



Performance Report 2006  
of the Stadtparkasse Düsseldorf

## The general economic trend in 2006

The German Gross Domestic Product grew much more strongly in 2006 than was forecast by the economic research institutes at the beginning of the year. The official figures of the German Federal Statistical Office showed an increase of 2.7 % (previous year: 0.9 %). This growth was generated both by domestic and by foreign demand. In the case of domestic demand private consumption increased in all sectors. This is an indication that the economic recovery is on a sound footing. The recovery in domestic demand is particularly pleasing, under consideration of the fact that it had hardly provided any growth impulse to the Gross Domestic Product for a number of years.

The friendly economic climate has also led to a greatly improved situation on the employment market. The unemployment rate ran at a yearly average of 10.8 % with respect to the whole civilian workforce, almost a whole percentage point lower than the year before.

The positive general economic situation encompassed the metropolitan region of Düsseldorf. According to the Chamber of Industry and Commerce in Düsseldorf, the economic trend in the region of Düsseldorf/ central lower Rhine area developed much better in the course of 2006 than companies had expected at the beginning of the year. They assessed their business situation at the end of the summer in 2006 to be as good as it was in the boom years of German reunification in the 1990 's.

The rate of unemployment within the city area of Düsseldorf fell from 12.5 % (end of 2005) to 10.9 % (end of 2006).

## Developments in business at the Stadtparkasse Düsseldorf

The Stadtparkasse Düsseldorf looks back on a satisfying year of business in 2006 and succeeded in securing its strong market position in the highly competitive financial centre of Düsseldorf.

Results were strongly affected by the changes in interest trends by comparison to the previous years. Despite the stresses and strains of the flat interest structure curve, the Stadtparkasse Düsseldorf again registered a high income level. The balance sheet total rose by 3.6 % to € 12.6bn (previous year: € 12.1bn). The main source of growth were the amounts due from customers with an increase in an amount of € 607bn or + 9.3 %.

## Lending operations

During 2006 the volume of new loans developed in a pleasing way and exceeded the high level of the

previous year. New loans were approved in an amount of € 1,409m (previous year: € 1,349m). By comparison to the very strong results of the previous year, this is a further increase of 4 %. The volume of loans as a whole rose by 9.3 % or € 607m to € 7,159m. Following the very dynamic new lendings to corporate clients in the previous year, this field of operations remained on the road to further growth. To our corporate and institutional clients we granted new loans in an amount of € 858m (previous year: € 815m). The emphasis lay in investment loans. As in the previous year we registered an increasing demand in all branches of industry for supplementary forms of financing such as leasing and individual solutions by way of structured products.

We have also greatly expanded the volume of lendings to private customers. New business rose by 3 % to € 551m (previous year: € 534m). In this sector we benefited from the high demand for housing loans. Approvals amounted to € 395m or 2 % above the high level of the previous year. Consumer loans also showed pleasing developments. The volume of loans granted increased by 17 % to € 61m (previous year: € 52m) due to innovative methods of handling the product.

## Investment portfolio

The investment activities of the Stadtparkasse Düsseldorf are organised both directly and indirectly (through the medium of its subsidiary **St**-KBG). The task of **St**-KBG as the holding company of the Stadtparkasse Düsseldorf is foremost controlling.

The value of the participations under the item "investment portfolio" expanded further in 2006. The volume increased by € 32.5m to € 352.6m by way of equity allocations to **St**-Kapitalbeteiligungsgesellschaft Düsseldorf mbH (**St**-KBG), whose book value increased by € 32.5m to € 113.6m. The funds were placed at the disposal of Equity Partners GmbH (EP), a full subsidiary of **St**-KBG, in particular for private equity investments.

Within the company strategy EP is responsible for the supervision and management of private equity and venture capital. These "operational" investments are held by EP and managed independently within defined strategic objectives.

Other important investments are the participations in the Rheinischer Sparkassen- und Giroverband – RSGV – (book value € 138.9m) as well as the CORPUS Immobiliengruppe GmbH & Co. KG (book value € 67.3m) and the RW Holding AG (book value € 23.0m). The RSGV is a shareholder of the Provinzial Rheinland (Insurance), the WestLB AG and the Landesbausparkasse LBS West, inter alia. The book values remained unchanged by comparison to the previous year.

## Deposit-taking

Deposit-taking was moderate and was characterised by regrouping between the different types of deposits. On the whole, total customer deposits (including bonds and subordinated liabilities) increased by 2.5 % to € 6,630m (previous year: € 6,466m). The rate of growth lies well above the comparative quota at other savings banks in the Rhine area (+ 1.0 %). Whereas savings deposits fell back by 2.6 % to € 1,837m (previous year: € 1,885m), the volume of bonds rose by some very pleasing 30.0 % to € 801m (previous year: € 616m). The value of the savings certificates decreased significantly by € 62m or 30.1 % to € 144m. The volume of the sight-deposits fell by 3.6 % to € 2,849m. A clear increase was registered in the case of term-deposits. The volume increased by a pleasing € 208m or 35.3 % to € 797m (previous year: € 589m).

## Securities business

The German share index DAX closed the year 2006 with a plus of 22 %. On account of the interest policy of the European Central Bank, the fixed interest markets showed increasingly weaker tendencies in the course of the year. Total turnover in securities operations at the Stadtparkasse Düsseldorf amounted to € 1.6bn (previous year: € 1.8bn). There was a strong demand for fixed-interest securities. In the case of stocks, sales transactions predominated. Total turnover in unit trusts was very pleasing with an increase of 23.7 % to € 621m.

## Important events in the course of the year

The Stadtparkasse Düsseldorf subjects itself to a yearly rating procedure in order to secure less expensive refinancing on the capital market. The rating of Aa3 given to our bank by Moody's rating agency in February 2005 was again confirmed by Moody's for 2006. The rating agency founds its assessment on four fundamental points:

- The firm footing in retail business and in the market for small and medium-sized enterprises
- The solid financial and earnings position of the Stadtparkasse Düsseldorf
- The good equity base of the bank
- The integration in an economically strong region with a well-diversified industrial structure as well as the economic strength of the supporting authority, the regional capital of Düsseldorf.

## Staff

As per 31 December 2006 the Stadtparkasse Düsseldorf employed a total of 2,114 staff (previous year: 2,148), of which 1,495 worked on a full-time

basis (previous year: 1,507), 92 were trainees (previous year: 101) and 527 took advantage of the various possibilities offered by part-time employment (previous year: 540).

## Equity situation

The reserves of the Stadtparkasse Düsseldorf will increase to € 691m (previous year: € 638m), the proposed allocation from the net income for the year 2006 being included in this figure. At 8.7 % (previous year: 8.4 %) the ratio between the core equity and the sum of the risk items in accordance with the audited values in the balance sheet for 2006 lies well above the minimum requirements of 4.0 %.

The Stadtparkasse Düsseldorf has at its disposal a wide range of non-core capital assets. The ratio between total equity and the total amount of weighted risk assets and price risks as per 31/12/2006 was calculated at 12.3 % (previous year: 12.1 %) and lies well above the minimum value prescribed by the Federal Banking Supervisory Board of 8.0 %. The equity requirements prescribed by the Banking Act (KWG) were met at all times. An adequate capital base is, therefore, available for further business expansion.

In the course of the year the average utilisation lay between 11.4 % and 13.0 %. The improvement in equity utilisation results from the allocation of the net income for 2005 to the reserves and first time usage of the transparency principle for the valuation of securities in the sense of Principle I of the German Banking Act, accompanied by moderate growth in risk items (receivables from customers, securities, participations). Until the net income for 2006 is allocated to the reserves in the second quarter of 2007, we expect a further slight reduction in the equity ratio due to the continuing growth in asset items.

In comparison to the previous year, there have been few changes in the balance-sheet structure. Receivables from customers at 54 % (previous year: 52 %) and securities transactions (bonds, stocks and other non-fixed interest items) at 34 % (previous year: 36 %) are the most important items on the assets side. On the liabilities side, liabilities towards customers at 45 % (previous year: 46 %) and liabilities towards financial institutions at 27 % (previous year: 27 %) account for the largest share of the balance-sheet total. The balance-sheet portion of securitised debt increased in 2006 to 20 % (previous year: 18 %) due in part to the emission of a new public-sector bond in the amount of € 100m.

## Financial situation

Due to well planned and thought-out liquidity provision throughout the last year of business, the

Stadtsparkasse Düsseldorf was in a position to meet all its obligations at any given time.

The requirements of the Federal Banking Supervisory Authority with respect to the liquidity of financial institutions were observed at all times. In the course of the year, the utilisation fluctuated within a width between 1.44 and 1.88 due to changes in financial instruments and payment obligations in interbank business and lies well above the prescribed minimum value of 1.00. On the reference date the value was 1.61. Moreover, additional observation co-efficients established over a period of 12 months show all indications of a stable liquidity position.

With respect to the management of liquidity risks, please refer to the details in the risk report.

### Earnings position

The earnings position of our Bank in 2006 on the basis of the Profit & Loss Account shows satisfying results.

The net interest income continues to be the most important source of income. Net interest income including regular income as in item 3 of the Profit & Loss Account amounted to € 246m (previous year: € 267m) as per the end of the year. The main reasons for this decrease were the continuing low interest levels, although these were slightly higher than in the previous year, the flattening of the interest curve and a fall in relatively high-yield investments from fixed-interest securities in the course of shifts in securities holdings. In relation to the increased average balance sheet total (+ 6.2 %) this results in a net interest income of 1.90 % after 2.18 % in the previous year.

The net income from commissions improved by 9.4 % to € 58m (previous year: € 53m). The main sources of growth were securities operations, broker-fee and payments services. In relation to the average balance sheet total net income from commissions accounted for 0.45 % (previous year: 0.44 %).

The net income from financial business, i.e. the result from trading with securities, foreign currencies and derivatives, showed an improved result over the previous year of € 3m (previous year: € 1m).

Due to a slow-down in trading activities in future transactions, income from other business and "other operating costs" were reduced by € 9m in the year under review. Income from other business fell by € 5m to € 16m. The "other operating costs" remained almost unchanged by comparison to the previous year. This item includes € 5m from an increase in provisions for partial retirement. In calculating the pension provisions on the basis of the Heubeck table guides, a discount rate of 4 % was implemented

for the first time (previous year: 6 %). This resulted in a need to increase this item by a further € 5m.

Operating costs (item 10 of the Profit & Loss Account) and depreciation on property, plant and equipment (item 11 of the Profit & Loss Account) rose by 3.6 % to € 204m (previous year: € 197m). The main causes for this increase were the personnel expenses including payroll deductions and costs for retirement provisions which increased by 7.9 % to € 123m (previous year: € 114m).

Depreciation on property, plant and equipment (item 11 of the Profit & Loss Account) fell by € 1m. At the same time the operating costs decreased by € 2m to € 70m. It was pleasing to see that the costs for information technology and property have been reduced. On the other hand, the costs for advertising, compulsory contributions and staff training measures increased.

Total income (items 1 to 9 of the Profit & Loss Account) amounted to € 323m, € 19m less than for the previous year. The expenses increased by 2.3 % to € 225m. In accordance with the definition of the German Central Bank, the cost-income ratio was 63 % (previous year: 62 %) and is still better than the value at comparable large savings banks.

Depreciation and value adjustments on receivables and certain securities are shown after having set off the corresponding income in accordance with § 340 f, Section 3 of the German Commercial Code (HGB). The sum of the value adjustments amounted to € - 15m (previous year: € + 49m).

For acute customer contingency risks adequate depreciation and devaluation measures were taken. We aim to consolidate the risk situation through systematic management.

In anticipation of the introduction of accounting in accordance with international accounting standards (IFRS), € 18m were removed from the provisions in line with § 340 f HGB and added to the balance sheet.

Despite higher price gains, the sum of alignments and depreciation and price gains and price losses of the securities held as liquidity reserves was below the value of the previous year, due to higher depreciation requirements.

Taxes on income and capital gains (item 23 of the Profit & Loss Account) amounted to € 26m (previous year: € 30m).

Upon approval of the annual accounts and pending the necessary resolution of the responsible public authority, € 4m will be distributed from the profit for the year of € 57m (previous year: € 141m) and placed at the disposal of the City of Düsseldorf, the body responsible for the Bank, for charitable purposes.

The remaining amount of € 53m will be allocated to the reserves.

The result allows an adequate increase in equity as a basis for further business expansion.

Under the assumption that the Westdeutsche Landesbank AG is excluded from the tendering process for the Landesbank Berlin Holding AG, the Stadtsparkasse Düsseldorf has agreed to purchase shares in the amount of € 47.86m.

No circumstances of any importance have occurred since the end of the financial year.

### Risk management and risk control

The instruments and regulations to manage, monitor and control risks comply with the requirements of § 25 a of the German Banking Act (KWG) and the minimum requirements of the German regulations on risk management (MaRisk). Depending on the type of risk and the field of activity there are various methods of risk management that can be employed which are chosen in such a fashion as to be suitable for the volume and the complexity of the business under analysis. These are checked regularly by our internal auditing department.

The starting point for risk management is the risk hedging potential available to limit the amount of risks carried by the bank. The target is an efficient allocation of equity within the bank as a basis for dynamic business activities at an optimum risk-yield ratio. On this basis, the Management Board sets risk limits or loss ceilings which are broken down into the individual types of risk and portfolio.

The hedging potential comprises equity, valuation reserves as well as the forecast operating result before adjustment.

Regulatorily speaking, the ratio between the assets counted towards the equity base and the sum of the weighted risk-bearing assets and market price risks is expressed in terms of the solvability co-efficient. With a further improved solvability co-efficient of 12.3 % (previous year: 12.1 %) we lie well above the minimum value of 8.0 % as prescribed under Principle I of the German Banking Act.

### Counterparty risks

The risk of suffering losses from failure to perform contractual obligations not only comprises counterparty risks from classical lending business but also issuer and counterparty risks from trading operations.

The loan and risk policy of the Stadtsparkasse Düsseldorf has been documented in a loan risk strat-

egy which has been passed by the Management Board and constitutes a uniform guideline for granting loans. In order to manage and monitor the counterparty risks, the Stadtsparkasse Düsseldorf implements a whole range of instruments for risk assessment.

On the individual case level the Stadtsparkasse Düsseldorf uses carefully chosen rating processes to assess the creditworthiness of its customers. An expansion of the existing spectrum of instruments used to include further rating modules for leasing companies, banks and large enterprises as well as scoring modules for private customers are still at the planning stage. The particular rating classification is the basis for the calculation of the risk-adjusted loan conditions and constitutes the basis for rating-orientated loan approvals.

The Management Board sets a yearly total limit for counterparty risks on the basis of the available cover potential and under consideration of the other types of risk.

Business in 2006 was always conducted within the scope of these given limits.

Issuer and counterparty risks are minimised by careful choice of the counterparties who are subjected to high rating standards.

Risks arising from foreign debt (country and transfer risks) are monitored and analysed separately. In general, the volume is of minor importance and relates in 99 % of cases to countries where little or only normal risk is involved.

If a commitment is in danger of failing a risk shield is set up in good time by way of devaluation.

As a whole, the counterparty risks are contained within manageable scope. The risk situation is well-balanced with respect to the instigated risk prevention measures, adequate cover potential and the volume of business.

### Market risks

Solvency, market and currency risks are summarised under the term market risks. Apart from this, optional risks have to be taken into consideration. Within the scope of total risks, the currency risks of the Stadtsparkasse Düsseldorf are negligible, as they are of secondary importance in comparison to the total volume and are mostly covered immediately by appropriate hedging transactions.

We manage the market risks of the whole bank with the aid of instruments recommended by the group holding and on the basis of the cash value method. In the daily management of market risk we primarily

implement derivative instruments. These are essentially government bonds and futures (futures contracts on the basis of medium and long-term government bonds). In order to hedge market risks from long-term refinancing, congruent payer swaps are implemented in an identical amount.

In the case of trading business, as defined by the minimum requirements of the German regulations on risk management (MaRisk), the market risks are assessed daily on a value at risk basis. The bank monitors the price risks on a daily basis.

The management of the market risks is in the hands of the Management Board. During the course of 2006 the average and even the maximum market risks were well within the value at risk limits and in a worst case scenario were easily within the defined risk limits and loss barriers.

#### Shareholder risks

The investment business of the Stadtsparkasse Düsseldorf is subject to an explicit investment strategy. For the profit-orientated investments, which do not solely serve strategic aims, special limits have been defined. The adherence to these limits was guaranteed throughout 2006.

#### Liquidity risks

The bank has adequate assets at its disposal which can be converted to cash at short notice and overdraft facilities at other financial institutions to cover liquidity peaks. The effects of the withdrawal of the liability assumed by the public sector for the bank's debt with respect to refinancing possibilities was compensated by the rating of Aa3 given by Moody's in 2005 and confirmed in 2006. In view of this and the current conditions for the issue of covered bonds, the refinancing possibilities of the Stadtsparkasse Düsseldorf have tended to improve.

#### Operational risks

The focus of controlling in this field is operational and IT security (incl. the functionality of the systems, data security and authorisation procedures). Risks are minimised by appropriate insurance policies. Legal risks are avoided by careful examination of contractual relationships through our own legal department, by consulting experts and implementing customary standard contracts.

#### Risk quantification

The market risk as per 31/12/2006 amounted to € 43.2m. This was based on the value-at-risk case

with a holding period of 10 days and a confidence level of 99 %.

#### General risk situation

On the basis of the available cover potential in relationship to the risks taken, the bank disposes of sufficient risk-bearing capacity, allowing ample space for future business developments.

When distributing the available cover potential by way of loss ceilings and maximum loss limits in the various fields of activities, care is taken to ensure there are sufficient reserves. These reserves are devised in such a way as to guarantee the functionality of the Stadtsparkasse Düsseldorf, even in the extremely unlikely event that all essential risks occur at the same time whilst undertaking certain compensatory measures to reduce the risk positions.

In view of this we consider the overall risk situation with respect to all categories to be thoroughly positive.

#### Future developments

The economic research institutes have raised their economic forecasts quite significantly since autumn 2006. The current figures show signs of robust growth. The assessment of the situation and business expectations are finally picking up. Years of wage restraint and the restructuring of enterprises have led to an improved competitive position on an international level.

In the meantime, private consumption has lent its support to this economic development, alongside exports. Some institutions and international organizations, such as the International Monetary Fund, are predicting a long-lasting, self-supporting boom for the German economy. A growth rate for 2007 is being forecast of between 0.9 % and 2.1 %.

The Stadtsparkasse Düsseldorf also presumes the economic situation in the region will be robust. The economic index for medium-sized enterprises in Düsseldorf predicts a solid upswing. A study carried out by the Feri Economic Research Institute, Bad Homburg, on the long-term economic perspectives of various German economic regions attests an excellent position for the metropolitan region of Düsseldorf. Together with Munich and Stuttgart, the best opportunities have been predicted for the future of the capital of North Rhine-Westphalia.

Under these conditions, we expect an increase in demand for loans, particularly from our medium-sized corporate customers. Loans will continue to be the main source of financing for most of the medium-sized businesses. On the other hand, the need

for new equity conserving or equity replenishing products is increasing.

In the field of retail banking we will further expand our housing finance business.

Consumer loans should expand further in 2007. We intend to continue to use the business potential by introducing attractive products and expanding on our online loan application module.

A further focus in retail banking will be retirement provisions. The results of market research studies which we encouraged show high interest in this field.

The rising interest levels will put pressure on the Profit & Loss Account of our bank in 2007. This will particularly affect the most important source of income, net income from interest. It will probably fall by almost 10 %. Higher income from net income from commissions will not be able to compensate this fall, so that we estimate approximately 5 % less gross proceeds than in 2006.

Loan risks and the necessary screening requirements were reduced in the last business year. This positive development is a result of the intensive introduction of risk management systems over many years and a change in the risk mentality of our employees.

In the area of market risks we managed to absorb the interest increases in 2006 through shorter durations and protection measures on all levels of the bank's business. The expected interest increases in 2007 during the continuing flat interest structure curve will be counteracted by a change in asset allocation. In view of this and the long tested and proven monitoring system in our bank, there is no recognisable lasting negative effect in these fields of risk to fear.

In general, we expect a further consolidation of the risk situation over the next two years with the ensuing positive effects on the earnings situation of the Stadtsparkasse Düsseldorf.

For business in 2007 we anticipate satisfactory results for the year with a higher profit for the year than in 2006. As last year, the responsible public authority will benefit from the positive business and earnings developments and will receive a distribution on a similar level to 2006. We will strengthen our equity base further to ensure continued growth in our fields of activity.

Düsseldorf, 27 March 2007

Summary of the Bank's Performance	EUR in thousand as at 31/12/2006
Balance Sheet Total	12,564,099
Volume of Business	12,876,836
<b>Assets</b>	
Cash and Banks	166,779
Investments	4,607,497
Loans & Discounts	7,699,110
Other Assets	90,713
<b>Liabilities</b>	
Deposits	11,524,111
Other Liabilities	130,449
Subordinated Liabilities	214,270
Capital	638,406
Profit	56,863

Profit & Loss Account	EUR in thousand for the year from 1/1/2006 to 31/12/2006
<b>Expenses</b>	
Interest and Commissions Paid	327,327
Staff Costs	123,161
Other Operating Costs	70,212
Depreciation	25,262
Taxes	26,120
Other Expenses	21,271
Profit of the year	56,863
<b>Receipts</b>	
Interest and Commissions Received	631,793
Other Receipts	18,423



 **Stadtsparkasse  
Düsseldorf**

Berliner Allee 33  
40212 Düsseldorf  
Germany

**Universal banking business in Germany and abroad**

Correspondent banks in Europe and overseas

**International Division**

Andrea Kühn  
Vice President  
Phone: +49 211 878-2399  
[andrea.kuehn@sskduesseldorf.de](mailto:andrea.kuehn@sskduesseldorf.de)

**International Banking Relations**

Anja Eckel  
Senior Manager  
Phone: +49 211 878-1757  
[anja.eckel@sskduesseldorf.de](mailto:anja.eckel@sskduesseldorf.de)

Marion Wiegmann  
Senior Manager  
Phone: + 49 211 878-2255  
[marion.wiegmann@sskduesseldorf.de](mailto:marion.wiegmann@sskduesseldorf.de)

**Treasury and Capital Markets**

Christoph Flohr  
General Manager  
Head of Asset Management  
Phone: +49 211 878-1770  
[christoph.flohr@sskduesseldorf.de](mailto:christoph.flohr@sskduesseldorf.de)