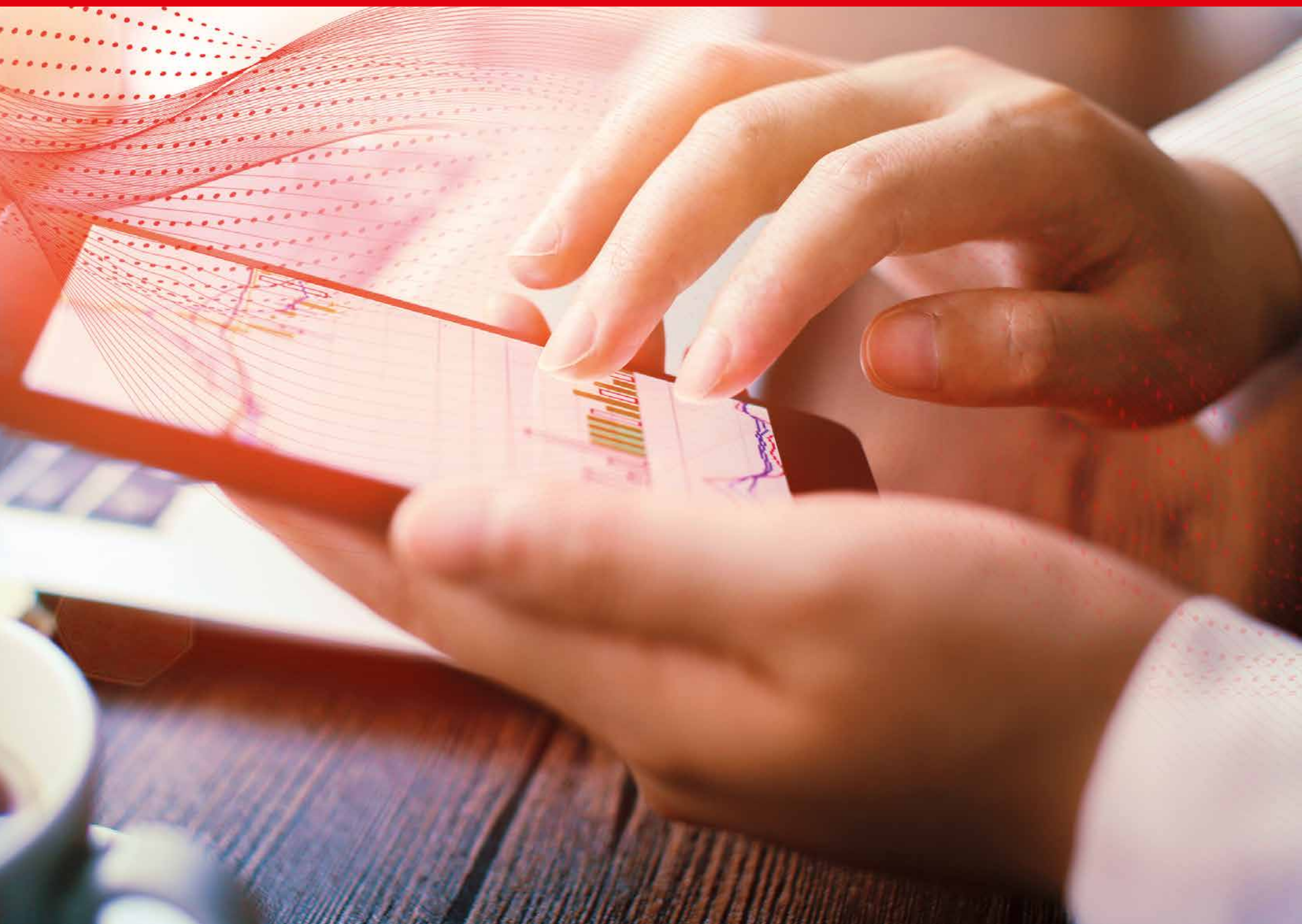
Finanzgruppe
Deutscher Sparkassen- und Giroverband

FINANCIAL REPORT 2017

of the Savings Banks Finance Group



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 540 member institutions within a strong group.

Together with all its institutions and partner companies, the Savings Banks Finance Group fully covers the range of financial needs of individuals and enterprises in Germany.

Closeness and responsibility

As a rule, Savings Banks are corporations under public law owned by local governments. In line with their regional structure, their presence and their business operations are focused on their original home region. They are independent, managed in a decentralised manner and rely on organic growth. To preserve all of these strengths, Savings Banks have to manage their business operations in a sustainable manner, and they have to ensure an economic balance in the long term. For this reason, Savings Banks use the profits they generate exclusively to strengthen their equity base and to promote development in their home region.

Branches

18,000[5]

17,960[7]

Employees

312,800[5,6]

304,500[6,7]

Strong within the Group

The co-operation within the Savings Banks Finance Group complements the Savings Banks' local roots. Their co-operation enables the affiliated institutions to specialise and divide responsibilities among themselves, which strengthens the efficiency of all the members. In this way, 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]	Branches[2]	Employees[3]	Business volume[4]
540	**18,000**[5]	**312,800**[5,6]	**EUR 2,840 billion**[5]
	17,960[7]	304,500[6,7]	EUR 2,700 billion[7]

Savings Banks

390*

Total assets ...... EUR 1,200 billion
Branches 13,305
Employees 216,117

6 Landesbank Groups

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

Total assets ...... EUR 908 billion
Employees 34,836

Deka-Bank

Deutsche Girozentrale

Total assets
EUR 94 billion

Employees
4,649

Landesbausparkassen (LBS)

8

Total assets ...... EUR 68 billion
Employees 6,918

Deutsche Leasing Group[8]

Number of contracts
275,000

Acquisition value
EUR 28.3 billion

Assets under management
EUR 36.8 billion

Employees
2,526

Public direct insurance groups

11

Gross premium income ...... EUR 20.8 billion
Employees 28,500

Equity investment companies

61

Investments 1,536
Business volume ...... EUR 1.1 billion
Employees 203

Investment companies of Landesbanken

5

Factoring companies

3

Annual turnover ...... EUR 28.3 billion
Employees 329

LBS real estate companies

7

Property procurement volume ...... EUR 7.5 billion
Employees 562

Other leasing companies

2

Acquisition value ...... EUR 7.6 billion

DSV Group

Deutscher Sparkassenverlag

Turnover
EUR 0.8 billion

Employees
2,200

Locations
10

Finanz Informatik

Employees
3,929

SIZ employees
185

Sparkassen Rating und Risikosysteme

Employees
167

Management consultancy firms

5

Employees 50

[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 3,304 employees of associations, their institutions and other institutions
[7] Excluding foreign branches, excluding domestic and foreign subsidiaries of Landesbanken
[8] As of 30 September 2017

* As of 31 December 2017; as of 15 June 2018: 385 Savings Banks

Key financials of the Savings Banks Finance Group *

Selected balance sheet items

	As at year-end 2017 billion EUR	As at year-end 2016 billion EUR	Change %
Loans and advances to banks (MFI [1])	**271.1**	265.2	+2.2
Loans and advances to non-banks (non-MFIs)	**1,212.2**	1,204.6	+0.6
Liabilities to banks (MFIs)	**369.6**	371.4	–0.5
Liabilities to non-banks (non-MFIs)	**1,243.2**	1,211.2	+2.6
Equity	**161.5**	157.9	+2.2
Total assets	**2,129.5**	2,118.8	+0.5
Tier-1 ratio pursuant to CRR [2] (as percentage; change in percentage points)	**16.3**	15.6	+0.7

Selected items of the P&L account [3]

	2017[4] billion EUR	2016 billion EUR	Change %
Net interest income	**29.483**	31.165	–5.4
Net commission income	**8.710**	8.050	+8.2
Net income from financial transactions	**1.070**	1.033	+3.6
Administrative expenses	**27.252**	27.090	+0.6
Operating result before valuation	**12.369**	13.471	–8.2
Operating result after valuation	**10.394**	10.748	–3.3
Net income before taxes	**5.697**	5.569	+2.3
Income taxes	**3.363**	3.499	–3.9
Net income after taxes	**2.334**	2.070	+12.8
of which net income of Savings Banks after taxes	**2.113**	2.025	+4.3
of which net income/loss of Landesbanken after taxes	**0.188**	0.004	>100
of which net income of Landesbausparkassen after taxes	**0.033**	0.041	–18.8

* 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 LBS entities and legally dependent units of Landesbanken.

[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, some of which are as yet unaudited.

Contents

HELMUT SCHLEWEIS
President of the German Savings Banks Association

"With their overall business performance, Savings Banks impressively demonstrate their market strength through their decentralised business model."

Berlin, June 2018

Ladies and Gentlemen,

In 2017, the business model of the Savings Banks Finance Group once again proved to be stable, flexible and highly competitive.

The extremely low interest rates continue to place a heavy burden on us, and smaller banks in particular can barely manage the organisational effort required to cope with the excessive amount and complexity of regulatory reporting obligations. Savings Banks have responded to this challenge by generating more business with their customers. This is demonstrated by growing volumes of deposits and loans. In loans to enterprises, Savings Banks again achieved new record levels – both in their new business and in their portfolios.

FOR MORE INFORMATION ON DIGITALISATION AND STRATEGIES FOR THE FUTURE

see pages 16 to 33

In addition, Savings Banks are investing in modernising Germany as a location for business enterprises. As the market leader, they are setting standards for innovative payment methods and combine this with a continued nation-wide presence to provide face-to-face advice at local level.

Savings Banks have responded to the low market interest rates by once again substantially increasing their net commission income. As a result, the expected losses in net interest income were offset to some extent, and the result from operations was kept stable. Despite higher IT investments in the wake of technological innovations and regulatory adjustments, administrative expenses were even slightly lower in 2017. The Savings Banks' net income after taxes increased slightly to EUR 2.1 billion.

In terms of their overall business performance, Savings Banks have impressively demonstrated their strength in the market owing to their decentralised business model. The general public also benefits from this. With tax payments of nearly EUR 3 billion, Savings Banks are strengthening the scope for action of local governments throughout Germany.

“2018 will be the year of innovation for Savings Banks.”

Landesbanken continued to reduce their risk exposure and further increased their capital ratio in 2017. In the past few years, they have consistently improved their economic resilience. With a slight decline in their new business, Landesbausparkassen are in line with the industry trend. In 2017, all members of the Savings Banks Finance Group – under their own entrepreneurial responsibility – once again made positive contributions to a strong group.

For 2018, we expect that the interest-rate environment will continue to place an onerous burden. In the medium term, growing challenges will also be posed by demographic change, as a result of which the economic momentum may also weaken in parts of Germany. For this reason, we welcome political and social initiatives designed to strengthen structurally weak regions, and we will play our part in contributing to the success of these initiatives.

Kind regards,

390[1]

Savings Banks

540

independent enterprises

over

200

years close to our customers

3.4

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

448

million euros spent on social responsibility projects

[1] As of 31 December 2017; 385 Savings Banks as of 15 June 2018

2. OVERVIEW OF THE SAVINGS BANKS FINANCE GROUP

The Savings Banks Finance Group is Germany's largest banking group. Its unique strength is the Savings Banks' locally based business model and the close co-operation among its 540 member institutions within a strong group.

The institutions of the Savings Banks Finance Group operate as independent and decentralised banks in the market. With their nationwide network of branches, they provide modern financial services in all the municipalities and counties in Germany.

With this strategy of local proximity, 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 service territory with financial services, and they support the overall accumulation of assets.

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

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 390* independent Savings Banks form the core of the Group.

* As of 31 December 2017; 385 Savings Banks as of 15 June 2018

As universal credit institutions, Savings Banks conduct 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 service area (regional structure). As Savings Banks are predominantly credit institutions under public law, with the municipalities as their responsible public bodies, there is no municipality or county in Germany without a Savings Bank.

This decentralised structure characterises not only the Savings Banks' core business in deposits and loans, but also their willingness and their ability to continually help shape the economic and social development of their service area. Both are often interconnected. New loan commitments made by Savings Banks to enterprises and self-employed persons amounted to EUR 83.7 billion in 2017, which was a new record level. In loans for home purchases, new business amounted to EUR 47.7 billion, which was also a strong performance. The growth of customer deposit business was somewhat slower than in the previous year, increasing by EUR 21 billion to a portfolio of EUR 911.1 billion. Nevertheless, this growth demonstrates the high level of confidence that our customers place in Savings Banks.

Together, the institutions of the Savings Banks Finance Group form one of Germany's biggest 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 directly benefit people at local level. This is our contribution to a regionally balanced development of the economy and society.

The Savings Banks Finance Group

Division of labour and co-operation within the Group	Decentralised management responsibility	Commercial efficiency	
Public legal status	Municipalities as responsible public bodies	Focus on public welfare	Regional structure

Our mission

Promoting the common good, strengthening own responsibility

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, their business model has overcome major watersheds: industrialisation in urban and rural areas, the new beginning after 1918 and 1945, and the integration of Germany after the fall of the wall. Currently, the Savings Banks Finance Group is confronting the challenges of digitalisation.

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

> Enabling all customer groups to save money, make provisions for old age and access financial services. Financial inclusion is the foundation of our business model.
>
> A second core element is the particular focus on local and regional development and its key players, i.e. mainly private households, craftsmen, small and medium-sized enterprises and local authorities.
>
> 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 not only have a banking role, but also a role to play in society as a whole. In accordance with this mission, the success of a Savings Bank is measured by its local impact, which is far more than the basic definition 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 promoting the financial literacy of children, adolescents and private households. Furthermore, they maintain a comprehensive internal education and in-service training system and employ approx. 13,130 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, even in recent years – a challenging period for the global economy.

Business model

Stability, proximity and responsibility

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 sensitively to changes. With their business model, Savings Banks provide reliability for the people and enterprises in their service territory and in Germany as a whole. In essence, Savings Banks provide this reliability by ensuring access to high-quality financial services for retail customers, enterprises and the public sector.

The vast majority of Savings Banks are corporations under public law with the municipalities 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 which do not have municipalities as their responsible public bodies are also committed to these principles.

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

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 all institutions. The affiliated institutions thus 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. This also applies in the 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 2017: on the one hand, providing more qualified and personalised advice as well as digital services; and on the other hand, creating more room for manoeuvre for business development by streamlining processes. Savings Banks invest in both fields – to ensure that they will continue to be reliable and close to their customers in the future.

Our partners

The institutions of the Savings Banks Finance Group co-operate within a strong group.

Landesbausparkassen – number one in home savings and loan contracts

The eight Landesbausparkassen (LBS) hold the leading market position in Germany, with a market share of 36.5 percent in terms of the number of new home savings and loan agreements concluded, and with a share of 35.6 percent in terms of the portfolio of contracts (number). They operate approx. 600 information centres, and roughly 6,900 employees work in their offices and in their field force. The LBS Group's cumulative balance sheet total reached a new record high of EUR 68.3 billion at the end of 2017.

Landesbanken

Landesbanken provide a broad range of services for businesses and enterprises of all sizes. In addition, they make available key financial services to local authorities and their enterprises. As central clearing banks for Savings Banks, Landesbanken ensure the integration of Savings Banks into supra-regional and international banking relations. In addition, Landesbanken provide support and advice to the Savings Banks' small and medium-sized customers in their international activities. Hence, Landesbanken play a major role in developing new business opportunities for small and medium-sized enterprises. By bundling services, e.g. in international payment transactions and in the securities trading business, Landesbanken contribute to the cost efficiency of Savings Banks.

Deutsche Leasing continued to grow in 2017

Against the background of the German economy's robust overall performance, which was also supported by strong international business, the Deutsche Leasing Group consolidated its leading market position in Germany and abroad by growing its new business to EUR 8.9 billion. The economic result of EUR 153 million[1] was above the previous year's level. Factoring revenues increased by 10 percent to EUR 17.1 billion[2].

Fiscal 2017 was also a successful year with a view to the co-operation between Savings Banks and the Deutsche Leasing Group. In the joint leasing business, the volume of new business increased by 11 percent to approx. EUR 4.2 billion[2]. Particular attention should be paid to the international business jointly generated within the Savings Banks Finance Group, which more than doubled, increasing from EUR 135 million in 2016 to EUR 278 million in 2017. Owing to the combination of regional customer proximity and an international network, Deutsche Leasing can continue to provide simple and efficient support to corporate customers for their foreign investments in 2018.

In 2017, Deutsche Factoring Bank – a company of the Deutsche Leasing Group – further cemented its role as a centre of expertise for Savings Banks and their customers. Over 90 percent of the new contracts concluded last year were intermediated by Savings Banks. Export factoring, which accounts for about one-quarter of factoring revenues, is also becoming increasingly important. As a member of Factors Chain International, the leading global association of factoring companies, Deutsche Factoring Bank provides its clients with an excellent network, in particular small and medium-sized enterprises with international activities.

[1] As of 30 September 2017 (fiscal year of Deutsche Leasing: 1 October 2016 to 30 September 2017)

[2] As of 31 December 2017 (fiscal year of partners in Savings Banks Finance Group: 1 January 2017 to 31 December 2017)

As the key partner of Savings Banks and the leading asset finance partner of Germany's small and medium-sized enterprises, the Deutsche Leasing Group is the centre of expertise within the Savings Banks Finance Group for leasing, factoring and other SME-focused asset finance solutions and complementary services in Germany and abroad. 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. Internationally, 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.

Deka Group

DekaBank is the Savings Banks' investment firm; together with its subsidiaries, it forms the Deka Group. With total assets [1] of approx. EUR 283 billion and roughly four million managed securities deposit accounts [2], the Deka Group is one of Germany's largest investment service providers. 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 2017, the gross premium income of the 11 public direct insurance groups amounted to EUR 20.8 billion, which underscores the strong performance of the previous year and confirms their position as Germany's second largest insurance group. The regional associations of Savings Banks are the key guarantors or owners of nearly all public insurers.

Other financial service providers

The range of financial services provided by the Savings Banks Finance Group is complemented by a large number of associated companies and institutions, including Finanz-Informatik, Deutscher Sparkassenverlag, five investment companies of Landesbanken, three factoring companies, seven real estate companies owned by Landesbausparkassen, 61 equity investment companies and other financial services companies, as well as five management consultancy firms.

Together with all its institutions and partner companies, the Savings Banks Finance Group covers the full range of financial services for private individuals and enterprises in Germany.

[1] Total assets include mutual and special funds, ETFs and certificates

[2] As of 31 December 2017

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 guarantee scheme. The scheme, which was established 40 years ago, provides maximum reliability for customers of the Savings Banks Finance Group.

The protection scheme of the Savings Banks Finance Group protects deposits in a Savings Bank, a Landesbank or a Landesbausparkasse. The purpose of the protection scheme is to prevent the affiliated institutions from running into financial difficulty by affording voluntary institutional protection in line with statutory requirements. As a result, the business relationship with customers continues as contractually agreed.

The protection scheme 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, as 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 combined to form 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 79 to 81 of the Risk Report.

Ratings suitable for the capital markets

External rating agencies have confirmed the Savings Banks Finance Group's good credit rating 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 2017, all three agencies once again awarded comparable 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 guarantee funds.

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

These assessments have remained unchanged in 2018, and the rating agencies have confirmed their ratings.

Ratings of the Savings Banks Finance Group

	2018	2017	2016
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	stable	stable

2017 highlights

Since summer 2017, the online-based DSGV project "Evidenzstelle" has pooled the Finance Group's digitalisation activities.

Bringing digitalisation to life

"Evidenzstelle" (i.e. Administration Office) is the name of a DSGV project that is part of the digital agenda and that went live in summer 2017.

The Savings Banks Finance Group's Administration Office, which provides information about digital products, services and ideas developed by the Group, aimed to achieve two objectives: speeding up digitalisation within the Savings Banks Finance Group, and interconnecting think tanks, executors and finance providers of digital projects on a centralised platform.

Savings Banks Innovation Hub (S-Hub)

With the establishment of the S-Hub as a centre for innovative developments within the Savings Banks Finance Group, we are continuing to drive digitalisation for retail customers within the Group.

This initiative was launched in early 2017 as a joint effort of the German Savings Banks Association, the DSV Group, Finanz Informatik and Savings Banks. The purpose of S-Hub is to serve both as an innovation incubator and as a docking point and contact partner for FinTechs.

Conference: G20 and locally focused banks

In March 2017, a conference entitled "G20 and locally focused banks" was held at the Sparkassenhaus in Berlin within the framework of Germany's G20 Presidency, with the objective of addressing the key financial issues of the G20 from the perspective of locally focused credit institutions.

At this conference, high-ranking representatives from various countries discussed the role and importance of regional banks for sustainable economic development and for the stability of financial markets. The conference was focused on raising the participants' awareness of the need for applying graduated and adjusted regulation to regionally focused banks. Together with the Federal Association of German Co-operative Banks (BVR), the World Savings Banks Institute (WSBI) and the European Association of Co-operative Banks (EACB), the DSGV advocates simple and graduated rules for the banking sector in order to preserve stability in Europe.

2017 – Year of culture

2017 was an extraordinary year, with many large-scale cultural projects which received international attention: documenta 14 in Kassel, the Sculpture Projects in Münster, the Venice Biennale and the 500th anniversary of the Reformation. The Savings Banks Finance Group is involved in all of these events as a sponsor – in the case of documenta and the Sculpture Projects in Münster as the main sponsor, with extensive communication and activation measures implemented under the motto "It's easy to experience" ("Erleben ist einfach"). These measures included "Service Points" in Kassel and Münster, i.e. contact points for exhibition visitors; the Service Points were also staffed with apprentices of the institutions participating in these activities.

In Kassel, the activities of the Finance Group for the year of culture 2017 were also supported by apprentices at the Service Points.

Anniversary of the Reformation in 2017

The celebrations for the 500th anniversary of the Reformation – and, hence, what is referred to as the "Reformation Decade" – reached its climax and conclusion in 2017. Many institutions and foundations of the Savings Banks Finance Group have been engaged in celebrating this special anniversary since 2007 by sponsoring small and large projects. The programme for the anniversary year 2017 included three special national exhibitions under the patronage of Germany's Federal President. One of these exhibitions – "The Luther effect: 500 years of Protestantism in the world" – was supported by the Savings Banks Finance Group as the main sponsor, rounding off the Group's extensive range of activities to celebrate the anniversary of the Reformation.

New S-Worldwide app demonstrates international presence

The S-Worldwide app for international business has been online for more than one year. Nearly 200 Savings Banks are now using this new digital marketing channel.

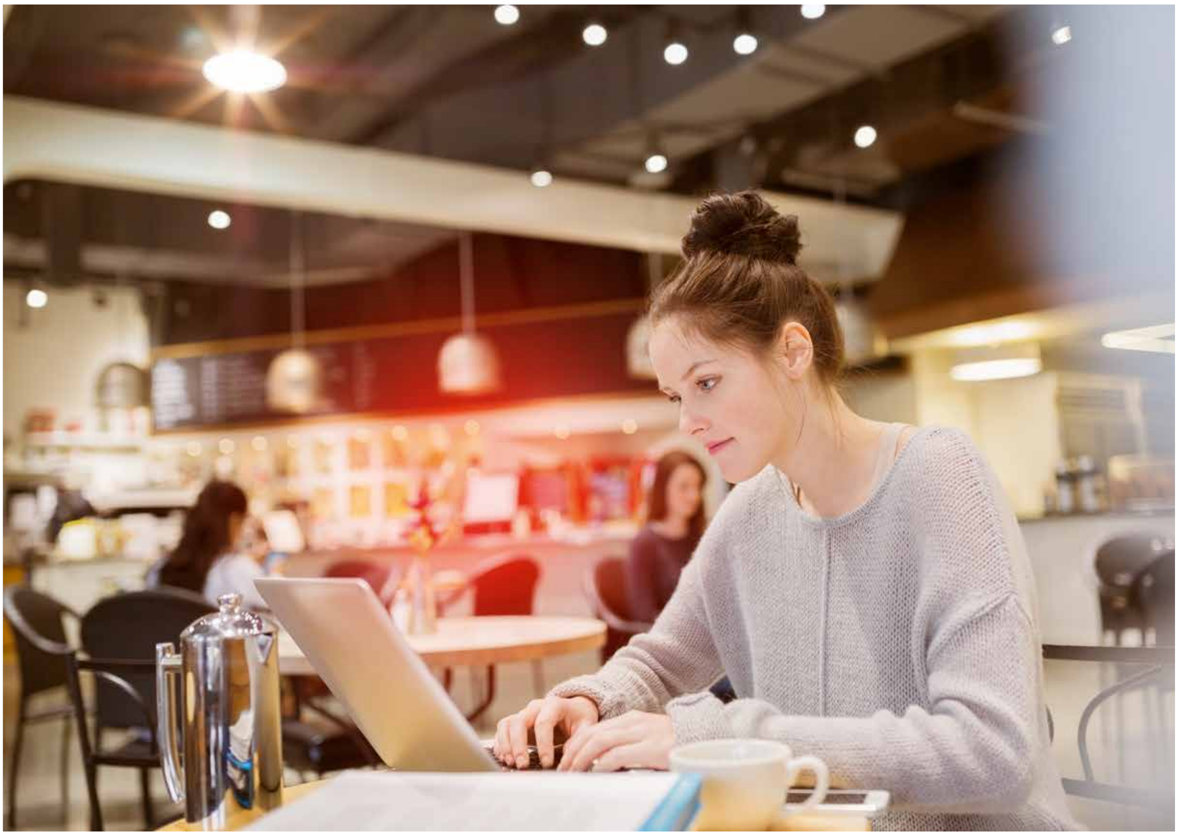
The app provides high-quality information on 150 countries and is designed to give new impetus to international corporate banking business. The app was developed by S-Country Desk, the international network of Savings Banks, in co-operation with Sparkassen-Finanzportal and has far exceeded the expectations of the initiators of such a specialised app, with more than 20,000 downloads.

Election of DSGV President in December

In December 2017, Helmut Schleweis, Chairman of the Executive Board of the Heidelberg Savings Bank and National Chairman of the executive board members of Savings Banks, was unanimously elected as President at the DSGV's General Meeting. The new head of the DSGV is a renowned expert who combines his passion for Savings Banks with his commitment to efficient co-operation within the Savings Banks Finance Group.

3. THE DIGITAL AGENDA OF THE SAVINGS BANKS FINANCE GROUP

Savings Banks in transformation



Demonstrating customer proximity on all channels – Savings Banks remain Savings Banks

For more than 200 years, Savings Banks have supported economic and social change in Germany with up-to-date financial products and advisory services for all customers. “Embracing change” is part of the Savings Banks’ DNA.

In this spirit, the services provided by Savings Banks – in co-operation with their partners within the Savings Banks Finance Group – are also designed to meet current challenges such as customer behaviour that is changing because of digitalisation, customers' greater need for security in financial matters due to geopolitical uncertainties and increasingly tough economic conditions.

This has led to the development of pioneering digital solutions – however, to complement current services, not to replace them. Savings Banks want to be the preferred financial partner of their customers, both in local branches and online. Savings Banks are still their customers' first choice – owing the high degree of trust Savings Banks enjoy and their customers' feeling that they are in good hands.

For this reason, "acting instead of reacting" is also the motto of the Savings Banks' new sales strategy. Under the auspices of the DSGV, Savings Banks, regional associations and their partners within the Savings Banks Finance Group have developed a plethora of measures recommended for implementation.

The purpose of these initiatives is to enable Savings Banks to continue to increase customer satisfaction by being accessible via 'all channels'. At the same time, they enable Savings Banks to respond to many customers' expectation that their bank should be accessible around the clock – either face to face or digitally.

The core vision of the new strategy is and always will be the Savings Bank as a learning system – focused on customers. With this vision, Savings Banks will be able to systematically pursue two key strategic objectives: growth and efficiency.

READY FOR THE FUTURE

Interview with Helmut Schleweis

IT-supported processes and data-based applications have characterised the financial sector for decades. Since then, however, people's everyday lives have also become more and more digital, and financial service providers must hold their ground in the "platform economy". How does this global trend affect the business model of locally focused Savings Banks?

DSGV President Helmut Schleweis gives an update on the progress made by Savings Banks in their digitalisation process.

Mr. Schleweis, digitalisation nowadays affects all walks of life and all divisions of enterprises. In your view, how is the Savings Banks Finance Group positioned in this respect?
→ Savings Banks experience digitalisation on several levels simultaneously: due to changes in the habits of their retail customers, as a requirement for their internal organisational structure, and as a transformation process in trade and industry. That's what they are preparing for to help ensure that business enterprises and society will be able to cope with this change.

Savings Banks will remain Savings Banks, but will become more digital – can this be reconciled?
→ We maintain a balance by ensuring three things at the same time: a comprehensive ecosystem in which customers can move around naturally and still stay close to their Savings Bank; handling data with care; and providing personalised advice for which we will continue to need branches. To say that "Savings Banks will remain Savings Banks, but will become more digital" is therefore not a contradiction. The core of both is the same: proximity to our customers. The only difference is that this proximity is more diverse today than before.

One key factor in the digitalisation of Savings Banks and their services is their staff. How can they best be taken on board?
→ Digitalisation entails a cultural change which cannot be achieved overnight. We have to remain prepared to change on an ongoing basis. For this reason, it is important that we remain attractive for career starters. To this end, the job description of "bank clerks" will be reformed. All employees will need new skills, e.g. with regard to the use of data-based advisory services. More responsibility means acting more autonomously. We need to remain confident about their ability to do so.

»

In our view, it is not a contradiction to say that Savings Banks will remain Savings Banks and will become more digital. The core of both is the same: the proximity to our customers.

«

Helmut Schleweis

Savings Banks have already come a long way in their digital transformation. How satisfied are you with their performance?
→ As the market leader, Savings Banks aim to introduce innovations into the broader market at an early stage and thereby set standards. In 2018 – our "year of innovations" – we have done so with several innovations: We have introduced mobile payments at retail checkouts nationwide and we have been the first banking group in Germany to establish real-time transfers (instant payments). "Kwitt" – our peer-to-peer service – is now also available to customers of other banks, and the Savings Banks Internet Branch – our online banking service – can handle multiple banks. All our customers need for their digital every-day lives is one master key: the current account they hold with their Savings Bank.

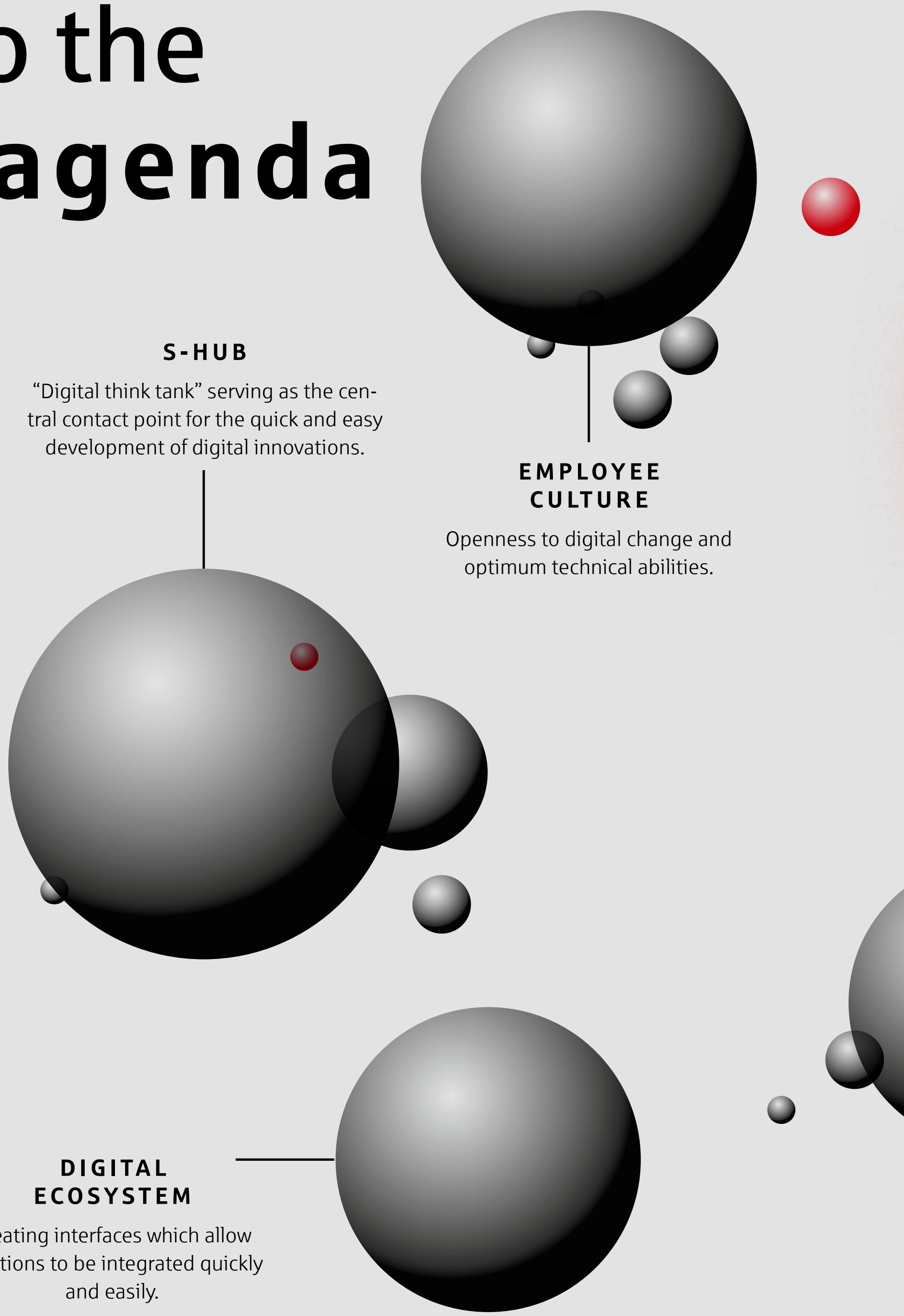
Where, in your view, are Savings Banks still facing major challenges?
→ Greater standardisation of internal operations can help to unlock significant potential, both for individual Savings Banks and for the Finance Group as a whole. It is a challenge in terms of business management to generate the investment funds required for this purpose in the current interest-rate environment, with regulatory expenses rising at the same time. The strategic challenge is to be clearly focused in view of the diversity of options provided by digitalisation. Savings Banks focus on what really benefits customers – and not anything that is possible or done by others.

What digital market trends will be crucial for Savings Banks in the course of this year and the next few years?
→ Data analytics, which is already a reality in Savings Banks, is being used to provide better advice to customers. In the Finance Group, we are dealing with voice-controlled systems, artificial intelligence, blockchain technology and additional development stages of our ecosystem. However, it will also be crucial for Savings Banks that the new technologies are used with farsightedness in terms of social and economic policy – in Germany, for example, through a sound technical infrastructure to strengthen rural and structurally weak regions.

How do you ensure that customer data will be handled with care when you digitalise your business?
→ Savings Banks do not want their customers and their sensitive data to have to be at the mercy of global Internet giants. For this reason, they are introducing convenient innovations which ensure data security and which are so comprehensive that they can cover the digital needs of a majority of people. In addition to a wide variety of payment services, this includes, for instance, the secure storage of electronic documents in the "eSafe" and the single sign-on system "YES", which minimises the data required for identification on the Internet. Savings Banks fully protect their customers' data and do not sell their data to third parties. Savings Banks handle data just as carefully as they handle their customers' money.

Innovative and agile thanks to the **digital agenda**

Savings Banks are making good progress in developing their digital services. To leverage the innovation potential of each individual institution even more systematically, the DSGV has introduced a digital agenda with six key elements.



S-HUB

“Digital think tank” serving as the central contact point for the quick and easy development of digital innovations.

EMPLOYEE CULTURE

Openness to digital change and optimum technical abilities.

DIGITAL ECOSYSTEM

Creating interfaces which allow solutions to be integrated quickly and easily.

DIGITALISATION COMPASS

What digital solutions are already available within the Group, and how can Savings Banks use them locally?

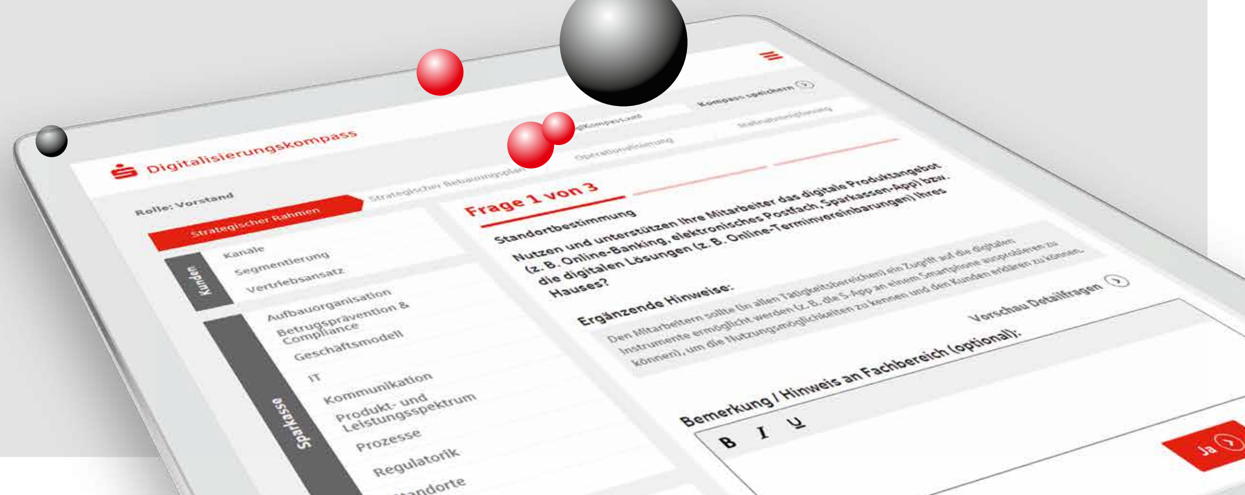
DIGITAL AGENDA

"ADMINISTRATION OFFICE"

Ideas platform within the Savings Banks Finance Group, designed to create transparency and help to find partners for implementation.

MINIMUM DIGITAL STANDARDS

This range of multiple channels should be provided by every Savings Bank.



EMBRACING DIGITALISATION

Three experts from the Savings Banks Finance Group share their views

They jointly promote digitalisation within the Finance Group:
(f.l.t.r.) Dr Michael Stollarz, Dr Joachim Schmalzl, and Franz-Theo Brockhoff.

Keeping up with technological developments in digitalisation and deciding what to incorporate into the Savings Banks' business model is a persistent challenge for the Savings Banks Finance Group. Three of the Finance Group's digital experts discuss what has already been achieved and what the best way forward will be: Dr Joachim Schmalzl, Executive Member of the DSGV's Board of Management in charge of the business and digitalisation strategy; Dr Michael Stollarz, Chairman of the Management of the DSV Group (Deutscher Sparkassenverlag), and Franz-Theo Brockhoff, Chairman of the Management of Finanz Informatik.

There is an incredible number of facets to the term "digitalisation" today. What does digitalisation mean for you as experts who deal with it on a daily basis?
→ DR SCHMALZL: Digitalisation is radically changing our society. New technologies and the pace at which they are introduced in all walks of life require all of us to be open-minded and to embrace change.

→ DR STOLLARZ: For us, digitalisation as such is not a business model; instead, it is the key to success. If we get it right, digitalisation will help us to optimise and accelerate processes – and to make services more transparent and more easily accessible for customers. If we use digital technology, for instance, to add supplementary innovative functions to the current account, we can strengthen and further deepen our customer relations.

→ BROCKHOFF: While digitalisation is nothing new for us as IT service providers, it is much faster today, and it is increasingly widespread. Much more so than in the past, we are taking into account our retail customers' views and expectations, as well as their behaviour on platforms in the market – they are the drivers in many cases. This is what we have to remind ourselves of time and again. We do so with sound pragmatism by simply starting with certain topics and adjusting our approach in the course of the project, if necessary – this is also what characterises digitalisation today. What is expected of Finanz Informatik in this context is that we monitor the technological opportunities provided by digitalisation, that we assess these opportunities at an early point in time and make them available for use by Savings Banks and the Finance Group as a whole. To this end, we are also treading new paths – in Finanz Informatik and also in the S-Hub in Hamburg, for instance.

»
In many areas, we have fortunately already reached a stage that our competitors have yet to reach.
«

Dr Joachim Schmalzl

What is the significance of digitalisation for the Savings Banks Finance Group today?
→ DR SCHMALZL: Our customers' behaviour is changing due to radically new technological options, and this trend will continue. Today, customers can handle many simple transactions faster and better on their own, either online or by smart phone. Personalised advice is still needed for complex matters and for important decisions in the life of an individual. However, owing to new technologies, this advice can be provided in very different ways: face-to-face in a branch or in the customer's home, by phone, by chat, or by video chat. To remain the preferred financial partner in Germany, we have to be accessible both locally and online. In many areas, we have fortunately already reached a stage that our competitors have yet to reach, for instance, with our Savings Banks app, and with Kwitt, our payment product for real-time transfers.

Do you see it the same way, Mr. Stollarz?
→ DR STOLLARZ: We are already well on the way, but we will have to become even bolder and always look ahead three to five years to identify topics and developments. Of course, we want to continue to do excellently what has proven to be effective and to address new topics faster and more dynamically. This also means that we will simply try out more things on a reasonable scale, even if they have not yet been fully finalised.

What can Finanz Informatik as the central IT service provider do to support the Savings Banks Finance Group?
→ BROCKHOFF: In my view, we have four key roles to play: first, enhancing OSPlus as the key solution for Savings Banks and the Finance Group, and thereby implementing a common service and sales platform for customers; secondly, intensifying the close co-operation with the partners in the Savings Banks Finance Group and integrating their solutions more firmly into a common solution for Savings Banks; thirdly, building up a common data pool. If all the Savings Banks – and the partners in the Savings Banks Finance Group – have access to the common data pool and use common interfaces as well as standardised automated processes, this will lead to completely new levers for synergies and yet better services for customers.

Fourthly, providing and using state-of-the-art IT technologies, such as machine learning, data analytics, cloud applications and banking APIs. We are on the right track, as demonstrated by topics such as OSPlus_neo, the development of Kwitt, and voice banking with Google Home, which we implemented for the Savings Banks as the first financial service provider in Germany. This will then have to be quickly followed by widespread use in the institutions. However, one thing is also clear: Security and data protection will continue to have top priority.

The integration of voice-controlled systems is certainly one way to meet customer needs. In addition, however, is there not a need for a comprehensive approach?
→ DR SCHMALZL: We are still in the process of rebalancing the access channels to Savings Banks and their services by adopting a multi-channel approach. Much more than in the past, branches will focus on providing qualified advice locally – across the whole of Germany. This will continue to be guaranteed, even if we further reduce the number of small branches and replace some of them with self-service branches. The remaining branches will be developed into places that bring people together in their community and that provide high-quality advice and information. At the same time, we will consistently move services and transactions to the web because this is what customers expect.

What requirements does the expansion of digital services imply for Savings Banks?
→ BROCKHOFF: Digitalisation poses a challenge for the Savings Bank as a whole, ranging from the creation of digital "awareness" at all levels of a Savings Bank – i.e. among customer relationship managers in branches as well as executives – to the installation of solutions and infrastructure such as mymo and Office_neo. Processes are automated and standardised, service processes are completely re-aligned in the interplay between digital processes and bricks-and-mortar branches. These developments free up resources for more sales-oriented advice and more personalised customer service and also open up opportunities for the strategic development of the business in the region. As service providers, we actively support Savings Banks in this process, and we quickly get the simplest possible and standardised solutions (such as currently OSPlus_neo) up and running in Savings Banks, with as little effort as possible.

How important will it be for Savings Banks to collaborate with partners to become part of digital ecosystems of third parties and also to integrate in their own range of services a financial platform which can handle multiple banks?
→ DR SCHMALZL: We want to offer our users a platform where they can find all the information and services relating to finances which help them make their lives easier. I have deliberately referred to "users" because we want to offer this platform not only to customers of the Savings Banks Finance Group. Quite deliberately, we also want to open ourselves to customers of other banks and provide a range of services that they like to use, and

» If all Savings Banks have access to a common data pool, this will lead to completely new levers for synergies. «

Franz-Theo Brockhoff

use often. To this end, we co-operate with companies from the insurance sector, but also with young FinTechs and InsureTechs. We create interfaces through which third-party offerings and services can be easily and seamlessly integrated into the platform.

Savings Banks have already introduced a large number of innovations in payment transactions. Where do you still see a need for further improvement?
→ DR STOLLARZ: The Savings Banks Finance Group is already planning to introduce additional integrated options within the framework of its payment agenda. Conceivable options include, for instance, digital bonus programmes, loyalty cards, premium services or vouchers, which will turn a mobile payment app into a multifunctional wallet. This will give traders the opportunity to successfully set themselves apart from their competitors. However, what is important once again is that the added value is assessed from the customer's perspective, and not from that of the trader. Customers will then use the offer and feel well looked after.

How do you want to enable Savings Banks to make better use of data analytics in future?
→ BROCKHOFF: In the Savings Banks Finance Group, there is an enormous "wealth of data". Anyone who uses these data can optimally develop their range of services and significantly improve their sales performance. Data analytics can help to understand customers better, permit more personalised and customised communication with customers and target groups, and increase the efficiency of sales activities via all channels. The integrated data repository which we have built up in the past two years provides a very good basis for this purpose. Another advantage is that it may be possible to include not only the Savings Bank data, but also a large number of data from companies associated with the Saving Banks Finance Group because their IT systems are also operated by our subsidiary FI-TS. We have already provided Savings Banks with first applications based on the integrated data repository, and we are continually extending the range of these applications in co-operation with DSV and S-Rating. We work together with our partners, and each contributes its own strength: S-Rating contributes its analytical expertise, DSV its market and campaign know-how, and FI its ability to operate such solutions with reliable performance and scalability.

» What is important is that the added value is assessed from the customer's perspective, and not from that of the trader. «

Dr Michael Stollarz

→ DR STOLLARZ: In the Savings Banks world, we have a great deal of information which, most importantly, is valid. The Savings Banks Finance Group should make sensible use of this great treasure because intelligently analysed information can help to accurately assess the circumstances of Savings Bank customers. One of the challenges is to build intelligent tools that will enable Savings Banks to provide their customers with services they need.

Will the DSV Group stick to its current areas of work, or should their range be extended to reflect today's requirements?
→ DR STOLLARZ: Our three major business segments, which are the foundation of the DSV Group, are media-based business, the payments segment and business operations. Maybe we will have to become somewhat more agile in some areas. To this end, we will systematically use our new innovation management system to identify and channel new ideas from the three business segments. Our real challenge is customer satisfaction. Anything that helps us to achieve this objective is conceivable.

Finanz Informatik will invest more than EUR 500 million in enhancing OSPlus by the year 2020. Will this be sufficient?

→ BROCKHOFF: Without proper investments, you cannot keep up in digital competition. In view of the current requirements, we have increased the budget by nearly 50 percent compared with previous years. However, one must not forget that the market and competition have become highly volatile, and that the Big Techs from Silicon Valley and China have quite different budgets and levers at their disposal. To be able to keep up, we will have to more effectively focus our co-operation within the Savings Banks Finance Group and beyond, as illustrated by Kwitt. Where it makes sense, we already co-operate with FinTechs – for instance via S-Hub – to implement innovations faster and sometimes also more cost-effectively. And in some cases, the Finance Group will have to decide whether it wants to co-operate with a Big Tech or develop market areas on its own. Whether innovation budgets need to be increased will therefore have to be reviewed on an ongoing basis.

What is your vision of an optimum future co-operation between the DSGV, the DSV Group and Finanz Informatik in the field of digitalisation?

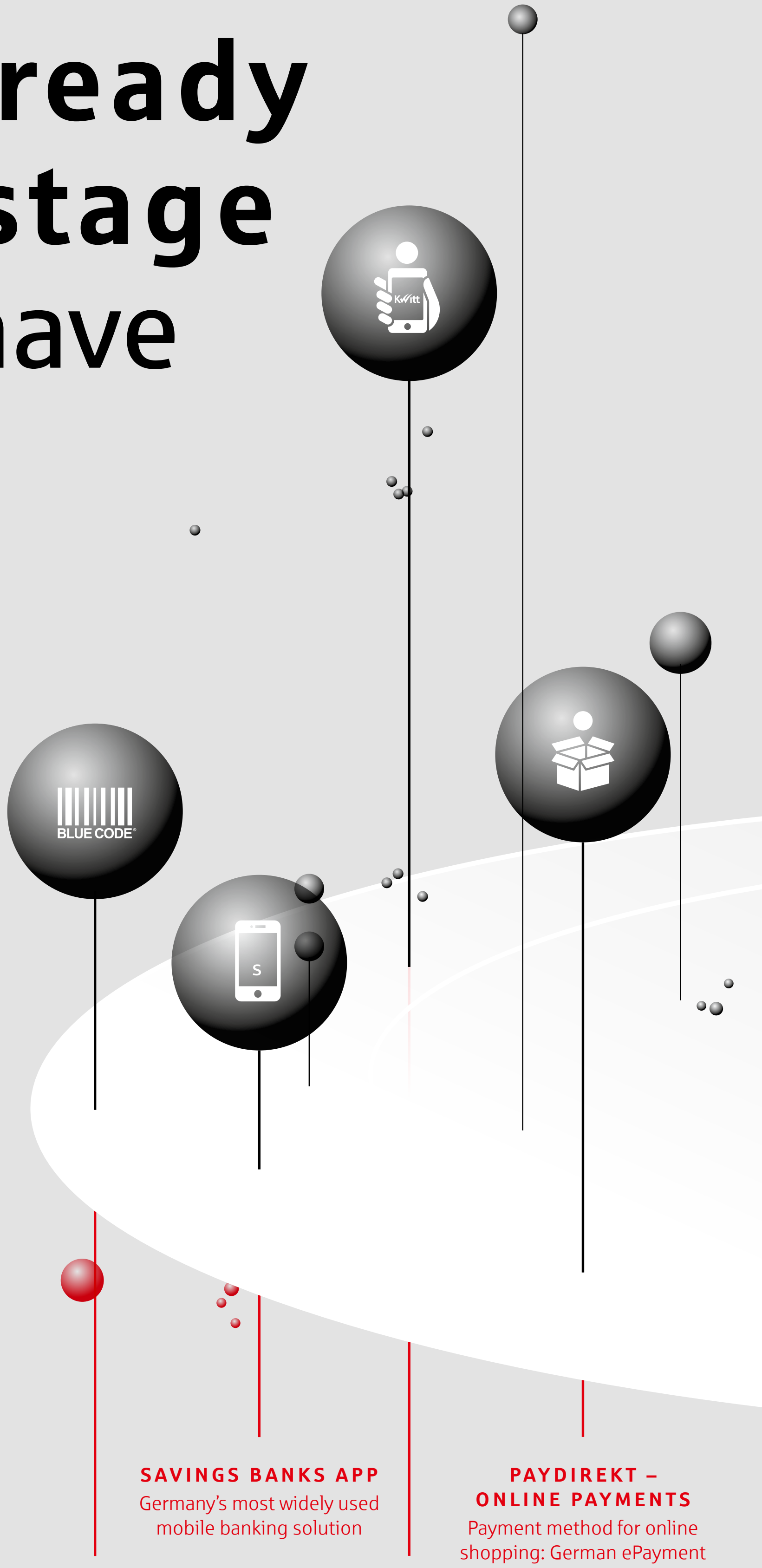
→ DR SCHMALZL: Digitalisation is not a one-man show. We are, and will continue to be successful only if we work together to lead the Savings Banks Finance Group into the future. Together, we must ensure that agile working methods and short decision-making processes are established in the Finance Group. At the same time, we will have to become so flexible that we can test and continually develop ideas in the market with customers, and that we can adjust them in response to new developments. Establishing flat hierarchies and delegating decision-making authority to Group-wide project teams or working groups is just as important as creating a culture of error tolerance that will allow us to modify or discontinue products and services that are not successful in the market. We need employees and managers who can deal with this new environment so that we can maintain a strong position in the market.

→ DR STOLLARZ: A reasonable division of labour, based on the assignment of specific responsibilities within the Group, has always been a key to the Savings Banks Finance Group's success. As an entrepreneurially-minded service provider for Savings Banks, Landesbanken and companies associated with the Savings Banks Finance Group, we will therefore continue to rely on the proven co-operation with our strategic partner DSGV and Finanz Informatik, the technical service provider, for the development of innovative solutions in line with the market.

→ BROCKHOFF: Jointly, we bear great responsibility to provide Savings Banks with the best possible support in coping with the challenges of digitalisation. The DSGV defines the business strategy, the DSV pursues the topics described by Mr. Stollarz, and Finanz Informatik provides OSPlus, the central IT platform. In this context, the requirements of Savings Banks and their customers are in the focus of the common objective to establish a digital financial platform for the Savings Banks Finance Group. This platform is even more focused on customers and, as a comprehensive solution in terms of "one single platform", it also bundles all the data, services and information from the Finance Group and makes them available to customers in one place. This requires close and trusting co-operation within an organisation like ours – in particular among managers. And in this respect – and I think I can speak for all three of us – together, we are making good progress.

We have already reached a stage that others have yet to reach

Savings Banks have introduced a whole range of innovative products to the financial market in the past two fiscal years. In this context, the guiding principle has always been that there had to be a proven direct benefit and added value for customers.

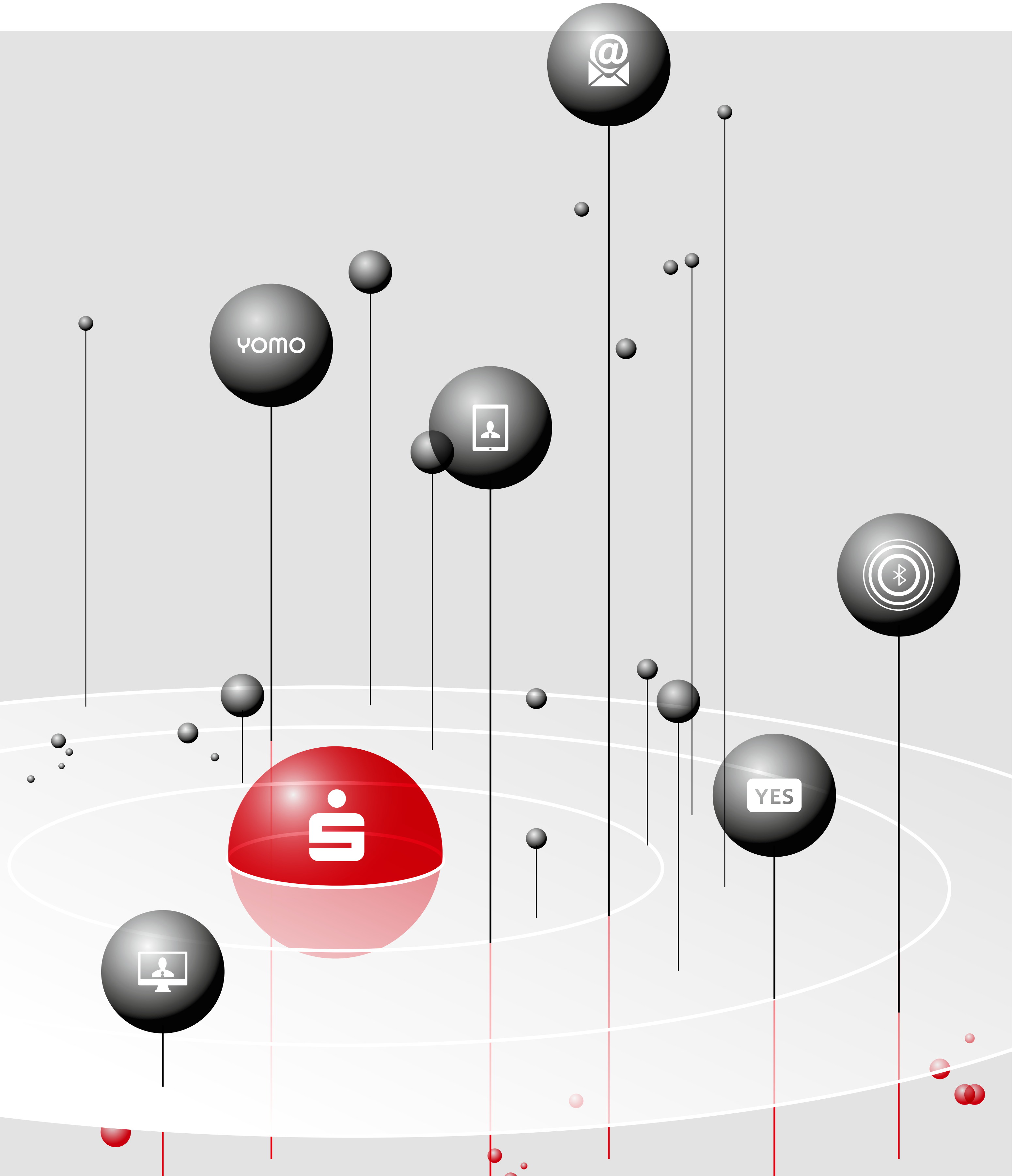


SAVINGS BANKS APP
Germany's most widely used mobile banking solution

PAYDIREKT – ONLINE PAYMENTS
Payment method for online shopping: German ePayment

BLUECODE – MOBILE PAYMENT
Paying by smart phone with a bar code

KWITT – PEER-TO-PEER-PAYMENTS
Sending and receiving money by mobile phone and without entering account data



YOMO – YOUR CURRENT ACCOUNT APP
The young current account of Savings Banks. Developed with the target group, for the target group.

E-SAFE – DIGITAL SAFE
Storage of all kinds of documents

S-BEACON – POI COMMUNICATION
Using Bluetooth to communicate with customers outside their homes at the point of interest

VIDEO-BASED ADVICE
Face-to-face and digital

VIDEO IDENTITY VERIFICATION
Closing online transactions without switching media

YES-SINGLE-SIGN-ON SYSTEM
Identity management system based on data verified by Savings Banks

SALES STRATEGY IN PRACTICE

Sailing close to the wind – Growth in the Fjord region

Plenty of room for new ideas and face-to-face conversations: “Studiale”, the campus branch of the Förde Savings Banks implements a unique concept that is tailored entirely to students.

Each region has its own specific characteristics – and each Savings Bank has its own profile. With its sales strategy, the Förde Savings Bank in Schleswig-Holstein is already steering a successful course.

Tim Peters* studies psychology at the University of Kiel. For the 22-year-old, Studiale is an ideal branch to visit: located directly in front of the main lecture hall and the main cafeteria, open for business between 8:00 a.m. and 8:00 p.m. Marc Bornholdt, his customer relationship manager who is only seven years older than Tim Peters, studies business administration himself while he works. That is precisely why he knows what impresses students. Having a dialogue on an equal footing, for example: "Do you want to be addressed by your first name or your last name?" Digital tools for straightforward collaboration. "Shall we begin with a 'Giro-Check'?" Above all, however, competent advice: "Shall we get started?"

In touch with our customers of tomorrow

Modern wood panelling, a lounge with comfortable cushions, and meeting rooms for one-on-one conversations: The Studiale branch wants to be a place where people enjoy spending time. The range of services is also tailored to the needs of students, including an in-house student loan that is only available from the Studiale branch. Advice is available and contracts can be concluded via digital media, which is popular among young customers. What they appreciate in particular is the mix of up-to-date communication and personalised advice.

All the information needed for a good start

His studies initially confronted Tim Peters with new challenges: finding a place to stay, taking out insurance cover and financing the course of studies. Since its opening in September 2017, the Studiale branch has been the place to go to obtain answers to questions about a wide variety of topics. Due to the co-operation with the municipal registration office, students can even register their place of residence directly in the Studiale branch; the welcome bonus from the city is transferred directly via the branch. "Mobil in Kiel" explains the least expensive means of transport, and the "Kiel. Sailing.City." app helps students to discover the city. The range of activities is rounded off by presentations on topics such as securities or ways of financing university studies, and by entertainment events such as outdoor screens to watch the Soccer World Cup. The Studiale branch thus provides guidance for new students and a forum for organising student life. However, it also supports students after they graduate and provides them with important information at the start of their careers.

Brief profile of the Förde Savings Bank

The Förde Savings Bank is headquartered in Kiel. The three head offices are located in Eckernförde, Kiel and Plön. At 83 locations, it serves 250,000 customers and is the biggest Savings Bank in Schleswig-Holstein, with a balance sheet total of EUR 7.3 billion. It plays an important role in the region, for both private customers and business enterprises. The Förde Savings Bank has a workforce of approx. 1,270 employees, including approx. 100 apprentices. This makes the Savings Bank one of the biggest employers in Schleswig-Holstein.

» The Studiale branch is the result of intensive project work. From the onset, we wanted to focus our services as consistently as possible on the target group – which also includes students. Experience has shown that this was exactly the right way to go. «

Konstantin Rohde
Project manager of the Förde Savings Bank and manager of the Studiale branch

* Name changed by editors.

Digitally well advised

The Studiale branch is not the only innovation project of the Förde Savings Bank. Another exemplary project is the Digital Branch, which has been tested in a pilot project since October 2017. Customers can visit the digital branch – just like in an ordinary branch – to discuss their concerns with their customer relationship manager, seek advice and use services – but only digitally: they communicate by phone or by video chat. If more complex matters are involved – such as buying a home, conducting securities transactions, or concluding insurance contracts, experts can be asked to provide advice. The Digital Branch is used by customers who live far away from the business territory of the Förde Savings Bank in Germany or who found work abroad after completing their university studies. They receive all the services and advice despite the distance. However, digital advisory services are also used by customers who live within the business territory but want to save time and travel. The response has been very positive. For this reason, the Digital Branch will probably be officially launched at the end of 2018 and serve approx. 4,000 retail customers as a first step.

Focus on strategic objectives

With projects like these, the Förde Savings Bank has been successfully pursuing its strategic sales development objectives. The projects have helped to achieve several objectives at the same time: acquiring new customers, providing more intensive support to existing customers, and improving customer satisfaction. Services such as the Digital Branch or the Savings Banks app help to drive forward digitalisation. This captures the spirit of the times and simplifies workflows. To continue to increase the number of appointments and the quality of the advice customers receive, the Förde Savings Bank is also developing its Direct Customer Service into a multi-channel service. In addition, the Förde Savings Bank will continue to expand its retail banking segment by customising its communication and support. The integration of more securities expertise into the advisory services helps to create a new investment culture. In this context, the Savings Bank targets young customers, in particular, to build up trust and to continue to provide them with attractive services later, during their professional lives.

On course for growth

“With the realignment of our retail banking business, we are pursuing a clear growth strategy, focusing on retail customers, as well as the youth market and young adults. Cost savings alone will not improve the Savings Bank’s market positioning”, says Götz Bormann, Chairman of the Board of the Förde Savings Bank in explaining the strategy. With these innovative approaches, our Savings Bank is sailing close to the wind and is moving towards new horizons. Banking novices like Tim Peters are happy to jump on board.

»

In the Studiale branch, students encounter specialised customer relationship managers who deal with matters relating to university studies every day. In addition, we have unique products such as our own exclusive student loan. What’s more, the Studiale branch has an ideal location, right next to the main lecture hall.

«

Iris Haas
CRM in the Studiale branch

On the podium: The Förde Savings Bank is the “Best Bank”

On behalf of the German business newspaper “Handelsblatt”, a satisfaction survey was conducted among 30,000 bank customers. In the Kiel region, the Förde Savings Bank came out on top!

Guidance and advice well beyond actual banking business. Branches like the Studiale branch are an important module in the ongoing enhancement of sales.

»

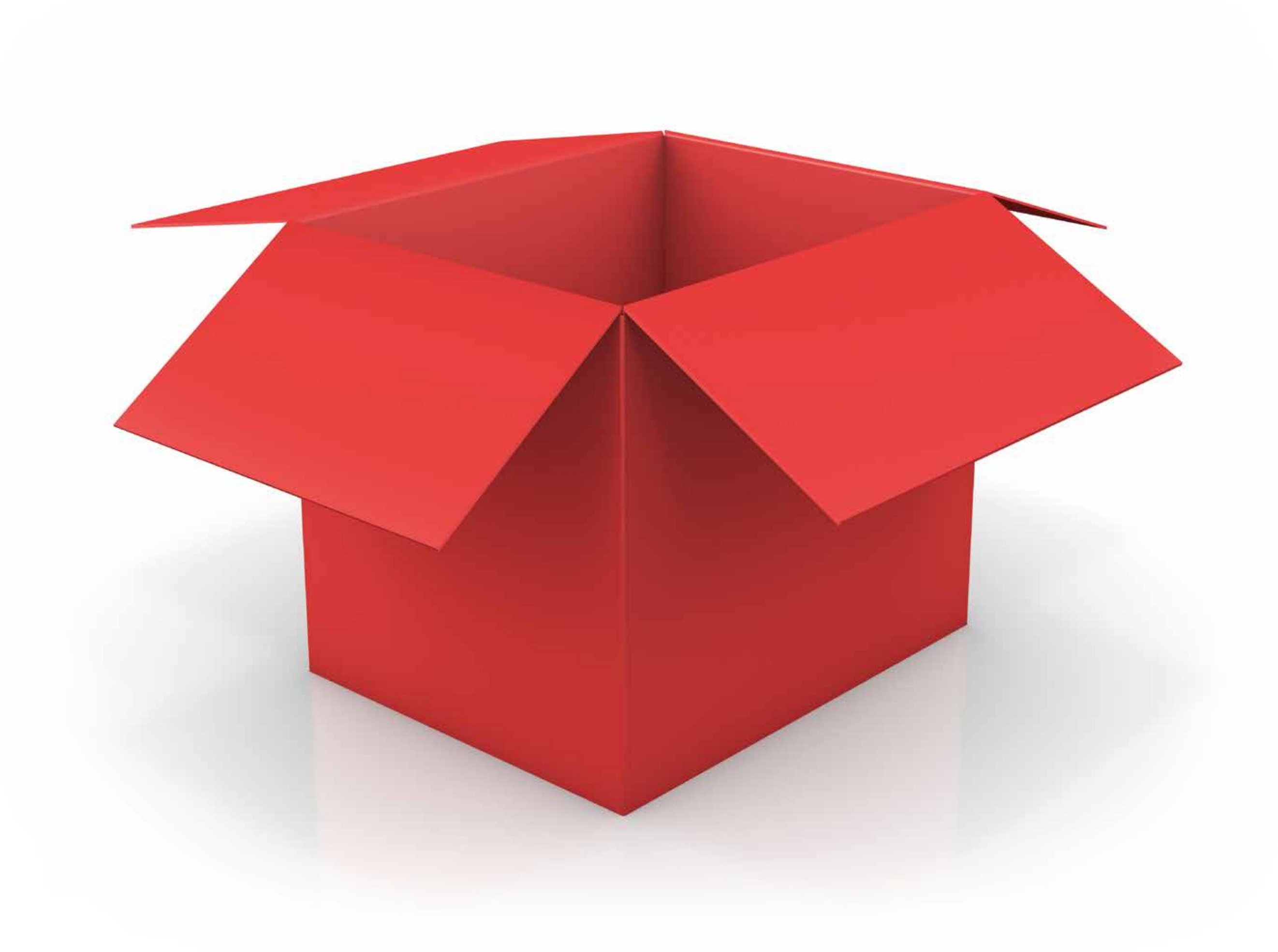
Our comprehensive advisory approach has been very popular, and we will continue to increase awareness of our broad range of events. By and by, we will increasingly become an indispensable part of campus life.

«

Marc Bornholdt
CRM, supervisor and deputy head of the Studiale branch

ADDING TO THE BOX

Update on DSGV's banking regulation initiative



The DSGV has continued with great commitment to pursue the initiative against overregulation of smaller banks like Savings Banks, as presented in its 2016 Annual Report. In 2017 – the year under review – and in the current fiscal year, further progress has been made at national and European level. The Small and Simple Banking Box (SSBB) designed by the DSGV continues to take shape.

1. **The SSBB – enshrined in European financial legislation**

→ The DSGV presented its concept of the "Small and Simple Banking Box" to the general public for the first time in November 2016 and called for a radical change in the approach to European banking regulation. The solution to the "too-big-to-fail" problem would otherwise lead to the creation of a "too-small-to-comply" problem. Along with other measures, the reduction of reporting obligations and the waiver of a disclosure obligation were designed to give due account to the strengths and the diversity of the European banking market.

→ In March 2017, the DSGV co-organised the G20 conference "G20 and Locally Focused Banks", with the objective of exploring the key G20 financial topics from the perspective of locally focused banks, and to highlight the importance of these banks for the stability of the financial markets. The high-level conference has helped to ensure that the SSBB proposal was included in the EU Commission's drafts for a reform of banking regulation with regard to the Capital Requirements Regulation II (CRR II) and the Capital Requirements Directive V (CRD V).

→ In May 2018, the EU Economic and Financial Affairs Council (ECOFIN) decided to considerably extend the group of banks qualifying for an SSBB, which is a step in the direction called for by the DSGV. The approach adopted by the ECOFIN Council now provides for simplified regulatory rules for institutions with a balance sheet total of up to EUR 5 billion. This means that over 300 Savings Banks in Germany would qualify for the SSBB. The EU Commission had previously proposed a limit of only EUR 1.5 billion for the balance sheet total, which the DSGV had criticised as being far too low, because far fewer than half of the Savings Banks would have been below this threshold.

→ Due to the steady emphasis on the idea that the principle of proportionality should be applied to the very different sizes of banks in the EU, the idea has arrived in European financial regulation. This became apparent to the DSGV during regular talks with members of the European Parliament and with representatives of the EU Commission, the European Banking Authority (EBA) and the European Central Bank (ECB).

»

The debate on proportionality in banking regulation has arrived at EU level. However, we have not yet seen a major breakthrough.

«

Dr Karl-Peter Schackmann-Fallis
Executive Member of the DSGV's Management Board

2. **Incorporation of the SSBB into the coalition agreement concluded between the CDU/CSU and the SPD**

→ The coalition agreement concluded in early February 2018 contains a clear commitment by the governing parties to proportional and reasonable regulation of financial institutions. In future, a distinction will be made between banks with low-risk business models such as Savings Banks on the one hand, and systemically important large banks on the other hand. In addition, regulatory practice as a whole will come under scrutiny, and both supervision and regulation will be guided by the principle of double proportionality.

3. **Support by German banking regulators for the SSBB**

→ In the year under review, the Federal Ministry of Finance (BMF), the Federal Financial Services Supervisory Authority (BaFin), and Deutsche Bundesbank increasingly joined the DSGV in its call for more proportionality and the model of an SSBB. This is demonstrated by statements made in the recent past with regard to the establishment of such an SSBB by senior representatives of these institutions, such as former Federal Minister of Finance Dr Wolfgang Schäuble, BaFin President Felix Hufeld, and Dr Andreas Dombret, former Executive Board Member of Deutsche Bundesbank. It is also reflected in the efforts made to free credit institutions from administrative burdens at national level. Discussions to this effect are already underway.

4. MANAGEMENT REPORT

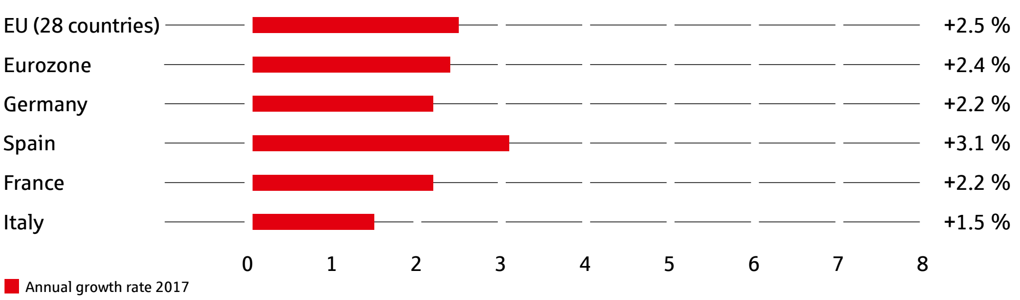
Economic report

Macroeconomic situation

The global economy continued to expand in 2017. This expansion was remarkably synchronous: nearly all the large economic areas improved. Russia and Brazil overcame the period of weakness of the previous year. Other large emerging economies such as China and India continued to grow dynamically. The United States also accelerated its growth rate. While the growth achieved in the United Kingdom was somewhat weaker in the wake of the Brexit process, the U.K. economy has not yet slipped into recession. Apart from that, the political and institutional upheaval in the European Union (elections and changes of government in important countries, populism, separatism, reforms) have not yet had a tangibly negative impact on economic development. In 2017, real growth of the gross domestic product (GDP) amounted to 2.4 percent in the euro area. All the large Member States contributed to this positive development. The Italian economy, however, still fell short of the average European growth rate.

The German economy achieved a growth rate of 2.2 percent in 2017. Both exports and imports grew at above-average rates. The almost unchanged foreign trade surplus, which continued to be very high, had an almost neutral impact on GDP growth. On the other hand, economic expansion was driven by all the components of domestic demand. Private and public consumption, as well as investments, increased substantially. In addition, new employment records were set in the labour market. Substantial growth of tax revenues once again led to a general government surplus. On the other hand, the 1.3 percent rise in prices – measured in terms of consumer prices – was moderate in Germany.

GDP growth in selected countries, as %



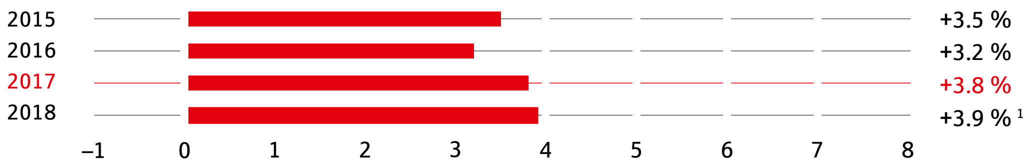
The recovery of the German economy has reached a mature stage. Capacity utilisation levels are now above average. 2017 was the fourth year in a row in which the growth rate actually realised was above that of the potential for production. In addition, yet more people were attracted to the labour market. For 15 years now, the number of gainfully employed people in Germany has increased steadily from year to year, time and again reaching new record levels. On an annual average, a total of 44.3 million persons were gainfully employed in Germany in 2017. Conversely, the unemployment rate – as defined by the Federal Employment Agency (Bundesagentur für Arbeit) – decreased to 5.7 percent on an annual average. The “shortage of skilled labour” – a term which is being used more and more often – is becoming manifest for many skills and in many sectors.

The high employment rate in the labour market and rising incomes, accompanied by a moderate development of prices, boosted private consumption. Adjusted for price changes, private consumer spending increased by 1.9 percent, while the private households’ savings ratio rose slightly (to 9.9 percent of disposable income). Real growth of government consumption expenditure amounted to 1.6 percent, which was somewhat below average and helped to support budgetary consolidation. In 2017, the general government surplus amounted to 1.1 percent of Germany’s GDP. The level of government debt (based on provisional figures) was reduced to 64.1 percent of the annual GDP.

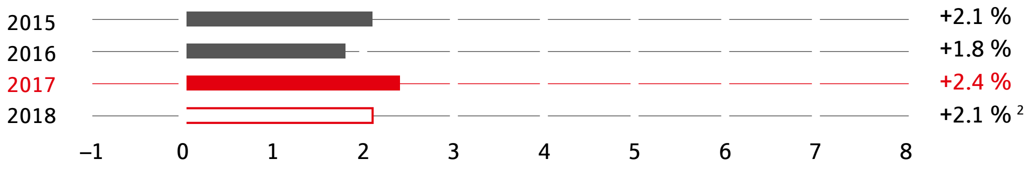
At the same time, above-average capacity utilisation, in conjunction with continued favourable financing terms, stimulated investments by enterprises, households and the public sector. When adjusted for inflation, gross fixed capital formation increased by 3.3 percent. The sub-component of construction investments grew by 2.7 percent, with particularly strong growth rates in civil engineering. In 2017, equipment investments increased by 4.0 percent in real terms. When adjusted for inflation, annual equipment investments in Germany returned for the first time to the level reached back in 2008.

Economic development – Review and outlook 2015 – 2018

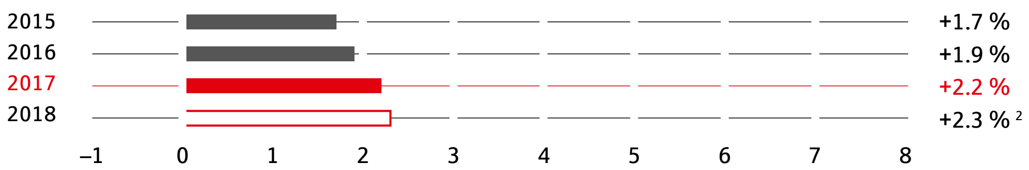
Growth of real domestic product (GDP), as % (world)[1]



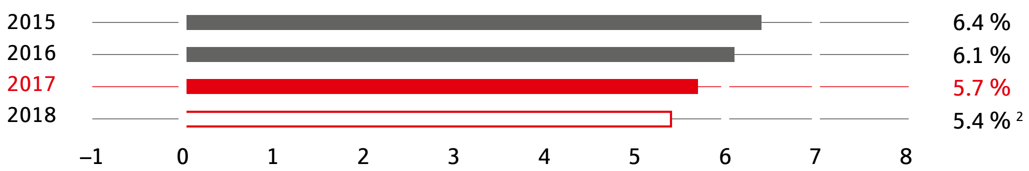
Growth of real domestic product (GDP), as % (euro area)



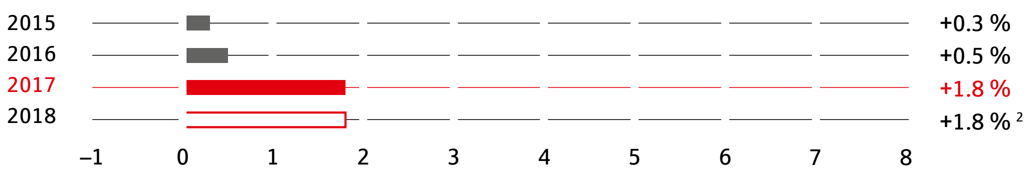
Growth of real domestic product (GDP), as % (Germany)



Unemployment rate in % of total working population (Germany)



Changes in cost-of-living price index, in % (Germany)

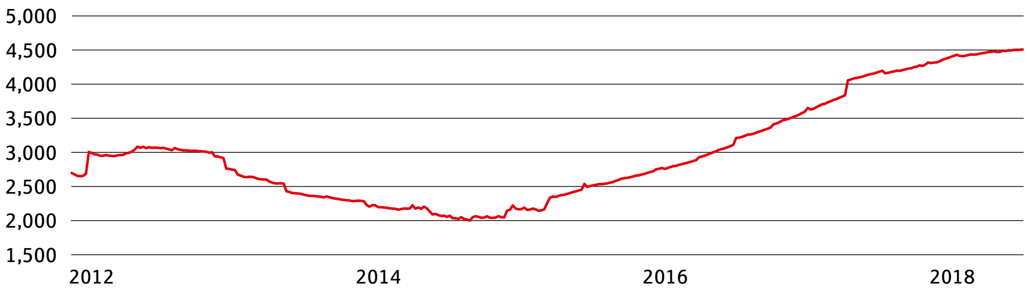


Actual data for 2015 to 2017 from official statistics; Eurostat, Destatis, and German Federal Employment Agency (Bundesagentur für Arbeit).
[1] Economic growth as defined by the International Monetary Fund (IMF) and forecast for 2018 global output from IMF's Economic Outlook of April 2018.
[2] Forecasts for the euro area and Germany in 2018 from the joint forecast of the chief economists of the Savings Banks Finance Group of 30 January 2018.

Developments in money and capital markets

The US Federal Reserve continued to pursue its policy of increasing interest rates. In 2017, it increased its key interest rate in a total of three steps by 25 basis points each. In addition, the US Federal Reserve began to gradually reduce its portfolio of securities in autumn 2017.

Consolidated balance sheet total of the euro system, in EUR billions



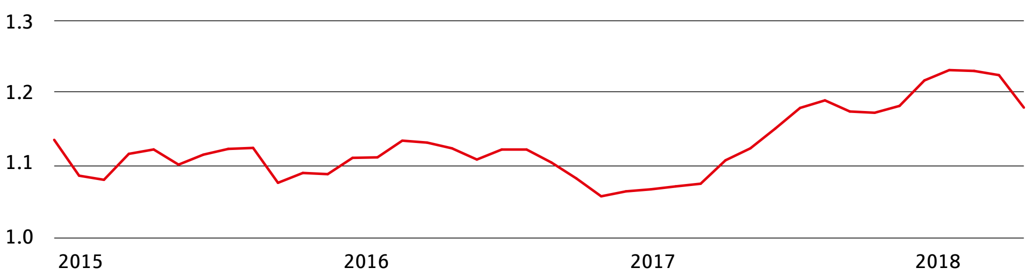
Source: European Central Bank

On the other hand, the European Central Bank (ECB) continued its government bond purchasing programme, with a net purchasing volume of EUR 80 billion per month until March 2017, and subsequently with a volume of EUR 60 billion. As a result, the Eurosystem's consolidated balance sheet total had increased to just under EUR 4,500 billion by the end of 2017.

Towards the end of the year, the ECB decided to reduce the pace of its purchasing programme to EUR 30 billion, which, however, did not become effective until the beginning of 2018. The reason given by the ECB for this first cautious deceleration of its extremely expansionary monetary policy was the solid economic recovery in large parts of the euro area, although inflation was still moderate and remained below the ECB's target level ("below but close to 2 percent").

The interest rate for the ECB's main refinancing operations – which are hardly ever used – amounted to 0.0 percent thrughout 2017. In view of the current excess liquidity, the key interest rate that is actually relevant is that of the deposit facility, which has been negative since 2015 and remained at – 0.4 percent throughout the year 2017.

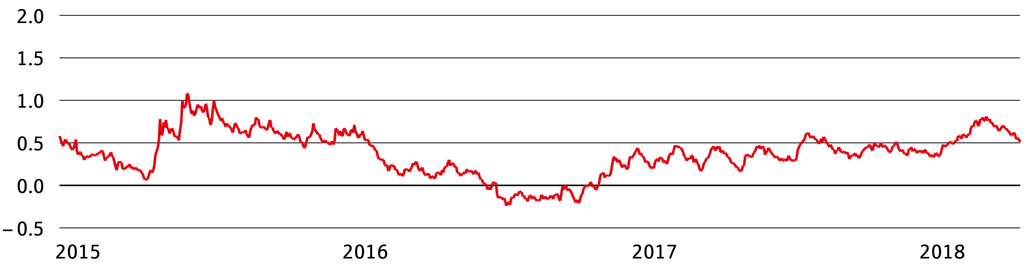
Euro reference rate USD / EUR



Source: Deutsche Bundesbank

Because of the different monetary policies pursued, a growing transatlantic interest rate gap emerged against the US dollar. Nevertheless, the US dollar depreciated substantially against the euro in the course of the year, in contrast to the interest rate movement. The exchange rate increased from approx. US$ 1.05 per euro at the beginning of 2017 to approx. US$ 1.20 per euro by the end of the year.

Current yield on German government bonds with a remaining maturity of ten years



Source: Deutsche Bundesbank

In the capital markets, current yields on securities with longer maturities drifted slightly upwards in the course of 2017. The bond markets have thus anticipated an increasingly probable turnaround in monetary policy and future normalisation of the interest rate policy. The yields on German government bonds with a maturity of 10 years increased from approx. 0.2 percent at the beginning of the year to approx. 0.5 percent in December 2017. After the end of the year under review, the trend continued in early 2018, except for temporary peaks of just under 0.8 percent in February 2018. Yields on German government bonds with a remaining maturity of up to six years remained negative throughout the year 2017.

In the equity markets, share prices surged across the board in 2017. In Germany, the DAX increased from 11,481 points at year-end 2016 to 12,918 points by the end of 2017, i.e. by just under 13 percent. However, after the end of 2017, there was a major adjustment in February and March 2018, in the course of which the DAX returned to approx. 12,000 points.

Major markets and positioning

General overview

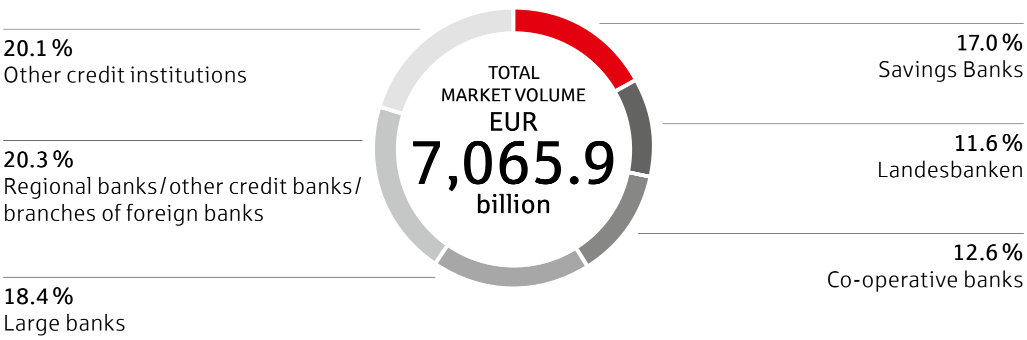
As at the end of 2017, the institutions affiliated with the Savings Banks Finance Group[1] generated a combined business volume[2] of EUR 2,018.5 billion, which is equivalent to a share of 28.6 percent of the total market volume of EUR 7,065.9 billion.

This means that the Savings Banks Finance Group's share of the on-balance-sheet banking business in the German banking sector decreased slightly (by 0.1 percentage points) year-on-year. The Savings Banks' business volume continued to increase by EUR 26.7 billion to EUR 1,199.5 billion (i.e. by 2.3 percent), and the business volume of Landesbanken – unlike the previous years – increased slightly by EUR 8.7 billion to EUR 819.0 billion (i.e. by 1.1 percent). Since the end of 2008, Landesbanken have cut their business volume by nearly half.

This reduction continued until 2016 and 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 the core business. Fiscal year 2017 marked a turning point for Landesbanken: Their business volume increased for the first time since 2007. Landesbanken will now focus their efforts on refining their business model and on expanding their business with large as well as with small and medium-sized enterprises.

Credit banks account for the largest share of the business volume with 38.7 percent (of which large banks account for 18.4 percent, and regional banks / other credit banks / branches of foreign banks account for 20.3 percent). Co-operative banks account for 12.6 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 2017



* Excluding derivative financial instruments of trading portfolio.

Source of all market share charts: Deutsche Bundesbank and own calculations.

In fiscal year 2017, the retail business of the German banking sector was once again consistently characterised by portfolio growth in loans to enterprises, loans to households for home purchases, consumer loans, deposits from private individuals, and deposits from enterprises.

[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.

[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 declined slightly in loans to enterprises and marginally in loans to households for home purchases in fiscal year 2017. Losses of market shares in consumer credit business were again significant for the Savings Banks Finance Group. In 2017, the Savings Banks Finance Group also suffered slight market share losses in retail deposit business. However, when measured in terms of the share of this business segment, the Savings Banks Finance Group is still far ahead of other banking groups. As regards deposits from domestic enterprises, the share of the Savings Banks Finance Group decreased in 2017.

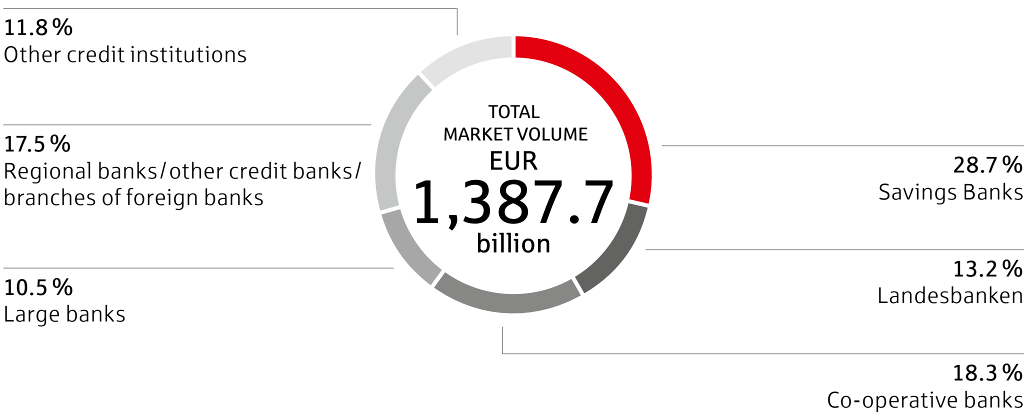
Customer lending business

Following an increase by EUR 35.5 billion, i.e. by 2.7 percent, in the previous year, the total volume of the market for loans to enterprises continued to grow somewhat more dynamically in fiscal year 2017, increasing by EUR 50.0 billion (3.7 percent) to EUR 1,387.7 billion.

With an increase of EUR 17.7 billion (3.2 percent), the portfolio growth of the Savings Banks Finance Group was slightly lower than the average for banks, meaning that the Savings Banks Finance Group's market share declined slightly. At the end of 2017, the volume of loans extended to enterprises amounted to a total of EUR 581.2 billion. This is equivalent to a share of 41.9 percent, with Savings Banks accounting for 28.7 percent and Landesbanken accounting for 13.2 percent.

All in all, 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.

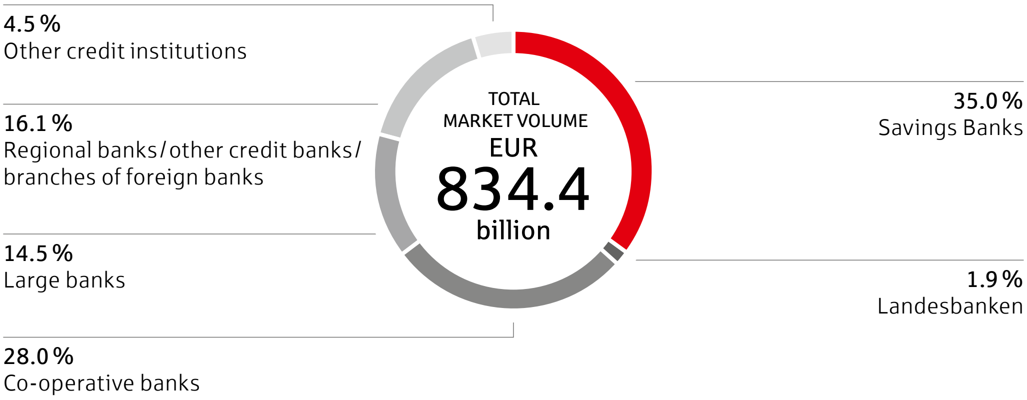
Market shares in loans to enterprises
As at 31 December 2017



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

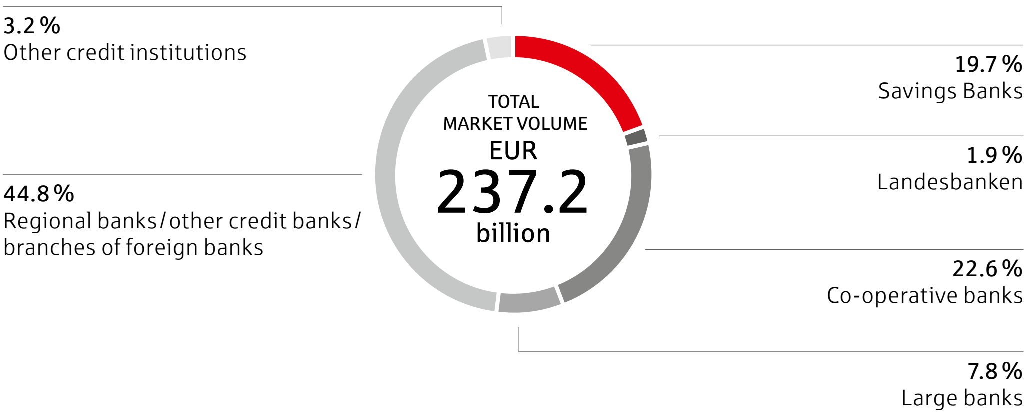
Since 2012, the demand for residential housing loans has picked up significantly, mainly because of low interest rates. As a result, the total market volume of residential housing loans continued to increase significantly in the year under review (by EUR 24.7 billion to EUR 834.4 billion, i.e. by 3.0 percent), albeit less so than in the previous year. The portfolio growth achieved by the Savings Banks Finance Group in 2017 amounted to 3.0 percent, which was in line with market growth. The Group's portfolio volume increased by EUR 9.1 billion to EUR 308.3 billion, of which Savings Banks alone accounted for EUR 292.3 billion, which is equivalent to a share of 35.0 percent. Together, Savings Banks and Landesbanken account for a share of 36.9 percent, followed by co-operative banks as the second largest banking group, with a share of 28.0 percent.

Market shares in residential housing loans
As at 31 December 2017



As in the previous year, the consumer credit business was characterised by significant portfolio growth across all banking groups in 2017. As at the end of 2017, the market volume increased by EUR 7.2 billion to EUR 237.2 billion, i.e. by 3.1 percent.

Market shares in consumer credits
As at 31 December 2017



The portfolio held by the institutions affiliated with the Savings Banks Finance Group declined by EUR 2.0 billion, i.e. by –3.6 percent (2016: –3.5 percent), which meant that their market share decreased. With a portfolio volume of EUR 51.2 billion and a market share of 21.6 percent, the Savings Banks Finance Group ranked third, following the co-operative banks (share: 22.6 percent) and the banking group of regional banks / other credit banks / branches of foreign banks (share: 44.8 percent). The latter group, which includes nearly all providers of specialist finance, continued to expand its share of the consumer credit segment in 2017.

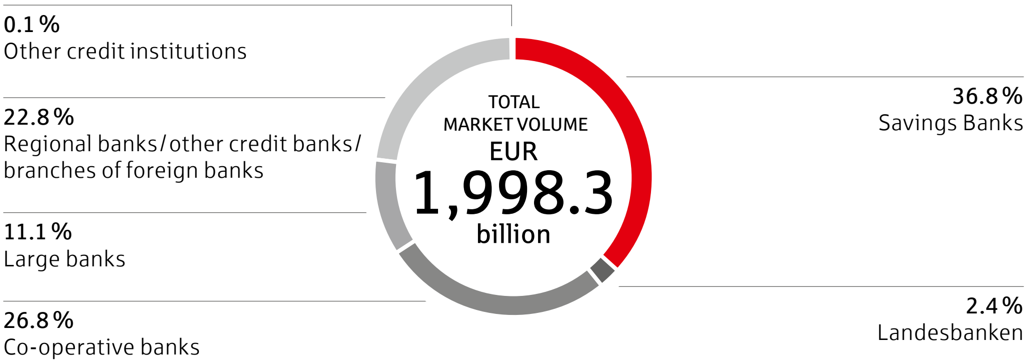
Retail deposits

In the past year, the total market volume of deposits from private individuals continued to increase significantly, rising to EUR 1,998.3 billion, i.e. by 4.2 percent. At EUR 80.1 billion, absolute growth was lower than in the previous year (EUR 94.0 billion).

Within the various investment categories, the portfolio of sight deposits from private individuals was the only type of investment to grow for the third time in a row in the year under review due to interest rates; the increase recorded in sight deposits was once again significant (8.1 percent, following 9.7 percent in 2016). In contrast, the portfolios of time deposits, savings deposits, and savings bonds of private individuals decreased, as in the previous year. This shift in the deposit business of the Savings Banks Finance Group followed 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 in deposits from private individuals [1]
As at 31 December 2017



Overall, current trends clearly demonstrate 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 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 EUR 25.1 billion, i.e. by 3.5 percent (2016: +4.2 percent). However, Savings Banks once again participated to a lesser extent in the expansion of the total market volume in 2017 and incurred a slight market share loss. As of the end of the year, the portfolio of Savings Banks reached a volume of EUR 735.7 billion, which is equivalent to a market share of 36.8 percent.

However, in the retail deposits segment, Savings Banks continue 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 534.2 billion, which

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

was 26.8 percent of all the deposits from private individuals. The group of regional banks / other credit banks / branches of foreign banks ranked third, with a portfolio of EUR 455.3 billion and a share of 22.8 percent. This group of credit institutions, which includes all direct banks (including car manufacturers' banks), continued to slightly improve their market position.

Together with Landesbanken, for which the retail deposit business is of only minor importance, Savings Banks achieved a market share of 39.2 percent at the end of 2017.

Deposits from domestic enterprises

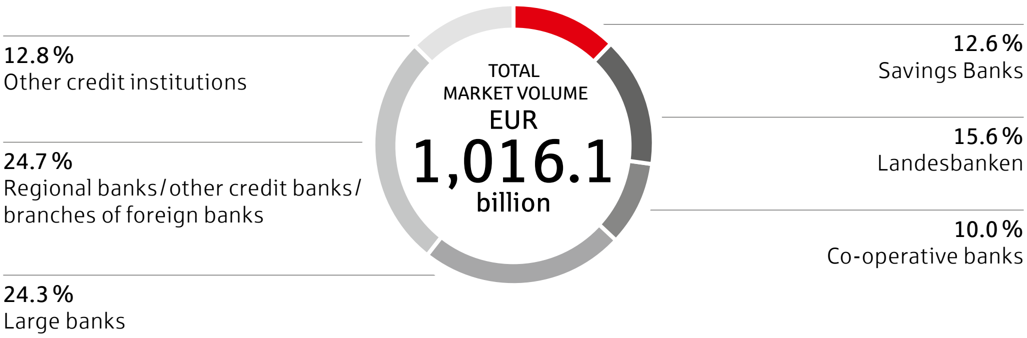
After retail deposits, deposits from domestic enterprises constitute the second largest segment of the German banking sector's total customer deposit business. As at the end of 2017, deposits from domestic enterprises amounted to EUR 1,016.1 billion.

In fiscal year 2017, the total portfolio of deposits from domestic enterprises increased by EUR 18.9 billion (1.9 percent). The development of this segment varied widely from one banking group to another. While the portfolio of these deposits decreased for Savings Banks and the group of "Other Credit Institutions" – or more precisely the mortgage banks included in this group – the portfolio of deposits from enterprises increased in the case of Landesbanken, co-operative banks, large banks, and in the group of regional banks / other credit banks / branches of foreign banks.

In the Landesbanken group, the portfolio of deposits from domestic enterprises increased for the first time since 2012, rising by EUR 5.5 billion (3.6 percent) to EUR 158.1 billion in 2017 (2016: EUR –9.3 billion; –5.7 percent) as of 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 balance sheet total of Landesbanken in line with their strategy. The increase in deposits demonstrates the realignment of Landesbanken and the expansion of their business with enterprises. Although the portfolio and the market share of Landesbanken decreased in the past few years, they still hold a strong market position in deposits from domestic enterprises, with a market share of 15.6 percent, which they increased by 0.3 percent in 2017.

In the year under review, the Savings Banks' portfolio of deposits from enterprises decreased by EUR 4.5 billion (3.4 percent) to EUR 127.7 billion, so that their market share fell to 12.6 percent. Together with Savings Banks, Landesbanken reached a market share of 28.2 percent in this deposit segment as of the end of 2017.

Market shares in deposits from domestic enterprises
As at 31 December 2017



German enterprises can rely on the Savings Banks Finance Group in their international business

The German economy is the largest in Europe and number four worldwide. Products with the label "Made in Germany" continue to be in high demand all over the world. According to a survey conducted by DIHK[1], 49 percent of German enterprises have already discovered the opportunities provided by globalisation – and the number is still rising.

However, international business transactions are also associated with risks such as payment defaults or non-delivery, currency fluctuations, quality deficiencies, as well as political instability. 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. As the "provider of finance to Germany's SMEs" for their domestic business, regional Savings Banks know their customers very well. In addition, however, the Savings Banks Finance Group has been supporting small and medium-sized enterprises in their international business operations for many years. Owing to the Savings Banks' international network, made up of the "S-CountryDesk", Landesbanken and Deutsche Leasing, an enterprise can reach nearly every country in the world via its local Savings Bank. The Landesbanken are represented at more than 100 locations and have a network of over 10,000 correspondent banks worldwide. As a result, they can support Savings Banks and Savings Bank customers directly, on site and in German. In this context, it is particularly important for Savings Banks to continuously enhance their international expertise and investing in new technology, such as blockchain technology for safe and efficient international trade.

Of course, the services provided extend beyond the basic range of foreign payment transactions. The Savings Bank's international specialists are already consulted before planned international transactions are executed. They develop customised solutions that are suitable for the customers' business strategy. The use of funding and support programmes provided by the German government is another option which is often pursued in this context. Savings Banks are competent local partners for internationally operating business enterprises – partners with regional roots and a global network.

[1] German Chamber of Commerce and Industry

Business performance and financial position

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

The operational performance of the Savings Banks Finance Group [1] in fiscal year 2017 was weaker than in the previous year.

In the year under review, the results of the Savings Banks Finance Groups' operations were characterised by a higher valuation result [2] than in the previous year and a slight easing of the burden on the extraordinary result [3]. This was the main reason for the increase in Net Income (before and after taxes) compared with 2016.

↘ See pages 49, 56 and 61 for more information about the business performance of Savings Banks, Landesbanken, and Landesbausparkassen.

In 2017, the Savings Banks Finance Group reported an operating result before valuation of EUR 12.4 billion compared with EUR 13.5 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 2017. Net trading income (net income from financial transactions), which is only relevant for Landesbanken within the Savings Banks Finance Group, increased and amounted to EUR 1.0 billion in the year under review. Net commission income of the Savings Banks Finance Group increased by 8.2 percent to EUR 8.7 billion. Net interest income of EUR 29.5 billion fell significantly short of the previous year's level (–5.4 percent).

Administrative expenses increased slightly by 0.6 percent to EUR 27.3 billion due to higher cost of materials and personnel expenses.

In fiscal year 2017, the cost-income ratio [4] of the Savings Banks Finance Group as a whole increased slightly to 71.4 percent (2016: 69.1 percent), mainly due to the decline in Net Interest Income.

The valuation result of the Savings Banks Finance Group included a reduction of the negative valuation balance in 2017. Net valuation expenses improved from EUR –2.7 billion in the previous year to EUR –2.0 billion. The positive effect was due, in particular, to lower year-on-year additions to provisions for contingent losses in the lending business of Landesbanken.

In 2017, the Extraordinary Result had less of an adverse impact on the profitability of the Savings Banks Finance Group than it had in 2016. The negative balance of EUR –4.7 billion was significantly below the previous year's level of EUR –5.2 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).
[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] 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 in the "Extraordinary Result" in accordance with Section 340(g) German Commercial Code.
[4] Ratio of administrative expenses to the sum total of net interest income and net commission income.

Key financial indicators of the Savings Banks Finance Group*

Selected balance sheet items

	As at year-end 2017 EUR billion	As at year-end 2016 EUR billion	Change in %
Loans and advances to banks (MFIs[1])	**271.1**	265.2	+2.2
Loans and advances to non-banks (non-MFIs)	**1,212.2**	1,204.6	+0.6
Liabilities to banks (MFIs)	**369.6**	371.4	–0.5
Liabilities to non-banks (non-MFIs)	**1,243.2**	1,211.2	+2.6
Equity	**161.5**	157.9	+2.2
Balance sheet total	**2,129.5**	2,118.8	+0.5
Tier-1 ratio pursuant to CRR[2] (in % ; change in percentage points)	**16.3**	15.6	+0.7

Selected items of the P&L account[3]

	2017[4] EUR billion	2016 EUR billion	Change in %
Net interest income	**29.483**	31.165	–5.4
Net commission income	**8.710**	8.050	+8.2
Net income from financial transactions	**1.070**	1.033	+3.6
Administrative expenses	**27.252**	27.090	+0.6
Operating result before valuation	**12.369**	13.471	–8.2
Operating result after valuation	**10.394**	10.748	–3.3
Net income before taxes	**5.697**	5.569	+2.3
Income taxes	**3.363**	3.499	–3.9
Net income after taxes	**2.334**	2.070	+12.8
of which net income of Savings Banks after taxes	2.113	2.025	+4.3
of which net income of Landesbanken after taxes	0.188	0.004	>100
of which net income of Landesbausparkassen after taxes	0.033	0.041	–18.8

* 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 LBS entities and legally dependent units of Landesbanken

[1] Monetary Financial Institutions

[2] Capital Requirement 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, some of which are as yet unaudited

Overall, the institutions affiliated with the Savings Banks Finance Group achieved net income of EUR 5.7 billion before taxes. The Group had closed the previous year with net income of EUR 5.6 billion before taxes. After taxes, the Savings Banks Finance Group's net income amounted to EUR 2.3 billion, compared with EUR 2.1 billion in the previous year.

In the past fiscal year, the decline in the aggregated balance sheet total of the Savings Banks Finance Group was halted, compared with the previous year. In the previous years, this decline had been due to the fact that the strategic measures designed to realign and resize the Landesbanken led to a further reduction of the balance sheet total.

As of the end of the year, the balance sheet total of the Savings Banks Finance Group had increased by 0.5 percent from EUR 2,118.8 billion to EUR 2,129.5 billion (2016: – 1.8 percent). Growth was mainly achieved in the customer lending business and in the customer deposit business. Higher growth in the customer deposit business was reported in particular by Landesbanken. Liabilities to non-banks increased by 2.6 percent to EUR 1,243.2 billion in the Savings Banks Finance Group, while loans and advances to non-banks rose by 0.6 percent to EUR 1,212.2 billion.

The Savings Banks Finance Group's equity as reported on the balance sheet increased once again in 2017. It rose by 2.2 percent to € 161.5 billion (2016: +3.3 percent). The Group thus once again continued to increase its equity base in the past fiscal year.

EUR
161.5
billion
TOTAL EQUITY OF THE SAVINGS BANKS FINANCE GROUP

As of the end of 2017, the tier-1 capital of the Savings Banks Finance Group calculated in accordance with CRR/CRD IV[1] increased to EUR 157.8 billion (end of 2016: EUR 150.8 billion); the total risk exposure (borrower default risks, market risk positions, and other risks) amounted to EUR 967.1 billion (end of 2017: EUR 965.7 billion). As a result, the Savings Banks Finance Group improved its tier-1 ratio to 16.3 percent by the end of 2017 (end of 2016: 15.6 percent).

Based on its solid equity base, the Savings Banks Finance Group will therefore continue to make a sustainable contribution to the supply of credit for the German economy, 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 2017. Their balance sheet total increased by EUR 26.8 billion (+2.3 percent) to EUR 1,200 billion. The number of Savings Banks decreased by 13 to 390 (2016: 403; as of 15 June 2018: 385).

EUR
1,200
billion
BALANCE SHEET TOTAL OF SAVINGS BANKS

As in the previous year, customer lending business was characterised by considerable momentum. Savings Banks once again achieved substantial growth; business grew by EUR 24.8 billion (+3.2 percent) to EUR 793.6 billion. New lending business also performed better than in 2016 and fell just short of the historical high of 2015. Loan repayments remained at a high level.

Loans to households for home purchases were again one of the main growth drivers in 2017, although portfolio growth and the new business volume were slightly lower than in the previous year. However, the portfolio increased by EUR 9.8 billion (+3.5 percent) to EUR 282.3 billion. In terms of new business, Savings Banks made loan commitments totalling EUR 47.7 billion – also a strong performance.

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

The portfolio of loans to enterprises and self-employed persons grew even more rapidly in 2017. With an increase of EUR 19.8 billion (+5.2 percent) to EUR 397.9 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 83.7 billion, which was also a new record level.

With an increase of EUR 21.0 billion (+2.4 percent) to EUR 911.1 billion, the Savings Banks' business in the customer deposits segment grew somewhat less rapidly in 2017 than in the previous year (+3.3 percent). From a structural perspective, the Savings Banks' performance in this business was similar to that in prior years due to the interest-rate environment: 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 turnover generated by Savings Banks was significantly higher than in the previous year (+17.5 percent). Net sales – i.e. purchases less sales by customers – were clearly positive (EUR 10.8 billion), which was the best performance achieved by Savings Banks in this segment since 2003.

As a result, the acquisition of financial assets once again benefited from inflows from the deposit business and from the securities trading business in the year under review.

Including the home savings and loan business and the life assurance business attributable to Savings Banks, new funds deposited – directly or indirectly – by Savings Bank customers amounted to EUR 34.8 billion.

Profitability

The Savings Banks' earnings from the operational business (operating result before valuation) enjoyed a positive development in fiscal year 2017. Nevertheless, the continuing period of extremely low interest rates also 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 4.2 percent resulted in net interest income of EUR 21.7 billion for Savings Banks in fiscal year 2017 (2016: EUR 22.7 billion).

In the retail segment, the volume expansion and margin improvements in the lending business were no longer sufficient to compensate for the decline in earnings resulting from the significant pressure on margins in the customer deposit business due primarily to the low interest-rate environment. The Savings Banks' earnings from maturity transformation remained relatively stable in 2017, due to the rising yield curve.

Conversely, the Savings Banks' net commission income increased by 8.7 percent to EUR 7.6 billion (2016: EUR 7.0 billion). This improvement mainly resulted from the continued increase in commission income from current account transactions as a result of adjustments to the pricing models. Unlike the previous year, Savings Banks recorded significant increases in revenues from the customer securities trading business, in particular due to the sales of investment certificates, which contributed to the increase in earnings from securities revenues.

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

In fiscal year 2017, administrative expenses decreased by 1.1 percent to EUR 19.9 billion (2016: EUR 20.1 billion). In the year under review, material expenses of Savings Banks fell slightly by 1.4 percent to EUR 7.4 billion (2016: EUR 7.5 billion). Personnel expenses decreased by 1.0 percent to EUR 12.5 billion (2016: EUR 12.6 billion). This was mainly due to the fact that the substantial salary increases as a result of the most recent pay settlement were more than offset by continuing staff consolidation measures (including part-time work for older employees) and natural staff turnover.

In fiscal year 2016, the cost-income ratio[1] remained almost constant at 67.9 percent (2016: 67.8 percent). Despite the significant decline in net interest income, a higher rate of increase in CIR was prevented by lower administrative expenses and higher commission income.

At the same time, the operating result before valuation increased to EUR 9.7 billion (2016: EUR 9.6 billion).

With reference to the valuation result[2], Savings Banks achieved a modest net valuation income of EUR 0.3 billion in 2017, after reporting a valuation income of EUR 1.0 billion in the previous year. Once again, write-ups were higher than write-downs in provisions for contingent losses in the lending business, so that the Savings Banks' valuation income amounted to just under EUR 0.1 billion (2016: EUR 0.3 billion). The historically low provisions for contingent losses were due, on the one hand, to the stable economic development with slightly rising growth rates. On the other hand, Savings Banks continued to benefit from the fact that they have not had any "legacy liabilities" in their loan portfolio for several years now.

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 needs-based risk coverage.

The valuation of securities held in the liquidity reserve led to write-downs of EUR 0.3 billion in 2017. After valuation expenses of EUR 0.1 billion in the previous year, the adverse impact on valuation was therefore slightly higher in 2017.

In fiscal year 2017, 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 5.0 billion, the increase in "340g reserves" was slightly less pronounced than in the previous year (2016: EUR 5.3 billion). Overall, the "Extraordinary Result" closed once again with a negative balance of EUR 5.0 billion in 2017, which was slightly lower than in the previous year.

The improvement of the "Extraordinary Result"[3] had a positve impact on net income before taxes, while the lower valuation result year-on-year had a adverse impact. On balance, the increase in operating earnings was reflected to a limited extent only in net income before taxes. With net income before taxes of EUR 5.0 billion, the Savings Banks' overall performance in fiscal year 2017 was slightly above the previous year's level (+0.2 percent).

EUR
5.0
billion
NET INCOME OF SAVINGS BANKS BEFORE TAXES

In fiscal year 2017, net income after taxes increased by 4.3 percent to EUR 2.1 billion.

[1] Ratio of administrative expenses to the sum total of net interest income and net commission income.
[2] The valuation result is composed of provisions for contingent losses in the lending business as well as write-ups/write-downs on contingency reserves pursuant to Section 340(f) of the German Commercial Code.
[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 in the "Extraordinary Result" in accordance with Section 340(g) of the German Commercial Code.

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

	2017 [2] EUR billion	2016 EUR billion	Changes 2017 vs. 2016 EUR billion	%
Net interest income	**21.705**	22.667	–1.0	–4.2
Net commission income	**7.576**	6.970	+0.6	+8.7
Net income from financial transactions	**0.011**	0.010	+0.0	+11.7
Administrative expenses	**19.883**	20.108	–0.2	–1.1
Personnel expenses	12.467	12.589	–0.1	–1.0
Non-personnel expenses (including depreciation of fixed assets)	7.416	7.519	–0.1	–1.4
Operating result before valuation	**9.703**	9.561	+0.1	+1.5
Valuation result (excluding equity interests)	**0.309**	1.041	–0.7	–70.3
Operating result after valuation	**10.012**	10.602	–0.6	–5.6
Balance of other and extraordinary income/expenses [1,3]	**–5.037**	–5.635	+0.6	–10.6
of which: additions to the fund for general banking risks in accordance with Section 340(g) German Commerical Code	–4.958	–5.330	+0.4	–7.0
Net income before taxes	**4.975**	4.967	+0.0	+0.2
Income taxes	**2.862**	2.942	–0.1	–2.7
Net income after taxes	**2.113**	2.025	+0.1	+4.3
Return on equity before taxes (in %, change in percentage points)	**9.4**	10.5	–	–1.1
Cost-income ratio (in %, change in percentage points)	**67.9**	67.8	–	+0.1

[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] Provisional figures from financial statements prepared in accordance with German GAAP, some of which are as yet unaudited The 2016 figures of Nord/LB already include the data of Bremer Landesbank.

[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).

EUR
793.6
billion
CUSTOMER LOANS

Lending business

In 2017, the overall customer lending business grew by EUR 24.8 billion, which meant that the portfolio increased by 3.2 percent to EUR 793.6 billion (2016: 3.2 percent).

New business performed well in 2017, increasing by 0.5 percent compared with the previous year. The total volume of new business generated by Savings Banks amounted to EUR 150.6 billion. New business did not have a more significant impact on the portfolio because repayments continued to be very high: at EUR 115 billion, repayments were only slightly below the previous year's level. This positive development in the customer lending business was primarily driven by loans to enterprises.

In the course of 2017, Savings Banks committed EUR 3.4 billion in new loans to enterprises and self-employed persons, i.e. 4.2 percent more than in the previous year. The total volume achieved amounted to EUR 83.7 billion, which was a new record level.

Medium und long-term loans continued to account for the largest proportion (90.6 percent) of the commitments made in 2017, and therefore continued to have the character of investments from the perspective of the enterprises concerned.

This new business also had an impact on loan portfolios. In 2017, the portfolio grew by EUR 19.8 billion, i.e. by 5.2 percent (portfolio at year-end: EUR 397.9 billion).

Investment loans to enterprises and self-employed persons increased by EUR 12.1 billion (+4.6 percent) to a volume of EUR 275.6 billion (2016: 3.7 percent). In the commercial housing construction business, the loan portfolio increased by EUR 7.7 billion (+6.7 percent) to a level of EUR 122.3 billion.

In loans to private individuals, the new business of Savings Banks declined slightly compared with the previous year. The volume of commitments made for the full year amounted to EUR 58.6 billion, a decline by EUR 1.3 billion (– 2.2 percent) compared with 2016. Compared with earlier years, this was still a very satisfactory result. The portfolio once again grew quite substantially, increasing by EUR 8.3 billion (+2.5 percent) to EUR 338.9 billion (2016: +2.7 percent).

In terms of volume, the decline in new business was mainly due to the development of loans to private households for home purchases. Nevertheless, the volume of new business amounted to EUR 47.7 billion, which represents a year-on-year decline of only EUR 0.9 billion (– 1.8 percent). However, in view of the trends in the residential property business (increasingly short supply, rising prices), the volume of new business generated can still be rated as good.

In the course of the year, the portfolio of loans to private households for home purchases increased by over EUR 9.8 billion (+3.5 percent) to EUR 292.3 billion, remaining only slightly below the high growth rate of the previous year (+3.8 percent).

However, the Savings Banks' performance in consumer credit business was again less than satisfactory in 2017. New loan commitments made by Savings Banks amounted to EUR 10.9 billion, which was € 0.4 billion (– 3.8 percent) less than in the previous year. The loan portfolio continued to decrease (EUR – 1.5 billion, i.e. by – 3.0 percent). In this context, however, it should be borne in mind that Savings Bank customers have considerable liquid funds which they are increasingly using for consumption due to the interest-rate environment.

In 2017, the portfolio of loans to domestic general government decreased by EUR 4.2 billion (– 9.7 percent) to EUR 39.3 billion (2016: – 6.0 percent). At EUR 5.0 billion, new business was – 21.3 percent below the previous year's level.

Customer lending business of Savings Banks

	2017 EUR billion	2016 EUR billion	Change EUR billion	Change in %
Customer loans	**793.6**	768.8	+24.8	+3.2
Loans to enterprises [1]	**397.9**	378.1	+19.8	+5.2
Loans to private individuals	**338.9**	330.6	+8.3	+2.5
Residential housing loans	292.3	282.5	+9.8	+3.5
Consumer loans	46.6	48.1	–1.5	–3.0
Loans to general government	**39.3**	43.5	–4.2	–9.7
Total loan commitments/disbursements to domestic customers	**150.6/140.3**	149.9/139.7	+0.7/+0.7	+0.5/+0.5
Loan commitments/disbursements to enterprises and self-employed persons [1]	**83.7/76.6**	80.3/73.4	+3.4/+3.2	+4.2/+4.3
Loan commitments/disbursements to private individuals	**58.6/55.9**	59.9/57.4	–1.3 /–1.4	–2.2/–2.5

[1] Including commercial housing loans

Customer securities trading business

In the off-balance-sheet customer securities trading business, the total turnover generated by Savings Banks in 2017 amounted to EUR 119.9 billion, which was significantly higher than the previous year's level (EUR 17.8 billion, i.e. +17.5 percent). Turnover increased in all categories: in fixed-income securities by 16.3 percent, in equities by 17.6 percent and in investment funds by 18.4 percent. Net sales (purchases less sales) were clearly positive in 2017, amounting to EUR 10.8 billion, the best performance since 2002. This had been exclusively due to very high positive net sales of investment funds (EUR +11.2 billion), while net sales of equities (EUR –0.3 billion) and fixed-income securities (EUR –0.1 billion) were slightly negative. The highest positive balances among the investment funds were achieved by equity funds (EUR +2.8 billion), open-ended property investment funds (EUR 2.6 billion), mixed funds (EUR +1.9 billion) and funds of funds (EUR 1.6 billion).

Customer securities trading business of Saving Banks

	2017 EUR billion	2016 EUR billion	Change EUR billion	Change in %
Securities trading volume	**119.9**	102.0	+17.8	+17.5
Net sales of securities [1]	**10.8**	9.6	+1.2	+12.9

[1] Net sales is the balance of customer purchases and sales.

Funding

Savings banks fund themselves largely from deposits by private individuals and enterprises. In 2017, the Savings Banks' customer deposit business grew by EUR 21.0 billion (+2.4 percent) to a total portfolio of EUR 911.1 billion, which was not quite at the previous years' level (most recently: +3.3 percent in 2016).

EUR
911.1
billion
CUSTOMER DEPOSITS OF SAVINGS BANKS

The interest-rate driven development of the past few years by and large continued: sight deposits continued to increase (by EUR 29.5 billion, or 5.5 percent, to a portfolio volume of EUR 565.5 billion), while the other categories stagnated or declined. Savings deposits decreased slightly by EUR 3.2 billion (–1.1 percent) to EUR 290.3 billion, while time deposits fell by EUR 0.9 billion (–5.0 percent). Own issues (EUR –4.4 billion, i.e. –10.4 percent) continued to decrease significantly.

The customer deposit business grew less rapidly than in the previous year, mainly due to the fact that domestic enterprises slightly reduced their deposits by EUR 5.3 billion (–3.7 percent) to EUR 139.4 billion, while they still continued to increase their deposits in the previous year (+1.3 percent). Deposits from private individuals grew by EUR 25.8 billion (+3.8 percent) to EUR 711.6 billion; this growth rate was somewhat lower than in 2016 (+4.3 percent).

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

Customer deposit business of Savings Banks

	2017 EUR billion	2016 EUR billion	Change EUR billion	Change in %
Customer deposits	**911.1**	890.1	+21.0	+2.4
of which savings deposits	290.3	293.4	–3.2	–1.1
of which own issues	38.1	42.5	–4.4	–10.4
of which time deposits	17.3	18.2	–0.9	–5.0
of which sight deposits	565.5	536.0	+29.5	+5.5

Acquisition of financial assets

Due to the slowdown of portfolio growth in the deposit business, which was not quite offset by higher positve net sales in the securities trading business, the acquisition of financial assets by all customers was –15.6 percent lower than in 2016, which had been a very strong year. Customers acquired additional financial assets worth EUR 34.8 billion via Savings Banks in 2017, including the home savings and loan business and the life assurance business attributable to Savings Banks.

+17.5 %
SECURITIES TRADING VOLUME

With reference to private individuals, the 2017 level fell short of the the previous year's high level by only –0.9 percent. Financial assets acquired by private individuals grew by EUR 36.3 billion.

Acquisition of financial assets by Savings Bank customers

	2017 EUR billion	2016 EUR billion	Change EUR billion	Change in %
Acquisition of financial assets by customers [1]	**34.8**	41.2	–6.4	–15.6
Private acquisition of financial assets [1]	**36.3**	36.7	–0.3	–0.9

[1] Deposit-taking business, customer securities trading business, intermediated home savings and loan deposits, intermediated life insurance policies .

15.9 %

TIER-1 RATIO OF SAVINGS BANKS

Equity

The regulatory capital of Savings Banks amounted to EUR 116.8 billion at the end of fiscal year 2017. 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 2017, the total capital ratio amounted to 17.4 percent. Since Savings Banks continued to increase tier-1 capital exclusively, the tier-1 ratio rose substantially to 15.9 percent. Net of hybrid tier-1 capital components, the common equity tier-1 ratio amounted to 15.8 percent. This means that, today, Savings Banks already surpass the Basel III requirements which will apply as of 2019.

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

Regulatory capital ratios of Savings Banks in accordance with CRR

	2017 in %	2016 in %	Change in %
Tier-1 ratio	**15.9**	15.2	+0.6
Common equity tier-1 ratio	**15.8**	15.1	+0.7
Total capital ratio	**17.4**	16.9	+0.4

Business performance of Landesbanken

In fiscal year 2017, the business performance of Landesbanken was characterised by the continuing – albeit less pronounced – reduction of their balance sheet total. In the course of the implementation of the strategic measures adopted during the financial market crisis to resize and realign the Landesbanken, their balance sheet total was thus reduced by more than EUR 702 billion (approx. 45 percent) between the end of 2008 and the end of 2017.

In 2017, the balance sheet total of the institutions [1] decreased by EUR 17.8 billion (– 2.0 percent) to EUR 861.3 billion. This means that the decline in the on-balance-sheet business was significantly lower than in the previous year (2016: – 7.2 percent). This was mainly due to the reduction of loans and advances to non-banks (customer receivables) and of own investments in fixed-income securities. In addition, loans to general government also declined significantly.

[1] This chapter deals with the 6 Landesbanken Groups, Berliner Sparkasse/LBB and DekaBank.

In addition, Landesbanken reduced their securitised liabilities in 2017, primarily as a result of the reduction of their portfolio of debt securities issued.

Lending business

On the asset side of the interbank business, the Landesbanken portfolio of loans and advances to banks increased by EUR 10.8 billion (+6.0 percent) to EUR 191.9 billion (2016: – 11.5 percent). The increase was most pronounced with regard to loans and advances to domestic banks (excluding Savings Banks), which rose by EUR 9.7 billion to EUR 67.4 billion. The Landesbanken portfolio of loans and advances to Savings Banks increased by EUR 0.6 billion to EUR 53.2 billion, and the portfolio of loans and advances to foreign banks increased by EUR 0.5 billion to EUR 72.3 billion.

In customer lending business, Landesbanken reported a reduction of the volume of their portfolio in the past fiscal year. Overall, exposures to non-banks were reduced by 4.5 percent, from EUR 407.8 billion to EUR 389.5 billion (2016: – 3.1 percent).

EUR
389.5
billion
CUSTOMER LOANS OF LANDESBANKEN

In the year under review, the volume of exposures to domestic and foreign enterprises decreased by EUR 14.3 billion (– 4.8 percent) to EUR 282.5 billion (2016: EUR – 6.8 billion; – 2.2 percent), mainly due to the reduction of loans and advances to foreign enterprises (portfolio reduction by EUR 13.9 billion to EUR 109.0 billion, i.e. by 11.3 percent).

Loans and advances to domestic and foreign general government decreased by 3.4 percent, from EUR 78.3 billion to EUR 75.7 billion. Loans to resident individuals (including non-profit organisations) were reduced by 4.0 percent, from EUR 32.7 billion to EUR 31.4 billion.

Securities trading business

In 2017, Landesbanken continued to significantly reduce their own investments in securities. Overall, the portfolio decreased by 9.5 percent to EUR 136.4 billion (2016: – 16.1 percent). The portfolio of bank bonds remained almost constant at EUR 65.0 billion, while investments in other classes of securities – in particular “corporate bonds” and “government bonds” – were reduced. The portfolio of corporate bonds decreased by 14.2 percent to EUR 19.1 billion, while the portfolio of government bonds declined by 25.9 percent to EUR 39.7 billion. On the other hand, portfolios invested in variable-yield securities (equities, investment certificates) increased by 33.2 percent to just under EUR 11.0 billion. With a portfolio of EUR 1.7 billion at the end of 2017, money market paper continued to play only a minor role.

As at the end of 2017, own investments of Landesbanken (securities account “A”) were focused on bank bonds with a structural share of 47.6 percent, followed by government bonds and debentures with 29.1 percent, and corporate bonds with 14.0 percent. The portfolios of variable-yield securities and money market paper play a minor role, with structural shares of 8.0 percent and 1.2 percent, respectively.

EUR
281.8
billion
CUSTOMER DEPOSITS OF LANDESBANKEN

Funding

The Landesbanken portfolio of customer deposits increased in 2017, rising from EUR 273.4 billion to EUR 281.8 billion (+3.1 percent). In 2016, customer deposits had decreased by as much as 5.0 percent.

The portfolio growth in 2017 was mainly due to the development of liabilities to domestic and foreign enterprises, which increased from EUR 149.9 billion to EUR 158.2 billion (+5.5 percent) and from EUR 29.0 billion to EUR 31.5 billion (+8.9 percent), respectively.

A more differentiated analysis in the sector of domestic enterprises shows that the portfolio growth in the year under review was due to the development of liabilities to financing institutions and, more importantly, to the development of liabilities to enterprises operating in the real economy. On the other hand, liabilities to insurance companies decreased by EUR 4.6 billion (– 6.5 percent), from EUR 71.2 billion to EUR 66.6 billion. The Landesbanken portfolio of liabilities to financial institutions increased significantly by EUR 4.5 billion (+15.5 percent) to EUR 33.1 billion, and the portfolio of liabilities to enterprises operating in the real economy grew even more substantially, with an increase by EUR 8.4 billion (+16.9 percent), from EUR 50.0 billion to EUR 58.4 billion.

As a result, the weight of the segment of enterprises operating in the real economy has continued to increase within the customer deposit business of Landesbanken.

While deposits from domestic general government decreased by EUR 5.3 billion (– 10.8 percent), i.e. from EUR 48.7 billion to EUR 43.4 billion, deposits from resident individuals (including non-profit organisations) increased by EUR 2.5 billion (+5.4 percent), from EUR 45.8 billion to EUR 48.2 billion.

In comparison with liabilities to customers, Landesbanken maintained their interbank liabilities at a stable level in 2017. Unlike the previous years, 2017 saw only a minimal increase in interbank liabilities, from EUR 237.8 billion to EUR 238.3 billion (2016: – 11.3 percent). In the past year, liabilities to domestic credit institutions (excluding Savings Banks) decreased from EUR 155.4 billion to EUR 146.8 billion (– 5.6 percent), while liabilities to Savings Banks increased from EUR 25.8 billion to EUR 30.1 billion (+16.7 percent). Liabilities to foreign banks increased by 8.5 percent, from EUR 56.6 billion to EUR 61.4 billion (2016: – 3.3 percent).

In 2017, the decline in the Landesbanken portfolio of securitised liabilities was slightly greater than in the previous year. The portfolio declined from EUR 189.8 billion to EUR 186.7 billion (– 1.6 percent). In previous years, Landesbanken had reported reductions – which in some cases were significant – in their portfolio of this type of funding.

Equity

In 2017, the equity of Landesbanken as reported on the balance sheet decreased from EUR 53.5 billion to EUR 49.9 billion (– 6.8 percent). This decline was mainly due to the reduction of risk positions and the adjustment of the portfolio of one Landebank.

By the end of 2017, the regulatory tier-1 capital of Landesbanken, as calculated on the basis of CRR/CRD IV, had decreased to EUR 47.8 billion (end of 2016: EUR 48.1 billion). In comparison, however, total risk exposure (borrower default risks, market risk positions and other risks) was reduced even more by 6.4 percent to EUR 272.9 billion (end of 2016: EUR 291.6 billion). As a result, the Landesbanken Group improved its tier-1 ratio in accordance with CRR/CRD IV to 17.5 percent (end of 2016: 16.5 percent).

17.5 %
TIER-1 RATIO OF LANDESBANKEN

In 2017, Landesbanken continued to pursue their strict course of consolidation on which they embarked after the financial crisis by systematically reducing their risk assets and further improving their tier-1 ratio. Fewer high-risk transactions, more financial solidity: once again, this summarises the performance of the eight institutions in the past few years. Landesbanken by and large continue to pursue their course of consolidation, while at the same time attaching increasing importance to expanding their core business.

Selected balance sheet items of Landesbanken (including DekaBank)

	As at year-end 2017 EUR billion	As at year-end 2016 EUR billion	Change in %
Loans and advances to banks (MFIs[1])	**191.9**	181.2	+6.0
Loans and advances to non-banks (non-MFIs)	**389.5**	407.8	–4.5
Liabilities to banks (MFIs)	**238.3**	237.8	+0.2
Liabilities to non-banks (non-MFIs)	**281.8**	273.4	+3.1
Balance sheet total	**861.3**	879.1	–2.0

[1] Monetary Financial Institutions

Profitability[1]

In an environment of low interest rates, the operating earnings of Landesbanken decreased in 2017. Net interest income decreased from EUR 7.6 billion to EUR 6.9 billion. Net commission income once again reached the previous year's level of EUR 1.2 billion. The solid net income from financial transactions, which stabilised at a level of EUR 1.0 billion in 2017, had a positive impact on earnings. Administrative expenses increased from EUR 6.4 billion to EUR 6.8 billion due to higher personnel expenses and IT investments.

Overall, Landesbanken achieved an operating result before valuation amounting to EUR 2.5 billion in 2017 (2016: EUR 3.7 billion). While the cost-income ratio [2] of Landesbanken still improved in the previous year, it deteriorated to 83.1 percent in 2017 due to lower net interest income and net commission income and higher administrative expenses (2016: 72.5 percent).

For several consecutive years, Landesbanken had to accrue provisions for contingent loan losses in their valuation result. However, these expenses were somewhat lower than in the previous year. Conversely, Landesbanken achieved a slight surplus in "Other and extraordinary income and expenses". While the "extraordinary result" [3] has been positive since 2016 and therefore contributed to earnings, this income is far from sufficient to compensate for the loan loss provisions.

The valuation result of Landesbanken in the lending business also had a substantial adverse impact on net income in 2017. However, the net valuation expenses of EUR 2.3 billion were significantly below the previous year's level (EUR 3.8 billion). In 2016, the subtantial increase had been mainly due to high charges incurred by two institutions. The earnings positions of these two institutions were particularly affected by the impact of the continuing and worsening shipping crisis.

[1] Source: Individual financial statements of Landesbanken (including DekaBank) prepared in accordance with German GAAP. The 2016 figures of Nord/LB already include the data of Bremer Landesbank.

[2] Ratio of administrative expenses to the sum total of net interest income and net commission 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 in the "Extraordinary Result" in accordance with Section 340(g) of the German Commercial Code.

The adverse impact of the valuation result on the net income of Landesbanken was therefore not as substantial as in the previous year.

As in 2016, when "Other and extraordinary income and expenses" had a minor positive effect of EUR 0.6 billion, Landesbanken achieved a slight surplus of EUR 0.4 billion in 2017, primarily driven by the valuation and financial investment business. In fiscal year 2017, the performance of Landesbanken was moderately positive, with net valuation income of EUR 0.4 billion. In the previous year, the valuation and financial investment business had only been slightly higher, with net valuation income of EUR 0.7 billion.

In fiscal year 2017, Landesbanken achieved pre-tax earnings of EUR 632 million. Landesbanken had closed the year before with net income before taxes of EUR 509 million. The first increase in pre-tax earnings since 2015 is an indication of the fact that most of the high extraordinary charges of the various institutions that are part of the Landesbanken Group have been absorbed.

After income taxes, Landesbanken closed the fiscal year 2017 with a net loss of EUR 188 billion. In 2016, they had reported a net income of EUR 4 million after taxes.

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

	2017 [2] EUR billion	2016 EUR billion	Change in %
Net interest income	**6.892**	7.600	–9.3
Net commission income	**1.230**	1.212	+1.5
Net income from financial transactions	**1.059**	1.023	+3.6
Administrative expenses	**6.752**	6.390	+5.7
Operating result before valuation	**2.532**	3.718	–31.9
Valuation result (excluding equity interests)	**–2.258**	–3.764	–40.0
Operating result after valuation	**0.274**	–0.046	– [4]
Balance of other and extraordinary income/expenses [1, 3]	**0.358**	0.555	–35.6
of which: withdrawals from (+) / additions to (–) the fund for general banking risks pursuant to 340(g) German Commercial Code	–0.299	0.664	– [4]
Net income before taxes	**0.632**	0.509	+24.1
Income taxes	**0.443**	0.504	–12.1
Net income after taxes	**0.188**	0.004	>100

[1] As in the "original" P&L account under German GAAP, additions to the Fund for General Banking Risks in accordance with Section 340(g) German Commercial Code are recognised as expenses that reduce net income, while withdrawals are recognised as income; in the DSGV's Financial Reports until 2010, such additions and withdrawals were treated – in line with Deutsche Bundesbank's P&L statistics – as appropriation of profits which increased net income (in the case of additions) or reduced net income (in the case of withdrawals).

[2] Provisional figures from financial statements prepared in accordance with German GAAP, some of which are as yet unaudited. The 2016 figures of Nord/LB already include the data of Bremer Landesbank.

[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] Calculation is not reasonable.

Business performance of Landesbausparkassen

In 2017, the new business generated by Landesbausparkassen in terms of the target contract sums amounted to EUR 31 billion. This constitutes a decrease of 6 percent compared with the year 2016. This is an understandable development because the focus of the business has moved from return-oriented to financing-oriented customers. Building society contracts are particularly attractive for consumers as they protect consumers from the risk of rising interest rates – in particular in view of the situation currently prevailing in the capital market. Capital requirements have also increased due to considerably higher property prices. Building society customers are aware of this, as demonstrated by the continued increase in the average target contract sum. In the past fiscal year, this figure amounted to EUR 45,000, which was 9.5 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 36.2 percent in terms of the number of new contracts concluded in 2017 and to 36.4 percent in terms of the target contract sum. In respect of the portfolio of contracts, Landesbausparkassen hold a market share of 35.6 percent (number of contracts) and 33.1 percent (target contract sum). In the “Riester” home loan and savings segment, the market share held by Landesbausparkassen is even higher (46.6 percent), which is equivalent to approx. 822,000 contracts (+3.8 percent) and a target contract sum of EUR 34.8 billion (+6.0 percent).

At the end of 2017, the eight Landesbausparkassen had 8.5 million customers, for whom they managed a total of approx. 10 million contracts (–3.0 percent) with a volume of EUR 295.3 billion (+1.2 percent).

In the past fiscal year, Landesbausparkassen were also major lenders for financing residential housing measures. Capital disbursements amounted to EUR 7.7 billion (–1.1 percent). The portfolio of deposits under building society contracts had increased to EUR 59.6 billion (+4.0 percent) by the end of 2017. The total volume of building society loans increased by 4.3 percent to EUR 27.7 billion; the volume of preliminary and interim financing loans increased by 6.1 percent to EUR 23.4 billion.

Landesbausparkassen run approx. 600 information centres and have just over 6,900 employees working in their offices and in their field force. The LBS Group’s cumulative balance sheet total reached a new record high of EUR 68.3 billion (+1.94 percent) at the end of 2017.

Business performance of Landesbausparkassen

	2017	2016	Change in %
New contracts concluded			
Number (millions)	**0.68**	0.80	–15.0
Target contract sum (billion EUR)	**30.8**	32.8	–6.1
Portfolio of contracts			
Number (millions)	**9.96**	10.26	–3.0
Target contract sum (billion EUR)	**295.3**	291.6	1.3
Money received (billion EUR)			
Total	**11.1**	11.8	–5.5
of which savings contributions	9.2	9.5	–2.9
New capital commitments	**7.7**	7.9	–3.5
Capital disbursements	**7.7**	7.8	–1.1
Balance sheet total	**68.3**	67.0	1.9
Employees (including field force)			
Total	**6,918**	7,455	–7.2
of which apprentices	132	144	–8.3
	2017 in %	2016 in %	Change in %
Market shares (number of contracts)			
New contracts concluded	**36.2**	36.5	–0.8
Portfolio of contracts	**35.6**	35.6	0

Responsibility and social commitment

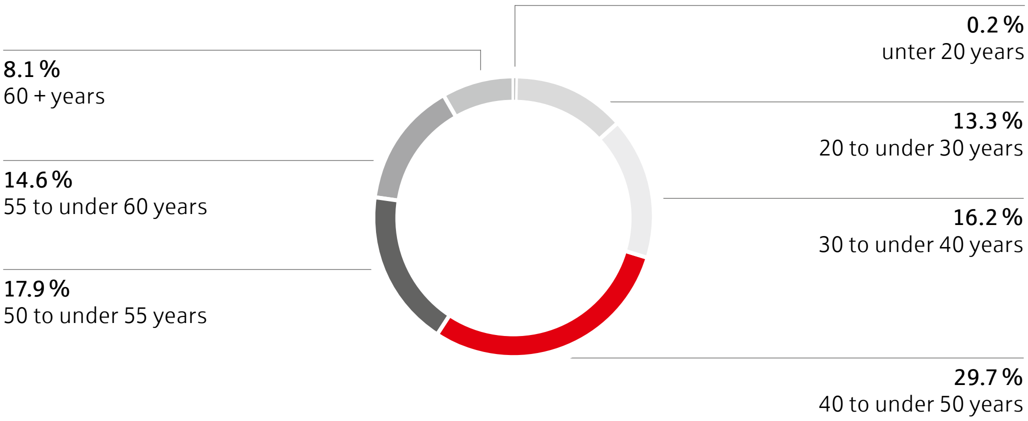
The past year was characterised by staff restructuring, branch closures and mergers in the banking and financial sector – a consolidation process that has also set the framework for 2018. Our current staff numbers show that the previous year's trends have continued.

Employees are the key to success

Our employees are, and will continue to be, our most important link to our customers. They are brand ambassadors who advocate the Savings Banks' 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 continues to be one of the most important employers and one of the leaders in training in Germany. A total of 216,117 people were employed by Savings Banks in 2017.

Savings Bank employees: Age structure [1]
As at 31 December 2017



[1] Number of banking employees (headcount).

The Savings Banks Finance Group as an attractive employer

The Savings Banks Finance Group is an attractive employer for experienced professionals and career starters. Being an attractive employer is highly relevant for our human resources strategy. Our people take centre stage because our employees set us apart.

As in the past, our apprentices form the pool for our next generation of professionals. In addition, our reputation as a good employer has a positive impact on the recruitment of young career starters such as school leavers and students. 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. Savings Banks regularly invest in upgrading the content and the technical features of our employer brand.

It is important for Savings Banks to offer young career starters not only job security and career prospects but also interesting and flexible fields of work – starting in their vocational training. Savings Banks apply an impressive range of approaches to promoting and applying their apprentices' personal responsibility and creativeness, including self-managed induction weeks and charitable projects, as well as social media editorial teams and branches staffed with apprentices. These branches staffed with apprentices create an environment in which young talent can develop fresh ideas and put them into practice immediately. As a result, the apprentices see that their ideas are genuinely acknowledged. As a result, they feel truly appreciated and know that they have arrived in the company.

In addition, with a view to the upcoming challenges posed by changes in customer behaviour and the ongoing digitalisation in Savings Banks, we have also focused on high-potential employees and developed measures to retain this target group. This will enable our qualified junior staff – in co-operation with our experienced professionals – to shape the changes needed for our future market presence.

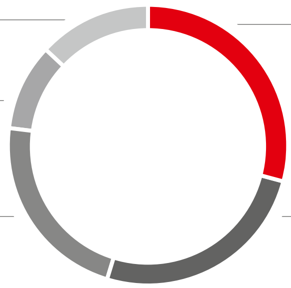
It is very important to the institutions affiliated with the Savings Banks Finance Group that their employees are able to reconcile their work and their private lives. For this purpose, we offer flexible models in terms of workplace and working time, professional career development, and a variety of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

Excellent vocational training and continued professional development

In 2017, a total of 4,569 young people began their vocational training at a Savings Bank, Landesbank or Landesbausparkasse. The decline relative to the previous year reflects adjustments in the institutions' staffing requirements. With a total of 13,131 apprentices and trainees, Savings Banks continue to be the largest provider of training in the German banking sector and one of Germany's largest training providers nationwide. This 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 regularly achieve top 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 2017, 85.6 percent of our 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 vocational training with university studies. Savings Banks increasingly 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 the Savings Banks' sales strategy.

Savings Bank employees: qualification structure [1]
As at 31 December 2017



[1] Number of active banking employees (headcount).

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

The share of women in leadership positions including executive board members increased slightly in 2017 to 25.1 percent.

Continued focus on digitalisation in human resources development

The Savings Banks Finance Group's internal training system is one of its key success factors. 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 – provides broad support for these development opportunities by conveying the necessary expertise as well as the skills and capabilities required for each career level.

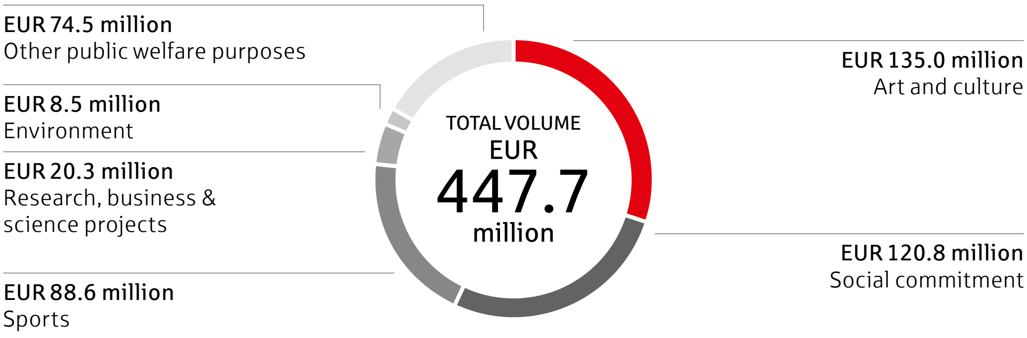
The Savings Banks' business model is centred on providing advice to customers, with the aim of achieving a high level of customer satisfaction. Savings Banks have a choice of channels for contacting customer service staff – whether in branches, online or by mobile phone. Due to changes in customer needs, there is a significant shift towards online contacts. Regardless of the channel used by customers, Savings Banks want to keep the human touch that sets them apart from competitors, despite the necessary reorganisation of their branch structure. For this reason, Savings Banks continue to place special emphasis on enabling their 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' own "digital fitness". Current training formats include seminars organised at the academies, but also online and in the form of in-house seminars held directly at Savings Bank premises.

Broad-based commitment to society strengthens public welfare

In 2017, the Savings Banks Finance Group invested EUR 448 million in social responsibility projects (2016: EUR 453 million). Savings Banks, Savings Bank foundations, Landesbanken and partner entities within the Savings Banks Finance Group are actively involved in an array of social interactions in communities by sponsoring art and culture, engaging in social projects, supporting sports and providing assistance in the fields of education and environmental protection.

Social commitment of the Savings Banks Finance Group
As at 31 December 2017



Art and culture

2017 was a special "year of culture" with many (large-scale) projects not only of regional, but also of national and international importance, in particular documenta 14, the sculpture projects in Münster, the Venice Biennale and the 500th anniversary of the Reformation. The Savings Banks Finance Group supported all of these events, in some cases as the main sponsor. In 2017, the Savings Banks Finance Group sponsored art and culture with approx. EUR 135 million (2016: EUR 131 million), which made 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 120.8 million in 2017 (2016: EUR 117 million), social responsibility projects are the second largest sponsorship area for 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 athletes of the German Olympic and Paralympic teams, as well as the elite sports schools.

In 2017, EUR 88.6 million (2016: EUR 89.4 million) was spent to sponsor sports and members of sports clubs. A total of 31 foundations of the Savings Banks Finance Group are devoted – either exclusively or predominantly – to sponsoring sports activities.

Environmental protection

Savings Banks also assume responsibility for the environment with a wide variety of local and regional activities that address environmental and climate concerns. A large number of local environmental organisations, for instance, can count on the support of Savings Banks. Their sponsorship scheme also includes selected ecological projects in schools. The funds spent by Savings Banks for this purpose remained constant and amounted to approx. EUR 8.5 million in 2017.

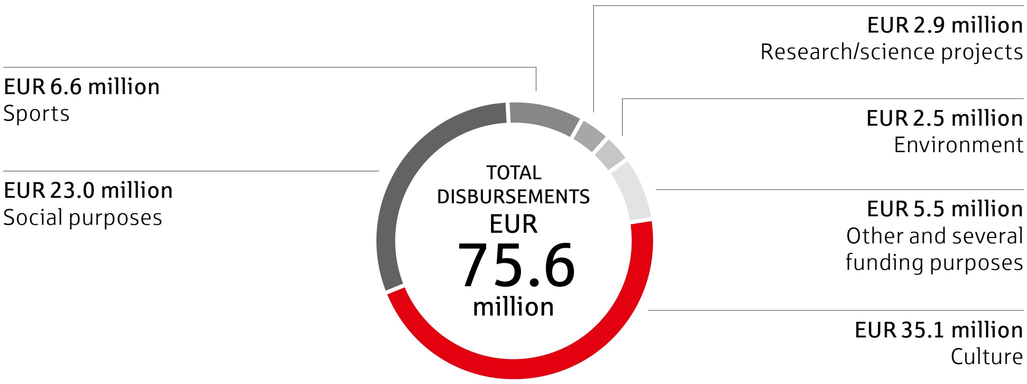
Education

Our sponsorship in the fields of education and integration is a key element of the Savings Banks Finance Group's activities aimed at supporting sustainable social development. In 2017, a total of EUR 20.3 million (2016: EUR 22.3 million) was spent on research projects and on projects designed to promote 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 in their environment. 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 to 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 carried on by the Group's charitable foundations in a particularly sustainable manner. In 2017, the 748 foundations (2016: 738) of the Savings Banks Finance Group helped to strengthen regional development and supported active citizenship at local level. At the end of 2017, the foundations' aggregate capital amounted to more than EUR 2.6 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 75.6 million (2016: EUR 70.9 million).

Disbursements in million EUR
As at 31 December 2017



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 2017, 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 remained in 2017.

Market situation and regulatory environment

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

Regulatory environment

A large number of regulatory initiatives were taken forward in 2017. In December 2017, the Basel Committee finalised the Basel III reform, thus bringing lengthy negotiations to a close. One of the main issues that had been contentious for a long time was the introduction and the level of what is referred to as the output floor. The output floor limits the benefits banks can derive – compared with standardised approaches – from using internal models to calculate minimum capital requirements. Nearly all Landesbanken apply internal models to calculate minimum capital requirements; nearly all the Savings Banks apply the standardised approaches. The Credit Risk Standardised Approach (CRSA) will also be revised in the course of the finalisation of Basel III.

At EU level, particular mention should be made of the comprehensive proposals published on 23 November 2016: in addition to proposals to revise the Capital Requirements Directive and Regulation for banks (CRD V / CRR II), there are proposals to integrate the requirements of the Financial Stability Board (FSB) with regard to the Total Loss Absorbing Capacity (TLAC) for global systemically important banks (G-SIBs) into the CRR and also into the Bank Resolution and Recovery Directive (BRRD), as well as the associated Single Resolution Mechanism (SRM) Regulation. The negotiations on these proposals will probably extend to the end of 2018.

Subsequently, the EU Commission will begin with the finalisation of Basel III. The deadline set by the Basel Committee for this purpose is 2022.

At national level, the amendment to the Minimum Requirements for Risk Management (MaRisk) is of particular significance. The amendment is focused on requirements with regard to risk data aggregation and risk reporting, based on a regulation issued by the Basel Committee (BCBS 239). The MaRisk was published in October 2017.

In view of the persistently high intensity of new regulatory requirements, the Savings Banks Finance Group has centrally bundled its implementation support within 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 bank management responsibilities driven by regulation.

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 and
- Operational risks.

The institutions affiliated with the Savings Banks Finance Group manage the earnings and risk classes 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 parameters 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 cost risk. 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 risk-bearing capacity, manage the portfolio and allocate capital, so as to optimise their risk/return ratio. In view of 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 a view to 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 at the level of the overall bank 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, lending business can continue to grow steadily, which in turn will lead to increasing minimum capital requirements, despite rising capital requirements, also due to the introduction of the capital conservation buffer.

In 2016 and 2017, most Savings Banks underwent the supervisory evaluation process in accordance with the EBA Guidelines for the Supervisory Review and Evaluation Process (SREP). Institution-specific capital requirements were defined on the basis of the risks identified within the framework of the determination of the risk bearing capacity and not yet included in Basel pillar I.

The new capital requirements have to be taken into account both when determining capital adequacy and when assessing the risk bearing capacity.

In 2016 and 2017, the German regulator also informed the institutions – based on Deutsche Bundesbank's 2016 low-interest-rate survey – about the prudential target equity ratio, i.e. the capital recommendations for each institution. For a large part of the Savings Banks, this has led to no, or only limited, additional capital requirements.

The national regulator published revised rules on risk bearing capacity on 24 May 2018. 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 the new rules in all the institutions.

Safeguarding solvency

The Savings Banks' traditionally solid capitalisation continued to improve in 2017. The common equity tier-1 ratio of Savings Banks amounted to 15.8 percent as of 31 December 2017, and the total capital ratio had reached a level of 17.4 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, which will be introduced in stages by 2019. The minimum levels for common equity tier-1 capital under Basel III will then amount to 7 percent and the total capital ratio will be 10.5 percent. What is referred to as additional SREP surcharges will also be covered. These are the institution-specific capital requirements defined by the German Financial Markets Supervisory Authority (BaFin) for the first time in 2016 in implementation of the EBA Guidelines for the Supervisory Review and Evaluation Process (SREP).

At the end of 2017, the average common equity tier-1 ratio of Landesbanken (including DekaBank) amounted to 16.2 percent. On average, the total capital ratio was 22.3 percent. Both figures refer to the level of individual institutions.

Management of individual types of risk

Due to stricter regulatory risk reporting requirements, 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 regulatory and commercial requirements.

Managing risks and returns is always a balancing act between the economic market conditions, the regulatory environment and changing customer expectations. In the current interest-rate environment, Savings Banks therefore focus in particular 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 being 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 by means of a modular approach: as a first step, the Savings Bank / Landesbank will examine what information is available with regard to 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 for automatically generating 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 asses 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 assessement. This standardised approach has been used by Savings Banks since September 2017. 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 as of mid-2018 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 maintains 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 maintains and develops 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 72 refer to the corporate lending business, as well as the real estate and the 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 is continually striving to increase the efficiency of its counterparty risk management, and hence, to generate more precise forecasts because only a balance between precise risk assessment and effective use of financial resources will ensure fair terms for customers.

In 2017, a total of 420,000 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 to 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 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 regularly audited 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 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 defining responsibilities for sales, back office, and portfolio management,
- Savings Banks exploit growth opportunities in 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 exposing themselves unnecessarily to the associated risk.

As in previous years, the portfolios of the Savings Banks Finance Group were well positioned in fiscal year 2017. The ratings of 50 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 2017, Germany's Savings Banks reported another increase in lending, which rose by 3.2 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 Savings Banks 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 a 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. Promissory

Tools for managing counterparty risks

Savings Banks Risk-Adjusted Pricing	– The risk-adjusted pricing procedure enables credit institutions to determine credit spreads on the basis of individual credit exposures and collateral provided, which ensures that low and high risks will not be 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 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 customers who have previously defaulted. 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 the 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.

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 retains 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 to support the growth of large SMEs.

Hedging counterparty risks:
Savings Banks Credit Baskets
For the past thirteen 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 the opportunity to synthetically hedge credit risks.

Credit Baskets are designed like a “mutual insurance society”. Once 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 4.7 billion. Credit Baskets are also based on the underlying principle that the Savings Bank granting 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 the technical implementation in dealing with these risks. Since the end of 2017, Savings Banks have beem 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 and, at the same time, the risk is compared with the expected performance.

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, also in the current period of persistently low interest rates 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 of the Savings Banks have the necessary methods 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 among each other.

Analyses of the Savings Banks' interest-rate risk exposure for 2017 demonstrate that the measures implemented to manage interest-rate risks have been deliberately adjusted in response to prevailing market conditions. As in previous years, Savings Banks generated stable earnings contributions to net interest income in 2017. 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 national regulatory framework for managing liquidity risks is defined by Section 11 of the German Banking Act (KWG) and sections BTR 3.1 and BTR 3.2 of MaRisk.

in 2017, the German Liquidity Ordinance (LiqV) was in place. The Savings Banks' liquidity was more than sufficient to comply with the requirements stipulated in the Liquidity Ordinance. Almost without exception, Savings Banks have excess liquidity due to their stable customer deposits.

The Liquidity Ordinance was revoked as of 1 January 2018 for what is referred to as CRR institutions (such as Savings Banks). This was due to the full introduction (minimum requirement of 100 percent) of the European liquidity standard LCR (Liquidity Coverage Ratio) pursuant to the EU Commission's Delegated Regulation.

The minimum liquidity coverage ratio in 2017 was 80 percent. The Savings Banks' liquidity was more than sufficient to comply with the LCR. The simulation and planning options for this liquidity standard have steadily improved. All Savings Banks can therefore engage in operational fine-tuning in 2018.

In general, the attention of the institutions and associations of the Savings Banks Finance Group is focused on continually 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 for interpretation by senior management.

The objective for 2018 will be to further develop the centralised recommendations for implementing the process to be performed by each institute to identify, measure, manage and monitor all liquidity risks (internal liquidity adequacy assessment process – ILAAP).

Managing operational risks

Their sustained business policy obliges the institutions affiliated with the Savings Banks Finance Group to regularly deal with future risks and to apply a professional approach to their prevention. This is the only way to maintain today's performance in the future.

Operational risks are ubiquitous and yet are not always easy to identify: Losses incurred due to the inadequacy or failure of internal processes, employees, internal infrastructure or external factors may jeopardise an institution's existence.

As a rule, Savings Banks employ the basic indicator approach (BIA) to securitise operational risks with regulatory capital. They use the "database of loss events", 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 have also had access since 2017 to the OpRisk Assessment Tool, which is 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 to 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 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 390* independent Savings Banks, the Landesbanken, DekaBank, the Landesbausparkassen and S-Broker.

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 any imminent or current 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 the Landesbanken and Girozentralen and the guarantee fund of the Landesbausparkassen.

For more than four decades now, the Institution Protection Scheme of the Savings Banks Finance Group has proven its worth. 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 und 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 for the Savings Banks Finance Group's Protection Scheme

The guarantee funds include an early warning system for the identification of potential risks, permitting 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 from them 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 2017; 385 Savings Banks as at 15 June 2018

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 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 countermeasures should be adopted. Institutions with a particularly pronounced 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 protechtion 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 measure is required to support the institution concerned. In this way, all eleven regional guarantee funds of Savings Banks are interconnected.

There is a separate fund for Landesbanken and Girozentralen and another one 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 making 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 Finance 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-conscious 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	Sequence of actions to support a Landesbank
Cash injection from the Regional Savings Bank Guarantee Fund	Cash injection from Landesbanken Guarantee Fund
↓	↓
Capital injection from the Regional Savings Bank Guarantee Fund	Funding obligation of Landesbanken Guarantee Fund
↓	↓
Cash injection from the other Regional Savings Bank Guarantee Funds (Supra-regional Compensation Mechanism)	Cash injection from the System-wide Compensation Mechanism (Savings Banks and Landesbausparkassen)
↓	↓
Capital injection from the other Regional Savings Bank Guarantee Funds (Supra-regional Compensation Mechanism)	Funding obligation of the System-wide Compensation Mechanism (Savings Banks and Landesbausparkassen)
Funds from the Landesbanken and Landesbausparkassen (System-wide Compensation Mechanism)	

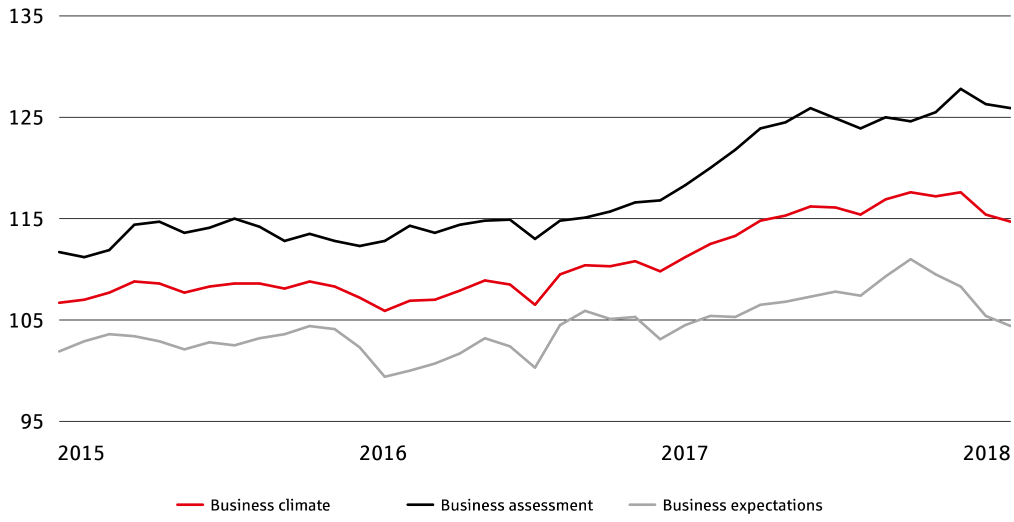
The same sequence of actions is adopted to support a Landesbausparkasse.

Report on expected developments

Economic environment in 2018

Most forecasts assume that the upswing of the global economy will continue in 2018, although risks have certainly increased in the first few months of the year. Trade and globally interlinked value chains might be severely disrupted, in particular by the new wave of protectionism. Bilateral customs duties and retaliatory action – in particular between the United States and China – have escalated. However, this jeopardises the global trade regime as a whole, which might act as a constraint on growth, especially in the medium or long term. In 2018, however, these effects will probably remain limited.

ifo Business Climate Index for Trade and Industry



Moreover, the German growth rate for 2018 is already mathematically supported by a substantial statistical overhang. Even if there was no additional growth over the remaining course of the year, the average annual growth for 2018 would already amount to one percent, based on the production level of year-end 2017.

However, since conditions in Germany continue to be very good in terms of growing employment, rising wages and a good earnings performance of business enterprises, it is likely that this will bolster additional growth of private consumption. In addition, some of the measures announced by the new German government will increase public consumption. High capacity utilisation – combined with very favourable financing conditions – is providing continued momentum for growth in investment. Germany's entire domestic economy will therefore probably constitute a robust pillar for growth in 2018.

However, the rather sluggish development of incoming orders at the beginning of the year (although the order backlog was good), the depressed development of production, and adjustments in sentiment indicators and share prices, demonstrate that there are limits to success. After 2018, GDP growth is likely to flatten out in Germany – even if the environment continues to be good – because recovery has reached a more mature stage.

In their forecast of the end of January 2018, the chief economists of the Savings Banks Finance Group anticipated a growth rate of 2.3 percent in Germany and of 2.1 percent in the euro area for 2018 as such. Inflation – measured in terms of consumer prices – is likely to remain moderate in 2018. The chief economists forecast an inflation rate of 1.8 percent for Germany and of 1.5 percent for the euro area.

In view of the weak price pressure, the European Central Bank (ECB) will probably continue to act very hesitantly and cautiously with regard to a turnaround in monetary policy. The ECB has already committed itself to continuing its bond purchases on the current monthly scale of EUR 30 billion until the end of September 2018. In June 2018, the ECB decided that it would first reduce its bond purchases to half the current volume – i.e. to EUR 15 billion per month – and then completely discontinue the purchases as of the end of 2018. Measures relating to the key interest rate, involving an elimination of the negative rate of interest, can be expected in the second half of 2019 at the earliest.

Business performance of Savings Banks

In Q1/2018, Savings Banks performed very well in new loans to enterprises and self-employed persons – even slightly better than in the strong first quarter of the previous year. In the first three months, the volume of loan commitments to private individuals was somewhat lower than in the same period of the two previous years; however, the level remains high. In the full year 2018, Savings Banks will therefore again make a major contribution to financing small and medium-sized enterprises in Germany and give strong support to private individuals in the implementation of their housing construction projects.

In the deposits business, the development of weakening structural shifts continued in Q1/2018. While the volume of deposits declined only slightly, there were no additional shifts in deposits towards sight deposits for the time being. For the full year, however, overnight deposits can be expected to continue to increase. Accordingly, the structural shares of savings deposits, time deposits and own issues can be expected to decline somewhat. Overall, we expect deposits to remain largely stable for the full year 2018, with a tendency to increase slightly. In the customer securities trading business, trading volumes in Q1/2018 were slightly below the previous year's level, with net sales (i.e. purchases less sales) clearly above the level in Q1/2017.

In light of the current interest rate and economic development, net interest income can be expected to decrease significantly in 2018 while net commission income can be expected to increase slightly and personnel expenses can be expected to decrease slightly. At the same time, other administrative expenses are expected to increase slightly. These trends will probably lead to a reduction of the Savings Banks' operating result compared with 2017.

Business performance of Landesbanken

Like the previous year, the fiscal year 2017 for most Landesbanken was also characterised by the strong growth of Germany's economy. At the same time, Landesbanken had to hold their ground in a persistently challenging market environment and in view of the continuing policy of low interest rates. Nevertheless, Landesbanken launched a large number of future-orientated initiatives and made investments in technological platforms.

Despite this challenging environment, most Landesbanken also managed to further increase their capital ratios in 2017, with a solid performance in their operational business, so that, overall, Landesbanken were satisfied with their business performance and their earnings position in the past year.

The strong performance in the core business areas demonstrates that Landesbanken have convinced their customers of their strength as medium-sized universal banks and shows that the customers, on their part, have a great deal of trust in Landesbanken, even in uncertain times. After difficult years of restructuring, some Landesbanken will once again be able to distribute dividends to their shareholders.

The good portfolio quality, the sound capitalisation, and the strong market positions of most Landesbanken in corporate and project financing, as well as in the real estate business, constitute a reliable basis for future customer growth. The continued development of the alliance with Savings Banks, the expansion of the SME business and the extension of the product range in the real estate and wholesale business – in Germany and abroad – will be business policy priorities in 2018 and will be as important as strengthening efficient IT systems and leveraging business opportunities in the field of “Green Finance”.

The objective of Landesbanken is to continue to develop their own business strategies and corporate culture so as to maintain their attractiveness for customers through focused growth, sustained performance and responsible behaviour, and hence to increase their own competitiveness.

With reference to the year 2018, Landesbanken expect their business performance to be stable and their profitability to be about as good as in fiscal year 2017. This is based on the prerequisite that the German economy will largely be able to sustain the positive momentum of the strong year 2017 because, given higher utilisation of capacity and the growing shortage of skilled labour in Germany, inflation expectations and price pressure are rising.

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, as they also 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; the promotion of private retirement pension provisions – referred to as the “Riester Housing Scheme” – provides 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 2018.

Management outlook

2017 has shown that the Savings Banks’ business model is robust as our products and our services are widely used by people in their everyday lives and our services support the business development of enterprises. Being close to our customers is our greatest strength, and we want to continue to build on this strength in 2018 – personally and digitally.

2018 will be a year of innovation for us. As the market leader, it is our ambition to set standards and to drive progress for the market as a whole.

In 2018, we will introduce numerous innovations to benefit a broad range of customers, in particular in the field of payment transactions. Within a short period of time, Savings Banks have already become the strongest service provider, by far, of mobile-to-mobile money transfers in Germany. As of mid-2018, our customers will be able to use their mobile phones to make payments at scanner checkouts. Due to the Savings Banks’ 40 million debit cards, mobile payments will be given a strong push in Germany. As of summer, we will also introduce “instant payments” nationwide, which will make us the first banking group in Germany to establish fund transfers in real time as a standard procedure. At the same time, we will upgrade our online banking service to handle multiple banks, and we will upgrade our customers' current accounts to become digital platforms.

All of these services make our customers' lives easier – which demonstrates that relevant innovations are best delivered by service providers whose business model enables them to reach a broad customer base. This is also the reason why Savings Banks are defending their strong market position against growing competition from new service providers and why Savings Banks have been able to retain their position as the principal bank of their customers.

Despite this very good starting position, 2018 will be another year that will pose a major challenge for the member institutions of the Savings Banks Finance Group in terms of their business management skills. Savings Banks expect their net interest income to continue to decline significantly for at least another two years. For this reason, Savings Banks will have to open up new sources of income – e.g. by stepping up the Group business in association with other member institutions. In 2018, this will be one focus of the work of the Savings Banks Finance Group.

However, our success will not only depend on our own accomplishments. For this reason, we will be particularly committed in 2018 to fostering Germany's position as a strong financial centre.

The stabilising effects which banking groups have on the economy and on society should be more strongly appreciated and supported. This also means that more tailor-made rules will be needed in banking regulation and in financial consumer protection. The question as to whether commission-based advice will be retained will also determine whether we will have the business management headroom to continue to our nationwide presence, including the structurally weaker regions. Our presence across Germany is important not only for retail customers. It is also indispensable for Germany's SMEs.

For this reason, the Savings Banks Finance Group will make every effort to ensure that retail customers and business clients alike will continue to benefit from financial advice and credit services available throughout Germany.

Report on material events after the reporting date

There have been no material events after the balance sheet date of 31 December 2017.

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.

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 do not fall within the scope of the aggregated financial statements.

Aggregation approach

The Savings Banks and Landesbanken data used in the preparation of the aggregated balance sheet were taken from the 2016 and 2017 December reports for the monthly balance sheet statistics ("Bista") of Deutsche Bundesbank. The corresponding balance sheet data of the Landesbausparkassen were taken from their respective annual reports.

The Savings Banks and Landesbanken figures used for the aggregated profit and loss (P&L) accounts of fiscal years 2016 and 2017 are based on the results of the external analysis of Savings Banks and the published German GAAP financial statements of the 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 their 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 Institution Protection Scheme of the Savings Banks Finance Group include: BerlinHyp, Sparkassen Broker, DEG Deutsche Investitions- und Entwicklungsgesellschaft, Frankfurter Bankgesellschaft (Deutschland) AG, Landesbank Berlin Holding AG, Deutsche Hypothekenbank, Portigon AG, and Weberbank.

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

	2017 [1] million EUR	2016 million EUR
Net interest income	**29,483**	31,165
Interest income	51,062	55,491
Interest expenses	21,578	24,325
Net commission income	**8,710**	8,050
Commission income	11,304	10,565
Commission expenses	2,594	2,516
Net income from financial transactions	**1,070**	1,033
Administrative expenses	**27,252**	27,090
Personnel expenses	15,911	15,799
Non-personnel expenses	11,342	11,291
Other operating income	**357**	314
Operating result before valuation	**12,369**	13,471
Valuation result (excluding equity interests)	–1,975	–2,724
Operating result after valuation	**10,394**	10,748
Balance of other and extraordinary income/expenses [2]	–4,696	–5,179
of which additions to the Fund for General Banking Risks in accordance with Section 340(g) German Commercial Code [3]	–5,309	–4,715
Net income before taxes	**5,697**	5,569
Income taxes	3,363	3,499
Net income after taxes	**2,334**	2,070
of which net income/loss of Savings Banks after taxes	2,113	2,025
of which net income/loss of Landesbanken after taxes	188	4
of which net income/loss of Landesbausparkassen after taxes	33	41
Return on equity	in %	in %
before taxes	6.9	6.6
after taxes	4.8	4.3
Cost-income ratio	**71.4**	69.1

*Savings Banks Finance Group: 1. Savings Banks, 2. Landesbanken excluding foreign branches, excluding domestic and foreign group subsidiaries and excluding Landesbausparkassen (LBS), 3. LBS (legally independent LBS entities and legally dependent units of Landesbanken).

[1] Provisional figures from financial statements prepared in accordance with German GAAP. The 2016 data of Nord/LB were taken from the financial statements combined with the financial statements of Bremer Landesbank.

[2] Including the balance of gains on the disposal 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 changes in the Fund for General Banking Risks in accordance with Section 340(g) German Commercial Code (additions to the Fund for General Banking Risks with negative 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. 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.

Source: External analysis of Savings Banks, annual reports of Landesbanken (Individual financial statements in accordance with German GAAP), DSGV/Main Office of the Landesbausparkassen, Deutsche Bundesbank.

Aggregated balance sheet of the Savings Banks Finance Group*

Assets	As at 31 Dec 2017 million EUR	As at 31 Dec 2016 million EUR
Cash reserve [1]	**86,446**	50,869
of which balances held with central banks	75,771	40,946
Treasury bills [2]	**0**	0
Other bills	**0**	0
Loans and advances to banks (MFIs)	**271,056**	265,222
Loans and advances to non-banks (non-MFIs)	**1,212,232**	1,204,590
Debt securities and other fixed-income securities	**330,941**	355,061
Equities and other non-fixed-income securities	**98,670**	92,180
Equity interests	**14,373**	14,887
Investments in affiliated undertakings	**9,781**	10,150
Trust assets	**9,769**	10,149
Equalisation claims	**0**	0
Tangible fixed assets	**11,831**	12,319
Other assets	**84,367**	103,346
Total assets	**2,129,466**	**2,118,773**

* Savings Banks Finance Group: 1. Savings Banks, 2. Landesbanken excluding foreign branches, excluding domestic and foreign group subsidiaries and excluding Landesbausparkassen (LBS), 3. LBS: legally independent entities of LBS and legally dependent units of Landesbanken.

[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 2017 million EUR	As at 31 Dec 2016 million EUR
Liabilities to banks (MFIs)	**369,612**	371,422
Liabilities to non-banks	**1,243,222**	1,211,165
Savings deposits	361,400	363,227
Other liabilities	881,821	847,938
Securitised liabilities	**201,145**	203,340
of which: Debt securities issued	188,103	190,045
Money market instruments issued	13,008	13,293
Trust liabilities	**9,769**	10,149
Write-downs on loans and securities	**2,250**	3,153
Provisions	**26,186**	25,964
Subordinated liabilities	**16,635**	21,473
Profit participation certificates	**1,370**	1,957
Equity [3]	**161,491**	157,943
Other liabilities [4]	**97,788**	112,207
Total equity and liabilities	**2,129,466**	**2,118,773**
Contingent liabilities [5]	**0**	0
Bills for collection	**3**	3
Business volume (=11+12+13)	**2,129,469**	2,118,776
Guarantees	**61,988**	62,767

[3] Endowment 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.

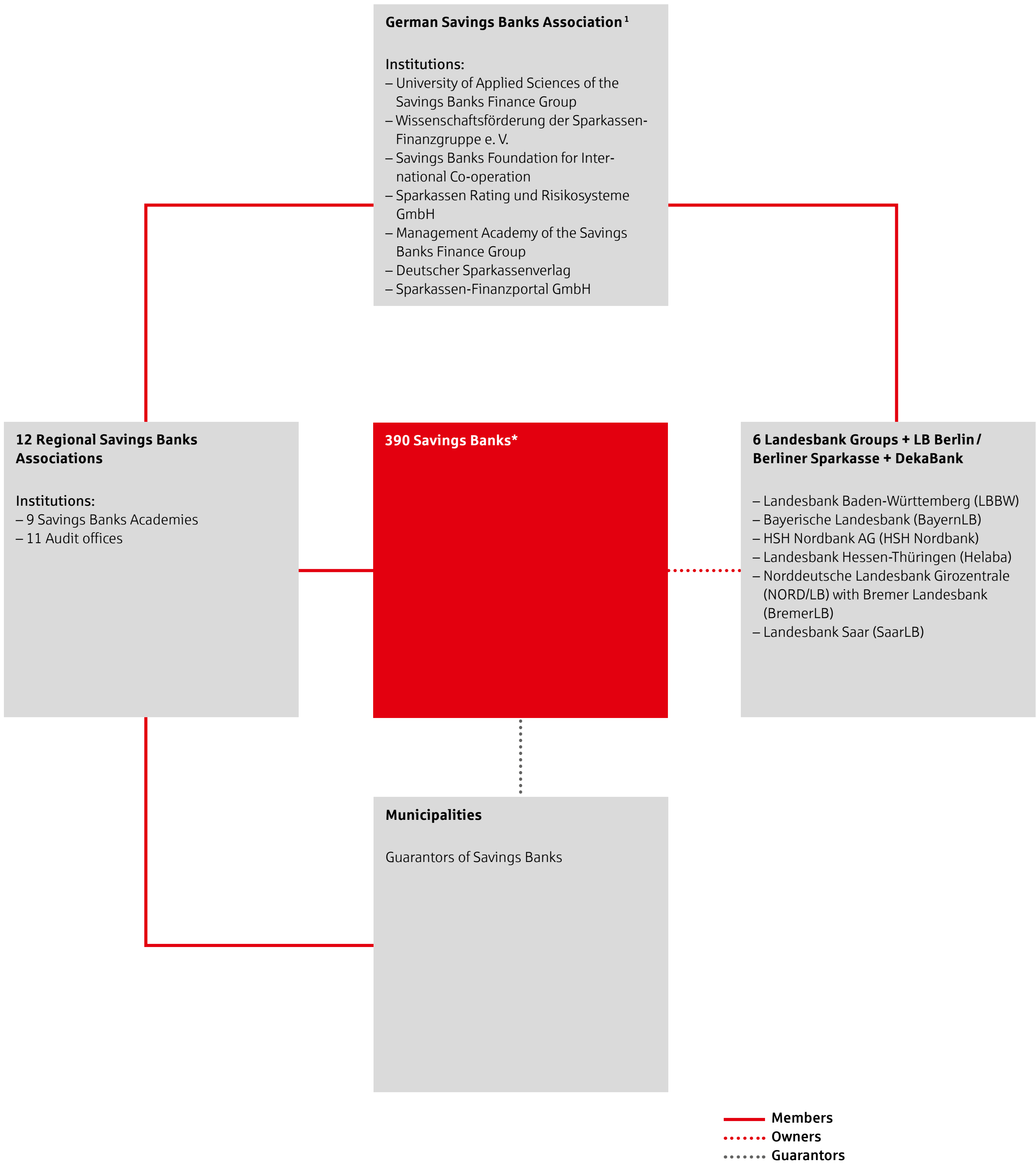
The DSGV defends the interests of all the entities associated with the Savings Banks Finance Group in relation to banking policy, the banking sector and regulation, vis-à-vis national and international institutions and the general public. In addition, the DSGV defines the strategic direction of the Savings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

To this end, its members and associated entities develop concepts in cooperation with the DSGV for successful market development. 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.

Extract of the Savings Banks Finance Group's association structure



[1] Including Main Office of Landesbausparkassen.

* As of 31 December 2017
385 Savings Banks as of 15 June 2018.

DSGV[1]

Management

Helmut Schleweis
President of the German Savings Banks Association

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

Dr Joachim Schmalzl
Executive Board Member 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 the Germersheim-Kandel Savings Bank, Kandel
Roland Schäfer Vice-President of the Association of German Towns and Municipalities, Berlin, and Mayor of the City of Bergkamen	**Professor Dr Hans-Günter Henneke** Managing member of the Executive Committee of the Association of German Countries, Berlin

[1] All the information current as of the copy deadline on 2 July 2018

Management Board

Chairman of the Management Board

Helmut Schleweis
President of the German Savings Banks Association, Berlin

Deputies to 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 the Niederbayern-Mitte Savings Bank, Straubing
3rd Vice-President

Roland Schäfer
Mayor of the City of Bergkamen, and
Vice-President of the Association of German Towns and Municipalities, Berlin
4th Vice-President

Members of the Management Board

Chairmen of the Associations

Reinhard Boll
President of the Schleswig-Holstein Savings Banks Association, Kiel

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
Executive President of the Eastern German Savings Banks Association, Berlin

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

Gerhard Grandke
Executive President of the Hesse-Thuringia Savings Banks Association,
Frankfurt/Main and Erfurt

Cornelia Hoffmann-Bethscheider
President of the Saarland Savings Banks Association, Saarbrücken

Beate Läsch-Weber
President of the Rhineland Palatinate Savings Banks Association, Budenheim

Thomas Mang
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
President of the Hanseatic Savings Banks Association, and
Chairman of the Board of Hamburger Sparkasse AG

Executive Directors of Girozentralen (clearing banks)

Dr Thomas Bretzger
Chairman of the Board of Saar LB, Saarbrücken

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

Stefan Ermisch
Chairman of the Board of HSH Nordbank, Hamburg and Kiel

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

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

Dr Johannes-Jörg Riegler
Chairman of the Board of Bayerische Landesbank, Munich – also as a member of the
Executive Committee of Bundesverband Öffentlicher Banken Deutschlands e. V., Berlin

National Chairman of Savings Banks board members

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

Regional Chairmen of Savings Banks board members

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

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

Walter Pache
Chairman of the Board of the Günzburg-Krumbach Savings Bank, Günzburg

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

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

Representatives of municipal umbrella organisations

Association of German Cities

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 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 Buidling 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 Board Member of DSGV, Division A, Berlin

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

Acronyms and Abbreviations

Abbreviation	Explanation in english
Bista	Balance Sheet Statistics
BRRD	Banking Recovery and Resolution Directive
CRD	Capital Requirements Directive
CRSA	Credit Risk Standardised Approach
EinSiG	Einlagensicherungsgesetz (Deposit Insurance Act)
eCRM	Efficient Credit Risk Management
ETF	Exchange-Traded Funds
FinaRisikoV	Finanz- und Risikotragfähigkeitsinformationsverordnung (Financial and Risk-Bearing Capacity Information Ordinance)
FSB	Financial Stability Board
GDP	Gross Domestic Product
G-SIBs	Global Systemically Important Banks
HGB	Handelsgesetzbuch (German GAAP)
ICAPP	Internal Capital Adequacy Assessment Process
ILAPP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
IRBA	Internal Rating-Based Approach
KWG	Kreditwirtschaftsgesetz (German Banking Act)
LCR	Liquidity Coverage Ratio
LiqV	Liquidity Regulation
MaRisk	Mindestanforderungen an das Risikomanagement (Minimum requirements for risk management)
MCD	Mortgage Credit Directive
MFI	Monetary Financial Institutions
OpRisk	Operational Risk
P&L	Profit and loss account
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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↘ financialreport.dsgv.de

In case of doubt the German version shall be binding.

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