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CASH AND TREASURY MANAGEMENT COUNTRY REPORT

GERMANY

Executive Summary

Banking

The German central bank is the Bundesbank. As Germany is a participant in the eurozone, some central bank functions are shared with the other members of the European System of Central Banks (ESCB). Bank supervision is performed by the Federal Financial Supervisory Authority.

Germany does apply central bank reporting requirements. These are managed by the Bundesbank, according to the rules set out in the Foreign Trade and Payments Act and relevant regulations, the Bundesbank Act and the Federal Statistics Act.

Resident entities are permitted to hold fully convertible foreign currency bank accounts domestically and outside Germany. Residents are also permitted to hold fully convertible domestic currency (EUR) bank accounts outside Germany. Non-resident entities are permitted to hold fully convertible domestic and foreign currency bank accounts within Germany.

Germany has a large number of credit institutions (1,749), most of which are small, German-owned mutual savings and cooperative banks (*Sparkassen*, *Volksbanken* and *Raiffeisenbanken*). There is a significant foreign banking presence in Germany - 103 foreign banks have established branches in Germany and 54 have representative offices.

Payments

Germany's two main payment systems are the pan-European TARGET2 RTGS system and EMZ.

The most important cashless payment instruments in Germany are electronic credit transfers and, in terms of volume, direct debits. The increased use of electronic and internet banking has led to a growth in the use of electronic credit transfers. Card payments are increasing rapidly, especially in the retail sector.

Liquidity Management

German-based companies have access to a variety of short-term funding alternatives. There is also a range of short-term investment instruments available.

Cash concentration is the more common technique used by German companies to manage company and group liquidity. Of the available techniques, zero-balancing is the most commonly used.

Notional pooling is available in Germany. However, it is less common than cash concentration. This is primarily because banks are not allowed to offset debit and credit balances for regulatory purposes.

Trade Finance

Germany applies the European Union (EU) customs code and all its associated regulations and commercial policies. All trade is free from tariffs between Germany and its fellow European Economic Area (EEA) member states.

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PNC's International Services

PNC can bring together treasury management, foreign exchange, trade finance and credit capabilities to support your international needs in a coordinated and collaborative way.

International Funds Transfers

International Funds Transfers to over 130 countries in USD and foreign currency can be accessed through PINACLE®, PNC's top-rated, online corporate banking portal.

Multicurrency Accounts

Set up demand deposit accounts that hold foreign currency instead of U.S. dollars. These accounts offer a simple and integrated way to manage and move money denominated in more than 30 currencies, including offshore Chinese Renminbi. You can easily view deposit and withdrawal details through PINACLE.

PNC Bank Canada Branch ("PNC Canada")

PNC Bank, through its full service branch in Canada, can help you succeed in this important market. PNC Canada offers a full suite of products including payables, receivables, lending, and specialized financing to help streamline cross border operations.

Multibank Services

PNC's Multibank Services provide you with balances and activity for all your accounts held with PNC and other financial institutions around the world. PINACLE's Information Reporting module can give you a quick snapshot of your international cash position, including USD equivalent value, using indicative exchange rates for all your account balances. You can also initiate Multibank Transfer Requests (MT101s), and reduce the time and expense associated with subscribing to a number of balance reporting and transaction systems.

Establish accounts in foreign countries

Establishing good banking relationships in the countries where you do business can simplify your international transactions. PNC offers two service models to help you open and manage accounts at other banks in countries outside the United States.

- PNC Gateway Direct comprises an increasing number of banks located in many European countries and parts of Latin America. PNC's team will serve as a

point of contact for setting up the account helping with any language and time barriers and will continue to serve as an intermediary between you and the bank you select. You can access reporting and make transfers via PINACLE.

- PNC's Gateway Referral service can connect you to a correspondent banking network that comprises more than 1,200 relationships in 115 countries.

Foreign Exchange Risk Management

PNC's senior foreign exchange consultants can help you develop a risk management strategy to mitigate the risk of exchange rate swings so you can more effectively secure pricing and costs, potentially increasing profits and reducing expenses.

Trade Services

PNC's Import, Export, and Standby Letters of Credit can deliver security and convenience, along with the backing of an institution with unique strengths in the international banking arena. PNC also provides Documentary Collections services to both importers and exporters, helping to reduce payment risk and control the exchange of shipping documents. We assign an experienced international trade expert to each account, so you always know your contact at PNC and receive best-in-class service. And PNC delivers it all to your computer through advanced technology, resulting in fast and efficient transaction initiation and tracking.

Trade Finance

For more than 30 years, PNC has worked with the Export-Import Bank of the United States (Ex-Im Bank) and consistently ranks as a top originator of loans backed by the Ex-Im Bank both by dollar volume and number of transactions.¹

Economic Updates

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(1) Information compiled from Freedom of Information Act resources.

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Contents

Executive Summary	2
PNC's International Services	4
Financial Environment	9
Country Information	9
Geographical Information	9
Business Information	9
Country Credit Rating	10
Economic Statistics	11
Economics Table	11
Sectoral Contribution as a % of GDP	12
Major Export Markets	12
Major Import Sources	12
Political and Economic Background	13
Economics	13
Interest Rate Management Policy	13
Foreign Exchange Rate Management Policy	13
Major Economic Issues	13
Politics	14
Government Structure	14
Major Political Issues	15
Taxation	16
Resident/Non-resident	16
Tax Authorities	16
Tax Year/Filing	16
Corporate Taxation	16
Advance Tax Ruling Availability	17
Withholding Tax (Subject to Tax Treaties)	18
Transfer Pricing	19
Thin Capitalization (Interest Limitation Rule)	20
Controlled Foreign Companies	20
Disclosure Requirements	20
Stamp Duty	20
Tax Treaties/Tax Information Exchange Agreements (TIEAs)	21
Real Property Taxes	21
Sales Taxes/VAT	22
Capital Gains Tax	22
Financial Transactions/Banking Services Tax	22
Cash Pooling	22
Payroll and Social Security Taxes	23
Cash Management	24
Banking System	24

Banking Regulation	24
Banking Supervision	24
Central Bank Reporting	25
Exchange Controls	25
Bank Account Rules	26
Anti-money Laundering and Counter-terrorist Financing	26
Banking Sector Structure	27
Major Domestic Banks	27
Overall Trend	27
Payment Systems	29
Overview	29
High-value	30
Low-value	31
Payment and Collection Instruments	33
Overview and Trends	33
Statistics of Instrument Usage and Value	33
Paper-based	33
Checks	33
Bills of Exchange	34
Electronic	34
Credit Transfer	34
Direct Debits	35
Payment Cards	35
ATM/POS	36
Electronic Wallet	36
Liquidity Management	37
Short-term Borrowing	37
Overdrafts	37
Bank Lines of Credit/Loans	37
Trade Bills – Discounted	37
Factoring	37
Commercial Paper	37
Bankers’ Acceptances	38
Supplier Credit	38
Intercompany Borrowing, including Lagging Payments	38
Short-term Investments	38
Interest Payable on Bank Account Surplus Balances	38
Demand Deposits	38
Time Deposits	38
Certificates of Deposit	38
Treasury (Government) Bills	38
Commercial Paper	39
Money Market Funds	39

Repurchase Agreements	39
Banker's Acceptances	39
Liquidity Management Techniques	39
Cash Concentration.....	39
Notional Pooling.....	39
Trade Finance	40
General Rules for Importing/Exporting	40
Imports.....	41
Documentation Required	41
Import Licenses	41
Import Taxes/Tariffs	41
Financing Requirements.....	41
Risk Mitigation.....	41
Prohibited Imports.....	41
Exports.....	42
Documentation Required	42
Export Licenses	42
Export Taxes/Tariffs	42
Proceeds	42
Financing Requirements.....	42
Risk Mitigation.....	42
Prohibited Exports.....	42
Information Technology	43
Electronic Banking	43
External Financing	44
Long-term Funding	44
Bank Lines of Credit/Loans.....	44
Leasing	44
Bonds	44
Private Placement	45
Asset Securitization / Structured Finance	45
Government Investment Incentive Schemes / Special Programs or Structures	45
Useful Contacts	46
National Treasurers' Associations.....	46
National Investment Promotion Agency	46
Central Bank.....	46
Supervisory Authorities	46
Payment System Operators.....	46
Banks.....	46
Stock Exchange	46
Ministry of Finance	46
Ministry of Economy.....	46
Chamber of Commerce.....	47
Bankers' Associations	47

Financial Environment

Country Information

Geographical Information

Capital	Berlin
Area	357,022 km ²
Population	80.72 million
Official language	German
Political leaders	Head of state — Federal President Joachim Gauck (since March 18, 2012) Head of government — Federal Chancellor Angela Merkel (since November 22, 2005)

Business Information

Currency (+ SWIFT code)	Euro (EUR) Germany joined the eurozone on January 1, 1999. Its former currency, the Deutsche mark (SWIFT code DEM), was converted to the euro at EUR 1 = DEM 1.95583.
Business banking hours	09:00-18:00 (Mon-Fri)
Bank holidays	2016 — December 24-26, 31 2017 — January 1, April 14, 17, May 1, 25, June 5, 15, October 3, 31, December 24-26, 31 2018 — January 1, March 30, April 2, May 1, 10, 21, 31, October 3, December 24-26, 31
International dialing code	+ 49

Source: www.goodbusinessday.com

Country Credit Rating

FitchRatings last rated Germany on September 23, 2016 for issuer default as:

Term	Issuer Default Rating
Short	F1 +
Long	AAA
Long-term rating outlook	Stable

Source: www.fitchratings.com, November 2016.

Economic Statistics

Economics Table		2010	2011	2012	2013	2014
GDP per capita	(USD)	41,101	45,263	43,902	46,296	47,771
GDP	(EUR billion)	2,576	2,699	2,750	2,810	2,904
GDP	(USD billion)	3,412	3,752	3,533	3,730	3,853
GDP volume growth*	(%)	+ 4.1	+ 3.7	+ 0.7	+ 0.6	+ 1.6
BoP (goods, services & income) as % GDP		+ 7.2	+ 7.4	+ 8.5	+ 8.4	+ 8.7
Consumer inflation*	(%)	+ 1.1	+ 2.1	+ 2.0	+ 1.5	+ 0.9
Population	(million)	83.02	82.89	80.48	80.57	80.65
Unemployment	(%)	7.7	7.1	6.8	6.9	6.7
Interest rate (local currency MMR)** †(%)		3.76	4.02	3.42	3.11	3.03
Exchange rate‡	(EUR per USD)†	0.7550	0.7194	0.7783	0.7532	0.7537

		2015			2016	
		Q3	Q4	Year	Q1	Q2
GDP per capita	(USD)	-	-	41,549	-	-
GDP	(EUR billion)	-	-	3,023	-	-
GDP	(USD billion)	-	-	3,353	-	-
GDP volume growth*	(%)	+ 1.7	+ 1.3	+ 1.5	+ 1.8	+ 1.7
BoP (goods, services & income) as % GDP		-	-	+ 9.8	-	-
Consumer inflation*	(%)	+ 0.1	+ 0.3	+ 0.2	+ 0.3	+ 0.1
Population	(million)	-	-	80.69	-	-
Unemployment	(%)	6.3	4.5	6.0	4.5	NA
Interest rate (local currency MMR)** †(%)		2.83	2.80	2.89	2.67	NA
Exchange rate‡	(EUR per USD)†	0.8995	0.9136	0.9017	0.9077	0.8855

*Year on year. **Lending rate to corporations for stocks up to one year†Period average. ‡Market rate.

Sources: *International Financial Statistics*, IMF, September 2016 and 2015 Yearbook.

Sectoral Contribution as a % of GDP

Agriculture - 0.6%

Industry - 30.4%

Services - 69.1% (2015 estimate)

Major Export Markets

USA (9.6%), France (8.6%), UK (7.5%), Netherlands (6.6%), China (6.0%), Italy (4.9%),
Austria (4.8%), Poland (4.4%), Switzerland (4.2%)

Major Import Sources

Netherlands (13.7%), France (7.6%), China (7.3%), Belgium (6.0%), Italy (5.2%), Poland (5.0%),
USA (4.7%), Czechia (4.5%), UK (4.2%), Austria (4.2%), Switzerland (4.2%)

Political and Economic Background

Economics

Interest Rate Management Policy

As a participant in the eurozone, Germany sets its interest rate through the mechanism of the European System of Central Banks (ESCB). Its main objective is to maintain price stability, defined by the European Central Bank (ECB) as keeping inflation below but close to 2% in the short to medium term. Interest rates are set at monthly meetings of the ECB's Governing Council.

Foreign Exchange Rate Management Policy

The Eurosystem's exchange rate policy is determined by meetings of ECOFIN (a meeting of the finance ministers in all the member states of the EU). Outside formal agreements, the ECB is also permitted to intervene unilaterally or in concert with other central banks to manage the euro exchange rate relative to other currencies. However, no exchange rate activity is permitted to conflict with the main objective of preserving price stability.

Major Economic Issues

Due to the global financial crisis, GDP contracted by 5.6% in 2009. However, the manufacturing and export-driven economy rebounded in 2010 and 2011 by 4.1% and 3.7% respectively; growth slowed to 0.6% in 2012 and 0.4% in 2013 as exports to other eurozone countries and business confidence declined. GDP growth in 2014 increased to 1.6%, while 1.4% growth was recorded in 2015. Germany's trade surplus has exceeded 6% every year since 2007. The unemployment rate in Germany fell to its lowest rate in 20 years in 2012 (6.8%); the unemployment rate stood at only 4.5% in Q1 2016.

The government had managed to cut the budget deficit to below the 3% threshold set by the Growth and Stability Pact, attaining a budget surplus in 2007. However, the deficit increased to 4.2% in 2010, due to government spending and Germany's contributions to the various European bailout packages. Largely as a result of economic growth, the budget deficit gradually fell to 0.203% in 2013, before surpluses of 0.28% and 0.75% were recorded in 2014 and 2015 respectively.

According to a 2009 constitutional amendment, the German government was obliged to bring its structural deficit to within 0.35% of GDP by 2016, while the Länder are required to eliminate their deficits entirely by 2020.

Politics

Government Structure

Political power is divided between the national (federal) and regional governments in Germany under the terms of the German constitution (Grundgesetz für die Bundesrepublik Deutschland).

The national government has been based in Berlin since reunification in 1990.

There are 16 regional state (*Länder*) governments, within which there are also local municipal and district councils.

The federal president is the head of state, but exercises limited executive power.

Executive

At national level, the federal executive is headed by the chancellor (*Bundeskanzler*). The chancellor forms a government with the support of the Bundestag (see Legislature, below).

The current administration is headed by Chancellor Angela Merkel, of the Christian Democratic Union (CDU). The administration is a “grand coalition” between the CDU, members of the Christian Social Union (CSU – sister party of the CDU, based in the state of Bavaria), and the Social Democrats (SPD).

Elections to the Bundestag must be held at least every four years. The last federal election took place on September 22, 2013, and the next is to be held by September 2017.

Legislature

At national level, the legislature has two houses.

The 620-member Bundestag is directly elected every four years. Members are elected either to represent single-member constituencies (via simple majority voting) or a state (via a state-wide proportional representation). In order to be represented in the Bundestag, a party must win either three direct mandates or 5% of the national vote.

The 69-member Bundesrat is elected by the 16 state governments. Three to six members are elected for each state in proportion to population. All the Bundesrat members for a state sit as a delegation. Votes in the Bundesrat are cast by delegation and all members of the state delegation cast their votes as a bloc.

International memberships

Germany is a member of the EU (and was a founder member of the European Economic Community). It is also a member of the Council of Europe, the Organisation for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), the G-7, the North Atlantic Treaty Organization (NATO) and the World Trade Organization (WTO).

Major Political Issues

The EU's future development remains an important domestic issue. The instability of the euro in the face of the debt crises in Greece and Ireland (as well as Spain, Portugal and Italy) as well as the decision by the UK to leave the European Union, has triggered uncertainty about the future of the single currency and further integration of the EU. There has been significant domestic criticism of the Merkel administration's stance on the Greek and Irish bailouts, as many Germans feel promises that the euro would be as stable as the deutsche mark and would not lead to bailouts by richer EU countries of poorer ones have been broken.

On September 22, 2013, Angela Merkel won a third term as Chancellor, with her center-right Christian Democratic Union (CDU) and its sister party, the Christian Social Union (CSU) winning 322 seats in the 620-member Bundestag. In October 2013, Merkel began negotiating a “grand coalition” between the CDU/CSU and the center-left Social Democrats (SPD) which acquired 193 seats. The new government was sworn in on December 17, 2013.

Merkel’s governing coalition has come under significant pressure over its handling of the mass migration of mainly Syrian refugees into Germany, which took in over 1.1 million refugees in 2015, with a further 300,000 expected by the end of 2016. The migration has put a strain on public services and the ability to integrate refugees into local labor markets. Public opinion remains sharply divided and Angela Merkel has not yet decided whether she will seek a fourth term as Chancellor in the next general election.

Germany has also been challenged by the need to reintegrate the former East Germany into the wider German economy. Unemployment levels in the eastern states are almost twice those in the western part of the country. However, there is a growing resistance from the more prosperous western states to continue to subsidize economic development in the east.

Another difficulty for the German government is the cost of funding social security programs for an ageing population. Successive Merkel administrations raised the retirement age to 67, and raised health insurance levies to 15.5% in January 2011. Largely down to the demands of the SPD, the current Merkel administration plans to reduce the retirement age for specific groups during the current government term (in some cases to 63). In July 2014, parliament approved the introduction of a national minimum wage (of EUR 8.50 per hour) for the first time, affecting about 9% of the workforce from 2015 onwards.

In March 2012, Germany signed a deal on closer EU fiscal union, which initially entered into force within the eurozone on January 1, 2013. In September 2012, Germany’s Constitutional Court approved legislation on the Fiscal Compact treaty and a permanent EUR 500 billion eurozone bail-out fund, i.e. the European Stability Mechanism, which was then inaugurated on October 8, 2012, to replace the EFSF.

Preparations for a new financial transactions tax between 11 eurozone members, including Germany, are underway. Both the CDU/CSU and the SPD agreed to push for the financial transactions tax. Despite the 11 countries so far failing to reach a consensus, the levy is currently expected to be implemented in the second quarter of 2017.

On June 23, 2016, the United Kingdom (UK) voted to leave the 28-member state EU in a referendum. The long-term political and economic impact of the surprise decision on both Germany and the EU as a whole has yet to be determined.

Taxation

Resident/Non-resident

A company is considered resident if its legal seat or place of effective management is located in Germany.

Tax Authorities

Federal Ministry of Finance; Federal Central Tax Office; and Ministry of Finance of the German states.

Tax Year/Filing

The German tax year corresponds to the calendar year. If a company's financial year does not correspond to the calendar year, it is taxed on the income of the financial year that ends during the specific calendar year.

The tax return generally must be filed by May 31 of the year following the tax year; extension of the filing deadline to December 31 of the year following the tax year is typically granted if a tax advisor is involved.

Quarterly advance payments of corporate tax are due in March, June, September and December.

Although companies may be taxed on a consolidated basis, each company must file a separate tax return (except for VAT). Tax consolidation for corporate income tax and municipal trade tax purposes (Organschaft) requires that the parent in the consolidation hold the majority of the voting rights in the subsidiary from the beginning of the subsidiary's fiscal year. The parties must conclude a profit and loss transfer agreement, which must be in force and carried out for at least five years, unless an important reason exists for termination of the agreement (e.g. sale of the subsidiary) before the end of the five-year period. Strict formal requirements for a profit and loss transfer agreement apply. Tax consolidation for VAT purposes does not require a profit and loss transfer agreement, but the subsidiary in the consolidation must be financially, organizationally and economically integrated in the parent company.

Corporate Taxation

Resident companies are subject to taxation on their worldwide income. All income is categorized as business income and is subject to both corporate income tax (CIT) and to a local trade tax.

Non-residents are taxed only on Germany-source income. Branches are taxed the same as subsidiaries.

The CIT rate is 15%. A solidarity surcharge of 5.5% of the CIT is also applied, bringing the effective rate of taxation to 15.285%.

There is no alternative minimum tax.

Municipal trade tax is an income tax levied by municipalities at a minimum rate of 7%. All entrepreneurs with commercial activities carried out through a subsidiary or a non-resident's commercial permanent establishment in Germany are liable for trade tax. Corporations always are deemed to carry on commercial enterprises (trade or business), regardless of their actual activities. (Individuals, alone or in partnerships, are not liable for trade tax on professional or other independent services unless the activities are deemed to be commercial under the income tax law.) The municipal trade tax rate varies, but averages between 14% and 17% of income. The trade tax is based on taxable income as calculated for corporate income tax purposes, with several income adjustments.

Trade tax is a non-deductible expense for corporate income tax and trade tax purposes.

The effective corporate tax rate (including the solidarity surcharge and trade tax) typically ranges between 30% and 33%.

Non-resident companies are subject to combined income tax at a rate of 15.825% (CIT of 15% plus a 5.5% solidarity surcharge thereof) on their German-sourced income. Where a German permanent establishment (PE) of a non-resident company is deemed to exist, the profits are also subject to trade tax.

Losses may be carried back one year and carried forward indefinitely. However, minimum taxation applies: losses may be offset against profits of up to EUR 1 million without restriction, but only 60% of income exceeding EUR 1 million may be offset against loss carry forwards. A direct or indirect change in ownership of more than 25%/50% to one shareholder results in a partial/complete forfeiture of all tax loss carry forwards. Loss carry forwards will not be forfeited if a single person or entity owns directly or indirectly 100% of the shares in the transferring and the receiving company. Loss carry forwards continue to be available to the extent built-in gains in the loss company are subject to tax in Germany.

Incentives programs are available, e.g. investment allowances for certain start-ups and for small and medium-sized businesses. No tax incentives are available for R&D, but attractive non-repayable cash grants are offered, e.g. for R&D in the energy sector.

Advance Tax Ruling Availability

It is possible to obtain binding information from the tax authorities for a fee. The fee is determined according to the value of the binding information for the taxpayer; if the value of the binding information for the taxpayer is less than EUR 10,000, no fee is charged.

Advance pricing agreements are possible if a double tax treaty is applicable that contains a mutual agreement and consultation procedure comparable to Section 25 of the OECD Model Convention (subject to a fee).

Withholding Tax (Subject to Tax Treaties)

Payments to:	Interest	Dividends	Royalties	Other income	Branch Remittances
Resident companies	0%/26.375%	0%/26.375%	0%	0%/15.825% /26.375%	NA
Non-resident companies	0%/26.375%	0%/26.375%	15.825%	0%/15.825% /26.375%	None

The above tax rates include the solidarity surcharge.

A withholding tax is not definitive taxation for corporations which must submit tax returns in Germany; such corporations still have to include the income in the tax returns and thus they can credit the (German) withholding taxes against the assessed corporate income tax.

Interest

Not all types of interest are subject to withholding tax. Interest paid by a bank or financial institution to resident corporations is subject to withholding tax at a rate of 26.375% (25% plus a solidarity surcharge of 5.5%).

In the case of EU corporations for which the applicable double taxation treaty grants taxation rights to Germany, interest is generally exempt from withholding tax on application to the German tax authorities (application of EU Interest and Royalties Directive), subject to meeting the necessary conditions. However, tax will still be withheld in full at source, and a refund or exemption must be applied for.

For other non-resident corporations subject to a double taxation treaty which grants taxation rights to Germany, the withholding tax for interest is generally subject to a reduced rate (depending on the individual treaty). However, tax will still be withheld in full at source, and a refund must be applied for.

Tax will be withheld in full at source for other non-resident corporations. The non-resident corporation can apply for two-fifths of the withholding tax to be refunded, giving rise to an effective tax burden of 15.825%.

Dividends

A withholding tax of 26.375% (25% plus a solidarity surcharge of 5.5%) is levied on dividends paid to resident corporations. Dividends received by a German resident corporation (from both resident and foreign corporations) are effectively 95% tax-exempt (the exemption is not applicable if the shares are held by banks and financial service institutions for trade purposes). The 95% exemption does not apply to dividends paid after February 28, 2013 if the direct participation in the distributing entity is less than 10% of the share capital at the beginning of the calendar year.

Non-resident corporations based in the EU are not subject to withholding tax on dividends under the EU Parent-Subsidiary Directive, subject to meeting the necessary conditions. However, tax will still be withheld in full at source, and a refund or exemption must be applied for.

For other non-resident corporations subject to a double taxation treaty which grants taxation rights to Germany, a partial or full exemption from tax is generally given for dividend income (depending on the individual treaty). However, tax will still be withheld in full at source, and a refund or exemption must be applied for.

Tax will be withheld in full at source for other non-resident corporations. The non-resident corporation can apply for two-fifths of the withholding tax to be refunded, giving rise to an effective tax burden of 15.825%.

Royalties

Royalty income is not subject to withholding tax for resident corporations.

In the case of EU corporations, royalty income is generally exempt from withholding tax on application to the German tax authorities (application of EU Interest and Royalties Directive), subject to meeting the necessary conditions. However, tax will still be withheld at source at a rate of 15.825% (15% plus a solidarity surcharge of 5.5%), and a refund or exemption must be applied for.

For other non-resident corporations subject to a double taxation treaty, Germany is generally not granted taxation rights for royalty income. However, tax will still be withheld at source at a rate of 15.825% (15% plus a solidarity surcharge of 5.5%) and a refund must be applied for.

Tax will be withheld a rate of 15.825% (15% plus a solidarity surcharge of 5.5%) at source for other non-resident corporations.

Other Income

Different rates of withholding tax can apply to other income for non-resident corporations depending on the terms of any double taxation treaty with the particular country, or as a result of an EU directive. However, tax may still be withheld at source at the applicable German tax rate, and a refund or exemption must be applied for.

Transfer Pricing

Business dealings between related persons must be in accordance with transactions that would have been agreed upon by independent third parties dealing at arm's length, whereby the underlying principle is the normal degree of commercial prudence shown by a sound and conscientious business manager. Taxpayers are required to document all facts and evidence that support their positions. Specific transfer pricing rules apply to cross-border intragroup transfers of functions. An exit tax will be imposed on the "profit potential" that is deemed to be transferred based on the discounted cash flow value of the subsidiary/branch before and after the restructuring. Germany generally applies the authorized OECD approach.

Thin Capitalization (Interest Limitation Rule)

German thin capitalization rules are an interest limitation rule.

Interest expense that exceeds interest income is only deductible up to an amount of 30% of taxable earnings before interest, taxes, depreciation, amortization and rental/leasing fees (tax EBITDA). All types of debt financing (including bank debt) are covered.

The interest limitation rule includes three exceptions from the general rule which apply if:

- the balance of interest income and interest expenses does not exceed EUR 3 million (threshold);
- the corporate entity does not belong to a group of affiliated companies ('standalone exception'); or
- the corporate entity is part of a group of affiliated companies and its equity ratio is not worse than the equity ratio of the group, or is not more than 2% less than the overall equity ratio of the group based on the IFRS accounts ('equity ratio comparison' or 'group exception').

A 'tax EBITDA carry forward' is allowed and will be generated if a taxpayer has net interest expenses lower than 30% of the EBITDA for tax purposes (excess EBITDA). The excess EBITDA can be carried forward for five years to offset any interest expenses exceeding the 30% of EBITDA threshold in following years. A tax EBITDA carry forward does not apply if any of the above exceptions (threshold, standalone exception or equity ratio comparison or group exception) applies.

Controlled Foreign Companies

Passive income of subsidiaries in low- or no-tax jurisdictions will be attributed to German shareholders that hold, directly or indirectly, more than 50% of the subsidiary (lower ownership percentages apply where the low-taxed CFC generates passive investment income). Typical passive income is income from the rental of real estate, income from licensing or income from the lending of capital. A jurisdiction is regarded as a low-tax jurisdiction if the income of the subsidiary is subject to an effective tax rate of less than 25%. Credit and refunds at the shareholder level are taken into account when determining whether the effective tax rate abroad falls below the 25% threshold. Credit for tax paid on attributed income can be granted upon application of the taxpayer.

Disclosure Requirements

A taxpayer generally must disclose all facts relevant for taxation, especially regarding transactions with foreign related parties.

Stamp Duty

There is no stamp duty in Germany.

Tax Treaties/Tax Information Exchange Agreements (TIEAs)

Germany has an extensive tax treaty network with various countries. Different rates of withholding tax can apply to dividends, interest and royalties, depending on the terms of the agreement with the particular country, or as a result of an EU directive. Furthermore, there are six inheritance and gift tax treaties.

Germany has exchange of information relationships with 116 jurisdictions through 98 double tax treaties and 22 TIEAs (www.eoi-tax.org, January 2016).

On January 27, 2016, Germany, as part of the OECD/G20 Base Erosion and Profit Shift (BEPS) initiative, signed a multilateral co-operation agreement with 30 other countries (“the MCAA”). Under this multilateral agreement, information will be exchanged between tax administrations, giving them a single, global picture on some key indicators of economic activity within multinational enterprises (MNE).

With Country-by-Country reporting tax administrations of jurisdictions where a company operates will have aggregate information annually relating to the global allocation of income and taxes paid, together with other indicators of the location of economic activity within the MNE group. It will also cover information about which entities do business in a particular jurisdiction and the business activities each entity engages in. The information will be collected by the country of residence of the MNE group, and will then be exchanged through exchange of information supported by such agreements as the MCAA. First exchanges under the MCAA will start in 2017-2018 on 2016 information.

Other signatory countries are:-

- Australia, Austria, Belgium, Chile, Costa Rica, Czech Republic, Denmark, Estonia, Finland, France, Greece, Ireland, Italy, Japan, Liechtenstein, Luxembourg, Malaysia, Mexico, Netherlands, Nigeria, Norway, Poland, Portugal, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland and United Kingdom.

Real Property Taxes

Tax is levied by the municipality in which real estate is located. The rate is 0.35% of the tax value of the property, multiplied by a municipal co-efficient.

A real estate transfer tax of 3.5% to 6.5% of the sales price/value of transferred real estate is levied or 95% or more of the shares in a real estate-owning company is levied. The rate depends on the federal state where the real estate is located.

Sales Taxes/VAT

All goods and services are in general subject to VAT at a standard rate of 19%, with the exception of certain essentials that are subject to a reduced rate of 7%.

Exports and intra-EU supplies are generally zero-rated, provided that the invoice requirements are met and documentation of the transport abroad is available.

Various financial and insurance services are exempt from VAT. However, some insurance services are subject to insurance tax.

German entrepreneurs generally must register for VAT purposes. The registration threshold is turnover of EUR17,500 in the previous calendar year and estimated turnover of EUR 50,000 in the current calendar year. Non-residents that make taxable supplies of goods or services in Germany also must register.

Capital Gains Tax

Capital gains and losses are recognized on a realized basis and generally calculated as the difference between the sale price and the book value of the asset, less incidental costs.

One hundred per cent of the gain derived by a corporation from the sale of shares in German or foreign companies is generally tax exempt (regardless of the size of the shareholding or any minimum holding period). Five per cent of the gain, however, is deemed a non-deductible business expense and is subject to tax. Correspondingly, capital losses derived from the sale of shares are not tax deductible. Other expenses connected with the shareholding are tax deductible unless they are required to be capitalized, or constitute a write-off of the investment. The 95% exemption is not applicable if the shares are held by banks and financial service institutions for trade purposes.

Capital gains derived from the sale of other assets are generally taxed at ordinary corporate income tax and trade tax rates. Corresponding capital losses are, in general, deductible.

Financial Transactions/Banking Services Tax

No specific financial transactions or banking services taxes apply to services, loans, money transfers, letters of credit and/or foreign exchange.

Cash Pooling

There are no specific tax rules that apply to cash pooling arrangements.

Payroll and Social Security Taxes

Employers are not subject to a payroll tax.

Taxable income is liable to an individual progressive tax rate of up to 45%. A solidarity surcharge of 5.5% (resulting in a top rate of 47.5%) and a church tax of 9% (8% in Bavaria and Baden-Württemberg) are levied on the income tax.

The employer is required to bear 50% of the wage-related social security contributions (health, nursing care, unemployment and pension insurance). Additional charges (e.g. statutory accident insurance, insolvency fund levy, etc.) may apply.

All tax information supplied by Deloitte Touche Tohmatsu and Deloitte Highlight 2016 (www.deloitte.com).

Cash Management

Banking System

Banking Regulation

Banking Supervision

Central bank

The German central bank is the Bundesbank. It was established in 1957 and is based in Frankfurt. Its authority derives from the Bundesbank Act and the Banking Act.

Within Germany, it is the banker to the federal government and to other banks. It issues currency (under the authority of the ECB), manages Germany's monetary reserves and supports German government economic policy.

As Germany is a participant in the eurozone, some central bank functions, notably the responsibility for setting and implementing monetary policy, are shared with the other members of the European System of Central Banks (ESCB). Within the ESCB, the main objective is to maintain price stability.

Some of Germany's states maintain their own state central banks (*Landeszentralbanken*).

Other banking supervision bodies

Since November 4, 2014, the ECB has been granted a supervisory role to monitor the financial stability of banks within the eurozone via the Single Supervisory Mechanism (SSM), in accordance with the EU's SSM Regulation No 1024/2013 conferring specific tasks on the ECB with regard to the prudential supervision of credit institutions. The ECB has final supervisory authority while member states' national supervisors now provide a supporting role. The ECB directly supervises the 129 "most significant" banks.

The ECB possesses the authority to conduct supervisory reviews, on-site inspections and investigations; grant/withdraw banking licences; assess bank acquisitions; ensure compliance with EU prudential rules; and, if required, to set higher capital requirements to counter financial risks.

Bank supervision within Germany is performed by its national competent authority, the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin), which is also responsible for supervising insurance companies and securities firms. BaFin reports to the Federal Ministry of Finance.

BaFin works closely with the Bundesbank when supervising banks. The Bundesbank operates Germany's central bank reporting process and inspects and monitors banks.

Central Bank Reporting

General

Germany does apply central bank reporting requirements. These are managed by the Bundesbank, according to the rules set out in the Foreign Trade and Payments Act and relevant regulations, the Bundesbank Act and the Federal Statistics Act.

Transactions to be listed

Transactions between residents and non-residents with a value equal to or above EUR 12,500 (or its foreign currency equivalent) must be reported monthly to the Bundesbank.

Payments received for exported goods, payments made for imported goods and repayments and payments of loans and deposits with an agreed maturity of up to 12 months are exempt from mandatory reporting requirements.

All resident companies' outstanding claims or liabilities on non-resident bank accounts at the end of the reporting month, with a value in excess of EUR 5 million (or its foreign currency equivalent), must also be reported to the Bundesbank.

Responsibility for reporting

Resident companies report payments directly to the Bundesbank. Any claims or liability reporting is also the responsibility of the resident entity. Companies can provide the information online via the AMS general statistics reporting portal or via the ExtraNet File Transfer Protocol.

Additional reporting for liquidity management schemes

If any interest payments with a value equal to or above EUR 12,500 (or its foreign currency equivalent) are paid to or from a non-resident bank account, they must be reported to the Bundesbank.

Resident companies are also required to report interest payments paid to or received from non-residents as a result of loans or deposits.

Exchange Controls

Exchange structure

Germany is a full participant in the eurozone currency union. Germany's former currency, the Deutsche mark (DEM), was converted into the euro on January 1, 1999 at the conversion rate of EUR 1 = DEM 1.95583. The euro has a free floating exchange rate.

Exchange tax

There is no exchange tax.

Exchange subsidy

There is no exchange subsidy.

Forward foreign exchange market

There are no restrictions on forward foreign exchange markets.

Capital flows

There are controls on financial credits from resident pension funds and insurance companies to residents of countries outside the OECD and EEA.

Restrictions also apply in the case of foreign investment in TV and radio broadcasting, shipping and air transportation.

Loans, interest and repayments

There are no controls on the provision of loans by commercial banks.

Royalties and other fees

There are no restrictions.

Profit remittance

There are no restrictions on the remittance of profits into or out of Germany.

Bank Account Rules

Resident entities are permitted to hold fully convertible foreign currency bank accounts domestically and outside Germany. Residents are also permitted to hold fully convertible domestic currency (EUR) bank accounts outside Germany.

Non-resident entities are permitted to hold fully convertible domestic and foreign currency bank accounts within Germany and domestic currency accounts outside Germany.

To open a bank account, a company must supply a list of authorized signatories and a copy of its registration documents along with the appropriate account opening documentation. Account opening documentation can also be completed in English.

Anti-money Laundering and Counter-terrorist Financing

- Germany has enacted anti-money laundering legislation, including legislation implementing the first three EU anti-money laundering directives and counter-terrorist financing legislation (Money Laundering Act 1993, as amended; the Act on the Improvement of the Suppression of Money Laundering and Combating the Financing of Terrorism 2002; the Act on the Detection of Proceeds from Serious Crimes (Money Laundering Act) 2008; the Act to Improve the Combating of Money Laundering and Tax Evasion 2011 and the Act Supplementing the Money Laundering Act 2012). The Federal Financial Supervisory Office has also issued related guidelines.
- A Financial Action Task Force (FATF) member, Germany observes most of the FATF+49 standards. Germany also has observer-jurisdiction status on the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG).
- Germany has established a financial intelligence unit (FIU), the Zentralstelle für Verdachtsanzeigen, which operates within the Federal Criminal Police Office (Bundeskriminalamt) and is a member of The Egmont Group.

- Account opening procedures require formal identification of the account holder and beneficial owners.
- Financial institutions have to identify clients for occasional transactions exceeding EUR 15,000 conducted in cash or precious metals whether in a single transaction or a series of linked transactions.
- Relationships with shell banks are prohibited.
- Individuals making cash transactions in foreign currency below EUR 2,500 must be identified.
- Financial institutions in the broadest sense are required to record and report suspicious transactions to the FIU.
- Banks must report suspected money laundering to the FIU as well as to the State Attorney (Staatsanwaltschaft), who can order a freeze of the account in question.
- Individuals entering or exiting the EU must declare currency of EUR 10,000 or more to the customs authorities.
- Cross-border payments of EUR 12,500 and above made by residents to or from non-residents must be reported.
- Most records must be kept for six years from the time when they were obtained. However some documents must be kept for five years whereas others for at least ten years.

Data as at January 2016.

Banking Sector Structure

Major Domestic Banks

Bank	Total assets (USD million) December 31, 2015
Deutsche Bank	1,769,063
Commerzbank	578,392
KfW Bankengruppe	546,175
DZ Bank	443,415
UniCredit Bank (HypoVereinsbank)	324,405
Landesbanken Baden-Württemberg	254,116
Bayerische Landesbank (Bayern LB)	234,239

Source: www.accuity.com

Overall Trend

Germany has a large number of credit institutions (1,749), most of which are small, German-owned mutual savings and cooperative banks (*Sparkassen, Volksbanken and Raiffeisenbanken*). There is

a significant foreign banking presence in Germany – 103 foreign banks have established branches in Germany and 54 have representative offices.

There are two main domestic banks, providing the full range of banking services to corporate clients – Deutsche Bank and Commerzbank.

Germany's eight state central banks (Landesbanken) also provide some banking services to corporate clients, although they no longer enjoy state guarantees. Landesbank Baden-Württemberg (LBBW) rejected a merger approach from Bayern LB in November 2010. LBBW completed its acquisitions of Landesbank Sachsen LB and of Landesbank Rheinland-Pfalz in 2008. WestLB was formally dissolved and restructured on July 1, 2012. Landesbank Hessen-Thüringen (Helaba) acquired its regional banking business: a "bad" bank (Erste Abwicklungsanstalt - EAA) was established, alongside a financial services and portfolio management company (Portigon).

There has been some significant merger activity among the larger domestic banks. Commerzbank bought Eurohypo in 2006 and its acquisition of Dresdner Bank was finalized in January 2009; HypoVereinsbank merged with Bank Austria in 2000, before becoming part of the Italian group UniCredit in 2005. Deutsche Bank has also acquired a majority stake in Deutsche Postbank. Most consolidation activity in recent years has taken place between Germany's cooperative banks.

In January 2011, the government introduced a new tax on banks, the funds from which are to be used as a new bailout fund in case of another banking crisis. The tax levied on a bank depends on its size and prominence. Up to EUR 1.2 billion is to be paid into the fund by financial institutions every year.

Payment Systems

Overview

Germany's two main payment systems are the pan-European TARGET2 RTGS system and EMZ.

Germany migrated to TARGET2 on November 19, 2007. TARGET2's Single Shared Platform (SSP) is operated by the Bundesbank, along with the Banque de France and the Banca d'Italia.

EMZ is the country's main retail payments clearing system. Operated by the Bundesbank, EMZ processes the overwhelming majority of non-urgent and low-value payments.

As well as these payments systems, Deutsche Postbank and the networks of savings and cooperative banks all operate their own payment clearing systems. These are used to process payments made between the banks in the respective networks.

The European Clearing Cooperative (ECC), registered on June 23, 2015, is a new European payment platform founded by six European ACHs. The ECC is expected to commence operations in the near future and will facilitate optimized central ACH interoperability, via a multi-cycle model with final settlement at TARGET2. The six ACHs together with ACHs operated by Deutsche Bundesbank (e.g. EMZ), Banca d'Italia and Oesterreichische Nationalbank will together process cross-ACH transactions.

High-value

Name of system	TARGET2 Germany's national component is TARGET2-BBk (TARGET2-Bundesbank)
Settlement type	Real-time gross settlement
Settlement cycle	Payments are settled in real-time with immediate finality.
Links to other systems	The TARGET2 system links payment systems in all 24 participating EU member states.
Payments processed	High-value and urgent electronic credit transfers, domestic and cross-border.
Currency of payments processed	EUR
Value and other limits to processing	There are no value thresholds.
Operating hours	07:00 to 18:00 CET
System holidays	TARGET2 does not open on weekends and on January 1, Good Friday, Easter Monday, Labor Day (May 1) and December 25-26.
Cut-off times	Customer payments = 17:00 CET Interbank payments = 18:00 CET
Participants	212 direct participants in TARGET2-BBk. As of January 2011, banks can no longer participate indirectly in TARGET2-BBk through the Bundesbank.
Access to system	Banks connect via SWIFTNet FIN Y-Copy service. Payments are submitted using SWIFT standard message types. Users can access data via SWIFTNet InterAct Browse or via a virtual private network.
Future developments	NA

Low-value

Name of system	Elektronischer Massenzahlungsverkehr (EMZ)
Settlement type	Gross settlement
Settlement cycle	There are two processing windows – evening and morning. Payments are usually settled on a next-day basis. Settlement takes place via the Bundesbank’s KTO2 home account RTGS system.
Links to other systems	EMZ links to the EBA’s STEP2 system for cross-border payments.
Payments processed	Low-value and non-urgent electronic and paper-based payments, both domestic and cross-border. Checks above EUR 6,000 are scanned using electronic image exchange by the first collecting bank and the data records are processed by the Bundesbank (the ISE procedure); those below EUR 6,000 are truncated by the first collecting bank (the BSE procedure).
Currency of payments processed	EUR
Value and other limits to processing	There are no value thresholds.
Operating hours	The system operates 24 hours a day.
System holidays	EMZ is closed on all national public holidays, including December 24 and 31. The system is open on all other days. However, because Bundesbank branches are closed on individual state holidays in their respective states, it is not possible to submit payments by check or data media format on those dates (even though EMZ is operating).
Cut-off times	Payments are accepted throughout the day. SEPA credit transfers (SCTs) received by 12:00 and SEPA direct debits (SDDs) received by 10:00 are cleared and settled the same day. Non-SEPA truncated cheque payments received by 21:00 are cleared from around 21:45 for settlement at 08:00 the next day. Those received by 09:00 are cleared the same day. Credit transfers received between 20:00 and 07:00, and direct debits and truncated cheques received between 21:00 and 09:00, are processed and settled from 08:00 and from 09:00 respectively. Checks’ payment data collected using the ISE procedure are received between 21:00 and 10:00. The electronic images meanwhile are received online between 06:00 and 10:00. These payments are then processed after 10:00 and settled from 13:00.
Participants	Any credit institution with a Bundesbank account is entitled to participate in EMZ. There were 182 participant credit institutions in EMZ at the end of 2015.

Access to system

Using SWIFTNet FileAct, and the German FTAM and OFTP data telecommunication protocols.

The Electronic Banking Internet Communication Standard (EBICS) protocol can be used for SEPA credit transfers (SCTs) and direct debits (SDDs).

Cheques above EUR 6,000 are submitted in image format over the internet, alongside their payment information, via ExtraNet.

Future developments

NA

Payment and Collection Instruments

Overview and Trends

The most important cashless payment instruments in Germany are electronic credit transfers and, in terms of volume, direct debits. The increased use of electronic and internet banking has led to a growth in the use of electronic credit transfers. Card payments are increasing rapidly, especially in the retail sector.

Since January 1, 2008, all debit cards issued by banks in Germany have been SEPA (Single Euro Payments Area)-compliant. The country's banks have offered pan-European SEPA credit transfers (SCT) for EUR-denominated payments since January 28, 2008. SEPA direct debits (SDD) have been available since November 2, 2009. Migration to SCTs and SDDs for EUR-denominated payments was finalized in Germany on August 1, 2014. However, legacy non-preauthorized direct debits remained in use until February 1, 2016.

In January 2016, a Revised Directive on Payment Services (PSD2) entered into force. The overall objective of the PSD2 is to increase the competition on the European Union payment market, facilitate innovative payment services and ensure that payment services are safe and offer complete consumer protection. The directive is to be incorporated into the EU members' national laws and regulations by January 2018.

Statistics of Instrument Usage and Value

	Transactions (million)		% change 2015/2014	Traffic (value) (EUR billion)		% change 2015/2014
	2014	2015		2014	2015	
Checks	29.8	21.2	- 28.9	171.5	153.1	- 10.7
Credit cards	787.0	955.1	21.4	78.8	84.2	6.9
Debit cards	2,566.1	2,695.3	5.0	159.2	159.0	- 0.1
Credit transfers	5,975.0	6,001.0	0.4	49,458.3	52,372.5	5.9
Direct debits	8,674.0	9,939.3	14.6	3,209.1	3,858.1	20.2
Card-based e-money	34.2	31.6	- 7.6	0.44	0.49	11.4
Total	18,066.3	19,643.5	8.7	53,077.2	56,627.4	6.7

Source: ECB Payment statistics, September 2016.

Paper-based

Checks

Since the withdrawal of the eurocheque guarantee in 2002, the use of checks has been in steady decline. They are rarely used by consumers or small businesses: the main users tend to be large companies, typically for supplier payments.

All checks are truncated into electronic items before processing through EMZ. There are two truncation procedures:

- Check payments with a value in excess of EUR 6,000 are cleared using the image-based check collection (ISE) procedure. They are scanned by the first collecting bank using electronic image exchange with the data records submitted to the Bundesbank for processing.
- Checks with a value below EUR 6,000 are truncated by the first collecting bank, using the low-value check truncation procedure (BSE). Although the original check voucher is stored by the collecting bank, it is only returned to the paying bank in the event of a dispute.

Checks with a value below EUR 6,000 can also be processed via one of the proprietary systems operated by the networks of savings or cooperative banks.

Bills of Exchange

Known locally as *Wechsel*, bills of exchange are only usually used to finance trade in Germany.

Electronic

Credit Transfer

Credit transfers are the main form of payment instrument used by companies to pay suppliers and salary payments. They are also used to make tax and benefit payments.

High-value

High-value and urgent domestic and cross-border credit transfers can be settled via TARGET2. All payments settled through TARGET2 are done so in real-time with immediate finality.

High-value and urgent cross-border electronic payments can also be processed via the Euro Banking Association's EURO1 clearing system for end-of-day value. Fourteen banks in Germany participate in EURO1.

Cross-border credit transfers in EUR and other currencies can also be processed via a combination of SWIFT connectivity, correspondent banking arrangements and branch network capabilities.

Low-value

Non-urgent and low-value credit transfers are usually processed through EMZ. Most payments are processed to be settled on a next-day basis. Payments can also be processed through the proprietary systems operated by the savings and cooperative banks' networks.

SEPA Credit Transfers can be processed through EMZ, as well as via the EBA's STEP2 SEPA Credit Transfer (SCT) service.

EMZ enables German banks to access the STEP2 system, in which the Bundesbank is a direct participant.

Cross-border SCTs can also be processed by EMZ through a bilateral link established by the Bundesbank and Iberpay, which operates SNCE, the Spanish retail payment system; settlement takes place in TARGET2.

Regular cross-border payments in both domestic and foreign currency can also be effected by the Bundesbank's Customer Access Mechanism (CAM). The Bundesbank CAM is separated into CAM-Individual, CAM-SEPA and CAM-IMPay. CAM-Individual is used for same-day credit transfers in EUR effected in Germany or across EEA member states and third countries, and for foreign currency credit transfers across EEA member states and third countries.

CAM-SEPA component is used by other account holders, without a bank sort code, for domestic and cross-border SEPA credit transfers and SEPA direct debits. Bundesbank's CAM-IMPay meanwhile is used for credit transfers in EUR effected across EEA member states and third countries from public administrations and private legal entities. The Bundesbank CAM allows payments to be effected via the Bundesbank's correspondent banking network which spans over 100 countries worldwide.

Cross-border payments in Chinese renminbi (RMB) can be processed directly with China via the RMB clearing bank, i.e. Bank of China's Frankfurt Branch.

It is expected that participants in EMZ will be able to clear cross-ACH SCTs and SDDs with EquensWorldline, Greece's DIAS, Spain's Iberpay, Poland's ELIXIR, Romania's SENT, Italy's BI-COMP and Austria's CS.I in the near future via the European Clearing Cooperative (ECC) payment platform. Final settlement will take place via TARGET2.

EBA Clearing and Italy's SIA Group (which already serves as a technical operator for STEP2) have agreed to develop and implement a pan-European real-time infrastructure for instant EUR payments by the fourth quarter of 2017. The service will align with the ISO 20022 global messaging standards for instant payments.

Direct Debits

Germany's legacy non-preauthorized direct debits (*Einzugsermächtigungsverfahren*) were discontinued on February 1, 2016. Germany's legacy preauthorized direct debits (*Abbuchungsauftragsverfahren*) meanwhile were discontinued on February 1, 2014.

All legacy direct debits have been replaced by SEPA direct debits (SDDs). SDDs are processed through EMZ to be settled on a same-day or next-day basis.

SEPA Direct Debit (SDD) CORE and B2B services have been available since November 2, 2009, enabling cross-border EUR-denominated direct debits to be made. The EBA has been processing SDD payments in STEP2 since the launch of the SDD schemes on that date. Banks have been obliged to accept and process CORE SDDs since November 1, 2010.

Payment Cards

The use of payment cards continues to increase in Germany, especially among retail consumers. At the end of 2015, there were approximately 105.7 million debit cards and 33.1 million credit and delayed debit cards in circulation in Germany.

Debit cards are more common than credit cards in Germany, because of the commission charges

levied on credit cards. Banks issue Visa and, more commonly, Maestro debit cards (usually co-branded with the EC/Girocard logo). All major credit cards are available and corporate purchasing cards are also more widely used.

As of January 1, 2011, all payment cards in circulation should now be SEPA-compliant EMV chip cards.

Debit card payments are usually processed in the same way as direct debits through EMZ. Credit card payments are processed by the relevant international credit card company.

ATM/POS

There is an increasing use of ATMs and POS terminals. All ATMs and POS terminals in Germany should now be EMV chip-compliant. By the end of 2015, there were approximately 85,890 ATMs and 1.13 million POS terminals in Germany.

Electronic Wallet

There were 387,720 e-money terminals in Germany at the end of 2015. Of these, 61,120 could be used to load or unload cash values onto cards. There were 91.4 million cards (*Geldkarte*) in circulation with an e-money capability at the end of 2015.

Since January 2012, savings and cooperative banks (*Sparkassen and certain Volksbanken and Raiffeisenbanken*) have issued Girocard debit cards with the girogo e-money function.

Payments are processed through EMZ.

Liquidity Management

Short-term Borrowing

Overdrafts

Both resident and non-resident entities can arrange overdrafts (*Kontokorrentkredite*) with the bank, although they are usually repayable on demand or at short notice.

Fees (commitment fees and arrangement fees) and charges are negotiable.

Banks will usually charge interest at a margin on Euribor (euro interbank offered rate).

Bank Lines of Credit/Loans

Resident and non-resident entities can arrange short-term bank loans denominated in local and foreign currency from local and foreign banks.

Fees (commitment fees and arrangement fees) and charges are negotiable.

Banks will usually charge interest at a margin on Euribor (euro interbank offered rate).

Trade Bills – Discounted

Discounted trade bills are a common form of short-term financing used by companies in Germany. The borrower (a supplier company anticipating an invoice payment) can raise finance on a bill once its contracted purchaser has accepted the bill.

In most cases, the borrower will borrow through the use of discounted trade bills (*Wechseldiskontkredite*) for periods of three months or less.

Factoring

Factoring is available in Germany, both as a disclosed and undisclosed service.

The factoring of export proceeds is also common.

Commercial Paper

Since the introduction of the euro, many large, rated German corporations have chosen to access the European commercial paper market. Whilst this does offer access to a large and highly liquid market, the costs of establishing a program and the need for a published credit rating do mean participation is effectively limited to financial institutions (banks and mutual funds) as well as Germany's larger corporations. Funding is available for maturities up to two years.

There is also a domestic German commercial paper market, for which a published credit rating is not required. Although it has developed over recent years, small and medium-sized German companies prefer to access bank short-term funding.

Bankers' Acceptances

Although primarily used as a technique to support trade, bankers' acceptances are also available for domestic transactions.

Although available for a range of maturities, funding is usually arranged for one to three months.

Supplier Credit

Companies can often arrange payment discounts for the early or prompt payment of supplier invoices.

Intercompany Borrowing, including Lagging Payments

German groups are permitted to establish intercompany loans, both as part of a liquidity management scheme or for a longer term.

Short-term Investments

Interest Payable on Bank Account Surplus Balances

Interest-bearing current, or checking, accounts are available to both resident and non-resident entities.

Demand Deposits

Interest-bearing demand, or sight, deposit accounts are available to both resident and non-resident entities.

Time Deposits

Time deposits are popular short-term investment instruments in Germany. Banks offer them for terms from overnight to over one year. Companies tend to invest amounts between EUR 100,000 and EUR 10 million.

Certificates of Deposit

Certificates of deposit (CDs) are not commonly used as investment instruments in Germany. They are available usually for maturities from one to six months, although longer terms are possible for amounts greater than EUR 1 million. Most CDs pay a fixed interest rate, although floating interest rates are sometimes available.

Treasury (Government) Bills

Treasury bills (T-bill) are issued by the German government and are a popular short-term investment instrument for large companies. There are two types of T-bill:

- fixed rate, issued for maturities from three months to several years;
- non-interest bearing, issued at a discount for maturities from six months to two years.

The German Finance Agency also issues Bubills (zero-coupon T-bills) on a monthly basis with maturities of six months.

The Bundesbank occasionally issues *Bunbesschatzanweisungen* with maturities of two years.

Commercial Paper

German companies issue commercial paper in the form of promissory note bonds (*Schuldscheindarlehen*) for terms of between two and ten years. Shorter-term, unsecured commercial paper (CP) is becoming more available on the German domestic market and several large banks have now arranged commercial paper programs. CP is issued in maturities from one week to two years, with three months the most common maturity.

German companies can invest in eurocommercial paper (ECP). Issuers usually have a published credit rating and issue ECP for maturities under a year (typically USD).

Money Market Funds

Money market funds have become both increasingly available to and popular with German companies over the last ten years.

Repurchase Agreements

Repurchase agreements (repos) on government bonds and CDs have become more popular as a short-term investment instrument in Germany in recent years. Most have maturities of up to one week.

Banker's Acceptances

Banker's acceptances (BA) are popular short-term investment instruments with companies in Germany. They are usually available for maturities of between one and three months.

Liquidity Management Techniques

Cash Concentration

Cash concentration is the more common technique used by German companies to manage company and group liquidity. Of the available techniques, zero-balancing is the most commonly used.

Different legal entities and both resident and non-resident bank accounts can participate in a cash concentration structure located in Germany.

Notional Pooling

Notional pooling is available in Germany. However, it is less common than cash concentration. This is primarily because banks are not allowed to offset debit and credit balances for regulatory purposes.

Different legal entities and both residents and non-residents can participate in a notional cash pooling structure located in Germany. Intercompany cross-guarantees will usually be required if participating companies have different beneficial owners.

Trade Finance

General Rules for Importing/Exporting

A member of the EU, Germany follows the EU customs code and all associated regulations and commercial policies apply.

All trade with other countries in the EEA (European Economic Area) is free from tariffs and other controls. The EU has also agreed trade agreements with a number of countries as well as with other regional trade blocs.

Four free zones are currently operating in Germany.

Imports

Documentation Required

Imports originating outside the EU will normally need to be accompanied by a commercial invoice, a customs declaration, a bill of lading and a packing list. A certificate of origin may also be required.

Imports originating inside the EU do not require formal supporting documentation, although a commercial invoice should normally be supplied.

Import Licenses

Some steel and textiles from outside the EU require import licenses with quotas.

Import Taxes/Tariffs

As a member of the EU, Germany applies the common customs code to all imports originating from outside the EU. In general terms, the EU customs code applies higher levels of tariffs on agricultural imports.

Financing Requirements

There are no particular financing requirements for imports.

Risk Mitigation

Germany does not operate a national risk mitigation program for importers.

Prohibited Imports

Germany prohibits imports in line with EU regulations and UN Security Council resolutions. Imports are prohibited for safety and moral reasons, to preserve wildlife, and to protect national security.

Exports

Documentation Required

Exports to countries outside the EU will normally need to be accompanied by a commercial invoice, a customs declaration, a bill of lading and a packing list. A certificate of origin may also be required.

Exports to countries within the EU do not require formal supporting documentation, although a commercial invoice should normally be supplied.

Export Licenses

Military equipment and dual-use items require export licenses. Any items subject to international controls require export licenses.

Export Taxes/Tariffs

Germany does not levy taxes or tariffs on exports.

Proceeds

There are no restrictions on the use of export proceeds.

Financing Requirements

There are no particular financing requirements for exports.

Risk Mitigation

As a member of the EU, Germany complies with the requirements to cover for transactions related to the export of goods and/or services within the country, as set out in the EU directive on Export Credit Insurance.

Export financing is available from domestic and foreign-owned banks. Euler Hermes Deutschland (a subsidiary of Allianz Group) provides state-supported credit insurance for exports in Germany. Export credit insurance is also available from other commercial entities.

Prohibited Exports

Germany prohibits exports in line with EU regulations and UN Security Council resolutions.

Information Technology

Electronic Banking

Almost all German companies have access to electronic banking services. There is a bank-neutral electronic banking system developed in Germany, MultiCash. As the most commonly used system for electronic data interchange in Germany, MultiCash acts as a de facto national electronic banking platform. Most commercial banks also offer the MultiWeb online banking solution. In addition, some banks provide their own proprietary electronic banking systems. A full range of electronic banking services are available, from daily transaction and balance reporting to domestic and international payment initiation.

MultiCash and MultiWeb can be used alongside one another, as both support the SEPA-compliant Electronic Banking Internet Communication Standard (EBICS), a secure transfer protocol for the online exchange of XML files. SWIFT for Corporates is also available to large multinational companies. Other bank systems also offer internet banking. In most cases, internet users have a similar range of electronic banking services to those offered through a physical workstation.

Customers purchasing from online retail stores can effect payment through Giropay. Giropay is offered by a number of German banks and it allows customers to authorize payment to the retailer via a link between the retailers' website and the customers' bank website.

External Financing

Long-term Funding

Bank Lines of Credit/Loans

Medium- and long-term financing is available in the form of bank loans. Depending on the nature of the borrower's requirements, funding can be available as a bilateral facility or in the form of a syndicated loan. A number of German-based banks are experienced arrangers of syndicated loans.

Bank loans can be arranged by both domestic and foreign-based companies in both domestic and foreign currency.

Bank loans denominated in domestic currency are usually arranged at a margin to Euribor (euro interbank offered rate). The precise margin is dependent on general market conditions, the creditworthiness of the borrower and the nature of any guarantees and other credit enhancements in place.

Leasing

Leasing is a popular form of longer-term finance for German companies. It is used to finance a range of underlying assets, the nature of which determines the term of the lease contract. The Federal Ministry of Finance sets an allowance for depreciation (AfA-Tabellen). Typically, vehicle leases are available for terms up to nine years, computer leases up to three years, machinery leases up to 14 years and property leases for longer, ranging up to 33 years.

Leases can be set with fixed or floating rates of interest. They may give the lessee the option to purchase the underlying asset at the end of the lease term. Lease can also be arranged as an operating lease (where maintenance costs are covered by the leasing company) or as a finance lease.

Companies can also purchase assets by installments (*mietkauf*).

Bonds

Historically the German *Pfandbriefe* market (a type of mortgage-backed security) made it difficult for non-banks to issue domestic corporate bonds.

Bond issuance remains the preserve of larger companies, which now have access to the deeper eurozone corporate bond markets.

All types of bond are available, including convertible bonds and hybrid bonds, paying fixed and floating interest.

The popularity of bond issuance varies with that of alternative sources of finance – the domestic stock market and bank-intermediated finance.

Private Placement

The private placement of bonds is used by companies with difficulties accessing the public bond markets. In many cases, companies issue promissory note bonds (*Schuldscheindarlehen*), typically for terms of between two and ten years. Privately placed bonds usually offer investors a greater return than those issued on the public markets. Both German and foreign companies are permitted to place bonds privately.

Asset Securitization / Structured Finance

German and foreign-based banks are increasingly prepared to arrange asset securitization programs for non-bank corporations.

Government (Agency) Investment Incentive Schemes / Special Programs or Structures

The EU's structural funds are available to finance infrastructural development. However, with the growth in size of the EU, the funds available for such investment have to be distributed to more countries. Funds are also available through the European Investment Bank and the European Investment Fund.

Useful Contacts

National Treasurers' Associations

German Association of Corporate Treasurers — www.vdtev.de

German Financial Executives Institute — www.gefiu.de

National Investment Promotion Agency

Germany Trade and Invest — www.gtai.de

Central Bank

European Central Bank — www.ecb.europa.eu

Deutsche Bundesbank — www.bundesbank.de

Supervisory Authorities

Federal Financial Supervisory Authority — www.bafin.de

Payment System Operators

GeldKarte — www.geldkarte.de

Girocard — www.girocard.eu

Girogo — www.girogo.de

European Clearing Cooperative — www.euroclearingcooperative.com

Banks

Deutsche Bank — www.db.com

Commerzbank — www.commerzbank.de

Stock Exchange

Deutsche Börse — www.deutsche-boerse.com

Ministry of Finance

Federal Ministry of Finance — www.bundesfinanzministerium.de

Ministry of Economy

Federal Ministry of Economics and Technology — www.bmwi.de

Federal Ministry for Economic Cooperation and Development — www.bmz.de

Federal Office of Economics and Export Control — www.bafa.de

Chamber of Commerce

Association of German Chambers of Commerce and Industry — www.dihk.de

Bankers' Associations

German Banking Industry Committee — www.die-deutsche-kreditwirtschaft.de

Association of German Banks — <http://en.bankenverband.de/>

German Savings Banks Association — www.dsgv.de

Association of German Public Sector Banks — www.voeb.de

Association of German Co-operative Banks — www.bvr.de