Annual Report 2013

Portigon
Aktiengesellschaft

Portigon Group Key Figures

	1. 1. – 31. 12. 2013	1. 1. – 31. 12. 2012	Change absolute	Change percentage
Performance figures in € millions				
Net interest income	88	757	– 669	– 88
Impairment charge for credit losses	7	– 127	134	> 100
Net interest income after impairment charge for credit losses	95	630	– 535	– 85
Net fee and commission income	264	286	– 22	– 8
Result from financial instruments fair valued through profit and loss	13	– 687	700	> 100
Result from financial investments	– 2	– 16	14	88
Administrative expenses	573	856	– 283	– 33
Other operating expense and income	81	3	78	> 100
Restructuring expenses	63	351	– 288	– 82
Net expense from spin-offs	0	364	– 364	– 100
Profit/loss before income tax	– 185	– 1,355	1,170	86
Income taxes	7	6	1	17
Profit/loss after income tax	– 178	– 1,349	1,171	87

	Dec. 31, 2013	Dec. 31, 2012	Change absolute	Change percentage
Balance sheet figures in € billions				
Total assets	31.9	98.7	– 66.8	– 68
Equity	2.2	2.4	– 0.2	– 8
Bank regulatory capital ratios				
Core capital in € billions	2.2	3.0	– 0.8	– 27
Own funds in € billions	3.4	4.6	– 1.2	– 26
Risk-weighted assets in € billions	2.0	2.8	– 0.8	– 29
Core capital ratio in %	110.1	109.3	–	–
Overall ratio in %	166.5	167.7	–	–
Employees				
Number of employees	2,104	2,776	– 672	– 24
Full-time employees	1,984	2,624	– 640	– 24

Current ratings	Short term	Long term	Public Pfandbrief
Fitch Ratings	F1+	A+	–

Portigon Group
Financial Report 2013

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Group 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 € 31.9 billion as of December 31, 2013 (previous year: € 98.7 billion). Of that amount, € 16.4 billion (previous year: € 72.9 billion) is attributable to trust assets and € 7.7 billion (previous year: € 13.0 billion) to items guaranteed by Erste Abwicklungsanstalt (EAA). The remaining amount chiefly relates to the investment of capital and liquidity back-ups. The considerable reduction in total assets is predominantly due to the incremental transfer in rem to EAA of holdings only synthetically transferable in 2012 as well as to final maturities.

There is no meaningful comparability between last year's figures and the previous year's, especially with respect to income (€ 444 million last year versus € 343 million the year before), since the previous year's figures still included earnings contributions from positions that were transferred to EAA and the Verbundbank of Helaba in the second half of 2012 as well as a transfer-related reversal of historical, accumulated measurement differences between IFRS and HGB. Administrative expenses decreased considerably, down by € 283 million to € 573 million compared to the previous year. This was due to the scheduled headcount reductions as well as a general decrease in operating expenses, especially in the area of IT.

Restructuring expenses came to € 63 million (previous year: € 351 million). In addition, there had been a spin-off-related net asset reduction of € 364 million in the previous year that had to be recognised in the statement of income pursuant to IFRS rules.

Overall, we are posting a result before income tax of € –185 million for 2013 (previous year: € –1,355 million) and a loss after income tax of € 178 million (previous year: loss of € 1,349 million).

The after-tax result of minus € 178 million had an adverse effect on the statement of comprehensive income. In addition, in the course of remitting the pension settlement payment to NRW.BANK, € –293 million was moved out of the revaluation reserve for changes to defined benefit obligations and booked to retained earnings. Recognised directly in equity, this effect contributed significantly to the positive result of the statement of comprehensive income in the amount of € 130 million (previous year: € –1,595 million).

Portigon Group's regulatory core capital ratio stands at 110.1%, whilst its overall ratio is 166.5%. Risk-weighted assets stand 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 different 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 customise 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 in the Portigon Group

The ongoing transformation process of Portigon AG dominated 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 that will become customers of PFS starting in 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 joined 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 Group, which is largely shaped by Portigon AG, reduced global headcount from 2,776 to 2,104 employees. The average number of employees for the year was 2,323, compared with 3,583 the year before. The scope of this downsizing was also reflected in the reduction in the Group's total assets, which, within a year, had dropped by € 66.8 billion to € 31.9 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.

Portigon's head office is in Düsseldorf. Portigon conducts business in Europe through subsidiaries and branches in Istanbul, London, Madrid and Milan. Outside Europe, Portigon maintains branches in Hong Kong, New York, Shanghai, Singapore, Sydney and Tokyo.

With the transformation of Portigon pursuant to the EU's decision of December 20, 2011, 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.

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 in 2013. The parties started discussions on reaching an out-of-court settlement later in the year. A status report is given in the section entitled "Events Occurring After the Close of the Fiscal Year".

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 light 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 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, NRW.BANK and Portigon 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 € 1,331 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 Group employed 2,104 people as of December 31, 2013, 1,984 of whom worked on a full-time basis. At the end of 2012, the Group had employed 2,776 people, with 2,624 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 Group'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 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 the Group 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.

Performance

Portigon Group's performance in 2013 was still shaped by its transformation, especially the downsizing of Portigon AG and implementation of the new business model in accordance with the conditions set by the European Commission. By contrast, the previous year's figures still included earnings contributions from positions that were transferred to Erste Abwicklungsanstalt (EAA) and the Verbundbank of Helaba in the second half of 2012 as well as effects from the reversal of historical, accumulated measurement differences between IFRS and HGB and from the spin-off-related net asset reduction. For more information, readers are referred to the detailed explanations in our Group financial statements and Group statement of financial condition for 2012. Against this backdrop, there is very little comparability with the previous year's figures.

Overall, we are reporting a result before income tax of € – 185 million for 2013 (previous year: € – 1,355 million) and a loss after income tax of € 178 million (previous year: € – 1,349 million).

Portigon Group Statement of Income from January 1 to December 31, 2013

	1. 1. – 31. 12. 2013 € millions	1. 1. – 31. 12. 2012* € millions	Change € millions	%
Net interest income	88	757	– 669	– 88
Impairment charge for credit losses	7	– 127	134	> 100
Net interest income after impairment charge for credit losses	95	630	– 535	– 85
Net fee and commission income	264	286	– 22	– 8
Result from financial instruments fair valued through profit and loss	13	– 687	700	> 100
Result from financial investments	– 2	– 16	14	88
Administrative expenses	573	856	– 283	– 33
Other operating expense and income	81	3	78	> 100
Restructuring expenses	63	351	– 288	– 82
Net expense from spin-offs	0	364	– 364	– 100
Profit/loss before income tax	– 185	– 1,355	1,170	86
Current income taxes	3	– 44	47	> 100
Deferred income taxes	4	50	– 46	– 92
Profit/loss after income tax	– 178	– 1,349	1,171	87
Attributable to:				
– shareholders of Portigon	– 178	– 1,349	1,171	87
– non-controlling interests	0	0	0	–

* Adjusted due to IAS 19 (2011)

Net Interest Income

The net interest income of € 88 million (previous year: € 757 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. Offsetting these items was € 40 million (previous year: € 130 million) in interest cost on provisions. Net interest income was much higher in the previous year, largely because of the interest expense and interest income that had been reported on positions in the period up to the effective transfer date for IFRS purposes at the end of August/mid-September 2012, as well as the reversal of reconciling items related to portfolio hedge accounting.

Impairment Charge for Credit Losses

The impairment charge for credit losses reflects a net reversal of € 7 million (previous year: net allocation of € 127 million). As a result of the transfer of positions to EAA and Helaba in 2012, Portigon is no longer exposed to any appreciable credit risks from its former lending operations.

Net Fee and Commission Income

Income from portfolio services provided under the new business model came to € 340 million for the year (previous year: € 312 million). One of the major offsetting items was the € 76 million (previous year: € 110 million) in guarantee fees for synthetically transferred portfolios. Fee and commission expense and fee and commission income from financial instruments fair valued through profit and loss, most of which is attributable to the previous year, is now captured in net fee and commission income, rather than as part of the result for financial instruments measured at fair value through profit or loss, a change that went into effect at the end of the 2013 fiscal year. We have adjusted our prior-year figures accordingly. In addition, the previous year included earnings contributions from the banking business, which was discontinued as of July 1, 2012. Altogether, net fee and commission income of € 264 million (previous year: € 286 million) was generated.

Result from Financial Instruments Fair Valued through Profit and Loss

Since Portigon no longer pursues trading activities, the item "net trading result" has been renamed "result from financial instruments fair valued through profit and loss". The fee and commission result from these financial instruments, most of which is attributable to the previous year, is now reported in net fee and commission income, a change that went into effect at the end of the 2013 fiscal year. We have adjusted our prior-year figures accordingly. The result from financial instruments fair valued through profit and loss came to € 13 million (previous year: € – 687 million) and is primarily attributable to measurement mismatches from the application of IAS 39 which, despite having positions that are economically hedged, are unavoidable under the regulations. Combined with earnings components captured in net interest income, the total measurement mismatches were € – 29 million. The previous year's result was particularly influenced by the reversal of historical, accumulated measurement differences between IFRS and HGB in connection with the transfer of items at HGB book values.

Result from Financial Investments

The result from financial investments, which stood at € – 2 million (previous year: € – 16 million), is mostly attributable to expenses for loss absorptions.

Administrative Expenses

Administrative expenses decreased considerably again, down € 283 million to € 573 million.

Personnel expenses decreased by a total of € 143 million, or 34%, to € 282 million from a year earlier. This change is largely attributable to the considerable headcount reduction and lower pension expenses. The average number of employees for 2013 was 2,323, which is 1,260 fewer than the average number of employees in 2012.

We reduced our other administrative expenses by € 144 million, or 41%, to € 209 million due to a general reduction in costs, particularly in the area of IT.

Other Operating Expense and Income

The net figure for other operating expense and income was € 81 million (previous year: € 3 million) and mainly comprises income from the deconsolidation of our former subsidiary Banco WestLB do Brasil S.A., São Paulo. It also includes income of € 19 million from the loss participation for fiscal year 2013 of profit participation rights for which a reinstatement of coupon payments is unlikely. In the previous year, other operating expense and income was shaped primarily by the transfer-related retrospective application effects.

Restructuring Expenses

The restructuring expenses of € 63 million (previous year: € 351 million) consist mostly of additional allocations to restructuring provisions (net € 36 million) and the payment of amounts owed to NRW.BANK under the parties' agreement concerning pension obligations (€ 21 million).

Net Expense from Spin-Offs

For Portigon's part, there had been a spin-off-related net expense of € 364 million that had to be recognised in the statement of income in the previous year.

Income Taxes

There was tax income of € 7 million in fiscal year 2013 (previous year: net tax income of € 6 million). This consisted of a € 3 million income tax benefit from current taxes and a € 4 million income tax benefit from changes in deferred taxes.

Segment Results

Up to June 30, 2012, profit was accounted for and managed within Portigon Group at business unit level on the basis of Portigon's profit centre accounting. The portfolios, results and resources of the specific business units were combined into segments which represented the businesses and areas in which Portigon Group was active. Along with the transformation and change in the business model at the beginning of July 2012, the division of Portigon's operating business into various business segments which had been in effect until June 30, 2012 was not continued.

Due to the ongoing transformation of the Portigon Group, including, in particular, the still to be completed reorganisation of the provision of services within the Portigon Group, internal reporting on sales, income and expenses was done at Group level in the reporting year. In application of the management approach in accordance with IFRS 8, this means that there will be no further segment disclosures.

Group Balance Sheet and Financial Status

Compared to the previous year, Portigon Group'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 Group's balance sheet. However, the credit and market risks associated with these assets and liabilities have been transferred to EAA.

Assets

	Dec. 31, 2013 € billions	Dec. 31, 2012 € billions	Change € billions	%
Cash and balances with central banks	2.0	6.1	– 4.1	– 67
Loans and advances to banks	1.6	1.8	– 0.2	– 11
Loans and advances to customers	8.6	11.8	– 3.2	– 27
Allowance for losses on loans and advances	– 0.1	– 0.2	0.1	50
Receivables under reverse repurchase agreements	0.0	0.2	– 0.2	– 100
Trading assets	1.8	3.4	– 1.6	– 47
Derivatives held in trust (incl. cash collateral)	16.4	72.9	– 56.5	– 78
Financial assets designated at fair value	0.5	1.0	– 0.5	– 50
Financial investments	0.1	0.2	– 0.1	– 50
Investment property	0.1	0.0	0.1	–
Other assets	0.9	0.9	0.0	0
Assets held for sale	0.0	0.6	– 0.6	– 100
Total assets	31.9	98.7	– 66.8	– 68

Portigon Group's total assets and total liabilities and equity decreased by € 66.8 billion, or 68%, to € 31.9 billion compared to the end of the previous year.

A substantial portion of the total assets and liabilities, at € 16.4 billion (previous year: € 72.9 billion), is attributable to asset-side derivatives held in trust and liability-side derivatives held in trust. These are derivative financial instruments with positive market values of € 7.8 billion (previous year: € 34.3 billion) and derivative financial instruments with negative market values of € 7.5 billion (previous year: € 35.4 billion). These derivatives were transferred to EAA under the risk transfer agreement and are offset by derivative offsetting items in matching amounts. There is also the corresponding cash collateral.

The significant decrease in reported assets compared to the previous year is due, on the one hand, to maturities and, on the other hand, to the retrospective transfer in rem of assets to EAA, including the novation of derivatives held in trust for EAA. This resulted in a substantial reduction of the derivatives held in trust (incl. cash collateral), loans and advances to customers and trading assets, in particular. Balances with central banks were also considerably lower.

Another € 7.7 billion in assets is guaranteed by EAA (previous year: € 13.0 billion). The rest chiefly relates to the investment of capital and liquidity back-ups.

There was € 2.6 billion in loans and advances to customers (previous year: € 3.3 billion) and € 1.1 billion in trading assets (previous year: € 1.7 billion) making up the exposure to EAA on the asset side of the balance sheet at December 31, 2013. This was accompanied by € 1.8 billion in deposits from EAA (liabilities to customers) (previous year: € 3.5 billion), € 1.9 billion in financial liabilities designated at fair value (previous year: € 4.8 billion) and € 0.4 billion in trading liabilities (previous year: € 0.9 billion). Altogether, Portigon Group had a net liability to EAA of € 0.4 billion as of December 31, 2013 (previous year: € 7.5 billion).

The credit volume under IFRS, which is made up of financial instruments which qualify as loans and receivables under IAS 39 as well as contingent liabilities in the lending business, fell by € 3.8 billion to € 10.6 billion. Claims Portigon would have were a beneficiary to ever draw on any contingent liability would be covered by the guarantee agreement with EAA from the moment they arise.

Credit Volume

	Dec. 31, 2013 € billions	Dec. 31, 2012 € billions	Change € billions	%
Loans and advances to banks	1.6	1.8	– 0.2	– 11.1
Loans and advances to customers	8.6	11.8	– 3.2	– 27.1
Receivables under reverse repurchase agreements (classified as loans and receivables)	0.0	0.0	0.0	–
Contingent liabilities	0.4	0.8	– 0.4	– 50.0
Credit volume	10.6	14.4	– 3.8	– 26.4

The definition of credit risk volume we use for risk management purposes (see the Risk Report) additionally includes holdings in the held-for-trading, available-for-sale, held-to-maturity and designated at fair value categories as defined under IFRS.

The information about credit risk provisioning provided on the balance sheet and in the income statement refers only to the credit volume under IFRS:

Risk Provisions in the Lending Business

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions	Change € millions	%
Risk provisions	151	180	– 29	– 16.1
Usage of write-downs and provisions for contingent liabilities	– 12	– 33	21	63.6

With a ratio of provisions to credit volume that was higher than the previous year at 1.4%, the loan loss ratio decreased to 0.1%.

Risk Provisioning Ratios

	Dec. 31, 2013 %	Dec. 31, 2012 %
Ratio of provisions to credit volume*	1.4	1.1
Loan loss ratio**	0.1	0.2

* Risk provisioning relative to credit volume
** Loan losses relative to credit volume

Liabilities and Equity

	Dec. 31, 2013	Dec. 31, 2012	Change	
	€ billions	€ billions	€ billions	%
Liabilities to banks	0.1	0.2	– 0.1	– 50
Liabilities to customers	3.9	6.3	– 2.4	– 38
Certificated liabilities	0.0	0.3	– 0.3	– 100
Liabilities under repurchase agreements	0.3	0.0	0.3	–
Trading liabilities	1.3	3.3	– 2.0	– 61
Derivatives held in trust (incl. cash collateral)	16.4	72.9	– 56.5	– 78
Financial liabilities designated at fair value	2.8	6.2	– 3.4	– 55
Liabilities held for sale	0.0	0.4	– 0.4	– 100
Other liabilities	2.6	4.3	– 1.7	– 40
Subordinated debt	2.3	2.4	– 0.1	– 4
Equity	2.2	2.4	– 0.2	– 8
Total liabilities and equity	31.9	98.7	– 66.8	– 68

The reduction in liabilities and equity by € 66.8 billion to € 31.9 billion is predominantly attributable to maturities and to the retrospective transfer in rem (novation) to EAA of derivatives held in trust for EAA. This resulted in a substantial reduction of the derivatives held in trust (incl. cash collateral), liabilities to customers, trading liabilities and financial liabilities designated at fair value, in particular.

The decrease in subordinated debt from € 2.4 billion to € 2.3 billion was predominantly attributable to final maturities.

Due to the negative result for the year, IFRS equity decreased by € 0.2 billion to € 2.2 billion.

Own Funds

Portigon 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 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 Group 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 the Portigon AG Group at December 31, 2013 was as follows:

	Portigon AG Group Dec. 31, 2013 € millions after AG result for the year	Portigon AG Group Dec. 31, 2012 € millions after AG result for the year
Core capital	2,215	3,020
Paid-in capital/disclosed reserves (incl. consolidation items) and asset-side balancing items as defined for regulatory purposes	316	444
Capital contributions of silent partners	1,912	2,608
Hybrid capital	0	0
Fund for general bank risks pursuant to § 340g of the German Commercial Code (HGB)	0	0
Deductions	– 13	– 32
Supplementary capital	1,122	1,584
Modified available capital	3,337	4,604
Tier III capital	486	608
Unutilised Tier III capital	– 471	– 580
Own funds under SolvV	3,352	4,632

Portigon AG Group's own funds receded during the period under review compared to the previous year chiefly because of deconsolidation effects and because of the distribution of the loss reported for 2013 in the single-entity financial statements prepared according to the German Commercial Code (HGB) among the capital components absorbing the loss.

The capital contributions of silent partners decreased by € 696 million to € 1,912 million in 2013 due to their absorption of some of the loss reported in the HGB financial statements.

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 amount of profit participation rights included in the supplementary capital was € 16 million. The amount of subordinated liabilities included in the supplementary capital was € 1,593 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

	Portigon AG Group Dec. 31, 2013 € millions after AG result for the year	Portigon AG Group Dec. 31, 2012 € millions after AG result for the year
Credit risks	763	1,275
Operational risks	1,000	1,000
12.5 x the relevant amount for market risk positions	250	488
Total	2,013	2,763
Core capital ratio (%)	110.1	109.3
Overall ratio under SolvV (%)	166.5	167.7

Pursuant to SolvV provisions, the risk-weighted assets totalled € 2,013 million at December 31, 2013. The reduction in counterparty credit risks is essentially the result of the downsizing of the Portigon Group as well as 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.

As a result of these changes, the core capital ratio increased compared to December 31, 2012 (after Portigon AG's result for the year), from 109.3% to 110.1%. The overall ratio decreased from 167.7% to 166.5%. Thus, the Portigon AG Group met its minimum capital requirements in full.

Steering Concept in the Portigon Group

In light of the dismantling activities and great importance attached to the expected development of the equity capital, steering is predominantly done on the basis of Portigon AG's HGB accounts.

The starting point for profit steering at Portigon AG 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

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: Part of the Overall Management System

Organisation of Risk Management

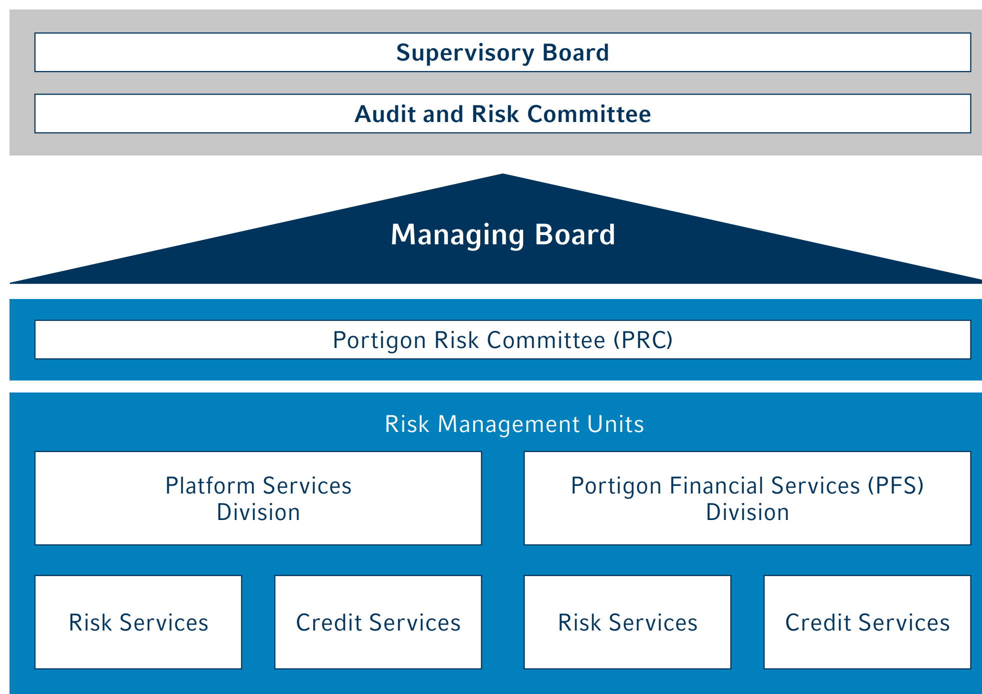
The goal of Portigon's risk management system is to ensure that the risk profile is aligned with the institution's risk-bearing capacity and that all relevant risks are presented transparently and actively steered with foresight. With the change in business model, Portigon no longer has the conventional 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:

- 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 15 had not been formally served).

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 AG remains convinced that neither it nor its employees can be accused of illegally manipulating the interest rate quotes. Hence, it does not expect any penalties or fines. Sufficient provisions have been formed to cover the costs of these proceedings.

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.

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.

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. 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 disclosures on the impairment charge for credit losses in the section entitled "Group Balance Sheet and Financial Status" and in Note 36.

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 the Portigon Group

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 Group exceeded the required capital backing at all times in 2013. The regulatory capital ratios of Portigon Group after the AG result for the year were 110.1% (core capital ratio) and 166.5% (overall ratio) at year-end 2013.

Portigon AG 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.

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

Usage of Regulatory Capital in the Portigon Group

	Portigon AG Group Dec. 31, 2013 € millions after AG[1] result for the year	Portigon AG Group Dec. 31, 2012 € millions after AG[1] result for the year	Change
Risk-weighted assets	2,013	2,763	– 750
thereof operational risks	1,000	1,000	0
thereof counterparty credit risks	763	1,275	– 512
thereof market price risks	250	488	– 238
Own funds	3,352	4,632	– 1,280
Overall ratio (in %)	166.5	167.7	– 1
Core capital	2,215	3,020	– 805
Core capital ratio (in %)	110.1	109.3	1
Core tier 1 capital	1,977	2,692	– 715
Core tier 1 capital ratio (in %)	98.2	97.5	1

[1] Basis: SolvV reports at December 31, 2013 and December 31, 2012

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 the PFS division to Group company 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. 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. Accordingly, it is to be expected that a sale of PFS will be accompanied by a decrease in resources.

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 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.

With respect to the objection to the change in the Supervisory Board's composition, the parties have since reached an out-of-court settlement, and status proceedings to determine the Supervisory Board's new composition were started again. On March 11, 2014, the Managing Board announced anew its plans 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) and § 4 (1) of the One-Third Participation Act of May 18, 2004. As long as no eligible parties file an objection to this announcement within one month's time, the future composition of the Supervisory Board of Portigon AG will be such that two-thirds of its members are elected by the shareholders' meeting and one-third by the employees.

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 Group's total assets, especially as additional assets are retrospectively transferred in rem to EAA and derivatives held in trust for EAA are novated. Viewed in isolation, 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. 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.

It is planned to sell the Group’s portfolio services business in the form of PFS by December 31, 2016. If a sale of PFS is not possible, it would have to be wound down in 2017.

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 budgeted for a loss from the sale of PFS in our planning.

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 Group will show a loss 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.

Group Statement of Income

	Notes	2013 € millions	2012* € millions	Change € millions	 %
Interest income		585	3,644	– 3,059	– 84
Interest expense		497	2,887	– 2,390	– 83
Net interest income	(22)	88	757	– 669	– 88
Impairment charge for credit losses	(23)	7	– 127	134	> 100
Net interest income after impairment charge for credit losses		95	630	– 535	– 85
Fee and commission income		359	460	– 101	– 22
Fee and commission expense		95	174	– 79	– 45
Net fee and commission income	(24)	264	286	– 22	– 8
Result from financial instruments fair valued through profit and loss	(25)	13	– 687	700	> 100
Result from financial investments	(26)	– 2	– 16	14	88
Administrative expenses	(27)	573	856	– 283	– 33
Other operating expense and income	(28)	81	3	78	> 100
Restructuring expenses	(29)	63	351	– 288	– 82
Net expense from spin-offs	(30)	0	364	– 364	– 100
Profit/loss before income tax		– 185	– 1,355	1,170	86
Current income taxes	(31)	3	– 44	47	> 100
Deferred income taxes	(31)	4	50	– 46	– 92
Profit/loss after income tax		– 178	– 1,349	1,171	87
Attributable to:					
– Shareholders of Portigon		– 178	– 1,349	1,171	87
– Non-controlling interests		0	0	0	–

* Adjusted due to IAS 19 (2011)

Statement of Comprehensive Income

	2013 € millions	2012* € millions
Profit/loss after income tax	– 178	– 1,349
Net income and expenses recognised directly in equity	308	– 246
Items that will not be recycled into profit or loss	327	– 461
Change in remeasurements of defined benefit pension plans	327	– 461
– Remeasurements of defined benefit pension plans	328	– 455
– Deferred taxes on change in remeasurements of defined benefit pension plans	– 1	– 6
Items that may be recycled into profit or loss in future periods	– 19	215
Change in revaluation reserve	– 4	207
– Unrealised gains and losses on financial investments available for sale	– 2	92
– Net gain/loss on the sale of available-for-sale financial investments, transferred to the income statement	– 3	157
– Deferred taxes on change in unrealised gains and losses on financial investments available for sale	1	– 42
Change in foreign currency translation reserve	– 15	8
– Unrealised gains and losses from foreign currency translation	– 33	– 14
– Net gain/loss from foreign currency translation transferred to the income statement	18	22
– Deferred taxes on change in foreign currency translation differences	0	0
Total comprehensive income	130	– 1,595
Attributable to:		
– Shareholders of Portigon	130	– 1,595
– Non-controlling interests	0	0

* Adjusted due to IAS 19 (2011)

Group Balance Sheet

Assets

	Notes	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions	Change € millions	%
Cash and balances with central banks	(33)	2,041	6,149	– 4,108	– 67
Loans and advances to banks	(34)	1,614	1,842	– 228	– 12
Loans and advances to customers	(35)	8,567	11,825	– 3,258	– 28
Allowance for losses on loans and advances	(36)	– 148	– 176	28	16
Receivables under reverse repurchase agreements		9	226	– 217	– 96
Trading assets	(37)	1,846	3,371	– 1,525	– 45
Derivatives held in trust (incl. cash collateral)	(38)	16,435	72,921	– 56,486	– 77
Positive fair values from derivative hedging instruments	(39)	235	0	235	–
Separate line item for hedged financial instruments resulting from portfolio hedge accounting	(40)	73	91	– 18	– 20
Financial assets designated at fair value	(41)	506	978	– 472	– 48
Financial investments	(42)	107	221	– 114	– 52
Investment property	(43)	130	26	104	> 100
Property and equipment	(44)	178	321	– 143	– 45
Intangible assets	(45)	65	103	– 38	– 37
Current tax assets	(47)	84	145	– 61	– 42
Deferred tax assets	(47)	0	0	0	–
Other assets	(48)	123	106	17	16
Assets held for sale	(49)	0	592	– 592	– 100
Total assets		31,865	98,741	– 66,876	– 68

Liabilities and Equity

	Notes	Dec. 31, 2013 € millions	Dec. 31, 2012* € millions	Change € millions	%
Liabilities to banks	(51)	147	176	– 29	– 16
Liabilities to customers	(52)	3,945	6,299	– 2,354	– 37
Certificated liabilities	(53)	35	279	– 244	– 87
Liabilities under repurchase agreements		250	20	230	> 100
Trading liabilities	(54)	1,317	3,312	– 1,995	– 60
Derivatives held in trust (incl. cash collateral)	(55)	16,435	72,921	– 56,486	– 77
Negative fair values from derivative hedging instruments	(39)	30	0	30	–
Separate line item for hedged financial instruments resulting from portfolio hedge accounting	(40)	77	139	– 62	– 45
Financial liabilities designated at fair value	(56)	2,818	6,227	– 3,409	– 55
Provisions	(57)	1,677	1,863	– 186	– 10
Current tax liabilities	(58)	361	399	– 38	– 10
Deferred tax liabilities	(58)	0	1	– 1	– 100
Other liabilities	(59)	252	1,884	– 1,632	– 87
Liabilities held for sale	(60)	0	438	– 438	– 100
Subordinated debt	(61)	2,326	2,424	– 98	– 4
Equity	(62)	2,195	2,359	– 164	– 7
– Share capital		499	499	0	0
– Capital reserve		0	0	0	–
– Silent contributions to capital		1,913	2,608	– 695	– 27
– Retained earnings		140	– 83	223	> 100
– Foreign currency translation reserve		– 40	– 25	– 15	– 60
– Revaluation reserve		– 35	– 31	– 4	– 13
– Remeasurements of defined benefit pension plans		– 282	– 609	327	54
– Non-controlling interests		0	0	0	–
Total liabilities and equity		31,865	98,741	– 66,876	– 68

* Adjusted due to IAS 19 (2011)

Changes in Shareholders’ Equity

Statement of Changes in Shareholders’ Equity

€ millions	Share capital	Capital reserve	Silent contri-butions to capital	Retained earnings	Foreign currency translation reserve	Revaluation reserve on AfS financial instruments	Remeasure-ments of defined benefit pension plans	Equity before minority interests	Non-controlling interests	Group equity
Balance at January 1, 2012	967	0	2,069	340	– 33	– 238	– 151	2,954	0	2,954
Adjustment resulting from IAS 19 (2011)				– 3			3	0		0
Balance at January 1, 2012	967	0	2,069	337	– 33	– 238	– 148	2,954	0	2,954
Distribution to shareholders										
Capital increase/reduction	– 468			468						
Allocations to silent contributions										
Withdrawals from silent contributions			– 461	461						
Transfer effects recognised directly in equity										
Other changes in shareholders’ equity			1,000					1,000		1,000
Total recognised income and expense for the period				– 1,349***	8	207	– 461***	– 1,595		– 1,595
Balance at December 31, 2012	499	0	2,608	– 83	– 25 *	– 31 **	– 609	2,359	0	2,359
Balance at January 1, 2013	499	0	2,608	– 83	– 25	– 31	– 609	2,359	0	2,359
Distribution to shareholders										
Capital increase/reduction/ reversal of reserves										
Allocations to silent contributions										
Withdrawals from silent contributions			– 695	695						
Transfer effects recognised directly in equity										
Other changes in shareholders’ equity				– 294				– 294		– 294
Total recognised income and expense for the period				– 178	– 15	– 4	327	130		130
Balance at December 31, 2013	499	0	1,913	140	– 40	– 35	– 282	2,195	0	2,195

* includes € 22 million from assets held for sale
** includes € 3 million from assets held for sale
*** Adjusted due to IAS 19 (2011)

Cash Flow Statement

	2013 € millions	2012* € millions
Profit/loss after income tax including non-controlling interests	– 178	– 1,349
Reconciliation to cash flow from operating activities:		
Cash and non-cash items from investing activities and financing activities included in net profit	34	577
Non-cash items included in net profit	– 908	733
Subtotal	– 1,052	– 39
Changes in assets and liabilities from operating activities, after correction for non-cash operations		
Trading portfolio	772	3,599
Loans and advances to banks and customers	3,786	52,247
Financial assets and liabilities designated at fair value	– 3,139	– 29,531
Repurchase agreements	444	7,556
Non-current assets held for sale (IFRS 5)	0	38
Other assets and liabilities from operating activities	– 2,287	2,051
Liabilities to banks and customers	– 2,414	– 22,013
Certificated liabilities	– 244	– 15,313
Liabilities held for sale (IFRS 5)	0	0
Net cash flow from operating activities	– 4,134	– 1,405
Cash from the disposal of non-current assets and assets held for sale		
Property and equipment	13	– 7
Financial assets		
– Available-for-sale financial assets – monetary	109	1,112
– Held-to-maturity financial assets	0	23
– Available-for-sale financial assets – non-monetary/at equity	32	805
– Investment property	0	1
Non-current assets held for sale (IFRS 5)	0	7
Intangible assets	11	66
Disbursements for the purchase of non-current assets and assets held for sale		
Property and equipment	– 8	– 3
Financial assets		
– Available-for-sale financial assets – monetary	0	– 67
– Held-to-maturity financial assets	0	0
– Available-for-sale financial assets – non-monetary/at equity	– 32	– 41
Investment property	– 1	0
Non-current assets held for sale (IFRS 5)	0	0
Intangible assets	– 10	– 78
Disbursements for the purchase of subsidiaries and other business units	0	0
Cash from the sale of subsidiaries and other business units	55	2,646
Net cash flow from investing activities	169	4,464
Cash from allocations to equity (capital increase, sale of own shares etc.)	0	0
Disbursements to company owners and minority shareholders		
Repayment and disbursement of capital	0	0
Dividend payments	0	0
Other	0	0
Cash changes from subordinated debt	– 143	– 256
Liabilities held for sale (IFRS 5)	0	0
Net cash flow from financing activities	– 143	– 256
Non-current assets held for sale (IFRS 5)	0	0
Addition of cash and cash equivalents from first-time consolidation	0	0
Net effect of exchange rate changes on cash and cash equivalents	0	1
Net change in cash and cash equivalents	0	1
Cash and cash equivalents at the beginning of the period	6,149	3,345
Cash and cash equivalents at the end of the period	2,041	6,149

* Adjusted due to IAS 19 (2011)

	2013 € millions	2012* € millions
Additional information on the cash flow statement		
Net cash flow from operating activities includes:		
Interest received	1,661	3,530
Dividends received	3	20
Interest paid	– 1,494	– 2,573
Income taxes paid	3	– 43

* Adjusted due to IAS 19 (2011)

The cash flow statement shows the changes in cash and cash equivalents for the year in terms of cash flows from operating activities, investing activities and financing activities.

The cash and cash equivalents shown are the same as the balance sheet item for “cash and balances with central banks”, and thus include cash on hand, balances with central banks, debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks.

Additional information about the liquidity management practices of Portigon Group is contained in the Risk Report.

Notes to the Group Financial Statements

Accounting Policies

1. Basis of Preparation

Portigon AG, domiciled in Düsseldorf, operates as a service provider, in particular with regard to the management of banking portfolios. For this it provides financial services and conducts banking transactions and complementary transactions. The shares of Portigon AG are not listed on an exchange.

Based on Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 (IAS Regulation), the Group financial statements of Portigon AG (Portigon) as of December 31, 2013 were prepared in accordance with the International Financial Reporting Standards (IFRS).

The standards and interpretations published by the International Accounting Standards Board (IASB) under the general heading of IFRS include the International Financial Reporting Standards, the International Accounting Standards (IAS), and their interpretations by the former Standing Interpretations Committee (SIC) and by the IFRS Interpretations Committee (IFRS IC).

The Group financial statements include the Group statement of income, the Group statement of comprehensive income, the Group balance sheet, the changes in shareholders' equity, the cash flow statement, the notes to the Group financial statements and – as a part of the notes – the segment reporting. The Group statement of financial condition, which is to be prepared in addition in accordance with § 315a of the German Commercial Code (HGB) in conjunction with § 315 of the German Commercial Code, also includes the report on opportunities and risks of future development, as required by German Accounting Standard (GAS) 20 (Group Management Report). The disclosures included there supplement the presentation of the nature and scope of risks from financial instruments provided in the Notes.

The Group financial statements and Group statement of financial condition were adopted by the Managing Board and approved for release to the Supervisory Board on March 25, 2014. In accordance with § 325 and § 328 of the German Commercial Code (HGB), the consolidated financial statements are submitted to and published by the operator of the Bundesanzeiger (Federal Gazette), which is available at www.bundesanzeiger.de.

Portigon Group's accounts are prepared in compliance with uniform accounting policies. The presentation currency of the Group financial statements is euro. As a rule, amounts are given in millions of euros, rounded to the nearest whole million.

2. Accounting Standards Applied

Portigon applies those IFRSs which have been adopted by the European Union as part of the endorsement process. It does not make use of the optional "carve outs" on hedge accounting approved by the EU in the course of the proceedings for the endorsement of IAS 39.

The Group financial statements of Portigon as of December 31, 2013 are based on the IASB framework and the following IASs and IFRSs as well as SICs and IFRICs:

IAS 1	Presentation of Financial Statements
IAS 7	Statements of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Reporting Date
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IFRS 3	Business Combinations
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRS 13	IFRS 13 Fair Value Measurement
SIC-12	Consolidation – Special Purpose Entities
SIC-15	Operating Leases – Incentives
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
SIC-32	Intangible Assets – Web Site Costs
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

IAS 2, 11, 26, 29, 33, 34, 41, IFRS 1, 2, 4, 6, 9, 10, 11, 12, SIC 7, 10, 13, 21, 25, 29, 31 and IFRIC 1, 2, 5, 6, 7, 10, 12, 13, 14, 15, 17, 18, 19, 20 were not applied, since they are either not applicable to Portigon or not yet mandatory.

According to the IASB's governing documents, the scope of the annual improvements process is limited to clarifications and corrections of standards. It is designed to address minor amendments to the accounting standards, but these amendments regularly entail the modification of the related Bases for Conclusions and guidance for application and in some cases result in changes to other standards. The amendments are essentially of two kinds: clarifications and corrections that impact accounting policy, the recognition of items in the financial statements or the measurement of items, and those which merely represent terminology or editorial changes with no or only minimal impact. The IASB published an omnibus standard amending five standards and one interpretation in May 2012 as part of the fourth improvement project ("Annual Improvements to IFRSs 2009–2011 Cycle"). The improvements are effective for annual periods beginning on or after January 1, 2013 and are to be applied retrospectively. The omnibus standard was adopted into European law on March 28, 2013, with its publication in the Official Journal of the EU. There were no effects on the Portigon Group's financial statements since the amendments either dealt exclusively with clarifications or were not relevant.

The amendments to IAS 1 (Presentation of Financial Statements) published on June 16, 2011 represent the second phase of a three-part project aimed at achieving convergence between the policies of the International Accounting Standards Board (IASB) and U.S. Financial Accounting Standards Board (FASB). The amendments focus, in particular, on the presentation of the income statement and other comprehensive income. The choice of presenting items of profit or loss and other comprehensive income in one single statement or two separate statements remains intact. However, if the second approach is taken, it is now required that both statements be presented consecutively. Additionally, a decision was taken to rename the statement of comprehensive income the "statement of profit or loss and other comprehensive income", although entities are still permitted to use other titles. One of the most fundamental changes concerns grouping the individual components of other comprehensive income on the basis of whether or not they will be recycled into profit or loss upon the occurrence of certain events. As before, entities may present items of other comprehensive income either before tax or net of tax. However, if the latter option is chosen, then the tax relating to items that will be recycled and those that will not must be shown separately. The amendments are effective for annual reporting periods beginning on or after July 1, 2012. The amended standard was adopted into European law on June 6, 2012, in the Official Journal of the EU. Portigon included the changes in its Group financial statements when preparing the statement of comprehensive income.

As a result of the amendments to IAS 19 (Employee Benefits) published on June 16, 2011, actuarial gains and losses will be reported in the financial statements as part of remeasurements. They must be recognised in other comprehensive income as soon as they occur and may not be recycled through profit or loss in a subsequent period. The corridor approach and immediate recognition of actuarial gains and losses in profit or loss are no longer allowed. Since there is still a choice of presentation and Portigon has chosen to recognise the gains and losses in other comprehensive income, the amendments will not affect its financial reporting. Another important change is the replacement of the finance charge on defined benefit plans and expected return on plan assets with net interest expense or income, which is based on the net position on the liability and plan assets (net interest approach). The fact that the interest income from the plan assets is now to be calculated using the discount rate applied to the defined benefit obligation had a favourable effect on the statement of income in the year under review. The amended standard also provides for enhancements to existing disclosure requirements and adds new ones. Entities are required to apply the amendments for annual periods beginning after January 1, 2013. The amended standard was adopted into European law on June 6, 2012, with its publication in the Official Journal of the EU. Additional information about the implementation of the amendments is available in Notes 13 and 57.

On December 16, 2011, the IASB issued amendments to the offsetting rules contained in IAS 32 (Financial Instruments: Presentation) and IFRS 7 (Financial Instruments: Disclosures). Of these amendments, the expanded disclosure requirements under IFRS 7 are already applicable on a retrospective basis to reporting periods beginning on or after January 1, 2013. The additional supplementary disclosures introduced include the future requirement to present gross and net set-off amounts from the netting of balance sheet items in a tabular format as well as the disclosure of amounts subject to netting arrangements which do not meet some or all of the offsetting criteria. The amendments were adopted into European law on December 29, 2012, as a result of their publication in the Official Journal of the EU. We have complied with the additional disclosure requirements in the Group financial statements.

IFRS 13 (Fair Value Measurement) was issued on May 12, 2011. Its provisions set out in a single standard a uniform framework for fair valuing all assets and liabilities through use of a consistent, revised definition of what fair value is and how it should be measured. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The standard, which became effective as of January 1, 2013, also requires entities to make enhanced disclosures in the notes to their financial statements about each class of assets and liabilities they measure at fair value. The revised standard was adopted into European law on December 29, 2012, with its publication in the Official Journal of the EU. Portigon first applied IFRS 13 as of January 1, 2013. Under certain conditions, IFRS 13 allows for the fair value of portfolios of financial assets or liabilities to be determined on the basis of the net exposure of these portfolios. Portigon makes use of this option when valuing certain derivatives portfolios. The implementation of IFRS 13 has not resulted in any changes to the methods and processes used to measure fair value. Note 69 "Fair Values" satisfies the disclosure requirements of IFRS 13.

Other rules of the IASB and IFRS IC not separately addressed here are either not relevant or did not have a material impact on the Group financial statements.

3. Accounting Standards Not To Be Applied Yet

In December 2013, the IASB published one omnibus standard amending seven standards as part of the fifth improvement project ("Annual Improvements to IFRSs 2010–2012 Cycle") and another omnibus standard amending four standards as part of the sixth improvement project ("Annual Improvements to IFRSs 2011–2013 Cycle"). The improvements are effective for annual periods beginning on or after July 1, 2014 at the latest and will be subject to prospective or retrospective application depending on the subject matter addressed. EU endorsement is still pending. There will essentially be no effects on the Bank's group financial statements since the amendments either deal exclusively with clarifications or are not relevant.

On November 21, 2013, the IASB published an amendment to IAS 19 Employee Benefits which introduces a choice in the accounting for defined benefit plans when employees (or third parties) make mandatory contributions. Pursuant to the amendment, it is permissible for such employee contributions to be recognised, as before, as a reduction in the service cost in the period in which the service is rendered, if the contributions are independent of the number of years of service. Entities are required to apply the amended standard for annual periods beginning on or after July 1, 2014. The amended standard has yet to receive EU endorsement. The amendment will have no effect on the accounting for pension commitments made by Portigon since there are no such mandatory employee contributions.

On December 16, 2011, the IASB issued amendments to the offsetting rules contained in IAS 32 (Financial Instruments: Presentation) which help clarify the conditions for the netting of financial assets and financial liabilities. The IASB does not intend to change the current netting principle in IAS 32 with these amendments. One point of clarification is that a right of set-off must exist unconditionally on the reporting date and that some gross settlement systems may fall within the scope of IAS 32. The amendments are effective for annual periods beginning on or after January 1, 2014 and are to be applied retrospectively. The amended standard was adopted into European law on December 29, 2012, with its publication in the Official Journal of the EU. The amendments will have no impact on the offsetting methods used by the Group.

The amendments to IAS 36 (Impairment of Assets) were issued by the IASB on May 29, 2013 and include, among other items, the correction to a disclosure requirement, brought about by the introduction of IFRS 13 (Fair Value Measurement), regarding the recoverable amount of cash-generating units to which a significant amount of goodwill or a significant volume of intangible assets with indefinite useful lives is allocated. The amendments also require an entity to disclose additional information about the recognition or reversal of an impairment loss on an asset or cash-generating unit in cases where the recoverable amount is determined on the basis of the fair value less costs of disposal. The amended standard is scheduled to take effect for annual periods beginning on or after January 1, 2014. The amended standard was adopted into European law on December 20, 2013, with its publication in the Official Journal of the EU. According to the information currently available, no material impact on the Group financial statements of Portigon is expected from the enhanced disclosure requirements.

With the release of the EU regulation known as EMIR (European Market Infrastructure Regulation), which entered into force on August 16, 2012, far-reaching changes to improve the transparency and regulatory oversight of OTC derivatives were introduced. For example, entities are now required to novate their OTC derivatives to a central counterparty once certain thresholds are exceeded. To counteract the obligation to prematurely terminate a hedging relationship due to novation, the IASB issued amendments to IAS 39 (Financial Instruments: Recognition and Measurement) and IFRS 9 (Financial Instruments) on June 27, 2013. Now, entities will be allowed to continue hedge accounting under the same contractual terms of the original OTC derivative contract in cases where derivatives were novated to a central clearing party as a consequence of an existing or newly introduced legal or regulatory provision. The only permissible contractual changes to the hedging instrument are those resulting from the novation itself. The amendments, which are to be applied retrospectively, are effective for annual periods beginning on or after January 1, 2014. The revised standard was adopted into European law on December 20, 2013, with its publication in the Official Journal of the EU. No effects are expected from the revised standard.

The publication of IFRS 9 (Financial Instruments) resulted in the introduction in November 2009 of new requirements for how entities classify and measure financial assets. The standard requires financial assets to be classified on the basis of the entity's business model and the contractual cash flow characteristics of the financial instruments into one of two measurement categories. If the objective of the business model is to hold the financial instruments for the collection of the contractual cash flows, and the contractual cash flows from the financial assets solely represent payments of principal and interest, the financial assets should be assigned, as a rule, to the amortised cost measurement category. If at least one of the two conditions is not met, then the respective financial instrument is to be assigned to the fair value measurement category. All equity instruments are to be measured at fair value. Equity instruments held for trading purposes must be classified as fair valued through profit or loss. The fair value changes of all other equity

instruments can be captured in other comprehensive income if the entity so chooses upon initial recognition. Other important changes include the introduction of a requirement that entities reclassify financial assets when the business model changes, the ban on separating embedded derivatives from their host contracts if the host contracts are financial assets, as well as specific guidance on classifying contractually linked financial instruments which create concentrations of credit risks (e.g. securities from securitisation transactions). By adding rules on recognising financial liabilities and derecognising financial instruments in October 2010, the IASB completed the first part of a three-phase project to replace IAS 39 (Financial Instruments: Recognition and Measurement) with a new standard. With the exception of the rules on financial liabilities designated as at fair value, most of the provisions of IAS 39 were carried forward into IFRS 9 unchanged. In addition, as part of phase 2 of the project, the IASB introduced in March 2013 a revised exposure draft regarding the impairment of financial instruments carried at amortised cost which includes the application of a three-stage risk provisioning model for determining the impairment on the basis of the expected credit loss. For stage 1 financial instruments, the model essentially stipulates the recognition of an impairment in the amount of the losses expected over the next twelve months. If the credit risk associated with the contractual partner has significantly increased since initial recognition, these financial instruments are assigned to one of the other two stages with the consequence that an impairment in the amount of the instrument's lifetime expected credit loss is to be taken. On November 19, 2013, the IASB published the new rules for hedge accounting as part of phase 3 of the project. With respect to the separately deliberated rules on macro hedge accounting, a discussion paper is expected to be issued in the first quarter of 2014. It is unclear when an exposure draft or final standard will be issued. In July 2013, the IASB postponed the entry into force of IFRS 9 indefinitely due to the ongoing discussions, especially surrounding the topics of classification and impairment. Since then, the IASB has tentatively determined that the new standard will enter into force on January 1, 2018. The European Financial Reporting Advisory Group (EFRAG) has not set any deadlines for the EU endorsement of IFRS 9. In addition, it is unclear at this time whether there will be any additional guidelines in view of potential carve-outs. Early adoption of IFRS 9 in its current version is possible. In light of the (risk) transfer of financial instruments to EAA and Helaba in 2012, in rem or synthetically, the change in Portigon AG's business model, and the further, swift dismantling of the Portigon Group, the effects of IFRS 9 are regarded as manageable at this time.

As the culmination of the projects on consolidation, joint arrangements and the disclosure of interests in other entities, the IASB issued five new and revised standards on May 12, 2011 which materially change the existing rules on consolidated financial reporting under IFRS.

The heart of the new rules is IFRS 10 (Consolidated Financial Statements), which replaces the rules on consolidated financial reporting in IAS 27 (Consolidated and Separate Financial Statements) and in the interpretation SIC 12 (Consolidation – Special Purpose Entities). IFRS 10 has revised the existing concept of control. In the future, the question of whether control exists will be answered on the basis of the uniform application of a revised definition of control to the relationship with all investees and other economic entities. Going forward, IAS 27 (Separate Financial Statements) as amended by the consolidation project will solely address accounting for equity investments in subsidiaries, jointly controlled entities and associates in separate financial statements.

IFRS 11 (Joint Arrangements), which was issued at the same time, addresses the financial reporting for joint operations and joint ventures and supersedes IAS 31 (Interests in Joint Ventures) and the interpretation SIC 13 (Jointly Controlled Entities – Non-Monetary Contributions by Venturers). IFRS 11 applies the same concept of control introduced in IFRS 10, introduces a new principles-based approach for classifying joint arrangements which depends solely on the parties' rights and obligations arising from the arrangement, and eliminates proportionate consolidation as a method to account for joint arrangements. This prompted consequential amendments to IAS 28 (Investments in Associates and Joint Ventures) concerning expanding the application of the equity method of consolidation to joint ventures.

IFRS 12 (Disclosure of Interests in Other Entities) is a comprehensive standard on the disclosure requirements for interests in subsidiaries, associates, joint ventures and unconsolidated structured entities. The disclosures under IFRS 12 are meant to help users of an entity's financial statements understand the nature of and risks associated with its interests in other entities as well as the impact of those interests on its cash flows, financial condition and results of operations.

The new IFRS 10, IFRS 11, and IFRS 12 and revised IAS 27 and IAS 28 stipulate mandatory application for annual periods beginning on or after January 1, 2013. Earlier application is permitted as long as IFRS 10, IFRS 11 and IFRS 12 as well as IAS 27 and IAS 28 as amended (2011) are applied at the same time, with the exception that entities may adopt all or parts of IFRS 12 early without being compelled to adopt the other standards early. However, since adoption into European law through EU endorsement did not occur until December 29, 2012, the rules will first go into effect for annual periods beginning on or after January 1, 2014 rather than as stated in the standards. Even if the concept of control in IFRS 10 does not contain any considerations about the existence of a control relationship that are entirely new, its application may lead to different conclusions than the previous guidance because of the degree of judgment involved in applying its criteria. Due to the change in Portigon AG's business model in 2012 and given the further, swift dismantling of the Portigon Group, no significant changes in the group of consolidated companies are expected. Since there are no consolidated joint ventures in the Portigon Group at this time, the application of IFRS 11 is not expected to have any impact on the Group financial statements. In principle, the application of IFRS 12 is expected to lead to more extensive disclosures in Group financial reports.

Based on the amendments to IFRS 10, IFRS 12 and IAS 27 adopted into European law on November 20, 2013, so-called investment entities will be exempted from the consolidation requirements in respect of the subsidiaries they control. Instead, they will be able to fair value these subsidiaries through profit or loss. An investment entity is defined as a company that obtains funds from one or more investors for the purpose of providing them with investment management services and generating returns for them in the form of capital appreciation or investment income. Entities are first required to apply the revised standards for annual periods beginning on or after January 1, 2014. Earlier application is permitted. Since Portigon does not meet the definition of an investment entity, there will be no impact on future Group financial statements.

IFRIC 21 (Disclosures), which was published on May 20, 2013, is an interpretation of IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) that essentially sets out the criteria for when to recognise a payment obligation in connection with government-imposed levies. Entities are first required to apply the interpretation, on a retroactive basis, for annual periods beginning on or after January 1, 2014. EU endorsement is still pending at this time. No effects are expected from the future application of IFRIC 21.

Other revisions and new rules of the IASB and IFRS IC not separately addressed here are either not relevant or are not expected to have an impact on future financial statements.

4. Consolidation Principles

Subsidiaries – i.e. companies in which Portigon either directly or indirectly holds more than half the voting rights or can otherwise control financial and business activities – are included in the scope of consolidation. The existence and impact of votes which may potentially be exercised or converted as of the balance sheet date are also taken into account in determining whether Portigon can control another company under this definition.

Portigon supported the creation of special purpose entities (SPEs) in the past for securitisations, project financing, asset management and a number of other objectives. Determining whether to consolidate an SPE requires the analysis of a series of criteria. Questions to ask include: (a) are the activities of the SPE being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation; (b) does the Group have the decision-making powers to obtain the majority of the benefits; (c) does the Group obtain the majority of the benefits of the SPE's operation and (d) does the Group retain the majority of the residual or ownership risks related to the SPE's assets in order to obtain benefits from its activities? If the analysis reveals that Portigon Group controls a special purpose entity, the entity must be consolidated.

Subsidiaries are consolidated for the first time as of the date on which Portigon obtained control over the acquired company. They are deconsolidated as soon as Portigon no longer has control.

Capital is consolidated using the purchase method. In this method, the cost of acquisition of the acquired company is netted against the proportionate share of the acquired company's remeasured net assets as of the date of acquisition. These net assets represent the difference between the acquired company's assets and liabilities, which are generally measured at fair value as of the date of first consolidation. A positive difference between the cost of acquisition and the share of recalculated net assets must be reported as goodwill on the balance sheet under intangible assets. Under IAS 36, goodwill is not amortised, but reviewed for impairment at least once a year on the basis of cash generating units.

Receivables and liabilities, as well as expenses and income, resulting from transactions between consolidated Group companies are eliminated in the process of consolidating debt or consolidating income and expenses. Inter-company results from transactions between consolidated companies are likewise consolidated.

Third-party holdings in subsidiaries' equity which are not controlled by the parent company are shown as "non-controlling interests" in Group equity.

5. Scope of Consolidation

Portigon Group specifically included the following companies as of December 31, 2013:

Portigon Group (companies, directly consolidated)
Portigon AG, Düsseldorf
GOD Grundstücksverwaltungsgesellschaft & Co. KG, Mainz
GOH Grundstücksverwaltungsgesellschaft & Co. KG, Mainz
Portigon Europe (UK) Holdings Ltd., London, UK
Portigon Financial Services GmbH i. Gr., Düsseldorf
Portigon Finance Curaçao N.V., Willemstad, Netherlands Antilles
Portigon Securities Inc., Dover/Delaware, USA

Portigon Financial Services GmbH i. Gr., which is domiciled in Düsseldorf, was established on July 5, 2013. A wholly owned subsidiary of Portigon AG, the company was first consolidated as of this date. PFS was entered in the commercial register on January 23, 2014.

On July 31, 2013, the responsible supervisory authorities approved the agreement on the sale of our Brazilian subsidiary Banco WestLB do Brasil S.A., São Paulo, to Mizuho Corporate Bank Ltd., which had already been signed on June 19, 2012. As a result, the subgroup was deconsolidated on the same day.

In light of the further, swift dismantling of the Portigon Group, the companies Portigon UK Ltd., London, Compass Securitisation Limited, Dublin, Ireland, and Compass Securitization LLC, Wilmington/Delaware, USA, were also deconsolidated. The effective date of their deconsolidation was December 31, 2013.

A complete record of all shareholdings pursuant to § 313 (2) and § 340a (4) No. 2 of the German Commercial Code (HGB) is provided in Note 86.

6. Accounting Assumptions and Estimates

In some cases, applying IFRS requires management to make assumptions and estimates which are based on subjective assessments of future developments and inevitably entail projection 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.

Assumptions and estimates were necessary principally in the following cases:

- Determining the fair value of certain derivatives, structured products and other financial instruments
- Defining an active market
- Measuring risk provisioning (impairment)
- Calculating deferred taxes
- Calculating pension provisions and other provisions
- Assessing opportunity and risk profiles for special purpose entities
- Estimating future cash flows for guaranteed portfolios
- Determining the amortised cost of liabilities from profit participation rights

The assumptions and estimates themselves, together with the underlying assessment factors and estimation methods, are reviewed regularly and compared with actual events. We believe the employed parameters are appropriate and justifiable.

7. Financial Instruments

a) Categorisation of Financial Assets and Liabilities

A financial instrument is a contract which simultaneously gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Under IAS 39, all assets and liabilities, including all derivative financial instruments, must be included on the balance sheet, classified in the following categories and measured as a function of that categorisation:

- Financial assets and financial liabilities at fair value through profit or loss, including:
  - Financial assets and financial liabilities held for trading (HfT) (trading assets and trading liabilities);
  - Financial assets and financial liabilities designated at fair value through profit or loss (fair value option; FVO)
- Loans and receivables (LaR)
- Financial assets held to maturity (HtM)
- Financial assets available for sale (AfS)
- Other liabilities (OL)

In accordance with IFRS 7.6, Portigon reconciles its grouping of financial instruments into classes with the line items on its balance sheet and its off-balance-sheet commitments. Depending on the level of detail deemed appropriate, individual disclosures are made either for a group of line items on the balance sheet or are broken down further into additional classes:

Assets and Liabilities Held for Trading (HfT)

The held-for-trading category comprises financial instruments held as assets and financial instruments held as liabilities. Derivative financial instruments are to be classified as financial instruments held for trading regardless of their intended purpose.

All financial instruments that are held for trading purposes or were established for trading purposes are reported as trading assets and trading liabilities.

Hedging derivatives which are used for risk management but do not qualify for hedge accounting under IAS 39 are likewise recognised as trading assets or trading liabilities, as the case may be.

Receivables under reverse repurchase agreements and liabilities under repurchase agreements are reported under their own line items on the balance sheet, regardless of their classification.

Assets and liabilities held for trading are measured at fair value, and the results of the measurement are included in the statement of income. Measurement is based on quoted prices from active markets, where available. If such quoted market prices do not exist or cannot be reliably observed, we use the market prices quoted for comparable products or determine the fair value on the basis of pricing models typically used in the market or on the basis of discounted cash flows. Reliable market inputs are used as pricing sources, with no use of prices from transactions involving a sale which materialised under distressed conditions for one of the parties.

Interest and dividends on instruments held for trading are generally reported in net interest income. Sales proceeds and measurement results are reported in the result from financial instruments fair valued through profit and loss. Fee and commission income and fee and commission expense on transactions involving items classified as held for trading are reported in net fee and commission income. Please refer to Note 67 for additional information.

The predominant portion of the derivatives reported by Portigon on its balance sheet are held in trust for EAA as a result a risk transfer agreement entered into in 2012. With this transfer path, the underlying derivatives cannot be derecognised despite the transfer in full of the opportunities and risks inherent in them until settlement of the legal obligations arising from the derivatives, i.e. satisfaction, cancellation or expiration of the obligations. Until settlement or legal release, these derivatives and the corresponding derivative offsetting positions with EAA will continue to be reported on Portigon's balance sheet. The derivative financial instruments, the opportunities and risks of which have been economically transferred to EAA under the risk transfer agreement, are reported, along with the resulting derivatives with EAA as well cash collateral furnished and received, in either the asset-side or liability-side balance sheet item derivatives held in trust (including cash collateral).

Financial Assets and Financial Liabilities Designated as at Fair Value (Fair Value Option; FVO)

The fair value option allows any financial instrument to be designated as at fair value through profit or loss, as long as certain prerequisites are satisfied. The decision to apply the fair value option is irrevocable, and must be made at the time of acquisition or issuance of the financial instrument.

We apply the fair value option on a case-by-case basis in the situations permitted under IAS 39, or in other words, when

- "mixed model accounting" under IAS 39 results in material recognition or measurement mismatches,
- groups of financial assets and/or liabilities are managed together on a portfolio basis, and their performance is evaluated on a fair value basis as part of risk management and internal reporting, and
- structured financial instruments contain embedded derivatives which must be separated.

Measurement is based on quoted prices from active markets, where available. If such quoted market prices do not exist or cannot be reliably observed, we use the market prices quoted for similar products or determine the fair value on the basis of pricing models typically used in the market or on the basis of discounted cash flows. When measuring financial obligations assigned to this category, the credit spread (own credit risk) at which the Group would issue similar financial instruments as of the reporting date is taken into account.

The measurement results for financial instruments designated as at fair value are captured in the result from financial instruments fair valued through profit and loss. Interest and dividends are reported in net interest income. We do not recognise dividends until a legal entitlement to those dividends has been established. These holdings appear on the balance sheet under the items “financial assets designated at fair value” and “financial liabilities designated at fair value”. Subordinated liabilities designated as at fair value are shown under “subordinated debt” on the balance sheet.

Loans and Receivables (LaR)

Loans and receivables are non-derivative financial instruments with fixed or determinable payments which are not quoted in an active market at the time of their acquisition.

Financial instruments in the loans and receivables category are shown in the balance sheet items “loans and advances to banks” and “loans and advances to customers”; they are recognised at their amortised cost, unless they are the hedged item for a qualified micro fair value hedge. Premiums and discounts are amortised over the instruments’ term assuming a constant effective interest rate and recognised as income or expense in the net interest income. Risk provisioning is shown separately.

Altogether, there was a net loss of € 42 million (previous year: € 127 million) in 2013 on financial instruments classified as loans and receivables.

Financial Assets Held to Maturity (HtM)

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments as well as a fixed term for which there is an intent and ability to hold them until maturity.

They are measured at amortised cost, with the related premiums and discounts amortised over the instruments’ term at a constant effective interest rate and recognised as income or expense in net interest income.

Any credit risk-induced permanent impairments are shown in the result from financial investments.

We apply this category only in narrowly defined exceptional cases; the positions are shown as “financial investments” on the balance sheet. Portigon did not have any financial instruments in the held-to-maturity category at December 31, 2013, nor did it have any such instruments at the end of the previous year.

Financial Assets Available for Sale (AfS)

The available for sale category captures all non-derivative financial assets which are not included in the categories mentioned above or which have been designated as available for sale. For our purposes, these are essentially portions of our portfolio of notes and equity instruments as well as financial participations. We report our available-for-sale assets under financial investments.

Financial instruments classified as available-for-sale assets must be measured at fair value. Until the instrument is sold, matured or impaired, the difference to amortised cost is reported in the separate equity item "revaluation reserve". The applicable deferred taxes are also taken into account here. Gains or losses from disposals or impairment are included in the result from financial investments.

If the reasons for an impairment cease to apply, the value of the instrument is recovered up to the amortised cost, and the recovery is recognised as a profit in the case of debt instruments, or as equity, with no impact on profit or loss, in the case of equity instruments.

If the fair value of an equity instrument categorised as available for sale cannot be determined reliably, we measure the instrument at cost; as in the previous year, we had no such instruments on the books as of December 31, 2013. In these cases, a recovery of value would not be permitted if the reasons for an impairment ceased to apply. Such equity instruments could pertain, for example, to stakes in non-listed companies for which realistic estimates are precluded because of the absence of an active market for the instruments and the difficulty in some cases of forecasting the companies' expected future development.

Additional disclosures about the measurement of available-for-sale financial instruments are made in Note 69.

Premiums and discounts are amortised over the instruments' term at a constant effective interest rate and recognised in net interest income. We do not recognise dividends until a legal entitlement to those dividends has been established.

Other Liabilities

This category includes all financial liabilities which are neither held for trading nor designated as at fair value through profit or loss.

These liabilities are measured at amortised cost, unless they are hedged items of a qualified micro fair value hedge. Premiums and discounts are amortised over the instruments' term at a constant effective interest rate and recognised in net interest income.

b) Embedded Derivatives

IAS 39 also governs the treatment of derivatives which are embedded in or associated with a host contract (embedded derivatives). These structures are also known as hybrid (combined) financial instruments.

IAS 39 provides that if an embedded derivative meets the definition of a derivative in IAS 39 and its economic characteristics and risks are not closely related to those of the host contract, the embedded derivative must be measured at fair value. In this case either the entire hybrid (combined) financial instrument must be measured at fair value through profit or loss (by virtue of its being held for trading or by virtue of the application of the fair value option), or the derivative must be separated from the host contract and measured at fair value on its own as an independent derivative.

If the two are to be separated, the embedded derivative is treated as part of the trading portfolio, whilst the host contract is accounted for in accordance with the rules for the pertinent category of financial instrument.

However, if the characteristics and risks of the embedded derivative are closely related with those of the host contract, the derivative is not separated and the entire hybrid (combined) financial instrument is recognised according to the general rules of IAS 39.

c) Repurchase Agreements and Securities Lending Transactions

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 on the Group balance sheet. 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.

We recognise securities lending transactions analogously to securities under repurchase agreements or reverse repurchase agreements, respectively. Lent securities remain in the securities portfolio; borrowed securities are not recognised on the balance sheet. Cash collateral which we have furnished for securities lending transactions is shown under loans and advances to customers or loans and advances to banks, whilst cash collateral received is reported under liabilities to customers or liabilities to banks.

Measurement and recognition are governed by the applicable classification under IAS 39.

Receivables under reverse repurchase agreements and liabilities under repurchase agreements are reported under their own line item on the assets side and liabilities side of the balance sheet, respectively, regardless of their classification.

d) Hedge Accounting

We apply fair value hedge accounting on a portfolio basis (portfolio hedges). Our application of fair value hedge accounting on a single-transaction basis (micro hedges) in respect of foreign exchange risks has been discontinued.

In order for hedge relationships to qualify for hedge accounting, IAS 39 imposes certain prerequisites. The consequence of these requirements is that not all economic hedging relationships can be covered by hedge accounting.

At the time of designation, the hedging relationship between the hedging instrument(s) and the hedged item(s), the risk management objectives and strategies behind the hedge and the methods of measuring the effectiveness of the hedging relationship must be documented. Consistently with the adopted hedging strategy, it must be assessed at each reporting date whether the designated hedges effectively compensate for the changes in value of the hedged items. A hedging relationship is considered highly effective only if the ratio between the change in fair value of the hedged item and the change in fair value of the hedging instrument falls within the range of 80% to 125%. For this assessment, it must be shown at the time when the hedging relationship is entered into, and at least at every month during its life thereafter, that the hedge can be expected to be effective (the prospective effectiveness test). This expectation must then be reconfirmed retrospectively on a monthly basis during the life of the hedge (the retrospective effectiveness test).

If hedging instruments are used in hedge accounting under IAS 39, the instruments are reported at fair value on the balance sheet under "positive fair values from derivative hedging instruments" or "negative fair values from derivative hedging instruments". Derivatives which do not qualify for hedge accounting under IAS 39 remain under trading assets or trading liabilities on the balance sheet.

In the case of fair value hedges, changes in the fair value of the hedging derivative and hedged item attributable to the hedged risk are included in net interest income and largely compensate for one another. Where interest rate risks are hedged on a portfolio basis, changes in the fair value of the hedged items attributable to the hedged interest rate risk are recognised on the balance sheet under the "asset line item for hedged financial instruments resulting from portfolio hedge accounting" or the "liability line item for hedged financial instruments resulting from portfolio hedge accounting". Netting these two items and reporting the remainder only on the assets or liabilities side of the balance sheet is not permitted. The changes in amount for assets and liabilities are carried separately. For that reason, either line item may assume a negative value. If items in the available-for-sale category are hedged under portfolio hedges, no separate line item is provided because the balance sheet already reflects the fair value.

We discontinue hedge accounting in the following cases:

- if the hedging instrument expires, or is sold, terminated or exercised
- if the hedging relationship ceases to meet the requisite criteria under IAS 39, particularly the criteria for effectiveness
- the hedging relationship is terminated early

In the case of portfolio hedges, the change in fair value of the hedged items up to the termination of the hedging relationship, as shown in either the "asset line item for hedged financial instruments resulting from portfolio hedge accounting" or the "liability line item for hedged financial instruments resulting from portfolio hedge accounting", is amortised in net interest income over the items' remaining life. On disposal of a hedged item which had formerly been part of a portfolio hedging relationship, the corresponding portion of the line item is completely closed out at the time of disposal and charged to net interest income.

Looking back at the previous reporting period, the formal requirements for the application of hedge accounting could not be met in the second half of 2012 because of the transformation. However, the effective hedging relationships were redesignated on a prospective basis as of January 1, 2013.

In the case of fair value micro hedge accounting, which was discontinued in 2012 due to the transformation of Portigon AG, the carrying value of the hedged items, which would have been reported at amortised cost without hedge accounting, were adjusted by the amount of the change in the fair value attributable to the hedged risk.

Hedge accounting in respect of net investments in a foreign operation was also discontinued in 2012.

Thus far, cash flow hedge accounting has never been used at Portigon AG.

e) Allowances and Provisions for Credit Risks (Impairment Charge for Credit Losses)

We cover all discernible credit risks in the lending business with allowances for losses on those loans and advances to customers and banks which fall within the "loans and receivables" category and with provisions formed in compliance with uniform standards throughout the Group. The total allowance for loan losses is shown as a separate asset item. Risks from contingent liabilities, irrevocable credit commitments and other financial obligations, by contrast, are covered by provisions.

On the basis of objective indicators such as the borrower's financial condition, business situation and satisfaction of interest and principal payments, we review case by case whether there are signs of a credit risk-related impairment which is likely to leave the borrower unable to meet all or part of its payment obligations.

Risk provisioning is quantified as the difference between the carrying value of the loan and the present value of estimated future cash flows in the form of interest and principal payments, cash flows resulting from restructuring and discounted in each case at the original effective interest rate, and the discounted proceeds expected from the sale of collateral. The interest portion of the present value determined by applying the original interest rate (unwinding) is recognised as interest income. Future changes in the amount and expected date of cash flows are taken into account on the next measurement date, by adjusting the appropriate cash flows and applying allowances. Both the formation of allowances and changes in allowances are reflected in income.

If a borrower's financial situation improves to the point that the reasons for the allowance no longer exist, the reversal is recognised in income up to the amount of the amortised cost.

The use of a portfolio-based allowance is evaluated for certain loans not transferred to EAA or Helaba in the previous year which share similar risk characteristics, but do not, on an individual basis, show signs of impairment. There were only minor portfolio allowances remaining on the books as of the reporting date.

We charge uncollectible loans to the associated individual allowance or – if they are not guaranteed by EAA – directly to the statement of income. The impairment charge for credit losses also reflects any income from written-off receivables.

f) Recognition of Additions and Disposals of Financial Assets and Liabilities

We first recognise financial assets and liabilities on the balance sheet when we become a party to the contractual provisions of the financial instrument.

We book additions of financial assets either on the trade date or on the settlement date, depending on the applicable circumstances. If the addition is booked on the settlement date, the transactions are nevertheless recognised on the trade date.

In accordance with the IAS 39 rules regarding disposals, we derecognise financial assets when the contractual rights deriving from these assets expire, are exercised or are transferred substantially or in full. A factor of particular importance for derecognition as a consequence of a transfer is that the benefits and risks deriving from the asset must be transferred in full or at least substantially. If this is not the case, the transferred assets are not derecognised; for example, the assets transferred under repurchase agreements, the assets transferred under securities lending transactions and the derivatives transferred to EAA under the risk transfer agreement have not been derecognised.

For transactions in which the benefits and risks associated with ownership of financial assets are neither transferred in full or substantially nor retained, the assets are derecognised at the time of transfer of control. If Portigon retains the control, the financial assets are to be recognised in the amount of the continuing involvement. This is equivalent to the extent to which Portigon is exposed to changes in the value of the transferred assets; no such transactions were carried out in either the year under review or in the previous year.

Financial liabilities are derecognised when the contractual obligations have been satisfied or repaid, or have expired. Own debt instruments repurchased are treated as a removal from the corresponding liabilities.

g) Securitisation

Portigon itself is no longer exposed to any risk from securitisation positions. The still existing positions were transferred to EAA in 2012 as part of its risk assumption.

Notwithstanding the foregoing, Portigon still provides various service functions with respect to existing securitisation structures. These include serving in the role of administrator, arranger or collateral trustee. Furthermore, there are agreements in place with EAA under which Portigon has assumed various service functions related to the regular monitoring and reporting obligations for the transferred securitisation transactions. These include the analysis and monitoring of credit risks with the help of rating systems for securitisation positions which were approved by supervisors for use in the Internal Assessment Approach (IAA) or Supervisory Formula Approach (SFA).

Securitisation positions, including liquidity facilities, that still need to be captured in Portigon's books despite the transfer of risk are measured and recognised in accordance with IAS 39. Additional information about the recognition and measurement methods is provided in Notes 7a and 69. Anticipated risks from undrawn liquidity commitments are accounted for by forming provisions, provided a draw is likely and its amount can be reliably estimated.

8. Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies, and non-monetary assets so denominated and measured at fair value, as well as open spot deals in foreign currencies, were converted at the last reference rates set by the ECB for the end of 2013. Open foreign currency forwards were converted at the mid forward rate for the same date. Non-monetary items measured at cost are measured at historical exchange rates. Expenses and income in foreign currencies are converted at the closing rate on the last day of the month in which they were incurred.

Foreign currency translation differences are normally reflected in the statement of income. In the case of non-monetary assets, the unrealised foreign currency translation differences are part of the change in total fair value and, as with the fair value change, are recognised in other comprehensive income.

Balance sheet items for foreign subsidiaries and branches which are treated as economically autonomous sub-units and do not report in euros were converted at the last reference rates set by the ECB for the end of 2013. Income and expenses are converted to the Group's currency at average rates for the period. Any resulting differences in value, as well as translation differences resulting from capital consolidation, are shown as a separate "foreign currency translation reserve" line item under equity. On (partial) disposal of an economically independent sub-unit, the translation differences accrued to date are included (on a pro rata basis) in the results of the disposal.

9. Intangible Assets

Intangible assets are primarily software, either acquired or generated internally. Intangible assets purchased for consideration are carried at acquisition cost. Software generated internally is capitalised at its development cost, provided that it complies with the recognition criteria under IAS 38. The assets undergo straight-line amortisation over their expected useful life of up to ten years. The expense of assets costing up to € 150 is deducted in full in the year of purchase. Assets costing between that and € 1,000 are amortised on a straight line basis at 20% in the year of purchase and in each of the following four fiscal years. Impairment losses are taken if a permanent impairment is found.

10. Property and Equipment

The land and buildings which are shown under property and equipment and used by the company itself, as well as office equipment, are measured at cost less straight-line depreciation over their expected useful life.

Property and equipment are depreciated over the following periods:

	Expected useful life in years
Buildings	50
Office equipment	3–15

The expense of assets costing up to € 150 is deducted in full in the year of purchase. Assets costing between that and € 1,000 are depreciated on a straight line basis at 20% in the year of purchase and in each of the following four fiscal years. Impairment losses are taken if a permanent impairment is found.

11. Investment Property

Investment property serves to generate rental income or offer the benefit of appreciation and is recognised at cost less straight-line depreciation over its expected useful life. Impairment losses are taken if a permanent impairment is found. The expected useful life is 50 years.

12. Leasing Business

According to IAS 17, the decisive factor in recognising leases is whether the lease is to be classified as an operating lease or as a finance lease. An operating lease exists if the lessor retains essentially all benefits and risks associated with beneficial ownership of the leased property. If essentially all benefits and risks are transferred to the lessee, the lease is a finance lease.

The Group as a Lessor

Under an operating lease, beneficial ownership remains with the Group company. The leased property is capitalised as a non-current asset, consistently with its classification (property and equipment, investment property, intangible asset). It is carried at cost, less depreciation or amortisation over its useful life, or less impairment losses taken in the event of permanent impairment. Unless they must be spread out otherwise in a particular case, proceeds from leases are recognised as income on a straight-line basis over the life of the lease.

In the case of a finance lease, we report a receivable from the lessee in the amount of the net investment value at the inception of the lease. Lease payments received are apportioned into a finance charge and a reduction of the outstanding liability; the finance charge is calculated as a constant periodic return on the basis of the net investment value.

The Group as a Lessee

Lease payments made under operating leases are recognised as an administrative expense. The expense is calculated as a scheduled rental payment on the basis of the lease term.

For finance leases, the leased property is capitalised under property and equipment and a liability is recorded in the amount of the commitment under the lease. The leased property is carried at its fair value at the inception of the lease, or if lower, the present value of the minimum lease payments. Depreciation is taken during the subsequent periods; an impairment loss is taken in the event of permanent impairment. Lease payments are apportioned into a finance charge and a reduction of the outstanding liability. The reduction of the outstanding liability reduces the remaining debt; the finance charge is captured as an interest expense.

We apply IFRIC 4 to determine whether an arrangement contains a lease.

13. Provisions for Pensions and Similar Obligations

The present values of obligations under defined benefit pension plans are calculated by independent actuaries in accordance with IAS 19, using the projected unit credit method and allowing for future increases in salaries and pensions.

Changes in the measurement inputs, unexpected changes in the number of eligible beneficiaries and discrepancies between the actual and expected earnings on plan assets result in actuarial gains or losses, which are reported directly in equity, with any changes carried as a separate line item in the statement of comprehensive income.

Since we have always captured the actuarial gains and losses in other comprehensive income and, in addition, do not recognise any top-up contributions for early retirement schemes, the balance sheet was not affected by the amendments to IAS 19 which were published on June 16, 2011 and first applicable, on a retrospective basis, in the reporting year. The change in net interest expense resulting from the use, from now on, of a uniform rate of interest when determining both the return on plan assets and the pension obligation is offset by a corresponding change in other comprehensive income. Therefore, retained earnings also remain unchanged overall. The only items to adjust on a retrospective basis were, on the previous year's balance sheet, the remeasurements of defined benefit pension plans, which are reported separately as a component of retained earnings, and other retained earnings, as well as net interest income in the Group statement of income and the change in remeasurements of defined benefit pension plans in accordance with the transitional rules of IAS 19 in conjunction with IAS 8.

14. Other Provisions

We have recognised other provisions for contingent liabilities to third parties, for anticipated losses from pending transactions and for restructuring measures using the best estimate of the ultimate performance amount in light of the risks and uncertainties known to us. A provision is formed if, as a result of a past event, an obligation exists as of the balance sheet date which will probably result in an outflow of resources, and the amount can be estimated reliably. If an outflow of resources is not probable, or if the amount of the obligation cannot be estimated reliably, a contingent liability is reported. A contingent liability is likewise reported if a past event gives rise as of the balance sheet date to a possible obligation whose existence depends on future events which are not entirely within our control.

15. Financial Guarantee Contracts

According to IAS 39, a financial guarantee contract is a contract which commits the issuer to make certain payments to compensate the holder for a loss which results when a specified debtor fails to make a payment as due under the original or amended terms of a debt instrument.

Financial guarantee contracts are to be recognised at fair value at the inception of the contract. The fair value consists of the present value of the expected performance and the contrary present value of future premiums.

Subsequent measurement generally follows the terms of IAS 39 in conjunction with IAS 18 and IAS 37. If the holder pays the premium in advance, the initial measurement is adjusted for amortisation of the received premium. If application of the rules applicable to provisions yields a higher amount as a result of anticipated losses from an exercise of the guarantee, then the higher amount is to be used. The contingent liabilities resulting from financial guarantee contracts are shown in Note 71.

As part of the transformation in the 2012 reporting year, Portigon received comprehensive guarantees from EAA to hedge against the risk associated with individual items and portfolio items that were not otherwise transferable. Through the guarantee agreement, the protection seller assumes the economic risks of the guaranteed positions. For this assumption of the risks, Portigon pays fees to the protection seller EAA.

16. Subordinated Debt

Under subordinated debt, we report both subordinated liabilities and our profit participation capital. Pursuant to the terms of issue, the profit participation rights issued by Portigon AG will participate in the loss reported in the single-entity financial statements for 2013. In addition, no coupon payments will be made on these profit participation rights for the reporting year. Contractually, the profit participation rights are essentially structured such that any repayment claims reduced by a loss participation are to be reinstated to their nominal value, in a first step, in the event the company subsequently reports a distributable profit/net profit for the year in its annual financial statements (after factoring in coupon payments on the profit participation rights for the then-current reporting year) and that, in a second step, the unpaid interest from previous years is to be paid retrospectively (in full). Due to corresponding cash flow projections for the future, it was assumed as of the balance sheet date that there will be no retrospective payment of interest at a later date and no reinstatement to nominal value.

Subsequent measurement of the profit participation capital is done at amortised cost.

Normally, subordinated liabilities are also recognised at amortised cost under IAS 39. To avoid mismatches in recognition and measurement, some portions of subordinated liabilities are either designated as at fair value or reflected in qualified fair value hedging relationships.

17. Income Taxes

Income taxes are recognised and measured in accordance with IAS 12. Actual tax assets or liabilities are calculated at the tax rates applicable at the time of the refund from or payment to the tax authorities.

Deferred taxes are normally calculated on the basis of the balance sheet method for all temporary differences between the values assigned to assets and liabilities under IFRS and the values assigned under the tax regulations. Deferred tax assets and deferred tax liabilities are netted against one another only if the prerequisites for netting have been met. Deferred taxes on hitherto unused tax loss carry-forwards are recognised only if there is a sufficient probability that they can be utilised. With or without an impact on income, deferred taxes are measured on the basis of the expected tax rates. They are not discounted. Tax assets and liabilities are shown under “current tax assets” and “deferred tax assets” as well as “current tax liabilities” and “deferred tax liabilities” on the balance sheet.

18. Own Shares

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

19. Employee Share Option Plans

There are no employee share option plans as described in IFRS 2.

20. Non-Current Assets Held for Sale and Discontinued Operations

Non-current assets or groups of assets earmarked for sale, as well as the liabilities directly associated with them, are shown as “assets held for sale” and “liabilities held for sale” on the balance sheet. Related amounts recognised in other comprehensive income are accounted for separately in the presentation of equity.

Except for financial instruments under IFRS 5.5, especially financial assets and financial liabilities pursuant to IAS 39 which are part of a disposal group, the items are measured at carrying value or fair value less selling costs, whichever is lower. There were no circumstances at the reporting date giving rise to a requirement to report items in accordance with IFRS 5.

Segment Reporting

21. Segment Reporting

Up to June 30, 2012, profit was accounted for and managed within Portigon Group at business unit level on the basis of Portigon’s profit centre accounting. The portfolios, results and resources of the specific business units were combined into segments which represented the businesses and areas in which Portigon Group was active. Along with the transformation and change in business model at the beginning of July 2012, the original business model and related division of Portigon’s operating business into various business segments, which had been in effect until June 30, 2012, was not continued.

Due to the ongoing transformation of the Portigon Group, including, in particular, the as yet unfinished reorganisation of the provision of services within the Portigon Group, internal reporting on sales, income and expenses was done at Group level in the reporting year. In application of the management approach in accordance with IFRS 8, this results in no further segment disclosures.

The fee and commission income generated from the provision of services in 2013 totalled € 340 million (previous year: € 312 million) and consisted mostly of income from services provided on behalf of EAA and, to a comparatively smaller degree, from services provided to Helaba and other customers.

Notes to the Group Statement of Income

22. Net Interest Income

	2013 € millions	2012* € millions
Interest income from		
– loans and advances to banks and customers	270	1,917
– financial assets available for sale	2	91
Current income from		
– financial assets available for sale	3	19
– interests in associates and joint ventures	0	2
Net interest and dividend income from		
– instruments held for trading	134	689
– instruments designated as at fair value	– 57	– 558
Interest expenses for		
– liabilities to banks and customers	122	1,040
– certificated liabilities	7	504
– subordinated debt (excluding instruments designated as at fair value)	92	103
Net income from hedging relationships	– 2	– 5
Net income from other transactions	– 41	249
Net interest income	88	757

* Adjusted due to IAS 19 (2011)

The net income from hedging relationships was calculated as follows:

	2013 € millions	2012 € millions
Result from hedging derivatives	– 19	136
– from micro fair value hedge accounting	0	60
– from portfolio fair value hedge accounting	– 19	76
Result from hedged items	17	– 141
– from micro fair value hedge accounting	0	– 61
– from portfolio fair value hedge accounting	17	– 80
Total	– 2	– 5

The net income from hedging relationships includes measurement results from effective hedging relationships under micro and portfolio fair value hedge accounting. The figures for the previous year reflect the first half of 2012 only, since hedge accounting could not be utilised in the second half of 2012 due to the transformation.

The net income from other transactions primarily comprises interest expense from accrued interest on pension liabilities and effects from hedge accounting, especially portfolio hedge accounting, performed in accordance with IAS 39. In the previous year we had also recorded net income of € 280 million from the transfer-related disposal of financial instruments and related pro rata reversal of asset-side and liability-side matching items.

We apply the principles of hedge accounting contained in IAS 39 to receivables and liabilities which carry a fixed rate of interest. We hedge the risk of interest rate-induced changes in the fair value through the use of interest rate swaps. The net income from other transactions captures interest income and interest expense from interest rate swaps included in hedge accounting. Amortisation entries made in connection with the hedge accounting are also captured here.

The net income from other transactions additionally captures increases in present values necessitated over time (interest effects from unwinding) which result in a reversal within the impairment charge for credit losses. Such increases amounted to € 2 million in the year under review (previous year: € 12 million).

23. Impairment Charge for Credit Losses

	2013 € millions	2012 € millions
Allocations		
– to allowance for losses on loans and advances	0	– 207
– to provisions for lending operations	0	– 2
Write-backs		
– from allowance for losses on loans and advances	5	93
– from provisions for lending operations	2	8
Income from written-off loans and advances	0	9
Direct write-offs of loans and advances	0	– 28
Impairment charge for credit losses	7	– 127

24. Net Fee and Commission Income

	2013 € millions	2012 € millions
Income from the portfolio services business	340	312
Lending and syndicated lending business	– 71	– 24
Securities and deposit business	– 12	– 10
Trust activities	3	3
Payment transactions	1	32
Net fee and commission income/expense from financial instruments fair valued through profit and loss	0	– 19
Other	3	– 8
Net fee and commission income	264	286

Net fee and commission income comprised € 359 million (previous year: € 460 million) in fee and commission income and € 95 million (previous year: € 174 million) in fee and commission expense. There was no fee and commission income or fee and commission expense in connection with financial instruments fair valued through profit and loss in the reporting year (previous year: € 2 million in fee and commission income and € 21 million in fee and commission expense).

In contrast to the previous year, we also report the net fee and commission income from financial instruments fair valued through profit and loss in net fee and commission income. Please refer to Note 67 for additional information.

25. Result from Financial Instruments Fair Valued through Profit and Loss

	2013 € millions	2012 € millions
Result from instruments held for trading	202	– 1,258
Result from financial instruments designated as at fair value	– 189	571
Result from financial instruments fair valued through profit and loss	13	– 687

In contrast to the previous years, we now report the net fee and commission income from financial instruments fair valued through profit and loss in net fee and commission income. Please refer to Note 67 for additional information.

26. Result from Financial Investments

	2013 € millions	2012 € millions
Result from sale of available-for-sale assets	0	– 10
Result from measurement of available-for-sale assets	0	– 2
Result from sale of interests in consolidated subsidiaries	0	– 1
Result from sale and measurement of investment property	0	– 1
Other result from financial investments	– 2	– 2
Result from financial investments	– 2	– 16

In regard to the financial instruments classified as available for sale, as well as investment property, the result from financial investments includes all effects of disposals and all measurement effects to be recognised in the statement of income.

The measurement effects pertaining to available-for-sale instruments include no impairment losses which are expected to be permanent (previous year: € 2 million).

The other result from financial investments relates to expenses for loss absorptions.

27. Administrative Expenses

	2013 € millions	2012 € millions
Personnel expenses	282	425
– wages and salaries	203	291
– compulsory social security contributions	28	42
– expenses for pensions and other employee benefits	51	92
Other administrative expenses	209	353
Depreciation and amortisation	82	78
– of property and equipment	46	36
– of software and other intangible assets	36	42
Administrative expenses	573	856

28. Other Operating Expense and Income

	2013 € millions	2012 € millions
Other operating income	152	1,121
Effects of deconsolidation	53	0
Reversal of tax liability due to notice of liability	36	0
Loss participation of profit participation rights	19	31
Cost apportionment and reimbursements	11	15
Write-backs of provisions	7	11
Reimbursement of expenses attributable to transfers to EAA and Helaba	0	1,053
Disposal of property and equipment	0	1
Other	26	10
Other operating expense	71	1,118
Derecognition of prepaid interest	49	0
Disposal of property and equipment	11	22
Bank contribution	1	0
Pass-through of income attributable to transfers to EAA and Helaba	0	1,055
Transfer of general provision for loan losses pursuant to German commercial law	0	37
DSGV security reserve	0	4
Other	10	0
Other operating expense and income	81	3

In the previous year, the pass-through of income (especially interest income) of € 1,055 million and reimbursement of expenses (especially interest expense) of € 1,053 million attributable to EAA and Helaba because of the retroactive application of the portfolio transfers under German commercial law were reported as gross amounts under other operating expense and other operating income, respectively (net effect: € – 2 million). Taking into account the regular operating expense and income from the transferred assets and liabilities captured in other items on the statement of income, the transfer produced a zero net effect for Portigon.

29. Restructuring Expenses

The restructuring expenses of € 63 million (previous year: € 351 million) consist mostly of additional allocations to restructuring provisions (net € 36 million) and the payment of amounts owed to NRW.BANK under the parties' agreement concerning pension obligations (€ 21 million).

30. Net Expense from Spin-Offs

The spin-offs to EAA and Helaba in 2012 resulted in net expense of € 364 million in the previous year that had to be reported in the statement of income pursuant to IFRS.

31. Income Taxes

	2013 € millions	2012 € millions
Current income taxes	3	– 44
Deferred income taxes	4	50
Income taxes	7	6

The current tax income in 2013 includes net tax income of € 4 million (previous year: € 6 million) from previous years.

The deferred tax expense attributable to the origination or reversal of temporary differences amounted to € 37 million (previous year: tax income of € 276 million).

When determining current taxes in Germany, we applied a uniform corporate income tax rate of 15% (previous year: 15%) plus 5.5% solidarity surcharge (previous year: 5.5%) thereon to all distributed and retained profit. Taking into account the non-deductibility of trade tax (Gewerbesteuer) as a business expense starting with fiscal year 2008, the average trade tax rate was 15% (previous year: 15%). The result was a total tax rate in Germany of a rounded 30% (previous year: 30%). When calculating our deferred tax claims and liabilities, we apply the tax rates which are effective when the asset is realised or liability satisfied. Deferred tax claims and liabilities were measured using the total domestic tax rate of 30% (previous year: 30%).

The following table shows the reconciliation between the anticipated income tax expense and the reported income tax expense. The anticipated tax expense is calculated on the basis of the 30% total tax rate in Germany for fiscal year 2013, which is unchanged from the previous year.

	2013 **€ millions**	2012 € millions
Profit before income tax	– 185	– 1,355
Applicable tax rate in %	30	30
Theoretical income tax expense	– 56	– 407
Impact of different tax rates for deferred tax items affecting profits	– 4	2
Effects of taxes from previous years recognised during the period	4	– 6
Impact of changes in tax rates	– 2	0
Impact of income taxes not eligible for deduction (withholding taxes and foreign taxes)	1	1
Impact of non-deductible operating expenses	28	185
Impact of non-taxable income	– 57	– 93
Impact of permanent effects of an accounting nature	53	18
Impact of income taxed at other rates	0	0
Impact of allowances and adjusted figures	22	290
Impact of transfers of assessed base	0	0
Tax effect from add-backs and deductions for local taxes	4	4
Income tax expense	– 7	– 6

The effects of income taxed at other rates result from different tax rates in different countries.

The impact of allowances and adjusted figures includes the effects of reducing and increasing deferred tax assets, and from unrecognised deferred taxes due to tax loss carry-forwards and temporary differences in fiscal year 2013.

There was no reduction in deferred tax expense in 2013 or in the previous year due to previously unrecognised losses, to tax credits or to previously unrecognised temporary differences from an earlier period.

As in the previous year, there was no deferred tax income resulting from the reversal of a previous write-down of a deferred tax asset.

Notes to the Group Balance Sheet

32. Categorisation and Classification of Financial Instruments

In accordance with IFRS 7.6, Portigon reconciles its grouping of financial instruments into classes with the line items on its balance sheet and its off-balance-sheet commitments. Depending on the level of detail deemed appropriate, individual disclosures are made either for a group of line items on the balance sheet or are broken down further into additional classes:

Dec. 31, 2013	Measured at Fair Value				Measured at Amortised Cost				Total
	Held for Trading	Designated at Fair Value	Available for Sale	Other	Loans and Receivables	Held to Maturity	Other Liabilities	Other	
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Assets									
Cash and balances with central banks		1			2,040				2,041
Loans and advances to banks					1,614				1,614
Loans and advances to customers					8,567				8,567
Receivables under reverse repurchase agreements	9								9
Trading assets	1,846								1,846
Derivatives held in trust (incl. cash collateral)	16,435								16,435
Positive fair values from derivative hedging instruments				235					235
Asset line item for hedged financial instruments resulting from portfolio hedge accounting								73	73
Financial assets designated at fair value		506							506
Financial assets available for sale			107						107
Financial assets held to maturity									
Assets held for sale									
Total	18,290	507	107	235	12,221			73	31,433
Liabilities									
Liabilities to banks							147		147
Liabilities to customers							3,945		3,945
Certificated liabilities							35		35
Liabilities under repurchase agreements	250								250
Trading liabilities	1,317								1,317
Derivatives held in trust (incl. cash collateral)	16,435								16,435
Negative fair values from derivative hedging instruments				30					30
Liability line item for hedged financial instruments resulting from portfolio hedge accounting								77	77
Financial liabilities designated at fair value		2,818							2,818
Liabilities held for sale									
Subordinated debt		110					2,216		2,326
Total	18,002	2,928		30			6,343	77	27,380
Off-balance-sheet commitments									
Contingent liabilities from guarantees and indemnity agreements								350	350
Other obligations from irrevocable credit commitments								821	821

Dec. 31, 2012	Measured at Fair Value				Measured at Amortised Cost				Total
	Held for Trading	Designated at Fair Value	Available for Sale	Other	Loans and Receivables	Held to Maturity	Other Liabilities	Other	
	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions	€ millions
Assets									
Cash and balances with central banks			18		6,131				6,149
Loans and advances to banks					1,842				1,842
Loans and advances to customers					11,825				11,825
Receivables under reverse repurchase agreements	226								226
Trading assets	3,371								3,371
Derivatives held in trust (incl. cash collateral)	69,726				3,195				72,921
Positive fair values from derivative hedging instruments									
Asset line item for hedged financial instruments resulting from portfolio hedge accounting								91	91
Financial assets designated at fair value		978							978
Financial assets available for sale			221						221
Financial assets held to maturity									
Assets held for sale	175		27		370			1	573
Total	73,498	978	266		23,363			92	98,197
Liabilities									
Liabilities to banks							176		176
Liabilities to customers							6,299		6,299
Certificated liabilities							279		279
Liabilities under repurchase agreements	20								20
Trading liabilities	3,312								3,312
Derivatives held in trust (incl. cash collateral)	69,726						3,195		72,921
Negative fair values from derivative hedging instruments									
Liability line item for hedged financial instruments resulting from portfolio hedge accounting								139	139
Financial liabilities designated at fair value		6,227							6,227
Liabilities held for sale	138			4			228		370
Subordinated debt		130					2,294		2,424
Total	73,196	6,357		4			12,471	139	92,167
Off-balance-sheet commitments									
Contingent liabilities from guarantees and indemnity agreements								789	789
Other obligations from irrevocable credit commitments								1,458	1,458

Financial instruments which are not categorised pursuant to IAS 39 and grouped into the “other” columns include items related to fair value hedge accounting.

33. Cash and Balances with Central Banks

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Balances with central banks	2,040	6,131
Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks	1	18
including:		
Treasury bills and discounted treasury notes as well as similar debt instruments issued by public institutions	1	18
Cash and balances with central banks	2,041	6,149

34. Loans and Advances to Banks

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Loans	93	931
Other receivables	1,521	911
Loans and advances to banks	1,614	1,842
including:		
– banks in Germany	1,171	474
– banks in other countries	443	1,368

35. Loans and Advances to Customers

Breakdown by transaction type and counterparty:

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Loans	5,414	6,648
Other receivables	3,153	5,177
Loans and advances to customers	8,567	11,825
including:		
– Corporate clients	5,067	7,302
– Public-sector clients	2,860	3,876
– Private clients	640	647
including:		
– customers in Germany	5,221	7,377
– customers in other countries	3,346	4,448

Loans and advances to public-sector clients included € 2.6 billion (previous year: € 3.3 billion) in loans and advances to EAA at December 31, 2013.

36. Risk Provisions in the Lending Business

Risk provisions in the lending business comprise allowances for specific risks and portfolio allowances on loans and advances in the loans and receivables category, which are shown on the assets side of the balance sheet (as a separate line item), as well as provisions for contingent liabilities and other commitments:

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Allowances for specific risks	148	175
Loans and advances to banks	20	21
Loans and advances to customers	128	154
Portfolio allowances	0	1
Loans and advances to customers	0	1
Allowances for losses on loans and advances	148	176
Provisions for contingent liabilities	3	4
Provisions for specific risks	3	4
Provisions for portfolio risks	0	0
Risk provisions in the lending business	151	180

Risk provisioning developed as follows:

	Allowances for Specific Risks		Portfolio Allowances		Provisions for Contingent Liabilities		Total	
	2013 € millions	2012 € millions	**2013 € millions**	2012 € millions	**2013 € millions**	2012 € millions	**2013 € millions**	2012 € millions
Status at January 1	175	688	1	118	4	45	180	851
Changes affecting profit or loss								
Additions	0	201	0	6	0	2	0	209
Write-backs	– 6	– 31	– 1	– 71	– 2	– 8	– 9	– 110
Changes not affecting profit or loss							0	
Additions to/removals from scope of consolidation	0	– 300	0	– 40	0	0	0	– 340
Application of existing allowances	– 12	– 32	0	0	0	– 1	– 12	– 33
Foreign currency translation and other changes not affecting profit or loss	– 9	– 351	0	– 12	1	– 34	– 8	– 397
Status at December 31	148	175	0	1	3	4	151	180

37. Trading Assets

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Bonds and other interest-bearing securities	145	168
– money-market instruments	0	0
– bonds and notes	145	168
including:		
– listed on exchanges	145	168
– from public institutions	145	148
– from other issuers	0	20
Shares and other non-interest-bearing securities	0	0
Positive fair values from derivative financial instruments	1,541	2,786
Other trading assets	160	417
Trading assets	1,846	3,371

The chief component of other trading assets is money market transactions.

38. Derivatives Held in Trust (incl. Cash Collateral)

The asset-side item derivatives held in trust consists of derivative financial instruments with a positive fair value of € 7,828 million (previous year: € 34,322 million), the opportunities and risks of which have been economically transferred to EAA under the risk transfer agreement; the resulting derivatives with EAA are reported under the liability-side item with the same name.

This asset-side item also includes derivatives with EAA which are the result of derivatives with a negative fair value of € 7,532 million (previous year: € 35,404 million) that were transferred to EAA under the risk transfer agreement and reported under the liability-side item with the same name.

Additionally, the line item includes claims for the repayment of cash collateral furnished in the amount of € 1,075 million (previous year: € 3,195 million).

Information about trust activities not shown on the balance sheet is provided in Note 78.

39. Fair Values from Derivative Hedging Instruments

The positive fair values from derivative hedging instruments in the amount of € 235 million and negative fair values from derivative hedging instruments in the amount of € 30 million are exclusively attributable to the application of portfolio fair value hedge accounting.

Because the formal requirements for the application of hedge accounting in respect of interest rate risks were not met in the second half of 2012 due to the transformation, no fair values were reported in the previous year.

40. Separate Line Items for Hedged Financial Instruments Resulting from Portfolio Hedge Accounting

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Asset line item for hedged financial instruments resulting from portfolio hedge accounting	73	91
Liability line item for hedged financial instruments resulting from portfolio hedge accounting	77	139

These items include the interest rate-induced changes in the value of asset and liability hedged items associated with portfolio fair value hedge accounting.

41. Financial Assets Designated at Fair Value

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Bonds and other interest-bearing securities	506	945
Bonds and notes	506	945
including:		
– listed on exchanges	337	373
– from public institutions	477	778
– from other issuers	29	167
Shares and other non-interest-bearing securities	0	27
including:		
– listed on exchanges	0	0
Loans and advances to banks	0	1
Loans and advances to customers	0	5
Financial assets designated at fair value	506	978

42. Financial Investments

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Financial investments available for sale	107	221
Loans and advances to banks	51	117
Loans and advances to customers	2	0
Bonds and other interest-bearing securities	0	44
including:		
– listed on exchanges	0	44
Shares and other non-interest-bearing securities	16	18
including:		
– listed on exchanges	16	18
Financial participations	38	42
including:		
– listed on exchanges	0	0
Financial investments	107	221

43. Investment Property

Investment property, which came to € 130 million (previous year: € 26 million), is being reported as a separate line item on the balance sheet for the first time. It was previously reported under financial investments. Please refer to Note 67 for additional information.

Due to a change in use, properties with a net book value of € 112 million that were previously reported as property and equipment were reclassified to investment property in the year under review. The fair value of the investment property is € 205 million (previous year: € 26 million).

44. Property and Equipment

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Land and buildings	141	282
Office equipment	32	33
Other property and equipment	5	6
Property and equipment	178	321

Costs in the amount of € 5 million were capitalised in connection with leasehold improvements in 2013. This marks the first time such costs were capitalised.

45. Intangible Assets

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Goodwill	0	0
Software	65	103
including:		
– internally generated	59	86
– externally generated	6	17
Intangible assets	65	103

Of the gross additions of € 10 million (previous year: € 76 million) to intangible assets, € 8 million (previous year: € 70 million) is attributable to internally generated assets.

46. Statement of Changes in Assets

The changes in intangible assets, property and equipment as well as financial participations and interests in companies reported at equity during fiscal years 2012 and 2013 are shown below:

€ millions	Intangible Assets	Land and Buildings	Office Equipment
Cost			
Status January 1, 2012	537	452	284
Additions in current year	76	0	3
Disposals in current year	– 75	– 1	– 109
Reclassifications/Changes in scope of consolidation	– 45	– 3	– 18
Foreign currency translation differences	0	0	0
Status December 31, 2012	493	448	160
Depreciation, amortisation and write-downs			
Status January 1, 2012	400	139	232
Depreciation, amortisation and write-downs in current year	42	29	6
including:			
– unscheduled depreciation	0	2	0
Write-ups in current year	0	0	0
Disposals in current year	– 9	0	– 95
Reclassifications/Changes in scope of consolidation	– 43	– 2	– 16
Foreign currency translation differences	0	0	0
Status December 31, 2012	390	166	127
Carrying value at December 31, 2012	103	282	33
Cost			
Status January 1, 2013	493	448	160
Additions in current year	10	5	3
Disposals in current year	– 23	0	– 4
Reclassifications/Changes in scope of consolidation	– 1	– 171	– 1
Foreign currency translation differences	0	0	0
Status December 31, 2013	479	282	158
Depreciation, amortisation and write-downs			
Status January 1, 2013	390	166	127
Depreciation, amortisation and write-downs in current year	36	34	3
including:			
– unscheduled depreciation	0	25	0
Write-ups in current year	0	0	0
Disposals in current year	– 11	0	– 2
Reclassifications/Changes in scope of consolidation	– 1	– 59	– 2
Foreign currency translation differences	0	0	0
Status December 31, 2013	414	141	126
Carrying value at December 31, 2013	65	141	32

€ millions	Investment Property	Financial Participations	Interests in Companies Reported at Equity
Cost			
Status January 1, 2012	38	667	57
Additions in current year	0	20	0
Disposals in current year	– 1	– 192	– 3
Reclassifications/Changes in scope of consolidation	0	– 100	– 54
Foreign currency translation differences	0	9	0
Status December 31, 2012	37	404	0
Depreciation, amortisation and write-downs			
Status January 1, 2012	10	479	29
Depreciation, amortisation and write-downs in current year	1	2	0
including:			
– unscheduled depreciation	0	0	0
Write-ups in current year	0	0	0
Disposals in current year	0	– 47	0
Reclassifications/Changes in scope of consolidation	0	– 81	– 29
Foreign currency translation differences	0	9	0
Status December 31, 2012	11	362	0
Carrying value at December 31, 2012	26	42	0
Cost			
Status January 1, 2013	37	404	0
Additions in current year	1	0	0
Disposals in current year	0	– 3	0
Reclassifications/Changes in scope of consolidation	171	– 6	0
Foreign currency translation differences	0	– 7	0
Status December 31, 2013	209	388	0
Depreciation, amortisation and write-downs			
Status January 1, 2013	11	362	0
Depreciation, amortisation and write-downs in current year	11	0	0
including:			
– unscheduled depreciation	6	0	0
Write-ups in current year	– 2	0	0
Disposals in current year	0	– 1	0
Reclassifications/Changes in scope of consolidation	59	– 4	0
Foreign currency translation differences	0	– 7	0
Status December 31, 2013	79	350	0
Carrying value at December 31, 2013	130	38	0

47. Income Tax Assets

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Current tax assets	84	145
Deferred tax assets	0	0
Income tax assets	84	145

Deferred tax assets were formed for the following balance sheet items:

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Loans and advances to banks	0	19
Loans and advances to customers	16	28
Allowances for losses on loans and advances	3	18
Trading assets	0	16
Derivatives held in trust (incl. cash collateral)	97	70
Net fair value from derivative hedging instruments	6	0
Financial assets designated at fair value	72	13
Financial investments	1	8
Investment property	0	0
Property and equipment	27	3
Intangible assets	1	1
Other assets	182	584
Liabilities to customers	2	58
Trading liabilities	245	666
Separate line item for hedged financial instruments resulting from portfolio hedge accounting	27	46
Financial liabilities designated at fair value	90	33
Provisions	149	112
Other liabilities	228	548
Subordinated debt	242	153
Tax loss carry-forwards	1	0
Total	1,389	2,376
Less deferred tax liabilities	– 1,389	– 2,376
Deferred tax assets	0	0

When calculating deferred taxes for entities outside Germany, we use the applicable national tax rates which are effective when the asset is realised or liability satisfied.

Of primary importance in determining the recoverability of deferred tax assets is management’s assessment of whether they can be realised. Such assessments consider the availability of future taxable profits during the periods in which the measurement differences reverse and tax loss carry-forwards can be used. The likelihood of a reversal of the deferred tax liabilities and the reporting of future profits for tax purposes are considered.

No deferred tax asset was recognised for deductible differences of € 1,202 million (previous year: € 1,746 million).

Of the existing loss carry-forwards of € 354 million (previous year: € 186 million), € 78 million (previous year: € 123 million) has no time limit.

Time-limited loss carry-forwards may be applied only up to the end of the following years:

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
2014	0	0
2015	91	0
2016	185	0
2017 and beyond	0	55

In accordance with IAS 12, no deferred tax assets have been recognised for tax loss carry-forwards of € 351 million (previous year: € 186 million).

As in the previous year, there are no deferred tax assets in respect of companies which showed a loss during the current period or previous one within the same tax jurisdiction to which the deferred tax asset applies.

The deferred tax assets for matters which were captured directly in equity amounted to € 13 million (previous year: € 15 million).

48. Other Assets

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Claims from insurance policies	26	26
Deferred items	15	18
Receivables from other taxes	12	0
Other	70	62
Other assets	123	106

49. Assets Held for Sale

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Loans and advances to banks	0	105
Loans and advances to customers	0	263
Allowances for losses on loans and advances	0	– 3
Receivables under reverse repurchase agreements	0	6
Trading assets	0	175
Financial investments	0	27
thereof revaluation reserve	0	3
Other	0	19
Non-current assets held for sale	0	592

As of December 31, 2013, there were no circumstances giving rise to a requirement to report items in accordance with IFRS 5.

Pursuant to board resolutions dated January 30, 2014, Portigon 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.

The four properties did not meet the criteria for presentation as assets held for sale as of the reporting date and, as a result, did not qualify for reclassification pursuant to IFRS 5.12.

On July 31, 2013, the responsible supervisory authorities approved the agreement on the sale of our Brazilian subsidiary Banco WestLB do Brasil S.A. to Mizuho Corporate Bank Ltd., which had already been signed on June 19, 2012. As a result, this company has since been deconsolidated. At December 31, 2012, it was treated as a disposal group falling within the scope of IFRS 5.

50. Subordinated Assets

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Loans and advances to customers	31	8
– corporate clients	31	8
– private clients	0	0
Total	31	8

51. Liabilities to Banks

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Banks in Germany	121	65
Banks outside Germany	26	111
Liabilities to banks	147	176

52. Liabilities to Customers

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Corporate clients	2,007	2,372
Public-sector clients	1,927	3,914
Private clients	11	13
– savings deposits	0	0
– other liabilities	11	13
Liabilities to customers	3,945	6,299
including:		
– clients in Germany	3,564	5,762
– clients outside Germany	381	537

Liabilities to public-sector clients included € 1.8 billion (previous year: € 3.5 billion) in deposits from EAA at December 31, 2013.

53. Certificated Liabilities

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Bonds and notes issued	35	279
Money market instruments	0	0
Certificated liabilities	35	279

54. Trading Liabilities

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Negative fair values from derivative financial instruments	1,021	1,825
Delivery obligations on short sales of securities	0	197
Other trading liabilities	296	1,290
Trading liabilities	1,317	3,312

The other trading liabilities were essentially money market transactions.

55. Derivatives Held in Trust (incl. Cash Collateral)

The liability-side item derivatives held in trust consists of derivative financial instruments with a fair value of € 7,532 million (previous year: € 35,404 million), the opportunities and risks of which have been economically transferred to EAA under the risk transfer agreement; the resulting derivatives with EAA are reported under the asset-side item with the same name.

This liability-side item also includes derivatives with EAA which are the result of derivatives with a positive fair value of € 7,828 million (previous year: € 34,322 million) that were transferred to EAA under the risk transfer agreement and reported under the asset-side item with the same name.

Additionally, the line item includes liabilities for the repayment of € 1,075 million (previous year: € 3,195 million) in cash collateral received.

Information about trust activities not shown on the balance sheet is provided in Note 78.

56. Financial Liabilities Designated at Fair Value

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Liabilities to banks	157	176
Liabilities to customers	2,661	6,051
Certificated liabilities	0	0
Financial liabilities designated at fair value	2,818	6,227

The repayment amount at maturity for financial liabilities designated as at fair value was € 2.5 billion (previous year: € 5.9 billion). Liabilities to customers that are designated as at fair value included time deposits from EAA in the amount of € 1.9 billion (previous year: € 4.8 billion).

57. Provisions

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Provisions for pensions and similar obligations	968	978
Provisions in the lending business	3	4
Provisions for personnel expenses	218	250
Restructuring provisions	439	569
Miscellaneous provisions	49	62
Provisions	1,677	1,863

Most active and former employees are covered by defined contribution or defined benefit pension plans with commitments to provide retirement benefits, survivors’ benefits and disability benefits. The benefits provided by the Group are determined in accordance with the legal and tax conditions applicable in each country.

Defined benefit pension plans:

Portigon offered all employees in Germany who had signed an employment or apprenticeship agreement by January 31, 1985 a pension in line with the provisions of civil service law after 20 years of service. These employees were formally allocated to NRW.BANK (Landesbank NRW at the time) as part of the division of Westdeutsche Landesbank Girozentrale in 2002, but in fact were placed on leave so that they could establish a second employment relationship with WestLB AG at the time. The plan is maintained by NRW.BANK; as WestLB AG's successor, Portigon AG was obligated to reimburse NRW.BANK for pension benefits paid. 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 these eligible employees of Portigon AG. The obligation to NRW.BANK was reported under other liabilities at December 31, 2012 in the amount of € 1,331 million and, with the exception of future service cost, was settled with final effect in the year under review through a one-time payment of € 1,347 million. In addition, due to the pension settlement payment to NRW.BANK, a total of € – 293 million was transferred to retained earnings from remeasurements of defined benefit pension plans.

Employees of Portigon in Germany who joined the company between February 1, 1985 and December 31, 1996 receive their pension benefits exclusively via Portigon Versorgungskasse GmbH. The level of benefits provided under the plan for this group of employees is based on their final pensionable pay and increases with the number of years served.

For employees of Portigon in Germany who joined the company between February 1, 1997 and June 30, 2006, a payment is made into their individual pension account each year, the amount of which is based on the pay for that year and the age as of allocation. Once they enter retirement, the amount of their benefits is the sum of the payments made into their accounts.

As a rule, benefits provided under pension plans for employees outside of Germany are based on the final pensionable pay and length of service.

In Germany, most pension obligations are financed through allocations to provisions. Pension obligations outside Germany are mostly covered by external plan assets. If the pension obligation for fund-financed benefit systems exceeds the plan assets set aside to cover that obligation, Portigon forms additional pension provisions to make up the gap.

Portigon is exposed to various risks in connection with existing pension obligations. These include the risk of general market volatility and specific risks which are somewhat similar to insurance risks. There are no extraordinary risks related to the pension obligations.

General Market Volatility

General market volatility has an effect primarily through changes in the discount rate applied to the amount of the pension obligations. With actuarial interest rates generally lower, pension provisions have already risen noticeably in recent years; the considerable impact which actuarial interest rates have on the amount of pension obligations is mainly due to the commitments' long duration.

Benefit Levels

At Portigon, pensions are generally subject to the adjustment review mandated by the German Occupational Pensions Act (Betriebsrentengesetz). For commitments to make annual payments into individual pension accounts and deferred compensation commitments, fixed adjustments rates have been arranged. Thus, these commitments are not affected by inflation.

Additionally, for older pension schemes Portigon also grants adjustments that reflect trends in collective wages and civil service remuneration. In the case of total retirement provision systems (Gesamtversorgungssysteme), total pension adjustments have been stipulated which also compensate for the possibility of a smaller increase in statutory benefits or other eligible benefits.

Wage and Salary Levels

The commitment to make annual payments into individual pension accounts largely eliminated the risk posed by future increases in pensionable wages and salaries, since these increases have no impact on future benefits already earned. In the case of total retirement provision commitments, an adjustment is made on the basis of changes in collective wages and salaries, civil service remuneration or individual income.

Life Expectancy

Since the vast majority of pension plans are designed as “lifetime annuities”, Portigon bears the risk that beneficiaries will live longer than actuaries predict. Normally, this risk is offset by the pooling of all pensioners together and only comes into play when the overall life expectancy is higher than expected.

Of note with respect to specific risks is that the commitments partially depend on external factors (general adjustments in civil service benefits, adjustments to benefit amounts due to general wage increases, as well as changes in the statutory pension scheme and other eligible benefits).

The following sensitivity analysis shows the effects of the aforementioned risks in the event of a corresponding change in the assumptions.

Defined contribution pension plans:

Employees of Portigon in Germany who started on or after July 1, 2006 receive an indirect pension commitment. To fund these pension commitments, Portigon and the employees contribute predefined sums of money to BVV Versorgungskasse des Bankgewerbes e.V., Berlin, which then determine the amount of the future benefits.

In addition, our foreign branches have various defined contribution pension systems which are set up with private pension companies to which the Group makes contributions on the basis of statutory or contractual provisions. The Group has no further obligations beyond the payment of these contributions. The contribution payments reported as current expense by the Group amounted to € 4 million.

The amendments to IAS 19 (2011) which were published on June 16, 2011 and first applicable, on a retrospective basis, in the reporting year did not affect Portigon's balance sheet. This is because Portigon has always captured actuarial gains and losses ("remeasurements of defined benefit pensions plans" starting in 2013) in other comprehensive income and, in addition, does not recognise any top-up contributions for early retirement schemes. The change in net interest expense resulting from the use, from now on, of a uniform rate of interest when determining both the return on plan assets and the pension obligation is offset by a corresponding change in other comprehensive income. Accordingly, retained earnings are unchanged overall. In accordance with the transitional rules of IAS 19 (2011) in conjunction with IAS 8, the only items to adjust on the previous year's balance sheet were the beginning and ending balances of actuarial gains and losses, which were reported separately under equity, and, in an offsetting manner, other retained earnings. The adjustment of the previous year's other retained earnings corresponded to an adjustment of the previous year's net interest income that was charged to actuarial gains and losses.

The following calculation parameters and assumptions were used in determining the present values of the obligation under defined benefit pension plans and the expected income on plan assets included in the pension expenses. The introduction as of the reporting year of the net interest approach pursuant to the revised IAS 19 involves the implicit assumption that the rate of interest applied to plan assets is the same as that used for the obligation:

	Germany*		Other Countries	
	Dec. 31, 2013 %	Dec. 31, 2012 %	**Dec. 31, 2013 %**	Dec. 31, 2012 %
Discount rate	3.50	3.40	4.60	4.40
Salary level	2.50	2.50	0.40	0.50
Benefit level	2.00	2.20	3.20	2.70
Expected earnings from plan assets	–	3.40	–	4.30

* based on the Heubeck 2005 G mortality tables

The following amounts for defined benefit pension obligations appear on the balance sheet:

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Projected unit credit for fund-financed obligations	539	550
Fair value of plan assets	442	404
Short cover	97	146
Excess cover not recognised as an asset	40	0
Projected unit credit for obligations financed from provisions	831	2,163
Net obligation shown in balance sheet	968	2,309
including:		
– without dual-contract plans	968	978

In the case of the pension plan in London, the plan assets earmarked for coverage exceed the pension obligation by € 40 million. In the absence of a reimbursement claim, the excess cover is not recognised as an asset.

Changes in the present value of vested pension obligations and in plan assets, allowing for the appropriate calculation parameters:

	2013 € millions	2012 € millions
Projected unit credit as of January 1	2,713	2,268
Current service cost	20	29
Interest expense	50	106
Past service cost	0	0
Curtailments, settlements and adjustments	– 1,331	– 43
Pension payments out of assets	– 19	– 16
Pension payments out of provisions	– 49	– 74
Remeasurements:	– 35	471
– experience adjustments	– 22	15
– gains/losses from change in demographic assumptions	0	6
– gains/losses from change in financial assumptions	– 13	450
Foreign currency changes	– 7	5
Other changes	28	– 33
Projected unit credit as of December 31	1,370	2,713
including:		
– without dual-contract plans	1,370	1,382

In the previous year, the change in remeasurements of defined benefit pension plans (previously actuarial gains and losses) also included effects from changes in the scope of consolidation.

	2013 € millions	2012* € millions
Fair value of plan assets as of January 1	404	373
Interest income	17	18
Remeasurement (income from plan assets)	1	16
Employer contributions	46	7
Pension payments	– 19	– 16
Foreign currency changes	– 7	6
Fair value of plan assets as of December 31	442	404
including:		
– without dual-contract plans	442	404

* Adjusted due to IAS 19 (2011)

The expense for defined benefit pension plans and for defined contribution pension plans and other pension expenses recognised in the statement of income:

	2013 € millions	2012* € millions
Expense for defined-benefit plans	53	74
Current service cost	20	29
Interest expense	33	88
Gains/losses on curtailments/adjustments/settlements	0	– 43
Past service cost	0	0
Pension expenses from defined contribution pension plans	4	6
Other pension expenses	27	100
Pension expenses	84	180

* Adjusted due to IAS 19 (2011)

Investments of plan assets yielded income of € 18 million (previous year: € 34 million).

In the past, the expected return on plan assets was based on projections by Meriten Investment Management GmbH, Düsseldorf, and by the fund managers who administer the assets in other countries, regarding both overall market returns and the performance of the securities included in the plan assets. Beginning with the year under review, there is interest income to be recognised on the statement of income as part of the net interest expense using the interest rate applied to the pension obligation.

As of the applicable reporting dates, the plan assets had the following portfolio structure:

	Dec. 31, 2013 %	Dec. 31, 2012 %
Cash and cash equivalents	3	0
Assets with market prices quoted in an active market	97	100
Debt securities	69	55
– Government bonds/quasi-government bonds	60	40
– Corporate bonds	9	15
Equity securities	2	45
Other	26	0
	100	100

The employer contributions to plan assets during fiscal year 2013 came to € 2 million in Germany and € 44 million in other countries. For 2014, contributions of € 14 million are expected in other countries.

The sensitivity analysis presented below reflects the change in one assumption at a time. The other assumptions remain constant compared to the original calculation. In other words, possible correlation effects between the individual assumptions are not considered.

The following chart shows the percentage effects on the present value of future pension payments at December 31, 2013 were the assumptions below to increase or decrease compared to the actual assumptions used:

Discount Rate		Wage/Salary Level		Benefit Level		Life Expectancy
+ 0.5%	– 0.5%	+ 0.25%	– 0.25%	+ 0.25%	– 0.25%	+ 1 year
– 7.8	+ 8.9	+ 0.3	– 0.2	+ 2.2	– 2.1	+ 3.6

The weighted average duration of benefits under the defined benefit pension plans was 17.3 years at December 31, 2013 (previous year: 15.8 years).

The other provisions changed as follows:

	Provisions in the Lending Business € millions	Provisions for Personnel Expenses € millions	Restructuring Provisions € millions	Miscellaneous Provisions € millions	Total € millions
At January 1, 2013	4	250	569	62	885
Changes with an impact on profits					
– allocations	0	7	73	9	89
– write-backs	– 2	– 3	– 36	– 9	– 50
Changes with no impact on profits					
– changes in scope of consolidation	0	0	0	0	0
– changes resulting from foreign currency translation and other changes	1	15	– 68	1	– 51
– utilised	0	– 51	– 99	– 14	– 164
At December 31, 2013	3	218	439	49	709

The allocations include interest of € 7 million on the provisions. Of that amount, € 5 million is attributable to provisions for personnel expenses and € 2 million to restructuring provisions.

Most provisions for personnel expenses apply to obligations under early retirement agreements. The restructuring provisions relate to expenses for the upcoming headcount reductions, risk adjustments on our remaining real estate portfolio as well as services for our customers. Most of the miscellaneous provisions are for litigation risks (€ 7 million) and for losses relating to sub-letting and vacating buildings (€ 28 million).

There are no reimbursement claims against the provisions.

The timing of the expected outflows from the other provisions recognised as of December 31, 2013 breaks down/is discounted to present value as follows:

	Provisions in the Lending Business € millions	Provisions for Personnel Expenses € millions	Restructuring Provisions € millions	Miscellaneous Provisions € millions	Total € millions
2014	3	31	75	16	125
2015	0	26	139	4	169
2016	0	24	90	2	116
2017	0	24	36	2	62
2018	0	23	22	7	52
2019 and beyond	0	90	77	18	185
Total	3	218	439	49	709

58. Income Tax Liabilities

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Current tax liabilities	361	399
Deferred tax liabilities	0	1
Income tax liabilities	361	400

Current tax liabilities are primarily for current income taxes owed to tax authorities in Germany and other countries, together with provisions for potential tax liabilities for which no final assessment has been issued.

Deferred tax liabilities have been formed in connection with the following items:

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Cash and balances with central banks	1	2
Loans and advances to banks	62	82
Loans and advances to customers	15	0
Trading assets	347	613
Net fair values from derivative hedging instruments	70	0
Asset line item for hedged financial instruments resulting from portfolio hedge accounting	18	23
Financial assets designated at fair value	7	44
Financial investments	65	65
Investment property	40	0
Property and equipment	2	10
Intangible assets	18	27
Other assets	228	1,056
Liabilities to banks	0	42
Liabilities to customers	262	154
Trading liabilities	40	15
Derivatives held in trust (incl. cash collateral)	97	70
Financial liabilities designated at fair value	1	4
Provisions	23	32
Other liabilities	82	128
Subordinated debt	11	10
Total	1,389	2,377
Less deferred tax assets	– 1,389	– 2,376
Deferred tax liabilities	0	1

As in the previous year, there were no temporary differences in connection with shares held in subsidiaries, branch offices, associates and joint ventures for which no tax debts have been reported.

There were no deferred tax liabilities formed for matters which were captured directly in equity (previous year: € 2 million).

59. Other Liabilities

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Deferred items	24	7
Liabilities for profit participation rights becoming due	19	103
Liabilities for other taxes	8	15
Pension commitments under dual-contract plans	0	1,331
Other	201	428
Other liabilities	252	1,884

The other liabilities are primarily netting balances and accrued liabilities. The accrued liabilities are mainly trade accounts payable, short-term liabilities to employees and other accrued liabilities for commissions, interest and operating expenditures.

60. Liabilities Held for Sale

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Liabilities to banks	0	174
Liabilities to customers	0	1
Certificated liabilities	0	44
Liabilities under repurchase agreements	0	9
Trading liabilities	0	138
Negative fair values from derivative hedging instruments	0	4
Provisions	0	63
Other	0	5
Non-current liabilities held for sale	0	438

As of December 31, 2013, there were no circumstances giving rise to a requirement to report items in accordance with IFRS 5.

On July 31, 2013, the responsible supervisory authorities approved the agreement on the sale of our Brazilian subsidiary Banco WestLB do Brasil S.A. to Mizuho Corporate Bank Ltd., which had already been signed on June 19, 2012. As a result, this company has since been deconsolidated. At December 31, 2012, it was treated as a disposal group falling within the scope of IFRS 5.

61. Subordinated Debt

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Subordinated liabilities	2,233	2,275
Profit participation capital	34	73
Deferred interest	35	35
Measurement effects (IAS 39)	24	41
Subordinated debt	2,326	2,424

The decrease in profit participation capital was due to final maturities and the absorption of part of the loss for the year. Profit participation rights of € 19 million with a final maturity date of December 31, 2013 were reported under other liabilities.

Pursuant to the terms of issue, the profit participation rights issued by Portigon AG will absorb a total of € 19 million of the loss reported in the single-entity financial statements for 2013. In addition, no coupon payments will be made on these profit participation rights for the reporting year. Contractually, the profit participation rights are essentially structured such that any repayment claims reduced by a loss participation are to be reinstated to their nominal value, in a first step, in the event the company subsequently reports a distributable profit/net profit for the year in its annual financial statements (after factoring in coupon payments on the profit participation rights for the then-current reporting year) and that, in a second step, the unpaid interest from previous years is to be paid retrospectively (in full). Due to corresponding cash flow projections for the future, it was assumed as of the balance sheet date that there will be no retrospective payment of interest at a later date and no reinstatement to nominal value. This was the case in the previous year as well.

The measurement effects associated with IAS 39 pertain to changes in fair value resulting from the application of the fair value option.

62. Equity and Profit Distribution at Portigon AG

The subscribed capital of Portigon was € 499 million at December 31, 2013 (previous year: € 499 million) and was divided into 22,695,306 (previous year: 22,695,306) no-par-value registered shares. The theoretical par value of each share is € 21.97 (previous year: € 21.97). All shares carry the same voting rights. As in the previous year, the State of North Rhine-Westphalia holds 69.490% of the share capital, whilst NRW.BANK holds 30.510%.

Portigon is reporting a net loss under German commercial law of € 826 million for the 2013 fiscal year.

Portigon issued silent contributions to capital in 2005, with one tranche totalling US$ 300 million and the other € 240 million (for a combined total of € 469 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 million (previous year: € 61 million).

Pursuant to the agreement of December 12, 2009, concerning a silent participation on the part of FMS, FMS paid its entire silent contribution to capital in the amount of € 3,000 million in three instalments over the course of the 2009 and 2010 fiscal years. A partial sale of FMS's silent contribution to capital to the State of North Rhine-Westphalia was agreed upon in agreements that were dated August 22, 24 and 25, 2012 and had an effective transfer date of September 1, 2012. The stake that was sold had a prorated original value of € 1,000 million and an actual prorated value of € 893 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 million (previous year: € 399 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 the State of North Rhine-Westphalia, 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 holders of profit participation certificates were allocated a € 19 million share (previous year: € 31 million share) of the loss under German commercial law.

The result of Portigon AG, as reported on its balance sheet, also encompasses allocations to and withdrawals from the reserves formed pursuant to § 340f and – albeit with certain restrictions – § 340g of the German Commercial Code (HGB) and, in this respect, is determined at Portigon's discretion.

The loss remaining after loss allocation, including the loss participation of the profit participation certificate holders and silent partners, comes to € 183 million and is being reported as a retained loss.

63. Maturity Analysis of Assets and Liabilities

The undiscounted cash flows of assets (not including financial investments in shares and other non-interest-bearing securities, financial participations, shares in associates and shares in subsidiaries) and liabilities break down as follows:

€ millions	Maturity at Dec. 31, 2013				
	Due Overnight	Up to 3 Months	3 Months to 1 Year	1 to 5 Years	More Than 5 Years
Cash and balances with central banks	2,040	1			
Loans and advances to banks	1,224	145	10	12	223
Loans and advances to customers	375	559	2,002	1,821	3,810
Receivables under reverse repurchase agreements		9			
Trading assets[1]	305				
Derivatives held in trust (incl. cash collateral)	16,435				
Financial assets designated at fair value		1	2	91	412
Financial investments (receivables)	2	51			
Total	20,381	766	2,014	1,924	4,445
Liabilities to banks	136		3		8
Liabilities to customers	1,178	512	261	50	1,944
Liabilities under repurchase agreements		250			
Financial liabilities designated at fair value	207	1,866	21	197	527
Trading liabilities[1]	296				
Derivatives held in trust (incl. cash collateral)	16,435				
Certificated liabilities	12				23
Subordinated liabilities and profit participation capital	5	11	39	1,549	722
Total	18,269	2,639	324	1,796	3,224
Financial guarantee contracts[2]	350				
Irrevocable credit commitments[2]	821				

[1] The amounts reported (fair values) include only the non-derivative trading assets and trading liabilities, which we assigned to the "due overnight" maturity range given their allocation to the trading portfolio. To reconcile these amounts to the amounts reported on the balance sheet, it is important to add the derivative trading assets and derivative trading liabilities we treat as due overnight, as long as any used in hedging are excluded.

[2] The liquidity requirements for irrevocable credit commitments and contingent liabilities are far smaller than the pledged amounts, because we do not expect the pledged amounts to be used in full. Therefore, the total amount does not necessarily correspond to the future cash flows and liquidity requirements.

€ millions	Maturity at Dec. 31, 2012				
	Due Overnight	Up to 3 Months	3 Months to 1 Year	1 to 5 Years	More Than 5 Years
Cash and balances with central banks	6,131	18			
Loans and advances to banks	1,471	30	65	99	180
Loans and advances to customers	1,399	207	976	4,851	4,417
Receivables under reverse repurchase agreements		226			
Trading assets[1]	584				
Derivatives held in trust	72,921				
Financial assets designated at fair value (receivables, bonds and notes)	79	12	61	163	663
Financial investments (receivables, bonds and notes)				55	109
Total	82,585	493	1,102	5,168	5,369
Liabilities to banks	127	1	17	23	8
Liabilities to customers	1,682	1,695	29	342	2,552
Liabilities under repurchase agreements		20			
Financial liabilities designated at fair value	377	5,008	19	227	623
Trading liabilities[1]	1,487				
Derivatives held in trust	72,921				
Certificated liabilities	13	6		237	23
Subordinated liabilities and profit participation capital		11	36	859	1,529
Total	76,607	6,741	101	1,688	4,735
Financial guarantee contracts[2]	789				
Irrevocable credit commitments[2]	1,458				

[1] The amounts reported (fair values) include only the non-derivative trading assets and trading liabilities, which we assigned to the "due overnight" maturity range given their allocation to the trading portfolio. To reconcile these amounts to the amounts reported on the balance sheet, it is important to add the derivative trading assets and derivative trading liabilities we treat as due overnight, as long as any used in hedging are excluded.

[2] The liquidity requirements for irrevocable credit commitments and contingent liabilities are far smaller than the pledged amounts, because we do not expect the pledged amounts to be used in full. Therefore, the total amount does not necessarily correspond to the future cash flows and liquidity requirements.

The inflow and outflow of liquidity from hedging derivatives are shown in the following table. This table basically includes both hedging derivatives which are accounted for pursuant to the rules on hedge accounting and derivatives which, although used for hedging purposes, are not captured according to the hedge accounting rules. Derivatives held in trust are considered due overnight because the intent is to transfer them to EAA by novation as soon as possible.

€ millions	Inflow and Outflow of Liquidity from Hedging Derivatives at Dec. 31, 2013				
	Due Overnight	Up to 3 Months	3 Months to 1 Year	1 to 5 Years	More Than 5 Years
Derivatives with positive fair values					
Inflow of liquidity	0	400	936	4,471	1,045
Outflow of liquidity	0	331	729	3,844	262
Net inflow (+)/Net outflow (–)	0	69	207	627	783
Derivatives with negative fair values					
Inflow of liquidity	0	353	387	2,766	135
Outflow of liquidity	0	379	476	3,094	757
Net inflow (+)/Net outflow (–)	0	– 26	– 89	– 328	– 622
Total net inflow (+)/net outflow (–)	0	43	118	299	161

€ millions	Inflow and Outflow of Liquidity from Hedging Derivatives at Dec. 31, 2012				
	Due Overnight	Up to 3 Months	3 Months to 1 Year	1 to 5 Years	More Than 5 Years
Derivatives with positive fair values					
Inflow of liquidity	0	3,851	439	3,990	2,481
Outflow of liquidity	0	3,737	244	3,088	985
Net inflow (+)/Net outflow (–)	0	114	195	902	1,496
Derivatives with negative fair values					
Inflow of liquidity	0	4,362	34	742	93
Outflow of liquidity	0	4,428	123	1,127	742
Net inflow (+)/Net outflow (–)	0	– 66	– 89	– 385	– 649
Total net inflow (+)/net outflow (–)	0	48	106	517	847

Note 72 contains details on the maturities associated with leases.

64. Transfer of Financial Assets

Derivatives Held in Trust

During the transformation in 2012, all of the opportunities and risks from certain derivative financial instruments were transferred in full to EAA under the risk transfer agreement. However, the derivatives themselves could not be removed from Portigon's books due to the outstanding legal obligations still associated with them. Without there being a derecognition, it was necessary to recognise corresponding derivatives with EAA having the opposite fair values upon conclusion of the risk transfer agreement.

The derivatives transferred under the risk transfer agreement have been recognised at fair value and are reported along with the resulting derivatives with EAA under the asset-side or liability-side line item derivatives held in trust. As of the balance sheet date, transferred derivatives with positive fair values of € 7,828 million (previous year: € 34,322 million) were reported in the asset-side line item derivatives held in trust, with offsetting derivatives with EAA in the same amount being reported under the liability-side derivatives held in trust.

Securities Lending Transactions

As in the previous year, Portigon had lent no securities from its portfolio as of the balance sheet date. The volume of securities borrowed at December 31, 2013 was € 15 million (previous year: € 32 million).

Repurchase Agreements

The carrying value of the securities pledged under repurchase agreements and not covered by reverse repurchase agreements came to € 250 million. In the previous year, all repurchase agreements had been covered by reverse repurchase agreements.

65. Credit Risks from Financial Instruments and Collateral

The maximum credit risk without taking into account available collateral or other credit enhancements pursuant to IFRS 7.36 (a) and after deducting individual allowances for loans and advances to banks and customers corresponds to the carrying value on the balance sheet. The credit risk relating to contingent liabilities from guarantees and indemnity contracts was € 350 million, whilst that relating to other obligations from irrevocable credit commitments was € 821 million.

Portigon has received collateral in various forms, including, in particular, claims under guarantees. Of the assets reported on the balance sheet at December 31, 2013, the sum of € 7.7 billion (previous year: € 13.0 billion) is guaranteed by EAA. This mostly pertains to loans and advances to customers in the amount of € 5.8 billion (previous year: € 7.4 billion), loans and advances to financial institutions and central banks in the amount of € 0.8 billion (previous year: € 4.4 billion) and financial assets designated at fair value in the amount of € 0.5 billion (previous year: € 0.9 billion). Claims Portigon would have if a beneficiary were ever to draw on any contingent liability would be covered by the guarantee agreement with EAA from the moment they arise.

In connection with repurchase agreements and other securities transactions, Portigon held collateral with a fair value of € 9 million as of December 31, 2013 (previous year: € 243 million) which, as long as the owner of the collateral does not default, may be repledged. At December 31, 2013, no collateral had been received and repledged with an obligation that it be returned (previous year: € 34 million).

The table below gives a breakdown of the financial instruments with payments which were more than 90 days in arrears as of the reporting date, but for which no impairment or use of a guarantee has been recognised to date:

€ millions	3 to 6 months late		6 to 12 months late		over 12 months late		Total	
	Dec. 31, 2013	Dec. 31, 2012	**Dec. 31, 2013**	Dec. 31, 2012	**Dec. 31, 2013**	Dec. 31, 2012	**Dec. 31, 2013**	Dec. 31, 2012
Loans and advances to customers (LaR)	51	28	1	9	13	18	65	55
Total past-due loans not impaired	51	28	1	9	13	18	65	55

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. Because this risk has a low probability of occurrence, it is insignificant from an economic standpoint. Additional information is contained in the Risk Report.

The book value of the collateral furnished for the company's own liabilities and contingent liabilities totalled € 4.3 billion (previous year: € 8.4 billion) and consists mostly of items pledged to central banks and cash collateral.

The provision of collateral for own liabilities and contingent liabilities is done on terms and conditions which are customary for the market. The same applies with respect to the utilisation of collateral received.

66. Netting Arrangements

Financial assets and financial liabilities are considered to be eligible for netting when the enforceable right of set-off exists. However, other conditions must be present. This pertains to all derivative contracts entered into under a master ISDA agreement and the related cash collateral. In addition, there are contingent opportunities for set-off in the case of repurchase agreements settled via a clearing house.

Due to the special way in which the risk transfer agreement was structured, all transactions falling within the scope of the risk transfer agreement may be offset against each other. Please refer to Note 7 for additional information.

The following tables show the risk-mitigating effect of specific netting arrangements and collateral, broken down by balance sheet item. There was no netting of balance sheet items as of the December 31, 2013 reporting date. This was also the case as of the previous year's reporting date.

December 31, 2013

Financial assets	Gross amount	Eligible for balance sheet netting	Amount reported on balance sheet	Not eligible for balance sheet netting		Net amount
				Financial instruments	Collateral	
Receivables from reverse repurchase agreements	9		9	– 9		
Positive fair values from derivatives[1]	1,776		1,776	– 464	– 527	785
Asset-side derivatives held in trust	16,435		16,435	– 15,360	– 1,075	
Financial liabilities						
Liabilities from repurchase agreements	250		250	– 9	– 241	
Negative fair values from derivatives[2]	1,051		1,051	– 464		587
Liability-side derivatives held in trust	16,435		16,435	– 15,360	– 1,075	

[1] Some of the amounts identified here are attributable to derivatives that are reported due to their designation in the line item "positive fair values from derivative hedging instruments".
[2] Some of the amounts identified here are attributable to derivatives that are reported due to their designation in the line item "negative fair values from derivative hedging instruments".

December 31, 2012

Financial assets	Gross amount	Eligible for balance sheet netting	Amount reported on balance sheet	Not eligible for balance sheet netting		Net amount
				Financial instruments	Collateral	
Receivables from reverse repurchase agreements	226		226	– 20	– 206	
Positive fair values from derivatives[1]	2,786		2,786	– 1,319	– 722	745
Asset-side derivatives held in trust	72,921		72,921	– 69,729	– 3,192	
Financial liabilities						
Liabilities from repurchase agreements	20		20	– 20		
Negative fair values from derivatives[2]	1,825		1,825	– 1,319		506
Liability-side derivatives held in trust	72,921		72,921	– 69,729	– 3,192	

[1] Some of the amounts identified here are attributable to derivatives that are reported due to their designation in the line item "positive fair values from derivative hedging instruments".
[2] Some of the amounts identified here are attributable to derivatives that are reported due to their designation in the line item "negative fair values from derivative hedging instruments".

Other Information

67. Restatements Pursuant to IAS 8

WestLB preserved its legal form in the course of its transformation into Portigon in 2012. Along with the name change came a change in corporate purpose. Portigon now operates as a service provider, in particular with regard to the management of banking portfolios. The business activities of WestLB were discontinued.

Because of these changes, the net trading result item on the statement of income was renamed the result from financial instruments fair valued through profit and loss in compliance with IAS 1.45a. The result from financial instruments fair valued through profit and loss captures the result from the measurement and sale of financial instruments assigned to the held-for-trading (HfT) and fair value option (FVO) categories. In contrast to the previous years, this means that the result from foreign currency translation, including the result from precious metal transactions, is reported as part of the result from held-for-trading positions, since the result from foreign currency translation is no longer meaningful following the change in business model.

From now on, fee and commission expense and fee and commission income from positions measured at fair value will be reported under net fee and commission income. The year-earlier figures have been adjusted accordingly. The net fee and commission income for 2012 decreased by € 19 million to € 286 million as a result of this. The adjusted result from financial instruments fair valued through profit and loss came to € – 687 million.

To improve presentation, investment property as defined in IAS 40 is now reported as a separate line item on the balance sheet. The year-earlier figures have been adjusted. The volume of financial investments reported on the previous year's balance sheet decreased by € 26 million to € 221 million as a result of this.

The only items to adjust on the previous year's balance sheet pursuant to the transitional rules of IAS 19 (2011), which were first applicable in the reporting year, were, in conjunction with IAS 8, the beginning and ending balances of actuarial gains and losses ("remeasurements of defined benefit pensions plans" starting in 2013), which were reported separately under equity, and, in an offsetting manner, other retained earnings. Accordingly, retained earnings are unchanged overall. The change in other retained earnings corresponded to an adjustment of net interest income in the previous year's statement of income accompanied by an offsetting entry to actuarial gains and losses within other comprehensive income. Since Portigon's balance sheet was not affected, it was not necessary to prepare an additional balance sheet pursuant to IAS 1.40A.

68. Derivative Financial Instruments

Derivative financial instruments are financial instruments whose value is derived from one or more underlying assets or another variable ("underlyings"). Underlyings are generally interest rates, prices of goods and commodities, index values and quoted prices of shares, currencies or bonds.

Derivatives may be exchange-traded, with standardised nominal values and settlement dates, or not traded on an exchange (OTC derivatives), with individually negotiated notional values, maturities and prices.

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 financial instruments whose risks were transferred to EAA, predominantly under the risk transfer agreement.

The derivative transactions reported on Portigon Group's balance sheet involve the following product categories:

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

- Products based on exchange rates
  Currency forwards, currency swaps, forward currency swaps, currency options, swaptions, 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, credit linked notes

The nominal value indicates the contract volume traded by the Group. It generally serves as a basis for calculating the change in the fair value of the derivative and as a reference value for mutually agreed cash settlement payments (e.g. interest payments on interest rate swaps), but it does not represent a receivable or payable which can be reported on the balance sheet. Derivatives are shown on the balance sheet at their positive or negative fair values.

As a result of the change in business model, the Group now uses derivatives solely for hedging purposes. Hedging derivatives are used largely to manage and mitigate risks of movements in interest rates, credit risks, currency risks and other price risks. Because of the requirements of IAS 39, not all hedging relationships which have an economic existence can be fully reflected in the Group financial statements under IFRS by applying either hedge accounting or the fair value option.

Hedging derivatives for hedge accounting under IAS 39 are recognised on the balance sheet as "positive fair values from derivative hedging instruments" or "negative fair values from derivative hedging instruments"; all others are included under "trading assets" or "trading liabilities". Changes in the fair values of derivatives are recognised in the result from financial instruments fair valued through profit and loss, except for derivatives which meet the requirements for hedge accounting under IAS 39. Changes in the fair value of the latter derivatives are included in net interest income.

At December 31, 2013, the nominal volume of the hedging derivatives with positive fair values was € 1.4 billion, whilst that of the hedging derivatives with negative fair values was € 0.2 billion. At December 31, 2012, there were no hedging derivatives designated for hedge accounting due to the transformation.

As of the balance sheet date, the total volume in nominal terms of the derivative financial instruments was € 371.8 billion (previous year: € 1,422.8 billion) and is largely attributable to derivatives held in trust, including the offsetting derivative positions with EAA (see Notes 7, 38 and 55). The emphasis continues to be on interest rate products, whose share of the total volume increased to 84.0% (previous year: 80.3%).

The nominal values of the derivative financial instruments (excluding cash collateral) break down as follows as of the reporting dates:

€ millions	Nominal Values		Positive Market Values		Negative Market Values	
	Dec. 31, 2013	Dec. 31, 2012	**Dec. 31, 2013**	Dec. 31, 2012	**Dec. 31, 2013**	Dec. 31, 2012
Products based on interest rates	312,466	1,142,864	12,098	66,332	11,534	65,507
Products traded OTC	312,466	1,142,705	12,098	66,332	11,534	65,507
Products traded on the stock exchange	0	159	0	0	0	0
Products based on exchange rates	41,441	248,072	3,655	4,707	3,577	4,604
Products traded OTC	41,441	248,072	3,655	4,707	3,577	4,604
Products based on share prices and other prices	11,348	10,741	815	971	811	955
Products traded OTC	11,348	10,691	815	970	811	954
Products traded on the stock exchange	0	50	0	1	0	1
Credit derivatives	6,559	21,126	568	498	489	485
Products traded OTC	6,559	21,126	568	498	489	485
Total	371,814	1,422,803	17,136	72,508	16,411	71,551
Products traded OTC	371,814	1,422,594	17,136	72,507	16,411	71,550
Products traded on the stock exchange	0	209	0	1	0	1

69. Fair Value

Pursuant to IFRS 13, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market or most advantageous market on the measurement date.

If a principal active market or most advantageous active market is available, we determine the fair value of financial instruments on the basis of market prices or other market quotations for identical assets or liabilities (Level 1 valuation). This is essentially the case for exchange-traded securities and derivatives and for debt instruments listed on an exchange. For most over-the-counter derivatives and non-listed financial instruments, for which no quoted prices from active markets are available, we calculate fair value on the basis of observable market prices for similar instruments or by using present value or other valuation techniques common to the market with inputs which are directly or indirectly observable on active markets (Level 2 valuation).

In the case of some financial instruments, fair value cannot be calculated either directly from market quotations or indirectly with measurement models supported by observable market prices or other market quotations. In such cases, the unobservable inputs are determined using realistic assumptions and estimates based on market conditions. These estimates and assumptions relate, in particular, to credit and model risks and make appropriate allowances for market liquidity (Level 3 valuation).

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 financial instruments whose risks were transferred to EAA in 2012, predominantly under the risk transfer agreement. The specific measurement methods and parameters we use 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 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. For loans, fair value is determined on the basis of current market data using the present value method. For liabilities, a company's own credit risk is taken into account through the use of risk-adequate spread curves.

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 derived from credit derivatives like perfect asset swaps 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. This includes own credit spreads for liability-side products.

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

Additional information on accounting assumptions and estimates is provided in Note 6, with additional information on measurement methods provided in Note 7.

The following table shows the breakdown pursuant to IFRS 13.93 (b) of the assets and liabilities reported on the balance sheet:

€ billions	Dec. 31, 2013				Dec. 31, 2012			
	Quoted Market Prices (Level 1)	Valuation Methods Based on Market Data (Level 2)	Valuation Methods Not Exclusively Based on Market Data (Level 3)	Total	Quoted Market Prices (Level 1)	Valuation Methods Based on Market Data (Level 2)	Valuation Methods Not Exclusively Based on Market Data (Level 3)	Total
Assets								
Cash and balances with central banks	2.0	0.0	0.0	2.0	6.1	0.0	0.0	6.1
Loans and advances to banks	0.0	1.6	0.0	1.6	0.0	1.9	0.0	1.9
Loans and advances to customers	0.0	9.6	0.0	9.6	0.0	13.2	0.0	13.2
Receivables under reverse repurchase agreements	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.2
Derivatives held in trust	0.0	16.3	0.1	16.4	0.0	72.8	0.1	72.9
Trading assets	0.2	1.6	0.0	1.8	0.2	3.2	0.0	3.4
Positive fair values from derivative hedging instruments	0.0	0.2	0.0	0.2	0.0	0.0	0.0	0.0
Separate line item for hedged financial instruments resulting from portfolio hedge accounting	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1
Financial assets designated at fair value	0.1	0.4	0.0	0.5	0.4	0.6	0.0	1.0
Financial assets available for sale	0.0	0.1	0.0	0.1	0.1	0.0	0.1	0.2
Investment property	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Total	2.3	30.0	0.1	32.4	6.8	92.0	0.2	99.0
Liabilities								
Liabilities to banks	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2
Liabilities to customers	0.0	4.5	0.0	4.5	0.0	7.1	0.0	7.1
Certificated liabilities	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.3
Liabilities under repurchase agreements	0.0	0.3	0.0	0.3	0.0	0.0	0.0	0.0
Trading liabilities	0.0	1.3	0.0	1.3	0.2	3.1	0.0	3.3
Derivatives held in trust	0.0	16.3	0.1	16.4	0.0	72.8	0.1	72.9
Negative fair values from derivative hedging instruments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liability line item for hedged financial instruments resulting from portfolio hedge accounting	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1
Financial liabilities designated at fair value	0.0	2.8	0.0	2.8	0.0	6.2	0.0	6.2
Subordinated debt	0.0	2.5	0.0	2.5	0.0	2.6	0.0	2.6
Total	0.0	28.0	0.1	28.1	0.2	92.4	0.1	92.7

When assigning the financial instruments to the fair value hierarchy levels, the various forms of guarantees received from EAA were considered.

The investment property was fair valued at December 31, 2013 predominantly on the basis of the purchase price which was agreed upon at the end of January 2014 in connection with the sale of the office properties (Level 2).

At December 31, 2013, Portigon Group's balance sheet showed asset-side and liability-side share price-based derivatives held in trust whose values were modelled using inputs not directly observable in the market. These derivatives are accompanied by liability-side derivatives held in trust of the same amount and assigned to the same level. The vast majority of these derivatives are valued using Monte Carlo simulation. A very small fraction is valued on the basis of finite differences.

If we apply alternative, equally realistic assumptions to the Level 3 cases, the fair value of the financial instruments concerned would decrease by € 0.1 million (previous year: € 4 million) in a scenario analysis and increase by € 0.1 million (previous year: € 2 million) using more favourable assumptions. In this scenario analysis, a parameter change of the correlations between stocks or stock indices of +/- 3% with the Monte Carlo simulation-based measurement of fair value change is taken as the basis for the measurement of the share price-based derivatives held in trust.

The following tables show the reconciliation required under IFRS 13.93 (e) for Level 3 financial instruments:

Assets in € millions	Trading Assets	Derivatives Held in Trust	Assets Designated at Fair Value	Available-for-Sale Financial Investments	Total
Status at January 1, 2013	0	132	19	42	193
Gains and losses					
– in the income statement	0	0	0	0	0
– in other comprehensive income	0	0	0	0	0
Purchased	0	0	0	0	0
Sold	0	0	0	0	0
Closed out (settled)	0	– 49	– 19	0	– 68
Moved to Level 3	0	0	0	0	0
Moved from Level 3	0	0	0	– 42	– 42
Status at December 31, 2013	0	83	0	0	83

Assets in € millions	Trading Assets	Derivatives Held in Trust	Assets Designated at Fair Value	Available-for-Sale Financial Investments	Total
Status at January 1, 2012	360	0	117	246	723
Gains and losses					
– in the income statement	1	0	1	– 2	0
– in other comprehensive income	0	0	0	– 1	– 1
Purchased	0	132	0	2	134
Sold	0	0	0	0	0
Closed out (settled)	– 361	0	– 99	– 203	– 663
Moved to Level 3	0	0	0	0	0
Moved from Level 3	0	0	0	0	0
Status at December 31, 2012	0	132	19	42	193

Liabilities in € millions	Trading Liabilities	Derivatives Held in Trust	Liabilities Designated at Fair Value	Total
Status at January 1, 2013	0	132	0	132
Gains and losses				
– in the income statement	0	0	0	0
Purchased	0	0	0	0
Sold	0	0	0	0
Issued	0	0	0	0
Closed out (settled)	0	– 49	0	– 49
Moved to Level 3	0	0	0	0
Moved from Level 3	0	0	0	0
Status at December 31, 2013	0	83	0	83

Liabilities in € millions	Trading Liabilities	Derivatives Held in Trust	Liabilities Designated at Fair Value	Total
Status at January 1, 2012	172	0	325	497
Gains and losses				
– in the income statement	8	0	0	8
Purchased	0	132	0	132
Sold	0	0	0	0
Issued	0	0	0	0
Closed out (settled)	– 180	0	– 325	– 505
Moved to Level 3	0	0	0	0
Moved from Level 3	0	0	0	0
Status at December 31, 2012	0	132	0	132

The only Level 3 financial instruments on December 31, 2013 were a small number of derivatives held in trust for EAA.

The profit and loss reported in connection with trading assets and trading liabilities encompasses the previous year's results up to the conclusion of the risk transfer agreement from derivatives, the opportunities and risks of which had been transferred to EAA in mid-2012 by means of the risk transfer agreement. Due to the contractual structure, it is not possible to show profit or loss from the derivatives held in trust.

At December 31, 2012, there was € 4 million in unrealised losses on Level 3 available-for-sale financial investments which is reported in the result from financial investments or net interest income when the respective positions are closed.

Our measurement strategies and procedures stipulate that asset-side financial instruments listed on an exchange be assigned to Level 1. They are downgraded to Level 2 if the issuance volume falls below a certain threshold. Own issues are captured in Level 2, as are OTC derivatives and repurchase agreements. Financial instruments with unobservable inputs are assigned to Level 3 on the basis of clearly defined and harmonised criteria. When changes occur in the fair value measurement, we check that they are reasonable and compare them with market developments. Included in this process are a quality-controlled calculation of the fair value of these positions and a sensitivity analysis. When assigning the financial instruments to the fair value hierarchy levels, the various forms of guarantees received from EAA were considered. Level assignments are regularly reviewed on the basis of the defined criteria.

An insignificant volume (previous year: € 0.1 million) was moved out of Level 1 and into Level 2 in the reporting year due to limited availability of observable market prices. As in the previous year, no financial instruments were moved out of Level 2 into Level 1. Available-for-sale financial investments of € 42 million (previous year: € 0 million) were moved out of Level 3 and into Level 2 based on the guarantees available from EAA.

Most of the financial liabilities designated at fair value during the reporting year were short-term deposits. As in the previous year, a change in Portigon's own credit spread with financial liabilities designated at fair value would have had no material impact on the statement of income.

To the extent it proves largely impossible to use observable market inputs when applying measurement models, the financial instrument in question is to be recognised at the transaction price in accordance with the provisions of IAS 39. Any difference to the model value determined on the trade date is to be accrued and amortised over the instrument's term. Upon disposal, the difference is accreted into earnings. As a result of the transfer of financial instruments to EAA and Helaba, all of the results accrued and amortised from modelling on the basis of inputs not observable on the market had already been fully captured in the statement of income at the end of 2012. There were no new accrual amounts in the reporting year.

All measurement models are tested thoroughly before being used as a basis for financial reporting. The models employed are also reviewed regularly over time. There were no changes to the methods in the reporting year.

We believe that both for the financial instruments measured at fair value on the balance sheet and for the financial instruments recognised at amortised cost (where fair value serves only for purposes of comparison), the fair values are reasonable and consistent with the underlying economic circumstances.

	Fair Value		Carrying Value		Difference	
	Dec. 31, 2013 € billions	Dec. 31, 2012 € billions	**Dec. 31, 2013 € billions**	Dec. 31, 2012 € billions	**Dec. 31, 2013 € billions**	Dec. 31, 2012 € billions
Assets						
Cash and balances with central banks	2.0	6.1	2.0	6.1	0.0	0.0
Loans and advances to banks	1.6	1.9	1.6	1.8	0.0	0.1
Loans and advances to customers	9.6	13.2	8.5	11.7	1.1	1.5
Receivables under reverse repurchase agreements	0.0	0.2	0.0	0.2	0.0	0.0
Trading assets	1.8	3.4	1.8	3.4	0.0	0.0
Derivatives held in trust (incl. cash collateral)	16.4	72.9	16.4	72.9	0.0	0.0
Positive fair values from derivative hedging instruments	0.2	0.0	0.2	0.0	0.0	0.0
Separate line item for hedged financial instruments resulting from portfolio hedge accounting	0.1	0.1	0.1	0.1	0.0	0.0
Financial assets designated at fair value	0.5	1.0	0.5	1.0	0.0	0.0
Financial investments	0.1	0.2	0.1	0.2	0.0	0.0
Investment property	0.2	0.0	0.1	0.0	0.1	0.0
Assets held for sale	0.0	0.6	0.0	0.6	0.0	0.0
Liabilities						
Liabilities to banks	0.2	0.2	0.2	0.2	0.0	0.0
Liabilities to customers	4.5	7.1	3.9	6.4	0.6	0.7
Certificated liabilities	0.0	0.3	0.0	0.3	0.0	0.0
Liabilities under repurchase agreements	0.3	0.0	0.3	0.0	0.0	0.0
Trading liabilities	1.3	3.3	1.3	3.3	0.0	0.0
Derivatives held in trust (incl. cash collateral)	16.4	72.9	16.4	72.9	0.0	0.0
Negative fair values from derivative hedging instruments	0.0	0.0	0.0	0.0	0.0	0.0
Separate line item for hedged financial instruments resulting from portfolio hedge accounting	0.1	0.1	0.1	0.1	0.0	0.0
Financial liabilities designated at fair value	2.8	6.2	2.8	6.2	0.0	0.0
Liabilities held for sale	0.0	0.4	0.0	0.4	0.0	0.0
Subordinated debt	2.5	2.6	2.3	2.4	0.2	0.2

The fair value of financial instruments is determined using the above-described methods. In the case of loans and money market transactions, the fair value is most often determined using the discounted cash flow method.

The net fair values of the assets and liabilities were € 0.4 billion (previous year: € 0.7 billion) above their carrying values at December 31, 2013. Individual allowances were deducted from the carrying values for loans and advances to banks and customers. The unrealised gains were accompanied by unrealised losses from the guarantee fees payable to EAA in future.

For receivables otherwise to be categorised as loans and receivables and placed under the fair value option, there was no material change in value induced by creditworthiness risks in 2013, which was also the case in the previous years.

Due to the Group's downsizing and the transformation process, nearly all changes in value attributable to changes in Portigon's rating for liabilities placed under the fair value option were unwound. There were no new changes in value attributable to credit quality in the reporting year. The financial liabilities designated as at fair value at December 31, 2013 were mainly attributable to short-term deposits of EAA.

Effects attributable to market conditions, such as shifts in market interest rates and widening of the credit spreads observable in the market, do not constitute creditworthiness-related changes in value. In making these disclosures about loans and receivables and liabilities measured using the fair value option, Portigon is following the current interpretation of IFRS 7.9f.

As at the end of the previous year, there were no credit derivatives or similar instruments as of December 31, 2013 which reduced the credit risk on receivables designated as at fair value.

70. Amendments to IAS 39 and IFRS 7 "Reclassification of Financial Assets"

In conformity with the amendments to IAS 39 and IFRS 7, we reassigned certain trading assets and available-for-sale assets to the loans and receivables category in the second half of 2008. The assets reassigned were ones which, as of their effective date of reclassification, we no longer intended to sell or trade in the short term, but to hold for the foreseeable future, due to inactive markets.

The reclassification of € 1.6 billion in trading assets and € 3.9 billion in available-for-sale assets occurred at the respective fair values determined on the reclassification date.
At the time of reclassification, the effective interest rates on the reclassified assets were between 1.3% and 14.4%, with expected obtainable cash flows of € 8.3 billion in total.
No more reclassifications were made after the fourth quarter of 2008.

Reclassified assets were transferred to EAA and the Verbundbank as part of the spin-offs in 2012 or have since reached maturity.

At December 31, 2013, there was still one security formerly assigned to the available for sale category. It has a carrying value of € 3 million. This security has been guaranteed by EAA and has a fair value of € 3 million. As in the previous year, this item made no material contribution to earnings and produced no significant increase in equity in the year under review.

71. Contingent Liabilities and Other Commitments

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Contingent liabilities	350	789
– liabilities from guarantees and indemnity agreements	350	789
Other commitments	821	1,458
– irrevocable credit commitments	821	1,458

Claims Portigon would have if a beneficiary were ever to draw on any contingent liability or other obligation would be covered by the guarantee agreement with EAA from the moment they arise.

72. Obligations under Operating Leases

The total future minimum lease payments payable as a lessee under non-terminable leases carried as operating leases break down as follows:

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Minimum lease payments		
– up to 1 year	40	41
– 1 to 5 years	120	143
– more than 5 years	70	137
Total	230	321

The total future minimum lease payments receivable under non-terminable subleases was € 291 million as of the reporting date (previous year: € 91 million).

During the fiscal year, operating lease payments (as lessee) of € 31 million were incurred (previous year: € 40 million); € 12 million (previous year: € 15 million) was collected under subleases.

73. 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.

74. Deposit Insurance and Other Insurance Mechanisms

Portigon is a member of the German Savings Banks Association (DSGV) and makes contributions to the security reserve (guarantee fund) of the Landesbanken and Girozentralen. This security reserve constitutes protection for contributing banks within the meaning of § 12 of the German Deposit Protection and Investor Compensation Act (Einlagensicherungs- und Anlegerentschädigungsgesetz, EAEG) and is 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 the 2013 fiscal year, will not have one for the foreseeable future and will not have to make additional contributions until further notice.

75. 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.

76. Legal Actions

The responsibility for identifying and steering Portigon’s legal risks, which are considered a subset of operational risks, is chiefly shouldered by 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 15 had not been formally served).

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 AG remains convinced that neither it nor its employees can be accused of illegally manipulating the interest rate quotes. Hence, it does not expect any penalties or fines. Sufficient provisions have been formed to cover the costs of these proceedings.

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.

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.

77. 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 of Portigon AG with readybank ag in 2012 (€ 65.3 million).

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.

78. Trust Activities

The trust assets not reported on the balance sheet include all customer assets managed or held by Portigon Group solely for investment purposes. In these cases Portigon acts in its own name, as the asset manager or as trustee for third parties. Trust assets are countered by trust liabilities in the same amount.

	Dec. 31, 2013 € millions	Dec. 31, 2012 € millions
Loans and advances to customers	0	0
Financial investments	316	336
Trust assets	316	336
Liabilities to banks	0	0
Liabilities to customers	316	336
Trust liabilities	316	336

The company earns commission and fee income on these transactions and assets. In the event of a gross breach of trust obligations or other contractual obligations in the course of performing such activities, Portigon may be exposed to a liability risk. Risks associated with this line of business are covered by the risk management principles applicable within Portigon Group.

The trust assets discussed here are carried at amortised cost or nominal value.

Readers are referred to Notes 38 and 55 for information about the trust activities reported on the balance sheet because derecognition requirements were not met.

79. Assets under Management

All of Portigon Group's asset management activities were discontinued over the course of 2012.

80. Regulatory Ratios

Portigon 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 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 Group 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 3 capital. The breakdown of eligible capital and reserves for the Portigon AG Group at December 31, 2013 was as follows:

	Portigon AG Group Dec. 31, 2013 € millions after AG result for the year	Portigon AG Group Dec. 31, 2012 € millions after AG result for the year
Core capital	2,215	3,020
Paid-in capital/disclosed reserves (including consolidation items) and asset-side balancing items as defined for regulatory purposes	316	444
Capital contributions of silent partners	1,912	2,608
Hybrid capital	0	0
Fund for general bank risks pursuant to § 340g of the German Commercial Code (HGB)	0	0
Deductions	– 13	– 32
Supplementary capital	1,122	1,584
Modified available capital	3,337	4,604
Tier 3 capital	486	608
Unutilised Tier 3 capital	– 471	– 580
Own funds under SolvV	3,352	4,632

Portigon AG Group's own funds receded during the period under review compared to the previous year chiefly because of deconsolidation effects and because of the distribution of the loss reported for 2013 in the single-entity financial statements prepared according to the German Commercial Code (HGB) among the capital components absorbing the loss.

The capital contributions of silent partners decreased by € 696 million to € 1,912 million in 2013 due to their absorption of some of the loss reported in the HGB financial statements.

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 amount of profit participation rights included in the supplementary capital was € 16 million. The amount of subordinated liabilities included in the supplementary capital was € 1,593 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

	Portigon AG Group Dec. 31, 2013 € millions after AG result for the year	Portigon AG Group Dec. 31, 2012 € millions after AG result for the year
Credit risks	763	1,275
Operational risks	1,000	1,000
12.5 x the relevant amount for market risk positions	250	488
Total	2,013	2,763
Core capital ratio (%)	110.1	109.3
Overall ratio under SolvV (%)	166.5	167.7

Pursuant to SolvV provisions, the risk-weighted assets totalled € 2,013 million at December 31, 2013. The reduction in counterparty credit risks is essentially the result of the downsizing of the Portigon Group as well as 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 remained constant in 2013.

As a result of these changes, the core capital ratio increased compared to December 31, 2012 (after Portigon AG's result for the year), from 109.3% to 110.1%. The overall ratio decreased from 167.7% to 166.5%. Thus, the Portigon AG Group met its minimum capital requirements in full.

81. Related Party Disclosures

Transactions with unconsolidated subsidiaries involved loans and advances to customers in the amount of € 1 million (previous year: € 1 million), but no more liabilities to customers (previous year: € 1 million).

As in the previous year, there were no transactions with associates and other enterprises in which equity investments are held.

Because of their investment quotas in Portigon AG and their holdings in each other, the State of North Rhine-Westphalia and NRW.BANK are related parties. Their investment quotas and representation in the governing bodies of Portigon enable them to exercise significant influence over Portigon.

As public-law corporations or public-law institutions, they are part of the public sector. Portigon conducts typical banking business with its owners on arm's length terms. The type and volume of this business is considered insignificant to the Group, both at the individual transaction level and in the aggregate.

Transactions with related parties outside of the group of owners are also conducted exclusively on arm's length terms and arise out of the banking business.

Notes 16, 35, 38, 52 and 55 contain information about material transactions with EAA.

Information about the final understanding reached with NRW.BANK on sharing the burden of pension expenses for employees of Portigon AG entitled to pension benefits is given in Note 57.

Remuneration of the Governing Bodies

	2013 **€ millions**	2012 € millions
Total remuneration of the Managing Board	1.6	2.5
including:		
– 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
including:		
– 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 former Managing Board members and their survivors	103.9	98.5

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 net T€ 38 (previous year: T€ 156) in lump-sum reimbursement of their out-of-pocket expenses.

Not including their membership compensation, the employee representatives on the Supervisory Board earned € 0.6 million for their work at Portigon in 2013 (previous year: € 0.8 million).

Loans to Members of the Governing Bodies

No advances or loans were granted to members of the Managing Board of Portigon or to any other representatives of the company's bodies.

82. Audit Fees

	2013 € millions	2012 € millions
Auditing the annual financial statements	1.1	3.2
Miscellenaneous reports and opinions	2.7	4.9
Total	3.8	8.1

83. Number of Employees

The average number of employees in 2013 was as follows:

	Male	Female	Total 2013	Total 2012
Domestic Group companies/branches	871	800	1,671	2,626
Foreign Group companies/branches	383	269	652	957
Total	1,254	1,069	2,323	3,583

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

84. 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 (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

85. 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.)

86. 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

87. 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 the PFS division to Group company 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. 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. Accordingly, it is to be expected that a sale of PFS will be accompanied by a decrease in resources.

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 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.

With respect to the objection to the change in the Supervisory Board's composition, the parties have since reached an out-of-court settlement, and status proceedings to determine the Supervisory Board's new composition were started again. On March 11, 2014, the Managing Board announced anew its plans 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. As long as no eligible parties file an objection to this announcement within one month's time, the future composition of the Supervisory Board of Portigon AG will be such that two-thirds of its members are elected by the shareholders' meeting and one-third by the employees.

Düsseldorf, March 25, 2014

Portigon AG
The Managing Board

Dietrich Voigtländer

Stefan Dreesbach

Dr. Kai Wilhelm Franzmeyer

Dr. Peter Stemper

Audit Opinion

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

"We have audited the Group financial statements prepared by Portigon AG, Düsseldorf, comprising the income statement, statement of comprehensive income, balance sheet, changes in shareholders' equity, cash flow statement and the notes to the Group financial statements, together with the Group statement of financial condition for the fiscal year from January 1 to December 31, 2013. The preparation of the Group financial statements and the Group statement of financial condition in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ('Handelsgesetzbuch': 'German Commercial Code') is the responsibility of the parent company's management. Our responsibility is to express an opinion on the Group financial statements and the Group statement of financial condition based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Group financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group statement of financial condition is consistent with the Group financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, we draw attention to the statements made in the 'Structural Changes in the Portigon Group' and 'Outlook' sections of the Group statement of financial condition. It is stated there that the 2013 fiscal year was dominated by the ongoing transformation process, with the focus on the establishment of the service company Portigon Financial Services GmbH and the orderly dismantling of Portigon AG. The transformation process is replete with uncertainty and will have negative effects on the Group's net assets, financial position and results of operations. It is planned to sell the Group's portfolio services business by December 31, 2016. If it proves impossible to sell Portigon Financial Services GmbH, which runs the commercial portfolio services business, by 2016, the European Commission has stipulated that it be wound down."

Düsseldorf, March 25, 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Werthmann	Lösken
German Public Accountant	German Public Accountant

Responsibility Statement

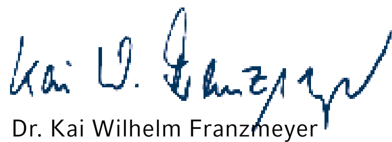
To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development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

Düsseldorf, March 25, 2014

Portigon AG
The Managing Board

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 year 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 year 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 € millions	1. 1. – 31. 12. 2012 € 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	Representing the Managing Board
Dr. Friedhelm Plogmann	Dr. Kai Wilhelm Franzmeyer

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Glossary

Abwicklungsanstalt
An “Abwicklungsanstalt”, or workout entity, is an economically and organisationally independent entity of the Financial Market Stabilisation Agency (FMSA) with partial legal capacity.

Advanced Internal Ratings Based Approach (AIRB)
An approach where institutions are allowed to use their own estimates of risk parameters to quantify the risk-weighted values of positions with counterparty default risk.

Advanced Measurement Approach (AMA)
A measurement methodology proposed in Basel II for calculating the capital and reserves required to back operational risks. Under this advanced approach, banks are allowed to calculate their regulatory capital charges for operational risks using their own internal measuring system for operational risks provided the system meets certain quantitative and qualitative minimum requirements. To be endorsed, an AMA must conform to rigorous qualitative and quantitative criteria.

Amortisation at a Constant Effective Interest Rate
The amortisation of the difference between cost and nominal value (premium/discount) using the effective interest rate of a financial asset or liability. The effective interest rate is the rate which discounts estimated future cash flows through the expected life of a financial asset or financial liability, or until the interest rate is adjusted to reflect market rates, to the respective instrument’s net carrying value.

Associate
Company in which a parent company can exercise a significant influence, but not a controlling one. These companies are reported in the consolidated financial statements using the equity method.

Available for Sale (AfS)
A category of financial assets defined by IAS 39.

Back Testing
A procedure for monitoring the quality of value at risk (VaR) models. Potential losses estimated using the VaR approach are checked over an extended period retroactively, to see whether they were exceeded significantly more often than would have been expected according to the applied confidence level.

Banking Book
Risk positions not allocated to the trading book.

Basel II
“Basel I” refers to the regulatory standards, first put in place in 1988, for the required regulatory capital of bank operations. These rules have been revised by the Basel Committee, and the new text is known as “Basel II” for short. Where regulatory capital requirements had formerly been defined in relatively general terms, Basel II focuses them to fit a bank’s actual risk significantly more closely. For this purpose, capital backing is based, in particular, on the borrower’s credit rating (whether external or internal). At the same time, collateral furnished by the borrower will be treated differently, and with more gradations, than before. Banks will also have to back operational risks with capital.

Basel III
Set of reforms developed by the Basel Committee of the Bank for International Settlements (BIS) for the existing banking regulatory framework of Basel II to address,

in particular, the weaknesses revealed by the global financial and economic crisis which began in 2007.

Set of reforms developed by the Basel Committee of the Bank for International Settlements (BIS) for the existing banking regulatory framework of Basel II in response to the weaknesses in the existing banking regulatory framework revealed by the global financial and economic crisis which began in 2007.

BPO (Business Process Outsourcing)
A particular form of outsourcing. It refers to the outsourcing of entire business processes and differs from other forms of outsourcing in that part of a company's workflow is outsourced, not part of its organisational structure.

Cash Flow
Inflow and outflow of cash and cash equivalents.

Confidence Level
A term for the probability that a potential loss will not exceed an upper loss limit defined using the VaR method.

Core Capital (Tier 1 Capital)
Consists only of capital components which are available to the institution on a lasting basis. The core capital is determined pursuant to § 10 (2) of the German Banking Act (KWG) and is predominantly based on the equity capital reported on the balance sheet adjusted for certain items defined by law.

Core Capital Ratio
Regulatory ratio that shows what percentage of qualifying risk-bearing assets are covered by capital and reserves.

Corporate Governance
Rules for the transparent management and monitoring of companies. The recommendations of the Corporate Governance Code create greater transparency and strengthen confidence in responsible management. They especially serve to protect shareholders.

Credit Default Swap (CDS)
A financial instrument to transfer the credit exposure resulting from a reference asset (such as a security or a loan) between parties. The protection buyer pays a premium to the protection seller and in return receives a compensatory payment from the seller if a covered credit event occurs.

Credit Derivative
Derivative financial instrument which enables one participant in the transaction (the protection buyer) to transfer the credit risk on a receivable or security to the other participant (the protection seller), in return for payment of a premium. The protection seller thus assumes the credit risk on the receivable or security without actually purchasing that underlying asset.

Credit Linked Note
Credit derivative whose repayment amount depends on the occurrence of certain contractually predetermined credit events, e.g. default on a reference loan or reference bond.

Credit Risk Standardised Approach (CRSA)

In the credit risk standardised approach, institutions are allowed to use external credit assessments when determining the risk weight of credit risk exposures for certain asset classes as long as the assessments are published by external credit assessment institutions or export credit agencies recognised by supervisors. In the CRSA, banks can use either the simple method or the more rigorous comprehensive method to determine the benefit provided by financial collateral. With the simple method, the collateral's risk weight essentially substitutes for the debtor's risk weight (risk weight substitution). With the more rigorous alternative, the assessment basis is reduced by the collateral, with adjustments made for maturity mismatches and for volatility in the protection instrument's market value and currency.

Credit Spread

Yield premium that investors receive when investing in financial instruments that have high credit risks, such as bonds. The credit spread compensates the investor for the credit risks and credit quality risks associated with the investment. Credit spreads are given in basis points. The worse a bond's capital market rating, the higher the credit spread tends to be.

Deferred Taxes

Income taxes to be paid and refunds to be received in future as a result of differences in the carrying values reported in the accounts prepared for tax purposes and those prepared under IFRS. At the time of reporting they do not yet constitute real receivables from or liabilities to tax authorities.

Derivative

Financial products derived from underlying instruments (such as shares, bonds, currency or indices); their price can be calculated from the price or value of another financial instrument, e.g. a security. Futures, options and swaps are examples of derivatives.

Discount

A negative difference between the purchase price and higher par value of a security.

EFRAG (European Financial Reporting Advisory Group)

The European Financial Reporting Advisory Group is an organisation that was established by a broad group of organisations representing European accountants, preparers, users and national standard-setters. Its mission is to provide technical expertise to the European Commission with respect to the use of IFRS within Europe, to participate in IASB's standard setting process, and to coordinate within the EU the development of views concerning international accounting standards.

Embedded Derivative

An integral part of a structured financial instrument consisting of an underlying instrument (in the case of a warrant-linked bond, the bond) and an embedded derivative (in this example, the warrant). Embedded derivatives are legally and economically linked with the underlying agreement, but must be reported separately under certain conditions.

Equity Method

A method for measuring interests in companies over whose business policies a parent company can exercise a significant influence (associates). The parent company's proportional share of the associate's net profit or loss for the year is incorporated into the carrying value of the interest held. If there is a distribution, the value is reduced by the parent company's proportional share.

Expected Loss

Measure of the loss per receivable a bank expects to incur when a certain counterparty defaults.

Exposure at Default (EaD)
The amount of a loan at the time of its default (i.e. less the amounts already paid towards principal). Certain credit risk-reducing instruments can be taken into consideration.

Fair Value
Pursuant to IFRS 13, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market or most advantageous market at the measurement date.

Fair Value Hedge
Hedge of the exposure to fair value changes present in existing assets and liabilities (or portions thereof) to the extent such changes are attributable to a specific risk (market price risk) and would impact the company's net results.

Fair Value Option (FVO)
IAS 39 category which offers the option to designate financial assets or liabilities as at fair value through p&l from the time of initial recognition provided certain conditions are met.

Financial Market Stabilisation Act
Passed on October 17, 2008, the act enabled the creation of a series of measures to stabilise the financial market after the setbacks caused by the financial crisis in autumn 2008. It aims to ensure the solvency of banks headquartered in Germany and to prevent a general credit crunch.

Financial Stability Board (FSB)
An international body established in 1999 on the initiative of the G7 in order to increase the stability of the international financial system, improve the functionality of the markets and reduce systemic risks.

Forward Forward Deposit (FFD)
A forward money market contract under which a deposit with terms and conditions fixed at contract signing is agreed to be made at some point in the future (date the contract is signed plus three, six months, etc.).

Forward Rate Agreement (FRA)
An agreement between two parties which specifies an interest rate to be paid on the notional value of an obligation beginning on some future date and a benchmark reference interest rate.

German Liquidity Regulation (LiqV)
Regulation concerning the liquidity of institutions. LiqV was issued by the German Federal Financial Supervisory Authority. It places certain requirements on credit institutions and financial services institutions which are designed to ensure their continued solvency (liquidity).

German Solvency Regulation (SolvV)
Banking supervisory regulation of Germany's Federal Ministry of Finance concerning the capital adequacy of institutions, groups of institutions and financial holding groups. The Solvency Regulation firms up the minimum capital requirements contained in §§ 10 et seq. of the German Banking Act (KWG). It covers the first and third pillars of Basel II. MaRisk addresses the second pillar in Germany. The Solvency Regulation includes provisions on market price and operational risks in addition to the provisions on credit risk. It also includes so-called disclosure requirements which are aimed at improving market transparency.

Goodwill
The amount which the buyer of a company is prepared to pay in excess of the value of individual assets less debts, in light of future earnings expectations.

Hedge Accounting
A way of accounting for hedging relationships for the purpose of compensating economically and in accounting terms for changes in the market value of both the hedged item and the hedging instrument (whose value will change in the inverse direction from the underlying transaction). Separate rules for hedge accounting are needed because of the measurement differences for the various categories of financial instruments pursuant to IAS 39 ("mixed model").

Hedging Derivative
Derivative which is paired with a hedged item or group of hedged items as part of micro or portfolio/macro hedge.

Held for Trading (HfT)
A category of financial assets and liabilities defined by IAS 39.

Held to Maturity (HtM)
A category of financial assets defined by IAS 39.

Hybrid Capital
An instrument which combines characteristics of borrowings and equity, so that an optimum solution can always be found for balancing interests between the desire to take risks and the need to set limits on entrepreneurial management. Typical forms of hybrid capital include subordinated loans, silent contributions to capital and profit participation capital.

Impairment
An unplanned write-down of the value of assets (such as goodwill, loan receivables, securities, property and equipment) as a consequence of what is expected to be a lasting loss of value of those assets.

Internal Capital Adequacy Assessment Process (ICAAP)
Internal process banks use to ensure that they always have enough equity capital to cover all of their material risks. The specific requirements for the ICAAP are summarised in the Minimum Requirements for Risk Management (MaRisk).

ISO 14001 Environmental Management System
ISO 14001 emphasises the importance of a continuous improvement process as the means of achieving the objectives an organisation defines for its environmental performance.

Letter of Comfort
General term for a letter which a parent company issues the lending institution(s) of a subsidiary in support of the latter's request for credit. The content and scope of letters of comfort are not standardised and depend on the individual circumstances. Depending on their content, letters of comfort are said to be "soft" or "hard". Soft letters of comfort are not about payment. Instead, they involve commitments to other actions like notifications, information or certain conduct. Commitments to supply subsidiaries with sufficient liquidity or capital to meet their obligations under a financing agreement qualify as hard letters of comfort.

Loans and Receivables (LaR)
A category of qualifying loans and receivables defined by IAS 39.

Micro Hedge
Use of a particular (derivative) hedging instrument or group of (derivative) hedging instruments to hedge a particular asset or liability (hedged item).

Mixed Model Accounting
Refers to the different models for measurement and recognition, particularly of financial instruments, forming the basis of IAS 39. When the measurement and recognition of financial instruments is performed using different techniques, such as the measurement of a hedged item at amortised cost and of a protection instrument used to hedge this underlying instrument at fair value, there will be recognition and measurement mismatches, with movement in value captured on a single side of the balance sheet despite the exposures' being economically hedged. By using the rules of IAS 39 on hedge accounting, these recognition and measurement mismatches can be partially avoided or alleviated.

Monetary Items
The currency units a company has as well as those of its assets and debts for which it will receive or must pay a fixed or determinable number of currency units.

Monte Carlo Technique
Method for generating random variables and confounding variables from particular samples in order to study the asymptotic properties of estimate and test functions.

Net Investment in a Foreign Operation
Amount of the reporting company's share in the net assets of an operation which reports in a functional currency different from that of the reporting company.

Non-Monetary Items
These items do not embody any right to receive or obligation to pay a fixed or determinable number of currency units.

Non-Performing Loans (NPL)
Loans with uncertain repayment. In Germany, this includes loans that are impaired as well as loans in default.

Over the Counter (OTC)
"Over the counter" is the term for trading financial instruments elsewhere than on an exchange.

Portfolio Hedge/Macro Hedge
Use of a group of (derivative) hedging instruments to hedge a group of assets or liabilities (hedged items).

Premium
A positive difference between the purchase price and lower par value of a security.

Projected Unit Credit Method
Technique for calculating the present value of obligations under defined benefit pension plans. The rate used in performing the calculation is determined on the basis of a careful assessment of employee turnover and future increases in salaries.

Rating
The credit rating on a security (issue rating) or a debtor (issuer rating) as assigned by independent rating agencies or decided internally using a systematic evaluation of quantitative and qualitative factors.

(Reverse) Repurchase Agreement
A combination of a spot purchase or spot sale of assets such as securities with a simultaneous forward sale or forward repurchase transaction with the same party.

Securitisation
Receivables (such as loans) are pooled and transferred to a special purpose entity. The special purpose entity obtains refinancing by issuing securities. The capital and interest payments on the securities are linked directly to the performance of the underlying receivables, not to that of the issuer.

Settlement Date
Date on which a security is delivered, for example. Typically, the settlement date and trade date differ by a few days.

Special Fund Financial Market Stabilisation (SoFFin)
The Special Fund Financial Market Stabilisation was established on October 17, 2008 with the entry into force of the German Financial Market Stabilisation Act (FMStG). The purpose of this act, and all measures based on it, is to restore confidence in the financial system and to stabilise the financial sector. The official name of the fund is the "Financial Market Stabilisation Fund", and it is managed by the "Financial Market Stabilisation Agency". Given the nature of the fund and limited amount of time for which it was created, the Federal Agency for Financial Market Stabilisation refers to it as the "Special Fund Financial Market Stabilisation (SoFFin)".

Special Purpose Entity (SPE)
Special purpose entities are companies formed to fulfil a narrowly and precisely defined business purpose. Special purpose entities (or their managements) typically have little or no decision-making authority of their own after the entity is formed. Additionally, usually the business policy defined in the articles of incorporation or similar agreements cannot be modified afterwards ("auto-pilot" operation). Normally special-purpose entities have little equity capital, and as a rule this capital is not contributed by the companies for whose benefit the special-purpose entity does business (the initiator).

Spread
The difference between two prices or interest rates, for example the difference between the buying and selling price of securities, or the rating-induced mark-up on a market interest rate.

Stress Testing
A method which attempts to model the loss effects of external market fluctuations; a required supplement to VaR analyses.

Supplementary Capital (Tier 2 Capital)
Component of liable capital and therefore total capital and reserves. Supplementary capital consists of the definitive list of balance sheet items contained in § 10 (2b) Sentence 1 Nos. 1 to 8 of the German Banking Act (KWG), which rank lower than core capital as liable capital. Supplementary capital is subject to various restrictions, among them the requirement that it is not allowed to exceed eligible core capital.

Tier 1 Capital
Pursuant to the definition of the Bank for International Settlements, term for the core capital of a bank, which consists of share capital, disclosed reserves and retained earnings (= own funds) as well as the eligible portion of supplementary capital, which consists of undisclosed reserves and subordinated bonds. In Germany, the Federal Financial Supervisory Authority (BaFin) is responsible for translating the requirements into specific, concrete terms through corresponding guidelines.

Tier 3 Capital
Component of a bank's capital and reserves for regulatory purposes. It comprises short-term subordinated liabilities and the net profit on securities trading as well as capped Tier 2 capital. Since the elements of Tier 3 capital rank relatively low as liable capital, they may be used to back market risk positions only up to 2.5 times the amount of the free core capital (less free supplementary capital).

Total Return Swap
Credit derivative in which the income and appreciation or depreciation of the underlying financial instrument (underlying or reference asset) is exchanged for set interest payments.

Trade Date
Date on which a securities transaction is agreed to and becomes binding, for example.

Trading Book
A regulatory term for positions in financial instruments that meet the definition of the trading book pursuant to § 1a (1) of the German Banking Act (KWG) and, in particular, the definition of financial instruments within the meaning of the KWG.

Unwinding
Change in the present value of future cash flows, e.g. from impaired receivables, recognised as interest income.

Value at Risk (VaR)
An identifier for a possible loss which may occur within a given period and at a given confidence level if certain assumed changes take place in market parameters. This statistical measurement serves to compare market risks in different portfolios held by the bank.

Volatility
The breadth of fluctuation of quoted market prices or other prices, interest rates or entire markets.

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Disclaimer
Reservation regarding forward-looking statements

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

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