Interim Report

June 30, 2015
Portigon AG

Portigon
Aktiengesellschaft

Portigon Key Figures

Portigon Group: Key Figures Year-on-Year Comparison

Group	1. 1. – 30. 6. 2015	1. 1. – 30. 6. 2014	Change absolute	%
Performance figures in € millions				
Net interest income	43.7	68.4	– 24.7	– 36.1
Net commission income	62.6	117.9	– 55.3	– 46.9
Other operating expenses/income	66.7	– 202.8	269.5	> 100.0
Personnel expenses	– 78.8	– 129.7	50.9	39.2
Other administrative expenses	– 90.2	– 128.7	38.5	29.9
Provisions for credit risks	15.2	7.4	7.8	> 100.0
Result of securities and participations	0.2	1.9	– 1.7	– 89.5
Extraordinary result	– 222.9	– 54.9	– 168.0	> – 100.0
Profit/loss before income tax	– 203.5	– 320.5	117.0	36.5
Taxes on income and revenues	– 80.2	– 2.3	– 77.9	> – 100.0
Profit/loss after taxes	– 283.7	– 322.8	39.1	12.1

Group	June 30, 2015	Dec. 31, 2014	Change absolute	%
Balance sheet figures in € billions				
Total assets	17.1	19.3	– 2.2	– 11.4
Business volume	17.5	19.7	– 2.2	– 11.2
Credit volume	7.5	7.7	– 0.2	– 2.6
Equity capital	1.7	2.0	– 0.3	– 15.0
Bank regulatory capital ratios (CRR/CRD IV)				
Tier 1 capital in € billions	1.6	2.0	– 0.4	– 20.0
Own funds in € billions	2.7	3.0	– 0.3	– 10.0
Risk-weighted assets in € billions	1.6	1.7	– 0.1	– 5.9
Tier 1 capital ratio in %	103.3	108.3	– 5.0	– 4.6
Total capital ratio in %	171.7	176.7	– 5.0	– 2.8
Employees				
Number of employees	1,194	1,432	– 238	– 16.6
Full-time equivalent	1,130	1,357	– 227	– 16.7

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

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Contents

Group Interim Statement of Financial Condition at June 30, 2015

Performance at a Glance

The company's transformation, i.e. the downsizing of Portigon AG and implementation of the business model of a service provider with Portigon Financial Services GmbH (PFS) in accordance with the conditions set by the European Commission, continued in the 2015 fiscal year.

Total assets of the Portigon Group came to € 17.1 billion at June 30, 2015 (previous year: € 19.3 billion). Of that amount, € 6.8 billion (previous year: € 8.5 billion) is attributable to trust assets and € 4.7 billion (previous year: € 5.2 billion) to items guaranteed by Erste Abwicklungsanstalt (EAA). The remaining amount chiefly relates to the investment of capital and liquidity back-ups. The 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.

Altogether, we are reporting a result before taxes of € – 203.5 million (previous year: € – 320.5 million) and a net loss for the year of € 283.7 million (previous year: € 322.8 million) for the Portigon Group.

Taking into account the net loss for the year, the Tier 1 capital ratio is 103.3% (previous year: 108.3%), whilst the total capital ratio is 171.7% (previous year: 176.7%). Risk-weighted assets stand at € 1.6 billion (previous year: € 1.7 billion).

Structural Changes

The office property at Friedrichstraße 62–80, which Portigon AG sold to Blackstone in contracts signed on January 31, 2014 and February 1, 2014, passed to Blackstone on February 27, 2015 after the necessary conversion work for leasing to the Ministry of the Interior and Municipal Affairs had been completed. The closing on this date finalised the entire transaction. The shares in the subsidiary GOD Grundstücksverwaltungs GmbH were transferred at the same time, following which GOD Grundstücksverwaltungs GmbH was eliminated from the basis of consolidation of the Portigon Group.

The sale of the Schloss Krickenbeck estate including the conference and seminar hosting business to the Châteauform Group closed on April 30, 2015.

The Tokyo branch, which returned its banking licence on September 30, 2014, was closed on March 6, 2015. The closure of other foreign branches, with which Portigon AG is pressing ahead vigorously, is largely contingent on the requirements of the regulatory authorities in question. The Hong Kong, Singapore and Sydney branches are scheduled to be closed in 2016, as are the branches in Milan and Madrid.

On April 30, 2015, an agreement was concluded with a well-known UK-based insurance company for the final transfer of the commitments for the London branch's UK pension plan to this company. Various options are currently being considered for the remaining pension commitments to former and active employees in Germany.

In an agreement in principle signed on May 12, 2015, Portigon AG (PAG) and EAA agreed on new regulations in connection with portfolios that are still accounted for by PAG even though the risks lie with EAA. This agreement aims to accelerate the transfer of these portfolios to EAA.

Statement of Income

Portigon's performance in 2015 was still shaped by the company's transformation, i.e. the downsizing of Portigon AG in accordance with the conditions set by the European Commission.

Portigon Group: Statement of Income from January 1 to June 30, 2015

Group	Portigon Group		Change	
	1. 1. – 30. 6. 2015 € millions	1. 1. – 30. 6. 2014 € millions	€ millions	%
Net interest income	43.7	68.4	– 24.7	– 36.1
Net commission income	62.6	117.9	– 55.3	– 46.9
Other operating expenses/income	66.7	– 202.8	269.5	> 100.0
Personnel expenses	– 78.8	– 129.7	50.9	39.2
Other administrative expenses	– 90.2	– 128.7	38.5	29.9
Provisions for credit risks	15.2	7.4	7.8	> 100.0
Result of securities and participations	0.2	1.9	– 1.7	– 89.5
Extraordinary result	– 222.9	– 54.9	– 168.0	> – 100.0
Profit/loss before income tax	– 203.5	– 320.5	117.0	36.5
Taxes on income and revenues	– 80.2	– 2.3	– 77.9	> – 100.0
Profit/loss after taxes	– 283.7	– 322.8	39.1	12.1
thereof:				
– minority interest in profit/loss	–	0.2	– 0.2	– 100.0

Net Interest Income

The net interest income of € 43.7 million for the period (previous year: € 68.4 million) is largely attributable to the interest margin on positions that are guaranteed by EAA as well as to earnings contributions from the investment of equity capital and liquidity steering. The decline in net interest income is due to changes in interest rate levels as well as to the continuous reduction in the portfolio.

Net Commission Income

Income from portfolio services amounted to € 89.5 million in the first half of 2015 (previous year: € 146.1 million). One of the major offsetting items in the reporting period was the € 25.2 million (previous year: € 33.1 million) in guarantee fees for synthetically transferred portfolios. Altogether, net commission income came to € 62.6 million (previous year: € 117.9 million). The decrease in net commission income can be attributed to the fact that income from the contract for portfolio services with Hessische Landesbank (Helaba) was still generated in the first half of 2014. The contract for portfolio services with Helaba was terminated in 2014 according to plan following the successful completion of the Verbundbank activities.

Other Operating Expenses/Income

The net figure for other operating expenses and income was € 66.7 million at the reporting date (previous year: € – 202.8 million). This significant improvement is due in particular to two effects. The deconsolidation of GOD Grundstücksverwaltungs GmbH generated a positive deconsolidation effect of € 50.7 million in the reporting period. In addition, the provision for liabilities for the expected outflow of resources accompanying the sale of PFS was partly reversed in the reporting period in the amount of € 53.0 million. The recognition of this provision for liabilities had reduced the net figure in the prior-year period by € 158.0 million.

General Administrative Expenses

As expected, general administrative expenses decreased again in the first half of 2015, falling to € 169.0 million from € 258.4 million in the prior-year period. This is mainly attributable to the ongoing headcount reduction, which lowered the number of employees from 1,432 at the end of 2014 to 1,194 at June 30, 2015.

Provisions for Credit Risks

Provisions for credit risks amount to € 15.2 million (previous year: € 7.4 million) and are due almost exclusively to the reversal of a global value adjustment at the Tokyo branch.

Extraordinary Result

The negative result of € – 222.9 million (previous year: € – 54.9 million) is solely attributable to restructuring expenses, due in particular to payments to an external pension fund that were needed to cover the pension commitments to employees of the London branch in connection with the insurance-orientated out-financing.

Taxes on Income and Revenues

Income tax expense amounted to € 80.2 million at June 30, 2015 (previous year: € 2.3 million). The € 77.9 million year-on-year increase in current income tax expense essentially results from the German operations and is attributable to the loss participation of the silent partners, considered as operating revenue for tax purposes.

Balance Sheet and Business Volume

As in the previous year, the balance sheet at June 30, 2015 was shaped by additional structural changes and further downsizing (see the chapter entitled "Structural Changes"). Although a substantial volume of assets and liabilities were transferred to EAA and Helaba in 2012 in the course of the transformation, legal and tax obstacles and the various transfer paths taken because of these obstacles have meant that banking transactions are still being reported on Portigon AG's balance sheet. However, the credit and market risks associated with these assets and liabilities have been transferred to EAA.

At June 30, 2015, the Portigon Group had total assets and total equity and liabilities of € 17.1 billion (previous year: € 19.3 billion), of which € 6.8 billion was reported in the items trust assets and trust liabilities (previous year: € 8.5 billion). This includes, in particular, derivative financial instruments that were transferred to EAA under the risk transfer agreement and are offset by matching claims and obligations. There is also the corresponding cash collateral.

In addition, the Portigon Group has claims on banks in the amount of € 2.4 billion (previous year: € 2.0 billion), claims on customers in the amount of € 4.7 billion (previous year: € 5.3 billion), securities in the amount of € 0.4 billion (previous year: € 1.0 billion) and cash in the amount of € 2.4 billion (previous year: € 1.9 billion). EAA has guaranteed € 4.7 billion (previous year: € 5.2 billion) of these assets, most notably € 4.1 billion in claims on customers (previous year: € 4.5 billion). The unguaranteed positions represent the investment of capital and liquidity back-ups.

The business volume, which includes contingent liabilities and irrevocable credit commitments in addition to the balance sheet items, totalled € 17.5 billion (previous year: € 19.7 billion).

Assets

	Portigon Group	
	June 30, 2015 € billions	Dec. 31, 2014 € billions
Cash/liquid debt issues	2.4	1.9
Claims on banks	2.4	2.0
Claims on customers	4.7	5.3
Securities not held for trading	0.4	1.0
Equity investments in affiliated and non-affiliated companies	–	–
Trust assets	6.8	8.5
Tangible/intangible assets	–	0.1
Other assets	0.4	0.5
Total assets	17.1	19.3

Liabilities

	Portigon Group	
	June 30, 2015 € billions	Dec. 31, 2014 € billions
Liabilities to banks	0.3	0.3
Liabilities to customers	4.0	4.3
Certificated liabilities	–	–
Trust liabilities	6.8	8.5
Other liabilities	2.3	2.2
Subordinated liabilities/Profit participation capital	2.0	2.0
Equity capital	1.7	2.0
Total liabilities	17.1	19.3
Contingent liabilities	0.1	0.1
Other commitments/Credit commitments	0.3	0.3
Business volume	17.5	19.7

Capital Ratios

The Tier 1 capital ratio at June 30, 2015 was 103.3% (previous year: 108.3%). This is still well above the minimum capital ratios as well as the minimum ratio of 7% stipulated in the framework agreements with Germany's Financial Market Stabilisation Authority (FMSA). The Common Equity Tier 1 capital ratio came to 103.3%, compared to 99.8% in December 2014. The total capital ratio decreased from 176.7% to 171.7%.

Portigon exceeded the minimum requirements at all times in the first half of the year.

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

Risk Report

The goal of the Portigon Group's risk management system is to ensure that the risk profile is aligned with the institution's risk-bearing capacity and that all relevant risks are presented transparently and steered with foresight. The core processes of risk management were fundamentally changed in the first half of 2015 under the following three aspects. The resolution in 2014 to dismantle the credit processes that use the Internal Ratings-Based Approach (IRBA) and to use the Credit Risk Standard Approach (CRSA) instead for the internal management of credit risk was implemented, leading to the discontinuation of ratings-based processes. As a consequence, since May 2015 risks have been divided into what are known as PAG risk categories – a simplified risk classification procedure in accordance with the Minimum Requirements for Risk Management (MaRisk). In June 2015, the methodology and limitation for the management of the counterparty risk arising from over-the-counter (OTC) derivatives was changed over to a conservative approach that does not allow for netting effects or collateral. Finally, the risk indicators of the operational risk were discontinued for PAG at the end of June 2015. For the descriptions of the individual risk types and explanations of the methods applied, please refer to the Combined Statement of Financial Condition for 2014.

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

The steering of personnel risks and the related operational risks is still very important to the Portigon Group. No substantial increase in risks was observed in the first half of 2015. For the remainder of the transformation process we will continue to analyse and assess operational risks using familiar tools like the loss event database and risk self-assessment, so that we can introduce measures to minimise losses in a timely fashion. For the Portigon Group, the economic capital charge and stress testing for operational risks stood at € 35.0 million (December 31, 2014: € 33.1 million) and € 46.0 million (December 31, 2014: € 44.6 million) respectively as per June 30, 2015.

Legal risks: At June 30, 2015, PAG had been named in 35 lawsuits brought before various US courts for alleged breaches of duty in quoting USD-LIBOR interest rates (complaints for another 15 suits have 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 Commodity Futures Trading Commission – CFTC, U.S. Department of Justice – DoJ, Financial Conduct Authority of the United Kingdom – FCA, European Commission and BaFin) into the operations of PAG and other banks in connection with LIBOR and EURIBOR (BaFin only) quotes. Except for the proceedings initiated by BaFin, which were formally ended in a letter dated October 2014 without measures being taken against PAG, staff or governing bodies, none of the other proceedings have been formally completed to date. Here, too, PAG 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.

In respect of the lawsuits brought by municipalities, in the period to June 30, 2015, following the settlement of one action brought by the City of Witten and the procedural consolidation of several actions, PAG was a defendant in 63 lawsuits brought by 44 municipalities/municipal associations in connection with derivatives business .

With the exception of the exposure to certain legal expenses, the economic risk associated with the pending lawsuits concerning alleged breaches of duty in respect of USD-LIBOR interest rates, as well as those relating to derivatives business, has been transferred to EAA under the spin-off agreement of August 30, 2012. At June 30, 2015, PAG had recognised appropriate provisions to cover its exposure to litigation expenses from these suits with a determinable risk.

The volume of business risk for the Portigon Group at June 30, 2015 came to € 6.7 million (December 31, 2014: € 2.7 million) in the base scenario and € 12.6 million (December 31, 2014: € 3.6 million) in the stress scenario.

In the analysis of the risk-bearing capacity, the operational risk and business risk – which are the material risks – are weighed against the risk appetite directly in the going-concern approach and even under the assumptions made in the stress scenario do not jeopardise the risk-bearing capacity of the Portigon Group (twelve-month risk horizon).

For a bank's liquidity to be considered sufficient, 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, must be at least 1.0. At PAG, the ratio averaged 3.30 in the period from January to June 2015, which was an improvement on the average of 2.74 in the period from January to December 2014. PAG's liquidity was safeguarded at all times in the period under review. The possibility exists that PAG will need additional liquidity in the future 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.

Opportunities Report

There were no significant changes in the opportunities and risks in the reporting period. Please refer to the explanations in the Opportunities Report in the 2014 Annual Report.

Events Occurring after June 30, 2015

Effective August 12, 2015, Dr. Kai Wilhelm Franzmeyer left the Managing Board of Portigon AG. The Supervisory Board appointed Hubert Beckmann as the new Chairman of the Managing Board on September 3, 2015.

Outlook

Portigon AG's 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 reorganising the division of responsibilities between PAG, PFS and EAA. This includes exploring options for a viable solution for the future of PFS.

From the perspective of risk, there will be continued concentration on the material risks, as well as adjustment of the risk management system in line with the structural changes within the Portigon Group. The methods applied and the accompanying processes will continue to be incrementally 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 the 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.

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. 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. We are proceeding on the assumption that Portigon Group will show a loss in the mid hundreds of millions for the 2015 fiscal year. The occurrence of further additional restructuring expenses depends on the further course of the transformation.

Portigon Group Half-Year Balance Sheet at June 30, 2015

Assets

	€	€	30. 6. 2015 €	31. 12. 2014 € thousands
1. Cash				
a) cash on hand		9,974.51		12
b) balances with central banks		2,328,541,905.94		1,940,903
including:			2,328,551,880.45	1,940,915
with Deutsche Bundesbank				
€ 587,597,852.37 (2014: € 89,530 thousand)				
2. Debt instruments issued by public institutions				
and bills of exchange eligible for refinancing				
with central banks				
a) treasury bills and discounted treasury				
notes as well as similar debt instruments				
issued by public institutions		26,807,876.75		3,094
			26,807,876.75	3,094
3. Claims on banks				
a) payable on demand		412,513,620.60		410,525
b) other		1,985,766,166.02		1,588,109
			2,398,279,786.62	1,998,634
4. Claims on customers			4,700,413,996.68	5,320,394
including:				
loans to public authorities and entities				
under public law				
€ 4,651,667,882.69 (2014: € 5,260,567 thousand)				
5. Bonds and other interest-bearing				
securities				
a) bonds and notes				
aa) of public institutions	381,793,691.84			969,011
including:				
eligible as collateral for				
Deutsche Bundesbank advances				
€ 50,863,504.04 (2014: € 651,865 thousand)				
ab) of other issuers	11,412,186.70			4,831
including:		393,205,878.54		973,842
eligible as collateral for				
Deutsche Bundesbank advances				
€ 0.00 (2014: € 4,724 thousand)			393,205,878.54	973,842
		To be carried forward:	9,847,259,419.04	10,236,879

Assets

	€	€	30. 6. 2015 €	31. 12. 2014 € thousands
		Carried forward:	9,847,259,419.04	10,236,879
6. Equity investments in			37,671,710.61	36,456
non-affiliated companies				
including:				
banks				
€ 0.00 (2014: € 0 thousand)				
7. Equity investments in affiliated companies			1,324,998.12	2,038
8. Trust assets			6,753,614,463.29	8,450,548
9. Intangible assets				
a) licences acquired against payment,				
industrial property rights and				
similar rights and assets, as well as				
licences to such rights and assets		1,288,086.41		3,061
			1,288,086.41	3,061
10. Tangible assets			18,803,939.96	135,421
11. Other assets			137,838,424.55	149,492
12. Deferred items			308,072,135.68	302,333
13. Deferred tax assets			0.00	21,181
Total assets			17,105,873,177.66	19,337,411

Portigon Group Half-Year Balance Sheet as at June 30, 2015

Liabilities

	€	€	30. 6. 2015 €	31. 12. 2014 € thousands
1. Liabilities to banks				
a) payable on demand		115,839,102.67		117,297
b) with agreed maturity or				
period of notice		165,987,652.75		148,549
			281,826,755.42	265,847
2. Liabilities to customers				
a) other liabilities				
aa) payable on demand	1,812,966,540.43			2,117,083
ab) with agreed maturity or				
period of notice	2,144,701,580.92			2,154,458
		3,957,668,121.35		4,271,541
			3,957,668,121.35	4,271,541
3. Certificated liabilities				
a) bonds and notes issued by the bank		33,485,560.52		33,895
			33,485,560.52	33,895
4. Trust liabilities			6,753,614,463.29	8,450,548
5. Other liabilities			216,495,461.95	120,943
6. Deferred items			288,993,811.48	324,650
7. Provisions				
a) for pensions and similar				
obligations		746,434,023.74		721,197
b) tax reserve		314,617,564.83		245,807
c) other		738,014,591.62		871,611
			1,799,066,180.19	1,838,615
8. Subordinated liabilities			2,031,101,395.36	1,997,238
9. Profit participation capital			17,143,530.12	17,144
including:				
due in less than two years				
€ 2,381,045.86 (2014: € 2,381 thousand)				
		To be carried forward:	15,379,395,279.68	17,320,421

Liabilities

	€	€	30. 6. 2015 €	31. 12. 2014 € thousands
		Carried forward:	15,379,395.279.68	17,320,421
10. Equity capital				
a) subscribed capital				
divided into				
Class A registered shares	498,649,007.45			498,649
Class B registered shares	0.00			0
		498,649,007.45		498,649
b) silent contributions to capital		1,712,124,243.19		1,712,124
c) equity earned by the group				
ca) revenue reserves	64,294,099.22			254,530
cb) loss carried forward from the				
previous year	– 215,843,383.23			– 183,248
cc) consolidated loss for the year				
(Portigon AG's interest)	– 283,778,748.54			– 222,831
		– 435,328,032.55		– 151,549
d) currency translation difference		– 48,967,320.11		– 48,970
e) minority interest in capital and earned results		0.00		6,736
			1,726,477,897.98	2,016,989
Total liabilities			17,105,873,177.66	19,337,411
1. Contingent liabilities				
a) liabilities from guarantees and				
indemnity agreements		108,882,008.36		121,920
			108,882,008.36	121,920
2. Other commitments				
a) irrevocable credit commitments		263,091,064.55		297,718
			263,091,064.55	297,718

Portigon Group Statement of Income

for the Period January 1 to June 30, 2015

	€	€	1. 1.–30. 6. 2015 €	1. 1.–30. 6. 2014 € thousands
1. Interest from				
a) lending and money market transactions	154,139,678.47			139,437
b) interest-bearing securities and				
book-entry securities	9,181,765.25			14,878
		163,321,443.72		154,315
2. Interest paid		119,591,593.70		86,003
			43,729,850.02	68,312
3. Current income from				
a) equity investments in				
non-affiliated companies		7,173.00		66
			7,173.00	66
4. Commission income		91,351,975.95		156,370
5. Commission paid		28,779,135.51		38,461
			62,572,840.44	117,909
6. Other operating income			141,336,667.10	30,552
7. General administrative expenses				
a) personnel expenses				
aa) wages and salaries	63,568,132.88			89,523
ab) compulsory social security				
contributions and expenses				
for pensions and other				
employee benefits	15,277,149.47			40,193
including:		78,845,282.35		129,716
for pensions				
€ 7,939,562.75 (2014: € 29,136 thousand)				
b) other administrative expenses		87,371,965.42		122,615
			166,217,247.77	252,330
8. Depreciation and value adjustments				
on tangible and intangible assets			2,825,704.13	6,081
9. Other operating expenses			73,584,289.63	231,605
10. Income from revaluation of loans and				
certain securities as well as from the				
reversal of loan loss provisions			15,151,011.87	7,437
		To be carried forward:	20,170,300.90	– 265,740

	€	€	1. 1.–30. 6. 2015 €	1. 1.–30. 6. 2014 € thousands
		Carried forward:	20,170,300.90	– 265,740
11. Income from revaluation of equity investments in non-affiliated companies, equity investments in affiliated companies and securities treated as fixed assets			891,464.73	2,830
12. Expenses from the assumption of losses			709,349.00	967
13. Profit or loss on ordinary activities			20,352,416.63	– 263,876
14. Extraordinary income		1,355,155.52		3,673
15. Extraordinary expenses		224,208,796.77		58,573
16. Extraordinary result			– 222,853,641.25	– 54,900
17. Taxes on income and revenues including: income tax charge from changes in the recognition of deferred taxes € 0.00 (2014: € 0 thousand)		80,151,716.45		2,315
18. Other taxes not shown under item 9		1,091,612.41		1,727
			81,243,328.86	4,042
10. Consolidated loss for the year thereof: minority interests in profit/loss € 34,195.06 (2014: € 0,172 thousand)			– 283.744.553,48	– 322,819

Condensed Notes to the Consolidated Financial Statements at June 30, 2015

1. Accounting and Valuation Principles

As an issuer in the primary market (over-the-counter trading) of the Düsseldorf Stock Exchange, Portigon AG is required by the Terms and Conditions of Börse Düsseldorf AG governing over-the-counter trading on the Düsseldorf Stock Exchange to publish a half-year financial report whose contents at least meet the requirements of § 37w (3) and (4) of the German Securities Trading Act (WpHG).

These interim financial statements are part of the half-year financial report for Portigon AG as the parent company and all of the consolidated subsidiaries (Portigon Group). The half-year financial report is prepared in accordance with the requirements of the German Commercial Code (HGB), the Ordinance Regarding Accounting for Banks and Financial Services Institutions and the relevant requirements of the German Stock Corporation Act. In addition, the interim report follows the German Accounting Standards (GAS), as amended, that were adopted by the Accounting Standards Committee of Germany (ASCG) and published by the Federal Ministry of Justice and Consumer Protection.

The accounting and valuation principles used for these interim financial statements of Portigon AG are the same as those used for the consolidated financial statements at December 31, 2014, with the exception stated below.

As part of the transformation, there was a synthetic transfer of derivatives to Erste Abwicklungsanstalt (EAA) in 2012 by means of the risk transfer agreement. The execution of this agreement created a fiduciary relationship, i.e. fiduciary trust, under German commercial law, with Portigon AG as the trustee and EAA as the grantor. A derecognition of these derivatives held in trust for EAA was impermissible despite the transfer in full of the opportunities and risks inherent in them because the legal obligations arising from the derivatives had not been extinguished, i.e. the obligations had not been discharged, cancelled or expired. Until there is a settlement of or legal release from the obligations or the obligations are transferred in rem to EAA, these derivatives and any offsetting items will continue to be reported on Portigon's balance sheet. As a result, the derivatives and corresponding matching claims and obligations vis-à-vis EAA are reported as trust assets and trust liabilities pursuant to § 6 (1) of the Ordinance Regarding Accounting for Banks and Financial Services Institutions (RechKredV). There will be no further subsequent measurement at fair value beyond December 31, 2014, however. Going forward, the items will instead be measured at amortised cost based on the fair value last determined at December 31, 2014. This is because the changes in the market values reported in the same amount under the trust assets or trust liabilities are no longer significant for Portigon AG's business model. With the successive transformation of Portigon AG into a purely administrative operation, for which the crucial decisions were made and agreements were reached in the first half of 2015, the business model focuses in particular on the reduction of inventories of assets and liabilities that were not transferred in rem as well as the associated cost savings. Presenting the derivatives held in trust simply as noted items instead of measuring them at fair value means that the changes in inventories resulting from liabilities falling due and novations are recorded directly in the balance sheet. This increases the informative value of the financial statements in a comparison with the prior-year period. Otherwise this deviation in the measurement method has no impact on the company's cash flows, financial condition and results of operations. In this respect, the change in the method used is a valid exception from the principle of consistency of measurement pursuant to § 252 (2) of the German Commercial Code (HGB).

The Terms and Conditions of Börse Düsseldorf AG governing OTC trading on the Düsseldorf Stock Exchange do not provide for a certification requirement. Consequently, the half-year financial report was not audited in accordance with § 316 et seq. of the German Commercial Code (HGB) or reviewed by an auditor in accordance with § 37w (5) of the German Securities Trading Act (WpHG).

2. Basis of Consolidation

Portigon Group specifically included the following companies at June 30, 2015:

Portigon Group (companies, directly consolidated)
Portigon AG, Düsseldorf
Portigon Europe (UK) Holdings Ltd., London, UK
Portigon Finance Curaçao N.V., Willemstad, Curaçao
Portigon Financial Services GmbH, Düsseldorf

The subsidiary GOD Grundstücksverwaltungs GmbH was deconsolidated on its sale on February 27, 2015.

Notes to the Balance Sheet

3. Claims on Banks

	Portigon Group	
	June 30, 2015 € millions	Dec. 31, 2014 € millions
Payable on demand	412.5	410.5
With residual maturities of		
– up to 3 months	1,668.8	1,285.9
– between 3 months and 1 year	–	2.1
– between 1 and 5 years	66.9	44.1
– more than 5 years	250.1	256.0
Book value	2,398.3	1,998.6

Claims on banks rose in the reporting period from € 1,998.6 million to € 2,398.3 million. The increase in reverse repo transactions led to an increase in claims with residual maturities of up to three months.

4. Claims on Customers

	Portigon Group	
	June 30, 2015 € millions	Dec. 31, 2014 € millions
Book value	4,700.4	5,320.4
including:		
– on other companies in which equity investments are held	0.4	0.6
– from the leasing business	19.8	22.2
With residual maturities of		
– up to 3 months	526.7	802.6
– between 3 months and 1 year	196.8	310.4
– between 1 and 5 years	877.5	1,025.3
– more than 5 years	3,099.4	3,182.1

5. Bonds and Other Interest-Bearing Securities

	Portigon Group	
	June 30, 2015 € millions	Dec. 31, 2014 € millions
Book value	393.2	973.8
Breakdown by product		
– bonds and notes of public-sector issuers	381.8	969.0
– bonds and notes of other issuers	11.4	4.8

In the reporting period, the volume of bonds and notes decreased by € 580.6 million, from € 973.8 million to € 393.2 million, chiefly due to the final maturities of notes issued by EAA. At June 30, 2015, the portfolio no longer included any notes issued by EAA (previous year: € 500 million).

6. Trust Assets

	Portigon Group	
	June 30, 2015 € millions	Dec. 31, 2014 € millions
Claims on customers	–	–
Other assets	6,753.6	8,450.5
Book value	6,753.6	8,450.5

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

The decrease in trust assets is due to maturities and the retrospective transfer in rem (novation) to EAA of a portion of these derivatives. For information on the measurement of this item, please refer to Note 1.

7. Liabilities to Customers

	Portigon Group	
	June 30, 2015 € millions	Dec. 31, 2014 € millions
Other liabilities to customers	3,957.7	4,271.5
thereof:		
– payable on demand	1,813.0	2,117.1
With residual maturity of		
– up to 3 months	106.1	127.8
– between 3 months and 1 year	81.5	76.2
– between 1 and 5 years	119.4	131.6
– more than 5 years	1,837.7	1,818.8
Book value	3,957.7	4,271.5
including:		
– liabilities to companies in which equity investments are held	46.6	49.6

8. Trust Liabilities

	Portigon Group	
	June 30, 2015 € millions	Dec. 31, 2014 € millions
Liabilities to customers	289.9	293.7
Other liabilities	6,463.7	8,156.8
Book value	6,753.6	8,450.5

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

The decrease in trust liabilities is due to maturities and the retrospective transfer in rem (novation) to EAA of a portion of these derivatives. For information on the measurement of this item, please refer to Note 1.

9. Other Liabilities

	Portigon Group	
	June 30, 2015 € millions	Dec. 31, 2014 € millions
Book value	216.5	120.9
including:		
– pro-rata interest for borrower's note loans and subordinated liabilities	40.4	38.5
– fees on bank guarantees	8.7	11.1
– liabilities from profit participation certificates which matured	–	13.6
– offsetting item from the valuation of currency transactions	125.9	23.0

The increase in the offsetting item from the valuation of currency transactions is mainly attributable to the capital exchange under cross currency swaps.

Notes to the Statement of Income

10. Other Operating Result

Other operating income	Portigon Group	
	1. 1.–30. 6. 2015 € millions	1. 1.–30. 6. 2014 € millions
Amount reported on the Statement of Income	141.3	30.6
including:		
Income from the reversal of other provisions	54,3	5.7
Reimbursement from Group companies and third parties	0.4	5.2
including: Income from IT services	–	2.1
Deconsolidation effects	50.7	–
Rental and property income	3.1	3.0

Other operating expenses	Portigon Group	
	1. 1.–30. 6. 2015 € millions	1. 1.–30. 6. 2014 € millions
Amount reported on the Statement of Income	73.6	231.6
including:		
Unwinding of the discount on provisions	64.7	39.4
Accrued liabilities PFS	–	158.0
Losses on the sale of fixed assets	2.1	10.1
Deconsolidation effects	–	7.9

The deconsolidation of GOD Grundstücksverwaltungs GmbH generated a positive deconsolidation effect of € 50.7 million in the reporting period that was reported under other operating income. In addition, the provision for liabilities for the expected outflow of resources accompanying the sale of PFS were partly reversed in the reporting period in the amount of € 53.0 million. The recognition of the provision for liabilities had reduced the net result in the prior-year period by € 158.0 million. The interest cost on provisions increased as a result of the further drop in interest rate levels.

Düsseldorf, September 22, 2015

Portigon AG
The Managing Board

Hubert Beckmann Dr. Peter Stemper

Publications

The Interim Report and the Annual Report 2014 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.

Portigon AG
Communications
Herzogstraße 15
40217 Düsseldorf
Tel. + 49 211 826-2534/8320
Fax + 49 211 826-74240
presse@portigon-ag.de

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

Portigon AG
Herzogstraße 15
40217 Düsseldorf
Tel. + 49 211 826-01

www.portigon-ag.de