4. MANAGEMENT REPORT

Economic Report

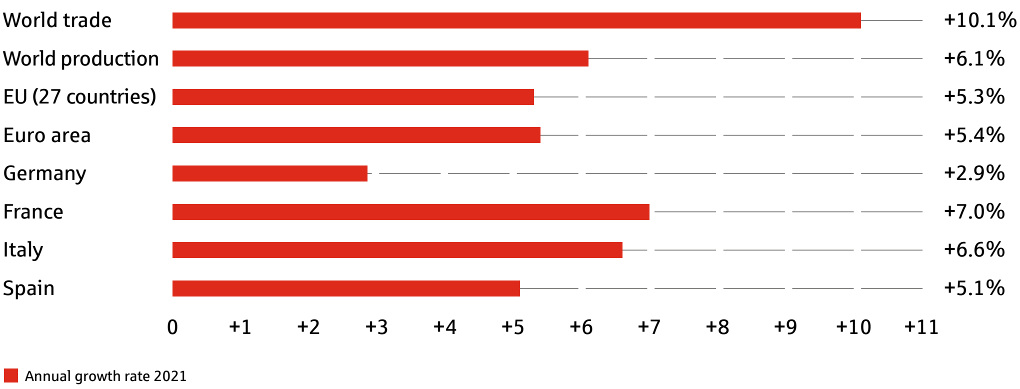
Macroeconomic situation

In 2021, the Corona pandemic dominated economic events worldwide and also in Germany for the second year in succession. However, compared with the particularly sharp declines in production in spring 2020, almost all countries showed significant recovery in 2021. Global production rose by 6.1 percent in 2021, and global trade volume recovered by as much as 10.1 percent (both figures based on the International Monetary Fund's definition and measurement).

The euro zone was able to increase its real GDP by 5.4 percent. In Germany, by contrast, growth averaged only 2.9 percent for the year. Part of the difference in growth can be explained as a counter-movement resulting from the extent of the slumps suffered previously. In 2020, they were more pronounced in countries with a large share of the tourism sector, for example. Both Italy and Spain, and also France, demonstrated this profile with disproportionate GDP declines in 2020 but a more dynamic recovery in 2021.

In addition, a second explanatory factor for Germany's relative weakness in recovery was the onset of various supply bottlenecks from summer 2021 onwards. The pandemic had shaken many value chains and the speed of the subsequent global recovery had been underestimated in some quarters. As a result, production capacities for many key primary products had not been maintained or created. Transport capacities were also lacking. These bottlenecks mainly affected industry. Germany has a particularly high value-added weight in this sector due to its international relationships.

GDP growth in selected countries [1]



[1] Actual data for European countries from official statistics. Source: Eurostat, data as at 25 April 2022, world trade and world production according to International Monetary Fund: World Economic Outlook from 19 April 2022, German GDP according to official audit from 22 April 2022.

The course of production during the year followed the events of the pandemic in 2021. In Germany, the first quarter was negatively affected by the second and – if counted as a separate phase – the third wave of infection. From autumn 2021, the country was then affected by the delta variant and at the very end of the year the omicron wave emerged. The opening and closing quarters brought GDP declines. The two middle quarters, on the other hand, supported growth and generated the positive full-year average.

In the breakdown of GDP by use, growth in 2021 was mainly driven by a recovery in exports and investment in equipment. Private consumption, by contrast, remained almost unchanged on an annual average price-adjusted basis compared with 2020, reflecting once again the closures and limited consumption opportunities, especially at the beginning and end of the year.

Government consumption, however, continued to have a strong supporting effect in 2021. The government spending-to-GDP ratio in Germany reached an all-time high of 51.5 percent. This was accompanied by an increased government financing deficit. The balance for the country as a whole, as defined in the national accounts, amounted to a deficit of over EUR 132.5 billion, which corresponded to around 3.7 percent of annual GDP. The deficit was almost exclusively incurred by the federal government, while the other regional authorities and the social security funds achieved balanced or surplus balances, thanks in part to compensation from the federal government. At the end of 2021, the German state as a whole had reached a debt level of EUR 2,476 billion. That is 69.3 percent of GDP.[1]

The labour market proved to be fairly robust in 2021. Despite the continuing burdens of the pandemic, employment increased slightly in terms of the number of people in work and even strongly in terms of the number of hours worked. The reduction in short-time working, which had been used to a much greater extent in the previous year, contributed significantly to this. The average unemployment rate for the year as defined by the German Federal Employment Agency fell by two per thousand points to 5.7 percent.

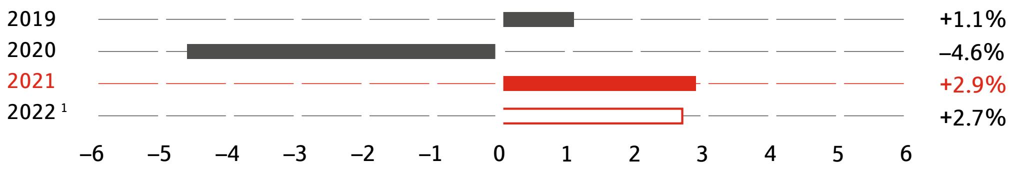
In general, there was a change in the cyclical character of the economy in the course of 2021. Whereas in 2020 there were not only production shortfalls but also a sharp drop in demand, in 2021 the demand side was no longer the bottleneck in the economy as a whole. On the contrary: Incoming orders in the manufacturing sector were quite good. For long stretches of 2021, it was not only above the previous year's level, but even higher than before the outbreak of the pandemic. However, orders could not be processed to the same extent due to the tense situation in the supply chains. Bottlenecks extended across an increasing number of categories of raw materials and intermediate products.

This situation has increasingly affected prices. Germany's import prices and the producer prices of industrial products already rose by double-digit percentages on average in 2021. In consumer prices, this development was only muted and delayed, but nevertheless already noticeable. The annual average inflation rate of 3.1 percent in the national definition of consumer prices underscores the momentum already seen towards the end of the year. In November and December, the annual rate of consumer prices exceeded the five percent mark both in the national definition and in the harmonised consumer price index (HICP)[2].

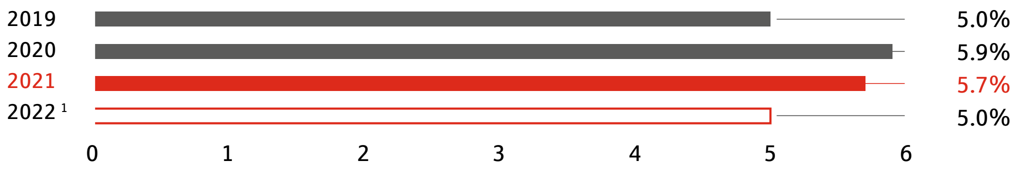
[1] All data on public finances according to Deutsche Bundesbank, Monthly Report April, as of 22.4.2022, values may still be subject to subsequent revision.
[2] The harmonised consumer price index is a consumer price index collected in the European Union by the national statistical offices and calculated by Eurostat in accordance with uniform EU-wide rules.

Economic development – review and outlook 2019 – 2022

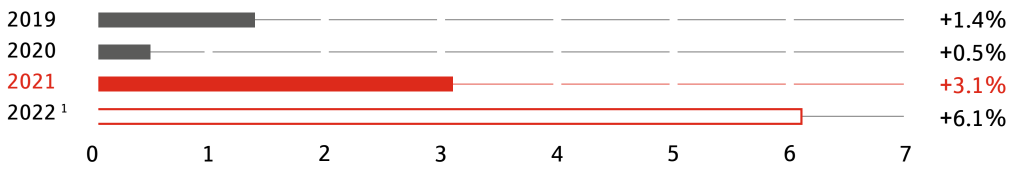
Growth of real gross domestic product (GDP) (Germany)



Unemployment rate of civilian labour force (Germany)



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



Actual data 2019 to 2021 from official statistics; Destatis and Federal Employment Agency.

[1] Forecasts for 2022 from the "Spring Report", joint diagnosis of the German economic research institutes from 13 April 2022.

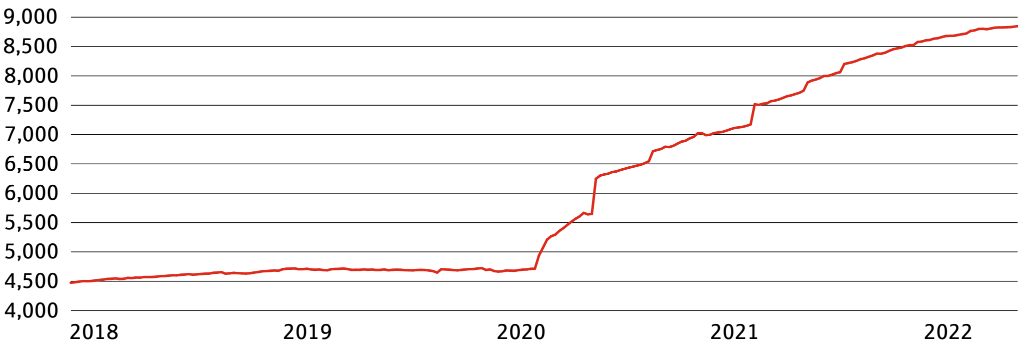
Developments on the money and capital markets

Despite the accelerating upward trend in prices, the European Central Bank maintained its extremely expansionary monetary policy in 2021. The reason given is that it considers the increased rates of price increases to be temporary and due to special effects. Other central banks, including the Federal Reserve, began to change course in 2021. The ECB, however, not only maintained the negative interest rate for its deposit facility, which acts as the key interest rate in the prevailing excess liquidity of central bank money.

In addition, the ECB continued its purchase programmes, including a baseload of net monthly purchases of EUR 20 billion under the general APP[1], but most importantly, with alternating higher amounts, the PEPP[2], which was intended to mitigate the effects of the pandemic. For the latter instrument, it was announced at the last Governing Council meeting of 2021 in December that net purchases under the PEPP should end in March 2022. In December, the last round of the TLTRO[3] III long-term tender with a maturity of three years was also disbursed.

As a result of this monetary policy, the consolidated balance sheet of the Eurosystem continued to expand strongly. It rose from just under EUR 7 trillion at the end of 2020 to a good EUR 8.5 trillion at the end of 2021, an increase of almost 23 percent.

Consolidated balance sheet total of the Eurosystem, in EUR billions

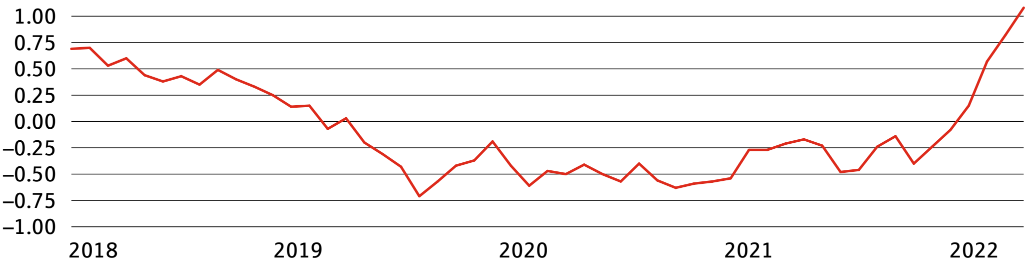


Source: European Central Bank

On the capital markets, the rise in inflation led to a degree of pricing in of price increases as premiums into interest rates as early as 2021. In addition, the expectation spread that the expansionary monetary policy of the major central banks could not be maintained for much longer. The turnaround in interest rates on the capital market was already quite clear in the US dollar in 2021. The yield on ten-year treasuries increased over the course of the year from a good one percent to around 1.5 percent. In the euro, the yield on ten-year German government bonds remained clearly in negative territory in 2021. However, it increased in the course of 2021 from around –0.6 percent at the beginning of the year to the order of –0.2 percent towards the end of the year.

[1] APP = Asset Purchase Programme.
[2] PEPP = Pandemic Emergency Purchase Programme.
[3] TLTRO = Targeted Longer-Term Refinancing Operations.

Current yield of German government bonds with 10-year residual maturity in %

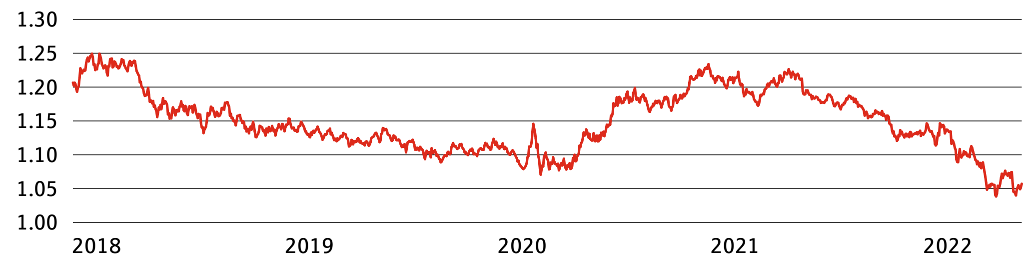


Source: European Central Bank

The stock markets developed positively in most industrialised countries in 2021. This was due to the economy's increasingly improved ability to cope with the pandemic. Although the latter had not yet been overcome, the economic damage was reduced. The earnings situation of most companies remained good. Cost burdens from the logistical bottlenecks could in most cases be passed on in prices. The markets were betting on a continued recovery of GDP. The DAX, which had stood at 13,718 points at the end of 2020, rose to 15,885 points by the end of 2021. This corresponds to an increase of 15.8 percent.

The situation on the foreign exchange markets remained fairly calm in 2021, apart from a few fluctuations in smaller currencies such as the Turkish lira, which were due to country-specific factors. However, there was some shift in the main bilateral exchange rate between the US dollar and the euro due to the widened interest rate differential, which tended to strengthen the US dollar. The rate shifted from 1.22 US dollars / euro at the beginning of 2021 to around 1.13 US dollars / euro towards the end of the year.

Exchange rate USD / EUR



Source: European Central Bank

Major markets and positioning

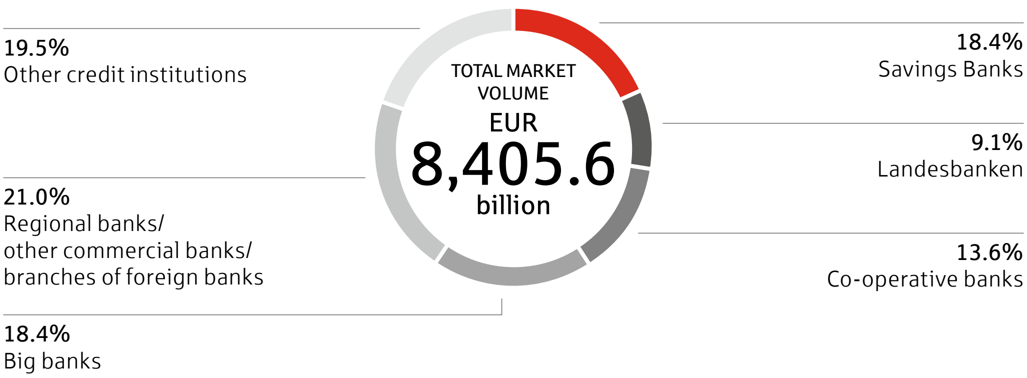
General overview

The institutions of the Savings Banks Finance Group[1] had a combined business volume[2] of EUR 2,312.1 billion at the end of 2021. This represents a 27.5 percent share of a total market volume of EUR 8,405.6 billion in Germany.

This means that the Savings Banks Finance Group's share of the on-balance sheet banking business of the German banking industry decreased by 0.5 percentage points compared with the previous year. The Savings Banks' business volume increased significantly by 5.9 percent, while that of the Landesbanken – in contrast to the previous year – decreased by 1.3 percent. The Savings Banks account for around 67 percent of the Savings Banks Finance Group's business volume, the Landesbanken for around 33 percent.

In a long-term comparison, the Savings Banks have consistently expanded their business volume through growing customer business. Since 2008, it has increased by around 45 percent at the Savings Banks. In the same period, the business volume of the Landesbanken has more than halved. This reflects the process of redimensioning in line with their strategy. Since 2017, the business volume of the Landesbanken has been growing again, demonstrating the further development of the business models. Irrespective of this, the development in 2021 was slightly downward.

Market share by business volume*
As at: 31.12.2021



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

The development of the German banking industry's customer business in the 2021 financial year was characterised by very high portfolio growth in corporate loans and private housing loans. In the year under review, inflows of deposits from private individuals and companies did not reach the extraordinary levels of the previous year due to the pandemic, and consumer loans declined again in the market as a whole.

In the customer lending business, the Savings Banks Finance Group recorded slight market share gains in corporate loans and marginal market share losses in private housing loans in the financial year 2021. In consumer lending, its shares remained stable in a shrinking market. In the deposit

[1] The use of "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 Bundesbank data, Hamburg Commercial Bank (formerly 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 repurchased own debt securities.

business with private customers, the Savings Banks Finance Group maintained its market position in 2021. Measured in terms of share in this business segment, it is thus clearly ahead of the other banking groups. The Savings Banks Finance Group's share of deposits from domestic companies increased significantly in the year under review.

Corporate lending business

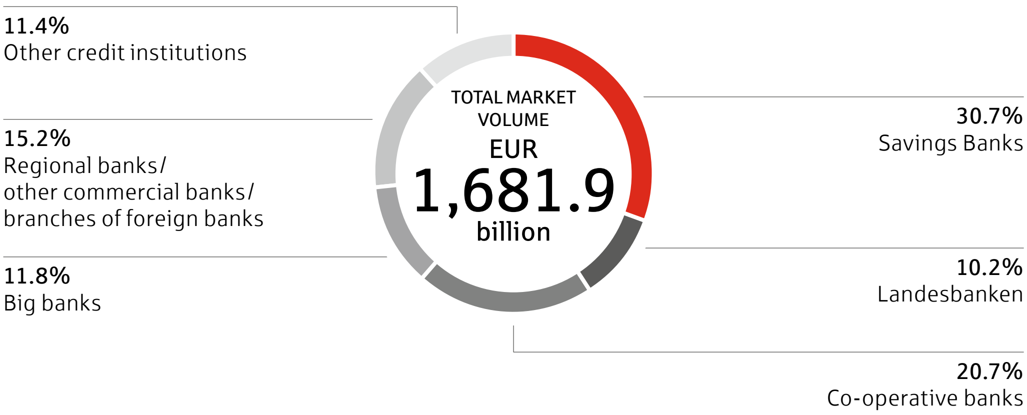
After an increase in the previous year of around EUR 58.3 billion or 3.8 percent, the total market volume of corporate loans increased somewhat more strongly again in the 2021 financial year, rising by EUR 76.3 billion or 4.8 percent to EUR 1,681.9 billion. Very dynamic development came from commercial housing construction in 2021.

With a portfolio increase of EUR 34.4 billion or 5.3 percent, the Savings Banks Finance Group recorded portfolio growth above the bank average and thus made slight gains in market share. The growth rates of the Savings Banks and Landesbanken were very similar in this segment: Savings Banks increased their portfolios by 5.4 percent (or EUR 26.3 billion) while the Landesbanken increased theirs by 5.2 percent (or EUR 8.1 billion).

The volume of corporate loans issued by the Savings Banks Finance Group totaled EUR 687.5 billion at year-end 2021. This represents a market share of 40.9 percent, with 30.7 percentage points attributable to the Savings Banks and 10.2 percentage points to the Landesbanken.

This means that the Savings Banks Finance Group continued to be the most important financial partner within the German banking industry, especially for small and medium-sized enterprises, even during the pandemic. It is followed by a wide margin by the cooperative banks with 20.7 percent as well as the regional and other credit banks[1] with 15.2 percent and the big banks with 11.8 percent.

Market share of loans to enterprises*
As at: 31.12.2021



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

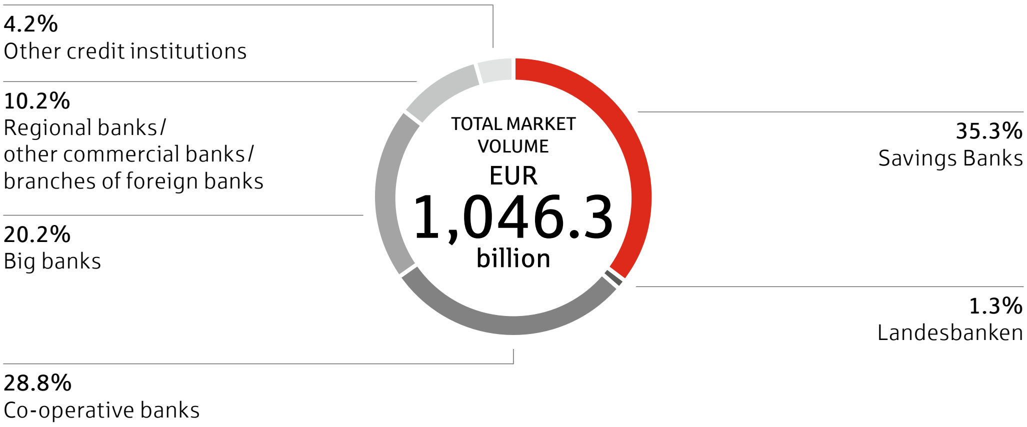
Loans to private customers

Since 2012, the demand for loans for private residential construction has picked up noticeably, mainly due to interest rates. As a result of this, the total market volume of private residential construction loans continued to increase significantly by EUR 69.0 billion or 7.1 percent to EUR 1,046.3 billion in the reporting year, again significantly stronger than in the previous year. The Savings Banks Finance Group achieved portfolio growth in 2021 that was only slightly below the market average. Its portfolio

[1] Incl. branches of foreign banks.

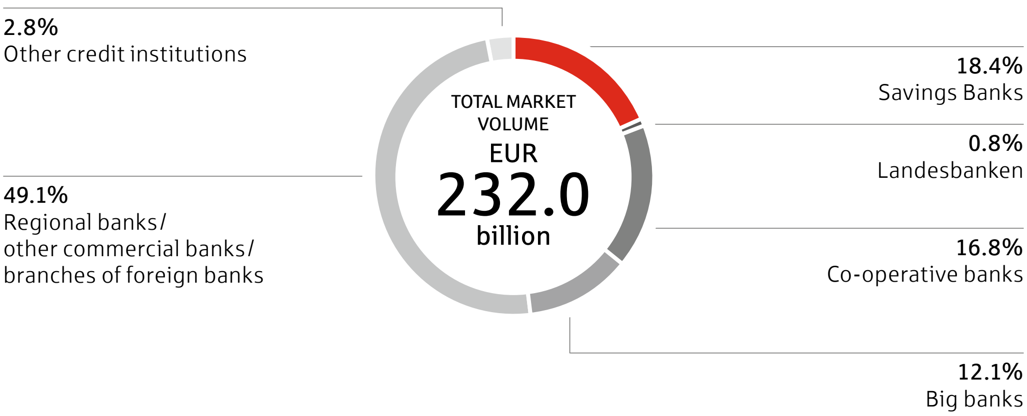
volume increased by EUR 24.9 billion to EUR 382.5 billion. The Savings Banks account for a 35.3 percent share of the total market. Together, the Savings Banks and Landesbanken have a market share of 36.6 percent. The second strongest group of institutions are the co-operative banks with a share of 28.8 percent, followed by the big banks with a share of 20.2 percent and the regional and other credit banks[1] with a share of 10.2 percent.

Market share of residential housing loans
As at: 31.12.2021



As in the previous year, the consumer loan business declined across all banking groups in 2021. The market volume decreased by EUR 1.9 billion or 0.8 percent to EUR 232.0 billion at the end of 2021. The institutions of the Savings Banks Finance Group recorded a portfolio decline of EUR 0.3 billion or 0.7 percent (previous year: –3.1 percent) and were able to keep their market share stable. With a portfolio volume of EUR 44.5 billion and a share of 19.2 percent, the Savings Banks Finance Group is clearly behind the banking group of regional and other credit banks[1] (share 49.1 percent), but remains in second place. The market is primarily dominated by regional/other credit banks, which include almost all specialised financiers. These have been able to further expand their share of consumer lending in 2021.

Market share of consumer loans
As at: 31.12.2021



[1] Incl. branches of foreign banks.

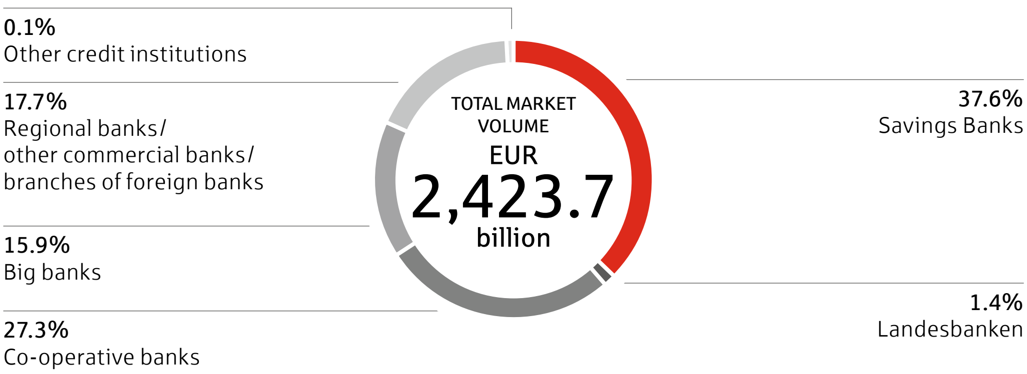
Deposits from private customers

The total market volume of deposits from private individuals[1] again increased appreciably last year by 3.4 percent to EUR 2,423.7 billion. The absolute growth of EUR 80.8 billion was at a high level, but well below the exceptional figure of the previous year (EUR 143.8 billion).

Within the individual investment categories, there were portfolio increases for the fifth time in a row in the year under review due to interest rates and the pandemic, exclusively in the case of demand deposits of private individuals, with demand deposits again recording a very strong increase of 5.5 percent, albeit not as high as in the previous year (10.8 percent). By contrast, as in previous years, outflows were recorded in the holdings of private time deposits as well as in the holdings of savings deposits and savings bonds. Developments in the Savings Banks Finance Group followed the general market trends.

In particular, the market segment of time deposits of private customers has been largely marginalised in Germany in recent years due to the interest rate developments.

Market share of deposits from private individuals*
As at: 31.12.2021



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

Overall, the development in 2021 clearly shows the continuing liquidity preference of private customers. On the one hand, this is due to the persistently low level of interest rates and also reflects the continued wait-and-see attitude of many private investors in their investment dispositions. On the other hand, the savings behaviour of consumers increased both due to the sometimes very severely restricted consumption options as a result of the Corona pandemic, and also the uncertain personal working and living situation that in some cases accompanied this.

The Savings Banks Finance Group achieved an increase of EUR 29.4 billion or 3.2 percent (previous year: +6.9 percent) in deposits from private individuals to EUR 946.1 billion in the reporting year 2021. The inflow of deposits was thus slightly below average, resulting in a slight decrease in market share. The Savings Banks Finance Group achieved a market share of 39.0 percent at the end of the year.

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

The Savings Banks Finance Group therefore remains the market leader in deposit business with private customers, ahead of the credit banks, which have a portfolio of EUR 813.6 billion and a market share of 33.6 percent. These include the regional/other commercial banks/branches of foreign banks with a share of 17.7 percent. This group of institutions, which includes all direct banks (including "automotive banks"), was able to improve its market position. Third place is held by the group of cooperative banks, which is also strongly anchored in the retail business. With a portfolio of EUR 661.3 billion at year end, this group accounted for 27.3 percent of total private deposits.

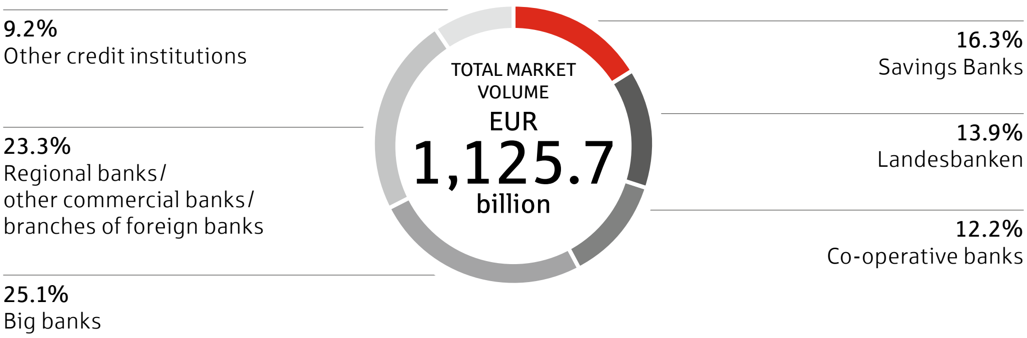
Deposits from domestic companies

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 1,125.7 billion at the end of 2021.

While deposits from domestic companies were still slightly down in 2018–2019, they recorded a very strong portfolio gain of EUR 84.5 billion or 8.4 percent, especially in 2020. In the 2021 financial year, the stock inflow of EUR 30.1 billion or 2.7 percent was no longer quite so strong. The increases are certainly due in part to the cautious disposition of companies during the pandemic. The trend was broadly similar for most bank groups. All banking groups, with the exception of the big banks and other credit institutions, were able to significantly increase their deposit holdings. The portfolio of corporate deposits held by the Savings Banks grew exceedingly strongly by EUR 17.4 billion or 10.5 percent in the year under review; with their market share now rising to 16.3 percent.

At the Landesbanken, the deposit portfolio held by domestic companies increased to EUR 156.0 billion at the end of 2021 (portfolio at the end of 2020: EUR 148.7 billion). The Landesbanken continue to have a strong market position in deposits from domestic companies, with a market share of 13.9 percent. Together with the Savings Banks, the Landesbanken will have a market share of 30.2 percent in this deposit segment at the end of 2021.

Market share of deposits from domestic enterprises
As at: 31.12.2021



Savings Banks are competent and reliable partners for the international business transactions of German entrepreneurs, especially in difficult times

Companies in Germany and around the world have learned to deal with the effects and restrictions of the Corona pandemic declared by the WHO[1]. In 2021, German exports increased by 14 percent compared to the previous year, reaching a new high of EUR 1,375.6 billion. This development was also reflected in the import business. Goods and services worth EUR 1,202.8 billion were imported in 2021. Compared to the previous year, this was an increase of +17.2 percent and also a new record. The export surplus, on the other hand, fell for the fifth year in succession and amounted to EUR 172.7 billion. This result was influenced by the fact that delivery of numerous goods and services had been delayed since the beginning of the pandemic. This was partially made up for in 2021. In addition, the high energy costs, especially for gas, contributed to the performance of imports. The most important global trading partners for Germany remain the USA and China. In the EU, the Netherlands and France are significant regions for German companies.

International business entails opportunities, but also risks. The Savings Banks Finance Group has been supporting small and medium-sized enterprises in their international business for many years. To this end, the Savings Banks bundle their know-how in “S-International” regional competence centres. This gives all entrepreneurs throughout Germany access to special expertise, extensive professional competence and valuable experience in dealing with special features of cross-border trade. In doing so, S-International uses 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 accompany the customer directly on site and during important discussions in German.

The Corona crisis and the war in Ukraine have exposed high levels of dependency on global suppliers and countries (e.g. Russia as an energy supplier or China as a tech supplier). German SMEs are called upon 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 companies in addition to sustainable transformation and digitalisation. Here, too, the Savings Banks Finance Group can provide support: EuropaService provides support in readjusting supply and sales relationships. Through its connection to the Enterprise Europe Network, it brings potential partners together. It also provides information on the business environment for trade and investment.

The Savings Banks Finance Group is gradually developing into the foreign trade manager of companies – 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 continuously 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.

[1] World Health Organisation.

Business performance and economic position

Development of the institutions affiliated to the Institution Protection Scheme[1] – an aggregated view

In its operating business, the Savings Banks Finance Group again reported an improved result in the 2021 financial year compared with the previous year.

The earnings situation of the Savings Banks Finance Group was relieved in the reporting year by a significantly lower valuation result compared with the previous year. In 2020, the valuation result[2] had risen sharply due to the effects of the Corona pandemic. Administrative expenses and net commission income again developed positively in the reporting year. Overall, this resulted in a gratifyingly higher annual result (before and after taxes).

↘ Further information on the business performance of the Savings Banks, Landesbanken and Landesbausparkassen can be found on pages 47, 54 and 58.

In operational terms, the Savings Banks Finance Group achieved an operating result before valuation of EUR 11.3 billion in 2021, which was higher than in the previous year (EUR 10.7 billion). Against the backdrop of slightly weaker net interest income, this growth is attributable to a significant improvement in net commission income and an increase in net trading income in the 2021 financial year. The net commission income of the Savings Banks Finance Group increased by 7.8 percent to EUR 10.5 billion. At EUR 26.7 billion, net interest income remained below the previous year's result (–1.7 percent) due to interest rates. 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 0.9 billion in the year under review.

Administrative expenses rose moderately by 0.6 percent to EUR 27.0 billion due to higher operating expenses.

The cost-income ratio[3] of the entire Savings Banks Finance Group improved to 70.4 percent in the financial year 2021 (previous year: 71.6 percent). This was primarily due to the increase in net commission income and net trading income.

In terms of the net valuation income, the Savings Banks Finance Group recorded a reduction in 2021 compared with the previous year. In 2020, the valuation balance was widened by the consequences of the Corona pandemic – due in particular to higher allocations to risk provisioning in the institutions' lending business. The net valuation expense fell significantly from EUR 2.6 billion in 2020 to EUR 0.1 billion in 2021.

The extraordinary result[4] again had a slightly greater negative impact on the earnings situation of the Savings Banks Finance Group in 2021 than in the previous financial year. At EUR –5.3 billion, the negative balance was higher than the previous year's figure of EUR –3.9 billion. However, the majority of this expense can be attributed to the allocations to the fund for general banking risks – in 2021 these amounted to EUR 3.5 billion.

[1] This chapter aggregates the performance of the Savings Banks, Landesbanken and Landesbausparkassen (Landesbanken without foreign branches, without domestic and foreign Group subsidiaries and without LBS); key figures without Hamburg Commercial Bank (formerly HSH Nordbank), which left the protection scheme at the end of 2021. Previous year's figures have been adjusted.
[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 2021 in EUR billion	Portfolio at the end of 2020 in EUR billion	Change in %
Loans and advances to banks (MFIs[1])	**226.6**	269.9	–16.0
Loans and advances to non-banks (non-MFIs)	**1,395.3**	1,315.7	+6.0
Liabilities to banks (MFIs)	**457.3**	427.5	+7.0
Liabilities to non-banks (non-MFIs)	**1,452.1**	1,395.8	+4.0
Equity	**178.3**	173.7	+2.6
Total assets	**2,431.9**	2,346.1	+3.7
Core capital ratio according to CRR[2] (as percentage, change in percentage points)	**15.7**	16.3	–0.6

Selected income statement items[3]

	2021[4] in EUR billion	2020 in EUR billion	Change in %
Net interest income	**26.666**	27.140	–1.7
Net commission income	**10.546**	9.783	+7.8
Net income from financial transactions	**0.900**	0.461	+95.2
Administrative expenses	**27.005**	26.831	+0.6
Operating result before valuation	**11.330**	10.664	+6.2
Operating result after valuation	**11.238**	8.023	+40.1
Net income before taxes	**5.969**	4.165	+43.3
Income taxes	**3.467**	2.741	+26.5
Net income after taxes	**2.502**	1.424	+75.8
of which net income Savings Banks after taxes	1.656	1.462	+13.3
of which net income Landesbanken after taxes	0.813	–0.068	–[5]
of which net income Landesbausparkassen after taxes	0.033	0.030	+12.1

* 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 the Landesbanken); key figures excluding Hamburg Commercial Bank (formerly HSH Nordbank), which left the protection scheme at the end of 2021. Previous year's figures have been adjusted.

[1] Monetary Financial Institutions

[2] Capital Requirements Regulation

[3] 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.

[5] Calculation not meaningful.

Overall, the member institutions of the Savings Banks Finance Group achieved a pre-tax profit of around EUR 6.0 billion in 2021. This represents a significant improvement on the 2020 financial year, which the Group closed with a pre-tax result of EUR 4.2 billion. After taxes, the Savings Banks Finance Group recorded net income of EUR 2.5 billion in 2021, compared with EUR 1.4 billion in the previous year.

In the past financial year, the aggregate balance sheet total of the Savings Banks Finance Group continued to increase compared with the previous year. As in previous years, this development is primarily attributable to growing customer business. However, balances with central banks and interbank business were also expanded.

The total assets of the Savings Banks Finance Group increased by 3.7 percent to EUR 2,431.9 billion at year end 2021 (previous year: +5.6 percent). Both the customer lending business and the customer deposit business were expanded again. The Savings Banks achieved higher absolute growth in customer lending in particular. Loans and advances to non-banks increased by 6.0 percent to EUR 1,395.3 billion. Liabilities to non-banks of the Savings Banks Finance Group rose by 4.0 percent to EUR 1,452.1 billion.

The balance sheet equity of the Savings Banks Finance Group increased again in 2021. It grew by 2.6 percent to EUR 178.3 billion (previous year: +3.4 percent). The Group thus again improved its equity base in the past financial year.

178.3
EUR billion
BALANCE SHEET EQUITY OF THE SAVINGS BANKS FINANCE GROUP

The calculated core capital of the Savings Banks Finance Group in accordance with CRR / CRD IV[1] increased to EUR 175.4 billion at year end 2021 (end of 2020: EUR 171.4 billion). As a result of the increase in the total risk contribution[2] to EUR 1,118.3 billion (end of 2020: EUR 1,051.0 billion), the core capital ratio of the Savings Banks Finance Group fell slightly to 15.7 percent at year end 2021 (end of 2020: 16.3 percent).

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

Business performance of the Savings Banks

The Savings Banks in Germany significantly expanded their lending, deposit and securities business in 2021. The aggregated balance sheet total increased by EUR 84.9 billion (+6.0 percent) to EUR 1,499.0 billion. The number of Savings Banks decreased by six to 370 Savings Banks (previous year: 376; as at 15.06.2022: 363).

1,499.0
EUR billion
BALANCE SHEET TOTAL OF THE SAVINGS BANKS

The customer lending business was again characterised by strong momentum. With an increase of EUR 49.4 billion or 5.5 percent to EUR 955.0 billion, the Savings Banks recorded record growth in their portfolios. New business was also more encouraging than in the previous year. In total new customer business, the Savings Banks committed loans in the amount of EUR 197.3 billion, an increase of EUR +5.6 billion (+2.9 percent) on the previous year.

Growth was driven by both main pillars of the Savings Banks' lending business. Loans to companies and the self-employed expanded by EUR +26.0 billion or +5.5 percent, private housing loans by EUR +23.9 billion or +7.0 percent. Record levels of new business were achieved in both pillars.

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

The Savings Banks also recorded strong growth in customer deposits in 2021 with a plus of EUR 48.4 billion (+4.5 percent) to a portfolio of EUR 1,123.0 billion, although this figure remained below that of the exceptional previous year. Structurally, the development was similar to previous years due to low interest rates: Sight deposits were expanded, while other forms of investment such as own issues and time deposits declined. Savings deposits remained constant.

In off-balance sheet customer securities business, the Savings Banks recorded one of the highest turnovers ever (+14.4 percent year-on-year) and net sales (purchases minus sales by customers) were the highest in the history of the Savings Banks at EUR 29.5 billion.

Thus, direct financial asset formation in 2021 was again able to benefit to a large extent from inflows from the deposit-taking and securities business.

Including the building society 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 80.0 billion with their Savings Bank.

Earnings situation

In the 2021 financial year, the earnings situation of the Savings Banks in the operating business (operating result before valuation) remained stable, despite the decline in net interest income due to the ongoing low-interest phase. The 2021 income statement of the Savings Banks is primarily characterised by a significantly lower valuation result compared to the previous year, leading to a higher operating result after valuation. In the previous year, the effects of the Corona pandemic could still be seen in the increased risk provisioning.

The operating business of the Savings Banks continues to be determined in particular by the development of net interest income from the highly competitive lending and deposit business with private customers and SMEs. With a renewed decline, now by 3.6 percent, the Savings Banks generated net interest income of EUR 19.3 billion in the financial year 2021 (previous year: EUR 20.0 billion).

In customer business, the margins in deposit business in particular remain under strong pressure or are already negative due to interest rates. Despite rising credit demand in the second Corona year 2021, margins in the lending business continue to fall slightly. Revenue on the assets side can therefore not fully compensate for the decline in income despite growing credit volumes. In the reporting year, the maturity transformation income increased slightly. Since the beginning of the pandemic, there has been a quasi-disbursement ban on financial participations, which expired in 2021. Investment income in the reporting year was roughly the same as in the pre-pandemic year 2019.

The Savings Banks' net commission income increased very significantly by 6.5 percent to around EUR 9.0 billion (previous year: EUR 8.4 billion). This improvement in earnings is mainly attributable to a substantial increase in commission income from the customer securities business, which continues to develop extremely dynamically. The Savings Banks also recorded growth in 2021 through higher revenues in the card and giro business as well as in the brokerage of loans and real estate.

On balance, the decline in net interest income was largely, but not entirely, offset by improved net commission income.

Fortunately, the Savings Banks succeeded in reducing administrative expenses slightly by 0.4 percent to EUR 19.7 billion in the financial year 2021 (previous year: EUR 19.8 billion). The banks recorded an increase in operating expenses to EUR 7.5 billion in the reporting year (+2.4 percent, previous year: EUR 7.3 billion). In addition to regulatory issues, IT costs were driven primarily by the necessary digitalisation and standardisation of processes in 2021. In the reporting period, expenses for advertising remained constant, while those for education and training increased again slightly due to the relatively relaxed Corona situation in the 2nd and 3rd quarters. However, the sharp rise in covered customer deposits also led to a noticeable increase in the bank levy charged by the Savings Banks.

This is now one of the main cost drivers for the institutions. Personnel expenses decreased noticeably by 2.1 percent in 2021 and amount to EUR 12.2 billion (previous year: EUR 12.5 billion). Thus, the moderate salary increases from the 2020 wage agreement were more than offset in the reporting year by the continued staff consolidation measures (including partial retirement) and natural fluctuation.

The cost-income ratio[1] improved slightly in the 2021 financial year, reaching a value of 69.5 percent (previous year: 69.6 percent). The lower net interest income had an increasing effect, while the expansion of commission income and the decline in administrative expenses had a decreasing effect.

The operating result before valuation remained at the previous year's level of EUR 8.65 billion.

In terms of valuation result[2], the Savings Banks recorded a net valuation expense of EUR 0.1 billion in 2021, well below the value of the previous year (EUR 1.8 billion). In 2020, the result was significantly higher due to the Corona pandemic. The valuation of securities in the liquidity reserve resulted in a negative valuation result of EUR 0.7 billion in 2021. These book value write-downs result in particular from the rise in interest rates at the end of the year. In the previous year, the negative valuation result of EUR 0.5 billion also impacted the result.

Due to the encouragingly positive development of the risk situation in the lending business in 2021, the balance of the 2021 valuation result remained balanced (previous year valuation expenses of EUR 1.3 billion). Medium-sized companies in particular have shown themselves to be especially resilient in this crisis. They were helped in this by their solid equity base and their ability to react extremely flexibly to changing circumstances. In addition, companies and the self-employed were supported during the crisis by the rapid credit and liquidity assistance provided by their credit institutions as well as by the KfW and state development institutions. Added to this was the short-time working allowance and the Corona subsidies for particularly hard-hit sectors.

The "extraordinary result"[3] of the Savings Banks in the 2021 financial year was again strongly affected by the additions to the fund for general banking risks in accordance with Section 340g of the German Commercial Code. At EUR 3.1 billion, the addition to the "340g reserves" was higher than the previous year's figure (2020: EUR 2.8 billion). The total "extraordinary result" therefore also closed in 2021 with a significantly higher negative balance of EUR 4.2 billion compared to the previous year.

Despite the higher "extraordinary result", the net income before taxes was noticeably relieved by the valuation result. With a net income before taxes of EUR 4.3 billion, the overall result of the Savings Banks in the 2021 financial year was higher than in the previous year (2020: EUR 4.0 billion).

Net income after deduction of income taxes amounted to around EUR 1.7 billion in the 2021 financial year, which was also above the previous year's level (EUR 1.5 billion).

4.3

EUR billion

NET INCOME OF THE SAVINGS BANKS BEFORE TAXES

[1] Administrative expenses in relation to operating income.
[2] The valuation result consists of the risk provisioning in the lending business and the allocations to/releases of provisioning reserves in accordance with Section 340f of the German Commercial Code as well as the write-downs and value adjustments on receivables and securities in the liquidity reserve (netted against 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]

	2021[2] EUR billion	2020 EUR billion	Changes 2021 vs. 2020 EUR billion	Changes 2021 vs. 2020 %
Net interest income	**19.262**	19.974	–0.7	–3.6
Net commission income	**8.974**	8.427	+0.5	+6.5
Net result from financial operations	**0.014**	0.000	+0.0	> +100
Administrative expenses	**19.694**	19.776	–0.1	–0.4
Personnel expenses	12.196	12.455	–0.3	–2.1
Other operating expenses (inc. depreciation of property, plant and equipment)	7.498	7.321	+0.2	+2.4
Operating result before valuation	**8.652**	8.648	+0.0	+0.0
Valuation result (excluding equity interests)	**–0.126**	–1.832	+1.7	–93.1
Operating result after valuation	**8.527**	6.816	+1.7	+25.1
Balance of other and extraordinary income / expenses[1,3]	**–4.184**	–2.836	+1.3	+47.5
of which: additions to the fund for general banking risks pursuant to Section 340g of the German Commercial Code	–3.110	–2.755	+0.4	+12.9
Net profit before taxes	**4.343**	3.981	+0.4	+9.1
Profit related taxes	**2.687**	2.519	+0.2	+6.7
Net profit after taxes	**1.656**	1.462	+0.2	+13.3
Return on equity before taxes (in percentage, changes in percentage points)	**5.8**	5.5	–	+0.4
Cost-income ratio (in percentage, change in percentage points)[4]	**69.5**	69.6	–	–0.1

[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 partially unaudited 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 (additions 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 49.4 billion in 2021. The Savings Banks thus increased their portfolio by 5.5 percent to EUR 955.0 billion (previous year +5.2 percent).

955.0
EUR billion
CUSTOMER LOANS

New business was expanded by 2.9 percent year on year, with a new record of EUR 197.3 billion. The fact that this was not reflected even more strongly in the portfolios is due to the also very high level of repayments, which at EUR 125.0 billion were only slightly below the high level of the previous year.

This development in the customer lending business was partly driven by corporate lending. In the course of 2021, the Savings Banks made practically the same amount of loan commitments to companies and the self-employed (EUR +0.003 billion or +0.0 percent) as in the exceptional Corona year of 2020. At EUR 106.4 billion, the record figure was set.

It should be noted that in 2020 the volume of special Corona loans from KfW and the promotional institutions of the federal states was significantly higher. If these are excluded, new business in 2021 is even clearly higher than in 2020 (EUR +6.4 billion or +6.5 percent).

The good level of new business is also reflected in the development of portfolios. With an increase of EUR 26.0 billion (+5.5 percent), the Savings Banks achieved almost the same growth as in the record previous year (EUR +26.1 billion, +5.9 percent). The loan portfolio stood at EUR 496.0 billion at the end of December 2021. The repayment volume decreased marginally, amounting to EUR 65.7 billion and was thus –1.3 percent below the previous year (EUR 66.6 billion).

Both investment loans and commercial housing loans are responsible for the increase in the portfolio. Investment loans increased by EUR +10.9 billion or +3.4 percent to a portfolio of EUR 329.5 billion in 2021 (previous year +4.8 percent). In commercial housing construction, the loan portfolio increased by EUR +15.2 billion or +10.1 percent (previous year +8.0 percent) to a portfolio of EUR 166.5 billion.

In addition, the Savings Banks also recorded an increase in new business in loans to private individuals compared with the previous year. For 2021 as a whole, this results in a commitment volume of EUR 83.4 billion, an increase of EUR 6.2 billion (+8.0 percent) compared with 2020. The portfolio also increased quite strongly again in 2021, by EUR 23.4 billion or 6.1 percent to EUR 406.1 billion (previous year +5.3 percent).

The increase in new business is attributable to the development in private housing loans. Commitments totaled EUR 73.4 billion, an increase of EUR 6.4 billion (+9.5 percent) compared with 2020. In part, this growth reflects the substantial price increases in recent years, as a result of which Savings Banks granted higher real estate loans than in previous years. Against the backdrop of still low interest rates and rising rents, the attractiveness of real estate remained high from the customer's perspective – and this despite further price rises over the course of the year and, in some cases, considerable shortages of building materials and in the building materials trade.

The portfolio of private housing loans increased by EUR +23.9 billion (+7.0 percent) in 2021 compared with the previous year's figure of EUR 20.4 billion (+6.4 percent) and totaled EUR 365.5 billion at the end of 2021.

The consumer loans/other loans business continued to decline in 2021 compared with previous years. In new business, the Savings Banks committed EUR 10.0 billion, EUR –0.2 billion (–2.0 percent) below the previous year. However, this is likely to be due in part to the special situation with reduced consumption opportunities (temporarily closed stationary trade, restricted travel). The portfolio decreased by a further EUR 0.5 billion or –1.3 percent to EUR 40.6 billion.

In 2021, loans to domestic public-sector budgets decreased by EUR 0.6 billion (–2.0 percent) to EUR 30.8 billion (2020: –5.9 percent). At EUR 3.3 billion, new business was –23.5 percent below the previous year's value.

Development of the Savings Banks' customer lending business

	2021 in EUR billion	2020 in EUR billion	Changes in EUR billion	Changes in %
Customer loans	**955.0**	905.6	+49.4	+5.5
Corporate loans[1]	**496.0**	469.8	+26.0	+5.5
Loans to private individuals	**406.1**	382.7	+23.4	+6.1
Private housing loans	365.5	341.6	+23.9	+7.0
Consumer loans / other loans	40.6	41.2	–0.6	–1.3
Loans to public-sector budgets	**30.8**	31.6	–0.6	–2.0
Total loan commitments / disbursements domestic customers	**197.3 / 174.8**	191.6 / 170.6	+5.6 / +4.2	+2.9 / +2.4
Loan commitments / disbursements corporates and self-employed[1]	**106.2 / 92.4**	106.2 / 93.1	–0.0 / –0.8	–0.0 / –0.8
Loan commitments / disbursements private individuals	**83.4 / 75.7**	77.3 / 70.1	+6.2 / +5.6	+8.0 / +8.0

[1] Including commercial housing loans.

Client securities business

In off-balance sheet customer securities business, the Savings Banks recorded total turnover of EUR 166.9 billion in 2021, exceeding the previous year's level (EUR +21.0 billion or +14.4 percent) and achieving one of the highest turnovers ever. There were increases in turnover in all categories: fixed-interest securities +24.6 percent, investment funds +18.6 percent and shares +4.4 percent. Net sales (purchases minus sales) were clearly positive in 2021, reaching a historic high of EUR 29.5 billion (2020: EUR 19.1 billion). This was largely due to the high positive net sales of investment funds (EUR +26.9 billion). Net sales of equities were also positive (EUR +3.8 billion). In the case of fixed-income securities, however, sales by customers outweighed purchases (net sales EUR –1.1 billion).

Among the investment funds, equity funds (EUR +11.1 billion), mixed funds (EUR +5.8 billion), bond funds (EUR +3.6 billion), open-ended real estate funds (EUR +3.6 billion) and other funds (EUR +3.9 billion) showed the highest positive balances.

Customer securities business at the Savings Banks

	2021 in EUR billion	2020 in EUR billion	Changes in EUR billion	Changes in %
Securities trading volume	**166.9**	145.9	+21.0	+14.4
Net securities sales[1]	**29.5**	19.1	+10.3	+54.0

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

Refinancing

The Savings Banks refinance themselves primarily from deposits from private customers and companies. In 2020, the Savings Banks recorded the highest deposit growth in their history (EUR +79.1 billion, including EUR +54.0 billion from private individuals). In 2021 growth was again strong, but more on the level of 2019 (around EUR +45.0 billion). Overall, deposits increased by EUR 48.4 billion (+4.5 percent) to EUR 1,123.0 billion in 2021 (previous year +7.9 percent).

1,123.0
EUR billion
CUSTOMER DEPOSITS WITH SAVINGS BANKS

The interest rate-induced development of the past years basically continued: demand deposits were further increased (by EUR 52.6 billion or 6.9 percent to a portfolio of EUR 814.1 billion), while the other categories declined. Time deposits decreased by EUR –1.3 billion or –10.7 percent to EUR 11.2 billion and own issues by EUR –2.9 billion or –10.3 percent to EUR 24.8 billion. Savings deposits remained constant (EUR +0.05 billion or +0.0 percent) at EUR 272.8 billion.

Domestic companies increased their deposits by EUR 13.6 billion or +8.0 percent to EUR 182.9 billion (+14.1 percent in the previous year). Private customers invested an additional EUR 28.1 billion in 2021 (+3.4 percent to EUR 862.8 billion), a smaller increase than in 2020 (+6.9 percent).

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

Customer deposit business at the Savings Banks

	2021 in EUR billion	2020 in EUR billion	Changes in EUR billion	Changes in %
Customer deposits	**1,123.0**	1,074.6	+48.4	+4.5
of which savings deposits	272.8	272.8	+0.0	+0.0
of which own issues	24.8	27.7	–2.9	–10.3
of which time deposits	11.2	12.6	–1.3	–10.7
of which sight deposits	814.1	761.5	+52.6	+6.9

Financial asset formation

Due to the strong inflow in the deposit business and the high positive net sales in the 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 80.0 billion at the Savings Banks in 2021. This is the second highest figure ever. Compared with the record previous year, the decline amounts to EUR –20.9 billion (–20.7 percent). Taking into account the home savings and life insurance business, private individuals saved EUR 55.2 billion in additional funds with the Savings Banks. The decrease compared with the previous year amounted to –22.9 percent.

80.0
EUR billion
ACQUISITION OF FINANCIAL ASSETS BY CUSTOMER

Acquisition of financial assets by Savings Banks customers[1]

	2021 in EUR billion	2020 in EUR billion	Changes in EUR billion	Changes in %
Acquisition of financial assets by customers[2]	**80.0**	100.9	–20.9	–20.7
Acquisition of financial assets by private individuals	**55.2**	71.6	–16.4	–22.9

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

15.6%

CORE CAPITAL RATIO OF THE SAVINGS BANKS

Equity

At the end of the 2021 financial year, the Savings Banks reported regulatory capital of EUR 136.9 billion. This represents an increase of a further EUR 4.1 billion in the course of the year, exclusively in the form of (hard) core capital. At the end of 2021, the total capital ratio was 16.66 percent; the core capital ratio was 15.62 percent and, excluding hybrid core capital components, the hard-core capital ratio was 15.59 percent. Due to the comparatively stronger increase in risk-weighted assets, the ratios are slightly lower than in 2020, although the regulatory requirements continue to be significantly exceeded.

The Savings Banks' comfortable equity base underscores their financial independence and their ability to adapt to more stringent regulatory requirements.

Banking supervisory ratios of the Savings Banks in accordance with CRR

	2021 in %	2020 in %	Change in % points
Core capital ratio	**15.6**	16.4	−0.80
Common equity ratio	**15.6**	16.4	−0.80
Total capital ratio	**16.7**	17.5	−0.89

Business performance of the Landesbanken

In fiscal year 2021, the business performance of the Landesbank Group was characterised by the expansion of the customer lending and deposit business. Overall, however, the level of total assets stagnated compared with the previous year. It was increased in recent years and reduced more sharply 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 rescale 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 the second Corona year 2021, the Landesbanken expanded their customer business and reduced interbank business.

Institutions[1] had total assets of EUR 857.7 billion in 2021, almost unchanged from the previous year. Total assets had already expanded only moderately in the previous year (EUR +8.7 billion or +1.0 percent). Thus, the Landesbanken did not continue the trend of expanding on-balance sheet business at least in 2021. The main reasons for this restrained development were declines in interbank business and in bonds and other fixed-interest securities, but also in other balance sheet items.

[1] This chapter refers to the five Landesbank groups, Landesbank Berlin/Berliner Sparkasse and DekaBank (excluding Hamburg Commercial Bank/formerly HSH Nordbank, which left the protection scheme at the end of 2021; the previous year was adjusted retroactively).

By contrast, the Landesbanken expanded their customer lending and deposit business as well as their cash reserve in 2021.

Lending business
On the assets side of the interbank business, the Landesbanken recorded a decrease of EUR 34.7 billion or 17.7 percent in loans and advances to banks to EUR 161.1 billion in 2021 (previous year: +2.4 percent). This is mainly attributable to the decrease in loans and advances to domestic banks (excluding Savings Banks), which were reduced by EUR 30.5 billion to EUR 33.4 billion. The Landesbanken's claims on Savings Banks grew by EUR 6.0 billion to EUR 67.4 billion. In contrast, the Landesbanken recorded a decrease of EUR 9.8 billion in their loans and advances to foreign banks to EUR 63.1 billion.

In the customer lending business, the Landesbanken reported a significant increase in the past financial year compared with the previous year. Loans and advances to non-banks increased by a total of EUR 28.2 billion or 7.5 percent to EUR 403.8 billion (previous year: –2.0 percent).

403.8
EUR billion
CUSTOMER LOANS OF THE LANDESBANKEN

This was mainly due to the increase in loans and advances to domestic and foreign companies. These increased by EUR 28.7 billion or 10.7 percent to EUR 296.0 billion (previous year: EUR –6.6 billion or –2.4 percent). The focus was on both domestic and foreign corporate business: loans and advances to domestic companies increased by EUR 15.0 billion or 9.0 percent to EUR 182.2 billion. Loans and advances to foreign companies also increased by EUR 13.7 billion or 13.6 percent to EUR 113.8 billion.

Loans and advances to domestic and foreign public authorities decreased by EUR 1.6 billion or 2.1 percent to EUR 76.4 billion in the reporting year (previous year: EUR –0.7 billion or –0.9 percent).

At EUR 31.1 billion, loans and advances to domestic private individuals (including non-profit organisations) expanded more strongly again (EUR +1.2 billion or +4.0 percent year-on-year).

Securities business
The Landesbanken increased their own securities investments in 2021. In contrast to the previous year, the total portfolio increased by +6.5 percent to EUR 97.4 billion (previous year: –25.6 percent). The highest inflow in volume can be found in investments in the securities category bank bonds. Holdings here increased by EUR +3.6 billion or 7.7 percent to EUR 50.6 billion. The portfolio of corporate bonds increased by +12.6 percent to EUR +15.0 billion. In contrast to the previous year, the securities portfolio invested in non-fixed-interest securities (shares, investment certificates) increased by 37.1 percent to EUR 5.9 billion.

The volume invested in "public-sector bonds" declined to EUR 24.0 billion (–3.9 percent). Money market instruments continued to play only a minor role with a portfolio of just under EUR 2.0 billion at the end of 2021.

The main focus in the Landesbanken's securities account A at year-end 2021 was on bank bonds with a structural share of 52.0 percent, followed by public-sector bonds and debt securities at 24.6 percent and corporate bonds at 15.4 percent. Securities holdings invested in non-fixed-interest securities are of minor importance with a structural share of 6.0 percent and money market securities at 2.0 percent.

271.3
EUR billion
CUSTOMER DEPOSITS OF THE LANDESBANKEN

Refinancing

In terms of customer deposits, the Landesbanken recorded a portfolio inflow of 2.6 percent to EUR 271.3 billion in 2021. In 2020, customer deposits had decreased by 0.9 percent. The increase in 2021 was primarily attributable to the development of liabilities to domestic and foreign companies, which increased by EUR 10.8 billion or 6.2 percent to EUR 185.0 billion.

Inflows were recorded both in liabilities to domestic companies, which rose by 6.3 percent to EUR 162.4 billion, and in liabilities to foreign companies, which increased by 5.6 percent to EUR 22.6 billion. A further differentiated analysis in the domestic corporate sector shows that the expansion in the reporting year was largely due to the development in the real corporate sector. This increased by 18.8 percent to EUR 68.7 billion.

Liabilities to financial institutions increased by 2.3 percent to EUR 36.1 billion. This was offset by a 3.6 percent reduction in liabilities to insurance companies to EUR 57.6 billion.

Deposits from domestic private individuals (including non-profit organisations) grew by 2.7 percent to EUR 60.4 billion. Liabilities to domestic public authorities decreased by EUR 5.7 billion or 18.3 percent to EUR 25.0 billion.

The Landesbanken continued to expand their interbank liabilities in 2021. They increased by 0.5 percent to EUR 263.3 billion (previous year: +15.8 percent). In the past year, liabilities to Savings Banks decreased by 8.9 percent to EUR 28.5 billion, while liabilities to domestic credit institutions (excluding Savings Banks) increased by 0.8 percent to EUR 194.3 billion. The high increase from the previous year, which was primarily attributable to the expansion of the “Targeted Longer-Term Refinancing Operations III” with the ECB, was not repeated. Liabilities to foreign banks increased by 6.7 percent to EUR 40.5 billion (previous year –39.4 percent).

In contrast to the previous year, the Landesbanken showed an increase in the portfolio of securitised liabilities in 2021. The portfolio increased by +3.2 percent to EUR 175.5 billion. In the previous years, the Landesbanken had recorded declines in this form of refinancing, some of which were substantial.

Equity

The balance sheet equity of the Landesbanken increased slightly by 0.8 percent from EUR 44.4 billion to EUR 44.8 billion in 2021. The majority of institutions were able to strengthen this balance sheet item.

15.9%
CORE CAPITAL RATIO OF THE LANDESBANKEN

The regulatory core capital of the Landesbanken calculated on the basis of the CRR/CRD IV decreased slightly by 0.2 percent to EUR 43.3 billion at the end of 2021 (end of 2020: EUR 43.4 billion). The total risk contribution (counterparty risks, market risk positions and other risks) was moderately increased by 0.7 percent to EUR 273.2 billion (end of 2020: EUR 271.2 billion). As a result of these two developments, the core capital ratio according to CRR/CRD IV of the Landesbank Group decreased by 0.1 percentage points and amounted to 15.9 percent at the end of 2021 (end of 2020: 16.0 percent).

Banking supervisory ratios of the Landesbanken in accordance with CRR

	2021 in %	2020 in %	Change in % points
Core capital ratio	**15.9**	16.0	–0.1
Common equity ratio	**15.1**	15.2	–0.1
Total capital ratio	**20.4**	20.5	–0.1

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

Profitability[1]

As in the previous year, the Landesbanken were again able to generate a higher operating result in the reporting year 2021, increasing by almost 36 percent in 2021. This strong increase can be attributed to the following developments: The Landesbanken recorded increases in both net interest income (EUR +0.3 billion to a level of EUR 6.7 billion) and net commission income (EUR +0.2 billion to EUR 1.6 billion). Net income from financial transactions was almost twice as high as in the previous year, increasing by EUR 0.4 billion.

Selected balance sheet items of the Landesbanken (including DekaBank)*

	As at year-end 2021 EUR billion	As at year-end 2020 EUR billion	Change in %
Loans and advances to banks (MFIs[1])	**161.1**	195.9	–17.7
Loans and advances to non-banks (non-MFIs)	**403.8**	375.6	+7.5
Liabilities to banks (MFIs)	**263.3**	261.9	+0.5
Liabilities to non-banks (non-MFIs)	**271.3**	264.6	+2.6
Balance sheet total	**857.7**	857.4	+0.0

* excluding Hamburg Commercial Bank (formerly HSH Nordbank).
[1] Monetary Financial Institutions.

The development of administrative expenses, which increased by almost EUR 0.3 billion compared with the previous year to reach a level of EUR 6.7 billion in 2021, had a negative impact on earnings. This was largely due to higher operating expenses.

Overall, the Landesbanken achieved an operating result before valuation of EUR 2.6 billion in 2021 (previous year: EUR 1.9 billion). The cost-income ratio[2] of the Landesbanken improved significantly to 72.2 percent (previous year: 77.2 percent) as a result of the earnings development outlined above.

A relief effect followed in 2021 from the valuation result: In the reporting year, the Landesbanken generated valuation income of around EUR 0.1 billion, which slightly increased the annual result for the Landesbank Group. In contrast, a valuation expense (EUR 0.8 billion) was incurred in 2020 as a result of the Corona pandemic. The Landesbanken had already made increased risk provisions for the lending business at an early stage. The high burden of the previous years was due in particular to the adjustment of one institution's loan portfolios due to the impact of the shipping crisis.

[1] Source: German Commercial Code, individual financial statements of the Landesbanken (including DekaBank) excluding Hamburg Commercial Bank (formerly HSH Nordbank), which left the protection scheme at the end of 2021. Previous year's figures have been adjusted.
[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).

As in the previous year, the result of the "extraordinary account"[1] was negative in 2021 and reduced earnings by EUR 1.1 billion. The result from the valuation and financial investment business was clearly negative in the reporting year with a net valuation expense of EUR 1.0 billion, and was slightly relieved by the extraordinary result. However, allocations to the fund for general banking risks are also posted under the result from valuation and financial investment securities.

The Landesbanken generated a positive pre-tax profit of EUR 1.6 billion in fiscal year 2021. In the previous year, however, the net income before taxes amounted to EUR 0.1 billion. After deducting profit-related taxes, the Landesbanken closed the 2021 financial year with a net profit after taxes of EUR 0.8 billion. In 2020, the Landesbanken had recorded a net loss after taxes of just under EUR 0.1 billion.

Selected items of P&L account of the Landesbanken (including DekaBank)*

	2021[2] EUR billion	2020 EUR billion	Change in %
Net interest income	**6.681**	6.381	+4.7
Net commission income	**1.573**	1.379	+14.0
Net income from financial transactions	**0.886**	0.456	+94.3
Administrative expenses	**6.721**	6.471	+3.9
Operating result before valuation	**2.589**	1.911	+35.5
Valuation result (excluding equity interests)	**0.053**	–0.776	–[4]
Operating result after valuation	**2.642**	1.135	> +100
Balance of other and extraordinary income / expenses[1,3]	**–1.081**	–1.017	+6.2
of which: Withdrawals from (+) / allocations to (-) the fund for general banking risks in accordance with Section 340g of the German Commercial Code	–0.376	–0.424	–11.3
Net profit before taxes	**1.561**	0.117	> +100
Profit related taxes	**0.749**	0.185	> +100
Net profit after taxes	**0.813**	–0.068	–[4]

* excluding Hamburg Commercial Bank (formerly HSH Nordbank).
[1] 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.
[2] Preliminary figures from partially unaudited 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, withdrawals from this fund with a positive sign).
[4] Calculation not meaningful.

Business performance of the Landesbausparkassen

The Group of eight Landesbausparkassen again achieved a solid result in the 2021 financial year. The construction financing business benefited from the continuing high demand for loans for both new construction and the acquisition of existing properties, which is often accompanied by investments in renovation and modernisation – increasingly in the form of energy-efficient refurbishment. Overall, home loan and savings funds in the amount of EUR 9.2 billion flowed into the housing market. This means that the LBS Group was even able to slightly exceed the high level of the previous year by 0.3 percent. The portfolio of building loans climbed to EUR 34.1 billion; an increase of 5.1 percent on the previous year.

[1] Balance of other and extraordinary income / expenses. In contrast to the income statement statistics of the Deutsche Bundesbank, 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".

New savings contracts have not yet returned to pre-Corona levels: the volume of newly concluded building savings contracts reached EUR 25.8 billion, down 6.3 percent on the previous year. The average building savings sum climbed to a new high of around EUR 57,000 (+3.8 percent). This shows that people are adapting their savings behaviour to the steadily growing need for equity as a result of property prices, which have been rising significantly for years.

The "Bausparkassen der Sparkassen" (Savings Banks' building societies) are the undisputed market leaders in the home loan and savings business in Germany. They have a market share of 34.2 percent in terms of the number of new contracts concluded in 2021 and 35.8 percent in terms of total home savings. Regarding the number of existing contracts, LBS has a market share of 35.3 percent (number of contracts) and 33.4 percent (total home loan savings). In residential Riester business, LBS's market share is 45.0 percent, corresponding to around 776,000 contracts for a home loan and savings total of EUR 35.1 billion (–4.3 percent).

At year-end 2021, the eight Landesbausparkassen held a total of 8.4 million home loan and savings contracts (–5.3 percent) for their 7.5 million customers with a volume of EUR 305.1 billion (–0.5 percent).

The Landesbausparkassen have 526 advisory centres; the number of office and field staff is 6,632. At EUR 75.1 billion (+0.9 percent), the cumulative total assets of the LBS Group reached a new high at the end of 2021.

Business performance of the Landesbausparkassen

	2021	2020	Change in %
New contracts			
Number (millions)	**0.45**	0.50	–9.7
Building savings sum (EUR billion)	**25.8**	27.5	–6.3
Contract portfolio			
Number (millions)	**8.44**	8.90	–5.3
Building savings sum (EUR billion)	**305.1**	306.6	–0.5
Cash inflow (EUR billion)			
Total	**11.2**	11.0	1.0
of which savings contributions	8.6	8.4	2.7
New capital commitments (EUR billion)	**12.3**	12.2	0.7
Capital disbursements (EUR billion)	**9.2**	9.2	0.3
Total assets (EUR billion)	**75.1**	74.5	0.9
Net income after taxes (EUR million)	**33.2**	29.6	12.1
Employees (including field staff)			
Total	**6,630**	6,791	–2.6
of which apprentices	138	154	–10.4
			Change in %-pct.
Market shares (number of contracts)			
New contracts	**34.2**	33.6	0.6
Contract portfolio	**35.3**	35.5	–0.2

Responsibility and social commitment

Together, we have managed the enormous challenges of the Corona pandemic well. Social and economic changes continued to have a strong impact on human resources management in the Savings Banks Finance Group in 2021. Staff restructuring, branch closures and mergers in the banking and financial sector characterised the entire year. A look at the workforce figures shows that the consolidation process has continued this year.

Our employees are the key to our success.
Our employees are and will 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. However, 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 276,300 employees. 194,937 people worked for a Savings Bank in 2021. Increasingly, the focus is also on the question of how new areas of business and earnings can be developed while at the same time adjusting the workforce, or in other words: "Targeted investment in personnel with consistent management of personnel costs". This is also an aspect that plays an important role in the "Human Resources Strategy Update" project launched in 2021. The project is designed to develop a concept on how Savings Banks can align their human resources strategy on an evidence-based basis. Evidence-based means that decisions are made on the basis of empirical data. For HR work, this means working with key figures and thus being able to make well-founded strategic decisions for the respective institution.

The Savings Banks Finance Group is an attractive employer.
The Savings Banks Finance Group is an attractive employer for junior staff and experienced professionals alike. Employer attractiveness is of the greatest importance to us in terms of human resources strategy. We focus on people, because our employees are what make us what we are. Apprentices continue to form the next generation of employees in our Group. Our excellent image as an employer has a positive effect on the recruitment of junior staff. The technical optimisation of the Savings Banks Finance Group's career portal for mobile use by smartphones meets the expectations of the young target group. We regularly invest in the further development of our employer presence in terms of content and technology.

Even during vocational training, it is important to the institutions of our Group to offer the young apprentices security and perspective, as well as interesting and flexible areas of work. There is an impressive range of approaches in our training companies on how 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. These trainee branches create an environment in which the fresh ideas of the young talent are introduced and immediately put into practice. In this way, the junior staff experience real recognition for their ideas, they enjoy a feeling of appreciation and know 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.

Changing customer behaviour and advancing digitalisation require a significantly more differentiated approach to the market. Sales channels with new roles and tasks are emerging, and processes, personnel structure and management are being adapted. With a view to these challenges, we have also placed the focus in 2021 on the fields of action “strengthening employer attractiveness, expanding digital competences and training in sustainability issues to ensure the quality of our employees”.

A good work-life balance for employees is vital to the institutions of the Savings Banks Finance Group. To this end, we offer flexible models for work location and working hours, professional career development and a wide range of support services for a better work-life balance. During the Corona crisis, our institutions also impressively demonstrated their flexibility. The switch to mobile and digital working was accomplished in a remarkably short time.

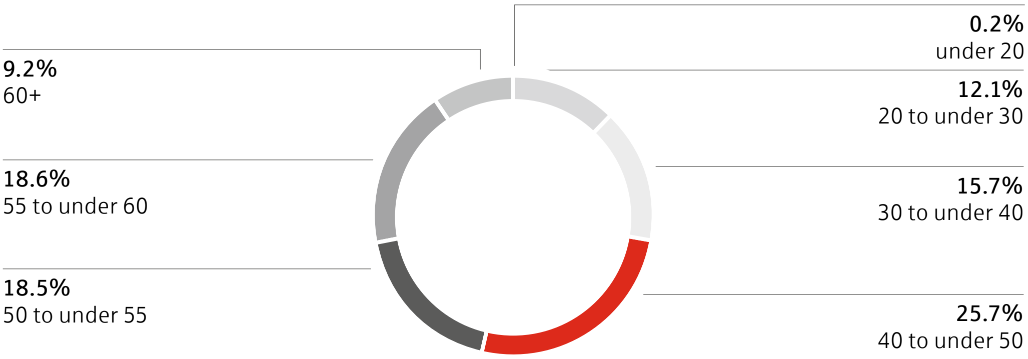
Excellent vocational training and further education opportunities.

In 2021, 4,376 young people started their vocational training at a Savings Bank. This is a decrease of 7.0 percent compared to the previous year due to the impact of the Corona crisis on the recruitment process. With 15,360 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 Savings Banks Finance Group’s social responsibility. We provide training with the future in mind. 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 2021 increased by 8.2 percentage points over the previous year and was an impressive 87.8 percent.

Dual vocational training, in which practical learning in the training company is complemented by instruction in vocational school, is typical for the majority of apprenticeships. Most trainees aim to graduate with a qualification in banking. In 2019, experts from both the employer and employee sides drew up new training regulations for the occupational profile of banker. We in the Savings Banks Finance Group have taken the changed requirements for working in a Savings Bank and the reorganisation procedure as an opportunity to develop modular solutions – concepts, instruments and digital tools – for modernising training in the nationwide project “Bankausbildung” (bank training). In a further step, we have taken a close look at the interface between the completion of training and employment, with the aim of attracting employees to the Savings Bank and retaining them. Further concepts were developed to cushion the transition to employment and to take the young employees with us into this new phase. All results were handed over to the institutions for implementation in 2020 and 2021.

After graduating from school, many young people are looking to pursue a dual course of study as a combination of vocational training and university studies. Within the Savings Banks Finance Group, their University of Applied Sciences (Hochschule für Finanzwirtschaft und Management) offers a dual course of study. This programme is in line with the increasing demand for highly qualified specialists and managers, which is also a result of our “Sales Strategy of the Future”.

Savings Banks employees: Age structure[1]
As at: 31.12.2021



[1] Active banking employees (headcount data).
Demographic ratio: 0.44 (ratio of under 30-year-olds to over 55-year-olds)

A look at the changing age structure shows how essential the issues of maintaining job satisfaction and succession planning will be in the future. Differentiated qualification programmes for all groups of the workforce are therefore crucial. It is the aim of the education service providers at the Savings Banks Finance Group to develop these measures together and to offer targeted training programmes.

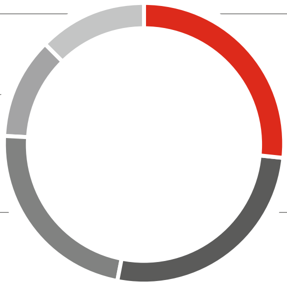
Increasing the proportion of women in leadership positions remains a key development goal for the entire Group. The measures implemented nationwide to date were again supplemented in 2021 by scholarship and mentoring programmes for more women in management positions. Overall, we have intensified the discussion within the Savings Banks Finance Group and have been able to achieve a slight increase in the proportion of female managers below board level to 27.5 percent (previous year 27.4 percent). The proportion of women on management boards fell slightly to 5.8 percent in 2021 (previous year 5.9 percent).

Managing the necessary transformation processes through targeted HR development.
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 management and change management in sales have been made available nationwide.

The overall transformation of the world of work increases the need for continuing vocational education and training. There is a need for new formats of continuing education and an alignment of further vocational education and training with the newly emerging framework conditions.

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 roles. 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 comprehensively supports these development opportunities and imparts both the required specialist knowledge and the necessary skills and competences for each career stage.

Savings Banks employees: Qualification structure [1]
As at: 31.12.2021



[1] Active banking employees (headcount data).

The business model of the Savings Banks Finance Group focuses on providing holistic advice to our customers with the goal of achieving a high level of customer satisfaction and sustainable customer relationships. We offer our customers all paths for advice – be it in the branch, online or mobile. Due to Corona, there was a significant shift towards online contact in 2021. It is important to us to maintain the human proximity that distinguishes us from our competitors, despite the necessary changes to the branch structure. To ensure this, we continue to place particular emphasis on the qualification of our employees for cross-channel customer service. The academies' range of qualification programmes addresses this need to adapt and systematically develop employees' skills. This constantly gives rise to new digital education formats that can be held as seminars in the academies, but equally online or as in-house seminars directly in the institutions.

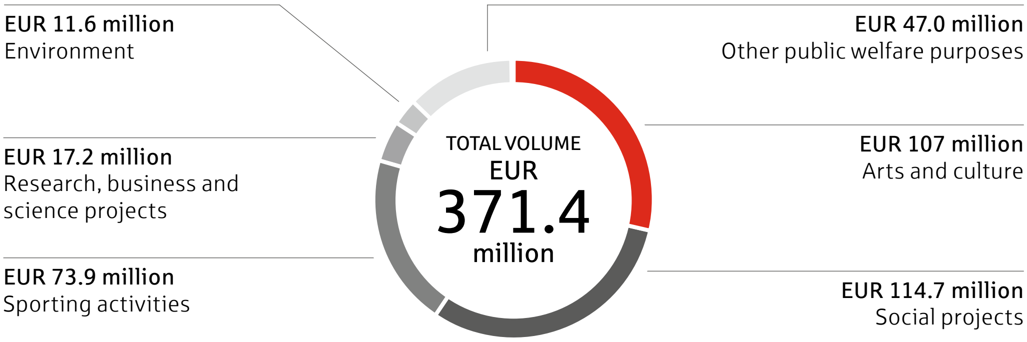
The subject of "sustainability" has become increasingly important for our customers as well as for our employees. For this reason, we continued to offer qualification programmes on the sustainability aspects "environment, social affairs and corporate governance" in 2021.

Broad-based social commitment strengthens public welfare

Savings Banks, Savings Banks Foundations, Landesbanken and S-Group partners shape local social interaction in a variety of ways. In 2021, the Savings Banks Finance Group invested around EUR 371 million in public welfare projects (previous year: EUR 363.7 million).

The consequences of the Corona pandemic have affected the social commitment of the Savings Banks Finance Group for the second year in a row. Due to the cancellation of numerous events and funding projects in the areas of culture and sport, which continue to be severely impacted, the funding amounts in these areas also declined in 2021. However, on the basis of a common philosophy among the institutions of the Savings Banks organisation with the aim of supporting their funding partners despite the difficult situation, it was possible in many cases to find solutions for support even during the pandemic.

Social commitment of the Savings Banks Finance Group
As at: 31.12.2021



Art and culture
The promotion of art and culture is an integral core element, firmly anchored in the social commitment of the Savings Banks Finance Group. In 2021, the Savings Banks Finance Group supported art and culture with a total of EUR 106.9 million (previous year: EUR 108.7 million). Projects were supported nationwide and long-standing cooperations were continued, such as the commitment as the main sponsor of the Dresden State Art Collections.

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 the largest area of support provided by the Savings Banks Finance Group, with contributions totaling EUR 114.7 million in 2021 (previous year: EUR 106.5 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 the partnership with Olympic Team Germany and Team Germany Paralympics as well as through their sponsorship of elite sporting schools.

In 2021, sports and members of sports clubs received EUR 73.9 million in support (previous year: EUR 76.5 million). 30 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 11.6 million in 2021 (previous year: EUR 8.3 million).

Education

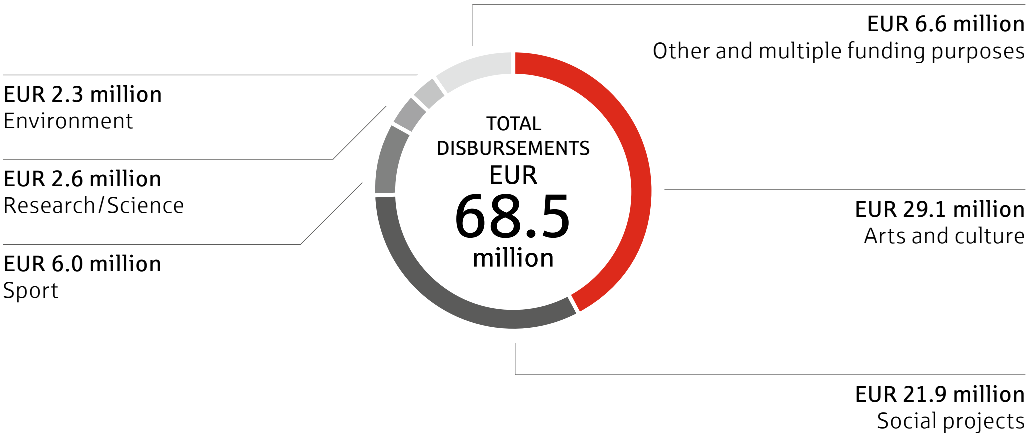
Promoting education and integration is a central element of the Savings Banks Finance Group's commitment to sustainable social development. In 2021, EUR 17.3 million (previous year: EUR 19.0 million) was invested in research, business and science promotion projects. Throughout Germany, Savings Banks are committed to ensuring that all sections of the population benefit from social life and can 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" (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 of the Savings Banks, Landesbanken and other institutions of the Savings Banks Finance Group in a particularly sustainable form. In 2021, there were a total of 760 foundations in the Savings Banks Finance Group (previous year: 769). They contribute to regional development and support local civic engagement. At the end of 2021, they had a total capital of EUR 2.76 billion (previous year: EUR 2.72 billion). Last year, with distributions of EUR 68.5 million (previous year: EUR 63.9 million), the Savings Banks Foundations accounted for 18.4 percent of the total commitment of the Savings Banks Finance Group.

The Savings Banks Finance Group reports on its social commitment regularly at:
dsgv.de/unsere-verantwortung

Disbursements by the Foundations of the Savings Banks Finance Group in EUR million
As at: 31.12.2021



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.

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 comprises four Business Games, including three haptic and one computer-based Business Game. All Business Games can be conducted virtually or on site in the project countries. Since 2019 alone, more than 3,000 events have been held with the Business Games, not only reaching small and micro entrepreneurs and schoolchildren, but also farmers and many more people in more than 50 countries. 134,000 participants worldwide have taken part in the Business Games to date – and the trend is upward.

↘ Sparkassenstiftung.de

Around 200
Number of other experts on assignment abroad

42
Staff in the Bonn office

Project volume 2021
36.1
million euros

390
Employees worldwide

59
Project countries

1 goal
Sustainable development through financial inclusion

Risk report

The institutions of the Savings Banks Finance Group have performed well despite the ongoing Corona crisis, the increasing competition and the persistent low and negative interest rate phase. Numerous new regulatory initiatives were advanced in 2021. One area of focus is the publication of the drafts of the EU banking package on 27 October 2021. With this package, the EU Commission has presented drafts for amending the Capital Requirements Directive and Regulation (CRD VI and CRR III). This is intended to complete the implementation of Basel III in the EU. The banking package also contains provisions aimed at strengthening the banking sector's resilience to environmental, social and governance risks (ESG risks[1]).

The issue of sustainability and the associated risks are increasingly becoming the focus of the institutions' risk management, partly due to the regulatory initiatives in this area. In July 2021, the DSGV initiated a project for the structured processing of regulatory requirements relating to sustainability. The emphasis is on reporting issues, such as the implementation of EU taxonomy in Savings Banks, as well as the integration of sustainability risks, which act as risk drivers on traditional financial risks, into risk management.

Another important development in 2021 is the 6th MaRisk amendment. BaFin published the final version of the circular on 16 August 2021. Among other things, the MaRisk amendment implements the EBA guidelines on the management of non-performing and deferred risk exposures (EBA/GL/2018/06) and the EBA guidelines on outsourcing (EBA/GL/2019/02). With the MaRisk interpretation guide, the DSGV provides the institutions of the Savings Banks Finance Group with detailed, principle-oriented guidance on the interpretation of the requirements set by the MaRisk.

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 of 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 in a professional and forward-looking manner. 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 has numerous advantages, including

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

Irrespective of the development of uniform procedures across the entire Savings Banks Finance Group, decisions on transactions and the associated risks, such as customer product design or own investment policy, remain 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, currencies, shares, commodities, real estate, volatility and option risk).
Liquidity risks	– Liquidity risk is generally composed of insolvency risk and 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 decline in the market value of a bank resulting from a change in refinancing conditions.
Operational risks	– 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.

Jointly developed procedures are used by individual institutions to measure risks, to aggregate them in the risk-bearing capacity, to manage the portfolio and for capital allocation to optimise their 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 on-going 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 hence 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 required 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 to efficiently implement the new regulations (normative and economic perspective) in all institutions. The Savings Banks are currently in the process of rolling out the technical/methodological and system-related central solutions for risk-bearing capacity. Some large Savings Banks are already applying the new risk-bearing capacity methodology. The methodological changeover will be accompanied by the introduction of new and adapted systems for risk measurement/management, both for the individual risk types and the RBC as a whole. Furthermore, a

[1] Continuation approach.

central data pool is being established in the form of the integrated data budget (IDH), which will advance the automation of bank management and facilitate both internal Savings Bank and regulatory analyses.

Since 2016, the German supervisory authority has regularly defined new capital requirements and expectations for individual institutions through the so-called SREP surcharges[1] and the capital target ratio, which are to be taken into account both in the ongoing capital adequacy as well as in the risk-bearing capacity and 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 capital target ratio 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 2021. The Common Equity Tier 1 capital ratio was 15.6 percent as at 31 December 2021, while the total capital ratio reached 16.7 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 adequacy also covers 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 target ratio.

The Landesbanken (individual institution level), including DekaBank, had an average Common Equity Tier 1 capital ratio of 15.1 percent at the end of 2021. The total capital ratio is 20.4 percent on average.[2]

Management of individual risk types

Increased regulatory requirements for risk reporting make it necessary to establish principles for data management, data 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. This is why 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

[2] The ratios apply to the Landesbank Group (excluding Hamburg Commercial Bank/formerly HSH Nordbank, which left the protection scheme at the end of 2021).

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 qualities 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”. – From a released rating, a strength-potential profile of the customer can be automatically generated, which can be used for customer communication. – For customers with low exposure, an automated procedure based primarily on account data is available to the institutions for ongoing credit assessment, as well as a simplified risk classification procedure for applications (customer compact rating).
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 the 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	– The Savings Banks Customer Scoring is the risk classification procedure for private customer business. It enables the customer advisor to objectively assess the creditworthiness of a new customer as well as an existing customer with as much creditworthiness-relevant information as possible 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 financing rating is a tailored procedure for financing 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 analysed in its entirety, qualitative factors – such as the expertise of those involved in the project, information on the project environment and the contractual arrangements – are also included in the valuation process.

In addition, SR, together with Savings Banks and regional associations, has developed a standardised procedure model for conducting the risk inventory, including central recommendations for the criteria of the materiality assessment of the individual risks. It is validated annually by SR.

To support the risk management process of the Savings Banks, a risk manual is also available to the institutions to help 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 the SR ensure their high quality and uniformity. This ensures data protection-compliant work with the data of the Savings Banks and Landesbanken (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 71, 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 counterparty risk management and hence to generate more accurate forecasts. Because only the balance of accurate risk assessment and effective use of financial resources ensures fair conditions for customers.

In 2021, more than 324,000 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 14.3 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 selectively of methods,

→ an accurate and fair breakdown of our customers according to their creditworthiness,

→ stable default rates,

→ early and objective risk identification and

→ centralised 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 in terms of the size of the individual institution as well as in the type, scope and complexity of the counterparty risk portfolio.

Thus, an ideal-typical counterparty risk management can be mapped over a total of five expansion stages.

In the context 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 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 (including 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 2021 financial year. Overall, 61.9 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 compared to the previous year.

Managing counterparty risk at portfolio level
In the financial year 2021, the Savings Banks in Germany were once again able to record an increase of 2.9 percent in lending (total new business customer loans excluding credit institutions). In order to remain able to act and compete in the lending business in the long term, Savings Banks comprehensively record the risks associated with lending 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 ultimately leads to increases in efficiency and results. Especially in the low interest rate environment and after risk costs, the credit market and the customer lending business continue to be more profitable 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 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 alliance partners creates new opportunities for more credit growth, especially when accompanying the growth of large SMEs.

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 the 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. This is based 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 Bank loan baskets
For some 17 years, 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 synthetically hedge credit risks.

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.

In the meantime, a good 40 percent of all Savings Banks have participated in at least one of the Savings Bank loan baskets, mutually hedging a total of almost EUR 7.2 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 to either 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. Since the end of 2017, SR has offered the Savings Banks standardised parameters for quantifying interest rate, spread, equity and foreign currency risk and is consistently working on further improving the methods for market price risk management.

The interest rate risk is a key market price 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 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 is of major importance to the Savings Banks Finance Group, even in the persistently low interest rate environment, 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 and the low interest rate policy of the European Central Bank permit only allow low margins and results from own investments contribute to the stability of the overall earnings situation,
- member institutions need to prepare themselves for a potential sustained 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 target ratio 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 2021 show that the measures for managing interest rate risks are consciously adapted to the current market situation. The Savings Banks continued to generate solid earnings contributions in 2021, 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, each taking into account market liquidity risk. The latter 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.

The European liquidity coverage ratio "LCR" (Liquidity Coverage Ratio) was introduced on 1 January 2018, with a minimum compliance rate of 100 percent. 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 enable all Savings Banks to fine-tune the operational management of this short-term ratio.

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

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 from 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 (in addition to LCR and NSFR, this includes additional liquidity ratios of the AMM[1]) were also greatly expanded. The small-scale data supply of the data centre enables the Savings Banks to analyse their liquidity flows 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. Since 2020, 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. During the 2021 Corona pandemic, BaFin Corona FAQs enabled an effective management of the ratios while preparing for the (possibly partial) withdrawal of these simplifications in 2022.

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 are to 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 preventive measures are derived.

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 sustainability risks

The transformation towards a sustainable economy is increasingly becoming the focus of politics and society. The sustainability risks associated with this transformation are increasingly finding their way into banking supervisory practice, such as the drafts of CRR III and CRD VI and the risk management of institutions. BaFin's non-binding fact sheet on dealing with sustainability risks and the EBA's guidelines on taking these risks into account in the lending business are to be incorporated into MaRisk with the next amendment.

Sustainability risks can act as risk drivers for the traditional financial risks of credit institutions, such as counterparty or market price risks. This must be analysed in each case. The high-quality, tried-and-tested methods for managing these risks therefore also enable sustainability risks to be dealt with appropriately. In addition, sustainability risks are taken into account as part of the strategy processes and the risk inventory of the institutions.

One challenge in dealing with sustainability risks is the long time period over which these risks build up. To address such methodological challenges and to ensure compliance with other supervisory requirements related to sustainability, the DSGV initiated a central project in July 2021.

For the operative analysis of sustainability risks in the institutions, the Sparkassen Rating und Risikosysteme (SR) and the DSGV Industry Service have developed the S-ESG score and have already rolled it out at the Savings Banks. This assesses the sustainability risks of the industries of all business customers by means of ten indicators, such as CO2 emissions or water use. In a further expansion stage of the S-ESG score, the industry values can be individualised for specific customers.

Protection afforded to institutions by the Savings Banks Finance Group's institution protection scheme

The institution protection scheme of the Savings Banks Finance Group protects customer deposits at the 363* independent Savings Banks, the Landesbanken, DekaBank and the Landesbausparkassen. In addition, the following institutions are affiliated with the guarantee fund of the Landesbanken: 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 compensation cases and to protect the member institutions themselves, 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 institutional protection scheme therefore averts any imminent or existing economic difficulties. In addition, the 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.

* As at 15.06.2022.

The institution protection scheme of the Savings Banks Finance Group comprises thirteen guarantee funds: eleven regional Savings Banks guarantee funds, the guarantee fund of the Landesbanken and Girozentralen as well as the guarantee fund of the Landesbausparkassen.

The protection scheme has proven its worth for more than four 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 guarantee funds have an early-warning system for the identification of potential risks, which permit 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 guarantee 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 guarantee funds report regularly to a central transparency committee at the DSGV. This committee monitors the overall risk situation of the protection scheme and ensures transparency within the system.

Scope for action by the guarantee funds
The guarantee funds have rights of information and intervention enshrined in the statutes.

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 particular 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 guarantee funds will decide on countermeasures. Institutions in a special risk situation are required by the guarantee fund to submit a restructuring concept and to initiate suitable measures in regard to assets or personnel.

In the case of support for an institution, the guarantee funds of the protection scheme have a comprehensive catalogue of measures at their disposal. As a rule, support is linked to conditions in 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 guarantee funds of the institution protection scheme are interlinked.

A total of eleven Savings Bank guarantee 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 support a troubled institution exceed those of the region's own guarantee fund. All other Savings Bank support funds then jointly participate in any measure necessary to support an institution. In this way, all eleven regional Savings Bank support funds are interconnected.

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

- the guarantee fund for Landesbanken and Girozentralen, and
- the guarantee fund for Landesbausparkassen.

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

- all Savings Bank guarantee funds,
- the guarantee funds for Landesbanken and Girozentralen, and
- the guarantee fund for Landesbausparkassen.

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

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

Assessing risk-based contributions to the institution protection scheme of the Savings Banks 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 a member institution 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 the institution protection scheme to continue building up its financial resources between now and 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 institutions

Sequence of actions to support a Savings Bank

1. Cash injection from the affected regional fund
2. Additional contributions from the affected regional fund
3. Cash injection from the other regional funds (supraregional compensation)
4. Additional contributions from the other regional funds (supraregional compensation)

Fund of the Landesbanken and Landesbausparkassen (system-wide equalisation)

Sequence of actions to support a Landesbank

1. Cash injection from the guarantee fund of the Landesbanken
2. Obligation to make additional contributions to the guarantee fund of the Landesbanken
3. Cash injection from the system-wide compensation mechanism (Savings Banks and Landesbausparkassen)
4. Obligation to make additional contributions to the system-wide equalisation scheme (Savings Banks and Landesbausparkassen)

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

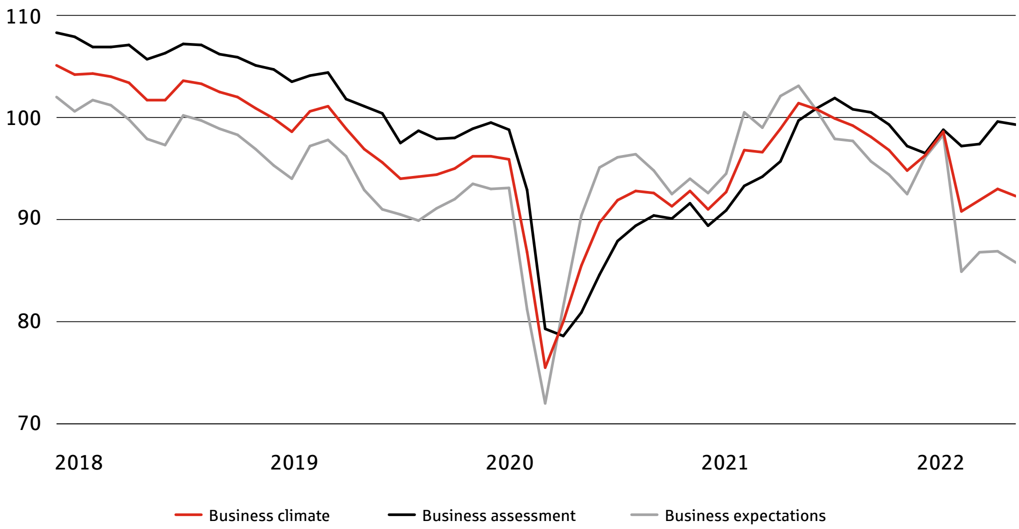
Report on expected developments

Economic environment 2022

At the beginning of 2022, the Corona infection figures in Germany reached new record levels. However, severe courses of the disease were significantly less frequent than in the previous two years. And despite re-imposed restrictions, the economy and the population have now learned to cope with the virus. The economic damage therefore remained more moderate. In general, the expectation at the beginning of 2022 was that the new year would bring a very strong recovery with the pandemic overcome and supply bottlenecks increasingly resolved.

But then war broke out in Eastern Europe with the Russian attack on Ukraine. With this, the situation was and is completely changed. New uncertainties have arisen and the bottlenecks have again worsened. Some supplier relationships with Eastern Europe fell away or are subject to sanctions. Other categories of goods such as food and especially energy raw materials have become very scarce on the world markets. All this is also reflected in the sentiment indicators.

Ifo Business Climate index for Trade and Industry[1]



[1] Source: ifo Institute.

Since the outbreak of the war, the predictions of relevant forecasting institutions have been scaled back, in some cases significantly. For example, the spring 2022 report of the German economic research institutes still assumed growth in Germany of 2.7 percent. This assessment was also shared in principle by the chief economists of the Savings Banks Finance Group in spring 2022. Since then, the relatively positive outlook from spring has deteriorated. Due to the threat of a gas supply freeze, growth of only 1 percent is now expected for Germany. If gas imports are halted in 2022, there is a real threat of a sharp recession. Energy supply security therefore constitutes the greatest known threat to development in 2022.

In addition, the growth prospects for Germany in 2022 remain below those of other industrialised countries, similar to 2021, and also below the recovery pace of the partner countries in the EU. Once again, one reason for this is the vulnerability of the industrial sector to supply bottlenecks, another is Germany's general exposure due to its dependence on Russian oil and gas, which is particularly difficult to replace in the short term.

In any case, upward pressure on prices has already intensified considerably. Relief due to a statistical effect at the beginning of the year – the elimination of the reduced VAT in the previous year's basis of comparison – had very little dampening effect. With the outbreak of war, the inflation dynamic accelerated again considerably. In the months of March to June, consumer prices rose by more than 7 percent compared with the same months of the previous year. At times, producer prices of industrial products even rose at annual rates of over 30 percent. For 2022 as a whole, average price increases of 7 to 8 percent are expected at consumer level. Although rates in 2023 are likely to decline, they will remain well above the ECB's target at over 3 percent in Germany and the euro zone as a whole. This would be the third year that the target has been exceeded.

Monetary policy will have to respond to this. The ECB should follow the example of other central banks and, after the (net) discontinuation of the purchase programmes, also raise its key interest rates as quickly as possible. Such a turnaround in interest rates is already priced into the money and capital markets. However, it remains to be seen what effect the key interest rate increases will have in the historically unknown situation of such high excess liquidity in the banking sector.

Business performance of the Savings Banks

In the first months of 2022, the Savings Banks recorded very good new lending business with companies and the self-employed, which was even slightly above the high level of the first quarter of 2021. In the case of private individuals, more loans were also approved in the first few months than in the same period of the previous years, with no decline in the granting of home loans evident to date despite the rise in interest rates.

In the deposit area, there has so far been no further structural shift towards demand deposits; these and total customer deposits declined slightly (not unusual for the first months of the year). In the customer securities business, turnover in the first months of 2022 did not reached the high level of the previous year, but net sales (purchases minus sales) were still significantly above the strong previous year's figure.

The unpredictability of the Russia-Ukraine war and the resulting economic consequences, such as increased supply chain problems and raw material shortages, lead to a significantly higher level of uncertainty in the results forecast than in normal financial years. At the same time, the impact of the Corona pandemic, which is weakening into an endemic, continues to diminish the results of the Savings Banks.

Despite the key interest rate conflict between high inflation rates and the economic uncertainties arising from the Ukraine war, the Savings Banks Finance Group expects the ECB to raise its key interest rate in the summer.

For the year as a whole, the Savings Banks Finance Group anticipates a decline in net interest income, a slight increase in commissions and a noticeable rise in operating expenses, with a simultaneous significant decline in personnel expenses, as total assets growth normalises.

Valuation expenses are expected to be significantly higher than in the previous year. Significant write-downs on interest-bearing securities are to be expected due to the rise in interest rates that has been initiated and is likely to continue. At the same time, market uncertainties are also burdening the investment values in direct investment and special funds. In addition, the Savings Banks Finance Group expects risk provisions in the lending business to normalise below pre-pandemic levels, apart from possible one-off special effects from the conversion of general loan loss provisions to the expected loss approach (IDW RS BFA7). Due to the lower operating result and the increasing valuation of securities, the scope for allocating provision reserves, which are used to strengthen capital in addition to the annual result after taxes, is expected to be lower.

Business development of the Landesbanken

2022 will be another challenging year for the Landesbanken. However, 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 has significant market positions in key loan and deposit categories: In corporate lending[1], their market share at the end of March 2022 was 12.1 percent and in corporate deposits 14.0 percent. In domestic public sector lending, they have a 28.6 percent share of the total market volume, and in their deposits, 19.1 percent. In the first quarter of 2022, the aggregate balance sheet total of the institutions grew at a slightly faster rate again compared with the same quarter of the previous year. Customer lending, especially corporate lending, continues to expand, so far somewhat more cautiously than in the same period last year. On the deposit side, customer deposits continue to rise, especially from companies.

The environment for the German banking industry will remain challenging in 2022. On the one hand, long-standing parameters such as persistently low interest rates, complex regulatory requirements and intense competition in the market will remain. On the other hand, the banking year will most likely be shaped by the consequences of geopolitical tensions – above all the war in Ukraine. In addition, the further development of the Corona pandemic in autumn/winter 2022 is currently difficult to predict. There is great uncertainty about economic developments, particularly regarding supply chain problems and high energy and product prices, which are a burden on companies and consumers and are holding back economic recovery. However, thanks to increased additions to loan loss provisions in previous years and the high resilience of the German SME sector, the overall risk situation is expected to normalise further in 2022. However, increased loan defaults in individual sectors cannot be ruled out – also in view of the expiry of government support measures. Although this could have a negative impact on the earnings situation of the institutions, the Landesbanken have a solid equity and liquidity position with a balanced risk profile.

Advancing 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 this digitalisation push. As a result, business models must be continuously adapted and corresponding investments made, especially in a modern, high-performing and efficient IT infrastructure. The institutions' digitalisation initiatives range from the customer interface to internal processes. With various cost-cutting measures and transformation programmes, the Landesbanken work continuously on strengthening their competitiveness.

In addition to digitalisation, sustainability is a key issue for the institutions, which offers the opportunity for the Landesbanken to further develop their business models. The Landesbanken will continue to expand their range of sustainable investment and financing options for their customers, as well as the advisory services for financing with sustainability components. Furthermore, corporate clients will receive increased support in their transformation towards sustainable business models. In order to make their contribution to environmental and climate protection, the institutions will make their business operations even more resource-efficient and continue to increase the share of ESG-compliant products in their portfolio. However, their commitment to social issues will also be strengthened to reflect their comprehensive approach.

[1] Investment loans excluding commercial housing.

The 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 the range of products and services, to create targeted product and service initiatives and to support the Savings Bank business with digital applications or platforms. In this way, the business potential of the Savings Banks can be further utilised and its 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, their trust-based cooperation with private and corporate customers, the Savings Banks and the public sector will continue successfully in 2022. In doing so, it is important to meet the challenges flexibly and promptly with the further development of the business models and to respond to new customer needs. The Group's strength should be deployed to actively accompany the transformation towards a more sustainable economy.

Business performance of the Landesbausparkassen

Due to the change in interest rates initiated by the central banks, home savings contracts and financing are likely to be increasingly perceived once again as instruments for long-term hedging of the risk of rising interest rates. Furthermore, rising capital market interest rates are expected to lead to increased use of low-interest loans in the contract portfolio for real estate financing. The home loan and savings business is receiving additional impetus from the improvement in the housing construction subsidy decided by the German government: since 2021, broad sections of the population have again benefited from the subsidy thanks to a significant increase in income limits. The subsidy rate, which has been increased to 10 percent, as well as higher savings benefits eligible for subsidies are helping to strengthen the formation of equity for the purchase of residential property.

Management outlook

As in the previous year, the Savings Banks supported their customers through difficult times in 2021. They further expanded their digital services, also enabling them to stay in touch during lockdown phases. They provided the regional economy with urgently needed liquidity. EUR 197.3 billion in new loans were granted by the Savings Banks – EUR 5.6 billion more than in 2020.

Despite difficult general conditions, the institutions also succeeded in an even broader basis for their tried-and-tested business model. The equity base was strengthened and the Savings Banks achieved greater independence from interest-earning business. On balance, the improved commission income largely, but not fully compensated for the declines in net interest income.

The Savings Banks' solidity and competence in crisis management will be particularly in demand in 2022: The war in Europe challenges the regional institutions in a variety of ways. For example, it was and still is necessary to provide access to financial services for war refugees from Ukraine and to support them with liquidity. The 224,000 accounts opened at the institutions of the Savings Banks Finance Group in the first three months after the outbreak of the war show how successful the institutions are in this regard.

Current developments are leading to further challenges. Supply chains are disrupted, shortages of raw materials, food and energy are driving up prices. The inflation rate expected by the Bundesbank to average over 7 percent for the year as a whole is restricting the financial scope of many companies and private households. The proportion of German households that are no longer able to save because of the high inflation rate threatens to rise from 42 percent to 60 percent; the middle class continues to shrink. The Savings Banks will be called upon to cushion the impact, for example by implementing government aid programmes.

Even raising interest rates will not improve the savings capacity of private households for the time being. Although the ECB announced a turnaround in interest rates in June, it also signaled that it would proceed in very small steps. These will be slow to reach savers.

The Savings Banks are also called upon to contribute to fundamental issues facing the economy and society, the urgency of which has become clear since the outbreak of the war: Reducing dependencies on individual countries in system-relevant fields, especially in supply chains, energy supply or digitalisation, is at the top of the agenda.

In order to promote the digital independence of our society, we have used the strength of our Group to campaign vigorously for a European payment system. Because people want to be able to pay without being dependent on American or Chinese corporations. It remains our mission to make payment possible anywhere, at any time and through all channels.

The Savings Banks also contribute to digitalisation by expanding broadband in many regions and by supporting local authorities in e-government. In 2021, citizens will have carried out twice as many transactions digitally with their local authorities as in 2020. The Savings Banks have made this possible with their payment solutions for electronic payment.

We will only be able to achieve energy independence, especially from Russia, if we reduce our consumption of fossil fuels and expand renewable energies. Both of these measures will also help protect the climate, which is one of the most important tasks facing our economy and society. However, the necessary energy transition requires a high level of capital investment. EUR 6 trillion must be invested in the necessary ecological renewal by 2045 at the latest. A substantial share of the capital for this transformation will have to come from the Savings Banks Finance Group.

The Savings Banks and their associated companies have long been involved in the relevant fields of activity. They finance wind farms, solar thermal or photovoltaic projects. They support companies in their sustainable transformation.

Many Savings Banks are also active in the modernisation of real estate, as buildings in Germany offer particular potential for saving energy and thus promoting climate protection and energy sovereignty. Around two million homes need to be renovated every year to improve their energy efficiency. In terms of market share, this equates to around 700,000 homes per year in the Savings Banks sector. The investments required for this amount to the equivalent of more than two percent of our customer loan portfolio each year.

Projects of this kind will continue to be made possible primarily through loan financing. But in view of the large capital requirements, other financing options such as syndicated loans and leasing will also be in greater demand. Nevertheless, these sources of financing will be barely sufficient in view of the enormous challenges facing us. It will also be important to make additional public subsidies or private capital available.

Supplementary report

No significant events have occurred since the balance sheet date of 31 December 2021.