Interim Report

June 30, 2014
Portigon AG

Portigon
Aktiengesellschaft

Portigon Key Figures

Financial Data January 1 – June 30, 2014

	1. 1. – 30. 6. 2014	1. 1. – 30. 6. 2013	Change absolute	%
Performance figures in € millions				
Net interest income	29	62	– 33	– 53
Impairment charge for credit losses	6	7	– 1	– 14
Net interest income after impairment charge for credit losses	35	69	– 34	– 49
Net fee and commission income	117	130	– 13	– 10
Result from financial instruments fair valued through profit and loss	– 43	– 16	– 27	> – 100
Result from financial investments	2	1	1	100
Administrative expenses	230	285	– 55	– 19
Other operating expense and income	– 7	39	– 46	> – 100
Restructuring expenses	227	19	208	> 100
Profit/loss before income tax	– 353	– 81	– 272	> – 100
Income taxes	– 4	1	– 5	> – 100
Profit/loss after income tax	– 357	– 80	– 277	> – 100

	June 30, 2014	Dec. 31, 2013	Change absolute	%
Balance Sheet Figures in € billions				
Total assets	25.5	31.9	– 6.4	– 20
Equity	1.7	2.2	– 0.5	– 23
Bank Regulatory Capital Ratios (SolvV)				
Core capital in € billions	1.8	2.2	– 0.4	– 18
Own funds in € billions	3.2	3.4	– 0.2	– 6
Risk-weighted assets in € billions	2.0	2.0	0.0	0
Core capital ratio in %	91.9	110.1	–	–
Overall ratio in %	157.4	166.5	–	–
Employees				
Number of employees	1,795	2,104	– 309	– 15
Full-time employees	1,699	1,984	– 285	– 14

Current Ratings	Short Term	Long Term
Fitch Ratings	F1+	A+

Contents

Group Interim Statement of Financial Condition

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 first half of 2014.

One-off effects relating to the restructuring of the Portigon Group had a substantial impact on Portigon Group's result before income tax for the period, which came to € – 353 million (previous year: € – 81 million). The result was driven, in particular, by the significant year-on-year increase in restructuring expenses (€ 227 million, previous year: € 19 million). These expenses stemmed largely from the recognition of a provision relating to the planned sale of the portfolio services business and the need for additional provisions in conjunction with the headcount reductions at Portigon AG. The Group's income came to € 98 million for the first half of 2014 (previous year: € 216 million). There was income from portfolio services of € 146 million (previous year: € 174 million), accompanied by administrative expenses of € 230 million (previous year: € 285 million).

Total assets were € 25.5 billion as of June 30, 2014 (previous year: € 31.9 billion). Of that amount, € 11.6 billion (previous year: € 16.4 billion) is attributable to trust assets and € 7.7 billion (previous year: € 7.7 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 to EAA of holdings only synthetically transferable in 2012 as well as to final maturities.

The statement of comprehensive income was adversely affected by the negative result for the period, but also, in particular, by the remeasurement of defined benefit pension plans due to lower interest rates on the capital markets. Equity decreased by € 0.5 billion to € 1.7 billion during the period.

Portigon Group's core capital ratio (regulatory Tier 1 ratio) stands at 91.9%, whilst the overall ratio (ratio of Total Capital to risk-weighted assets) is 157.4%. Risk-weighted assets stood at € 2.0 billion.

The Market for Portfolio Service Providers

The international banking and financial crisis, which began in 2007 in the U.S. 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. Under the rubric of "Basel III", numerous governments mandated more rigorous risk management practices and tighter, internationally coordinated regulation, the requirements of which include higher capital thresholds and improved liquidity standards. In addition, the regulatory authorities conduct regular stress tests to gauge just how resilient systemic banks actually are in crisis situations.

As a result, banks are cutting costs and ridding their balance sheets of both non-strategic assets and high-risk assets, thereby freeing up capital for core business. Specifically formed wind-down vehicles, which, for their part, work together with professional portfolio service specialists, are helping banks in this regard. Banks holding wind-down portfolios in internal restructuring units also seek the support of external portfolio service providers to whom they can outsource their portfolio processing and administration needs, especially when continued downsizing continually reduces the level of efficiency with which their internal restructuring units operate. In many cases, institutional investors like insurance companies or hedge funds buy such wind-down portfolios, then use portfolio service providers as a cost-effective way to manage the assets.

Portigon Financial Services GmbH (PFS), the service arm of Portigon AG (PAG), specialises in servicing complex financial portfolios. PFS has been operating as an independent company in the market since February 1, 2014. PAG, the parent company of PFS, in turn, has the task of managing the remaining assets and presiding over the dismantling of the former WestLB. PAG is the same legal entity as the former WestLB.

Structural Changes in the Portigon Group

PFS was entered in the commercial register on January 23, 2014. PFS officially commenced operations on February 1, 2014, with BaFin's approval, after the governing bodies of PAG and PFS passed the required resolutions on January 30, 2014. To this end, PAG sold the PFS division to Group company PFS. In the process, substantial portions of the service agreement with Erste Abwicklungsanstalt (EAA) were transferred from PAG to PFS, and the rules governing the service relationship between the two companies were established. Pursuant to the European Commission's decision of December 20, 2011, PFS must be sold by December 31, 2016. Due to provisions in the transformation agreements, there are certain conditions under which EAA is entitled to any proceeds from the sale of the portfolio services business. Thus, an outflow of resources can be expected to accompany a sale of PFS, and we have addressed this issue in full by recognising a provision. If a sale of this company is not possible, it would have to be wound down in 2017.

As part of its further transformation, PAG sold its four 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 – closed on 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.

There have been changes in PAG's and PFS's management. The members of PAG'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 his management position at PFS in accordance with the wishes of the Supervisory Board and after consultation with the owner of Portigon AG. On that same date, the Supervisory Board of PAG appointed Dr. Peter Stemper to the Managing Board of PAG with effect as of February 1, 2014. He has assumed the role of Chief Risk Officer. Dr. Stemper resigned from the Supervisory Board of PAG on January 30, 2014 with immediate effect.

Dr. Friedhelm Plogmann, a management consultant from Meerbusch, took over as Chairman of the Supervisory Boards of PAG and PFS with immediate effect on April 16, 2014. He succeeded Dietmar P. Binkowska, who had resigned from his Supervisory Board seats as of April 10, 2014.

On April 30, 2014, Dietrich Voigtländer stepped down from his management positions at PAG and PFS. Dr. Kai Wilhelm Franzmeyer was appointed as the new Chairman of the Managing Board of PAG, a position he will exercise in parallel with his existing responsibilities as PAG's Chief Financial Officer (CFO). The Supervisory Board of PFS appointed Dr. Peter Stemper as a further member of the company´s management. He will assume this task in addition to his function as a member of the Managing Board of PAG on an interim basis.

With respect to the objection raised by two Supervisory Board members to the change in the composition of the Supervisory Board of PAG, the parties reached an out-of-court settlement, and status proceedings to determine the Supervisory Board's new composition were reintroduced on March 11, 2014 with the goal of effecting a change pursuant to the statutory provisions governing the Supervisory Board's 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. The corresponding change became effective at the end of the Shareholders' Meeting of PAG held on April 30, 2014. Whereas the Supervisory Board previously consisted of an equal number of shareholder and employee representatives, it now consists of six shareholder representatives and three employee representatives, the total number of representatives also having been reduced.

As a result of this change, the Shareholders' Meeting of PAG newly elected the Supervisory Board's shareholder representatives at the meeting held on April 30, 2014. The Shareholder's Meeting also amended the Articles and Bylaws to reflect the new legal requirements for the Supervisory Board's composition. In addition, the employee representatives were subsequently appointed by the court and will serve until a staff election is held.

On June 30, 2014, the Supervisory Board of PFS appointed Dr. Sören Christensen to serve on and chair the Managing Board of PFS with effect from July 1, 2014.

Business Review

Performance

Portigon's performance in the first half of 2014 was still largely shaped by the Group's transformation, i.e. the downsizing of PAG and implementation of the new business model in accordance with the conditions set by the European Commission.

One-off effects relating to the restructuring of the Portigon Group had a substantial impact on Portigon Group's result before income tax for the period, which came to € – 353 million (previous year: € – 81 million). The result was driven, in particular, by the significant year-on-year increase in restructuring expenses (€ 227 million, previous year: € 19 million). These expenses stemmed largely from the recognition of a provision relating to the planned sale of the portfolio services business and the need for additional provisions in conjunction with the headcount reductions at Portigon AG. The Group's income came to € 98 million for the first half of 2014 (previous year: € 216 million). There was income from portfolio services of € 146 million (previous year: € 174 million), accompanied by administrative expenses of € 230 million (previous year: € 285 million).

The result after income tax came to € – 357 million (previous year: € – 80 million).

Portigon Group Statement of Income from January 1 to June 30, 2014

	1. 1. – 30. 6. 2014 € millions	1. 1. – 30. 6. 2013 € millions	Change € millions	%
Net interest income	29	62	– 33	– 53
Impairment charge for credit losses	6	7	– 1	– 14
Net interest income after impairment charge for credit losses	35	69	– 34	– 49
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Result from financial investments	2	1	1	100
Administrative expenses	230	285	– 55	– 19
Other operating expense and income	– 7	39	– 46	> – 100
Restructuring expenses	227	19	208	> 100
Profit/loss before income tax	– 353	– 81	– 272	> – 100
Current income taxes	– 2	– 1	– 1	– 100
Deferred income taxes	– 2	2	– 4	> – 100
Profit/loss after income tax	– 357	– 80	– 277	> – 100
Attributable to:				
– Shareholders of Portigon	– 357	– 80	– 277	> – 100
– Non-controlling interests	0	0	0	–

Net Interest Income

The net interest income of € 29 million for the period (previous year: € 62 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 capital. Offsetting these items was € 30 million in interest cost on provisions. The change in net interest income goes hand in hand with the decrease in positions. Additionally, there is a close relationship with the result from financial instruments fair valued through profit and loss.

Impairment Charge for Credit Losses

The net reversal of € 6 million reflected in the impairment charge for credit losses (previous year: € 7 million) relates to EAA-guaranteed positions that had been impaired prior to the effective date of their synthetic transfer for reasons that no longer apply. We have taken due account of all discernible risks.

Net Fee and Commission Income

Income from portfolio services provided under the new business model came to € 146 million in the first half of 2014 (previous year: € 174 million). One of the major offsetting items for the period was the € 33 million (previous year: € 43 million) in guarantee fees for synthetically transferred portfolios. Altogether, net fee and commission income came to € 117 million (previous year: € 130 million).

Result from Financial Instruments Fair Valued through Profit and Loss

The result from financial instruments fair valued through profit and loss came to € – 43 million, against € – 16 million a year earlier. In conjunction with earnings components that are reported in net interest income, measurement mismatches, which despite having positions that are economically hedged are unavoidable because of the application of IAS 39, had a negative effect of € 55 million (previous year: negative effect of € 21 million).

Result from Financial Investments

The result from financial investments, which stood at € 2 million (previous year: € 1 million), is predominantly attributable to the sale of a financial investment.

Administrative Expenses

Administrative expenses decreased by 19% to € 230 million in the first six months of the current fiscal year (previous year: € 285 million).

Personnel expenses decreased by € 43 million, or 28%, to € 109 million from a year earlier, largely because of the reduction in headcount and lower pension expenses. Between December 31, 2013 and the end of the first six months of 2014, the number of full-time employees dropped by 285 to 1,699.

Other administrative expenses fell by € 12 million, or 9%, to € 121 million compared to the same period a year ago 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 came to € – 7 million (previous year: net income of € 39 million). The net expense in the first half of 2014 is mainly attributable to deconsolidation effects. The previous year’s figure is largely the result of the positive outcome of a tax court proceeding.

Restructuring Expenses

The € 227 million in restructuring expenses is predominantly attributable to the recognition of a provision in connection with the planned sale of the portfolio services business. Additional provisioning requirements stemming from the headcount reductions at Portigon AG also had an adverse effect in the first half of 2014. The previous year's expenses (€ 19 million) related mostly to the payment of amounts owed to NRW.BANK under the parties' agreement concerning pension obligations.

Financial Status

Portigon Group's total assets and total liabilities and equity decreased by € 6.4 billion, or 20%, to € 25.5 billion compared to the end of the previous year. One of the primary reasons for this was the decrease in the fair values of the derivatives held in trust for EAA by € 4.9 million to € 11.6 billion, which was itself mainly attributable to the finalised transfer of the relevant positions through novation. The volume of assets guaranteed by EAA (€ 7.7 billion) decreased only slightly from the end of the year. The remaining assets (€ 6.2 billion, previous year: € 7.8 billion) chiefly represent the investment of capital and liquidity back-ups.

Loans and advances to banks and loans and advances to customers were reduced by a total of € 1.4 billion. Items classified as held for trading (trading assets and trading liabilities) decreased by € 0.5 billion to € 1.4 billion and € 0.9 billion, respectively. Additionally, lower deposits, particularly by EAA, led to a decrease in financial liabilities designated at fair value by € 1.3 billion to € 1.5 billion. By contrast, there was a temporary increase of about € 0.6 billion each in the volume of cash and balances with central banks as well as liabilities to banks.

There was € 1.5 billion in loans and advances to customers (previous year: € 2.6 billion) and € 1.0 billion in trading assets (previous year: € 1.1 billion) making up the exposure to EAA on the assets side of the balance sheet at June 30, 2014. This was accompanied by € 2.2 billion in deposits from EAA (liabilities to customers) (previous year: € 1.8 billion), € 0.5 billion in financial liabilities designated at fair value (previous year: € 1.9 billion) and € 0.5 billion in trading liabilities (previous year: € 0.4 billion). Altogether, Portigon Group had a net liability to EAA of € 0.7 billion as of June 30, 2014 (previous year: € 0.4 billion).

The statement of comprehensive income was adversely affected by the negative result for the period, but also, in particular, by the remeasurement of defined benefit pension plans due to lower interest rates on the capital markets. Equity decreased by € 0.5 billion to € 1.7 billion during the period.

Risk-Weighted Assets and Capital Ratios

Portigon has been calculating its capital adequacy figures according to the regulation on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation, CRR for short) and the directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive IV, CRD IV for short) since January 1, 2014.

Under the CRR/CRD IV framework, our risk-weighted assets totalled approximately € 2,012 million at June 30, 2014, (previous year: € 2,013 million).

The counterparty credit risk weighted exposures have dropped by about € 410 million since the end of last year. The primary reasons for this were deconsolidation effects caused by the sale of the property company GOH, as well as the general downsizing of the portfolio. Offsetting effects from implementation of the regulatory requirements pursuant to CRD IV were also neutralised.

The market price risk weighted exposures rose by € 84 million, largely because of classic foreign exchange risks. Additionally, the new calculation of risk-weighted assets for credit valuation adjustments (CVA) according to the CRR/CRD IV framework contributed € 28 million to the overall increase.

The figure for operational risk weighted exposures decreased by € 640 million, since the information from Portigon AG's 2013 annual financial statements could be used in place of the high planning figures used previously (by arrangement with the Supervisory Board).

The initial consolidation of PFS had an offsetting effect, raising the total amount at risk by € 966 million.

The Tier 1 Capital pursuant to CRR/CRD IV came to € 1,849 million at the reporting date, which was € 366 million lower than at December 31, 2013. This decrease is predominantly due to CRR/CRD IV effects, including, in particular, the first-time treatment of the loss sustained thus far this year as a deduction from Tier 1 Capital, as well as the reduction in Additional Tier 1 instruments, only a portion of which will be included in Additional Tier 1 Capital in 2014 under the transitional arrangements.

A further negative effect related to the initial consolidation of PFS and the deduction from intangible assets this caused.

The Common Equity Tier 1 Capital fell from € 1,977 million to € 1,849 million for reasons which are largely the same as the effects described above for Tier 1 Capital.

Own funds have dropped by € 185 million since the end of last year. This is mainly the result of the elimination of Tier III capital and the resulting deduction of unused, but eligible Tier III capital. The new CRR rules on the eligibility of subordinated issues had an offsetting effect.

The Tier 1 Capital ratio fell from 110.1% to 91.9%. This is still well above the minimum capital ratios as well as the minimum ratio of 7% stipulated in the framework agreements with FMSA.

The Common Equity Tier 1 ratio came to 91.9%, against 98.2% in December 2013.

The ratio of Total Capital to risk-weighted assets decreased from 166.5% to 157.4%.

Risk Report

The organisation of the following risk report reflects the risk structure and corresponding classification of risk types. For a description of the individual risk types and an explanation of the methodology we use, please refer to the Annual Report 2013.

With the transfer of the PFS business on February 1, 2014, Portigon's risk strategy was reformulated. The adjusted risk strategy addresses the changes in Portigon Group's risk steering, with PFS as the sole significant subsidiary of PAG. PFS has adopted its own risk governance to complement the strategy. Relevant changes to the risk strategy are discussed below in the sections on the individual risk types.

The Group's risk reporting integrates PFS's reporting. As part of a further streamlining of reporting processes, the circulation frequency of the "Risk Situation Report" was switched as of May 2014 from monthly to quarterly, which is in keeping with the Minimum Requirements for Risk Management (MaRisk).

The information presented in this risk report generally refers to the Group as a whole. Any statements and figures referring explicitly to the parent company (PAG) are clearly identified as such.

As a provider of portfolio services, Portigon's material risks for purposes of MaRisk are operational risk and business risk. All other types of risk are considered immaterial.

Operational Risks

The material operational risk associated with the Portigon Group'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 a loss of income (if service fees are reduced) or produce follow-on legal risks.

The steering of personnel risks and the related operational risks has been very important to the Portigon Group during its transformation process. Within PFS, this includes managing the integration risks related to acquiring and providing services to new clients. No substantial increase in risks was observed in 2014 despite the 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.

PAG uses the standardised approach pursuant to § 273 of the German Solvency Regulation (SolvV) to determine the regulatory capital charge for its operational risks. PFS uses an approach based on its administrative costs. At June 30, 2014, Portigon Group's regulatory capital charge for operational risks was € 53.7 million.

The expected loss (EL) from operational risks as determined by the Operational Risk Management unit (ORM) is € 6.6 million for 2014 (previous year: € 11.6 million). Compared to 2013, there has been the addition of the risk of income loss from service fee reductions due to a failure to meet customers' service needs or inability to meet them on time or to the extent required, which was previously captured in the scenarios used for determining business risk. The reduction in the expected loss from operational risks compared to the previous year is a function of the risk structure as well as Portigon Group's sharply reduced risk. The reduction in risk is mainly the result of the changed business model, which focuses on asset management and servicing activities for clients. The gradual shedding of the assets transferred to EAA pursuant to the wind-down plan has led to a reduction in the servicing volume.

The computation of the economic capital charge as well as stress testing for operational risks, which stood at € 16.5 million (previous year: € 26.7 million) and € 29.7 million (previous year: € 52.2 million) respectively as per June 30, 2014, are based on this expected loss, taking into account an appropriate scaling factor.

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

For the remainder of the transformation process we will continue to analyse and measure operational risks as we have already done, using familiar tools like the loss event database, risk self-assessment, etc., so that we can introduce measures to minimise losses in a timely fashion.

Legal Risks

As of June 30, 2014, PAG had been named in 34 lawsuits brought before various U.S. courts for alleged breaches of duty in quoting USD-LIBOR interest rates. The complaints for another 14 suits have not been formally served. In the period to June 30, 2014, PAG was a defendant in 67 lawsuits brought by 46 municipalities/municipal associations in connection with derivatives transactions.

With the exception of the exposure to legal expenses, the economic risk associated with the lawsuits concerning alleged breaches of duty in respect of USD-LIBOR interest rates, as well as those relating to derivatives transactions, was transferred to EAA under the spin-off agreement of August 30, 2012.

As of June 30, 2014, Portigon had set aside a reasonable sum of money to cover its exposure to litigation expenses from these suits, in addition to having covered the costs already incurred.

Business Risks

The concept for determining business risk was fine-tuned in the first half of 2014 in keeping with the Portigon Group's transformation process. The risk of service fee reductions is now treated as an operational risk and no longer as a risk of income loss within business risk. The planned revenue and cost components (e.g. income from planned but not yet contracted business with new and existing clients, restructuring costs) are analysed individually, and forecasts of the amount and likelihood of unfavourable variances over the next 12 months are prepared. The identification of business risk, thus, is closely interlinked with budget planning and ongoing controlling. The use of quarterly forecasts ensures the timely consideration of current business developments.

The Portigon Risk Committee (PRC) decides on what scenarios to use when analysing the Group's risk-bearing capacity. There are currently two scenarios: a base scenario for probable variances and a stress scenario for highly unlikely, significant variances. Compared to the end of 2013, the conservative scenario was dropped.

At June 30, 2014, the volume of business risk came to € 79.0 million in the base scenario (previous year: € 1.4 million) and € 82.5 million (previous year: € 50.8 million) in the stress scenario. Thus, compared to the end of 2013, the volume of business risk has increased in both the base and stress scenarios. The main reason for this is the increased cost risk (€ + 75.5 million) stemming from the effect that the reduction in the guaranteed interest rate for life insurance policies from 1.75% to 1.25% had on external funding of pension obligations.

However, even under the assumptions made in the stress scenario, Portigon Group's risk-bearing capacity is not in jeopardy because of the company's business risk (twelve-month risk horizon).

Market Price Risks

Given that PAG's risk positions are significantly less complex and continue to decrease, the approach for monitoring market price risks was switched in April 2014 from a value-at-risk (VaR) based approach to a sensitivity-based approach. Limits are determined on the basis of interest rate sensitivities per currency, maturity range and base curve as well as credit spread sensitivities, foreign exchange positions and stress tests for capping non-linear risks.

The risk position continued to decrease in the first half of 2014 as remaining maturities decreased.

As of the end of June 2014, the regulatory interest rate shock scenarios, i.e. an increase in interest rates by 200 basis points across all currencies, would have caused interest-bearing exposures to lose € 23 million in value (previous year: € 26 million). This corresponded to 0.8% of regulatory own funds. The threshold at which such exposure becomes reportable to the supervisory authorities in the form of an ad hoc notice equals 20% of regulatory own funds

Liquidity Risks

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 PAG, the ratio averaged 2.39 in the period from January to June 2014, which was unchanged from the previous year's average. PAG's liquidity was safeguarded at all times in the period under review.

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

Counterparty Credit Risks

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.

PAG's credit risk volume decreased further in the first half of the year. Utilisations were 4% lower at € 14.6 billion (previous year: € 15.2 million). Of the € 14.6 billion in utilisations as of June 30, 2014, the sum of € 11.4 billion (previous year: € 12.5 billion) was attributable to direct and guaranteed exposure with EAA. The remaining exposure of € 3.2 billion (previous year: € 2.7 billion) relates predominantly to central bank credit balances and equity investments. There was € 6.6 billion in external lines at June 30, 2014 (previous year: € 7.5 billion).

Equity Holding Risks

In essence, equity holding risk is no longer a material risk for PAG, since the investment-oriented equity has been transferred to EAA and the risks from the few operating holdings that are needed to sustain business operations are limited. PAG manages the risk from PFS as a material holding in accordance with the rules governing the PRC's conduct of business.

Capital Utilisation

Usage of Regulatory Capital Portigon Group

Portigon calculates its ratios according to the CRR/CRD IV framework. The Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR) are the EU directive and EU regulation through which the rules on the prudential supervision of banks attributable mainly to Basel III are being implemented at European level. The new regulatory framework entered into force on January 1, 2014 (and contains various transitional arrangements). The new minimum capital ratios will be phased in by 2015. For 2014, there is still a transitional arrangement according to which the minimum Common Equity Tier 1 ratio is 4% and the minimum Tier 1 ratio is 5.5%; the requirement for Total Capital remains at the existing level of 8%.

Portigon Group exceeded the minimum requirements at all times in the first half of the year. At June 30, 2014, the Portigon Group's regulatory capital ratios were 91.9% in respect of Common Equity Tier 1 Capital, 91.9% for Tier 1 Capital and 157.4% for Total Capital.

PAG has declared to BaFin that it is prepared to maintain its ratio of Total Capital to risk-weighted assets 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 Economic Capital (Risk Tolerance)

Portigon Group's risk-bearing capacity analysis continues to distinguish between two steering frameworks. The going-concern approach remains the primary steering framework. In the course of the yearly risk audit, the liquidation approach is also used.

To steer the material risks which are an inherent part of its business or largely unavoidable, Portigon set a risk appetite of € 150 million for the first half of 2014, which still left significant sources of risk-bearing capacity to cover adverse business developments and immaterial risks. As material risks, business risk and operational risk are weighed against the risk appetite directly. Stress tests on the risk-bearing capacity are run only in the going-concern approach for the material risks. In all assumed stress scenarios, the sources of risk-bearing capacity and the risk appetite were sufficient to cover potential negative developments in the first half of 2014.

In terms of reverse stress testing, there is no indication at this time that the operational risk or business risk Portigon faces could produce a loss in the period to June 30, 2015 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 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 2014, 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.

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 and business risk Portigon faces could produce a loss between now and the end of 2015 which would make it impossible for Portigon to continue as a going concern.

Portigon Group exceeded the capital backing required by CRR at all times in the first half of 2014.

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 PAG to PFS, the allocation of opportunities has changed in line with the amended business purpose.

Viewed in isolation, PAG's opportunities 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. This applies both to personnel matters, e.g. headcount, and organisational issues. The degree to which cost savings above planned levels can be achieved depends on the further course of the transformation and cannot be predicted at this time.

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 service portfolio. It is planned to sell PFS by December 31, 2016.

Events Occurring After June 30, 2014

Stefan Dreesbach stepped down from his management position at PFS on July 1, 2014. His duties as a member of Portigon AG's Managing Board were not affected by this.

Erste Abwicklungsanstalt (EAA) took over the Loan & Portfolio Management (L&PM) business of PFS on July 1, 2014.

Outlook

PAG's transformation process will continue to dominate the course of business. This includes an accelerated capacity dismantling at PAG as well as optimization of the long-term cooperation between PFS and EAA and researching of options for the future of PFS.

From the perspective of risk, there will be a concentration on the material risks, as well as an 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 PAG.

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 definitively transferred to EAA and derivatives held in trust for EAA are novated.

With the commencement of PFS's operations, substantial portions of the service business and related income and expense are being transferred to PFS. Medium-term expectations for the Group indicate that income will remain insufficient to cover the administrative expenses which continue to be incurred 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.

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 still 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	1. 1. – 30. 6. 2014 € millions	1. 1. – 30. 6. 2013 € millions	Change € millions	%
Interest income		290	306	– 16	– 5
Interest expense		261	244	17	7
Net interest income	(3)	29	62	– 33	– 53
Impairment charge for credit losses	(4)	6	7	– 1	– 14
Net interest income after impairment charge for credit losses		35	69	– 34	– 49
Fee and commission income		156	183	– 27	– 15
Fee and commission expense		39	53	– 14	– 26
Net fee and commission income	(5)	117	130	– 13	– 10
Result from financial instruments fair valued through profit and loss	(6)	– 43	– 16	– 27	> – 100
Result from financial investments	(7)	2	1	1	100
Administrative expenses	(8)	230	285	– 55	– 19
Other operating expense and income	(9)	– 7	39	– 46	> – 100
Restructuring expenses	(10)	227	19	208	> 100
Profit before income tax		– 353	– 81	– 272	> – 100
Current income taxes		– 2	– 1	– 1	– 100
Deferred income taxes		– 2	2	– 4	> – 100
Profit after income tax		– 357	– 80	– 277	> – 100
Attributable to:					
– Shareholders of Portigon		– 357	– 80	– 277	> – 100
– Non-controlling interests		0	0	0	–

Statement of Comprehensive Income

The total results of Portigon for the period comprise the income and expenses shown in the statement of income and those captured directly in equity.

	1. 1. – 30. 6. 2014 € millions	1. 1. – 30. 6. 2013 € millions*
Profit after income tax	– 357	– 80
Net income and expenses recognised directly in equity	– 131	262
Items that will not be recycled into profit or loss	– 134	278
Changes in remeasurement of defined benefit pension plans	– 132	277
Deferred taxes on change in remeasurement of defined benefit pension plans	– 2	1
Items that may be reclassified subsequently to profit or loss	3	– 16
Change in revaluation reserve on AfS financial instruments	– 2	0
Change in foreign currency translation reserve	1	– 15
Deferred taxes relating to items that may be reclassified subsequently to profit or loss	4	– 1
Total comprehensive income	– 488	182
Attributable to:		
– Shareholders of Portigon	– 488	182
– Non-controlling interests	0	0

* adjustment resulting from IAS 19 (2011)

Group Balance Sheet

Assets

	Notes	June 30, 2014 € millions	Dec. 31, 2013 € millions	Change € millions	%
Cash and balances with central banks		2,687	2,041	646	32
Loans and advances to banks	(11)	1,245	1,614	– 369	– 23
Loans and advances to customers	(12)	7,507	8,567	– 1,060	– 12
Allowances for losses on loans and advances	(13)	– 143	– 148	5	3
Receivables under reverse repurchase agreements		8	9	– 1	– 11
Trading assets	(14)	1,378	1,846	– 468	– 25
Derivatives held in trust (incl. cash collateral)	(15)	11,572	16,435	– 4,863	– 30
Positive fair values from derivative hedging instruments		199	235	– 36	– 15
Separate line item for hedged financial instruments resulting from portfolio hedge accounting		77	73	4	5
Financial assets designated at fair value	(16)	507	506	1	0
Financial investments	(17)	83	107	– 24	– 22
Investment property	(18)	114	130	– 16	– 12
Property and equipment	(19)	32	178	– 146	– 82
Intangible assets	(20)	51	65	– 14	– 22
Current tax assets		84	84	0	0
Deferred tax assets		0	0	0	–
Other assets		60	123	– 63	– 51
Assets held for sale		0	0	0	–
Total assets		25,461	31,865	– 6,404	– 20

Liabilities and Equity

	Notes	June 30, 2014 € millions	Dec. 31, 2013 € millions	Change € millions	%
Liabilities to banks	(21)	731	147	584	> 100
Liabilities to customers	(22)	4,150	3,945	205	5
Certificated liabilities		35	35	0	0
Liabilities under repurchase agreements		0	250	– 250	– 100
Trading liabilities	(23)	859	1,317	– 458	– 35
Derivatives held in trust (incl. cash collateral)	(15)	11,572	16,435	– 4,863	– 30
Negative fair values from derivative hedging instruments		30	30	0	0
Separate line item for hedged financial instruments resulting from portfolio hedge accounting		94	77	17	22
Financial liabilities designated at fair value	(24)	1,517	2,818	– 1,301	– 46
Provisions	(25)	1,822	1,677	145	9
Current tax liabilities		361	361	0	0
Deferred tax liabilities		0	0	0	–
Other liabilities		343	252	91	36
Liabilities held for sale		0	0	0	–
Subordinated debt	(26)	2,240	2,326	– 86	– 4
Equity		1,707	2,195	– 488	– 22
– Share capital		499	499	0	0
– Capital reserve		0	0	0	–
– Silent contributions to capital		1,913	1,913	0	0
– Retained earnings		– 217	140	– 357	> – 100
– Foreign currency translation reserve		– 38	– 40	2	5
– Revaluation reserve on AfS financial instruments		– 33	– 35	2	6
– Remeasurements of defined benefit pension plans		– 417	– 282	– 135	– 48
– Non-controlling interests		0	0	0	–
Total liabilities and equity		25,461	31,865	– 6,404	– 20

Changes in Shareholders' Equity

Statement of Changes in Shareholders' Equity

€ millions	Share capital	Capital reserve	Silent contribu-tions to capital	Retained earnings	Foreign currency translation reserve	Revaluation reserve	Actuarial gains and losses from defined benefit obligations	Equity before minority interests	Non-controlling interests	Group equity
Balance at January 1, 2013	499	0	2,608	– 81	– 25	– 31	– 611	2,359	0	2,359
Adjustment resulting from IAS 19 (2011)	0	0	0	– 2	0	0	2	0	0	0
Balance at January 1, 2013	499	0	2,608	– 83	– 25	– 31	– 609	2,359	0	2,359
Distribution to shareholders	0	0	0	0	0	0	0	0	0	0
Capital increase/ reduction	0	0	0	0	0	0	0	0	0	0
Allocations to silent contributions	0	0	0	0	0	0	0	0	0	0
Withdrawals from silent contributions	0	0	0	0	0	0	0	0	0	0
Transfer effects recognised directly in equity	0	0	0	0	0	0	0	0	0	0
Other changes in shareholders' equity	0	0	0	– 292	0	0	0	– 292	0	– 292
Total recognised income and expense for the period	0	0	0	– 80	– 15	– 1	278	182	0	182
Balance at June 30, 2013	499	0	2,608	– 455	– 40*	– 32**	– 331	2,249	0	2,249
Balance at January 1, 2014	499	0	1,913	140	– 40	– 35	– 282	2,195	0	2,195
Distribution to shareholders	0	0	0	0	0	0	0	0	0	0
Capital increase/ reduction	0	0	0	0	0	0	0	0	0	0
Allocations to silent contributions	0	0	0	0	0	0	0	0	0	0
Withdrawals from silent contributions	0	0	0	0	0	0	0	0	0	0
Transfer effects recognised directly in equity	0	0	0	0	0	0	0	0	0	0
Other changes in shareholders' equity	0	0	0	0	0	0	0	0	0	0
Total recognised income and expense for the period	0	0	0	– 357	2	2	– 135	– 488	0	– 488
Balance at June 30, 2014	499	0	1,913	– 217	– 38	– 33	– 417	1,707	0	1,707

* Includes € 10 million from assets held for sale.
** Includes € 3 million from assets held for sale.

Cash Flow Statement

	1. 1. – 30. 6. 2014 € millions	1. 1. – 30. 6. 2013 € millions
Cash and balances with central banks at the end of the previous period	2,041	6,149
Cash flow from operating activities	593	– 4,048
Cash flow from investing activities	166	31
Cash flow from financing activities	– 113	– 43
Changes in cash due to changes in exchange rates	0	0
Cash and balances with central banks at the end of the period	2,687	2,089

Notes to the Group Financial Statements

Accounting Policies

1. Basis of Preparation

Based on Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 (the "IAS Regulation"), we have prepared the interim financial statements in accordance with the International Financial Reporting Standards (IFRS), as well as additional regulations applicable under § 315a (1) of the German Commercial Code (HGB), which we were required to apply as of the reporting date. The condensed financial statements meet in particular the requirements of IAS 34 (Interim Financial Reporting) and § 37w of the German Securities Trading Act (WpHG).

The information contained in these interim financial statements should be read in conjunction with the information contained in the published and certified Group financial statements as of and for the year ended December 31, 2013. We have taken account of all developments up to the Managing Board's preparation of the interim financial statements on August 26, 2014.

We used the same accounting policies to prepare the interim financial statements as were used to prepare the 2013 Group financial statements, with the exception of the differences noted below.

The new and revised standards IFRS 10, IFRS 11 and IFRS 12 as well as IAS 27 and IAS 28 were endorsed by the EU on December 29, 2012. Thus, they apply for the first time to the 2014 fiscal year. Of particular note in this regard is that, under the new rules of IFRS 10 (Consolidated Financial Statements), an entity will apply the same, revised definition of control to its relationship with all investees and other economic entities when determining whether a parent-subsidiary relationship exists. According to the new definition, a parent-subsidiary relationship exists when the parent company has exposure or rights to variable returns from an investee and, at the same time, the ability to affect those returns by using its power over the investee. When assessing whether an investee is controlled by a parent, all relevant facts and circumstances must be considered. The consolidation principles used in the Portigon Group have been adapted to take account of the new rules for assessing whether a company belongs to the Group. Overall, application of the new rules will not have any significant impact due to the change made to Portigon AG's business model in 2012 and the further, swift dismantling of the Portigon Group.

The use of IFRS requires that management make certain estimates and assumptions which can have a not insignificant impact on the statement of income, the recognition and carrying value of assets and liabilities as well as the disclosure of contingent assets and liabilities. Even when our estimates are based on available information, past experience and other criteria, including expectations concerning future events, actual, future results may still vary from our estimates.

This half-year report was reviewed by our external auditors.

2. Scope of Consolidation

Portigon Group specifically includes the following companies:

Portigon Group (companies, directly consolidated)
Portigon AG, Düsseldorf
GOD Grundstücksverwaltungsgesellschaft & Co. KG, Mainz
Portigon Europe (UK) Holdings Ltd., London, UK
Portigon Finance Curaçao N.V., Willemstad, Netherlands Antilles
Portigon Financial Services GmbH, Düsseldorf

The subsidiary GOH Grundstücksverwaltungsgesellschaft & Co. KG was deconsolidated on March 31, 2014, when the sale of office properties closed.

In addition, U.S. subsidiary Portigon Securities Inc. was deconsolidated effective June 30, 2014, because the company is in liquidation.

Segment Report

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. 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 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 means that there will be no further segment disclosures.

Notes to the Group Statement of Income

3. Net Interest Income

	1. 1. – 30. 6. 2014 € millions	1. 1. – 30. 6. 2013 € millions
Interest income from		
– Loans and advances to banks and customers	111	140
– Financial assets available for sale	0	2
Current income from		
– Financial assets available for sale	0	0
Net interests and dividend income from		
– Instruments held for trading	60	57
– Instruments designated as at fair value	– 7	– 18
Interest expenses for		
– Liabilities to banks and customers	53	53
– Certificated liabilities	0	6
– Subordinated debt (excl. designated holdings)	46	49
Net income from hedging relationships	0	– 3
Net income from other transactions	– 36	– 8
Net interest income	29	62

The net income from other transactions primarily comprises interest income and interest expense from hedging derivatives which meet the requirements for hedge accounting under IAS 39, and from amortisation entries made in connection with the portfolio hedge accounting. It also captures the interest expense from the measurement of IFRS pension obligations and the interest effect from unwinding (accrued interest on allowances and provisions for credit risks).

4. Impairment Charge for Credit Losses

	1. 1. – 30. 6. 2014 € millions	1. 1. – 30. 6. 2013 € millions
Allocations		
– to allowance for losses on loans and advances	0	0
– to provisions for lending operations	0	0
Write-backs		
– from allowance for losses on loans and advances	6	5
– from provisions for lending operations	0	2
Income from written-off loans and advances	0	0
Direct write-offs of loans and advances	0	0
Impairment charge for credit losses	6	7

5. Net Fee and Commission Income

	1. 1. – 30. 6. 2014 € millions	1. 1. – 30. 6. 2013 € millions
Income from the service business	146	174
Guarantee fees	– 33	– 43
Other	4	– 1
Net fee and commission income	117	130

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

	1. 1. – 30. 6. 2014 € millions	1. 1. – 30. 6. 2013 € millions
Result from financial instruments held for trading	– 5	– 125
Result from financial instruments designated as at fair value	– 38	109
Result from financial instruments fair valued through profit and loss	– 43	– 16

7. Result from Financial Investments

	1. 1. – 30. 6. 2014 € millions	1. 1. – 30. 6. 2013 € millions
Result from sale and measurement of available-for-sale assets	3	2
Result from sale and measurement of interests in associates	0	0
Other result from financial investments	– 1	– 1
Result from financial investments	2	1

8. Administrative Expenses

	1. 1. – 30. 6. 2014 € millions	1. 1. – 30. 6. 2013 € millions
Personnel expenses	109	152
– Wages and salaries	93	116
– Compulsory social security contributions	10	16
– Expenses for pensions and other employee benefits	6	20
Other administrative expenses	96	106
Depreciation and amortisation	25	27
– of property and equipment	10	8
– of software and other intangible assets	15	19
Administrative expenses	230	285

9. Other Operating Expense and Income

	1. 1. – 30. 6. 2014 € millions	1. 1. – 30. 6. 2013 € millions
Other operating expense	19	14
Other operating income	12	53
Other operating expense and income	– 7	39

10. Restructuring Expenses

The € 227 million in restructuring expenses is predominantly attributable to the recognition of a provision in connection with the planned sale of the portfolio services business. Additional provisioning requirements stemming from the headcount reductions at Portigon AG also had an adverse effect in the first half of 2014. The previous year's expenses (€ 19 million) related mostly to the payment of amounts owed to NRW.BANK under the parties' agreement concerning pension obligations.

Notes to the Group Balance Sheet

11. Loans and Advances to Banks

	June 30, 2014 € millions	Dec. 31, 2013 € millions
Banks in Germany	854	1,171
Banks in other countries	391	443
Loans and advances to banks	1,245	1,614

12. Loans and Advances to Customers

	June 30, 2014 € millions	Dec. 31, 2013 € millions
Corporate clients	4,610	5,067
Public-sector clients	2,251	2,860
Private clients	646	640
Loans and advances to customers	7,507	8,567

13. Risk Provisions in the Lending Business

	June 30, 2014 € millions	Dec. 31, 2013 € millions
Allowances for losses on loans and advances	143	148
– Allowances for specific risks	143	148
– Portfolio allowances	0	0
Provisions for contingent liabilities	3	3
– Provisions for specific risks	3	3
– Provisions for portfolio risks	0	0
Risk provisions in the lending business	146	151

14. Trading Assets

	June 30, 2014 € millions	Dec. 31, 2013 € millions
Bonds and other interest-bearing securities	144	145
Shares and other non-interest-bearing securities	0	0
Positive fair values from derivative financial instruments	1,087	1,541
Other trading assets	147	160
Trading assets	1,378	1,846

15. 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 € 5,258 million (previous year: € 7,828 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 € 5,174 million (previous year: € 7,532 million) that were transferred to EAA under the risk transfer agreement and reported under the liability-side item with the same name.

Additionally, this line item includes claims (liability-side: liabilities) for the repayment of € 1,140 million (previous year: € 1,075 million) in cash collateral furnished.

16. Financial Assets Designated at Fair Value

	June 30, 2014 € millions	Dec. 31, 2013 € millions
Bonds and other interest-bearing securities	507	506
Shares and other non-interest-bearing securities	0	0
Loans and advances to banks	0	0
Loans and advances to customers	0	0
Financial assets designated at fair value	507	506

17. Financial Investments

As at December 31, 2013, this item consisted exclusively of financial investments available for sale in the amount of € 83 million (previous year: € 107 million).

18. Investment Property

The investment property has a net book value of € 114 million (previous year: € 130 million) and consists mainly of the building at Friedrichstraße 62–80, which was sold to Blackstone on January 30, 2014. The building is expected to pass to Blackstone at the turn of the year 2014/2015, as soon as conversion work for the future lessee, the Ministry of the Interior and Municipal Affairs of North Rhine-Westphalia, has been completed. Due to the comprehensive, tenant-specific alterations to this building, it does not qualify for reporting as a held-for-sale asset.

The fair value of the investment property is € 189 million (previous year: € 205 million).

19. Property and Equipment

	June 30, 2014 € millions	Dec. 31, 2013 € millions
Land and buildings	4	141
Office equipment	24	32
Other property and equipment	4	5
Property and equipment	32	178

Portigon has sold its 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 – closed on March 31, 2014.

20. Intangible Assets

	June 30, 2014 € millions	Dec. 31, 2013 € millions
Goodwill	0	0
Software	51	65
Intangible assets	51	65

21. Liabilities to Banks

	June 30, 2014 € millions	Dec. 31, 2013 € millions
Banks in Germany	515	121
Banks outside Germany	216	26
Liabilities to banks	731	147

22. Liabilities to Customers

	June 30, 2014 € millions	Dec. 31, 2013 € millions
Corporate clients	1,845	2,007
Public-sector clients	2,303	1,927
Private clients	2	11
Liabilities to customers	4,150	3,945

23. Trading Liabilities

	June 30, 2014 € millions	Dec. 31, 2013 € millions
Negative fair values from derivative financial instruments	544	1,021
Delivery obligations on short sales of securities	0	0
Other trading liabilities	315	296
Trading liabilities	859	1,317

24. Financial Liabilities Designated at Fair Value

	June 30, 2014 € millions	Dec. 31, 2013 € millions
Liabilities to banks	166	157
Liabilities to customers	1,351	2,661
Certificated liabilities	0	0
Financial liabilities designated at fair value	1,517	2,818

25. Provisions

	June 30, 2014 € millions	Dec. 31, 2013 € millions
Provisions for pensions and similar obligations	1,087	968
Provisions in the lending business	3	3
Provisions for personnel expenses	220	218
Restructuring provisions	462	439
Other provisions	50	49
Provisions	1,822	1,677

26. Subordinated Debt

	June 30, 2014 € millions	Dec. 31, 2013 € millions
Subordinated liabilities	2,132	2,233
Profit participation capital	34	34
Deferred interest	46	35
Measurement effects (IAS 39)	28	24
Subordinated debt	2,240	2,326

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

Other Information

27. 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 less meaningful following the change in business model.

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 2013, were, in conjunction with IAS 8, the beginning and ending balances of actuarial gains and losses ("remeasurements of defined benefit pension 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 the other retained earnings corresponded to an adjustment of the 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.

28. Derivative Financial Instruments

The breakdown of derivative financial instruments is as follows (nominal values):

	June 30, 2014 € millions	Dec. 31, 2013 € millions
Products based on interest rates	157,732	312,466
Products based on exchange rates	33,059	41,441
Products based on share prices and other prices	4,703	11,348
Credit derivatives	1,218	6,559
Derivative transactions	196,712	371,814

As of June 30, 2014, the total volume in nominal terms of the derivative financial instruments was € 197 billion (previous year: € 372 billion) and is largely attributable to derivatives held in trust, including the offsetting derivative positions with EAA.

29. 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). For 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 financial instruments for which the fair value cannot be calculated either directly from market quotations or indirectly with measurement models supported by observable market prices or other market quotations, the unobservable inputs for the model-based valuation are determined using realistic assumptions and estimates based on market conditions (Level 3 valuation).

Readers are referred to the Group financial statements at and for the year ended December 31, 2013 for a detailed description of the relevant product categories as well as valuation techniques and inputs. There were no changes to the methods during the reporting period. When assigning the financial instruments to the fair value hierarchy levels, we continue to take the various forms of guarantees received from EAA into consideration. The investment property was fair valued at June 30, 2014 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).

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

€ billions	June 30, 2014				Dec. 31, 2013			
	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	2.7	0.0	0.0	2.7	2.0	0.0	0.0	2.0
Loans and advances to banks	0.0	1.3	0.0	1.3	0.0	1.6	0.0	1.6
Loans and advances to customers	0.0	8.6	0.0	8.6	0.0	9.6	0.0	9.6
Receivables under reverse repurchase agreements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Trading assets	0.2	1.2	0.0	1.4	0.2	1.6	0.0	1.8
Derivatives held in trust (incl. cash collateral)	0.0	11.6	0.0	11.6	0.0	16.3	0.1	16.4
Positive fair values from derivative hedging instruments	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2
Asset 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	0.1	0.4	0.0	0.5
Financial assets available for sale	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1
Investment property	0.0	0.2	0.0	0.2	0.0	0.2	0.0	0.2
Total	3.0	23.7	0.0	26.7	2.3	30.1	0.1	32.5
Liabilities								
Liabilities to banks	0.0	0.8	0.0	0.8	0.0	0.2	0.0	0.2
Liabilities to customers	0.0	5.0	0.0	5.0	0.0	4.5	0.0	4.5
Certificated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities under repurchase agreements	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.3
Trading liabilities	0.0	0.9	0.0	0.9	0.0	1.3	0.0	1.3
Derivatives held in trust (incl. cash collateral)	0.0	11.6	0.0	11.6	0.0	16.3	0.1	16.4
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	1.5	0.0	1.5	0.0	2.8	0.0	2.8
Subordinated debt	0.0	2.4	0.0	2.4	0.0	2.5	0.0	2.5
Total	0.0	22.3	0.0	22.3	0.0	28.0	0.1	28.1

The only Level 3 financial instruments on June 30, 2014 were a small number of derivatives held in trust for EAA. The relevant items are asset-side and liability-side share price-based derivatives held in trust that are accompanied by liability-side and asset-side derivatives held in trust for EAA of the same amount and assigned to the same level.

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, 2014	0	83	0	0	83
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	– 74	0	0	– 74
Moved to Level 3	0	0	0	0	0
Moved from Level 3	0	0	0	0	0
Status at June 30, 2014	0	9	0	0	9

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 June 30, 2013	0	83	0	0	83

Liabilities in € millions	Trading Liabilities	Derivatives Held in Trust	Liabilities Designated at Fair Value	Total
Status at January 1, 2014	0	83	0	83
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	– 74	0	– 74
Moved to Level 3	0	0	0	0
Moved from Level 3	0	0	0	0
Status at June 30, 2014	0	9	0	9

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 June 30, 2013	0	83	0	83

The vast majority of these derivatives are valued using Monte Carlo simulation. A very small fraction is valued on the basis of finite differences. Due to the structure of the contracts with EAA, it is not possible for the Portigon Group to show profit or loss from the derivatives held in trust. If we apply alternative, equally realistic assumptions to the Level 3 cases, the amounts reported on the balance sheet would not change to any significant degree, as was the case in the previous year.

There was no movement of financial instruments between the three hierarchy levels in the period under review. In 2013, available-for-sale financial investments of € 42 million were moved out of Level 3 and into Level 2 based on the guarantees available from EAA.

In the past, differences between the transaction price and acquisition-date fair value of financial instruments measured using Level 3 modelling have been accrued and recognised in full in the statement of income upon disposal of the pertinent financial instrument in the course of the transformation. In the reporting period, there were no new accrual amounts.

The following table shows the book value of the assets and liabilities reported on the balance sheet compared to their fair value:

	Fair Value		Carrying Value		Difference	
	June 30, 2014 € billions	Dec. 31, 2013 € billions	**June 30, 2014 € billions**	Dec. 31, 2013 € billions	**June 30, 2014 € billions**	Dec. 31, 2013 € billions
Assets						
Cash and balances with central banks	2.7	2.0	2.7	2.0	0.0	0.0
Loans and advances to banks	1.3	1.6	1.2	1.6	0.1	0.0
Loans and advances to customers	8.6	9.6	7.4	8.5	1.2	1.1
Receivables under repurchase agreements	0.0	0.0	0.0	0.0	0.0	0.0
Trading assets	1.4	1.8	1.4	1.8	0.0	0.0
Derivatives held in trust (incl. cash collaterals)	11.6	16.4	11.6	16.4	0.0	0.0
Positive fair values from derivative hedging instruments	0.2	0.2	0.2	0.2	0.0	0.0
Asset 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	0.5	0.5	0.5	0.0	0.0
Financial investments	0.1	0.1	0.1	0.1	0.0	0.0
Investment property	0.2	0.2	0.1	0.1	0.1	0.1
Liabilities						
Liabilities to banks	0.8	0.2	0.8	0.2	0.0	0.0
Liabilities to customers	5.0	4.5	4.2	3.9	0.8	0.6
Certificated liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities under repurchase agreements	0.0	0.3	0.0	0.3	0.0	0.0
Trading liabilities	0.9	1.3	0.9	1.3	0.0	0.0
Derivatives held in trust (incl. cash collaterals)	11.6	16.4	11.6	16.4	0.0	0.0
Negative fair values from derivative hedging instruments	0.0	0.0	0.0	0.0	0.0	0.0
Liability line item for hedged financial instruments resulting from portfolio hedge accounting	0.1	0.1	0.1	0.1	0.0	0.0
Financial liabilities designated at fair value	1.5	2.8	1.5	2.8	0.0	0.0
Subordinated debt	2.4	2.5	2.2	2.3	0.2	0.2

On a net basis, the fair value of the assets and the fair value of the liabilities were € 0.4 billion (previous year: € 0.4 billion) above their carrying values at June 30, 2014. 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.

30. Contingent Liabilities and Other Commitments

	June 30, 2014 € millions	Dec. 31, 2013 € millions
Contingent liabilities from guarantees and indemnity agreements	281	350
Other commitments from irrevocable loan commitments	506	821

Irrevocable credit commitments involve approved credit lines made available to, but not yet utilised by, third parties.

The credit risks associated with contingent liabilities and other commitments have been covered by forming sufficiently large provisions.

31. Governing Bodies of Portigon AG

Portigon AG Managing Board

Dr. Kai Wilhelm Franzmeyer
Chairman (from April 30, 2014, previously a member of the Managing Board)

Stefan Dreesbach

Dr. Peter Stemper (from February 1, 2014)

Dietrich Voigtländer
Chairman (until April 30, 2014)

Portigon AG Supervisory Board

Dr. Friedhelm Plogmann
Chairman (from April 16, 2014 to April 30, 2014, re-elected Chairman from May 28, 2014, previously served as a member of the Supervisory Board)
Management consultant
Meerbusch

Doris Ludwig
Member and Vice Chairwoman
(until April 30, 2014, re-elected as a member from May 23, 2014, re-elected Vice Chairwoman from May 28, 2014)
Director
Portigon Financial Services GmbH
Düsseldorf
(Portigon AG, Düsseldorf, until January 31, 2014)

Dietmar P. Binkowska
Member and Chairman (until April 10, 2014)
Former Chairman of the Managing Board
NRW.BANK

Cornelia Hintz
Member (until April 30, 2014 and from May 23, 2014)
Secretary
ver.di Vereinte Dienstleistungsgewerkschaft

Gudrun Hock
City Councillor, former Mayoress
City of Düsseldorf

Dr. Bruno Kahl
Under Secretary
Federal Finance Ministry

Frank Kasper
Member (from May 23, 2014)
Member of the Staff Council
Portigon AG
Düsseldorf

Gabriele Klug
City Treasurer
City of Cologne

Annette Lipphaus
Member (until April 30, 2014)
Regional Head of Legal Protection
ver.di Vereinte Dienstleistungsgewerkschaft

Manfred Matthewes
Member (until April 30, 2014)
Former Director
Portigon AG
Düsseldorf

Klaus Neuhaus
Member (from April 30, 2014)
Chairman of the Managing Board
NRW.BANK

Björn Sacha
Member (until April 30, 2014)
Director
Portigon AG
Düsseldorf

Dr. Peter Stemper
Member (until January 30, 2014)
Former Managing Director, Member of the Managing Board from February 1, 2014
Portigon AG
Düsseldorf

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

32. Review Report

We have reviewed the condensed consolidated interim financial statements – comprising the condensed balance sheet, condensed statement of comprehensive income, condensed cash flow statement, condensed statement of changes in shareholders' equity and selected explanatory notes – and the group interim statement of financial condition of Portigon AG for the period from January 1, 2014 to June 30, 2014, which are part of the half-year financial report pursuant to § 37w of the German Securities Trading Act (WpHG). The preparation of the condensed consolidated interim financial statements in accordance with the IFRSs applicable to interim financial reporting as adopted by the EU and of the interim group statement of financial condition in accordance with the provisions of the German Securities Trading Act (WpHG) applicable to interim group management reports is the responsibility of the company's management. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the group interim statement of financial condition based on our review.

We conducted our review of the condensed consolidated interim financial statements and the group interim statement of financial condition in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtchaftsprüfer (Institute of Public Auditors in Germany, IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRSs applicable to interim financial reporting as adopted by the EU and that the group interim statement of financial condition has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act (WpHG) applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRSs applicable to interim financial reporting as adopted by the EU nor that the group interim statement of financial condition has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act (WpHG) applicable to interim group management reports.

Without qualifying this report, we draw attention to the statements made in the "Outlook" section in the group interim statement of financial condition. It is stated there that the transformation process of Portigon AG will continue to affect the course of business. This includes an accelerated capacity dismantling at Portigon AG as well as optimization of the long-term cooperation between Portigon Financial Services GmbH and Erste Abwicklungsanstalt and researching of options for the future of Portigon Financial Services GmbH. 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. 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.

Düsseldorf, August 26, 2014

E&Y
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Werthmann
German Public Accountant

Lösken
German Public Accountant

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim reporting, the interim consolidated financial statements of Portigon AG for the six months ended June 30, 2014 give a true and fair view, in accordance with generally accepted accounting principles, of the assets, liabilities, financial position and profit or loss of the group, and the group interim statement of financial condition 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 for the remaining months of the financial year.

Düsseldorf, August 26, 2014

The Managing Board
Portigon AG

Dr. Kai Wilhelm Franzmeyer

Stefan Dreesbach

Dr. Peter Stemper

Publications

The Interim Report and the Annual Report 2013 are also available in German.
In case of doubt the German version shall be binding.

Our annual reports and interim reports can be inspected and downloaded at
www.portigon-ag.de.

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Disclaimer

Reservation regarding forward-looking statements

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

Portigon
Aktiengesellschaft

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