Half-Yearly Financial Report

June 30, 2017
Portigon AG

Portigon
Aktiengesellschaft

Portigon AG Key Figures

Portigon AG: Key Figures Year-on-Year Comparison

	1. 1. – 30. 6. 2017	1. 1. – 30. 6. 2016	Change absolute	%
Performance figures in € millions				
Net interest income	15.9	50.5	– 34.6	– 68.5
Net commission income	– 3.3	– 11.9	8.6	72.3
Other operating expenses/income	– 12.8	0.1	– 12.9	> – 100.0
Personnel expenses	– 17.9	– 27.0	9.1	33.7
Other administrative expenses	– 27.3	– 43.6	16.3	37.4
Provisions for credit risks	–	0.4	– 0.4	– 100.0
Result of securities and participations	–	0.5	– 0.5	– 100.0
Extraordinary result	0.4	– 0.4	0.8	> 100.0
Profit/loss before income tax	– 45.1	– 31.4	– 13.7	– 43.6
Taxes on income and revenues	– 2.8	0.3	– 3.1	> – 100.0
Profit/loss after taxes	– 47.9	– 31.1	– 16.8	– 54.0

	June 30, 2017	Dec. 31, 2016	Change absolute	%
Balance sheet figures in € billions				
Total assets	10.3	11.5	– 1.2	– 10.4
Business volume	10.4	11.6	– 1.2	– 10.3
Credit volume	3.1	4.3	– 1.2	– 27.9
Equity capital	1.7	1.7	–	–
Bank regulatory capital ratios (CRR/CRD IV)				
Common Equity Tier 1 capital in € billions	1.5	1.5	–	–
Tier 1 capital in € billions	1.6	1.7	– 0.1	– 5.9
Own funds in € billions	2.4	2.5	– 0.1	– 4.0
Risk-weighted assets in € billions	0.5	0.6	– 0.1	– 16.7
Common Equity Tier 1 capital ratio in %	298.8	258.0	40.8	15.8
Tier 1 capital ratio in %	315.2	276.4	35.8	13.0
Total capital ratio in %	466.8	416.6	50.2	12.0
Employees				
Number of employees	212	268	– 56	– 20.9
Full-time equivalent	206	261	– 55	– 21.1

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Contents

Interim Management Report as of June 30, 2017

Performance at a Glance

The company's transformation, i.e. the downsizing of Portigon AG in accordance with the conditions set by the European Commission, continued in the 2017 fiscal year.

Total assets of Portigon AG came to € 10.3 billion at June 30, 2017 (previous year: € 11.5 billion). Of that amount, € 4.0 billion (previous year: € 4.7 billion) is attributable to trust assets and € 1.8 billion (previous year: € 2.8 billion) to items guaranteed by Erste Abwicklungsanstalt (EAA). The remaining amount chiefly relates to the investment of capital and liquidity back-ups. The reduction in total assets is predominantly due to the incremental transfer in rem to EAA of holdings only synthetically transferable in 2012 as well as to final maturities.

Altogether, Portigon AG recorded a loss before taxes of € 45.1 million (previous year: € 31.4 million) and a net loss for the year of € 47.9 million (previous year: € 31.1 million).

Taking into account the net loss for the year, the Tier 1 capital ratio is 315.2% (previous year: 276.4%), whilst the total capital ratio is 466.8% (previous year: 416.6%). Risk-weighted assets stand at € 0.5 billion (previous year: € 0.6 billion).

Structural Changes

On March 13, 2017, the Milan branch became the next foreign location to be closed. The closure of the branch in Hong Kong is expected to be completed in the summer.

Eckhard Forst took over as Chairman of the Supervisory Board of Portigon AG on April 1, 2017. Dr. Friedhelm Plogmann stepped down from this position with effect from March 31, 2017. Dr. Norbert Walter-Borjans resigned from the Supervisory Board effective July 3, 2017.

The formal investigation launched by the Düsseldorf Public Prosecutor's Office in June 2016 into a small number of former Managing Board members of WestLB in connection with dividend arbitrage transactions has not yet been concluded. Portigon AG remains in contact with the investigating authorities and has pledged its full cooperation in clarifying the matter. In view of this situation, Portigon AG took the precaution of recognising provisions in the 2016 annual financial statements for taxes on dividend payments, including solidarity surcharge thereon, that potentially have been refunded in previous years without justification.

Income Statement

Portigon's performance in the 2017 fiscal year continued to be shaped by the company's transformation, i.e. the downsizing of Portigon AG in accordance with the conditions set by the European Commission.

Portigon AG: Income Statement from January 1 to June 30, 2017

	1. 1. – 30. 6. 2017 € millions	1. 1. – 30. 6. 2016 € millions	Change € millions	%
Net interest income	15.9	50.5	– 34.6	– 68.5
Net commission income	– 3.3	– 11.9	8.6	72.3
Other operating expenses/income	– 12.8	0.1	– 12.9	> – 100.0
Personnel expenses	– 17.9	– 27.0	9.1	33.7
Other administrative expenses	– 27.3	– 43.6	16.3	37.4
Provisions for credit risks	–	0.4	– 0.4	– 100.0
Result of securities and participations	–	0.5	– 0.5	– 100.0
Extraordinary result	0.4	– 0.4	0.8	> 100.0
Profit/loss before income tax	– 45.1	– 31.4	– 13.7	– 43.6
Taxes on income and revenues	– 2.8	0.3	– 3.1	> – 100.0
Profit/loss after taxes	– 47.9	– 31.1	– 16.8	– 54.0

Net Interest Income

Net interest income amounted to € 15.9 million (previous year: € 50.5 million). This is largely attributable to the interest margin on positions that are guaranteed by EAA as well as to profit contributions from the investment of equity capital and liquidity steering. The decrease in line with expectations is mainly the result of the incremental transfer of interest-bearing portfolios to EAA and the maturing of higher-interest transactions.

Net Commission Income

Income from portfolio services amounted to € 1.2 million in the first half of 2017 (previous year: € 2.6 million). One of the major offsetting items in the reporting period was the € 4.7 million (previous year: € 16.3 million) in guarantee fees for synthetically transferred portfolios. Altogether, net commission income therefore came to € – 3.3 million (previous year: € – 11.9 million).

Other Operating Expenses/Income

The net figure for other operating expenses and income came to € – 12.8 million at the reporting date (previous year: € 0.1 million) and is principally due to the unwinding of the discount on provisions for pensions as well as to contractually agreed reimbursements of expenses for administrative services provided in connection with portfolios synthetically transferred to EAA.

General Administrative Expenses

As expected, general administrative expenses decreased again in the first half of 2017, falling to € 45.2 million from € 70.6 million in the previous year. This is primarily attributable to the ongoing headcount reduction, which lowered the number of employees from 328 at June 30, 2016 to 212 at June 30, 2017. Furthermore, IT and operating expenses in particular were reduced substantially in the course of the downsizing of Portigon AG.

Extraordinary Result

The slightly positive result of € 0.4 million (previous year: € – 0.4 million) is attributable to the reversal of provisions in connection with the company’s restructuring.

Taxes on Income and Revenues

Tax expense amounted to € 2.8 million at June 30, 2017 (previous year: tax income of € 0.3 million), comprising taxes in Germany of € 1.6 million and current foreign taxes of € 1.2 million.

Balance Sheet and Business Volume

As in the previous year, Portigon AG's balance sheet at June 30, 2017 was shaped by additional structural changes and further downsizing (see the chapter entitled "Structural Changes"). Although a substantial volume of assets and liabilities were transferred to EAA and Helaba in 2012 in the course of the transformation, legal and tax obstacles and the various transfer paths taken because of these obstacles have meant that banking transactions are still being reported on Portigon AG's balance sheet. However, the credit and market risks associated with these assets and liabilities have been transferred to EAA.

At June 30, 2017, Portigon AG had total assets and total equity and liabilities of € 10.3 billion (previous year: € 11.5 billion), of which € 4.0 billion was reported in the items trust assets and trust liabilities (previous year: € 4.7 billion). This includes, in particular, derivative financial instruments that were transferred to EAA under the risk transfer agreement and are offset by compensation claims and liabilities. There is also the corresponding cash collateral.

In addition, Portigon AG has claims on banks in the amount of € 0.2 billion (previous year: € 0.4 billion), claims on customers in the amount of € 2.9 billion (previous year: € 3.8 billion), securities in the amount of € 1.1 billion (previous year: € 1.2 billion) and cash in the amount of € 1.8 billion (previous year: € 1.2 billion). EAA has guaranteed € 1.8 billion (previous year: € 2.8 billion) of these assets, most notably € 1.3 billion in claims on customers (previous year: € 2.1 billion). The unguaranteed positions represent the investment of capital and liquidity back-ups.

The business volume, which includes contingent liabilities and irrevocable credit commitments in addition to balance sheet items, totalled € 10.4 billion (previous year: € 11.6 billion).

Assets

	June 30, 2017 € billions	Dec. 31, 2016 € billions
Cash/Liquid debt issues	1.8	1.2
Claims on banks	0.2	0.4
Claims on customers	2.9	3.8
Securities not held for trading	1.1	1.2
Equity investments in affiliated and non-affiliated companies	–	–
Trust assets	4.0	4.7
Tangible/Intangible assets	–	–
Other assets	0.3	0.3
Total assets	10.3	11.5

Liabilities

	June 30, 2017 € billions	Dec. 31, 2016 € billions
Liabilities to banks	–	0.2
Liabilities to customers	1.9	2.2
Certificated liabilities	–	–
Trust liabilities	4.0	4.7
Other liabilities	1.5	1.6
Subordinated liabilities/Profit participation capital	1.2	1.2
Equity capital	1.7	1.7
Total liabilities	10.3	11.5
Contingent liabilities	–	–
Other commitments/Credit commitments	–	0.1
Business volume	10.3	11.6

Capital Ratios

The Tier 1 capital ratio at June 30, 2017 was 315.2% (previous year: 276.4%). This is still well above the minimum capital ratios as well as the minimum ratio of 7% stipulated in the framework agreements with Germany's Financial Market Stabilisation Authority (FMSA). The Common Equity Tier 1 capital ratio came to 298.8%, compared to 258.0% in the previous year. The total capital ratio increased from 416.6% to 466.8%.

Portigon AG exceeded the minimum requirements at all times in the first half of the year.

Furthermore, Portigon AG has declared to BaFin that it is prepared to maintain its total capital ratio at all times, even in light of the expected losses planned for the following years.

Risk Report

The goal of Portigon AG's risk management system is to ensure that the risk profile is aligned with the institution's risk-bearing capacity and that all relevant risks are presented transparently and steered with foresight. The core processes of risk management are determining, monitoring, analysing, steering and reporting on risks on an autonomous basis. A key element of the risk management processes is safeguarding Portigon AG's risk-bearing capacity through the use of an internal capital adequacy assessment process (ICAAP).

Portigon AG continues to classify operational risk, pension risk, HGB discount rate risk, business risk and market price risk as material risks for purposes of the Minimum Requirements for Risk Management (MaRisk). All other types of risk are considered immaterial.

Among other things, operational risks may arise from business activities of the former WestLB. These include risks arising from tax issues, for example in connection with publications by the tax authorities, a series of recent court decisions and the ongoing investigations by the Public Prosecutor's Office into dividend arbitrage transactions.

The steering of personnel risks and the related operational risks is still very important to Portigon AG. A substantial increase in risks was not observed in the first half of 2017.

For Portigon AG, the economic capital charge for operational risks at June 30, 2017 was € 24.2 million in the base scenario (previous year: € 30.3 million) and € 30.3 million in the stress scenario (previous year: € 37.9 million).

Up to June 30, 2017, after several lawsuits had been terminated with a settlement, Portigon AG was a defendant in 18 lawsuits brought by 10 municipalities/municipal associations (previous year: 32 lawsuits brought by 21 municipalities/municipal associations) against EAA in connection with derivatives business. This may give rise to an exposure to litigation expenses for Portigon AG.

In cases where investigations were launched by German and foreign regulatory authorities (including the Commodity Futures Trading Commission – CFTC, Security Exchange Commission – SEC, U.S. Department of Justice – DoJ, UK Financial Conduct Authority – FCA, European Commission and Federal Financial Supervisory Authority – BaFin) into the operations of Portigon AG and other banks in connection with LIBOR and EURIBOR (BaFin only) quotes, BaFin's investigations were formally ended in 2014 without measures being taken against Portigon AG, staff or governing bodies. In a letter dated November 2016, the SEC also notified Portigon AG that its investigations had been concluded without measures being initiated. With regard to the civil actions pending before a court in New York, the proceedings being handled in a LIBOR class action lawsuit were dismissed in the first instance in December 2016, with the exception of one individual action, as the court had no jurisdiction in relation to the foreign banks being sued, which include Portigon AG. The plaintiffs have appealed this decision. Portigon AG assumes that the individual action and the appeal process will not be successful owing to the lack of jurisdiction of the US courts and the lack of evidence that Portigon AG illegally manipulated the interest rate quotes.

With the exception of the exposure to certain litigation expenses, the economic risk associated with the lawsuits brought for alleged breaches of duty in the quoting of USD-LIBOR interest rates, as well as those relating to derivatives business, has been transferred to EAA under the spin-off agreement of August 30, 2012. At June 30, 2017, Portigon AG had set aside a reasonable sum of money to cover the litigation expenses of the suits with a determinable risk.

The economic capital charge for the pension risk at the reporting date still amounted to € 64.0 million in the base scenario and € 80.0 million in the stress scenario.

Portigon AG continued to recognise a deduction item of € 10.0 million at the reporting date to take account of the risk of a sharper-than-forecast drop in the HGB discount rate in conjunction with its risk-bearing capacity for determining the sources of risk-bearing capacity.

At June 30, 2017, the volume of business risk remained at € 0.0 million in the base scenario and at € 1.0 million in the stress scenario.

As of the end of June 2017, the regulatory interest rate shock scenarios, i.e. an increase in interest rates by 200 basis points across all currencies, would have caused interest-bearing exposures to lose € 75.4 million in value (previous year: € – 86.3 million). This corresponded to a maximum of 3.3% of regulatory own funds at the end of June 2017 (previous year: 3.5%). The threshold at which such exposure becomes reportable to the supervisory authorities in the form of an ad hoc notice equals 20% of regulatory own funds.

The economic capital charge for the market price risk amounted to € 60.3 million in the base scenario (previous year: € 69.0 million) and to € 75.4 million in the stress scenario (previous year: € 86.3 million).

For a bank's liquidity to be considered sufficient, the liquidity ratio determined pursuant to the German Liquidity Regulation (LiqV), which sets the cash available within a given month in relation to the payment obligations which may be called in during the same period, must be at least 1.0. At Portigon AG, the ratio averaged 13.2 in the period from January to June 2017, which was an improvement on the average of 7.2 in the period from January to December 2016. Portigon AG's liquidity was safeguarded at all times in the period under review.

In the analysis of the risk-bearing capacity, the going-concern approach is still the primary steering framework for Portigon AG. The HGB discount rate risk is taken into account as a deduction item for determining the sources of risk-bearing capacity. The other material risks – operational risk, pension risk, business risk and market price risk – are weighed against the risk appetite directly and even under the assumptions made in the stress scenario do not put Portigon AG's risk-bearing capacity in jeopardy (twelve-month risk horizon).

Opportunities Report

There were no significant changes in the opportunities and risks in the reporting period. Please refer to the explanations in the Opportunities Report in the 2016 Annual Report.

Events Occurring after June 30, 2017

No significant events occurred after June 30, 2017 that would be required to be disclosed in the notes pursuant to § 285 No. 33 of the German Commercial Code (HGB).

Outlook

The structural changes within Portigon AG will continue to have an effect on the company's cash flows, financial condition and results of operations in subsequent years. There will be a reduction in Portigon AG's total assets, especially as additional assets are retrospectively transferred in rem to EAA and derivatives held in trust for EAA are novated.

In summary, it should be noted that both the transformation process and the aforementioned operational risks remain replete with uncertainty. This may have an adverse effect on the company's cash flows, financial condition and results of operations. Medium-term expectations for Portigon AG indicate that income will remain insufficient to cover the administrative expenses which continue to be incurred at this time.
We are proceeding on the assumption that Portigon AG will show a loss in the low hundreds of millions of euros for the 2017 fiscal year. The occurrence of additional restructuring expenses depends on the further course of the transformation.

Portigon AG Balance Sheet at June 30, 2017

Assets

	€	€	30. 6. 2017 €	31. 12. 2016 € thousands
1. Cash				
a) cash on hand		1,000.00		5
b) balances with central banks		1,810,924,602.28		1,229,018
thereof:			1,810,925,602.28	1,229,023
with Deutsche Bundesbank				
€ 1,463,912,729.82 (2016: € 755,495 thousand)				
2. Debt instruments issued by public institutions				
and bills of exchange eligible for refinancing				
with central banks				
a) treasury bills and discounted treasury				
notes as well as similar debt instruments				
issued by public institutions		21,881,133.89		0
			21,881,133.89	0
3. Claims on banks				
a) payable on demand		50,585,997.80		74,687
b) other		160,372,481.44		295,866
			210,958,479.24	370,553
4. Claims on customers			2,896,887,708.48	3,794,749
thereof:				
loans to public authorities and entities				
under public law				
€ 2,884,868,501.19 (2016: € 3,774,514 thousand)				
5. Bonds and other interest-bearing				
securities				
a) bonds and notes				
aa) of public institutions	1,068,518,708.35			1,147,023
thereof:				
eligible as collateral for				
Deutsche Bundesbank advances				
€ 815,632,047.02 (2016: € 829,015 thousand)				
ab) of other issuers	12,330,682.68			12,103
		1,080,849,391.03		1,159,126
			1,080,849,391.03	1,159,126
		To be carried forward:	6,021,502,314.92	6,553,451

Assets

	€	€	30. 6. 2017 €	31. 12. 2016 € thousands
		Carried forward:	6,021,502,314.92	6,553,451
6. Equity investments in non-affiliated companies			3,515,942.95	20,816
7. Equity investments in affiliated companies			2,813,971.98	2,814
thereof:				
in financial services institutions				
€ 2,013,622.87 (2016: € 2,014 thousand)				
8. Trust assets			4,046,669,299.34	4,689,898
9. Intangible assets				
a) licences acquired against payment,				
industrial property rights and				
similar rights and assets, as well as				
licences to such rights and assets		0.00		1
			0.00	1
10. Tangible assets			6,005,883.93	6,039
11. Other assets			91,105,475.80	88,882
12. Deferred items			160,361,300.75	183,338
Total assets			10,331,974,189.67	11,545,239

Portigon AG Balance Sheet at June 30, 2017

Liabilities

	€	€	30. 6. 2017 €	31. 12. 2016 € thousands
1. Liabilities to banks				
a) payable on demand		18,275,703.62		37,029
b) with agreed maturity or				
period of notice		11,330,120.27		158,577
			29,605,823.89	195,606
2. Liabilities to customers				
a) other liabilities				
aa) payable on demand	12,600,481.35			149,189
ab) with agreed maturity or				
period of notice	1,909,475,815.18			2,027,428
		1,922,076,296.53		2,176,617
			1,922,076,296.53	2,176,617
3. Certificated liabilities				
a) bonds and notes issued by the bank		8,685,765.34		8,951
			8,685,765.34	8,951
4. Trust liabilities			4,046,669,299.34	4,689,898
5. Other liabilities			47,993,338.35	68,100
6. Deferred items			104,900,120.94	125,968
7. Provisions				
a) for pensions and similar				
obligations		661,665,321.93		658,337
b) tax reserve		124,532,691.92		124,245
c) other		544,923,075.23		579,120
			1,331,121,089.08	1,361,702
8. Subordinated liabilities			1,147,410,913.47	1,176,992
9. Profit participation capital			12,791,742.58	12,792
		To be carried forward:	8,651,254,389.52	9,816,626

Liabilities

		€	€	30. 6. 2017 €	31. 12. 2016 € thousands
			Carried forward:	8,651,254,389.52	9,816,626
10.	Equity capital				
a)	subscribed capital				
	divided into				
	Class A registered shares	498,649,007.45			498,649
	Class B registered shares	0.00			0
			498,649,007.45		498,649
b)	silent contributions to capital		1,483,346,448.41		1,483,346
c)	retained loss		– 301,275,655.71		– 253,382
				1,680,719,800.15	1,728,613
Total liabilities				10,331,974,189.67	11,545,239
1.	Contingent liabilities				
a)	liabilities from guarantees and				
	indemnity agreements		20,876,386.39		26,614
				20,876,386.39	26,614
2.	Other commitments				
a)	irrevocable credit commitments		30,787.26		61,537
				30,787.26	61,537

Portigon AG Income Statement

for the Period January 1 to June 30, 2017

	€	€	1. 1.–30. 6. 2017 €	1. 1.–30. 6. 2016 € thousands
1. Interest from				
a) lending and money market transactions	102,683,843.02			166,748
b) interest-bearing securities and				
book-entry securities	7,366,864.73			10,931
		110,050,707.75		177,679
2. Negative interest from				
a) lending and money market transactions		1,996,602.63		1,498
3. Interest paid		92,227,978.60		125,715
			15,826,126.52	50,466
4. Current income from				
a) equity investments in non-affiliated companies		14,346.00		0
b) equity investments in affiliated companies		105,818.30		15
			120,164.30	15
5. Commission income		1,808,128.44		2,994
6. Commission paid		5,143,368.81		14,878
			– 3,335,240.37	– 11,884
7. Other operating income			22,309,023.64	21,263
8. General administrative expenses				
a) personnel expenses				
aa) wages and salaries	12,979,803.71			20,359
ab) compulsory social security				
contributions and expenses				
for pensions and other				
employee benefits	4,956,188.49			6,638
thereof:		17,935,992.20		26,997
for pensions				
€ 2,733,556.91 (2016: € 3,433 thousand)				
b) other administrative expenses		27,232,866.65		43,295
			45,168,858.85	70,292
9. Depreciation and value adjustments				
on tangible and intangible assets			112,249.19	320
10. Other operating expenses			38,542,035.30	19,242
11. Income from revaluation of loans and				
certain securities as well as from the				
reversal of loan loss provisions			22,328.42	424
		To be carried forward:	– 48,880,740.83	– 29,570

	€	€	1. 1.–30. 6. 2017 €	1. 1.–30. 6. 2016 € thousands
		Carried forward:	– 48,880,740.83	– 29,570
12. Write-downs and value adjustments on equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets			157.45	0
13. Income from revaluation of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets			0.00	515
14. Profit or loss on ordinary activities			– 48,880,898.28	– 29,055
15. Extraordinary income		490,544.75		1,001
16. Extraordinary expenses		129,859.78		1,388
17. Extraordinary result			360,684.97	– 387
18. Taxes on income and revenues		2,781,662.84		– 287
19. Other taxes not shown under item 10		– 3,408,193.77		1,950
			– 626,530.93	1,663
20. Net loss for the year			– 47,893,682.38	– 31,105
21. Loss carried forward from the previous year			253,381,973.33	229,653
22. Retained loss			– 301,275,655.71	– 260,758

Selected Explanatory Notes at June 30, 2017

1. Mandatory Disclosures in Accordance with § 264 (1a) HGB

Portigon AG, which is domiciled in Düsseldorf, Germany, is entered in the commercial register of the Düsseldorf Local Court under No. HRB 42975.

2. Preparation of the Half-Yearly Financial Statements

As an issuer in the primary market segment of over-the-counter (OTC) trading on the Düsseldorf Stock Exchange, Portigon AG is required by the general terms and conditions of Börse Düsseldorf AG for over-the-counter trading on the Düsseldorf Stock Exchange to prepare a half-yearly financial report whose content at the very minimum complies with the requirements of § 37w (3) and (4) of the German Securities Trading Act (WpHG).

These half-yearly statements are part of the half-yearly financial report for Portigon AG and are prepared in accordance with the provisions of the German Commercial Code (HGB), the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV) and the relevant provisions of the German Stock Corporation Act (AktG). In the preparation of the selected explanatory notes, German Accounting Standard GAS 16 (Interim Financial Reporting), which is not applicable to Portigon AG, is applied voluntarily in accordance with the recommendation of this standard.

Pursuant to the general terms and conditions of Börse Düsseldorf AG for over-the-counter trading on the Düsseldorf Stock Exchange, an auditor's opinion is not required to be issued for this half-yearly financial report. The report was accordingly not audited in accordance with § 316 et seq. of the German Commercial Code (HGB) or reviewed by external auditors pursuant to § 37w (5) of the German Securities Trading Act (WpHG).

3. Accounting Policies

These half-yearly financial statements of Portigon AG were prepared using the same accounting policies as the annual financial statements at December 31, 2016.

Notes to the Balance Sheet

4. Cash

Portigon AG had cash of € 1,810.9 million (previous year: € 1,229.0 million). This increase largely results from claims transferred to EAA in the course of the downsizing and from the cancellation of borrower's note loans presented under claims on banks in consequence of the termination of a cross-border lease transaction.

5. Claims on Banks

	June 30, 2017 € millions	Dec. 31, 2016 € millions
Payable on demand	50.6	74.7
With residual maturities of		
– up to 3 months	5.5	7.3
– between 3 months and 1 year	44.9	–
– between 1 and 5 years	26.6	73.6
– more than 5 years	83.4	214.9
Book value	211.0	370.5

Claims on banks with residual maturities of more than five years declined as a result of the decrease in borrower's note loans mentioned in Note 4.

6. Claims on Customers

	June 30, 2017 € millions	Dec. 31, 2016 € millions
With residual maturities of		
– up to 3 months	93.5	126.7
– between 3 months and 1 year	24.4	72.4
– between 1 and 5 years	39.6	204.3
– more than 5 years	2,739.4	3,391.4
Book value	2,896.9	3,794.8
thereof:		
– on other companies in which equity investments are held	0.1	–

The decrease in claims on customers is chiefly attributable to loans transferred to EAA in the course of the downsizing.

7. Bonds and Other Interest-Bearing Securities

	June 30, 2017 € millions	Dec. 31, 2016 € millions
Bonds and notes of public-sector issuers	1,068.5	1,147.0
Bonds and notes of other issuers	12.3	12.1
Book value	1,080.8	1,159.1

8. Trust Assets

	June 30, 2017 € millions	Dec. 31, 2016 € millions
Other assets	4,046.7	4,689.9
Book value	4,046.7	4,689.9

The other assets reported as trust assets largely comprise derivatives transferred to EAA under the risk transfer agreement as well as the corresponding compensation claims.

The decrease in trust assets is mainly due to maturities and the retrospective transfer in rem (novation) to EAA of a portion of these derivatives.

9. Liabilities to Banks

	June 30, 2017 € millions	Dec. 31, 2016 € millions
– payable on demand	18.3	37.0
With residual maturities of		
– up to 3 months	3.9	126.4
– between 3 months and 1 year	–	24.6
– between 1 and 5 years	–	–
– more than 5 years	7.4	7.6
Book value	29.6	195.6

The decrease in liabilities in the amount of € 166.0 million is primarily attributable to the decrease in term deposits resulting from the termination of a cross-border lease transaction.

10. Liabilities to Customers

	June 30, 2017 € millions	Dec. 31, 2016 € millions
– payable on demand	12.6	149.2
With residual maturities of		
– up to 3 months	60.2	60.7
– between 3 months and 1 year	37.4	0.1
– between 1 and 5 years	68.6	87.0
– more than 5 years	1,743.3	1,879.6
Book value	1,922.1	2,176.6
thereof:		
– liabilities to affiliated companies	24.5	25.9

With reference to Notes 4 and 9, the decrease in liabilities to customers is chiefly due to the termination of a cross-border lease transaction.

11. Trust Liabilities

	June 30, 2017 € millions	Dec. 31, 2016 € millions
Liabilities to customers	169.5	289.1
Other liabilities	3,877.2	4,400.8
Book value	4,046.7	4,689.9

The other liabilities reported as trust liabilities comprise derivatives transferred to EAA under the risk transfer agreement as well as the corresponding compensation liabilities.

The decrease in trust liabilities is mainly due to maturities and the retrospective transfer in rem (novation) to EAA of a portion of these derivatives.

12. Subordinated Liabilities

	June 30, 2017 € millions	Dec. 31, 2016 € millions
Book value	1,147.4	1,177.0
thereof:		
– to affiliated companies	531.9	553.6

Notes to the Income Statement

13. Interest Income

At € 110.1 million, interest income was down € 67.6 million on the prior-year figure of € 177.7 million. The expected decrease was caused by the incremental transfer of interest-bearing portfolios to EAA.

14. Interest Paid

Interest paid amounted to € 92.2 million (previous year: € 125.7 million). The decline is principally due to the decrease in liabilities to customers.

15. General Administrative Expenses

Personnel expenses in the amount of € 17.9 million were down € 9.1 million on the prior-year figure (€ 27.0 million). The expected decline is mainly attributable to the ongoing headcount reduction in the course of the Bank's transformation. The number of employees in the Group declined from 328 to 212.

Other administrative expenses came to € 27.3 million, a decrease of € 16.3 million on the prior-year figure (€ 43.6 million). The sharp drop results from lower IT expenses and the reduction in general operating expenses.

16. Other Operating Expenses

The increase in other operating expenses chiefly results from the unwinding of the discount on provisions, which had been lower in the previous year (a one-off effect) owing to the introduction of the ten-year average interest rate replacing the seven-year average interest rate for the discounting of provisions for post-employment benefit obligations.

Düsseldorf, August 1, 2017

Portigon AG
The Managing Board

Dr. Peter Stemper

Frank Seyfert

Publications

The Half-Yearly Financial Report and the Annual Report 2016 are also available in German. In case of doubt the German version shall be binding.

Our annual reports and half-yearly reports can be inspected and downloaded at www.portigon-ag.de.

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Disclaimer

Reservation regarding forward-looking statements

This Half-Yearly Financial Report contains forward-looking statements on our business and earnings performance, estimates, forecasts and expectations. The statements entail risks and uncertainties, as there are a variety of factors which influence our business and to a great extent lie beyond our sphere of influence. Above all, these include the economic situation, the state of the financial markets worldwide and possible loan losses. Actual results and developments may, therefore, diverge considerably from our current assumptions, which, for this reason, are valid only at the time of publication. We undertake no obligation to revise our forward-looking statements in the light of either new information or unexpected events.

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