The performance of German credit institutions in 2010

After two consecutive loss-making years, in the reporting year the German banking sector posted an aggregated profit for the year before tax of €17.8 billion; this represented a strong increase compared with 2009. In terms of the development of longer-term profitability, therefore, there were again signs that the earnings situation was, on the whole, returning to normal in the year under review. However, a comparison with results from previous years is subject to certain limitations, given that the new accounting rules laid down in the Act Modernising Accounting Law *(Bilanzrechtsmodernisierungsgesetz)* became mandatory in the reporting year. The data on which this article is based cannot be used to quantify this effect, however, due to the absence of comparable figures under the old accounting method for the 2010 financial year.

Despite a – for the most part – strong improvement across almost all categories of banks, profitability in 2010 was again characterised by a marked divergence in the annual results between – and in some cases also within – those categories. Special purpose banks, savings banks, credit cooperatives as well as regional banks reported considerable increases in pre-tax profits compared with the previous year. By contrast, of the categories of banks which posted a loss in the previous year, only the big banks are again reporting a profit before tax. Landesbanken and mortgage banks, on the other hand, continue to record – albeit significantly smaller – losses. The regional institutions of credit cooperatives were the only category of banks which sustained a reduction in their annual result while still posting a considerable profit before tax. Overall performance was supported by a sharp reduction in net valuation charges, in losses in the "extraordinary account" and in staff costs. By contrast, a slight decline in the operating result had a negative effect; here, lower profits in own-account trading as well as a marked deterioration in other operating income or charges more than offset growth in net interest and net commissions received. Despite the favourable annual result, an overall balance sheet loss of €0.8 billion was posted which resulted from high losses brought forward and substantial net transfers to the fund for general banking risks. However, this loss was concentrated on only a few categories of banks and on a small number of banks within those categories.

Despite a favourable setting at the beginning of the year, we can expect a deterioration in earnings prospects for the 2011 financial year paired with greater uncertainty. Thus, notwithstanding the beneficial effects that domestic lending business is having on the banks' results and which are due to positive domestic economic activity, it is likely that earnings potentials will remain within clear limits on account, in particular, of the European sovereign debt crisis and the associated increase in volatility on the financial markets.

Preliminary remarks

New accounting rules under the Act Modernising Accounting Law …

In the 2010 financial year, the new accounting rules under the Act Modernising Accounting Law became binding for the first time in respect of German credit institutions' individual and consolidated statements drawn up under the German Commercial Code *(Handelsgesetzbuch)*. This resulted, *inter alia*, in fundamental conceptual changes with regard to the reporting of a number of the items in the profit and loss (P/L) account; these changes were subsequently reflected in the Bundesbank's statistics of the banks' profit and loss accounts calculated on the basis of the published individual accounts drawn up in accordance with the German Commercial Code.

… lead to conceptual changes in statistics for the banks' profit and loss accounts …

Perhaps the most significant changes affecting the Bundesbank's statistics of the banks' profit and loss accounts result from the new rules governing the reporting of own-account trading, pension provisions and currency conversion. In the year under review, they led to changes in the conceptual reporting of the items net profit or net loss from the trading portfolio[1], net interest received and net commissions received, staff costs, net other operating income or charges and transfers to or withdrawals from the fund for general banking risks. Moreover, changes arose in the "extraordinary account" because, on the one hand, the item transfers to or release of special reserves was eliminated. On the other hand, income and expenses in connection with the first-time application of the Act Modernising Accounting Law were to be reported under extraordinary income or extraordinary expenses.

… and restrict year-on-year comparison

Because of these conceptual changes, direct comparability of the results of the Bundesbank's statistics of the banks' P/L accounts for the 2009 and 2010 financial years is, in part, severely limited. This applies, in particular, to the above-mentioned P/L items that were affected by the new rules set forth in the Act Modernising Accounting Law. However, a comparison of the operating result (before and after valuation) and the annual result (before and after tax) with the corresponding prior-year figures is likely to be less strongly affected since, on the whole, opposing new accounting rules offset one another to an extent. Moreover, a year-on-year comparison of the individual P/L items in relation to the average balance sheet total may also contain distorting effects as a result of new rules on the reporting of assets and liabilities that affect the balance sheet total.

The most important conceptual changes to the Act Modernising Accounting Law with regard to the statistics of the banks' P/L accounts are shown in a separate annex to this article (see pages 38-46) and in brief explanations on the P/L account items that are primarily affected.

Income from interest business

In the 2010 financial year, German credit institutions saw both interest expense and in-

1 From 1993 until 2009: net profit or net loss on financial operations.

Sharp decline in interest expense and income, but net interest received up slightly

terest income fall sharply.[2] One reason was probably an almost constant downward shift of the yield curve until the end of August 2010 at both the short and the long end, although upward shifts partially offset this development during the remainder of the year. On balance, the percentage decrease of interest expense was greater than that of interest income, so that, in the aggregate, net interest received – ie the difference between interest income and interest expense – rose slightly by €0.7 billion to €92.1 billion. However, it must be taken into consideration here that, unlike in the previous year, the changed reporting regulations pursuant to the Act Modernising Accounting Law probably also had an effect on net interest received.

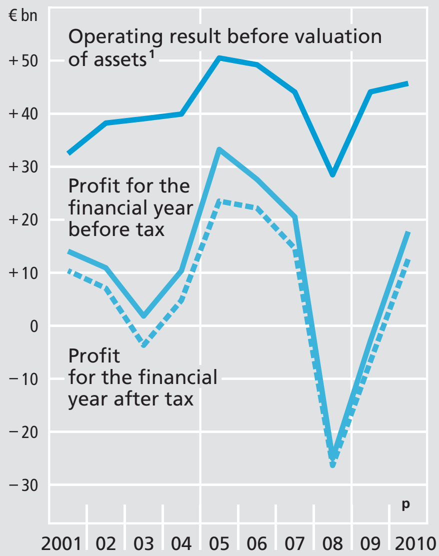
Interest margin unchanged

The share of net interest received in operating income[3] rose by 0.7 percentage points to 73.2%, which is slightly below the average for the period 1993-2009. The interest margin, calculated as net interest received in relation to the average balance sheet total, remained unchanged at 1.14% compared with the previous year. After adjustment for interbank business, which has no effect on net interest received, the interest margin fell slightly in the year under review to 1.55%, however.

Savings banks and credit cooperatives generate considerable growth in interest business

Among the various categories of banks, particularly those for which classical lending and deposit business is traditionally very important again posted an increase in net interest received. Both in the case of savings banks and credit cooperatives, the decline in interest income was more than offset by the stronger decline in interest expense. Savings

The performance of credit institutions



1 Partial operating result plus net profit or net loss from the trading portfolio (up to 2009, on financial operations) and net other operating income or charges.

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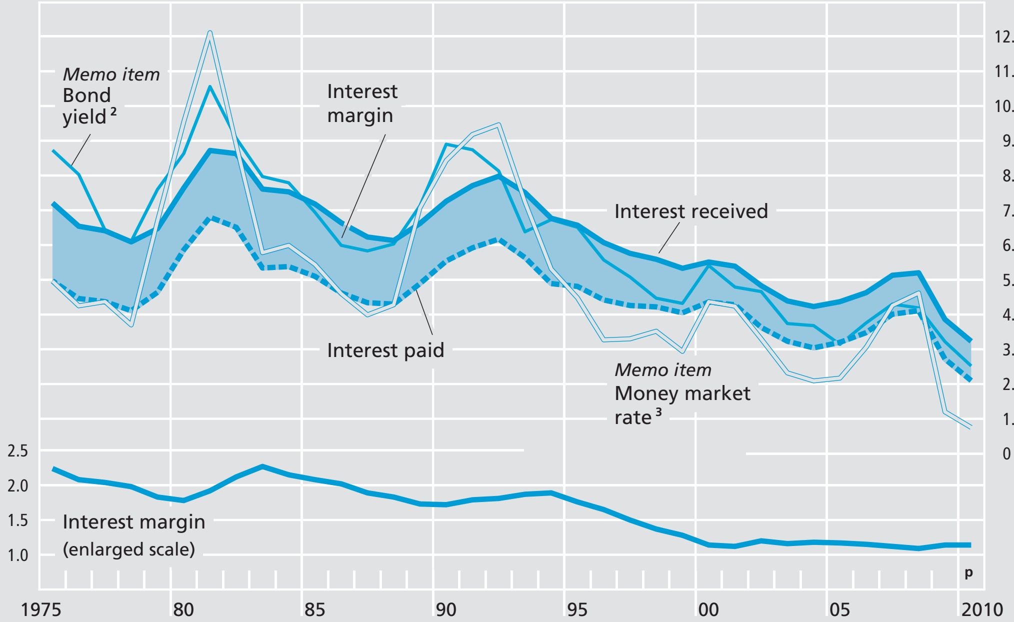
banks' net interest received rose by 4.1% to €23.5 billion, while the share of interest business in operating income was at much the same level (79.1%) as one year earlier for this banking category. As in 2009, credit cooperatives again posted a pronounced increase in net interest received, which rose by 8.0% to a record high of €16.3 billion. According to the published annual reports, this was generated by increased volumes in deposit and lending business as well as by higher profits

2 Conceptual change in financial accounting as a result of the Act Modernising Accounting Law: because of the changed accounting rules for own-account trading, interest income and expense as well as current income from trading assets and liabilities are – if this is in line with internal management – no longer reported in net interest received but in net profit or net loss from the trading portfolio.
3 Sum of net interest and net commissions received, net profit or net loss from the trading portfolio, and net other operating income or charges.

Interest received and interest paid by credit institutions in the interest cycle

As a percentage of the average balance sheet total 1



1 Up to end-1998, as a percentage of the average volume of business. — **2** Overall yield on debt securities outstanding. — **3** Money market rate for three-month funds in Frankfurt.

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from maturity transformation. The share of net interest income in operating business rose to 78.9%; this level was similar to that for savings banks. Regional banks also saw net interest received rise, by 9.9% to €12.7 billion. As was the case with savings banks and credit corporations, they reported only a relatively small decrease in interest income in 2010. However, according to published information, regional banks scaled back their interest expense appreciably, *inter alia* by paying a lower rate of interest on customer deposits.[4]

Big banks and Landesbanken see net interest received fall

By contrast, big banks, Landesbanken and mortgage banks reported a decline in net interest received. At big banks, the difference between interest income and interest expense contracted by 7.0% to €19.6 billion; however, very mixed developments within the category were behind this movement. The share of net interest received in total operating income, which is generally relatively small in the case of big banks, dropped slightly by 2.6 percentage points to 61.2%. Although net interest received by the Landesbanken fell by 9.1% or €1.0 billion to €10.3

4 The scale of this charge-reducing effect probably also benefited from the fact that, according to the published annual reports, in recent years many regional banks – including, in particular, big consumer finance providers – increased markedly the share of their refinancing through customer deposits.

billion,[5] their share of net interest received in operating income was up by 3.0 percentage points to 84.4%. This illustrates that total income from operational business at the Landesbanken decreased more strongly than net interest received.

Net commission income

Net commissions received higher …

Following a decline in net commissions received in the previous three years, German banks reported an improved result for the first time again in the 2010 financial year.[6] The increase in net commissions received by €1.2 billion (+4.5%) to €28.6 billion was driven by higher commissions received, whereas commissions paid were virtually unchanged. As a result, net commissions received accounted for 0.35% of the average balance sheet total, compared with 0.34% one year before. The importance of net commissions received for German banks' operational business – measured as the percentage share of this item in total operating income – was, at 22.7%, also slightly higher. Thus, commission business remained a significant source of income for German credit institutions. As with net interest income, it should be noted that the effect of the mandatory, first-time application of the Act Modernising Accounting Law is likely to be reflected in net commissions received as well, so that comparison with the previous year's figures is subject to certain restrictions.

… due, inter alia, to rising stock exchange turnover

The improvement in net commissions received was probably attributable, *inter alia*, to positive developments on the international stock markets, particularly in the fourth quarter of 2010. Following the massive slump in 2009, turnover in shares in the German stock markets last year went up by 12%; and after two very weak years, a number of enterprises again decided to go public. At the same time, it is likely that net commissions received rose last year due to the strong interest shown by bank customers in mutual fund shares. The acquisition of mutual fund shares by domestic non-banks alone increased by €48.8 billion to €100.4 billion in 2010.

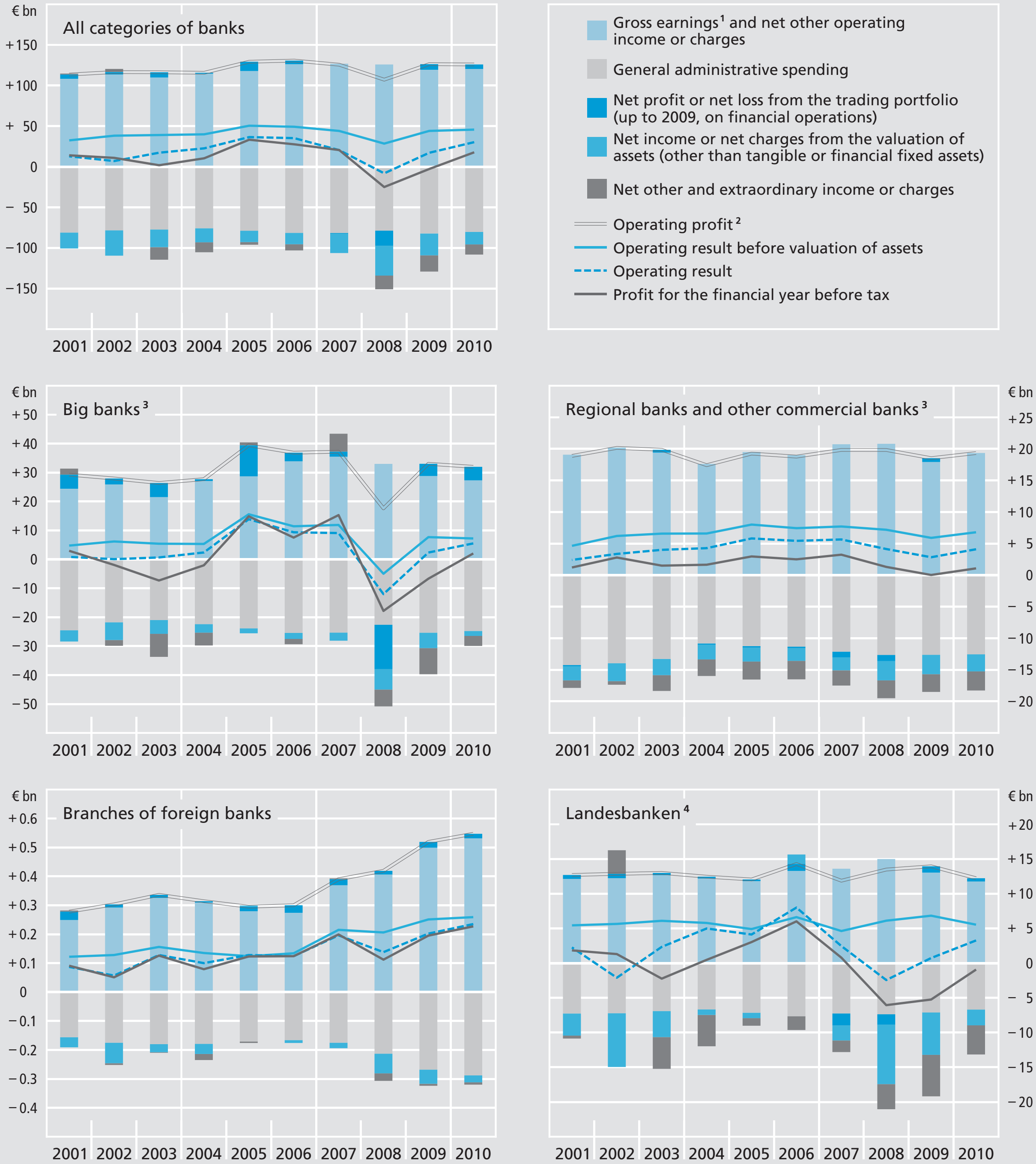
Net commissions received up in almost all categories of banks

With the exception of regional institutions of credit cooperatives,[7] branches of foreign banks and special purpose banks, all categories of banks reported higher net commissions received. What is more, the percentage increase in the year under review was relatively homogeneous across most of the categories. The 4.6% increase in net commissions received by domestic commercial banks,

5 This sharp reduction in net interest received recorded by Landesbanken was due in part to a one-off effect compared with the previous year. In 2009 a number of institutions did not service participation rights capital and hybrid capital; however, some of them again made distributions as expenditure in respect of these financial instruments in 2010. This special factor in 2009 resulted from the fulfilment of European Commission requirements in the context of EU state aid control procedures due to the stabilisation measures taken by the owners of the Landesbanken concerned and by the Financial Market Stabilisation Fund (Sonderfonds Finanzmarktstabilisierung, SoFFin).
6 Conceptual change in financial accounting as a result of the Act Modernising Accounting Law: due to the amended accounting rules regarding own-account trading, commissions paid and commissions received in connection with the purchase and sale of instruments for own-account trading are no longer posted in net commissions received but must be shown in net profit or net loss from the trading portfolio.
7 According to the published annual reports, the decrease recorded by regional institutions of credit cooperatives was due to the fact that the exceptionally high income from securities transactions in the previous year was not repeated.

Major components of credit institutions' profit and loss accounts by category of banks*

The tables below use different scales



* The figures for the most recent date should be regarded as provisional. Excluding building and loan associations, institutions in liquidation, and institutions with a truncated financial year. — **1** Sum of net interest received and net commissions received. — **2** Gross earnings plus net profit or net loss from the trading portfolio (up to 2009, on financial operations) and net other operating income or charges. —

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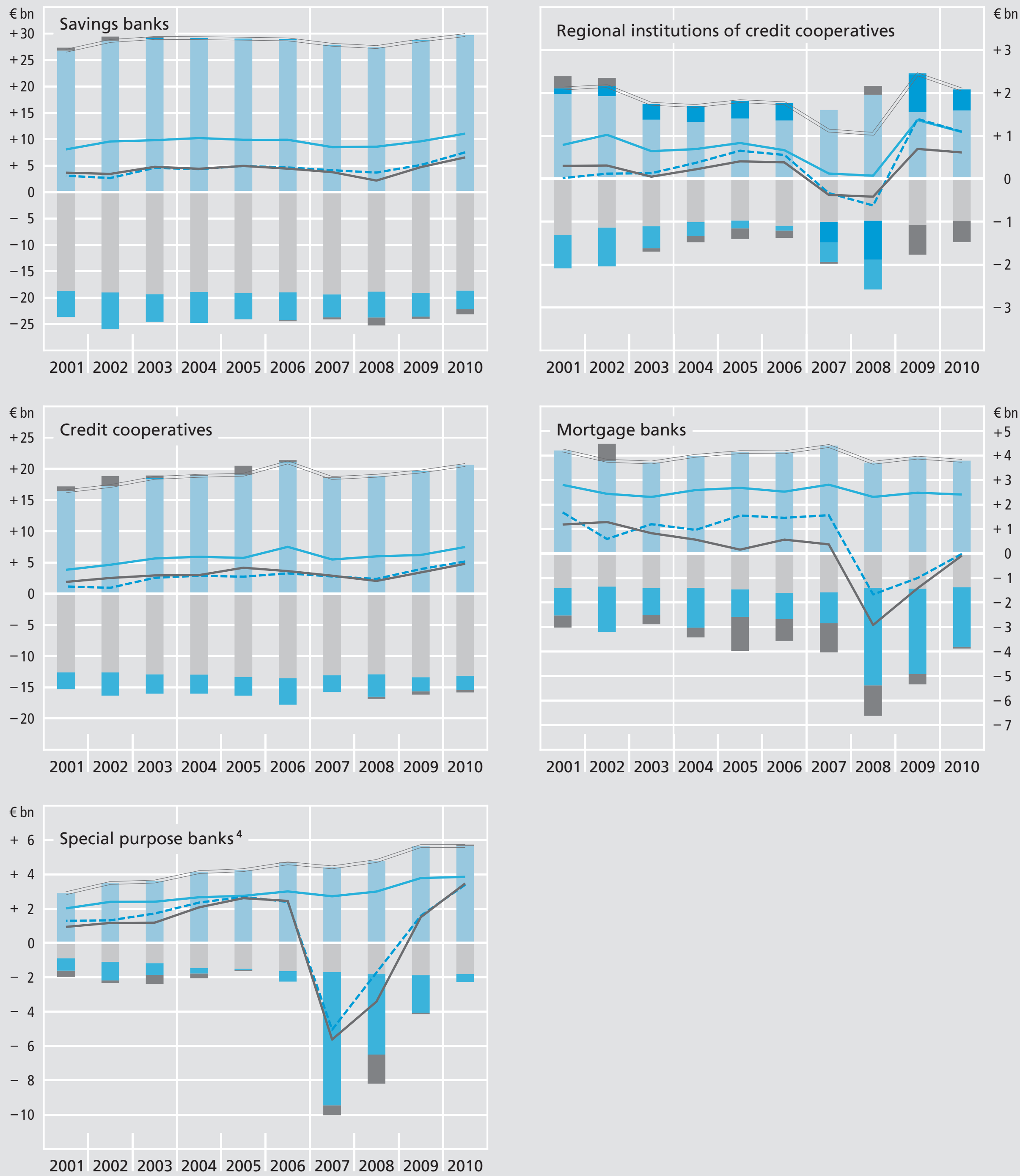

3 From 2004, Deutsche Postbank AG allocated to the category of “Big banks“. — **4** From 2004, NRW.BANK allocated to the category of “Special purpose banks“.

Relative significance of major income and cost items for individual categories of banks in 2010 *

As a percentage of total surplus in operating business

Item	All categories of banks	Big banks	Regional banks	Landes-banken	Savings banks	Regional institutions of credit coopera-tives	Credit coopera-tives	Mortgage banks	Special purpose banks
Net interest received	73.2	61.2	65.5	84.4	79.1	60.5	78.9	92.7	84.1
Net commissions received	22.7	31.9	28.1	10.0	20.6	16.7	20.0	5.2	14.7
Net profit or net loss from the trading portfolio	4.5	14.7	– 0.1	3.9	0.2	23.6	0.1	– 0.2	– 0.1
Net other operating income or charges	– 0.4	– 7.9	6.4	1.7	0.1	– 0.8	1.1	2.3	1.3
Total surplus in operating business	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
General administrative spending	– 63.7	– 77.4	– 64.9	– 54.7	– 62.8	– 47.6	– 63.7	– 36.3	– 31.8
of which									
Staff costs	– 33.6	– 37.1	– 28.2	– 26.7	– 38.9	– 26.2	– 38.5	– 14.1	– 18.2
Other administrative spending	– 30.1	– 40.3	– 36.7	– 28.0	– 24.0	– 21.4	– 25.2	– 22.2	– 13.6
Net income or net charges from the valuation of assets	– 12.3	– 5.4	– 13.9	– 18.6	– 11.9	0.3	– 11.3	– 64.1	– 8.1
Net other and extraordinary income or charges	– 9.9	– 10.8	– 15.7	– 34.3	– 3.2	– 23.2	– 1.8	– 1.9	1.3
Memo item									
Profit for the financial year before tax	14.1	6.4	5.5	– 7.6	22.1	29.5	23.2	– 2.3	61.4
Taxes on income and earnings	– 4.1	– 1.5	– 2.8	0.8	– 8.5	0.3	– 7.9	0.4	– 1.4
Profit for the financial year after tax	10.0	4.9	2.8	– 6.8	13.6	29.8	15.4	– 1.8	60.0

* The figures for the most recent date should be regarded as provisional in all cases. Excluding building and loan associations, institutions in liquidation, and institutions with a truncated financial year.

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which generated just over 55% of net commissions received by all domestic credit institutions, was roughly in line with the average for all banking categories. Not only did the big banks again secure for themselves the largest share in net commissions received among the commercial banks; they also posted the highest growth rate (6.8%), whereas the regional banks experienced only a slight increase of 1.3%. Net commissions received by the Landesbanken, for which commission business plays only a relatively minor role, rose to a slightly below-average extent in relation to net commissions received by all banks.[8] After two consecutive years of declining net commissions received, savings banks and credit cooperatives also returned to the growth rates of previous years: this income component rose by 4.5% and 5.7% respectively in the 2010 financial year. Savings banks' net commissions received constituted 20.6% of operating income in 2010. For credit cooperatives, this ratio was 20.0%. Thus, this share was roughly as high as in the previous year for both categories of banks.

8 According to the published annual reports, the growth rates of net commissions received by the individual Landesbanken are highly heterogeneous. This is probably partly due to the fact that, as in the previous year, commissions paid for guarantees provided by SoFFin in the wake of the financial crisis had an adverse impact on net commissions received by a number of Landesbanken. In the case of others, by contrast, a positive effect is discernible because this expenditure was only incurred in 2009, but no longer in the business year under review.

Net profit or net loss from the trading portfolio

Profit in own-account trading still high despite decline

Despite a decline in net income by €1.2 billion, in the year under review German banks recorded a substantial profit of €5.7 billion in own-account trading in financial instruments and precious metals.[9] However, it must be taken into account that the year-on-year decline in profit is also likely to have been considerably affected by transfers to the special item[10] pursuant to section 340e (4) of the German Commercial Code within the fund for general banking risks because of the Act Modernising Accounting Law being mandatorily applied for the first time.[11]

Own-account trading figures reflect mixed financial market developments

Although down on the previous year, the positive 2010 own-account trading figures were, according to the published annual reports, characterised by markedly heterogeneous developments in the individual financial market segments. German banks generated a rise in income from, *inter alia*, structured products and derivatives as well as from equity transactions. Favourable global economic developments and the still accommodative monetary policy stance in the euro area and other large economies probably contributed to this increase. According to information provided by the institutions, given that the Act Modernising Accounting Law was mandatorily applied for the first time, the reclassification of net interest received and net commissions received in connection with trading assets and liabilities to own-account trading figures provided an additional positive effect in the year under review. By contrast, primarily tensions in the markets for the sovereign bonds of some euro-area countries are likely to have had a detrimental effect.

Aggregate decline in profits mainly driven by regional banks

A significant portion of the aggregate decline in profits from own-account trading in the year under review was attributable to the regional banks, which sustained a considerable reduction (-€0.6 billion) in own-account trading, leading to an – albeit minor – own-account trading loss of €12 million.[12] The Landesbanken and the regional institutions of credit cooperatives likewise posted substantial declines of 48% to €0.5 billion and 44.3% to €0.5 billion respectively. In the case of the Landesbanken, this was probably due

9 Conceptual change in financial accounting as a result of the Act Modernising Accounting Law: (1) Renaming the item from net profit or net loss on financial operations to net profit or net loss from the trading portfolio. (2) Valuation no longer at strict lower of cost or market principle, but at fair value minus a risk haircut. (3) Commissions paid and received in connection with instruments for own-account trading must be reported under own-account trading figures and no longer under net commissions received. (4) Current income and expenditure (interest, dividends etc) from trading assets and liabilities are – if this is in line with internal management – no longer reported in net interest income but in net profit or net loss from the trading portfolio. (5) Given the introduction of the countercyclical risk reserve as a special item pursuant to section 340e (4) of the German Commercial Code in the fund for general banking risks, income from withdrawals and charges through transfers that concern this special item are reported in the trading result.

10 The reporting of the own-account trading figures after transfers to or withdrawals from the special item partially "contravenes" the Bundesbank's hitherto applied system for the bank's P/L accounts for booking transfers to or withdrawals from the fund for general banking risks. In the past, all transfers to or withdrawals from the fund for general banking risks were recorded as appropriation of profit and not as expenditure and income components. However, this system currently cannot be applied to the special item because the present database does not allow a reliable adjustment of the own-account trading figures for transfer or dissolution effects.

11 According to the published annual report, at one big bank the transfer to the special item led to a marked reduction in profits in own-account trading on aggregate.

12 According to the published annual reports, however, this development largely resulted from one institution's own-account trading loss.

in part – as in the previous year – to the reduction of or complete withdrawal from own-account trading by a number of institutions because of requirements connected with the EU state aid control procedure.[13] By contrast, the big banks were the only banking category to post a year-on-year rise in net profits (by 10.4% to €4.7 billion) in 2010. According to the published annual reports, however, it was due only to one institution.[14] For all other banking groups, own-account trading played virtually no role in the reporting year.

Administrative spending

Administrative spending down as a result of lower staff costs

After reaching the highest level so far (recorded in 2009), German banks' administrative spending fell markedly again in 2010, by €2.0 billion or 2.4% to €80.2 billion.[15] This was due to an even more pronounced drop in staff costs by €2.7 billion or 6.0%, given that other administrative spending, which essentially comprises material expenditure, expenditure on third-party services, as well as depreciation of tangible fixed assets, rose by 1.9% to €38.0 billion in 2010. According to the published annual reports, a large part of the decline in staff costs in the year under review was likely caused by the Act Modernising Accounting Law being mandatorily applied for the first time. This is because, under the new rules, interest expense for pension provisions is no longer to be reported under staff costs; for this reason, they were for the most part reported under other administrative spending. The further decline in the number of persons employed in the banking industry (641,450 in 2010 as opposed to 646,650 in 2009) is also likely to have brought some relief.

Mixed development across the categories of banks

On the whole, all categories of banks saw a slight to considerable fall in administrative spending. With regard to the individual components staff costs and other administrative

13 EU state aid control procedures formed the basis for the granting of financial assistance by SoFFin and the respective owners to several Landesbanken during the financial crisis, and were linked with far-reaching conditions such as the requirement to shrink balance sheets by focusing more on core business lines, selling participating interests and withdrawing from entire business lines including own-account trading.

14 According to the data published by this institution, however, around half of the year-on-year increase in own-account trading was due to the reclassification of net interest income in connection with trading instruments from net interest received to net profit or net loss from the trading portfolio, the Act Modernising Accounting Law having been mandatorily applied for the first time. According to the published annual reports, by contrast all other big banks saw their own-account trading results decline on the year. However, as has already been mentioned, transfers to the special item in the fund for general banking risks had a considerable negative effect at one big bank.

15 Conceptual change in financial accounting as a result of the Act Modernising Accounting Law: under the old rules, it was possible to book transfers to (pension and interest expense) and income from the release of pension provisions in their entirety under staff costs. (According to the published annual reports, a large number of institutions seem to have used this booking practice in the past.) On the other hand, it was also possible to report them separately, with pension components being posted under staff costs and the interest portion under net interest income. Based on the new provisions of the German Commercial Code, the IDW will in future require a differentiated reporting. Thus, the pension component arising in the respective period is to be reported under staff costs. On the other hand, expenditure and income from marking up or discounting pension provisions must be netted with expenditure and income from the pension plan assets to be offset, and reported as part of the financial result. According to the published annual reports, this balance was predominantly reported under other operating income. In the case of effects on profits caused by a change in the discount rate there is the possibility of booking these under either staff costs or the financial result. The same applies to current income and effects on profits from changes in the fair value of the pension plan assets, unless they have already been netted with expenditure and revenue from marking up or discounting pension provisions. However, the disclosure option for the three aforementioned items must be exercised consistently.

Structural data on German credit institutions *

Category of banks	Number of institutions [1] 2008	2009	2010	Number of branches [1] 2008	2009	2010	Number of employees [2] 2008	2009	2010
All categories of banks	1,970	1,935	1,920	37,659	36,927	36,463	657,850	646,650	641,450
Commercial banks	283	295	300	11,277	10,936	10,826	[3] 189,400	[3] 181,900	[3] 179,000
Big banks	5	5	4	8,536	8,213	8,132	.	.	.
Regional banks	173	176	180	2,656	2,620	2,583	.	.	.
Branches of foreign banks	105	114	116	85	103	111	.	.	.
Landesbanken	10	10	10	482	475	471	39,250	38,750	37,700
Savings banks	438	431	429	13,457	13,266	13,025	251,400	249,600	248,150
Regional institutions of credit cooperatives	2	2	2	12	11	11	5,100	5,000	4,900
Credit cooperatives	1,199	1,160	1,141	12,344	12,144	12,046	[4] 159,250	[4] 158,300	[4] 158,200
Mortgage banks	19	18	18	56	65	54	.	.	.
Special purpose banks	19	19	20	31	30	30	[5] 13,450	[5] 13,100	[5] 13,500
Memo item Building and loan associations	25	24	23	1,872	1,924	1,686	[6] 16,400	[6] 15,700	[6] 15,400

***** The figures for the most recent date should be regarded as provisional in all cases. — **1** Source: Bank office statistics, in Deutsche Bundesbank, Banking statistics, Statistical Supplement to the Monthly Report 1, p 104 (German edition). The term "credit institution" is used as in the Banking Act, resulting in divergences from data in "Balance sheet statistics" and "Statistics on the profit and loss account". — **2** Excluding Deutsche Bundesbank; sources: data provided by associations. Part-time employees are counted on a per capita basis.— **3** Employees in private banking, including mortgage banks established under private law. — **4** Only employees whose primary occupation is in banking. — **5** Employees at public mortgage banks (mortgage banks established under public law) and special purpose banks established under public law. — **6** Only office-based employees.

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spending, however, developments were much more diverse among the categories. Whereas savings banks and credit cooperatives recorded a relatively moderate decline in staff costs (-3.1% and -4.1% respectively) in 2010, almost all other categories reduced them considerably. Other administrative spending was up for the majority of categories of banks, with regional banks posting a comparatively sharp increase.[16]

Net other operating income or charges

Negative balance of other operating income and charges

German credit institutions' net other operating income or charges showed a pronounced decline of €1.1 billion to -€0.6 billion in the reporting year, and entered negative territory for the first time since 1993.[17] In 2010, both other operating income and charges rose perceptibly. According to the published an-

16 According to the published annual report, this marked increase of 7.1% was mainly driven, however, by the rise in other administrative spending by one individual big regional bank, which contributed 3.1 percentage points to the overall increase reported by this category of banks.

17 Conceptual change in financial accounting as a result of the Act Modernising Accounting Law: (1) Because of changes to reporting in the profit and loss account with regard to the setting up and the release of pension provisions, unlike with the old rules, expenditure and income from marking up or discounting must now be netted with expenditure and income from the plan assets to be offset, and shown as part of the financial result. According to the published annual reports, this balance was predominantly reported under other operating income. In the past, expenditure and income from marking up or discounting could be posted either under net interest income or under staff costs. (2) Under the new rule for foreign currency conversion, revenue and expenditure no longer need, unlike under the old rule, to be included in the profit and loss item under which the valuation results were usually shown; as an alternative they can be booked under other operating income. However, as in the past, the result from foreign currency conversion generated in own-account trading is to be shown in the own-account trading figures.

nual reports, this development probably also resulted, to a considerable extent, from the Act Modernising Accounting Law being mandatorily applied for the first time.

Mixed developments between categories of banks

In the year under review, credit cooperatives and Landesbanken recorded a perceptible deterioration of net other operating income or charges, which resulted from a sharp increase in charges paired with only slight growth in income. The main reason which the Landesbanken cited in their annual reports was the above-mentioned new rules under the Act Modernising Accounting Law. Big banks likewise sustained a distinct worsening and posted – as in the previous year – a relatively high loss in net other operating income or charges,[18] which played a major part in the aggregate negative balance.[19] By contrast, the regional banks were the only category of banks to register a perceptible growth in net other operating income or charges. In the case of most other categories of banks, there were only minor changes in net other operating income or charges compared with the previous year.

Operating result before the valuation of assets

Increase in operating result before valuation due to improved gross income and lower administrative spending

In the 2010 financial year, the German banking industry again followed the marked increase in their operating result before the valuation of assets in 2009 with a slight increase of €1.6 billion to €45.7 billion. This moderate growth was largely due to reduced administrative spending and to higher gross income,[20] and more than offset the drop in profits on own-account trading and the deterioration in net other operating income or charges.

Overall growth due to improved results at banks active in retail banking

Looking at the individual categories of banks, primarily the savings banks, credit cooperatives and regional banks recorded sharp growth in their operating result before the valuation of assets; this growth was largely fuelled by perceptible increases in their respective net interest income. By contrast, the Landesbanken, big banks and regional institutions of credit cooperatives sustained, in some cases, considerable drops in their operating result before the valuation of assets. This was attributable to a pronounced reduction in net interest income at big banks and Landesbanken, and above all to the decline in own-account trading figures at regional institutions of credit cooperatives. However, these three categories could at least partly offset the deterioration of the operating result before the valuation of assets by scaling back administrative spending. At mortgage banks and special purpose banks, the operating result before the valuation of assets more or less stabilised at the previous year's level.

18 The negative balance in big banks' net other operating income or charges totalling -€2.6 billion was, according to the published annual reports, attributable to two institutions; their losses were the result, inter alia, of the setting up of provisions, charges related to currency hedging contracts in connection with foreign branches and subsidiaries, net charges resulting from transactions with commodities and commodity futures with physical delivery as well as the costs of capital increases.
19 In the year under review, apart from big banks, only regional institutions of credit cooperatives reported a loss in net other operating income or charges; at €17 million on aggregate, however, the amount was negligible.
20 Sum of net interest received and net commissions received.

Greater cost efficiency

On the whole, German credit institutions succeeded in improving cost efficiency in 2010. The ratio of administrative spending to the sum of net interest received and net commissions received fell by 2.8 percentage points to 66.4%. The cost/income ratio relative to total income from operational business likewise decreased, by 1.4 percentage points to 63.7%. Only in the case of the Landesbanken and the big banks were both ratios clearly and slightly, respectively, above the previous year's level in the 2010 financial year. Here, too, however, the new rules under the Act Modernising Accounting Law likely had an effect.

Net income or net charges from the valuation of assets, and operating result

Net valuation charges again reduced considerably

In 2010, German credit institutions' net charges from the valuation of securities of the liquidity reserve, claims and loans showed a further substantial fall by €11.5 billion to €15.4 billion, following massive increases in 2007 and 2008 and a sharp decline the following year.[21] As a result, for the first time since 2006, risk provisioning in the reporting year was again below the long-term average for the years 1993 to 2009. Net valuation charges in relation to the balance sheet total likewise fell clearly, to 0.19%, after 0.34% in 2009. Besides the write-downs and transfers to provisions recorded under net income or net charges from the valuation of assets, net

21 Within this item, the respective institutions had already made use of the cross-offsetting option permissible under section 340f (3) of the German Commercial Code.

Cost/income ratios, by category of banks *

As a percentage

Category of banks	General administrative spending in relation to … 2008	2009	2010
	… gross earnings 1		
All categories of banks	65.4	69.2	66.4
Commercial banks	68.6	79.8	77.8
Big banks	71.2	82.8	83.1
Regional banks and other commercial banks	64.5	74.8	69.3
Branches of foreign banks	56.6	69.6	68.7
Landesbanken	51.4	56.7	57.9
Savings banks	70.2	67.2	63.0
Regional institutions of credit cooperatives	51.7	69.1	61.6
Credit cooperatives	74.9	70.6	64.5
Mortgage banks	38.4	36.8	37.1
Special purpose banks	37.9	33.2	32.2
	… income from operating business 2		
All categories of banks	73.4	65.1	63.7
Commercial banks	93.6	73.4	72.5
Big banks	128.2	76.8	77.4
Regional banks and other commercial banks	63.8	68.1	64.9
Branches of foreign banks	50.8	51.6	52.7
Landesbanken	54.6	51.0	54.7
Savings banks	68.8	66.6	62.8
Regional institutions of credit cooperatives	93.1	43.9	47.6
Credit cooperatives	68.3	68.3	63.7
Mortgage banks	37.6	36.6	36.3
Special purpose banks	37.3	33.0	31.8

* The figures for the most recent date should be regarded as provisional in all cases. Excluding building and loan associations, institutions in liquidation, and institutions with a truncated financial year. — **1** Aggregate net interest and net commissions received. — **2** Gross earnings plus net profit or net loss from the trading portfolio/on financial operations (up to 2009) and net other operating income or charges.

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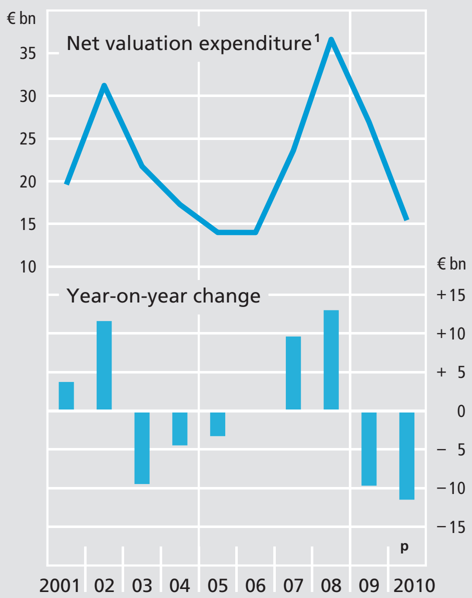
Risk provisioning of credit institutions



1 Excluding investment in tangible and financial fixed assets.

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resources of €6.1 billion were allocated to the fund for general banking risks (pursuant to section 340g of the German Commercial Code) in the reporting year; this was the second-highest annual figure in long-term comparison with the years 1993 to 2009. These resources do not, however, reduce the profit for the year in the performance analysis presented here, but are allocated to the appropriation of profit as part of the accumulation of reserves.[22]

Risk provisioning down in almost all categories of banks

With the exception of the credit cooperatives and the regional institutions of credit cooperatives, whose risk provisioning remained virtually unchanged, all categories of banks recorded a decline in their net valuation charges compared with 2009. Overall, the reduction resulted primarily from the reduced net valuation charges at big banks (-€3.6 billion), Landesbanken (-€3.8 billion), mortgage banks (-€1.1 billion) and special purpose banks (-€1.7 billion).[23]

Decline in risk provisioning due to favourable conditions in individual financial market segments ...

According to published annual reports, net income or charges from the valuation of the securities assigned to the liquidity reserve is likely to have contributed to a marked decline in total net valuation charges. Apparently, the overall effect of the very mixed developments in the individual financial markets on net valuation charges was positive in the year under review. German banks recorded income, above all, from capital gains and write-ups, which were reflected in part in a balanced valuation result or even in net income from securities business. A major factor in this context was probably also the further reduction of write-downs on fixed-income securities in domestic credit institutions' portfolios (down by 37.7% on the previous year and therefore considerably below the pre-crisis level), which flowed in part into the valuation result. According to the published annual reports, these positive effects contrasted with in some cases greater strains

22 However, the net transfers mentioned here do not – as has been explained above – contain the net transfers to the special item pursuant to section 340e (4) of the German Commercial Code.
23 In the categories big banks and Landesbanken, most institutions were able, according to the published annual reports, to generate a similar percentage increase of their valuation result; the trend was more mixed in the case of the special purpose banks. According to the published annual reports, two institutions from this category even reported a net income. The improved result of the mortgage banks category was due mainly to one large institution reducing its net valuation charges sharply. However, this stood in contrast with a marked increase in risk provisioning by another institution which accounted for roughly three-fifths of the total risk provisioning by mortgage banks in 2010, according to the published annual reports.

Performance of the various categories of banks in 2009/2010 *

€ million

Category of banks	Operating result before valuation 1		Operating result 2		Profit for the financial year before tax 3	
	2009	2010	2009	2010	2009	2010
All categories of banks	44,091 (0.55)	45,691 (0.56)	17,161 (0.21)	30,252 (0.37)	– 2,815 (– 0.04)	17,751 (0.22)
Commercial banks	13,828 (0.51)	14,272 (0.50)	5,386 (0.20)	9,840 (0.35)	– 6,474 (– 0.24)	3,336 (0.12)
Big banks	7,676 (0.40)	7,222 (0.35)	2,350 (0.12)	5,508 (0.27)	– 6,691 (– 0.35)	2,039 (0.10)
Regional banks and other commercial banks	5,901 (0.77)	6,791 (0.90)	2,834 (0.37)	4,097 (0.55)	22 (0.00)	1,070 (0.14)
Branches of foreign banks	251 (0.66)	259 (0.78)	202 (0.53)	235 (0.70)	195 (0.52)	227 (0.68)
Landesbanken	6,832 (0.43)	5,538 (0.37)	736 (0.05)	3,268 (0.22)	– 5,241 (– 0.33)	– 929 (– 0.06)
Savings banks	9,596 (0.90)	11,048 (1.03)	5,112 (0.48)	7,510 (0.70)	4,710 (0.44)	6,554 (0.61)
Regional institutions of credit cooperatives	1,368 (0.52)	1,090 (0.42)	1,395 (0.53)	1,097 (0.42)	696 (0.26)	614 (0.23)
Credit cooperatives	6,201 (0.92)	7,479 (1.07)	3,943 (0.58)	5,156 (0.74)	3,404 (0.50)	4,790 (0.69)
Mortgage banks	2,481 (0.31)	2,408 (0.30)	– 1,000 (– 0.12)	– 15 (– 0.00)	– 1,419 (– 0.18)	– 86 (– 0.01)
Special purpose banks	3,785 (0.42)	3,856 (0.42)	1,589 (0.18)	3,396 (0.37)	1,509 (0.17)	3,472 (0.38)

* The figures for the most recent date should be regarded as provisional in all cases. Excluding building and loan associations, institutions in liquidation, and institutions with a truncated financial year. Values in brackets are percentages of the average balance sheet total. — **1** Net interest and net commissions received less general administrative spending plus net profit or net loss from the trading portfolio/on financial operations (2009) and net other operating income or charges. — **2** Operating result before the valuation of assets plus net income or net charges from the valuation of assets (other than tangible or financial fixed assets). — **3** Operating result plus net other and extraordinary income or charges.

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caused, *inter alia*, by tensions on the sovereign bond markets of several euro-area countries and by the associated devaluation pressure on the euro, which considered on its own is likely to have increased risk provisioning for securities of the liquidity reserve.

… and to a pick-up in the real economy

The performance of German banks also benefitted from clear positive stimuli that were also generated in the year under review by a palpable reduction in risk provisioning in lending business primarily as a result of the broad-based global economic recovery[24] from the worldwide recession in 2009 and, above all, of the favourable economic activity in Germany. Many banks reported that the risk provisioning in lending business that was actually set up in 2010 was in some instances well below original expectations due to the surprisingly swift recovery made by the real economy. The clearly more buoyant credit environment with improved borrower creditworthiness, especially among enterprises, was reflected *inter alia* in German insolvency statistics in 2010.[25] Thus, although the total number of insolvencies in Germany rose by 3.4%,[26] the total volume of problem loans receded significantly from €85.0 billion to €39.0 billion. In particular, doubtful debt arising from business insolvencies was, at €26.6

24 In 2010, real gross domestic product rose by 3.7% in Germany, by 1.8% in the EU (EU-27 including Germany), by 2.3% in the USA, by 4.0% in Japan and by a total of 2.7% in all the OECD countries.
25 See Statistisches Bundesamt (Federal Statistical Office), Unternehmen und Arbeitsstätten, Insolvenzverfahren Dezember und Jahr 2009, Fachserie 2, Reihe 4.1, March 2010, and Insolvenzverfahren Dezember und Jahr 2010, March 2011.(both available in German only).
26 This was due to a decline in business insolvencies by 2.1% and a 7.6% rise in consumer insolvencies.

billion in 2010, only 36% of the previous year's figure,[27] whereas doubtful debt of other debtors and of consumers went up slightly by 4.1% to €12.4 billion and by 8.2% to €6.3 billion respectively.

Although – according to the published annual reports – general loan loss provisions set up in the past were in many cases written back in the year under review, a number of institutions (according to their own information) again stepped up their provisions for potential future risks. Particular reference was made in this connection to real estate financing in several countries both within and outside the euro area. As in the previous year, this business area was burdened by a rising number of credit defaults and a drop in collateral value as a result of falling property prices.

Marked improvement in operating result …

Owing to the substantial decline in net valuation charges in the year under review, the improvement in the operating result after valuation was significantly stronger than the increase in the operating result before valuation. After a negative figure in 2008 and a marked recovery in 2009, the operating result after valuation rose further on aggregate in 2010 (+€13.1 billion) and was, at €30.3 billion, again well above the average for the years 1993 to 2009 (€19.3 billion).

… in almost all categories of banks

This positive development in the operating result after valuation applied to virtually all categories of banks. Only the regional institutions of credit cooperatives were unable to match their 2009 result. Even in a longer-term comparison – ie in relation to the period from 1993 to 2009 – the operating result after valuation was above the respective longer-term average for almost all categories of banks. Mortgage banks were the only exception due to the fact that risk provisioning was still comparatively high in the year under review.[28]

Other and extraordinary income or charges

Despite reduced net losses, "extraordinary account" causes severe strains

The "extraordinary account" put considerable strain on the performance of German credit institutions in 2010, as in the previous two years, even though net charges were substantially lower. Compared with the previous year, banks reduced net losses by €7.5 billion to €12.5 billion. This was primarily the result of a steep decline in net charges in financial investment business by €6.1 billion to €2.4 billion. Relief was also provided by the reduction of net extraordinary income and charges in the narrower definition[29] by €1.0 billion to -€4.3 billion, although according to the published annual reports, this also partly reflected special factors resulting from the first-time application of the Act Modernising

27 The large stock of problem loans in 2009 was due primarily to numerous major insolvencies in the tourism, trade, clothing and textiles sectors, as well as in the automotive industry, shipbuilding and the semiconductor segments.
28 According to the published annual reports, the mortgage banks' operating result after valuation in 2010 (-€15 million) was largely due to the negative results of a few institutions which, for the most part, were also responsible for that banking category's high risk provisioning.
29 Effects of the Act Modernising Accounting Law: according to the transitional arrangements with regard to the Act Modernising Accounting Law, all the income and charges resulting from the first-time application of the Act Modernising Accounting Law are to be reported under extraordinary income and charges in the narrower definition.

Breakdown of other and extraordinary income or charges *

€ million

Item	2008	2009	2010
Balance of other and extraordinary income or charges	– 16,863	– 19,976	– 12,501
Income (total)	7,195	3,279	8,890
from value adjustments in respect of participating interests, shares in affiliated enterprises, and securities treated as fixed assets	1,761	1,093	1,632
from the release of special reserves	121	37	0
from loss transfers	1,705	879	1,180
Extraordinary income	3,608	1,270	6,078
Charges (total)	24,058	23,255	21,391
Write-offs and write-downs in respect of participating interests, shares in affiliated enterprises, and securities treated as fixed assets	15,288	9,621	4,014
from loss transfers	3,318	3,750	3,943
Transfers to special reserves	30	23	0
Extraordinary charges	1,938	6,620	10,360
Profits transferred from profit pooling, a profit transfer agreement or a partial profit transfer agreement	3,484	3,241	3,074

* The figures for the most recent date should be regarded as provisional in all cases. Excluding building and loan associations, institutions in liquidation, and institutions with a truncated financial year.

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Accounting Law. By contrast, net loss transfers and charges from profit transfers changed only slightly.[30]

Big banks and Landesbanken in particular scale back

The reduced aggregate net charges in the "extraordinary account" compared with the previous year were largely due to the decline in net losses at big banks (by €5.6 billion to €3.5 billion), at Landesbanken (by €1.8 billion to €4.2 billion) and – albeit to a far lesser extent – at regional institutions of credit cooperatives, credit cooperatives and mortgage banks. At big banks, this reduction was mainly caused by a pronounced decrease in write-downs in financial investment business and the non-recurrence of the high extraordinary net charges in the narrower definition from the previous year. However, these positive effects contrasted with an increase in net loss transfers. At the Landesbanken, the decrease in net losses was also driven mainly by a noticeable decline in strains from financial investment business. However, this relief was partly offset by a perceptible increase in extraordinary net charges in the narrower defi-

30 Conceptual change in financial accounting as a result of the Act Modernising Accounting Law: the profit and loss items "release of special reserves" and "transfers to special reserves", which until 2009 were contained separately in the "extraordinary account", were done away with when the Act Modernising Accounting Law was introduced.

nition.[31] The fall in net charges at regional institutions of credit cooperatives and at credit cooperatives resulted primarily from considerably reduced write-downs in financial investment business. At the mortgage banks, on the other hand, the year-on-year switch from net charges to net income from loss transfers had the effect of reducing charges. Moreover, the decline in aggregated net losses in the "extraordinary account" was attributable to the – likewise comparatively slight – improvement of the special purpose banks' net result; this was the only category of banks to reverse a net loss in 2009 to a small net income thanks to a marked improvement in financial investment business.

Savings banks and regional banks see net losses increase

These loss-mitigating effects contrasted with an increase in net losses in the "extraordinary account" of savings banks (by €0.6 billion to €1.0 billion) and regional banks (by €0.2 billion to €3.0 billion). In both categories of banks, this was driven by higher extraordinary net charges in the narrower definition. At savings banks, moreover, higher write-downs in financial investment business compared with the previous year had the effect of pushing up charges.

Profit for the financial year, taxes on income and earnings, balance sheet profit

Strong improvement in earnings trend on aggregate, …

The clearly improved operating result and the perceptible reduction in losses from the "extraordinary account" in 2010 enabled German credit institutions to post a strong increase in profit for the financial year before tax vis-à-vis the previous year by €20.6 billion to €17.8 billion. From a longer-term perspective, therefore, banks' profitability showed signs of a tendency to return to normal on the whole. Amounting to 0.22% and 5.17% respectively, the aggregated return on assets and return on capital – before tax in each case – approximated their longer-term averages of 0.27% and 8.06% respectively, ie in relation to the period from 1994 to 2009. Profit for the financial year before tax was even substantially above the corresponding longer-term average of €15.1 billion.

… yet marked spreading in annual results both between and within individual categories of banks

There was, for the most part, a strong improvement in the annual result before tax across almost all categories of banks; yet as in the previous year, there was also a distinct spreading between the annual results of the individual categories of banks. Sharp year-on-year increases in profit before tax were registered by the special purpose banks (€3.4 billion after €1.5 billion),[32] the savings banks (€6.6 billion after €4.7 billion), the credit cooperatives (€4.8 billion after €3.4 billion) and

31 Despite the substantial decline in net losses, the big banks and Landesbanken – along with the regional banks, which, however, traditionally post high net charges due to profit transfers – were (as in 2009) largely responsible for the high aggregated total net loss in the "extraordinary account". According to the published annual reports, moreover, in both categories of banks these losses were driven – as in the previous year – by the results of individual institutions. Thus, the net losses at big banks were concentrated on one institution due to a high loss transfer from a subsidiary. In the case of the Landesbanken, too, the losses were largely due to one institution which posted high extraordinary net charges in the narrower definition because non-strategic business lines were transferred to a resolution agency under German federal law.

32 According to the published annual reports, the growth in profit before tax of special purpose banks was largely due to a pronounced year-on-year increase in the profit for the financial year posted by one institution and to a marked reduction of the loss for the financial year posted by another institution.

Return on capital of individual categories of banks *

As a percentage

Category of banks	2006		2007		2008		2009		2010	
All categories of banks	9.35	(7.51)	6.57	(4.66)	– 7.70	(– 8.11)	– 0.83	(– 1.98)	5.17	(3.65)
Commercial banks	11.23	(9.12)	19.13	(15.61)	– 15.49	(– 15.05)	– 5.82	(– 5.67)	3.00	(2.01)
of which										
Big banks	14.01	(12.27)	25.97	(21.64)	– 25.30	(– 23.74)	– 9.10	(– 8.11)	2.88	(2.19)
Regional banks and other commercial banks	6.99	(4.43)	8.51	(6.35)	3.81	(2.14)	0.06	(– 1.32)	2.76	(1.38)
Landesbanken	11.40	(9.73)	1.46	(0.94)	– 11.07	(– 12.22)	– 8.18	(– 8.53)	– 1.47	(– 1.31)
Savings banks	8.94	(4.95)	7.24	(4.21)	4.00	(2.12)	8.48	(4.44)	11.37	(6.99)
Regional institutions of credit cooperatives	4.49	(9.51)	– 4.03	(2.94)	– 4.40	(1.50)	7.24	(7.62)	5.77	(5.83)
Credit cooperatives	11.04	(8.51)	8.14	(5.16)	5.53	(3.98)	8.96	(5.04)	12.13	(8.02)
Mortgage banks	2.83	(1.85)	1.89	(1.06)	– 15.49	(– 15.98)	– 8.33	(– 9.29)	– 0.50	(– 0.40)

* The figures for the most recent date should be regarded as provisional in all cases. Excluding building and loan associations, institutions in liquidation, and institutions with a truncated financial year. Profit for the financial year before tax (in brackets: after tax) as a percentage of the average capital as shown in the balance sheet (including the fund for general banking risks, but excluding participation rights capital).

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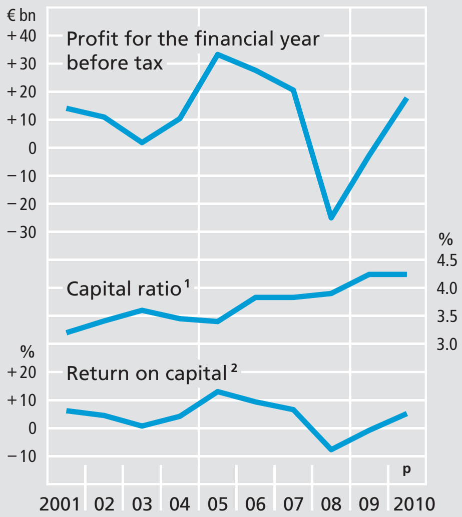
the regional banks[33] (€1.1 billion after €22 million). By contrast, of the banking categories which had posted pre-tax losses in 2009, only the big banks – with the highest increase in the annual result, in terms of amount, of all categories of banks – again generated profits in the year under review (€2.0 billion after -€6.7 billion). According to the published annual reports, this development was largely due to a considerable year-on-year reduction of the losses of one institution. On the other hand, the Landesbanken – although they likewise improved their annual result significantly – again posted a distinct loss (-€0.9 billion after -€5.2 billion) which, according to the published annual reports, was attributable to two institutions. The mortgage banks, too, improved their annual result considerably compared with the previous year. Nevertheless, as in the year before, they recorded an – albeit small – loss of -€86 million after -€1.4 billion.[34] The regional institutions of credit cooperatives were the only category of banks in the year under review to see their profit for the year fall year-on year (€614 million after €696 million).

The heterogeneity of the annual results between and within the individual categories of banks that was observed despite the broad-

33 According to the published annual reports, however, this improvement also concealed annual losses by a number of institutions, where the loss by one individual institution dominated.
34 According to the published annual reports, the reduction of the annual loss at mortgage banks was clearly positively affected, inter alia, by the assumption of one institution's losses by a parent institution in the big banks sector through a participating interest. This assumption of loss was reflected, in turn, in considerable burdens in the big banks' "extraordinary account" (see footnote 31).

Credit institutions' profit for the financial year and capital



1 Capital (including fund for general banking risks but not participation rights capital) as a percentage of the balance sheet total; annual average. — **2** Profit for the financial year before tax as a percentage of the capital.

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Heterogeneity manifests itself in the distribution of the return on assets as well

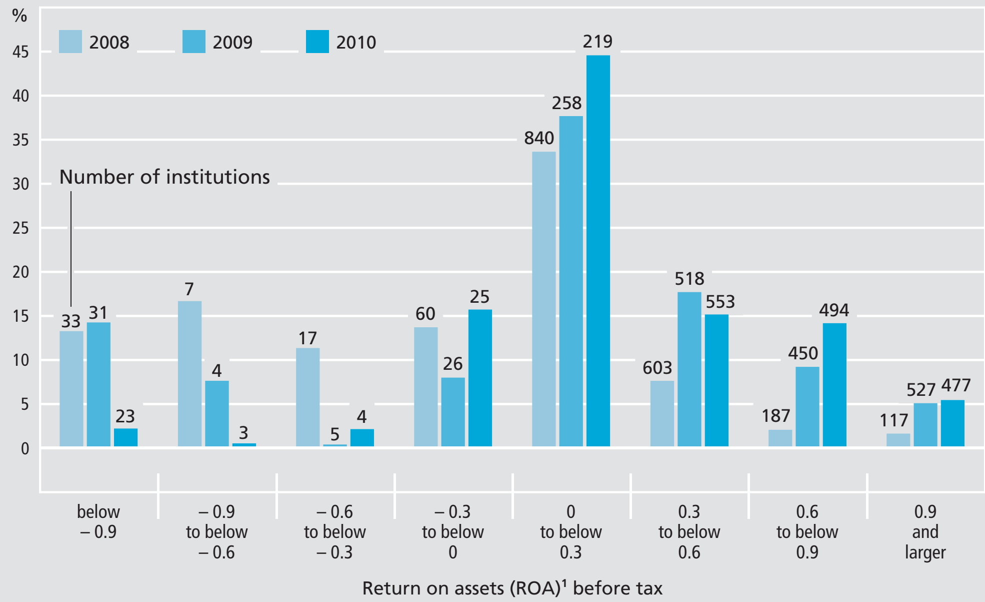
based improvement was also reflected in changes in the distribution of the return on assets before tax. The general year-on-year improvement in the annual results led to a "rightward shift" in the distribution. This was shown both in an increase in the relative sizes of all profitability classes with a positive return on assets – except for class 0.3% to below 0.6% – and in a shift within the classes with a negative return on assets from the two lowest classes to, in particular, the class -0.3% to below 0%. Moreover, the number of institutions with a negative return on assets compared with 2009 fell from 66 to 55, and their share of the aggregate balance sheet total of the German banking system contracted from 30.3% to 20.6%; yet this small group (3.1% of all institutions) still generated a significant aggregate loss of €5.6 billion. In contrast to the previous year,[35] however, the annual losses by this comparatively small number of fairly large institutions were clearly overcompensated by the pre-tax profits totalling €23.4 billion generated by the remaining banks (1,743 institutions or 96.9% of all banks), which accounted for almost four-fifths of the aggregate balance sheet total. However, this comparison, viewed in connection with the figures gathered from the published annual reports, also shows that the burdens from the financial and economic crisis at those institutions that had been especially hard hit by the crisis due to their business model and risk profile had still not been fully overcome in the year under review.

Increase in taxes on income and earnings

As a result of the favourable profit trend in the year under review, taxes on income and earnings increased by €1.3 billion to €5.2 billion; of those categories of banks with an aggregate profit for the financial year before tax, particularly the regional banks, savings banks, credit cooperatives and big banks registered significant tax expenses. By contrast, Landesbanken and mortgage banks, which both posted pre-tax annual losses, showed tax receipts. After tax, the annual profit of the German credit institutions stood at €12.5 billion in total, after a loss totalling €6.7 billion in 2009.

35 In 2009, 3.6% of all institutions, which accounted for 30.3% of the aggregate balance sheet total of the German banking system, generated an aggregate pre-tax loss of €19.6 billion. This was not fully offset by the aggregate profit totalling €16.8 billion generated by the majority of banks (96.4% of the institutions), which accounted for 69.7% of the aggregate balance sheet total. Thus, an aggregate loss for the financial year before tax of €2.8 billion and an aggregate return on assets of -0.04% were reported.

Distribution of return on assets (ROA)* before tax



* Balance sheet total of the institutions in the respective ROA before tax category as a percentage of the balance sheet total of all German banks. — **1** Profit for the financial year before tax as a percentage of the average balance sheet total.

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Balance sheet loss notably reduced

In the year under review, losses brought forward of €9.1 billion had a notable negative effect on the financial result (after €8.6 billion in 2009 and €2.3 billion in 2008). As in 2008 and 2009, however, these were mostly accounted for by mortgage banks and special purpose banks, and within those categories – according to the published annual reports –, by individual institutions in each case. Further substantial strains stemmed from net transfers to the fund for general banking risks[36] totalling €6.1 billion (after €2.1 billion in 2009), which were the result of gross transfers of €6.3 billion and withdrawals of €0.2 billion. In the year under review, net transfers at savings banks (€2.2 billion after €1.1 billion in 2009) and at credit cooperatives (€1.1 billion after €0.5 billion in 2009) were especially pronounced. These factors, which had a negative effect on the result, contrasted with relatively small net withdrawals from reserves and participation rights capital in the amount of €1.8 billion (after €12.5 billion in 2009 and €20.6 billion in 2008). These consisted of gross withdrawals of €5.1 billion which, according to the published annual reports, were due mainly to withdrawals by individual institutions among the big banks and Landesbanken,[37] and transfers of

36 As has been mentioned above, these net transfers to the fund for general banking risks do not, however, contain net transfers to the special item pursuant to section 340e (4) of the German Commercial Code.
37 In the case of the large banks, the gross withdrawals were attributable to one individual institution which completely offset the annual financial shortfall after tax. In the case of the Landesbanken, the gross withdrawals were attributable to two institutions. One institution used the withdrawals to completely offset a loss brought forward from the previous year; at the second institution, the withdrawals resulted from a net capital transfer of non-strategic business lines to a resolution agency under Federal law.

€3.3 billion. Overall, there remained an aggregate balance sheet loss for the third year in succession. However, at €0.8 billion, the loss was much lower than in the previous two years (€5.0 billion in 2009 and €4.8 billion in 2008). As in 2009, the aggregate balance sheet loss was largely due to balance sheet losses posted by the mortgage banks (€4.6 billion after €4.7 billion) and special purpose banks (€1.2 billion after €2.9 billion), as well as, to a lesser extent, to balance sheet losses generated by the regional banks (€0.5 billion after €0.3 billion) and Landesbanken (€0.1 billion after €2.3 billion). According to the published annual reports, however, the negative financial results were largely confined to individual institutions (as in the previous year). By contrast, all other categories of banks showed an aggregate balance sheet profit of €5.6 billion.

Outlook

German banking groups see sharp rise in profits in first quarter of 2011, …

The first quarter of the current financial year 2011 saw a sharp quarter-on-quarter improvement in the performance of large German internationally operating banks[38] which report under the IFRS and for which consolidated quarterly reports are available. The reasons for this were a continued moderate rise in net interest income after risk provisioning and a clear increase in own-account trading. In the latter case, however, the result was dominated by one big bank's result. On the whole, the German banking groups almost tripled their aggregated quarterly pre-tax profit compared with the previous quarter.

… yet noticeable reduction in earnings in second quarter

In the second quarter, tensions on the financial markets had an increasing effect owing, above all, to the public finance situation in a number of euro-area countries. These were evidenced, *inter alia*, by an – on the whole – perceptible deterioration of own-account trading figures and by considerable other losses on financial instruments. In this context, high write-downs on Greek sovereign bonds[39] at a number of institutions probably also played an important role. Overall, aggregated quarterly pre-tax profits were about 40% down on the previous quarter.

Growing uncertainty over valuations in securities business

The intra-year group accounts are not representative of the German banking system as a whole in terms of the type, scope, complexity and riskiness of the respective business activities; nevertheless, they do provide major clues as to the German banking industry's future performance. The write-downs already visible in the consolidated accounts in the first half-year of 2011 will for the most part also lead to impairments in the individual accounts drawn up in accordance with the German Commercial Code. This is true both of the group enterprises already considered and of all other institutions which report corresponding financial instruments in their bal-

38 This sample covers 12 institutions (all big banks as well as selected Landesbanken and mortgage banks).
39 The need for extraordinary write-downs or an impairment of Greek sovereign bonds in the portfolios of credit institutions, insurance companies or other investors in the interim accounts as at 30 June 2011 was due primarily to a statement by the Institute of Public Auditors (IDW). According to the IDW, at the time the statement was formulated there was no sufficiently robust indication of potential alternatives in the valuation of Greek sovereign bonds which could have averted extraordinary write-downs or impairment. See Statement by the IDW on the presentation of risks, in interim financial accounts at 30 June 2011, arising from Greek government bonds in the context of current developments (20 July 2011).

ance sheets. Moreover, additional impairments in securities activities are to be expected given, in particular, the growing uncertainty over how the European debt crisis will develop in future and the associated tensions on the international financial markets. Above all, this will probably affect own-account trading and the securities of the liquidity reserve.

Countervailing determinants in risk provisioning in lending business, …

Developments in risk provisioning in lending business in the 2011 financial year are likely to be shaped, above all, by two opposing factors. In domestic lending business, given the ongoing positive economic developments in Germany, the improvement in credit quality is expected to continue, with the result that risk provisioning in domestic lending business is likely to decline further with a slight time lag to real economic developments.[40] However, the underlying economic trend could slow down towards the end of 2011 as a result of the foreseeable weakening of foreign demand and the heightened uncertainty fuelled by the current situation on the financial markets and so possibly – with a certain time lag – lead to a lessening of the reduction of risk provisions. The overall reduction in charges in domestic lending business will probably contrast with an increase in risk provisioning in foreign lending business, however. Higher risks may be expected in lending to the foreign private sector, in particular due to the slowdown in global economic activity and the persistently difficult situation on a number of real estate markets both within and outside the euro area. Furthermore, the financing of European peripheral countries continues to entail heightened credit risk.

… net interest income …

Earnings potential in interest business is likely to remain fairly limited in the 2011 financial year due to the countervailing movements of margins and volumes. Growing volumes in domestic lending business driven, in particular, by the robust underlying economic trend in Germany – which may slow down towards the end of the year, however – are expected to have the effect of increasing banks' results. Yet this development will probably be countered by a flattening of the yield curve on the whole, which is likely to have the effect of reducing earnings.[41] Moreover, not least in the light of the regulatory debate concerning the bank-specific liquidity ratios under Basel III, competition for deposits in the non-financial sector can be expected to continue in future; this, in itself, may have an adverse effect on the interest margin.

… and net commissions income

Commission business is likely to benefit from the positive economic developments in Germany to date. However, given the growing uncertainty on the financial markets, future earnings potential is likely to remain limited. The associated heightened volatility could

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40 In year-on-year terms, between January and May 2011 the total number of insolvencies fell by 3.8%. This was due to a 7.2% decrease in business insolvencies and a 2.2% reduction in consumer insolvencies. During the same period, the volume of problem loans dropped by 26.6%. See Statistisches Bundesamt (Federal Statistical Office), Unternehmen und Arbeitsstätten, Fachserie 2, Reihe 4.1, Insolvenzverfahren Mai 2011 und Mai 2010 (in German only).

41 Between January and the end of August 2011, an almost constant flattening of the domestic yield curve was observed. Moreover, this has been accompanied by a clear downward shift since July, with interest rates at the short end falling less sharply than long-term yields. The reduction in the long-term segment at the current end was probably due, inter alia, to the slowdown in global growth as well as to safe-haven inflows. Although the forward curve indicates a slight steepening for the remainder of this year, it will probably only partly make up for the margin-diminishing flattening that preceded it.

put a damper on capital market activities and considerably slow issuance volume in particular. By contrast, against the background of the job cuts that have already been implemented since 2008, no significant changes in administrative spending are to be expected.

Dampening of earnings prospects

To sum up, although the setting was favourable at the start of 2011, banks' earnings prospects for the current year are likely to be dampened; at the same time, uncertainty is likely to grow. Despite the positive effect that domestic lending business, driven by the positive domestic economy in Germany, is expected to have on banks' results, earnings potentials should remain clearly limited due, in particular, to the European sovereign debt crisis and the associated volatility on the financial markets. Moreover, the introduction of the bank levy is likely to have a detrimental effect in 2011. With regard to the medium-term earnings prospects, the future implementation of the new Basel III regulatory framework, too, is likely to cause profitability to drop below the levels seen before the financial crisis. It should be emphasised in this context, however, that the new rules taken by themselves do mean greater financial stability from which the German banking system and the other economic sectors will benefit.

Annex

Effects of the Act Modernising Accounting Law on the Bundesbank's statistics of the banks' profit and loss accounts (valid from the 2010 financial year onwards)

The following section examines in greater detail the most significant conceptual changes in the Act Modernising Accounting Law for the Bundesbank's statistics of the banks' profit and loss accounts, comparing them with the rules pursuant to the old version of the German Commercial Code.[42] From the 2010 financial year onwards, the profit and loss statistics follow all the new and changeover rules of the Act Modernising Accounting Law described here on reporting in the profit and loss accounts. This also entails a change in the methodology with regard to the treatment of transfers to or withdrawals from the fund for general banking risks in the profit and loss statistics.

Reporting of own-account trading[43]

Definition, balance sheet reporting and measurement

Old rules

No separate balance sheet reporting

Own-account trading was defined as financial transactions with securities held in the trading portfolio,[44] financial instruments (eg options, fu-

42 This is an excerpt from the new provisions of the Act Modernising Accounting Law and is not an all-encompassing description of all new and changeover rules.
43 With regard to the new rule, see Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer, IDW), comment on accounting practices: Accounting of financial instruments acquired for trading purposes by credit institutions (IDW RS BFA 2); Deutsche Bundesbank, The Act Modernising Accounting Law from a banking supervision perspective, Monthly Report, September 2010, pp 49-57.
44 Pursuant to a negative definition, these in turn were defined as those securities that are included neither in liquidity reserves nor in the asset portfolio.

tures, swaps, forward transactions, borrowers' note loans and other marketable assets in the trading portfolio), foreign exchange and precious metals. The corresponding classified and on-balance-sheet trading assets and trading liabilities were not reported as separate balance sheet items, but were a not specifically mentioned component of the respective instrument categories in accordance with the balance sheet form of the Credit Institution Accounting Regulation *(Verordnung über die Rechnungslegung der Kreditinstitute)*.[45] Off-balance-sheet trading assets and liabilities (eg derivative financial instruments) were subject to the accounting principles for open transactions and therefore were not to be recognised.[46]

Measurement with strict lower of cost or market principle

Trading assets and liabilities were to be measured pursuant to the measurement applicable to current assets. Thus, the strict lower of cost or market principle applied (obligation to write off in case of permanent and temporary decreases in value; option to write off in case of expected fluctuations in value).

New rules

Separate balance sheet reporting

Own-account trading activities are defined as transactions with financial instruments[47] in the trading portfolio[48] and trading with precious metals. The trading assets and liabilities which are classified under the balance-sheet trading portfolio are to be reported unnetted (mandatory gross value) in the new balance sheet items referring to the trading portfolio (assets 6a and liabilities 3b). In this context, contrary to the previous rule, all derivatives bought for trading purposes must also be accounted with their positive or negative fair value; thus, at this point the principle of not recognising open transactions is partially breached.

Measurement at fair value minus a haircut

Pursuant to the new special provision for credit institutions (section 340e (3) of the German Commercial Code), trading assets and liabilities are to be measured initially at cost of purchase and at fair value[49] minus a risk haircut (for trading assets) and plus a risk haircut (for trading liabilities) in the subsequent measurement. The new provision thus represents a legally regulated exception to the measurement at strict lower of cost or market principle, as unrealised valuation income can now

45 A reclassification of assets to own-account trading or from own-account trading (eg the reclassification of trading portfolio securities to securities of the liquidity reserve or financial investment portfolio and vice versa) was permitted in principle, if the purpose to be carried out autonomously by the respective credit institution was not changed arbitrarily.
46 According to the old accounting rules, open transactions had to be recognised only in case of impending losses. Realised profits and losses from on-balance-sheet and off-balance-sheet transactions in the trading portfolio were to be recorded in net profit or loss on financial operations.
47 The German Commercial Code does not provide an explicit definition for the term "financial instrument" owing to the variety of and continuous developments in these instruments. However, based on the corresponding definitions in the German Banking Act (Gesetz über das Kreditwesen) and the Securities Trading Act (Wertpapierhandelsgesetz), derivates, money market instruments, foreign exchange, securities and liabilities which are issued and repurchased in the short term can be included in the financial instruments category.
48 All financial instruments and precious metals are to be attributed to the trading portfolio which are purchased and sold with the intention of generating a profit for own account in the short term. A reclassification from the financial investment portfolio or of securities from the liquidity reserve to the trading portfolio is no longer permitted. A reclassification from the trading portfolio to the financial investment portfolio or for securities alternatively to the liquidity reserve is only possible in exceptional circumstances. In particular, these could be underlying market disruptions, such as the financial crisis in 2008, which lead to severe constraints on the tradability of the financial instruments concerned. By contrast, a pure slump in prices does not restrain tradability and therefore does not justify a reclassification. Therefore, reclassifications aimed at smoothing the annual results are ruled out.
49 However, even before the Act Modernising Account Law was introduced, some large banks interpreted the Generally Accepted German Accounting Principles (Grundsätze ordnungsmäßiger Buchführung, GoB) such that the financial instruments in their trading portfolios were stated at fair value.

also be recognised along with realised income as part of the subsequent measurement.

Calculation of fair value

In the context of the subsequent valuation, the fair value is to be determined in accordance with the following measurement hierarchy – if there is an active market at the time of recognition, the fair value is equivalent to the market price (mark-to-market). If there is no active market, the fair value is to be determined using generally accepted valuation models (eg cash value or option price models (mark-to-model). If there is no active market and if, in addition, a reliable measurement using generally accepted valuation models is not possible, the subsequent measurement must be carried out at amortised cost, with the fair value that was last determined deemed to be the amortised cost.

Calculation of risk haircut

The haircut (risk surcharge) to be applied to the fair value of the trading assets (trading liabilities) should take account of the probabilities of default of the unrealised gains (losses), and thus reflects the negative effects from latent asset depreciation risks (asset appreciation risks for liabilities).[50] Although the law does not contain any regulations for calculation of the haircut (risk surcharge), value-at-risk (VaR)[51] haircuts, which are calculated taking into account the prudential supervisory parameters, can be viewed as a possible alternative, as legislators assume that banking supervisors will monitor the suitability of the calculation method and calculation parameters used to determine the risk surcharge. Institutions which do not calculate a VAR for prudential purposes can use a VAR to calculate the haircut (risk surcharge) if it is in line with internal management, or they can use alternative calculation processes if they are in line with internal risk management (eg haircut in the amount of unrealised earnings). The haircut (risk surcharge) is also to be made if this leads to a loss for the year for the respective institution as a whole or an already existing loss for the year is increased.

Calculation of special item in fund for general banking risks

In order to take due account of the HGB principle of prudence and to compensate – partially – for breaching the realisation principle through the fair value valuation, the new German Commercial Code requires a countercyclical risk reserve to be set up in addition to the risk haircut. This is to be indicated separately pursuant to section 340e (4) of the German Commercial Code as a special item in the fund for general banking risks pursuant to section 340g of the German Commercial Code. In order to set up this special item, in every financial year with a positive trading result at least 10% of the net income from the trading portfolio (after the risk haircut) is to be transferred to the risk reserve.[52] This transfer must be made until the special item has reached a volume of 50% of the average net income (after the haircut) of the last five financial years with a positive trading result; in the case of net income from the trading portfolio, the transfer must also be made irrespective of whether a loss for the financial year arises for the respective institution as a whole or an already existing annual loss is increased. The special item can only be dissolved to offset net expenses in the trading portfolio or if the minimum amount required by law (50% of the average net income (after the haircut) of the last five financial years with a positive trad-

50 Therefore, the haircut (risk surcharge) is not used to report asset depreciation risks (asset appreciation risks for liabilities) that are already apparent, as these are generally already reflected in the fair value.
51 The value-at-risk (VaR) is the estimated, maximum expected loss which, with a given probability and under normal market conditions, will not be exceeded within a specified period of time.
52 Higher transfers are permissible if there is a positive net result in trading; these are, however, limited to the total net income of a financial year.

ing result), is exceeded. The withdrawal is therefore optional, whereas the transfer is compulsory.[53] The special item *per se* has a countercyclical impact resulting from the reduction of earnings eligible for distribution in years with a positive trading result and from a – possible – increase in years with a negative trading result.

Disclosure in the profit and loss account

Old rules

Current expenditure and revenue not booked under own-account trading result

Until now, revenue and expenditure in own-account trading were netted and reported in the items net loss or net profit on financial operations.[54] Realised price losses, write-downs due to valuation losses and transfers to provisions for impending losses were reported as expenditure components. Realised price gains, write-ups owing to valuation gains (upper limit: amortisation cost) and revenue from the release of provisions for impending losses were booked under revenue components. It was not admissible to record any current revenue and expenditure (eg interest, dividends, commissions) from trading assets in net profit or net loss on financial operations.[55]

New rules

Revenue and expenditure from fair value valuation …

Revenue and expenditure generated in own-account trading are netted and reported in net income or net expenditure from the trading portfolio.[56] Both realised and unrealised price or valuation losses are included as expenditure components. Realised and unrealised price or valuation profits, which can also exceed the cost of purchase in future, are to be included as income components.

… as well as current revenue and expenditure …

Furthermore, contrary to the old rule, the current revenue and expenditure from trading assets and liabilities are reported in net profit or net loss from the trading portfolio, if this is in line with internal control[57] for calculating the operating results. Thus, interest received and current income from trading assets and interest paid for trading liabilities, which serve to refinance trading assets, are now generally booked in net profit or net loss from the trading portfolio.[58] In addition, deviating from previous booking practices, commissions paid and commissions received in connection with the purchase and sale of own-account trading instruments must be reported in net profit or net loss from the trading portfolio.

… and transfers to or withdrawals from the special item are to be booked in net profit or net loss from trading portfolio

There are no specific legal requirements for the treatment in the profit and loss account of expenses resulting from transfers to the special item and income from withdrawals from the special item pursuant to section 340 e (4) of the German Commercial Code. However, in order to offset any net expenditure for accounting purposes, the IDW

53 There can either be one transfer or one dissolution per financial year. Both the transfer and the dissolution are to be performed only when preparing the annual accounts, but not when preparing the interim financial statement.
54 All expenditure and revenue had to be netted against each other.
55 Thus, interest received and current revenue from trading assets were booked in the categories interest received and current income and interest paid for the financing of own-account trading in the interest paid category. Commissions paid and received in connection with the purchase or sale of trading assets had to be reported under the commissions paid and commissions received items.
56 All expenditure and revenue from the trading portfolio must be netted against each other in line with the old rule.
57 In contrast to the standardised calculation of income in external accounting, which predominantly serves to protect creditors and inform shareholders, internal control mainly aims to measure business success accurately in order to determine the future strategic approach, for example. There are therefore no standardised rules that have to be complied with when calculating an operating result as part of internal control.
58 However, it is also considered permissible as an alternative to report current interest received and paid under the items interest received and interest paid if this is in line with internal control.

recommends booking income from withdrawals from the special item as an income component in net profit or net loss from the trading portfolio. This accounting approach cannot readily be applied to expenses resulting from transfers to the special item. Alternatively, these can also be recorded in the expense item in which the transfers to the fund for general banking risks are to be shown. However, the IDW suggests that, for purposes of consistent reporting, the expenses resulting from transfers to the special item should be booked along with income from withdrawals from the special item in net profit or net loss from the trading portfolio.[59]

Circumvention of existing Bundesbank methodology for special item

According to the published annual reports, the reporting credit institutions have largely followed the IDW's proposal with regard to booking transfers to the fund for general banking risks which relate to the special item, and for the reporting year 2010 have booked these as expense components in net income from the trading portfolio. Accordingly, they are also included in the item net income or net expenditure from the trading portfolio in the Bundesbank's statistics of the banks' profit and loss accounts. However, this type of accounting partially contravenes the Bundesbank's present methodology for booking transfers to or withdrawals from the fund for general banking risks; in the past, all transfers to or withdrawals from the fund for general banking risks have always been booked as appropriation of profit and not as expense or income components. It is currently not possible to adapt the present methodology and apply it to the special item, as the present database does not allow a reliable adjustment of net profit or net loss from the trading portfolio for the corresponding transfer or withdrawal effects. Thus, for the time being, changes in the fund for general banking risks which relate to the special items will mainly be included as expense or income components in the position net profit or net loss from the trading portfolio and not as appropriation of profit. However, transfers to or withdrawals from the fund for general banking risks which do not relate to the special item will still be booked as appropriation of profit and not as expense and income components respectively.

Transitional rules

The income effects resulting from the first-time application of the new rules are to be booked in the extraordinary profit and loss.

Accounting of company pension provisions[60]

Balance sheet reporting and measurement

Old rules

Prohibition to offset company pension provisions and pension assets

Pension obligations were recorded as company pension provisions on the liabilities side of the balance sheet.[61] It was not permitted to offset them with the corresponding pension assets (gross re-

59 See IDW RS BFA 2, paragraph 62.
60 With regard to the new rules, see IDW, comment on accounting practices: German Commercial Code accounting of pension provisions (IDW RS HFA 30) and with regard to the old rules, IDW statement by Auditing and Accounting Board 2/1988, Pension provisions in the annual account.
61 With regard to balance sheet reporting (compulsory vs optional), a distinction had to be made between direct and indirect pension obligations (in the case of direct pension obligations the reporting entity itself is obliged to pay the benefits to the entitled party, whereas in the case of indirect pension obligations the benefits are generally paid by a professional pension scheme (eg pension fund, benefit fund). Thus, according to the old rule, direct obligations had to be reported on the liabilities side, whereas it was optional for the following pension provisions to be reported as a liability: claims from direct commitments which were acquired prior to 1 January 1987 and any increases thereof after 31 December 1986 and all indirect claims.

porting). The measurement of the pension assets, which were indistinguishable components of the respective balance sheet items on the assets side, was carried out on the basis of the lower of cost or market principle. Pension obligations were to be stated at present value for current pension obligations and obligations to former employees. Pension entitlements of claimants employed in the company were valued using the entry age normal method.[62] A general discount rate range of 3% to 6% was envisaged for the valuation procedure; a range of 4% to 4.5% was usually applied as the discount rate in past years. The valuation threshold for pension provisions was the value determined according to the entry age normal method (pursuant to section 6a of the Income Tax Act *(Einkommensteuergesetz)*) with a discount rate of 6%.

New rules

Obligation to offset pension reserves and corresponding plan assets

Pension obligations are to be reported as pension provisions on the liabilities side of the balance sheet.[63] If there are plan assets,[64] (*Deckungsvermögen*) in contrast to the old regulation, company pension provisions must be netted with them, so that only the difference has to be reported. An excess of liabilities remaining after the netting of company provisions and plan assets is to be reported as provisions; an excess of assets, however, is to be booked in a special item.

Valuation of plan assets at fair value, company pension provisions at the "amount required to settle the obligation"

Plan assets are to be valued at fair value.[65] Latterly, the valuation of pension provisions is based on the "amount required to settle the obligation" *(Erfüllungsbetrag)*, which is set according to reasonable commercial judgement. Consequently, future price and cost increases as well as wage, salary and pension trends must be taken into consideration for the valuation of pension provisions. If the residual maturity of the pension provisions exceeds one year, these are to be discounted at the average market interest rate of the last seven years, according to their residual maturity. Alternatively, disregarding the principle of individual valuation, it is permissible to discount all pension provisions with the average market interest rate that results assuming a residual maturity of 15 years.[66] Current pension obligations and obligations to former employees are to be stated at present value. For the valuation of pension entitlements of staff currently employed in the company, all actuarial methods can be applied which ensure that the pension expenditure is spread over the time period in which the employee entitled to a pension pays his/her contributions (eg modified entry age normal method, projected unit credit (PUC) method).

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62 The entry age normal method requires that the expenditure for the formation of company pension provisions for active employees is distributed evenly over the entire period of service by using a theoretical premium. The entry age value (amount of provisions at a given time during the period of accrual) of a company pension provision is defined as the present value of future pension benefits minus the present value of outstanding unchanging annual contributions; these should be defined in such a way that their present value at the beginning of the employment contract is equal to the present value of future pension benefits.
63 In distinguishing between indirect and direct pension obligations and the regulations governing their balance sheet reporting on the liabilities side (optional vs compulsory), there were no changes in comparison to the "old" German Commercial Code (see footnote 61).
64 The new term plan assets has been introduced with regard to the accounting of pension assets. These are assets which are beyond the reach of all other creditors and which are used exclusively for the settlement of debts from pension obligations or comparable long-term obligations.
65 See comments on the valuation of the trading portfolio for calculation of the fair value. However, it should be noted that for the fair value of plan assets, no haircut is to be made on the fair value, in contrast to the trading portfolio. For the fair value amount which exceeds the acquisition cost there is, however, a block on payouts for plan assets. The company must therefore furnish proof of retained earnings of at least that amount.
66 The Deutsche Bundesbank calculates and announces the discount rates in accordance with the Regulation on the Discounting of Provisions (Rückstellungsabzinsungsverordnung).

Disclosure in the profit and loss account

Old rules

No clear disclosure requirements

There were no clear disclosure requirements under the old rules. Thus, on the one hand, transfers (pension and interest expenses) or income from withdrawals from pension provisions could be fully booked under staff costs. On the other hand, it was also possible to make a separate booking of pension components under staff costs and the interest portion under interest income.

New rules

Subdivision of expense and income components between the items financial result and staff costs

On the basis of the new German Commercial Code provisions, the IDW envisages a more differentiated reporting in future. Thus salary expenses, effects from changes in salary, wage or pension trends and the biometric valuation parameters,[67] changes in the total number of persons with pension entitlements and changes in provisions in connection with corporate restructurings or changes in pension commitments are to be reported under staff costs. Expenditure and revenue from the compounding or discounting of provisions are to be netted with the expenditure and revenue from plan assets (which are to be offset with provisions) and shown as part of the financial result; according to the published annual reports, this balance was predominantly booked under the item other operating income or charges. Impacts on profits from a change in the discount interest rate can be booked either under staff costs or under the financial result. The same applies to current income and impact on profits from changes in the fair value of plan assets, if these have not already been offset against the expenditure and income from the compounding or discounting of pension provisions. According to the IDW, the disclosure option for the three aforementioned items must be exercised consistently.

Transitional arrangements

Necessary transfers by 31 December 2024 at the latest; excess amounts maintained

Necessary transfers to existing pension obligations resulting from the first-time application of the new measurement rules need not be transferred in one amount, but can be accumulated in portions of at least one-fifteenth every financial year until 31 December 2024 at the latest. The transfer amounts to be recorded *pro rata* in this connection are to be recognised in profit or loss in the given year and to be recorded in the profit and loss account under the extraordinary expenses item. Excess amounts from the overfunding of pension provisions resulting from the first-time application of these new measurement rules need not be withdrawn if these amounts would have to be transferred to the provisions again by 31 December 2024 at the latest. If no use is made of this option, the amounts resulting from the withdrawal are to be appropriated directly, ie without being recognised in the profit and loss account, to retained profits.

Conversion of foreign currency

Measurement

Old rules

Conversion at the spot exchange rate

Foreign currency positions were generally converted at the spot exchange rate on the balance sheet date. The lower of cost or market principle was not used for the conversion of foreign cur-

67 Biometric valuation parameters include, inter alia, probabilities of death or invalidity, future redundancies (fluctuation) and the expected retirement age.

rency positions with special cover.[68] For the conversion of foreign currency positions for which there was no special cover, but cover in the same currency (simple cover),[69] revenue and expenditure from currency conversion could be offset to the "zero line".[70] For the conversion of the remaining foreign currency positions, the lower of cost or market principle had to be fully observed.

New rules

Conversion at the average spot exchange rate

Foreign currency positions are now generally to be converted at the average spot exchange rate[71] on the balance sheet date. The lower of cost or market principle is not taken into consideration for the conversion of foreign currency positions with a residual maturity of up to one year, foreign currency positions with special cover or foreign currency positions of the trading portfolio.[72] If there is no special cover but the conditions for a valuation unit[73] are fulfilled, the revenue and expenditure from this currency conversion can be offset against each other to the "zero line".[74] For the remaining foreign currency positions, the lower of cost or market principle must be observed fully in the currency conversion.

Disclosure in the profit and loss account

Old rules

Disclosure together with other valuation results

Results from foreign currency conversion were to be reported in the profit and loss item under which the other valuation results of the converted balance sheet item or transaction were reported. Results from currency conversion for own-account trading instruments were offset under the net profit or net loss on financial operations.

New rules

Option of disclosure in the profit and loss acccount

Expenditure and revenues from foreign currency conversion can on the one hand be reported in other operating income or charges.[75] On the other hand, according to the provisions of the Credit Institution Accounting Regulation, there is the possibility of including these in the item under which the other valuation results of the converted balance sheet item or transaction are reported.[76] Results from currency conversion for financial instruments of the trading portfolio must always be booked in the net profit or net loss from the trading portfolio.

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68 Special cover can be assumed if the currency and amount are identical for the underlying and hedging transactions, so that the currency risk is eliminated completely.
69 Simple cover can be assumed if the currency, but not the amount, is identical for the underlying and hedging transactions, so that the currency risk is only eliminated for the corresponding amounts of the currency positions but there is an open position for the "excess" amount.
70 Offsetting to the "zero line" means that the lower of cost or market principle can be disregarded to the extent that and for the period in which opposite changes in value or opposite cash flows offset each other.
71 By deciding on the average spot exchange rate, the possibility of using different spot exchange rates (bid, mid-market and ask prices) is eliminated in the future.
72 Currency fluctuations in the trading portfolio are covered implicitly by the new valuation rules of the trading portfolio (valuation at fair value minus a haircut).
73 Pursuant to section 254 of the German Commercial Code, a valuation unit is given in the case of an aggregation of the underlying and hedging transactions to offset opposite changes in value or opposite cash flows resulting from the occurrence of similar risks. See also Deutsche Bundesbank, The Act Modernising Accounting Law from a banking supervision perspective, Monthly Report, September 2010, pp 57-61.
74 An explicit ruling for foreign currency positions with simple cover was abandoned under the implementation of the Accounting Law Modernisation Act.
75 See section 340a of the German Commercial Code in conjunction with section 277 (5) of the German Commercial Code.
76 See IDW, draft comment on accounting practices: Special features of the foreign currency conversion at institutions based on the German Commercial Code (IDW ERS BFA 4) no 22.

Transitional arrangements

Impacts on profits from the first-time application of the new rules are to be recorded in the extraordinary profit and loss.

Elimination of special reserves item

Old rules

Special reserves item resulting from the "tax dictates financial accounting" principle

The special reserves item was a liability item to which purely tax-related concessions and/or disclosure options within the scope of the "reverse authority" or "tax dictates financial accounting" principle[77] *(Prinzip der umgekehrten Maßgeblichkeit)* were transferred from the tax balance sheet to the commercial balance sheet. Amounts appropriated to this special item were not taxed until their release.

New rules

Consequence of repeal of "tax dictates financial accounting" principle

As the "tax dictates financial accounting" principle was repealed to the greatest possible extent with the introduction of the Act Modernising Accounting Law, the assumption of purely tax options in the commercial balance sheet is no longer permissible. It is therefore no longer required to set up a special reserves item in the annual accounts. In future, this may not be newly set up or increased, so that the expense item "transfers to special reserves" and the income position "release of the special reserves item" have been deleted.

Transitional arrangements

Retention option

A special reserves item existing at the time of the changeover to the Act Modernising Accounting Law can either be dissolved or retained. If no use is made of the retention option, the dissolution amount is to be appropriated directly, ie without being recognised in the profit and loss account, to retained profits.

77 The "authority principle" (Maßgeblichkeitsprinzip) or "commercial [financial] accounting dictates tax accounting" principle stipulates that the principles for drawing up the commercial balance sheet also apply to the tax balance sheet. However, if options purely permissible in tax law were exercised in the tax balance sheet, these had to be transferred to the commercial balance sheet as part of the "reverse authority" or "tax dictates financial accounting" principle. For example, if purely tax-motivated (below the HGB values) valuations were to be transferred to the commercial balance sheet, this could be done by means of direct or indirect write-downs. In the case of an indirect write-down, the tax-related write-down amount had to be booked under the special reserves item and liquidated according to tax law. The HGB measurement on the assets side of the commercial balance sheet remained unchanged.

The tables accompanying this article are printed on pages 47-57.

Major components of credit institutions' profit and loss accounts, by category of banks *

As a percentage of the average balance sheet total o

Financial year	All categories of banks	Commercial banks: Total	of which: Big banks	of which: Regional banks and other commercial banks	Landesbanken	Savings banks	Regional institutions of credit cooperatives	Credit cooperatives	Mortgage banks	Special purpose banks
	Interest received 1									
2004	4.23	3.60	3.30	4.57	4.39	4.92	3.28	4.88	4.85	3.97
2005	4.37	3.98	3.79	4.64	4.69	4.75	3.05	4.72	4.88	4.05
2006	4.63	4.47	4.36	4.86	4.94	4.67	3.18	4.61	5.32	4.12
2007	5.13	4.78	4.65	5.23	5.66	4.81	3.56	4.77	7.09	4.45
2008	5.20	4.73	4.53	5.36	5.59	4.97	3.90	4.95	7.73	4.53
2009	3.86	3.24	2.93	4.07	3.82	4.37	2.85	4.41	5.38	3.75
2010	3.23	2.60	2.19	3.74	3.21	4.02	2.27	4.03	4.47	2.95
	Interest paid									
2004	3.04	2.35	2.31	2.48	3.74	2.57	2.79	2.37	4.41	3.47
2005	3.20	2.71	2.79	2.47	4.05	2.45	2.57	2.26	4.44	3.56
2006	3.48	3.14	3.26	2.75	4.33	2.44	2.75	2.30	4.89	3.65
2007	4.01	3.48	3.56	3.23	5.01	2.75	3.06	2.61	6.65	4.02
2008	4.11	3.52	3.54	3.47	4.87	2.97	3.32	2.89	7.34	4.09
2009	2.72	2.04	1.84	2.57	3.11	2.25	2.41	2.18	4.91	3.22
2010	2.10	1.45	1.24	2.05	2.52	1.82	1.79	1.69	4.02	2.44
	Excess of interest received over interest paid = net interest received (interest margin)									
2004	1.18	1.25	0.98	2.09	0.65	2.35	0.49	2.51	0.44	0.50
2005	1.17	1.27	1.00	2.17	0.63	2.30	0.47	2.46	0.45	0.49
2006	1.15	1.33	1.11	2.11	0.61	2.23	0.43	2.30	0.43	0.47
2007	1.12	1.30	1.09	2.00	0.65	2.06	0.50	2.15	0.43	0.43
2008	1.09	1.20	0.99	1.89	0.72	2.00	0.58	2.06	0.39	0.44
2009	1.14	1.20	1.09	1.50	0.72	2.13	0.45	2.23	0.47	0.53
2010	1.14	1.14	0.95	1.69	0.68	2.20	0.48	2.33	0.44	0.51
	Excess of commissions received over commissions paid = net commissions received									
2004	0.35	0.57	0.50	0.78	0.11	0.56	0.16	0.65	0.00	0.09
2005	0.37	0.60	0.52	0.85	0.12	0.56	0.16	0.67	0.00	0.09
2006	0.39	0.63	0.54	0.94	0.13	0.58	0.14	0.66	0.03	0.10
2007	0.39	0.60	0.51	0.92	0.13	0.60	0.12	0.67	0.04	0.10
2008	0.36	0.54	0.45	0.82	0.13	0.57	0.11	0.63	0.05	0.09
2009	0.34	0.55	0.50	0.70	0.07	0.55	0.14	0.58	0.02	0.10
2010	0.35	0.56	0.50	0.72	0.08	0.57	0.13	0.59	0.02	0.09

* The figures for the most recent date should be regarded as provisional in all cases. Excluding building and loan associations, institutions in liquidation, and institutions with a truncated financial year. — **o** Excluding the balance sheet total of the foreign branches of savings banks and of the foreign branches of regional institutions of credit cooperatives. — For footnote **1** see p 48.

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Major components of credit institutions' profit and loss accounts, by category of banks * (cont'd)

As a percentage of the average balance sheet total °

Financial year	All categories of banks	Commercial banks			Landesbanken	Savings banks	Regional institutions of credit cooperatives	Credit cooperatives	Mortgage banks	Special purpose banks
		Total	*of which* Big banks	*of which* Regional banks and other commercial banks						
	General administrative spending									
2004	1.05	1.41	1.27	1.89	0.44	1.92	0.52	2.28	0.16	0.22
2005	1.05	1.38	1.23	1.87	0.45	1.92	0.44	2.30	0.17	0.21
2006	1.06	1.42	1.27	1.93	0.46	1.89	0.47	2.27	0.18	0.22
2007	1.00	1.28	1.13	1.81	0.43	1.90	0.39	2.12	0.18	0.21
2008	0.95	1.20	1.02	1.75	0.43	1.81	0.36	2.01	0.17	0.20
2009	1.02	1.40	1.31	1.65	0.45	1.80	0.41	1.98	0.18	0.21
2010	0.99	1.32	1.20	1.67	0.44	1.74	0.38	1.88	0.17	0.19
	Partial operating result									
2004	0.48	0.40	0.22	0.98	0.33	1.00	0.13	0.88	0.28	0.37
2005	0.49	0.50	0.29	1.15	0.30	0.94	0.19	0.83	0.28	0.37
2006	0.49	0.54	0.38	1.11	0.28	0.92	0.11	0.69	0.28	0.35
2007	0.51	0.62	0.47	1.12	0.35	0.75	0.22	0.70	0.30	0.32
2008	0.50	0.55	0.41	0.96	0.41	0.77	0.33	0.68	0.27	0.33
2009	0.46	0.35	0.27	0.56	0.34	0.88	0.18	0.82	0.31	0.42
2010	0.50	0.38	0.24	0.74	0.32	1.03	0.23	1.04	0.29	0.41
	Net profit or net loss from the trading portfolio 2									
2004	0.02	0.02	0.04	– 0.04	0.02	0.02	0.19	0.01	0.00	0.00
2005	0.15	0.41	0.56	– 0.04	0.02	0.02	0.18	0.01	0.00	0.00
2006	0.06	0.11	0.15	– 0.04	0.06	0.02	0.17	0.01	0.00	0.00
2007	– 0.01	0.03	0.08	– 0.13	– 0.10	0.01	– 0.19	0.01	0.00	0.00
2008	– 0.22	– 0.55	– 0.69	– 0.14	– 0.09	0.00	– 0.33	0.00	0.00	0.00
2009	0.09	0.18	0.22	0.08	0.06	0.02	0.33	0.01	0.00	0.00
2010	0.07	0.17	0.23	0.00	0.03	0.00	0.19	0.00	0.00	0.00
	Net income or net charges from the valuation of assets									
2004	– 0.24	– 0.22	– 0.17	– 0.40	– 0.05	– 0.60	– 0.17	– 0.54	– 0.19	– 0.05
2005	– 0.19	– 0.15	– 0.09	– 0.36	– 0.05	– 0.50	– 0.08	– 0.52	– 0.13	– 0.01
2006	– 0.18	– 0.16	– 0.10	– 0.34	0.08	– 0.52	– 0.05	– 0.71	– 0.12	– 0.08
2007	– 0.29	– 0.17	– 0.13	– 0.31	– 0.13	– 0.43	– 0.18	– 0.44	– 0.14	– 0.96
2008	– 0.44	– 0.34	– 0.32	– 0.42	– 0.50	– 0.47	– 0.25	– 0.56	– 0.48	– 0.53
2009	– 0.34	– 0.31	– 0.28	– 0.40	– 0.38	– 0.42	0.01	– 0.33	– 0.43	– 0.25
2010	– 0.19	– 0.16	– 0.08	– 0.36	– 0.15	– 0.33	0.00	– 0.33	– 0.31	– 0.05

For footnotes *, °, see p 47. — **1** Interest received plus current income and profits transferred from profit pooling, a profit transfer agreement or a partial profit transfer agreement. — **2** Up to 2009, net profit or net loss on financial operations.

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Major components of credit institutions' profit and loss accounts, by category of banks * (cont'd)

As a percentage of the average balance sheet total °

Financial year	All categories of banks	Commercial banks: Total	Commercial banks, of which: Big banks	Commercial banks, of which: Regional banks and other commercial banks	Landesbanken	Savings banks	Regional institutions of credit cooperatives	Credit cooperatives	Mortgage banks	Special purpose banks
	Operating result									
2004	0.31	0.29	0.13	0.74	0.33	0.44	0.19	0.51	0.11	0.35
2005	0.48	0.77	0.71	0.96	0.26	0.50	0.30	0.47	0.18	0.38
2006	0.46	0.57	0.47	0.93	0.48	0.46	0.24	0.55	0.17	0.32
2007	0.25	0.51	0.41	0.84	0.15	0.40	– 0.13	0.45	0.18	– 0.62
2008	– 0.10	– 0.26	– 0.54	0.57	– 0.14	0.35	– 0.23	0.37	– 0.20	– 0.19
2009	0.21	0.20	0.12	0.37	0.05	0.48	0.53	0.58	– 0.12	0.18
2010	0.37	0.35	0.27	0.55	0.22	0.70	0.42	0.74	0.00	0.37
	Net other and extraordinary income or charges									
2004	– 0.17	– 0.30	– 0.25	– 0.46	– 0.30	0.01	– 0.08	0.02	– 0.05	– 0.04
2005	– 0.04	– 0.07	0.05	– 0.47	– 0.07	0.00	– 0.11	0.25	– 0.16	– 0.01
2006	– 0.10	– 0.18	– 0.09	– 0.50	– 0.12	– 0.02	– 0.07	0.06	– 0.10	0.01
2007	0.00	0.13	0.28	– 0.36	– 0.10	– 0.04	– 0.02	0.02	– 0.14	– 0.07
2008	– 0.20	– 0.29	– 0.26	– 0.39	– 0.21	– 0.14	0.08	– 0.05	– 0.15	– 0.19
2009	– 0.25	– 0.43	– 0.47	– 0.37	– 0.38	– 0.04	– 0.27	– 0.08	– 0.05	– 0.01
2010	– 0.15	– 0.23	– 0.17	– 0.40	– 0.28	– 0.09	– 0.18	– 0.05	– 0.01	0.01
	Profit for the financial year before tax									
2004	0.14	– 0.01	– 0.12	0.29	0.03	0.45	0.11	0.52	0.06	0.31
2005	0.44	0.70	0.77	0.49	0.19	0.49	0.18	0.72	0.02	0.37
2006	0.36	0.39	0.38	0.43	0.36	0.44	0.16	0.61	0.06	0.33
2007	0.25	0.64	0.68	0.48	0.05	0.37	– 0.15	0.47	0.04	– 0.70
2008	– 0.30	– 0.55	– 0.81	0.18	– 0.36	0.21	– 0.15	0.32	– 0.35	– 0.38
2009	– 0.04	– 0.24	– 0.35	0.00	– 0.33	0.44	0.26	0.50	– 0.18	0.17
2010	0.22	0.12	0.10	0.14	– 0.06	0.61	0.23	0.69	– 0.01	0.38
	Profit for the financial year after tax									
2004	0.07	– 0.05	– 0.10	0.11	– 0.02	0.23	0.15	0.27	0.03	0.29
2005	0.31	0.50	0.56	0.31	0.17	0.27	0.18	0.47	– 0.02	0.36
2006	0.29	0.32	0.33	0.27	0.31	0.24	0.35	0.47	0.04	0.32
2007	0.18	0.52	0.57	0.36	0.03	0.21	0.11	0.30	0.02	– 0.71
2008	– 0.32	– 0.54	– 0.76	0.10	– 0.39	0.11	0.05	0.23	– 0.37	– 0.39
2009	– 0.08	– 0.23	– 0.31	– 0.06	– 0.34	0.23	0.28	0.28	– 0.20	0.17
2010	0.15	0.08	0.08	0.07	– 0.05	0.38	0.24	0.45	– 0.01	0.37

For footnotes *, °, see p 47.

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Credit institutions' profit and loss accounts *

Financial year	Interest business			Non-interest business			General administrative spending			
	Net interest received (col 2 less col 3)	Interest received 1	Interest paid	Net commissions received (col 5 less col 6)	Commissions received	Commissions paid	Total (col 8 plus col 9)	Staff costs	Total other administrative spending 2	Partial operating result (col 1 plus col 4 less col 7)
	1	2	3	4	5	6	7	8	9	10
	€ billion									
2003	81.7	308.7	227.0	24.4	30.6	6.3	77.3	41.6	35.7	28.8
2004	85.0	303.6	218.6	25.3	32.0	6.8	75.8	41.2	34.6	34.5
2005	88.2	329.1	240.9	27.8	35.4	7.6	78.8	43.4	35.4	37.2
2006	89.1	357.5	268.3	29.9	38.4	8.6	81.5	46.0	35.5	37.5
2007	91.6	418.9	327.4	31.7	42.2	10.5	81.6	44.6	37.0	41.7
2008	90.6	432.8	342.2	29.7	41.1	11.3	78.7	42.0	36.7	41.6
2009	91.5	309.9	218.4	27.4	39.4	12.0	82.2	45.0	37.2	36.7
2010	92.1	262.1	170.0	28.6	40.6	12.0	80.2	42.3	38.0	40.5
	Year-on-year percentage change 5									
2004	4.0	– 1.7	– 3.7	3.8	4.5	7.4	– 2.0	– 0.9	– 3.2	19.9
2005	3.9	8.4	10.2	9.9	10.4	12.0	4.0	5.4	2.4	7.9
2006	1.0	8.6	11.4	7.4	8.7	13.3	3.4	5.9	0.4	0.8
2007	2.8	17.2	22.0	6.1	9.8	22.7	0.1	– 3.0	4.1	11.2
2008	– 0.8	3.4	4.5	– 6.9	– 3.6	6.2	– 3.8	– 6.0	– 1.0	0.3
2009	0.9	– 28.4	– 36.2	– 7.7	– 4.0	5.8	4.4	7.0	1.5	– 11.8
2010	0.7	– 15.4	– 22.2	4.5	3.1	– 0.2	– 2.4	– 6.0	1.9	10.6
	As a percentage of the average balance sheet total									
2003	1.16	4.39	3.23	0.35	0.44	0.09	1.10	0.59	0.51	0.41
2004	1.18	4.23	3.04	0.35	0.45	0.09	1.05	0.57	0.48	0.48
2005	1.17	4.37	3.20	0.37	0.47	0.10	1.05	0.58	0.47	0.49
2006	1.15	4.63	3.48	0.39	0.50	0.11	1.06	0.60	0.46	0.49
2007	1.12	5.13	4.01	0.39	0.52	0.13	1.00	0.55	0.45	0.51
2008	1.09	5.20	4.11	0.36	0.49	0.14	0.95	0.50	0.44	0.50
2009	1.14	3.86	2.72	0.34	0.49	0.15	1.02	0.56	0.46	0.46
2010	1.14	3.23	2.10	0.35	0.50	0.15	0.99	0.52	0.47	0.50

* The figures for the most recent date should be regarded as provisional in all cases. Excluding building and loan associations, institutions in liquidation, and institutions with a truncated financial year. — **1** Interest received plus current income and profits transferred under profit pooling, a profit transfer agreement or a partial profit transfer agreement. — **2** Including depreciation of and value adjustments to tangible and intangible assets, but excluding depreciation of and value adjustments to assets leased ("broad" defin-

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Net profit or net loss from the trading portfolio [3]	Net other operating income or charges	Net income or net charges from the valuation of assets (other than tangible or financial fixed assets)	Operating result (col 10 to col 13)	Net other and extra-ordinary income or charges	Profit for the financial year before tax (col 14 plus col 15)	Taxes on income and earnings	Profit or loss (–) for the financial year after tax (col 16 less col 17)	*Memo item* Balance sheet total as an annual average [4]	Financial year
11	12	13	14	15	16	17	18	19	
								€ billion	
6.4	3.8	– 21.8	17.3	– 15.5	1.8	5.5	– 3.7	7,038.2	2003
1.3	4.1	– 17.3	22.6	– 12.3	10.4	5.6	4.8	7,183.7	2004
11.4	1.9	– 14.0	36.5	– 3.2	33.2	9.7	23.5	7,524.7	2005
4.4	7.3	– 14.0	35.2	– 7.6	27.6	5.4	22.2	7,719.0	2006
– 1.1	3.5	– 23.6	20.5	0.1	20.5	6.0	14.6	8,158.9	2007
– 18.7	5.6	– 36.6	– 8.2	– 16.9	– 25.0	1.3	– 26.3	8,327.1	2008
6.9	0.5	– 26.9	17.2	– 20.0	– 2.8	3.9	– 6.7	8,022.1	2009
5.7	– 0.6	– 15.4	30.3	– 12.5	17.8	5.2	12.5	8,105.2	2010
								Year-on-year percentage change [5]	
– 80.5	9.0	20.5	31.0	20.7	469.0	1.4	.	2.1	2004
806.3	– 53.9	18.9	61.5	73.6	221.2	75.0	391.6	4.8	2005
– 61.4	291.8	0.0	– 3.5	– 135.2	– 17.0	– 44.4	– 5.6	2.6	2006
.	– 51.9	– 68.6	– 41.9	.	– 25.6	9.8	– 34.3	5.7	2007
– 1,545.1	55.6	– 54.9	.	.	.	– 78.1	.	2.1	2008
.	– 90.6	26.4	.	– 18.6	88.8	195.6	74.4	– 3.7	2009
– 17.2	.	42.7	76.3	37.4	.	33.0	.	1.0	2010
								As a percentage of the average balance sheet total	
0.09	0.05	– 0.31	0.25	– 0.22	0.03	0.08	– 0.05	.	2003
0.02	0.06	– 0.24	0.31	– 0.17	0.14	0.08	0.07	.	2004
0.15	0.02	– 0.19	0.48	– 0.04	0.44	0.13	0.31	.	2005
0.06	0.09	– 0.18	0.46	– 0.10	0.36	0.07	0.29	.	2006
– 0.01	0.04	– 0.29	0.25	0.00	0.25	0.07	0.18	.	2007
– 0.22	0.07	– 0.44	– 0.10	– 0.20	– 0.30	0.02	– 0.32	.	2008
0.09	0.01	– 0.34	0.21	– 0.25	– 0.04	0.05	– 0.08	.	2009
0.07	– 0.01	– 0.19	0.37	– 0.15	0.22	0.06	0.15	.	2010

ition).— **3** Up to 2009, net profit or net loss on financial operations. — **4** Excluding the balance sheet total of the foreign branches of savings banks. From 2004, excluding the balance sheet total of the foreign branches of regional institutions of credit cooperatives. — **5** Statistical changes have been eliminated.

Profit and loss accounts, by category of banks *

€ million

Financial year	Number of reporting institutions	Interest business: Net interest received (col 3 less col 4)	Interest business: Interest received [1]	Interest business: Interest paid	Non-interest business: Net commissions received (col 6 less col 7)	Non-interest business: Commissions received	Non-interest business: Commissions paid	General administrative spending: Total (col 9 plus col10)	General administrative spending: Staff costs	General administrative spending: Other administrative spending [2]	Partial operating result (col 2 plus col 5 less col 8)
	1	2	3	4	5	6	7	8	9	10	11
	All categories of banks										
2005	1,988	88,211	329,082	240,871	27,797	35,351	7,554	78,806	43,445	35,361	37,202
2006	1,940	89,124	357,461	268,337	29,852	38,411	8,559	81,474	45,989	35,485	37,502
2007	1,903	91,577	418,933	327,356	31,681	42,179	10,498	81,561	44,604	36,957	41,697
2008	1,864	90,636	432,846	342,210	29,718	41,060	11,342	78,731	42,033	36,698	41,623
2009	1,819	91,472	309,873	218,401	27,402	39,405	12,003	82,207	44,964	37,243	36,667
2010	1,798	92,138	262,118	169,980	28,634	40,609	11,975	80,233	42,267	37,966	40,539
	Commercial banks										
2005	179	32,585	102,082	69,497	15,370	19,375	4,005	35,259	17,889	17,370	12,696
2006	174	34,584	116,283	81,699	16,504	21,332	4,828	36,939	19,402	17,537	14,149
2007	173	38,076	140,346	102,270	17,757	24,205	6,448	37,623	19,454	18,169	18,210
2008	181	35,704	140,162	104,458	15,994	23,061	7,067	35,444	16,868	18,576	16,254
2009	183	32,803	88,667	55,864	15,095	21,816	6,721	38,241	18,904	19,337	9,657
2010	183	32,524	73,874	41,350	15,795	22,766	6,971	37,587	17,414	20,173	10,732
	Big banks										
2005	5	19,419	73,595	54,176	10,076	12,189	2,113	23,846	12,564	11,282	5,649
2006	5	22,111	87,108	64,997	10,861	13,365	2,504	25,438	13,936	11,502	7,534
2007	5	24,454	104,238	79,784	11,365	14,634	3,269	25,321	13,709	11,612	10,498
2008	5	21,828	100,199	78,371	9,895	13,541	3,646	22,594	10,917	11,677	9,129
2009	4	21,060	56,590	35,530	9,565	13,035	3,470	25,349	12,811	12,538	5,276
2010	4	19,584	45,236	25,652	10,215	13,552	3,337	24,754	11,873	12,881	5,045
	Regional banks and other commercial banks										
2005	155	13,050	27,930	14,880	5,133	7,020	1,887	11,242	5,247	5,995	6,941
2006	152	12,362	28,507	16,145	5,496	7,815	2,319	11,335	5,383	5,952	6,523
2007	151	13,466	35,134	21,668	6,194	9,366	3,172	12,127	5,658	6,469	7,533
2008	158	13,660	38,753	25,093	5,939	9,354	3,415	12,637	5,858	6,779	6,962
2009	161	11,519	31,235	19,716	5,369	8,615	3,246	12,624	5,997	6,627	4,264
2010	161	12,663	28,097	15,434	5,438	9,064	3,626	12,545	5,448	7,097	5,556
	Branches of foreign banks										
2005	19	116	557	441	161	166	5	171	78	93	106
2006	17	111	668	557	147	152	5	166	83	83	92
2007	17	156	974	818	198	205	7	175	87	88	179
2008	18	216	1,210	994	160	166	6	213	93	120	163
2009	18	224	842	618	161	166	5	268	96	172	117
2010	18	277	541	264	142	150	8	288	93	195	131
	Landesbanken										
2005	12	10,019	74,094	64,075	1,933	3,455	1,522	7,140	3,607	3,533	4,812
2006	12	10,030	81,578	71,548	2,206	3,784	1,578	7,646	4,204	3,442	4,590
2007	12	10,877	94,386	83,509	2,247	3,987	1,740	7,248	3,747	3,501	5,876
2008	10	12,161	94,705	82,544	2,177	4,015	1,838	7,364	3,659	3,705	6,974
2009	10	11,354	60,664	49,310	1,181	3,614	2,433	7,111	3,622	3,489	5,424
2010	10	10,325	48,471	38,146	1,225	3,379	2,154	6,689	3,261	3,428	4,861

For footnotes *****, **1-6**, see p 54 and p 55.

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Net profit or net loss from the trading portfolio 3	Net other operating income or charges	Net income or net charges from the valuation of assets (other than tangible or financial fixed assets)	Operating result (col 11 to col 14)	Net other and extra-ordinary income or charges	Profit for the finan-cial year before tax (col 15 plus col 16)	Taxes on income and earnings 4	Profit or loss (–) for the finan-cial year after tax (col 17 less col 18)	With-drawals from or transfers to (–) reserves and parti-cipation rights capital 5	Balance sheet profit or loss (–) (col 19 plus col 20)	*Memo item* Average annual balance sheet total 6	Financial year
12	13	14	15	16	17	18	19	20	21	22	
										All categories of banks	
11,421	1,861	– 14,007	36,477	– 3,235	33,242	9,744	23,498	– 14,395	9,103	7,524,722	2005
4,413	7,292	– 14,000	35,207	– 7,610	27,597	5,421	22,176	– 11,818	10,358	7,718,988	2006
– 1,143	3,506	– 23,603	20,457	74	20,531	5,953	14,580	– 1,359	13,221	8,158,884	2007
– 18,718	5,555	– 36,611	– 8,151	– 16,863	– 25,014	1,327	– 26,341	21,549	– 4,792	8,327,069	2008
6,906	518	– 26,930	17,161	– 19,976	– 2,815	3,915	– 6,730	1,760	– 4,970	8,022,116	2009
5,717	– 565	– 15,439	30,252	– 12,501	17,751	5,205	12,546	– 13,374	– 828	8,105,203	2010
										Commercial banks	
10,542	472	– 3,906	19,804	– 1,856	17,948	5,180	12,768	– 8,592	4,176	2,563,063	2005
2,759	2,089	– 4,092	14,905	– 4,761	10,144	1,904	8,240	– 2,867	5,373	2,601,671	2006
884	712	– 4,879	14,927	3,799	18,726	3,450	15,276	– 5,779	9,497	2,935,195	2007
– 16,343	2,506	– 10,161	– 7,744	– 8,676	– 16,420	– 461	– 15,959	16,697	738	2,964,986	2008
4,896	– 725	– 8,442	5,386	– 11,860	– 6,474	– 162	– 6,312	8,568	2,256	2,735,704	2009
4,710	– 1,170	– 4,432	9,840	– 6,504	3,336	1,103	2,233	– 236	1,997	2,845,575	2010
										Big banks	
10,775	– 846	– 1,713	13,865	1,002	14,867	4,030	10,837	– 7,941	2,896	1,939,373	2005
2,971	920	– 2,073	9,352	– 1,832	7,520	936	6,584	– 2,807	3,777	1,995,918	2006
1,764	– 375	– 2,806	9,081	6,209	15,290	2,549	12,741	– 5,386	7,355	2,240,698	2007
– 15,373	1,270	– 7,041	– 12,015	– 5,818	– 17,833	– 1,096	– 16,737	16,810	73	2,212,741	2008
4,262	– 1,862	– 5,326	2,350	– 9,041	– 6,691	– 724	– 5,966	8,392	2,426	1,931,021	2009
4,706	– 2,529	– 1,714	5,508	– 3,469	2,039	488	1,551	837	2,388	2,061,016	2010
										Regional banks and other commercial banks	
– 249	1,316	– 2,197	5,811	– 2,853	2,958	1,098	1,860	– 651	1,209	602,538	2005
– 238	1,153	– 2,009	5,429	– 2,929	2,500	915	1,585	– 60	1,525	586,058	2006
– 901	1,072	– 2,054	5,650	– 2,413	3,237	823	2,414	– 393	2,021	671,668	2007
– 983	1,206	– 3,052	4,133	– 2,832	1,301	572	729	– 113	616	722,740	2008
614	1,023	– 3,067	2,834	– 2,812	22	497	– 476	178	– 298	766,860	2009
– 12	1,247	– 2,694	4,097	– 3,027	1,070	535	535	– 1,067	– 532	751,218	2010
										Branches of foreign banks	
16	2	4	128	– 5	123	52	71	0	71	21,152	2005
26	16	– 10	124	0	124	53	71	0	71	19,695	2006
21	15	– 19	196	3	199	78	121	0	121	22,829	2007
13	30	– 68	138	– 26	112	63	49	0	49	29,505	2008
20	114	– 49	202	– 7	195	65	130	– 2	128	37,823	2009
16	112	– 24	235	– 8	227	80	147	– 6	141	33,341	2010
										Landesbanken	
241	– 148	– 782	4,123	– 1,093	3,030	413	2,617	– 1,715	902	1,581,453	2005
1,010	1,026	1,373	7,999	– 1,985	6,014	878	5,136	– 3,835	1,301	1,651,972	2006
– 1,726	474	– 2,163	2,461	– 1,673	788	283	507	400	907	1,668,143	2007
– 1,514	652	– 8,547	– 2,435	– 3,616	– 6,051	629	– 6,680	6,809	129	1,695,465	2008
907	501	– 6,096	736	– 5,977	– 5,241	223	– 5,464	3,119	– 2,345	1,587,259	2009
472	205	– 2,270	3,268	– 4,197	– 929	– 101	– 828	690	– 138	1,512,276	2010

Profit and loss accounts, by category of banks * (cont'd)

€ million

Financial year	Number of reporting institutions	Interest business			Non-interest business			General administrative spending			Partial operating result (col 2 plus col 5 less col 8)
		Net interest received (col 3 less col 4)	Interest received [1]	Interest paid	Net commissions received (col 6 less col 7)	Commissions received	Commissions paid	Total (col 9 plus col10)	Staff costs	Other administrative spending [2]	
	1	2	3	4	5	6	7	8	9	10	11
	Savings banks										
2005	463	22,926	47,328	24,402	5,621	5,996	375	19,146	11,841	7,305	9,401
2006	457	22,449	47,046	24,597	5,854	6,244	390	19,014	11,693	7,321	9,289
2007	446	20,949	48,987	28,038	6,082	6,492	410	19,373	11,338	8,035	7,658
2008	438	20,861	51,861	31,000	5,994	6,416	422	18,865	11,534	7,331	7,990
2009	431	22,570	46,406	23,836	5,858	6,298	440	19,109	11,912	7,197	9,319
2010	429	23,506	43,015	19,509	6,124	6,591	467	18,659	11,543	7,116	10,971
	Regional institutions of credit cooperatives										
2005	2	1,037	6,698	5,661	359	795	436	974	543	431	422
2006	2	1,009	7,439	6,430	336	807	471	1,095	673	422	250
2007	2	1,265	9,044	7,779	298	799	501	1,000	552	448	563
2008	2	1,590	10,671	9,081	299	759	460	976	516	460	913
2009	2	1,175	7,512	6,337	373	798	425	1,069	598	471	479
2010	2	1,259	5,958	4,699	347	828	481	990	545	445	616
	Credit cooperatives										
2005	1,292	14,230	27,287	13,057	3,886	4,499	613	13,333	8,013	5,320	4,783
2006	1,257	13,716	27,427	13,711	3,949	4,601	652	13,536	8,250	5,286	4,129
2007	1,232	13,219	29,281	16,062	4,138	4,809	671	13,056	7,807	5,249	4,301
2008	1,197	13,205	31,770	18,565	4,037	4,720	683	12,909	7,874	5,035	4,333
2009	1,157	15,062	29,842	14,780	3,893	4,665	772	13,380	8,283	5,097	5,575
2010	1,138	16,267	28,090	11,823	4,113	4,925	812	13,137	7,944	5,193	7,243
	Mortgage banks										
2005	24	3,933	42,930	38,997	– 5	331	336	1,458	697	761	2,470
2006	22	3,774	46,761	42,987	285	603	318	1,606	808	798	2,453
2007	22	3,737	60,944	57,207	378	669	291	1,578	751	827	2,537
2008	19	3,213	63,510	60,297	418	787	369	1,393	606	787	2,238
2009	18	3,760	43,235	39,475	129	910	781	1,432	639	793	2,457
2010	18	3,505	35,431	31,926	197	800	603	1,374	533	841	2,328
	Special purpose banks										
2005	16	3,481	28,663	25,182	633	900	267	1,496	855	641	2,618
2006	16	3,562	30,927	27,365	718	1,040	322	1,638	959	679	2,642
2007	16	3,454	35,945	32,491	781	1,218	437	1,683	955	728	2,552
2008	17	3,902	40,167	36,265	799	1,302	503	1,780	976	804	2,921
2009	18	4,748	33,547	28,799	873	1,304	431	1,865	1,006	859	3,756
2010	18	4,752	27,279	22,527	833	1,320	487	1,797	1,027	770	3,788
	Memo item: Banks majority-owned by foreign banks [7]										
2005	41	8,216	29,491	21,275	3,389	4,246	857	7,291	3,416	3,875	4,314
2006	44	8,678	32,318	23,640	3,694	4,867	1,173	7,672	3,711	3,961	4,700
2007	42	10,189	39,607	29,418	4,038	5,725	1,687	8,115	3,927	4,188	6,112
2008	44	10,163	39,246	29,083	3,777	5,911	2,134	8,371	3,947	4,424	5,569
2009	43	9,831	26,212	16,381	3,311	5,272	1,961	8,811	4,471	4,340	4,331
2010	42	9,103	22,602	13,499	3,332	5,236	1,904	7,627	3,440	4,187	4,808

* The figures for the most recent date should be regarded as provisional in all cases. Excluding building and loan associations, institutions in liquidation, and institutions with a truncated financial year. — **1** Interest received plus current income and profits transferred from profit pooling, a profit transfer agreement or a partial profit transfer agreement. — **2** Including depreciation of and value adjustments to tangible and intangible assets, but excluding depreciation of and value adjustments to assets leased ("broad" definition). — **3** Up to 2009, net profit or net loss on financial operations. — **4** In part, including taxes paid by legally dependent build-

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Net profit or net loss from the trading portfolio [3]	Net other operating income or charges	Net income or net charges from the valuation of assets (other than tangible or financial fixed assets)	Operating result (col 11 to col 14)	Net other and extra-ordinary income or charges	Profit for the finan-cial year before tax (col 15 plus col 16)	Taxes on income and earnings [4]	Profit or loss (–) for the finan-cial year after tax (col 17 less col 18)	With-drawals from or transfers to (–) reserves and parti-cipation rights capital [5]	Balance sheet profit or loss (–) (col 19 plus col 20)	*Memo item* Average annual balance sheet total [6]	Financial year
12	13	14	15	16	17	18	19	20	21	22	
										Savings banks	
180	299	– 4,947	4,933	– 6	4,927	2,285	2,642	– 1,125	1,517	995,377	2005
176	419	– 5,246	4,638	– 217	4,421	1,973	2,448	– 855	1,593	1,007,033	2006
151	690	– 4,376	4,123	– 364	3,759	1,574	2,185	– 819	1,366	1,019,129	2007
35	548	– 4,900	3,673	– 1,512	2,161	1,016	1,145	– 143	1,002	1,042,947	2008
172	105	– 4,484	5,112	– 402	4,710	2,245	2,465	– 1,201	1,264	1,060,725	2009
46	31	– 3,538	7,510	– 956	6,554	2,525	4,029	– 2,513	1,516	1,070,231	2010
										Regional institutions of credit cooperatives	
405	7	– 180	654	– 248	406	10	396	– 223	173	219,881	2005
403	13	– 111	555	– 173	382	– 428	810	– 589	221	233,847	2006
– 482	41	– 455	– 333	– 42	– 375	– 649	274	– 38	236	254,397	2007
– 910	69	– 694	– 622	206	– 416	– 558	142	– 41	101	273,650	2008
881	8	27	1,395	– 699	696	– 37	733	– 542	191	263,438	2009
491	– 17	7	1,097	– 483	614	– 6	620	– 402	218	262,437	2010
										Credit cooperatives	
51	891	– 2,999	2,726	1,430	4,156	1,444	2,712	– 1,519	1,193	578,641	2005
57	3,317	– 4,249	3,254	360	3,614	829	2,785	– 1,556	1,229	595,576	2006
52	1,122	– 2,714	2,761	119	2,880	1,054	1,826	– 621	1,205	614,428	2007
10	1,637	– 3,615	2,365	– 326	2,039	571	1,468	– 423	1,045	641,771	2008
52	574	– 2,258	3,943	– 539	3,404	1,490	1,914	– 724	1,190	676,780	2009
11	225	– 2,323	5,156	– 366	4,790	1,622	3,168	– 1,794	1,374	697,694	2010
										Mortgage banks	
3	206	– 1,128	1,551	– 1,391	160	313	– 153	906	753	879,136	2005
6	65	– 1,067	1,457	– 889	568	196	372	– 119	253	878,310	2006
– 17	289	– 1,244	1,565	– 1,190	375	165	210	– 625	– 415	859,798	2007
– 4	75	– 3,977	– 1,668	– 1,245	– 2,913	93	– 3,006	– 452	– 3,458	821,083	2008
– 3	27	– 3,481	– 1,000	– 419	– 1,419	163	– 1,582	– 3,093	– 4,675	803,949	2009
– 6	86	– 2,423	– 15	– 71	– 86	– 17	– 69	– 4,494	– 4,563	793,476	2010
										Special purpose banks	
– 1	134	– 65	2,686	– 71	2,615	99	2,516	– 2,127	389	707,171	2005
2	363	– 608	2,399	55	2,454	69	2,385	– 1,997	388	750,579	2006
– 5	178	– 7,772	– 5,047	– 575	– 5,622	76	– 5,698	6,123	425	807,794	2007
8	68	– 4,717	– 1,720	– 1,694	– 3,414	37	– 3,451	– 898	– 4,349	887,167	2008
1	28	– 2,196	1,589	– 80	1,509	– 7	1,516	– 4,367	– 2,851	894,261	2009
– 7	75	– 460	3,396	76	3,472	79	3,393	– 4,625	– 1,232	923,514	2010
										Memo item: Banks majority-owned by foreign banks [7]	
345	167	– 1,962	2,864	– 783	2,081	721	1,360	– 537	823	649,254	2005
325	188	– 1,852	3,361	– 1,287	2,074	517	1,557	– 511	1,046	679,356	2006
– 542	421	– 2,204	3,787	5,914	9,701	769	8,932	– 3,885	5,047	766,323	2007
– 3,392	345	– 2,887	– 365	– 1,423	– 1,788	363	– 2,150	2,508	358	732,683	2008
1,277	370	– 2,953	3,025	– 1,816	1,209	496	713	592	1,305	679,565	2009
371	29	– 1,697	3,511	– 1,431	2,080	550	1,530	– 33	1,497	666,637	2010

ing and loan associations affiliated to Landesbanken. — **5** Including profit or loss brought forward and withdrawals from or transfers to the fund for general banking risks. — **6** Excluding the balance sheet total of the foreign branches of savings banks and of the foreign branches of regional institutions of credit cooperatives. — **7** Separate presentation of the (legally independent) credit institutions majority-owned by foreign banks and included in the categories “Big banks”, “Regional banks and other commercial banks” and “Mortgage banks”.

Credit institutions' charge and income items *

€ million

Financial year	Number of reporting institutions	Charges										
							General administrative spending					
								Staff costs				
										Social security costs and costs relating to pensions and other benefits		
		Total	Interest paid	Commissions paid	Net loss from the trading portfolio 1	Gross loss on transactions in goods and subsidiary transactions	Total	Total	Wages and salaries	Total	*of which* Pensions	Other administrative spending 2
2002	2,268	400,045	258,904	5,885	884	0	72,472	41,578	32,514	9,064	3,489	30,894
2003	2,128	364,797	227,033	6,289	354	0	71,901	41,585	32,088	9,497	3,946	30,316
2004	2,055	346,700	218,617	6,757	898	0	70,989	41,223	31,626	9,597	4,028	29,766
2005	1,988	372,968	240,871	7,554	637	0	74,459	43,445	33,278	10,167	4,562	31,014
2006	1,940	398,054	268,337	8,559	495	0	77,597	45,989	35,250	10,739	5,007	31,608
2007	1,903	472,921	327,356	10,498	4,479	0	77,810	44,604	35,092	9,512	3,855	33,206
2008	1,864	522,560	342,210	11,342	19,762	0	75,102	42,033	32,794	9,239	4,070	33,069
2009	1,819	378,397	218,401	12,003	1,218	0	78,673	44,964	34,542	10,422	4,745	33,709
2010	1,798	319,685	169,980	11,975	690	0	76,800	42,267	34,501	7,766	2,271	34,533

Financial year	Income									
		Interest received			Current income					
	Total	Total	from lending and money market transactions	from debt securities and Debt Register claims	Total	from shares and other variable yield securities	from participating interests 4	from shares in affiliated enterprises	Profits transferred under profit pooling, a profit transfer agreement or a partial profit transfer agreement	Commissions received
2002	407,115	323,949	266,031	57,918	17,446	7,226	1,835	8,385	3,077	30,212
2003	361,115	294,244	243,578	50,666	10,975	6,503	1,220	3,252	3,523	30,645
2004	351,489	285,732	235,855	49,877	14,666	9,631	1,212	3,823	3,217	32,039
2005	396,466	306,745	252,604	54,141	17,000	12,365	1,250	3,385	5,337	35,351
2006	420,230	332,763	274,104	58,659	18,807	14,105	1,230	3,472	5,891	38,411
2007	487,499	390,039	318,677	71,362	23,965	17,996	1,933	4,036	4,929	42,179
2008	496,219	408,741	329,973	78,768	18,970	12,413	1,452	5,105	5,135	41,060
2009	371,667	295,407	240,962	54,445	11,386	6,976	896	3,514	3,080	39,405
2010	332,231	247,934	205,297	42,637	12,073	6,870	948	4,255	2,111	40,609

* The figures for the most recent date should be regarded as provisional in all cases. Excluding building and loan associations, institutions in liquidation, and institutions with a truncated financial year. — **1** Up to 2009, net loss on financial operations. — **2** Spending item does not include depreciation of and value adjustments to tangible and intangible assets, shown net of depreciation of assets

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Value adjustments in respect of tangible and intangible assets: Total	*of which* Assets leased	Other operating charges	Value adjustments in respect of loans and advances, and provisions for contingent liabilities and for commitments	Value adjustments in respect of participating interests, shares in affiliated enterprises and securities treated as fixed assets	Charges incurred from loss transfers	Transfers to special reserves	Extraordinary charges	Taxes on income and earnings 3	Other taxes	Profits transferred under profit pooling, a profit transfer agreement or a partial profit transfer agreement	Financial year
5,995	143	4,288	34,213	3,412	4,550	64	2,102	3,850	185	3,241	2002
5,520	125	5,404	23,325	7,480	2,861	63	5,264	5,505	169	3,629	2003
4,904	112	3,763	19,439	1,352	1,427	37	8,893	5,583	176	3,865	2004
4,347	0	5,752	17,917	711	1,398	36	4,688	9,744	202	4,652	2005
3,894	17	4,719	17,880	2,593	796	49	2,656	5,421	191	4,867	2006
3,757	6	5,326	26,492	3,929	939	65	1,274	5,953	156	4,887	2007
3,793	164	5,641	39,116	15,288	3,318	30	1,938	1,327	209	3,484	2008
3,872	338	8,089	28,803	9,621	3,750	23	6,620	3,915	168	3,241	2009
3,886	453	11,234	18,244	4,014	3,943	0	10,360	5,205	280	3,074	2010

Net profit from the trading portfolio 5	Gross profit on transactions in goods and subsidiary transactions	Value readjustments in respect of loans and advances, and provisions for contingent liabilities and for commitments	Value readjustments in respect of participating interests, shares in affiliated enterprises and securities treated as fixed assets	Other operating income: Total	*of which* from leasing business	Income from the release of special reserves	Extraordinary income	Income from loss transfers	Financial year
3,834	170	2,996	12,040	8,139	243	889	3,586	777	2002
6,803	165	1,574	2,188	9,341	220	450	1,111	96	2003
2,158	160	2,157	1,070	8,040	239	49	1,716	485	2004
12,058	161	3,910	4,975	7,654	55	83	3,136	56	2005
4,908	172	3,880	2,307	12,047	34	27	946	71	2006
3,336	173	2,889	8,970	8,821	12	38	2,111	49	2007
1,044	177	2,505	1,761	11,392	496	121	3,608	1,705	2008
8,124	157	1,873	1,093	8,956	785	37	1,270	879	2009
6,407	169	2,805	1,632	11,233	871	0	6,078	1,180	2010

leased ("narrow" definition). All other tables are based on a broad definition of "other administrative spending". — **3** In part, including taxes paid by legally dependent building and loan associations affiliated to Landesbanken. — **4** Including amounts paid up on cooperative society shares. — **5** Up to 2009, net profit on financial operations.