



Finance Group

German Savings Banks Association

Statement

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Ladies and gentlemen,

Actually, we had planned to present the key financials of the Savings Banks Finance Group for 2019 today in the tried and tested format. And that is what I will also do in a moment, in an abbreviated form. Within a few days, however, a completely new situation has developed all over the world due to the coronavirus, which has changed all our previous priorities and which requires all of us to adopt a completely new way of thinking.

All of us are facing the biggest challenge of the past sixty years – including the financial crisis slightly more than 10 years ago. We will need to mobilise all our strengths, all our reserves and our whole society to overcome this crisis. Together, however, we will be successful. We will defeat the virus. There will come a time after corona. We now need to see this out together and support each other.

What action is required now?

Top priority must be given to protecting people for whom the virus poses a high risk. These are above all older people and people with chronic illnesses. Further transmission of the virus must be stopped and the rate of infections must be slowed down so that our health care system can remain effective.

For this reason, we will need to limit our social contacts to the absolute minimum for a certain period of time. This means that younger, more efficient and more robust people need to show consideration for older people and people with existing conditions by refraining from social contacts for a limited period of time. And for this reason, economic interests must take second place to protecting life and limb – that is clear.

We fully support the measures adopted by Germany's federal government, the state-level governments and the competent authorities.

The challenge is that we will need to do all this while at the same time maintaining public and operational infrastructure. With a view to Savings Banks, I know what I'm talking about.

Because of the significant restrictions that need to be imposed on public life and on many people who cannot work at all or only to a very limited extent, we will have to expect a very significant economic slump in the next few months – worldwide, in Europe and in Germany. And all of this at the same time. And we must do whatever we can to ensure that this health and economic crisis does not lead to a financial crisis as well. In line with the decisions taken by the German government, the institutions of the Savings Banks Finance Group will therefore concentrate on two points:

First: The Savings Banks Finance Group has business relationships with roughly two-thirds of Germany's enterprises. Many of them will very quickly reach the limits of their financial capacity due to the de-facto standstill of public life.

The **most important function** of Savings Banks and Landesbanken is to help these enterprises and freelancers come through this dark period and to save them from economic collapse. The liquidity and credit support programme launched by the German government was a solid and necessary basis.

It is crucial to help enterprises and individuals who, under normal circumstances, would not have any access to loans. Only Savings Banks and cooperative banks are able to implement such a programme nationwide in Germany.

It is very important for us that the support reaches those really affected by the crisis quickly and effectively. To this end, the German Banking Industry Committee (GBIC) has agreed the necessary terms with the KfW banking group (Credit Institute for Reconstruction) and in very close cooperation with the Federal Ministry of Finance.

As of Monday, customers can now file applications via the usual channels. KfW has promised to provide the necessary detailed information tomorrow, Friday. However, I can already inform you about some key elements that were important to us and that were agreed as such.

- The purpose of the programmes is to provide immediate support to enterprises affected by the crisis. Where necessary, suspending redemption payments is also an option, as of the next due date on 31 March 2020, where possible.
- For many enterprises, time is now of the essence. And Savings Banks are able to grant enterprises very fast loans to meet their liquidity needs. However, this will require a release from liability. Germany's Savings Banks will ease the burden on KfW by carrying out a risk assessment that KfW can rely on. This will considerably accelerate the process, compared with otherwise standard programmes, and it will be very helpful in the current situation.

KfW has expanded its existing liquidity support programmes to facilitate access for enterprises to low-interest loans, including the *KfW-Unternehmerkredit für Bestandsunternehmen* (KfW corporate loan for existing companies), the *ERP-Gründerkredit-Universell* (ERP start-up loan universal) and the *KfW-Kredit für Wachstum für größere Unternehmen* (KfW loan for growth for larger enterprises). Enterprises will be able to apply for these loans via their principal banks during this first phase of the support package.

- For small and medium-sized enterprises, as well as for large companies, KfW will introduce a new *KfW-Sonderprogramm mit erhöhter Risikotoleranz* (KfW special programme with higher risk tolerance). This programme can be used by enterprises which have run into major financing difficulties due to the coronavirus crisis.
- In addition, KfW will provide direct investments within the framework of syndicated financing (*Direktbeteiligungen im Rahmen von Konsortialfinanzierungen*) for larger companies.
- Moreover, we are conducting talks designed to convince the Federal Ministry of Finance that a programme (of grants) is needed specifically for freelancers, artists and self-employed persons – a programme that can quickly take effect and that can be implemented unbureaucratically. To this end, we are currently developing a fast and uncomplicated process for handling applications.

All of this requires great personal dedication and entrepreneurship over and beyond our conventional methods from the employees of Savings Banks and of companies associated with the Savings Banks Finance Group. Some things are currently subject to general restrictions. We are making full use of all our resources. We are jointly ready to provide very fast support to affected enterprises so as to prevent a broad economic slump.

I promise that the German Savings Banks Finance Group will amply fulfil its public service mission.

The second priority we are currently focusing on is maintaining an efficient financial – and above all payments – infrastructure.

About 50 percent of German payment transactions are handled via our networks. Roughly 40 percent of all the employees in the German financial sector are employed in our Group. We operate about one-third of all German bank branches. We are aware of our responsibility for maintaining this infrastructure in the next few weeks.

And I will say quite clearly: We will do whatever is technically and humanly possible to ensure that there will be no fundamental malfunctions.

Cash supply will be fully guaranteed. Should a cash dispenser in Germany be out of order, then this will be due to a defect and not a crisis symptom! However, we recommend contactless

payments by card or smartphone. This will significantly reduce the risk of infection. It is also in line with the recommendations of the World Health Organisation (WHO).

Branches currently need to be closed at quite a number of locations, due to, in some cases, preventive health measures, isolated illness, agreements with health authorities; in most cases, it is the very practical question of child care. Savings Banks have reorganised their resources so that they can remain functional when staff members are temporarily absent.

Ladies and gentlemen, all of us will have to learn to live with the virus in the next few weeks. And we will succeed. And for a moment, I would also like to point out that I'm proud of my colleagues.

In very many places in Germany and in very many occupations, people are currently doing a tremendous job. This also applies to Savings Banks, Landesbanken and companies associated with the Savings Banks Finance Group. This shows what our country is capable of when it matters. We will be able to build on this if the situation gets worse.

II. 2019 key financials

Ladies and gentlemen, Germany's Savings Banks will respond to this crisis from a position of strength. I will illustrate this by presenting just a few financials:

In the past year, our institutions granted more **loans** in the retail business than ever before. At EUR 170 billion, the previous year's level and record high was surpassed by EUR 11.6 billion, which constituted an increase of 7.3 percent. As a result, the customer loan portfolio of Savings Banks increased by EUR 38.2 billion (+4.6 percent) to EUR 861.1 billion.

As principal banks of SMEs and craft establishments, Savings Banks once again financed more investments in 2019 than in 2018.

New commitments for loans to enterprises and self-employed persons increased by EUR 4.1 billion¹ to EUR 93.3 billion. The **portfolio of loans to enterprises and self-employed persons** increased on an unprecedented scale (EUR +24.1 billion) to a new record high of EUR +443.8 billion, which corresponds to an increase of 5.7 percent.

Many small and medium-sized enterprises have funds available at short notice that can serve as a buffer during the crisis. Overall, Savings Banks hold EUR 148.3 billion in safe custody for these clients, of which sight deposits account for EUR 120 billion.

¹ An increase of 4.6 percent

Last year, **new loans to retail customers** showed a very positive development. Residential housing loans accounted for EUR 59 billion of the EUR 69.9 billion in new loans. This reflects an increase of 17.3 percent. No-one helps more people to acquire their own four walls than Savings Banks. They now hold a market share of 35.2 percent in residential housing loans.²

We expect this dynamic growth to continue unabated after the disruptions due to the coronavirus because the need for housing will continue undiminished.

In fiscal year 2019, **deposits from private individuals** increased by EUR 37.2 billion to EUR 780.6 billion, which is an increase of 5 percent. With interest rates persistently low, cash inflows were limited almost exclusively to sight deposits. However, this also means that large sections of the population – unfortunately not all of them – have significant cash and cash equivalents at their disposal to cushion the effects of the current crisis.

It goes without saying that the capital markets are suffering particularly from the current situation. As all of you know, Germany's DAX index has fallen to historic lows. In 2019, we still saw brisk activity in the **securities trading business**. Total sales in the customer securities trading business amounted to approx. EUR 111 billion, 5.3 percent more than in 2018. In 2019, new customer investments in securities amounted to EUR 10.8 billion as a bottom line, i.e. net, of which EUR 9.8 billion – i.e. by far the largest part – was placed in investment funds. Once conditions have returned to normal, we will report in somewhat greater detail about how sustainable factors are being integrated into advisory services for securities.

If we include the home savings and loan business and the life assurance business attributable to Savings Banks, customers made new investments with their Savings Bank, either directly or indirectly, amounting to EUR 58.8 billion. Compared with the previous year, this was an increase by 6.1 percent – another new record high.

III. Profitability of Savings Banks

Ladies and gentlemen, the key financials demonstrate that Savings Banks were very successful in their actual business with customers in 2019. However, despite the substantial increase in their lending and deposit business, due to the low interest rate they earned less and less. More specifically, their net interest income fell by EUR 557 million in 2019 to EUR 20.2 billion. This is a drop by 2.7 percent and the lowest level for 15 years.

² Market share in residential housing loans: +0.1 percent

It is foreseeable that Savings Banks' earnings will remain under pressure in the next few years. And this is still without factoring in the latest developments relating to the corona pandemic.

In 2019, Savings Banks successfully increased their **net commission income** by EUR 429 million, which enabled them to compensate for large parts of their falling net interest income. This was a commercial success. However, it will certainly not be possible to continue this trend in the next few years.

In the past year, the Savings Banks' **administrative expenses** increased by EUR 276 million to EUR 19.2 billion. This was due to an increase in personnel expenses (EUR +95 million) and also in non-personnel expenses (EUR +181 million). The fact that the salaries of our employees increased by over three percent played a major role in this context.

Last year, Savings Banks reduced their workforce by approx. 4,800 FTEs in a socially acceptable manner – usually through natural staff turnover. However, this was not sufficient to fully offset the pay rise.

The **operating result before valuation** was EUR 372 million lower than in the previous year³, amounting to EUR 9.6 billion.

Valuation expenses amounted to EUR 4.1 billion in 2019, which constituted a significant reduction by 10.5 percent.

Loan loss provisions amounted to EUR 537 million, which was approx. one-fifth of the amount we posted ten years ago. However, we can expect this factor to deteriorate significantly as of 2020 due to the corona crisis.

In 2019, **contingency reserves** were boosted **once again** by EUR 4.1 billion. In the past few years, we have continuously built up reserves so that we can make it through the difficult times ahead.

Earnings before taxes decreased by EUR 158 million to EUR 4.3 billion, of which EUR 2.5 billion was paid as taxes to the public purse.

What remains below the line is EUR 1.8 billion in net income after taxes, a stable performance compared with 2018. With a tier-1 ratio of 16.0 percent and a total capital ratio of 17.3 percent, Savings Banks display a very solid capital base overall.

³ -3.7 percent

IV. Business performance of major associated companies

Ladies and gentlemen, in view of the current situation, I will refrain from presenting the financials for the Finance Group's associated companies. You will find these figures in the documents. We should use the time instead to speak about the challenges we will be facing during the coronavirus crisis.

However, I would like to address one point: As you know, we are working to establish a Central Savings Banks Institution. An initial step to this end would be closer cooperation between Deka and Helaba.

A few days ago, the chief representatives of the executive boards of Germany's Savings Banks discussed the target operating model that has been developed. The next step would now be the decision to be taken by the shareholders of Deka and Helaba about a due diligence process.

However, we have decided that, in view of the current need for action by our institutions and decision-makers, this project will be temporarily suspended. We will resume the process unchanged as soon as the coronavirus has been defeated.

Now is not the time to deal with our own structures. Now, we will need to devote all our attention to our customers. We will need to help them get through the crisis in good shape. Then, we will also be in good shape. And then we will have every opportunity to implement our Central Institution.

Thank you very much for your attention.