

**Management Report
Balance Sheet
Profit and Loss
Account**

2001



The Annual Report of Sparkasse Saarbrücken is published in full in the Federal Official Gazette and carries the unqualified audit certificate of the auditing agency of the Sparkassen- und Giroverband Saar.

Sparkasse Saarbrücken Management Report

2

I. Business performance

1. Economic development

In 2001, the dominant feature of the economy's development was its weakness. In the second half of the year, Germany was in what technically speaking is termed a recession: two back-to-back quarters in which the production of goods and services in the economy as a whole declines. Seen from a year-on-year perspective, gross domestic product grew by a mere 0.6%.

Growth forecasts of 2.5 to 3% that had been forecast at the beginning of 2001 were thus clearly not met. The area of investment was the main disappointment here. Activity in the construction sector and investment in equipment and machinery became weaker from quarter to quarter. Stimulated by cuts in taxation, consumer spending had risen sharply during the first half of the year, so much so that it was able to offset the decline in investment spending during the same period. The second six months, however, were marked by a collapse in the demand from abroad, above all due to the global economic downturn in the aftermath of the events of 11 September. Consumers who were already nervous now decided to cut their spending with recession as the inevitable consequence. Nonetheless, seen from an historical point of view, this recession could be termed a minor downturn.

The Saarland's economy held up well during 2001. At approximately 1.1%, gross domestic product grew disproportionately strongly as compared with Germany's other federal states. The Saarland benefited above all from the positive trend in vehicle manufacture and the steel industry, both of which saw an increase in production and sales. Trade, gastronomy and large areas of the service sector such as data processing, telecommunications, banking and insurance provided the economy with positive stimulus. The situation in the coal-mining and construction sectors continued to be of concern.

2. Total assets and volume of business

Sparkasse Saarbrücken was able to continue the previous year's satisfactory growth in 2001. The volume of business increased by 247.3 million euros (+ 4.4%) to 5,809.8 million euros, while total assets rose by 244.3 million euros (+ 4.6%) to 5,575.3 million euros. The mainstay of growth were the loans to banks.

3. Lending operations

Sparkasse Saarbrücken continued its policy of managed growth in its lending operations. It granted new loans to companies, private customers and municipalities amounting to a total of 329.6 million euros, up from 276.4 million euros in the previous year (+ 19.2%). Total lendings (including trustee loans) rose by 4.1% to 3,285.4 million euros. Growth was seen above all in the area of loans to municipalities at 65.9 million euros (+ 10.3%) and real estate loans at 20.4 million euros (+ 1.9%).

4. Equity investments

Sparkasse Saarbrücken's equity investments and shares in affiliated companies decreased by 0.3 million euros to 38.4 million euros, a development attributable to the company reducing its shareholding in SAARLAND Feuerversicherungs AG.

5. Deposit business

The Sparkasse funded its growth in the main through an increase in its liabilities to banks (+ 177.9 million euros). Total liabilities to customers rose by 1.8% to 3,863.1 million euros.

Savings deposits increased by 142.1 million euros to 1,883.6 million euros, the most popular savings products being 'Growth' savings up by 119.2 million euros (+ 19.4%), standard savings deposits up by 94.2 million euros (+ 12.6%) and the flexible S-premium-linked savings plan with an increase of 9.7 million euros (+ 10.9%). By contrast, Sparkasse bonds



fell by 67.7 million euros (- 29.6%), tax-deductible savings were down by 9.4 million euros (- 25.6%) and the S-premium-linked savings plan declined by 3.9 million euros (- 14.8%).

Customer term deposits decreased by 50.8 million euros (- 14.3%) to 304.1 million euros. Savings bank certificates incl. S-Rentaplan also fell by 9.3 million euros (- 1.7%) to 525.7 million euros.

Our customer deposits including the Sparkasse's own debt issues account for 66.5% of the total volume of business. This is in line with our objectives regarding the management of the balance sheet structure.

II. Staff and welfare

At the end of 2001, normal fluctuation had caused the total number of employees including management to decline by 0.4% over the end of 2000 to 1,363. The average number of staff in 2001 fell by 1.0% to 1,353. Expenditure on staff increased by 0.5% to 60.9 million euros. This was due to salary increases in connection with the banking sector salary agreement.

In view of the ongoing further development of Sparkasse operations and introduction of technical innovations, the focused support and development of our staff continues to constitute one of the main areas of personnel work.

To encourage more flexible and, consequently, more cost-effective working time arrangements, our employees have a variety of options including flexible working hours, part-time working and semi-retirement.

III. Assets

After the adoption of the annual financial statements and the transfer from net income for the year, which has yet to be approved, the contingency reserve will amount to 180.9 million euros, an increase of 4.4% over the previous year. In addition to the contingency reserve, Saarbrücken Sparkasse also has extensive additional equity capital components at its disposal. At 10.1%, the ratio of liable equity capital, measured according to § 10 KWG (German Banking Act), in relation to the sum of weighted risk assets and market risk positions as at 31 December 2001 exceeds the statutory minimum of 8%. The Sparkasse's equity capital thus provides a secure basis for future business expansion.

No significant shifts occurred in the balance sheet structure in the year under review. As a proportion of total business volume, the main items on the asset side were lendings to private customers at 56.5% and securities at 24.5%, while on the liabilities side, these were liabilities to private customers including securitised debt issued at 66.5% as well as liabilities to banks at 25.1%.

The loan-loss provisions and reserves amply cover risks in lending operations and Sparkasse Saarbrücken's other commitments.

Other assets have also been valued prudently.

Sparkasse Saarbrücken has undisclosed reserves both pursuant to § 340 f HGB (Commercial Code) and in respect of its fixed assets.

IV. Financial position

Sparkasse Saarbrücken's solvency was guaranteed at all times during the year under review thanks to its liquidity planning. No problems are expected in this regard in the current financial year either.

Partial use was made of the credit facilities extended by Deutsche Bundesbank und SaarLB Landesbank Saar Girozentrale. The option offered by Deutsche Bundesbank of conducting funding operations in the form of open-market transactions and permanent overnight loans was exercised to varying degrees.

Appropriate assets were maintained at the responsible central bank in order to comply with minimum requirements.

V. Earnings position

Net income for the 2001 financial year increased by 1.1% to 8.5 million euros over the previous year. Operating profit before risk provisioning and valuation as at 31.12.2001 fell by 6.0 million euros (- 21.3%) over the previous year to 22.3 million euros, while operating profit after risk provisioning declined by 18.2 million euros (- 49.1%) to 18.9 million euros. Sparkasse Saarbrücken's earnings can therefore still not be considered satisfactory in all areas, particularly with regard to the contribution net interest income made to the operating profit.

Operating profit before risk provisioning and valuation breaks down as follows:

Item	31.12.2001 million euros	31.12.2000 million euros	Change in %
Net interest income	96.5	99.0	./ 2.5
Net commission income	19.3	20.5	./ 5.7
Net trading income	0.4	0.3	9.5
Administrative expenditure	94.8	92.3	2.7
Other ordinary income	0.9	0.8	12.8
Operating profit before risk provisioning/ valuation and taxes	22.3	28.3	./ 21.3

Net interest income decreased by 2.5 million euros (- 2.5%) over the previous year to 96.5 million euros. This is attributable primarily to a rise in interest rates, which has made near-money market variable deposits more expensive, thus incurring increased interest expenditure combined with the fact that the fixed-interest arrangements agreed by way of liabilities to customers meant that the costs could not be passed on completely. Sparkasse Saarbrücken's interest margin expressed as an average for total assets for the year was 1.79%, down from the 1.89% of the previous year. Despite the decline in the interest margin over the past years, interest-earning operations continue to be our main source of income.

Net commission income decreased by 1.2 million euros (- 5.7%). This was attributable above all to a decline in commission income from securities transactions with private customers due to a fall in sales. The ratio of net commission income to net interest income was 20.0% compared to the 20.7% of the previous year.

Net earnings from financial transactions comprising trading in securities, foreign exchange and derivatives improved marginally over the previous year to 0.4 million euros. This was due in the main to the increased earnings in securities trading. Derivative-based transactions were carried out primarily on our own behalf for security purposes.

Administrative costs rose by 2.5 million euros to 94.8 million euros. Of this, personnel costs including social security contributions and expenditure for retirement benefits and support payments increased by 0.5% to 60.9 million euros as a result of the salary increase pursuant to the banking sector salary agreement.

Operating expenditure increased by 6.9% to 33.9 million euros. This is attributable in the main to the rise in EDP costs over the previous year, higher expenditure on the maintenance and usage of sites and buildings as well as to promotional costs and expenditure on other tangible assets.

Also included in this are the depreciation/ amortisation charges and valuation adjustments on both tangible and intangible assets, which declined by 1.0 million euros (- 12.6%) to 6.7 million euros.

In total, net income (Profit and Loss Statement items 1 to 9) declined by 0.4% to 126.1 million euros. At the same time, total expenditure (Profit and Loss Statement items 10 to 12) fell by 1.7% to 98.0 million euros. The cost-to-income ratio stood at 77.7%, a marginal improvement over the 78.7% of the previous year. A further improvement in this ratio will be a focus of our work in the coming year.

Writedowns and value adjustments on loans less writeups and payments on written-off loans amounted to - 9.9 million euros compared to - 0.1 million euros in the previous year. This is attributable to the rise in transfers to the individual value adjustments and the simultaneous significant reduction in the writing back of individual value adjustments.

The valuation result from security transactions declined by 2.1 million euros over the previous year. This was due above all to an increase in share price writedowns.

The pre-existing provisions made for risks arising from contractual loopholes in the case of fund-financing that may be the consequence of recent legislation concerning the right of cancellation by authorised persons were increased accordingly.

All told, we recorded net income for the year of 8.5 million euros after tax of 7.1 million euros, in line with our expectations. This allows us to increase our equity capital sufficiently to provide for the future expansion of our business. The Management Board will propose to the

Administrative Board that 10% of net income, i.e. 0.8 million euros, be donated to the Sparkassenzweckverband für gemeinnützige Zwecke (Savings Bank Association for Charitable Causes). The remaining 7.7 million euros are to be transferred to the contingency reserve upon the approval of the annual accounts.

VI. Risk management

The conscious assumption, active management and specific transformation of risks are among the core functions of banks. The major risks of banking operations include counterparty default risk, market price risk and liquidity risk. We have set up a risk management and controlling system to evaluate, manage, analyse and monitor these risks.

Counterparty default risk, i.e. the risk of partial or complete default by business partners, is limited by the careful selection of our contractual partners, based on the rules for determining credit standing, as well as by imposing limits with respect to the partner, magnitude, sectoral structure, collateral structure, risk structure etc. In our lendings to customers, we use a PC credit rating procedure developed by the DSGV (German Savings Bank Association) for the purpose of risk rating as well as for global and individual risk management.

Market price risks are potential revenue losses resulting from price fluctuations in the financial markets. The aim of managing these risks is to exploit profit opportunities without jeopardising financial resources. Sparkasse Saarbrücken's value-at-risk approach forms the basis of quantifying these market price risks. This procedure quantifies the potential loss of value of a position over a holding period of 10 trading days which has a 95% probability of not being exceeded. The market parameters used for the risk assessment are regularly back-tested. In addition to the daily risk reporting, scenarios are calculated to simulate unusual market trends. The market price risks are managed by a system of limits that was approved by the Management Board.

The liquidity risk, i.e. the risk of not having sufficient market liquidity in individual products to enter contracts or to enter them on the expected terms, is also included in risk management and controlling.

VII. Outlook

Measured in terms of industrial capacity utilisation, the downward trend in the German economy should bottom out during the first quarter of 2002. Business climate indicators are pointing towards a marked increase in production for both Germany and Europe as a whole over the coming months. The reduction in inventory levels has been completed; the construction industry ought to have less of a dampening effect. Moreover, the global economic prospects have improved significantly, not least due to the aggressive stimulus to the US economy provided by the US government's money and finance policy. Germany and Europe can therefore expect to benefit from the resultant boost in demand from overseas. It is against this backdrop that the rise in the gross domestic product in 2002 is forecast to exceed the 2001 level. Real growth of around 1% would seem to be currently realistic for Germany.

The relevant growth forecasts for the Saarland are currently not available, but there are grounds for optimism. One reason for this is the fact that the order books continue to be relatively full and industrial capacity utilisation relatively high compared with the situation in Germany as a whole. Additionally, corporate investment confidence appears to be relatively robust. Furthermore, the business climate index produced by the IHK Saar (Saar Chamber of Industry and Commerce) on a monthly basis showed a sharp increase in January and February 2002. Above all, business prospects showed a significant improvement. There are therefore good reasons for hoping that the Saarland economy will record growth approximately as high as the German economy as a whole in the current year.

Increasing levels of competition, rapid technological progress, globalisation and ever more demanding customers will continue to characterise the banking environment. Margins as well as prices in general will remain under pressure. We will meet these challenges by pushing ahead with our current policy of offering our customers effective products tailored to their needs. This will be underpinned by the restruc-

turing of our sales channels that is already under way.

We are further committed to continuing our concerted and resolute efforts to achieve our goal of improving our cost-to-income ratio.

In the area of risk provisioning for our lending operations, we anticipate a development in line with that of the previous year. The anticipated increase in interest rates is expected to have a negative impact on the valuation result in our securities business.

On the basis of information currently available, projected Operating Profit I for 2002 will increase by approximately one quarter. This will be sufficient to meet all the risk provision measures we may need to take. In view of the funds distributed by the Sparkassen- und Giroverband Saar (Saarland Savings Bank Association) from its sale of SaarLB shares, net earnings for 2002 are likely to be significantly up on those of the previous year.

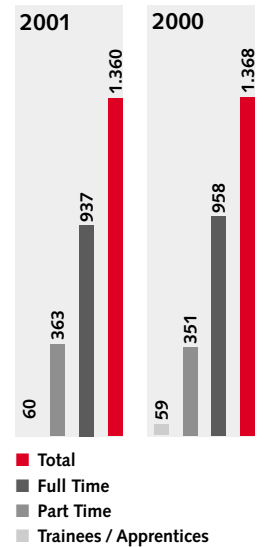
The Sparkasse Saarbrücken

8

Our branches



Average employee members



Board of managing directors in 2001

Dieter Klepper
Chairman

Hansjörg Huber
Vice-Chairman

Uwe Kuntz

Hans-Werner Sander
from 19.11.2001

Advisory board of the Sparkasse in 2001

Chairman
until 30.04.2001
Hajo Hoffmann
Oberbürgermeister

from 01.05.2001
Michael Burkert
Stadtverbandspräsident

Vice-Chairman
until 30.04.2001
Michael Burkert
Stadtverbandspräsident

from 01.05.2001
Hajo Hoffmann
Oberbürgermeister

Further Members

Dr. Gerhard Bauer
Roland Bentz
Kajo Breuer
Karl Caspers
Annemie Christoph
Jörg Ehm
Manfred Hajo
Manfred Maurer
Christiane Scherwarth
Volker Schmidt
Walter Schneider
Manfred Seiler
Gerhard Sendel
Engelbert Thiel
Gerhard Walter
Stephan Westhofen
Gert Wiebe
Karlheinz Wiesen

Address

Neumarkt 17
D-66117 Saarbrücken
Postal address
D-66104 Saarbrücken
Telephone
(681) 5 04 – 0
Telefax
(681) 5 04 – 21 99
Telex
4 421 343 sbrk d
SWIFT-Code
SAKS DE 55
eMail
service@sparkasse
-saarbruecken.de
Internet
<http://www.spk-sb.de>

Legal form

A public welfare trustee institution incorporated under public law

The Sparkasse Saarbrücken is a member of the Sparkassen- und Giroverband Saar and thus also of the Sparkassen- und Giroverband e.V., Berlin/Bonn, a national organization for auditing and general consulting. Guarantor for the Sparkassenzweckverband Saarbrücken, which consists of the Stadtverband Saarbrücken (council of Saarbrücken and the surrounding cities) and the Stadt Saarbrücken (city of Saarbrücken).

Commercial Register

Saarbrücken, A 8590

Foreign correspondents – reimbursing agents

Austria	Bank Austria AG	Vienna	BKAU	AT	WW
	Dornbirner Sparkasse	Dornbirn	DOSP	AT	2D
Belgium	Banques Bruxelles Lambert S.A.	Bruxelles	BBRU	BE	BB 010
	FORTIS BANK	Bruxelles	GEBA	BE	BB 36A
	KBC Bank N.V.	Bruxelles	KRED	BE	BB
Canada	Bank of Montreal	Montreal	BOFM	CA	M2
Denmark	Den Danske Bank	Copenhagen	DABA	DK	KK
Finland	NORDEA Bank	Helsinki	MRIT	FI	HH
France	Banque Fédérative du Crédit Mutuel	Strasbourg	CMCI	FR	PA
	Banque Populaire de Lorraine	Metz	BPLM	FR	2M
	Caisse d'Épargne de Lorraine-Nord	Metz	CEPA	FR	PP 575
	Caisse Centrale des Caisses d'Épargne	Paris	CEPA	FR	PP
	Caisse Nationale de Crédit Agricole	Paris	AGRI	FR	PP
	Crédit Industriel d'Alsace et de Lorraine	Strasbourg	CMCI	FR	2S
Germany	Dresdner Bank	Frankfurt	DRES	DE	FF
	Landesbank Hessen-Thüringen	Frankfurt	HELA	DE	FF
Hong Kong	Hongkong and Shanghai Banking Corp.	Hong Kong	HSBC	HK	HHHKH
Ireland	AIB Allied Irish Bank	Dublin	AIBK	IE	2D
Italy	Südtiroler Landessparkasse	Bozen	CRBZ	IT	2B
Japan	Sumitomo Mitsui Banking Corp.	Tokyo	SMIT	JP	JT
Luxembourg	Banque et Caisse d'Épargne de l'Etat	Luxembourg	BCEE	LU	LL
	Banque Générale du Luxembourg	Luxembourg	BGLL	LU	LL
Norway	Union Bank of Norway	Oslo	UBNO	NO	KK
Portugal	Banco Espirito Santo e Comercial de Lisboa	Lisboa	BESC	PT	PL
Spain	Banco Popular Espanol	Madrid	POPU	ES	MM
	Deutsche Bank S.A. ESPANOLA	Barcelona	DEUT	ES	BB
Sweden	Nordbanken	Stockholm	NBBK	SE	SS
Switzerland	Bank CIAL Schweiz AG	Basel	CIAL	CH	BB
United Kingdom	Barclays Bank International	London	BARC	GB	22
	The Royal Bank of Scotland	London	RBOS	GB	2L
USA	The Bank of New York	New York	IRVT	US	3N