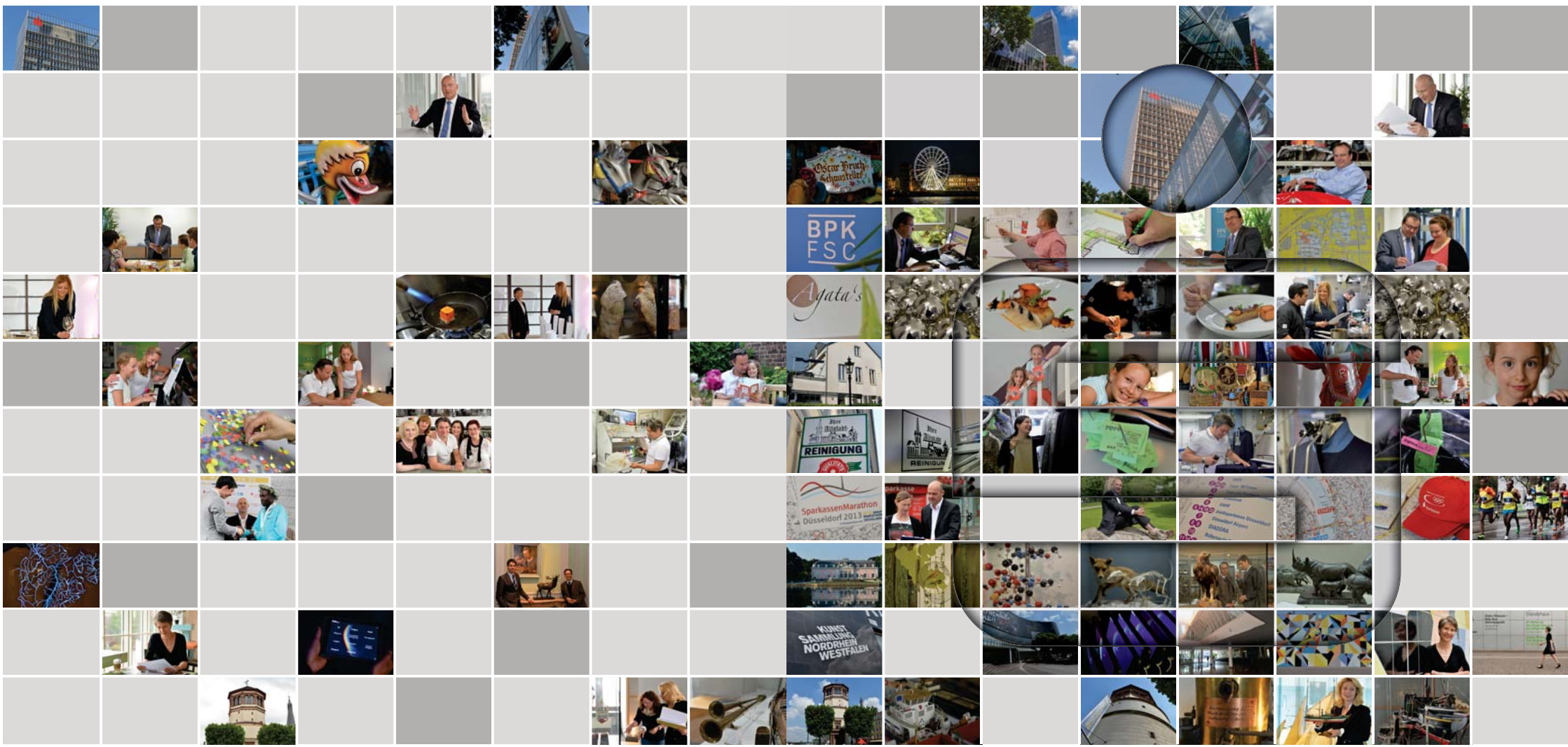


Performance Report 2013



Performance Report 2013 of the Stadtparkasse Düsseldorf

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

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The general economic trend

In 2013 the German economy was able to assert itself against a difficult international environment. The Gross Domestic Product showed an increase of 0.4 % (previous year: 0.7 %). As a result, total economic production again slowed by comparison to the previous year. After a period of stagnation in the first quarter, the economic performance picked up by 0.7 % in the second quarter. In the following quarters, however, the increase in Gross Domestic Product turned out weaker again at 0.3 % and 0.4 % respectively.

The main contributions to growth came from domestic demand. Private consumer expenditure increased as a result of rising income levels and a slight reduction in taxes. Furthermore, housing construction made a positive contribution to growth.

Developments in business at the Stadtparkasse Düsseldorf

The Stadtparkasse Düsseldorf looks back at a very satisfying year of business in 2013. This development was based on the solid growth in business with our retail and corporate customers.

Business in 2013 has again shown that the Stadtparkasse Düsseldorf has a solid and sustainable business concept.

The balance sheet total decreased by € 731m or 5.8 % to € 11,800m. The reason for this was a reduction in the own investments and a slight decrease in the loan portfolio.

Lending operations



The lending portfolio decreased by 1.2 % or € 102m in 2013 to € 8,208m. Among other reasons, this was a result of a considerable fall in the amount of syndicated loans and bonded loans in the corporate customer segment.

New lending business reflected the following trends in 2013:

Lending business to corporate customers turned out much weaker than in 2012. The volume of loan approvals fell by 35.4 % or € 374m to € 684m. The moderate economic trends restrained many businesses from realising larger investment projects. In view of this, the demand for loans turned out to be weak, contrary to our expectations. A further aspect is the implementation of measures to reduce risks as part of our business and risk strategy.

Demand for loans on the part of our private customers in the year under review was again lower than the level of the previous year (- 4.3 %). The total amount of new loan approvals amounted to € 547m (previous year: € 572m). At the peak was the allocation of housing loans. Approximately € 356m were disbursed in this segment (previous year: € 425m).

Investment portfolio

The Stadtparkasse Düsseldorf holds both yield orientated and strategic investments either directly or through the  Kapitalbeteiligungsgesellschaft Düsseldorf mbH ( KBG).

These also comprise participations which are held for business or group-

political reasons. These investments are mostly of a public-sector nature.

In 2013 the value of the participations and shares in associated companies fell on the whole by € 26.6m to € 476.2m. The subsidiary company **SKGB** paid out assets in the amount of € 8.9m to the Bank; at the same time, Equity Partners GmbH (EP) reduced its capital reserves by € 10.5m which were transferred to **SKGB**. EP supervises and manages the private equity portfolio of the Sparkasse Düsseldorf.

The book value of **SKGB** decreased from € 287.4m to € 278.5m.

The Bank was again forced to make a further value adjustment to its subordinate participation in the limited liability capital of the DSGV ö. K. (Deutscher Sparkassen- und Giroverband) invested in the „Erwerbsgesellschaft der **SK**-Finanzgruppe mbH & Co. KG“. The Erwerbsgesellschaft holds 100 % of the shares of the Landesbank Berlin Holding AG (LBBH) either directly or indirectly. The Landesbank Berlin-Group is in the middle of a profound reconstruction and transformation process with which they will be involved for a long period of time, tying up management capacities to a considerable extent. In view of the persistent low interest level, the management board of the bank has again significantly marked down its forecast for the interest surplus and assumes that the bank will not be able to distribute a dividend for the next three years. In view of this, the Sparkasse Düsseldorf reduced the book value of its share from € 19.9m to € 3.5m by means of a write-down in the amount of € 16.4m (write-

down in the previous year: € 11.5m). At the same time, provisions were made in the amount of € 5.1m as reimbursement of expenses for the obligations towards the DSGV ö. K. resulting from the subordinate participation contract which will presumably span several years.

In the course of the realignment of the shareholder structure at the RW Holding AG, the Bank has transferred its shares in the RW Holding to the RW Gesellschaft für Anteilsbesitz III mbH through which it will indirectly participate in the RW Holding AG in the future. The valuation of the transferred shares was made at the current market value and resulted in a loss based on commercial law of € 0.1m. This measure and the valuation of the share in the RW Gesellschaft für Anteilsbesitz III mbH led to a depreciation of € 1.5m to a book value of € 9.1m (book value of RW Holding AG per 31/12/2012: € 10.7m) based on the market value of the RWE shares directly accredited to the Sparkasse Düsseldorf as per 31/12/2013.

In connection with a change in the articles of association of the participation in Corpus Sireo Holding GmbH & Co. KG, historical costs in the amount of € 0.2m were incurred, thereby increasing the book value of the participation from € 37.6m to € 37.8m.

Another important investment is the participation in the Rheinischer Sparkassen- und Giroverband ö. K. – RSGV – (book value unchanged at € 138.9m). The RSGV is a shareholder of Provinzial Rheinland (insurance), the DekaBank and the Landesbausparkasse LBS West as

well as the Helaba and the „Erste Abwicklungsanstalt“ (EAA), i. a.

The former shareholders of the Portigon AG, formerly WestLB AG (i. a. the state of Northrhine-Westphalia – Land NRW – with approx. 48.2 % and the Rheinischer Sparkassen- und Giroverband – RSGV – and the Sparkassenverband Westfalen-Lippe – SVWL – each 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. Alongside the other participants, the RSGV and the SVWL are also 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 each, corresponding to their shares (each approx. 25.03 %). In as much as the proportional loss of the Savings Banks Associations exceeds the total maximum amount of € 4.5bn, the FMSA and the state of NRW will assume responsibility for compensating the loss. 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 2013.

In view of the probably lengthy winding-up period, there is always the risk that claims will be made against the RSGV. If this happens, the Bank will be subject to claims 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 € 29.6m 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 2013. 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. There is no such necessity in 2013.

Deposit-taking

In 2013 total customer deposits increased by € 261m or 3.3 % to € 8,149m (previous year: € 7,888m). The increase in term deposits was particularly strong at 18.8 % to reach € 454m. As per year-end, bonds, debentures and savings certificates amounted to € 324m, € 39m more than in 2012. Subordinate liabilities increased by € 63m or 55.8 % to € 176m.

Business with associated partners

Insurance business with our associated partners was very satisfactory in 2013. Our customers took out almost 13,000 new policies in the most varied classes of business. The gross income generated from this field increased by 8 % to € 9.2m.

There was also a strong demand for building society savings. Our customers entered 6,058 building loan agreements in the last year, that is approx. 1,400 more than in the previous year.

Securities Business

Securities transactions turned out unexpectedly weaker than 2012 in the year under review. Total turnover fell by € 221m or 10.6 % to € 1,873m. Investments in fixed-interest securities registered a decrease in turnover of 23.9 %. On the other hand, stock investments showed a pleasing increase. In this sector, turnover increased by 30.7 % from € 345m to € 451m.

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 € 2,867m (previous year: € 3,455m).

Staff

As per 31 December 2013 the Stadtsparkasse Düsseldorf employed a total of 2,321 staff (previous year: 2,305), of which 1,614 worked on a full-time basis (previous year: 1,599) and 554 on a part-time basis (previous year: 549).

The number of trainees remained, with 153, at the same high level of the previous year (157).

Earnings position

In an environment of moderate economic development, persistent low interest levels and exacerbated regulatory requirements, the Stadtsparkasse Düsseldorf was able to achieve a good result in 2013.

In order to avoid anomalies with the circumstances on the reporting date, the following figures refer to the average balance sheet total, which decreased by 4 % with respect to the previous year.

Net interest income including regular income (item 3 of the Profit & Loss Account) decreased on a whole by 1.9 % to € 245m (previous year: € 250m) and still remains the most important source of income of the Bank. This item also includes interest expenses for other accounting

periods for particular bonus savings contracts in an amount of € 18m, as well as regular income from shares in associated companies in the amount of € 14m.

The continuing low interest level had a major impact on other interest income in several respects during the year under review. On the one hand, the margin pressure in investment business remained. On the other hand, there was the latent risk of rising interest levels. Under these circumstances, it was possible to achieve profit contributions from term transformations, in view of the steeper interest curve by comparison to the previous year. The Stadtsparkasse Düsseldorf only made limited use of this possibility due to the amount of risk involved.

Other interest income (the sum of items 1 and 2 of the Profit & Loss Account) fell by a total of € 20m. Both interest income (€ - 50m) and interest expenses (€ - 30m) were on the recede. At the same time, regular income from shares and other non-fixed interest bearing securities decreased by € 2m. The increase in regular income from participations of € 3m and the regular income from shares in associated companies of € 14m were not sufficient to fully compensate the reduction in other interest income.

The costs for interest rate hedging contracts included in the net interest income, resulting from the strategic management policy decreased by € 4m to € 25m (previous year: € 29m). In this way, the Stadtsparkasse Düsseldorf limits the interest rate risks and protects itself against the effects of possible rate increases.

Furthermore, the net interest income includes costs of € 7m and income of € 6m which result from so called "close out payments" from the termination of swaps. By closing these, the interest rate risk and the credit risks from derivatives have been further optimised with various partners within the scope of our risk strategy.

Despite the fall in surplus interest, this resulted in an improvement of the ratio to 2.02 % (previous year: 1.97 %), as the average balance sheet total also decreased.

The commissions surplus (sum of items 5 and 6 of the Profit & Loss Account) increased as expected by € 2m to € 70m. Commissions from customer security transactions and brokerage were mostly responsible for this result.

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 € 7,000 in accordance with the regulations under § 340e, section 4 of the HGB.

Operating income (item 8 of the Profit & Loss Account) increased by € 1m to € 20m. This item includes income of € 7m from the disbandment of reserves (previous year: € 6m).

Operating costs (item 12 of the Profit & Loss Account) decreased by € 7m to € 20m. The reason for this decrease arises essentially from a one-off apportionment for the RSGV in the previous year in accordance with § 20, section 1, of the articles of the RSGV in the amount of € 8m. Furthermore, this item includes reserves of € 5m for compensation claims for costs incurred by the DSGVO ö. K. with respect to the sub-participation agreement in the „Erwerbsgesellschaft der Finanzgruppe mbH & Co. KG“ arising from the share in the Landesbank Berlin Holding AG (LBBH). At this point, reference is made to the details under “Investment portfolio”.

Administrative costs (item 10 of the Profit & Loss Account) and depreciation on property, plant and equipment (item 11 of the Profit & Loss Account) fell by 0.6 % to € 215m (previous year: € 217m).

The personnel expenses included in this item increased, as expected, by 5.4 % to € 140m. The increase is a result of the tariff increase and the costs for the payment of a performance-related bonus.

The increase in personnel expenses was overcompensated by the other administrative expenses of € 68m (previous year: € 78m) due to the careful planning of budgets and material costs, so that the sum of all other administrative expenses decreased, contrary to our prognosis. The decrease is mainly accounted for by the one-off apportionments for the RSGV of the previous year to create a support fund and a reserve pool totalling € 4m. Moreover, savings were achieved in third-party services

(€ 2m), external IT costs (€ 1m) and compulsory contributions (€ 1m).

Depreciation on property, plant and equipment (item 11 of the Profit & Loss Account) increased by € 1m in 2013.

Total income (items 1 to 9 of the Profit & Loss Account) decreased by € 2m to € 335m. At the same time, total expenditure also decreased by € 9m to € 235m, so that the cost-income ratio, as defined by the German Central Bank, improved to 66 % in 2013 (previous year: 68 %).

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 € - 18m (previous year: € - 48m).

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.

Along the lines of our prognoses of the previous year, the sum of alignments and depreciation and price gains and price losses of the securities held as liquidity reserves made a positive contribution to the results in the amount of € 10m (previous year: € 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. In the

year under review, the risk costs were well below the predicted value and amounted to € 11m (previous year: € 56m).

Sufficient provisions have been made for risks from shareholdings (viz. also “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 its 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 € 6m. Furthermore, € 44m were allocated to the contingency fund for general banking risks in accordance with § 340g HGB from the profit for 2013 as an additional provision. In total, we have created provisions for special risks for business with financial institutions in the amount of € 281m in accordance with § 340g HGB. This position includes € 30m for the “Erste Abwicklungsanstalt” and € 18m (previous year: € 20.5m) for additional risks from the participation in RSGV.

As a consequence of the improved results, by comparison with the previous year, taxes on income and capital gains (item 23 of the Profit & Loss Account) increased to € 30m (previous year: € 20m). This also includes the fiscal effects from previous years. Claims to tax reimbursements as a result of the so-called STEKO ruling have not yet been sufficiently substantiated and are, therefore, not included in these figures.

The City Council of Düsseldorf decides on the application of the surplus for the year which amounted to € 2m (previous year: € 1m) 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.

Financial situation

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 31/12/2013 the value was 2.94. In the course of the year, the utilisation fluctuated within a bandwidth between 2.03 and 3.55 and lies well above the prescribed minimum value of 1.00. The additional observation coefficients established over a period of 12 months also showed a stable liquidity position (viz. also 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.

Equity situation

As per 31/12/2013, the reserves of the Stadtsparkasse Düsseldorf amounted to € 724m.

In addition, there was an allocation of a total of € 50m to the reserves for general banking risks in accordance with § 340g HGB, of which € 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 (SolV) comprising counterparty, market and operational risks, was calculated at 13.8 % (previous year: 12.5 %) and lies well above the required minimum value of 8 %. This increase is mostly the result of the emission of subordinated bonds which were issued in preparation of the effect of the new equity requirements under Basel III which apply as of 2014 as well as in view of the favourable interest environment. The equity requirements were upheld at all times in 2013.

In the course of the year the utilisation ratio fluctuated between 12.3% and 13.8 %. The core-capital quota amounted to 12.0 % (previous year: 11.3 %) as at 31/12/2013. A solid capital basis is, therefore, available to provide liquidity and loans to regional businesses at an unchanged level.

The reduction in the balance sheet total for 2013 of € 731m is the result of the consequential implementation of a modified risk strategy and the gradual reduction of refinancing instruments (viz. also "Lending operations").

On the assets side of the balance sheet there were only slight changes compared with the previous year.

The most important item continued to be receivables from customers at 68 % (previous year: 65 %). Own investments (bonds, stocks and other non-fixed interest items) fell to 23 % (previous year: 27 %) due to maturity dates and divestments.

On the liabilities side, liabilities towards customers at 68 % (previous year: 62 %) constituted the main feature. As a result of less need for refinancing and the increase in liabilities towards customers, we were able to reduce the contingent of liabilities towards financial institutions to 13 % (previous year: 16 %). The balance sheet portion of securitised debt decreased to 8 % (previous year: 12 %) primarily through due maturities.

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. Sustained compliance with the regulatory requirements stands to the fore. In order to ensure 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 31/12/2013 the value-orientated overall limit for the individual management of risks was set at € 1,023m at a confidence level of 99.9 % (previous year: € 692m at a confidence level of 99.0 %).

Effects of the impending requirements of CRR/CRD IV

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 come into force in 2014, although longer transition periods are allowed. 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.

In order to meet the higher equity requirements in accordance with CRR/CRD IV, the capital requirements (minimum quotas for equity/solvability) will be increased each year in the course of internal planning.

The minimum capital requirement to maintain operations will be observed in 2013 and the following years with a probability rising from 96 % to 99 %. The minimum requirement in 2019 is 11.8 % and lies well above the regulatory quota of 10.5 %. In order to satisfy the requirements of

Basel III, an increase of 3.8 % for the capital maintenance buffer as well as further possible regulatory requirements (e. g. a buffer for system risks) will be taken into account.

The solvability coefficient as per 31/12/2013 amounted to 13.6 % on a corporate level. The minimum quota according to planning lies at 9.53 %.

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. In addition, in 2013 a special analysis was made (scenario: Euro-land crisis) due to recent occurrences.

As part of the multi-year plan, a stress scenario is also drawn up with respect to the essential income components (periodic level). In addition, the sensitivity to the quantification of adverse developments was calculated.

The refinancing costs were once again examined in a risk or stress situation.

Safeguarding methods

In order to shore off interest rate risk, interest swaps are implemented, alongside accounting instruments. The swap volume increased from € 3.5bn to € 4.4bn.

Customer transactions in derivatives are shored up individually by appropriate counter-transactions (micro-hedges). These are for the most part swaps and caps. The same procedure was followed for the individual investments from the liquidity reserves (own investments - € 0.7bn as of 31/12/2013).

Foreign currency positions arising from customer transactions are mainly closed by means of forward exchange transactions. The open foreign currency transactions in special trusts are not allowed to exceed € 40m (open positions: € 5.3m as at 31/12/2013 – previous year: € 30.6m). The limit was reduced to € 20m for 2014.

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 99.9 %, holding period one year)

amounted to € 100m including a risk buffer of € 20m (previous year: € 47m at 99 %). Within the process of reviewing its concept for risk-bearing capacity, the Stadtsparkasse Düsseldorf has increased the confidence level for risk assessment from 99 % to 99.9 % in 2013.

At the end of the year, the periodic risk amounted to € 86.3m at a confidence level of 96 %, including a risk buffer of € 14.1m (previous year: € 72.2m at 95 %). Within the process of reviewing the concept for risk-bearing capacity in 2013, the confidence level on a periodic basis was increased from 95 % to 96 %.

The credit risks from lending operations and own investments are subject to a joint limit. In 2013, in addition, quantitative limits for bulk and sector concentration were also monitored. The credit risks fluctuated within the defined limits at all times during 2013.

Credit risks on lending business

The total loan portfolio amounts to approx. € 10.6bn. The emphasis lies on lending business with corporate customers (approx. € 5.5bn) and retail customers (approx. € 3.9bn).

The total amount of provisions for contingent loan losses decreased by 21 % to € 127m.

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.

All recognised contingency risks have been adequately protected.

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 comprises both market risks as well as credit risks.

Investment in bonds and shares in the countries Spain, Ireland, Italy and Portugal amounted to approx. € 70m as at 31/12/2013 (previous year: € 111m). This item includes € 39.5m (nominal volume) for one Spanish debenture which is due to mature at the beginning of 2014. The remaining investments (€ 30.9m, of which € 7.0m 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 € 476.2m as per 31/12/2013 (previous year: € 502.7m). The change over the previous year is, in particular, a result of having written off € 16.4m on the subordinate

participation in the „Erwerbsgesellschaft der Landesbank Berlin“.

The yield-orientated participation portfolio is mainly determined by the private equity activities, the book value of which amounted to € 230.3m as per 31/12/2013 (previous year: € 240.8m).

The strategic investments include compulsory participations and group-political participations with a total book value of € 198.9m as per 31/12/2013 (previous year: € 213.6m). € 16.4m were written off from the subordinate participation in the „Erwerbsgesellschaft der Landesbank Berlin“. The major portion of the strategic investments pertains to the participation in the RSGV with a book value of € 138.9m.

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

The defined limits for shareholder risks were not exceeded in 2013.

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 Stadtparkasse Düsseldorf (excluding debentures) attained a volume (market value) of approx. € 2.9bn (previous year: approx. € 3.5bn, without participations respectively). The volume of debentures amounted to € 0.6bn as at 31/12/2013 (previous year: € 0.6bn). In the course of 2013 the debentures falling due were generally not reinvested. This was mostly due to preparations for the refinancing instruments with public guarantees which will fall due in 2014 and 2015.

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

Financial investments in special funds show a market value of approx. € 404m (previous year: € 482m). This reduction in market value is due to risk-reducing measures (disbandment of funds).

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

The increase in the value-orientated market risk in the course of the second half of the year is accounted for by characteristics of the method of measuring risk on the basis of a revolving 500 day data history as well as the disbandment of hedging futures in the case of the share mandates. These system-induced effects have been acted upon in the scope of the yearly system check and will be eliminated as of 2014.

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", "A" and "BBB". Spread risks are also assessed under a value-orientated perspective. Contrary to the periodic review, the total risk is accumulated. Diversification effects between the individual rating classes are not taken into consideration.

The reduction in the value-orientated spread risk is due to characteristic effects of the system when assessing risk on the basis of a revolving 500 day data history as well as a reduction in the liquidity reserves (viz. under "Market risks"). These system-induced effects have been acted upon in the scope of the yearly system check and will be eliminated as of 2014.

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 31/12/2013 amounted to € - 130.6m at + 200 basis points. This corresponds to 12.5 % of the liable equity (previous year: + 200 basis points, € - 169.5m = 16.7 %) and lies below the threshold for notification to the supervisory authorities of 20 % (institutions with elevated interest rate risks). The Stadtparkasse 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.

In order to shore off market risks, interest swaps are implemented, alongside accounting instruments to manage interest rate risks in the non-trading portfolio. The swap volume increased from € 3.5bn to € 4.4bn in 2013.

Customer transactions in derivatives are shored up individually by appropriate counter-transactions (micro-hedges). These are for the most part swaps and caps.

Currency risks

Currency risks exist on a subgroup level, 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. In the case of the master funds, on principle only USD and Yen are hedged. Peak amounts and

non-hedged positions are limited to a countervalue of € 40m (€ 20m as of 2014).

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 (viz. details under "Interest rate risks").

Furthermore, the liquidity coefficient of the Federal Financial Supervisory Agency is monitored and subjected to various stress tests. In the course of 2013, this coefficient fluctuated between 2.03 and 3.55 and thus lay continually well above the prescribed threshold of 1.00.

As was already the case in the previous year, the liquidity situation of the Stadtparkasse Düsseldorf is adequately positioned.

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 covered by the limit for general risks.

The value-orientated limit, including a buffer, is set at € 107m (previous year: € 54m without buffer) 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 as per 31/12/2013 of € 1,023m, approx. 86 % of the risk covering potential (confidence level 99.9 %). The total limit was only used

to approx. 77 % in consideration of the actual sum of the separate risks as per 31/12/2013. From the periodical point of view as per 31/12/2013, approx.

75 % of the risk covering potential was used for limits. The utilisation of the limits as per 31/12/2013 reached approximately 72 %.

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 1.08 % to 1.02 % 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 74 % as per 31/12/2013 and the periodical to 75 %. 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 RSGV from its indirect obligation in connection with the former WestLB. The subordinated share in the „Erwerbsgesellschaft der Landesbank Berlin“ was revalued in 2013 at € 16.4m. The value-orientated limit was used to approx. 78 % as per 31/12/2013 and the periodical limit to approx. 76 %.

Almost 56 % of the value-orientated global limit is available for market risks (including spread and interest rate risks). Under the periodical aspect, almost 40 % of the allocated limits are available for the interest

margin risks and the valuation yield for securities. Markets are expected to remain volatile in 2014.

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

With a liquidity coefficient on 31/12/2013 of 2.94 (LiqV), the liquidity situation can be considered as good.

In the case of operational risks, we presume that the risk is covered by the value-orientated limit, on the basis of current losses and in view of the implemented rules and standards.

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 Yearly Economic Report of the German Government, the DSGV and 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.

General economic conditions

For 2014, the Stadtsparkasse Düsseldorf expects that the market and competition situation will be characterised by a historically low level of interest and extensive regulation.

The outlined development could be subject to drastic corrections if various risks become a serious threat to the general macro-economic situation. Early in 2014, the European Central Bank began to scrutinise the balance sheets of the banks and subject them to stress tests. If the stress tests question the ability of individual banks in Europe to survive, then there is a danger of a domino effect, as there is not yet any kind of functioning banking union in place. Then there would be the danger that Europe's sovereign debt crisis might return. The Management Board is of the opinion that this poses a potential risk which should not be underestimated, and could have negative effects on the economic situation in Germany.

Furthermore, there are certain risks for the world economy resulting from the withdrawal of money from the emerging economies and a cooling down in growth of the Chinese economy. This could result in an extensive negative effect on the growth perspectives for the real economy and the German economy could weaken. The consequences for the Bank 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 Stadtparkasse Düsseldorf will have to take balance sheet precautions in 2014 for the "Erste Abwicklungsanstalt" (EAA) of the former WestLB AG (viz. "Investment portfolio").

An overall better economic development than expected would be seen as an essential advantage. This would lead to a stronger demand for loans and an increase in the interest surplus.

Earnings position

The Stadtparkasse Düsseldorf expects a slight increase in gross income in 2014.

The operating result before depreciation is mainly influenced by the interest surplus. The trend of the interest surplus is influenced by the interest trend and the interest structure. The Stadtparkasse Düsseldorf anticipates that the European Central Bank will adhere to its hitherto low interest policy in 2014. In view of the expected continuing low interest level, the Management Board foresees no significant change in interest income.

There are opportunities to generate interest from term transformations if there is an increase in the yield curve. On the other hand, if the yield curve flattens out further, that will have negative effects on the interest surplus.

In the case of surplus from commissions, the Management Board anticipates a considerable rise in the

coming year. Increases in commissions from customer security business, services operations and products for retirement provision are particularly expected.

In the opinion of the Management Board, personnel costs will show a moderate increase in 2014 on account of a rise in salaries, i. a. After a reduction in the preceding year, operating expenditure will again increase due to higher costs for banking operations and project administration.

Risk provisions for lending business in 2013 were significantly lower than in the foregoing years. For 2014, the Management Board expects value adjustments along the lines of the average value of the last two years.

Value adjustments on securities should provide positive, yet much lower income contributions than in the previous year. This is mainly accounted for in the fact that the value adjustments have been made up for in the course of the financial market crisis and further noteworthy rate gains are not expected.

The Management Board does expect a noticeable improvement in the value adjustments on participations. Over the past years, there have been serious corrections to the value of participations in the savings banks network upon which the Stadtparkasse Düsseldorf can exercise no direct influence. In future, we expect lower value adjustments on the value of the participations.

The profit before tax in 2013 was one of the highest results that the

Stadtparkasse Düsseldorf has ever achieved. The Management Board expects a profit before tax in 2014 which is well below the result for the previous year. At the present time, it is not possible to quantify the effect on the results of the new liquidity coefficients under Basel III.

The Management Board considers the equity, financial and earnings positions of the Bank will continue to remain positive, as long as the above mentioned risks do not materialise in a serious way.

Düsseldorf, 28 March 2014

The Management Board

Summary of the Bank's Performance

	EUR in thousands
	as at 31/12/2013
Balance Sheet Total	11,800,466
Volume of Business	12,040,166
Assets	
Cash and Banks	393,383
Investments	3,233,839
Loans & Discounts	8,058,154
Other Assets	115,090
Liabilities	
Deposits	10,434,885
Other Liabilities	182,239
Subordinated Liabilities	176,461
Funds for general bank risks	281,064
Capital	723,797
Profit	2,020

Profit & Loss Account

	EUR in thousands
	for the year
	from 01/01/2013
	to 31/12/2013
Expenses	
Interest and Commissions Paid	165,413
Staff Costs	139,929
Other Operating Costs	67,975
Depreciation	25,385
Taxes	30,076
Other Expenses	69,646
Profit for the year	500,444
Receipts	
Interest and Comm. Receiv.	480,046
Other Receipts	20,398