# Single-Entity Accounts 2013

Portigon
Aktiengesellschaft

# Key Figures

## Key Figures Year-on-Year Comparison

| | 1. 1. – 31. 12. 2013 | 1. 1. – 31. 12. 2012 | Change absolute | % |
|---|---|---|---|---|
| Performance figures in € millions | | | | |
| Net interest income | 169.3 | 169.1 | 0.2 | 0.1 |
| Net commission income | 263.9 | 281.4 | – 17.5 | – 6.2 |
| Net expenses from trading operations | – | – 39.6 | 39.6 | – 100.0 |
| Other operating expenses/income | – 33.7 | 157.5 | – 191.2 | > – 100.0 |
| Personnel expenses | – 263.6 | – 425.3 | 161.7 | – 38.0 |
| Other administrative expenses | – 248.1 | – 501.4 | 253.3 | – 50.5 |
| Provisions for credit risks | 0.7 | 9.4 | – 8.7 | – 92.6 |
| Result of securities and participations | – 19.4 | 48.1 | – 67.5 | > – 100.0 |
| Extraordinary result | – 697.6 | – 227.8 | – 469.8 | > – 100.0 |
| Profit/loss before taxes | – 828.5 | – 528.6 | – 299.9 | – 56.7 |
| Taxes on income and revenues | 2.6 | – 41.0 | 43.6 | > 100.0 |
| Profit/loss after taxes | – 825.9 | – 569.6 | – 256.3 | 45.0 |

| | Dec. 31, 2013 | Dec. 31, 2012 | Change absolute | % |
|---|---|---|---|---|
| Balance sheet figures in € billions | | | | |
| Total assets | 31.0 | 95.9 | – 64.9 | – 67.7 |
| Business volume | 32.1 | 98.2 | – 66.1 | – 67.3 |
| Credit volume | 9.2 | 13.0 | – 3.8 | – 29.2 |
| Equity capital | 2.2 | 3.0 | – 0.8 | – 26.7 |
| Bank regulatory capital ratios (SolvV) | | | | |
| Core capital in € billions | 2.2 | 3.0 | – 0.8 | – 26.7 |
| Own funds in € billions | 3.4 | 4.6 | – 1.2 | – 26.1 |
| Risk-weighted assets in € billions | 2.0 | 2.0 | – | 0.0 |
| Core capital ratio in % | 112.9 | 149.1 | – | – |
| Overall ratio in % | 171.0 | 227.8 | – | – |
| Employees | | | | |
| Number of employees | 2,103 | 2,711 | – 608 | – 22.4 |
| Full-time equivalent | 1,983 | 2,559 | – 576 | – 22.5 |

| Current ratings | Short term | Long term |
|---|---|---|
| Fitch Ratings | F1+ | A+ |

# Single-Entity Accounts 2013. Portigon AG, Düsseldorf


Key Figures

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# Portigon AG Statement of Financial Condition at December 31, 2013

## Performance at a Glance

The company's transformation, i.e. the downsizing of Portigon AG and implementation of the new business model in accordance with the conditions set by the European Commission, continued in the 2013 fiscal year.

Total assets came to € 31.0 billion as of December 31, 2013 (previous year: € 95.9 billion). Of that amount, € 16.7 billion (previous year: € 73.5 billion) is attributable to trust assets and € 7.3 billion (previous year: € 12.9 billion) to items guaranteed by EAA. The remaining amount primarily relates to the investment of capital and liquidity back-ups. The considerable reduction in total assets is predominantly due to the incremental transfer in rem to EAA of holdings only synthetically transferable in 2012 as well as to final maturities.

There is very little comparability between last year's figures and the previous year's, especially with respect to income (€ 380.1 million last year versus € 616.5 million the year before), since the previous year's figures still included earnings contributions from positions that were not transferred to Erste Abwicklungsanstalt (EAA) and the Verbundbank of Helaba until July 1, 2012. Administrative expenses decreased by nearly half, dropping by € 415.0 million to € 511.7 million. This was due to the scheduled headcount reductions as well as a general decrease in operating expenses, especially in the area of IT. In addition, there were substantial legal and consulting expenses in the previous year related to the transformation processes.

The extraordinary result came to € – 697.6 million (previous year: € – 227.8 million). Of this amount, the sum of € 579.3 million related to the settlement payment for pension obligations that were transferred to NRW.BANK for eligible employees of Portigon AG. In addition, the as yet unrecognised liability of € 106.5 million, calculated in accordance with Art. 67 (1) Sentence 1 of the Introductory Act to the German Commercial Code (EGHGB) and resulting from the remeasurement of pension obligations under the Accounting Law Modernization Act (BilMoG), was allocated in full to pension provisions.

Altogether, we are reporting a result before taxes of € – 828.5 million for 2013 (previous year: € – 528.6 million) and a net loss for the year of € 825.9 million (previous year: € 569.6 million). This amount is being partially offset by loss participation on the part of the holders of the silent contributions to capital (€ 695.2 million) and the holders of profit participation rights (€ 19.3 million) pursuant to the respective terms of issue. The remaining amount (€ 111.4 million), together with the loss carried forward from the previous year, is being reported as a retained loss (€ 183.3 million).

Taking into account the net loss for the year, Portigon's core capital ratio is 112.9%, whilst the overall ratio is 171.0%. Risk-weighted assets stood at € 2.0 billion.

## The Market for Portfolio Service Providers

The international banking and financial crisis, which began in 2007 in the US and precipitated the debt crisis in Europe, has altered the global financial system. Governments, central banks, regulatory authorities and the banks themselves were forced to take swift action to prevent a collapse of the financial industry with its negative consequences for the real economy. Numerous governments decided to monitor their countries' banks more closely than previously. Under the rubric of "Basel III", more rigorous risk management practices and tighter, internationally coordinated regulation were mandated, the requirements of which included higher capital thresholds and improved liquidity standards.

Numerous banks left the market, especially in the US, but also in Europe. Others were forced into mergers or placed under new – sometimes government – ownership. The regulatory authorities began to conduct stress tests on a regular basis to gauge just how resilient systemic banks actually are in crisis situations.

As part of these developments, banks have shifted their focus to profitable core business, cut costs and adjusted their business models. They are systematically ridding their balance sheets of both non-strategic assets and high-risk assets, thereby freeing up capital for core business. In addition, due to Basel III and regulatory pressure, they are shoring up their equity base to meet far more rigorous capital standards.

According to estimates by the International Monetary Fund, European banks alone hold approximately € 1.2 trillion in non-strategic assets. In addition, a study done in October 2013 by independent accounting firm PricewaterhouseCoopers indicates that there is another € 1.2 trillion in non-performing loans in Europe.

Notwithstanding the above, the financial industry is coming under pressure in other ways. The expense associated with expanding regulation is substantial. Income is shrinking because of this, also because of the reduction in risk-weighted assets. However, the biggest problem with respect to income is the persistently low level of interest rates. As a result of the financial and debt crisis, central banks have been forced to provide an unprecedented volume of liquidity in order to keep the economy moving. Margins have been contracting during this ongoing low interest rate phase and traditional business models are at risk. Hence, there is a growing will among companies, but even policymakers, in many countries to help banks lighten their balance sheets.

Against this backdrop, the prospects for portfolio service specialists are attractive, especially in the area of business process outsourcing (BPO). BPO will become increasingly relevant for the financial industry, because it offers an efficient way to reduce costs on a sustainable basis and thereby stabilise earnings, which have come under pressure from many quarters.

## Business Model of PFS

As an independent portfolio service provider, Portigon Financial Services GmbH (PFS), the service arm of Portigon AG, has outstanding expertise for managing and administering commercial portfolios – assets, liabilities, derivatives.

The focus is on three client groups:

- wind-down vehicles and banks with internal restructuring units that are tasked with divesting non-strategic portfolios and high-risk portfolios;
- institutional investors such as insurance companies, pension funds and investment funds looking for reliable, cost-effective solutions for managing new asset classes such as the asset class "credit product";
- commercial banks seeking greater flexibility and efficiency not just with portfolio reduction, but also with portfolios and processes that they will continue to use and develop in their ongoing operations.

PFS uses a highly efficient process and system platform that meets global standards. The service mix is very flexible. The scope of PFS's work varies by service area (Portfolio Solutions, Portfolio Services, Platform Services) and bank product (loans, securities, derivatives, liabilities). In addition to offering a comprehensive range of services for certain bank products, PFS can customize its services to meet specific customer needs. Thus, PFS is in an ideal position to support the structural change needed in the international financial industry.

# Structural Changes

The transformation process remained the dominant influence on Portigon AG in the 2013 fiscal year, with the focus on the establishment of the service company Portigon Financial Services (PFS) and the orderly dismantling of Portigon AG.

In order to be optimally equipped to meet these two central challenges, the Bank restructured its internal operations at the beginning of the year into five divisions: Customer Services, Portfolio Services, Platform Services, Corporate Center and Restructuring.

PFS GmbH i.Gr. (in Gründung) was formed on July 5, 2013. The process of filling positions internally began at the same time and was completed as of September 1, 2013 with the launch of the PFS unit within Portigon AG. This was followed by the first major relocation phase, with employees of the PFS unit in Düsseldorf moving from Friedrichstadt into the K-LAN building in Düsseldorf-Heerdt. At the end of 2013/beginning of 2014, the PFS unit employed approximately 410 people in Düsseldorf, London and New York.

In early December 2013, the Federal Financial Supervisory Authority (BaFin) gave PFS approval to begin business as a financial services institution at the beginning of 2014, following a corresponding entry in the commercial register.

The target clients of Portigon AG served by PFS since February 2014 include, in addition to Erste Abwicklungsanstalt (EAA), German and foreign banks, work-out entities, fund companies and insurance companies. Several new customers were acquired in 2013. Portigon achieved its first successes with external customers as early as the first half of last year. For example, it delivered a software solution for ratings determination to a national development bank and took over regulatory reporting duties for a work-out entity. In the second half of the year, Portigon signed several consulting deals with international banks to provide them with technical and professional support in the implementation and optimisation of their capital markets and lending business processes.

Portigon also met with several central banks and government institutions in Europe to discuss how it could help them develop and configure bad bank solutions for their respective countries.

PFS became an associate member of the Association of German Public Banks (VÖB) and joined the organisation's collective-bargaining division on November 14, 2013. In addition, it will join the Securities Trading Companies' Compensation Fund (EdW) upon entry in the commercial register.

The members of Portigon AG's Managing Board took on the initial management of PFS in parallel with their existing management duties, a dual structure that was approved by BaFin and enshrined in the Articles and Bylaws of Portigon AG with an effective date of July 9, 2013.

The goal is to establish PFS in the market as a successful service provider to financial services institutions. At the same time, Portigon AG is pressing ahead with the privatisation of PFS that was stipulated in the European Commission's decision of December 20, 2011. Portigon held its first talks with potential investors last year.

As part of the orderly dismantling of Portigon AG, existing resources have been adapted to future requirements on the basis of agreements with the staff council and Germany's "ver.di" united services union, in a manner that is sustainable, capital-sparing and socially responsible. In 2013, for example, Portigon AG reduced global headcount from 2,711 to 2,103 employees. The average number of employees for the year was 2,289, compared with 3,215 the year before. The scope of this downsizing was also reflected in the reduction in total assets. Within a year, total assets had dropped by € 64.9 billion to € 31.0 billion at December 31, 2013. The sale of Brazilian subsidiary Banco WestLB do Brasil S.A. to Mizuho Corporate Bank, Ltd. was completed in mid-2013. The contracts for this sale had already been signed in June 2012. The sale closed once the required regulatory approvals were issued.

On May 28, 2013, the Local Court of Düsseldorf appointed Dr. Peter Stemper as an employee representative to the Supervisory Board. He succeeds Sigrid Janetzko, who stepped down on May 22, 2013.

Due to the transformation process and associated headcount reductions, Portigon AG presently employs less than 2,000, but more than 500 people on a regular basis in Germany. The Managing Board resolved on July 19, 2013 to have the composition of the Supervisory Board changed pursuant to the statutory provisions governing its composition, namely § 96 (1) and § 101 (1) of the German Stock Corporation Act in conjunction with § 1 (1) (1) and § 4 (1) of the One-Third Participation Act of May 18, 2004. In the future, two-thirds of the Supervisory Board's members are to be elected by the shareholders' meeting and one-third by the employees. Eligible parties had one month to object to the notice, which was given on July 19, 2013. Because such an objection was lodged, a judicial review of the change was launched. Based on the parties' discussions on this matter, the Bank believes that an out-of-court settlement will be reached.

Part of the transformation process entails putting unneeded office space at the Düsseldorf site on the market. New tenants have been found for part of the space, amongst them the Ministry of the Interior and Municipal Affairs of North Rhine-Westphalia. In 2013, the Bank also began the process of putting the real estate it owns in Düsseldorf on the market. A status report is given in the section entitled "Events Occurring After the Close of the Fiscal Year".

In the course of the realignment of Portigon's balance sheet, NRW.BANK and Portigon signed an agreement on March 26, 2013 concerning the parties' final understanding on how to share the burden of pension expenses for current and former employees of Portigon AG entitled to pension benefits. When assets of Westdeutsche Landesbank Girozentrale (now Portigon) were split off and transferred to Landesbank Nordrhein-Westfalen (now NRW.BANK) back in 2002, the contracts of those employees entitled to a pension in line with civil service law were also transferred (Act on Redefining the Legal Status of Public-Law Banking Institutions in North Rhine-Westphalia of July 2, 2002). The terms of this transfer also provided that Portigon AG would compensate NRW.BANK for the pension expenses it assumed in connection with the transfer. From Portigon's point of view, this created a liability to NRW.BANK; the actual amounts to be paid were reimbursed on an ongoing basis. Pursuant to the terms of the notice of determination, NRW.BANK and Portigon AG have now decided that Portigon will make a one-time payment of € 1,347 million in final settlement of NRW.BANK's claims. This amount does not include future service cost. As of December 31, 2012, this obligation was reported under other liabilities in the amount of € 773 million.

# Employees

For employees, the 2013 fiscal year continued to be dominated by the transformation of the Portigon Group. Of particular significance were the formation of PFS and the further dismantling of Portigon AG. To facilitate continued implementation of the restructuring measures, the Managing Board held constructive talks with the staff council that built on the enterprise-level collective agreement entered into on November 3, 2011. Ultimately, the restructuring plans it had adopted were translated into a joint reconciliation of interests and redundancy scheme.

In connection with the formation and establishment of PFS, a PFS unit was set up within the Portigon Group in September 2013 in order to prepare for the scheduled transfer of operations in 2014.

Portigon AG employed 2,103 people as of December 31, 2013, 1,983 of whom worked on a full-time basis. At the end of 2012, the company had employed 2,711 people, with 2,559 working on a full-time basis.

## Compensation

In 2013, Portigon continued to align its compensation system with the regulatory requirements and introduced adjustments necessitated by the transformation and new business model. Of particular importance was the development of a new compensation system for Portigon Financial Services that is consistent with the market situation. The planned compensation system meets the standards of international regulators as well as the standards codified in both the Regulation Governing Remuneration at Institutions and the Financial Market Stabilisation Act, which are stricter than the overseas rules.

# Sustainability and Environmental Management

Sustainability is also an important part of Portigon AG's business processes. Outside representatives renewed the certification of the company's environmental management system to ISO 14001 standards at the end of 2013.

Portigon AG revised its environmental guidelines in 2013 and published fresh operational objectives in this area in its environmental report. The purchase of certified green electricity and reconfiguration of the internal ordering system to raise the recycled paper quota are additional examples of the significance Portigon AG attaches to the topic of sustainability.

Potential customers and investors for the servicing business confirm that they view adherence to high environmental standards as essential.

# Branches, Subsidiaries and Offices of Portigon AG

Portigon AG's head office is in Düsseldorf. Portigon conducts business in Europe through subsidiaries and branches in Istanbul, London, Madrid and Milan. Outside Europe, Portigon maintain branches in Hong Kong, New York, Shanghai, Singapore, Sydney and Tokyo. The sale of the subsidiary in São Paulo closed as of July 31, 2013.

With the transformation of Portigon AG pursuant to the EU's decision of December 20, 2011, Portigon AG's future activities will be concentrated in Düsseldorf, London and New York. The remaining branches in Istanbul, Madrid, Milan, Shanghai, Singapore, Sydney, Hong Kong and Tokyo are scheduled to be closed by December 31, 2016 at the latest. The notice of intent to close the branches in Istanbul and Shanghai has already been filed with the regulatory authorities.

# Accounting Methods and Reporting Standards

Portigon AG's single-entity financial statements are prepared in accordance with the provisions of the German Commercial Code (HGB), the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV) and the relevant provisions of the German Stock Corporation Act (AktG).

Due to the transfer of assets and liabilities to EAA and Helaba in 2012, there is limited comparability with the previous year's figures.

# Statement of Income

Portigon's performance in 2013 was still shaped by the company's transformation, i.e. the downsizing of Portigon AG and implementation of the new business model in accordance with the conditions set by the European Commission. By contrast, figures for the previous year still included earnings contributions from positions that were not transferred to Erste Abwicklungsanstalt (EAA) and the Verbundbank of Helaba until July 1, 2012. For more information, readers are referred to the detailed explanations in our annual financial statements and statement of financial condition for 2012. Against this backdrop, there is very little comparability with the previous year's figures.

Altogether, we are reporting a result before taxes of € – 828.5 million for 2013 (previous year: € – 528.6 million) and a net loss for the year of € 825.9 million (previous year: € 569.6 million). Because of this, silent contributions to capital and profit participation capital cannot be serviced and will participate in the loss pursuant to the terms on which they were issued.

The following presentation of the statement of income is consistent with Portigon's internal steering. Accordingly, when securities which are held in the investment portfolio are written down because of the default risk associated with their issuer, such write-downs are reported as part of the risk provisioning for acute counterparty credit risks.

### Portigon AG Statement of Income for the Period January 1 – December 31, 2013

| | **1. 1. – 31. 12. 2013 € millions** | 1. 1. – 31. 12. 2012 € millions | Changes € millions | % |
|---|---|---|---|---|
| Net interest income | 169.3 | 169.1 | 0.2 | 0.1 |
| Net commission income | 263.9 | 281.4 | – 17.5 | – 6.2 |
| Net expenses from trading operations | – | – 39.6 | 39.6 | – 100.0 |
| Other operating expenses/income | – 33.7 | 157.5 | – 191.2 | > – 100.0 |
| Personnel expenses | – 263.6 | – 425.3 | 161.7 | – 38.0 |
| Other administrative expenses | – 248.1 | – 501.4 | 253.3 | – 50.5 |
| Provisions for credit risks | 0.7 | 9.4 | – 8.7 | – 92.6 |
| Result of securities and participations | – 19.4 | 48.1 | – 67.5 | > – 100.0 |
| Extraordinary result | – 697.6 | – 227.8 | – 469.8 | > – 100.0 |
| Profit/loss before taxes | – 828.5 | – 528.6 | – 299.9 | – 56.7 |
| Taxes on income and revenues | 2.6 | – 41.0 | 43.6 | > 100.0 |
| Profit/loss after taxes | – 825.9 | – 569.6 | – 256.3 | 45.0 |
| Loss carried forward from the previous year | – 71.9 | – 98.0 | 26.1 | – |
| Capital reduction through spin-off | – | – 363.7 | 363.7 | – |
| Withdrawals from capital reserves | – | 6.3 | – 6.3 | – |
| Withdrawals from reserves from retained earnings | – | – | – | – |
| Withdrawals from profit participation capital | 19.3 | 30.7 | – 11.4 | – |
| Withdrawals from the silent contributions to capital | 695.2 | 460.7 | 234.5 | – |
| Income from the capital reduction | – | 468.0 | – 468.0 | – |
| Allocations to capital reserves | – | – 6.3 | 6.3 | – |
| Retained loss | – 183.3 | – 71.9 | – 111.4 | – |

### Net Interest Income

The net interest income of € 169.3 million (previous year: € 169.1 million) is largely attributable to the interest margin on positions that are guaranteed by EAA as well as earnings contributions from liquidity steering and the investment of equity capital. The absence of coupon payments on the profit participation capital reduced the interest expense by € 6.3 million.

### Net Commission Income

Income from portfolio services provided under the new business model came to € 339.6 million for the year (previous year: € 312.4 million). One of the major offsetting items was the € 76.1 million (previous year: € 110.1 million) in guarantee fees for synthetically transferred portfolios. In addition, the previous year included earnings contributions from the banking business, which was discontinued as of July 1, 2012. Altogether, net commission income of € 263.9 million (previous year: € 281.4 million) was generated.

### Net Income/Expenses from Trading Operations

With the discontinuation of trading activities and reclassification of trading positions in 2012 in the course of the transformation, the item net income/expenses from trading operations will no longer be reported. Prior to the change in business model, there had been net expenses from trading operations of € 39.6 million in the first half of the previous year.

### Other Operating Expenses/Income

The net figure for other operating income and expenses came to € – 33.7 million (previous year: € 157.5 million). It predominantly reflects € 75.5 million (previous year: € 134.1 million) in interest cost on provisions, which was partially offset by income from the positive outcome of a tax court proceeding and the resulting reversal of a € 35.3 million liability. The other operating income reported for the previous year included a reimbursement for migration-related losses captured in net interest income from the close-out of hedging derivatives.

### General Administrative Expenses

As expected, general administrative expenses decreased by € 415.0 million, or 44.8%, to € 511.7 million last year.

Personnel expenses decreased by € 161.7 million to € 263.6 million, largely because of the considerable reduction in headcount from an average of 3,215 employees for 2012 to an average of 2,289 employees for 2013 as well as lower pension expenses. Other administrative expenses were half their prior year's level, dropping by € 253.3 million to € 248.1 million. In addition to the general reduction in costs, it is important to note when comparing the two periods that significant legal and consulting expenses were incurred in the previous year in connection with the transformation (€ 133.1 million). The comparable expenses this past year were € 25.1 million.

### Provisions for Credit Risks

The allocations to and reversals from the provisions for credit risks nearly cancelled each other out (previous year: net reversal of € 9.4 million). As a result of the transfer of positions to EAA and Helaba, Portigon is no longer exposed to any appreciable credit risks from its former lending operations.

### Result of Securities and Participations (including Write-Downs of Securities of the Liquidity Reserve)

There were net expenses of € 19.4 million (previous year: net income of € 48.1 million) from securities and participations, which can be broken down as follows:

| | 1. 1. – 31. 12. 2013 € millions | 1. 1. – 31. 12. 2012 € millions | Changes € millions | % |
|---|---|---|---|---|
| Result of securities | 3.6 | 56.9 | – 53.3 | – 93.7 |
| Result of participations | – 23.0 | – 8.8 | – 14.2 | – 161.4 |
| Result of securities and participations | – 19.4 | 48.1 | – 67.5 | > 100.0 |

Last year's negative result of participations of € – 23.0 million (previous year: € – 8.8 million) is primarily attributable to write-downs of € 36.1 million in connection with the sale of our real estate in Düsseldorf (see Events Occurring After the Close of the Fiscal Year). These write-downs needed to be recorded in the 2013 financial statements pursuant to § 252 (1) Nos. 3 and 4 of the German Commercial Code (HGB), whilst the offsetting income is first collectible in a subsequent period. In addition, there was a book gain of € 13.2 million from the sale of our subsidiary WestLB Banco do Brasil.

### Extraordinary Result

The extraordinary result came to € – 697.6 million (previous year: € – 227.8 million). Of this amount, the sum of € 579.3 million related to the settlement payment for pension obligations that were transferred to NRW.BANK for eligible employees of Portigon AG (see Structural Changes). In addition, the as yet unrecognised liability of € 106.5 million, calculated in accordance with Art. 67 (1) Sentence 1 of the Introductory Act to the German Commercial Code (EGHGB) and resulting from the remeasurement of pension obligations under the Accounting Law Modernization Act (BilMoG), was allocated in full to pension provisions.

### Taxes on Income and Revenues

The tax result was nearly zero at € 2.6 million (previous year: € 41.0 million).

### Net Loss for the Year

Portigon AG is reporting a net loss of € 825.9 million (previous year: € 569.6 million) for the 2013 fiscal year. There will be no coupon payments on the profit participation certificates for 2013 and no reinstatement of the expected repayment amounts for profit participation certificates and silent contributions to capital. Accordingly, the silent contributions to capital will not be serviced.

## Balance Sheet and Business Volume

Compared to the previous year, Portigon AG's balance sheet at December 31, 2013 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 a considerable volume of banking transactions is still being reported on Portigon's balance sheet. However, the credit and market risks associated with these assets and liabilities have been transferred to EAA.

Portigon had total assets and total equity and liabilities of € 31.0 billion at December 31, 2013, € 16.7 billion of which was reported in the items trust assets and trust liabilities. This includes, in particular, derivative financial instruments with positive market values of € 7.8 billion and derivative financial instruments with negative market values of € 7.5 billion. These derivatives were transferred to EAA under the risk transfer agreement and are offset by matching claims and obligations. There is also the corresponding cash collateral.

In addition, Portigon has claims on banks in the amount of € 1.6 billion (previous year: € 1.4 billion), claims on customers in the amount of € 6.5 billion (previous year: € 9.3 billion), securities in the amount of € 3.1 billion (previous year: € 4.1 billion) and cash in the amount of € 2.0 billion (previous year: € 6.1 billion). EAA has guaranteed € 7.3 billion (previous year: € 12.9 billion) of these assets, most notably € 5.8 billion in claims on customers (previous year € 7.3 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 the balance sheet items, totalled € 32.1 billion (previous year: € 98.2 billion).

## Assets

| | Dec. 31, 2013 € billions | Dec. 31, 2012 € billions | Changes € billions | % |
|---|---|---|---|---|
| Cash/liquid debt issues | 2.0 | 6.1 | – 4.1 | – 67.2 |
| Claims on banks | 1.6 | 1.4 | 0.2 | 14.3 |
| Claims on customers | 6.5 | 9.3 | – 2.8 | – 30.1 |
| Securities not held for trading | 3.1 | 4.1 | – 1.0 | – 24.4 |
| Equity investments in affiliated and non-affiliated companies | 0.4 | 0.6 | – 0.2 | – 33.3 |
| Trust assets | 16.7 | 73.5 | – 56.8 | – 77.3 |
| Fixed assets/intangible assets | 0.0 | 0.1 | – 0.1 | – 100.0 |
| Other assets | 0.7 | 0.8 | – 0.1 | – 12.5 |
| Total assets | 31.0 | 95.9 | – 64.9 | – 67.7 |

## Liabilities

| | Dec. 31, 2013 € billions | Dec. 31, 2012 € billions | Changes € billions | % |
|---|---|---|---|---|
| Liabilities to banks | 0.4 | 0.4 | 0.0 | 0.0 |
| Liabilities to customers | 7.0 | 12.8 | – 5.8 | – 45.3 |
| Certificated liabilities | 0.0 | 0.0 | 0.0 | 0.0 |
| Trust liabilities | 16.7 | 73.5 | – 56.8 | – 77.3 |
| Other liabilities | 2.4 | 3.8 | – 1.4 | – 36.8 |
| Subordinated liabilities/Profit participation capital | 2.3 | 2.4 | – 0.1 | – 4.2 |
| Equity capital | 2.2 | 3.0 | – 0.8 | – 26.7 |
| Total liabilities | 31.0 | 95.9 | – 64.9 | – 67.7 |
| Contingent liabilities | 0.3 | 0.8 | – 0.5 | – 62.5 |
| Other commitments/Credit commitments | 0.8 | 1.5 | – 0.7 | – 46.7 |
| Business volume | 32.1 | 98.2 | – 66.1 | – 67.3 |

## Credit Volume

The credit volume on the balance sheet was € 9.2 billion at December 31, 2013 (previous year: € 13.0 billion).

Whilst claims on banks rose by a slight € 0.2 billion to € 1.6 billion, claims on customers decreased by a substantial € 2.8 billion to € 6.5 billion, in particular. Of the claims on customers, the sum of € 5.8 billion (previous year: € 7.3 billion) is guaranteed by EAA.

### Credit Volume

| | Dec. 31, 2013 € billions | Dec. 31, 2012 € billions | Changes € billions | % |
|---|---|---|---|---|
| Claims on banks | 1.6 | 1.4 | 0.2 | 14.3 |
| Claims on customers | 6.5 | 9.3 | – 2.8 | – 30.1 |
| Contingent liabilities | 0.3 | 0.8 | – 0.5 | – 62.5 |
| Other commitments/Credit commitments | 0.8 | 1.5 | – 0.7 | – 46.7 |
| Credit volume carried on the balance sheet | 9.2 | 13.0 | – 3.8 | – 29.2 |

## Securities Holdings

Portigon's securities portfolio totalled € 3.1 billion (previous year: € 4.1 billion) at December 31, 2013. Most of the items in this portfolio are bonds and other interest-bearing securities from public-sector issuers.

The volume of EAA-issued notes came to € 2.5 billion at December 31, 2013 (previous year: € 3.0 billion). Notes of € 0.5 billion (previous year: € 0.9 billion) are guaranteed by EAA.

## Equity Investments in Affiliated and Non-Affiliated Companies

The carrying value of the equity investments in affiliated and non-affiliated companies came to € 0.4 billion (previous year: € 0.6 billion). The decrease is largely attributable to completion of the sale of Banco WestLB do Brasil S.A.

A total of € 0.3 billion of the € 0.4 billion is attributable to the companies Portigon Financial Services GmbH i.Gr., GOD Grundstücksverwaltungsgesellschaft & Co. KG (GOD) and GOH Grundstücksverwaltungsgesellschaft & Co. KG (GOH). The two companies GOH and GOD manage Portigon's real estate holdings.

## Customer and Bank Deposits

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

Liabilities to banks and customers totalled € 7.4 billion (previous year: € 13.2 billion) at December 31, 2013 and consisted predominantly of time deposits. There was € 3.1 billion in deposits from EAA (previous year: € 7.4 billion).

### Issuing Business

With nearly all of the certificated liabilities having been transferred to Helaba and EAA, Portigon discontinued its issuing business as of June 30, 2012.

### Own Funds

Portigon AG is required to calculate its ratios according to the Basel Capital Accord (Basel II) and the corresponding EU directives, which were implemented by the German Solvency Regulation (SolvV). Under § 10 of the German Banking Act (KWG) and § 2 SolvV, Portigon AG must have adequate capital and reserves to support its operations.

Specifically, own funds must not fall below 8% of the sum of the weighted credit risks, the operational risks and 12.5 times the relevant amount for the market risk positions. Portigon AG exceeded the required capital backing at all times in 2013.

The capital and reserves recognised under SolvV consist of core and supplementary capital and Tier III capital. The breakdown of eligible capital and reserves for Portigon AG at December 31, 2013 was as follows:

| | **Portigon AG Dec. 31, 2013 € millions SolvV after result for the year** | Portigon AG Dec. 31, 2012 € millions SolvV after result for the year |
|---|---|---|
| Core capital | 2,214.1 | 3,002.7 |
| Paid-in capital | 498.6 | 498.6 |
| Capital reserves | 0.0 | 0.0 |
| Other reserves | – 183.2 | – 71.9 |
| Capital contributions of silent partners | 1,912.5 | 2,607.7 |
| Fund for general bank risks pursuant to § 340g HGB | 0.0 | 0.0 |
| Intangible assets | – 13.2 | – 30.8 |
| Deductions | – 0.6 | – 0.9 |
| Supplementary capital | 1,123.3 | 1,578.4 |
| Modified available capital | 3,337.4 | 4,581.1 |
| Tier III capital | 486.2 | 617.0 |
| Unused Tier III capital | – 471.9 | – 610.6 |
| Own funds under SolvV | 3,351.7 | 4,587.5 |

The volume of Portigon AG's own funds receded in 2013 chiefly because of the distribution of the loss for 2013 among the capital components absorbing the loss, as well as the ineligibility of some subordinated liabilities for continued inclusion in the regulatory capital.

The profit participation rights and subordinated liabilities of Portigon AG included in the capital and reserves calculated for regulatory purposes satisfy the eligibility requirements under § 10 (5) and (5a) of the German Banking Act (KWG). 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.

The volume of profit participation rights included in the supplementary capital was € 16.5 million, whilst the volume of subordinated liabilities included was € 1,593.5 million. Interest was paid on the subordinated liabilities in accordance with the terms on which they were issued.

The following ratios were determined at December 31, 2013 on the basis of the eligible capital and reserves pursuant to SolvV guidelines and taking into account the bottom line for the year:

### Risk-Weighted Assets and Equity Capital Ratios Pursuant to SolvV

| | **Portigon AG Dec. 31, 2013 € millions SolvV after result for the year** | Portigon AG Dec. 31, 2012 € millions SolvV after result for the year |
|---|---:|---:|
| Counterparty credit risks | 717 | 906 |
| Operational risks | 995 | 995 |
| 12.5 x the relevant amount for market risk positions | 249 | 113 |
| Total | 1,961 | 2,014 |
| Core capital ratio | 112.9 | 149.1 |
| Overall ratio | 171.0 | 227.8 |

Pursuant to SolvV provisions, the risk-weighted assets totalled € 1,961 million at December 31, 2013.

The reduction in credit risks is essentially the result of the transfer of portfolios to EAA as part of the further transformation. The switch from use of the internal model to use of the standardised approach for market price risks and from the advanced IRB (internal ratings-based) approach to the credit risk standardised approach (CRSA) for credit risks had an offsetting effect.

Operational risks were unchanged in 2013.

Taking into account the result for the year, the regulatory core capital ratio was 112.9% and the overall ratio was 171.0% as of the end of 2013. Thus, Portigon AG Group met its minimum capital requirements in full.

## Steering Concept of Portigon AG

Because of the great importance attached to the expected development of Portigon AG's equity capital, Portigon is steered on the basis of its HGB accounts.

The starting point for profit steering is the planning process. Comparisons of budgeted figures to actual figures are used to identify variances and introduce countermeasures.

In the annual planning with a planning horizon of several years, both the expected equity development and statement of income for the various periods are planned. For the first two years covered by the plan, expected results are planned on a quarterly basis.

The internal reporting consists of the following reports:

| Report | Content | Recipients | Frequency |
|---|---|---|---|
| MIS Report | Financial information of Portigon and the business units based on posted numbers; capacity developments | Managing Board, Supervisory Board, FMSA | Quarterly (first as of June 30, 2013) |
| Flash Report | (Preliminary) P&L results and full-time equivalents at BU level; aggregation Portigon AG | Managing Board, Supervisory Board, FMSA | Monthly |
| Cost Report | Details on administrative expenses, based on flash results | Managing Board | Monthly |
| BU Report | Oriented towards content of cost report | Business unit heads | Monthly |

# 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

The transformation of Portigon into a portfolio servicer also changed the nature, scale and complexity of the risk content of its business activities. Portigon's risk profile continued to improve substantially in 2013.

During the course of the risk audit and revision of the risk strategy, it was determined that Portigon's material risks for purposes of the Minimum Requirements for Risk Management (MaRisk) are operational risk and business risk. All other types of risk are considered immaterial.

With respect to risk, fiscal year 2013 was characterised by a sharper focus on the material risks. Measurement of the institution's own market price and counterparty credit risks continued to decrease in importance, whilst, as expected, operational and business risks played a greater role as the transformation into a financial services provider continued.

Portigon has adjusted and expanded its personnel risk indicators given the considerable importance the steering of personnel risks and the related operational risks has had during the company's transformation process. Portigon's risk-bearing capacity concept, which reflects the business model and the MaRisk requirements, was developed further in the reporting year, with additional refinement of the processes for estimating business risks, in particular.

Portigon ceased to use the Advanced Internal Rating Based Approach (AIRBA) with regulatory approval as of December 1, 2013. Counterparty credit risks are now reported on the basis of the Credit Risk Standardised Approach (CRSA). The approval to use the internal model for determining market risk in the trading book was already revoked by BaFin. This happened once Portigon officially declared its status as a non-trading-book institution with effect from September 1, 2012.

The figures presented in this risk report generally refer to the Group as a whole. Any figures referring explicitly to the parent company are clearly identified as such.

## Risk Management System

### Organisation of Risk Management

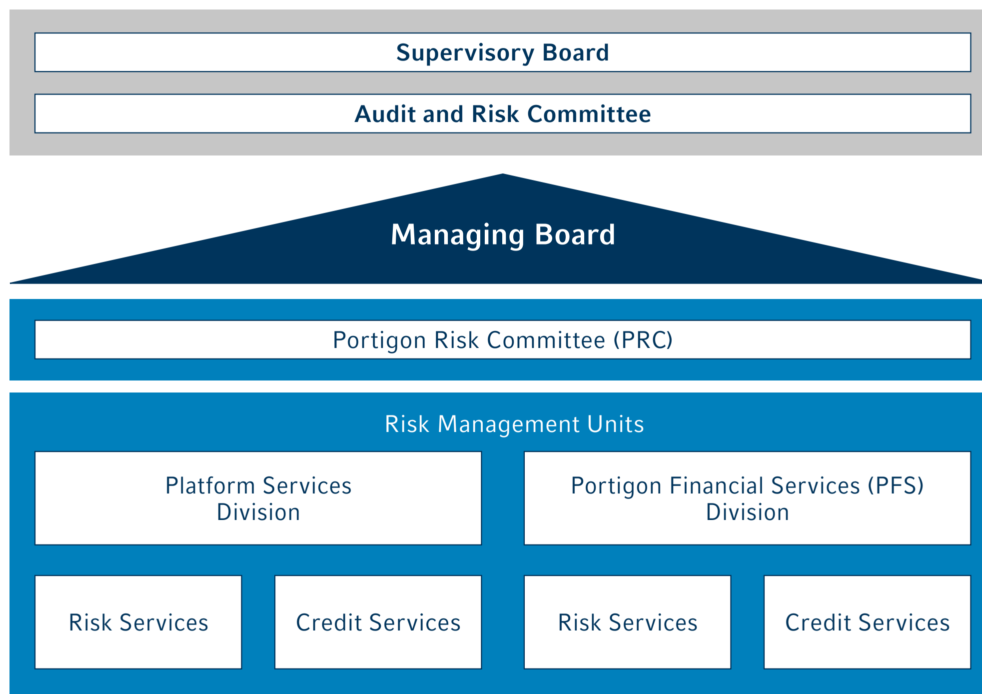
The goal of Portigon's risk management system is to ensure that the risk profile is aligned with the institution's risk-bearing capacity and that all relevant risks are presented transparently and actively steered with foresight. With the change in business model, Portigon no longer has the conventional risk appetite of commercial and investment banks. Instead, it seeks to largely minimise the risks which are an inherent part of its business or largely unavoidable. The core processes of risk management are determining, monitoring, analysing, steering and reporting on the Group's risks on an autonomous basis. The risk management processes ensure that the institution has sufficient risk-bearing capacity through the use of an "Internal Capital Adequacy Assessment Process" (ICAAP), as required by Basel II/Pillar 2. The risk-bearing capacity concept was adapted to Portigon's business model.

In compliance with MaRisk, risk management is performed independently of the front office units.

The 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's operations. What risk types should be monitored and steered on a purely quantitative basis and which ones require a qualitative assessment using specific risk management processes is a matter that is decided in the course of defining the material risks. 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 the risk strategy as well as the principles of risk policy and risk steering in communication with the audit and risk committee appointed by the Supervisory Board. The Portigon Risk Committee (PRC), which is in charge of company-wide risk communication and the efficient management of all risk types, supports the Managing Board and Supervisory Board in their efforts to determine the risk-bearing capacity and the general business and risk specifications.

Once Portigon's new starting line-up went into effect on January 1, 2013, with the divisions Customer Services, Portfolio Services and Platform Services, as well as the Corporate Center and Restructuring units, and the new Portigon Financial Services (PFS) division was established on September 1, 2013, the committees and risk units responsible for risk management are as follows:




The PRC is responsible for integrating risk management into operations pursuant to the business and risk strategies determined by the Managing Board. The Chief Risk Officer (CRO) chairs the PRC. The Customer Services unit no longer has a vote in the PRC since it was transferred to the PFS division. However, a representative attends meetings whenever the need arises.

The pooling of all risk issues within the PRC ensures that a comprehensive perspective on the subject of risk is taken. The responsibilities of the PRC essentially include:

- Proposing resolutions on the business and risk strategies to the Managing Board
- Making decisions about Portigon's risk steering framework and its portfolio services (key rules, methods and risk processes)
- Handling and discussing capital and risk reporting
- Managing balance sheet, liquidity and capital resources, including responsibility for ICAAP
- Steering the risk positions (e.g. operational risk, business risk, low-risk investment of equity; other risk positions that were economically transferred, but which may require formal approval under certain authorisation schemes)

Regular, unbiased reporting on the capital and risk situation ensures close interaction between the Managing Board, PRC, risk management as well as the customer and portfolio servicing units.

The responsibilities of the risk management units in the Platform Services division essentially include:

- Risk Services: Controlling of all pertinent risks and overall risk steering based on the risk-bearing capacity, internal and regulatory reporting, further development and validation of the internal rating systems, measurement and steering of operational risks, management of reputational risks, monitoring of market price and liquidity risks as well as monitoring of the counterparty risks of trading products

- Credit Services: Independent monitoring of counterparty credit risks, especially credit, issuer and counterparty risks, including rating and approving commitments and complete loan administration

**Risk Reporting**

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 PRC, Managing Board and Audit and Risk Committee receive targeted, unbiased reports about all developments which are significant from the perspective of capital and risks.

The “Risk Situation Report”, which is circulated to the PRC each month, provides timely and comprehensive information about Portigon’s capital and risk situation in a condensed format. The quarterly report, which meets MaRisk requirements, is submitted to the Managing Board and Audit and Risk Committee in addition. Its main focus is on operational risks, credit, market price and liquidity risks, as well as capital and the risk-bearing capacity.

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

## Operational Risks

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

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

The material operational risk associated with Portigon’s business model is a failure to meet customers’ service needs or inability to meet them on time or to the extent required because of problems like faulty processes or system outages. This can result in lost revenue (if service fees are reduced) or produce follow-on legal risks.

### Managing Operational Risks

The central Operational Risk Management (ORM) unit, which is part of the Risk Services business unit, is in charge of defining the OpRisk management framework as well as related instruments and guidelines. In the process, ORM ensures that operational risk steering activities are consistent throughout the Group, records the operational risks, provides its expert opinion on them and advises the Group's business units. This ensures that the analysis, measurement, steering and monitoring of operational risks meet uniform standards of quality.

The primary responsibility for managing operational risk rests with the business and function units themselves. The unit heads are supported in their efforts by decentralised Operational Risk Managers, who function as contact points for all of the respective units' employees on matters relating to the steering of operational risks. The decentralised Operational Risk Managers are in close contact with the central ORM unit.

Employee awareness of operational risks is raised through our Group-wide web-based learning programme. In addition, regional OpRisk Forums provide a platform for the systematic exchange of information about current OpRisk incidents involving Portigon and similar service providers.

ORM cooperates closely with the specialist units at regular workshops, for example on contingency planning, auditing, legal and compliance, insurance, IT and non-IT security issues.

The instruments used for OpRisk management include:

- internal data pooling
- self assessment of the risks in Portigon's processes and applications
- risk indicators
- scenario analyses
- monitoring of the measures introduced by the individual business units to reduce operational risks

Portigon continues to use score cards as an incentive system. The quality of our decentralised operational risk management is periodically measured in various categories and against various criteria.

The ORM unit centrally coordinates the risk analyses on material outsourcings and critical applications (IT systems) required under MaRisk.

Portigon uses the standardised approach pursuant to § 273 of the German Solvency Regulation (SolvV) to determine the regulatory capital charge for its operational risks. The regulatory operational risk capital charge was € 79.6 million at December 31, 2013. This charge includes a security premium for potential operational risks which could still arise in conjunction with the transformation process. Furthermore, the qualitative management of operational risks at Portigon is aligned with the requirements of the Advanced Measurement Approach (AMA).

The OpRisk expected loss determined by ORM represents a further internal steering parameter. The expected loss for 2013 amounted to € 11.6 million. The actual loss for the year was within the limits calculated for the OpRisk expected loss. The computation of the economic capital charge as well as stress testing for operational risks, which stood at € 26.7 million and € 52.2 million respectively as per December 31, 2013, are based on this expected loss, taking into account an appropriate scaling factor.

Where possible and prudent, insurance policies are taken out to cover the losses that could arise from operational risks. At Group level, Portigon has a global insurance programme in place which has been pooled together into one central insurance portfolio. The insurance the company carries was adapted in line with the business model to ensure coverage, where appropriate and necessary, for the liability risks associated with acting as a service provider to customers.

The steering of personnel risks and the related operational risks has been very important to Portigon during its transformation process. Within PFS, this includes managing the integration risks related to acquiring and providing services to new clients. Potential risks from the formation of PFS as they relate to transfer activities and agreements on the continued provision of portfolio services are discussed as part of regular risk reporting at Portigon AG.

Follow-up work on the EAA and Verbundbank migration projects largely proceeded smoothly. For the remainder of the transformation process, which is currently focused on the operational split-off of PFS, there will continue to be ongoing analysis and measurement of operational risks, so that measures to minimise losses can be introduced in a timely fashion.

## Legal Risks

The identification and steering of Portigon's legal risks, which are considered a subset of operational risks, is primarily the responsibility of the Legal and Compliance unit, which works closely with all other units. 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.

The suit and countersuit over the early termination by Portigon of a service contract with a service provider from the IT field ended in a settlement in May 2013.

Portigon has been named in lawsuits brought by a number of different plaintiffs before various U.S. courts for alleged breaches of duty in quoting USD-LIBOR interest rates. As of the close of the reporting period, a total of 33 such suits were pending (and the complaints for another 14 had not been formally served).

As of December 31, 2013, Portigon was a defendant in 50 lawsuits brought by 39 municipalities/municipal associations in connection with derivatives business. As of December 31, 2013, Portigon had set aside a reasonable sum of money to cover the litigation expenses of the suits with a determinable risk.

Apart from these civil actions, there have been a number of investigations launched by various German and foreign regulatory authorities (including the CFTC, DoJ, FCA, European Commission and BaFin) into the operations of Portigon AG and other banks in connection with Libor quotes. None of these investigations has been completed to date. Here, too, Portigon remains convinced that neither it nor its employees can be accused of illegally manipulating the interest rate quotes. Hence, it does not expect any penalties or fines. Sufficient provisions have likewise been formed to cover the costs of these proceedings.

With the exception of the exposure to certain legal expenses, the economic risk associated with the pending lawsuits and potential lawsuits concerning alleged breaches of duty in respect of USD-LIBOR interest rates, as well as those relating to derivatives transactions, has been transferred to EAA.

### Reputational Risks

A reputational risk is the risk that Portigon's customers, owners, employees or the interested public will develop a negative perception of its performance, competence, integrity or trustworthiness.

MaRisk does not define reputational risks as operational risks. However, in the case of Portigon, they may very well arise as follow-on risks of operational risks.

Portigon is treating reputational risk as an immaterial risk pursuant to MaRisk.

**Internal Control and Risk Management System in Relation to the Accounting Process**

The goals of an internal control and risk management system (ICS/RMS) as it relates to the accounting process are to ensure compliance with existing accounting standards and regulations and to guarantee the accuracy and reliability of accounting data.

With respect to the accounting process, Portigon has implemented an ICS/RMS which is appropriate to its operations.

The essential policies and procedures of this ICS/RMS

- give reasonable assurance that transactions are fully, promptly and accurately captured and entered into the system as they accrue, in accordance with statutory and other provisions, and thereby ensure that the financial reporting provides a fair and accurate view of the company to the public (integrity and reliability of the accounting system);

- ensure that decision makers and the relevant bodies are regularly and promptly given the accounting information they need in order to steer the company (internal reporting);

- give reasonable assurance that any unauthorised purchase and any unauthorised use or sale of assets which could have a material effect on the accounting is prohibited or detected at an early stage;

- create the basis for an appropriate control and documentation environment (e.g. separation of functions, adherence to predetermined approval and competency levels, adherence to the dual control principle when recording transactions, dispatch of transaction and balance confirmations, orderly recordkeeping);

- ensure that the files and records with information pertaining to accounting entries, in reasonable detail, accurately and fairly provide information about transactions and the usage of assets and that these files and records are properly archived and protected.

The effectiveness of the ICS/RMS in place for the accounting process is monitored on an ongoing basis. The internal audit department routinely audits the existing technical and functional controls, which are also the subject of regular audits by the external auditors.

In addition, the accounting processes are integrated into Portigon's general risk management process for operational risks, so that mistakes and misstatements can be avoided to the greatest extent possible or identified at an early stage.

The accounting policies are documented in electronic manuals and made available to all business units worldwide. Annual, quarterly and monthly financial statements are prepared according to a preset schedule, adherence to which is supported and monitored within the system.

New statutory and regulatory requirements are implemented on a timely basis, including in the context of stand-alone projects and sometimes as written directives, depending on their respective scope and significance to Portigon. The relevant business units and management levels, as dictated by the topics, are involved pursuant to the internal project guidelines.

By having accounting staff involved in the PRC, Portigon ensures that developments impacting its strategy or risk exposure are promptly captured in the accounting and financial reporting.

Transactions involving new products and/or significant special purpose entities (SPE) still undergo the New Product Approval (NPA) and/or SPE Process if deemed necessary, both of which involve the accounting department.

Section 107 (3) Sentence 2 of the German Stock Corporation Act (AktG) clarifies that the tasks which a supervisory board can delegate to its audit and risk committee include monitoring the accounting process, monitoring the effectiveness of the internal control system, risk management system and internal audit system, as well as monitoring the auditing of the financial statements, including, in particular, the impartiality of the auditor, the award of the audit contract and the reasonableness of the auditor's fee.

### Business Risks

Business risk refers to the unexpected failure to meet revenue and cost targets. Portigon treats business risk as a material risk pursuant to MaRisk.

The concept for determining business risk has evolved since preparation of the annual financial statements for 2012. Now, detailed forecasting of cost and revenue risks is done on a quarterly basis with the help of expert estimates and empirical data, thereby ensuring the timely consideration of current business developments. In particular, planned revenue and cost components (e.g. income from the provision of portfolio services to EAA and restructuring costs) are analysed individually, and forecasts of the amount and likelihood of variances over the next twelve months are prepared. The identification of business risk is closely interlinked with budget planning and ongoing controlling.

Several composite scenarios are pieced together from the estimated variances for the individual components, taking into account the different probabilities of their occurring. There is a base scenario for probable variances, a conservative scenario for medium and low probabilities of occurrence and a stress scenario for highly unlikely variances.

At the end of 2013, the volume of business risk came to € 1 million in the base scenario, € 3 million in the conservative scenario and € 51 million in the stress scenario. The dominant factor was revenue risk. Compared to year-end 2012, the volume of business risk had retreated by € 85 million in the base scenario, € 137 million in the conservative scenario and € 130 million in the stress scenario. Additional experience gained in the provision of portfolio services and more conservative assumptions regarding supplemental income from business with outside parties contributed to this decrease.

Along with operational risk, business risk is Portigon's most significant risk. However, even under the assumptions made in the stress scenario, it does not jeopardise Portigon's risk-bearing capacity (twelve-month risk horizon).

## Counterparty Credit Risks

Counterparty credit risk is defined as the risk of loss associated with the omission or decrease in value of a contractual payment obligation stemming from a counterparty's default or a deterioration in its credit quality. It includes conventional counterparty default risk from the lending business, issuer risk from securities, counterparty risk from OTC derivatives and transfer risks (simultaneous default of all foreign currency liabilities).

For Portigon, counterparty credit risk is considered an immaterial risk pursuant to MaRisk.

In accordance with the decision taken by the European Commission on December 20, 2011, Portigon may hold a limited volume of risk-weighted assets (RWA) only for a limited period of time. The investment of own funds and excess liquidity follows strict investment guidelines, and there is no significant credit risk. The credit risk associated with assets which were transferred to EAA solely by synthetic means corresponds to the credit risk of the guarantor EAA.[1] Because this risk has a low probability of occurrence, it is insignificant from an economic standpoint.

### Managing Counterparty Credit Risks

Counterparty credit risk is determined using company developed, continually validated internal rating procedures that estimate the probability of default, recovery rates and draw rates associated with unused external credit lines. Portigon ceased to use the Advanced Internal Rating Based Approach (AIRBA) with regulatory approval as of December 1, 2013. Counterparty credit risks are now reported on the basis of the Credit Risk Standardised Approach (CRSA).

The review, evaluation, monitoring, steering and decision-making in respect of counterparty credit risks are based on documented, uniform standards and processes. The core elements are:

- Loan approval for Portigon's counterparty credit risks. The main counterparty credit risk stems from the investment of excess liquidity and own funds, which must follow concrete investment guidelines. Each individual loan decision is subject to approval by the responsible level. The approval is based on nuanced analysis and independent risk assessment. The information pertinent to a lending decision is presented in a loan application.

[1] EAA's rating is largely derived from the contractual duty to offset losses incumbent on its guarantors (State of North Rhine-Westphalia as well as savings banks associations and regional associations in North Rhine-Westphalia).

- Ratings, which are an integral component of loan applications and all subsequent loan-related processes. At first, Portigon will continue to use the existing rating methods.

- The Portigon watchlist, which provides for central monitoring of problem loans. The only problem loans remaining on the watchlist are those which were transferred to EAA by guarantee. The risk on these loans is covered either by an existing allowance or EAA's guarantee.

- Continual monitoring: Credit risks are monitored on an ongoing basis at the individual commitment level.

Loans which were transferred to EAA by way of a guarantee (the loans remain on Portigon's balance sheet, but are risk-free for Portigon because of guarantees issued by EAA) are officially part of Portigon's lending process, in addition to being subject to the separate lending process of EAA.

### Counterparty Credit Risk Volumes

With Portigon's functioning as a portfolio service provider, the internal steering parameter "exposure at default" was changed in the first quarter of 2013 to "lines and utilisations" for risk reporting purposes.

The credit risk volume again fell sharply compared to the previous year. Total lines and utilisations were both down by 39%, decreasing to € 15.5 billion (December 31, 2012: € 25.6 billion) in the case of total lines and to € 15.2 billion (December 31, 2012: € 25.1 billion) in the case of utilisations. Of the € 15.2 billion in utilisations as of December 31, 2013, the sum of € 12.5 billion (December 31, 2012: € 16.3 billion) was attributable to direct and guaranteed exposure with EAA. The remaining exposure of € 2.7 billion (December 31, 2012: € 8.7 billion) relates predominantly to central bank credit balances and equity investments.

There were individual value adjustments and credit provisions of € 150.9 million in the reporting year (previous year: € 179.1 million), the predominant portion of which were formed prior to the assumption of risks by EAA and relate to positions guaranteed by EAA. The allocations to and reversals from the provisions for credit risks nearly cancelled each other out (previous year: net reversal of € 9.4 million). As a result of the transfer of positions to EAA and Helaba, Portigon is no longer exposed to any appreciable credit risks from its former lending operations.

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

## Market Price Risks

Market price risks are the result of uncertainty about price changes and volatility in the financial markets as well as correlations which exist between different markets and products.

There has been a substantial reduction in Portigon's market price risk profile due to the transformation. Market price risk is being treated as an immaterial risk pursuant to MaRisk.

Portigon's market price risks relate almost exclusively to the investment of equity and excess liquidity as well as to funding and hedging activities for the EAA-guaranteed portfolios remaining on Portigon's balance sheet. Thus, interest rate risks make up the predominant portion of Portigon's market price risks. To a smaller degree, there are credit spread risks and exchange rate risks.

The largest risk concentration attributable to the transformation relates to the risk of changes in credit spreads on the EAA bonds purchased by Portigon using equity as well as on the junior bonds it has issued. There are no other major risk concentrations.

**Managing Market Price Risks**

Portigon uses a VaR model with parameter calibration based on the current day to perform daily calculations of the interest rate, equity price and foreign exchange risks (including commodity price risks) in its banking book, as well as the volatility risks associated with each market. For internal steering, the Bank determines its VaR for a confidence interval of 99% and a holding period of one day.

The risk buffer that is part of the risk-bearing capacity concept and determined on the basis of the risk strategy is used to cover immaterial risks. Thus, it also includes the market price risks determined using VaR modelling and serves as the basis for managing and reporting on market price risks.

The VaR decreased in 2013 from € 4.2 million to € 1.1 million. This reduction was largely attributable to the general improvement in the risk profile, as well as to the fact that subordinated equity capital instruments are no longer a required component of credit spread risk calculations.

Apart from VaR, stress tests are used to quantify interest rate risk by determining the change in present value of relevant positions. The interest rate shock scenarios which BaFin defined for Portigon 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. Combined with daily monitoring of VaR and sensitivities, they also satisfy the internal requirements for market risk management. For this reason, Portigon decided in September 2013 to discontinue the use of additional stress test scenarios.

As of the end of 2013, an increase in interest rates by 200 basis points across all currencies would have caused Portigon's interest-bearing exposures to lose € 26 million in value. The threshold at which present value losses of individual institutions become reportable to the supervisory authorities ("outlier criterion"), potentially in the form of an additional ad hoc notice, equals 20% of regulatory own funds. This threshold was never reached, neither at the end of 2013 nor during the year.

The relevant market price risk positions are back tested on an ongoing basis, which means that the potential changes predicted by the VaR model are compared to the actual changes (hypothetical profit & loss) seen in market values from one day to the next. The results are reported to the PRC. In addition to back testing, the key assumptions underlying the VaR model are validated on a regular basis. We test their capacity to adequately capture the market parameters and composition of the portfolio under evolving market conditions.

## Liquidity Risks

Liquidity risk represents the risk that present or future payment obligations cannot be met in full or on time, or, in the case of a liquidity bottleneck, the risk that liabilities can be refinanced only at increased market rates (funding risk) or assets liquidated only at a discount to market rates (market liquidity risk).

Portigon treats liquidity risk as an immaterial risk. The possibility exists that Portigon will need additional liquidity in the future since there will be changes in its balance sheet. Portigon's liquidity risks can be reduced through appropriate measures due to its close cooperation with EAA and the State of North Rhine-Westphalia.

### Managing Liquidity Risks

The Capital Markets business unit is responsible for managing the Group's liquidity. Over and above that, the Risk Services business unit independently monitors liquidity risks, whilst the Finance Services business unit 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 PRC sets the risk tolerance for the individual steering goals on this basis.

The goal of operating liquidity management is to ensure that daily and short-term liquidity needs of up to one week are met. Daily cash flow projections, the liquidity stress test and projections concerning changes in the liquidity reserve, particularly in instruments eligible for recognition by central banks as collateral, assist in the management of operating liquidity.

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. Using the predefined scenario, the liquidity stress test simulates the liquidity-related behaviour of individual components and contributes to the formulation of quantitative targets for the cumulative liquidity position, i.e. a liquidity risk tolerance.

All of the parameters used in the stress test are continually back tested and adapted to changes in market conditions.

The purpose of strategic liquidity management is to ensure that Portigon is capable of satisfying its long-term liquidity requirements. Portigon'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 enters into agreements on the provision of collateral. These agreements may require an increase in the amount of collateral provided should Portigon's rating be downgraded. Compared to other liquidity risks, the liquidity risk posed by the collateral agreements executed is straightforward, since Portigon's derivatives exposure is minimal. The liquidity risk stemming from the derivatives transferred to EAA is covered by a collateral agreement with EAA.

A bank's liquidity is evaluated for regulatory purposes using the liquidity ratio determined pursuant to the German Liquidity Regulation (LiqV), which sets the cash available within a given month in relation to the payment obligations which may be called in during the same period. A bank's liquidity is considered sufficient if this ratio is at least 1.0. For Portigon, the ratio averaged 2.39 in the period from January to December 2013, which was an improvement on the previous year's average of 1.84. Portigon AG's liquidity was safeguarded at all times in the period under review.

## Equity Holding Risks

Equity holding risks are being treated as immaterial risks pursuant to MaRisk.

The equity holdings portfolio consists of companies that hold and manage Portigon's real estate holdings as well as companies active in the area of human resources and affiliated enterprises which are able to provide assistance with the services Portigon offers. Ongoing equity holding controlling enables us to analyse the current and future risks posed by holdings. This information serves as the basis for managing the equity holdings from a shareholder perspective and within the parameters outlined by the business strategy.

Banco WestLB do Brasil S.A. was fully incorporated into Portigon's risk and business steering until the sale of the company closed on July 31, 2013.

## Capital Utilisation

### Usage of Regulatory Capital in Portigon AG

Portigon calculates its ratios according to the Basel Capital Accords (Basel II) and the corresponding EU directive, which was implemented by the German Solvency Regulation (SolvV). Under § 10 of the German Banking Act (KWG) and § 2 of the German Solvency Regulation (SolvV), Portigon must have adequate capital and reserves to support its operations.

Portigon AG exceeded the required capital backing at all times in 2013. Portigon AG's regulatory capital ratios were 112.9% (core capital ratio) and 171.0% (overall ratio) at year-end 2013, after taking into account the company's result for the year.

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

### Usage of Regulatory Capital in Portigon AG[1]

| | Portigon AG Dec. 31, 2013 € millions (after result for the year) | Portigon AG Dec. 31, 2012 € millions (after result for the year) | Changes |
|---|---|---|---|
| Risk-weighted assets | 1,961 | 2,014 | 53 |
| thereof operational risks | 995 | 995 | 0 |
| thereof counterparty credit risks | 717 | 906 | 189 |
| thereof market price risks | 249 | 113 | – 136 |
| Own funds | 3,352 | 4,588 | 1,236 |
| Overall ratio (in %) | 171.0 | 227.8 | – 57 |
| Core capital | 2,214 | 3,003 | 789 |
| Core capital ratio (in %) | 112.9 | 149.1 | – 36 |
| Core tier 1 capital | 1,976 | 2,675 | 699 |
| Core tier 1 capital ratio (in %) | 100.0 | 132.9 | – 32 |

[1] Basis: SolvV reports at December 31, 2013 and December 31, 2012 after result for the year

Additional information is available in the section entitled "Own Funds".

### Usage of Economic Capital (Risk Tolerance)

Portigon's risk-bearing capacity concept reflects the MaRisk requirements and the BaFin requirements from 2011 (as detailed in the paper on the supervisory assessment of banks' internal risk-bearing capacity concepts).

The primary steering framework is the going-concern approach; the liquidation approach is viewed as providing supplemental information only. 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 is Portigon's tier 1 capital under the German Solvency Regulation (SolvV), which represents its risk-taking potential. Last year's liquidation approach also included 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 case of the liquidation approach, the costs associated with a potential external financing of pension obligations are also a factor.

With the going-concern approach, Portigon's sources of risk-bearing capacity are compared to its material risks (operational risk and business risk) after deduction of a risk buffer. Since market price risk (VaR) continued to decrease over the course of 2013, it is now covered, like the other immaterial risks, by the common risk buffer, which is also available to absorb adverse business developments. The business risks are determined on the basis of scenarios, whilst the operational risk is represented as a scaled version of the expected loss. None of the global capital limits for the individual risk types was exceeded in the year under review. Effective September 30, 2013, this limit system was replaced by a direct comparison between the risks and the sources of risk-bearing capacity. There is no assumption of diversification potential between the risk types. The liquidation approach measures the sources of risk-bearing capacity against the same risk types as in the going-concern approach, but also adds a charge for the immaterial counterparty credit risk and market price risk. Business risks are determined the same way as in the going-concern approach, whilst operational, market price and counterparty credit risks are derived from the regulatory capital. The total risk potential is the sum of the individual risks, with no assumption of diversification potential in this approach either. 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 2016 is also done. This latter analysis also models the effects of adverse developments.

### Stress Testing

The scenarios used in stress testing target the risks defined as material risks, which are risks relating to the business model (provision of portfolio services) and to the downsizing of Portigon AG. The stress scenario is selected from the business risk process, and the expected loss from operational risks is scaled with a higher factor than that used in regular risk-bearing capacity analysis. The stress tests are run under going-concern assumptions. We do not run any stress tests under liquidation assumptions, since the liquidation approach is now used only in a supplemental capacity.

The results of stress tests on economic capital usage are presented to the PRC, Managing Board and Audit and Risk Committee on a quarterly basis. The PRC initiates appropriate countermeasures as needed.

In December 2013, our sources of risk-bearing capacity under going-concern assumptions were sufficient to cover the impact of the adverse developments assumed in all of the stress scenarios.

### Reverse Stress Testing

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 could revert back to Portigon. However, 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's main investor, a default by it would pose a direct risk to Portigon's ability to continue as a going concern. It does not make economic sense to hedge against the EAA default risk.

However, there is no indication at this time that the operational risk or business risk Portigon faces could produce a loss between now and the end of 2014 which would make it impossible for Portigon to continue as a going concern.

### Concluding Remarks on the Risk Situation

Portigon's material risks for purposes of MaRisk are operational risk and business risk. All other types of risk are considered immaterial.

Operational risks are identified, steered and monitored by the central Operational Risk Management (ORM) unit with the assistance of the individual business units. The instruments deployed help capture and steer all material operational risks of Portigon's business. No substantial increase in risks was observed in 2013, despite the company's transformation. Potential risks from the formation of PFS as they relate to transfer activities and agreements on the continued provision of portfolio services are discussed as part of regular risk reporting at Portigon AG.

Even under the assumptions made in the stress scenario, Portigon's risk-bearing capacity is not in jeopardy because of the company's business risk. There is no indication that the operational risk or business risk Portigon faces could produce a loss between now and the end of 2014 which would make it impossible for Portigon to continue as a going concern.

Portigon Group exceeded the capital backing required by the Germany Solvency Regulation (SolvV) at all times in 2013.

## Opportunities Report

Just as there have been structural changes in the Portigon Group, in particular the transfer of a substantial portion of the service business from Portigon AG to PFS, the allocation of opportunities has changed in line with the amended business purpose.

Viewed in isolation, 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 remaining IT platform and the related process adjustments. The degree to which cost savings above planned levels can be achieved or additional costs are incurred depends on the further course of the transformation and cannot be predicted at this time.

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

The potential of our subsidiary PFS as an independent portfolio services provider hinges on the successful, market-oriented implementation of its service business. PFS commenced operations on February 1, 2014 and has a comprehensive, highly versatile service portfolio. Under its motto "Rent a Bank" PFS's service offering varies depending on the type of service (Portfolio Solutions, Portfolio Services, Platform Services) and bank product (loans, securities, derivatives, liabilities). In addition to offering a comprehensive range of services for certain bank products, PFS can customise its services to meet specific customer needs thanks to its outstanding expertise in the field.

The goal is to establish PFS in the market as a successful service provider to financial services institutions and to privatise the company by 2016 at the latest. Portigon held its first talks with potential investors in the reporting year.

# Events Occurring After the Close of the Fiscal Year

PFS was entered in the commercial register on January 23, 2014. The company officially commenced operations on February 1, 2014, with BaFin's approval, after the governing bodies of Portigon AG and PFS passed the required resolutions on January 30, 2014. To this end, Portigon AG also sold its PFS division to PFS as of February 1, 2014. In the process, substantial portions of the service agreement with EAA were transferred from Portigon AG to PFS and the rules governing the service relationship between the two companies were established. Furthermore, to satisfy regulatory requirements, PFS's equity capital was increased by an initial sum of € 88 million to € 158 million through a direct contribution to the capital reserves. Due to provisions in the transformation agreements, there are certain conditions under which Portigon will not be entitled to any proceeds from the sale of the portfolio services business. Because of this, it is likely that a full write-down of the carrying amount of the PFS stake will be necessary in 2014 in connection with the transfer of the PFS division.

Negotiations between EAA and PFS continued with the aim of the parties' agreeing on a long-term further servicing of EAA and an optimal suite of services for PFS to provide to EAA.

There were changes in Portigon AG's and PFS's management. The members of Portigon AG's Managing Board had been serving as PFS's managers in parallel with their existing duties since June 2013. On January 30, 2014, Dr. Kai Wilhelm Franzmeyer resigned from the Managing Board of PFS in accordance with the wishes of the Supervisory Board and after consultation with the owner of Portigon AG. Since that time he has concentrated on his position on the Managing Board of Portigon AG. The Supervisory Board of Portigon AG appointed Dr. Peter Stemper to the Managing Board of Portigon AG with effect as of February 1, 2014. He will assume the role of Chief Risk Officer. Dr. Stemper resigned from the Supervisory Board of Portigon AG on January 30, 2014 with immediate effect.

Portigon AG sold its four office properties in Düsseldorf to Blackstone. The agreements to this effect were signed on January 31, 2014. The transaction for three of the four buildings – Herzogstraße 15 ("Herzogterrassen"), Friedrichstraße 56 and Elisabethstraße 65 – is due to close by March 31, 2014. The building at Friedrichstraße 62–80 will pass to Blackstone when the conversion work for the future lessee, the Ministry of the Interior and Municipal Affairs of North Rhine-Westphalia, has been successfully completed.

Portigon AG amended its Articles and Bylaws on February 4, 2014. From now on, it will focus its business activities on the management of its own assets, including its equity interests in other entities, especially financial services institutions operating primarily in the management of banking portfolios. In addition, the company shall operate as a service provider in the management of banking portfolios and assets of third parties for servicing relationships which existed on February 1, 2014. In the context of its corporate purpose, it shall provide financial services and conduct banking transactions and complementary transactions.

# Outlook

The transformation process will continue to dominate the course of business. One aspect of the further transformation involves capacity reduction at Portigon AG, which will progress at an accelerated pace. Another aspect is establishing PFS in the market and beginning the process of selling the company.

From the perspective of risk, there will be an even greater concentration on the material risks, as well as adjustment of the risk management system in line with the structural changes within the Portigon Group. As a result, the institution's own market price and counterparty credit risk will continue to lose importance, and the methods and accompanying processes will be condensed to the level necessary for Portigon AG.

The structural changes within the Portigon Group will continue to have an effect on the company's cash flows, financial condition and results of operations in subsequent years.

There will be a sharp reduction in Portigon AG's total assets, especially as additional assets are retrospectively transferred in rem to EAA and derivatives held in trust for EAA are novated. PFS's balance sheet will include only assets and liabilities in the minor extent necessary for its business.

With the commencement of PFS's operations, substantial portions of the service business and related income and expense are being transferred to PFS. Because of this, as well as expiration of the service contract with Helaba in 2014, Portigon AG believes that there will be a significant decrease in income from the service business compared to 2013. At the same time, we aim to make cuts in administrative expenses in 2014 that are equally sustainable, given the split-off of PFS as well as progressive restructuring and the related ongoing headcount reductions at Portigon AG.

The multi-year planning for PFS envisages profitable operations over time. However, short to medium-term expectations for the Group indicate that income from the service business will remain insufficient to cover the administrative expenses which the Group continues to incur at this time.

Due to provisions in the transformation agreements, according to which there are certain conditions under which Portigon AG will not be entitled to the proceeds from the sale of the portfolio services business, we have also included a full write-down of the carrying amount of the PFS stake in our planning for 2014.

In summary, it should be noted that the transformation process remains replete with uncertainty. This will have an adverse effect on the company's cash flows, financial condition and results of operations. We are proceeding on the assumption that Portigon AG will show a loss on the basis of HGB accounting principles in the mid hundreds of millions for the 2014 fiscal year. The occurrence of additional restructuring expenses will depend on the progress of the transformation.

# Portigon AG Balance Sheet as at December 31, 2013

## Assets

| | see Notes No. | € | € | 31. 12. 2013 € | 31. 12. 2012 € thousands |
|---|---|---|---|---|---|
| 1. Cash | | | | | |
| a) cash on hand | | | 16,860.61 | | (39) |
| b) balances with central banks | | | 2,039,919,787.04 | | (6,131,050) |
| including: | | | | 2,039,936,647.65 | 6,131,089 |
| with Deutsche Bundesbank | | | | | |
| € 466,424,675.64 (2012: € 3,736,924,798.30) | | | | | |
| | | | | | |
| 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 | | | 1,218,910.88 | | (17,757) |
| including: | | | | | |
| eligible for refinancing with Deutsche Bundesbank | | | | | |
| € 0.00 (2012: € 0.00) | | | | | |
| b) bills of exchange | | | 0.00 | | (0) |
| | | | | 1,218,910.88 | 17,757 |
| | | | | | |
| 3. Claims on banks | 3, 13, 15, 32, 38 | | | | |
| a) payable on demand | | | 1,254,702,394.10 | | (804,686) |
| b) other | | | 370,177,759.42 | | (642,338) |
| | | | | 1,624,880,153.52 | 1,447,024 |
| | | | | | |
| 4. Claims on customers | 4, 13, 15, 32, 38, 42 | | | 6,469,751,652.31 | 9,274,823 |
| including: | | | | | |
| secured by mortgages | | | | | |
| € 0.00 (2012: € 589,472.99) | | | | | |
| loans to public authorities and entities | | | | | |
| under public law | | | | | |
| € 6,097,608,651.76 (2012: € 6,653,134,061.84) | | | | | |
| | | | | | |
| 5. Bonds and other interest-bearing | | | | | |
| securities | 5, 11, 15, 16, 32, 38 | | | | |
| a) money market instruments | | | | | |
| aa) of public institutions | | 0.00 | | | (145,428) |
| including: | | | | | |
| eligible as collateral for | | | | | |
| Deutsche Bundesbank advances | | | | | |
| € 0.00 (2012: € 145,427,738.53) | | | | | |
| ab) of other issuers | | 0.00 | | | (18,655) |
| including: | | | 0.00 | | (164,083) |
| eligible as collateral for | | | | | |
| Deutsche Bundesbank advances | | | | | |
| € 0.00 (2012: € 18,654,772.83) | | | | | |
| b) bonds and notes | | | | | |
| ba) of public institutions | | 3,090,026,063.67 | | | (3,729,522) |
| including: | | | | | |
| eligible as collateral for | | | | | |
| Deutsche Bundesbank advances | | | | | |
| € 2,656,168,843.11 (2012: € 3,012,824,212.21) | | | | | |
| bb) of other issuers | | 28,736,609.36 | | | (191,746) |
| including: | | | 3,118,762,673.03 | | (3,921,268) |
| eligible as collateral for | | | | 3,118,762,673.03 | 4,085,351 |
| Deutsche Bundesbank advances | | | | | |
| € 4,590,489.52 (2012: € 2,462,753.83) | | | | | |
| | | | To be carried forward: | 13,254,550,037.39 | 20,956,044 |

# Liabilities

| | see Notes No. | € | € | 31. 12. 2013 € | 31. 12. 2012 € thousands |
|---|---|---|---|---|---|
| 1. Liabilities to banks | 13, 17 | | | | |
| a) payable on demand | | | 27,282,473.51 | | (190,837) |
| b) with agreed maturity or | | | | | |
| period of notice | | | 375,646,604.68 | | (162,219) |
| | | | | 402,929,078.19 | 353,056 |
| | | | | | |
| 2. Liabilities to customers | 13, 18, 21 | | | | |
| a) deposits | | | 0.00 | | |
| b) other liabilities | | | | | |
| ba) payable on demand | | 2,177,492,654.46 | | | (3,624,973) |
| bb) with agreed maturity or | | | | | |
| period of notice | | 4,809,039,187.58 | | | (9,193,149) |
| | | | 6,986,531,842.04 | | (12,818,122) |
| | | | | 6,986,531,842.04 | 12,818,122 |
| | | | | | |
| 3. Certificated liabilities | 13, 19 | | | | |
| a) bonds and notes issued by the Bank | | | 11,601,554.37 | | (11,971) |
| b) other certificated liabilities | | | 0.00 | | (0) |
| including: | | | | 11,601,554.37 | 11,971 |
| money market instruments | | | | | |
| € 0.00 (2012: € 0.00) | | | | | |
| | | | | | |
| 4. Trust liabilities | 20 | | | 16,728,060,687.97 | 73,545,091 |
| including: | | | | | |
| trust loans | | | | | |
| € 0.00 (2012: € 0.00) | | | | | |
| | | | | | |
| 5. Other liabilities | 21, 40 | | | 114,987,605.94 | 1,323,889 |
| | | | | | |
| 6. Deferred items | 22, 40 | | | 335,998,858.93 | 352,773 |
| | | | | | |
| 7. Provisions | 23, 31 | | | | |
| a) for pensions and similar | | | | | |
| obligations | | | 697,350,016.00 | | (569,382) |
| b) tax reserve | | | 360,618,348.60 | | (397,181) |
| c) other | | | 809,528,187.24 | | (1,095,261) |
| | | | | 1,867,496,551.84 | 2,061,824 |
| | | | | | |
| 8. Subordinated liabilities | 21, 24 | | | 2,245,662,371.69 | 2,292,950 |
| | | | | | |
| 9. Profit participation capital | 21, 25 | | | 34,355,700.43 | 72,719 |
| including: | | | | | |
| due in less than two years | | | | | |
| € 15,210,216.79 (2012: € 46,641,904.43) | | | | | |
| | | | To be carried forward: | 28,727,624,251.40 | 92,832,395 |

# Portigon AG Balance Sheet as at December 31, 2013

## Assets

| | see Notes No. | € | € | 31. 12. 2013 € | 31. 12. 2012 € thousands |
|---|---|---|---|---|---|
| | | | Carried forward: | 13,254,550,037.39 | 20,956,044 |
| 6. Shares and other | | | | | |
| non-interest-bearing | | | | | |
| securities | 6, 11, 32, 38 | | | 0.00 | 23,133 |
| | | | | | |
| 7. Equity investments in | 7, 11, 32, 39, 48 | | | 35,769,302.28 | 38,623 |
| non-affiliated companies | | | | | |
| including: | | | | | |
| banks | | | | | |
| € 8,375,142.38 (2012: € 8,375,142.38) | | | | | |
| financial services institutions | | | | | |
| € 0.00 (2012: € 0.00) | | | | | |
| | | | | | |
| 8. Equity investments in | | | | | |
| affiliated companies | 8, 11, 32, 48 | | | 325,242,569.40 | 518,708 |
| including: | | | | | |
| banks | | | | | |
| € 0.00 (2012: € 186,871,908.62) | | | | | |
| financial services institutions | | | | | |
| € 95,278,384.12 (2012: € 26,278,384.12) | | | | | |
| | | | | | |
| 9. Trust assets | 9 | | | 16,728,060,687.97 | 73,545,091 |
| including: | | | | | |
| trust loans | | | | | |
| € 0.00 (2012: € 0.00) | | | | | |
| | | | | | |
| 10. Intangible assets: | 11 | | | | |
| a) licences acquired against payment, | | | | | |
| industrial property rights and | | | | | |
| similar rights and assets, as well as | | | | | |
| licences to such rights and assets | | | 6,292,762.64 | | (17,075) |
| | | | | 6,292,762.64 | 17,075 |
| | | | | | |
| 11. Fixed assets | 11, 31 | | | 37,034,520.22 | 38,777 |
| | | | | | |
| 12. Other assets | 10, 40 | | | 250,219,952.91 | 351,325 |
| | | | | | |
| 13. Deferred items | 13, 40 | | | 318,344,293.92 | 378,086 |
| | | | | | |
| Total assets | 28 | | | 30,955,514,126.73 | 95,866,862 |

# Liabilities

| | see Notes No. | € | € | 31. 12. 2013 € | 31. 12. 2012 € thousands |
|---|---|---|---|---|---|
| | | | Carried forward: | 28,727,624,251.40 | 92,832,395 |
| 10. Equity capital | 26 | | | | |
| a) subscribed capital | | | | | |
| divided into | | | | | |
| Class A registered shares | | 498,649,007.45 | | | (498,649) |
| Class B registered shares | | 0.00 | | | (0) |
| | | | 498,649,007.45 | | (498,649) |
| b) capital reserves | | | 0.00 | | (0) |
| c) reserves from retained earnings | | | | | |
| ca) legal reserves | | 0.00 | | | (0) |
| cb) other | | 0.00 | | | (0) |
| | | | 0.00 | | (0) |
| d) typical silent contributions to capital | | | 1,912,488,719.27 | | (2,607,721) |
| e) profit/loss | | | – 183,247,851.39 | | (– 71,903) |
| | | | | 2,227,889,875.33 | 3,034,467 |
| Total liabilities | 27, 28 | | | 30,955,514,126.73 | 95,866,862 |
| 1. Contingent liabilities | 36, 37, 39 | | | | |
| a) liabilities from guarantees and indemnity agreements | | | 350,153,377.99 | | (789,326) |
| | | | | 350,153,377.99 | 789,326 |
| 2. Other commitments | 36 | | | | |
| a) irrevocable credit commitments | | | 822,427,835.36 | | (1,458,225) |
| | | | | 822,427,835.36 | 1,458,225 |

# Portigon AG Statement of Income

## for the Period January 1 – December 31, 2013

| | see Notes No. | € | € | 1. 1.–31. 12. 2013 € | 1. 1.–31. 12. 2012 € thousands |
|---|---|---|---|---|---|
| 1. Interest from | 29 | | | | |
| a) lending and money market transactions | | 388,676,395.85 | | | (1,332,056) |
| b) interest-bearing securities and | | | | | |
| book-entry securities | | 33,392,260.47 | | | (158,674) |
| | | | 422,068,656.32 | | (1,490,730) |
| | | | | | |
| 2. Interest paid | 24 | | 262,933,371.35 | | (1,400,679) |
| | | | | 159,135,284.97 | 90,051 |
| 3. Current income from | 29 | | | | |
| a) shares and other | | | | | |
| non-interest-bearing securities | | | 184,371.57 | | (3,260) |
| b) equity investments in | | | | | |
| non-affiliated companies | | | 2,881,840.89 | | (4,359) |
| c) equity investments in | | | | | |
| affiliated companies | | | 7,059,060.83 | | (71,386) |
| | | | | 10,125,273.29 | 79,005 |
| | | | | | |
| 4. Commission income | 29 | | 358,964,640.01 | | (427,052) |
| | | | | | |
| 5. Commission paid | | | 95,107,909.29 | | (145,602) |
| | | | | 263,856,730.72 | 281,450 |
| | | | | | |
| 6. Net expenses from trading operations | | | | 0.00 | – 39,582 |
| | | | | | |
| 7. Other operating income | 29, 31 | | | 91,800,125.35 | 400,599 |
| | | | | | |
| 8. General administrative expenses | | | | | |
| a) personnel expenses | | | | | |
| aa) wages and salaries | 41 | 201,291,788.62 | | | (296,507) |
| ab) compulsory social security | | | | | |
| contributions and expenses | | | | | |
| for pensions and other | | | | | |
| employee benefits | 23, 41 | 62,318,286.39 | | | (128,784) |
| including: | | | 263,610,075.01 | | (425,291) |
| for pensions | | | | | |
| € 35,012,580.04 (2012: € 90,617,441.10) | | | | | |
| b) other administrative expenses | | | 238,253,755.41 | | (482,397) |
| | | | | 501,863,830.42 | 907,688 |
| | | | | | |
| 9. Depreciation and value adjustments | | | | | |
| on tangible and intangible assets | 11 | | | 9,845,026.05 | 19,009 |
| | | | | | |
| 10. Other operating expenses | 23, 31, 41 | | | 124,170,881.65 | 236,795 |
| | | | | | |
| 11. Income from revaluation of loans and | | | | | |
| certain securities as well as from the | | | | | |
| reversal of loan loss provisions | 23, 32 | | | 684,204.47 | 17,707 |
| | | | | | |
| | | | To be carried forward: | – 110,278,119.32 | – 334,262 |

# for the Period January 1 – December 31, 2013

| | see Notes No. | € | € | 1. 1.–31. 12. 2013 € | 1. 1.–31. 12. 2012 € thousands |
|---|---|---|---|---|---|
| | | | Carried forward: | – 110,278,119.32 | – 334,262 |
| 12. Write-downs and value adjustments on equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets | 11, 32 | | | 17,501,173.35 | 0 |
| 13. Income from revaluation of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets | 11, 32 | | | 0.00 | 41,327 |
| 14. Expenses from the assumption of losses | 32 | | | 1,920,478.71 | 1,555 |
| 15. Profit or loss on ordinary activities | | | | – 129,699,771.38 | – 294,490 |
| 16. Extraordinary income | 34 | | 43,771,870.07 | | (27,917) |
| 17. Extraordinary expenses | 34 | | 741,329,000.10 | | (255,682) |
| 18. Extraordinary result | 34 | | | – 697,557,130.03 | – 227,765 |
| 19. Taxes on income and revenues | 35 | | 2,678,984.88 | | (– 40,980) |
| including: Income tax charge from changes in the recognition of deferred taxes € 0.00 (2012: € 399,580.72) | | | | | |
| 20. Other taxes not shown under other operating expenses | | | – 1,327,817.46 | | (– 6,374) |
| | | | | 1,351,167.42 | – 47,354 |
| 21. Net loss for the year | | | | – 825,905,733.99 | – 569,609 |
| 22. Loss carried forward from the previous year | | | | 71,903,595.82 | 98,046 |
| 23. Capital reduction through spin-off | | | | 0.00 | 363,728 |
| 24. Withdrawals from capital reserves | | | | 0.00 | 6,272 |
| 25. Withdrawals from profit participation capital | | | | 19,329,014.02 | 30,772 |
| 26. Withdrawals from the silent contributions to capital | | | | 695,232,464.40 | 460,708 |
| 27. Income from the capital reduction | | | | 0.00 | 468,000 |
| 28. Allocations to capital reserves pursuant to the rules on the simplified procedure for capital reductions | | | | 0.00 | 6,272 |
| 29. Profit/loss | | | | – 183,247,851.39 | – 71,903 |

# Portigon AG Notes to the Annual Financial Statements at December 31, 2013

## General Information

## 1. Preparation of Annual Financial Statements

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

Due to the transfer of assets and liabilities to EAA and Helaba in 2012, there is limited comparability with the previous year's figures. Material effects on the statement of income are explained at the appropriate places in the Notes and in the Statement of Financial Condition.

We prepare consolidated annual financial statements in addition to the single-entity annual financial statements in accordance with § 315a of the German Commercial Code (HGB) and Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 (IAS Regulation). The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The single-entity and consolidated annual financial statements are submitted to the operator of the Bundesanzeiger (Federal Gazette) (www.ebundesanzeiger.de) and published in accordance with § 325 and § 328 of the German Commercial Code (HGB).

## 2. Accounting and Valuation Principles

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

Claims are reported at their outstanding principal balances less any unamortised discounts. Liabilities are carried at their settlement amounts, with any related discounts reported as assets under deferred items. Premiums on claims and liabilities are reported under deferred items as an asset or liability, respectively. 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. Deferred items relating to premiums and discounts from underwriting and lending are valued according to the effective interest rate method. Bills of exchange, as well as treasury bills and non-interest-bearing treasury bonds, are discounted and shown with the effective discount rate. Non-interest-bearing loans to employees are reported at their outstanding principal balance. Zero-coupon bonds issued are carried as liabilities at their issue price plus share in the difference between the issue price and redemption value as of 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), as well as by global value adjustments still used for this purpose due to overseas regulatory requirements. There have been no more country-related globalised value adjustments since the transfer of the pertinent items to EAA and Helaba last year.

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

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

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

In securities lending transactions, one party loans securities from its portfolio to another party for a certain period of time. The borrower agrees to return an equal number of securities of the same class and with the same features at the end of the term. Prevailing opinion holds that, in legal terms, such transactions constitute non-cash loans. The lender is obligated to transfer ownership of the securities to the borrower; the borrower assumes all rights pertaining to the securities. However, the securities lender remains the beneficial owner of the lent securities according to prevailing opinion. This means that borrowed securities are not reported on the balance sheet, whilst lent securities continue to be carried on the balance sheet due to the beneficial ownership.

The accounting treatment of structured financial instruments follows the accounting principle issued by the Institute of German Certified Public Accountants (IDW – Institut der Wirtschaftsprüfer) concerning when and when not to treat the components of structured financial instruments separately for accounting purposes (IDW RS HFA 22).

Portigon has qualified as a non-trading-book institution within the meaning of § 13 of the German Banking Act (KWG) since September 1, 2012. Portigon had no trading portfolio to report at December 31 of last year or the year before.

The assets and liabilities transferred to EAA and Helaba in 2012 as part of the transformation by way of spin-off or cash sub-participation had to be derecognised. By contrast, in the case of the synthetic transfer of derivatives by means of the risk transfer agreement with EAA, a derecognition of the 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 will continue to be reported on Portigon's balance sheet. The execution of the risk transfer agreement created a fiduciary relationship, i.e. fiduciary trust, under German commercial law, with Portigon as the trustee and EAA as the grantor. As a result, the trading portfolio derivatives transferred under the risk transfer agreement and corresponding matching claims and obligations vis-à-vis EAA are reported as trust assets and trust liabilities at their respective fair values pursuant to § 6 (1) of the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV).

The fair value measurement is done independently of the trading units on a per-asset and per-liability basis using exchange prices or market prices from December 30, 2013 or generally accepted measurement methods. Accrued interest, one-time payments and option premiums are taken into account. If exchange or market prices are not available or cannot be reliably determined, the fair value is determined on the basis of standard pricing models or discounted cash flows. We mark down the values calculated for some assets using a valuation model since the models do not take into account all factors which market participants consider. Last year's markdowns were predominantly for credit rating, model and liquidity risks. There are no earnings contributions from the derivatives held in trust and the respective matching items since the income from these derivatives is passed on directly to EAA and the expenses from them are reimbursed by EAA.

Most of the product categories presented below relate to financial instruments whose risks were transferred to EAA in 2012, predominantly under the risk transfer agreement. The specific measurement methods and parameters we use/used for the relevant product categories are as follows:

Interest rate products: Liquid exchange-traded products (e.g. futures) are measured at their exchange prices. For many over-the-counter (OTC) derivatives, there are standardised specifications (e.g. swaps, caps, swaptions) and measurement methods (Black 76) as well as reliable market quotations (swap rates, cap volatilities). These are used in the measurement if available. For exotic OTC derivatives (e.g. Bermudan swaptions, CMS spread swaps) we use proprietary models which are essentially based on the Markov functional approach. Securities with exotic coupons are measured in a manner consistent with the corresponding OTC hedging derivatives. In the process, the credit spread attributable to the respective issuer is also used for calculating the present value.

Bonds are measured on the basis of market prices. Less liquid securities for which market prices are not readily available are measured either at observable market prices for similar instruments or by discounting cash flows while taking into account credit spreads derived from the observable prices for comparable instruments.

Equity and commodity products: Prices of classical equity and commodity derivatives with a single underlying (e.g. call and put options, knock-out options, digital options) are determined using finite difference methods for the Black Scholes differential equation. By contrast, more exotic derivatives, some of which may be based on more than one underlying, are measured using Monte Carlo simulations. Here, proprietary routines which are based on market-established models are used. With equity products, estimates on dividend payments are also incorporated; with commodity products, so-called indifference, or utility, curves are included. Indifference curves represent the monetary advantages and disadvantages associated with commodities trading. If the derivatives include optional components, the volatilities of the underlyings must be taken into account. If there is more than one underlying, the correlations between them are incorporated. Exchange rate volatility and the correlations between underlyings and exchange rates are relevant anytime the currency of the derivative and underlying(s) is different. With fund derivatives, distributions from the underlying fund are treated like dividends on stocks. If the derivatives are like participation certificates, an analytical formula without simulation can be used for the measurement. No fund volatilities are required in this case.

Credit products: Securities with exotic coupons or credit components like credit linked notes and other products, like perfect asset swaps, derived from credit derivatives are measured in the same way as the corresponding OTC derivatives. Where necessary, the credit spread attributable to the respective issuer is also used when calculating the present value.

In the case of derivatives which are cash collateralised, the future cash flows for material portfolios are discounted using EONIA swap curves ("OIS discounting").

| | Product | Measurement Model | Measurement Parameters |
|---|---|---|---|
| Interest rate products | Standard swaps | Present value method | Interest rates |
| | Exotic swaps | Markov functional | Interest rates<br>Interest rate volatility |
| | FRAs | Present value method | Interest rates |
| | Standard caps, floors, collars | Black 76 | Interest rates<br>Interest rate volatility |
| | Exotic caps, floors | Markov functional | Interest rates<br>Interest rate volatility |
| | European standard swaptions | Black 76 | Interest rates<br>Interest rate volatility |
| | Exotic swaptions | Markov functional | Interest rates<br>Interest rate volatility |
| Exchange rate products | Currency swaps | Present value method | Interest rates<br>Exchange rates |
| | Options | Black 76 | Interest rates<br>Exchange rates<br>Exchange rate volatility |
| | Forward interest rate/currency swaps | Present value method | Interest rates<br>Exchange rates |
| Equity, fund and commodity products (incl. precious metals) | Forwards | Finite differences | Price of the underlying, interest rates<br>Dividend payments |
| | Standard options (single underlying) | Finite differences | Price of the underlying, interest rates<br>Dividend payments (shares, stock indices)<br>Indifference curves (commodities)<br>Volatility (underlying, exchange rate)<br>Exchange rate/underlying correlation |
| | Exotic options | Monte Carlo simulation | Price of the underlying, interest rates<br>Dividend payments (shares, stock indices)<br>Indifference curves (commodities)<br>Correlations (underlyings, exchange rates) |
| | Participation certificates | Analytical formula | Price of the underlying, interest rates |
| | Capital-guaranteed certificates | Analytical formula, finite differences | Price of the underlying, interest rates<br>Fund distributions<br>Fund volatility |
| Credit products | Credit default swaps (single underlying debtor) | Hazard rate bootstrapping model | Credit spreads |
| | Basket credit default swaps (homogeneous in correlations and residual servicing ratios) | Hazard rate bootstrapping model<br>One-factor Gaussian model | Credit spreads<br>Correlation factors (derived from market consensus data) |
| | Basket credit default swaps (heterogeneous in correlations or residual servicing ratios) | Hazard rate bootstrapping model<br>Monte Carlo simulation | Credit spreads<br>Correlation factors (derived from market consensus data) |
| | Collateralized synthetic obligations | Hazard rate bootstrapping model<br>One-factor Gaussian model | Credit spreads<br>Correlations (derived from market data) |
| | Asset backed securities | Bloomberg cash flow model | Credit spreads<br>Conditional prepayment rate |

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.

Interest paid and received on financial instruments held for trading, dividend income from such instruments and the refinancing costs of the trading portfolio were reported as part of the interest result and current income in the statement of income until the items in the trading portfolio were either reclassified or transferred. Realised and unrealised gains and losses on the remeasurement of trading products were reported under net income/expenses from trading operations, as were commissions paid and received for transactions involving financial instruments held in the trading portfolio.

The items held in trust for EAA since July 1, 2012 have no effect on the statement of income since the income from these derivatives is to be passed on directly to EAA and the expenses from them are to be reimbursed by EAA. Earnings contributions from these derivatives and matching items are presented in their net amounts. The reclassified positions, some of which are guaranteed, are recognised in the respective balance sheet items.

As a result, the net expenses from trading operations reported at December 31, 2012 were equivalent to the net expenses from trading operations reported for the period from January 1 to June 30, 2012. There was no separate item for general bank risks formed from net income from trading operations pursuant to § 340e (4) of the German Commercial Code (HGB) that could be reversed.

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

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

Equity investments in affiliated and non-affiliated companies are carried at cost. Where a decline in value is expected to be permanent, they are written down to the lower fair value.

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

When measuring provisions, companies are required to recognise increases in costs and prices. In the case of pension provisions, this especially means wage and salary increases as well as a pension index. The discounting of provisions with a residual term of over one year is to be done using the average market interest rate of the previous seven fiscal years for the term matching the provisions', or their underlying liabilities', remaining time to maturity. Yield curves are published at the end of each month on the Deutsche Bundesbank website.

The first-time application of the accounting changes for pensions introduced by BilMoG on January 1, 2010 revealed an aggregate actuarial deficit of € 478.3 million in Portigon's pension provisions, including its provisions for obligations to NRW.BANK from pension commitments. At first, Portigon made use of the option pursuant to Article 67 (1) Sentence 1 of the Introductory Act to the German Commercial Code (EGHGB) to allocate the difference resulting from the remeasurement over a maximum period of 15 years. After making these regular allocations of 1/15 each in the period to 2013 and transferring pension provisions to NRW.BANK and the Verbundbank of Helaba, the remaining deficit of € 106.5 million was allocated. This amount is captured in the extraordinary result.

The first-time application on January 1, 2010 of the changes introduced by BilMoG also revealed a deficit for a portion of the other provisions measured according to the principle of item-by-item measurement which was addressed in full in fiscal 2010. Surpluses were revealed for another portion of the other provisions. In this case, Portigon elected to retain the surpluses pursuant to Article 67 (1) Sentence 2 of the Introductory Act to the German Commercial Code (EGHGB).

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

As provided for in § 285 No. 17 of the German Commercial Code (HGB), we have not disclosed the auditor's fee for last year here since this information is included in the notes to our consolidated financial statements.

All of the transactions in 2013 and in the previous year between Portigon and related parties were conducted on an arm's length basis. Therefore, there was no need for any disclosures pursuant to § 285 No. 21 of the German Commercial Code (HGB).

Foreign currency translation for assets and liabilities which are not assigned to the trading portfolio is handled in accordance with the provisions of § 256a and § 340h of the German Commercial Code (HGB). Foreign currency transactions in the trading book were measured and reported pursuant to § 340e (3) Sentence 1 of the German Commercial Code (HGB) up to June 30, 2012.

For risk management purposes, Portigon places non-trading 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 positions into the reporting currency were captured in net income/expenses from trading operations up until the time trading activities were discontinued pursuant to § 340e (3) of the German Commercial Code (HGB). Starting July 1, 2012, specifically hedged transactions have been reported on a net basis in other operating expenses/income.

Assets and liabilities denominated in foreign currencies, as well as unsettled spot deals, were translated using the ECB reference rates effective on December 31, 2013. Unsettled forward contracts (currency forwards and currency options) have been carried at the mean forward rate or option premium effective on that date. Income and expenses for which a particular exchange rate has been agreed are translated at the respective hedge rate. Swap premiums on balance sheet items hedged for foreign exchange risk are deferred and amortised over time. The amortisation amounts are included in the interest result.

The calculation of deferred taxes is based on the balance-sheet-oriented “temporary differences concept”. Portigon makes use of the option to recognise deferred tax assets, but did not recognise any deferred tax assets on loss carryforwards.

Due to the transfer of the Pfandbrief business to Helaba in 2012, Portigon already had ceased to report any Pfandbriefe or cover pool assets as of December 31, 2012.

# Notes to the Balance Sheet

## 3. Claims on Banks

| | **Dec. 31, 2013 € millions** | Dec. 31, 2012 € millions |
|---|---:|---:|
| Payable on demand | 1,254.7 | 804.7 |
| With residual maturities of | | |
| – up to 3 months | 84.0 | 342.8 |
| – between 3 months and 1 year | 15.6 | 52.2 |
| – between 1 and 5 years | 45.3 | 18.4 |
| – more than 5 years | 225.3 | 228.9 |
| Book value | 1,624.9 | 1,447.0 |

Of the claims on banks reported on the balance sheet, the sum of € 380.8 million (previous year: € 700.3 million) is guaranteed by EAA.

Claims from leasing finance came to € 56.9 million (previous year: € 58.2 million).

# 4. Claims on Customers

| | Dec. 31, 2013 € millions | Dec. 31, 2012 € millions |
|---|---|---|
| Book value | 6,469.8 | 9,274.8 |
| including: | | |
| – on affiliated companies | 22.0 | 37.6 |
| – on other companies in which equity investments are held | 1.6 | 0.5 |
| – from the leasing business | 172.7 | 291.8 |
| Breakdown by residual maturity | | |
| – up to 3 months | 659.5 | 2,501.2 |
| – between 3 months and 1 year | 677.3 | 618.8 |
| – between 1 and 5 years | 1,689.2 | 2,442.4 |
| – more than 5 years | 3,443.8 | 3,712.4 |

Of the claims on customers reported on the balance sheet, the sum of € 5,798.6 million (previous year: € 7,307.2 million) is guaranteed by EAA.

None of the claims on customers at December 31, 2013 were mortgage-backed claims (previous year: € 0.6 million with a residual maturity of up to three months).

# 5. Bonds and Other Interest-Bearing Securities

| | Dec. 31, 2013 € millions | Dec. 31, 2012 € millions |
|---|---|---|
| Book value | 3,118.8 | 4,085.4 |
| including: | | |
| amounts becoming due before December 31, 2014 | 2,005.8 | 656.7 |
| Breakdown by product | | |
| – money market instruments | – | 164.1 |
| – bonds and notes of public-sector issuers | 3,090.0 | 3,729.5 |
| – bonds and notes of other issuers | 28.8 | 191.8 |
| – own bonds | – | – |
| Breakdown by marketability | | |
| – marketable securities | 3,118.8 | 4,085.4 |
| thereof: | | |
| – listed on a stock exchange | 2,979.3 | 3,775.4 |
| – not listed on a stock exchange | 139.5 | 310.0 |

Of the bonds and other interest-bearing securities reported on the balance sheet, the sum of € 458.0 million (previous year: € 901.5 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, € 141.2 million (previous year: € 49.9 million) in financial assets were valued at the modified lower of cost or market. Their fair value totalled € 138.1 million (previous year: € 49.8 million). The sum of € 139.5 million (previous year: € 49.9 million) of these holdings represents debt obligations which were acquired in connection with interest rate swaps (asset swaps). We refinance the portion not hedged with asset swaps at the individual transaction level (€ 1.7 million last year, € 0.0 million the year before) either at matching maturities and currencies or secure it against interest rate-based changes in value at the portfolio level.

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

# 6. Shares and Other Non-Interest-Bearing Securities

The shares and other non-interest-bearing securities of € 23.1 billion reported on the previous year's balance sheet were sold in 2013. These marketable, non-listed securities had been fully allocated to the investment portfolio.

# 7. Equity Investments in Non-Affiliated Companies

| | **Dec. 31, 2013 € millions** | Dec. 31, 2012 € millions |
|---|---|---|
| Book value | 35.8 | 38.6 |
| including: | | |
| – banks | 8.4 | 8.4 |
| – financial services institutions | – | – |

Of the non-marketable equity investments in non-affiliated companies reported on the balance sheet, the sum of € 35.0 million is still guaranteed by EAA. A volume of € 26.7 million (previous year: € 28.0 million) had book values which exceeded their fair values by a total of € 10.1 million.

# 8. Equity Investments in Affiliated Companies

| | **Dec. 31, 2013 € millions** | Dec. 31, 2012 € millions |
|---|---|---|
| Book value | 325.2 | 518.7 |
| including: | | |
| – banks | – | 186.9 |
| – financial services institutions | 95.3 | 26.3 |
| Breakdown by marketability | | |
| – marketable securities | – | 186.9 |
| thereof: | | |
| – not listed on a stock exchange | – | 186.9 |

Of our equity investments in affiliated companies, a volume of € 23.3 million (previous year: € 0.0 million) had book values which exceeded their fair values by a total of € 1.1 million (previous year: € 0.0 million). We do not expect the impairments on these holdings to be permanent.

# 9. Trust Assets

| | **Dec. 31, 2013 € millions** | Dec. 31, 2012 € millions |
|---|---|---|
| Claims on customers | – | – |
| Other assets | 16,728.1 | 73,545.1 |
| Book value | 16,728.1 | 73,545.1 |

The other assets reported as trust assets largely comprise derivatives transferred to EAA under the risk transfer agreement as well as the corresponding matching claims. Please refer to Note 2.

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

# 10. Other Assets

| | Dec. 31, 2013<br>€ millions | Dec. 31, 2012<br>€ millions |
|---|---:|---:|
| Book value | 250.2 | 351.3 |
| including: | | |
| – claims from tax refunds | 96.1 | 139.6 |
| – offsetting items from the valuation of currency transactions | 75.0 | 85.2 |
| – premiums for options | 1.8 | 1.7 |
| – claims from profit and loss pooling agreements | – | 4.3 |

# 11. Fixed Assets

| € millions | Acquisition Cost/Cost of Production | Additions | Retirements | Reclassifications | Appreciation | Total Depreciation | Depreciation in the Fiscal Year | Book Value | Book Value |
|---|---:|---:|---:|---:|---:|---:|---:|---:|---:|
| | Jan. 1, 2013 | | | | | Dec. 31, 2013 | | Dec. 31, 2013 | Dec. 31, 2012 |
| Bonds and other interest-bearing securities forming part of fixed assets | 4,085.4 | | | | | | – | 3,118.8 | – |
| Shares and other non-interest-bearing securities forming part of fixed assets | 23.1 | Net change pursuant to § 34 (3) Sentence 2 RechKredV; € – 1,228.9 million | | | | | – | – | – |
| Equity investments in non-affiliated companies | 38.7 | | | | | | – | 35.8 | 38.6 |
| Equity investments in affiliated companies | 561.5 | | | | | | 37.1 | 325.2 | 518.7 |
| Intangible assets | 252.1 | 1.6 | 12.3 | – | – | 235.1 | 6.9 | 6.3 | 17.1 |
| Land and buildings | 46.6 | – | – | – | – | 41.4 | 0.3 | 5.2 | 5.6 |
| Office equipment | 158.3 | 2.8 | 3.7 | – | – | 125.6 | 2.6 | 31.8 | 33.2 |

Changes at foreign branches caused by the use of the exchange rates effective on the reporting date for currency translation are captured in the amounts reported for cost and in the figures for total depreciation.

The changes during the fiscal year with regard to securities were predominantly the result of portfolio reductions as well as the amortisation of premiums and discounts. There were no write-downs of any securities treated as fixed assets in 2013, 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 € 2.2 million (previous year: € 2.2 million) in land and buildings acquired under bail-out transactions which has been on the books for more than five years.

# 12. Own Shares

We did not acquire any of our own shares last year, nor did we hold any of our own shares at year-end.

# 13. Deferred Items

| | Dec. 31, 2013<br>€ millions | Dec. 31, 2012<br>€ millions |
|---|---:|---:|
| Deferred items from the reclassification of former trading positions and from banking book swaps | 288.2 | 354.6 |
| Discounts from liabilities | 11.6 | 2.2 |
| Premiums on claims | 3.4 | 3.5 |
| Other | 15.1 | 17.8 |
| Book value | 318.3 | 378.1 |

The deferred items resulting from the reclassification of trading positions 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 did not have any deferred tax assets or deferred tax liabilities as of December 31, 2013, nor did it have any at the end of the previous year. There is no restriction on profit 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 as of the reporting date. This was also the case at December 31, 2012.

# 16. Assets Sold Under Repurchase Agreements

We had sold assets of € 250 million under repurchase agreements at December 31, 2013 (previous year: € 0 million).

# 17. Liabilities to Banks

| | Dec. 31, 2013<br>€ millions | Dec. 31, 2012<br>€ millions |
|---|---:|---:|
| Payable on demand | 27.3 | 190.8 |
| With residual maturity of | | |
| – up to 3 months | 251.0 | 40.4 |
| – between 3 months and 1 year | 2.8 | 1.8 |
| – between 1 and 5 years | – | 7.5 |
| – more than 5 years | 121.8 | 112.6 |
| Book value | 402.9 | 353.1 |
| including: | | |
| – liabilities to affiliated companies | – | 9.8 |
| – liabilities to other companies in which equity investments are held | – | – |

# 18. Liabilities to Customers

| | Dec. 31, 2013 € millions | Dec. 31, 2012 € millions |
|---|---|---|
| Deposits | – | – |
| Other liabilities to customers | 6,986.5 | 12,818.1 |
| thereof: | | |
| – payable on demand | 2,177.5 | 3,625.0 |
| With residual maturity of | | |
| – up to 3 months | 1,881.2 | 5,427.1 |
| – between 3 months and 1 year | 373.2 | 565.0 |
| – between 1 and 5 years | 448.0 | 1,022.9 |
| – more than 5 years | 2,106.6 | 2,178.1 |
| Book value | 6,986.5 | 12,818.1 |
| including: | | |
| – liabilities to affiliated companies | 93.7 | 387.9 |
| – liabilities to other companies in which equity investments are held | 63.4 | 50.1 |

# 19. Certificated Liabilities

| | Dec. 31, 2013 € millions | Dec. 31, 2012 € millions |
|---|---|---|
| Bonds issued | 11.6 | 12.0 |
| including: | | |
| amounts becoming due before December 31, 2014 | 11.6 | 12.0 |
| Other certificated liabilities | – | – |
| Book value | 11.6 | 12.0 |
| including: | | |
| – to affiliated companies | – | – |
| – to other companies in which equity investments are held | – | – |

# 20. Trust Liabilities

| | Dec. 31, 2013 € millions | Dec. 31, 2012 € millions |
|---|---|---|
| Liabilities to banks | – | – |
| Liabilities to customers | 316.3 | 336.0 |
| Other liabilities | 16,411.8 | 73,209.1 |
| Book value | 16,728.1 | 73,545.1 |

The other liabilities reported as trust liabilities comprise derivatives transferred to EAA under the risk transfer agreement as well as the corresponding matching obligations. Please refer to Note 2.

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

# 21. Other Liabilities

| | Dec. 31, 2013<br>€ millions | Dec. 31, 2012<br>€ millions |
|---|---|---|
| Book value | 115.0 | 1,323.9 |
| including: | | |
| – pro-rata interest for borrower's note loans and subordinated liabilities | 34.6 | 31.2 |
| – fees on bank guarantees | 21.8 | 31.4 |
| – liabilities from profit participation certificates which matured | 19.0 | 103.0 |
| – liabilities to NRW.BANK under pension commitments | – | 773.3 |
| – premiums from options | – | 0.3 |

The prior-year figure was adjusted for the reporting of € 116.6 million in deferred items relating to the reclassification of the trading portfolio. Those positions are now reported under the liabilities line item "deferred items".

# 22. Deferred Items

| | Dec. 31, 2013<br>€ millions | Dec. 31, 2012<br>€ millions |
|---|---|---|
| Deferred items from the reclassification of former trading positions and from banking book swaps | 311.9 | 342.0 |
| Fees from the lending business | 18.6 | 0.9 |
| Other | 5.5 | 9.9 |
| Book value | 336.0 | 352.8 |

The deferred items resulting from the reclassification of trading positions 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.

The prior-year figure was adjusted for the reporting of € 116.6 million in deferred items relating to the reclassification of the trading portfolio. The amount reported under other liabilities was adjusted by the same amount.

# 23. Provisions

| | Volume at | Utilised | Reversal | Additions | Unwinding of the discount | Allocations pursuant to Art. 67 (1) Sentence 1 EGHGB | Other changes | Volume at |
|---|---|---|---|---|---|---|---|---|
| | Dec. 31, 2012<br>€ millions | € millions | € millions | € millions | € millions | € millions | € millions | Dec. 31, 2013<br>€ millions |
| For pension liabilities | 569.4 | 49.6 | – | 2.7 | 46.2 | 106.5 | 22.2 | 697.4 |
| For taxes | 397.2 | 36.4 | – | 4.5 | – | – | – 4.7 | 360.6 |
| Other provisions | 1,095.2 | 332.3 | 65.5 | 131.9 | 29.3 | – | – 49.1 | 809.5 |
| – for restructuring | 545.4 | 95.4 | 33.9 | 54.9 | 17.2 | – | – 62.9 | 425.3 |
| – in the personnel area | 279.3 | 93.1 | 3.1 | 3.0 | 10.3 | – | 36.3 | 232.7 |
| – for loans/ equity investments | 4.2 | 0.1 | 1.7 | – | – | – | 1.1 | 3.5 |
| – miscellaneous | 266.3 | 143.7 | 26.8 | 74.0 | 1.8 | – | – 23.6 | 148.0 |
| Book value | 2,061.8 | 418.3 | 65.5 | 139.1 | 75.5 | 106.5 | – 31.6 | 1,867.5 |

Independent actuaries measure the present value of the pension liabilities according to the projected unit credit method, taking into account future wage and pension increases. Nearly 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, 2013 |
|---|---|
| Discount rate | 4.88% |
| Wage and salary index | 2.50% |
| Pension index | 2.20% |
| Fluctuation | 4.00%–5.00% |
| Mortality tables | Heubeck Richttafeln 2005 G |

On March 26, 2013, NRW.BANK and Portigon signed an agreement concerning the parties' final understanding on how to share the burden of pension expenses for employees of Portigon AG entitled to pension benefits. When assets of Westdeutsche Landesbank Girozentrale (now Portigon) were split off and transferred to Landesbank Nordrhein-Westfalen (now NRW.BANK) back in 2002, the contracts of those employees entitled to a pension in line with civil service law were also transferred (Act on Redefining the Legal Status of Public-Law Banking Institutions in North Rhine-Westphalia of July 2, 2002). The terms of this transfer also provided that Portigon would compensate NRW.BANK for the pension expenses it assumed in connection with the transfer. From Portigon's point of view, this created a liability to NRW.BANK; the actual amounts to be paid were reimbursed on an ongoing basis. Pursuant to the terms of the notice of determination, Portigon made a one-time payment of € 1,347.4 million in final settlement of NRW.BANK's claims. This amount does not include future service cost. For Portigon, this resulted in one-time expenses of approximately € 574.1 million in 2013 (€ 579.3 million with interest) from adjustment of the discount rate to current market conditions as well as from the residual actuarial deficit at December 31, 2012 resulting from initial application of the Accounting Law Reform Act (BilMoG) to the underlying pension liabilities.

Pursuant to Article 67 (1) Sentence 1 of the Introductory Act to the German Commercial Code (EGHGB) 1/15 of the deficit of € 478.3 million revealed by the measurement of pension liabilities in connection with the first-time application of BilMoG (including € 344.7 million in obligations to NRW.BANK from pension commitments) was allocated to pension provisions each year from 2010 to 2012. Following the transfers of pension obligations to the Verbundbank and NRW.BANK in the previous year, the remaining deficit came to € 106.5 million, and this amount was allocated in full to pension provisions last year. Thus, at December 31, 2013, there was no longer any deficit resulting from remeasurement in accordance with BilMoG.

Pursuant to Article 67 (1) Sentence 2 of the Introductory Act to the German Commercial Code (EGHGB), companies have the option of retaining the carrying amounts for any of their provisions which they technically should reduce under the measurement changes introduced by BilMoG if the amount to be reversed would have to be added back again by December 31, 2024 at the latest. Portigon exercised this option. Of the original excess coverage of € 15.1 million, the sum of € 0.3 million was offset against the interest cost on this portion of the provisions in 2013. The sum of € 0.9 million was reversed because the underlying relationships on which the provisions were based ended in 2013. The excess coverage as of December 31, 2013 came to € 0.7 million.

The € 75.5 million in interest cost on provisions unrelated to banking operations remaining after being offset by the excess coverage resulting from first-time application of BilMoG was reported in the other operating result.

The item miscellaneous provisions includes, among other amounts, € 15.0 million (previous year: € 0 million) for reimbursement commitments relating to the pension obligations transferred to NRW.BANK (service cost) and € 6.8 million (previous year: € 6.8 million) for potential litigation risks.

# 24. Subordinated Liabilities

| | Dec. 31, 2013 € millions | Dec. 31, 2012 € millions |
|---|---|---|
| Book value | 2,245.7 | 2,293.0 |
| including: | | |
| – to affiliated companies | 837.1 | 861.7 |
| – to other companies in which equity investments are held | – | – |

Of the total subordinated liabilities, € 1,083.4 million (previous year: € 286.1 million) have a residual maturity of less than two years. The original maturities range from 5 to 40 years.

The Bank incurred interest expense of € 95.1 million in connection with its subordinated liabilities in 2013 (previous year: € 94.9 million). The subordinated liabilities carried by Portigon itself or via its subsidiaries comply with the requirements of § 10 (5a) of the German Banking Act (KWG); the right to terminate the liabilities without notice has not been reserved.

The capital we raised with the following note exceeded 10% of our total subordinated liabilities as of December 31, 2013:

| Identification No. | Currency | Amount in € millions | Interest Rate | Maturity |
|---|---|---|---|---|
| WKN 807957 | EUR | 300.0 | 5.00% | Dec. 15, 2015 |

The terms and conditions for subordinated notes apply. There is no contractual agreement to convert these funds into equity capital or into another form of debt.

# 25. Profit Participation Capital

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

| at Dec. 31, 2012 € millions | Additions € millions | Subtractions € millions | Loss allocation 2013 € millions | at Dec. 31, 2013 € millions |
|---|---|---|---|---|
| 72.7 | – | – 25.9 | – 12.4 | 34.4 |

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 € 30.7 million. Of that amount, € 17.9 million was attributable to profit participation rights which matured on December 31, 2012 and € 12.8 million to those due to mature at a later date. The holders of profit participation capital are being allocated a portion of the loss for 2013 equal to € 19.3 million. Of that amount, € 6.9 million is attributable to the profit participation rights which matured on December 31, 2013, which were reported under other liabilities.

The following table depicts the breakdown of the profit participation capital by maturity (par value as well as after allocation of the losses, but before the deduction of discounts):

| Maturity | Before loss allocations<br>€ millions | After loss allocations<br>€ millions |
|---|---|---|
| 2014 | 28.6 | 15.2 |
| 2015 | 5.0 | 2.7 |
| 2017–2019 | 31.0 | 16.5 |
| Total | 64.6 | 34.4 |

The profit participation certificates constitute own funds of € 16.5 million (previous year: € 26.1 million) within the meaning of § 10 (5) of the German Banking Act (KWG).

# 26. Equity Capital

The subscribed capital of Portigon was € 498.6 million at December 31, 2013 (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 44.

Portigon is reporting a net loss for the 2013 fiscal year of € 825.9 million.

Portigon 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 core capital elements of Portigon participating in the loss. The silent partners are being allocated a portion of the relevant loss for 2013 equal to € 89.1 million (previous year: € 61.3 million).

Pursuant to the agreement of December 12, 2009 concerning FMS's silent participation, FMS paid its entire silent contribution to capital in the amount of € 3,000.0 million in three instalments over the course of fiscal years 2009 and 2010. 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 2013 equal to € 606.1 million (previous year: € 399.4 million). Portigon's Managing Board was authorised by the extraordinary shareholders' meeting held on April 23, 2010 to grant FMS the option of converting all or part of the silent contribution to capital into shares of Portigon AG. To this end, a new class of shares was created (originally Class C, now Class B), with a preferred dividend of 10%, a preferred stake in any proceeds from the sale of divisions and subsidiaries, and senior ranking in the event of liquidation. FMS's stake may not exceed 49.9% of the share capital. The agreement on the granting of a conversion right was signed in April 2010. As a result of the partial sale of the silent contribution to capital to NRW, the agreement on the conversion right, including the restated agreement between FMS and Portigon concerning the granting of a conversion right, was amended by an agreement of August 26, 2012. The amended

agreements are consistent with previous agreements. This includes, in particular, the provisions on the possibility of exercising the conversion right, on determining the number of new shares to issue and their relationship to the shares issued prior to the conversion, on the maximum stake in the share capital of 49.9% and the new Class B, formerly Class C, preferred shares. FMS is the only party that can exercise the conversion right. Thus far, it has not been exercised.

The loss remaining after loss allocation, including the loss participation of the profit participation certificate holders and silent partners, comes to € 183.2 million and is being reported as a retained loss.

| | Total Dec. 31, 2012 € millions | Withdrawals/ Loss Allocation € millions | Other Appropriation € millions | **Total Dec. 31, 2013 € millions** |
|---|---|---|---|---|
| Subscribed capital | 498.6 | – | – | 498.6 |
| Capital reserves | – | – | – | – |
| Reserves from retained earnings | – | – | – | – |
| Typical silent contributions to capital | | | | |
| – issued in 2005 | 327.6 | – 89.1 | – | 238.5 |
| – issued in 2009/2010 | 2,280.1 | – 606.1 | – | 1,674.0 |
| Retained loss | – 71.9 | – 111.3 | – | – 183.2 |
| Equity capital pursuant to the German Commercial Code (HGB) | 3,034.4 | – 806.5 | – | 2,227.9 |

# 27. Liability for Pre-Existing Commitments – Grandfathering

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

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

- All liabilities incurred 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 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, as soon as they have properly determined and set forth in writing at the time a liability matures that the creditor of such liability cannot be satisfied from Portigon’s assets. This 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 € 2.7 billion in liabilities which were still grandfathered at December 31, 2013. A € 0.9 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

At year-end, Portigon AG had foreign currency assets valued at € 3.6 billion (previous year: € 11.6 billion) and foreign currency liabilities valued at € 2.3 billion (previous year: € 11.3 billion).

# Notes to the Statement of Income

## 29. Geographic Breakdown of Income Components

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

| 1. 1.–31. 12. 2013<br>€ millions | Interest Income | Current Income | Commission Income | Other Operating Income |
|---|---|---|---|---|
| Germany | 113.3 | 8.2 | 196.6 | 86.5 |
| UK | 119.9 | – | 80.3 | 2.6 |
| Rest of Europe | 64.1 | – | 12.6 | 1.6 |
| Far East and Australia | 56.1 | – | 10.2 | 0.5 |
| North America | 68.7 | 1.9 | 59.3 | 0.6 |
| Amount reported on the Statement of Income | 422.1 | 10.1 | 359.0 | 91.8 |

The geographic breakdown of income is determined on the basis of the domicile of the branch on whose account the transaction is carried or which is responsible for the transaction. This table includes the profit/loss which was derived from transactions between the regional units, but eliminated from Portigon's statement of income. Current income includes income from profit pooling and (partial) profit transfer agreements.

## 30. Administrative and Custodial Services

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

# 31. Other Operating Result

| Other operating income | 1. 1.–31. 12. 2013<br>€ millions | 1. 1.–31. 12. 2012<br>€ millions |
|---|---|---|
| Amount reported on the Statement of Income | 91.8 | 400.6 |
| including: | | |
| Reversal of tax liability due to notice of liability | 35.3 | – |
| Reversal of other provisions | 27.5 | 39.6 |
| Reimbursement from Group companies and third parties | 9.5 | 17.3 |
| including: | | |
| Rental and property income | 4.1 | 2.9 |
| Income from the leasing business | 8.2 | 6.5 |
| Reimbursement of migration-related losses captured in net interest income from the close-out of hedging derivatives | – | 290.7 |

| Other operating expenses | 1. 1.–31. 12. 2013<br>€ millions | 1. 1.–31. 12. 2012<br>€ millions |
|---|---|---|
| Amount reported on the Statement of Income | 124.2 | 236.8 |
| including: | | |
| Unwinding of the discount on provisions | 75.5 | 134.1 |
| Expenses from intragroup netting | 20.4 | 25.2 |
| Losses on the sale of fixed assets | 5.6 | 22.9 |
| Dividend payment Banco do Brasil | 4.3 | 4.2 |
| Result from foreign currency translation | 4.1 | 9.9 |
| Expenses for land and buildings not used in operations | 1.5 | 0.7 |
| Annual contribution to the restructuring fund | 1.3 | 1.9 |
| General employee expenses | 1.3 | 1.3 |
| Allocations to other provisions | – | 28.8 |
| Allocation to DSGV security reserve | – | 3.4 |

# 32. Risk Provisions

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

| | 2013<br>€ millions | 2012<br>€ millions |
|---|---|---|
| Beginning balance 1. 1. | 179.1 | 479.3 |
| Transfer-related reductions | – | – 273.0 |
| Allocations | – | 11.4 |
| Unwinding of the discount | – | 0.1 |
| Reversals | – 8.3 | – 13.9 |
| Usage | – 12.2 | – 24.6 |
| Market value differences/other changes | – 7.7 | – 0.2 |
| Ending balance 31. 12. | 150.9 | 179.1 |

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

| | 1. 1.–31. 12. 2013 € millions | 1. 1.–31. 12. 2012 € millions |
|---|---|---|
| Result of provisions | – 16.8 | 59.0 |
| Income/expenses from loans and securities | 0.7 | 17.7 |
| thereof: | | |
| – loans | 0.7 | 9.4 |
| – securities (liquidity reserve) | – | 8.3 |
| Participations/shares in affiliated companies and income/expenses from securities | – 17.5 | 41.3 |
| thereof: | | |
| – participations/shares in affiliated companies | – 21.1 | – 7.3 |
| – securities | 3.6 | 48.6 |

Pursuant to § 340f (3) of the German Commercial Code (HGB) we offset the income and expenses resulting from the evaluation of the lending business with write-ups and write-downs of securities held in the liquidity reserve. The net result was a positive € 0.7 million (previous year: positive € 17.7 million). Similarly, pursuant to § 340c (2) of the German Commercial Code (HGB), the expenses related to shares in affiliated and non-affiliated enterprises, as well as securities held in the banking book, were offset by the income amounts for these investments. The net result in this case, which is the result of provisions for participations and securities, was a negative € 17.5 million (previous year: positive € 41.3 million).

In addition, we absorbed losses of € 1.9 million (previous year: € 1.6 million) from subsidiaries.

## 33. Income and Expenses Relating to Different Accounting Periods

A total of € 1.5 million in expenses relating to different accounting periods was incurred in fiscal year 2013, the predominant portion of which stemmed from the spin-offs and transfers in 2012 (previous year: € 3.0 million in income from interest on tax refunds for prior years).

## 34. Extraordinary Result

The extraordinary result came to € – 697.6 million (previous year: € – 227.8 million) and comprised income of € 43.7 million (previous year: € 27.9 million) from the reversal of provisions that were no longer needed and expenses of € 741.3 million (previous year: € 255.7 million). Of the extraordinary expenses, the sum of € 579.3 million related to the settlement payment for pension obligations that were transferred to NRW.BANK for eligible employees of Portigon AG (see Note 23). In addition, the as yet unrecognised liability of € 106.5 million, calculated in accordance with Article 67 (1) Sentence 1 of the Introductory Act to the German Commercial Code (EGHGB) and resulting from the remeasurement of pension obligations under the Accounting Law Reform Act (BilMoG), was allocated in full to pension provisions. Restructuring expenses of € 55.5 million also had an adverse effect on the extraordinary result.

## 35. Taxes on Income and Revenues

The tax income of € 2.6 million (previous year: tax expense of € 41.0 million) consisted of a tax benefit of € 1.0 million from domestic operations and € 1.6 million from the foreign branch offices.

# Other Information

## 36. Contingent Liabilities

### Contingent Liabilities and Other Commitments

| | Dec. 31, 2013<br>€ millions | Dec. 31, 2012<br>€ millions |
|---|---|---|
| Liabilities from guarantees and indemnity agreements | 350.2 | 789.3 |
| Other commitments | 822.4 | 1,458.2 |

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

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

## 37. Letters of Comfort

The two letters of comfort discussed in the notes to the previous year's financial statements expired upon the definitive closing of the sale of Brazilian subsidiary Banco WestLB do Brasil S.A., São Paulo, and its subsidiary WestLB do Brasil Cayman Ltd., George Town, as of July 31, 2013. No further letters of comfort were issued.

## 38. Off-Balance-Sheet Items

### Provision of Collateral for Own Liabilities

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

| | Dec. 31, 2013<br>€ millions | Dec. 31, 2012<br>€ millions |
|---|---|---|
| Own securities assigned or pledged to central banks | 1,943.4 | 2,383.7 |
| Own securities pledged to other banks or customers | 265.5 | 401.4 |
| Hedging of pension obligations | 16.5 | 14.7 |
| Own securities deposited as collateral for participation in stock exchange trading systems and clearing systems | 0.7 | 11.4 |
| Total assets pledged | 2,226.1 | 2,811.2 |

### Outsourcing

Portigon has outsourced a variety of IT and settlement activities, including the development and operation of IT infrastructure applications, master data maintenance, security settlement and custodian services. We outsource activities and processes only after performing a detailed profitability and risk study. Our aim in outsourcing is to be more efficient, more competitive and to cut costs on a sustainable basis. All outsourcing satisfies the requirements of § 25a of the German Banking Act (KWG) and MaRisk. We regularly review our outsourcing procedures for potential risks and adjust the procedures as needed.

# 39. Other Financial Obligations

## Deposit Insurance and Other Insurance Mechanisms

Portigon is a member of the German Savings Banks Association (DSGV) and makes contributions to the security reserve (guarantee fund) of the Landesbanken and Girozentralen. These security reserves constitute protection for contributing banks within the meaning of § 12 of the German Deposit Protection and Investor Compensation Act (Einlagensicherungs- und Anlegerentschädigungsgesetz, EAEG) and are part of the insurance scheme of the Sparkassen-Finanzgruppe (joint liability system).

The insurance scheme of the Sparkassen-Finanzgruppe consists of eleven funds belonging to the regional savings banks and giro associations, the security reserve (guarantee fund) of the Landesbanken and Girozentralen and the security fund of the Landesbausparkassen, which together form a system of joint liability. There are rules and regulations governing the relationships between regional and national funds which provide for offsetting in cases where coverage is claimed (so-called overflow agreements). Based on the current legal environment, on the assumption that there will be no further cases in which coverage is claimed and on the contribution system of the security reserve (guarantee fund), Portigon, having completed the transfer of the imputable sums to the affiliated fund, had no additional funding obligation as of the end of fiscal year 2013, will not have one for the foreseeable future and will not have to make additional contributions until further notice.

## Guarantor Liability

In 2012, the guarantor liability Portigon had had under the statutory provisions for liabilities of Rheinland-Pfalz Bank, Mainz, HSH Nordbank AG, Hamburg/Kiel, Westdeutsche ImmobilienBank AG, Mainz, and DekaBank Deutsche Girozentrale, Frankfurt/Main, was spun off to Erste Abwicklungsanstalt along with other assets and liabilities of Portigon. Portigon will have no secondary liability for obligations covered by this guarantor liability.

## Other Contingent Liabilities

Portigon's liability to make additional contributions to the Liquiditätskonsortialbank, in which it holds a participation, remained unchanged at € 65.5 million as of December 31, 2013. Portigon may incur additional obligations with respect to its joint liability for the additional contributions to the Liquiditätskonsortialbank from partners who are members of the German Savings Banks Association. Any calls on its obligation to make additional contributions, which would increase the book value of its stake in the Liquiditätskonsortialbank, are guaranteed by EAA in respect of the shares Portigon held in the institution prior to the merger with readybank ag in 2012 (€ 65.3 million).

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 € 92.9 million (previous year: € 84.1 million).

There are rental and leasing obligations and other financial obligations totalling € 799.6 million (previous year: € 1,019.8 million) (€ 433.8 million of this amount relates to obligations to affiliated companies [previous year: € 460.8 million]). The agreements run for a maximum of 19 years.

Portigon guaranteed, through the year 2110, the long-term "ground rent payments" which a former subsidiary agreed to make to the owner of a parcel of land in conjunction with a real estate financing. The beneficiary of the guarantee did not release Portigon from this obligation when the subsidiary in question was sold. In order to protect Portigon, the entity which acquired the subsidiary agreed to indemnify Portigon against any claims asserted under the guarantee. The shares of the subsidiary were pledged to Portigon as security for this counter-guarantee.

# 40. Forward Transactions/Derivatives

With the change in Portigon AG's business model in 2012, the range of approved products decreased significantly. Most of the product categories presented below relate to derivative transactions whose risks were transferred to EAA, predominantly under the risk transfer agreement.

The derivative transactions entered into by Portigon AG involve the following product categories:

- Products based on interest rates
  Interest rate swaps, interest rate futures, forward rate agreements (FRAs), interest rate options, issued interest rate warrants, interest rate caps, interest rate floors, interest rate collars and swaptions.

- Products based on exchange rates
  Currency forwards, currency options, issued currency warrants, interest rate/currency swaps, forward interest rate/currency swaps.

- Products based on share prices and other prices
  Stock forwards, stock options, index forwards, index options, issued stock warrants and issued index warrants, precious metal/commodity forwards and options.

- Credit derivatives
  Credit default swaps, total return swaps and credit linked notes.

As of the balance sheet date, the total volume in nominal terms of derivative transactions was € 194.3 billion (previous year: € 725.0 billion). Of that amount, € 177.3 billion (previous year: € 698.6 billion) relates to items that were transferred under the risk transfer agreement and are therefore being held in trust for EAA. Positive market values of € 7.8 billion (previous year: € 34.3 billion) and negative market values of € 7.5 billion (previous year: € 35.4 billion) are attributable to the derivatives held in trust. There are matching obligations and claims in equivalent amounts vis-à-vis EAA for these derivatives.

### Derivatives – Volumes at the Reporting Date

| | Nominal Values | | Positive Market Values | | Negative Market Values | |
|---|---|---|---|---|---|---|
| € millions | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| Products based on interest rates | 164,655 | 579,033 | 6,870 | 32,911 | 5,900 | 33,748 |
| Products traded OTC | 164,655 | 578,874 | 6,870 | 32,911 | 5,900 | 33,748 |
| Products traded on the stock exchange | 0 | 159 | 0 | 0 | 0 | 0 |
| Products based on exchange rates | 20,723 | 129,091 | 1,541 | 2,705 | 1,412 | 2,092 |
| Products traded OTC | 20,723 | 129,091 | 1,541 | 2,705 | 1,412 | 2,092 |
| Products traded on the stock exchange | 0 | 0 | 0 | 0 | 0 | 0 |
| Products based on share prices and other prices | 5,643 | 6,034 | 353 | 553 | 458 | 534 |
| Products traded OTC | 5,643 | 5,984 | 353 | 553 | 458 | 533 |
| Products traded on the stock exchange | 0 | 50 | 0 | 0 | 0 | 1 |
| Credit derivatives | 3,283 | 10,865 | 210 | 248 | 279 | 250 |
| Products traded OTC | 3,283 | 10,865 | 210 | 248 | 279 | 250 |
| Total derivatives | 194,304 | 725,023 | 8,974 | 36,417 | 8,049 | 36,624 |
| Products traded OTC | 194,304 | 724,814 | 8,974 | 36,417 | 8,049 | 36,623 |
| Products traded on the stock exchange | 0 | 209 | 0 | 0 | 0 | 1 |

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

The predominant portion of the contracts across all product types has a remaining term of three months to one year. There are also some fairly significant nominal volumes in the long-term maturity ranges. Most of these stem from interest rate contracts and products based on exchange rates.

### Derivatives – Breakdown by Maturity

| Nominal Values | Products Based on Interest Rates | | Products Based on Exchange Rates | | Products Based on Share Prices and Other Prices | | Credit Derivatives | |
|---|---|---|---|---|---|---|---|---|
| € millions | **Dec. 31, 2013** | Dec. 31, 2012 | **Dec. 31, 2013** | Dec. 31, 2012 | **Dec. 31, 2013** | Dec. 31, 2012 | **Dec. 31, 2013** | Dec. 31, 2012 |
| Residual maturity | | | | | | | | |
| – up to 3 months | 16,109 | 45,751 | 2,392 | 15,906 | 105 | 128 | 8 | 1,019 |
| – 3 months to 1 year | 67,078 | 79,523 | 9,831 | 21,611 | 3,754 | 1,550 | 1,864 | 2,413 |
| – 1 to 5 years | 30,630 | 272,715 | 1,213 | 73,010 | 109 | 2,075 | 635 | 6,487 |
| – more than 5 years | 50,838 | 181,044 | 7,287 | 18,564 | 1,675 | 2,281 | 776 | 946 |
| Total | 164,655 | 579,033 | 20,723 | 129,091 | 5,643 | 6,034 | 3,283 | 10,865 |

# 41. Remuneration of the Governing Bodies

| | **2013 € millions** | 2012 € millions |
|---|---|---|
| Total remuneration of the Managing Board | 1.6 | 2.5 |
| fixed | 1.6 | 2.2 |
| performance-based | 0.0 | 0.0 |
| departure-related | 0.0 | 0.3 |
| from holding supervisory board seats at Group subsidiaries | 0.0 | 0.0 |
| Total remuneration of former Managing Board members and their survivors | 5.7 | 5.9 |
| Total remuneration of Supervisory Board members | 0.3 | 0.9 |
| fixed | 0.3 | 0.9 |
| performance-based | 0.0 | 0.0 |
| performance-based with long-term incentive effects | 0.0 | 0.0 |
| Pension provisions for Managing Board members who actively served during the fiscal year | 4.8* | 10.4** |
| Pension provisions for former Managing Board members and their survivors | 88.0* | 69.0 |

* Including 15/15 of the amount related to changes introduced by BilMoG (previous year: 3/15)
In conjunction with the first-time application of the Accounting Law Reform Act (BilMoG) in 2010, the Bank initially decided in favour of a gradual adjustment of the measurement of its pension obligations, to be completed by December 31, 2024 at the latest. As of December 31, 2012, the Bank had added 3/15 of the total amount to provisions. The remaining 12/15 of the original deficit was added in full in the reporting year.

** The pension provisions for active Managing Board members also include the pension provisions for Managing Board members who left during 2012.

A provision of € 0.3 million was formed in 2013 (previous year: € 0.7 million) for the compensation owed to the members of the Supervisory Board. In addition, members received a total of € 38,000 (previous year: € 177,000) in reimbursement of their out-of-pocket expenses.

## Remuneration of the Members of the Managing Board

| | Period | Fixed remune-ration* | Performance-based remuneration | Remuneration with long-term incentive effects | Remuneration from seats at Group subsidiaries | **Total remuneration** | Obligation/ present value of pension commitments as of Dec. 31, 2013 | **Additions to/ subtractions from pension commitments in 2013** |
|---|---|---|---|---|---|---|---|---|
| | | € | € | € | € | **€** | € | **€** |
| Dreesbach, Stefan | 1. 1.–31. 12. 2013 | 574,975.55 | 0.00 | 0.00 | 0.00 | 574,975.55 | 484,175.00 | 153,646.00 |
| Franzmeyer, Dr. Kai Wilhelm | 1. 1.–31. 12. 2013 | 532,372.07 | 0.00 | 0.00 | 0.00 | 532,372.07 | 871,148.00 | 117,093.00 |
| Voigtländer, Dietrich | 1. 1.–31. 12. 2013 | 530,891.87 | 0.00 | 0.00 | 0.00 | 530,891.87 | 3,406,721.00 | 401,440.00 |
| Total | 1. 1.– 31. 12. 2013 | 1,638,239.49 | 0.00 | 0.00 | 0.00 | 1,638,239.49 | 4,762,044.00 | 672,179.00 |

* including non-cash compensation, taxes and the employer portion of social security contributions

## Remuneration of the Members of the Supervisory Board

| | Period | Fixed remuneration | Performance-based remuneration | **Total remuneration** |
|---|---|---|---|---|
| | | € | € | **€** |
| Binkowska, Dietmar P. | 1. 1.–31. 12. 2013 | 40,000.00 | 0.00 | 40,000.00 |
| Hintz, Cornelia | 1. 1.–31. 12. 2013 | 10,000.00 | 0.00 | 10,000.00 |
| Hock, Gudrun | 1. 1.–31. 12. 2013 | 17,500.00 | 0.00 | 17,500.00 |
| Janetzko, Sigrid | 1. 1.–22. 5. 2013 | 5,835.62 | 0.00 | 5,835.62 |
| Kahl, Dr. Bruno | 1. 1.–31. 12. 2013 | 10,000.00 | 0.00 | 10,000.00 |
| Klug, Gabriele | 1. 1.–31. 12. 2013 | 20,000.00 | 0.00 | 20,000.00 |
| Lipphaus, Annette | 1. 1.–31. 12. 2013 | 10,000.00 | 0.00 | 10,000.00 |
| Ludwig, Doris | 1. 1.–31. 12. 2013 | 33,068.49 | 0.00 | 33,068.49 |
| Matthewes, Manfred | 1. 1.–31. 12. 2013 | 25,000.00 | 0.00 | 25,000.00 |
| Plogmann, Dr. Friedhelm | 1. 1.–31. 12. 2013 | 15,000.00 | 0.00 | 15,000.00 |
| Sacha, Björn | 1. 1.–31. 12. 2013 | 15,000.00 | 0.00 | 15,000.00 |
| Stemper, Dr. Peter | 28. 5.–31. 12. 2013 | 5,972.60 | 0.00 | 5,972.60 |
| Walter-Borjans, Dr. Norbert | 1. 1.–31. 12. 2013 | 20,000.00 | 0.00 | 20,000.00 |
| Subtotal | | 227,376.71 | 0.00 | 227,376.71 |
| Lump-sum reimbursement of out-of-pocket expenses | | | | 38,400.00 |
| Value-added tax on amounts paid | | | | 33,326.78 |
| Total | | | | 299,103.49 |

# 42. 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.

# 43. Number of Employees

The average number of employees in 2013 was as follows:

| Number of Employees | Male | Female | Total 2013 | Total 2012 |
|---|---|---|---|---|
| Domestic branches | 871 | 800 | 1,671 | 2,366 |
| Foreign branches | 364 | 254 | 618 | 849 |
| Total | 1,235 | 1,054 | 2,289 | 3,215 |

An average of 22 (previous year: 39) employees were engaged in apprenticeship training or equivalent training.

# 44. Shareholdings in Portigon AG

| Shareholders | Investment Quota | |
|---|---|---|
| | Dec. 31, 2013<br>% | Dec. 31, 2012<br>% |
| State of North Rhine-Westphalia | 69.490 | 69.490 |
| NRW.BANK | 30.510 | 30.510 |
| Total | 100.000 | 100.000 |

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

# 45. Seats Held by Members of the Managing Board

Members of the Portigon Managing Board are members or chairmen of the following large companies’ supervisory boards or other supervisory bodies within the meaning of § 340a (4) No. 1, in conjunction with § 267 (3), of the German Commercial Code (HGB).

Stefan Dreesbach
Banco WestLB do Brasil S.A. (until July 31, 2013)
(now Banco Mizuho do Brasil S.A.)

# 46. Seats Held by Employees

The following employees are members or chairs of the following large companies' supervisory boards or other supervisory bodies within the meaning of § 340a (4) No. 1, in conjunction with § 267 (3), of the German Commercial Code (HGB).

Michael Frank
Banco WestLB do Brasil S.A. (until July 31, 2013)
(now Banco Mizuho do Brasil S.A.)

Sigrid Janetzko
Portigon AG (until May 22, 2013)

Doris Ludwig
Portigon AG (until January 31, 2014)

Frank Malone
Basinghall Finance plc
EAA Covered Bond Bank plc

Yoram Matalon
Banco WestLB do Brasil S.A. (until July 31, 2013)
(now Banco Mizuho do Brasil S.A.)

Manfred Matthewes
Portigon AG

Max Niesert
AKA Ausfuhrkredit-Gesellschaft mbH

Björn Sacha
Portigon AG

Alexander Schulze
Banco WestLB do Brasil S.A. (until July 31, 2013)
(now Banco Mizuho do Brasil S.A.)

Gerhard Steigüber
Banco WestLB do Brasil S.A. (until July 31, 2013)
(now Banco Mizuho do Brasil S.A.)

Dr. Peter Stemper
Portigon AG (from May 28, 2013 to January 30, 2014)

Alexander Tcherepnine
Banco Finantia S.A.

Martin Tillert
Meriten Investment Management GmbH (until June 30, 2013)

# 47. Governing Bodies of Portigon AG

**Portigon AG Managing Board**

Dietrich Voigtländer
Chairman

Stefan Dreesbach

Dr. Kai Wilhelm Franzmeyer

Dr. Peter Stemper (from February 1, 2014)

**Portigon AG Supervisory Board**

Dietmar P. Binkowska
Chairman
Chairman of the Managing Board, NRW.BANK

Doris Ludwig
Vice Chairwoman
Director, Portigon Financial Services GmbH Düsseldorf
(Portigon AG Düsseldorf until January 31, 2014)

Cornelia Hintz
Secretary, ver.di Vereinte Dienstleistungsgewerkschaft

Gudrun Hock
Mayoress, City of Düsseldorf

Sigrid Janetzko (until May 22, 2013)
Bank Director, Portigon AG Düsseldorf

Dr. Bruno Kahl
Under Secretary, Federal Finance Ministry

Gabriele Klug
City Treasurer, City of Cologne

Annette Lipphaus
Regional Head of Legal Protection, ver.di Vereinte Dienstleistungsgewerkschaft

Manfred Matthewes
Director, Portigon AG Düsseldorf

Dr. Friedhelm Plogmann
Management consultant, Meerbusch

Björn Sacha
Director, Portigon AG Düsseldorf

Dr. Peter Stemper (from May 28, 2013 to January 30, 2014)
Managing Director, Portigon AG Düsseldorf

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

# 48. Shareholdings

## List of Shareholdings

Reporting company: Portigon AG

Date: December 31, 2013
Target currency/unit: EUR/thousands
Disclosure of stake and percentage of voting rights if different than stake

**I. Companies included in the consolidated financial statements**

**1. Fully consolidated subsidiaries**

a. Subsidiaries under IAS 27

| No. | Name | Place | Stake | Voting Rights, if different | Currency Code | Share Capital | Result |
|---|---|---|---|---|---|---|---|
| 1 | Portigon Europe (UK) Holdings Limited [6] | London, United Kingdom | 100.00 | | GBP | 24,781.97 | 2,013.73 |
| 2 | Portigon Finance Curaçao N.V. [6] | Willemstad, Curaçao | 100.00 | | EUR | 492.38 | 446.38 |
| 3 | Portigon Financial Services GmbH i. Gr. | Düsseldorf | 100.00 | | EUR | 69,888.73 | – 111.27 |
| 4 | Portigon Securities Inc. [6] | New York, USA | 100.00 | | USD | 23,088.36 | 98.05 |

b. Subsidiaries under SIC-12

| No. | Name | Place | Stake | Voting Rights, if different | Currency Code | Share Capital | Result |
|---|---|---|---|---|---|---|---|
| 5 | GOD Grundstücksverwaltungsgesellschaft & Co. KG [6] | Mainz | 94.00 | 11.11 | EUR | 154,201.87 | 7,554.24 |
| 6 | GOH Grundstücksverwaltungsgesellschaft & Co. KG [6] | Mainz | 94.00 | 11.11 | EUR | 140,600.81 | 6,651.82 |

**II. Companies not included in the consolidated financial statements**

**1. Subsidiaries not included**

a. Subsidiaries under IAS 27

| No. | Name | Place | Stake | Voting Rights, if different | Currency Code | Share Capital | Result |
|---|---|---|---|---|---|---|---|
| 7 | Harrier Capital Management (Bermuda) Ltd. [3] | Hamilton, Bermuda | 100.00 | | USD | 129.26 | 0.07 |
| 8 | Portigon International Services Limited [1 6] | St. Helier, Jersey | 100.00 | | GBP | 412.99 | – 17.54 |
| 9 | Portigon Property Services Limited [1 6] | London, United Kingdom | 100.00 | | GBP | 224.05 | 219.25 |
| 10 | Portigon UK Limited [1 6] | London, United Kingdom | 100.00 | | GBP | 0.00 | 0.00 |
| 11 | Portigon Versorgungskasse GmbH [6] | Düsseldorf | 100.00 | | EUR | 25.00 | 0.00 |
| 12 | Schloss Krickenbeck GmbH [2 6] | Nettetal | 100.00 | | EUR | 153.40 | 0.00 |
| 13 | Treuhand- und Finanzierungsgesellschaft für Wohnungs- und Bauwirtschaft mit beschränkter Haftung, Treufinanz [6] | Düsseldorf | 65.41 | 66.37 | EUR | 3,069.09 | – 180.30 |
| 14 | West Treuhand- und Verwaltungsgesellschaft mbH [6] | Düsseldorf | 100.00 | | EUR | 25.00 | 7.71 |
| 15 | WMB Leasing Seven Limited [1 6] | London, United Kingdom | 100.00 | | GBP | 114.30 | 119.26 |
| 16 | WMB Leasing Ten Limited [1 6] | London, United Kingdom | 100.00 | | GBP | 75.84 | 178.04 |

| b. | Subsidiaries under SIC-12 | | | | | | |
|---|---|---|---|---|---|---|---|
| No. | Name | Place | Stake | Voting Rights, if different | Currency Code | Share Capital | Result |
| 17 | Compass Securitisation Limited [4] | Dublin 2, Ireland | 0.00 | | EUR | 8.00 | n/a |
| 18 | Compass Securitization LLC | New York, USA | 0.00 | | | n/a | n/a |
| 19 | RN Beteiligungs-GmbH i.L. [7] | Stuttgart | 50.00 | | EUR | 1,277.60 | – 25.29 |
| 20 | Westcommodities Limited | George Town, Grand Cayman, Cayman Islands | 0.00 | | | n/a | n/a |

## 2. Stakes in other companies

Stake of at least 20%

| No. | Name | Place | Stake | Voting Rights, if different | Currency Code | Share Capital | Result |
|---|---|---|---|---|---|---|---|
| 21 | Garnet Real Estate LLC [6] | New York, USA | 100.00 | | USD | 163.01 | n/a |
| 22 | Indigo Holdco LLC [6] | New York, USA | 100.00 | | USD | 2,043.95 | n/a |
| 23 | Indigo Land Groveland LLC [1] | New York, USA | 100.00 | | | n/a | n/a |
| 24 | Indigo Land Majestic Bay LLC [1] | New York, USA | 100.00 | | | n/a | n/a |
| 25 | Indigo Land Mt. Dora Development LLC [1] | New York, USA | 100.00 | | | n/a | n/a |
| 26 | Indigo Land Northwood LLC [1] | New York, USA | 100.00 | | | n/a | n/a |
| 27 | Indigo Land Progresso Lofts, LLC [1] | New York, USA | 100.00 | | | n/a | n/a |
| 28 | Indigo Real Estate, LLC [1 5] | New York, USA | 100.00 | | USD | 9,192.25 | n/a |
| 29 | White W. Holding LLC [6] | New York, USA | 100.00 | | USD | 7,317.37 | n/a |
| 30 | WLB ASA Ethanol LLC [6] | New York, USA | 100.00 | | USD | 0.00 | n/a |

Footnotes:
1 = indirectly held
2 = profit and loss pooling agreement
3 = data as of Dec. 31, 2005
4 = data as of Mar. 31, 2006
5 = data as of Dec. 31, 2009
6 = data as of Dec. 31, 2012
7 = data as of Oct. 24, 2013

Düsseldorf, February 25, 2014

Portigon AG
The Managing Board

Dietrich Voigtländer　　Stefan Dreesbach

Dr. Kai Wilhelm Franzmeyer　　Dr. Peter Stemper

# Auditor's Opinion

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

"We have audited the annual financial statements, which consist of the balance sheet, statement of income and notes to the annual financial statements, together with the bookkeeping system, and the statement of financial condition prepared by Portigon AG, Düsseldorf, for the financial year ended December 31, 2013. The bookkeeping and preparation of the annual financial statements and statement of financial condition according to German commercial law regulations are the responsibility of the legal representatives of the Company. It is our task to give an opinion on the annual financial statements, together with the bookkeeping system, and the statement of financial condition on the basis of our audit.

We carried out our audit in accordance with § 317 of the German Commercial Code (HGB) while complying with the German principles of proper auditing laid down by the Institute of German Certified Public Accountants (IDW – Institut der Wirtschaftsprüfer). According to these principles, the audit must be planned and carried out in a way which ensures that errors and infringements which have a material impact on the presentation of the Company's net assets, financial condition and earnings in the annual financial statements and statement of financial condition can be identified as not being in accordance with generally accepted accounting principles. When defining the audit processes, knowledge of the business activities and economic and legal environment of the Company as well as the expectations regarding possible errors are taken into account. In the context of the audit, the effectiveness of the internal control system and evidence of the correctness of the information contained in the books, annual financial statements and statement of financial condition are for the most part assessed on the basis of samples. The audit covers an assessment of the accounting principles applied and the relevant estimates made by the legal representatives as well as an opinion on the overall presentation of the annual financial statements and statement of financial condition. We are of the opinion that our audit forms a sufficiently reliable basis for our assessment.

Our audit resulted in no objections.

In our opinion founded on the information obtained in the audit, the annual financial statements comply with the requirements of law and, in compliance with standard accounting principles, present a true and fair view of the net assets, financial condition and earnings of the Company. The statement of financial condition is consistent with the annual financial statements, accurately reflects the Company's situation and correctly portrays the opportunities and risks inherent in its future development.

Without qualifying this opinion, we draw attention to the statements made in the 'Structural Changes', 'Events Occurring After the Close of the Fiscal Year' and 'Outlook' sections of the statement of financial condition. There, the Managing Board explains that most of the portfolio services business was transferred to the subsidiary Portigon Financial Services GmbH as of February 1, 2014. By transferring the portfolio services business, Portigon AG has largely given up its previous business operations and will concentrate on asset management activities going forward. Nevertheless, given the proceeds generated from the sale that occurred in the interim, it was possible to maintain the carrying amounts of the assets and liabilities transferred with the portfolio services business."

Düsseldorf, February 25, 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Martin Werthmann
German Public Accountant

Holger Lösken
German Public Accountant

# Responsibility Statement

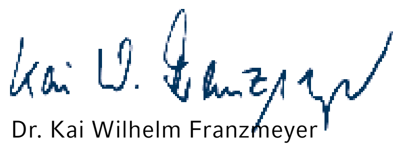
To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Portigon AG, and the management report includes a fair review of the development and performance of the business and the position of Portigon AG, together with a description of the principal opportunities and risks associated with the expected development of Portigon AG.

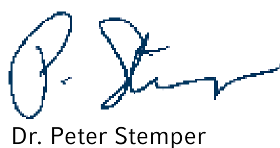
Düsseldorf, February 25, 2014

The Managing Board
Portigon AG

Dietrich Voigtländer

Stefan Dreesbach


Dr. Kai Wilhelm Franzmeyer


Dr. Peter Stemper

# Report of the Supervisory Board

Following the radical transformation undertaken by Portigon AG in 2012 in response to the European Commission's final decision of December 20, 2011, the company's 2013 fiscal year was shaped, on the one hand, by the systematic implementation of the restructuring measures accompanying the transformation and, on the other, by the intense preparations for establishing Portigon Financial Services GmbH, which commenced operations on February 1, 2014.

Against this backdrop, the Managing Board and Supervisory Board oversaw two highly demanding processes which had to be steered in parallel: firstly, continued dismantling of areas which the servicing business will no longer need in the future and, secondly, building up the new service company in a very challenging environment. The Supervisory Board approved the formation of Portigon Financial Services GmbH at its meeting on June 28, 2013, thereby setting in motion the commencement of important formation activities, such as licensing and the hiring process. Addressing target customers and preparing the structured selling process for the new company were also a focus of the Supervisory Board's work.

Apart from the influence of these activities, 2013 was shaped by the swift and systematic reduction of capacity which was not needed to serve customers. Moreover, there was a significant decrease in total assets due, for example, to the rigorous reduction or transfer of derivatives portfolios as well as execution of a settlement agreement concerning existing reimbursement claims on the part of NRW.BANK relating to pension benefits for so-called dual-contract employees.

Due to the developments and measures described, it was particularly important during the past fiscal year that the Supervisory Board and its committees support the Managing Board in its work, receive up-to-the-minute reports about current developments and make the necessary decisions.

## Supervision and Advising of Management

The Supervisory Board met a total of seven times in fiscal 2013 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. The Supervisory Board performed its duties in full keeping with the statutory provisions as well as the articles and bylaws in 2013. The Managing Board provided the Supervisory Board and its committees with detailed reports on a continuous basis. All important aspects of planning, the course of business, company management and strategy, as well as material events and transactions, were covered. Decisions and transactions requiring the Supervisory Board's approval were presented to the Supervisory Board and a decision was made.

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

# Supervisory Board Meetings

The Supervisory Board held a total of seven meetings in 2013. They were on February 1, March 18, April 25, May 22, June 28, September 23 and November 28. In addition, a total of three resolutions were adopted in written votes taken outside of a meeting. These votes occurred on July 31, October 23 and December 20.

Regular agenda items at Supervisory Board meetings included a detailed discussion of the current state of the company's business on the basis of the report presented by the Managing Board, the reports presented by the Chairwoman of the Audit and Risk Committee on that committee's work, the discussion of Managing Board affairs and decisions concerning equity investments presented for the Supervisory Board's approval. Apart from these topics, the meetings focused heavily on the establishment of Portigon Financial Services GmbH (PFS) and the dismantling of the former WestLB, topics for which the Managing Board submitted detailed planning documents to the Supervisory Board. Another topic routinely addressed at the meetings was the potential formation of strategic partnerships to help establish PFS and cultivate a market for its services.

The Supervisory Board voted to close the branch offices in Istanbul, Madrid, Milan, Shanghai, Singapore and Sydney at its meeting on February 1, 2013. It also prepared its recommendation for the Shareholders' Meeting to appoint the external auditors for the single-entity and Group financial statements for fiscal 2013. The yearly report on the work performed by the compensation committee and the subject of further legal support for the Supervisory Board were addressed in addition.

At its meeting on March 18, 2013, the Supervisory Board discussed the aforementioned items and also voted to close the branch office in Tokyo.

On April 25, 2013, on the basis of the reports of the Chairwoman of the Audit and Risk Committee and the external auditors, the Supervisory Board discussed the single-entity financial statements and statement of financial condition for the 2012 fiscal year and adopted the single-entity financial statements for 2012. In addition, Dietmar P. Binkowska was reelected as Chairman of the Supervisory Board.

The focus of the Supervisory Board's discussions at the meeting held on May 22, 2013, was the Group financial statements. After hearing reports by the Chairwoman of the Audit and Risk Committee and by the external auditors on the Group financial statements and Group statement of financial condition for 2012, the Supervisory Board approved the Group financial statements, resolved on the Report of the Supervisory Board and Corporate Governance Report of Portigon AG to be included in the 2012 Annual Report and prepared its recommendation for the Shareholders' Meeting to ratify the acts of the Managing Board and Supervisory Board for the 2012 fiscal year. The Supervisory Board also listened to a detailed report from the Managing Board concerning the formation of the WestLB parliamentary investigation committee (PUA II). The Annual Shareholders' Meeting was held on the same day and likewise dealt with items relating to the financial statements. Sigrid Janetzko resigned from the Supervisory Board after the close of the Shareholders' Meeting. On May 28, 2013, the court appointed Dr. Peter Stemper to succeed her on the Supervisory Board. Dr. Stemper has since relinquished his seat on the Supervisory Board. He resigned on January 30, 2014 and was appointed to serve on the Managing Board of Portigon AG effective February 1, 2014.

The focus of the Supervisory Board meeting on June 28, 2013 was the legal formation of Portigon Financial Services GmbH. The Supervisory Board made decisions concerning the formation of the service company and discussed at length the legal and commercial framework of this transaction, focusing, in particular, on the service company's corporate purpose (to provide services related to the management of portfolios of financial products,

to serve as a consultant on issues related to wind-down planning and to take over business processes on behalf of the financial industry) and its status as a wholly owned subsidiary of Portigon AG set up as a German limited liability company with the name Portigon Financial Services GmbH (PFS). On a related note, the Supervisory Board amended the rules for the conduct of business of Portigon AG's Supervisory Board, prepared a recommendation for the Shareholders' Meeting concerning the amendment of Portigon AG's articles and bylaws and deliberated the future governing documents of the service company PFS.

The Supervisory Board adopted another resolution related to the establishment of Portigon Financial Services GmbH in a written vote taken outside of a meeting on July 31, 2013. This resolution concerned exempting the members of the Managing Board from the rules prohibiting multiple representation pursuant to § 181 of the German Civil Code (BGB) due to their exercising management duties for PAG and PFS in parallel, a dual structure approved by the regulatory authorities for a limited period of time.

On September 23, 2013, the Supervisory Board discussed the usual agenda items and also listened to a detailed status report prepared by the Managing Board on the establishment of PFS. In addition, the Supervisory Board approved the release of documents to the WestLB parliamentary investigation committee.

In another vote taken outside of a meeting, the Supervisory Board dealt with the topic of a "structured exploration of the opportunities and risks inherent in a coordinated sale of the service companies Portigon Financial Services GmbH and FMS-Servicegesellschaft GmbH", adopting a resolution on this matter on October 23, 2013.

At its last meeting for the 2013 fiscal year, which was held on November 28, 2013, the Supervisory Board received another detailed update on the progress made with the formation of PFS and also voted to close the branch office in Hong Kong. The WestLB parliamentary investigation committee was also discussed again.

In addition to the topics already mentioned, the Supervisory Board routinely addressed the special audit conducted pursuant to § 44 of the German Banking Act (KWG) in respect of the LIBOR issue.

After its last meeting, the Supervisory Board agreed on taking out legal protection insurance in a written vote taken outside of a meeting on December 20, 2013.

Dietmar P. Binkowska resigned his seat on the Supervisory Board effective April 10, 2014. In a written vote taken outside of a meeting, Dr. Friedhelm Plogmann was elected the new Chairman of the Supervisory Board on April 16, 2014.

Dietrich Voigtländer left the Managing Board effective April 30, 2014. Dr. Kai Wilhelm Franzmeyer was appointed Chairman of the Managing Board of PAG on the same date.

## Work in the Committees

The **Executive Committee** met a total of seven times in 2013, namely on February 1, March 18, April 25, May 22, June 28, September 23 and November 28. It prepared the meetings of the full Supervisory Board which followed, regularly discussed the Managing Board mandates and Managing Board affairs and additionally received status reports on ongoing judicial proceedings. At its meeting on November 28, 2013, it also made the anticipatory resolution for 2014 on loans to members of the Bank's governing bodies pursuant to § 15 of the German Banking Act (KWG). In addition to its meetings, the Executive Committee discussed Managing Board affairs in three conference calls in 2013.

The **Audit and Risk Committee** of Portigon AG convened a total of five times in the 2013 fiscal year, namely on April 22, May 15, June 20, September 11 and November 18. At its meeting on April 22, 2013, it dealt with topics relating to the audit of the single-entity annual financial statements and statement of financial condition. Among other items, it discussed the audit report prepared on the Bank-wide risk steering (Teilprüfungsbericht I), the general information section of the second audit report (Teilprüfungsbericht II) and the annual summary report prepared by the internal auditors. The committee also examined the Risk Situation Report as of December 31, 2012 and addressed other risk-related topics. At its second meeting on May 15, 2013, the Audit and Risk Committee reviewed, among other items, the report from the project-related audit of the Bank's transformation process, dealt at length with the audit of the Group financial statements and Group statement of financial condition, and proposed that the Supervisory Board recommend to the Shareholders' Meeting that the latter ratify the acts of the Managing Board members for the 2012 fiscal year. The Audit and Risk Committee also heard reports from the Managing Board about various items concerning the risk situation. The Audit and Risk Committee met again on June 20, 2013, and discussed the focal points of the audit of the 2013 single-entity financial statements and the request for proposals to audit the single-entity and Group financial statements of Portigon AG for 2014–2016. It also addressed additional risk-related items, including the Risk Situation Report as of March 31, 2013, and Portigon AG's liquidity contingency planning. At its meeting on September 11, 2013, the Audit and Risk Committee discussed audit and risk-related topics again, including the audit being performed by foreign regulators since January 1, 2013, and the Risk Situation Report as of June 30, 2013. It also addressed the draft report prepared by the trustee in the EU monitoring proceedings and listened to a presentation delivered by the Managing Board on the IFRS/HGB half-year results of Portigon Group/AG. At its last meeting on November 18, 2013, the Audit and Risk Committee focused on the special audit performed pursuant to § 44 (1) of the German Banking Act (KWG) in respect of the LIBOR issue, the status report prepared by the internal auditors and the interim report prepared in accordance with the German Commercial Code (HGB) for the period ended September 30, 2013. As it routinely did in other meetings, it also discussed the appropriateness of Portigon AG's business and risk strategy.

The **Mediation Committee** did not meet in 2013.

# Audit of the Subordinate Status Report

Pursuant to § 313 (1) of the German Stock Corporation Act (AktG), Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, as the statutory auditor, also submitted an audit report on the report on relations with affiliated enterprises for the period from January 1 to December 31, 2013. 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 audit, 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 2013 Single-Entity and Group Financial Statements

The Supervisory Board adopted the 2013 single-entity financial statements at its meeting on April 4, 2014. At its meeting on April 30, 2014, it gave its recommendation to the Shareholders' Meeting to appoint Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, as the external auditors for the 2014 fiscal year. The Supervisory Board approved the Group financial statements at the meeting on April 30, 2014. It also gave its recommendation to the Shareholders' Meeting concerning ratification of the acts of the Managing Board and Supervisory Board at this meeting.

Supervisory Board members received copies, in a timely manner, of the single-entity financial statements and statement of financial condition prepared by the Managing Board, the Group financial statements and Group statement of financial condition, the external auditors' reports on the single-entity financial statements and Group financial statements, as well as the annual summary report prepared by Group Audit pursuant to the Minimum Requirements for the Internal Audit Function of Banks. The external auditors, Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, attended the audit-related meetings of the Supervisory Board and the Audit and Risk Committee. The Audit and Risk Committee discussed the external auditors' reports on the 2013 single-entity financial statements at its meetings on January 30, 2014 and March 20, 2014 and the audit reports on the 2013 Group financial statements at its meeting on April 11, 2014. The external auditors audited the single-entity financial statements and statement of financial condition, as well as the Group financial statements and Group statement of financial condition, for the 2013 fiscal year. The financial statements and statements of financial condition of Portigon AG and Portigon Group, as well as the bookkeeping on which they are based, received the external auditors' unqualified audit opinion.

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

Düsseldorf, April 30, 2014

The Chairman of the Supervisory Board

Dr. Friedhelm Plogmann

# Corporate Governance at Portigon AG

The recognition that responsible and transparent corporate governance on the part of companies active in the international financial markets requires coherent corporate governance standards is firmly rooted in the corporate philosophy of Portigon AG.

Although only listed German companies are required to comply with the German Corporate Governance Code (GCGC), WestLB AG had decided voluntarily in 2006 to base its corporate governance on the code, in its current version and any revised versions. As WestLB AG's successor, Portigon AG has also anchored compliance with the GCGC in the rules for conducting business established for its Managing Board and Supervisory Board. The GCGC was revised anew in 2013. The version of May 13, 2013 was published in the Federal Gazette on June 10, 2013.

The GCGC 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. The GCGC clarifies the obligation of the Managing Board and the Supervisory Board to ensure the continued existence of the enterprise and its sustainable creation of value in conformity with the principles of the social market economy.

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

## Compensation Report

In response to a call made by G-20 members, the Financial Stability Board (FSB) published the "Principles for Sound Compensation Practices" in April 2009, which it then supplemented with detailed "Implementation Standards" in September 2009. Germany and the other G-20 members have pledged to implement the FSB principles and standards.

Having regard to the implementation of the FSB principles and standards, the Managing Board of WestLB AG issued the following voluntary undertaking on December 4, 2009:

"The establishment of appropriate governance structures and adequate risk management instruments has high priority for us as a globally operating company with extensive and complex business activities. Our compensation systems will be structured in such a way that they more effectively support our corporate goals, which are aligned with the principles of sustainability. For this reason, we commit ourselves fully to the 'Principles for Sound Compensation Practices – Implementation Standards' of the Financial Stability Board (FSB) of September 25, 2009. We will implement these principles as quickly as civil, labour and corporate law allow and will be mindful of them when determining the compensation for the 2009 fiscal year. Since all G-20 members have pledged to implement the FSB principles, we are also making an important contribution with our commitment to ensuring a level playing field worldwide."

By giving this voluntary undertaking, the company is emphasising that it takes the FSB principles seriously and is committed to pursuing a compensation policy which is geared towards sustainability.

Portigon AG has adjusted its compensation system accordingly.

Portigon AG discloses the compensation of its Managing Board in a compensation report which, as part of the corporate governance report, also describes the principles of the compensation system for Managing Board members. The compensation report also 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 responsibility for preparing the appointment of Managing Board members, including their employment contracts, rests with the Executive Committee of the Supervisory Board of Portigon AG. On this basis, 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 use of a company car for business purposes, a practice that was discontinued at the end of 2013, the maintenance of a secondary residence near the place of work, as well as the payment of insurance premiums, to the extent such benefits are part of the member's employment agreement.

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

Until the FMStFG and related agreements with SoFFin entered into force, there was also an individual end-of-year bonus which was conceived as an incentive system.

To stabilise the Bank, the former WestLB AG entered into extensive agreements with SoFFin which took effect on November 1, 2009. All active Managing Board members at the time signed an undertaking as part of these agreements, which is publicly available on our website. 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 2013

The remuneration of the governing bodies of Portigon AG in the 2013 fiscal year was as follows:

| | 1. 1. – 31. 12. 2013<br>€ millions | 1. 1. – 31. 12. 2012<br>€ millions |
|---|---|---|
| Total remuneration of the Managing Board | 1.6 | 2.5 |
| – fixed | 1.6 | 2.2 |
| – performance-based | 0 | 0 |
| – departure-related | 0 | 0.3 |
| – from holding supervisory board seats at Group subsidiaries | 0 | 0 |
| Total remuneration of former Managing Board members and their survivors | 5.7 | 5.9 |
| Total remuneration of Supervisory Board members | 0.3 | 0.9 |
| - fixed | 0.3 | 0.9 |
| - performance-based | 0 | 0 |
| - performance-based with long-term incentive effects | 0 | 0 |
| Pension provisions for Managing Board members who actively served during the fiscal year | 4.8* | 10.4** |
| Pension provisions for former Managing Board members and their survivors | 88.0* | 69.0 |

* includes 15/15 (previous year: 3/15) of the retroactive additions to provisions necessitated by changes introduced by BilMoG
As part of the first-time application of the German Accounting Law Reform Act (BilMoG) in 2010, the Bank initially opted to adjust the measurement of its pension liabilities on an incremental basis, with the final adjustment due on or before December 31, 2024. As of December 31, 2012, it had retroactively added 3/15 of the total amount. In the year under review, the remaining 12/15 of the original deficit was allocated to pension provisions.

** The pension provisions for active Managing Board members also include the pension provisions for Managing Board members who left during 2012.

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

# Directors Dealings (Disclosures Pursuant to Section 6.3 of the GCGC)

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

# Declaration of Conformity 2013

The Managing Board and Supervisory Board herewith declare for 2013 that Portigon AG complied with the recommendations of the "Government Commission of the German Corporate Governance Code" as amended on May 13, 2013, with the following exceptions:

- With respect to the recommendation in **Section 3.8 Paragraph 2 of the GCGC** (agreement of a deductible for directors' and officers' liability insurance), we have agreed on a deductible for the Managing Board, but do not believe that a deductible is suitable in the case of the Supervisory Board.

- **Section 3.10 of the GCGC** recommends that the corporate governance report be published in connection with the annual statement on corporate governance (§ 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 an annual statement on corporate governance and to continue to publish our corporate governance report as part of the Annual Report, in the chapter immediately following the Report of the Supervisory Board.

- **Section 4.2.1 Sentence 2 of the GCGC** recommends making the allocation of duties among individual Managing Board members part of the rules governing the conduct of its business. Portigon AG refrains from specifying fixed responsibilities for its Managing Board members in the rules for conducting business in order to ensure maximum flexibility, especially in light of the transformation process. The duties of individual members are regulated in an organisational chart.

- **Section 5.3.3 of the GCGC** recommends that the Supervisory Board form a nominating committee to propose suitable candidates to the Supervisory Board for recommendation to the Shareholders' Meeting. Because of the transparent ownership structure at Portigon AG, the owners themselves regularly recommend the candidates to serve as the shareholder representatives on the Supervisory Board. Portigon AG will therefore not be forming a nominating committee.

- We do not follow the recommendation in **Section 5.4.1 Sentence 2 of the GCGC** to specify an age limit for Supervisory Board members. Portigon AG believes that the age of Supervisory Board members is not a sufficient measure of their qualification to serve.

- In deviation from the recommendation in **Section 7.1.2 Sentence 2 of the GCGC**, we did not publish quarterly financial reports for the periods ended March 31, 2013 and September 30, 2013 due to the transformation. In addition, the Group financial statements were not prepared within the 90-day time limit specified in **Section 7.1.2 Sentence 4 of the GCGC** due to the unique situation of the Bank's transformation.

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

Düsseldorf, April 30, 2014

Representing the Supervisory Board

Dr. Friedhelm Plogmann

Representing the Managing Board

Dr. Kai Wilhelm Franzmeyer

# Company Information/Addresses

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The Single-Entity Accounts are 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

These single-entity accounts contain 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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