Half-Yearly Financial Report

June 30, 2018
Portigon AG

Portigon
Aktiengesellschaft

Portigon AG Key Figures

Portigon AG: Key Figures Year-on-Year Comparison

	1.1.–30.6.2018	1.1.–30.6.2017	Change absolute	%
Performance figures in € millions				
Net interest income	–34.1	15.9	–50.0	>–100.0
Net commission income	1.7	–3.3	5.0	>100.0
Other operating expenses and income	–28.4	–12.8	–15.6	>–100.0
Personnel expenses	–14.2	–17.9	3.7	20.7
Other administrative expenses	–21.1	–27.3	6.2	22.7
Provisions for credit risks	3.3	0.0	3.3	>100.0
Result of securities and participations	0.0	0.0	–	–
Extraordinary result	–0.2	0.4	–0.6	>–100.0
Profit/loss before income tax	–92.9	–45.1	–47.8	>–100.0
Taxes on income and revenues	–99.6	–2.8	–96.8	>–100.0
Profit/loss after taxes	–192.5	–47.9	–144.6	>–100.0

	June 30. 2018	Dec. 31. 2017	Change absolute	%
Balance sheet figures in € billions				
Total assets	5.9	7.4	–1.5	–20.3
Business volume	5.9	7.4	–1.5	–20.3
Credit volume	1.9	2.1	–0.2	–9.5
Equity capital	1.4	1.6	–0.2	–12.5
Bank regulatory capital ratios (CRR/CRD IV)				
Common Equity Tier 1 capital in € billions	0.0	1.5	–1.5	–100.0
Tier 1 capital in € billions	0.1	1.5	–1.4	–93.3
Own funds in € billions	0.8	2.2	–1.4	–63.6
Risk-weighted assets in € billions	0.4	0.5	–0.1	–20.0
Common Equity Tier 1 capital ratio in %	10.5	287.0	–276.5	–96.3
Tier 1 capital ratio in %	29.2	304.1	–274.9	–90.4
Total capital ratio in %	205.4	440.3	–234.9	–53.3
Employees				
Number of employees	139	159	–20	–12.6
Full-time equivalent	132	153	–21	–13.7

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, 2018

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 2018 fiscal year.

Total assets of Portigon AG came to € 5.9 billion at June 30, 2018 (previous year: € 7.4 billion). Of that amount, € 1.4 billion (previous year: € 2.4 billion) is attributable to trust assets and € 0.4 billion (previous year: € 0.7 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.

In view of the investigations by the Public Prosecutor's office in connection with dividend arbitrage transactions of the former WestLB, the provisions which were formed, as a precautionary measure, in the 2016 financial statements for tax on dividend payments that potentially was taken into account in previous years without justification, as well as solidarity surcharge thereon, were increased by € 85.6 million at June 30, 2018 as a precautionary measure.

Altogether, Portigon AG recorded a loss before taxes of € 92.9 million (previous year: € 45.1 million) and a net loss for the year of € 192.5 million (previous year: € 47.9 million).

Taking into account the net loss for the year and as a result of the expiry of grandfathering for the 2009 silent contribution in the period under review, the Tier 1 capital ratio is 29.2% (previous year: 304.1%), whilst the total capital ratio is 205.4% (previous year: 440.3%). Risk-weighted assets stand at € 0.4 billion (previous year: € 0.5 billion).

Structural Changes

The downsizing of Portigon AG is progressing according to plan. This can be seen, for example, in the further reduction of total assets from € 7.4 billion at December 31, 2017 to € 5.9 billion at June 30, 2018.

The closure of the Madrid branch was formally initiated in the first half of 2018 and is expected to be completed in the course of 2018.

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 is still ongoing. Portigon AG remains in contact with the investigating authorities and has pledged its full cooperation in clarifying the matter. In this connection, Portigon AG took the precaution of recognising provisions in the 2016 annual financial statements for tax on dividend payments, including solidarity surcharge thereon, that potentially was taken into account in previous years without justification. In view of new information from the investigation proceedings, the provisions were increased by € 85.6 million at June 30, 2018 as a precautionary measure.

Income Statement

Portigon's performance in the 2018 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, 2018

	1.1.– 30.6.2018 € millions	1.1.–30.6.2017 € millions	Change € millions	%
Net interest income	–34.1	15.9	–50.0	>–100.0
Net commission income	1.7	–3.3	5.0	>100.0
Other operating expenses and income	–28.4	–12.8	–15.6	>–100.0
Personnel expenses	–14.2	–17.9	3.7	20.7
Other administrative expenses	–21.1	–27.3	6.2	22.7
Provisions for credit risks	3.3	0.0	3.3	>100.0
Result of securities and participations	0.0	0.0	–	–
Extraordinary result	–0.2	0.4	–0.6	>–100.0
Profit/loss before income tax	–92.9	–45.1	–47.8	>–100.0
Taxes on income and revenues	–99.6	–2.8	–96.8	>–100.0
Profit/loss after taxes	–192.5	–47.9	–144.6	>–100.0

Net Interest Income

Net interest income amounted to € –34.1 million (previous year: € 15.9 million). The reduction is mainly attributable to the forming of a tax provision for additional interest payments on tax for dividends that potentially was taken into account without justification in connection with dividend arbitrage transactions of the former WestLB. Furthermore, the expected decrease is the result of the incremental transfer of interest-bearing portfolios to EAA and the further maturing of higher-interest transactions.

Net Commission Income

Net commission income of € 1.7 million comprises income from portfolio services of € 1.1 million (previous year: € 1.2 million), offset by commission expenses of € 0.3 million (previous year: € 4.7 million) for portfolios that are guaranteed by EAA.

Other Operating Expenses/Income

The net figure for other operating expenses and income came to € –28.4 million at the reporting date (previous year: € –12.8 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 2018, falling to € 35.3 million from € 45.2 million in the previous year. IT and general operating expenses in particular were further reduced substantially. In addition, the headcount reduction was systematically continued, with the number of employees decreasing to 139 from 212 at June 30, 2017.

Provisions for Credit Risks

The positive result in the amount of € 3.3 million (previous year: € 0.0 million) is attributable to revenues on written-off exposures.

Taxes on Income and Revenues

Tax expense amounted to € 99.6 million at June 30, 2018 (previous year: € 2.8 million) and is primarily due to the increased provision, formed as a precautionary measure, for tax on dividend payments that potentially was taken into account in previous years without justification in connection with dividend arbitrage transactions of the former WestLB.

Balance Sheet and Business Volume

As in the previous year, Portigon AG's balance sheet at June 30, 2018 was shaped by further structural changes and downsizing activities (see the chapter entitled "Structural Changes"). Although a substantial volume of assets and liabilities was 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, 2018, Portigon AG had total assets and total equity and liabilities of € 5.9 billion (previous year: € 7.4 billion), of which € 1.4 billion was reported in the items trust assets and trust liabilities (previous year: € 2.4 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 in the same amount, as well as corresponding cash collateral.

In addition, Portigon AG has claims on banks in the amount of € 0.1 billion (previous year: € 0.2 billion), claims on customers in the amount of € 1.7 billion (previous year: € 1.9 billion), securities in the amount of € 0.9 billion (previous year: € 1.0 billion) and cash in the amount of € 1.5 billion (previous year: € 1.7 billion). EAA has guaranteed € 0.4 billion (previous year: € 0.7 billion) of these assets, most notably € 0.2 billion in claims on customers (previous year € 0.3 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 € 5.9 billion (previous year: € 7.4 billion).

Assets

	June 30, 2018 € billions	Dec. 31, 2017 € billions
Cash/Liquid debt issues	1.5	1.7
Claims on banks	0.1	0.2
Claims on customers	1.7	1.9
Securities not held for trading	0.9	1.0
Equity investments in affiliated and non-affiliated companies	0.0	0.0
Trust assets	1.4	2.4
Tangible/Intangible assets	0.0	0.0
Other assets	0.2	0.2
Total assets	5.9	7.4

Liabilities

	June 30, 2018 € billions	Dec. 31, 2017 € billions
Liabilities to banks	0.0	0.0
Liabilities to customers	0.8	0.9
Certificated liabilities	0.0	0.0
Trust liabilities	1.4	2.4
Other liabilities	1.5	1.4
Subordinated liabilities/Profit participation capital	0.8	1.0
Equity capital	1.4	1.6
Total liabilities	5.9	7.4
Contingent liabilities	0.0	0.0
Other commitments/Credit commitments	–	0.0
Business volume	5.9	7.4

Capital Ratios

The Tier 1 capital ratio at June 30, 2018 was 29.2% (previous year: 304.1%). This is still 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 10.5%, compared with 287.0% in the previous year. The total capital ratio decreased from 440.3% to 205.4%.

The sharp drop in the capital ratios is mainly due to the expiry of grandfathering in accordance with Article 483 (1) CRR for the 2009 silent contribution.

Nevertheless, 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 former business activities of WestLB. These include risks arising from tax issues, for example in connection with the ongoing investigations by the Public Prosecutor's Office into dividend arbitrage transactions. The steering of personnel risks and the related operational risks continues to be very important to Portigon AG. A substantial increase in risks was not observed in the first half of 2018. For Portigon AG, the economic capital charge for operational risks at June 30, 2018 was € 15.0 million in the base scenario (previous year: € 24.2 million) and € 18.7 million in the stress scenario (previous year: € 30.3 million).

By June 30, 2018, the lawsuits brought by municipalities/municipal associations (previous year: three lawsuits brought by one municipality) against EAA in connection with derivatives business had also been terminated with a settlement. With the exception of the exposure to certain legal expenses (costs for legal representation and court fees), the economic risk associated with these lawsuits had been transferred to EAA under the spin-off agreement of August 30, 2012. At June 30, 2018, Portigon AG had set aside a reasonable sum of money to cover these litigation expenses, which have not yet been settled in full by EAA.

At June 30, 2018, 49 lawsuits (mainly class actions) brought for alleged breaches of duty in the quoting of USD-LIBOR interest rates are still pending in US courts (previous year: 47 lawsuits). A judgement handed down by the trial court at the end of 2016 dismissed the case against foreign banks, including Portigon AG, on the grounds that the US courts had no jurisdiction. However, in response to an appeal submitted by the plaintiffs, the court of appeal overturned that judgement and remanded the case to the trial court. Unlike the trial court, the court of appeal found that there were sufficient criteria to confer jurisdiction on US courts. This means that it is unlikely that the proceedings will be completed in 2018, as had been expected. Nevertheless, in spite of the most recent judgement by the court of appeal, there is a genuine chance that the lawsuits will ultimately not be successful. With the exception of the exposure to litigation expenses, the economic risk associated with the lawsuits had been transferred to EAA under the spin-off agreement of August 30, 2012. At June 30, 2018, Portigon AG had set aside a reasonable sum of money to cover the litigation expenses arising from these lawsuits.

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. The amount of the deduction item to take account of the risk of a sharper-than-forecast drop in the HGB discount rate in conjunction with the risk-bearing capacity (€ 10.0 million) as well as the business risk (€ 0.0 million in the base scenario and € 1.0 million in the stress scenario) are also unchanged and slightly reduced, respectively, at June 30, 2018.

At the end of June 2018, 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 € 66.1 million in value (previous year: € 71.3 million). This corresponded to a maximum of 7.6% of the expected regulatory own funds at year-end (previous year: 3.2%). 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 at the reporting date amounted to € 52.9 million in the base scenario (previous year: € 57.0 million) and to € 66.1 million in the stress scenario (previous year: € 71.3 million).

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 jeopardize Portigon AG's risk-bearing capacity (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 2017 Annual Report.

Events Occurring after June 30, 2018

No significant events occurred after June 30, 2018 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. Portigon AG's total assets will continue to be reduced.

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 for the 2018 fiscal year Portigon AG will show a loss in the low hundreds of millions euro range. The occurrence of additional restructuring expenses and/or possible expenses arising from tax issues depends on the further course of the transformation and on the ongoing investigations by the Düsseldorf Public Prosecutor's Office.

Portigon AG Balance Sheet at June 30, 2018

Assets

		€	€	30.6.2018 €	31.12.2017 € thousands
1. Cash					
a) cash on hand			1,000.00		1
b) balances with central banks			1,501,545,404.58		1,646,023
thereof:				1,501,546,404.58	1,646,024
with Deutsche Bundesbank					
€ 1,209,120,683.62 (2017: € 1,365,376 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			41,374,135.54		20,812
				41,374,135.54	20,812
3. Claims on banks					
a) payable on demand			20,838,142.08		39,776
b) other			109,939,832.74		155,575
				130,777,974.82	195,351
4. Claims on customers				1,735,316,417.95	1,854,399
thereof:					
loans to public authorities and entities under public law					
€ 1,733,773,078.09 (2017: € 1,845,686 thousand)					
5. Bonds and other interest-bearing securities					
a) bonds and notes					
aa) of public institutions		895,784,945.79			1,034,885
thereof:					
eligible as collateral for Deutsche Bundesbank advances					
€ 785,170,177.55 (2017: € 800,019 thousand)					
ab) of other issuers		0.00			12,559
			895,784,945.79		1,047,444
				895,784,945.79	1,047,444
			To be carried forward:	4,304,799,878.68	4,764,031

Assets

	€	€	30.6.2018 €	31.12.2017 € thousands
		Carried forward:	4,304,799,878.68	4,764,031
6. Equity investments in affiliated companies			2,205,349.09	2,205
thereof:				
in financial services institutions				
€ 1,430,000.00 (2017: € 1,430 thousand)				
7. Trust assets			1,360,008,293.55	2,431,529
8. Tangible assets			1,189,537.08	2,145
9. Other assets			71,173,011.35	74,590
10. Deferred items			129,776,178.94	136,077
Total assets			5,869,152,248.69	7,410,577

Portigon AG Balance Sheet at June 30, 2018

Liabilities

	€	€	30.6.2018 €	31.12.2017 € thousands
1. Liabilities to banks				
a) payable on demand		16,081,217.21		15,993
b) with agreed maturity or				
period of notice		2,542,498.28		9,013
			18,623,715.49	25,006
2. Liabilities to customers				
a) other liabilities				
aa) payable on demand	11,219,841.53			42,046
ab) with agreed maturity or				
period of notice	746,623,075.70			890,805
		757,842,917.23		932,850
			757,842,917.23	932,850
3. Certificated liabilities				
a) bonds and notes issued by the bank		8,518,466.47		8,538
			8,518,466.47	8,538
4. Trust liabilities			1,360,008,293.55	2,431,529
5. Other liabilities			31,900,594.67	34,323
6. Deferred items			89,043,142.77	91,590
7. Provisions				
a) for pensions and similar obligations				
after offsetting against plan assets		674,139,242.43		664,848
b) tax reserve		265,939,216.58		125,613
c) other		433,097,953.36		474,202
			1,373,176,412.37	1,264,662
8. Subordinated liabilities			781,537,033.66	981,075
9. Profit participation capital			12,054,228.13	12,054
due in less than two years				
€ 12,054,228.13 (2017: € 12,054 thousand)				
		To be carried forward:	4,432,704,804.34	5,781,628

Liabilities

	€	€	30.6.2018 €	31.12.2017 € thousands
		Carried forward:	4,432,704,804.34	5,781,628
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		1,397,744,650.44		1,397,745
c) retained loss		–459,946,213.54		–267,444
			1,436,447,444.35	1,628,949
Total liabilities			5,869,152,248.69	7,410,577
1. Contingent liabilities				
a) liabilities from guarantees and				
indemnity agreements		13,737,266.60		19,780
			13,737,266.60	19,780
2. Other commitments				
a) irrevocable credit commitments		0.00		11
			0.00	11

Portigon AG Income Statement

for the Period January 1 to June 30, 2018

	€	€	1.1.–30.6.2018 €	1.1.–30.6.2017 € thousands
1. Interest from				
a) lending and money market transactions	35,826,958.25			102,684
b) interest-bearing securities and				
book-entry securities	6,139,780.94			7,367
		41,966,739.19		110,051
2. Negative interest from				
a) lending and money market transactions		2,590,187.87		1,997
3. Interest paid		73,454,191.54		92,228
			–34,077,640.22	15,826
4. Current income from				
a) equity investments in non-affiliated companies		6,149.00		14
b) equity investments in affiliated companies		0.00		106
			6,149.00	120
5. Commission income		2,568,987.23		1,808
6. Commission paid		872,652.91		5,143
			1,696,334.32	–3,335
7. Other operating income			13,063,376.98	22,309
8. General administrative expenses				
a) personnel expenses				
aa) wages and salaries	7,956,047.96			12,980
ab) compulsory social security				
contributions and expenses	6,199,780.01			4,956
for pensions and other		14,155,827.97		17,936
employee benefits				
thereof:				
for pensions				
€ 4,321,461.33 (2017: € 2,734 thousand)				
b) other administrative expenses		20,992,766.13		27,233
			35,148,594.10	45,169
9. Depreciation and value adjustments				
on tangible and intangible assets			95,863.88	112
10. Other operating expenses			41,185,789.48	38,542
11. Income from revaluation of loans and				
certain securities as well as from the				
reversal of loan loss provisions			3,251,826.13	22
		To be carried forward:	–92,490,201.25	–48,881

	€	€	1.1.–30.6.2018 €	1.1.–30.6.2017 € thousands
		Carried forward:	–92,490,201.25	–48,881
12. Write-downs and value adjustments on equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets			0.00	0
13. Income from revaluation of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets			49,918.75	0
14. Profit or loss on ordinary activities			–92,440,282.50	–48,881
15. Extraordinary income		0.00		491
16. Extraordinary expenses		178,298.45		130
17. Extraordinary result			–178,298.45	361
18. Taxes on income and revenues		99,586,489.12		2,782
19. Other taxes not shown under item 10		296,874.98		–3,408
			99,883,364.10	–627
20. Net loss for the year			–192,501,945.05	–47,894
21. Loss carried forward from the previous year			267,444,268.49	253,382
22. Retained loss			–459,946,213.54	–301,276

Selected Explanatory Notes at June 30, 2018

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 BÖAG Börsen 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) (old version) or § 115 (3) and (4) WpHG in the version recently amended by the Act of August 17, 2017.

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 in accordance with the recommendation of this standard.

Pursuant to the general terms and conditions of BÖAG Börsen 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) (old version) or § 115 (5) WpHG in the version recently amended by the Act of August 17, 2017.

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, 2017.

On June 20, 2018, Heubeck AG published new mortality tables (Heubeck-Richttafeln 2018 G), which reflect the current statistics from the statutory pension insurance and the German Federal Statistical Office and for the first time also include socioeconomic factors. These new mortality tables were not used to measure Portigon AG's pension obligations at June 30, 2018 because the review of whether they are generally applicable and should be applied to Portigon AG was not yet complete. Pension provisions at Portigon AG are expected to increase upon application of the tables.

Notes to the Balance Sheet

4. Claims on Banks

	June 30, 2018 € millions	Dec. 31, 2017 € millions
Payable on demand	20.8	39.8
With residual maturities of		
– up to 3 months	4.3	52.7
– between 3 months and 1 year	0.6	–
– between 1 and 5 years	24.7	25.4
– more than 5 years	80.4	77.5
Book value	130.8	195.4

5. Claims on Customers

	June 30, 2018 € millions	Dec. 31, 2017 € millions
With residual maturities of		
– up to 3 months	29.9	67.8
– between 3 months and 1 year	9.7	2.2
– between 1 and 5 years	144.0	19.4
– more than 5 years	1,551.7	1,764.9
Book value	1,735.3	1,854.4

6. Bonds and Other Interest-Bearing Securities

	June 30, 2018 € millions	Dec. 31, 2017 € millions
Bonds and notes of public-sector issuers	895.8	1,034.9
Bonds and notes of other issuers	–	12.6
Book value	895.8	1,047.5

7. Trust Assets

	June 30, 2018 € millions	Dec. 31, 2017 € millions
Other assets	1,360.0	2,431.5
Book value	1,360.0	2,431.5

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.

8. Liabilities to Banks

	June 30, 2018 € millions	Dec. 31, 2017 € millions
– payable on demand	16.1	16.0
With residual maturities of		
– up to 3 months	2.5	1.7
– more than 5 years	–	7.3
Book value	18.6	25.0

9. Liabilities to Customers

	June 30, 2018 € millions	Dec. 31, 2017 € millions
– payable on demand	11.2	42.0
With residual maturities of		
– up to 3 months	22.2	118.9
– between 3 months and 1 year	28.0	22.3
– between 1 and 5 years	37.5	52.6
– more than 5 years	658.9	696.9
Book value	757.8	932.9
thereof:		
– liabilities to affiliated companies	24.0	24.0

10. Trust Liabilities

	June 30, 2018 € millions	Dec. 31, 2017 € millions
Liabilities to customers	168.9	169.4
Other liabilities	1,191.1	2,262.1
Book value	1,360.0	2,431.5

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.

11. Subordinated Liabilities

	June 30, 2018 € millions	Dec. 31, 2017 € millions
Book value	781.5	981.1
thereof:		
– to affiliated companies	527.7	526.4

Notes to the Income Statement

12. Interest Income

The decrease in interest income of € 68.1 million to € 42.0 million (previous year: € 110.1 million) was mainly caused by the incremental transfer of interest-bearing portfolios to EAA.

13. Interest Paid

Like the decline in interest income, the decrease in interest paid of € 18.7 million to € 73.5 million (previous year: € 92.2 million) was partly due to the transfer of interest-bearing portfolios to EAA. In addition, the forming of a tax provision for additional interest payments had an adverse effect (see also note on net interest income in the "Income Statement").

14. General Administrative Expenses

Personnel expenses in the amount of € 14.2 million were down € 3.7 million on the prior-year figure (€ 17.9 million). This includes € 1.9 million higher expenses from voluntary contributions to the external provident fund, Portigon Versorgungskasse GmbH. The expected decline in personnel expenses is mainly attributable to the headcount reduction in the course of the Bank's transformation. The number of employees declined to 139 from 212 at June 30, 2017.

Other administrative expenses came to € 21.1 million, a decrease of € 6.2 million on the prior-year figure (€ 27.3 million). The sharp drop results from lower IT expenses and the reduction in general operating expenses.

15. Taxes on Income and Revenues

Tax expense amounted to € 99.6 million at June 30, 2018 (previous year: € 2.8 million) and is primarily due to the increased provision, formed as a precautionary measure, for tax on dividend payments that potentially was taken into account in previous years without justification in connection with dividend arbitrage transactions of the former WestLB.

Düsseldorf, August 21, 2018

Portigon AG
The Managing Board

Dr. Peter Stemper Frank Seyfert

Publications

The Half-Yearly Financial Report and the Annual Report 2017 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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