

# Performance Report 2011 of the Stadtparkasse Düsseldorf





### The general economic trend in 2011

The German economy once again showed strong growth rates in 2011. The Gross Domestic Product showed an increase of 3 % (previous year: 3.7 %). This means that last year's total economic production surpassed the level before the crisis also in real terms (i. e. under consideration of the inflation). In the second half of the year the economic performance slowed considerably; in the final quarter the Gross Domestic Product even fell slightly (– 0.2 % compared to the previous quarter).

Major contributions to growth came from the domestic markets, the largest contribution coming from investments. Private consumer expenditure increased considerably after having been rather weak for many years. Furthermore, foreign trade again made a positive contribution.

### Developments in business at the Stadtparkasse Düsseldorf

The Stadtparkasse Düsseldorf looks back at a satisfying year of business in 2011. Growth in business with our retail and corporate customers and a further reduction in risk provisions for lending business served as a solid foundation for good results on a sound basis.

Business developments in 2011 have again proven that the Stadtparkasse Düsseldorf has a solid and sustainable business concept. The strategy, adopted in November 2008 and reviewed by the Management Board on a yearly basis, has proven to be sound in 2011 as well.

Essentially, this comprises the following features:

- Strengthening of retail business and further development of the private

banking arm

- Concentration of corporate business on small and medium-sized companies in Düsseldorf and the surrounding area
- Limitation of proprietary trading
- Optimisation of business risks
- Moderate increases in personnel and operating expenses

The balance sheet total increased by € 384m or 3.3 % to € 12,062m.



### Lending operations

Lending operations in 2011 increased by 3.5 % or € 297m to € 8,791m. Both corporate and private customer business contributed to this result. In particular, new lending business to corporate customers showed a strong increase. The volume of loan approvals increased by 38 % to € 940m.

Alongside loans, companies showed a stronger interest in lease financing than in 2010. This year businesses called up a volume of € 65.1m (previous year: € 50.5m), which was broken down into 382 individual commitments.

Demand for loans on the part of our private customers in the year under review again slightly exceeded the high level of the previous year. The total amount of new loan approvals amounted to € 590m (previous year: € 579,5m). At the peak was the allocation of housing loans: approximately € 419m were disbursed in this segment (previous year: € 412m).

### Investment portfolio

The Stadtparkasse Düsseldorf holds both yield orientated and strategic investments either directly or through the -Kapitalbeteiligungsgesellschaft Düsseldorf (KBG). These also comprise participations which are held for business

or group-political reasons. These investments are mostly of a public-sector character.

In 2011 the value of the participations and shares in associated companies rose by € 12.9m to € 506.0m. The subsidiary company **SKBG** received equity payments of € 33.2m which were mostly placed at the disposal of Equity Partners GmbH (EP). Within the defined strategic objectives of our Bank, EP is responsible for the supervision and management of private equity.

The book value of **SKBG** increased from € 245.7m to € 278.9m. From the net earnings of **SKBG** for 2011 the Stadtsparkasse Düsseldorf received a payout of € 12.0m (previous year: no payout).

The Bank was forced to make further value adjustments to its participations in the Erwerbsgesellschaft der **S**-Finanzgruppe mbH & Co. KG as well as to the share in the RW Holding AG.

The Stadtsparkasse Düsseldorf participated in the Landesbank Berlin Holding AG (LBBH) via the Erwerbsgesellschaft. As a result of the developments on the capital markets, the retracted expectations for the LBBH were a significant cost factor. After the depreciation of the year before (€ 1.0m), the Bank reduced the book value of its share from € 42.5m to € 31.4m. Alongside an equity repayment of € 0.5m, which had no effect on profit or loss, the value was depreciated further by € 10.6m.

The valuation of the share in the RW Holding AG led to a depreciation of € 9.2m to a book value of € 11.0m (previous year: € 20.2m), based on the market value of the shares in RWE directly accredited to the Stadtsparkasse Düsseldorf as per 31/12/2011.

Another important investment is the participation in the Rheinischer Sparkassen- und Giroverband ö. K. – RSGV – (book value € 138.9m). The book value remained unchanged by comparison to the previous year.

The RSGV is a shareholder of the Provinzial Rheinland (insurance), the DekaBank and the Landesbausparkasse LBS West as well as the WestLB AG and the Erste Abwicklungsanstalt (EAA), i. a.

The shareholders of the WestLB AG (i. a. the RSGV with approx. 25.03 %) have reached an agreement with the Bundesanstalt für Finanzmarktstabilisierung (FMSA – Federal Agency for Stabilisation of the Financial Market) on measures to further stabilise the WestLB AG. As a result, contracts were drawn up on 11/12/2009 to found a run-off company (“Erste Abwicklungsanstalt”) in accordance with § 8a of the Bill on financial trusts for the stabilisation of the financial markets. The RSGV is obliged to assume responsibility for real liquidity-related losses of the run-off company which are not covered by the equity capital of the run-off company of € 3bn and any profits made up to an amount of € 2.25bn, corresponding to their share in the company. As a member of the RSGV, the Bank has an indirect pro rata obligation in the size of its share in RSGV (7.9 %). On the basis of current information, it is not necessary for the Bank to set aside reserves for this obligation in the balance sheet for 2011. In view of the probably lengthy winding-up period, there is, however, always the risk that claims will be made against the Bank through its indirect obligations in accordance with its share in RSGV. To cover this risk the Bank will create a yearly pro-rata balance sheet reserve over a period of 25 years from the profit of the respective year. It is intended to reassess the necessary financial precautions after

10 years at the latest, by taking into consideration the knowledge and expectations of all parties involved with respect to the wind-up schedule. Since 2009 provisions have been made in the amount of €18.0m by allocation to the fund for general banking risks in accordance with § 340g of the German Commercial Code. € 5.7m of the allocation pertain to the business year 2011. This does not affect the obligation to assess, when drawing up the balance sheet for the year, whether there is a necessity to make provisions on account of the current findings.

There are no direct consequences for the Stadtparkasse Düsseldorf, as a reduction in the value of the WestLB is sufficiently covered by undisclosed reserves in the other participations of the RSGV.

### Deposit-taking

In 2011 total customer deposits increased by € 281m or 3.9 % to € 7,440m (previous year: € 7,159m). On account of the low interest levels short-term deposits were in stronger demand than deposits with longer maturities. Consequently, sight deposits rose by 11.2 % or € 444m to € 4,412m. Term deposits fell by € 113m or 16.9 %. As per year-end, bonds, debentures and savings certificates amounted to € 265m, € 17m higher than in 2010. Subordinate liabilities decreased by € 27m or 17.8 % to € 125m.

### Securities business

Securities transactions were pleasing in the year under review. Total turnover in securities increased by € 308m or 14.8 % to € 2,385m. The highest increase was in turnover with stocks (+ 66.3 %), whereas investment trusts fell by € 137m or 23.5 %.

### Own investments in securities (without debentures)

The securities held by the Bank can be split up into investments managed by itself and those managed by third parties. The securities portfolio held to maturity has a volume (market value) of € 2,578m (previous year: € 2,601m).

The Stadtparkasse Düsseldorf does not hold any government bonds from European countries that have been heavily affected by the debt crisis.

### Staff

As per 31 December 2011 the Stadtparkasse Düsseldorf employed a total of 2,220 staff (previous year: 2,195), of which 1,519 worked on a full-time basis (previous year: 1,477) and 551 on a part-time basis (previous year: 564). The number of trainees remained, with 150, at the same high level of the previous year (154).

### Equity situation

After allocation of € 3m from the profit for the year 2010, the reserves of the Stadtparkasse Düsseldorf amounted to € 715m as per 31 December 2011.

In addition, there was an allocation of € 165m to the reserves for general banking risks in accordance with § 340g HGB (German Commercial Code), of which € 136m resulted from the closure of provisions in anticipation of the effects of the pending new equity requirements under "Basel III" in accordance with § 340f HGB. Furthermore, this also comprises a provision in the amount of approx. € 6m to bolster the "Erste Abwicklungsanstalt", established in accordance with § 8a of the Bill on financial trusts for the stabilisation of the financial markets, intended to stabilise the

WestLB AG (refer also to the details outlined under "Investment portfolio").

In addition the Bank has at its disposal a wide range of non-core capital assets in the sense of the German Banking Act (KWG).

The assessment of the ratio between equity and risks, in accordance with the Ordinance on Solvability (SolvV) comprising counterparty, market and operational risks, was calculated at 12.2 % (previous year: 12.5 %) and lies well above the required minimum value of 8 %. The equity requirements were upheld at all times. In the course of the year the utilisation ratio fluctuated between 12.2 % and 13.0 %. The core-capital quota amounted to 9.2 % (previous year: 9.0 %). A solid capital base is available for further business expansion at an unchanged level.

On the assets side of the balance sheet there were only slight structural changes by comparison with the previous year. The most important item continued to be receivables from customers at 71 % (previous year: 70 %). Own investments (bonds, stocks and other non-fixed interest items) remained unchanged at 21 %.

Neither have there been any grave changes on the liabilities side. Liabilities towards customers at 60 % (previous year: 59 %) and liabilities towards financial institutions at 19 % (previous year: 18 %) continued to be the basic features. The balance sheet portion of securitised debt decreased to 10 % (previous year: 14 %).

### Financial situation

Due to well planned and thought-out liquidity provisions throughout the last year of business, the Stadtparkasse

Düsseldorf was in a position to meet all its obligations at any given time. The requirements with respect to the liquidity coefficients under the Liquidity Regulation (LiqV) were observed at all times. As per 31/12/2011 the value was 1.58. In the course of the year, the utilisation fluctuated within a bandwidth between 1.58 and 2.08 and lies well above the prescribed minimum value of 1.00. The additional observation coefficients established over a period of 12 months also show a stable liquidity position. Further details on the liquidity risks are included in the risk report.

In order to comply with minimum reserve requirements, the Stadtparkasse Düsseldorf maintained appropriate assets at the German Central Bank. The prescribed minimum reserves were always maintained in the required amount.

### Earnings position

The Stadtparkasse Düsseldorf was able to achieve a good result in 2011, improving slightly on the figures of the previous year, in spite of volatile financial markets and business developments in the Euro zone being impeded by the euro and public-debt crises, particularly in the second half of the year.

In order to avoid anomalies with the circumstances on the reporting date, the following figures refer to the average balance sheet total, which, contrary to our forecast, increased by 1.2 %.

Net interest income including regular income (item 3 of the Profit & Loss Account) continued to be the most important source of income of the Stadtparkasse Düsseldorf. With a total of € 276m this item remained unchanged by comparison to the previous year and performed somewhat better than forecast.

The fall in other interest income (items 1 and 2 of the Profit & Loss Account) of approx. € 13m was more or less compensated by regular income from shares in associated companies (item 3 of the Profit & Loss Account). As foreseen, it was possible to allocate € 12m to the Bank from the net profit of the **S**-Kapitalbeteiligungsgesellschaft (**SKBG**). The regular income from other participations, as well as stocks and other non-fixed interest bearing securities (item 3 of the Profit & Loss Account) were also more favourable than in the previous year.

Contrary to the interest scenarios underlying strategy planning, the business year was characterised by a flattening of the yield curve. Again the Bank was able to contribute to profit by using term transformations, although these were slightly less than in the previous year.

On account of the continually low interest level and the uncertainty on the capital markets, our customers showed stronger interest in short-term investments. This led to a tangible increase in interest cost for short-term investments in particular. At the same time, interest cost for institutional refinancing also increased due to the prevalent conditions.

In accordance with the strategic management policy we have made a wide range of interest rate hedging contracts which are included in the net interest income with a value of € – 19m. In this way, the Bank counteracts existing interest rate risks and secures refinancing at a calculable level in the eventuality of a rise in interest levels.

As a result of the observance of the German Accounting Law Modernisation Act (BilMoG), expenses in a total of € 0.5m have been incurred for accrued interest on reserves for savings.

As a result of the slight increase in the average balance sheet total there was a reduction of the net interest income of 2.23 % (previous year: 2.26 %).

As expected, we were able to further improve the commissions surplus. The balance from income and expenses from commissions increased to € 66m (previous year: € 64m). As the average balance sheet total also increased, the ratio remained constant at 0.53 %. Commissions from customer security transactions, brokerage and international business contributed in particular to this improvement. On the other hand, profits from payment operations continued to fall. The commissions surplus includes earnings from foreign currency and precious metal transactions which amounted to € 1m (previous year: € 1m).

Operating income (item 8 of the Profit & Loss Account) increased by € 3m to € 15m. On account of the need for special coverage of asset and liability positions, proceeds from foreign exchange conversions in the amount of € 1m (previous year: € 65,000) are posted net under item 8 of the Profit & Loss Account, in accordance with § 256a of the HGB, and in connection with § 340h HGB.

Operating costs (item 12 of the Profit & Loss Account) dropped by € 2m to € 13m. This item includes incurred interest expenses for compound interest on reserves in the amount of € 3m (previous year: € 3m). Administrative costs (item 10 of the Profit & Loss Account) and depreciation on property, plant and equipment (item 11 of the Profit & Loss Account) were further reduced by 0.9 % to € 206m (previous year: € 208m). Contrary to our expectations, personnel expenses included in this item remained more or less constant at € 128m. The highest increase occurred in retirement benefits. The personnel expenses include

the moderate salary increase agreed in the recent tariff agreement as well as expenses for the disbursement of an achievement bonus.

In accordance with our expectations, the other administrative expenses only increased slightly, due to a careful material costs scheme implemented in 2011. We were particularly able to save costs for technology and maintenance charges. On the other hand, the costs for advertising and third-party services rose.

From 2011 financial institutions have to pay a "bank levy" as a result of the enactment of the Restructuring Directive. The amount of € 0.7m due from the Stadtsparkasse Düsseldorf is included in the administrative expenses.

Depreciation on property, plant and equipment (item 11 of the Profit & Loss Account) was € 3m below the figure for the previous year.

Total income (items 1 to 9 of the Profit & Loss Account) improved by € 5m to € 358m. At the same time, total expenditure fell by € 4m to € 219m. As a result, the cost-income ratio, as defined by the German Central Bank, fell to 61 % in 2011 (previous year: 62 %).

Depreciation and value adjustments on receivables, certain securities and participations are shown after having set off the corresponding income. The sum of the value adjustments amounted to € + 84m (previous year: € - 45m), largely due to the disbandment of reserves for general banking risks in accordance with § 340f HGB and creation of a special item for general banking risks as under § 340g HGB in an amount of € 136m.

The majority of the assets shown under items 5 and 6 were classified as current assets. Securities among the liquid

assets were always assessed at the lower market value (strict lowest value principle).

Furthermore, we have decided to categorise bonds with a book value totalling € 506m as capital assets, for strategic reasons, and to increase the period on hold to cover the whole period of contract. In the case of these items, the value was assessed at the alternative alleviated lowest value. This results in a lower depreciation requirement of approx. € 20m.

As a result of the turbulence on the capital markets due to the euro and government debt crises, the sum of alignments and depreciation and price gains and price losses of the securities held as liquidity reserves was much lower than the value for the previous year (€ + 33m) at € -11m. This did not meet with our expectations.

Adequate devaluation measures and provisions have been undertaken to cover acute customer contingency risks. In addition, global adjustments have been made on all latently endangered receivables on the basis of defaults of the last five years.

On account of the resilient constitution of the German economy, the risk expenses for the year under review were again lower. The result lay well below the predicted value.

In anticipation of the expected effects of the stricter requirements for the creditability of assets within the agreements under "Basel III", we have dissolved the available reserves for general banking risks in accordance with § 340f HGB in an amount of € 136m and put them in the contingency fund for general banking risks in accordance with § 340g HGB. In this manner, we are able to



ensure that the capital requirements are met safely and consistently.

Furthermore, € 23m were allocated to the contingency fund for general banking risks in accordance with § 340g HGB from the profit for 2011 as an additional provision.

Consistent with measures taken in the previous years to increase the stability of the WestLB, we made further provisions by allocating € 6m to the fund for general banking risks in accordance with § 340g of the HGB to cover the risk of claims from an indirect obligation to the WestLB in the amount of our share in the Rheinischer Sparkassen- und Giroverband. In this connection, we refer to the statements on the WestLB AG under "Investment portfolio".

In this manner, we have created provisions for special risks for business with financial institutions in the total amount of € 207m in accordance with § 340g HGB.

Sufficient provisions have been made for risks from shareholdings.

Taxes on income and capital gains (item 23 of the Profit & Loss Account) amounted to € 43m (previous year: € 29m). The increase is mainly due to a rise in the tax assessment basis with respect to the valuation of own securities investments.

After determination of the surplus for the year at € 15m (previous year: € 12m), the City Council of Düsseldorf decides on its application in accordance with the recommendations of the Advisory Board. The stable capital base of the Stadtsparkasse Düsseldorf ensures a safe liquidity and loan supply for the regional market.

## Risk management and risk control

### Concept for risk-bearing capacity

In order to limit and manage its risks, the Stadtsparkasse Düsseldorf has introduced a concept for risk-bearing capacity. This comprises the value-orientated, the periodical and the regulatory aspects. The comprehensive risk-bearing capacity of the Bank is ensured by comparing the risk hedging potential with the risks.

As per 31/12/2011 the value-orientated overall limit for the individual management of risks was set at € 694m (previous year: € 802m at a confidence level of 99.9 %).

### Effects of the impending requirements under Basel III

The new Basel framework agreement (Basel III) focuses at the centre of regulatory changes. The proposals foresee a tightening of requirements for the availability of own resources and new minimum asset quotas. Furthermore, a new reference key, the leverage ratio, will be introduced, as well as additional asset buffers and extended asset requirements for credit risks. In addition, for the first time quantitative minimum requirements for an efficient liquidity risk management will apply. The draft for the directive was presented to the European Commission on 20 July, 2011 and plots the implementation of Basel III which will be binding for all institutions in Europe. The procedures will come into force in 2013, although longer transition periods will be granted.

The Stadtsparkasse Düsseldorf has already begun to look into the new requirements in 2011. Initial trial calculations have demonstrated that the minimum capital ratios can be easily achieved and

that the leverage ratio should not impose any limitation. In view of the liquidity coefficients there is sufficient time for adjustments before the EU rules come into force.

### Stress scenarios

The Stadtsparkasse Düsseldorf draws up five stress scenarios on a quarterly basis, alongside the sensitivity stress tests. Essentially, global recession, dislocations on the financial markets (interest, liquidity) as well as potential influences on the loan portfolio are assessed. Moreover, there are inverse stress tests on the risk levels interest, loan spreads, share and market prices and loans. As part of the multi-year plan, a stress scenario is also drawn up with respect to the essential income components (periodic level).

The results of these stress scenarios show that the Stadtsparkasse Düsseldorf is also protected in critical situations.

### Credit risks

In the case of the credit risks we differentiate between counterparty risks and solvency risks. Counterparty risk comprises the risk of loss through the failure of a borrower to perform. The solvency risk reflects the risk of loss through a fall in the rating of a business counterparty. This includes the classical risks of loss from borrowers failing to perform as well as issuer and counterparty risks from trading business.

In 2011 the credit risks (on a portfolio level) fluctuated within the defined limits.

### Credit risks on lending business

The emphasis of the loan portfolio is lending business with corporate and retail customers.

All recognised contingency risks have been adequately protected. Value adjustments for lendings have fallen considerably with respect to 2010 and lie below the original target figures.

The total amount of provisions for contingent loan losses fell by 17.6 % to € 157m. The decrease is a result of a considerable drop in the need to make new individual value adjustments.

The Stadtsparkasse Düsseldorf does not expect any significant changes in the portfolio structure by comparison to 2011. With a view to the expected economic scenario in conjunction with the euro debt crisis higher risk provision will be made during planning than the actual figures for 2011.

### Credit risks on own investments

The securities held by the Bank can be strategically divided into internally and externally managed investments. In the case of the self-managed investments only securities with good ratings (investment grade AAA to BBB-) stand to the fore. In the case of the externally managed portion of our investments (public and special funds) we take care to ensure a wide spread in the portfolio to diversify risks. The counterparty risk is considered to be small.

The risk orientated limits for securities issuers and counterparties are monitored by risk management administration with respect to capacity utilisation and by the loan department with respect to suitability and appropriate actions. In order to reduce counterparty risks use is made of collateral agreements.

Defaults are not expected. No investments were made in Greece.

### Market risks

Market risks are defined as potential losses that could result from adverse price changes or price-related parameters on the financial markets. Market risks, therefore, include the predominating interest rate risks for the Bank, risks from spreads and stock prices as well as currency exchange rates and other price risks in addition to changes in option prices due to volatility.

In order to shore off market risks, alongside accounting instruments, transactions were made to manage the interest risk of the banking book in the amount of € 5.10bn (previous year: € 2.54bn). Customer dealings in derivatives are individually secured by corresponding back-to-back transactions. These are mostly swaps and caps.

### Interest rate risks

The Bank undertakes interest rate risks in order to attain its earnings goals. Interest changes have an effect both on the interest surplus (Profit & Loss Account) and on the cash value of interest sensitive items (on the assets level). The Bank, therefore, implements different methods to measure risk on the profit and loss and asset levels.

The change in cash value as per 31/12/2011 amounted to € – 125.2m (+ 200 basic points). This corresponds to 12.7 % of the liable equity (previous year: + 130 basic points; € – 131.4m = 13.2 %) and lies well below the threshold for notification to the supervisory authorities of 20 % (institutions with elevated interest rate risks).

### Currency risks

Currency risks are not considered an essential risk with respect to the primary

items of the Bank. They exist foremost because of investments in private equity funds on a foreign exchange basis (viz. also the details in the following “Shareholder risks”).

Financial deposits in foreign currency within the special security assets are on the whole regularly covered by forward foreign exchange contracts.

### Shareholder risks

By shareholder risks, the Stadtsparkasse Düsseldorf understands the danger of financial loss due to reduction in value of or default on its own participations.

The investment business of the Stadtsparkasse Düsseldorf comprises both direct and indirect participations. The volume of participations at book value amounted to € 506m as per 31/12/2011 (previous year: € 493.1m).

The methods used to measure and assess shareholder risks differ depending on the type of participation. In this connection, use is made of the Basel II Gordy model, the indexation method or volatility derivation.

The allotted value-orientated limit amounted to € 93.0m.

Alongside other participations the shareholder capital in the RSGV also includes the WestLB (viz. details under “Investment portfolio”).

On account of the high level of diversification over the whole term of a fund, we consider the default risk of the fund investments made by Equity Partners GmbH (EP) to be small. The concern has taken the necessary precautions with respect to the US dollar fund investments and the resulting currency fluctuations.

### Property risks

Risks in this category refer to the real estate property of the Stadtsparkasse Düsseldorf (buildings and land in Düsseldorf and Monheim) and pertain to the risk of loss in value.

The assessment of the risk values is based on regular monitoring of the market value of the properties and implementation of an index model as used for shareholder risks.

In 2011 the same limit of € 5m was set as in the previous year. The risk is considered to be small. For this reason, this item will, in future, no longer be limited or assessed in the value-orientated perspective.

### Operational risks

Operational risks are defined as the danger of damages caused by the inadequacy or default of internal processes, employees, internal infrastructure or external influences.

On the basis of current experience and the rules and standards in force, the Stadtsparkasse Düsseldorf continues to reckon with a moderate risk level which is well covered by the available limit.

### Liquidity risks

In accordance with the current MaRisk requirements (Minimum Requirements for Risk Management), the liquidity risk comprises the risk of insolvency, the refinancing risk and the market liquidisation risk.

In order to assess the general liquidity risk, the Bank adheres to the liquidity coefficient of the BaFin (Bundesanstalt für Finanzdienstleistungsaufsicht – Federal Financial Supervisory Authority). In the

course of 2011 this coefficient, which is calculated monthly, fluctuated between 1.58 and 2.08 and thus lay continually well above the prescribed threshold of 1.00.

On the basis of the refinancing strategy and the results of scenario observations the Bank expects the liquidity situation to remain solid. The liquidity situation of the Bank is considered to be satisfactory.

### Other risks

The Stadtsparkasse Düsseldorf does not see itself exposed to any essential strategic risks, particularly in view of the dynamic nature of the business location in Düsseldorf with its diversified branch structure, above-average buying power and high drawing potential, the high value of the trademark “Sparkasse” and its involvement in the S-Finanzgruppe (Savings Banks Finance Group).

### Overall risk situation

The Bank manages its risks in a manner which corresponds to the scope, the complexity and the risk-content of its business operations.

Within the scope of the economic risk-bearing capacity, the Bank has at its disposal a total limit per 31/12/2011 of € 694m, of which only a part of the risk coverage potential is made available. The total limit was only used to approx. 77 % in consideration of the actual sum of the separate risks as per 31/12/2011. We were able to allocate limit increases for increased risk from the non-dedicated risk covering potential.

Assuming that all limits of the current year are exhausted by the periodical risk-bearing capacity and penetrate through to the Profit & Loss Account, the regulatory equity requirements would

still be met. With regard to 2012 the risk-bearing capacity continues to be guaranteed.

The total amount of risk provision for lending operations fell by 17.6 %. The volume-weighted average probability of default of the customer loan portfolio (without financial institutions and public sector) further improved in the year under review from approx. 1.6 % to approx. 1.3 %. In the end-of-year rating categorisation according to volume, of the rating categories 1 to 15 almost 87 % of risks were in the categories 1 to 8 with small probability of default. The Stadtsparkasse Düsseldorf does not see any significant changes in the portfolio structure in 2012. In view of the expected economic scenario as a result of the euro debt crisis, increased risk provisions will be made both in corporate planning and in the risk-bearing capacity.

In 2011 market risks were taken within the allocated limits using conservative methods of assessment. By comparison to the level at the end of the year, we expect a similar market volatility in the market risks. In view of the historically low interest levels, the Stadtsparkasse Düsseldorf tends to reckon with an increase in interest levels in the middle and long-term sectors. We can, however, reduce risks at short notice through the semi-active monitoring system via active measures.

With respect to the participations, it is necessary to mention the risk that the Bank could be claimed upon in accordance with its share in the Rheinischer Sparkassen- und Giroverband (RSGV) from its indirect obligation in connection with the WestLB AG.

In the case of operational risks, we presume that the risk will remain moderate, on the basis of current knowledge and in

view of the implemented rules and standards. This is extensively covered by the available limit.

The liquidity situation of the Stadtsparkasse Düsseldorf is judged to be satisfactory.

### Outlook

In planning its business for 2012 the Stadtsparkasse Düsseldorf has taken account of the economic backdrop as well as the market conditions in the city and the region. In consideration of the macro-economic data and the market conditions, the Stadtsparkasse Düsseldorf predicts solid growth prospects. The Stadtsparkasse Düsseldorf tends to reckon with an increase in interest levels in the middle and long-term sectors in 2012 on account of the historically low interest levels.

We see possibilities for growth in retail and corporate business both in lending operations and in income from investments and securities transactions. The Management Board expects a further tangible income contribution from asset management and clear improvements in income from the investment portfolio.

The outlined development could require significant corrections if various risks impede the general macro-economic situation. The Management Board particularly sees considerable risk potential in the European debt crisis which could have negative effects on the economic situation in Germany. This could result in a dangerous threat to the growth opportunities of the real economy and force the German economy into recession. The consequences would be a considerably lower rate of growth than planned and an encumbrance to the results due to a significantly higher need for loan risk provisions.

Risks could also incur as a result of a sharp increase in interest. These could cause the interest surplus to fall and have a negative influence on the valuation yield from securities.

A recession or a sharp increase in interest levels would also have negative effects on the result from own investments. In this connection, the Management Board points out that the Stadtparkasse Düsseldorf will have to incur expenses in 2012 and the following years for financial precautions pertaining to the "Erste Abwicklungsanstalt" (EAA) of the WestLB AG (viz. "Investment portfolio").

For 2012 the Stadtparkasse Düsseldorf expects slightly lower gross proceeds than in the previous year in 2012, whereas they will again increase in 2013. On account of the interest level, the Management Board only sees a small chance of increasing interest surplus through term transformations in 2012 and 2013. The surplus from commissions will continue to increase in the next years. Increases in commissions from customer security business and products for retirement provisions are expected.

In the opinion of the Management Board, administration costs will rise in 2012 and the following years. The increase in staff and the higher pay agreements will lead to an increase in staff costs which will exceed the rate of inflation. On the other hand, material expenditure will show only a moderate increase.

Risk provisions for lending business have fallen considerably in the past two years on account of the pleasing economic trend and an improvement in risk management. In view of slower economic growth, the Management Board expects an increase in value adjustments for loan operations in 2012. In the following

years, the value will fall again, providing the economy remains stable.

Value adjustments on securities should again provide positive income contributions in 2012 and the following years.

The Management Board is counting on a notable improvement in the value adjustments on participations. In the past years the values of the participations have been subject to considerable corrections. In the future, we reckon with lower value adjustments on our participations.

The Management Board expects a profit before tax lying slightly lower than the previous year in both 2012 and 2013. The Management Board expects a further positive development in the financial, asset and income situation, provided the above mentioned risks do not hit in. The Stadtparkasse Düsseldorf is, from the Management Board's point of view, in a position to comply with the higher equity requirements under Basel III from the retained profits. Possible encumbrances to the results due to the new liquidity coefficients required under Basel III are not appreciable at this juncture.

Düsseldorf, 30 March 2012

## Summary of the Bank's Performance

	EUR in thousands as at 31/12/2011
Balance Sheet Total	12,061,525
Volume of Business	12,332,919
<b>Assets</b>	
Cash and Banks	244,822
Investments	3,031,246
Loans & Discounts	8,725,575
Other Assets	59,882
<b>Liabilities</b>	
Deposits	10,833,810
Other Liabilities	165,405
Subordinated Liabilities	125,079
Funds for general bank risks	207,434
Capital	714,962
Profit	14,835

## Profit &amp; Loss Account

	EUR in thousands for the year from 01/01/2011 to 31/12/2011
<b>Expenses</b>	
Interest and Commissions Paid	188,104
Staff Costs	127,935
Other Operating Costs	72,877
Depreciation	78,755
Taxes	42,767
Other Expenses	177,768
Profit for the year	14,835
<b>Receipts</b>	
Interest and Comm. Receiv.	530,218
Other Receipts	15,313

**Universal banking business  
in Germany and abroad**

Correspondent banks in Europe and overseas

**International Division**

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