



Finanzgruppe
Deutscher Sparkassen- und Giroverband

Inside the Savings Banks Finance Group



CONTENTS

Are Savings Banks state-owned banks?

Savings Banks are legally and economically independent institutions. They are “incorporated under public law”, but are not owned by governments or municipalities.

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What is the Savings Banks’ market position?

Savings Banks are regional retail banks. They have been the most important provider of funds for small and medium-sized enterprises in Germany for many years. Savings Banks have the widest customer coverage in retail banking in Germany.

→ see page 8

Do the Savings Banks have a corporate centre?

The Savings Banks Finance Group is not a consolidated group. Therefore, there is no corporate centre for all Savings Banks. Each Savings Bank is responsible for its own operations and branches.

→ see page 14

How do Savings Banks support their corporate clients internationally?

Savings Banks provide the full range of products and advisory services – either from their own resources or via associated companies within the Savings Banks Finance Group. In addition, they use the services of their international network partners to support their clients abroad.

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What would happen if a Savings Bank became insolvent?

Savings Banks are protected from insolvency by the Joint Liability Scheme of the Savings Banks Finance Group. The scheme ensures that Savings Banks continue to operate and that their liabilities are covered.

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WELCOME TO THE SAVINGS BANKS FINANCE GROUP

The Savings Banks Finance Group is not a consolidated group. It comprises approximately 600 independent companies with 360,000 employees, making the German Savings Banks Finance Group the largest employer in the German banking market. It has an aggregate business volume of approximately EUR 3,250 billion and is particularly strong in the provision of finance for small and medium-sized enterprises.

A total of 423 Savings Banks form the heart of the Group. There is a local Savings Bank in every region of Germany, operating a closely knit network of branches. They ensure that all sections of the population have access to, and benefit from, banking services.

The characteristics of the Savings Banks Finance Group can also be seen as its principal advantages:

- a business model and a legal form which ensure the supply of banking services to the wider public.
- a focus on the regional economy, rooted in the business model and in the so-called “regional principle”.
- strong cooperation within the Group, sustained by a common trademark and the Joint Liability Scheme.
- a decentralised structure, Group-wide division of labour and the generation of economies of scope.

As part of its international operations, the Savings Banks Finance Group operates one of Europe’s largest clearing houses and is a “hidden champion” in international payment transactions. With “S-CountryDesk” – its network designed to provide international support to corporate clients – the Savings Banks Finance Group is a reliable partner for business enterprises and banks worldwide.

ONE GROUP

made up of approx. 600 independent financial institutions

50 MILLION CUSTOMERS

have a business relationship with the Savings Banks Finance Group

200 YEARS

of success in the market

WHAT IT MEANS TO BE A SAVINGS BANK

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- The Savings Banks' concept combines banking business with a sense of civic responsibility.
 - The Savings Banks' business model is focused on the region in which the Savings Bank is based, promoting public welfare in its home region.
 - The decentralised structure of the Savings Banks Finance Group ensures the local provision of carefully tailored risk assessment and customer solutions.
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Key drivers: financial inclusion and sustainable economic and social development

The historic roots of our business model

The first German Savings Banks ("Sparkasse") were established over 200 years ago by concerned citizens and local governments who wished to provide people on low incomes with the opportunity to deposit their savings safely. The model of decentralised Savings Banks, supported by local authorities or municipalities, quickly set a precedent, as it was in keeping with Germany's federal structure. Originally, Savings Banks were active primarily in the savings business; in time, they also increased their involvement in personal loans and the mortgage business. Today, Savings Banks are entrepreneurs and taxpayers who support and shape their regions.

The first *Landesbanken* were established in the mid-19th century in various parts of Germany. They developed into central banks for the Savings Banks of a given region and soon became an important provider of local government finance. Today, *Landesbanken* operate both in Germany and abroad. They engage mostly in wholesale activities. However, *Landesbanken* have retained their regional roots and operate as service providers for Savings Banks, for example, in more complex product areas.

Savings Banks have operated as full-service retail banks since the beginning of the 20th century. In 1909, the advent of cashless payment marked the beginning of cooperation between Savings Banks and with the *Landesbanken*.

The Savings Banks Finance Group has a track record of two centuries of active involvement in regional development and of financial success in a highly competitive environment.

The idea which led to the establishment of the Savings Banks is still valid worldwide to this day. An example of this can be seen in the current microfinance activities and savings campaigns of many emerging economies.

A business model and a legal form which ensure the supply of banking services to the wider public

Savings Banks are focused on conducting business in the community or the region in which they are based. They have also maintained their original focus on encouraging citizens to accumulate assets, and on providing funds for small and medium-sized enterprises. Because of this business model, the trademark “Sparkasse” is considered to be a symbol of quality by the German public.

Savings Banks are an integral part of their regional economic cycle. Their business model is strongly coloured both by their historical beginnings and their legal framework.

Public mandate and social responsibility

The overall role of Savings Banks is to ensure open and accessible quality financial services for local private customers, small and medium-sized enterprises and the public sector in their business regions. They do not exclude any specific client group from their services, or limit the range of financial products available to low-income households or small businesses. Unlike most private banks, they provide full retail services even in remote and low-income regions. Furthermore, they are required to ensure a sufficient degree of competition in the banking sector. These obligations – also referred to as “public mandate” – are laid down by law.

Balancing growth with public welfare

The Common Basis of the Group’s Structure Ensures the Success of its Business model



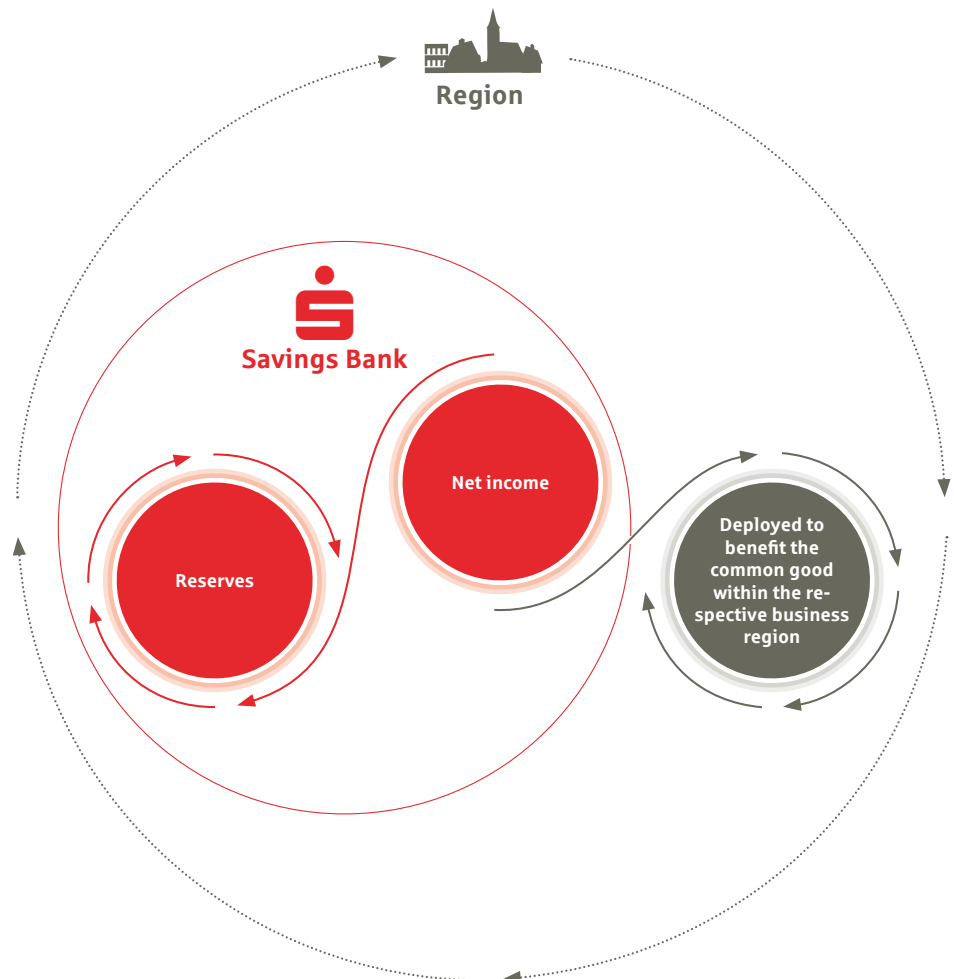
Welfare maximisation instead of profit maximisation

Savings Banks are fully exposed to market forces. They operate according to commercial principles and their survival depends on their intrinsic capacity to generate adequate profits to fund their business operations. They are funded through deposits, rather than municipal funds. A Savings Bank's profits are used exclusively to strengthen its financial base and to provide benefits for society. And in order to maintain consistent services for their clients, Savings Banks do not strive for short-term profit maximisation, as this may produce high risks in the long term.

Savings Banks apply their net income to promote sustainable development

Savings Banks use the revenue they generate to sponsor a wide variety of community-based activities. The volume of these funding activities amounts to more than €500 million per year. Savings Banks primarily sponsor charitable causes and cultural and sports activities, as well as research and scientific, environmental and business development

Savings Banks apply their net income to promote sustainable development



projects. All citizens stand to gain from this funding: whether as members of local associations, as visitors to theatres and museums, or as parents whose children benefit from the educational institutions sponsored by Savings Banks.

Key elements of the legal structure

Like all other credit institutions in Germany, Savings Banks are subject to federal legislation (the German Banking Act [KWG]) and require a banking licence. They are also subject to general banking supervision, which is carried out by the German Federal Financial Supervisory Authority (BaFin) and the German Central Bank (Bundesbank).

Common legal ground
with all German banks

Due to their specific legal nature, Savings Banks are also subject to legislation adopted by Germany's federal states. This legislation relates to the organisational structure and the particular obligations of Savings Banks, and is also reflected in their business model.

Who owns the Savings Banks?

In the early days, Savings Banks were mostly run as legally dependent institutions by local authorities. However, Savings Banks have been independent institutions for many decades, most of them trading as "institutions incorporated under public law"¹.

In Germany, a municipality is the responsible public body of a Savings Bank – but not its owner. Savings Banks operate under "municipal trusteeship". "Municipality" can mean a city, town or district, or a municipal special-purpose association of local authorities with the function of jointly running a Savings Bank. The municipality has no shares. Today's Savings Banks can be compared to foundations under public law.

Savings Banks are not state-owned

Landesbanken, however, are primarily owned by Germany's federal states and by the Savings Banks based in that respective federal state.

¹ The six "independent Savings Banks" are an exception to this rule. While their legal structure is that of a foundation or an "incorporated society established for economic purposes", they are fully integrated into the Savings Banks Finance Group.

The regional principle

The business area of a German Savings Bank is specified as the administrative region of the municipality or district in which it was founded. The “regional principle” fundamentally stipulates that Savings Banks are only authorised to operate branches within their home region and that their loan activities should focus on that region.

Savings Banks fuel local economic cycles.

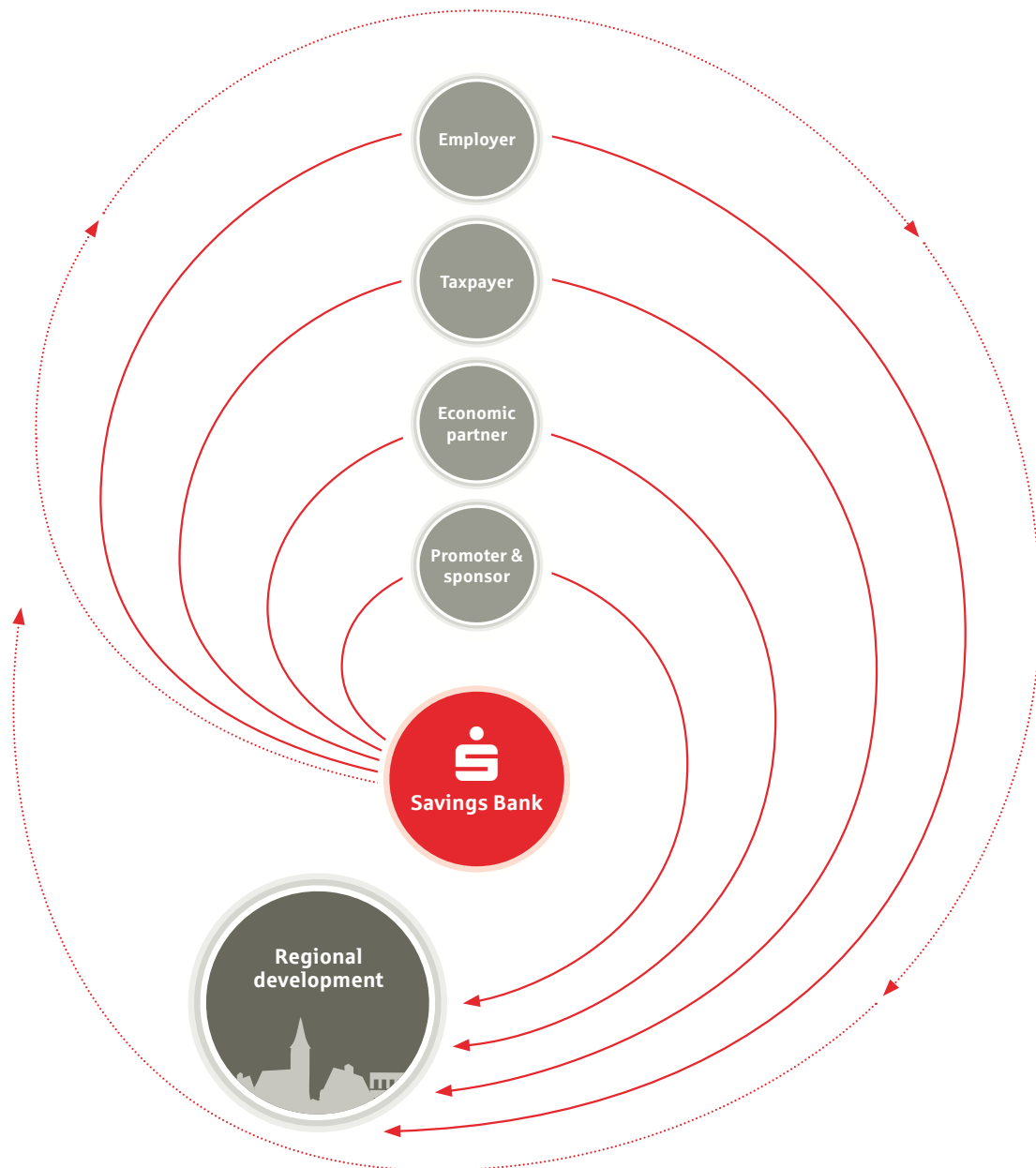
The regional principle provides an incentive for Savings Banks to invest sustainably in the development of their original region of operation. It ensures that local funds mobilised in a given region will also be available for reinvestment in the same region in order to strengthen the local economy. This contrasts with business models which are focused on cherry-picking in other markets.

Risk mitigation through regional focus

Since Savings Banks are local players, they also have an extensive knowledge of their local customers. This entails a thorough awareness of the risks involved in extending a loan to a specific client. It is a depth of knowledge that can rarely be found in remote corporate headquarters.

Despite the regional principle, Savings Banks are permitted to support corporate clients, for instance, in international markets (see “S-CountryDesk”, page 16).

Savings Banks are entrepreneurs and taxpayers who support and shape their region



Savings Banks are a key stability factor for the German economy: their business model has proven its stability and reliability over decades – especially during the recent financial markets crisis. As entrepreneurs and taxpayers who promote and shape their region, Savings Banks actively assume responsibility for economic and social development.

A MAJOR PLAYER IN GERMAN BANKING

- Together, the members of the Savings Banks Finance Group have more customer relationships than any other finance group in Germany.
- Savings Banks have a strong position in the most important business segments of the retail market.
- The decentralised structure of the Savings Banks Finance Group is in keeping with Germany's federal political and decentralised structure.

The German banking market

The German banking market comprises credit and private banks, cooperative banks and credit institutions "incorporated under public law", e.g. Savings Banks and *Landesbanken*. All three types of banking service providers compete directly with each other. Both Savings Banks and cooperative banks form decentralised networks, adding to a diversified banking market.

Structure of the German banking market

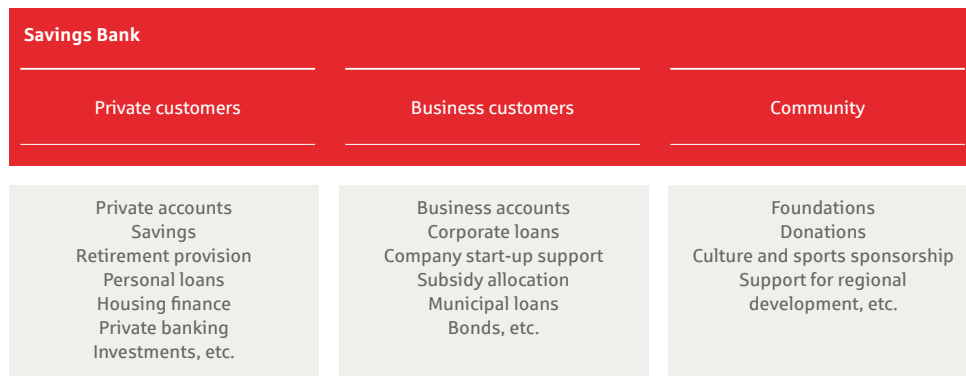
Credit banks	Credit institutions under public law	Cooperative banks
Big banks Regional banks (under private law) Private banks Foreign bank subsidiaries	Savings Banks ("Sparkassen") Landesbank Companies Regional Building Societies	Volksbank Companies Raiffeisenbank Companies and their controlling institutions
<ul style="list-style-type: none"> → Predominantly stock corporations → Profit distribution/dividends → Funds for the protection of deposits 	<ul style="list-style-type: none"> → Predominantly institutions under public law → Equity capital accumulation and public welfare → Institution protection via the Joint Liability Scheme 	<ul style="list-style-type: none"> → Cooperatives → Equity capital accumulation and payment to members → Institution protection via protection schemes
Supervised by BaFin (Federal Financial Supervisory Authority), regulated by KWG (German Banking Act), contributing to Federal Restructuring Fund		

The regulatory regime applies equally to all banks. In Germany all banks are subject to the German Banking Act and to general banking supervision, which is carried out by the German Federal Financial Supervisory Authority (BaFin) and the German Central Bank (Bundesbank).

Regulatory regime applies equally to all banks

The business philosophies pursued by the various banks are closely related to their type of business under German company law. Private banks, for example, are committed to serving the interests of their shareholders; cooperatives are committed to serving the interests of their members; and Savings Banks are committed to serving the interests of the people in their defined home regions. With their focus on private clients and smaller enterprises, and their decentralised approach, Savings Banks and cooperatives have a number of similarities.

Savings Banks: Serving clients and the community



Supporting the German economy

The German banking market plays an important role in the German economy, in particular in the financing of German small and medium-sized enterprises. Traditionally, Savings Banks and *Landesbanken* are major players in this segment and reliable business partners for German enterprises.

Reliable business partners

- “Principal bank” for half of all German customers.
- 100 million savings, current and security accounts.
- “Principal bank” for 44% of all German businesses.

In addition to this, the Savings Banks Finance Group is also a major contributor to the German economy as a taxpayer, employer and sponsor:

Each Savings Bank and *Landesbank* is taxed separately as an independent institution – unlike large corporate groups which can offset their profits against losses, including losses made by branches in other countries. Savings Banks are taxed like all local enterprises, thus giving local budgets a wider scope.

With a staff of roughly 246,000 Savings Banks are among the most significant employers in Germany, providing quality jobs even in less favoured areas. With approximately 23,500 apprentices and trainees, the Savings Banks Finance Group provides more training than any other institution in Germany's financial services sector.

Notable business partner, employer, taxpayer and sponsor

Finally, Savings Banks and other partners from the Group sponsor the arts, culture, sports and social activities with an annual contribution of around €500 million. Although considerable resources are given to big names such as Staatliche Museen Berlin, most of the sponsorship is aimed at social cohesion and added value on a local level, addressing the broader public (see “Public mandate and social responsibility, page 4).

Private customers

Retail business with private customers is fundamental Savings Banks business, and has been for more than 200 years. Today, 50 million customers throughout Germany benefit from the fact that their Savings Bank is nearby. The range of services provided by Savings Banks covers all segments of retail-related banking, but with restrictions in speculative business. About 100 million current accounts are held by the Savings Banks, providing customers with access to monetary transactions and banking services and ensuring financial inclusion.

Most important player in retail business

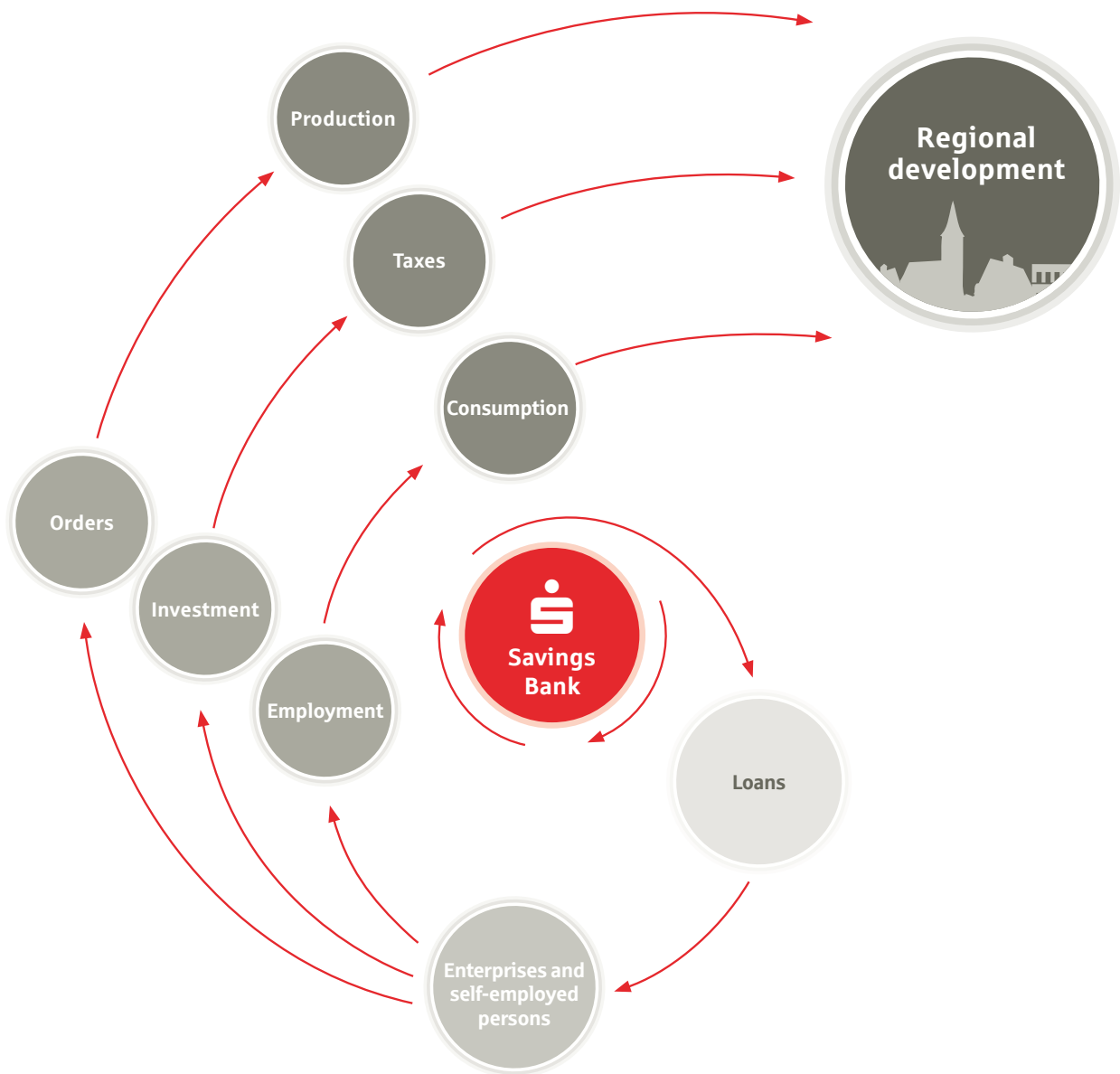
In addition, a large proportion of savers entrust their money to Savings Banks in the form of deposits. These deposits are reissued into local loans (e.g. for housing construction, financing of small and medium-sized enterprises and for local renewable energy projects).

Cross-border services

On an international level, cross-border services are increasingly becoming part of private cashless transactions. The Savings Banks Finance Group has the third-largest volume of SWIFT transactions in Germany and is one of the largest users of the European EBA clearing platform.*

* EBA Clearing refers to the European Banking Association, not the European Banking Authority.

Savings Banks actively promote regional development



Savings Banks in Germany make an important contribution to the development of their regions. They promote growth that is economically, ecologically and socially sustainable, in order to offer the best possible prospects for future generations. By providing loans and equity, Savings Banks facilitate investment from enterprises and entrepreneurs, enabling them to create jobs – to the benefit of the region.

Business customers

Access to finance for small and medium-sized enterprises in Germany would be inconceivable without Savings Banks and *Landesbanken*. Savings Banks have been SMEs' most important source of finance for many years. This important role in the German economy is particularly striking in the segment of loans extended to craftsmen. Conversely, the regional business community is also the platform for each Savings Bank's individual financial success.

Business model fuels local
economic cycles

Savings Banks grant loans to set up new businesses and to finance expansion projects, innovation and international growth. They work together with an enterprise, its employees and its customers during all phases of its development. In this way, they gain extensive knowledge about the enterprise, which enables them to tailor the lender-borrower relationship to meet very specific customer needs, while keeping an eye on the enterprise's individual risks. Decisions on business loans and risk assessments are taken locally, rather than at distant corporate centres. The *Landesbanken* also provide finance for German enterprises – more so than big private banks or cooperative banks.

Supporting internationalisation

Savings Banks assist in the international business projects of their corporate clients by providing extensive support at their home locations and by providing the services of the international S-CountryDesk network, which includes national and international services supplied by *Landesbanken* (see "S-CountryDesk", page 16).

As the "preferred principal bank of small and medium-sized enterprises", Savings Banks of course also provide export and import finance, interest-rate and currency management, documentary business and investment finance.

Capital and investments

Traditional retail business is the primary source of earnings for the Savings Banks. As they are broadly positioned throughout the private customer and business customer segments, Savings Banks have a superbly diversified portfolio, a moderate risk profile and generate stable earnings.

Moderate risk profile

Savings Banks have a comfortable equity base. Their regulatory capital has grown continuously since 2005. Savings Banks are legally obliged to use major parts of their profits to strengthen their equity capital base. On average, Savings Banks already exceed the requirements of Basel III.

A high tier-1 ratio overall and a very high net borrowing position which is stable over the long term are characteristic of Savings Banks. With their sound capital base and liquidity surplus, Savings Banks potentially still have considerable scope for extending additional loans to corporate customers without violating minimum regulatory requirements and, thus, for consolidating their market position.

Sound capital base

Savings Banks are in a good position to issue mortgage bonds and to obtain long-term refinancing funds on attractive terms.

A “typical” Savings Bank



- Generally a slight deposit surplus
- Minimal financing via the capital market
- Predominantly equity-strong
- Loans are mostly unsecuritised and issued to local private and business customers
- Limited activity on the capital market on the assets side

→ **Retail banking**

INSIDE THE GROUP

- The Savings Banks Finance Group is made up of legally and financially independent Savings Banks and other financial service providers.
- Members of the Group cooperate with each other in their national and international market activities.
- Cooperation within the Group increases operational efficiency.

Rather than being a group of affiliated companies, the Savings Banks Finance Group comprises around 600 independent institutions. It also comprises shared settlement units and joint ventures (such as Deutsche Leasing and DekaBank). The Group has no holding structure or corporate centre.

Savings Banks

Independent regional retail banks

Savings Banks form the heart of the Group. They are regional retail banks with total assets of currently between €130 million and €39 billion. There is a local Savings Bank in every region of Germany. Their activities focus on deposit and lending business with private and business customers (including the self-employed and local governments). With a network of more than 15,000 branches, Savings Banks are also the Group's most important "sensor" in the market.

Landesbanken

Full-service commercial banks

Landesbanken were originally state banks and municipal banks, as well as being the central banks for Savings Banks. They have long since become commercial banks. However, the *Landesbanken* have retained their important role as a service provider for the Savings Banks in their region – e.g. for joint loans, the delivery of products and settlement. Along with Savings Banks, *Landesbanken* are also a heavyweight in the German banking market as lenders to municipalities and as providers of corporate finance. They are also active in the issuing, underwriting and commission business for customers in Germany and elsewhere.

Cooperation within the Group

Decentralised Group structure allows for market proximity and operational efficiency

Typical business areas in which Savings Banks use the products and services of other Group members include payment transactions, securities business and international corporate banking. Division of labour is highly effective in areas such as back-office and IT services, or the joint use of risk assessment models. Savings Banks share common trademarks (⚡ and "Sparkasse").

INTERNATIONAL NETWORK

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- Savings Banks assist their corporate clients when entering new markets.
 - Savings Banks and *Landesbanken* share a common international network.
 - The Savings Banks Finance Group has a broad international network.
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Savings Banks' international operations

Savings Banks also offer their customers services for their international operations. For private customers, this mainly includes services related to payment transactions. For business customers, this encompasses advisory and financing services, including the support of investments. Needless to say, Savings Banks also cover international payment transactions, documentary business and foreign trade financing.

Savings Banks support their customers' activities worldwide.

Savings Banks do not usually carry out their own correspondent banking. They use their SWIFT connections or the systems of the *Landesbanken* to settle international transactions.

International operations of *Landesbanken*

All *Landesbanken* are internationally active in a variety of fields, and, other than Savings Banks, they are also present in other countries through branches and offices. They provide a wide range of specialised services, from supporting small and medium-sized enterprises to derivatives trading and project financing.

Landesbanken have international presence and operations.

Through their correspondent banking, *Landesbanken* maintain direct contact with foreign banks worldwide. In addition, they operate in the international capital markets, are involved in international project finance and act as investors.

Today, most *Landesbanken* are also part of S-CountryDesk. Via this network, they make the services of their international bases available to all interested Savings Banks and their business customers.

International network S-CountryDesk

S-CountryDesk is an international network which was established as a joint project between the German Savings Banks and their European and overseas partners. S-CountryDesk provides German Savings Bank customers with access to the infrastructure, product range, local expertise and capabilities of foreign banking and non-banking partners. It also provides a platform for all the institutions and service providers from within the German Savings Banks Finance Group that offer specialised products for international corporate banking business, including the *Landesbanken*.

The legal structure of S-CountryDesk is that of a limited liability company (GmbH). Its shareholders include not only a large number of German Savings Banks but also nearly all *Landesbanken*, as well as Deutsche Leasing and Deutsche Factoring Bank. Associated service providers include institutions such as the “EuropaService” of the Savings Banks Finance Group, the “German-Polish Cooperation Office of the Savings Banks”, and the “German Centres” in major target markets.

→ www.countrydesk.de

While S-CountryDesk does not provide centralised correspondent banking for all Savings Banks, it does engage in intensive relationship management between foreign service and banking partners, on the one hand, and the Savings Banks Finance Group on the other. S-CountryDesk can therefore be used to organise and accompany corporate clients’ specific business deals. S-CountryDesk was also established to make Savings Banks more easily accessible for foreign banks’ corporate clients on their way to Germany. Today, banks and service providers from more than 100 countries make their expertise and their services available to this personalised web of contacts.

Other institutions for international issues

Savings Banks Foundation for International Cooperation

→ www.sparkassenstiftung.de

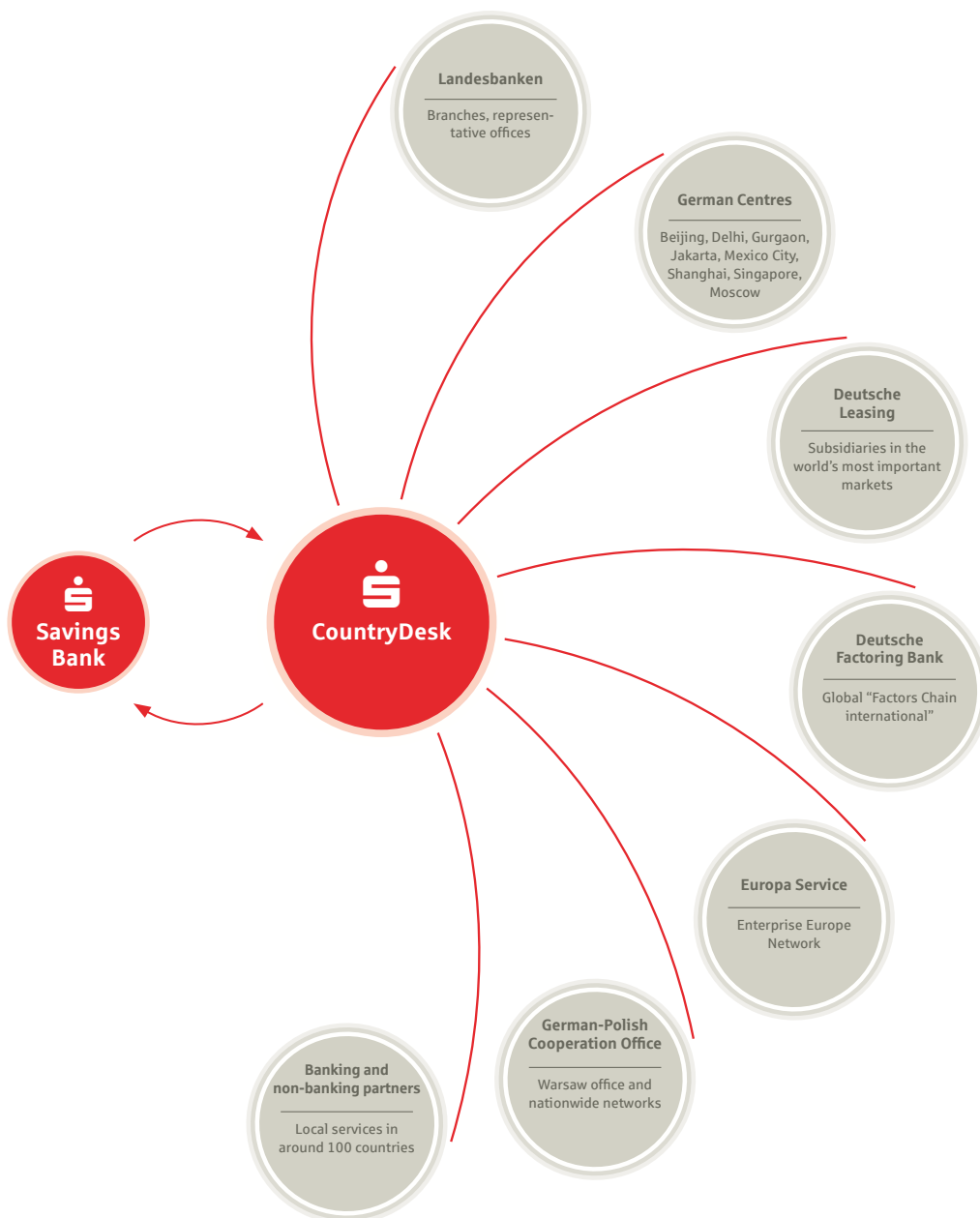
The Savings Banks Foundation for International Cooperation implements projects worldwide which are designed to give broad sections of the population access to financial services. The Foundation’s work is focused on building up microfinance services, as well as improving established savings bank organisations, providing further education and supporting the development of the financial sector. To this end, the foundation provides training courses and consulting services. In many cases, German experts with practical experience in German Savings Banks are sent to developing countries and emerging markets to help build up these capabilities.

Deutsche Leasing

→ www.deutsche-leasing.com

Deutsche Leasing is the biggest manufacturer-independent leasing company in Germany and the “leasing centre of excellence” for the Savings Banks. In the past few years, Deutsche Leasing has continuously expanded its network of foreign subsidiaries, following the

S-CountryDesk: The International network of the Savings Banks Finance Group



German Savings Banks do not operate branches abroad. Instead, they rely on a network of partners from within the Group and in foreign markets to support the international aims of their corporate clients. S-CountryDesk mediates such requests with the services and local presence of our partners in foreign markets.

streams of trade of its own customers and the customers of the Savings Banks. Today, Deutsche Leasing is present with own subsidiaries in all major Western and Eastern European countries, in Canada, North America, Brazil and in China. The core business of Deutsche Leasing is, on the one hand, to support German machine manufacturers and suppliers in exporting their capital goods, and, on the other hand, to support foreign subsidiaries of small and medium-sized enterprises in Germany with their investments abroad.

PAYCE

→ www.payce.eu

The Savings Banks Finance Group has established one of Europe's largest clearing houses. Every year, PAYCE processes more than 7 billion payment transactions (only outgoing payments). The technical core of PAYCE is the data centre operated jointly by the Savings Banks Finance Group and the *Landesbanken*. Because of its size and its highly efficient processes, PAYCE generates exceptional economies of scale in national and European payment transactions from which interested banks outside the Savings Banks Finance Group can also benefit.

EUFISERV Payments

→ www.eufiserv.com

The German Savings Banks Finance Group is a member of EUFISERV Payments. EUFISERV Payments was founded in 1990 as an initiative of the European Saving Banks Group. Its mission is to develop, manage and maintain facilities in the field of financial services with a special focus on card payment services. EUFISERV Payments has more than 20 years' experience in handling ATM transactions directly between its participants. Today, EUFISERV Payments has participants from all retail bank sectors in Europe. Since 2011, it is also active in the field of POS transactions in Europe.

European Savings Banks Group / World Savings Banks Institute

→ www.savings-banks.com

Savings Banks or similar financial institutions are not a German phenomenon. Savings Banks also exist in other countries, although in a wide range of different forms. What all of these banks have in common is a strong focus on retail business and a business policy that is geared towards public welfare. The purpose of the European Savings Banks Group and of the World Savings Banks Institute is to represent the political interests of Savings Banks and to facilitate a professional exchange of views. Both organisations are voluntary associations. The German Savings Banks Association is a member of both organisations.

RISK MANAGEMENT AND FINANCIAL RELIABILITY

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- Conservative risk management
 - Moderate risk profile
 - Institution protection
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Germany's Savings Banks use comprehensive, state-of-the-art instruments and processes to measure and manage all major risks arising from banks' operations and from market conditions. Additionally, risks are monitored Group-wide within the framework of the common institutional protection scheme, the so-called "Joint Liability Scheme".

The Savings Banks legislation that applies in Germany's federal states limits the scope of Savings Banks' engagement in certain high-risk business transactions from the onset.

Owing to their sound risk management, Savings Banks generate consistent earnings.

The Joint Liability Scheme

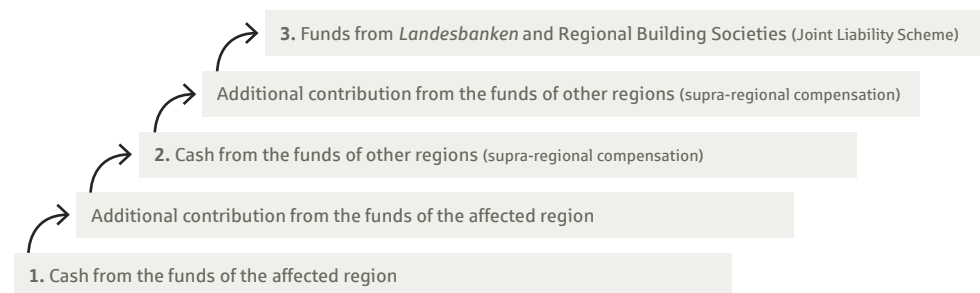
One particular strength of the Savings Banks Finance Group is its Joint Liability Scheme which primarily provides a deposit guarantee for customers and investors. The Joint Liability Scheme also ensures that Savings Banks will continue to operate and consequently be able to discharge all their obligations. This "institutional protection" is achieved with funds provided by the Savings Banks Finance Group itself, and also through extensive monitoring mechanisms.

Maximum protection achieved by their own efforts

Since the establishment of the Joint Liability Scheme in 1973, creditors of Savings Banks, *Landesbanken* or central building societies – whether customers or investors – have never had to waive outstanding claims.

When a Savings Bank requires support, it firstly has recourse to the regional fund, i.e. the neighbouring Savings Banks. If these resources are not sufficient, supra-regional funds will be used.

Sequences of steps taken to protect institutions



However, the primary task of the Joint Liability Scheme is not to coordinate support cases, but to prevent them from arising in the first place. Its constituent bodies are therefore active on a regular basis. Unlike an insurance company, which simply pays when a loss has occurred, the Joint Liability Scheme proactively monitors risks by means of performance indicators and qualitative analyses.

Proactively monitoring and protecting the member institutions

When the first signs of economic difficulty become apparent, the regional funds can exercise information and intervention rights vis-à-vis the Savings Bank concerned – i.e. long before the fund would have to provide financial resources. When needed, the funds can react within a very short period of time, as payments to the fund are regularly made in advance.

The contributions to be made by member institutions to the Joint Liability Scheme depend on their total assets and their risk profiles. This means that high-risk portfolios are not particularly attractive for Savings Banks. In addition, the “social pressure” exerted by neighbouring Savings Banks on a weak institution also has a significant impact.

The Joint Liability Scheme has a stabilising effect on the German banking market, ensuring that smaller institutions such as Savings Banks provide for their own protection and that their broad range of services will be maintained nationwide. From an economic perspective, this is a highly efficient form of protection.

Measuring counterparty risk

Savings Banks have a very broad customer base which includes larger SMEs as well as the businesses of craftsmen and the self-employed. Lending business with these customer groups is essential for Savings Banks. To determine what terms and conditions are fair and risk-adequate, Savings Banks use various methods, including their standard rating method. These methods provide valid information on loan loss probability.

Internal customer ratings provide validated information on loan loss probability.

The internal rating of business customers includes not only key financial ratios, but also more than 40 qualitative factors, such as a sound succession arrangement and information on the quality of business controlling. Savings Banks have rated more than five million customers, and this number is growing every year. On this basis, the Group's rating methods are fine-tuned on an ongoing basis.

A second pillar of the Savings Banks' internal risk management is their detailed knowledge of regional and national trends in specific sectors. The sector forecasts of the Savings Banks Finance Group are based on more than 220,000 anonymous corporate balance sheets, which are analysed every six months. This data resource is unique in Germany in terms of its depth and history.

Sector ratios provide national benchmarks.

Their counterparty risk management instruments and methods enable Savings Banks to perform loan transactions over the long term and in a sustainable manner, and to build up loan portfolios with a moderate risk profile.

Creditworthiness acknowledged by marketable ratings

The Savings Banks Finance Group has obtained three marketable ratings, in particular for Savings Banks, *Landesbanken* and regional building societies. These ratings are aimed specifically at the good credit standing of the Savings Banks and underline the importance of their cooperation within the Savings Banks Finance Group.

Currently, there are three ratings:

- a Corporate Family Rating by Moody's Investors Service,
- Group Ratings for Savings Banks by Fitch Ratings and
- Floor Ratings by the Canadian agency DBRS.

	2012	2011	2010
Moody's Corporate Family Rating			
long-term	Aa2	Aa2	Aa2
BFSR	C+	C+	C+
Fitch Group Ratings/ Floor Ratings			
long-term	A+	A+	A+
short-term	F1+	F1+	F1+
DBRS Floor Ratings			
long-term	A (high)	A (high)	A (high)
short-term	R-1 (middle)	R-1 (middle)	R-1 (middle)

Well over 400 Savings Banks have received ratings by Fitch and DBRS based on the group ratings.

Many *Landesbanken* are already active in the capital market and have obtained their own issuer ratings, in addition to the group ratings described above.

WHO TO CONTACT

The Deutscher Sparkassen- und Giroverband e.V. (German Savings Banks Association – DSGV) is the umbrella organisation of the Savings Banks Finance Group, but not its corporate centre. It represents the Savings Banks, the *Landesbank* Groups, the regional building societies, public primary insurance groups, as well as DekaBank and other financial service providers. The members of the DSGV are the regional Savings Banks Associations and the *Landesbanken*.

The DSGV represents the interests of these companies vis-à-vis the institutions of Germany's federal government and the European Union in matters relating to banking policy, the banking sector and regulation. The DSGV also represents the interests of its members vis-à-vis other national and international institutions as well as the public at large. In cooperation with the regional Savings Banks Associations and other institutions of the Group, the DSGV also organises the political decision-making processes within the Savings Banks Finance Group.

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www.dsgv.de

The DSGV itself is not operationally active. For questions regarding day-to-day operations, direct contact should be made with the Savings Bank or *Landesbank* concerned.

SAVINGS BANKS FINANCE GROUP MARKET SET-UP

As of 31.12.2011

Savings Banks Finance Group							
No. of companies	600 ¹	No. of branch offices ²	20,470 ⁵	Employees ³	360,300 ^{5,6}	Business volume ⁴	EUR 3,250 bn ⁵
			20,400 ⁷		345,600 ^{6,7}		EUR 3,030 bn ⁷

426 Savings Banks*							
Balance sheet total	EUR 1,098 bn	No. of branch offices (incl. self-service)	15,441	Employees	245,969	Additional staff at directly held Savings Banks subsidiaries	9,165

8 Landesbank Groups**	
LBBW, BayernLB, LBB, HSH Nordbank, Helaba, NORD/LB (with Bremer Landesbank), SaarLB, WestLB	
Balance sheet total	EUR 1,495 bn
Employees	48,464

DekaBank Deutsche Girozentrale	
Balance sheet total	EUR 134 bn
Employees	3,957

Deutsche Leasing Group	
No. of contracts	245,500
Cost value	EUR 28.1 bn
Employees	1,846

11 Public Primary Insurance Groups	
Gross premium income	EUR 18.1 bn
Employees	30,000

10 Landesbausparkassen (LBS) (regional building societies)	
Balance sheet total	EUR 55 bn
Employees	8,940

4 Other leasing companies ⁸	
Cost value	EUR 47.9 bn
Employees ⁹	565

7 Investment companies of the Landesbanken	
Employees	250

DSV Group (Deutscher Sparkassenverlag)	
Income	EUR 0.88 bn
Employees	1,748

Finanz Informatik	
Employees	4,920
SIZ Informatikzentrum der Sparkassenorganisation	
Employees	106

74 Equity investment companies	
Equity interests	1,508
Total volume	EUR 1.8 bn
Employees	234

3 Factoring companies	
Annual turnover	EUR 20.1 bn
Employees	192

10 LBS property companies	
Property volume	EUR 5.2 bn
Employees	450

8 Consultancies advising corporate and municipal clients	
Employees	70

No hierarchical presentation/no indication of shareholding/shareholder structure.

¹ Including associations and other institutions; numbers rounded.

² Branches/advice centres.

³ Number of staff employed in internal functions/in the mobile sales force, excluding part-time sales staff; numbers rounded.

⁴ Business volume, defined as: total assets/aggregate holdings/fund assets/volume of shareholdings; numbers rounded.

⁵ Including international branches, plus domestic and international subsidiaries of Landesbank Groups.

⁶ Including 3,445 employees of associations, related institutions and other institutions.

⁷ Excluding international branches, as well as domestic and international subsidiaries of Landesbank Groups.

⁸ Including three companies which form a group.

⁹ Excluding staff numbers included in Landesbanken consolidated figures.

* 423 Savings Banks (as at 16 October 2012).

** 7 Landesbank Groups (as of 1 July 2012).

IMPRINT

Published by

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Concept and design

Kirchhoff Consult AG
Hamburg
www.kirchhoff.de

Photographs

DSV Sparkassen-Bilderwelt

Printed by

DCM Druck Center Meckenheim

Copy deadline

7 November 2012

