

σ Finanzgruppe

Sparkassenstiftung für internationale Kooperation

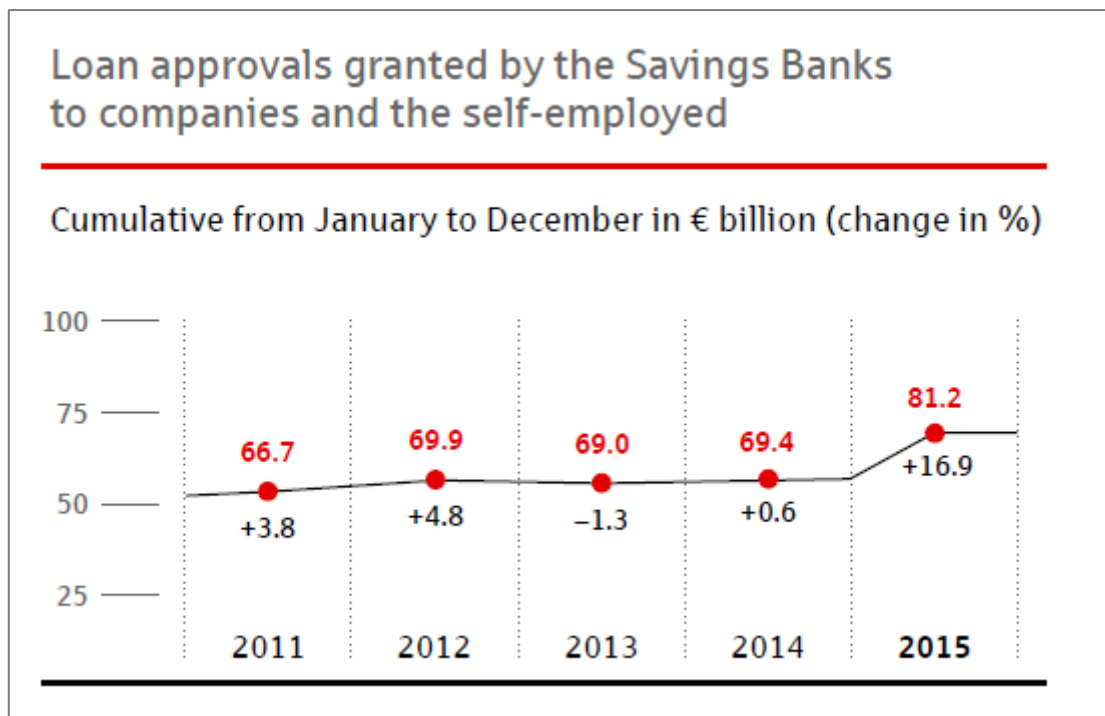
Initial statement (Harald Felzen, European Project Manager SBFIC)

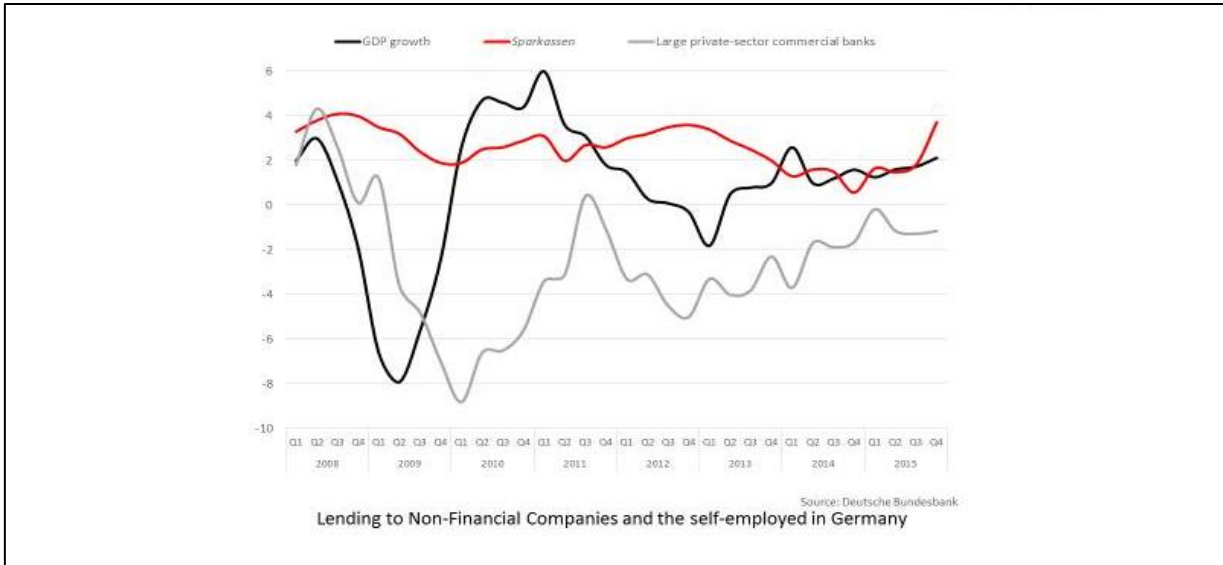
Chairwoman and members of the Committee

Thank you very much for your invitation. As European Project Manager of the Sparkassen Foundation, I'm very happy - together with Irish Rural Link - to present you how Sparkassen in Germany interact with businesses, what range of services are provided to business clients and what the distinctive elements are between Sparkassen and commercial banks in Germany and Ireland.

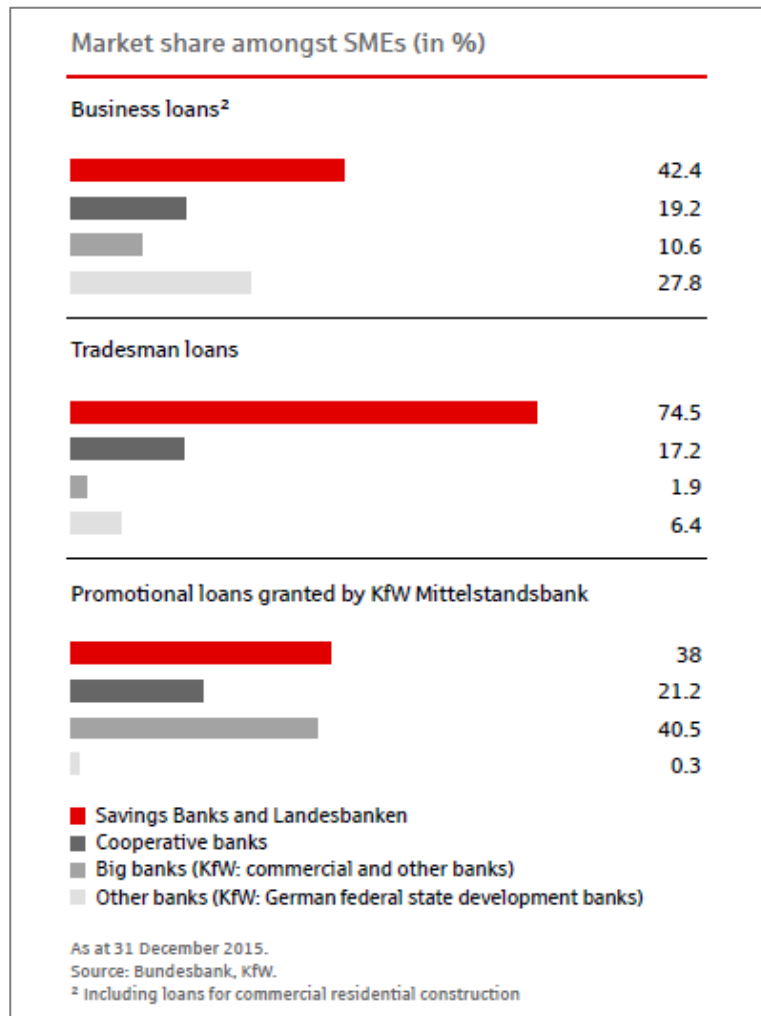
But today we are also basically discussing the question to what extent a common good oriented, local banking model could shift the dysfunctional Irish Banking market towards a higher level of competition, towards better services and better prices for Irish customers.

Based on the public service mission a possible Irish Sparkassen model not only has a banking role but also has a role to play in society. And in accordance with this mission, the success of a Sparkassen model in Ireland has to be measured by its local social, cultural and common good impact, which goes far beyond the basic expectation of sound business management.





Sparkassen show a long term commitment to the real economy, preventing credit crunches. This has proved particularly true in times of crisis. Sparkassen increased their volume of new loans to enterprise from 2009 to 2015 every year. This in turn enabled the German economy to recover quickly.



Sparkasse Finance Group have held a leading position in the German market for key business segments for many years.

For instance, the Group is further expanding and strengthening its position as the leading provider of finance to German SMEs.

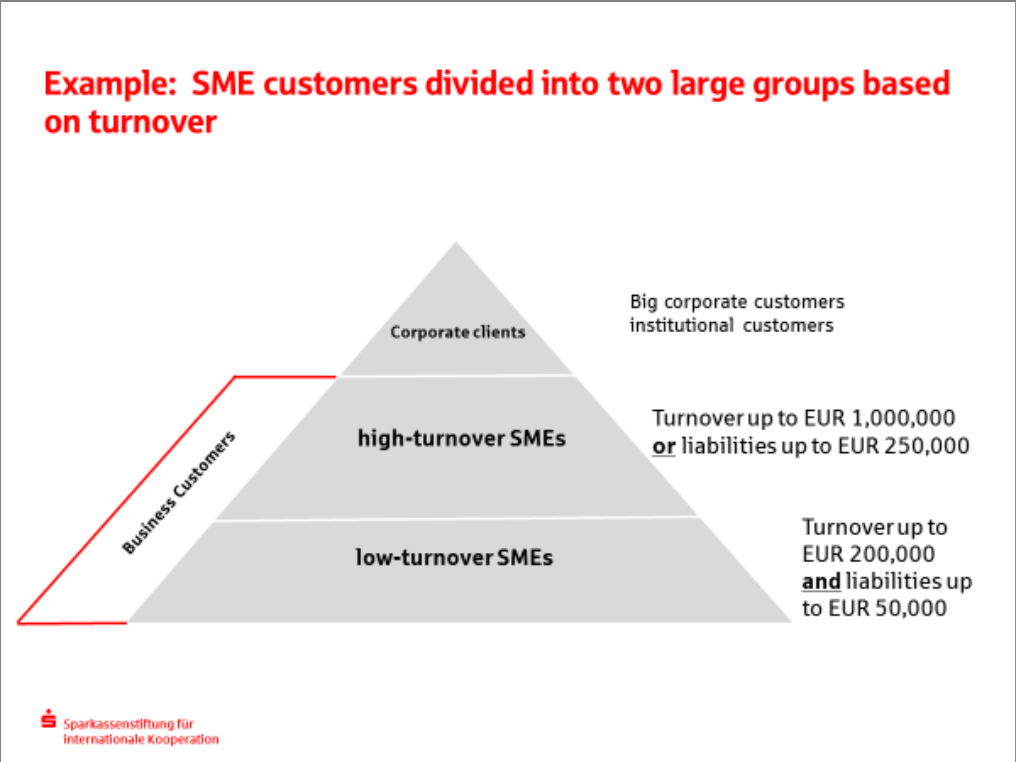
Three out of four enterprises in Germany are customers of the Sparkassen Group.

This important role in the German economy is particularly striking in the segment of loans extended to craftsmen.

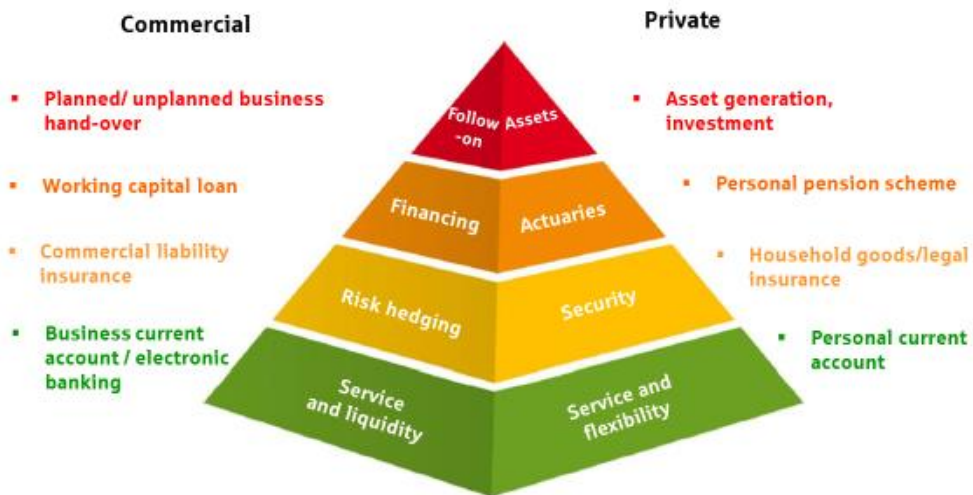
Decisions on business loans and risk assessments are taken locally, rather than at distant corporate headquarters.

As their business area is limited to a clearly defined local territory, Sparkassen are encouraged to foster prosperity in that same region.

Let me clarify this in an exemplary way:



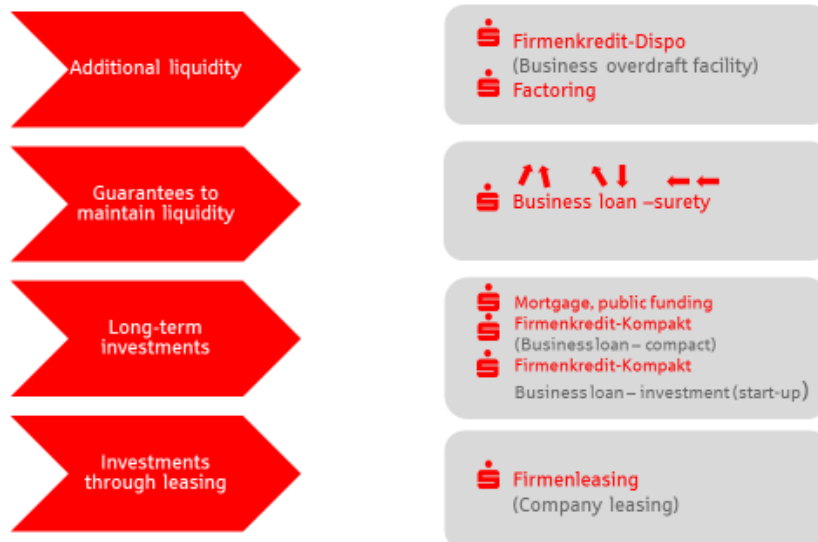
With the Sparkassen financing concepts, we systematically cover all levels of the financial hierarchy of needs – both private and commercial



Sparkassen discuss their customers' ideas in-depth – and examine each of their needs separately

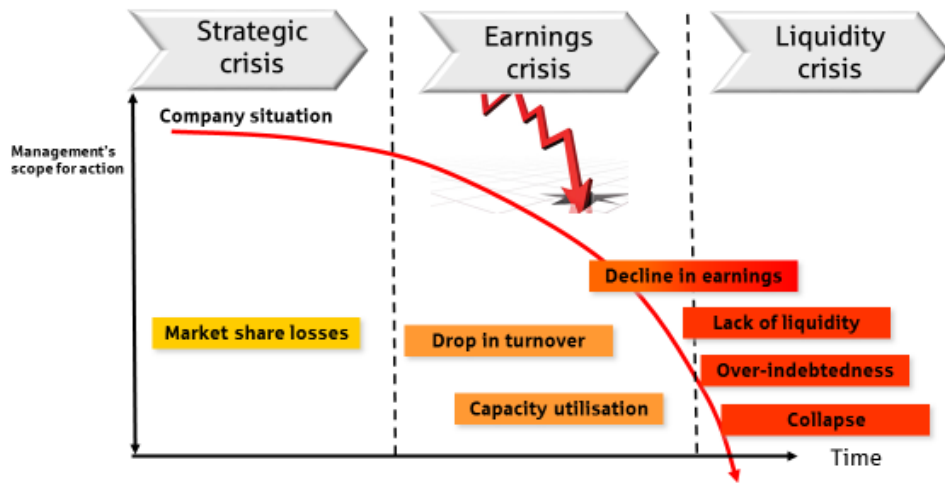


Sparkasse offers its customers a wide range of customised conventional financing solutions



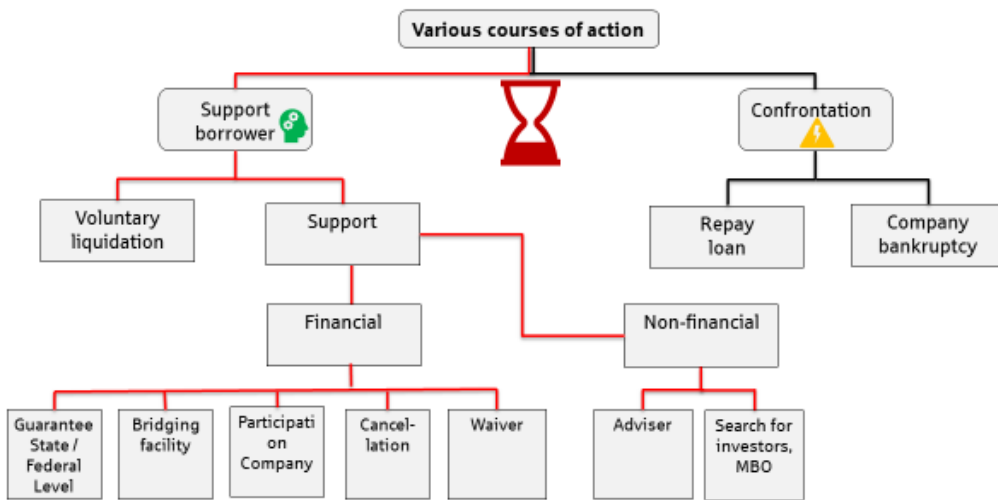
Sparkassen accompany their corporate customers throughout the entire lifecycle of their business, Set-up, Growth, Maturity, Consolidation and Succession.

Unforeseen developments need to be identified as early on as possible to allow for more options for action



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Once a problem is identified, Sparkassen can pursue various courses of action, for example:



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Sparkassen field specially trained advisers and – according to Sparkassen Finance Group concepts – we also have capacity to deliver even more intensive customer support

	Qualifications	Add-ons	Customer-to-adviser ratio*
Low-turnover SME customer advisers	<ul style="list-style-type: none"> Adviser coaching 	<ul style="list-style-type: none"> Products for private and business customers Dialogue techniques Current advisory processes 	700
High-turnover SME customer advisers	<ul style="list-style-type: none"> Adviser coaching Bank clerk Certified financial consultant 		250

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Sparkassen document products and sales in detail using set profiles and procedures

Product	Example	Term	Volume	Securities	Available ?*
Business overdraft	Working capital loan	Unlimited	Min. EUR 0.5 thsd Max. EUR 25 thsd (usually credit line/multiplier)	None	Yes Immediately available
Current account	Large-scale working capital loan	Unlimited	Unlimited	None up to EUR 25 thsd	None
Company loan surety	Domestic rent guarantee scheme Warranty bonds	In keeping with basic line of business	Unlimited	None up to EUR 10 thsd	Usually yes
Firmen-kredit-Kompact Compact business loan	Moveable assets, e.g. purchase of machine (no rescheduling, no start-up)	1 - 12 years	Min. EUR 5 thsd Max. EUR 50 thsd (new customer EUR 25 thsd)	Managing Director's guarantee	Yes
Business loan Invest	Moveable and immovable assets, e.g. premises mainly used for commercial purposes start-up projects	Duration of use	Min. EUR 5 thsd	None up to EUR 50 thsd	None
Business leasing	Alternative financing for moveable assets - not via account: e.g. vehicles, building equipment, machines, IT equipment	40-90% of AFA time	Min. EUR 10 thsd	Guarantee Assignment as security	None
Factoring	Receivables management through collection order or turnover financing through sale of receivables	Short-term, (payment target up to 90 days)	As of EUR 150 thsd turnover p.a. up to 90% receivables		None

*= concluding processing possible in sales

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Using a business plan with the following contents, a start-up entrepreneur can present a detailed project plan to the Sparkasse

1 Executive Summary

2 Product or service

- 2.1 Description of product or service
- 2.2 Customer benefit
- 2.3 Knowledge and technological edge
- 2.4 Status
- 2.5 Completion and production

3 Business model / Organisation

- 3.1 Business model
- 3.2 Founding team and key actors
- 3.3 HR
- 3.4 Milestones and timeframe for realisation

4 Market and competition

- 4.1 Analysis of sector and general market
- 4.2 Market segments and target customers
- 4.3 Analysis and tracking of competition
- 4.4 Market barriers

5 Marketing and sales

- 5.1 Price
- 5.2 Distribution concept
- 5.3 Communication strategy and activities planning
- 5.4 Market entry strategy

6 Opportunities and risks

7 Financial planning

- 7.1 Profitability planning
- 7.2 Investment planning
- 7.3 Liquidity planning
- 7.4 Capital requirements and financing

Sparkassen lending activities feature certain principles that limit risks

Regional principle: Lending mainly in well-known fields of business

Headquartered in Council ...

No loan issued if interest and debt cannot be sustainably serviced

Credit record OK

Good customer creditworthiness – determined via rating / scoring procedure – a pre-condition (business with new customer or expansion of existing framework)

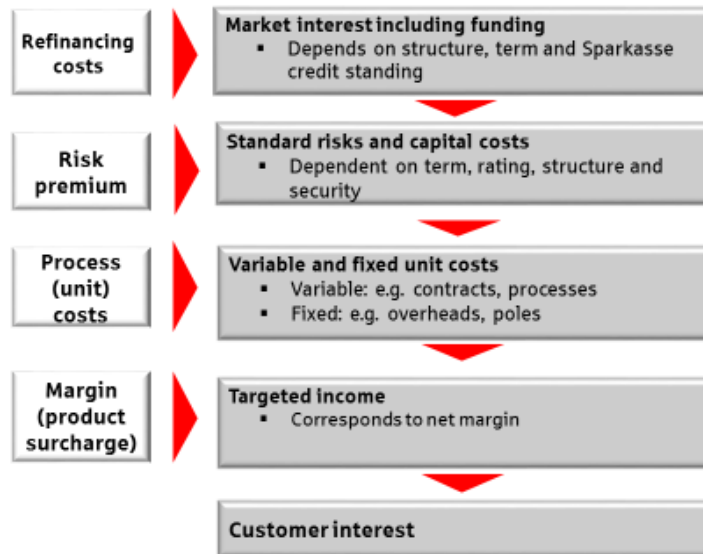
Long-standing customer, maintained account in an impeccable manner, short-term loan 7

Term-congruent financing within scope of remaining service life of the object being financed or secured

Financing in line with normal service life

Clear product, process and competence guidelines and regulations

Working with the initial data, Sparkassen calculate customer interest over several stages, adjusting the risk accordingly



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A central component, the risk premium, takes account of expected and unexpected losses

$$\text{Risk premium} = \text{Premium for expected losses (risk-related costs)} + \text{Premium for unexpected losses (equity capital costs)}$$

Premium for expected losses

- Covers average loss
- Input parameters
 - Likelihood of default
 - Realisation rates (securities), recovery rates (other assets)

Premium for unexpected losses

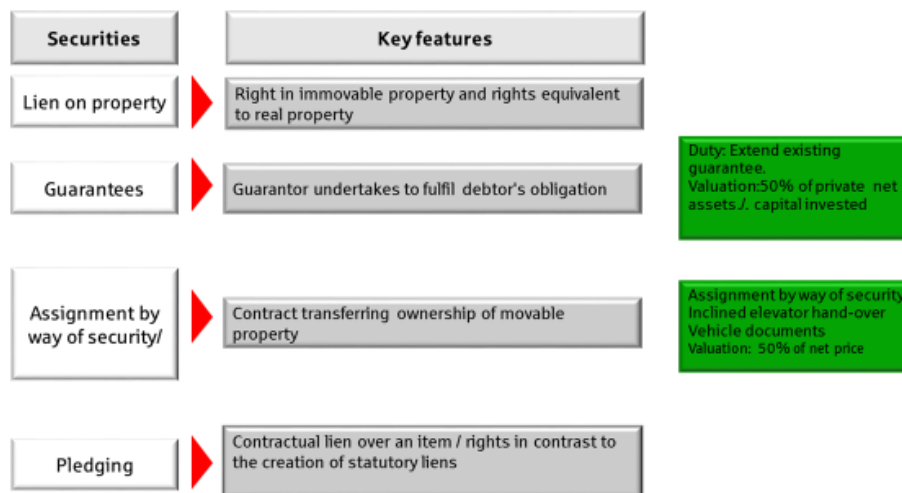
- Risk premium for interest on risk capital required for unexpected losses
- Input parameters
 - Portfolio risk: ratio of credit value-at-risk (CVaR) to expected loss
 - Required return on equity

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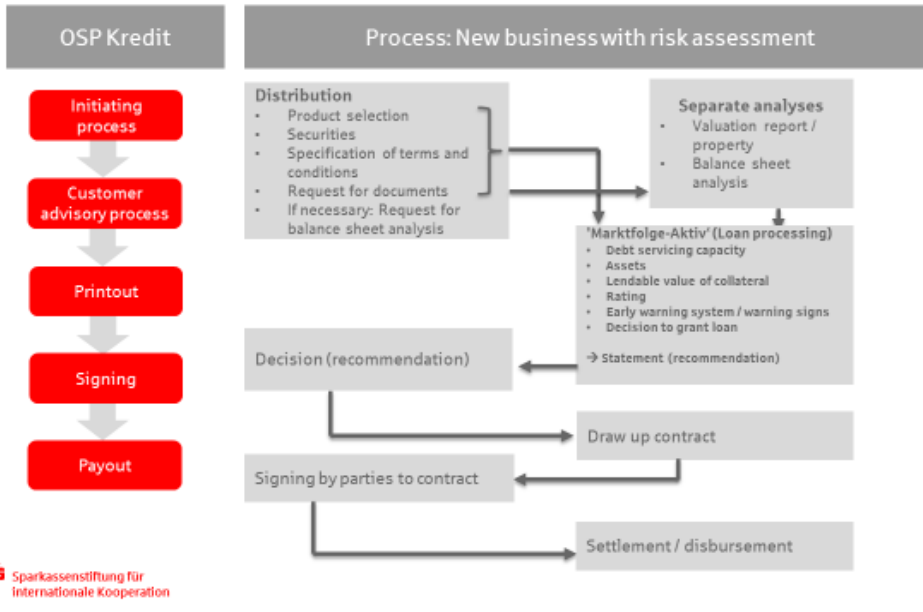
All rating procedures are influenced by four factors that are weighted differently

Quantitative Factors	Qualitative Factors	Warning signs	Joint liability scheme
<ul style="list-style-type: none"> ▪ Year-end accounts / revenue surplus over operating expenditure ▪ Current interim figures for the year ▪ Target figures ▪ Line of business ▪ Period of business relations ▪ ... 	<ul style="list-style-type: none"> ▪ Market/competition situation Customer ▪ Organisation structures ▪ Management quality ▪ Information behaviour ▪ Account behaviour ▪ ... 	<ul style="list-style-type: none"> ▪ Seizures ▪ Check or bill protest ▪ Constantly overdrawn ▪ Negative information from credit agencies e.g. Schufa / Creditreform ▪ ... 	<ul style="list-style-type: none"> ▪ Company ties (parent / subsidiary) ▪ Letters of comfort etc. ▪ ...

Acceptance of securities is primarily determined by whether the attendant risk reduction justifies the evaluative and administrative effort involved



Ongoing workflow support by OSP-Kredit ensures that essentially all stages involved in a loan transaction are processed without any redundancy or media breaks



Conclusion

Key characteristics of Sparkassen business approach

- Customer segmentation, graduated levels of support**
Decentralised business locations
- Holistic approach, regular comprehensive needs analysis**
- Additional expertise depending on advisory situation needs**
- Risk-mitigating lending principles, in particular regional principle**
- Possible support for restructuring by our in-house experts**
- Market-driven terms and conditions and swift processing**

Conclusion

Distinctive elements to Irish
Banking market

Business model mitigates risks and reduces costs for customers

Focus on the regional economy "Regional principle"

Balancing growth with common good orientation

Added value for Regional Development

Pillar of the indigenous economy

Legal form prevents privatization

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In fact, access to finance for SME in Germany would be inconceivable without Sparkassen.

Sparkassen have been SME's most important source of finance for many years.

Nevertheless, Sparkassen are fully exposed to market forces.

They operate according to commercial principles and their survival depends on their intrinsic capacity to generate adequate profits to fund their business operations. But in order to maintain consistent services for their clients, Sparkassen do not strive for short-term profit maximization, as this may produce high risks in the long term.

Sparkassen are local players with a depth knowledge of their customers based on their relationship oriented, personalized advisory approach and – Sparkassen show a long-term commitment to the real economy, preventing credit crunches.

This is the reason why we are deeply convinced that a Sparkassen model for Ireland could improve the banking landscape in terms of costs, services and social responsibility, fundamentally.

Thank you very much.