Performance Report 2014
of the Stadtsparkasse Düsseldorf

The following information forms an integral part of the Performance Report:

On 30 March 2015, the executive board (*Vorstand*) prepared the 2014 unconsolidated annual accounts (section 24 (2) of the Savings Bank Act for North Rhine-Westphalia (*Sparkassengesetz für Nordrhein-Westfalen*), sections 264 (1), 340a of the German Commercial Code (*Handelsgesetzbuch*)). These annual accounts show a net profit for the year (*Jahresüberschuss*) of EUR 3.3 million and an increase in the allocation to the special item for general banking risks (*Sonderposten für allgemeine Bankrisiken*) under section 340g of the German Commercial Code by EUR 101 million (EUR 95 million of which as a general risk provision for the particular risks of the credit institutions segment and EUR 6 million for the risk of potential liability under the indirect participation in "Erste Abwicklungsanstalt") to a total amount of EUR 382 million. The auditor granted its unqualified audit opinion for these annual accounts on 9 June 2015 (section 24 (3) of the Savings Bank Act for North Rhine-Westphalia). The board of directors (*Verwaltungsrat*) adopted the 2014 unconsolidated annual accounts on 26 June 2015 (section 15 (2) of the Savings Bank Act for North Rhine-Westphalia)). The Mayor (*Oberbürgermeister*) of the City of Düsseldorf, as the competent official responsible for making objections as to non-compliance (*Beanstandungsbeamter*), then objected to the lawfulness of the adoption of the 2014 unconsolidated annual accounts by the board of directors resolved on 26 June 2015 (section 17 of the Savings Bank Act for North Rhine-Westphalia). The competent official has based his objection on a **[**purported**]** breach of section 340g (1) of the German Commercial Code. In accordance with section 17 of the Savings Bank Act for North Rhine-Westphalia, the board of directors again considered the 2014 unconsolidated annual accounts in view of the objection and confirmed its resolution on the adoption on 1 August 2015. The competent official then referred the matter for decision to the Finance Ministry of the State of North Rhine-Westphalia, acting in its capacity as savings banks supervisory authority (*Rechtsaufsicht der Sparkassen*), in accordance with section 17 of the Savings Bank Act for North Rhine-Westphalia. The supervisory authority can revoke the resolution on the adoption dated 26 June 2015 and/or the resolution on the preparation dated 30 March 2015 in accordance with section 40 (3) of the Savings Bank Act for North Rhine-Westphalia, if the supervisory authority considers the resolution on the adoption and/or the resolution on the preparation of the annual accounts to be unlawful. Such decision could be appealed against before the administrative courts. The objection has a suspensive effect, i.e. the effectiveness of the resolution on the adoption is suspended until the savings banks supervisory authority issues its decision.

Therefore, the board of directors so far has not been able to approve the 2014 consolidated annual accounts either.

The general economic trend

After a weak summer half-year the German economy took a turn for the better towards the end of the year in 2014. In 2014 the Gross Domestic Product showed an increase of 1.6 % (previous year: 0.1 %). As a result, total economic production was stronger than it had been for the past three years. After an increase of 0.8 % in the first quarter, economic performance decreased by 0.1 % in the second quarter. In the third quarter, the German economy grew only slightly by 0.1 % and in the fourth quarter again gained considerable steam at 0.7 %. The main contributions to growth came once again from domestic demand. A stable employment market, rising income levels, low price increases, low oil prices and an extremely low level of interest resulted in an increase in private customer expenditure. Furthermore, housing construction and export business made positive contributions to growth.

Developments in business at the Stadtsparkasse Düsseldorf

The Stadtsparkasse Düsseldorf looks back at a satisfying year of business in 2014. This good result was based on the solid growth in business with our retail and corporate customers, as well as exceptionally good valuation yields which were influenced by special circumstances such as the sale of the participation in the Corpus Sireo Immobiliengruppe and the marginal value adjustment requirements on lending business.
Business in 2014 has again shown that the Stadtsparkasse Düsseldorf has a solid and sustainable business concept.
The balance sheet total decreased by € 291m or 2.5 % to € 11,509m. The reason for this decrease was mainly a reduction in the loan portfolio.

Lending operations

The lending portfolio decreased by 3.2 % or € 265m in 2014 to € 7,943m. Among other reasons, this was a result of a considerable reduction in the business portfolio in the corporate customer segment.
New lending business reflected the following trends in 2014:
Lending business to corporate customers turned out stronger than in 2013 but could not quite compensate the maturities. The volume of loan approvals rose by 19.6 % or € 134m to € 818m. Geopolitical issues, such as the Ukraine conflict, which has been escalating since early 2014, have resulted in a reduction in the readiness to invest of corporate customers and small and medium-sized companies, but, on the other hand, the demand for loans on the part of property developers and institutional customers showed a disproportionately high increase of 57.6 % in 2014.
Demand for loans on the part of our private customers in the year under review was 17.1 % lower than the level of the previous year. The total amount of new loan approvals amounted

to € 454m (previous year: € 547m). At the peak was the allocation of housing loans, as the currently low interest levels and the strong interest in housing in Düsseldorf and the surrounding area led to a high demand.

Investment portfolio

The Stadtsparkasse Düsseldorf holds both yield orientated and strategic investments either directly or through the S-Kapitalbeteiligungsgesellschaft Düsseldorf mbH (SKBG).
These also comprise participations which are held for business or group-political reasons. These investments are mostly of a public-sector nature.
In 2014 the value of the participations and shares in associated companies fell on the whole by € 23.8m to € 452.4m (previous year: € 476.2m). The book value of our subsidiary SKBG remained unchanged at € 278.5m.
As part of the reintegration of the operations of the S-online Service GmbH, a company value of € 1.9m was activated. According to plan, the company value will be written off over a period of five years and is valued at € 1.7m as per the end of 2014.
The Stadtsparkasse Düsseldorf left the book value of its subordinate participation in the limited liability capital of the Deutscher Sparkassen- und Giroverband ö. K. (DSGV) invested in the Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG unchanged. The Erwerbsgesellschaft holds 100 % of the shares of the Landesbank Berlin Holding AG (LBBH) either directly or indirectly. In the course of the restructuring of the Landesbank Berlin to form the Berliner Sparkasse, the concern structure will be reorganised with a view to a strategic reorientation in such a way that the Berliner Sparkasse and the Berlin Hyp will both gain a high level of economic autonomy. Due to the burden of the reorganisation and the business reorientation, the LBBH's plans from the previous year (2014 – 2018) did not foresee a disbursement until 2017 for the business year 2016. The new medium-range prognosis of the LBBH (2015 – 2019) also does not forecast the complete resumption of disbursements until 2017 for the year 2016.
In view of the persistent low interest level and the profound restructuring measures, the Stadtsparkasse Düsseldorf had reduced the book value of this participation to € 3.5m in its balance sheet for 2013. In view of the remaining considerable uncertainties with respect to the interest rate developments and the restructuring risks, the Stadtsparkasse Düsseldorf will adhere to the book value of this subordinate participation. In its annual financial statement for 2013, the Stadtsparkasse Düsseldorf had also made provisions for its reimbursement obligations with respect to the DSGV ö. K. in the amount of € 5.1m. It is, therefore, not necessary to make further provisions as at 31/12/2014, as the disbursement prospects have not changed.

The valuation of the share in the RW Gesellschaft für Anteilsbesitz III mbh led to a depreciation of € 0.3m to a book value of € 8.8m (previous year: € 9.1m) based on the market value of the RWE shares directly accredited to the Stadtsparkasse Düsseldorf as per 31/12/2014.
Upon completion of the liquidation procedure the participation in the Sparkassen-Servicegesellschaft für Zahlungssysteme und elektronische Vertriebskanäle mbH & Co. KG (SfZe) came to an end in 2014 (book value as per 31/12/2013: € 0.2m).
We sold our share in the Corpus Sireo Holding GmbH & Co. KG in cooperation with the other shareholders to the Swiss Life Group with retrospective effect as per 01/01/2014. In total, we accrued an amount of € 69.6m (after costs, before tax) from these transactions. This amount is set in comparison with a book value of € 37.8m. Within the scope of the sales contract, the sellers assumed the customary guarantees for this type of market. We have made provisions in the amount of € 1.0m for the possible event that these guarantees are claimed upon. Furthermore, provisions have been made in the amount of € 1.5m to compensate the business tax payments of the seller on the capital gain.
Furthermore, the book value of our obligatory share in the Rheinischer Sparkassen- und Giroverband ö. K. – RSGV – increased to € 153.5m (previous year: € 138.9m) due to an increase in capital; this increased amount of € 14.6m includes € 10.6m for the redemption of the third-party financing for the purchase of the shares in the DekaBank. The RSGV is also a shareholder of Provinzial Rheinland (insurance) and the Landesbausparkasse LBS West as well as the Helaba and the Erste Abwicklungsanstalt (EAA).
The former shareholders of the Portigon AG, formerly WestLB AG (the state of North Rhine-Westphalia – Land NRW – with approx. 48.2 %, the Rheinischer Sparkassen- und Giroverband – RSGV and the Sparkassenverband Westfalen-Lippe – SVWL – each with approx. 25.03 %, the Landsschaftsverband Rheinland – LVR – and the Landschaftsverband Westfalen-Lippe – LWL – each with approx. 0.87 %) reached an agreement with the Bundesanstalt für Finanzmarkstabilisierung (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 § 8a 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 share (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 arise. The obligations 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. 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 2014.

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. The size of this reserve corresponds to our participation quota in the RSGV at the time the indirect obligation was assumed in 2009 (7.9 %). As per 31/12/2014, our participation quota amounts to 8.1 %. 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 € 35.6m by allocation to the fund for general banking risks in accordance with § 340g of the German Commercial Code. € 5.9m of the allocation pertain to the business year 2014. The amounts earmarked here are not treated as equity in the sense of the Capital Requirements Regulation (CRR).

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 2014.

Deposit taking

In 2014 total customer deposits increased by € 136m or 1.7 % to € 8,285m (previous year: € 8,149m). Due to the continuing low interest level, short-term deposits were in much greater demand than those with longer terms. As a result, the sight deposits increased by 4.3 % or € 216m to € 5,293m. Term deposits, on the other hand, decreased by €103m or 22.7 % to € 351m. Bonds were in circulation in the amount of € 55m at the end of the year, € 12m less than in 2013. Subordinate liabilities increased by € 8m or 4.5 % to € 184m.

Business with associated partners

Insurance business with our associated partners was very satisfactory in 2014. Our customers took out more or less 15,000 new policies in the most varied classes of business. The gross income generated from this field increased by 24 % to € 11.4m.

The developments in building society savings, however, were not satisfactory. Our customers entered 4,465 building loan agreements in the last year; that is 26 % less than in the previous year.

Securities business

Securities transactions turned out unexpectedly weaker than 2013 in the year under review. Total turnover fell by € 165m or 8.8 % to € 1,708m. Business in fixed-interest securities registered a decrease in turnover of 12.0 %. Business with unit trusts was also on the decline. In this case turnover fell by 10.9 % from € 596m to € 531m.

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 – without hedging transactions) of € 2,507m (previous year: € 2,867m).

Staff

As per 31 December 2014 the Stadtsparkasse Düsseldorf employed a total of 2,268 staff (previous year: 2,321), of which 1,527 worked on a full-time basis (previous year: 1,614) and 605 on a part-time basis (previous year: 554). The number of trainees employed was 136.

Earnings position

Against a background of an unchanged volatile economic and political environment, persistent low interest levels and exacerbated regulatory requirements, the Stadtsparkasse Düsseldorf was able to achieve a very satisfying result in 2014.
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 5 % with respect to the previous year.
Net interest income including regular income (item 3 of the Profit & Loss Account) increased on a whole by 3.5 % to € 254m (previous year: € 245m) and remains to be the most important source of income of the Stadtsparkasse Düsseldorf.
The continuing low interest level had a lasting impact on other interest income. The margin pressure in investment business was more perceptible than in the previous year. Contrary to the interest scenarios underlying the business plans, the year of business was characterised by a flattening interest structure curve. In view of this, the profit contributions from term transformations also decreased.
Other interest income (the sum of items 1 and 2 of the Profit & Loss Account) improved by a total of € 6m. Both interest income (€ - 34m) and interest expenses (€ - 40m) were on the

recede. The sharper reduction in interest expenses is primarily accounted for by reserves created the year before to cover uncertain liabilities arising from particular bonus savings contracts in an amount of € 18m.
Moreover, the positive overall result was mainly influenced by the increase in regular income from participations of € 14m (previous year: € 10m) as well as the higher regular income from shares in associated companies of € 24m (previous year: € 14m).On the other hand, regular income from shares and other non-fixed interest bearing securities decreased by € 11m.
The costs for interest rate hedging contracts included in the net interest income, resulting from the strategic management policy, decreased to € 12m (previous year: € 25m). In this way, the Stadtsparkasse Düsseldorf limits the interest rate risks and protects itself against the effects of possible interest rate increases.
Furthermore, the net interest income includes costs of € 4m and income of € 2m which result from so called “close out payments” from the termination of swaps. By closing these, the interest rate risk has been further optimised within the scope of our risk strategy.
Due to the increase in surplus interest, this resulted in an improvement of the ratio to 2.20 % (previous year: 2.02 %) in relation to the lower average balance sheet total.
The commissions’ surplus (sum of items 5 and 6 of the Profit & Loss Account) increased as expected by € 5m to € 75m. Commissions from clearing transactions and brokerage were mainly responsible for this development.
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 in accordance with § 340e, section 3 of the HGB (German Commercial Code). 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 € 10,000 in accordance with the regulations under § 340e, section 4 of the HGB.
Operating income (item 8 of the Profit & Loss Account) decreased by € 1m to € 19m. Of this, € 6m purport to the disbandment of reserves (previous year: € 7m).
Operating costs (item 12 of the Profit & Loss Account) increased by € 1m to € 21m. This item includes costs for reserves in connection with the customary guarantees and declarations of exemption within the scope of the sale of our participation in Corpus Sireo Holding GmbH & Co. KG in an amount of € 1m, as well as the counter value for the compensation of the business tax payments on the capital gains to the seller in the amount of € 2m. At this point, reference is made to the details under “Investment portfolio”.
Furthermore, this item includes costs for creating reserves for claims deriving from inaccurate revocation advice on consumer loans and costs for creating reserves for reclaimed service charges in the total amount of € 5m.

Administrative costs (item 10 of the Profit & Loss Account) and depreciation on property, plant and equipment (item 11 of the Profit & Loss Account) increased to € 238m (previous year: € 215m). The personnel expenses included in this item increased sharply by 13.6 % to € 159m. The cause for this lies, in particular, in expenses for other accounting periods in the amount of € 15m intended as liability reserves within the scope of a five-year programme designed to cap personnel expenses. Furthermore, this item includes expenses arising from unexpectedly higher tariff increases and the costs for the payment of a performance-related bonus.
In accordance with our expectations, other administrative expenses increased in the course of the year to € 71m (previous year: € 68m). Due to the careful planning of budgets and material costs the effect was moderate.
The increase purports mainly to costs for third-party services (€ 2m) as well as allocations to the savings bank support fund (€ 3m). On the other hand, savings of € 1m respectively were achieved in the case of costs for third-party IT services and the compulsory contributions.
Depreciation on property, plant and equipment (item 11 of the Profit & Loss Account) increased by € 1m in 2014.
Total income (items 1 to 9 of the Profit & Loss Account) increased by € 13m to € 348m. At the same time, total expenditure also increased by € 24m to € 259m, so that the cost-income ratio increased in 2014 to 70 % (previous year: 66 %).
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 amounts to € 46m (previous year: € - 18m).
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.
Contrary to our expectations, the sum of alignments and depreciations and price gains and price losses of the securities held as liquidity reserves made a positive contribution to the results in the amount of € 11m (previous year: € 10m).
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 more favourable than assumed and amounted to € 9m (previous year: € - 11m).
Due to the sale of the participation in Corpus Sireo Holding GmbH & Co. KG, in particular, it was possible to improve the contribution to the results from shareholdings considerably by € 27m (viz. “Investment portfolio”).

As in previous years, the Stadtsparkasse Düsseldorf has made further provisions to cover the risk of claims from an indirect obligation arising from the 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.
In view of the further tightening of the equity requirements of financial institutions by 2019 under Basel III € 95m were allocated to the contingency fund for general banking risks in accordance with § 340g HGB as an additional provision. In total, we have created provisions for special risks for business with financial institutions in the amount of € 382m in accordance with § 340g HGB. This position includes € 36m for the "Erste Abwicklungsanstalt" and € 17m (previous year: € 18m) for additional risks from the participation in RSGV.
Taxes on income and capital gains (item 23 of the Profit & Loss Account) amounted to € 31m (previous year: € 30m). This includes costs from fiscal effects from previous years in the amount of € 6m. Necessary information from capital investment companies with respect to claims to tax reimbursements as a result of the so-called STEKO ruling are not yet available in their entirety. The available information has had no influence on the tax results.
The City Council of Düsseldorf decides on the application of the surplus for the year which amounted to € 3m (previous year: € 2m) 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.

Equity situation

As per 31/12/2014, the reserves of the Stadtsparkasse Düsseldorf amounted to € 726m (previous year: € 724m).
In addition, there was an allocation of a total of € 101m 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 weighted risk items, in accordance with the Ordinance on Solvability (SolV), was replaced by the new Europe-wide binding equity requirements under the Capital Requirements Regulation (CRR) with effect from 1/1/2014. Calculated on this basis, the ratio between equity and weighted risk items amounted to 15.5 % (previous year: 13.8 %) and lies above the required minimum value of 8 %. The core-capital quota amounted to 13.5 % (previous year: 12.0 %).
This increase results particularly from a considerable decrease in the weighted risk items, an allocation to the reserves for general banking risks in accordance with § 340g HGB in the previous year, as well as issuing subordinated capital bonds. The equity requirements were upheld at all times in 2014.

In the course of the year the utilisation of the total capital quota fluctuated between 13.5 % and 15.5 %. The utilisation of the core-capital quota lay between 11.9 % and 13.5 %. In view of the further tightening of the equity requirements of financial institutions by 2019 under Basel III, a solid capital basis is, therefore, available to provide further liquidity and loans to regional businesses.

The quota yearly surplus / balance sheet total, which has to be calculated in accordance with § 26a, Section 1, line 4 of the KWG, amounted to 0.03 %.

The reduction in the balance sheet total for 2014 of € 291m is the result of the consequential implementation of the risk and business strategy and the gradual reduction of refinancing instruments and own investments.

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 67 % (previous year: 68 %). The ratio of own investments (bonds, stocks and other non-fixed interest items) to the balance-sheet total fell to 20 % (previous year: 23 %) due to maturity dates and divestments.

On the liabilities side, the most important item continued to be liabilities towards customers, which increased to 70 % (previous year: 68 %) due to an increase in deposits. Particularly, as a result of less need for refinancing, the contingent of liabilities towards financial institutions fell to 11 % (previous year: 13 %). The balance sheet portion of securitised debt decreased to 6 % (previous year: 8 %) primarily through due maturities.

Financial situation

Due to the well-balanced liquidity provision throughout the last year of business, the Stadtsparkasse Düsseldorf was in a position to uphold 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 31/12/2014 the value was 2.52. In the course of the year, the utilisation fluctuated within a bandwidth of 2.52 and 3.01 and lies well above the prescribed minimum value of 1.00. The additional observation coefficients established over the period of up to 12 months also showed a stable liquidity position. The LCR coefficients in accordance with CRR calculated during the period of review also showed adequate liquidity at all times (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.

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 31/12/2014 the value-orientated overall limit for the individual management of risks was set at € 1,169m at a confidence level of 99.9 % (previous year: € 1,023m at a confidence level of 99.9 %).

Effects of the impending requirements of CRR/CRD IV

The new Basel framework agreement (Basel III) focuses on more stringent requirements for the chargeability 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 order to meet the higher equity requirements in accordance with CRR/CRD IV, the capital requirements (minimum quotas for equity/total equity) will be increased each year in the course of internal planning.

The minimum capital requirement to maintain operations will be observed in 2014 and the following years with a probability rising from 97 % 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 CRR/CRD IV, 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 total equity quota as per 31/12/2014 amounted to 15.9 % at a corporate level. The minimum quota according to planning lies at 9.91 %.

Stress scenarios

The stress tests comprise five stress scenarios. 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 half-yearly report. A further component of the stress test report are considerations in the event of maximum loss. In this case

it is presumed that individual types of risk will reach the attributed periodical limits to the full. The effect on the regulatory requirements (total capital quota, core-capital quota and limit for large value credits) as well as the continuation of the business model (on the basis of the possible new limit allocation under these circumstances) is then portrayed.
As part of the multi-year plan, two adverse scenarios are 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 decreased from € 4,360 to € 3,786m.
For customer transactions in derivatives and certain balance-sheet transactions, hedging transactions and micro-hedges were carried out.
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 € 20m (open positions: € 2.9m as at 31/12/2014 – previous year € 5.3m).
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. 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 also to be 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 € 118m including a risk buffer of € 20m (previous year: € 100m).
At the end of the year, the periodic risk amounted to € 88.1m at a confidence level of 97 % including a risk buffer of € 14.1m (previous year: € 86.3m at 96 %). Within the process of reviewing the concept for risk-bearing capacity in 2014, the confidence level on a periodic basis was increased from 96 % to 97 %.

The credit risks from lending operations and own investments are subject to a joint limit. In 2014, in addition, quantitative limits for bulk and sector concentration were also monitored. The credit risks fluctuated within the defined limits at all times during 2014.

Credit risks on lending business

The total loan portfolio amounts to approx. € 10.6bn. The emphasis lies on lending business with corporate customers (approx. € 5.3bn) and retail customers (approx. € 3.8bn).
The total amount of provisions for contingent loan losses decreased by 23 % to € 97m.
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. € 23m as at 31/12/2014 (previous year: € 70m). 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 € 452.4m as per 31/12/2014 (previous year: € 476.2m). The change over the previous year is, in particular, a result of the sale of the shares in Corpus Sireo.
The yield-orientated participation portfolio is mainly determined by the private equity activities, the book value of which amounted to € 230.3m as per 31/12/2014 (previous year: € 230.3m).
The strategic investments include compulsory participations and group-political participations with a total book value of € 213.3m as per 31/12/2014 (previous year: € 198.9m). The major portion of the strategic investments pertains to the participation in the RSGV with a book val-

ue of € 153.5m (previous year: € 138.9m). In 2014, the equity of RSGV was increased by € 14.6m to discharge the outside financing for the participation in the DekaBank.
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 2014.

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 pre-dominating 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) and the special and public funds attained a volume (market value) of approx. € 2.5m (previous year: € 2.9m, without participations respectively).The volume of debentures amounted to € 0.6bn as at 31/12/2014 (previous year: € 0.6bn). In the course of 2014 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 rated bonds and other interest-bearing securities have investment grades of Aaa to Baa3 (Moody's).
In addition, there are approx. € 511m non-rated German State Bonds, or bonds guaranteed by the Federal States in the portfolio.
Financial investments in special funds show a market value as per 31/12/2014 of approx. €431m (previous year: € 404m). This increase in market value is due to price gains, among other things. In addition, shares in public funds are held with a market value of € 74m as per 31/12/2014 (previous year: € 70m). This increase is due to price gains.
The debenture portfolio of € 0.6bn exclusively comprises federal state instruments.
The decrease or increase of the value-orientated market risk at the beginning and at the end of 2014 is due to system-induced effects in quantifying risks. The reduction at the beginning of 2014 is due to the adaption of the factor model to encompass a long simulation history. The increase in the risk assessment as of December 2014 is accounted for by the fact that risk reducing effects from hedging transactions are no longer taken into consideration.

Spread risks

Spread risks are defined as potential losses that could result from a change in spreads. Within the periodical risks assessment, the spread risk is incorporated into the market risk on a daily basis. The risk assessment divides 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 increase in risk in 2014 (by comparison to 2013) is a result of additionally taking the long data history into consideration and the inclusion of interest-bearing components of public funds in the risk assessment.

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 31/12/2014 amounted to € - 157.9m at + 200 basis points. This corresponds to 14.7 % of the liable equity (previous year: + 200 basis points, € - 130.6m = 12.5 %) 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 (BaFin) 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 decreased from € 4.4bn to € 3.8bn in 2014.

Customer transactions in derivatives are shored up individually by appropriate counter-transactions. 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. 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 master funds, on principle only USD and Yen are hedged. Peak amounts and non-hedged positions are limited to a countervalue of € 20m.

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 BaFin is monitored and subjected to various stress tests.
In the course of 2014, this coefficient fluctuated between 2.43 and 3.01 and thus lay continually well above the prescribed threshold of 1.00.
The Liquidity Coverage Ratio (LCR) amounted to 138.2 % as per 31/12/2014.
As was already the case in the previous year, the liquidity situation of the Stadtsparkasse 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.
On the basis of a system check during the year under review, the methods for reserving risk covering potential for operational risks were adjusted. Through using information on individual losses as well as scenario analyses the hitherto implemented global underlying principle (basic indicator) was replaced by a new method of calculation. Under the value-orientated aspect, € 124m (previous year: € 107m) were reserved for operational risks. Under the periodical monitoring system the reserved coverage potential amounted to approx. € 36m (as part of the limit for general risks).

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. In addition, adverse planning scenarios are part of the yearly planning process.

Overall risks situation

Within the scope of the economic risk-bearing capacity, the Bank has at its disposal a total limit as per 31/12/2014 of € 1,169m, approx. 80 % of the risk covering potential (confidence level 99.9 %). The total limit was only used to approx. 81 % in consideration of the actual sum of the separate risks as per 31/12/2014. From the periodical point of view as per 31/12/2014, approx. 66 % of the risk covering potential was used for limits. The utilisation of the limits as per 31/12/2014 reached approximately 78 %.

With regard to 2014 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 1.02 % to 0.98 % 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 87 % as per 31/12/2014 and the periodical to approx. 83 %. All recognised default risks in lending business were sufficiently protected.

With respect to the participations, it is necessary to mention the risk that the Stadtsparkasse Düsseldorf could be claimed upon in accordance with its share in the RSGV from its indirect obligation in connection with the former WestLB. The value-orientated limit was used to approx. 91 % as per 31/12/2014 and the periodical limit to approx. 76 %.

Almost 49 % of the value-orientated global limit is available for market risks (including spread and interest rate risks). Under the periodical aspect, almost 32 % of the allocated limits are available for the interest margin risks and the valuation yield for securities. Markets are expected to remain volatile in 2015.

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

With a liquidity coefficient on 31/12/2014 of 2.52 (LiqV) the liquidity situation can be considered as good. The Liquidity Coverage Ratio (LCR) was 138.22 % as per 31/12/2014.

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

Other risks are also covered by value-orientated and periodic limits.

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 2015, the Stadtsparkasse Düsseldorf expects that the market and competition situation will continue to be characterised by a historically low level of interest and extensive regulation.

The economic development could be subject to drastic corrections if various risks become a serious threat to the general macro-economic situation. On 22 January 2015, the European Central Bank announced that it intended to purchase state bonds and private securities in an amount of € 1,140bn by September 2016, in an effort to combat low inflation. The majority of banks and economists judge these measures critically, because, if investors place increasing liquidity in risky investment forms instead of in government bonds, then the danger of asset price bubbles, incorrect risk assessments and misguided investments will increase radically. The risk of a devaluation race will also increase. 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 a worsening of the situation in the geopolitical trouble spots and critically less economic growth in China. In addition, for Europe, the uncertainty over the economic future of Greece is a further risk factor. If these mentioned risks materialise, this would have considerable impact on the possibilities of growth for the real economy and German economic growth could weaken. This would in turn affect the businesses in Düsseldorf. The consequences for the Bank would be a considerably lower business expansion than planned and an increase in pressure on the results.

Risks could also arise as a result of sharp increases in interest levels. This could cause the interest surplus to fall and have 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 2015 and the ensuing years 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 Stadtsparkasse Düsseldorf expects a slight increase in gross income in 2015.
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 Stadtsparkasse Düsseldorf anticipates that the European Central Bank will adhere to its hitherto low interest policy in 2015, but that there will be a moderate increase in capital market interest. On the basis of this expectation, the Management Board foresees a slight increase in interest income.
There are opportunities to generate higher income 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 for 2015 that these will attain the level of the previous year. In the case of customer security transactions, in particular, we anticipate slight growth.
The Stadtsparkasse Düsseldorf will reduce the number of staff drastically over the coming years. In the opinion of the Management Board, personnel costs will, nonetheless, show a moderate increase in 2015 on account of a rise in salaries, i. a. operating expenditure will show an appreciable increase.
In 2015 we were able to report a positive valuation yield from lending operations for the first time in the history of the Stadtsparkasse Düsseldorf. For 2015, the Management Board expects value adjustments to be more favourable than the average value for the years 2011 to 2013.
Value adjustments on securities should provide positive, yet much lower income contributions than in the previous year. This is mainly accounted for by 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.
With respect to 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 Stadtsparkasse Düsseldorf can exercise no direct influence. In 2014 we were already able to achieve a considerable improvement in this field, without consideration of the effects from the sale of Corpus. Also in the future, we expect much lower value adjustments on the value of the participations.

The profit before tax in 2014 was one of the highest results that the Stadtsparkasse Düsseldorf has ever achieved. The Management Board expects a profit before tax in 2015 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.
Through the decisions of the European Central Bank (i. a. negative deposit interest and the quantitative easing programme), the short, middle and long-term interest rates have come under considerable pressure. On the money markets negative interest is, in part, already on record. The Stadtsparkasse Düsseldorf has made it its objective to identify potential effects of negative interest on the Bank as a whole and to promote recommended action with respect to products and customer groups.
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, 30 March 2015

The Management Board

Summary of the Bank's Performance

EUR in thousands as at 31/12/2014

Balance Sheet Total	11.509.239
Volume of Business	11.796.322
Assets	
Cash and Banks	526.019
Investments	2.788.482
Loans & Discounts	8.089.620
Other Assets	105.118
Liabilities	
Deposits	10.021.199
Other Liabilities	193.167
Subordinated Liabilities	183.753
Funds for general bank risks	382.016
Capital	725.817
Profit	3.287

Profit & Loss Account

EUR in thousands for the year from 01/01/2014 to 31/12/2014

Expenses	
Interest and Commissions Paid	131.043
Staff Costs	159.324
Other Operating Costs	70.545
Depreciation	38.730
Taxes	31.090
Other Expenses	122.507
Profit for the year	3.287
Receipts	
Interest and Comm. Receiv.	460.103
Other Receipts	18.963