

Annual Report 2017

Portigon Key Figures

Key Figures Year-on-Year Comparison

	1. 1. – 31. 12. 2017	1. 1. – 31. 12. 2016	Change	
			absolute	%
Performance figures in € millions				
Net interest income	24.3	54.4	- 30.1	- 55.3
Net commission income	- 3.2	- 17.4	14.2	81.6
Other operating expenses/income	- 34.3	- 14.4	- 19.9	> - 100.0
Personnel expenses	- 32.2	- 48.2	16.0	33.2
Other administrative expenses	- 53.4	- 92.3	38.9	42.1
Provisions for credit risks	0.0	0.9	- 0.9	- 100.0
Result of securities and participations	- 0.5	0.0	- 0.5	> - 100.0
Extraordinary result	6.9	- 25.3	32.2	> 100.0
Profit/loss before income tax	- 92.4	- 142.2	49.8	35.0
Taxes on income and revenues	- 8.0	- 27.3	19.3	70.7
Profit/loss after taxes	- 100.4	- 169.5	69.1	40.8

	Dec. 31. 2017	Dec. 31. 2016	Change	
			absolute	%
Balance sheet figures in € billions				
Total assets	7.4	11.5	- 4.1	- 35.7
Business volume	7.4	11.6	- 4.2	- 36.2
Credit volume	2.1	4.3	- 2.2	- 51.2
Equity capital	1.6	1.7	- 0.1	- 5.9
Bank regulatory ratios according to CRR/CRD IV				
Common Equity Tier 1 capital in € billions	1.5	1.5	-	-
Tier 1 capital in € billions	1.5	1.7	- 0.2	- 11.8
Own funds in € billions	2.2	2.5	- 0.3	- 12.0
Risk-weighted assets in € billions	0.5	0.6	- 0.1	- 16.7
Common Equity Tier 1 capital ratio in %	287.0	258.0	29.0	11.2
Tier 1 capital ratio in %	304.1	276.4	27.7	10.0
Total capital ratio in %	440.3	416.6	23.7	5.7
Employees				
Number of employees	159	268	- 109	- 40.7
Full-time equivalent	153	261	- 108	- 41.4

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.

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Statement of Financial Condition at December 31, 2017

Performance at a Glance

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

Total assets of Portigon AG came to € 7.4 billion at December 31, 2017 (previous year: € 11.5 billion). Of that amount, € 2.4 billion (previous year: € 4.7 billion) is attributable to trust assets and € 0.7 billion (previous year: € 2.8 billion) to items guaranteed by Erste Abwicklungsanstalt (EAA). The remaining amount chiefly relates to the investment of capital and liquidity back-ups. The considerable reduction in total assets is predominantly due to the incremental transfer in rem to EAA of portfolios that were only synthetically transferable in 2012 as well as to early terminations and final maturities of transactions.

The net figure for net interest and net commission income and the other operating result came to € – 13.2 million for Portigon AG (previous year: € 22.6 million). The decrease in line with expectations 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, the introduction of the ten-year average interest rate in place of the seven-year average interest rate for the discounting of provisions for post-employment benefit obligations had a positive effect in the previous year.

The progressive transformation led to a further headcount reduction in the 2017 fiscal year, which in turn lowered non-personnel costs. As a result, Portigon AG's administrative expenses were reduced substantially by € 54.9 million, from € 140.5 million to € 85.6 million.

Portigon AG reported an extraordinary result of € 6.9 million (previous year: € – 25.3 million). The improvement results in particular from the reversal of restructuring provisions that are no longer needed.

Altogether, Portigon AG is reporting a result before taxes of € – 92.4 million (previous year: € – 142.2 million) and a net loss for the year of € 100.4 million (previous year: € 169.5 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 (€ 85.6 million) and the holders of profit participation rights (€ 0.7 million) pursuant to the respective terms of issue. The remaining amount (€ – 14.1 million), together with the loss carried forward from the previous year, is being reported as a retained loss (€ – 267.4 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 304.1% (previous year: 276.4%), whilst its total capital ratio is 440.3% (previous year: 416.6%). Risk-weighted assets stand at € 0.5 billion, down from € 0.6 billion in the previous year.

The return on investment in accordance with § 26a (1) of the German Banking Act (KWG) is – 1.35% (previous year: – 1.47%).

Structural Changes

As in the previous years, the year under review was dominated by the further downsizing of Portigon AG in accordance with the approval decision taken by the European Commission on December 20, 2011. The success of the restructuring is reflected in particular in the development of total assets. These fell by 35.7% to € 7.4 billion (previous year: € 11.5 billion), mainly due to the incremental transfer in rem to EAA of the holdings of the former WestLB that in the previous years were initially only transferred synthetically, as well as to final maturities and various termination agreements with transaction partners.

Further progress with the closure of foreign branches was also made in the past year. The branch in Milan was closed on March 13, 2017. The legal closure of the branch in Hong Kong was completed with submission of the notification of the cessation of operations to the commercial register in Hong Kong on August 28, 2017 after the competent local authority had agreed to the return of the banking licence in May 2017. At the end of the 2017 fiscal year, Portigon AG had branches in New York, London and Madrid in addition to its headquarters in Düsseldorf. The Madrid branch is due to be closed in 2018.

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

The composition of the Supervisory Board of Portigon AG changed in 2017. Eckhard Forst took over as Chairman of the Supervisory Board on April 1, 2017. He succeeds Dr. Friedhelm Plogmann, who stepped down from this Board with effect from March 31, 2017. Dr. Norbert Walter-Borjans, former Minister of Finance of the State of North Rhine-Westphalia, resigned from the Supervisory Board effective July 3, 2017. Gabriele C. Klug, Financial Officer of the City of Cologne, and Matthias Rabitzsch, former Chairman of the Works Council of Portigon AG, also left the Board on September 13, 2017. The shareholders' meeting on September 13, 2017 resolved as part of an amendment to the Articles and Bylaws to reduce the size of the Supervisory Board from six to five members and then appointed Ernst-Albrecht Brockhaus, banker, Jutta M. Huth, banker and Chairwoman of the Works Council of Portigon AG, and Christian Möbius, lawyer, as new members of the Supervisory Board.

Portigon AG's Branches, Subsidiaries and Offices

The head office of Portigon AG is in Düsseldorf. Portigon AG still conducts business in Europe through two branches in London and Madrid. Outside Europe, Portigon AG still maintained a branch in New York at December 31, 2017.

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. The Milan and Hong Kong branches were closed in the 2017 fiscal year.

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 2017 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 268 (261 full-time employees) to 159 (153 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, the employees leaving the company receive valuable support in their professional reorientation.

Compensation

In 2017, Portigon AG continued to systematically align its compensation system with the regulatory requirements for employee compensation.

Statement of Income

Portigon's performance in 2017 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.

Overall, we are reporting a result before taxes of € – 92.4 million (previous year: € – 142.2 million) and a net loss of € 100.4 million (previous year: net loss of € 169.5 million) for the 2017 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, 2017

	1. 1. – 31. 12. 2017 € millions	1. 1. – 31. 12. 2016 € millions	Change	
			€ millions	%
Net interest income	24.3	54.4	– 30.1	– 55.3
Net commission income	– 3.2	– 17.4	14.2	81.6
Other operating expenses/income	– 34.3	– 14.4	– 19.9	> – 100.0
Personnel expenses	– 32.2	– 48.2	16.0	33.2
Other administrative expenses	– 53.4	– 92.3	38.9	42.1
Provisions for credit risks	0.0	0.9	– 0.9	– 100.0
Result of securities and participations	– 0.5	0.0	– 0.5	> – 100.0
Extraordinary result	6.9	– 25.3	32.2	> 100.0
Profit/loss before income tax	– 92.4	– 142.2	49.8	35.0
Taxes on income and revenues	– 8.0	– 27.3	19.3	70.7
Profit/loss after taxes	– 100.4	– 169.5	69.1	40.8
Loss carried forward from the previous year	– 253.4	– 229.6	– 23.8	– 10.4
Withdrawals from profit participation capital	0.7	1.2	– 0.5	– 41.7
Withdrawals from silent contributions to capital	85.6	144.5	– 58.9	– 40.8
Retained loss	– 267.4	– 253.4	– 14.1	– 5.6

Net Interest Income

The net interest income of Portigon AG amounted to € 24.3 million (previous year: € 54.4 million). The decrease in line with expectations is mainly due to the incremental transfer in rem to EAA of portfolios that were only synthetically transferable in 2012 as well as to early terminations and final maturities of transactions. As in the previous year, the absence of coupon payments on the profit participation capital reduced the interest expense by € 2.3 million.

Net interest income also includes negative interest from lending and money market transactions of € – 5.1 million (previous year: € – 6.8 million).

Net Commission Income

Portigon AG's net commission income amounted to € – 3.2 million (previous year: € – 17.4 million). This increase in income 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 € 2.4 million (previous year: € 4.2 million). One of the major offsetting items was the € – 5.4 million (previous year: € – 24.4 million) in guarantee fees for the incremental transfer in rem of portfolios that were initially only synthetically transferred in 2012.

Other Operating Expenses/Income

The net figure for other operating expenses and income came to € – 34.3 million for Portigon AG (previous year: € – 14.4 million).

This is principally due to the unwinding of the discount on provisions. The income stems in particular from contractually agreed reimbursements of expenses for administrative services provided in connection with portfolios synthetically transferred to EAA.

General Administrative Expenses

As expected, general administrative expenses at Portigon AG fell sharply by € 54.9 million to € 85.6 million (previous year: € 140.5 million).

Personnel expenses decreased by € 16.0 million to € 32.2 million (previous year: € 48.2 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 318 to 201.

Other administrative expenses were likewise reduced substantially, by € 38.9 million to € 53.4 million (previous year: € 92.3 million) for Portigon AG, due in particular to a decrease in non-personnel costs in the provision of services and in the area of IT as well as to legal counsel and lower operating costs. Other administrative expenses were increased by the 2017 annual contribution to the restructuring fund amounting to € 3.4 million.

Provisions for Credit Risks

Following the positive result of € 0.9 million reported in the previous year due to revenues on written-off exposures, a balanced result of € 0.0 million was reported in the fiscal year. As a result of the transfer of positions to EAA, Portigon AG is no longer exposed to any appreciable credit risks from its former operations in the lending business.

Result of Securities and Participations

There was a net result of € – 0.5 million (previous year: € 0.0 million) of securities and participations resulting in particular from a write-down.

Extraordinary Result

Portigon AG's extraordinary result amounted to € 6.9 million (previous year: € – 25.3 million) and is attributable to the reversal of provisions for restructuring.

Taxes on Income and Revenues

The tax expense of around € 8.0 million incurred in fiscal year 2017 (previous year: € 27.3 million) comprises income taxes in Germany for previous years of around € 4.4 million and current income taxes of approximately € 2.4 million. The foreign branches generated tax expense of around € 1.2 million, mostly resulting from previous years.

Net Loss for the Year

Portigon AG is reporting a net loss of € – 100.4 million (previous year: € – 169.5 million) for the 2017 fiscal year. There were no coupon payments on the profit participation certificates for 2017 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, Portigon AG's balance sheet at December 31, 2017 was shaped by additional structural changes and further downsizing (see the chapter entitled "Structural Changes"). Although a substantial volume of assets and liabilities were transferred to EAA and Helaba in 2012 in the course of the transformation, legal and tax obstacles and the various transfer paths taken because of these obstacles have meant that banking transactions are still being reported on Portigon AG's balance sheet. In principle, the credit and market risks associated with these assets and liabilities have been transferred to EAA.

At December 31, 2017, Portigon AG had total assets and total equity and liabilities of € 7.4 billion, of which € 2.4 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 compensation claims and liabilities. There is also the corresponding cash collateral.

In addition, Portigon AG has claims on banks in the amount of € 0.2 billion (previous year: € 0.4 billion), claims on customers in the amount of € 1.9 billion (previous year: € 3.8 billion), securities in the amount of € 1.0 billion (previous year: € 1.2 billion) and cash/liquid debt issues in the amount of € 1.7 billion (previous year: € 1.2 billion). EAA has guaranteed € 0.7 billion (previous year: € 2.8 billion) of these assets, most notably € 0.3 billion in claims on customers (previous year € 2.1 billion) and other interest-bearing securities of € 0.2 billion (previous year: € 0.3 billion). The unguaranteed positions represent the investment of capital and liquidity back-ups.

The business volume, which includes contingent liabilities and irrevocable credit commitments in addition to balance sheet items, totalled € 7.4 billion at Portigon AG (previous year: € 11.6 billion).

Assets

	Dec. 31, 2017 € billions	Dec. 31, 2016 € billions
Cash/liquid debt issues	1.7	1.2
Claims on banks	0.2	0.4
Claims on customers	1.9	3.8
Securities not held for trading	1.0	1.2
Equity investments in affiliated and non-affiliated companies	0.0	0.0
Trust assets	2.4	4.7
Tangible/intangible assets	0.0	0.0
Other assets	0.2	0.3
Total assets	7.4	11.5

Liabilities

	Dec. 31, 2017 € billions	Dec. 31, 2016 € billions
Liabilities to banks	0.0	0.2
Liabilities to customers	0.9	2.2
Certificated liabilities	0.0	0.0
Trust liabilities	2.4	4.7
Other liabilities	1.4	1.6
Subordinated liabilities/Profit participation capital	1.0	1.2
Equity capital	1.6	1.7
Total liabilities	7.4	11.5
Contingent liabilities	0.0	0.0
Other commitments/Credit commitments	0.0	0.1
Business volume	7.4	11.6

Credit Volume

The credit volume on the balance sheet was € 2.1 billion at December 31, 2017 (previous year: € 4.3 billion).

The amounts for claims on banks at € 0.2 billion (previous year: € 0.4 billion) and claims on customers at € 1.9 billion (previous year: € 3.8 billion) were both halved in the past fiscal year. Of the claims on customers, the sum of € 0.3 billion (previous year: € 2.1 billion) is guaranteed by EAA.

Credit Volume

	Dec. 31, 2017 € billions	Dec. 31, 2016 € billions
Claims on banks	0.2	0.4
Claims on customers	1.9	3.8
Contingent liabilities	0.0	0.0
Other commitments/Credit commitments	0.0	0.1
Credit volume carried in the balance sheet	2.1	4.3

Securities Holdings

Portigon's securities portfolio totalled € 1.0 billion at December 31, 2017 (previous year: € 1.2 billion). Most of the items in this portfolio are bonds and other interest-bearing securities from German public-sector issuers. Notes of € 0.2 billion (previous year: € 0.3 billion) are guaranteed by EAA.

Equity Investments in Affiliated and Non-Affiliated Companies

Portigon AG had no more equity investments in non-affiliated companies at the balance sheet date. The change in equity investments in affiliated companies is attributable to the write-down of the carrying amount of the investment in Portigon Finance Curaçao N.V. (€ 0.6 million).

Customer and Bank Deposits

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

At December 31, 2017, liabilities to banks and customers at Portigon AG totalled € 0.9 billion (previous year: € 2.4 billion) and consisted predominantly of time deposits. There was € 0.1 billion in deposits from EAA (previous year: € 0.1 billion).

Risk-Weighted Assets and Capital Ratios

Portigon AG 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, 2017:

Own Funds

	Dec. 31, 2017 € millions CRR/CRD IV after result for the year	Dec. 31, 2016 € millions CRR/CRD IV after result for the year
Common Equity Tier 1 capital (CET 1): instruments and reserves	1,455.2	1,544.1
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)	- 267.4	- 253.4
thereof government instruments with grandfathering up to January 1, 2018 (silent contribution to capital – issued 2009/2010)	1,224.0	1,298.9
Regulatory adjustments to CET 1	-	-
Common Equity Tier 1 capital (CET 1)	1,455.2	1,544.1
Additional Tier 1 capital (AT 1): instruments	86.9	110.7
thereof instruments as defined by Article 484 (4) CRR that do not constitute state aid (silent contribution to capital – issued 2005)	86.9	110.7
Regulatory adjustments to AT 1	-	-
Additional Tier 1 capital (AT 1)	86.9	110.7
Tier 1 capital (T 1 = CET 1 + AT 1)	1,542.0	1,654.8
Tier 2 capital (T 2)	690.4	838.9
Own funds	2,232.5	2,493.6

At the reporting date, the Tier 1 capital amounted to € 1,542.0 million, down € 112.8 million as against December 31, 2016.

The decrease is predominantly due to the distribution of the HGB loss for 2017 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 2017 under the transitional arrangements in the CRR/CRD IV rules (50%).

The Common Equity Tier 1 capital declined from € 1,544.1 million to € 1,455.2 million, mainly due to the distribution of the HGB loss.

At December 31, 2017, the eligible capital of Portigon AG amounted to € 2,232.5 million, a drop of € 261.1 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 AG 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 € 4.8 million, the volume of subordinated liabilities included was € 642.2 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, 2017 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, 2017 € millions CRR/CRD IV after result for the year	Dec. 31, 2016 € millions CRR/CRD IV after result for the year
Risk-weighted assets		
Counterparty credit risks	123.3	132.8
Credit valuation adjustment (CVA)	9.3	18.4
Operational risks	302.5	378.7
Total risk exposure amount for position, foreign-exchange and commodities risks	71.9	68.7
Total risk-weighted assets	507.0	598.6
Equity ratios %		
Common Equity Tier 1 capital ratio	287.0	258.0
Tier 1 capital ratio	304.1	276.4
Total capital ratio	440.3	416.6

Under the CRR/CRD IV framework, risk-weighted assets totalled € 507.0 million for Portigon AG, which represents a decrease of € 91.6 million from the amount reported at December 31, 2016.

The counterparty credit exposures dropped by € 9.5 million to € 123.3 million compared with the end of 2016. The reasons for this were the progressive downsizing of the portfolio, decreases in the derivatives business and changes in exchange rates. An analysis of the portfolio development prior to risk weighting or risk substitution gives an even clearer picture of the progress being made with the downsizing of the portfolio.

At the reporting date of December 31, 2017, the total risk exposure from foreign exchange risks was € 3.2 million below the prior-year period at € 71.9 million. The change primarily stems from an increase in the net short position in the US dollar currency exposure.

Compared with the end of 2016, the CVA (credit valuation adjustment) charge for Portigon AG decreased by almost half to € 9.3 million. For low volumes on the whole, this effect is essentially reported date-specific and is due to changes in maturities in the existing portfolio.

The decrease of € 76.2 million in operational risks to € 302.5 million results from the decline in gross income (and thus the relevant indicator), due in particular to a sharp drop in net commission income as well as to lower other operating income in 2016.

The Tier 1 capital ratio rose from 276.4% to 304.1%. 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 287.0% (previous year: 258.0%).

Against this backdrop, the total capital ratio rose from 416.6% to 440.3%.

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

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

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 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 the 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.

The pooling of all risk issues in the Risk Controlling business unit takes account of the continued downsizing of Portigon AG and ensures that a comprehensive perspective on the subject of risk is taken.

In the fourth quarter of 2017, responsibilities of the former APAC/EMEA business unit were also transferred to the Risk Controlling business unit. The responsibilities of the units in the Risk Controlling business unit are primarily:

- **Credit risk:** Independent monitoring of counterparty credit risks, especially credit, issuer and counterparty risks, including risk classification and approving commitments, complete loan administration, processing the closure of the Madrid branch and the tasks following the closure of the foreign branches
- **Market price risk:** Monitoring of market price and liquidity risks as well as monitoring of 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 capital and the risk-bearing capacity. Portigon AG publishes additional qualitative and quantitative information in a separate, annual Disclosure Report pursuant to the CRR.

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 ongoing current investigations by the Public Prosecutor's Office into dividend arbitrage transactions. In view of this situation, the annual financial statements include provisions in the amount of around € 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 2017.

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. 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 Auditing, Legal, Logistics and IT/Vendor Management on issues such as contingency planning, insurance, IT security and non-IT security.

For the remainder of the downsizing process we will continue to analyse and assess operational risks using instruments like the loss event database and risk self-assessment for bank processes and major outsourcing arrangements, 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 stood at € 24.2 million and € 30.3 million, respectively, as per December 31, 2017 (previous year: € 30.3 million and € 37.9 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 in the Corporate Steering business unit in the case of German legal risks and the responsibility of the foreign branches in the case of the foreign legal risks. These work closely with all other units and the Operational Risk & Compliance unit in the Risk Controlling business 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, 2017, Portigon AG was a defendant in three lawsuits brought by one municipality (previous year: 32 lawsuits brought by 21 municipalities/municipal associations) against EAA in connection with derivatives business. This may give rise to an exposure to litigation expenses for Portigon AG. The lawsuits have normally been terminated with a settlement.

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 and those of the SEC in 2016 without measures being taken against Portigon AG, staff or governing bodies. With regard to the civil actions pending before a court in New York, the proceedings being handled in a LIBOR class action lawsuit were dismissed in the first instance in December 2016, with the exception of one individual action, as the court had no jurisdiction in relation to the foreign banks being sued, which include Portigon AG. The plaintiffs have appealed this decision. Further actions were brought in 2017. Portigon AG assumes that the actions and the appeal process will not be successful.

With the exception of the exposure to certain litigation expenses, the economic risk associated with the lawsuits brought for alleged breaches of duty in the quoting of USD-LIBOR interest rates, as well as those relating to derivatives business, has been transferred to EAA under the spin-off agreement of August 30, 2012. At December 31, 2017, Portigon AG had set aside a reasonable sum of money to cover the litigation expenses of the suits with a determinable risk.

Pension Risk

Pension risk arises in particular from the potential need to increase pension provisions, i.e. from 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 lies in the fact that the mortality rates modelled might not reflect reality in the future and the beneficiaries from Portigon AG might have a higher life expectancy and thus have longer de facto pension entitlements from Portigon AG than projected.

The risk presented by the trend in salary increases for non-exempt employees and civil servants lies in the fact that 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 and the actual increases might 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 at the reporting date still 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 recognises a deduction item for determining the sources of risk-bearing capacity. The deduction item amounted to € 10.0 million at the reporting date (previous year: € 10.0 million).

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. As in the previous year, there are two scenarios: a base scenario for probable variances and a stress scenario for highly unlikely, significant variances.

At the end of 2017, the volume of business risk was still € 0.0 million in the base scenario and € 1.5 million in the stress scenario (previous year: € 1.0 million). The increase in the stress scenario results from higher planned 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.

Portigon AG's market price risks arise from the investment of equity, from excess liquidity and from all hedging transactions for funding activities. The interest rate sensitivities resulting from the investment of excess liquidity in interest-bearing securities with medium- to long-term maturities without the use of hedging transactions to conserve Portigon AG's net interest income and the effects on the regulatory interest rate shock scenario of 200 basis points are considered material for Portigon AG's market price risk. The guidelines for investment of excess liquidity are laid down in the investment strategy that is part of Portigon AG's business strategy.

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, credit spread sensitivities as well as foreign exchange positions and stress tests for capping non-linear risks.

In addition, stress tests are used to quantify interest rate risk for Portigon AG by determining the change in 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 the current regulatory requirements for monitoring interest rate risk in the banking book and also the sensitivities of the internal requirements for market price risk management.

As of the end of December 2017, the regulatory interest rate shock scenarios, i.e. an increase in interest rates by 200 basis points across all currencies, would have caused interest-bearing exposures to lose € 71.3 million in value (previous year: € 86.3 million). This corresponded to a maximum of 3.2% of regulatory own funds at the end of December 2017 (previous year: 3.5%). The threshold at which such exposure becomes reportable to the supervisory authorities in the form of an ad hoc notice equals 20% of regulatory own funds.

The 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. The economic capital charge for the market price risk at the reporting date amounted to € 57.0 million in the base scenario (previous year: € 69.0 million) and to € 71.3 million in the stress scenario (previous year: € 86.3 million).

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, Risk Controlling 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. Compared to other liquidity risks, the liquidity risk posed by the collateral agreements executed is straightforward. 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 12.7 in the period from January to December 2017, which was an improvement on the previous year's average of 7.2. 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.

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 2017.

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, 2017 € millions after result for the year	Dec. 31, 2016 € millions after result for the year
Risk-weighted assets	507.0	598.6
Counterparty credit risks	123.3	132.8
Credit valuation adjustment (CVA)	9.3	18.4
Operational risks	302.5	378.7
Total risk exposure amount for position, foreign-exchange and commodities risks	71.9	68.7
Own funds	2,232.5	2,493.6
Total capital ratio in %	440.3	416.6
Tier 1 capital	1,542.0	1,654.8
Tier 1 capital ratio in %	304.1	276.4
Common Equity Tier 1 capital	1,455.2	1,544.1
Common Equity Tier 1 capital ratio in %	287.0	258.0

Usage of Economic Capital (Risk-Bearing Capacity)

Portigon AG's risk-bearing capacity concept continues to distinguish between two steering frameworks. The going-concern approach remains the primary steering framework. 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 its 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 classified 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: € 400.0 million). The risks classified as material for Portigon AG – operational risk, business risk, pension risk and market price risk – are weighed against the risk appetite directly and are monitored as part of regular 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 separate 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 2020 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 2017.

Reverse stress testing is limited to the scenario of an EAA default. Were EAA to default, the credit risks and market price risks guaranteed by EAA as well as legal risks 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 is still the primary steering framework for Portigon AG. The HGB discount rate risk is taken into account as a deduction item for determining the sources of risk-bearing capacity. The other material risks 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 2017.

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 both to 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 including 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.

Events Occurring After the Close of the Fiscal Year

No significant events occurred after the end of the fiscal year that would be required to be disclosed in the notes pursuant to § 285 No. 33 of the German Commercial Code (HGB).

Outlook

The structural changes within Portigon AG will continue to have an effect on the company's cash flows, financial condition and results of operations in subsequent years. There will be a further reduction in Portigon AG's total assets attributable to final maturities and various termination agreements.

In summary, it should be noted that both the transformation process and the aforementioned operational risks, especially risks arising from tax issues, remain replete with uncertainty. This may have an adverse effect on the company's cash flows, financial condition and results of operations. Medium-term expectations for Portigon AG indicate that income will remain insufficient to cover the administrative expenses which continue to be incurred at this time. We are proceeding on the assumption that for the 2018 fiscal year Portigon AG will show a loss on a similar scale to the 2017 fiscal year. The occurrence of additional restructuring expenses and possible expenses arising from tax issues depends on the further course of the transformation and on the ongoing investigations by the Düsseldorf Public Prosecutor's Office.

Portigon AG Balance Sheet as at December 31, 2017

Assets

	€	€	31. 12. 2017 €	31. 12. 2016 € thousands
1. Cash				
a) cash on hand		890.00		5
b) balances with central banks	1,646,023,264.82			1,229,018
including:			1,646,024,154.82	1,229,023
with Deutsche Bundesbank				
€ 1,365,376,363.78 (2016: € 755,495 thousand)				
2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks				
a) treasury bills and discounted treasury notes as well as similar debt instruments issued by public institutions	20,812,372.07			0
			20,812,372.07	0
3. Claims on banks				
a) payable on demand	39,775,895.95			74,687
b) other	155,575,247.82			295,866
			195,351,143.77	370,553
4. Claims on customers			1,854,399,025.04	3,794,749
including:				
loans to public authorities and entities under public law				
€ 1,845,686,285.13 (2016: € 3,774,514 thousand)				
5. Bonds and other interest-bearing securities				
a) bonds and notes				
aa) of public institutions	1,034,885,383.60			1,147,023
including:				
eligible as collateral for Deutsche Bundesbank advances				
€ 800,019,313.63 (2016: € 829,015 thousand)				
ab) of other issuers	12,558,738.21			12,104
	1,047,444,121.81			1,159,126
			1,047,444,121.81	1,159,126
To be carried forward:			4,764,030,817.51	6,553,451

Assets

	€	€	31. 12. 2017 €	31. 12. 2016 € thousands
		Carried forward:	4,764,030,817.51	6,553,451
6. Equity investments in non-affiliated companies			0.00	20,816
7. Equity investments in affiliated companies			2,205,349.06	2,814
thereof:				
financial services				
€ 1,430,000.00 (2016: € 2,014 thousand)				
8. Trust assets			2,431,528,779.32	4,689,898
9. Intangible assets				
a) licences acquired against payment, industrial property rights and similar rights and assets, as well as licences to such rights and assets		0.00		1
			0.00	1
10. Tangible assets			2,145,181.50	6,039
11. Other assets			74,590,069.52	88,882
12. Deferred items			136,077,017.03	183,338
Total assets			7,410,577,213.94	11,545,239

Portigon AG Balance Sheet as at December 31, 2017

Liabilities

	€	€	31. 12. 2017 €	31. 12. 2016 € thousands
1. Liabilities to banks				
a) payable on demand		15,992,642.50		37,028
b) with agreed maturity or period of notice		9,013,041.25		158,577
			25,005,683.75	195,606
2. Liabilities to customers				
a) other liabilities				
aa) payable on demand	42,045,878.43			149,189
ab) with agreed maturity or period of notice	890,804,572.89			2,027,428
		932,850,451.32		2,176,617
			932,850,451.32	2,176,617
3. Certificated liabilities				
a) bonds and notes issued by the bank		8,538,466.47		8,951
			8,538,466.47	8,951
4. Trust liabilities			2,431,528,779.32	4,689,898
5. Other liabilities			34,322,971.48	68,100
6. Deferred items			91,589,891.59	125,968
7. Provisions				
a) for pensions and similar obligations		664,847,700.34		658,337
b) tax reserve		125,612,611.74		124,245
c) other		474,201,934.53		579,119
			1,264,662,246.61	1,361,702
8. Subordinated liabilities			981,075,105.87	1,176,992
9. Profit participation capital			12,054,228.13	12,792
including:				
due in less than two years				
€ 12,054,228.13 (2016: € 0,000 thousand)				
			To be carried forward:	
			5,781,627,824.54	9,816,625

for the Period January 1 to December 31, 2017

	€	€	1. 1.–31. 12. 2017 €	1. 1.–31. 12. 2016 € thousands
		Carried forward:	- 100,435,013.11	- 113,474
11. Write-downs and value adjustments on loans and certain securities as well as allocations to loan loss provisions			47,938.37	0
12. Income from revaluation of loans and certain securities as well as from the reversal of loan loss provisions			0.00	898
13. Write-downs and value adjustments on equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets			469,889.05	3
14. Profit or loss on ordinary activities			- 100,952,840.53	- 112,579
15. Extraordinary income	11,808,683.82			1,080
16. Extraordinary expenses	4,865,018.87			26,398
17. Extraordinary result			6,943,664.95	- 25,318
18. Taxes on income and revenues	8,037,289.94			27,277
19. Other taxes not shown under item 10	- 1,644,857.94			4,335
			6,392,432.00	31,612
20. Net loss for the year			- 100,401,607.58	- 169,509
21. Loss carried forward from the previous year			253,381,973.33	229,653
22. Withdrawals from profit participation capital			737,514.45	1,245
23. Withdrawals from silent contributions to capital			85,601,797.97	144,536
24. Retained loss			- 267,444,268.49	- 253,382

Notes to the Financial Statements at December 31, 2017

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).

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 (RechKredV) 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).

3. Accounting Policies

Assets, liabilities and pending transactions are measured 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 measured using 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. 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).

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

Securities treated as fixed assets (long-term investments) are measured 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 AG 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 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 items will continue to be reported on Portigon AG's balance sheet. As a result, the derivatives and corresponding compensation claims and liabilities 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 then, derivatives and corresponding compensation claims and liabilities 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.

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 compensation 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 AG 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 AG does not have any macro hedges within the meaning of § 254 of the German Commercial Code (HGB) at this time.

Portigon AG steers the general interest rate risk in its banking book centrally, as part of asset/liability management. When Portigon AG 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 § 340a in conjunction with § 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 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. Low-value assets are measured using the simplification rules under German tax regulations. Portigon AG 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. In contrast, the ten-year average interest rate is relevant for the discounting of provisions for post-employment benefit obligations. Yield curves are published at the end of each month on the Deutsche Bundesbank website.

As not all of Portigon AG's 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 are reported as commission income.

All of the transactions in the reporting period and in the previous year between Portigon AG 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 AG 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, are translated using the middle spot exchange rate effective on the reporting date. Unsettled forward contracts (currency forwards and currency options) are 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

Portigon AG had cash of € 1,646.0 million (previous year: € 1,229.0 million). The increase mainly results from claims transferred to EAA in the course of the downsizing and from the cancellation of borrower's note loans presented under claims on banks in consequence of the early termination of cross-border lease transactions.

5. Claims on Banks

	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Payable on demand	39.8	74.7
With residual maturities of		
– up to 3 months	52.7	7.3
– between 3 months and 1 year	–	–
– between 1 and 5 years	25.4	73.6
– more than 5 years	77.5	214.9
Book value	195.4	370.5

Of the claims on banks reported on the balance sheet, the sum of € 92.5 million (previous year: € 242.0 million) is guaranteed by EAA.

Claims on banks with residual maturities of more than five years declined as a result of the early termination of cross-border lease transactions.

Claims from leasing finance came to € 72.8 million (previous year: € 81.3 million).

6. Claims on Customers

	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
With residual maturities of		
– up to 3 months	67.8	126.7
– between 3 months and 1 year	2.2	72.4
– between 1 and 5 years	19.4	204.3
– more than 5 years	1,764.9	3,391.4
Book value	1,854.4	3,794.8
including:		
– on other companies in which equity investments are held	–	0.0
– from the leasing business	14.8	20.3

Of the claims on customers reported on the balance sheet, the sum of € 281.5 million (previous year: € 2,146.0 million) is guaranteed by EAA.

The decrease in claims on customers is largely attributable to loans transferred to EAA in the course of the downsizing and to the early termination of film transactions and cross-border lease transactions.

7. Bonds and Other Interest-Bearing Securities

	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Book value	1,047.5	1,159.1
including:		
amounts becoming due before December 31 of the following fiscal year	0.6	37.0
Breakdown by product		
– bonds and notes of public-sector issuers	1,034.9	1,147.0
– bonds and notes of other issuers	12.6	12.1
Breakdown by marketability		
– marketable securities	1,047.4	1,159.1
thereof:		
– listed on a stock exchange	816.8	1,118.6
– not listed on a stock exchange	230.6	40.5

Of the bonds and other interest-bearing securities reported on the balance sheet, the sum of € 247.4 million (previous year: € 289.5 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, € 690.6 million (previous year: € 819.2 million) in financial assets were carried at the modified lower of cost or market. Their fair value totalled € 672.4 million (previous year: € 802.3 million).

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

Portigon AG had no more equity investments in non-affiliated companies at the balance sheet date (previous year: € 20.8 million).

Insofar as the shares were not sold in the reporting period or the companies in which Portigon AG holds shares have not been dissolved, they are now presented under other assets because their intended purpose has changed. The equity investments in non-affiliated companies reclassified at the balance sheet date had book values of € 3.4 million.

9. Equity Investments in Affiliated Companies

	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Book value	2.2	2.8
including:		
– financial services institutions	1.4	2.0

The change in equity investments in affiliated companies of € 0.6 million is attributable to the write-down of the carrying amount of the investment in Portigon Finance Curaçao N.V.

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

10. Trust Assets

	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Other assets	2,431.5	4,689.9
Book value	2,431.5	4,689.9

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

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

11. Fixed Assets

€ millions	Bonds and other interest-bearing securities	Equity investments in non-affiliated companies	Equity investments in affiliated companies	Intangible assets	Land and buildings	Office equipment
Acquisition Cost/ Cost of Production Dec. 31, 2016	1,159.1	20.8	2.8	9.7	5.9	90.0
Additions				–	–	1.3
Retirements				3.6	–	5.5
Reclassifications				–	–	–
Effects from currency conversion				–	–	–0.1
Acquisition Cost/ Cost of Production Dec. 31, 2017				6.1	5.9	85.7
Cumulated write-downs Dec. 31, 2016				9.7	4.1	85.7
Depreciation in the fiscal year				–	1.2	0.7
Appreciation				–	–	–
Retirements				3.6	–	2.2
Reclassifications				–	–	–
Effects from currency conversion				–	–	–0.1
Cumulated write-downs Dec. 31, 2017				6.1	5.3	84.0
Book value Dec. 31, 2017	1,047.4	–	2.2	–	0.5	1.6
Book value Dec. 31, 2016	1,159.1	20.8	2.8	–	1.7	4.3

There were no write-downs of any securities treated as fixed assets in 2017, 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 € 0.5 million (previous year: € 1.7 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 € 1.6 million (previous year: € 4.3 million) is principally due to the sale of works of art.

12. Other Assets

	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Book value	74.6	88.9
including:		
- claims from tax refunds	29.8	48.4

13. Deferred Items

Deferred items	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Deferred items from reclassification of trading positions	127.1	174.8
Discounts from liabilities	1.1	1.3
Other	7.9	7.2
Book value	136.1	183.3

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, 2016.

16. Assets Sold under Repurchase Agreements

There were no assets sold under repurchase agreements in the 2017 fiscal year.

17. Liabilities to Banks

	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Payable on demand	16.0	37.0
With residual maturity of		
– up to 3 months	1.7	126.4
– between 3 months and 1 year	–	24.6
– more than 5 years	7.3	7.6
Book value	25.0	195.6

The decrease in liabilities to banks in the amount of € 170.6 million is primarily attributable to the decrease in term deposits resulting from the early termination of cross-border lease transactions.

18. Liabilities to Customers

	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Payable on demand	42.0	149.2
With residual maturity of		
– up to 3 months	118.9	60.7
– between 3 months and 1 year	22.3	0.1
– between 1 and 5 years	52.6	87.0
– more than 5 years	696.9	1,879.6
Book value	932.9	2,176.6
including:		
– liabilities to affiliated companies	24.0	25.9

The decrease is mainly due to the early termination of film transactions and cross-border lease transactions.

19. Certificated Liabilities

	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Bonds issued	8.5	9.0
including:		
amounts becoming due before December 31, 2016	8.5	9.0
Book value	8.5	9.0

20. Trust Liabilities

	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Liabilities to customers	169.4	289.1
Other liabilities	2,262.1	4,400.8
Book value	2,431.5	4,689.9

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

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

21. Other Liabilities

	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Book value	34.3	68.1
including:		
– pro-rata interest for borrower’s note loans and subordinated liabilities	22.9	25.1
– offsetting item from the valuation of currency transactions	5.7	27.2

22. Deferred Items

	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Deferred items from reclassification of trading positions	91.6	121.5
Fees from the lending business	0.0	0.0
Other	–	4.4
Book value	91.6	125.9

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.

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, 2017
Discount rate	3.68%
Wage and salary index	2.50%
Pension index	2.00%
Fluctuation	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 are 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:

€ millions	Plan Assets		Associated Liabilities	
	Acquisition cost	Fair value	Before offsetting	After offsetting
Post-employment benefit obligations	46.1	46.0	710.8	664.8
Other pension liabilities	0.4	0.4	197.8	197.4
Total	46.5	46.4	908.6	862.2

Because the fair value of € 46.4 million is lower than the acquisition cost of € 46.5 million, there is no restriction on distribution pursuant to § 268 (8) Sentence 3 in conjunction with Sentence 1 of the German Commercial Code (HGB).

Provisions for post-employment benefit obligations are measured using the average market interest rate for the past ten fiscal years (3.68%) 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 (2.80%) leads to the following difference at the balance sheet date 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, 2017
Measurement of obligations using the ten-year average interest rate	710.8
Measurement of obligations using the seven-year average interest rate	795.3
Difference in accordance with § 253 (6) HGB	84.5

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 income of € 0.6 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's Office in connection with dividend arbitrage transactions of the former WestLB, this item includes 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.

Portigon AG's other provisions consist of provisions for restructuring of € 170.7 million (previous year: € 213.4 million), provisions in the personnel area of € 202.2 million (previous year: € 227.1 million) and miscellaneous provisions of € 101.3 million (previous year: € 138.7 million).

The item miscellaneous provisions includes, among other amounts, € 35.3 million (previous year: € 61.7 million) for the obligation to indemnify arising from an assumption of the obligation to perform vis-à-vis Erste Financial Services GmbH (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. 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.

By way of an agreement dated December 11, 2017, the obligation to indemnify vis-à-vis the employment contracts of EFS employees transferred to a third party as of December 1, 2017 in accordance with § 613a of the German Civil Code (BGB) was reversed in some cases. All liabilities incurred by Portigon AG to cover the post-employment benefit obligations of the employees affected by the transfer of the EFS business expire from this date. In this connection, a settlement of € 31.3 million was paid to EFS that reduces the provision concerned by € 28.0 million (prior to the adjustment of the interest cost).

Furthermore, the item miscellaneous provisions includes, among other amounts, € 8.4 million for reimbursement commitments relating to the pension obligations transferred to NRW.BANK in 2013 (service cost) in the previous year and € 6.1 million (previous year: € 8.6 million) for potential litigation risks.

The € 66.1 million (previous year: € 39.8 million) in interest cost on provisions unrelated to banking operations of Portigon AG is reported in other operating expenses.

24. Subordinated Liabilities

	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Book value	981.1	1,177.0
including:		
– to affiliated companies	526.4	553.6

Of the total subordinated liabilities, € 288.6 million (previous year: € 459.8 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 € 44.0 million in connection with its subordinated liabilities (previous year: € 47.1 million). The subordinated liabilities carried by Portigon AG itself comply with the requirements of Article 63 of the CRR; the right to terminate the liabilities without notice has not been reserved.

At December 31, 2017, we did not raise any capital exceeding 10% of our total subordinated liabilities.

25. Profit Participation Capital

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

	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Beginning balance 1.1.	12.8	14.0
Additions	–	–
Subtractions	–	–
Loss allocation	– 0.7	– 1.2
Ending balance 31.12.	12.1	12.8

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 € 1.2 million. The holders of profit participation capital are being allocated a portion of the loss for 2017 equal to € 0.7 million.

The profit participation certificates for Portigon AG constitute Tier 2 capital of € 4.8 million (previous year: € 7.7 million) within the meaning of Article 62 of the CRR.

26. Equity Capital

The subscribed capital of Portigon AG was € 498.6 million at December 31, 2017 (previous year: € 498.6 million). It was divided into 22,695,306 (previous year: 22,695,306) no-par value registered Class A shares. 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 43.

Portigon AG is reporting a net loss for the 2017 fiscal year of € 100.4 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 AG participating in the loss. The silent partners are being allocated a portion of the relevant loss for 2017 equal to € 10.7 million (previous year: € 18.1 million).

Pursuant to the agreement of December 12, 2009, concerning a silent participation on the part of the Financial Market Stabilization Fund (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 2017 equal to € 74.9 million (previous year: € 126.4 million). Portigon AG'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 € 253.4 million, a loss of € 267.4 million remains after loss allocation, including the loss participation of the profit participation certificate holders and silent partners.

	Balance Dec. 31, 2016 € millions	Withdrawals/ loss allocation € millions	Other appropriation € millions	Balance Dec. 31, 2017 € millions
Subscribed capital	498.6	–	–	498.6
Capital reserves	–	–	–	–
Revenue reserves	–	–	–	–
Silent contributions to capital				
– issued in 2005	184.5	– 10.7	–	173.8
– issued in 2009/2010	1,298.9	– 74.9	–	1,224.0
Retained loss	– 253.4	– 14.1	–	– 267.4
Equity capital pursuant to the German Commercial Code (HGB)	1,728.6	– 99.7	–	1,628.9

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 AG 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 AG'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 € 0.9 billion in liabilities which were still grandfathered at December 31, 2017 (previous year: € 1.1 billion). A € 0.3 billion (previous year: € 0.2 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, 2017 € billions	Dec. 31, 2016 € billions
Foreign currency assets	1.5	1.6
Foreign currency liabilities	1.2	1.3

Notes to the Statement of Income

29. Geographic Breakdown of Income Components

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

1. 1.–31. 12. 2017 € millions	Interest Income	Current Income	Commission Income	Other Operating Income
Germany	133.0	0.6	1.7	21.5
United Kingdom	75.2	–	0.0	10.0
Rest of Europe	0.0	–	0.0	2.9
Far East and Australia	–	–	–	0.5
North America	15.0	–	2.2	6.9
Amount reported on the Statement of Income	223.2	0.6	3.9	41.8

The geographic breakdown of income at Portigon AG is determined based on the domicile of the branch.

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, 2017 € millions	Dec. 31, 2016 € millions
Amount reported on the Statement of Income	41.8	50.6
including:		
Reimbursement and netting by third parties	23.1	0.6
Income from the reversal of other provisions	8.1	17.8
Income from sale of fixed assets	3.0	17.3
Rental and property income	1.2	1.8
Income from the discounting of pension provisions	0.0	10.0
Other operating expenses	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Amount reported on the Statement of Income	77.8	60.7
including:		
Expenses from the discounting of provisions	66.1	48.9
Losses on the sale of fixed assets	1.1	0.3

The net figure for other operating expenses and income came to € – 36.0 million at the reporting date (previous year: € – 10.1 million) and is principally due to the unwinding of the discount on provisions for pensions as well as to contractually agreed reimbursements of expenses for administrative services provided in connection with portfolios being synthetically transferred to EAA.

The increase in the expenses arising from the interest cost on provisions is attributable in particular to the fact that owing to the introduction of the ten-year average interest rate replacing the seven-year average interest rate provisions for post-employment benefit obligations had been lower in the previous year.

32. Income and Expenses Relating to Different Accounting Periods

A total of € – 27.6 million (previous year: € – 56.4 million) in expenses relating to different accounting periods was incurred in the 2017 fiscal year. Income related to different accounting periods was generated in the amount of € 3.5 million (previous year: € 26.2 million), which in addition to tax issues was mainly attributable to income generated from the early termination of film transactions and cross-border lease transactions.

33. Extraordinary Result

Portigon AG's extraordinary result came to € 6.9 million (previous year: € – 25.3 million).

The result is largely attributable to the reversal of provisions in connection with the company's restructuring.

34. Taxes on Income and Revenues

	1. 1.–31. 12. 2017 € millions	1. 1.–31. 12. 2016 € millions
Amount reported on the Statement of Income	– 8.0	– 27.3
including:		
domestic operations	– 6.8	– 30.4
foreign operations	– 1.2	3.1

The tax expense of around € 8.0 million incurred in fiscal year 2017 (previous year: € 27.3 million) is attributable to income taxes from Germany for previous years amounting to around € 4.4 million and to current income taxes of approximately € 2.4 million. The foreign branches generated tax expense of around € 1.2 million, mostly resulting from previous years.

Other Information

35. Contingent Liabilities

Contingent Liabilities and Other Commitments

	Dec. 31, 2017 € billions	Dec. 31, 2016 € billions
Liabilities from guarantees and indemnity agreements	19.8	26.6
Irrevocable credit commitments	0.0	61.5

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.

36. 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, 2017 € billions	Dec. 31, 2016 € billions
Own securities assigned or pledged to central banks	8.0	–
Own securities pledged to other banks or customers	156.2	218.4
Pledged pension liability insurance policies for hedging of pension and similar obligations	46.4	45.8
Total assets pledged	210.6	264.2

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. In addition to stability in operations, 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.

37. Other Financial Obligations

Deposit Insurance and Other Insurance Mechanisms

Portigon AG 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 AG, having completed the transfer of the imputable sums to the affiliated fund, had no additional funding obligation at the end of the 2017 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 € 123.7 million (previous year: € 111.5 million).

Portigon AG has rental and leasing obligations and other obligations totalling € 184.6 million (previous year: € 208.1 million). The agreements have residual maturities of a maximum of eight years.

38. Forward Transactions/Derivatives

With reference to Note 3, the derivatives transferred to EAA by means of a risk transfer agreement during the transformation in 2012 and the corresponding compensation claims and liabilities 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 then, derivatives and corresponding compensation claims and liabilities 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 AG'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 EAA under a risk transfer agreement was € 5.1 billion (previous year: € 5.5 billion).

OTC Products, thereof:	Nominal Values		Positive Market Values		Negative Market Values	
	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Products based on interest rates	4,295	4,672	708	868	195	256
Products based on exchange rates	793	839	37	42	5	7
Credit derivatives	2	2	–	–	–	–
Total derivatives	5,090	5,513	745	910	200	263

The market values shown in the table are calculated subject to an overnight indexed swap (OIS) adjustment of € – 9.6 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 interest payment components, as claims on banks and customers and assets under deferred items as well as liabilities to banks and customers and liabilities under deferred items.

	Products Based on Interest Rates		Products Based on Share Prices and Other Prices		Credit Derivatives	
	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions	Dec. 31, 2017 € millions	Dec. 31, 2016 € millions
Residual maturity						
– up to 3 months	1,265	895	160	154	–	–
– 3 months to 1 year	1,079	1,314	418	–	–	–
– 1 to 5 years	1,265	1,382	143	603	–	–
– more than 5 years	686	1,081	72	82	2	2
Total	4,295	4,672	793	839	2	2

39. Remuneration of the Governing Bodies

	2017 € millions	2016 € millions
Total remuneration of the Managing Board	0.7	0.8
fixed	0.7	0.8
performance-based	–	–
departure-related	–	–
from holding supervisory board seats at Group subsidiaries	–	–
Total remuneration of former Managing Board members and their survivors	5.7	6.4
Total remuneration of Supervisory Board members	0.1	0.1
fixed	0.1	0.1
performance-based	–	–
performance-based with long-term incentive effects	–	–
Pension provisions for Managing Board members who actively served during the fiscal year*	2.5	9.8
Pension provisions for former Managing Board members and their survivors	100.1	100.2

* before offsetting against the related plan assets

The members of the Supervisory Board were credited total remuneration of € 74 thousand in the 2017 fiscal year (previous year: € 82 thousand), which was paid out in the following fiscal year. In addition, members received a total of € 6 thousand (previous year: € 7 thousand) in reimbursement of their out-of-pocket expenses.

Remuneration of the Members of the Managing Board

	Period	Fixed remuneration*	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, 2017**	Additions to/subtractions from pension commitments in 2017
		€	€	€	€	€	€	€
Seyfert, Frank	1. 1. – 31. 12. 2017	346,063	–	–	–	346,063	1,721,406	139,222
Stemper, Dr. Peter	1. 1. – 31. 12. 2017	381,918	–	–	–	381,918	770,858	132,489
Vorstand gesamt	1. 1. – 31. 12. 2017	727,981	–	–	–	727,981	2,492,264	271,711

* 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
		€	€	€
Brockhaus, Ernst-Albrecht	13. 9. – 31. 12. 2017	3,014	–	3,014
Forst, Eckhard	1. 1. – 31. 12. 2017	17,534	–	17,534
Hock, Gudrun	1. 1. – 31. 12. 2017	10,000	–	10,000
Huth, Jutta M.	13. 9. – 31. 12. 2017	3,014	–	3,014
Klug, Gabriele C.	1. 1. – 13. 9. 2017	7,014	–	7,014
Möbius, Christian	13. 9. – 31. 12. 2017	3,014	–	3,014
Plogmann, Dr. Friedhelm	1. 1. – 31. 3. 2017	4,932	–	4,932
Rabitzsch, Matthias	1. 1. – 13. 9. 2017	10,521	–	10,521
Walter-Borjans, Dr. Norbert	1. 1. – 3. 7. 2017	5,041	–	5,041
Subtotal		64,082	–	64,082
Lump-sum reimbursement of out-of-pocket expenses				5,400
Value-added tax on amounts paid				10,871
Total				80,353

40. 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.

41. Audit Fees

	2017 € millions	2016 € millions
Auditing the annual financial statements	0.5	0.5
Miscellaneous reports and opinions	0.0	0.7
Total	0.5	1.2

In addition to the expenses for the statutory audits, the audit fees include the expenditure for the audit of compliance with specific contractual agreements with Germany's Financial Market Stabilisation Authority (FMSA), for the reporting in connection with the risk monitoring of the security reserve (guarantee fund) of the Landesbanken and Girozentralen and for audit support in connection with the preparation of the master file entitled Transfer Pricing Documentation. In the previous year, expenses had also been incurred for a project-related review and for the special audit of a process.

42. Number of Employees

The average number of employees in 2017 was as follows:

	Male	Female	Total 2017	Total 2016
Domestic companies/branches	84	71	155	239
Foreign companies/branches	28	18	46	79
Total	112	89	201	318

43. Shareholdings in Portigon AG

Shareholders	Investment Quota	
	Dec. 31, 2017 %	Dec. 31, 2016 %
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).

44. Seats Held by Members of the Managing Board

In 2017, the following Managing Board members of Portigon AG were chairmen or members of a large corporation's supervisory body within the meaning of § 340a of the German Commercial Code (HGB).

45. Seats Held by Employees

Seats held by employees of Portigon AG

In 2017, the following employees were chairs or members of a large company's supervisory body within the meaning of § 340a (4) No. 1, in conjunction with § 267 (3), of the German Commercial Code (HGB).

Max Niesert

AKA Ausfuhrkredit-Gesellschaft mbH

Matthias Rabitzsch

Portigon AG (until September 13, 2017)

Jutta M. Huth

Portigon AG (since September 13, 2017)

46. Governing Bodies of Portigon AG

Portigon AG Managing Board

Dr. Peter Stemper

Chairman of the Managing Board

Frank Seyfert

Member of the Managing Board

Portigon AG Supervisory Board

Eckhard Forst

Chairman since April 1, 2017
Chairman of the Managing Board
NRW.BANK
Düsseldorf

Matthias Rabitzsch

Member until September 13, 2017
Deputy Chairman until September 13, 2017
Former Chairman of the Works Council
Düsseldorf

Dr. Friedhelm Plogmann

Member until March 31, 2017
Chairman until March 31, 2017
Management consultant
Meerbusch

Ernst-Albrecht Brockhaus

Member since September 13, 2017
Banker
Munich

Gudrun Hock

Consultant
Düsseldorf

Jutta M. Huth

Member since September 13, 2017
 Banker
 Portigon AG
 Düsseldorf

Gabriele C. Klug

Member until September 13, 2017
 City Treasurer
 City of Cologne
 Cologne

Christian Möbius

Member since September 13, 2017
 Lawyer
 Cologne

Dr. Norbert Walter-Borjans

Member until July 3, 2017
 Former Minister of Finance
 State of North Rhine-Westphalia
 Düsseldorf

47. Shareholdings

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

No.	Name	Place	Stake in %	Voting Rights in % ¹	Currency Code	Share Capital € thousands	Result € thousands
1	Harrier Capital Management (Bermuda) Ltd. ³	Hamilton, Bermuda	100.00		USD	148.64	0.08
2	Portigon Europe (UK) Holdings Limited ⁴	London, United Kingdom	100.00		GBP	16.93	- 8.53
3	Portigon Finance Curaçao N.V. ⁴	Willemstad, Curaçao	100.00		EUR	579.06	304.01
4	Portigon International Services Limited ^{2 4}	St. Helier, Jersey	100.00		GBP	335.74	- 13.12
5	Portigon Property Services Limited ^{2 4}	London, United Kingdom	100.00		GBP	22.50	5.61
6	Portigon Versorgungskasse GmbH ⁴	Düsseldorf	100.00		EUR	25.00	0.00
7	Treuhand- und Finanzierungsgesellschaft für Wohnungs- und Bauwirtschaft mit beschränkter Haftung, Treufinanz ⁴	Düsseldorf	65.41	66.37	EUR	2,199.57	- 193.85

¹ insofar as this deviates from the capital

² indirectly held

³ data as of Dec. 31, 2005

⁴ data as of Dec. 31, 2015

Düsseldorf, March 2, 2018

Portigon AG
 The Managing Board

Dr. Peter Stemper

Frank Seyfert

48. Country-by-Country Reporting at December 31, 2017 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, CDR 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 2017 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 including other taxes 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	- 29.6	- 85.3	- 6.8	117
Hong Kong	0.5	- 0.2	-	-
Italy	1.3	1.6	-	-
Spain	0.8	- 0.6	- 1.2	7
UK	7.4	- 3.9	-	11
USA	5.9	- 3.9	-	19

* all figures in € millions

Name	Nature of Activities	Place of Business/ City	Country
Portigon AG, Düsseldorf branch	Credit institution	Düsseldorf	Germany
Portigon AG, Hong Kong branch	Credit institution	Hong Kong	Hong Kong
Portigon AG, Milan branch	Credit institution	Milan	Italy
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

Copy of the Auditor's Report

We have issued the following auditor's report on the annual financial statements and the statement of financial condition:

"Independent Auditor's Report

To Portigon AG

Report on the Audit of the Annual Financial Statements and of the Statement of Financial Condition

Audit Opinions

We have audited the annual financial statements prepared by Portigon AG, which comprise the balance sheet as of December 31, 2017, the statement of income for the fiscal year from January 1, 2017 to December 31, 2017, the notes to the annual financial statements and the country-by-country reporting pursuant to § 26a of the German Banking Act (KWG), including a summary of the accounting policies. In addition, we have audited the statement of financial condition of Portigon AG for the fiscal year from January 1, 2017 to December 31, 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and, in compliance with German accepted accounting principles, give a true and fair view of the assets, liabilities, and financial position of the company as of December 31, 2017, and of its financial performance for the fiscal year from January 1 to December 31, 2017, and
- the accompanying statement of financial condition as a whole provides an appropriate view of the company's position. In all material respects, this statement of financial condition is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 (3) Sentence 1 of the German Commercial Code (Handelsgesetzbuch – HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the statement of financial condition.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the statement of financial condition in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Statement of Financial Condition" section of our auditor's report. We are independent of the company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the statement of financial condition.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the fiscal year from January 1 to December 31, 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

Recognition and Measurement of the Provision for Taxes on Dividend Payments Arising from Dividend Arbitrage Transactions that Potentially Have Been Refunded without Justification

Reasons Why the Matter Was Determined to Be a Key Audit Matter

Recognition and measurement of the provision for taxes on dividend payments arising from dividend arbitrage transactions that potentially have been refunded without justification is an important area in which management makes discretionary decisions. A provision for uncertain liabilities was recognised at the balance sheet date in accordance with § 249 (1) Sentence 1 HGB for taxes on dividend payments arising from dividend transactions that potentially have been refunded without justification. The recognition and measurement of this provision involve uncertainties and consider a variety of assumptions and factors of influence, particularly the estimate of facts relating to the statute of limitations, the opinion of the courts and the administrative agencies on the lawfulness of the reimbursement of taxes on dividend payments arising from dividend arbitrage transactions and the method for identifying dividend arbitrage transactions for which taxes on dividend payments have potentially been refunded without justification. Minor changes in the assumptions may lead to significant differences in measurement and thus to a change in the required provisions.

Due to the variety of the assumptions to be made and the factors of influence associated with uncertainties, the recognition and measurement of the provision for taxes on dividend payments arising from dividend arbitrage transactions that potentially have been refunded without justification is regarded as complex, which means the risk of accounting error is higher and the matter is determined to be a key audit matter.

Audit Approach

We addressed the recognition and measurement of the provision for taxes on dividend payments arising from dividend arbitrage transactions that potentially have been refunded without justification.

Our substantive audit procedures focused on the managing board's estimate of the level of the provision considered necessary in line with prudent business judgement. Specifically, we reproduced the key assumptions of the estimate made and the calculation of the amount of the provision.

In relation to the assumptions made when estimating the amount of the provision required, we addressed the statutes of limitation for the tax payment and determination of the amount. Like the conclusions drawn by the managing board on the basis of its inspection of the Public Prosecutor's Office's investigative records from the investigation into individual former managing board members of WestLB, the opinion of the courts and the administrative agencies on the taxes charged on dividend payments arising from dividend arbitrage transactions was acknowledged. The methodology used in the evaluation of earlier equity transactions by the bank was also acknowledged.

A law firm commissioned by the bank prepared reports on selected equity transactions around Portigon AG's dividend record date in previous years. We used these for our audit and analysed them to determine the trading data supplied by the bank and the approach used for the analysis. This entailed assessing the methodology used in the reports for evaluating the trading data, determining the estimation parameters and mathematically reproducing the calculations. We also asked the law firm commissioned about the procedure used for the evaluation of the trading data.

We asked the managing board, designated employees and representatives of the law firm commissioned by the bank about their approaches and the assumptions made when the managing board was estimating the amount of the provision and evaluated any records submitted to us. In addition, up until the conclusion of our audit we analysed the minutes of the meetings of the managing board, the managing board's reports to the supervisory board and the minutes of the conference calls between the managing board, other bank employees, the chairman of the supervisory board and the legal advisors of the bank and the supervisory board based on information available.

Our audit procedures did not lead to any reservations relating to the recognition and measurement of the provision for taxes on dividend payments arising from dividend arbitrage transactions that potentially have been refunded.

Reference to Related Disclosures:

For the disclosures provided by the bank concerning the recognition and measurement of the provision for taxes on dividend payments arising from dividend arbitrage transactions that potentially have been refunded without justification, please refer to Note 23. "Provisions" in the notes to the balance sheet contained in the notes to the annual financial statements. Further explanations are included in the bank's statement of financial condition in the sections entitled "Risk Reporting" and "Structural Changes".

Other Information

The supervisory board is responsible for the "Report of the Supervisory Board." Otherwise, the executive directors are responsible for the other information. The other information comprises the overview entitled "Locations", which we obtained prior to the date of our auditor's report. In addition, the other information comprises the sections of the 2017 Annual Report made available to us probably after the date of this auditor's opinion: "Report of the Supervisory Board" and "Corporate Governance at Portigon AG".

Our audit opinions on the annual financial statements and on the statement of financial condition do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the statement of financial condition or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Statement of Financial Condition

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions and that the annual financial statements, in compliance with German accepted accounting principles, give a true and fair view of the assets, liabilities, financial position, and financial performance of the company. In addition, the executive directors are responsible for such internal control as they have determined necessary in accordance with German accepted accounting principles to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless actual or legal conditions require otherwise.

Furthermore, the executive directors are responsible for the preparation of the statement of financial condition that, as a whole, provides an appropriate view of the company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a statement of financial condition that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the statement of financial condition.

The supervisory board is responsible for overseeing the company's financial reporting process for the preparation of the annual financial statements and of the statement of financial condition.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Statement of Financial Condition

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the statement of financial condition as a whole provides an appropriate view of the company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the annual financial statements and on the statement of financial condition.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this statement of financial condition.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the annual financial statements and of the statement of financial condition, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal controls;
- obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the statement of financial condition in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems;
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures;
- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the statement of financial condition or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to be able to continue as a going concern;
- evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the company in compliance with German accepted accounting principles;
- evaluate the consistency of the statement of financial condition with the annual financial statements, its conformity with German law, and the view of the company's position it provides;
- perform audit procedures on the prospective information presented by the executive directors in the statement of financial condition. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation preclude public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information Pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the shareholders' meeting on July 5, 2017. We were engaged by the supervisory board on October 6, 2017. We have been the auditor of Portigon AG without interruption since the 2003 fiscal year.

We declare that the audit opinions contained in this auditor's report are consistent with the additional report to the supervisory board pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Dirk Müller-Tronnier."

Düsseldorf, March 2, 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Müller-Tronnier
Wirtschaftsprüfer
(German Public Auditor)

Eckert
Wirtschaftsprüferin
(German Public Auditor)

Report of the Supervisory Board

The 2017 fiscal year, like the preceding years, was dominated by the systematic downsizing of Portigon AG in accordance with the conditions set by the European Commission.

In connection with the dismantling of operations, total assets decreased by 35.7% to € 7.4 billion. This is mainly due to the fact that even the more complex exposures initially remaining with the Bank for legal reasons were able to be transferred to Erste Abwicklungsanstalt ö. R. in most cases. Portigon AG also reported further advances in the dismantling of its foreign locations. The branches in Milan and Hong Kong were closed in March 2017 and August 2017, respectively. Apart from its offices in Düsseldorf, New York and London, Portigon AG is still represented in Madrid; this location is also due to be closed in the course of 2018. As a result of the downsizing, the average number of employees over the year declined from 268 to 159.

In addition to this progress connected with the dismantling of operations, the investigation formally launched by the Public Prosecutor's Office in 2016 in connection with dividend arbitrage transactions was one of the main topics discussed at length by the Supervisory Board. Portigon AG remains in close contact with the investigating authorities. The second WestLB parliamentary inquiry panel (PUA II), which had also been frequently discussed in the Supervisory Board in previous years, was wound up in March. The inquiry panel presented its final report to the state parliament plenary assembly on March 16, 2017.

A number of changes were made to the composition of the Supervisory Board:

On April 1, 2017, Eckhard Forst took over as Chairman of the Supervisory Board of Portigon AG, succeeding Dr. Friedhelm Plogmann, who stepped down from this Board with effect from March 31, 2017 at his own request.

Following the state elections in North Rhine-Westphalia in May, Dr. Norbert Walter-Borjans, former Minister of Finance of the State of North Rhine-Westphalia, resigned from the Supervisory Board effective July 3, 2017. Gabriele C. Klug, Financial Officer of the City of Cologne, and Matthias Rabitzsch, former Chairman of the Works Council of Portigon AG, also left the Board on September 13, 2017. In connection with an amendment to the Articles and Bylaws, the shareholders' meeting on September 13, 2017 resolved to reduce the size of the Supervisory Board from six to five members and, at the same meeting, appointed Ernst-Albrecht Brockhaus, banker, Jutta M. Huth, Chairwoman of the Works Council of Portigon AG, and Christian Möbius, lawyer, as new members of the Supervisory Board of Portigon AG.

The ambitious, complex projects connected to the downsizing of the Bank and the associated follow-up activities were discussed in depth with the Managing Board and the necessary decisions in this regard were made.

Supervision and Advising of Management

The Supervisory Board held a total of four meetings in the 2017 fiscal year on March 29, July 5, September 27 and December 13 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 addition, resolutions were adopted in written votes taken outside of a meeting. These votes occurred on January 17 and 23, April 12 and September 11.

The Supervisory Board performed its duties in relation to the supervision and advising of the Managing Board in full keeping with the statutory provisions as well as the Bank's Articles and Bylaws. To fulfil 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, particularly the business and risk 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 Chairman and Deputy Chairman of the Supervisory Board and the Chairman of the Managing Board also regularly discussed current issues and Managing Board decisions.

After preparation and adoption of the annual financial statements had initially been postponed in March due to the fact that the documents of the investigating authorities in connection with dividend arbitrage transactions were being examined at the time, the Supervisory Board adopted the annual financial statements on July 5, 2017 once the auditors had reported on the findings of their audit, resolved on the Report of the Supervisory Board for 2016 and the Corporate Governance Report in the 2016 Annual Report of Portigon AG and proposed to the Shareholders' Meeting to ratify the acts of the members of the Managing Board and the Supervisory Board for the 2016 fiscal year.

In the fiscal year, the Supervisory Board concerned itself with audit-related issues based on the annual and 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. The Bank's compensation committee also reported to the Supervisory Board in 2017 on compliance with the regulatory requirements for the compensation system.

In addition, in 2017 the Supervisory Board concluded the public tender procedure initiated in 2016 for the selection of an external auditor for the company for the years 2017 to 2020 and subsequently recommended that the Shareholders' Meeting appoint the audit firm Ernst & Young GmbH as the company's auditors for the 2017 fiscal year.

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, 2017. 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 2017 Fiscal Year

At its meeting on March 22, 2018, the Supervisory Board adopted the 2017 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 2017 fiscal year and to appoint Ernst & Young GmbH as the external auditors for the 2018 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 2017 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 findings of their audit. Based on the final result of this review, no objections were raised.

Düsseldorf, March 22, 2018

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 anchored compliance with the Code in the rules of procedure for its Managing Board and Supervisory Board.

The Code was amended in 2017; the latest version is dated February 7, 2017 and an announcement about the amendment was published in the Bundesanzeiger (Federal Gazette) on April 24, 2017. 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; these also 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 a compensation report as part of this Corporate Governance Report which 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 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 is 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 2017

The remuneration of the governing bodies of Portigon AG in the 2017 fiscal year was as follows:

	1. 1. – 31. 12. 2017 € millions	1. 1. – 31. 12. 2016 € millions
Total remuneration of the Managing Board	0.7	0.8
– fixed	0.7	0.8
– performance-based	–	–
– departure-related	–	–
– from holding supervisory board seats at Group subsidiaries	–	–
Total remuneration of former Managing Board members and their survivors	5.7	6.4
Total remuneration of Supervisory Board members	0.1	0.1
– fixed	0.1	0.1
– performance-based	–	–
– performance-based with long-term incentive effects	–	–
Pension provisions for Managing Board members who actively served during the fiscal year	2.5	9.8
Pension provisions for former Managing Board members and their survivors*	100.1	100.2

In accordance with the Code as amended on February 7, 2017, 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 2017, no payments for preceding years were made.

Benefits granted	Frank Seyfert		Dr. Peter Stemper	
	Managing Board member		Managing Board Chairman since April 1, 2016	
	since April 1, 2016		Board member since Feb 1, 2014	
	2017	2016	2017	2016
Fixed remuneration*	331,257.00 €	262,503.00 €	366,668.00 €	391,672.00 €
Benefits	14,806.10 €	11,056.50 €	15,249.89 €	17,199.96 €
Total	346,063.10 €	273,559.50 €	381,917.89 €	408,871.96 €
1-year variable remuneration	0.00 €	0.00 €	0.00 €	0.00 €
Multi-year variable remuneration	0.00 €	0.00 €	0.00 €	0.00 €
Plan description (term)		-	-	-
Total	0.00 €	0.00 €	0.00 €	0.00 €
Pension cost**	139,222.00 €	22,242.00 €	132,489.00 €	44,798.00 €
Total remuneration	485,285.10 €	295,801.50 €	514,406.89 €	453,669.96 €

* rounding difference

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

Directors Dealings (Disclosure 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 2017

The Managing Board and Supervisory Board of Portigon AG herewith declare for 2017 that Portigon AG complied with the recommendations of the "Government Commission of the German Corporate Governance Code" as amended on February 7, 2017, as well as Article 4.5.1 Paragraphs 2 and 3 of the Public Corporate Governance 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 shall be responsible for the appointment of a proxy to exercise shareholders' voting rights in accordance with their instructions; the proxy should also be reachable during the Shareholders' Meeting. Given that it has only two shareholders, Portigon AG has decided that it is not necessary to appoint a proxy.
- **Article 3.10 of the Code** recommends that the Corporate Governance Report be published in connection with the Corporate Governance Statement (§ 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 Statement 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 increasing the share of women in 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 of procedure governing the work of the Managing Board. Portigon AG continues to refrain from specifying fixed responsibilities for its Managing Board members in the rules of procedure in order to ensure maximum flexibility, especially in light of a continuous diminution of the Managing Board to two members in recent years. The duties of the two Managing Board members are regulated in an organisational chart.

- Pursuant to **Article 4.2.5 Sentence 2 of the Code**, the principal features of the Managing Board compensation system must be described in a compensation report, which is part of the statement of financial condition. At Portigon AG, the compensation report does not form part of the statement of financial condition, but is part of the Corporate Governance Report in the Notes to the Annual Report.
- **Article 5.1.2 Paragraph 1 Sentence 3 of the Code** provides that the Supervisory Board must determine targets for the share of female Managing Board members. 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 of the company and the number of Supervisory Board members, the Supervisory Board must form committees with relevant specialist expertise. This recommendation was complied with until the end of 2015. Considering the already well-advanced downsizing of the company and the diminution of the full Supervisory Board to now five 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.
- The new recommendations included in **Article 5.3.2 Paragraph 2 of the Code** in connection with the election of the auditor, which concern in particular putting the audit engagement out to tender, monitoring of the auditor's independence, definition of additional services rendered by the auditor, the issuance of the audit engagement, the determination of key audit areas and the fee agreement by the audit committee, are performed at Portigon AG by the Supervisory Board because – as already outlined in Article 5.3.1 – Portigon AG has not formed an audit committee since the end of 2015. Portigon AG does not comply with the recommendation of **Article 5.4.1 Paragraph 2 et seq. of the Code**, sections of which were also reformulated, which stipulates that a profile of skills and expertise must be prepared for the entire Board and an age limit and a regular limit to Supervisory Board members' terms of office set. When suitable candidates are being selected, care is taken that the relevant skills are present. Furthermore, Portigon AG believes that a Supervisory Board member's age and term of office are not appropriate eligibility criteria. In addition, the Supervisory Board is supposed to lay down a target for the share of women in the Supervisory Board. Owing to the special situation of Portigon AG, which is being systematically downsized with the objective of dissolving the company, the Supervisory Board has not laid down any targets in this respect.
- Furthermore, **Article 5.4.1 Paragraph 5 of the Code** sets out, among other things, that a curriculum vitae and an overview of the candidate's material activities must be updated annually for all Supervisory Board members and published on the company's website. Portigon AG does not comply with this requirement.
- 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**). During the 2017 fiscal year, women made up 33% of the Supervisory Board of Portigon AG in the first quarter and 40% from the second quarter onwards. Since then, the quota recommended in Article 4.5.1 (3) of the Public Governance Code has been reached.
- As the group of owners of Portigon AG is small, the dates for the Shareholders' Meetings in accordance with **Article 6.2 of the Code** are not published on the company's website.

- In accordance with **Article 7.1.2 Sentence 2 of the Code**, the half-year financial report was not discussed separately by the Managing Board and the Supervisory Board prior to publication. The Supervisory Board receives comprehensive monthly reports on the latest business developments.
- 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 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 made publicly accessible within 90 days from the end of the fiscal year and interim reports must be made publicly accessible within 45 days from the end of the reporting period, is no longer relevant for Portigon AG.

The declaration of conformity is available in German on the web at [www.portigon-ag.de/Unternehmensinformationen/Corporate Governance](http://www.portigon-ag.de/Unternehmensinformationen/Corporate%20Governance).

Düsseldorf, March 22, 2018

Representing the Supervisory Board



Eckhard Forst

Representing the Managing Board



Dr. Peter Stemper

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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.



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