Annual Report 2016

Portigon
Aktiengesellschaft

Portigon Key Figures

Key Figures Year-on-Year Comparison

	1. 1. – 31. 12. 2016	1. 1. – 31. 12. 2015	Change absolute	Change %
Performance figures in € millions				
Net interest income	54.4	102.3	– 47.9	– 46.8
Net commission income	– 17.4	– 13.4	– 4.0	– 29.9
Other operating expenses/income	– 14.4	9.2	– 23.6	> – 100.0
Personnel expenses	– 48.2	– 80.1	31.9	39.8
Other administrative expenses	– 92.3	– 175.2	82.9	47.3
Provisions for credit risks	0.9	32.0	– 31.1	– 97.2
Result of securities and participations	–	13.4	– 13.4	– 100.0
Extraordinary result	– 25.3	– 197.0	171.7	87.2
Profit/loss before income tax	– 142.2	– 308.8	166.6	54.0
Taxes on income and revenues	– 27.3	210.0	– 237.3	> – 100.0
Profit/loss after taxes	– 169.5	– 98.8	– 70.7	– 71.6

	Dec. 31, 2016	Dec. 31, 2015	Change absolute	Change %
Balance sheet figures in € billions				
Total assets	11.5	14.1	– 2.6	– 18.4
Business volume	11.6	14.4	– 2.8	– 19.4
Credit volume	4.3	4.7	– 0.4	– 8.5
Equity capital	1.7	1.9	– 0.2	– 10.5
Bank regulatory ratios according to CRR/CRD IV				
Common Equity Tier 1 capital in € billions	1.5	1.7	– 0.2	– 11.8
Tier 1 capital in € billions	1.7	1.8	– 0.1	– 5.6
Own funds in € billions	2.5	2.8	– 0.3	– 10.7
Risk-weighted assets in € billions	0.6	0.6	–	–
Common Equity Tier 1 capital ratio in %	258.0	272.4	– 14.4	– 5.3
Tier 1 capital ratio in %	276.4	295.2	– 18.8	– 6.4
Total capital ratio in %	416.6	449.7	– 33.1	– 7.4
Employees				
Number of employees	268	451	– 183	– 40.6
Full-time equivalent	261	436	– 175	– 40.1

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

Statement of Financial Condition at December 31, 2016

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 2016 fiscal year.

Total assets of Portigon AG came to € 11.5 billion at December 31, 2016 (previous year: € 14.1 billion). Of that amount, € 4.7 billion (previous year: € 5.8 billion) is attributable to trust assets and € 2.8 billion (previous year: € 4.3 billion) to items guaranteed by EAA. The remaining amount chiefly relates to the investment of capital and liquidity back-ups. The considerable 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.

Portigon AG saw its income fall from € 111.5 million to € 22.6 million. The anticipated decrease is mainly attributable to a drop in interest income resulting from lower volumes in the lending business as well as to the generally low interest rate environment. In addition, income in the previous year had been lifted by the reversal of provisions that were no longer needed.

In view of the investigations by the public prosecutor in connection with dividend arbitrage transactions of the former WestLB, the 2016 annual financial statements include provisions in the amount of € 45.8 million for taxes on dividend payments, including solidarity surcharge thereon that potentially have been refunded in previous years without justification.

In January 2016, the company invested in long-term securities of the State of North Rhine-Westphalia to hedge its pension obligations to former and active employees in Germany. Available liquidity was also invested in interest-bearing securities to conserve Portigon AG's net interest income.

The progressive transformation led to a further headcount reduction in the 2016 fiscal year, which in turn lowered non-personnel costs. As a result, Portigon AG's administrative expenses fell sharply by € 114.8 million, from € 255.3 million to € 140.5 million.

Portigon AG reported an extraordinary result of € – 25.3 million (previous year: € – 197.0 million). The negative result is attributable to restructuring expenses incurred for the company's transformation. In the previous year, payments had been made to an external pension fund that were needed to cover the indirect pension obligations to employees of the London branch in connection with the insurance-orientated out-financing.

Altogether, Portigon AG recorded a result before taxes of € – 142.2 million (previous year: € – 308.8 million) and a net loss for the year of € 169.5 million (previous year: net loss of € 98.8 million). The net loss for the year is partly offset by loss participation on the part of the holders of the silent contributions to capital (€ 144.5 million) and the holders of profit participation rights (€ 1.2 million) pursuant to the respective terms of issue. The remaining amount (€ – 23.8 million), together with the loss carried forward from the previous year, is being reported as a retained loss (€ – 253.4 million).

The net loss for the year corresponds to the loss forecast for Portigon AG last year in the low hundreds of millions.

Taking into account the net loss for the year, Portigon AG's Tier 1 capital ratio is 276.4%, whilst its total capital ratio is 416.6%. Risk-weighted assets stand at € 0.6 billion.

The return on investment in accordance with § 26a (1) of the German Banking Act (KWG) is – 1.47%.

Structural Changes

The year under review was again dominated by the task of implementing the approval decision taken by the European Commission on December 20, 2011.

In the past fiscal year, Portigon AG (PAG) sold all interests in its service subsidiary Portigon Financial Services GmbH (PFS, today known as Erste Financial Services GmbH, EFS) and transferred them to Erste Abwicklungsanstalt (EAA) with retroactive economic effect to December 31, 2015/January 1, 2016. The agreement was signed on February 17, 2016. Closing took place on April 4, 2016. The transfer of PFS to EAA, which includes contractual arrangements regarding PFS's pension liabilities, is part of a redistribution of tasks between PAG, PFS and EAA. In this connection, PAG and EAA worked out the details of the agreement in principle for bilateral collaboration in portfolios that on account of transfer obstacles are still held on PAG's balance sheet even though the risks lie with EAA.

Fitch Ratings discontinued its rating activities for Portigon AG on January 7, 2016. Moody's announced on January 26, 2016 that it had updated its rating methodology in line with Germany's new insolvency legislation. This also took account of the fact that from the end of 2015 Landesbank liabilities incurred after July 18, 2001 will no longer be covered by the guarantor liability. Pointing out that liabilities of these institutions preceding this date continue to be covered by the guarantor liability, Moody's discontinued its rating due to a lack of necessity in this regard. Portigon AG was among the institutions affected by this decision.

With effect from April 29, 2016, Portigon AG closed its Singapore branch, the second foreign location to be closed in 2016. It was preceded by the closure of the Sydney branch on March 30, 2016.

Effective April 1, 2016, Dr. Peter Stemper took over as Chairman of the Managing Board. He succeeds Hubert Beckmann, who stepped down as planned at March 31, 2016. Frank Seyfert became an ordinary member of the Managing Board with effect from April 1, 2016.

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.

In June 2016, the Düsseldorf Public Prosecutor's Office announced that it had begun a formal investigation into former Managing Board members of WestLB in connection with dividend arbitrage transactions. The Bank is cooperating fully with the investigating authorities, supplying the documents requested. In view of this situation, the annual financial statements include provisions in the amount of € 45.8 million for taxes on dividend payments, including solidarity surcharge theron that potentially have been refunded in previous years without justification.

Portigon's Branches, Subsidiaries and Offices

The head office of Portigon AG is in Düsseldorf. Portigon AG still conducts business in Europe through three branches in London, Madrid and Milan. Outside Europe, Portigon AG still maintained branches in New York and Hong Kong at December 31, 2016.

Based on the European Commission's decision of December 20, 2011, the head office and the foreign branches are being downsized. The closure of foreign locations, with which Portigon AG is resolutely pressing ahead, depends to a large extent on the requirements of the regulatory authorities in the countries in question. Following the closure of the branches in Shanghai and Istanbul in 2014 and the closure of the Tokyo branch in 2015, the branches in Singapore and Sydney were also closed in 2016. Hong Kong is scheduled to be closed at the end of the first half of 2017. In contrast, the winding-down process for the Milan branch is nearly complete. In a letter dated December 22, 2016, application for deletion from the commercial register was made. The branch was closed on March 13, 2017.

The branches in New York, London and Madrid continued to be systematically downsized, accompanied by the efforts of Portigon AG to clean up the balance sheets by eliminating the remaining transactions so that it can ultimately initiate legal closure at these locations as well.

Employees

For employees, the 2016 fiscal year continued to be dominated by the transformation of Portigon AG.

The systematic downsizing at Portigon AG progressed according to plan. The number of employees decreased from 451 (436 full-time employees) to 268 (261 full-time employees). The downsizing was implemented on the basis of the enterprise-level collective agreement as well as a reconciliation of interests and redundancy scheme, with comparable regulations outside Germany.

Through new placement counselling, employees leaving the company receive valuable support in their professional reorientation.

Compensation

In 2016, Portigon AG continued to systematically align its compensation system with the regulatory requirements for employee compensation.

Statement of Income

Portigon's performance in 2016 was still shaped by the company's transformation, i.e. the downsizing of Portigon AG in accordance with the conditions set by the European Commission.

Altogether, we are reporting a result before taxes of € – 142.2 million (previous year: € – 308.8 million) and a net loss of € 169.5 million (previous year: net loss of € 98.8 million) for Portigon AG in the 2016 fiscal year. Because of this, the silent contributions to capital and the profit participation capital cannot be serviced and participate in the loss pursuant to the terms on which they were issued.

Statement of Income from January 1 to December 31, 2016

	1. 1. – 31. 12. 2016 € millions	1. 1. – 31. 12. 2015 € millions	Change € millions	%
Net interest income	54.4	102.3	– 47.9	– 46.8
Net commission income	– 17.4	– 13.4	– 4.0	– 29.9
Other operating expenses/income	– 14.4	9.2	– 23.6	> – 100.0
Personnel expenses	– 48.2	– 80.1	31.9	39.8
Other administrative expenses	– 92.3	– 175.2	82.9	47.3
Provisions for credit risks	0.9	32.0	– 31.1	– 97.2
Result of securities and participations	–	13.4	– 13.4	– 100.0
Extraordinary result	– 25.3	– 197.0	171.7	87.2
Profit/loss before income tax	– 142.2	– 308.8	166.6	54.0
Taxes on income and revenues	– 27.3	210.0	–237.3	> – 100.0
Profit/loss after taxes	– 169.5	– 98.8	– 70.7	– 71.6
Loss carried forward from the previous year	– 229.6	– 215.8	– 13.8	– 6.4
Withdrawals from profit participation capital	1.2	0.8	0.4	50.0
Withdrawals from silent contributions to capital	144.5	84.2	60.3	71.6
Retained loss	– 253.4	– 229.6	– 23.8	– 10.4

Net Interest Income

The net interest income of Portigon AG amounted to € 54.4 million (previous year: € 102.3 million). This decline in income is mainly attributable to the decrease in the positions guaranteed by EAA. In addition the provisions made in connection with dividend arbitrage transactions of former WestLB for penalty interest on taxes on dividend payments that potentially have been refunded in previous years without justification had a negatively impact. The absence of coupon payments on the profit participation capital reduced the interest expense by € 2.3 million (previous year: € 2.7 million).

Net interest income also includes negative interest from lending and money market transactions of € – 6.8 million (previous year: € – 3.3 million).

Net Commission Income

Portigon AG's net commission income amounted to € – 17.4 million (previous year: € – 13.4 million). This decrease results from the trend in the guarantee commission to be paid and the service fees received: in the reporting period, income from portfolio services at Portigon AG amounted to € 4.2 million (previous year: € 34.6 million). One of the major offsetting items was the € – 24.4 million (previous year: € – 45.9 million) in guarantee fees for synthetically transferred portfolios.

Other Operating Expenses/Income

The net figure for other operating expenses and income came to € – 14.4 million for Portigon AG (previous year: € 9.2 million).

This figure primarily constitutes the interest cost on provisions. The income stems from the disposal of tangible assets as well as from the discounting of provisions.

General Administrative Expenses

As expected, general administrative expenses at Portigon AG fell sharply by € 114.8 million to € 140.5 million (previous year: € 255.3 million).

Personnel expenses decreased by € 31.9 million to € 48.2 million (previous year: € 80.1 million) because of the substantial reduction in headcount resulting from the transformation of Portigon AG. The average number of employees over the year declined from 566 to 318.

Other administrative expenses likewise fell substantially, by € 82.9 million to € 92.3 million (previous year: € 175.2 million) for Portigon AG due in particular to a decrease in non-personnel costs in the area of IT and for legal advice as well as to lower operating costs. Other administrative expenses were increased by the 2016 annual contribution to the restructuring fund amounting to € 5.6 million.

Provisions for Credit Risks

A positive result of € 0.9 million was reported in fiscal year 2016 (previous year: € 32.0 million) due to revenues on written-off exposures. The figure for the previous year had been positively impacted by the reversal of global value adjustments at the Tokyo branch. As a result of the transfer of positions to EAA, Portigon AG is no longer exposed to any appreciable credit risks from its former lending operations.

Result of Securities and Participations

There was net income of € 0.0 million (previous year: € 13.4 million) from securities and participations.

	1. 1. – 31. 12. 2016 € millions	1. 1. – 31. 12. 2015 € millions
Result of securities	–	0.8
Result of participations	–	12.6
Result of securities and participations	–	13.4

Extraordinary Result

Portigon AG reported an extraordinary result of € – 25.3 million (previous year: € – 197.0 million). The negative result is attributable to restructuring expenses incurred for the company's transformation. In the previous year, payments had also been made to an external pension fund that were needed to cover the indirect pension obligations to employees of the London branch in connection with the insurance-orientated out-financing.

Taxes on Income and Revenues

The tax expense of € 27.3 million incurred in the 2016 fiscal year (previous year: tax income of € 210.0 million) is attributable to income taxes from Germany for previous years amounting to around € 23.2 million and to current income taxes in the amount of € 7.2 million. The foreign branches generated tax income of approximately € 3.1 million, mostly resulting from previous years.

Net Loss for the Year

Portigon AG is reporting a net loss of € 169.5 million for the 2016 fiscal year (previous year: net loss of € 98.8 million). There were no coupon payments on the profit participation certificates for 2016 as well as no reinstatement of the expected repayment amounts for profit participation certificates and silent contributions to capital. Accordingly, the silent contributions to capital were not serviced.

Balance Sheet and Business Volume

As in the previous year, the balance sheet at December 31, 2016 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. In principle, the credit and market risks associated with these assets and liabilities have been transferred to EAA.

At December 31, 2016, Portigon AG had total assets and total equity and liabilities of € 11.5 billion, of which € 4.7 billion was reported in the items trust assets and trust liabilities. This includes, in particular, derivative financial instruments carried at amortised cost that were transferred to EAA under the risk transfer agreement and are offset by matching claims and obligations. There is also the corresponding cash collateral.

In addition, Portigon AG still has claims on banks in the amount of € 0.4 billion (previous year: € 0.4 billion), claims on customers in the amount of € 3.8 billion (previous year: € 4.0 billion), securities in the amount of € 1.2 billion (previous year: € 0.3 billion) and cash in the amount of € 1.2 billion (previous year: € 3.0 billion). EAA has guaranteed € 2.8 billion (previous year: € 4.3 billion) of these assets, most notably € 2.1 billion in claims on customers (previous year € 3.6 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 € 11.6 billion at Portigon AG (previous year: € 14.4 billion).

Assets

	Dec. 31, 2016 € billions	Dec. 31, 2015 € billions
Cash/liquid debt issues	1.2	3.0
Claims on banks	0.4	0.4
Claims on customers	3.8	4.0
Securities not held for trading	1.2	0.3
Equity investments in affiliated and non-affiliated companies	–	0.1
Trust assets	4.7	5.8
Tangible/intangible assets	–	–
Other assets	0.3	0.5
Total assets	11.5	14.1

Liabilities

	Dec. 31, 2016 € billions	Dec. 31, 2015 € billions
Liabilities to banks	0.2	0.2
Liabilities to customers	2.2	3.1
Certificated liabilities	–	–
Trust liabilities	4.7	5.8
Other liabilities	1.6	1.9
Subordinated liabilities/Profit participation capital	1.2	1.2
Equity capital	1.7	1.9
Total liabilities	11.5	14.1
Contingent liabilities	–	0.1
Other commitments/Credit commitments	0.1	0.2
Business volume	11.6	14.4

Credit Volume

The credit volume on the balance sheet was € 4.3 billion at December 31, 2016 (previous year: € 4.7 billion).

Claims on banks remained constant on the previous year at € 0.4 billion. Claims on customers were reduced by € 0.2 billion to € 3.8 billion. Of the claims on customers, the sum of € 2.1 billion (previous year: € 3.6 billion) is guaranteed by EAA.

Credit Volume

	Dec. 31, 2016 € billions	Dec. 31, 2015 € billions
Claims on banks	0.4	0.4
Claims on customers	3.8	4.0
Contingent liabilities	–	0.1
Other commitments/Credit commitments	0.1	0.2
Credit volume carried in the balance sheet	4.3	4.7

Securities Holdings

Portigon's securities portfolio totalled € 1.2 billion at December 31, 2016 (previous year: € 0.3 billion). Most of the items in this portfolio are bonds and other interest-bearing securities from German public-sector issuers. The increase is mainly due to the investment of excess liquidity in interest-bearing securities to conserve Portigon AG's net interest income and to cover post-employment benefit obligations. Notes of € 0.3 billion (previous year: € 0.3 billion) are guaranteed by EAA.

Equity Investments in Affiliated and Non-Affiliated Companies

The carrying value of the equity investments in affiliated and non-affiliated companies of Portigon AG came to € 0.0 billion (previous year: € 0.1 billion). This decrease is attributable to the transfer of all interests in the service subsidiary Portigon Financial Services GmbH (PFS, today known as Erste Financial Services GmbH) to EAA.

Customer and Bank Deposits

Along with the decrease in receivables, liabilities to banks and customers were also reduced considerably.

At December 31, 2016, liabilities to banks and customers at Portigon AG totalled € 2.4 billion (previous year: € 3.3 billion) and consisted predominantly of time deposits. There was € 0.1 billion in deposits from EAA (previous year: € 0.6 billion).

Risk-Weighted Assets and Capital Ratios

Portigon calculates its capital adequacy figures according to the regulation on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation, CRR) and the directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive IV, CRD IV).

Portigon's own funds recognised for regulatory purposes under the CRR/CRD IV consist of the sum of Tier 1 capital and Tier 2 capital and were as follows at December 31, 2016:

Own Funds

	Dec. 31, 2016 € millions CRR/CRD IV after result for the year	Dec. 31, 2015 € millions CRR/CRD IV after result for the year
Common Equity Tier 1 capital (CET 1): instruments and reserves	1.544.1	1.694.3
Capital instruments and the related share premium accounts	498.6	498.6
thereof subscribed capital (shares)	498.6	498.6
thereof capital reserves/reserves from retained earnings (incl. profit/loss)	– 253.4	– 229.6
thereof government instruments with grandfathering up to January 1, 2018 (silent contribution to capital – issued 2009/2010)	1.298.9	1.425.3
Regulatory adjustments to CET 1	–	–
Common Equity Tier 1 capital (CET 1)	1.544.1	1.694.3
Additional Tier 1 capital (AT 1): instruments	110.7	141.8
thereof instruments as defined by Article 484 (4) CRR that do not constitute state aid (silent contribution to capital – issued 2005)	110.7	141.8
Regulatory adjustments to AT 1	–	–
Additional Tier 1 capital (AT 1)	110.7	141.8
Tier 1 capital (T 1 = CET 1 + AT 1)	1.654.8	1.836.1
Tier 2 capital (T 2)	838.9	961.4
Own funds	2.493.6	2.797.5

At the reporting date, the Tier 1 capital amounted to € 1,654.8 million, down € 181.3 million as against December 31, 2015.

The decrease is predominantly due to the distribution of the HGB loss for 2016 among the capital components absorbing the loss as well as to the reduction in the Additional Tier 1 capital instruments, only a portion of which is included in Additional Tier 1 capital in 2016 under the transitional arrangements in the CRR/CRD IV rules (60%).

The Common Equity Tier 1 capital declined from € 1,694.3 million to € 1,544.1 million, mainly due to the distribution of the HGB loss.

At December 31, 2016, the eligible capital of Portigon AG amounted to € 2,493.6 million, a drop of € 303.8 million compared with the previous year. In addition to the effects in the Tier 1 capital, this decrease is due to the ineligibility of some subordinated issues for continued inclusion in the regulatory capital.

The profit participation rights and subordinated liabilities of Portigon included in the regulatory capital meet the conditions for qualification as Tier 2 instruments in Article 63 CRR. There can be no early repayment obligation on the subordinated liabilities. In the event of bankruptcy or liquidation, profit participation rights and subordinated liabilities will not be repaid until all unsubordinated claims have been satisfied.

While the volume of profit participation rights included in Tier 2 capital was € 7.7 million, the volume of subordinated liabilities included was € 786.9 million. Interest is paid on the subordinated liabilities in accordance with the terms on which they were issued.

The following ratios were determined at December 31, 2016 on the basis of the eligible capital pursuant to CRR guidelines and taking into account the bottom line for the year:

Risk-Weighted Assets and Equity Ratios Pursuant to CRR/CRD IV

	Dec. 31, 2016 € millions CRR/CRD IV after result for the year	Dec. 31, 2015 € millions CRR/CRD IV after result for the year
Risk-weighted assets		
Counterparty credit risks	132.8	218.3
Credit valuation adjustment (CVA)	18.4	17.2
Operational risks	378.7	386.6
Total risk exposure amount for position, foreign-exchange and commodities risks	68.7	–
Total risk-weighted assets	598.6	622.0
Equity ratios %		
Common Equity Tier 1 capital ratio	258.0	272.4
Tier 1 capital ratio	276.4	295.2
Total capital ratio	416.6	449.7

Under the CRR/CRD IV framework, risk-weighted assets totalled € 598.6 million for Portigon AG, which represents a decrease of € 23.4 million from the amount reported at December 31, 2015. The counterparty credit exposures dropped by € 85.5 million to € 132.8 million compared with the end of 2015. The reasons for this were the general downsizing of the portfolio, specifically due to the sale of PFS (now EFS), the reduction of office equipment and the decrease from exposures with commercial banks. These far outweighed slightly negative effects (e.g. from currency effects).

Amounting to around € 50.0 million, the total risk exposure from foreign exchange risks at the end of 2015 was below the 2% threshold set out in Article 351 CRR and therefore did not require capital backing. At the reporting date of December 31, 2016, the total risk exposure from foreign exchange risks was around € 68.7 million. The change compared with the previous year primarily stems from an increase in the net short position in the US dollar currency exposure.

Compared with the end of 2015, the CVA (credit valuation adjustment) charge for Portigon AG rose marginally by € 1.2 million (risk-weighted assets, RWA) to € 18.4 million. For low volumes, this effect is reported date-specific and is due to selected contract partners and maturities.

The decrease of € 7.9 million in operational risks to € 378.7 million results from the decline in gross income (and thus the relevant indicator) through a sharp drop in net commission income in 2015.

The Tier 1 capital ratio declined from 295.2% to 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 258.0%, compared with 272.4% in the previous year.

Against this backdrop, the total capital ratio decreased from 449.7% to 416.6%.

Concluding Statement from the Subordinate Status Report

The State of North Rhine-Westphalia (NRW) holds 69.49% of the shares of Portigon AG directly and 30.51% indirectly via NRW.BANK, which is wholly owned by NRW.

Therefore, Portigon AG's Managing Board makes the following statement pursuant to § 312 (3) of the German Stock Corporation Act (AktG):

"Based on circumstances known to us at the time the company entered into the transactions and undertook or refrained from undertaking the acts discussed in the report on relations with affiliated enterprises, our company received adequate consideration for each such transaction and did not suffer any disadvantage by reason of undertaking or refraining from undertaking such acts."

Risk Report

Following the transfer of PFS to EAA, Portigon AG's risk strategy was comprehensively revised, as planned. Also taking into account the long-term solution arrived at in December 2015 for the management of pension obligations to former and active employees in Germany, the risk audit in March 2016 led to major changes in Portigon AG's risk strategy and risk-bearing capacity concept as described below:

The risk steering framework is no longer implemented from a Group perspective.

The increased significance of the risks arising from pension obligations is taken into account for the risk-bearing capacity in the going-concern approach by

a) classifying these risks as material within the meaning of the Minimum Requirements for Risk Management (MaRisk),

b) introducing a new risk exposure called "pension risk" for risks arising from longevity and the trend in salary increases for non-exempt employees and civil servants and

c) introducing a deduction item entitled "HGB discount rate" for determining the sources of risk-bearing capacity for the risk that discount rates will fall faster than anticipated.

The Portigon Risk Committee (PRC) was dissolved with effect from March 31, 2016 and its risk steering functions and decision-making powers were transferred back to the Managing Board at the same time.

On account of the unchanged negative interest rate policy of the European Central Bank (ECB), it was decided in May 2016 to invest excess liquidity in medium- to long-term interest-bearing securities to conserve Portigon AG's net interest income in connection with the amendment of the investment guidelines and the extension of the business strategy. The review of the risk strategy necessitated by the adjustment of the business strategy showed that Portigon AG now also considers market price risk to be a material risk within the meaning of MaRisk and monitors this as a risk exposure for determining the risk-bearing capacity under the going-concern approach.

Portigon AG's business strategy underwent a further adjustment in December 2016, as a result of which the investment guidelines for managing excess liquidity now allow for the acquisition of securities that satisfy the following criteria: RWA weighting of zero, rating (long-term issuer rating) of at least AA– (Standard & Poor's; S & P) or Aa3 (Moody's), investments denominated in EUR and USD. There were no material changes to the risk strategy or the risk-bearing capacity concept.

At the reporting date, Portigon AG therefore classified operational risk, pension risk, HGB discount rate risk, business risk and market price risk as material risks pursuant to MaRisk. All other types of risk are not considered material.

Risk Management System

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 actively 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's risk strategy, which is linked to the business strategy, forms the basis for monitoring and steering risk. It sets the principles of risk management, defines the types of risk that are material for purposes of MaRisk and provides the basis on which to classify the risk types as either material or immaterial to Portigon AG's operations. The risk strategy also describes the core elements of the risk management processes.

The Managing Board determines the business strategy, which is reviewed annually, and Portigon AG's risk strategy as well as the principles of risk policy and risk steering in communication with the Supervisory Board.

Following the transfer of responsibilities from the former Loan & Portfolio Management business unit to the Credit Services business unit in the first quarter of 2016, this was merged with the Risk Services business unit in May 2016 to form the Risk Controlling business unit. The reporting and compliance/ALM functions were also integrated.
The pooling of all risk issues in the Risk Controlling business unit takes account of the continued downsizing of Portigon AG and – even after the dissolution of the Portigon Risk Committee – ensures that a comprehensive perspective on the subject of risk is taken.

- Credit risk: Independent monitoring of counterparty credit risks, especially credit, issuer and counterparty risks, including risk classification and approving commitments and loan administration

- Market price risk: Monitoring of market price and liquidity risks as well as the counterparty risks of trading products

- Operational risk & compliance: Measurement and steering of operational risks as well as identification, steering and mitigation of the risks of statutory or regulatory sanctions, financial loss or damage to reputation in connection with compliance and combating money laundering

- Regulatory issues: Controlling of all pertinent risks and overall risk steering based on the risk-bearing capacity, development and updating of the risk strategy, internal and external reporting including the reporting system

- Inventory and claims management: Competence centre for guarantees for the risks guaranteed by EAA, management of Portigon's own equity investments, processing of events of liquidation not transferred to EAA, performance of tasks in connection with the deposit base opportunities process

In order for a system of risk steering and monitoring to be sustainable, it must identify all risks, maintain transparency about their severity and use the results of risk management to provide meaningful information to decision makers. Risk reporting, therefore, is one of the core tasks of risk management. At regular intervals, the Managing Board and the Supervisory Board receive targeted, unbiased reports about all developments which are significant from the perspective of capital and risks.

The "Risk Situation Report" provides timely and comprehensive information about Portigon AG's capital and risk situation in a condensed format. The quarterly report, which meets MaRisk requirements for risk reports, provides information on operational risks, market price, liquidity and credit risks, as well as on capital and the risk-bearing capacity.

Portigon AG publishes additional qualitative and quantitative information in a separate, annual Disclosure Report pursuant to the CRR. The Disclosure Report focuses on such topics as adequacy of own funds, the risks taken and the procedures in place to manage these risks, including the computation methods used. It presents the current risk situation on the basis of the guidelines of banking supervisors and is published on Portigon AG's website.

Operational Risk

Operational risk refers to the risk of losses resulting from inadequate or failed internal processes, people and systems at Portigon AG or from external events. The definition includes legal risks, but does not include reputational risks.

Portigon AG defines operational risk (OpRisk) as a material risk for MaRisk purposes, to be monitored in conjunction with its risk-bearing capacity.

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 current investigations by the public prosecutor into dividend arbitrage transactions. With regard to this background the annual financial statements include provisions in the amount of EUR 45.8 million for taxes on dividend payments, including solidarity surcharge thereon that potentially have been refunded in previous years without justification.

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 2016.

The Operational Risk & Compliance unit in the Risk Controlling business unit is in charge of defining the OpRisk management framework as well as related instruments and guidelines. It ensures that operational risk steering activities are consistent, records these and provides its expert opinion on them. In view of the continued downsizing and the smaller number of staff, the function of the decentralised Operational Risk Manager was discontinued at June 30, 2016. Management of the operational risks in the business units is supported by the Operational Risk & Compliance unit. This ensures that the analysis, measurement, steering and monitoring of operational risks meet uniform standards of quality.

Operational Risk & Compliance cooperates closely with the specialist units, for example on contingency planning, auditing, legal issues, insurance, IT and non-IT security issues and centralised management of service providers.

For the remainder of the downsizing process we will continue to analyse and assess operational risks using familiar instruments like the loss event database and risk self-assessment, so that we can introduce measures to minimise losses in a timely fashion.

Portigon AG uses the standardised approach pursuant to Article 317 of the Capital Requirements Regulation (CRR) to determine the regulatory capital charge for its operational risks.

Alignment of the economic OpRisk capital with the regulatory capital commitment is the approach used for Portigon AG. The risks calculated for regulatory purposes (risk-weighted assets) continue to be used for internal steering (economic capital commitment). The stress scenario for operational risks comprises the inclusion of a mark-up using a scaling factor.

For Portigon AG, the economic capital charge and the capital in stress testing for operational risks therefore stood at € 30.3 million and € 37.9 million respectively as per December 31, 2016 (previous year: € 30.9 million and € 38.7 million respectively).

Where possible and prudent, insurance policies are taken out to cover the losses that could arise from operational risks. Portigon AG has central insurance cover.

Legal Risks

The identification and steering of the legal risks, which are considered a subset of operational risks, is primarily the responsibility of the Legal unit, which works closely with all other units and the Operational Risk & Compliance unit. Each unit is responsible for recognising any existing or imminent legal risks in its own operations. Once risks are identified, the required steps to reduce or prevent them to the greatest extent possible are taken. In this way, notice is taken of occurrences which could harm the company for legal reasons. In addition, suitable preventive countermeasures are introduced.

Up to December 31, 2016, after several lawsuits had been terminated with a settlement, Portigon AG was a defendant in 32 lawsuits brought by 21 municipalities/municipal associations (previous year: 60 lawsuits brought by 41 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, 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. The other investigations have been suspended for several years now without any measures being taken. With regard to the civil actions pending before a court in New York, the proceedings being handled in a class action lawsuit were dismissed in the first instance in December 2016 as the court had no jurisdiction in relation to the foreign banks being sued, which include Portigon AG. Consequently, a ruling on an individual lawsuit is still outstanding. Portigon AG remains convinced that neither it nor its employees can be accused of illegally manipulating the interest rate quotes. Hence, it does not expect any penalties or fines.

With the exception of the exposure to certain litigation expenses, the economic risk associated with the lawsuits concerning alleged breaches of duty in respect of USD-LIBOR interest rates, as well as those relating to derivatives transactions, was transferred to EAA under the spin-off agreement of August 30, 2012. At December 31, 2016, Portigon AG had set aside a reasonable sum of money to cover the litigation expenses of the suits with a determinable risk.

Reputational Risks

Portigon AG's business model entails only very limited reputational risks. These may very well arise as follow-on risks (e.g. of operational risks), but are not material risks as defined by MaRisk.

Pension Risk

Pension risk arises in particular from the potential need to increase pension provisions as well as the risk that pension obligations over the years will be higher than the figures determined by modelling mortality rates and the trend in salary increases for non-exempt employees and civil servants based on expert opinions.

Portigon AG considers pension risk a material risk within the meaning of MaRisk. Longevity risk and the risk presented by the trend in salary increases for non-exempt employees and civil servants are considered major risk factors that are taken into account in the risk-bearing capacity through a common risk exposure.

Longevity risk: The values of the obligations are calculated using the biometric calculation base recognised for accounting purposes in accordance with mortality tables for pension insurance. These tables are not industry-specific and are based on an analysis of all people living in Germany. The risk lies in the fact that the mortality rates modelled do not reflect reality, the beneficiaries from Portigon AG possibly have a higher life expectancy and thus have longer de facto pension entitlements from Portigon AG than projected.

Salary increases for non-exempt employees and civil servants: Salary increases for non-exempt employees and civil servants increase pension entitlements for active employees as well as current retirement benefits because in the commitments under the benevolent fund and the overall provision for old age the pension increase is tied to the salary increases for non-exempt employees and civil servants. The risk lies in the fact that the actual increases will exceed the trend in the salary increases for civil servants or non-exempt employees assumed in the modelling of the payment obligations.

The economic capital charge for the pension risk is calculated annually and at the reporting date amounts to € 64.0 million in the base scenario and to € 80.0 million in the stress scenario.

HGB Discount Rate Risk

Portigon AG recognises provisions in its balance sheet for direct pension commitments, discounting the future obligations at the balance sheet date using the HGB discount rate.

The HGB discount rate risk involves increasing the reported pension provisions as a consequence of a sharper drop in the HGB discount rate than estimated in the capital planning.

Portigon AG considers the risk of a sharper-than-forecast drop in the HGB discount rate to be material within the meaning of MaRisk and takes this into account as a deduction item for determining the sources of risk-bearing capacity. The deduction item is determined annually and amounted to € 10.0 million at the reporting date.

Business Risk

Business risk refers to the unexpected failure to meet revenue and cost targets. This includes tax risks, defined as impending additional burdens arising in particular from future audits by the tax authorities.

Portigon AG treats business risk as a material risk pursuant to MaRisk and monitors it in conjunction with its risk-bearing capacity.

The planned revenue and cost components are analysed individually and forecasts of the amount and likelihood of unfavourable variances over the next twelve months are prepared. The identification of business risk, thus, is closely interlinked with planning and ongoing controlling. The use of quarterly forecasts ensures the timely consideration of current business developments.

The Managing Board decides on what scenarios to use when analysing the company's risk-bearing capacity. There are currently two scenarios: a base scenario for probable variances and a stress scenario for highly unlikely, significant variances.

At the end of 2016, the volume of business risk came to € 0.0 million in the base scenario (previous year: € 5.9 million) and to € 1.0 million in the stress scenario (previous year: € 9.8 million). This decrease results from the updating of the planning and lower excess liquidity.

Market Price Risk

Market price risk describes the portfolio's sensitivity to changes in market parameters (yield curves, exchange rates, etc.) and is now classified as a material risk for Portigon AG within the meaning of MaRisk.

The reclassification of market price risk is attributable to the investment of excess liquidity in medium- to long-term interest-bearing securities without the use of hedging transactions to conserve Portigon AG's net interest income. Because of the magnitude of the interest rate sensitivity resulting from this and the effects on the regulatory interest rate shock scenario of 200 basis points, Portigon AG's market price risk is considered material.

The market price risks of the risk-transferred positions rest in principle with EAA.

The monitoring and limits on material price risks continue to be subject to interest rate sensitivities per currency, maturity range and base curve as well as foreign exchange positions and stress tests for capping non-linear risks. The limits on material price risks were extended in June 2016 to include credit spread sensitivity.

In addition, stress tests are used to quantify interest rate risk for Portigon AG by determining the change in the present value of relevant positions. The interest rate shock scenarios which BaFin defined are "+200 basis points" and "–200 basis points". These stress scenarios satisfy both the current regulatory requirements for monitoring interest rate risk in the banking book and the sensitivities of the internal requirements for market price risk management.

At the end of December 2016, 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 € 86.3 million in value (previous year: € – 16.5 million with a decrease in interest rates by 200 basis points across all currencies). This corresponded to a maximum of 3.5% of regulatory own funds at the end of December 2016 (previous year: 0.5%). 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 regulatory interest rate shock scenarios are also used to determine market price risk in conjunction with the risk-bearing capacity. In the base scenario, 80% of the interest rate shock is included to achieve consistency with the modelling of the stress scenario for operational risk.

Liquidity Risk

Portigon AG treats liquidity risk as an immaterial risk pursuant to MaRisk.

Even after the outflow of funds resulting from the investment in long-term securities of the State of North Rhine-Westphalia to cover the post-employment benefit obligations, Portigon AG's liquidity is guaranteed at all times.

The Treasury unit in the Corporate Steering business unit is responsible for managing Portigon AG's liquidity. Over and above that, the Risk Controlling business unit independently monitors liquidity risks and prepares the regulatory reports on the liquidity position.

Our liquidity management differentiates between operating, tactical and strategic liquidity. The risk strategy sets the reporting instruments and steering goals for these individual time bands. The Managing Board sets the risk tolerance for the individual steering goals on this basis.

Tactical liquidity management helps ensure the availability of sufficient liquidity for up to one year. In order to steer our tactical liquidity, we determine, on a daily basis, the contractual maturity profile of all assets and liabilities having an impact on liquidity and supplement it with information concerning the potential inflows and outflows from the liquidity reserve as well as effects from contingent liabilities and other drains on liquidity.

All of the model assumptions used in the stress test and their parameter calibration are subject to annual validation.

The purpose of strategic liquidity management is to ensure that Portigon AG is capable of satisfying its long-term liquidity requirements. Portigon AG's refinancing capacity will be guaranteed by its equity and by the liabilities remaining on its balance sheet post-transformation.

In the case of OTC derivatives transactions, Portigon AG enters into agreements on the provision of collateral. These agreements may require an increase in the amount of collateral provided should Portigon AG's rating be downgraded. Compared to other liquidity risks, the liquidity risk posed by the collateral agreements executed is straightforward, since Portigon AG's derivatives exposure is minimal. The liquidity risk stemming from the derivatives transferred to EAA is covered by a collateral agreement with EAA.

A bank's liquidity is evaluated for regulatory purposes using 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. A bank's liquidity is considered sufficient if this ratio is at least 1.0. For Portigon AG, the ratio averaged 7.16 in the period from January to December 2016, which was an improvement on the previous year's average of 3.51. Portigon AG's liquidity was safeguarded at all times in the period under review.

Counterparty Credit Risk

Portigon AG classifies counterparty credit risk as an immaterial risk pursuant to MaRisk.

In accordance with the decision taken by the European Commission on December 20, 2011, Portigon AG may hold a limited volume of risk-weighted assets (RWA) only for a limited period of time. The investment of excess liquidity follows strict investment guidelines, and there is no significant credit risk (RWA weighting of zero, rating (long-term issuer rating) of at least AA– (Standard & Poor's) or Aa3 (Moody's), investments denominated in EUR and USD). The credit risk associated with assets which were transferred to EAA solely by synthetic means corresponds to the credit risk of the guarantor EAA. Because this risk has a low probability of occurrence, it is insignificant from an economic standpoint.

The review, evaluation, monitoring, steering and decision-making in respect of counterparty credit risks are based on documented, uniform standards and processes. Internal credit risk steering is based on the Credit Risk Standard Approach (CRSA); Portigon AG uses a simplified risk classification procedure that complies with MaRisk.

There were individual value adjustments and credit provisions of € 37.0 million in the reporting year (previous year: € 65.6 million), which were formed prior to the assumption of risks by EAA and exclusively relate to positions guaranteed by EAA. Income from the provisions for credit risks totalled € 0.9 million (previous year: € 32.0 million). As a result of the transfer of positions to EAA and Helaba, Portigon is no longer exposed to any appreciable credit risks from its former lending operations.

Additional information is provided in the section entitled "Statement of Income" and in the Notes.

Equity Holding Risk

In essence, equity holding risk is no longer a material risk for Portigon AG, since the investment-orientated equity has been transferred to EAA and the risks from the few operating holdings that are needed in particular to sustain business operations are limited.

Capital Utilisation

Usage of Regulatory Capital

Portigon AG calculates its ratios according to the CRR/CRD IV framework. CRD IV and CRR are the EU directive and EU regulation through which the rules on the prudential supervision of banks attributable mainly to Basel III are being implemented at European level. Pursuant to Article 92 (1) CRR, the minimum Common Equity Tier 1 ratio is 4.5% and the minimum Tier 1 ratio is 6%; the capital requirement for the total capital ratio remains at 8%.

Portigon AG exceeded the minimum requirements at all times in 2016.

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 projected for the following years.

	Dec. 31, 2016 € millions after result for the year	Dec. 31, 2015 € millions after result for the year
Risk-weighted assets	598.6	622.0
Counterparty credit risks	132.8	218.3
Credit valuation adjustment (CVA)	18.4	17.2
Operational risks	378.7	386.6
Total risk exposure amount for position, foreign-exchange and commodities risks	68.7	–
Own funds	2,493.6	2,797.5
Total capital ratio in %	416.6	449.7
Tier 1 capital	1,654.8	1,836.1
Tier 1 capital ratio in %	276.4	295.2
Common Equity Tier 1 capital	1,544.1	1,694.3
Common Equity Tier 1 capital ratio in %	258.0	272.4

Additional information is available in the section entitled "Risk-Weighted Assets and Capital Ratios".

Usage of Economic Capital (Risk-Bearing Capacity)

The adjustments made to the risk strategy in 2016, especially the changes in the classification of material risks for Portigon AG, required major adjustments to Portigon AG's risk-bearing capacity concept.

Portigon AG's risk-bearing capacity concept continues to distinguish between two steering frameworks. The going-concern approach is still the primary steering framwork. In addition, the liquidation approach is used to measure the risk-bearing capacity annually. The risk-bearing capacity is examined in both approaches over a period of twelve months from the respective reporting date.

The starting point for determining the sources of risk-bearing capacity in the going-concern approach is the Tier 1 capital under the CRR, which represents the risk-taking potential. The liquidation approach also includes Tier 2 capital in risk-taking potential. Depending on which approach is used – the going concern or liquidation approach – various amounts are deducted from the risk-taking potential to arrive at the available sources of risk-bearing capacity. In the going-concern approach, the HGB discount rate risk, which has been reclassified as material for purposes of MaRisk, is taken into account as a deduction item for determining the sources of risk-bearing capacity.

To steer the material risks which are an inherent part of its business or largely unavoidable, Portigon AG set a risk appetite in the going-concern approach at € 400.0 million (previous year: € 150.0 million). The increase in the risk appetite in the first half of 2016 resulted from the reclassification of pension and market price risks as material for Portigon AG; together with the operational risks and business risks these are weighed against the risk appetite directly and monitored through the continuous reporting. This still leaves significant sources of risk-bearing capacity to cover adverse business developments and risks that are not considered material. The risks defined as immaterial are managed using separate operating limits or suitable processes such as the investment strategy.

In the liquidation approach, the sources of risk-bearing capacity are measured against the operational risk, business risk and market price risk as well as the immaterial counterparty credit risk. Operational risks, business risks and market price risks are determined the same way as the stress scenario in the going-concern approach, whilst counterparty credit risks are derived from the regulatory capital. The total risk exposure is the sum of the individual risks. In addition to determining the sources of risk-taking capacity over a twelve-month period, a longer-dated analysis identifying the sources of risk-taking capacity through year-end 2019 is also performed.

In the going-concern approach, stress tests on the risk-bearing capacity are run on the operational risk, pension risk, business risk and market price risk. The risk arising from an HGB discount rate that is falling faster than forecast is not stress-tested, but is taken into account as a deduction item for determining the sources of risk-bearing capacity. The risk appetite was sufficient to cover potential negative developments in 2016.

Reverse stress testing is limited to the scenario of an EAA default. Were EAA to default, the credit risks, market price risks and legal risks guaranteed by EAA could revert back to Portigon AG. The risk of a default by EAA is deemed to be very low, since the only conceivable way it could default would be if either the State of North Rhine-Westphalia or the Federal Republic of Germany defaulted. Moreover, because the State of North Rhine-Westphalia is Portigon AG's main investor, a default by it would pose a direct risk to Portigon AG's ability to continue as a going concern. It does not make economic sense to hedge against the EAA default risk.

Concluding Remarks on the Risk Situation

Portigon AG's material risks for purposes of MaRisk are operational risk, pension risk, HGB discount rate risk, business risk and market price risk. All other types of risk are considered immaterial.

In the analysis of the risk-bearing capacity, the going-concern approach remains 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 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).

Portigon AG exceeded the capital backing required by the CRR at all times in 2016.

Opportunities Report

The opportunities of Portigon AG essentially relate to its ability, in conjunction with managing the remaining assets, to press ahead with the process of dismantling the former WestLB more quickly and more efficiently than currently projected for the next years. This applies to both personnel matters and organisational issues. There is potential for additional savings with respect to headcount reductions, the downsizing of the remaining IT platform and the related process adjustments. The degree to which cost savings above planned levels can be achieved or additional costs are incurred depends on the further course of the transformation and cannot be predicted at this time.

Another factor in this regard is the administration of the remaining items on the balance sheet, taking into account the conditions set by the European Commission and changes in the related risks. To what extent this process will lead to results that are better than those which are currently planned or captured on the balance sheet remains to be seen.

Outlook

The structural changes at 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 sharp 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 further, more extensive restructuring expenses depends on the further course of the transformation.

Portigon AG Balance Sheet as at December 31, 2016

Assets

	€	€	31. 12. 2016 €	31. 12. 2015 € thousands
1. Cash				
a) cash on hand		4,813.95		7
b) balances with central banks		1,229,017,966.74		2,949,326
including:			1,229,022,780.69	2,949,333
with Deutsche Bundesbank				
€ 755,495,310.14 (2015: € 2,057,186 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		0.00		27,555
			0.00	27,555
3. Claims on banks				
a) payable on demand		74,686,864.75		71,552
b) other		295,866,103.63		337,645
			370,552,968.38	409,197
4. Claims on customers			3,794,748,889.35	4,043,961
including:				
loans to public authorities and entities				
under public law				
€ 3,774,514,013.76 (2015: € 4,025,112 thousand)				
5. Bonds and other interest-bearing				
securities				
a) bonds and notes				
aa) of public institutions	1,147,022,728.91			269,556
including:				
eligible as collateral for				
Deutsche Bundesbank advances				
€ 829,015,134.92 (2015: € 8,146 thousand)				
ab) of other issuers	12,103,568.23			11,643
		1,159,126,297.14		281,199
			1,159,126,297.14	281,199
		To be carried forward:	6,553,450,935.56	7,711,245

Assets

	€	€	31. 12. 2016 €	31. 12. 2015 € thousands
		Carried forward:	6,553,450,935.56	7,711,245
6. Equity investments in				
non-affiliated companies			20,815,687.65	29,812
7. Equity investments in affiliated companies			2,813,972.05	28,338
thereof:				
on Financial Services				
€ 2,013,622.87 (2015: € 27,014 thousand)				
8. Trust assets			4,689,898,240.32	5,800,113
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		549.59		34
			549.59	34
10. Tangible assets			6,039,388.42	18,354
11. Other assets			88,881,904.89	204,633
12. Deferred items			183,337,931.42	291,907
Total assets			11,545,238,609.90	14,084,436

Portigon AG Balance Sheet as at December 31, 2016

Liabilities

	€	€	31. 12. 2016 €	31. 12. 2015 € thousands
1. Liabilities to banks				
a) payable on demand		37,028,433.32		55,024
b) with agreed maturity or period of notice		158,577,327.20		175,073
			195,605,760.52	230,097
2. Liabilities to customers				
a) other liabilities				
aa) payable on demand	149,188,542.08			1,118,395
ab) with agreed maturity or				
period of notice	2,027,428,148.91			2,022,789
		2,176,616,690.99		3,141,184
			2,176,616,690.99	3,141,184
3. Certificated liabilities				
a) bonds and notes issued by the bank		8,950,620.85		10,003
			8,950,620.85	10,003
4. Trust liabilities			4,689,898,240.32	5,800,113
5. Other liabilities			68,099,894.18	111,815
6. Deferred items			125,967,857.64	273,450
7. Provisions				
a) for pensions and similar				
obligations		658,337,026.15		720,608
b) tax reserve		124,245,453.46		64,698
c) other		579,119,487.92		634,627
			1,361,701,967.53	1,419,933
8. Subordinated liabilities			1,176,992,352.76	1,186,926
9. Profit participation capital			12,791,742.58	14,037
		To be carried forward:	9,816,625,127.37	12,187,558

Liabilities

	€	€	31. 12. 2016 €	31. 12. 2015 € thousands
		Carried forward:	9,816,625,127.37	12,187,558
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		1,627,882
c) retained loss		– 253,381,973.33		– 229,653
			1,728,613,482.53	1,896,878
Total liabilities			11,545,238,609.90	14,084,436
1. Contingent liabilities				
a) liabilities from guarantees and				
indemnity agreements		26,613,929.73		66,560
			26,613,929.73	66,560
2. Other commitments				
a) irrevocable credit commitments		61,537,032.16		185,604
			61,537,032.16	185,604

Portigon AG Statement of Income

for the Period January 1 to December 31, 2016

	€	€	1. 1.–31. 12. 2016 €	1. 1.–31. 12. 2015 € thousands
1. Interest from				
a) lending and money market transactions	288,414,924.80			329,268
b) interest-bearing securities and				
book-entry securities	20,700,944.88			15,854
		309,115,869.68		345,122
2. Negative interest from				
a) lending and money market transactions		6,752,828.23		3,339
3. Interest paid		248,419,807.63		239,529
			53,943,233.82	102,254
4. Current income from				
a) equity investments in				
non-affiliated companies		12,892.83		7
b) equity investments in				
affiliated companies		421,838.98		6
			434,731.81	13
5. Commission income		5,749,606.05		38,674
6. Commission paid		23,102,169.22		52,071
			– 17,352,563.17	– 13,397
7. Other operating income			50,585,151.57	135,408
8. General administrative expenses				
a) personnel expenses				
aa) wages and salaries	36,988,816.90			58,923
ab) compulsory social security				
contributions and expenses				
for pensions and other				
employee benefits	11,162,865.54			21,202
including:		48,151,682.44		80,125
for pensions				
€ 5,024,183.16 (2015: € 13,771 thousand)				
b) other administrative expenses		91,099,641.21		173,175
			139,251,323.65	253,300
9. Depreciation and value adjustments				
on tangible and intangible assets			1,156,708.81	2,022
10. Other operating expenses			60,676,458.75	124,376
11. Income from revaluation of loans and				
certain securities as well as from the				
reversal of loan loss provisions			898,379.19	32,023
		To be carried forward:	– 112,575,557.99	– 123,397

for the Period January 1 to December 31, 2016

	€	€	1. 1.–31. 12. 2016 €	1. 1.–31. 12. 2015 € thousands
		Carried forward:	– 112,575,557.99	– 123,397
12. Write-downs and value adjustments on equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets			3,217.48	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	14,119
14. Expenses from the assumption of losses			0.00	709
15. Profit or loss on ordinary activities			– 112,578,775.47	– 109,987
16. Extraordinary income		1,079,985.55		26,317
17. Extraordinary expenses		26,398,396.58		223,326
18. Extraordinary result			– 25,318,411.03	– 197,009
19. Taxes on income and revenues		27,277,196.09		– 209,963
20. Other taxes not shown under item 10		4,335,058.03		1,862
			31,612,254.12	– 208,101
21. Net loss for the year			– 169,509,440.62	– 98,895
22. Loss carried forward from the previous year			229,653,442.35	215,843
23. Withdrawals from profit participation capital			1,245,155.98	843
24. Withdrawals from silent contributions to capital			144,535,753.66	84,242
25. Retained loss			– 253,381,973.33	– 229,653

Notes to the Financial Statements at December 31, 2016

General Information

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 Annual Financial Statements

Portigon AG is required to prepare annual financial statements and a statement of financial condition in accordance with § 242 in conjunction with § 264 of the German Commercial Code (HGB).

By way of an agreement dated February 17, 2016, Portigon AG transferred all interests in its service subsidiary Portigon Financial Services GmbH (PFS, today known as Erste Financial Services GmbH, EFS) to Erste Abwicklungsanstalt (EAA). The transfer of the interests took place on April 4, 2016. The subsidiaries Portigon Europe (UK) Holdings Ltd. (London, United Kingdom) and Portigon Finance Curaçao N.V. (Willemstad, Curaçao), which were also part of the basis of consolidation in the past, are insignificant for the presentation of a true and fair view of the cash flows, financial condition and results of operations and in exercise of the option provided in § 296 (2) of the German Commercial Code (HGB) are therefore no longer included in the consolidated financial statements. As all subsidiaries that are considered immaterial in isolation are also insignificant as a whole, starting from the 2016 fiscal year Portigon AG is exempted in accordance with § 290 (5) of the German Commercial Code (HGB) from the duty to prepare consolidated financial statements and a group statement of financial condition. In place of the combined notes to the annual and consolidated financial statements of Portigon AG published in the previous year in accordance with § 298 (2) of the German Commercial Code (HGB), beginning with the reporting period only notes to the annual financial statements of Portigon AG will consequently be prepared.

The annual financial statements of Portigon AG are prepared in accordance with the provisions of the German Commercial Code, the Ordinance Regarding Accounting for Banks and Financial Services Institutions and the relevant provisions of the German Stock Corporation Act. Information which may appear either on the balance sheet or in the Notes has been included in the Notes.

The annual financial statements are submitted to the operator of the Bundesanzeiger (Federal Gazette; www.bundesanzeiger.de) and published in accordance with § 325 and § 328 of the German Commercial Code (HGB).

The annual financial statements, the notes to these financial statements and the statement of financial condition at December 31, 2016 were prepared by the Managing Board of Portigon AG at its meeting on March 7, 2017. In light of the investigations by the Public Prosecutor's Office in connection with dividend arbitrage transactions of the former WestLB and the fact that the documents of the investigating authorities were being examined at the time, at its meeting on March 29, 2017 the Supervisory Board went along with the Managing Board's decision to postpone adoption of the annual financial statements prepared. With regard to this background the annual financial statements include provisions in the amount of EUR 45.8 million for taxes on dividend payments, including solidarity surcharge and penalty interest thereon that potentially have been refunded in previous years without justification. As a consequence of the amendment of the annual financial statements, a supplementary audit is being conducted in accordance with § 316 (3) of the German Commercial Code (HGB).

3. Accounting and Valuation Principles

Assets, liabilities and pending transactions are valued in accordance with §§ 252 et seq. and §§ 340 et seq. of the German Commercial Code (HGB).

Claims are reported at their outstanding principal balances less any unamortised discounts. Liabilities are carried at their settlement amounts, with any related discounts reported as assets under deferred items. Premiums on claims and liabilities are reported under deferred items as an asset or liability, respectively. Deferred items relating to premiums and discounts from underwriting and lending are valued according to the effective interest method. The accrued interest on a claim or liability at year-end is included with the claim or liability to which it applies, except in the case of subordinated liabilities. Non-interest-bearing loans to employees are reported at their outstanding principal balance. Treasury bills and non-interest-bearing treasury bonds are discounted and shown with the effective discount rate. Zero-coupon bonds issued are carried as liabilities at their issue price plus share in the difference between the issue price and redemption value at the balance sheet date assuming a constant effective interest rate.

Discernible risks with claims are adequately covered by individual value adjustments and provisions. Latent risks from claims and contingent assets are covered by contingency reserves formed pursuant to § 340f of the German Commercial Code (HGB). The global value adjustments formed on the basis of overseas regulatory requirements were reversed in the previous year due to the closure of the branch concerned.

Securities held in the liquidity reserve are valued according to the strict lower of cost or market principle.

Securities treated as fixed assets (long-term investments) are valued at cost. Any difference between the cost and the redemption amount is recognised on a pro rata basis in income. Where a decline in value is expected to be permanent, they are written down to the lower fair value. Any such securities carried at a value higher than their current market value because of application of the modified lower of cost or market principle are shown separately in the Notes. This information is subject to change over time because of portfolio changes, as well as movements in interest rates and/or market value.

Repurchase agreements and reverse repurchase agreements are combinations of a spot purchase or sale of securities with a simultaneous forward sale or repurchase transaction entered into with the same party. Securities purchased with an obligation to sell (reverse repurchase agreements), and securities sold with an obligation to repurchase (repurchase agreements), are generally regarded as collateralised financial transactions. The securities pledged under repurchase agreements (spot sale) are still recognised as part of the securities portfolio. The cash deposit received as part of the repurchase agreement, including accrued interest, is recognised as a liability. In the case of reverse repurchase agreements, a corresponding receivable is recognised, including accrued interest. The underlying securities received in pledge (spot purchase) are not recognised on the balance sheet.

The accounting treatment of structured financial instruments follows the accounting practice statement issued by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) concerning when and when not to treat the components of structured financial instruments separately for accounting purposes (IDW RS HFA 22).

Portigon has qualified as a non-trading-book institution within the meaning of § 13 of the German Banking Act (KWG) since September 1, 2012. Portigon has had no trading portfolio to report since that date.

During the transformation in 2012, there was a synthetic transfer of derivatives by means of a risk transfer agreement to Erste Abwicklungsanstalt (EAA). The execution of the agreement created a fiduciary relationship, i.e. fiduciary trust, under German commercial law, with Portigon AG as the trustee and EAA as the grantor. A derecognition of these derivatives held in trust for EAA was impermissible despite the transfer in full of the opportunities and risks inherent in them because the legal obligations under the derivatives had not been extinguished, i.e. the obligations had not been satisfied, cancelled or reached expiration. Until there is a settlement of or legal release from the obligations or the obligations are transferred in rem to EAA, these derivatives and corresponding offsetting positions will continue to be reported on Portigon's balance sheet. As a result, the derivatives and corresponding matching claims and obligations vis-à-vis EAA are reported as trust assets and trust liabilities pursuant to § 6 (1) of the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV). Further subsequent measurement at fair value beyond December 31, 2014 was decided against, however. Since the previous year, derivatives and corresponding matching claims and obligations have been measured at amortised cost, the basis of which is the fair value most recently determined at December 31, 2014. This is due to the fact that in the trust assets or trust liabilities changes in the market value presented in the same amount in each case are no longer significant for Portigon AG's business model. With the progressive restructuring of Portigon AG, for which the crucial decisions and arrangements were made in the first half of 2015, the business model is focused on the downsizing of the portfolio, particularly the assets and liabilities not transferred in rem and the associated cost reductions. As a consequence of the decision not to measure the derivatives held in trust at fair value and to present them instead as simply noted items, the changes in the portfolio arising from maturities and novations must be taken directly from the balance sheet, which increases the informative value of the financial statements in a year-on-year comparison. Otherwise, this difference in the measurement method does not have any effect on the company's cash flows, financial condition and results of operations. In this respect, the change in method completed in the previous year constitutes a justified exception from the principle of consistency of measurement pursuant to § 252 (2) of the German Commercial Code (HGB).

The items held in trust for EAA have no effect on the statement of income since the income from these derivatives is to be passed on directly to EAA and the expenses from them are to be reimbursed by EAA. Earnings contributions from these derivatives and matching items are presented in their net amounts.

The measurement of financial instruments sometimes requires that management make assumptions and estimates which are based on subjective assessments and inevitably entail forecasting uncertainties. Even when our estimates are based on available information, past experience and other criteria, actual, future events may still vary, which can have a not insignificant impact on our cash flows, financial condition and results of operations. We believe the employed parameters are appropriate and justifiable.

If Portigon uses financial instruments to hedge specific risks (e.g. interest rate risks) from assets, liabilities, pending transactions or highly probable forecast transactions and creates a hedging relationship for this purpose, it is not required to apply the general accounting and measurement conventions to the hedge (including, in particular, the principle of item-by-item measurement as well as the historical cost convention, realisation principle and imparity principle) as long as the hedge is effective. The ineffective portion of the hedge as well as any other unhedged risks remain subject to the general accounting and measurement rules. Portigon does not have any macro hedges within the meaning of § 254 of the German Commercial Code (HGB) at this time.

Portigon steers the general interest rate risk in its banking book centrally, as part of asset/liability management. When Portigon measures the interest rate positions in its banking book (interest book) at the lower of cost or market, it determines on a present value basis whether there is a sufficient volume of counterclaims to offset the value of its obligations. To the extent that measurement of the aggregate interest rate position of the banking book, taking into account prorated administrative and risk costs, reveals an excess liability, the principle of prudence in German financial accounting requires the creation of a provision pursuant to § 249 (1) Sentence 1 No. 2 of the German Commercial Code (HGB) (provision for anticipated losses). When forming this provision, the accounting practice statement issued by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) concerning the measurement of interest rate positions in the banking book (interest book) at cost or market is used for guidance (IDW RS BFA 3). The formation of a provision pursuant to § 340a in conjunction with § 249 (1) Sentence 1 No. 2 of the German Commercial Code (HGB) was not necessary in this regard.

Equity investments in affiliated and non-affiliated companies are carried at cost. Where a decline in value is expected to be permanent, they are written down to the lower fair value. Collateral already furnished, particularly guarantees, is taken into account in the measurement of the write-downs. Pursuant to § 340c (2) of the German Commercial Code (HGB), expenses arising from write-downs of shares in affiliated and non-affiliated enterprises and securities treated as fixed assets are offset by the income from write-ups as well as by the expenses and income from transactions with such assets.

Tangible assets and intangible assets acquired against payment are depreciated or amortised over their expected useful lives; the cost of low-value assets is deducted in full in the year of purchase. Portigon does not make use of the option to capitalise the costs attributable to the development of internally generated intangible assets.

The other assets are recognised at the lower of cost or market.

Provisions are recognised at the settlement amount that is required by prudent business judgement. When measuring provisions, companies are required to recognise increases in costs and prices. In the case of pension provisions, this especially means wage and salary increases as well as a pension index. The discounting of provisions with a residual term of over one year is to be done using the average market interest rate of the previous seven fiscal years for the term matching the provisions', or their underlying liabilities', remaining time to maturity. Yield curves are published at the end of each month on the Deutsche Bundesbank website. When the Act on the Implementation of the Mortgage Credit Directive and the Amendment of Provisions of the German Commercial Code (Gesetz zur Umsetzung der Wohnimmobilienkreditrichtlinie und zur Änderung handelsrechtlicher Vorschriften) entered into force on March 17, 2016, the ten-year average interest rate was introduced in place of the seven-year average interest rate for the discounting of provisions for post-employment benefit obligations. Portigon AG had not made use of the option of early first-time application for the financial statements at December 31, 2015. First-time application of the ten-year average discount rate led to a one-off reduction in expense of € 70.3 million in the reporting period.

As not all provisions stem from the banking business, income/expenses arising from changes in the relevant discount rate over the previous year – to the extent that they cannot be ascribed to the extraordinary result – are reported in the other operating result.

Assets that meet the requirements for offsetting plan assets in accordance with § 246 (2) Sentence 2 of the German Commercial Code (HGB) are measured at their fair value in accordance with § 253 (1) Sentence 4 of the German Commercial Code (HGB) and offset against the related post-employment benefit obligations.

The negative interest paid for cash holdings is reported separately in the statement of income in a new item added after interest income.

As long as banking services are involved, income from fees for portfolio services we provide to our customers is reported as commission income.

All of the transactions in 2016 and in the previous year between Portigon and related parties were conducted on an arm's length basis. Therefore, there was no need for any disclosures pursuant to § 285 No. 21 of the German Commercial Code (HGB).

Foreign currency translation for assets and liabilities is handled in accordance with the provisions of § 256a and § 340h of the German Commercial Code (HGB). For risk management purposes, Portigon places foreign currency positions in specially designated books where they can be centrally managed and thus classified as specifically hedged. The corresponding expenses and income from translating these specifically hedged transactions into the reporting currency are reported on a net basis in other operating expenses/income.

Assets and liabilities denominated in foreign currencies, as well as unsettled spot deals, were translated using the middle spot exchange rate effective on the reporting date. Unsettled forward contracts (currency forwards and currency options) have been carried at the mean forward rate or option premium effective on that date. Income and expenses for which a particular exchange rate has been agreed are translated at the respective hedge rate. Swap premiums on balance sheet items hedged for foreign exchange risk are deferred and amortised over time. The amortisation amounts are included in the interest result.

Differences between the carrying amounts of assets, liabilities or assets or liabilities under deferred items and their tax base that are expected to reverse in future fiscal years are recognised as deferred taxes. Any resulting aggregate tax liability must be carried as deferred tax liabilities, whereas any resulting tax benefit may be recognised as deferred tax assets. In addition to the temporary differences, tax loss carryforwards are taken into consideration when calculating deferred tax assets. Portigon exercises the option of carrying deferred tax assets in accordance with § 274 (1) Sentence 2 of the German Commercial Code (HGB). However, it does not make use of the option to present the resulting deferred tax assets and liabilities gross in accordance with § 274 (1) Sentence 3 of the German Commercial Code (HGB).

The deferred taxes are measured at the individual tax rates of the company applicable at the balance sheet date or which have already been approved by the legislator and are expected to apply until the deferred tax assets and deferred tax liabilities are utilised. When determining taxes in Germany, a corporate income tax rate of 15% plus 5.5% solidarity surcharge thereon and a trade tax rate were applied, taking the applicable assessment rates into account.

Shares in subsidiaries are presented under equity investments in affiliated companies, whereas other shares that serve to create a long-term relationship with another company are reported under equity investments in non-affiliated companies.

Notes to the Balance Sheet

4. Cash

Cash amounted to € 1,229.0 million (previous year: € 2,949.3 million). The decrease mainly results from the investment of liquid funds of € 1,543.7 million in interest-bearing instruments of the State of North Rhine-Westphalia to cover post-employment benefit obligations and to purchase additional interest-bearing securities to conserve Portigon AG's net interest income.

5. Claims on Banks

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Payable on demand	74.7	71.6
With residual maturities of		
– up to 3 months	7.3	5.2
– between 3 months and 1 year	–	1.8
– between 1 and 5 years	73.6	65.6
– more than 5 years	214.9	265.0
Book value	370.5	409.2

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

Claims from leasing finance came to € 81.3 million (previous year: € 74.9 million).

Of the claims on banks reported on the balance sheet, the sum of € 242.0 million (previous year: € 279.4 million) is guaranteed by EAA.

6. Claims on Customers

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
With residual maturities of		
– up to 3 months	126.7	273.2
– between 3 months and 1 year	72.4	143.4
– between 1 and 5 years	204.3	632.9
– more than 5 years	3,391.4	2,994.5
Book value	3,794.8	4,044.0
including:		
– on affiliated companies	–	2.4
– on other companies in which equity investments are held	–	0.1
– from the leasing business	20.3	20.7

Of the claims on customers reported on the balance sheet, the sum of € 2,146.0 million (previous year: € 3,624.7 million) is guaranteed by EAA.

The increase in claims on customers with residual maturities of more than five years is largely attributable to the investment of funds to cover post-employment benefit obligations in the form of a borrower's note loan from the State of North Rhine-Westphalia of € 1,206.8 million. By contrast, € 837.6 million from the long-term maturity range was transferred to EAA in the reporting period in connection with the downsizing.

7. Bonds and Other Interest-Bearing Securities

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Book value	1,159.1	281.2
including:		
amounts becoming due before December 31 of the following fiscal year	37.0	50.7
Breakdown by product		
– bonds and notes of public-sector issuers	1,147.0	269.6
– bonds and notes of other issuers	12.1	11.6
Breakdown by marketability		
– marketable securities	1,159.1	281.2
thereof:		
– listed on a stock exchange	1,118.6	269.6
– not listed on a stock exchange	40.5	11.6

Of the bonds and other interest-bearing securities reported on the balance sheet, the sum of € 289.5 million (previous year: € 273.0 million) is guaranteed by EAA.

As was the case in the previous year, all bonds and other interest-bearing securities have been assigned to the investment portfolio, which makes them part of fixed assets. At year-end, € 819.2 million (previous year: € 195.8 million) in financial assets were valued at the modified lower of cost or market. Their fair value totalled € 802.3 million (previous year: € 194.9 million).

The change in these holdings is mainly due to the investment of excess liquidity and the investment of funds to cover post-employment benefit obligations.

We do not hold any securities from affiliated companies or other companies in which equity investments are held in our investment portfolio.

8. Equity Investments in Non-Affiliated Companies

Equity investments in non-affiliated companies amounted to € 20.8 million (previous year: € 29.8 million).

Of the non-marketable equity investments in non-affiliated companies reported on the balance sheet of Portigon AG, the sum of € 20.2 million (previous year: € 29.1 million) is guaranteed by EAA. The book values exceeded the fair values by € 15.9 million (previous year: € 19.1 million). On account of this guarantee, no impairment charges were made in these cases.

9. Equity Investments in Affiliated Companies

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Book value	2.8	28.3
including:		
– financial services institutions	2.0	27.0

The change in equity investments in affiliated companies of € 25.5 million is attributable to the sale of PFS (€ 25.0 million) and to a write-down of Treuhand- und Finanzierungsgesellschaft für Wohnungs- und Bauwirtschaft mit beschränkter Haftung (€ 0.5 million).

The book values of Portigon AG's equity investments in affiliated companies correspond to their fair values.

10. Trust Assets

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Other assets	4,689.9	5,800.1
Book value	4,689.9	5,800.1

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

The decrease in trust assets is due to maturities and the retrospective transfer in rem (novation) to EAA of a portion of these derivatives. For information concerning the measurement, please refer to Note 3.

11. Fixed Assets

<table>
<tr><th>€ millions</th><th>Bonds and other interest-bearing securities</th><th>Equity investments in non-affiliated companies</th><th>Equity investments in affiliated companies</th><th>Intangible assets</th><th>Land and buildings</th><th>Office equipment</th></tr>
<tr><td>Acquisition Cost/
Cost of Production Dec. 31, 2015</td><td>281.2</td><td>29.8</td><td>28.3</td><td>121.5</td><td>5.9</td><td>103.9</td></tr>
<tr><td>Additions</td><td colspan="3" rowspan="12">Net change pursuant to § 34 (3)
Sentence 2 RechKredV;
€ 815.0 million</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>Retirements</td><td>112.0</td><td>–</td><td>14.0</td></tr>
<tr><td>Reclassifications</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>Effects from currency conversion</td><td>0.2</td><td>–</td><td>0.1</td></tr>
<tr><td>Acquisition Cost/
Cost of Production Dec. 31, 2016</td><td>9.7</td><td>5.9</td><td>90.0</td></tr>
<tr><td>Cumulated write-downs
Dec. 31, 2015</td><td>121.5</td><td>4.0</td><td>87.4</td></tr>
<tr><td>Depreciation in the fiscal year</td><td>–</td><td>0.1</td><td>1.0</td></tr>
<tr><td>Appreciation</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>Retirements</td><td>112.0</td><td>–</td><td>2.8</td></tr>
<tr><td>Reclassifications</td><td>–</td><td>–</td><td>–</td></tr>
<tr><td>Effects from currency conversion</td><td>0.2</td><td>–</td><td>0.1</td></tr>
<tr><td>Cumulated write-downs
Dec. 31, 2016</td><td>9.7</td><td>4.1</td><td>85.7</td></tr>
<tr><td>Book value Dec. 31, 2016</td><td>1,130.7</td><td>20.8</td><td>2.8</td><td>–</td><td>1.7</td><td>4.3</td></tr>
<tr><td>Book value Dec. 31, 2015</td><td>281.2</td><td>29.8</td><td>28.3</td><td>–</td><td>1.9</td><td>16.5</td></tr>
</table>

The changes during the fiscal year with regard to securities were predominantly the result of the investment of excess liquidity and the investment of funds to cover post-employment benefit obligations. There were no write-downs of any securities treated as fixed assets in 2016, since no impairment was expected to be other than temporary.

The item “land and buildings” refers exclusively to properties which are not used in own operations. There is € 1.7 million (previous year: € 1.9 million) in land and buildings acquired under bail-out transactions which has been on the books for more than five years.

The decrease in office equipment to € 4.3 million (previous year: € 16.5 million) is principally due to the sale of works of art and the disposal of IT hardware.

12. Other Assets

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Book value	88.9	204.6
including:		
– claims from tax refunds	48.4	122.9
– premiums for options	–	0.4

13. Deferred Items

Deferred items	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Deferred items from reclassification of trading positions	174.8	279.5
Discounts from liabilities	1.3	2.8
Other	7.2	9.6
Book value	183.3	291.9

The deferred items resulting from the reclassification of trading positions at Portigon AG in 2012 are predominantly the market values, subject to amortisation, of swaps previously assigned to the trading portfolio as well as the premiums and discounts, subject to amortisation, from money market transactions that were assigned to the trading portfolio prior to the reclassification.

14. Deferred Taxes

Portigon AG did not report any deferred income taxes. Thus, there is no restriction on distribution pursuant to § 268 (8) of the German Commercial Code (HGB).

15. Subordinated Assets

The assets reported on the balance sheet included no subordinated assets at the reporting date. This was also the case at December 31, 2015.

16. Assets Sold under Repurchase Agreements

There were no assets sold under repurchase agreements in the 2016 fiscal year.

17. Liabilities to Banks

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Payable on demand	37.0	55.0
With residual maturity of		
– up to 3 months	126.4	0.8
– between 3 months and 1 year	24.6	–
– between 1 and 5 years	–	26.3
– more than 5 years	7.6	148.0
Book value	195.6	230.1

18. Liabilities to Customers

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Payable on demand	149.2	1.118.4
With residual maturity of		
– up to 3 months	60.7	96.1
– between 3 months and 1 year	0.1	41.7
– between 1 and 5 years	87.0	101.8
– more than 5 years	1,879.6	1,783.2
Book value	2,176.6	3,141.2
including:		
– liabilities to affiliated companies	25.9	225.6
– liabilities to other companies in which equity investments are held	–	0.1

The decrease is mainly due to the repayment of liabilities to EAA and EFS.

19. Certificated Liabilities

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Bonds issued	9.0	10.0
including:		
amounts becoming due before December 31, 2016	9.0	10.0
Book value	9.0	10.0

20. Trust Liabilities

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Liabilities to customers	289.1	289.2
Other liabilities	4,400.8	5,510.9
Book value	4,689.9	5,800.1

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

The decrease in trust liabilities is due to maturities and the retrospective transfer in rem (novation) to EAA of a portion of these derivatives. For information concerning the measurement, please refer to Note 3.

21. Other Liabilities

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Book value	68.1	111.8
including:		
– offsetting item from the valuation of currency transactions	27.2	54.1
– pro-rata interest for borrower's note loans and subordinated liabilities	25.1	25.5
– fees on bank guarantees	–	5.6
– liabilities from profit participation certificates which matured	–	2.3

22. Deferred Items

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Deferred items from reclassification of trading positions	121.5	263.2
Fees from the lending business	–	6.3
Other	4.4	4.0
Book value	125.9	273.5

The deferred items resulting from the reclassification of trading positions at Portigon AG in 2012 are predominantly the market values, subject to amortisation, of swaps previously assigned to the trading portfolio as well as the premiums and discounts, subject to amortisation, from money market transactions that were assigned to the trading portfolio prior to the reclassification.

23. Provisions

Independent actuaries measure the present value of the post-employment benefit obligations of Portigon AG using the projected unit credit method, taking future salary and pension increases into account. All of the company's pension plans are set up in Germany. The parameters and assumptions used in calculating the present value of the liabilities under these plans were as follows:

	Dec. 31, 2016
Discount rate	4.01%
Wage and salary index	2.50%
Pension index	2.20%
Fluctuation	4.00%–5.00%
Mortality tables	Heubeck 2005 G mortality tables

To hedge post-employment benefit obligations and other pension liabilities to individual beneficiaries of Portigon AG that are reported under other provisions, pension liability insurance policies were concluded for the first time in the 2014 fiscal year. Insofar as the entitlements under these pension liability insurance policies are exempt from attachment by all other creditors and serve exclusively to settle liabilities from post-employment benefit obligations and similar long-term liabilities, these plan assets are offset against the liabilities in accordance with § 246 (2) Sentence 2 of the German Commercial Code (HGB). In accordance with § 253 (1) Sentence 4 of the German Commercial Code (HGB), the plan assets were measured at fair value through profit or loss using the actuarial principles applied by the insurance company. The liabilities in question were carried in the amount of the excess of liabilities over assets remaining after offsetting as follows:

	Plan Assets		Associated Liabilities	
€ millions	Acquisition cost	Fair value	Before offsetting	After offsetting
Post-employment benefit obligations	45.8	45.4	703.7	658.3
Other pension liabilities	0.4	0.4	216.1	215.7
Total	46.2	45.8	919.8	874.0

Because the fair value of € 45.8 million is lower than the acquisition cost of € 46.2 million, there is no restriction on distribution pursuant to § 268 (8) Sentence 3 in conjunction with Sentence 1 of the German Commercial Code (HGB).

In the reporting period, the provisions for post-employment benefit obligations were measured for the first time using the average market interest rate for the past ten fiscal years (4.01%) in accordance with § 253 (2) Sentence 1 of the German Commercial Code (HGB). Measurement applying the seven-year average interest rate used up until then (3.24%) led to the following difference at December 31, 2016 in accordance with § 253 (6) of the German Commercial Code (HGB) (based on the obligations before offsetting against plan assets within the meaning of § 246 (2) Sentence 2 of the German Commercial Code (HGB)):

	Dec. 31, 2016
Measurement of obligations using the ten-year average interest rate	703.8
Measurement of obligations using the seven-year average interest rate	774.1
Difference in accordance with § 253 (6) HGB	70.3

The entire difference is subject to a restriction on distribution in accordance with § 253 (6) Sentence 3 of the German Commercial Code (HGB).

In accordance with § 246 (2) Sentence 2 of the German Commercial Code (HGB), the expense of € 0.8 million from the measurement of the plan assets was offset against the interest cost on provisions.

In view of the investigations by the public prosecutor in connection with dividend arbitrage transactions of the former WestLB, this item includes provisions in the amount of EUR 45.8 million for taxes on dividend payments, including solidarity surcharge thereon that potentially have been refunded in previous years without justification.

Portigon AG's other provisions mainly consist of provisions for restructuring of € 213.4 million (previous year: € 239.5 million), provisions in the personnel area of € 227.1 million (previous year: € 250.2 million) and miscellaneous provisions of € 138.7 million (previous year: € 144.9 million).

The item miscellaneous provisions includes, among other amounts, € 61.7 million for the obligation to indemnify arising from an assumption of the obligation to perform vis-à-vis EFS. By way of an agreement dated February 17, 2016, Portigon AG transferred all interests in its service subsidiary EFS to EAA. By way of an assumption of an obligation to perform in an agreement with the same date and with effect from the transfer date (December 31, 2015), Portigon AG assumed for EFS's benefit the pension liabilities from entitlements under pension plans vested up until the expiry of the termination date (but not beyond December 31, 2020) arising from pension commitments by EFS in existence at the transfer date. Upon the transfer of the interests on April 4, 2016, the claim arising from the sale was realised and the obligation to indemnify arising from the assumption of the obligation to perform was required to be reported as a liability in accordance with the contractual arrangements. Portigon AG's obligation to indemnify that was assumed against payment and arose from the assumption of the obligation to perform does not constitute a pension obligation or a similar obligation. Consequently, this must be measured using the general principles for provisions. The fee received was recognised at the acquisition date. In subsequent measurement, the obligation will be added to the carrying amount by calculating the interest rate underlying this consideration.

Furthermore, the item miscellaneous provisions includes, among other amounts, € 8.4 million (previous year: € 8.8 million) for reimbursement commitments relating to the pension commitments transferred to NRW.BANK (service cost) in 2013 and € 8.6 million (previous year: € 11.9 million) for potential litigation risks.

The € 38.9 million (previous year: € 109.8 million) in interest cost on provisions unrelated to banking operations of Portigon AG is reported in the other operating result.

24. Subordinated Liabilities

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Book value	1,177.0	1,186.9
including:		
– to affiliated companies	553.6	565.3

Of the total subordinated liabilities, € 459.8 million (previous year: € 184.2 million) at Portigon AG have a residual maturity of less than two years. The original maturities range from 5 to 40 years.

Portigon AG incurred interest expense of € 47.1 million in connection with its subordinated liabilities (previous year: € 77.3 million). The subordinated liabilities carried by Portigon AG itself comply with the requirements of Article 63 CRR; the right to terminate the liabilities without notice has not been reserved.

At December 31, 2016, we did not raise any capital exceeding 10% of our total subordinated liabilities.

25. Profit Participation Capital

Changes in Portigon's profit participation capital were as follows in the year under review:

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Beginning balance 1.1.	14.0	17.1
Additions	–	–
Subtractions	–	– 2.4
Loss allocation	– 1.2	– 0.7
Ending balance 31.12.	12.8	14.0

The remaining profit participation capital is comprised of one registered profit participation certificate with an original nominal value of € 6.0 million and one collective bearer profit participation certificate with an original nominal value of € 25.0 million. Both of these profit participation certificates have terms ending on December 31, 2019. The registered profit participation certificate grants an entitlement to an annual distribution of 7.90% relating to the fiscal year in question; for the collective profit participation certificate this is 7.46% of the par value. However, a claim to a distribution is excluded in accordance with the terms of the profit participation certificate concerned if, and only if, the distribution gives rise to a retained loss. The terms of the profit participation certificates stipulate that if we report a loss on our balance sheet, the repayment claims of the certificate holders will be reduced to the same extent which the equity capital, including profit participation capital, reported on the balance sheet is depleted in order to offset the loss. For the previous year, the holders of profit participation certificates were allocated a portion of the loss equal to € 0.8 million. Of that amount, € 0.1 million was attributable to profit participation rights which matured on December 31, 2015 and € 0.7 million to those due to mature on December 31, 2019. The holders of profit participation capital are being allocated a portion of the loss for 2016 equal to € 1.2 million.

The profit participation certificates for Portigon AG constitute Tier 2 capital of € 7.7 million (previous year: € 11.2 million) within the meaning of Article 62 CRR.

26. Equity Capital

The subscribed capital of Portigon was € 498.6 million at December 31, 2016 (previous year: € 498.6 million). It was divided into 22,695,306 (previous year: 22,695,306) no-par value registered Class A shares at the reporting date. The theoretical par value of each share is € 21.97 (previous year: € 21.97). All shares carry the same voting rights. For information concerning our current shareholder structure, please see Note 44.

Portigon is reporting a net loss for the 2016 fiscal year of € 169.5 million.

Portigon AG issued silent contributions to capital in 2005, with one tranche totalling US$ 300.0 million and the other € 240.0 million (for a combined total of € 469.4 million). The agreements concerning these silent contributions to capital provide that the parties making them will absorb losses in keeping with the share the carrying value of their individual contributions represents in the total carrying value of all Tier 1 capital elements of Portigon participating in the loss. The silent partners are being allocated a portion of the relevant loss for 2016 equal to € 18.1 million (previous year: € 10.5 million).

Pursuant to the agreement of December 12, 2009, concerning a silent participation on the part of FMS, FMS paid its entire silent contribution to capital in the amount of € 3,000.0 million in three instalments over the course of the 2009 and 2010 fiscal years. The parties executed agreements that were dated August 22, 24 and 25, 2012 and had an effective transfer date of September 1, 2012 under which they agreed to a partial sale of FMS's silent contribution to capital to the State of North Rhine-Westphalia (NRW) with a prorated original value of € 1,000.0 million and an actual prorated value of € 893.2 million due to loss participations in prior years. The original agreement on establishing the silent partnership was not amended and still provides for the silent partner's participation in any loss remaining after an adjustment of the reserves, with the loss being absorbed in proportion to the share the nominal value of the contribution represents in the total carrying value of all liable capital elements participating in the loss (§ 10 [2a], [4] and [5] of the German Banking Act [KWG]). The total amount the silent partners can absorb from losses is limited to the amount of their silent contributions to the capital. The silent partners are being allocated a portion of the relevant loss for 2016 equal to € 126,4 million (previous year: € 73.7 million). Portigon's Managing Board was authorised by the extraordinary shareholders' meeting held on April 23, 2010 to grant FMS the option of converting all or part of the silent contribution to capital into shares of Portigon AG. To this end, a new class of shares was created (originally Class C, now Class B), with a preferred dividend of 10%, a preferred stake in any proceeds from the sale of divisions and subsidiaries, and senior ranking in the event of liquidation. FMS's stake may not exceed 49.9% of the share capital. The agreement on the granting of a conversion right was signed in April 2010. As a result of the partial sale of the silent contribution to capital to NRW, the agreement on the conversion right, including the restated agreement between FMS and Portigon concerning the granting of a conversion right, was amended by an agreement of August 26, 2012. The amended agreements are consistent with previous agreements. This includes, in particular, the provisions on the possibility of exercising the conversion right, on determining the number of new shares to issue and their relationship to the shares issued prior to the conversion, on the maximum stake in the share capital of 49.9% and the new Class B, formerly Class C, preferred shares. FMS is the only party that can exercise the conversion right. Thus far, it has not been exercised.

On the basis of a loss carryforward from the previous year of € 229.6 million, a loss of € 253.4 million remains after loss allocation, including the loss participation of the profit participation certificate holders and silent partners.

	Balance Dec. 31, 2015 € millions	Withdrawals/ loss allocation € millions	Other appropriation € millions	**Balance Dec. 31, 2016 € millions**
Subscribed capital	498.6	–	–	498.6
Capital reserves	–	–	–	–
Revenue reserves	–	–	–	–
Silent contributions to capital			–	
– issued in 2005	202.6	– 18.1	–	184.5
– issued in 2009/2010	1,425.3	– 126.4	–	1,298.9
Retained loss	– 229.6	– 23.8	–	– 253.4
Equity capital pursuant to the German Commercial Code (HGB)	1,896.9	– 168.3	–	1,728.6

Portigon AG did not acquire any of its own shares during the entire fiscal year, nor did it hold any of its own shares at year-end.

27. Liability for Pre-Existing Commitments – Grandfathering

In line with the agreement reached between the German government and the European Commission on July 17, 2001, Article 1 § 11 of the Act on Redefining the Legal Status of Public-Law Banking Institutions in North Rhine-Westphalia (Gesetz zur Neuregelung der Rechtsverhältnisse der öffentlich-rechtlichen Kreditinstitute in Nordrhein-Westfalen) stipulated that the public-law liability mechanisms of institutional liability and guarantor liability would no longer apply to new liabilities and commitments entered into by Portigon after a transitional period which ended on July 18, 2005.

The grandfathering rules for guarantor liability on commitments agreed to prior to July 19, 2005 are as follows:

- All liabilities incurred by Portigon AG on or before July 18, 2001 are fully covered by guarantor liability until the time they mature.
- Guarantor liability will remain in effect in its original form for all liabilities incurred by Portigon AG from July 19, 2001 to July 18, 2005, so long as the liabilities mature by December 31, 2015; if they mature after the deadline, guarantor liability will not apply.

The guarantors of the former Westdeutsche Landesbank Girozentrale will completely satisfy the obligations arising from their guarantor liability with respect to Portigon AG as soon as they have properly determined and set forth in writing at the time a liability matures that the creditor of such liability cannot be satisfied from Portigon's assets. That explicitly includes the possibility of servicing debts precisely at the same time they fall due. The giving of a notice as normally required under aid law is not necessary.

Portigon AG had € 1.1 billion in liabilities which were still grandfathered at December 31, 2016 (previous year: € 1.5 billion). A € 0.2 billion (previous year: € 0.4 billion) portion of that relates to portfolios of assets and liabilities which are economically hedged by EAA through guarantee agreements.

28. Foreign Currency Assets/ Foreign Currency Liabilities

	Dec. 31, 2016 € billions	Dec. 31, 2015 € billions
Foreign currency assets	1.6	2.2
Foreign currency liabilities	1.3	1.6

Notes to the Statement of Income

29. Geographic Breakdown of Income Components

The principal components of income shown in Portigon's statement of income were obtained in the following geographical markets:

1. 1.–31. 12. 2015 € millions	Interest Income	Current Income	Commission Income	Other Operating Income
Germany	156.1	0.4	3.0	42.9
United Kingdom	55.3	–	–	0.5
Rest of Europe	10.5	–	0.1	2.0
Far East and Australia	–	–	–	0.3
North America	87.2	–	2.6	4.9
Amount reported on the Statement of Income	309.1	0.4	5.7	50.6

The geographic breakdown of income at Portigon AG is determined based on the domicile of the branch. Current income includes income from profit pooling and (partial) profit transfer agreements.

30. Administrative and Custodial Services

Various services are rendered on behalf of third parties, including, in particular, asset management and the administration of banking portfolios.

31. Other Operating Result

Other operating income	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Amount reported on the Statement of Income	50.6	135.4
including:		
Income from the reversal of other provisions	17.8	88.4
Income from the discounting of pension provisions	10.0	–
Rental and property income	1.8	4.6
Income from sale of fixed assets	17.3	3.1

Other operating expenses	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Amount reported on the Statement of Income	60.7	124.4
including:		
Expenses from the discounting of provisions	48.9	109.8
Losses on the sale of fixed assets	0.3	3.8

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 reduced the interest cost on provisions by € 70.3 million. Furthermore, the provision for liabilities for the expected outflow of resources accompanying the sale of PFS had been partly reversed in the prior-year period in the amount of € 53.0 million.

32. Risk Provisions

Individual Value Adjustments and Credit Provisions (excluding reserves formed pursuant to § 340f and § 340g HGB)

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Beginning balance 1. 1.	65.6	108.2
Allocations	–	–
Unwinding of the discount	–	–
Reversals	– 0.9	– 1.0
Usage	– 27.7	– 41.6
Market value differences/other changes	–	–
Ending balance 31. 12.	37.0	65.6

Write-Downs and Adjustments Pursuant to § 340f (3) and § 340c (2) HGB

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Result of provisions	0.9	46.1
Income/expenses from loans and securities	0.9	32.0
thereof:		
– loans	0.9	32.0
Participations/shares in affiliated companies and income/expenses from securities	–	14.1
thereof:		
– participations/shares in affiliated companies	–	13.3
– securities	–	0.8

Pursuant to § 340f (3) of the German Commercial Code (HGB) we offset the income and expenses resulting from the evaluation of the lending business with write-ups and write-downs of securities held in the liquidity reserve. The net result at Portigon was a positive € 0.9 million (previous year: positive € 32.0 million).

Similarly, pursuant to § 340c (2) of the German Commercial Code (HGB), the expenses related to shares in affiliated and non-affiliated enterprises, as well as securities held in the banking book, were offset by the income amounts for these investments. The net result in this case, which is the result of provisions for participations and securities, was a positive € 0.0 million (previous year: positive € 14.1 million) for Portigon AG.

In the reporting period, Portigon AG did not incur any expenses from the absorption of losses from subsidiaries (previous year: € 0.7 million).

33. Income and Expenses Relating to Different Accounting Periods

A total of € – 56.4 million (previous year: € – 1.5 million) in expenses relating to different accounting periods was incurred in the 2016 fiscal year. Income relating to different accounting periods was generated in the amount of € 26.2 million (previous year: € 229.9 million), which in addition to tax issues was mainly attributable to interest income generated from a securitisation transaction that had been expensed in the past.

For more information on prior-period taxes, please refer to Note 23 (Provisions) and Note 35 (Taxes on Income and Revenues).

34. Extraordinary Result

The extraordinary result came to € – 25.3 million (previous year: € – 197.0 million) at Portigon AG.

The negative result is largely attributable to restructuring expenses incurred for the company's transformation. In particular, payments had been made in the previous year to an external pension fund that were needed to cover the indirect pension obligations to employees of the London branch in connection with the insurance-orientated out-financing.

35. Taxes on Income and Revenues

	1. 1.–31. 12. 2016 € millions	1. 1.–31. 12. 2015 € millions
Amount reported on the Statement of Income	– 27.3	210.0
including:		
domestic operations	– 30.4	186.0
foreign operations	3.1	24.0

The tax expense of € 27.3 million incurred in the 2016 fiscal year (previous year: tax income of € 210.0 million) is attributable to income taxes from Germany for previous years amounting to around € 23.2 million and to current income taxes in the amount of € 7.2 million. The foreign branches generated tax income of approximately € 3.1 million, mostly resulting from previous years.

Other Information

36. Contingent Liabilities

Contingent Liabilities and Other Commitments

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Liabilities from guarantees and indemnity agreements	26.6	66.6
Irrevocable credit commitments	61.5	185.6

The contingent liabilities reported on the balance sheet consist mostly of surety bonds and guarantees.

The claims Portigon AG would have were a beneficiary to ever draw on any contingent liability or a borrower on any irrevocable credit commitment would be covered by the EAA guarantee agreement from the moment they arise.

37. Off-Balance-Sheet Items

Provision of Collateral for Own Liabilities

Portigon AG has assigned or pledged the following asset volumes to the third parties listed in order to secure its own liabilities:

	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions
Own securities pledged to other banks or customers	218.4	181.0
Pledged pension liability insurance policies for hedging of pension and similar obligations	45.8	17.3
Total assets pledged	264.2	198.3

Outsourcing

In addition to the maintenance, operation and development of the IT infrastructure and applications, Portigon AG has outsourced a number of banking activities. These are principally services relating to loan administration, operations including security settlement, regulatory reporting and risk services. We outsource activities and processes only after performing a detailed profitability and risk study. Our aim in outsourcing is to be more efficient and to cut costs on a sustainable basis. All outsourcing satisfies the requirements of § 25b of the German Banking Act (KWG) and MaRisk. We regularly review our outsourcing procedures for potential risks and adjust the procedures as needed.

38. Other Financial Obligations

Deposit Insurance and Other Insurance Mechanisms

Portigon is a member of the German Savings Banks Association (DSGV) and makes contributions to the security reserve (guarantee fund) of the Landesbanken and Girozentralen. This protection scheme is connected to the insurance scheme of the Sparkassen-Finanzgruppe, which is officially recognised as a deposit guarantee scheme in accordance with § 43 of the German Act on Deposit Insurance (EinSiG).

The insurance scheme of the Sparkassen-Finanzgruppe consists of eleven funds belonging to the regional savings banks and giro associations, the security reserve (guarantee fund) of the Landesbanken and Girozentralen and the security fund of the Landesbausparkassen, which together form a system of joint liability. There are rules and regulations governing the relationships between regional and national funds which provide for offsetting in cases where coverage is claimed (so-called overflow agreements). Based on the current legal environment, on the assumption that there will be no further cases in which coverage is claimed and on the contribution system of the security reserve (guarantee fund), Portigon, having completed the transfer of the imputable sums to the affiliated fund, had no additional funding obligation at the end of the 2016 fiscal year, will not have one for the foreseeable future and will not have to make additional contributions until further notice.

Other Contingent Liabilities

The deficit resulting from indirect pension obligations not carried on the balance sheet within the meaning of Article 28 (2) of the Introductory Act to the German Commercial Code (EGHGB) was € 111.5 million (previous year: € 114.0 million).

Portigon AG has rental and leasing obligations and other obligations totalling € 208.1 million (previous year: € 190.7 million). The agreements run for a maximum of ten years.

39. Forward Transactions/Derivatives

With reference to Note 3, the derivatives transferred to Erste Abwicklungsanstalt (EAA) by means of a risk transfer agreement during the transformation in 2012 and the corresponding matching claims and obligations vis-à-vis EAA are reported as trust assets and trust liabilities pursuant to § 6 (1) of the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV). Further subsequent measurement at fair value beyond December 31, 2014 was decided against. Since the previous year, derivatives and corresponding matching claims and obligations have been measured at amortised cost, the basis of which is the fair value most recently determined at December 31, 2014. Since there are no open positions entailing a settlement risk or currency, interest rate and/or other market price risks, no disclosures pursuant to § 36 of the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV) are made. Given the economic situation at EAA, a credit risk with regard to these derivatives held in trust is insignificant due to its low probability of occurrence.

With the change in Portigon's business model in 2012, the range of approved products decreased significantly. The product categories presented below exclusively relate to derivative transactions whose risks were not transferred to EAA under a risk transfer agreement.

These involve the following product categories:

- Products based on interest rates
- Products based on exchange rates
- Credit derivatives

At the balance sheet date, the total volume in nominal terms of derivative transactions that were not transferred to Erste Abwicklungsanstalt (EAA) under a risk transfer agreement was € 5.5 billion (previous year: € 16.5 billion).

OTC Products, thereof:	Nominal Values		Positive Market Values		Negative Market Values	
	2016€ millions	2015 € millions	**2016 € millions**	2015 € millions	**2016 € millions**	2015 € millions
Products based on interest rates	4,672	12,492	868	1,085	256	447
Products based on exchange rates	839	3,892	42	134	7	130
Credit derivatives	2	164	–	–	–	–
Total derivatives	5,513	16,548	910	1,219	263	577

The market values shown in the table are calculated subject to an overnight indexed swap (OIS) adjustment of € – 16.5 million, which is calculated as the difference arising from the discounting of the net present values (NPVs) with LIBOR and EONIA curves.

We capture book values of derivatives not carried as trust assets or trust liabilities (non-trading-portfolio items), which are relevant only with respect to option premiums paid or received and interest payment components, as other assets and assets under deferred items as well as other liabilities and liabilities under deferred items.

	Products Based on Interest Rates		Products Based on Share Prices and Other Prices		Credit Derivatives	
	Dec. 31, 2016 € millions	Dec. 31, 2015 € millions	**Dec. 31, 2016 € millions**	Dec. 31, 2015 € millions	**Dec. 31, 2016 € millions**	Dec. 31, 2015 € millions
Residual maturity						
– up to 3 months	895	4,693	154	1,936	–	–
– 3 months to 1 year	1,314	2,194	–	1,252	–	–
– 1 to 5 years	1,382	2,846	603	625	–	–
– more than 5 years	1,081	2,759	82	79	2	164
Total	4,672	12,492	839	3,892	2	164

40. Remuneration of the Governing Bodies

	2016 € millions	2015 € millions
Total remuneration of the Managing Board	0.8	0.9
fixed	0.8	0.9
performance-based	–	–
departure-related	–	–
from holding supervisory board seats at Group subsidiaries	–	–
Total remuneration of former Managing Board members and their survivors	6.4	6.3
Total remuneration of Supervisory Board members	0.1	0.2
fixed	0.1	0.2
performance-based	–	–
performance-based with long-term incentive effects	–	–
Pension provisions for Managing Board members who actively served during the fiscal year	9.8	8.6
Pension provisions for former Managing Board members and their survivors	100.2	94.1

A provision of € 0.1 million was formed in 2016 (previous year: € 0.2 million) for the compensation owed to the members of the Supervisory Board. In addition, members received a total of € 6,000 (previous year: € 32,000) in reimbursement of their out-of-pocket expenses.

Remuneration of the Members of the Managing Board

	Period	Fixed remune-ration* €	Performance-based remuneration €	Remuneration with long-term incentive effects €	Remuneration from seats at Group subsidiaries €	Total remuneration €	Obligation/ present value of pension commitments as of Dec. 31, 2016 €	Additions to/ subtractions from pension commitments in 2016 €
Beckmann, Hubert	1. 1. – 31. 3. 2016	125,980	–	–	–	125,980	7,578,749	510,593
Seyfert, Frank	1. 4. – 31. 12. 2016	273,560	–	–	–	273,560	1,582,184	22,242
Stemper, Dr. Peter	1. 1. – 31. 12. 2016	408,872	–	–	–	408,872	638,369	44,798
Vorstand gesamt	1. 1. – 31. 12. 2016	808,412	–	–	–	808,412	9,799,302	577,633

* including non-cash compensation, taxes and the employer portion of social security contributions
** accounted for only in accordance with HGB, figures determined based on pension entitlements arising from members' length of service in the company

Remuneration of the Members of the Supervisory Board

	Period	Fixed remuneration €	Performance-based remuneration €	Total remuneration €
Forst, Eckhard	21. 11. – 31. 12. 2016	1,120	–	1,120
Hock, Gudrun	1. 1. – 31. 12. 2016	10,000	–	10,000
Klug, Gabriele C.	1. 1. – 31. 12. 2016	10,000	–	10,000
Neuhaus, Klaus	1. 1. – 31. 10. 2016	8,334	–	8,334
Plogmann, Dr. Friedhelm	1. 1. – 31. 12. 2016	19,918	–	19,918
Rabitzsch, Matthias	1. 1. – 31. 12. 2016	14,959	–	14,959
Walter-Borjans, Dr. Norbert	1. 1. – 31. 12. 2016	10,000	–	10,000
Subtotal		74,331	–	74,331
Lump-sum reimbursement of out-of-pocket expenses				6,000
Value-added tax on amounts paid				8,424
Total				88,755

41. Loans to Members of the Governing Bodies

No advances or loans were granted to members of the Managing Board or Supervisory Board of Portigon AG.

42. Audit Fees

	2016 € millions	2015 € millions
Auditing the annual financial statements	– 0.5	0.7
Miscellaneous reports and opinions	– 0.7	1.3
Total	– 1.2	2.0

43. Number of Employees

The average number of employees in 2016 was as follows:

	Male	Female	Total 2016	Total 2015
Domestic companies/branches	131	108	239	428
Foreign companies/branches	45	34	79	138
Total	176	142	318	566

44. Shareholdings in Portigon AG

Shareholders	Investment Quota	
	Dec. 31, 2016 %	Dec. 31, 2015 %
State of North Rhine-Westphalia	69.49	69.49
NRW.BANK	30.51	30.51
Total	100.00	100.00

The State of North Rhine-Westphalia notified us pursuant to § 20 (4) of the German Stock Corporation Act (AktG) that it directly holds a majority stake in our company. The State of North Rhine-Westphalia also notified us that the shares in Portigon AG held by NRW.BANK, which is an enterprise that the State of North Rhine-Westphalia controls, are to be attributable to it pursuant to § 16 (4) of the German Stock Corporation Act (AktG).

45. Seats Held by Members of the Managing Board

In 2016, the following Managing Board members of Portigon AG were chairmen or members of a large corporation's supervisory body within the meaning of § 340a (4) No. 1, in conjunction with § 267 (3), of the German Commercial Code (HGB).

Dr. Peter Stemper
Portigon Financial Services GmbH (Chairman until April 4, 2016)

46. Seats Held by Employees

Seats held by employees of Portigon AG

In 2016, the following employees were chairs or members of a large corporation's supervisory body within the meaning of § 340a (4) No. 1, in conjunction with § 267 (3), of the German Commercial Code (HGB).

Walter Ehlen
Portigon Financial Services GmbH (until April 4, 2016)

Peter Minhorst
Portigon Financial Services GmbH (until April 4, 2016)

Max Niesert
AKA Ausfuhrkredit-Gesellschaft mbH

Matthias Rabitzsch
Portigon AG

47. Governing Bodies of Portigon AG

Portigon AG Managing Board

Dr. Peter Stemper
Member of the Managing Board
Chairman of the Managing Board from April 1, 2016

Frank Seyfert
Member of the Managing Board from April 1, 2016

Hubert Beckmann
Member and Chairman of the Managing Board from September 3, 2015 until March 31, 2016

Portigon AG Supervisory Board

Eckhard Forst
Member since November 21, 2016
Chairman since April 1, 2017
Chairman of the Managing Board
NRW.BANK

Matthias Rabitzsch
Member until January 3, 2016
Deputy Chairman since January 4, 2016
Berlin

Dr. Friedhelm Plogmann
Member until March 31 2017
Chairman from January 4, 2016 until March 31, 2017
Management consultant
Meerbusch

Gudrun Hock
Consultant
Düsseldorf

Gabriele C. Klug
City Treasurer
City of Cologne

Klaus Neuhaus
Member until October 31, 2016
Former member of the Managing Board
NRW.BANK

Dr. Norbert Walter-Borjans
Finance Minister
State of North Rhine-Westphalia

48. Shareholdings

List of shareholdings in accordance with § 285 No. 11 and § 340a (4) No. 2 of the German Commercial Code (HGB)

Target currency/unit: EUR/thousands (all exchange rates translated into EUR at December 31, 2016)

Disclosure of stake and percentage of voting rights if different than stake

No.	Name	Place	Stake	Voting Rights, if different	Currency Code	Share Capital	Result
1	Harrier Capital Management (Bermuda) Ltd. [2]	Hamilton, Bermuda	100.00		USD	169.12	0.09
2	Portigon Europe (UK) Holdings Limited [3]	London, United Kingdom	100.00		GBP	26.39	– 5.74
3	Portigon Finance Curaçao N.V. [3]	Willemstad, Curaçao	100.00		EUR	681.58	229.05
4	Portigon International Services Limited [1 3]	St. Helier, Jersey	100.00		GBP	361.51	– 13.41
5	Portigon Property Services Limited [1 3]	London, United Kingdom	100.00		GBP	17.51	5.90
6	Portigon Versorgungskasse GmbH [3]	Düsseldorf	100.00		EUR	25.00	0.00
7	Treuhand- und Finanzierungsgesellschaft für Wohnungs- und Bauwirtschaft mit beschränkter Haftung, Treufinanz [3]	Düsseldorf	65.41	66.37	EUR	2,452.72	– 239.98
8	West Treuhand- und Verwaltungsgesellschaft mbH [3]	Düsseldorf	100.00		EUR	33.86	8.86

[1] indirectly held
[2] data as of Dec. 31, 2005
[3] data as of Dec. 31, 2015

Düsseldorf, June 27, 2017

Portigon AG
The Managing Board

Dr. Peter Stemper Frank Seyfert

Country-by-Country Reporting at December 31, 2016 Pursuant to § 26a of the German Banking Act (KWG)

The requirements for country-by-country reporting in accordance with EU Directive 2013/36/EU (Capital Requirements Directive, CRD IV) were transposed into German law with § 26a of the German Banking Act (KWG).

Portigon AG's country-by-country reporting discloses, specifying by EU Member State and by third country in which it has a branch, the following information for the 2016 fiscal year: the revenues generated, profit or loss before taxes, taxes on income and revenues as well as the number of employees on a full-time equivalent basis. The figure given for revenues is the profit or loss on ordinary activities reported in the HGB annual financial statements before administrative expenses as well as risk provisions.

Country	Revenues*	Profit or Loss before Taxes*	Taxes on Income and Revenues*	Number of Full-Time Employees
Germany	37.4	– 94.6	– 30.4	198
Australia	–	– 0.7	–	–
Hong Kong	–	– 1.2	–	4
Italy	1.3	– 2.0	–	10
Singapore	0.2	0.2	0.1	–
Spain	– 1.9	– 4.1	0.3	8
UK	– 6.4	– 21.3	–	18
USA	– 8.0	– 18.5	2.7	24

* all figures in € millions

Name	Nature of Activities	Place of Business/ City	Country
Portigon AG, Düsseldorf branch	Credit institution	Düsseldorf	Germany
Portigon AG, Sydney branch	Credit institution	Sydney	Australia
Portigon AG, Hong Kong branch	Credit institution	Hong Kong	Hong Kong
Portigon AG, Milan branch	Credit institution	Milan	Italy
Portigon AG, Singapore branch	Credit institution	Singapore	Singapore
Portigon AG, Madrid branch	Credit institution	Madrid	Spain
Portigon AG, London branch	Credit institution	London	UK
Portigon AG, New York branch	Credit institution	New York	USA

Auditor’s Opinion

We have issued the following opinion on the amended annual financial statements and the amended statement of financial condition:

“We have audited the annual financial statements prepared by Portigon AG, Düsseldorf, comprising the balance sheet, the statement of income and the notes to the annual financial statements, together with the bookkeeping system, and the statement of financial condition for the fiscal year from January 1, 2016 to December 31, 2016. The maintenance of the books and records and the preparation of the annual financial statements and statement of financial condition in accordance with German commercial law and the supplementary provisions of the Articles and Bylaws is the responsibility of the company’s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the statement of financial condition based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German accepted accounting principles and in the statement of financial condition are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the statement of financial condition are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the company’s management, as well as evaluating the overall presentation of the annual financial statements and the statement of financial condition. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and the supplementary provisions of the Articles and Bylaws and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German accepted accounting principles. The statement of financial condition is consistent with the annual financial statements, complies with the legal requirements and as a whole provides a suitable view of the company‘s position and suitably presents the opportunities and risks of future development.”

We have issued this opinion on the basis of our duly performed audit completed on March 7, 2017, and our subsequent audit, which related to the change to the tax provision, the profit participation capital, the silent contributions to capital, the retained loss, the interest expense, the taxes on income and revenues, the loss after taxes, the withdrawals from the profit participation capital, the withdrawals from the silent contributions to capital and the related information in the notes and the statement of financial condition. Please see the reasons for the changes made by the Company in the amended notes, paragraph 2. The subsequent audit did not lead to any reservations.

Düsseldorf, March 7, 2017
limited to the change mentioned above: June 27, 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Lösken	Eckert
German Public Accountant	German Public Accountant

Report of the Supervisory Board

Portigon AG continued to rigorously press ahead with its downsizing in the 2016 fiscal year. A key milestone reached was the transfer of all interests in the service subsidiary Portigon Financial Services GmbH (today known as Erste Financial Services GmbH) to Erste Abwicklungsanstalt. Closing took place on April 4, 2016 with retroactive effect to January 1, 2016. The execution of this transaction meant that several goals were reached at once: the sale represented an important step in the downsizing of Portigon AG; it met the conditions set by the European Commission and also safeguarded the further downsizing of EAA's portfolio in the long term.

In connection with the dismantling of its operations, Portigon AG again substantially reduced total assets in the 2016 fiscal year and closed more of its international locations. The reduction of the headcount continued at the same time as the reduction of total assets. At the end of 2016, Portigon AG had fewer than 270 employees. This process will also be continued in the coming years in line with planning.

The above-mentioned items dominated the work of the Supervisory Board in 2016. The in some cases very ambitious, complex projects and the associated follow-up activities were discussed at length with the Managing Board and the necessary decisions in this respect were made.

By the end of 2015, the Supervisory Board had been reduced to six members – another consequence of the successful downsizing of the Bank. Ever since, the Supervisory Board no longer forms committees. The committees' duties have been transferred to the full Supervisory Board. At the beginning of 2016, the members of the Supervisory Board confirmed Dr. Friedhelm Plogmann as the Chairman and Matthias Rabitzsch as the Deputy Chairman of the Board in a written vote taken outside a meeting.

Dr. Friedhelm Plogmann resigned from the Supervisory Board with effect from March 31, 2017. The Supervisory Board elected Eckhard Forst, Chairman of the Managing Board of NRW.BANK, to succeed him as Chairman of the Supervisory Board with effect from April 1, 2017.

Supervision and Advising of Management

The Supervisory Board held a total of four meetings in the 2016 fiscal year to advise the Managing Board, supervise its management, take the decisions incumbent upon it and actively support the company within the scope of the tasks required of supervisory boards by law. In doing so, the Supervisory Board performed its duties in full keeping with the statutory provisions as well as the Bank's Articles and Bylaws. To fulfill these tasks, the Managing Board provided the Supervisory Board with detailed reports on a continuous basis. All important aspects of planning, the course of business, company management and strategy, as well as material events and transactions, were covered. Decisions and transactions requiring the Supervisory Board's approval were presented to the Supervisory Board and a decision was made.

The Supervisory Board supervised and examined the Managing Board's management activities on the basis of the information provided and requested as well as the documents submitted. The Chairman and Deputy Chairman of the Supervisory Board and the Chairman of the Managing Board also regularly discussed current issues and Managing Board decisions.

Supervisory Board Meetings

In the 2016 fiscal year, the Supervisory Board held meetings on March 18, June 27, September 19 and December 5. In addition, a total of seven resolutions were adopted in written votes taken outside of a meeting. These votes occurred on January 4, 12 and 29, April 12 and 19, August 9 and November 16.

At its meetings, the Supervisory Board regularly discussed the current state of the company's business on the basis of the report presented by the Managing Board and accompanying documents, concerned itself with audit-related issues based on the quarterly reporting by Internal Audit in accordance with § 25c of the German Banking Act (KWG) (quarterly reports), addressed risk-related items on the basis of the quarterly risk situation reports and dealt with Managing Board affairs.

In a written vote taken outside of a meeting on the topic of Supervisory Board affairs, Dr. Friedhelm Plogmann was elected as the Chairman and Matthias Rabitzsch as the Deputy Chairman of the Supervisory Board on January 4, as mentioned before.

On January 12, the Supervisory Board adopted resolutions on the second WestLB parliamentary inquiry panel (PUA II) of the North Rhine-Westphalian state parliament, also in a vote taken outside of a meeting. In another written vote taken outside of a meeting on January 29, the Supervisory Board again resolved on the item "PUA II".

The Supervisory Board's focus at its first meeting held on March 18 was the annual financial statements for the 2015 fiscal year. After hearing reports by the external auditors, the Supervisory Board adopted the annual financial statements, approved the consolidated financial statements and resolved on the Report of the Supervisory Board for 2015 and the Corporate Governance Report of Portigon AG to be included in the 2015 Annual Report. The Supervisory Board also prepared its recommendation for the Shareholders' Meeting to ratify the acts of the members of the Managing Board and Supervisory Board for the 2015 fiscal year as well as to appoint Ernst & Young GmbH as the auditors of the annual financial statements for the 2016 fiscal year. The Supervisory Board asked the Managing Board to report on planning for 2016 to 2020, recommended the Shareholders' Meeting to amend the Articles and Bylaws of Portigon AG, resolved on the change of the rules for conducting business for the Supervisory Board, deliberated on the 2015 annual summary report prepared by Internal Audit as well as on the business and risk strategy, was briefed on the work performed by the compensation committee, adopted a further resolution on PUA II and discussed the efficiency review of the Supervisory board and the sale of works of art.

The Annual Shareholders' Meeting was held on the same day and likewise dealt with items relating to the financial statements and the corresponding resolutions recommended by the Supervisory Board. The amendment to the Articles and Bylaws previously recommended by the Supervisory Board was adopted at another extraordinary shareholders' meeting held on April 14.

In a written vote taken outside of a meeting on April 12, the Supervisory Board adopted a resolution on the fourth inquiry panel of the German Bundestag (PUA-BT) on dividend arbitrage transactions and, in a further written vote taken outside of a meeting on April 19, adopted a resolution on PUA II.

At its meeting on June 27, in addition to the above-mentioned agenda items, the Supervisory Board discussed, among other items, possible dividend arbitrage transactions of the former WestLB and Managing Board mandates, adopted a resolution on the extension of the contract for D&O insurance, instructed the Managing Board of Portigon AG to conduct a public tender procedure for the selection of an external auditor for the years 2017 to 2021, also deliberated on the areas of emphasis for the audit for the year 2017, made decisions on the sale of works of art owned by Portigon AG and discussed the business and risk strategy.

On August 9, the Supervisory Board adopted a further resolution in a written vote taken outside of a meeting on the tender procedure for awarding the contract to audit the annual financial statements.

The Supervisory Board held another meeting on September 19 and, in addition to the usual agenda items, discussed issues in connection with dividend arbitrage transactions of the former WestLB, recommended that the Shareholders' Meeting adopt a resolution on a further amendment of the Articles and Bylaws and took its departure from Klaus Neuhaus, the former Chairman of the Managing Board of NRW.BANK, who stepped down from his position on the Supervisory Board of Portigon AG with effect from October 31.

In a written vote taken outside a meeting on November 16, the Supervisory Board recommended that the Shareholders' Meeting elect Eckhard Forst, the new Chairman of the Managing Board of NRW.BANK, as a member of the Supervisory Board. Forst was elected at the Shareholders' Meeting held on November 21. In the same written vote taken outside a meeting, a further resolution was adopted on the tender procedure for awarding the contract for the audit of the annual financial statements.

At its last meeting of the year held on December 5, in addition to the dividend arbitrage business and the Pons project (collaboration with NRW.BANK) the Supervisory Board discussed, among other items, the tender procedure for the appointment of the external auditor and the planning for the years 2017 to 2021 and adopted a resolution on legal protection insurance.

Audit of the Subordinate Status Report

Pursuant to § 313 (1) of the German Stock Corporation Act (AktG), Ernst & Young, as the statutory auditor, submitted an audit report on the report on relations with affiliated enterprises for the period from January 1 to December 31, 2016. The external auditors confirmed that the factual statements made in the report on relations with affiliated enterprises prepared by the Managing Board of Portigon AG in accordance with § 312 of the German Stock Corporation Act (AktG) are accurate and that the consideration given by the company for the transactions specified in the report was not unreasonably high or that any disadvantages the company suffered were compensated.

The Supervisory Board's review of the report on relations with affiliated enterprises prepared by the Managing Board of Portigon AG in accordance with § 312 of the German Stock Corporation Act (AktG) did not raise any concerns. The Supervisory Board endorsed the audit performed by the external auditors. Based on this and the final results of its own examination, the Supervisory Board is raising no objections to the concluding statement of the Managing Board on the company's relations with affiliated enterprises.

Audit and Adoption of the Annual Financial Statements for the 2016 Fiscal Year

At its meeting on March 29, 2017, the Supervisory Board went along with the Managing Board's decision to postpone adoption of the 2016 annual financial statements.

This was due to the fact that the documents of the investigating authorities in connection with dividend arbitrage transactions were being examined at the time; these had only been supplied to the Bank shortly beforehand. After concluding their examinations, the governing bodies of Portigon AG focused on the 2016 annual financial statements once more.

At its meeting on July 5, 2017, the Supervisory Board adopted the 2016 annual financial statements and gave its recommendation to the Shareholders' Meeting on the same day to ratify the acts of the Managing Board and Supervisory Board for the 2016 fiscal year. On January 23, 2017, after a tender procedure for the selection of the external auditor had been concluded, the Supervisory Board had given its recommendation to the Shareholders' Meeting in a written vote taken outside of a meeting to appoint Ernst & Young GmbH as the external auditors for the 2017 fiscal year.

Supervisory Board members received copies, in a timely manner, of the Bank's annual financial statements and statement of financial condition prepared by the Managing Board, the external auditors' reports on the annual financial statements, as well as the annual summary report prepared by Internal Audit pursuant to the Minimum Requirements for the Internal Audit Function of Banks. The external auditors, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, attended the audit-related meeting of the Supervisory Board. The external auditors audited the annual financial statements and the statement of financial condition for the 2016 fiscal year. The annual financial statements and statement of financial condition of Portigon AG, as well as the bookkeeping on which they are based, received the external auditors' unqualified audit opinion.

The Supervisory Board examined the financial statements and the statement of financial condition and discussed the reports of the external auditors on the results of their audit. Based on the final result of this review, no objections were raised.

Düsseldorf, July 5, 2017

The Chairman of the Supervisory Board

Eckhard Forst

Corporate Governance at Portigon AG

The recognition that responsible and transparent corporate governance requires coherent corporate governance standards is firmly rooted in the corporate philosophy of Portigon AG.

Even though only listed German companies are required to comply with the German Corporate Governance Code (the “Code”), Portigon AG therefore bases its corporate governance on the Code, as amended, and has anchored compliance with the Code in the rules for conducting business established for its Managing Board and Supervisory Board. The Code was not amended in 2016; the most recent version is dated May 5, 2015 and includes decisions from the plenary meeting on the same day. In addition, we comply with Article 4.5.1 Paragraphs 2 and 3 of the Public Corporate Governance Code of the State of North Rhine-Westphalia also apply; these stipulate diversity in the selection of Supervisory Board members.

The Code reflects essential statutory regulations for the management and supervision of German listed companies and contains nationally and internationally recognised standards for good and responsible governance.

Of our own accord, we make information concerning our compliance with the recommendations of the Code a regular part of our Annual Report and also publish it on our website at www.portigon-ag.de.

Compensation Report

Portigon AG has aligned its compensation system with the “Principles for Sound Compensation Practices”.

Portigon AG discloses the compensation of its Managing Board in its Annual Report as well as in a compensation report which, as part of the Corporate Governance Report, also describes the principles of the compensation system for Managing Board members. Moreover, the compensation report includes information about the composition and amount of compensation paid to the Supervisory Board.

In all other respects, the publication of information relating to the compensation paid to members of the governing bodies is handled pursuant to the German Financial Market Stabilisation Fund Act (FMStFG) and the agreements entered into with Germany’s Financial Market Stabilisation Authority (FMSA, formerly SoFFin).

Compensation of the Managing Board

The Supervisory Board determines the compensation for the Managing Board members of Portigon in accordance with the statutory requirements, including the FMStFG and the Regulation Concerning Supervisory Requirements for Remuneration Systems at Institutions (InstitutsVergV), as well as FMSA requirements. This applies, in particular, to salaries and other components of compensation, including pension commitments. Employment agreements detailing the remuneration are concluded with the members of the Managing Board. The duties of the Executive Committee have now been transferred to the full Supervisory Board.

The fixed component, a basic compensation not directly linked to performance, is paid on a monthly basis as salary. It is typically reviewed when employment agreements are renewed. It also includes non-cash compensation awarded in customary amounts. Essentially, such non-cash compensation covers the payment of insurance premiums, to the extent such benefits are part of the member’s employment agreement.

It was the policy of Portigon AG to grant its Managing Board members additional, job-related benefits, including reimbursement of their expenses for a home office, annual medical check-ups and business trips.

To stabilise the Bank, the former WestLB AG entered into extensive agreements with SoFFin which took effect on November 1, 2009. In this context the total monetary compensation for each Managing Board member has been capped at € 500,000 per year since November 1, 2009.

Compensation of the Supervisory Board

The compensation of the Supervisory Board of Portigon AG, which members receive after the close of the fiscal year, was set at a reasonable level by a resolution of the Shareholders' Meeting held on August 31, 2012.

The company provides the Supervisory Board members with a lump-sum reimbursement of their out-of-pocket expenses and reimburses any value-added tax they pay on their compensation and out-of-pocket expenses, if they invoice the tax separately.

Remuneration of the Governing Bodies in 2016

The remuneration of the governing bodies of Portigon AG in the 2016 fiscal year was as follows:

	1. 1. – 31. 12. 2016 € millions	1. 1. – 31. 12. 2015 € millions
Total remuneration of the Managing Board	0.8	0.9
– fixed	0.8	0.9
– performance-based	–	–
– departure-related	–	–
– from holding supervisory board seats at Group subsidiaries	–	–
Total remuneration of former Managing Board members and their survivors	6.4	6.3
Total remuneration of Supervisory Board members	0.1	0.2
– fixed	0.1	0.2
– performance-based	–	–
– performance-based with long-term incentive effects	–	–
Pension provisions for Managing Board members who actively served during the fiscal year	9.8	8.6
Pension provisions for former Managing Board members and their survivors*	100.2	94.1

In accordance with the Code as amended on May 5, 2015, the compensation of the individual Managing Board members is published in the table below. The amounts shown were granted for the reporting year and also flowed into the company during this period. In 2016, no payments for preceding years were made.

Benefits granted	Hubert Beckmann		Frank Seyfert		Dr. Peter Stemper	
	Chairman of the Managing Board		Managing Board member		Managing Board Chairman since April 1, 2016	
	from Sept. 3, 2015 to March 31, 2016		since April 1, 2016		Board member since Feb 1, 2014	
	2015	2016	2015	2016	2015	2016
Fixed remuneration*	162,501.00 €	125,001.00 €		262,503.00 €	366,672.00 €	391,672.00 €
Benefits	– 14,102.44 €	979.23 €		11,056.50 €	17,083.20 €	17,199.96 €
Total	148,398.56 €	125,980.23 €		273,559.50 €	383,755.20 €	408,871.96 €
1-year variable remuneration	0.00 €	0.00 €		0.00 €	0.00 €	0.00 €
Multi-year variable remuneration	0.00 €	0.00 €		0.00 €	0.00 €	0.00 €
Plan description (term)	–	–		–	–	–
Total	0.00 €	0.00 €		0.00 €	0.00 €	0.00 €
Pension cost**	927,589.00 €	510,593.00 €		22,242.00 €	147,634.00 €	44,798.00 €
Total remuneration	1.075,987.56 €	636,573.23 €		295,801.50 €	531,389.20 €	453,669.96 €

* rounding difference
** figures determined based on pension entitlements arising from members' length of service in the company

The provisions of Article 4.2.3 of the Code were taken into account when entering into severance agreements with departing Managing Board members.

Directors Dealings (Disclosures Pursuant to Article 6.6 of the Code)

None of our Managing Board or Supervisory Board members directly or indirectly owns shares in Portigon AG or related financial instruments.

Declaration of Conformity 2016

The Managing Board and Supervisory Board of Portigon AG herewith declare for 2016 that Portigon AG complied with the recommendations of the „Government Commission of the German Corporate Governance Code" as amended on May 5, 2015, as well as Article 4.5.1 Paragraphs 2 and 3 of the Code of the State of North Rhine-Westphalia, with the following exceptions:

- **Article 2.3.2 Sentence 2 of the Code** sets out that the Managing Board must arrange for the appointment of a representative to exercise shareholders' voting rights in accordance with instructions; this representative should also be available during the Shareholders' Meeting. Given that it has only two shareholders, Portigon AG has decided that this is not necessary.

- **Article 3.10 of the Code** recommends that the Corporate Governance Report be published in connection with the corporate governance declaration (§ 289a of the German Commercial Code [HGB]). The requirement in § 289a of the German Commercial Code (HGB) does not apply to Portigon AG. We have decided, therefore, not to publish a corporate governance declaration and to continue to publish our Corporate Governance Report as part of the Annual Report, immediately following the Report of the Supervisory Board.

- **Article 4.1.5 of the Code** sets out that the Managing Board must lay down targets for the share of women on the two management levels below the Managing Board. Owing to the special situation of Portigon AG, which is being systematically downsized with the objective of dissolving the company, the Managing Board has not laid down any targets.

- **Article 4.2.1 Sentence 2 of the Code** recommends making the allocation of duties among individual Managing Board members part of the rules governing the conduct of its business. Portigon AG refrains from specifying fixed responsibilities for its Managing Board members in the rules for conducting business in order to ensure maximum flexibility, especially in light of a continuous diminution of the Managing Board in recent years. The duties of the two Managing Board members are regulated in an organisational chart.

- **Article 5.1.2 Paragraph 1 Sentence 3 of the Code** provides that the Supervisory Board must, for the first time, determine targets for the share of women in the Managing Board by September 30, 2015 at the latest. In view of the systematic downsizing of the company and given the small number of Managing Board members, the Supervisory Board of Portigon AG has not determined any targets.

- **Article 5.3.1 of the Code** sets out that depending on the specific circumstances at the enterprise and the number of its members, the Supervisory Board must form committees with sufficient expertise. This recommendation was complied with until December 23, 2015. Considering the already well-advanced downsizing of the company and the diminution of the full Supervisory Board to just six members, the Supervisory Board has since decided against forming any committees. The relevant duties are performed by the full Supervisory Board itself. Similarly, the Supervisory Board has likewise decided against forming an audit committee with defined duties as well as a nomination committee – as suggested in **Article 5.3.2** and **Article 5.3.3 of the Code,** respectively.

- Portigon AG also takes diversity into account in the selection of members of the Supervisory Board in compliance with the **Public Corporate Governance Code** of the State of North Rhine-Westphalia **(Article 4.5.1 Paragraph 2)**. In the 2016 fiscal year, women consistently made up at least 33% of the Supervisory Board of Portigon AG. A higher percentage **(Article 4.5.1 Paragraph 3)** was unable to be achieved. In the sole change in 2016, the new Chairman of the Managing Board of Portigon's shareholder NRW.BANK took over as Supervisory Board chairman from the former chairman.

- In deviation from the recommendation in **Article 7.1.2 Sentence 2 of the Code,** we did not publish quarterly financial reports for the periods ended March 31, 2016 and September 30, 2016 due to the downsizing of the Bank. The half-year financial report was not discussed separately by the Managing Board and the Supervisory Board prior to publication.

- Following the transfer of the interests in Portigon Financial Services GmbH to Erste Abwicklungsanstalt and due to the insignificance (both individually and collectively) of the subsidiaries included in the basis of consolidation to date, Portigon AG is exempted from the requirement to prepare consolidated financial statements for the 2016 fiscal year in accordance with § 290 (5) of the German Commercial Code (HGB). For this reason, starting with the 2016 reporting year, only the single-entity annual financial statements of Portigon AG will be prepared; here, the company will adhere to the statutory publication deadlines for the single-entity financial statements. In this respect, **Article 7.1.2 Sentence 4 of the Code,** which sets out that the consolidated financial statements must be publicly accessible within 90 days of the end of the fiscal year and interim reports must be publicly accessible within 45 days of the end of the reporting period, is no longer relevant for Portigon AG.

To view the declaration of conformity on the web, point your browser to www.portigon.com and click "Portigon AG/Corporate Responsibility/Corporate Governance".

Düsseldorf, July 5, 2017

Representing the Supervisory Board

Eckhard Forst

Representing the Managing Board

Dr. Peter Stemper

Locations

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The Annual Report is also available in German and can be inspected on our website at portigon-ag.de.

Production
valido marketing services GmbH

Disclaimer
Reservation regarding forward-looking statements

This Annual 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.

Portigon
Aktiengesellschaft

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