

2016

PERFORMANCE REPORT

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

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PERFORMANCE REPORT 2016
OF THE STADTSPARKASSE DÜSSELDORF

The general economic trend

In 2016 the German economy continued on its solid and steady course of growth. The Gross Domestic Product showed an increase in real terms of 1.9 % (previous year: 1.7 %) according to the initial figures of the Federal Statistical Office. As a result, total economic production was yet again in excess of its potential and is stronger than it has been since 2011.

The main contributions to growth came once again from the domestic markets. There was a marked increase in private customer expenditure based on a stable employment market, rising income levels, low price increases and an extremely low level of interest. The marked increase in state expenditure and the dynamic housing construction sector made a major contribution to economic growth. The German employment market proved again to be in a positive condition in 2016. The unemployment rate showed a yearly average of 6.1 % (previous year: 6.4 %). The number of company insolvencies in Germany fell to the lowest level since 1999. In 2016 it decreased by 6.4 % to 21,700 cases. This represents 1,480 insolvencies less than in the previous year.

German financial institutions have increased their equity capital, and consequently their risk-bearing capacity, considerably since 2010. The tier 1 capital ratio of the German banking system may have only increased by 0.16 % from June 2015 to June 2016, but, at 15.7 %, it remains at an almost constant level since the end of 2015. The long-term trend of an improvement in the equity-capital ratio as the key source of resilience for the financial sector has proven to be valid. At the beginning of the global financial crisis, the tier 1 capital ratio of the German banking system amounted to only 9.1 %, 6.6 percentage points lower than today.

Developments in business at the Stadtsparkasse Düsseldorf

The Stadtsparkasse Düsseldorf looks back at a satisfying year of business in 2016. This result was based on the solid growth in business with our retail and corporate customers and positive effects through income from taxes and own investments.

Business in 2016 has again shown that the Stadtsparkasse Düsseldorf has a solid and sustainable business concept. As a consequence of the new retail customer strategy, digital access was expanded and combined with the classical retail sales points. The number of branch offices within the city will be gradually adjusted to customer demand and made more compact. Our goal is to advise and support customers in an appropriate manner in accordance with their needs and wishes, when and wherever they present their demands.

The balance-sheet total increased by € 297m or 2.8 % to € 11,096m. The reason for this increase was foremost in the increase in customer deposits.

Lending operations

The lending portfolio decreased by 2.2 % or € 174m to € 7,681m. This was a result of a reduction in the business portfolio in the corporate customer segment.

Lending business to corporate customers turned out higher than in 2015. The volume of loans granted increased by 1.4 % or € 13m to € 924m.

We were able to attain a clear increase in business with the industrial mortgage segment in 2016. The volume of loan approvals increased by 55 % to € 382m. On the other hand, business with institutional clients and foundation trusts decreased. In this sector, new loans were approved in the amount of € 74m (previous year: € 109m).

Also on the decrease was our business with corporate customers and small and medium-sized companies. In the case of corporate customers, the volume of approvals fell to € 243m (previous year: € 248m). Business with small and medium-sized companies showed a clear decrease with a volume of approvals of € 116m (previous year: € 148m).

During the year under review, loan approvals to private customers increased by 3.3 % by comparison to the previous year. The total amount of new loan approvals amounted to € 423m (previous year € 410m). In view of the continuingly low interest levels and the strong interest in housing in Düsseldorf and the surrounding area, the demand for housing loans continued to be high.

Investment portfolio

The Stadtsparkasse Düsseldorf holds both yield orientated and strategic investments either directly or through the $\text{S}\ddot{\text{K}}$ -Kapitalbeteiligungsgesellschaft Düsseldorf mbH ($\text{S}\ddot{\text{K}}$ KBG).

The latter comprise participations which are held for business or group-political reasons. These investments are mostly of a public-sector nature.

In 2016 the value of the participations and shares in associated companies fell on the whole by € 52.7m to € 267m (previous year: € 319.7). Essentially, this was due to the reduction of the capital of the $\text{S}\ddot{\text{K}}$ KBG from capital reserves in the amount of € 50m in favour of the Stadtsparkasse Düsseldorf as shareholder. The book value of the $\text{S}\ddot{\text{K}}$ KBG decreased accordingly from € 150.5m to € 100.5m.

In addition, there is an important participation in the Rheinischer Sparkassen- und Giroverband ö. K. – RSGV. As a result of the statutory revaluation of the individual shares in connection with the increase in share capital of the RSGV in the amount of € 100m, the book value of the participation in the RSGV decreased by € 2.7m to € 150,8m (previous year: € 153.5m). The increase in share capital was the result of an increase in capital at the LBS Westdeutsche Landesbausparkasse (LBS West) in the amount of € 300m, whereby both shareholders, RSGV and the Sparkassenverband Westfalen-Lippe (SVWL) contributed € 150m respectively.

The RSGV is also a shareholder of Provinzial Rheinland (insurance), 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 RSGV and the SVWL each with approx. 25.03 %, the Landschaftsverband Rheinland – LVR – and Landschaftsverband Westfalen-Lippe – each with approx. 0.87 %) 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 § 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 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. 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 2016.

In view of the probably lengthy winding-up period, there is always the risk that claims will be made against the RSGV and the Stadtsparkasse Düsseldorf will be subject to claims in accordance with its share in the RSGV. To cover this risk, the Stadtsparkasse Düsseldorf is obliged to 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 31/12/2016, our participation quota amounts to 7.6 %.

The reassessment of the necessary financial precautions, as agreed under the responsibility for compensating losses, shows in 2016 that the requirements for the suspension of the creation of provision were given as per 31/12/2015. Apart from having attained the agreed cumulative minimum volume of provisions, the winding-up schedule of the EAA gives cause to expect that a compensation of losses will not be necessary at the current time. The suspension is indefinite but will be reviewed on a regular basis.

The balance-sheet provisions made up to 31/12/2014 in the amount of € 35.6m by allocation to the fund for general banking risks in accordance with § 340g of the HGB (German Commercial Code) are not affected by this suspension. The amounts earmarked here are not treated as equity in the sense of the CRR (Capital Requirements Regulation). The allocation of € 6.0m provided for in the annual statement for 2015 will be upheld as non-specific provisions for general banking risks in accordance with § 340g HGB.

The book value of the subordinate participation in the limited liability capital of the Deutscher Sparkassen- und Giroverband ö. K. (DSGV) invested in the Erwerbsgesellschaft der Finanzgruppe mbH & Co. KG remained unchanged. The Erwerbsgesellschaft holds 100 % of the shares of the Landesbank Berlin Holding AG (LBBH) either directly or indirectly. In the annual statement for 2013, the Stadtparkasse Düsseldorf had already reduced the book value for the participation to € 3.5m, in view of the persistent low interest levels and the profound restructuring measures. 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. With effect from 1/1/2015 the Berlin Hyp AG was handed over to the mutual holding company LBBH and acts as an affiliate company to the LBB /Berliner Sparkasse.

The structural modification of the Berlin Hyp and the restructuring of the property financing business of the group have been completed in the middle of 2015. The transformation of the Landesbank Berlin AG (LBB) to the Berliner Sparkasse is due to be finalised by the end of 2017.

Due to the burden of the reorganisation and the business reorientation, the LBBH's plans from the previous year did not foresee a disbursement in favour of the Erwerbsgesellschaft until 2017 for the business year 2016. Together with the net income from 2015, according to a statement of LBBH the forecasted results for 2016 will be sufficient to avoid a reimbursement of expenses to the DSGV through the subordinated savings banks for the next coming years. Nevertheless, as in previous years, a reimbursement will be paid to the DSGV for 2016. In its annual financial statement for 2013, the Stadtparkasse Düsseldorf

had already made provisions for its reimbursement obligations with respect to the DSGV in the amount of € 5.1m. From this, € 1.6m were drawn down in 2016. The provisions decreased in total to € 1.6m as per 31/12/2016. On account of the forecasted results of the medium-term assessment, further provisions as per 31/12/2016 are not necessary.

As a result of a revaluation of the participation in the GID Gewerbeimmobilienfonds Deutschland GmbH & Co. KG, the book value decreased to € 102,000 (previous year: € 118,000).

The revaluation of the participation in the Düsseldorf Business School GmbH at the Heinrich Heine University led to a value adjustment of the book value of € 35,000 (previous year: € 50,000).

Deposit taking

In 2016 total customer deposits increased by € 297m to € 8,740m (previous year: € 8,443m), the equivalent of 3.5 %. The increase in term deposits was particularly strong at 103.9 % to € 422m. At the end of the year bonds were in circulation in the amount of € 39m, € 3m less than in 2015. Registered debentures decreased by € 41m or 15.4 % to € 226m.

Business with associated partners

As in the previous year, the low-interest environment has had an impact on insurance and building society savings business with our associated partners. The number of insurance policies issued fell by 19 % with respect to the previous year.

Building society savings business also fell in view of the low interest environment. The total amount of all building society savings contracts fell by 28 %.

Securities business

Securities transactions fell slightly by comparison to the previous year. Total turnover decreased by € 56m or 2.7 % to € 2,047m. Business in fixed-interest securities registered a decrease in turnover of 23.7 %. Turnover in stocks and shares fell by 8.9 % from € 403m to € 367m. On the other hand, the increase in turnover of unit trusts was pleasing. Here there was an increase of € 133m to € 1,188m.

Together with the unit trusts of our associated partners, the Stadtparkasse Düsseldorf also offers in-house unit trusts. These comprise the unit trusts of the TOP trust-family and the sustainability trust "Wertvoll1825". Furthermore, the Stadtparkasse Düsseldorf has issued the "Rheinischer Kirchenfonds" in cooperation with partners from the savings bank organisation.

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 € 2,300m (previous year: € 2,219m).

Refinancing instruments through other financial institutions

As in the previous year, the structure of the refinancing instruments through other financial institutions was characterised by earmarked funds and debentures.

Important developments during the year of business

The Management Board drew up the unconsolidated annual accounts for 2014 on 30/3/2015 (§ 24 section 2 Savings Bank Bill for NRW – SpKG NRW, § 264 section 1, § 340a HGB). This showed a net income for the year of € 3.3m and the allocation of a special reserve for general banking risks in accordance with § 340g HGB of € 101m to a total of € 382m, € 95m of which were for the general risk provision for the particular risks applicable to financial institutions and € 6m were for the risk arising from possible claims resulting from the indirect participation in the EAA.

The auditor issued an unconditional attestation (§ 24 section 3 SpKG NRW) on 9/6/2015. The Advisory Board approved the unconsolidated annual accounts on 26/6/2015 (§ 15 section 2 SpKG NRW). Thereupon the Lord Mayor of Düsseldorf, as official public instance, objected to the legitimacy of the approval of the unconsolidated annual accounts for 2014 by the Advisory Board on 26/6/2015 (§ 17 SpKG NRW). Consequently, the Advisory Board again addressed the annual accounts for 2014 in the light of this objection in accordance with § 17 SpKG NRW and confirmed its approval.

The official public instance then passed the matter on for arbitration to the legal controller of the savings bank in accordance with § 17 SpKG NRW, which lies within the jurisdiction of the Ministry of Finance of North-Rhine Westphalia. The Ministry of Finance of the state of NRW finally countermanded the approval of 26/6/2015 on 9/6/2016. The Stadtparkasse Düsseldorf filed legal action against the decision of the Ministry of Finance on 6/7/2016.

The legal proceedings were stopped on 23/2/2017 by way of the Bank withdrawing the claim.

The claim was withdrawn after the responsible bodies of the Stadtparkasse Düsseldorf, in their meeting on 16/2/2017, agreed to a legally correct method for drawing up and approving the unconsolidated annual accounts as well as a practicable way to plan and vote on disbursements.

The chief administrator informed the Management Board and the Advisory Board, in his capacity as official public instance, that he has no doubt on the legitimacy of the corresponding decisions of the Advisory Board if this practise is followed.

In the meeting on 30/9/2016, the Advisory Board of the Stadtparkasse Düsseldorf decided not to prolong the contract of Mr. Arndt M. Hallmann as Chairman of the Management Board. Both parties have mutually agreed that Mr. Arndt M. Hallmann shall step down from his post with effect from 1/1/2017 and resign.

In the meeting on 28/6/2016, the Advisory Board of the Stadtparkasse Düsseldorf decided not to prolong the contract of Dr. Martin van Gemmeren as Member of the Management Board. As a result, Dr. Martin van Gemmeren stepped down from his post as Member of the Management Board with effect from 1/10/2016.

In the meeting on 29/8/2016, the Advisory Board of the Stadtparkasse Düsseldorf appointed Dr. Stefan Dahm as a full Member of the Management Board with effect from 1/10/2016.

In the meeting on 3/11/2016, the Advisory Board of the Stadtparkasse Düsseldorf prolonged the contract of Ms. Karin-Brigitte Göbel for a further five years with effect from 1/1/2017 and appointed her as new Chairperson of the Management Board in accordance with § 14 (2) SpkG NW a. F.

Staff

As per 31 December 2016 the Stadtsparkasse Düsseldorf employed a total of 2,037 staff (previous year: 2,170, of which 1,353 worked on a full-time basis (previous year: 1,446) and 572 on a part-time basis (previous year: 592).

The number of trainees employed was 112.

Earnings position

Against a background of increasing changes in the economic and political environment, unchanged low interest levels and exacerbated regulatory requirements, the Stadtsparkasse Düsseldorf was able to achieve a satisfactory result in 2016.

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 2 % with respect to the previous year.

Net interest income including regular income (items 1 - 3 of the Profit & Loss Account) decreased on a whole by 4.4 % to € 215m (previous year: € 225m) and still remains to be the most important source of income of the Stadtsparkasse Düsseldorf.

Again in 2016, the continuing low interest level had a lasting impact on other interest income. Contrary to expectations, interest fell further accompanied by a flatter interest structure curve. The unchanged pressure on margins led to further strain on other interest income, and, as a result, the declining interest on deposits on the liabilities side could not be passed on in the same amount.

Other interest income (the sum of items 1 and 2 of the Profit & Loss Account) decreased by a total of € 20m in the year under review, i. e. much more than had been forecast. Both interest income (- € 41m) and interest expenses (- € 21m) decreased by comparison to the previous year. The reduction in interest income is primarily accounted for by the fall in income from lending business. The income from swap agreements and fixed-interest securities also decreased. The reduction in interest expenses arose, in particular, from expenses for swap transactions as well as interest expenses for deposit taking. In total, income interest and interest expenses from swap transactions resulted in expenses in the amount of € 21m (previous year: € 18m).

The net interest income includes a total of € 9m (previous year: € 14m) in costs for interest rate risks in accordance with the strategic management policy.

Furthermore, the net interest income includes costs of € 18m (previous year: € 20m) and income of € 6m (previous year: € 14m) which result from so called "close out payments" from the termination of swaps. The termination of swaps was part of the strategy to manage interest rate risks and served to limit credit risks with respect to counterparties and stabilise the future interest income.

Negative interest paid for assets at the European Central Bank and at other financial institutions was included in the interest yield, positive interest for borrowings from other financial institutions and from customer business in interest costs. The interest thereby accrued has been directly assigned to the relevant items of the balance sheet. The amounts included in interest yield and interest costs are generally of minor importance. Provisions have been made for swap transactions with customers with interest floors in the case of excess liability and posted under the item "Operating costs".

Regular income from participations and shares in associated companies increased by a total of € 10m. Whereas the regular income from participations decreased by € 3m (previous year: € 5m), the regular income from shares in associated companies was, as expected, higher than the value for the previous year at € 45m (previous year: € 35m).

Regular income from shares and other non-fixed interest bearing securities increased to € 3m (previous year: € 1m).

Due to the reductions in surplus interest and in the average balance-sheet total, the ratio decreased to 1.92 % (previous year: 1.97 %).

The commissions' surplus (sum of items 5 and 6 of the Profit & Loss Account) at € 75m lay slightly below the level of the previous year (€ 77m), as we had expected. The decrease can be essentially accounted for by the fall in income from commissions from brokerage of building-society loans and insurance policies as well as securities transactions.

Operating income (item 8 of the Profit & Loss Account) increased by € 6m to € 38m. This item includes € 18m for interest on tax refund claims, essentially for income in connection with the jurisdiction with respect to STEKO and basket II, as well as with the jurisdiction on the tax deductibility of financing transactions and forward exchange transactions. Furthermore, the item includes € 7m from the disbandment of reserves and € 3m from the sale of a property from the fixed assets.

Operating costs (item 12 of the Profit & Loss Account) increased by € 3m to € 23m. This item includes € 9m in interest for subsequent tax payment obligations, essentially for income in connection with the jurisdiction with respect to STEKO and basket II, as well as with the jurisdiction on the tax deductibility of financing transactions and forward exchange transactions, as well as € 2m (previous year: € 7m) from costs for the accumulation of reserves.

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 € 232m (previous year: € 217m).

The personnel expense included in this item increased more strongly than planned to € 155m (previous year: € 144m). The cause for this lies, in particular, in costs for allocations to the reserves for rights to future pension benefits in the amount of € 8m as well as expenses for allocations to the reserves or liabilities of € 3m within the scope of a five-year programme designed to cap personnel costs. Furthermore, this item includes expenses for the payment of a performance-related bonus and expenses on account of tariff increases.

The other administrative expenses increased less strongly than expected in the year under review to € 71m (previous year: € 66m). This item includes increased costs for the European bank levy in an amount of € 3m.

The contribution to the institutional protection scheme of the Savings Banks Finance Group, included in the operating costs, was more or less on the level of the previous year.

On the other hand, the increase in other administrative expenses is essentially due to the costs for third-party services (€ 1m) as well as maintenance and insurance costs for our own

buildings (€ 1m). On the other hand, the expenses for third-party computing services turned out € 1m less.

Depreciation on property, plant and equipment (item 11 of the Profit & Loss Account) decreased in the year under review to € 6m (previous year: € 7m).

Total income (items 1 to 9 of the Profit & Loss Account) decreased by € 6m to € 328m. At the same time, total expenditure increased by € 18m to € 255m. The cost-income ratio increased to 75 % (previous year: 72 %).

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 - € 17m (previous year: € 25m).

The majority of the assets shown under items 5 and 6 were classified as current assets. Securities among the liquid assets were always assessed at the lower market value in accordance with the strict lowest value principle. In this connection, we refer to the comments with respect to accounting and valuation methods in the appendix of the annual accounts as at 31/12/2016.

The sum of alignments and depreciations and price gains and price losses of the securities held as liquidity reserves exceeded our expectations at € 3m.

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. Furthermore, the Bank has made provisions for the special risks involved with the financial institutions sector. In the year under review, the valuation yield for lending operations of - € 20m (previous year: € 29m) was much better than expected.

Due, in particular, to profit deriving from the sale of a participation, the contribution to the results from shareholdings in the amount of € 1m (previous year: - € 4m) was higher than the value for the previous year and contrary to our expectations.

In view of further tightening of the equity requirements of financial institutions and the additional risks arising from the share in the RSGV, the Stadtparkasse Düsseldorf has allocated € 40m to the fund for general banking risks in accordance with § 340g HGB.

In total, we have created provisions for special risks for business with financial institutions in the amount of € 492m in accordance with § 340g HGB. This position includes € 36m in balance-sheet provisions for the risk of being claimed upon through the indirect obligation with respect to the indirect participation in the EAA (previous year: € 42m) as well as € 22m (previous year: € 14m) for additional risks from the participation in RSGV.

Item 23 of the Profit & Loss Account – taxes on income and capital gains – amounted to € 1m (previous year: € 30m). This includes € 11m in tax expenses for 2016 as well as a total of € 10m in tax rebates out of the previous years. Essentially, this pertains to effects from the current so-called STEKO and the basket II rulings as well as the jurisdiction with respect to the tax-deductibility of financial und forward currency transactions.

Necessary information from capital investment companies with respect to claims to tax reimbursements as a result of the so-called STEKO and basket II ruling is not yet available in its entirety.

The City Council of Düsseldorf decides on the application of the surplus for the year in accordance with the recommendations of the Advisory Board. The stable capital base of the Stadtparkasse Düsseldorf ensures a safe liquidity and loan supply for the regional market.

Equity situation

As per 31/12/2016, the reserves of the Stadtparkasse Düsseldorf remained unchanged at € 726m.

In addition, there was an allocation in 2016 of € 40m to the reserves for general banking risks in accordance with § 340g HGB.

The ratio between own funds and weighted risks items amounted to 20.5 % (previous year: 17.0 %) in accordance with the Capital Requirements Regulation (CRR) and lies above the required minimum value of 8 %. The tier 1 capital ratio

amounted to 18.2 % (previous year: 14.8 %). This increase results from the allocation of further capital to the reserves for general banking risks in accordance with § 340g HGB for the years 2014 and 2015 in a total amount of € 163m and an initial consideration for the approval of both annual accounts in 2016 as well as a reduction in the weighted risk items.

The capital requirements were upheld at all times in 2016. In the course of the year the utilisation of the total capital ratio fluctuated between 17.1 % and 20.5 %. The utilisation of the tier 1 capital ratio lay between 14.9 % and 18.2 %. In view of the further tightening of the capital requirements of financial institutions by 2019, a solid capital base is 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 0.14 % as per 31/12/2016.

The balance-sheet structure shows only minor changes in the year under review. The increase in the balance-sheet total of € 297m is primarily a result of the increase in customer deposits.

On the assets side of the balance sheet, the share of receivables from customers decreased to 68 % (previous year: 71 %) but continued to be the most important item. The ratio of own investments (bonds, stocks and other non-fixed interest items) remained at the same level as the previous year at 19 %.

On the liabilities side of the balance sheet, liabilities towards customers continued to be the most important item and remained unchanged at 77 % (previous year: 77 %), accountable for by an increase in deposits. The contingent liabilities towards financial institutions fell slightly to 4 % (previous year: 5 %); the balance-sheet portion of securitised debt remained unchanged at 4 %.

In view of the persistent low interest level and the economic and political changes, the Management Board is satisfied with the business situation of the Stadtparkasse Düsseldorf. At the time this report was written the business situation remains stable.

Financial situation

Due to the well-planned and well-balanced liquidity provision throughout 2016, 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 31/12/2016 the value was 2.63. In the course of the year, the utilisation fluctuated within a bandwidth of 1.86 and 2.95 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 at all times.

At the same time, the Capital Requirements Regulation (CRR) issued by the EU regulates the uniform Liquidity Coverage Ratio (LCR) for all financial institutions and investment firms throughout Europe. The LCR became the binding minimum standard in the EU with effect from 1/10/2015. The degree of fulfilment will be increased step by step to 100 % in 2018. On the balance-sheet date the coefficient amounted to 176 %, well above the minimum value prescribed for 2016 of 70 %. The utilisation fluctuated within a bandwidth of 129 % and 210 %. The coefficients calculated show an adequate liquidity position at all times. Further information on the liquidity risks is included in the Risk report.

Use was not made of the offer of the European Central Bank to refinance business through open market transactions (main refinancing operations). The lines of credit available at our own state bank (Landesbank Hessen-Thüringen) were also not taken advantage of. Moreover, short-term refinancing business was done in the form of overnight loans, call money transactions at other financial institutions as well as GC pooling positions through the Eurex Clearing AG as central counterparty.

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.

At the point in time when this performance report was written, the trends in the equity situation, the financial situation and earnings position were all in line with our expectations.

Risk management and risks 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 risks 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.

In 2016 the risks were below the risk-coverage potential. At the end of the year, the utilisation of the risk-coverage potential amounted to 86.5 % at a utilisation of the limit for risk-bearing capacity of 76.3 % (for all types of risks).

As per 31/12/2016 the value-orientated overall limit was € 1,269.2m at a confidence level of 99.9 % (previous year: € 1,288m 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 capital quotas and capital buffers. Extended capital requirements for credit risks and the recently introduced leverage ratio must also be observed.

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

The minimum capital requirement to maintain operations will be observed with a probability of 99 %. The minimum requirement (tier 1 capital) for the Stadtsparkasse Düsseldorf in 2019 is 11.25 % and lies well above the regulatory quota of 9.625 % (minimum requirement 6 % + 2.5 % capital maintenance buffer + 1.125 % supplement for SREP – supervisory review and evaluation process). In order to satisfy the requirements of CRR/CRD IV in 2019, an increase of 5.25 % for the capital maintenance buffer, SREP as well as further possible regulatory requirements (e. g. a buffer for system risks, a premium with respect to the law on restructuring and winding-up) will be taken into account.

The total capital quota as per 31/12/2016 amounted to 21.0 % (previous year: 17.1 %). The minimum quota according to planning for 2016 lies at 10.0 %.

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. On account of the expansive central bank policy, in addition a stress scenario "central bank crisis" is also calculated on a half-yearly basis. In this scenario, as a result of bad debts on the part of the euro creditor countries we are faced with a confidence crisis (the European Central Bank can no longer take countermeasures, falling prices on the capital market, credit crisis, draining liquidity).

The stress test is complemented by inverse stress tests on the risk levels interest, loan spreads, share and market prices and loans on a half-yearly basis. Furthermore, selective sensitivity stress tests are simulated, e. g. for interest rate risks and participations. 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 ratio, tier 1 capital ratio 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).

Safeguarding methods

In order to shore off interest rate risk, alongside accounting instruments, interest swaps and forward rate agreements are implemented. The swap volume decreased from € 3,585m to € 2,814. The volume of forward rate agreements increased from € 100m to € 400m.

For customer transactions in derivatives and certain balance-sheet transactions, hedging transactions and micro-hedges were carried out in accordance with § 254 HGB.

Foreign currency positions arising from customer transactions are mainly closed by means of for-

ward exchange transactions. The open foreign currency transactions in special trusts are limited to € 20m (open positions: € 1.7m as per 31/12/2016 – previous year: € 1.3m).

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

Credit risks

The Sparkasse 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 value-orientated credit value at risks (confidence level 99.9 %, holding period one year) amounted to € 80.6m at the year-end (previous year: € 86.6m).

The periodic risk amounted to € 49.3m at the end of the year at a confidence level of 99 % (previous year: € 72.8m at a confidence level of 98 %). By comparison with the previous year, the expected loss is no longer included in risk but is included in the deducted items in the risk coverage potential.

Credit risks on lending business

The total open loan portfolio amounts to approx. € 10.7bn. The emphasis lies on lending business with corporate customers and small and medium-sized enterprises (approx. € 5.2bn) and retail customers (approx. € 3.9bn).

All recognised contingency risks have been adequately protected.

The total amount of provisions for individual risks in lending business fell by 28 % to € 46m. 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.

The average volume-weighted probability of default in the customer loan portfolio (without financial institutions and local governments) has continued to improve in the year under review from approx. 0.80 % to approx. 0.74 %. The rating-coverage quota amounted to 98 % as at 31/12/2016 (previous year: 99 %) with respect to the volume of loans in classical lending business. When classifying the ratings in accordance with the volume (total loan portfolio) with reference to the categories 1 to 15, at the end of the year approx. 93 % fell under the rating categories 1 to 8 with small probability of default (previous year: approx. 92 %).

Credit risks on own investments

Credit risks from interest-earning own investments are assessed together with credit risks from customer lending business on a group level.

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.

Investments in bonds and shares in the countries Spain, Ireland, Italy, Portugal and Greece amounted to approx. € 46m in own investments and special trusts as per 31/12/2016 (previous year: € 96m). These are mainly spread between Ireland, Spain and Italy. There are no investments in Greece. At the present time, there are no particular recognisable risks.

Shareholder risks

By shareholder risks, the Stadtsparkasse Düsseldorf understands the danger of depreciation of the book value of a participation or a reduction of the market value on account of a negative performance within the investment portfolio. Furthermore, call and guarantee liabilities or transfer of losses can be defined as shareholder risks.

The volume of participations at book value amounted to € 267.0m as at 31/12/2016 (previous year: € 319.7m). The change over the previous year is foremost a result of reflux of capital on

the part of Equity Partner GmbH (EP). Within the scope of the natural reduction of the private equity portfolio and the resulting sale of associated companies through the private equity fund, EP returned capital to the SKGB in the amount of € 50m in 2016.

The yield-orientated participation portfolio is mainly determined by private equity investments, the book value of which amounted to € 58.6m as per 31/12/2016 (previous year: € 108.3m).

The strategic investments include compulsory participations and group-political participations with a total book value of € 204.4m as per 31/12/2016 (previous year: € 207.4m). The major portion of the strategic investments pertains to the participation in the RSGV with a book value of € 150.8m (previous year: € 153.5m).

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 2016.

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 both within a portfolio of self-managed bonds and debentures as well as special and public funds.

The self-managed investments of the Stadtsparkasse Düsseldorf (excluding debentures and money market business) and the special and public funds attained a volume (market value) of approx. € 2.3bn (previous year: approx. € 2.2bn, without participations respectively). The volume of debentures in our treasury department amounted to € 0.4bn as per 31/12/2016 (previous year: € 0.5bn). The debenture portfolio contains only federal state instruments.

In the case of self-managed investments our strategy only allows items with good ratings (investment grade: AAA to BBB-). All rated bonds and other interest-bearing securities have investment grades of Aaa to Baa3 (Moody's).

In addition, there are approx. € 423m 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 31/12/2016 of approx. € 481m (previous year: € 472m). This increase in market value is due to price gains. In addition, shares in public funds are held with a market value of € 55m as per 31/12/2016 (previous year: € 50m). This increase is the result of the purchase of a further public fund. This fund serves as part of the asset allocation.

The increase of the value-orientated market risks in the course of the year is attributable to the further development of transparent risk assessment of asset allocation. Together with the special funds, the public funds are now covered by the transparent risk assessment.

Risk is narrowed down using limits on a corporate level as well as limits on asset classes, issuer and counterparty levels. Market risks suffered two limit transgressions in the course of 2016 which occurred due to a change in methods. The limits were newly adjusted accordingly.

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. 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 decrease in risk at the start of the second quarter of 2016 is a result of the implementation of asset allocation.

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 outcome of the standardised interest shock of +/- 200 basis points as prescribed in the circular of the Federal Financial Supervisory Agency (BaFin) was always within or below the fixed level of 20 % of the liable equity, which would have to be reported, or the defined corridor in the interest risk strategy of the Stadtparkasse Düsseldorf. The change in cash value as per 31/12/2016 amounted to - €117.4m at + 200 basis points. This corresponds to 9.3 % of the liable equity (Previous year: + 200 basis points, - €136.1m = 12.4 %) and lies well 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 BaFin dated 9 November 2011.

In order to shore off market risks, interest swaps and forward rate agreements are implemented, alongside accounting instruments to manage interest rate risks in the non-trading portfolio. The swap volume decreased from € 3.6bn to € 2.8bn in 2016. The volume of forward rate agreements increased from € 0.1bn to € 0.4bn.

The major share of 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 regularly covered by forward foreign exchange contracts. In the case of master funds, all currency risks are hedged on principle. 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 within the scope of the risk-bearing capacity and setting them off against limits is reported separately from the interest rate risks as of 2016. Risk reporting with respect to liquidity risks is made from a periodical and a value-orientated point of view. Furthermore, the liquidity coefficient of the BaFin is monitored and subjected to various stress tests.

In the course of 2016, this coefficient fluctuated between 2.95 and 1.86 and thus lay continually well above the prescribed threshold of 1.00. The Liquidity Coverage Ratio (LCR) amounted to 176 % (previous year: 160 %) as per 31/12/2016. 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.

The method of assessment is based on information on individual losses as well as scenario analyses. Under the value-orientated aspect, € 112m were reserved for operational risks. This value is under the assumption that limits are utilised to 80 %, as no limits were set for the individual types of risk within the value-orientated aspect. During the previous year the value amounted to € 110m. Under the periodical monitoring system the reserved coverage potential amounted to approx. € 48m (previous year: € 33m). The increased is a result

of the higher confidence level (2015: 98 %, 2016: 99 %).

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 31/12/2016 of € 1,269.2m, 80 % of the risk covering potential (confidence level 99.9 %). We dismissed with a limitation of the individual risks in 2016. The total limit was only used to approx. 66 % in consideration of the actual sum of the separate risks as per 31/12/2016. From the periodical point of view as per 31/12/2016, approx. 87 % of the risk covering potential was used for limits. The utilisation of the limits as per 31/12/2016 reached approx. 76 %.

With regard to 2016, 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 Stadtparkasse Düsseldorf. The quality of the portfolio of customer lending business has continued to improve from 0.80 % to 0.74 % with respect to the volume-weighted average probability of default (excluding financial institutions, local authorities and own investments). The periodical limit was used to approx. 78 % as per 31/12/2016. All recognised default risks in lending business were sufficiently protected.

With respect to the participations, it is necessary to mention the risk that the Stadtparkasse Düsseldorf could be claimed upon in accordance with its share in the RSGV from its indirect obligation in connection with the former WestLB. Furthermore, it is possible that obligations arise particularly from joint liability. The periodic limit was used to approx. 80 % as per 31/12/2016. Almost 36 % of the allocated limits for the periodical control circuit are available for market risks

(including spread and interest rate risks). If we add the interest margin risks, the value increases to 41 %. Markets are expected to remain volatile in 2017.

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

With a liquidity coefficient on 31/12/2016 of 2.63 (LiqV) the liquidity situation can be considered good. The LCR was 176 % as per 31/12/2016.

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

Other risks are also covered by 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 RSGV, the German economic research institutions as well as our own surveys and perceptions. 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 2017, the Sparkasse Düsseldorf expects that the market and competition situation will continue to be characterised by a historically low level of interest and extensive regulation.

The stable economic development could be subject to drastic corrections if various risks become a serious threat to the general macro-economic situation. This is particularly the case for the effects of an extremely lax monetary policy. The surge in liquidity holds the danger of asset value bubbles, incorrect risk evaluation and misguided investments.

Furthermore, there are certain risks for the world economy resulting from the current political uncertainty. The best known disruptive factors

are the decision of the U. K. to leave the EU, and the victory of Donald Trump in the presidential elections in the USA. These could lead to negative effects on the economic trend of the world economy. 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 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 provisions of € 36m have been made over the last years, in accordance with § 340g HGB for the risk of claims from an indirect obligation arising from the indirect participation in the EAA (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.

Earnings position

The Sparkasse Düsseldorf expects a slight increase in gross income in 2017.

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 interest structure.

Due to the persistent expansive monetary policy of the European Central Bank, interest on the money market in the euro-zone has been cemented at an extremely low level. The Bank expects that the yield curve will continue to remain fairly flat, even if interest for longer terms rises towards the end of the year.

The effects of the low interest levels are noticeable in 2017, and lead to considerable pressure on the interest surplus.

For 2017, the Management Board reckons with a slight increase in the interest surplus, particularly in view of the scheduled increase in profit from participations.

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 2017 that these will increase considerably due to a strong increase in income from clearing operations and from service operations.

The Stadtsparkasse Düsseldorf will reduce the number of staff drastically over the next years. The restructuring and cost reduction programme initiated by the Management Board will lead in their opinion to a slight reduction in personnel costs in 2017, despite the negotiated wage increases. Operating expenditure will also show a moderate decrease. Furthermore, the Bank presumes the further implementation of the restructuring and cost reduction programme will be linked to further appreciable expenses.

For 2017 the Management Board does not expect any essential changes in the valuation yield from lending operations compared to the previous year.

In the case of value adjustments on securities, we expect the income contribution for 2016 to be a little lower than in the last year of business.

In the case of value adjustments for investments, we presume that there will be no significant need for write-offs in the next few years. The danger of the need for future risk protection for participations of the network is still very much present in this field, inasmuch as the Stadtsparkasse Düsseldorf is unable to exercise any influence on their business activities.

Against this backdrop, the Management Board expects a profit before tax in 2017 which is well below the result for the last year.

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

Düsseldorf, 21 April 2017

The Management Board

Summary of the Bank's Performance

	EUR in thousands as at 31/12/2016
Balance Sheet Total	11,096,320
Volume of Business	11,259,155
Assets	
Cash and Banks	561,720
Investments	2,407,512
Loans & Discounts	7,998,588
Other Assets	128,500
Liabilities	
Deposits	9,510,152
Other Liabilities	207,025
Subordinated Liabilities	145,925
Funds for general bank risks	492,116
Capital	725,817
Profit	15,285

Profit & Loss Account

	EUR in thousands for the year from 01/01/2016 to 31/12/2016
Expenses	
Interest and Commissions Paid	119,318
Staff Costs	155,221
Other Operating Costs	70,852
Depreciation	22,713
Taxes	885
Other Expenses	62,580
Profit for the year	15,285
Receipts	
Interest and Comm. Receiv.	409,358
Other Receipts	37,496

2019