Savings Banks Finance Group. The range of services available on the platform can even be regionalised for customers, e.g. by linking specific bookings with value-added offers – such as vouchers provided by local retailers.

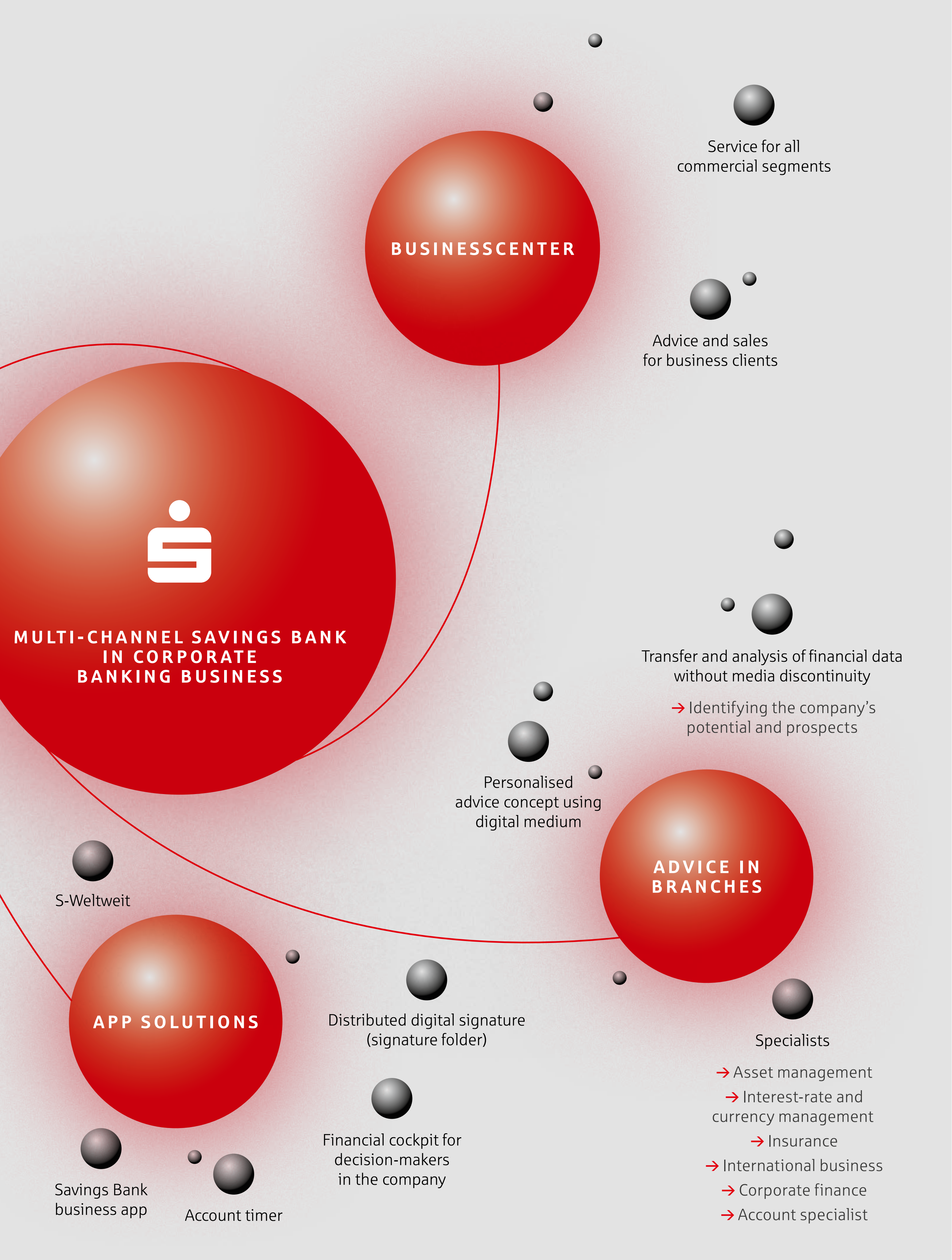
However, the financial platform is not just another colourful online construction kit, but is the result of upgrading the digital media channels into a personalised central point of contact for all users. This way, users are informed by their Savings Bank about all their financial matters around the clock – in keeping with the motto: “When it comes to money – Savings Banks”.

Users will be enthusiastic about this information, which will make their everyday financial lives much easier.

Operating successfully in **corporate banking business**

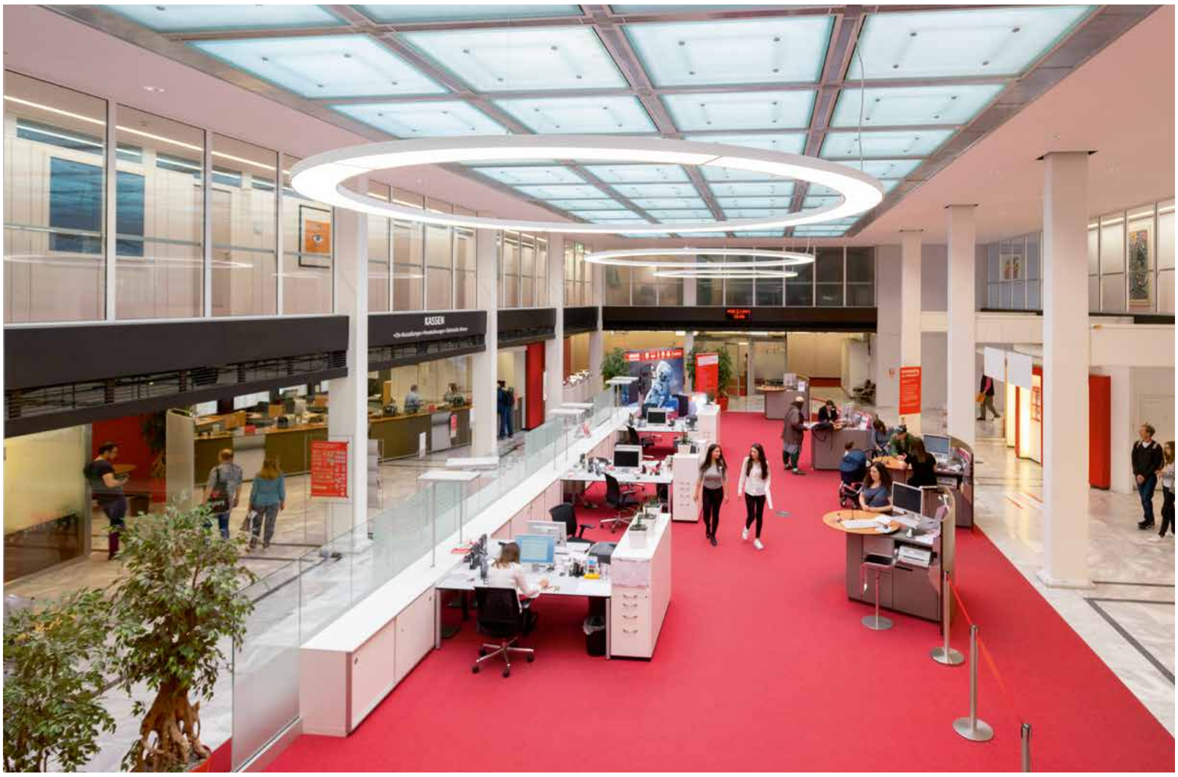
Savings Banks have continued to make progress in expanding their digital services for small and medium-sized enterprises. To increase the efficiency and the business potential of all the Savings Banks, the DSGV has developed a concept with four core elements for the multi-channel Savings Bank of the future.




BUSINESSCENTER
Service for all commercial segments
Advice and sales for business clients
MULTI-CHANNEL SAVINGS BANK IN CORPORATE BANKING BUSINESS
Transfer and analysis of financial data without media discontinuity
→ Identifying the company's potential and prospects
Personalised advice concept using digital medium
ADVICE IN BRANCHES
S-Weltweit
APP SOLUTIONS
Distributed digital signature (signature folder)
Specialists
→ Asset management
→ Interest-rate and currency management
→ Insurance
→ International business
→ Corporate finance
→ Account specialist
Financial cockpit for decision-makers in the company
Savings Bank business app
Account timer

SALES STRATEGY FOR BUSINESS CLIENTS

BusinessCenter “Swabian style”: growth through efficiency



The Kreissparkasse Ludwigsburg scores in its headquarters not only with an open architecture, but also with a specially tailored BusinessCenter for business clients.

Business centres in local Savings Banks are an important part of the new digital services for business clients. With its BusinessCenter, Kreissparkasse Ludwigsburg in Baden-Württemberg is a pioneer of this efficient way to provide customer service. With the establishment of its BusinessCenter, Kreissparkasse Ludwigsburg has consistently developed the objectives of the “future sales strategy for business clients”.

It is a lovely spring morning and sunbeams stray into the former open-plan office, which now accommodates the BusinessCenter team at the head office of the Kreissparkasse Ludwigsburg. However, the ten employees currently facing each other in groups of two, have no time to admire mother nature. According to the clock, it is 9:35 a.m. This means that rush-hour is about to begin in the centre, which was established in January 2018 and has since provided all-round support, primarily for more than 4,000 smaller business and commercial clients with an annual turnover of less than half a million euros. These clients want their daily banking transactions to be handled quickly and their bank to be within easy reach, ideally without time limitations. For this purpose, a total of 15 specialised service agents and customer relationship managers are available from Monday to Friday from 8:00 a.m. to 6:00 p.m. For investment or insurance queries, they are supported by specialists in these fields. In addition, the centre can be reached by email around the clock.

» We treat all customers equally as a matter of principle and we try to resolve customer queries directly and as quickly as possible. «

Jennifer Lorenz
BusinessCenter service agent

Simple, fast, professional …

"Yes, these payments have already been credited to your account. Thank you very much for your call. Good-bye." In keeping with the BusinessCenter's motto "simple, fast, professional", service agent Jennifer Lorenz has just answered another query from a commercial client. This is precisely the purpose of this facility, which aims to offer immediate and appropriate solutions over the phone for virtually all current account queries for as many customers as possible, with more than 4,000 incoming calls per month. On the screen of the window displaying the names of all the employees in the telephone system, the name of this service agent is highlighted in blue. This means that she is already taking her next call. If the call involves a loan inquiry, her colleague Timo Reiner is available as the BusinessCenter expert to give the customer immediate and comprehensive advice.

Brief profile of Kreissparkasse Ludwigsburg

With total assets of approx. EUR 10.55 billion, Kreissparkasse Ludwigsburg is not only the market leader in its service area, but also one of the biggest district Savings Banks in Germany. Close customer relationships are the institution's most important goal. This is guaranteed, inter alia, by a network of approx. 100 branches across the country. With more than 1,500 employees, including 98 apprentices, Kreissparkasse Ludwigsburg is also an important employer and one of the region's largest training organisations.

» During peak hours at the centre, it goes without saying that we support the service agents and that, as customer relationship managers, we also take incoming calls. «

Timo Reiner
BusinessCenter customer relationship manager

For Kreissparkasse Ludwigsburg, the centre is an important link between the digital and the personal world as part of its omni-channel strategy. In keeping with Swabian cleverness, the

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Across all customer segments, our objective is to find complete solutions to resolve at least 50 percent of the incoming calls immediately.

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Ralf Leonberger
Head of BusinessCenter

responsible managers have consistently developed the centre's orientation, above and beyond the original sales strategies. "As well as progressively expanding the centre to include all commercial clients together with doctors and other health care professionals, we added commercial clients in October 2018 and, most recently, corporate clients in February 2019, so the centre is now the number-one service point of contact for all of the district Savings Banks' business clients", explained Stephan Kessler. For organisational purposes, the BusinessCenter reports to the head of the Commercial Client Centre. "Questions received from corporate clients about payment terms, account transactions and bank cards are also fully answered by the BusinessCenter. This relieves the relationship managers of standard queries for these customer segments, giving them more time to provide personal support to their clients locally.

Earnings have increased

The centralised handling of all queries has shown that a large number of queries across all customer segments are about very simple transactions such as credit transfers, which can be resolved by telephone at the centre and also online. "This is one of our primary objectives, i.e. to filter out service issues from incoming calls, to draw attention to online access options and to lighten the workload for customer relationship managers in our branches", sums up Ralf Leonberger, head of the BusinessCenter. In addition, the BusinessCenter service agents are themselves active in "outbound sales" to their clients, with a view to effectively increasing revenues. "This includes selling savings and loan agreements or insurance policies", says Leonberger. The approach works well, as demonstrated by the fact that the district Savings Banks' earnings generated in the first year after implementation increased by 5 percent, although the number of staff had decreased slightly.

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On the road to the bank of the future, we believe that the BusinessCenter is the spearhead of digitalisation in corporate banking business.

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Stephan Kessler
Head of Commercial Clients Centre

For the successful operation of the BusinessCenter, Kreissparkasse Ludwigsburg was able to draw on the know-how it had acquired with its former business client service centre, which had already started to give telephone advice to customers in 2011. Based on this experience, Kreissparkasse Ludwigsburg also retained the principle of using specialists to give advice to customers. This means that the employees at the centre forward calls to specialists whenever queries are related to matters of insurance or financial investments. "According to the future sales strategy for business clients, all queries should be handled by the centre, but we have had very good experience with the principle of using specialists to provide customer advice", stresses Mr Leonberger. The BusinessCenter has also benefited from the skills of its employees, as many of them are also experienced professionals. It has been very exciting for all involved to achieve the current status. "We have been running at full capacity for five months now. Going forward, it is a matter of fine-tuning the processes for standardisation and digitalisation", says Mr Leonberger, looking to the future. The business clients of Kreissparkasse Ludwigsburg can look forward to more innovative services.

"We want to continue consolidating our position as a strategic partner for small and medium-sized enterprises."

In his interview, Dr Heinz-Werner Schulte, CEO of Kreissparkasse Ludwigsburg provides an initial assessment of the BusinessCenter and describes the future positioning of his institution in corporate banking business.

Dr Schulte, the BusinessCenter has been in operation for over one-and-a-half years now. What are your interim conclusions?
→ Until the beginning of this year, we were very curious to see how our customers would accept this new service. After all, our clients are demanding and include very different enterprises and individuals. I will not deny that some of our clients dislike having to take a detour to get into touch with their customer relationship manager. However, my board colleagues and I have not received any complaints from customers about the interaction between the very dedicated team at the BusinessCenter and the customer relationship managers. On the contrary, time and again, customers have praised us for the great service. My conclusion is that we have taken the right step. Good preparation was important – and it was also important that we took our time and did not route all customer segments via the BusinessCentre from day one. And it was important that, from the outset, the BusinessCenter was organised as a centre of expertise, staffed with employees with sound commercial know-how.

What other instruments will Kreissparkasse Ludwigsburg use in its future sales strategy for business clients?
→ The BusinessCenter stands for efficiency – all the indicators of the Corporate Client Centre point towards growth. We have made investments there – in people, in sophisticated product solutions, in a team for new clients and in a new approach to customers. During meetings with clients, for instance, we put an even stronger focus on future developments. In co-operation with customers, we simulate scenarios about their future business strategies. As a sparring partner, we discuss the opportunities and risks associated with business models and how the strategies can be implemented in financial terms. We are successful with increasing numbers of customers. Our employees have been trained for this; the technology is available and the scope of the discussions with clients will gradually be broadened along these lines. This way, we can continue to consolidate our position as a strategic partner for small and medium-sized enterprises.

In your view, what will be the greatest challenge to continue your growth?
→ Leaving aside the regulatory madness, economic risks and the low-interest-rate world, what concerns me most is the question of how we can more effectively bring our extensive product expertise to customers, for instance in our Wealth Management and in our subsidiary for international business. On the one hand, customers are positively surprised time and again about all the things we are able to do – because initially they do not expect a regional institution to have such a comprehensive range of services. This means we will have to work harder on how we are perceived in public and what expertise we are expected to have. On the other hand, we are working very hard on interlinking our specialists with customer relationship managers, so that our customers perceive us as a team. Both aspects are key prerequisites in coping with the challenge of continuing to increase our commission income.

What role will the BusinessCenter play in this context?
→ The BusinessCenter not only helps customers to get quick and easy access to professional services, it also enables the relationship managers of bigger clients to spend more time providing personal advice to their clients, to be even better prepared for appointments and to coordinate the customer team even more effectively. The BusinessCenter therefore paves the way for a quantum leap in providing support to larger clients.

4. MANAGEMENT REPORT

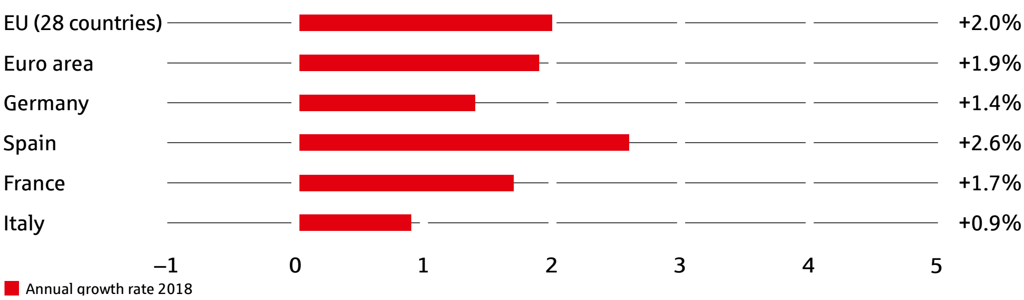
Economic report

Macroeconomic situation

Global economic growth lost considerable momentum in 2018. One of the reasons for the slowdown in growth was that the customs conflicts originating from the United States had left their first marks on international trade. Overall, growth had remained robust in the emerging economies in 2018, except for crises in specific countries like Argentina and Turkey. Growth was stronger in the United States itself, stimulated by the tax relief brought about by the U.S. corporate tax reform. However, questions remain with regard to the sustainability of the economic policy pursued by the United States. In most other industrialised nations, growth slowed considerably in 2018.

The European Union and the euro area also experienced an economic slowdown in 2018. While annual growth rates were still quite robust at 2.0 percent and 1.9 percent, respectively, they were more than half a percentage point below the levels of the previous year's boom. The negative trend increased in the course of the year and the second half of the year was particularly disappointing. However, there were pronounced differences in the pace of growth in the various countries. Among the larger EU countries, Spain continued to be the top performer in terms of growth, while France and Germany were in mid-field positions. The development in Italy was most critical, where the economy slipped into a mild recession in 2018.

GDP growth in selected countries, as a percentage[1]



[1] Source: Actual data from official statistics: Eurostat, Destatis and German Federal Employment Agency. Data available on 4 July 2019

In Germany, economic growth also lost considerable momentum in the course of 2018. While the previous year's rate of growth approximately continued in the first half of the year, growth dropped abruptly in the third quarter. GDP even declined slightly in the course of the quarter (–0.2 percent). Initially, this seemed to be due to specific effects such as difficulties in terms of the registration of vehicles after the introduction of new emission testing procedures in the automotive industry. However, there was no evidence of recovery in the fourth quarter; instead, Germany's GDP initially stagnated. Production output stabilised in the second half of the year, also due to high inventory levels, which means that production was to a certain extent stockpiled. On balance, inventories accounted for 0.6 percentage points, i.e. nearly half of overall economic growth (1.4 percent) in 2018.

However, the situation in Germany is very different from that in Italy, for instance; the two countries have quite different level effects. In many sectors, Germany's economy is still characterised by capacity overutilisation. In the labour market, there is a continuing rise in employment and even increasing bottlenecks. In 2018, the size of the working population reached a new record high, with 44.8 million gainfully employed persons.

Nevertheless, consumer prices continued to grow moderately (1.8 percent). Purchasing power increased due to more rapidly growing wages. Private consumption grew in 2018, but at a slower pace than at the beginning of the year. Overall, consumption fell short of its full potential. The household saving ratio increased to 10.4 percent (2017: 9.9 percent).

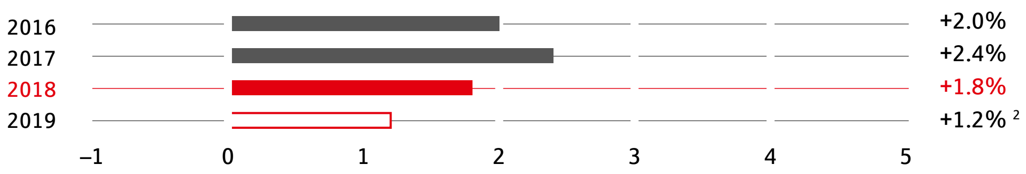
In addition, GDP growth was primarily depressed by foreign trade in 2018. While exports increased, they did so more slowly than imports. This dichotomy is a reflection of the slowdown in global economic growth on the one hand and relatively strong domestic demand in Germany on the other hand.

Investment activity was the strongest component of GDP in 2018. The construction boom in Germany in all categories – from residential construction to civil engineering – continued in 2018. However, strong demand, together with stretched capacity utilisation, is driving up prices. Following the slow-paced development in previous years, equipment investments also picked up significantly in 2018. Investments continued to grow until the end of the year.

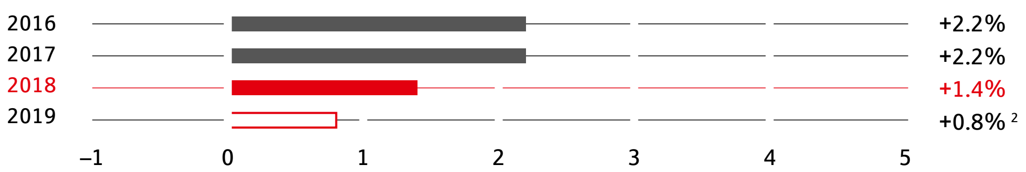
Economic development – Review and outlook 2016–2019

Growth of real gross domestic product (GDP) (world)[1]

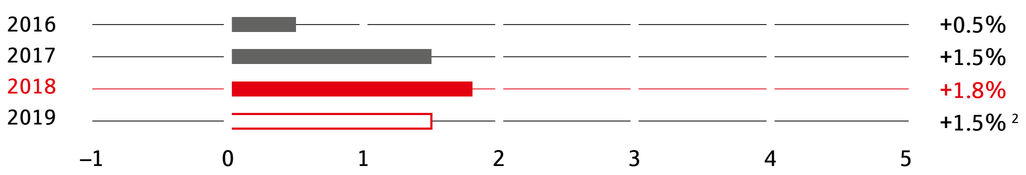
Growth of real gross domestic product (GDP) (euro area)



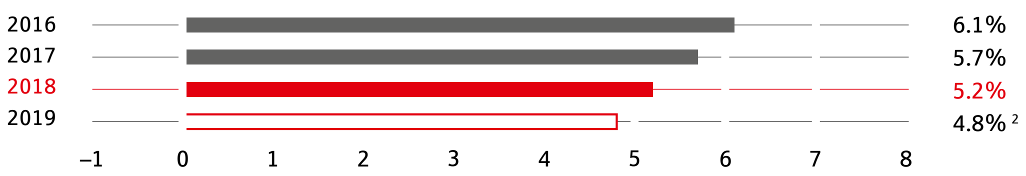
Growth of real gross domestic product (GDP) (Germany)



Change in cost-of-living price index (Germany)



Unemployment rate as % of total domestic working population (Germany)

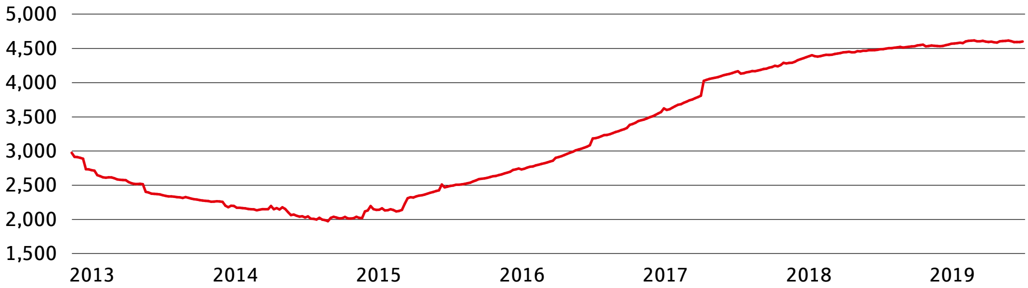


Actual data for 2016 to 2018 from official statistics; Eurostat, Destatis and Federal Employment Agency.
[1] Global economic growth as defined by the International Monetary Fund (IMF), forecast for 2019 global output from the IMF's World Economic Outlook of 10 April 2019.
[2] Forecasts for euro area and Germany in 2019 taken from the "Spring Report", the joint diagnosis of Germany's leading economic research institutes of 4 April 2019.

Developments in money and capital markets

The European Central Bank continued to pursue a highly expansionary monetary policy in 2018. The key interest rates remained at a low level. The negative interest rate of the deposit facility, which dominates the money market terms, was at –0.4 percent throughout the year. The ECB continued to purchase bonds within the framework of its asset purchase programme throughout the year, initially purchasing a volume of EUR 30 billion per month, and as at October, a reduced net volume of EUR 15 billion per month. However, the fairly positive development of the economy and prices in the euro area prompted the ECB to suspend the purchase programme at the end of the year. The net stock of acquired assets has not grown since the beginning of 2019. However, the reinvestment of principal payments from maturing securities will keep the stock constant for the time being – and, hence, the largest portion of the euro system's total assets.

Consolidated total assets of the Eurosystem, EUR billion



Source: European Central Bank

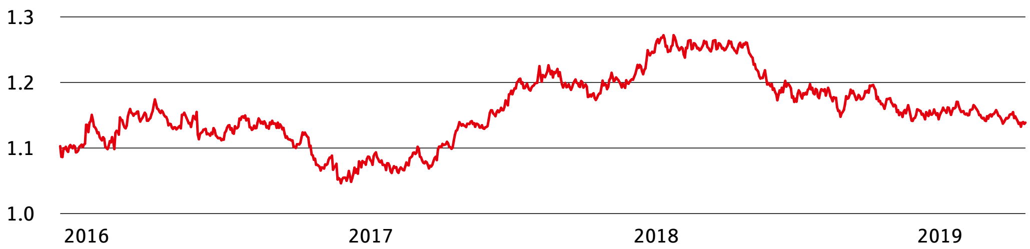
Against this background, the short-term money market rates as well as the yields of revolving German government bonds with maturities of up to five years remained negative throughout the year. The yields on ten-year government bonds increased until February 2018, to a peak level of 0.81 percent. However, when it became apparent that the economic and price outlook would deteriorate and that the change in monetary policy would be postponed to a later date, long-term yields also returned to a lower level. In addition, there was another "flight to safety". Because of the critical political and economic developments in Italy, the spread between Italian and German government bonds widened once again. In this context, the yields on ten-year German government bonds increased to approx. 0.25 percent by the end of 2018. We now know that this trend continued at the beginning of 2019 and by March 2019 even resulted in negative interest rates for ten-year bonds.

Yield of German government bonds with a remaining maturity of ten years

Source: Deutsche Bundesbank

Against a backdrop of the volatile bond markets, the currency markets remained surprisingly stable in 2018, especially in view of the simultaneous transatlantic divergence in interest rates. The Federal Reserve had approved a total of four rate hikes of 25 basis points each in 2018, which had brought its key interest rate close to the 2.5 percent mark. Nevertheless, the bilateral exchange rate between the US dollar and the euro moved within a narrow band of between 1.25 and 1.13, with a tendency towards a slight depreciation of the euro. At the beginning of 2018, over 1.20 US dollars had to be paid for one euro; at the end of the year, one euro cost approx. 1.14 US dollars.

Euro reference rate USD / EUR



Source: Deutsche Bundesbank

Equity markets were much more volatile. In the course of 2018, major losses occurred on most stock exchanges and in most stock market indexes, including the DAX. The DAX fell from 12,918 points at the end of 2017 to 10,559 points at the end of 2018, i.e. by more than 18 percent. This was due to concerns about the global economy, which grew in the course of the year. However, the choice of precisely one calendar year as a timeframe overstates the actual share price losses compared with a broader time frame. After all, share prices had reached highs at the end 2017. And some share prices have recovered again since early 2019.

Major markets and positioning

General overview

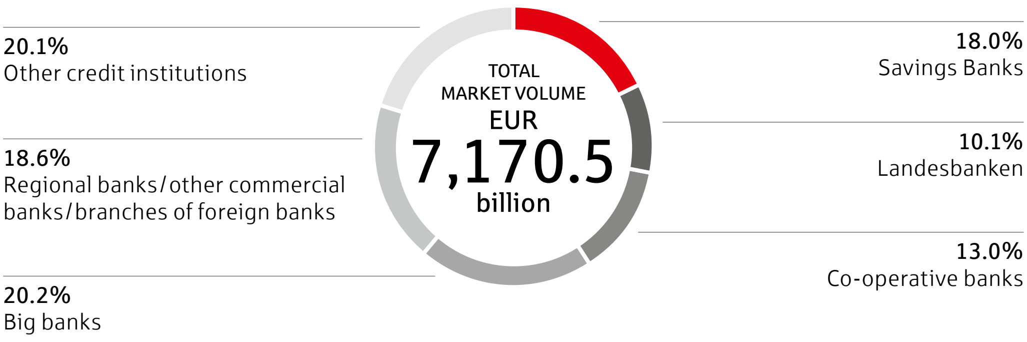
As at the end of 2018, the institutions affiliated with the Savings Banks Finance Group[1] generated a combined business volume[2] of EUR 2,010.4 billion, which is equivalent to a share of 28.1 percent of the total market volume of EUR 7,170.5 billion.

This means that the Savings Banks Finance Group's share of the on-balance-sheet banking business of the German banking sector increased slightly (by 0.3 percentage points) year-on-year. In this context, the business volume of Savings Banks continued to increase, growing by 3.4 percent, and – as in the previous year – the business volume of Landesbanken also increased slightly by 0.9 percent. In 2018, Savings Banks accounted for 64 percent, while Landesbanken accounted for 36 percent of the business volume of the Savings Banks Finance Group. Overall, Landesbanken reduced their business volume by more than half between the end of 2008 and 2018.

This reduction clearly reflects the resizing process which, in line with their strategy, Landesbanken have implemented by drastically cutting back their credit substitution business and by discontinuing business segments that are no longer part of their core business. Fiscal year 2017 marked a turning point for Landesbanken – their business volume increased for the first time since 2007. This development also continued in fiscal year 2018. Most Landesbanken will now focus their efforts on refining their business model and on expanding their business with large as well as small and medium-sized enterprises.

Commercial banks hold the largest share of the business volume in the banking sector and account for 38.8 percent (of which big banks account for 20.2 percent and regional banks & other commercial banks/branches of foreign banks account for 18.6 percent). Co-operative banks account for 13.0 percent of the total market volume and "Other credit institutions" account for 20.1 percent (of which special-purpose banks account for 16.9 percent and mortgage banks for 3.2 percent).

Market shares by business volume*
As at 31 December 2018



* Excluding derivative instruments in the trading portfolio.
Source for all market share charts: Deutsche Bundesbank and own calculation.

In fiscal year 2018, the retail business of the German banking sector was once again characterised in all categories by portfolio growth in loans to enterprises, loans to households for home purchases, consumer loans and deposits from private individuals.

[1] The term Savings Banks Finance Group as used in this Chapter refers to Savings Banks and Landesbanken (excluding foreign branches and excluding domestic and foreign group subsidiaries of Landesbanken). Landesbausparkassen are not included here. In the data of Deutsche Bundesbank, Hamburg Commercial Bank (formerly HSH Nordbank) and Landesbank Berlin/Berliner Sparkassen have no longer been part of Landesbanken since December 2018. The latter are now classified as Savings Banks.
[2] Excluding derivatives of the trading portfolio and excluding own debentures repurchased.

In customer lending business, the market shares of the Savings Banks Finance Group increased marginally in 2018 in loans to enterprises and decreased slightly in loans to households for home purchases. Losses of market shares in consumer credit business were again significant for the Savings Banks Finance Group. In 2018, the Savings Banks Finance Group also suffered slight losses of market shares in retail deposit business. However, when measured in terms of their share of this business segment, the Savings Banks Finance Group is still far ahead of other banking groups. Its share of deposits from domestic enterprises increased slightly in 2018.

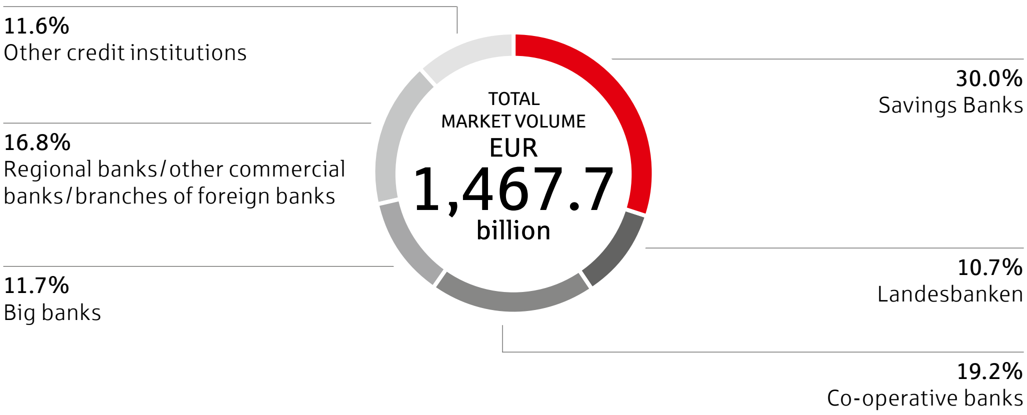
Loans to enterprises

Following an increase by approx. EUR 50.0 billion (i.e. by 3.7 percent) in the previous year, the total volume of the market for loans to enterprises grew at a faster pace in fiscal year 2018, increasing by EUR 74.6 billion (5.4 percent) to EUR 1,467.7 billion.

With an increase of EUR 31.7 billion (5.5 percent), the portfolio growth of the Savings Banks Finance Group was slightly higher than the average for banks, which meant that the Savings Banks Finance Group achieved marginal market share gains. Above-average growth in loans to enterprises was achieved mainly by Landesbanken, whose portfolio increased by 5.8 percent. The growth of the loan portfolio in 2018 is a first indication of the successfully implemented reorientation of the majority of the Landesbanken and the expansion of their business with enterprises. At the end of 2018, the volume of loans granted by the Savings Banks Finance Group to enterprises amounted to a total of EUR 598.1 billion. This is equivalent to a market share of 40.7 percent, of which Savings Banks account for 30.0 percent, while Landesbanken account for 10.7 percent.

This means that the Savings Banks Finance Group continues to be the most important financial partner in the German banking sector, in particular for small and medium-sized enterprises.

Market shares loans to enterprises*
As at 31 December 2018

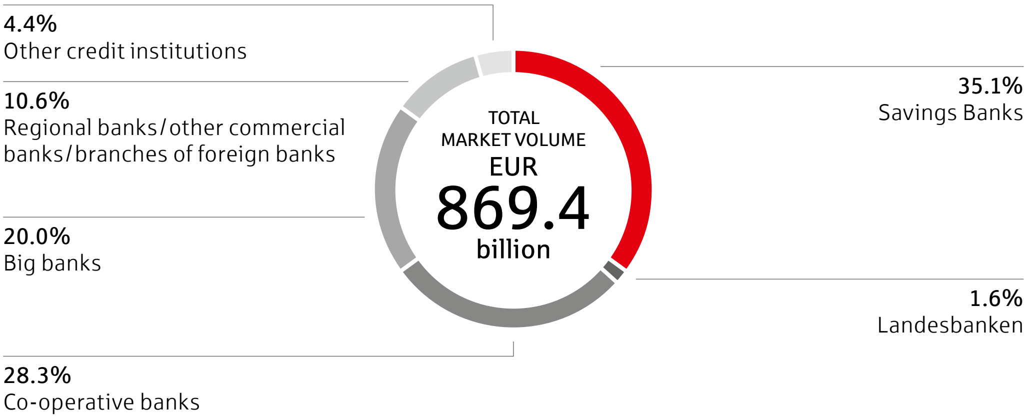


* Loans to enterprises and self-employed persons (including commercial housing loans).

Retail loans

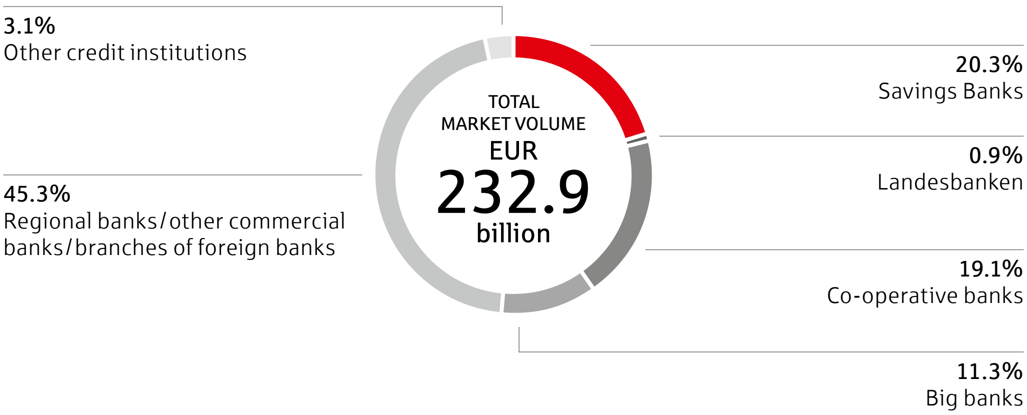
Since 2012, the demand for residential housing loans has picked up significantly, mainly driven by interest rates. As a result, the total market volume of residential housing loans continued to increase significantly in the year under review (by EUR 35.7 billion to EUR 869.4 billion, i.e. by 4.3 percent), which was a somewhat higher rate than in the previous year. The portfolio growth achieved by the Savings Banks Finance Group in 2018 amounted to 3.3 percent, which was slightly below average. The Group's portfolio volume increased by EUR 10.2 billion to EUR 319.0 billion, with Savings Banks accounting for a share of 35.1 percent of the total market. Together, Savings Banks and Landesbanken account for a share of 36.7 percent. They are followed by co-operative banks as the second largest banking group, with a share of 28.3 percent.

Market shares residential housing loans
As at 31 December 2018



As in the previous year, the consumer credit business was characterised in 2018 by significant portfolio growth across all banking groups. Year-on-year, the market volume increased by EUR 7.8 billion to EUR 232.9 billion, or by 3.3 percent.

Market shares consumer loans
As at 31 December 2018



The portfolio held by the institutions affiliated with the Savings Banks Finance Group declined by EUR 0.8 billion, i.e. by –1.6 percent (2017: –3.6 percent), leading to a decrease in market share. With a portfolio volume of EUR 49.5 billion and a market share of 21.2 percent, the Savings Banks Finance Group ranks second after the category of regional banks & other commercial banks / branches of foreign banks (share: 45.3 percent). In 2018, the latter category of banks, which includes nearly all providers of specialised finance, continued to expand its share of the consumer credit segment.

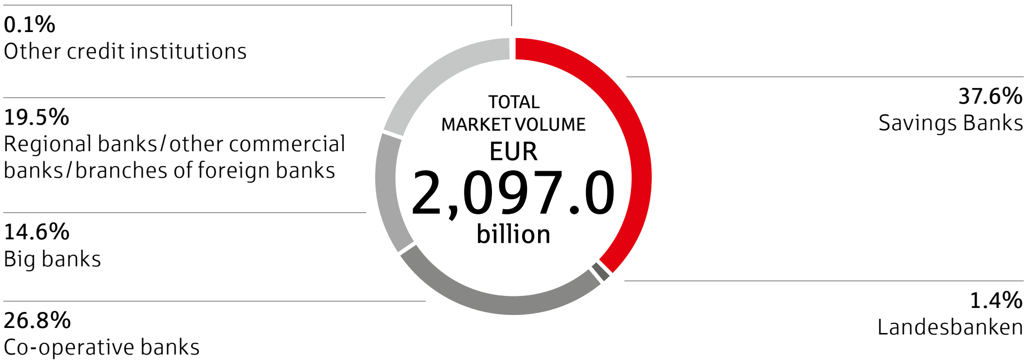
Retail deposits

In the past year, the total market volume of deposits from private individuals[1] continued to increase significantly, rising to EUR 2,097.0 billion, i.e. by 4.9 percent. At EUR 98.8 billion, absolute growth was significantly higher than in the previous year (EUR 80.1 billion).

When broken down by investment category, only the portfolio of sight deposits from private individuals grew for the fourth time in a row in the year under review due to interest rates: the increase recorded in sight deposits was once again significant (8.4 percent after 8.1 percent in 2017). On the other hand, the portfolios of time deposits, savings deposits and savings bonds of private individuals decreased, as in the previous years. The developments in the Savings Banks Finance Group were thus in line with the general market trends.

More so than other segments, the market segment of time deposits from private individuals has been largely marginalised in Germany due to the development of interest rates in recent years.

Market shares retail deposits[1]
As at 31 December 2018



Overall, the current development clearly demonstrates the continuing preference of private individuals for liquidity. This is mainly due to the persistently low level of interest rates, and it also reflects the fact that many private investors continue to have a wait-and-see attitude with regard to their investment decisions.

In the year under review, the Savings Banks' deposits from private individuals increased by 4.3 percent (2017: +3.5 percent). However, Savings Banks once again participated only to a limited extent in the expansion of the total market volume in 2018 and lost a small amount of market share. The Savings Banks' market share amounted to 37.6 percent at the end of the year.

However, in the retail deposits segment, Savings Banks continued to be significantly ahead of co-operative banks, which also have a strong position in the retail business. As at the end of the year, the co-operative banks' portfolio of retail deposits amounted to a total of EUR 561.9 billion, which was 26.8 percent of all the deposits from private individuals. The group of regional banks & other commercial banks/branches of foreign banks ranked third, with a portfolio of EUR 408.3 billion and a share of 19.5 percent. Unlike previous years, this category of credit institutions – which includes all direct banks (including car manufacturers' banks) – failed to improve its market position.

Together with Landesbanken, for which the retail deposit business is of only minor importance, Savings Banks accounted for a market share of 39.0 percent at the end of 2018.

[1] Excluding term deposits with a maturity of more than two years.

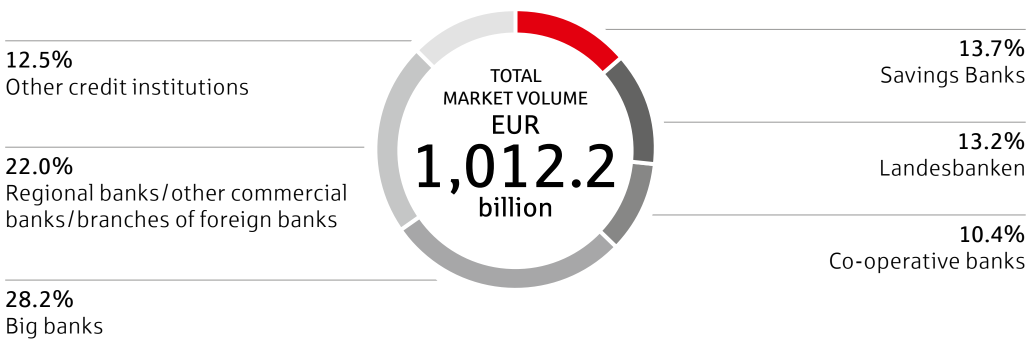
Deposits from domestic enterprises

After retail deposits, deposits from domestic enterprises constitute the second largest segment of the German banking sector's overall customer deposit business. At the end of 2018, deposits from domestic enterprises amounted to EUR 1,012.2 billion.

In fiscal year 2018, the overall portfolio of deposits from domestic enterprises decreased slightly by EUR 2.9 billion (0.3 percent). The development of this segment varied widely in the various categories of banks. Only Savings Banks, co-operative banks and branches of foreign banks were successful in increasing their portfolios of deposits. The Savings Banks' portfolio of deposits from enterprises grew by 3.4 percent in the year under review; their market share now amounts to 13.7 percent.

In the Landesbanken group, the portfolio of deposits held by domestic enterprises in 2018 decreased by EUR 4.5 billion to EUR 133.3 billion, i.e. by 2.9 percent (2017: EUR +5.5 billion or +3.6 percent), at the end of the year under review. The past decline in the portfolio reflected the ongoing reduction of the funding requirements of Landesbanken as a result of the implementation of measures designed to reduce the overall assets of Landesbanken in line with their strategy. The portfolio and the market share of Landesbanken decreased in the course of the past few years; however, despite the 0.4-percent decline in market share in 2018, they still hold a strong market position in deposits from domestic enterprises, with a market share of 13.2 percent. Together with Savings Banks, Landesbanken reached a market share of 26.9 percent in this deposit segment as at the end of 2018.

Market shares deposits from domestic enterprises
As at 31 December 2018



Savings Banks are competent and reliable partners for the international business transactions of German enterprises

"Made in Germany" continues to be one of the most important signs of quality for business owners from the Federal Republic of Germany. In 2018, foreign trade increased again, so that goods worth a total of EUR 1,317 billion (+3 percent) were exported and goods worth EUR 1,089 billion (+5.7 percent) were imported. It should be noted that, with approx. 1,500 enterprises in the manufacturing sector and in the services sector, Germany is the global market leader, followed by the United States, which is number two with slightly more than 300 enterprises. Some of these enterprises are listed on the stock exchange and, hence, world-renowned. However, most of the enterprises are less well-known or not known at all to a wider public.

Savings Banks know these hidden champions as well as many other small and medium-sized enterprises very well because they have close ties with their communities and are firmly rooted in their home regions. As the "provider of finance for Germany's SMEs", the Savings Banks Finance Group supports German business clients from the time they start up their business to their expansion into new business segments. SMEs need a competent and reliable partner, especially if they plan to tap new sales markets abroad. International business transactions provide numerous opportunities for enterprises, but also involve risks, such as payment defaults or non-delivery, currency fluctuations, quality defects, as well as political instability. All of these risks have a direct impact on the financial stability of enterprises. "Seizing opportunities and minimising risks" is therefore an important rule to be followed. Customised solutions developed by Savings Banks and their partners can help enterprises to mitigate risks, or to avoid them from the outset.

Via their international network, made up of the "S-CountryDesk", Landesbanken and Deutsche Leasing, regionally rooted Savings Banks use their relationships with over 10,000 correspondent banks for transactions at approx. 100 locations worldwide. In this way, customers and Savings Banks can be supported directly on site and in German during important meetings. Additionally, enterprises can use the "EuropaService" of the German Savings Banks Association (DSGV) which – due to its co-operation with 600 institutions in more than 60 countries – helps establish business relations between German and foreign enterprises.

The range of services provided by the Savings Banks Finance Group goes far beyond straightforward international payment transactions. The services begin prior to the actual commercial transaction with a foreign partner. Savings Banks provide extensive advice, inter alia, about the specific requirements to be met by the enterprise and they recommend a reasonable structure for the planned international transaction. The subsequent hedging of this commercial transaction is part of the "tools of the trade". A service that is considered to be particularly attractive by foreign investors is the option for German exporters to provide finance in addition to their goods; in some regions, this is a basic prerequisite for business success. It goes without saying that both funding and support programmes sponsored by the German government are used in this context.

As the "provider of finance to Germany's SMEs", Savings Banks are local partners for internationally operating business clients because they provide a broadly-based global network and efficient solutions. Savings Banks are regionally rooted and globally networked.

Business performance and financial position

Performance of the institutions covered by the Institution Protection Scheme[1] – an aggregated view

The operational performance of the Savings Banks Finance Group in fiscal year 2018 was significantly poorer than in the previous year.

In the year under review, the Results of Operations of the Savings Banks Finance Group were characterised by a negative valuation result[2] and lower net interest income. This was the main reason for the decline in net income (before and after taxes).

↘ See pages 45, 52 and 57 for more information about the business performance of Savings Banks, Landesbanken and Landesbausparkassen.

In 2018, the Savings Banks Finance Group achieved an operating result before valuation of EUR 11.1 billion, compared with EUR 12.5 billion in the previous year. This decline was due to lower net interest income – despite higher net commission income – and a slight increase in administrative expenses in fiscal year 2018. Net trading income (net income from financial transactions), which is only relevant for Landesbanken within the Savings Banks Finance Group, decreased from EUR 1.1 billion to EUR 0.7 billion in the year under review. Net commission income of the Savings Banks Finance Group increased by 2.1 percent to EUR 8.9 billion. Net interest income of EUR 28.9 billion fell significantly short of the previous year's level (–3.1 percent) due to the interest-rate environment.

Administrative expenses increased slightly by 0.5 percent to EUR 27.5 billion due to higher personnel expenses.

In fiscal year 2018, the cost/income ratio[3] of the Savings Banks Finance Group as a whole increased slightly to 71.3 percent (2017: 68.7 percent), mainly due to the decline in net interest income.

The valuation result of the Savings Banks Finance Group included an increase in the negative valuation balance in 2018. Net valuation expenses increased from EUR –2.1 billion in the previous year to EUR –4.0 billion in 2018. The negative effect was due, in particular, to higher additions to provisions for contingent losses in the lending business of Landesbanken, compared with the previous year.

The extraordinary result[4] had a similar adverse impact on the profitability of the Savings Banks Finance Group in 2018, as in the previous fiscal year. The negative balance of EUR –4.1 billion was significantly below the previous year's level of EUR –4.7 billion.

[1] This chapter describes the aggregated performance of Savings Banks, Landesbanken and Landesbausparkassen (Landesbanken excluding foreign branches, excluding domestic and foreign group subsidiaries, and excluding Landesbausparkassen), as well as Hamburg Commercial Bank (formerly HSH Nordbank), which is still affiliated with the protection scheme.
[2] Valuation allowances and write-downs on receivables and securities held in the liquidity reserve (net of write-ups on receivables and securities held in the liquidity reserve) as well as changes in contingency reserves within the meaning of Section 340(f) German Commercial Code.
[3] Ratio of administrative expenses to the result from operations (sum total of net interest income and net commission income, net income from financial transactions, and other operating income).
[4] Balance of other and extraordinary income/expenses. Unlike the P&L statistics of Deutsche Bundesbank, additions to and withdrawals from the Fund for General Banking Risks are recognised under "extraordinary result" in accordance with Section 340(g) of the German Commercial Code.

Key financials of the Savings Banks Finance Group *

Selected balance sheet items

	As at year-end 2018 EUR billion	As at year-end 2017 EUR billion	Change as %
Loans and advances to banks (MFIs [1])	**268.6**	271.1	–0.9
Loans and advances to non-banks (non-MFIs)	**1,254.1**	1,212.2	+3.5
Liabilities to banks (MFIs)	**376.1**	369.6	+1.8
Liabilities to non-banks (non-MFIs)	**1,280.2**	1,243.2	+3.0
Equity	**167.8**	161.5	+3.9
Total assets	**2,178.2**	2,129.5	+2.3
Tier-1 ratio pursuant to CRR [2] (as a percentage; change in percentage points)	**15.9**	16.3	–0.4

Selected items of the P&L account [3]

	2018 [4] EUR billion	2017 EUR billion	Change as %
Net interest income	**28.860**	29.793	–3.1
Net commission income	**8.903**	8.723	+2.1
Net income from financial transactions	**0.671**	1.065	–37.0
Administrative expenses	**27.506**	27.364	+0.5
Operating result before valuation	**11.055**	12.455	–11.2
Operating result after valuation	**7.053**	10.392	–32.1
Net income before taxes	**2.950**	5.694	–48.2
Income taxes	**3.161**	3.363	–6.0
Net income after taxes	**–0.213**	2.331	– [5]
of which net income of Savings Banks after taxes	1.796	2.110	–14.9
of which net income of Landesbanken after taxes	–2.035	0.187	– [5]
of which net income of Landesbausparkassen after taxes	0.026	0.033	–21.0

* Savings Banks Finance Group: 1. Savings Banks, 2. Landesbanken excluding foreign branches, excluding domestic and foreign group subsidiaries and excluding Landesbausparkassen. 3. LBS: legally independent entities of LBS and legally dependent units of Landesbanken) as well as Hamburg Commercial Bank (formerly HSH Nordbank) which is affiliated with the protection scheme.
[1] Monetary Financial Institutions.
[2] Capital Requirements Regulation.
[3] As in the “original” P&L account under German GAAP, additions to the Fund for General Banking Risks pursuant to Section 340(g) of the German Commercial Code are recognised as expenses that reduce net income; in the DSGV’s Financial Reports until 2010, such additions were treated – in line with Deutsche Bundesbank’s P&L statistics – as appropriation of profits which increased net income.
[4] Preliminary figures from financial statements prepared in accordance with German GAAP.
[5] Calculation would not make sense.

Overall, the institutions affiliated with the Savings Banks Finance Group achieved net income of approx. EUR 3.0 billion before taxes in 2018. The Group had closed the previous year with net income of EUR 5.7 billion before taxes. After taxes, the Savings Banks Finance Group's net income amounted to EUR –0.2 billion in 2018, compared with EUR 2.3 billion in the previous year.

The substantial decline in net income was due to high extraordinary charges of a single institution of the Landesbanken Group. Without the loss of EUR 2.4 billion incurred by this Landesbank in 2018, the institutions affiliated with the Savings Banks Finance Group would have generated a stable net income of EUR 2.2 billion after taxes (2017: EUR 2.2 billion).

The slight year-on-year increase in the aggregated total assets of the Savings Banks Finance Group continued in the past fiscal year. In the years prior to 2018 , this decline had been mainly due to the fact that the strategic measures designed to realign and resize the Landesbanken entailed a further reduction of total assets.

As at the end of the year, the total assets of the Savings Banks Finance Group increased by 2.3 percent to EUR 2,178.2 billion (2017: +0.5 percent). Growth was mainly achieved in customer lending business and in customer deposit business. Savings Banks and Landesbanken achieved higher growth rates, in particular in customer lending business. Loans and advances to non-banks rose by 3.5 percent to EUR 1,254.1 billion, while liabilities to non-banks increased by 3.0 percent to EUR 1,280.2 billion in the Savings Banks Finance Group.

The Savings Banks Finance Group's equity as reported on the balance sheet continued to increase in 2018. Equity rose by 3.3 percent to EUR 167.8 billion (2017: +2.2 percent). The Group thus once again continued to increase its equity base in 2018.

EUR
167.8
billion
REPORTED EQUITY OF THE SAVINGS BANKS FINANCE GROUP

As at the end of 2018, the tier-1 capital of the Savings Banks Finance Group calculated in accordance with CRR / CRD IV[1] increased to EUR 161.3 billion (end of 2017: EUR 157.8 billion); the total risk exposure (borrower default risks, market risk positions and other risks) amounted to EUR 1,012.0 billion (end of 2017: EUR 967.1 billion). This means that the tier-1 ratio of the Savings Banks Finance Group decreased slightly to 15.9 percent at the end of 2018 (end of 2017: 16.3 percent).

Based on its solid equity base, the Savings Banks Finance Group will continue to make a sustainable contribution to the supply of credit to the German businesses, in particular the large number of small and medium-sized enterprises.

Business performance of Savings Banks

Germany's Savings Banks performed successfully in their lending, deposit and securities trading business in 2018. Their total assets increased by EUR 43.4 billion (+3.6 percent) to EUR 1,243 billion. The number of Savings Banks decreased by five to 385 Savings Banks (2017: 390; as at 15 June 2019: 384).

EUR
1,243
billion
TOTAL ASSETS OF SAVINGS BANKS

As in the previous year, customer lending business was characterised by considerable momentum. Savings Banks once again achieved substantial growth; the business grew by EUR 29.4 billion (3.7 percent) to EUR 823.0 billion. The new lending business also performed better than in the previous year and surpassed the record high of 2015. Loan repayments remained at a high level.

[1] CRR = Capital Requirements Regulation, CRD = Capital Requirements Directive.

Loans to households for home purchases were again one of the main growth drivers in 2018. Portfolio growth and the new business volume were higher than in the previous year. The portfolio increased by EUR 10.5 billion (+3.6 percent) to EUR 303.4 billion. In terms of new business, Savings Banks made loan commitments totalling EUR 50.3 billion, which was EUR 2.6 billion more than in the previous year.

The portfolio of loans to enterprises and self-employed persons grew even more rapidly in 2018. With an increase of EUR 21.8 billion (+5.5 percent) to EUR 419.7 billion, Savings Banks achieved record growth in this segment. Both investment loans and commercial housing loans were responsible for this increase. New loan commitments made by Savings Banks amounted to EUR 89.2 billion, which was also a record high.

With an increase of EUR 39.1 billion (+4.3 percent) to EUR 950.3 billion, the Savings Banks' business in the customer deposits segment grew more rapidly in 2018 than in the previous year (+2.4 percent). From a structural perspective, the Savings Banks' performance in this business was similar to that of previous years due to the low interest-rate level: sight deposits increased, while other forms of investment (own issues, time deposits, savings deposits) decreased.

In the off-balance-sheet customer securities trading business, the trading volumes of Savings Banks was significantly lower than in the previous year (–11.8 percent). Net sales – i.e. purchases less sales by customers – were clearly positive (EUR 13.8 billion), which was the best performance achieved by Savings Banks in this segment since 2002.

In the year under review, direct financial investment therefore once again benefited from inflows from deposit business and from securities trading business.

Including home savings and loan business and life assurance business attributable to Savings Banks, new funds deposited – directly or indirectly – by Savings Bank customers amounted to EUR 56.2 billion.

Profitability
As expected, the Savings Banks' profitability in operational business (operating result before valuation) declined in fiscal year 2018. The continuing period of extremely low interest rates once again had an impact on the Savings Banks' profit and loss account.

The operational business of Savings Banks is still primarily determined by the net interest income from the highly competitive business of loans to and deposits from private individuals as well as small and medium-sized enterprises. The significant decline by 3.4 percent resulted in net interest income of EUR 21.3 billion for Savings Banks in fiscal year 2018 (2017: EUR 22.0 billion).

In the retail segment, the low interest rates put considerable pressure on margins, in particular in deposit-taking business. Despite the cyclically induced continuing increase in the demand for loans, margins in lending business declined slightly. Despite growing loan volumes, the income on the asset side could therefore not compensate for the decline in earnings. Against the background of the somewhat steeper yield curve, earnings from maturity transformation increased slightly in 2018.

On the other hand, the Savings Banks' net commission income increased by 2.8 percent to EUR 7.8 billion (2017: EUR 7.6 billion). This improvement was due to a continued increase in commission income from card business and, in particular, from current account transactions as a result of adjustments to pricing models. In 2018, Savings Banks recorded significant increases in income from brokerage business, in particular from real estate brokerage, other brokerage business, and once again from home savings and loan business.

On balance, however, the decline in net interest income was only partly offset by the improvement in net commission income.

In fiscal year 2018, administrative expenses decreased slightly (by 0.1 percent) to EUR 19.98 billion (2017: EUR 20.00 billion). In the year under review, non-personnel expenses of Savings Banks increased slightly (by +0.5 percent) to EUR 7.4 billion (2017: EUR 7.3 billion). Personnel expenses decreased by 0.5 percent to EUR 12.59 billion (2017: EUR 12.65 billion). This was mainly due to the fact that the substantial salary increases resulting from the most recent pay settlement were more than offset by continuing staff consolidation measures (including part-time work for older employees) and by natural staff turnover.

In fiscal year 2018, the cost/income ratio[1] increased slightly to 68.3 percent (2017: 67.1 percent). A higher increase in CIR was prevented by lower administrative expenses and higher commission income.

The operating result before valuation decreased to EUR 9.3 billion (2017: EUR 9.8 billion).

With reference to the valuation result[2], Savings Banks recorded net valuation expenses of EUR 0.9 billion in 2018, unlike the previous years in which they earned net valuation income. The valuation of securities held in the liquidity reserve led to a valuation result of EUR –1.3 billion in 2018. Compared with valuation expenses of EUR –0.3 billion in the previous year, this means that the adverse impact on valuation was significantly higher than in 2017. This was mainly due to the share price performance in the markets, which had temporarily been highly negative at the end of 2018 but which recovered, to a certain extent, during the first quarter of 2019.

On balance, provisions for contingent losses in lending business caused practically no valuation expenses in 2018 (2017: valuation income of EUR 0.1 billion). The historically low provisions for contingent losses were due to, on the one hand, the stable economic development with slightly rising growth rates. On the other hand, Savings Banks continued to benefit from the fact that they had not been burdened by “legacy liabilities” in their loan portfolio in recent years.

The current level of provisions for contingent losses is therefore an indication of the fact that the Savings Banks’ risk measurement and management processes, which have been considerably refined in the past few years, deliver reliable results and hence facilitate efficient and at the same time suitable risk coverage.

In fiscal year 2018, the Savings Banks’ “extraordinary result”[3] was once again strongly affected by additions to the Fund for General Banking Risks in accordance with Section 340(g) of the German Commercial Code. At EUR 3.8 billion, the increase in “340g reserves” was significantly below the previous year’s level (2017: EUR 5.0 billion). Overall, the “extraordinary result” closed with a negative balance of EUR 3.8 billion in 2018, which was significantly lower than in the previous year.

The improvement in the “extraordinary result” had a positive impact on net income before taxes, while the lower valuation result had an adverse impact year-on-year. With net income before taxes of EUR 4.5 billion, the Savings Banks’ overall performance in fiscal year 2018 was below the previous year’s level (2017: EUR 5.0 billion).

EUR
4.5
billion

NET INCOME OF SAVINGS BANKS BEFORE TAXES

[1] Ratio of administrative expenses to result from operations.
[2] The valuation result is composed of provisions for contingent losses in lending business, as well as write-ups/write-downs on contingency reserves pursuant to Section 340(f) of the German Commercial Code and valuation allowances and write-downs on receivables and securities held in the liquidity reserve (net of write-ups on receivables and securities held in the liquidity reserve).
[3] Balance of other and extraordinary income/expenses. Unlike the P&L statistics of Deutsche Bundesbank, additions to and withdrawals from the Fund for General Banking Risks are recognised under “extraordinary result” in accordance with Section 340(g) of the German Commercial Code.

Selected items of the P&L account of Savings Banks[1]

	2018[2] EUR billion	2017 EUR billion	Changes 2018 vs. 2017 EUR billion	Changes 2018 vs. 2017 %
Net interest income	**21.267**	22.015	–0.7	–3.4
Net commission income	**7.801**	7.589	+0.2	+2.8
Net income from financial transactions	**0.003**	0.006	–0.0	–46.3
Administrative expenses	**19.976**	19.995	–0.0	–0.1
Personnel expenses	12.590	12.648	–0.1	–0.5
Non-personnel expenses (including depreciation of fixed assets)	7.386	7.347	+0.0	+0.5
Operating result before valuation	**9.268**	9.789	–0.5	–5.3
Valuation result (excluding equity interests)	**–0.942**	0.221	–1.2	<–100
Operating result after valuation	**8.326**	10.010	–1.7	–16.8
Balance of other and extraordinary income / expenses[1,3]	**–3.819**	–5.038	+1.2	–24.2
of which: additions to the Fund for General Banking Risks in accordance with Section 340(g) German Commercial Code	–3.781	–5.042	+1.3	–25.0
Net income before taxes	**4.507**	4.972	–0.5	–9.4
Income taxes	**2.711**	2.862	–0.2	–5.3
Net income after taxes	**1.796**	2.110	–0.3	–14.9
Return on equity before taxes (as a percentage, change in percentage points)	**7.4**	9.5	–	–2.1
Cost/income ratio (as a percentage, change in percentage points)[4]	**68.3**	67.1	–	+1.2

[1] As in the "original" P&L account under German GAAP, additions to the fund for general banking risks pursuant to Section 340(g) of the German Commercial Code are recognised as expenses that reduce net income; in the DSGV's Financial Reports until 2010, such additions were treated – in line with Deutsche Bundesbank's P&L statistics - as appropriation of profits which increased net income.
[2] Preliminary figures from financial statements prepared in accordance with German GAAP.
[3] Including the balance of gains on the sale of financial investments and investments held as fixed assets, write-downs/write-ups on financial investments and investments held as fixed assets as well as additions to and withdrawals from the Fund for General Banking Risks in accordance with Section 340(g) German Commercial Code (additions to the Fund for General Banking Risks with a negative sign).
[4] Ratio of administrative expenses to result from operations.

In fiscal year 2018, net income after income taxes amounted to EUR 1.8 billion, which was below the previous year's level (EUR 2.1 billion).

EUR
823.0
billion
CUSTOMER LOANS

Lending business

Customer lending business grew by EUR 29.4 billion in 2018. The Savings Banks' portfolio therefore increased by 3.7 percent to EUR 823.0 billion (2017: +3.2 percent).

New business increased by 5.2 percent compared with the previous year. The total volume of new business generated by Savings Banks amounted to EUR 158.4 billion, which was a new record high. New business did not have a stronger impact on the portfolio because repayments continued to be very high: at EUR 115 billion, repayments were roughly at the previous year's level.

This positive development in customer lending business was largely driven by loans to enterprises. In the course of 2018, Savings Banks committed EUR 5.5 billion in new loans to enterprises and self-employed persons, i.e. 6.6 percent more than in 2017. The total volume achieved amounted to EUR 89.2 billion, which was a new record level.

Medium and long-term loans continued to account for the largest proportion (91.9 percent) of the commitments made in 2018; new business therefore continued to have the character of investments from the perspective of the enterprises concerned.

This strong growth of new business also had an impact on loan portfolios. In 2018, the portfolio grew by EUR 21.8 billion or by 5.5 percent (portfolio at year-end: EUR 419.7 billion).

In 2018, investment loans to enterprises and self-employed persons increased by EUR 13.5 billion to a volume of EUR 288.8 billion, i.e. by 4.9 percent (2017: +4.6 percent). In the commercial housing construction business, the loan portfolio also increased significantly, by EUR 8.3 billion to a level of EUR 130.9 billion, i.e. by 6.8 percent (2017: 6.6 percent).

In loans to private individuals, the new business of Savings Banks increased significantly compared with the previous year. The volume of commitments made for the full year 2018 amounted to EUR 61.4 billion, an increase by EUR 2.8 billion (+4.7 percent) compared with 2017. The portfolio once again grew quite substantially, increasing by EUR 9.6 billion (+2.8 percent) to EUR 348.5 billion (2017: +2.5 percent).

The increase in new business was mainly due to loans granted to households for home purchases. Commitments amounted EUR 50.3 billion – EUR 2.6 billion more than in 2017 (+5.4 percent). Even if the record high of the year 2015 was not reached, the volume of new business generated can be rated as very good in view of the changes in the residential property business (shorter supply, higher prices).

In the course of the year, the portfolio of loans to private households for home purchases increased by over EUR 10.5 billion (+3.6 percent) to EUR 303.4 billion, slightly surpassing the high growth rate of the previous year (+3.4 percent).

In 2018, the consumer credit business performed better than in previous years. New loan commitments made by Savings Banks amounted to EUR 11.1 billion, which was EUR 0.2 billion (+1.7 percent) higher than in the previous year. While the loan portfolio continued to decline (EUR –0.9 billion, i.e. by –2.0 percent), it must be borne in mind that Savings Bank customers have considerable liquid funds, which they are increasingly using for consumption expenditure due to the interest-rate environment.

In 2018, the portfolio of loans to domestic general government decreased by EUR 3.4 billion (–8.8 percent) to EUR 35.8 billion (2017: –9.4 percent). At EUR 4.3 billion, new business was –14.4 percent below the previous year's level.

Customer lending business of Savings Banks

	2018 EUR billion	2017 EUR billion	Change in EUR billion	Change as %
Customer loans	**823.0**	793.6	+29.4	+3.7
Loans to enterprises [1]	**419.7**	397.9	+21.8	+5.5
Loans to private individuals	**348.5**	338.9	+9.6	+2.8
Residential housing loans	303.4	292.9	+10.5	+3.6
Consumer credits	45.1	46.0	–0.9	–1.8
Loans to general government	**35.8**	39.3	–3.4	–8.8
Total loan commitments/disbursements to domestic customers	**158.4/145.2**	150.6/140.3	+7.8/+4.9	+5.2/+3.5
Loan commitments/disbursements to enterprises and self-employed persons [1]	**89.2/79.9**	83.7/76.6	+5.5/+3.3	+6.6/+4.3
Loan commitments/disbursements to private individuals	**61.4/58.1**	58.6/55.9	+2.8/+2.2	+4.7/+3.9

[1] Including commercial housing loans.

Customer securities trading business

In the off-balance-sheet customer securities trading business, the total trading volume generated by Savings Banks in 2018 amounted to EUR 105.8 billion, which fell short of the previous year's level (EUR –14.1 billion, i.e. –11.8 percent). Trading volumes decreased in all categories: in fixed-income securities by –20.4 percent, in equities by –10.2 percent and in investment funds by –5.7 percent. Net sales (purchases less sales) were clearly positive in 2018, amounting to EUR 13.8 billion, the best performance since 2002. The key drivers included high positive net sales of investment funds (EUR +7.7 billion), as well as equities (EUR +2.3 billion) and fixed-income securities (EUR +3.7 billion). The highest positive balances among the investment funds were achieved by equity funds (EUR +3.0 billion), open-ended property investment funds (EUR +2.5 billion), mixed funds (EUR +1.5 billion) and funds of funds (EUR +1.3 billion).

Customer securities trading business of Savings Banks

	2018 EUR billion	2017 EUR billion	Change in EUR billion	Change as %
Securities trading volume [1]	**105.8**	119.9	–14.1	–11.8
Net sales of securities [2]	**13.8**	10.8	+2.9	+27.2

[1] Total trading volume of purchases and sales.
[2] Net sales is the balance of customer purchases and sales.

Funding

Savings Banks fund themselves largely from deposits made by private individuals and enterprises. In 2018, Savings Banks' customer deposit business grew by EUR 39.1 billion (i.e. by +4.3 percent, to a total volume of EUR 950.3 billion), which was clearly higher than in previous years (most recently: +2.4 percent in 2017).

Essentially, the interest-rate driven development of the past few years continued: sight deposits continued to increase (by EUR 45.2 billion, or 8.0 percent, to a portfolio volume of EUR 610.7 billion), while the other categories declined. Savings deposits decreased slightly by EUR 2.6 billion (–0.9 percent) to EUR 287.7 billion, while time deposits fell by EUR –0.3 billion (–1.9 percent). Own issues (EUR –3.1 billion, i.e. –8.2 percent) continued to decrease significantly.

Domestic enterprises increased their deposits by EUR 3.9 billion (+2.8 percent) to EUR 143.3 billion; in the previous year, deposits had significantly decreased (–3.7 percent). In 2018, retail deposits grew by 31.8 billion (+4.5 percent) to EUR 743.4 billion; this growth was higher than in 2017 (+3.8 percent).

As in previous years, Savings Banks were therefore characterised by a comfortable funding situation. Savings Banks were able to fund their entire customer lending business from customer deposits.

EUR
950.3
billion

CUSTOMER DEPOSITS MADE AT SAVINGS BANKS

Customer deposits business of Savings Banks

	2018 EUR billion	2017 EUR billion	Change in EUR billion	Change as %
Customer deposits	**950.3**	911.1	+39.1	+4.3
of which savings deposits	287.7	290.3	–2.6	–0.9
of which own issues	35.0	38.1	–3.1	–8.2
of which time deposits	17.0	17.3	–0.3	–1.9
of which sight deposits	610.7	565.5	+45.2	+8.0

Acquisition of financial assets

Due to the strong portfolio growth in deposits business and high positive net sales in securities trading business, the acquisition of financial assets by customers was significantly higher (+56.3 percent) than in the previous year. Including home savings and loan business and life assurance business attributable to Savings Banks, customers acquired additional financial assets worth EUR 56.2 billion via Savings Banks – more than ever before. This also applies to retail customers, who additionally invested EUR 47.5 billion (+26.4 percent).

EUR
56.2
billion

ACQUISITION OF FINANCIAL ASSETS BY CUSTOMERS

Acquisition of financial assets by Savings Bank customers[1]

	2018 EUR billion	2017 EUR billion	Change in EUR billion	Change as %
Acquisition of financial assets by customers[2]	**56.2**	36.0	+20.2	+56.3
Acquisition of financial assets by private individuals	**47.5**	37.5	+9.9	+26.4

[1] From deposit-taking business and customer securities trading business, including intermediated home savings and loan deposits and intermediated life assurance policies.
[2] Retail customers, corporate clients, domestic general government, non-profit organisations, foreign customers.

16.21%
TIER-1 RATIO OF SAVINGS BANKS

Equity

The regulatory capital of Savings Banks amounted to EUR 123.1 billion at the end of fiscal year 2018. The German Savings Banks' total capital ratio and tier-1 ratio in accordance with CRR have steadily increased in the past few years. At the end of 2018, the total capital ratio amounted to 17.60 percent. Since Savings Banks exclusively increased the tier-1 capital, the tier-1 ratio rose substantially to 16.21 percent. Net of hybrid tier-1 capital components, the common equity tier-1 ratio amounted to 16.17 percent. The regulatory requirements were therefore significantly surpassed.

The Savings Banks' comfortable equity base underlines their financial independence and their ability to respond to stricter regulatory requirements.

Regulatory capital ratios of Savings Banks in accordance with CRR

	2018 as %	2017 as %	Change as %
Tier-1 ratio	**16.21**	15.85	+0.36
Common equity tier-1 ratio	**16.17**	15.81	+0.36
Total capital ratio	**17.60**	17.38	+0.22

Business performance of Landesbanken

In fiscal year 2018, the business performance of Landesbanken was characterised by a slight increase in total assets – for the first time since 2010. In the course of the implementation of the strategic measures adopted during the financial market crisis with a view to resizing and realigning Landesbanken, their total assets were reduced by more than EUR 702 billion (approx. 45 percent) from the end of 2008 to the end of 2017.

In 2018, the institutions'[1] total assets increased slightly, by just under EUR 2.8 billion (0.3 percent) to EUR 864.1 billion. This means that the slight increase in on-balance-sheet business was a significant shift from the decrease in the previous year (2017: –2.0 percent). This dynamic development was largely due to the growth of corporate lending business.

[1] This Chapter deals with the five Landesbank groups, Landesbank Berlin / Berliner Sparkasse, DekaBank, as well as Hamburg Commercial Bank (formerly HSH Nordbank) which is affiliated with the protection scheme.

In addition, Landesbanken increased their liabilities to banks and their securitised liabilities (primarily debt securities issued). In addition, deposits from general government and from resident individuals increased.

Lending business
On the asset side of interbank business, the Landesbanken portfolio of loans and advances to banks decreased by EUR 2.8 billion (–1.4 percent) to EUR 189.2 billion (2017: 6.0 percent). This was due to the decline in loans and advances to domestic banks (excluding Savings Banks), which fell by EUR 4.5 billion to EUR 62.9 billion. On the other hand, the Landesbanken portfolio of loans and advances to Savings Banks increased by EUR 1.4 billion to EUR 54.6 billion. The Landesbanken portfolio of loans and advances to foreign banks also increased, rising by EUR 0.4 billion to EUR 72.7 billion.

In customer lending business, Landesbanken reported dynamic growth of their portfolio in the past fiscal year. Overall, loans and advances to non-banks increased by 2.7 percent to EUR 400.1 billion (2017: –4.5 percent).

EUR
400.1
billion
CUSTOMER LOANS BY LANDESBANKEN

In the year under review, loans and advances to domestic and foreign enterprises increased by EUR 13.9 billion (+4.9 percent) to EUR 296.3 billion (2017: EUR –14.3 billion; –4.8 percent). The focus was on domestic corporate banking business (loans and advances to domestic enterprises, with the portfolio growing from EUR 11.9 billion (+6.9 percent) to EUR 185.4 billion).

Loans and advances to domestic and foreign general government decreased by 3.5 percent to EUR 73.0 billion. Loans and advances to resident individuals (including non-profit organisations) declined by 2.0 percent to EUR 30.7 billion.

Securities trading business
In 2018, Landesbanken continued to significantly reduce their own investments in securities. Overall, the portfolio decreased by 5.0 percent to EUR 129.5 billion (2017: –9.5 percent). Investments were reduced in particular in the securities class “government bonds”. The portfolio decreased by 25.7 percent to EUR 29.5 billion in this class of securities. The portfolios of investments in corporate bonds decreased by 1.6 percent to EUR 18.8 billion. Unlike the previous year, portfolios invested in variable-yield securities (equities, investment certificates) decreased by 14.4 percent to EUR 9.4 billion. The portfolio of bank bonds increased by 7.1 percent to EUR 69.6 billion. Despite an increase by 33.5 percent to a volume of EUR 2.2 billion by the end of 2018, money market paper continued to play only a minor role.

As at the end of 2018, own investments of Landesbanken (securities account “A”) were focused on bank bonds with a structural share of 53.7 percent, followed by government bonds and debentures with 22.8 percent and corporate bonds with 14.5 percent. The portfolios of variable-yield securities and money market paper play a minor role, with structural shares of 7.3 percent and 1.7 percent respectively.

EUR 277.0 billion

CUSTOMER DEPOSITS OF LANDESBANKEN

Funding

In 2018, the Landesbanken portfolio of customer deposits decreased by 1.7 percent to EUR 277.0 billion. In 2017, customer deposits had increased by 3.1 percent. This was mainly due to the decline in liabilities to domestic and foreign enterprises, which had been reduced by 4.8 percent to EUR 150.6 billion and by 20.3 percent to EUR 25.1 billion, respectively.

A more differentiated analysis of the sector of domestic enterprises shows that the portfolio loss in the year under review was due, on the one hand, to the development of liabilities to insurance companies and to enterprises operating in the real economy.

On the other hand, Landesbanken reported a decline in liabilities to insurance companies by EUR 5.5 billion (–8.2 percent) to EUR 61.2 billion and a decline in liabilities to enterprises operating in the real economy by EUR 4.3 billion (–7.4 percent) to EUR 54.1 billion. Deposits from financing institutions increased by EUR 2.3 billion (+6.9 percent) to EUR 35.4 billion.

While deposits from domestic general government increased by EUR 2.3 billion (+5.2 percent) to EUR 45.7 billion, deposits from resident individuals (including non-profit organisations) increased by EUR 6.5 billion (+13.5 percent) to EUR 54.8 billion.

In 2018, Landesbanken continued to increase their interbank liabilities, which rose by 3.1 percent to EUR 245.6 billion (2017: +0.2 percent). In the past year, liabilities to domestic credit institutions (excluding Savings Banks) increased by 1.8 percent to EUR 149.3 billion, while liabilities to Savings Banks decreased by 4.2 percent to EUR 28.8 billion. Liabilities to foreign banks increased by 9.8 percent, from EUR 61.4 billion to EUR 67.4 billion (2017: +8.5 percent).

In 2018, the Landesbanken portfolio of securitised liabilities increased for the first time in years. The portfolio grew by 1.1 percent to EUR 188.8 billion. In previous years, Landesbanken had reported reductions – which in some cases were significant – in their portfolio for this type of funding.

Equity

In 2018, the equity of Landesbanken as reported on the balance sheet decreased slightly, from EUR 49.9 billion to EUR 49.4 billion (–0.9 percent). This decline was mainly due to the reduction of risk positions and the adjustment of the portfolios of two institutions.

15.3 %

TIER-1 RATIO OF LANDESBANKEN

By the end of 2018, the regulatory tier-1 capital of Landesbanken, as calculated on the basis of CRR / CRD IV, had decreased to EUR 44.3 billion (end of 2017: EUR 47.8 billion). The total risk exposure (borrower default risks, market risk positions and other risks) was reduced by 6.4 percent to EUR 290.2 billion (end of 2017: EUR 272.9 billion). As a result, the tier-1 ratio of the Landesbanken Group in accordance with CRR / CRD IV decreased to 15.3 percent by the end of 2018 (end of 2017: 17.5 percent).

Regulatory capital ratios of Landesbanken in accordance with CRR

	2018 as %	2017 as %	Change as %
Tier-1 ratio	**15.25**	17.50	–2.25
Common equity tier-1 ratio	**14.30**	16.21	–1.91
Total capital ratio	**19.85**	22.33	–2.49

In the years since the financial crisis, Landesbanken have pursued a consistent course of consolidation by systematically reducing their risk-weighted assets and further improving their tier-1 ratio. Fewer high-risk transactions, more financial solidity – this summarises the performance of the institutions over the past few years. The majority of the institutions have already completed most of the consolidation phase, while attaching increasing importance to expanding their core business.

Selected balance sheet items of Landesbanken (including DekaBank)

	As at year-end 2018 EUR billion	As at year-end 2017 EUR billion	Change as %
Loans and advances to banks (MFIs*)	**189.2**	191.9	–1.4
Loans and advances to non-banks (non-MFIs)	**400.1**	389.5	+2.7
Liabilities to banks (MFIs)	**245.6**	238.3	+3.1
Liabilities to non-banks (non-MFIs)	**277.0**	281.8	–1.7
Total assets	**864.1**	861.3	+0.3

* Monetary Financial Institutions.

Profitability[1]

As a result of the continuing period of low interest rates, the operating result of Landesbanken decreased in the year under review. Net interest income decreased from EUR 6.9 billion to EUR 6.7 billion in 2018. Net commission income amounted to EUR 1.2 billion, which was slightly lower than in the previous year. Net income from financial transactions, which fell by EUR 0.4 billion to a level of EUR 0.7 billion in 2018, had an adverse impact on earnings. Due to the decline in non-personnel expenses, the year-on-year increase in administrative expenses was less pronounced, reaching a level of EUR 6.9 billion in 2018 (2017: EUR 6.8 billion).

Overall, Landesbanken achieved an operating result before valuation of EUR 1.7 billion in 2018 (2017: EUR 2.5 billion). Due to the earnings performance outlined above, the cost/income ratio[2] of Landesbanken increased to 80.4 percent (2017: 72.7 percent).

For several years, Landesbanken have accrued higher loan loss provisions. Year-on-year, the valuation result increased significantly to EUR 3.1 billion in 2018 (2017: EUR 2.3 billion). This had a stronger adverse impact on the net income of Landesbanken. The increase was mainly due to the high charges of one institution; the earnings performance of this institution was strongly influenced by the effects of the continuing shipping crisis.

While Landesbanken had achieved a slight surplus in “other and extraordinary income and expenses” in the two previous years, the “extraordinary result”[3] was slightly negative in 2018 (EUR 0.3 billion) and therefore had an adverse impact on earnings. Although Landesbanken achieved a year-on-year increase in the valuation and financial investment business with net valuation income of EUR 0.5 billion, the increase is not sufficient to offset the contribution from the extraordinary result and the transferred profits.

[1] Source: Individual financial statements of Landesbanken (including DekaBank) as well as Hamburg Commercial Bank (formerly HSH Nordbank), which is still affiliated with the protection scheme.
[2] Ratio of Administrative Expenses to Result from Operations (sum total of net interest income and net commission income, net income from financial transactions and other operating income).
[3] Balance of other and extraordinary income/expenses. Unlike the P&L statistics of Deutsche Bundesbank, additions to and withdrawals from the Fund for General Banking Risks are recognised under “extraordinary result” in accordance with Section 340(g) of the German Commercial Code.

In fiscal year 2018, Landesbanken reported negative net income of EUR 1.6 billion before taxes. Landesbanken had closed the year before with net income of EUR 0.6 billion before taxes. After income taxes, Landesbanken closed the fiscal year 2018 with a net loss of EUR 2.0 billion after taxes. In 2017, they had posted net income of EUR 0.2 billion after taxes.

The substantial decline in net income was due to high extraordinary charges of a single institution of the Landesbanken Group. Without the loss of EUR 2.4 billion posted by this Landesbank in 2018, the institutions would have generated net income of EUR 0.4 billion after taxes (2017: EUR 0.1 billion).

Selected P&L account items of Landesbanken (including DekaBank)[1]

	2018[2] EUR billion	2017 EUR billion	Change as %
Net interest income	**6.681**	6.892	–3.0
Net commission income	**1.209**	1.230	–1.7
Net income from financial transactions	**0.668**	1.059	–37.0
Administrative expenses	**6.928**	6.752	+2.6
Operating result before valuation	**1.693**	2.532	–33.1
Valuation result (excluding equity interests)	–3.057	–2.258	+35.4
Operating result after valuation	**–1.363**	0.274	–[4]
Balance of other and extraordinary income/expenses[1,3]	**–0.261**	0.358	–[4]
of which: Withdrawals from (+)/additions to (–) the Fund for General Banking Risks pursuant to 340(g) German Commercial Code	–0.120	–0.299	–60.1
Net income before taxes	**–1.625**	0.632	–[4]
Income taxes	**0.409**	0.443	–7.7
Net income after taxes	**–2.035**	0.187	–[4]

[1] As in the "original" P&L account under German GAAP, additions to the Fund for General Banking Risk in accordance with Section 340(g) German Commercial Code are recognised as expenses that reduce net income, while withdrawals from this fund are recognised as earnings that increase net income.
[2] Preliminary figures from financial statements prepared in accordance with German GAAP, rounding differences may occur.
[3] Including the balance of gains on the sale of financial investments and investments held as fixed assets, write-downs/write-ups on financial investments and investments held as fixed assets as well as additions to and withdrawals from the Fund for General Banking Risks in accordance with Section 340(g) German Commercial Code (additions to the Fund for General Banking Risks with a negative sign, withdrawals from this fund with a positive sign).
[4] Calculation would not make sense.

Business performance of Landesbausparkassen

In 2018, the new business generated by Landesbausparkassen amounted to EUR 32.7 billion in terms of the target contract sum. This constitutes an increase of 6.3 percent compared with 2017. The fact that the target contract sum has again increased reflects the business's development towards financing-oriented customers, which has been going on for some years now. Home savings and loan agreements are particularly attractive for consumers because they protect consumers from the risk of rising interest rates – in particular in view of the current situation in the capital market. Capital requirements have also increased because of considerably higher property prices. Building society customers have realised this, as demonstrated by the continuing increase in the average target contract sum. In the past fiscal year, the target contract sum amounted to EUR 50,000, which was 11.7 percent higher than in the previous year.

The "building societies of the Savings Banks" are the undisputed market leader in Germany's home savings and loan business. Their market share amounts to 36.7 percent in terms of the number of new contracts concluded in 2018 and to 37.4 percent in terms of the target contract sum. In respect of the portfolio of contracts, Landesbausparkassen hold a market share of 35.7 percent (number of contracts) and 33.3 percent (target contract sum). In the "Riester" home loan and savings segment, the market share held by Landesbausparkassen is even higher (46.2 percent) and is equivalent to approx. 834,000 contracts (+1.5 percent) and a target contract sum of EUR 36.1 billion (+3.7 percent).

At the end of 2018, the eight Landesbausparkassen had eight million customers, for whom they managed a total of approx. 9.7 million contracts (–2.9 percent) with a volume of EUR 301.6 billion (+2.2 percent).

In the past fiscal year, Landesbausparkassen were also major lenders for financing residential housing projects. Capital payments amounted to EUR 7.9 billion (+1.6 percent). The portfolio of deposits under home loan and savings agreements had increased to EUR 62.0 billion (4.1 percent) by the end of 2018. The total volume of building loans increased by 5.2 percent to EUR 28.8 billion; the volume of preliminary and interim financing loans increased by 5.6 percent to EUR 24.4 billion.

Landesbausparkassen run approx. 550 information centres and have a staff of 6,932 employees in their offices and their field force. The LBS Group's cumulative total assets reached a new record high of EUR 70.8 billion (+3.7 percent) at the end of 2018.

Business performance of Landesbausparkassen

	2018	2017	Change as %
New contracts concluded			
Number (millions)	**0.65**	0.68	–4.8
Target contract sum (EUR billion)	**32.7**	30.8	+6.3
Portfolio of contracts			
Number (millions)	**9.66**	9.96	–2.9
Target contract sum (EUR billion)	**301.6**	295.3	+2.2
Money received (EUR billion)			
Total	**11.1**	11.1	+0.2
of which savings contributions	8.4	8.1	+3.4
New capital commitments (EUR billion)	**10.6**	10.3	+3.3
Capital disbursements (EUR billion)	**7.9**	7.7	+1.6
Total assets (EUR billion)	**70.8**	68.2	+3.7
Net income after taxes (EUR million)	**26.0**	33.0	–21.0
Employees (including field force)			
Total	**6,932**	6,918	+0.2
of which apprentices	149	132	+12.8
	2018 as %	2017 as %	Change as %
Market shares (number of contracts)			
New contracts concluded	**36.7**	36.2	+0.5
Portfolio of contracts	**35.7**	35.6	+0.1

Responsibility and social commitment

The past year was characterised by staff restructuring, branch closures and mergers in the banking and financial sector – a consolidation process that also set the scene for 2018. Our current staff numbers show that the previous year's trends have continued.

Employees as key success factor and profitability management
Our employees are, and will continue to be, our most important link to our customers. They are brand ambassadors who advocate the Savings Banks Finance Group's unique business philosophy throughout Germany: understanding people, providing security and preparing for the future. Despite the slight decline in the total workforce, the Savings Banks Finance Group with its 293,500 employees continues to be one of the most important employers and one of the leaders in training in Germany. A total of 209,588 people were employed by Savings Banks in 2018. Increasing attention is paid to the question of how new business areas and sources of income can be developed, while at the same time adjusting workforce numbers, or in other words, "selectively investing in staff while consistently managing personnel expenses" (profitability management).

The Savings Banks Finance Group as an attractive employer
The Savings Banks Finance Group is an attractive employer for career starters and experienced professionals. Being an attractive employer is highly relevant for our human resources strategy. Our employees take centre stage because they are what sets us apart. As in the past, apprentices form the pool for our next generation of professionals. Our positive image as an employer has a positive impact on the recruitment of career starters. The technical optimisation of the Savings Banks Finance Group's career portal for mobile use via smart phones meets the expectations of this young target group. We regularly invest in upgrading the content and the technical features of our employer brand.

It is important that the institutions in our Group offer young career starters not only job security and career prospects but also interesting and flexible fields of work – also during their vocational training. Savings Banks that train apprentices apply an impressive range of approaches to promote and apply their apprentices' personal responsibility and creativity, including self-managed induction weeks and charitable projects, as well as editorial teams for social media and branches staffed by apprentices. The branches staffed by apprentices create an environment in which young talent can develop fresh ideas and immediately put these ideas into practice. In this way, apprentices see that their ideas are genuinely acknowledged; they know that they are appreciated and that they have "arrived" in the company.

Changes in customer behaviour and the ongoing digitalisation require a completely new market approach. This will lead to the emergence of sales channels with new roles and responsibilities and will trigger adjustments to processes, staff structure and staff management. To respond to these challenges, our focus in 2018 was on "strengthening our attractiveness as an employer, upgrading digital skills and ensuring the quality of our staff".

It is very important to the institutions affiliated with the Savings Banks Finance Group that their employees are able to reconcile their professional challenges with their private lives. For this purpose, we offer flexible models in terms of workplaces and working time, professional career development and a variety of support measures.

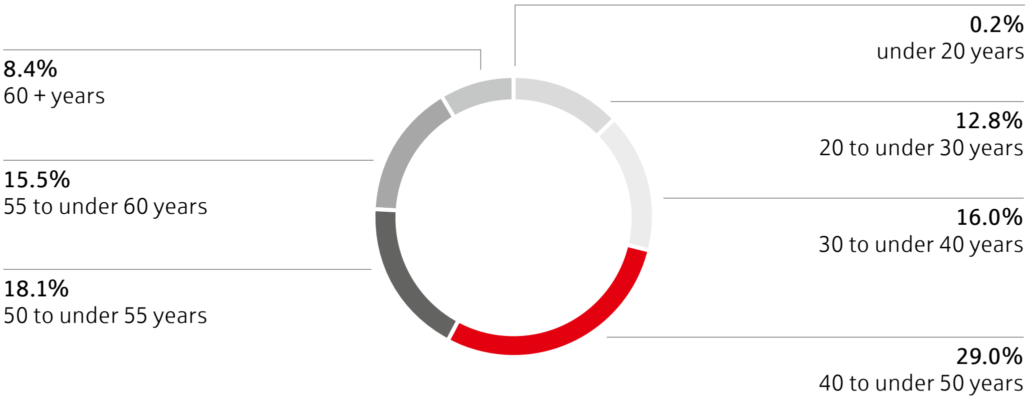
Excellent training and continued professional development

In 2018, a total of 4,864 young people began their training at a Savings Bank, Landesbank or Landesbausparkasse. This constitutes an increase of 6.5 percent compared with the previous year. With a total of 14,917 apprentices and trainees, we continue to be the largest provider of training in the German banking sector and one of Germany's largest providers of training nationwide. The comprehensive commitment to training is an integral part of the Savings Banks Finance Group's social responsibility, and this commitment is paying off: Savings Banks' apprentices [1] regularly achieve the best marks in the exams held by the German Chamber of Commerce and Industry and they receive prestigious awards at local, regional and national level. In 2018, 86.6 percent of the apprentices were offered permanent employment upon completion of their training.

Germany's dual vocational education scheme, which combines hands-on training in Savings Banks with theoretical lessons at vocational schools, is typical of the majority of apprenticeships. Most apprentices opt for training as a bank clerk. In addition, however, school leavers are also interested in work-study programmes, which combine banking apprenticeship with university studies. More and more institutions offer such programmes in co-operation with the Savings Banks Finance Group's University of Applied Sciences. These programmes reflect the growing demand for highly qualified professionals and managers as a result of our "sales strategy for the future".

A glance at the changing age structure shows how important the topic of employability will be in future. The provision of differentiated upskilling programmes for all groups within our staff will therefore be crucial. The declared objective of the institutions providing training within the Savings Banks Finance Group is to jointly develop these programmes and provide targeted qualification opportunities.

Savings Bank employees: Age structure [1]
As at 31 December 2018



[1] Active banking employees (headcount).

[1] 12,175 apprentices in 2018.

Increasing the share of women in leadership positions continues to be a key development target for the Group as a whole. With the nationwide measures implemented to date, we have intensified the debate within the Savings Banks Finance Group.

Both the share of women in leadership positions (26.5 percent) and the share of women on executive boards increased slightly in 2018 and now amounts to 5.1 percent.

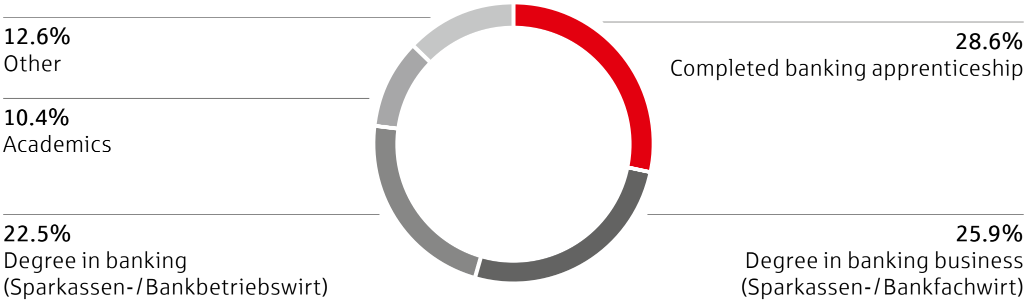
Human resources development continues to focus on coping with the transformation processes due to changing values and digitalisation

Coping with the transformation processes triggered by changing values and culture, demographic trends and digitalisation is the top priority for the institutions of the Savings Banks Finance Group. The transformation of the working world increases the need for professional development. This calls for new professional development formats and means that professional development must be oriented towards the newly emerging requirements.

In this context, the Savings Banks Finance Group's internal training system is a key factor for success. The Savings Banks Finance Group offers high-quality and attractive career prospects to its employees, including entry-level and leadership positions as well as demanding specialist roles. The Group-wide training architecture – with eleven regional academies, the Management Academy and the Savings Banks Finance Group's University of Applied Sciences in Bonn – comprehensively supports the development opportunities by conveying the necessary expertise as well as the skills and capabilities required for each career level.

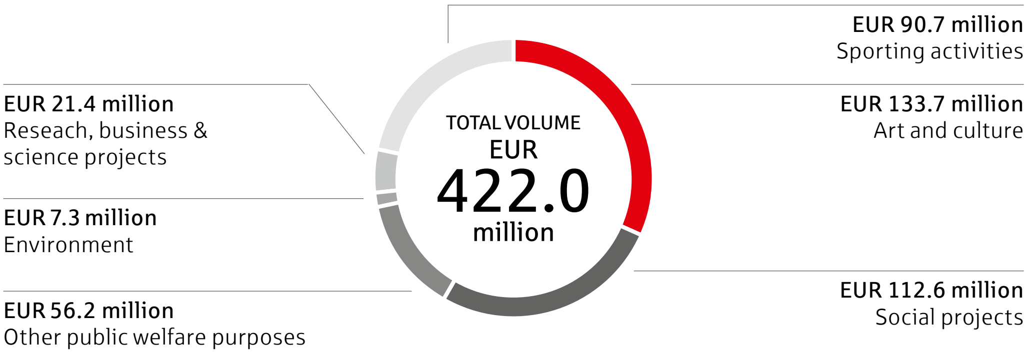
Our business model is centred on providing advice to customers, with the aim of achieving a high level of customer satisfaction. Our customers have a choice of channels for contacting their relationship managers – whether in branches, online or by mobile phone. Due to changing customer needs, there has been a significant shift towards online contact. Regardless of the channel used by customers, we want to retain the human touch that sets us apart from our competitors, despite the necessary reorganisation of the branch structure. For this reason, we continue to place special emphasis on enabling our employees to provide cross-channel customer support. The range of training courses provided by the academies responds to the need to upgrade and systematically develop the employees' skills. Training formats include seminars organised at the academies, but also online or in the form of in-house seminars held directly on the premises of the various institutions.

Savings Bank employees: Qualification structure [1]
As at 31 December 2018



[1] Active banking employees (headcount).

Social commitment of the Savings Banks Finance Group
As at 31 December 2018



Broad-based commitment to society strengthens public welfare

In 2018, the Savings Banks Finance Group invested EUR 422 million in social responsibility projects (2017: EUR 448 million). Savings Banks, Savings Bank foundations, Landesbanken and partner entities within the Savings Banks Finance Group are actively involved in an array of social cooperation in communities by sponsoring art and culture, engaging in social projects, supporting sports and by providing assistance in the fields of education and environmental protection.

Art and culture

In 2018, the Savings Banks Finance Group was again active as a sponsor of both smaller and larger cultural projects throughout Germany. The Savings Banks Cultural Fund of the German Savings Banks Association - the Savings Banks' key funding instrument – once again co-operated, for instance, with the Städel Museum in Frankfurt, sponsored various exhibition projects within the framework of the funding priority "Photography" and continued its commitment as the main sponsor of the Dresden State Art Collections and the National Museum in Berlin. Part of the co-operation with the museums was a discount of 25 percent on the regular admission price for Savings Bank customers. In 2018, the Savings Banks Finance Group sponsored art and culture with approx. EUR 133.7 million (2017: EUR 135 million), making it the largest non-governmental sponsor of cultural activities in Germany.

Social commitment

Savings Banks sponsor a variety of projects involving children, young people and senior citizens. Our sponsorship is addressed to society as a whole and supports, for instance, social counselling centres, neighbourhood centres and integration projects for immigrants. With a total amount of EUR 112.6 million in 2018 (2017: EUR 120.8 million), social responsibility projects are the second largest field of sponsorship of the Savings Banks Finance Group.

Sports activities

The Savings Banks Finance Group sponsors a variety of sports. The largest share of the contributions goes to sports clubs in all of Germany's regions. One example is our sponsorship of the Deutsches Sportabzeichen (German Sports Badge). In addition, the Savings Banks Finance Group also sponsors sports activities of top athletes, amateurs and people with disabilities, such as the German Olympic team and the German Paralympic team, as well as the top sports schools.

In 2018, EUR 90.7 million (2017: EUR 88.6 million) was spent to sponsor sports and members of sports clubs. A total of 31 foundations of the Savings Banks Finance Group are dedicated – either exclusively or predominantly – to sponsoring sports activities.

Environmental protection

Savings Banks also assume responsibility for the environment with a wide variety of activities that address environmental and climate concerns in their service areas. A large number of local environmental organisations, for instance, can count on the support of Savings Banks. The sponsorship scheme also includes selected ecological projects in schools. The funds spent by Savings Banks for these purposes amounted to approx. EUR 7.3 million in 2018 (2017: EUR 8.5 million).

Education

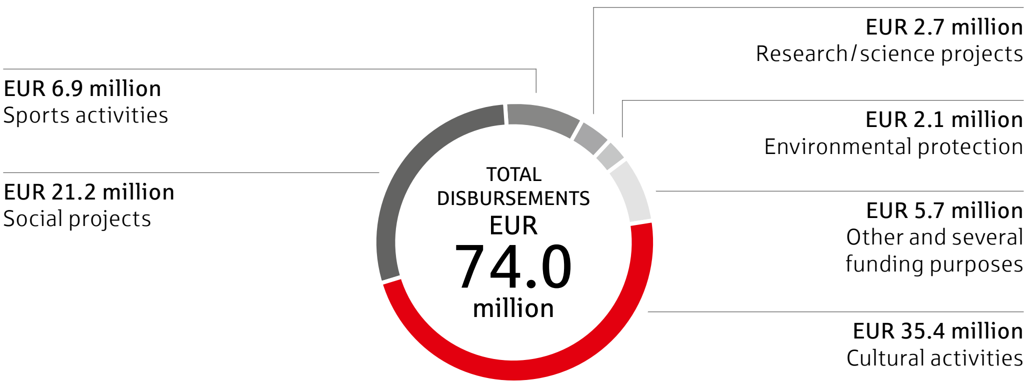
Our sponsorship in the fields of education and integration is a cornerstone of the Savings Banks Finance Group's activities, which are aimed at supporting sustainable social development. In 2018, a total of EUR 21.4 million (2017: EUR 20.3 million) was spent on research projects and on projects designed to foster business and science. All across Germany, Savings Banks are committed to ensuring that all sections of the population can benefit from community life and can further their personal development. Savings Banks invest in the financial literacy of children from an early age, for instance by providing teaching materials on economic and financial topics via the "SparkassenSchulService" (Savings Banks School Service). Outside of schools, the Savings Banks Finance Group's "Money and Household" advisory service provides all consumers with free-of-charge information designed to improve their financial literacy and prevent debt.

Foundations

The commitment of the Savings Banks Finance Group, as reflected in the sponsorship and donations of Savings Banks, Landesbanken and other member institutions, is pursued by the Group's charitable foundations in a particularly sustainable manner. In 2018, the 752 foundations (2017: 748) of the Savings Banks Finance Group helped to strengthen regional development and supported civic involvement in the communities. At the end of 2018, the foundations' aggregate capital amounted to more than EUR 2.65 billion, which means that their endowment capital has nearly doubled over the past ten years. In the past year, funds distributed by the foundations amounted to EUR 74 million (2017: EUR 75.6 million).

For regularly updated information on the social commitment activities of the Savings Bank Finance Group, please visit:
↘ dsgv.de/unsere_verantwortung

Disbursements in EUR million
As at 31 December 2018



Sparkassenstiftung für internationale Kooperation (Savings Banks Foundation for International Co-operation)

The Savings Banks Foundation actively supports financial institutions which sustainably foster economic and social development at local, regional and national level by providing needs-based banking services. Its objective is to increase the professionalism of its partner institutions, so that they can provide their customers with ongoing access to financial services. The target groups of the partner institutions of the Savings Banks Foundation are generally small and medium-sized enterprises (SMEs), but also poor people and socially marginalised groups. The partner institutions themselves benefit from the business strategy focus on SMEs and low-income earners – serving these customer segments enables them to sustainably achieve stable and satisfactory profits.

By strengthening local and regional financial structures, the Savings Banks Foundation not only creates alternative development opportunities for broad sections of the population and local enterprises, but ultimately also helps to create jobs and income.

This is in keeping with the approach and the objectives of Germany's Savings Banks; it has a stabilising effect on the financial sector concerned and, hence, on the economic development of the countries concerned. The Savings Banks' 200-year history in Germany has shown that sustainable micro-finance requires efficient organisation and professionalism – in its projects, the Savings Banks Foundation shares these key success factors with its partners.

↘ Sparkassenstiftung.de

Global access to financial services

Risk report

Regulation is increasingly focused on the supervisory review process, referred to as Pillar 2 of the Basel Framework. This review process primarily deals with risk management and overall bank management. In 2018, the Group's institutions therefore placed particular emphasis on making progress in these areas. At the same time, the economic challenges posed by the period of low and negative interest rates persisted in 2018.

Market situation and regulatory environment
The institutions affiliated with the Savings Banks Finance Group performed well – despite growing competition, the ongoing period of low and negative interest rates and shrinking room for manoeuvre due to regulatory requirements.

Regulatory environment
In 2018, further steps were taken in implementing a large number of regulatory initiatives.

At EU level, mention should be made of the comprehensive proposals published on 23 November 2016, referred to as the "EU banking package". The banking package is composed of the Capital Requirements Directive and Regulation for Banks (CRD V / CRR II), the Bank Resolution and Recovery Directive (BRRD) and the associated Single Resolution Mechanism (SRM) Regulation. The approved final version of the package was published in the EU's Official Journal on 7 June 2019. Most requirements will need to be implemented within a period of two years. What is important for small and medium-sized institutions is that proportionality is explicitly laid down in the banking package, providing for some elements of simplification for what are referred to as "small and less complex institutions". These are institutions which, in addition to meeting certain qualitative requirements, have total assets of less than EUR 5 billion. Approx. 85 percent of the Savings Banks are below this threshold. After the adoption of the banking package, the EU Commission will tackle the finalisation of Basel III (published in December 2017). The deadline set by the Basel Committee for this purpose is 2022. It can be expected that the EU Commission will submit the first proposals for another revision of CRD / CRR (CRD VI / CRR III) in early 2020.

At national level, the implementation activities for the 5th amendment to the Minimum Requirements for Risk Management (MaRisk, published in October 2017) have been completed, although questions of interpretation regarding specific issues (e.g. outsourcing) were not clarified until 2018. In this respect, the national regulator is engaged in an ongoing exchange with the banking sector. In addition, it can be assumed that the regulator will use the EBA Guidelines on outsourcing arrangements, which were published at the beginning of 2019, for another amendment to MaRisk in the course of 2020.

In view of the persistently high intensity of new regulatory requirements, the Savings Banks Finance Group has bundled its implementation support centrally in an entity called Sparkassen Rating and Risikosysteme GmbH (SR). SR – which is a wholly-owned subsidiary of the German Savings Banks Association (DSGV) – supports Savings Banks in fulfilling their regulatory requirements for bank management.

Risk management by the institutions affiliated with the Savings Banks Finance Group
Identifying, monitoring and managing general banking risks is part of the core tasks of any bank. Banks are exposed, inter alia, to the following major risks:

- Counterparty default risks,
- Market price risks
- Liquidity risks
- Operational risks

The institutions affiliated with the Savings Banks Finance Group manage the earnings and risks associated with their business operations in a professional and forward-looking manner. Changes in the market environment and new regulatory requirements call for ongoing adjustments to risk management methods, models and instruments.

DSGV, SR and the regional Savings Banks associations develop, update and improve the instruments and methods applied in close co-operation with their affiliated institutions. This provides many advantages, including:

- establishing practical and uniform standards at the level of the Savings Banks Finance Group,
- developing a broad database by pooling data nationwide, based on these standards,
- reducing the workload for the individual institution and avoiding duplication,
- pooling all of the expertise of the Savings Banks Finance Group.

Regardless of the development of uniform procedures at the level of the Savings Banks Finance Group as a whole, each member institution takes its own decisions on specific transactions and the associated risks, such as the design of its customer products or its own-account investment policy. This also applies to the definition of an institution’s specific risk profile and its application of risk quantification methods.

Categories of general banking risks

Counterparty default risks	– Risk of a negative deviation from the expected value of an on-balance-sheet or off-balance-sheet item, due to the downgrading of the counterparty's rating, including the default of a debtor. Counterparty risks are subdivided into a debtor's default and migration risks. Within the meaning of this definition, debtors in the customer business are borrowers, i.e. traditional retail, commercial and corporate customers, credit institutions (interbank), governments and the public sector. In proprietary business, debtors are any counterparties or issuers.
Market price risks	– Risk of a negative deviation from the expected value of an on-balance-sheet or off-balance-sheet item, due to a change in risk classes affecting the value (interest rates, spreads, foreign exchange rates, equity prices, commodities and real estate).
Liquidity risks	– Insolvency risk: Risk of not being able to meet due payment obligations in full or in time. – Cost of funding risk: Risk of not being able to obtain required funding on the expected terms and conditions.
Operational risks	– Risk of losses incurred due to the inadequacy or failure of internal processes, employees, internal infrastructure or external factors.
Other risks	– Depending on their specific business model, Savings Banks may be exposed to other risks such as the cost risk. The cost risk is the risk that actual costs incurred may exceed the budgeted costs. This may be due, for instance, to the conclusion of a collective agreement that differs from the expected outcome.

Jointly developed methods are used by individual institutions to measure risks, aggregate these risks to determine their risk-bearing capacity, manage the portfolio and allocate capital, so as to optimise their risk/return ratio. Due to the large number of specific decisions, the Savings Banks Finance Group as a whole remains very well diversified.

Risk management methods are optimised on an ongoing basis within the Savings Banks Finance Group.

Safeguarding the institutions' risk-bearing capacity
For many years, the institutions affiliated with the Savings Banks Finance Group have applied risk management methods and IT tools designed, on the one hand, to measure capital and assets and, on the other hand, to identify risks. The data collected are aggregated and compared with each other in the context of risk-bearing capacity. To this end, the institutions use centrally developed concepts which integrate the various procedures and methods and embed them in risk limits defined for the bank as a whole and for each category of risk.

As a rule, Savings Banks pursue a going-concern approach, while Landesbanken usually apply a gone-concern approach because of their capital market orientation. The objective of the management methods anchored in the risk-bearing capacity concepts is to safeguard the long-term future of each institution, and hence, to protect creditors.

The S-KARISMA/S-RTF software developed jointly within the Savings Banks Finance Group provides extensive IT support to the Group's institutions, including the bundling of risk management data, scenario-based simulations and regulatory reporting systems on risk-bearing capacity. It includes the institutions' specific risk values and hence their requirements in terms of capital and net assets, based on the business structure of each Savings Bank. In mid-2016, SR assumed responsibility for the support and further development of the S-RTF software.

To ensure that risks are backed by capital at all times, the software compares capital levels with risk exposures. Each institution's aggregate risk exposure and the exposure to the underlying individual types of risk are restricted by a system of limits which permits a timely response.

The institutions affiliated with the Savings Banks Finance Group carry out capital planning processes to be able to recognise the development of capital ratios as well as future scope for action early on. Should it be necessary to adopt measures in terms of capitalisation and earnings, such actions can be initiated at an early stage. The S-KARISMA / S-RTF software is also used for this purpose because of the need for a close linkage between risk-bearing capacity and earnings planning.

The earnings planned for the next few years and their retention will enable Savings Banks and Landesbanken to gradually increase their risk coverage potential. As a result, the lending business can continue to grow steadily, which in turn will lead to higher minimum capital requirements.

On 24 May 2018, the national regulator published revised rules on risk-bearing capacity. Although credit institutions can continue to use the current risk-bearing capacity concepts for the time being, the Savings Banks Finance Group initiated measures at an early point in time to efficiently implement these new rules in all the institutions.

In 2016, the German regulator introduced new capital requirements and expectations for individual institutions – including what is referred to as additional SREP surcharges (SREP = Supervisory Review and Evaluation Process) and a target capital ratio. The new capital requirements will have to be taken into account both when determining capital adequacy and when assessing the risk-bearing capacity.

With the SREP surcharges, Germany's Financial Markets Supervisory Authority BaFin implements the requirements of the EBA Guidelines for the Supervisory Review and Evaluation Process, according to which it will now also be necessary to provide capital backing for risks which have been identified when assessing the risk-bearing capacity and which have been backed with capital, but which are not taken into account when determining the capital requirements under Basel Pillar 1.

The target capital ratio indicates how much additional capital an institution should hold from a regulatory perspective, so that it can meet the overall SREP capital adequacy requirement at any time, i.e. also during periods of stress. For the majority of Savings Banks, this has led to no, or only limited, additional capital requirements.

Safeguarding solvency
The Savings Banks' traditionally solid capitalisation continued to improve in 2018. The common equity tier-1 ratio of Savings Banks amounted to 16.17 percent as at 31 December 2018 and the total capital ratio had reached a level of 17.6 percent.

This means that, on average, Savings Banks significantly exceed the Basel capital requirements of 4.5 percent for common equity tier-1 capital and 8 percent for the total capital ratio, which have been applicable since 1 January 2014. The Savings Banks' capitalisation also covers the capital conservation buffer (2.5 percent), as a result of which minimum levels have increased to 7 percent for common equity tier-1 capital under Basel III and to 10.5 percent for the total capital ratio. In addition, the capitalisation is also sufficient to cover the SREP surcharges and the target capital ratio.

At the end of 2018, the average common equity tier-1 ratio of Landesbanken (level of individual institutions) including DekaBank amounted to 14.3 percent. On average, the total capital ratio was 19.9 percent.

Management of individual types of risk

Due to stricter regulatory requirements to be met by risk reporting, it has become necessary to define principles for data management, data quality and the aggregation of risk data.

In co-operation with Finanz Informatik, SR ensures that the common data repository of the Savings Banks Finance Group meets the regulatory and commercial requirements.

Managing risks and returns is always a balancing act between economic market conditions, the regulatory environment and changing customer expectations. In the current interest-rate environment, Savings Banks therefore focus on the management of risks and returns. In this context, particular attention is paid to managing the counterparty risk because this type of risk has a major impact on the institutions' risk-bearing capacity and the stability of their earnings. However, extensive risk measurement methods are applied to secure the lending capacity of Savings Banks and Landesbanken in a sustainable manner.

Risk classification tools

For corporate banking: Savings Banks Standard Rating	– The Savings Banks Standard Rating is applied to business clients of Savings Banks. Creditworthiness is assessed using a modular approach: as a first step, the Savings Bank/Landesbank examines what information is available on a given enterprise and can be included when establishing the rating score. This information is subdivided as follows: – Analysis of the financial statements and/or net income accounts, – Qualitative rating, i.e. assessing the qualities of the enterprise and the entrepreneur or managing director, – Taking into account existing business relationships with the client, including the client's account behaviour, – Potential downgrades due to warning signals of a forthcoming crisis of the enterprise, – Taking into consideration third parties that may affect the enterprise's creditworthiness (joint liability) if there is a "parent-subsidiary relationship", – An approved customer rating can be used to automatically generate a strength/potential profile which can be used for communicating with the customer, – For customers with low exposure, institutions can use an automated procedure based on account data (Compact Customer Rating) to assess the customers' creditworthiness on an ongoing basis.
For commercial real estate investments: Savings Banks Real Estate Business Rating	– The Savings Banks Real Estate Business Rating is used to assess the creditworthiness of real estate business clients. Both quantitative indicators such as balance sheets and qualitative factors such as the expected business performance are used for this assessment. As the key risk driver, the property that is to be financed or has already been financed is valued using real-estate-specific information and indicators. In this context, the focus is on assessing how likely it is that loans will be repaid from the property's rental income in the years to come. – To ensure that the assessment is as realistic as possible, all the information available is given due consideration and combined to establish a rating score for the customer.
For retail banking: Savings Banks Customer Scoring	– The Savings Banks Customer Scoring is the risk classification method used for retail banking. It enables customer relationship managers to objectively assess the creditworthiness of new or existing customers applying for a loan, where possible using all the relevant information available. – In addition, this tool can also be used by the institutions for automated portfolio monitoring of their retail banking exposure, so as to identify risk in good time.
For investments in renewables: Project Financing Rating	– The Project Financing Rating is a method that is tailored to the financing of renewables projects (wind, photovoltaic systems, biogas/biomass). Loan commitments are primarily based on the cash flows generated from the operation of the plants. Hence, the core risk is not the financial position of the equity investor (also referred to as sponsor) but the project performance. – Since the project company is to be analysed in its entirety, qualitative factors such as the expertise of the parties involved in the project, information on the project environment and the contractual terms and conditions are also included in the assessment process.

In co-operation with Savings Banks and regional associations, SR has also developed a standardised approach to implementing the risk inventory, including central recommendations with regard to the criteria to be applied to the risk materiality assessment. It will be validated by SR on an annual basis.

In addition, a risk manual (designed to provide a standardised overview of risks) will be available to support the risk management process in Savings Banks.

Managing counterparty risks
In co-operation with representatives from regional associations, Savings Banks, Landesbanken, Landesbausparkassen and Finanz Informatik, SR develops and updates the necessary methods for efficient and needs-based credit risk measurement of Savings Banks, based on the data provided by the Savings Banks Finance Group. These methods are used throughout the Savings Banks Finance Group for managing default risks.

The fact that SR centrally develops and updates the methods guarantees their high quality and consistency. This ensures that the data pooled by Savings Banks and Landesbanken will be used in compliance with data protection laws, that they will be qualitatively and quantitatively validated and that the tools will be regularly subjected to a regulatory review.

The risk classification tools described in the table on page 69 refer to corporate lending business, as well as to real estate and retail banking business.

In addition, the institutions affiliated with the Savings Banks Finance Group also have tools for assessing ratings to allow the calculation of the fair values of credit spreads (risk spreads) and for measuring the risk exposure (value at risk) of the overall credit portfolio. The "fair" credit spread calculated is also used for risk transfers among the institutions and within the framework of what is referred to as "credit pooling".

The Savings Banks Finance Group continually strives to increase the efficiency of its counterparty risk management, and hence, to generate more precise forecasts, as only a balance between precise risk assessment and effective use of financial resources will ensure fair terms for customers.

In 2018, a total of 390,000 commercial and business customers were classified in rating categories. Some of these ratings were conducted or updated several times. Overall, the data pool of the Savings Banks Finance Group comprises more than eleven million commercial customer ratings. This database provides a high degree of reliability for the credit ratings and, at the same time, enables the institutions to give qualified advice to their customers.

The use of common uniform rating methods in the Savings Banks Finance Group offers the following advantages:

→ a very broad data base,

→ high selectivity of the methods,

→ precise and fair classification of our customers in accordance with their creditworthiness,

→ stable default rates,

→ early and objective risk identification and

→ centralised regulatory approval of the tools used to determine capital requirements in accordance with the internal ratings-based approach.

All rating and scoring methods have received regulatory approval and are audited regularly by banking supervisory authorities.

The models and methods used for the Savings Banks' management of counterparty risks take into account their heterogeneity in terms of the size of individual institutions, as well as the type, scope and complexity of the counterparty risk portfolio.

This permits an ideal counterparty risk management approach, involving five stages.

In the context of implementation,

- Savings Banks leverage synergies by efficiently using risk measurement tools and integrating them into the overall bank management,
- Savings Banks optimise their equity utilisation by flexibly reducing or increasing their counterparty risk exposure,
- Savings Banks create more scope for sales by clearly delineating responsibilities between sales, back office and portfolio management,
- Savings Banks exploit growth opportunities in the lending business (including for new business) by systematically avoiding concentration risks and making consistent use of risk management tools,
- Savings Banks find it easier to offer competitive terms due to improved risk structures in their loan portfolio.

Efficient management of their loan portfolio enables Savings Banks to continue to grow their lending business in a sustainable manner without overexposure to the associated risk.

As in previous years, the portfolios of the Savings Banks Finance Group were well positioned in fiscal year 2018. The ratings of 59 percent of all business clients of Savings Banks and Landesbanken were investment-grade ratings (better than BBB-), indicating high credit quality. This figure was slightly higher than in the previous year.

Managing the counterparty risk at portfolio level

In fiscal year 2018, Germany's Savings Banks reported yet another increase in lending by 3.7 percent (customer loans overall, excluding loans and advances to banks). To retain their capacity to act and their competitiveness in lending business over the long term, Savings Banks comprehensively register the risk exposure associated with lending and apply the efficient credit risk management (eCRM) concept to manage these risks in a more targeted manner. Active and efficient loan portfolio management – i.e. systematically optimising the risk/return ratio of their loan portfolio – gives them a competitive edge, which enables them to achieve efficiency gains and earnings growth. The credit market and the customer lending business continue to be more profitable than the capital market business, in particular in the low interest-rate environment and after risk costs.

Diversifying counterparty risks:
Syndicated customer lending as an example

Savings Banks have been engaged in the traditional syndicated lending business for many years. This includes not only sharing loans and risk exposures with their Landesbank and partner institutions within the Savings Banks Finance Group; increasingly, larger customer loans are also financed jointly by several Savings Banks. The organisation of this co-operation takes on different shapes and forms, including direct lending, loan sub-participation and release from liability.

Tools for managing counterparty risks

Savings Banks Risk-Adjusted Pricing	– The risk-adjusted pricing method enables credit institutions to determine credit spreads on the basis of individual credit exposures and collateral provided, which ensures that low and high risks are not treated equally. The purpose of the credit spreads, which are taken into account in the determination of fair credit terms, is to cover expected losses from the lending business.
Savings Banks CreditPortfolioView	– CreditPortfolioView enables Savings Banks and Landesbanken to identify, measure and provide an up-to-date view of counterparty risks associated with a loan portfolio. This is based on the P&L (periodic) and/or cash flow (value-based). The analysis takes into account changes in creditworthiness and loan defaults, as well as industry-specific and macroeconomic scenarios.
Savings Banks Loss Data Collection	– The loss data collection is used to determine liquidation and recovery rates from previously defaulted customers. The calculation of the risk costs for future transactions is based on these data. In this way, historical data on losses from lending transactions are integrated into bank management in a transparent manner. The pooled loss data of the Savings Banks Finance Group are also used to estimate loss ratios, prepare comprehensive reports and supply parameters, for example, for the Hard-Test report.

Promissory note loans have also been used by many Savings Banks for targeted investments in loans to enterprises. All of these instruments can be used both to hedge credit risk exposure and to invest in credit risks.

What is crucial is that the Savings Bank granting the loan will retain responsibility for the customer relationship. At the same time, however, the Savings Bank will have “financing partners”, so that the Savings Bank’s scope for originating loans is enhanced because of the liquidity and capital relief provided by its partners. The systematic co-operation with the other Savings Banks, Landesbanken and partner entities within the Savings Banks Finance Group creates new opportunities for more credit growth, in particular for supporting the growth of large SMEs.

Hedging counterparty risks:
Savings Banks Credit Baskets
For the past 14 years, Savings Banks have had another efficient tool at their disposal for hedging credit risks and for managing concentration risks: Savings Banks Credit Baskets. Unlike syndicated lending, Credit Baskets provide an opportunity to synthetically hedge credit risks.

Credit Baskets are designed along the lines of a “mutual insurance society”. Twice a year, participating Savings Banks contribute their hedging requirements for the overall lending relationships with larger customers to a basket and, at the same time, they invest in the diversified portfolio created in this manner.

More than one-third of all Savings Banks have participated in at least one of the Savings Banks Credit Baskets to date, mutually hedging a total risk exposure of close to EUR 5.4 billion. Credit Baskets are also based on the underlying principle that the Savings Bank which grants the loan will retain responsibility for the customer relationship. At the same time, however, the Savings Bank will gain more scope for lending to new and existing clients. In this way, Savings Banks can systematically manage their risk exposure in the lending business.

Managing market price risks
The management of market price risks is based on the recognition of the assets invested in this segment. The sum of these asset items is subject to market price fluctuations which may lead to an increase or a decrease in the value of the assets held. The institutions affiliated with the Savings Banks Finance Group are supported by DSGV, SR and the regional associations with regard to the methodology used to quantify market price risks and optimise assets, as well as with regard to the technical implementation when dealing with these risks. Since the end of 2017, Savings Banks have been supported by SR with standardised parameters for quantifying interest-rate, spread, equity and foreign-exchange risks.

The interest rate risk is a key market price risk. In the Savings Banks Finance Group, this risk is represented as value at risk (VaR) using the modern historical simulation method, where risks are directly related to expected earnings.

To manage interest-rate risks, the institutions have tools at their disposal which enable them to generate specific management measures, taking into account the required regulatory risk-bearing capacity as well as internal economic and accounting limits. The consistent use of these methods also broadens the institutions' basis for decision-making and makes it easier to define effective measures for managing the interest-rate risk.

For the Savings Banks Finance Group, managing interest-rate risks remains very important, in today's persistent low interest-rate environment, as well, because

- the capital invested in the interest-earning business accounts for a major share of the total capital allocated,
- intense competition and the European Central Bank's low interest-rate policy permit only low margins and because results of proprietary investment contribute to the stability of the overall earnings position,
- member institutions have to be prepared for a potential interest-rate hike,
- new funding structures call for a separation of the funding function from the interest-rate risk management function,
- when issuing debt securities, credit spreads and interest-rate risks are linked more closely than before, and
- supervisory authorities monitor interest-rate risk exposure by means of standardised parameters and define capital backing requirements based on these parameters, referred to as the SREP surcharge for interest-rate risks.

The potential provided by the management of interest-rate risks has been utilised throughout the Savings Banks Finance Group for many years. Nearly all Savings Banks have the necessary methods at their disposal and the technology required to apply them. On this basis, more than two-thirds of all Savings Banks regularly report their interest-rate risk exposure to DSGV and exchange comparative data with each other.

Analyses of the Savings Banks' interest-rate risk exposure for 2018 demonstrate that the measures implemented to manage interest-rate risks were deliberately adjusted in response to prevailing market conditions. As in previous years, Savings Banks generated stable earnings contributions to net interest income in 2018. At the same time, the differences in risk appetite and in interest-rate expectations within the Savings Banks Finance Group ensure a very high degree of diversification within fixed-income investments across the entire Group.

Managing liquidity risks
Liquidity risk is defined as the insolvency risk and the cost of funding risk, taking into account the market liquidity risk. This is the risk that, due to market disruptions or insufficient market depth, financial securities cannot be traded on the financial markets at a certain point in time and/or at fair prices. The market liquidity risk is focused on the liquidation values of securities and the funding capacity available in the market.

The European liquidity standard LCR (Liquidity Coverage Ratio) was introduced on 1 January 2018, with a minimum compliance rate of 100 percent. The Savings Banks' liquidity was more than sufficient to comply with the LCR. In the past few years, the simulation and planning options of the LCR have steadily improved, permitting operational fine-tuning of this short-term liquidity metric by all Savings Banks.

In general, the attention of the institutions and associations of the Savings Banks Finance Group is focused on continuously improving qualitative and quantitative liquidity risk management. A key technical platform used for this purpose is the Group-wide "sDIS OSPlus" software and a management concept tailored to this software. The supply of granular data to the data centres enables Savings Banks to analyse their liquidity flows to any level of detail. Centrally developed parameters such as the "survival period" make risk management comparable and accessible to senior management for purposes of interpretation.

In 2018, the process to be performed by each institution for identifying, measuring, managing and monitoring all liquidity risks (Internal Liquidity Adequacy Assessment Process – ILAAP) will be further refined and gradually adjusted for future compliance with a European "Net Stable Funding Ratio" (NSFR, mid-2021).

Managing operational risks

Their sustainable business policy obliges the institutions affiliated with the Savings Banks Finance Group to deal with future risks and their professional prevention on a regular basis. This is the only way to carry today's performance forward into the future.

Operational risks are ubiquitous and yet are not always easy to identify. A more detailed explanation of operational risk is provided by Article 4(52) CRR, according to which losses resulting from inadequate or failed internal processes, people and systems or from external events can jeopardise an institution.

In addition, according to AT 2.2 MaRisk, operational risks must be seen as "material risks", so that Savings Banks must have the necessary risk coverage potential which, as a rule, is determined by means of the basic indicator approach (BIA). Savings Banks use the "database of loss events", "OpRisk assessment", the "risk map" and / or the "risk inventory" available from SR for the commercial management of their operational risk exposure. Loss events that have occurred are systematically recorded and analysed in the database of loss events. The risk map and the risk inventory are used to assess, ex ante, potential operational risks and the associated loss potential and to define risk-prevention measures.

In addition to the operational risk management tools, Savings Banks also have access to the OpRisk Assessment Tool, a standardised tool to assess operational risks for the periodic risk-bearing capacity reports. The OpRisk Assessment Tool takes into account not only the institution's own loss events but also the losses recorded in the nationwide OpRisk data pool.

Once a year, Savings Banks supply their data to a nationwide data pool, which also gives them access to loss data and risk scenarios. The mutual exchange of this information helps to avoid losses and contain operational risks. Owing to the Savings Banks' homogeneous business model, the data collected in the pool can be considered to be representative.

The tools made available – the database of loss events, the OpRisk Assessment Tool, the risk map and the risk inventory – support the institutions in complying with MaRisk.

Protection afforded to institutions by the Savings Banks Finance Group's protection scheme
The protection scheme of the Savings Banks Finance Group protects the customer deposits held with the 385* independent Savings Banks, Landesbanken, DekaBank and Landesbausparkassen. In addition, the following institutions are affiliated with the guarantee fund of Landesbanken: Berlin Hyp AG, Deutsche Hypothekenbank, Frankfurter Bankgesellschaft, Landesbank Berlin Holding AG, Portigon AG, S-Kreditpartner GmbH, Sparkassen Broker AG & Co. KG and Weberbank AG.

The guarantee scheme created by the Savings Banks Finance Group has been conceived as an Institution Protection Scheme. Its primary objective is to avoid having to pay compensation and to protect the member institutions themselves, in particular by safeguarding their liquidity and solvency (protection of institutions). This is designed to ensure that member institutions can maintain their business relations with their customers as contractually agreed. In line with the statutory requirements, this voluntary institution protection scheme therefore averts imminent or existing commercial difficulties. Moreover, the Institution Protection Scheme run by the Savings Banks Finance Group is officially recognised as a deposit guarantee scheme under the Deposit Guarantee Act (EinSiG). Under a statutory deposit guarantee scheme, customers have a legal entitlement to have up to EUR 100,000 of their deposits refunded by the guarantee scheme. This is stipulated in Germany's Deposit Guarantee Act.

The Group's Institution Protection Scheme encompasses thirteen individual guarantee funds: eleven regional Savings Bank guarantee funds, the guarantee fund of Landesbanken and Girozentralen and the guarantee fund of Landesbausparkassen.

The Institution Protection Scheme of the Savings Banks Finance Group has proven its worth for more than four decades. Since its establishment in 1973, no customers have ever lost any deposits or interest. No depositors have ever had to be indemnified. No affiliated institution has ever become insolvent.

The financial market players recognise the effective guarantees provided by the Institution Protection Scheme. Three international rating agencies – Moody's Investors Service, Fitch Ratings and DBRS – explicitly cite the Institution Protection Scheme as one of the reasons for their decision to award very good ratings to Savings Banks, Landesbanken and Landesbausparkassen.

Risk monitoring of the Savings Banks Finance Group's protection scheme
The guarantee funds include an early warning system for the identification of potential risks, which permits counter-measures to be initiated in good time. This risk monitoring approach is based on qualitative and quantitative parameters.

In addition to standardised key ratios, qualitative reports are integrated into the assessment of an institution. On the basis of this information, member institutions are classified according to one of four monitoring grades.

The guarantee funds carry out risk monitoring in accordance with standardised principles. Monitoring committees monitor the risk exposure in their member institutions, request supplementary information where appropriate and initiate counter-measures if required.

The various guarantee funds report regularly to a central Transparency Committee of the German Savings Banks Association; this committee monitors the overall risk exposure of the protection scheme and creates transparency within the scheme.

* As at 31 December 2018; 384 Savings Banks as at 15 June 2019.

Scope for action by guarantee funds

The guarantee funds have rights of information and rights of intervention that are laid down in the statutes.

Aside from general rights, such as the right to conduct an audit at any institution and at any time, there are additional information and intervention rights that depend on the risk monitoring outcome.

Institutions with no particular risk exposure are obliged to provide all the information necessary for risk monitoring and, within the scope of their due diligence obligations, must report any extraordinary occurrences. If the risk exposure deteriorates, the guarantee fund will determine what counter-measures should be adopted. Institutions with a particular risk exposure are required by the guarantee funds to submit a restructuring concept and to introduce suitable measures in relation to assets or personnel.

If an institution requires support, the guarantee funds of the protection scheme have a broad range of measures to draw on. As a rule, support is linked to a restructuring agreement that is subject to specific terms, such as the repayment of the support funds received as soon as the financial position of the institution concerned improves. A merger with another institution may also be an option. The decision-making bodies enjoy a large degree of flexibility in responding to the specific circumstances of a given challenge.

The various guarantee funds within the scheme are interlinked.

A total of eleven regional guarantee funds are maintained by the regional Savings Banks associations. They are interlinked by a Supra-regional Compensation Mechanism. This mechanism is used whenever the resources required to support a troubled institution exceed those of the region’s own guarantee fund. In this event, all the other guarantee funds participate in whatever measures are required to support the institution concerned. As a result, all eleven regional guarantee funds of the Savings Banks are interconnected.

There is a separate fund for Landesbanken and Girozentralen and another for Landesbausparkassen:

→ the Guarantee Fund for Landesbanken and Girozentralen, and

→ the Guarantee Fund for Landesbausparkassen.

If necessary, all of these guarantee funds work together within the System-wide Compensation Mechanism, which encompasses:

→ all of the Savings Banks’ guarantee funds,

→ the Guarantee Fund for Landesbanken and Girozentralen, and

→ the Guarantee Fund for Landesbausparkassen.

This mechanism is used whenever the resources required to support a troubled institution exceed those of the guarantee fund concerned. Due to the System-wide Compensation Mechanism, the combined resources of all these guarantee funds will be available in a crisis to support measures to protect the institution.

This means that the guarantee funds which make up the Institution Protection Scheme have at their disposal the resources and powers they need to identify and resolve financial problems confronting their members at an early stage. The aim of every support measure is to restore the sustainable competitiveness of the member institution concerned.

Assessing risk-based contributions to the Institution Protection Scheme of the Savings Banks Financial Group

Contributions to the Institution Protection Scheme of the Savings Banks Financial Group reflect the size and business volume of each institution as well as its specific risk-bearing capacity. Each member's contribution is assessed, as set out in the regulatory requirements, on the basis of regulatory risk parameters. Member institutions' contributions increase in line with their business volume and regulatory risk parameters. This creates incentives for risk-aware behaviour, thereby helping to ensure the solidity of member institutions.

The law requires the Institution Protection Scheme to continue building up its financial resources between now and 2024. The statutory target is for funds to amount to 0.8 percent of the covered deposits held by the members of the protection scheme. Since a significant proportion of the resources required has already been paid in from existing asset pools, the Savings Banks Finance Group's Institution Protection Scheme already has sound financial resources at its disposal today.

Provision of funds to protect institutions

Sequence of actions to support a Savings Bank

1. Cash injection from the Regional Savings Bank Guarantee Fund
2. Capital injection from the Regional Savings Bank Guarantee Fund
3. Cash injection from the other Regional Savings Bank Guarantee Funds (Supra-regional Compensation Mechanism)
4. Capital injection from the other Regional Savings Bank Guarantee Funds (Supra-regional Compensation Mechanism)

Funds from the Landesbanken and Landesbausparkassen (System-wide Compensation Mechanism)

Sequence of actions to support a Landesbank

1. Cash injection from Landesbanken Guarantee Fund
2. Funding obligation of Landesbanken Guarantee Fund
3. Cash injection from the System-wide Compensation Mechanism (Savings Banks and Landesbausparkassen)
4. Funding obligation of the System-wide Compensation Mechanism (Savings Banks and Landesbausparkassen)

The same sequence of actions is adopted to support a Landesbausparkasse.

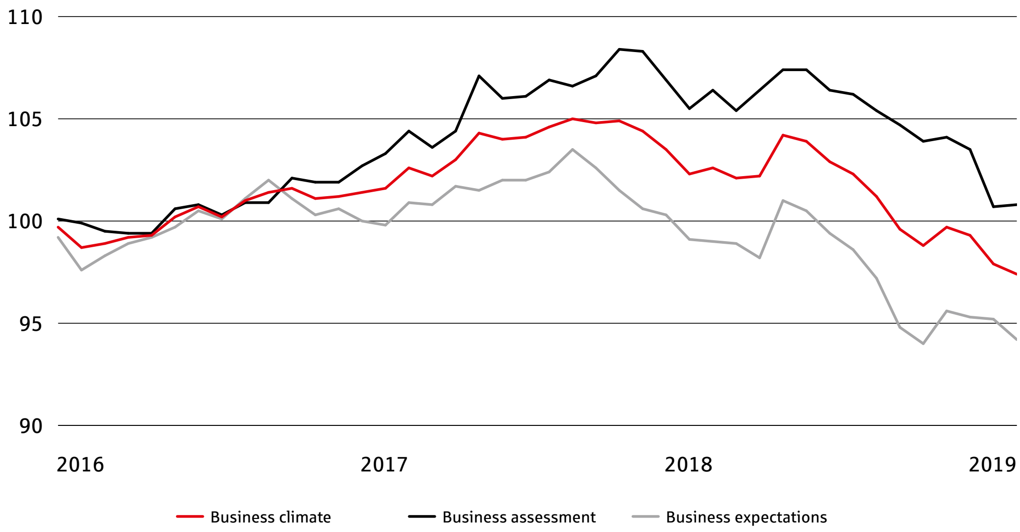
Report on expected developments

Economic environment in 2019

The economic upswing that has continued in Germany for nine years has lost momentum, mainly due to temporary production problems in the automotive and chemical industries. At the same time, the German economy's underlying rate of growth has slowed down. In the first few months of 2019, the leading international (IMF, OECD) and national institutes (Research Institute, German Council of Economic Experts) have significantly lowered their growth forecasts for Germany for the current year.

Against this background, GDP is expected to grow by only 0.8 percent[1] in 2019. This is mainly due to the weakness of the last two quarters of 2018 and the associated low statistical carry-over.

ifo Business Climate Index for Trade and Industry[1]



[1] Source: ifo Institute, results of ifo business surveys up to and including June 2019.

At the beginning of 2019, low levels of new orders, mainly from abroad, and the poor sentiment mainly in the manufacturing sector indicate that at least a large "dip" will continue well into 2019. At the same time, the risks for the future development of the global economy remain significant (coping with Brexit, trade conflicts, high levels of debt in many countries).

However, large parts of the domestic economy – such as trade, services and the construction sector – seem to be fairly well shielded from the global economy's encroaching weakness which was caused by subdued exports. Overall, capacity utilisation continues to be high in Germany. The domestic economy is also boosted by consumption resulting from the high level of employment and rising wages. In the labour market, new record employment levels could be reached in 2019.

The ECB has already decided to continue to pursue its very expansionary monetary policy for the time being. It has practically ruled out adopting measures relating to the key interest rate for 2019. In other respects, monetary policy instruments are not expected to return to normal in the medium term. The ECB continues to reinvest principal payments from maturing securities to keep the stock of purchased assets constant. As at September 2019, there will also be a new series of long-term tenders with a two-year maturity. Higher interest rates for longer maturities will only be provided if the medium-term inflation outlook increases and if, consequently, a turnaround in monetary policy

[1] Joint diagnosis of Germany's leading economic research institutes.

is taken into consideration. In their spring report for 2019, Germany's leading economic research institutes expect consumer prices to increase by 1.4 percent in the euro area and by 1.5 percent in Germany, which however is still very moderate and continues to be below the ECB's target.

Business performance of Savings Banks

In the first quarter of 2019, Savings Banks performed very well in new loans to enterprises and self-employed persons – slightly better than in the first quarter of 2018. In the first three months of the year, the volume of loan commitments made to private individuals was also higher than in the same period of the two previous years. In the full year 2019, Savings Banks will therefore again make a major contribution to financing small and medium-sized enterprises in Germany and strongly support private individuals in carrying out their housing construction projects.

In the deposits business, the development of weakening structural shifts continued in the first quarter of 2019. While the volume of deposits increased slightly, there were additional shifts in deposits towards sight deposits. For the full year, overnight deposits can be expected to continue to increase, so that the structural shares of savings deposits, time deposits and own issues can be expected to decline slightly. Overall, we expect deposits to continue to grow in the full year 2019. In the customer securities trading business, trading volumes in the first quarter of 2019 were below the previous year's level; net sales (i.e. purchases less sales) did not reach the previous year's level, but were clearly positive.

In light of the current interest rate and economic development, net interest income can be expected to decrease significantly in 2019, while net commission income is expected to increase further and personnel expenses can be expected to decrease slightly. At the same time, non-personnel expenses are expected to increase slightly. These trends will probably lead to a reduction of the Savings Banks' operating result compared with 2018.

Business performance of Landesbanken

The market environment continues to be challenging for Landesbanken. Due to the persistently intense competition in the German banking market, the pressure on margins has continued to grow. Landesbanken hold significant market positions in important lending and deposit-taking categories: At the end of 2018, they held a market share of 12.7 percent in loans to enterprises [1] and a share of 13.2 percent in deposits from enterprises. In loans to domestic general government, they hold a share of 25.3 percent of the total market volume and in deposits from domestic general government, their share amounts to 17.2 percent. In the first quarter of 2019, the institutions' aggregated total assets grew somewhat more than in the first quarter of 2018. The customer lending business – in particular loans to enterprises – continues to grow, however not as much as in the previous year. In the deposit-taking business, deposits from customers – in particular from general government – continue to grow.

2019 will provide opportunities for Landesbanken to continue to consolidate their strong market position following the withdrawal of some competitors and the skilful optimisation of their business model. The majority of Landesbanken have a solid capital base and liquidity position, as well as a good risk profile. This provides a good basis for systematically expanding the stable core business and improving the earnings performance. The focus will be on high-margin volume growth within the framework of the existing risk guidelines. For this purpose, long-term customer relationships, sales channels and product portfolios need to be strengthened and renewed. Owing to digitalisation, the institutions will be able to drive these processes by incorporating intelligent systems. They will also play an active role in shaping change processes in payment transactions.

The continuing low interest-rate environment poses a major challenge for Landesbanken in managing their funding costs. The implementation of regulatory requirements and the expansion and renewal of IT structures lead to increasing costs.

[1] Investment loans, excluding commercial housing construction.

On the one hand, digitalisation calls for investments, but on the other hand it also provides considerable opportunities for the future. In this context, targeted efficiency improvement and digitalisation measures can help to tap new sources of income or to leverage cost-cutting potential. Digitalisation can be used to simplify or automate sales channels (keywords: extension of multi-channel services), the range of products and services, as well as internal processes. Furthermore, solutions for customers can be customised and personalised.

Another option to mitigate pressure on profitability is to continue to intensify the division of labour within the Group. Existing products and services, as well as platforms, can be upgraded for Savings Banks, or new ones can be created. This makes it possible, for instance, to jointly provide finance to larger SMEs and to support their business transactions outside of Germany.

Overall, Landesbanken will continue their trust-based co-operation with retail customers and corporate clients, as well as with Savings Banks and the public sector in 2019. They will have to face the challenges flexibly and promptly by optimising their business models and responding to new customer needs, e.g. with regard to sustainable investment products.

Business performance of Landesbausparkassen
In view of rising real estate prices and the strict criteria applying to the granting of loans, it is increasingly important to build up capital at an early point in time. Home savings and loan agreements are attractive for this purpose, especially in the current interest-rate environment, because they enable customers to "secure" an interest rate for the future. The eligibility conditions for home savings and loans have remained stable. The state rewards the long-term savings process within certain income limits by granting an employee savings allowance and a home ownership savings bonus; subsidised private retirement pension provisions – referred to as the "Riester Housing Scheme" – provide additional impetus to the home savings and loans segment. Germany's grand coalition government is planning to improve the home ownership savings bonus in order to make it easier for building society customers to save up capital. Landesbausparkassen expect a stable development of their new business in 2019.

Management outlook

Savings Banks help people to take their finances into their own hands and offer them the up-to-date financial services they need. This remains the core of our digitalisation strategy. However, the customers' understanding of what "up-to-date" means is changing, and in this respect, there is enormous momentum. The fact that the Savings Banks' services are very popular with customers is demonstrated by the high acceptance of new payment services, the new rise in demand for loans from business clients and the increased demand for securities. This means that we have once again been able to assert our position as the direct and most important partner in all financial matters for people in Germany.

The three key challenges of the past year will also dominate the current fiscal year. The interest-rate situation continues to be very difficult. Customers have become more demanding in terms of their expectations. And investment needs in the context of digitalisation are growing. In this environment, the ability to build close relationships with customers and understand their everyday lives will determine the success of service providers.

For our strategy in the payments segment, it is particularly important that our customers are free to choose the payment options they prefer. The savings banks will introduce Apple Pay in Germany later this year. In addition, they start with real-time collective transfers for business and corporate customers. Their position as innovation leader in retail payments makes Savings Banks even more competitive in online trade and at the point of sale. This example shows that Savings Banks are among the few German service providers that, with their base of retail customers and business clients, are capable of offering genuine alternatives to digital corporations.

However, exclusive access to customers will increasingly be subject to competition; in this context, PSD 2 [1] opens up new opportunities for all payment service providers. The future of our core business will therefore depend on data, data platforms and data streams to help us identify the future needs of our customers and to develop suitable products. We will increase our investments in this field. However, it is also because of the fair handling of customer data that Savings Banks have been able to defend their strong market position against growing competition from new service providers and that Savings Banks have been able to retain their position as the principal bank of their customers. We will strengthen this competitive edge.

Although the performance in 2018 was a good starting point, 2019 will be another year that poses major challenges for the member institutions of the Savings Banks Finance Group in terms of their business management skills. It is foreseeable that return on equity will continue to decline. For this reason, it is very important that the largest part of the new deposits received in 2018 were invested in valuable lending business which still yields high margins. This shows that the Savings Banks' decentralised structure and local market roots are major drivers of the reliable profitability that enables them to benefit from their good risk position in a highly competitive market. However, SMEs and their principal banks not only play a crucial role in financial stability. This proven alliance provides the strong impetus necessary for the transformation of Europe's national economies towards a more efficient and sustainable management of resources.

We are therefore lobbying to ensure that credit-based funding continues to be recognised in a European banking market as the primary form of finance for SMEs and that the business model of decentralised groups will be regulated respectfully and appropriately.

In 2019, we will give our customers the stability they have come to expect, but we will also continue our transformation within the Group. We will better integrate the internal chain of services for the development of innovative products, while strengthening the function of Landesbanken as service providers for the Savings Banks. In this way we will meet our responsibility as a strong Group for Germany as a financial centre.

Report on material events after the reporting date

A case of recourse to the guarantee fund was established in the first quarter of 2019. In this context, the responsible public bodies and the Protection Scheme of the Savings Banks Finance Group agreed on the key elements of a capital plan and the future business model for NORD/LB. According to the plan, the capital ratios of NORD/LB will be strengthened by carrying out a cash injection of EUR 2.835 billion, in which the state-level governments of Lower Saxony and Saxony-Anhalt will participate by jointly contributing a total of EUR 1.7 billion. In keeping with the current status of the discussions, the Protection Scheme and the responsible Savings Banks will provide EUR 1.135 of the cash injection for NORD/LB. Under the plan, the State of Lower Saxony will also carry out additional capital-relief measures of up to EUR 800 million, which will lead to a positive overall capital effect of up to EUR 3.635 billion.

All the capital measures described and the business model as a whole are still subject to approval by the parties involved as well as by the regulatory authorities and the EU Commission. The intention is to implement the agreed capital measures in the third quarter of 2019 at the latest. As a result of the implementation of the planned capital-strengthening and realignment measures, the capital ratios will significantly increase and the bank will then be in compliance with all regulatory requirements.

The capital measures will be based on the restructuring of NORD/LB and relevant changes to its business model. NORD/LB will operate as a Landesbank and clearing house with regionally focused business activities. In the course of a resizing process, the bank's total assets will be reduced to approx. EUR 95 billion in the medium term.

[1] Payment Services Directive 2

5. AGGREGATED FINANCIAL STATEMENTS

Explanatory notes on aggregation

Scope of aggregation

The aggregated balance sheet and the aggregated profit and loss account (P&L) presented by the DSGV include the financial statements of all Savings Banks, Landesbanken and Landesbausparkassen, as well as Hamburg Commercial Bank (formerly HSH Nordbank), which is still affiliated with the protection scheme.

Regardless of their legal form (legally independent entities or legally dependent units of Landesbanken), Landesbausparkassen have been fully incorporated into the scope of aggregation.

The foreign branches of Landesbanken, as well as their domestic and foreign Group subsidiaries and Landesbausparkassen are not included in the figures.

Aggregation approach

The Savings Banks and Landesbanken data used in the preparation of the aggregated balance sheet were taken from the Deutsche Bundesbank's 2017 and 2018 December reports for the monthly balance sheet statistics ("Bista"). The corresponding balance sheet data of the Landesbausparkassen were taken from the respective annual reports.

The Savings Banks and Landesbanken figures used for the aggregated profit and loss (P&L) accounts of fiscal years 2017 and 2018 are based on the results of the external analysis of Savings Banks and the published German GAAP individual financial statements of Landesbanken; the results of the external analysis of Savings Banks were reclassified in accordance with German GAAP. The Landesbausparkassen figures for both fiscal years were taken from the respective annual reports (also prepared in accordance with German GAAP).

The result of this data compilation is a non-consolidated aggregate balance sheet and a non-consolidated aggregate profit and loss account of the institutions affiliated with the protection scheme of the Savings Banks Finance Group. Other institutions affiliated with the Institutional Protection Scheme of the Savings Banks Finance Group include BerlinHyp, Deutsche Hypothekenbank, Frankfurter Bankgesellschaft (Deutschland) AG, Landesbank Berlin Holding AG, Portigon AG, S-Kreditpartner GmbH, Sparkassen Broker and Weberbank.

Aggregated profit and loss account of the Savings Banks Finance Group*

	2018[1] in EUR million	2017 in EUR million
Net interest income	**28,860**	29,793
Interest income	56,807	56,251
Interest expense	27,947	26,458
Net commission income	**8,903**	8,723
Commission income	11,647	11,336
Commission expense	2,744	2,613
Net income from financial transactions	**671**	1,065
Administrative expenses	**27,506**	27,364
Personnel expenses	16,246	16,092
Material expenses	11,260	11,272
Other operating income	**127**	237
Operating result before valuation	**11,055**	12,455
Valuation result (excluding equity interests)	–4,002	–2,063
Operating result after valuation	**7,053**	10,392
Balance of other and extraordinary income/expenses[2]	–4,103	–4,697
of which: additions to the Fund for General Banking Risks in accordance with Section 340(g) German Commercial Code[3]	–3,923	–5,393
Net income before taxes	**2,950**	5,694
Income taxes	3,161	3,363
Net income after taxes	**–213**	2,331
of which net income/loss of Savings Banks after taxes	1,796	2,110
of which net income/loss of Landesbanken after taxes	–2,035	187
of which net income/loss of Landesbausparkassen after taxes	26	33
Return on equity	as a percentage	as a percentage
Before taxes	4.1	6.9
After taxes	2.2	4.8
Cost/income ratio (operating income)	**71.3**	68.7

* Savings Banks Finance Group: 1. Savings Banks, 2. Landesbanken excluding foreign branches, excluding domestic and foreign group subsidiaries and excluding Landesbausparkassen. 3. Landesbausparkassen (legally independent entities of LBS and legally dependent units of Landesbanken) as well as Hamburg Commercial Bank (formerly HSH Nordbank), which is still affiliated with the protection scheme.

[1] Provisional figures from financial statements prepared in accordance with German GAAP, rounding differences may occur.

[2] Including the balance of gains on the sale of financial investments and investments held as fixed assets, write-downs/write-ups on financial investments and investments held as fixed assets as well as additions to and withdrawals from the Fund for General Banking Risks in accordance with Section 340(g) German Commercial Code (additions to the Fund for General Banking Risks are preceded by a minus sign).

[3] As in the “original” P&L account under German GAAP, additions to the Fund for General Banking Risk in accordance with Section 340(g) German Commercial Code are recognised as expenses that reduce net income.

Source: Inter-company comparison of Savings Banks, annual reports of Landesbanken (Individual financial statements in accordance with German GAAP), DSGV/national head office of Landesbausparkassen, Deutsche Bundesbank.

Aggregated balance sheet of the Savings Banks Finance Group*

Assets	As at 31 Dec 2018 in EUR million	As at 31 Dec 2017 in EUR million
Cash reserve[1]	**104,487**	86,446
of which balances held with central banks	92,114	75,771
Treasury bills[2]	**0**	0
Other bills	**0**	0
Loans and advances to banks (MFIs)	**268,628**	271,056
Loans and advances to non-banks (non-MFIs)	**1,254,119**	1,212,232
Debt securities and other fixed-income securities	**328,192**	330,941
Equities and other non-fixed-income securities	**100,105**	98,670
Investments	**14,091**	14,373
Investments in affiliated undertakings	**10,152**	9,781
Trust assets	**9,304**	9,769
Equalisation claims	**0**	0
Tangible fixed assets	**11,743**	11,831
Other assets	**77,361**	84,367
Total assets	**2,178,182**	**2,129,466**

* Savings Banks Finance Group: 1. Savings Banks, 2. Landesbanken excluding foreign branches, excluding domestic and foreign group subsidiaries and excluding Landesbausparkassen, 3. Landesbausparkassen (legally independent entities of LBS and legally dependent units of Landesbanken), as well as Hamburg Commercial Bank (formerly HSH Nordbank), which is still affiliated with the protection scheme.

[1] Cash on hand and balances held with central banks.

[2] Including non-interest-bearing treasury notes and similar public-sector debt.

Liabilities	As at 31 Dec 2018 in EUR million	As at 31 Dec 2017 in EUR million
Liabilities to banks (MFIs)	**376,127**	369,612
Liabilities to non-banks	**1,280,220**	1,243,222
Savings deposits	360,923	361,400
Other liabilities	919,297	881,821
Securitised liabilities	**203,107**	201,145
of which: debt securities issued	189,653	188,135
Money market instruments issued	13,424	13,008
Trust liabilities	**9,304**	9,769
Write-downs on loans and securities	**1,696**	2,250
Provisions	**26,784**	26,186
Subordinated liabilities	**17,970**	16,635
Profit participation certificates	**1,121**	1,370
Equity [3]	**167,846**	161,491
Other liabilities [4]	**94,008**	97,788
Total equity and liabilities	**2,178,182**	**2,129,466**
Contingent liabilities [5]	**0**	0
Bills for collection	**2**	3
Business volume	**2,178,184**	2,129,469
Guarantees	**66,366**	61,989

[3] Dotation capital and retained earnings (including Fund for General Banking Risks).
[4] Including special items with an equity portion.
[5] From rediscounted credit bills (including own bills drawn).

Source: DSGV, balance sheet statistics/business performance of Savings Banks, Landesbanken (excluding LBS, excluding foreign branches and excluding domestic and foreign Group subsidiaries) and Landesbausparkassen.

6. GERMAN SAVINGS BANKS ASSOCIATION (DSGV)

Deutscher Sparkassen- und Giroverband e. V. (DSGV – German Savings Banks Association) is the umbrella organisation of the Savings Banks Finance Group.

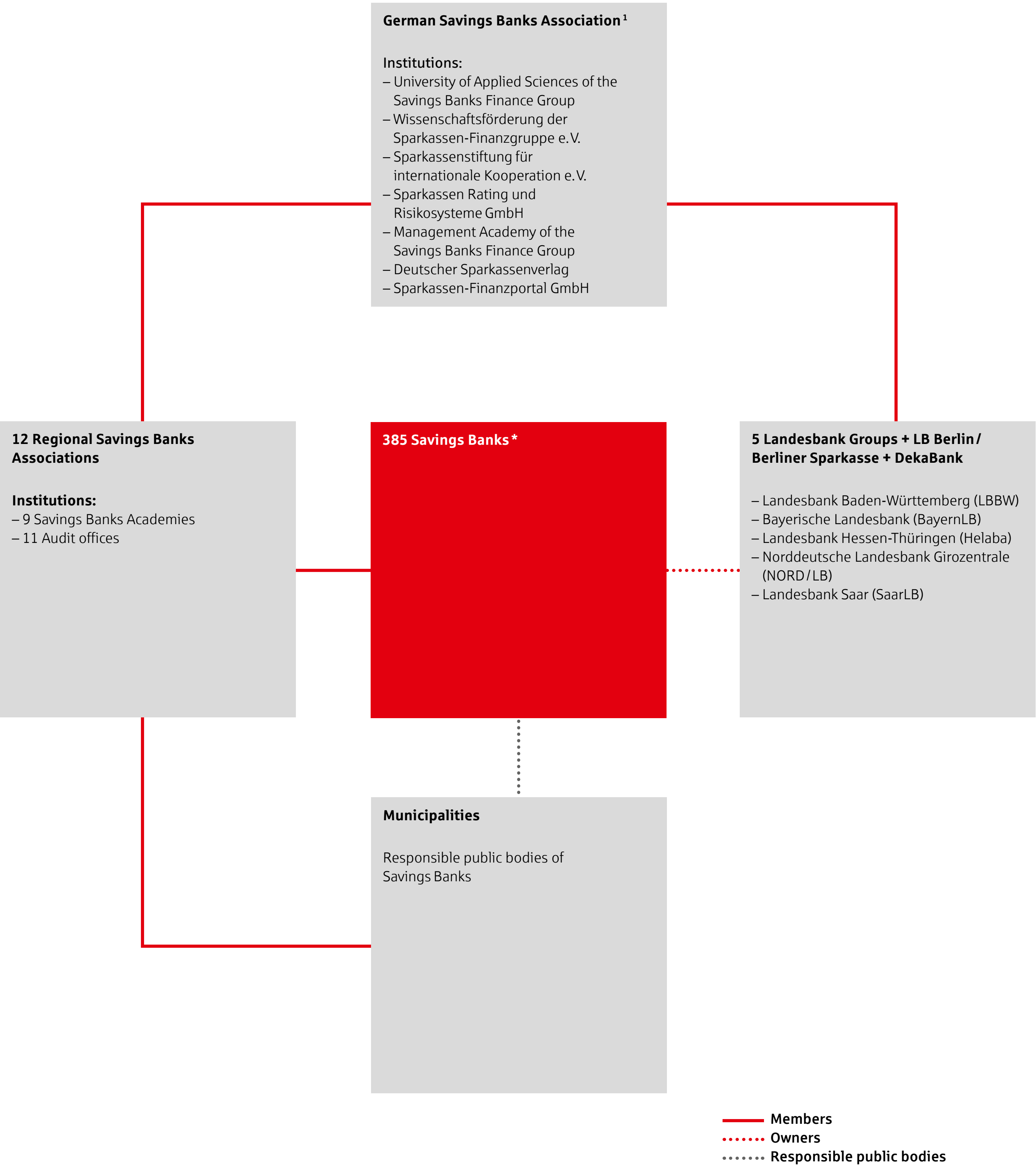
The DSGV defends the interests of all the entities associated with the Savings Banks Finance Group in relation to banking policy, the banking sector and regulation vis-à-vis national and international institutions and the general public. In addition, the DSGV defines the strategic direction of the Savings Banks Finance Group.

To this end, its members and associated entities develop concepts in cooperation with the DSGV for a successful market approach. This comprises strategic issues in terms of the market and operations, including product development and handling, risk management and overall bank management, card and payment transactions, the digital agenda as well as comprehensive advisory approaches and sales strategies for all customer segments.

The DSGV also funds the central educational institutions of the Savings Banks Finance Group: the Management Academy and the University of Applied Sciences of the Savings Banks Finance Group. Other joint institutions include the Verein Wissenschaftsförderung (Research Funding Association) of the Savings Banks Finance Group, the Eberle Butschkau Foundation, as well as the Savings Banks Foundation for International Co-operation.

In addition, the DSGV manages the schemes protecting its affiliated institutions under the German Deposit Guarantee and Investor Compensation Act and the Protection Scheme of the Savings Banks Finance Group, as well as the Guarantee Fund of the Girozentralen and the Guarantee Fund of the Landesbausparkassen.

Summary of the Savings Banks Finance Group's association structure



[1] Including Main Office of Landesbausparkassen.

* As at 31 December 2018.
384 Savings Banks as at 15 June 2019.

DSGV[1]

Management

Helmut Schleweis
President of the German Savings Banks Association

Dr Karl-Peter Schackmann-Fallis
Executive Member of the Board of the German Savings Banks Association (Division A)

Dr Joachim Schmalzl
Executive Member of the Board of the German Savings Banks Association (Division B)

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Executive Committee

Ordinary members	Deputy members
Helmut Schleweis President of the German Savings Banks Association, Berlin **– Chairman –**	
Thomas Mang President of the Lower Saxony Savings Banks Association, Hanover	**Peter Schneider** President of the Baden-Württemberg Savings Banks Association, Stuttgart
Herbert Hans Grüntker Chairman of the Board of Landesbank Hessen-Thüringen Girozentrale, Frankfurt/Main and Erfurt	**Rainer Neske** Chairman of the Board of Landesbank Baden-Württemberg, Stuttgart/Karlsruhe/Mannheim
Walter Strohmaier Chairman of the Board of Niederbayern-Mitte Savings Bank, Straubing	**Siegmar Müller** Chairman of the Board of Germersheim-Kandel Savings Bank, Kandel
Professor Dr Hans-Günter Henneke Managing Member of the Executive Committee of the Association of German Countries, Berlin	**Markus Lewe** Mayor of the City of Münster and Vice-President of the Association of German Cities, Berlin and Cologne

[1] All the information current as at the copy deadline 5 July 2019

Management Board

Chairman of the Management Board

Helmut Schleweis
President of the German Savings Banks Association, Berlin

Deputies for the Chairman of the Management Board (Vice-Presidents)

Thomas Mang
President of the Lower Saxony Savings Banks Association, Hanover
1st Vice-President

Herbert Hans Grüntker
Chairman of the Board of Landesbank Hessen-Thüringen Girozentrale,
Frankfurt / Main and Erfurt
2nd Vice-President

Walter Strohmaier
Chairman of the Board of Niederbayern-Mitte Savings Bank, Straubing
3rd Vice-President

Professor Dr Hans-Günter Henneke
Managing Member of the Executive Committee of the Association of German Counties, Berlin
4th Vice-President

Members of the Management Board

Chairpersons of the Associations

Reinhard Boll
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Michael Breuer
President of the Rhineland Savings Banks Association, Düsseldorf

Professor Dr Liane Buchholz
President of the Westfalen-Lippe Savings Banks Association, Münster

Dr Michael Ermrich
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Dr Johannes Evers
President of the Berlin Savings Banks Association
Chairman of the Board of Landesbank Berlin AG / Berliner Sparkasse

Gerhard Grandke
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President of the Lower Saxony Savings Banks Association, Hanover

Dr Ulrich Netzer
President of the Bavarian Savings Banks Association, Munich

Peter Schneider
President of the Baden-Württemberg Savings Banks Association, Stuttgart

Dr Harald Vogelsang
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Chairman of the Board of Hamburger Sparkasse AG

Executive Directors of Girozentralen (clearing banks)

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Thomas S Bürkle
Chairman of the Board of Norddeutsche Landesbank, Hanover / Brunswick / Magdeburg

Herbert Hans Grüntker
Chairman of the Board of Landesbank Hessen-Thüringen Girozentrale, Frankfurt / Main and Erfurt

Rainer Neske
Chairman of the Board of Landesbank Baden-Württemberg, Stuttgart / Karlsruhe / Mannheim

Dr Edgar Zoller
Chairman of the Board of Bayerische Landesbank, Munich
– also as member of the Executive Committee of Bundesverband Öffentlicher Banken Deutschlands e.V., Berlin –

National Chairman of Savings Banks Boards

Walter Strohmaier
Chairman of the Board of the Niederbayern-Mitte Savings Bank, Straubing

Regional Chairmen of Savings Banks Boards

Götz Bormann
Chairman of the Board of the Förde Savings Bank, Kiel

Michael Bräuer
Chairman of the Board of the Oberlausitz-Niederschlesien Savings Bank, Zittau

Ingo Buchholz
Chairman of the Board of the Savings Bank of Kassel

Ralf Fleischer
Chairman of the Board of the Savings Bank of Munich

Wilfried Groos
Chairman of the Board of the Savings Bank of Siegen

Peter Klett
Chairman of the Board of the Weser-Elbe Savings Bank, Bremerhaven

Ludwig Momann
Chairman of the Board of the Emsland Savings Bank, Meppen

Siegmar Müller
Chairman of the Board of the Germersheim-Kandel Savings Bank, Kandel

Hans-Werner Sander
Chairman of the Board of the Savings Bank of Saarbrücken

Burkhard Wittmacher
Chairman of the Board of the Esslingen-Nürtingen Savings Bank, Esslingen/Neckar

Alexander Wüerst
Chairman of the Board of the Savings Bank of Cologne

Representatives of municipal umbrella organisations

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Helmut Dedy
Managing Member of the Executive Committee of the Association of German Cities, Berlin and Cologne

Markus Lewe
Mayor of the City of Münster and Vice-President of the Association of German Cities, Berlin and Cologne

Association of German Counties

Professor Dr Hans-Günter Henneke
Managing Member of the Executive Committee of the Association of German Counties, Berlin

Bernhard Reuter
Administrator of the District of Göttingen and Vice-President of the Association of German Counties, Berlin

Association of German Towns and Municipalities

Dr Gerd Landsberg
Managing member of the Executive Committee of the Association of German Towns and Municipalities, Berlin

Roland Schäfer
Mayor of the City of Bergkamen and
Vice-President of the Association of German Towns and Municipalities, Berlin

DekaBank Deutsche Girozentrale

Michael Rüdiger
Chairman of the Board of DekaBank Deutsche Girozentrale, Berlin and Frankfurt/Main

Chairman of the Building Societies Conference

Jörg Münning
Chairman of the Board of LBS Westdeutsche Landesbausparkasse, Münster

Other Members of the Management Board of DSGV e.V.

Dr Karl-Peter Schackmann-Fallis
Executive Member of the Board of DSGV, Division A, Berlin

Dr Joachim Schmalzl
Executive Member of the Board of DSGV, Division B, Berlin

List of abbreviations

Abbreviation	Explanation
API	Application Programming Interface
Bista	Balance Sheet Statistics
BRRD	Banking Recovery and Resolution Directive
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
EBA	European Banking Authority
EinSiG	German Deposit Insurance Act
eKRM	Efficient credit risk management
ETF	Exchange-Traded Funds
FinaRisikoV	Financial and Risk-Bearing Capacity Information Ordinance
FSB	Financial Stability Board
GDP	Gross Domestic Product
G-SIBs	Global Systemically Important Banks
GuV	Profit and loss account
HGB	German Commercial Code (German GAAP)
ICAPP	Internal Capital Adequacy Assessment Process
ILAPP	Internal Liquidity Adequacy Assessment Process
IRBA	Internal rating-based approach
IMF	International Monetary Fund
KSA	Credit Risk Standard Approach
KWG	German Banking Act
LCR	Liquidity Coverage Ratio
LiqV	German Liquidity Ordinance
MaRisk	Minimum requirements for risk management
MFI	Monetary Financial Institutions
OpRisk	Operational Risk
PSD 2	Payment Services Directive 2
SREP	Supervisory Review and Evaluation Process
SRM	Single Resolution Mechanism
SSBB	Small and Simple Banking Box
TLAC	Total Loss Absorbing Capacity
VaR	Value-at-Risk

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