4. MANAGEMENT REPORT

Economic Report

Macroeconomic situation

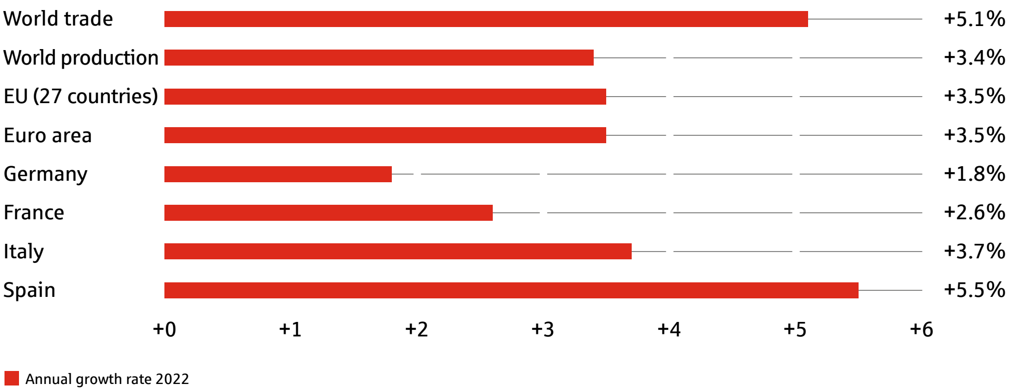
The global economy in 2022 was dominated by numerous problems and crises: the Ukraine war, energy shortages, inflation, supply chain problems. At the same time, the economy and society were facing the immense challenges posed by their sustainable transformation. Although Corona was still with us, economies were less affected by the pandemic and there were fewer constraints than in the previous two years. The beginning of 2022 was initially associated with the hope that after almost two years of pandemic, a strong recovery with high growth rates would begin.

In fact, as in many other countries, the German economy was able to benefit from the reopened or less restricted sectors of the economy, especially in the service sector. This stabilised the situation in the face of other new upheavals.

At the end of February 2022, the outbreak of war in Ukraine hit the global economy. New bottlenecks appeared in the already strained supply chains. The availability of intermediate products and foodstuffs from Ukraine was limited. Deliveries of raw materials and energy goods from Russia to Germany/Europe were severely restricted, partly due to the sanctions and partly due to decisions on the Russian side. From summer 2022, gas deliveries from Russia came to a complete standstill following the blowing up of the pipelines.

There was concern about gas shortages in the winter that would have made severe production cuts necessary. The supply shortage was avoided through savings measures, the development of substitute sources and thanks to the mild winter. But prices for scarce goods remained significantly elevated for a long time. This was the initial spark for the largest inflationary process in most industrialised countries for many decades.

GDP growth in selected countries [1]



[1] Actual data for European countries from official statistics, source: Eurostat, data as of 17 April 2023, world trade and world production according to International Monetary Fund: World Economic Outlook from April 2023.

Germany was one of the economies most affected. Our country was heavily dependent on Russian supplies, especially for its energy imports. The loss of export volume, on the other hand, was easier to absorb. Growth in this country remained intact for longer than originally expected. Although growth rates were meagre in the course of the year, they remained positive. The quarterly trend only turned negative in the final quarter of 2022.

The overall annual rate for the price-adjusted year-on-year comparison resulted in GDP growth of 1.8 percent in 2022. However, this figure, which appears quite respectable at first glance, is put into perspective when considering that it stems almost exclusively from the statistical overhang from the previous year and the strong start to the year. In the three other quarters, the development on balance amounted to stagnation.

Germany's growth in 2022 was also weaker than that of most other large industrialised countries, with the exception of Japan, in an international comparison. In Europe, Italy and especially Spain grew significantly faster. Even the United Kingdom was able to recover after the pandemic and Brexit. The US economy, on the other hand, slowed down in 2022 from its still very high growth rate in 2021 as the previously very strong fiscal stimuli came to an end and the monetary policy brakes introduced earlier on the other side of the Atlantic and the associated interest rate increases took effect instead.

German growth in 2022 was mainly driven by private consumption – despite the high price increases that cut purchasing power. This was because they were temporarily compensated by political relief packages. Additionally, there was still a tailwind in the first half of the year from the lifting of the Corona restrictions and the associated re-openings, especially in the travel and gastronomy sectors. Also, accumulated savings from the pandemic were initially still available. The household savings rate normalised. As the year progressed, however, these support effects diminished. The withdrawal of purchasing power became increasingly noticeable, especially as nominal wages rose but could not keep pace with prices. Double-digit annual rates were reached at times in autumn 2022, as defined by the harmonised consumer price index. The consumer price index in the national delimitation rose somewhat more slowly than first reported on the basis of the currently valid recalculated basket of goods (based on the new base year 2020). But even with the latest data, the average annual increase was 6.9 percent.

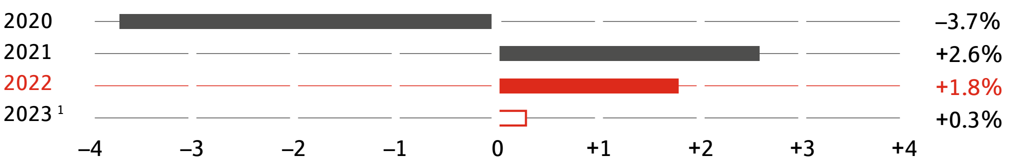
Investment in equipment also contributed to growth in 2022, with the congestion in the supply chains gradually easing as more investment projects could be realised. In contrast, declining construction investment and a significant decline in net exports weighed on overall economic growth in 2022. Construction investment very quickly showed the braking effect of the interest rate reversal initiated in summer 2022. Foreign trade suffered a pronounced terms-of-trade shock in 2022 and the price exchange ratios of German foreign trade deteriorated considerably. Import prices increased dramatically – at times at annual rates of over 30 percent in the summer of 2022. This could not be passed on in export prices. The deterioration in the nominal current account balance was even more pronounced than in the real GDP account due to price factors. But even in the latter, increasing import volumes were reflected in the restocking of warehouses that had been depleted during the previous supply bottlenecks and put pressure on growth in arithmetical terms.

Despite the slowdown in growth momentum over the course of the year, rising wages and very sharp increases in producer prices, which at times even rose at rates of over 45 percent, the German labour market once again proved to be very robust. The unemployment rate fell again to an average of only 5.3 percent for the year. This was achieved despite the fact that a considerable number of refugees from Ukraine entered the labour market in the course of the year. The depleted labour market was due to the re-opening in the service sector after the pandemic and the long-term structural demographics. Labour shortages and an increasing number of unfilled positions were the dominant issues in the German labour market.

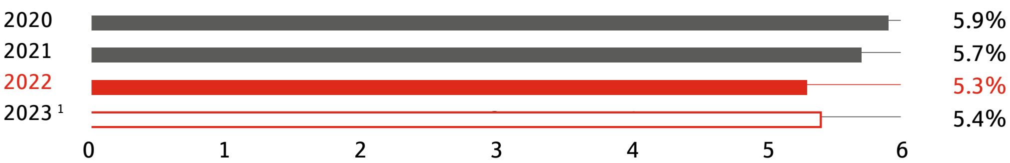
By contrast, Germany's public finances in 2022 were once again dominated by the fight against the crisis in the face of new shocks. The financing deficit of the state as a whole (federal government, state governments, local authorities and social security funds) amounted to a good EUR 100 billion or 2.6 percent of GDP. This was nevertheless a slightly lower deficit than in the two previous years. However, the fiscal situation remained far from balanced. The debt level of the state as a whole rose at a somewhat slower rate to about 66.2 percent of GDP at the end of the year.

Economic development – review and outlook 2020–2023

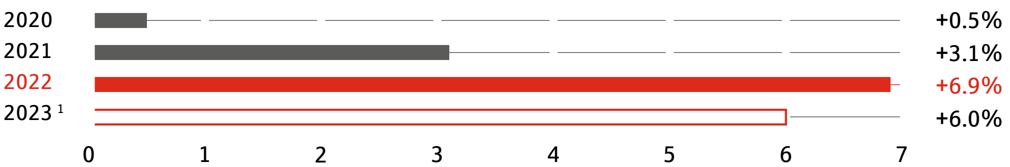
Growth of real gross domestic product (GDP) in % (Germany)



Unemployment rate in % of total civilian labour force (Germany)



Change in consumer price index in % (Germany)



Actual data 2020 to 2022 from official statistics; Destatis and Federal Employment Agency.
[1] Forecasts for the year 2023 from the "Spring Report", joint diagnosis of the German economic research institutes of 5 April 2023.

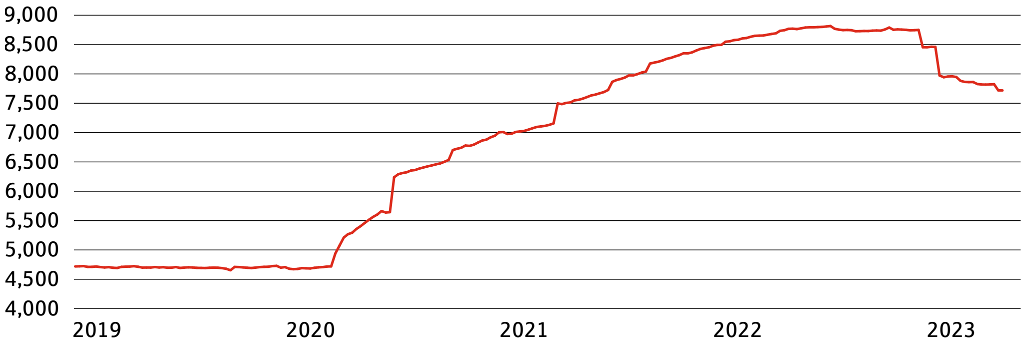
Developments on the money and capital markets

High inflation gave central banks cause for an abrupt shift in monetary policy. This was urgently needed. One of the reasons why the inflationary spark from the rise in energy prices took such a hold and generated such a broad price dynamic so quickly was that ample liquidity had been created over many years with low and negative interest rates and "quantitative easing" (securities purchase programmes).

Virtually all central banks now tightened their monetary policy. While the Federal Reserve had already initiated a normalisation of monetary policy in 2021, the European Central Bank (ECB) essentially did not follow suit until 2022. The end of net purchases, which had been announced in December 2021, was completed in March 2022. However, expiring holdings of the securities purchase programmes were still completely replaced with additional purchases in 2022. The first smaller reductions in the consolidated balance sheet total of the Eurosystem only occurred as a result of the first early repayments of long-term tenders (TLTRO III) by credit institutions. The ECB changed the very favourable conditions in autumn 2022, when the interest rate landscape began to change.

Prior to this, the first key interest rate hike in the euro area since 2011 took place in July 2022 and ended the negative interest rate situation on the money market that had prevailed since 2014. The ECB raised the key interest rate by a total of 2.5 percentage points in further steps, in some cases by large individual steps of 75 basis points each, until the end of 2022. The interest rate for the ECB's deposit facility remains the key interest rate for the money markets because of the surplus liquidity situation that will be maintained for the foreseeable future. The deposit facility rate reached 2.0 percent at the end of the year.

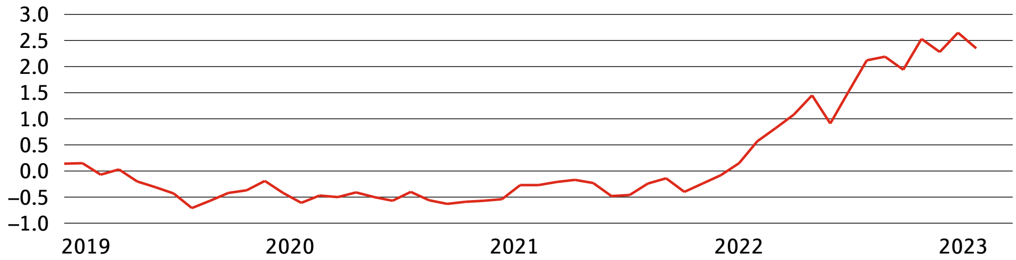
Consolidated balance sheet total of the Eurosystem, in EUR billions



Source: European Central Bank

In parallel, interest rates on the capital market also increased. The ECB intended to catch temporarily diverging spreads of bonds from different European countries with a new instrument introduced in 2022 (Transmission Protection Instrument, TPI) if necessary. Fortunately, no concrete interventions with this instrument have been necessary so far. The current yield of German government bonds with ten-year maturities increased from –0.24 percent at the end of 2021 to 2.53 percent at the end of 2022, largely in line with the key interest rates.

Current yield of German government bonds with ten-year residual maturity in %

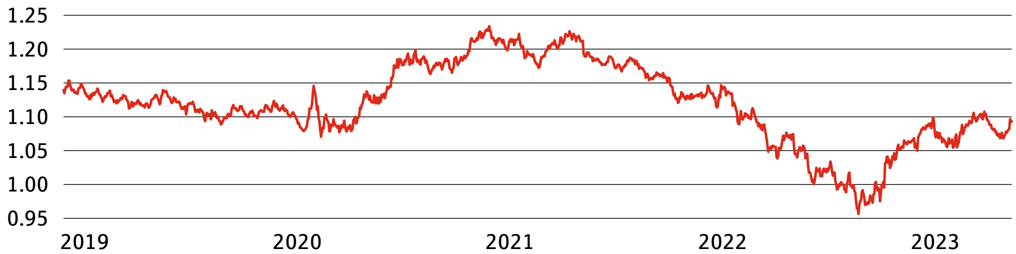


Source: Deutsche Bundesbank

The share price trend followed the curve of the other sentiment indicators in the economy, such as the business climate, which had also bottomed out in autumn but then recovered. After the outbreak of war in Ukraine, there were major declines in most stock markets, which continued until the beginning of October 2022. Since then, there has been a price recovery, significantly also in the German market, as hope rose that Germany would get through the winter without a gas shortage. However, in the remaining period until the end of the year the catch-up process did not close the existing gap. The bottom line was that share prices, as measured by the DAX, lost 12.3 percent over the course of 2022.

Foreign exchange market activity in 2022 was characterised by somewhat stronger movements than in previous quieter years. The euro depreciated significantly against the US dollar from over 1.13 US dollars / euro at the beginning of the year to 0.96 US dollars / euro towards the end of September. The reasons for this were Europe's heavy exposure to the Ukraine war and the associated negative economic consequences as well as the geographical proximity to the war zone, but also the fact that the Federal Reserve had already initiated its interest rate reversal much earlier. Only when it became clear that the ECB would largely follow the course did the euro also recover on the currency markets. At the end of 2022, it was again above parity at almost 1.07 US dollars / euro.

Exchange rate USD / EUR



Source: European Central Bank

Key markets and positioning

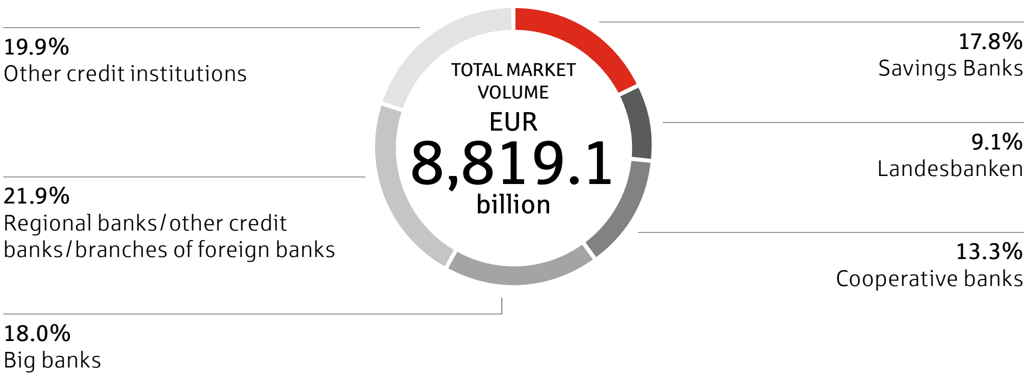
General overview

The institutions of the Savings Banks Finance Group[1] had a combined business volume[2] of EUR 2,369.4 billion at the end of 2022. With a total market volume of EUR 8,819.1 billion in Germany, this represents a share of 26.9 percent.

The share of the Savings Banks Finance Group in the on-balance sheet banking business of the German banking industry decreased by 0.6 percentage points compared to the previous year. The business volume of the Savings Banks increased moderately by 1.3 percent; the volume of the Landesbanken – in contrast to the previous year – recorded a significant increase of 5.3 percent. The Savings Banks account for around 66 percent of the Savings Banks Finance Group's business volume, the Landesbanken for around 34 percent.

In a long-term comparison, the Savings Banks have consistently expanded their business volume by growing customer business. Since 2008, it has increased by around 47 percent at the Savings Banks. From 2008 to 2016, the business volume of the Landesbanken had more than halved. This reflects the redimensioning process in line with the strategy. Since 2017, the business volume of the Landesbanken has been growing again and shows the successful ongoing development of their business models.

Market share by business volume* at the end of December 2022
As at: 31.12.2022



* Excluding derivative financial instruments in the trading portfolio.

The development of the German banking industry's customer business in the 2022 business year was characterised by extraordinarily high portfolio growth in corporate loans. The increase in private housing loans was still high, but no longer reached the extreme levels of the two previous years. Consumer loans grew only very modestly in the overall market.

Inflows of deposits from private individuals in the year under review were below the previous year's levels due to inflation and the crisis, while companies expanded their liquidity significantly more.

[1] The term "Savings Banks Finance Group" in this chapter refers to the Savings Banks and Landesbanken (excluding foreign branches and excluding domestic and foreign subsidiaries of the Landesbanken). The Landesbausparkassen are not included here. In the Deutsche Bundesbank data, Hamburg Commercial Bank (former HSH Nordbank) and Landesbank Berlin/Berliner Sparkasse are no longer included in the Landesbanken since December 2018. The latter is now listed under the Savings Banks.
[2] Excluding trading portfolio derivatives and own debt securities repurchased.

In customer lending business, the Savings Banks Finance Group recorded stable market shares in private housing loans in the financial year 2022, while losing market share in corporate loans. In consumer lending business, its shares declined slightly in a weakly growing market, but remained stable when including Sparkassen Kreditpartner GmbH (SKP).

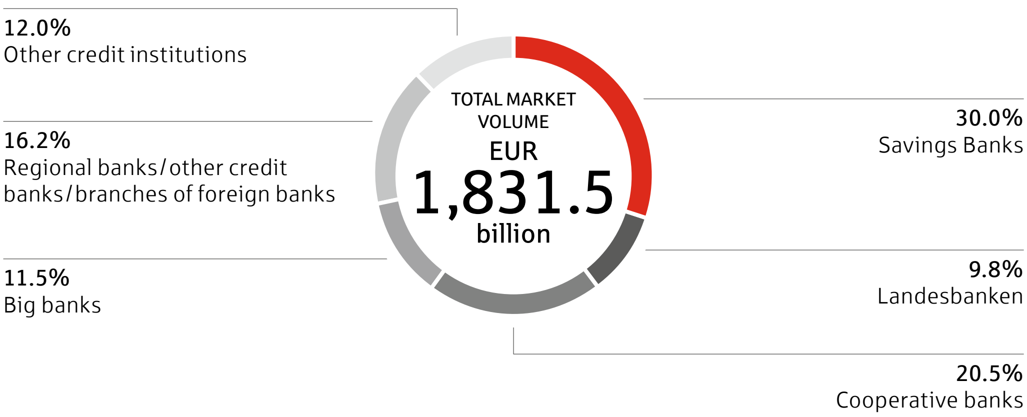
In the deposit business with private customers, the Savings Banks Finance Group almost maintained its market position in 2022. Measured by its share in this business segment, it continues to be well ahead of the other banking groups. Although the Savings Banks Finance Group's share of domestic corporate deposits declined in the reporting year, the Group was able to significantly expand its market position in the medium term.

Corporate lending business

Following a rise of around EUR 76.3 billion or 4.8 percent in the previous year, the total market volume of corporate loans increased much more strongly in the 2022 financial year: it rose by EUR 150.8 billion or 9.0 percent to EUR 1,831.5 billion thus even exceeding the increases of the two previous years in total. Companies and the self-employed responded to emerging supply chain problems as well as rising costs in 2022 with a strong expansion of credit volumes. In part, the remarkable growth of the overall market can also be attributed to lending by KfW and state development institutions to energy-dependent sectors as a result of the Ukraine war.

Despite a very high portfolio increase of EUR 40.6 billion or 5.9 percent, the Savings Banks Finance Group thus recorded a portfolio growth below the bank average and thus lost market share. The level of growth rates of Savings Banks exceeded that of Landesbanken in this segment: Savings Banks grew by a record 6.3 percent (or EUR 32.7 billion), Landesbanken grew by 4.6 percent (or EUR 7.9 billion).

Market share of corporate loans* at the end of December 2022
As at: 31.12.2022



* Loans to businesses and the self-employed (including commercial housing loans).

The volume of corporate loans issued by the Savings Banks Finance Group totaled EUR 728.3 billion at year-end 2022. This represents a market share of 39.8 percent with 30.0 percentage points attributable to the Savings Banks and 9.8 percentage points to the Landesbanken.

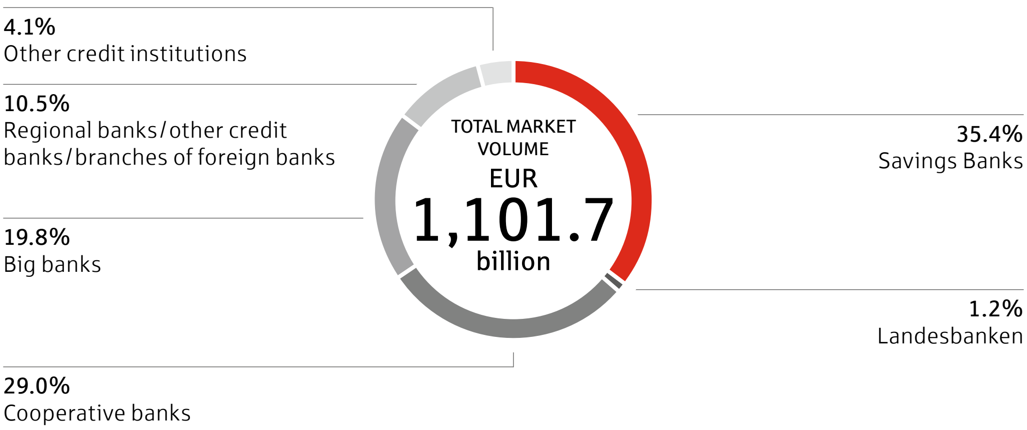
This means that the Savings Banks Finance Group continues to be the most important financial partner within the German banking industry, especially for small and medium-sized enterprises. It is followed by a wide margin by the cooperative banks with 20.5 percent as well as the regional and other credit banks[1] with 16.2 percent and the big banks with 11.5 percent.

Loans to private customers

Since 2012, demand for loans for private residential construction had picked up noticeably, mainly due to the interest rates. The year 2022 represents a turning point in the wake of sharply increasing construction costs and the rise in interest rates. In the year under review, the total market volume of private residential construction loans increased for the first time at a significantly weaker rate compared to the previous year, even though it still rose significantly by EUR 55.2 billion or 5.3 percent to EUR 1,101.7 billion. Particularly in the second half of 2022, there was a fall in demand due to high construction costs and sharply higher interest rates.

The Savings Banks Finance Group achieved portfolio growth in 2022 on par with the market average. Its portfolio volume increased by EUR 20.1 billion to EUR 402.8 billion. The Savings Banks account for 35.4 percent of the total market. Together, the Savings Banks and Landesbanken have a market share of 36.6 percent. The second strongest group of institutions are the cooperative banks with a share of 29.0 percent, followed by the big banks with a share of 19.8 percent and the regional and other credit banks[1] with a share of 10.5 percent.

Market share of private housing loans at the end of December 2022
As at: 31.12.2022

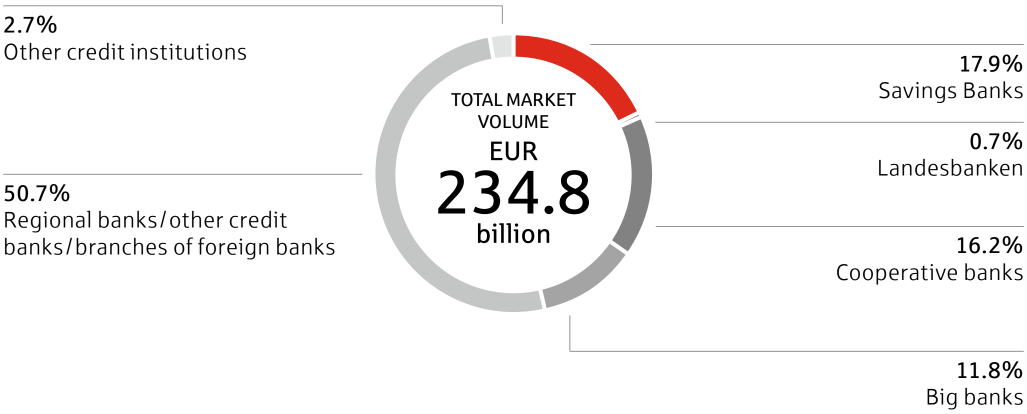


For the first time since 2019, the consumer credit business increased slightly across all banking groups in 2022. The market volume increased by EUR 2.2 billion or 1.0 percent to EUR 234.8 billion at the end of 2022. The institutions of the Savings Banks Finance Group recorded a portfolio decline of EUR 0.4 billion or –0.9 percent (previous year: –0.6 percent) and lost market share. With a portfolio volume of EUR 43.8 billion and a share of 18.6 percent, the Savings Banks Finance Group is clearly behind the banking group of regional and other credit banks[1] (share 50.7 percent), but still in second place. The market is dominated above all by regional/other credit banks, which includes almost all specialised financiers. These were able to further expand their share of the consumer

[1] Inc. branches of foreign banks.

credit business in 2022. However, when evaluating these figures, which are based on Bundesbank statistics, it must be taken into account that due to the reporting requirements of the Deutsche Bundesbank, Sparkassen Kreditpartner GmbH (SKP) is not included in these overall market figures. According to our internal calculations, the market share of the Savings Banks Finance Group including SKP is 22.0 percent. Compared with 2021, the market position of the Savings Banks Finance Group including SKP has remained stable.

Market share of consumer loans at the end of December 2022
As at: 31.12.2022



Deposits from private customers

The total market volume of deposits from private individuals[1] increased by 2.8 percent to EUR 2,489.5 billion last year. At EUR 66.7 billion, the absolute increase was slightly below the previous year's value (EUR 80.8 billion). In recent years, the annual increase in the portfolio has in some cases been significantly higher than this value, which represents the lowest growth since 2014.

Within the individual investment categories, there were differing developments due to the rise in interest rates in the reporting year: The market as a whole recorded continued portfolio outflows in savings deposits. The portfolio of demand deposits of private individuals again increased, although the rise in demand deposits with at 2.7 percent was again not as strong as in the previous year (5.5 percent). A trend reversal was seen in time deposits and savings bonds: The holdings of private time deposits and savings bonds rose extraordinarily strongly by 51.4 percent and 46.1 percent, respectively, driven by interest rates – coming from a relatively low level. In particular, the market segment of time deposits of private customers was largely marginalised in Germany due to the interest rate development in recent years, but is now poised for an even stronger comeback.

Developments in the Savings Banks Finance Group are in line with general market trends, but it has been able to gain market share especially in time deposits and savings bonds.

[1] Including branches of foreign banks.

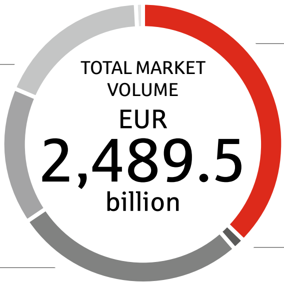
Market shares Deposits from private customers* at the end of December 2022
As at: 31.12.2022

0.1%
Other credit institutions

17.7%
Regional banks/other Credit banks/branches of foreign banks

16.0%
Big banks

27.3%
Cooperative banks



37.5%
Savings Banks

1.4%
Landesbanken

*Excluding time deposits with a fixed term of more than two years.

On the one hand, the developments in 2022 highlight the slow rediscovery of interest-bearing deposits among private customers, due to the rising interest rate level. On the other hand, consumers' ability to save decreased as a result of the unrestricted consumption options available again after the Corona pandemic. On top of this, there were also real income losses due to the high price increases in 2022 – whether for energy or food.

The Savings Banks Finance Group achieved an increase of EUR 22.3 billion or 2.4 percent (previous year: 3.2 percent) in deposits from private individuals to EUR 968.4 billion in the reporting year 2022. The inflow of deposits was thus only slightly below average, so that the market share was kept almost stable. The Savings Banks Finance Group achieved a market share of 38.9 percent at the end of the year.

The Savings Banks Finance Group thus remains the market leader in the deposit business with private customers, ahead of the credit banks, which have a portfolio of EUR 837.5 billion and a market share of 33.7 percent. These include the regional and other credit banks with a share of 17.7 percent. This group of institutions, which includes all direct banks (including "automotive banks"), was able to maintain its stable market position. In third place is the group of cooperative banks, which is also strongly anchored in the retail business. With a portfolio of EUR 679.8 billion at the end of the year, they accounted for 27.3 percent of total private deposits.

Deposits from domestic companies
After private deposits, deposits from domestic companies are the second largest segment of the German Banking industry's total customer deposit business. They amounted to EUR 1,176.7 billion at the end of 2022.

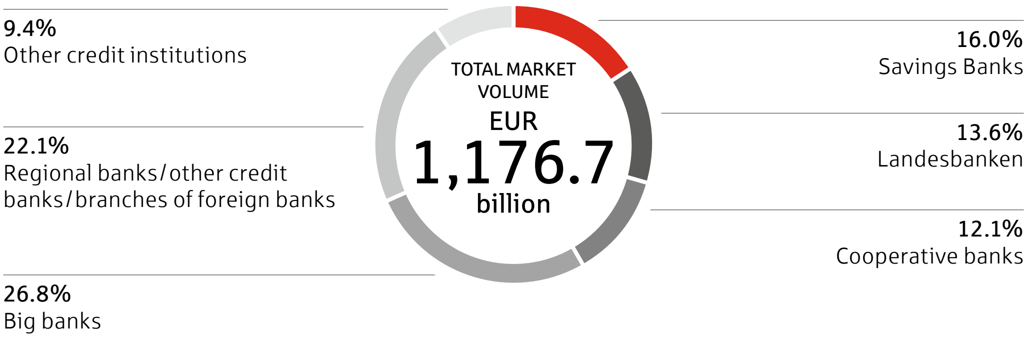
[1] Excluding time deposits with a fixed term of more than two years.

While deposits from domestic companies still declined slightly in 2018 and 2019, they recorded a very strong portfolio gain of EUR 84.5 billion or 8.4 percent, especially in 2020. In 2022, the stock inflow of EUR 56.4 billion or 5.0 percent was again much stronger than in the previous year. These increases were largely due to the prudent approach taken by companies during the pandemic. In the year under review, companies also obtained higher liquidity in order to be prepared for greater stockpiling as well as against rising costs.

Developments were broadly similar for most banking groups, but big banks in particular were able to increase their deposit holdings very significantly. The portfolio of corporate deposits held by the Savings Banks increased by EUR 5.1 billion or 2.8 percent in the reporting year, their market share fell slightly to 16.0 percent.

At the Landesbanken, the deposit portfolio held by domestic companies increased to EUR 159.6 billion at the end of 2022 (portfolio at the end of 2021: EUR 156.0 billion). With a market share of 13.6 percent, the Landesbanken continue to hold a strong market position in deposits from domestic companies. Together with the Savings Banks, the Landesbanken had a market share of 29.6 percent in this deposit segment at the end of 2022.

Market shares of deposits from domestic companies at the end of December 2022
As at: 31.12.2022



Record results for German exports in 2022 – Savings Banks are competent and reliable partners for German entrepreneurs' international business

Companies in Germany and around the world learned to deal with the effects and restrictions of the Corona pandemic declared by the WHO[1]. German exports increased in 2022 by 14.1 percent compared to the previous year and reached a new high of EUR 1,574.0 billion. This development was also reflected in the import business. In 2022, goods and services worth EUR 1,494.4 billion were imported. Compared to the previous year, this was a development of +24.1 percent and also a new record. The increases in 2022 were due, in part, to price increases that drove up the value of both exports and imports. In order to reduce energy imports from Russia as quickly as possible, Germany had to cover its needs at short notice via other suppliers last year, which was very expensive in some cases. The export surplus thus fell for the sixth year in a row and amounted to EUR 79.6 billion. The USA and China remain the most important global trading partners for Germany. In the EU, the Netherlands and France are important regions for German companies.

[1] World Health Organization

International business brings opportunities, but also risks. The Savings Banks Finance Group has supported small and medium-sized enterprises in their international business for many years. To this end, the Savings Banks bundle their know-how in regional "S-International" competence centres. This gives all entrepreneurs throughout Germany access to special expertise as well as extensive professional competence, and they can draw on valuable experience in dealing with special features of cross-border trade. The S-International Competence Centres use an international network with more than 10,000 correspondent banks at around 100 locations worldwide. Depending on the customer's needs, the Landesbanken, Deutsche Leasing and the S-CountryDesk assist their customers directly on site and during important discussions in German.

The war in Ukraine has revealed a high level of dependency on global suppliers and countries (e.g. Russia as an energy supplier or China as a tech supplier). German SMEs have been required to diversify their supplier structure more strongly in the short term in order to minimise default risks. This necessary change will be a challenge for small and medium-sized enterprises in particular, in addition to sustainable transformation and digitalisation. Here, too, the Savings Banks Finance Group can help: EuropaService provides support in readjusting supply and sales relationships. Through its connection to the Enterprise Europe Network, it brings together potential partners from different countries. It also provides information on the business environment for trade and investment in over 40 European countries.

The Savings Banks Finance Group is steadily developing into the foreign trade manager for businesses – regionally anchored and globally networked. In addition to the existing classic range of services offered by the Savings Banks, from foreign payment transactions to foreign trade financing, services are also being developed that offer customers additional added value, such as foreign trade and customs advice. Savings Banks are "the SME financiers" in Germany and know how to use this strength for their customers abroad.

Business development and economic situation

Development of the institutions affiliated to the institution protection scheme[1] – aggregated view

In its operating business, the Savings Banks Finance Group recorded a strong year-on-year improvement in earnings in fiscal year 2022.

Net interest and commission income as well as the net result from financial transactions developed very positively in the year under review. By contrast, the earnings situation of the Savings Banks Finance Group was burdened by a higher valuation result[2] in the year under review. Overall, however, the net result for the year (before and after taxes) remained stable compared to 2021.

↘ Further information on the business development of the Savings Banks, Landesbanken and Landesbausparkassen can be found on pages 48, 56 and 60.

In operational terms, the Savings Banks Finance Group achieved a significantly higher result in 2022 compared to the previous year (EUR 11.0 billion) with an operating result before valuation of EUR 16.6 billion. Against the backdrop of a moderate increase in administrative expenses, this growth is attributable to a strong improvement in net interest income and net trading income as well as an increase in net commission income in the 2022 financial year. The net commission income of the Savings Banks Finance Group increased by 5.8 percent to EUR 11.2 billion. Net interest income rose to just under EUR 30.0 billion due to the interest rate shift and far exceeded the previous year's result (EUR 26.4 billion) in the reporting year. Net trading income (net income from financial transactions), which is only relevant for the Landesbanken within the Savings Banks Finance Group, almost doubled to EUR 1.7 billion.

Administrative expenses rose only moderately by 2.1 percent to EUR 27.6 billion – despite generally high rates of price increases in 2022. This was primarily due to higher material expenses.

The cost-income ratio[3] of the entire Savings Banks Finance Group improved significantly in the financial year 2022 to 62.5 percent (previous year: 71.0 percent). This was primarily due to the increase in net interest income and net trading income.

In terms of the valuation result, the Savings Banks Finance Group recorded a decline in 2022 compared to the previous year. Net valuation expense rose from EUR 0.3 billion in 2021 to EUR 6.2 billion in 2022. As a result of the sharp rise in interest rates and the resulting fall in prices for fixed-interest securities, some institutions had to record a significant increase in valuation expense for the securities business. Since a large part of these maturing interest-bearing securities will be redeemed at their nominal value at the end of their term, the reflows will relieve the valuation result in the future.

By contrast, the extraordinary result[4] had a somewhat smaller negative effect on the earnings situation of the Savings Banks Finance Group in 2022 than in the previous financial year. At EUR –4.5 billion, the negative balance was below the previous year's figure of EUR –4.9 billion. However, the majority of this expense can be attributed to allocations to the fund for general banking risks – in 2022 this amounted to EUR 2.7 billion.

[1] This chapter looks at the aggregate development of the Savings Banks, Landesbanken and Landesbausparkassen (Landesbanken without foreign branches, without domestic and foreign Group subsidiaries and without LBS).
[2] Write-downs of and value adjustments to receivables and securities in the liquidity reserve (netted against income from write-ups to receivables and securities in the liquidity reserve) as well as changes in contingency reserves in accordance with section 340f of the German commercial code.
[3] Administrative expenses in relation to operating income (sum of net interest income, net commission income, net income from financial transactions and other operating income).
[4] Balance of other and extraordinary income/expenses. In contrast to the income statement statistics of the Deutsche Bundesbank, the allocations to and withdrawals from the fund for general banking risks pursuant to section 340g of the German commercial code are also included in the "extraordinary result".

Selected key figures of the Savings Banks Finance Group *

Selected balance sheet items

	Portfolio at the end of 2022 in EUR billion	Portfolio at the end of 2021 in EUR billion	Change in %
Loans and advances to banks (MFIs[1])	**454.5**	226.6	+100.6
Loans and advances to non-banks (non-MFIs)	**1,466.1**	1,395.3	+5.1
Liabilities to banks (MFIs)	**429.7**	457.3	–6.0
Liabilities to non-banks (non-MFIs)	**1,508.8**	1,452.1	+3.9
Equity	**183.7**	178.3	+3.1
Total assets	**2,539.2**	2,431.9	+4.4
Core capital ratio according to CRR[2] (as %; change in % points)	**15.7**	15.7	+0.0

Selected income statement items[3]

	2022[4] in EUR billion	2021 in EUR billion	Change in %
Net interest income	**29.97**	26.43	+13.4
Net commission income	**11.17**	10.56	+5.8
Net income from financial transactions	**1.72**	0.90	+91.3
Administrative expenses	**27.62**	27.05	+2.1
Operating result before valuation	**16.56**	11.05	+49.9
Operating result after valuation	**10.34**	10.79	–4.2
Net income before taxes	**5.89**	5.86	+0.5
Income taxes	**3.48**	3.46	+0.7
Net income after taxes	**2.40**	2.40	+0.1
of which net income after taxes of the Savings Banks	1.39	1.78	–21.8
of which net income after taxes of the Landesbanken	0.93	0.59	+57.9
of which net income after taxes of the Landesbausparkassen	0.08	0.03	> +100

* Savings Banks Finance Group: 1. Savings Banks, 2. Landesbanken without foreign branches, without domestic and foreign Group subsidiaries, without LBS, 3. Landesbausparkassen (legally independent LBS and legally dependent divisions of Landesbanken).

[1] Monetary Financial Institutions

[2] Capital Requirements Regulation.

[3] The allocations to the fund for general banking risks in accordance with section 340g of the German commercial code are taken into account here – as in the "original" income statement in accordance with the German commercial code – as expenses reducing the annual result; in the DSGV financial reports up to 2010, these "section 340g allocations" were treated analogously to the income statement statistics of the Deutsche Bundesbank as an appropriation of profit increasing the annual result.

[4] Preliminary figures from partly not yet audited annual financial statements according to the German commercial code, rounding differences possible.

Overall, the member institutions of the Savings Banks Finance Group achieved a pre-tax profit of around EUR 5.9 billion in 2022. This represents a stable development compared with the 2021 financial year, which the Group closed with a pre-tax result of the same amount. The Savings Banks Finance Group recorded an annual result after taxes of EUR 2.4 billion in 2022, as in the previous year.

The increase in the aggregated balance sheet total of the Savings Banks Finance Group continued in the past financial year compared to 2021. As in previous years, this development is primarily due to growing customer business. In contrast to the previous year, balances with central banks were reduced and interbank business (including the deposit facility) expanded.

The total assets of the Savings Banks Finance Group increased by 4.4 percent to EUR 2,539.2 billion at the end of 2022 (previous year: +3.7 percent). Both the customer lending business and the customer deposit business again expanded. The Savings Banks were able to achieve higher absolute growth in the customer lending business in particular. Loans and advances to non-banks increased by 5.1 percent to EUR 1,466.1 billion. Liabilities to non-banks of the Savings Banks Finance Group rose by 3.9 percent to EUR 1,508.8 billion.

183.7
EUR billion
BALANCE SHEET EQUITY OF THE SAVINGS BANKS FINANCE GROUP

The balance sheet equity of the Savings Banks Finance Group increased again in 2022. It grew by 3.1 percent to EUR 183.7 billion (previous year: +2.6 percent). The Group thus once again improved its equity capitalisation in the past financial year.

The calculated core capital of the Savings Banks Finance Group in accordance with CRR/CRD IV[1] increased to EUR 181.7 billion at year-end 2022 (end of 2021: EUR 175.4 billion). Despite the increase in the total risk contribution[2] to EUR 1,157.7 billion (end of 2021: EUR 1,118.3 billion), the core capital ratio of the Savings Banks Finance Group remained stable at the previous year's level of 15.7 percent at year-end 2022.

As a result of its solid equity base, the Savings Banks Finance Group will continue to make a sustainable contribution to the provision of credit to the German economy, especially to the many small and medium-sized enterprises.

Business performance of the Savings Banks

1,523.3
EUR billion
BALANCE SHEET TOTAL OF THE SAVINGS BANKS

The Savings Banks in Germany continued to expand their lending and deposit business in 2022. Total assets increased by EUR 24.2 billion (+1.6 percent) to EUR 1,523.3 billion. The number of Savings Banks decreased by nine to 361 Savings Banks (previous year: 370; as at 1 July 2023: 355).

Customer lending business was again characterised by high momentum. With an increase of EUR 54.5 billion or 5.7 percent to EUR 1,009.5 billion, the Savings Banks recorded record growth in their portfolios. New business was also very high overall; however, an extremely strong first half-year was followed by a significant weakening in the second half-year. In total new customer business, the Savings Banks committed loans in the amount of EUR 189.8 billion – a decline of EUR –7.5 billion (–3.8 percent) compared to the (record) previous year.

In terms of customer deposits, the Savings Banks recorded a rather moderate increase of EUR 30.7 billion (+2.7 percent) to a portfolio of EUR 1,153.7 billion in 2022, which remained below the two Corona years 2020 and 2021. With rising interest rates, there was an increase in time deposits and own issues for the first time in many years.

[1] CRR = Capital Requirements Regulation; CRD = Capital Requirements Directive.
[2] Includes counterparty risks, market risk positions and other risks.

In off-balance-sheet customer securities business, the Savings Banks recorded a good turnover of EUR 131.7 billion, although this was –21.1 percent below the very strong previous year. Net sales (purchases minus sales by customers) were again very high at EUR 29.0 billion and only slightly below the best value from the previous year.

Thus, direct financial asset formation in 2022 again benefited quite substantially from inflows from deposit and securities business, albeit not as strongly as in the pandemic-related exceptional previous years.

Including the home savings business attributable to the Savings Banks as well as the attributable life insurance business, Savings Bank customers made new direct and indirect investments of EUR 62.4 billion with their Savings Banks.

Earnings situation

In the 2022 financial year, the earnings situation of the Savings Banks in the operating business (operating result before valuation) improved strongly. Above all, the rise in net interest income due to the end of the negative interest phase contributed to this development. However, the 2022 profit and loss account of the Savings Banks is also characterised by a significantly higher valuation result (mainly due to interest rates in securities account A) compared to the previous year. Fortunately, this development was offset by the strong operating result, which on balance lead to a stable operating result after valuation.

The Savings Banks' operating business continued to be driven in particular by the development of net interest income from the highly competitive lending and deposit business with private customers and small and medium-sized enterprises. With an increase for the first time since 2015, and now by 16.2 percent, the Savings Banks achieved net interest income of EUR 22.2 billion in the financial year 2022 (previous year: EUR 19.1 billion).

In customer business, margins in the deposit business in particular are now clearly positive again due to the strong rise in interest rates. In lending business, margins stabilised in 2022 with rising credit demand. By contrast however, income from maturity transformation fell sharply in the reporting year due to the increasingly inverse interest rate structure.

The Savings Banks' net commission income again increased markedly by 3.9 percent to EUR 9.3 billion (previous year: EUR 9.0 billion). This improvement in earnings is mainly due to an increase in commission income from giro transactions and card business. The Savings Banks also recorded growth in the fast-growing home loan and savings business and in the brokerage of loans (loan brokerage via S-Kreditpartner) in 2022.

Despite the high rate of inflation, Savings Banks kept the increase in costs within limits. Administrative expenses increased only very moderately by 2.0 percent to EUR 20.2 billion in financial year 2022 (previous year: EUR 19.8 billion). The institutions recorded an increase in operating expenses to EUR 7.8 billion in the reporting year (+3.0 percent). In addition to the energy price increases that had to be absorbed, the development of operating costs was significantly influenced by rising IT costs. Once again, increasing regulation and the digitalisation and standardisation of processes made additional IT investments necessary. In the reporting period, expenses for advertising as well as for education and training normalised following the ending of the Corona restrictions. Due to the strong increase in covered customer deposits, the bank levy of the Savings Banks again increased noticeably. It is now one of the main cost drivers for the institutions. Personnel expenses increased slightly by 1.4 percent to EUR 12.4 billion in 2022 (previous year: EUR 12.2 billion). The moderate wage increases resulting from the collective agreement reached against the backdrop of Corona 2020 only had a slight impact on personnel expenses in 2022.

Cost-income ratio[1] improved extraordinarily strongly in the 2022 business year and reached a value of 61.7 percent (previous year: 70.2 percent). The significant expansion of net interest income and the increase in commission income had a positive effect, while the increase in administrative expenses had a negative effect.

The operating result before valuation thus increased exceptionally strongly to EUR 12.5 billion (previous year: EUR 8.1 billion).

In terms of the valuation result[2], Savings Banks posted a net valuation expense of EUR 4.5 billion in 2022, which was far above the value of the previous year (EUR 0.3 billion). Due to the sharp rise in interest rates and the resulting fall in prices for fixed-income securities, the institutions posted a significant increase in valuation expenses for securities business. However, the majority of these are not realised losses, but only book value corrections. Savings Banks usually hold these fixed-interest securities with a high credit rating until final maturity, which are then redeemed at nominal value. Consequently, the reflows from these interest-bearing securities, which will then mature, will considerably relieve the valuation result over the coming years.

Due to the encouraging development of the risk situation in 2022 lending business, valuation expenses there were relatively low at EUR 0.4 billion in 2022 (previous year: balanced valuation result for lending business). Medium-sized companies in particular have once again shown themselves to be particularly resilient in this crisis. They were helped in this by their good equity base and their ability to react extremely flexibly to changing circumstances. In addition, enterprises and self-employed persons were supported by the rapid credit and liquidity assistance provided by their credit institutions and also by the KfW and state development institutions to cushion the higher energy prices and costs for increased inventory. This prevented a slide into recession.

The “extraordinary result”[3] of the Savings Banks in the 2022 financial year was again heavily influenced by the additions to the fund for general banking risks in accordance with section 340g of the German commercial code. At EUR 2.4 billion, the addition to the “section 340g reserves” was below the previous year’s figure (2021: EUR 3.7 billion). The total “extraordinary result” closed at a slightly higher negative balance of EUR 4.0 billion in 2022 compared to the previous year.

4.0
EUR billion
NET INCOME BEFORE TAXES OF THE SAVINGS BANKS

Pre-tax profit for the year was noticeably impacted by the valuation result. With net income before taxes of EUR 4.0 billion, the overall result of the Savings Banks in the 2022 financial year was below the previous year’s figure (2021: EUR 4.5 billion).

Net income after deduction of income taxes amounted to around EUR 1.4 billion in the 2022 fiscal year, which was also below the previous year’s level (EUR 1.8 billion).

[1] Administrative expenses in relation to operating income.
[2] The valuation result consists of risk provisioning in lending business and allocations to/releases of provisioning reserves in accordance with section 340f of the German commercial code as well as write-downs and value adjustments on receivables and securities in the liquidity reserve (netted with income from write-ups on receivables and securities in the liquidity reserve).
[3] Balance of other and extraordinary income/expenses. In contrast to the income statement statistics of the Deutsche Bundesbank, the allocations to and withdrawals from the fund for general banking risks pursuant to section 340g of the German commercial code are also included in the “extraordinary result”.

Selected items of the Savings Banks' balance sheet and income statement

Selected items of the Savings Banks' income statement[1]

	2022[2] EUR billion	2021 EUR billion	Changes 2022 compared to 2021 EUR billion	Changes 2022 compared to 2021 %
Net interest income	**22.21**	19.11	+3.1	+16.2
Net commission income	**9.34**	8.99	+0.4	+3.9
Net result from financial operations	**0.01**	0.01	+0.0	+19.6
Administrative expenses	**20.18**	19.79	+0.4	+2.0
Personnel expenses	12.39	12.23	+0.2	+1.4
Other operating expenses (inc. depreciation of property, plant and equipment)	7.79	7.56	+0.2	+3.0
Operating result before valuation	**12.51**	8.38	+4.1	+49.3
Valuation result (excluding equity interests)	**–4.48**	–0.29	–4.2	>+100
Operating result after valuation	**8.03**	8.09	–0.1	–0.8
Balance of other and extraordinary income/expenses[1,3]	**–4.03**	–3.63	+0.4	+10.9
of which: allocations to the fund for general banking risks pursuant to section 340g of the German commercial code	–2.42	–3.71	–1.3	–34.7
Net profit before taxes	**4.00**	4.46	–0.5	–10.3
Profit related taxes	**2.61**	2.68	–0.1	–2.6
Net profit after taxes	**1.39**	1.78	–0.4	–21.8
Return on equity before taxes (in %, changes in % points)	**6.0**	6.4	–	–0.4
Cost-income ratio (in %, change in % points)[4]	**61.7**	70.2	–	–8.5

[1] Allocations to the fund for general banking risks according to section 340g of the German commercial code are taken into account here – as in the "original" income statement according to the German commercial code – as expenses reducing the annual result.
[2] Preliminary figures from partly not yet audited annual financial statements according to the German commercial code, rounding differences possible.
[3] This includes the balance from profits from the sale of financial investments and securities held as fixed assets, write-downs on/write-ups to financial investments and securities held as fixed assets as well as changes in the fund for general banking risks in accordance with section 340g of the German commercial code (allocations to the fund for general banking risks with a negative sign).
[4] Administrative expenses in relation to operating income.

Lending business

Total customer lending business grew by EUR 54.5 billion in 2022. The Savings Banks thus increased their portfolio by 5.7 percent to EUR 1,009.5 billion (previous year +5.5 percent).

Overall, Savings Banks committed slightly fewer loans in 2022 in new customer lending business – at a high level – than in the previous year; at EUR 189.8 billion, the previous year's figure from 2021 was down by –3.8 percent.

Corporate lending is an important part of the customer lending business. Savings Banks committed EUR 106.6 billion in new loans to companies and the self-employed in the course of 2022, which is EUR 0.3 billion or 0.3 percent more than the previous records in 2020 and 2021. This new record was based on the first half of the year, when EUR 59.9 billion in new loans were committed –19.3 percent more than in the first half of 2021. In the second half of the year, new business of EUR 46.6 billion fell very significantly short of the second half of 2021 by –16.8 percent.

1,009.5
EUR billion
CUSTOMER LOANS

The very good new level of business for the year as a whole is also reflected in the development of portfolios. With a plus of EUR 32.2 billion (+6.5 percent), Savings Banks achieved an even higher increase compared to the previous record year (EUR +26.0 billion, +5.5 percent). The loan portfolio stood at EUR 528.1 billion at the end of December 2022. Repayment volume increased marginally to EUR 66.0 billion, +0.4 percent above the previous year (EUR 65.7 billion).

Both investment and working capital loans as well as commercial housing loans were responsible for the increase in the portfolio. Investment/working capital loans increased by EUR 17.8 billion or 5.4 percent to a portfolio of EUR 347.2 billion in 2022 (previous year +3.4 percent). In commercial housing construction, the loan portfolio increased by EUR 14.4 billion or 8.6 percent (previous year +10.1 percent) to a portfolio of EUR 180.9 billion.

In 2022, the Savings Banks recorded a decline in new business in loans to private individuals compared to the record previous year. For 2022 as a whole, the volume of commitments was EUR 73.5 billion, a decline of EUR 9.9 billion (–11.9 percent) compared to 2021. Accordingly, the loan portfolio increased slightly less in 2022 than in the previous year, but nevertheless grew strongly by EUR 19.0 billion or 4.7 percent to EUR 425.1 billion (previous year +6.1 percent).

The decline in new business is mainly due to the development in private residential construction loans. Commitments amounted to a value of EUR 64.6 billion – a decrease of EUR 8.8 billion (–12.0 percent) compared to 2021.

The difference between the first and second halves of the year is even greater here than for corporate loans: In the first half of 2022, commitments were very high at EUR 41.2 billion (+8.5 percent above the already very strong first half of 2021), and customers were still securing the low interest rates, especially in the first quarter. These anticipatory effects are one reason for the sharp decline in H2 to now EUR 23.4 billion (–33.9 percent compared to H2/2021). The rising interest rates also led to a number of potential customers stopping their plans to purchase property for the time being.

The stock of private housing loans increased by EUR +19.8 billion in 2022 (+5.4 percent, slightly less than the previous year's +7.0 percent) and totaled EUR +385.4 billion at the end of 2022.

New business in consumer loans/other loans declined slightly overall in 2022. In new business, the Savings Banks, including loans brokered to S-Kreditpartner GmbH (SKP), committed EUR 13.5 billion – slightly less (–3.2 percent) than in the previous year. The corresponding portfolio, on the other hand, increased slightly by EUR +0.4 billion (+0.8 percent) to EUR 48.5 billion, whereby the weight of loans brokered to SKP continued to increase.

Loans to domestic public budgets increased by EUR 1.9 billion (+6.2 percent) to EUR 32.7 billion in 2022 (2021: –2.0 percent). At EUR 6.0 billion, new business was 79.9 percent higher than in the previous year.

Customer lending business at the Savings Banks

	2022 in EUR billion	2021 in EUR billion	Changes in EUR billions	Changes in %
Customer loans	**1,009.5**	955.0	+54.5	+5.7
Corporate loans[1]	**528.1**	496.0	+32.2	+6.5
Loans to private individuals	**425.1**	406.1	+19.0	+4.7
Private housing loans	385.4	365.5	+19.8	+5.4
Consumer loans/other loans	39.7	40.6	–0.8	–1.9
Memo item: Consumer loans/other loans including SKP loans	48.5	48.1	+0.4	+0.8
Loans to public-sector budgets	**32.7**	30.8	+1.9	+6.2
Other borrowers	**23.6**	22.1	+1.4	+6.4
Total loan commitments/loan disbursements domestic customers	**189.8/179.4**	197.3/174.8	–7.5/+4.6	–3.8/+2.6
Loan commitments/loan disbursements corporates and self-employed[1]	**106.6/98.3**	106.2/92.4	+0.3/+5.9	+0.3/+6.4
Loan commitments/loan disbursements private individuals	**73.5/72.1**	83.4/75.7	–9.9/–3.6	–11.9/–4.8

[1] Including commercial housing loans.

Customer securities business

In off-balance-sheet customer securities business, the Savings Banks recorded total turnover of EUR 131.7 billion in 2022, which fell short of the previous year's very high level (EUR –35.2 billion or –21.1 percent). In a medium and longer-term comparison, however, this turnover can be classified as good. The decline in turnover mainly affected shares (–36.9 percent); investment funds lost –18.8 percent. Turnover in fixed-income securities, on the other hand, remained largely stable (–1.2 percent). Overall, purchases (–18.2 percent) declined less than sales (–25.3 percent). This speaks for the prudent behaviour of our customers in a very unsettled economic environment.

Net sales (purchases minus sales) were distinctly positive in 2022; at EUR 29.0 billion, only just missing the best figure from the previous year (EUR 29.5 billion) (–1.5 percent). This was largely due to the positive net sales of investment funds (EUR +12.1 billion) and fixed-income securities (EUR +13.9 billion), but net sales of shares were also positive (EUR +3.0 billion).

Among the investment funds, equity funds (EUR +7.7 billion), other funds (EUR +3.0 billion), open-ended real estate funds (EUR +2.4 billion) and mixed funds (EUR +1.8 billion) showed the highest positive balances.

Customer securities business at the Savings Banks

	2022 in EUR billion	2021 in EUR billion	Changes in EUR billions	Changes in %
Securities trading volume	**131.7**	166.9	–35.2	–21.1
Net securities sales[1]	**29.0**	29.5	–0.4	–1.5

[1] Net turnover as the balance of purchases and sales by customers.

1,153.7
EUR billion
CUSTOMER DEPOSITS WITH SAVINGS BANKS

Refinancing

Savings Banks essentially refinance themselves with deposits from private customers and companies. Overall, deposits increased by a moderate EUR 30.7 billion in 2022 (+2.7 percent, previous year +4.5 percent) to a total portfolio of EUR 1,153.7 billion.

After many years in which the Savings Banks only recorded growth in demand deposits, 2022 was the first year in which interest rates rose and there were again notable increases in time deposits and own issues (primarily Savings Bank bonds). Time deposits more than doubled from a very low level (EUR +13.4 billion or +119.6 percent), own issues grew by more than a quarter (EUR +6.7 billion or +27.0 percent). In absolute terms, however, demand deposits grew even more strongly (EUR +22.0 billion or +2.7 percent). Only savings deposits lost ground in 2022 (EUR –11.5 billion or –4.2 percent).

From the perspective of customer segments, private customers invested an additional EUR 19.8 billion in 2022 (+2.3 percent to EUR 882.6 billion, previous year +3.4 percent). Corporates increased their deposits by EUR 5.6 billion or +3.1 percent to EUR 188.6 billion (previous year +8.0 percent), other customers (e.g. public budgets) by EUR 5.2 billion or +6.8 percent to EUR 82.5 billion (previous year +9.5 percent).

As in previous years, the Savings Banks enjoyed a comfortable refinancing position. Their entire customer lending business could be refinanced through customer deposits.

Customer deposit business at the Savings Banks

	2022 in EUR billion	2021 in EUR billion	Changes in EUR billions	Changes in %
Customer deposits	**1,153.7**	1,123.0	+30.7	+2.7
of which savings deposits	261.3	272.8	–11.5	–4.2
of which own issues	31.5	24.8	+6.7	+27.0
of which time deposits	24.7	11.2	+13.4	+119.6
of which sight deposits	836.1	814.1	+22.0	+2.7

Financial asset formation

Due to the solid inflow in deposit business and the high positive net sales in securities business, customers, including the home savings business attributable to the Savings Banks as well as the attributable life insurance business, formed additional assets of EUR 62.4 billion at the Savings Banks in 2022. Compared to the previous year's figure, which was very high due to the pandemic, this represents a decline of EUR –18.8 billion (–23.2 percent). Taking into account the home savings and life insurance business, private individuals saved additional funds of EUR 48.2 billion with the Savings Banks. The decline compared to the previous year amounts to EUR 8.2 billion (–14.5 percent).

62.4
EUR billion
CUSTOMERS' FINANCIAL ASSET FORMATION

Customers' financial asset formation at the Savings Banks [1]

	2022 in EUR billion	2021 in EUR billion	Changes in EUR billions	Changes in %
Clients' financial asset formation [2]	**62.4**	81.2	–18.8	–23.2
Private financial asset formation	**48.2**	56.4	–8.2	–14.5

[1] From deposit business and customer securities business, including brokered building society deposits and brokered life insurance.
[2] Private customers, corporate customers, domestic public authorities, non-profit organisations, foreign customers.

Equity

At the end of the 2022 financial year, the Savings Banks reported regulatory capital of EUR 141.0 billion. This means that it was increased by a further EUR 4.1 billion in the course of the year, and this exclusively in the form of (hard) core capital. At the end of 2022, the total capital ratio was 16.64 percent; the core capital ratio was 15.69 percent and, excluding hybrid core capital components, a hard core capital ratio of 15.67 percent was calculated. Due to the somewhat stronger increase in risk-weighted assets compared to total equity, the total capital ratio was marginally below the previous year; the core capital ratio and the hard core capital ratio, on the other hand, are each 0.1 percentage points above the 2021 ratios. Irrespective of this, regulatory requirements continue to be significantly exceeded for all ratios.

15.69%
CORE CAPITAL RATIO OF THE SAVINGS BANKS

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

Banking supervisory ratios of the Savings Banks in accordance with CRR

	2022 in %	2021 in %	Changes in % points
Core capital ratio	**15.7**	15.6	+0.08
Common equity tier 1 ratio	**15.7**	15.6	+0.08
Total capital ratio	**16.6**	16.7	–0.02

Business performance of the Landesbanken

In the 2022 financial year, the business development of the Landesbank Group was dominated by the expansion of customer lending and deposit business. The balance sheet total increased overall compared with the previous year. In recent years, most of the Landesbanks have recorded a growth in total assets following stronger declines until 2017: In the period from the end of 2008 to the end of 2017, total assets were reduced by over EUR 702 billion, or around 45 percent, as part of the strategic measures to redimension and realign the Landesbanken. The exit of HSH Nordbank in 2018 and the streamlining of the portfolio at NORD/LB contributed to the further consolidation of the Group.

In 2022, the institutions[1] had a balance sheet total of EUR 939.6 billion, which was EUR +82.0 billion or +9.6 percent higher than in the previous year. Total assets had stagnated in the previous year. The Landesbanken thus continued the trend of expanding on-balance sheet business in 2022. The decisive factors for this dynamic development were in particular the growth in customer lending and deposit business as well as in asset-based interbank business. Landesbanken continued to record increases in bonds and other fixed-interest securities as well as in other balance sheet items. Landesbanken increasingly reduced their cash reserves in 2022.

Lending business

On the assets side of the interbank business, the Landesbanken recorded a high addition of EUR +114.2 billion or +70.9 percent to EUR 275.4 billion (previous year: –17.7 percent) in claims on banks in 2022. This is mainly due to the increase in claims on domestic banks (excluding Savings Banks), which rose by EUR +115.1 billion to EUR +148.6 billion. Among other things, this increase also reflects the greater use of the deposit facility at the ECB due to interest rates, which is reported under interbank claims. The claims of the Landesbanken on Savings Banks grew by EUR +2.8 billion to EUR +70.2 billion. In contrast, the Landesbanken recorded a decrease of EUR –3.7 billion in loans and advances to foreign banks.

417.7
EUR billion
CUSTOMER LOANS OF THE LANDESBANKEN

The Landesbanken reported a slightly smaller increase in customer lending business in the past financial year compared with the previous year. Loans and advances to non-banks increased by a total of EUR +13.9 billion or +3.4 percent to EUR 417.7 billion (previous year: +7.5 percent).

This is primarily attributable to the increase in claims on domestic and foreign companies. These were increased by EUR +15.8 billion or +5.3 percent to EUR 311.8 billion (previous year: EUR 28.7 billion or 10.7 percent). The focus was on both domestic and foreign corporate business: Loans and advances to domestic companies increased by EUR +8.5 billion or +4.7 percent to EUR 190.7 billion. Loans and advances to foreign companies also increased by EUR +7.3 billion or +6.4 percent to EUR 121.1 billion.

Loans and advances to domestic and foreign public authorities decreased in the reporting year by EUR –2.6 billion or –3.4 percent to EUR 74.1 billion (previous year: EUR –1.6 billion or –2.1 percent).

Loans and advances to domestic private individuals (including non-profit organisations) largely stagnated at EUR 31.8 billion (up EUR +0.7 billion or +2.3 percent year on year).

[1] This chapter looks at the five Landesbank groups, Landesbank Berlin/Berliner Sparkasse and DekaBank.

Securities business

The Landesbanken kept their own securities investments at a largely stable level in 2022. In contrast to the previous year, the total portfolio fell by only –0.4 percent to EUR 97.1 billion (previous year: 6.5 percent). The corporate bond portfolio was reduced by –3.6 percent to EUR 14.5 billion. In contrast to 2021, securities holdings invested in non-fixed-income securities (shares, investment certificates) decreased this time by –45.3 percent to EUR 3.2 billion.

Volumes invested in "public-sector bonds" declined to EUR 20.6 billion (–13.9 percent). Money market instruments again played a larger role with a portfolio of just under EUR 4.7 billion at the end of 2022; the increase of EUR 2.7 billion in the reporting year was exceptionally high. The highest inflow in volume is to be found in the investments in the securities category of bank bonds. The holdings here increased by EUR +3.4 billion or +6.8 percent to EUR 54.1 billion.

The main focus in the Landesbanken's securities account A at the end of 2022 was on bank bonds with a structural share of 55.7 percent, followed by public-sector bonds and debt securities with 21.3 percent and corporate bonds with 14.9 percent. Money market instruments with a structural share of 4.8 percent and securities portfolios invested in non-fixed-interest securities with 3.3 percent are of minor importance.

Refinancing

In terms of customer deposits, the Landesbanken recorded a high portfolio inflow of +9.5 percent to EUR 297.2 billion in 2022. In 2021, customer deposits had only increased by +2.6 percent. The increase in 2022 was primarily due to the development of liabilities to domestic public authorities, which increased by EUR +14.6 billion or +57.7 percent to EUR 40.0 billion.

297.2
EUR billion
CUSTOMER DEPOSITS OF THE LANDESBANKEN

In addition, liabilities to domestic and foreign companies increased by EUR +8.7 billion or +4.7 percent to EUR 193.8 billion. Inflows were recorded both in liabilities to domestic companies, which rose by +2.2 percent to EUR 166.0 billion, and in liabilities to foreign companies, which increased by +22.9 percent to EUR 27.8 billion. A further differentiated analysis in the domestic corporate sector shows that the expansion in the year under review is due to the development in the real corporate sector (+5.0 percent to EUR 72.1 billion) as well as in the financing institutions (+12.7 percent to EUR 40.7 billion). This contrasted with a further reduction in liabilities to insurance companies by –7.7 percent to EUR 53.2 billion.

Deposits from domestic private individuals (including non-profit organisations) grew by +3.0 percent to EUR 62.2 billion.

The Landesbanken continued to reduce their interbank liabilities in 2022. They fell by 4.3 percent to EUR 252.0 billion (previous year: +0.5 percent). In the past year, liabilities to Savings Banks increased by +5.6 percent to EUR 30.1 billion; liabilities to domestic credit institutions (excluding Savings Banks) decreased by –3.7 percent to EUR 187.0 billion. Liabilities to foreign banks were –13.9 percent lower at EUR 34.9 billion (previous year +6.7 percent).

As in the preceding year, Landesbanken showed an increase in their portfolio of securitised liabilities in 2022. The portfolio increased by +4.2 percent to EUR 182.9 billion. In the previous years, the Landesbanks had recorded significant decreases in this form of refinancing.

15.7%

CORE CAPITAL RATIO OF THE LANDESBANKEN

Equity

The balance sheet equity of the Landesbanken increased slightly by +0.4 percent from EUR 44.8 billion to EUR 45.0 billion in 2022. The majority of the institutions were able to strengthen this balance sheet item.

The regulatory core capital of the Landesbanken determined on the basis of CRR/CRD IV increased by +4.1 percent to EUR 45.1 billion at the end of 2022 (end of 2021: EUR 43.3 billion). The total risk contribution (counterparty risks, market risk positions and other risks) was increased by +5.1 percent to EUR 287.2 billion (end of 2020: EUR 273.2 billion). As a result of these two developments, the core capital ratio according to CRR/CRD IV of the Landesbank Group decreased by –0.2 percent points and amounted to 15.7 percent at the end of 2022 (end of 2021: 15.9 percent).

The Landesbanken managed to restructure and realign themselves following the financial market crisis. Risk assets were reduced in a targeted manner and capital ratios were further expanded. As a result, the Landesbank Group has a solid core capital base.

Banking supervisory ratios of the Landesbanken in accordance with CRR

	2022 in %	2021 in %	Change in % points
Core capital ratio	**15.7**	15.9	–0.2
Common equity tier 1 ratio	**15.1**	15.1	0.0
Total capital ratio	**19.8**	20.4	–0.6

Operation results [1]

As in the previous year, the Landesbanken were again able to generate a much higher operating result in the 2022 reporting year, increasing by 50 percent in 2022. This increase can be attributed to the following developments: The Landesbanken recorded increases in both net interest income (EUR +0.5 billion to a level of EUR 7.1 billion) and net commission income (EUR +0.2 billion to EUR 1.8 billion). The strongest effect, however, came from the net result from financial transactions. With an increase of EUR 0.8 billion, this was more than twice as high as in the previous year.

The development of administrative expenses had a slightly negative impact on the result, but only increased moderately by EUR 0.1 billion compared to the previous year, reaching a level of EUR 6.8 billion in 2022. This is mainly due to higher operating expenses.

Overall, the Landesbanken achieved an operating result before valuation of EUR 3.9 billion in 2022 (previous year: EUR 2.6 billion). The cost-income ratio[2] of the Landesbanken improved significantly to 63.7 percent (previous year: 72.1 percent) due to the earnings development outlined above.

In the year under review, the Landesbanken incurred valuation expenses of around EUR 1.7 billion, mainly due to interest rates, which had a significant negative impact on the annual results of the Landesbank group. This contrasted with a slight valuation income gain (EUR 0.1 billion) in 2021. In the year under review, the Landesbanken made additional risk provisions for the lending business on account of existing uncertainties, such as the increase of the supply chain problems and further rises in inflation and interest rates. This strengthened resilience against possible future loan defaults.

[1] Source: Individual financial statements of the Landesbanken in accordance with the German commercial code (including DekaBank).
[2] Administrative expenses in relation to operating income (sum of net interest income, net commission income, net income from financial transactions and other operating income).

Selected balance sheet items of the Landesbanken (including DekaBank)

	Portfolio at year-end 2022 in EUR billion	Portfolio at year-end 2021 in EUR billion	Change in %
Loans and advances to banks (MFIs[1])	**275.4**	161.1	+70.9
Loans and advances to non-banks (non-MFIs)	**417.7**	403.8	+3.4
Liabilities to banks (MFIs)	**252.0**	263.3	–4.3
Liabilities to non-banks (non-MFIs)	**297.2**	271.3	+9.5
Balance sheet total	**939.6**	857.7	+9.6

Selected P&L[2] items of the Landesbanken (including DekaBank)

	2022[3] in EUR billion	2021 in EUR billion	Change in %
Net interest income	**7.07**	6.60	+7.1
Net commission income	**1.80**	1.57	+14.2
Net income from financial transactions	**1.70**	0.89	+92.1
Administrative expenses	**6.80**	6.67	+2.0
Operating result before valuation	**3.87**	2.58	+50.1
Valuation result (excluding equity interests)	**–1.74**	0.06	–[5]
Operating result after valuation	**2.13**	2.63	>+100
Balance of other and extraordinary income/expenses[2,4]	**–0.33**	–1.29	–74.3
of which: withdrawals from (+)/allocations to (–) the fund for general banking risks pursuant to section 340g of the German commercial code	–0.22	–0.38	–40.9
Net profit before taxes	**1.80**	1.34	+34.4
Profit related taxes	**0.87**	0.75	+16.0
Net profit after taxes	**0.93**	0.59	+57.9

[1] Monetary Financial Institutions.
[2] The allocations to the fund for general banking risks in accordance with section 340g of the German commercial code are taken into account here – as in the "original" income statement in accordance with the German commercial code – as expenses reducing the annual result; accordingly, withdrawals from this fund are treated as income increasing the annual result.
[3] Preliminary figures from partly not yet audited annual financial statements according to the German commercial code, rounding differences possible.
[4] This includes the balance from profits from the sale of financial investments and securities held as fixed assets, write-downs on/write-ups to financial investments and securities held as fixed assets as well as changes in the fund for general banking risks in accordance with section 340g of the German commercial code (allocations to the fund for general banking risks with a negative sign, withdrawals from this fund with a positive sign).
[5] Calculation not meaningful.

The result of the "extraordinary account"[1] was negative in 2022 – as in the previous year – but only slightly reduced earnings by EUR 0.3 billion. Net gains / losses on valuation and financial investment securities were only slightly negative in the reporting year with a net valuation expense of EUR 0.1 billion, and were slightly burdened by the extraordinary result. However, allocations to the fund for general banking risks (EUR 0.2 billion) are also recorded under net gains / losses on valuation and financial investment securities.

Overall, the Landesbanken generated a strong pre-tax profit of EUR 1.8 billion in the 2022 financial year. In the previous year, the pre-tax profit for the year was EUR 1.4 billion. After deducting profit-related taxes, the Landesbanken closed the 2022 financial year with a significantly increased net profit after tax of EUR 0.9 billion. In 2021, the Landesbanken had recorded a net profit after taxes of just under EUR 0.6 billion.

Business performance of the Landesbausparkassen

The group of eight Landesbausparkassen concluded 480,000 new home loan and savings contracts with a volume of EUR 32.9 billion in the 2022 financial year. This represents an increase of 6.1 percent compared with 2021 in the number of contracts and an increase of 27.6 percent in the home loan and savings amount. With the extremely steep rise in capital market interest rates since the beginning of 2022 and the associated increase in the cost of real estate loans, home savings are once again increasingly perceived as what they have always been: secure equity formation paired with the right to a low-interest loan.

In a difficult environment for those looking to build and buy, with rising interest rates and persistently rising construction prices, the Landesbausparkassen were also able to make a valuable contribution to stabilising housing construction financing. Overall, home loan and savings funds in the amount of EUR 10.2 billion flowed into the housing market. The LBS Group was thus able to significantly exceed the high level of the previous year by 10.1 percent. The portfolio of building loans climbed to EUR 36.5 billion; this corresponds to an increase of 6.9 percent compared to the previous year.

The average home loan savings amount reached a new high of EUR 68,000 (+20.2 percent). This shows that people are adapting their savings behaviour to the steadily growing need for equity capital due to the years of high property prices.

The "Bausparkassen of the Savings Banks" are the undisputed market leaders in the home loan and savings business in Germany. Their market share was 35.0 percent in terms of the number of new contracts concluded in 2022 and 35.7 percent in terms of the building savings sum. As regards the existing number of contracts, LBS has a market share of 35.6 percent and 33.7 percent of total home loan savings. In residential "Riester" business, LBS' market share is 45.0 percent; this corresponds to around 740,000 contracts for a home loan and savings total of EUR 33.8 billion (–3.7 percent).

[1] Balance of other and extraordinary income / expenses. In contrast to the income statement statistics of the Deutsche Bundesbank, the allocations to and withdrawals from the fund for general banking risks pursuant to section 340g of the German commercial code are also included in the "extraordinary result".

At year-end 2022, the eight Landesbausparkassen held a total of 8.1 million home loan and savings contracts (–4.1 percent) with a volume of EUR 313.4 billion (+2.7 percent) for their almost seven million customers.

The Landesbausparkassen have 510 advisory centres; the number of office and field staff is 6,400. At EUR 76.2 billion (+1.5 percent), the cumulative total assets of the LBS Group reached a new high at the end of 2022.

Business performance of the Landesbausparkassen

	2022	2021	Change in %
New contracts			
Number (millions)	**0.48**	0.45	6.1
Building savings sum (EUR billion)	**32.9**	25.8	27.6
Contract portfolio			
Number (millions)	**8.09**	8.44	–4.1
Building savings sum (EUR billion)	**313.4**	305.1	2.7
Cash inflow (EUR billion)			
Total	**11.0**	11.2	–1.2
of which savings contributions	8.8	8.6	1.5
New capital commitments (EUR billion)	**13.4**	12.3	8.7
Capital disbursements (EUR billion)	**10.2**	9.2	10.1
Total assets (EUR billion)	**76.2**	75.1	1.5
Net income after taxes (EUR million)	**83.8**	33.2	152.4
Employees (inc. field staff)			
Total	**6,400**	6,630	–3.5
of which apprentices	130	138	–5.8
			Change in % points
Market share (number of contracts)			
New contracts	**35.0**	34.2	0.8
Contract portfolio	**35.6**	35.3	0.3

Responsibility and social commitment

The economy and society are undergoing a profound period of change. In addition to the familiar issues such as demographics, digitalisation, increasing academisation and new working models, the attractiveness of the financial sector as an employer is also changing, presenting the world of work with new challenges. The change in culture and values in the relevant target groups in particular will require an adjustment to the human resources strategy for the Savings Banks Finance Group.

With us, it is the people who shape the company.
People are at the centre of everything we do, because our employees are what make us what we are. They are and remain our most important link to our customers. They represent our brand message “understanding people, providing security and thinking about the future” as the special self-image of the Savings Banks Finance Group throughout Germany. These values not only influence our dealings with customers, but also have an internal impact. Despite the slight decline in the number of employees, the Savings Banks Finance Group is one of the most important employers and trainers in the Federal Republic of Germany with 272,600 employees. The Savings Banks Finance Group is characterised by its decentralised structure. Savings Banks, regional associations and numerous Group partners share the tasks of ensuring that people in all parts of Germany are provided with money and credit. 191,000 people worked at a local Savings Bank in 2022.

The Savings Banks Finance Group is an attractive employer.
Having an attractive and authentic employer identity is of paramount importance to us in terms of personnel strategy. The aim is to make the Savings Banks Finance Group the employer of choice in the personnel market – for existing employees as well as for new talent.

Key areas of activity within the framework of our human resources strategy are:

Successful recruitment of junior staff
In order to continue to provide our clients with the best advice and support, we rely on motivated junior staff with different levels of expertise and experience. In addition to trainees, who make up the largest share of our junior staff, our target group ranges from career changers and dual students to academics, technical experts and managers. This diversity of different talents with different perspectives and experiences enables us to grow.

An important point here is target group-oriented, authentic and cross-media communication. That is why we regularly invest in the content and technology development of our employer website.

After leaving school, increasing numbers of young people are opting for a dual course of study as a combination of vocational training and university studies. Within the Savings Banks Finance Group, the School of Finance & Management offers a dual study programme. This option meets the increasing demand for highly qualified specialists and managers, as also reflected in our “Sales Strategy of the Future”.

When recruiting for such programmes, our existing good image as an employer has a positive effect. We have been able to score particularly well with our regional approach to recruiting, especially among school students.

One example of attractive and needs-oriented recruitment of young students is the continuous development of our vocational training programme. It is important to the institutions in our Group that young trainees are offered security and perspective, as well as interesting and flexible fields of work. Our training companies have an impressive range of approaches to promote and use the trainees' personal responsibility and wealth of ideas: from self-organised introductory weeks and community service projects to social media editorial offices and trainee branches. The trainee branches create an environment in which the fresh ideas of young talented people are incorporated and immediately put into practice. In this way, the junior staff receive real recognition for their ideas, they experience appreciation and feel that they have really arrived at the company. Learning opportunities abroad further enhance the attractiveness of vocational training for apprentices and those with professional qualifications.

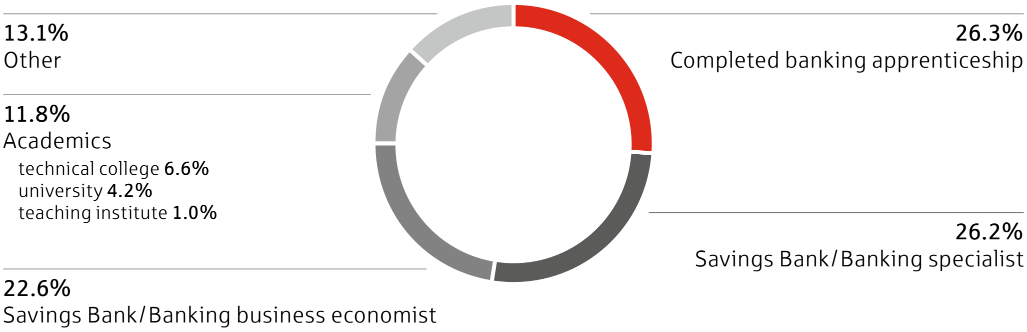
In 2022, 4,394 young people started their vocational training at a Savings Bank. Despite the impact of the Corona crisis on the recruitment process, hiring figures were slightly up on the previous year. With 11,965 trainees, the Savings Banks Finance Group as a whole remains the largest provider of training in the German banking industry and one of the largest nationwide. Our broad commitment to training is part of the social responsibility of the Savings Banks Finance Group. We provide training with the future in mind. And this pays off: Savings Banks trainees regularly pass their Chamber of Industry and Commerce examinations at the top of their class and receive prestigious awards in their region as well as at state and national level. The take-up rate in 2022 was 88.8 percent.

Continuous further development of staff skills

Changing customer behaviour and advancing digitalisation require a significantly more differentiated approach to the market in order for the Savings Banks Finance Group to remain a market leader. Sales channels with new roles and tasks are emerging, and processes, personnel structure and management are being adapted. In view of these challenges, we have again focused on "strengthening employer attractiveness, expanding digital competences and qualification for sustainability issues to ensure the quality of our employees" in 2022.

A key factor in the success of the Savings Banks Finance Group is its internal training system. The Savings Banks Finance Group offers its employees high-quality and attractive career prospects, from career entry to management positions or demanding specialist functions. The Group-wide education structure with nine regional academies as well as the Savings Banks Finance Group's University of Applied Sciences for Finance & Management in Bonn supports these development opportunities comprehensively and imparts both the required specialist knowledge and the necessary skills and competences for each career stage.

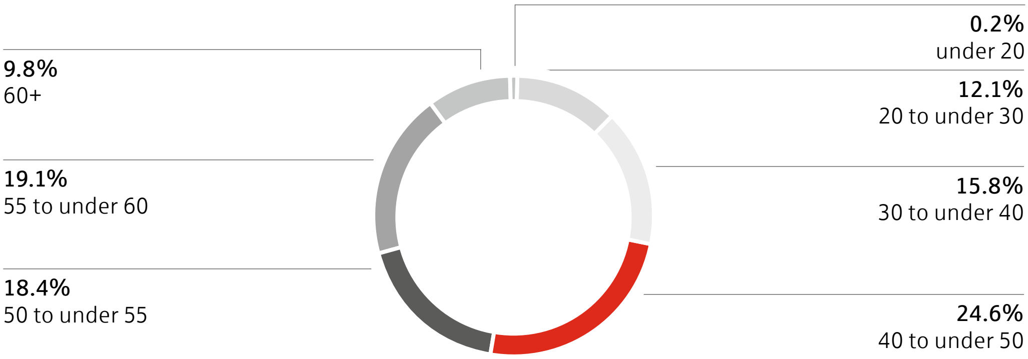
Savings Banks employees: Qualification structure
As at: 31.12.2022



Our business model focuses on providing comprehensive advice to our customers with the aim of achieving a high level of customer satisfaction and sustainable customer relationships. We offer them every avenue to receive advice – whether in-branch, online or mobile. It is vital to us to maintain the human proximity that distinguishes us from our competitors, despite the necessary reorganisation of the branch structure. To ensure this, we continue to place a special focus on qualifying our employees for cross-channel customer service. The academies' range of qualifications address this need to adapt and systematically develop their own skills. New digital education formats constantly evolve from this, which can be conducted as seminars in the academies as well as online or as in-house seminars directly in the institutions.

A look at the changing demographic structures also shows the importance of "maintaining job proficiency and succession planning" for the future. Differentiated qualification opportunities for all groups of the workforce are therefore crucial. It is the declared goal of the training service providers in the Savings Banks Finance Group to jointly develop these measures and to create tailored training programmes to unlock all potential.

Savings Banks employees: age structure
As at: 31.12.2022



The issue of "sustainability" has become increasingly important for our customers as well as for our employees. For this reason, we again expanded our range of qualifications relating to the sustainability aspects of "environment, social affairs and corporate governance" in 2022.

The necessary transformation processes are mastered through the ability of our employees to change.
Dealing with the constantly new and dynamically changing demands on the employees of the Savings Banks has required a rethink in the area of leadership and support. Here, it is important for us to create a willingness among our employees to accept the changes, while also developing the ability to appreciate the benefits of implementing them.

Managing the transformation processes triggered by the change in values and culture, demographic development and digitalisation is a top priority for the institutions of the Savings Banks Finance Group. To support this, implementation recommendations for talent and change management have been made available nationwide in order to unleash potential.

In addition to this, the well-being of our employees is a major concern for us in the institutions of the Savings Banks Finance Group. To this end, we offer flexible models for the place and time of work, professional career development and a wide range of support services for a better balance between private and professional life, so as to provide the best conditions for all generations in their various phases of life.

One of the central goals continues to be increasing the proportion of women in management positions for the entire Savings Banks Finance Group. The measures implemented nationwide to date were again supplemented in 2022 by scholarship and mentoring programmes for more women in management positions. Overall, we have intensified the discussion within the Savings Banks Finance Group and have been able to increase the proportion of female managers below Board level to 28.1 percent (previous year 27.5 percent). The proportion of women on the Board of Management increased slightly to 6.2 percent in 2022 (previous year 5.8 percent).

Broad-based social commitment strengthens public welfare

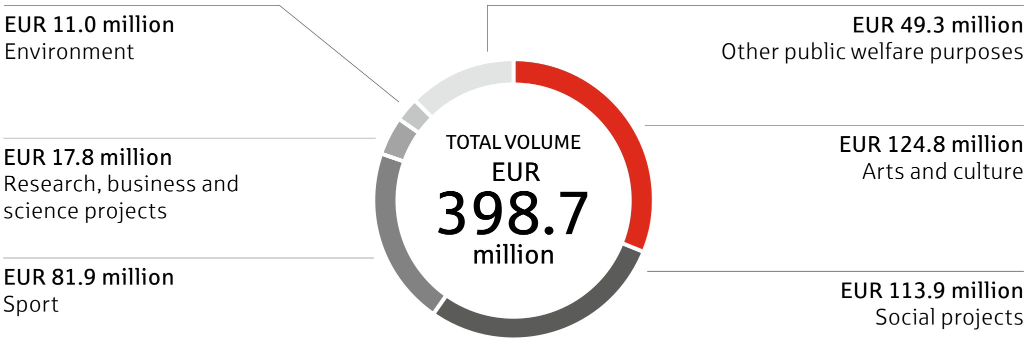
The Savings Banks, Savings Banks Foundations, Landesbanken and S-Group partners shape local social interaction in a variety of ways. In 2022, the Savings Banks Finance Group invested around EUR 399 million in public welfare projects (previous year: EUR 371.4 million).

After the decline in the Savings Banks Finance Group's support commitment in the last few years as a result of the Corona pandemic, pubic welfare support is once again experiencing a significant upswing, with an increase of EUR 28 million over the previous year. The most common form of support in 2022 was again donations – a service rendered without receiving anything in return. This type of support accounts for 40 percent of the total funding.

Art and culture

The promotion of art and culture is an important core element and firmly anchored in the social commitment of the Savings Banks Finance Group. In 2022, the Savings Banks Finance Group supported art and culture with a total of EUR 124.8 million (previous year: EUR 106.9 million). Projects throughout the country were supported. Long-standing cooperations were continued, such as the commitment as the main sponsor of the Dresden State Art Collections.

Social commitment of the Savings Banks Finance Group
As at: 31.12.2022



Social commitment

The Savings Banks are involved in a large number of projects for children, young people and senior citizens. Their support services are provided to society at large and include social advice centres, neighbourhood homes and integration projects for immigrants. Social commitment is one of the largest areas of support provided by the Savings Banks Finance Group, with contributions totaling EUR 113.9 million in 2022 (previous year: EUR 114.7 million).

Sport

The Savings Banks Finance Group promotes all areas of sport. The majority of the support benefits clubs in all regions of Germany. One example of this is the commitment to the German Sports Badge, which includes participation in the Sports Badge Tour as well as the annual Sports Badge Competition. In addition, top-level, junior and disabled sports are also supported, for example through their partnership with Olympic Team Germany and Team Germany Paralympics, as well as their sponsorship of elite sporting schools.

In 2022, sports and members of sports clubs received EUR 81.9 million (previous year: EUR 73.9 million). 28 foundations of the Savings Banks Finance Group exclusively or primarily promote sport.

Environment

Savings Banks also take responsibility in the area of the environment. They are committed to environmental and climate protection in their business areas in a variety of ways. A large number of local environmental organisations can count on the support of the Savings Banks. The programme of support also includes selected ecological projects at schools. The funds spent on these projects amounted to around EUR 11.0 million in 2022 (previous year: EUR 11.6 million).

Education

Promoting education and integration is a central element of the Savings Banks Finance Group's commitment to sustainable social development. In 2022, EUR 17.8 million (previous year: EUR 17.2 million) was invested in research, business and science promotion projects. Throughout Germany, Savings Banks are committed to ensuring that all sections of the population can benefit from social life and develop personally in their environment. They invest in financial education from an early age and offer, for example, teaching materials on economic and financial topics through the "SparkassenSchulService" (the Savings Banks school service). In the non-school sector, the Savings Banks Finance Group's "Geld und Haushalt" (money and budgeting) advisory service supports all consumers with free products to strengthen financial literacy and prevent debt.

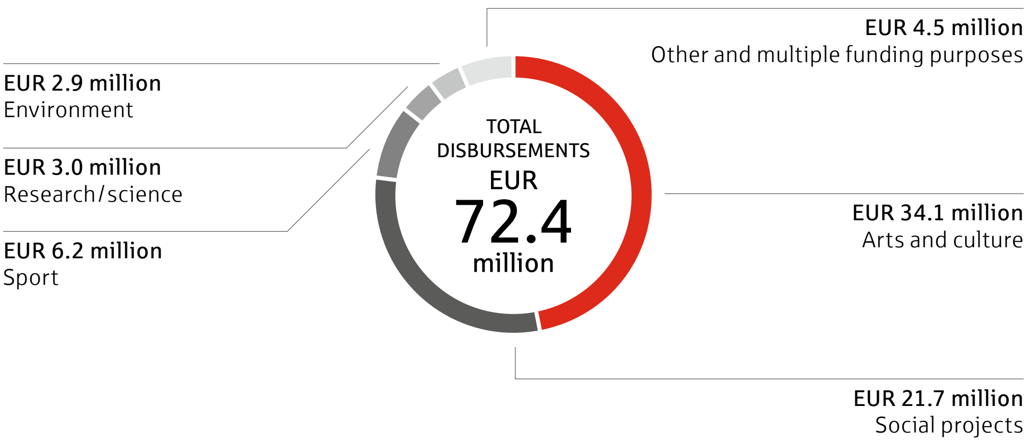
Foundations

The charitable foundations of the Savings Banks Finance Group continue the funding and donation commitment pursued by the Savings Banks, Landesbanken and other institutions of the Savings Banks Finance Group in a particularly sustainable form. In 2022, there were a total of 759 foundations in the Savings Banks Finance Group (previous year: 760). They contribute to regional development and support local civic engagement. At the end of 2022, they had a total capital of EUR 2.83 billion (previous year: EUR 2.76 billion). Last year, the Savings Banks Foundations accounted for 18.2 percent of the total commitment of the Savings Banks Finance Group with disbursements of EUR 72.4 million (previous year: EUR 68.5 million).

The Savings Banks Finance Group reports on its social commitment regularly at:

↘ dsgv.de/our-responsibility

Disbursements by the foundations of the Savings Banks Finance Group in EUR million
As at: 31.12.2022



German Sparkassenstiftung for International Cooperation

The German Sparkassenstiftung (Savings Banks foundation) actively supports financial institutions that promote sustainable economic and social development at local, regional or national level through needs-based banking. Its aim is to enhance the professionalism of its partner institutions so that they can offer their customers ongoing access to financial services. Small and medium-sized enterprises (SMEs) in particular, but also poor and marginalised social groups are the target groups of the German Sparkassenstiftung's partner institutions.

By strengthening local and regional financial structures, the German Sparkassenstiftung not only creates development alternatives for broad sections of the population and local businesses, but ultimately also helps to generate jobs and income. In doing so, it also helps to promote financial education and support training and human resources development in its worldwide projects (e.g. the introduction of dual training systems in the microfinance sector in Latin America).

This is in line with the approach and objectives of the German Savings Banks; it has a stabilising effect on the respective financial sector and thus on a country's economic development. The more than 200-year history of the Savings Banks in Germany shows that sustainable microfinance is only possible with efficient organisation and professionalism – these are the key success factors that the German Sparkassenstiftung passes on to its partners worldwide through its projects.

↘ Sparkassenstiftung.de

1 Goal
Sustainable development through financial inclusion

Project volume 2022
32
Euro million

58
Project countries

330
Employees worldwide

Around 200
other experts on assignment abroad

40
Employees in the Bonn office

The impact of the German Sparkassenstiftung

47%*

127,900

Newly created jobs and people who have entered employment

47%*

54,830

People with improved working conditions

54%*

1.7 million

People with improved access to financial services

72%*

1.07 million

People who have participated in a training or further education programme

* Proportion of women.

Business Games as a success factor for financial education

The German Sparkassenstiftung's Business Games are an important success factor for financial education worldwide. The Sparkassenstiftung's programme now comprises five Business Games, including four haptic and one computer-based Business Game. The Business Games are interactive training measures that take place on site in small groups.

Since 2019, more than 8,000 Business Games events have been held, reaching small and micro entrepreneurs, students, farmers and many more people in more than 50 countries. 160,000 participants worldwide have taken part in the Business Games to date – and the trend is upward.

Risk report

The institutions of the Savings Banks Finance Group performed well in a difficult environment in 2022 (Ukraine war, rise in interest rates, ongoing Corona crisis). Numerous new regulatory initiatives were advanced in 2022. One focus was the negotiation at European level of the banking package presented by the EU Commission on 27 October 2021. This includes drafts for amending the Capital Adequacy Directive and Regulation (CRD VI and CRR III), which is intended to complete the implementation of Basel III in the EU. In addition, the banking package contains provisions aimed at strengthening the banking sector's resilience to environmental, social and governance risks (ESG risks[1]).

The issue of sustainability and its associated risks are increasingly becoming the focus of the institutions' risk management, partly due to the regulatory initiatives in this area. Since mid-2021, the DSGV has been carrying out a project for the structured processing of regulatory requirements relating to the issue of sustainability. The focus is on reporting issues, such as the implementation of the EU taxonomy in Savings Banks, as well as the integration into risk management of sustainability risks, which act as risk drivers on the classic financial risks.

In 2022, the 7th MaRisk amendment was also the subject of consultation. BaFin intends to publish the final version of the circular by mid-2023. The MaRisk amendment implements, among other things, the EBA guidelines on loan origination and monitoring (EBA/GL/2020/06: Guidelines on loan origination and monitoring). With the MaRisk Compass and the MaRisk Interpretation Guide, the DSGV provides the institutions of the Savings Banks Finance Group with detailed guidance on the interpretation of the requirements set by the MaRisk, formulated in a principle-oriented manner.

Due to the persistently high number of new regulatory requirements for bank management, Sparkassen Rating und Risikosysteme GmbH (SR) provides centralised support for the regional Savings Banks in their operational implementation.

Risk management by the institutions of the Savings Banks Finance Group

The identification, control and management of general banking risks is one of the core tasks of a credit institution. The main risks faced by credit institutions include:

- Counterparty risks
- Market price risks
- Liquidity risks
- Operational risks

The institutions of the Savings Banks Finance Group manage the income and risks associated with their business activities professionally and with a view to the future. Changes in the market environment and new regulatory requirements necessitate the further development of methods, models and instruments for risk management.

[1] ESG risks and sustainability risks are used synonymously.

The DSGV, SR and the regional Savings Banks Associations are constantly developing, maintaining and improving the instruments and methods in close cooperation with the institutions. This is associated with numerous advantages, including

- creating practice-oriented and uniform standards throughout the Savings Banks Finance Group,
- developing a broad database through nationwide data pooling based on these standards,
- relieving the burden on individual institutions and avoiding duplication of work,
- pooling the entire know-how of the Savings Banks Finance Group.

Irrespective of the development of uniform procedures across the Savings Banks, the decision on transactions and the associated risks, such as customer product design or own investment policy, remains with each individual institution. This also applies to the definition of the individual risk profile at overall institution level and the use of risk quantification procedures.

Categories of general banking risks

Counterparty default risks	– Risk of a negative deviation from the expected value of a balance sheet or off-balance sheet position caused by a deterioration in creditworthiness, including the default of a debtor. The counterparty risk is divided into the default risk and the migration risk of a debtor. Debtors in customer business within the meaning of this definition are borrowers, i.e. traditional private, commercial and corporate customers, credit institutions (interbank), federal states and the public sector. Debtors in proprietary business are any counterparties or issuers.
Market price risks	– Risk of a negative deviation from the expected value or the current market value of a balance sheet or off-balance sheet position resulting from changes in risk factors (interest rates, spreads, foreign currencies, shares, real estate, commodities, including volatility and option risk).
Liquidity risks	– Liquidity risk is generally composed of the insolvency risk and the refinancing cost risk. The liquidity risk also includes the market liquidity risk in both components defined below. 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 time and / or at fair prices. – Insolvency risk: Risk of not being able to meet due payment obligations in full or on time. – Refinancing cost risk: Risk of a negative deviation from the expected value of the refinancing costs.
Operational risks	– The risk of damage occurring as a result of the inadequacy or failure of internal procedures, employees, internal infrastructure or as a result of external influences, including legal risks.
Other risks	– Depending on the individual business model, Savings Banks may be subject to further risks, such as cost risk. The cost risk is the danger that the realised costs exceed the planned costs. It can materialise, for example, through a collective agreement that deviates from expectations.

The institutions each individually use the jointly developed procedures to measure risks, to aggregate them in the risk-bearing capacity, to manage the portfolio and for capital allocation to optimise the risk-return ratio. Due to the large number of individual 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.

Ensuring risk-bearing capacity

For many years, the institutions of the Savings Banks Finance Group have used procedures and IT instruments in risk management to determine internal capital (risk coverage potential) on the one hand and risk on the other. The combination and thus comparison is carried out within the framework of risk-bearing capacity (RBC). Here, centrally developed concepts are available to the institutions that combine the various procedures and methods and embed them in a risk limitation at the level of the entire institution as well as the individual risk types.

Savings Banks generally pursue a going-concern approach[1], which complies with the previous national requirements for risk-bearing capacity. For Landesbanken, however, the ECB guideline on ICAAP applies as the basis for their own risk-bearing capacity concepts. The management methods anchored in the risk-bearing capacity concepts of Savings Banks and Landesbanken aim to ensure both the long-term continuation of the individual institutions and the protection of creditors.

The S-KARISMA/S-RTF software, which was jointly developed in the Savings Banks Finance Group, supports the institutions on the IT side from data bundling in risk management to scenario calculations to regulatory reporting for risk-bearing capacity. The individual risk values and thus the capital and asset requirements resulting from the business structure of the individual Savings Bank flow into this. Since mid-2016, SR has taken over the support and further development of the S-RTF software.

In the risk-bearing capacity calculations of the institutions, the risks are compared with the capital figures and the risk coverage potential in order to ensure coverage at all times. The institution-specific overall risk and the individual risk types below it are subject to a limit, which enables a timely response. Not all of the risk coverage potential is used, which means that reserves are kept for potential additional burdens.

The institutions of the Savings Banks Finance Group carry out capital planning processes in order to recognise the development of the capital figures or the risk coverage potential and the future scope at an early stage. Should measures be necessary in the area of capitalisation and in the development of results, these can thus be initiated at an early stage. In addition, dedicated planning of own funds and own funds requirements ensures a high level of transparency regarding the scope for own funds. A targeted and cautious use is thus made possible. Here, S-KARISMA/S-RTF is also used in Savings Banks, as a close link is necessary between risk-bearing capacity and result planning.

The results planned for the next few years and their retention will allow the Savings Banks and Landesbanken to successively expand their risk coverage potential and their own funds. This will enable ongoing growth in the lending business, which increases the minimum capital requirement. Potential burdens from unfavourable macroeconomic developments can thus also be taken into account at an early stage in the planned earnings, capital and risk planning and adequate measures can be prepared if necessary.

The national supervisory authority published revised regulations on risk-bearing capacity on 24 May 2018, whereby existing risk-bearing capacity concepts could continue to be used. In 2021, the banking supervisory authority announced that it would only accept the previous going-concern concepts until the end of 2022. In the Savings Banks Finance Group, the necessary measures were initiated at an early stage in order to efficiently implement the new regulations (normative and economic perspective) in all institutions. At the beginning of 2023, all Savings Banks converted their

[1] Continuation approach.

risk-bearing capacity to the new regulations on risk-bearing capacity with the help of central solutions. The methodological changeover was carried out by introducing new and adapted systems for risk measurement/management – both for the individual risk types and the RBC as a whole. Furthermore, a central data pool is being set up with the integrated data budget (IDH), which will advance the automation of bank management and facilitate both internal Savings Bank and regulatory evaluations.

Since 2016, the German supervisory authority has regularly defined new capital requirements and expectations for individual institutions with the so-called SREP surcharges[1] and the capital recommendation (previously capital target ratio), which are to be taken into account both in the ongoing capital adequacy and in the normative perspective of risk-bearing capacity (capital planning).

With the SREP surcharges, the supervisory authority intends that such risks are to be backed with own funds that are identified in the risk-bearing capacity and backed with capital, but are not or not sufficiently taken into account in the own funds requirements of Basel Pillar 1.

The own funds recommendation indicates how much additional capital an institution should hold from a regulatory perspective so that it can meet the SREP total capital requirement at all times, i.e. also in stress phases. For the majority of Savings Banks, this results in no or only low additional capital expectations.

Ensuring solvency

The equity base of the Savings Banks remained extremely solid in 2022. The Common Equity Tier 1 capital ratio was 15.7 percent as at 31 December 2022, while the total capital ratio reached 16.6 percent.

On average, the Savings Banks thus clearly exceed the Basel capital requirements of 4.5 percent for the hard core capital and 8 percent for the total capital ratio, which have been in force since 1 January 2014. The capital resources also cover the capital conservation buffer (2.5 percent), which increases the minimum values for the hard core capital according to Basel III to 7 percent and the total capital ratio to 10.5 percent. Also covered are the SREP surcharges and the own funds recommendation (formerly own funds target ratio) as well as the buffers set by BaFin by general order at the beginning of 2022, which must be complied with from 1 February 2023 (countercyclical capital buffer 0.75 percent, systemic risk buffer for residential real estate 2.0 percent).

The Landesbanken (individual institution level), including DekaBank, had an average core tier 1 capital ratio of 15.1 percent at the end of 2022. The total capital ratio is 19.8 percent on average.

Management of individual risk types

Increased regulatory requirements for risk reporting make it necessary to establish principles for the management, quality and aggregation of risk data.

Together with Finanz Informatik, SR ensures that the regulatory and business requirements are taken into account in the joint data budget of the Savings Banks Finance Group.

Earnings and risk management is always caught between economic market conditions, the regulatory framework and changing customer expectations. For this reason, it is a particular focus of the Savings Banks in the current interest rate situation. The management of counterparty risk enjoys special attention, as this type of risk has a major influence on the risk-bearing capacity of the institutions and the stability of their results. However, comprehensive procedures for risk measurement and management sustainably secure the lending capacity of the Savings Banks and Landesbanken.

[1] Supervisory Review and Evaluation Process.

Risk classification tools

For corporate customer business: Savings Banks Standard Rating	– The Savings Banks Standard Rating is used for commercial customers of the Savings Banks. The creditworthiness assessment is carried out in a modular structure, i.e. it is first checked which information on a company is known to the Savings Bank/Landesbank and can be included in the determination of the rating grade. This information is subdivided as follows: – Evaluation of the annual financial statement or the income statement, – Qualitative rating, i.e. assessing the characteristics of the company and the entrepreneur or the managing director, – Taking into account existing business relationships with the customer, such as their account behaviour, – Potential downgrades due to warning signals regarding an impending corporate crisis, – Taking into consideration third-party creditworthiness influences (cross-guarantee systems) in the case of an existing “parent-subsidiary relationship”. – A customer’s strength-potential profile can be automatically generated from a released rating, which can be used for customer communication. – For customers with low exposure, an automated procedure based primarily on account data as well as a simplified risk classification procedure for applications (KundenKompaktRating) are available to the institutions for the ongoing credit assessment.
For commercial real estate investments: Savings Banks Real-Estate Business Rating	– The Savings Banks real estate business rating assesses the creditworthiness of real estate customers. Quantitative indicators, such as balance sheets, as well as qualitative factors, such as the expected business development, are used for the assessment. As a key risk driver, the property that is to be financed or has already been financed is assessed with the help of property-specific information and ratios. The focus is on checking whether repayment of the loans from the rental income or the proceeds from the sale of the property is likely in the coming years. – In order to ensure the most realistic representation possible, all available information is weighted accordingly and combined into a rating grade for the client.
For private customer business: Savings Banks Customer Scoring	– Savings Banks customer scoring is the risk classification procedure for private customer business. It enables the customer advisor to assess the creditworthiness of a new customer objectively as well as an existing customer with as much creditworthiness-relevant information as possible known to him when applying for a loan. – With this instrument, the institutions also receive an automated portfolio monitoring of their retail exposures and thus a tool with which risks can be identified in good time.
For investments in renewables: Project Financing Rating	– The project finance rating is a tailored procedure for financing in the field of renewable energies (wind, photovoltaics, biogas/biomass). The loan commitment is primarily based on the cash flows generated from the operation of the plant. Accordingly, it is not the asset situation of the equity provider (also called sponsor) that forms the core of the risk, but the project performance. – Since the project company is to be depicted in its entirety, qualitative factors – such as the expertise of those involved in the project, information on the project environment and the contractual arrangements – also flow into the valuation process.

In addition, SR, together with Savings Banks and regional associations, has developed a standardised procedural model for conducting the risk inventory including risk concentration analysis, which includes central recommendations for the criteria of the materiality assessment of individual risks. In this context, a relevance check of sustainability risks as well as a qualitative impact analysis of economically significant risks on the normative perspective is also carried out. The procedure is validated annually by SR.

To support the risk management process in the Savings Banks, a risk manual is also available to the institutions, which helps to keep a standardised eye on risks.

Managing counterparty risks

SR develops and maintains the necessary procedures for efficient and needs-oriented credit risk measurement of the Savings Banks together with representatives from regional associations, Savings Banks, Landesbanken, Landesbausparkassen and Finanz Informatik on the basis of data from the Savings Banks Finance Group. Accordingly, they are used throughout the Savings Banks Finance Group for the management of default risks.

The central maintenance and further development of the procedures by SR ensure their high quality and uniformity. This guarantees that the data from Savings Banks and Landesbanken are processed in compliance with data protection requirements (data pooling), the annual qualitative and quantitative review (validation) as well as the regular supervisory review of the instruments.

The risk classification procedures, as shown in the table on page 74, relate to corporate lending, real estate and retail business.

Additionally, the institutions of the Savings Banks Finance Group have instruments for assessing creditworthiness for the fair calculation of creditworthiness premiums (risk costs) as well as for risk measurement (value-at-risk calculation) of the total loan portfolio. The calculated "fair" credit rating premium is also used for risk transfer between the institutions or within the framework of so-called credit pooling.

The Savings Banks Finance Group continually strives to increase the efficiency of its management of counterparty risks, thus generating more accurate forecasts. Because only the balance of accurate risk assessment and effective use of financial resources ensures fair conditions for customers.

In 2022, more than 306,000 commercial and corporate customers were classified in rating classes. In some cases, the ratings were carried out or updated several times. In total, there are more than 14.8 million commercial ratings in the data pool of the Savings Banks Finance Group. This data pool enables a high degree of reliability for the credit ratings and at the same time ensures the provision of qualified advice to the customer.

The common uniform rating procedures in the Savings Banks Finance Group offer the following advantages:

- a very broad database,
- high selectivity of methods,
- an accurate and fair breakdown of our customers according to their creditworthiness,
- stable default rates,
- early and objective risk identification and
- central regulatory approval of the tools used to determine capital adequacy in accordance with the internal ratings-based approach.

All rating and scoring procedures are approved by the supervisory authorities and are regularly audited by the banking supervisory authority.

The models and methods for counterparty risk management of the Savings Banks take into account their heterogeneity with regard to the size of the individual institution as well as in the type, scope and complexity of the counterparty risk portfolio.

In this way, ideal-typical counterparty risk management can be mapped over a total of five expansion stages.

Within the framework of the implementation

- the Savings Banks leverage synergies through the efficient use of risk measurement instruments and their integration into overall bank management,
- the Savings Banks optimise their equity capital utilisation by flexibly reducing and increasing counterparty risk positions,
- the Savings Banks create more scope for sales by clearly delineating responsibilities between sales, back office and portfolio management,
- the Savings Banks exploit growth opportunities in the lending business (also for new business) through the targeted management of concentration risks and the consistent use of risk management instruments,
- it is easier for the Savings Banks to find competitive conditions through improved risk structures in the loan portfolio.

By efficiently managing their loan portfolio, the Savings Banks are able to continue to grow sustainably in the lending business without overburdening themselves with the associated risk.

The portfolios of the Savings Banks Finance Group were also well positioned in the 2022 financial year. Overall, 64.4 percent of all corporate customers of the Savings Banks and Landesbanken had a rating in the so-called investment grade range (better than BBB–) and thus have a high credit quality. This value remained stable in comparison with the previous year.

Managing counterparty risk at portfolio level
In order to remain effective and competitive in the lending business in the long term, Savings Banks record the risks associated with lending comprehensively and can manage these in a targeted manner by applying the eKRM (efficient credit risk management) management concept. Through active and efficient credit portfolio management – i.e. through the targeted optimisation of the income and risk situation of their credit portfolio – they are able to create competitive advantages for themselves. This leads not least to increases in efficiency and results. Despite the changed interest rate environment and risk costs, the credit market, and in particular the customer lending business, continues to be more profitable and less risky than the capital market business.

Diversification of counterparty risks:
Syndicated customer lending as an example
The classic syndicated loan business has already been used by the Savings Banks for many years. This includes not only loan or risk sharing with the respective Landesbank and association partners, but also increasingly the joint financing of larger customer loans by several Savings Banks. The form of this cooperation ranges from direct lending to loan sub-participation and indemnification.

Promissory note loans are also used by many Savings Banks for targeted investment in lending business with companies. All of these instruments can be used both for hedging credit risks and for investing in credit risks.

The decisive factor is that customer responsibility remains with the lending Savings Bank. At the same time, however, the Savings Bank has “financing partners” at its disposal so that it can increase its leeway in the lending business through liquidity and equity relief. The systematic use of other Savings Banks, Landesbanken and Group partners creates new opportunities for more credit growth, especially when accompanying the growth and transformation of large SMEs towards more digitalisation and sustainability.

Tools for managing counterparty risk

Savings Bank Risk-Adjusted Pricing	– The risk-adjusted pricing procedure enables a credit institution to determine credit premiums on the basis of individual credit exposures and collateral provided. This avoids equal treatment of low and high risks. The creditworthiness premiums are included in determining fair lending conditions and serve to cover expected losses from the lending business.
Savings Banks CreditPortfolioView	– CreditPortfolioView enables the Savings Banks and Landesbanken to identify, measure and provide an up-to-date view of the counterparty risks of a credit portfolio and of the Depot A (securities account). This is basd on the P&L (periodically) and / or cash flow (value-oriented). CPV takes into account changes in creditworthiness and credit defaults of customers, issuers and counterparties in the corresponding macroeconomic scenarios.
Savings Banks Loss Data Collection	– The loss data collection is used to determine liquidation and recovery rates from the history of defaulted customers. The loss data is validated annually and integrated into bank management on the basis of institution or pool data via the RAP and CPV applications for managing counterparty default risk. Additional parameters are estimated from the validated pooled loss data of the Savings Banks Finance Group (e.g. to fulfil the hard test notification) and comprehensive reports are prepared.

Hedging counterparty risks:
Example of Savings Banks loan baskets
For 20 years now, the Savings Banks have had another efficient instrument at their disposal for hedging credit risks and managing concentration risks: Savings Banks loan baskets. In contrast to the syndicated loan business, they offer a way to hedge credit risks synthetically.

Designed like a “mutual insurance association”, participating Savings Banks contribute their hedging needs for the entire credit business relationships with larger customers to a basket twice a year and at the same time participate in the resulting diversified portfolio.

To date, a good 40 percent of all Savings Banks have participated in at least one of the Savings Bank credit baskets, mutually hedging a total of almost EUR 7.7 billion. Here, too, the basic principle applies that the customer relationship remains with the lending Savings Bank, but at the same time it gains more leeway in the lending business with its existing customers and with new customers. In this way, the risk situation in the lending business can be managed in a targeted manner.

Managing market price risks
The starting point for market price risk management is the recording of the assets invested in this segment. The sum of these asset positions is subject to market price fluctuations, which can lead either to asset increases or asset decreases. The institutions of the Savings Banks Finance Group are supported by the DSGV, SR and the regional associations both in terms of the methodology for quantifying market price risks and optimising assets, as well as the technical implementation in dealing with these risks. SR has offered the Savings Banks standardised parameters for quantifying interest rate, spread, equity and foreign currency risk since the end of 2017 and is consistently working on further improving methods for market price risk management.

A significant market price risk is the interest rate risk. This is presented in the Savings Banks Finance Group as value-at-risk (VaR) using the standard procedure of modern historical simulation. In this procedure, risks are directly related to possible earnings expectations.

For the management of interest rate risks, the institutions have instruments at their disposal which enable them to generate concrete control measures, taking into account the risk-bearing capacity required by supervisory law, the regulatory outlier criterion as well as internal economic and balance sheet limits. The continuous use of these procedures broadens the decision-making basis of the institutions, making it easier to derive effective measures for controlling the interest rate risk.

The management of interest rate risks continued to be very important for the Savings Banks Finance Group in 2022 with the rapid and strong rise in interest rates, as

- the capital invested in the interest business accounts for a significant and strategic share of the total capital allocation in most institutions of the Savings Banks Finance Group,
- the intense competitive situation only allows low margins and results from own investments contribute to the stability of the overall earnings situation,
- member institutions will have to prepare themselves for a further rise in interest rates,
- new refinancing structures require the separation of refinancing and interest rate risk management,
- in the case of debt instruments, credit spreads and interest rate risks are linked more closely than before, and
- the supervisory authority focuses on interest rate risk, monitors it using standardised parameters and derives capital requirements on the basis of these parameters. Examples of this are the so-called SREP surcharge for interest rate risks and the determination of the capital recommendation from data of the LSI stress test.

The potential provided by interest rate risk management has been used across the board for years. Almost all Savings Banks have the necessary procedures and the associated technology. More than two thirds of the Savings Banks regularly report their interest rate risk to the DSGV on this basis.

Analysis of the Savings Banks' interest rate risks for 2022 show that the measures for managing interest rate risks are consciously adjusted to the current interest rate development. The Savings Banks continued to generate solid earnings contributions in 2022, keeping net interest income largely stable. At the same time, the different risk appetites and interest rate expectations within the Savings Banks Finance Group ensure a very high level of diversification within the interest rate investments across the entire Group.

Managing liquidity risk

Liquidity risk is defined as insolvency risk and refinancing cost risk. The market liquidity risk is taken into account for both types. This is the risk that financial securities cannot be traded at a certain time and/or at fair prices due to market disruptions or insufficient market depth. Market liquidity risk focuses on the liquidity value of securities and the available refinancing capacity on the market.

Compliance with the European liquidity coverage ratio (LCR) has been mandatory since 1 January 2018, with a regulatory minimum ratio of 100%. This requirement was more than adequately met by the Savings Banks. The simulation and planning options for the LCR have improved steadily in recent years thanks to the "LCR controller"[1] and they enable all Savings Banks to fine-tune the operational management of this short-term ratio.

[1] Software for Savings Banks in the "caballito" portal.

Based on the EU banking package adopted in April 2019, the structural liquidity ratio Net Stable Funding Ratio (NSFR) with the regulatory minimum ratio of 100 percent must also be complied with as of 28 June 2021. The ratio shows the "required" and "available" refinancing funds over a one-year period. In particular, the stable customer deposits of the Savings Banks enable more than sufficient compliance with the ratio across the entire Savings Banks Finance Group. The NSFR also exists in a "simplified" version. The application of the "simplified NSFR" was omitted due to the efficient central implementation of the NSFR reporting system by Finanz Informatik.

The focus of the institutions and associations of the Savings Banks Finance Group is generally on a permanent improvement of qualitative and quantitative liquidity risk management. A major innovation in the technical basis for this is the uniform group software "SVP calculator" and an associated "standard parameterisation". The analysis options of the extensive liquidity reporting system (besides LCR and NSFR, this includes additional liquidity ratios of AMM[1]) were further expanded in 2022. The small-scale data supply of the data centre enables the Savings Banks to analyse their liquidity flows down to any level of detail. Centrally developed key figures, such as the survival period (SVP), make risk management comparable and accessible to the management level for interpretation.

Since 2019, the institution-specific process for identifying, measuring, managing and monitoring all liquidity risks (ILAAP) has been further refined. From 2020 onwards, the institutions of the Savings Banks Finance Group have increasingly used the targeted, longer-term refinancing instruments of the Eurosystem as part of their refinancing mix. In order to curb inflation in the euro area, the ECB partially adjusted the framework conditions of these targeted, longer-term refinancing instruments in the fourth quarter of 2022. These developments were taken into account in the Savings Banks' liquidity risk management.

Managing operational risks

Their sustainable business orientation obliges the institutions of the Savings Banks Finance Group to regularly deal with impending risks and their professional prevention. This is the only way to secure existing values in the future.

Operational risks are ubiquitous and yet not always easily identifiable. A more detailed explanation of the classification of operational risks is provided by Article 4 (52) CRR, according to which losses that may occur as a result of the inadequacy or failure of internal procedures, staff, internal infrastructure or as a result of external influences (including legal risks) may endanger an institution.

Furthermore, according to AT 2.2 of MaRisk, operational risks should be taken into account as "material risks", and thus the Savings Bank must maintain a corresponding risk coverage potential for this, which is usually determined using the basic indicator approach. For business management, it uses the "loss database", "OpRisk estimation procedure" and / or "OpRisk scenarios" procedures offered by SR. In the loss event database, loss events that have occurred are systematically recorded and evaluated. In the "OpRisk scenarios", possible operational risks and their loss potential are assessed ex ante and preventative measures are determined.

In addition to the procedures for managing operational risks, the OpRisk estimation procedure is available to the Savings Banks as a standardised instrument both for estimating operational risks for the periodic risk-bearing capacity and for calculating the economic perspective. In addition to the institutions' own loss events, loss events from the nationwide OpRisk data pool are also taken into account.

[1] Additional Monitoring Metrics for liquidity reporting.

The Savings Banks deliver their data annually to a nationwide data pool, which also gives them access to loss event data and risk scenarios of other institutions. The mutual exchange of this information helps to avoid losses and limit operational risks. The collected pool data can be considered representative due to the homogeneous business model of the Savings Banks.

The procedures provided (loss database, OpRisk estimation procedure, OpRisk scenarios and risk inventory) support the institutions in fulfilling MaRisk.

Managing ESG risk

The transformation to a sustainable economy continues to be the focus of politics, society and supervision. The ESG risks associated with this change are increasingly finding their way into the supervisory requirements for risk management. For example, the 7th MaRisk amendment published in June 2023 integrated the non-binding BaFin information on dealing with sustainability risks published in December 2019.

ESG risks are not a separate type of risk, but act as risk drivers on the classic financial risks of credit institutions such as counterparty or market price risks. When analysing the effect of ESG risks on the institutions, however, a significantly longer period of time has to be applied than has been usual in risk management date. The Savings Banks are therefore adding a strategic perspective to their risk inventory to ensure a proper analysis of the impact of ESG risks on their risk profile.

Integration into risk management is hierarchically structured on a strategic, tactical and operational level.

→ At a strategic level, the ESG risk profile is managed through an appropriate business model and suitable business strategy positioning on sustainability. In accordance with the business strategy, this is taken into account within the framework of the risk strategy and when defining the risk appetite and deriving specific management measures.

→ At a tactical level (structuring of transactions), transactions should be appropriately structured in regards to sustainability (e.g. through maturity, pricing, contract design) in order to manage the ESG risks associated with the transactions adequately.

→ At an operational level (economic and normative risk-bearing capacity), tried and tested statistical models and scenario techniques are used for risk measurement and capital planning, management is based on limits and the results of the risk inventory process, and capital is made available for ESG risks. The appropriate consideration of ESG risks is ensured by means of model and parameter validation and, if necessary, suitable scenario analyses.

Scenario analyses play a central role in the assessment of ESG risks at all levels of bank management. To address the challenges associated with the issue of ESG risks and to ensure conformity with other supervisory requirements related to sustainability, the DSGV initiated a central project back in July 2021.

Another focus of the MaRisk amendment is on the integration of EBA guidelines on lending and monitoring, which, among other things, require ESG risks to be taken into account in lending processes. For this purpose, the institutions already use the S-ESG score (developed by S-Rating und Risikosysteme [SR] and DSGV-Branchendienst). The S-ESG score uses ten indicators (e.g. CO_2 emissions and water use) to assess the extent to which business customers are exposed to sustainability factors at industry level. The industry values provided can be adapted by the institutions to the individual situation of the business customer.

Safeguarding the institutions through the Savings Banks Finance Group's institution protection scheme

The institution protection scheme of the Savings Banks Finance Group protects customer deposits at the 355* independent Savings Banks, the Landesbanken, DekaBank and the Landesbausparkassen. In addition, the following institutions are also affiliated to the Landesbanken sub-fund: Berlin Hyp AG, Frankfurter Bankgesellschaft, Landesbank Berlin Holding AG, Portigon AG, S-Kreditpartner GmbH, Sparkassen Broker AG & Co. KG and Weberbank AG.

The guarantee scheme of the Savings Banks Finance Group is designed as an institutional protection system. The primary objective of the protection scheme is to avoid a compensation case and to protect the member institutions themselves and, in particular, to guarantee their liquidity and solvency (institutional protection). In this way, the business relationships of the member institutions with their customers can be continued as contractually agreed. Within the framework of the legal requirements, the voluntary institution protection scheme therefore averts any imminent or existing economic difficulties. In addition, the institution protection scheme of the Savings Banks Finance Group is officially recognised as a deposit protection system in accordance with the German Deposit Protection Act (Einlagensicherungsgesetz – EinSiG). Under the statutory deposit guarantee scheme, the customer has a legal claim through the guarantee scheme for reimbursement of deposits up to EUR 100,000. This is stipulated in Germany's Deposit Guarantee Act.

The institution protection scheme of the Savings Banks Finance Group consists of 13 sub-funds: eleven sub-funds of the regional Savings Banks Associations, the sub-fund of the Landesbanken and Girozentralen and the sub-fund of the Landesbausparkassen.

The protection scheme has proven its worth for more than five decades. Since its foundation in 1973, no customer has ever lost their deposits or the interest due on them. Depositors have never had to be compensated. No member institution has ever become insolvent.

Financial market participants recognise the safeguarding effect of the institution protection scheme. Three international rating agencies – Moody's Investors Service, Fitch Ratings and DBRS Morningstar – explicitly base their very good ratings for Savings Banks, Landesbanken and Landesbausparkassen on the protection scheme.

Risk monitoring of the Savings Banks Finance Group's institution protection scheme

The sub-funds have an early-warning system for the identification of potential risks which permits countermeasures to be initiated rapidly. This risk monitoring is based on quantitative and qualitative parameters.

In addition to uniform key figures, qualitative reports are included in the assessment of an institution. Based on this information, the member institutions are classified into one of four monitoring levels.

The sub-funds carry out risk monitoring on the basis of uniform principles. Monitoring committees monitor the risk situation of their member institutions, request additional information from them if necessary and take countermeasures if required.

The individual sub-funds report regularly to a central transparency committee at the DSGV. This committee monitors the overall risk situation of the institution protection scheme and ensures transparency within the system.

* As of 1 July 2023

Scope for action by the sub-funds
The sub-funds have rights of information and intervention enshrined in the Articles of Association.

In addition to general rights, such as the right to audit all institutions at any time, there are additional rights to information and intervention that are derived from the results of the risk monitoring.

Institutions with no special risk exposure are obliged to provide all information necessary for risk monitoring and must report on the occurrence of extraordinary events within the scope of due diligence obligations. If the risk situation deteriorates, the sub-fund will decide on countermeasures. Institutions in an extraordinary risk situation are required by the sub-fund to submit a restructuring concept and to initiate suitable measures in regard to material or personnel.

In the case of support for an institution, the sub-funds of the protection scheme have a comprehensive catalogue of measures at their disposal. As a rule, support is linked to conditions via a restructuring agreement; for example, benefits are repaid as soon as the economic situation of the supported institution has improved. This can also lead to a merger with another institution. The decision-making bodies are given a great deal of flexibility in responding to the special circumstances of each individual support case.

The individual sub-funds of the institution protection scheme are interlinked.

A total of eleven Savings Bank sub-funds are managed by the regional Savings Bank associations. They are interlinked by a supra-regional compensation mechanism. This mechanism is used whenever the resources required to settle a support case exceed the region’s available fund resources. All other Savings Bank sub-funds then jointly participate in any measure necessary to support an institution. In this way, all eleven regional Savings Bank sub-funds are interconnected.

There are independent sub-funds for the Landesbanken and Girozentralen as well as the Landesbausparkassen:

→ the Landesbanken sub-funds and

→ the LBS sub-funds.

If necessary, all of these sub-funds work together within the system-wide compensation mechanism, which encompasses:

→ all Savings Banks sub-funds,

→ the Landesbank sub-funds and

→ of the LBS sub-funds.

This applies in the event that the resources necessary to settle a support case exceed those of the sub-funds concerned. Due to the system-wide compensation mechanism, the combined resources of these sub-funds are available in a crisis to support measures to protect the institution.

The sub-funds that make up the institution protection scheme have at their disposal the resources and power they need to identify and resolve financial problem situations confronting their member institutions at an early stage. The aim of each sub-fund is to restore the sustainable competitiveness of the member institution concerned.

Assessing risk-based contributions to the institution protection scheme of the Savings Banks Finance Group

Contributions to the institution protection scheme of the Savings Banks Finance Group reflect not only the size and scope of business but also the individual risk-bearing capacity of an institution. The amount of the contributions of the member institutions is assessed in accordance with the regulatory requirements according to risk parameters defined by the supervisory authorities. The contributions of member institutions increase with its business volume and the regulatory risk parameters. This creates incentives for risk-conscious behaviour and thus for ensuring the solidity of the member institutions.

The law requires that the institution protection scheme continues to build up its financial resources until 2024. The statutory target is 0.8 percent of the covered deposits of the protection scheme's member institutions. As a considerable part of the required funds has already been contributed from existing assets, the institution protection scheme of the Savings Banks Finance Group has always had a solid financial base.

Provision of funds to protect the institutions

Sequence of contributions to support a Savings Bank

Cash and additional contributions from the affected Savings Bank sub-fund

Cash and additional contributions of the other Savings Bank sub-funds (supraregional compensation)

Sub-funds of the Landesbanken and Landesbausparkassen (system-wide compensation)

Sequence of contributions to support a Landesbank

Cash and additional contributions from the Landesbanken sub-fund

Sub-funds of the Landesbanken and Landesbausparkassen (system-wide compensation)

The sequence of contributions to support a Landesbausparkasse is analogous.

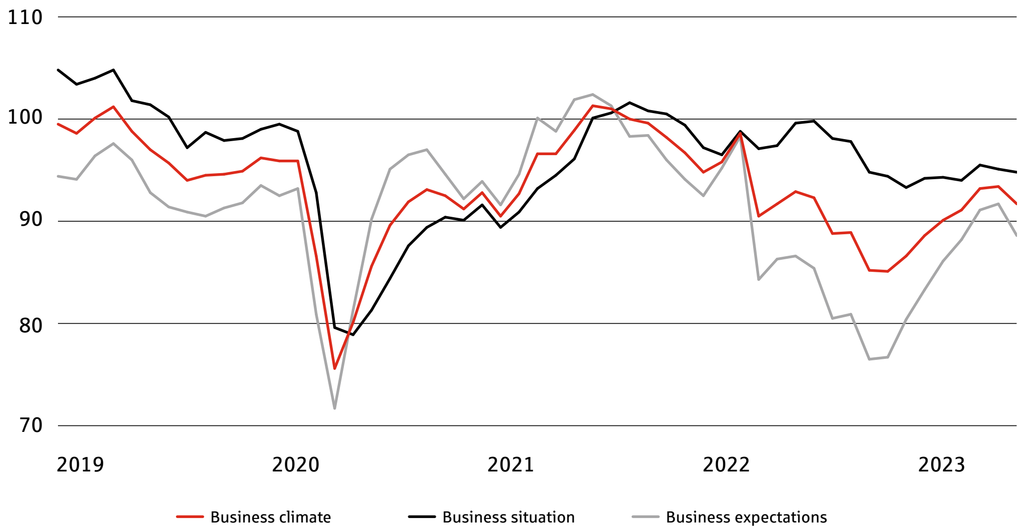
Forecast report

Economic conditions in 2023

At the turn of the year 2022 / 2023, many load factors have eased. The mild winter weather also meant that the feared gas shortage did not materialise. Commodity prices fell significantly from their 2022 highs by spring 2023. Germany slipped into recession at the end of 2022 and beginning of 2023. Although this was not as severe as feared in autumn 2022, the starting base for 2023 has already been significantly impacted, making a positive growth figure for the year as a whole difficult to achieve.

Sentiment indicators recovered from their deep slumps of 2022 by spring 2023, but have since dropped again.

The Ifo Business Climate for Trade and Industry



Source: ifo Institute

Most forecasts, such as the joint diagnosis of the research institutes, the German Council of Economic Experts, the German Bundesbank and the federal government itself, assume that growth momentum will initially remain subdued and only gradually pick up over the course of the year. The average growth rate for the year is likely to remain close to zero. Relevant forecasts do not predict growth at or slightly above the potential rate until 2024. For the time being, the burdens from high price pressure and the braking effect of the interest rate reversal remain too great.

The global economy is also providing only very limited tailwind in 2023. Growth rates in most industrialised countries are likely to be weaker than in the previous year. This also applies to the USA, which could even fall into recession in the second half of 2023. In America, both fiscal and monetary policy are now having a restrictive effect. The IMF expects world trade to be even weaker than the subdued production growth in 2023. The impetus for European and German exports remains limited in this environment.

However, the German labour market remains very robust even in a phase of economic weakness. In many sectors it is in fact overheating. In view of the prevailing shortages and the backlog of demand from the previous year in a price-adjusted terms, significantly higher wage growth can be expected in 2023. This is also indicated by the wage settlements that have already been reached. Although wage increases stabilise purchasing power, they also harbour the risk of renewed price-increasing impulses.

The price dynamics have already changed qualitatively. The headline rates for the entire basket of goods are declining due to base effects, but also due to the actual decline in commodity and energy prices, which were still responsible for the strong increase in 2022. On the other hand, the upward price trend is now extending to many services. “Core rates” could be as high or even higher than the overall rates in 2023 if energy and food prices are excluded.

This gives monetary policy further cause for vigilance and allows it to pursue its interest rate reversal and quantitative normalisation. The ECB will proceed cautiously in this as initial financial market turbulence has shown that individual credit institutions with special business models in the international arena have proved vulnerable. Interest rate increases up to a rate of 3.5 percent on the deposit facility have already been implemented in the first months of 2023. Further steps could follow in the course of the year, albeit probably at a slower pace.

Business performance of the Savings Banks

In the first months of 2023, the Savings Banks recorded a far lower level of new lending business with companies and self-employed persons than in the previous year. In the case of private individuals, significantly fewer loans were approved in the first months than in the same period of the previous years. The rise in interest rates and the associated increase in the cost of loans – in conjunction with further increases in construction costs – have slowed down the granting of private and commercial housing loans quite considerably.

In the deposit sector, there have been further structural shifts towards time deposits and own issues as a result of interest rates. Demand and savings deposits have also decreased, as the ability to save has declined overall due to inflation-driven high costs of living. In the customer securities business, turnover in the first months of 2023 did not quite reach the high level of the previous year; net sales (purchases minus sales), on the other hand, were once again significantly above the strong previous year’s figure.

The Ukraine war and the accompanying sanctions imposed by the international community are still causing supply chain problems and raw material / energy shortages in Europe. In addition, high energy prices, the continuing rise in interest rates, production problems and the resulting uncertainty are slowing down economic momentum. Inflation rates are only falling with a time delay and are not expected to reach inflation targets again in 2023.

Therefore, we currently assume that the ECB will continue to tighten the reins in 2023 and only pause for a longer period after that due to increasing recession concerns. As a result, the inverse interest rate structure between money market and long-term capital market rates will remain in place in 2023.

For the year as a whole, we anticipate very weak growth in total assets accompanied by a sharp increase in net interest income, a noticeable rise in commissions and a marked increase in personnel and operating expenses.

The overall valuation result is expected to be around the previous year's level. We expect valuation gains in the securities business from recoveries (maturities) of the record write-downs in 2022, which will more than compensate for new write-downs from the expected further rise in market interest rates. Loan loss provisions are increasing at a low level. Corporate customers are proving to be very resilient due to their good equity base and high flexibility, even though insolvency figures are rising significantly, especially in certain sectors such as the construction industry and trade. Private customers, on the other hand, are partly shielded from high inflation by extensive government support measures – including the energy price brake – so only a slight increase in the number of loan defaults in the private sector can probably be expected. In this context, it will presumably be possible to make an encouragingly significant allocation to contingency reserves to strengthen capital.

Business performance of the Landesbanken

2023 will be another challenging year for the Landesbanken. Thanks to their long-term business policy, the institutions continue to have good opportunities to maintain their market position.

The strengths of the Landesbanken remain their many years of expertise, their established customer relationships, their roots in the regions – while maintaining an international presence – and their close integration into the Savings Banks Finance Group.

The Landesbank group holds significant market positions in key loan and deposit categories: In corporate lending[1], their market share at the end of March 2023 was 12.0 percent and in corporate deposits 14.8 percent. In domestic public sector lending, they have a 27.5 percent share of the total market volume, and a 21.8 percent share of deposits. In the first quarter of 2023, the aggregate balance sheet total of the institutions shows similar growth compared with the corresponding quarter of the previous year. Customer lending, especially corporate lending, will continue to expand. So far, it is developing somewhat more dynamically than in the corresponding period of the previous year. On the deposit side, customer deposits continue to increase, especially from public households.

The environment for the German banking industry will remain difficult in 2023. On the one hand, long-standing framework parameters such as the complex regulatory requirements and the intense competition in the market remain as well as future topics such as sustainability and digitalisation. On the other hand, the risks for global economic development have increased significantly since the outbreak of the war in Ukraine: changing supply chains, high energy prices, the associated surge in inflation and the sharp rise in interest rates are slowing economic momentum. As a result, falling real incomes of consumers are reducing spending, and for companies the economic uncertainty and increased interest rates are leading to a reduced willingness to invest or to the postponement of financing.

Thus, for the banking industry the year will be characterised firstly by relief provided by the rising interest rate level, and secondly by inflation-related cost pressure and a possibly need for higher risk provisioning if the economic slowdown continues. Increased loan defaults in individual sectors can therefore not be ruled out. Although this could have a negative impact on the earnings situation of the institutions, the Landesbanken have a solid equity and liquidity base with a balanced risk profile.

[1] Investment loans excluding commercial housing.

Ongoing digitalisation has led to a change in customer behaviour and a profound transformation in banking business, which was accelerated during the Corona pandemic. In addition, new competitors are driving the digitalisation push. Therefore, business models have to be adapted continually and corresponding investments have to be made, especially in a modern, powerful and efficient IT infrastructure. The institutions' digitalisation initiatives range from customer interface to internal processes. With various cost-cutting measures and transformation programmes, the Landesbanken are continuously working on strengthening their competitiveness.

In addition to digitalisation, sustainability is a central issue for the Landesbanken, from which strategic sustainability targets can be derived. The Landesbanken will continue to expand the range of sustainable investment and financing options for their customers, as well as the advisory services for financing with sustainability components. Corporate customers will receive increased support in their transformation towards sustainable business models. At an institution level, Landesbanken will make their business operations more resource-efficient and steadily increase the share of ESG-compliant products in their portfolios. To reflect their holistic approach, not only environmental aspects will be taken into account, but also social and corporate governance. The introduction of European sustainability reporting standards will make the achievement of sustainability targets measurable and verifiable within sustainability reporting in the future.

S-Group business with the Savings Banks offers an excellent opportunity to counter the pressure on profitability on both sides. Within the Group, the aim is to further expand offers, create targeted product and service initiatives and support Savings Bank business through digital applications or even platforms. In this way, the business potential of the Savings Banks can be further exploited and efficiency increased. Joint financing of larger companies and support in foreign business serve the export-oriented corporate customers of the Savings Banks.

The bundling of competences within the Landesbank group is another way in which this division of tasks can make the Savings Banks Finance Group more efficient and increase the competitiveness of the institutions.

Overall, the trust-based cooperation with private and corporate customers, the Savings Banks and the public sector will be continued successfully in 2023. The aim is to meet challenges flexibly and promptly by further developing business models and responding to new customer needs. The Group's strength will be deployed to actively accompany the transformation towards a more sustainable economy.

Business performance of the Landesbausparkassen

Due to the sharp rise in capital market interest rates, demand for long-term interest rate security in construction financing is expected to grow. This is likely to be reflected both in the number of new home loan and savings contracts concluded and in the take-up of low-interest loans in the contract portfolio.

In addition, despite the difficult framework conditions for home ownership, the financing business of the Landesbausparkassen will be supported by the growing demand for energy-efficient building modernisation.

Building equity with home savings will receive additional impetus from the noticeable improvement in the housing construction bonus since the 2021 savings year.

Management outlook

2022 was a successful year for the Savings Banks Finance Group. The Savings Banks have demonstrated the viability and resilience of their business model under difficult conditions.

For example, it has been possible to mitigate the consequences of the Russian war of aggression against Ukraine for our customers. The Savings Banks have supported local people and businesses in dealing with sharp price increases and shortages in energy, raw materials and consumer goods, in investing in energy efficiency in machinery and buildings, and in putting something aside for the future despite rapid monetary depreciation.

These achievements are reflected in stable consumer lending business – and in impressive net securities sales of EUR 29 billion, the number of current accounts, which now exceeds 40 million, as well as in a high level of customer satisfaction, which is ultimately our key performance indicator.

With their contributions, the Savings Banks have fulfilled their basic mission. After all, the mostly municipally anchored institutions were founded more than 200 years ago to make it easier for as many people and companies as possible to participate in economic life, especially in difficult times. In doing so, they also ensure social participation – and contribute to social stability.

The Savings Banks can also offer stability because of the particular resilience of their business model. The institutions have demonstrated this in the wake of the ECB's interest rate reversal. In view of the historically unprecedented rise in interest rates, temporary write-downs on fixed-interest securities are unavoidable in the banking industry. In our Group, they amount to EUR 7.8 billion. The Savings Banks can withstand this thanks to the solidity and risk diversification inherent in their business model.

Our Group is succeeding in buffering the hardships of the interest rate reversal for customers with long-term financing. Just as the Savings Banks did not fully pass on negative interest rates to their customers in previous years.

Thanks to their solidity and good business results, the Savings Banks are also well equipped to support people, companies and their responsible public bodies in the upcoming major transformation processes.

The institutions in our Group are already involved in municipal projects in the field of renewable energies and the digitalisation of public administration. They support people in sustainable building and renovation. They accompany small and medium-sized businesses in decarbonisation, digitalisation and the reorganisation of supply chains.

Major investments are still needed in all these areas. And the Savings Banks and associated companies are willing and able to make considerable contributions to this.

For this to happen, the framework conditions must be right. Policymakers and regulators should support local banks in accompanying SMEs on their way from “brown” to “green” when they grant loans as the most important form of financing for SMEs and when they pave the way for their customers to invest in securities.

On the other hand, it would not make sense to impose new capital or liquidity regulations as a result of the recent turbulence in the USA or Switzerland. For one thing, strict rules have long applied in the euro area. For another, no regulation in the world can replace or enforce confidence.

Every institution must earn its trust in the market. Therefore, it would also not make sense to centralise deposit insurance across Europe. Instead, policy should aim to strengthen entrepreneurial responsibility and the unity of risk and liability. Then the Savings Banks can and will continue to make their contribution to a resilient economy and thus to social cohesion.

Supplementary report

The Savings Banks Finance Group has worked diligently to remedy the seven findings of the banking supervisory authority on its institution-based protection system and has now defined the future regulations. These were approved at the general meeting on 26 June 2023 so that they can be sent to the supervisory authority as agreed by the stipulated deadline of 30 June 2023. The new regulations are scheduled to come into force on 1 January 2024 following resolution of the committee reservations and approval by the relevant authorities.

The reorganisation is designed to maintain the proven regional orientation while meeting the current and foreseeable regulatory requirements. Of particular economic relevance is the establishment of a supplementary fund of 0.5 percent of the total risk position. According to current figures, a volume of around EUR 5.6 billion is to be built up over eight years, starting in 2025.