

Annual report 2015

Management report (extract) Balance Sheet Income statement

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

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A Management Report for the Fiscal Year 2015

1 Principles of the Sparkasse

1.1 Business model

Sparkasse Saarbrücken is a legal entity organised according to public law and domiciled in 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 customers 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 2015 we maintained a head office and 61 branches in our catchment area and employed altogether 1,211 staff. Measured by balance sheet total, it is the largest Sparkasse in Saarland and the 31st 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.

Additionally, the security system of Sparkassen-Finanzgruppe also meets the requirements of the statutory investment protection. This secures client contributions up to 100,000 Euro per client. If BaFin determines a compensation case for any institute, clients have a right to compensation within seven working days.

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 have sufficient financial scope for future business growth if we can ensure reasonable profitability. We are thus seeking a stable profitability on the basis of equity resources that meet statutory requirements.

We try to bring this mission 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 2015, targets were formulated that were aimed at increasing the growth and profitability of the Sparkasse. In consideration of our public mandate, we have set as targets to hold and expand market shares, to operate economically and to strive for the most efficient risk-return relations possible in the scope of risk acceptability. 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.

In addition to our business-management and market-political targets, we pursue a strategy of sustainability, i.e. we connect the main criteria of social responsibility, ecology and economic performance in a harmonious balance.

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.

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 monitoring 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.

In particular use of the following equipment ensures an evenly high level in 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 2015. The performance as well as the asset, financial and revenue 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. A higher interest surplus, slightly improved commission result and slightly reduced personnel expenses are countered by a higher material expense. Noticeable improvements in

the other expenses and revenues then led to a clearly increased operating result before evaluation. A reduced evaluation result, increased tax expenses and increase of the fund for general banking risks led to an annual result on the prior year's level. The Cost-Income ratio has further improved.

The development of the business year of 2015 is reflected in the following overview:

Presentation in figures of the balance sheet	Volume		as % of business volume		Changes			Prognosis 31/12/2015 €million
	31/12/2015 €million	31/12/2014 €million	31/12/2015 %	31/12/2014 %	2015 €million	2015 %	2014 %	
Total assets	6,822.1	6,763.3			58.8	0.9	6.7	6,830.0
Business volume ¹⁾	6,960.7	6,908.2			52.5	0.8	7.0	6,970.0
Lending business²⁾								
Volume of loans to customers	4,485.4	4,356.6	64.4	63.1	128.8	3.0	-0.5	4,475.0
of which:								
Loans to public sector	1,269.1	1,363.3	18.2	19.7	-94.2	-6.9	-9.8	1,280.0
secured with liens on real estate	1,485.6	1,412.1	21.3	20.4	73.5	5.2	0.7	1,470.0
Loans to financial institutions	116.4	179.8	1.7	2.6	-63.4	-35.3	-37.8	130.0
Investments in securities	2,201.7	2,191.9	31.6	31.7	9.8	0.4	36.7	2,210.0
Fixed assets	72.9	75.5	1.1	1.1	-2.6	-3.4	-3.7	70.0
Other assets	84.2	104.3	1.2	1.5	-20.1	-19.3	-3.0	85.0
Deposit-taking business								
Deposits from customers	4,386.3	4,529.9	63.0	65.5	-143.6	-3.2	5.8	4,390.0
of which:								
Savings deposits	2,193.1	2,246.9	31.5	32.5	-53.8	-2.4	-1.6	2,195.0
Non-certificated liabilities	2,159.7	2,249.5	31.0	32.5	-89.8	-4.0	15.5	2,160.0
Securitised liabilities	0.0	0.0	0.0	0.0	0.0	0.0	-100.0	
Subordinated liabilities	33.5	33.5	0.5	0.5	0.0	0.0	-13.0	35.0
Liabilities to financial institutions	2,011.8	1,824.1	28.9	26.4	187.7	10.3	10.6	2,015.0
Other liabilities (including contingent liabilities and provisions)	175.5	183.9	2.5	2.7	-8.4	-4.6	13.0	180.0
Shareholders' equity	387.1	370.3	5.6	5.4	16.8	4.5	1.9	385.0
of which:								
Contingent reserve	282.1	275.3	4.1	4.0	6.8	2.5	2.5	285.0
Fund for general banking risks	105.0	95.0	1.5	1.4	10.0	10.5		100.0

¹⁾ Business volume = balance sheet total plus contingent liabilities (guarantee loans, collateral for third-party liabilities)

²⁾ (including liability item 1 below the line)

The economic development and positive basic attitude in our business area have led to further invigoration of the credit demand among private individuals. The business with self-employed and companies was also positive again, while the public budgets reduced their credit demand.

The total and volume of business have increased according to plan in the reporting year. Apart from this, the call money and fixed deposits on the liabilities side have increased. Against the background of general economic development, the assets and financial positions could be described to be favourable.

Presentation on the basis of the figures of the profit-and-loss account:	Result		Changes		
	1/1 – 31/12/2015 €million	1/1 – 31/12/2014 €million	2015 €million	2015 %	2014 %
Interest surplus ¹⁾	141.1	135.5	5.6	4.1	3.8
Net commission income	24.9	24.4	0.5	2.0	3.0
Administrative expenses	102.0	98.9	3.1	3.1	0.9
Other ordinary result	-8.1	-25.7	17.6	68.5	-
Result before provisioning	55.9	35.3	20.6	58.4	-28.4
Net provisioning result	-23.7	-15.6	-8.1	-51.9	-40.0
Result after provisioning	32.2	19.7	12.5	63.5	-15.5
Taxation	13.7	11.2	2.5	22.3	-24.3
Allocations to the fund for general banking risks	10.0	0.0	10.0	100.0	-
Net income and unappropriated surplus	8.5	8.5	0	0	0

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 – 31/12/2015 €million
	1/1 – 31/12/2015 %	1/1 – 31/12/2014 %	2015 % points	2014 % points	
Profit ¹⁾	0.13	0.13		0	
Cost-Income Ratio ²⁾	65.3	66.2	-0.9	-1.5	67.2

¹⁾ Annual income/total

²⁾ According to operational comparison

The earnings position, which developed satisfactorily as compared to the prior year, was characterised by an increased material expense and concurrently improved result from other ordinary income and expenses in 2015. After consideration of the evaluation result, taxes and

increase of the special item for general banking risks pursuant to § 340g HGB, an annual income corresponding to our plans results.

The regulatory ratios developed as follows:

Key banking supervision figures	Volume		Prognosis 31/12/2015
	31/12/2015	31/12/2014	
Equity	€423.6 million	€402.4 million	421.8
Tier I capital	€368.1 million	€361.2 million	367.6
Tier II capital	€55.5 million	€41.2 million	54.3
Risk-weighted item values	€3,359.0 million	€3,213.7 million	3,258.7
Overall ratio	12.6 %	12.5 %	12.9
Core capital ratio	11.0 %	11.2 %	11.3

2.1 Macro-economic and sector-specific environment

Economic environment

The economic situation in Germany was characterised by solid and continuous economic growth in 2015. The gross domestic product (GDP) was by 1.7 % above the prior year's and thus above the average of the last ten years of 1.3 %. Consumption and investments were the most important growth drivers. Apart from this, Germany exported 5.4 % more goods and services than in 2014 after adjustment for inflation. The imports increased even more strongly (+5.7 %). The number of employed persons once again reached a new maximum for the ninth year in sequence in 2015 with more than 43 million. This meant 329,000 persons or 0.8 % more than in the prior year.

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, development in the regulatory area as a result means both limitation of the ability to act and cost increases, e.g. for the banking levy, which is not tax-deductible in Germany. Fundamentally though, the pertinent regulations can 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.

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.

Regional economic development

The economic upswing that the Saarland's economy experienced in 2014 continued at an increased rate in the first half of 2015. In the second half, the economic dynamics reduced slightly. Growth of the real gross domestic product in the overall year was clearly above the Federal average of 1.7 % at 2.4 % in the overall year. The growth in the Saar economy was supported by the industry once more. The manufacturing trade achieved a turnover of EUR 27.1 bn. in 2015, which is 7.6 % more than in 2014. In particular engineering and the vehicle industry profited of a strong foreign demand. The year was less pleasant for the metal industry of the Saarland, which suffered under the price loss as a consequence of international overcapacities on the steel market. New maximum values of the Saar economy in foreign trade are noticeable. Increases of 11 % in export (to EUR 15.3 bn) and 18 % for imports (to EUR 15.0 bn), the foreign trade volume increased to a record value of EUR 30.3 bn. The labour market in the Saarland presented itself in a robust condition again in 2015. The number of employed people with obligatory social insurance increased by 1.6 % during the year to 379,700 people at the end of the year. The unemployment rate at the end of the year at 7.0 % was slightly above the prior year's level. The inflation rate in 2015 was at 0.1 % in Saarland.

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, foreign banks and the Postbank mostly compete with the local banks for short-term deposits. The large banks and private banks especially 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

Total footings and business volume

At EUR 6,822.1 mn, the total fittings is about EUR 58.8 mn or 0.9 % higher than the previous year. On the assets side, there was a pleasant growth in the customer lending business, while the securities portfolio remained mostly consistent. Refinancing substituted reducing client customer contributions by the inclusion of bank funds.

Business volume rose by around EUR 52.5 million or 0.8 % to EUR 6,960.7 million.

Lending business

Volume of loans to customers

Sparkasse Saarbrücken originated new loans totalling EUR 844.4 million in fiscal 2015 (previous year EUR 597.2 million). The development of the customer lending volume in general was above that of the prior year, and also above the average of the Sparkassen in Saarland.

While both private individuals and companies and self-employed still showed a positive growth, the public budgets further reduced their loan demand – particularly in the area of overdraft limits – noticeably.

Altogether, a total of EUR 1,382.6 million has been disbursed to commercial customers and EUR 1,446.7 million to private customers. There also were publicly subsidised low-interest loans to businesses and private person to the tune of EUR 158.2 million.

Loans to financial institutions

Claims on financial institutions have reduced again. The reduction by EUR 63.4 million or 35.3 % to EUR 108.5 million is essentially due to the reduction of fixed deposits and due to promissory notes that have only been partially replaced.

Investments in securities

The low-interest phase and the new liquidity demands (LCR) were the reasons for a clear increase and restructuring of our securities portfolio in the prior year. On this basis, our depot A in the reporting year remained nearly constant, at a slight increase of EUR 9.8 mn (+ 0.4 %) to EUR 2,201.7 mn.

These are primarily papers of public 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

The net total of the participations and shares in affiliated companies amounted to 46.3 million EUR. The change by EUR +0.4 mn (+0.8 %) is essentially due to the value recovery in a holding.

Deposit-taking business



Deposits from customers

Deposits from customers were reducing again for the first time since 2011 (EUR -143.6 million; -3.2 %). The strong reduction of notice money (EUR -542.3 mn, -91.3 %), which could only partially be compensated for by an increase in fixed deposits and money-market accounts (EUR +369.3 mn, +168.8 %), was noticeable. This is mostly based on investment decisions from institutional investors. The reduction among the saving deposits remained moderate at EUR -53.8 mn (-2.4 %); the call money (EUR +62.2 mn, +5.2 %) profited of this once again.

Owed to financial institutions

The liabilities towards credit institutions were increased by EUR 187.7 million (+10.3 %) to EUR 2,011.8 million in the reporting year. Refinancing increasingly went through notice moneys (EUR +380.0 mn, +194.9 %) and fixed deposits (EUR +613.3 mn, +114.2 %), while open market borrowing was completely removed (EUR - 800.0 mn).

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 ( Pro-Finanz). A wholly owned subsidiary of Sparkasse Saarbrücken, it also advises our customers on all matters relating to real estate.

The sale of life insurances developed positively in the reporting year. The commission income increased by 50.8 %.

The mediation business in real estate was very good due to demand, even though the commission result did not reach the very good result of the prior year (+ 18.0 %) at a growth of 4.8 %.

After a weaker year of 2014, sale of property insurances was successful again. The commission income increased by 8.9 %.

The building society business increased by approx. 23 % as compared to the prior year and therefore reached a record result at a volume of EUR 180 mn. This is the consequence of our long-term sales strategy, which lead to an increase of the building society sales from 2011 to 2015 by approx. 69 %. Furthermore, there is a high demand for "Riester housing" products.

The stock exchange happenings in 2015 were characterised by new return lows in Federal bonds, the interest turnaround in the USA, strongly fluctuating share markets with new record marks in the course of the year for many share indices, partially clear rate reductions in Chinese shares, continued reduction in raw material prices and a weak Euro.

Based on our new alignment in sales of securities, we were able to note clear sales increases in 2015 for the first time, in particular in the fund business with Deka. For example, the fund stock at our premium partner in securities business grew by more than 13 % to more than EUR 425 mn. In particular real estate funds and funds that invest in several investment classes were at the focus among the customers. The sale of the share funds and the number of share orders (+8.4 %) as well as the share turnovers (+7.8 %) with customers were able to clearly increase. In return, interest in interest-oriented securities reduced.

For a 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. Documentary collection and credit operations round off the range of foreign business services. 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 1,372.7 million (previous year: EUR 1,599.8 million). The Sparkasse does not engage in proprietary trading within the meaning the CRR.

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 1.7 bn (previous year: EUR 1.5 bn).

Investments

The re-design of our FinanzCenter in Gündingen was completed in 2015. Conversion work in our FinanzCenter in Malstatt is running at the same time.

2.3 Capitalisation, financial and earnings positions

2.3.1 Financial status

The financial status of our Sparkasse is characterised by relatively lower claims on customers, higher depot-A-stocks and lower customer liabilities than the association average.

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 38.1 million. Existing balance-sheet risks were recognised through appropriate revaluations and the setting aside of sufficient provisions.

Undisclosed reserves in the amount of EUR 51.6 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 of the German Commercial Code is valued at EUR 105 million after addition to EUR 10 million. 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 31/12/2015, the as per Solvency Ordinance legally required total capital ratio as per CRR of 8 % of risk-weighted assets was clearly 4.61 % better and stood at 12.61 %. With a ratio of 10.96 % for Tier I capital, Sparkasse complies with the qualitative capital adequacy requirements that are currently in force. The contingent reserve will increase from EUR 273.6 million to EUR 280.4 million after the Supervisory Board resolves on allocating funds from the unappropriated surplus. This is equal to an increase of around 2.5 % 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 precondition for further efforts to expand business and for achieving the targets of Sparkasse. The already-evident additional requirements to equity (further buffers, SREP) will also be achievable this way.

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 Bank was assured at all times during the business year on account of carefully planned and executed liquidity management. 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 28 months as at 31/12/2015; 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 1.73, 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 2015, the Sparkasse complied at all times with the requirement of the liquidity ordinance. During 2015, the coverage figure fluctuated between 1.39 and 2.14.

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.

Since 01 October 2015, all banks must comply with the "liquidity coverage ratio" (LCR) every day. This is an index specified by the banking supervision that maps the stress situation. The Sparkasse met this specification at all times with a corresponding safety margin.

During the year under review, only precondition 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 1,631.6 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

The interest surplus as the most important item of our profit-and-loss account could be increased by EUR 5.6 mn (+ 4.1 %) again in the reporting year. While banking business result improved, the low interest level in the customer business led to reducing revenues. Apparently, low interests on the deposit side have not been fully passed on to the customers yet. Our depot A also suffered a slight reduction of interest income. Noticeable savings resulted again, in contrast, in the scope of interest swap agreements entered into in the scope of hedging transactions.

The surplus in fee income rose by EUR 0.5 million (+ 2.0 %). Additional revenues could be achieved both in clearing and securities business. The result was stressed by reducing revenues and further increase in expenses in the credit card business.

Personnel expenses reduced slightly by EUR 0.3 million (-0.4 %) to EUR 69.0 million. A reduction of the employee number by 19 (17.1 MAK) more than offset the collective

bargaining increases by 2.1 % that took effect in mid-year.

Material expenses increased by EUR 3.4 million (+11.5 %) to EUR 33.0 million. This development is connected to the European banking levy and payments into the deposit protection fund of the savings banks.

Results from other ordinary revenues and expenses have clearly improved by EUR 17.6 million (+68.5 %) to EUR -8.1 million as compared to the prior year. This is essentially due to the evaluation of the hedging transactions concluded in the scope of interest rate books with interest rate futures and special effects in the prior year (BGH ruling).

The result before evaluation thus improved by EUR 20.6 million (+58.4 %) to EUR 55.9 million.

The evaluation result of -23.7 million EUR (prior year: EUR -15.6 million) was characterised in particular by the new promotion of contingent reserves purs. to § 340f. HGB in terms of credit business, in addition to the addition and dissolution of value adjustments. Temporarily increased interests and a reduction of the rates on the share market at the end of the year required a value adjustment for our depot A, which, however, is countered by rate gains during the course of the year.

The result after revaluation is EUR 32.2 million (previous year: EUR 19.7 million).

After deduction of the taxation of EUR 13.7 million (previous year: EUR 11.2 million) and an increase of the fund for general banking risks (§ 340g HGB) by EUR 10 million, an annual annual income of EUR 8.5 million results.

The ratio to be determined as per article 26a para. 1 sentence e KWG (net income/total) as at 31/12/2015 amounted to 0.13 %.

The reported annual income and the addition to the special item for general banking risks pursuant to § 340g HGB permit further increase of the core capital of the Sparkasse and appropriate 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 0.82 % of DBS is just below than the average value for the savings banks in Saarland (0.84%). That also applies to the operating result after revaluation (0.31 % DBS as compared to 0.40 % BDS), which is, however, due to the building of new contingent reserves in conformity with Article 340f, HGB.

2.4 Non-financial performance indicators

Staff

The overall number of staff was slightly lower in 2015, by 1.5 %. At the end of the year, the Sparkasse employed a total of 1,211 people. Of these, 744 were full-time staff, 399 were part-time staff and 68 were apprentices.

We have developed numerous models allowing employees to combine families and careers. 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. In this context, Sparkasse started with developing an operational health management in 2014. In spring and autumn 2015, about 800 office workplaces from operation and sales were analysed under ergonomic and occupational-medicine criteria and notes were provided for the correct design of the workplace. The operational health management is supplemented by classic offers such as flu vaccinations and cancer prevention.

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. 21 apprentices, who successfully completed their training, have been offered permanent employment in 2015. Altogether, we employed 89 apprentices and 14 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. We received 2,118 customer complaints in the reporting year. The majority of complaints were about technical faults in SB devices. At the balance sheet date, all complaints but seven had been dealt with. Altogether, payments totalling €17,400 have been made in respect of goodwill or compensation.

Sustainability

Our sustainability strategy includes internal as well as external activities, which in turn are aligned with the three pillars of sustainability (ecology, economy and social responsibility). Within these fields for action, diverse tasks and opportunities for us and for the customers and business partners who operate with us result.

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

3 Supplementary report

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

Sparkasse Saarbrücken's performance, its financial position and cash flows as well as the development of its earning position can be considered to be satisfactory in the light of general economic conditions as well as the state of the banking sector. The customer lending volume could be noticeably increased – in particular by transactions with individuals and companies – (EUR +128.8 mn), while the deposits remained behind the good values from the prior year (EUR -148,6 mn). The figures document – under consideration of an interest situation that does not support investments – the good market position of Sparkasse and confirm the business policy of the board. The profit-and-loss account was characterised by increased interest and commission surpluses, opposed by moderately increased administrative expenses. Clear savings in the hedging transactions for money books, value adjustments in the depot A and the lending portfolio, including new formation of contingency reserves purs. to § 340f HGB led to a result before taxes at EUR 32.2 mn. After consideration of taxation and new promotion of the special item for general banking risks purs. to § 340g HGB at EUR 10 mn, an annual surplus of EUR 8.5 mn remains, which corresponds to the plans from the previous status.

At the moment, Sparkasse Saarbrücken is negotiating a merger with Stadtparkasse Völklingen with the target of forming a shared company in the economic region of Saarbrücken. The two currently independent savings banks want to act together for the good of their customers, shareholders and employees in the economic region in future and strengthen their market positions in the long term by this merger. The corresponding resolutions have been passed by the shareholders of both savings banks in March 2016. It is planned that the merger will be legally completed by 1 January 2017.

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.

The general part of the business and risk strategy documents the strategy process and strategic guidelines of the Sparkasse, and its special part describes various partial strategies, e.g. on the areas of private customers, business customers, staff, treasury and costs, under consideration of business, commercial-law and supervisory framework conditions. Based on the risk capacity, partial strategies for the individual risk types are determined.

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 (especially country risk, spread risk, default risk and creditworthiness), market rate risks, incl. interest rate risks, liquidity risks, operational risks and participation risk.

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 the managers.

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 regularly 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 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 40.2 million and of unsecured lending up to EUR 8.0 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 CreditConsult 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.

The risk controlling function is performed by the department Controlling and Risk Control. The management is assumed by the area manager integrated bank management, who is directly subordinate to the back office and monitoring director. His main task is to support the management in all risk-political questions, particularly in the development and implementation of the risk strategy and in the design of a system to limit the risks. The head of risk controlling function has all necessary authorisations and unlimited access to all information required to perform his task. Before decisions with essential effects on the risk and income situation, the head of risk controlling function must be informed.

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 MaRisk 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 2015. 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. Appropriate risk assessments are performed for essential risks, e.g. by risk models or scenario analyses. 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 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 periodic 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 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.

To review the risk capacity, the stress amount used as a basis for the risk case is compared to the provided risk coverage potential as a total bank limit (EUR 112 mn). The overall banking limit was stressed by less than 50 % in the reporting 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 816 million. EUR 245 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 173 million.

According to the MaRisk, each institute must have a process of planning supervisory and internal future capital demand. The planning horizon must include an appropriately long period of several years. Sparkasse Saarbrücken simulated the capital planning until the year of 2019. 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 and the minimum Tier I capital that will be required in the future.

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 as well as risk reporting 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. 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 2015, 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 112 of the EU regulation no. 575/2013 (Capital Requirements Regulation) before credit risk reductions plus value adjustment and provisions), are as follows:

Total amount of claims, broken down into claims categories	Receivables €000
Central states or central banks	233,487
Regional or local area corporations	1,846,403
Public bodies	229,442
Multilateral development banks	50,125
International organisations	31,213
Institutions	1,013,652
Businesses	1,623,505
Retail business	1,455,965
Items secured by real property	1,172,554
Defaulted items	51,509
Items in the form of covered promissory notes	65,670
Investment funds (OGA-funds)	535,615
Other items	79,126
Total receivables	8,388,266

The geographical distribution over main areas is as follows:

Main geographical areas	Germany €000	EEA €000	Miscellaneous €000
Central states or central banks	21,671	211,816	0
Regional or local area corporations	1,846,403	0	0
Public bodies	229,442	0	0
Multilateral development banks	0	50,125	0
International organisations	0	31,213	0
Institutions	574,262	418,624	20,766
Businesses	1,510,400	102,456	10,649
Retail business	1,355,075	97,625	3,265
Items secured by real property	1,152,543	17,430	2,581
Defaulted items	49,667	1,799	43
Items in the form of covered promissory notes	43,225	22,445	0
Investment funds (OGA-funds)	469,492	66,123	0
Other items	79,126	0	0
Total of claims	7,331,306	1,019,656	37,304

The following overviews show the distribution of lending business over main sectors.

Overall amount of the receivables by industries – banks and public sector	€000				
	Banks	Open investment assets incl. money market funds	Public sector	Non-profit organisations	Miscellaneous
Central states or central banks	13,143	0	220,344	0	0
Regional or local area corporations	0	0	1,844,477	1,926	0
Public bodies	109,482	0	105,606	12,985	1,369
Multilateral development banks	50,125	0	0	0	0
International organisations	0	0	6,141	0	25,072
Institutions	1,013,652	0	0	0	0
Items in the form of covered promissory notes	65,670	0	0	0	0
Investment funds (OGA-funds)	0	535,615	0	0	0
Other items	0	0	0	0	79,126
Total	1,252,072	535,615	2,176,568	14,911	105,567

Overall amount of receivables by industries - industrial companies	€000			
	Agriculture and forestry, fisheries and aquaculture	Energy and water supply, waste management, mining and quarrying stones and earth	Manufacturing trade	Building trade
Businesses	2,502	63,689	104,662	18,305
of which: SME	0	3,006	5,864	3,271
Retail business	5,596	5,661	48,812	53,865
of which: SME	5,596	5,661	48,812	53,865
Positions secured by real estate	2,424	1,852	13,970	37,201
of which: SME	2,424	1,852	13,970	37,187
Defaulted items	44	122	4,224	4,818
Total	10,566	71,324	171,668	114,189

Overall amount of the receivables by industries – service providers and private individually	€000						
	Non-profit organisations	Dealerships, maintenance and repairing of motor vehicles	Traffic, warehousing, message couriers	Financial and insurance service providers	Real estate and housing	Other service providers	Private individuals
Businesses	83,280	62,514	28,099	319,994	430,929	489,759	19,772
of which: SME	0	9,253	0	0	15,907	15,156	0
Retail business	10,087	69,398	13,354	17,536	59,224	171,815	1,000,617
of which: SME	10,087	69,398	13,354	17,536	59,224	171,815	0
Positions secured by real estate	466	38,126	4,959	9,349	70,778	97,447	895,982
of which: SME	322	37,837	4,959	9,349	42,055	95,113	0
Defaulted items	171	3,873	673	313	5,265	4,533	27,473
Total	94,004	173,911	47,085	347,192	566,196	763,554	1,943,844

The breakdown into classifications according to size does not show any abnormalities. With a portion of 31 % 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 and indefinite €000	1 year to 5 years €000	> 5 years €000
Central states or central banks	24,142	142,824	66,521
Regional or local area corporations	858,938	343,069	644,396
Public bodies	27,013	79,509	122,920
Multilateral development banks	0	30,015	20,110
International organisations	3	17,036	14,174
Institutions	199,896	632,080	181,676
Businesses	346,815	514,470	762,220
Retail business	534,315	143,275	778,375
Items secured by real property	57,974	88,000	1,026,580
Defaulted items	8,095	3,275	40,139
Items in the form of covered promissory notes	2,556	41,666	21,448
Investment funds (OGA-funds)	535,615	0	0
Other items	79,126	0	0
Total	2,674,488	2,035,219	3,678,559

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 an effective early warning system, trigger the reaction of taking intensive monitoring measures in the front and back offices.

Non-performing loans or those requiring restructuring are managed in back-office departments.

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 €000	Claims %
Risk categories 1 to 5	4,330,854	77
Risk categories 6 to 9	877,477	16
Risk categories 10 to 15	328,305	6
Risk categories 16 to 18	74,659	1
Not rated	48,804	1
Total receivables	5,660,099	100

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.

During the year under review of 2015, contingent reserves developed as follows:

	Amount at start €000	Additions €000	Releases €000	Utilisation €000	Amount at end €000
Specific provisions incl. interest adjustment items	31,328	4,795	5,028	7,525	23,570
Provisions sureties and credit basket	1,967	236	583		1,620
General provisions	8,914		298		8,616

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.

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.

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 ten 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.

The limit for counterparty risks in the business year 2015 has been reduced from 14.2 million EUR to 3.0 million EUR (in the prior year from 14.7 million EUR to 5.0 million EUR) and has been utilised at 18 % as compared to the reduced limit. Against the background of the findings from the creditworthiness assessment systems and of the limit utilization, we see the development of our risk position in the lending business as favourable.

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 2,585.4 million. Essential items are the bonds and promissory notes (1,587.3 million EUR) and the special and public funds (552.0 million EUR). It is broken down as follows, in terms of ratings:

External rating Standard and Poor's	2015 %	2014 %
AAA to A-	86.0 %	79.7 %
BBB	11.8 %	16.6 %
BB+ to C	0 %	0.5 %
D	0 %	0%
Not rated	2.2 %	3.2 %

97.8 % of the securities held by the Sparkasse are of investment grade area.

To calculate the counterparty risk, use the default probabilities as reference that underlie the current rating classifications, with a reduction of the rating grade of the respective trading partners by one level being assumed.

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 2015, 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 **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 46.3 million (book value) and is thereby 0.8 % 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.

For the purchase of Landesbank Berlin Holding AG (LBBH) by **Finanzgruppe**, we contributed via the Deutscher Sparkassen- und Giroverband ö. K. (DSGV) in the acquisition company of the **Finanzgruppe mbH & Co. KG** (acquisition company) as a limited partner. On the basis of the medium-term company planning of Landesbank Berlin, we had written down our participation value to 1.0 million EUR in previous years. 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). At the amount of the expenses expected for the business years 2016 – 2018, the formation of reserves was required.

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 be evaluate and manage the credit portfolio. It contains the following presentation and possibly required comments

- the structuring of the portfolio according to classification for size, risk, collateral security, country risks and sectors, with particular attention to risk concentration
- Large loans and other commitments of essential importance
- significant exceeding of limits and the reasons for it having happened
- the development of new business
- the development of contingent reserves
- 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
- the level of the participation risk
- actual information on significant participations
- choices for action by the decision-makers

4.1.3 Market price risks

The Sparkasse does not engage in proprietary trading and does not maintain any proprietary trading book items. Market price risks are defined as potential losses of income as a result of changes in the market prices of securities and foreign exchange, fluctuations in interest rates and prices as well as any resultant changes in the market value of derivatives.

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 a value-at-risk method. An escalation procedure is triggered at a specific limit stress.

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 500 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	31/12/2015	31/12/2014
	in millions of Euros	
Rate risks from interest-bearing positions	3.8	0.9
Foreign exchange rate risks	0	0
Share price risks	0.4	0.3
Other price risks	4.7	1.8

During the observed fiscal year, value-at-risk was between EUR 5.9 million and EUR 10.7 million.

In 2015, market rate risks remained at all times within the value-oriented limits system as specified by the Board of Directors. At year-end 2015, the risk limit for trading transactions had been utilised for EUR 30 million (previous year EUR 30 million) or 30.6 %.

Due to the negative development on the financial markets, the risk budget for trading transactions was briefly exceeded in the periodic view. Due to the sufficient risk coverage potential, this was tolerated by the board.

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).

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 controlled value-orientedly and regularly monitored in respect to compliance with the periodic and value-oriented targets of the business and risk strategy.

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 nor 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 and risk under a scenario that is expected by the Sparkasse is investigated. 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 2014 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 2015	VaR Maximum 2015	VaR 31/12/2015	VaR 31/12/2014
	in millions of Euros			
Interest rate change risks	33.0	39.8	39.8	32.7

Occasionally lower risk positions than the intended deviation from the benchmark are used and approved by the Board of Directors.

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 1,365 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
- Limit excesses
- 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 Sparkasse Financial Group. Additionally, 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 assumptions 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. 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 28 months (as at 31/12/2015), 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 "Risk map" and "Damage case database" that have been developed by the DSGV in the project "Operational risks". Apart from identifying operational risks, the "Risk 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 "Damage case database" and "Risk map" reports 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 averted. 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. The risk resistance during the business year was at no time at risk. On balance-sheet date, utilisation of the value-oriented risk coverage potential stood at 21.15 %. 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 Basel III show that the demanded minimum capital ratios could be met. The equity ratio as of 31 December 2015 was 12.61 %, and the hard capital ratio 10.96 %.

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


The rising volatility 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 proprietary 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 Sparkassen 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. We ensure area-comprehensive supply with financial products and thus want to be financial partners for all people in the region. At the moment, a broadly based project team is dealing with the question of how the Sparkasse will be able to approach customers even better in future in light of changing customer needs and technical framework conditions.

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 Saar-LorLux corporate fair. We are active throughout Germany in the project "ICON – innovative content for corporate succession". Additionally, there are specific preparations to secure the future market of "Crowd investing" for us. With offers such as the BusinessLine, we want to continue to intensify contact with corporate and business customers and thus deal with their needs even more intensely.

The Bank already 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 us 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 values 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, European banking levy, deposit insurance, etc.).

Framework conditions for the German economy

Most of the macroeconomic forecasts for Germany that are available to date draw a rather positive scenario. It is expected, that growth for 2016 can be achieved at a similar amount as in the prior year. The Deutsche Bundesbank forecast a growth of 1.8 percent for the new year in its economic development projection from December 2015. Thus, Germany would move in the mid-field of the Euro zone.

The structure of German growth could also continue very similar to before in the new year. The internal demand in particular is deemed robust and is expected to carry the growth in 2016. Stimulated by the strong internal demand, the imports are expected to increase much more strongly in 2016, however, than the exports, which must prevail in the more risky global economic environment. The development of the net export would therefore rather slow down the GDP 2016.

For investments, the structure of increases is expected to shift more towards building investments in 2016. The total investment dynamics have not been determined yet.

State consumption, in contrast, is expected to increase over-proportionality again in 2016, with further contributions by spendings for the refugees. Private consumption is also expected to grow quite strongly again, since a continued good employment situation and increasing income at low price increase are expected.

For the German labour market, 2016 appears able to once again reach record marks in the number of gainfully employed persons. About 300 thousand more persons were able to be active on the labour market. At a continued potential of gainfully employed persons, also due to migration, this could lead to a nearly unchanged unemployment rate.

Within the planning framework for 2016, the Sparkasse does not expect to see major changes in the financial market indicators. The interest rates are expected to remain at a historically low level or even drop further.

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. Complaints with the requirements of the Basle Committee for banking supervision with its increasing tying up of technical and personnel resources also 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 2016 and 2017 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 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 and companies remained relatively stable or could increase slightly respectively. For 2016 as a whole, we expect to see constant volumes.

The implemented and already announced measures by the ECB indicate a sideways movement or even further income reduction in the interest markets. This continues to increase pressure on the interest margin. We expect consistent income from the fund investments and reducing expenses from the collateral transactions of the money book. All in all, the expected interest surplus is expected to reduce.

Resulting from the expansive money policy of the ECB and – connected to this – the low market interests, we see further increase potential for the share indices in 2017.

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 2016, we expect a rising fee income of about EUR 27 million. We expected that the prices in the service business will be subject to pressure in the long run as well in addition to the margins. 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 2017.

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 future wage and salary settlements, those costs are to be kept 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, particularly due to continually increasing supervisory-law requirements.

In our – conservatively aligned – planning calculations for 2016, we expect a generally higher evaluation effort as compared to the prior year. In spite of a good creditworthiness structure of our lending portfolio, we assume reduced evaluation results in the customer lending business. We consider the risk of a high negative evaluation result in the securities area due to rising interest low.

Compliance with the statutory specifications is given for 2016, also under the increased requirements to quality and quantity in terms of capital adequacy under Basel III.

A comparison between individual expense and income items according to the assignment criteria of the operating comparison as of 31 December 2015 regarding the corresponding forecast values for the key date of 31 March 2015 and a forecast for the year of 2016 (as of 31 March 2016) is reflected in the following table:

	31/12/2015 €million	Forecast 2015 as of 31 March 2015 €million	Deviation €million	Forecast 2016 as of 31/03/2016 €million
Interest surplus	136.8	134.4	+2.4	126.8
Net commission income	24.9	24.8	+0.1	27.0
Proper expenses	106.0	108.0	-2.0	108.4
Result before provisioning	57.3	52.5	+4.8	46.9
Net provisioning result	-18.0	-14.8	-3.2	-19.6
Result after provisioning	39.3	37.7	+1.6	27.3

Overall statement

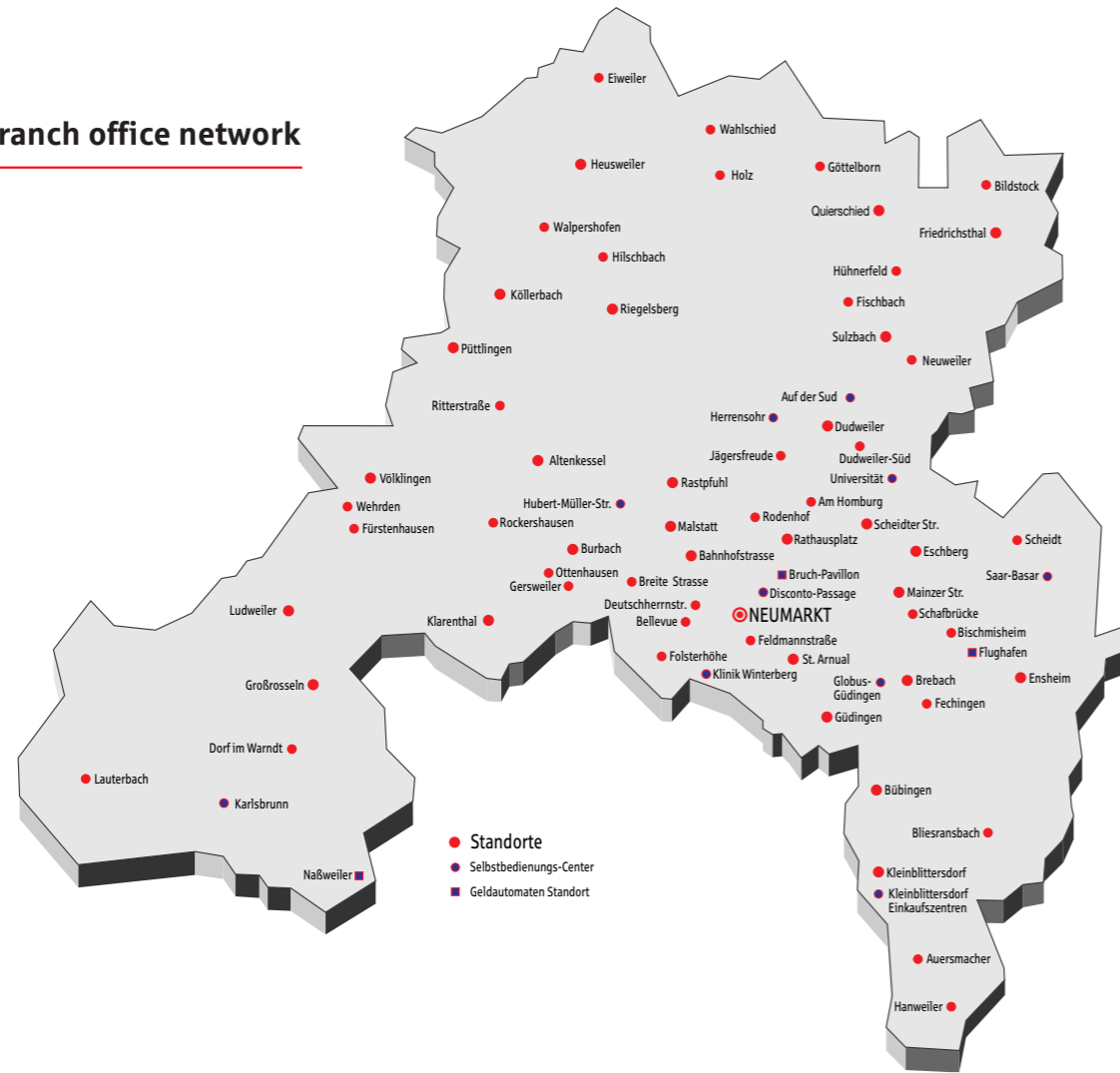
As far as we can forecast at this stage, we expect a slightly improving economic performance, with also for the following year a steady development of the business. It can be assumed that the operating result will reduce due to the reducing interest surplus caused by lower margins, in particular in the deposit-taking business. The cause for this is the continued low interest level. From our good market position, however, we expect that we will be able to profit of a positive economic development and achieve a satisfactory annual result for the business year of 2016. Thus, the necessary development of equity can be continued.

On the basis of our anticipatory financial projections, we assume that we will remain solvent at all times during the forecast period of 2016 and 2017. Deviating negative developments in terms of risk are covered by the existing risk capacity.

Saarbrücken, May 2016

Sparkasse Saarbrücken
– The Board of Directors –

B Branch office network



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 30/04/2015

Peter Gillo
Regional Union Director
from 01/05/2015

Deputy Chairman of the Board of Administrators

Peter Gillo
Regional Union Director
until 30/04/2015

Charlotte Britz
Mayor
from 01/05/2015

Further members:

Dr. Gerhard Bauer, Peter Bauer, Roland Bentz, Karin Bernhard, Pia-Maria Blankenburg, Berthold David, Winfried Jung, Günther Karcher, Timo Lehberger, Thomas Linnemann-Emden, Klaus Meiser, Norbert Moy, Volker Schmidt, Frank Schuler, Jörg Schwindling, Peter Strobel, Karlheinz Wiesen, Rainer Ziebold

Address

Neumarkt 17
D-66117 Saarbrücken

Postal address
D-66104 Saarbrücken

Telephone
+49 681 504-0

Fax
+49 681 504-2199

Telex
4 421 343 sbrk d

SWIFT Code
SAKS DE55

Email
service@sk-sb.de

Internet
<http://www.spk-sb.de>

C A-class correspondent banks

France	Banque Fédérative du Crédit Mutuel	Paris	CMCI	FR	PA
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
Germany	Commerzbank AG	Frankfurt am Main	COBA	DE	FF
Germany	Landesbank Baden-Württemberg	Stuttgart	SOLA	DE	ST
Germany	Landesbank Hessen-Thüringen	Frankfurt am Main	HELA	DE	FF
Germany	Landesbank Saar	Saarbrücken	SALA	DE	55

D Balance sheet as of 31 December 2015

	31/12/2014		EUR € 000
	EUR	EUR	
Assets			
1. Cash reserve			
a) Cash and cash items		46,062,269.93	49,882
b) Balances held with Deutsche Bundesbank		28,538,562.16	48,805
		74,600,832.09	98,687
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. Loans to financial institutions			
a) Due daily		7,944,197.54	9,650
b) Other claims		108,482,947.86	170,174
		116,427,145.40	179,824
4. Claims on customers		4,346,541,327.24	4,211,368
of which			
secured by mortgage	EUR 1,485,613,038.27		(1,412,077)
Local authority lending	EUR 1,269,097,119.24		(1,363,318)
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		507,276,613.20	378,030
of which: eligible as collateral at the Deutsche Bundesbank	EUR 507,276,613.20		(378,030)
bb) From other issuers		1,146,453,877.25	1,295,059
of which: eligible as collateral at the Deutsche Bundesbank	EUR 1,061,295,913.09		(1,193,881)
		1,653,730,490.45	1,673,089
c) Own bonds		0.00	0
Nominal amount	EUR 0.00		(0)
		1,653,730,490.45	1,673,089
6. Shares and other non-fixed-income securities		548,029,764.25	518,775
6a) Trade account		0.00	0
7. Participations		46,132,761.45	45,755
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		331,238.20	324
of which: Fiduciary credits	EUR 331,238.20		(324)
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		339,229.00	396
c) Goodwill		0.00	0
d) Performed down payments		0.00	0
		339,229.00	396
12. Tangible assets		26,317,848.44	29,244
13. Other assets		9,211,718.77	5,264
14. Accruals		354,513.75	386
15. Deferred tax assets		0.00	0
16. Pro rata balance from off-setting assets		0.00	0
Total assets		6,822,164,869.04	6,763,261

	31/12/2014		EUR €000
	EUR	EUR	
Liabilities			
1. Owed to financial institutions			
a) Due daily		589,935,549.33	213,099
b) With agreed term or notice period		1,350,137,714.93	1,539,149
		1,940,073,264.26	1,752,248
2. Liabilities to customers			
a) Savings deposits			
aa) With agreed period of notice of three months		2,171,429,806.93	2,227,856
ab) With agreed period of notice of more than three months		21,684,940.24	19,038
		2,193,114,747.17	2,246,894
b) Other liabilities			
ba) Due daily		1,499,781,821.49	1,949,631
bb) With agreed term or period of notice		659,943,603.50	299,832
		2,159,725,424.99	2,249,463
		4,352,840,172.16	4,496,357
3. Securitised liabilities			
a) Bonds issued		70,836,051.82	71,856
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)
		70,836,051.82	71,856
3a) Trade account		0.00	0
4. Trustee liabilities		331,238.20	324
of which: Fiduciary credits	EUR 331,238.20		(324)
5. Other liabilities		4,236,899.25	7,021
6. Accruals		737,834.60	922
7. Provisions			
a) Provisions for pensions and similar commitments		12,180,812.00	11,644
b) Tax reserves		1,243,357.00	281
c) Other reserves		19,087,662.15	18,839
		32,511,831.15	30,764
8. Special tax-allowable reserve		0.00	0
9. Subordinated liabilities		33,474,020.94	33,474
10. Participatory capital		0.00	0
of which: maturing within two years	EUR 0.00		(0)
11. Fund for general banking risks		105,000,000.00	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		273,587,728.21	266,763
cb) Other reserves		0.00	0
		273,587,728.21	266,763
d) Unappropriated surplus		8,535,828.45	8,531
		282,123,556.66	275,294
Total of liabilities		6,822,164,869.04	6,763,261
1. Contingent liabilities			
a) Contingent liabilities from passed-on settled bills of exchange		0.00	0
b) Liabilities from sureties and guaranty agreements		135,409,553.65	142,083
c) Liability from the provision of collateral for third-party liabilities		3,212,900.30	2,835
		138,622,453.95	144,918
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		174,901,256.94	94,982
		174,901,256.94	94,982

E Profit-and-loss account for 2015

	EUR	EUR	EUR	€ 000
01/01 - 31/12/2014				
1. Interest income from				
a) Lending and money market business		135,707,961.63		146,066
of which: from discounting provisions	EUR 0.00			(0)
b) Fixed-income securities and debt register claims		24,733,565.53		24,022
		160,441,527.16		170,088
		37,645,624.08		51,609
2. Interest expenditure			122,795,903.08	(831)
of which: from marking up provisions	EUR 808,238.73			118,479
3. Current income from				
a) Shares and other non-fixed-interest securities		13,828,348.95		14,867
b) Participations		3,172,143.06		795
c) Shares in affiliated companies		0.00		29
			17,000,492.01	15,691
4. Income from profit pools and full or partial profit transfer agreements			1,953,279.83	1,895
5. Commission income		29,194,814.45		28,485
6. Commission expenditure		4,305,236.12		4,068
			24,889,578.33	24,417
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			9,655,115.32	3,628
of which: from foreign currency conversions	EUR 83,730.66			(62)
9. Income from the release of the special tax-allowable reserve			0.00	0
			176,294,368.57	164,111
10. General administrative costs				
a) Personnel costs				
aa) Wages and salaries		52,984,598.17		53,036
ab) Contributions and expenditure for old-age care and support		15,985,451.03		16,229
of which: for old-age care	EUR 5,898,456.77		68,970,049.20	(6,296)
b) Other administrative expenses			32,993,048.14	29,635
			101,963,097.34	98,900
11. Depreciation and amortisation of intangible assets and properties			4,737,978.66	4,756
12. Other operating expenditure			13,008,169.27	24,495
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		24,610,700.22		17,459
14. Income from write-ups of receivables and certain securities as well as release of provisions for lending business		0.00		0
			24,610,700.22	17,459
15. Value adjustments and write-downs on participations, shares in related companies and securities treated as fixed assets		0.00		0
16. Income from write-ups on participations, shares in related companies and securities treated as fixed assets		876,759.18		1,917
			876,759.18	1,917
17. Loss-absorption expenses			635,161.56	659
18. Allocations to the fund for general banking risks			10,000,000.00	0
19. Results from ordinary business activities			22,216,020.70	19,758
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		13,518,531.21		11,047
of which: Changes in deferred taxation as per Article 274, HGB	EUR 0.00			(0)
24. Other taxes not included in Item 12		161,661.04		179
			13,680,192.25	11,226
25. Surplus for the year			8,535,828.45	8,531
26. Profit/loss carried forward from the previous year			0.00	0
			8,535,828.45	8,531
27. Withdrawals from revenue reserves				
a) From contingent reserve		0.00		0
b) From other reserves		0.00		0
			0.00	0
			8,535,828.45	8,531
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			8,531,054.57	8,531

F At a glance

Position	As at	As at	Changes	
	31/12/2015	31/12/2014	2015	%
	EUR million	EUR million	EUR million	%
Total assets	6,822.1	6,763.3	58.8	0.9
Business volume *	6,960.7	6,908.2	52.5	0.8
Deposits from customers	4,386.3	4,529.9	-143.6	-3.2
of which:				
Savings deposits	2,193.1	2,246.9	-53.8	-2.4
Non-certificated liabilities	2,159.7	2,249.5	-89.8	-4.0
Securitized liabilities	0.0	0.0	0.0	0.0
Subordinated liabilities	33.5	33.5	0.0	0.0
Liabilities to financial institutions	2,011.8	1,824.1	187.7	10.3
of which:				
Subordinated liabilities	0.0	0.0	0.0	0.0
Securitized liabilities	70.8	71.9	-1.1	-1.5
Other liabilities	175.5	183.9	-8.4	-4.6
(Including contingent liabilities and provisions)				
Equity	387.1	370.3	16.8	4.5
(Including fund for general banking risks)				
Volume of loans to customers	4,485.4	4,356.6	128.8	3.0
of which:				
Claims on customers	4,346.5	4,211.4	135.1	3.2
Trustee assets	0.3	0.3	0.0	0.0
Guarantee loans	138.6	144.9	-6.3	-4.3
Loans to financial institutions	116.4	179.8	-63.4	-35.3
Investments in securities	2,201.7	2,191.9	9.8	0.4
Fixed assets	72.9	75.5	-2.6	-3.4
Other assets	84.2	104.3	-20.1	-19.3
Surplus for the year	8.5	8.5	0.0	0.0

* Total footings plus contingent liabilities

Basis: Balance sheet figures as of 31 March 2016

G Annexes to the annual financial statements purs. to § 26a para. 1 sentence 2 KWG as of 31 December 2015 ("Country-specific reporting")

The Sparkasse Saarbrücken has no branch offices abroad. All of the following information results from the annual financial statement as of 31 December 2015 and refers only to the business activities as a regionally active savings bank in the Federal Republic of Germany. The work of the Sparkasse Saarbrücken essentially consists of receiving deposits or other repayable moneys from private people and business customers and granting loans for the own account.

Sparkasse Saarbrücken defines turnover as the result from the following components of the profit-and-loss statement according to the HGB: Interest revenues, interest expenses, current revenues from shares, etc., revenues

from profit pools, etc., commission income, commission expenses, other operational income. The turnover for the period from 01 January to 31 December 2015 is *176,294 kEUR.

The number of wage and salary recipients in full-time equivalents is 942.57 employees at the end of the year.

The profit before taxes according to the commercial profit and loss statement is 22,216 kEUR; the taxes reported according to this for the profit amount to 13,519 kEUR.

Sparkasse Saarbrücken did not receive any public subsidies in the business year.

Sparkasse Saarbrücken

Neumarkt 17

66117 Saarbrücken

Telephone: +49 (0)681 / 5 04-0

Telefax: +49 (0)681 / 5 04-21 99

Email: service@sk-sb.de

Internet: sparkasse-saarbruecken.de