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Management report for fiscal 2008

1 Underlying conditions

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

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

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

Economic development

In 2008, the German economy grew at a significantly weaker pace than in the two years before. While the real gross domestic product still increased 2.5 % and 2.9 % in 2007 and 2006, respectively, it grew a mere 1.3 % in 2008. The only growth drivers in 2008 came from within Germany. The strongest economic impetus came from investments in plant and equipment. Companies invested 5.3 % more in plant, equipment and vehicles than in the year before. Investments in construction projects also picked up noticeably (up 2.7 %). Government purchases rose 2.2 %, while private consumption stagnated. Growth in 2008 was curbed by net exports, i.e., the difference between exports and imports of goods and services. This was caused by a relatively low increase in exports (up 3.9 %), while imports went up 5.2 %.

The Saarland economy proved to be extremely robust until mid-2008; it grew 3.4 % in real terms compared to the same period the year before, outperforming all other German states. Then, however, the global financial crisis led to drastic cuts in the last quarter of 2008. They were caused by Saarland's strong focus on exports – nearly half of the state's industrial output is sold abroad – and its high exposure to the automotive industry, which has been severely affected by the crisis. Nonetheless, Saarland's overall economic development outperformed most other German states, growing 1.6 % in real terms during the entire year of 2008, while Germany reached 1.3 %.

After peaking at 3.6 % in the summer, the inflation rate was pulled down again by falling crude oil prices towards the end of the year, resulting in an annual average rate of 2.9 %. The labour market proved to (still) be robust, with an unemployment rate of 7.5 %.

Financial market crisis

After Lehman Brothers, a US investment bank, declared bankruptcy in the late summer of 2008, the financial market crisis picked up new momentum. The markets, who had previously assumed that no government would let a systemically important bank fail, were shocked by the Lehman events.

Lehman's collapse also had a greater impact on the markets than expected. The interbank market essentially seized up, risk premiums became extremely high, and refinancing costs skyrocketed to exorbitant levels. Market prices – especially the share prices of banks – plummeted everywhere.

Liquidity and confidence in the financial sector threatened to collapse completely. Governments suddenly had no choice but to set up rescue plans and bail-out packages. Banks were forced to make massive write-downs on their securities.

In early October, German policymakers first guaranteed all bank deposits. Then came the establishment of "Sonderfonds Finanzmarktstabilisierung" (SoFFin), a financial market stabilisation fund that can guarantee bank liabilities, assume risk positions in troubled assets and provide equity capital. Many banks were unable to obtain equity capital on the international capital market in the autumn of 2008.

The support measures for the financial industry were accompanied by monetary policy. In this situation, the European Central Bank had to act. First, the ECB lowered the key interest rate from 4.25 % to 2.50 % in several steps between October and December.

It also switched the tender procedures of its open market operations from variable rate tenders to fixed rate tenders and allotted all tenders.

2 Report on economic situation

2.1 Business performance

2.1.1 Total assets and volume of business

	Existing 31. 12. 2008 EUR mn	2008 EUR mn	Changes 2008 %	2007 %
Business volume ¹⁾	6,031.6	+47.3	+0.8	+0.1
Total assets	5,951.3	+32.4	+0.5	+0.0

1) Total shareholders' equity and liabilities plus contingent liabilities

The volume of business and total assets slightly increased during the year under review. This was caused by an increase both in the volume of loans to customers (up EUR 152.9 million) and investments in securities (up EUR 28.4 million), accompanied by a discretionary reduction of our balances both with Deutsche Bundesbank (down EUR 119.4 million) and other banks (down EUR 27.9 million).

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

	Existing 31. 12. 2008 EUR mn	2008 EUR mn	Changes 2008 %	2007 %
Volume of loans to customers	3,268.0	+152.9	+4.9	-3.1
<i>Of which:</i>				
Loans to public sector	829.7	+30.3	+3.8	-8.5
Mortgage loans	871.3	-56.3	-6.1	-4.6
Loans to banks	1,037.3	-27.9	-2.6	-6.0
Investments in securities	1,490.3	+28.4	+1.9	-0.5

Volume of loans to customers

In fiscal 2008, Sparkasse Saarbrücken originated new loans totalling EUR 402.9 million to private individuals, companies, self-employed individuals and the public sector. This is equal to an increase of 9.5 % year-to-year. Companies and self-employed individuals in particular, but also local governments had a significantly greater demand for loans. Requests for loans from private individuals, on the other hand, declined slightly, caused mainly by a drop in building loans, while the demand for consumer loans was greater than in the year before. All told, growth was clearly higher than in the year before, and above the average of all the savings banks in Saarland.

Loans to banks

Loans to other banks declined slightly during the year under review. The decline in time deposits was one of the main reasons why existing investments went down EUR 27.9 million (down 2.6 %).

Investments in securities

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

The financial crisis left its mark on our securities portfolio. Write-downs were taken as needed to account for temporary losses of value in current assets. However, since these are investment-grade issuers, we assume that in this case - and in the case of the investment securities - this dip in market prices is only temporary.

2.1.3 Deposit-taking business

	Existing 31. 12. 2008 EUR mn	2008 EUR mn	Changes 2008 %	2007 %
Funds deposited by customers	4,135.3	+86.7	+2.1	-0.3
<i>Of which:</i>				
Savings deposits	1,968.8	+1.2	+0.1	-0.4
Non-certificated liabilities	1,807.0	+63.2	+3.6	-4.1
Certificated liabilities	282.1	+4.0	+1.4	+33.3
Subordinated liabilities and profit sharing rights	77.4	+18.3	+31.0	-
Liabilities to banks	1,486.7	-43.7	-2.9	+0.5

Funds deposited by customers

Total funds deposited by customers increased compared to the previous year. Savings deposits even increased slightly for the first time in years. The main beneficiaries of the high money-market interest rates and correspondingly attractive terms were certificates (up EUR 216.7 million or 75.7 %) and money-market accounts

(up EUR 108.2 million or 19.2 %). Other important growth drivers were time deposits (up EUR 48.3 million or 7.4 %), while the Bank cut back its business with investment certificates for major customers as planned (down EUR 87.8 million or 22.4 %). The portfolio of bearer bonds remained relatively stable (down EUR 10.0 million or 3.1 %) despite a high level of maturities.

Liabilities to banks

Liabilities to banks decreased marginally (down 2.9 %). Banks increasingly utilised Deutsche Bundesbank's refinancing options during the year under review, which caused a decline in deposits from other banks. At the end of this year, we had 154.2 million (32.9 %) less in overnight money and EUR 268.9 million (82.1 %) less in time deposits from other banks on our books EUR than in the previous year.

2.1.4 Services

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

During the year under review, demand for life insurance policies remained as strong as in previous years.

Much of our customer advisory work focuses on retirement products. Depending on what the customer needs, we recommend "Riester" and "Rürup" retirement products and the Sparkasse pension fund ("S-Pensionskasse"). Sales of "Riester" retirement products were extremely strong. Over 6,000 clients chose to enjoy the benefits offered by this product. In fact, Sparkasse Saarbrücken was the nationwide leader for new business in this segment.

Commissions for property insurance sales exceeded the prior-year figures by more than 10 %.

Despite the difficult environment – the state of the economy, demographic changes – and very strong prior-year results, commission income from the real estate business once again improved significantly year-on-year.

Our combined business with LBS was successful in the 2008 financial year, too. More than 3,500 new contracts (up 14 %) represented over EUR 77 million in new business (up 5.4 %).

With yet another increase of 6.7 %, to EUR 148.7 million, Sparkasse Saarbrücken boosted sales of its own bearer bonds in the securities business for the fifth consecutive year. However, due to a large number of maturities in 2008, total holdings dropped a slight 2.9 %, to EUR 313.0 million.

Total holdings of investment funds issued by Deka and/or its partners declined a considerable 20 %, to EUR 374.1 million, mainly due to markedly lower prices on international stock exchanges. Conservative financial and retirement products continued to gain importance.

Stock trading volumes fell, especially in the last quarter, due to extreme uncertainty in the stock markets following the financial crisis. Overall, trading volumes dropped 16.2 % over the entire year. Rapidly declining stock prices squeezed the stock portfolio by a considerable 40.3 %, almost mirroring the DAX's decline in 2008 (down 40.4 %).

International payment transactions represent an important component in the service portfolio of any major savings bank located in a border region. Sparkasse Saarbrücken handled more than 57,000 outgoing payments totalling nearly EUR 234 million for its customers. Most of the payments went to other EU countries. Other services in its international portfolio include documentary collection, letters of credit and derivatives that allow clients to hedge their interest rate risks.

2.1.5 Own trading

It has proven worthwhile to modify the maturity structure of fixed-income securities in our Custodian Account A. Trading volumes – purchases, sales and maturities – accounted for a total of EUR 982.1 million (prior year: EUR 1,203.1 million). Sparkasse Saarbrücken is a non-trading book institute as defined in the German Banking Act (KWG).

2.1.6 Derivatives

Most of the products in the derivatives business are interest rate swaps and interest rate futures taken out as hedges in order to manage interest rate books based on present values. The total principal amount of transactions still outstanding at year-end was around EUR 1.6 billion (prior year: EUR 1.7 billion).

2.2 Financial position

	EUR mn	EUR mn	Percentage of business volume	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Volume of loans to customers	3,268.0	3,115.1	54.2	52.1
<i>Of which:</i>				
Loans to public sector	829.7	799.4	13.8	13.4
Loans to banks	1,037.3	1,065.2	17.2	17.8
Investments in securities	1,490.3	1,461.9	24.7	24.4
Fixed assets	87.1	85.8	1.4	1.4
Other assets	148.9	256.3	2.5	4.3
Funds deposited by customers	4,135.3	4,048.6	68.6	67.6
<i>Of which:</i>				
Savings deposits	1,968.8	1,967.6	32.6	32.9
Liabilities to banks	1,486.7	1,530.4	24.6	25.6
Other liabilities (including contingent liabilities and provisions)	138.8	137.8	2.3	2.3
Shareholders' equity	270.8	267.5	4.5	4.5

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

The contingency reserve will amount to EUR 234.8 million after the Supervisory Board resolves to allocate funds from the unappropriated surplus as planned. This is equal to an increase of 1.8 %. In addition to its contingency reserves, Sparkasse Saarbrücken has other extensive lower-tier equity resources. At 11.8 %, the solvency ratio – eligible equity capital divided by 12.5 times the total capital charges as per Article 2 (6) of the German Solvency Regulation (SolV) – exceeds the statutory minimum of 8 % as of 31 December 2008.

Sparkasse Saarbrücken had exercised the option granted under Article 339 (9) of the German Solvency Regulation and started using the new rules to calculate its capital backing on 1 January 2008.

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

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

2.3 Cash flows

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

Partial use was made of the credit facilities granted by Deutsche Bundesbank and Landesbank Saar. Appropriate assets were always maintained at Deutsche Bundesbank in order to comply with minimum reserve requirements. The liquidity rating - which is defined in the German Liquidity Regulation (LiqV) and used by the banking regulator to assess banks' liquidity positions - was 1.24 in maturity band I at the end of the fiscal year, such that the liquidity level can be considered adequate both on the balance sheet date and for 2008 as a whole.

Sparkasse Saarbrücken has exercised the option granted under Article 12 of the German Liquidity Regulation and has been using the new rules of the German Liquidity Regulation to calculate its liquidity position since 31 Janu-

ary 2008.

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

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

2.4 Earnings

Income statement:	2008	2007
	EUR mn	EUR mn
Net interest income (including Items 3 and 4 of the income statement)	104.0	98.8
Net commission income	21.6	21.4
Administrative expenses		
a) Personnel costs	65.4	66.8
b) Non-personnel costs	27.5	26.4
Sub-total	+32.7	+27.0
Net income from financial transactions	+ 0.6	+0.3
Net other operating income/expenses	+ 6.2	- 1.2
Result before provisioning	+ 39.5	+26.1
Net provisioning result	- 31.3	- 14.3
Result after provisioning	+8.2	+11.8
Taxes	3.1	3.2
Net income and unappropriated surplus	5.1	8.6

Net interest income remains the most important source of income from our business activities. Our net interest income was buoyed by an increase in customer business – both in lending and in deposit-taking – and the ECB's policy of cutting interest rates as of the 4th quarter. The main increases in interest income came from the customer business, own trading and hedges against interest rate risk.

Net commission income rose slightly due to higher income and lower expenses. Income in the securities services business dried up in the wake of the financial crisis; however, other activities – especially the lending business – more than compensated for the shortfall.

Net income from financial transactions comprises Sparkasse Saarbrücken's income from, among other things, trading in securities, foreign exchange, and foreign notes and coins. All these segments generated positive income

in the year under review. Despite the – relatively speaking – significant rise, this remains a marginal source of income.

Personnel costs went down a further EUR 1.4 million (2.1 %). A lowering of the employee headcount and a further increase in the percentage of part-time workers more than compensated for the 2.4 % pay hike for pay-scale workers (which has been paid voluntarily since July 2008) and the cost increases from re-allocating staff to higher pay-scale groups.

Material expenses are higher due not only to general price increases – especially for energy – but also to expenses for advertising, IT systems and the 150th anniversary of Sparkasse Saarbrücken. The result before provisioning, EUR 39.5 million, clearly exceeds prior-year levels (up 51.3 %); most of the increase comes from releasing provisions that are no longer needed to net other operating income.

The financial crisis also affected Sparkasse Saarbrücken's net provisioning result. Given our conservative investment policy – Sparkasse Saarbrücken is a non-trading book institute – and our issuers' credit ratings, we assume that the impairments in value are temporary and induced by market prices. The necessary write-downs were thus taken. The net provisioning result, which includes the use of contingency reserves as per Article 340f of the German Commercial Code (HGB), is in line with the Saarland association average, even though own trading makes up a significantly higher proportion of the balance sheet than the average for all the savings banks in Saarland.

After the completion of all necessary provisioning, the **result after provisioning** was EUR 3.6 million less than in the year before.

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

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

2.5 Non-financial performance indicators

Employees

The total number of employees dropped in 2008. At the end of the year, Sparkasse Saarbrücken employed a total of 1,305 people, including employees on leave. Of these, 813 were full-time and 441 part-time employees and 51 trainees.

We have developed numerous models allowing employees to combine families and careers. There are various part-time models. In addition to the statutory parental leave, employees are able to apply for leave of up to four years with a guaranteed right to return to the Bank. So far, 150 employees have applied for retirement benefits by taking partial pre-retirement.

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

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

Top priority is given to training school-leavers at all sites. 13 trainees who successfully completed their vocational training programs were offered permanent open-end positions at Sparkasse Saarbrücken. The ratio of trainees to the total number of employees stood at 3.9 % in 2008.

Customer relations

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

identifying new customer needs at an early stage and developing the right solutions for them.

For this reason, our complaints management plays a central role in ensuring customer satisfaction: By specifically recording and evaluating complaints, we are able to address mistakes and gain a good idea of customers' basic requirements and expectations. Furthermore, Sparkasse Saarbrücken regularly participates in test purchase studies and gets good results.

Social responsibility

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

2.6 Summary and assessment

Sparkasse Saarbrücken's performance, its financial position and cash flows and the development of its result before provisioning can be considered satisfactory in the light of general economic conditions as well as the state of the banking sector. An increase in the volume of loans to customers (up EUR 152.9 million or 4.9 %) and an increase in the funds received from customers (up EUR 86.7 million or 2.1 %) with maturities of nearly EUR 400 million in savings deposits alone are indicators of Sparkasse Saarbrücken having increased its presence in its market. Administrative expenses were brought down somewhat again. The result before provisioning (EUR 39.5 million) was reduced significantly by the provisions which were set aside in response to the general financial crisis. After taxes, net income for the year stands at EUR 5.1 million. Net income for the year was forecasted to be higher at the start of the year under review. The extent of the financial crisis led to unforeseeable developments.

The net income for the year can be used to increase our equity capital in order to prepare for future growth.

3 Risk report

3.1 Risk management

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

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

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

The Management Board defines maximum potential risk in light of the Bank's risk resistance. The risk resistance model comprises both value-oriented and periodic views. It also takes account of regulatory requirements.

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

As part of its monitoring duties, the internal auditing department, which is not integrated in the risk management processes, assists the Management Board. It works on a risk-oriented audit schedule that has been approved by the Management Board and that the internal auditing department uses as a basis for examining and evaluating the Bank's activities and processes. This includes auditing the risk management system, risk management and monitoring, internal reporting as well as compliance with internal and external rules and regulations. In this connection, the focus is on processes and methods in the light of the principles of security, propriety as well as economic efficiency and

appropriateness. No findings of any significance impacting the Bank's financial position, cash flows or earnings were made in 2008. In principle, any improvements suggested by Internal Auditing are implemented.

3.2 Risk monitoring and management

3.2.1 Counterparty risks

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

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

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

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

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

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

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

At the moment, there is no evidence of any exceptional risk exposure in our credit portfolio on account of its structure and diversification.

Counterparty risks in the **trading business** are limited thanks to the careful selection of our contractual partners based on the rules for determining credit ratings as well as volume limits per counterparty. In addition, the counterparty risk from trading business is capped at the overall portfolio level by means of a risk limit. At the end of 2008, 34 % of the limit of EUR 2 million was in use.

3.2.2 Market price risks

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

Risks from trading business

Market price risks arising from the trading business are calculated daily in accordance with current market prices and potential changes in market prices (loss potential) and added to the defined risk limit. The loss and risk limit system is implemented in the light of Sparkasse Saarbrücken's

financial position and earnings. Trading transactions are measured and monitored on the basis of a value-at-risk model. Potential loss for the portfolio as a whole is forecast using a variance/covariance approach based on a retention period of 10 days and a confidence level of 95 %.

From a value-based view, market price risks remained within the risk limit defined by the Management Board at all times in 2008. From an income statement-based view, limits were exceeded as a result of the financial crisis. The system and its validity are reviewed and enhanced by means of backtesting twice a year.

The Management Board is regularly briefed on market price risks.

Interest rate risk

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

In addition, interest rate risk as a subset of market price risk is monitored regularly at the level of the overall interest book with the aid of risk analyses in accordance with the present value model. The findings are reported to the Management Board on a monthly basis. The interest rate risk is determined by applying a value-at-risk method based on a historic simulation with a retention period of 63 trading days, a confidence level of 95 % and a historic observation period of 19 years.

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

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

3.2.3 Liquidity risk

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

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

As reflected in the liquidity principle indicator in the section on the Bank's cash flows, Sparkasse Saarbrücken has a strong liquidity position overall thanks to its holdings of liquid securities. This is not affected by the fact that some of our securities are allocated to fixed assets.

3.2.4 Operational risks

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

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

the future.

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

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

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

Since 2008, the Management Board and the Supervisory Board have received operational risk reports on a quarterly basis. In serious cases, the Management Board will receive ad hoc reports.

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

3.3 Overall risk assessment

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

There is no evidence of any risks to Sparkasse Saarbrücken's status as a going concern. Adequate risk management and controlling has been put in place for risks that may exert a material effect on Sparkasse Saarbrücken's financial position, cash flows and earnings. Given its existing risk management system, Sparkasse Saarbrücken sees itself well positioned to handle existing business and to master the challenges of the future.

4 Material events occurring after the balance sheet date

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

5 Outlook

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

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

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

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

Expected business performance 2009 and 2010 *Outlook*

Uncertainty about the future is common in unusual situations such as the current financial and economic crisis. This is reflected in the wide range of forecasts for 2009.

Private consumption is generally assumed to play a pivotal role in economic development. The overall environment is favourable for consumers, given the general employment situation and positive price trends - the price of oil alone has dropped around 70 % since the summer of 2008, when it peaked at more than USD 140. However, the recession will most likely have an impact on consumer confidence and employment.

Exports are another growth driver. However, orders from abroad had already begun to fall off in late 2008. All major industrial countries will attempt to trim their current-account deficits in 2009.

Saarland's economy will come under considerable pressure, especially due to the weak foreign demand. The manufacturing sector's heavy reliance on exports and high exposure to the automotive industry will probably cause a steep drop in the state's gross domestic product. Uncertainty among banks and companies due to the financial crisis will also adversely affect the investment climate.

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

Given the rather pessimistic forecast for the economy as a whole, we project only marginal growth in total assets in 2009 and 2010. This growth is likely to be primarily underpinned by lending to customers and deposit-taking from customers.

In 2009, we expect to see moderate growth in commercial lending business, spurred for the most part by companies seeking to finance their replacement capex budgets. Turning to households, the main focus will be on financing homes and consumer spending. Although interest rates are still low, households are expected to show only modest demand for credit due to the low level of housing starts. The public sector will also exercise restraint in this regard, so we currently expect 2009 lending volumes to be on a par with the previous year. For the following financial year, we anticipate the possibility that the crisis will be over and upbeat sentiment will fuel more vigorous growth in the lending business.

Since uncertainty in the money and capital markets makes Sparkasse Saarbrücken's investment products more attractive, we expect to see a slight increase in funds received from customers. This will drive a generally moderate increase in business activity.

The development of market rates and particularly the steep curve significantly affect our net interest income. A change in interest levels impacts many different areas. Rising interest rates do raise our refinancing costs, but they do allow the opportunity to widen margins through interest rate adjustments. A rising interest rate affects customers in different ways. Our deposit products become more attractive to customers, while our lending business tends to suffer. We expect interest rate levels to remain low in 2009. Since the yield curve is much steeper than in 2008, it opens up the opportunity to generate more net interest income by boosting transformation income. This opportunity is offset, however, by a further increase in competition.

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

The stock markets are still characterized by a great deal of uncertainty and restraint following the massive price drops in 2008. This will continue to affect our clients' trading volumes in securities.

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

As personnel expenses will tend to rise on account of moderate wage and salary settlements, Sparkasse Saarbrücken plans to minimise these effects via strict personnel management. We are also planning to invest in information technologies and products offering potential for the future as a basis for widening our share of the market. Looking ahead over the next few years, we consider our key tasks to be the enhancement of our existing management tools to implement integrated bank management,

the risk-adjusted pricing of transactions and measures to heighten the security and user-friendliness of the Internet experience for our customers. The end-to-end integration of media distribution channels such as telephone banking and the Internet, on the one hand, and over-the-counter branch-based distribution, on the other, will help us to serve our customers in line with their requirements and offer them what they are specifically seeking.

From the 3rd quarter of 2009 to the 2nd quarter of 2010, the Sparkasse banks in Saarland will switch over their current FinanzIT applications to systems provided by Finanz Informatik GmbH & Co. KG, a company formed by the merger of FinanzIT GmbH and Sparkassen Informatik GmbH & Co. KG. The resulting changes will be implemented as part of a project launched by Sparkasse Saarbrücken. The synergies unleashed by migrating the IT applications will offer an opportunity to reduce future IT expenses.

The initial estimates and forecasts point to a marked improvement in the earnings situation; we expect the result before provisioning to increase in the 2009 financial year.

We currently expect to set aside the same provisions for the lending business as in the years before, but we are fully aware of the risk that the financial crisis might hit the real economy, and thus our borrowers, even harder.

There is also the possibility that we may have to write down our securities holdings even further.

Looking ahead to next year, we expect net profits to exceed those of the previous year. As far as we can forecast at this stage, we expect steady performance for the following financial year, with net profit for the year remaining at a comparable level provided that the economy turns around. Accordingly, Sparkasse Saarbrücken will be able to earn the Tier 1 capital which it requires itself. The Bank's resources of liable equity will remain satisfactory.

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

6 Our branch offices



The Management Board

Hans-Werner Sander
Chairman

Uwe Kuntz
Deputy Chairman

Frank Saar
Board Member

Uwe Johmann
Board Member

Commercial register

Saarbrücken, A 8590

The Supervisory Board of Sparkasse Saarbrücken

Chairperson
Ulf Huppert
Commissioner for the Office of
the Regional Association Director
until 30 April 2008

Charlotte Britz
Mayor
As of 1 May 2008

Further members:

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

Deputy Chairperson
Charlotte Britz
Mayor
Until 30 April 2008

Ulf Huppert
Commissioner for the Office of
the Regional Association Director
As of 1 May 2008

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Sparkasse Saarbrücken is a member of Sparkassenverband Saar (Saarland Savings Banks Association) and as such is affiliated with Deutscher Sparkassen und Giroverband e.V., Berlin/Bonn.

The shareholder is Sparkassenzweckverband Saarbrücken, of which the Saarbrücken Regional Association and the City of Saarbrücken are members.

7 Our A-class correspondent banks

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

8 Balance sheet as of 31 December 2008

Assets

	EUR	EUR	EUR	31. 12. 2007 TEUR
1. Cash reserve				
a) Cash on hand		42,737,446.44		42,103
b) Balances held with Deutsche Bundesbank		73,311,239.85		192,678
			116,048,686.29	234,781
2. Public-sector bonds and bills of exchange approved for funding with Deutsche Bundesbank				
a) Treasury bills and non-interest bearing treasury notes and similar public-sector bonds		0.00		0
b) Bills of exchange		0.00		0
			0.00	0
3. Loans to banks				
a) Due daily		5,159,889.55		28,956
b) Other loans		1,032,138,377.40		1,036,251
			1,037,298,266.95	1,065,207
4. Loans to customers			3,186,817,838.58	3,048,747
Of which: secured with liens on real estate	871,302,235.25 EUR			(927,558)
Municipal loans	829,722,338.09 EUR			(799,351)
5. Bonds and other fixed-income securities				
a) Money market securities				
aa) From public issuers		0.00		0
Of which: eligible as security for loans from Deutsche Bundesbank	0.00 EUR			(0)
ab) From other issuers		30,622,904.10		50,114
Of which: eligible as security for loans from Deutsche Bundesbank	30,622,904.10 EUR			(30,428)
		30,622,904.10		50,114
b) Debentures and bonds				
ba) From public issuers		69,010,890.28		108,755
Of which: eligible as security for loans from Deutsche Bundesbank	69,010,890.28 EUR			(0)
bb) From other issuers		1,075,979,998.12		975,894
Of which: eligible as security for loans from Deutsche Bundesbank	1,031,063,090.26 EUR		1,144,990,888.40	1,084,649
			2,755,977.76	(940,767)
c) Own bonds			2,755,977.76	1,743
Nominal amount	2,754,369.47 EUR		1,178,369,770.26	1,136,506
6. Shares and other non-fixed-income securities			311,925,501.84	325,407
7. Equity investments			53,378,386.37	52,197
Of which:				
In banks	1.00 EUR			(0)
In financial services companies	0.00 EUR			(0)
8. Shares in affiliated companies			50,000.00	50
Of which:				
In banks	0.00 EUR			(0)
In financial services companies	0.00 EUR			(0)
9. Trustee assets			903,391.09	916
Of which: trustee loans	903,391.09 EUR			(916)
10. Compensation claims from public-sector bodies including bonds from their exchange			0.00	0
11. Intangible assets			1,027,321.00	927
12. Tangible assets			32,686,890.87	32,640
13. Other assets			28,378,605.07	16,942
13a. Deferred tax balances in acc. with Art. 274 (2) GCC			0.00	
14. Prepaid expenses			4,453,172.74	4,547
Total assets			5,951,337,831.06	5,918,867

	EUR	EUR	EUR	31. 12. 2007 TEUR
1. Liabilities to banks				
a) Due daily		333,229,221.44		476,951
b) With agreed term or notice period		<u>1,106,847,230.57</u>		<u>987,606</u>
			1,440,076,452.01	<u>1,464,557</u>
2. Liabilities to customers				
a) Savings deposits				
aa) With agreed period of notice of three months	1,427,843,366.44			1,588,346
ab) With agreed period of notice of more than three months	<u>540,921,393.79</u>			<u>379,295</u>
		1,968,764,760.23		1,967,641
b) Other liabilities				
ba) Due daily	779,839,269.16			696,447
bb) With agreed term or period of notice	<u>1,027,111,768.00</u>			<u>1,047,307</u>
		1,806,951,037.16		1,743,754
			3,775,715,797.39	<u>3,711,395</u>
3. Certificated liabilities				
a) Bonds issued		317,444,880.22		327,379
b) Other certificated liabilities		<u>0.00</u>		<u>0</u>
			317,444,880.22	327,379
Of which:				
Money market securities	0.00 EUR			(0)
Own bills of acceptance and promissory notes outstanding	0.00 EUR			(0)
4. Trustee liabilities			903,391.09	916
Of which: trustee loans	903,391.09 EUR			(916)
5. Other liabilities			16,942,403.20	13,068
6. Deferred income			3,599,626.60	4,228
7. Provisions				
a) Provisions for pensions and similar commitments		10,859,269.00		10,746
b) Tax reserves		<u>0.00</u>		<u>0</u>
c) Other reserves		<u>26,196,196.45</u>		<u>43,463</u>
			37,055,465.45	54,209
8. Special tax-allowable reserve			0.00	0
9. Subordinated liabilities			73,440,345.00	60,314
10. Participatory capital			15,338,756.44	15,339
Of which: due in less than two years	15,338,756.44 EUR			(0)
11. Fund for general banking risks			35,000,000.00	35,000
12. Equity capital				
a) Subscribed capital		0.00		0
b) Capital reserves		<u>0.00</u>		<u>0</u>
c) Revenue reserves				
ca) Contingency reserve	230,749,948.09			223,901
cb) Other reserves	<u>0.00</u>			<u>0</u>
		230,749,948.09		223,901
d) Unappropriated surplus		<u>5,070,765.57</u>		<u>8,561</u>
			235,820,713.66	<u>232,462</u>
Total equity and liabilities			5,951,337,831.06	5,918,867
1. Contingent liabilities				
a) Contingent liabilities from rediscounted bills of exchange		0.00		0
b) Liabilities from sureties and guarantee contracts		<u>78,695,831.51</u>		<u>65,373</u>
c) Liability for assets pledged as collateral security for third parties		<u>1,623,750.00</u>		<u>58</u>
			80,319,581.51	65,431
2. Other obligations				
a) Commitments deriving from sales with an option to repurchase		0.00		0
b) Placement and underwriting obligations		<u>0.00</u>		<u>0</u>
c) Irrevocable loan commitments		<u>48,734,968.15</u>		<u>56,372</u>
			48,734,968.15	56,372

9 Income statement for 2008

01.01. - 31.12. 2007

	EUR	EUR	EUR	TEUR
1. Interest income from				
a) Lending and money market business	237,783,143.67			222,915
b) Fixed-income securities and debt register claims	55,883,685.50			44,666
		293,666,829.17		267,581
2. Interest expenditure		206,252,444.62		185,553
			87,414,384.55	82,028
3. Current income from				
a) Shares and other non-fixed-interest securities	12,719,247.81			(13,794)
b) Equity investments	1,760,363.53			(1,353)
c) Shares in affiliated companies	0.00			(0)
			14,479,611.34	15,147
4. Income from profit pools and full or partial profit transfer agreements			2,080,260.76	1,572
5. Commission income	24,272,517.32			(24,214)
6. Commission expenditure	2,704,781.21			(2,809)
		21,567,736.11		21,405
7. Net income from financial transactions		569,204.21		323
8. Other operating income		21,574,206.05		10,856
9. Income from the release of the special tax-allowable reserve		0.00		0
		147,685,403.02		131,331
10. General administrative costs				
a) Personnel costs				
aa) Wages and salaries	49,810,109.44			(49,980)
ab) Social security levies and expenses for old age pensions and support of which: old age pensions 6,013,321.01 EUR	15,635,254.79			(16,774)
		65,445,364.23		(66,754)
b) Other administrative costs		27,447,314.13		(26,435)
			92,892,678.36	93,189
11. Depreciation and amortisation			4,878,702.59	4,932
12. Other operating expenses			10,468,366.18	7,233
13. Value adjustments and write-downs on receivables and certain securities as well as allocations to provisions for lending business				
	33,174,148.72			13,767
13a. Allocations to the fund for general banking risks			0.00	0
14. Income from write-ups of receivables and certain securities as well as release of provisions for lending business		0.00		(0)
			33,174,148.72	13,767
14a. Withdrawals from the fund for general banking risks			0.00	0
15. Value adjustments and write-downs on equity interests, shares in affiliated companies and securities treated as fixed assets		0.00		(493)
16. Income from write-ups on equity interests, shares in affiliated companies and securities treated as fixed assets		1,939,855.00		(0)
			1,939,855.00	493
17. Loss-absorption expenses			5,935.48	0
18. Additions to special tax-allowable reserve			0.00	0
19. Profit on ordinary activities			8,205,426.69	11,717
20. Extraordinary income		0.00		(0)
21. Extraordinary expenses		0.00		(0)
22. Extraordinary net income/loss			0.00	0
23. Income taxes	2,934,723.00			(2,956)
24. Other taxes not included in Item 12	199,938.12			(200)
			3,134,661.12	3,156
25. Net income			5,070,765.57	8,561
26. Profit/loss carried forward from the previous year			0.00	0
			5,070,765.57	8,561
27. Withdrawals from revenue reserves				
a) From contingency reserve	0.00			(0)
b) From other reserves	0.00			(0)
			0.00	0
			5,070,765.57	8,561
28. Allocations to revenue reserves				
a) To contingency reserve	0.00			(0)
b) To other reserves	0.00			(0)
			0.00	0
29. Unappropriated surplus			5,070,765.57	8,561

10 At a glance

Item	Existing	Existing	2008 Changes	
	31.12.2008 EUR mn	31.12.2007 EUR mn	EUR mn	%
Total assets	5,951.3	5,918.9	32.4	0.5
Funds deposited by customers	4,135.3	4,048.5	86.8	2.1
Of which:				
Savings deposits	1,968.8	1,967.6	1.2	0.1
Non-certificated liabilities	1,807.0	1,743.8	63.2	3.6
Certificated liabilities	282.1	278.0	4.1	1.5
Subordinated liabilities	62.1	43.8	18.3	41.8
Participatory capital	15.3	15.3	0.0	0.0
Liabilities to banks	1,486.7	1,530.4	-43.7	-2.9
Of which:				
Subordinated liabilities	11.3	16.5	-5.2	-31.5
Other liabilities	138.8	137.9	0.9	0.7
(Including contingent liabilities and provisions)				
Equity capital	270.8	267.5	3.3	1.2
(Including fund for general banking risks)				
Volume of loans to customers	3,268.0	3,115.1	152.9	4.9
Of which:				
Loans to customers	3,186.8	3,048.8	138.0	4.5
Trustee assets	0.9	0.9	0.0	0.0
Guarantee loans	80.3	65.4	14.9	22.8
Loans to banks	1,037.3	1,065.2	-27.9	-2.6
Investments in securities	1,490.3	1,461.9	28.4	1.9
Fixed assets	87.1	85.8	1.3	1.6
Other assets	148.9	256.3	-107.4	-41.9
Net income	5.1	8.6	-3.5	-40.7