Stadtsparkasse Düsseldorf

Performance Report 2012 of the Stadtsparkasse Düsseldorf

Performance Report 2012

THE GENERAL ECONOMIC TREND IN 2012

In 2012 the German economy was able to assert itself against a difficult international environment. The Gross Domestic Product showed an increase of 0.7 % (previous year: 3.0 %). As a result, total economic production slowed tangibly. After a strong start in the first quarter, economic performance weakened continually in the following quarters. In the final quarter the Gross Domestic Product was even slightly in the red (– 0.6 % by comparison to the previous quarter).

The main contributions to growth came from foreign trade. German industrial exports increased considerably in 2012. Furthermore, private consumer expenditure made a positive contribution to growth, as in the previous year.

DEVELOPMENTS IN BUSINESS AT THE STADTSPARKASSE DÜSSELDORF

The Stadtsparkasse Düsseldorf looks back at a satisfying year of business in 2012. This development was based on the solid growth in business with our retail and corporate customers.

Business in 2012 has again shown that the Stadtsparkasse Düsseldorf has a solid and sustainable business concept. The adopted strategy, which is reviewed and amended by the Management Board on a yearly basis, has again proven to be sound in 2012. 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 staff and operating expenses.

The balance sheet total increased by € 469m or 3.9 % to € 12,531m.

LENDING OPERATIONS

The lending portfolio decreased by 5.5 % or € 481m in 2012 to € 8,310m. The main reason behind this was a reduction in lendings to local authorities in the corresponding amount.

New lending business followed two trends in 2012:

Lending business to corporate customers showed a strong increase. The volume of loan approvals increased by 12.7 % or € 119m to € 1,059m. Industrial property financing increased considerably with approvals of € 353m (previous year: € 232m).

Business with small and medium-sized companies also showed a high increase of 5.7 % to € 166m in new loan approvals (previous year: € 157m).

Demand for loans on the part of our private customers in the year under review was slightly lower than the level of the previous year (–3 %). The total amount of new loan approvals amounted to € 572m (previous year: € 590m). At the peak was the allocation of housing loans. Approximately € 425m were disbursed in this segment (previous year: € 419m). The volume of approved instalment loans increased by 11.9 % or € 7m to € 69m.

INVESTMENT PORTFOLIO

The Stadtsparkasse Düsseldorf holds both yield orientated and strategic investments either directly or through the S-Kapitalbeteiligungsgesellschaft Düsseldorf (SKBG). These also comprise participations which are held for business or group-political reasons. These investments are mostly of a public-sector character.

In 2012 the value of the participations and shares in associated companies fell on the whole by € 3.2m to € 502.8m. The subsidiary company SKBG received equity payments of € 8.5m which were mostly placed at the disposal of Equity Partners GmbH (EP). EP supervises and manages the private equity portfolio of the Stadtsparkasse Düsseldorf.

The book value of SKBG increased from € 278.9m to € 287.4m.

The Bank was forced to make a further value adjustment to its participation in the Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG.

The Stadtsparkasse Düsseldorf participated in the Landesbank Berlin Holding AG (LBBH) via the Erwerbsgesellschaft. In view of the increased capital requirements to be met in future (Basel III) and the ensuing reduction of risk-bearing business and the renouncement of reinvestment in profitable investments, the LBBH expects declining results. The Bank reduced the book value of its share from € 31.4m to € 19.9m by means of a write-down in the amount of € 11.5m (write-down in the previous year: € 10.6m).

The valuation of the share in the RW Holding AG led to a depreciation of € 0.2m to a book value of € 10.8m (previous year: € 11.0m) based on the market value of the shares in RWE directly accredited to the Stadtsparkasse Düsseldorf as per 31/12/2012.

Another important investment is the participation in the Rheinischer Sparkassen- und Giroverband ö. K. – RSGV (book value unchanged at € 138.9m). Reserves of € 20.5m have been built for possible risks out of the participation in the RSGV within the scope of the fund for general banking risks in accordance with § 340g HGB (German Commercial Code).

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

The RSGV finally withdrew from the shareholders' group of the Portigon AG as per 30/06/2012.

The former shareholders of the Portigon AG, formally WestLB AG (i. a. the RSGV with approx. 25.03 %) reached an agreement with the Bundesanstalt für Finanzmarktstabilisierung (FMSA – Federal Agency for Stabilisation of the Financial Market) in November 2009 on measures to transfer the assets and liabilities of the WestLB AG to a run-off company.

As a result, contracts were drawn up in December 2009 to found a run-off company ("Erste Abwicklungsanstalt") in accordance with § 8 of the Bill on financial trusts for the stabilisation of the financial market. 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 € 3bn of the run-off company and any profits made up to a maximum amount of € 2.25bn, corresponding to their share in the company (25.03 %). In the course of transferring further assets and liabilities to the Erste Abwicklungsanstalt during 2012 the liability was modified in such a way that the RSGV is obliged to provide a maximum of € 37.5m by way of assets to compensate balance sheet losses, should the need occur. The obligation to compensate actual losses to the detriment of liquidity decreases in accordance with this amount so that the overall maximum amount of € 2.25bn remains unchanged. As a member of the RSGV, the Bank has an indirect pro rata obligation in the size of its share in the 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 2012.

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 the 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 € 23.8m by allocation to the fund for general banking risks in accordance with § 340g of the German Commercial Code. € 5.8m of the allocation pertain to the business year 2012. The amounts earmarked here are not treated as equity.

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.

DEPOSIT-TAKING

In 2012 total customer deposits increased by € 448m or 6.0 % to € 7,888m (previous year: € 7,440m). On account of the continuing low interest levels short-term deposits were in stronger demand than deposits with longer maturities. As a result, sight deposits rose by 15.2 % or € 670m to € 5,082m. Term deposits, on the other hand, fell by € 175m or 31.4 % to € 382m. As per year-end, bonds, debentures and savings certificates amounted to € 285m, € 20m higher than in 2011. Subordinate liabilities decreased by € 12m or 9.6 % to € 113m.

BUSINESS WITH ASSOCIATED PARTNERS

Insurance business with our associated partners was very satisfactory in 2012. Our customers took out almost 10,000 new policies in the most varied classes of business. Large increases were particularly noticeable in the field of provisions for old age.

Building society savings, on the other hand, showed negative developments. Our customers entered 4,641 building loan agreements last year, 1,000 less than in 2011. This trend is a result of the current interest structure and the historically low key interest rate.

SECURITIES BUSINESS

Securities transactions turned out weaker than 2011 in the year under review. Total turnover in securities fell by € 291m to 12.2 % to € 2,094m. Stock investments registered a decrease in turnover of almost 50 %. On the other hand, investment trusts showed a pleasing increase with a rise of € 219m to € 664m.

OWN INVESTMENTS IN SECURITIES (WITHOUT DEBENTURES)

The securities held by the Bank can be split into investments managed by itself and those managed by third parties. The securities portfolio held to maturity has a volume (market value) of € 3,455m (previous year: € 2,568).

STAFF

As per 31 December 2012 the Stadtsparkasse Düsseldorf employed a total of 2,305 staff (previous year: 2,220), of which 1,599 worked on a full-time basis (previous year: 1,519) and 549 on a part-time basis (previous year: 551). The number of trainees remained, with 157, at the same high level of the previous year (150).

EQUITY SITUATION

After allocation of € 9m from the profit for the year 2011, the reserves of the Stadtsparkasse Düsseldorf amounted to € 724m on the balance sheet date.

In addition, there was an allocation of approx. € 24m to the reserves for general banking risks in accordance with § 340g HGB, of which approx. € 6m are intended to bolster the "Erste Abwicklungsanstalt" in accordance with § 8a of the Bill on financial trusts for the stabilisation of the financial markets.

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 12.5 % (previous year: 12.2 %) and lies well above the required minimum value of 8 %. The equity requirements were upheld at all times in 2012. In the course of the year the utilisation ratio fluctuated between 12.5 % and 12.7 %. The core-capital quota amounted to 11.3 % (previous year: 9.2 %). A solid capital basis is, therefore, available to provide liquidity and loans to regional businesses at an unchanged level.

On the assets side of the balance sheet there were the following changes with respect to the previous year. The most important item continued to be receivables from customers, but this decreased to 65 % (previous year: 71 %). Own investments (bonds, stocks and other non-fixed interest items) increased, however, by 6 % to 27 %.

There were no significant changes on the liabilities side. The major scenario was characterised by liabilities towards financial institutions at 16 % (previous year: 19 %), alongside liabilities towards customers at 62 % (previous year: 60 %). The balance sheet portion of securitised debt increased by 2 % to 12 % by comparison to the previous year.

FINANCIAL SITUATION

Within the description of the financial situation we will report on the developments and the safeguarding of the liquidity of the Stadtsparkasse Düsseldorf in particular.

Due to well planned and thought-out liquidity provision throughout the last year of business, the Stadtsparkasse 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 31/12/2012 the value was 3.08 on account of a special item in the securities field. In the course of the year, the utilisation fluctuated within a bandwidth between 1.48 and 3.08 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 Stadtsparkasse Düsseldorf maintained appropriate assets at the German Central Bank. The prescribed minimum reserves were always maintained in the required amount.

EARNINGS POSITION

Against a continuingly tense economic context and a backdrop of sharper regulatory requirements, the Stadtsparkasse Düsseldorf was again able to successfully maintain its position on the local banking market in 2012.

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 2.2 %.

Net interest income including regular income (item 3 of the Profit & Loss Account) decreased on a whole by 9.6 % to € 250m (previous year: € 276m), but still remains the most important source of income of the Bank. The reduction is accounted for on the one hand by the fall of € 13m in other interest income (items 1 and 2 of the Profit & Loss Account), and on the other hand the fall of € 13m in regular income from other participations, stocks and other non-fixed interest bearing securities which we had not predicted in our outlook for the year. Due to a change in the disbursement system, the profits from associated companies were not transferred over in an identical rhythm, contrary to the previous year.

2012 was characterised by a prolonged low interest level. Due to the increase in the average balances the Bank was able to increase the contribution from interest income slightly by comparison to the previous year. At the same time, the contribution to profit from term transformations fell, so that other interest income decreased on the whole. The costs for interest rate hedging contracts included in the net interest income, resulting from the strategic management policy increased by € 10m to € 29m (previous year: € 19m). In this way, the Stadtsparkasse Düsseldorf limits the interest rate risks and protects itself from the effects of possible rate increases.

Furthermore, the net interest income includes costs of € 18m and income of € 20m which result from so called "close out payments" from the termination of swaps. By closing these, the interest rate risk, on the one hand, and the credit risks from derivatives, on the other hand, are optimised with various partners within the scope of our risk strategy. As a result of the increase in the average balance sheet total and a decrease in surplus interest there was a reduction of the net interest income of 1.97 % (previous year: 2.23 %).

Despite the continuing fall in income from payment operations, the commissions surplus again improved by € 2m to € 68m. Commissions from customer security transactions and brokerage were mostly responsible for this result and were able to compensate the decrease in income from payment operations.

The net income from trading assets under item 7 of the Profit & Loss Account shows the result of costs and income from trading assets held by the Bank having made a deduction for risk from the actual cash value of the financial instruments used, in accordance with § 340e, section 3 of the HGB. This has been offset against an allocation to the reserves for general banking risks in accordance with § 340g of the HGB in the amount of € 19,000 in accordance with the regulations under § 340, section 4 of the HGB.

Operating income (item 8 of the Profit & Loss Account) increased by € 4m to € 19m. This increase was mostly due to interest income from tax refund claims from the previous years in an amount of € 4m.

Operating costs (item 12 of the Profit & Loss Account) increased by € 14m to € 27m. The reason for this lies mostly in a one-off apportionment for the RSGV in accordance with § 20, section 1, of the articles of the RSGV to cover the costs of the association. The share of the Bank amounted to € 8m. Furthermore, this item includes € 8m in interest costs for back taxes from the previous years.

Administrative costs (item 10 of the Profit & Loss Account) and depreciation on property, plant and equipment (item 11 of the Profit & Loss Account) rose by 5.0 % to € 217m (previous year: € 206m). The personnel expenses included in this item increased, as expected, by 3.8 % to € 133m. The highest increase occurred in retirement benefits. This item also includes the salary increase agreed under the tariff agreement.

The other administrative expenses amounted to € 78m. This increase is due to one-off apportionments for the RSGV to create a support fund and a reserve pool totalling € 4m, as well as an increase in the compulsory contribution to the RSGV of € 1m. Apart from this, the costs for technology increased by € 2m. These were counteracted by savings in the amount of € 5m for third-party services.

Depreciation on property, plant and equipment (item 11 of the Profit & Loss Account) increased slightly by € 1m in 2012.

Total income (items 1 to 9 of the Profit & Loss Account) worsened by € 21m to € 337m. At the same time, total expenditure increased by € 25m to € 244m. As a result, the cost-income ratio, as defined by the German Central Bank, increased in 2012 to 68 % (previous year: 61 %).

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 amount to € –48m (previous year: € +84m). In the previous year the value adjustments were influenced by the disbandment of reserves for general banking risks in accordance with § 340f HGB, at the same time adding an amount of € 136m to a special item for general banking risks in accordance with § 340g HGB. On account of a realignment of strategic policy and the ensuing intention to sell, two papers held in the assets portfolio were written off at lowest value.

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 in accordance with the strict lowest value principle.

In spite of the still tangible effects of 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, as expected, higher than in the previous year (€ –11m) at € +16m.

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

Sufficient provisions have been made for risks from shareholdings. Please refer to the corresponding details under “Investment portfolio”.

As in previous years, the Stadtsparkasse Düsseldorf has made further provisions to cover the risk of claims from an indirect obligation due to indirect participation in the “Erste Abwicklungsanstalt” in the amount of our share in the RSGV by way of a further allocation to the fund for general banking risks in accordance with § 340g HGB in the amount of € 5.6m.

Furthermore, € 18m were allocated to the contingency fund for general banking risks in accordance with § 340g from the profit for 2012 as an additional provision. In this manner, we have created provisions for special risks for business with financial institutions in the total amount of € 231.2m in accordance with § 340g HGB. This position includes € 23.8m for the “Erste Abwicklungsanstalt” and € 20.5m for additional risks from the participation in RSGV.

As a consequence of a decrease in the tax assessment basis taxes on income and capital gains (item 23 of the Profit & Loss Account) amounted to € 20m (previous year: € 43m). This also includes the fiscal effects from previous years.

The City Council of Düsseldorf decides on the application of the surplus for the year which amounted to € 1m (previous year: € 15m) 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

Within the scope of its business, the Stadtsparkasse Düsseldorf undertakes credit risks, market risks, liquidity risks, operational and other risks. These risks are managed through appropriate organisational measures and a structured risk management process.

A basic component of the risk management process is the concept for risk-bearing capacity. Compliance with the regulatory requirements stands to the fore. In order to sustain the safety of the Bank two different concepts are implemented. Under the periodical concept, the equity requirements of the supervisory authorities are implicitly upheld. The value-orientated concept applies to a fictitious liquidity scenario.

As per 31/12/2012 the value-orientated overall limit for the individual management of risks was set at € 692 m (previous year: € 694 m) at a confidence level of 99 %.

EFFECTS OF THE IMPENDING REQUIREMENTS UNDER BASEL III

The new Basel framework agreement (Basel III) focuses on more stringent requirements for the allowability of own resources, new minimum asset quotas and asset buffers. Extended asset requirements for credit risks and the recently introduced leverage ratio must also be observed.

In addition, for the first time quantitative minimum requirements for an efficient liquidity risk management will apply.

The procedures will come into force in 2013, although longer transition periods will be granted. Test calculations of the new Liquidity Coverage Ratio and the Leverage Ratio have been made. The coefficients can be achieved on the basis of the requirements disclosed to the present date.

Solvability coefficients in 2012:

Regulatory	8.0 %
Scheduled minimum quota	9.16 %
Actual value (group)	12.6 %

Furthermore, the forecasted commercial demand on the Bank in 2019 amounts to 11.8 % in 2019 and is well above the regulatory requirement of 10.5 % (without the anticyclical buffer).

STRESS SCENARIOS

The Stadtsparkasse Düsseldorf draws up stress tests with five stress scenarios on a quarterly basis. Essentially, global recession, dislocations on the financial markets (interest, liquidity) as well as potential influences on the loan portfolio are assessed. Furthermore, selective sensitivity stress tests are simulated, e. g. for interest rate risks and participations. Moreover, inverse stress tests on the risk levels interest, loan spreads, share and market prices and loans complete the overall assessment.

As part of the multi-year plan, a stress scenario is also drawn up with respect to the essential income components (periodic level) and as of 2012 the refinancing costs are examined in a risk or stress situation.

SAFEGUARDING METHODS

In order to shore off interest rate risks, interest swaps are implemented, alongside accounting instruments. The swap volume was reduced considerably from € 5.1 bn to € 3.5 bn.

Customer transactions in derivatives are shored up individually by appropriate counter-transactions (micro-hedges). The same procedure was followed for the individual investments from the liquidity reserves (own investments) (€ 0.8bn as of 31/12/2012). These are for the most part swaps and caps.

Foreign currency positions arising from customer transactions are closed by means of forward exchange transactions. The open foreign currency transactions in special trusts are not allowed to exceed € 40m (open positions: € 30.6m as of 31/12/2012).

The foreign currency position in USD within the private equity portfolio is widely covered by forward exchange transactions.

CREDIT RISKS

The Stadtsparkasse Düsseldorf understands by credit risks, on the one hand the danger that business partners fail to meet their contractual payment obligations on time or at all. The effect is reflected in the periodical observation of the valuation yield or in the direct markdown. On a value-orientated level, on the other hand, changes in credit ratings lead to a reduction in economic value. Credit risks are undertaken above all in lending business to customers. Apart from these, credit risks have to be also monitored in our own investment portfolio as well as in connection with participations and country risks.

The credit value at risk (confidence level 99 %, holding period one year) amounted to € 47m (previous year: € 62m) at the year end. Within the process of reviewing its concept for risk-bearing capacity, the Stadtsparkasse Düsseldorf will increase the confidence level for risk assessment to 99.9 % as of 2013.

The credit risks from lending operations and own investments are subject to a joint limit. In 2012 the credit risks fluctuated within the defined limits at all times. As from 2013 we will, in addition, monitor quantitative limits for bulk and sector concentration.

CREDIT RISKS ON LENDING BUSINESS

The total loan portfolio amounts to approx. € 11bn. The emphasis lies on lending business with corporate customers (approx. € 5.8bn) and retail customers (approx. € 4bn).

All recognised contingency risks have been adequately protected.

The total amount of provisions for contingent loan losses increased by almost 2.2 % to € 160m.

In addition, general provisions were made for latent doubtful debts on the basis of the defaults over the last five years in accordance with commercial law.

CREDIT RISKS ON OWN INVESTMENTS

Securities investments are made after weighing up the risk versus probable yield in an annual asset allocation analysis. The essence of our deliberations is, on the one hand, to invest in securities with good ratings (investment grade AAA to BBB–) and, on the other hand, to achieve diversification through externally managed public and special funds. The target is to attain a sustainable portfolio from a risk point of view. The asset allocation also comprises market risks as well as credit risks.

Investment in bonds and shares in the countries Spain, Ireland, Italy and Portugal amounted to approximately € 111m as per 31/12/2012 (previous year: € 120m). This item includes nominally two Spanish debentures, each with a value of € 40m, which are due in the middle of 2013 and at the beginning of 2014. The remaining investments (€ 31m, of which € 5.3m are shares) are in the form of unit trusts. These are mainly spread between Spain and Italy. At the present time, there are no particular recognisable risks. No investments were made in Greece. Defaults in own investments are not expected.

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 volume of participations at book value amounted to € 502.7m as per 31/12/2012 (previous year: € 506.0m). Due to changes in the classification of the participations it is not possible to compare this amount with the value for the previous year.

The yield-orientated participation portfolio is mainly determined by the private equity activities, the book value of which amounted to € 240.8m as per 31/12/2012 (previous year: € 235.8m). The strategic investments include compulsory participations and group-political participations with a total book value of € 213.6m as per 31/12/2012 (previous year: € 221.6m; due to changes in the classification of the participations it is not possible to compare this amount with the value for the previous year). € 11.5m were written off from the participation in the Landesbank Berlin Holding.

A risk classification system is also used for the participations. The key indicators are both quantitative and qualitative criteria.

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.

Own investments are made in both self-managed bonds and debentures as well as special and public funds.

The self-managed investments of the Stadtsparkasse Düsseldorf (excluding debentures) attained a volume (market value) of approx. € 3.5bn (previous year: approx. € 2.6bn, without participations respectively). The volume of debentures amounted to € 0.6bn as per 31/12/2012 (previous year: € 1.1bn). In the course of 2012 the debentures falling due were more frequently reinvested in bonds. Among other reasons, this was in preparation for compliance with the upcoming liquidity coefficient LCR.

99 % of the assets falling under the category of self-managed financial investments have investment grades of AAA to BBB– on a cost value basis (previous year: 99 %). These also include assets from a non-rated business development bank.

Financial investments in special funds show a market value of approx. € 482m as per 31/12/2012 (previous year: € 561m). This reduction in market value is essentially due to risk-reducing measures (sales / disbandment of funds).

The debenture portfolio of € 0.6bn exclusively comprises federal state instruments.

The market, spread and interest rate risks were on the decline on a twelve-month basis.

SPREAD RISKS

Spread risks are defined as potential losses that could result from a change in spreads.

Within the periodical risk assessment, the spread risk is incorporated into the market risk on a daily basis. The risk assessment divided the ratings into the classes “AAA”, “AA” and “BBB”. Under the value-orientated perspective the total risk is accumulated as opposed to the periodical perspective.

INTEREST RATE RISKS

Interest rate risks are defined as the risk of negative effects on income or asset values as a result of fluctuations in market interest levels.

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 31/12/2012 amounted to € –169.5m (+200 basis points). This corresponds to 16.7 % of the liable equity (previous year: +200 basis points; € –125.2m = 12.7 %) and lies below the threshold for notification to the supervisory authorities of 20 % (institutions with elevated interest rate risks). The Stadtsparkasse Düsseldorf, therefore, does not belong to the institutions with elevated interest rate risks as defined in the circular of the Federal Financial Supervisory Agency dated 9 November 2011.

CURRENCY RISKS

Currency risks are not considered an essential risk with respect to the primary items of the Bank. On a subgroup level, they exist foremost because of investments in private equity funds on a foreign exchange basis (viz. also the details under “Shareholder risks”). With our currency risk management investments in USD are protected by revolving hedges in forward foreign exchange contracts.

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

LIQUIDITY RISKS

Within the liquidity risks we differentiate between the risk of insolvency, the refinancing risks and the market liquidisation risk.

The liquidity risks are accounted for within the scope of the risk-bearing capacity and set off against limits under the interest rate risks.

The bank monitors the liquidity coefficient of the Federal Financial Supervisory Agency and subjects it to various stress tests. In the course of 2012 this coefficient fluctuated between 1.48 and 3.08 and thus lay continually well above the prescribed threshold of 1.00.

The liquidity situation of the Stadtsparkasse Düsseldorf is adequate.

PROPERTY RISKS

Property risks are not considered to be essential risks. The property ownership of the Bank is basically limited to the main office building in Düsseldorf. Any possible operative risks are covered by the building insurance.

For this reason no risk assessment is made. Consequently, we dispense with creating any hidden reserves in property as risk covering potential.

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.

Within the value-orientated concept for risk-bearing capacity, risk covering potential is reserved in the amount of the basic indicator in accordance with the Ordinance on Solvability. Under the periodical monitoring system the risk is accounted for by a buffer.

The value-orientated limit is set at € 54m, as in the previous year, in accordance with the provisions of § 270 of the Ordinance on Solvability (basic indicator approach).

OTHER RISKS

All risks which cannot be clearly attributed to the liquidity risks, the market risks, the credit risks or the operational risks are classed as other risks. These are characteristically strategic risks.

In order to counteract strategic risks, the basis of the business model is examined within the annual planning procedure and the necessary strategic impulses are generated.

OVERALL RISK SITUATION

Within the scope of the economic risk-bearing capacity, the Bank has at its disposal a total limit per 31/12/2012 of € 692m, or 55 % of the risk covering potential (confidence level 99 %). The total limit was only used to approx. 63 % in consideration of the actual sum of the separate risks as per 31/12/2012. From the periodical point of view as per 31/12/2012, approximately 79 % of the risk covering potential was used for limits. The utilisation of the limits as per 31/12/2012 reached approximately 64 %.

With regard to 2013 the risk-bearing capacity is secured and is foreseen in the planning for the following years.

Credit risks belong to the core business of the Stadtsparkasse Düsseldorf. The quality of the portfolio has continued to improve from 1.3 % to 1.1 % with respect to the volume-weighted average probability of default (excluding financial institutions, local authorities and own investments). The value-orientated limit was used to approximately 67 % as per 31/12/2012 and the periodical to 79 %.

All recognised default risks in lending business were sufficiently protected.

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. The share in the Landesbank Berlin Holding was revalued in 2012 to € 11.5m.

Almost 70 % of the value-orientated global limit is available for market risks (including spread and interest rate risks). Under the periodical aspect, almost 44 % of the risk covering potential is allocated to the interest margin risk and the valuation yield for securities. Markets are expected to remain volatile in 2013.

On the basis of the refinancing strategy and the scenario calculations the liquidity situation is still deemed solid.

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 Bank, therefore, manages its risks in a manner that corresponds to the range, the complexity and the risk content of its business.

OUTLOOK

The outlook is based on the relevant publications of the German Central Bank, the Federal Government, the German Savings Banks Organisation, the RSGV and the German economic research institutions.
In addition we have taken into consideration the most recent economic reports of the regional Chamber

of Industry and Commerce, the Chamber of Crafts in Düsseldorf as well as the body of entrepreneurs in Düsseldorf.

The Stadtsparkasse Düsseldorf expects a tendencially slight increase in interest levels over the whole spectrum of terms on account of the continuing historically low interest levels.

In retail and corporate business we see possibilities of expanding lending business. In the case of savings deposits and securities we expect on the whole rather a stagnation or even a slight reduction in the development of business. The Management Board expects, furthermore, appreciable income contributions from treasury and asset management operations and a considerable improvement from the participations sector.

The outlined development could be subject to drastic corrections if various risks pose a serious threat to the general macro-economic situation. In particular, the Management Board is of the opinion that the European debt crisis poses a potential risk which should not be underestimated, and could have negative effects on the economic situation in Germany. This could result in a considerably negative effect on the growth perspectives for the real economy and the German economy could fall into recession. The consequences would be a considerably lower business expansion than planned and an increase in pressure on the results as a result of significantly higher credit risk provisions.

Risks could also arise as a result of sharp increases in interest levels. This could cause the interest surplus to fall and have a negative effect on the valuation yield from securities.

A recession or a sharp increase in interest levels would also have a negative effect on the results from participations. In this connection, the Management Board points out that the Stadtsparkasse Düsseldorf will have to take balance sheet precautions in 2013 and the following years for the "Erste Abwicklungsanstalt" (EAA) of the WestLB AG (viz. "Investment portfolio").

The Stadtsparkasse Düsseldorf expects a continuing increase in gross income in 2013 and the following years. These will result foremost from an increase in distribution discharges from the SKBG.

On account of the interest levels, the Management Board hardly sees any possibility of increasing the interest surplus through income from term transformations in 2013 or the following years.

The surplus from commissions will continue to increase in the next year. Increases in commissions from customer security business and products for retirement provisions are expected.

In the opinion of the Management Board, administrative costs will show a moderate increase in 2013 and the following years. Material expenditure will fall in 2013 by comparison to 2012, due to the expected discontinuation of the special compulsory contribution to the RSGV. In the coming years these costs will then increase at a moderate pace.

Risk provisions for lending business in 2012 was higher than in the two previous years. The Management Board expects a fall in value adjustments for loan operations in the coming years on account of the mentioned stronger risk diversification under the new risk strategy.

Value adjustments on securities should provide positive income contributions in 2013 and the following years. In the case of participations, the Management Board fundamentally expects only minor value adjustments. The danger of necessary future risk provisions for participations of the group, upon whose business the Stadtsparkasse Düsseldorf has no direct influence, is, however, still amenable.

The Management Board expects a profit before tax in excess of the previous year for 2013 and the following years and that this will continue to increase. 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 Stadtsparkasse 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, 19 April 2013
The Management Board

Summary of the Bank's Performance

	EUR in thousands as at 31/12/2012
Balance Sheet Total	12,531,453
Volume of Business	12,755,563
Assets	
Cash and Banks	343,888
Investments	3,837,382
Loans & Discounts	8,257,570
Other Assets	92,613
Liabilities	
Deposits	11,281,083
Other Liabilities	182,303
Subordinated Liabilities	112,511
Funds for general banking risks	231,209
Capital	723,798
Profit	549

Profit & Loss Account

	EUR in thousands for the year from 01/01/2012 to 31/12/2012
Expenses	
Interest and Commissions Paid	195,814
Staff Costs	132,796
Other Operating Costs	77,676
Depreciation	54,127
Taxes	20,472
Other Expenses	51,240
Profit for the year	549
Receipts	
Interest and Comm. Receiv.	513,141
Other Receipts	19,533

Universal banking business
in Germany and abroad
Correspondent banks in Europe and overseas

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