



Stadtparkasse
Düsseldorf

Performance Report 2010
of the Stadtparkasse
Düsseldorf



The general economic trend in 2010

Contrary to the prognoses of the big economic research institutes, the German economy showed dynamic growth in 2010. In accordance with the initial estimate of the German Department for Statistics the real Gross Domestic Product increased by 3.6 %. This is the highest rate of growth since the German reunification. Export trading and investments, which were most negatively affected in the recession of 2008 / 2009, were the mainstays for the current economic upswing. The general price index increased moderately to start with, despite the increase in economic activities. In the course of the year, however, rising energy and food prices drove consumer prices up. On a yearly average consumer prices were 1.1 % above the value for the previous year.

Developments in business at the Stadtparkasse Düsseldorf

The Stadtparkasse Düsseldorf looks back at a satisfying year of business in 2010. Favoured by a steep yield curve and a considerable fall in the need to make risk provisions by comparison to the two previous years, our Bank achieved good results on a solid footing.

The business strategy that has been pursued since 2008 was again affirmed by the Supervisory Board in 2010. In particular, 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 of the Stadtparkasse Düsseldorf remained almost unchanged in the year under review by comparison with the previous year. It amounted to € 11,678m at the end of the year; a slight fall of € 30m or 0.3 %.

Lending operations

Lending operations fell slightly in 2010. As per 31/12/2010 lendings amounted to € 8,500m, a fall of € 106m or 1.2 %.

Lending operations showed two contrary trends in 2010: lending business to our private customers increased considerably. There was a particularly strong demand for housing loans. In total, loan approvals in the private customer sector rose to € 624.6m, i. e. an increase of € 122.5m by comparison to 2009. The volume of loans to private customers amounted to € 3,653.9m at the end of 2010 (previous year: € 3,597.2m).

New lending business to corporate customers declined distinctively. By comparison to 2009, loan approvals amounted to € 678.8m, which is a fall of € 384.9m. Here we have to take two aspects into consideration: companies in the region were very cautious with investments right up to the third quarter of 2010. Only in the course of the third quarter did an increasingly more optimistic assessment of the economic perspectives set in. This enlivened commercial lending business. On balance, however, new lending business in the commercial sector declined.

Business with corporate customers has been realigned within the scope of the business strategy pursued since the end of 2008. The Stadtparkasse Düsseldorf has parted extensively with obligations

which had, in the past, been granted to companies located far outside of Düsseldorf and the region. Furthermore, the general volume was reduced and the loan portfolio for the corporate customer sector more finely structured.

The total volume of commercial loans amounted to € 3,468.4m at the end of 2010 (previous year: € 3,681.3m).

Investment portfolio

The Stadtsparkasse Düsseldorf holds both yield orientated and strategic investments either directly or through the **SK**-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 2010 the value of the participations and shares in associated companies fell to € 493.1m. The subsidiary company **SKBG** received equity payments of € 56.8m which was 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.

In view of the compensation for losses from the previous year in the amount of € 32m, the Stadtsparkasse Düsseldorf reduced the equity provisions of **SKBG** and set it off against the receivables of **SKBG** in the same amount. On balance, the book value of **SKBG** showed a total increase of € 24.8m to € 245.7m.

The Bank was again forced to make further value adjustments to its participation in the Corpus Sireo Holding GmbH & Co. KG. The book value of the participation fell from € 61.2m to € 37.6m.

Furthermore, we made current-value depreciation on the share in the Erwerbsgesellschaft of the **SK**-Finanzgruppe mbH & Co. KG as well as on the share in the RW Holding AG.

The Stadtsparkasse Düsseldorf participates in the Landesbank Berlin Holding AG via the Erwerbsgesellschaft. On the bases of the current business developments and under consideration of the middle-term planning, future equity requirements in view of Basel III as well as the bank levy, the value reduction of the previous year (€ 3.7m) must be deemed permanent. Alongside an equity repayment of € 0.6m, which had no effect on profit or loss, the value was depreciated further by € 1.0m. The book value fell from € 44.1m to € 42.5m.

The valuation of the share in the RW Holding AG led to a depreciation of € 2.8m to a book value of € 20.2m, based on the market value of the shares in RWE directly accredited to the Stadtsparkasse Düsseldorf as per 31/12/2010.

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 Westdeutsche Landesbank 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 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 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 2010.

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. Depending on the findings after a period of ten years, we will reassess the necessary financial precautions together with all affected parties. In 2009 provisions were made in the amount of € 12.3m by allocation to the fund for general banking risks in accordance with § 340g of the German Commercial Code. € 5.9m of this allocation pertain to the business year 2010. 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.

The Rheinischer Sparkassen- und Giroverband has examined the recoverability of their shares. There are no direct consequences for the Stadtsparkasse Düsseldorf, as a reduction in the value of the WestLB is sufficiently covered by undisclosed reserves in the other partici-

pations of the RSGV. Potential risks resulting from the concepts currently presented to the European Commission cannot be estimated or quantified.

Deposit-taking

In 2010 total customer deposits increased by € 109m or 1.5 % to € 7,159m. The structure of the deposits differed considerably by comparison to 2009: short-term deposits were in stronger demand than deposits with longer maturities on account of the interest levels. As per year-end, sight deposits increased by € 269m to € 3,968m, whereas term deposits fell by € 57m to € 670m. The volume of bonds, debentures and savings certificates fell considerably by € 202m to € 248m.

Securities business

Securities transactions were pleasing in the year under review. Total turnover in securities increased by € 376m to € 2,077m. The turnover increase applied almost equally to fixed-interest securities, shares and unit trusts.

Own investments

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 € 2.6bn (previous year: € 2.5bn).

Staff

As per 31 December 2010 the Stadtsparkasse Düsseldorf employed a total of 2,195 staff (previous year: 2,170), of which 1,477 worked on a full-time basis (previous year: 1,492) and 564 on a

part-time basis (previous year: 548). The number of trainees rose from 130 in the previous year to 154 in 2010.

Equity situation

The reserves of the Stadtsparkasse Düsseldorf amounted to € 712m. This includes the allocation of € 6m from the profit for the year 2009. Furthermore, the Bank has at its disposal a wide range of non-core capital assets.

The equity requirements were upheld at all times. The assessment of the ratio between equity and risks as at 31/12/2010, in accordance with the Ordinance on solvability (SolvV) comprising counterparty, market and operational risks, was calculated at 12.5 % (previous year: 12.6 %) and lies well above the required minimum value of 8 %.

In the course of the year the utilisation ratio fluctuated between 12.3 % and 12.9 %. The core-capital quota amounts to 9.0 % (previous year: 8.9 %). An adequate capital base is available for further business expansion at an unchanged level.

On the assets side of the balance sheet there were hardly any structural changes by comparison with the previous year. Receivables from customers at 70 % (previous year: 71 %) continued to be the most important item. Own investments (bonds, stocks and other non-fixed interest items) again accounted for 21 %. On the liabilities side, liabilities towards customers at 59 % (previous year: 56 %) and liabilities towards financial institutions at 18 % (previous year: 20 %) are the basic features. The balance-sheet portion of securitised debt in 2010 decreased to 14 % (previous year: 15 %).

Financial situation

Due to well planned and thought-out liquidity provisions 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. In the course of the year, the utilisation fluctuated within a bandwidth between 1.68 and 2.14 and lies well above the prescribed minimum value of 1.00. As per 31/12/2010 the value was 2.14. The additional observation coefficients established over a period of 12 months also show a stable liquidity position. Further details on the liquid 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

The balance sheet for 2010 was drawn up for the first time under consideration of the effects of the Balance Sheet Modernisation Directive (BilMoG).

In view of the fact that the economic cycle turned out to be better than expected, the Stadtsparkasse Düsseldorf was able to achieve a good result in 2010, again improving on the figures of the previous year, and even despite the persistent aftermath of the financial market crisis.

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, fell by 0.5 % with reference to the previous year.

Net interest income including regular income (item 3 of the Profit & Loss Account) fell by a total of 8.4 % to € 276m (previous year: € 301m) and remains to be the most important source of income of the Stadtsparkasse Düsseldorf. This value lies slightly above the forecast figure of approx. € 270m. The fall is for the most part accounted for by the decrease in proceeds from special unit trusts (item 3 of the Profit & Loss Account). On the other hand, other interest income (Items 1 and 2 of the Profit & Loss Account) was € 19m higher than the value of the previous year. This positive development is a result of the unchanged favourable conditions on the capital market. On account of the on average very low short-term interest rates, with long-term interest rates at a higher level, the Bank was again able to contribute to profit by using term transformations. In view of this, the investment behaviour of our customers also concentrated on short-term investments.

As a result of the observance of the BilMoG, additional expenses in a total of € 0.5m have been incurred for accrued interest on reserves for savings.

In addition, the net interest income also includes expenses for interest rate hedging contracts in an amount of € 26m as part of our strategic management policy. In this way, the Bank counteracts existing interest rate risks and secures refinancing at a favourable level in the eventuality of a rise in interest rate levels. The fall in current income from shares and other fixed interest bearing securities to € 18m (previous year: € 62m) arises

from a fall in income from shares in unit trusts as well as the one-off effect from the disbursement of earnings from special unit trusts the year before. In relation to the average balance sheet total (- 0.5 %), this results in a reduction of the net interest income to 2.26 % (previous year: 2.45 %).

As expected, net income from commission improved by comparison to the previous year. The balance from income and expenses from commissions increased by € 3m to € 64m. This amounted to 0.53 % (previous year: 0.49 %) of the average balance sheet total. The increase in earnings from commissions for securities operations was particularly pleasing in view of the continuing shakiness of the financial markets. On the other hand, the intense competition on the regional market led to a slight fall in earnings from payments services, loans and international business. For the first time, the net income from commissions includes earnings from foreign currency and precious metal transactions which amounted to € 1m (reported under item 7 – net income from financial business in the previous year).

The net income from financial assets held for trading under item 7 (previous year: net income from financial business) comprises the balance of expenses and earnings from the trading assets of the Bank less a risk adjustment on the current value of the rated financial instruments in acc. with § 340e, sect. 3 of the German Commercial Code (HGB). The first-time allocation of 10 % of the net income from trading assets (€ 450,000) to the reserves for general risks under § 340g HGB has been set off in accordance with the regulations under § 340e, Sect. 4 HGB.

Income from other business (item 8 of the Profit & Loss Account) dropped by

€ 2m to € 12m. On account of the need for special coverage of asset and liability positions, proceeds from foreign exchange conversions in the amount of € 1m are posted net under item 8 of the Profit & Loss Account, in acc. with § 256a of the HGB, and in connection with § 340h HGB.

Other business expenses (item 12 of the Profit & Loss Account) fell by € 4m to € 15m. In the course of the introduction of reporting in accordance with the BilMoG, incurred interest expenses for compound interest on reserves in the amount of € 3m are reported under the item "other ordinary expenses".

Operating costs (item 10 of the Profit & Loss Account) and depreciation on property, plant and equipment (item 11 of the Profit & Loss Account) were reduced by 1.4 % to € 208m (previous year: € 211m).

Contrary to our expectations, personnel expenses included in this item declined by € 1m to € 128m. This was mainly due to the fall in expenses for pension payments as well as a change in staff structure. Personnel expenditure also includes the moderate salary increase agreed in the recent tariff agreement as well as expenses for the disbursement of an achievement bonus.

We were again able to reduce the operating costs by implementing a careful material costs scheme. The year before we had predicted a minimal increase. We were particularly able to save costs for technology solutions and advertising.

Depreciation on property, plant and equipment (item 11 of the Profit & Loss Account) remained almost constant at € 8m.

Total income (items 1 to 9 of the Profit & Loss Account) fell by € 26m to € 353m. On

parallel lines total expenditure also fell by € 7m to € 223m. In accordance with the definition of the German Central Bank, the cost-income ratio improved to 62 % in 2010 (previous year: 65 %).

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 € – 45m (previous year: € – 59m).

The assets shown under items 5 and 6 were again classified as current assets. Securities among the liquid assets were always assessed at the lower market value (strict lowest-value principle). Additional provisions were made for the special risks involved with financial institutions.

The positive valuation yield of our own securities portfolio was influenced by the continuing recovery of the capital markets. This shows that the consolidation that began last year has continued as expected. The results even partly exceeded the expectations.

As a result of high alignments and much less need for depreciation, the sum of alignments and depreciation and price gains and price losses of the securities held as liquidity reserves at € 33m almost attained the same level as the good result of the previous year of € 37m.

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. Furthermore, the Stadtparkasse Düsseldorf has taken precautions against the special risks involved in the field of financial institutions.

Contrary to our original assumption that company insolvencies would increase and, therefore, that the need to stock up risk provisions would become more acute, we were able to reduce the depreciation allowance on lendings yet again in 2010. The result lay well below the predicted value.

Sufficient provisions have been made for risks from shareholdings.

Consistent with the measures introduced the previous year to further stabilise the West LB, we made further provisions by allocating € 6m to the fund for general banking risks in accordance with § 340g of the German Commercial Code to cover the risk of claims from an indirect obligation to the West LB in the amount of our share in the Rheinischer Sparkassen- und Giroverband. In this connection, we refer to the statements on the West LB AG under "Investment portfolio".

Income statement-related expenses ensuing from the adjustment to the requirements of the BilMoG in the amount of € 8m have been posted under item 21 of the Profit & Loss Account "Extraordinary expenditure". Income of € 2m not affecting the net results was directly allocated to the contingency fund.

Taxes on income and capital gains (item 23 of the Profit & Loss Account) amounted to € 29m (previous year: € 43m). The decrease is mainly due to a fall in the tax assessment basis for the sum of the value adjustments as well as the first-time application of provisions for participation risks for tax purposes.

The City Council of Düsseldorf decides on the application of the surplus for the year of € 12m (previous year: € 9m) 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 31/12/2010 the value-orientated overall limit for the individual management of risks was set at € 802m (previous year: € 763m).

Stress scenarios

As of 2010, the Stadtsparkasse Düsseldorf draws up six 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. 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 risks 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 2010 the counterparty 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 2009 and lie below the original target figures.

The total amount of provisions for contingent loan losses fell by 22.4 % to € 190.7m. The decrease is a result of a considerable drop in the need to make new individual value adjustments and a change in policy with regard to making early write-downs. In 2011 the Bank has created risk provisions along the lines of the reduced mid-year forecast to make allowances for the expected economic developments both in corporate planning and in the concept for risk-bearing capacity.

The Stadtparkasse Düsseldorf does not expect any significant changes in the risk situation by comparison to 2010. Due to the robust economic indicators and the moderate rate of insolvencies, there are no signs of increased danger of loss in our loan portfolio. Both the creditworthiness of our borrowers and the general economic conditions are deemed stable.

Credit risks on own investments

The securities held by the Bank can be divided into internally and externally managed investments. In the case of the self-managed investments, we invest only in securities with good ratings (investment grade AAA to BBB-). 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 credit risk is considered to be small.

Market risks

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

In order to shore off market risks, micro and macro hedges are implemented, alongside accounting instruments. The risk diminishing macro-swaps increased within the context of the semi-active management of the interest book by € 1.06bn to € 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 its banking book 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 31/12/2010 amounted to € -131.4m. This corresponds to 13.2 % of the liable equity (previous year: € 117.6m = 11.9 %) and lies well below the threshold for notification of the supervisory authorities of 20 % (runaway limit).

Shareholder risks

By shareholder risk, the Stadtsparkasse Düsseldorf understands the danger of financial loss due to reduction in value of 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 € 493.1m as per 31/12/2010 (previous year: € 496.3m).

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 indexation method (Gordy model) or volatility derivation.

The allotted value-orientated limit of € 150m was increased in May 2010 by € 20m to € 170m to cushion the rise in risks.

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. EP has taken the necessary precautions with respect to

the US dollar fund investments and the resulting currency fluctuations.

The Bank had to make a further value adjustment to its participation in Corpus Sireo Holding GmbH & Co. KG. The book value decreased from € 61.2m to € 37.6m. The value adjustment takes account of all recognised essential risks within the scope of the planning.

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 2010 the same limit of € 5m was set as in the previous year. The risk is considered to be small.

Operational risks

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

The value-orientated limit was fixed, as in the previous year, in accordance with the regulations as under § 270 of the Ordinance on Solvability (basic indicator principle). This amounted to € 52m (previous year: € 49m).

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, 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 co-efficient of the BaFin (Bundesanstalt für Finanzdienstleistungsaufsicht). In the course of 2010 this co-efficient, which is calculated monthly, fluctuated between 1.68 and 2.14 and thus lay continually well above the prescribed threshold of 1.00.

On the basis of the target figures 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 Stadtparkasse 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 -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 31/12/2010 of € 802m, of which only a part of the risk coverage potential is made available. The total limit was only used to approx. 68 % in consideration of the actual sum of the separate risks as per 31/12/2010. 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 2011 the risk-bearing capacity continues to be guaranteed.

The total amount of risk provision for lending operations fell by 22.4 %. The volume-weighted average probability of failure of the customer loan portfolio (without financial institutions and public sector) further improved in the year under review from approx. 1.8 % to approx. 1.6 %. In the end-of-year rating categorisation according to volume, of the rating categories 1 to 15 almost 84 % of risks were in the categories 1 to 8 with small probability of failure. No significant changes in the risk situation are expected for 2011 by comparison. On account of the robust economic indicators and the moderate insolvency rates, we do not see any increased danger of loss. Both the creditworthiness of our borrowers and the economic conditions are judged to be stable.

In 2010 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 do not expect any substantial changes to the market risks. In view of the historically low interest levels, the Stadtparkasse Düsseldorf tends to reckon with an increase in interest levels. 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 Stadtparkasse Düsseldorf is judged to be satisfactory.

Outlook

In planning its business for 2011 the Stadtparkasse Düsseldorf has taken account of the economic backdrop as well as the market conditions.

In view of the macro-economic data and the market conditions, we predict solid growth prospects. With inflation at a slightly higher level, a moderate increase in interest rates is expected. In view of this there is a good chance for growth both in corporate and retail business. We see good opportunities in lending business, as well as in income from commissions and from our investment portfolio. Under the presumption that this economic scenario proves true, the Board of Directors expects a further tangible income contribution from asset management and clear improvements in income from the investment portfolio.

On the whole, the Stadtparkasse Düsseldorf reckons with gross proceeds in 2011 along the lines of the preceding year, which should improve slightly in the ensuing year. In view of the expected economic developments, the Board of Directors assumes that in 2011 the interest surplus will lie just under the results for the year under review, whereas they will show moderate growth in 2012. In our strategic planning we have presumed that interest levels will be slightly higher. Nonetheless, we see an opportunity in the following years to generate income from term transformation somewhere along the lines of the period under review. In the case of surplus commissions, we expect that further increases can be achieved in the coming years, whereby the emphases of growth will lie on customer securities transactions and retirement provisions.

For 2011 we expect slightly higher administration costs than in the year under review and the following year we expect them to almost stagnate. In the case of personnel expenses we presume that the yearly increase will exceed the rate of inflation due to tariff agreements and increasing social insurance contributions. After an increase in 2011 due to investments, material expenditure will again fall the year after, at least from today's point of view.

The costs for risks in lending business turned out to be much lower than forecast. It is possible that risk expenditure could increase again in 2011 and the result after value adjustment then again fall in the following years on account of the stable economic situation.

We expect positive income contributions from the value adjustments on securities in the course of the two coming years which will, however, fall short of the good results for 2010. In the case of value

adjustments on participations, we presume that the coming years will require successively decreasing provision in the single-digit million bracket, after having made noteworthy risk provision in the past years.

With respect to the surplus for the year, the Board of Directors assumes that the results for 2010 will also be achieved in the following years. We, therefore, expect an all round positive development in the

financial, asset and income situation of the Bank, provided the above mentioned risks are not percussive. The Bank will then be 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, 31 March 2011

Summary of the Bank's Performance

	EUR in thousands as at 31/12/2010
Balance Sheet Total	11,677,529
Volume of Business	11,962,422
Assets	
Cash and Banks	206,611
Investments	2,993,350
Loans & Discounts	8,416,408
Other Assets	61,160
Liabilities	
Deposits	10,605,577
Other Liabilities	153,962
Subordinated Liabilities	151,689
Funds for general bank risks	42,340
Capital	711,811
Profit	12,150

Profit & Loss Account

	EUR in thousands for the year from 01/01/2010 to 31/12/2010
Expenses	
Interest and Commissions Paid	166,409
Staff Costs	127,478
Other Operating Costs	72,281
Depreciation	52,786
Taxes	28,576
Other Expenses	59,580
Profit for the year	12,150
Receipts	
Interest and Comm. Receiv.	506,879
Other Receipts	12,381

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