

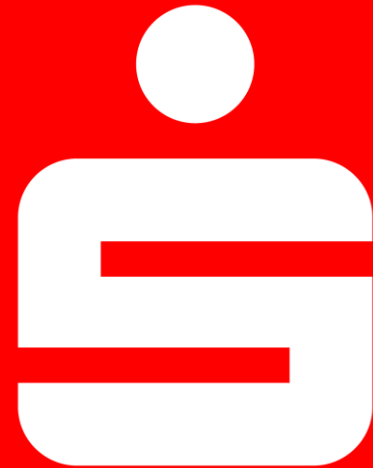
Local Banking

The Case for Ireland

Dublin, 1 February 2017

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Project Manager



Agenda

1. Savings Banks Finance Group
2. Savings Banks Foundation for International Cooperation
3. The Case for Ireland

The German banking market is built on three pillars, two of which are decentralised groups

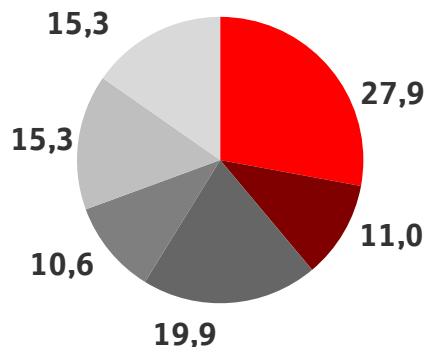


**Private
Banking Groups**

	Sparkassen	Volksbanken Raiffeisenbanken	Private Banking Groups
Business Territory	Local / Regional	Local / Regional	Germany Europe / World
Responsibility	Board-Level / In-Situ	Board-Level / In-Situ	Board-Level from Headquarters
Focus	Credit Business	Credit Business	Capital Market and Credit Business
Refinancing	Primarily through Customer Deposits	Primarily through Customer Deposits	Primarily through Capital Market

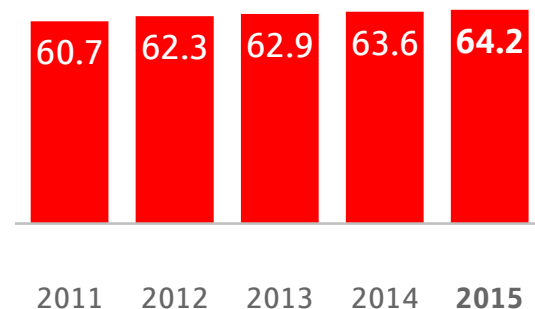
The Savings Banks Finance Group: Ensures business financing and prevents credit crunches.

Market share in business loans*
31st December 2015 in %



- Savings Bank
- Landesbanken
- Co-operative sector
- Big banks
- Regional and foreign banks
- Other credit institutions

New loan commitments of Savings Banks to companies and Self-employed, in billion €, change in %



* Including residential construction; excluding other financial intermediaries and insurance corporations

source: Deutsche Bundesbank

Savings Banks are close to their customers



**Savings Banks
in Germany:**

→ 403 Savings Banks*

→ 233,742 employees

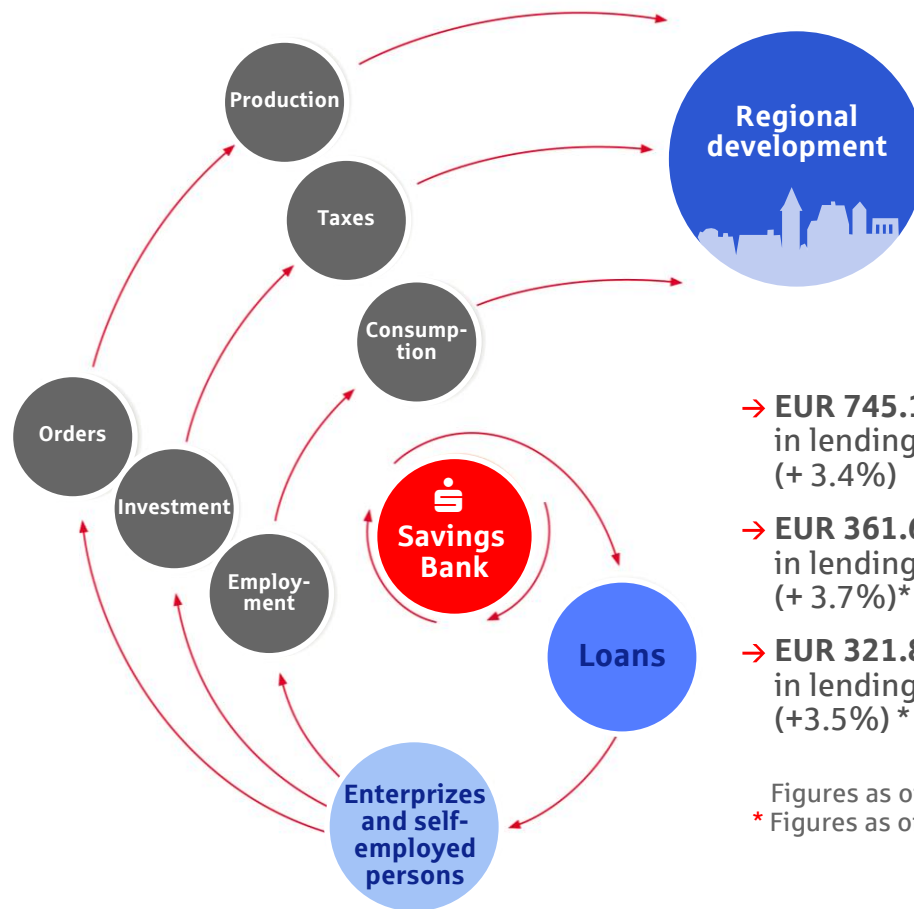
→ 17,210 trainees

→ 14,451 branch offices

Figures as of 31.12.2015

* Figure as of 15.09.2016

Savings banks actively promote regional development.

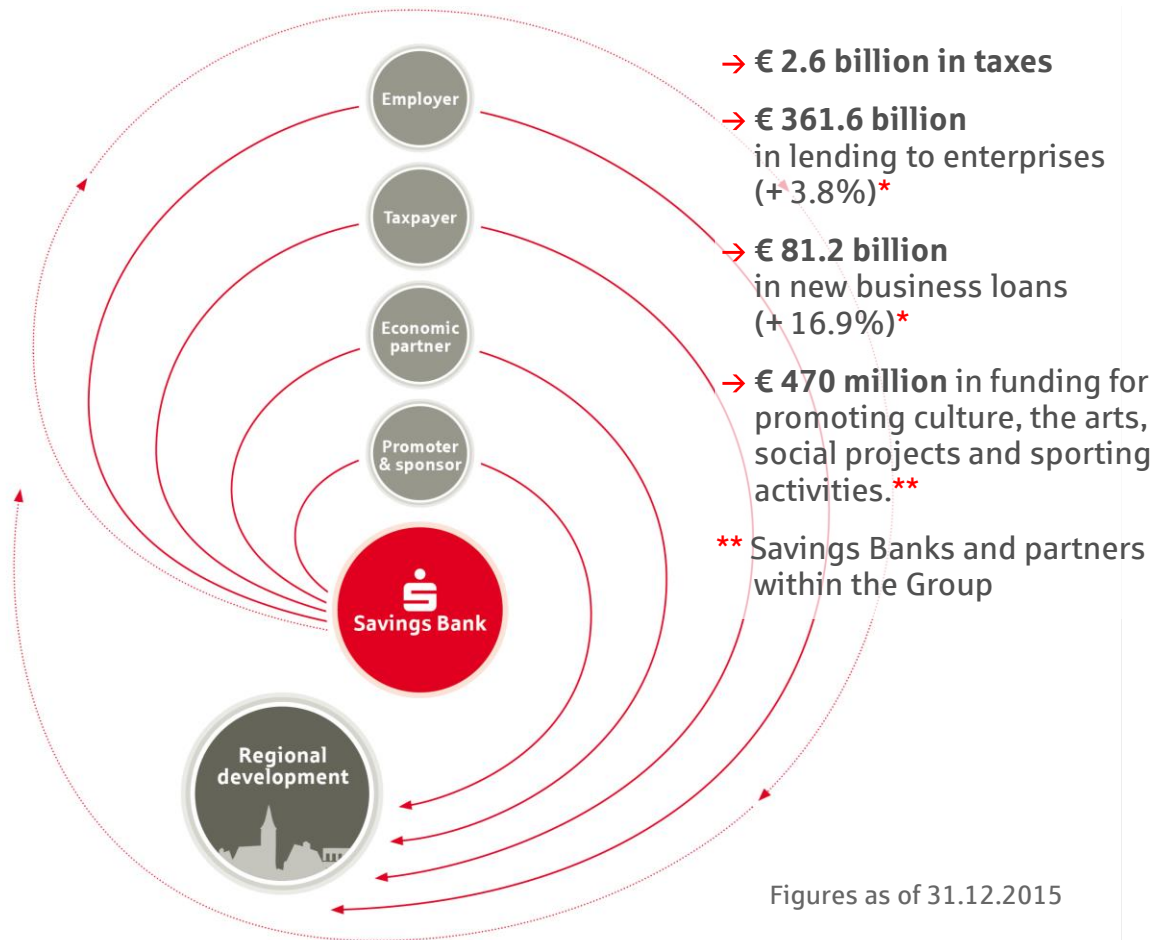


- **EUR 745.1 billion** in lending to customers (+ 3.4%)
- **EUR 361.6 billion** in lending to enterprises (+ 3.7%)*
- **EUR 321.8 billion** in lending to households (+3.5%)*

Figures as of 31.12.2011

* Figures as of 31.12.2015

Savings banks are entrepreneurs and taxpayers who support and shape their region



The Savings Banks Foundation for International Cooperation

'Think globally, act locally, cooperate internationally'

Sparkassenstiftung makes the 200 years of German Sparkassen experience accessible to similar institutions in developing countries and emerging economies. This strengthens regional and local financial structures.

Sparkassenstiftung supports savings banks around the globe, empowering them to operate professionally and profitably and to fulfil their social mandate.

Savings Banks Foundation for International Cooperation

Key Objectives

1. Improve access to financial services

- Improve level of professionalism of partner institutions to cater to the special needs of their target groups

2. Ensure sustainability

- Adjust and implement factors of success of the German Sparkassen by means of practice-oriented consultancy

3. Impart Know-how

- Accompany partner institutions' process of institutional further development

4. Improve economic framework conditions

- Support creation of jobs and improve development possibilities of broad segments of the population and regionally operating enterprises

The Case for Ireland



Finance Needs of SMEs – Response ?

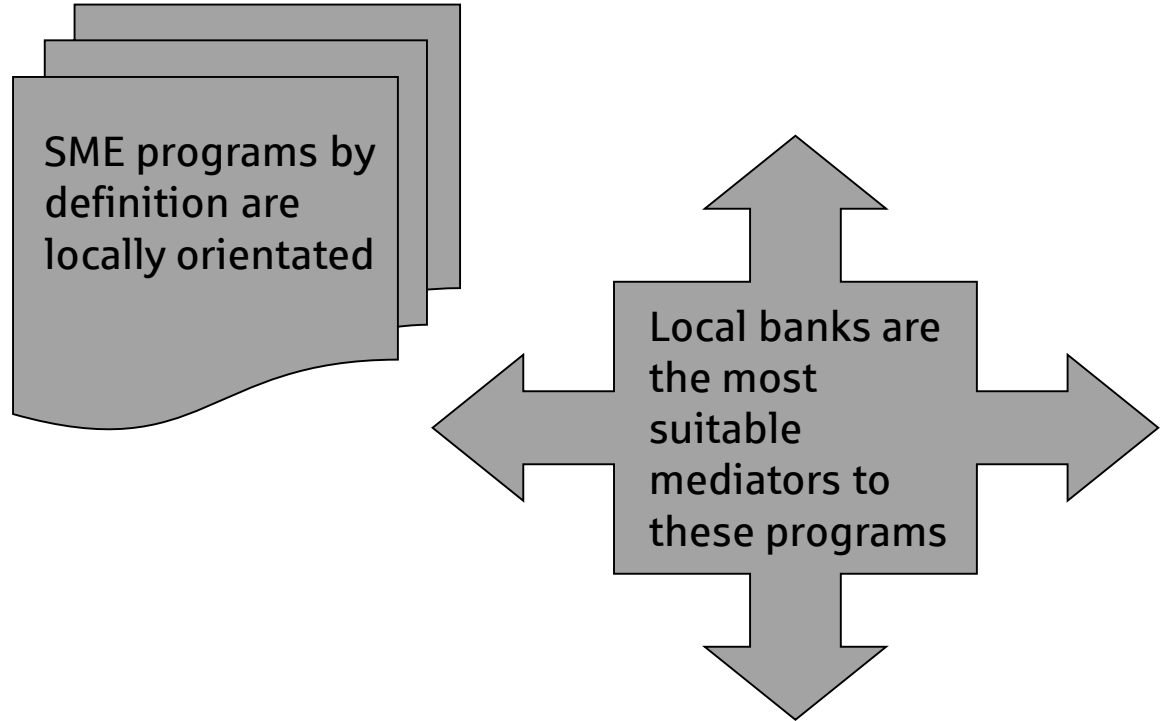
Commercial Banks – provider of		
Finance for working capital	insufficient supply	SME applications put on the side
Finance for investment	hardly any	too risky for centralised decision
Finance for start-ups	no	too risky for centralised decision
Access to donor programs	?	limited capability to advise not profitable
Fair market conditions	?	oligopol in Irish banking sector

Finance Needs of SMEs – Local Banks respond

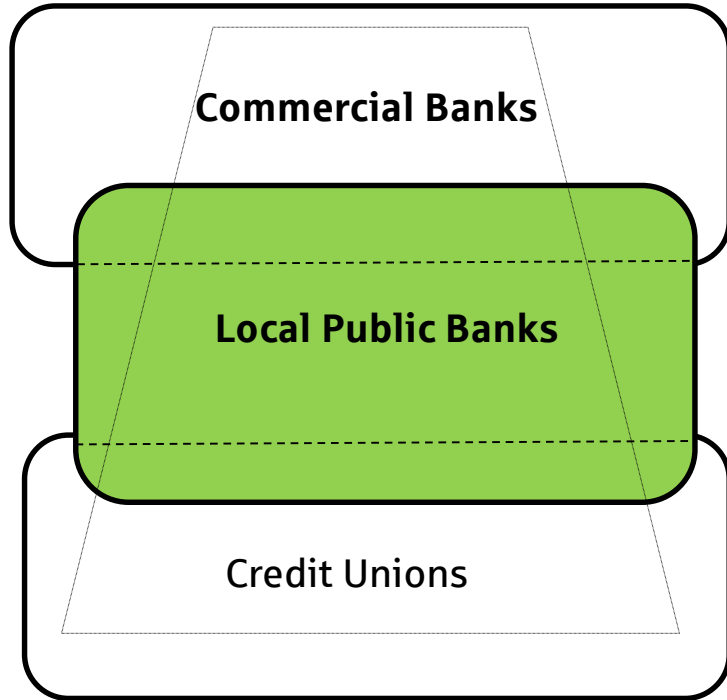
They are provider of		
Fair market conditions	yes	increased competition
Finance for working capital	yes	Local & objective risk assessment
Finance for investment	yes	understanding local potential for growth
Finance for start-ups	yes	local advisor and finance partner
Access to donor programs	yes	expertise and advisory capacity

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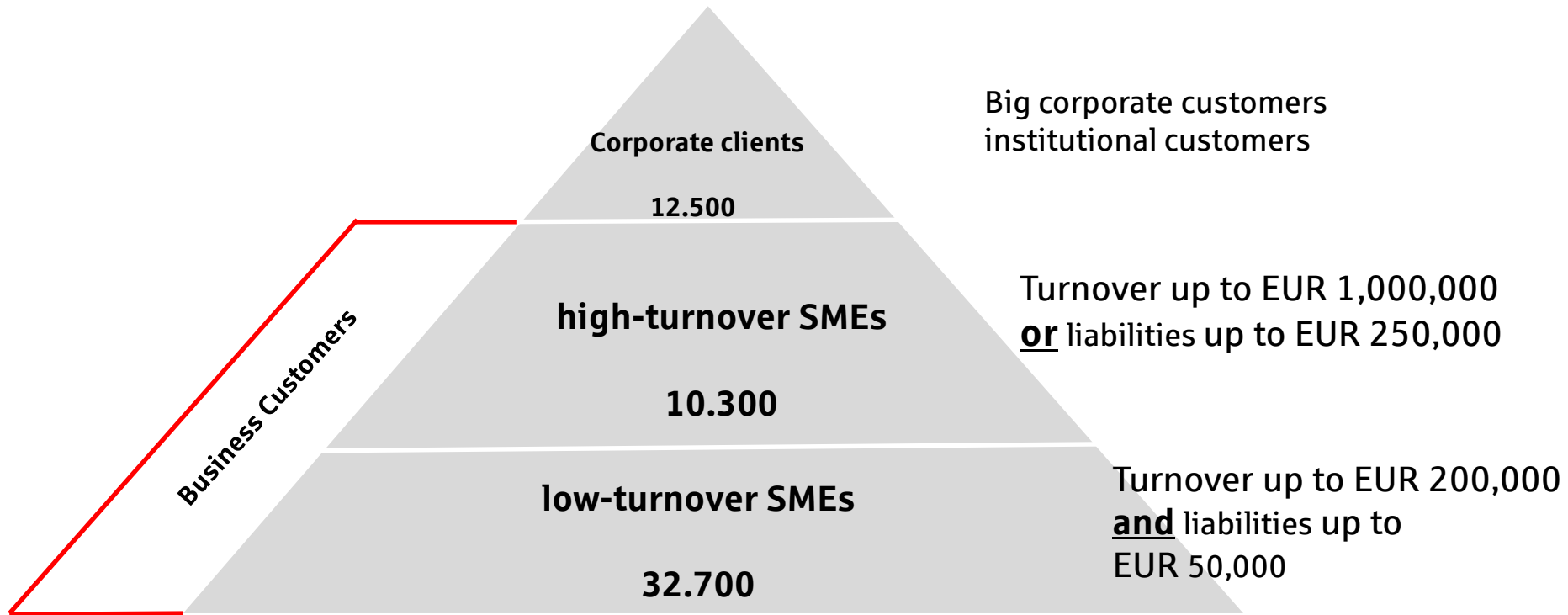
Access to Donor Programs



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We have divided our SME customers into 2 large groups based on turnover



Advisers are the main point of contact for commercial and private banking needs – our expert advisers provide professional support in both areas



Actuaries



**Specialist advisers
Leasing**



**Asset
managers**



SME customer advisers



**Specialist advisers
E-banking**



**Mortgage finance
advisers**



**Specialist advisers
International
business**

We discuss our customer's ideas in-depth – and examine each of their needs separately

Planning and investing

Operating loan, investment loan, leasing

1. Investing in the company

-What kind of investments do you want to make?

-What kinds of financing are you familiar with?

Which ones are you currently using?

(Short, medium, long-term loans /leasing)

When are your existing contracts due to end?

5. Foster ownership

Save taxes with own business premises and build up assets:

-Are you planning to make any location changes?

-What are your private objectives with respect to living accommodation?

4. Optimising financing

We secure liquidity by virtue of our good reputation:

-Which of your business partners require guarantees as security?

-What liquidity framework do you need to make use of traders' discounts or other advantages? (Extend overdraft facility)

2. Business development

What is the order situation like at present?

How do you envisage your company in 3 -5 – 10 years' time?

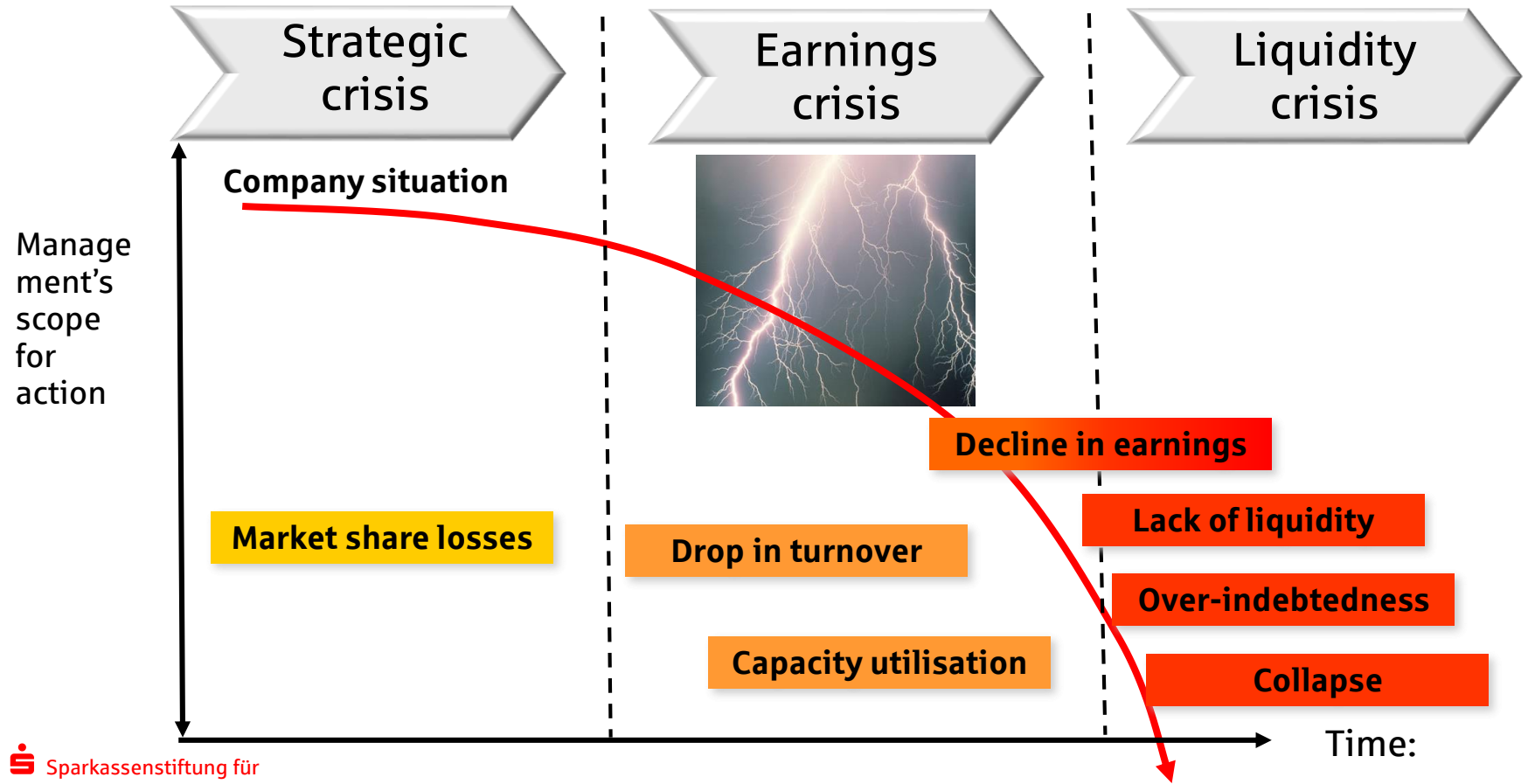
3. Financing options

-How long will you use the investment in your company (service life = max. term)?

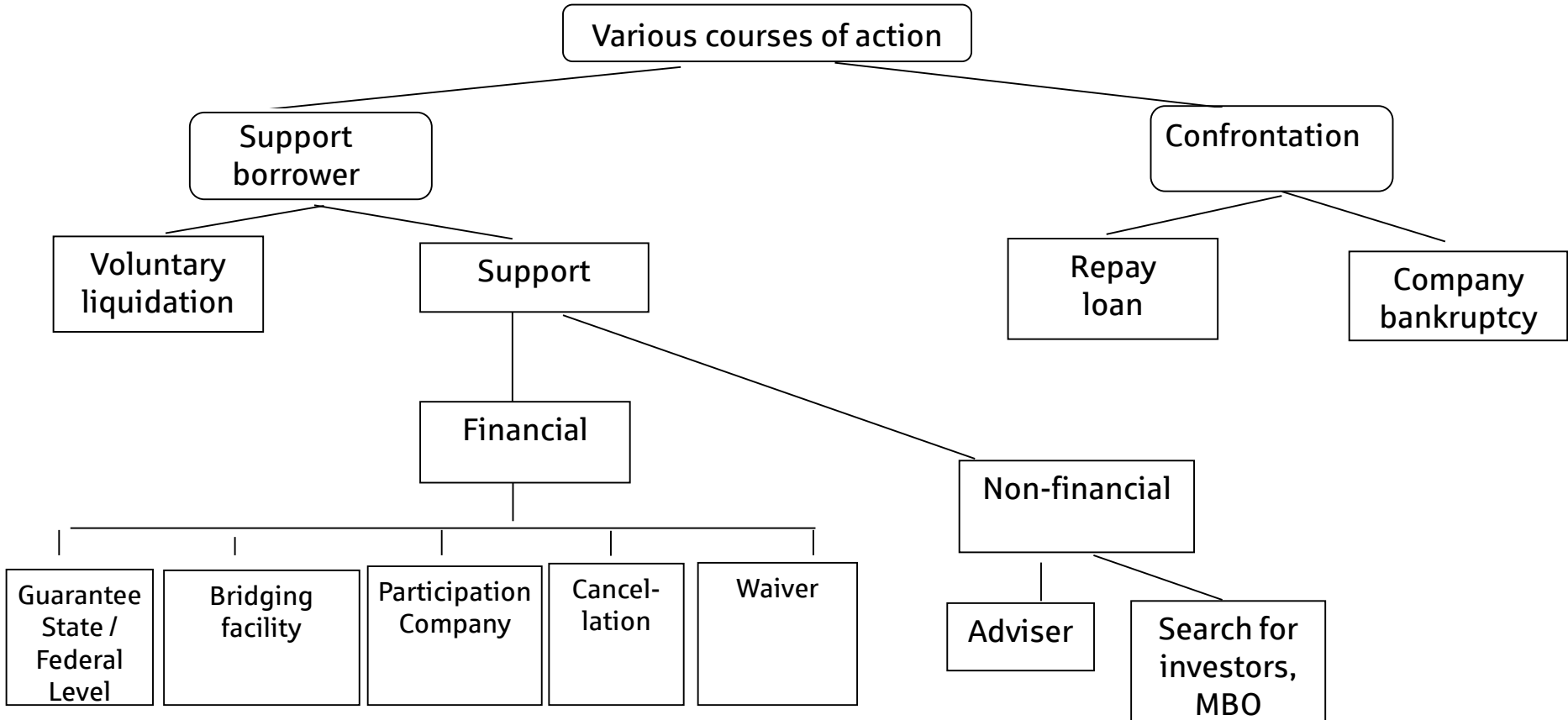
When are your existing contracts due to end?

-How important is it for you to have a flexible financing option? (unscheduled repayments)

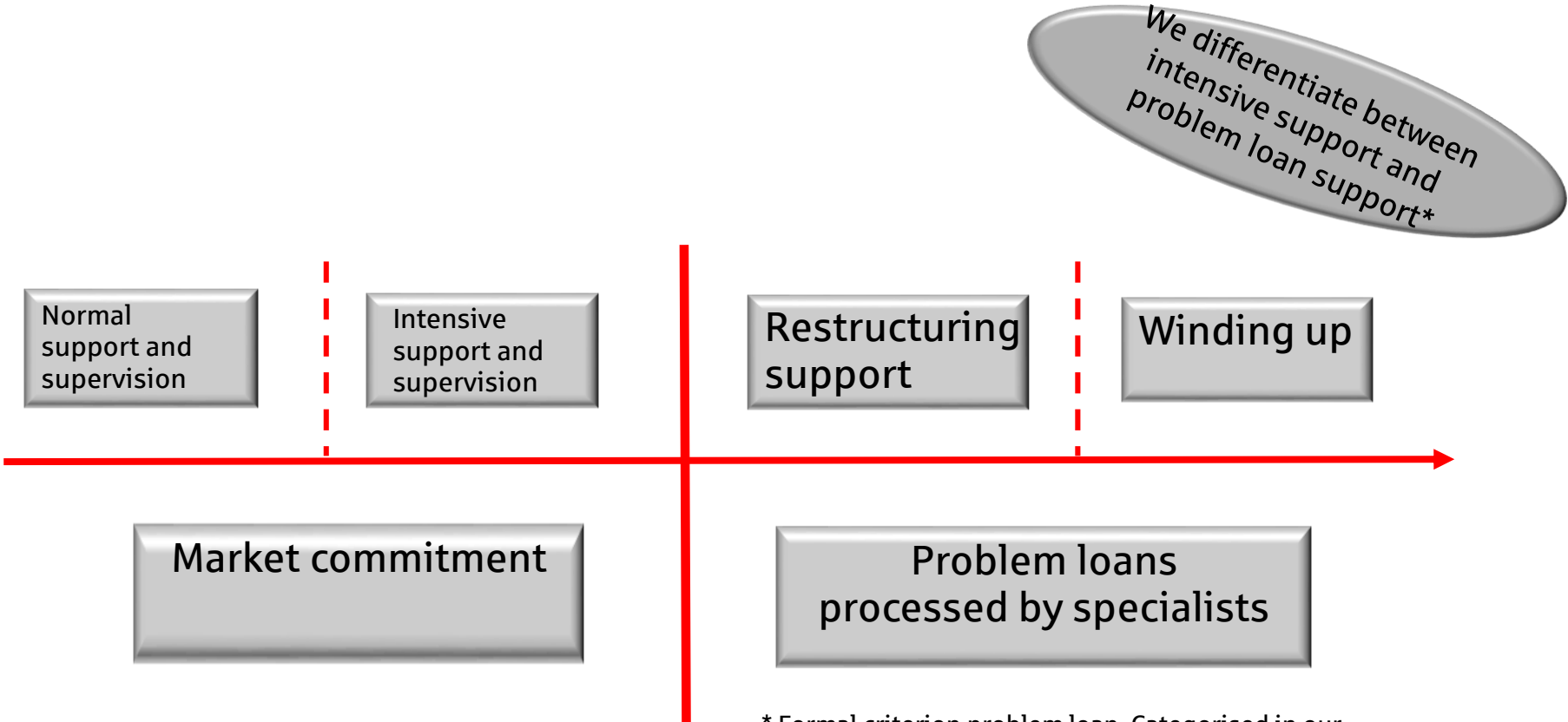
Unforeseen developments need to be identified as early on as possible to allow for more options for action



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



Once a customer requires 'restructuring support', a specialist supervisor takes over



* Formal criterion problem loan. Categorised in our early warning system as 'restructuring' (former early warning level 4)

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Investigation Team		
Stakeholder	Government	Central Bank
IRL ILCU SBFIC An Post	Finance Arts	
Experts: for example Dr. O'Dell		

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Business model

Irish

- positioning in the market
- customer targets
- product & service mix
- market share in loans/deposits
- pricing
- core competences
- risk management
- image and reputation
- public mandate

Background

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Key Customer Groups of the Region



Households



Farmers



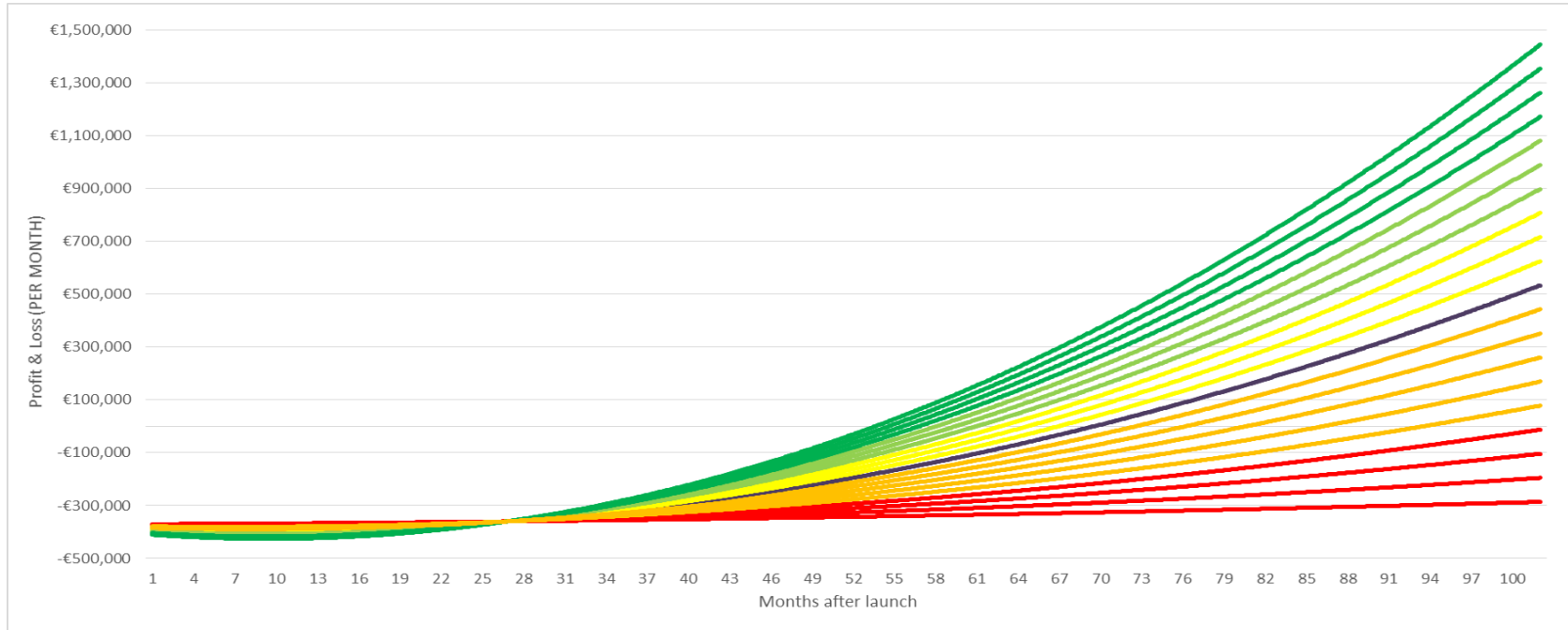
Small/Medium
Local Enterprises

Business Plan

- 5 – year business plan, monthly calculations performed
- detailed cost and income assumptions
- profit and loss calculation
- liquidity planning

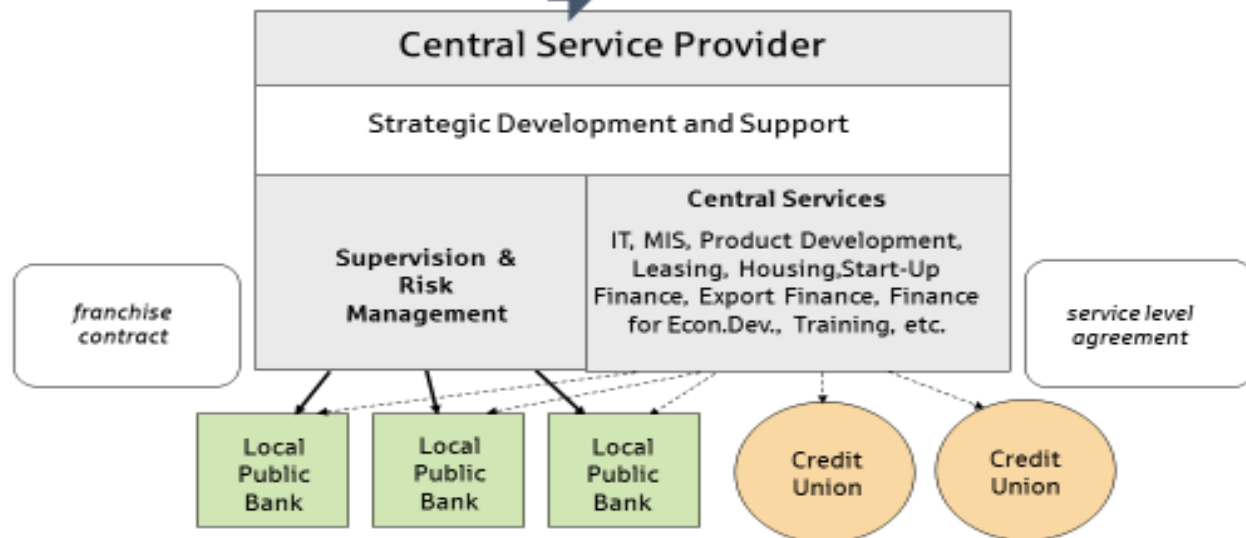
Based on local input and experience

P&L based on banking sales



National Association of Local Public Banks

centralized support unit  economies of scale and stability



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The Case for Ireland

Does Sparkasse work in Ireland ?

-Yes – but with several caveats!

-Ireland needs legislation to make it act and look like the German structure.

-Approaches taken in developing and transition economies provide lessons but are “greenfield” or “brownfield” examples.

-Idiosyncratic aspects of the Irish banking system may pose special challenges.

-Cultural distinctions.

-Exogenous factors add uncertainty to the modeling – Ultimately we need to know what Brexit will look like and when it will happen.

Sparkassenstiftung für internationale Kooperation

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