Contents

Management report for fiscal 2007

1 Underlying conditions

Sparkasse Saarbrücken is a legal entity organised according to public law and domiciled in Saarbrücken. We engage in all standard banking transactions permitted by the Savings Bank Act of the State of Saarland, the rules issued under this Act and the Bank's bylaws. The Bank's shareholder is Sparkassenzweckverband. As a legally independent business entity, Sparkasse Saarbrücken pursues the aim of strengthening competition primarily in its home territory and providing the private and public sectors with appropriate and adequate lending and banking services in light of market and competition requirements. To this end, we maintain 70 branches in our home market, the city association (from 1 January 2008: regional association) and the state capital, Saarbrücken.

Sparkasse Saarbrücken's management bodies comprise the Supervisory Board and the Management Board. The Supervisory Board issues instructions to the Management Board and the Credit Committee and monitors the activities of the Management Board. It comprises a total of 19 members. The Credit Committee, which comprises the Chairperson of the Supervisory Board and up to six members, passes resolutions approving the grant of loans in accordance with the instructions issued. The Supervisory Board passes resolutions approving the origination of loans extended by the Bank to its own officers as defined in Article 15 of the German Banking Act. The Management Board manages the Bank at its own discretion. It represents the Bank and conducts its business.

As a member of the Savings Bank Support Fund of the Saar Savings Bank Association, our Bank is affiliated with the guarantee system of the German Savings Bank Organisation. This ensures that all savings deposited by our customers are guaranteed in full.

Economic development

In 2007, the German economy again grew at a healthy 2.5 % in real terms, but not as quickly as in the previous year (up 2.9 %). Factors in and outside Germany drove growth, while global growth was an extremely dynamic 5 %. After adjusting for inflation, exports grew 8.3 % and imports rose 5.7 %. Companies invested significantly more in plant, equipment and vehicles than in the year before (up 8.4 %). Consumer spending contributed a mere 0.2 percentage points to economic growth. The only positive boost, however, came from government consumption, which increased 2 % in real terms. Private consumption reduced growth by 0.2 percentage points. It was thus 0.3 percentage points lower than in the previous year. This decline was primarily caused by the value-added tax increase of 3 % at the start of the year, while some purchases were brought forward to 2006 to escape the tax increase.

Although the Saarland economy did not keep up with the average growth rate for Germany, it expanded 2.3 % in real terms, a clear increase over 2006 (up 1.6 %). And while the Saarland economy was still trailing all other German states in 2006 in terms of growth, it returned to the midfield in 2007. The main economic pillars in both Saarland and Germany are the booming steel industry, automotive (carmakers and suppliers), metal and machinery. Economic performance was rather patchy outside the industrial sector.

The positive cyclical trend was also reflected in the labour market. The number of employees grew 1.7 % in 2007, whereas the unemployment rate dropped from 10.8 % to 9.0 %.

As inflationary risks grew, the European Central Bank raised the key interest rate in two steps to 4 % in 2007; the last time was in June. The ECB decided not to raise the rate any further due to the turbulence in financial markets caused by the subprime crisis in the US. Sparkasse Saarbrücken is not currently investing in US asset-backed securities, nor did it do so in 2007.

Although the German DAX reached 8,067 points as at 31 December 2007, a 23 % increase compared to the end of the previous year, it lost considerable ground in the first several months of 2008.

2 Report on economic situation

2.1 Business performance

2.1.1 Total assets and volume of business

	Existing 31. 12. 2007 EUR mn	Changes 2007 EUR mn	2007 %	2006 %
Business volume[1)]	5,984.3	+8.4	+0.1	-0.4
Total assets	5,918.9	+1.1	+0.0	-0.4

1) Total shareholders' equity and liabilities plus contingent liabilities

The volume of business and total assets remained virtually unchanged in 2007. There was a decrease both in loans to customers (down EUR 101.0 million) and loans to banks (down EUR 67.5 million), while we increased our balances with Deutsche Bundesbank (up EUR 151.4 million). Investments in securities remained essentially constant (down EUR 6.8 million).

2.1.2 Lending business (including off-balance-sheet (Item 1) liabilities)

	Existing 31. 12. 2007 EUR mn	Changes 2007 EUR mnR	2007 %	2006 %
Volume of loans to customers	3,115.1	-101.0	-3.1	1.9
Of which: Loans to public sector	799.4	-74.7	-8.5	0.8
Mortgage loans	927.6	-44.6	-4.6	-3.4
Loans to banks	1,065.2	-67.5	-6.0	6.5
Investments in securities	1,461.9	-6.8	-0.5	-0.3

Volume of loans to customers

Sparkasse Saarbrücken originated new loans totalling EUR 368.1 million in fiscal 2007. Contrary to expectations, the lending business was unable to sustain the modest growth experienced in recent years.

While loans to private individuals and companies fell just barely short of the strong prior-year figures, the public sector has noticeably curbed its demand for loans. And although interest rates are still at favourable levels, holdings of mortgage loans continue to decline.

Loans to banks

There was less cash invested at other banks in the year under review than in the previous year. One of the main reasons for the EUR 67.5 million reduction in existing investments (down 6.0 %) was the decline in time deposits.

Investments in securities

Investments in securities declined marginally, but remain on a par with earlier years. Securities are primarily assigned to the liquidity reserve and particularly comprise fixed-income securities issued by investment-grade counterparties. Some of our securities are held in several special-purpose funds. Our goal is to achieve value growth with assets managed by third parties giving due consideration to risk and return profiles.

2.1.3 Deposit-taking business

	Existing 31. 12. 2007 EUR mn	Changes 2007 EUR mn	2007 %	2006 %
Funds deposited by customers	4,048.6	-13.9	-0.3	-2.8
Of which: Savings deposits	1,967.6	-8.4	-0.4	-1.0
Non-certificated liabilities	1,743.8	-75.0	-4.1	-6.1
Certificated liabilities	278.1	69.5	33.3	18.6
Subordinated liabilities and profit-sharing rights	59.1	-	-	-15.8
Liabilities to banks	1,530.4	7.9	0.5	7.0

Funds deposited by customers

Total funds deposited by customers remained virtually unchanged, dropping only 0.3 % (previous year: down 2.8 %) There were, however, prominent structural shifts both among deposit-taking products overall and within savings deposits. Investors showed the most favour to bearer bonds (up EUR 69.5 million or 33.3 %) followed by amounts owed other than "at sight" (up EUR 49.3 million or 8.2 %) and sight deposits (up EUR 6.2 million or 1.0 %). The drop in Sparkasse Saarbrücken's investment certificates (Sparkassenbrief) (down EUR 135.8 mn or 25.7 %) came mostly from transactions with major customers that came due and were not renewed.

The flat and, at times, inverted yield curve and favourable terms policies boosted demand for money-market accounts (S-Geldmarktkonto) (up EUR 200.2 million) and one-year savings certificates (S-Zertifikat) (up EUR 205.1 million), while demand declined for savings plans with annual increases in interest rates (Zuwachssparen) (down EUR 272.9 million) and savings plans with fixed interest rates (S-Renditesparen) (down EUR 109.4 million). All told, savings deposits were down EUR 8.4 million (down 0.4 %).

Liabilities to banks

Liabilities to banks increased marginally (up 0.5 %) during the year under review. Open-market borrowing was lower at year-end than in the previous year. However, borrowings from banks increased, particularly in overnight money.

2.1.4 Services

Some of our services are handled via S-Pro-Finanz GmbH. A wholly owned subsidiary of Sparkasse Saarbrücken, it advises our customers on all matters relating to real estate and insurance.

Indeed, sales of life-insurance products slightly exceeded prior-year levels again. Whereas sales of “Riester” retirement products were up 24 %, there were slight declines in traditional products such as term, endowment and annuity products.

Property insurance sales fell slightly short of the prior year’s good performance.

The real estate business continued to perform strongly, increasing commission income almost 24 % and setting a new record.

Our combined business with LBS fell EUR 8.6 million short of last year’s sales of building savings plans, which had represented the best result in the history of Sparkasse Saarbrücken.

However, the average volume went up EUR 1,500 from 2006 to EUR 23,500. All told, 3,112 building savings plans were taken out, resulting in a total volume of EUR 73.1 million.

Attractive returns, tax advantages and customers’ heightened interest in safety drove up gross sales of our in-house bearer bonds by some 74 % to EUR 139 million. That represented the highest gross sales ever achieved by our securities business with this product.

Portfolio volumes in the investment business with Deka and its partners grew 4.3 % last year to EUR 467 million. Net sales came in at EUR 21.6 million, slightly below prior-year levels (EUR 23.7 million). Investors flocked to money-market funds due to their attractive interest rates on short-term investments and excellent security. The importance of security in financial investments was reflected in the continued strong sales of guaranteed funds.

The rising prices of DAX stocks and uncertainty regarding the subprime and financial crisis drove up trading volumes on stock markets. Our customers’ stock trading volumes went up approximately 40 % year-to-year, after rising 37 % in the previous year.

Widespread uncertainty ratcheted up demand for structured certificates and bonds with security features. Around EUR 22 million were invested in these products.

International payments accounted for over 64,000 outgoing payments and nearly EUR 314 million, including 57,000 payments and EUR 169 million within the EU. While 82 % of the L/C business consists of export transactions, 88 % of documentary collections are for imports. All told, the Bank handled 134 documentary transactions worth nearly EUR 10 million.

Commissions on interest-rate derivatives almost doubled compared to the already good performance in 2006. All told, the commissions accounted for nearly 20 % of the total foreign business.

Many customers hedged their foreign-currency loans in response to the strong Euro. As a result, it was not possible to maintain the portfolio levels of the previous year.

2.1.5 Own trading

The extension to average maturities in our Custodian Account A initiated in earlier years has paid off. Trading volumes – buying, selling and maturities – came to a total of EUR 1,203.1 million (prior year: EUR 477.5 million). Sparkasse Saarbrücken is a non-trading book institute as defined in the German Banking Act.

2.1.6 Derivatives

Most of the products in the derivatives business are interest rate swaps and interest rate futures taken out in order to manage interest rate books based on present values. The total principal amount of transactions still outstanding at year-end was around EUR 1.7 billion (prior year: EUR 1.1 billion).

2.2 Financial position

	EUR mn 31. 12. 2007	EUR mn 31.12.2006	Percentage of business volume 31.12.2007	31.12.2006
Volume of loans to customers	3,115.1	3,216.1	52.1	53.8
Of which: Loans to public sector	799.4	874.1	13.4	14.6
Loans to banks	1,065.2	1,132.7	17.8	18.9
Investments in securities	1,461.9	1,468.7	24.4	24.6
Fixed assets	85.8	70.2	1.4	1.2
Other assets	256.3	88.2	4.3	1.5
Funds deposited by customers	4,048.6	4,062.5	67.6	68.0
Of which: Savings deposits	1,967.6	1,976.0	32.9	33.1
Liabilities to banks	1,530.4	1,522.5	25.6	25.5
Other liabilities (including contingent liabilities and provisions)	137.8	130.1	2.3	2.1
Shareholders' equity	267.5	260.8	4.5	4.4

Compared with the association average, Sparkasse Saarbrücken's asset and liability structure is characterised by a smaller share of loans and liabilities to customers.

The contingency reserve will amount to EUR 230.7 million after the Supervisory Board resolves to allocate funds from the unappropriated surplus. This is equal to an increase of 3.0 %. In addition to its contingency reserves, Sparkasse Saarbrücken has further extensive lower-tier equity resources. At 11.3 %, the ratio of equity capital, measured according to Article 10 of the German Banking Act in relation to the sum of risk assets and market risk positions (Tier 1 ratio) as at 31 December 2007 substantially exceeds the minimum statutory requirement of 8 %.

Sparkasse Saarbrücken has exercised the option granted under Article 339 (9) of the German Solvency Regulation to use the old Principle I rules to calculate its capital backing.

This strong equity basis provides the foundation for further efforts to expand business so that Sparkasse Saarbrücken is able to achieve its targets.

Undisclosed reserves are included in the assets carried on the balance sheet, particularly in real estate and securities holdings. We have also taken additional precautions pursuant to Article 340f of the German Commercial Code to avert banking-related risks. The fund formed for general banking risks in accordance with Article 340g of the German Commercial Code is valued at EUR 35 million.

2.3 Cash flows

Sparkasse Saarbrücken's solvency was guaranteed at all times in the year under review thanks to the well-planned, balanced liquidity provisions it had set aside. Sparkasse's liquidity position is monitored in the monthly returns filed under German Liquidity Regulation (LiqV). Sparkasse Saarbrücken also has a liquidity management system that shows the liquidity statement for the next 30 days, and the utilisation of existing liquidity based on scenario analyses. It also accounts for available credit facilities with trading partners and available open market facilities.

Partial use was made of the credit facilities granted by Deutsche Bundesbank and Landesbank Saar. Appropriate assets were always maintained at Deutsche Bundesbank in order to comply with minimum reserve requirements. With effect as at the end of the fiscal year, a liquidity rating of 1.43 was calculated in maturity band I based on Principle II, which is used by the banking regulator to assess banks' liquidity position, such that the liquidity level can be considered adequate both on the balance sheet date and for 2007 as a whole.

Sparkasse Saarbrücken has exercised the option granted under Article 12 of the German Liquidity Regulation to use the old Principle II rules to calculate its liquidity position until 31 December 2007.

Similarly, the key figures to be calculated for further periods of observation (maturity bands of up to twelve months) do not give any indication of potential liquidity problems.

There are thus no signs that cash flows might worsen in the future.

2.4 Earnings

Income statement:	2007 EUR mn	2006 EUR mn
Net interest income (including Items 3 and 4 of the income statement)	98.8	104.7
Net commission income	21.4	20.8
Administrative expenses a) Personnel costs	66.8	68.2
b) Non-personnel costs	26.4	25.9
Sub-total	**27.0**	**31.4**
Net income from financial transactions	0.3	0.4
Net other operating income/expenses	-1.2	-2.2
Result before provisioning	**26.1**	**29.6**
Net provisioning result	-14.3	-12.1
Result after provisioning	**11.8**	**17.5**
Extraordinary net income/loss	-	-0.9
Taxes	3.2	7.3
Net income and unappropriated surplus	**8.6**	**9.3**

The most important source of income from our business activities was once again **net interest income**, which was down in the year under review. The flat and – at times – even inverted yield curve had a particularly detrimental effect on net interest income. Plus, the higher interest rates could not be fully passed on in our lending business, which made the deposit-taking business disproportionately expensive.

The slight increase in **net commission income** was driven mainly by increases in commission income, which, among other things, was due to increased customer activity in the securities business throughout the year.

Net income from financial transactions, which comprises trading in securities, foreign exchange, and foreign notes and coins, contracted. However, it continues to play only a minor role.

Personnel costs went down EUR 1.4 million (2.1 %), thanks to further reductions in the employee headcount and an increase in the percentage of part-time workers. This more than compensated for the cost increases from re-allocating staff to higher pay scale groups, raising provisions further for pre-retirement reduced working hour contracts and once again lowering the interest rate used to discount pension obligations to 4 %. On the other hand, **non-personnel costs** rose EUR 0.5 million (1.9 %) in response to general price increases and the increase in the VAT rate to 19 %. The **result before provisioning** was below prior-year levels.

The **net provisioning result** includes the requisite bad debt allowances in the lending business, write-downs on our securities and the recognition of additional contingency reserves in accordance with Article 340f of the German Commercial Code.

After the completion of all necessary provisioning, the **result after provisioning** was EUR 5.7 million less than in the year before.

The **net income** reported for the year was sufficient to cover Sparkasse Saarbrücken's equity requirements and to distribute a reasonable dividend to the shareholder.

For the purpose of analysing our earnings, we use what is known as the “Operations comparison” developed by the Savings Bank Organisation. In further analyses, we additionally track the earnings components broken down using the mark-to-market method as well as counterparty and market price risks for which provisions are set aside.

2.5 Non-financial performance indicators

Employees

The total number of employees dropped in 2007. At the end of the year, Sparkasse Saarbrücken employed a total of 1,314 people, including employees on leave. Of these, 824 were full-time and 441 part-time employees and 49 trainees.

We have developed numerous models allowing employees to combine families and careers. There are various part-time models. In addition to the statutory parental leave, employees are able to apply for leave of up to four years with a guaranteed right to return to the Bank.

The declared aim of our site safety policy is to protect and, where possible, improve our staff's health and to ensure that they are able to work to the best of their abilities with maximum job satisfaction.

Ongoing further training is in the interest of both the employer and the employee. With this in mind, we offer internal and external (e.g. at Saarländische Sparkassen-akademie) vocational education programs oriented to specific aspects of our business and helping staff to plan their careers. Given the constant changes in the savings bank business as well as new technological developments, target-oriented training and vocational education for employees continued to play a crucial role in personnel development activities last year.

Top priority is given to training school-leavers at all sites. 18 trainees who successfully completed their courses were offered permanent open-end positions at Sparkasse Saarbrücken. The ratio of trainees to the total number of employees stood at 3.7 % in 2007.

Customer relations

We place our customers' interests at the heart of our activities and systematically align our internal benchmarks to their needs, expectations and wishes. For Sparkasse Saarbrücken, economic success over the next few years will hinge decisively on its ability to unlock new potential and extend existing business opportunities. This involves identifying new customer needs at an early stage and developing the right answers for them.

For this reason, our complaints management plays a central role in ensuring customer satisfaction: By specifically recording and evaluating complaints, we are able to address mistakes and gain a good idea of customers' basic requirements and expectations.

Social responsibility

We have always considered social responsibility a corner piece of our corporate culture in all areas where Sparkasse Saarbrücken operates. We support our community's development and appeal in the form of donations, sponsoring activities and the payment of dividends to our shareholder. This also includes assisting charities as well as cultural and sports activities.

2.6 Summary and assessment

Sparkasse Saarbrücken's performance as well as its financial position and cash flows can be considered satisfactory in the light of general economic conditions as well as the state of the banking sector. Earnings declined again. The slight decline in funds received from customers (down EUR 13.9 million or 0.3 %) means, taken together with over EUR 230 million in maturities (prior year: EUR 90 million) that we succeeded in winning and maintaining customer deposits to a large extent. On average, Saarland Sparkasse banks reported a slight increase.

In the income statement, interest margins declined further, but the pressure did not increase further. However, the decline was partially offset by improvements in personnel costs and taxes.

After all necessary provisioning, net income for the year stands at EUR 8.6 million – less than prior-year levels as forecast, but fully within the expected range.

The net income will allow us to further increase our equity capital, something which is necessary for our future growth.

3 Risk report

3.1 Risk management

The conscious acceptance, active management and specific transformation of risks are core functions of banks. At Sparkasse Saarbrücken, they are defined in a business strategy and a more specific risk strategy. Due to the nature of our business, we manage counterparty risks, liquidity risks, market price risks (interest, exchange rate risks) and operational risks as appropriate.

The measurement and close monitoring of all risks constitute a key basis for the controlled acceptance of risk as part of our business strategy. We meet these requirements by enhancing our risk management systems on an ongoing basis. In order to achieve our strategic goals of risk- and return-optimised employment of our capital, our risk management system must detect risks at an early stage and provide the responsible persons with all the information required to avert them with minimum delay.

The risk resistance model was implemented throughout the Bank in the course of 2007. This model comprises both value-oriented and periodic views. It also takes account of regulatory requirements.

The principles underlying the risk management and monitoring system, the types of risks identified as well as the instruments used are documented in Sparkasse Saarbrücken`s risk manual. This additionally includes information on responsibilities as well as the cycles for reporting to the Management Board and other decision makers as well as planned enhancements.

The Management Board defines maximum potential risk in light of the Bank's risk resistance.

In regular reviews, we determine the risk capital available to Sparkasse Saarbrücken for covering losses. It indicates the extent to which we can accept risk as part of our business strategy.

As part of its monitoring duties, the internal auditing department, which is not integrated in the risk management processes, assists the Management Board. It works on a risk-oriented audit schedule that has been approved by the Management Board and that the internal auditing department uses as a basis for examining and evaluating the Bank's activities and processes. This includes auditing the risk management system, risk management and monitoring, internal reporting as well as compliance with internal and external rules and regulations. In this connection, the focus is on processes and methods in the light of the principles of security, propriety as well as economic efficiency and appropriateness. No findings of any significance impacting the Bank's financial position, cash flows earnings were made in 2007. In principal, any improvements suggested by Internal Auditing are implemented.

3.2 Risk monitoring and management

3.2.1 Counterparty risks

Counterparty risk is defined as the risk of partial or full default on the part of business partners in the performance of their contractual obligations towards the Bank.

Our counterparty risk exposure in the **lending business** is managed with particular consideration being given to size class structure, the sectors, the collateral provided and the risk of the commitment concerned. Details are defined in the credit risk strategy.

The Management Board attaches crucial importance to risk limitation in the Bank's customer lending activities. This is reflected in the fact that the Bank's corporate objectives continue to focus on quality, i.e. the risk-sensitive granting of loans. Major risks are accepted with the approval of Sparkasse Saarbrücken's Credit Committee.

The credit rating is of crucial importance for assessing counterparty risks in lending business. To manage credit risk, Sparkasse Saarbrücken uses the rating method developed by the Savings Bank Organisation. For corporate customers, the quantitative assessment involves a system-based analysis of the annual financial statements in connection with a mathematical/statistical rating model. The results are supplemented with an assessment of business performance, the ability to service loans as well as the quality and date of the figures furnished. In addition, qualitative factors such as management, market position, the range of products and services as well as the outlook for the sector are considered. The systems developed by the Savings Bank Organisation (e.g. EBILPlus for analysing individual balance sheets) are particularly used to assess borrowers' credit rating. Credit ratings are assessed by experienced credit analysts and corporate customer relationship managers. In the case of private individuals, credit ratings are determined on the basis of their income and assets as well as their ability to repay loans on the basis of these findings.

In addition to an assessment of the customer's credit rating as such, risk classification in the customer lending business also takes account of the collateral provided.

Emerging credit risks identified using effective early warning systems are addressed by intensive management in the front office. Non-performing loans or those requiring restructuring are managed in back-office departments.

The Management Board has defined a credit risk strategy on the basis of a risk analysis. It receives a quarterly report on the state of the credit portfolio and compliance with the strategy. The credit risk report breaks down the portfolio by rating and scoring classes, sectors, size classes and risk-exposed volumes. Together with the other systems used, this report forms the basis for decision-making processes in the lending business and enables the credit portfolio to be evaluated and managed. The risk premiums on risk-adjusted lending terms are calculated on the basis of internal ratings. Derivative instruments are used to manage credit risks.

At the moment, there is no evidence of any exceptional risk exposure in our credit portfolio on account of its structure and diversification. We assume that risk provisioning requirements for the lending business will remain at the previous year's level in 2008.

Counterparty risks in the **trading business** are limited thanks to the careful selection of our contractual partners based on the rules for determining credit ratings as well as volume limits per counterparty. In addition, the counterparty risk from trading business is capped at the overall portfolio level by means of a risk limit. At the end of 2007, 49 % of the limit of EUR 2 million was in use, testifying to Sparkasse Saarbrücken's favourable risk situation not only on the balance sheet date but also throughout all of 2007.

3.2.2 Market price risks

Market price risks are defined as potential losses of income as a result of changes in the market prices of securities and foreign exchange, fluctuations in interest rates and prices as well as any resultant changes in the market value of derivatives. Additional market price risks occur in connection with items for which there is only a limited market. Market price risks are managed with the aim of making use of earnings opportunities without placing undue strain on financial resources.

Risks from trading business

Market price risks arising from trading business are calculated daily in accordance with current market prices and potential changes in market price (loss potential) and added to the defined risk limit. The loss and risk limit system is implemented in the light of Sparkasse Saarbrücken's financial position and earnings. Trading transactions are measured and monitored on the basis of a value-at-risk model. Potential loss for the portfolio as a whole is forecast using a variance/covariance approach based on a retention period of 10 days and a confidence level of 95 %.

In 2007, market price risks remained within the risk limit defined by the Management Board at all times. At the end of 2007, 43 % (EUR 14.2 million; previous year EUR 15.7 million) of the risk limit for trading business of EUR 33 million (previous year EUR 33 million) was in use, indicative of Sparkasse Saarbrücken's favourable risk situation. The system and its validity are reviewed and enhanced by means of backtesting twice a year.

The Management Board is kept briefed on market price risks on a regular basis.

Interest risk

The Bank's overall exposure to interest margin risks is monitored periodically with the assistance of simulations in the Asset / Liability Management planning model, with reports submitted to the Management Board on a regular basis.

In addition, interest risk as a subset of market price risk is monitored regularly at the level of the overall interest book with the aid of risk analyses in accordance with the present value model. The findings are reported to the Management Board on a monthly basis. The interest risk is determined by applying a value-at-risk method based on a historic simulation with a retention period of 63 trading days, a confidence level of 95 % and a historic observation period of 12 years.

As part of integrated bank management, derivative financial instruments in the form of interest swaps and bond futures alongside on-balance-sheet instruments are used to hedge interest risks.

Exchange rate risks are of only minor importance for Sparkasse Saarbrücken. Open positions are generally matched by counter transactions or currency forwards.

3.2.3 Liquidity risk

The risk of not being able to enter into contracts at all or on the expected terms in the event of insufficient market liquidity for individual products is also addressed by risk management and monitoring. The liquidity risk is averted by ensuring that sufficient liquidity is available and that assets and liabilities are structured responsibly. The liquidity statement is used as a basis for planning and managing Sparkasse Saarbrücken's liquidity. The current liquidity statement is analysed by the trading departments each day and used to manage daily liquidity. Liquidity is fine-tuned monthly using historical data. Sparkasse Saarbrücken is able to determine both current and future liquidity requirements or surpluses by observing the maturity lists for all interest and principal payment flows. In addition to this, it applies the liquidity principle requirements to measure and limit the longer-term liquidity reserve.

The Bank also developed a system with pre-defined scenarios and prioritised measures to ensure adequate liquidity. It was issued every month, and ensured that adequate liquidity was available at all times during the year under review.

As reflected in the liquidity principle indicator in the section on the Bank's financial position, Sparkasse Saarbrücken has a strong liquidity position overall thanks to its holdings of highly liquid securities.

3.2.4 Operational risks

Sparkasse Saarbrücken defines operational risks as losses occurring as a result of external factors or the inadequacy or failure of internal infrastructure, employees, or internal processes.

Sparkasse Saarbrücken distinguishes between risks that have occurred - known as losses - and risks that might occur in the future. Losses of EUR 1,000.00 or more are recorded in a loss database. It uses a risk map approach to identify true operational risks, i.e., risks that may occur in the future.

The rules and processes installed for managing operational risks particularly include the internal controlling system, written rules governing the Bank's structure and main processes, the use of qualified personnel as well as ongoing further development of methods and improvements to technical processes.

Operational risks in the IT field or due to organisational or processing errors are minimised by agreements with an external IT centre, precautions for emergency situations, growing automation and ongoing supervision carried out by qualified staff, and are covered in part by insurance.

Legal risks are averted by means of careful examination of contracts and the use of standard form contracts. Risks arising in connection with equity interests are addressed by means of periodic supervision and reporting in this area.

Starting in 2008, the Management Board and the Supervisory Board will receive an annual operational risk report. In serious cases, the Management Board will receive ad hoc reports.

Overall, this approach allows Sparkasse Saarbrücken to comply with all regulatory and statutory requirements.

3.3 Overall risk assessment

Our Bank has established a risk management, monitoring and control system in accordance with Article 25a of the German Banking Act (KWG) that is appropriate in the light of the nature and scope of its business activities. The risk management and monitoring system enables risks to be identified at an early stage, information forwarded to the responsible decision-makers and risks averted. The risk resistance analyses show that there is sufficient risk resistance in all scenarios.

There is no evidence of any risks to Sparkasse Saarbrücken's status as a going concern or risks in excess of normal business levels. Similarly, no risk liable to exert a material effect on Sparkasse Saarbrücken's financial position, cash flows and earnings have been identified. Given its existing risk management system, Sparkasse Saarbrücken sees itself well positioned to handle existing business and to master the challenges of the future.

4 Material events occurring after the balance sheet date

No events of material importance have occurred since the end of the fiscal year.

5 Outlook

Our foremost strategic aim is to retain the leadership of our core market. We will only have sufficient financial scope for future business growth if we can ensure reasonable profitability. We are thus seeking to steadily boost profitability on the basis of equity resources that meet statutory requirements. To achieve this goal, we enter into management-by-objectives agreements with executives and staff.

We are committed to operating economically, taking manageable risks and generating funds which we can plough back into our business without losing sight of our public mission. Growth targets for balance-sheet items on the one hand and expense and income goals on the other have been defined to achieve reasonable profits to safeguard Sparkasse Saarbrücken's risk resistance.

Target achievement is monitored on a regular basis by comparing actual and required figures.

The forecast of Sparkasse Saarbrücken's performance over the next two years represents our view of the likeliest future outcome, based on the information available to us when we prepared this management report. As forecasts invariably involve uncertainty or may be rendered void by changes in the underlying assumptions, it should be noted that actual events may differ from those projected at this stage if the underlying assumptions fail to eventuate.

Expected business performance in 2008 and 2009
Outlook

The pressures on the global economy and thus the German economy increased in the first quarter of 2008. The strong Euro is dragging down exports, high oil and raw materials prices are driving up costs, the elimination of declining-balance depreciation slowed investment, high perceived inflation is weighing down consumption and – last, but certainly not least – the impacts of the financial crisis have fueled uncertainty regarding economic developments in the US and beyond. Growth in Germany is expected to be supported by a global economy with still above-average growth rates. The improving labour market and expected wage increases should boost domestic demand. All told, economic growth is projected to slow by 0.7 percentage points to 1.7 % in 2008.

The ongoing financial crisis may also leave an imprint on the Saarland economy. However, the state government believes the local economy is set to achieve stable growth rates in the new year.

Sparkasse Saarbrücken faces the challenge of responding to dynamic competitive conditions. This includes the continued intensification of competition amongst banks as well as customers' rising expectations. The Bank already has a broad range of acknowledged financial products covering a large part of the regional market. Our product strategy aims at achieving a reasonable presence in all economically viable market segments. By selectively adapting our product and service portfolio, we can offer the full range of banking services for active sales activities. Ultimately, we intend to improve customer satisfaction, foster customer loyalty and attract new, lucrative customers.

Given the cautiously positive forecast for the economy as a whole, we project only marginal growth in total assets in 2008 and 2009. This growth is likely to be primarily underpinned by lending to customers as well as deposit-taking from customers.

In 2008, we expect to see moderate growth in commercial lending business, spurred for the most part by companies seeking to finance their replacement capex budgets. Turning to households, the main focus will be on financing homes – new construction and renovation – and consumer spending. Despite the upbeat sentiment in many branches of industry and continued low interest rates, households are expected to show only modest demand for credit due to the low level of housing starts. The public sector will also exercise restraint in this regard, so we currently expect 2008 lending volumes to be on a par with the previous year. We anticipate that the upbeat sentiment will have reached other segments of the population by the next financial year, which should drive up growth in lending business slightly again.

We expect a slight increase in funds received from customers. This will drive a generally moderate increase in business activity.

The interest environment exerts the greatest influence on our net interest income. A change in interest levels impacts many different areas. Rising interest rates do raise our refinancing costs, but they do allow the opportunity to widen margins through interest rate adjustments. A rising interest rate affects customers in different ways. Our deposit products become more attractive to customers, while our lending business tends to suffer. Although we expect interest rates to go up slightly over the previous year throughout much of 2008, they will remain at their historically low levels, meaning that interest margins will continue to be squeezed in tandem with intensifying competition in the banking sector. Net interest income will decline again.

For Sparkasse Saarbrücken, a bull market means that rising stock prices could raise its customers' transaction and custodian account volumes. This will be significantly impacted by stock and stock market volatility; high volatility begets high trading volumes, while stable market indices tend to dampen customer interest due to the modest profit opportunities. Furthermore, a positive market environment makes investments more attractive, increases funds received from customers and keeps the value of our own portfolios growing at a steady rate.

By implementing systematic cost management, Sparkasse Saarbrücken will attempt to keep the forecast increase in operating expenses in check to remain as close as possible to the favourable level achieved last year.

As personnel expenses will tend to rise on account of moderate wage and salary settlements, Sparkasse Saarbrücken plans to minimise these effects via strict personnel management. We are also planning to spend on information technologies and products offering potential for the future as a basis for widening our share of the market. Looking ahead over the next few years, we consider our key tasks to be the enhancement of our existing management tools to implement integrated bank management, the risk-adjusted pricing of transactions and measures to heighten the security and user-friendliness of the Internet experience for our customers. The end-to-end integration of media distribution channels such as telephone banking and the Internet, on the one hand, and over-the-counter branch-based distribution, on the other, will help us to serve our customers in line with their requirements and offer them what they are specifically seeking.

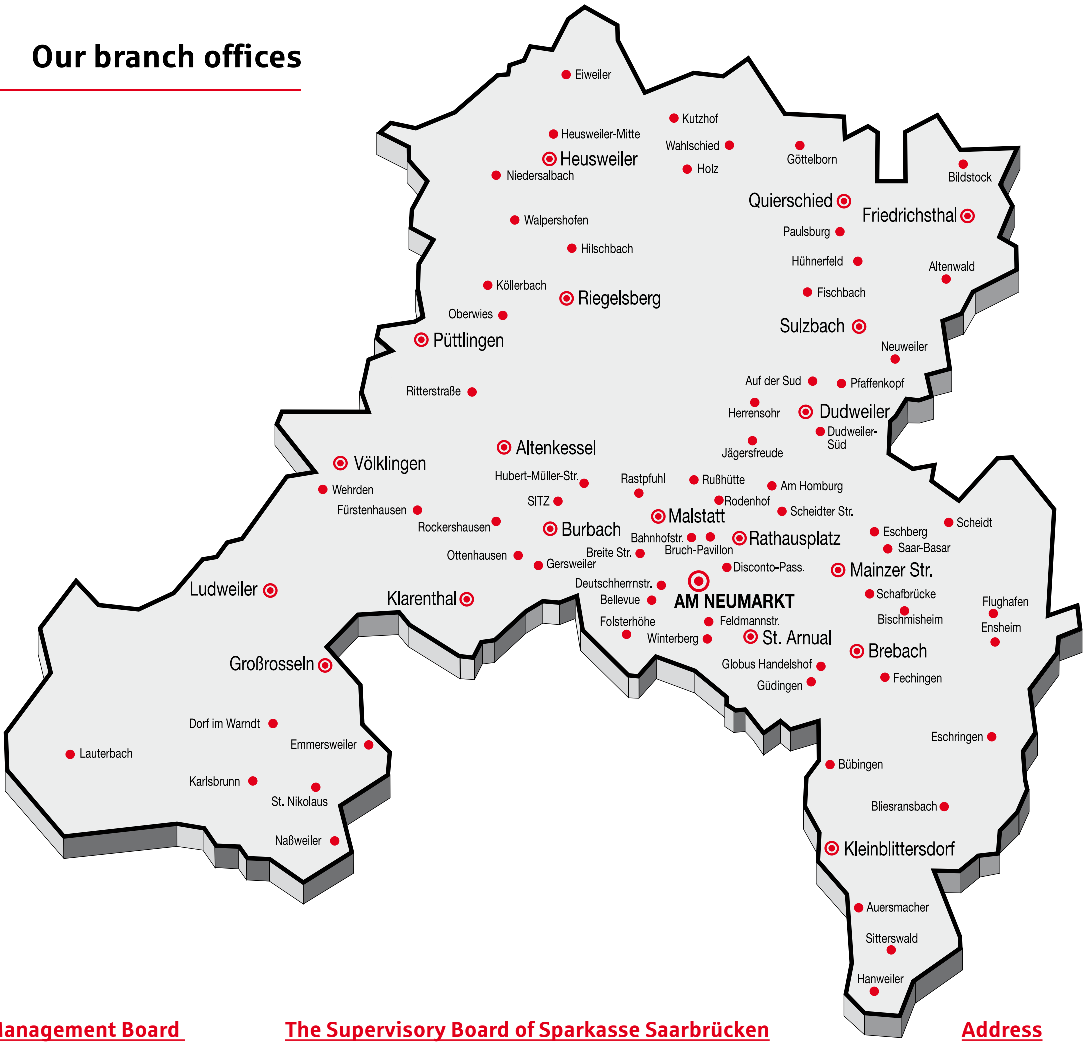
Overall, we expect the result before provisioning to be down in 2008.

Risk provisioning in lending business will be materially impacted by cyclical trends as well as the state of the regional economy. At this stage, we assume that provisioning requirements for this year will be unchanged over 2007. Depending on trends in the interest environment, we may also need to remeasure the value of our securities holdings.

Looking ahead to next year, we expect net profit to be EUR 7-8 million. As far as we can forecast at this stage, we expect steady performance for 2008, with net profit for the year remaining at a comparable level provided that the economy continues to improve. Accordingly, Sparkasse Saarbrücken will be able to earn the Tier 1 capital which it requires itself. The Bank's resources of liable equity will remain satisfactory.

On the basis of our anticipatory financial projections, we assume that we will remain solvent at all times during the forecast period.

6 Our branch offices



The Management Board

Dieter Klepper
Chairman
Until 31 March 2007

Uwe Kuntz
Deputy Chairman

Dr Harald Langenfeld
Board Member
Until 31 May 2007

Hans-Werner Sander
Chairman
As of 1 April 2007

Frank Saar
Board Member
As of 1 April 2007

Uwe Johmann
Board Member
As of 1 October 2007

Commercial register

Saarbrücken, A 8590

The Supervisory Board of Sparkasse Saarbrücken

Chairperson
Charlotte Britz
Mayor
Until 30 April 2007

Deputy Chairperson
Michael Burkert
President of City Association
Until 30 April 2007

Michael Burkert
President of City Association
As of 1 May 2007
Until 30 September 2007

Charlotte Britz
Mayor
As of 1 May 2007

Elfriede Nikodemus
Acting President of City Association
As of 1 October 2007
Until 31 December 2007

Ulf Huppert
Commissioner for the Office of the Regional Association Director
As of 1 January 2008
Until 30 April 2008

Further members:
Bertold Bahner, Dr. Gerhard Bauer, Roland Bentz, Karin Bernhard, Herbert Bonenberger, Annemie Christoph, Manfred Hayo, Martin Karren, Günther Karcher, Ralf Latz, Manfred Maurer, Klaus Meiser, Christian Schmidt, Frank Schuler, Gerhard Sendel, Friedel Trouvain, Karlheinz Wiesen, Klaus Winter

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Sparkasse Saarbrücken is a member of Sparkassenverband Saar (Saarland Savings Banks Association) and as such is affiliated with Deutscher Sparkassen und Giroverband e.V., Berlin/Bonn. The shareholder is Sparkassenzweckverband Saarbrücken, of which the Saarbrücken Regional Association and the City of Saarbrücken are members.

7 Our A-class correspondent banks

Belgium	Ing Belgium SA/NV	Brussels	BBRU	BE	BB 010
	KBC Bank NV	Brussels	KRED	BE	BB
France	Banque Fédérative du Credit Mutuel	Strasbourg	CMCI	FR	PA
	Caisse Nationale des Caisses d'Epargne et de Prevoyance (CNCEP)	Paris	CEPA	FR	PP
	Caisse d'Epargne et de Prevoyance de Lorraine	Metz	CEPA	FR	PP 575
United Kingdom	Barclays Bank PLC	London	BARC	GB	22
	Standard Chartered Bank	London	SCBL	GB	2L
Italy	Unione di Banche Italiane SCPA	Brescia	BLOP	IT	22
Japan	Sumitomo Mitsui Banking Corporation	Tokio	SMBC	JP	JT
Canada	Bank of Montreal	Montreal	BOFM	CA	M2
Luxemburg	Banque et Caisse d´Epargne de l´Etat, Luxembourg	Luxemburg	BCEE	LU	LL
	Banque Générale du Luxembourg	Luxemburg	BGLL	LU	LL
Switzerland	Bank CIAL Schweiz AG	Basel	CIAL	CH	BB
United States	The Bank of New York	New York	IRVT	US	3N
	Wachovia Bank NA	New York	PNBP	US	3NNYC

8 Balance sheet as of 31 December 2007

Assets

		EUR	EUR	EUR	31. 12. 2006 TEUR
1. Cash reserve					
a) Cash on hand			42,103,485.13		34,834
b) Balances held with Deutsche Bundesbank			192,677,534.17		41,258
				234,781,019.30	76,092
2. Public-sector bonds and bills of exchange approved for funding with Deutsche Bundesbank					
a) Treasury bills and non-interest bearing treasury notes and similar public-sector bonds			0.00		0
b) Bills of exchange			0.00		0
				0.00	0
3. Loans to banks					
a) Due daily			28,956,029.21		5,092
b) Other loans			1,036,251,163.76		1,127,615
				1,065,207,192.97	1,132,707
4. Loans to customers				3,048,747,029.65	3,157,046
Of which: secured with liens on real estate	927,557,588.89 EUR				(972,235)
Municipal loans	799,351,198.83 EUR				(874,146)
5. Bonds and other fixed-income securities					
a) Money market securities					
aa) From public issuers		0.00			0
Of which: eligible as security for loans from Deutsche Bundesbank	0.00 EUR				(0)
ab) From other issuers		50,114,268.23			10,082
Of which: eligible as security for loans from Deutsche Bundesbank	30,428,090.15 EUR				(0)
			50,114,268.23		10,082
b) Debentures and bonds					
ba) From public issuers		108,755,203.58			113,824
Of which: eligible as security for loans from Deutsche Bundesbank	108,755,203.58 EUR				(113,824)
bb) From other issuers		975,893,317.62			955,196
Of which: eligible as security for loans			1,084,648,521.20		1,069,020
from Deutsche Bundesbank	940,767,078.52 EUR				(950,185)
c) Own bonds			1,743,110.93		1,407
				1,136,505,900.36	1,080,509
Nominal amount	1,758,621.05 EUR				(1,390)
6. Shares and other non-fixed-income securities				325,406,788.04	388,187
7. Equity investments				52,196,736.37	35,233
Of which:					
In banks	1.00 EUR				(0)
In financial services companies	0.00 EUR				(0)
8. Shares in affiliated companies				50,000.00	50
Of which:					
In banks	0.00 EUR				(0)
In financial services companies	0.00 EUR				(0)
9. Trustee assets				915,631.38	998
Of which: trustee loans	915,631.38 EUR				(998)
10. Compensation claims from public-sector bodies including bonds from their exchange				0.00	0
11. Intangible assets				927,408.00	733
12. Tangible assets				32,640,196.11	34,117
13. Other assets				16,941,649.49	9,052
14. Prepaid expenses				4,546,950.80	3,070
Total assets				5,918,866,502.47	5,917,794

Liabilities

				31. 12. 2006
	EUR	EUR	EUR	TEUR
1. Liabilities to banks				
a) Due daily		476,950,929.19		245,617
b) With agreed term or notice period		987,606,201.36		1,219,846
			1,464,557,130.55	1,465,463
2. Liabilities to customers				
a) Savings deposits				
aa) With agreed period of notice of three months	1,588,346,132.88			1,717,776
ab) With agreed period of notice of more than three months	379,294,535.90			258,272
		1,967,640,668.78		1,976,048
b) Other liabilities				
ba) Due daily	696,447,186.89			684,724
bb) With agreed term or period of notice	1,047,307,145.14			1,134,033
		1,743,754,332.03		1,818,757
			3,711,395,000.81	3,794,805
3. Certificated liabilities				
a) Bonds issued		327,379,196.67		249,080
b) Other certificated liabilities		0.00		0
			327,379,196.67	249,080
Of which:				
Money market securities 0.00 EUR				(0)
Own bills of acceptance and promissory notes outstanding 0.00 EUR				(0)
4. Trustee liabilities			915,631.38	998
Of which: trustee loans 915,631.38 EUR				(998)
5. Other liabilities			13,067,790.06	7,208
6. Deferred income			4,228,008.54	4,440
7. Provisions				
a) Provisions for pensions and similar commitments		10,746,070.00		9,111
b) Tax reserves		0.00		999
c) Other reserves		43,462,682.39		49,282
			54,208,752.39	59,392
8. Special tax-allowable reserve			0.00	0
9. Subordinated liabilities			60,314,071.91	60,317
10. Participatory capital			15,338,756.44	15,339
Of which: due in less than two years 15,338,756.44 EUR				(0)
11. Fund for general banking risks			35,000,000.00	35,000
12. Equity capital				
a) Subscribed capital		0.00		0
b) Capital reserves		0.00		0
c) Revenue reserves				
ca) Contingency reserve	223,901,085.59			216,499
cb) Other reserves	0.00			0
		223,901,085.59		216,499
d) Unappropriated surplus		8,561,078.13		9,253
			232,462,163.72	225,752
Total equity and liabilities			5,918,866,502.47	5,917,794
1. Contingent liabilities				
a) Contingent liabilities from rediscounted bills of exchange		0.00		0
b) Liabilities from sureties and guarantee contracts		65,372,608.75		58,048
c) Liability for assets pledged as collateral security for third parties		58,416.20		68
			65,431,024.95	58,116
2. Other obligations				
a) Commitments deriving from sales with an option to repurchase		0.00		0
b) Placement and underwriting obligations		0.00		0
c) Irrevocable loan commitments		56,372,412.07		51,025
			56,372,412.07	51,025

9 Income statement for 2007

	EUR	EUR	EUR	01.01. - 31. 12. 2006 TEUR
1. Interest income from				
a) Lending and money market business	222,915,073.70			206,510
b) Fixed-income securities and debt register claims	44,665,731.96			37,288
		267,580,805.66		243,798
2. Interest expenditure		185,552,728.97		154,690
			82,028,076.69	89,108
3. Current income from				
a) Shares and other non-fixed-interest securities		13,793,665.69		(12,790)
b) Equity investments		1,353,319.32		(1,436)
c) Shares in affiliated companies		0.00		(0)
			15,146,985.01	14,226
4. Income from profit pools and full or partial profit transfer agreements			1,571,621.57	1,316
5. Commission income		24,214,683.34		(23,253)
6. Commission expenditure		2,809,451.88		(2,420)
			21,405,231.46	20,833
7. Net income from financial transactions			322,992.74	381
8. Other operating income			10,856,572.31	7,966
9. Income from the release of the special tax-allowable reserve			0.00	0
			131,331,479.78	133,830
10. General administrative costs				
a) Personnel costs				
aa) Wages and salaries	49,979,892.81			(51,608)
ab) Social security levies and expenses for old age pensions	16,774,173.18			(16,640)
and support of which: old age pensions 7,269,830.02 EUR		66,754,065.99		(68,248)
				(6,453)
b) Other administrative costs		26,435,128.80		(25,867)
			93,189,194.79	94,115
11. Depreciation and amortisation			4,932,485.87	5,736
12. Other operating expenses			7,233,032.27	4,428
13. Value adjustments and write-downs on receivables and certain securities as well as allocations to provisions for lending business		13,767,053.75		(9,631)
13a. Allocations to the fund for general banking risks			0.00	0
14. Income from write-ups of receivables and certain securities		0.00		(0)
as well as release of provisions for lending business			13,767,053.75	9,631
14a. Withdrawals from the fund for general banking risks			0.00	0
15. Value adjustments and write-downs on equity interests, shares in affiliated companies and securities treated as fixed assets		493,428.72		2,528
16. Income from write-ups on equity interests, shares in affiliated companies and securities treated as fixed assets		0.00		(0)
			493,428.72	2,528
17. Loss-absorption expenses			0.00	0
18. Additions to special tax-allowable reserve			0.00	0
19. Profit on ordinary activities			11,716,284.38	17,392
20. Extraordinary income		0.00		(0)
21. Extraordinary expenses		0.00		(872)
22. Extraordinary net income/loss			0.00	-872
23. Income taxes		2,955,553.15		7,068
24. Other taxes not included in Item 12		199,653.10		199
			3,155,206.25	7,267
25. Net income			8,561,078.13	9,253
26. Profit/loss carried forward from the previous year			0.00	0
			8,561,078.13	9,253
27. Withdrawals from revenue reserves				
a) From contingency reserve		0.00		(0)
b) From other reserves		0.00		(0)
			0.00	0
			8,561,078.13	9,253
28. Allocations to revenue reserves				
a) To contingency reserve		0.00		(0)
b) To other reserves		0.00		(0)
			0.00	0
29. Unappropriated surplus			8,561,078.13	9,253

10 At a glance

Item	Existing 31.12.2007 EUR mn	Existing 31.12.2006 EUR mn	2007 Changes EUR mn	%
Total assets	**5,918.9**	**5,917.8**	**1.1**	**0.0**
Funds deposited by customers	**4,048.5**	**4,062.5**	**-14.0**	**-0.3**
Of which:				
Savings deposits	1,967.6	1,976.0	-8.4	-0.4
Non-certificated liabilities	1,743.8	1,818.8	-75.0	-4.1
Certificated liabilities	278.0	208.6	69.4	33.3
Subordinated liabilities	43.8	43.8	0.0	0.0
Participatory capital	15.3	15.3	0.0	0.0
Liabilities to banks	**1,530.4**	**1,522.5**	**7.9**	**0.5**
Of which:				
Subordinated liabilities	16.5	16.5	0.0	0.0
Other liabilities	**137.9**	**130.1**	**7.8**	**6.0**
(Including contingent liabilities and provisions)				
Equity capital	**267.5**	**260.8**	**6.7**	**2.6**
(Including fund for general banking risks)				
Volume of loans to customers	**3,115.1**	**3,216.1**	**-101.0**	**-3.1**
Of which:				
Loans to customers	3,048.8	3,157.0	-108.2	-3.4
Trustee assets	0.9	1.0	-0.1	-10.0
Guarantee loans	65.4	58.1	7.3	12.6
Loans to banks	**1,065.2**	**1,132.7**	**-67.5**	**-6.0**
Investments in securities	**1,461.9**	**1,468.7**	**-6.8**	**-0.5**
Fixed assets	**85.8**	**70.2**	**15.6**	**22.2**
Other assets	**256.3**	**88.2**	**168.1**	**190.6**
Net income	**8.6**	**9.3**	**-0.7**	**-7.5**