

Our report on the fiscal year 2013

Management report (extract) Balance Sheet Income statement

The complete annual financial statements of Sparkasse Saarbrücken were published in the Federal Gazette and given an unqualified auditor's opinion by the auditors of the Saarland Savings Banks Association.



Sparkasse
Saarbrücken

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Management Report for the Fiscal Year 2013

1 Principles of the Sparkasse

1.1 Business model

Sparkasse Saarbrücken is a legal entity organised according to public law and domiciled at Saarbrücken. As independent commercial business, it offers, together with its partners from the Sparkassen Financial Group, financial services and financial products to private as well as commercial customers and to municipalities.

Locally present and therefore close to its customers, Sparkasse makes fast decisions that are based on the interests of our catchment areas and that take the economic and social circumstances of the region into consideration. That brings proximity to customers, efficiency and expertise together. Against the background of market and competitive requirements, Sparkasse has the special legal task of strengthening competition in its home territory and of providing all layers of the population, commerce as well as the public sector with appropriate and adequate banking and commercial lending services. In order to properly discharge those functions, as at 31 December 2013 we maintained a head office and 61 branches in our catchment area and employed altogether 1,242 staff. Measured by balance sheet total, it is the largest Sparkasse in Saarland and the 32nd largest Sparkasse in Germany.

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

The management bodies of Sparkasse are the Supervisory Board and the Board of Directors.

The Supervisory Board issues instructions to the Board of Directors, the Credit Committee and Internal Audit and monitors the activities of the Board of Directors. It comprises a total of 19 members.

The Credit Committee, consisting of seven members, decides on approving loans in accordance with Article 9 of the business policy for the Board of Directors and on approving the granting of loans to related parties, within the meaning of Article 15 of the banking law.

The Board of Directors, consisting of four members, manages the Sparkasse under its own responsibility, within the framework of the applicable legislation. It represents the Bank in and out of court and conducts its business.

The business areas of market/trade and back office/monitoring make up the superordinate organisational structure of the Sparkasse.

1.2 Goals and strategies

Also in future, Sparkasse wishes to be market leader in all financial matters in its catchment area and to be the major partner of private and commercial customers as well as of the municipalities. The main focus is on organic growth, which should be achieved through intensifying business with existing customers, but also through acquiring new customers in the private, business and local authorities sectors.

Our goal is strengthening our market position in our catchment area. We will only have sufficient financial scope for future business growth if we can ensure reasonable profitability. We are thus seeking to boost profitability on the basis of equity resources that meet statutory requirements.

We try to bring this about through target agreements with managerial and other staff, in compliance with our business and risk strategies. We aim to achieve the required productivity by making efficient use of existing resources and by continuously enhancing our processes. Therefore, in that connection we are expecting from all staff members that they actively participate in looking for possibilities for improvement in all processes and products by contributing through making constructive suggestions.

In our business strategy for 2013, targets were formulated that were aimed at increasing the profitability of the Sparkasse. In consideration of our public mandate, we have set as targets to operate economically, to build provisions in mitigation of risks and to generate liquid funds. Growth targets for balance-sheet items on the one hand and expense and income goals on the other have been defined, in order to generate appropriate profits and to safeguard the resistance to risk of the Sparkasse.

1.3 Control system

Achieving the goals is monitored on a regular basis by comparing actual against the agreed required figures. For carrying out the controls, the operative figures of the profit-and-loss account, the operational comparison of the Sparkasse organisation and the financial ratios of banking supervision are used. Every year, the Board of Directors lays down targets for the various performance indicators. They are then allocated to the business units. It is of major significance that the risks that are entered into will be consistent with our risk capacity and that sustainable profits will be generated in the long term. The Senior Control Committee continuously monitors adherence to the business plan.

For the control process of the business, operational results before revaluation, contribution to results from own investments and cost targets form the major components.

1.4 Internal control system for accounting process

To ensure proper bookkeeping and accounting, the Sparkasse has an internal control system (ICS) for the accounting processes. The objective is the correct and complete presentation of the assets, financial and earnings positions of the Sparkasse in the annual accounts.

For the most part, the business administration department of the back office takes care of accounting. The department head is responsible for the accounting process and the effectiveness of the backup and control measures that are integral components of the accounting process. He must ensure that risks in the accounting process are recognised at an early stage and that appropriate backup and control measures are taken at once.

The following means are used to ensure consistency in the quality of the accounting:

- Work directives and process descriptions for the individual processes in accounting exist, including for drawing up the annual accounts, and continuously kept up-to-date and captured in a database.
- The chart of accounts of the German Savings Banks Organisation is used as basis for the uniform booking of transactions and is, in respect of composition and structure, designed for deriving the annual accounts from the bookkeeping. It ensures a uniform standard for the process and drawing up of the annual accounts.
- IT processing for accounting is essentially done by Finanz Informatik (FI) in Frankfurt on Main, as service provider to the Sparkassen Financial Group. FI uses the "KORE" application for handling the financial bookkeeping and the IT system "OBR" for drawing up the annual accounts. By processing the accounts of the financial bookkeeping and by automatically processing possibly required balancing entries for individual balance sheet items, the "OBR" system makes the drawing up of the balance sheet and the profit-and-loss account a largely automated process.

The processing instructions and descriptions are regularly checked for being up-to-date. The chart of accounts is also constantly updated. The relevant staff have access to the available information and inform themselves that way about the prevailing regulations.

Within the framework of taking new and changing accounting standards into consideration and the introduction of new products or procedures, the Business Administration Department is responsible for analysing the effects and for introducing suitable measures in respect of the rendering of accounts.

For laying down parameters for the institution that determine a significant part of steering the ICS, a procedure has been implemented that ensures that changes are properly authorised, checked and traceably documented.

The tasks and responsibilities are clearly allocated within the organisational structure, are precisely defined and are subject to the principle of separation of duties. Activities that may pose conflicts of interest, such as changing master data and making payments, are fully separated. The ability to post entries on general ledger accounts is regulated by means of granting special authorisations. Transactions are captured on the general ledger resp. on the relevant sub-ledger, on the basis of the chart of accounts. The four-eyes principle fundamentally applies to the booking of closing entries and the drawing up of the annual accounts.

The processes, systems and controls that exist at Sparkasse do sufficiently well ensure that the accounting processes are in conformity with the prevailing accounting principles and legislation. The Board of Directors is regularly informed about the effectiveness of the internal control system in relation to the accounting process.

2 Report on Economic Situation

Our Sparkasse may look back at an altogether successful fiscal 2013. The performance as well as the financial position may be considered to be satisfactory in the light of the general economic conditions as well as the state of development in the banking sector. Net interest income, fees income and operating results before revaluation could be increased, with ordinary expenditure

remaining the same. The surplus for the year and return on equity were roughly the same as in the previous year. The development that we prognosticated for fiscal 2013 in the spring of last year could be achieved, as the overviews in the following sections on business development and the financial position of the Sparkasse will show:

Presentation in figures of the balance sheet	Volume		as % of business volume		Changes			Prognosis
	31/12/2013 €million	31/12/2012 €million	31/12/2013 %	31/12/2012 %	2013 €million	2013 %	2012 %	31/12/2013 €million
Total footings	6,335.7	6,283.1			52.6	0.8	1.2	6,310.0
Business volume ¹⁾	6,463.2	6,403.5			59.7	0.9	1.7	6,450.0
Lending business ²⁾								
Volume of loans to customers	4,384.7	4,259.7	67.8	66.5	125.0	2.9	1.5	4,350.0
of which:								
Loans to public sector	1,511.5	1,491.9	23.4	23.3	19.6	1.3	0.3	1,500.0
secured with liens on real estate	1,402.8	1,368.5	21.7	21.4	34.3	2.5	3.2	1,400.0
Claims on financial institutions	289.0	456.8	4.5	7.1	-167.8	-36.7	-19.4	300.0
Investments in securities	1,603.4	1,516.4	24.8	23.7	87.0	5.7	6.9	1,500.0
Fixed assets	78.5	73.5	1.2	1.2	5.0	6.8	-8.4	70.0
Other assets	107.6	97.2	1.7	1.5	10.4	10.7	36.1	100.0
Deposit-taking business								
Deposits from customers	4,279.8	4,128.5	66.2	64.4	151.3	3.7	4.7	4,240.0
of which:								
Savings deposits	2,283.4	2,288.6	35.3	35.7	-5.2	-0.2	3.1	2,250.0
Non-certificated liabilities	1,948.1	1,787.5	30.1	27.9	160.6	9.0	9.0	1,950.0
Securitised liabilities	9.8	13.9	0.2	0.2	-4.1	-29.5	-68.6	5.0
Subordinated liabilities	38.5	38.5	0.6	0.6				33.0
Liabilities to financial institutions	1,650.0	1,759.9	25.6	27.5	-109.9	-6.2	-6.2	1,700.0
Other liabilities (including contingent liabilities and provisions)	169.9	158.5	2.6	2.5	11.4	7.2	-3.8	145.0
Shareholders' equity	363.5	356.6	5.6	5.6	6.9	1.9	2.1	363.0
Contingent reserve	268.5	261.6	4.2	4.1	6.9	1.9	2.1	268.0
Fund for general banking risks	95.0	95.0	1.5	1.5				95.0

¹⁾ Business volume = total footings plus contingent liabilities, forwarded bills of exchange (including own draughts), bills sent for collection before expiration, exposures under aval

²⁾ (including liability item 1 below the line)

The economic development and the concomitant increased demand for credit in our catchment area led to an increase in claims on customers. Especially demand for credit from commercial customers and for private real estate financing engendered favourable business development. On the liabilities side, deposit-taking business was affected by the low interest rates in the market.

Against the background of general economic development, the assets and financial positions could be considered to be favourable. We were once again able to strengthen the deposit-taking and lending business with our customers and actually did better than average, compared to other savings banks in the territory of our association.

Presentation on the basis of the figures of the profit-and-loss account:	Result		Changes			Prognosis
	1/1 – 31/12/2013 €million	1/1 – 31/12/2012 €million	2013 €million	2013 %	2012 %	1/1 – 31/12/2013 €million
Interest surplus ¹⁾	130.5	130.0	0.5	0.4	0.3	121.7
Net commission income	23.7	23.0	0.7	3.0	4.5	23.8
Administrative expenses	-98.0	-96.9	1.1	1.1	4.4	106.1
Result before provisioning	49.3	46.6	2.7	5.8	23.6	42.8
Net provisioning result	-26.0	-25.0	-1.0	-4.0	-428.9	-27.7
Taxation	14.8	13.1	1.7	13.0	33.7	8.1
Net income and unappropriated surplus	8.5	8.5	0.0	0	54.5	8.5

¹⁾ Interest surplus = P&L positions 1, 2, 3, 4 and 17

Presentation on the basis of the figures of the profit-and-loss account:	Result		Changes		Prognosis
	1/1 – 31/12/2012 %	1/1 – 31/12/2013 %	2013 % points	2013 % points	1/1 – 31/12/2013 €million
Return on equity ¹⁾	6.99	8.63	-1.64	10.4	
Cost-Income Ratio	68.00	72.50	-4.50	-2.7	71.26

¹⁾ Economically, after taxation

The earning position, which saw a satisfactory development compared to the previous year, was characterised by stable surpluses in interest and fee income,

moderately rising costs and results after revaluation at the level of the previous year. The surplus for the year that was achieved is in line with our planning.

The regulatory ratios developed as follows:

Key banking supervision figures	Existing		Prognosis
	31/12/2013	31/12/2012	31/12/2013
Equity	EUR 386.5 million	EUR 362.8 million	EUR 393.6 million
Tier I capital	EUR 346.2 million	EUR 330.0 million	EUR 353.9 million
Tier II capital	EUR 40.3 million	EUR 31.8 million	EUR 39.7 million
Capital adequacy requirements	EUR 245.1 million	EUR 236.7 million	EUR 257.0 million
Overall ratio	12.6 %	12.3 %	12.2 %
Core capital ratio	11.3 %	11.2 %	11.0 %

2.1 Macro-economic and sector-specific environment

2.1.1 Economic environment

Although the German economy continued to grow during 2013, the financial services sector was still impacted by the effects of the worldwide economic and financial crises. Every growth in GDP for the year was 0.4 percent, against 0.7 percent in the previous year. In spite of the weakening, the labour market remained stable. Although the number of people in employment stood at a record level of 41.84 million (average for the year), because of growth in the labour force, the unemployment ratio rose moderately by 0.1 percent to 6.9 percent.

Equally, thanks to the good employment situation, tax revenues also rose to a record level in 2013. With the low level of interest rates, the macro-economic budget was virtually in balance.

In view of the low rate of inflation in the Eurozone, the weak growth in money supply and the shrinking lending volume, the ECB lowered the key interest rate to 0.25 percent in November of 2013.

In 2013, the Euro rose versus other major currencies.

2.1.2 German banking industry

On the one hand, the problems in the German banking industry may be accredited to the essentially rising costs on account of inflation, which, at times of historically low interest rates, is limited in the way that it can be kept pace with. On the other hand, the developments in the supervisory field often result in actual restrictions in the freedom to act. Fundamentally though, the pertinent regulations have the effect of increasing security within the financial sector. Competitive pressure has particularly had an effect on private customers, amongst others because of changes in the ways of communication, demographic developments and changes in customer requirements.

2.1.3 Developments in the savings banks organisation

Contrary to the downgrading of ratings of some other banks, the Sparkassen Financial Group was able to preserve the rating of previous years. The rating agencies FitchRatings, Moody's Investors Service and DBRS Ratings Limited once again confirmed their good rating levels of the previous years.

2.1.4 Regional economic development

In 2013, GDP shrank in Saarland by 1.3 percent and therefore performed worse than in the period of the previous year (-0.4 %) and also worse than the average for the Federal Republic of Germany (+0.4 %). Determinant for that development was the high structural proportion of the industrial sector, which is strongly dependent on foreign trade and therefore suffered from the weakness in demand across the world and the effects of the Euro-crisis. Against that rather bleak background, the labour market looks astonishingly bright. The number of employed people with obligatory social insurance stood, at around 366,000 at the end of 2013, even a little higher than the level of the previous year. The unemployment rate stood at 7 percent, which is 0.2 percent higher than in 2012.

The inflation rate was only a little higher than one percent in 2013, especially on account of the stabilisation in energy prices.

2.1.5 Competitive situation and market position in the catchment area

Sparkasse was able to hold on to its position as market leader in its catchment area. Major competitors of the Sparkasse are the cooperative banks and for new business the internet banks. Large private banks only have branches in the larger cities and not in rural areas. Internet banks, drive-in banks and the Postbank mostly compete with the local banks for short-term deposits. The large banks and private banks increasingly try to attract private customers through advertising on television. Meanwhile, the internet banks have also entered the classic housing construction financing market.

2.2 Business development

2.2.1 Total assets and business volume

At EUR 6,335.7 million, total footings are about 0.8 % higher than in the previous year. It reflects an increase on customer business on both sides of the balance sheet, with a simultaneous decrease in internet business and further expansion of securitised assets.

Business volume rose by around EUR 59.7 million or 0.9 % to EUR 6,463.2 million.

2.2.2 Lending business

Volume of loans to customers

During fiscal 2013, the Sparkasse approved new loans totalling EUR 666.2 million (EUR 783.3 million in the previous year). The increase in customer lending business of around 2.9 % was higher than in the previous year and also higher than the average of the other savings banks in the territory of our association. The development was in approximate conformity with our estimate from the previous year.

For commercial as well as private customers, the increase occurred almost completely in long-term business. Especially our private customers took advantage of the still favourable conditions and preferred mostly longer term maturities for construction financing. Approvals and disbursements were around 30 % higher than in the previous year, there.

The municipalities, on the other hand, mostly turned to overdraft limits for their financing.

Altogether, EUR 1,325.9 million has been disbursed to commercial customers and EUR 1,338.7 million to private customers. There also are publicly subsidised low-interest loans to businesses and private person to the tune of EUR 155.0 million.

Claims on financial institutions

The reduction in claims on financial institutions of EUR 167.8 million or 36.7 % to EUR 289.0 million could mostly be attributed to redemption of promissory notes and repayments of dormant deposits.

Investments in securities

Compared to the previous year, investments in securities were further increased by around EUR 87.0 million or 5.7 % to EUR 1,603.4 million. These are primarily papers of public issuers. Securities are principally assigned to the liquidity reserve and particularly comprise fixed-income securities of issuers with creditworthiness in good standing. 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.

Participations

During the year under review, the volume of participations and shares in related companies rose by EUR 5.8 million (+14.2 %). An increase in base capital of the Savings Banks Association Saar was partially compensated through a value correction in another participation.

2.2.3 Deposit-taking business


Deposits from customers

Deposits from customers saw again a positive development (EUR +151.3 million; +3.7 %). Although the performance fell behind the excellent one of the previous year (+4.7 %), it was nevertheless still better than the average for the savings banks in Saarland. Whilst balances in savings accounts almost remained the same (EUR -5.2 million; -0.2 %), customers placed more funds as call money (EUR +110.0 million; +11.8 %) and notice money (EUR +36.8 million; +24.2 %), which is understandable in view of the low interest rates in the market.

Liabilities to financial institutions

Obligations towards financial institutions have been clearly further reduced by about EUR 110.0 million (-6.2 %). The reduction in fixed deposits (EUR -297.5 million; -26.6 %) and of notice money (EUR -68.0 million; -20.7 %) was determinant. Other than in the previous year, at year end, the possibility of refinancing through open market transactions with the Deutsche Bundesbank was availed of.

Consultancy and services

Insurance products and products for old-age provision are offered by the Sparkasse, in cooperation with  Pro-Finanz GmbH, Immobilien-, Beratungs- und Vermittlungs GmbH, Saarbrücken. A wholly owned subsidiary of Sparkasse Saarbrücken, it also advises our customers on all matters relating to real estate.

As expected, demand from our customers for life assurance products – as measured by fee earnings – fell once again back during the year under review (-20.0 %).

On the other hand, sales of non-life insurance policies developed rather well. Generated fees increased by a goodly 27 %.

Compared to the previous year, real estate business was noticeably more active in 2013. Earning from that important business sector rose by just over 7 %.

The building savings business once again benefited from the close cooperation with our partner in the association, LBS. Fees could be increased by about 17 %. As there was last year, there was significant demand for financing of residential properties. And there still is great demand for advice on the Riester programme.

Continuously low interest rates and new all-time highs on money stock exchanges, such as the DAX and Dow Jones, were characteristic for life on the bourses in 2013.

Even though, in 2013, many share indices reflected stronger interest in participations, it was not particularly noticeable in the securities business of Sparkasse Saarbrücken. Although share volumes (+19.2 %) and share turnovers (+36.8 %) of customers clearly rose, on balance there were more sales than purchases and the rise in volumes was rather more a reflection of the rise in share prices on the exchanges.

Against the background of continuously low levels of interest rates and yields that were often lower than the rate of inflation, sales of funds by the Sparkasse continued to fall. More interest was noticed from wealthy individuals for open real estate funds.

For a large savings bank in a border region, the processing of international payments is an important cornerstone of the package of services, where the focus is on other EU countries. The package of services in international business is completed by documentary collections and documentary credits. We can offer our customers suitable derivatives for hedging interest rate risk.

Own trading

Our Depot A – essentially a mixture of fixed interest paper, floaters and stocks managed by third parties – makes a positive contribution to the profit-and-loss account of the Sparkasse. Turnovers – purchases, sales and maturities – came to a total of EUR 1,251.9 million (previous year: EUR 1,537.4 million). The Sparkasse does not engage in proprietary trading within the meaning the KWG (Kreditwesengesetz [German Banking Act]).

Derivatives

Most of the products in the derivatives business are interest rate swaps and interest rate futures, bought in order to hedge against interest rate books. The nominal value of contracts outstanding at year end was EUR 1,600 million (previous year: EUR 1,900 million).

Investments

In 2013, our Commercial Customer Centre East in Brebach and the premises of our Financial Centre in Ludweiler have been renovated. Alterations have also been carried out in our Neumarkt head office.

2.3 Capitalisation, financial and earnings positions

2.3.1 Financial status

Compared to the average for the association, the financial status of our Sparkasse is characterised by lower than average shares in customer lending volume and customer liabilities. Our shares in those sectors rose slightly from the previous year.

Altogether, there was no significant change in structural shareholdings.

The securities portfolio is recognised under non-current as well as current assets. At balance sheet date, there were provisions for rate fluctuations amounting to EUR 27.7 million. Existing balance-sheet risks were recognised through appropriate revaluations and the setting aside of sufficient provisions.

Undisclosed reserves in the amount of EUR 97.5 million are included in the assets carried on the balance sheet, particularly in securities, landed property and participations. We have also set aside additional contingent reserves as provision for the extraordinary risks that exist in the financial institutions sector, in accordance with Article 340f, HGB (Handelsgesetzbuch [German Commercial Code]). The fund formed for general banking risks in accordance with Article 340g, HGB, is valued at EUR 95 million. In the light of the growing capital adequacy requirements (Basle III), we have already converted some of our contingent reserves as per Article 340f, HGB, to Tier I capital (Article 340 g, HGB), at the close of 2011. For our at the close of the year prevailing indirect old-age pension obligations, we refer to the presentation in the Appendix.

On the balance-sheet date of 31/12/2013, the as per the Solvency Ordinance legally required capital adequacy ratio of 8 % of risk-weighted assets was clearly 4.6 % better and stood at 12.6 %. With a ratio of 11.3 % for Tier I capital, Sparkasse complies with the qualitative capital adequacy requirements that will have come into force on 1 January 2014. The contingent reserve will increase from EUR 259.9 million to EUR 266.8 million after the Supervisory Board resolves on allocating funds from the unappropriated surplus. This is equal to an increase of 2.6 % compared to the previous year.

It is taken as a given that the security and safety regulations and the fund for general banking risks will form the planned business expansion. This strong capital basis provides the foundation for further efforts to expand business and for achieving the targets of Sparkasse. Already today, we comply with the higher capital adequacy requirements under Basle III.

2.3.2 Financial position

Liquidity management at the Sparkasse falls under the responsibility of Treasury Division. Control of inflows and outflows of short-term and long-term money, planning of cash flows and control of access to the refinancing instruments of the European Central Bank resp. Deutsche Bundesbank are the operational liquidity management tasks of the Cash Management and Trading Department.

Within the framework of the liquidity strategy, the department manages access to the refinancing sources of the money and capital markets as well as the liquidity reserve. Controlling the assets and liabilities with impact on liquidity, within the framework of the legal and supervisory limits, is also a task of strategic liquidity management.

During the period under review, there were no limitations on access of the Sparkasse to the money and capital markets. Solvency of the Sparkasse was guaranteed at all times in the year under review, thanks to the well-planned, balanced liquidity provisions it had set aside. For monitoring our solvency and refinancing possibilities under stressful conditions, we make use of ladders – broken down into monthly periods – that show the inflows and outflows of money in the short term and medium term, and we also make use of prognoses that are developed on the basis of statistics that are derived from past performance of customer business.

In a further step, the planned data are completed with actual values and target values, where appropriate. Larger variances are analysed in quarterly comparisons of actuals to plan.

On the basis of prognosticated cash flows, Sparkasse determines for various "Survival periods" to which extent outflows are covered by inflows. In the risk scenario that is based on improbable though possible negative developments, the period encompasses around 41 months as at 31/12/2013; under still more serious assumptions (stress scenario) cover would still be adequate, because under that scenario, outgoing liquidity would be restricted by refraining from granting new customer loans until further notice. That ensures that Sparkasse will have sufficient time for reacting to a looming liquidity bottleneck.

At year end, the liquidity coverage level as calculated conform the liquidity ordinance stood at 1.52, indicating that liquidity is sufficient, also during the entire fiscal year. The liquidity coverage figure is a reflection of the relationship between available cash and payment obligations and must be at least 1.0. During 2013, the Sparkasse complied at all times with the requirement of the liquidity ordinance. During 2013, the coverage figure fluctuated between 1.30 and 1.52.

Similarly, the other key figures that must be calculated on the basis of the liquidity ordinance for further periods of observation (maturity bands of up to twelve months) do not give any indication of potential bottlenecks.

During the year under review, only partial use was made of the credit facilities at the Deutsche Bundesbank. On balance-sheet date, there were unutilised credit limits and/or refinancing possibilities at the Deutsche Bundesbank to the tune of EUR 737 million in total.

On the basis of expected liquidity inflows and the refinancing possibilities of the Sparkasse, solvency is also guaranteed for any time in the future.

2.3.3 Earnings position

Net interest income – the most important item on our profit-and-loss account – was with a plus of EUR 0.5 million (+0.4 %) virtually unchanged. Although the low level of interest rates caused a disproportionate fall in interest expenditure in customer and interbank business, interest income from own investments in fixed income securities and promissory also saw lower yields. Interest rate swap transactions that had been entered into within the framework of managing the interest rate book, have also had a negative impact.

The surplus in fee income rose by EUR 0.7 million (+3.0 %). The main contributor was the increased earnings from securities business with customers.

In spite of a tariff increase in the middle of the year, staffing costs have fallen somewhat. The determinant factor was a reduction of staff numbers of 22 people, mostly on account of reaching pensionable age after part-time working.

However, material costs have once again risen, by EUR 1.6 million (+5.6 %). The main reason for that was higher expenditure in connection with owned land and buildings.

Results from other ordinary revenues and expenses have improved by EUR 2.7 million (+28.4 %) to EUR -6.8 million. Savings in expenditure in conjunction with interest rate futures transactions that we have concluded within the framework of hedging the money books, have partially compensated losses that we expect in our participations portfolio.

At EUR 49.3 million, the result before revaluation is EUR 2.7 million (+5.8 %) higher than in the previous year.

Especially after the building of new contingent reserves as per Article 340f, HGB, and write-offs in our participations portfolio, there is a revaluation result of EUR 26.0 million (previous year: EUR -25.0 million). The result after revaluation is EUR 23.3 million (previous year: EUR 21.6 million).

After allowing for taxation of EUR 14.8 million (previous year: EUR 13.1 million), the surplus for the year is EUR 8.5 million.

The reported surplus for the year allows us to further strengthen the core capital of the Sparkasse and to make a reasonable distribution to our local authorities.

For the purpose of further analysing the earnings position of our Bank, we use the so-called "Operational comparison" of the savings banks organisation, which involves a detailed breakdown and analysis of the result of our Sparkasse in terms of average balance sheet total. The operating result before revaluation of our Sparkasse of EUR 49.3 million is lower than the average value for the savings banks in Saarland. That also applies to the operating result after revaluation of EUR 23.3 million, which is, however, due to the building of new reserves in conformity with Article 340f, HGB.

2.4 Non-financial performance indicators

Staff

The overall number of staff was slightly lower in 2013, by 1.7%. The fall is mostly due to people reaching pensionable age. At the end of the year, the Sparkasse employed a total of 1,242 people. Of these, 780 were full-time staff, 396 were part-time staff and 66 were apprentices.

We have developed numerous models, enabling staff to combine family and career. For example, we offer our staff several different part-time working models. In addition to the statutory parental leave, staff are able to apply for sabbatical leave of up to one year with a guaranty of re-employment. The Sparkasse also renders assistance with finding places in after-school care facilities and kindergartens.

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. Caring about and promoting health is not only a social responsibility, but also an economic necessity. The emphasis in programmes that are implemented in conjunction with our local authorities is on taking preventive measures. That range from vaccinations against the flue to cancer screening.

Nowadays, learning throughout life is a necessary precondition for being able to participate in professional life until retirement. Ongoing further training is, therefore, in the interest of both the employer and the employee. Consequently, we are committed to the life-long learning of apprentices up to managerial levels – not only during economic upswings, but also when times are hard. With this in mind, we offer internal and external (e.g. at Saarländische Sparkassenakademie) vocational education programmes that are oriented on specific aspects of our business, such as "Loans Advisor Customers", and help staff in planning 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 staff development activities last year.

Training of youth has high priority for us. 24 apprentices, who successfully completed their training, have been offered permanent employment in 2013. Altogether, we employed 90 apprentices and 24 trainees during the year under review.

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. A prudent business plan and a remuneration system that is substantially based on fixed components ensure that no inappropriate incentives might conflict with the interests of customers.

Our complaints handling system plays a central role in ensuring customer satisfaction: Through targeted capturing and assessment of complaints, we obtain good insight into the basic requirements of our customers. Moreover, it ensures that customer complaints are swiftly dealt with. During the year under review, we received 1,980 complaints from customers, against 1,683 the year before. The majority of complaints were about technical faults in SB devices. At the balance sheet date, all complaints but four had been dealt with. Altogether, payments totalling EUR 66,500 have been made in respect of goodwill or compensation.

Sustainability

Core concerns of the Sparkasse are the continuous enhancing of sustainability and environmental compatibility through suitable means and the lowering of consumption of natural resources. By using modern, energy-efficient technologies at all locations, we comply with the requirements of environmental protection and enhance the environmental awareness of our staff.

The result of the sustainability strategy has been that Sparkasse Saarbrücken was the first financial institution in Saarland to be awarded the EMAS (Eco-Management and Audit Scheme) certificate. As such, Sparkasse Saarbrücken is one of only eleven financial institutions in the whole of Germany that applies environmental management at the highest European standards.

Social responsibility

We have always considered social responsibility a corner piece of our corporate culture in all areas where Sparkasse Saarbrücken operates. With donations, through sponsoring and by funding a foundation, we promote the economic development and attractiveness of the region. Social facilities are supported and cultural and sporting life are being promoted. But our sense of responsibility is not limited to the taking of preventive measures or to sponsoring activities. It is our opinion that nowadays a company only acts socially responsibly when it actively secures employment, helps its staff to obtain qualifications and allows for the future when structuring the company. We do so at all locations in our catchment area.

2.5 Summary and assessment

Business development, the financial position and cash flows as well as the development of the earnings position can be considered to be satisfactory in the light of general economic conditions as well as the state of the banking sector. Increases in deposits from customers (EUR +151.3 million) and in loans to customers (EUR +125.0 million) are proof of the trust that our customers have in us and confirm the business policies of Sparkasse Saarbrücken. Higher net interest and fee income, moderately increased administrative expenditure and noticeable savings on hedging transactions for the money books characterised the results before revaluation. Corrections to revaluations of our loans and participations portfolio as well as setting aside new reserves as per Article 340f, HGB, led to the results before taxation. After allowing for taxation, there is a surplus for the year of EUR 8.5 million, which is in accordance with the planning of the Board of Directors.

3 Supplementary report

No events of material importance have occurred since the end of the fiscal year on 31 December 2013.

4 Risk, opportunities and prognosis report

4.1 Risk report

Because the conscientious accepting, active managing and targeted transforming of risks, whilst applying a risk appetite that does not involve excessive exposure to risk and still leaves room for adequate earnings, or core function of financial institutions, the executive management of the Sparkasse has installed a risk management system as integral part of the overall control system, which is used for identifying, assessing, mitigating and monitoring the risks and for communicating them. The management information with relevance for risk is used as basis for making operational and strategic business decisions. Clear separation of duties and close cooperation between the involved divisions of the Sparkasse make efficient implementation of the risk-political control impulses possible. To enable us to deal with the continuously evolving framework conditions, we continuously adapt our strategies, concepts, procedures, instruments and organisational structure and processing arrangements.

In respect of its strategies and implemented processes, the Sparkasse complies with the minimum requirements of risk management (MaRisk).

As basis of our risk inventory, we designate as fundamental risks for our institutions: counterparty risks, market rate risks, incl. interest rate risks, liquidity risks, operational risks and participation risks.

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 Board of Directors and other decision makers.

4.1.1 Risk management

The Supervisory Board issues business instructions for the Board of Directors and the Credit Committee and monitors their activities. The business and risks strategies are discussed with the Supervisory Board. The Board of Directors presents a quarterly risk report to the Supervisory Board, on the risk position of the Sparkasse.

The Sparkasse differentiates between operational and strategic risk management. The operational risk management encompasses the implementation of the risk strategy as specified by the Board of Directors by introducing or reducing risks into or in the individual risk-bearing business divisions. The strategic risk management entails the specifying of risk-political guidelines and the coordinating and supporting of operational risk management.

In addition to setting the business-political objectives, the Board of Directors sets the fundamental strategic and methodical orientations and determines the level of risk coverage that is made available for hedging and how that will be spread over the various types of risks. The actual risk managing is then actually done by the individual management units in the various divisions.

Controlling and monitoring counterparty risk is done in the Overall Control Division and the Back Office for lending operations. The full Board of Directors decides for every individual case of lending to customers up to EUR 38.6 million and of unsecured lending up to EUR 7.7 million. Below those limits, the Board has delegated approval authorities to qualified staff. Above those levels, approval from the Credit Committee is required. The approval authority level of staff depends on the credit exposure, the unsecured portion and the rating score. In the case of risk-relevant lending decisions, in addition to the opinion of the market division, the opinion of the back office is needed, based on analysis of the case. Decisions and monitoring of repackaging and rescheduling are the responsibility of Credit-Consult Division.

Treasury Division manages market rate risk under its own responsibility, within a framework of limits that are set by the Board of Directors. The division also manages counterparty risk in relation to commercial deals and it manages liquidity risk.

The Control and Risk Management Department coordinates the process of determining operational risks, verifies the instruments that are used and analyses resp. monitors the way the risk develop on the basis of the risk map and the damage that has occurred.

In order to be properly able to assess the risks emanating from new products or new markets, their consequences are analysed and displayed to the Board of Directors in a presentation. Before embarking upon regular trading, commercial deals are fundamentally first subjected to a test stage, in which the affected organisational units are involved. Only when tests are completed successfully and suitable risk management instruments are in place, regular trading may commence.

Before planned changes in operational processes and structures are implemented, the effects on the control process and the intensity of controls are verified.

It is the responsibility of the Control and Risk Management Department, as organisational unit that is, in terms of construction and process organisation, independent of the divisions that are responsible for the actual transactions, to assess, monitor and report the functions that have been identified as carrying significant risks. Risk Control is responsible for testing the suitability of the methods and processes that are used. Risk Control is also responsible for the implementation of regulatory and statutory requirements, calculating the risk capacity and monitoring the adherence to risk limits.

The compliance function has been set up with the objective of counteracting risk that may be the result failure to comply with legal regulations and specifications.

As organisationally independent unit, Internal Audit, within the framework of its monitoring function, supports the Board of Directors and other management levels. It is based on a risk-oriented verification plan that has been approved by the Board of Directors. It provides the fundamental basis on which Internal Audit checks and assesses all operational and business processes. That also entails checking risk management and adherence to internal and external 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. It is a significant contribution to adherence to defined processes and supports the further development and enhancement of the risk management processes. No findings of any significance with impact on the financial position, cash flows and earnings were made during fiscal 2013. Improvements suggested by Internal Audit are implemented after mutual discussion.

Stages of the risk management process

With the objective of developing a uniform and integral system for analysing and quantifying existing counterparty, market price, liquidity, participation and operational risks, we have identified four stages in the risk management process. First of all, within the framework of identifying risks, significant current and future risks must be identified and be used as basis for classification. They entail, for example, the risks in conjunction with integrating the risks in connection with new products or complex transactions into the existing system. Risk concentrations associated with significant risks are taken into account within the framework of risk identification. Objective of the risk assessment is the measuring and evaluation of the identified risks. To the significant risks, suitable measuring is applied, e.g. through risk models or scenarios (such as real case resp. worst case or stress tests). Risk management as a whole is aimed at accepting risks, mitigating risks, limiting risks, avoiding risks or transferring risks. The last stage is the monitoring of the limits that have been set by the Board of Directors and reporting on the risk parameters and the analysis results to the Board of Directors and the concerned divisions by Risk Control. Apart from the regular reporting on significant risks in accordance with MaRisk, there is also ad hoc reporting, as and when needed. Moreover, the methods of the preceding process stages and the quality of the data that were used, resp. of the results are checked and validated.

Risk capacity

Within the framework of the quarterly calculation of risk capacity, the Sparkasse compares its risk coverage potential to the accepted risks. In doing so, the installed processes for measuring and managing the risks ensure that the significant risks are at all times covered by the existing risk coverage potential and that, therefore, all existing risks are contained within the risk capacity. The Sparkasse applies a risks capacity concept, based on periodic, value-oriented and regulatory views. It takes the going concern basis as principle, under which it is assured that also in case the risk coverage potential that is used for covering risks is lost, the minimum capital requirements as per the Solvency Ordinance resp. CRR can still be met. Risk buffers are maintained for expected negative changes in values and risk concentrations that are not taken into consideration within the ordinary risk as well as for significant risks that cannot be quantified with sufficient accuracy.

At the end of a current year, the Board of Directors always lays down which part of the maximum available risk coverage potential will be made available for covering the significant risks that exist for the following fiscal year. The maximum available risk coverage potential is made up of the planned operating result before evaluation, the contingent reserves as per Article 340f, HGB, and the fund for general banking risks (contingent reserves as per Article 340g, HGB). When needed, the available parts of the contingent reserves that are not used for meeting minimum regulatory requirements might also be used. Subsequently, the quantifiable significant risks are compared with the limits that have been derived from the provided risk coverage potential. From the middle of the fiscal year onward, the Sparkasse also looks at the risk capacity for the following years until the balance-sheet date of the following year. The value-oriented risk coverage potential is derived from marking assets and liabilities to market; as such from the net present value of the Sparkasse.

On balance-sheet date, the value-oriented risk coverage potential was EUR 720.7 million. EUR 216.2 million have been made available as risk-taker. The calculated risk for the Bank as a whole that was calculated without taking diversification factors into account stood, for a holding time of one year, at EUR 147.7 million.

With an eye for the increasing quantitative and qualitative capital adequacy requirements under Basle III, we have made calculations for the purpose of quantifying anticipated capital requirements until the year 2020. Various assumptions were made about future development of results and future capital requirements, such as falling operating results of account of a sustained stage of low interest rates, obligatory deductions for indirect participations and the minimum Tier I capital that will be required in the future. That allows for risk capacity to continue to be presented on the basis of the current risk scenario.

Risk strategy

A consistent risk strategy has been formulated for the business activities of the Sparkasse, which has the following characteristics:

- The risk strategy takes the significant business activities that have been laid down in the targets and plans of the business strategy as well as the significant risks that are associated with outsourcing into account and is restrained by the risk capacity. It encompasses also the targets of the risk management of the significant business activities, such as existing risk and earnings concentrations.
- By means of set risk limits and efficient control systems, the earnings and the assets of the Sparkasse must be protected. By settling risk tolerance limits, it has been determined under which conditions Sparkasse will be ready to accept risks.
- Our good reputation as dependable partner of our customers must be consolidated and maintained, even when applying risk management.
- Before embarking upon new business activities, suitable analyses in respect of possibility of implementation in the organisation, legal consequences, risk level and compatibility with risk capacity must be carried out.
- Supervisory and legal standards must be met at all times.
- The competent decision makers receive the required information completely and in real time, within the framework of a strategy process that has been set up.
- As a rule, the strategy process and all operating processes must be checked by Internal Audit.
- The risk strategy is reviewed on an annual basis and bit by bit further developed.

4.1.2 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.

Lending business

Our counterparty risk exposure in the lending business is managed with particular consideration being given to size-classification structure, creditworthiness, industrial sectors, the collateral that is provided and the commitment risk.

To avoid concentration of risks, the Bank has additionally set strict ceilings on credit limits resp. limits per (related group of) borrower(s). Details are defined in the credit risk strategy.

The Management Board attaches great importance to risk limitation in its customer lending activities. This is reflected in the fact that the corporate objectives continue to focus on quality, i.e. the risk-sensitive granting of loans. If applicable, major risks are accepted with the approval of Credit Committee of the Sparkasse.

As at 31 December 2013, the total amounts of receivables, broken down into claims categories (presented on the basis of the measuring fundamentals as per the standard basis for credit risk in accordance with Article 49, Paragraph 2, Solvency Ordinance before risk reductions plus revaluations and provisions), are as follows:

Total amount of claims, broken down into claims categories	Receivables EUR 000
Institutions	1,091,012
Regional governments and local administrative bodies	1,600,342
Investment shares	508,993
Covered bonds	106,394
Positions secured by real estate	1,063,260
International organisations	1,497
Multilateral development banks	49,982
Other public bodies	155,139
Retail business	1,320,718
Other items	89,556
Central governments	111,417
Businesses	1,334,672
Overdue items	144,641
Total receivables	7,577,622

The geographical distribution over main areas is as follows:

Main geographical areas	Germany EUR 000	EEA EUR 000	Miscellaneous EUR 000
Institutions	658,150	427,513	5,348
Central governments and local and regional administrative bodies	1,600,342	0	0
Investment shares	458,363	50,630	0
Covered bonds	91,688	14,706	0
Positions secured by real estate	1,026,390	34,067	2,803
International organisations	0	1,497	0
Multilateral development banks	0	49,982	0
Other public bodies	155,139	0	0
Retail business	1,259,506	57,947	3,265
Other items	89,556	0	0
Central governments	53,127	58,290	0
Businesses	1,275,850	53,809	5,013
Overdue items	140,001	4,379	261
Total receivables	6,808,112	752,820	16,690


The following overview shows the distribution of lending business over main sectors.

Total amount of claims, broken down into main sectors	Receivables EUR 000
Banks	1,315,764
Investment funds	508,993
Public sector	1,750,706
Private individuals	1,832,109
Companies and economically independent private individuals	1,983,612
of which:	
Agriculture and forestry, fisheries and aquaculture	10,283
Energy and water supply, waste management, mining and quarrying stones and earth	100,132
Manufacturing trade	174,951
Building trade	104,956
Dealerships, maintenance and repairing of motor vehicles	177,093
Traffic, warehousing, message couriers	46,267
Financial and insurance service providers	263,673
Real estate and housing	543,702
Other service providers	562,555
Non-profit organisations	96,882
Miscellaneous	89,556
Total receivables	7,577,622

The breakdown into classifications according to size does not show any abnormalities. With a portion of 32 % of mostly smaller commitments with an exposure up to EUR 1 million.

The overview of claims categories according to residual maturities shows that lending is mostly for the longer term:

Residual maturities	< 1 year EUR 000	1 year to 5 years EUR 000	> 5 year to indefinite EUR 000
Institutions	270,636	541,266	279,107
Central governments and local and regional administrative bodies	895,868	265,649	438,826
Investment shares	0	0	508,993
Covered bonds	10,099	53,974	42,322
Positions secured by real estate	49,913	84,491	928,856
International organisations	0	1,497	0
Multilateral development banks	0	30,003	19,979
Other public bodies	26,937	32,557	95,644
Retail business	545,332	142,637	632,750
Other items	58,100	0	31,455
Central governments	56,161	14,471	40,785
Businesses	258,592	350,256	725,825
Overdue items	21,393	11,649	111,599
Total receivables	2,193,031	1,528,450	3,856,141

The credit rating is of crucial importance for assessing counterparty risks in lending business. To manage credit risks in customer lending business, the Sparkasse uses the scoring and rating method of the -Financial Group.

For corporate customers, the quantitative assessment involves a system-based analysis of the annual accounts in conjunction 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.

For assessing borrowers' creditworthiness, the Sparkasse uses other systems that are offered by the savings banks organisation (such as the EBIL application for analysing individual balance sheets).

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. Information that is relevant for assessing creditworthiness is entered into an integrated scoring model.

If we are privy to information that points at impairment of economic circumstances, we proceed with extraordinary verification. Emerging credit risks that are identified by using effective early warning systems, trigger the reaction of taking intensive monitoring measures in the front and back offices. Non-performing loans or those requiring restructuring are managed in a back-office.

The rated customer lending volume has mostly been allocated to rating classifications 1 to 5. The following overview shows the percentage distribution of our customer lending portfolio, as determined through our rating and scoring process:

Total amount of claims, broken down into risk categories	Claims EUR 000	Claims %
Risk categories 1 to 5	3,617,371	71
Risk categories 6 to 9	945,966	18
Risk categories 10 to 15	342,760	7
Risk categories 16 to 18	143,454	3
Not rated	64,645	1
Total receivables	5,114,196	100

Source: Internal risk report on counterparty risk, providing an overview of the requirements to customer lending as laid down in the credit and risk strategy.

In addition to the purely economic assessment of a customer's credit rating as such, risk classification in the customer lending business also takes account of the collateral that is available.

Lending commitments are also regularly checked for the eventuality that contingent reserves may need to be set aside. The level of the in individual cases required contingent reserves is on the one hand based on the probability of the borrower not being able to honour his contractual obligations. The basis for that is the assessment of the economic circumstances and the payment history of the customer. On the other hand, the collateral is assessed against its probable realisation value, in order to estimate which payment could still be expected to be received after an event of default occurs. Valuation adjustments, setting aside of reserves and direct write-offs are decided on a case-by-case basis by the competent functionaries. Suitability of the applied measures and the emanating adjustments are checked on a regular basis. If the economic circumstances of the borrower sustainably improve and give evidence of the borrower being able to service his debt or if the loan is redeemed from the proceeds of collateral, the contingent reserve will be released. The setting aside, adjusting and releasing of contingent reserves is done at the Sparkasse in a central system. For latent default risks, the Sparkasse makes lump-sum value adjustments. Additionally, there are provisions for general banking risks, as stipulated in Article 340f, HGB.

Work instructions regulate the business processes in terms of contingent reserves and the approval process by competent functionaries.

During the year under review of 2013, contingent reserves developed as follows:

	Amount at start of the period	Additions	Releases	Utilisation	Changes on account of foreign exchange rates and for other reasons	Amount at end of the period
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Specific provisions	58,451	6,766	7,742	9,013	0	48,461
Provisions	1,772	665	506	0	0	1,931
General provisions	7,015	248	0	0	0	7,263

The Board of Directors has defined a risk strategy on the basis of a risk analysis. It is advised every quarter about the development of counterparty risks and adherence to the strategy and it informs the Supervisory Board. The risk report breaks down the portfolio by creditworthiness resp. rating categories, sectors, size categories and volumes that are exposed to risk. Possible concentrations of risks can be recognised at an early stage that way. 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. In addition, the counterparty risk is quantified in terms of present values, using a simulation technique that also takes risks concentrations into account. Those results are used in the risk acceptability calculation. The risk premiums that are calculated on the basis of internal rating and availability of collateral serve the setting of risk-adjusted conditions. To a limited extent derivative hedging instruments are used within the savings banks organisation, for the purpose of risk diversification: hitherto, the Sparkasse participated in altogether eight credit basket transactions.

At the moment, there is no evidence of any exceptional risk exposure in our credit portfolio on account of its structure and diversification. Within the framework of the annual analyses, risk concentrations in the sectors 'financial institutions' and 'real estate and housing' are identified. Those sectors are taken into account within the framework of regular reporting and simulation calculations for stress tests.

Against the background of the findings from the creditworthiness assessment systems, we see the development of our risk position in the lending business as favourable. At year end, the room for counterparty risk was used to the tune of EUR 8 million (previous year EUR 13 million), which means 14 %, so that currently Sparkasse sees its risk situation in a favourable light.

Commercial transactions

In order to limit counterparty risk in trading, there are limits for every counterparty (as issuer and as transaction counterparty). Additionally, there are group limits for various types of exposures. The risks are limited by carefully selecting our counterparties, after thoroughly testing their creditworthiness. Fundamentally, we only accept counterparties with investment grade ratings. Limit utilisation is monitored by the Controlling and Risk Management Department.

On balance-sheet date, the total volume of trading transactions stood at EUR 2,160 million. A major part consists of bonds and (EUR 1,644 million) and mutual and special funds (EUR 509 million). It is broken down as follows, in terms of ratings:

External rating Standard and Poor's	2013 %	2012 %
AAA to A-	80.1	85.6
BBB	15.3	10.6
BB+ to C	0.7	0.7
D	0	0
Not rated	3.9	3.1

95.4 % of the securities held by the Sparkasse are of investment grade.

The following table provides an overview of our exposure to issues from countries with an issuer rating of BBB (S&P) or worse:

	2013	2012
	Total volume in millions of Euros	
Greece	6.9	4.9
Italy	9.8	9.4

The portfolios consist of fixed-rate and floating-rate securities. The portfolios were marked to present value at year end. In the annual accounts, there were no write-offs in respect of those papers. Against the background of the still unresolved sovereign debt crisis, our portfolios continue to be exposed to risk.

For the purpose of risk capacity, we calculate counterparty risk on the basis of ratings. On the basis of the probabilities of default that form the basis for the ratings, we assume downgrading of the ratings of all trading counterparties to the next level.

The effects on results for the period from identified risk concentrations in the financial institutions sector and from defaults of trading partners are simulated within the framework of the stress tests. In value-oriented observation, a stress test is carried out on the basis of assumed negative economic development. Monte-Carlo simulation is used for this.

During entire fiscal 2013, counterparty risk from trading activities remained within the limits that were set within the framework of risk capacity. In view of the concerned volumes, sovereign risk is considered to be low.

Participations

The risk of financial loss on account of impairments in the participations portfolio is designated as participation risk. Apart from the risk of potential loss of value, there is the risk of the investment returning low or no interest income. There could also be the risk of being liable under the profit transfer agreement with the subsidiary company **S**-ProFinanz.

The participations of the Sparkasse in parties within the savings banks association are essentially strategic participations. They are specifically meant to strengthen the financial savings banks association and the expanding of sales channels for the products of the members of the association. The participations in the association are meant to support the business purpose of the Sparkasse in the long term. In part, the participation are also held indirectly through the Savings Bank Association Saar. Including shares in related companies, the total volume of the participations portfolio is EUR 47.0 million (book value) and is thereby 14.2 % higher than the value for the previous year.

The Sparkasse has laid down targets and framework conditions in the business and risk strategy. The participation risk are included at appropriate levels in the risk capacity concept of the Sparkasse. The participations are controlled by the Business Administration Department. The participation risk is determined through the standard rating mechanism of the Sparkasse, with complementary reference to the classification of external rating agencies (S&P). The participation risks are also presented through stress scenarios. The control and monitoring systems ensure that the Sparkasse is adequately informed about the situation in individual participations.

Upon the acquisition of Landesbank Berlin Holding AG (LBBH) by the **S**-Financial Group, we have acquired a silent sub-participation in the acquisition company of the **S**-Finanzgruppe mbH & Co. KG (acquisition company) through the Deutscher Sparkassen- und Giroverband ö. K. (DSGV). On the basis of the medium-term company planning of Landesbank Berlin, we have as at 31 December 2013 written down our participation value by EUR 5.76 million to EUR 960,000. In this connection, the DSGV is also entitled to claiming compensation for expenditure from the sub-participants in the event that the dividends of LBBH that should be distributed through the acquisition company, do not cover current expenditure (mostly from external financing). It was necessary to set aside reserves for the fiscal years of the acquisition company from 2013 to 2015.

Reporting

We meet the necessity of suitable and real-time reporting on counterparty risks and present every quarter a risk report on counterparty risk to the Board of Directors and the Supervisory Board. Together with the other systems that we use, this report provides the basis for our decision-making processes in the lending business and enables us to evaluate and manage the credit portfolio. It contains the following presentation and possibly required comments

- on structuring the portfolio according to classification for size, risk, collateral portfolios, country risks and sectors, with particular attention to risk concentration
- on existing large facilities and other commitments that are of significant importance to the risk position
- on significant exceeding of limits and the reasons for it having happened
- on developing new business
- on developing contingent reserves
- on significant credit decisions, if they deviate from our risk strategy or that have been approved by the Board of Directors within the framework of its competency to decide on individual cases, but where the decision was not unanimous
- level of the participation risk
- supervisory control parameters
- actual information on significant participations
- value-at-risk of the credit portfolio
- choices for action by decision-makers

4.1.3 Market rate risks

The Sparkasse does not engage in proprietary trading and does not maintain a proprietary trading book. Market rate risks are defined as potential losses of income as a result of changes in the market rates of securities and foreign exchange, fluctuations in interest rates and prices as well as any resultant changes in the market value of derivatives. Market rate risks are managed with the aim of making use of earnings opportunities without placing undue strain on financial resources.

Market rate risks from trading transactions of the trading and investment books

The Controlling and Risk Management Department does every day retrieve current market rates and possible changes in market rates for the purpose of marking trading transactions to market, so that the values of the transactions may be compared to the limits that have been derived from the risk capacity concept. Possible negative changes in market rates for trading transactions are measured by means of scenario analyses and the value-at-risk concept. An escalation procedure has been laid down for exceeding limits. The volume of on-balance-sheet trading transaction has fallen by 2 % from the previous year.

Value-at-risk for trading transactions is determined on the basis of historical simulation with a duration of ten days, a confidence level of 95 % and a historical observation period of 250 days. The quality of the risk model is verified through regular back-testing and the parameters are adjusted, when necessary.

The following overview shows market rate risks on the basis of value-at-risk, compared to the previous year.

Market rate risks	31/12/2013	31/12/2012
	in millions of Euros	
Rate risks from interest-bearing positions	4.9	1.9
Foreign exchange rate risks	0	0
Share price risks	0.1	0.1
Commodity risks and other rate risks	3.7	1.6
Total	8.3	2.1

During the observed fiscal year, value-at-risk was between EUR 2.4 million and EUR 9.4 million.

In 2013, market rate risks remained at all times within the limits system as specified by the Board of Directors. At year-end 2013, the risk limit for trading transactions had been utilised for EUR 30 million (previous year EUR 30 million) or 28 %.

The quarterly executed stress tests did not produce any events that could be classified as threatening continued existence. The early-warning and escalation procedures made it possible to mitigate and possible risks.

Exchange rate risks are of only minor importance for the Sparkasse. Open positions are generally closed through matching transactions and/or derivatives (e.g. forward foreign exchange transactions). Those market rate risks remain within the targets that are set within the framework of the business policy.

The following data and/or records are presented by Risk Management to the Board of Directors on a weekly basis in the risk report on trading transactions, as risk information.

- Market price risks in the investment book
- Risk and results development of the individual portfolios of trading transactions
- Significant limit excesses

Rate change risk for the institution as a whole

Sparkasse Saarbrücken does knowingly accept interest rate risk with the aim of deriving additional income from maturity differentials. The interest rate risk is monitored and managed by maturity period and by marking to market.

The basis for managing interest rate risk is the overall cash flow that encompasses all interest-bearing transactions. On- and off-balance-sheet products and positions that react to changes in market rates are accordingly taken into account. As a rule, the contractual agreements and the fixed rates of the positions resp. products are taken into the equation. For floating rate products that have neither fixed interest rates not fixed capital amounts (open-ended deposits), fictitious maturities according to the moving averages model are used as basis. Effects from the use of implicit options, that present the estimated exercising behaviour, are taken into account through a correctional cash flow.

Determining rate change risk in the periodic view for the entire institution is done with the help of simulations calculations on the basis of various scenarios. For developing the volumes, a scenario that is based on expected business development is used. The effect of possible interest rate development on the interest margin are simulated by means of various interest rate scenarios. Apart from an assumed constant development of interest rates, the development of the interest margin under a scenario that is expected by the Sparkasse is investigated. Additionally, in order to represent extreme scenarios, an opportunities and risks scenario is being simulated. The results of the calculations are reported to the Board of Directors on a quarterly basis. Therefore, in the face of impending impairment of the earnings position it may be possible to implement mitigating measures in good time.

The interest rate expectation scenario shows that in coming years narrowing of the interest margin must be expected. However, for all years that have been observed, the interest margin is sufficient for continuing to show possible results for the year.

The value-oriented quantification of the rate change risk is done by means of the value-at-risk risk measure. A confidence level of 95 %, a duration of three months and an observation period from 1988 till 2011 are used as basis. A benchmark that is identified as being efficient is used as reference value. The following overview shows the rate change risks (value-oriented) on the basis of value-at-risk, compared to the previous year.

	VaR Minimum 2013	VaR Maximum 2013	VaR 31/12/2013	VaR 31/12/2012
Interest rate change risks	23.4	30.9	28.9	22.9

In some cases, lower risk resp. higher risk positions than the intended deviation from the benchmark are consciously used and approved by the Board of Directors. In terms of the average for the association, we consider the value-oriented rate change risk to be average.

The stress tests that are quarterly carried out for extraordinary market developments did not reveal any threats to the continuity of the Sparkasse under any scenarios. Basis for the stress tests are extreme changes to interest rates that have occurred in the past and hypothetical changes in yield curves.

Within the framework of the overall management of the Bank, derivative financial instruments in the form of interest rate swaps (nominal amount EUR 1,145 million) and bond futures are used alongside on-balance-sheet instruments for the purpose of fine-tuning and hedging rate change risks. Revaluing the interest rate swaps is being dispensed with, because they serve the overall management of the interest rate change risk and are included in the lossless evaluation.

The following data and/or records are presented by the Controlling and Risk Management Department to the Board of Directors on a weekly, resp. quarterly basis:

- Changing in the basic assumptions or parameters
- Scenario calculations for the earnings position
- Development of the interest margin risk
- Development of the present value interest rate change risks
- Development of the interest rate risk coefficients
- Exceeding of limits
- Stress test results


4.1.4 Liquidity risks

The risk of not being able to honour payment obligations at the time that they are due (forward and call risk; liquidity risks in the narrower sense of the word) and the risk of not being able to acquire some products at all or not at the expected conditions in the event of illiquid markets (market liquidity risks) are also managed within the framework of Risk Management and Controlling. Refinancing risk is the danger that required subsequent financing and/or additional refinancing means cannot be acquired or only at higher cost.

The liquidity risk is averted by ensuring that sufficient liquidity is available and that assets and liabilities are structured responsibly. The liquidity status and the various liquidity overviews are used as basis for planning and managing the liquidity of the Sparkasse. The actual liquidity status is measured every day by the Cash Management and Trading Department and is used for managing the liquidity on a day-to-day basis. Short-term and medium-term liquidity is monitored and managed with the aid of several Microsoft Excel spreadsheets. Long-term liquidity is monitored with the aid of maturity analyses, the liquidity status and the survival period by using the FI application SDis-OSPlus.

In the planning (hypothetical and historical stress scenarios) unplanned developments, such as premature notice, is taken into consideration. The Sparkasse has no investments in markets with poor liquidity. It is continuously being verified to which extent the Sparkasse will be able to satisfy its own liquidity requirements. Courses of action for situations with impending low liquidity and an emergency plan for a situation of actual illiquidity have been defined in the "Emergency plan for managing liquidity risk".

For measuring and limiting the liquidity reserve, the Sparkasse follows the requirements of Article 11, KWG, in conjunction with the Liquidity Ordinance and MaRisk. Refinancing risk is quantified on the basis of an assumed reduction in customer deposits that must be refinanced at higher cost in the capital market. Treasury Division reports regularly to the Board of Directors on the liquidity situation.

As reflected in the liquidity indicator in the section on the financial position, the Sparkasse enjoys a strong overall liquidity position. Determinant is our stock of highly liquid securities, the ability to borrow short-term money at the Deutsche Bundesbank and from numerous trading partners within and outside the -Financial Group. Additional, credit balances are maintained at the Deutsche Bundesbank within the framework of the minimum reserve requirements.

The good liquidity situation during the year under review is reflected in the high liquidity indicator, the long survival period and the high number of open refinancing credit lines.

The stress tests that are carried out for extraordinary market developments show that the Sparkasse also has sufficient liquidity under the assumption of historical and hypothetical stress scenarios. Starting from normal case simulations, the following parameters are applied.

Historical scenario

The banking industry suffers from serious loss of confidence throughout the world, which was shown in its worst form during the financial crisis of April 2008. The banks no longer lent fixed deposits. Financial balancing is now only happening in a limited way within banking groups, such as the Sparkassen - Financial Group. Securities trading is now only possible in sovereign bonds. In the spring of 2008 it could even be observed how the mortgage bond market came to a complete standstill. Therefore, in our stress scenario we assume that only sovereign bonds are available as means of payments and that only the savings banks sector will lend to us. The ECB continues to be active as manager of the financial system.

Hypothetical scenario

The five largest non-bank depositors are withdrawing their deposits. Moreover, our limits at trading partners are reduced by 30 % and none of the securities portfolio can be liquidated. It assumed massive failure of the money and capital markets. Transactions with the ECB remain possible, because to central bank must attempt to maintain the functionality of the financial system.

Additionally, the Sparkasse calculates survival periods that indicate the period that outflows of cash and cash items are covered by inflows of cash and cash items. According to that, a surplus of cash and cash items will be available during at least 41 months (as at 31/12/2013), even under severe refinancing circumstances.

The Board of Directors is provided with information on a quarterly basis through an overall risk report with the following scope:

- Liquidity utilisation under normal circumstances (inflows and outflows of cash and cash items)
- Results of the scenario analyses and stress tests (short-term liquidity planning and survival period)

If utilisation of unencumbered cash and cash items exceeds a specified threshold, the Board of Directors will be informed on an ad hoc basis and will from then onward receive a report on a daily basis.

4.1.5 Operational risks

The Sparkasse defines operational risks the danger of as losses that occur as a result of the inadequacy or failure of internal procedures, staff, internal infrastructure or external factors. The Board of Directors is responsible for adequately dealing with operational risks, which is in this regard charged with the task of laying down, regularly verifying and securing the framework conditions for dealing with operational risks.

At the Sparkasse, operational risks are identified and documented on an annual basis, based on ex ante observations. Events of damage that have occurred are then captured in a database. The rules and/or processes that are installed for managing operational risks particularly include the internal control system, written rules governing the organisational structure and essential processes, the use of qualified staff as well as ongoing further development of methods and enhancements of the technical processes. Operational risks in the IT field or due to organisational or processing errors are minimised by agreements with an external computer centre, precautions for emergency situations, growing automation and on-going supervision carried out by qualified staff, and are covered in part by insurance. Legal risks are averted by means of careful examination of contractual fundamentals and the use of commonly used standard agreements.

Moreover, the Sparkasse makes use of the instruments "Focussed risk map" and "Damage case database" that have been developed by the DSGV in the project "Operational risks". Apart from identifying operational risks, the "Focussed map" is used for analysing potential losses that could be of relevance to risk (ex ante observation). In the "Damage case database", actual damage with a value of EUR 1,000 and higher that has occurred through operational risks is captured (ex post observation).

The scope of operational risks is considered to be manageable.

In the case of extraordinary events, stress tests are carried out on the basis of the damage that has occurred. It will not threaten continuity.

The Board of Directors is provided with risk information on an annual basis by Risk Management, through the "Operational risk" report with the following scope:

- Significant cases of damage that have occurred (nature, extent and cause)
- Determined risks
- Measures that have been taken

Additionally, in important cases, there is quarterly and ad hoc reporting.

4.1.6 Summary risk assessment

Our Bank has established an adequate risk management, monitoring and control system in accordance with Article 25a, 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 to be managed. Risks are determined as periodic views until the next balance-sheet date and from the middle of the year onward also for the following year. During the fiscal year, risk capacity was always adhered to and no limits were in excess on 31/12/2013. On balance-sheet date, utilisation of the value-oriented risk coverage potential stood at 20.49 %. The risk capacity calculation that has been carried out in the periodic view from the middle of the year onward for the following year does not show any impairments either. The stress tests that are carried out have the objective of deriving measures and recommendations for action at an early stage, when extraordinary market circumstances prevail. Calculations for quantifying the expected capital requirement of the basis of the increasing capital adequacy requirements under Basle III show that on the basis of the actual risk scenarios, risk capacity continues to be assured. As at 31/12/2013, the Tier I ratio was 12.6 %.

No risk concentrations are apparent that could threaten continuity. Given its existing risk management system, the Sparkasse sees itself to be well positioned to handle existing business and to master the challenges of the future.

4.2 Opportunities report

The Sparkasse analyses continuously trends and changes in the market place. In that regard, the staff in the market and complaints handling play a central role. They continuously receive market information in respect of required products and possible trends, in direct exchanges with our customers and partners. The information is summarised in appropriate form and assessed. The objective is the enhancement of existing products and processes and the developing of sales opportunities for our strategic business fields.

Divisions and departments are involved in the strategy process with responsibility for planning. The Senior Control Committee is responsible for overall coordination. The reporting to the Board of Directors on the opportunities that are derived from the strategy builds upon the results of the strategic planning. Our staff are informed about the potential opportunities within the framework of communicating the business strategy. The Senior Control Committee monitors achievement of targets through a quarterly reporting process on the basis of should/actual comparisons.

Strategic opportunities

When demand from abroad will be increasing again, we see opportunities for the economy in our catchment area to pick up again, especially in the steel industry.

In the regional banking market, adjustment measures of some competing banks – prompted by pressure from costs and regulatory requirements – are leading to withdrawal from business fields that are important to the Sparkasse. This offers the opportunity of gaining new customers.


Because of the repeated strengthening of our capital base in past years, we see ourselves as well prepared for the quantitatively and qualitatively increasing capital requirements.

The rising costs on the bourses give opportunities for higher transaction volumes with customers and for attracting more deposits. Of significant influence is the volatility on the bourses resp. of individual securities, for high volatility often leads to higher trading volumes, while stable market indices tend to dampen customer interest as there will be fewer opportunities for profitable trading. Furthermore, a positive market environment makes investments more attractive, increases funds received by our customers and keeps the value of our own portfolios growing at a steady rate.

A precondition for increasing our market share, in private customer business as well as corporate business, is the targeted expansion of marketing our products and services. One objective will be increasing customer satisfaction, in order to tie them more close to the Sparkasse, and reaching out in a targeted fashion to new customers, because continuous growth of the customer base with consciously accepting risks is a fundamental condition for enhancing the success of our business. Apart from the expected, improved contributions to the results from off-balance-sheet securities business, especially expansion of association and mediation business is seen as a possibility for broadening our earnings basis.

We expect to see opportunities emanating from our investments in future-oriented information technologies. Looking ahead over the next few years, we consider our key tasks to be the enhancing of our existing management tools in order 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. In order to further intensify customer loyalty and to promote cooperation as partners within the Sparkasse Financial Group, suitable technical solutions will be required that permit the linking of business processes throughout the business organisation and that will give us full view of the customers, so that in future we may be able to offer, together with our partners, "One-stop financial shopping". Through-processing without having to change media will provide lean, total processing. The end-to-end integration of media distribution channels such as online banking and the internet on the one hand, and over-the-counter branch-based selling on the other, will help us to serve our customers in line with their requirements and offer them what they are specifically seeking.

In private customer business it is our aim to become the No. 1 in the region in terms of market share and quality for service and consultation as well as for products and processes. Our corporate engagement is expressed through our sustainability strategy and by fulfilling our public tasks.

In corporate customer business it is one of our aims to achieve good market penetration in corporate successions in the future. Therefore, we have added matters concerning succession to our competence centre for starting businesses. This is concretely on offer through -Pilot and the SaarLorLux corporate fair. We also wish to expand our activities in international business.

Already today, the Sparkasse has a broad range of acknowledged financial products covering a large part of the regional market. We especially wish to exploit opportunities by expanding some business fields with additional products and services, in future. Our product strategy is aimed at achieving a meaningful presence in all economically viable market segments. Furthermore, through deeper intensification of sharing the work load with our partners in the savings banks association, we see the possibility of meeting strong competition and continued high pressure on profitability head on.

4.3 Outlook

The prognoses present our assessments of the most likely future developments on the basis of the information that was available to us at the time of drawing up the management report. The target values that are expected from the Sparkasse are compared in Section 2 with the values of the year under review. 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 become reality. On top of that, the profitability of the banking sector is persistently under pressure because of increasing regulatory requirements (Basle III, banking levy, deposit insurance, etc.).

Framework conditions for the German economy

In its annual assessment for 2013/2014 of the overall economic position, the council of experts essentially has a positive outlook on the global economy for 2014. For Germany, growth in GDP of around 1.6 percent is forecast and, as such, will lag clearly behind the global economy (+3 %). The continuously favourable financing conditions support the economic development, though.

The employment situation should further improve. It is expected that the number of people in employment will further rise, especially because of immigration, and that the unemployment rate will remain more or less unchanged.

Again, we do not see much danger of inflation. We expect that in 2014 prices will rise by about 1.5 percent, therefore slightly rising consumer prices should not have negative influence on growth.

Within the planning framework for 2014, the Sparkasse does not expect to see major changes in the financial market indicators. It is expected that interest rates will remain at historically low levels. But we do foresee slight lengthening of maturities.

The Sparkasse faces the challenge of responding to dynamic, competitive conditions. This includes the continued intensification of competition amongst financial institutions as well as growing demands from our customers, consumer protection and banking supervision. Since the crisis in the financial markets in 2008, statutory requirements have not stopped rising. Compliance with the requirements of the Basle Committee with its increasing tying up of resources and the concomitant rise in costs further restrict our freedom of action.

Expected development of the Sparkasse

Against the background of the presented overall economic framework conditions, we expect for fiscal 2014 and 2015 that the earnings position will remain satisfactory and that total footings will once again slightly rise, which would essentially be the result of increasing customer lending business. We ought to be able to achieve our targets for the cost-income ratio and return on equity.

We expect to see moderate growth in commercial lending business, spurred for the most part by companies seeking to finance their new and replacement capital expenditure. On the basis of the employment and income situations, we also see favourable preconditions for moderate increases in consumption and corresponding willingness of consumers to incur debts. The financing of building activities, acquisition and renovation of residential properties will continue to play its important role in our lending business. In spite of increasing efforts to achieve consolidation, the public purse will continue to be an important group of customers for the lending business of the Sparkasse.

The volume of deposits from customers was during the first months characterised by withdrawals of public funds, although deposits from private people remained relatively stable. For 2014 as a whole, we expect to see constant to slightly rising volumes.

For 2014, we expect that interest rates will set at compared to the previous year slightly higher but in the long-term comparison still low level, meaning that under intensifying competition in the lending business, the interest margin will remain under pressure. Further pressure will come about as investments with coupons carrying high rates will come to maturity and that the released funds can now only be invested at lower rates. Therefore, the expected net interest income may well be somewhat lower than last year. In principle, the steepening of the yield curve that we expect to happen in 2015 could improve the growth of net interest income, but it will also lead to increased competitive pressure on margins as interest-rate-related business picks up.

As a result of the continued low level of interest rates and the existing expansion of liquidity by the central banks, we expect slightly rising indices for the share markets in 2014. For the Sparkasse, it could mean a positive effect on the performance of its special fund.

For reasons of caution, we expect, as last year, only little earnings from association participations and have left them out of the equation for the purpose of prognosticating earnings. It cannot be excluded that further write-offs resp. setting aside of reserves may be necessary in connection with our association participations.

For 2014, we expect largely steady fee income of about EUR 24 million. We expect that not only margins, but also prices for services will come under pressure for some time to come. Apart from the expected, slightly increasing contributions to the results from off-balance-sheet securities business, especially expansion of association and mediation business is seen as a possibility for broadening our earnings basis. We expect similar results for fees in 2015.

By implementing systematic cost management, the Sparkasse will attempt to keep the forecast increase in operating expenditure in check. As staffing costs will tend to rise on account of moderate wage and salary settlements, the Sparkasse plans to keep those costs within reasonable limits through strict staff management. We are planning to spend on information technologies and products offering potential for the future, as a basis for expanding our market share. Through its connection with the Finanz-Automatik that is active throughout the federal republic, the Sparkasse is well placed for meeting those challenges. Expenditure in connection with data processing will rise during the coming years.

We expect the revaluation result for 2014 to be similar to the level of last year. Contingent reserves for the lending business will be influenced by regional economic developments as well as by overall economic developments. On the basis of the rather positive outlook for the economy and the good creditworthiness of our lending portfolio, we do not expect to see clearly worse revaluation results. We deem the danger of higher write-offs on the securities portfolio as a result of rising interest rates to be rather low.

Compliance with the statutory parameters is given for 2014, also under the increased requirements to quality and quantity in terms of capital adequacy under Basle III.

Overall statement

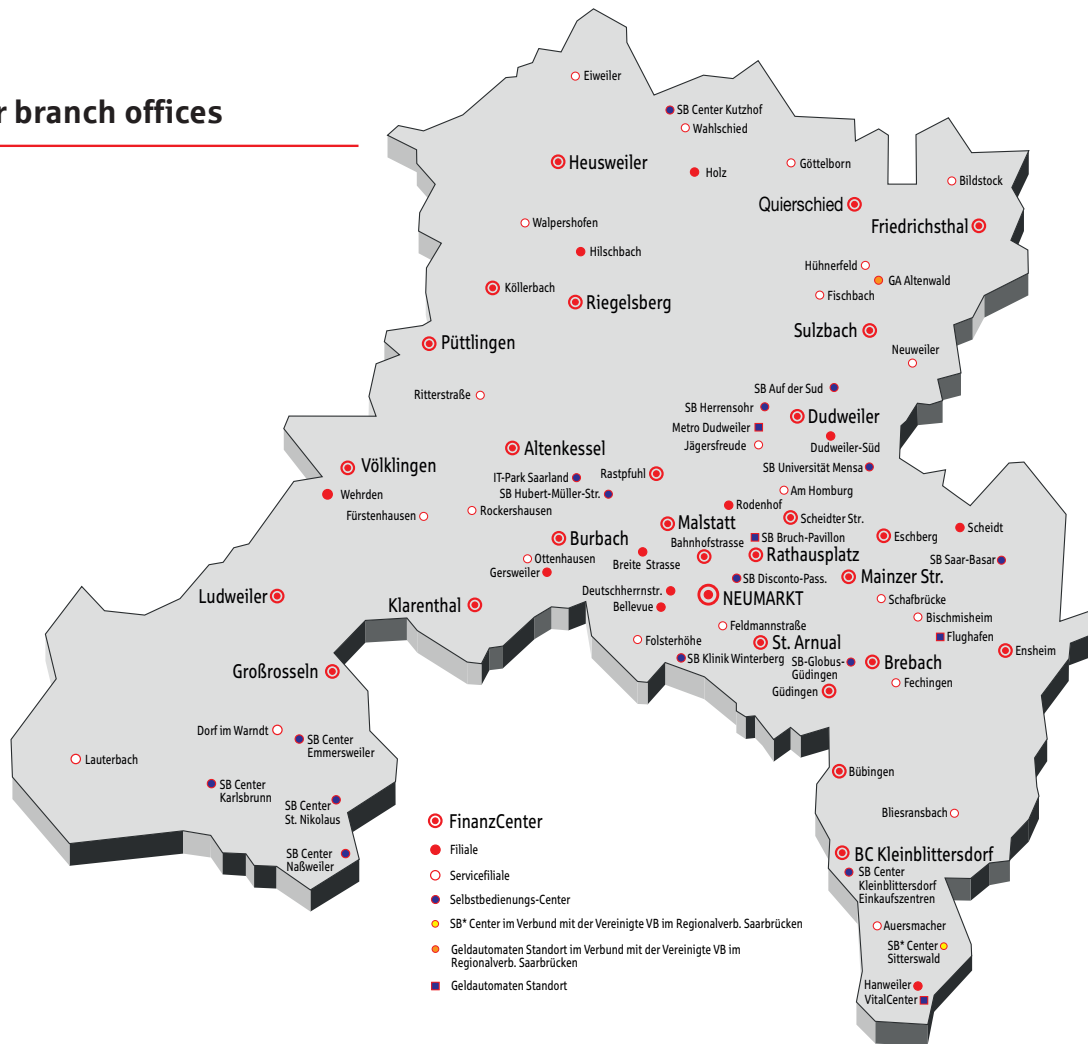
We assess the perspective for fiscal 2014 to be positive, provided that the assumed framework conditions will prevail. With our good market position, we could only profit from positive economic development. As far as we can forecast at this stage, we expect a slightly improving resp. steady economic performance, with also for the following year a steady development of the business with operating results after revaluation at the level of the previous year. The Sparkasse is able to generate the core capital that is required for the business and risk strategy itself from the expected future profits.

On the basis of our anticipatory financial projections, we assume that we will remain solvent at all times during the forecast period of 2014 and 2015. Deviating negative developments in terms of risk are covered by the existing risk capacity.

Saarbrücken, May 2014

Sparkasse Saarbrücken
- The Board of Directors -

5 Our branch offices



The Board of Directors

Hans-Werner Sander
Chairman

Uwe Kuntz
Deputy Chairman

Uwe Johmann
Board Member

Frank Saar
Board Member

Commercial register

Saarbrücken, A 8590

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.

The Supervisory Board of Sparkasse Saarbrücken

Chairperson of the Board of Administrators

Charlotte Britz
Mayor
until 30/04/2013

Peter Gillo
Regional Union Director
from 01/05/2013

Deputy Chairman of the Board of Administrators

Peter Gillo
Regional Union Director
until 30/04/2013

Charlotte Britz
Mayor
from 01/05/2013

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6 Our A-class correspondent banks

Belgium	ING Belgium SA/NV	Brussels	BBRU	BE	BB 010
France	Banque Fédérative du Crédit Mutuel	Paris	CMCI	FR	PA
Great Britain	Barclays Bank PLC	London	BARC	GB	22
Italy	Unione di Banche Italiane SCPA	Brescia	BLOP	IT	22
Japan	Sumitomo Mitsui Banking Corporation	Tokyo	SMBC	JP	JT
Switzerland	Bank CIC (Schweiz AG)	Basle	CIAL	CH	BB
United States	The Bank of New York Mellon	New York	IRVT	US	3N
Canada	Bank of Montreal	Montréal	BOFM	CA	M2
Germany	Commerzbank AG	Frankfurt am Main	COBA	DE	FF
Germany	Landesbank Hessen-Thüringen	Frankfurt am Main	HELA	DE	FF

7 Balance sheet as of 31 December 2013

	EUR		31/12/2012	
	EUR	EUR	EUR	EUR 000
Assets				
1) Cash reserve				
a) Cash and cash items		44,746,675.43		33,768
b) Balances held with Deutsche Bundesbank		54,507,104.88		52,649
			99,253,780.31	86,417
2) Public-sector bonds and bills of exchange approved for discounting at the 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) Claims on financial institutions				
a) Due daily		12,218,072.38		12,802
b) Other claims		276,813,632.49		444,005
			289,031,704.87	456,807
4) Claims on customers			4,256,813,874.05	4,138,778
of which				
secured by mortgage	EUR 1,402,847,490.83			(1,368,468)
Local authority lending	EUR 1,511,525,676.13			(1,491,926)
5) Bonds and other fixed income securities				
a) Money market securities				
aa) from public issuers		0.00		0
of which: eligible as collateral at the Deutsche Bundesbank	EUR 0.00			(0)
ab) From other issuers		0.00		0
of which: eligible as collateral at the Deutsche Bundesbank	EUR 0.00			(0)
			0.00	0
b) Debentures and bonds				
ba) From public issuers		47,654,024.67		166,189
of which: eligible as collateral at the Deutsche Bundesbank	EUR 47,654,024.67			(166,189)
bb) From other issuers		1,046,340,394.03		880,749
of which: eligible as collateral at the Deutsche Bundesbank	EUR 973,488,431.43			(816,660)
		1,093,994,418.70		1,046,938
c) Own bonds		115,636.16		253
Nominal amount	EUR 112,000.00			(239)
			1,094,110,054.86	1,047,192
6) Shares and other non-fixed-income securities			509,349,407.44	469,181
6a) Trade account			0.00	0
7) Participations			46,896,408.37	41,063
of which:				
in financial institutions	EUR 1.00			(0)
in financial services companies	EUR 2,201,012.92			(2,201)
8) Shares in affiliated companies			148,000.00	148
of which:				
in financial institutions	EUR 0.00			(0)
in financial services companies	EUR 0.00			(0)
9) Trustee assets			413,273.92	477
of which: Fiduciary credits	EUR 413,273.92			(477)
10) Compensation claims from public-sector bodies including bonds from their exchange			0.00	0
11) Intangible assets				
a) Self-created trade property rights and similar rights and values		0.00		0
b) concessions acquired against payment, proprietary rights and similar rights and values, as well as licences for such rights and values		463,576.00		559
c) Goodwill		0.00		0
d) Performed down payments		0.00		0
			463,576.00	559
12) Tangible assets			30,852,872.92	31,688
13) Other assets			7,791,001.01	9,885
14) Accruals			578,196.86	861
15) Deferred tax assets			0.00	0
16) Pro rata balance from off-setting assets			0.00	0
Total assets			6,335,702,150.61	6,283,054

Liabilities

	EUR	EUR	EUR	31/12/2012 EUR 000
1) Liabilities to financial institutions				
a) Due daily		261,407,536.79		344,828
b) With agreed term or notice period		1,325,848,185.76		1,345,788
			1,587,255,722.55	1,690,616
2) Liabilities to customers				
a) Savings deposits				
aa) With agreed period of notice of three months	2,261,329,332.35			2,233,050
ab) With agreed period of notice of more than three months	22,068,990.72			55,576
		2,283,398,323.07		2,288,626
b) Other liabilities				
ba) Due daily	1,363,481,599.36			1,222,808
bb) With agreed term or period of notice	584,603,616.80			564,656
		1,948,085,216.16		1,787,464
			4,231,483,539.23	4,076,090
3) Securitised liabilities				
a) Bonds issued		72,590,882.70		83,201
b) Other securitised liabilities		0.00		0
of which:				
Money market paper	EUR 0.00			(0)
own acceptances and sole bills of exchange in circulation	EUR 0.00			(0)
			72,590,882.70	83,201
3a) Trade account			0.00	0
4) Trustee liabilities			413,273.92	477
of which: Fiduciary credits	EUR 413,273.92			(477)
5) Other liabilities			4,330,709.99	5,065
6) Accruals			1,644,271.53	2,728
6a) Passive deferred taxes			0.00	0
7) Provisions				
a) Provisions for pensions and similar commitments		10,430,893.00		10,190
b) Tax reserves		8,710,919.22		3,938
c) Other reserves		16,895,075.85		15,622
			36,036,888.07	29,750
8) Special tax-allowable reserve			0.00	0
9) Subordinated liabilities			38,479,245.57	38,479
10) Participatory capital			0.00	0
of which: maturing within two years	EUR 0.00			(0)
11) Fund for general banking risks			95,000,000.00	95,000
of which: Extraordinary items as per Article 340e, Paragraph 4, HGB	EUR 0.00			(0)
12) Equity				
a) Subscribed capital		0.00		0
b) Capital reserves		0.00		0
c) Revenue reserves				
ca) Contingent reserve	259,943,954.57			253,130
cb) Other reserves	0.00			0
		259,943,954.57		253,130
d) Unappropriated surplus		8,523,662.48		8,518
			268,467,617.05	261,647
Total liabilities			6,335,702,150.61	6,283,054
1) Contingent liabilities				
a) Contingent liabilities from rediscounted bills of exchange		0.00		0
b) Liabilities from sureties and guaranty agreements		125,273,451.01		118,188
c) Liability for assets pledged as collateral security for third parties		2,267,850.00		2,198
			127,541,301.01	120,386
2) Other obligations				
a) Commitments deriving from sales with repurchase options		0.00		0
b) Placement and underwriting obligations		0.00		0
c) Irrevocable loan commitments		93,548,452.37		141,008
			93,548,452.37	141,008

8 Profit-and-loss account for 2013

	EUR	EUR	EUR	01/01 – 31/12/2012 EUR 000
1) Interest income from				
a) Lending and money market business	162,366,148.25			177,229
of which: from discounting provisions	EUR 0.00			(0)
b) Fixed-income securities and debt register claims	17,380,526.46			21,516
		179,746,674.71		198,745
2) Interest expenditure		67,626,034.57		86,026
of which: from marking up provisions	EUR 807,662.85			(894)
			112,120,640.14	112,719
3) Current income from				
a) Shares and other non-fixed-interest securities		13,786,299.84		13,731
b) Participations		2,742,147.67		1,035
c) Shares in affiliated companies		0.00		0
			16,528,447.51	14,766
4) Income from profit pools and full or partial profit transfer agreements			1,961,321.77	3,369
5) Commission income		27,394,639.53		26,401
6) Commission expenditure		3,691,189.00		3,375
			23,703,450.53	23,026
7) Net income or net expenditure on the trade account			0.00	0
of which: Additions to or withdrawals from the fund for general banking risks	EUR 0.00			(0)
8) Other operating income			9,156,495.11	10,117
of which: from foreign currency conversions	EUR 70,443.21			(96)
9) Income from the release of the special tax-allowable reserve			0.00	0
			163,470,355.06	163,997
10) General administrative costs				
a) Personnel costs				
aa) Wages and salaries		52,475,064.30		52,625
ab) Contributions and expenditure for old-age care and support		15,162,352.24		15,466
of which: for old-age care	EUR 5,314,220.93			(5,510)
b) Other administrative expenses		67,637,416.54		68,091
		30,397,830.27		28,772
			98,035,246.81	96,863
11) Depreciation and amortisation of intangible assets and properties			5,218,127.54	5,652
12) Other operating expenditure			10,838,951.60	13,860
of which: from foreign currency conversions	EUR 0.00			(0)
13) Value adjustments and write-downs on receivables and certain securities as well as additions to provisions for lending business		23,123,801.36		19,608
14) Income from write-ups of receivables and certain securities as well as release of provisions for lending business		0.00		0
			23,123,801.36	19,608
15) Value adjustments and write-downs on participations, shares in related companies and securities treated as fixed assets		2,945,951.60		5,377
16) Income from write-ups on participations, shares in related companies and securities treated as fixed assets		0.00		0
			2,945,951.60	5,377
17) Loss-absorption expenses			4,809.64	944
18) Allocations to the fund for general banking risks			0.00	0
19) Results from ordinary business activities			23,303,466.51	21,692
20) Extraordinary income		0.00		0
of which: Transition effects as a result of Accounting Law Modernisation Act	EUR 0.00			(0)
21) Extraordinary expenses		0.00		0
of which: Transition effects as a result of Accounting Law Modernisation Act	EUR 0.00			(0)
22) Extraordinary net income/loss			0.00	0
23) Taxes on income and on earnings		14,597,144.51		12,991
of which: Changes in deferred taxation as per Article 274, HGB	EUR 0.00			(0)
24) Other taxes not included in Item 12		182,659.52		183
			14,779,804.03	13,174
25) Surplus for the year			8,523,662.48	8,518
26) Profit/loss carried forward from the previous year			0.00	0
			8,523,662.48	8,518
27) Withdrawals from revenue reserves				
a) From contingent reserve		0.00		0
b) From other reserves		0.00		0
			0.00	0
			8,523,662.48	8,518
28) Allocations to revenue reserves				
a) To contingent reserve		0.00		0
b) To other reserves		0.00		0
			0.00	0
29) Unappropriated surplus			8,523,662.48	8,518

9 At a glance

Position	As at	As at	Changes	
	31/12/2013	31/12/2012	2013	
	EUR million	EUR million	EUR million	%
Total footings	6335.7	6,283.1	52.6	0.8
Business volume *	6463.2	6,403.5	59.7	0.9
Deposits from customers	4,279.8	4,128.5	151.3	3.7
of which:				
Savings deposits	2283.4	2,288.6	-5.2	-0.2
Non-certificated liabilities	1948.1	1,787.5	160.6	9.0
Securitised liabilities	9.8	13.9	-4.1	-29.5
Subordinated liabilities	38.5	38.5	0.0	0.0
Liabilities to financial institutions	1,650.0	1,759.9	-109.9	-6.2
of which:				
Subordinated liabilities	0.0	0.0	0.0	0.0
Securitised liabilities	62.8	69.3	-6.5	-9.4
Other liabilities	169.9	158.5	11.4	7.2
(Including contingent liabilities and provisions)				
Equity capital	363.5	356.6	6.9	1.9
(Including fund for general banking risks)				
Volume of loans to customers	4,384.7	4,259.7	125.0	2.9
of which:				
Claims on customers	4,256.8	4,138.8	118.0	2.9
Trustee assets	0.4	0.5	-0.1	-20.0
Guarantee loans	127.5	120.4	7.1	5.9
Claims on financial institutions	289.0	456.8	-167.8	-36.7
Investments in securities	1,603.4	1,516.4	87.0	5.7
Fixed assets	78.4	73.5	4.9	6.7
Other assets	107.6	97.2	10.4	10.7
Surplus for the year	8.5	8.5	0.0	0.0

* Total footings plus contingent liabilities

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