4. MANAGEMENT REPORT

Economic report

Overall economic situation

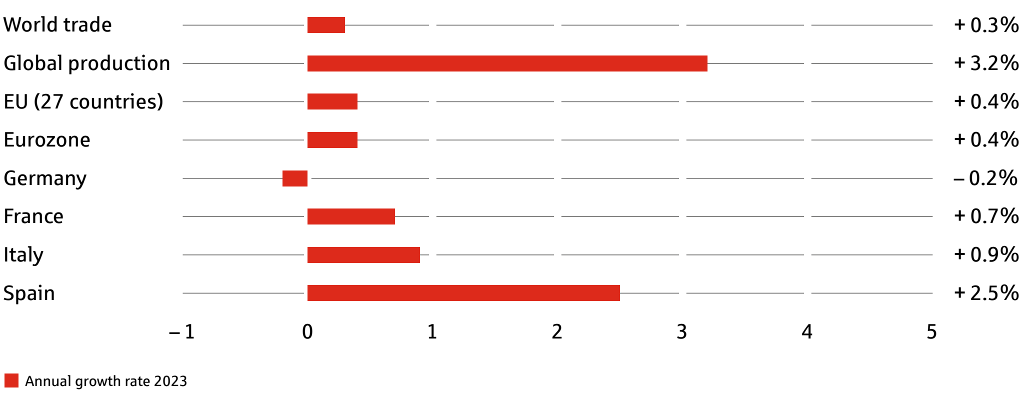
2023 was a year once again dominated by high inflation worldwide. Although the rates of price increases in most countries were no longer quite as high as they were at their peak in autumn 2022, the purchasing power of incomes remained under severe pressure. This weakened consumption. In addition, the continued rise in interest rates in almost all currency areas in 2023 dampened demand – in terms of consumption, but above all in terms of investment.

The International Monetary Fund (IMF) puts global output growth in 2023 at 3.2% overall and 1.6% for the group of advanced economies [1]. Although these figures are close to the long-term averages, a stronger recovery from the depressed levels of value added had been expected for the late phase of the coronavirus pandemic, which had largely been overcome. However, the envisaged recovery process actually came to a halt in the face of high inflation. Even global trade only expanded by 0.3% in 2023 according to the IMF's assessment. The stagnating exchange of goods, which lagged behind production, is a clear sign of the new geopolitical fragmentation and a disrupted international division of labour.

The USA has not been as badly affected as Europe by the war in Ukraine and the Middle East. It was also less affected by the significant rise in energy costs that subsequently occurred. For this reason, but also due to the continued fiscal stimulus, US gross domestic product grew at an above-average rate in 2023, which at 2.5% was even slightly faster than in the previous year.

By contrast, the eurozone, which had recovered very well in 2022, lost more of its growth momentum in 2023. It only achieved real growth of 0.4%. The annual rates for the eurozone as a whole and for most of its countries even exaggerate the development within the year as the average growth reported for the year stems almost entirely from the statistical overhang from the positive end of 2022. After that, the eurozone largely stagnated over the course of 2023 – with a few exceptions such as Spain, which has also continued to grow its GDP.

GDP growth in selected countries [1]



[1] Actual data for European countries from official statistics, source: Eurostat, data as of 16 April 2024, world trade and world production according to International Monetary Fund: World Economic Outlook as of 16 April 2024

[1] Aggregation of the individual economies with purchasing power-weighted exchange rates according to the IMF's World Economic Outlook of 16 April 2024.

Germany is at the other end of the European spectrum. Stagnation has been evident in this country for some time. Unlike the eurozone as a whole, Germany's annual growth rate in 2023 did not benefit from an overhang from the previous year. On the contrary: the final quarter of 2022 had already provided a very poor starting point in Germany. At that time, energy prices were at their highest levels and there were fears of a gas shortage with rationing in the winter of 2022 / 2023.

These fears did not materialise in the actual course of events. Nevertheless, Germany did not return to growth, but instead dragged itself through stagnation with quarterly GDP rates around zero over the course of 2023. The final quarter was even negative again. A price-adjusted GDP change rate of – 0.2% was reported for the German economy on average for 2023.

As the "equipment supplier to the world", with its range of exports focused on capital goods, Germany was negatively affected in two ways – not only by stagnating global trade but also by the sharp rise in interest rates in many currency areas, which curbed investment activity and dampened demand for German exports. Foreign trade only made a nominally positive contribution to growth in 2023 because Germany's imports shrank even more sharply – by 3.4% in price-adjusted terms – than exports, which fell by 2.2%.

In absolute terms, the development of foreign trade was considerably more favourable, as imports became significantly cheaper in 2023, offsetting the previous year's development. The terms-of-trade shock that Germany suffered in 2022 largely normalised again in 2023. Germany's current account surplus more than doubled in 2023, mainly due to the price corrections, and returned to its previously high levels of 5.9% of GDP, although this can also be interpreted negatively as an outflow of capital from Germany.

Construction investment in Germany fell by 2.7% in real terms in 2023, which was mainly due to high interest rates. This was exacerbated by high prices for construction materials and a high level of regulation. In contrast, German investment in equipment was able to defy the rise in interest rates for a long time in a special economic situation driven by the major trends of digitalisation and energy transition. They only tended to weaken towards the end of 2023. With a price-adjusted increase of 3.0% for the year as a whole, equipment was the only component of German GDP to develop positively in 2023.

Private consumption, the largest use of GDP, fell by 0.7% in real terms in 2023. Although wage growth more or less kept pace with the high rate of price increases in 2023, the gaps in income purchasing power created in the previous year had not yet been closed. Consumers remained cautious for the time being. As a result, the savings rate of private households rose slightly to 11.4%.

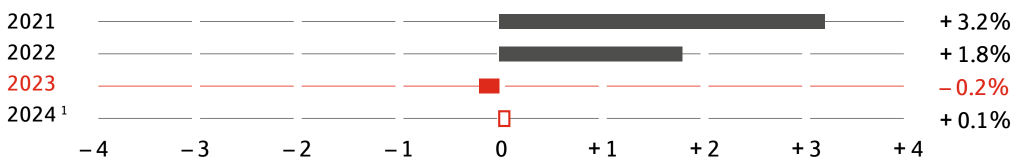
Consumer prices themselves rose by a further 5.9% on average in Germany in 2023, as measured by the national consumer price index (CPI). However, the upward price trend slowed significantly over the course of the year, led by falling energy, import and producer prices. At the end of the year, rates were also significantly lower at consumer level, and the three per cent mark came into view in a monthly comparison with the previous year.

The German labour market once again proved to be very robust in the face of overall economic stagnation. The unemployment rate rose only slightly to 5.7%. At the same time, the number of people in employment even increased slightly again in 2023. In mathematical terms, however, this does not bode well for productivity growth. Overall economic productivity per capita fell again in 2023.

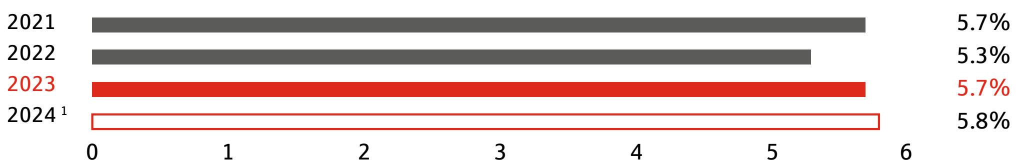
The expiry of most of the special coronavirus measures had a noticeable impact on public finances in 2023. There was hardly any need to procure vaccines and masks or make pandemic-related support payments to companies and households. Government spending rose more slowly than nominal GDP; the corresponding government spending ratio fell to 48.3%. Despite rising interest rates, the financing deficit was reduced. In 2023, it amounted to EUR 99.1 billion or 2.4% of GDP for the general government (federal government, federal states, municipalities, social security funds). Although the debt level of the general government continued to rise in absolute terms, it fell in relation to nominal GDP, which was increased by inflation, to around 63.6% of GDP at the end of the year.

Economic development – review and prospects 2021 – 2024

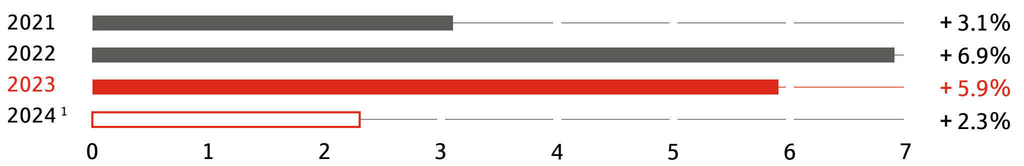
Growth in real gross domestic product (GDP) in % (Germany)



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



Change in the consumer price index in % (Germany)



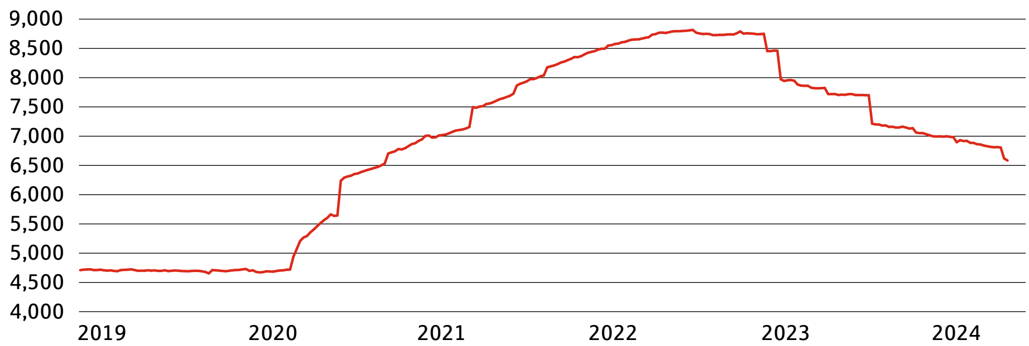
Actual data 2021 to 2023 from official statistics; Destatis and Federal Employment Agency.
[1] Forecasts for the year 2024 from the "Spring Report", Joint Economic Forecast of the German economic research institutes dated 27 March 2024.

Developments on the money and capital markets

Inflation, which initially remained at a high level in 2023, gave central banks in most currency areas reason to further tighten their monetary policy reins and continue to raise their key interest rates. This was also the case for the ECB, which only exited negative interest rate in 2022. At the start of 2023, the key interest rate in the eurozone was 2.0% as measured by the deposit facility. Over the course of the year, the ECB increased the key interest rate in six steps to 4.0%, which was then lowered by 25 basis points with effect from 12 June 2024.

Parallel to the interest rate hikes, the major central banks continued their quantitative tightening and reduced the size of their balance sheets. In the case of the Eurosystem, two factors contributed to this: Firstly, the ECB and the national central banks of the eurozone had no longer been replacing all amounts from maturing bonds in their general asset purchase programme (APP) since February 2023, and then none at all since July 2023.[2] Secondly, most of the long-term tenders (TLTROs) with their loans to credit institutions matured in 2023, including the most voluminous tranche of the tender series in June. At the end of 2023, only a small amount of the TLTROs was still outstanding. No new long-term tenders were issued. The combined effects of the maturing bonds in the APP and the redeemed TLTROs reduced the consolidated balance sheet total of the Eurosystem from just under EUR eight trillion at the beginning of 2023 to just under EUR seven trillion at the end of 2023.

Consolidated balance sheet total of the Eurosystem, in EUR billion

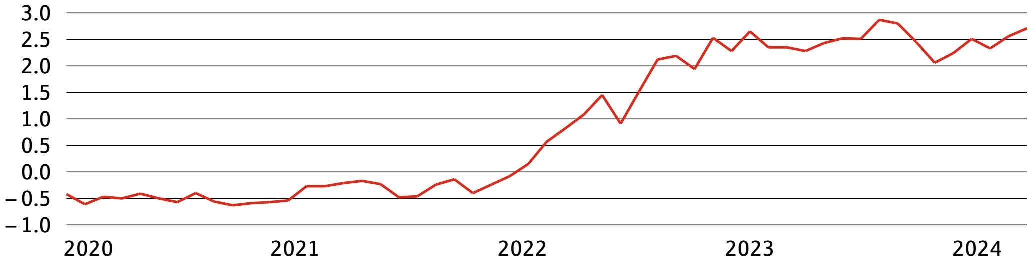


Source: European Central Bank

The capital markets had already priced in the phase of key interest rate hikes. After a sharp rise in 2022, yields on long-dated bonds tended to move sideways over the course of 2023. Yields on German government bonds with a ten-year residual term as a benchmark for the eurozone bond markets fluctuated in a range of just over 2% to just under 3%. They started the year at around 2.5% and peaked in the autumn shortly after the last key interest rate hike. By the end of the year, yields were down to just over 2%, close to the lows for the year. Following the significant fall in inflation rates towards the end of the year, the capital markets had already largely anticipated and priced in an imminent reversal in key interest rates. As we now know from the course of events that followed in the first half of 2024, the markets had evidently got ahead of themselves at the turn of the year 2023/2024. Since then, they have corrected their expectations to the effect that the key interest rate expectations would not materialise quite as quickly and strongly as assumed at the turn of the year.

[2] In the Eurosystem's second major purchase programme – the Pandemic Emergency Purchase Programme (PEPP) – maturing amounts in 2023 were still replaced in full. A gradual reduction in holdings was scheduled for announcement in mid-2024.

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

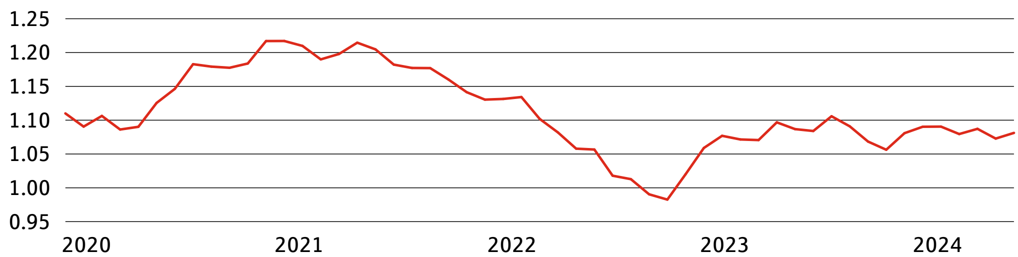


Source: Deutsche Bundesbank

In 2023, share prices were influenced to varying degrees by economic developments and interest rates. Share prices were subdued for much of the year, even falling significantly between August and October. The underlying factors at this time were increasing disillusionment with the real economic situation, stagnation and the lack of an upturn. However, a strong rise in share prices then set in during November and December, fuelled by the emerging hopes of interest rate cuts. With a year-end closing level of 13,924 points at the end of 2022 and 16,752 points at the end of 2023, the DAX recorded a positive annual performance of 20.3%.

The foreign exchange market was very quiet among the major currencies in 2023. The exchange rate between the US dollar and the euro moved sideways within a very narrow range. The low volatility was due to the fact that inflation and interest rate developments on both sides of the Atlantic were relatively similar and synchronised in 2023.

Exchange rate USD / EUR



Source: European Central Bank

Key markets and positioning

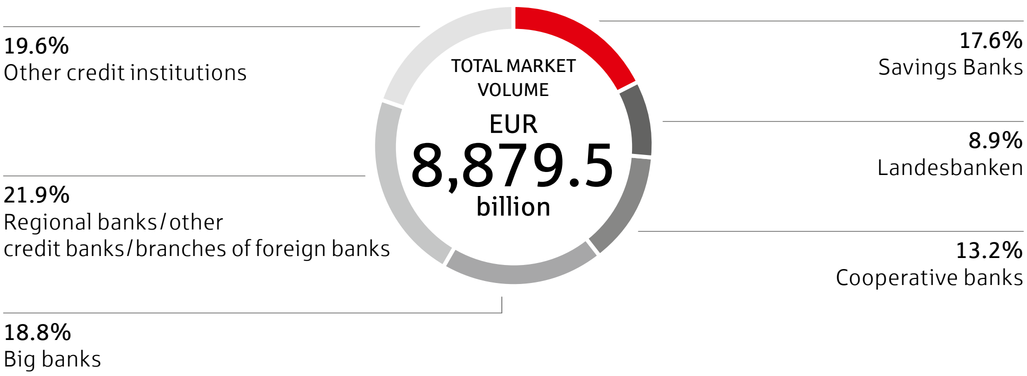
General overview

At the end of 2023, the institutions of the Savings Banks Finance Group[1] had a combined business volume[2] of EUR 2,346.7 billion. This represents a 26.5% share of the total market volume of EUR 8,879.5 billion in Germany.

The Savings Banks Finance Group's share of on-balance sheet banking business in the German banking industry fell by 0.4 percentage points compared to the previous year. The business volume of the Savings Banks decreased by 0.9%; the volume of the Landesbanken also fell by 0.7% compared to the previous year. The Savings Banks account for around 66% and the Landesbanken for around 34% of the Savings Banks Finance Group's business volume.

In a long-term comparison, the Savings Banks have consistently expanded their business volume through growing customer business. Since 2008, the Savings Banks' business volume has risen by around 45%. Between 2008 and 2016, the business volume of the Landesbanken more than halved. This reflects the strategic redimensioning process. Since 2017, the Landesbanken's business volume has been growing again, demonstrating the successful further development of their business models.

Market share by business volume* at the end of December 2023
As at: 31.12.2023



* Excluding derivative financial instruments in the trading portfolio.

The development of the German banking industry's customer business in the 2023 financial year was characterised by a significant slowdown in momentum for corporate loans. The increase in private residential construction loans was comparatively weak. The consumer loan portfolio declined slightly in the market as a whole.

Inflows of deposits from private individuals in the reporting year were below the previous year's figures in a medium-term comparison due to inflation and the crisis, while companies were only able to increase their liquidity slightly.

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

In customer lending business, the Savings Banks Finance Group recorded increasing market shares in corporate loans in the 2023 financial year, while losing market share in private housing loans. In consumer lending business, its shares declined in a slightly shrinking market, although this decline is mitigated significantly when Sparkassen Kreditpartner GmbH (SKP) is included.

The Savings Banks Finance Group lost market share in deposit business with private customers in 2023. In terms of its share in this business segment, it remains well ahead of the other banking groups. Although the Savings Banks Finance Group's share of deposits from domestic companies fell slightly in the reporting year, the Group was able to expand its market position significantly in the medium term.

Corporate lending business

Following a record increase of around EUR 150.9 billion or 9.0% in the previous year, the total market volume of corporate loans increased at a much slower rate in the 2023 financial year, rising by just EUR 21.4 billion or 1.2% to EUR 1,851.2 billion, representing the weakest growth since 2015. While companies and the self-employed have responded to the supply chain problems and rising costs by expanding their credit volume since 2022, momentum slowed considerably in the second half of 2023. The gloomy economic outlook and high interest rates left a clear mark on customer lending business.

Due to the comparatively stronger portfolio growth of EUR 12.8 billion or 1.8%, the Savings Banks Finance Group recorded portfolio growth above the banking average and thus gained market share. The growth rates of the Savings Banks in this segment exceeded those of the Landesbanken: the Savings Banks grew by 2.0% (or EUR 11.1 billion), while the Landesbanken grew by 0.9% (or EUR 9.7 billion).

Market share of corporate loans* at the end of December 2023
As at: 31.12.2023

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

The volume of corporate loans issued by the Savings Banks Finance Group totalled EUR 740.6 billion at the end of 2023. This represents a market share of 40.0%, with the Savings Banks accounting for 30.3 percentage points and the Landesbanken for 9.7 percentage points.

This means that the Savings Banks Finance Group remains the most important financial partner within the German banking industry, especially for small and medium-sized enterprises. This is followed at a considerable distance by the cooperative banks with 21.0%, the regional and other credit banks with 16.3% and the big banks with 11.1%.

Loans to private customers

Since 2017, the demand for loans for private residential construction has grown more strongly every year. The year 2022 marked a turning point due to the sharp rise in construction costs and the rise in interest rates. In the 2023 reporting year, the total market volume of private housing loans increased at a much slower rate compared to the previous year, rising by just EUR 6.3 billion or 0.6% to EUR 1,107.8 billion. Unfavourable financing conditions and persistently high construction, property and land prices led to widespread stagnation in the loan portfolio.

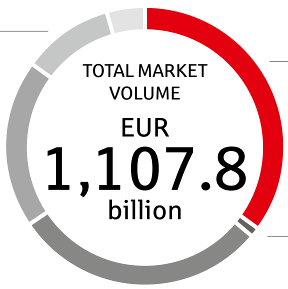
The Savings Banks Finance Group suffered marginal portfolio losses in 2023. The portfolio volume decreased by EUR 0.1 billion to EUR 401.8 billion. The Savings Banks account for 35.1% of the total market for residential construction loans. Together, the Savings Banks and Landesbanken have a market share of 36.2%. The second strongest group of institutions are the cooperative banks with a share of 29.4%, followed by the big banks with a share of 19.6% and the regional and other credit banks with a share of 10.6%.

Market share of private housing loans at the end of December 2023
Status: 31.12.2023

4.2%
Other credit institutions

10.6%
Regional banks/other credit banks/branches of foreign banks

19.6%
Big banks



35.1%
Savings Banks

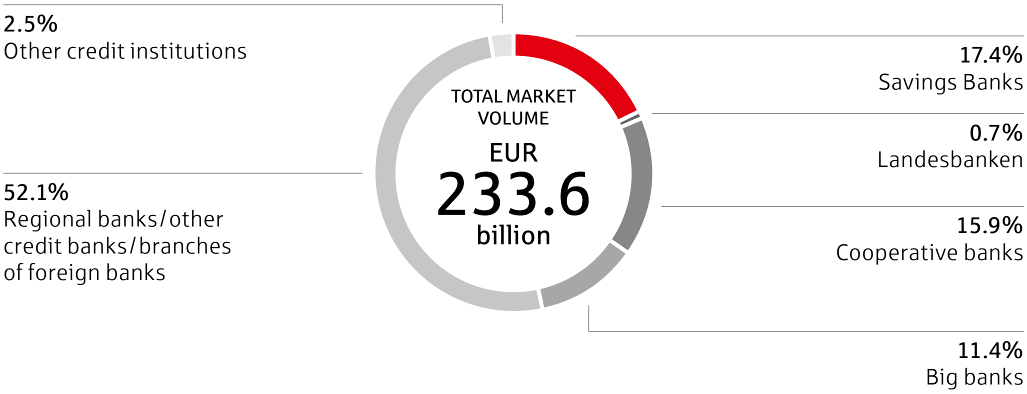
1.1%
Landesbanken

29.4%
Cooperative banks

In contrast to the previous year, consumer credit business across all bank groups declined slightly again in 2023. The market volume fell by EUR 0.8 billion or 0.3% to EUR 233.6 billion at the end of 2023. The institutions of the Savings Banks Finance Group recorded a portfolio decline of EUR 1.4 billion or 3.2% (previous year: – 0.9%) and lost market share. With a portfolio volume of EUR 42.3 billion and a share of 18.1%, the Savings Banks Finance Group is clearly behind the banking group of regional and other credit banks[3] (share 52.1%), but remains in second place. The market is primarily dominated by regional/other credit banks, which include almost all specialised lenders. These banks were able to further expand their share of consumer lending business in 2023. However, when analysing these figures based on the Bundesbank statistics, it should be noted that Sparkassen Kreditpartner GmbH (SKP) is not included in these overall market figures due to the reporting requirements of the Deutsche Bundesbank. According to our internal calculations, the market share of the Savings Banks Finance Group including SKP is 21.6%. Compared to 2022, the market position of the Savings Banks Finance Group including SKP has only fallen slightly.

[3] Including branches of foreign banks

Market share of consumer loans at the end of December 2023
As at: 31.12.2023



Deposits from private customers

The total market volume of deposits from private individuals[4] increased by 2.2% to EUR 2,546.1 billion last year. At EUR 53.7 billion, the absolute growth was below the previous year's figure (EUR 66.7 billion). In recent years, the annual increase in the portfolio has been significantly higher than this figure in some cases, making it the lowest growth since 2013.

There were different developments within the individual investment categories due to the sharp rise in interest rates in the reporting year: The market as a whole recorded continued portfolio outflows in savings deposits. A trend reversal took place in sight deposits: While sight deposits increased by 2.7% in the previous year, the portfolio volume fell very significantly by 7.2% in 2023. As in the previous year, holdings of private term deposits and savings certificates rose exceptionally sharply many times over, driven by interest rates and coming from a relatively low level. The market segment of term deposits for private customers in particular has been largely marginalised in Germany in recent years due to interest rate trends, but is now on the verge of an even stronger comeback.

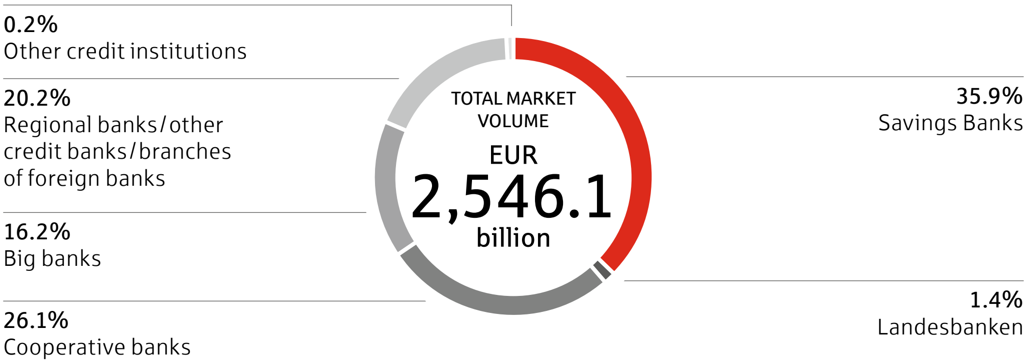
Developments in the Savings Banks Finance Group follow the general market trends in the individual deposit categories, but it has been able to gain market share particularly in term deposits and savings certificates.

On the one hand, the trend in 2023 shows the rediscovery of interest-bearing deposits among private customers, which is due to rising interest rates and began in the previous year. On the other hand, consumers' ability to save decreased due to real income losses caused by the high price increases in 2023 – both for energy and food.

In the 2023 reporting year, the Savings Banks Finance Group recorded an outflow of EUR 17.1 billion or 1.8% (previous year: +2.4%) to EUR 951.4 billion in deposits from private customers. The outflow of deposits led to declining market shares. The Savings Banks Finance Group achieved a market share of 37.3% at the end of the year.

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

Market share of deposits from private customers* at the end of December 2023
As at: 31.12.2023



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

The Savings Banks Finance Group remains the market leader in deposit business with private customers, ahead of the credit banks, which have a portfolio of EUR 926.5 billion and a market share of 36.4%. This includes the regional and other credit banks with a share of 20.2%. This group of institutions, which includes all direct banks (including “automotive banks”), was able to expand its market position the most. In third place is the group of cooperative banks, which is also strongly anchored in retail business. With a portfolio of EUR 663.9 billion at the end of the year, they accounted for 26.1% of total private deposits and recorded significant losses in market share.

Deposits from domestic companies

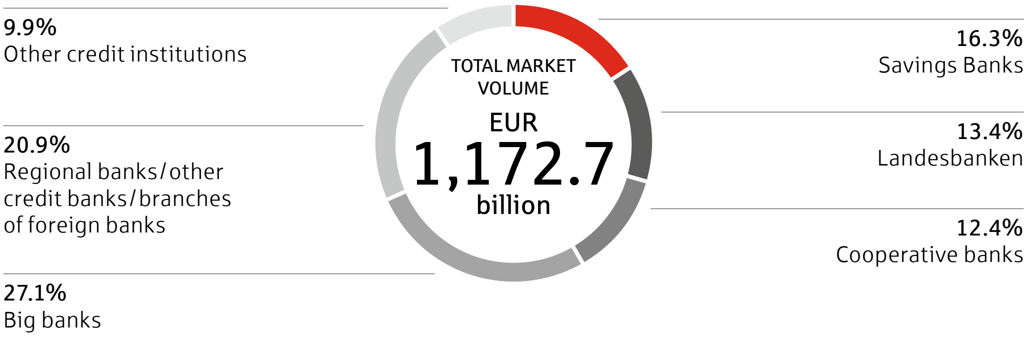
After private deposits, deposits from domestic companies are the second-largest segment of the German banking industry’s overall customer deposit business. They totalled EUR 1,172.7 billion at the end of 2023.

Deposits from domestic companies have recorded portfolio inflows every year since 2020. After a high increase in holdings of EUR 56.4 billion or 5.0% in 2022, the inflow in the 2023 financial year was comparatively low at EUR 9.0 billion or 0.8%. In the previous year, companies increased their liquidity in order to be prepared for larger inventories and rising costs, which they no longer had to build up as much in 2023.

The trend was largely similar for most bank groups. The volume of corporate deposits held by the Savings Banks increased by EUR 2.1 billion or 1.1% in the reporting year, and their market share rose slightly to 16.3%.

At the Landesbanken, deposits held by domestic companies decreased to EUR 157.8 billion at the end of 2023 (end of 2022: EUR 159.6 billion). With a market share of 13.4%, the Landesbanken continue to hold a strong market position in terms of deposits from domestic companies. Together with the Savings Banks, the Landesbanken had a market share of 29.7% in this deposit segment at the end of 2023.

Market share of deposits from domestic companies at the end of December 2023
As at: 31.12.2023



Even in times of crisis, Savings Banks remain a competent, reliable and, above all, strong partner for the international business of German companies

The weakness of the global economy is dampening demand. German companies are complaining about a lack of orders. The deficit for German foreign trade for 2023 as a whole is significant: Compared to the previous year, exports fell by 0.2% (2022: EUR 1,594.0 billion; 2023: EUR 1,590.1 billion), while imports fell by 9.3% (2022: EUR 1,505.4 billion; 2023: EUR 1,365.8 billion). In contrast, trade with EU countries grew at an above-average rate: 2.8% more goods arrived in Germany from other EU countries, while exports to EU countries increased by 5.4%.

Germany traditionally exports more goods than it imports and remains the world's third largest exporter of goods behind China and the USA. This means that the German export industry is of central importance for the country as a business location.

Germany's most important export goods in 2023 were once again motor vehicles and motor vehicle parts with a value of EUR 136.5 billion. This was followed by machinery with a value of EUR 112.4 billion. The most important import goods were also motor vehicles and motor vehicle parts with EUR 74.6 billion (+17.6%) and data processing equipment (EUR 70.3 billion +1.1%). As in previous years, the United States was the most important buyer of German goods. Goods worth EUR 78 billion were exported from Germany to the USA. France (EUR 60.5 billion) and the Netherlands (EUR 57.7 billion) were Germany's second and third most important export countries.

Greater diversification of Germany's trade and supply relationships is a key objective of the German government's foreign trade policy. The coronavirus pandemic has already highlighted the fragility of global supply chains and Germany's dependence on individual trading partners. Russia's war against Ukraine and the subsequent threat to Germany's energy supply security have revealed that transnational economic dependencies can also harbour considerable risks for Germany's geopolitical and economic ability to act.

In its National Security Strategy of 14 June 2023, the German government therefore emphasised the need to reduce one-sided dependencies in key areas of the German economy as far as possible and to prevent the emergence of new dependencies. The aim of this diversification is to secure Germany's global value chains in the long term by spreading risk more widely.

The Savings Banks Finance Group's EuropaService[5] provides support in the reorganisation of supply and sales relationships. It brings potential partners together through its connection to the Enterprise Europe Network. EuropaService also provides compact information on the business environment for trade and investment in over 40 European countries to ensure a well-informed start abroad. The European Savings and Retail Banking Group (ESBG) and the World Savings and Retail Banking Institute (WSBI) are further hubs for cross-border cooperation with and between Savings Banks and regional banks around the world.

The Savings Banks Finance Group has been supporting SMEs in their international business for many years. The expertise of the Savings Banks is bundled in S-International competence centres[6]. These offer companies suitable solutions and concepts for international commercial business as well as interest rate, currency and commodity management. This gives entrepreneurs throughout Germany access to specialised expertise, extensive professional competence and valuable experience in dealing with the specific features of cross-border trade. S-Internationals utilise an international network of over 10,000 correspondent banks in around 100 locations worldwide. Depending on the customer's needs, the regional banks, Deutsche Leasing and S-CountryDesk[7] support the customer directly on site and during important discussions in German.

In addition to the Savings Banks' existing range of traditional services, from foreign payment transactions to foreign trade financing, services are also being developed that offer the customer further added value, such as foreign trade and customs advice. The Savings Banks Finance Group is increasingly developing into a foreign trade manager for companies – regionally anchored and globally networked. Savings Banks are "the SME financier" in Germany and know how to utilise this strength for their customers abroad.

[5] Your partner for advice and information about Europe (dsgv.de). https://europaservice.dsgv.de/
[6] https://www.dsgv.de/sparkassen-finanzgruppe/organisation/S_Internationals.html
[7] The S-CountryDesk is another international network of the Savings Banks Finance Group. Specialist knowledge from many partners is pooled here and bundled into a complete service package. This benefits businesses in many ways. https://www.sparkasse.de/fk/produkte/auslandsgeschaeft/internationales-netzwerk/s-country-desk.html

Business performance and economic situation

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

In its operating business, the Savings Banks Finance Group recorded a significant year-on-year improvement in earnings in the 2023 financial year.

Net interest income developed very positively in the reporting year due to the persistently higher interest rate level. At the same time, the earnings situation of the Savings Banks Finance Group was fortunately relieved in the reporting year by a significantly lower valuation result[2]. Overall, the net result for the year (before and after taxes) was significantly higher than in 2022.

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

In operational terms, the Savings Banks Finance Group achieved an operating result before valuation of EUR 22.4 billion in 2023, which was significantly higher than in the previous year (EUR 16.7 billion). Against the backdrop of a stronger increase in administrative expenses, this growth is primarily due to a marked improvement in net interest income in the 2023 financial year. Net interest income rose to just under EUR 37.2 billion due to the turnaround in interest rates and once again far exceeded the previous year's result (EUR 29.9 billion) in the reporting year. At the same time, the Savings Banks Finance Group's net commission income increased by 2.5% to EUR 11.5 billion. Net trading income (net income from financial transactions), which is only relevant for the Landesbanken within the Savings Banks Finance Group, decreased to EUR 1.1 billion (2022: EUR 1.7 billion).

Administrative expenses rose by 5.5% to EUR 29.2 billion in 2023 due to the generally high inflation rate. This was due to both higher personnel and material expenses.

The cost-income ratio[3] of the entire Savings Banks Finance Group once again improved significantly in the 2023 financial year to 56.6% (previous year: 62.4%). This was primarily due to the increase in net interest income.

Despite rising risk provisions in the lending business, the Savings Banks Finance Group recorded a significant reduction in the valuation result in 2023 compared to the previous year. Net valuation expenses fell from EUR 6.3 billion in 2022 to EUR 3.9 billion in 2023. On the one hand, some institutions were able to realise valuation income for the securities business as a result of falling capital market interest rates and the resulting increase in prices for fixed-interest securities. In addition, there were recoveries from the high book value corrections of the previous year. On the other hand, additional risk provisions were created for the lending business due to existing uncertainties, such as the geopolitical situation or the continuing gloomy economic outlook. This further strengthened resilience against possible future loan defaults.

At first glance, the extraordinary result[4] had a somewhat greater negative impact on the earnings situation of the Savings Banks Finance Group in 2023 than in the previous financial year. At EUR 8.8 billion, the negative balance was higher than the previous year's figure of EUR 4.5 billion. However, the majority of this expense can be attributed to additions to the fund for general banking risks – and thus to strengthening equity – which totalled around EUR 7.9 billion in 2023.

[1] This chapter analyses the development of the Savings Banks, Landesbanken and Landesbausparkassen (Landesbanken excluding foreign branches, domestic and foreign subsidiaries and LBS).
[2] Write-downs and value adjustments on receivables and securities in the liquidity reserve (netted against income from write-ups to receivables and securities in the liquidity reserve) and 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 and 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 Deutsche Bundesbank, additions to and withdrawals from the fund for general banking risks are also included in the "extraordinary result" in accordance with Section 340g of the German commercial code.

Selected key figures of the Savings Banks Finance Group *

Selected balance sheet items

	Portfolio at the end of 2023 in EUR billion	Portfolio at the end of 2022 in EUR billion	Change in %
Loans and advances to banks (MFIs)[1]	**425.0**	454.5	–6.5
Loans and advances to non-banks (non-MFIs)	**1,478.6**	1,466.1	+0.9
Liabilities to banks (MFIs)	**370.2**	429.7	–13.9
Liabilities to non-banks (non-MFIs)	**1,515.2**	1,508.8	+0.4
Equity	**187.6**	183.7	+2.1
Total assets	**2,492.8**	2,539.2	–1.8
Core capital ratio in accordance with CRR[2] (in %; change in % points)	**16.0**	15.7	+0.3

Selected income statement items[3]

	2023[4] in EUR billion	2022 in EUR billion	Change in %
Net interest income	**37.19**	29.93	+24.2
Net commission income	**11.51**	11.23	+2.5
Net income from financial transactions	**1.06**	1.74	–39.1
Administrative expenses	**29.17**	27.65	+5.5
Operating result before valuation	**22.41**	16.67	+34.5
Operating result after valuation	**18.55**	10.39	+78.6
Net income before taxes	**9.71**	5.92	+64.1
Income taxes	**5.33**	3.48	+53.0
Net income after taxes	**4.38**	2.43	+80.0
of which net income after taxes of the Savings Banks	2.52	1.42	+77.8
of which net income after taxes of the Landesbanken	1.76	0.93	+89.0
of which net income after taxes of the Landesbausparkassen	0.10	0.08	+18.5

* Savings Banks Finance Group: 1. Savings Banks, 2. Landesbanken excluding foreign branches, excluding domestic and foreign Group subsidiaries, excluding LBS, 3. Landesbausparkassen (legally independent LBS and legally dependent departments of the Landesbanken).
[1] Monetary Financial Institutions
[2] Capital Requirement Regulation.
[3] The allocations to the fund for general banking risks in accordance with Section 340g of the German commercial code are considered 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 in the same way as the income statement statistics of the Deutsche Bundesbank as an appropriation of profit increasing the annual result.
[4] Preliminary figures from partly unaudited annual financial statements in accordance with German commercial code, rounding differences possible.

Overall, the member institutions of the Savings Banks Finance Group achieved a net income before taxes of around EUR 9.7 billion in 2023. This represents a significant improvement compared to the 2022 financial year, which the Group closed with a pre-tax profit of EUR 5.9 billion. After taxes, the Savings Banks Finance Group recorded a much higher annual result of EUR 4.4 billion in 2023 compared to the previous year (2022: EUR 2.4 billion).

In the past financial year, the increase in the Savings Banks Finance Group's aggregated total assets did not continue initially, but instead declined slightly. This was due to the reduction in interbank business, primarily as a result of expiring TLTRO III transactions with the ECB. In contrast, the Group continued to record growing customer business.

The Savings Banks Finance Group's total assets decreased by 1.8% to EUR 2,492.8 billion at the end of 2023 (previous year: +4.4%). Receivables from banks decreased by 6.5%, while liabilities to banks fell by 13.9%. In contrast, both the customer lending business and the customer deposit business were expanded. Receivables from non-banks increased by 0.9% to EUR 1,478.6 billion. The Savings Banks in particular were able to achieve higher growth in their lending business. Liabilities to non-banks of the Savings Banks Finance Group rose by 0.4% to EUR 1,515.2 billion.

187.6
EUR billion
BALANCE SHEET EQUITY OF THE SAVINGS BANKS FINANCE GROUP

The balance sheet equity of the Savings Banks Finance Group increased again in 2023. It grew by 2.1% to EUR 187.6 billion (previous year: +3.1%). This means that the Group once again improved its equity base in the past financial year.

The calculated Tier 1 capital of the Savings Banks Finance Group in accordance with CRR/CRD IV[5] increased to EUR 186.9 billion at the end of 2023 (end of 2022: EUR 181.7 billion). Despite the slight increase in the total risk contribution to EUR 1,166.2 billion[6] (end of 2022: EUR 1,157.7 billion), the Savings Banks Finance Group's Tier 1 capital ratio increased to 16.0% at the end of 2023 (end of 2022: 15.7%).

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, particularly to the many small and medium-sized enterprises.

1,512.7
EUR billion
BALANCE SHEET TOTAL OF THE SAVINGS BANKS

Business performance of the Savings Banks

The Savings Banks' total assets fell moderately by EUR –10.6 billion or 0.7% to a total of EUR 1,512.7 billion in 2023, after having risen sharply in some cases in previous years. The number of Savings Banks decreased by eight to 353 Savings Banks (previous year: 361).

Demand was very weak in customer lending business in comparison to previous years due to stagnating economic growth and a sharp decline in residential construction. New business remained more than 30% below 2022, while the Savings Banks recorded relatively low growth in their portfolios compared to previous years, with an increase of EUR 10.9 billion or 1.1% to EUR 1,020.4 billion.

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

In terms of customer deposits, the Savings Banks recorded a slight decline of EUR 5.2 billion (–0.5%) to a total of EUR 1,148.5 billion in 2023. With interest rates rising sharply over the course of the year, there was further significant growth in term deposits and own issues (primarily Savings Bank bonds), which, however, could not offset the losses in sight deposits and savings deposits.

In the customer securities business, the Savings Banks recorded a very good turnover of EUR 161.1 billion, which was +22.3% above the previous year. Net sales (purchases less sales) totalled EUR +30.6 billion, setting a new record.

As a result, financial asset formation in 2023 benefited from these high inflows from the securities business.

Including the home loan and savings business attributable to the Savings Banks and the attributable life insurance business, Savings Bank customers invested EUR 26.2 billion directly and indirectly with their Savings Bank.

Earnings situation

In the 2023 financial year, the earnings position of the Savings Banks in the operating business (operating result before valuation) continued to improve significantly. In particular, the persistently higher interest rate level in 2023 resulted in a significant increase in net interest income. The Savings Banks' 2023 income statement is also characterised by a significantly lower valuation result compared to the previous year, which therefore also contributes to a higher operating result after valuation. In the previous year, the effects of the sharp rise in interest rates were still reflected in high valuation expenses for the securities business.

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 further increase, this time by 26.6%, the Savings Banks achieved an outstanding net interest income of EUR 28.2 billion in the 2023 financial year (previous year: EUR 22.2 billion).

The main reason for this development is the sharp rise in the average interest rate for both short-term interbank receivables and the A securities account. Additionally, in customer business, margins in the deposit business have now normalised further due to the ongoing rise in interest rates. In the lending business, margins will decline slightly in 2023 amid subdued demand for credit. In turn, however, maturity transformation income was negative in the reporting year due to the increasingly inverse interest rate structure.

The Savings Banks' net commission income increased again by 2.9% to EUR 9.7 billion (previous year: EUR 9.4 billion). This improvement in earnings is mainly due to an increase in commission income from current account and card business. The Savings Banks also achieved growth again in 2023 from customer securities business.

In the wake of the generally high inflation rate and higher energy prices, the Savings Banks recorded an increase in costs. Compared to previous years, administrative expenses in the 2023 financial year increased by 5.8% to EUR 21.4 billion (previous year: EUR 20.3 billion). Institutions recorded an increase in operating expenses to EUR 8.5 billion (+8.5%) in the reporting year.

On the one hand, there was an increase in prices at all levels, while on the other hand modernisation investments were made due to the good operating results, which were reflected in the costs for operating and office equipment and for land and buildings. IT costs also rose significantly: once again, increasing regulation and the digitalisation and standardisation of processes made additional IT investments necessary. Ongoing work to optimise cost benefits can be seen in the increased expenses for business consulting services and other third-party services. The Savings Banks benefit from the reduction in the bank levy.

Personnel expenses increased noticeably by 4.1% in 2023 and totalled around EUR 13.0 billion (previous year: EUR 12.4 billion). The significant pay rises with stable employee capacities – in order to secure new talent and skilled labour – had a somewhat greater impact on personnel expenses.

The cost-income ratio[7] improved exceptionally strongly in the 2023 financial year, reaching 55.4% (previous year: 61.6%). The significant increase in net interest income and the rise in commission income had a positive effect, while the increase in administrative expenses had a negative impact.

The operating result before valuation thus increased extraordinarily strongly to EUR 17.3 billion (previous year: EUR 12.6 billion).

In terms of the valuation result[8], the Savings Banks recorded net valuation expenses of EUR 2.8 billion in 2023, which was well below the previous year's figure (EUR 4.6 billion). Due to the fall in capital market interest rates at the end of the year and rising prices for fixed-interest securities, the institutions were able to realise a net valuation gain for the securities business. In addition, the Savings Banks are now gradually realising the returns from the previous year's high book value adjustment through maturities, which will continue in the coming years.

As a result of the tighter economic situation, valuation expenses in the lending business in 2023 were higher than in the previous year (EUR 0.5 billion) at EUR 2.8 billion, but remained at a moderate level in the long term. Overall, SMEs have so far proven to be particularly resilient. Their solid equity base and ability to react extremely flexibly to changing circumstances have helped them in this respect. However, insolvency figures have risen significantly in certain sectors such as the construction industry and retail. In addition, the Savings Banks increased their value adjustments again as part of their cautious valuation practice in order to build up buffers for possible defaults.

The "extraordinary result"[9] of the Savings Banks in the 2023 financial year was once again strongly characterised by the additions to the fund for general banking risks in accordance with Section 340g of the German commercial code. At EUR 7.4 billion, the increase in the "§ 340g reserves" was well above the previous year's figure (2022: EUR 2.4 billion). Accordingly, the total "extraordinary result" in 2023 closed with a significantly higher negative balance of EUR 7.6 billion compared to the previous year.

6.8
EUR billion
NET INCOME BEFORE TAXES OF THE SAVINGS BANKS

Net income before taxes was noticeably relieved by the valuation result. With net income before taxes totalling EUR 6.8 billion, the Savings Banks' overall result in the 2023 financial year was significantly higher than the previous year's figure (2022: EUR 4.0 billion).

Net profit for the year after deduction of income taxes totalled around EUR 2.5 billion in the 2023 financial year, also well above the previous year's level (EUR 1.4 billion).

[7] Administrative expenses in relation to operating income.
[8] The valuation result consists of risk provisions in the lending business and additions to/reversals of contingency reserves in accordance with Section 340f of the German commercial code as well as write-downs and value adjustments on receivables and securities in the liquidity reserve (netted against income from write-ups to receivables and securities in the liquidity reserve).
[9] Balance of other and extraordinary income/expenses. In contrast to the income statement statistics of Deutsche Bundesbank, additions to and withdrawals from the fund for general banking risks are also included in the "extraordinary result" in accordance with Section 340g of the German commercial code.

Selected balance sheet and income statement items of the Savings Banks

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

	2023[1] in EUR billion	2022 in EUR billion	Changes 2023 compared to 2022 in EUR billion	%
Net interest income	**28.16**	22.24	+5.9	+26.6
Net commission income	**9.66**	9.39	+0.3	+2.9
Net result from financial transactions	**0.01**	0.01	+0.0	+57.1
Administrative expenses	**21.43**	20.26	+1.2	+5.8
Personnel expenses	12.96	12.44	+0.5	+4.1
Operating expenses (including depreciation of property, plant and equipment)	8.48	7.82	+0.7	+8.5
Operating result before valuation	**17.26**	12.61	+4.7	+36.9
Valuation result (without equity interests)	**–2.80**	–4.60	+1.8	–39.1
Operating result after valuation	**14.46**	8.00	+6.5	+80.6
Balance of other and extraordinary income/expenses[2,3]	**–7.63**	–3.98	+3.6	+91.8
of which: allocations to the fund for general banking risks in accordance with section 340g of the German commercial code	–7.41	–2.42	+5.0	>+100
Net profit before taxes	**6.83**	4.03	+2.8	+69.6
Profit-related taxes	**4.31**	2.61	+1.7	+65.2
Net income after taxes	**2.52**	1.42	+1.1	+77.8
Return on equity before taxes (in %, changes in & points)	**8.3**	6.1	–	+2.2
Cost-income ratio (in %, change in % points)[4]	**55.4**	61.6	–	–6.2

[1] Preliminary figures from partly unaudited annual financial statements in accordance with the German commercial code, rounding differences possible.
[2] The additions to the fund for general banking risks in accordance with Section 340g of the German commercial code are considered here – as in the "original" income statement in accordance with the German commercial code – as expenses that reduce the annual result.
[3] This includes the balance of gains from the sale of financial investments and securities held as fixed assets, write-downs on/write-ups of 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 10.9 billion in 2023. The Savings Banks thus expanded their portfolio by 1.1% to EUR 1,020.4 billion (previous year: +5.7%).

1,020.4
EUR billion
CUSTOMER LOANS

Overall, Savings Banks approved significantly fewer loans in new customer lending business in 2023 than in the previous year; at EUR 129.5 billion, the previous year's figure from 2022 was undercut by –31.7%.

One of the main pillars of the customer lending business is corporate lending. Over the course of 2023, the Savings Banks made new loan commitments of EUR 76.8 billion to companies and the self-employed; this is EUR 29.7 billion or –27.9% less than the all-time best figure from the previous year.

With an increase of EUR 11.1 billion (+2.1%), the Savings Banks achieved significantly lower growth compared to the record previous year (EUR +32.2 billion, +6.5%). The loan portfolio totalled EUR 539.3 billion at the end of December 2023. The repayment volume increased slightly; totalling EUR 68.4 billion and was therefore 2.4% higher than the previous year (EUR 66.8 billion).

Within corporate loans, investment and working capital loans rose by EUR 5.1 billion or 1.5% to EUR 352.3 billion in 2023 (previous year: +5.4%). In commercial housing construction, the loan portfolio increased by EUR +6.0 billion or +3.3% (previous year: +8.6%) to EUR 187.0 billion.

In 2023, the Savings Banks recorded an even sharper decline in new business in loans to private individuals than in corporate loans. For 2023 as a whole, the volume of commitments totalled EUR 43.0 billion, a decrease of EUR 30.6 billion (–41.6%) compared to 2022. The loan portfolio declined for the first time since 2008 (EUR –1.7 billion or –0.4% to EUR 423.4 billion).

The decline is primarily due to the development of private residential construction loans. New business totalled EUR 36.4 billion under difficult conditions; a drastic decline of EUR –28.2 billion (–43.6%) compared to 2022. High costs for property, building materials and trades had a strong dampening effect on demand amid higher interest rates. From Q1 to Q3, new business remained more than –50% below the previous year. In Q4, it was almost at the level of 2022 (only –1.3%), as business had already declined significantly in the last quarter of 2022. Over the course of the year, business followed the usual seasonal patterns, but at a significantly lower level. Rising interest rates also led to a number of potential customers putting their property purchase plans on hold for the time being.

The portfolio of private housing loans also declined. It decreased by EUR 0.6 billion in 2023 (–0.2%, previous year: +5.4%) and totalled EUR 384.8 billion at the end of 2023.

New business in consumer loans/other loans also declined slightly overall in 2023. Including the loans brokered to S-Kreditpartner GmbH (SKP), the Savings Banks committed EUR 10.2 billion, significantly less (–24.3%) than in the previous year. The corresponding portfolio also decreased by EUR 0.5 billion (–1.0%) to EUR 48.0 billion, with the weighting of loans brokered to SKP continuing to increase.

Loans to domestic public households increased by EUR 1.4 billion (+4.1%) to EUR 34.1 billion in 2023 (2022: +6.2%). At EUR 6.6 billion, new business was 11.1% above the previous year's figure.

Customer lending business at the Savings Banks

	2023 in EUR billion	2022 in EUR billion	Changes in EUR billion	Changes in %
Customer loans	**1,020.4**	1,009.5	+10.9	+1.1
Corporate loans[1]	**539.3**	528.1	+11.1	+2.1
Loans to private individuals	**423.4**	425.1	–1.7	–0.4
Private housing loans	384.8	385.4	–0.6	–0.2
Consumer loans / other loans	38.7	39.7	–1.1	–2.7
Note: Consumer loans / other loans including SKP loans	48.1	48.5	–0.5	–1.0
Loans to the public sector	**34.1**	32.7	+1.4	+4.1
Total loan commitments / loan disbursements to domestic customers	**129.5 / 139.7**	189.8 / 179.4	–60.2 / –39.7	–31.7 / –22.1
Loan commitments / loan disbursements companies and self-employed[1]	**76.8 / 80.9**	106.6 / 98.3	–29.7 / –17.4	–27.9 / –17.7
Loan commitments / loan disbursements private individuals	**43.0 / 49.7**	73.5 / 72.1	–30.6 / –22.5	–41.6 / –31.1

[1] Including loans for commercial housing loans.

Customer securities business

In customer securities business, total turnover (purchases plus sales) totalled a strong EUR 161.1 billion in 2023, EUR +29.3 billion or +22.3% more than in 2022. In a medium and long-term comparison, this turnover is the fourth highest ever, surpassed only by 2021, 2008 and 2007. This growth is due to bonds and certificates (primarily a booming certificate business), whose turnover almost doubled compared to the previous year (+96.6%); in contrast, turnover in equities (–13.3%) and investment funds (–5.5%) declined.

Net sales (purchases minus sales by customers) reached a new high of EUR +30.6 billion (previously EUR +29.5 billion in 2021). Customers invested the majority (EUR +26.1 billion) in bonds and certificates, some of this money is likely to have been reallocated from deposits. Net sales of investment funds were also positive at EUR +6.0 billion, while net sales of equities were slightly negative (EUR –1.5 billion).

Among the investment funds, equity funds (+EUR 4.3 billion), other funds (+EUR 2.0 billion) and open-ended property funds (+EUR 1.6 billion) recorded the highest positive balances.

Customer securities business at the Savings Banks

	2023 in EUR billion	2022 in EUR billion	Changes in EUR billion	Changes in %
Securities trading volume	**161.1**	131.7	+29.3	+22.3
Net securities sales[1]	**30.6**	29.0	+1.6	+5.6

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

1,148.5
EUR billion
CUSTOMER DEPOSITS WITH SAVINGS BANKS

Refinancing

The Savings Banks are mainly refinanced by deposits from private individuals and companies. The volume of customer deposits fell slightly in 2023 (EUR –5.2 billion or –0.5% to EUR 1,148.5 billion).

There were shifts within the deposit portfolio, with interest rates continuing to rise over the course of the year, customers invested in term deposits (EUR +65.1 billion or +263.9%) and own issues (EUR +57.3 billion or +181.6%, primarily short-term Savings Bank bonds); on the other hand, demand deposits (EUR –80.9 billion or –9.7%) and savings deposits (EUR –46.7 billion or –17.9%) were reduced.

In terms of the largest customer segments, deposits from private customers fell by EUR 17.9 billion (–2.0%) to EUR 864.7 billion (previous year: +2.3%). By contrast, companies increased their deposits by a further EUR 5.9 billion or +3.1% to EUR 194.5 billion in 2023 (previous year: +3.1%).

The Savings Banks thus continued to enjoy a comfortable refinancing situation. The entire customer lending business was refinanced through customer deposits.

Customer deposit business at the Savings Banks

	2023 in EUR billion	2022 in EUR billion	Changes in EUR billion	Changes in %
Customer deposits	**1,148.5**	1,153.7	–5.2	–0.5
of which savings deposits	214.6	261.3	–46.7	–17.9
of which own issues	88.8	31.5	+57.3	+181.6
of which time deposits	89.8	24.7	+65.1	+263.9
of which sight deposits	755.3	836.1	–80.9	–9.7

Financial asset formation

With slightly declining deposit business and high positive net sales in the securities business, customers, including the home loan and savings business attributable to the Savings Banks and the attributable life insurance business, accumulated additional assets totalling EUR 26.2 billion at the Savings Banks in 2023. Compared to the very high previous year's figure, this represents a decline of EUR –33.7 billion (–56.2%). Taking into account the building society and life insurance business, private individuals saved EUR 13.0 billion in additional funds with the Savings Banks. The decline compared to the previous year amounts to EUR 32.8 billion (–71.6%). After several years of extremely high levels of financial asset formation, new savings thus initially levelled off at around the 2013/2014 level.

26.2
EUR billion
FINANCIAL ASSETS OF CUSTOMERS

Customers' financial assets at the Savings Banks[1]

	2023 in EUR billion	2022 in EUR billion	Changes in EUR billion	Changes in %
Financial assets of customers[2]	**26.2**	60.0	–33.7	–56.2
Private financial asset formation	**13.0**	45.8	–32.8	–71.6

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

Equity

At the end of the 2023 financial year, the Savings Banks reported regulatory capital totalling EUR 145.2 billion. This was increased by a further EUR 4.2 billion over the course of the year, exclusively in the form of (hard) core capital. At the end of 2023, the total capital ratio was 16.85%; the Tier 1 capital ratio was 15.89% and, excluding hybrid core capital components, the Common Equity Tier 1 capital ratio was 15.87%. The total capital ratio, core capital ratio and common equity Tier 1 capital ratio are each 0.2 percentage points higher than the ratios for 2022. Irrespective of this, the regulatory requirements continue to be clearly exceeded for all key figures.

15.89 %
CORE CAPITAL RATIO OF THE SAVINGS BANKS

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

Regulatory ratios of the Savings Banks in accordance with CRR[1]

	2023 in %	2022 in %	Changes in % points
Core capital ratio	**15.89**	15.69	+0.20
Common equity tier 1 ratio	**15.87**	15.67	+0.20
Total capital ratio	**16.85**	16.64	+0.22

[1] CRR = Capital Requirements Regulation

Business performance of the Landesbanken

In the 2023 financial year, the Landesbank Group's business development was characterised by stable customer lending business, growing securitisation and deposit business and declining interbank business. Overall, total assets decreased compared to the previous year. In recent years, the majority of the Landesbanken recorded growth in total assets after significant reductions 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% as part of the strategic measures to redimension and realign the Landesbanken. The exit of HSH Nordbank in 2018 and the streamlining of the portfolio at NORD/LB contributed to the further consolidation of the Group.

The institutions[10] reported total assets of EUR 903.7 billion in 2023, down EUR 35.9 billion or 3.8% on the previous year. In the previous year, total assets increased by + 9.6%. This means that the Landesbanken did not initially continue the trend of expanding on-balance sheet business in 2023. The main reason for this development was the significant decline in interbank business. Landesbanken recorded high inflows in securitised liabilities and liabilities to customers. Landesbanken increasingly reduced their other assets and liabilities in 2023.

Lending business

On the assets side of the interbank business, the Landesbanken recorded a decrease of EUR – 18.1 billion or – 6.6% to EUR 257.3 billion in loans and advances to banks in 2023 (previous year: +70.9%). This is mainly due to the decrease in loans and advances to domestic banks (excluding Savings Banks), which were reduced by EUR – 17.5 billion to EUR 131.1 billion. This also reflects, among other things, the lower utilisation of the deposit facility with the ECB due to interest rates, which is reported under interbank receivables. The receivables of the Landesbanken from Savings Banks increased by EUR +3.8 billion to EUR 73.9 billion. In contrast, the Landesbanken recorded a decline of EUR – 4.5 billion in receivables from foreign banks.

417.1
EUR billion
CUSTOMER LOANS OF THE LANDESBANKEN

In customer lending business, the Landesbanken recorded stable development in the past financial year. Loans and advances to non-banks decreased slightly by EUR – 0.7 billion or – 0.2% to EUR 417.1 billion (previous year: +3.4%).

There was positive momentum from the moderate increase in receivables from domestic and foreign companies. These increased by EUR +2.0 billion or +0.6% to EUR 313.8 billion (previous year: EUR +15.8 billion or +5.3%). The focus here was on both domestic and foreign corporate client business: loans and advances to domestic companies increased by EUR +1.2 billion or 0.7% to EUR 191.9 billion. Loans and advances to foreign companies also increased by EUR +0.8 billion or +0.6% to EUR 121.9 billion.

Loans and advances to domestic and foreign public-sector entities fell by EUR – 1.6 billion or – 2.1% to EUR 72.5 billion in the reporting year (previous year: EUR – 2.6 billion or – 3.4%). Loans and advances to domestic private individuals (including non-profit organisations) fell by EUR – 1.1 billion or – 3.4% to EUR 30.8 billion (previous year: EUR +0.7 billion or +2.3%).

[10] This chapter analyses the five Landesbank groups, Landesbank Berlin/Berliner Sparkasse and DekaBank.

Securities business

The Landesbanken increased their own investments in securities in 2023. In contrast to the previous year, the total portfolio rose by +0.9% to EUR 97.9 billion (previous year: –0.4%). The highest inflow in volume can be found in investments in the securities category of bank bonds. Holdings here increased by EUR +3.8 billion or +7.1% to EUR 57.9 billion. The volume invested in "government bonds" grew to EUR 20.9 billion (+1.0%).

While the growth in money market securities was still extraordinarily high in the previous year (+240.2%), it fell by –27.2% to EUR 3.4 billion in the reporting year. The portfolio of corporate bonds was also reduced to EUR 14.2 billion (–2.2%).

As in 2022, the securities portfolios invested in non-fixed-income securities (shares, investment certificates) decreased further by –50.1%. With a portfolio of just EUR 1.6 billion at the end of 2023, they play a subordinate role.

At the end of 2023, the focus of the Landesbanken's securities account A was on bank bonds with a structural share of 59.1%, followed by public-sector bonds and debentures at 21.3% and corporate bonds at 14.5%. Money market securities with a structural share of 3.5% and securities portfolios invested in non-fixed-interest securities with 1.6% are of secondary importance.

Refinancing

In terms of customer deposits, the Landesbanken recorded a portfolio inflow of +4.7% to EUR 311.0 billion in 2023. In 2022, customer deposits had increased very strongly by +9.5%. The increase in 2023 was once again due to the development of liabilities to domestic public-sector entities, which again increased significantly by EUR +17.8 billion or +44.4% to EUR 57.7 billion.

311.0
EUR billion
CUSTOMER DEPOSITS OF THE LANDESBANKEN

In contrast, liabilities to domestic and foreign companies fell by EUR –4.7 billion or –2.4% to EUR 189.1 billion. Outflows were recorded both in liabilities to domestic companies, which fell by –1.9% to EUR 162.8 billion, and in liabilities to foreign companies, which decreased by –5.3% to EUR 26.3 billion. A more differentiated analysis of the domestic corporate sector shows that the reduction in the reporting year is attributable to the development in the real economy corporate sector (–2.6% to EUR 70.2 billion) and financial institutions (–3.6% to EUR 39.2 billion). Liabilities to insurance companies remained stable at +0.2% to EUR 53.3 billion.

Deposits from domestic private individuals (including non-profit organisations) grew by +1.3% to EUR 63.0 billion.

The Landesbanken continued to reduce their interbank liabilities in 2023. These fell by –17.6% to EUR 207.6 billion (previous year: –4.3%). In the past year, liabilities to Savings Banks decreased by –10.0% to EUR 27.1 billion; liabilities to domestic banks (excluding Savings Banks) fell by –18.3% to EUR 152.8 billion. Liabilities to foreign banks totalled EUR 27.7 billion, down –20.6% (previous year: –13.9%).

As in the previous year, the Landesbanken reported an increase in securitised liabilities in 2023. The portfolio increased sharply by +12.9% to EUR 206.5 billion.

16.4 %

CORE CAPITAL RATIO
OF THE LANDESBANKEN

Equity

The balance sheet equity of the Landesbanken increased slightly by +0.2% from EUR 45.0 billion to EUR 45.1 billion in 2023. The majority of institutions were able to strengthen this balance sheet item.

The regulatory core capital of the Landesbanken calculated on the basis of CRR/CRD IV increased by + 2.0% to EUR 46.0 billion at the end of 2023 (end of 2022: EUR 45.1 billion). The total risk contribution (counterparty default risks, market risk positions and other risks) was reduced by – 2.2% to EUR 281.0 billion (end of 2022: EUR 287.2 billion). As a result of these two developments, the core capital ratio in accordance with CRR/CRD IV of the Landesbank Group increased by + 0.7 percentage points and amounted to 16.4% at the end of 2023 (end of 2022: 15.7%).

The Landesbanken have managed to reorganise and realign themselves following various crises. Risk-weighted assets were systematically reduced and the capital ratios further expanded. As a result, the Landesbank Group has a solid core capital base.

Regulatory ratios of the Landesbanken in accordance with CRR

	2023 in %	2022 in %	Change in % points
Core capital ratio	**16.4**	15.7	0.7
Common equity tier 1 ratio	**15.8**	15.1	0.7
Total capital ratio	**20.4**	19.8	0.5

Operating results[11]

As in the previous year, the Landesbanken once again achieved a significantly improved operating result in the 2023 reporting year. It rose by 29.3%. This increase is primarily attributable to the following two developments: The Landesbanken recorded very strong growth in both net interest income (up EUR 1.3 billion to a level of EUR 8.3 billion) and other operating income (up EUR 0.8 billion to EUR 0.9 billion).

The development of administrative expenses had a slightly negative impact on earnings, but only increased by EUR 0.3 billion compared to the previous year, reaching a level of EUR 7.1 billion in 2023. Both personnel and operating expenses increased.

Overall, the Landesbanken achieved an operating result before valuation of EUR 5.0 billion in 2023 (previous year: EUR 3.9 billion). The cost-income ratio of the Landesbanken[12] once again improved significantly to 58.4% (previous year: 63.5%) due to the earnings performance outlined above.

In the reporting year, the Landesbanken incurred valuation expenses of EUR 1.0 billion, which had a noticeably lower impact on the Landesbank Group's annual result compared to 2022. In the previous year, there was a higher net valuation expense of EUR 1.7 billion. In the reporting year, the Landesbanken recognised additional risk provisions for the lending business due to existing uncertainties, such as the geopolitical situation or the continued gloomy economic outlook. This further strengthened resilience against possible future loan defaults.

[11] Source: German commercial code individual financial statements of the Landesbanken (including DekaBank).
[12] Administrative expenses in relation to operating income (sum of net interest income and net commission income, net result from financial transactions and other operating income).

Selected balance sheet items of the Landesbanken (including DekaBank)

	Portfolio at year-end 2023 in EUR billion	Portfolio at year-end 2022 in EUR billion	Change in %
Loans and advances to banks (MFIs)[1]	**257.3**	275.4	–6.6
Loans and advances to non-banks (non-MFIs)	**417.1**	417.7	–0.2
Liabilities to banks (MFIs)	**207.6**	252.0	–17.6
Liabilities to non-banks (non-MFIs)	**311.0**	297.2	+4.7
Balance sheet total	**903.7**	939.6	–3.8

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

	2023[3] in EUR billion	2022 in EUR billion	Change in %
Net interest income	**8.28**	6.99	+18.4
Net commission income	**1.80**	1.80	+0.3
Net income from financial transactions	**1.04**	1.73	–39.6
Administrative expenses	**7.05**	6.75	+4.5
Operating result before valuation	**5.02**	3.88	+29.3
Valuation result (excluding equity interests)	**–1.02**	–1.68	–39.5
Operating result after valuation	**4.00**	2.20	+81.7
Balance of other and extraordinary income/expenses[2,4]	**–1.21**	–0.40	>+100
of which: withdrawals from (+)/allocations to (-) fund for general banking risks in accordance with section 340g of the German commercial code	–0.49	–0.22	>+100
Net profits before taxes	**2.79**	1.80	+55.0
Profit-related taxes	**1.03**	0.87	+18.6
Net profit after taxes	**1.76**	0.93	+89.0

[1] Monetary Financial Institutions
[2] Allocations to the fund for general banking risks in accordance with Section 340g of the German commercial code are considered here – as in the “original” income statement in accordance with the German commercial code – as expenses reducing the annual result; accordingly, withdrawals from this fund are treated as income increasing the annual result.
[3] Preliminary figures from partly unaudited annual financial statements in accordance with the German commercial code, rounding differences possible.
[4] This includes the balance of gains from the sale of financial investments and securities held as fixed assets, write-downs on/write-ups of 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, withdrawals from this fund with a positive sign).

The result from the “extraordinary account” [13] was negative in 2023 – as in the previous year – and had a greater negative impact on earnings at EUR 1.2 billion. The result from the valuation and financial investment business was clearly negative in the reporting year with net valuation expenses of EUR 0.7 billion. The extraordinary result only had a minor negative impact. The main reason for the negative result from the valuation and financial investment business was the additions to the fund for general banking risks of EUR 0.5 billion, which were also recognised under this item.

Overall, the Landesbanken generated a strong pre-tax profit of EUR 2.8 billion in the 2023 financial year (previous year: EUR 1.8 billion). After deducting profit-related taxes, the Landesbanken closed the 2023 financial year with a significantly higher net profit after taxes of EUR 1.8 billion. In 2022, the Landesbanken recorded net income after taxes of just under EUR 0.9 billion.

Business performance of the Landesbausparkassen

The rediscovered appeal of the home loan and savings contract also defined the 2023 financial year for the Landesbausparkassen: A total of 503,000 new home loan and savings contracts with a volume of EUR 32.4 billion were concluded. The number of contracts thus grew by 4.3%, while the home loan and savings volume fell by 1.5%. Since the sharp rise in capital market interest rates at the beginning of 2022, building society savings are once again being increasingly perceived by the population as a product that represents secure equity capital formation coupled with the right to a low-interest loan.

In a persistently difficult environment for those wishing to build and buy, with interest rates rising sharply and construction prices high, the Landesbausparkassen were also able to make a valuable contribution to stabilising residential construction financing. In total, building society funds amounting to EUR 11.9 billion flowed into the housing market. The LBS Group was thus able to exceed the high level of the previous year by a further 17.2%. The portfolio of building loans climbed to EUR 39.0 billion; this corresponds to an increase of 6.9% compared to the previous year.

At EUR 64,500 (– 5.5%), the average home loan and savings amount in new business once again reached a very high level. This shows that people are showing little change in their savings behaviour and are adapting it to the constantly growing equity requirements resulting from the extreme rise in property prices in recent years.

The “Savings Banks’ building societies” are the undisputed market leader in the home loan and savings business in Germany. Their market share is 33.2% in terms of the number of new contracts concluded in 2023 and 32.8% in terms of home loan and savings amounts. LBS has a market share of 35.7% (number of contracts) and 33.7% (home loan and savings amount) in the contract portfolio. In the “Wohn-Riester” business, LBS’s market share is 44.8%; this corresponds to around 709,000 contracts with a home loan and savings sum of EUR 32.7 billion (– 6.7%).

[13] Balance of other and extraordinary income / expenses. In contrast to the income statement statistics of Deutsche Bundesbank, additions to and withdrawals from the fund for general banking risks are also included in the “extraordinary result” in accordance with Section 340g German commercial code.

At the end of 2023, the five state building societies had a total of 7.84 million home loan and savings contracts (–3.1%) with a volume of EUR 324 billion (+3.5%).

The Landesbausparkassen have 503 advisory centres; the number of office and field staff totals 6,285. At EUR 76.4 billion (+0.3%), the LBS Group's cumulative total assets reached a new high at the end of 2023.

Business performance of the Landesbausparkassen

	2023	2022	Change in %
New contracts concluded			
Number (million)	**0.5**	0.48	4.3
Home loan and savings amount (EUR billion)	**32.4**	32.9	–1.5
Contract portfolio			
Number (million)	**7.84**	8.09	–3.1
Home loan and savings amount (EUR billion)	**324.2**	313.4	3.5
Cash inflow (EUR billion)			
In total	**10.7**	11.0	–2.9
of which savings contributions	8.6	8.8	–2.5
New capital commitments (EUR billion)	**13.2**	13.4	–1.1
Capital disbursements (EUR billion)	**11.9**	10.2	17.2
Total assets (EUR billion)	**76.4**	76.2	0.3
Net income after taxes (EUR million)	**99.3**	83.8	18.5
Employees (including field staff)			
Total	**6,285**	6,400	–1.8
of which trainees	147	130	13.1
			Change in % points
Market share (number of contracts)			
New contracts	**33.2**	35.0	–1.8
Contract portfolio	**35.7**	35.6	0.1

Human resources management and social commitment

Human resources management

As of 31 December 2023, the Savings Banks Finance Group employed a total of 274,600 people (previous year: 272,600). As one of the largest employers in Germany, our aim is to offer every employee development opportunities and flexibility and to ensure a stable future in uncertain times, thus creating an attractive working environment.

In a world that continues to be dominated by far-reaching changes, corporate success can only be achieved with contented, competent and innovative employees. A modern and family-friendly human resources policy is therefore essential for the Savings Banks Finance Group, which places customer satisfaction, security, trust, process optimisation, sustainability and long-term stability at the heart of its activities.

The Savings Banks Finance Group's HR strategy comprises the four areas of recruiting and retention, qualification, transformation and management of human resources, which are divided into eight focus areas. These are consistent with the business strategy and are coordinated centrally by the DSGV's human resources committee. In addition, project groups are formed with specialists from institutions and association partners to put projects into practice. In this way, a good pooling of resources within the association is ensured and the institutions are given the scope to develop customised HR strategies.

With their modern working conditions and excellent terms and conditions, the institutions of the Savings Banks Finance Group are among the most popular employers in Germany and have regularly been named the most attractive employers.

Recruitment of trainees is back to pre-pandemic level

Dual vocational training traditionally dominates the Savings Banks' recruitment activities. In 2023, 5,010 young people were recruited, up a strong 14% on the previous year (2022: + 0.4%), thus returning to the level of the pre-pandemic years. A total of 6,116 apprentices, dual students and trainees started their programmes in the Savings Banks Finance Group in 2023. The Savings Banks started with a significantly higher demand for trainees in almost all areas of the association compared to previous years and were also able to realise significantly more new hires.

Dual study programmes are increasingly being offered and provide high school graduates who wish to obtain a university degree with a sound, practical alternative to traditional Savings Bank training.

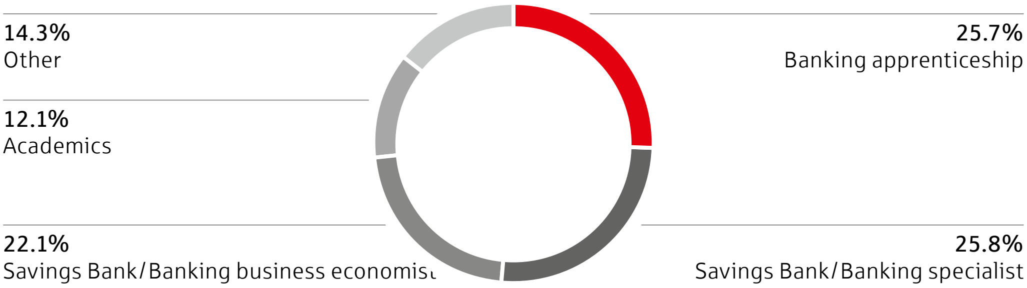
Apprenticeship and dual study programme

More than half of all bank employees in Germany are trained in the Savings Banks (just under 55%); this is shown by the current portfolio data. The training ratio of 7.7%, i.e. the proportion of trainees in relation to the number of employees, also shows the significance of training young talent in the Group. It is also worth mentioning that the best bank trainees in Germany come from Savings Banks. Our retention rate is also the highest in the German financial world.

The Savings Banks thus continue to be synonymous with first-class training in the financial services sector.

With its wide range of dual study programmes, integrated degree courses and trainee programmes, the Savings Banks Finance Group is able to meet its demand for young talent.

Savings Banks employees: Qualification structure [1]
As at: 31.12.2023



[1] Active bank-specific employees (headcount data).

Business development shapes recruitment trends

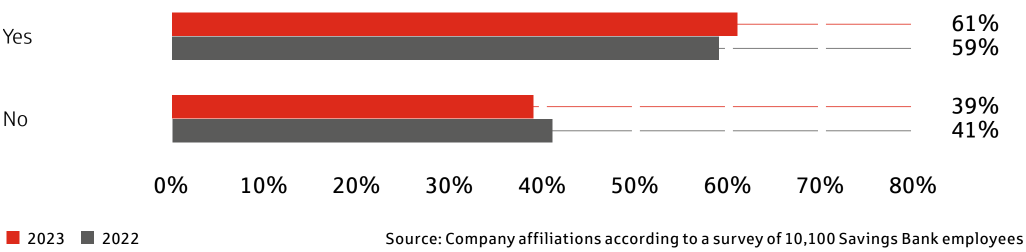
Compared to corporate customer support, private customer support remains much more in the focus of the Group's ongoing recruitment activities and is particularly suitable for the integration of specialists without a banking background. Specific programmes offered by the Savings Bank academies enable a quick and comprehensive start and ensure the necessary specialist qualifications. Web-based training courses and face-to-face events offer a comprehensive range of options and enable a customised fit with the circumstances of the applicants.

In 2023, the thematic focus of recruitment was on the lending business and property sector. The need for personnel in sales and operations was equally high overall and can be interpreted as a sign of growth after the crisis years on the one hand, and a logical consequence of the previous years' business development on the other. It should also be noted that there is a high demand for managers, both as a consequence of demographic change and the Group's strong growth in its operating business, which began in 2022.

Employer brand and repositioning

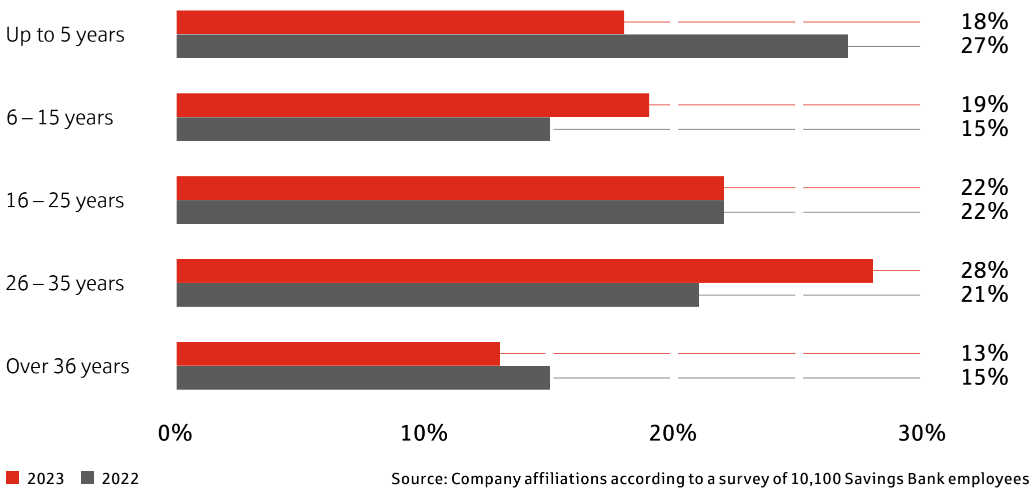
A strong employer brand is crucial for companies to attract talent, strengthen their competitive advantage and promote employee retention. The relatively low external employee turnover at the Savings Banks of 5.3% in 2023 is a clear sign of a good corporate culture, as the Savings Banks' employee survey shows. Nevertheless, the internal and external assessment of the employer brand in 2023 will lead to a repositioning from 2024.

Savings Bank is the first employer



Source: Company affiliations according to a survey of 10,100 Savings Bank employees

Many years of employment are evidence of a good corporate culture in Savings Banks



Source: Company affiliations according to a survey of 10,100 Savings Bank employees

This should not only optimise the image of the Savings Banks Finance Group, but also strengthen an open and appreciative corporate culture and promote innovation and cooperation. A strong corporate culture leads to employees identifying with the Group's goals and contributes to the sustainable success of the institutions of the Savings Banks Finance Group, ensuring the attractiveness of the Savings Banks for both current and future employees.

Further education and training

The Savings Banks Finance Group's personnel development programmes include all instruments and measures for the development of employees and managers. Organisational development measures are also used to create targeted, sustainable learning environments, development opportunities and transformation processes.

For example, the nine regionally anchored academies offer study programmes to become a Savings Bank business administrator as well as further education and training to become a Savings Bank business economist in classroom and online formats.

Cooperation with universities enables access to academic qualifications. The programme offered by the Savings Banks academies also includes specially designed seminars and conferences on a wide range of topics as well as training and coaching measures at the local Savings Banks. This means that the desire for academic qualifications and the development potential of employees can be individually promoted. We are particularly pleased that the satisfaction of our employees with regard to further training opportunities has been tested and confirmed by the employer brand survey.

Whether compliance-relevant training, professional qualifications or the promotion of specialist or management careers: the internal training system, consisting of the academies and the School of Finance & Management, provides high-quality and attractive courses. These include interdisciplinary topics in the areas of communication, promotional mandate, self-organisation and work organisation, as well as digitalisation, change and future skills.

Transformation

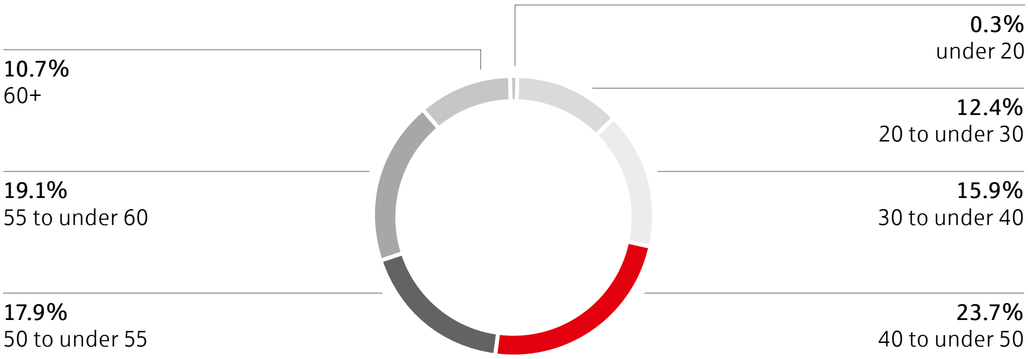
Since the public availability of ChatGPT in November 2022, the issue of using artificial intelligence (AI) in employees' everyday lives is no longer an option, but means that companies throughout Germany need to ensure that they are digitally fit. With this in mind, dealing with AI in the workplace is part of the Savings Banks' digital agenda, which has included the goal of promoting employees' digital skills since 2018. A Group-wide survey in November 2023 confirmed that 68% of Savings Banks are developing concepts to increase digital fitness, flanked by corresponding offers from the Savings Banks academies.

As part of the digital agenda, the principles of collaboration, personal responsibility, transparency and flexibility are addressed and thus contribute to an agile working culture. Corresponding training in terms of organisational development are also available via the academies. From courses on agile leadership and the teaching of digital skills that support the digitalisation of processes and forms of consulting through to complete cultural consultations: The transformation is not only being driven forward at process level, but is also being shaped culturally.

Demographic stability

Despite the current increase in the number of new hires, the demographic ratio, which defines the ratio of under 30-year-olds to over 55-year-olds, remains virtually unchanged. The proportion of employees aged 30 to under 40 recorded a minimal increase of + 0.1 percentage points to 15.9%.

Savings Bank employees: Age structure[1]
As at: 31.12.2023



[1] Active bank-specific employees (headcount data).

Diversity

Social responsibility is our daily business – so we are aware of the importance of diversity and are strongly committed to creating a working environment that is defined by different perspectives, backgrounds and skills.

The website www.s-vielfalt.de, which was launched in 2023, shows examples from the Savings Banks Finance Group of what diversity means for each individual.

The composition of our workforce reflects our commitment to diversity. In 2023, the proportion of female managers below Management Board level increased to 28.9% (previous year: 28.1%), the proportion of women on the Management Board to 7.4% (previous year: 6.2%) and the proportion of women across all management levels to 27.8% (previous year: 27.0%).

We consistently implement measures to ensure that gender and ethnic diversity is promoted at all levels of our organisation – including at Management Board level, where we still see a lot of potential for greater equality of opportunity.

Promoting equal career opportunities for all remains a key concern. Our equal opportunities policy has been further developed to ensure that all employees have access to the same career opportunities regardless of gender, age or background. We are committed to breaking down barriers and creating an environment in which everyone can realise their full potential.

Broad-based social commitment strengthens public welfare

Savings Banks, Savings Banks Foundations, Landesbanken and Group partners shape local social interaction in a variety of ways. In 2023, the Savings Banks Finance Group invested around EUR 508 million in public welfare projects (previous year: EUR 399 million).

This represents an increase of EUR 109 million compared to the previous year. This enormous increase in the Savings Banks Finance Group's commitment to supporting public welfare represents the highest level in the last ten years. The most common form of support in 2023 once again came from donations – a service rendered without receiving anything in return. This type of sponsorship accounts for 50% of the total sponsorship.

Art and culture

The promotion of art and culture is an important core area and is firmly anchored in the social commitment of the Savings Banks Finance Group. In 2023, the Savings Banks Finance Group supported art and culture with a total of EUR 130.6 million (previous year: EUR 124.8 million). Projects were sponsored throughout the country. Long-standing partnerships were continued, such as the commitment as the main sponsor of the Dresden State Art Collections.

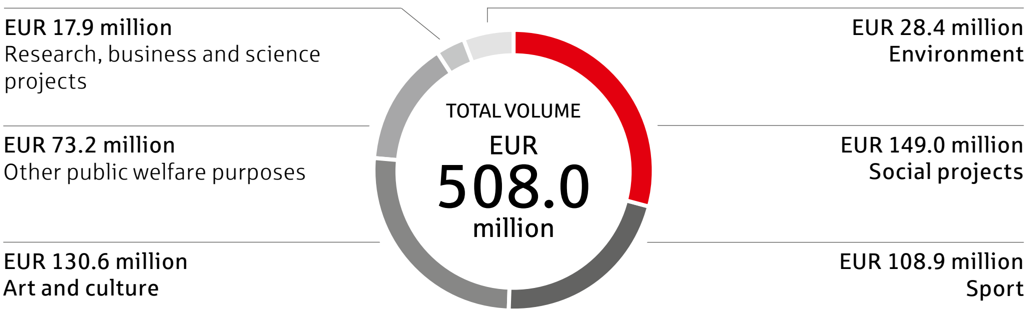
Social commitment

The Savings Banks are involved in a large number of projects for children, young people and senior citizens. Their sponsorship services are provided to society as a whole and support, for example, social advice centres, neighbourhood homes and integration projects for immigrants. Social commitment is one of the largest areas of support for the Savings Banks Finance Group with contributions totalling EUR 149.0 million in 2023 (previous year: EUR 113.9 million).

Sport

The Savings Banks Finance Group promotes all areas of sport. The majority of this support benefits clubs in all regions of Germany. A supra-regional 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, elite, junior and disabled sport are also promoted at a national level, for example as a top partner of Team Germany and Team Germany Paralympics and as the main sponsor in support of the elite sporting schools.

Social commitment of the Savings Banks Finance Group
As at: 31.12.2023



In 2023, sports and members of sports clubs were supported with EUR 108.9 million (previous year: EUR 81.9 million). 32 foundations of the Savings Banks Finance Group exclusively or primarily promote sport.

Environment

Savings Banks also take responsibility for 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 support programme also includes selected ecological projects in schools. The funds spent on these projects totalled around EUR 28.4 million in 2023 (previous year: EUR 11.0 million).

Education

Promoting education and integration is a central element of the Savings Banks Finance Group's commitment to sustainable social development. In 2023, EUR 17.9 million (previous year: EUR 17.8 million) was channelled into projects in the areas of research, business and science promotion. Savings Banks throughout Germany are committed to ensuring that all population groups can participate in social life and develop personally in their environment. They invest in financial education from an early age and offer, for example, teaching materials on economic and financial topics via the "SparkassenSchulService" (the Savings Banks school service). Outside of schools, the Savings Banks Finance Group's "Money and Household" advisory service supports all consumers with free products to strengthen financial literacy and prevent debt.

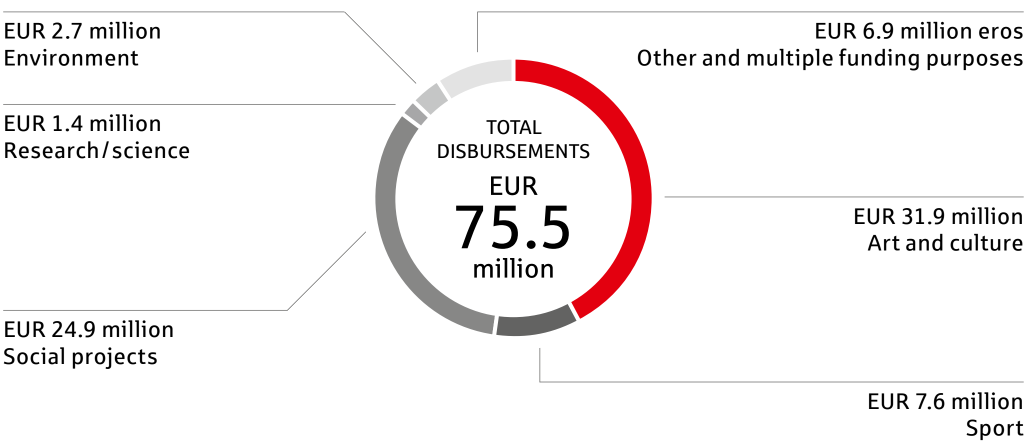
Foundations

The charitable foundations of the Savings Banks Finance Group continue the funding commitment pursued by the Savings Banks, Landesbanken and other institutions of the Savings Banks Finance Group in a variety of ways with a predominantly regional focus. In 2023, the Savings Banks Finance Group had a total of 771 foundations nationwide (previous year: 759). At the end of 2023, they had total capital of EUR 2.98 billion (previous year: EUR 2.83 billion). Last year, the Savings Banks Foundations' distributions of EUR 75.5 million (previous year: EUR 72.4 million) accounted for 14.9% of the Savings Banks Finance Group's total commitment.

The Savings Banks Finance Group reports on its social commitment on an ongoing basis at:

↘ dsgv.de/our-responsibility

Disbursements by the foundations of the Savings Banks Finance Group in EUR million
As at: 31.12.2023



German Sparkassenstiftung for International Cooperation

Think globally, act locally, cooperate internationally

Savings Banks were founded in Germany over 200 years ago as microfinance institutions for people with low incomes. Since then, the German Savings Banks have developed into one of the world's largest financial groups, successfully combining a high level of professionalism with a strong social mandate. The task of the German Sparkassenstiftung für internationale Kooperation e. V. (the German Savings Banks Foundation for International Cooperation) is to make this experience available in the countries of the global south. The aim is to create stable financial systems and give local people prospects for a better life through financial inclusion. Since its foundation in 1992, the German Sparkassenstiftung has implemented projects in over 100 countries. More than 2,000 Savings Banks employees have provided valuable support as financial advisors.

Global issues in project work

Adapting to climate change

Climate change and its consequences harbour major risks for people and companies, but also for financial institutions. Together with central banks and other partners, the German Sparkassenstiftung is establishing sustainable technologies and creating innovative products for its customers. In addition, financial institutions are supported in determining the vulnerability of their portfolios to the effects of climate change and in developing suitable risk management systems.

Women in business

In most economic systems, women have fewer employment opportunities: They are less likely to be employed, more likely to work in lower income informal jobs and less likely to start their own businesses. They also often have limited access to financial services. By specifically empowering women, the German Sparkassenstiftung aims to eliminate gender-based differences.

Flight and migration

There have been global refugee and migration movements for many years – and the trend is rising. It is important to help refugees build up their own livelihoods in their transit or new home countries. The German Sparkassenstiftung is implementing projects in many parts of the world to promote economic integration for refugees and host communities.

Digital transformation

In an increasingly fast-paced world with a growing number of digital applications, digital products and services from financial institutions are also in high demand. This is why the German Sparkassenstiftung supports its partner institutions in their digital transformation. This involves automating internal processes and introducing new technologies such as mobile apps and online banking. Digital training formats for employees and customers of financial institutions improve access to digitalised financial services, particularly in rural or remote areas.

1 Goal
Sustainable development through financial inclusion

Project volume 2023 EUR **31.5** million

55 Project countries

325 Employees worldwide

180 other experts on assignment abroad

40 employees in the Bonn office

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 German Sparkassenstiftung currently offers five business games, including four haptic and one computer-based Business Game. The Business Games are interactive training programmes that take place on site in small groups.

Over the past 15 years, more than 9,500 Business Games training programmes have been held. These have reached small and micro-entrepreneurs, students, farmers and many other people in more than 50 countries.

To date, 180,000 participants from all over the world have taken part in Deutsche Sparkassenstiftung's Business Games – and the number is rising.

↘ Sparkassenstiftung.de

Risk report

The institutions of the Savings Banks Finance Group performed well in 2023 despite a difficult environment (war in Ukraine, rise in interest rates). Numerous new regulatory initiatives were advanced in 2023. One focus was the negotiation at European level of the banking package presented by the European Commission on 27 October 2021. It includes draft amendments to the Capital Requirements Directive and Regulation (CRD VI and CRR III). This is intended to finalise 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 (ESG) risks.[1]

The issue of sustainability and the associated risks are increasingly becoming the focus of institutions' risk management, partly due to regulatory initiatives in this area. In mid-2021, the DSGV launched a project for the structured processing of regulatory requirements relating to sustainability. The focus is on issues relating to reporting, such as the implementation of EU taxonomy in Savings Banks, as well as the integration of sustainability risks, which act as risk drivers for traditional financial risks, into risk management. While the sub-project on risk management has already been completed, follow-up projects have been initiated for the issues of taxonomy and sustainability reporting in accordance with CSRD.

The 7th MaRisk amendment was also published in 2023. Among other things, the MaRisk amendment implements the EBA guidelines on loan origination and monitoring (EBA/GL/2020/06: Guidelines on loan origination and monitoring). With the MaRisk Compass and the MaRisk Interpretation Guide, the DSGV provides the institutions of the Savings Banks Finance Group with detailed guidance on the interpretation of the requirements set out in the principle-oriented formulation of 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 of the institutions of the Savings Banks Finance Group

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

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

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

[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 tools and methods in close cooperation with the institutions. This offers numerous advantages, including

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

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

Types of general banking risks

Counterparty default risks	– Risk of a negative deviation from the expected value of an on-balance sheet or off-balance sheet item due to a deterioration in creditworthiness, including the default of a debtor. Counterparty risk is subdivided 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 the proprietary business are any counterparties or issuers.
Market price risks	– Risk of a negative deviation from the expected value or current market value of an on-balance sheet or off-balance sheet item resulting from changes in risk factors (interest rates, spreads, foreign currencies, equities, property, commodities, including volatility and option risk).
Liquidity risks	– Liquidity risk is generally comprised of insolvency risk and refinancing cost risk. In both of the components defined below, liquidity risk also includes market liquidity risk. This is the risk that financial instruments cannot be traded on the financial markets at a specific time and / or at fair prices due to market disruptions or insufficient market depth. – Insolvency risk: Risk of not being able to fulfil due payment obligations in full or on time. – Refinancing cost risk: Risk of a negative deviation from the expected value of refinancing costs.
Operational risks	– Risk of damage resulting from the inadequacy or failure of internal procedures, employees, internal infrastructure or external influences, including legal risks.
Other risks	– Depending on the individual business model, Savings Banks may be subject to other risks, such as cost risk. Cost risk is the risk that the realised costs exceed the planned costs. It can materialise, for example, if a collective agreement deviates from expectations.

The institutions each individually use the jointly developed procedures for measuring risks, aggregating them in the risk-bearing capacity, managing the portfolio and allocating capital in order to optimise the risk / return ratio. Due to the large number of individual decisions, the Savings Banks Finance Group as a whole remains very well diversified.

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

Ensuring risk-bearing capacity

For many years, the institutions of the Savings Banks Finance Group have used procedures and IT instruments in risk management to determine internal capital (risk coverage potential) on the one hand and risk identification on the other. The combination and thus comparison takes place 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 overall institution as well as the individual risk types.

Since 2023, Savings Banks have modelled their risk-bearing capacity in accordance with the requirements of national banking supervision in an economic and normative perspective. For Landesbanken, however, the ECB guidelines on the ICAAP form the basis for their own risk-bearing capacity concepts. The management methods anchored in the risk-bearing capacity concepts of the Savings Banks and Landesbanken aim to ensure both the long-term continuation of the individual institutions and creditor protection.

The concepts and IT solutions jointly developed in the Savings Banks Finance Group for bank management support the institutions from data pooling in risk management, scenario calculations and risk measurement through to regulatory reporting for risk-bearing capacity. The individual risk values and thus the capital and asset requirements resulting from the business structure of the individual Savings Bank are incorporated here. Since mid-2016, SR has been responsible for the IT support of the Savings Banks in bank management.

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

The institutions of the Savings Banks Finance Group carry out capital planning processes (normative perspective of risk-bearing capacity) in order to recognise the development of capital figures or the risk coverage potential as well as future scope at an early stage. Should measures be required in the area of capitalisation and earnings development, these can 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.

The results planned for the coming years and their retention will allow the Savings Banks and Landesbanken to gradually expand their normative risk coverage potential and their own funds. This will enable ongoing growth in the lending business, which will increase the minimum capital requirement. Potential burdens from unfavourable macroeconomic developments can 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. At the beginning of 2023, all Savings Banks converted their risk-bearing capacity to the new regulations on risk-bearing capacity with the help of centralised solutions. The methodological changeover was carried out by introducing new and customised systems for risk measurement / management – both for the individual risk types and for risk-bearing capacity as a whole. Furthermore, a central data pool is being established with the integrated data budget (IDH), which will advance the automation of bank management and facilitate both internal and regulatory evaluations.

Since 2016, the German supervisory authority has regularly defined new institution-specific capital requirements and expectations with the so-called SREP surcharges[2] and the capital adequacy recommendation (previously capital adequacy target ratio), which must be taken into account both in the ongoing capital adequacy requirements and in the normative perspective of risk-bearing capacity (capital planning).

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

The capital adequacy recommendation specifies how much additional capital an institution should hold from a regulatory perspective so that it can fulfil the SREP total capital requirement at all times, i.e. even in times of stress. For the majority of Savings Banks, this results in little or no additional capital requirements.

Ensuring solvency

The equity base of the Savings Banks remained extremely solid in 2023. The Common Equity Tier 1 capital ratio was 15.9% as at 31 December 2023, while the total capital ratio reached 16.9%.

This means that, on average, the Savings Banks clearly exceed the Basel capital requirements of 4.5% for common equity tier 1 capital and 8% for the total capital ratio, which have been in force since 1 January 2014. The capital resources also cover the capital conservation buffer (2.5%), which increases the minimum values for common equity tier 1 capital under Basel III to 7% and the total capital ratio to 10.5%. Also covered are the SREP surcharges and the capital adequacy recommendation (formerly capital adequacy target ratio) as well as the buffers set by BaFin by general order at the beginning of 2022, which had to be complied with from 1 February 2023 (countercyclical capital buffer 0.75%, systemic risk buffer for residential property 2.0%).

The Landesbanken (individual institution level), including DekaBank, had an average common equity Tier 1 capital ratio of 15.8% at the end of 2023. The total capital ratio averages 20.4%.

Management of individual risk types

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

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

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

[2] Supervisory Review and Evaluation Process.

Risk classification instruments

For corporate customer business: Savings Bank Standard Rating	– The Savings Banks Standard Rating is used for commercial customers of the Savings Banks. The creditworthiness assessment is based on a modular structure, i.e. the first step is to check what information about a company is known to the Savings Bank/Landesbank and can be used to determine the rating grade. This information is categorised as follows: – Evaluation of the annual financial statement or the income statement, – Qualitative rating, i.e. assessing the characteristics of the company and the entrepreneur or managing director, – Taking into account existing business relationships with the customer, such as their account behaviour, – Potential downgrades due to warning signals of an impending corporate crisis, – Taking into consideration third-party creditworthiness influences (joint liabilities) in the case of an existing "parent-subsidiary relationship". – An approved rating can be used to automatically generate a strength-potential profile of the customer, which can be used for customer communication. – For customers with low exposure, an automated procedure based primarily on account data and a simplified risk classification procedure for applications (KundenKompaktRating) are available to the institutions for the ongoing credit assessment.
For commercial property investments: Savings Bank Property Business Rating	– The Savings Bank property business rating assesses the creditworthiness of real-estate customers. Quantitative indicators, such as balance sheets, and qualitative factors, such as the expected development of the company, are used for the assessment. As a key risk driver, the property that is to be financed or has been financed is assessed using property-specific information and indicators. The focus here is on examining whether it is likely that the loans will be repaid from the rental income or the proceeds from the sale of the property 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 customer.
For private customer business: Savings Banks Customer Scoring	– Savings Banks customer scoring is the risk classification procedure for private customer business. It enables the customer advisor to assess the creditworthiness of a new customer objectively as well as an existing customer with as much creditworthiness-relevant information as possible when applying for a loan. – This instrument also provides institutions with automated portfolio monitoring of their private customer exposures and is thus a tool with which risks can be identified in good time.
For investments in renewable energies: Project Financing Rating	– The Project Financing Rating is a tailored procedure for financing in the field of renewable energies (wind, photovoltaics, biogas/biomass). The loan commitment is primarily based on the cash flows generated from the operation of the plant. As a result, it is not the financial position of the equity provider (also known as the sponsor) that forms the core of the risk, but the project performance. – Since the project company is mapped in its entirety, qualitative factors - such as the expertise of the project participants, information on the project environment and 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 carrying out the risk inventory including risk concentration analysis, which includes central recommendations for the criteria for the materiality assessment of individual risks. In this context, a relevance assessment of sustainability risks and a qualitative impact analysis of economically material risks on the normative perspective are also carried out. The procedure is validated annually by SR.

To support the risk management process in the Savings Banks, a risk manual is also available to the institutions, which helps to document risks in a standardised manner. In addition, the risk manual provides an overview of the methods and procedures used in risk management.

Managing counterparty risks

SR develops and maintains the necessary procedures for efficient and needs-based credit risk measurement for 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 centralised maintenance and further development of the procedures by SR ensures their high quality and uniformity. This ensures that the data from Savings Banks and Landesbanken are processed in compliance with data protection requirements (data pooling), the annual qualitative and quantitative review (validation) and the regular regulatory review of the instruments.

The risk classification procedures, as shown in the table on page 74, relate to corporate lending, property and private customer 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 overall loan portfolio. The calculated “fair” credit rating premium is also used for risk transfer between the institutions or within the framework of the so-called credit pooling.

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

In 2023, over 280,000 commercial and corporate customers were categorised in rating classes. Some of the ratings were carried out or updated several times. In total, the Savings Banks Finance Group’s data pool contains more than 15.3 million commercial ratings. This data pool enables a high degree of reliability for the credit ratings and at the same time ensures the provision of qualified advice for customers.

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

- a very broad database,
- high selectivity of methods,
- a precise and fair breakdown of customers according to their creditworthiness,
- stable defualt rates,
- early and objective risk identification and
- central regulatory approval of the instruments 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 audited regularly by the banking supervisory authorities.

The models and methods of the Savings Banks’ counterparty risk management take into account their heterogeneity in terms of the size of the individual institution and the type, scope and complexity of the counterparty risk portfolio.

This means that an ideal-typical counterparty risk management system can be mapped across a total of five expansion stages.

Within the framework of the implementation

- the Savings Banks leverage synergies through the efficient use of risk measurement instruments and their integration into the overall bank management,

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

By managing their loan portfolio efficiently, the Savings Banks are able to continue to grow sustainably in the lending business without taking on too much of the associated risk.

The portfolios of the Savings Banks Finance Group were also well positioned in the 2023 financial year. Overall, 62.8% of all corporate customers of the Savings Banks and Landesbanken had an investment grade rating (better than BBB-) and thus have a high credit quality. This figure has fallen slightly compared to the previous year.

Managing counterparty risk at portfolio level
In order to remain sustainably competitive in the lending business, Savings Banks record the risks associated with lending comprehensively and can manage these in a targeted manner by applying the eKRM (efficient credit risk management) management concept. Active and efficient credit portfolio management - i.e. the targeted optimisation of the income and risk situation of their credit portfolio - enables them to gain a competitive edge. This leads not least to increases in efficiency and earnings. Despite the changed interest rate environment and risk costs, the credit market, and in particular the customer lending business, continues to be more profitable and less risky than capital market business.

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

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

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

Instruments for managing counterparty risk

Savings Bank Risk-Adjusted Pricing	– The risk-adjusted premium calculation (RAP) calculates a fair credit rating premium as part of a risk-adjusted price on the basis of rating grades and collateral. The determination of the creditworthiness premium in the preliminary and final calculation is based on a calculation customised to the individual transaction. RAP also supplements the pre-calculation with regard to the transparency of counterparty risk costs and supports the post-calculation with regard to cost transparency and the risk-orientated management of new business.
Savings Banks CreditPortfolioView	– CreditPortfolioView (CPV) enables the Savings Banks and Landesbanken to determine, measure and visualise the current counterparty risks of a credit portfolio and the Depot A securities account. This is generally cash flow-based (value-oriented); P&L-oriented (periodic) calculations are also possible. CPV takes into account changes in the creditworthiness and credit defaults of customers, issuers and counterparties in the corresponding macroeconomic scenarios.
Savings Bank Loss Data Collection	– The loss data collection determines realisation and recovery rates from the history of defaulted customers. The loss data is validated annually and integrated into bank management via the RAP and CPV applications to manage counterparty default risk on the basis of institution or pool data. 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 risk: Example of Savings Bank loan baskets
For 21 years now, the Savings Banks have had another efficient instrument at their disposal for hedging credit risks and managing concentration risks: Savings Bank loan baskets. In contrast to the syndicated loan business, they offer a way to hedge credit risks synthetically.

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

To date a good 40% of all Savings Banks have participated in at least one of the Savings Bank credit baskets, mutually hedging a total of almost EUR 8.3 billion. Here, too, the basic principle applies that the customer relationship remains with the lending Savings Bank, but at the same time the Savings Bank gains more leeway in its lending business with existing customers and with new customers. This allows it to manage its risk situation in the lending business in a targeted manner.

Managing market price risk
The starting point for market price risk management is the recording of the assets invested in this segment in customer and proprietary business. The sum of these asset positions is subject to market price fluctuations, which can lead either to increases or decreases in assets. 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 asset optimisation, as well as the technical implementation in dealing with these risks. Since 2022, SR has offered the Savings Banks standardised methods and parameters for quantifying interest rate, spread, equity and foreign currency risk via the OSPlus application MPR and is consistently working on further improving methods for market price risk management.

Interest rate risk is a significant market price risk. In the Savings Banks Finance Group, this is measured as value at risk (VaR) using the standard variance-covariance approach. The MPR application is used to calculate the value-oriented market price risk across portfolio boundaries, which results in a consistent assessment of the risks in proprietary and customer business. In addition, diversification effects between the risk categories of interest rates, spreads, foreign currencies and equities are taken into account within the market price risk.

For the management of interest rate risks, institutions have tools at their disposal with which they can generate specific control measures, also taking into account the risk-bearing capacity required by the supervisory authorities, the regulatory outlier criterion and internal economic and balance sheet limits. The continuous use of these procedures expands the institutions' decision-making basis, making it easier to derive effective measures for managing interest rate risk.

The management of interest rate risks continued to be very important for the Savings Banks Finance Group in 2023 following the rapid and sharp rise in interest rates, as

- the capital invested in the interest-earning business accounts for a significant and strategic share of the total capital allocation in most institutions of the Savings Banks Finance Group,
- institutions must prepare themselves for a potential renewed rise or fall in interest rates,
- new refinancing structures require the separation of refinancing and interest rate risk management,
- credit risk premiums (credit spreads) and interest rate risks for debt instruments 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 calculation of the capital recommendation from LSI stress test data.

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 in place. More than two thirds of the Savings Banks regularly report to the DSGV on their interest rate risk on this basis.

Analysis of the Savings Banks' interest rate risks for 2023 shows that the measures for managing interest rate risks are consciously adjusted to current interest rate developments. 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 interest rate investments across the entire Group.

Managing liquidity risk

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

Compliance with the European liquidity ratio "LCR" (Liquidity Coverage Ratio) with a regulatory minimum ratio of 100% has been mandatory since 1 January 2018. 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" and enable all Savings Banks to fine-tune the operational management of this short-term ratio.

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% must also be complied with as of 28 June 2021. The ratio compares the "required" and "available" refinancing funds over a one-year period. The stable customer deposits of the Savings Banks in particular enable more than sufficient compliance with the ratio across the entire Savings Banks Finance Group. The NSFR is also available in a "simplified" version. The "simplified NSFR" was not applied due to the efficient centralised 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 Group-wide "SVP calculator" software and the associated "standard parameterisation". The analysis options of the extensive liquidity reporting system (in addition to LCR and NSFR, this includes additional liquidity ratios from AMM [3]) were further expanded in 2022. The small-scale data supply of the data centre enables the Savings Banks to analyse their liquidity flows down to any level of detail. Centrally developed key figures, such as the survival period (SVP), make risk management comparable and accessible to the management level for interpretation.

Since 2019, the institution-specific process for identifying, measuring, managing and monitoring all liquidity risks (ILAAP) has been further refined. As a result of the ECB's unconventional monetary policy measures during the period of low and negative interest rates, there was a general "excess liquidity in the banking system".[4] This will in all likelihood remain in place for years to come, although it will gradually dwindle, for example due to the now largely completed repayment of the euro system's longer-term refinancing instruments and the expiry of the APP and PEPP bond purchase programmes. The Savings Banks are taking adequate account of the new framework conditions in their liquidity risk management and refinancing strategy and planning.

Managing operational risk

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 assets in the future.

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

Furthermore, according to AT 2.2 of MaRisk, operational risks must be recognised as "material risks" and the Savings Bank must therefore maintain a corresponding risk coverage potential, which is generally determined using the basic indicator approach. For business management purposes, it uses the "loss database", "OpRisk estimation procedure" and/or "OpRisk scenarios" procedures offered by SR. Loss events that have occurred are systematically recorded and analysed in the loss database. Possible operational risks and their loss potential are assessed ex ante in the "OpRisk scenarios" and preventive measures are determined.

In addition to the procedures for managing operational risks, the OpRisk estimation procedure is available to the Savings Banks as a standardised instrument for estimating operational risks for the calculation of economic risk-bearing capacity. In addition to the institutions' own operational risks, this also takes into account loss events from the nationwide OpRisk data pool.

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

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

[3] Additional Monitoring Metrics for Liquidity Reporting.
[4] https://www.bundesbank.de/de/aufgaben/geldpolitik/ueberschussreserven/ueberschussreserven-und-ueberschussliquiditaet--811892

Managing ESG risk

The transformation towards a sustainable economy continues to be the focus of politics, society and supervision, and the ESG risks associated with this change are increasingly being incorporated into banking supervisory requirements for risk management. For example, the 7th MaRisk amendment published in June 2023 integrated ESG risks into binding supervisory requirements. Institutions have been required to implement these MaRisk amendments since 1 January 2024. In addition, the EBA consulted on a guideline for managing ESG risks by April 2024 (publication announced for the end of 2024), which is also intended to introduce corresponding requirements at European level.

ESG risks are not a separate type of risk, but rather act as risk drivers for the traditional financial risks of credit institutions, such as counterparty or market price risks. However, when analysing the impact of ESG risks on an institution's individual risk profile, a significantly longer period of time must be taken into account than has been customary in risk management to date. The Savings Banks are therefore supplementing their risk inventory with a strategic perspective in order to ensure that the impact of ESG risks on their risk profile is properly analysed.

The starting point for analysing ESG risks over all time horizons (short, medium and long term) is sustainability factors (such as temperature rise or heavy rainfall) and the question of whether these have a relevant impact on the risk profile, business model and/or strategy.

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

- At a strategic level, the ESG risk profile is managed by means of an appropriate business model and suitable strategic business positioning on sustainability. In line with the business strategy, this is taken into account as part of the risk strategy and when defining the risk appetite and deriving specific management measures.
- At a tactical level (structuring of transactions), transactions should be appropriately structured with sustainability aspects in mind (e.g. via maturity, pricing, contract design) in order to appropriately manage the ESG risks associated with the transactions.
- At an operational level (economic and normative risk-bearing capacity), tried-and-tested statistical models and scenario techniques are used for risk measurement and capital planning, management by means of limits and depending on the results of the risk inventory process, as well as the provision of capital for ESG risks. Appropriate consideration of ESG risks is ensured by means of model and parameter validation and, if necessary, suitable scenario analyses.

Scenario analyses play a central role in the assessment of ESG risks at all levels of bank management. To address the challenges associated with ESG risks and to ensure compliance with other regulatory requirements relating to sustainability, the DSGV initiated a centralised project in July 2021 and will complete it at the end of 2024. SR also supports the institutions with centralised solutions.

The 7th MaRisk amendment also saw the integration of the EBA guidelines on lending and credit monitoring, which, among other things, require ESG risks to be taken into account in lending processes. These requirements are implemented using the SR S-ESG score and the DSGV industry service, among other things. The S-ESG score uses ten indicators (e.g. CO_2 emissions and water use) to assess the extent to which business customers are exposed to sustainability factors at sector level. The automatically generated industry values can be adapted by the institutions to the individual situation of the business customer.

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

The Savings Banks Finance Group's institution protection scheme protects customer deposits at the 353[5] independent Savings Banks, the Landesbanken, DekaBank and the Landesbausparkassen. The following institutions are also affiliated to the Landesbanken sub-fund: Berlin Hyp AG, Frankfurter Bankgesellschaft, Landesbank Berlin Holding AG, Portigon AG, S-Kreditpartner GmbH, Sparkassen Broker AG & Co. KG and Weberbank AG.

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

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

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

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

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

The sub-funds have a early-warning system for the identification of potential risks in order to initiate countermeasures promptly. This risk monitoring is based on quantitative and qualitative parameters.

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

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

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

[5] As at 31.12.2023.

Scope for action by the sub-funds

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

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

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

In the case of support for an institution, the sub-funds of the protection scheme have an extensive catalogue of measures at their disposal. Support is usually linked to conditions via a restructuring agreement; for example, benefits are repaid as soon as the financial situation of the supported institution has improved. This can also lead to a merger with another institution. The decision-making bodies are granted a great deal of flexibility in fulfilling the specific requirements of each individual support case.

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

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

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

→ the Landesbank subfunds and

→ the LBS sub-funds.

If necessary, all sub-funds stand together within the framework of system-wide compensation mechanism, which encompasses

→ all Savings Bank sub-funds,

→ the Landesbank sub-funds and

→ the LBS sub-funds.

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

The sub-funds of the institution protection scheme therefore have the resources and expertise to identify and resolve the financial problems of their affiliated institutions at an early stage. The aim of each sub-fund is to restore the sustainable competitiveness of the member institution concerned.

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

Contributions to the institution protection scheme of the Savings Banks Finance Group take into account not only the size and scope of business but also the individual risk-bearing capacity of an institution. The amount of the member institutions' contributions is calculated in accordance with the regulatory requirements based on risk parameters defined by the supervisory authorities. The contributions of a member institution increase in line with its business volume and the regulatory risk parameters. This creates incentives for risk-conscious behaviour and thus ensures the solidity of the member institutions.

Legislation stipulates that the institution protection scheme must continue to build up its financial resources until 2024. The statutory target level is 0.8% of the covered deposits of the member institutions of the protection scheme. A considerable part of the required funds has already been contributed from existing assets. As a result, the institution protection scheme of the Savings Banks Finance Group has always had a solid financial base.

Provision of funds to protect the institutions

Sequence of contributions to support a Savings Bank

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

↓

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

↓

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

Sequence of contributions to support a Landesbank

Cash and additional contributions from the Landesbank sub-fund

↓

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

↓

The sequence of contributions to support a Landesbausparkasse is analogous.

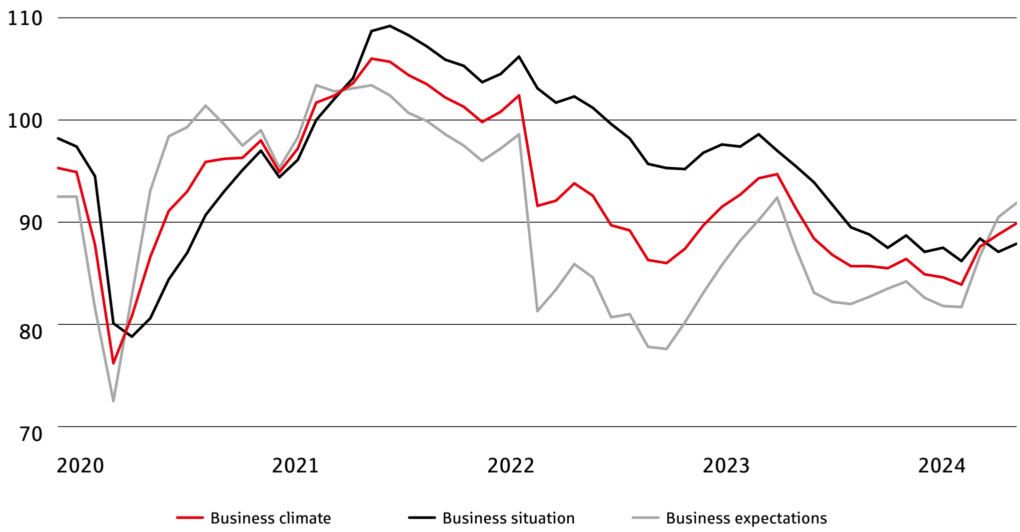
Forecast report

Economic conditions in 2024

The economic start to 2024 was once again difficult in Germany. This was exacerbated by the strikes, which paralysed the economy at times. Despite this, slight growth of 0.2% was reported for the first quarter.

Economic sentiment indicators were also at a very gloomy level at the start of 2024, and were only worse at the height of the coronavirus pandemic. However, there was a slight improvement in the spring. The hope now is that an economic recovery will have set in from spring 2024, which could lead to a more dynamic upturn over the course of the year.

The ifo business climate for trade and industry



Source: ifo Institute

Most of the relevant forecasts anticipate this more positive trend, even if it is not immediately evident from the predicted annual GDP growth rates. In its spring report, for example, the joint forecast of the research institutes cited in the management report only predicts growth of 0.2%. However, this low figure is largely based on a negative statistical overhang from 2023 and the weak start to 2024. A significant recovery is assumed over the course of the year – otherwise, the zero line would not even be achievable on an annual average. Other current forecasts, such as those from the Deutsche Bundesbank, the German Council of Economic Experts and the Landesbanken, are based on similar scenarios.

One argument in favour of the more confident economic outlook is that a somewhat more expansive global trade will stimulate the German economy. The turnaround in interest rates could provide further tailwind. However, the forecasts are mainly based on a significant increase in domestic private consumption. The assumption here is that wage increases - which have already been agreed in large part by collective bargaining, but are also expected to continue in 2024 given the robust labour market situation – will significantly exceed the inflation rate again for the first time. The loss of purchasing power due to the price increases experienced, particularly in 2022, will now be offset in 2024 in the final phase of this inflation cycle.

Consumer price increases in both Germany and the eurozone as a whole were already below the three per cent mark in the first months of 2024 compared to the same month of the previous year. Even if some components, such as service prices, are still proving stubbornly higher, the ECB's target of 2% for the rate of harmonised consumer prices in the eurozone could come within reach in the further course of the year or at least in 2025. This prompted the ECB to cut its key interest rate for the first time by 0.25 percentage points in June 2024.

The cautiously positive forecasts for growth, price trends and interest rates are of course all subject to the proviso that there are no major new shocks. Risks remain, from domestic political developments and elections in key countries and in particular from geopolitical tensions. New escalations and more unfavourable developments in the ongoing wars could have a negative impact at any time.

Savings Banks' business development

In the first months of 2024, the Savings Banks recorded a year-on-year decline in new lending business with companies and the self-employed amid stagnating economic growth and a persistently difficult situation in the property sector. In contrast, more loans were granted to private individuals in the first few months than in the weak same period of the previous year. The slight fall in interest rates and slightly lower residential property prices have led to a modest upturn in residential property lending business. However, demand remains at a low level due to continuing high costs overall, including for building materials, the building materials trade and trades.

In the deposits area, there was further growth in term deposits and own issues due to interest rates. Sight and savings deposits have fallen somewhat more sharply overall, meaning that deposits have declined slightly since the beginning of the year. Compared to the same period last year, however, the decline is currently much smaller. Turnover in the customer securities business has so far been significantly higher than in 2023; net sales (purchases minus sales) are clearly positive, but below the very high level of the previous year.

The current year will be characterised by new uncertainties following the Constitutional Court's ruling on the climate and transformation fund (less government spending, negative impact on private investment activity). Structural problems (including high energy prices, bureaucracy, weak productivity growth) will continue to prevent stronger growth. In contrast, falling inflation and rising net wages with low unemployment will boost consumption.

The ECB is slowly approaching its inflation target of 2%. Although the central bank has completed its cycle of interest rate hikes, it is still acting cautiously. A first cautious cut in the key interest rate was already implemented at the beginning of June, and further, smaller interest rate cuts are expected in the second half of the year.

For the year as a whole, with a further slight decline in total assets, net interest income is expected to fall noticeably from a high level, commissions to rise slightly and personnel and operating expenses to continue to increase.

The overall valuation result is expected to be significantly lower than in the previous year.

Further valuation income is expected in the securities business from recoveries (maturities) of the record write-downs in 2022. However, this will only overcompensate for new write-downs to a limited extent.

Loan loss provisions are falling slightly. Corporate customers remain very resilient overall thanks to their good equity base and high flexibility. However, insolvency figures have risen significantly in sectors such as the construction industry and retail, which will not leave our customers unscathed. Private customers have so far benefited from extensive government support measures, including energy price brakes. Therefore, despite a slight rise in private insolvencies, no significant increase in loan defaults is expected.

Under these conditions, the allocation to the contingency reserves to strengthen capital will be lower than the very high levels of the previous year, but will probably still reach a very encouraging level over time.

Business development of the Landesbanken

2024 will be another year of many challenges for the Landesbanken. Thanks to their long-term business policy, the institutions still have a good chance of maintaining their market position.

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

The Landesbank Group holds significant market positions in important loan and deposit categories: At the end of March 2024, their market share for corporate loans [1] was 11.8% and for corporate deposits 14.2%. They have a 26.2% share of the total market volume for loans to domestic public households and a 21.7% share of their deposits. The institutions' aggregated total assets did not grow as strongly in the first quarter of 2024 as they did in the same quarter of the previous year. The customer lending business continues to expand, but so far it is developing somewhat less dynamically than in the same period of the previous year. Growth is being driven exclusively by lending business with foreign customers. On the deposit side, customer deposits continue to rise, with strong impetus coming from both the corporate and public sectors.

The environment for the German banking sector will remain extremely challenging in 2024. On the one hand, long-standing framework parameters such as complex regulatory requirements and intense competition in the market as well as future issues such as sustainability, digitalisation and demographic trends remain unchanged. On the other hand, the risks to global economic development have increased significantly since the outbreak of war in Ukraine and the conflict in the Middle East. Adjustments to supply chains and structural changes in energy prices, higher inflation rates and high interest rates are slowing economic momentum. As a result, falling real consumer incomes are curbing consumption, while high construction and property prices are also having a dampening effect on residential construction. Economic uncertainty and higher interest rates are making companies less willing to invest.

In the 2024 banking year, the banking industry is likely to benefit from a slight upturn in the economy as a result of the ECB's expected interest rate cuts and rising real wages. However, inflation-related cost pressure will remain. The higher need for risk provisioning also remains due to economic and geopolitical uncertainties. Increased loan defaults in individual sectors cannot be ruled out. Although this could have a negative impact on the earnings situation of the institutions, the Landesbanken have a solid equity and liquidity base with a balanced risk profile.

[1] Investment loans excluding commercial housing construction.

Advancing digitalisation has led to a change in customer behaviour and a profound transformation in the banking business. Artificial intelligence will further accelerate this process. New competitors are also driving this digitalisation push. Business models must therefore be continuously adapted and corresponding investments made, particularly in a modern, powerful and efficient IT infrastructure. The institutions' digitalisation initiatives range from customer interfaces to internal processes. However, the aim is also to minimise IT security risks and ward off cyber attacks. The Landesbanken are constantly working to strengthen their competitiveness with various cost-cutting measures and transformation programmes.

In addition to digitalisation, sustainability continues to be a key issue for the Landesbanken, from which strategic sustainability goals can be derived. The banks will continue to expand the range of sustainable investment and financing options for their customers as well as the advisory services for financing with sustainability components. Corporate customers are to be increasingly supported in their transformation towards sustainable business models. At an institutional level, Landesbanken will organise their business operations in a more resource-efficient manner and continuously increase the proportion of ESG-compliant products in their portfolios. In order to ensure a holistic approach, not only environmental aspects are taken into account, but also aspects of social and corporate governance. The European sustainability reporting standards make the achievement of sustainability goals both measurable and verifiable. In addition, the scope of sustainability reporting is being successively expanded.

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

Pooling competences within the Landesbank Group is another way of using this division of responsibilities to make the Savings Banks Finance Group more efficient and increase the competitiveness of the institutions.

Overall, the trust-based cooperation between private and corporate customers, the Savings Banks and the public sector will continue successfully in 2024. The aim is to meet future challenges flexibly and promptly by enhancing business models and responding to new customer needs. The Group's strength will be deployed to actively support the transformation towards a more sustainable economy.

Business development of the Landesbausparkassen

Two years after the rapid rise in capital market interest rates, which gave home loan and savings contracts a special boost, business is expected to normalise. In the construction financing market, which has almost halved due to the slump in new construction activity, the Landesbausparkassen are likely to perform comparatively well, as demand for low-interest building society loans remains very high in view of the difficult environment for home ownership. The financing business is supported by the growing need for capital for energy modernisation in existing buildings. The home loan and savings contract as an instrument for secure equity capital formation is receiving additional impetus from the improved housing construction premium since the 2021 savings year and the doubling of the income limits for the employee savings allowance for capital-forming benefits from 2024.

Management outlook

Despite the ongoing conflicts and challenges in 2023, the institutions of the Group are cautiously optimistic about the future. Our Group is proud of the remarkable business result that has been achieved thanks to its solid business principles and the turnaround in interest rates.

The good business result is proof of the solidity and resilience of our business model. Thanks to careful risk diversification and a strong foundation, we were able to generate stable income despite the decline in lending business. Our conservative risk policy and responsible management have proven their worth in these challenging times.

The economic situation in Europe has changed in recent years for a variety of reasons. Despite uncertainties, such as the ongoing geopolitical tensions, the economy is proving to be somewhat more stable overall. The latest growth figure of 0.3% for the German economy, which has been revised slightly upwards, gives us hope for a positive development.

The European Central Bank's interest rate cut of 0.25 basis points in June 2024 marks a turnaround in interest rates and has had an impact on the financial markets. Lower interest rates could facilitate borrowing and strengthen willingness to invest and for consumer spending, which would have a positive impact on economic growth.

> "It was right to carry out the interest rate move that had already been signalled and anticipated by the markets. In doing so, the ECB makes use of the leeway it has in terms of price developments to loosen the brakes on the economy a little."

Professor Ulrich Reuter
President of the German Savings Banks Association

At the same time, digitalisation is being driven forward, most noticeably through participation in the European Payments Initiative (EPI), which aims to create a standardised and efficient payment system in Europe and thus promote payment transactions for all private customers and SMEs.

The institutions of our Group continue to focus on investing in the local economy, particularly in the area of sustainable construction and renovation. Despite complex regulatory requirements, they are determined to support innovative and sustainable projects. These investments not only help to revitalise the economy, but also promote ecological change and quality of life in our regions.

Our strong commitment at a local level combined with investments in a sustainable economy will enable us to continue our success in the coming years.

Supplementary report

No significant events occurred after the balance sheet date of 31 December 2023.